

April 3, 2009

To the Honorable Mayor and City Council:

I am very pleased to present our proposed FY2009-10 Budget pursuant to the Escanaba City Charter and other relevant state laws. A copy of this document has been placed on file with the City Clerk and at the Escanaba Public Library, where the public may review it during normal hours of operation. An electronic version is also available on the City's web site: www.escanaba.org.

During the internal review process, I, along with staff, identified areas of positive influence to the budget and areas of negative influence to the budget that will affect the FY2009-10 Budget. Both the positive and negative influences have a significant impact on the various funds and include:

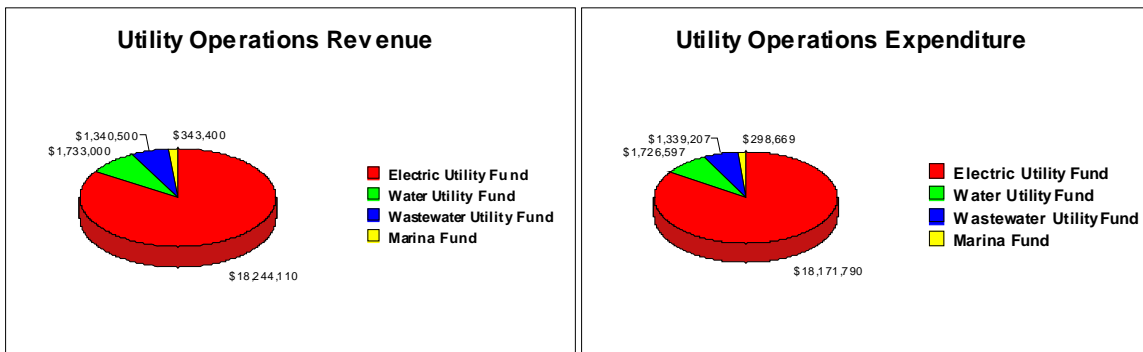
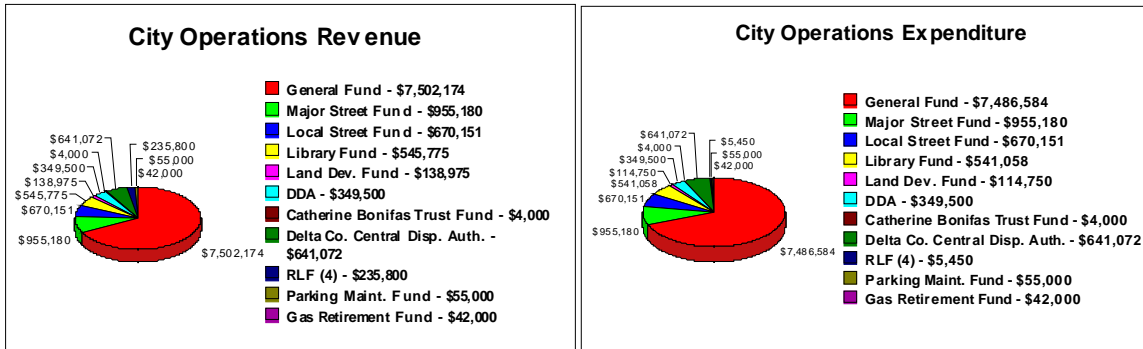
Areas of Positive Influence

- An increase in new construction activity which has added value to the tax base;
- An increase in property taxable values based upon the rate of inflation (CPI);

Areas of Negative Influence and/or Concern

- An increase in the cost of coal for the Power Plant which will have a significant impact in the cost of electricity for all consumers, including the City;
- An increased cost to maintain the Power Plant;
- A significant increase in the cost of chemicals needed to process water and wastewater;
- A decrease in state gas tax funding;
- A decrease in metered water sales;
- A decrease in interest earnings;
- Increases in employee costs;
- Effective January 1, 2010, P.A. 295, of Public Acts 2008, commonly referred to as the "Clean, Renewable, and Efficient Energy Act" mandates the implementation of the Escanaba Energy Optimization Plan and the Escanaba Renewable Energy Plan. In accordance with the State law, the cost for these programs must be charged to the consumer; and
- Uncertainty in the State's ability to provide dependable state revenue sharing funding.

This budget, which exceeds \$32 million, reflects our commitment in providing core services to our community. This budget is an appropriate spending plan for the professional delivery of exceptional municipal services, which features ongoing dedication to improving services and accountability for performance. We will continue to evaluate the City’s operations and explore opportunities to ensure the delivery of services to our citizens is as “cost-effective” as possible. The decisions made today will affect us for many years to come.



Funds/Items of Notable Interest

General Fund. The General Fund budget, which supports many of the day-to-day activities of the City, is \$7,486,584, representing an increase of 2.18% over the previous year’s budget. It is balanced, with revenues to support all proposed expenditures. Further, the proposed budget does not include an increase in the existing millage rate.

Property taxes based on taxable value and State Revenue Sharing remain an important component of General Fund finances, representing 80.4% of our total revenues. Revenues from investments are also a key revenue component. At the end of FY2007-08, the General Fund fund balance was \$4,287,924, with a long-term debt obligation of \$3,260,000. At the end of FY2008-09, projections show an estimated fund balance of \$4,249,500 with a long-term debt obligation of \$3,100,000. In the FY2009-10 Budget, a projected fund balance of \$4,265,110 with a long-term debt obligation of \$2,940,000 is being budgeted. The long-term debt includes only bonded debt for which no specific fund is responsible. Additionally, the Electric Utility will provide \$463,624 of financial support to the General Fund. It is important to remember that this assistance allows us to maintain a very high level of general government services without having to increase taxes or eliminate services.

Electric Fund. The Electric Fund budget, which supports the day-to-day activities of the electrical operations (generation and distribution), is \$18,171,790, representing an increase of 1% over the previous year’s budget. The overall City Electric Fund net assets exceed \$29.6 million. The current cash balance is approximately \$16.5 million.

As a result of increased coal costs, state mandates and capital outlay at the plant, a 20% rate increase is needed to balance the revenue and expenditure components of the electrical budget.

Table I. Estimated Electric Rates - Case Studies (Including Future State Mandated Charges)

| | Current Rate | 2008 “Cost Based” Rate | 2009 “Cost Based” Rate (20%) | Energy Optimize. Plan(1) (July 1, 09) | Monthly Increase Effective (July 1, 09) | Renewable Energy Plan(2) (Jan. 1, 10) | Monthly Increase Effective (Jan. 1,10) | Monthly All-In Costs (Jan. 1, 10) |
|-----------------------------|--------------|------------------------|------------------------------|---------------------------------------|---|---------------------------------------|--|-----------------------------------|
| Residential 500 k Wh/mo | \$50.88 | \$57.49 | \$61.06 | \$0.38 | \$10.56 | \$2.90 | \$13.46 | \$64.34 |
| Commercial 4000 k Wh/mo | \$378.97 | \$428.24 | \$454.76 | \$2.86 | \$78.65 | \$16.25 | \$94.90 | \$473.87 |
| Large Power 200,000 k Wh/mo | \$15,627.49 | \$17,659.06 | \$18,752.99 | \$90.74 | \$3,216.24 | \$187.50 | \$3,403.74 | \$19,031.23 |

NOTES:

(1)Effective January 1, 2010, P.A. 295, of Public Acts 2008, commonly referred to as the “Clean, Renewable, and Efficient Energy Act”, mandates that the City of Escanaba implement an Energy Optimization Plan (EOP) which charges a volumetric based rate for residential consumers, and a per meter, per month rate for commercial and large (industrial) power users.

(2)Effective January 1, 2010, P. A. 295, of Public Acts 2008, commonly referred to as the “Clean, Renewable, and Efficient Energy Act,” mandates that the City of Escanaba implement a Renewable Energy Plan (REP) which charges consumers the costs associated with the generation of renewable energy.

Water Fund. The Water Fund budget, which supports the day-to-day activities of the water treatment plant, is \$1,726,597, representing an increase of 4% over the previous year’s budget. The overall City Water Fund net assets exceed \$6.7 million. The current cash balance is approximately \$285,000.

Due to an increase in chemical prices, coupled with reduced metered water sales, a 10% rate increase is needed to balance the revenue and expenditure components of the water fund. Even with the increase, Escanaba will have the 10th lowest water rate per thousand gallons out of 102 water utilities in the Upper Peninsula.

Table II. Estimated Water Rates – Case Studies

| | Current Monthly Charge | Proposed Monthly Charge | Monthly Increase (Actual-July 1, 09) |
|--------------------------|------------------------|-------------------------|--------------------------------------|
| 5,000 Gallons per month | \$17.48 | \$19.25 | \$1.77 |
| 10,000 Gallons per month | \$26.78 | \$29.50 | \$2.72 |
| 15,000 Gallons per month | \$34.18 | \$37.65 | \$3.47 |
| 20,000 Gallons per month | \$41.58 | \$45.80 | \$4.22 |

Wastewater Fund. The Wastewater Fund budget, which supports the day-to-day activities of the waste water treatment plant, is \$1,339,207, representing an increase of 6.6% over the previous year's budget. The overall City Wastewater Fund net assets exceed \$7.9 million. The current cash balance is approximately \$2.2 million.

Due to an increase in chemical prices, coupled with reduced metered water sales, a 21.5% rate increase is needed to balance the revenue and expenditure components of the wastewater fund. Even with the increase, Escanaba will have the 7th lowest wastewater rate per thousand gallons out of 89 wastewater utilities in the Upper Peninsula.

Table III. Estimated Wastewater Rates – Case Studies

| | Current Monthly Charge | Proposed Monthly Charge | Monthly Increase (Actual – July 1, 09) |
|--------------------------|------------------------|-------------------------|--|
| 5,000 Gallons per month | \$13.79 | \$16.74 | \$2.95 |
| 10,000 Gallons per month | \$23.14 | \$28.09 | \$4.95 |
| 15,000 Gallons per month | \$32.49 | \$39.44 | \$6.95 |
| 20,000 Gallons per month | \$41.84 | \$50.79 | \$8.95 |

Recommended Capital Improvements

Annually, the Escanaba Planning Commission prepares a recommended Capital Improvement Plan. A capital improvement is any improvement and direct engineering cost which involves the construction, purchase, renovation of a public way, space, building, structure, or utility. Major recommendations in this year's Capital Improvement Plan include:

| <u>Project</u> | <u>Fund(s)</u> | <u>Recommended</u> |
|--|-----------------------|---------------------------|
| Major Street Resurfacing and Curb Repair | Major | \$300,000 |
| Local Street Resurfacing and Curb Repair | Local | \$300,000 |
| Water Plant Intake Pipe Engineering | Water | \$15,000 |
| Two (2) Petitioned Alley Improvements | General | \$38,600 |
| Facilities Security Camera System (3 facilities) | Various | \$14,500 |
| Cross Country Ski Trail Improvements | Land Dev. | \$5,000 |
| L-Dock Bridge Repair – Marina | Marina/MDNR | \$217,300 |
| Wireless Internet Backbone – Downtown | Land Dev/DDA | \$20,000 |
| Downtown Curb Repair | DDA | \$15,000 |

Human Resources. Demands for services have increased over the years. We have continued to absorb the demand by splitting duties among offices, adding responsibilities to our existing staff, utilizing overtime, and in some cases taking advantage of seasonal or contract labor. There are 119 present (funded) full-time positions and 24 part-time positions providing the dedicated services you expect. This recommended FY2009-10 Budget does not propose the addition of any new full-time or part-time staff; however, the particular assignment of our staffing complement is not static. During the year, we examine each position opening to ensure resources are aligned with our current needs. Under the proposed FY2009-10 Budget we have eliminated a public safety officer

position. However, should funds become available from the Department of Justice stimulus funding package, this position could be added back into the budget provided funding was made available from an outside source.

Department of Public Safety. In October 2009, the Director of the Escanaba Public Safety Department will retire after 33 years of dedicated service to the community. Additionally, a lieutenant with 31 years of dedicated service will be retiring in July. In the course of filling the position of Public Safety Director, we will have an opportunity for the new director to complete an updated departmental operations and staffing study which looks at our internal and external public safety needs in fulfilling our commitment of public safety excellence.

Cost of Living Increases. In FY2008-09, collective bargaining agreements were approved for the International Brotherhood of Electrical Workers, Local #979, the Police Officer Labor Council – Command Unit and the Police Officer Labor Council – Public Safety Officer Unit. Collective bargaining with Teamsters Local 214, the Municipal Group and Teamsters Local 214, the Water/Wastewater Group will begin in the near future. With the existing contracts in place, pending negotiations with two (2) collective bargaining units, and increases for non-union employees, cost of living increases in the proposed budget range from 2% to 2.5%.

Budget Schedule. The proposed budget has been developed with input from the City Council, City Boards, Commissions, and Committees and the public. This input is invaluable in terms of identifying the needs and desires of the community. The following schedule of reviews/actions will take place:

| | | |
|----------------|-----------|--|
| April 3, 2009 | | Proposed budget released to the City Council |
| April 13, 2009 | 8:00 a.m. | Budget work sessions begin - City Hall |
| April 14, 2009 | 8:00 a.m. | Budget work sessions continue - City Hall |
| April 15, 2009 | 8:00 a.m. | Budget work sessions continue –City Hall – If needed. |
| April 16, 2009 | 7:00 p.m. | (Regular Council Meeting) The Council will be asked to pass a resolution setting May 7, 2009, as the fourth Public Hearing on the FY2009-10 City Budget. |
| May 7, 2009 | 7:00 p.m. | (Regular Council Meeting) Public hearing on FY2009-10 City Budget. |
| May 21, 2009 | 7:00 p.m. | Public hearing and adoption of City Budget. |

While it is my privilege to author this budget message, thanks must go to Administrative staff members, City Board, Commission and Committee Members, and community members who committed themselves to assisting in the budget process. I look forward to working with the City Council and the community on moving this budget forward and making FY2009-10 the best possible for the City of Escanaba.

James V. O’Toole
City Manager