

April 15, 2011

Honorable Mayor and Members of the City Council:

In accordance with the Charter of the City of Ithaca, in April of each year, the City Manager submits a proposed 2011-2012 fiscal year operating budget for your review and consideration. Please consider the following document somewhat preliminary, as adjustments will be made over the next two months depending on how a number of scenarios play out, including the State budget, some pending local developments, and any adjustments in Council priorities.

Most municipalities, including Ithaca, have endured a rocky road in recent years, with declines in most sources of revenue – fallout of the recession and housing market crash. Until the economy and housing truly stabilize, we will be living with a new “normal” of lower overall revenues, all the while trying to maintain services in the face of growing costs.

Despite these challenges, Ithaca has fared better than most in terms of local property tax revenue stability, due to unique circumstances, including the mandatory phase-out of tax-free status in our Renaissance Sub Zones, and significant new commercial and industrial development. These gains have offset much of the State Revenue cuts. A reduction in our reliance on State Government and diversification of our local tax base could not have occurred at a better time.

Our new Governor is pushing hard for local government reforms as a prerequisite to receiving a portion of remaining State shared revenue. Ithaca is already facing these challenges head-on, and in turn, we can expect to be rewarded with both the continued cost savings, and hopefully recoup some State revenue. Clearly, the old way of doing things will not suffice going forward.

The City has also been successful in securing outside grants to help fund major projects. Two brand new fire trucks will soon be put into service, utilizing federal & local grants, as well as our local fund equity. Our police officers and crossing guards are better equipped with modern gear and technology. McNabb Park will see new soccer fields and amenities developed. A crumbling historic downtown building is poised for redevelopment. All of these projects were facilitated by proactive and talented staff who applied for the grants, and a religious City Council savings strategy. Combined, these grants amount to over a half-million dollars being put to work locally in less than two years.

Through continued preventative maintenance projects and planned equipment replacement, we are continuing our pay-as-you-go strategy that has kept the majority of our infrastructure in good condition. I believe our relatively small staff is delivering a great “bang for the buck” across all departments. Further details are summarized in the attached Budget Overview.

I look forward to answering questions and comments on the proposed budget.

Respectfully Submitted,

Chelsey A Foster
City Manager

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CITY OF ITHACA 2011-2012 Budget Overview

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2011-2012 Budget Overview

General Fund Revenues

For years, the City has budgeted State Revenue Sharing payments lower than official Treasury estimates, as a portion of this revenue is left to the whims of the Legislature. This year we anticipate Constitutional Revenue Sharing to the City will be essentially held constant. Statutory Revenue Sharing is likely to be eliminated and replaced with a new incentive-based revenue model, which should allow the City to recoup approximately 60% of '09-10 revenues (\$60,000). We braced for cuts of similar magnitude in last year's budget, so while the reduced revenue is significant, we are already living within our means.

On top of the State revenue cuts, most Michigan communities are still in a period of declining individual taxable values across most tax classifications. For Ithaca, these reductions are somewhat offset by newly added commercial and industrial tax base as a result of new construction and continued phase-out of tax-free status in the City's two Renaissance Sub Zones. RenZone properties will be assessed at 50% of millage rates this year, 75% in 2012, and 100% in 2013.

As it was last year, one of the largest local revenue "wild cards" is the partially-built ethanol plant. Given the uncertainty surrounding the biofuels market, this budget proposal again factors in a full chargeback of approximately \$147,000 to compensate for potential non-payment of taxes.

Considering all major factors, General Fund revenues will be up a net 0.9% (\$8,800), including the Emergency Services millage, with good upside potential if our chargeback assumptions are proven wrong. We cannot become complacent though, as falling individual State Equalized Values (SEV) will further drag down Taxable Values (TV) as the two factors intersect, eliminating the "revenue cushion" between the two. In one year alone, the number of parcels in the City where SEV now equals TV has grown 14.5%. If economic conditions continue to improve, it is hoped this trend will reverse itself. Due to Proposal A's built-in limiters, those TV's that become reduced will be permanently shifted to a lower trend line, no matter how quickly the economy and housing market improve. Our only saving grace is a combination of new tax base development and cost-cutting measures. Based on these revenue assumptions and expenditure assumptions described below, General Fund is anticipated to have nearly \$9,000 added to fund balance.

Library revenues are somewhat tenuous, with both State Aid and penal fines being questionable, but our Director has managed to budget expenditure cuts, and a modest use of a healthy fund balance. However, the current level of service may be difficult to sustain in the future without some alternative funding mechanism if the main library revenue sources continue to decline.

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General Fund Expenditures

On the expenditure side of the budget equation, as with most full-service municipalities, employee wages and benefits are the largest portion of the annual operating budget. This budget includes flat wages for most non-union employees, but if our revenue assumptions prove too pessimistic, I would propose conservative additional off-schedule payments to our employees or other adjustments as they face rising gasoline prices, healthcare costs, and an overall increased cost of living. Retaining quality employees is important as we continue to ask everyone to work harder and smarter, doing more with less. I ask the Personnel Committee to consider this once our revenue picture becomes clearer over the next couple of months.

This year, all participating full-time employees were moved again to a slightly higher-deductible healthcare plan, paired with a health reimbursement account. Due to some inconsistencies we are seeing with Blue Cross Blue Shield from the original estimates, we are projecting flat healthcare premiums for the coming year instead of a savings. In exchange for the premium adjustment, the City has a higher exposure for employee deductibles. If health insurance rates continue to increase, the City will need to get more creative in providing healthcare coverage.

The Assessing contract with BS&A Software will increase by \$15/week. A tentative proposal is to lock this in for a 3-year contract. Our Assessor recently became certified as a Level 3 Assessor – it would not be feasible for us to employ a full-time person of this caliber, and for a community our size, the one day per week Assessor availability seems to be working well.

The Countywide Public Act 88 millage, which was implemented this year, is now fully funding countywide economic development, which eliminates the need for our City contribution to Greater Gratiot Development (approx. \$13,000). Related to economic development, I am proposing we step up to fund \$4,000 (currently \$2,000) toward the Gratiot Community Airport Authority, until a long-term funding arrangement can be secured. Many of our largest employers and taxpayers utilize the airport on a regular basis – it makes sense for us to have a seat at the table.

Utilities were largely budgeted flat across departments due to our recent high-efficiency lighting upgrades, which utilized the utility rebate program. I also plan to implement programmable thermostats in most buildings to achieve greater energy savings for heating & cooling.

The DNR Grant for McNabb Park Site Development will cover \$183,700 of the estimated \$253,700 project cost to expand and improve the soccer complex. The remaining \$70,000 of in-kind work and funds will need to come from the City or other local sources. As was discussed previously, these funds would be difficult for General Fund to absorb in one year. Recently received tax settlement monies, including unanticipated revenue from the ethanol plant, will allow us to make Gibbs Fund completely whole for previous capital improvement projects. I am proposing we again borrow from Gibbs to fund the majority of our match, seek individual and corporate sponsorships toward certain park amenities, as well as utilize our public works crews wherever possible to save on development costs.

Building and grounds related upgrades include sandblasting/repainting of the generator shell located by the Fire Hall, replacement of signage at the Community Center, Police Station, and McNabb Park, repair of side-entry concrete steps at City Hall, and additional repairs to the Fire Hall. Woodland Park's playscape is in need of re-staining, as is an interim fix to the crumbling

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driveway/street. The dog park is still planned to be installed this spring within the '10-11 budget.

In order to balance the General Fund, I am deferring a Police Car replacement until we have a better picture of revenues. The newest unit was placed into service this past year. I plan to again pursue USDA Rural Development for a possible grant to assist with funding the next unit.

Our investment in fiber-optic internet in the '10-11 budget will save communications expenses across all departments going forward. This super high-speed infrastructure allows us greater flexibility with use of web-based applications and sharing of files across departments and municipalities. Our local phone bill was also cut nearly in half from last year's rate after thorough analysis and elimination of unneeded lines and services.

Another major project that is not accounted for in the budget is Residential Alley Rehabilitation. I have estimates approaching \$100,000 for what I would call a very good long-term solution. As Council has discussed, we may need to finance such a project over a number of years to make it financially feasible. Ways & Means Committee will need to meet to further discuss this project before we can attach any final numbers.

Other Funds

We have included in the Cemetery Fund professional & contractual dollars to improve the surface of existing roads. The planned Pet Cemetery will be ready for business in early summer.

The Economic Development fund continues to collect revenues from the Downtown Shoppes building loan. No additional Detention Pond User Fees are anticipated, unless a new building or building addition are constructed within the Ithaca Industrial Park.

The DDA TIFA will capture about the same revenue as last year, with some new construction offsetting overall property value declines.

I am recommending a 2% increase in water & sewer rates in order to keep adequate revenues coming in to cover future needs. The majority of this increase is intended to fund a new web-based GIS application that will allow DPW Water & Sewer crews to plug in various points of interest, such as water valves, meters, mains, etc. and attach data to these points on-the-fly out in the field. This will enhance our efficiency, and will allow us to integrate other, non-water/sewer related data into a robust database of all City infrastructure.

The DEQ's Industrial Pretreatment Program (IPP) currently affects several industrial businesses. DEQ requirements continue to increase, adding staff time and professional assistance costs. While it is not factored into this budget, I believe we can begin to pass on more of these costs to the businesses themselves.

The largest street project I am including in the budget is just over 1 mile of hot-mix asphalt overlay on West Center St from the west City Limits (Jerome Rd), east to the railroad bridge. For the majority of the work, we are able to utilize federal funds through a joint County/City project. Other street repairs are planned to use crack sealing and patching as cost effective solutions to preserve some of the streets until we can afford to do more significant re-

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construction work. I have included funds to cover street re-striping in the downtown area and other major streets, as well as some curb replacement.

I have budgeted for continued investment in sidewalk lifting and replacement, as well as some maintenance (sealing) of stamped concrete in the downtown area.

Replacement of decorative lighting poles/fixtures is proposed along Center St from Pine River St westward to Maple St. Materials will be purchased in the current year, with installation to occur in the '11-12 fiscal year.

Large equipment purchases include replacement of a large dump truck (\$129,000), a replacement dump box for a small dump truck (\$6,400), a scraper/scoop extension for snow loading (\$6,000), and various smaller items including a chain saw, backpack leaf blower, weed trimmer, and roof/windshield addition to the Kubota unit (small item totals \$2,440).

All departments have done quite well staying within budget. Some line items may appear to be significantly over budget, but are pending re-coding to other intended line items.

I am still working on developing a Capital Improvement Plan, which will give us a better guide for the next several years. Our Citizen's Guide and Local Government Dashboard (required by Governor Snyder) will also be completed soon, and available to the public.

We can go into much more detail next week, and in our committees throughout the next two months. This budget proposal should be the start to those discussions.