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TO: Council Finance & Labor Committee

FROM: Tom Crawford, Chief Financial Officer

CC: Roger Fraser, City Administrator

DATE: February 8, 2007

SUBJECT: 2008 FY Financial Plan

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As the City starts to prepare its' two-year fiscal plan, there are several items of significance to note.

### **Revenue**

Projecting revenue is always a difficult task which has been made even more difficult this year given the State's financial condition as well as the local departure of Pfizer.

For the past two years, the State has held the statutory portion of state shared revenue flat while the constitutional portion has had modest increases. However, over the past six years, there has been a substantial reduction in net state shared revenue to the City. Projecting next year's amount is further complicated by the fact the Governor is recommending increasing the statutory portion despite the State's continued overall financial weakening. In addition, the City was recently notified that its' constitutional portion is lower than previously projected due to lower State sales tax collections. Given these vagaries, staff is projecting a 4% decline over each of the next two years.

The impact on revenues from Pfizer's departure is impossible to accurately project. Once Pfizer has finalized their plans, better estimates can be made. The City's present assumption is that most of Pfizer's personal property will be removed by the end of 2007. Whenever the impact actually occurs, it's expected to reduce the General Fund collections by \$700,000 and the total for all City specific millages by \$1.4 mil. per year. The impact on real property cannot be estimated at this time pending further understanding of Pfizer's plans for the site. Consequently, real property tax collections are not projected to fall at this time.

### **Ann Arbor Municipal Center**

At the recent Council meeting, public commentary was given raising some concerns about the City's ability to continue its' funding plan for the AAMC. The Committee may recall financing plan which used outlined sufficient funding if a \$500,000 PILOT was charged to the Water/Sewer utilities resulting in a utility rate increase of approx. 1.5%. Subsequent to the analysis Council expressed a desire to not establish a PILOT.

Conversations were then held with the DDA, and the DDA passed a resolution expressing their support for the Larcom site. Although the DDA did not include a dollar amount of support in their resolution, the attached funding plan describes how the City could fund this project.

A concern that operating costs were not included in the analysis was also an issue that was raised since the local school system is adding a high school despite being in a budget crisis. Contrary to the school system, the City is consolidating existing staff into one facility which is expected to be more energy efficient. Operating costs have not been specifically included because they can be significantly impacted by the design of the building via trade-offs on insulation, windows, square footage, etc. to achieve affordable levels. Operating costs will be considered when the project is further along. As long as staff is directed to remain within the project budget, trade-offs can be made to stay within budget.

A further concern raised was the absence of consideration for additional staffing to provide building security which the City now receives from the County in the existing facility. Additional staffing may or may not be required. Management has consistently delivered more with less over the past few years and intends to approach this issue like any other. Through facility design and the optimization of work assignments, staff will seek to have no significant increase. If an increase is required, trade-offs will be made to insure the project delivered is affordable.

Despite the above concerns, the City remains legally obligated to provide adequate facilities for the Police and Courts. With the county's request to vacate their court facilities by December 2009, the City must plan and provide suitable and affordable space.

Successful organizations find a way to continue investing during bad financial times, which makes them even stronger when times improve. Despite a cloudy future for revenue projections, management feels strongly that the City should continue with its capital improvements for Ann Arbor Municipal Center.

### **Future Revenue Sources**

As Council struggles with the need to seek additional opportunities for revenue in light of the City's financial constraints, following are a few items that may be considered:

- Consolidation of the City and Ann Arbor Schools recreation activities (\$150k)
- Increase Tax collection fee from 0.8% to 1.0% max. (\$475k)
- Establish special assessment lighting districts (up to \$1.8 mil.)
- Establish accident fee for Fire runs (\$60k)

City of Ann Arbor  
**JUSTICE FACILITY**

	<b>LIBRARY LOT</b>	<b>LARCOM LOT</b>	
	Task Force Recommendation	# 1	# 2
	(\$)	(\$)	(\$)
<b><u>COSTS</u></b>			
● Building Construction	\$ (16,540,473)	\$ (16,540,473)	\$ (16,540,473)
● Site Work	-	(1,500,000)	(1,500,000)
● Parking Construction	(3,600,000) *	(1,800,000)	(1,800,000)
● Acquire Lot to East (assumes vacant) add surface parking	-	-	(2,035,000)
● Contingency - 10%	(1,654,047)	(2,049,567)	(2,037,967)
TOTAL CONSTRUCTION COSTS	(21,794,520)	(21,890,040)	(23,913,440)
● Soft Costs (Prof. Services/FFE/Permits) - 25%	(4,548,630)	(5,472,510)	(5,978,360)
● Capitalized Construction Period Interest	(1,198,050)	(1,198,050)	(1,198,050)
● Renovations to Larcom to Obtain Lease Savings	(3,000,000)	(3,000,000)	(3,000,000)
TOTAL PROJECT COSTS	<u><u>\$ (30,541,200) *</u></u>	<u><u>\$ (31,560,600)</u></u>	<u><u>\$ (34,089,850)</u></u>
Memo: Gross Square Feet at <b>\$183</b> per square foot	<b>90,000</b>	<b>90,000</b>	<b>90,000</b>
Memo: Gross Square Feet at <b>\$222</b> per square foot	<b>75,000</b>	<b>75,000</b>	<b>75,000</b>
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* Includes purchase of 80 secured parking spots from DDA.			
<b><u>FUNDING</u></b>			
<u>Fund Balances (Potential Use of)</u>			
● Municipal Facility Fund	\$ 7,500,000	\$ 7,500,000	\$ 8,000,000
● General Fund	3,000,000	3,000,000	3,500,000
● Annual Operations over next 2 yrs (or Risk Fund)	600,000	1,619,400	2,648,650
● Court Facility (Fund 023)	750,000	750,000	750,000
● Water	40,000	40,000	40,000
● Stormwater	211,200	211,200	211,200
● Sewer	30,000	30,000	30,000
Total Use of Fund Balance	\$ 12,131,200	\$ 13,150,600	\$ 15,179,850
<u>Other Cash Actions</u>			
● Assumed DDA Contribution	5,000,000	5,000,000	5,000,000
<u>Proceeds from Property Sales</u>			
● Sale of 1st & Washington Property	2,000,000	2,000,000	2,500,000
<u>Borrowings</u>			
● Affordable Debt from Discontinued Leases	\$ 11,410,000	\$ 11,410,000	\$ 11,410,000
TOTAL FUNDING	<u><u>\$ 30,541,200</u></u>	<u><u>\$ 31,560,600</u></u>	<u><u>\$ 34,089,850</u></u>
<b><u>FUNDING ASSUMPTIONS</u></b>			
<u>Elimination of Existing Lease Payments</u>			
● City Center Building (8/2006)	\$ 172,000	\$ 172,000	\$ 172,000
● Customer Service Area (12/2007)	110,000	110,000	110,000
● 15th District Court (Gen. Fund) (12/2006)	293,000	293,000	293,000
● Probation Office (Gen. Fund) (12/2007)	55,000	55,000	55,000
● 15th District Court Annual Fees from Tickets	200,000	200,000	200,000
Cash Available for Additional Debt	\$ 830,000	\$ 830,000	\$ 830,000
<u>Financing Terms</u>			
● Additional Debt Affordable due to Discontinued Leases	\$ 11,410,000	\$ 11,410,000	\$ 11,410,000
● Interest Rate (Fixed)	5.25%	5.25%	5.25%
● Term (Years)	25	25	25
● Construction Period Interest	\$ (1,198,050)	\$ (1,198,050)	\$ (1,198,050)