



CITY COUNCIL

March 24, 2014

Special Session Meeting

1. Call to Order - 7:00 P.M. - City Hall Council Chambers
2. Recitation - Pledge of Allegiance to the Flag of the United States of America
3. Roll Call
4. Old Business – Continued discussion of long-term City finances
5. Public Comment
6. Adjournment



City of Petoskey

Agenda Memo

BOARD: City Council

MEETING DATE: March 24, 2014

PREPARED: March 20, 2014

AGENDA SUBJECT: Long-Term City Finances

RECOMMENDATION: That the City Council discuss this matter

Summary. At their March 3, 2014 meeting City Council indicated an interest in holding a work session to further discuss the City's long-term financial condition. In particular, discussion will focus on funding for capital building maintenance and repairs, as well as Public Safety needs that were detailed as part of memos included in the January 27, 2014 Council packet (enclosed).

Following a 20% decline in taxable value between 2010 and 2012, the City needs to address long-term financial constraints that have led to deferred capital maintenance and equipment replacement. Details of implemented expenditure cuts as well as possible revenue options are outlined in the report entitled *City of Petoskey Financial Overview & Options For Maintaining Services at Current Levels*.

In addition to the information contained in the memos and report listed above, two very recent developments are relevant to the ongoing discussions about the City's long-term financial outlook:

2014 Taxable Value. Following the March Board of Review hearings, the City's tentative Taxable Value as reported to Emmet County Equalization will be \$453,605,211, or about \$3.35M higher than the \$450,244,962 taxable value originally budgeted for 2014. By comparison, the taxable value for 2013 was \$446,133,626. A positive development, this modest growth in taxable value represents a 1.7% increase over 2013 values, and will result in about \$26,000 in additional revenue to the General Fund beyond what was budgeted for 2014.

Personal Property Tax. The Michigan legislature is currently considering a ten bill package that aims to amend laws passed in late 2012 that would eliminate personal property taxes in Michigan. These new bills increase the reimbursement to local units of government, aiming to make cities "whole" from the loss of personal property taxes thru the use of a state-assessed Essential Services Assessment and a shift in the Michigan use tax. Most provisions of these bills, other than the \$40,000 and under Small Taxpayer Exemption, are conditioned upon approval of an August 6, 2014 Statewide vote to shift the use tax to create a personal property tax replacement fund.

The City of Petoskey collects approximately \$200,000 annually from Personal Property Taxes, including approximately \$50,000 annually from small parcels of under \$40,000 in taxable value. Under existing law, also subject to a Statewide vote, the City would not have been compensated for the loss of personal property tax.

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Enclosures



BOARD: City Council

MEETING DATE: January 27, 2014

PREPARED: January 14, 2014

AGENDA SUBJECT: Report on Capital Building Maintenance Issues

RECOMMENDATION: That the City Council hear update on maintenance and renovation projects for buildings and facilities

Purpose. This report has been compiled to list critical maintenance projects that need to be addressed to keep buildings and facilities structurally intact, functional, safe and well maintained. The report also assigns costs to these projects and attempts to assign a priority rating. Based on this report, capital maintenance and repair needs for buildings and facilities within the General Fund can be established.

Scope. Projects listed in this report are maintenance and renovation projects related to existing buildings and facilities and do not include new capital improvement projects. These maintenance and renovation projects are financed by the General Fund and grant funds are not typically available for the repair of existing facilities.

Synopsis. This report has attempted to identify major maintenance projects, associated costs, and anticipated time perimeters when action will need to be taken. City buildings and facilities, just like our homes and property, require both short term maintenance and periodic major renovations to roofs, windows, heating systems, driveways, etc. to keep them functioning, serviceable, and attractive. Like everyday homeowners, money must be set aside in anticipation of renovations. Unfortunately, the economic crisis that started in 2008 and 2009 also coincided with many of our renovation items and this rapid decline in General Fund dollars resulted in many of these major maintenance projects being delayed.

The Department of Parks and Recreation has reduced full-time staff through attrition and also reduced seasonal staff levels as well while maintaining essential services to our residents. Further reductions in staff within Parks and Recreation will impact delivery of services to our residents and visitors, our area merchants, and our buildings and grounds will receive less routine maintenance and contribute to a faster decline in our buildings and grounds infrastructure.

Priority I Projects - Major Maintenance and Equivalent Replacement Projects: (1 to 5 yr. event window) \$1,189,200 or \$238,000 per year

- A. Critical projects where known problems exist and if not addressed in one to five years will compromise function, safety or park area and could lead to costly, non-scheduled, emergency repairs or closing of the facility and include roofs, windows and heating systems.

Priority II Projects - Major Maintenance and Equipment Replacement Projects: (6 to 8 yr. event window) \$492,000 or \$164,000 per year

- A. Projects that need to be addressed six to eight years from now that include lifecycle replacements of heating and air handling equipment, exterior doors and windows, large scale interior and exterior painting or waterproofing, and cosmetic and minor structural repairs. If not addressed these problem areas will result in further decline of buildings and facilities and will become critical Priority I projects.

Priority III Projects – Major Maintenance Projects: (9 to 12 year event window) \$340,000 or \$85,000 per year

- A. Anticipated projects that need to be addressed 9 to 12 years from now, based upon anticipated lifecycles of components and materials.

Given these facts a stable revenue source within the City's General Fund needs to be identified for building and facility needs, and approximately \$240,000 per year needs to be set aside to address both current major maintenance and renovation needs. This amount, after year six, could be adjusted downward to around \$200,000 per year to address Priority II and Priority III needs and rebuilding funds for future long term items.

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Enclosure



BOARD: City Council

MEETING DATE: January 27, 2014

PREPARED: January 20, 2014

AGENDA SUBJECT: Fire Equipment/Capital Needs of Public Safety Department

RECOMMENDATION: That the City Council hear update on fire equipment/capital needs of Public Safety Department

This memo will summarize some of the capital needs for the Petoskey Department of Public Safety, specifically the need to replace aging, out-of-date fire apparatus.

Current Fire Apparatus

The following is a summary of the fire apparatus operated by the Department of Public Safety. The current fleet consists of seven apparatus:

- 2-2007 Sutphen Rescue Pumpers
- 1-2002 Sutphen 70' Aerial Ladder
- 1-1992 3D Pumper
- 1-1992 3D Service Truck
- 1-1984 Sutphen 100' Aerial Ladder
- 1-1984 Sutphen Pumper

The average age of the department's apparatus is 18 years old.

Background/Justification for Equipment Replacement

The National Fire Protection Association is a nonprofit company whose mission is to reduce the worldwide burden of fire and other hazards on the quality of life by providing consensus codes and standards. Fire apparatus manufactured must be designed and built according to NFPA Standard 1901, Standard for Automotive Fire Apparatus. Many of the requirements in this standard are the direct result of injuries and deaths from accidents involving fire apparatus. NFPA standards are viewed as the benchmark for fire service operations.

NFPA 1901 sets recommendations for the use and replacement of fire apparatus. Since 1992 significant improvements in the design and manufacturing of fire apparatus have made them safer to use and operate. The standard recommends apparatus 15 years and older only be used for back-up or as a "reserve" apparatus, and that apparatus 25 years and older be removed from service completely.

Fire apparatus mileage is not a reliable indicator of the overall condition of the apparatus. Since a fire apparatus will travel a short distance to the scene and spend several hours pumping water, hours of use more accurately indicate service life. A general rule is that for every one hour a fire apparatus spends running equates to 35 miles driven.

Beginning in early 2000 a long term plan was established to update the department's fire fleet. At this time the primary pumper truck was 30 years old. In 2002 the department took delivery of a combination pumper/aerial ladder truck. While originally intended to simply replace the 1970 pumper, it was also purchased with a ladder. However, this 70' ladder is inadequate to meet the firefighting needs for larger structures in Petoskey and does not meet ISO standards for a ladder truck.

Vehicle 4516

The current, 1984 aerial ladder serves as front line ladder and is the only 100' ladder in the entire County. It has open cab jump seats, no shoulder belts for the driver or operator, no anti-lock brakes, no auxiliary engine brake, and no electric load manager. The emergency lighting does not meet current NFPA 1901 standards, and cab construction and rollover protection does not meet the most current Federal Motor Vehicle Safety Standards. There are no safety interlocks to prevent the ladder from being raised without the outriggers properly set. A typical response for this apparatus requires one firefighter to ride in the open, unprotected jump seat, and the driver and officer to ride in seats without shoulder belts or the benefit of air bags.

Vehicle 4516 has experienced numerous electrical issues during the last twelve months. The cost of making the repairs continues to take away from a budget that is already seen significant cuts in the last three years. Additionally, each time the current apparatus is taken out of service for repairs it is not available for use. As the only 100' aerial ladder in the County, not only the City of Petoskey relies on its importance, but our neighboring communities as well, as they utilize its use through mutual aid agreements.

During the previous three years this apparatus has assisted in extinguishing 51 structure fires in this community and 6 structure fires in neighboring communities.

In 2013 Insurance Services Office conducted a reevaluation of the community. At the completion of their review the ISO rating for the City of Petoskey was lowered from a Class 5 to Class 4. Significant financial benefit may be realized by the property owners in the community from this lowered classification. One of the major factors in the lowered classification was the availability of a 100' aerial ladder. The loss of this apparatus would return the ISO Class to the previous 5. This could have a direct financial impact on the entire community.

4516 estimated replacement cost: \$1.2 million

Vehicle 4501

Fire apparatus 4501 is a 1984 pumper with a 1,250 gallon per minute (GPM) pumping capacity that does not meet NFPA 1901 Standards and which is showing significant body corrosion. This piece of apparatus was also scheduled for replacement in the 2010-2015 CIP. The plan was to replace this piece of equipment, and two others, with a single multi-purpose apparatus capable of performing the same functions.

4501 estimated replacement cost: \$450,000

Need for Funding Mechanism for Apparatus Replacement

Outside sources of funding have been sought with limited success. A federal grant application was submitted in 2013 for funding, but our application was denied. A similar grant application has been submitted for 2014.

Local grants have been sought to assist in apparatus replacement, with \$25,000 received in 2011 and \$10,000 received in 2012. These funds are dedicated to apparatus replacement and will be used to help defray the costs of replacement. However, relying on grant funding is unrealistic for apparatus replacement, due to the relatively small grant amounts that are available for such a large ticket item.

A stable, long-term funding mechanism is needed to fund these and other future capital improvement needs for the Department of Public Safety.



- 2007 Sutphen Rescue Pumpers
- Truck 502 has 1,790 hours. Truck 505 has 1,894 hours.
- One apparatus housed at Bay Harbor West Station, one at Downtown Station.
- Licensed as Basic Life Support Units by the Michigan Department of Public Health. Apparatus carry same equipment as a basic life support ambulance with the exception of a patient cot. Petoskey is the only fire department in Emmet County licensed at this level.
- Also carries "Jaws of Life" tools for vehicle extrications.
- 1,500 gallon per minute water pump and carries 500 gallons of water.
- Carries 50' of ground ladders.
- Most frequently used apparatus, averaging 400 calls annually.



- 2002 Sutphen 70' Aerial Ladder; Truck 503
- 2,314 hours.
- Housed at the Downtown Station.
- Services as the primary fire response apparatus to all fire incidents.
- 1,500 gallon per minute water pump and carries 400 gallons of water.
- Carries 50' of ground ladders.
- Can spray 1,000 gallons per minute from tip of 70' ladder.



- 1992 3D Pumper; Truck 521
- 3,942 hours.
- Housed at Downtown Station.
- Services as a back-up or reserve pumper.
- 1,000 gallon per minute pump and carries 500 gallons of water.
- Carries 150 gallons of foam concentrate for fires involving flammable liquids.
- The apparatus body builder is no longer in business.
- Significant rust is present on the underside of the body and truck frame.
- Water tank is made of steel unlike plastic used in new apparatus and is also showing severe signs of rust.
- Apparatus is one of three that had been proposed to be replaced in 2015 with a single multi-purpose apparatus.



- 1992 3D Service Truck; Truck 522
- 1,257 hours.
- Housed at the Downtown Station.
- Carries 1,500 feet of large hose used to supply apparatus from fire hydrants.
- Also carries a cascade system used to fill breathing air at fire scenes.
- Has no water pump or water on board.
- The apparatus body builder is no longer in business
- Requires a firefighter to ride on the side of the apparatus to unload the hose. Because of the risk of injury from this practice it is seldom used. Current NFPA standard does not allow firefighters to ride outside on moving apparatus.
- Apparatus is one of three that had been proposed to be replaced in 2015 with a single multipurpose apparatus.



- 1984 Sutphen 100' Aerial Ladder; Truck 516
- 3,121 hours.
- Housed at the Bay Harbor West Station.
- First response fire apparatus to fire incidents in Bay Harbor.
- Serves as the only 100' aerial ladder in Emmet County.
- 1,500 gallon per minute pump and carries 300 gallons of water.
- Can spray 1,000 gallons per minute from tip of 100' ladder.
- Carries 104' of ground ladders.
- Due to its age replacement parts are difficult to obtain.
- Several electrical issues have occurred recently.
- Speedometer and water tank gauge do not work, replacement parts are not available.
- Lacks numerous vehicle safety features found on all modern vehicles.
- NFPA Standard 1901 recommends this apparatus be removed from service because of its age.



- 1984 Sutphen Pumper; Truck 501
- 3,388 hours.
- Housed at the Downtown Station.
- First response apparatus for fires at both Bay Harbor Marina and Petoskey Marina.
- 1,250 gallon per minute pump and carries 750 gallons of water.
- Carries 50 feet of ground ladders.
- Rust and corrosion are beginning to appear on the body and underside.
- Lacks numerous vehicle safety features found on all modern vehicles.
- Due to its age replacement parts are difficult to obtain.
- NFPA Standard 1901 recommends this apparatus be removed from service because of its age.
- Apparatus is one of three that had been proposed to be replaced in 2015 with a single multi-purpose apparatus.



City of Petoskey

Agenda Memo

BOARD: City Council

MEETING DATE: March 24, 2014

PREPARED: March 20, 2014

AGENDA SUBJECT: City Financial Options Report

RECOMMENDATION: That the City Council discuss this matter

Included in the electronic Council packet, but not re-printed for Council members is a copy of the City Financial Options Report, originally included as part of the January 27, 2014 Council packet.

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Enclosure



**CITY OF PETOSKEY
FINANCIAL OVERVIEW &
OPTIONS FOR
MAINTAINING SERVICES
AT CURRENT LEVELS**

Executive Summary

- The City of Petoskey is expected to experience a prolonged period of slow growth in property tax revenues due to the downturn in the economy and the continuing number of foreclosed properties within the City, as well as State legislative limits placed on increases in taxable values.
- Over \$10,000,000 in street reconstruction, building maintenance and equipment replacement are necessary, or will be necessary over the next 5 – 10 years, which cannot be met through existing sources of funding.
- Primary sources of revenue experiencing a shortfall are within the General Fund and Right of Way Fund. Activities financed through these two funds and impacted by this shortfall are Public Safety, Parks, Building and Grounds and Streets. These activities are accounted for in the General, Major Street, Local Street, General Street, and Motor Pool Funds.
- In order to maintain expected levels of service and preserve existing infrastructure, it is essential for the City to increase levels of existing revenue sources and/or provide additional sources of revenue to fund these activities.

Introduction

The purpose of this report is to document long-term financial challenges facing the City of Petoskey, and to present funding options necessary to maintain current levels of municipal services. This document is designed to provide City Council with an overview of financial challenges as they exist today, as well as those that the City is expected to face over the next decade mainly due to the decline in property tax revenue since 2010.

This report has been created by City Staff in response to concerns raised as part of the 2013 Action Plan adopted by City Council. Specifically, as part of the Action Plan the examination and discussion of new and additional long-term funding options was identified by City Council as a necessary step in order to maintain City service levels. This report provides City Council with a resource to be used in the evaluation of various options available in order to continue to provide municipal services at current levels to City residents, businesses, taxpayers and visitors.

Excluded from the report is information related to the City's enterprise funds consisting of the; Electric, Water and Sewer Funds, since revenues in business type funds based on user fees that are being more readily reviewed and adjusted to operate and maintain these services. The City is currently in the fourth and final year of annual utility rate increases for both of the enterprise funds, with the final water and sewer rate increase scheduled for January 1, 2014.

Based on separate studies by outside consultants, the utility rate increases also included a change in the rate structure, most notably the implementation of summer and winter electric rates to better account for the large cost differential between the two seasons. Future rate adjustments will be necessary, but are expected to be modest changes, while the overall rate making process will remain in place.

Need for Report

The City's financial position has been negatively impacted by a significant reduction in property tax revenue tied to declines in taxable value, cuts in revenue sharing payments from the State of Michigan, and continued increases in expenditures for health care coverage and pension plan contributions. In addition, personal property parcels with a taxable value of less than \$40,000 will be exempt from property tax beginning in 2014 along with all industrial personal property and there remains political backing in Lansing to eliminate all personal property taxes.

From 2010 through 2012 the City of Petoskey experienced nearly a 20% decline in total taxable values. There are signs that the decline in the local real estate market is leveling off with an increase of 0.80% in the City's 2013 taxable value. However, future annual increases in taxable value under Proposal A and the Headlee Act are limited to 5% or the rate of inflation, whichever is less. This means the recent three year decline in property taxable values will negatively impact the revenues of the City of Petoskey for years to come. While values declined by more than 10% a year, when they begin to increase in market value the City will be limited in the amount that can be recouped. The three year decline could reasonably be expected to take up to 10 years or more to recover assuming a modest annual increase in taxable values.

The City has met the challenges presented by this reduction in revenues, in the short-term, by reducing capital improvements, maintenance expenses and personnel costs. Staff positions vacated by retirement have been left vacant, wages have been frozen, health care plans were changed, a greater share of health care and retirement costs have been passed on to employees. These shifts in benefit costs have an impact on employee morale and as the economy improves, may impact the City's ability to attract and retain personnel.

Additionally, maintenance has been deferred on City infrastructure, particularly within those areas funded by General Operating revenues, such as parks and public safety, and the Right of Way millage, which funds street and sidewalk improvements, maintenance and repairs, along with forestry activity. Deferring this work cannot continue indefinitely: roofs fail, park infrastructure needs to be maintained and repaired, streets and sidewalks deteriorate and grow expensive to patch and repair, fire trucks wear out and need to be replaced and trees need to be trimmed, removed and replaced.

REVENUES

Taxable Value

The City's taxable value has increased dramatically since 1995 when the City of Petoskey and Resort Township entered into an agreement under Public Act 425 to transfer property from the Township to the City's jurisdiction, which included the Bay Harbor Development. The City's taxable value increased from \$142,103,604 in 1995 to a high of \$538,145,301 in 2009, with Bay Harbor accounting for 52% or \$285,158,100 of this amount.

Recent changes in economic conditions have negatively impacted the housing market and have had a direct impact on the City's taxable value. Taxable value declined by nearly 10% in 2010, 6% in 2011 and 4% in 2012. This year's taxable value is \$446,133,626 or \$92,011,675 less than the 2009 peak in taxable value. The current year's taxable value is slightly less than the 2002 level of \$448,967,406 of eleven years ago.

Even as the City sees a modest increase in taxable value of 0.80% for 2013, a large number of foreclosures are still restricting growth in the City's overall taxable value. All indications are that it will take several years until the foreclosure rate levels out and decreases to more historic levels. The high level of foreclosures tends to reduce the sales price of other homes, which are used in sales studies for valuing City properties, thereby reducing the value of other City properties.

Locally, what this means for the City of Petoskey is a prolonged period of nearly flat property tax revenues, with limited means of increasing revenues to offset variable costs and deferred capital maintenance that grows more expensive each year. Gross property tax revenues for the City were at an all-time high of \$7,322,005 in 2009 and in 2013 will total \$6,170,831 or \$1,151,174 less.

The following graphs detail the reduction in Taxable Valuations and Tax Revenue:

| Year | Taxable Value | General | Tax Levy by Purpose | | | Total |
|------|---------------|-------------|---------------------|-----------|-----------|-------------|
| | | | Right of Way | Library | Refuse | |
| 2009 | \$538,145,301 | \$4,006,438 | \$2,076,165 | \$976,249 | \$263,153 | \$7,322,005 |
| 2010 | 489,333,583 | 3,753,531 | 1,887,849 | 887,700 | 239,284 | 6,768,364 |
| 2011 | 457,978,812 | 3,515,018 | 1,766,882 | 830,819 | 223,952 | 6,334,671 |
| 2012 | 442,604,567 | 3,395,087 | 1,707,568 | 802,929 | 216,434 | 6,122,018 |
| 2013 | 446,133,626 | 3,422,157 | 1,721,184 | 809,331 | 218,159 | 6,170,831 |

*Tax amounts are in total – TIFA captures and the Act 425 fee is not deducted.

It is also important to note that the City's millage rates are at or near their maximums with the exception of the millage for solid waste. Consequently, the City cannot currently increase millages or corresponding revenues for general operating or right of way expenses.

State Revenue Sharing

For more than a decade revenue sharing has come under attack at the State level with changes in methodology and formulas used in distributing the annual amount allocated to local units. Several years ago the distribution was changed and is now based solely on sales tax with two separate components. The first component is based on a formula approved by voters through a constitutional amendment and is therefore a guaranteed amount. This portion makes up the majority of the payment and is not subject to the discretion of legislators. The second portion is based on State statute and is debated annually as part of the State's overall budget and has been reduced from \$133,127 in 2006 to a projected \$48,546 in 2013.

In 2011 the legislature passed an omnibus budget bill that established criteria that local units must meet in order to qualify for 67.8% of the past amount of the statutory revenue sharing payment. In 2010 this change resulted in a reduction in statutory revenue from \$66,670 to \$45,200. This source of revenue has historically been increased based on inflation, but in recent years has been subject to annual declines and now comes with additional requirements that change yearly.

The criteria for the Economic Vitality Incentive Program (EVIP) include 1) A citizen's guide providing standardized information about the City, both financial and statistical. 2) Proposals for working with area communities to provide more effective and efficient services.

3) Regulations placed on employee fringe benefits to limit government employer costs for retirement and health care plans.

GENERAL FUND
REVENUE SHARING PAYMENTS
For Calendar Years 2006 through 2013

| <u>Year</u> | <u>Statutory</u> | <u>Constitutional</u> | <u>Total</u> |
|-------------|------------------|-----------------------|--------------|
| 2013 | \$ 48,546 | \$415,454 | \$464,000 |
| 2012 | \$ 52,399 | \$407,905 | \$460,304 |
| 2011 | \$ 65,800 | \$386,900 | \$452,700 |
| 2010 | \$ 66,669 | \$387,895 | \$454,564 |
| 2009 | \$ 98,328 | \$377,907 | \$476,235 |
| 2008 | \$115,843 | \$421,404 | \$537,247 |
| 2007 | \$127,686 | \$409,473 | \$537,159 |
| 2006 | \$133,127 | \$414,647 | \$547,774 |

Personal Property Tax

The City of Petoskey's taxable value for personal property tax is \$15,560,300 and the City currently collects \$215,227 in personal property taxes annually. In late 2012 the State passed legislation that would partially phase out Personal Property Tax pending the outcome of a statewide vote in November 2014. Separately, and not contingent upon this statewide vote, at the end of 2013 personal property parcels with a taxable value under \$40,000 will be exempt from taxation. For the City this change is expected to eliminate \$54,000, or approximately 25% of all personal property tax revenue, across the City's three tax supported funds.

Contingent upon a statewide vote would be an increase in the State use tax that would offer replacement revenue to municipalities affected by the portion of personal property tax exempted under the act. Under this proposal, entities whose total exempt personal property parcels over \$40,000 in taxable value exceeds 2.3% of their total taxable value for all properties, would be eligible to receive a partial reimbursement through a newly established State authority.

As proposed, the City of Petoskey would not meet this reimbursement threshold and would lose the entirety of the personal property tax revenue if the statewide measures are approved by voters. Without additional revenues to replace this loss of \$54,000 in personal property tax funding, services will need to be cut across most tax revenue supported funds.

EXPENSES

Health Care

Health care premiums have always been the single largest expense that is difficult to manage for the City of Petoskey. Due to the number of employees, the City is self-rated, which means premiums are based on the City's claims experience alone and not that of a larger group. This can be good or bad based on the amount of claims paid out over the two year study period. There are also unrelated factors such as administrative costs of the health care provider, Blue Cross Blue Shield, where are a separate line item in the rating process, along with legislated mandates.

To help address these uncontrolled expenses, in 2009 the City began to institute a high deductible health care plan to lower annual premiums and help develop employee awareness on health care coverage costs. The City funded the annual deductible in declining amounts for the first three years, 100% the first year, 90% the second year, and 80% the third year, with employees funding the entire amount thereafter. As of January 2013 all eligible city employees are covered by the same high deductible health care plan.

In addition, the State legislature adopted a “hard cap” in 2011 for health care premiums provided to public employees and the City adopted the cap for all employees. This law effectively caps the amount a governmental employer can pay for health care benefits, with inflationary adjustments made annually based on the Consumer Price Index for health care. Any premium amount above this hard cap threshold will be the employees’ responsibility.

The Health Care Reform Act of 2010 legislates additional benefits to the health care plan that were not previously provided. Two of these benefits are coverage for children up to age 26 and additional services provided under preventive care that were previously subject to the annual deductible first, but are now covered 100% by the insurance provider (e.g. colonoscopy). There are other changes in reporting for the insurance provider and coverage that will take effect in 2014 that will tax health care plans and increase premiums approximately 25% before any annual increases based on actual claims experience or administrative costs are factored into the premiums.

Blue Cross and Blue Shield of Michigan
Ten Year Summary of Premium Costs

| Year | Non-Union | Public Safety | Teamsters | Total |
|------|-----------|---------------|-----------|------------|
| 2012 | \$338,940 | \$176,491 | \$198,846 | \$ 714,277 |
| 2011 | 529,995 | 250,115 | 221,381 | 1,001,491 |
| 2010 | 463,141 | 201,380 | 197,137 | 861,658 |
| 2009 | 408,487 | 182,361 | 208,954 | 799,802 |
| 2008 | 572,673 | 245,818 | 198,195 | 1,016,686 |
| 2007 | 492,711 | 202,346 | 175,229 | 870,286 |
| 2006 | 413,440 | 176,677 | 143,082 | 733,199 |
| 2005 | 425,015 | 171,656 | 136,208 | 732,879 |
| 2004 | 368,460 | 141,417 | 114,990 | 624,867 |
| 2003 | 341,832 | 126,970 | 98,540 | 567,342 |

Previously Reduced Expenditures

The City of Petoskey has taken the following steps to reduce expenditures:

- No employee raises for non-union and Public Safety employees since 2010 and Teamster employees’ wages are frozen for 2013.
- Implemented high-deductible health insurance plan for employees beginning in 2009, along with Health Savings Accounts.
- Health savings account contributions are now fully funded by employees.
- Implemented State “hard cap” limiting the City’s exposure to health care costs at levels establish by the State and placing responsibility for costs in excess of the cap amount on the employee.
- Public Safety unionized Officers now contribute 2% of their wage to their retirement account. Teamster unionized employees will begin contributing to their retirement plan beginning in 2014.
- Three (3) full-time employee positions were left unfilled following retirements.
- Eliminated seasonal Public Safety Cadet positions, which were partially reinstated in 2013 due to issues along waterfront and Parks.
- Deferred capital maintenance to the Public Safety Station #1
- Overtime was reduced in Public Safety through greater administrative control of time-off, changes to the collective bargaining agreement, and the creation of a detective’s position.

- Capital maintenance has been deferred on various park facilities, including roofs on several structures within Bay Front Park as well as the Sunset Park stair tower.

Community Survey and Preference for Existing Service Levels

The community survey undertaken in 2010 offered respondents several options for the reduction of City services. The majority of respondents, however, indicated satisfaction with existing services and preferred maintaining current service levels versus cutting expenses by paring back service levels.

Activities such as sidewalk snow removal, and weekly summer park maintenance were seen as important services that residents enjoy and would prefer to continue at current levels.

Additionally, the few service changes that the City has implemented, including bi-monthly brush pick-up instead of every other week, and spring and fall refuse clean-up for a total of four instead of six weeks, have occasionally been the source of public criticism.

NEEDS

The most critical financial needs lie within services supported by the City's General Operating millage including Public Safety and Parks and Recreation. In addition, the Department of Public Works street operations are primarily funded by the Right of Way millage, which is inadequate to meet current demands for maintenance and road reconstruction.

Public Safety Services

Expenditure reductions have impacted the Department of Public Safety staffing levels, forced the delay of necessary building repairs, and indefinitely delayed the replacement of much needed capital equipment.

Public Safety Personnel Needs

In 2010, following the retirement of a lieutenant, a full-time public safety officer position was left vacant to help address budget cuts necessary to make up for the unexpected loss in tax revenue. Additionally, several summer cadet positions used to patrol the waterfront and downtown areas were also eliminated as part of these same budget cuts.

Facing a loss in tax revenues of their own, the Public Schools of Petoskey, who jointly funded the position of School Liaison Officer, were forced to eliminate the position as part of their budget cuts. The loss of an on-site presence has hampered Officers' ability to deal with issues facing students and the administration on and off the campus. With the construction of the Public Safety Station West, the Department is now responsible for staffing an additional facility near Bay Harbor, which constrains the flexibility of the full-time staff.

These staffing issues come as the community is facing more serious drug enforcement issues with an increase in hard street drugs, like heroin, cocaine and methamphetamine being manufactured, distributed and used in the city. This increase in activity comes on top of an already serious prescription drug abuse problem.

The Department of Public Safety feels the most effective means to properly deal with this local drug problem is to assign an officer directly to drug enforcement matters. Whether an officer would be assigned specifically to SANE, or operate out of the Department of Public Safety and work with SANE on joint investigations, the need for one additional full-time position still exists.

The elimination of the cadet positions has also negatively impacted the City's law enforcement abilities. Last year we saw significant increases in problems at City parks, on and near the marina breakwall, and in other high traffic areas of the City including the downtown. The loss of these positions has impacted Public Safety's effectiveness in addressing these issues as they arise and before they become a normal occurrence. Therefore, this position was partially reinstated for 2013.

The City would also benefit from a more active and uniformly staffed fire prevention and building inspection program aimed at preventing fires and other public safety issues within City properties. There are many seasonal property maintenance issues that could be more effectively dealt with by assigning the duties to a single dedicated officer within Public Safety. Similarly, commercial structures in the community should be routinely inspected to prevent fires that could threaten many unique, older buildings and the character of Petoskey, many of which are in the downtown area.

Public Safety Equipment Needs

The original 2010-2015 Capital Improvement Plan (CIP) included funding in 2013 for the replacement of the current 100' aerial ladder. The current unit, Truck 4516, is 29 years old and does not meet present NFPA 1901 industry standards. While the unit does function as designed, this older technology poses a safety issue for Public Safety employees and the community. To maximize regional firefighting efforts and capabilities and to minimize the risk of serious injury, this apparatus requires replacement with more current features and up-to-date technology that meet present safety standards.

Due to the prohibitive cost to replace or refurbish the unit estimated at \$750,000 to \$1,000,000, this piece of equipment was removed from the 2013 Capital Improvement plan (CIP). The City's current funding woes would not allow for this type of expenditure in the foreseeable future.

Additionally, the planned replacement of three fire vehicles with a single multi-purpose apparatus capable of performing the same functions has been delayed indefinitely. These three vehicles include Truck 4501, a 1984 pumper with 1250 gallon per minute (GPM) capacity that does not meet NFPA 1901 standards and which is showing signs of significant body corrosion, Truck 4521 a 1992 pumper rated at 1,000 GPM and Truck 4522 a 1992 hose tender rated at 2,000 GPM. The cost for this multi-purpose vehicle is estimated at \$450,000.00.

Outside sources of funding have also been sought with limited success. A federal grant application was submitted this year for funding, but our application was denied. Local grants have been sought to assist in supplementing tax revenue losses, with \$25,000 received in 2011 and \$10,000 received in 2012.

These funds are dedicated to apparatus replacement and will be used to help defray the costs of replacement. However, relying on grant funding is unrealistic for apparatus replacement, due to the relatively small grant amounts that are available for such a large ticket item.

Parks, Buildings and Grounds

The City has approximately \$2,000,000 in building and park facility repairs that are either currently needed, or that will need to be addressed within the next five to ten years. With reductions in tax revenue, routine maintenance to properly maintain facilities and infrastructure has been postponed.

It is worth noting that during the 1980's; the City experienced a similar downturn in the economy where facility maintenance was deferred. The staff, in the late 1980's and early 1990's expended significant financial resources to bring facilities back into proper operational condition. Funding was available through significant annual increases in taxable value. The following is a list of necessary building and park facilities repair and maintenance items:

Public Safety Station 1

- A. Roof Replacement \$125,000
Public Safety Station #1 has a 25 year old roof that is failing. Over the last several years numerous leaks developed that have been addressed. The roof is the same vintage and style as the one at City Hall, which was replaced in 2010.

- B. Replacement of Glass Overhead Doors \$75,000
The existing glass doors are 25 years old and the seals on the glass panes are leaking and fill with moisture. Metal frames and panels are weakening, and window retainers are failing.

- C. Interior Renovations and Maintenance \$100,000
It has been twenty-five years since the building was renovated and windows, HVAC units, carpet and furniture all need to be replaced.

City Hall

- A. Interior Renovations and Maintenance \$260,000
City Hall was constructed in 1988, twenty-five years ago. Several HVAC units have been replaced but, 60% of the heating and air conditioning units remain, and wood window frames are deteriorating from moisture damage. In addition, much of the original furniture in the building along with carpeting on the second floor is in need of replacement. The first floor and basement carpeting have been replaced in the last few years.

Museum

- A. Roof Replacement \$60,000
The Museum's 3 in 1 asphalt shingled roof on the depot building is twenty three years old and is curling and lifting from the sheeting. The City has sought outside sources of funding for this replacement with no success.

Park Buildings & Facilities

- A. Ed White Field, Festival Shelter and Resource Buildings \$20,000
The roofs for these three Bayfront Park buildings, which are now twenty-five years old, are beyond their useful lives and need to be replaced.

- B. Winter Sports Park \$55,000
The Winter Sports Park roof will need to be replaced within the next ten years, along with the skate floor and exterior doors on the structure.

C. Little Traverse Wheelway Repaving

\$100,000

The City is responsible for the maintenance of approximately 7 miles of the Little Traverse Wheelway, the first segments of which were constructed in 1990. The asphalt varies in condition, with the worst segments between East Park and Townline Road. Surface replacement should be anticipated within the next five to ten years.

Streets

The City of Petoskey has 33.9 miles of City streets and expends approximately \$550,000 annually on the capital reconstruction of streets throughout the City.

For more than ten years the City has focused its roadway maintenance budget on the complete reconstruction of its streets, including asphalt, subsurface replacement, curbing, sidewalks as well as major utilities including water, sewer and electric. This comprehensive reconstruction strategy has allowed capital funding to be used more efficiently across funds and governmental service areas.

In recent years the City has been able to obtain outside sources of funding, both from the Bureau of Indian Affairs thru the Little Traverse Bay Bands of Odawa Indians and via Small Urban road repair funds obtained through Michigan Department of Transportation. In the last three years alone, nearly \$1.8 million dollars in additional outside funds have been secured toward the reconstruction and improvement of the City's local roadway system.

In rough numbers, the complete reconstruction of a street costs \$1,800,000 per mile without including expenses related to the underground utilities. Repaving, which is only beneficial when the subsurface is adequate and the curbing is in good shape, costs approximately \$475,000 per mile.

Asphalt can reasonably be expected to have a 15 to 20 year lifespan before significant maintenance is required. However, many City streets were last repaved – without full reconstruction - in 1988 following the passage of the City's Right of Way millage and a bond issue in 1994. These streets now contain asphalt that is 20-25 years old, and in many cases curbing that is inadequate, along with underground utilities that are in need of replacement.

In early 2013 the City completed a Pavement Surface Evaluation and Ratings (PASER) of city streets. The results were as follows:

| PASER Rating | Length (Miles) |
|---------------------|----------------|
| 1 to 2 (poor) | 4.3 |
| 3 to 4 (fair) | 5.3 |
| 5 to 7 (good) | 18.4 |
| 8 to 10 (very good) | 5.9 |

The PASER street ratings were further analyzed to estimate the cost of street repairs that are currently needed:

| Recommended Construction Scope | Length (Miles) | Total Cost |
|--|----------------|-----------------|
| Reconstruction (includes full pavement structure, curb, sidewalk and storm | 3.8 | \$7.0M |
| Rehabilitation (includes milling between curbs, resurfacing and curb/storm repairs | 5.8 | \$2.2M - \$2.8M |
| Maintenance (Includes crack sealing and other minor repairs) | 24.3 | \$0.65 - \$1.3M |

The City currently spends approximately \$550,000 annually on capital road maintenance and reconstruction. This funding is supplemented with State grants and other outside funding sources. However, it is clear from the PASER analysis and related cost estimates that road maintenance needs greatly exceed the City’s current funding.

Revenue Options

Headlee Override

In 1963 the Headlee Amendment to the Constitution of the State of Michigan of 1963 was adopted. Headlee requires a local unit of government to reduce its millage when annual growth on existing property is greater than the rate of inflation. As a consequence, the City’s millage rate is “rolled back” so that the resulting growth, excluding new construction, in property tax revenue, community-wide, is no more than the rate of inflation.

A “Headlee override” is a vote by the electors to return the millage to the amount originally authorized via charter, state statute, or a vote of the people, and is necessary to counteract the effects of the “Headlee Rollback.” This would be much like the school override placed on the ballot every few years.

Prior to 1994 when Proposal A was adopted, local governments were allowed to “roll up” their millage rates when growth on existing property was less than inflation. “Roll ups” were a self-correcting mechanism that allowed local governments to naturally recapture taxing authority lost due to Headlee rollbacks in prior years. A local government could only “roll up” its millage rate to the amount originally authorized by charter, state statute, or a vote of the people.

In short, increased value that is triggered by an uncapping event such as the sale of property, does not increase the City’s tax revenues because uncapped values are treated as inflationary growth on existing property and triggers Headlee rollbacks. Since the City of Petoskey levies millages at or near Headlee maximums, rolling back the maximum authorized millage rate reduces the revenue that would have been generated from these increased property values, since the City is unable to increase the millage rate.

The increase in the taxable value of property not transferred is capped at the lesser of inflation or 5 percent. Even though the taxable value of a particular piece of property increases at the rate of inflation, the millage rate for the entire community is “rolled back” as a result of the increase in the total taxable value of the community.

The following chart shows a list of the City’s millages as they currently stand and their original amount:

| Purpose | Original Millage Rate | Maximum Allowable Millage Rate | Current Millage Rate |
|-------------------|------------------------------|---------------------------------------|-----------------------------|
| General Operating | 10.0000 | 7.6707 | 7.6707 |
| Solid Waste | 2.0000 | 1.7282 | 0.4890 |
| Library | 2.0000 | 1.8141 | 1.8141 |
| Right of Way | 5.0000 | 3.9502 | 3.8580 |

To initiate a Headlee override, City Council would need to approve ballot language that would ask voters to consider a proposal that would restore the original millage rate in one or more of the City’s property tax millages. A sample ballot proposal from Lathrup Village reads:

SAMPLE BALLOT LANGUAGE:

CITY OF LATHRUP VILLAGE

Headlee Override Millage Proposal

Shall a “Headlee Override” be adopted so that the current limitation on the amount of City taxes that may be levied against all taxable property in the City of Lathrup Village, Oakland County, Michigan, be increased as follows:

- Up to 20 mills from approximately 16.081 mills (\$20 from approximately \$16.081 per \$1,000 of taxable value) for general operating expenses, and
- Up to 3 mills from approximately 1.6034 mills (\$3 from approximately \$1.6034 per \$1,000 of taxable value) for sanitation/rubbish.

If approved and levied in its entirety, this millage would raise an estimated maximum amount of \$3,060,142 for the City in 2010 by allowing the City to levy the maximum mills previously approved by the voters and authorized by the City Charter and State law which have been reduced as required by the Michigan Constitution of 1963.

- Pros: Would reinstate maximum property tax millages to their original levels and give City flexibility on future funding when annual millage rates are established. Frequently done by school districts around State. Would provide additional funding for General Fund services and road repairs.

- Cons: May be perceived as a tax increase. Would likely result in actual tax bills increasing as General Operating and Right of Way millages are adjusted.

Property Tax Administration Fee

The City of Petoskey is required to collect property taxes on behalf of five other taxing jurisdictions including Emmet County, Public Schools of Petoskey, Charlevoix-Emmet Intermediate School District, North Central Michigan College and Greenwood Cemetery. In addition to the administrative expenses associated with these assessing and collection duties, the City is responsible for defending each of these jurisdictions when tax appeals are filed.

The Michigan General Property Tax Law allows a local property tax collecting unit to add a property tax administration fee of not more than 1% of the total tax bill per parcel. A property tax administration fee is defined as a fee to offset costs incurred by a collecting unit in assessing property values, in collecting the property tax levies, and in the review and appeal processes. The fee is provided by State law as a revenue source to avoid placing an unfunded mandate on tax collecting units.

The City of Petoskey currently incurs annual expenses of approximately \$138,000 for assessing and \$65,000 for collection of taxes for all governmental entities that impose a millage on property within the City. In addition, the City has deferred the upgrading of software related to assessing and tax collection, an estimated \$15,000 expense.

City Council beginning in 2001 discontinued collection of the 1% property tax administration fee, which last year would have generated \$203,000 in 2012. Reinstating this fee would require a resolution of City Council.

- Pros: Additional funding to cover expense of tax collection services for other governmental units.
- Cons: May be perceived as a tax increase. Cost borne by property owner rather than governmental entities and explicitly listed on the property tax bill. Because fee was previously revoked by City Council there may be political debate about its re-implementation.

Public Safety Funding Options

Millage Option

Faced with a significant loss in tax revenue and cuts to public safety services and personnel, many downstate communities in Michigan have chosen to place special dedicated public safety millage requests on the ballot for resident consideration. This targeted millage request allows a dedicated source of revenue for public safety services, and effectively allows the public to choose the level of service they would like for their community.

- Pros:
 - Targeted request for Public Safety may be viewed more positively by public than general Headlee override request. Allows public to clearly see and choose the level of public safety services that they would like for the community.

- Cons:
 - May be perceived as a tax increase. Less flexible than Headlee override of General Operating Millage.

Special Assessment Option

Public Act 33 of 1951, Police and Fire Protection, is a State law that allows the creation of an ad valorem special assessment on real property for the purposes of operating and equipping Police and/or Fire Departments. This special assessment would be based on property values, and is an available resource for cities with a population under 10,000. The assessment may fund both equipment and operations. Essentially property owners benefiting from the service would be the ones bearing the cost of the assessment.

This option, if approved, would provide a dedicated public safety revenue and could be paired with a reduction in the General Operating millage. If utilized this option could allow the City to have a significant unlevied General Operating millage below the Headlee cap and the City would be able to establish the annual assessment amount as needed to fund all or a portion of the Department of Public Safety.

- Pros: Would provide an additional, stable funding source to the City for Public Safety services and equipment. Ability to annually adjust assessment provides funding stability independent from constraints of property tax variations and State revenue sharing. City Council can assess and adjust annually (not typically subject to vote).
- Cons: May be perceived as a tax increase. Assessment is subject to a vote if 10% of land owners petition the City Council. Could result in debate about funding levels for Public Safety services.

A similar special assessment option may be available to municipalities in 2015, but is contingent upon statewide voter approval of a use tax. This option was included as part of a reimbursement of revenues as part of personal property tax reforms. Under this option local governments would be granted the power to levy an essential services assessment to recover 100% of PPT loss associated with police, fire, ambulances and jails. This special assessment can be levied on industrial and commercial real property belonging to taxpayers who are claiming the eligible manufacturing exemption provided as part of personal property tax reforms.

It is likely that this proposed funding mechanism will be challenged legally if approved as part of the statewide vote. More importantly for Petoskey, this option would be applicable only on manufacturing facilities, of which the City has only a limited number making this funding mechanism inadequate to maintain current funding levels or anticipated future funding needs.

Income Tax

Under State law a City income tax can be levied, with voter approval, on all persons who work inside the corporate limits. For residents the levy is 1%, for non-residents the levy is 0.5%. A City income tax is fairly common in certain states, and effectively shifts a portion of the burden of financing City services to those who use those services, but do not pay property taxes.

Approximately 25% of the land area within the City of Petoskey is tax exempt, and some of the City's largest employers enjoy tax exempt status. Consequently, the City does not directly receive revenue for many of the businesses or their employees who live outside the City but work at facilities that are exempt from property taxes. These facilities still demand City services such as public safety and a transportation system and their employees enjoy many property tax supported services including City parks and recreation.

- Pros: Shifts a portion of taxing burden for City services to nonresidents who use City services rather than just property owners. May allow for reduction in operating millage. Typically only applied to earned income, meaning that most retirees are exempt from income tax.
- Cons: Despite opportunity to lower property taxes through a shift to income taxes, may be perceived as a tax increase. Overall tax burden to City residents that also work in City may be greater than additional millage levy or special assessment to fund Public Safety. Study would need to be done to determine estimated amount of income tax that could be collected.

Emergency Services Cost Recovery

A cost recovery program allows a municipality to bill and recover costs related to emergency services. A cost recovery program can be customized to fit the needs of a community and may cover a variety of emergency service costs, and can be as broad or narrow as desired. For example, a cost recovery program can exempt resident taxpayers. Typically the program structure will cover things like car accidents and allow the City to bill insurance companies for these services.

Although the City's resident population is approximately 6,000, the year-round daily service population for public safety services is estimated to be double the resident population, and the average daily traffic count on the State trunklines is estimated to be 35,000 cars per day. Seasonal fluctuations in population and traffic increase these numbers even further.

All of these non-residents place a demand on Public Safety services – services that are currently funded entirely by property owners and residents within the City of Petoskey.

Many municipalities around Michigan utilize a cost recovery program for public safety services. Allied EMS, for example, utilizes a program that bills insurance companies for ambulance services but does not impose costs on individuals if they are unable to pay or their insurance companies will not cover the full cost. Montrose, Ewart, Tawas and Otsego County all have cost recovery programs.

- Pros: Additional funding source that enhances revenues to pay for essential City services. Shifts some costs of public safety services to users who are not necessarily contributing toward the availability of public safety services thru the payment of property taxes. Provides awareness of the true cost of providing emergency response services.
- Cons: May be perceived as unwelcoming for an area that economically depends on visitors.

Conclusion

The delivery of any service is a balancing act between the level of service provided, the cost to deliver that service and the relative level of risk. The difficulty is in gauging the desires of the city and ultimately finding the correct balance between safety, service and affordability. Thru budget cuts and a re-examination of many City services over the last three years in order to balance the Annual Budget, efficiencies have been achieved.

However, in order to maintain current service levels, address public safety needs, and properly maintain parks, buildings and streets, additional revenues will be needed. Even with a modest improvement in the housing market, property tax revenues lag behind a broader economic recovery, meaning that it will take up to ten years to recover the revenue lost from the recent 20% decline in taxable value.

In the short-term, re-implementing the 1% property tax administration fee will close the gap to avoid cuts that would likely impact personnel. However, discussion of the long-term revenue needs, and potential funding sources, must occur in order to ensure that public safety issues in the community are being properly addressed, and capital maintenance is not deferred indefinitely. Decreases in State funding, and recent changes in State laws that could potentially eliminate personal property taxes, make the need for this discussion more urgent in order for the City to maintain its long-term fiscal health and current service levels.