

**SPECIAL CITY COUNCIL MEETING**  
**January 16, 2007**

The Special City Council Meeting was called to order by Mayor Muschell in the Council Chambers in the City Hall at 7:00 p.m. The proceedings were as follows:

Present: Council Members McCauslin, Boardman, Muschell, Riddle, Charboneau, Lepp and Tebo

**Mayor Muschell indicated that the purpose of the Special City Council Meeting is to review the Operation Fund Projection (General Fund, Major & Local Street Funds).**

**Operation Funds Projection**

City Manager McNeil referred Council to his memorandum with regards to the Operation Funds Projection. He commented that as stated, this projection has to do with the General Fund and the Major and Local Street Funds and does not pertain to the DDA or the Water and Wastewater Department which have their own sources of revenue. City Manager McNeil explained that the reason that the Major and Local Street Funds are included is that the General Fund tends to subsidize the Major and Local Street Funds in that the funding the City receives from the State through Public Act 51 does not cover all of the expenses for the Major and Local Street Funds, therefore in his view, they are all one Fund. He stated that most of Council is familiar with the Operation Fund Projection as he has presented information from time to time in his Budget reports, but this particular projection concerns him the most. City Manager McNeil noted that he wants to go over how he comes up with the figures within each of the categories and if Council is confident in how this Projection is calculated, then a course of action should be determined in the near future.

City Manager McNeil explained that the Operation Funds Projection provides an indication of funds that are left over after taking anticipated revenue and subtracting from that the planned debt, payroll and fringe benefits, funding the retiree health benefit and paying utilities and insurance expenses. He referred Council to the first calculation which outlines current and projected debt based on the Equipment Replacement Plan and includes future street repaving projects. City Manager McNeil noted that most of the planned debt is for equipment replacement. He referred Council to the information listing the year certain pieces of equipment were acquired, the year in which replacement is planned, the estimated cost at the time of replacement and an estimated annual payment based on a five-year repayment plan. Councilwoman Riddle asked if projections have been on track with the Equipment Replacement Plan. City Manager McNeil replied that projections have pretty much stayed on track which helps in the budget planning process. He added that cash payments for smaller pieces of equipment or equipment purchase of \$35,000 or less are indicated to come out of the capital outlay line item of the Equipment Fund and that lease-purchase financing which pertains to larger, more expensive pieces of equipment is what affects this Projection. Councilwoman Lepp questioned if the Department of Public Safety vehicle that the City most recently purchased is included in this report. City Manager McNeil replied that the most recent vehicle is not included in this Equipment Plan because this projects the future purchases and what Councilwoman Lepp is referring to is included in the current budget. Councilman Tebo commented that two patrol cars could be purchased for the cost of one Tahoe vehicle, which would be much more economical and that the State vehicle pool which includes dump trucks and pick up trucks should be considered. City Manager McNeil stated that was one of many cost saving opportunities discussed with the department heads. He pointed out that for the purposes of the

projection we are looking at those items that would propose debt and that the purchase of police vehicles do not, although Councilman's Tebo's point is well taken because it would provide more purchasing capacity within the Operation Funds that are left over.

### **Debt Projection**

City Manager McNeil referred Council to the Debt Projection, commenting that this reflects the current debt that has already been incurred and future planned debt. He explained that the purchases from the Equipment Replacement Plan have been linked to the respective years where purchases are planned and those payments are reflected. Additionally, anticipated debt for street resurfacing is included. He explained that primarily is how the numbers found in the debt column are derived, noting that is primarily equipment, consideration of street debt, Lincoln Bridge and a couple street resurfacing projects in 2010 and 2013. Councilman McCauslin referred to Public Act 51 noting those funds go into the streets and asked if this is over and above what the expected PA51 revenue is going to be. City Manager McNeil indicated that historically, the operations of the Major and Local Street Funds have required more funding than what the City receives through PA51 revenue.

### **Wage & Fringe and Revenue Projection**

City Manager McNeil then referred Council to Wage & Fringe and Revenue Projection, noting that he has gone back five years using data from total payroll and fringe costs of the General Fund and Major and Local Street Funds and compared that from the 2000/2001 budget year to the 2005/2006 budget year. He commented that the data indicates a 3.37% increase per year and he has projected that figure forward into the next five years to the year 2012. Councilwoman Riddle commented on the payroll plan in effect for increases in pay depending upon job evaluation. She noted that the general populous of taxpayers who come forth with funds for City employees do not receive that same type of increase on a regular basis, adding that she feels Council needs to look at being in line with the taxpayers that fund the City payroll. City Manager McNeil commented that there is more collective bargaining negotiations coming up, adding that some of the collective bargaining is subject to binding arbitration and some of the arbitration rulings do not necessarily reflect issues that Councilwoman Riddle is referring to and that dealing with those issues can be a struggle. He added that he feels some major strides have been gained with the most recent collective bargaining agreement including approaching co-payments as well as a different insurance company.

### **Retiree Health Benefit Projection**

City Manager McNeil referred to the Retiree Health Benefit Projection, commenting that this Projection involves the most calculation. He explained that the calculation for annual premium increase is a ten year inflationary running average based on experience with premiums in health insurance coverage adding that this does not reflect any of the experience with the new Priority Health Insurance coverage and those employees who are currently affected by that plan. Council will note the different increases for health insurance expressed as a percentage over the last ten years and the ten year running average at 16%. Councilwoman Riddle asked if the 2007 figure of 5.6% is a direct correlation with the change to Priority Health that has been made. City Manager McNeil explained that this reflects premiums for budget year 2007 and is not a projection, adding that this should reflect the blend of the two insurances although when included with the figures from the other nine years, it will not change a great deal, and for purposes of the projection, will provide a pretty good look into the future. City Manager McNeil referred to the most recent policy adopted by the City Council that capped the retiree health benefit for any qualified employee that retires from here forward, noting that the report shows the monthly rates

that would be paid out in any given year under that policy. Councilman Charboneau asked what scenario is used to get from \$401.00 in 2005 to \$973.00 in 2035 on the schedule for maximum contribution toward the health benefit program. Clerk/Treasurer Kwiatkowski stated that figure is based on the single person premium in 2005 and then a 3% increase is added per year to the monthly premium. City Manager McNeil referred to the Retiree Health Benefit Projections, commenting that in bold are the names of retirees that have retired previous to that policy being adopted, and are subject to a projection based on that ten year running average. In other words the City is paying the full cost of health insurance for the retiree and spouse as was the policy the City had in place at that time. That current cost is projected forward with an increase of 16% per year for those retirees, then for the remaining employees that would retire under the current policy, those fixed numbers are projected into the future assuming that each employee will retire when they reach age 55 and have 25 years of service. City Manager McNeil referred to information that reflects the estimated overall cost as well as a calculation on assumed interest income on the balance that is currently in that Fund. City Manager McNeil also explained how the amount of payment from each Fund that goes into that overall Fund is calculated. He noted that Council can see based on the current budget, the percentage of the total payroll amount the General Fund represents, Major Street Fund represents, etc. From that he rendered that the General Fund, Major Street Fund and Local Street Fund will pay in \$59,500 into that Fund this year, and that number is included in the projection. That is carried forward based on the percentage of increase the previous calculation indicates per year. City Manager McNeil explained that from here forward, that Fund is going to require a 10.5% increase next year, 11% increase the year after that and then it starts gradually decreasing. The retiree health care cost peaks during 2012, 2013, 2014 and then drops off again after that. He commented that is how the contribution to the Retiree Health Benefit Fund is calculated, and that is further how it is broken down to represent what the Major and Local Street Fund and General Fund has to contribute along with the Water, Sewer and Equipment Funds.

#### **Utilities and Insurance Cost Projection**

City Manager McNeil referred Council to Utilities and Insurance Projection, commenting that because there is no actual experience due to the new liability and property insurance company, he included a 3% general inflation factor. Additionally, there is no experience to measure utility costs with the new energy-saving program through Johnson Controls and again a 3% inflationary factor was added from the current budget year. Council will note from the 2006 actual number on utilities and insurance to this year's budget, there is a significant savings being projected due to those two actions and in fact they would be more but the utility requirements for the new Department of Public Safety addition actually decreases some of the projected savings with regard to energy. He added that the performance contract with Johnson Controls requires them to come in and measure and quantify our savings in the areas where the contract identifies and we will also see how we do with the new liability and property insurance company.

#### **Revenue Comparison 2003/2004 – 2005/2006**

City Manager McNeil noted that after the expense items including debt, payroll and fringe, the cost to fund retiree health benefit, utility costs and insurance premiums are calculated to establish a total debt payroll and fringe amount, then what is left to do is anticipate revenues. He referred Council to a comparison of revenues from the 2003/2004 budget year to the 2005/2006 budget year explaining that after calculations, that renders an increase in revenues of about 2.15%. City Manager McNeil explained that he uses the major sources of revenues which comprise about 80% of revenues such as property taxes, State shared sales tax and PA 51 State shared revenues, and did not use smaller sources of revenue

such as licensing fees or district court fees. He also explained that the reason he only went back to 2003 and 2004 is that there was quite a decline in State shared revenues for a period of time and that including the figures from 2000 and 2001 would not have shown any increase at all and the numbers would have been skewed because the City used to receive much more in State revenue sharing at that time. City Manager McNeil commented that he projects a 2.15% increase for 2008 and 2009, a 2.5% increase for 2010 and 2011, then 3% thereafter as the financial situation at the State level may improve although based on information he has read and seen lately with regards to the State's possible financial recovery, this projection may be optimistic and that further study is needed. He noted that this projection renders what monies may be left over after payments toward payroll costs, planned debt, retirement benefits, utilities and insurance premiums are made and that he is concerned about providing services under the current practices into the future and wants to bring this information to Council's attention. City Manager McNeil commented that it is his recommendation and that of the department heads that if Council is confident in the projections, action needs to be taken such as establishing a Budget Review Committee comprised of Council members, himself and department heads, to start reviewing alternatives such as decreasing expenses and increasing revenue. Councilman McCauslin commented on the impact of the Headlee rollback and Proposal A on the operating millage, and the possibility of returning to full millage. City Manager McNeil noted that is one option that could be explored. He commented that he has provided Council with additional information on the City's history of operation millage and some demographic data as a comparison to outside areas, noting that this is a dynamic that is happening with cities throughout the State that are losing tax base to outside areas where development and redevelopment is easier and less costly. Additionally, there is information on the Governor's Task Force addressing local government issues and how cities are struggling, along with a study by the Michigan Municipal League which further expounds upon problems currently experienced by local governments in general with the affects of the Headlee Rollback and Proposal A. Councilman Tebo asked if other cities have explored purchasing products such as road salt and other items through a co-operative arrangement rather than individually. City Manager replied that road salt is purchased on a State bid and that in the past, the City of Cheboygan entered into a coalition to explore purchasing electricity which did not work out. He noted that discussion of consolidation has taken place between cities and townships relative to firefighting and other services that can be shared but for the most part, the services and the way cities operate are unique enough where it is hard to find common areas where costs can be shared locally. Councilwoman Lepp commented on biofuel and the State subsidizing that program. City Manager McNeil indicated he has not looked into that program. Councilwoman Lepp stated that she would provide some information to City Manager McNeil.

City Manager McNeil commented that he has provided a significant amount of information and he is unsure if more time is needed for Council to review the information and ask questions, but whenever Council is ready to entertain the recommendation for a Budget Review Committee would be appreciated. Councilman Tebo noted that if it is felt that a Committee is needed then one should be formed. City Manager McNeil commented that when cost cutting measures are discussed, services are ultimately affected.

Councilman Tebo moved to establish a Budget Review Committee to assist City Manager McNeil, Clerk/Treasurer Kwiatkowski, Chief Jones and DPW Supervisor LaCross with budget review and that the Budget Review Committee include three members of the City Council. Councilwoman Lepp supported the motion.

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Yes votes: Council Members Boardman, Lepp, Tebo, McCauslin, Muschell and Riddle  
No votes: Councilman Charboneau  
Motion carried.

It was the consensus of Council that Councilwoman Lepp, Councilman Tebo and Councilman McCauslin serve on the Budget Review Committee.

**Adjournment**

Councilman McCauslin moved to adjourn the meeting at 7:52 p.m. Seconded by Councilman Boardman. Motion carried unanimously.

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Mayor James Muschell

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City Clerk Kenneth J. Kwiatkowski

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Councilman Scott McCauslin

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Councilman Gerald R. Boardman

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Councilwoman Winifred L. Riddle

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Councilman Charles Charboneau

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Councilman Leslie A. Tebo

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Councilwoman Theo Lepp