

City of Harbor Springs

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December 1, 2008

To: City Council
City Clerk
City Attorney

From: Frederick W. Geuder, City Manager

Subject: 2009 Budget Message and Thoughts for the Future

“Toward the Future”

It is as always a pleasure to come toward the end of another calendar year, which means it is time to present to you another budget, the City of Harbor Springs 2009 Annual Budget and Spending Plan. But this year it is perhaps a final chance to give you, the Council, my thoughts on what you may need to look at, at least for the coming year, and maybe with a look “Toward the Future”.

I do hope the new City Manager will bring some new thoughts and ideas to the table, which does not mean we have been going in the wrong direction, but a fresh infusion of thoughts and ideas, and how things are done elsewhere, should be healthy for the City and the community at-large.

I also know that Ron McRae, Dan Branson, Tim Grimm, Joel Clark, Dennis Kruzel and Mike Johnson are ready to work with the new manager and will offer much in the way of institutional knowledge as the organization moves forward with new leadership.

Long Term Trends

Nothing has really changed in the way of the long-term items that need to be addressed. Energy planning and lack of financial support from the State are not new topics and must remain on the radar.

We are fortunate in that we still do, in spite of the economy, have new taxable properties being built, and overall have seen housing prices remain steadier than what southeast Michigan has experienced and even other parts of Emmet County have experienced.

BUDGET PHILOSOPHY

As we have always done in the past, City Clerk Ron McRae and I have again taken a generally conservative approach to budgeting.

We estimate the revenues conservatively, so we will not be hurt by a routine or minor downturn. On the expense side, we try to be realistic, neither overestimating expenses or purposely underestimating costs to simply balance the budget.

As before the net effect of this philosophy is that we generally come out in the black in the General Fund at the end of a fiscal year. This has allowed us to build up a reasonable surplus in the General Fund, which can be used as City Council sees appropriate. We are still solid financially.

In 2008, it appears we will have again accomplished our goal.

Cash Balances

As always we have provided you with a “Projected Cash Balances” worksheet. And again we are totaling up the balances of our major operating funds.

I still maintain that each fund needs to operate independently, but there are certainly some interrelationships, depending on how a particular fund receives their revenue. By having cash on hand, the Council will have the flexibility to make decisions as time goes forward and the Council may decide to spend a significant amount of cash on hand in any one fund for a project within that fund.

To review our major fund areas:

In the General Fund we have been able to maintain a healthy fund balance, and it continues to be in the 3-6 month range of the annual budget. This continues to enable us to cover cash flows for the January to June period (before July taxes come in) and to make expenditures over and above the budget as Council sees fit.

Generally we look at the Major and Local Streets as a combined fund, although accounting rules force us to keep track of them separately. We have approximately \$90,000 in these funds set aside for routine road maintenance (which includes such items as snow plowing). These needs will vary from year to year, depending on weather, for example. But we also have almost \$800,000 available for street and sidewalk projects that has been accumulated over the years, and in this budget I will propose using some of those funds.

On a year to year basis, we have been setting aside roughly \$150,000 of our property taxes to the street funds. Generally about \$25,000 of that amount goes for routine maintenance, and the remainder goes into the reserve for future projects, or current projects of the year. I have no doubt there will be a need for the project funds in the future, so I don't really want to reduce that annual income at this time, because once we do reduce that millage, it will hard to replace or re-instate. But we can use some of the accumulated funds.

In the Electric Fund we have roughly \$1.75 million in cash available. We certainly need to maintain a healthy reserve for emergencies, but should we go ahead with a major upgrade (which will be addressed later in this document), I will suggest that we do use a substantial amount of that cash for the project, and not borrow unless we absolutely have such a need.

The Water-Sewer Fund continues to bear watching. While we have a good amount of cash available (\$700,000), the projects that continue to identify themselves will eat into that amount, as I am suggesting in 2009. I would suggest that Ron review rates well in advance of the 2010 fiscal year, so that if adjustments do need to be made in the rates, it can be done on a timely basis. A Public Hearing on proposed rate changes could be held in conjunction with the Budget Hearing. Maybe that would attract more people to participate in the Budget Process.

The Waterfront Fund is still well above its emergency cash requirement that we have set of \$400,000, but I will recommend spending some of that overage in 2009, and what balance is needed after that will need to be determined. The Council has already determined to leave the seasonal rates at the same level for 2009.

The Equipment Fund continues to be healthy, and even with the purchases proposed for 2009, we should have a positive cash flow. Looking ahead to 2010 and beyond, we may dip into that cash somewhat, but as long as cash flow remains good, we can purchase equipment items as needed. The DPW, Electric and Police Departments continue to maintain their equipment so that the life of an individual piece of equipment tends to be extended.

PERSONNEL

As was anticipated, Rick Ward retired in July 2008 after a 43-year career with the City. Joel Clark was appointed as DPW director in Rick's place, and has been doing an excellent job. Joel has been with the city for twenty-eight plus years.

In 2009, we will be in the final year of a five-year labor agreement (the contract expires 12-31-09). Labor negotiations will be a critically important issue in 2009. The new City Manager should begin looking at ideas for this important topic early in his or her tenure. I will include funds in the budget for assistance in labor negotiations. Joe Fremont, who assisted us a number of times, has retired from the Michigan Municipal League, so we will likely need to look elsewhere for that type of assistance.

Per our labor agreements, hourly personnel will receive a 2.5% increase in wages in 2009, and we have budgeted similar amounts for salaried personnel also, with individual adjustments where needed.

GENERAL FUND

I would not anticipate an increase in the millage rate for 2009, although we would likely take in more cash, because it does appear we will have new taxable value.

Certainly no new revenue increases are expected from the State, and I hope we continue to hold our own. We do not anticipate increases in administrative fees from other funds.

On the expense side, I have first included an additional \$15,000 in the 101.700 Legislative account for Council expenses, which is the estimated cost of the City Manager search. This would of course be a one-time expense.

Obviously the actual budget for the City Manager will be somewhat in flux until the new manager arrives. I would anticipate that some budget amendments may be needed to account for such items as moving expenses, etc. that may occur as a result of the new City Manager coming on board.

I have had someone express an interest in bidding on our annual audit. Although we are committed to use Hill-Schroderus for the 2008 audit (which occurs during the 2009 calendar year), it might be useful for the new manager to discuss this with Ron McRae, and perhaps bring it to Council for discussion. I have full confidence in Hill-Schroderus, but that does not mean that this annual expense does not need to be reviewed.

For the 2009 Budget, I will include \$25,000 for Contractual Services under 101.440 Brush and Refuse Pick-up. This is an amount budgeted for the curbside re-cycling contract with the Emmet County DPW. That initial 5-year contract expires around April 1, 2009.

After a lot of consideration, it would be my recommendation to NOT renew that contract in 2009. My thoughts behind this recommendation include:

1. I believe the actual number of houses participating in the re-cycling are probably less than 50% of what we are basing our payment upon, and that would be my estimate for the busiest time of the year (summer). Go around in the winter and you will likely see a smaller participation rate.
2. I believe the people who re-cycle on a regular basis would do so anyhow, with or without City-paid curbside re-cycling.
3. I believe that many people who do participate do so only on a two- or three-time per month basis.

Those beliefs are more based on observation than specific counts, but look at it yourself over the next several months.

If the City were to sign a new contract, I would hope it would be for a lesser amount, based on the amount of stops actually being made regularly. As an alternative, the County might be willing to individually bill those individuals who want the service, and they could pay the County directly, which would mean the City would not have a contract, except for perhaps paying for their own re-cycling. City Hall, the Police Department and the Marina all regularly recycle, primarily paper and cardboard.

I would suggest a Council Committee sit down with the Emmet County DPW in early 2009 and look at alternatives or what the price of a new contract should be. Again I have included funds in my proposed budget assuming a renewal, but I am not convinced it is a service that the City needs to provide with public funding.

I do fully support re-cycling, and will do re-cycling whether or not it is curbside paid for by the City, but...that is not the issue here. The issue is whether the City is receiving full value for their dollar. Again this is not a criticism of the Emmet County DPW and what they are doing, but we do have a \$25,000 per year item on the line.

Last year I talked about potential changes to our Sk8 Park and Ice Rink. We did contract with H.A.R.E. for the Sk8 Park operation, and while numbers of users were down, the concept worked. With the recent Council approval of an operations contract with H.A.R.E. for the Ice Rink and Sledding Hill for 2008-09, we have expanded on that program. I would hope to have approval of a contract early in 2009 for both operations for 2009-10 in a combined agreement, so that H.A.R.E. can move forward with planning and expanded fund raising for those activities.

I strongly believe that this will give us an opportunity over the long term to at least limit increases in expenditures for these operations, and perhaps to decrease the subsidy provided for in the contract. I am delighted that Sandy Baker has stepped up to plate for these recreational opportunities for the youth of the greater Harbor Springs community.

I have included \$5,000 in the budget for parks to repair either the Tuttle Park or Zorn Park fountain heads (the concrete/stone tops). We don't really have an estimate, but Joel does see a need to look at these in the spring.

I will mention the Airport Authority for a couple of reasons.

First I have asked Mayor Dika to appoint someone else to serve as the City's representative. Secondly you should be aware that the Airport Authority is working to build a new terminal in 2009. The terminal would be funded by a \$500,000 state grant and roughly \$250,000 in private contributions. This item has been discussed for a long time, and completion of the new terminal would serve to be a better gateway for those visitors using the Harbor Springs Airport.

I am attaching Police Chief Dan Branson's budget memo for your information. We were able to defer purchase of a vehicle in 2008, and Dan feels we can again defer such a purchase in 2009 and wait until 2010. Dan has also noted several other items.

MAJOR AND LOCAL STREETS

"Flexibility" remains the key for budgeting in the streets area. I have included Pennsylvania Street (with Artesian) as a project for spring 2009. The Street portion of this project is estimated at \$300,000, not an inexpensive project. This project though is primarily driven because we have identified the water mains on Pennsylvania and Artesian and a sanitary sewer main on Artesian as a priority. And the streets do need work in addition plus drainage is a concern next to the swampy area on Pennsylvania.

In discussion with the Planning Commission, a sidewalk on Pennsylvania was recommended for consideration since we were doing the street anyhow. I personally believe the pedestrian traffic in this area during the summer warrants a sidewalk.

I would also suggest we look strongly at doing a "micro-surfacing" project on Lake Street (the entire length) and East Third (State to Judd). "Micro-surfacing" is the process that

M-DOT used on M-119 east of the City limits. While I have not previously been an absolute proponent of this process, it may be appropriate for the areas we are describing. I think that M-DOT considers it to be a five-year “fix”, which may or may not justify how they are using it. But based on the areas we are looking at, I believe we can extend the life of the surfaces at least for those five years, instead of doing a full re-surfacing. You may want to hold off on this pending the Street condition Inventory suggested below, but I think there may be strong reasons to proceed. The Lake Street project was completed in about 1994 and I know East Third Street was re-paved prior to 1988 when I came here. East Third Street has seen a number of openings for water service repairs since that time. Micro-surfacing would effectively seal the road surfaces against water incursion which results in the freeze-thaw cycle breaking up the road surface.

Information from Joe O’Neill of Benchmark Engineering tells me that Microsurfacing can be expected to be a 6-10 year “fix”. The estimated cost for Microsurfacing the two streets mentioned above is about \$125,000.

The longer “fix” is to partially “mill” the streets (that is grind out grooves) and then do an asphalt cap. This type of fix is expected to be a 14-18 year “fix”. The estimated cost to do that process for these two streets is \$285,000, more than twice as much.

Another perhaps “mid-range” solution is to simply “cap” the existing pavement. Unfortunately that is what the State has done with M-119 (Main Street) at least twice, and maybe a third time, to the extent that the curb no longer functions as a curb. The only times we have “capped” streets is on West Main (over concrete) and Glenn Drive (no curbs), but I do not recommend “capping” for the streets discussed above.

I don’t believe either street needs the full milling and capping, but that the Microsurfacing could provide us with a very good project. Both of these streets have an excellent base.

Just looking at the idea that milling/capping is at most an 18 year “fix” is a staggering thought. Having been here for 20 years, and seen as much done as we have, the question is what can we best afford. In this case, Microsurfacing might be the affordable upgrade.

I have also included \$10,000 in crack sealing for 2009, which is another way to preserve and extend pavement life at a very modest cost. We did a similar amount in 2008. It does help keep the water out of the base, which helps deter the deterioration of the streets.

We did not do work on the Fourth Street gravel area in 2008, but in terms of looking at future priorities, I know that Joel Clark is concerned about the water main on Fourth Street, which would then mean we could do road work there, perhaps as early as 2010, in which case that gravel area could be included in that project, perhaps resulting in economies of scale.

We also do include funding for some sidewalk repairs of existing sidewalks. Joel Clark is looking at upgrading the railing on the Judd Hill sidewalk for example.

I believe that one item of priority, for which I will recommend funding, is for an updated Street Condition Inventory. We did this a number of years ago, but it is probably time to

do so again, and would be a great way for the new City Manager to become familiarized with the streets and underground (water and sewer) utilities.

Joel Clark also has a list of other concerns that could certainly be reviewed in such an Inventory.

Over the past twenty years, we have accomplished a remarkable amount of street and underground utility upgrades. And I am quite certain we hit all of the top priorities. But now after a passage of twenty years, it is the time to begin re-ordering those priorities to see what has come to the top of the list when taking into account the streets, water and sewer mains, as well as looking at new sidewalks or major sidewalk repairs or additions.

ELECTRIC FUND

Over the course of 2008, I met with Dennis Kruzel and Chuck Fricke to discuss the major upgrades that we feel need to occur, which does include sub-station upgrades.

We did dodge a major bullet on about July 10th of this year when a regulator for one of the transformers failed at the sub-station. [It should be noted that part of an electric distribution system is still mechanical in nature and is subject to failure, even when we do have a preventative maintenance program in place.] Because the temperatures were relatively low that day, the Electric Department was able to transfer all of the load to one transformer, and we were able to then replace the regulator (for which we had a replacement in stock) in about 6-8 hours, and avoided a widespread outage. But it should be noted that had the day been a hot day with peak air conditioning use, we would have had a major blackout for much of the system for 8-10 hours.

We do feel we need a third transformer, both to spread the load, and then also to serve as a back-up for such cases as described above. It does not guarantee “no outages”, but it would be a great improvement and insurance policy. To add a transformer does mean either a new (second) sub-station or an expansion of the existing sub-station. That sub-station should be able to house two transformers.

After reviewing the logistics with Chuck and Dennis, my recommendation would be to work towards an expansion of the existing sub-station, rather than moving ahead with a new substation on East Lake (in the triangle). If I understand the logistics correctly, if a new sub-station on East Lake was 100% optimal, expanding the sub-station on Clayton Road would be approximately 75-80% of that optimal amount.

But I believe we would be far more able to accomplish a sub-station expansion and upgrade on Clayton Road versus the potential political question of locating a new sub-station in the City limits. In watching the process for locating other *new* sub-station sites in northwest Michigan (Resort Township and one in the Traverse City area), I believe it is more prudent to accomplish what we need, but by not being endlessly bogged down in potential political or legal wrangling over the site location which most certainly could occur in the triangle by Lake Street.

At the same time, we would need to re-build the 3.2 mile line on the easement coming that we own coming from the sub-station into the City. That has always been a part of the plan. The existing line would be re-built, and we would also build a new circuit along

the same path, and using the same poles, plus adding a pole between every set of poles (this has to do with span and what the poles can hold).

I am recommending \$50,000 worth of engineering to begin accomplishing this task, and it may be ready for construction by the fall of 2009. The sub-station should be designed to accommodate two additional transformers. In talking to Denny Kruzel, we may be able to do some of the work on the lines ourselves and if we purchase a re-built transformer (as we did for back-up), the cost would also be limited. Some of the work will need to be contracted out.

I do know that we would need specific engineering to design the sub-station expansion and all the switches needed. We will also need permission from the Sewer Authority (and Little Traverse Township) to expand our existing substation.

Using Chuck Fricke, Dennis Kruzel, the new City Manager, and perhaps a Council sub-committee, the engineering scope could be limited and design limited to only what we absolutely need. And we may (no guarantee) be able to do this project without borrowing money by using existing cash on hand. And the new City Manager would be able to come up to speed on the Electric System that we do currently have in place.

This is one item I would liked to have accomplished before my tenure ended, but it will not happen. I do want you to be aware though that I strongly believe we need to do something to provide continuing back-up and reliability to the distribution system, as well as to accommodate future growth. I feel it can be accomplished at the Clayton Road site. But I want the Council to feel comfortable with what we have been discussing for several years now, so I do recommend taking the time to look at it carefully before proceeding, but do proceed!

On the energy front, the new manager will need to get up to speed on just what our issues are. I think again working with Chuck and perhaps a Council sub-committee, the City will be facing perhaps their biggest challenge of the next several years on this item. Recent changes at MPPA (the resignation of the General Manager) may open the door to potential solutions, which may have become bogged down in personalities. Please note that our City is not alone in this. Really all Michigan municipal electric utilities have a similar issue. I strongly suggest that we continue to employ Chuck's services as the City's alternate representative to the MPPA. He should attend the meetings. But I also suggest that the new Manager take the time to also attend the meetings for at least the first six to nine months of his/her tenure. It will be a valuable learning experience. I would guesstimate that the cost for Chuck's expertise is less than 1% of the total revenues we take in for the Electric Fund, but it is money well-spent.

I do believe we made the rate adjustments necessary a couple of years ago, but the City may well need to review the rate structure to ensure compliance with the new state energy legislation. If we do need to borrow money for electric improvements (as we did about 20 years ago), rates may also need to be adjusted upwards.

WATER & SEWER FUND

As noted earlier, our next target for water system rehabilitation is Pennsylvania Street (and Artesian). We need to be ready to go in the spring. Benchmark has begun the

engineering and design for this project. We have an estimated \$215,000 cost for the Watermain (and associated work) along with a Sanitary Sewer replacement on Artesian.

In addition, Joel Clark has indicated that it is time to inspect and clean the reservoir and funds have been budgeted for that purpose. Another major maintenance expense is a major “tune-up/rehab” of the State Road Well. It was last done in the early ‘90’s, and that well is our primary well for the winter months. It is prudent to do such maintenance periodically. A couple of years ago we did this with the Peffer Street Well.

We also see the need to do some hydrant work. We replaced two hydrants in 2008 and repaired one that had been damaged by a truck. We have included \$10,000 in the budget to upgrade the hydrant by Turkey’s and the one by Rocking Horse Toy.

As further hydrant upgrades, we would like to purchase 10 new quick connects for selected hydrants at a cost of \$2,000. Joel would work with the Fire Department to choose the places where these would be most useful. New or replacement hydrants would have a quick connect included. We have also included in the budget \$2,000 to purchase 100 of the reflector poles for hydrants inside the City. This would help the Fire Department find the hydrant locations easier in the dark and in winter. We tried a reflective paint on a number of hydrant tops, but it does not seem to work. A color other than red might work, but I don’t know if we want to have two-tone hydrants (tradition!).

I think it is prudent to continue to monitor the rates as we go forward. Our unrestricted cash balance in the Water-Sewer Fund has decreased as we have completed water and sewer main projects and done major repairs and upgrades (such as the Peffer Street Well). I don’t think we are anywhere near a critical state, but continued monitoring is needed and if you do the Street Condition Inventory as recommended earlier, the City may find that it will need increased funding in the water and sewer area.

We continue to have discussions with Bear Creek Township at the Sewer Authority, and will report back as new information becomes available. I believe that this is an opportunity to at least lessen sewer rate increases, especially if we have to consider our own water rate increases.

One suggestion I would like to throw out on water rates, just a philosophical point. I would like to see the commodity rate for sprinkler systems increased. Like the Electric System, some of what we have in well capacity is clearly linked to the peak demands of the summer, which are increasingly driven by new and upgraded lawn sprinkler systems. So perhaps those rates, which are charged only in the summer, should be higher than base water rates.

But secondly, I think there is sometimes watering overkill, and I will admit my home has been guilty of this also at times. There may be ways to have sensors on which would shut off water use when it is raining. Or you also see daily watering when perhaps three days a week would be more than enough.

We do have local legislation that can limit watering in an emergency, but I would like to see rates also used as a means of conservation. We have access to a great resource, but let’s not waste it either.

Capacity may become an issue at the state level, and I believe alternative policies that help limit use may mean the City could well avoid adding an additional well for capacity purposes for some time.

WATERFRONT FUND

The Harbor Commission has recommended three projects for 2009, one of which would really be accomplished over two years (2009 and 2010).

The Harbor Commission is recommending that \$20,000 be budgeted for adjusting dock heights for certain 30' length slips. While the water level of Lake Michigan does seem to be rising now, this is still an issue for these 30' slips. We do not have an exact estimate at this time.

A second project recommended by the Harbor Commission is to light the channel which goes through the Mooring Field toward Walstrom Marine's basin. We would like to do this for safety's sake, due to an accident that occurred last summer in this area.

Finally the Harbor Commission is recommending that we upgrade both the public and boater restroom facilities at the Harbormaster building. The building is now about 25 years old and it is time. It will not be a simple project, but a rough timetable I laid out for the Harbor Commission was that a Committee be formed by Mayor Dika to put together some type of design specification and then have that professional set specifications for bidding on the work.

These bids could be taken around Labor Day 2009, with work to commence in the boater restrooms immediately after they close on October 15, 2009. After the Christmas holidays, the public restrooms could be shut down also to allow re-construction to occur there in time for the whole facility to be open by May 2010.

We have budgeted \$75,000 for this project, which would be spent over the next two budget cycles. So approval of this item would be really a two-year commitment.

Even though we did not increase seasonal rates for 2009, the Waterfront Fund will see a positive cash flow addition for 2009 of \$40,000 because the final payment for the bond for the floating dock was made in 2008.

EQUIPMENT FUND

We are not recommending expenditures on any huge pieces of equipment in 2009, but we do have a number of recommendations for the budget, which add up to being similar to a large purchase. In 2008 we did not have a major purchase.

The Police Department is NOT requesting a new vehicle in 2009. Dan is suggesting deferral until 2010. He has however requested that we upgrade the in-car camera system for the 2002 Tahoe at a cost of \$5,000 and he has requested two new computers (\$3,500).

We also had some discussion last year about replacing the now 13-year old (1995) Meter Reader 4x4, so I have included \$20,000 in the budget for that item.

Both the DPW and the Electric Department have requested pick-ups. I have budgeted a total of \$47,500 for those two pick-ups. One would be a 4x4, the other a 2-wheel drive unit.

Joel has also requested the purchase of a “zero-turn-radius” lawn mower as an additional piece of equipment. We currently mow lawns with an attachment for our 4-wheel drive Kubota tractor that is also used for snow blowing on the sidewalks. Joel feels the purchase of a piece of equipment for \$11,000 (est.) dedicated solely to lawn mowing would extend the life of the other tractor which has a replacement cost of about \$24,000.

In connection with upkeep, the Department of Public Works is requesting the computer diagnostic equipment for use by DPW personnel that are licensed mechanics who do vehicle repair work in-house. That cost is estimated at \$5,000.

I would also again mention that the bonds for the DPW Building are now only two years away from being paid off. Funds for payment of these bonds come from both the Electric Fund and the Water-Sewer Fund in addition to the Equipment Fund, so elimination of that debt will have positive cash flow implications for all three of those funds.

As a reminder, the funds accumulated in the Equipment Fund are intended for the purchase of both new and replacement equipment. I think we as a City have been prudent in our management of these assets, which has enabled us to keep our fleet up to date. And again I commend our personnel—DPW, Electric and Police—for the great job they do in maintaining the equipment.

CONCLUSION

As always, I want to thank Ron (and Patty) for their efforts in putting together all these numbers. In addition, the Department Heads continue to look at their respective areas and critically evaluate their needs, without making frivolous requests.

I think we have a good budget and spending plan for 2009, and I look forward to seeing my final budget adopted, and then turned over to my successor for completion.

Frederick W. Geuder, City Manager