MINUTES OF THE COMMITTEE OF THE WHOLE WORK SESSION OF APRIL 10, 2017

Mayor Strazdas called the meeting to order at 6:00 p.m. The following Councilmembers were present: Richard Ford, Jim Pearson, Patricia M. Randall, Claudette Reid and Terry Urban, Mayor Pro Tem Nasim Ansari and Mayor Peter Strazdas. Also present were City Manager Larry Shaffer, Deputy City Manager Rob Boulis, Finance Director Bill Furry, Transportation & Utilities Director Chris Barnes and City Clerk James Hudson.

Mayor Strazdas introduced the topics of discussion: Millage Reduction, Financial Planning, Millage Rate, Budget Stabilization, Debt Reduction and Act 51 Funding. He deferred to City Manager Larry Shaffer, who introduced Finance Director Bill Furry and Transportation & Utilities Director Chris Barnes. He presented a PowerPoint which included a comparative of Goals and their resultant effect: Reduce Debt which would provide a positive Standard and Poor's Bond Rating and show Portage is not a debtor community; Increase Reserves, especially the Tax Stabilization Fund, which would provide fiscal stability; Improve the Bond Rating which would reduce debt cost; Increase Capital Improvement Program since these investments create value; Millage Stabilization which is appreciated by City taxpayers and an Increase in Operational Revenue which contributes to the log-term financial viability of the City through economic development. He cited the Personal Property Tax Reimbursement to the General Fund from the State of Michigan at $550,000 for FY 2016-2017 and proposed investing in the Tax Stabilization Fund with the surplus. He also cited the Five-Year Personal Property Assessment Loss at $177,721,800 or 8% that has been offset by $1,915,450 Revenue Reimbursement from the State of Michigan. He noted that the Assessed Value of the real property of the City is approximately $2.1 billion which puts Portage fully back to the point when personal property values were included in the City's tax base.

Mr. Shaffer advocated a goal of providing 15% of the General Fund, or potentially $3,750,000, in the Tax Stabilization Fund as outlined in the Ordinance approved by City Council in November of 2015. He reviewed the status of the City's debt showing a reduction of 36% since FY 2007-2008 and contrasted Governmental Debt reduction with Utility Debt reduction, and explained Utility Debt reduction is contingent upon the nature of bonds and when they can be retired. Discussion followed. In response to Councilmember Randall, he discussed the use of a lot more cash for projects when available to avoid debt and ultimately reduce debt by retiring debt. He explained that heretofore, the City was incurring an equal amount of new debt to that which was being retired, and now the City is retiring debt and not incurring new debt. He indicated that those two factors are helping to reduce the debt load.

Mr. Shaffer asked Mr. Furry to assist and he explained that the City cannot just "pay off a mortgage" since bonds have their own callable window dates and explained. He reviewed the Debt Reduction Table and noted that a new Fire Station and a water tower which may require bonding will slow down the debt reduction effort and explained. Discussion followed regarding funding options and renegotiation of the water agreements with the City of Kalamazoo and South County. Discussion followed. In response to Mayor Strazdas, Mr. Shaffer pointed out that it is a good time for Portage and all of the financial models are positive. Discussion followed.

Next, Mr. Shaffer discussed the City of Portage Bond Rating of “AA” according to the Standard & Poor’s Index. He emphasized that it is very strong and is at investment grade. He indicated that the two issues listed by Standard & Poor’s were the size of the debt (which is being reduced) coupled with exposure to a large disruption in the industrial base. However, because of the recent announcements by the largest taxpayers of Portage, Pfizer and Stryker, he said the prospects in a disruption of the industrial base is limited, at least for the short term. As a result, he and Mr. Furry plan to work with Bond Counsel John Axe and plan to press Standard & Poor’s to give Portage every opportunity for an AA+ rating.

In response to Councilmember Pearson, Mr. Furry indicated that the debt level should be 15 to 20% or less of revenues, which is the General Fund to attain the AAA rating which equates to a reduction to a range of somewhere in the $20+ million range. Discussion followed. In answer to Councilmember Pearson, Mr. Shaffer compared the interest paid on debt versus the interest gained on the Tax Stabilization Fund by stating “cash is king” and the more cash on hand, the better the bond rating. Mr. Furry added that other factors are the cost of borrowing, bond counsel fees, Standard & Poor’s fees, interest costs, etc. and that a good surplus in the General Fund, or the fund balance, is 15% which is currently at 24%. Mr. Shaffer then pointed out that the AAA rated communities are at 24% or more, and cited Holland and Rochester. He advocated retaining the 24% Fund Balance and funding the Tax Stabilization Fund and mentioned that every twenty years there is a need for the Tax Stabilization Fund. Discussion followed.

Councilmember Randall restated her position that the Council is not elected to accrue wealth; that it has the ability to tax and advocated taking from the 24% Fund Balance and putting it to use somewhere else; and, she explained the tax dollars should be utilized close to the years those paying the taxes are living in the community. Discussion followed. Mr. Shaffer summed up that the Administration is trying to increase the capital improvement program efforts, increase reserves, decrease debt and balance the City resources so everything is not going toward the reduction of debt. Discussion followed.

In answer to Councilmember Pearson, Transportation & Utilities Director Chris Barnes discussed the current schedule to repave the 140 miles of local streets every 24 years and what it would take to have the streets on a schedule of every 15 years. Discussion followed. In answer to Councilmember Ford, Mr. Furry indicated that the City includes the reimbursements from the State of Michigan in the budget expecting those funds to come to the City of Portage and explained. Discussion followed.

Mr. Furry stated the reimbursement from the State to offset the Personal Property Tax loss for 2016 was expected to be $1,676,536, but because of the “fluke” in the formula, it came in at $2,466,027.77 which resulted in an unanticipated surplus and explained. Discussion followed.

Mr. Furry analyzed Act 51 which has three components which were listed by Mr. Barnes: gas tax, license plate registration charge increase and future appropriations from future legislatures. Mr. Barnes pointed out that each of the three listings contribute 1/3 of the Act 51 funds. However, he suggested using only the first two because the future appropriations from future legislatures is not guaranteed and explained. Discussion followed.

At the request of Mayor Strazdas, Mr. Barnes explained how to move to a shorter repaving schedule from 24 years. He indicated that the City would need to repave when the streets reach a level 5 PASER Rating instead of a level 4 PASER Rating that would require an extra $1.6 million per year which would total $2.8 million when added to the current cost of $1.2 million per year. He pointed out what he can not anticipate is the return owing to the need to go through the entire cycle, but he did indicate that it would take an extra $1.2 million per year to get to 15 years, and an extra $3.2 million per year to get to seven years. Discussion followed.

To demonstrate the investment in the streets as it affects the quality of the streets, City Manager Shaffer reviewed the street maintenance effort since 2006/07 using a bar graph for Constant dollars per mile of streets and a line graph juxtaposed over the bar graph to delineate the PASER Rating. Discussion followed.

Mr. Shaffer reviewed his chart on Capital Improvements to show the increased investment levels in projects. Discussion followed regarding PASER ratings, cracks, ruts, potholes. Discussion followed. Mr. Shaffer indicated that the City has doubled its efforts on maintenance using the crack sealer machine and now uses the durapatcher as well. Discussion followed.

City Manager Shaffer reviewed his chart on Taxable Value by Unit of Government from 2008-2016 revealing that Portage is indeed the largest contributor of funds to Kalamazoo County. He pointed to his Table on Major Street Fund Act 51 revenue as covered by Mr. Furry as a review and discussed his Total Budget Table that broke down the General Fund, CIP, Water Fund, Sewer Fund and Streets Fund as topics for discussion at the Presentation of the Budget during the April 11, 2017 Regular Meeting of City Council.

Mayor Strazdas asked that Council discussion follow the main topics of Roads, Debt Reduction, Revenue and the Stabilization Fund. Discussion followed. In response to Councilmember Reid, Councilmember Urban read the three categories allowable for disbursements from the Debt Stabilization Fund which requires the adoption of a Resolution by 2/3 majority of City Council: First, to cover a General Fund deficit per the Annual Audit; second, to prevent a reduction in the level of public services or in the number employees at any time in the fiscal year when the budgeted revenue is not being collected in an amount sufficient to cover budgeted expenses. Mr. Shaffer emphasized that the City Council has to appropriate the funds from the Fund Balance by a simple majority vote and the Administration cannot appropriate it. Councilmember Urban read the third requirement: to prevent a reduction in the level of public services or in the number of employees when in preparing the budget for the next fiscal year the estimated revenues do not appear sufficient to cover estimated expenses; last, to cover expenses arising because of a natural disaster, including a flood, fire or tornado. However, if federal or state funds are received to offset the appropriations from the Fund, that money shall be returned to the Fund. Discussion and analysis followed. Mr. Shaffer explained that the Administration can control expenditures, but cannot control state funding which is 12-15% so the biggest challenge is a dramatic reduction in state funding.

Councilmember Pearson advocated what was done last year with the surplus – to decide what to do with the surplus once it is known to City Council as it is less restrictive and explained.

Councilmember Randall advocated considering taking of funds from the growth owing to higher projections in that area. Mr. Shaffer expressed his preference for keeping reserves since he has seen three downturns in his experience and prefers having reserves to bridge terrible times. Mayor Strazdas concurred with Councilmember Randall and explained. Discussion followed. Mr. Shaffer provided assurances that the City is in good shape and City Council can make any decision it wants, and the City will be fine. Council discussed the advantages and the disadvantages of the Stabilization Fund. Discussion followed.

Mayor Strazdas summed up and sensed a consensus of Council to not contribute to the Stabilization Fund. He then asked Council to consider the Fund Balance percentage and what to do with any surplus funds and articulated some of the options. Discussion followed.

Each Councilmember explained his or her position on the desirable level of the Fund Balance. City Manager Shaffer noted that there are some large expenditures contemplated for the City in the not so distant future such as: a fire station, a senior center and a large land acquisition. Discussion followed. Councilmember Urban made the point that there is no room in the millage for an increase without a vote from the public; and, if the City is in need, the citizens will be in need, too, and will not be so inclined to vote to increase taxes. Discussion followed.

City Manager Shaffer acknowledge the hard work from Bill Furry, Chis Barnes, Rob Boulis and the rest of the Budget Team. Discussion followed.

ADJOURN: Mayor Strazdas summed up and adjourned the meeting at 8:00 p.m.

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James Hudson, City Clerk