

MINUTES OF THE BUDGET WORK SESSION OF THE PORTAGE CITY COUNCIL
May 22, 2012

Meeting was called to order by Mayor Strazdas at 5:37 p.m.

The following members of City Council were present: Councilmembers Jim Pearson, Patricia Randall and Ed Sackley, Mayor Pro Tem Claudette Reid and Mayor Peter Strazdas. Councilmember Terry Urban was absent with excuse. Also in attendance were City Manager Maurice Evans, Deputy City Manager Brian Bowling, Financial Services Director Bob Luders, Finance Director Daniel Foecking and City Clerk James Hudson. Councilmember Pearson had handed out an analysis that included cost figures for the Ending Fund Balance at Selected Percentages from 13% through 34%. Discussion followed. Mayor Strazdas indicated that Councilmember Elizabeth Campbell would arrive at around 6 p.m., that the wish was to have a dialogue on the General Fund Balance, and asked if City Councilmembers wished to wait for her arrival. There was a consensus to wait, so Mayor Strazdas called for a recess. Discussion followed before the recess.

RECESS: 5:39 p.m.

RECONVENE: 6:02 p.m. with Councilmember Elizabeth Campbell present.

Mayor Strazdas introduced the discussion on the General Fund Balance versus paying down debt. Finance Director Daniel Foecking arrived at 6:08 p.m. at the request of Councilmember Sackley in response to the technical aspects presented by Councilmember Pearson in his handout. Mayor Strazdas asked, "Should the City of Portage have a Fund Balance?" There was a consensus that there should be a Fund Balance.

Councilmember Sackley interjected and posed the following questions: "What is a Fund Balance?" "Is a Fund Balance working capital so our checks can clear?" He pointed out that there are fund balances in the utility and enterprise accounts, the General Fund Balances, etc., and Mayor Strazdas responded that it would be a good idea to get answers to these questions and asked Mr. Foecking to define the fund balance topic for the purposes of the discussion.

Mr. Foecking responded that Fund Balance might be considered "capital" in the private sector, but is not to be considered "cash" even though the two terms are used interchangeably. He differentiated the utility and enterprise accounts and explained that the "working capital" is the "cash" we have to cover payroll and to pay bills daily without the need to get a short term loan. Discussion followed.

In response to Councilmember Campbell's concern about disasters, Mr. Foecking indicated that the funds to pay for clean-up and other necessary measures owing to a disaster would come from the Fund Balance, as it did in 2001 when \$1 million was drawn from the General Fund Balance. Mayor Strazdas confirmed that there was no confusion regarding the definition of the fund balance topic for the purposes of the Special City Council Meeting discussion and that there was still a consensus that the City of Portage should have a Fund Balance. He then posed the question of how much should be in the Portage Fund Balance and discussion followed regarding the size of the Fund Balance over the years.

Councilmember Pearson asked the question of why the Fund Balance has

grown from 13% over the last 27 years to 17% and now 34% over the last nine years. Mr. Foecking explained that it was because the Administration has worked hard to constrain spending and keep expenditures at a lower level. Financial Services Director Bob Luders indicated that the primary reason for the lower level of spending is because of attrition, absorbing the work load by the departments and not replacing positions; and, the other significant factor is the fact that no one has gotten a raise in three years. Discussion followed.

Councilmember Pearson asked whether or not it matters what per cent the City Council prescribes since the Fund Balance has been on an "up trend" because the Administration has been considering and reacting to what has been happening (in the market). City Manager Maurice Evans responded that the proposed increase is because of the perceived needs in the community, the many unknowns, the elimination of the personal property tax and the question of whether Act 51 Funds will still be available, and no room for growth short of increasing the millage. Deputy City Manager Brian Bowling pointed out that the Resolution that established the 13% Fund Balance reads specifically that the City will endeavor to maintain a Fund Balance at a level in excess of 13% of General Fund expenditures and explained. Councilmember Pearson asked again whether or not it really matters because the Administration is controlling expenses and, when employees leave, the extra funds stay to build up the General Fund Balance referring to the three year gap before the personal property tax is eliminated. Discussion followed. Mayor Strazdas summed up the discussion thus far.

In answer to Councilmember Pearson, Mr. Foecking indicated that the Fund Balance is projected to be about 26% by the end of Fiscal Year 2011-2012. Discussion followed. Councilmember Sackley pointed out that the Fund Balance has not increased because the Administration has been hoarding cash owing to revenue growth, but because the Administration has been cutting expenses; and, we find ourselves in the wonderful situation of praising our employees and our City Council for prudent budgeting and saving these funds so we are in a solid financial basis that provides the ability to pay for 90 days of operating expenses and explained.

Mayor Strazdas summed up and asked the question of what are the proper criteria a city should use to establish a Fund Balance. Mr. Luders analyzed and explained some of the possible scenarios and posed the following questions that need to be considered: "What revenue streams do you have?" "How leveraged are you?" "How much debt do you have?" "How much money have you spent to invest in infrastructure and the amount owed on the mortgage to go with it?" "Is there a working capital cash issue in the Water and Sewer Fund?" "Where do we go in the future, increase or decrease the fund, or take a potential hit of \$4 million?" Because of these factors, he recommended that the City Council be very conservative in their approach to the Fund Balance at this time.

Mayor Strazdas asked staff to identify what "good" city is using Best Practices that the City of Portage should mirror, considering the level of Fund Balance retained by those cities, and for a professional opinion of how "far out" should the City of Portage have cash reserves to cover expenses. Mr. Luders referred City Council to Chart #6 and Chart #7 provided as support material to the Fiscal Year 2012-2013 Budget and indicated that Portage is in the middle with regard to Fund Balance of 34% and the 25% would place city at the lower 25%. Councilmember Randall asked how the Administration arrived at this list of cities, and advocated paying down the debt instead of having cash on hand.

Mr. Luders respectfully pointed out that the city has paid off a significant amount of debt from \$105 million to \$95 million with a significant effort to pay off the debt the last five to seven years. He indicated that the cities on the list reflect a ratio in order to reflect comparatively what the small cities do, what the medium cities do and what the large cities do. He said that the idea was to get a gradation of cities and a corresponding comparison of percentages. In answer to Mayor Strazdas, Mr. Luders reiterated that the city should have three months in reserves for operations. Discussion followed.

Mayor Pro Tem Reid expressed her concerns about the unknowns, advocated having a plan and favored being prudent. Being able to have a plan to pay down debt is prudent, but she did not advocate paying down a mortgage only to then have to borrow to run the city and pay the bills. She pointed out that the environment when the City Council set the 13% Fund Balance and the environment facing the City Council now is extremely different and it is incumbent upon City Council to be explicit.

Mr. Pearson defended his position that the debt should be paid down and that some of the Fund Balance could be used to do this because some City Councilmembers are hearing from citizens and some financial people that this would be a good practice.

Mr. Luders indicated that the approach of the team assembled by Mr. Evans has been to address things in advance in order to avoid the unnecessary challenges experienced by other cities in Michigan. He addressed the opportunity costs and analyzed the percentages, presented the debt retirement plan that is in place and discussed the debt retirement opportunity, the decline in revenue streams, the reduction of staff that can not be done again and provided explanations. Discussion followed. In response to Mr. Pearson, Mr. Bowling pointed out that if the funds are spent, there is no opportunity to prescribe a Fund Balance because the funds will not be available and discussion followed.

Mayor Strazdas summed up, listed some options and asked for a "straw vote." Discussion followed and each Councilmember, including Mayor Strazdas, provided his or her thoughts on paying down the debt versus keeping the proposed Fund Balance reserves. Mayor Strazdas thanked each of the Councilmembers for their professional discussion and entertained a motion. Motion by Reid, seconded by Campbell, to establish the Fund Balance at 25%. Mayor Pro Tem Reid indicated that she did not place a time limit on the motion. Councilmember Sackley asked if it should be in the form of a Resolution. After discussion, the motion was withdrawn at the request of Mayor Strazdas. Discussion followed.

ADJOURNMENT: Mayor Strazdas adjourned the meeting at 7:07 p.m.

James R. Hudson, City Clerk