



CITY OF GRAND RAPIDS, MICHIGAN

April 22, 2014

Mayor and City Commissioners:

We can see the finish line of Phase I of our Transformation. The FY2015 Preliminary Fiscal Plan is the final lap of our five-year operational transformation. Along the way, we have kept our promises, faced down obstacles together as a community, and reinvented our organization. In short, we have created the foundation of the sustainable future we could only envision in 2010.

Looking back, the distance we have traveled is staggering. It is easy to remember the dark days at the dawn of this decade when we needed to confront some very difficult realities. Our budget was in a deficit and the bleeding was accelerating. General Operating Fund revenues were down sharply, costs were rising, and Michigan was still mired in a recession. The time had come to change radically – what we were doing, how much we were doing, and how much others would do. We were guided by important community values like diversity, great neighborhoods, vibrant business districts, and public/private partnerships, and by corporate values like transparency, accountability, integrity, community engagement, customer service, innovation, discipline, sustainability, and excellence.

When citizens approved the temporary five-year City Income Tax increase in 2010, we pledged to restore community police officers, deploy an additional fire squad, and to use the balance of funds for operational transformation. We focused on improving our services, cost structures, access and customer service, and reporting on our progress. We set out to transform our City and the City Commission adopted the Phase I Transformation Plan. In these past forty-five

months, the collective impact from our work in Phase I has accomplished a massive transformation – and we have kept each of those promises to our voters.

The pace at which we are transforming accelerated through FY2014 as we strive to become the sustainable city we have envisioned. It is a testament to the commitment of our community, the hard work of a committed City staff, and the City Commission's strength and leadership in never wavering from the course we set. It has taken discipline to hit financial targets, operate transparently and relentlessly focus on customer service. It has required creativity and innovation to pull ourselves forward, hard work, sacrifice, and a willingness to invest.

Those same traits are what we will need to fully secure our future and then keep it. We are creating a City organization that can continuously reinvent itself – one that will explore and engage the edge of innovation rather than shy away from it.

Phase I of our transformation focused on operations. As we entered FY2014, we could see that we would hit our Phase I financial targets. Every department is expected to achieve its operating cost target or transformative state on or before June 30, 2015.

We have also begun to build in financial resiliency. Today, changes in technology, fluctuations in the economy, and unforeseen events are constants. The future is unknown, but if we remain resilient we can withstand these challenges, counteract any negative impacts, and take advantage of opportunities. The first step in financial resiliency is to establish adequate reserves in our General Operating Fund and build our Budget Stabilization Fund. We have built General Operating Fund balance to a projected 12.0% of General Operating Fund current spending on the way to the 15% called for in our budget guidelines. We made our first deposit to our Budget Stabilization Fund since FY2005 in FY2013, with planned deposits in FY2014 and FY2015 that will bring that fund balance to 5.5% of General Operating Fund current spending on the way to the 10% called for in our budget guidelines.

Sustainable Asset Management

This solid progress gave us the freedom to begin to envision what it would take to really have a sustainable future. Achieving General Operating Fund results where ongoing revenues exceed ongoing expenditures is essential. Reinvesting transformation savings is critical! But, there is more to being a community.

Our assets – Parks, Pools, Playgrounds, Streets, Sidewalks, Stormwater, Water, Sewer, Trees, and Buildings – all help define our quality of life. These assets drive how we feel about our City, they drive the success of our neighborhoods, they make a difference in our business districts, and they drive our economy.

We began to explore how to address these assets in 2013 at the Commission’s February update. It was obvious that there were significant problems. Most of our park system had withered to a shadow of its former self and was being held together by committed volunteers under the leadership of Friends of Grand Rapids Parks and the valiant efforts of remaining City staff. Our streets were crumbling and still are. Our street lighting system was aging and could not be easily upgraded. Our stormwater infrastructure was inadequate. Even cemetery conditions were poor. The pattern was clear. Only assets with a dedicated source of investment like the water, sewer, and parking systems could be maintained appropriately. The City Commission concluded that Phase II of our transformation should be focused on finding solutions to these critical asset problems and directed the City Manager and his staff to develop a plan for the community.

At the City Commission’s September 2013 Quarterly Update, the outline of Phase II of the Transformation Plan was introduced. It focused on Sustainable Asset Management and outlined a framework for investing in three classes of assets.



The Sustainable Asset Management Plan is built around these three themes. Green is for parks, pools, playgrounds, and forestry. Mobility is for streets and sidewalks. Public is for street lighting, stormwater management and public facilities. All of these assets have been historically underfunded. Sustainable Asset Management directly addresses this problem.

By the City Commission's December 2013 Quarterly Update, staff and the community had made significant progress and could complete the framework based on the following work:

- GREEN - Friends of Grand Rapids Parks had engaged the community beginning in 2009 and developed strong consensus around the requirement to invest in our parks, pools, and playgrounds. A group known as Neighbors for Parks Pools and Playgrounds picked up the torch. In November of 2013, voters approved a seven-year property tax increase of .98 mills dedicated to parks, pools, and playgrounds.
- MOBILITY - The Sustainable Streets Task Force was appointed by City Commission in 2012 and delivered its final report in August of 2013. In December of that year, the Task Force requested that the City Commission act on their recommendation to invest \$22 million per year to repair, improve, and reconstruct our vital streets and sidewalks. The City Commission scheduled an election for May 6, 2014, when voters will decide two questions – should the City continue the current income tax and dedicate it to bring our street condition to 70% good and fair over 15 years? and should the City – not property owners – be responsible for sidewalk repair, improvement and reconstruction?
- PUBLIC –Investments in Green and Mobility will leverage progress in the Public theme. So will reinvestment of transformation savings generated in Phase I. Finally, because ours is a leaner and more efficient organization, we can reallocate resources previously dedicated to operations to sustainably managing the City's assets. The City Commission adopted budget guidelines increasing the income tax set-aside for capital projects in the Public Category to 5% from the previous 4% and also devoted 50% of Economic Vitality Incentive Program revenue payments from the State of Michigan to this same purpose. The work of a citizen's stakeholder group facilitated by the West Michigan Environmental Action Council and a subsequent asset management plan established the framework for stormwater solutions.

We are one step away. With these actions, and with approval of the two May 6 ballot questions, the necessary investment required to achieve Sustainable Asset Management will have been established without a stormwater fee or street lighting assessment.

The Value Streams required to achieve Sustainable Asset Management can be found in Appendix K.

Sustainable City Platform

We have come a long way and are accomplishing an incredible turnaround together. We have learned a great deal on this journey. We need to stay the course, maintain our discipline and continue to learn and innovate. Our long-term future as a sustainable city relies on success in Phase I and Phase II of our transformation and then commitment to Phase III – Continuous Improvement. It can be summarized in three words, “never go back.” We will embed the tools we used to achieve our turnaround in a way that will ensure a Sustainable City Platform.

This Preliminary Fiscal Plan is built upon our progress and it points the way to a future that is secured by a Sustainable City Platform that residents, neighborhoods, and businesses can count on and can use to prosper. The Platform looks like this:



We are carefully constructing this Sustainable City Platform. The first phase of our transformation changed the General Operating Fund performance from a \$33 million operating deficit in FY2010 to a path of building resilient reserves and generating necessary transformation savings in the current fiscal year. We relied on the strong work and sacrifice of City employees and relentlessly invested for outcomes.

We will build on that success in FY2015 using the same formula, sharpen our focus on sustainable asset management, and commit to continuous improvement. This Fiscal Year 2015 Preliminary Fiscal Plan will continue to drive our transformation.

The FY2015 Preliminary Fiscal Plan is sound, strong, and aggressive in moving the City to becoming fully sustainable. The plan positions the City to provide a spartan, but strong, supportive and sensitive local government platform for this community.

The General Operating Fund is balanced for FY2015 and all five years of this fiscal plan. Each year, revenues exceed expenditures. Fund balance continues to grow during this period. For the third consecutive year, we will make a transfer to the Budget Stabilization Fund, bringing that balance to over 5% of current General Operating Fund spending. The FY2015 Preliminary Fiscal Plan includes a new Parks Millage Fund and fully complies with the promises made for the Parks Millage ballot. The plan provides General Operating investment in streets beginning in FY2016 as required by the Vital Street and Sidewalk Investment Guidelines adopted by the City Commission. The Capital Reserve Fund and the Transformation Fund provide funding for Phase II of our Transformation Plan to sustainably manage the City's assets. Whereas funding sustainable solutions for the Green and Mobility themes requires new dedicated resources, the funding solution for the Public theme is provided largely through the hard work of transforming this corporation.

Commitments Kept

Phase I: Operational Transformation

When voters passed the income tax increase for Transformation in 2010, the City made a series of commitments.

- We pledged to restore community Police Officers and that has been done.
- We pledged to deploy an additional Fire rescue squad and that has been done.
- Finally, we promised to use the balance of funds for operational transformation. That has been done:
 - 1) City employees have taken a 12.5% reduction in total compensation over the last two contracts.
 - 2) Grand Rapids has cut General Operating Fund operating costs by 10% through LEAN, transformation, innovation and collaboration.

- 3) The City's workforce has been reduced by 26% since 2002 (more than 500 employees) and is producing the same or better outcomes for its residents.
- 4) The financial discipline of our Transformation Plan has helped us achieve a financial outlook where ongoing revenues meet or exceed ongoing expenditures.
- 5) The City is budgeting to fully fund the Actuarially Required Contribution (ARC) for retiree health care.
- 6) The City and its employees have made substantial changes to retiree health care benefits that have significantly reduced the cost of these benefits to the City and its residents. Here is a listing of the changes implemented.
 - a) Closed the Defined Benefit Retiree Health Care Systems to new entrants.
 - b) Converted existing, non-vested employees to a Defined Contribution Retiree Health Care Savings Account.
 - c) Implemented premium sharing for retirees who will "float" with the active employees enrolled in the health care plan.
 - d) For active employees who remained in the Defined Benefit Retiree Health Care Plan, they now have to earn the benefit over time (i.e. they are not immediately vested).
- 7) The City's General Retirement System has been closed to new entrants. All new non-sworn employees will contribute an equal share to an industry-standard defined contribution retirement benefit. The Police and Fire Pension system, although not closed to new entrants, has lowered the multiplier for future benefits and increased employee contributions for those choosing to keep their existing level of benefit. The City has consistently contributed 100% of the Annual Required Contribution for the Pension systems.
- 8) We have significantly modified the City's health care plan over the past five years to align it with industry standards, including these latest changes that will be implemented January 1, 2015, as follows:
 - a) Implementation of an annual \$150 deductible. Previously the City's plan held a zero deductible.
 - b) Modify the health care co-insurance to 80%/20% for all services. Previously the co-insurance was 100% paid by the City.

- c) Modify the health care maximum out of pocket to \$850 for all services. Previously the maximum out of pocket was just for hospital services and was \$500.
- d) Modify the emergency room co-pay to \$100. This was previously set at \$150.
- e) Implement a 3 tiered prescription drug plan included language for mandatory generic drugs and also include an agreement outlining the use of Specialty Drugs.
- f) Modify the health care plan to include charges that are “Usual, Customary and Reasonable (UCR)”, limiting the plan exposure to charges that exceed the 90th percentile for such services.

By making these changes to the plan, it will help to keep future rate increases in check and serve to lower overall costs to the plan. Both the employer and employee will benefit as premium sharing is split 80%/20% and will provide employees incentive to control medical spending.

The collective impact of our work in Phase I has accomplished a massive transformation – and we have kept each of the promises to our voters. The result is our successful Phase I transformation. Detailed Phase I accomplishments are presented in Appendix K.

Phase II: Green- Parks, Pools, Playgrounds and Forestry

When Neighbors for Parks, Pools, and Playgrounds asked the City Commission to schedule the November 2013 election to determine if residents wished to invest in their parks, the City Commission took the extra step of adopting a series of Parks Investment Guidelines – promises about how the revenue from the proposed millage would be invested if it was approved. That ballot question was approved in November of 2013 and we have worked with the Parks and Recreation Advisory Board to follow through on each of those commitments. Commitments kept in the FY2015 budget include:

- Maintain the FY2014 base General Operating Fund investment in parks, pools, playgrounds and forestry and indexing that base investment by the projected overall increase in General Operating Fund expenditures for FY2015. For FY2015, the recommended “maintenance of effort” appropriation has been further amended to include a new Parks Director and Administrative Secretary, and adds funding for overhead and indirect costs for Forestry, which were inadvertently left out of the previous calculation. This increases the base allocation for Parks Operating to \$5,108,208 from the \$4,830,870 in FY2014 and after accounting for the 3.1% growth in the General Operating

Fund in FY2015 the FY2015 General Operating Fund Maintenance of Effort contribution for FY2015 will be \$5,266,593.

- A separate fund, the Parks Millage Fund, has been established to transparently account for all revenues and expenditures.
- The parks millage expenditure for FY2015 and planning for future years has been developed in conjunction with the Parks and Recreation Advisory Board which endorses the recommended FY2015 budget for the Parks Millage Fund.
- Investing 20% of the parks millage revenue in swimming pool operations. The Parks Millage Fund budget recommends investment at this level and includes extending the pool season by a full five weeks.
- Plans are under development for engaging neighborhood residents in designing park improvements to be included in the FY2016 budget and future fiscal plans.

The City's new Parks Director is in the process of being hired and will lead the revitalization of our parks system. An asset management plan is being developed for each City park and will guide investments first in rehabilitation and repairs and then in improvements.

Phase II: Mobility - Vital Streets and Sidewalks

When the City Commission established the May 6, 2014, election for Streets and Sidewalks at the request of the Sustainable Streets Task Force, the Commission adopted Vital Street and Sidewalk Investment Guidelines. These are the promises we have made:

- Continuing to invest \$3.4 million of Major and Local Street Fund revenues to pay for base level street repair, improvement and reconstruction.
- At least 84% (estimated at \$8,300,000 annually) of the revenue from the income tax continuation would be dedicated to Vital Street investments and up to 16% (estimated at \$1,600,000 annually) would be dedicated to systematic sidewalk investments.

- If future reductions are necessary in the City's Major and Local Street Fund budget during any of the years of this income tax continuation, beginning with Fiscal Year 2016, as the result of a decrease in State payments, the Major and Local Street Fund budget supporting the base level street repair, improvement and reconstruction and stormwater for that year shall be reduced by a percentage no greater than the percentage reduction of the total State payments to the Major and Local Street Fund.
- Any increase in State payments as the result of a change in the transportation formula and/or increase in State revenue for street repair and maintenance will be dedicated to Vital Street investments in the year received. In fiscal years after such an increase in State payments, any increase in state payments for street repair and maintenance will be allocated between capital investment and operations based upon the percentage amount of the increase.
- All capital projects planning for investing the revenue from the income tax continuation shall engage citizens, neighborhoods and business districts.
- The City Commission shall establish and appoint the Vital Streets Oversight Commission to make recommendations to the City Manager and City Commission on the expenditure of revenue from the income tax continuation, report to the City Commission on achievement of Vital Street and Sidewalk outcomes and advise on asset management strategies. The annual capital budget for proposed expenditures of the revenue from the income tax continuation shall be reviewed by the Vital Streets Oversight Commission and approved by the City Commission prior to any spending.
- All expenditures from the revenue from the income tax continuation shall be audited by a professional auditing firm. The annual investments shall be reported to the Vital Streets Oversight Commission, Stormwater Oversight Commission and City Commission and posted on the City's website.
- The portion of revenue from the income tax continuation devoted to street repair, improvement and reconstruction shall be deposited in a specially designated capital fund and shall only be subject to shared services costs of the City related to capital projects. The portion of revenue from the income tax continuation devoted to sidewalk repair, improvement and reconstruction shall be subject to shared services costs, consistent with all City services.

- Vital Streets will be the default design approach for street, sidewalk and right-of-way repair, improvement and reconstruction and shall be used unless clear engineering difficulties prevent its use. City Commission shall cause appropriate ordinances, City Commission policies practices, and plans to be adopted or amended as required to guide implementation of Vital Streets and Sidewalks.
- Low impact design will be the default design approach for street, sidewalk and right-of-way repair, improvement and reconstruction and shall be used unless clear engineering difficulties prevent its use in order to enable the City to achieve a minimum of Stormwater Management Level C investment by FY2022 as depicted in the 2013 Stormwater Asset Management and Capital Improvement Plan.
- The City will consider asset management, balance and distribution, outcomes from engagement, maintaining access, completion of safe walking and bicycle routes and coordination with other projects when making annual investments in order to ensure conditions improve in all areas of the City.
- Beginning in fiscal year 2016 (July 1, 2015), the City Commission will commit to \$13 million of General Operating Fund support for sustainable streets over the next fifteen years with a minimum of \$500,000 per year. In addition, in fiscal years where General Operating Fund financial results are more favorable than the December 2013 projections, the City Commission will make additional strategic investments with a goal of an additional \$1 million per year in sustainable streets.
- Vital Street and Sidewalk investments will be guided by this definition and framework: Vital Streets and rights-of-way are accessible, attractive, environmentally responsible and safe; serving all people of our community. Vital Streets embrace the entire right-of-way through design that provides safe access for all users, manages stormwater in place through low impact development practices, enhances urban tree canopy and quality of life in neighborhoods and economic vitality in business districts.

These commitments will guide investments to repair, improve and reconstruct our streets and sidewalks if the continued income tax is approved by our voters on May 6.

Phase II: Public – Stormwater, Street Lighting and Public Facilities

The FY2015 Preliminary Fiscal Plan keeps the commitment to invest transformation savings in the Public theme assets. The General Capital Improvement Fund has been augmented by deposit of the increase in income tax set-aside for

capital improvements and the deposit of 50% of EVIP revenues into this fund as called for by the City Commission's Budget Guidelines. This has allowed us to make the first incremental increase in capital allocation required to initiate the phased increase in investments necessary to achieve Stormwater Level C which will permit us to address stormwater drainage improvements at various locations and make emergency repairs. The five-year projection includes the planned growth in capital investment required to achieve Stormwater Level C. Investments are being made as identified in the Facilities Asset Management Plan to maintain our buildings. Investments are being made in the street lighting system. The FY2015 Preliminary Fiscal Plan invests in repairing the Oakhill Cemetery wall and the first investments in cemetery facilities in years according to a newly developed asset management plan.

Continued Financial Discipline

We have achieved our turnaround through hard work, innovation and rigorous financial discipline. That formula is critical to our continued progress.

The FY2015 Preliminary Fiscal Plan continues the discipline of establishing revenue and expenditure targets for each operating department. The Transformation Investment Plan established financial targets for all General Operating Fund departments and subsequently financial targets have been established for much of the rest of the organization. When the Transformation Plan was developed, FY2015 was targeted as the year when departments would complete their transformation. We will hit that mark. The FY2015 Preliminary Fiscal Plan extends revenue and expenditure targets for the next five fiscal years to sustain the progress accomplished to date.

In FY2015 the General Operating Fund budget will use transformation savings we have generated to invest in the Fire Apparatus Reset Plan to ensure that resources are available to replace fire equipment according to a planned schedule and not on an emergency basis, increase the income tax set-aside for the capital reserve fund to invest in the public portion of Sustainable Asset Management, support the continued transformation of the Public Museum of Grand Rapids, and support the first step in the phase-in of General Operating Fund investment in achieving Stormwater Level C.

An element of our financial discipline included closing the General Retirement System to new entrants. Persons who continued in the pension system chose between a lower multiplier or increased personal contributions to maintain their previous multiplier. All new non-sworn employees will contribute an equal share to an industry-standard defined contribution retirement benefit. When the defined-benefit retirement system for non-sworn employees was closed, our financial analysis indicated that pension contribution requirements would initially spike, peaking in FY2015. To accommodate this

transformative change, the FY2015 Preliminary Fiscal Plan recommends an investment from the Transformation Fund to aid in paying the FY2015 Defined Contribution Retirement Plan transition cost in the General Operating Fund as well as other operations (funds) supported by the General Operating Fund.

The FY2015 Cemetery subsidy has been reduced to its lowest level in years. Planning is proceeding for a projected Transformation Fund investment that would augment the Perpetual Care Fund to establish the size of investment portfolio that should have been established long ago to support annual operations, maintenance, and capital asset management.

Chief Financial Officer, Scott Buhrer concluded his December 17, 2013, “Economic Outlook” by writing that, “The City has faced economic uncertainty head-on and is nearly operationally sustainable. The next phase of Sustainable Asset Management must be tackled with the same urgency and will require the same financial discipline to make it happen. At this point in time, absent any immediate threat, the City will remain cautiously optimistic with our revenue projections, however now is not the time to forget the hard lessons we have learned. The City must be diligent, conservative, and ever watchful of the next event that could drive the economy into yet another recession. Budgeted reserves will be the only fallback position we have while still being able to meet the outcomes the great citizens of Grand Rapids have come to expect. Finally, something in our gut tells us that we should be prepared for a different outcome that would tilt our projections to the downside”.

When reviewing the City’s FY2013 financial performance, Mr. Buhrer concluded that, “the City must continue transforming so that we may become sustainable in all areas of operation. Difficult decisions will continue to be required, and complacency is not an option. In summary, all options must be on the table in the coming weeks, months, and years. Transformational change, although daunting at times, must be pursued methodically and without reservation. Sound judgment and careful action are critical for successfully navigating these challenging times and returning the City to a financially sustainable future on an ongoing basis. Work products arising from Transformation Investment Plan value streams will provide the tools necessary for the City Commission to identify the spending priorities that will balance all of the competing interests to result in a community in which our citizens, businesses, and visitors can prosper”.

Transformation Acceleration in FY2015

The Transformation Investment Plan continues to reinvent City services in a way that significantly reduces costs and provides similar outcomes. The goal is for ongoing General Operating Fund revenues to match ongoing General Operating

Fund expenditures by June 30, 2015. We project we will achieve that goal in FY2014, FY2015 and each year in the five-year financial projection. The plan is focused on making City government transparent, improving customer service, increasing self-service options in a 24/7 virtual City Hall, engaging citizens in community building and lowering our costs, while maintaining critical quality of life services like police, fire, water, and environmental services. City departments and their leaders have played a vital role in imagining and then implementing Phase I of the Transformation Investment Plan to ensure we meet the June 30, 2015, deadline. FY2015 is the final sprint toward that critical finish line.

Services provided by the City can be grouped into four categories: Police, Fire, General Operating Fund Non-Public Safety, and Non-General Operating Fund/Non-Public Safety. The Police and Fire Departments budgets comprise about 60% of the City's General Operating Fund budget and their combined savings target represents 60% of the City's savings goals.

The following section outlines transformative actions and investments in each of the four categories:

Police Department

Through significant personnel reductions, the Police Department achieved its transformative state in 2013. It is now operating with its new staffing level of 280 sworn personnel. To maintain this staffing amid retirements, the Department hired its first recruit class in five years. Ten new officers began training in December 2013 and are expected to be on solo patrol by June 2014. As a leaner organization, GRPD is now actively seeking different strategies to ensure public safety and maintain expected outcomes.

As part of its Violent Crime Reduction Initiative, the City accepted a Department of Justice COPS Grant that will pay a portion of ten (10) new Police Officers for four years. As a result, the Department is currently engaged in a process to hire ten (10) additional officers on the heels of their most recent class. The expectation is that these officers will be ready for solo patrol in December of 2014. Forecasted retirements will require the Department to continue these hiring processes at a rate of ten or more new officers per year for several years. We will continue to work with members of the community to develop and implement additional strategies to increase the pool of diverse officer candidates.

The COPS grant will allow the Police Department to enhance their proactive efforts and conduct enhanced hotspot policing. In addition, the City is considering the use of technology that will provide a rapid response capability to address the growing concern of gunfire in the City's neighborhoods. This strategy builds upon the information-driven crime analysis

approach the Department has used as one of its transformational cornerstones and will assist the Police Department in meeting the basic tenet of the Violent Crime Reduction Initiative of safer neighborhoods.

Working closely with the involved bargaining units, the Police Department was also successful in achieving the transformational goals for the Community Dispatch Fund in July 2013. Transformation included additional compensation reductions, a switch to 12-hour shifts and changes to employee classifications including the addition of a limited number of part time positions. Part time positions are expected to reduce overtime and increase staffing during peak call volume times. These transformational changes will allow the City to continue its excellence in the 911 arena for many years to come.

Fire Department

The Fire Department budget begins FY2015 with 210 FTE's (full time employees) and projects eight retirements in FY2015. This will result in 202 FTE's by June 30, 2015. All 11 fire stations remain staffed, and they continue to provide fire suppression, special operations, Emergency Medical Services, and Fire Prevention services.

The department will recognize \$2,383,291 from Income Tax and Income Tax Reserve as revenue that offsets their expense and results in a FY2015 budget that is under their transformational budget target, which is based on the funding of 190 personnel.

In June of 2015, the temporary Income Tax funding ends. It is projected that Income Tax Reserve funds will be available to support fire staffing for a portion of FY2016. Currently, 15 firefighters are being funded through the Income Tax fund and the Income Tax Reserve is funding 8 firefighters. The number of firefighters that are being funded in the reserve fund is being reduced as the department attrits through retirements.

There are two initiatives to highlight in the FY2015 budget year. The Residential Safety Program (RSP) and the Fire Apparatus Reset Plan. The RSP has proven to be one of the best programs the Fire Department has ever implemented. The department has now visited over 1,700 homes and has installed over 10,000 smoke detectors. There is no other program in the country that is producing these outcomes. The first two years the program has been funded through FEMA AFG grants. The grant funding expires in October 2014, so this budget includes \$150,000 to fund the Program Director and two project managers, while the program transitions to being operated with one Program Director and part-time assistance from a project manager in future fiscal years.

The FY2015 budget year is the first full year of the Fire Apparatus Reset Plan. This 30 year plan includes the matching of risk to apparatus resources, the repurposing of current heavy duty equipment to extend the useful life of existing apparatus, the infusion of proven technology into future apparatus purchases, and establishes a fire apparatus capital reserve fund that establishes a stable and predictable funding source that will help stabilize the Fire Department's operating budget. This includes the completion of the FY2014 purchase of four medium duty engines that will replace four heavy duty engines at much lower cost, and the repurposing of three heavy duty engines to extend their useful life at much lower cost than new equipment. One of these three heavy duty engines being repurposed will not be completed until FY2015.

General Operating Fund Non-Public Safety Services

General Operating Fund non-public safety services that are funded by general tax dollars represent about 30% of the City's transformation savings goal for reducing expenditures to match ongoing revenues. This target is substantial and significant transformation has been accomplished.

In FY2015, continued transformation will be accomplished, including the following:

Assessor The City Assessor's Office FY15 budget request is \$2,075,405. After a defined contribution pension conversion payment from the Transformation Fund, the FY15 request is \$37,223 below target. The City Assessor's Office has met its FY15 target by absorbing work which was previously contracted to Kent County through the Assessment Roll Services Agreement. Absorbing this work is made possible due to customer service efficiencies resulting from 311, and a decrease in the number of tax appeals filed with the Michigan Tax Tribunal. Reduced work in these two areas creates excess capacity within the customer service/records division of the Assessor's Office. By utilizing existing staff members who are trained in the work previously performed by the County, the City will realize a savings of \$80,000.

Cable TV The Office of Cable Television is committed to providing exceptional programming to the residents of Grand Rapids. Recently, we revised the Video Service Provider Capital Grant Program to streamline the process and ensure Public, Educational and Governmental (PEG) operators have access to grant funds in an expedited manner based on an agreed formula. We also plan to bring before the City Commission revisions related to the role and scope of work of the Cable Television Advisory Forum (CTAF) to ensure this group continues to produce valued outcomes. We are also beginning the process of renewing the agreement with the Community Media Center. As part of our transformation, the department will develop a succession plan to ensure a sustainable model is created that supports current and future needs of the City and our residents.

City Clerk's Office has successfully met the FY2015 budget targets established through the organization's budgeting process while continuing to sustain the principal services of the department and implement transformative ideas to create change and efficiencies to generate a long-term return on investments.

The Licensing Division transformation is currently underway and encompasses a software upgrade to the BS&A Business Licensing module to improve the application process. Full implementation is expected to begin in the second quarter of 2014. The new technology will have a web presence allowing for an on-line, 24-hour self-service business license application process. In conjunction with the on-line application improvement, the system provides the ability to submit secured on-line payments for a business license. The enhancement will streamline inter-office practices that will reduce staff time and labor for processing applications.

As part of the department's transformation efforts the City Clerk's Office is working with the Information Technology Department and other departments to develop a contract management database utilizing the On-Base Software (already acquired by IT) or a suitable software program. On-Base Software will house electronic copies of legal contracts, streamline the contract routing process, and reduce the need to circulate numerous original contracts for signature and storage in multiple departments. The Lean (A3) process will also be incorporated into this transformation process. It is still yet to be determined if any additional funds will be necessary to implement this transformation or what the specific return on investment will be for this transformational improvement.

As part of the transformation efforts for the Community Archive and Records Center, staff is currently in the process of analyzing delivered services to internal and external customers; researching archival industry standards; exploring best practices for records management systems – including digitally born records; and the use of technology to improve efficiencies for collecting and cataloging documents. The goal is to frame a functional and efficient business model by conducting a Lean A3 Analysis.

In 2013, the Mayoral Task Force on Elections was formed to assess the election process, and to provide recommendations for improving the voter's experience in the precincts. The Clerk's Office will treat these recommendations as a priority, and will continue developing strategies to implement and advance the platform. This budget reflects a \$25 increase for election worker daily pay (Chairperson: \$150 to \$175 and Election Inspector: \$125 to \$150). The pay rate has not been increased since 2006, and this adjustment keeps pace with the average pay rate of neighboring communities. The increase will go into effect for the May 2014 Special Election. Election costs will fluctuate based on the election type, and staff will continue to

explore ways to reduce costs and streamline processes when possible. In modifying the recruitment, retention, and training model for election workers, we expect some notable cost savings.

Comptroller The Comptroller department actively seeks ways to improve service delivery and transform the Office. These efforts include refining and reporting information from the financial system, improving the audit function, and publishing the Comprehensive Annual Financial Report (CAFR) and Citizen Guide/PAFR (simple, easy to read public financial documents) on the City's home page.

We are continuing the search for a new financial system with the help of the financial personnel across the City, Plante Moran and the Michigan Municipal Services Authority. Demonstrations by vendors are now completed and additional analysis and conversations will be taking place to make the final vendor selection. This is an exciting time and we are looking forward to the challenge of implementing a new financial system with the functionality that is needed for the City and others that choose to join the project with the Michigan Municipal Services Authority.

Diversity and Inclusion has begun executing an important strategic initiative to diversify all City Boards and Committees. This important project will be completed by January 2015 and will have the community-wide impact of delivering a more diverse group of citizens who are participating in local government. The department is completing a Diversity and Inclusion Strategic Plan designed to serve as a blueprint for the Diversity and Inclusion initiatives for the City's success in being relevant and sustainable in the 21st century.

Executive Office will continue to lead the organization in the transformation journey. The implementation of Phase I Transformation balanced the budget with funded reserves in FY2013 to make our operations sustainable, thus helping the City resolve an operating deficit of \$33 million we had experienced in 2010. Phases II and III are underway to help our organization reach the sustainable platform we have envisioned. The FY2015 Preliminary Fiscal Plan reflects our commitment to greater transparency of operations, engagement and communications, and a keen focus on customer service while building resilient reserves and investing in valued outcomes.

Fiscal Services/Budget Office Two new Performance Management Financial Reporting Specialist positions have been approved and 100% of costs were projected to the Fiscal Services/Budget Office area as part of the FY15 budget. These new positions will be involved with the implementation of the reporting capabilities of the new Financial Management System and Key Performance Indicator development and implementation that will guide performance and improve transparency.

Income Tax continues to look for ways to improve compliance through better reporting. Changes introduced to the design of payment coupons and vouchers along with programming changes made by our partners at Fifth Third Bank enabled approximately 95% of payments to be imported into our CityTax management system without any data manipulation or presorting of payments by type, year and period. The estimated savings for this change is estimated at approximately \$45,000 due to the reduction in staff time spent processing payments by 3 to 4 hours per day. The inter-local demonstration project for the processing of paper filed income tax returns in partnership with the cities of Battle Creek, Flint and Lansing is entering the third income tax return processing season using JP Morgan Chase Bank. A number of processing enhancements are being introduced to enhance data capture particularly on the more difficult handwritten returns. The Income Tax Department is submitting a budget request of \$2,542,727 representing a decrease of \$55,000 over FY 2014.

Parks, Pools, Playgrounds and Forestry take center stage in FY2015 thanks to voter approval of the Parks millage in November of 2013. The FY2015 General Operating Fund budget makes the maintenance of effort contribution to the Parks and Recreation Fund, keeping the promise made when the City Commission adopted the Parks Investment Guidelines. The Maintenance of Effort Calculation (MOE) is presented at the end of this letter and indicates a total transfer of \$5,266,593 which is an increase of \$435,723 over the FY2014 base support for parks and recreation. The transfer coupled with revenue from the first year of the Parks Millage will permit a 12-week pool season, repairs in parks across the community, and planning for FY2016 improvements and improved operations. A separated Parks Department is created and will be led by the new Parks Director. For the first time in years, we are able to invest to achieve the potential of our parks system. The Parks and Recreation Fund and Parks Millage Fund statements can be found in the Special Revenue Fund section of the Preliminary Fiscal Plan and will be featured during City Commission Budget Review.

Planning and Community Engagement A key driver of our transformation has been a commitment to planning and community engagement. Establishing a community-based vision and then pulling ourselves toward it is a community competency that distinguishes us from other U.S. metro areas. A commitment that began with the 2000 Master Plan has been carried through and improved to include Green Grand Rapids, Design Team, Transformation Advisors, Michigan Corridor Project, Veterans Memorial and Monument Park redevelopment, Area Specific Plans for NOBL, Uptown, Madison, Creston and West Fulton, Friends of Grand Rapids Parks, Sustainable Streets Task Force, and now the West Side Area Specific Plan. The concept introduced in the FY2014 Fiscal plan has been refined during the current fiscal year through a series of interviews with internal and external stakeholders and will be deployed to incorporate three distinct roles – communications / facilitation / and coordination - in FY2015. The lead person in the communications role will be recruited over the next several months and will become a member of the Executive Office. The facilitation and coordination roles will remain in the Planning Department and will assist with continued community engagement, including development of

improvement plans for park improvements and project management and coordination for “client” departments such as engineering, parks, and planning where extensive community engagement is required for streets projects, parks plans, and large-scale planning efforts. The development community has been able to submit more projects for administrative review as community vision and goals are better understood. Improved customer service in sign enforcement has resulted in better results and fewer complaints. The net result is that service has been improved and fee revenue has been projected downward about 10% in FY2015.

Cemetery Fund The FY2015 General Operating Fund subsidy to the Cemetery Fund is the lowest operating subsidy in several fiscal years. In FY2015, work will continue on implementation of the transformation plan for cemetery operations that will build up the Perpetual Care Fund balance from non-cemetery sources, such as the Transformation Fund, so that interest income is sufficient to support cemetery operations without a General Operating Fund subsidy. It is expected that this will include investing at least a portion of the increased Perpetual Care funds in alternative “trust-style” investments that earn much higher rates of return to generate a larger amount to support ongoing operations. A recommendation will be forthcoming by the end of calendar 2014. Fees for lot sales and burials were simplified in FY2014 and will be adjusted in FY2015.

Purchasing Department The FY2015 Budget for the Purchasing Department is 8% below the FY2014 Budget. Continued improvement in process and operations are anticipated with the restructuring of the Purchasing Department and with the selection and implementation of a new Financial Management System which may include a new e-procurement solution. The Purchasing Department has developed Key Performance Indicators to track expired and active term contracts, processing times for solicitations, and percentage of bidder responses to solicitations. Using the KPI’s, the department will be able to manage staff resources to increase the level and quality of services provided to achieve the KPI Outcomes of decreasing the number of expired contracts, improving solicitation processing times, and increasing the number of solicitation responses.

Treasurer The work of the Treasurer’s Office staff has continued to bear fruit for our transformation efforts. Customer acceptance of our e-commerce presence continues to grow by double digit percentages as we had 37% more water bill payments made online in 2013 versus those received in 2012. The 68,684 online water bill payments made in 2013 allowed the city to receipt \$11,742,895 in a very seamless manner. The self-service options now account for over 29% of our water bill payment activity versus the 16% we had just two years ago. Likewise, our e-commerce solution for parking violations has seen a broad-based acceptance as we have had a 59% increase over the last two years in our self-service payment activity with 32,698 parking fine payments in 2013 being made either online or using our pay-by-phone option.

The excellent work by the Treasurer's Office and the 61st District Court is transforming parking fines that were previously written off into much needed revenue. The legislative change that now allows for those with three or more parking violations to be sent to the court and, if payment is not made, have their driver's license flagged so it cannot be renewed without paying the fines is bearing fruit. The projection for collections to be received by the court for parking fines in FY2014 approximates \$650,000. The work has transformed a fine collection process that in 2002 through 2005 averaged only \$32,284 in collections to a viable means to establish effective consequences for not paying fines for violating the parking ordinances.

One transformative initiative implemented by the Treasurer's Office that worked well in 2013 will have to be held in abeyance for 2014 to accommodate issuance of a winter tax bill this fiscal year. Otherwise, the City Treasurer's Office meets its target.

Transformation in Non-General Operating Fund/Non-Public Safety Segments of the Fiscal Plan

Non-General Operating Fund segments of the City's operation make up about 65% of the total FY2015 appropriation for all funds. These critical operations include water, sewer, refuse collection, street repair and maintenance, building operations, fleet, engineering, information technology, 3-1-1 customer service, and risk management. Managers in these operations have accepted or created aggressive transformation targets that are helping to control or lower costs while maintaining similar outcomes. In FY2015, continued transformation will be accomplished through:

Administrative Services Group continues to focus on reducing inefficiencies and developing cost savings strategies in an effort to meet its 2015 transformation goals. The 311 Customer Service project is making great progress and approaching full internal implementation of a consolidated customer service operation with conversion of each department's tier 1 service calls and walk-in services. A 90 day internal audit review of all scripts will occur to ensure accuracy of the thousands of scripts written for handling the citizens' routine requests for City services. Final adjustments will be made and the project is expected to go live to the public this fall. When done, the 311 Customer Service Center will provide "one stop shopping" for handling our citizens' routine customer service needs.

Risk Management's smart strategy of using a proactive data driven approach to help pilot workplace injury and accident prevention policies is having an impact on the departmental service adjustments.

Building Inspections and the Development Center have developed a series of Key Performance Indicators (KPI's) that help them effectively manage their work. Using these KPI's, the department is able to manage staff resources in a way that permits these operations to meet critical customer service and financial outcomes. Staffing will be increased by one half position in FY2015 and will be shared with the Planning Department. Using the KPI indicators, workload measures are being

evaluated to determine if additional trade inspections staff will be required to meet demand driven by continued investment in our community. The Building Inspections Fund is in stable condition due to actions taken in prior years to match staffing to workload measures, careful evaluation of charges for services, and the increase in construction investment.

61st District Court Historically, third class District Courts located in large urban communities cost their funding units significantly more proportionately in general fund subsidies for operations than first and second class District Courts in rural and suburban settings who also receive state funds to help offset the costs of their operations.

The District Court continues to require a significant General Operating Fund subsidy despite implementation of several transformation efforts. While the Court made its budget target this year as the result of shifting the expense for technology upgrades to the Transformation Fund and other measures, its General Operating Fund subsidy at \$4,042,000 is second only to the transfer for park, pool and playground maintenance of effort. Continued work is critical to our overall transformation and needs to progress at an accelerated pace. The District Court is working to transform their service delivery model through the use of Lean A3 techniques to reduce their dependence on the General Operating Fund. They have partnered with the Police Department on innovative electronic citation and LEIN warrant programs and are using the same techniques to explore continued cost reductions for future fiscal years.

Energy and Sustainability In FY 2015, the Office of Energy and Sustainability will enter its fifth fiscal year of operation. Accomplishments last year include facilitating and leveraging resources for a range of sustainability, energy efficiency and renewable energy projects for City facilities, and continued national recognition of City's sustainability work. In FY2015, the Office will continue to manage the Renewable Energy, Energy Efficiency and Sustainability Teams. Prioritized activities will include energy efficiency strategy implementation, renewable energy on site project development (solar, bio-digesters, geothermal), utilizing a Climate Resiliency Report, and work on sustainability initiatives, including reviewing and revising the City's Sustainability Plan and reports related to the Plan, implementation of the emergency action guidelines, and involvement with the White House Task Force on Climate Preparedness and Resilience Task Force.

The focus of the Office of Energy and Sustainability revolves around two major efforts that impact both the Sustainability and Transformation Investment Plans—strategic energy management and community resiliency, with a more pronounced focus on emergency preparedness. Almost all of our transformational efforts have an impact on our sustainability outcomes. Cost savings and operational efficiencies from energy efficiency and renewable energy projects have a great impact on many of our operational efficiency targets. Other initiatives, like regional emergency preparedness planning impact many of our Social Targets. Similarly, stormwater planning efforts, the Climate Resiliency Report, and development of a Sustainable Energy Plan

all had impacts on our Environmental Targets. Recently we completed the third year Sustainability Plan Progress Report, available at www.sustainablegr.org.

Engineering Department has sustained an elevated project workload over the past year resulting in high levels of staff utilization. The Department's FY2015 budget requests staffing additions due to current elevated workload and anticipated projects from inter-departmental Sustainable Operations, Parks and Recreation millage, Asset Management Planning, and the Drinking Water Revolving Fund Project Plan. The budget will also recognize cost participation for Public Information Program staff with the Planning and Traffic Engineering Departments, respectively. Engineering will continue to evaluate staffing requirements as capital investment needs for Sustainable Asset Management develop. Service outcomes and quality remain strong. Sustainable financial resiliency has been achieved through its transformation, strong leadership, dedicated staff, and a focus on customer satisfaction.

Enterprise Services is undertaking a series of actions, driven in part by the competitive assessment completed for the water and environmental services divisions, to continue improving the efficiency and effectiveness of Enterprise operations. Significant savings have been achieved through automation of recordkeeping, standard work, inventory management, and elimination of obsolete or redundant inventory. Consolidation of inventory management will improve the total cost of ownership of Enterprise inventory and supplies. Energy savings continue to accrue across the department as with implementation of LED lighting in buildings and parking ramps, variable frequency drives on pumps and other energy savings improvements. The Street Lighting inventory assessment is underway. When recommendations are implemented, significant savings in street lighting electricity and maintenance are expected.

Environmental Services continues to improve performance and stabilize costs through transformation. For the second year the Environmental Protection Services Department's transformation efforts are outlined in a "Brag Book" developed by staff and can be viewed on their webpage <http://www.grcity.us/esd>. The department measures customer satisfaction through point of service customer surveys and makes adjustments based on those results. Transformation will continue in FY2015 as the department works to integrate the more versatile positions which have been created from the current separate operations and maintenance positions. This step is critical in creating a flexible and talented future workforce. Early phase implementation of the Competitive Assessment will further improve productivity and efficiency through standardization and shared services. Fees are set at 100% cost recovery.

Information Technology Mindful of the financial position of the City, the Information Technology Department's FY2015 budget request represents a continued operational baseline with minimal architecture and solutions development. FY2015

will continue engagement of existing solution frameworks, with added efforts on Electronic Document Management (EDM) and support for a new Financial Management System (FMS) deployment.

Motor Equipment has been focusing on best practices and operational transformation for some time. These types of best management practices have resulted in the following reductions so far:

- Reduced staffing by almost 30%
- Reduced utility consumption by almost \$4 million since 2002
- Reduced annual fuel consumption by over 20% since 2004
- Reduced the overall fleet by 90 vehicles in the last 5 years
- Reduced annual parts and supplies costs by \$300,000

Parking is participating in the Downtown Mobility and Parking Study. Results from this study are anticipated in the fall of 2014. This study will become part of the downtown master plan process and will be used to create a model of parking demand factoring in transit. Needs for the VanAndel Arena and the explosive growth at DeVos Place Convention Center will be factored into models. Also, accommodating customers in a way that is comfortable for people and suggesting alternatives that provide choices will be factored into models. There will be community involvement where ideas (including what is and is not possible) will be exposed and vetted through a consensus and a transition plan developed. Robust community conversation and involvement will be encouraged by restaurants, colleges, governmental units, developers, and politicians.

Parking Services continues to experience strong performance. Transfers to owner have been increased to include the first year of parking operations for the Grand Rapids Museum and an increase from 12% to 25% of the revenues on the DDA surface lots (Areas 2, 3, 4, 6A, 7, 8, and 9). Almost all of these surface lots are at capacity for monthly parkers and the lots south of Fulton are full during VanAndel Arena events.

The FY2015 budget includes increased expenses for the DASH North bus route. Also budgeted are regularly scheduled repairs and maintenance of the parking ramps. As the ramps are converted to LED lighting, electrical savings are anticipated. Increased ticketed and co-sponsored events require parking staffing as well as Grand Rapids Police Department overtime.

Parking has provided scripts to 3-1-1 customer service for a majority of situational phone calls. With their assistance, higher levels of productivity can be achieved by operational and management staff. Parking continues to research ways to improve our operations and provide high levels of customer service.

Public Library continues its transformation process in FY2015. The budget approved by the Library Board reduces operating costs through continued staff realignment and other adjustments. The Library Budget begins a focus on sustainable asset management that will enable planning for capital maintenance of Library facilities. Despite instituting many leading innovations, the Library operating and capital budgets have begun to show signs of sustainability issues. Property tax revenues have declined as have statutory state reimbursements. We have worked in partnership with Library leadership to explore resolution of these matters over the past fiscal year.

The FY2015 Library Budget is a key step toward sustainable operations. Faced with a new financial reality that includes continued loss of property tax, increasingly impactful tax abatements and captures, stubborn benefit costs and the need for facilities to be sustainable long term, the library commissioners were confronted with a \$914,000 operating deficit in 2015. Using collaboration, creativity, sustainability and cooperation as guiding principles, the Library has transformed the “behind the scenes “ structure of the way work is done to keep all buildings open and hours the same while reducing staff and making a small reduction in the materials budget. The Library Commissioners commitment to taxpayers and citizen needs is foremost in our minds as we plan for sustainability for the next five years.

Sidewalks We have prepared two Sidewalk Repair Fund budgets for FY2015– one if the voters approve the two ballot questions on May 6 and one if voters do not. We have included the base case in the Preliminary Fiscal Plan that presents a budget for the current due-on-sale plan. If the voters approve the two ballot questions on May 6, the City Commission will close down the due-on-sale- program on May 7, 2014. We will then amend the Preliminary Fiscal Plan prior to adoption of the budget in June to include the elimination of property owner responsibility for sidewalk repair, improvement and construction, establishing a much more efficient and cost-effective systematic sidewalk program. This will accelerate ADA compliance, improvement in sidewalk condition, and provide for completion of connections and missing links in the sidewalk system.

Street Capital Investment The condition of our streets has deteriorated at an alarming rate. The pothole season of 2013-14 will go down as the worst on record. Our streets are already rated 60% poor and, sadly, we can predict continued deterioration without new investment. The Sustainable Street Task Force (SSTF) found that the City needs to invest \$22 million per year in streets and sidewalks to achieve a 70% good and fair rating over 15 years. We are only able to invest a fraction of that under current financial conditions. The May 6 ballot questions are critical to our future ability to reverse the alarming deterioration of our streets. Equally critical is an overdue increase in State support for transportation investments. The SSTF investment plan relies on \$9 million of additional local investment and \$6 million of additional State investment. Both are required to solve our street problem.

Street Lighting, Signals and Signs continues to meet budget targets and achieve transformation in many areas. Cityworks work orders, performance reporting, storeroom modernization, and technology adoption is creating an environment of measured success and a data driven future. On the asset side, significant progress is being made on advanced lighting technologies with the audit of street lighting system assets using an FY2014 investment from the Transformation Fund. Exploration of fiber optic services is underway with the Economic Development Office. In addition, an Information Systems Coordinator has been added to facilitate use of the Cityworks system and other programs.

Vehicle Storage Facility The vehicle impound and storage operations continue to maintain sustainably. The revenues collected for the services provided cover all expenses associated with the operations. For the past several years, revenues and expenses have been slightly declining due to the reduction in the amount of impounded vehicles processed. This decline should be seen as a positive outcome for the City of Grand Rapids as this means that less abandoned vehicles and property exist within the City limits. However, due to the above average snowfall experienced this past winter, and the steps required to maintain emergency access to neighborhoods, the total number of impounds to date for FY2014 has exceeded the averages of past years.

Water The Water System's FY2015 budget met goals for cost reductions, primarily through the reduction of 13 full time employees. This was mostly a result of changes brought about by the City's new 311 Call Center. The Center has taken over all "Tier 1" water phone calls as well as all walk in customers formerly served at 1101 Monroe. This has truly been an overwhelmingly positive change for the Water System, allowing our Utility Business staff to focus on their core work of billing, financial management, CIS support and high level account management tasks. A side benefit of working with 311 staff is that it has also instilled an additional level of "discipline" regarding how staff now responds in other areas. We see an improved focus on customer service, consistency of information provided to customers, streamlining of our remaining core work, and setting of service expectations across the Water System. In terms of cost, the end result is an annual savings of \$600,000 based on the reduction of legacy positions minus the annual fees charged for services provided by 311.

The FY2015 budget request includes funding to implement recommendations from the Competitive Assessment, which are consolidation of operation and maintenance functions, SCADA (Supervisory Control and Data Acquisition System) replacement/upgrades, and organizational improvements in the Utility Field Office. Other transformational improvements to be funded in FY2015 are asset management, continuation of storeroom efficiency improvements, and computerized maintenance management improvements (in Cityworks and Maximo.)

Water System revenue requirements for calendar 2014 decreased by 4.3%, in part due to cost savings achieved through business process improvements.

Major & Local Streets - Operations

The Major Street Fund and Local Street Fund continues on a downward trend and is expected to reach a deficit condition by FY2019. Operations have been trimmed to a point that we are only able to facilitate the most basic priorities of snowplowing and pothole maintenance. The State of Michigan has approved a modest one-time appropriation of \$836,000 that was distributed through Act 51 to assist local road agencies who experienced significant winter maintenance cost overruns from the challenging winter of snow and ice. This is only a fraction of the amount required. As a result, the financial position of the Major and Local Street Funds continue to deteriorate despite considerable cost reduction, efficiency and transformation efforts. We have reduced total employee compensation by 12.5%, reduced streets staffing by 19%, reduced the equipment fleet by 10%; and deferred even the most basic maintenance and repairs. In FY2014, we moved Forestry to the Parks Operating Fund which required additional General Operating Fund subsidy and continued to reduce routine maintenance treatments. FY2015 holds the line on further cuts, but projects a net loss from operations of almost \$1 million. It is clear that additional efficiencies are not the answer.

Refuse Fund The Refuse Fund is undergoing rapid transformation according to the revised business plan implemented in December of 2013. The FY2015 budget shows continued improvement and projects net income sufficient to begin to pay down FY2013 and FY2014 operating losses. Customer tipping fees are projected to increase by 2% per year beginning in FY2016 and the number of tips requested by customers is projected to increase by 1% per year over the next five years. It is projected that the accumulated operating deficit will be eliminated in FY2016, ahead of the time required by the deficit elimination plan. The refuse millage rate will be unchanged at 1.6 mills.

Transformation Fund We will keep commitments to support Police and Fire staffing and will continue to make transformative investments in FY2015. Community Policing and the Fire Rescue Squad deployed at the LaGrave Fire Station commitments will be fulfilled through FY2015. Transformation efforts in both departments will enable us to continue to invest in both Community Policing and the Fire Rescue Squad through the General Operating Fund in future fiscal years as planned. Additionally, the Income Tax Reserve for Fire staffing will continue to be used to support transitional Fire staffing through all of FY2015 and a portion of FY2016.

New investments in FY2015 will include the local match for 10 COPS Grant Police Officers and a transfer to the General Operating Fund and funds supported by the General Operating Fund to assist with the Defined Contribution Retirement Plan

transition (from defined benefit status). The Transformation Fund will also consider investments in crime prevention strategies in conjunction with the 10 COPS Grant Police Officers, investment in the Financial Management System replacement in conjunction with partners in this innovative, cost-saving Michigan Municipal Services Authority project, restructuring and capitalization of the Cemetery Trust Fund to provide sufficient investment earnings to support operations, pay for asset management and eliminate the General Operating Fund subsidy and Phase I of the Street lighting LED retrofit. Sufficient resources remain for Investment Managers to consider other innovative investments over the next fiscal year. The fund is projected to provide a projected \$2.8 million per year for transformative investments that produce return on investment in future fiscal years.

FY2015 Fiscal Plan

The FY2015 appropriation request is \$439,701,758 for all service groups. The budget ordinance will include this amount as well as \$1,352,188 for debt service and \$11,319,917 for fiduciary funds (retiree health care). A chart showing the appropriation breakdown by service group is shown in this Preliminary Fiscal Plan.

The appropriation request for the General Operating Fund is \$122,003,869. Below is the 5X5 for FY2015 through FY2019 based on this recommendation.

**City of Grand Rapids
GENERAL FUND OPERATING (GFGEN101)
STATEMENT OF OPERATIONS**

	FY2015	FY2016	FY2017	FY2018	FY2019
Beginning Fund Balance	\$ 13,725,220	\$ 14,692,247	\$ 14,787,322	\$ 15,093,732	\$ 15,232,157
Revenue	122,970,896	121,720,777	122,320,088	123,545,445	125,651,900
Expenditure	122,003,869	121,625,702	122,013,678	123,407,020	124,902,196
Net Revenue	967,027	95,075	306,410	138,425	749,704
Ending Fund Balance	\$ 14,692,247	\$ 14,787,322	\$ 15,093,732	\$ 15,232,157	\$ 15,981,861

Ongoing revenues will equal ongoing expenditures without support from the Transformation Fund or use of fund balance. As a result, General Operating Fund balance will grow to 12% but will continue to be less than policy level of 15%. The Preliminary Fiscal Plan anticipates a third consecutive deposit to the Budget Stabilization Fund. We have fought hard to achieve this position and must aggressively defend it. The rewards of doing so are significant.

Conclusion

If we continue our current pattern of successful transformation and investment, we will emerge on July 1, 2015 from five difficult years with a new and vibrant Grand Rapids. I am very encouraged by the response of our community and our staff and the leadership of the City Commission. Massive reinvention is invigorating for everyone. The energy is everywhere.

We must focus our efforts and that energy over the next critical months on two things: 1) maintaining our transformation momentum and 2) applying all we have learned in Phase I of our transformation to Phase II, Sustainable Asset Management.

I thank Mayor Heartwell and the City Commission for your devotion to your City and its transformation. Your visionary and supportive leadership is a key factor in our success to date and is essential for us to cross the finish line. It seems like just yesterday Mayor Heartwell announced the formation of the Transformation Advisors Team. This team was vital to shaping the future of City government and in the design of the Transformation Investment Plan.

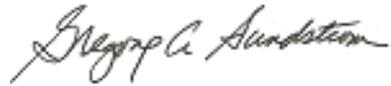
More than ever, engaged citizens are making a difference. The campaign for park improvements, the work of the Sustainable Streets Task Force, the effort of the West Fulton Business Association, and the work of the Michigan Corridor Plan Steering Committee are but a few examples of recent contributions. Establishing a community-based vision and then pulling ourselves toward it is an evolving community competency that distinguishes us from other metro areas and we will continue to build on that core strength together.

I must recognize the work of a reconstituted budget staff. Veterans Nancy Recker and Karen Mendez have helped bring new talents Jeff Dood and Scott Saindon on in the midst of the process. Their work is a credit to all of them. The Budget Office is supported by the work of City employees that have devoted thousands of accumulated hours to carefully match investments to outcomes in the context of the Sustainability Plan and our transformation. That joint work product becomes the Preliminary Fiscal Plan. Every department continues to contribute and I thank all involved.

My Top Management team, Executive Team, Investment Managers, and Cabinet contribute mightily and deserve acknowledgment for their contributions to the Preliminary Fiscal Plan and guidance through years of transformation.

Finally I thank Deputy City Manager Eric DeLong, Chief Financial Officer Scott Buhrer, and Assistant to the City Manager Tom Almonte for helping me envision and lead a world-class transformation.

Sincerely,

A handwritten signature in black ink that reads "Gregory A. Sundstrom". The signature is written in a cursive style with a large, stylized initial 'G'.

Gregory A. Sundstrom
City Manager