Economic Environment

• Outlook → Serious implications for City
  – Unemployment (Oct):
    Ann Arbor Area – 7.8% (prelim)
    Michigan – 12.8% (prelim)
  – State Shared Revenue – Flat
  – State’s Core Budget Issues – Unresolved
  – Investment Interest Rates – Near 0%
  – Operating Revenues
    - Net decline in property tax receipts – affects all millage funds
    - Decline in Court fees and Parking Ticket receipts
    - Improved revenue in Golf operations
  – Utilities
    - Largely flat demand
  – Stimulus Funds – Do not help recurring operations
City’s Financial Challenge

General Fund:
• Constrained Revenue
• Healthcare and Retiree Benefit Costs Increasing
• Budget Targets
  - Align budget strategy with labor strategy
  - Tighten assumptions so less likely to produce surplus
• Reductions Needed:
  - FY 12 & FY 13 require 2.5% -> 4.0%; higher reductions driven by healthcare
  - 4.0% targeted reductions presume entire service unit is on old healthcare plan, which results in the incremental 1.5% reduction

Utility Funds:
• Generally Flat Demand; reducing $ available for future capital
• Capital Improvements Still Needed


Golf Courses:
• $ Results Improving but Still Not Self-Sustaining
General Fund revenues are not projected to return to FY 2008 levels until 2015
Active Employee Healthcare Costs
Cost / Employee / Year

As of Ann Arbor Plan Year ending June 30
## Comparison of Healthcare Plan Design

<table>
<thead>
<tr>
<th></th>
<th>City Plan – High Design / Low Design</th>
<th>AFSCME</th>
<th>Police</th>
<th>Fire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Contributions – (Monthly)</td>
<td>High Design</td>
<td>Low Design</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Single: $44</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Double: $100</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Family: $120</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Deductible</td>
<td>$300 / $600</td>
<td>$1000 / $2000</td>
<td>$225 per individual</td>
<td>$250 / $500</td>
</tr>
<tr>
<td>Office visit copay</td>
<td>$10</td>
<td>$15</td>
<td>$15</td>
<td>$15</td>
</tr>
<tr>
<td>Coinsurance</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Out of Pocket Max</td>
<td>$1,200 / $2,500</td>
<td>$2,400 / $4,800</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Prescription</td>
<td>$10 / $30</td>
<td>$20 / $40</td>
<td>$10 / $25</td>
<td>$10 / $25</td>
</tr>
<tr>
<td></td>
<td>2x Mail</td>
<td>1x Mail</td>
<td>1x Mail</td>
<td>1x Mail</td>
</tr>
<tr>
<td>FY 12 Net Cost Per Employee Per Year</td>
<td>$10,686</td>
<td>$12,310</td>
<td>$13,121</td>
<td>$12,871</td>
</tr>
</tbody>
</table>
Pension system is 90% funded. Financial market meltdown increased on-going contributions from 2009 levels to projected 2016 levels.
Retiree healthcare (VEBA trust) overall 30% funded.
Significant Events on Horizon

• Settlement of Labor Contracts (AAPOA, COAM, IAFF, & AFSCME)
  - Could result in departure of a significant number of experienced employees
  - Increased contract costs will not be covered in the proposed Two Year Fiscal Plan.

• State Budget – Implications from how State resolves structural issues

• Federal Policy changes

• Other?
Questions