



FROM THE OFFICE OF THE CITY MANAGER

July 13, 2015

To: Mayor and City Council Members

From: Brian Kischnick, City Manger

Subject: City Council Member Questions and Responses

I have discussed questions advanced by Mayor and Council with Staff, and responses are attached. Thank you for asking questions in advance of the meeting.

Subject: K-02A TIMELINE FOR LIBRARY MILLAGE QUESTION, NOVEMBER 3, 2015 CITY GENERAL ELECTION

Question: Is there a summation of the rationale for the FIT recommendation on the library millage that you will provide tonight?

Response: At the Financial Idea Team (FIT) meeting on April 23, 2015, there was unanimous support to continue the services of the Troy Public Library. The consensus was to select the first option presented, which is to renew the existing 0.7 millage, use money from Library Fund Balance to purchase materials for the Library's collection, and have the City of Troy provide a subsidy from its Capital Fund (if needed) to address the physical building issues. FIT believed this option was best because it supports Library operations, keeps the Library materials budget stable, and addresses Capital needs while not increasing the millage rate. The Team agreed that an increase would not have strong enough support thus should not be explored at this time and that supporting the Library through the City's General Fund was also not feasible at this time.

FIT recognized that the Library is a pillar of the Troy community. It is an optimal community gathering place, fosters growth, and provides educational and recreational resources and programming. As such, we believe that this option is the optimal path for maintaining the Troy Public Library's high level of service."

Also, can you help me remember the date of the fund balance/bond rating study session council had? I wanted to give that another review for the advice/insights he provided.

Response: The Bond Rating Study Session date was February 3, 2014. The Agenda item and backup material from the study session are attached for your convenience. We have also attached the 2015 millage question study session presentation from March 9, 2015 for reference.

c: Mark Miller, Director of Economic and Community Development
Tom Darling, Financial Services Director
Lori Grigg Bluhm, City Attorney
Table

BK/bt\Agenda\2015\07.13.15 – Council Questions and Responses



CITY COUNCIL AGENDA ITEM

Date: February 3, 2014

To: Honorable Mayor and City Council

From: Brian Kischnick, City Manager
Sehrish Salah-Ud-Din, Assistant to the City Manager
Brenda Carter, Graduate Intern

Subject: Bond Rating Analysis

History

Following our presentation of the Troy Story, discussions with City Council led to a request for information and education regarding the process of rating agencies and how they determine the bond rating they bestow on municipalities. The following information and presentation are in response to this request.

Troy has maintained its AAA bond rating for several years now. As rated by Standard and Poor's 2012 Municipal Bond Rating Analysis, there are only three other communities in Michigan with this distinction including Bloomfield Township, Bloomfield Hills, and Birmingham. The City's overall financial profile remains very strong; despite the recent declines in taxable valuation. The City has very strong reserves (53% of operating expenditures, on an unassigned basis as of the last audit, June 30, 2013).

Municipal bond ratings reflect the risk of default, much like a personal credit rating. Bond rating agencies rate a government's ability to make timely, sound financial and operational decisions in response to fiscal demand. The determination for these ratings is based on the following:

- Revenue and Expenditure
- Budget Amendments
- Long Term Financial Planning
- Long Term Capital Planning
- Investment Management Policies
- Debt Management Policies
- Reserve and Liquidity Policies

Bond Ratings are performed by three main rating agencies including: Standard & Poor's, Fitch, and Moody's Investor Service. Standard & Poor's rates Troy with a AAA bond rating whereas, Fitch rates Troy with AA+ for Building Authority Bonds and a AAA unpublished rating for City General Obligation Bonds. As for Moody's, they have not ranked Troy yet. AAA Bond Rating speaks volumes in terms of the city's financial health, managerial practices and policies.



CITY COUNCIL AGENDA ITEM

Conclusion

Troy will continue prudent practices to maintain fiscal sustainability and a AAA Bond Rating. It is Standard & Poor's expectation that, the city will maintain strong financial reserves and that management will implement strong fiscal controls to protect its financial position despite the forecasted use of reserves, and the ratings will not change during the two-year period.

Tonight is a step towards education with an understanding of the reason and process used to obtain and maintain a Bond Rating with the help of Robert Bendzinski. This is one of several steps to help us as a group to move forward with a more comprehensive understanding of Bond Ratings.

Bond Rating

Robert J. Bendzinski, CIPFA



Bond Ratings Analysis

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What Are Bond Ratings?

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Why Obtain/Purchase Bond Ratings?

3



Who Performs Bond Ratings?

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Ratings Table - How They Compare?

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What Are The Criteria Used to Determine Bond Ratings?

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Troy's AAA Bond Rating

7



Standard & Poor's Video on Bond Ratings

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What Are Bond Ratings?

A grade given to bonds that indicates their credit quality.

Private independent rating services such as Standard & Poor's, Moody's and Fitch provide these evaluations of a bond issuer's financial strength, or its the ability to pay a bond's principal and interest in a timely fashion.

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Why Obtain/Purchase Bond Ratings?

- 1** The City obtains ratings when they issue bonds/debt to pay for capital improvements.
- 2** Bond purchasers will not invest in the City without bond ratings.
- 3** State law requires all debt issuance greater than \$5,000,000 must be rated by at least one rating agency.
- 4** Municipal Bond Market usually requires issues of \$1,000,000 must be rated.

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Who Performs Bond Ratings?

Standard & Poor's Rating | Troy rated AAA

Fitch Ratings | Troy rated AA+*

Moody's Investor Service | Troy not rated

* Fitch has a rating of AA+ on the City of Troy Building Authority. The only bond currently outstanding under the Building Authority is the remaining amount of un-refunded Golf Course bond. The outstanding balance of this bond is \$450,000 and will be paid off in the 2015 fiscal year. Fitch has an "unpublished" rating of AAA for the City's General Obligation bonds.

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Ratings Table | How They Compare

Credit Worthiness	Standard & Poor's	Fitch	Moody's
An obligor has EXTREMELY STRONG capacity to meet its financial commitments.	AAA	AAA	Aaa
An obligor has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.	AA+	AA+	Aa1
	AA	AA	Aa2
	AA-	AA-	Aa3
An obligor has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.	A+	A+	A1
	A	A	A2
	A-	A-	A3

 = Troy's Rating

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Criteria Used to Determine Bond Rating



5



Criteria Used to Determine Bond Rating

Revenue &
Expenditure
Assumptions

Are the organization's financial assumptions and projections realistic and well grounded from both long-term and recent trend perspectives?

Budget &
Amendment
Updates

Are there procedures for reviewing and amending the budget based on updated information and actual performance to ensure fiscal targets are met?

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Criteria Used to Determine Bond Rating

Long-Term
Financial
Planning

Does management have a long-term financial plan that allows them to identify future revenues and expenditures as well as address upcoming issues that might affect these?

Long-Term
Capital
Planning

Has the organization created a long-term capital improvement program?

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Criteria Used to Determine Bond Rating

Investment Management Policies

Has the organization established policies pertaining to investments, such as the selection of financial institutions for services and transactions; risk assessment; investment objectives; investment maturities and volatility; portfolio diversification; safekeeping and custody; and investment performance reporting, benchmarking, and disclosure?

Debt Management Policies

Has the organization established policies pertaining to the issuance of debt, such as projects that may or may not be funded with debt (including economic development projects); maturity and debt service structure; use of security and pledges, credit enhancement, and derivatives; and debt refunding guidelines?

Reserve & Liquidity Policies

Has the organization established a formalized operating reserve policy, which takes into account the government's cash flow/operating

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Troy's AAA Bond Rating

Issuers that rank well in the evaluation should be those whose policies help reduce the likelihood of credit deterioration.

Troy's 2013 Limited-Tax General Obligation (GO) Bonds
AAA – Standard & Poor's Rating Service

Troy and Troy Municipal Building Authority General Obligation (GO) Debt
AAA – Standard & Poor's Rating Service

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Troy's AAA Bond Rating

These ratings reflect their assessment of Troy's:

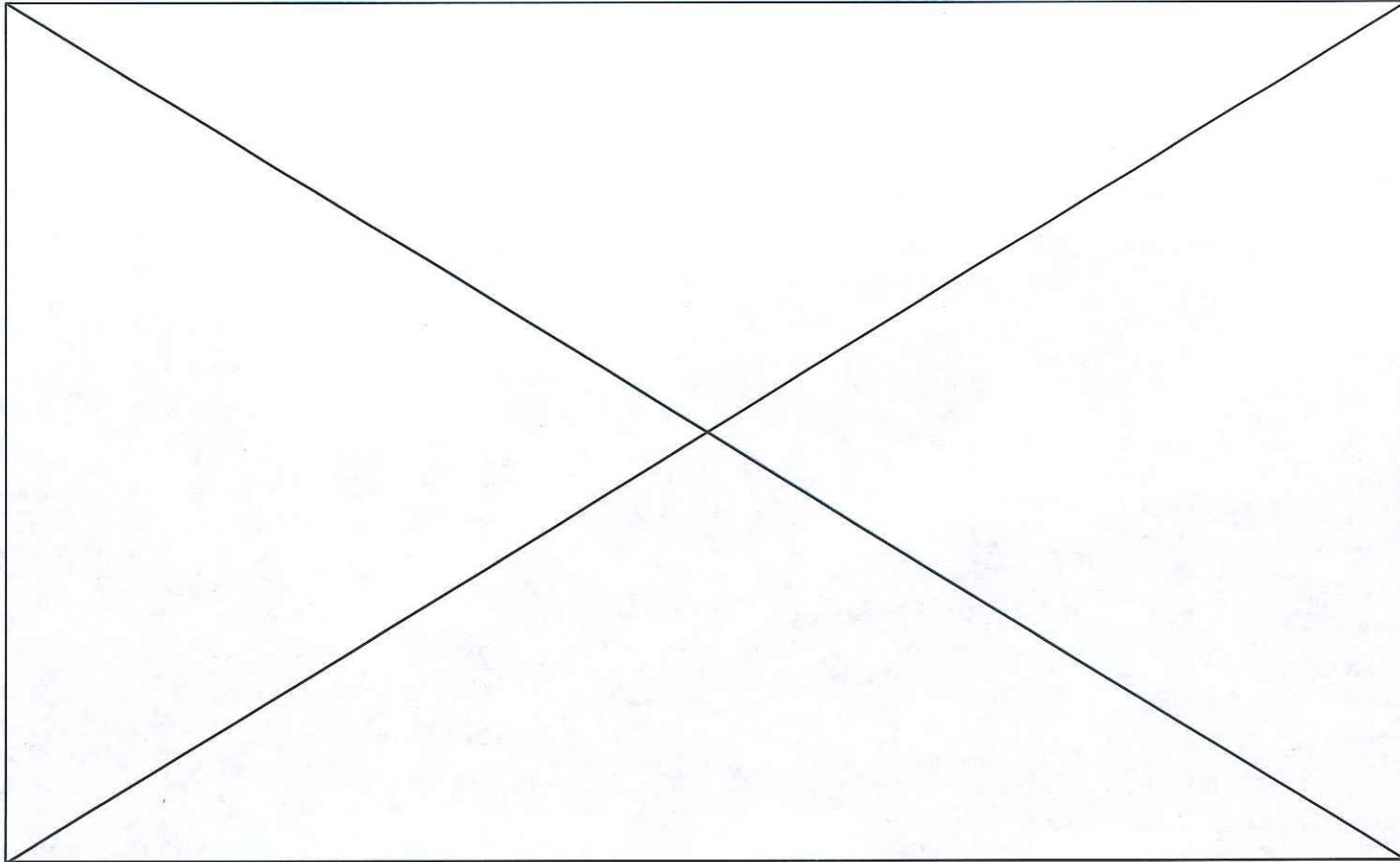
- Participation in the deep and diverse Oakland County economy
- Very strong income levels and very strong market value per capita
- Very strong financial operations
- Low debt as a percentage of market value

Standard & Poor's states, "The city's overall financial profile remains very strong, in our view, despite the recent declines in taxable valuation, as characterized by very strong reserves (51% of operating expenditures, on an unassigned basis, as of the last audit, June 30, 2012)."

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Bond Rating Video



How it's Done!

To Be Continued...

Questions?



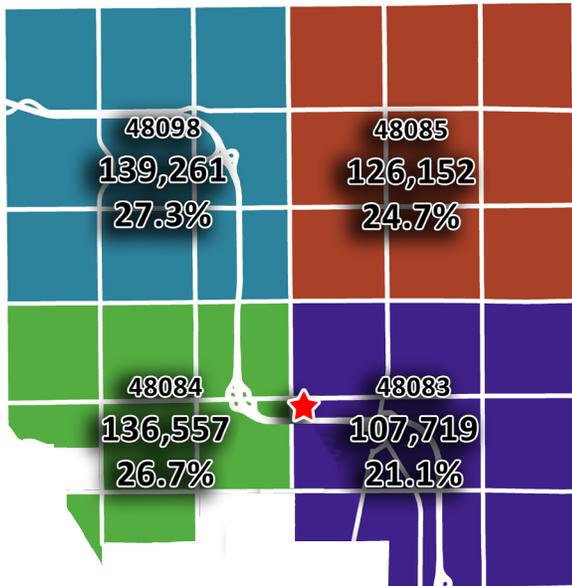
2015 Millage Discussion

Troy Public Library Statistics

	July 2010	July 2011	July 2012	July 2013	July 2014
Total number of cards	26,249	29,818	34,480	39,315	46,408
Number of Resident cards	21,719	24,195	27,843	31,781	37,463
Non-Resident cards*	4,530	5,623	6,637	7,534	8,945
SLC cards	1,649	2,203	2,654	2,991	3,515
Work/School cards	2,679	3,164	3,678	4,108	4,872
% Resident	82.7%	81.1%	80.7%	80.8%	80.7%
% Resident/SLC/Work	99.3%	99.1%	99.1%	98.9%	98.8%
Troy Population	80,980				83,270
% Residents w/ card	26.8%				44.9%

*Non-resident cards includes those patrons from the Suburban Library Cooperative who have shared rights due to our cooperative agreements, and those who work or school in Troy.

Checkouts by Zip Code



20,568

households in Troy w/ TPL cards

2.60

people in the average Troy household

$$20,568 \times 2.60 = 53,476$$

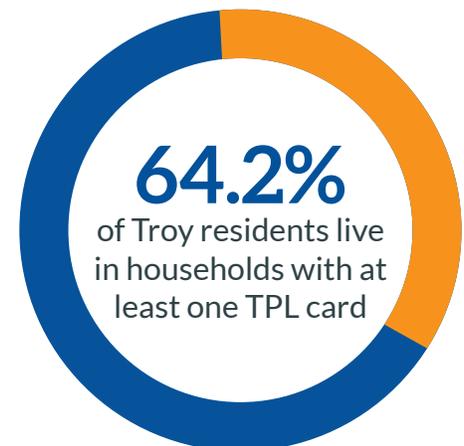
53,476

residents in households with at least one TPL card

83,270

residents in Troy

$$53,476 / 83,270 = 64.2\%$$



1,309,000

TPL items checked out in 2014

130,000

of them were electronic

TPL Anticipated Revenue | 2015 - 2023

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
	Year 5, '11 Millage	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Millage (0.70 mils)	\$3,035,000	\$3,080,000	\$3,133,000	\$3,240,000	\$3,293,784	\$3,348,461	\$3,404,046	\$3,460,553
TPL Generated	156,810	156,810	156,810	156,810	156,810	156,810	156,810	156,810
Penal Fines	108,000	122,000	122,000	122,000	122,000	122,000	122,000	122,000
State Aid	24,000	24,000	25,000	25,000	25,000	25,000	25,000	25,000
Total Revenue	3,382,810	3,436,810	3,490,810	3,543,810	3,597,594	3,652,271	3,707,856	3,764,363

TPL Anticipated Operating Expenditures | 2015 - 2023

Personal Services	\$2,019,960	\$2,064,200	\$2,109,600	\$ 2,183,436	\$2,259,856	\$2,338,951	\$2,420,814	\$2,505,543
Internal Service	487,287	471,192	466,149	457,469	466,619	475,951	485,470	495,179
Utilities	99,000	99,000	99,000	99,000	99,000	99,000	99,000	99,000
SLC + Polaris	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000
Supplies	68,500	68,500	68,500	68,500	68,500	68,500	68,500	68,500
Building Repairs	17,875	22,975	12,250	5,000	5,000	5,000	5,000	5,000
All Other Operating	143,323	142,387	143,473	143,473	143,473	143,473	143,473	143,473
Total Expenditure	2,930,945	2,963,254	2,993,972	3,051,878	3,137,448	3,225,875	3,317,257	3,411,695
Revenue - Expenditure	451,865	473,556	496,838	491,932	460,146	426,396	390,599	352,668

TPL Library Materials Expenditures | 2015 - 2023

Lib. Mat. Budget	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	\$580,000	\$558,800
Total Lib. Materials	580,000	558,800						

TPL Fund Balance | 2015 - 2023

Total Revenue	3,382,810	3,436,810	3,490,810	\$3,543,810	\$3,597,594	\$3,652,271	\$3,707,856	\$3,764,363
Total Expenditure	3,510,945	3,543,254	3,573,972	3,631,878	3,717,448	3,805,875	3,897,257	3,970,495
Surplus/(Shortfall)	(128,135)	(106,444)	(83,162)	(88,068)	(119,854)	(153,604)	(189,401)	(206,132)
Beginning FB	\$1,077,801	\$946,666	\$840,222	757,060	668,992	549,138	395,534	206,133
Total	949,666	840,222	757,060	668,992	549,138	395,534	206,133	1

TPL Anticipated Capital Expenditures | 2015 - 2023

Security Cameras	\$41,000							
Signage	107,000							
Carpet		\$150,000						
Building Repairs	156,855	50,294	\$39,712	\$181,575	\$179,867	\$179,867	\$179,867	\$179,867
Total Capital	291,979	182,319	39,712	181,575	179,867	179,867	179,867	179,867

In 2015-2016 FY | .1 mills = ~\$440,000

In 2015-2016 FY | .04 mills = ~\$180,000

TPL Building Repair | Cost Schedule Estimates

Cost Schedules were prepared based upon the building assessment performed by John Tagle Associates

Option 1

Project	Cost
2015-2016 FY	
Repair Specific Areas of Roof	4,875
Repair Skylight Leaks	1,750
Masonry Cleaning	27,500
Replace Flashing	1,000
Replace Lintels	5,250
Add Additional Life Safety Lighting	3,000
Total 2015-2016 FY	43,375
Total 2015-2016 FY with Fees & Contingency	57,446
2016-2017 FY	
Replace Original Building Skylights	48,900
Replace Skylights in Addition	29,160
Replace Single Pane Windows	20,000
Replace Failing Double Pane Windows	6,575
Replace Damaged Door	8,400
Total 2016-2017 FY	113,035
Total 2016-2017 FY w/ Fees & Contingency	149,704
2017-2018 FY	
Rezone Admin Office to Improve Comfort	25,000
Replace Water Damaged Ceiling Tiles	1,250
Scope Underground Duct to Assess Condition	3,000
Total 2017-2018 FY	32,250
Total 2017-2018 FY w/ Fees & Contingency	39,712
2018-2019 FY	
Replace Interior Lighting with LED	101,000
Replace 3 HVAC Units	36,100
Total 2018-2019 FY	137,100
Total 2018-2019 FY w/ Fees & Contingency	181,575

Option 2

Project	Cost
2015-2016 FY	
Repair Specific Areas of Roof	4,875
Repair Skylight Leaks	1,750
Masonry Cleaning	27,500
Replace Flashing	1,000
Replace Lintels	5,250
Replace Original Building Skylights	48,900
Replace Skylights in Addition	29,160
Total 2015-2016 FY	118,435
Total 2015-2016 FY w/ Fees & Contingency	156,855
2016-2017 FY	
Add Additional Life Safety Lighting	3,000
Replace Single Pane Windows	20,000
Replace Failing Double Pane Windows	6,575
Replace Damaged Door	8,400
Total 2016-2017 FY	37,975
Total 2016-2017 FY w/ Fees & Contingency	50,294
2017-2018 FY	
Same as Option 1	39,712
2018-2019 FY	
Same as Option 1	181,575

Friday Service Scenarios

General Operating Expenditure Increases

Cleaning	\$10,000/year
Building Supplies	\$2,000/year
Operating Supplies	\$2,000/year
Office Supplies	\$2,000/year
Refuse Contractor	\$500/year
Operating Total	\$16,500/year

Library Materials Increase*	\$20,000/year
Total	\$36,500/year

General Operating Revenue Increases

Non-Resident Internet Fee	\$1,000/year
Miscellaneous Fees	\$100/year
Copying	\$1,000/year
Services Rendered/Misc	\$1,500/year
Fines	\$5,000/year
Café	\$1,000/year
DVD Rentals	\$2,000/year
Rental Books	\$200/year
Total	\$11,800/year

1

Open Fridays | 1 – 5 pm

Services Provided | Circulation, Computer Use, and Reference Desk

Staffing | Contingent, hired for Fridays only, 12:15 - 5:15 pm (5 hours)

- Assumes all full-time staff will work Fridays

- Need Part-Time 16 staff members:

-1 Administrative Assistant

- 2 Tech Room Aides

- 4 Part Time Librarians (2 in Adult Services | 2 in Youth Services)

- 2 Pages (1 in Adult Services | 1 in Youth Services)

- 1 Circulation Aide

- 5 Circulation Assistants

- 1 Circulation Page

Staffing Cost Calculation | \$1,227.50/day x 52 days = \$63,830/year + 10% Workers' Comp, etc.

Staffing Cost | \$70,213/year

Total Cost | \$70,213 + \$16,500 + \$20,000 = **\$105,913**

2

Open Fridays | 10 am – 5 pm

Services Provided | Circulation, Computer Use, and Reference Desk

Staffing | Contingent, hired for Fridays only, 9:15 am - 5:15 pm (8 hours)

- Assumes all full-time staff will work Fridays

- Need Part-Time 16 staff members:

-1 Administrative Assistant

- 2 Tech Room Aides

- 4 Part Time Librarians (2 in Adult Services | 2 in Youth Services)

- 2 Pages (1 in Adult Services | 1 in Youth Services)

- 1 Circulation Aide

- 5 Circulation Assistants

- 1 Circulation Page

Staffing Cost Calculation | \$1,812/day x 52 days = \$94,224/year + 10% Workers' Comp, etc.

Staffing Cost | \$103,646/year

Total Cost | \$103,646 + \$16,500 + \$20,000 = **\$139,346**

*Library Materials Budget is not part of Operating Budget

Friday Service Scenarios

What Scenario 1 or 2 Means

No programs, story times, additional services

Additional staff hired work the public service desks only

- Do not order materials, plan programs, notary services, etc

Less familiarity with overall TPL/City of Troy operation if they only work Fridays

Impact on Supervisory Staff

Connie Doherty | Head of Adult Services

- Currently supervises 18 staff members
- She would supervise 21 staff members

Meaghan Battle | Head of Youth Services

- Currently supervises 16 staff members
- She would supervise 19 staff members

Nicole Bovee | Head of Circulation

- Currently supervises 21 staff members
- She would supervise 28 staff members

The more people you have, the more problems you have (absenteeism, behavior problems, etc). Also, communication and consistency tend to break down, which leads to a corresponding breakdown in customer service. I also worry about the ratio of part time staff to a supervisor—it is analogous to a classroom. The more students to 1 teacher, the less likely the students are to learn.

Open Fridays | 10 am – 5 pm

Services Provided | Full Service in addition to increased outreach to businesses, schools, nursing homes; additional technology classes and programs

Staffing | Normal Staff, 9:15 am - 5:15 pm (8 hours)

Position Additions/Changes

Part-Time Technical Services Supervisor becomes Full-Time (\$57,140)

- Materials reach shelves more quickly
- Consistent w/ cataloging standards—improved patron access to materials
- Ability to plan for succession of this position

Part-Time System Administrator becomes Full-Time (\$60,520)

- Improves troubleshooting/problem solving of Polaris/Technology Equipment
- Customizes Library Catalog's potential for maximized patron experience

3 Full-Time Librarians—1 in Adult Services, 1 in Youth Services, 1 for Technology (\$214,590)

- Add programs, services, outreach, technology enhancements
- Increase retention of librarian staff
- Decrease staff-to-supervisor ratio for library department heads

1 Full-Time Circulation Library Aide (\$62,000)

- Improves customer service
- Increases retention of circulation staff
- Offers circulation of TPL materials offsite

1 Part-Time Technical Services Aide (\$30,000)

- Materials reach the shelves more quickly
- Aids in retrofitting Library Materials for improved security and access

Additional Staffing Cost | \$424,250

Total Cost | \$424,250 + \$16,500 + \$20,000 = **\$460,750**

3