CITY MANAGERS BUDGET MESSAGE

June 1, 2015

Honorable Mayor &
Members of the Norway City Council
City of Norway
Norway, MI 49870

Dear Mr. Mayor & Members of the City Council:

It is with great pleasure that I submit to you the City's proposed multi-year Operating and Capital Improvements Budget for fiscal years 2015 - 2016 through 2019 - 2020.

The format for this year's multi-year revenue and expenditure plan has been presented to reflect staffs continued objective to present prior and future year revenues and expenditures in a clear and user friendly manner consistent with sound budgetary and financial management standards. Revenue, expense and equity projections are presented for each of the City's 13 funds. Each fund or account contains notes and tables, which illustrate significant activities.

Staff and members of the City Council conducted five (5) budget workshops to prepare the Operating and Capital Improvements Budget for the fiscal year beginning July 1, 2015. The 2015 – 2016 budget documents reflect the City Council's collective desire to establish a progressive framework for predicting and allocating scarce resources. The multi-year format will allow city officials to:

- Adequately plan for the maintenance of community services
- Easily convey to the informed reader, planned operating and capital expenditures and
- Communicate the City's financial structure and organization

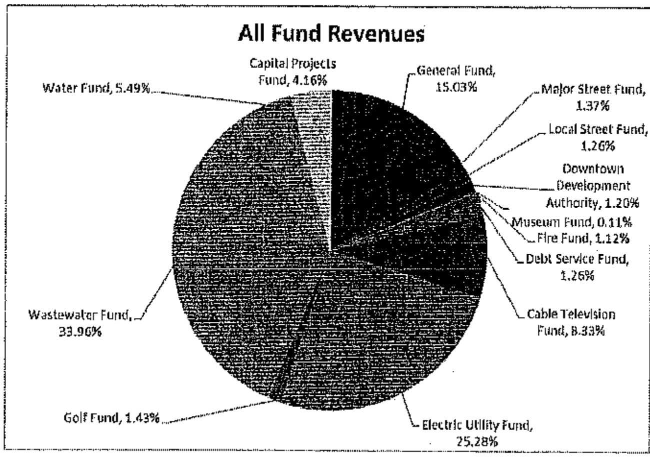
Revenue, expense and equity projections are presented for each of the City's thirteen (13) funds for a five (5) year period through June 30, 2020. Of significant note is the emphasis upon programmed multi-year capital infrastructure investment as well as various notes and charts, which attempt to illustrate significant fund activities.

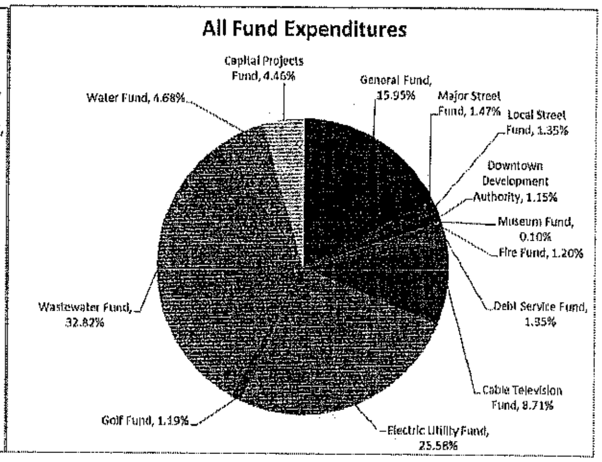
The City of Norway has 13 funds as follows:

- General Fund
- Major Street Fund
- Local Street Fund
- Downtown Development Authority
- Museum Fund
- Fire Fund

- Debt Service Fund
- Cable Television Fund
- Electric Utility Fund
- Golf Fund
- Wastewater Fund
- Water Fund
- Capital Fund

Of the 13 funds, the Wastewater Utility Fund is the largest fund by revenue ($6,418,860–33.96%) and expense ($5,788,454 – 32.82%). The second largest fund is the Electric Utility Fund with revenues of ($4,777,941– 25.28%) and expenses of ($4,511,099 – 25.58%). The next largest fund is the General fund at 15.03% revenues and 15.95% expenses. All other funds are under 10% of overall fund percentage in the following order: Cable Fund, Water Fund, Capital Fund, Golf Fund, Major Street Fund, Local Street Fund, Debt Service Fund, Downtown Development Authority, Fire Fund, and Museum Fund.





The overall All-Fund City revenues are projected for Fiscal Year ending June 30, 2016 to be $18,648,920. The proposed Fiscal Year operating and capital improvements budget for 2015-16 is projected at $17,637,946. The actual revenues for year ending 2014-15 have been projected at $9,496,176 less than the adopted FY 2014-15. This discrepancy is caused by $7.2 million estimated in bond proceeds for the Wastewater USDA-Rural Development project which was delayed until FY 2015-16 and FY 2016-17.

ALL FUND SUMMARY EXPENDITURES

The following expenditures are experienced across all funds and distributed accordingly to each fund depending on the appropriate distribution calculation, proportion, or direct charge:

Group Health Insurance

Funding for employee and retiree group health and life insurance is shown cumulatively within each department and fund expending full time salaries. In 2013, the city renegotiated its labor contracts following the state of Michigan's new public health care law PA 152 of 2011 which established a "hard cap" amount that the city would pay towards premiums. The hard cap amount established by law is set per family, 2-person, or single coverage. Any cost above the hard cap amount is paid by the employee. The hard cap values per year for 2015 are $16,343 (family), $12,532 (2-person), and $5,992 (single). Each year the cap amount is increased by the cost of living adjustment approved by the state legislature.

Monthly City health insurance premiums generally include coverage for hospitalization/surgical/maintenance, prescription drugs, dental, and vision. The City also provides short term disability (STD) and long term disability (LTD) in lieu of large collection or banking of sick leave. The collective bargaining agreements have been revised to eliminate any banking of either sick leave or vacation which had negatively affected retirement expenses and obligations.

The city contributes to retiree health insurance per the collective bargaining agreements that the employee retired under. The current collective bargaining agreements all stipulate a capped reimbursement amount of $500 per month for Family and 2 person and $250 for single.

The City has also negotiated a payment in lieu of health insurance coverage of $250/$350/$450, or 60% of premium (police contract only).

Group Life Insurance

The city provides group life insurance for its employees through its collective bargaining agreements and employment agreements. Each unit is shown separately in the following chart.

LIFE INSURANCE PREMIUMS		
Employee Group	Term Coverage	Individual Monthly Premiums
Administrative (Non-Union)	$100,000	$ 48.30
IBEW – Supervisory	$ 75,000	$ 36.23
IBEW – Electrical	$ 40,000	$ 19.32
AFSCME - DPW, W.W, Clerical	$ 40,000	$ 19.32
WPPA – Police	$ 40,000	$ 19.32

Group Short Term Disability (STD) & Long Term Disability (LTD)

In 2006 the city implemented through contract negotiations group STD and LTD to eliminate the need for large accumulations of sick leave. Sick leave was historically collected and treated like an STD program. The potential long term unfunded liabilities associated with a percentage of unused employee sick leave banks applied at retirement created increased pension obligations. The STD/LTD program eliminated the need for large sick leave banks.

- STD = $0.240 per $10 of coverage
- LTD = $1.010 per $100 per coverage

STD and LTD rates are established on charge per coverage rate. Coverage for STD is 66-2/3rd of base wage or $700 maximum per week. Coverage for LTD is 66-2/3rd or $5,000 maximum per month.

Municipal Employees Retirement System

The Municipal Employees Retirement System (MERS) is a statewide multiple employer defined benefit retirement plan for public employees. It was created under Public Act 135 of 1945.

Pursuant to Public Act 220 of 1996, MERS now operates as an independent public non-profit corporation known as the Municipal Employees Retirement System of Michigan. MERS affords participants with various benefit programs which are conveyed to the employees benefit either through collective bargaining agreements or municipal action. Retirement benefits through MERS are generally a product of the following;

- Credited Service: Vesting = 8 years
- Final Average Compensation
- Specified Benefit Program

Employer calculations are based on actuarial assumptions and calculated annually as a percentage of gross payroll. The following table depicts actuarial employer contribution percentages by employee division for the F.Y. 2014-15 and F.Y. 2015-16;

EMPLOYER CONTRIBUTION PERCENTAGES		
MERS Employer Division	2014-2015	2015-2016
AFSCME 1176	26.77%	37.68%
Police – WPPA	22.03%	25.64%
IBEW - Elec.	$14,199/month	$15,774/month
IBEW - Sup.	83.99%	80.14%

Liability/Property/Workers Comp. Insurance:

1. General liability, property and workers compensation premiums are allocated within all funds. Costs will be charged to each fund based on their actual property, liability, and workers compensation costs. This will give us a much more accurate cost per department and fund, and will be used for future budgets.

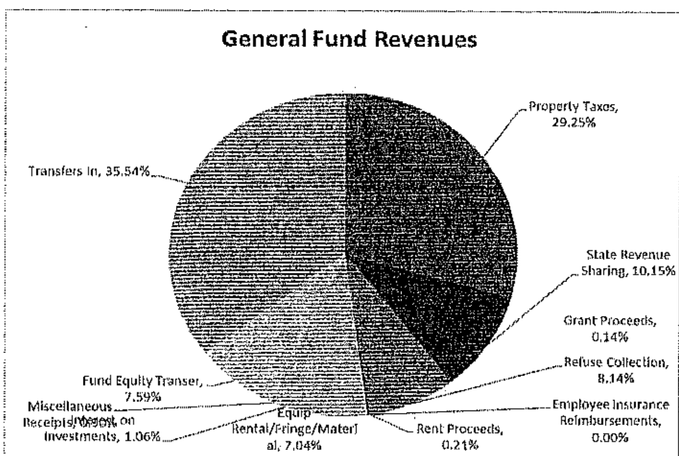
2. Municipal liability and property premiums are projected at $158,956. Workers compensation premiums for F.Y. 2015-16 are projected to total $39,922. The annual dividend has been applied to the renewal premium. The following table provides a historical perspective on premiums less the annual dividend credits which the city receives annually;

Coverage Period	Workers Comp. Premium	Gen. Liab/ Prop. Premium	Total
2015-2016	$39,922	$158,956	$198,878
2014-2015	$44,827	$121,119	$165,946
2013-2014	$44,636	$125,312	$169,948
2012-2013	$42,010	$116,751	$158,761
2011-2012	$34,356	$114,488	$148,844
2010-2011	$29,046	$138,865	$167,911
2009-2010	$50,515	$140,346	$190,861
2008-2009	$45,896	$145,312	$191,208

GENERAL FUND REVENUES

Fiscal year 2014-2015 revenues were sufficient to support operational expenses during the fiscal year. For F.Y. 2014-2015, the estimated actual revenue receipts are estimated to be $16,449 above F.Y. 2014-2015 adopted budget or 0.50% higher than the adopted budget. Fiscal year 2015-2016 revenues are projected to be $62,012 above F.Y. 2014-2015 estimated revenues, an increase of 2.23%. Also, fiscal year 2015-2016 projected revenues exceed projected expenses by $27,931.

The General Fund is comprised of 11 different revenue categories. Contributions from all enterprise funds make up 35.54% of the general fund revenues. Property taxes make up 29.25% while revenue sharing comprise 10.15%. All other revenue categories are less than 10%.



General Fund Revenues	
Transfers In	35.54%
Property Taxes	29.25%
State Shared Revenues	10.15%
Refuse Collection	8.14%
Equipment Rental/Fringe/Material	7.04%
Miscellaneous Receipts	0.90%
Interest on Investments	1.06%
Grant Proceeds	0.14%
Fund Equity Transfer	7.59%
Rent Proceeds	0.21%
Employee Ins. Reimbursement	0.00%

Transfers from Enterprise (Utility) Funds

Transfers from enterprise (utility) funds comprise 35.54% of the General Fund revenues and are the single largest percentage of GF revenues. Transfers are payments for costs associated with expenditures generated by General Fund resources. The percentage of transfers for each enterprise fund is based proportionally on the amount of revenues of each fund applied against total revenues. Simply speaking the allocated percentage is the proportional size of the fund based on the proportion of revenue applied against the total revenue.

Property Tax Receipts (Real & Personal)

Property taxes account for 29.25% of revenues for the general fund. Property tax revenues have decreased slightly as follows:

The City of Norway is permitted by Charter to levy up to $20.00 per $1,000 of SEV or 20 mills. Since the Headlee amendment was approved by the voters in November of 1978 and Proposal A in 1994, actions by the legislature, court decisions, and, of course, the Headlee amendment itself, have restricted the ability to raise local revenues or to be reimbursed for services mandated by the state.

1. Under the restrictions of the Headlee amendment and Proposal A, the City of Norway's maximum levy is 19.972 mills. For the City of Norway, each additional one-mill increase is equivalent to $56,910.

2. F.Y. 2014-15 estimated actual revenues exceed budget due to higher taxable value calculations. The taxable value for 2015 decreased by 2.29 percent. Actual DDA capture totaled $150,458 for F.Y. 2014-15, while estimated capture for 2015-2016 is estimated at $132,425. Total DDA capture in actual taxable value for F.Y. 2014-2015 was valued at $9,177,498 while captured taxable value for F.Y. 2015-16 is estimated at $8,077,576 or a decrease of 11.98%.

3. F.Y. 2015-2016 taxable value projections are estimated to decrease 2.29% over the prior year. Values for the current year and the past nineteen (19) years are shown.

YEAR	Taxable Value	% Increase	YEAR	Taxable Value	% Increase
2015	56,909,873	(2.29)	2005	47,683,771	2.6
2014	58,242,960	(0.13)	2004	46,485,451	5.6
2013	58,316,100	1.04	2003	44,035,707	2.7
2012	57,714,375	1.32	2002	42,868,993	3.3
2011	56,962,641	1.05	2001	41,488,634	3.3
2010	56,372,111	(1.39)	2000	40,176,814	2.2
2009	57,165,129	5.3	1999	39,296,489	6.7
2008	54,265,648	3.0	1998	36,828,443	2.0
2007	52,687,312	4.7	1997	36,112,995	4.6
2006	50,313,540	5.5	1996	34,520,662	7.1

Based on 16.3942 mills and including approximately $12,000 from fee-in-lieu of taxes connected with Bluffs Edge Apartments, and approximately $26,300 from the 1% administration fee which was added in 2006-07, the gross receipts for F.Y. 2015-16 are projected to total $965,918; net collections are projected at $829,842 based upon the following;

- DDA property tax capture of $132,425.
- P.A. 425 agreement obligation totaling $3,650 connected with Oak Crest Assisted Living and the medical offices constructed on US 8.

Out year projections reflect revenue increases of 3%.

State Shared Revenue Sharing

The Michigan Revenue Sharing program distributes sales tax to local units of government as unrestricted revenue. Income tax distributions ended as of 12/31/96 and in lieu thereof a statutory sales tax component was added reflecting a community's relative tax effort. Single business tax distributions were eliminated as of 6/30/96.

Revenue sharing is funded from two sources: revenue earmarked by the State Constitution and revenue dedicated by statute. The constitutional share is fifteen (15) percent of the first four (4) percent of the state sales tax and is distributed only to cities, villages, and townships on a per capita basis. Statutory revenue sharing began with the passage of the income tax in 1967, when a share of revenues from the tax was dedicated to local governments. Because the Single Business Tax, enacted in 1976, included the elimination of the property tax on inventory, a portion of the SBT was earmarked to units of local government. In 1996, the legislature changed the funding source from a portion of the SBT and the income tax to an additional 21.3 percent of the four percent rate of the sales tax. At the time the legislature made the change, revenue sharing had undergone a series of cuts. The 21.3 percent of the four percent rate of the sales tax reflected the reduced appropriations, rather than the statutorily earmarked amounts of the income and SBT. In 2008, the state legislature replaced the SBT (state business tax) with another tax called an MBT. To date they have not agreed on a tax restructuring plan which accounts for the loss in revenue from the elimination of the SBT. They have, to date, agreed to hold revenue sharing distributions "frozen" for municipalities rather than decreasing their constitutional and statutory requirements. It is estimated that the statutory component of the revenue sharing calculation will continue to be reviewed throughout the year and may be subject to reductions caused by negative revenue receipts.

Revenue sharing funds (sales tax) are distributed to municipalities six (6) times annually. Constitutional sales tax (municipal pool equivalent to 15% of the 4% gross state sales tax collection) is distributed on a per capita basis. Statutory sales tax (municipal pool equivalent to 21.3% of the 4% gross state sales tax collection) is distributed according to four separate formulae intended to measure relative tax effort.

According to State Treasury officials F.Y. 2014-15 estimated actual revenue will total $281,320 which is slightly below budget projections of $281,400. The City's F.Y. 2015-16 distributions are projected at $288,205 which are above the F.Y. 2014-15 estimated actual levels by 2.45% and is the fourth year that an increase has been projected since 2001. Out-year projections reflect payments equal to previous annual allocations. Conversely, pursuant to state regulations, state revenue sharing payments to individual municipalities cannot increase more than eight (8) percent during any one fiscal cycle. The following chart indicates the levels of revenue sharing reductions since FY 2001-02. The total loss over the last 15 years on a percentage basis is equal to 24.65% or a loss of 1.76% each year. In FY 2001-02, revenue sharing comprised 26% of the total General Fund revenues. In FY 15-16, revenue sharing will equal 10.15% of the overall General Fund revenues.

FISCAL YEAR	Revenue Sharing Amount	% Inc./Decrease
15-16	$288,205	2.45
14-15	$281,320	2.67
13-14	$274,009	3.57
12-13	$264,555	3.42
11-12	$255,800	(0.90)
10-11	$258,125	(0.75)
09-10	$260,082	(14.58)
08-09	$298,005	(3.92)
07-08	$309,698	(0.60)
06-07	$311,568	(2.51)
05-06	$319,584	(0.74)
04-05	$321,981	(1.47)
03-04	$326,788	(10.01)
02-03	$363,118	(2.74)
01-02	$373,353	

General Fund Equity

The City's fund equity balance had decreased to a level of 11% in 2009 due to fund equity transfers caused by shortfalls in operating revenues over operating expenditures and the purchase of state owned property near the golf course as a one-time expenditure in 2007. Following the land purchase, Council approved having all land sale receipts deposited into the general fund to repay this debt and coupled with operating revenues over expenses the past two years, the fund has started to recover. The fund equity balance is currently 24.41% of FY 14-15 estimated actual operating expenditures which is approximately 0.59% below typical targeted 25% fund equity balance. This is an increase from FY 13-14 year end. FY 14-15 actual expenses are estimated to be $64,186 below estimated revenues on June 30, 2015 which will increase fund balance slightly. The budget for FY 15-16 proposes revenues over expenses at $27,931.

Refuse Collection Fees

For Fiscal Year 2015-2016, the garbage rates are proposed to remain at $13.00 and $19.50 for residential and commercial garbage customers respectively. This past year the Dickinson Solid Waste Management Authority increased tipping fees from $71 to $74 per ton. .

As current trends in revenue sources continue, Council must consider addressing the millage rate or other sources of revenue in upcoming budget discussions.

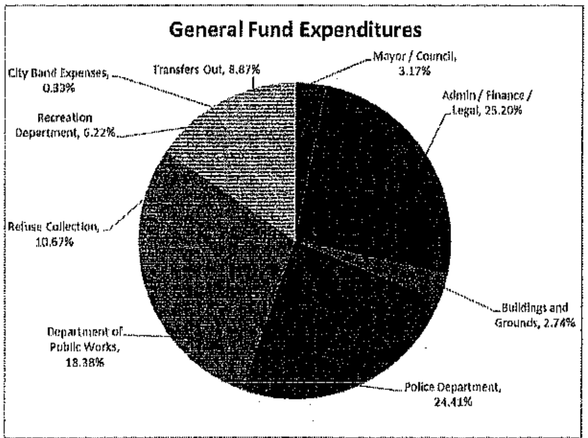
GENERAL FUND EXPENDITURES

Annually during budget preparation, staff will try to establish operating expenditures sufficient to allow for providing necessary surplus revenue to offset marginal equipment replacement contributions. With the annual increases in personnel expenditures and the continual erosion of state supported revenues, it has been increasingly difficult to fund these necessary offsets. The City must prioritize restricted funds with a priority towards an equitable fund balance of available cash or more commonly known as a "rainy day fund". Revenues will also be evaluated and proposed to adequately account for increased expenses in operating costs. The increases proposed by staff will need to be evaluated on an annual basis by the elected leaders in order to account for annual increases in operating expenditures.

The general fund budget contains several ongoing and new funding initiatives including;

- Equipment Replacement Requirements
- Evaluation of refuse collection practices and adequate funding
- Labor Negotiations addressing increasing personnel expenditures
- Continued pursuit of departmental and operational re-organizational strategies.
- Personnel Policies and other document control initiatives.
- Staff and city council strategic planning retreats.
- Expanded public safety and Public Works training
- Public communication enhancements
- Continued enhancement of City mapping technologies.

The City's general fund is made up of mostly operational type funds such as administration, police, and public works. Parks and recreation is also accounted for in the general fund. The overall expenditures projected for the general fund in 2015-16 is $2,812,842 or an increase of 2.03% from the 14-15 budget. Projected revenues exceed expenses in this budget by $27,931. Estimated actual general fund expenditures for year ending June 30, 2015 are $2,714,575 or $42,277 (1.56%) under budget. Areas where we incurred expenses over budget include contributions to the street funds. The overages caused by the street funds centers on additional costs associated with snow removal and reduced revenues from state funds for road improvements and maintenance. The only fund that can contribute towards street overages is the general fund so these two funds work simultaneously within the overall budget of the city. The breakdown of the general fund expenses are as follows:



General Fund Expenditures

Mayor/Council	1.91%
Admin/Financial/Legal	27.25%
Buildings & Grounds	5.45%
Police Department	23.89%
Department of Public Works	19.18%
Refuse Collection	5.91%
Recreation Department	5.23%
City Band	0.33%
Transfers out	10.85%

The fiscal year 2015-16 budget addresses additional maintenance expenditures for current buldings and equipment as well as personnel.

MAJOR AND LOCAL STREET FUND

Article IX, Section 9, of the Michigan Constitution of 1963, as amended, states that "All specific taxes…..imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways…or on registered motor vehicles…shall, after payment of necessary collection expenses, be used exclusively for transportation purposes…". Diversion of road-user fees to purposes other than road construction or public transportation is unconstitutional.

Public Act 51 of 1951 (PA 51) creates a "user-pay fund" into which specific transportation taxes are deposited, and prescribes how these revenues are distributed and used. Act 51 establishes jurisdictional road networks, sets priorities for the use of transportation revenues, and allows bonded indebtedness for transportation improvements and guarantees repayment of debt. PA 51 creates the Michigan Transportation Fund (MTF). Revenues collected through highway user fees, state motor-fuels taxes, vehicle registration taxes, and other miscellaneous automobile related taxes are deposited into the MTF. Two percent (2%) of all state gasoline tax revenue goes into a Recreation Improvement Fund which is used for improvements of marinas, trails, and other facilities for motorized recreation. The 2% allocation was developed based on an estimate that this equals the motor fuel tax payments by users of boats, snowmobiles, and off-road vehicles and is credited to a fund benefitting recreational vehicle owners. Transfers are also made from the MTF to pay for transportation-related functions of other departments of state government. The majority of the transfer is appropriated to the Department of State to pay for administering the license plate system. Other transfers from the MTF include the State Police, Treasury (for collecting the fuel tax), and other departments of the state for functions on behalf of the Michigan Department of Transportation such as the Michigan Department of Environmental Quality (wetland permits for highway projects), Civil Service, Information Technology, and

Management and Budget.

The PA 51 formula divides the MTF between MDOT, county road commissions, cities and villages, and the Comprehensive Transportation Fund (CTF). The formula is not a simple four way split however. After debt service and before a three-way division is made of funds between state highways, county roads, and municipal streets, several appropriations are made directly to programs or particular jurisdictions as follows:

- Rail Grade Crossing Account for a share of installation of railroad crossing signals
- Local Bridge Fund for bridge repair and replacement
- An amount equal to 3 cents tax on gasoline is divided between the State Trunkline Fund (STF), counties, and cities and villages at a rate of 39.1%, 39.1%, and 21.8 % respectively
- State Trunkline Fund (1/2 cent tax)
- STF debt service
- Local Program Fund
- Transportation Economic Development Fund (TEDF)
- Comprehensive Transportation Fund (CTF) for transit programs (public transportation)

After these distributions, the remainder of the MTF is divided between road systems under three levels of government. The State Trunkline Fund receives 39.1 percent. The county road commissions receive 39.1 percent to be divided amongst the state county road commissions. The cities and villages receive 21.8 percent to be divided amongst the local agencies.

The cities major and local street systems established by Act 51 are designated by a municipality's governing body, subject to the approval of the State Transportation Commission. City Major Streets are chosen according to their importance to the municipality. All other streets are City Local Streets. These street systems include no county roads or state trunkline highways.

The "internal" funding formula for city and village street funds first divide the available cities/villages funds at 75% for major streets and 25% for local streets. Then the internal formula apportions these two amounts to municipalities at 60% on the basis of population and 40% on the basis of major and local mileages. Major street mileage is weighted more heavily in larger cities where major streets are likely to be wider and more expensive. Monies received and designated as Major Street Funds must be used on major streets and Local Street Funds on local streets. The city can also transfer up to 50% of annual Major Street Fund revenue to the Local Street Fund provided the City Council passes a resolution to allow as such.

In 2015, the City continues its efforts towards trying to find additional funding to address street improvements necessary throughout the community. In 2014 the city completed work on Railroad Avenue through funding from the Michigan Department of Transportation Federal Aid Eligible Rural Task Force, the Downtown Development Authority, and the Water Fund. Due to the repair costs associated with two extremely severe winters (2013 and 2014), the city did not have the funds available for reconstruction activities. The city does plan to move forward with an extremely large street and utility infrastructure project starting in 2016 funding mainly through USDA – Rural Development (RD). For future projects, the City will also review crush and shape projects utilizing ACT 51 money in Major and Local Street Funds as well as actively pursuing additional grant opportunities with the MEDC and MDOT. With the rising fuel costs associated with asphalt and construction, the current estimates for a typical 30' wide by 140' long block to be reconditioned using a basic "crush and shape" approach are $28,000. A majority of the streets under consideration are local streets. The Local Street Fund balance is currently $13,012. Under state statute, 50% of the Major Street Fund revenues can be contributed towards local streets. The Major Street Fund balance is currently $63,448. In order for the projects and maintenance activities to continue on local or major streets, the City must move monies from the General Fund to the Major and Local Street funds.

The fund must take into account maintenance and street personnel activities before monies become available for capital improvements. Following the street and utility master planning initiative, staff will once again try to develop a plan to repair additional streets. A major street maintenance program is in the planning stages for this fiscal year. Both legislative bodies at the State of Michigan have proposed additional funding. The amount of money received through the current formula does not adequately cover the general maintenance needed for our roads. The City of Norway on average expends 110% of the road funding. This means that the General Fund must account for the additional 10% just for maintenance activities and that there is no additional funding available for street improvement projects. For Fiscal Year 2015-16 the programmed transfer from the General Fund to cover street maintenance activities for the Major Street Fund is $28,810 (12.5%) and $27,052 (12.9%) for the Local Street Fund.

DOWNTOWN DEVELOPMENT AUTHORITY

Fiscal year 2015-16 property tax revenue is estimated at $207,065 which is a decrease of 11.98% over fiscal year 2014-15 estimated actual receipts. Total DDA capture above the base SEV is projected at $8,077,576. With the completion of Streetscape in 2005, significant activities include façade improvement programs within the downtown center and the implementation of the recent downtown marketing plan. The DDA will also concentrate on assistance with economic development projects and other small projects within the district. The DDA will also contribute to maintenance activities along the downtown corridor and other areas within their district.

For Fiscal Year 2014-15, the Railroad Avenue reconstruction project was completed through the DDA's commitment to pay local match funding on grants. This project was targeted through the Michigan Department of Transportation Rural Task Force Federal Aid Program. For 2015 the DDA plans to organize and fund Main Street improvements such as concrete and asphalt reconstruction and repair as well as pocket park and veteran's park improvements. The DDA has agreed to fund projects within the new Norway Myr Recreational Area which include boardwalk and trail repairs as well as the construction of a parking area off US 2. Finally, work has been ongoing regarding planning for non-motorized sidewalk and trail routes on west US 2 from the city center to the Norway Spring.

As part of the economic development initiatives for the community, the DDA has started efforts towards implementing programs to aid with economic gardening for small entrepreneurs, look for opportunities to initiate incubator projects, and to develop a comprehensive marketing plan which will utilize all forms of medium including updating web pages and advertising.

GOLF FUND

Approximately 21,625 golf rounds were played at Oak Crest Golf Course in 2014 which was a 27% decrease from the previous year. Through May of 2015 golf rounds are up over the same time the previous year due to members and guests coming back to Oak Crest due to better conditions at the course during last golf season and how well the course came through the winter. Member rounds accounted for approximately 14,050 rounds or 65% of all rounds on average. Membership fees account for approximately 67% of available revenue. Membership rounds have decreased from a high of 85% caused mainly from members dropping memberships and opting towards green fees or choosing to golf at other courses. It is estimated that this was caused by the increases in membership fees over the last ten years along with a drop in golfing play nationally and with some poor conditions at the course.

The Golf Fund continues to struggle with lost memberships primarily due to decreases in golfing activity nationwide. A new golf pro was hired by the Golf Commission for 2008 to help in reinvigorating interest in golf play at the course and to improve marketing efforts for the course. New initiatives will be forthcoming as we continue our efforts to reorganize and reinvigorate golf play at Oak Crest. Additional attention will also be given to young golfers especially with the coordinated efforts with the Norway Vulcan School system programs. We are encouraged by the potential that remains at Oak Crest but much work is needed.

At the end of the 2015 golf season, the City Council will transferring direct operating responsibilities over to the Golf Commission. All golf related personnel will be handled by and through the Golf Commission. The city will maintain ownership of all real property such as land and buildings and contract with the Golf Commission to operate the facility. This arrangement was actually spelled out in the 1992 ordinance which created the Golf Commission by the City Council when the new club house was built and a bond issue was secured. The city is moving in this direction primarily because it makes sense to have the Golf Commission manage all of the golfing operations as opposed to city trying to manage the golfing details.

C.A.T.V. FUND

In 2009, the City initiated a complete upgrade to the system by installing new infrastructure lines and equipment to improve reliability and speeds. The plant was increased from a 450 Mghz plant to an 870 Mghz system. A 24 count fiber line was also installed around the city to allow for improved accessibility for capacity and speeds. The City improved services to the internet system as well as providing a new and improved television offering increasing anolog channels from 54 to 74 and implementing offerings in digital and HD services. New offering packages were rolled out in the spring of 2010 and the sign up rates have been encouraging. Along with the improved services in the internet and television services, a new telephone voice over internet protocol (VOIP) was presented. Again, the install rates for the new service has been encouraging and by providing a true triple play opportunity for our customers will provide for long term investments and revenue returns for the fund. There are some significant expenditures programmed within the budget for the few fiscal years mainly dealing with a new bucket truck and some head end equipment. Rate increases have been programmed for the 2015-16 fiscal year.

The City continues to review and evaluate its cable operations primarily against the general market place. The cable operations are a business and not a utility. The ability to manage this type of operation is vastly different than running a utility since this is a discretionary purchase for most people as well as the number of options available to our customers to satisfy their video, phone, or internet needs.

ELECTRIC FUND

During Fiscal Year 2011-2012, Council approved the cost of service study and the electric system master plan with Krause Power Engineering. The multi - year expenditure plan provides for continuing operational and capital obligations including;

- System improvements and expansion
- Hydroelectric plant improvements
- Hydroelectric plant automation
- Federal Energy Regulatory Commission relicensing
- Telemetric meter reading
- Street light improvements

This plan was a follow up to the initial plan that was contracted in 2004. The original plan was delayed due to a number of serious setbacks for the utility. In December of 2005, the hydro operations experienced a serious setback with the loss of the Westinghouse unit. The plant capacity dropped from 5.3 MW to 3.1 MW. The loss of potential generation coupled with a historic low water year increased purchased power requirements with WE Energies by 70%. The Westinghouse turbine rebuild was completed in 2009 however due to several FERC mandates, the completion of the GE Turbine rebuild was delayed. The GE turbines were subsequently completed in the fall/winter of 2012 and ready for spring 2013 run-off. With the new turbines, the plant increased its generation to 5.8 MW. Increasing pressures from the regulatory agencies and new regulations from the state of Michigan will continue to challenge the power sales and purchase power costs in the system. The new turbines will aid in reducing some of these costs especially in out years.

The City also completed the construction of a new primary substation which will allow the utility to accept transmission level power directly from the grid. This will eliminate a $2,000 per month charge from WE Energies to step down our system power. In 2011, the utility completed the loop construction and conversion which now enables the city to fully utilize the new substation which will ultimately complete the project.

From the original system master planning, system priorities were identified as necessary improvements for not only the quality of service for our customers but to decrease system losses.

All system projects were evaluated on priority based on first starting in the main loop of the system and then working out to its outer branches. The main loop has been completed and converted to its higher voltage and we now can concentrate outward. The arterial branches on the electrical system have voltage losses which create performance issues for the city's customers as well as system loss issues for the utility. Out year system improvements are identified as follows:

	Cost $	Schedule
• Forest Drive, Fairview Drive, WPA Road	$100,000	2014-16 (In Progress)
• US8, Piers Gorge, Oak Crest Drive	$60,000	2015-16
• Vulcan Reconductor	$240,000	2016-18
• Kimberly Road	$150,000	2017-18
• Norway Hill, Pearney Lane	$720,000	2018-22
• Forest Drive, Viking Lane, Pine Drive	$300,000	2021-23
• Summit Road, Valley View Drive	$150,000	2022-23
• Belgium Town Road	$300,000	2023-25
• West US 8	$180,000	2024-26
• Downtown Norway	$600,000	2026-29

Due to budgetary constraints, the projects have been extended into out years and will be reevaluated on an annual basis. Now that the hydro, substation, and loop conversion projects are complete, we will try and schedule one major project per year.

In 2010 the City Council approved a new Power Cost Adjustment Clause (PCAC) which enabled the fund to stabilize its revenue projects and provide a potential benefit to the utility customers by providing rebated rates in high water years. Due to the PCAC, Norway electric customers have experienced the lowest electric rates in the Upper Peninsula and with the utility not purchasing the higher purchased power rates from the grid, the fund has recovered from the past two draught years. The additional revenues will allow the utility to proceed with system upgrades which will improve reliability and recover line losses of 10%. In 2011, the City moved from purchasing power from WE Energies and start purchasing from WPPI. This will save the utility an estimated $400,000 per year. Due to actual and additional projected increases in the wholesale power costs for the City of Norway in 2015-2016, a 1% rate increase has been programmed for the 2015-16 fiscal year.

WATER AND SEWER FUNDS

During the Fiscal Year 2006-2007, increased attention was given to maintenance activities to improve the system. With the increased costs especially with respect to sewer, additional rate adjustments were necessary at that time to maintain the fund. The rates do not account, however, for system improvement projects. The sewer and water master plan documents were completed in 2005 to address both current and future planning for the system. Any future projects will need to be programmed with rate adjustments to account for debt repayment obligations.

In 2006, the City of Norway contracted with Mead & Hunt to provide engineering services to develop and submit an application to the USDA Rural Development for both a water and sewer infrastructure improvement project. In 2012, the City was finally able to complete the application process and submitted two sewer applications and one water application. The sewer applications were developed in two phases with phase one pertaining to the wastewater treatment plant and phase two dealing with the collection system. The phase two application for the collection system was also paired with the water application so that the roadwork necessary for both water distribution and sewer collection could be contracted at the same time. In early 2013, the city was notified by the USDA-RD office that the phase one sewer application was approved and ready to move forward. This past spring, the second sewer application was also approved to move forward with funding from the USDA-RD office.

The first phase of the sewer project or Wastewater Treatment Plant Project is budgeted at $5.5 Million and includes a major upgrade to the plant including a new headworks, blowers, clarifier upgrades, piping, blowers, and major electrical work. There are also upgrades to the building and to the sludge handling process. The project is scheduled for 2015 construction.

Phase two of the sewer project is the Wastewater Collection Project and is budgeted at $2.805 Million with $1.651 Million in loan and $1.154 Million in grant. The Water Distribution Project is budgeted at $2.807 Million and is a loan only project. The collection and distribution project scope was selected based on need and where both water and sewer infrastructure existed in the same street. The streets that will be reconstructed include the following:

- Second Avenue from Section Street to US 8
- Norway Street from 4th Avenue to 2nd Avenue
- Main Street from 4th Avenue to 2nd Avenue
- Iron Street from US 2 to 2nd Avenue including the 100 block
- Mine Street from US 2 to 2nd Avenue including the 100 block
- Section Street from US 2 to Railroad Avenue
- Maple Street from US 2 to Railroad Avenue
- Railroad Avenue from Walnut Street to US 2
- Elm Street from US 2 to 5th Avenue including the dead end block
- 7th Avenue from US 2 to City Limits in Third Ward
- 8th Avenue from 7th Avenue to Lake Street

In the water project there is also some work at the well site. This project is schedule for the 2015 and 2016 construction seasons. Through USDA-RD rules, the rates must be increased to cover all project costs at the time of bidding the project. There may be an additional increase for both funds in the upcoming fiscal year. For the Sewer Fund, the increase required to handle the estimated bond issues was accounted for in last year's rate increase. There is a 1% increase programmed for FY 2015-16 mainly to account for normal cost of living increases. For the Water Fund, an $8 per month average increase has been programmed for the 2015-16 fiscal year. This increase covers the upcoming project bond issue costs as well as the major cost increases experienced by the utility from the extremely harsh winters of 2013-14 and 2014-15. The City is currently trying to secure emergency relief funding through the State of Michigan however there has been no official authorization to date.

CAPITAL PROJECTS FUND

All property sales receipts have been shifted from the capital fund to the general fund due to the property purchase on land acquired near the golf course for $167,000 which was paid by the General Fund. All capital projects have been suspended until this debt has been repaid. Once this has been repaid, capital projects will once again be programmed into the budget. The current activity in the capital projects fund involve projects that are funded by other funds. The capital improvements fund is being treated as a sweep account fund.

PERSONNEL

Salary expenditures for fiscal year 2015 - 2016 are projected at $1,989,498 or 3.04% below fiscal year 2014 - 2015 estimated actual of $2,050,046. Salary expenditures reflect personnel expansion and cross training initiatives consistent with reorganization strategies as well as cost of living adjustments pursuant to negotiated collective bargaining agreements.

Cumulatively, personnel service expenditures for F.Y. 2015 - 2016 across all funds total $3,613,567 or 0.38% below fiscal year 2014 - 2015 estimated actual of $3,627,355. Personnel service expenditures in addition to salaries account for employee benefits including insurance, pension, FICA and training. Staff continues discussions in collective bargaining to address rapid increases in healthcare, pension, and unfunded liabilities. The slow growth of increase in personnel services are directly related to positive adjustments reflected in interest based bargaining with employees with respects to healthcare and pension benefits.

I would like to take this opportunity to thank the entire staff for their hard work and patience during this challenging and exhaustive budgetary period. It is through their coordinated efforts that this material is presented for your scrutiny.

I am extremely proud of this financial plan prepared for the City of Norway. It allocates available resources to traditional services expected by our residents while simultaneously allowing the City to address planned community and capital projects.

Very Truly Yours,

Ray D. Anderson
City Manager