

Friends,

The City Administrator will in April present his budget for FY2012. In the conversation that will follow you may hear some discussion about the City's debt load. To enable you to better participate, I thought it useful for you to have some background.

Credit Card Debt vs. Mortgage Debt

When most of us think about government debt, we think about the National Debt. Generally speaking, this debt has accrued due to deficit spending; the federal government has borrowed to cover current operating costs. This is analogous to credit card debt. If you can't pay for groceries today, you put them on the credit card and hope to pay for them tomorrow. Ann Arbor does not have any debt of this kind. Zero. We balance the budget every year. In fact, we typically end each year with a surplus.

Ann Arbor's debt accrues due to the sale of bonds; Ann Arbor has borrowed to cover long term capital improvements. This is analogous to mortgage debt. If you can't buy your house for cash (as if!), you take a mortgage and pay the loan off over time.

As you will see from the attached documents, Ann Arbor's long term debt – its mortgage debt, if you will – has increased from in \$119M in 1999 to \$246M in 2010. This is a substantial change and you should understand the reasons behind it. The short answer is "Infrastructure".

Infrastructure Investments

The primary projects that led to this increased debt are all projects that were required to address areas of long-term infrastructure need:

- 1) The approx. \$70M bond issuance between 2004-2008 to replace the 1930s era Wastewater Treatment Plant. I need not stress the importance of a safe and functioning facility of this nature. These bonds are being repaid directly from sewage fees. See www.a2gov.org/government/publicservices/waste_water_treatment/Pages/FacilitiesRenovations.aspx
- 2) The \$49M bond issuance in 2009 for the underground parking structure on 5th Ave. Ann Arbor has a thriving downtown, with a parking system that has shown increased demand even during the Great Recession. This increased demand has occurred at the same time as we have lost scores of parking spaces due to road reconfiguration projects and the like. Adequate parking for workers, visitors and customers is vital to the continued health of our downtown. These bonds are being repaid from parking system revenues and the DDA's portion of downtown property taxes capture. See www.a2dda.org/current_projects/s_fifth_ave_parking_structure_project/
- 3) The \$27M bond issuance in 2008 for the Police Courts building on Huron and 5th Ave. This structure was required to house the 15th District Court, formerly located in the County Building, and to provide an adequate Police Station, formerly located on the first floor and basement of the Larcom Building. The condition of the Police Station was particularly troublesome – cramped quarters, leaks, security insufficiencies, radon,

asbestos. The arrangement was considered ‘only temporary’ in the 1960s. These bonds are being repaid by the City in part by contributions from the DDA; in part by fees from cell-phone tower leases; and in part by the City out of monies that it would otherwise have paid in rent to house the District Court and various City departments, which were previously renting portions of the Dahmann City Center Building. See www.a2gov.org/government/publicservices/project_management/upcomingprojects/Documents/AACourt-PoliceFAQs.pdf

Now just because a person does not have any credit card debt and ends every year with more money in the bank than she expected, doesn’t mean that she can afford her mortgage. It is appropriate, therefore, to ask whether Ann Arbor can afford the debt it has incurred to meet these long term infrastructure needs.

Credit Rating Upgrades

Based upon the dedicated and allocated revenue and payment streams directly associated with these recently issued bonds, I believe that we can meet our obligations without difficulty. I am not alone in this belief. With each debt issuance, independent debt rating agencies evaluate the City’s fiscal health. In the past five years when a majority of the increase in debt issuance has occurred, rating agencies have actually increased the City’s credit rating (e.g., Standard & Poors rates Ann Arbor as AA+ (Exceptional)), reflecting their view of the security and outlook for the City. Ann Arbor’s credit rating is one of the highest in the State.

It is worth noting as well that even with the increased debt carried by the City, Ann Arbor is currently utilizing only 26% of its statutory debt limit. In 1999 it was utilizing 21% of its statutory debt limit. In other words, although the absolute amount of debt has doubled to meet infrastructure needs, Ann Arbor’s statutory limit has nearly kept pace.

We live in difficult times and our operating budget remains under severe stress due to revenue declines associated with the University’s purchase of the Pfizer site, decreasing property tax receipts, drastic reductions in state revenue sharing, and near-zero investment income. These operating budget challenges require us to continue to make substantial changes to how we provide services to residents. At the same time, Ann Arbor’s long term needs cannot be ignored. I believe that we have over the past few years taken real and important steps to meeting those long term infrastructure needs in a manner that is fiscally prudent. After your review of the foregoing, I’d be interested to hear from you.

Best,

Christopher

P.S. As ever, if you no longer wish to receive these communications, please just let me know and accept my apologies for the intrusion.