

**State of the City Address**  
**January 28, 2006**  
**Honorable George K. Heartwell, Mayor**

Each year at the State of the City Conference, we establish a course of action for the coming year and beyond — a course toward better overall health, improved educational outcomes for children, racial justice, sustainable development, and other ambitious, but reachable, destinations for this city's future.

The setting of the course is the easiest part. The getting there requires all of us — community volunteers, residents, city staff, elected officials, and regional partners — to work together like a ship's crew. It requires us to share a vision on the distant horizon and to move steadily toward that vision, to weather storms that may force us off course, to adjust our heading, as needed; to fuel our engines; to lighten our load of things so we have more room for people; to be sure that no one is left on the other shore; that instead we arrive, safe and whole, at our destination.

Your mayor has one opportunity each year — this State of the City Conference — to pause and reflect on where the ship has been, how far it's come, and where it lies in relation to its ultimate destination.

**Recitation of Accomplishments**

This is my third State of the City Conference, and many of you in the room have been with me through them all. The first half of my first term surely has passed by quickly. It is helpful to remember what we set out to accomplish together and what has been done.

In the first State of the City address I set goals for education. Specifically, I called for a new era of cooperative relations between the City and the Grand Rapids Public Schools.

I can today report that relationship has not been better in decades. We are working cooperatively on school construction projects with the City providing support in engineering and construction of infrastructure around the new school buildings and contractor and supplier diversity assistance. The City provides the organizational framework for coordinating the after-school programs of The Loop through our Office of Children, Youth and Families. When the time came for the difficult work of determining which schools needed to be consolidated and what buildings would be slated for closing, City representatives sat at the table, helping the Superintendent and his team with neighborhood impact analysis. The City/Schools Liaison Committee, consisting of three of us from the City Commission and three school board members continues to seek avenues for cooperation and mutual support.

It has been a very long time since the Mayor and the Superintendent of Schools have enjoyed the close working relationship that I enjoy with Bert Bleke. As he leaves his post at the end of this school year I will miss Bert. I will miss his personal passion for the children of Grand Rapids and his fundamental commitment to working

collaboratively with the City. Superintendent Bleke is present this morning, as he has been at each of the State of the City conferences. Please join me in taking this opportunity to thank my partner and friend Bert Bleke. [Bert stands to applause]

That first State of the City Address also focused on literacy and sought to address the unacceptably high 21% adult illiteracy rate in Grand Rapids. Substantial progress has been made toward achieving a reduction in illiteracy. At the first annual Literacy Summit in October 2004 I set the goal of a 50% reduction in illiteracy over the next decade. Greater Grand Rapids Reads was formed as a collaborative of many organizations committed to literacy and a community plan was shaped and adopted last October. Outstanding leadership and support for this initiative was provided by Delta Strategy using the Delta process of engaging community members in problem solving. Then, in a very important decision last month, the Heart of West Michigan United Way Board took on literacy - and the implementation of the community plan - as a major initiative, housed at United Way and funded at a level that will support the work to achieve my aggressive literacy goal.

Dr. Juan Olivarez, President of the Grand Rapids Community College and a Board member of the National Literacy Council has been a terrific partner in this initiative. Dr. Olivarez and members of the GGRR coalition are here this morning. Would Juan and everyone who has been involved in this initiative please stand and receive our thanks. [Juan et al stand to applause]

The second State of the City Conference focused on environmental sustainability. As I did with education and with literacy I set a high bar for this community in the field of environmental health. Setting a high bar brings out the best in us.

But, when I established a goal of purchasing 20% of the municipal power needs from renewable resource energy by the year 2008 little did I imagine what a powerhouse I would unlock! The creativity - indeed, the passion - that our City staff and community volunteers brought to this challenge has been awesome. We are well on our way to achieving this goal. And achieving the goal is an important step in an ongoing effort to improve air quality, preserve natural resources and enhance the quality of our life.

Last year I challenged us to eliminate the use of toxic chemicals that destroy water and air quality and that jeopardize health. We started by switching from a chlorine treatment of our waste water discharge to an environmentally friendly - and, I might add, cost effective - ultraviolet light treatment system. We have also completed a thorough assessment of municipal uses of toxic chemicals and are developing a strategy to substitute non-toxic substances where possible. Furthermore, we are seeking to substitute alternative fuel vehicles as we can. You read about our two new hybrid electric buses for The Rapid; and you passed by our cool little Parking Enforcement all-electric vehicles when you came in today. With these little buggies we are already saving \$3,000 in fuel costs and we are generating zero emissions to the air we breathe.

Two weeks ago we met with US-EPA representatives from the Chicago Regional Office - including the Director of the Toxics Division and the Manager of the Children's Health Program. They came to Grand Rapids to explore the development of a new initiative focused on protecting children from environmental health risks. Grand Rapids was chosen because we work so well collaboratively through multi-organizational and public/private partnerships.

In last year's speech I also challenged us to adopt a municipal commitment to building only LEED certified buildings in the future. Grand Rapids is recognized by the US Green Building Council as having the most LEED certified structures per capita of all cities in the nation. LEED, as many of you know, stands for Leadership in Environmental and Energy Design and is a green design and construction standard. Last Tuesday the City Commission adopted my policy which commits us to the use of LEED standards in future City buildings. It seems to me that City government shouldn't expect something out of you that we're not willing to do ourselves! Our next step will be to explore a program of incentives for LEED construction in privately-developed buildings. I expect to have this before the City Commission by July 1<sup>st</sup> of this year.

Finally, I announced last year the Community Sustainability Partnership, funded through a grant from Peter Wege. This initiative joins the City of Grand Rapids to the Grand Rapids Public Schools, Grand Rapids Community College, Grand Valley State University and Aquinas College. Our purpose is to collectively develop individual sustainability plans using a common template and taking on joint initiatives.

The Partners have now been joined by 65 local companies who have pledged to use the common template in developing their own corporate sustainability initiatives. The importance of the common template, of course, is its use in identifying areas in which we can work together across public, private and academic sectors.

Our work is progressing steadily. It has now been recognized by national sustainability guru Kent Portney of Tufts University who lists Grand Rapids as one of only 41 cities in the nation doing this advanced work of economic, social equity and environmental sustainability. This year we will receive Portney's ranking among the 41 and I expect us to be in top one-third of this elite group of progressive American cities. Mr. Wege has made funding available for a second year and our Community Sustainability Partners are hard at work developing their plans.

Those of you who are grammatically attuned may have noticed that I have consistently used the first person singular "I" when talking about grand pronouncements and goal-setting, but the first person plural "we" when describing how the work gets done. There is a terrific core of dedicated community volunteers and City staff who have been working with me this year to achieve these important environmental goals. Let me ask Peter Wege to stand followed by members of the Mayors Environmental Advisory Council, signatory companies to the Community Sustainability partnership and all the other community members and City staff who have worked so hard to make Grand Rapids sustainable over the past year. [stand and applause]

Though we have not “arrived” at our destinations of improved education and literacy or environmental sustainability, we have made significant progress. And, without that progress, our next horizon would be unattainable. Education and sustainability are absolutely critical to the course we set today: that of a thriving and diverse economy in which all residents participate and from which all benefit.

### **GR Economy**

Grand Rapids’ economy is on the rebound. It has been a long struggle this time, but we are beginning to climb out of the hole. How do I know this? Because economists like George Erickcek of the Upjohn Institute are saying so. But also because I make it a point to visit manufacturing firms. Let me tell you about a recent visit.

Jack Proos, his daughter Amy Proos Engelsman and Larry Engelsman met me and Rick Chapla of the Right Place in the conference room at Proos Manufacturing Company on Michigan NE. An enormous brown trout is mounted and hangs on the wall confirming what I already knew, that Proos is a manufacturer of quality trolling downriggers. I was surprised, however, to learn that downriggers constitute less than 1% of Proos’ sales. This company has morphed over the years into a sophisticated tier-two auto supply and diversified special order parts manufacturer.

We put on the safety glasses and Amy, the third generation of Proos at the helm of the company led me into the plant. She and her Dad knew all the 95 employees by name and introduced me as we toured. I learned that continuous quality improvement and waste reduction is a way of life at Proos. While tool and die companies have folded or moved out of state over the past decade Proos thrives by being smart, agile and efficient.

Amy pointed out a new press that had been purchased as part of a recent building expansion. She told me that it would not have been possible to expand and remain competitive were it not for the City of Grand Rapids industrial facilities tax abatements. So, what did we get for a 50% tax break on the new plant and equipment? How’s this for return on investment: a tripling of the workforce over the past five years to 95 employees. Those are Grand Rapids jobs paying good wages so families can buy Grand Rapids houses and Grand Rapids groceries, go to Grand Rapids entertainment venues, contribute to Grand Rapids churches and charities and, oh yes, pay Grand Rapids income taxes! 43% of the Proos workforce lives in the city. 11% of the workforce takes public transportation to work and management has staggered shifts to conform to the bus schedule.

I have singled out Proos but I could have picked any of dozens of other firms. The Jackoboice’s company, Monarch Hydraulics; Jay Dunwell’s company, Wolverine Spring Coil; Nancy Ayres’ company, Clipper Belt Lacer; Terry Nicholas’ company, Nicholas Plastics; Fred Keller’s company, Cascade Engineering. The list goes on.

Grand Rapids’ manufacturers have regained their footing and are coming back: leaner, stronger, smarter, and feistier. They are hiring and they are growing. And we can all hope they are making money.

Our economic recovery is further aided by the strength shown in the health care and biomedical research arenas. Look at how Spectrum Health and the Van Andel Institute are reshaping the skyline on Michigan Hill. Look at how St. Mary's and Mary Free Bed Hospitals have developed in the Heartside/Heritage Hill neighborhood. Look at how Metro Health is investing in...Wyoming. Ooops! Well, what's good for the region is good for Grand Rapids.

Grand Rapids is the health care center of West Michigan and, with the specialty facilities for heart care, cancer and children's health we have gained national prominence and draw patients from all over the Midwest.

Grand Rapids is also the center of higher education for West Michigan. Our thirteen college and university campuses serve tens of thousands of students and constitute a major pillar of our economy today. With Governor Granholm's commitment to investing in an educated workforce we can expect to see this sector grow in the years to come.

The expansion of Michigan State University's Medical School in Grand Rapids will provide the missing link between our hospitals, our research institutions and our colleges and universities.

Even as our manufacturing sector gets its legs back under it we are growing in the health care, medical research and higher education sectors.

### **Municipal Fiscal Plan**

Before I talk about our course of action for economic development, I want to address our "ship's" fuel reserves and our prospects for refueling on our way to our destination of economic health. I want to talk about the city's budget.

I am so convinced that our overall economy is headed in the right direction, and so positively challenged by the conundrum of municipal expenses rising more rapidly than is municipal revenue, that I am not at all afraid to publicly discuss the budget.

Here's where we are today; let me throw some numbers at you:

- We have successfully addressed cumulative general fund deficits totaling \$64 million over the past four budget cycles
- 63% of the deficit we solved for in the current fiscal year was caused by reductions in state shared revenue
- Our Fiscal Services Director has projected \$80 million in general fund deficits over the next five budget cycles
- Our current general fund annual budget is \$109 million
- We will adopt a budget for the fiscal year beginning July 1, 2006 that is \$8.5 million below today's budget.

How are we going to do this?

First, we will continue to find organizational efficiencies that reduce cost without impacting quality of service. A visionary City Commission, committed to the wise and careful stewardship of tax resources, provided funding for a Lean Thinking initiative. For the past six months we have been working in six departments with value-stream mapping and process improvement strategies. The theory we are operating under is that people closest to the work are most knowledgeable in ways to improve work flow.

Let me give you one simple illustration of how this Lean Thinking initiative works. This example comes from Parking Services Department. When a monthly parker cancels a parking contract for any reason a refund is due. That refund is typically \$15-50. When the Lean Thinking team mapped the procedure for processing that refund they found that an average of 20 days would elapse before a check is issued and that several people had to push a good deal of paperwork around the department to make it happen. The cost of processing far exceeded the amount due and the customer often became irritated at the delay.

So the employees recommended - and management gratefully accepted - an immediate cash refund at the front desk. Instead of tasking weeks to receive a refund, 85% of customers now receive their refund in 12 minutes. The customer walks away happy and the City saves hours of wasted time and enjoys departmental cost savings.

In our Community Development Department we have implemented system changes in rehabilitation loan processing that will result in a 52% improvement in lead time and a 43% improvement in loan closing accuracy. In City purchases over \$500 we are implementing changes that will result in a 56% improvement in processing time. Also, before this Lean Thinking process began very few purchase requisitions and specifications were complete and accurate; with new systems in place the goal of 90% accuracy will be achieved this year.

The opportunity to save in a single, small process such as any of these I have cited exists in dozens - perhaps hundreds - of small processes in a complex organization such as city government. Substantial savings will be realized through this important process improvement effort.

Fifteen city employees have received advanced training in Lean Thinking and are equipped and working in other departments to spread this practice throughout the organization and embed it in our culture. We will continue to enjoy savings in the years ahead and, as Deputy City Manager Eric DeLong stated, "Lean Thinking is a great way to communicate our values of service, stewardship and teamwork."

Second, in order to achieve our budget objectives we must make tactically appropriate cuts in our expenses. Since personnel expenses make up 68% of total expenses this budget category is the first place to look as we begin cutting. Yet simply reducing the workforce by the magnitude required to balance the budget would decimate services to our citizens. Instead of slashing the workforce we must address the costs of health insurance, retiree health care and pensions.

I want you to know that we cut our health insurance costs by \$5 million last year. We did this with a change in third party administrator and an increase in co-pay. But health care costs continue to escalate and with them health insurance premiums. The City simply cannot continue to absorb 100% of the premium for our employees. The private sector does not. Public school districts and municipal governments across the state and nation have begun passing some portion of the cost to employees. The City of Grand Rapids must do the same. Retiree health care must be similarly addressed.

Pension costs, as well, exact a toll on our general fund. We have a commitment to our current workforce that must be honored. But the city workforce of the future will have to hire in under a different understanding. Over time we must get these pension costs to a more reasonable level.

There was a time when municipal employees made less than their private sector counterparts. Those lower wages were offset by a better benefits package. But wages have flattened in the private sector and the wage-disparity no longer exists. We must begin to bring municipal benefits in line with private sector benefits.

The third leg of balancing our budget requires that we look at the revenue side. The State of Michigan has had its hands in our pockets for the past four years. State shared revenue reductions account for 63% of our annual budget deficit.

I want you to understand that Revenue Sharing isn't some state welfare program for cities! Over the years cities have given up taxing authority in return for state promises to make us whole. But recently, when the state found itself in a financial bind, it forgot all about its promise to cities. The State attempted to balance its books using our local, state-shared revenues. In this current fiscal year, under intense pressure from cities, the Governor and Legislature "held harmless" our revenue sharing for the current year...which only means that while our expenses grow at the rate of inflation or faster, our revenue sharing stays the same as it was the year before, approximately \$6.0 million lower than it should be on an annual basis. 1<sup>st</sup> Ward Commissioner Roy Schmidt has turned a spotlight on this theft of local dollars. His efforts have lent energy to a state-wide initiative of cities bound together to protect revenue sharing. Roy is a champion of cities at a time when cities need champions. Thank you Commissioner Schmidt. [applause]

Clearly the State must do more than simply freeze current levels. It must restore the revenue sharing resources to the level of four years ago. Cities depend on this source...and we have a right to do so. In the new fiscal year, the first dollars of an improved state budget must come to cities. And we must be made whole over time.

Further, we must look at local tax levels.

I realize as I say this that everything else I put forward to day will be ignored by the media and this will be the headline. I realize as I say this that a half dozen mayoral challengers, looking ahead to the next election, will be licking their chops. Even

realizing all this I will say it: we are rapidly approaching the time at which we must bring a tax increase question before the voters.

Everyone who loves this city has been saddened to see the quality of municipal services decline. Those who are concerned about youth are troubled to see pools closed and recreation services reduced. All who know that our future lies in attracting new business are distressed at the quality of our streets and anxious as we scale back police and fire services.

I join you in being saddened, troubled, distressed and anxious. I will not stand by and watch our city decline for want of investment in public services and infrastructure.

Listen carefully.

First I will insist on the elimination of waste in our service delivery mechanisms. Then we will make necessary cuts, being careful not to disrupt more than necessary those services essential to health and safety. I will fight like all get out to maintain state support.

But when the day is done, if we're still short on the revenue side I will ask the Commission to bring you a tax proposal. This city will not become second-rate on my watch. Remember, the decision will be yours. The Commission and I cannot increase your taxes. You have a vote that is exactly equal to mine. But I will not shy from raising the question just because smart politicians don't talk about tax increases. I am a Grand Raptidian first and then a politician. As a Grand Raptidian, I want us to continue to be the best city in Michigan.

### **Economic Initiatives**

I've talked already about where we have been on our journey together, how far we have come, and where we are now. I've talked about our need for fuel to maintain the pace of city growth and to reach our next destination. Now I want to lay out the course we'll be taking in the coming year.

Over a year ago I convened a group of area business people representing all the major sectors of our local economy. My charge to them was to put our economy under the microscope and understand what makes it tick today...the better to guide us in the future. The Mayor's New Economy Task Force took on their charge with vigor. The document which they drafted and presented to the City Commission last month is a powerful roadmap to municipal support of the emerging economies of Grand Rapids.

Drawing on the work of the Mayor's New Economy Task Force this morning I want to set three audacious goals for the coming year.

First, we must capitalize on our core competency in knowledge-generation. Yes, knowledge. This is nothing new for Grand Rapids. We have always excelled in the use of knowledge to innovate. Then we have applied that innovation to entrepreneurial activity. Whether it was soap products at Amway or hydraulic lifts at

Monarch Hydraulics, sustainable use of plastics by Cascade Engineering or ergonomic chairs at Steelcase we are a community of innovators who have turned knowledge into jobs and jobs into wealth.

Behind our manufacturing research and development has emerged one of the powerhouse intellectual centers of the world. "Oh, come on, Mayor; you're just braggin'!" Well, when the London Times published last year's Global Knowledge Competitiveness Index - the measure of cities' investment in research, innovation and higher education - Grand Rapids ranked third in the world, measured on a per capita basis. And on one discrete measurement - per capita expenditure by business in research and development - we led the globe. That's right; Grand Rapids is number one in the world in research and development!

Today, more than ever before in history, knowledge is power, economic power. We must continue our investment in new technologies, in industrial and scientific research, in discovery and the accumulation of knowledge. We must encourage development of our institutions of higher education. We must continue to attract top-flight researchers to our Van Andel Institute. We must invest in the present for the sake of a prosperous future.

Today I propose a far-reaching tax abatement measure that will incentivize investment in knowledge development. Just as we have established tax abatements for industrial facilities' investments in plant and equipment, just as we have established Renaissance Zones to encourage redevelopment of industrial, retail and even residential projects, now is the time to create tax incentives for those who would invest in the future through research and development today. I will work with the City Commission, with City staff and - most importantly - with industry and higher education leadership to craft a bill that will provide state and local tax relief to businesses that invest in innovation. We will encourage the development of new technologies using the most powerful tool that government has at its disposal - the authority to tax (and, more importantly, the authority to abate taxes) - to expand and deepen our knowledge-based economy.

When this bill is drafted it will go to Lansing for adoption. I know that I will find a sympathetic ear for this cause among our West Michigan legislators as well as from the Governor. Two weeks ago Governor Granholm and Senate Majority Leader Sikkema announced the \$2.0 Billion 21<sup>st</sup> Century Jobs Fund. This massive effort will put Michigan in a leadership position in attracting "new economy" business in life science, advanced manufacturing, robotics...in short, in the knowledge-based sector of the economy. My proposal of knowledge-based tax abatement for urban centers in Michigan will enhance the investment the State is making, better enabling us to commercialize the innovations coming out of our corporate research and development work.

Second, I will provide the leadership necessary to develop a new commercial/industrial sector in environmentally sustainable products.

Perhaps some of you don't know this but West Michigan has a remarkable collection of businesses dedicated to creating an environmentally sustainable community. Earlier I mentioned the 65 companies who have joined our Community Sustainability Partners. This initiative is the envy of every mayor. With business, government and higher education working together we are already positioning Grand Rapids as *the* city of choice for those businesses seeking a robust economy founded on principles of sustainability.

It is time to take this to the next level. We need to begin using our competency in innovation and our passion for sustainability to attract new businesses that are actually making the products used in the environmental industrial movement.

Governor Granholm said Wednesday in her State of the State Address, "We will use our 21<sup>st</sup> Century Jobs Fund to grow businesses here that put Michigan on the path to alternative energy leadership."

Well Governor, I've got another tool for your toolbox.

We can be producing photo voltaic cell cloth in Grand Rapids, turbines for wind generators and for hydroelectric production; we can be making the building components right here that will go into the structures of LEED buildings all over the Midwest. We can produce the batteries for the hybrid cars. We can produce products to support the alternative energy movement that is sweeping the nation. Grand Rapids is a center of global innovation and it is high time we strut our stuff. The Right Place, Inc. gives us exposure in a global marketplace. We could use another tool or two in our arsenal to bring it on home. Knowledge-based tax abatement is one of those tools.

Another tool is having a place to "bring it home" to. We have two incredible possibilities, one on our northern boundary and one on our southern. To the north we have what we call the Grand Walk Area, the border industrial properties of Grand Rapids and Walker. To the south we have the currently underutilized and soon to be vacant Steelcase industrial plant between 36<sup>th</sup> and 44<sup>th</sup> Streets, a border area of Grand Rapids and Wyoming.

Listen to what our Governor said last Wednesday evening:

"I will offer cities a major incentive to partner on significant economic development projects. Partner with the state. Partner with the private sector. And partner with other municipalities to encourage regional collaboration for major economic development and jobs projects."

Well Governor, you've read my mind!

I have been meeting with my colleagues in Walker and Wyoming and our staffs have been planning for the eventual re-utilization of these large industrial sites. We are looking at tax-sharing and service consolidation opportunities, we have been thinking about how best to provide (and who best to provide) municipal utilities. We have

begun thinking about how to address the needs of advanced technology corporations in these locations.

The third initiative I propose, then, is the development of a sustainable business park in Grand Rapids, in cooperation with one or more neighboring municipalities. We must assess the needs of businesses in this market and design our product to meet those needs. Do they require “big pipe” Internet II broadband? We’ll put it in. Do they want 100% wireless access throughout the city? We’re well on our way to providing that service. Do they need access to highway, rail and air transportation? We’ll find the site that maximizes the opportunity. Is green space critical to them? We’ll provide it. Do they require on-site waste recycling facilities? They’ll be there. We can offer storm water capture and recycling, a source of renewable energy, and incentives for LEED design buildings.

Working with Right Place Inc. we will assess the strengths of this market, target existing and start-up business opportunities and lure them with our knowledge-based tax abatements, attractive business/industrial park, and advanced technology package.

Imagine an eco-industrial park in one or both locations. A park where the price of entry isn’t just a solid profit margin but also a clean and green manufacturing process. Imagine a park whose manufacturers produce the materials and the products that are sold throughout the world to help ensure a globally sustainable future. Imagine a park where the industrial waste of one company is collected and processed into the raw material for another. Imagine a park where LEED design and sustainability are the norm.

Dream it, Do it... that’s how the billboards of Davenport University read not too long ago.

If we can imagine this future then we can make it happen. Today the imagining continues, but the doing BEGINS.

To continue this innovative work I will appoint a Horizon Commission. Like the watchman on the ancient sailing vessels these men and women will keep their eyes fixed on the horizon, evaluating emerging global trends, sounding the warning bell when threats appear and scanning for opportunities to capitalize on our strengths. They will identify leaders in the development and deployment of proprietary products in advanced manufacturing. They will research case studies to spur development of new proprietary technologies through public-private partnerships. They will help guide our ship - the USS Grand Rapids - through stormy seas to a tranquil and prosperous place.

That is our destination. I invite you all aboard. I need you all aboard. We are a proud city in a dynamic region. Though small by comparison to global capitols, we play a significant role in the global enterprise. Though our sails have been tattered by storms in recent years, we press on, repairing as we go.

Now we pick up speed. Now the waters we enter are fairer; now the seas more stable. We have all that we need to succeed: good minds, strong wills, dogged determination, and a powerful vision of what we can become.

This is our moment. Our brief time. This is the day in which we make a difference. The day in which we prepare a future for our children's children to seven generations. If we do not seize this day and make the most of it then shame on us! But when we do seize it, when we grab it, and shape it, and own it; then we prepare the ground for the greatness that will follow.

Thank you for your continued commitment and for the energy you bring to steering this city toward the bright horizon of our new day.

We're going there together. All of us...together.

Let's begin the journey.