

## Fire Station Renovation Project: Funding Options

- **Estimated Costs Fire Station Project (Current):**
  - Architect Services [CHMP] = \$ 0.420M (current contract)
  - Temporary Trailers & C/E Services [Auch] = \$ 0.165M (current contract)
  - **Construction Stations #1, 2, 3, 5 [Auch]** = \$ 5.915M (currently proposed)
  - **Construction Station #4** = \$ 4.564M (currently proposed)
  - Potential Additional for Architect = \$ 0.366M (estimated)
  - Hazardous Material Surveys = \$ 0.020M (estimate)
  - Special Inspections = \$ 0.030M (estimate)
  - Station Furnishings (\$50k x 5 stations) = \$ 0.250M (estimate)
  - Underground Storage Tank (Station #2) = \$ 0.050M (estimate)
  - **Total Fire Station (#1-4) Costs** = \$11.780M
  
- **Funding for Grand Total Fire Station Project (Current):**
  - **Current Budget Contributed By:**
    - General Fund (101) = \$2.3M
    - Capital Improvement Fund (420) = \$2.3M
    - Facilities Fund (631) = \$2.2M
    - **Total Fire Station Budget / Current** = \$6.8M
  
- **Funding/Budget Status of Fire Stations (Current):**
  - Current Total Project Budget = \$ 6.80M
  - Current Total Project Cost (estimate) = \$11.78M
  - **Current Amount Over/(Under Budget)** = (\$ 4.98M)
  
- **What are the Options to Fund the Fire Station Project:**
  1. Facilities Fund (631) Retained Earnings
    - Already Contributed all \$2.2M in accumulated “fire” depreciation
      - No additional funds available
  2. Capital Improvement Fund (420)
    - Already Contributed \$2.3M
    - Utilized nearly all “undesignated” fund balance
      - No additional funds available
  3. Fire Capital Fund (402)
    - Not selected to contribute due to anticipated fire apparatus replacements
    - Long-term funding of the Fire Capital Fund (402) is an area of concern
      - Administration does feel it prudent to accelerate concern by utilizing this funding source
  4. Fire Operating Fund (206)
    - Not originally selected for contribution due to long-term funding concern of Fire Capital Fund (402)
      - Administration thought = “If” Fire Capital Fund (402) were to “need” funding, Fire Operating Fund (206) would be able to contribute
    - Fire Fund Annual Revenue = \$10.0M per year
    - Fire Projected Fund Balance 12/31/2015 = \$ 4.0M
    - Fire Minimum Fund Balance Level Policy (20%) = \$ 2.0M
    - Fire Operating Fund (206) “could” contribute \$2.0M to project and still be in compliance with City’s Fund Balance Policy

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- No use of fund balance is forecasted to be needed by the Fire Operating Fund (206) long-term
- 5. General Fund (101)
  - Already Contributed \$2.3M
  - Annual Revenue = \$20.0M per year
  - Projected Fund Balance 12/31/2015 = \$25.7M
  - Minimum Fund Balance Level Policy (20%) = \$ 4.0M
  - General Fund (101) “could” contribute \$3.0M (or the full \$5.0M) to project and still be in compliance with City’s Fund Balance Policy
    - No use of fund balance is forecasted to be needed by the General Fund (101) long-term
- 6. Make cuts other areas in the City’s budget to come up with shortfall
  - Cannot cut a Water Main project (Water & Sewer Capital Fund) or a Major Road project (Major Road Fund) and divert those funds for Fire Stations project
    - Those are dedicated funds and cannot be used for other than the intended uses of the supporting revenue
    - Limits City to make cuts to the funds listed #1-5 listed above
      - Reminder that Options #1 & #2 have already been utilized and no other funding can be used
  - Fiscal examined line-by-line detail comprising the current 2015 Budget and the recently adopted 2016 Budget for potential cuts to budget process
    - End result = None of items were “easy” cuts meaning:
      - Defer needed equipment / will most likely be requested as part of FY 2017 Budget
        - Cut Spencer Park Equipment Replacement
        - Cut Voter Booth Replacements
      - Lower Level of Service to Community
        - Cut NoHaz
        - Cut Olde Town Redevelopment Study
        - Cut City Council Interlocal Agreements
        - Cut Hills Herald
        - Cut Fire Department Community Promotions
      - Decrease level of General Fund support to 2016 Local Street Fund
    - The aggregate total of potential budget “operating” cuts identified which would either defer equipment replacements or lower level of services to community is approximately \$500K
      - “If” \$3.0M is needed in cuts to General Fund, without touching contribution to Local Street Fund (203), approximately 25 Full-Time staff members would have to be laid-off to accomplish that goal

### **General Fund / Fund Balance / Fund Balance “Coverage” Information:**

- Fund Balance “coverage” = Fund Balance as a percent of Annual Revenues
- 12/31/2009 General Fund / Fund Balance = \$15.1M
  - 2009 General Fund / Fund Balance “coverage” = 73%
- 12/31/2014 General Fund / Fund Balance = \$31.2M
  - Increase of \$16.1M in 5-years
  - 2014 General Fund / Fund Balance “coverage” = 120%

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- 12/31/2015 General Fund / Fund Balance *per Budget* = \$25.7M
  - Decrease of \$5.5M budgeted for FY 2015
    - \$2.3M for Fire Stations (previously approved)
    - \$3.2M for funding \$7.1M in Local Street Construction
      - Increased by \$1.5M due to 2015 Local Street Concrete (Option #2 / more construction) as part of 2<sup>nd</sup> Quarter Budget Amendment
  - 2015 General Fund / Fund Balance “coverage” = 125%
    - *Increase in coverage percentage while fund balance is being decreased is due to new Special Police millage as General Fund budget is lower as it no longer has Special Police Fund subsidy*
- 12/31/2016 General Fund / Fund Balance *per Budget* = \$24.6M
  - Decrease of \$1.1M budgeted for FY 2016
    - To provide for \$5.25M in Local Street Construction
  - 2016 General Fund / Fund Balance “coverage” = 117%
- 12/31/2017 General Fund / Fund Balance *per Budget* = \$23.5M
  - Decrease of \$1.1M projected for FY 2017
    - To provide for potential Borden Park Maintenance Building Improvements
  - 2017 General Fund / Fund Balance “coverage” = 112%
- 12/31/2018 Long-Term, **No** Use of General Fund Balance Forecasted
  - Long-Term General Fund “coverage” remains very consistent at 110%

### **General Fund Past Financial Performance:**

- Over the past 5-years (2010-2014) General Fund Revenues have come in on average 4.2% above original budget
  - Lowest = +1.0% (2010)
  - Highest = +6.8% (2011)
- Over the past 5-years (2010-2014) General Fund Expenditures have come in on average (7.9%) under original budget
  - Lowest = -3.7% (2014)
  - Highest = -14.6% (2010)
- So far in FY 2015, Fiscal projects
  - +2.4% higher revenue / -4.1% lower expenditures
  - Equates to:
    - Approx. \$500k more in revenue in FY 2015
    - Approx. \$1.0M less in expenditures in FY 2015
    - Budgeted to draw \$5.5M from fund balance in FY 2015, projected draw is currently estimated at \$4.0M in FY 2015

### **How does Rochester Hills General Fund Balance “Coverage” Compare to Other City’s:**

- Data Used as of 12/31/2014 Audit:
  - City of Sterling Heights = 7%
  - City of Novi = 38%
  - City of Farmington Hills = 50%
  - City of Troy = 76%
  - City of Rochester Hills = 120%
    - “If” we decreased F/B by \$3M, still have 109% coverage

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- To equal City of Troy's F/B coverage of 76%, we would have to decrease General Fund balance by \$11.4M

### **GFOA Best Practices & City of Rochester Hills Financial Policies:**

- City of Rochester Hills Policy recommends that a 20% minimum balance be held
- GFOA recommends: *"at minimum, governments regardless of size maintain unrestricted budgetary fund balances of no less than 2-months regular operating revenues or expenditures"*
  - 2 months / 12 months = 16%
- GFOA goes on to recommend: *"amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed"*
- GFOA also goes on to recommend: ***"In all cases, use of fund should be prohibited as a funding source for on-going recurring expenses"***
- City of Rochester Hills Policy = "The City will avoid using temporary (one-time) revenues to fund ongoing services. One-time revenues shall be used only for one-time expenditures"
  - Page #20 of 2016 Adopted Budget Plan
  - Fund Balance is a one-time revenue source
    - One it is spent it is gone
    - However, keep in mind the prior years financial performance trend of the General Fund
      - Consistently over budget on revenues / under budget on expenditures
      - Even if the City budgets \$0 to/from General Fund Balance, chances are there will be funding contributions into the General Fund Balance at the end of the year
      - Thus, even though General Fund / Fund Balance balances may be depleted in one year – it will more than likely be replenished into future years using the forecasting model as no use of General Fund / Fund Balance is forecasted into the future
- What is an acceptable "one-time expenditure"
  - Essentially a "one-time expenditure" = Capital Project
  - When determining which capital project(s) to pursue staff refers back to City Council Goals and Objectives
    - Council Goals & Objectives are reaffirmed each year at the beginning of the budget cycle
    - #1 Goal = Public Safety
      - Protect the residents, businesses, and visitors of Rochester Hills by providing high quality public safety.
    - #2 Goal = Infrastructure
      - Provide reliable, safe, and effective infrastructure (roadways, utilities, buildings, etc...) throughout the City.
  - Renovation of aging and ineffective Fire Stations is in line with City Council's top two (2) Goals
    - Structure of proposed Fire Stations should last approximately 50-years
      - Components (windows, roofs, parking lots, etc...) have shorter life-spans
    - The next replacement of these proposed Fire Stations Renovations will be funded by Facilities Fund

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- Funded through Interfund-Facilities charges which incorporate annual fire station depreciation charges into an allocated annual cost to (206) Fire Department Fund
- Bottom line = Next Fire Station upgrade (or component replacements) will be funded by depreciation dollars contributed to the (631) Facilities Fund by the (206) Fire Department and not via another (101) General Fund balance contribution

### Should we wait on the Fire Station renovation?

- Current interest rates for the City are approximately 0.25% (one-quarter of one-percent)
  - \$1M invested in City coffers would generate approximately \$2,500 in one-year
    - Increase of \$2,500 per \$1M
- Current market construction costs are increasing anywhere between 5 – 10% per year
  - \$1M construction project would cost approx. \$1.05M - \$1.1M in one-year
    - Increase of \$50k - \$100k per \$1M
- City loses purchasing power each year it waits on construction
  - \$11.8M invested in City Coiffers would generate approx. \$30k in one-year
    - Increase of \$30,000
  - \$11.8M construction project could cost approx. \$12.4M - \$13.0M in one-year
    - Increase of \$600k - \$1.2M increase per-year
- Fire Station renovation projects could increase between \$600k - \$1.2M per year
- Sitting idle could cost the City between \$570k - \$1.17M more each year

### How does Administration Propose to Fund the Entire Fire Station Project if at \$11.8M?

- It may be helpful to explain the “thought process” behind establishing the funding for the original project at \$6.8 million
  - First = Use Fire’s accumulated depreciation within Facilities Fund (631) = **\$2.2M**
    - This is not a larger amount, as fire stations are depreciated at their original cost
    - These are very old stations with less square footage = Lower Costs
  - Next = Draw from CIF (420) Fund = **\$2.3M**
    - Utilize nearly all “un-designated” fund balance
      - If G/F wishes it can always contribute funding to CIF in the future
  - Next = Where to get additional **\$2.3M**
    - (a) Fire Capital Fund (402)
      - Not selected as may be future fund balance issues (long-term)
    - (b) Fire Operating Fund (206)
      - Fund balance at 40% [additional \$2.0M above minimum]
      - Not selected as may be needed to assist Fire Capital Fund (402)
    - (c) General Fund (101)
      - Selected as best funding option as it has a healthy fund balance and is able to contribute to project
    - Reminder = Cannot take from Major Roads or Water/Sewer as these funds cannot be used to Fire Stations
  - **Current \$6.8M Budget Contributed By:**
    - General Fund (101) = \$2.3M = From Fund Balance
    - Capital Improvement Fund (420) = \$2.3M = From Fund Balance
    - Facilities Fund (631) = \$2.2M = From Fund Balance

## Fire Station Renovation Project: Funding Options

- **Total Fire Station Budget / Current = \$6.8M**
- **“If”** the initial estimate from the Architect (back at the very beginning of this process) were \$11.8M, the thought process by Administration would not have changed significantly, but alternative options would have been most likely included
  - **Funding Proposal #1 = \$11.8M Total Project**
  - First = Facilities (631) Fire Accum. Depreciation = \$ 2.2M = From Fund Balance
  - Next = CIF (420) fund balance = \$ 2.3M = From Fund Balance
  - Next = Fire Fund (206) excess fund balance = \$ 2.0M = From Fund Balance
  - Next = General Fund (101) for remainder = \$ 5.3M = From Fund Balance
  - **TOTAL Fire Station Budget “If” at \$11.8M = \$11.8M**
- The net difference between current budget and what would have been proposed in an additional \$5.0M to be split between
  - \$2.0M more from Fire Fund (206)
  - \$3.0M more from General Fund (101)
  - If Funding Proposal #1 is selected, Fiscal shall as part to the 2016 1<sup>st</sup> Quarter Budget Amendment propose the following amendments
    - General Fund:
      - Increase the Transfer-Out to the Facilities Fund by \$3.0M
      - Increase the Use of Fund Balance in the General Fund by \$3.0M
    - Fire Fund
      - Increase the Transfer-Out to Facilities by \$2.0M
      - Increase the Use of Fund Balance in the Fire Fund by \$2.0M
    - Facilities Fund
      - Increase the Transfer-In from the General Fund by \$3.0M
      - Increase the Transfer-In from the Fire Fund by \$2.0M
      - Increase the Capital Project Budget by \$5.0M

### **How else could Administration Propose to Fund the Entire Fire Station Project if at \$11.8M?**

- There was concern from City Council regarding taking \$5.3M in funding from the City’s General Fund (or an additional \$3.0M on top of the \$2.3M already committed)
  - Administration has listened to those concerns, but simply decreasing other expenditures within the General Fund by the amount needed can not be managed without significantly reducing personnel costs – which in the end means laying off staff, which will negatively impact the level of service provided to the community
- The City “could” decrease the FY 2016 transfer-out to the Local Street Fund by \$3.0M and in turn “redirect” that \$3.0M to the Fire Station Renovation project
  - This option would have no impact on General Fund / Fund Balance as adopted
  - This option would decrease the contribution to the Local Street Fund by \$3.0M
  - If this option is chosen, City Council has two (2) choices relating to the FY 2016 Local Street Construction program
    - 1.) Decrease the 2016 Local Street Reconstruction program from \$5.25M to \$2.25M or
    - 2.) Keep the 2016 Local Street Reconstruction program at \$5.25M and the draw \$3.0M from Local Street Fund / Fund Balance
  - 12/31/2014 Local Street / Fund Balance = \$6.7M
    - 2014 Local Street / Fund Balance “coverage” = 67%
    - Use of \$3.0M will decrease Local Streets to = \$3.7

## Fire Station Renovation Project: Funding Options

- Use of \$3.0M / Fund Balance “coverage” = 37%
  - Still well above 20% Fund Balance policy established by City Council
- Bottom line = Still utilizing \$3M from fund balance
  - Just from Local Street Fund (203) and not from General Fund (101)
  - There is “some” advantage to this method (if chosen) as Local Street Fund Balance can only be used for Local Streets [it cannot be spent or allocated citywide]
  - This would “maintain” more General Fund Balance which can be used citywide
    - If at some point in the future Local Street Fund (203) needed additional funding, General Fund could contribute to Local Street Fund (203) or any other fund that may require funding.
- **Funding Proposal #2 = \$11.8M Total Project**
- First = Facilities (631) Fire Accum. Depreciation = \$ 2.2M = From Fund Balance
- Next = CIF (420) fund balance = \$ 2.3M = From Fund Balance
- Next = Fire Fund (206) excess fund balance = \$ 2.0M = From Fund Balance
- Next = General Fund (101) for remainder = \$ 5.3M = From Fund Balance
- **TOTAL Fire Station Budget “If” at \$11.8M = \$11.8M**
- If Funding Proposal #2 is selected, Fiscal shall as part to the 2016 1<sup>st</sup> Quarter Budget Amendment propose the following amendments
  - General Fund:
    - Reduce the General Fund Transfer-Out to the Local Street Fund by \$3.0M
    - Increase the Transfer-Out to the Facilities Fund by \$3.0M
      - No additional funding would be required from the General Fund
  - Local Street Fund
    - Reduce the Transfer-In from General Fund to the Local Street Fund by \$3.0M
    - Increase the Use of Fund Balance in the Local Street Fund by \$3.0M
  - Fire Fund
    - Increase the Transfer-Out to Facilities by \$2.0M
    - Increase the Use of Fund Balance in the Fire Fund by \$2.0M
  - Facilities Fund
    - Increase the Transfer-In from the General Fund by \$3.0M
    - Increase the Transfer-In from the Fire Fund by \$2.0M
    - Increase the Capital Project Budget by \$5.0M