



2011 PROPOSED BUDGET MESSAGE

August 9, 2010

Dear President Hooper, Vice President Pixley, Council Members and Residents of Rochester Hills:

Good evening! As prescribed in our charter, I address you this evening to deliver the 2011 Proposed and the 2012 and 2013 Projected Budget. Tonight marks an important stop on a very long and sometimes grueling journey. We all know that our nation, our region and even our city has experienced unprecedented economic challenges. These challenges have required us to think more strategically, dive deeper, and ultimately thoroughly examine every service we provide. While this process at times has been uncomfortable, it has also provided us an opportunity to evaluate ourselves and our operations in search of greater efficiencies.

Last year, I introduced the concept of a 2 year budget, and I believe the lessons we all learned helped us better prepare for our future. Tonight, we continue to demonstrate leadership by being one of the first in Oakland County to present to City Council and the Citizens of Rochester Hills, a three (3) year budget plan covering Fiscal Years 2011, 2012 and 2013. This proactive approach will enable us to see the challenges and opportunities that lie ahead and will allow us to become more resourceful and more strategic in our approach. The budget document being presented to you tonight has been visualized, assembled, debated, reassembled and debated again; it's the culmination of hundreds of hours of preparation. All of this, of course, at the administrative level and absent the vitally important public discussion this administration and this process welcomes. Tonight, we formally deliver the 2011 Proposed Budget and the 2012 and 2013 Projected Budget for our residents to review and for City Council's eventual approval.

The budget process is guided by two principles found at the beginning of the budget plan document. The first is the City's "Vision Statement" which charges us to be:

The community of choice for families and business

The other is the "Mission Statement" that directs the Rochester Hills city government:

*To sustain the City of Rochester Hills as the premier community of choice to live,
work and raise a family by enhancing our vibrant residential character
complemented by an attractive business community*

With those principles as our guideposts, we recognize that we will continue to face the challenges of delivering quality services to our citizens with reduced funding sources. The current downturn in housing and resulting falling taxable values, continued high levels of unemployment, and rising health care costs pose new budgeting and forecasting challenges.

John F. Kennedy once said “Change is the law of life and those who look only to the past or present are certain to miss the future.”

Concern for the future was at the front of our minds when preparing this budget; Concerns about our financial stability, our services and service delivery, and certainly our employees. Over the past 3 years, we have gone through significant, but necessary restructuring. This constant flux has resulted in tremendous anxiety and has stressed our work environment considerably. Therefore, in preparing this budget, I made a concerted effort to make the vast majority of personnel decisions needed to sustain the continued downturn in the 2011 budget. This will give our employees, the people who deliver all of the services we pride ourselves in delivering, a sense of stability and direction.

We felt that making reductions in 2011 just to meet 2011 requirements would be short sighted. It would also add a large amount of unnecessary uncertainty to service delivery and to our most valuable resource- our team of employees.

With that in mind, I present to you tonight a budget approach that proposes services that we can deliver within our limited resources as we move into FY2011.

THE FY2011 PROPOSAL

The FY 2011 Proposed Budget proposes to set the City of Rochester Hills’ total tax (millage) rate at 9.7060, the same rate as FY 2010. If approved, this would mark the twelfth consecutive year that the millage rate has not increased, without the vote of the residents and will put us at one of the lowest millage rates of cities in Oakland County (with a population over 5,000) as reported by Oakland County Department of Equalization.

Again this year, we are proposing to *not* levy an administrative fee for the City’s assessing and tax collection services (as over 75% of Oakland County cities currently do). This will leave approximately \$1.2 million in the pockets of Rochester Hills residents and business.

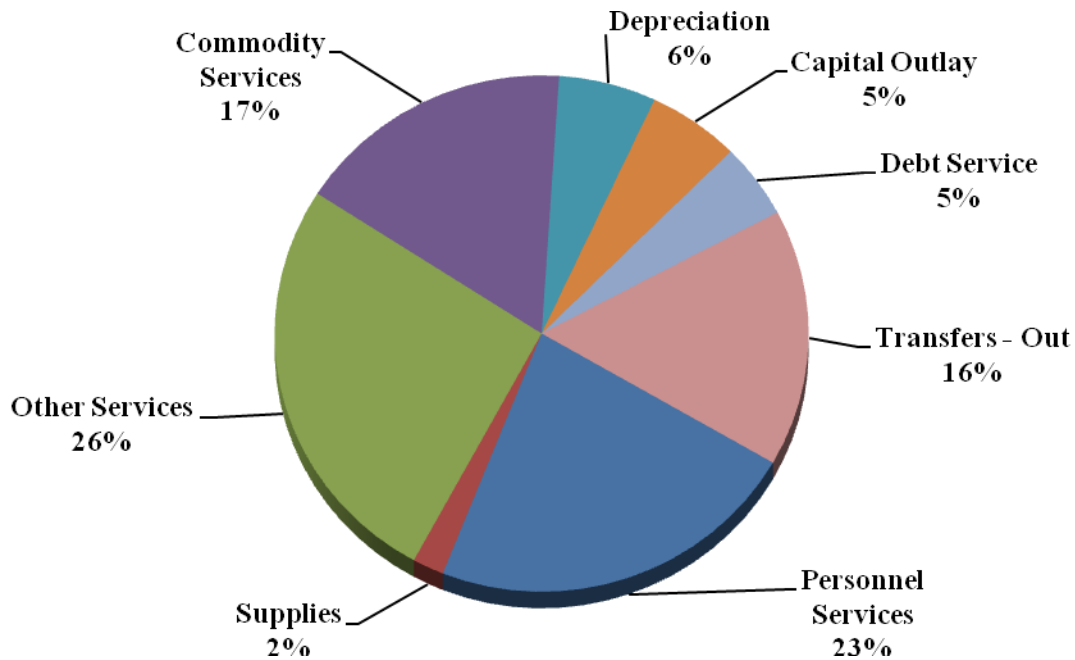
The net affect of declining residential and commercial property values has resulted in taxable values declining about 11.3% for fiscal year 2011 with taxable values totaling approximately \$3.2 billion. For another year, there will not be a Headlee roll back of the city’s millages, as the rate of inflation exceeded taxable value growth. In other words, and this is important, the FY2011 proposed budget manages inflationary cost increases with less funds than it had available last year by continuing to refine and improve the way services are delivered.

Expenditures

The FY2011 Budget proposes city-wide expenditures of \$ 101,330,190, a decrease of 11.8% from the 2010 *Amended* Budget. Most of the reductions are in the area of personnel services, transfers to other funds and capital projects. The \$101,330,190 proposed budget provides for:

- \$23.1 million or 22.7% for personnel costs
- \$17.2 million or 16.9% toward commodity charges for water purchases and sewage disposal charges

- \$26.6 million or 26.2% for other charges such as professional, contracted police services (\$8.4 million), etc.
- \$16.1 million or 15.9% for transfers-out to city funds
- \$5.7 million or 5.6% for capital projects and capital equipment
- \$4.8 million or 4.7% for debt service Commodity Services
- \$6 million or 5.9% toward asset depreciation and
- \$1.9 million or 1.9% for various supplies



Governmental Funds: The complexity of municipal finance can sometimes obscure the big picture. One way to achieve a clearer understanding of the city’s financial direction is to isolate the governmental funds. These are the funds where tax dollars are spent and where the city has the greatest discretion in budgetary decision-making. The table below summarizes recent expenditures in governmental funds. It illustrates that we are taking reductions in expenditures despite inflationary pressures in health care costs.

Expenditures: Governmental Funds

FY	Millions	% Change
2009 Actual	\$ 68.2	
2010 Amended	\$ 65.1	-4.5%
2011 Proposed	\$ 56.1	-13.8%
2012 Projected	\$ 52.8	-5.9%
2013 Projected	\$ 54.1	2.5%

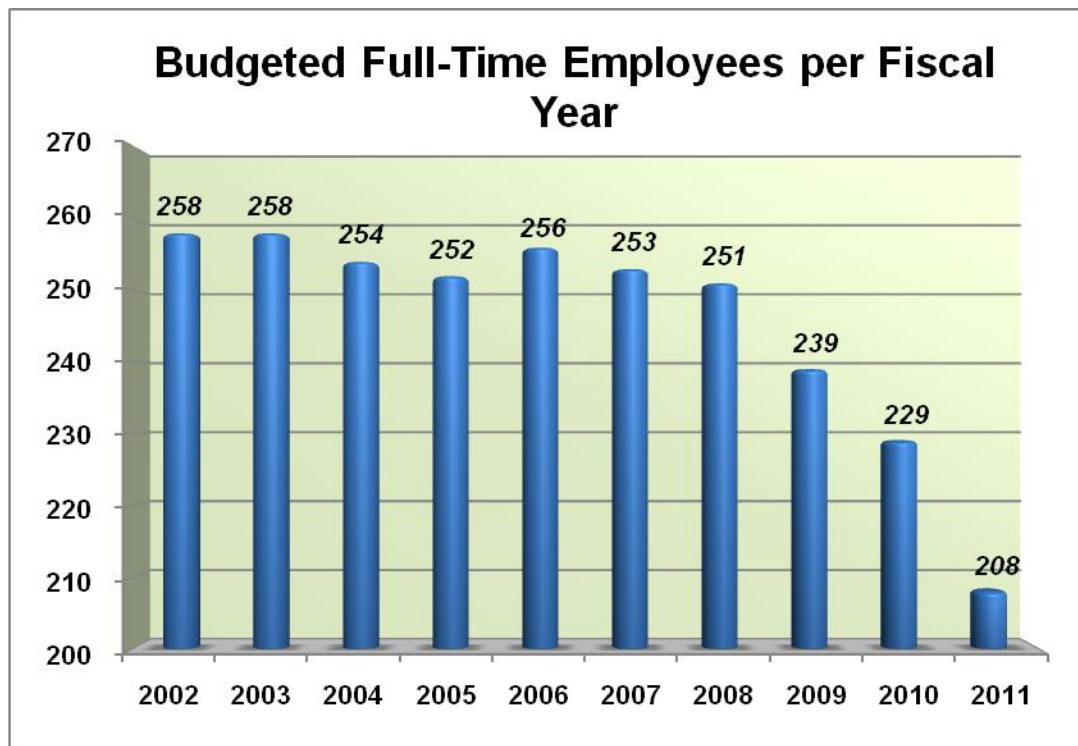
Personnel Costs - Recognizing the struggles of the region’s economy, the city has actively moved to bring personnel costs in line with available funding. In fact, with our three year

approach to budgeting as previously mentioned, deeper cuts than necessary were made in 2011 as we plan for not only FY 2011 but for FY 2012 and FY 2013.

These are the toughest decisions a leadership team can make but our forecasts demand we be proactive and not reactive. Therefore, the proposed 2011 budget provides for over \$1.96 million reduction in total personnel costs over the amended 2010 budget and since 2006, represents a 18.8% reduction in budgeted positions. The personnel cost containment is possible due to the continued reduction in budgeted overtime and the elimination of twenty-one (21) budgeted positions. The city now has 208 full-time positions, approximately a 9.2% reduction in the city's staff, from 2010 and puts us below 1998 levels.

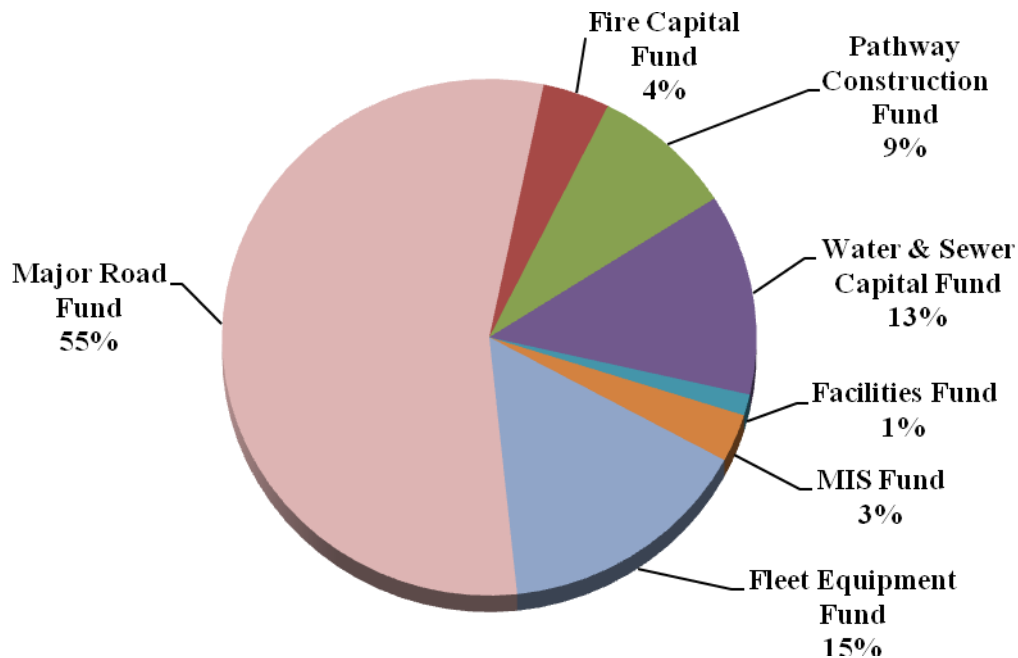
In addition to reductions in city staff, we are also proposing reductions in our contracted Oakland County Sheriff's staff. To help offset the fall in taxable value and an anticipated 2.5% contracted police rate increase from the Oakland County Sheriff's Office, the police services budget reduced (2)- Deputy II positions and (1) -Patrol Investigator deputy position.

The following graph shows the city's effort to bring personnel costs in line with available funding:



Capital Projects - It continues to be a city goal to timely replace capital infrastructure in an effort to maintain property values, quality of life and uninterrupted services to Rochester Hills' residents and businesses. Capital projects, just like staffing levels, are being proposed based on

available funding levels. The \$5.7 million for capital projects are recommended to be funded by cash on hand in FY 2011.



The following are capital projects proposed from the FY2011-2016 Capital Improvement Plan (CIP):

Over \$3.116 million, or 55% of the citywide capital budget, is slated for major road work, reflecting its high priority with city residents (according to the 2009 City Survey). Proposed projects include:

- *MR-03A: Major Road – Concrete Slab Rehabilitation Program*
- *MR-03B: LDFA – Road Rehabilitation Program*
- *MR-04A: Walton Boulevard Rehabilitation*
- *MR-05E: Adams Road Rehabilitation*
- *MR-12: Major Road Traffic Calming Program*
- *MR-14: Washington Road Paving [Tienken Road – Dequindre Road]*
- *MR-27: Major Road Bridge Rehabilitation Program*
- *MR-42C: M-59 Rehabilitation [Adams Road – Crooks Road]*
- *MR-42D: M-59 Sound Barrier Installation (Federal Project Share)*
- *MR-43: Rain Tree Drive*

The Fire Capital Fund includes \$230,000 for the following project:

- *IS-04A / Turnout Gear Replacement Schedule = \$230,000*

Pathway improvements include \$490,000 for:

- *PW-01 / Pathway Rehabilitation Program*
- *PW-43 / Rain Tree Drive Pathway [Adams Road – Firewood Drive]*

Approximately \$715,000 for water and sewer infrastructure work is proposed. Projects include:

- *WS-25B = South Boulevard Water Main Replacement [Livernois Road – Rochester Road]*

Facility Improvements of \$75,000 include:

- *FA-11 ADA Compliance Implementation*
- *FA-02G Fire Station #1 / Parking Lot Drainage Improvements*
- *FA-13J Fire Station #4 / Concrete Apron Replacement*

The Fleet Fund is proposing to purchase \$876,000 of replacement equipment.

- *IS-05A Citywide Fleet Replacement Schedule*

Management Information technology amounting to \$170,000 is proposed. That activity includes:

- *IS-02B City Website Update*
- *IS-10B Computer Network Upgrade Schedule*
- *IS-12B Financial Software System Enhancements*

Revenues

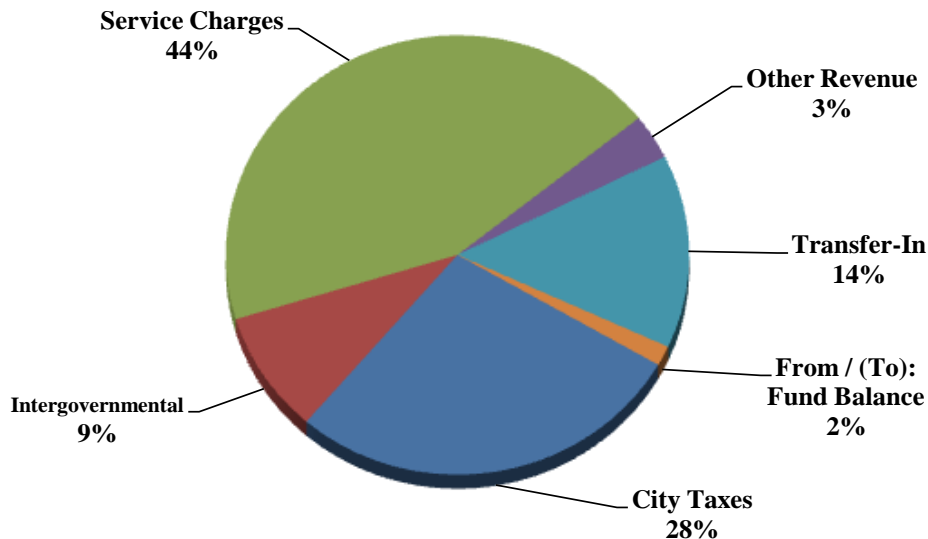
To offset the proposed 2011 city service levels and their related expenditures, the 2011 Proposed Budget is recommending city-wide revenues at \$99,842,000, an 8.9% reduction from the 2010 Amended Budget, and the use of \$1,488,190 for capital related projects.

As all of us are aware, property tax revenues are falling, state shared revenue and Act 51 (road funding) are also estimated to decline, and revenues from the general charges for city services are also decreasing. The proposed 2011 budget along with the 2012 and 2013 projected budgets have taken a conservative approach to forecasting revenues. Revenues drive the services we can deliver and we believe by taking a conservative approach to revenue forecasting, we ensure that the services we are proposing are within our revenue resources.

This approach has served the city well over the past several years. You may remember the report we received from the city's external auditor in May. In their independent report they showed that the city was clearly in the top percentile of other Oakland County communities when it came to managing its resources, and we intend to uphold that ranking. With the support of city administration, city council, the guidance from our residents, Rochester Hills will continue to be the leader throughout Oakland County.

The following list highlights our most significant projected revenue sources:

- \$44.5 million or 44% from City service charges
- \$28.2 million or 28% derived from taxes
- \$14.4 million or 14% represent transfers from other funds
- \$9.1 million or 9% from state, federal and other sources
- \$2.6 million or 2% from fines, licenses and permits
- \$1.0 million or 1% from investment earnings, licenses, fines and other revenue
- \$1.5 million or 1% From/(To) Fund Balance



Taxable property values are declining by 11.3% for fiscal year 2011. That taxable property value decline translates into a property tax revenue decline of \$3.8 million or 11.8% in 2011.

State Shared Revenue (sales tax) is proposed to decline by over \$225,000 or 5% in 2011. Act 51 revenue (supported by the gas tax and vehicle registration) is proposed to decrease by 2% in 2010 or over \$37,000 based on the assumption that less gas will be purchased due to less driving. Licenses and Permits are projected to decline slightly due to conservative assumptions for economic recovery in the state of Michigan and investment earnings are projected to decrease due to a decline in projected interest rates.

This evening, I am pleased to report that unlike many communities and school districts in Oakland County, Metro Detroit and Michigan, we are not proposing the use of General Fund Unassigned fund balance as a revenue source to balance our ***operating expenditures***. Any proposed use of fund balance(s) in FY 2011 is related to improving the city's infrastructure through capital projects (Major Roads, Pathway Construction, etc.).

Detailed explanations for these proposed revenues and expenditures, in addition to noteworthy comments, can be found within each department's "significant notes" section in the Budget Plan Document.

2010 ACCOMPLISHMENTS

I am proud to announce a partial list of this year's accomplishments as follow:

- The City's Single Trash Hauler, started in April of 2009, provides residents with both trash and recycling services. For the first 28 weeks of 2010, reports indicate that more than 3,391 tons of material has been recycled and diverted from landfills. To put value on that number for each ton of material that is recycled 10 trees are saved, 668 gallons or 16 barrels of oil is not used and 4,215 gallons of water are conserved. So far in 2010 we have saved 33,910 trees, 54,256 barrels of oil and 14,293,065 gallons of water. Not bad for about half a year of recycling. Not to mention the \$3.3 million staying in residents pockets over the last 18 months!
- Over \$2 million of Major Road reconstruction is underway throughout the City covering concrete slab replacement, Walton Blvd., Technology Dr., East Nawakwa Rd. and M-59.
- The rebuilding of Hamlin Road (Crooks Road - Livernois Road) is nearing completion and should be opening very soon.
- Construction of the new Cemetery Chapel has been completed and is now available for families and guests.
- The OPC Building Bonds, the City Hall Building Bonds and Water and Sewer Bonds were refinanced saving the City approximately \$1.3 million on future debt payment.
- The Fire Department will be replacing it 3 Heart Monitors and two fire suppression trucks and trailers.
- The Water and Sewer Capital Fund is continuing its sewer Rehabilitation Program and several improvements to its pump stations.
- The city's adopted Debt Management Policy received national Certification from Association of Public Treasurers Untied States and Canada (APTUS&C).
- The city was recognized by GFOA winning our 14th consecutive Distinguished Budget Presentation Award, for the City's 2010 Budget document. Rochester Hills is one of only twenty cities in Michigan that received this award.
- Our Purchasing Division received its seventh consecutive Achievement of Excellence in Procurement Award. Only 59 cities in the United States received this honor this year.
- We successfully hosted the 2010 Festival of the Hills Fireworks (the weather couldn't have been better). It is one of the largest fireworks display in the state and it is completely funded by private donations.

- The city has also been able to secure eleven federal and state grants totaling \$1,989,700, in addition to the several other applications lined up to submit the second half of this year.
- The employee's Safety Committee, and their work-place safety improvements, has continued to show a reduction in worker's compensation insurance premiums, saving the City approximately a additional \$60,000 to their previous years savings of \$100,000.
- The employee's Wellness Committee raised employee awareness of the importance of living healthier, with 73% of eligible employees participating in the health screening program and 100% of those went on to complete the Health Risk Questionnaire. A healthy work force will positively affect attendance, productivity, and our health care costs.
- Despite a weak but stabilizing economy, economic development activity has become very brisk in 2010. Development activity is moderate with the recent completion of the 30,000-square-foot Karmanos/Crittenton Cancer Center and 156,000-square-foot Meijer store. In the southeast corner of the city, the 100,000-square-foot Beaumont Wellness Center is under construction. Residential permits for new construction are on the rise as well. Leasing activity in the city's industrial and high-technology parks has increased, and by mid-year, seven new companies had moved into the community, creating 639 jobs. In addition, three existing companies with expiring leases chose to remain in the city, retaining 224 jobs. The city's unemployment rate at 7.8% has dropped by a half percentage point over the first six months of 2010 and remains the lowest rate in Oakland County.

And frankly, the list goes on and on.

CONCLUSION

As you can see, 2010 is proving to be a very successful year full of proud accomplishments and ambitious plans. As you review our proposed 2011 budget, and our projected 2012 and 2013 budgets, you will notice that we have reduced expenditures and related services to meet our revenue streams. We have forecasted that our City-wide revenues for 2011 will go down by 8.9% and we have reduced our expenditures by 11.8%. We clearly are proposing to live within our means and are poised to meet the challenges that lay ahead of us.

Harry Truman once said, "A pessimist is one who makes difficulties of his opportunities and an optimist is one who makes opportunities of his difficulties."

The essence of leadership is to have the vision and ability to identify and capture opportunities. Even during the height of one of this country's worse recessions, there still are opportunities in front of us. There are opportunities to retain and recruit new businesses to our community, and opportunities for better and more efficient ways to deliver services to our customers.

Despite some tough economic punches, our administration remains very optimistic about our current position, our proposed plan, and our community's outlook for the future. The administration appreciates Council's leadership, support, creative thinking, debate and dialogue in so many of our endeavors. Our success is a shared success, and we now invite the Council's full participation in crafting our final FY 2011 Proposed Budget and 2012 and 2013 Projected Budgets to help guide us into the future. As elected representatives, your critical thought, collective voice, and eventual support are vital as we strive to move our city forward and meet the challenges that lay ahead of us. As you know, these projected budgets not only serve as a financial plan, but also as a policy document, operations guide, and communications device to our residents for the next fiscal year and beyond.

As we head into our budget workshops, if you should have any questions or need any related information, please don't hesitate to contact myself or the city's Finance Director. It would help with our discussions to have those questions or requests in advance of the workshop sessions.

I would like to thank the City Council for their dedication in communicating their goals and objectives that have guided the administration in preparing this budget. We look forward to the discussions ahead and commit together our shared vision of making Rochester Hills the community of choice to live, work and raise a family. I look forward to our Budget Workshops on August 16 and 23.

Respectfully submitted,

Bryan K Barnett, Mayor
City of Rochester Hills