

2010 PROPOSED BUDGET MESSAGE

August 3, 2009

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

Good evening! As described in our charter, I address you this evening to deliver the 2010 Proposed and the 2011 Projected Budget. Tonight marks an important stop on a very long and sometimes grueling journey, but we are not yet at our final destination. Our nation, our region and even our city has experienced unprecedented economic challenges. This City's administration continues to demonstrate its leadership by being one of the first in Oakland County to present to City Council and the Citizens of Rochester Hills, for their consideration, a two (2) year budget plan covering Fiscal Years 2010 and 2011. This proactive approach will enable us to see the challenges and opportunities that lie ahead and will allow us to become more efficient. 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 2010 Proposed Budget and the 2011 Projected Budget for our residents to review and for City Council's eventual approval.

The FY 2010 Proposed Budget and the 2011 Projected 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

These two principals must continue to guide us as we move forward in this process.

The Rochester Hills' City administration continues to be faced with the challenge of delivering quality services to our citizens with reduced funding sources. The current housing crisis, instability with domestic automakers, and rising health care costs pose new budgeting and forecasting challenges.

William Feather once said "If we do not discipline ourselves the world will do it for us."

Clearly falling housing values, rising (state) unemployment and an economy in recession is putting pressure on us to discipline our spending, look hard and long at the services we are delivering and to focus our attention on delivering the best we can with the resources we have available.

With that in mind, I present tonight a conservative and disciplined approach as we move into FY 2010. Perhaps the entire crux of this message is captured in the next three sentences.

THE FY 2010 PROPOSAL

The FY 2010 Proposed Budget proposes to keep the City of Rochester Hills' total tax (millage) rate at 9.7060, the same as FY 2009. If approved, this would mark the eleventh consecutive year that the millage rate has not increased without the vote of the residents, and will put us at the lowest millage rate of Cities in Oakland County (with a population over 5,000).

Again this year, we are proposing to levy a millage rate below the City's authorized amount and to *not* levy an administrative fee for the City's tax collection services (as 75% of Oakland County cities currently do). These two measures will leave approximately \$2.3 million in the pockets of Rochester Hills's residents and businesses.

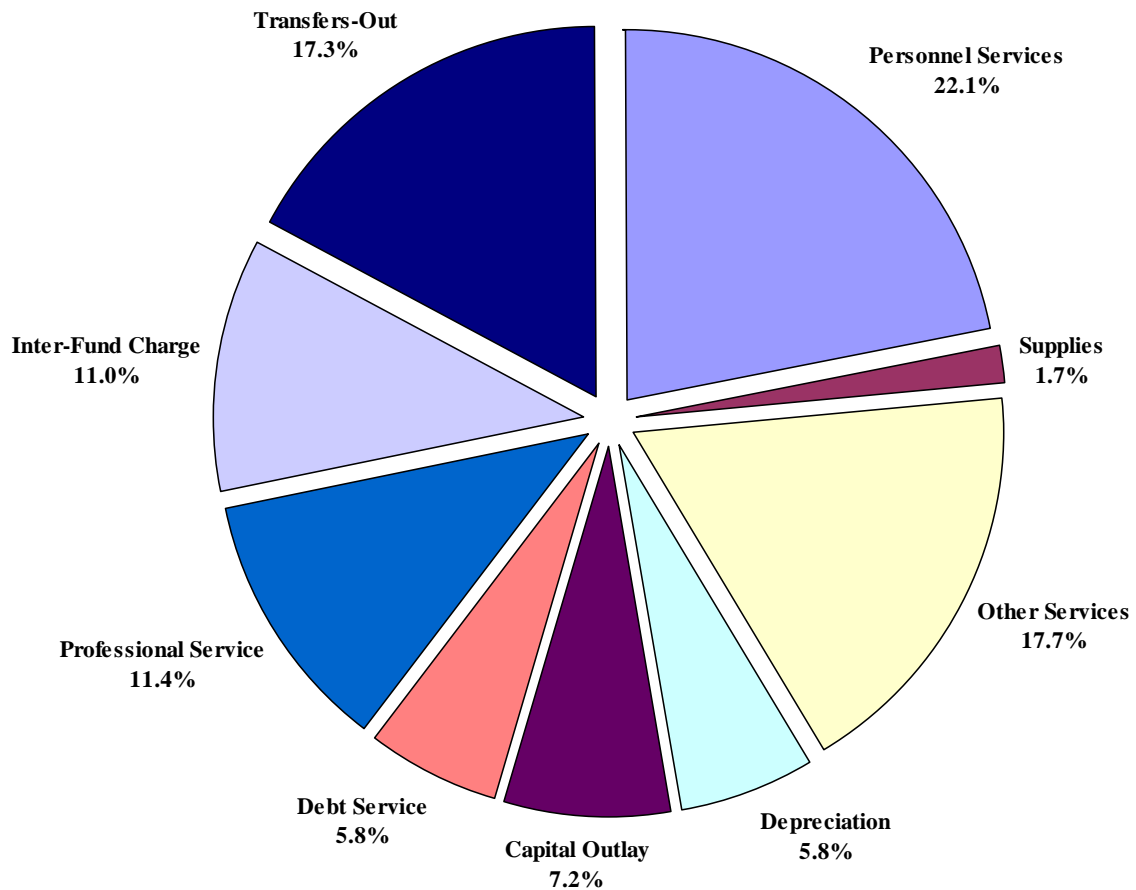
The net effect of declining residential and commercial property values has resulted in taxable values declining about 3.8% this year with taxable values totaling approximately \$3.6 billion. For another year, there will not be a Headlee roll back of the City's millages, as the rate of inflation exceeded taxable value growth. In other words, and this is important, the FY 2010 proposed budget manages inflationary cost increases with less funds than it had available last year by continuing to improve the way services are delivered.

Expenditures

The FY 2010 Budget proposes Citywide expenditures, of \$113,308,040, a decrease of 10.8% from the 2009 *Amended* Budget. Most of the reductions are in the area of personnel services and capital projects. Of the \$113,308,040 budgeted, \$17,771,230 (net of the transfer to OPC and RARA) is proposed to be transferred between city funds and \$12,472,390 is budgeted for interfund charges. This means that \$83,064,420 is leaving the City's coffers. Real expenditures are down 10% relative to the FY 2009 Amended Budget. The \$113,308,040 budget provides for:

- \$25.0 million or 22.1% for personnel costs
- \$20.0 million or 17.7% toward Other Expenses, such as water and sewage disposal purchases (\$17.7 million)
- \$12.5 million or 11.0% interfund charges
- \$12.9 million or 11.4% for professional charges such as, contracted police services (\$8.4 million)
- \$19.6 million or 17.3% for transfers-out to city funds
- \$8.2 million or 7.2% for capital projects and capital equipment
- \$6.6 million or 5.8% for debt service
- \$6.6 million or 5.8% toward asset depreciation and
- \$1.9 million or 1.7% for various supplies

FY 2010 All Funds Summary = Expenditures



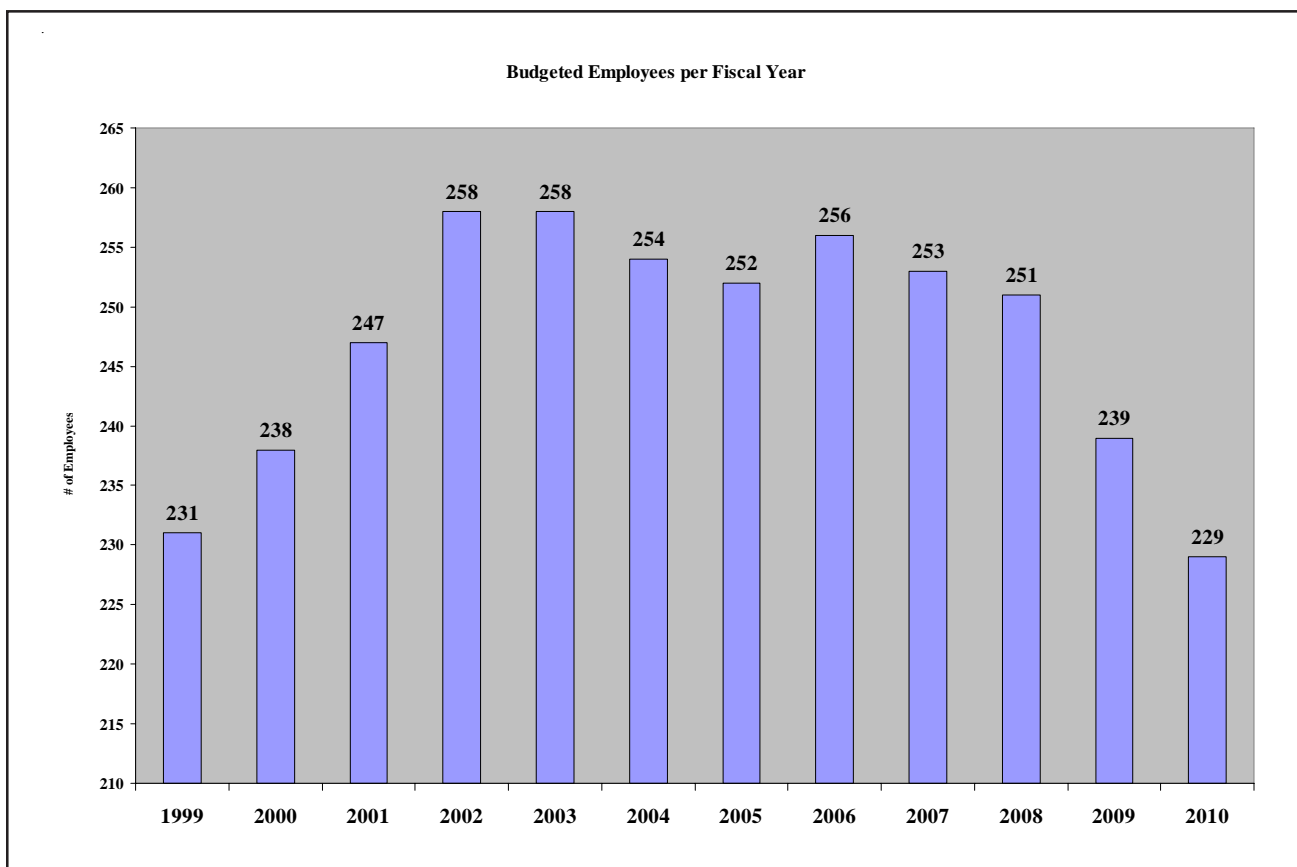
Governmental Funds: The complexity of municipal finance can sometimes obscure the big picture. One way to achieve a clearer understanding of the City’s financial direction is to isolate the governmental funds. These are the funds where tax dollars are spent and where the City has the greatest discretion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

Expenditures: Governmental Funds		
FY	Budget (millions)	% Change
2008 Actual	\$ 59.1	
2009 Amended	\$ 60.5	2.4%
2010 Proposed	\$ 50.7	-16.2%
2011 Projected	\$ 46.9	-7.5%

Personnel Costs - Recognizing the struggles of the region's economy, the City has actively moved to bring personnel costs in line with available funding. These are the toughest decisions a leadership team can make, but our forecasts demand we be proactive and not reactive. As such, the proposed 2010 budget provides for a almost \$1 million reduction in total personnel costs over the amended 2009 budget and since 2006, represents an 11% reduction in budgeted positions. The personnel cost containment is possible due to the reduction in budgeted overtime and the elimination of ten (10) equivalent full time budgeted positions. The City now has 229 staffing positions, and puts us below 1999 staffing levels. The result of this ten (10) equivalent full time position reduction is savings of almost \$1 million annually.

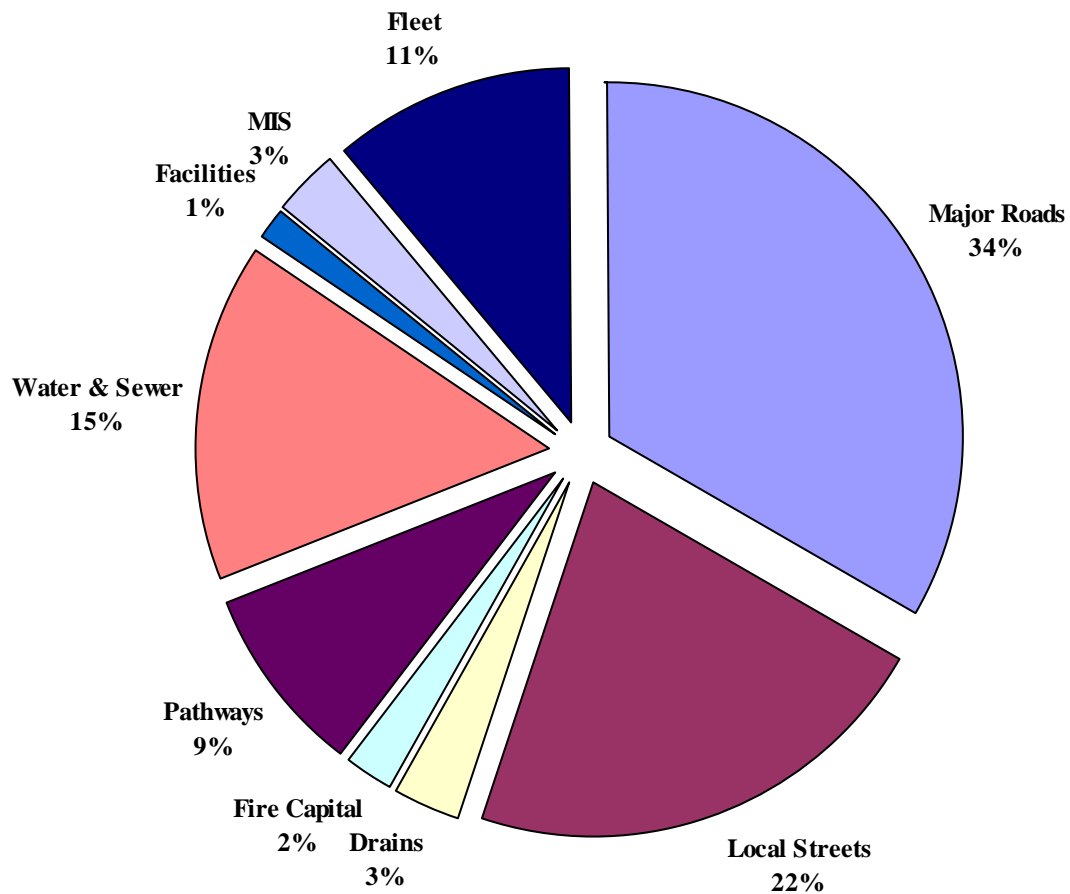
To help partially offset the anticipated contractual increases from the Oakland County Sheriff's Office, the Detective Sergeant position for the school liaison program was eliminated.

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. \$8.2 million for capital projects are proposed to be funded by cash on hand in FY 2010.

2010 Proposed Capital Outlay by Type



The following is a partial list of capital projects proposed from the FY 2010-2015 Capital Improvement Plan (CIP):

- Storm water/drain improvements for Karas Creek Bank Stabilization and Clinton River Channel Restoration are budgeted at \$230,000.
- Pathway improvements along Tienken Road, John R and Rain Tree Drive as well as city-wide pathway rehabilitation are proposed for \$720,500.
- Approximately \$1.26 million for water and sewer infrastructure work is proposed. Projects include: the sanitary sewer rehabilitation program, the Grant St. pump station reconstruction, and various building improvements.
- Nearly \$2.728 million or 34.4% of the citywide capital budget is slated for major road work, reflecting its high priority with City residents (according to the 2007 City Survey). Proposed projects include M-59, Technology Drive, East Nawakwa, John R Road, continuation of the traffic calming program; and Adams Boulevard irrigation. This proposed budget also includes \$536,250 for major road concrete slab replacement.

- \$4.9 million is proposed to be transferred from General Fund to the Local Street Fund to support local street maintenance operations and capital projects. Capital Projects include a citywide asphalt rehabilitation program for \$625,000, citywide concrete slab replacement program for \$1.125 million and a traffic calming program for \$25,000. In total, \$1.775 million will be spent for local street construction.
- Building Improvements include new LED light upgrades totaling \$36,000 and a communication center telephone upgrade for \$40,000.
- Two (2) Fire Department vehicles are being proposed for \$78,000. In addition, a breathing apparatus test unit is also being proposed.
- The Fleet Fund is proposing the purchase of much needed replacements that will enable us to provide better service to our residents.
- Mowers, tractors, trailers and various smaller fleet equipment is also being proposed.
- Information technology amounting to \$255,000 is proposed. That activity includes a Website upgrade, a network upgrade and financial functionality enhancements.

Other Proposed Costs

In addition to changes to Personnel Costs, the Proposed 2010 Budget also proposes a conservative and proactive approach to controlling our Other Costs.

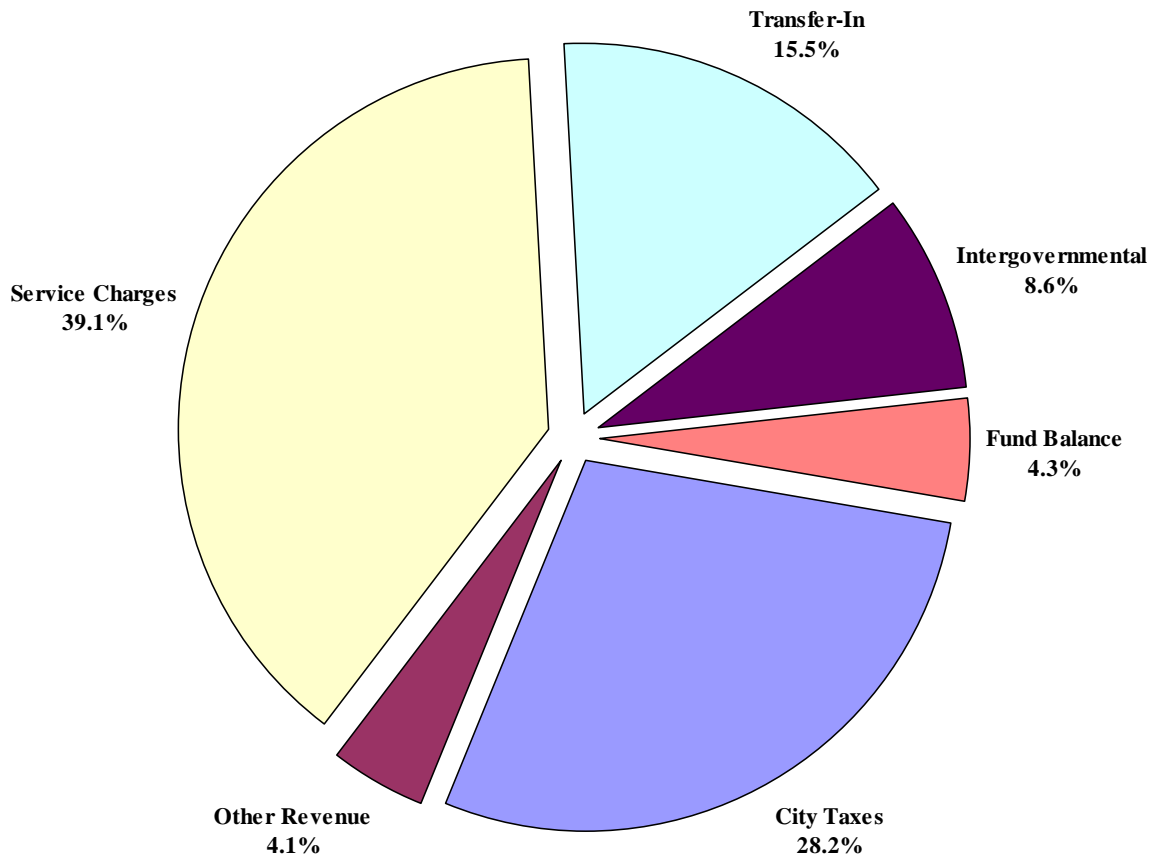
Revenues

To offset the proposed 2010 City service levels and their related expenditures, the 2010 Proposed Budget is recommending Citywide revenues at \$113.3 million, a 6.5% reduction from the 2009 Amended Budget.

As all of us are aware that property tax revenues are falling, that state shared and Act 51 (road funding) revenues are predicted to decline and our revenues from the general charges for City services are also decreasing. The proposed 2010 budget along with the 2011 projected budget has taken a conservative approach when it comes to forecasting 2010 and 2011 revenues. Revenues drive the services we can deliver, and we believe that taking a conservative approach to revenue forecasting ensures 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 this city's administration, council and with the guidance from our residents, Rochester Hills will continue to be the leader throughout Oakland County in cost containment.

FY 2010 All Funds Summary = Revenues



The following list highlights our most significant projected revenue sources:

- \$44.3 million or 39.1% from City service charges
- \$32 million or 28.2% derived from taxes
- \$17.6 million or 15.5% represent transfers from other funds
- \$9.8 million or 8.7% from State and Federal sources
- \$4.9 million or 4.3% from fund balances for capital projects
- \$4.7 million or 4.2% from investment earnings, licenses, fines and other revenue

Taxable property values are proposed to decline by 3.8% for fiscal year 2010. That taxable property value decline translates into a property tax revenue decline of \$1.376 million or 4.1% in 2010.

State Shared Revenue is proposed to decline by \$410,000 or 8.4% in 2010. Act 51 revenue (supported by the gas tax and vehicle registration) is proposed to decrease by 3% in 2010 or \$114,850 based on the assumption that less gas will be purchased due less driving being done. Licenses and Permits are projected to decline slightly due to conservative assumptions for economic recovery in the state of Michigan.

Investment earnings are projected to decrease due to a decline in projected interest rates.

However, this evening I am pleased to report that, unlike most communities in Oakland County, Metro Detroit and school districts, we are not proposing the use of fund balance as a revenue source to balance operating expenditures even though our region is experiencing some very “stormy weather”. Any proposed use of fund balance(s) in FY 2010 is all related to improving the City’s infrastructure through capital projects.

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.

2009 ACCOMPLISHMENTS

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

- The City’s new Single Trash Hauler contract was put into place in April of 2009 and provides residents with both trash and recycling services. Since its implementation, reports indicate that more than 2,160 tons of material has been recycled and diverted from landfills and we are only into our first quarter. Rochester Hills was the 1st community to reward recycling and has proudly been hailed as the Greenest City in Michigan and has received the Green Achievement Award by Oakland County.
- Last year the City had an Actuarial study conducted to measure the City’s Retiree Health Care obligation and this year the City recognized that obligation and took the needed steps to *fully* fund its Supplemental Benefit for Retiree Health Care. Making us one of the only communities in Michigan to do so.
- Over \$2.2 million of concrete slab replacement is underway throughout the City covering the areas of Andover Woods, Avon Hollow, Avon Meadows, Avon Tech Park, Bridgewood Farms, Brookedale West, Brookedale Woods, Chichester, Cumberland Hills, Cumberland Woods, Hawthorn Hills, Heatherwood Village, N. Fairview Farms, Oxford Estates, Rochester Hill Executive Park and Valley Stream
- The rebuilding of Hamlin Road (Crooks Road - Livernois Road) is well underway and is on schedule.
- Dorset Road and Hampton Boulevard Rehabilitation program is planned and should be underway shortly.
- Austin Avenue will be extended with the help of the *LDFA* and should be completed this year.
- Construction of the new Cemetery Chapel will begin this year and should be completed by the spring of 2010.
- Fire Station #1 will receive HVAC Improvements this year, a move that not only improves the function of the building but will also bring more energy conservation to the site.
- Several new pieces of equipment have been added to the City’s Fleet in order to provide reliable service. Among those pieces added were a Municipal Tractor, a Backhoe, a Vactor Jet Truck and Dump truck.
- The Fire Department has purchased three new ambulances and will put them into service in 2009.

- The Water and Sewer Capital Fund is continuing its sewer Rehabilitation Program, a new water main along Austin Dr. (a coordinated project with LDFA) and a water main replacement along Brewster Dr.
- Several major policy statements were discussed and adopted by City Council. The first item adopted was a Debt Management Policy to guide future debt management and issuance for the City. The second major policy statement adopted by City Council was a Fund Balance Policy that establishes minimum fund balance levels for most City Funds.
- The City was recognized by the Governmental Finance Officers Association (GFOA), winning our 13th consecutive Distinguished Budget Presentation Award, for the City's 2009 Budget document. Rochester Hills is one of only twenty cities in Michigan that received this award.
- Our Purchasing Division received its 14th consecutive Achievement of Excellence in Procurement Award. Only 59 cities in the United States received this honor this year.
- We successfully hosted the 2009 Festival of the Hills Fireworks (the weather couldn't stop the Community from having fun) as we celebrated our 25th year as a City. It is one of the largest fireworks display in the state and it is completely funded by private donations.
- The employee's Safety Committee and their workplace safety improvements have resulted in a 27% reduction in worker's compensation insurance premiums saving the City approximately \$100,000. They were also able to reduce worker injuries by over 80% compared to 2007.
- The employee's Wellness Committee raised the employee's awareness of the importance of living healthier. 78% of eligible employees participated in health screening program and 99% of those when on to complete the Health Risk Questionnaire. A healthy work force, which will positively affect attendance, productivity, and ultimately our health care costs.
- Our economic development and redevelopment continues to keep us the envy of Southeastern Michigan as we retain and attract new business to the City. We have retained 6 companies and 480 jobs and attracted 14 new companies and 322 new jobs. Of the 14 new companies: 2 are opening their first U.S. facility – One is a company from China (Active Tools USA) and the other from Denmark (Addcomp), 1 is relocating from New Orleans (DSM Elastomers), 1 is relocating from Arizona (St. Clair Technologies), 8 companies are relocating from within the region and 2 of the companies are startup ventures
- Finally, with its local attraction and quality of community life, Rochester Hills was recently named "One of the 100 Best Places to Live" by Relocate America.

And frankly, the list goes on and on.

CONCLUSION

As you can see, 2009 is proving to be a very successful year full of proud accomplishments and ambitious plans. As you review our proposed 2010 budget and our projected 2011 budget, you will notice that we have reduced expenditures and related services to meet our revenue sources. We have forecasted that our citywide revenues for 2010 will go down by 6.5% and we have reduced our expenditures by 10.8%. We clearly are proposing to live within our means and are poised to meet the challenges that lay ahead of us.

Albert Einstein once said that, "In the middle of difficulty lies opportunity."

The essence of leadership is that you 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.

The administration appreciates Council's 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 2010 Proposed Budget and 2011 Projected Budget 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, the 2010 Proposed Budget and the 2011 Projected Budget document not only serves as a financial plan, but also as a policy document, an operations guide, and a communications device to our residents for the next fiscal year and beyond.

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 17 and 24.

As we head into those 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 if we could get those questions or requests in advance of the workshop sessions.

Respectfully Submitted,

Bryan K Barnett, Mayor
City of Rochester Hills