

BUDGET HIGHLIGHTS

FINANCIAL POLICIES

Interfund Transfers

The following types of transfers between funds are reflected in the budget:

Direct Services - provided by a department in one fund (Internal Service Funds: Facilities, Management Information Service, Fleet Equipment and Insurance) to a department in another fund, such as:

- Expenditures in the provider fund account for all costs incurred in producing the service
- Revenues in the interfund billing revenue account in the provider fund
- Expenditures in a single expenditure account in the service recipient fund

Indirect Costs - (Administrative Overhead Allocation) are billed to appropriate Special Revenue, Enterprise and Internal Service Funds of the City to recover each fund's proportionate share of the City's central administrative and support costs which are originally borne by the General Fund.

The **General Fund** transfers a considerable amount of its operating funds, approximately \$8.19 million or 33% of its total budget, to the Major Road, Local Street, Special Police, Capital Improvement, Municipal Debt, Internal Service and Local Development Finance Authority Funds to subsidize programs, provide seed money for new projects, or to pay its share for internal services.

The **Local Street Fund** transfers funding to various Local Street Improvement Bond Funds to cover current year debt payments (principal and interest) for the City's share of costs related to local street construction. For 2006, \$340,810 is proposed to be transferred out to the various Local Street Improvement debt funds in order for the City to fulfil its debt obligations. These transfers are reduced from prior years, as the various Debt Service Funds' fund balances will be used to offset the difference.

The **Fire Department Fund** transfers funds to the Fire Capital Fund in order to provide for the long-term future replacement cost for all of the various fire department apparatus, vehicles and capital equipment. As an administrative policy established during the 2005 Budget Process, the Fire Department Fund aims to maintain its fund balance at 17.5% of the Fire Department's annual operating expenses; any funds in addition to the 17.5% remaining in fund balance are to be transferred to the Fire Capital Fund. For 2006, approximately \$796,810 is proposed to be transferred to the Fire Capital Fund to fund future apparatus, vehicle, equipment and building capital purchases.

The **Special Police Fund** transfers funds to the Facilities Fund in order to pay capital lease payments to Oakland County that are associated with the 2003-04 construction of the Oakland County Sheriff's Substation. After 20 years of capital lease payments to Oakland County, the City of Rochester Hills will have an option to own the substation portion of the 52nd District Courthouse and Substation complex. For 2006, approximately \$391,090 is proposed to be transferred to the Facilities Fund for the annual capital lease payment, which equates to the principal and interest payment on the bond issued to construct the substation.

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REVENUE POLICIES:

The City will maintain sound appraisal procedures and practices to reflect current property values.

The City will strive to minimize the impact of property tax financing for City services by seeking alternative financing sources such as grants, user fees, and enhancement of the property tax base.

The City will strive to maintain diversified, stable sources of revenue to improve the ability to handle fluctuations in individual sources in order to protect essential service delivery.

The City will project its annual revenues based on historical data, county, state and national economic indicators, and new statutes.

To emphasize and facilitate long-range financial planning, the City will maintain projections of major revenue sources for the succeeding six years.

The City will finance essential City services that have a city-wide benefit from revenue sources generated from a broad base, such as property taxes or state shared revenues.

The City will annually review fee structures, in an effort to cover the actual cost of the service provided accurately to the customers serviced, while being sensitive to the needs of low-income individuals.

The City will attempt to make all current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

The City will avoid using temporary (one-time) revenues to fund continual ongoing services. One-time revenues will be used only for one-time expenditures.

Enterprise Fund Fees and Rates

Each Enterprise Fund of the City will maintain revenues which support the full (direct and indirect) cost of the service provided; including operations, overhead, capital outlay, debt service and future infrastructure replacement.

The City will review and adjust Enterprise Fund fees and rate structures as required to ensure that they remain appropriate and equitable. A comprehensive water / sewer rate analysis will continue to be reviewed, updated and annually approved by the Financial Services Committee, Water & Sewer Rates Board and City Council for any rate adjustments.

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INVESTMENT POLICIES - OBJECTIVES

Funds held by the City of Rochester Hills will be invested in accordance with Michigan Public Act 239 of the Public Acts of 1988, as amended, and in accordance with the following objectives, procedures and policy.

Safety of Capital - Safety of principal is the foremost objective of the City. Each investment transaction shall seek first to ensure that capital losses are avoided.

Liquidity - The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements.

Return on Investment - The investment portfolio shall be designed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital.

Protection of Purchasing Power - Funds held for water, sewer and capital projects shall be invested so that they can be reasonably expected to produce enough income to offset inflationary construction cost increases. However, such funds shall never be exposed to risks that would jeopardize the assets' capital value or be in conflict with state law.

Maintain the Public's Trust - All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. In addition, the overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Investment officials shall also avoid any transaction that might knowingly impair public confidence in the City of Rochester Hills' ability to govern effectively.

Reserves / Fund Balance

The City of Rochester Hills defines Fund Balance as the total combined excess of a fund's assets over its liabilities.

The City will strive to maintain working capital or fund balances of at least 15% - 20% of annual operating expenditures within the General Fund, Special Revenue Funds, and Enterprise Funds. Debt and Enterprise Funds will also maintain reserves in accordance with ordinance requirements and bond covenants. These reserve policies are considered to be the minimum level necessary to maintain the City's credit worthiness and to adequately provide for:

- Protection against economic uncertainties, local disasters, and other financial hardships including downturns in the local, state or national economy
- Contingencies for unforeseen operating needs or unfunded mandates
- Cash flow requirements
- Infrastructure replacement and/or capital improvements

DEBT POLICIES

The City of Rochester Hills is legally subject to the debt requirements of the Public Acts of the State of Michigan and the City Charter (please reference the Debt Service Funds section for a more detailed explanation).

The City will consider the use of debt financing only for one-time capital improvement projects and only under the following circumstances:

- When the terms of financing will not exceed the project's useful life
- When identified revenue resources will be sufficient to service the long-term debt obligations

Capital improvements will be financed primarily through general tax levies, user fees, service charges, special assessments, revenue bonds or other self-supporting bonds when benefits can be specifically attributed to users of the facility.

Debt financing will not be considered appropriate for any recurring purpose such as current operating or maintenance expenditures.

The City will strive to maintain and improve its current AA+ bond rating from Standard & Poors and AA+ bond rating from Fitch; and will continue to maintain a good relationship with all bond rating agencies.

The City will use the following criteria to evaluate "pay-as-you-go" versus "long-term financing" in funding capital improvements:

Factors that favor "pay-as-you-go":

- Current revenues or adequate fund balance levels are available or project phasing can be accomplished
- Existing debt levels would adversely affect the City's credit rating
- Market conditions are unstable

Factors that favor "long-term financing":

- Revenues available for debt service are deemed to be sufficient and reliable so that long-term finances can be marketed with investment grade credit rating
- The project securing the financing is of the type which will support an investment grade credit rating
- Market conditions present favorable interest rates and demand for City finances
- The serviceable life of the project or asset to be financed will exceed the life of the debt obligation