

CITY OF ROCHESTER HILLS



LONG RANGE FINANCIAL FORECAST

For Fiscal Years 2010 – 2014

April 20, 2009

INTRODUCTION

PURPOSE OF THE FORECAST

The Long Range Financial Forecast was developed to help provide a forward look at the City's revenues and expenditure based on a set of future assumptions. The forecast is intended to identify financial trends, shortfalls, and issues so the City can proactively address them rather than be forced into a reactive posture. It does so by forecasting future fiscal results based on the City's current service levels, programs and policies. It also provides a snapshot of what the future will look like based on the decisions that have already been made and helps to illuminate financial areas needing attention.

The Long Range Financial Forecast is not intended as a budget or as a proposed spending plan. The document should also not be used to indicate that the City has structural deficits. As the name implies, this process is a forecast not a plan. The Long Range Financial Forecast is not intended to be a comprehensive financial plan for achieving City Council objectives. **It is a forecast of what our financial position would be if current service levels, programs or policies are continued.**

The Long Range Financial Forecast also sets the stage for the budget process, aiding both the Mayor and City Council in establishing priorities and allocating resources appropriately. This year's forecast addresses the current economic conditions being felt both within our community, the state and the nation. The forecast will help identify the consequences the economic downturn will have on the City's revenues and the level of services and programs the City will be able to deliver within those forecasted revenue streams.

It should also be noted that the City does forecast the effects the assumptions used in generating the forecast will have on its Water and Sewer Enterprise Fund but, since the nature of this fund is to charge rates to cover its operating expenses, the forecast is used more for assisting rate setting Boards.

KEY ISSUES AFFECTING THE ASSUMPTIONS DRIVING THE FORECAST

The Long Range Financial Forecast (LRFF) is based on assumptions regarding what is expected to happen to the local, regional, state and national economy over the next several years. Those assumptions are applied to both the City's revenues and expenditures, which in turn highlight the City's ability to deliver services and programs in the near future.

ECONOMIC ASSUMPTIONS

The LRFF is assuming a substantial economic downturn during the current fiscal year (2009) and continuing into fiscal years 2010 to 2012. We anticipated an economic recovery would begin some time in fiscal year 2011. Here's a list of issues affecting the economy and the City's ability to deliver its services:

- Downturn in the housing market;
- A tight credit market and continued weak financial institutions;
- Falling consumer confidence and spending; and
- Rising unemployment.

Housing Market Downturn

The housing market slowdown, believed to have started in 2006, has worsened and is expected to continue into 2011. The housing downturn is putting pressure on the City's taxable values, which, from our current estimates, will continue into tax year 2012.

Tight Credit Market

The credit market crisis is largely due to the collapse of collateralized debt obligations that were based on risky mortgages. Financial institution's investments in these and other financial instruments, such as credit default swaps, have led to insolvency and illiquidity among lenders. Central banks around the globe have taken measures to lower interest rates and directly inject huge amounts of capital into banking systems in an effort to inspire confidence in banks and to encourage lending. Preliminary indications are that banks have been slow to lend money and that considerable damage to the economy has already occurred.

Governments and central banks are expected to take further dramatic actions to prop up the global financial system. There is consensus that it will take a long time to return to normal lending practices. The actions taken to date have not been sufficient enough to prevent companies from slashing production and jobs as loans become more difficult to come by and consumer confidence remains low. The steep declines in automobile production, employment, and sales illustrate this unfortunate trend.

Consumer Driven Recession

Consumer spending is a key driver for business activity and local revenue generation. Consumer spending comprises about two-thirds of the U.S. economy. As consumers face possible unemployment, along with home equity and investment losses, they are reducing their spending. Consumer confidence has hit a forty-one year low. This past holiday shopping season helps illustrate the consumer's lack of confidence as many retailers face business difficulties following what is traditionally their most important sales period

Rising Unemployment

The Michigan Department of Labor and Economic Growth recently reported that Oakland County's unemployment rate was at 10.4. For the state, the February, 2009 unemployment rate was at 12.0% up 4.6% from the year before.

Key Forecasting Points

The City's Long Range Financial Plan focuses on key revenue and expenditure data points. It does not try to forecast every data point but focuses on the items that are strategic to the City's ability to delivery services, programs and policies.

Revenues

The key revenue points measured and forecasted by the City include:

- **Taxable Values**

Working with the City's Assessor, changes in taxable values are multiplied against current assessments and millage rates to forecast property tax revenue.

- **Interest Rates**

Working with the City Treasurer, estimated interest rates are applied against current investable balances to forecast future interest income revenue.

- **Current Millage Rates remain unchanged**

Assumptions are also made that current millage rates will continue without changes.

- **No New Millage is introduced**

We also make the assumption that no new millage will be introduced to fill funding gaps.

- **State Shared Revenue**

Working off the Michigan Department of Treasury web site and with general knowledge from the public domain, we also incorporate an adjustment factor for state shared revenue.

- **Act 51 Revenue**

Much like the state shared revenue, we also incorporate a forecast for Act 51 revenue (gas and weight tax) a key funding source for Major and Local roads.

Current Assumptions used in the April 8, 2010 Forecast:

- **Taxable Values**

-3.79% for 2010, -8.00% for 2011, -5.00% for 2012, -3.00% for 2013 and 0.00% for 2014

- **Interest Rates**

2.00% for 2010, 2.00% for 2011, 3.00% for 2012, 3.00% for 2013 and 3.00% for 2014

- **New Millage is introduced**

NO

- **State Shared Revenue**

0.00% for 2010, 0.00% for 2011, -1.00% for 2012, -1.00% for 2013 and -1.00% for 2014

- **Act 51 Revenue**

-5.00% for 2010, -5.00% for 2011, -2.50% for 2012, -2.50% for 2013 and -1.00% for 2014

- **Current Millage Rates remain unchanged**

YES

Expenditures

The key expenditure points measured and forecasted by the City include:

- **Salary and Wages**

Current agreements with union and non-union groups are used to forecast salary and wage changes. Where no agreements are available or the City is in union discussion, current levels are used.

- **Changes in the Number of Employees**

Any planned changes, for the future, if known, are incorporated into the forecast.

- **Health Care and other Fringe Benefits**

Working with the City's health consultant, Human Resource Department and based the City's recent health experience, future cost of health care and other fringe benefits is forecasted.

- **Pension (City's Share) Change**

Any planned changes in the City's share of pension contributions are incorporated into the forecast.

- **Inflation**

The City's best guess for future inflation is applied against other expenditures, including Capital Projects, within the City's current budgets.

- **Sheriff Contract**

Working with the Business Manager from the Sheriff's office, an estimate of future cost increases in the Sheriff's contract is forecasted.

Current Assumptions used in the April 8, 2009 Forecast:

- **Salary and Wages**

0.00% for 2010, 0.00% for 2011, 1.00% for 2012, 1.00% for 2013 and 2.00%, for 2014

- **Changes in Number of Employees**

None, vacant Positions remain vacant no new additions.

- **Health Care and other Fringe Benefits**

30.00% for 2010, 15.00% for 2011, 15.00% for 2012, 15.00% for 2013 and 15.00% for 2014

- **Pension (City Share) Change**

0.00% for 2010, 0.00% for 2011, 0.00% for 2012, 0.00% for 2013 and 0.00%, for 2014

- **Inflation**

General Citywide Inflation: Percent Change = +1.00%

Capital Project Inflation: Percent Change = +2.50%

- **Sheriff Contract**

3.00% for 2010, 3.00% for 2011, 2.50% for 2012, 2.50% for 2013 and 2.50% for 2014

THE FORECAST

With assumptions on both the economy and the key forecasting data points in place, our first look at the forecasted financial position of the City is ready.

General Governmental Funds (all funds except Water and Sewer)

Model Updated April 8, 2009

	2008	2009	2010	2011	2012	2013	2014
	Actual *	1st Qtr B/A	Estimated	Estimated	Estimated	Estimated	Estimated
TOTAL REVENUE w/o W&S	-	-	-	-	-	-	-
City Taxes	33,326,549	33,249,870	32,035,720	29,454,065	27,450,063	26,621,105	25,743,462
Licenses & Permits	1,815,759	1,686,260	1,634,075	1,585,543	1,540,408	1,498,433	1,459,396
Intergovernmental Revenue	11,600,671	11,658,090	9,990,895	9,745,392	9,536,303	9,386,159	9,312,636
Interfund Charges	10,847,356	12,301,710	12,427,151	12,551,423	12,676,937	12,803,706	12,931,743
Service Charges	3,187,037	3,232,860	3,255,114	3,262,292	3,264,970	3,326,157	3,340,708
Fines & Forfeitures	471,195	355,000	355,120	355,242	355,367	355,495	355,624
Investment Earnings	3,970,313	3,052,170	1,773,482	1,647,900	2,215,633	1,980,814	1,693,760
Other Revenue	797,315	153,700	118,667	291,723	98,653	94,774	91,544
Transfer-In	14,285,182	13,655,200	11,060,923	11,513,184	12,198,021	12,657,666	13,257,638
TOTAL REVENUE w/o W&S	80,301,377	79,344,860	72,651,147	70,406,764	69,336,354	68,724,308	68,186,511
TOTAL EXPENDITURE w/o W&S	-	-	-	-	-	-	-
Personnel Services	21,390,768	22,397,570	23,148,017	23,647,025	24,406,414	25,249,522	26,381,406
Operating Supplies	1,049,073	1,283,850	1,296,689	1,309,655	1,322,752	1,335,979	1,349,339
Professional Services	10,869,263	12,764,810	12,713,975	12,990,713	13,188,838	13,454,574	13,749,740
Interfund Charges	7,986,191	8,750,740	8,837,007	8,924,137	9,012,139	9,101,020	9,190,790
Other Expenses	4,394,200	4,633,280	4,354,212	4,646,966	4,635,911	4,667,747	4,451,152
Capital Outlay	15,329,984	16,890,210	10,052,357	11,842,257	10,561,191	8,228,686	5,747,458
Debt Service	6,724,424	6,651,790	6,307,435	4,565,760	3,971,169	3,888,258	3,045,265
Transfer Out	16,336,263	15,579,450	12,916,964	13,220,811	13,820,309	14,231,311	14,831,283
TOTAL EXPENDITURE w/o W&S	84,080,165	88,951,700	79,626,656	81,147,324	80,918,723	80,157,097	78,746,435
-	(3,778,788)	(9,606,840)	(6,975,509)	(10,740,560)	(11,582,370)	(11,432,789)	(10,559,924)

This first pass at the City's financial forecast is what could be considered the high level view. It incorporates all General Governmental Funds and gives an overall forecasted financial position of the City but doesn't give the level of detail necessary for management to make decisions related to service delivery and program offerings.

Issues such as planned use of fund balance for capital projects (Major Roads, Green Space, etc.) and needed increases on debt related millage is not adjusted or reconciled with this high level forecast.

To make the forecast more effective it is better and certainly more useful to look at the financial forecast at the fund level.

To illustrate this approach here's a look at the City's **General Fund**.

Model Updated April 8, 2009

General Fund	2008	2009	2010	2011	2012	2013	2014
	Actual *	1st Qtr B/A	Estimated	Estimated	Estimated	Estimated	Estimated
Revenues	-	-	-	-	-	-	-
City Taxes	14,041,621	13,645,920	13,098,850	12,689,945	12,059,223	11,700,091	11,700,969
Licenses & Permits	1,790,447	1,668,260	1,616,075	1,567,543	1,522,408	1,480,433	1,441,396
Intergovernmental Revenue	5,367,060	5,052,730	5,052,730	5,052,730	5,003,630	4,955,021	4,906,898
Inter-fund Charges	3,486,888	4,446,050	4,490,511	4,535,416	4,580,770	4,626,577	4,672,843
Service Charges	1,371,578	1,425,450	1,444,001	1,445,444	1,438,305	1,491,489	1,489,419
Fines & Forfeitures	119,319	8,000	8,120	8,242	8,367	8,495	8,624
Investment Earnings	886,379	660,000	369,000	365,467	540,331	537,579	534,481
Other Revenue	76,696	68,400	68,400	68,400	68,400	68,400	68,400
Transfer-In	-	-	-	-	-	-	-
Total	27,139,988	26,974,810	26,147,687	25,733,187	25,221,434	24,868,085	24,823,030
Expenditures	-	-	-	-	-	-	-
Personnel Services	10,902,311	11,462,580	11,861,757	12,112,072	12,496,165	12,922,849	13,497,845
Operating Supplies	309,704	364,870	368,519	372,204	375,926	379,685	383,482
Professional Services	1,293,279	1,709,520	1,725,188	1,741,012	1,756,995	1,773,138	1,789,442
Inter-fund Charges	2,704,669	2,595,250	2,621,203	2,647,415	2,673,889	2,700,628	2,727,634
Other Expenses	206,734	193,680	163,297	164,930	166,579	168,245	169,927
Capital Outlay	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Transfer Out	10,179,142	10,390,480	9,305,040	8,488,131	7,538,768	7,041,776	7,350,913
Total	25,595,839	26,716,380	26,045,002	25,525,764	25,008,321	24,986,321	25,919,243
-	1,544,150	258,430	102,685	207,423	213,112	(118,235)	(1,096,213)

It should be noted that the City's model, used in forecasting General Fund, forces expenditures to equal revenues. To be able to achieve that goal, the forecast (for General Fund) reduces the amount being transferred to other funds. Three funds generally receive the majority of transfers from General Fund: Police Fund, Local Road Fund and the Drain Maintenance Fund.

In this self-balancing model, the Local Road Fund is chosen as this safety valve since it is not funding a contract like the Police Fund and is a large enough to accomplish this forced balancing goal. This would not be the case if the Drain Maintenance Fund had been chosen.

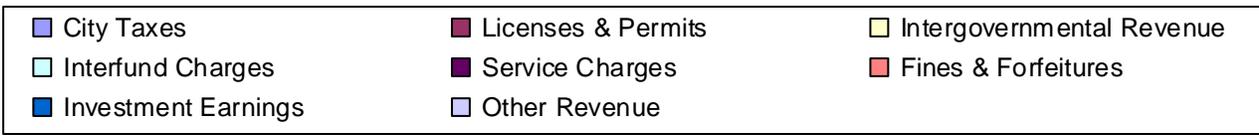
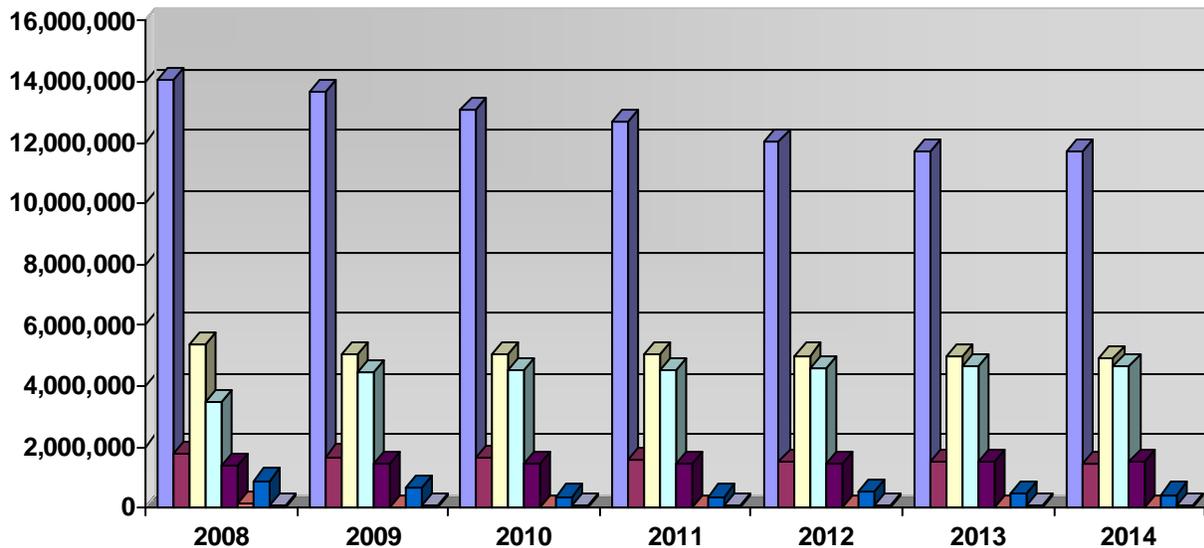
Based on the assumptions discussed above and the adjustment to the model for the General Fund the following forecast gives a better picture of the City's General Fund

Model Updated April 8, 2009

	2008	2009	2010	2011	2012	2013	2014
General Fund	Actual *	<i>Ist Qtr B/A</i>	Estimated	Estimated	Estimated	Estimated	Estimated
Revenues	-	-	-	-	-	-	-
City Taxes	14,041,621	13,645,920	13,098,850	12,689,945	12,059,223	11,700,091	11,700,969
Licenses & Permits	1,790,447	1,668,260	1,616,075	1,567,543	1,522,408	1,480,433	1,441,396
Intergovernmental Revenue	5,367,060	5,052,730	5,052,730	5,052,730	5,003,630	4,955,021	4,906,898
Inter-fund Charges	3,486,888	4,446,050	4,490,511	4,535,416	4,580,770	4,626,577	4,672,843
Service Charges	1,371,578	1,425,450	1,444,001	1,445,444	1,438,305	1,491,489	1,489,419
Fines & Forfeitures	119,319	8,000	8,120	8,242	8,367	8,495	8,624
Investment Earnings	886,379	660,000	369,000	365,467	524,779	482,869	425,077
Other Revenue	76,696	68,400	68,400	68,400	68,400	68,400	68,400
Transfer-In	-	-	-	-	-	-	-
Total	27,139,988	26,974,810	26,147,687	25,733,187	25,205,882	24,813,375	24,713,626
Expenditures	-	-	-	-	-	-	-
Personnel Services	10,902,311	11,462,580	11,861,757	12,112,072	12,496,165	12,922,849	13,497,845
Operating Supplies	309,704	364,870	368,519	372,204	375,926	379,685	383,482
Professional Services	1,293,279	1,709,520	1,725,188	1,741,012	1,756,995	1,773,138	1,789,442
Inter-fund Charges	2,704,669	2,595,250	2,621,203	2,647,415	2,673,889	2,700,628	2,727,634
Other Expenses	206,734	193,680	163,297	164,930	166,579	168,245	169,927
Capital Outlay	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-
Transfer Out	10,179,142	10,390,480	9,305,040	9,524,933	10,133,744	10,633,327	11,144,994
Total	25,595,839	26,716,380	26,045,002	26,562,566	27,603,298	28,577,871	29,713,324
-	1,544,150	258,430	102,685	(829,379)	(2,397,416)	(3,764,496)	(4,999,697)

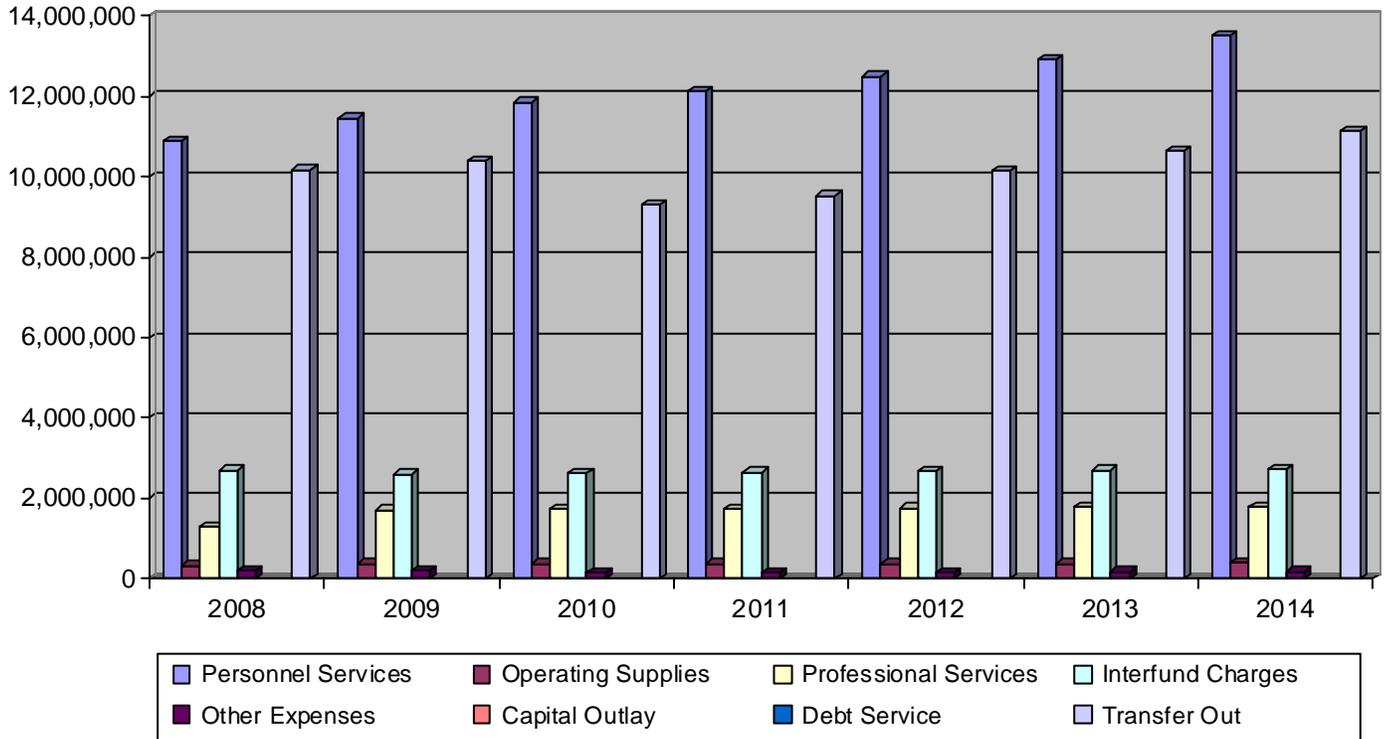
As it shows, fiscal years 2009 and 2010 are estimated to produce small surpluses and fiscal years 2011 through 2014 produce deficits.

General Fund Forecasted Revenues



As the above chart highlights, tax revenue decrease from years 2009 to 2013 and level out again in year 2014. Other revenue sources, such as Intergovernmental, also show signs of decreasing but at a much slower pace.

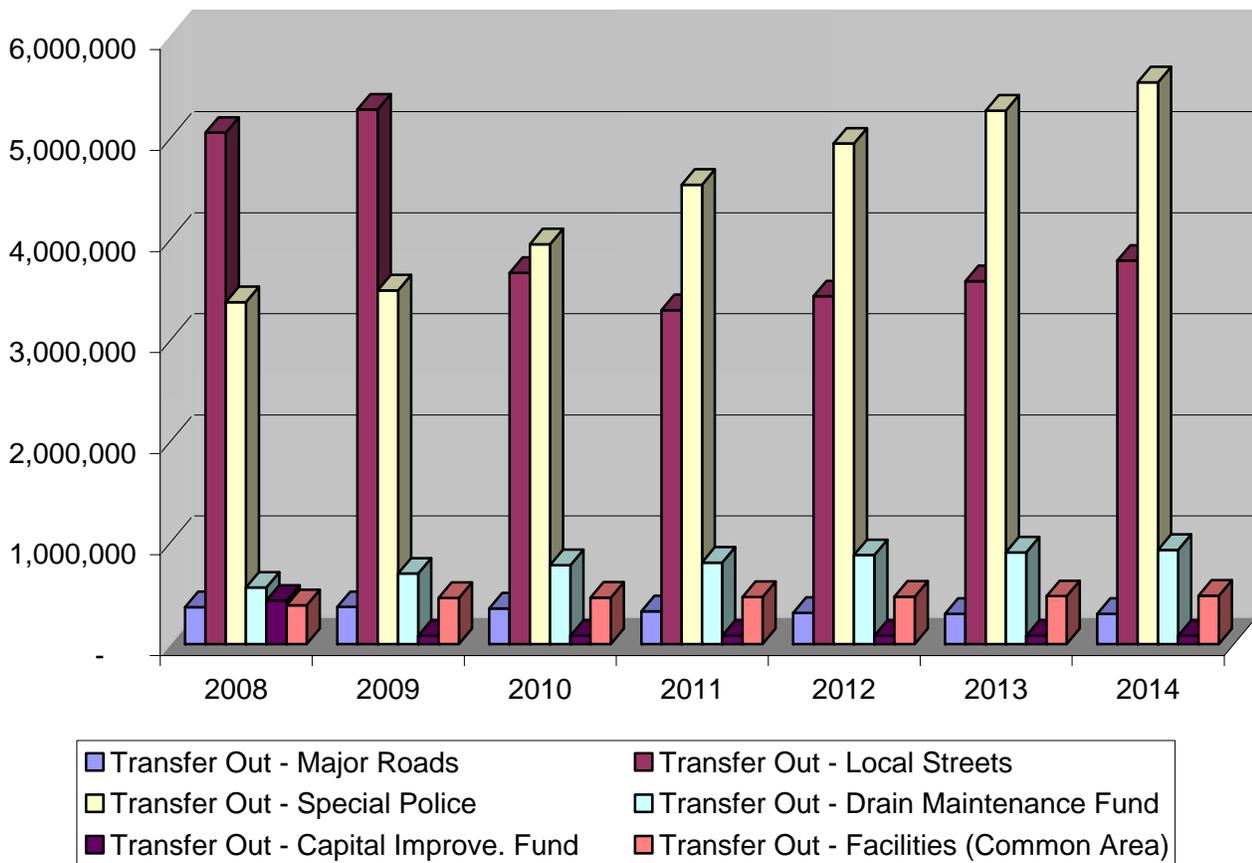
General Fund Forecasted Expenditures



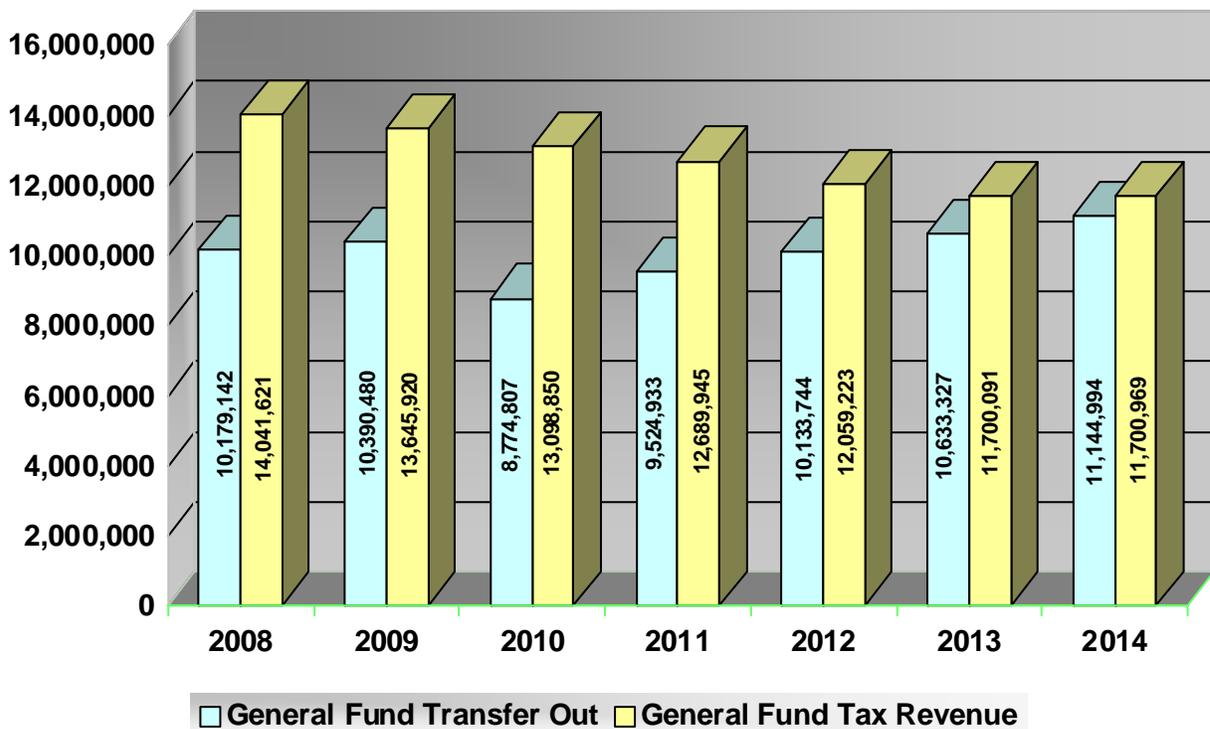
As the above chart highlights, personnel costs, related to cost increases in fringe benefits, increase for each forecasted year and that transfers out, with a small adjustment in 2010, also increase each year going forward. The increase is all related to the needs of both the Police Fund and the Local Road Fund. All other expenditures remain fairly consistent.

Lets take a closer look at the **Transfer-Out section of General Fund:**

General Fund	2008	2009	2010	2011	2012	2013	2014
Transfer Out	Actual *	1st Qtr B/A	Estimated	Estimated	Estimated	Estimated	Estimated
Transfer Out - Major Roads	364,792	366,780	352,890	324,659	308,426	299,173	299,173
Transfer Out - Local Streets	5,060,370	5,290,120	3,142,826	3,304,127	3,440,928	3,591,550	3,794,081
Transfer Out - Special Police	3,381,750	3,498,310	3,955,625	4,544,164	4,953,245	5,279,279	5,558,973
Transfer Out - Drain Maintenance Fund	558,320	697,630	781,270	805,186	879,700	907,186	931,887
Transfer Out - Capital Improve. Fund	429,200	82,040	82,040	82,040	82,040	82,040	82,040
Transfer Out - Facilities (Common Area)	384,710	455,600	460,156	464,758	469,405	474,099	478,840
Total	10,179,142	10,390,480	8,774,807	9,524,933	10,133,744	10,633,327	11,144,994



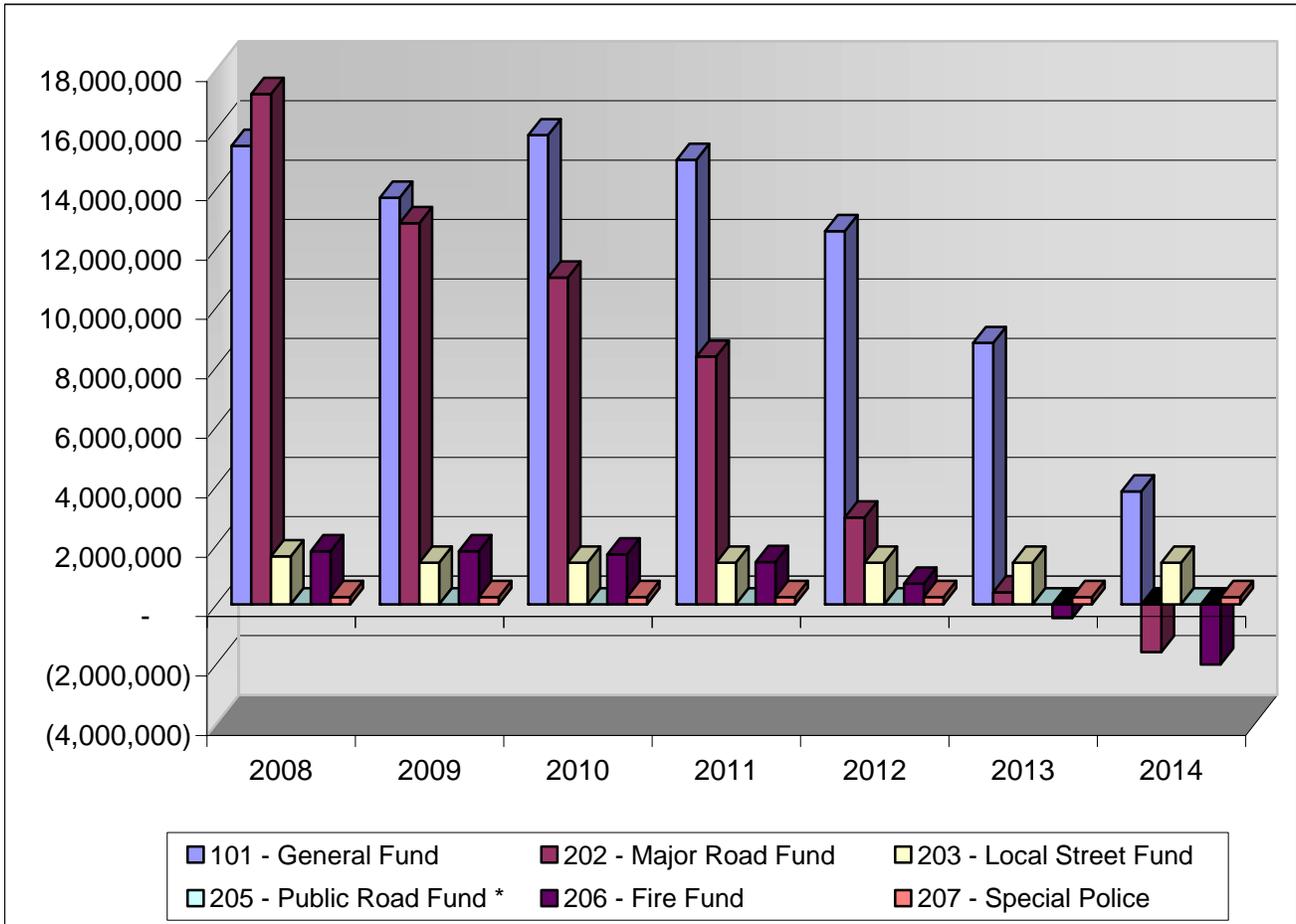
The chart shows just how quickly the needs of the Police Fund increase over the next five years and the pressure it, along with Local Roads, put on the General Fund.



Let's take a look at the effect of our forecasted revenues and expenditures on the **fund balances of our major funds.**

Model Updated April 8, 2009

	2008	2009	2010	2011	2012	2013	2014
Fund Balance Summary	Actual *	1st Qtr B/A	Estimated	Estimated	Estimated	Estimated	Estimated
-	-	-	-	-	-	-	-
101 - General Fund	15,429,937	13,688,367	15,791,052	14,961,673	12,564,257	8,799,761	3,800,064
202 - Major Road Fund	17,179,098	12,829,148	10,995,632	8,339,123	2,928,623	413,881	(1,601,447)
203 - Local Street Fund	1,615,916	1,408,716	1,408,716	1,408,716	1,408,716	1,408,716	1,408,716
205 - Public Road Fund *	-	-	-	-	-	-	-
206 - Fire Fund	1,794,465	1,794,465	1,680,785	1,430,904	698,622	(461,156)	(2,025,233)
207 - Special Police	245,991	245,991	245,991	245,991	245,991	245,991	245,991



SUMMARY

Like many governments in this region including the state, the City is faced with an economic downturn that will put pressure on revenues that support City programs and services. It is believed that the economic downturn will last until at least 2011.

In addition, increases in expenditures, mainly from fringe benefit costs and transfers to other funds, will add to the pressure that General Fund and other funds will be under during this downturn. Throughout this downturn it will be very important that the City carefully prioritize the services and programs that it delivers as identified in its strategic plan. There are many financial challenges that lie ahead for the City but with careful planning many of these challenges can be turned into opportunities.