

CITY OF ROCHESTER HILLS



SEVEN YEAR FINANCIAL FORECAST

For Fiscal Years 2016 – 2022

June 1, 2015

PURPOSE OF THE FORECAST

We are pleased to present City Council with this year's Seven Year Financial Forecast.

The City's Financial Forecast was developed to give Administration and City Council a forward look at the City's revenues and expenditures based on a set of future assumptions. The forecast is intended to identify financial trends, shortfalls, and issues so the City can more **proactively** address issues rather than be forced into a **reactive** position by helping to prevent surprises. The financial forecast is built based on the City's *current* service levels, programs and policies, and what those service levels, programs and policies will look like based on the assumptions used in the forecast.

The Seven Year Financial Forecast is not intended to be a budget, a proposed spending plan or a policy recommendation. As the name implies, this process is a forecast not a formal plan. The Financial Forecast is not intended to be a comprehensive financial plan for achieving City Council adopted objectives. ***It is a forecast, based on certain assumptions, of what our financial position could be if current service levels, programs or policies are continued.***

The Financial Forecast also sets the stage for budget development, aiding Department Directors, the Mayor, and City Council in establishing priorities and allocating resources appropriately. This year's forecast addresses the current economic conditions being felt within our community, the state, and the nation. The forecast helps to identify economic outcomes and their affects on the City's revenues and the level of services and programs the City will be able to deliver within those forecasted revenue flows.

It should also be noted that the City does also forecast the effects the assumptions will have on its Water and Sewer (Enterprise) Fund, but since the nature of that fund is to set rates at levels to cover operating expenses, that forecast is used more for assisting the Water and Sewer Technical Review Committee than in setting service levels.

KEY ISSUES AFFECTING THE ASSUMPTIONS DRIVING THE FORECAST

The Financial Forecast is based upon a set of assumptions regarding what is anticipated to happen to the local, regional, state, and national economy over the next several years. Those assumptions are applied to the City's revenues and expenditures, which in turn highlight the City's ability to deliver services and programs.

ECONOMIC ASSUMPTIONS

The Financial Forecast is assuming a modest economic recovery for FY2015, a strengthening to normal economy in FY2016, continuing normal economy in FY2017 to FY2020 and a slowing economy in FY2021 to FY2022.

A list of issues affecting the economy and the City's ability to generate revenues to deliver its services includes:

- Citywide taxable values
- Funding from the State
- The Credit market
- Unemployment levels for the City and to a lesser degree for the County and State
- Consumer confidence

Taxable Values

The housing market slowdown, believed to have started in 2006, is showing signs of improvement and the City Assessor is estimating that it will continue to improve throughout this forecasting period. The housing downturn had put pressure on the City's taxable values, which then put pressure on our tax revenue, which in turn affected our ability to deliver services. Improvement in this area is a good sign for service delivery.

Funding from the State

The City receives funding from the State in two areas. The first is a share of sales tax collections (commonly know as State Shared Revenue) which is showing signs of improvement. Based on the City's 2010 census data, the City has been receiving a larger portion from that revenue source. In addition, the State is seeing increased sales tax collections which we will also share in.

The second is our share of gas and weigh tax (commonly know as ACT 51 funding). Generally, as the economy grows you normally would see growth in our share of Gas and Weigh Tax as people and businesses drive more and use more gasoline. However improvements in average fleet mileage, battery technology, and tight household budgets limit the amount of gasoline that will be sold in the future.

Therefore, we do not expect to see much growth, if any, in our share of Gas and Weigh Taxes.

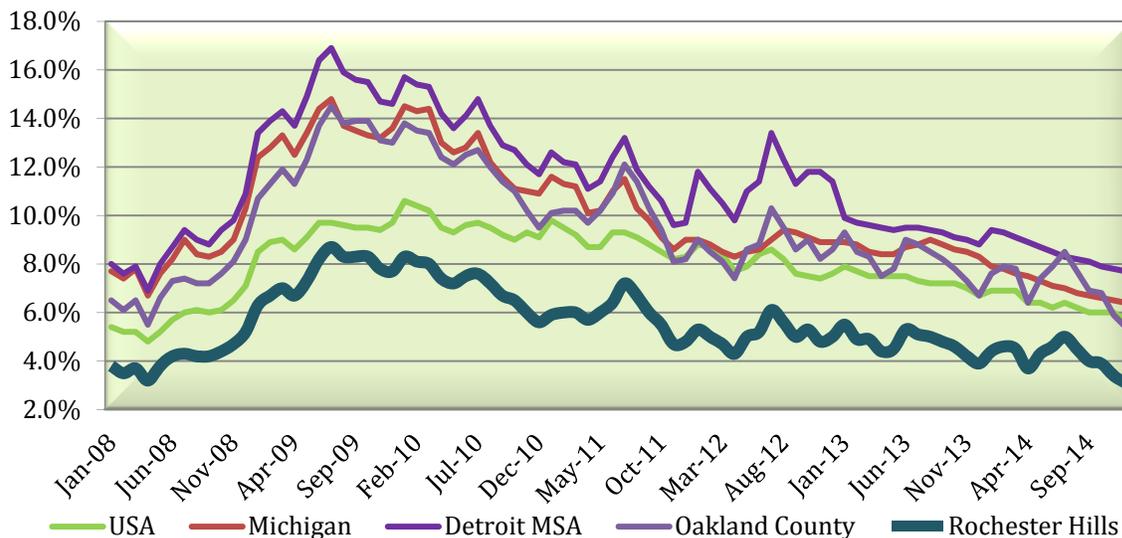
Overall, we expect modest growth in our funding from the State near term.

Credit Market

The credit market appears to be moving from a tight credit market to a softening credit market. A softening credit market means it will be less difficult for consumers to get credit to buy autos, homes, and durable goods. All items that will be a driving force to improving GDP, unemployment, and demand side economics.

Unemployment Levels

Over the past year, we have been seeing improving unemployment rates in the City and those areas around us. The U.S. Bureau of Labor Statistics recently reported that the City of Rochester Hills unemployment level was 3.1%. During that same period, the U.S. unemployment rate had moved to 6.0%, State of Michigan moved to 6.4% and Oakland County moved to 5.4%. The City's unemployment rate is superior. We will need to see unemployment levels improve more for the Country, State, and Oakland County before consumer confidence and their household budgets will improve further.



Consumer Confidence

Consumer spending comprises about two-thirds of the U.S. economy and is a key driver for business activity and local revenue generation. Consumers are seeing improving employment opportunities but are still feeling wage pressure. They are also seeing improving home equity values (that have not yet returned to 2006 levels). However, they are holding tight on spending, replacing items that need replacing but are not taking on credit to do that. In fact most consumers are paying down debt instead of expanding their debt which is a good thing for long term growth

but doesn't add to the current economy. Higher overall energy and food costs are also putting pressure on household budgets thus stalling an increase in spending.

Key Forecasting Points

The City's Financial Forecast is based on maintaining current programs, services and policies as amended in the current FY2015 budget. It then focuses on key revenue and expenditure data points and applies assumptions of the future based on those key data points. The forecast does not try to forecast every data point but focuses on the items that are the most strategic to the City's ability to deliver services, programs, and policies.

Revenues

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

- **Current Millage Rates**
Assumptions are applied on current millage rates (with or without changes) and assumptions on renewals.
- **New or Replacement Millage**
We also make assumptions related to new or replacement millage.
- **Taxable Values**
Working with the City Assessor, changes in taxable values are multiplied against current assessments and millage rates to forecast property tax revenue.
- **State Shared Revenue**
Working off the Michigan Department of Treasury web site, our current collection experience, and general knowledge from the public domain, we also incorporate an adjustment factor for state shared revenue.
- **Act 51 Revenue**
Much like 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.
- **Interest Rates**
Working with the City Treasurer, estimated interest rates are applied against current investable balances to forecast future interest income revenue.

Assumptions used in the May, 2014 Forecast:

- **Current Millage Rates**
 - Expiring (non-debt) millage(s) are renewed or where allowed, moved to their Headlee Limit to meet operating needs provided the change does not increase the City's total millage rate from the year before.

- **New or Replacement Millage**
 - None

- **Taxable Values**
 - **FY2016 ***
 - 3.26%
 - **FY2017 to 2022 ****
 - 1.50%

* *Actual*

** *Estimated By Assessor Based on his estimate of future CPI*

- **State Shared Revenue**
 - 1.0% for FY2016 to FY2022

- **Act 51 Revenue**
 - 0.00% for FY2016 to FY2022.

- **Interest Rates***
 - 0.30% for FY2016
 - 0.50% for FY2017
 - 1.00% for FY2018
 - 2.00% for FY2019-22

*Estimated By City Treasurer

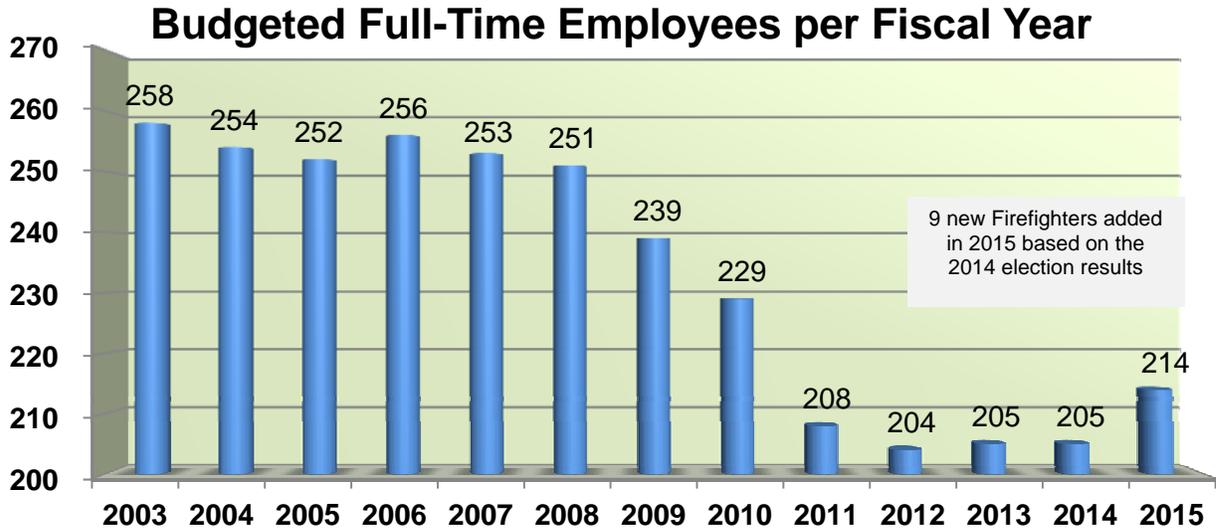
Expenditures

Just like revenues, we also forecast expenditures. The key expenditure points measured and forecasted by the City include:

- **Changes in the Number of Employees**
Any planned changes, for the future, if known, are incorporated into the forecast.
- **Salary and Wages**
Current agreements with union and non-union groups are used to forecast salary and wage changes. Where no agreements are available, the City uses a realistic estimation of what those changes might be.
- **Health Care and other Fringe Benefits**
Working with the City's health consultant, the Human Resource Department, and based on the City's recent health care experience, future health care costs are forecasted. The estimated change used is based on the City's core health care plan.
- **Inflation**
This forecast incorporates an estimate of the Detroit CPI. This percentage is applied against other expenditures, including capital projects, within the City's current budgets.
- **Sheriff Contract**
Working with the current contract and on past advice of the Business Manager from the Sheriff's office, an estimate of future cost increases in the Sheriff's contract are forecasted.

Assumptions used in the May, 2013 Forecast:

- **Changes in Number of Employees**
 - None



- **Salary and Wages**
 - 1.0% for FY2016 to FY2022.
- **Health Care and other Fringe Benefits**
 - +9.00% for FY2016 to FY2022.

Inflation

- General Citywide and Capital Project Inflation Inflation: +1.50%

- **Sheriff Contract**
 - 3.00% FY 2016-22**

** Estimate Based on Prior Information Provided by Oakland Sheriff Business Manger

THE FORECAST

With assumptions on both the economy and the key forecasting data points in place, let's look at the forecast at the fund level.

GENERAL FUND

Model Dated: April 8, 2015									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
101 - General Fund	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ 10,821,980	\$ 5,931,360	\$ 6,278,570	\$ 6,273,980	\$ 6,242,380	\$ 6,245,870	\$ 6,347,900	\$ 6,530,600	\$ 7,168,970
Licenses & Permits	2,676,333	2,556,400	2,521,400	2,536,400	2,551,400	2,566,000	2,580,750	2,595,640	2,610,680
Intergovernmental Revenue	5,711,080	5,680,000	5,730,000	5,780,000	5,830,000	5,887,000	5,944,570	6,002,720	6,061,450
Interfund Charges	3,907,174	4,155,450	4,155,450	4,155,450	4,155,450	4,217,780	4,281,040	4,345,250	4,410,430
Service Charges	2,052,060	1,865,350	1,876,010	1,838,490	1,839,670	1,856,730	1,859,850	1,863,010	1,860,110
Fines & Forfeitures	626	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Investment Earnings	71,246	70,080	80,950	116,530	233,050	466,100	466,100	466,100	466,100
Other Revenue	185,346	110,000	153,870	110,000	110,000	110,000	110,000	110,000	110,000
Transfer-In	628,498	5,580	3,900	4,660	7,490	14,460	27,960	27,130	26,010
101 - General Fund	\$ 26,054,343	\$ 20,377,720	\$ 20,803,650	\$ 20,819,010	\$ 20,972,940	\$ 21,367,440	\$ 21,665,540	\$ 21,943,950	\$ 22,717,250

101 - General Fund									
Personnel Services	\$ 9,427,569	\$ 10,406,960	\$ 10,651,900	\$ 10,810,460	\$ 11,078,770	\$ 11,313,480	\$ 11,560,780	\$ 11,823,060	\$ 12,100,610
Operating Supplies	223,923	262,830	241,310	240,810	243,310	245,750	250,970	253,440	258,760
Professional Services	1,416,143	1,702,630	1,562,200	1,664,100	1,569,900	1,611,360	1,610,510	1,653,440	1,653,110
Interfund Charges	2,660,626	2,895,910	2,895,910	2,895,910	2,895,910	2,939,360	2,983,450	3,028,160	3,073,540
Other Expenses	70,736	139,480	121,480	105,720	105,900	107,480	109,160	110,900	112,980
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	11,698,898	9,283,390	9,009,890	5,102,010	5,079,150	5,150,010	5,150,670	5,074,950	5,518,250
101 - General Fund	\$ 25,497,895	\$ 24,691,200	\$ 24,482,690	\$ 20,819,010	\$ 20,972,940	\$ 21,367,440	\$ 21,665,540	\$ 21,943,950	\$ 22,717,250

It should be noted that the City's forecasting 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. Until recently, there were three funds that generally received a majority of transfers from General Fund: Special Police Fund, Local Street Fund, and the Water Resources Fund. Over the last several budget years (since FY2011), the budgets adopted by City Council have removed General Fund's support of the Water Resources Fund and voter approval of a Special Police millage have eliminated General Fund support (transfer) of Police Services. That only leaves the Local Street Fund in this forced balancing process.

In our forced balanced budget model, the Local Street Fund is a good choice as General Fund's safety valve because that transfer is not funding a contract, like it would have been with a transfer to the Special Police Fund. In addition, the transfer made to Local Streets is large enough to accomplish our forced budget balancing goal.

For this presentation, we have adjusted our current forecasting model so that General Fund, if needed, makes at least a transfer to Local Street Fund large enough to make sure that the Local Street Fund will have enough revenue to cover **annual maintenance costs**. In addition, we have adjusted our model so that General Fund is providing City Council's desire to fund capital improvements to the Local Street infrastructure.

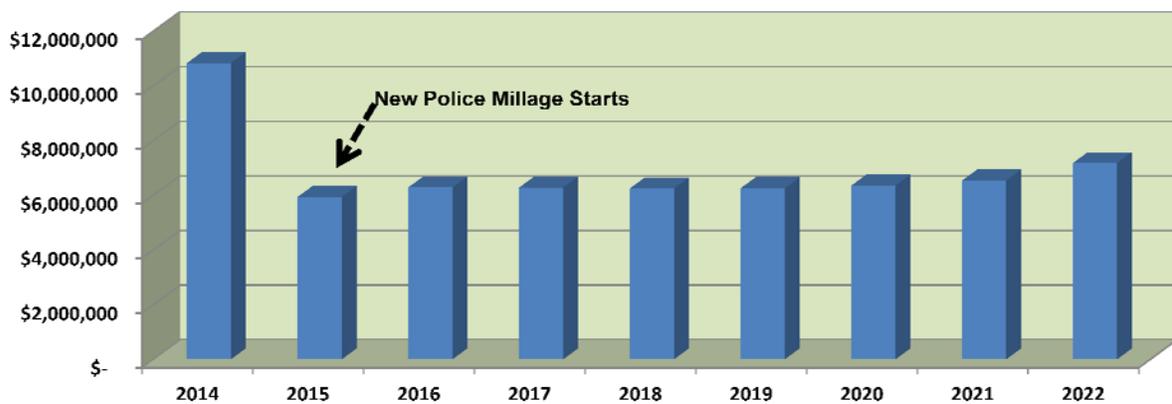
As stated earlier, in FY2015, General Fund will no longer be making a Transfer to the Special Police Fund. In 2012, voters approved not only the renewal of two expiring

Special Police millage(s), they also approved new funding for Police Services with the understanding that General Fund's millage rate will decrease as the new Police Service millage rate gets applied. Thus, in FY2015, you see tax revenue in General Fund decrease with an offsetting reduction in the Transfer out area.

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

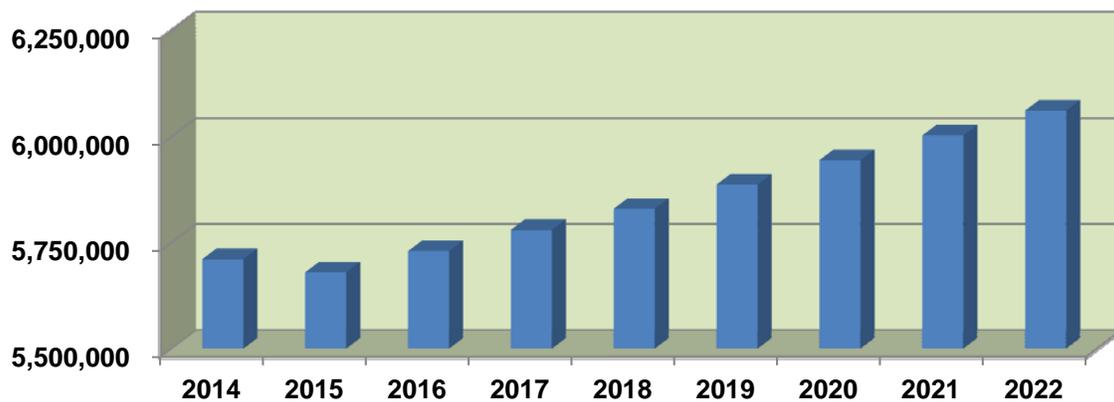
Let's now take a closer look at future revenue sources in General Fund. As the chart below shows, property tax revenues show the new Police Service millage in FY2015.

Property Tax



The General Fund's other major revenue source is state shared revenue. As the graph below shows, the City's positive news on its 2010 census and improved collections at the state level are reflecting growth in this revenue source.

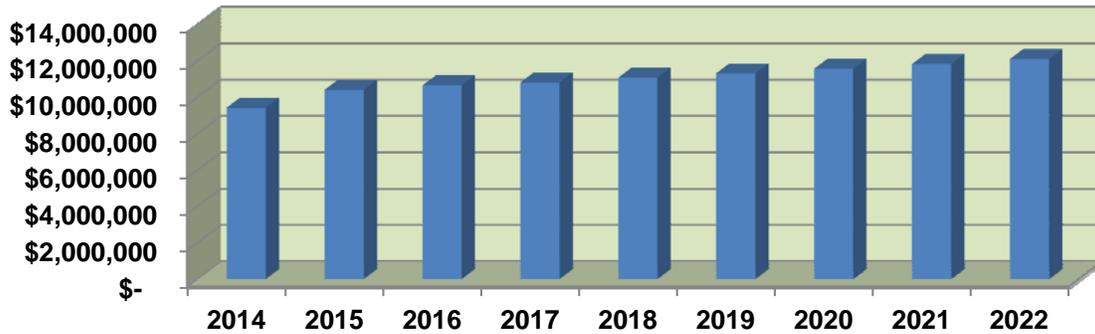
State Shared Revenue



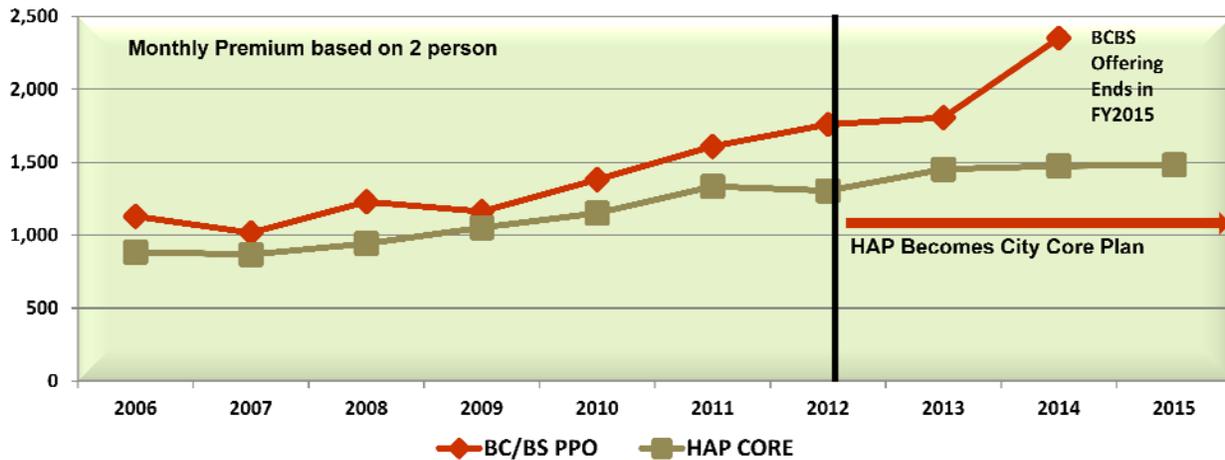
Now let's turn our attention to General Fund's expenditure side.

Even through the City's staff size has been downsized, including staff assigned to General Fund, forecasted increases in health care costs and realistic salary adjustments can be seen in the below graph related to Personnel costs.

Personnel Services



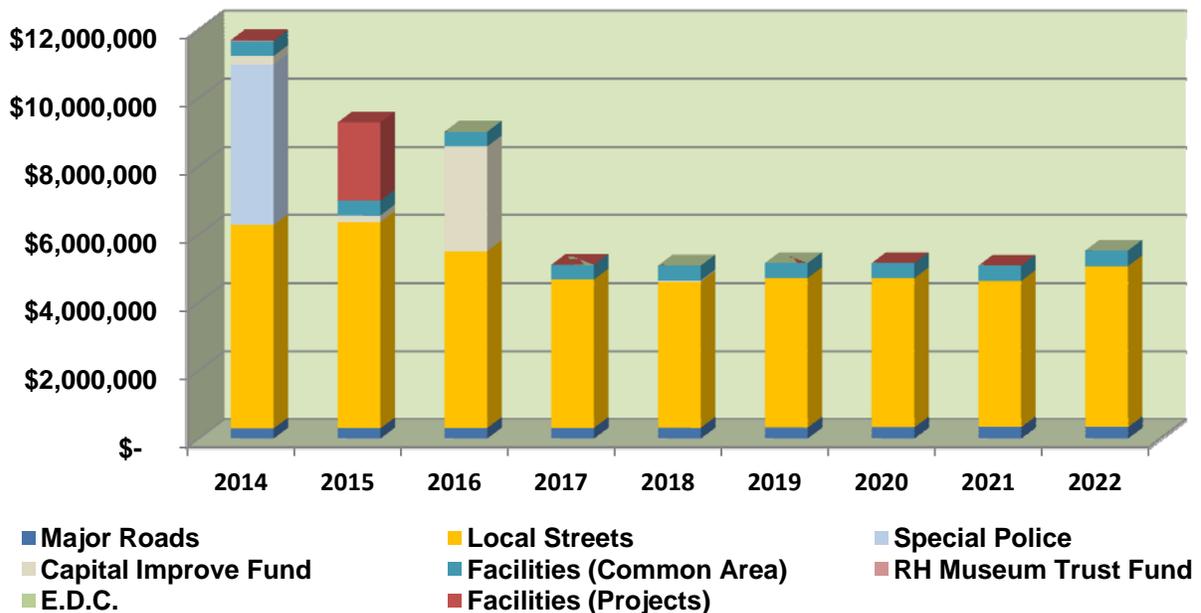
For a number of years, the City, working with its union groups, has been re-designing the City's core health care plan adjusting co-pays, deductibles and coverage all in an attempt to control ever increasing costs. In FY2015, the City stopped offering Blue Cross as an alternate health care plan. As the chart below shows, if we had not been proactive in plan redesign, the City's health care costs would be over 50% more.



Transfers to other funds saw increases in fiscal years 2014, 2015 and 2016. You can also see the effects of the new Police Service millage that begins in FY2015 ending the General Fund subsidy for Police Services. You will also notice that General Fund continues its support for the Local Street Fund for maintenance related activity and capital improvements. All other transfers remain fairly consistent.

Model Dated: April 8, 2015		2014	2015	2016	2017	2018	2019	2020	2021	2022
		Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
990 - Transfer Out										
999202	Major Roads	\$ 296,318	\$ 301,510	\$ 312,820	\$ 317,510	\$ 322,280	\$ 327,110	\$ 332,020	\$ 337,000	\$ 342,050
999203	Local Streets	5,973,170	6,054,920	5,190,110	4,352,540	4,274,910	4,384,470	4,373,650	4,286,310	4,717,800
999207	Special Police	4,714,610	-	-	-	-	-	-	-	-
999420	Capital Improve. Fund	251,000	195,000	3,075,000	-	50,000	-	-	-	-
999631	Facilities (Common Area)	433,800	431,240	431,240	431,240	431,240	437,710	444,280	450,940	457,700
999631	Facilities (Projects)	20,000	2,300,000	-	-	-	-	-	-	-
999870	RH Museum Trust Fund	10,000								
999893	E.D.C.	-	720	720	720	720	720	720	700	700
TRANSFER OUT		\$ 11,698,898	\$ 9,283,390	\$ 9,009,890	\$ 5,102,010	\$ 5,079,150	\$ 5,150,010	\$ 5,150,670	\$ 5,074,950	\$ 5,518,250

In FY2015, over 46% of all General Fund revenue (or over 156% of General Fund tax revenue) is budgeted to be transferred to other funds to support their activities and services. For FY2016, we are forecasting that transfers from General Fund will be 43% of all General Fund revenue (or over 143% of General Fund tax revenue) a decrease as General Fund ends its subsidy of Police Services.



As the chart shows, with Special Police having a new dedicated millage, General Fund's Transfers are more controllable, ending some of the pressure General Fund was under before voters provided the new dedicated millage.

Important take away based on the forecast for General Fund:

- Approximately 43% of all FY2016 revenue or over 143% of FY2016 tax revenue collected in General Fund is transferred to other funds to support their activities.
- The fund is fiscally sound following current budget policies and the structure used in the financial model. That soundness generally comes by limiting transfers to other funds.
- The Fund is currently able to provide approximately \$5 million, per year, in annual funding to support Local Street capital improvements.

MAJOR ROAD FUND

As the graph shows we see little to no growth in Gas and Weigh Taxes any time soon which is a major revenue source for both Major and Local Streets.

Model Dated: April 8, 2015	2014	2015	2016	2017	2018	2019	2020	2021	2022
202 - Major Road Fund	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	3,598,843	3,205,000	3,205,000	3,205,000	3,205,000	3,205,000	3,205,000	3,205,000	3,205,000
Interfund Charges	20,633	22,000	22,000	22,000	22,000	22,340	22,680	23,020	23,370
Service Charges	205,242	222,500	222,500	222,500	222,500	222,500	222,500	222,500	222,500
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	31,490	28,310	15,520	25,170	50,940	119,950	119,680	139,360	159,780
Other Revenue	37,419	39,350	2,260,500	60,500	60,500	60,500	60,500	60,500	60,500
Transfer-In	596,318	501,510	512,820	517,510	1,289,860	527,110	532,020	537,000	542,050
202 - Major Road Fund	\$ 4,489,946	\$ 4,018,670	\$ 6,238,340	\$ 4,052,680	\$ 4,850,800	\$ 4,157,400	\$ 4,162,380	\$ 4,187,380	\$ 4,213,200

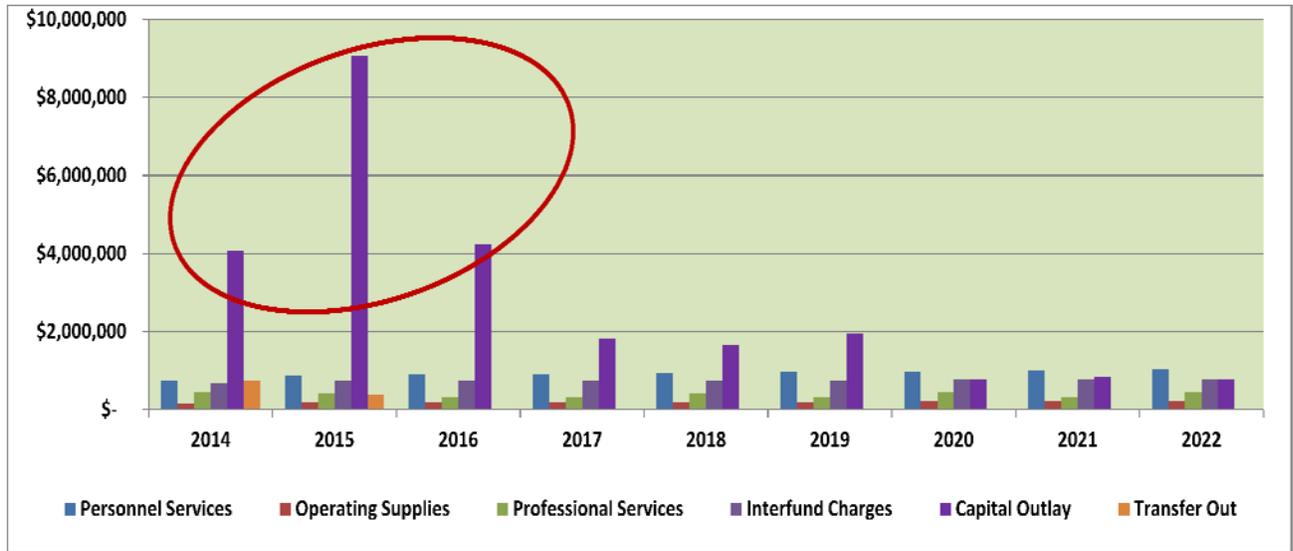
202 - Major Road Fund	2014	2015	2016	2017	2018	2019	2020	2021	2022
Personnel Services	\$ 751,497	\$ 880,910	\$ 899,000	\$ 918,160	\$ 938,460	\$ 960,010	\$ 982,910	\$ 1,007,300	\$ 1,033,280
Operating Supplies	157,594	176,050	182,300	188,860	195,750	203,770	212,150	220,930	230,110
Professional Services	455,183	425,380	324,980	309,980	424,980	314,370	435,310	323,330	445,930
Interfund Charges	690,098	744,540	744,540	744,540	744,540	755,030	765,690	776,510	787,490
Other Expenses	1,243	2,300	2,300	2,300	2,300	2,330	2,360	2,390	2,420
Capital Outlay	4,058,863	9,070,630	4,222,580	1,829,130	1,641,750	1,935,220	780,000	836,000	780,000
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	750,000	387,500	-	-	-	-	-	-	-
202 - Major Road Fund	\$ 6,864,478	\$ 11,687,310	\$ 6,375,700	\$ 3,992,970	\$ 3,947,780	\$ 4,170,730	\$ 3,178,420	\$ 3,166,460	\$ 3,279,230

Capital Outlay is based on the City's Capital Improvement Plan (CIP). The CIP is refined each year and project(s) will get updated time frames, costs and city share requirements. You can see the effect of pre-funding the Tienken Road (Adams to Livernois) construction project in FY2015 and receiving reimbursement in FY2016.

In the Transfer out area, you will notice that after FY 2015 the Major Road fund will be discontinuing its transfer to Local Streets. This will ensure a long-term sustainability of the Major Road Fund.

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ (2,374,532)	\$ (7,668,640)	\$ (137,360)	\$ 59,710	\$ 903,020	\$ (13,330)	\$ 983,960	\$ 1,020,920	\$ 933,970
BEGINNING FUND BALANCE	\$ 15,215,146	\$ 12,840,614	\$ 5,171,974	\$ 5,034,614	\$ 5,094,324	\$ 5,997,344	\$ 5,984,014	\$ 6,967,974	\$ 7,988,894
ENDING FUND BALANCE	\$ 12,840,614	\$ 5,171,974	\$ 5,034,614	\$ 5,094,324	\$ 5,997,344	\$ 5,984,014	\$ 6,967,974	\$ 7,988,894	\$ 8,922,864

Major Road's Fund Balance is used to fund their capital expenditure budget and the fund is positioned well to meet that goal provided it keeps revisiting its CIP projects.



Capital outlay is clearly the biggest part of Major Road's Budget

Important take away based on the forecast for this fund:

- Receives more in Act 51 funds than it needs for maintenance related costs
- Some of that Excess was being transferred to Local Street Fund to be used for Local Street maintenance. That practice ended with FY2015
- The fund's fund balance is used for construction projects and should last with good prioritization of capital projects and with the end of the transfer to Local Streets.

LOCAL STREET FUND

The Local Street Fund has had many challenges. Its biggest challenge is that it did not have enough dedicated revenue to *maintain* its street system in a safe and passable condition and had to rely on help from General Fund. We approached this **maintenance** funding challenge much like a four legged stool. In FY2015, maintenance costs are being funded with ACT 51 providing 25%, Local Street millage(s) providing 54%, Major Roads providing 8%, and General Fund making up the difference or 13% (General Fund also contributes to Local Streets for capital improvement activity).

FY 2015 Local Street Maintenance Funding Sources



In FY2016, maintenance funding will be, ACT 51 24%, Local Street millage(s) 76%. General Fund is not needed to provide maintenance help. All General Fund funding will be used for capital improvement activity.

FY 2016 Local Street Maintenance Funding Sources



LOCAL STREET FUND

Model Dated: April 8, 2015									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
203 - Local Street Fund	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ 2,498,858	\$ 2,544,920	\$ 3,571,190	\$ 3,624,280	\$ 3,678,200	\$ 3,733,070	\$ 3,788,790	\$ 3,845,360	\$ 3,902,806
Licenses & Permits	25,675	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Intergovernmental Revenue	1,354,329	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000	1,192,000
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	154,581	161,380	126,590	132,080	137,830	143,870	150,210	156,860	163,850
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	12,904	14,630	20,030	33,390	66,780	133,560	133,560	133,560	133,560
Other Revenue	94,217	10,320	7,500	-	7,500	-	7,500	-	7,500
Transfer In	6,723,170	6,442,420	5,190,110	4,352,540	4,274,910	4,384,470	4,373,650	4,286,310	4,717,800
203 - Local Street Fund	\$ 10,863,734	\$ 10,380,670	\$ 10,122,420	\$ 9,349,290	\$ 9,372,220	\$ 9,601,970	\$ 9,660,710	\$ 9,629,090	\$ 10,132,516

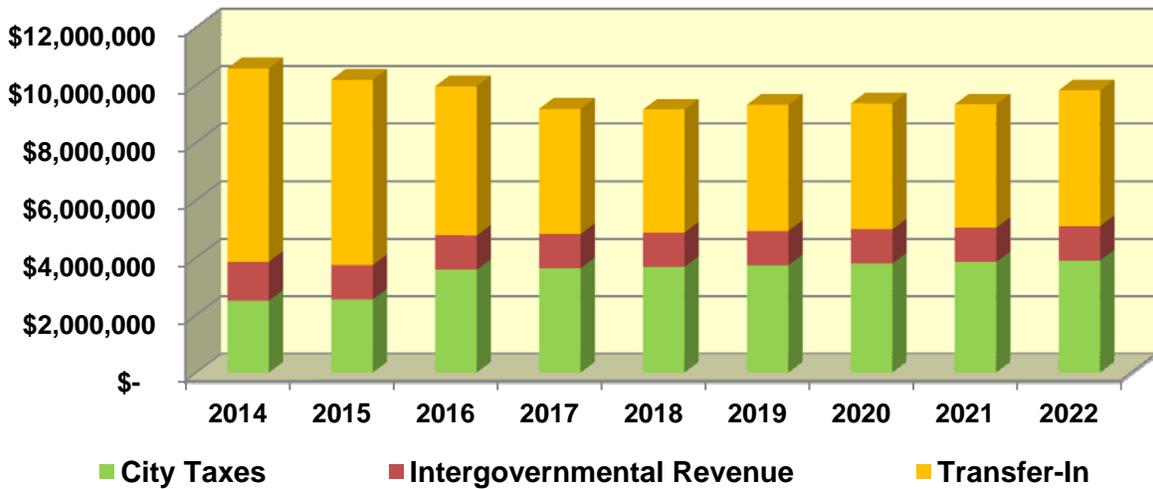
203 - Local Street Fund									
Personnel Services	\$ 1,580,136	\$ 1,680,790	\$ 1,717,330	\$ 1,756,130	\$ 1,797,380	\$ 1,841,260	\$ 1,887,970	\$ 1,937,810	\$ 1,991,050
Operating Supplies	212,992	353,320	358,550	364,040	369,800	379,590	389,740	400,260	411,170
Professional Services	209,850	267,100	267,400	252,400	267,400	256,180	276,240	260,080	280,140
Interfund Charges	1,674,671	1,802,980	1,802,980	1,802,980	1,802,980	1,828,010	1,853,420	1,879,190	1,905,340
Other Expenses	156,301	177,560	144,230	150,590	157,880	165,360	173,430	181,900	190,790
Capital Outlay	6,552,375	5,464,650	5,200,000	4,709,000	4,976,780	5,131,570	5,079,910	4,969,850	5,354,026
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	627,240	634,270	631,930	314,150	-	-	-	-	-
203 - Local Street Fund	\$ 11,013,565	\$ 10,380,670	\$ 10,122,420	\$ 9,349,290	\$ 9,372,220	\$ 9,601,970	\$ 9,660,710	\$ 9,629,090	\$ 10,132,516

In FY2015, Local Streets will be receiving 35% of its total funding from property taxes or 76% of its maintenance needs from property taxes thanks to voter approval on repurposing of expiring debt millage(s) which freed up General Fund funding for capital improvement activities.

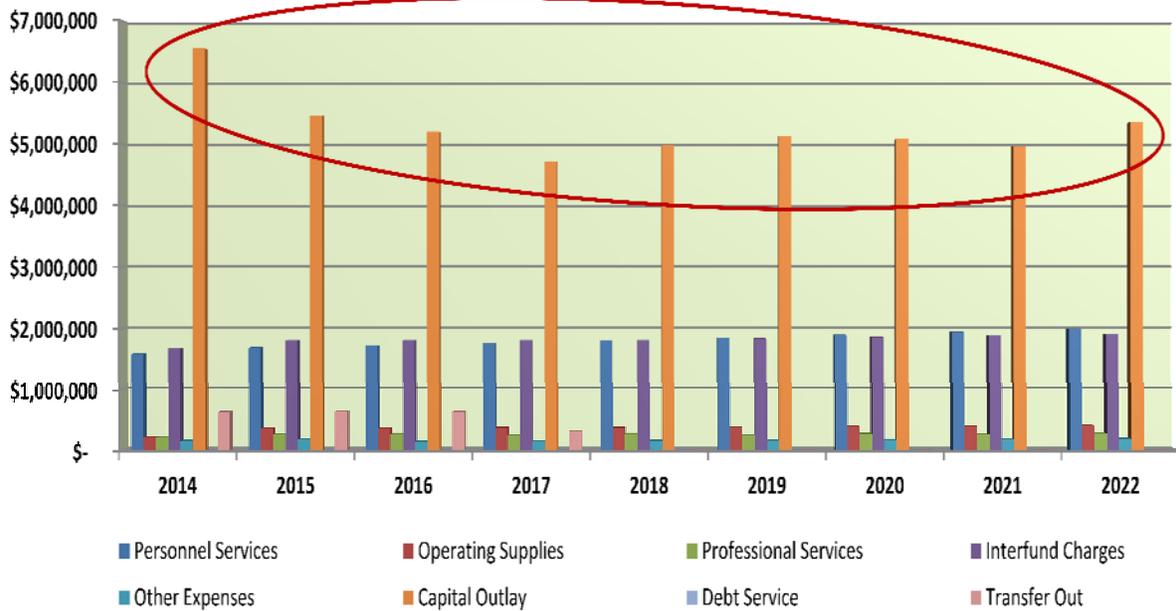
Local Street's Dependence on General Fund

Model Dated: April 8, 2015									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Transfer In - General Fund	\$ 5,973,170	\$ 6,054,920	\$ 5,190,110	\$ 4,352,540	\$ 4,274,910	\$ 4,384,470	\$ 4,373,650	\$ 4,286,310	\$ 4,717,800
Transfer In - Major Roads	750,000	387,500	-	-	-	-	-	-	-
Total Transfer In	\$ 6,723,170	\$ 6,442,420	\$ 5,190,110	\$ 4,352,540	\$ 4,274,910	\$ 4,384,470	\$ 4,373,650	\$ 4,286,310	\$ 4,717,800
Local Road Fund Revenues	\$ 10,863,734	\$ 10,380,670	\$ 10,122,420	\$ 9,349,290	\$ 9,372,220	\$ 9,601,970	\$ 9,660,710	\$ 9,629,090	\$ 10,132,516
Transfers as a % of Revenues	61.9%	62.1%	51.3%	46.6%	45.6%	45.7%	45.3%	44.5%	46.6%
Capital Outlay	6,552,375	5,464,650	5,200,000	4,709,000	4,976,780	5,131,570	5,079,910	4,969,850	5,354,026
Capital Outlay as a % of Trans	97.5%	84.8%	100.2%	108.2%	116.4%	117.0%	116.1%	115.9%	113.5%

As the above table shows, Local Streets depends on about 51% of all its funding from General Fund but it also spends just over 100% of those transferred dollars on capital activity.



As the above graph shows, transfer-in continues to be a major funding source for Local Streets.



As the above graph shows, capital expenditures are a major and growing expenditure for Local Streets funded by General Fund.

Important take away based on the forecast for this fund:

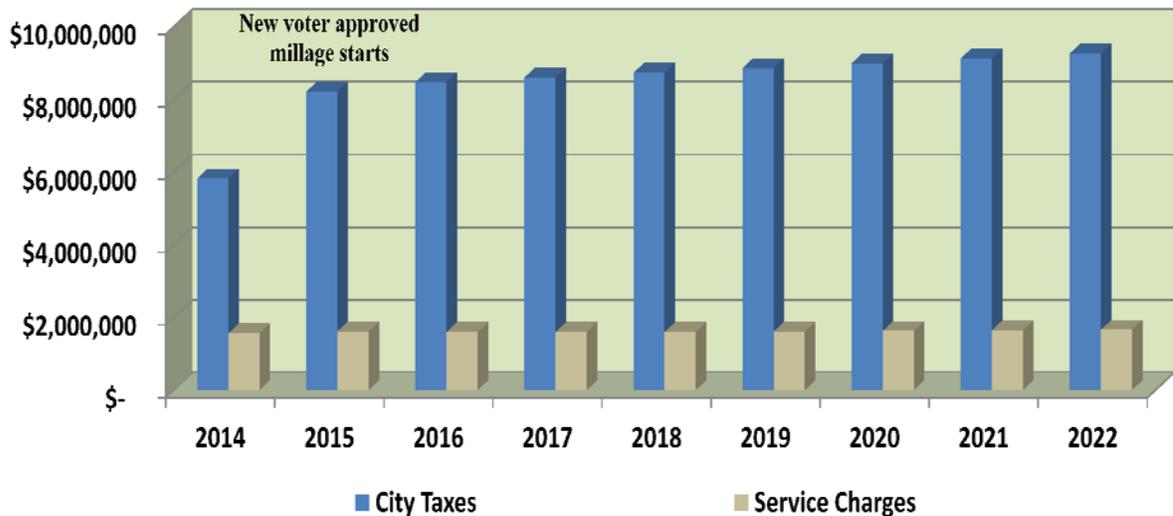
- The fund does not receive enough Act 51 (Gas and Weigh Tax) funding to cover its maintenance costs.
- Local Streets now has two dedicated funding sources: Act 51 and Local Street millage(s) which is providing approximately 50% of its total revenue but 100% of its maintenance cost.
- Local Streets has no funding source available for capital improvements to Local (subdivision) streets and must rely on General Fund for support of its capital needs.

FIRE FUND

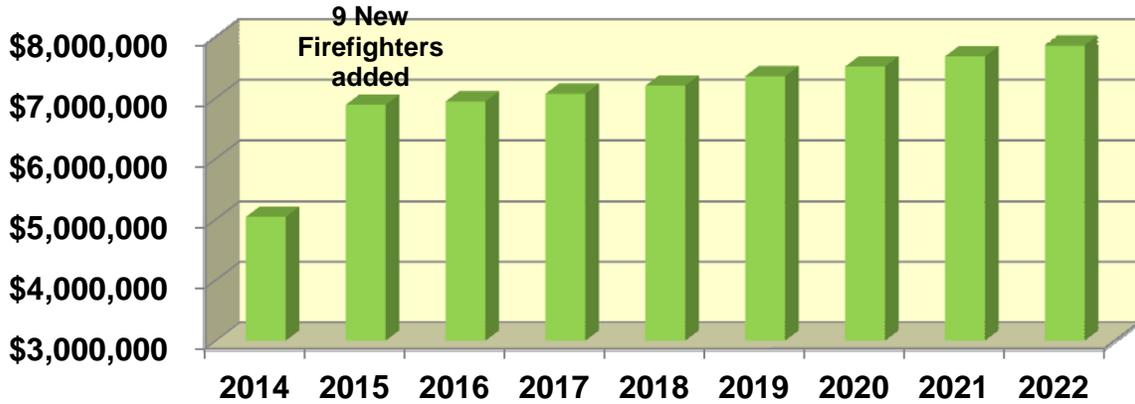
In the fall of 2014, voters were asked if they wanted to increase the City Charter millage for Fire Services to up to 3 mills to increase services levels. Voters approved that ballot question and the new millage was spread for FY2015. The table below shows the effect of the increase in property taxes and the expenditure offset in personnel costs.

Model Dated: April 8, 2015									
206 - Fire Department Fund									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ 5,821,723	\$ 8,210,970	\$ 8,471,210	\$ 8,597,160	\$ 8,725,080	\$ 8,855,190	\$ 8,987,350	\$ 9,121,557	\$ 9,257,825
Licenses & Permits	5,025	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Intergovernmental Revenue	1,204	-	-	-	-	-	-	-	-
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	1,560,312	1,619,250	1,596,250	1,596,250	1,596,250	1,612,000	1,627,910	1,643,980	1,660,210
Fines & Forfeitures	3,057	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Investment Earnings	14,702	9,290	12,090	20,150	40,310	80,610	80,610	80,610	80,610
Other Revenue	4,216	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Transfer-In	179,022	-	-	-	-	-	-	-	-
206 - Fire Operating Fund	\$ 7,589,260	\$ 9,854,510	\$ 10,094,550	\$ 10,228,560	\$ 10,376,640	\$ 10,562,800	\$ 10,710,870	\$ 10,861,147	\$ 11,013,645
206 - Fire Fund									
Personnel Services	\$ 5,037,844	\$ 6,835,030	\$ 6,939,930	\$ 7,066,180	\$ 7,199,790	\$ 7,357,740	\$ 7,515,200	\$ 7,682,150	\$ 7,859,380
Operating Supplies	110,309	140,620	113,070	113,070	113,070	114,790	116,520	118,270	120,050
Professional Services	333,340	474,200	410,330	423,330	430,330	443,740	460,410	471,580	486,710
Interfund Charges	1,602,701	1,595,270	1,619,270	1,595,270	1,619,270	1,619,200	1,666,320	1,666,590	1,714,780
Other Expenses	44,095	53,840	51,250	49,960	49,960	50,620	51,280	51,940	52,610
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out to Capital Fund	145,360	705,550	960,700	980,750	964,220	976,710	901,140	870,617	780,115
206 - Fire Fund	\$ 7,274,150	\$ 9,854,510	\$ 10,094,550	\$ 10,228,560	\$ 10,376,640	\$ 10,562,800	\$ 10,710,870	\$ 10,861,147	\$ 11,013,645

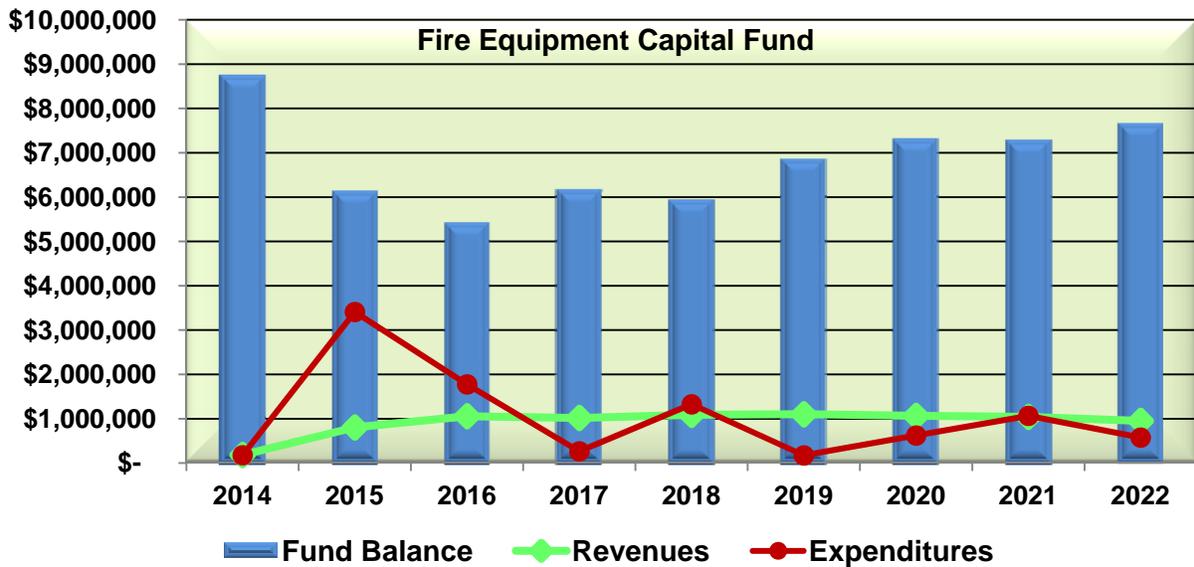
Fire Fund Revenues



Personnel Services



Personnel costs reflect the 9 new Firefighters and current staffing configuration.



The Fire Equipment Capital Fund also looks stable in the near term. However, because of the nature and large dollar level of the equipment they purchase, further refinement of their replacement schedule is recommended. They should also develop a process to annually review their millage rate and the capital fund to ensure its long-term sustainability.

Important take away based on the forecast for this fund:

- The FY2015 Fire millage rate was increased based on voter approved change
- The Fire Capital Fund is stable in the near term. Refinement and review of the replacement schedule and an on going review of the amount spread for the Fire Millage should be reviewed periodically to ensure the capital fund's longer-term sustainability.

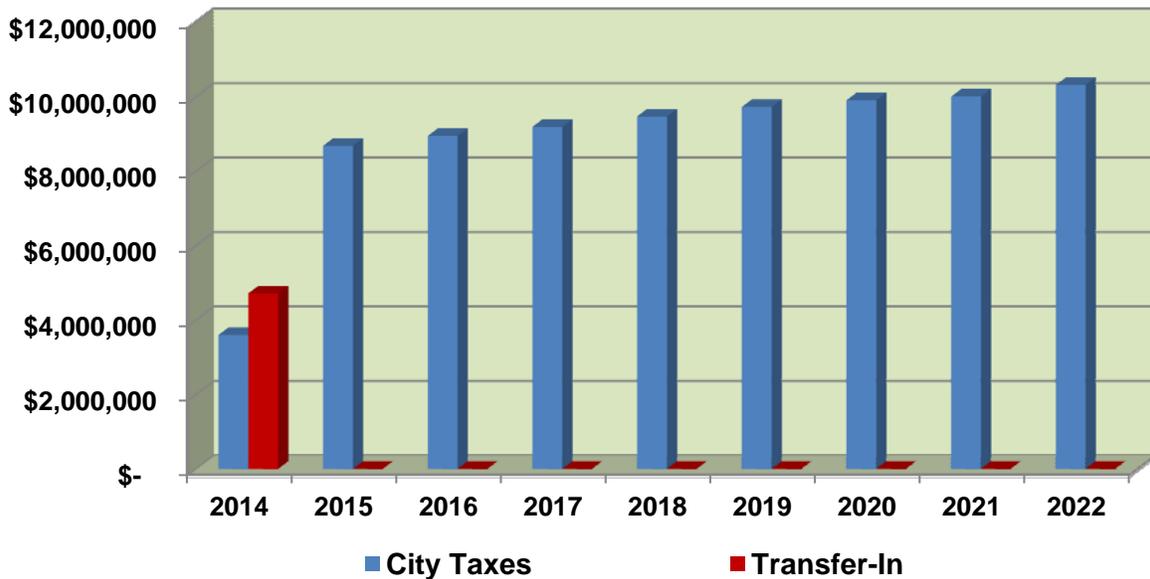
SPECIAL POLICE FUND

You can see the effect of the new Police Service millage plus the renewal of the two expiring millage(s) and the end of the General Fund's subsidy starting in FY2015.

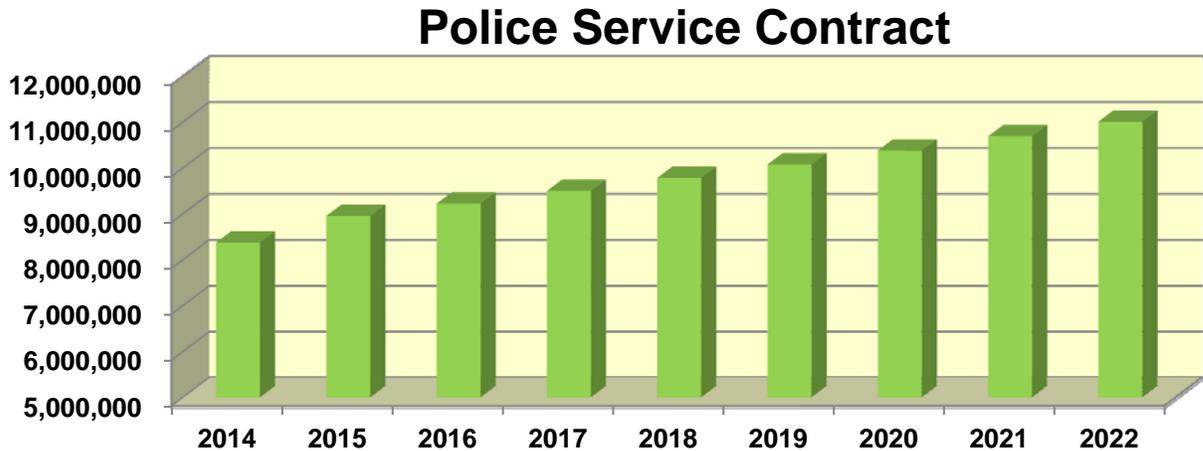
Model Dated: April 8, 2015

	2014	2015	2016	2017	2018	2019	2020	2021	2022
207 - Special Police Fund	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ 3,595,406	\$ 8,677,360	\$ 8,943,630	\$ 9,187,930	\$ 9,467,110	\$ 9,719,510	\$ 9,901,060	\$ 9,998,173	\$ 10,308,537
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	334,201	300,910	308,800	316,930	325,300	333,930	342,810	351,960	361,380
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	153,067	171,870	175,380	178,990	182,710	186,540	190,490	194,550	198,740
Fines & Forfeitures	395,927	345,000	345,000	345,000	345,000	345,000	345,000	345,000	345,000
Investment Earnings	6,121	3,180	4,640	7,740	15,470	30,950	30,950	30,950	30,950
Other Revenue	9,742	-	-	-	-	-	-	-	-
Transfer-In	4,714,610	-	-	-	-	-	-	-	-
207 - Special Police Fund	\$ 9,209,073	\$ 9,498,320	\$ 9,777,450	\$ 10,036,590	\$ 10,335,590	\$ 10,615,930	\$ 10,810,310	\$ 10,920,633	\$ 11,244,607

207 - Special Police	2014	2015	2016	2017	2018	2019	2020	2021	2022
Personnel Services	\$ 53,878	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Supplies	6,220	16,500	16,500	16,500	16,500	16,760	17,020	17,280	17,540
Professional Services	8,371,009	8,951,720	9,220,180	9,496,700	9,781,490	10,074,890	10,377,090	10,688,360	11,008,960
Interfund Charges	170,120	196,910	196,910	196,910	196,910	199,860	202,850	205,890	208,980
Other Expenses	1,557	13,810	10,180	8,900	9,010	9,040	9,070	9,100	9,130
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	329,795	319,380	333,680	317,580	331,680	315,380	204,280	-	-
207 - Special Police	\$ 8,932,579	\$ 9,498,320	\$ 9,777,450	\$ 10,036,590	\$ 10,335,590	\$ 10,615,930	\$ 10,810,310	\$ 10,920,633	\$ 11,244,610



Based on the current level of contracted officers (58), the cost of the sheriff contract moves upward from just under \$9 million in FY2015 to about \$11million by 2022 (22% increase), based on the current assumptions used in the forecasting model.



Important take away based on the forecast for this fund:

- In FY2015, Police Services is no longer subsidized by General Fund as its new voter approved dedicated millage starts.
- Sheriff Contract Pricing Adjusts each Year which will require the Special Police millage to rise to offset those increases. Any increase in the Special Police millage is offset by a reduction in the General Fund levy has designed in the City's Forecasting model

Water Resource Fund

You may recall our discussion and Financial Forecast in 2011. That Financial Forecast showed the Water Resource Fund running out of all funding, including fund balance reserves, by 2015. Since that presentation, the Fund has deferred all capital improvement projects. With the postponement of those projects and adjustments in other operating expenditures, the fund is projected to last into FY2018 before all available resources are gone.

Model Dates: April 8, 2015									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
244 - Water Resources Fund	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	64,524	-	-	-	-	-	-	-	-
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	109,979	23,700	23,700	23,700	23,700	23,700	23,700	23,700	23,700
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	3,065	2,430	5,490	6,720	8,750	8,050	-	-	-
Other Revenue	150,441	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Transfer-in	15,000	710,000	-	-	-	-	-	-	-
244 - Water Resources Fund	\$ 343,009	\$ 748,130	\$ 41,190	\$ 42,420	\$ 44,450	\$ 43,750	\$ 35,700	\$ 35,700	\$ 35,700
244 - Water Resources Fund									
Personnel Services	\$ 209,169	\$ 179,920	\$ 183,740	\$ 187,790	\$ 192,090	\$ 196,650	\$ 201,510	\$ 206,680	\$ 212,200
Operating Supplies	14,141	18,000	18,000	18,000	18,000	18,280	18,560	18,840	19,130
Professional Services	96,158	753,750	43,750	43,750	43,750	44,410	45,070	45,750	46,440
Interfund Charges	95,063	88,540	88,540	88,540	88,540	89,700	90,870	92,060	93,270
Other Expenses	70,903	178,490	190,860	174,430	174,430	177,050	179,710	182,410	185,150
Capital Outlay	10,030	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	-	-	-	-	-	-	-	-	-
244 - Water Resources Fund	\$ 495,464	\$ 1,218,700	\$ 524,890	\$ 512,510	\$ 516,810	\$ 526,090	\$ 535,720	\$ 545,740	\$ 556,190
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Actual	1st Qtr	Projected	Projected	Estimated	Estimated	Estimated	Estimated	Estimated
	\$ (152,455)	\$ (470,570)	\$ (483,700)	\$ (470,090)	\$ (472,360)	\$ (482,340)	\$ (500,020)	\$ (510,040)	\$ (520,490)
BEGINNING FUND BALANCE	\$ 2,451,509	\$ 2,299,054	\$ 1,828,484	\$ 1,344,784	\$ 874,694	\$ 402,334	\$ (80,006)	\$ (580,026)	(1,090,065.86)
ENDING FUND BALANCE	\$ 2,299,054	\$ 1,828,484	\$ 1,344,784	\$ 874,694	\$ 402,334	\$ (80,006)	\$ (580,026)	\$ (1,090,066)	\$ (1,610,596)

Important take away based on the forecast for this fund:

- The fund has no dedicated funding source. It must make fund balance last as long as possible to pay for maintenance costs related to the City's storm water drain system.
- Many of the City's drains were constructed under Chapter 20 of the Michigan Drain Code which obligates the City to pay Oakland County Water Resources for maintenance related work. This limits the City's ability to control maintenance costs.
- The fund will be out of money after FY 2018.

Critical Factors to Focus on

- 43% of **General Fund's** FY2016 revenue or 143% of FY2016 **General Fund** tax revenue is transferred to other funds.
- **Local Streets** needs additional funding sources if it is wants to continue performing subdivision reconstruction (capital) activity. General Fund is able to provide some limited support in this area.
- **Fire Fund** with the recently (voter) approved millage increase; the fund is able to add additional staffing to improve its service levels. The Fund should review and update its capital replacement schedule and develop an annual review process of its Fire Apparatus (Capital) Fund to ensure its sustainability.
- **Water Resource Fund** needs a funding source if it is to survive beyond FY2018.

IN SUMMARY

- Like many governments, the City faced a major economic downturn, which challenged our ability to deliver programs and services supported by property taxes and state revenues.
- With Council's support we have been able to indentify and manage during the worst of the economic storm. Working together, we careful prioritized services and programs.
- As we were told by the City's Audit firm, the Financial Forecast has helped us get ahead of issues and address them before they became problems. Working together, we have been able to use the fiscal forecast to move the City to a three year approach to budgeting, to bring services and expenses in line with revenue resources and to become pro-active on those issues affecting our ability to deliver services to our citizens.
- I/We appreciate Council's support. Without it, we might not have been able to manage during the Great Recession.
- There will always be financial challenges but with careful planning many of these challenges can and will be turned into opportunities.