

# **CITY OF ROCHESTER HILLS**



## **SEVEN YEAR FINANCIAL FORECAST**

**For Fiscal Years 2012 – 2018**

June 6, 2011

## INTRODUCTION

### PURPOSE OF THE FORECAST

This year we have moved our normal Five Year Financial Forecast to a Seven Year Financial Forecast. With the launch of the City's three year budget process it seemed appropriate that we move to a seven year forecast since two of our original five year forecast has now moved to our three year budget document.

The City's Financial Forecast was developed and refined to help City Administration and City Council with a forward look at the City's revenues and expenditures based on a set of certain 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 i.e. it helps prevent surprises. 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 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 plan. The Financial Forecast is not intended to be a comprehensive financial plan for achieving City Council objectives. ***It is a forecast, based on certain assumptions, of what our financial position would be if current service levels, programs or policies are continued.***

The 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 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 streams.

It should also be noted that the City does forecast the effects the assumptions will have on its Water and Sewer (Enterprise) Fund but, since the nature of this fund is to set rates at levels to cover operating expenses, the 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 on a set of 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 at current levels.

### **ECONOMIC ASSUMPTIONS**

The Financial Forecast is assuming a continuation of the economic downturn, but at a lesser degree, into fiscal years 2012, 2013 and 2014. We anticipate a flattening and then a very modest recovery in taxable values to begin in fiscal year 2016. Here's a list of issues affecting the economy and the City's ability to generate revenues to deliver its services:

- Continuing but slowing downturn in citywide taxable values
- Moderation in funding from the state;
- A somewhat tight credit market;
- Improving unemployment levels; and
- Weak consumer confidence and spending but showing some signs of improvement.

### **Housing Market Downturn**

The housing market slowdown, believed to have started in 2006, has worsened and is expected to continue into FY2014. The housing downturn is putting pressure on the City's taxable values, which, from our current estimates, will continue its downward slide until fiscal year 2014.

### **Funding from the State**

Two factors will influence revenue received from the State. The first is our share of Sales Tax collections (commonly known as State Shared Revenue). Based on population growth from the 2010 census data we will receive a larger share of that revenue. In addition, as we move out of a recessionary economy to an expanding economy the State will see its Sales Tax collections grow which we will share in.

The second is our share of gas and weigh tax (commonly know as ACT 51 funding). Generally, as the economy expands you would normally see growth in our share of Gas and Weigh Tax as people and businesses drive more and use more gasoline but with gasoline prices relatively high and the cost of gas taking a bigger share of consumers and business's budgets we don't expect to see much growth, if any, in our share of Gas and Weigh Taxes.

Overall, we expect modest grow in our funding from the State.

## **Tight Credit Market**

A somewhat tight credit market is causing difficulties for owners of small businesses, across the country, to get financing. A tight credit market is also making it difficult for those that want and can afford to buy a home be able to do so.

## **Unemployment Levels**

Within the last several months we have been hearing some good news about unemployment. The U.S. Bureau of Labor Statistics recently reported that the US seasonally adjusted unemployment rate for March 2011 had moved to 8.8% vs. 9.7% in March of 2010. While Oakland County's unemployment rate, in January 2011, was at 10.2%, down from 13.8% last year at the same time and for the state, the March, 2011 unemployment rate was at 10.3% vs. 13.3% in March 2010. Unemployment continues to be an issue effecting housing (and taxable values) and consumer spending but to a lesser degree.

## **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 or continued unemployment and home equity losses, they are holding tight on spending. Consumer confidence has been at historic lows for several years. There appears to be some light at the end of the tunnel and consumers appear to feel more comfortable about their future but higher gasoline and food costs are putting a damper on their spending.

## Key Forecasting Points

The City's Financial Forecast is based on maintaining current programs, services and policies as amended in the current 2011 budget. It then focuses on key revenue and expenditure data points and applies assumptions of the future on those key data points. The forecast 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 applied on current millage rates (with or without changes) and assumptions on renewals.
- **New or Replacement Millage introduced**  
We also make the assumption that no new or replacement millage will be introduced to fill funding gaps.
- **State Shared Revenue**  
Working off the Michigan Department of Treasury web site, our current collection experience and with general knowledge from the public domain, we also incorporate an adjustment factor for state shared revenue. With the release of the 2010 census data, we have incorporated the effects of that information on our revenue sharing forecast.
- **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.

**Assumptions used in the May, 2011 Forecast:**

- **Taxable Values**
  - -6.25% for FY2012
  - -5.00% for FY2013
  - -5.00% for FY2014
  - 0.00% for FY2015
  - +1.00% for FY2016
  - +1.00% for FY 2017
  - +2.00% for FY2018
  
- **Interest Rates**
  - 1.0% for FY2012
  - 1.50% for FY2013
  - 2.00% for FY2014
  - 3.0% for FY 2015 to FY2018.
  
- **New or Replacement Millage introduced**
  - NONE
  
- **State Shared Revenue**
  - 2.9% for FY2012 \*
  - \* = Reflects adjustment for 2010 census data
  - 1.0% for FY2013
  - 1.0% for FY2014
  - 0.0% for 2015 to FY2018
  
- **Act 51 Revenue**
  - -1.00% for FY2012
  - -1.00% for FY2013
  - 0.00% for FY2014 to FY2018.
  
- **Current Millage Rates remain unchanged**
  - YES, expiring millages are renewed or where allowed, millages moved to their Headlee Limit to meet operating needs provided that change does not increase the City's total millage rate spread from the year before.

## Expenditures

Just like Revenues we also forecast 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, either current levels are used or the current direction of those discussions may be 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 on the City's recent health care experience, future health care costs are forecasted. We use the increase, based on the city's base plan, to forecast *all* health care costs.
- **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 on the advise 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, 2011 Forecast:**

- **Salary and Wages**
  - 0.0% for FY2012
  - 0.0% for FY2013
  - 0.5% for FY2014
  - 1.0%, for FY2015 to FY2018.
  
- **Changes in Number of Employees**
  - None
  
- **Health Care and other Fringe Benefits**
  - +15.00% for FY2012
  - +10.00% for FY2013 to FY2018.
  
- **Pension (City Share) Change**
  - -1.0% FY2012
  - 0.0% FY2013 to FY2018.
  
- **Inflation**
  - General Citywide Inflation: Percent Change = +1.00%
  - Capital Project Inflation: Percent Change = +1.00%
  
- **Sheriff Contract**
  - +2.0% for FY2012
  - +2.0% for FY2013
  - +2.0% for FY2014
  - +3.00% for FY2015 to FY2018

*Estimate provided by Oakland County Sheriff Business Manager*



## 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 Updated May 10, 2011									
	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	1st Qtr B/A	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
<b>101 - General Fund</b>									
City Taxes	\$ 13,316,478	\$ 11,758,130	\$ 11,020,740	\$ 10,434,290	\$ 10,356,610	\$ 10,339,620	\$ 10,461,940	\$ 10,567,170	\$ 10,778,510
Licenses & Permits	2,258,255	1,540,580	1,540,580	1,540,580	1,540,580	1,540,580	1,540,580	1,540,580	1,540,580
Intergovernmental Revenue	4,596,187	4,431,920	4,556,920	4,600,920	4,645,360	4,645,360	4,645,360	4,645,360	4,645,360
Interfund Charges	3,899,511	4,114,130	4,099,130	4,099,130	4,133,810	4,175,140	4,216,880	4,259,050	4,301,660
Service Charges	1,672,653	1,332,470	1,339,420	1,377,990	1,379,990	1,382,030	1,384,080	1,386,170	1,388,300
Fines & Forfeitures	14,902	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Investment Earnings	173,920	155,100	269,930	444,580	637,480	1,018,520	1,069,670	1,103,010	1,106,180
Other Revenue	128,069	111,530	86,530	86,530	86,530	86,530	86,530	86,530	86,530
Transfer-In	57,203	48,920	44,470	48,040	55,480	62,640	76,940	76,160	74,910
<b>101 - General Fund</b>	<b>\$ 26,117,178</b>	<b>\$ 23,500,780</b>	<b>\$ 22,965,720</b>	<b>\$ 22,640,060</b>	<b>\$ 22,843,840</b>	<b>\$ 23,258,420</b>	<b>\$ 23,489,980</b>	<b>\$ 23,672,030</b>	<b>\$ 23,930,030</b>
<b>101 - General Fund</b>									
Personnel Services	\$ 9,818,609	\$ 9,705,370	\$ 9,482,560	\$ 9,590,350	\$ 9,793,350	\$ 10,057,180	\$ 10,343,780	\$ 10,651,590	\$ 10,982,500
Operating Supplies	319,322	318,990	300,460	287,990	291,110	294,040	297,000	299,980	302,980
Professional Services	1,319,729	1,518,250	1,390,240	1,384,250	1,377,880	1,396,220	1,400,630	1,419,240	1,423,800
Interfund Charges	2,045,901	2,283,660	2,283,660	2,283,660	2,303,770	2,326,800	2,350,110	2,373,620	2,397,340
Other Expenses	205,716	207,150	205,340	195,670	197,400	199,680	202,000	204,360	206,750
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	8,385,269	6,843,180	6,379,160	6,625,730	7,096,120	7,340,680	7,837,690	8,723,240	8,616,660
<b>101 - General Fund</b>	<b>\$ 22,094,546</b>	<b>\$ 20,876,600</b>	<b>\$ 20,041,420</b>	<b>\$ 20,367,650</b>	<b>\$ 21,059,630</b>	<b>\$ 21,614,600</b>	<b>\$ 22,431,210</b>	<b>\$ 23,672,030</b>	<b>\$ 23,930,030</b>

It should be noted that the City's current forecasting model, used in forecasting General Fund, forces expenditures to equal revenues (as best as we can). 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: Special Police Fund, Local Street Fund and the Water Resource Fund.

In this forced balancing model, the Local Road Fund and the Water Resource Fund were chosen as the safety valve. They were chosen because the transfer to those two funds are not funding a contract, like the transfer to the Special Police Fund, and the transfers made to these two funds are large enough to accomplish this forced balancing goal. This would not be the case if the Water Resource Fund alone had been chosen.

Model Updated May 10, 2011

	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>990 - Transfer Out</b>									
Transfer Out - Major Roads	\$ 352,389	\$ 313,080	\$ 293,500	\$ 278,820	\$ 264,880	\$ 264,880	\$ 267,530	\$ 270,210	\$ 275,610
Transfer Out - Local Streets	2,670,280	1,675,450	979,970	1,077,470	1,225,370	1,257,180	1,517,660	2,173,000	1,859,190
Transfer Out - Special Police	3,869,040	4,146,820	4,397,860	4,561,610	4,893,130	5,101,440	5,330,830	5,553,830	5,751,080
Transfer Out - Water Resource Fund	856,660	-	-	-	-	-	-	-	-
Transfer Out - Capital Improve. Fund	97,000	165,000	165,000	165,000	164,850	164,850	164,850	164,850	164,850
Transfer Out - Facilities (Common Area)	436,200	439,130	439,130	439,130	443,520	447,960	452,440	456,960	461,530
Transfer Out - Supple Retiree Health Trust	103,700	103,700	103,700	103,700	103,700	103,700	103,700	103,700	103,700
<b>TRANSFER OUT</b>	<b>\$ 8,385,269</b>	<b>\$ 6,843,180</b>	<b>\$ 6,379,160</b>	<b>\$ 6,625,730</b>	<b>\$ 7,096,120</b>	<b>\$ 7,340,680</b>	<b>\$ 7,837,690</b>	<b>\$ 8,723,240</b>	<b>\$ 8,616,660</b>

*For this presentation*, we have adjusted our current forecasting model so that General Fund makes a transfer to Local Street Fund large enough to make sure that the Local Street Fund can have enough revenue to cover **annual maintenance costs**. We have **not** done that with the Water Resources Fund.

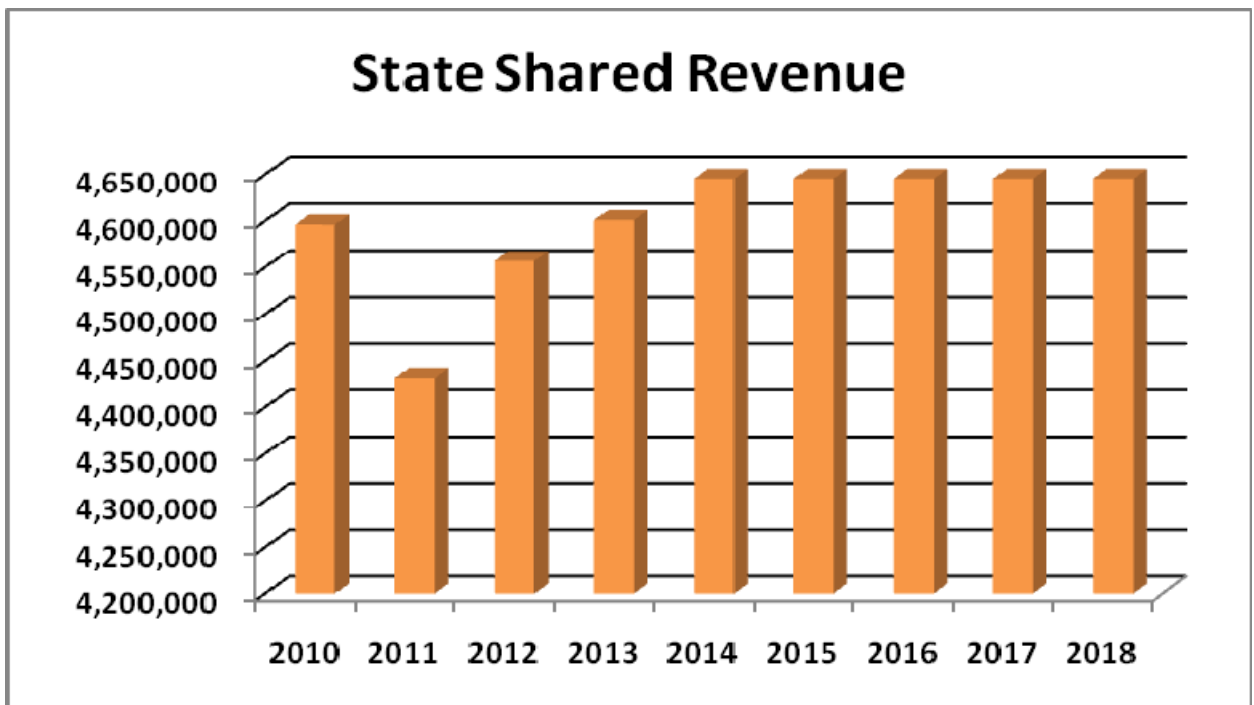
The General Fund transfer to the Local Street Fund **DOES NOT** provide for any capital projects in that fund.

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

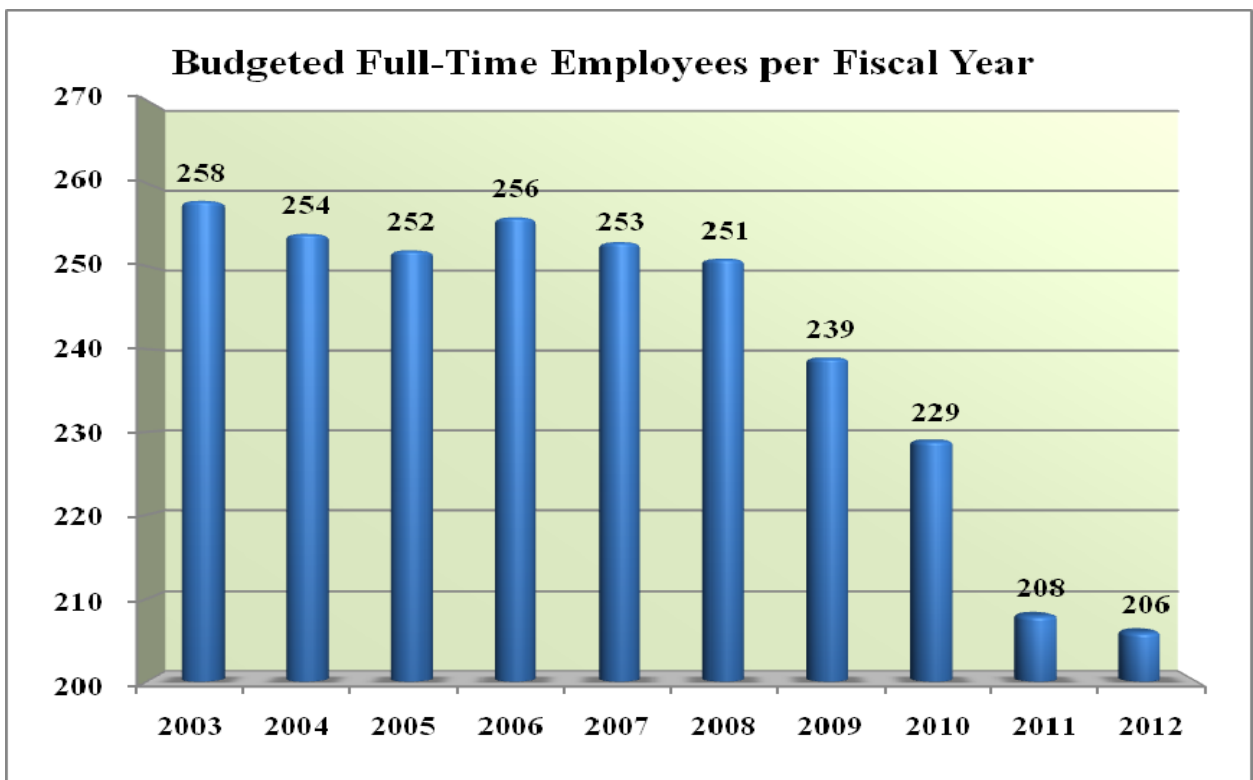
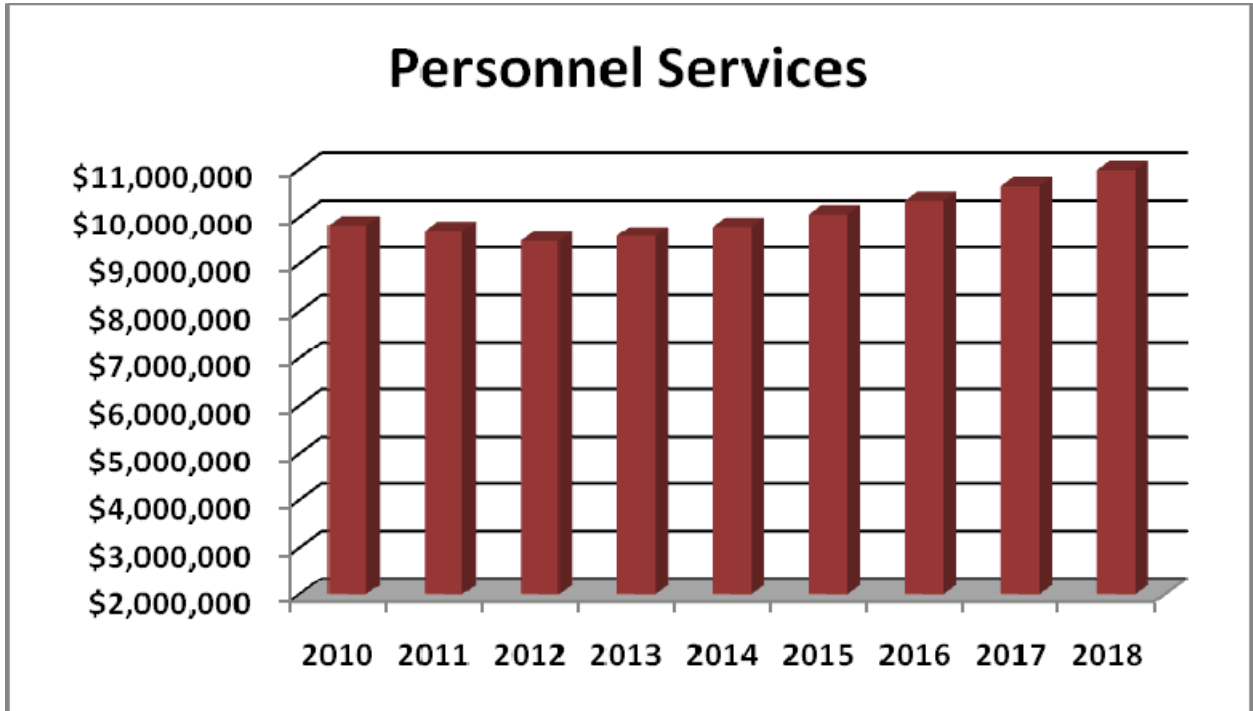
Let's now take a closer look at future revenue sources in General Fund. As the charts show, property tax revenues decrease from years 2011 to 2013, level out in year 2014 and show a very modest increase in 2015 to 2018.



The City's other major revenue source is state shared revenue as the State Revenue Sharing graph shows, the City's recent positive news on the 2010 census is reflected.



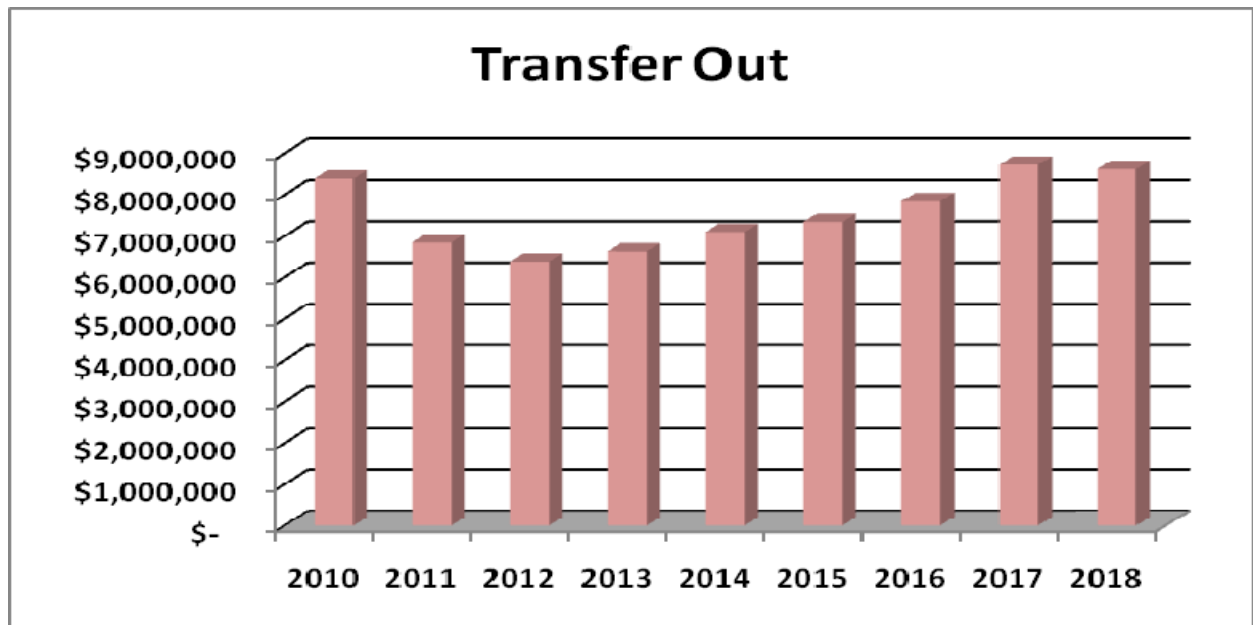
Now let's turn our attention to General Fund's expenditure side. As the charts show, personnel costs, because of forecasted increases in health care costs, increase for each forecasted year even through the City's staff size has been downsized by 20%.



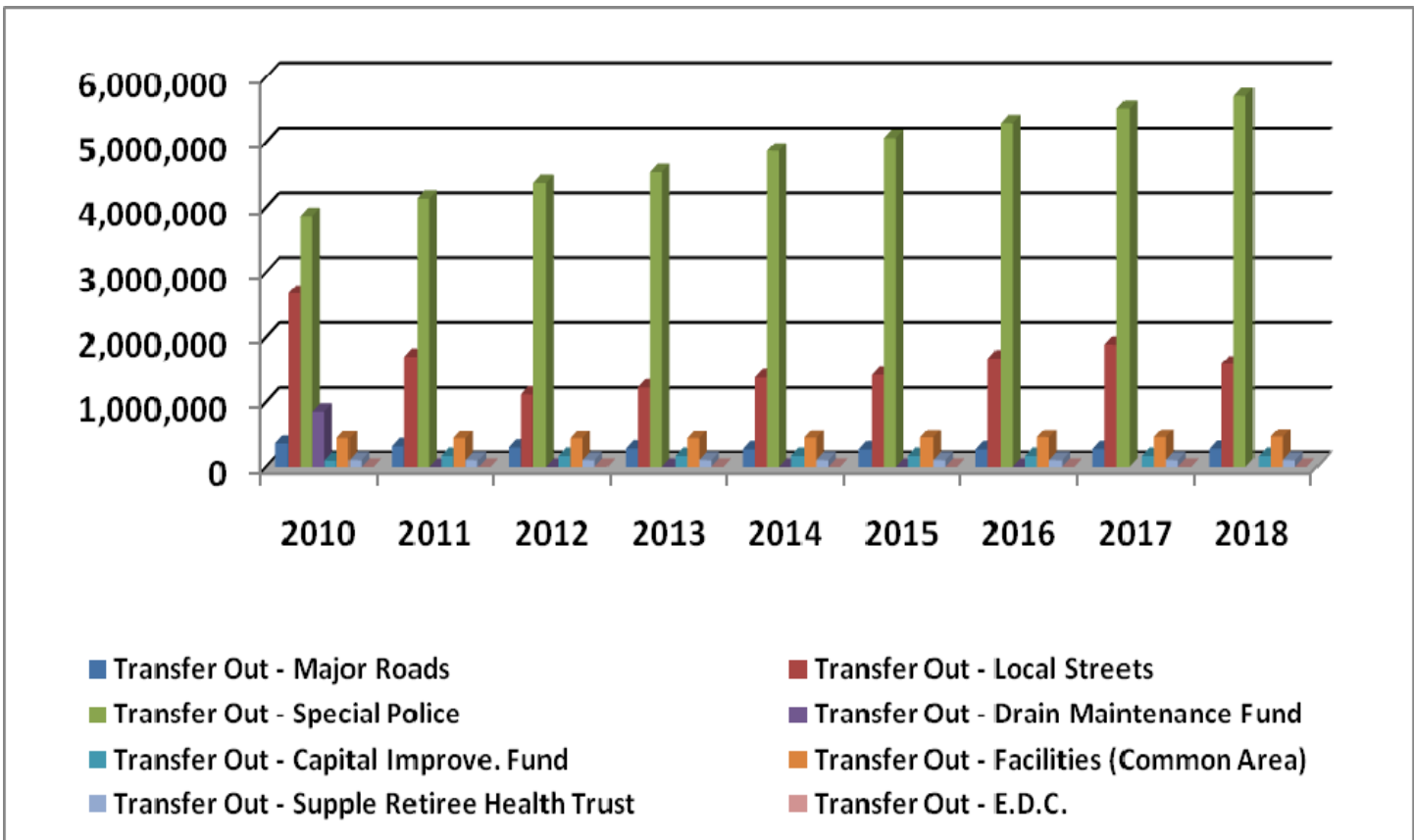
Transfers to other funds also increase each year going forward. The increases in the transfer out area are all related to the needs of both the Special Police Fund and the Local Street Fund for maintenance activity. All other expenditures remain fairly consistent.

**Model Updated May 10, 2011**

	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>990 - Transfer Out</b>									
Transfer Out - Major Roads	\$ 352,389	\$ 313,080	\$ 293,500	\$ 278,820	\$ 264,880	\$ 264,880	\$ 267,530	\$ 270,210	\$ 275,610
Transfer Out - Local Streets	2,670,280	1,675,450	979,970	1,077,470	1,225,370	1,257,180	1,517,660	2,173,000	1,859,190
Transfer Out - Special Police	3,869,040	4,146,820	4,397,860	4,561,610	4,893,130	5,101,440	5,330,830	5,553,830	5,751,080
Transfer Out - Water Resources Fund	856,660	-	-	-	-	-	-	-	-
Transfer Out - Capital Improve. Fund	97,000	165,000	165,000	165,000	164,850	164,850	164,850	164,850	164,850
Transfer Out - Facilities (Common Area)	436,200	439,130	439,130	439,130	443,520	447,960	452,440	456,960	461,530
Transfer Out - Supple Retiree Health Trust	103,700	103,700	103,700	103,700	103,700	103,700	103,700	103,700	103,700
<b>TRANSFER OUT</b>	<b>\$ 8,385,269</b>	<b>\$ 6,843,180</b>	<b>\$ 6,379,160</b>	<b>\$ 6,625,730</b>	<b>\$ 7,096,120</b>	<b>\$ 7,340,680</b>	<b>\$ 7,837,690</b>	<b>\$ 8,723,240</b>	<b>\$ 8,616,660</b>



Here's a more detailed look at the **Transfer-Out section of General Fund**:



The above charts show just how quickly the needs of the Special Police Fund and the Local Street Fund increase over the next several years and the pressure it puts on the General Fund.

**Important take away based on the forecast for this fund:**

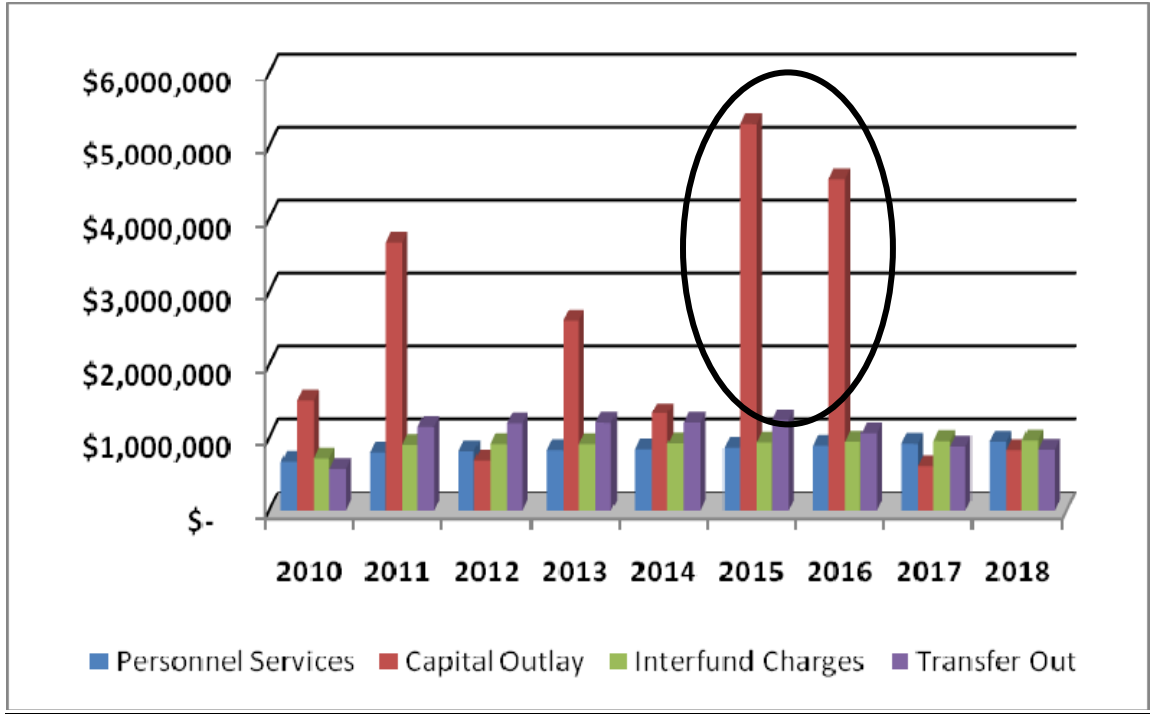
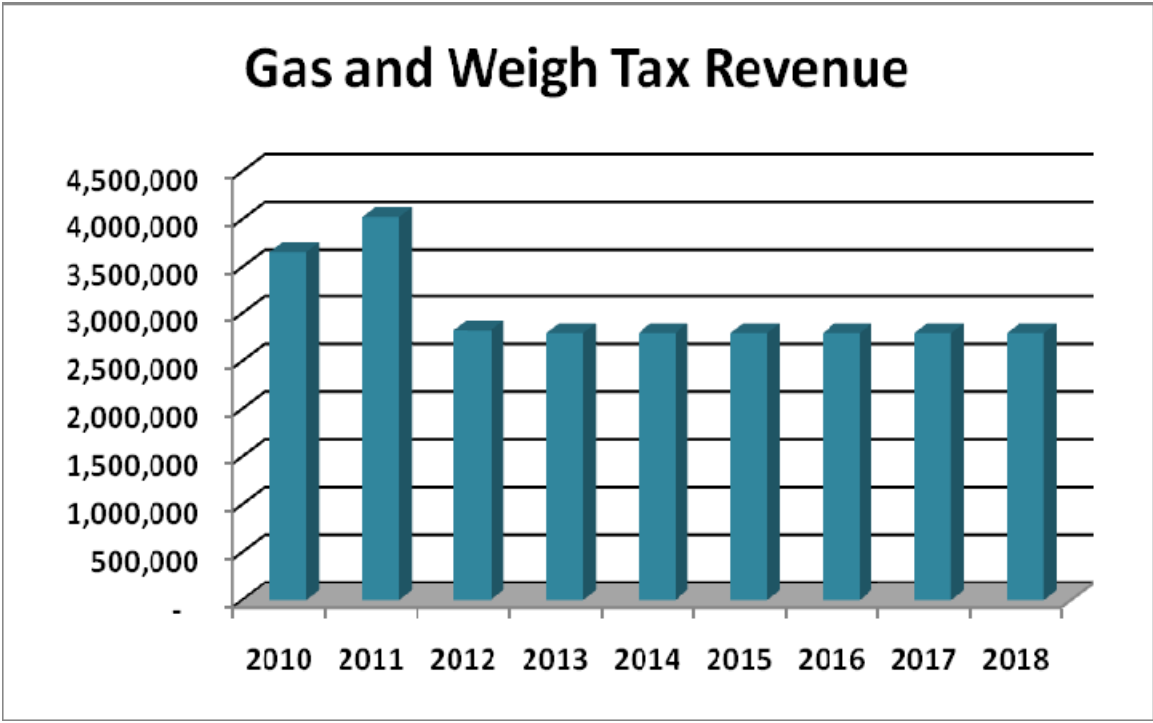
- Approximately 1/3 of all revenue collected in General Fund is transferred to other funds to support their activities.
- The fund is fiscally sound following current budget policies and the structure used in the financial model. The fiscal soundness comes by reductions in General Fund transfers to Local Streets, Water Resources and possibility, in the future, Police services if further General Fund expense to revenue balancing is needed.

## MAJOR ROAD FUND

Model Updated May 10, 2011									
	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	1st Qtr B/A	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
<b>202 - Major Road Fund</b>									
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	3,657,722	4,024,060	2,820,570	2,792,370	2,792,370	2,792,370	2,792,370	2,792,370	2,792,370
Interfund Charges	28,399	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Service Charges	207,246	204,500	204,500	204,500	204,500	204,500	204,500	204,500	204,500
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	139,217	108,100	137,320	198,720	232,190	314,540	161,930	32,110	19,900
Other Revenue	118,683	35,500	35,500	35,500	35,500	35,500	35,500	35,500	35,500
Transfer-In	677,389	513,080	493,500	1,246,400	464,880	464,880	467,530	470,210	475,610
<b>202 - Major Road Fund</b>	<b>\$ 4,828,655</b>	<b>\$ 4,905,240</b>	<b>\$3,711,390</b>	<b>\$ 4,497,490</b>	<b>\$ 3,749,440</b>	<b>\$ 3,831,790</b>	<b>\$ 3,681,830</b>	<b>\$3,554,690</b>	<b>\$ 3,547,880</b>
<b>202 - Major Road Fund</b>									
Personnel Services	\$ 680,281	\$ 803,220	\$ 819,750	\$ 832,430	\$ 844,790	\$ 867,650	\$ 892,150	\$ 918,410	\$ 946,610
Operating Supplies	113,826	204,270	204,270	204,270	206,320	208,380	210,470	212,570	214,700
Professional Services	469,352	496,630	365,630	360,630	353,990	367,530	360,810	374,570	367,760
Interfund Charges	721,745	906,040	916,380	917,020	926,520	936,130	945,830	955,650	965,560
Other Expenses	1,485	2,300	2,300	2,300	2,320	2,340	2,360	2,380	2,400
Capital Outlay	1,524,024	3,684,610	693,750	2,616,270	1,335,000	5,296,930	4,537,130	617,250	835,320
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	582,190	1,144,410	1,193,060	1,203,260	1,205,500	1,239,760	1,060,210	881,110	840,850
<b>202 - Major Road Fund</b>	<b>\$ 4,092,903</b>	<b>\$ 7,241,480</b>	<b>\$ 4,195,140</b>	<b>\$ 6,136,180</b>	<b>\$ 4,874,440</b>	<b>\$ 8,918,720</b>	<b>\$ 8,008,960</b>	<b>\$3,961,940</b>	<b>\$ 4,173,200</b>

Capital Outlay is based on the CIP. The CIP plan will be revised as project(s) get updated time frames, costs and city share requirements. Projects slated for 2015 and 2016 will be revised as we get closer to those years and will most likely be extended and better balanced out into the future.

Model Updated May 10, 2011									
	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	2nd Qtr B/A	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ 735,752	\$ (2,336,240)	\$ (483,750)	\$ (1,638,690)	\$ (1,125,000)	\$ (5,086,930)	\$ (4,327,130)	\$ (407,250)	\$ (625,320)
BEGINNING FUND BALANCE	\$ 15,332,439	\$ 16,068,191	\$ 13,731,951	\$ 13,248,201	\$ 11,609,511	\$ 10,484,511	\$ 5,397,581	\$ 1,070,451	\$ 663,201
ENDING FUND BALANCE	\$ 16,068,191	\$ 13,731,951	\$ 13,248,201	\$ 11,609,511	\$ 10,484,511	\$ 5,397,581	\$ 1,070,451	\$ 663,201	\$ 37,881



Capital Outlay is based on the CIP plan. Into the future capital projects will need to be updated including time frames, costs and city share requirements. Projects slated for 2015 and 2016 will be revised as we get closer to those years and will most likely be extended and better balanced out into the future.



**The City has leveraged the Major Road Fund Balance well. Here are some examples:**

<u>Project Name</u>	<u>Project Cost</u>	<u>City Share \$ &amp; %</u>
M-59	\$60,000,000	\$473,000 or .8%
Walton Blvd Rehab	\$2,800,000	\$339,546 or 12%
Adams Rd Rehab	\$1,264,000	\$255,500 or 20%
Crooks Rd Recons	\$3,475,000	\$137,500 or 4%
Dequindre Road	\$1,762,250	\$35,230 or 2%

**Important take away based on the forecast for this fund:**

- Receives more in Act 51 funds than it needs for maintenance costs
- The difference it receives in Act 51 funding and what the fund needs for maintenance costs is used to provide support for Local Street maintenance and operations
- The fund's fund balance is used for construction projects
- The fund will need to be more selective in its future capital projects. There are more projects than fund balance available for funding those projects.

## LOCAL STREET FUND

The Local Street Fund has many challenges. Its biggest challenge is it does not have enough dedicated revenue to *maintain* its roads system in a safe and passable condition and must rely on the help of other funds. We have approached this funding challenge much like a four legged stool. Where ACT 51 funding provides 20%, Local Street millage provides 22%, Major Roads provides 23% and General Fund makes up the difference or 35%

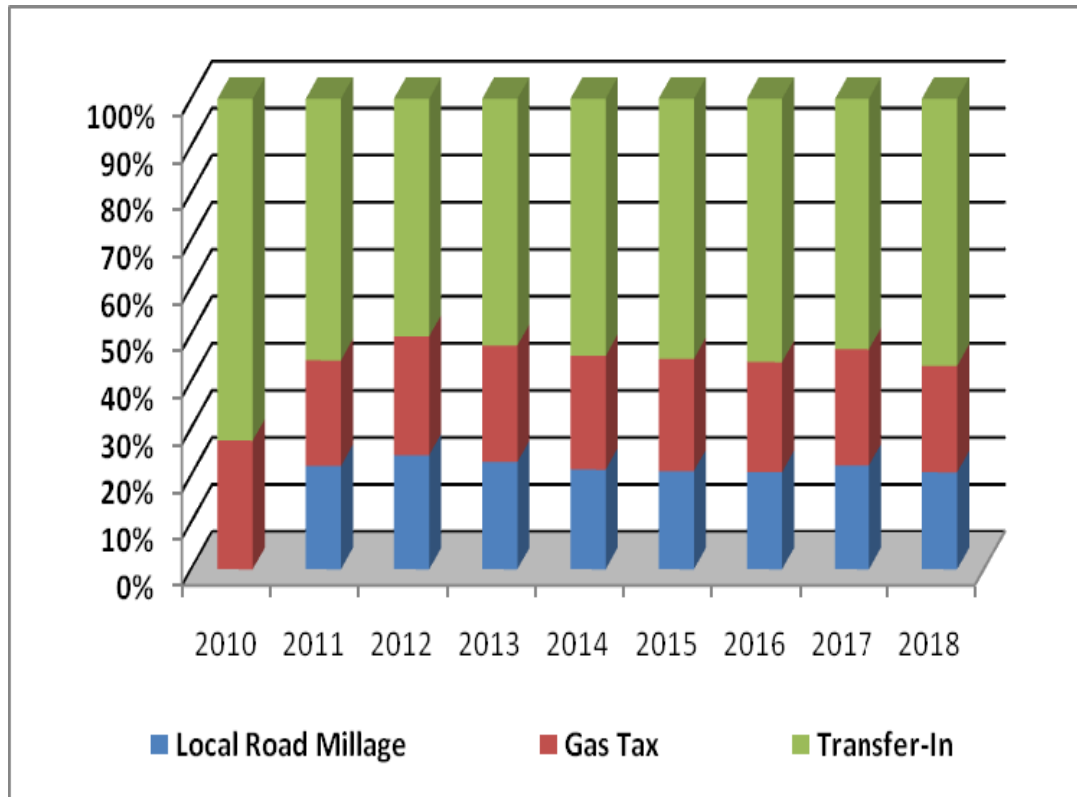


Model Updated May 10, 2011

	2010	2011	2012	2013	2014	2015	2016	2017	2018
202 - Major Road Fund	Actual	1st Qtr B/A	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
City Taxes	\$ -	\$1,113,110	\$1,043,490	\$ 991,320	\$ 941,780	\$ 941,780	\$ 951,190	\$ 960,700	\$ 979,900
Licenses & Permits	12,622	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Intergovernmental Revenue	1,156,183	1,138,030	1,087,050	1,076,180	1,076,180	1,076,180	1,076,180	1,076,180	1,076,180
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	11,702	97,550	97,550	97,550	97,550	97,550	97,550	97,550	97,550
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	18,742	41,580	38,230	55,100	71,970	105,200	105,090	105,090	105,090
Other Revenue	27,349	19,890	17,910	16,330	15,060	10,220	10,000	10,000	10,000
Transfer-In	3,070,640	2,819,860	2,173,030	2,280,730	2,430,870	2,496,940	2,577,870	2,320,930	2,700,040
<b>202 - Major Road Fund</b>	<b>\$ 4,297,238</b>	<b>\$ 5,240,020</b>	<b>\$ 4,467,260</b>	<b>\$ 4,527,210</b>	<b>\$ 4,643,410</b>	<b>\$ 4,737,870</b>	<b>\$ 4,827,880</b>	<b>\$ 4,580,450</b>	<b>\$ 4,978,760</b>
<b>202 - Major Road Fund</b>									
Personnel Services	\$ 1,277,256	\$ 1,540,740	\$ 1,578,830	\$ 1,608,030	\$ 1,640,800	\$ 1,690,460	\$ 1,743,820	\$ 1,801,290	\$ 1,863,230
Operating Supplies	307,492	372,970	372,970	372,970	376,710	380,480	384,300	388,150	392,030
Professional Services	190,720	297,550	287,550	297,550	290,420	301,570	294,380	305,650	298,390
Interfund Charges	1,395,094	1,670,450	1,680,970	1,683,590	1,701,750	1,720,140	1,738,750	1,757,570	1,776,580
Other Expenses	1,029	1,800	1,800	1,800	1,820	1,840	1,860	1,880	1,900
Capital Outlay	(4,210)	806,230	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	509,338	550,280	545,140	563,270	631,910	643,380	664,770	325,910	-
<b>202 - Major Road Fund</b>	<b>\$ 3,676,719</b>	<b>\$ 5,240,020</b>	<b>\$ 4,467,260</b>	<b>\$ 4,527,210</b>	<b>\$ 4,643,410</b>	<b>\$ 4,737,870</b>	<b>\$ 4,827,880</b>	<b>\$ 4,580,450</b>	<b>\$ 4,332,130</b>

### Local Street's Dependence on Other Funds

Model Updated May 10, 2011	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	1st Qtr B/A	Projected	Projected	Projected	Estimated	Estimated	Estimated	Estimated
Transfer In - General Fund	\$ 2,670,280	\$ 1,675,450	\$ 979,970	\$ 1,077,470	\$ 1,225,370	\$ 1,257,180	\$ 1,517,660	\$ 1,439,820	\$ 1,859,190
Transfer In - Major Roads	400,360	1,144,410	1,193,060	1,203,260	1,205,500	1,239,760	1,060,210	881,110	840,850
Transfer In - Public Road Millage	-	-	-	-	-	-	-	-	-
Transfer In - 337 Bond Fund	-	-	-	-	-	-	-	-	-
Transfer In - Capital Improve. Fund	-	-	-	-	-	-	-	-	-
<b>Transfer In</b>	<b>\$ 3,070,640</b>	<b>\$ 2,819,860</b>	<b>\$ 2,173,030</b>	<b>\$ 2,280,730</b>	<b>\$ 2,430,870</b>	<b>\$ 2,496,940</b>	<b>\$ 2,577,870</b>	<b>\$ 2,320,930</b>	<b>\$ 2,700,040</b>



As the graph shows, Local Roads depends on approximately 50% of the funding it needs to perform *maintenance* on the Local Street system. It is important to remember that there is no funding provided for subdivision road reconstruction activity. Any reconstruction activity without a new funding source would only add to its dependence on other funds.

**Important take away based on the forecast for this fund:**

- The fund does not receive enough Act 51 (Gas Tax) funding to cover its maintenance costs.
- The only dedicated funding sources for Local Roads is Act 51 funding and the recently voter approved Local Street millage.
- There is no funding source available for the reconstruction of subdivision (Local) streets.

Falling property taxes along with raising costs are not just a General Fund issue it is also affecting other operating funds that depend on millage rates and taxable values for their funding.

Let's take a closer look at some of those funds:

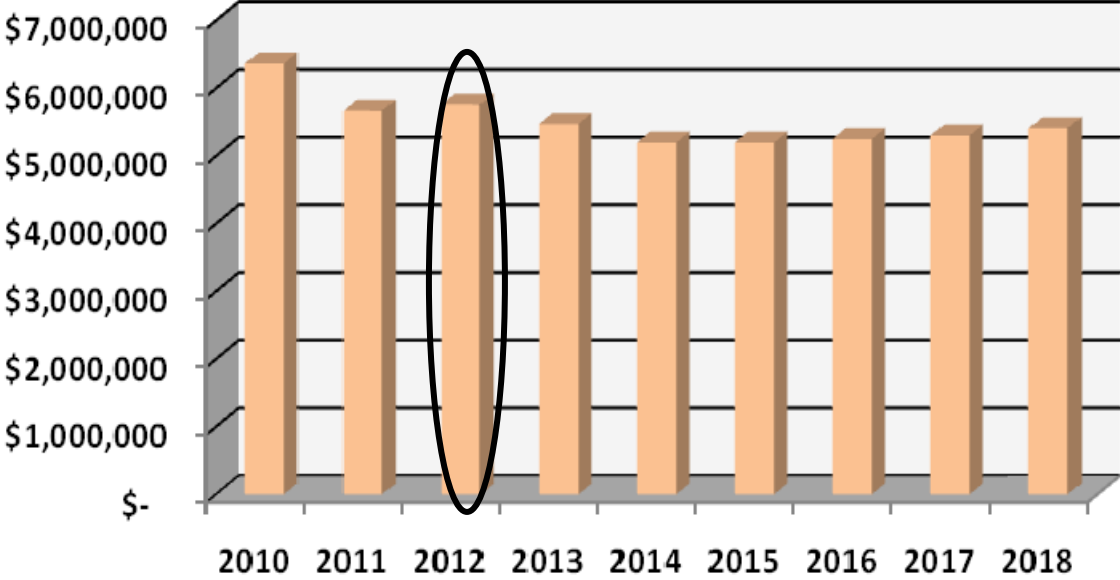
## Fire Fund

Model Updated May 10, 2011									
	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>206 - Fire Operating Fund</b>									
City Taxes	\$ 6,364,938	\$ 5,667,820	\$ 5,759,010	\$ 5,471,090	\$ 5,197,530	\$ 5,197,530	\$ 5,249,480	\$ 5,301,970	\$ 5,407,950
Licenses & Permits	6,250	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Intergovernmental Revenue	-	-	-	-	-	-	-	-	-
Interfund Charges	45,000	-	-	-	-	-	-	-	-
Service Charges	1,449,595	1,279,050	1,528,250	1,527,250	1,527,250	1,542,710	1,558,340	1,574,130	1,590,090
Fines & Forfeitures	14,038	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Investment Earnings	28,414	37,300	55,160	85,960	113,120	162,420	154,650	144,550	132,630
Other Revenue	18,504	2,000	2,000	2,000	2,000	1,500	1,500	1,500	1,500
Transfer-In	2,510	2,120	2,450	2,450	2,450	2,450	2,450	2,450	2,450
<b>206 - Fire Operating Fund</b>	<b>\$ 7,929,248</b>	<b>\$ 7,001,290</b>	<b>\$ 7,359,870</b>	<b>\$ 7,101,750</b>	<b>\$ 6,855,350</b>	<b>\$ 6,919,610</b>	<b>\$ 6,979,420</b>	<b>\$ 7,037,600</b>	<b>\$ 7,147,620</b>
<b>206 - Fire Operating Fund</b>									
Personnel Services	\$ 5,332,573	\$ 4,935,880	\$ 4,994,720	\$ 5,044,840	\$ 5,102,160	\$ 5,189,260	\$ 5,307,170	\$ 5,432,600	\$ 5,566,280
Operating Supplies	104,719	106,070	92,050	88,050	88,050	88,950	89,850	90,760	91,670
Professional Services	251,230	341,900	327,190	325,010	325,010	328,280	331,570	334,890	338,250
Interfund Charges	1,458,129	1,506,310	1,500,310	1,499,310	1,499,310	1,514,310	1,529,440	1,544,730	1,560,160
Other Expenses	65,306	78,130	66,130	61,330	61,330	61,950	62,570	63,190	63,820
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	21,600	21,600	21,600	21,600	21,600	21,600	21,600	21,600	21,600
<b>206 - Fire Operating Fund</b>	<b>\$ 7,233,557</b>	<b>\$ 6,989,890</b>	<b>\$ 7,002,000</b>	<b>\$ 7,040,140</b>	<b>\$ 7,097,460</b>	<b>\$ 7,204,350</b>	<b>\$ 7,342,200</b>	<b>\$ 7,487,770</b>	<b>\$ 7,641,780</b>

**Note:** In FY 2012 Fire Fund Millage is raised from its current rate of 1.80 to its Headlee Max of 1.9564. The City millage rate remains at 9.7060. The increase generates approximately \$460,000. The increase was needed to support current service level delivery.

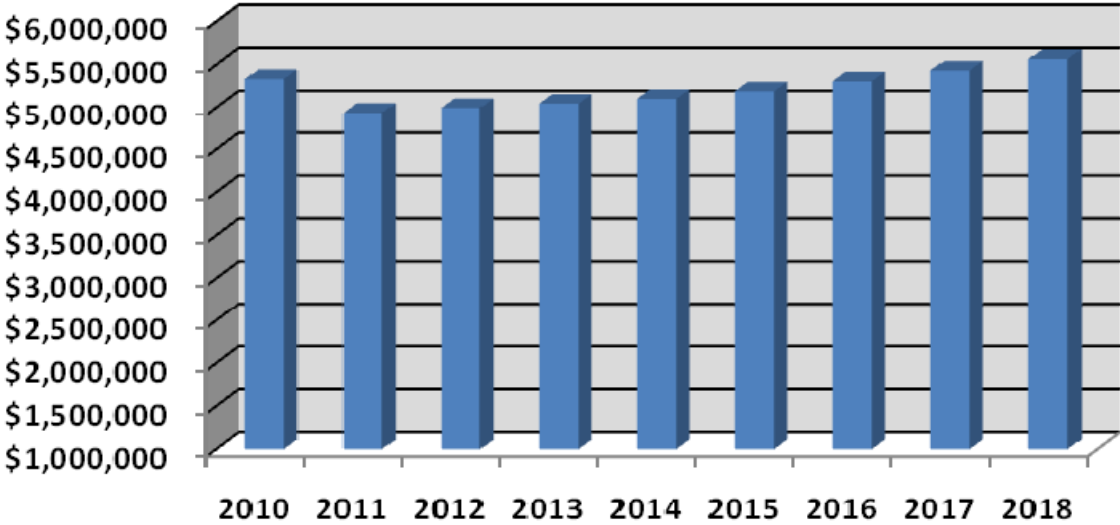
	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	\$ 695,691	\$ 11,400	\$ 357,870	\$ 61,610	\$ (242,110)	\$ (284,740)	\$ (362,780)	\$ (450,170)	\$ (494,160)
<b>BEGINNING FUND BALANCE</b>	\$ 1,938,318	\$ 2,634,009	\$ 2,645,409	\$ 3,003,279	\$ 3,064,889	\$ 2,822,779	\$ 2,538,039	\$ 2,175,259	\$ 1,725,089
<b>ENDING FUND BALANCE</b>	\$ 2,634,009	\$ 2,645,409	\$ 3,003,279	\$ 3,064,889	\$ 2,822,779	\$ 2,538,039	\$ 2,175,259	\$ 1,725,089	\$ 1,230,929

# City Taxes



In FY 2012 Fire Fund Millage is raised from its current rate of 1.80 to its Headlee Max of 1.9564. The City millage rate remains at 9.7060. The increase generates approximately \$460,000. The increase was needed to support current service level delivery.

# Personnel Services



**Important take away based on the forecast for this fund:**

- For FY2012, millage rate needs to be at Headlee limit to be able to fund current service delivery levels.
- Headlee limit and other revenue sources do not cover operating costs in FY2014 and out.
- The Operating Fund Balance will not meet the City's Fund Balance Policy (20% of expenditures) if operating expenses are not reduced and/or additional revenues are not found starting in FY 2017 and beyond.

# Special Police Fund

**Model Updated May 10, 2011**

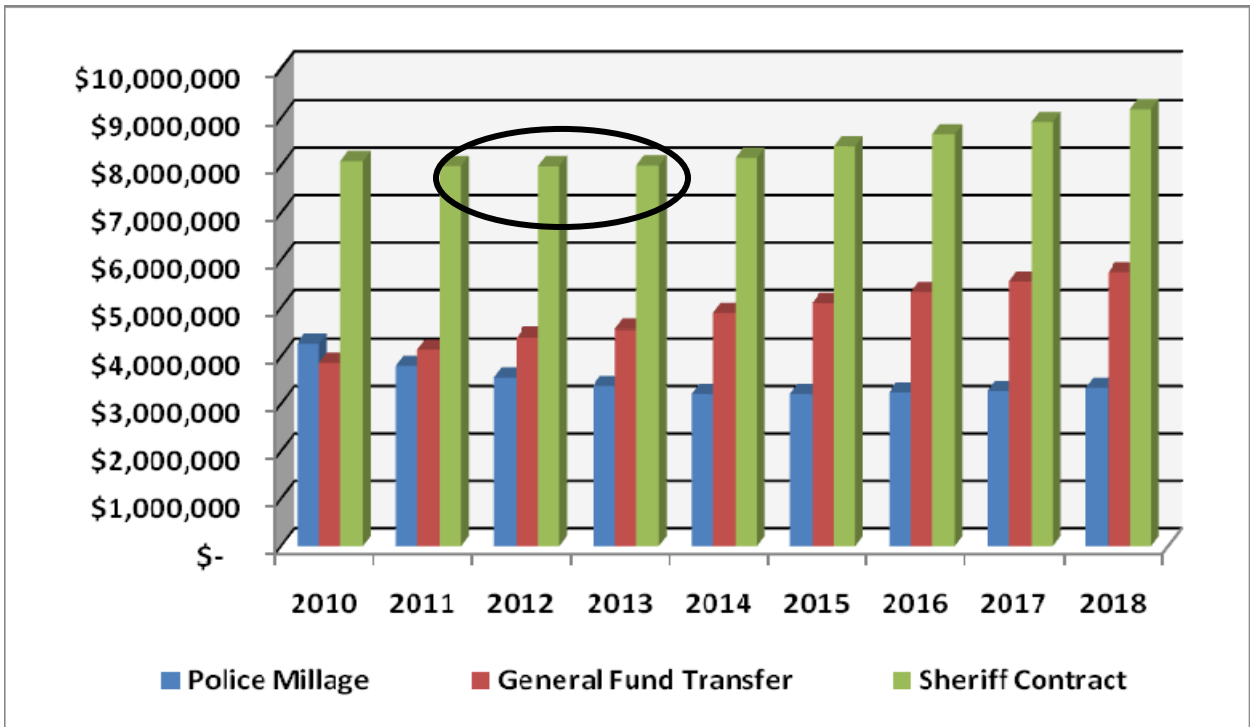
	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>207 - Police Service Fund</b>									
City Taxes	\$ 4,272,196	\$ 3,804,490	\$ 3,556,860	\$ 3,379,020	\$ 3,210,150	\$ 3,210,150	\$ 3,242,230	\$ 3,274,640	\$ 3,340,110
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	270,402	273,860	278,720	283,670	288,720	296,450	304,420	312,620	321,070
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	192,634	156,500	158,100	160,300	162,540	165,960	169,480	173,110	176,850
Fines & Forfeitures	404,822	393,000	393,000	393,000	393,000	393,000	393,000	393,000	393,000
Investment Earnings	16,418	17,070	23,370	33,720	43,280	64,920	65,400	65,880	66,860
Other Revenue	5,085	-	-	-	-	-	-	-	-
Transfer-In	3,869,040	4,146,820	4,397,860	4,561,610	4,893,130	5,101,440	5,330,830	5,553,830	5,751,080
<b>207 - Police Service Fund</b>	<b>\$ 9,030,598</b>	<b>\$ 8,791,740</b>	<b>\$ 8,807,910</b>	<b>\$ 8,811,320</b>	<b>\$ 8,990,820</b>	<b>\$ 9,231,920</b>	<b>\$ 9,505,360</b>	<b>\$ 9,773,080</b>	<b>\$ 10,048,970</b>
<b>207 - Police Service Fund</b>									
Personnel Services	\$ 186,454	\$ 205,230	\$ 208,230	\$ 210,530	\$ 212,750	\$ 217,520	\$ 222,600	\$ 228,010	\$ 233,780
Operating Supplies	9,944	17,500	17,500	17,500	17,680	17,860	18,040	18,220	18,400
Professional Services	8,092,942	7,991,590	7,988,200	8,002,530	8,162,550	8,407,370	8,659,530	8,919,250	9,186,760
Interfund Charges	188,164	214,830	214,830	214,830	216,990	219,160	221,350	223,570	225,810
Other Expenses	23,816	21,310	21,310	18,090	18,270	18,450	18,630	18,820	19,010
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	349,600	341,280	357,840	347,840	362,580	351,560	365,210	365,210	365,210
<b>207 - Police Service Fund</b>	<b>\$ 8,850,920</b>	<b>\$ 8,791,740</b>	<b>\$ 8,807,910</b>	<b>\$ 8,811,320</b>	<b>\$ 8,990,820</b>	<b>\$ 9,231,920</b>	<b>\$ 9,505,360</b>	<b>\$ 9,773,080</b>	<b>\$ 10,048,970</b>

In FY 2011 we went from 60 Officers to 57.

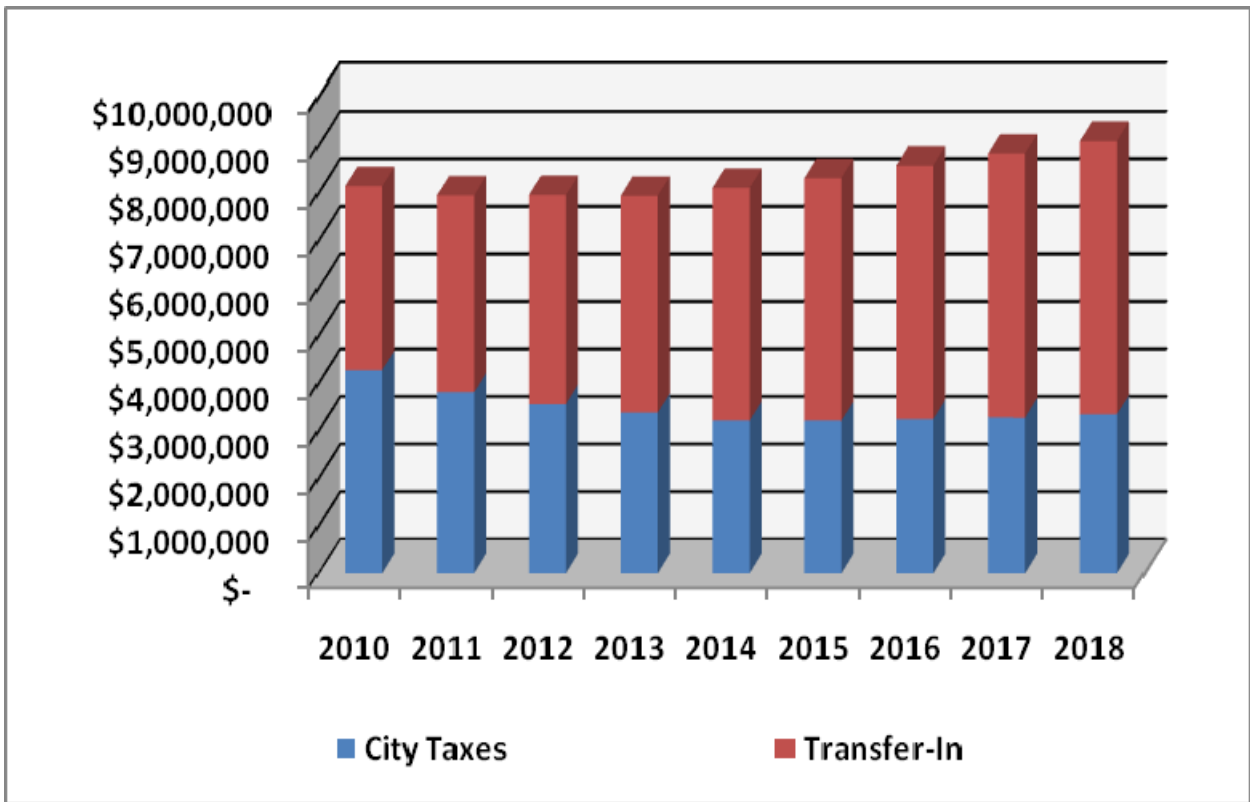
In FY2012 we are planning on going from 57 to 56 officers

In FY2013 we are planning on going from 56 officers to 55 officers

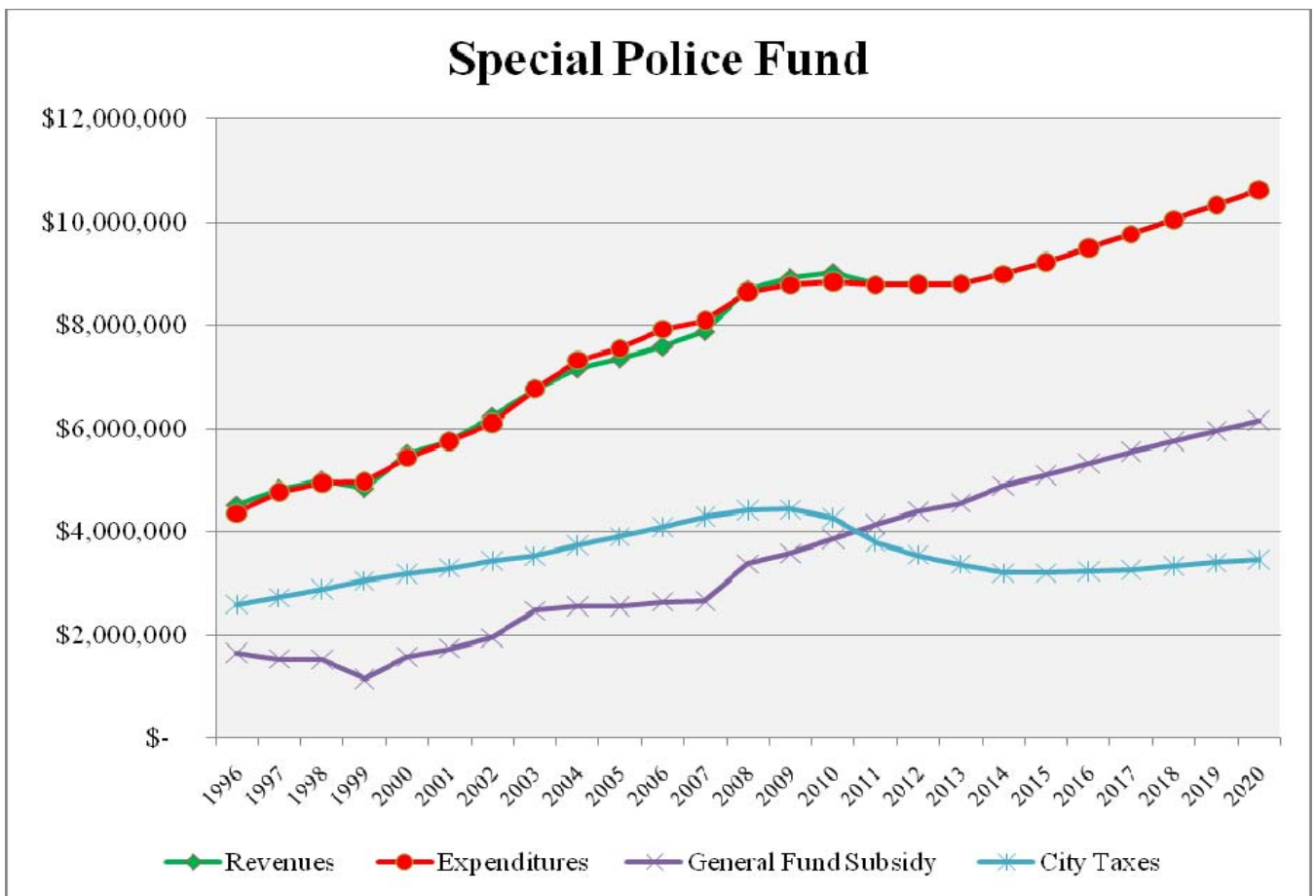




Even with the actual and planned reductions in contracted officers, the costs remain constant in the near term then begin their increase again.



As both graphs show, as tax values fall and contract costs increase General Fund becomes an ever increasing major funding source for the Special Police fund.



**Important take away based on the forecast for this fund:**

- Current Millages (I & II) will expire in tax year 2013. Forecast assumes renewal at current levels.
- In FY 2011 we went from 60 Officers to 57.
- In FY2012 we are planning on going from 57 to 56 officers
- In FY2013 we are planning on going from 56 officers to 55 officers
- Sheriff Contract Pricing Adjusts each Year which puts pressure on General Fund.
- By 2018 General Fund will be providing approximately 60% of the funding needed to pay for police services.

# Water Resource Fund

Model Updated May 10, 2011

	2010 Actual	2011 1st Qtr B/A	2012 Projected	2013 Projected	2014 Projected	2015 Estimated	2016 Estimated	2017 Estimated	2018 Estimated
<b>244 - Water Resources Fund</b>									
City Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	-	-	-	-	-	-	-	-	-
Intergovernmental Revenue	-	135,000	-	-	-	-	-	-	-
Interfund Charges	-	-	-	-	-	-	-	-	-
Service Charges	19,803	33,700	33,700	33,700	33,700	33,700	33,700	33,700	33,700
Fines & Forfeitures	-	-	-	-	-	-	-	-	-
Investment Earnings	(11,940)	30,550	33,620	38,500	32,620	13,960	-	-	-
Other Revenue	23,098	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
Transfer-In	856,660	-	-	-	-	-	-	-	-
<b>244 - Water Resources Fund</b>	<b>\$ 887,622</b>	<b>\$ 214,950</b>	<b>\$ 83,020</b>	<b>\$ 87,900</b>	<b>\$ 82,020</b>	<b>\$ 63,360</b>	<b>\$ 49,400</b>	<b>\$ 49,400</b>	<b>\$ 49,400</b>
<b>244 - Water Resources Fund</b>									
Personnel Services	\$ 393,793	\$ 316,030	\$ 322,470	\$ 327,460	\$ 333,790	\$ 342,560	\$ 351,960	\$ 362,020	\$ 372,840
Operating Supplies	16,618	23,700	23,700	23,700	23,940	24,180	24,420	24,660	24,910
Professional Services	48,181	135,420	120,420	120,420	121,630	122,850	124,080	125,320	126,590
Interfund Charges	245,565	257,130	257,490	257,870	260,630	263,440	266,270	269,150	272,050
Other Expenses	145,273	153,900	153,900	153,900	155,440	156,990	158,560	160,150	161,750
Capital Outlay	241,346	285,000	-	140,000	352,500	870,000	50,000	5,361	-
Debt Service	-	-	-	-	-	-	-	-	-
Transfer Out	-	-	-	-	-	-	-	-	-
<b>244 - Water Resources Fund</b>	<b>\$ 1,090,775</b>	<b>\$ 1,171,180</b>	<b>\$ 877,980</b>	<b>\$ 1,023,350</b>	<b>\$ 1,247,930</b>	<b>\$ 1,780,020</b>	<b>\$ 975,290</b>	<b>\$ 946,661</b>	<b>\$ 958,140</b>
<b>EXCESS OF REVENUE OVER</b>									
<b>(UNDER) EXPENDITURES</b>	<b>\$ (203,153)</b>	<b>\$ (956,230)</b>	<b>\$ (794,960)</b>	<b>\$ (935,450)</b>	<b>\$ (1,165,910)</b>	<b>\$ (1,716,660)</b>	<b>\$ (925,890)</b>	<b>\$ (897,261)</b>	<b>\$ (908,740)</b>
<b>BEGINNING FUND BALANCE</b>	<b>\$ 4,520,952</b>	<b>\$ 4,317,799</b>	<b>\$ 3,361,569</b>	<b>\$ 2,566,609</b>	<b>\$ 1,631,159</b>	<b>\$ 465,249</b>	<b>\$ (1,251,411)</b>	<b>\$ (2,177,301)</b>	<b>\$ (3,074,562)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 4,317,799</b>	<b>\$ 3,361,569</b>	<b>\$ 2,566,609</b>	<b>\$ 1,631,159</b>	<b>\$ 465,249</b>	<b>\$ (1,251,411)</b>	<b>\$ (2,177,301)</b>	<b>\$ (3,074,562)</b>	<b>\$ (3,983,302)</b>

## Important take away based on the forecast for this fund:

- Has no funding source. Department needs to develop a long range plan for the matching of expenses to revenues and/or funding sources mainly its fund balance.
- Must make fund balance last as long as possible to pay for maintenance costs related to the City's 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 contain maintenance costs.

## Millage Opportunities

Over the next several years there will be opportunities for the City to look at and possibility repurpose expiring millages. Let's look at those opportunities.

### Drain Debt

Over the next couple years several of our Drain Debt Millages (Fund # 331) will be expiring.

It may be an opportunity to ask voters if they would like to repurpose those expiring millages for Local Streets, Fire, Police or Water Resources (for drain maintenance)

DEBT MILLAGE	2011	2012	2013	2014	Total
Drain Debt Fund	0.6018	0.4066	0.4052	0.0835	
Difference		0.1952		0.3217	0.5169

### Green Space

Tax year 2014 for Fiscal Year 2015, will be the last year Green Space millage can be spread.

It may be an opportunity to ask voters if they would like to repurpose that expiring millage for Local Streets, Fire, Police or Water Resources (for drain maintenance)

OPERATING MILLAGE	2011	2012	2013	2014	2015	2016	2017	2018
Green Space / Natural Features	0.2972	0.2972	0.2972	0.2972	0.2972	-	-	-

## **Critical Factors to Focus on**

- 1/3 of General Fund is transferred to other funds. Those transfers are putting pressure on General Fund and the services it delivers.
- Local Streets needs additional funding sources if it is wants to perform any subdivision road reconstruction activity.
- Fire Fund needs expenditure reductions and/or new revenues starting in FY2014 and beyond.
- Police Millage I & II expire in Tax Year 2013 and current Police Millage(s) only provide about 40% of the cost of police services. The remainder is paid for by General Fund.
- Water Resource Fund needs a future funding source to pay for the maintenance performed by Oakland County Water Resources
- There could be an opportunities to repurpose expiring Drain Debt and Green Space Millages.

## SUMMARY

- Like many governments, the City has been and will continue to be faced with an economic downturn, a slowing downturn but a downturn none the less, which will put continued pressure on the delivery of programs and services supported by property taxes and state revenues.
- With Council's support we have been able to manage during the worse of the economic storm. Your careful prioritization of services and programs has made a difference
- Working together we have been able to use the fiscal forecast to move the City to a three year approach to budgeting bringing services and expenses in line with revenue sources and to become pro-active and not re-active to those factors affecting our ability to deliver services to our citizens.

There are financial challenges that lie ahead for the City but with careful planning many of these challenges can be turned into opportunities.