

City of Rochester Hills Seven Year Financial Forecast Fiscal Years 2019-2025



Auditor Presentation Recap

▶ **Structural Surplus**

- *Recurring revenues exceed recurring expenditures*

▶ **Infrastructure Investment**

- *2014-17 increased investment*

▶ **Why the City of Rochester Hills Unique**

- *No Legacy Costs*
- *Focus Structural Surplus on Infrastructure Investment*

▶ **Continue to Prepare Long-Term Forecast**



Why Present a Long-Term Forecast

- ▶ Better prepare for the future
- ▶ Prevent surprises
- ▶ Get ahead of potential issues
- ▶ Pro-active instead of re-active
- ▶ Aids in decision making (what if ...)
- ▶ Long-term impacts of decisions and policies

Long-Term Forecast Disclaimer

- ▶ Financial Forecast **is NOT intended** to be:
 - *A budget*
 - *A policy recommendation to City Council*
- ▶ Financial Forecast **is intended** to be:
 - *A projection of the City's Revenues, Expenditures, and Fund Balances based upon a set of assumptions*
- ▶ Assumes “Status Quo” funding policies
- ▶ Includes Implementation of Fund Balance Policy
- ▶ Includes FY 2018 2nd Qtr Budget Amendment



Key Assumptions: Revenue

	Prior Forecast (2018-2024)			Current Forecast (2019-2025)	
Taxable Value	2019	2.25%		2019	4.71% *
	2020	2.25%		2020	3.00%
	2021	2.25%		2021	2.25%
	2022-24	2.25%		2022-24	2.25%
State-Shared Revenue	2018-24	2.00%		2019-25	2.00%
Interest Rates	2019	1.50%		2019	2.00%
	2020	1.75%		2020	2.25%
	2021	2.00%		2021	2.25%
	2022-24	2.00%		2022-25	2.25%



* = Actual



Key Assumptions: Revenue

	<i>Prior Forecast (2018-2024)</i>			Current Forecast (2019-2025)	
Act 51 Revenue	2019	2.0%		2019	2.0%
	2020-24	2.0%		2019-25	2.0%

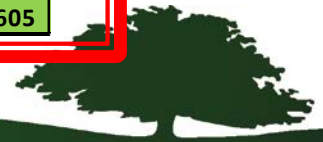


Key Assumptions: Revenue

OPERATING MILLAGE	Actual 2018	Projected 2019	Estimated 2020	Estimated 2021	Estimated 2022	Estimated 2023	Estimated 2024	Estimated 2025
Charter Operating	2.2561	2.4822	2.4961	2.5056	2.5816	2.5523	2.5285	2.5054
Local Street I	0.3470	0.3444	0.3444	1.1048	1.1048	1.1048	1.1048	1.1048
Local Street II	0.4753	0.4718	0.4718	-	-	-	-	-
Local Street III	0.2908	0.2886	0.2886	-	-	-	-	-
Fire Fund	2.7000	2.7000	2.7000	2.7000	2.7000	2.7000	2.7000	2.7000
Special Police I	1.1829	1.1742	1.1742	1.1742	1.1742	1.1742	1.1742	1.1742
Special Police II	1.4693	1.2861	1.2861	1.2861	1.4002	1.4295	1.4533	1.4764
Pathway	0.1817	0.1803	0.1803	0.1803	0.1803	0.1803	0.1803	0.1803
RARA: Operating	0.1907	0.1893	0.1893	0.1893	0.1893	0.1893	0.1893	0.1893
OPC: Transportation	0.0979	0.0971	0.0971	0.0971	0.0971	0.0971	0.0971	0.0971
OPC: Operating	0.2352	0.2334	0.2334	0.2334	0.2334	0.2334	0.2334	0.2334
Library: Operating	0.7658	0.7602	0.7602	0.7602	0.7602	0.7602	0.7602	0.7602
TOTAL OPERATING MILLAGE	10.1927	10.2077	10.2215	10.2311	10.4211	10.4211	10.4211	10.4211

DEBT MILLAGE								
Drain Debt Fund	0.0413	0.0394	0.0394	0.0394	0.0394	0.0394	0.0394	0.0394
Older Persons Refunding: 2010 Series	0.2265	0.2134	0.1996	0.1900	-	-	-	-
TOTAL DEBT MILLAGE	0.2678	0.2528	0.2390	0.2294	0.0394	0.0394	0.0394	0.0394

TOTAL MILLAGE RATE	10.4605	10.4605	10.4605	10.4605	10.4605	10.4605	10.4605	10.4605
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Key Assumptions: Expenditure

	Prior Forecast (2018-2024)			Current Forecast (2019-2025)	
Number of Employees	2018-24	223 FTE		2019-25	223 FTE
Salary Wage Change *	2018-24	2.0%		2019-25	2.0%
Health Care	2018-24	9.0%		2019-25	9.0%
Inflation	2018-24	2.0%		2019-25	2.0%
OCSO Contract	2018-24	3.0%		2019-25	3.0%
OCSO Deputies	2018-24	60		2019-25	60
Capital Projects				All CIP projects updated with current cost estimates	

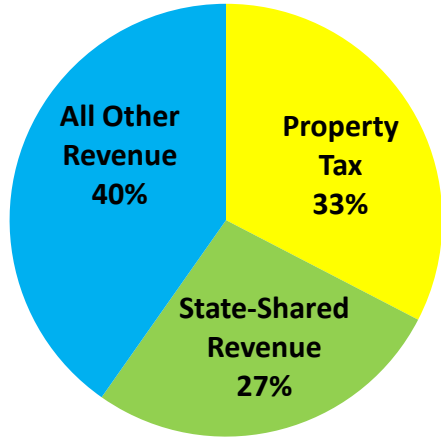
** Annual Cost of Living Adjustment Only*



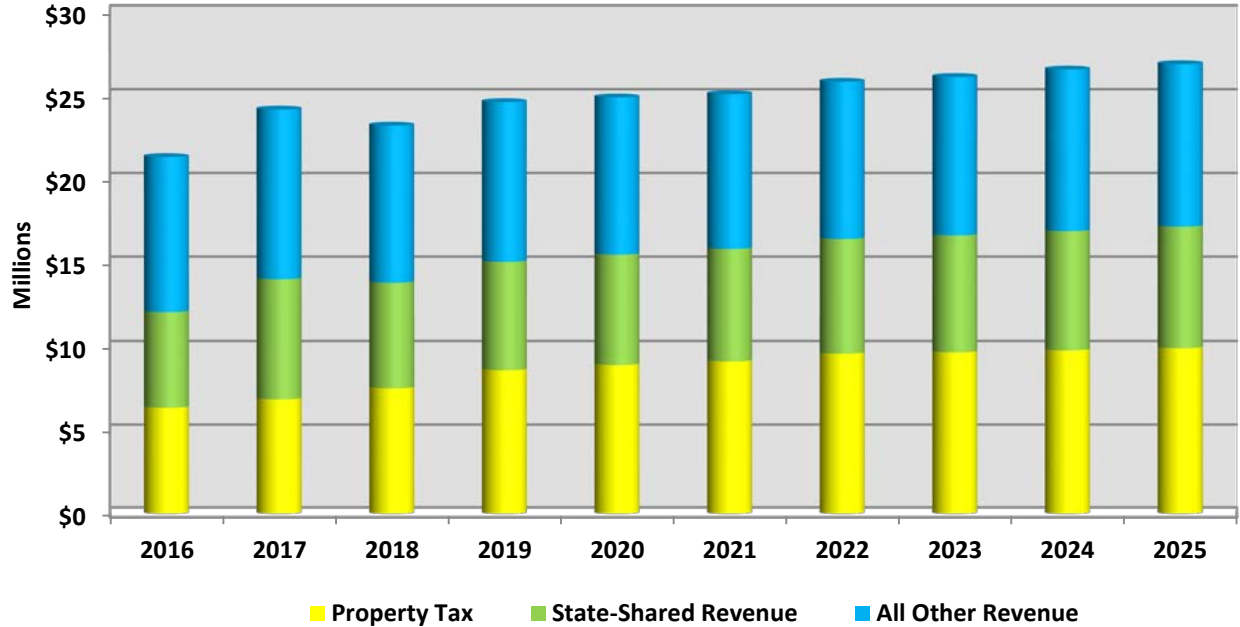
2019-2025 Fund Forecasts

General Fund (101): Revenue

General Fund:
FY 2018 Revenue
Sources

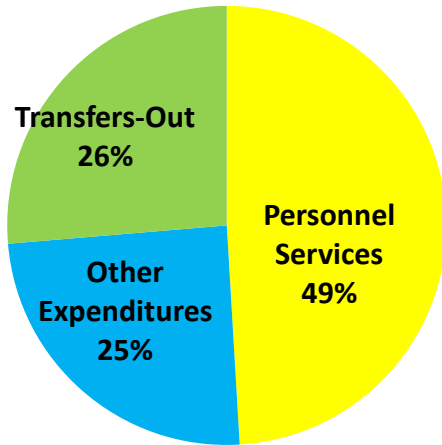


General Fund: Total Revenue Trend

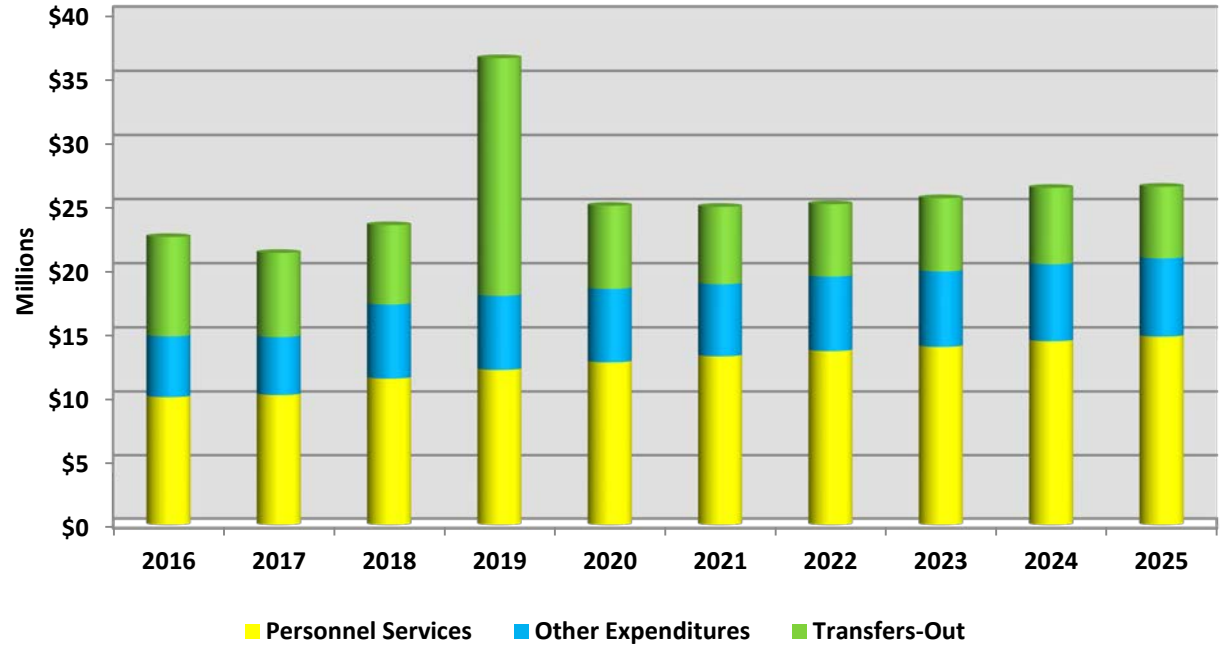


General Fund (101): Expenditures

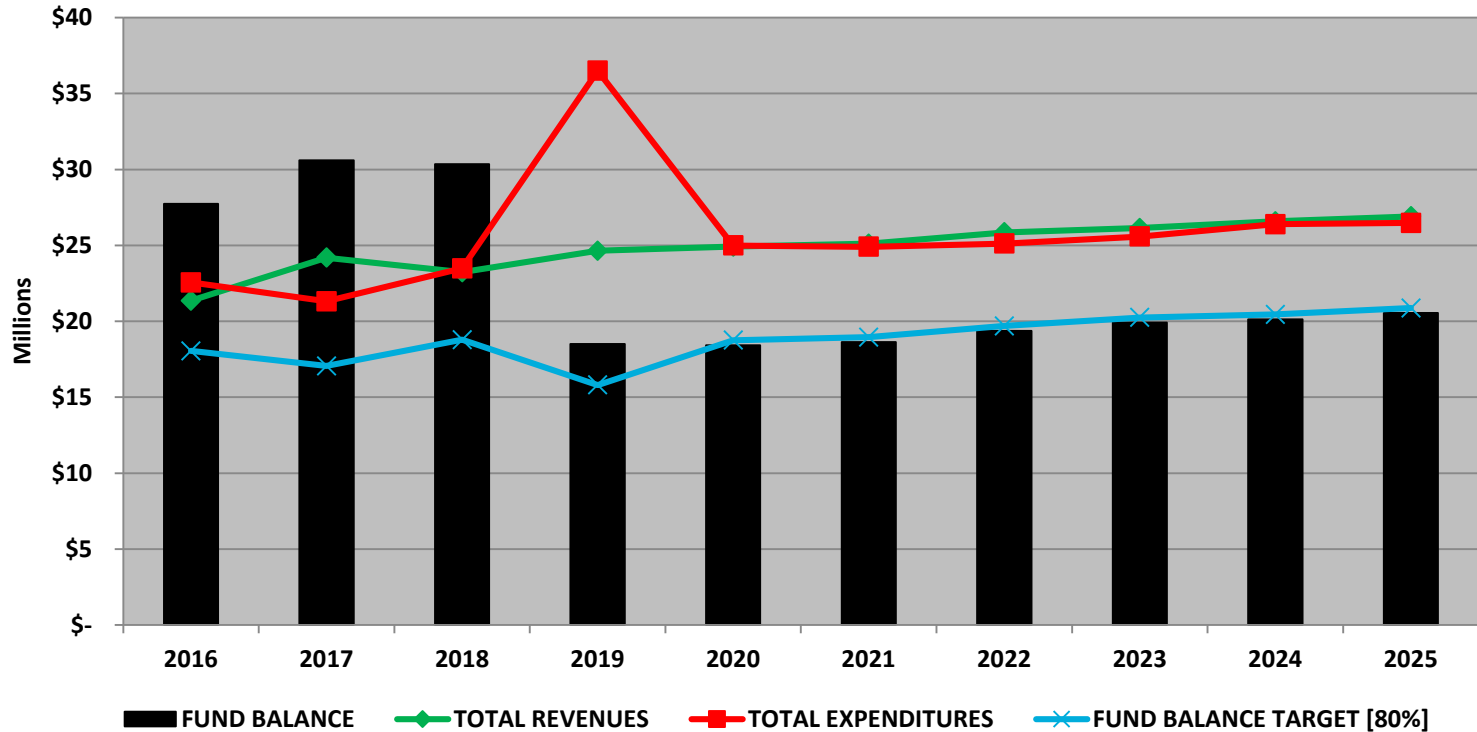
General Fund:
FY 2018 Expenditure
Sources



General Fund: Total Expenditure Trend



General Fund (101): Revenues, Expenditures, Changes in Fund Balance

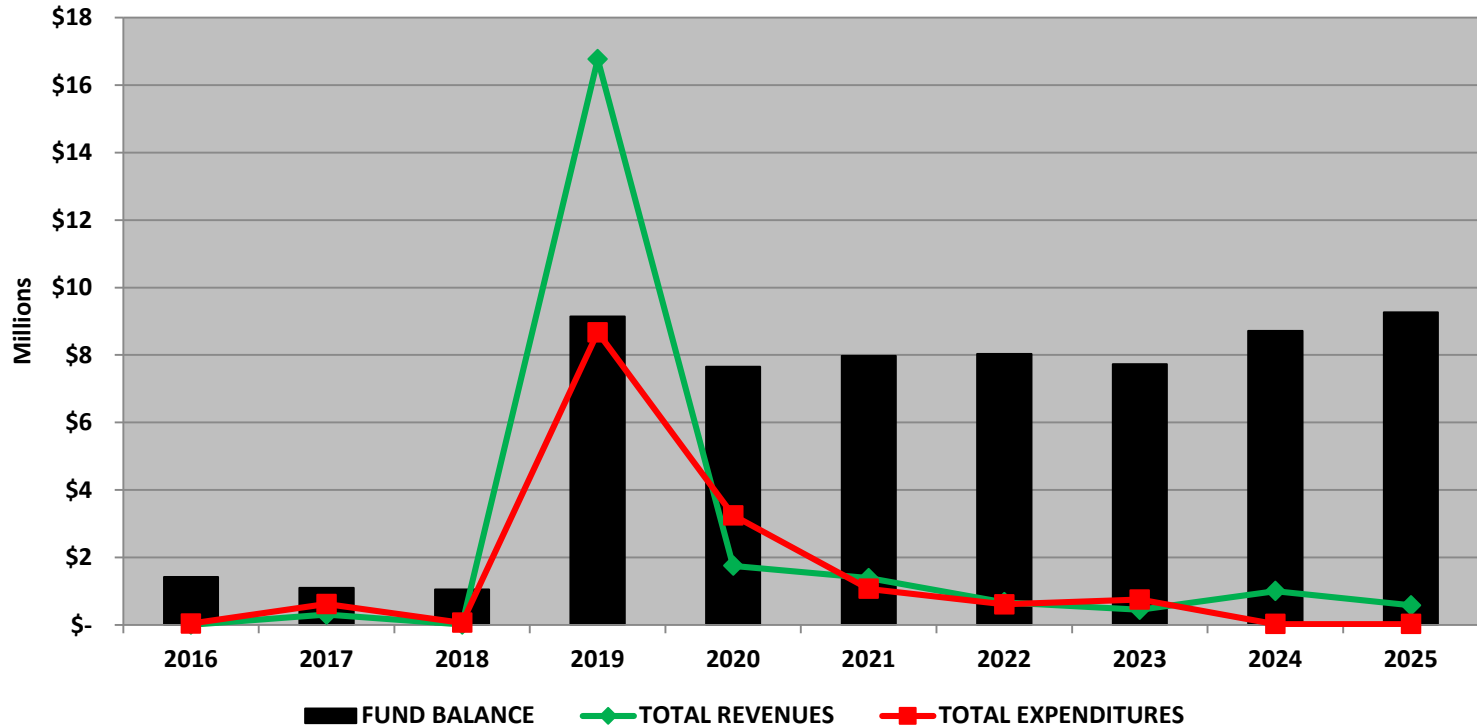


General Fund (101): Takeaway Points

- ▶ The General Fund levy is adjusted each year to maintain the overall bottom line City millage rate of 10.4605
- ▶ FY 2019 includes a Transfer-Out to the Capital Improvement Fund (420) to set the General Fund Balance at 80% of annual expenditures
 - General Fund to continue an annual transfer to the Local Street Fund (203) to fund \$5 million of Local Street Rehabilitation per year
 - General Fund to continue an annual transfer to the Water Resources Fund (244) to balance operations



Capital Improvement Fund (420): Revenues, Expenditures, Changes in Fund Balance



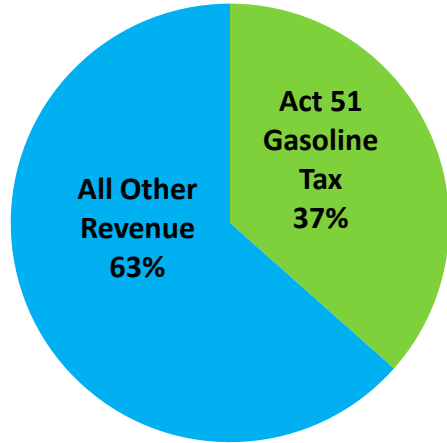
CIF (420): Takeaway Points

- ▶ The mission of the Capital Improvement Fund is to provide a mechanism to track and fund certain projects identified in the Capital Improvement Plan (CIP)
- ▶ Revenues represent the structural surplus of the General Fund maintained at 80% of annual operating expenditures
- ▶ Capital Outlay costs include projects as included in the Adopted CIP

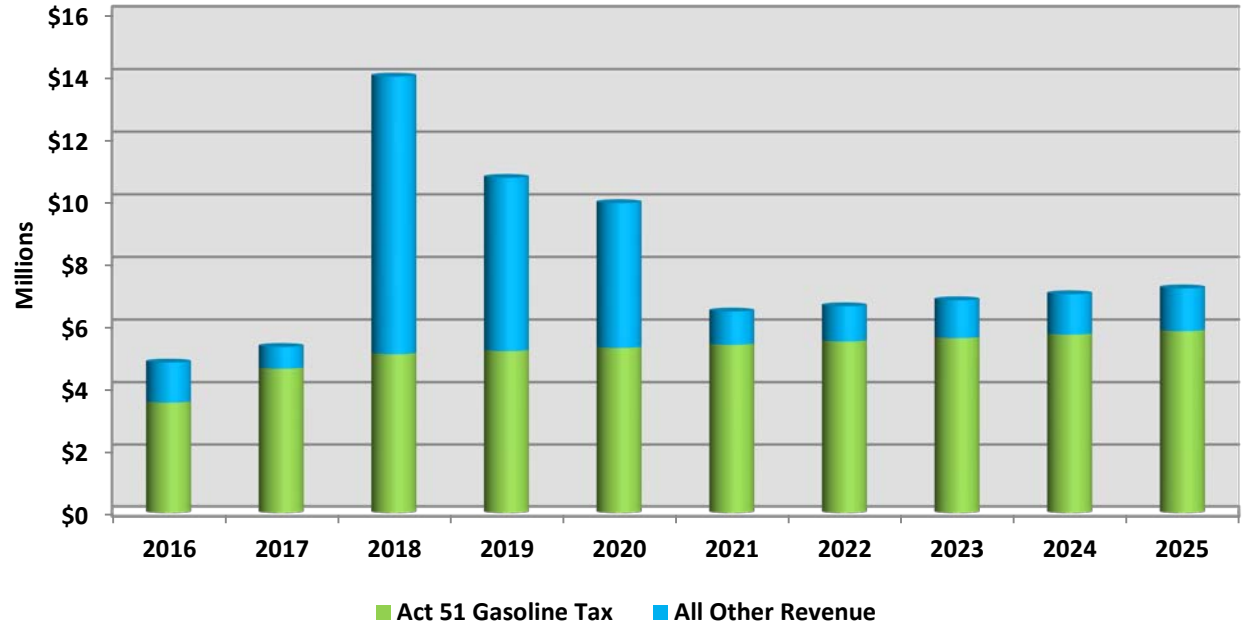


Major Road Fund (202): Revenue

Major Road Fund:
FY 2018 Revenue
Sources

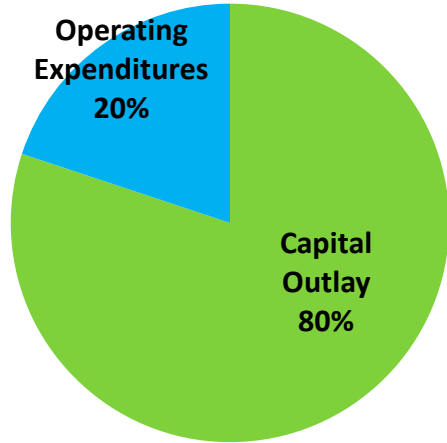


Major Road Fund: Total Revenue Trend

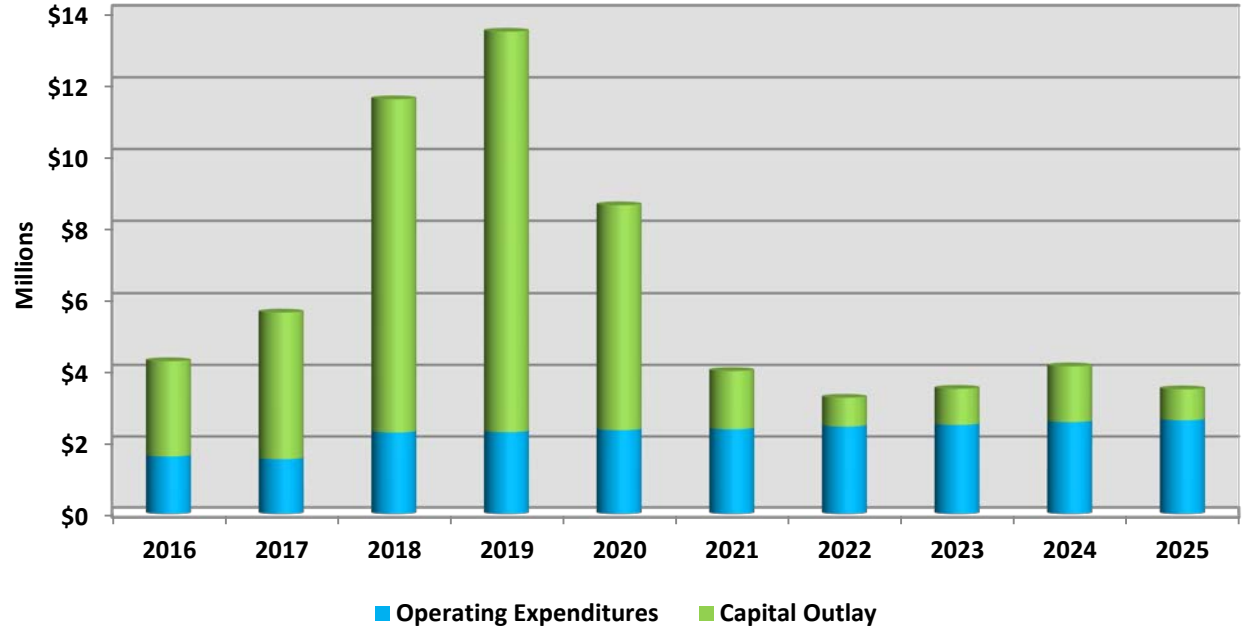


Major Road Fund (202): Expenditures

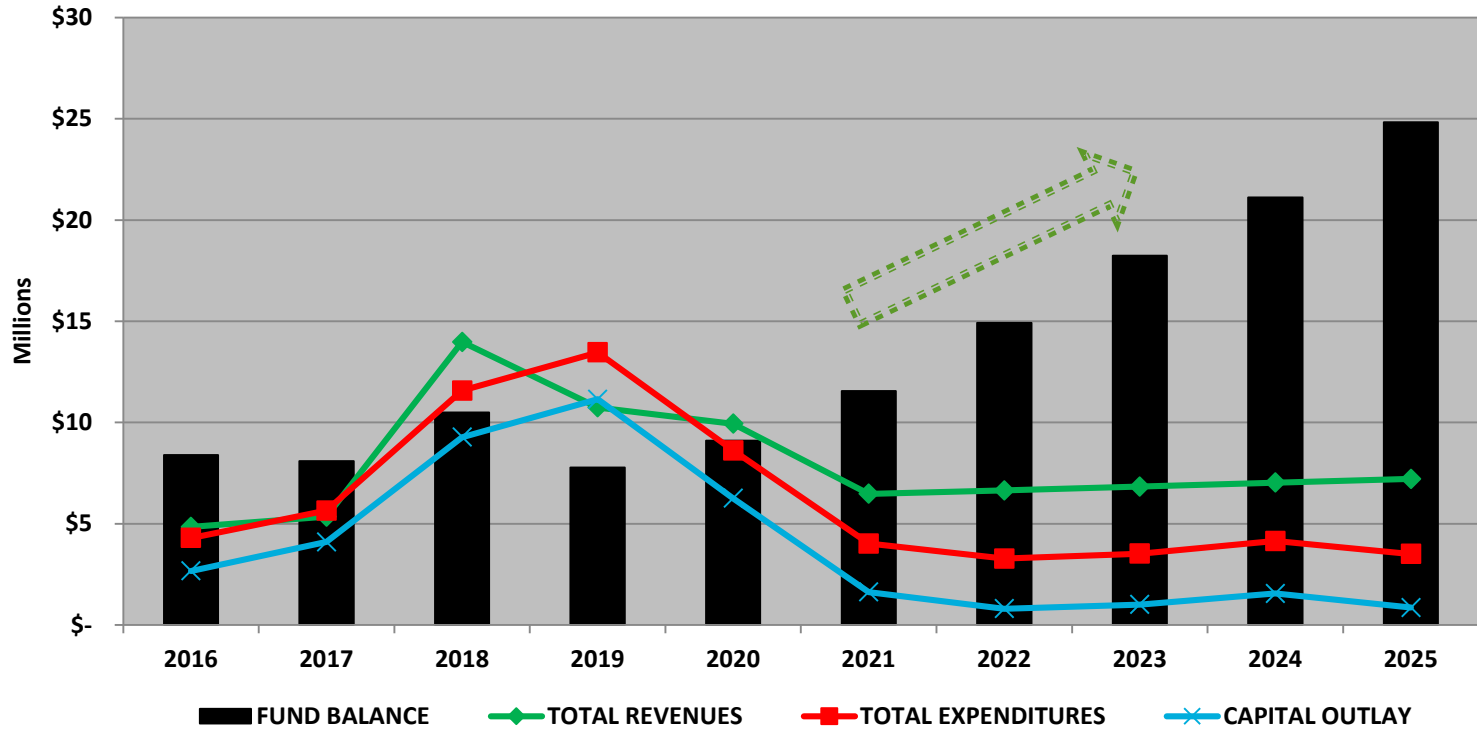
Major Road Fund: FY 2018 Expenditure Sources



Major Road Fund: Total Expenditure Trend



Major Road Fund (202): Revenues, Expenditures, Changes in Fund Balance



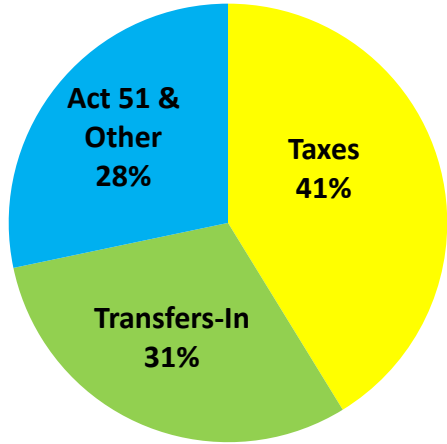
Major Road Fund (202): Takeaways

- ▶ Due to changes in the State of MI Gasoline tax, starting in FY 2017 significantly higher levels of Act 51 funding has begun to flow into City's Major Road & Local Street Funds
- ▶ Revenues increased in 2018-2020 due to sources of outside funding for several Major Road projects
- ▶ Capital Outlay costs include all Major Road projects as included in the Adopted 2019-2024 CIP
- ▶ As construction eases, it is projected for Major Road fund balance levels to increase into the future

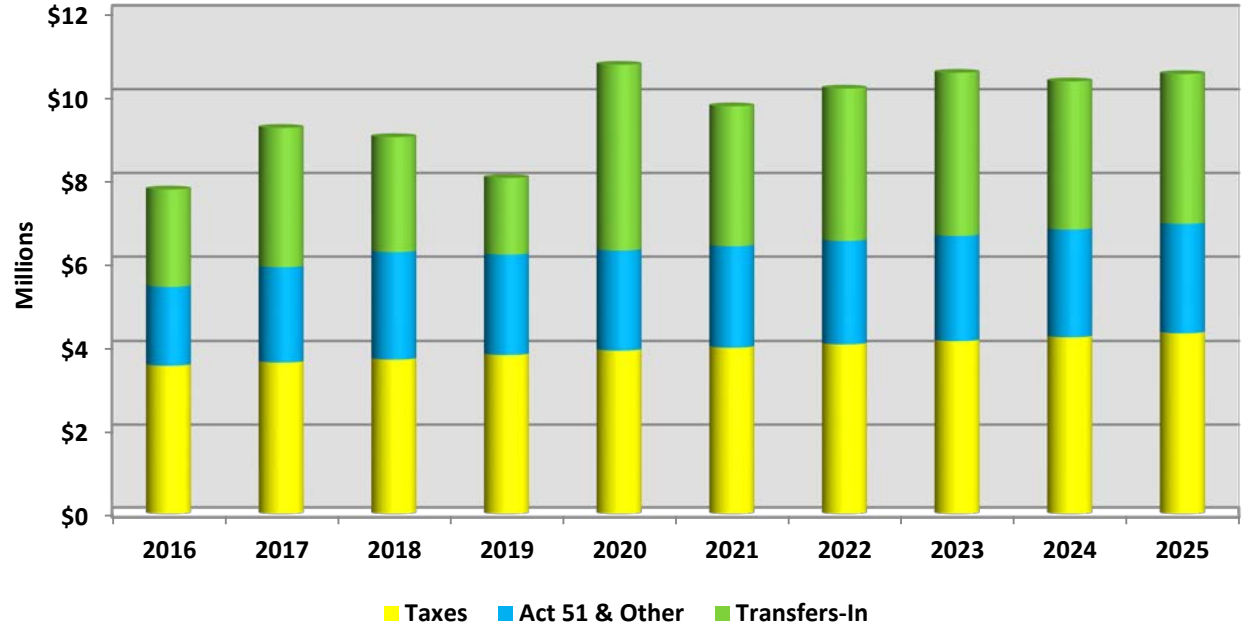


Local Street Fund (203): Revenue

Local Street Fund:
FY 2018 Revenue
Sources

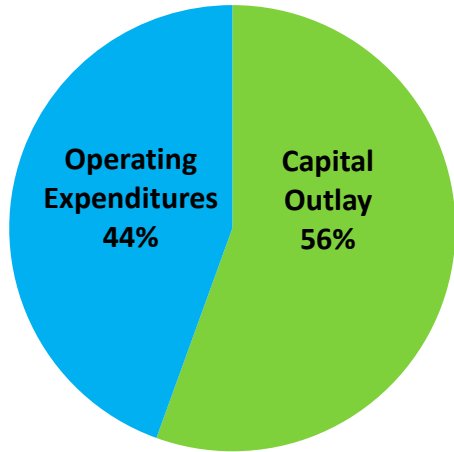


Local Street Fund: Total Revenue Trend

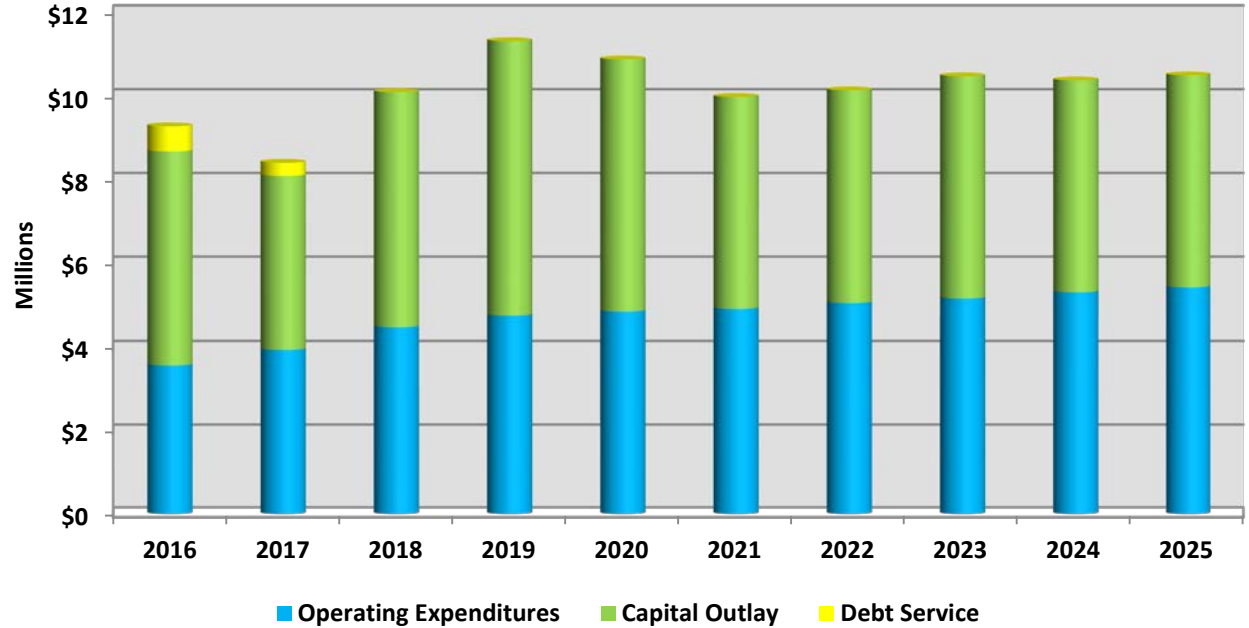


Local Street Fund (203): Expenditures

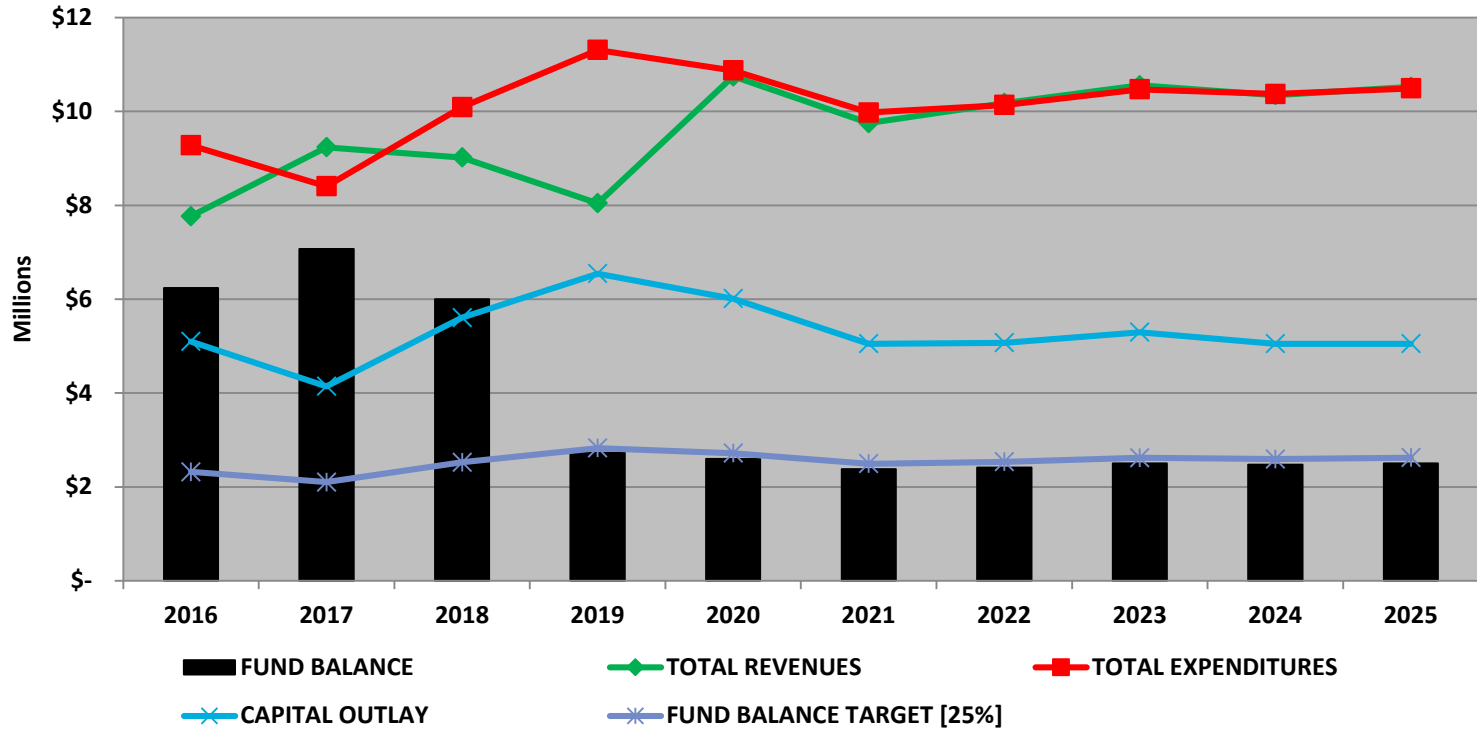
Local Street Fund: FY 2018 Expenditure Sources



Local Street Fund: Total Expenditure Trend



Local Street Fund (203): Revenues, Expenditures, Changes in Fund Balance



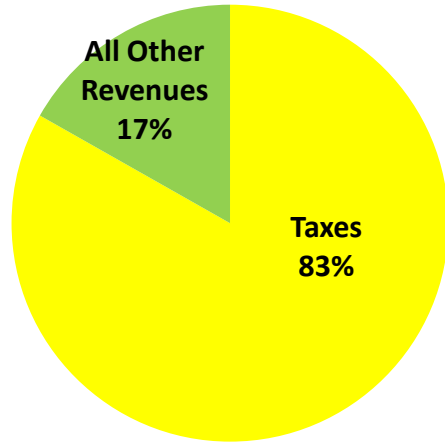
Local Street Fund (203): Takeaway

- ▶ Due to changes in the State of MI Gasoline tax, starting in FY 2017 higher levels of Act 51 funding has begun to flow into City's Local Street Funds
- ▶ Transfers-In Revenue decreased from 2018-2019 to set Local Street Fund Balance at 25% of annual expenditures
- ▶ Using the current forecast assumptions, the Local Street Fund is able to support an annual Local Street Rehabilitation program of \$5 million per year within the amount of support funding available from the General Fund

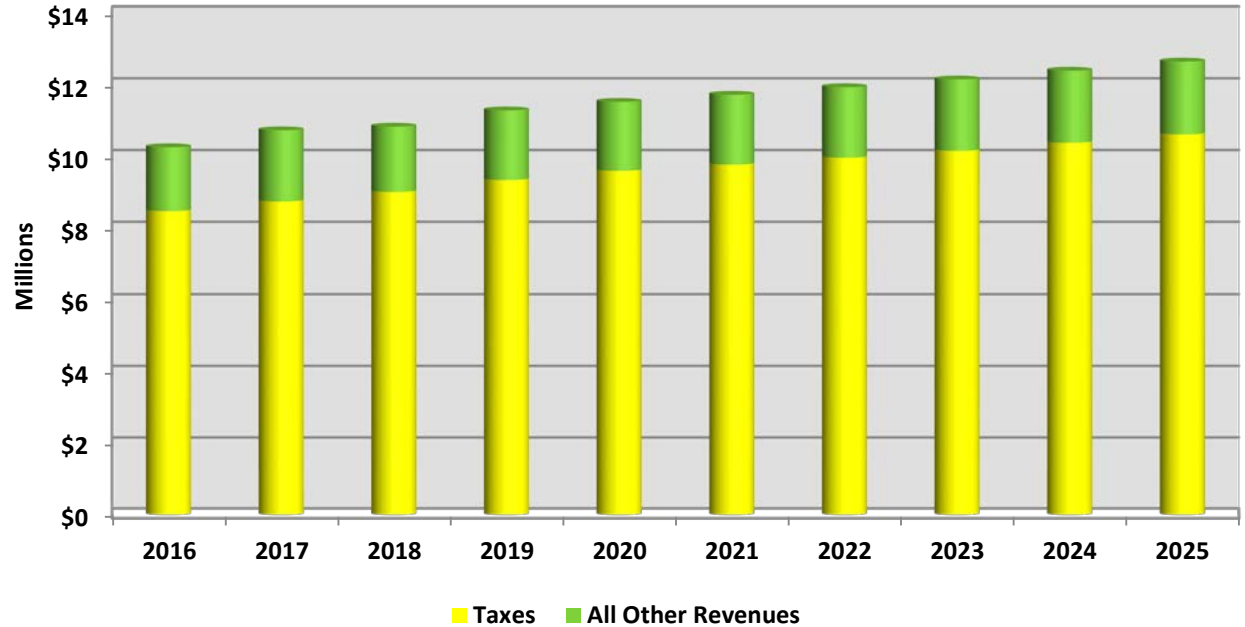


Fire Operating Fund (206): Revenue

Fire Fund:
FY 2018 Revenue
Sources

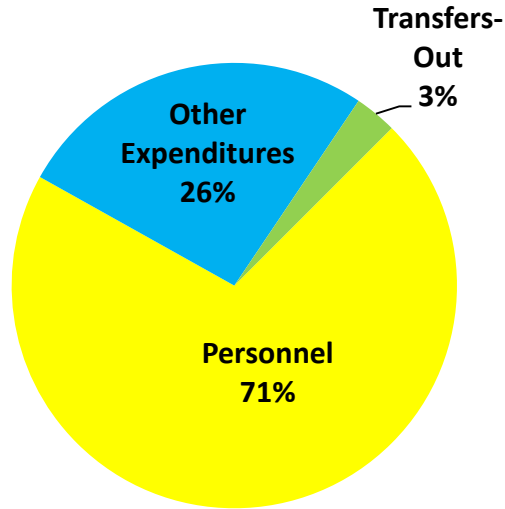


Fire Fund: Total Revenue Trend

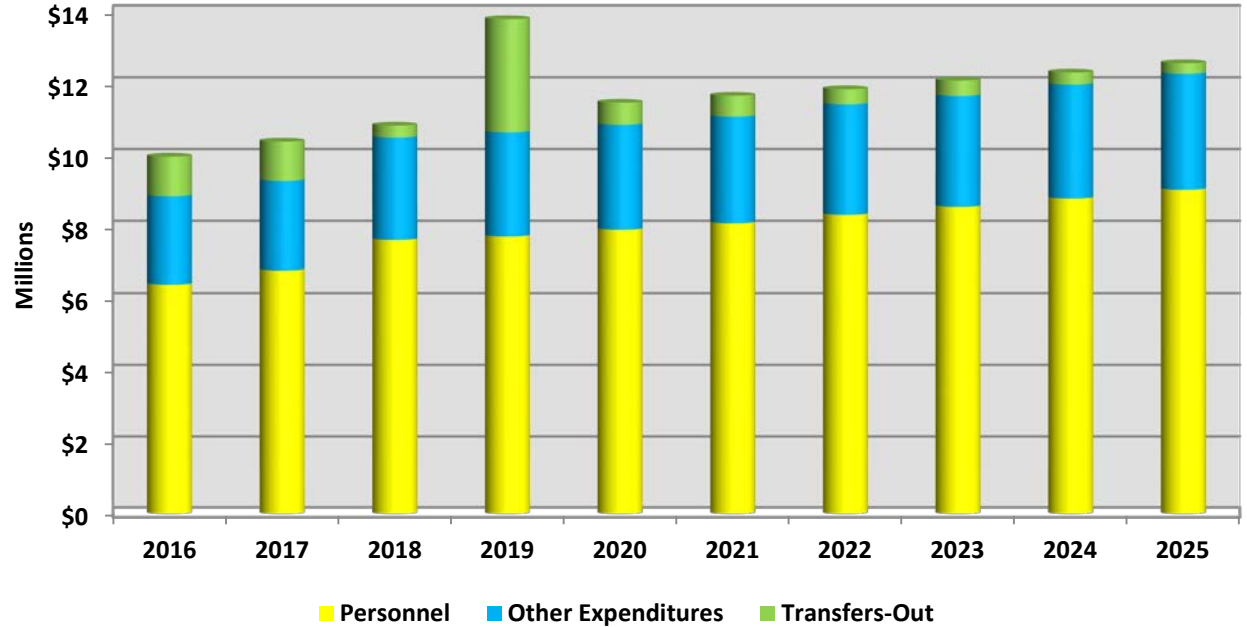


Fire Operating Fund (206): Expenditure

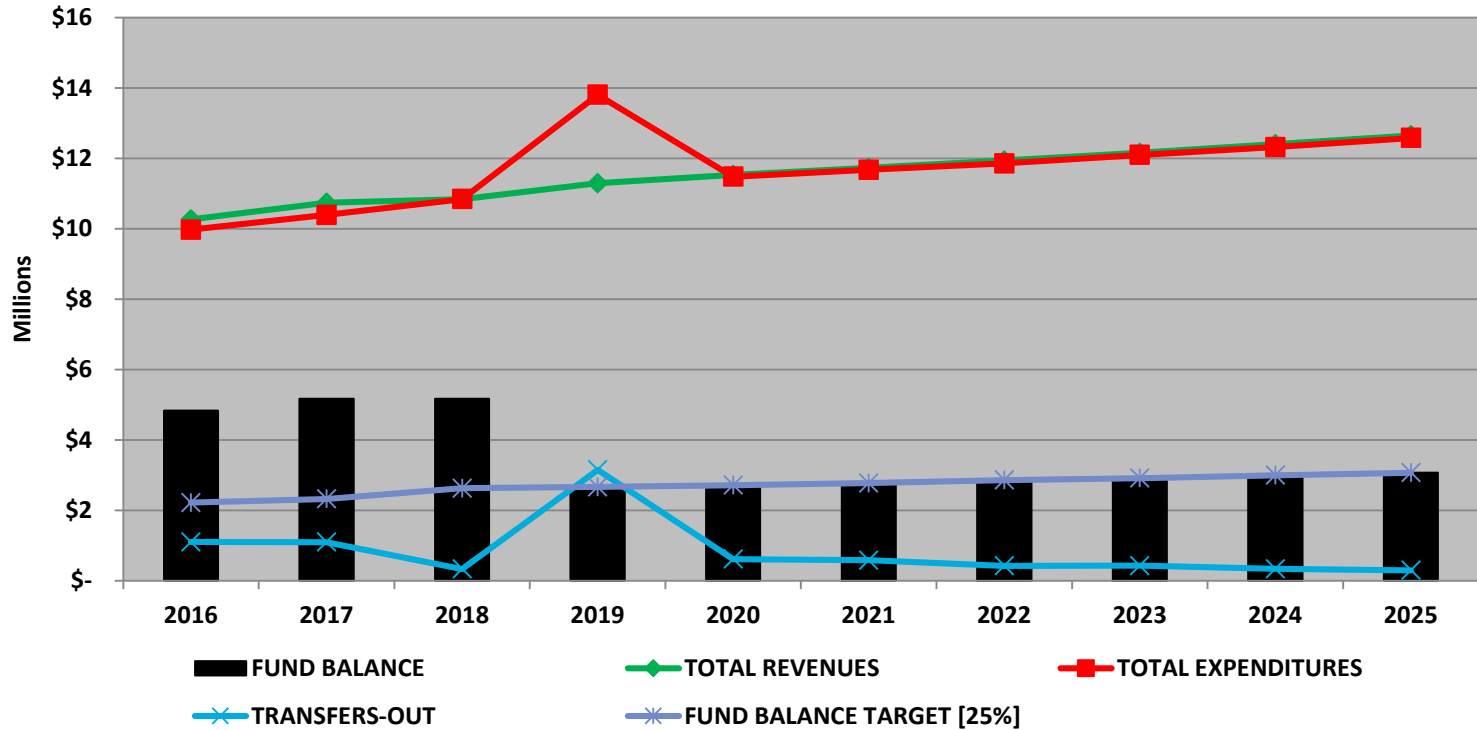
Fire Fund: FY 2018 Expenditure Sources



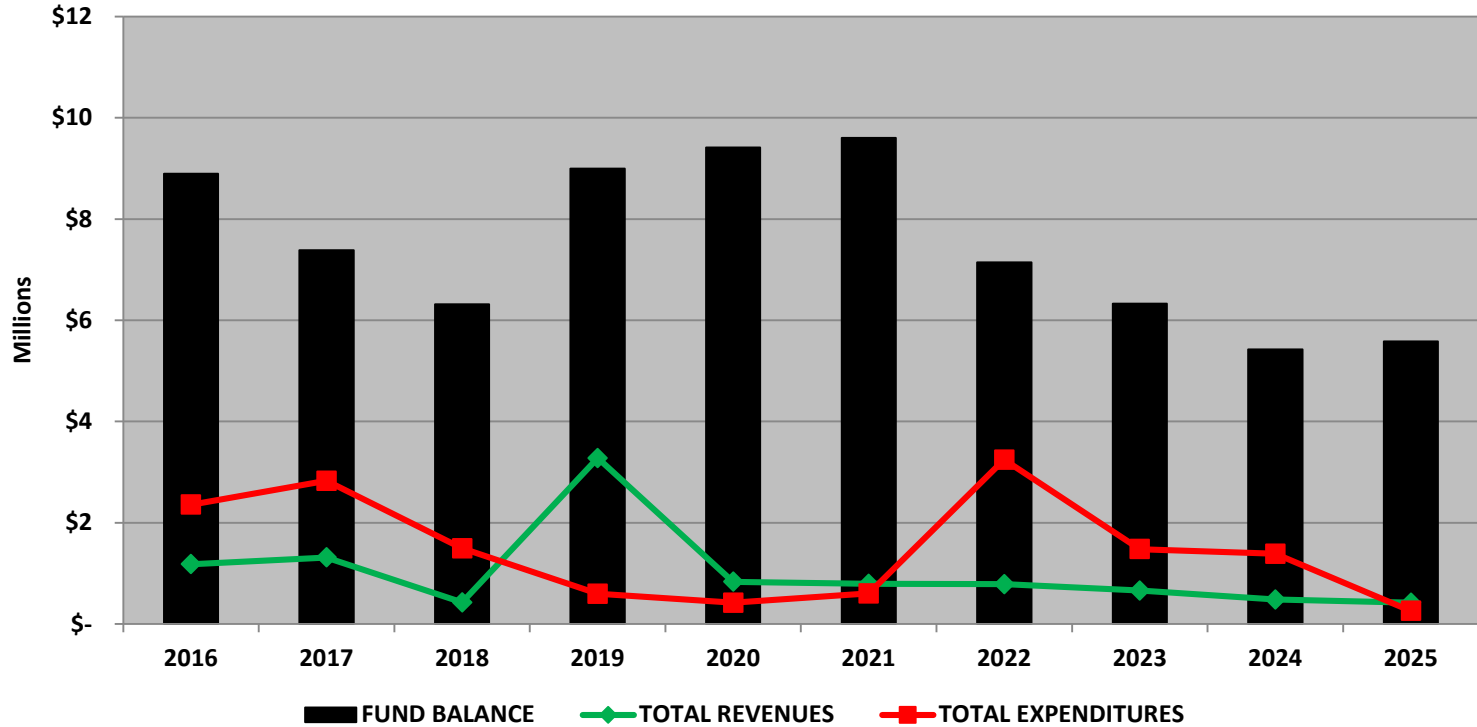
Fire Fund: Total Expenditure Trend



Fire Operating Fund (206): Revenues, Expenditures, Changes in Fund Balance



Fire Capital Fund (402): Revenues, Expenditures, Changes in Fund Balance



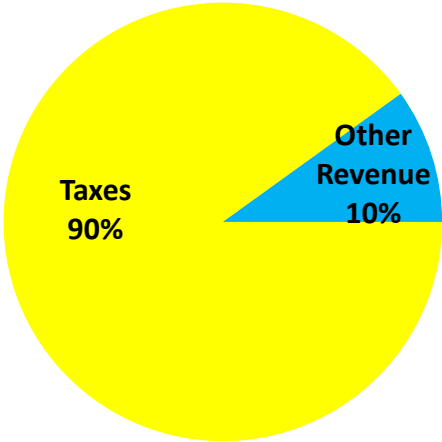
Fire Fund (206 & 402): Takeaways

- ▶ The Fire millage level is maintained at the existing levy of 2.7000 mill throughout this forecast model
- ▶ The increase in Transfers-Out Expenditures in FY 2019 is to set the Fire Operating Fund at 25% of annual operating expenditures
- ▶ The existing Fire millage levy of 2.7000 mill may be adequate to contribute funding to the Fire Capital Fund (402) through FY 2030
- ▶ Approximately \$500,000 should be contributed annually to provide adequate long-term funding to the (402) Fire Capital Fund

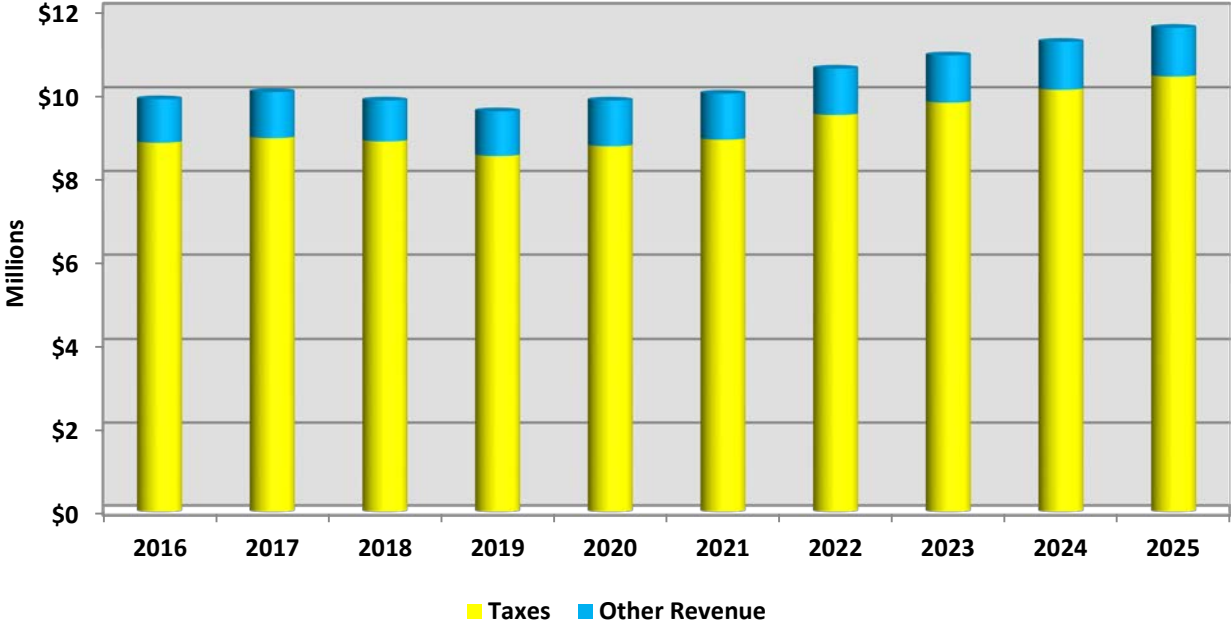


Special Police Fund (207): Revenue

Special Police Fund:
FY 2018 Revenue
Sources

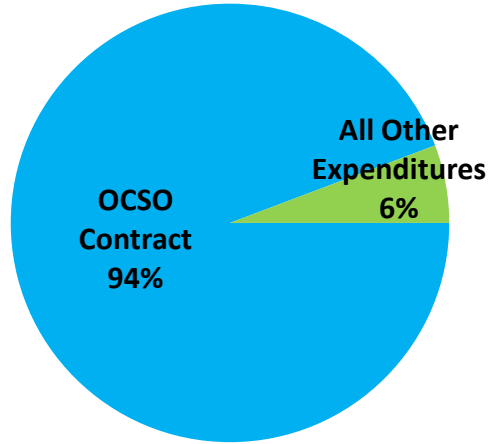


Special Police Fund: Total Revenue Trend

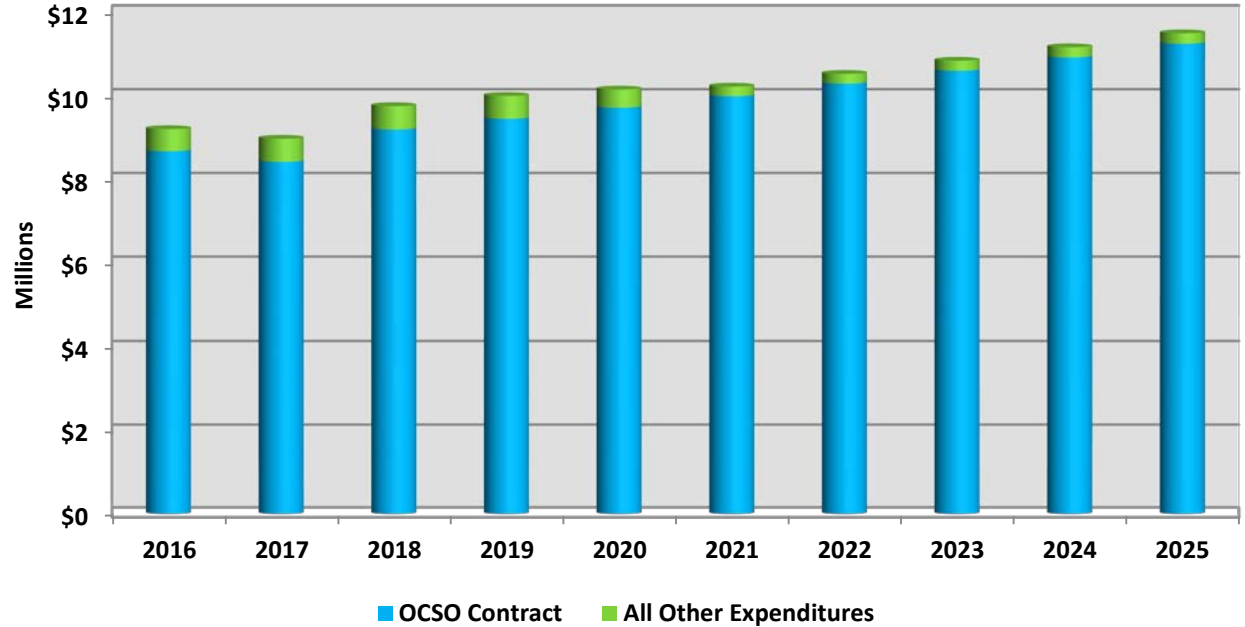


Special Police Fund (207): Expenditure

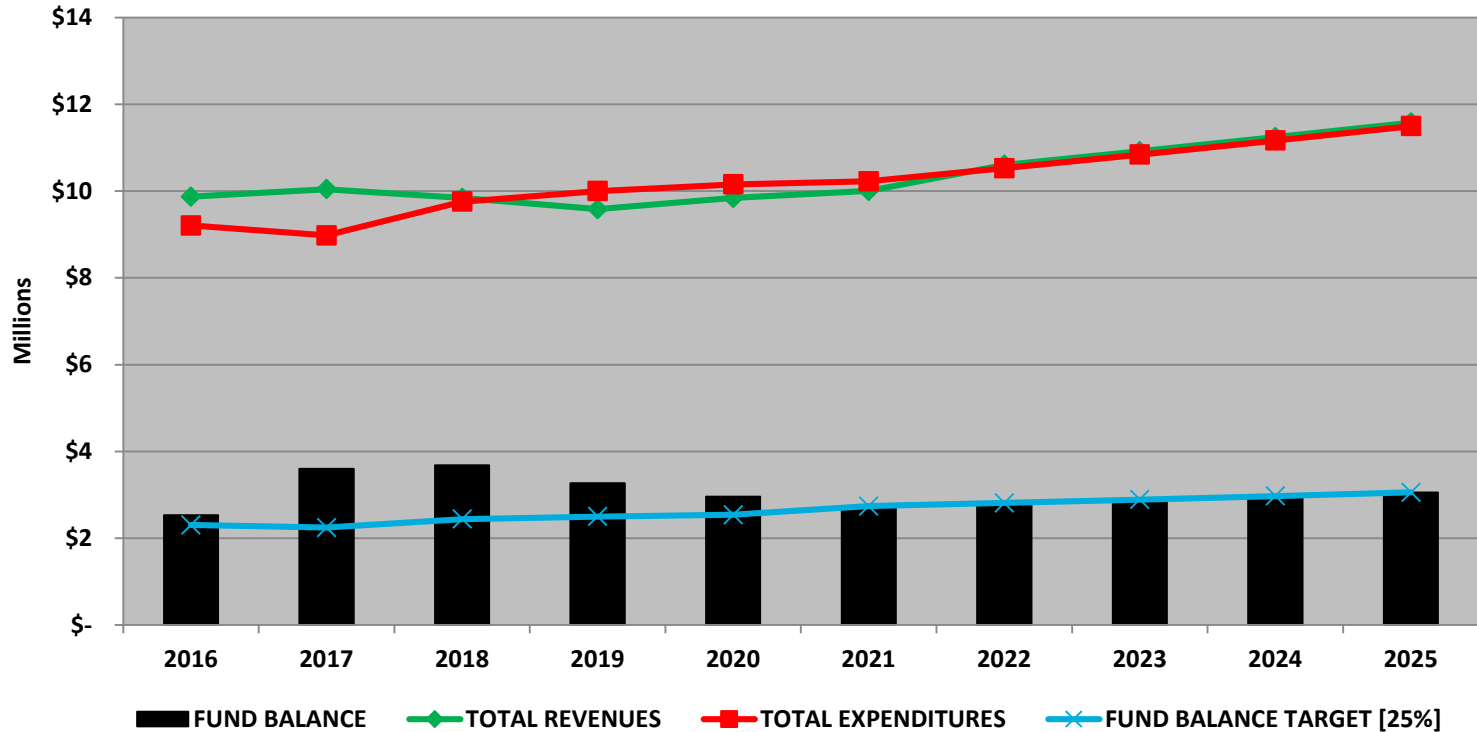
Special Police Fund: FY 2018 Expenditure Sources



Special Police Fund: Total Expenditure Trend



Special Police Fund (207): Revenues, Expenditures, Changes in Fund Balance



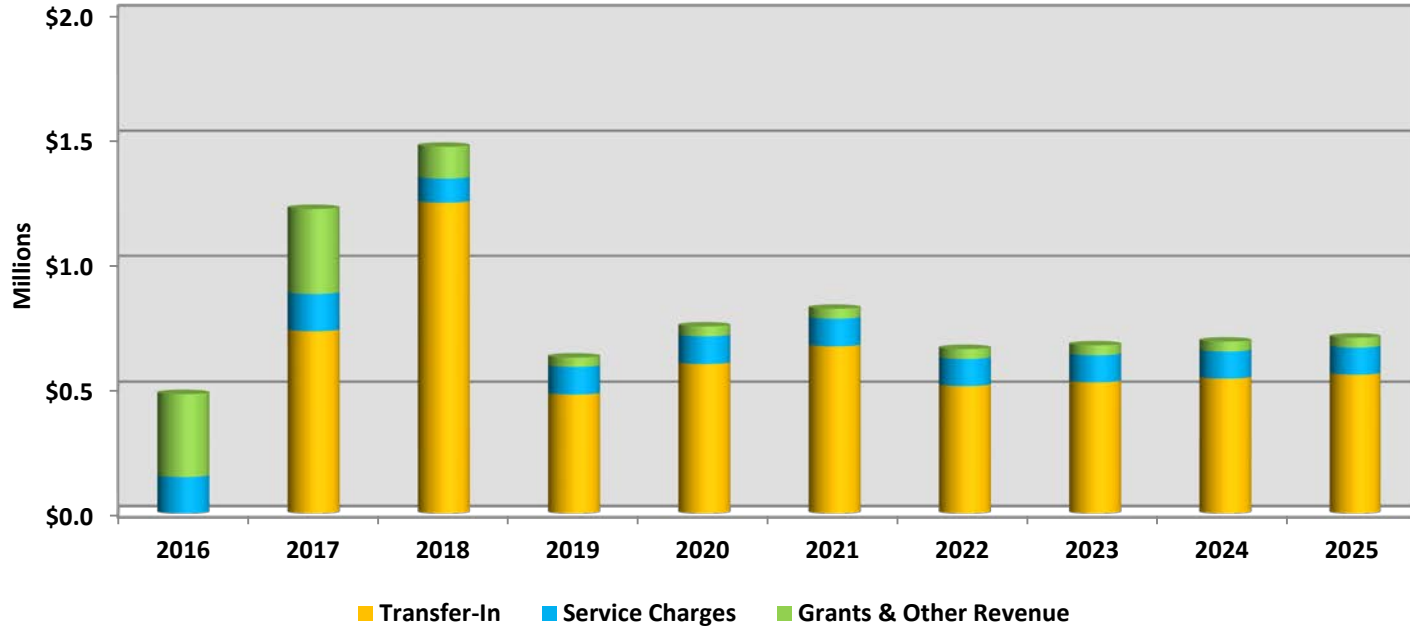
Special Police Fund (207): Takeaways

- ▶ The General Fund levy is changed by the corresponding amount of Special Police II millage each year so that there is no net increase to the bottom line millage rate as a result
- ▶ Special Police Fund Balance to be set at 25% of annual operating expenditures
- ▶ In FY 2021, the debt related to the new OCSO Substation construction will be paid off



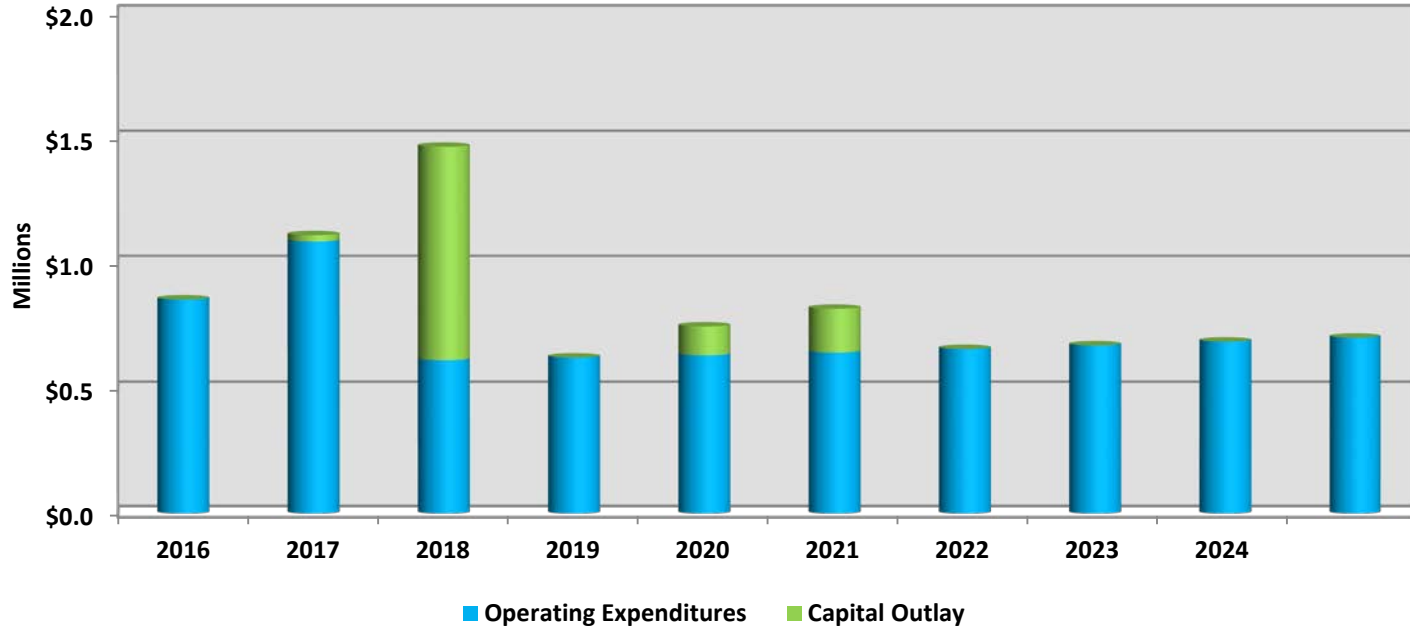
Water Resources Fund (244)

Water Resources Fund: Total Revenue Trend

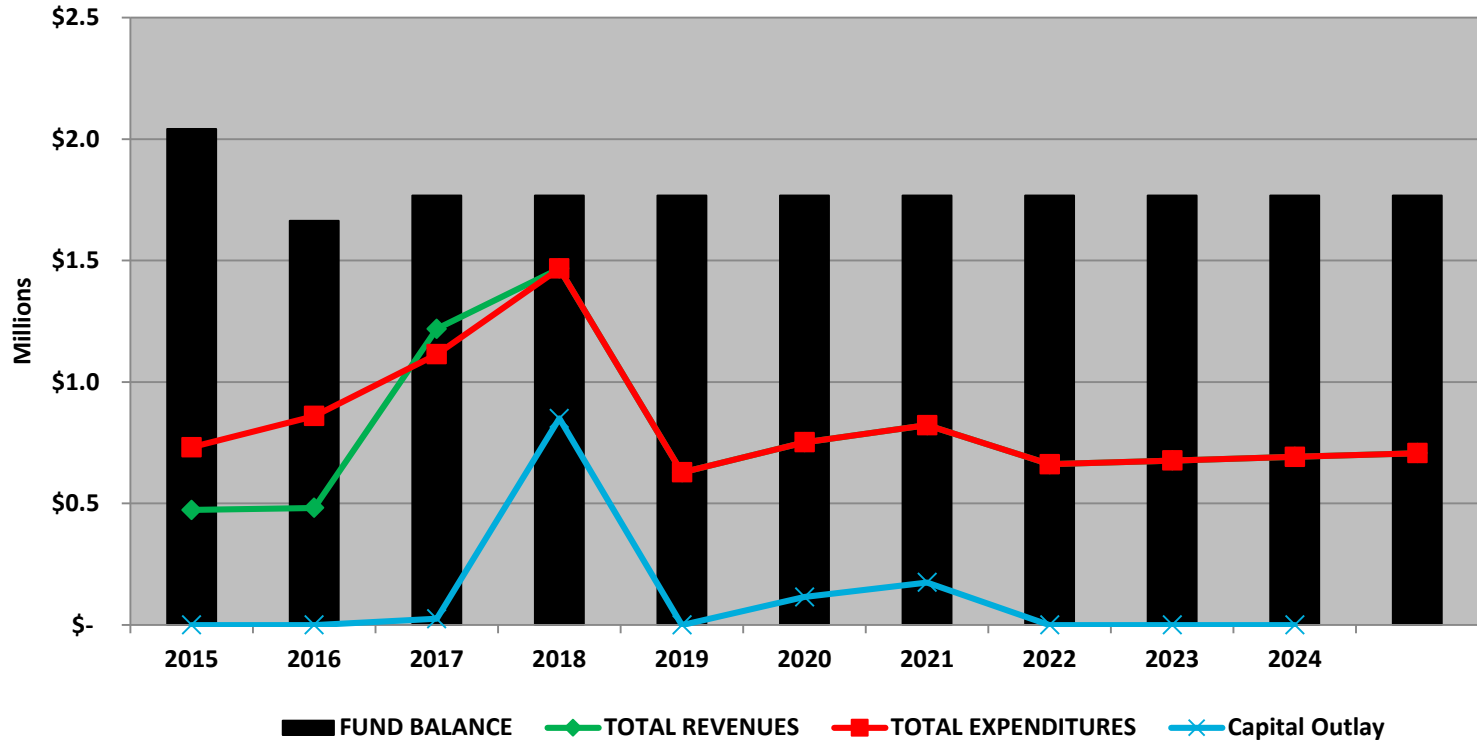


Water Resources Fund (244)

Water Resources Fund: Total Expenditure Trend



Water Resources Fund (244): Revenues, Expenditures, Changes in Fund Balance

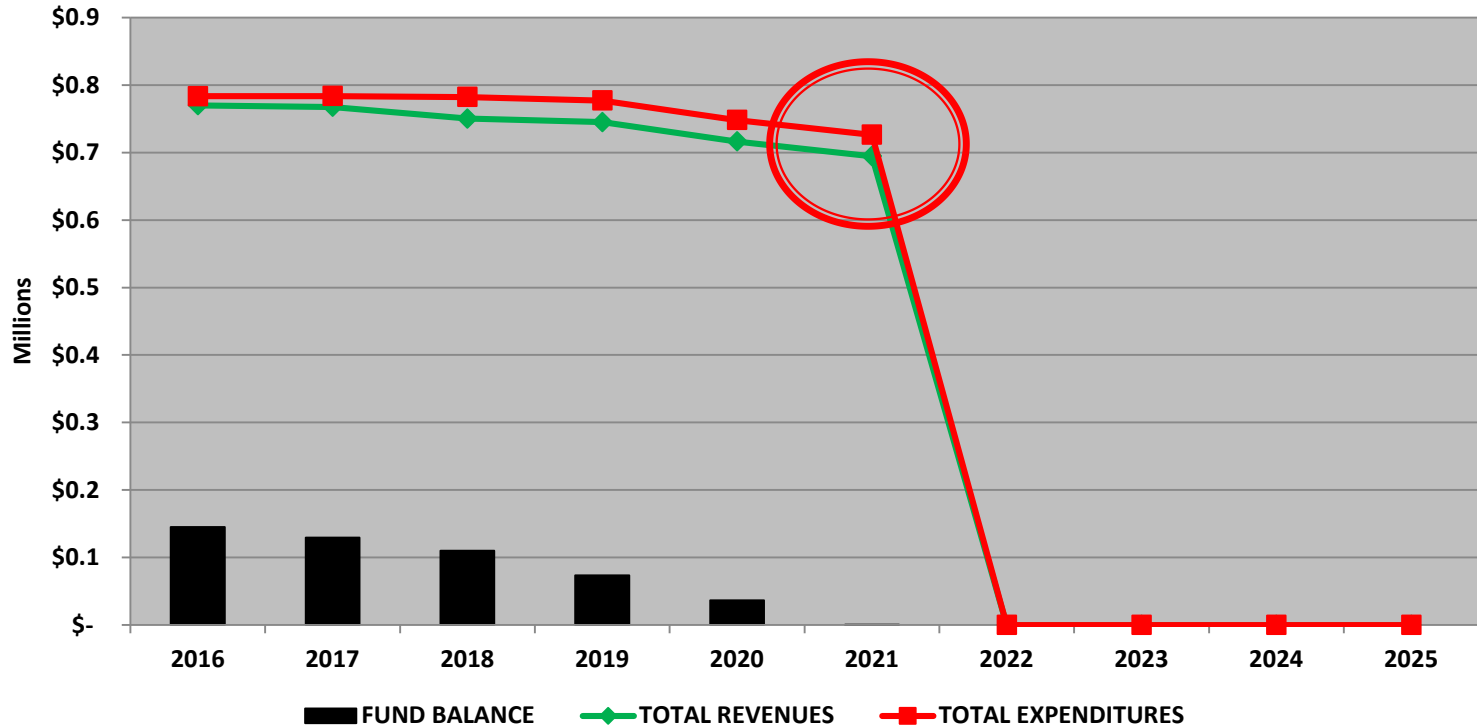


Water Resources Fund (244): Takeaways

- ▶ General Fund is projected to continue funding Water Resources Fund (244) operations to balance expenditures
- ▶ Capital Improvement Fund is projected to fund Water Resources Fund (244) capital projects
- ▶ The Public Safety & Infrastructure Committee is currently exploring potential funding options for Water Resources operations, maintenance, and infrastructure improvements
- ▶ Long-Term potential funding options should be explored as Storm Water infrastructure needs will begin to escalate into the future, this would cause a larger transfer-in from the General Fund and/or Capital Improvement Fund to finance the infrastructure costs



OPC Building Debt Fund (369): Revenues, Expenditures, Changes in Fund Balance



OPC Building Debt Fund (369): Takeaways

- ▶ **The last year the OPC Building Debt millage will need to be levied covers FY 2021**
 - For FY 2021, it is estimated that the City will need to collect approximately \$700,000 through the OPC Building Debt millage to pay the final year of debt service
 - Estimated rate in the final year of OPC Building Debt millage = 0.1900 mill



Closing Comments

- ▶ The Seven-Year Financial Forecast has helped the City to get ahead of issues and address them before they become greater problems
 - We have been able to use the projections of the Financial Forecast to move the City to a three-year approach to budgeting
 - We have brought services and expenses in line with revenue resources
 - We have become pro-active on those issues affecting our ability to deliver services to our citizens
- ▶ We appreciate the City Council's support, without it we might not have been able to manage during the economic downturn as successfully
- ▶ There will always be financial challenges but with careful planning many of these challenges can and will be turned into opportunities



Questions

