CITY OF ROCHESTER HILLS

Fiscal Team

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DATE: May 20, 2004

TO: CDV & FINANCIAL SERVICES COMMITTEE

RE: Local Street Funding Needs

This memo and analysis is submitted in response to the CDV and Financial Services Committee's, City Council's and Mayor's request for a determination on the necessary millage rate needed to provide appropriate funding for both operating and capital expenditures of the City of Rochester Hills' local street program.

Below is a list of assumptions that were made by a group of City staff membes (Ed Anzak, Kurt Dawson, Roger Rousse and myself). Assumptions needed to be made in order to perform an analysis.

- It is assumed that the construction program will place a higher emphasis on front-loading overlay work, in order to extend the lives of the more superior rated streets. This method will help to keep program costs down. This assumed program will include some reconstruction work early on, but reconstruction will **not** be heavily weighted in the first year of the millage.
- The determined millage rate is calculated on a Taxable Value with a growth rate of 5% in 2006, 4.75% in 2007, 4.5% in 2008 and 2009, and 4.25% in all years after 2009.
- The estimated Headlee Rollback is assumed at 99% in all years after 2005.
- It is estimated that construction costs will increase 4.5% annually.
- It is estimated that all operating expenditures will increase 2.5% annually (except wages and benefits).
- It is assumed that the wages/benefits category of expenditures will increase 7% in 2005 then 6% in all years after, due to rapidly rising health benefit costs.
- It is assumed that City staff time dedicated to the local construction function will be at a level between FY2002 and FY2003, as there was a comparable level of construction in those years. FY2002 and FY2003 comparison is utilized as opposed to expounding on 2004 budgeted figures, which have little staff construction time budgeted (due to the lack of construction projects).
- It is assumed that Act 51 (Gas and Weight tax) revenue to the City will remain constant.

- It is assumed the transfer in from the Major Road Fund (Act 51 monies) will remain constant.
- It is estimated the City revenue from charges will increase between 4-5% annually.
- This evaluation assumes that both operating and capital expenditures for the local street program to be completely supported by a dedicated millage, (no transfer from the General Fund) Act 51 revenue, investment income and City Charges/fees for services.
- It is assumed that there is a desire to keep 25%(90 days of operating expenditures) of budgeted operating expenditures in Fund Balance.
- It is estimated that Interest Earnings on Fund Balance will be 2.5%

Enclosed are various evaluations for needed millages for 5, 7 and 10 years.

Enclosures