

# FY 2017 PROPOSED BUDGET HIGHLIGHTS

April 18, 2016

Honorable Mayor and Council Members:

## OVERVIEW

**Budget Format** – The budget format is basically the same as last year. This includes new special revenue funds for the Library, Sanitation, Police & Fire PA 345 Pension and Municipal Streets. This year we have also included the HUD Home Revolving Fund. One minor change is that the department budgets for Boards & Commissions (115) and Communications (255) are now separate. Finally, the entire Five Year Capital Outlay plan, after the City Manager’s changes, is included in Exhibit 4.

**Property Taxes and Millage Rates** – The total taxable value of the City (with TIFA, Brownfield & CIA) increased from \$1,385,923,000 to \$1,411,427,000. This is an increase of 1.84% which is higher than the rate of inflation (.3%) for 2016. The Headlee Amendment limits local tax revenue growth by requiring reduction of the tax rates to offset growth in assessed values that exceed the general price level of the previous year, therefore a rollback is required. We do not have final confirmation from the County or State, but we estimate the millage rollback fraction (MRF) will be between .9800 and .9900. The millage rates are based on an MRF of .9900 because we can always lower a millage after the public hearing but cannot raise it.

Taxable Value (in thousands)	FY 2016 Actual		FY 2017 Proposed Budget	
	With TIFA, Brownfield and CIA	1,385,923		1,411,427
Without TIFA, Brownfield and CIA	1,368,389		1,392,412	
Millage Rates/Taxes	Millage	Levy	Millage	Levy
Operating	6.2842	8,599,248	6.2213	8,662,554
Sanitation	2.3564	3,224,428	2.3326	3,247,990
Police and Fire Pension	6.0942	8,339,236	6.1368	8,544,954
Publicity, Act 359	0.0364	49,831	0.0364	50,684
Police and Fire Operating	1.9954	2,730,483	1.9753	2,750,495
Voted Street Millage	1.2500	1,710,486	1.2345	1,718,933
Library	0.9223	1,262,029	0.9129	1,271,101
Total Operations	18.9389	25,915,741	18.8498	26,246,711
General Obligation Debt	0.3290	455,969	0.4223	596,046
LSC "Clean Water" Debt	1.9954	2,765,471	1.9753	2,788,057
Total Debt	2.3244	3,221,440	2.3976	3,384,103
Total City Millage	21.2633	29,137,181	21.2475	29,630,814

**Personnel** – There are no personnel changes in FY 2017. Total full-time positions remains at 242. Also, since last year at this time, the Assistant City Manager, Housing Rehab Coordinator and Controller positions have been filled.

**Wages** – The budget does not include increases for all benefited positions. It only includes contracted increases for FY 2016-17 of 2% for police and fire sworn positions. This puts total FT wages at \$15,341,300.

The State of Michigan minimum wage recently increased to \$8.50/hour effective January 1, 2016 and on January 1, 2017 it will increase to \$8.90/hour. As a result the budgets for part-time, seasonal and temporary workers have been increased by 2%. This puts total temporary wages at \$2,080,151.

**Benefits** – Pension costs increased this year due to changes in the assumptions used for the actuarial calculations. The most significant change was to the mortality tables. The City contribution rates and amounts for both the Police & Fire and General Employee plans are shown in the table below. Police and Fire increased by \$466,969 while the General Employees went up by \$91,383. The result is a total increase in pension costs of \$558,352 for FY 2017.

Fiscal Year	Police & Fire		General	
	Amount	Percent	Amount	Percent
2017	\$5,603,001	48.24%	\$2,554,204	66.8%
2016	\$5,136,032	47.76%	\$2,462,821	59.30%
2015	\$5,024,799	47.25%	\$2,512,506	59.36%
2014	\$4,417,956	42.81%	\$2,561,038	50.52%
2013	\$3,834,745	31.73%	\$2,379,350	41.01%
2012	\$3,479,418	30.57%	\$2,090,393	36.34%

Employee insurance costs have increased from \$11,098 per active employee to \$13,213 per active employee. Based on approximately 242 positions, the cost impact city wide is \$511,830. Total benefit costs are projected at \$12,306,854 for FY 2017. These increases are in large part due to changes made in the calculation of the illustrative rates for retirees vs. active employees. The overall health care cost for retirees and active employees increased approximately \$300,000.

**Capital Outlay** – The past practice of delaying capital purchases for building repairs, vehicle replacement and obsolete equipment continues to be a challenge. We’ve always analyzed these request in terms of ‘needs vs wants’ and this coming year the needs again outnumber the wants. Following is a summary comparison of just the General Fund capital outlay budget by department, after \$1,543,174 in requests were eliminated during the review process. Capital outlay budgets for other departments can be found on the Expenditure Detail page for each department.

General Fund Capital Outlay	Proposed FY 2017	Adopted FY 2016	Adopted FY 2015
Finance	6,667	9,500	0
Clerk	13,125		0
General Government		11,000	0
Communications	17,300	58,860	0

Police	213,000	210,200	208,073
Fire	945,375	231,550	207,100
DPW Administration	415,000	272,000	15,000
Parks & Rec Admin	53,130	0	0
Arena	140,000	63,396	31,000
Parks	221,500	37,500	20,000
Senior Center	TBD		5,000
<b>Total General Fund</b>	<b>2,025,097</b>	<b>894,006</b>	<b>486,173</b>
<b>Year-to-Year Change</b>	<b>1,131,091</b>	<b>407,833</b>	<b>-</b>

*Note: Capital outlay purchases for Information Systems are charged to the Computer Replacement Fund*

## **GENERAL FUND**

### Overview

The General Fund expenditure budget is now at \$36.7 million, a \$3.7 million (9.2%) decrease over last year's adopted budget of \$40.4 million and \$46.4 million the year before. As noted in the previous section the proposed FY 2017 budget includes \$2.0 million in capital outlay. With revenues of only \$31.4 million, the budget was balanced by using \$5.2 million in reserves.

### Structural Deficit

A structural deficit still exists in the General Fund because current revenues do not cover current expenditures. In addition, the General Fund has had to make up deficits in other areas such as the Recreation Revenue and Library Funds. The City will have to continue to draw down on reserves to balance these budgets into the foreseeable future until changes are made. For FY 2014 the deficit was \$1.8 million, followed by a surplus of \$.8 million in FY 2015 and a projected deficit of \$2.9 million in FY 2016. The surplus in FY 2015 was mainly the result of a one-time \$1.4 million rebate on the city waste hauling contract.

### Fund Balance

As previously discussed, the budget as presented is balanced using \$5.2 million in fund balance. The *Unrestricted* fund balance as of June 30, 2017 is now estimated at \$7.9 million, which is still approximately 21% of total expenditures.

The Government Finance Officers Association (GFOA) establishes local government benchmarks and recommends that cities maintain an unrestricted fund balance of no less than two months of general fund expenditures, or about 17%. The proposed budget will meet this best practice despite the structural deficit discussed earlier. However, based on current projections, it will likely drop below this by June 30, 2018.

## **MAJOR REVENUES [Page 2]**

### Property Taxes [Decrease of \$118,963]

The Increase/Decrease column of the General Fund revenue page indicates a decrease in property tax revenues of over \$118,963. However, this is due to the FY 2016 amended column including an adjustment

of \$307,000 for a personal property reimbursement from the State. When this is taken into account, the actual increase would be \$188,037. Also, the FY 2017 budget includes a \$104,452 anticipated reimbursement from the State of Michigan for lost Personal Property Taxes.

Licenses and Permits [Increase of \$172,100]

This is the second consecutive year this category has increased. Revenue from permits and licenses is up by over \$170,000 from last year and is an indicator that new construction activity continues. In addition, there is a projected increase of \$100,000 in cable franchise fees for the upcoming year. Other permits remain unchanged and include certificates of occupancy (CO's) and permit fees for auctions, block sales, concrete and more. A fee increase is under consideration as the recent audit indicated that costs have exceeded revenues the past several years.

State Revenue Sharing [Decrease of \$42,399]

The decrease is the result of an overstatement of the revenue sharing budget in FY 2016. The State reduced the projection of \$4,778,948 for constitutional revenue sharing after we checked the website to \$4,558,441. The budget for FY 2017 of \$4,736,549 then reflects an increase of 3.9% and is consistent with current state projections. The statutory portion for the City, Village, & Township Revenue Sharing (CVTRS - formerly EVIP) remains unchanged at \$602,181. Total projected revenue for both is \$5,338,730.

Other State and Federal Funds [Increase of \$17,109]

After removing the sales tax revenue sharing from the equation, the balance received from other state and federal sources such as CDBG admin fees, grants, etc. is expected to increase by \$17,109.

Fees and Charges [Increase of \$441,469]

Fees and charges tend to fluctuate widely from year to year as evidenced by the following detail:

1. 600 – Recreation Fees decreased \$88,045. The decrease is based on the results of analyzing 5+ years of actual activity and adjusting the revenue subaccounts accordingly. Also, note that the current budget of \$536,000 is in line with FY 2015 actual revenues of \$525,237.
2. 630 – Charges for Services increased by \$70,600. Approximately \$64,000 of the increase is due to increased charges in CDI for blight, cleanup, rodent control and weed control.
3. 634 - Sidewalk charges increased \$480,000 with the proposed reinstatement of this program.
4. 638 – False alarm charges decreased \$26,000 based on the results of analyzing 5+ years of actual activity.
5. 640 – Rentals decreased \$46,786 based on a review of current contracts for cell towers, billboards, property leases, etc.
6. 655 – Court revenues increased \$39,700 based on current department projections.

Contributions from Other Funds [Increase of \$227,557]

These are transfers from other funds to reimburse the General Fund for OPEB costs and administrative services such as accounting, general management, technology, customer service, etc. Following is a comparison of the current and previous year with the proposed FY 2017 budget:

Contributions from Other Funds	Proposed FY 2017	Adopted FY 2016	Adopted FY 2015
Computer Replacement	\$50,695	\$50,695	
Streets	432,531	354,800	\$344,000
Court	75,000	75,000	75,000
Library State Aid	0	0	54,835
Library Penal Fines	0	0	55,000
Utility	1,948,000	1,819,000	1,806,000
Motor Pool	240,000	232,000	217,000
Sanitation	183,340	171,514	319,706
TIFA	170,000	170,000	170,000
HUD Dollar Home	0	0	28,337
PA 345 Pension	30,000	29,000	
<b>TOTAL</b>	<b>\$3,129,566</b>	<b>\$2,902,009</b>	<b>\$3,069,878</b>
<b>Year-To-Year Change</b>	<b>\$227,557</b>	<b>(167,869)</b>	<b>-</b>

Other Miscellaneous [Decrease of \$183,595]

675 - Donations decreased by \$162,329 primarily because the FY 2016 amended budget included the following non-recurring items:

1. Property donations of \$111,227
2. Scoreboard donations of \$36,658

**MAJOR EXPENDITURES - BY DEPARTMENT**

In this section we will point out major expenditures and variances by department, comparing the current proposed budget to the current year amended budget and the amount of increase or decrease. Page numbers allow you to cross reference the detail information in the budget document. The variance amount is the column on the far right of the Budget Summary page labelled *Increase/Decrease from FY 2016*. For a one page summary of the variances by General Fund department please refer to page 3 of the budget book binder, or the following:

Department		Actual FY 2015	Amended FY 2016	Proposed FY 2017	Change From FY 2016
101	Legislative	76,752	79,681	79,131	(551)
115	Boards and Commissions			255,319	255,319
140	Court	2,007,508	2,110,887	2,203,276	92,389
170	City Manager	387,038	538,113	536,397	(1,716)
201	Finance	1,123,302	1,151,275	1,193,714	42,439
210	City Attorney	465,967	363,000	513,500	150,500
215	Clerk/Election	589,447	707,909	819,364	111,455
241	Assessment	323,084	328,352	345,114	16,762
253	General Government	4,786,034	10,250,825	3,180,145	(7,070,680)
255	Communications	396,102	468,911	355,078	(113,833)
258	Information Systems	316,919	471,298	486,490	15,192
266	Building Maintenance	515,886	536,041	555,223	19,182
300	Police	13,254,639	10,709,028	11,263,061	554,033
340	Fire	7,407,919	5,884,518	6,649,343	764,825
370	Community Services	2,173,552	1,839,602	2,366,482	526,880
450	DPW Administration	658,832	943,553	1,156,075	212,522
520	Sanitation	3,313,908			
701	P & R Administration	784,443	761,390	878,692	117,302
702	Recreation	230,836	236,753	237,974	1,221
703	Arena	846,616	934,314	1,017,728	83,414
705	Parks	944,410	1,055,850	1,231,140	175,290
706	Sr. Center	414,957	482,072	554,364	72,292
730	Library & Information Services	1,336,176			
910	Corporate Insurance	951,639	1,103,670	824,376	(279,294)
TOTAL		43,305,966	40,957,041	36,701,986	(4,255,055)

In the analysis that follows for each department, the changes will typically be broken out by expenditure classification (Personnel, Operating and Capital Outlay) and then line item, program or policy and compared to the previous year. Also, at the end of this section is an analysis comparing the FY 2017 proposed budget to the most recent *Five Year Forecast*.

101 – City Council [Pages 4 - 5. Total budget decrease \$551]

The City Council budget is relatively status quo with no capital outlay projects or personnel changes.

140 – District Court [Page 6 - 7. Total budget increase \$92,389]

Personnel – No change in personnel with almost all of the above change due to increased benefit costs of \$91,314 for existing staff.

Operating – A separate meter on the Court building will allow direct payment to DTE for actual costs. As a result, the utility costs decreased while transfers increased a similar amount.

Capital Outlay – None.

170 – City Manager [Page 8 - 9. Total budget decrease \$1,716]

Personnel – No change in personnel with a \$10,946 increase in benefit costs of for existing staff.

Operating –

950 – This account is showing a decrease of \$13,063 decrease but it's due to a budget amendment in the current year that added this amount for the Farmers Market.

Capital Outlay – None.

201 – Finance Department [Pages 10 - 11. Total budget increase \$42,439]

Personnel - No change in personnel with an increase of \$40,389 in benefit costs for existing staff. The Controller position was filled in July, 2015. The department continues to assume investment responsibilities since October, 2014 at a savings of \$3,000 per month.

Operating – Minimal changes resulted in a net decrease in operating costs of \$1,866.

Capital Outlay – The only capital outlay items is \$6,667 for the City's share of modifications to the pension administration software.

210 – City Attorney [Pages 12 - 13. Total budget increase \$150,500]

Operating – The \$150,500 is a combination of a \$50,000 increase for anticipated arbitration & labor attorney costs and an increase of \$100,500 requested by the City Attorney for fees and retainer.

There are no personnel or capital outlay in this budget.

215 – City Clerk [Pages 14 - 15. Total budget increase \$111,455]

Most of the increase is due to having the Presidential primary and general elections next fiscal year. Additional costs are itemized below.

Personnel - No change in full-time personnel with an increase of \$28,191 for existing staff benefit costs.

Operating Costs – Several line items increased due to the elections next fiscal year:

1. 706 – Temporary wages of \$49,434
2. 711 – Overtime of \$4,753
3. 750 – Election & other supplies of \$1,725
4. 810 – Election workers, software programming & testing of \$11,900
5. 900 – Forms of \$3,000
6. 940 – Rentals of \$1,250

Capital Outlay – This includes \$13,125 to replace 75 voting booths.

241 – Assessing [Pages 16 - 17. Total budget increase \$16,762]

The Assessing budget is relatively status quo with no capital outlay projects or personnel changes. The majority of the increase is due to a \$15,343 increase in benefit costs for current staff.

253 – General Government [Pages 18 - 19. Total budget decrease \$7,070,680]

The large decrease is due to elimination of the one-time transfers of \$7,083,886 required to transfer fund balances for the new funds for the Sanitation and PA 345 Police & Fire Pension funds. The remaining \$30,000 transfer to the Library Fund is necessary to cover current year operating costs.

There are no personnel assigned to this department. The wages and fringes listed here are accrued leave payouts for retiring employees and health care costs for retirees.

Capital Outlay - None

255 – Communications (formerly Boards & Commissions) [Pages 20 - 21. Total budget decrease \$113,833]

The primary reason for the decrease is that the budgets for Communications and Boards & Commissions have been separated to improve accountability. This resulted in approximately \$67,000 of the decrease with another \$51,591 attributed to a decrease in capital outlay items:

1. 701 – Wages of \$27,450
2. 706 – Temporary wages of \$8,250
3. 750 – Operating supplies of \$3,500
4. 950 – Miscellaneous for committees of \$27,800
5. 980 – Capital outlay of \$51,191

Personnel - No change in personnel with an increase of \$6,931 due to increased benefit costs for existing staff.

Operating – Status quo. The City is leasing studio space from South Lake School District in return for in-kind services.

Capital Outlay – Includes \$17,300 to upgrade the audio system in the City Council chambers.

115 – Boards & Commissions [Pages 21A – 21B. Total budget increase \$255,319]

Because this is a new department, the entire budget is showing as an increase. It was previously part of Department 255 with Communications. This budget now includes all committee revenues and expenditures whereas previously these were scattered across several department including Communications, City Manager, Recreation, etc.

258 – Information Systems [Pages 22 - 23. Total budget increase \$15,192]

Personnel - No change in personnel with \$18,549 of the above change due to increased benefit costs for existing staff.

Capital Outlay – Capital purchases are budgeted in the Computer Replacement Fund [Page 72]. The Computer Replacement Fund was established to provide a steady source of revenue to allow the City to keep pace with technology changes. The source of revenues is a chargeback to user departments in their 930.090 line item. These funds are then used for routine maintenance, repairs, replacement and upgrades of desktop computers, laptops, servers and system software.

266 – Building Maintenance [Pages 24 - 25. Total budget increase \$19,182]

Personnel – No change in personnel with \$13,460 of the above change due to increased benefit costs for existing staff.

Operating – 940 - Vehicle rentals were increased by a net of \$14,015 to reflect a replacement truck being transferred from the Motor Pool.

Capital Outlay – None.

300 – Police [Pages 26 - 27. Total budget increase \$554,033]

Personnel – There is no change in personnel as total staffing level remains at 90 positions. Per contract, wages have been increased 2% effective July 1, 2016. Based on this and step increase for new officers hired in the last five years, total wages and benefits for existing staff increased \$525,500. The increase in wages is less than expected because there were vacant POA positions at the time the budget was prepared. Because new officers are hired at a lower rate than the officers they replace, the resulting savings in wages and pension alone is \$46,000 per officer.

Overtime – Overtime hours have been increased by 700 to implement a proposed new traffic enforcement program that is outlined in the budget book. Overtime costs increased approximately \$77,381 as a result. These expenses would be offset by revenues in the Court budget that will need to be adjusted if the program is approved. More information on this program is included in the budget book for the Police Department.

Operating –

810 – Services decreased by \$29,468. Most of this is due to a reduction in SERESA costs of \$21,878. However, in addition, the SERESA budget was finalized after the budget book was prepared and costs will decrease further to \$781,991. The revised amount will be reflected in the final proposed budget.

930 – Repairs & maintenance decreased by \$33,170 primarily due to a decrease in computer support of \$51,449 which was offset by increased ticket printer warranty costs of \$16,000

940 – Vehicle rentals increased by \$10,740 as actual Motor Pool costs allocated for the Police fleet increased for fuel, repairs and maintenance.

Capital Outlay – The budget includes replacement of 5 high mileage/maintenance vehicles at a total cost of \$190,000. Other items include replacement radios (\$20,000) and radar units (\$3,000) for a total capital outlay budget of \$213,000. Please refer to the budget book binder for a more detailed justification/cost-benefit analysis.

<u>980-CAPITAL OUTLAY</u>	
(5) Patrol Cars	190,000
Radios	20,000
Radar units	3,000
	213,000

Revenues – Revenues decreased by \$78,019 based on the following:

410.000 – Property tax allocation decreased by \$49,263 based on a formula that pro rates the 2.0 mill operating between police and fire based on total budgets.

583.130 – The COMET grant through Macomb County was eliminated, resulting in a decrease of \$26,968.

638.000 – False alarm charges were reduced by \$26,000 based on actual collections over the past 5 years.

340 – Fire [Pages 28 - 29. Total budget increase \$764,825]

Personnel – No changes in personnel as total staffing level remains at 50 positions. The wages increased based on a 2% increase July 1, 2016 and step increases to firefighters hired in the last five years. Based on this, total wages and benefits for existing staff increased \$321,817.

Operating –

810 – Services increased by \$12,000 of which \$13,800 is attributed to higher costs for EMS supplies.

930 – Repairs & maintenance increased by \$28,119 due to increases in building repairs of \$9,500 and computer support of \$14,109.

940 – Vehicle rentals were reduced by \$227,935 as actual Motor Pool costs for the Fire Dept fleet decreased for fuel, repairs and maintenance.

Capital Outlay – This has increased by \$597,293 for a total of \$945,375 in proposed purchases:

<u>980-CAPITAL OUTLAY</u>	
Vehicle A-1 remount or Q-1 grant match (.001)	
Vehicle Q-1 Replacement (grant match) & Equipment	88,900
(1) Extrication equipment (.347)	38,075
PPV fan	3,000
(1) Thermal imaging camera	13,500
Vehicle E-5 Replacement	470,000
Vehicle A-2 Remount	225,000
Replace multi-story equipment & packs	4,500
Replace (3) bay doors	12,000
(1) Rescue saw replacement	3,400
Replace North Station roof	55,000
Vehicle FM-1 Replacement	32,000
	945,375
TOTAL	

Please refer to the budget book binder for a more detailed justification/cost-benefit analysis.

370 – CDI [Pages 30 - 31. Total budget increase \$526,880]

Personnel – No change in personnel with \$49,125 of the above change due to increased benefit costs for existing staff.

Operating –

810 – Services increased by \$72,200 primarily due to increases in rental inspections of \$9,000 and weed control of \$50,000.

930 – Repairs & maintenance increased by \$426,214 as the sidewalk replacement program has been reinstated. Correspondingly, revenues increased \$480,000 for the resident’s share of these programs.

Capital Outlay – None.

450 – DPW Administration [Pages 32 - 33. Total budget increase \$212,522]

Personnel - No change in personnel with \$24,362 of the above change due to increased benefit costs for existing staff.

Operating –

940 – Vehicle rentals increased by \$46,994 as Motor Pool costs allocated for the fleet increased for fuel, repairs and maintenance.

Capital Outlay – Increased by \$128,000 based on purchases of \$415,000 in FY 2017:

<u>980-CAPITAL OUTLAY</u>	
(1) Salt Storage Building	400,000
(1) Lawn Equipment	15,000
	<hr/>
	415,000

701 - Parks & Recreation Administration [Pages 34 - 35. Total budget increase \$117,302]

Personnel - No change in personnel with \$17,003 of the above change due to increased benefit costs for existing staff.

Operating –

950 – Miscellaneous expenses decreased \$69,100 entirely because last year’s committee expenses were moved to the new Boards & Commissions budget.

960 – Transfers increased \$117,134 to cover increased capital outlay costs in the Recreation Revenue Fund for Boating, Pool and Golf Course operations. For at least the past three years the General Fund has had to make a transfer to the Recreation Revenue Fund so that its working capital (current assets minus current liabilities) was at least \$1.00 at year end.

This is an accounting requirement that is triggered by the interfund loan between the Recreation Revenue Fund and the Sanitation Fund. (FYI - The FY 2017 principal & interest is \$182,700 and the loan matures in 2019). The actual transfer will be made at year end and may change based on final audit results. The estimated calculation is as follows:

Amount	Description
\$12,222	Est beginning working capital, July 1, 2016
(180,452)	Income (Loss) before operating transfers
350,000	Depreciation
(265,500)	Capital purchases
(180,000)	Principal payments
(\$263,730)	Est ending working capital, June 30, 2017

Capital Outlay – Includes updating the park master plan for \$13,130 and joint sealing the parking lot for \$40,000 for a total capital outlay request of \$53,130.

702 – Recreation [Pages 36 - 37. Total budget increase \$1,221]

The Recreation budget is relatively status quo with no capital outlay projects or personnel changes.

703 – Arena [Page 38 - 39. Total budget increase \$83,414]

Personnel - No change in personnel with \$1,238 of the above change due to increased benefit costs for existing staff.

Operating –

940 – Vehicle rentals went up by \$19,553 as actual Motor Pool costs for the Zambonis increased for fuel, repairs and maintenance.

Capital Outlay – Increased by \$55,404 with the following proposed purchases for FY 2017:

<u>980-CAPITAL OUTLAY</u>	
Locker rooms	50,000
Gutters	40,000
Rubber matting & flooring	15,000
Zamboni*	35,000
<i>*Cost is based on a 3 year lease/purchase</i>	
TOTAL	140,000

Please refer to the budget book binder for a more detailed justification/cost-benefit analysis.

705 – Parks [Pages 40 - 41. Total budget increase \$175,290]

Personnel - No change in full-time personnel with \$21,145 of the above change due to increased benefit costs for existing staff. However, temporary costs have increased \$55,346 to staff the batting cages and

concession areas. Previously concession services were contracted out and are now being brought in-house.

Operating –

750 – Operating supplies increased by \$10,000 as a new line item for concession items for resale was added.

940 – Vehicle rentals were reduced by \$53,118 as actual Motor Pool costs for the Parks Dept fleet decreased for fuel, repairs and maintenance.

Capital Outlay – Increased from \$82,153 to \$221,500 with the following projects proposed for FY 2017:

<u>980-CAPITAL OUTLAY</u>	
Blossom Heath Beach House - repaint	35,000
Kyte-Monroe RC irrigation system	150,000
(1) Utility cart/field groomer	9,000
Replace batting cage netting	27,500
TOTAL	221,500

706 – Senior Center [Pages 42 - 43. Total budget increase \$72,292]

Personnel - No change in personnel with \$2,745 of the above change due to increased benefit costs for existing staff.

Operating –

940 – Vehicle rentals increased by \$70,762 as Motor Pool costs allocated for the fleet increased for fuel, repairs and maintenance.

Capital Outlay – None. The building expansion project is still in process.

910 – Insurance [Pages 44 - 45. Total budget decrease \$279,294]

This budget is based on premium contributions and actual claims experience and is adjusted at year end via carryovers. An RFP for property & liability coverage was issued earlier this year and proposals were received April 28. A recommendation for a bid award will be coming before City Council in May.

## **FIVE YEAR FORECAST FOR GENERAL FUND**

The next logical question is how does the FY 2017 proposed budget compare to the latest 5 year forecast that was presented by Plante Moran in December, 2015. To summarize, that forecast projected the following annual operating surplus/deficits and cumulative fund balances at year end. As with other forecasts, it is a 'worst case scenario' based on the City doing nothing to improve its overall financial condition.

FIVE YEAR UNRESTRICTED FUND BALANCE PROJECTIONS - JUNE 30, _		
Annual Surplus (Deficit)		Cumulative
788,540	FY 2015 Actual	16,021,254
(2,208,293)	FY 2016	13,812,960
(5,097,857)	FY 2017	8,715,103
(3,865,077)	FY 2018	4,850,026
(4,486,216)	FY 2019	363,810
(5,130,139)	FY 2020	(4,766,329)
<i>Source: Plante Moran Five Year Forecast, December 7, 2015</i>		

The projected structural deficit for FY 2017 is \$5.2 million which is very close to the \$5.1 million projected above.

**LIBRARY FUND [Pages 46 - 47. Total budget increase \$222]**

Personnel – No change in personnel with \$2,264 of the above change due to increased benefit costs for existing staff.

Operating –

810 – Services increased \$6,100 for the cooperative services program.

850 – Communications increased \$13,000 based on current actual ATT phone costs.

950 - Miscellaneous costs decreased \$10,732 because the FY 2016 amended budget includes \$8,032 for donation related expenses. Cultural committee expenses of \$2,700 were moved to the new Boards & Commissions budget.

Capital Outlay – Increased by \$6,700 but this does NOT include any funding for new books and materials. This was previously funded based on carryover of which there is no longer any. Included in the budget book is a 10 year history of actual expenditures for consideration. Proposed capital outlay projects for FY 2017 include:

<u>980-CAPITAL OUTLAY</u>	
Repair HVAC system	11,500
Repair roof (very rough estimate)	15,000
Repair furniture	4,000
New books and materials	TBD
<b>TOTAL</b>	<b>30,500</b>

Revenues – The General Fund transfer is necessary to balance the budget.

<u>LIBRARY FUND REVENUES (.9129 mills)</u>	
410-Property Taxes	1,282,685
657-Library Fines / Fees	50,000
657 Library Coffee House	2,400
State Aid	35,000
Library Penal Fine	55,000
675.000 Donations	3,500
Transfer from General Fund	30,000
TOTAL	1,458,585

**SANITATION FUND** [Pages 48 – 49. Total budget increase \$48,076]

There are no personnel or capital outlay in this budget.

Operating –

750 – Supplies decreased \$25,000 for reduced cart sales and purchases

810 – Services increased \$84,824 for rubbish collection, disposal and hauling costs

940 – Vehicle rentals were reduced by \$11,748 as actual Motor Pool costs decreased for fuel, repairs and maintenance.

Revenues –

<u>SANITATION FUND REVENUES (2.3326 mills)</u>	
410-Property Tax	3,277,587
695.520 Cart sales (less sales tax)	75,000
693.520 Transfer from Sanitation Trust	260,000
664-Interest earned	30,000
TOTAL	3,642,587

**POLICE & FIRE PA 345 FUND** [Page 50 - 51. Increased \$431,416]

This special revenue fund is used to account for revenues and expenditures related to pension and post-employment benefits (OPEB) for police officers and fire fighters.

There are no personnel or capital outlay in this budget.

Revenues –

<u>P &amp; F ACT 345 FUND REVENUES</u>	
	<u>(6.1368 mills)</u>
410-Property Tax	8,621,499
TOTAL	8,621,499

**UTILITY FUND [Page 52]**

Background – On January 1, 2016, the Detroit Water & Sewerage Department (DWSD) transitioned to the regional Great Lakes Water Authority (GLWA). In FY 2016 the DWSD (now the GLWA) modified their rate methodology for water purchases to collect more revenue as a fixed cost. Prior to FY 2016 the DWSD collected 40% of the revenue as a fixed cost. Starting in FY 2016 this fixed cost was changed to 60%. This resulted in a fairly significant rate increase last year to the City. They changed the methodology due to continued decreases in the demand for drinking water. This is attributed to mild summer seasons and lower water consumption due to effective conservations methods.

The GLWA estimates the cost of supplying drinking water to customers to be 90% fixed and does not fluctuate based on usage. Therefore, in order to make up the revenue shortfall from lower water sales the GLWA has changed to more of a fixed fee method of billing their wholesale customers. This effectively increases the unit cost of drinking water.

The following table provides a brief comparison of utility rates and consumption.

UTILITY FUND OPERATING STATISTICS (WATER & SEWER)	Previous Years			Proposed	%
	Actual	Actual	Adopted		
	FY 2014	FY 2015	FY 2016	FY 2017	Increase
Water Sold (in mcf)	200,000	214,200	195,000	199,000	2.1%
Water Purchased (in mcf)	238,000	255,000	217,000	221,000	1.8%
Loss	16%	16%	10%	10%	
Water Consumption Rate (in mcf)	\$34.62	\$36.33	\$41.70	\$44.70	7.2%
Sewage Disposal Rate (in mcf)	\$50.36	\$53.39	\$56.57	\$60.64	7.2%
Storm Sewer Rate - Quarterly Residential Rate (per implementation study)	\$8.04	\$8.52	\$8.52	\$8.52	
Detroit Water Rate (per mcf)	\$10.38	\$12.32	\$12.96	\$13.62	5.1%
SMSD Sewer Rate (per mcf)	\$26.13	\$30.43	\$36.97	\$41.11	11.2%
Billing Charge Per Bill	\$5.00	\$5.00	\$15.00	\$16.08	7.2%
Operation & Maintenance	\$0.49	\$0.49	\$0.49	\$0.49	
Cost of one gallon of water before fixed chgs.	\$0.011	\$0.012	\$0.013	\$0.014	
Avg. Quarterly bill based on 2.5 mcf	\$225.98	\$238.31	\$269.69	\$288.44	7.0%

Rates – For FY 2017 the effective commodity unit cost of water from the GLWA has increased 5.1% and the relative sewer increase is 11.2%. Based on a proposed across the board rate increase of 7.2%, the average residential customer that uses 2.5 mcf will see a 7% increase in their bill.

Revenues – While rates have steadily increased due to the pass through charges from the GLWA, working capital in the Utility Fund has declined from \$21.7 million on July 1, 2014 to \$12.6 million projected as of June 30, 2017 – a decrease of \$9.1 million. In other words, the City has been absorbing a portion of the GLWA rate increase in order to lessen the cost to residents.

	**** UTILITY ****		
	FY 2015	FY 2016	FY 2017
BEG WORKING CAPITAL 7/1	21,740,333	21,435,809	13,037,862
<b>REVENUES:</b>			
Water Consumption Charges	7,040,152	8,131,500	8,895,300
Sewage Disposal Charges	10,199,332	11,031,150	12,067,360
Storm Sewer Charges	1,154,513	1,177,369	1,177,369
Tap Fees	41,090	8,000	30,000
Billing Charge	510,407	1,827,360	1,958,930
Rentals/Spec Assess		16,200	16,200
Repairs, Misc.	37,932	81,000	51,000
IWC Charges	446,912	420,000	420,000
Penalties	243,583	200,000	220,000
Interest Earned	46,575	50,000	50,000
Sale of Equipment	(20,431)		
Property Taxes	2,709,708		
Grant - Incl \$320,000 Carryover	242,431	7,000	
Contribution - Clean Water	601,793		
<b>TOTAL</b>	<b>23,253,996</b>	<b>22,949,579</b>	<b>24,886,159</b>

**860 - Water [Pages 53 - 54. Total budget decrease \$3,002,778]**

Note: The FY 2016 amended budget includes carryovers of \$3,455,510. When these are backed out the FY 2017 budget actually increased by \$452,732.

Personnel – No change in full-time personnel with \$57,801 of the above change due to increased benefit costs for existing staff and an increase in OPEB funding of \$127,000. The cost of temporary help has decreased by \$35,968 with the near (aka pretty much) completion of the meter replacement program.

**Operating –**

760 – Water purchases from GLWA have increased by \$166,970 to \$3,009,250.

810 – Services costs have increased by \$42,000 which includes \$36,000 for a new on-line customer portal for water usage.

930 – Repairs & maintenance decreased \$120,232 in large part due to a reduction of \$125,000 in meter purchases because they are no longer needed.

940 – Vehicle rentals were reduced by \$11,390 as actual Motor Pool costs for the Water Dept fleet decreased for fuel, repairs and maintenance.

960 – The General Fund transfer increased by \$61,275 as a result of increased administrative costs being passed on.

Capital Outlay – After taking out the carryovers from FY 2016, capital outlay has increased by \$135,400 to \$3,851,400. Proposed vehicle acquisitions and infrastructure projects for FY 2017 include:

<u>980-CAPITAL OUTLAY</u>	
.001 (1) Dump truck	190,000
.001 SCADA Remote Pressure Readers	60,000
<u>.893 Local Water Main Replacements:</u>	
Finlan (Harper to Pare)	172,500
Joan (Hazelwood to Martin)	288,300
Frazho (WCL to Little Mack)	640,600
Masonic (WCL to Harper)	1,075,000
Sunnydale (Harper to Jefferson)	761,900
Cedar (Princeton to Lakeview)	563,100
Pare - 9 Mile to Lakeview	100,000
TOTAL	3,851,400

870 – Sanitary Sewer [Pages 55-56. Total budget increase \$287,399]

Note: The FY 2016 amended budget includes carryovers and other budget amendments of (\$187,454). When these are backed out the budget actually increased by \$474,853.

Personnel – No change in full-time personnel with \$75,903 of the above change due to increased benefit costs for existing staff plus an increase in OPEB funding of \$24,000.

Operating –

820 – Sewage disposal costs paid to South East Macomb Sanitary District (SEMSD) have increased by \$915,262 to \$9,505,400.

930 – Repairs & maintenance decreased by \$84,716 because the FY 2016 amended budget included a carryover for that same amount for concrete replacement.

940 – Vehicle rentals were reduced by \$22,782 as actual Motor Pool costs for the Sewer Dept fleet decreased for fuel, repairs and maintenance.

960 – The General Fund transfer increased by \$61,275 as a result of increased administrative costs being passed on.

Capital Outlay – Capital outlay has decreased by \$810,831 when compared to the FY 2016 amended budget with proposed vehicle replacements for FY 2017 as follows:

<u>980-CAPITAL OUTLAY</u>	
.001 (1) Small Dump Truck	75,000
.001 (1) Garage Sweeper	50,000
TOTAL	125,000

**452 – Storm Sewer [Pages 57- 58. Total budget decrease \$3,193,523]**

Note: The FY 2016 amended budget includes carryovers of \$2,763,565 and other amendments of \$467,676 for a total of \$3,231,241. When these are backed out the budget actually increased by \$37,718.

Personnel – No change in full-time personnel with \$4,953 of the above change due to increased benefit costs for existing staff.

Operating –

930 – Repairs & maintenance decreased \$577,899 because of budget amendments included in FY 2016 for the same amount.

Capital Outlay – The decrease of \$2,623,347 was for several non-recurring projects that were carried over or included in FY 2016 - the SAW grant project, renovations at Kyte-Monroe and the Alger pump station repairs. The only capital outlay project in FY 2017 is the Joan Storm Sewer Replacement for \$130,000.

**MOTOR POOL FUND [Pages 59 - 60. Total budget decrease \$134,462]**

Note: The FY 2016 amended budget includes carryovers of \$51,776. When these are considered the FY 2017 budget decreased by \$82,686.

Personnel – No change in full-time personnel with \$12,439 of the above change due to increased benefit costs for existing staff.

Operating –

750 – Operating supplies decreased \$100,000 based on anticipated continued lower fuel prices.

930 – Repairs & maintenance decreased \$26,970 because the FY 2016 amended budget included \$27,000 for one-time repairs to a 1,500 gallon water tank.

960 – The General Fund transfer increased by \$8,000 as a result of higher administrative costs being passed on.

Capital Outlay – None. Vehicles and equipment are now charged directly to each department. However, capital outlay costs show a decrease of \$24,776 as compared to the amended budget due to replacement of a damaged vehicle in FY 2016.

Revenues – The Motor Pool generates \$1,393,853 in revenue from chargebacks to other departments for fuel, repairs and maintenance.

<b>MOTOR POOL REVENUES</b>	
695-Miscellaneous	
640-Rental Charges to Departments	1,393,853
664-Interest earned	1,000
TOTAL	1,394,853

**MAJOR AND LOCAL STREET FUNDS [Pages 62 - 63. Total budget decrease \$1,061,108]**

Note: The FY 2016 amended budget includes carryovers of \$1,372,686 and other amendments of \$119,351 for a total of \$1,492,037. When these are backed out the budget actually increased by \$429,929.

Personnel – No change in full-time personnel with \$36,469 of the above change due to increased benefit costs for existing staff.

Operating –

930 – Repairs & maintenance decreased by \$401,168 due to carryovers for the concrete replacement programs in FY 2016 of \$331,168 and elimination of the forestry grant expenses of \$100,000.

Capital Outlay – Capital outlay costs show a decrease of \$693,718 as compared to the FY 2016 amended budget due to carryovers of \$1,007,518. Proposed projects for FY 2017 include:

<u>980 – STREET PROJECTS:</u>	
Martin (1-94 to Little Mack) - Major Streets	544,500
Finlan (Harper to Pare) - CDBG Funded	345,000
Paving Projects TBD	1,130,000
Joan (Hazelwood to Martin)	734,800
Eight Mile & Harper Traffic Signal	7,500
TOTAL	2,761,800

Revenues – MDOR revenues increased by \$918,004, from \$3,548,001 to \$4,466,005. The \$684,633 transfer from the Municipal Street Fund is the balance of the street millage proceeds available for street projects.

<u>STREET REVENUES</u>	
MVH Fund Revenues	4,466,005
Transfer from Municipal Street Fund	684,633
Interest Revenues	6,500
Tree Replacement	8,000
695.000 Miscellaneous revenue	14,500
695.000 Code enforcement clean-up	8,000
636.000 Right of Way Fees (Metro Act)	155,000
Block Grant	345,000
Energy Optimizer Rebate	20,500
TOTAL	5,708,139

**MUNICIPAL STREET FUND [Page 61. Total budget increase of \$23,254.]**

There are no personnel or capital outlay in this budget. The street improvement projects are budgeted in the Major and Local Funds.

Operating –

920 – The largest expenditure is \$1,050,000 for street lighting.

960 – Transfers – The unexpended balance of \$684,633 is being transferred to Local Streets to fund road projects.

Revenues – Property tax revenues of \$1,734,633 will be generated.

**RECREATION REVENUE FUND [Page 64]**

The Recreation Revenue Fund is considered an enterprise fund because the majority of the revenues come from user fees and charges. Operations include the municipal pool, marinas and the golf course.

**708 – Boating [Pages 67 - 68. Total budget decrease \$5,022]**

Personnel – No change in personnel with \$3,146 of the above change due to increased salary and benefit costs for existing temporary staff such as minimum wage increases.

Operating –

940 – Rentals decreased by \$5,668 as a result of a reduction in Motor Pool charges because actual costs were negligible.

Capital Outlay – The only capital outlay item is \$5,000 to replace five power pedestals in the marina.

Revenues – The revenue budget has decreased by \$35,000 from \$340,300 to \$305,300. This is due to a reduction in boat storage revenues of \$30,000 and elimination of the kayak rental program revenues of \$5,000.

<b><u>BOATING REVENUES</u></b>	
607.100 Wells Blossom Heath	52,000
607.200 Wells Lac St Clair	135,000
607.300 Transient Wells	2,000
607.400 Pump Out Charges	100
607.500 Boat Ramp Annual	20,000
607.600 Boat Ramp Daily	90,000
606.200 Miscellaneous	1,200
607.800 Boat Storage Rental (New)	5,000
TOTAL	305,300

709 – Pool [Pages 65 - 66. Total budget increase \$11,606]

Personnel – Additional staffing has been added in the amount of \$17,272 to take over the concession sales.

Operating –

750 – Operating supplies increased \$18,000 with the addition of the cost of items for resale.

930 – Repairs & maintenance increased by \$3,067 due to increased computer support costs and \$3,000 to replace a door.

Capital Outlay – Decreased \$30,000 with no purchases planned for FY 2017.

Revenues – The revenue budget has increased by \$8,514 - from \$166,000 to \$174,514 - as a result of fee increases for passes, lessons, rentals, etc.

<u>POOL REVENUES</u>	
606-Pool	
- Pool	108,514
- Concessions	6,000
- Waterslide	50,000
- Sea Serpents	10,000
TOTAL	174,514

855 – Golf Course [Pages 69 - 70. Total budget increase \$168,496]

Personnel – Temporary Laborer costs were increased by approximately \$14,000 to begin the cart path improvement project in-house. No change in full-time personnel with approximately \$15,500 of the above change due to increased benefit costs for existing staff.

Operating –

930 – Repairs & maintenance decreased \$12,271 based on replacing some older equipment with new.

940 – Rentals increased \$15,000 with the repurposing of a vehicle from Motor Pool

Capital Outlay – Capital outlay increased by \$128,500 with the following proposed purchases for FY 2017:

<u>980-CAPITAL OUTLAY</u>	
Replace maintenance Bldg. Roof & Exterior	75,000
Cart path replacement	80,000
Golf cart replacement/lease	53,000
Bank mower	30,000
Trencher	16,000
Equipment hoist	6,500
TOTAL	260,500

Revenues – The revenue budget has increased by \$71,500 - from \$1,246,000 to \$1,317,500. This is the result of several factors. First, one-time anticipated proceeds from the sale of the existing golf cart fleet in the amount of \$82,500. Second, adjustments have been made for increases in retail sales (\$3,000), memberships (\$3,000) and utility share (\$4,000). However, revenue from golf outings dropped \$10,000 and the contribution from the Golf course Capital Fund decreased by \$11,000.

<u>GOLF COURSE REVENUES</u>	
Contrib. from Golf Capital & Sale of Carts	128,500
608.100 Greens fees	60,000
608.150 Greens fees riding	650,000
608.175 Greens fees league	280,000
608.200 Cart rental	45,000
608.300 Retail sales	38,000
608.400 Memberships	18,000
608.600 Golf outing revenue	50,000
608.500 Clubhouse Rent	24,000
608.800 Clubhouse Utility Share	24,000
TOTAL	1,317,500

135 - Golf Course Capital Fund [Page 73.]

Revenues – The additional \$1.00 in greens fees per round is projected to generate \$49,000 in FY 2017.

These funds and any fund balance carried over from the previous year are transferred in their entirety to the Golf Course for approved capital outlay projects.

**DRUG LAW ENFORCEMENT FUND [Pages 71 - 72.]**

Personnel – None.

Operating – No change.

Capital Outlay – None.

Revenues – No change.

<u>DLEF REVENUES</u>	
500-Seizure, Forfeiture & Sale - Federal & State Combined	183,300
664-Interest Earned	500
TOTAL	183,800

**DEBT [Page 74]**

A complete debt schedule showing principal and interest payments for FY 2017 can be found on page 74 of the budget document. Payments increased slightly from \$5,235,754 in FY 2016 to \$5,362,960 in FY 2017.

Several debt payments will drop off in FY 2017. This includes the lump sum payment of \$90,210 for the Milk River SRF project and the final payment of \$219,993 for the Jefferson Water project.

Hopefully this synopsis has been helpful. As always, please contact me at any time if you have questions.

A handwritten signature in black ink, appearing to read "Michael E. Smith". The signature is fluid and cursive, with the first name being the most prominent.

Michael E. Smith  
City Manager