City of Madison Heights

City Hall Municipal Offices	Department of Public Services	Fire Department	Police Department
300 W. Thirteen Mile Road	801 Ajax Drive	31313 Brush Street	280 W. Thirteen Mile Road
Madison Heights, MI 48071	Madison Heights, MI 48071	Madison Heights, MI 48071	Madison Heights, MI 48071

www.madison-heights.org

To: Honorable Mayor and City Council

From: Benjamin I. Myers, City Manager
Melissa R. Marsh, Deputy City Manager – Administrative Services

Date: November 5, 2015

RE: Five Year Financial Forecast – Fiscal Years 2016-2020

Attached please find the five year forecast for the City of Madison Heights for the Fiscal Years 2016-2020. This forecast should be evaluated as a financial estimate, created from the best available information at this point in time.

Executive Summary

The goal of the Five-Year Financial Forecast is to provide Staff, Council, and the public with a detailed estimate of the revenues and expenditures for the current and future four years. This detailed look at the financial estimates serves as a tool to identify financial trends, shortfalls and issues so the City can proactively address them. The forecast, therefore, is essential for planning the future financial strategy of the City as we enter the Capital Improvement and Budget Planning processes.

Since December 2007, the City has had to deal with many financial obstacles including declining revenues, increased home foreclosures, skyrocketing health insurance increases and increasing legacy cost including pension and retiree health care benefit costs. Starting in FY 2014, the economic climate began to improve as noted by the majority of national, State, regional and local economic indicators. This forecast assumes continued gradual growth of the national economy with positive impacts to the local economy, which is reflective in staff's estimates of economically sensitive revenue estimates. Despite the steadily improving economic climate, the long-term financial outlook continues to identify structural challenges to the City's General, Major Street, Local Street and Water and Sewer Funds due primarily to the restrictions of the Headlee Amendment and burden of legacy costs such as pension and retiree health care benefits.

It is important to stress that this forecast is not a budget. It doesn't make expenditure decisions but does assess the need to continue to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health based on various assumptions over the current and next four years and provide the City Council, management and the citizens of Madison Heights with a "heads up" on the financial outlook beyond the annual budget cycle. The five-year forecast is intended to serve as a planning tool to bring a long-term perspective to the budget process.

Area Code (248)

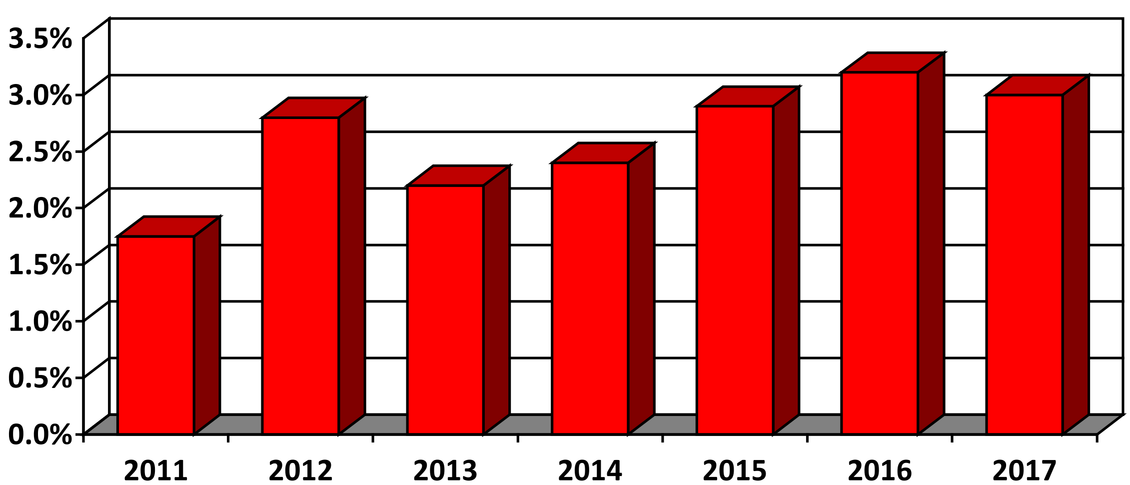
Assessing	858-0776	Fire Department	583-3605	Nature Center	585-0100
City Clerk	583-0826	43rd District Court	583-1800	Police Department	585-2100
City Manager	583-0829	Housing Commission	583-0843	Purchasing	837-2602
Community Development	583-0831	Human Resources	583-0828	Recreation	589-2294
Department of Public Services	589-2294	Library	588-7763	Senior Citizen Center	545-3464
Finance	583-0846	Mayor & City Council	583-0829	Water & Treasurer	583-0845

The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and expenditures into a single financial forecast. The GFOA recommends that a government should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals.

Regional Economic Outlook

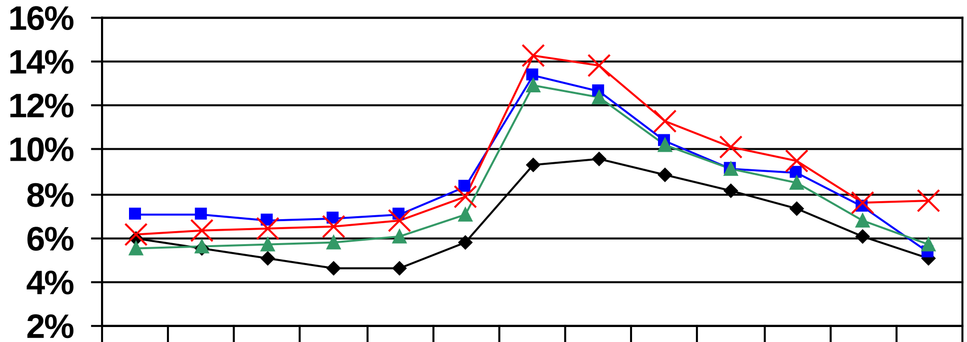
Reflecting the country as a whole, Oakland County and the Southeast Michigan region continue the slow economic recovery from the Great Recession of 2009. As reported by representatives of the University of Michigan's Institute for Research on Labor, Employment, and the Economy at the June 2015 Oakland County Economic Outlook Forum, real or inflation-adjusted U.S. Gross Domestic Product (GDP) is forecasted to grow by 2.9%, 3.2%, and 3.0% in 2015, 2016, and 2017, respectively. If proven correct, the projections for 2016 and 2017 would be the first annual occurance of 3% or greater since 2005. As forecasted, U.S. Light Vehicle Sales crossed the 16 million line in 2014, checking in at 16.4 million units sold, the highest annual level in eight years. Detroit's Big Three's shares of these sales have been drifting up from 44.3 percent in 2014 to 44.9 percent by 2017. The projections for total sales and the Detroit Three's share of that market, taken together, yield our outlook for Detroit Three sales, which move up progressively from 7.3 million units in 2014 to 7.8 million by 2017.

Growth in U.S. Gross Domestic Product, 2011-2017



Of the key economic factors, job growth and unemployment are two of the most important financial indicators of recovery because a loss of jobs cuts across all sectors of Michigan's economy, impacting the housing market, and funding for state and local government services which rely on income, property and sales taxes. The University of Michigan economists forecast continued total private sector job growth in Oakland County. Over the period from 2009 to 2014, the county's job growth of 12.8 percent greatly outpaced both the nation's growth of 6.0 percent and the state's 6.0 percent. The economists note that this anticipated continued job growth would replenish 87 percent, or about seven in eight, of the jobs lost from the spring of 2000 to the summer of 2009, This would also return Oakland County to the job levels it posted in the second half of 2001, about a year and a half into the nine-year decline.

Annual Unemployment Rates, 2003 through August 2015



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Aug. 2015
United States	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.3%	6.1%	5.1%
Michigan	7.1%	7.1%	6.8%	6.9%	7.1%	8.3%	13.4%	12.7%	10.4%	9.1%	9.0%	7.4%	5.3%
Oakland County	5.5%	5.6%	5.7%	5.8%	6.1%	7.1%	12.9%	12.4%	10.2%	9.1%	8.5%	6.8%	5.7%
Madison Heights	6.2%	6.3%	6.4%	6.5%	6.8%	7.9%	14.3%	13.8%	11.3%	10.1%	9.5%	7.6%	7.7%

(Source: Bureau of Labor Statistics)

As indicated above, unemployment rates have continued to drop, although Madison Heights remains slightly higher than the State and Oakland County. The continued decline in unemployment is a positive trend with the University of Michigan economists forecasting that the County's unemployment rate will continue to fall to 4.3 percent by 2017. In 2015, Madison Heights experienced a very slight uptick of 0.1% from the prior year.

Financial Forecast

The forecast reflects actuals for Fiscal Year 2015, estimated expenditures for Fiscal Year 2016 and forecasted figures for Fiscal Years 2017-2020. The forecast focuses on the City's major appropriated funds which include the General, Major Street, Local Street and Water and Sewer Funds.

The General Fund is the primary focus of the forecast report because this fund is the City's operating fund which pays for services such as police, fire, library, parks, recreation, solid waste collection/disposal, and administration.

Overview of Fiscal Year 2014-15

Fiscal Year 2015 General Fund reserves ended at $7.9 million, up from $6.5 million in fiscal year 2014. Of this amount, $7.16 million is considered to be spendable and available to fund operations. This increase in fund balance was a direct result of five items. First, the City's insurance pool, the Michigan Municipal Risk Management Authority (MMRMA), made a distribution of refunded contributions in the amount of $796,514 of which $618,668 was allocated to the General Fund. (The amount of the distribution, or even if there would be a distribution, was not known until the end of the 2015 fiscal year). Second, at year end, Council approved budget carry-forwards for $206,545 which is an addition to fund balance in FY 2015 for use in FY 2016. Third, while lower than in FY 2014, tax revenues came in $288,760 higher than budgeted in FY 2015 due to fewer tax refunds and higher than anticipated personal property taxes and penalties and interest. Interest revenue was also recorded at $16,200 more than budget due to the diversity of investment and market performance. The General Fund also benefits from other funding sources that were more than anticipated such as the federally-funded Medicare Part D reimbursement which was $43,200 more than anticipated, state library aid at

$11,400 higher, and Suburban Mobility Authority for Regional Transportation (SMART) revenues that was $29,500 more than budgeted.

Overview of the Current Fiscal Year 2015-2016

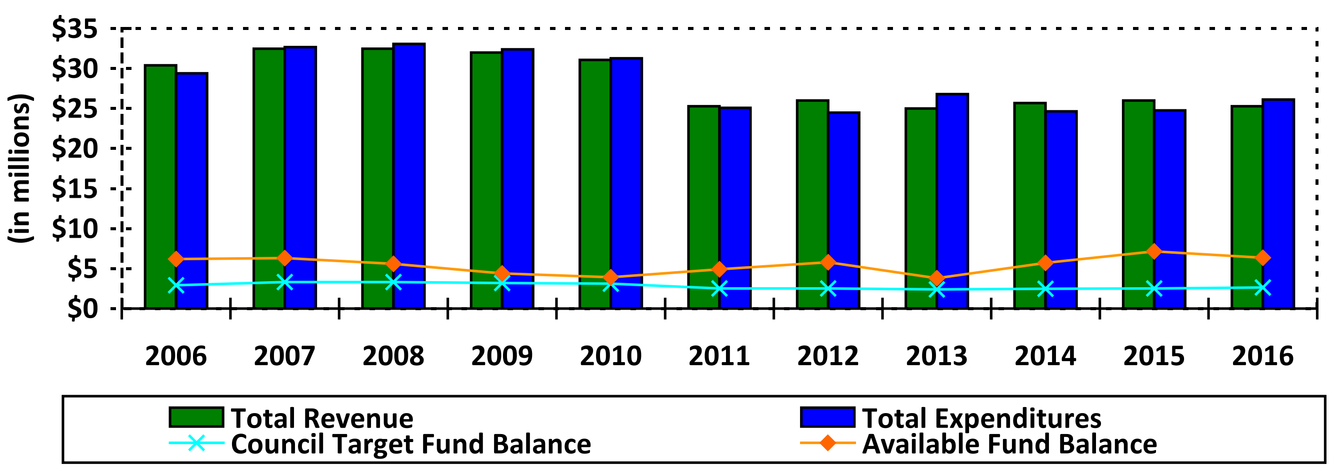
The fiscal year 2016 General Fund budget of $26.1 million, which includes a budgeted use of fund balance of $602,778, was adopted by Council in May 2015. Budget amendments were approved in June 2015 including an additional use of fund balance of $206,545 for carry-over expenditures. Since that time, revenues have held steady as reported in the first quarter Council and departmental revenue and expenditure reports. Expenditures during the first quarter are also in line with budgeted expenditures; however, there some anticipated expenditures and possible emergencies or unknown expenses that can cause overages as of December 31, 2015. City Council will be asked to review and approve mid-year budget amendments if overages are likely to occur.

As of November 1, 2015, we are aware that budget amendments will likely be needed to cover the recent settlement and extension of the collective bargaining agreements with all of the City's labor groups, through June 30, 2017. The labor agreements provide for a 1 percent lump sum payment to all employees and a 1 percent wage increase as of July 1, 2015, and a 2 percent wage increase as of July 1, 2016. The budget did not anticipate wage increases and this will likely result in a budget amendment request.

General Fund Reserves

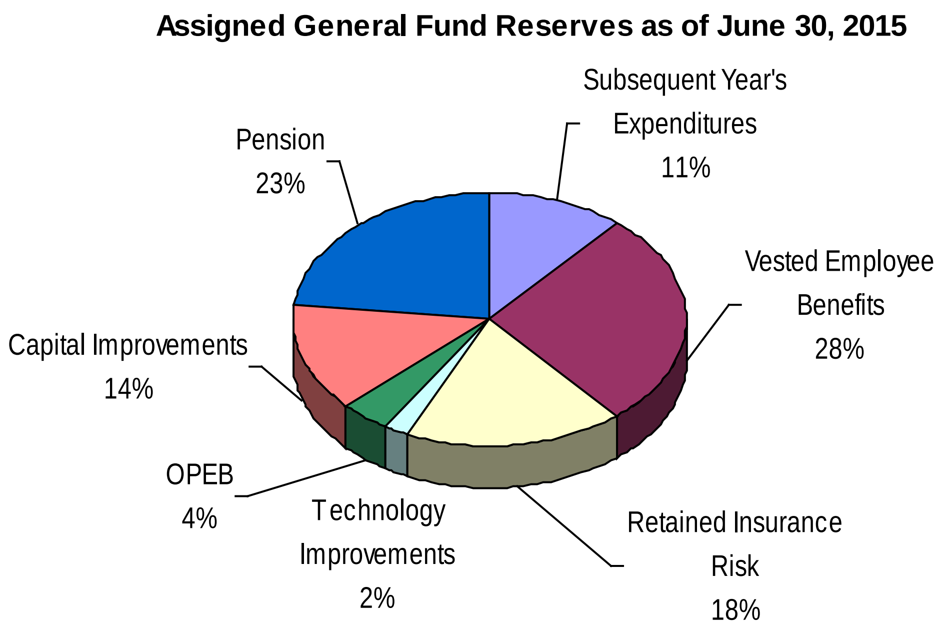
On May 11, 2015, the City Council approved the budget containing a continuation of the General Fund operating reserve policy to set the minimum reserve level at 10% of current year expenditures and a contingency expenditure reserve of one percent of operating funds. This policy was established to prudently protect the fiscal solvency of the City. Reserves are important in order to mitigate the negative impact on revenues from economic fluctuations, State budget "grabs" and unfunded mandates, and unforeseen expenditure requirements. The bar/line graph below depicts the target and available General Fund Balances since 2006, as shown against total revenues and expenditures. In all years, the City has been able to maintain a fund balance at or slightly above the minimum target fund balance.

General Fund - Fund Balance Compared to Total Revenues and Expenditures



As stated previously, in Fiscal Year 2015 General Fund reserves ended at $7.9 million, up from $6.5 million in FY 2014. Of this amount, $7.16 million is considered to be spendable and available to fund operations. This increase in fund balance was a direct result of an unscheduled insurance distribution of $800,000 with $620,000 allocated to the General Fund, approved carry-forwards resulting in a $207,000 addition to fund balance, and higher than budgeted tax revenues in the amount of $300,000.

In addition, staff reviews the reserve levels at the end of each fiscal year and assigns reserves to meet unfunded liabilities. Currently, reserves are assigned as follows: 11% to fund subsequent year's expenditures, 28% for vested employee benefits (not including pension or retire health care), 18% for retained insurance risk, 2% for technology improvements, 4% for other post-employment benefits, 23% for pension benefits and 14% capital improvements (see the following pie chart).



Overview of Five Year Forecast - FY 2016-2020

The Five Year Financial Forecast includes a baseline projection of revenues and expenditures used to evaluate the City's future financial condition and capacity to fund existing services and infrastructure needs. The growth assumptions in the baseline projections are based on the most recent economic data provided by various sources and existing City contractual obligations such as service contracts, labor agreements and debt service.

General Fund revenues are projected to continue to be stable in the current year and gradually increase over the next four years. Major discretionary revenues are projected to increase by an annual average of 1.0% per year during the five-year period (2016-2020). This compares to an historical average decrease of 2.9% over the past five years (2010-2015), which included declines in property tax revenues, court revenues and state revenue sharing. After a significant increase from FY 2016 to 2017 of 14.8 percent, expenditures are projected to grow at an annual average rate of 3.72% during the current and succeeding four years, taking into account the City's infrastructure needs, assumption of full implementation of the City's Capital Improvement Plan, and more aggressive funding of the pension and retiree health care funds. Without reductions in expenditures or increases in revenue sources as forecasted, the fund balance will be exhausted in FY 2017-18.

Forecasted Challenges – FY 2016-2020

The number one financial challenge facing the City over the next decade is legacy cost. Legacy costs are the cost of pension and retiree health care for employees after they leave the service of the City. Each benefit has a unique set of issues as are discussed separately below:

Pension

The City is a member of the Michigan Municipal Employee Retirement System (MERS) for non-sworn employees. This entity provides administration and investment decisions for the general employee's retirement benefits. MERS has a board comprised of representatives from member communities that set the guidelines which municipalities are forced to follow. This includes factors which determine the actuarially calculated required contribution rate. Michigan Law requires that pension plans be pre-funded; however, as you will see the amount to be pre-funded is not determined by the municipality.

Each year, MERS produces an actuarial report that is distributed in the spring for December of the following year. This report dictates the amount the City must contribute into the pension plan. The past several years, this report has also included a recommendation for municipalities to contribute more than the minimum contribution in order to increase the plan funding amount and ultimately provide more financial stability to the plan and to the contributing municipality. Based on this recommendation, the City budgeted additional contributions in FY 2015 and plans to continue this trend in FY 2016-2020, resulting in over $1 million in additional contributions over the forecast period.

As we reviewed the forecast assumptions, we were informed by MERS on October 2015 that the Board had taken action on several assumption changes that would increase the City's contributions. The assumption changes relate to investment earnings on plan assets, a recalculation of plan amortization periods, and the use of a new mortality table for actuarial calculations. While these assumption changes seem fiscally responsible, the burden they place on the City expenditures over the next five years is significant as contributions increase 46% before 2020! It is important to note that all of the city general employee plans are closed to new hires (date dependent on the union, but none later than 2009).

Valuation Year Ending 12/31	Fiscal Year	Actuarial Accrued Liability	Valuation of Assets	Funded Percentage	Required Annual Employer Contribution
2014	2016	$ 38,278,641	$ 26,006,213	68%	$ 1,292,760
2015	2017	40,868,000	25,959,000	64%	1,502,020
2016	2018	41,462,000	26,065,000	63%	1,765,870
2017	2019	41,944,000	26,327,000	63%	2,104,840
2018	2020	42,360,000	26,685,000	63%	2,376,530
2019	2021	42,671,000	27,154,000	64%	2,729,860

Retiree Health Care

Eight years ago, the Council approved the establishment of a Retiree Health Care Trust and since that time we have funded over $22.3 million into two trusts for Retiree health care; however, this pales in comparison to the amount needed which is actuarially calculated to be $78.1 million. As stated previously in this report, in FY 2015 the City only funded 56.1% of the annually calculated contribution for retiree health care benefits. While this is still better than many municipalities statewide, the current funding level is not considered acceptable to City management and increasing this funding will be a major focus of future budget proposals.

The forecast also includes a 102.5% increase in OPEB funding in order to achieve the annually calculated contribution for retiree health care benefits as discussed above. This is an increase from $3,707,000 budgeted in FY 2016 to $7,496,000.

Forecast Summary/Conclusion

This long-term financial outlook continues to identify structural challenges to the City's General Fund. Specific recommendations to achieve a balanced budget for Fiscal Year 2016-17 will be presented as part of the proposed budget and will address legacy costs to the City.

General Fund Forecast Summary
(in millions – further details included under appendix)

	2014-15 Actual	2015-16 Projected	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
Revenues	$26.030	$25.522	$25.281	$25.511	$25.733	$25.958
Expenditures	$24.778	$26.331	$30.144	$29.626	$30.514	$30.139
	$1.252	($0.809)	($4.863)	($4.116)	($4.781)	($4.181)
General Fund Non-restricted Reserves	$7.158	$6.349	$1.486	($2.630)	($7.411)	($11.592)
% Reserves of Current Year Expenditures	**28.9%**	**23.3%**	**4.9%**	**(8.9%)**	**(24.3%)**	**(38.5%)**

Development of a long-term financial plan is essential to sound fiscal management. The plan is not able to predict with certainty the City's fiscal future, but rather it will serve as a tool to highlight significant issues or problems that must be addressed during the upcoming budget cycle if the City's goal of maintaining fiscal health and sustainability over the long term is to be achieved.

It should be noted that this report has focused on the City's ability to continue current services and programs using existing sources of revenues. **Based on the five-year forecast report, funding for any new programs, reversal of "gap" measures used to balance the budget, or other major initiatives will require tradeoffs during the planning and budgeting processes.**

General Fund Revenue & Expenditure Assumptions

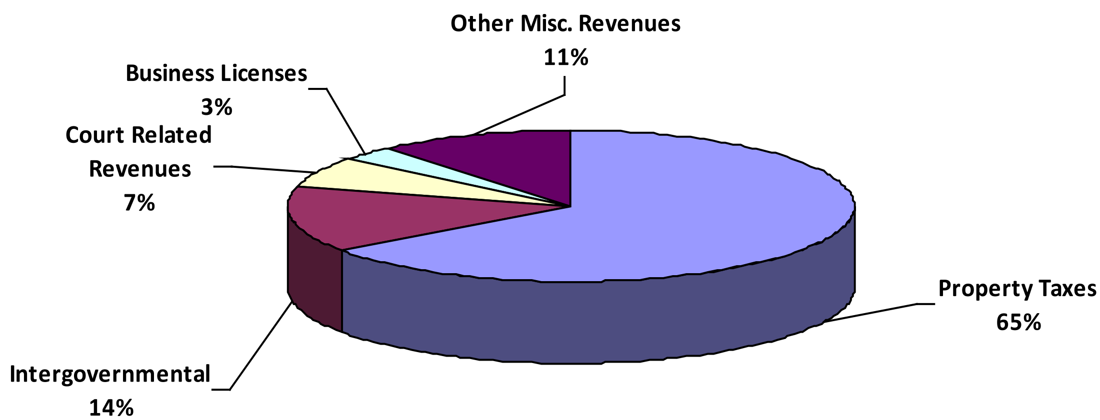
As mentioned earlier, current economic reports indicate that the state and county are showing signs of recovery. Revenue estimates contained in this forecast are based on assumptions that property tax will stabilize in Fiscal Year 2015 and begin to gradually increase by an average of 1% per year. While housing costs are increasing faster than this estimated 1% the Michigan tax structure limits growth to CPI or 5% whichever is less. It is anticipated that CPI will be less than 1% and that the City will have both marginal growth and marginal tax roll additions. Other major revenues such as State Revenue Sharing are assumed to see a modest increase of 3%.

Overall total revenues are estimated to be up by 0.70% in Fiscal Year 2017, 0.91% in Fiscal Year 2018, 0.87% in Fiscal Year 2019, and 0.87% in Fiscal Year 2020. These projected revenue increases are less than the annual forecasted increase in expenditures.

Forecast of Major General Fund Revenues
% Change from Prior Year

Revenue Category	2014-15 Actual	2015-16 Projected	2016-17 Forecast	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast
Property Tax	0.12%	0.30%	1.28%	0.96%	0.96%	0.96%
Business Licenses	(11.07%)	(7.12%)	8.65%	0.00%	0.00%	0.00%
Intergovernmental	2.83%	2.21%	1.15%	1.94%	1.94%	1.94%
Court	2.24%	(2.16%)	0.00%	0.00%	0.00%	0.00%
Other	19.75%	(35.29%)	0.21%	0.69%	0.00%	0.00%
Total	**(0.06%)**	**(2.47%)**	**0.70%**	**0.91%**	**0.87%**	**0.87%**

General Fund Revenues
Major Revenues Forecasted in FY 2016-17 by Category



Forecasted assumptions for real property taxes are 1 percent and no change for personal property tax based on the Local Community Stabilization Act reimbursement formula. Real taxable value estimates are based on assumptions received from Oakland County Equalization and variations are due to the Michigan Tax Tribunal reductions. It is projected the State Equalized Value will increase in 2016 between 12.5% and 13.5%. Although this is great news, we are also estimating a 0.3% CPI increase in 2016. By State statute, the growth in taxable value is capped at CPI or 5% whichever is less. Therefore, any significant increase in taxable value above this CPI is greatly dependent on the amount of new construction and additions that have occurred in the City. It is estimated that this growth is marginal.

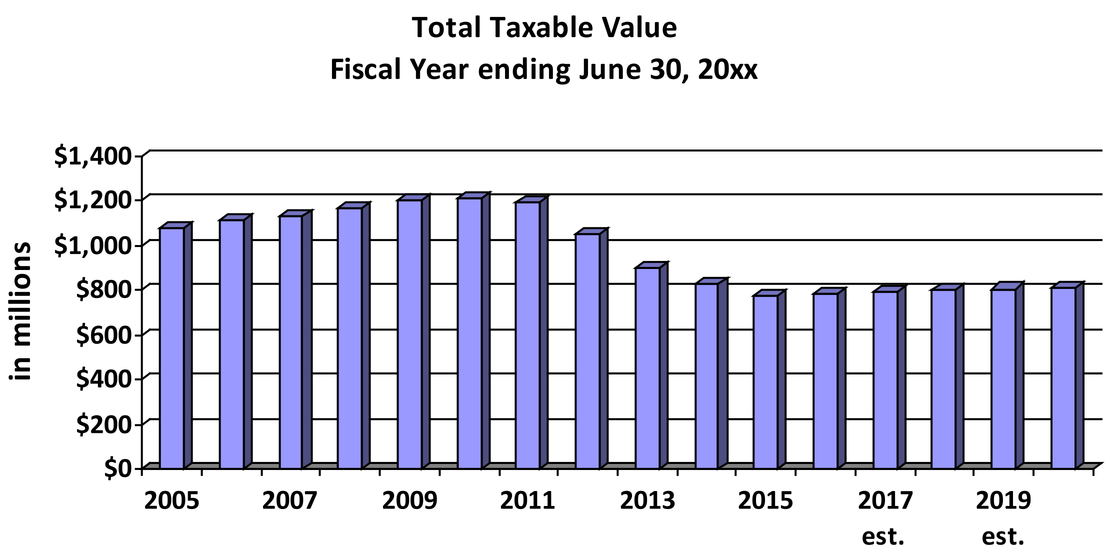
The following pages detail several key assumptions applied in the preparation of the financial forecast, as reflected in the table above.

General Fund Assumptions

Major Revenues

Property Tax

Real Property Tax revenues will remain relatively flat in Fiscal Year 2016 with a moderate increase budgeted 1.0% for the next four years. This information is based on estimates from Oakland County Equalization. As mentioned earlier, the estimate from Oakland County was for growth of real property without factoring in Michigan Tax Tribunal (MTT) activity or personal property. The forecast assumes significant decreases in refunds through the MTT and stagnant revenues for personal property taxes.

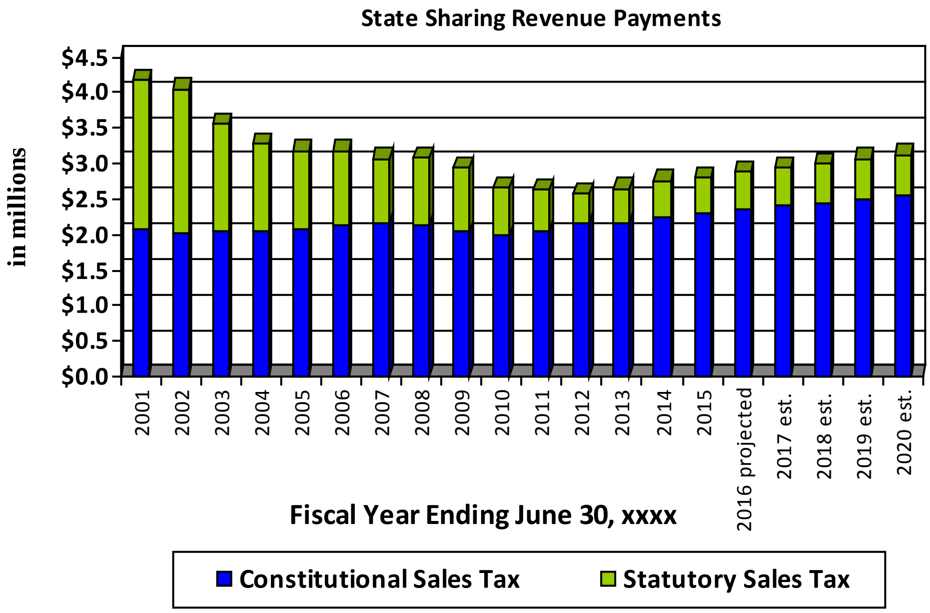


It is important to note that in Michigan, taxable value is approximately 50 percent of the property's fair market value in the year following the date of transfer as adjusted for inflation in accordance with Proposal A of 1994, which limits future increases to five percent or the rate of inflation, whichever is lower, for each individual property.

Intergovernmental – including State Shared Revenues

State Shared Revenues including the new city, village, and township revenue sharing (CVTRS) program that replaced the Economic Vitality Incentive Program (EVIP) are anticipated to increase by 3% for Fiscal Year 2016 - 2020 based on projections from the State of Michigan. The forecast assumes that the City continues to meet all the requirements to achieve 100% of the CVTRS funds. These requirements now include a citizen's guide, performance dashboard, debt service and projected budget report.

Federal revenues are forecast to be flat during the forecast years. The only forecasted federal revenues are the Medicare Part D Subsidy which is unpredictable as it fluctuates each year depending on retiree prescription claims.



Court Revenues

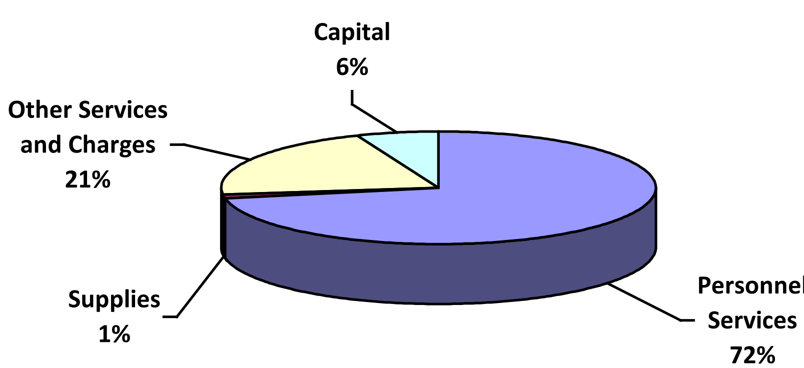
Court Revenues are forecasted to be down in the current year as actual revenues recorded to date are not tracking with budget estimates. The following four years are anticipated to remain steady at the Fiscal Year 2015 levels.

Other Revenues

Miscellaneous Revenues are conservatively assumed to be stagnant at the FY 2016 level during the forecasted years. Miscellaneous revenues include revenues such as cable television franchise fees and interest income as well as one-time items.

Business license revenues are anticipated to increase based on historical collections for occupational licenses and continued high collection and enforcement of business licenses.

Major Expenditures



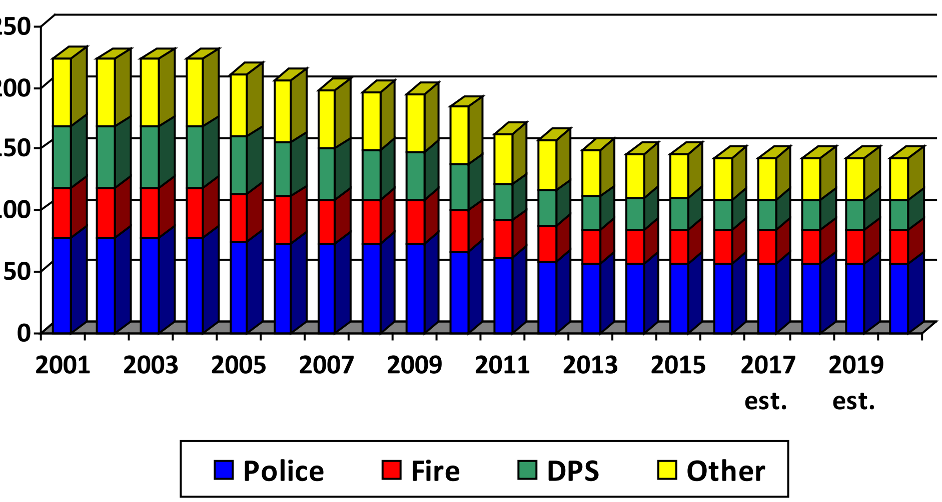
From 2009 until 2015, the City enacted a number of measures to keep operational expenditures in line with its declining revenues. Expenditures in the forecast are estimated to be $27.2 million for Fiscal Year 2016, $30.1 in Fiscal Year 2017, $29.6 in Fiscal Year 2018, $30.5 in Fiscal Year 2019, and $30.1 is Fiscal Year 2020. This is still lower than 2008 when the city ended the year with actual expenditures of $31.4 million. These expenditures are made up of personnel services, supplies, other services, and capital outlay.

Personnel Categories

The personnel category, including health care premiums and retirement benefits, represents 72% of the General Fund budget.

Full-time staffing, which consists of 143 full-time employees, is assumed to remain at or near the same level for the period covered by the financial forecast. As the City is experiencing a large number of retirements in the key service areas (e.g. police, fire, public services), staff are working hard to provide for timely replacement hires in order to maintain authorized strength.

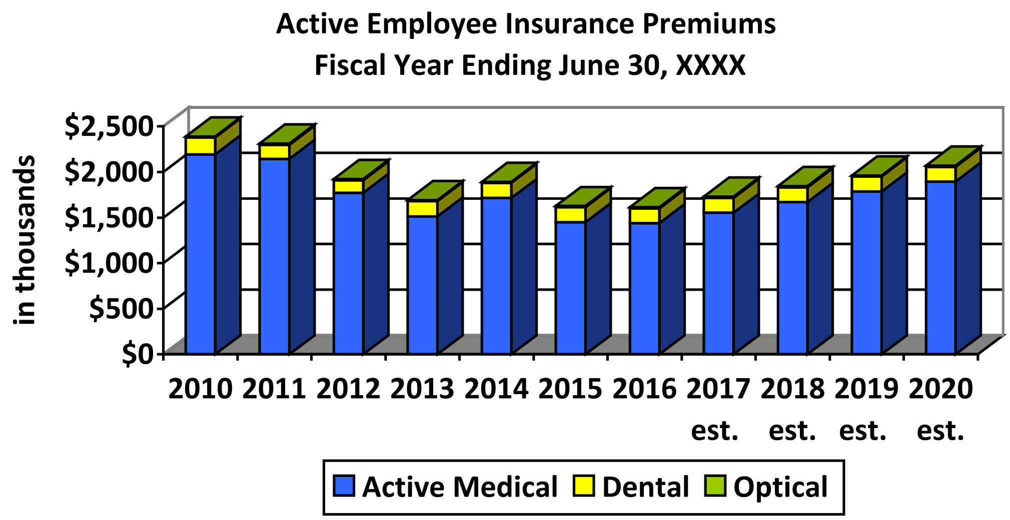
Budgeted Full-Time Positions
Fiscal Year Ending June 30, XXXX



Expenditures related to negotiated salaries are reflected in the forecast based on currently negotiated contracts. As of today, all unions in the City have settled contracts through June 30, 2017. For estimating purposes, the forecast assumes status quo with wages and benefits for years beyond the union contract periods.

Because of the volatility of health care costs, this forecast assumes rate increases in excess of inflation. Based on estimates from the City's health care consultant and national and state trends, health insurance is forecasted to increase an average of 7.25% during the forecasted years. The City is hopeful that the initial positive results from the implementation of the MiLife Employee Health and Wellness Center continue into future years. This center opened in January 2015, and therefore we do not yet have the first year annual statistics. However, we have seen a direct impact on our weekly health insurance cost. The MiLife Wellness Center is a relatively new concept of delivering primary health care to employees in a center dedicated to them, offering zero co-pays and deductibles as a supplemental and voluntary alternative to using their traditional insurance benefits. The City has partnered with two other self-insured municipalities, Ferndale and Royal Oak, in this groundbreaking and innovative endeavor.

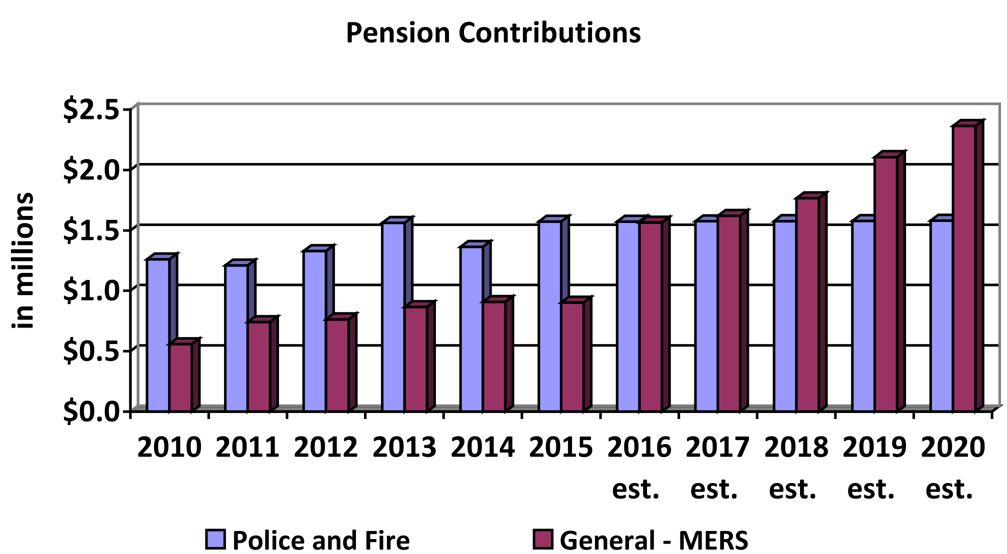
The following chart shows the historical and forecasted medical premiums for active employees.



As mentioned previously in this report, the most significant expenditure issue included in the forecast relates to unfunded accrued liabilities. Unfunded accrued liabilities refer to employee pensions and other post-employment benefits.

For the first time in FY 2015, municipal employers who provide defined benefit pensions and retiree health care benefits were required to recognize their unfunded obligations as a liability and must comprehensively measure and report the annual cost of pension. Future years will require this same recognition for OPEB benefits. As a result of implementing these new standards, the City's net position had a significant decrease of 29.7 percent bringing the total unrestricted net position to a **negative $19.2 million**.

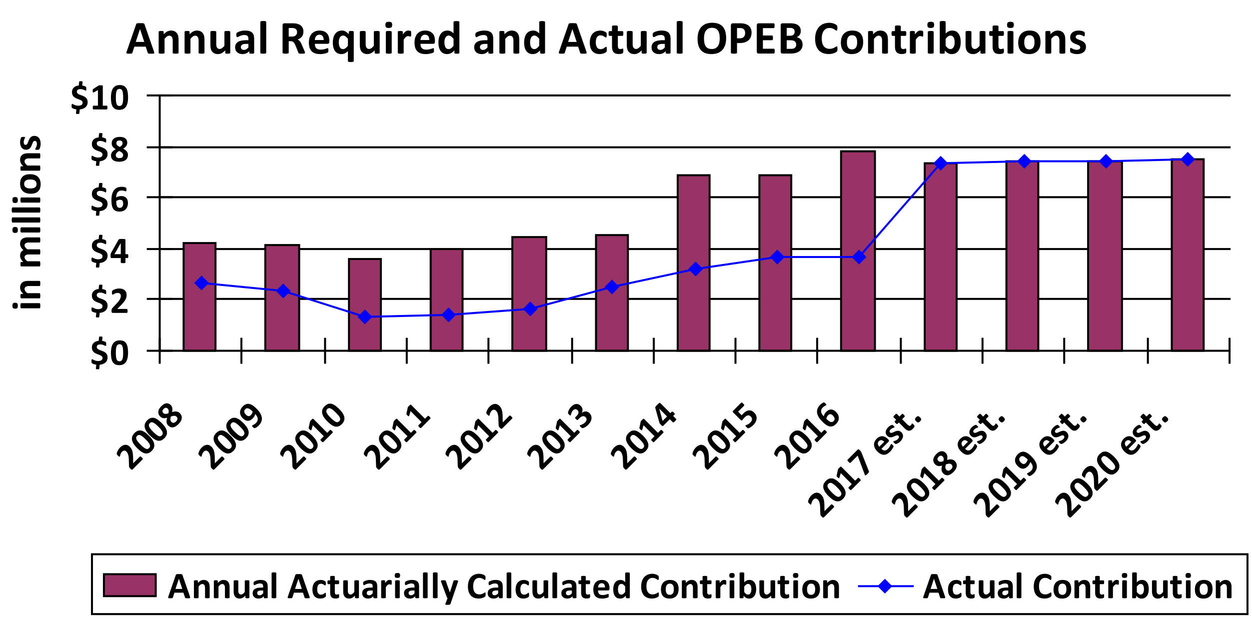
The following chart shows the historical and forecasted pension contributions for Police and Fire, and General Employees.



Municipal Employee Retirement System (MERS) and Police and Fire retirement contribution rates will continue to increase due to the pressure on system assets to fund current retirees. The MERS plan, which covers general employees who are eligible for a defined benefit pension, is "closed". Once a plan becomes closed, the contributions are calculated on a fixed dollar amount and will increase as a percent of payroll as the number of and payroll for eligible employees decrease. The assumptions for the General employee plan are discussed in more detail on page 6 of this report. The Police and Fire Pension system is assumed to have contribution rates at a steady level for the next five years. It is possible that future years see an increase due to a change in the mortality table to be used for the June 30, 2015 actuarial study; however, we are hopeful that changes to new hire benefits continue to offset this increase.

For the first time, the forecast shows the cost to fund the actuarially calculated annual contribution for OPEB. Due to budget constraints, in past years the City has not fully funded this contribution. While this still does not fully fund the annual OPEB requirement, City staff believes increasing funding is a step in the right direction. As shown below, the City's annual actuarially required contribution reaches over $7.4 million by 2020.

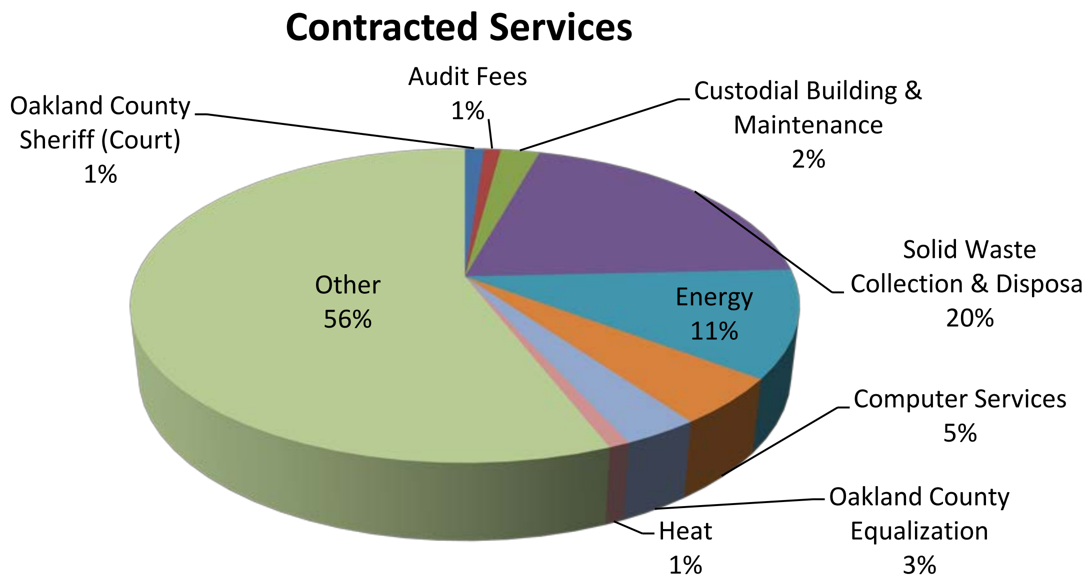
The large percentages of employees who are eligible for retirement are assumed to retire during the forecast period with positions being replaced with new hires with tiered benefits.



Supplies

The majority of supply account line items have been held at status quo for the current year and four forecasted years.

Other major expenditures included in the budget include contracted services. This category includes services for things such as auditing, solid waste collection and disposal, and assessing.



Contracted Services

Auditing services are anticipated to decrease in the current year due to not needing to complete a single audit. This is directly related to the receipt of FEMA funds from the August 11, 2014 flood.

In February 2013, Council approved a second three-year contract with Oakland County for Equalization Services, which will hold the FY 2014 prices through FY 2016. Beginning in Fiscal Year 2017, this expenditure is estimated to increase by 3% annually.

The City's Solid Waste Contractor, Rizzo Services, is currently operating under a ten-year contract which began on July 1, 2010. In accordance with the contract, Rizzo has held the same price through year 5 which is Fiscal Year 2014-15. In Fiscal year 2016 there was a 6.8% increase, but no contractual increase in Fiscal Year 2017. The remainders of the forecast years increase 1.4% in Fiscal Year 2018, 1.48% in 2019 and 1.579% in 2020, based on contractual pricing.

Capital Outlay Summary

As a result of dedicated millages, the City continues to make progress with the preservation of four major asset classes including Vehicles in the General Fund, Improvements to the Senior Center and Library, watermain and sanitary sewers in the Water and Sewer Fund, and street-related rehabilitation projects in the Local Street Fund. Other assets included in the forecasted Capital Outlay that are not covered by special millages include computer technology, building improvements, other vehicles, and machinery and Equipment in the General Fund.

The five-year forecast includes all of the capital outlay items contained in the Capital Improvement Plan (CIP) and included in the FY 2016 budget. Capital Outlay items recommended in the budget will depend on current year needs and available funding. A detailed listing will be presented when Council receives and files the CIP in early January.

Following is a brief summary of the General Fund capital items included in the forecast separated by year, category and funding source:

General Fund CIP Items in Financial Forecast - FY 2016-20

Item	Budget 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20
Computers and Upgrades :					
IT	$ 189,635	$ 195,000	$ 96,000	$ 96,000	$ 96,000
Total - Computers	$ 189,635	$ 195,000	$ 96,000	$ 96,000	$ 96,000
Machinery and Equipment:					
Court	$ -	$ -	$ -	$ -	$ -
Streets	-	-	-	-	25,000
Solid Waste	16,000	-	-	-	-
Police	76,829	-	-	-	-
Fire	49,000	30,000	-	70,000	-
Total - Machinery and Equipment	$ 141,829	$ 30,000	$ -	$ 70,000	$ 25,000
Vehicles - Proposal "V":					
Police	$ 56,000	$ 142,000	$ 102,000	$ 102,000	$ 68,000
Fire	28,000	35,000	35,000	270,000	-
Parks	33,000				
Streets	423,000	-	-	-	-
Subtotal - Proposal "V"	$ 540,000	$ 177,000	$ 137,000	$ 372,000	$ 68,000
Vehicles - Non-Proposal "V":					
Police	$ 28,000	$ -	$ -	$ -	$ -
Fire	-	-	-	-	500,000
Streets	-	557,000	293,000	748,000	-
Solid Waste	-	155,000	430,000	225,000	-
Parks	-	33,000	-	-	-
Subtotal - Non-Proposal "V"	$ 28,000	$ 745,000	$ 723,000	$ 973,000	$ 500,000
Total - All Vehicles	$ 568,000	$ 922,000	$ 860,000	$ 1,345,000	$ 568,000
Improvements:					
Court	$ 100,000	$ -	$ -	$ -	$ -
Gen Admin	20,000	265,000	-	75,000	-
Police	16,667	110,000	50,000	-	-
Nature Center	50,000	-	-	-	-
Parks	80,000	182,000	105,000	105,000	292,000
Senior Center	7,500	-	-	-	-
Library	30,000	30,000	-	-	-
Total - Improvements	$ 304,167	$ 587,000	$ 155,000	$ 180,000	$ 292,000
Total - All Items	$ 1,203,631	$ 1,734,000	$ 1,111,000	$ 1,691,000	$ 981,000

It is important to note that a major funding source of police, fire and maintenance vehicle replacements, Proposal "V", will expire June 30, 2017. For the purpose of this forecast we have projected a renewal of the millages at current levels and with associated expenditures.

Major Street Fund Assumptions

Major Revenues
The primary revenue source of the Major Street Fund is Act 51 road funding from the State. For the five years of this forecast, it is anticipated that funding will increase slightly by 1.7 percent based on historical increases.

Major Expenditures
Other than a percentage of Department of Public Services personnel and maintenance costs, the majority of expenditures allocated in the Major Street Fund involve road construction projects. Road construction projects included in the forecast are as follows:

Major Road Project	Projection 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20
Joint & Crack Sealing – City Wide	$0	$75,000	$75,000	$75,000	$75,000
MDOT Proposed I-75 Modernization Project (City Share)	0	0	0	800,000	0
Whitcomb – Barrington to Townley, Whitcomb Turnarounds	200,000	100,000	100,000	100,000	100,000
13 Mile – Sectional Repairs	100,000	100,000	100,000	100,000	100,000
Sectional Repairs	620,000	1,025,000	550,000	250,000	250,000
Sectional Repairs “NHPP” Construction	200,000	0	0	0	0
John R Over-band (Joint Sealing) 11 Mile to Dartmouth	20,000	0	0	0	0
Stephenson Over-band (Joint Sealing) 12 to 14 Mile	50,000	0	0	0	0
13 Mile Joint Sealing Phase I	25,0000	0	0	0	0
Total	**$1,215,000**	**$1,300,000**	**$825,000**	**$1,325,000**	**$525,000**

The forecast does not include a transfer from Major Street to Local Street Fund in any of the years forecasted. During the budget process, staff will make recommendations if and when transfers are needed.

Included in FY 2019 is the first phase of the I-75 Modernization Project. The State of Michigan, though the Michigan Department of Transportation (MDOT), has announced an intent to use regional road improvement funds to finance the I-75 widening project from 8 Mile to M-59. Very recently, MDOT revised the timing and cost of this project to show the project starting two years earlier than the original target year, with a local match of $800,000 required from the City in FY 2019. Future project segments include local costs of $425,000 in FY 2024 and $2,800,000 in FY 2026. The funding structure established through Act 51 to fund this project will seriously impact the City’s major road funds for years before, during and after construction.

Of significant impact to the Major Street Fund is road maintenance salt, which is historically on of the most volatile commodities purchased by the City. The forecast holds the expenditures for salt steady due to unknown weather conditions and salt prices. For example, in FY 2015, the City experienced a 108% increase in salt prices, which was attributed to the record-setting harsh winter in 2013-14. Fiscal Year 2016 salt prices are expected to be 28% lower than the prior year with a milder weather prediction.

Local Street Fund Assumptions

Major Revenues
The primary funding source for Local Streets is the dedicated Proposal "R-2" Neighborhood Roads Millage. This millage was approved for ten years. Unless and until City residents approve a new residential roads program millage (i.e. Proposal "R-3"), year two of the forecast (FY 2017) will be last year of this road millage which funds all of the neighborhood road rehabilitation projects. We have forecasted a renewal of this millage at the current two mill level. For all the forecasted years through 2020, funds collected under this road millage have the same assumption as General Fund property tax revenues of 1% per year.

Local Streets also receives funds through the Act 51 road program from the State. For the five years of this forecast, it is anticipated that funding will increase slightly by 1.7 percent based on historical increases. This revenue source is not anticipated to have any significant increases or decreases unless the State makes changes to the road funding statewide.

Major Expenditures
Other than a percentage of Department of Public Services personnel and maintenance costs, the majority of expenditures allocated in the Local Street Fund are for road construction projects. Road construction projects included in the forecast are as follows:

Local Road Project	Projected 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20
Traffic Signal Improvements	$0	$30,000	$30,000	$30,000	$30,000
Neighborhood Roads					
Commercial and Industrial Projects	$115,000	$0	$0	$0	$0
East Lincoln East of John R	622,000	0	0	0	0
Fourner - Sherry to Mark & Mark Fourner to Sherry	1,355,000	0	0	0	0
E Harwood - Couzens to Dei	414,000	0	0	0	0
Madison - Millard to 31605 Madison	0	289,000	0	0	0
Areada - N of 11 Mile (SAD)	0	275,000	0	0	0
Meadows - Whitcomb to 31608 Meadows	0	416,000	0	0	0
Dorchester - 13 Mile to Windemere	0	126,000	0	0	0
Kenwood - Millard to 31601 Kenwood	0	288,000	0	0	0
Moulin	0	376,000	0	0	0
Windemere - Dorchester to Edgeworth	0	255,000	0	0	0
Sidewalk Replacement	0	20,000	0	0	0
Additional Proposal R-2 and future R-3 projects	0	0	1,700,000	1,582,103	1,613,920
Total	**$2,506,000**	**$2,045,000**	**$2,175,000**	**$1,582,103**	**$1,613,920**

At June 30, 2015 the fund balance for the Local Street Fund was $3.4 million. Of this amount, $3.0 million is reserved for Neighborhood Road projects and will be expended on R-2 projects over the next two years.

Water and Sewer Fund

Major Revenues

Water/Sewer Rates

The major revenue sources in the Water and Sewer Fund are from charges for water and sewage. Although future proposed budgets will most likely reflect the need to increase water/sewage rates to the end users, the rates are not included in the forecast because the forecast is only the first step in the budget process and we do not know the exact amount of future increases from the Oakland Water Resources Commissioner for sewage disposal and treatment. Once these major expenditures are identified, we will begin the process of recommending a water/sewer rate for FY 2017 which will be incorporated in the budget process and budget recommendation presented to Council.

Under the newly formed Great Lakes Water Authority (GLWA) which has recently been approved by the Wayne, Oakland, and Macomb County Boards of Commissioners, Madison Heights will switch from being a wholesale water customer under the Detroit Water and Sewerage Department (DWSD) to being a wholesale customer of the GLWA, and as such, will be subject to maximum water rate increases needed to generate total revenue of a 4% for each of the next ten years. The existing Water Services Contract between the City and DWSD will be honored by the GLWA. This does not mean the increases are capped at 4%!

Major Expenditures

Other than personnel expenditures which were calculated using the same assumptions as the general fund employees, the major expenditures in the Water and Sewer Fund are the purchase of commodities, water and sewer capital improvement projects and debt service.

Purchase of Commodities

As briefly mentioned under revenues, the City has not yet received the actual rate increase from the GLWA or the Oakland Water Resources Commissioner. The forecast assumes an increase of 6.5% per year for each of the forecast years for water and 3% for sewage treatment services. This percentage is based on trends as historically the rates have been higher than 6% per year.

Infrastructure

The Water and Sewer Fund structure has ensured that adequate funding is available to proactively address watermain replacements in the upcoming four years in coordination with the road improvement projects, assuming a continuation of the residential road millage in FY 2018. (Watermain replacement is completed in the fiscal year prior to road construction. Therefore, for road millage projects to be completed in FY 2018, watermains must be estimated in fiscal year 2017.) In addition, the forecast includes watermain replacement in areas outside the R-2 construction project areas where the older main is in critical need of replacement.

Future infrastructure needs include evaluation and replacement of the City’s residential water meters which were purchased in 1995 and are nearing the end of their service life. The replacement of these meters is not included in the forecast but will be included in upcoming capital improvement requests.

The watermains included in the forecast are listed below:

Watermain Replacement	Associated with Road Project	Projected 2015-16	Forecast 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20
Madison-Millard to 31605 Madison	Yes	230,000	0	0	0	0
Areada - N of 11 Mile Road	Yes	108,000	0	0	0	0
Meadows - Whitcomb to 31608 Meadows	Yes	199,000	0	0	0	0
Dorchester - 13 Mile to Windemere	Yes	61,000	0	0	0	0
Windemere - Dorchester to Edgeworth	Yes	115,000	0	0	0	0
Kenwood - Millard to 31601 Kenwood	Yes	230,000	0	0	0	0
Palmer - 13 Mile N to End	Yes	128,000	0	0	0	0
Moulin - Dulong to 1353 Moulin	Yes	308,000	0	0	0	0
Dartmouth – E. 11 Mile to 26341 Dartmouth	No	291,000	0	0	0	0
Barrington – E. 11 Mile to 26521 Barrington	No	221,000	0	0	0	0
Palmer – LaSalle to Girard	No	294,000	0	0	0	0
Kalama – John R to Alger	No	139,000	0	0	0	0
Brush - 11 Mile to Royal Park Lane	No	0	314,000	0	0	0
Brockton - Alger to Service Drive	No	0	0	216,000	0	0
Dallas - Alger to Service Drive	No	0	0	198,000	0	0
Fourteen Mile – John R to Palmer	No	0	0	0	180,000	0
Harwood – John R to Progress	No	0	0	0	216,000	0
Longfellow – Garry to Browning	No	0	0	0	0	153,000
Garry – Longfellow to Sherry	No	0	0	0	0	345,600
Possible R-2 and R-3 Projects to be completed	Yes	0	1,300,000	1,300,000	1,300,000	1,300,000
Total		**$2,196,000**	**$1,614,000**	**$1,714,000**	**$1,696,000**	**$1,798,600**

Debt Service

The Water and Sewer Fund also includes a significant amount of debt repayment for the George W. Kuhn Drain and Automatic Meter Reading System. The amounts used in the forecast are the actual amounts to be paid over the next three year period from the bond repayment schedules. The amounts included are as follows:

	Projected 2015-16	**Forecast 2016-17**	**Forecast 2017-18**	**Forecast 2018-19**	**Forecast 2019-20**
Bond Principal Payment – GWK	$710,088	$729,572	$747,995	$765,909	$785,919
Bond Principal Payments – Fixed Network system	90,000	95,000	100,000	105,000	110,000
Bond Interest Payment – GWK	190,365	171,059	151,183	130,773	109,892
Bond Interest Payments – Fixed Network System	42,688	39,988	36,900	33,400	29,725
Total	**$1,033,141**	**$1,035,619**	**$1,036,078**	**$1,035,082**	**$1,035,536**

At June 30, 2015, the Water and Sewer Department had built up an unrestricted net position of $8.7 million dollars. Without any changes to revenues and expenses, the cash position will be $1.9 million at the end of the forecast period.