



City of Madison Heights

City Hall Municipal Offices
300 W. Thirteen Mile Road
Madison Heights, MI 48071

Department of Public Services
801 Ajax Drive
Madison Heights, MI 48071

Fire Department
31313 Brush Street
Madison Heights, MI 48071

Police Department
280 W. Thirteen Mile Road
Madison Heights, MI 48071

www.madison-heights.org

To: Honorable Mayor and City Council

From: Melissa R. Marsh, City Manager
Linda Kunath, Finance Director

Date: November 23, 2020

RE: Five Year Financial Forecast – Fiscal Years 2021-2025

Attached please find the five-year forecast for the City of Madison Heights for the Fiscal Years 2021-2025. This forecast should be evaluated as a financial estimate, created from the best available information at this point.

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, to serve as the first step in the upcoming budget process. 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 sustainability of the City as we move into the Goal Setting, Capital Improvement, and Budget Planning processes.

Over the past ten months, we have been forced to deal with unprecedented circumstances with the historical public health crisis – COVID-19. The timing came just as Madison Heights was implementing our first “recovery” budget to deal with many of the leftover effects of the Great Recession, which hit the City hard from 2009-2015. This health crisis caused the City to go into a restricted spending mode of placing a hold on most capital outlay items, deferring maintenance and building projects, and freezing all hiring as the financial picture became suddenly unclear.

Today, after the first wave of economic stimulus from the federal government, we have a better picture of our short-term financial situation (current plus next year). However, it is challenging to forecast this period due to the COVID-19 pandemic, which triggered a recession beginning March, 2020. This has upended not only the country, but also local growth. As we saw during the Great Recession that started in 2008, there was a lag in economic effects, hitting the City hardest from 2010 to 2013. Based on what we do know today, the long-term financial outlook continues to identify structural challenges to the City’s General, Major Street, Local Street, and Water and Sewer Funds, primarily due to the restrictions of Proposal “A” and the Headlee Amendment, changes by the State to property taxes and burden of legacy costs such as pension and retiree health care benefits.

Area Code (248)

Assessing 858-0776
City Clerk..... 583-0826
City Manager..... 583-0829
Community Development 583-0831
Department of Public Services 589-2294
Finance..... 583-0846

Fire Department 583-3605
43rd District Court 583-1800
Housing Commission 583-0843
Human Resources 583-0828
Library 588-7763
Mayor & City Council 583-0829

Nature Center 585-0100
Police Department 585-2100
Purchasing 837-2602
Recreation..... 589-2294
Senior Citizen Center..... 545-3464
Water & Treasurer 583-0845

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 to 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.

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

The COVID-19 pandemic has severely disrupted the economy this year, both in Oakland County and beyond. The current thought is that improvements in testing, tracing, and treatment will allow Oakland County's economy to operate with roughly the same level of precautions it currently has in place until a vaccine becomes widely available, which is thought to be mid- 2021. This is important because the economy cannot make a complete recovery until the public health situation allows consumers and workers to go about their daily routines safely.

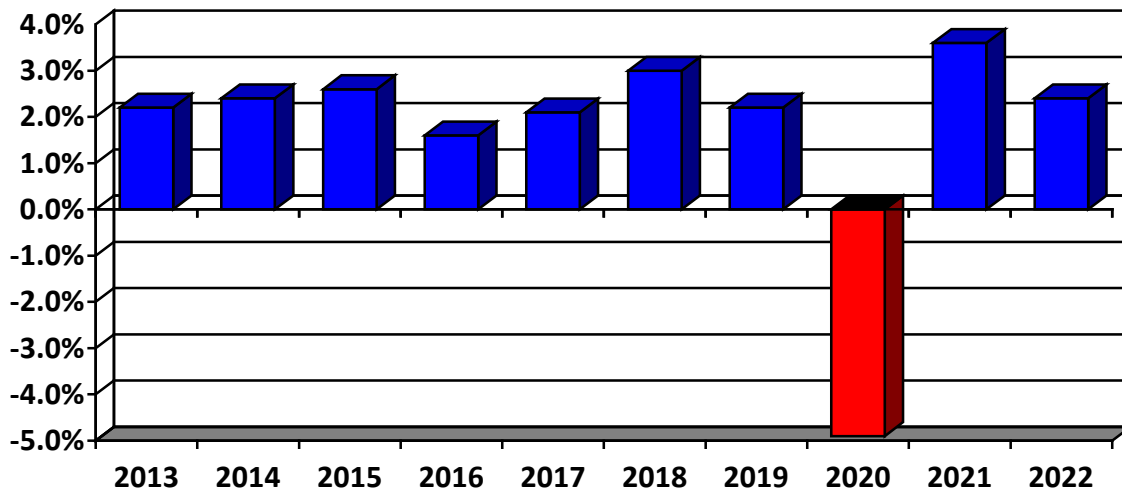
The severe and fast-moving disruption COVID-19 has brought about in the economy, has triggered local economists to start tracking nontraditional measures, including daily consumer's spending and small businesses opening throughout Oakland County and the State of Michigan. The daily spending data has been volatile, with consumer spending running between 7 percent below to 2.5 percent above its January average since July 1st, averaging at 1.7 percent below the January level. The number of small businesses that are open in Oakland County fell by nearly 50 percent as of early to mid-April relative to January. Although the number of small businesses open has recovered partially since then, the recovery in open small businesses has been noticeably weaker than the recovery in total consumer spending.

As reported by representatives of the University of Michigan's Institute for Research on Labor, Employment, and the Economy at the September 2020 Oakland County Economic Outlook Forum, there is substantial uncertainty surrounding the nation's economic prospects, and the outlook for Oakland County is no different. Several strong assumptions about the future course of the pandemic and the federal economic policy response were made to produce this forecast report.

In the past the best single measure of the U.S. economy has been inflation-adjusted, or real, Gross Domestic Product (GDP), which comprises all of the goods, services, and structures produced in the economy. During the entire period of 2001 through 2018, real GDP grew slightly faster in Oakland County (13 percent) than in the state overall (11 percent). The real GDP is forecasted to grow by 4.9 percent, (20.9 percent annualized) in the third quarter and by another 2.0 percent (8.2 percent annualized) in the fourth quarter. That growth path would leave real GDP 4.4 percent lower at the end of this year than it was at the end of 2019. The recovery is expected to be slow in 2021, with above trend growth to take place in the second quarter of the year, if a vaccine for COVID-19 is widely available. Furthermore, the annual real GDP growth is forecast to register 3.6 percent in 2021 and 2.4 percent in 2022.

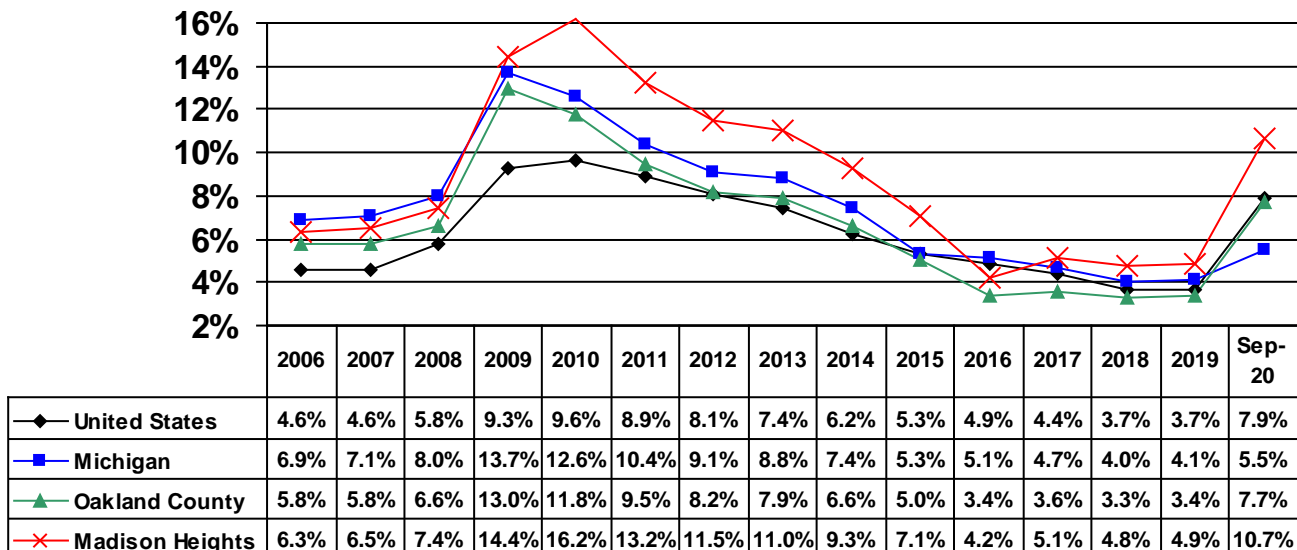
It is further expected that the Federal Reserve will continue to provide substantial monetary support for the recovery. We anticipate short-term interest rates staying near zero throughout the forecast horizon. The Fed's recent shift to "average inflation targeting" is viewed as a modest helpful step toward encouraging nominal income growth.

Growth in U.S. Gross Domestic Product, 2013-2022



Of the key economic factors, job growth and unemployment are two of the most important financial indicators of recovery. This is 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. By the end of 2019, Oakland County has completed ten consecutive years of job growth since the recession's low point at the end of 2009, also adding jobs the in first quarter of 2020. However, the bottom fell out of the national and local economies in the second quarter of 2020 losing 18.2 million jobs nationally. Oakland County is estimated to have lost 156,100 jobs. Fortunately, the rebound so far has been impressive by historical standards. The County is forecasting to end up losing only 68,000 jobs in 2020, equaling a decline of 9.1 percent, with a recovery forecasting an additional 29,100 jobs in 2021 and 14,300 jobs in 2022.

Annual Unemployment Rates, 2006 through September 2020



As indicated above, unemployment rates have returned to mid-recession levels, which Madison Heights remaining slightly higher than the other unemployment indicators.

Financial Forecast

The forecast reflects actuals for Fiscal Year 2020, estimated expenditures for Fiscal Year 2021 and forecasted figures for Fiscal Years 2022-2025. 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 2019-20

Fiscal Year 2020 General Fund reserves ended at \$9.6 million, down from \$9.9 million in the fiscal year 2019. Of this amount, \$8.97 million is considered to be spendable and available to fund operations. This decrease in fund balance was a direct result of planned use of fund balance in FY 2020 of \$383,735, of which \$331,059 was utilized. FY 2020 was an unusual year due to the COVID-19 pandemic. Due to this health crisis, the City offices were closed to the public on March 12th, followed by a State "Stay Home, Stay Safe" order. During this period, from March 24 through June 12, the City froze all non-public safety position hiring and placed a hold on expenditures and projects. In addition, we furloughed, either partially and fully, over 62 part-time and full-time employees through the duration of the Stay at Home order. We also developed a Work Share program with the State Unemployment Office and implemented furloughs for all non-public safety employees of a minimum of one day a week from June 1 through September 4. Overall, the General Fund departments completed the year at 86 percent of the budget allocated. This necessitated a carryforward of \$874,485 to FY 2021 for projects that could not be completed during the FY 2020 fiscal year.

Overview of the Current Fiscal Year 2020-2021

The fiscal year 2021 General Fund budget of \$31.9 million, which included a budgeted use of fund balance of \$572,478, was adopted by Council in May 2020. This budget was a reduction to the originally proposed budget, without making drastic cuts to existing services, and was adopted with the understanding that staff and City Manager will return to Council with budget amendments if needed, once a clear financial picture emerged. Since this original adoption, year-end carryforwards and several miscellaneous budget amendments have been approved, including additional use of fund balance of \$1.2 million.

During the first quarter of the fiscal year, revenues continued to lag behind expectations, however, CARES Act stimulus money granted to the State of Michigan and Oakland County was allocated to cities, townships, and villages through the State to assist with COVID-19 related expenditures, including replacing the August statutory revenues sharing payment with a grant that covered public safety wages. To date, the City has received \$2.3 million in grants from different funding agencies. This has stabilized the City's budget and allowed us to restart many of the projects previously placed on hold. As this is written COVID-19 cases are at an all-time high, the State of Michigan has taken a step backward and entered a "pause" phase, again leaving the City's financial future unclear. The good news is that the first coronavirus vaccine is here, even in limited supply, signaling the ability for consumers and workers to go about their daily routines safely once this vaccine is widely available.

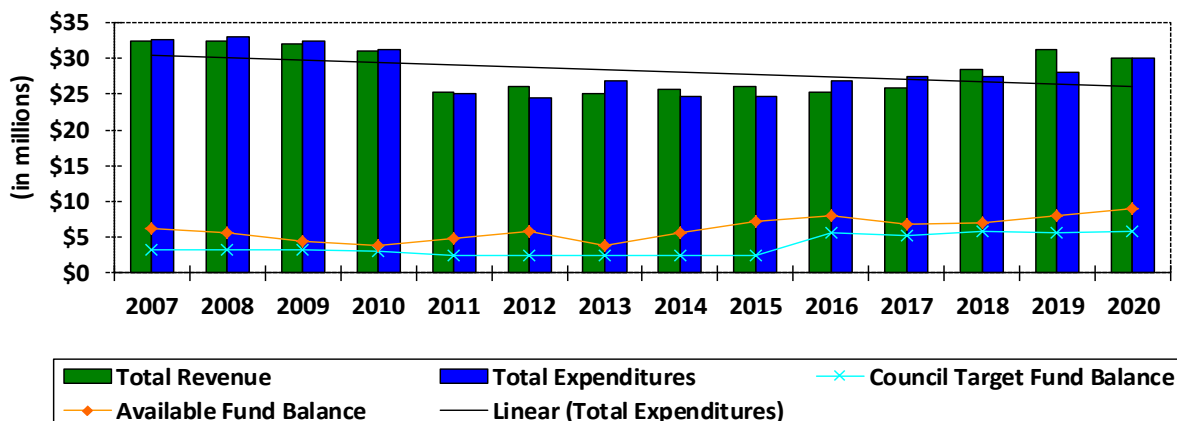
Overall, we anticipate ending the year near the existing budget amounts with lower than anticipated revenues offset by continued furloughs, grants, and changes in operations.

General Fund Reserves

In December 2015, the City Council approved the goal to modify the City's Financial Reserve Policy to comply with the Michigan Government Financial Officers Association Best Practices of adhering to an operating reserve policy setting the minimum reserve level at no less than two months or 16% of regular operating expenditures plus one year of debt payments, using fund balance reserves only for one-time expenditures. This policy was established to prudently protect the fiscal solvency of the City and is evaluated annually. Reserves are important to mitigate the negative impact on revenues from economic fluctuations, State budget adjustments, unfunded mandates, and unforeseen expenditure requirements. The following bar/line graph 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.

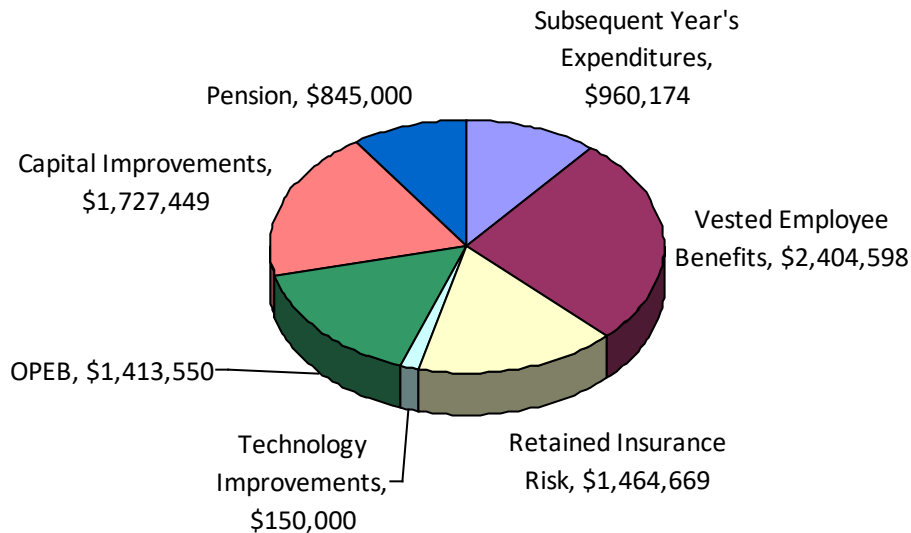
As stated previously, Fiscal Year 2020 General Fund reserves ended at \$9.6 million, down from \$9.9 million in the fiscal year 2019. Of this amount, \$8.9 million is considered to be spendable and available to fund operations. Total FY 2020 operating expenditures are \$30.1 million with general obligation debt payments at \$1,035,554. The required fund balance reserve is \$5,854,095. At FY 2020 end we are anticipated to have \$7.16 million in reserves. Strong financial policies, such as this, are part of the reason the City has maintained a AA- bond rating.

General Fund - Fund Balance Compared to Total Revenues and Expenditures



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: 11.0% to fund subsequent year's expenditures, 27% for vested employee benefits (not including pension or retiree health care), 16% for retained insurance risk, 2% for technology improvements, 16% for other post-employment benefits (OPEB), 9% for pension obligation bond payments and 19% capital improvements (see the following pie chart).

Assigned General Fund Reserves as of June 30, 2020



Overview of Five Year Forecast - FY 2021-2025

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 increase lower than the State approved rate of inflation, 1.4%; however, the forecast anticipates the full levy of Proposal MH. Passed in November 2019, the voters of Madison Heights passed a charter millage revision that rolled in several separate millages and increased the base charter millage to cover additional spending for public safety and quality of life services, such as parks and library. This increase was approved at an overall 3.3684 mills. Even with the passing of Proposal MH, the City continues to face financial challenges that continue to hinder the ability to fully restore services, fund legacy costs, and expand offerings to meet the demands of residents. This financial challenge is obvious in the five-year forecast as the cost to address deferred infrastructure and buildings can no longer be deferred without interfering with services.

Over 67% of the City's General Fund revenues are generated from property taxes, which are restricted to growth of 5% of the rate of inflation, whichever is less. For FY 2021 the State Tax Commission has approved the inflation rate multiplier at 1.4%. Using this ratio and the Oakland County economic outlook, the City forecasted property tax to increase slowly between 1.2% and 1.4% over the next four years. Overall, future years are forecasted to see other

revenues grow slightly, after being reduced in 2020 and 2021, as the economy gets back to “normal”. For instance, recreation services have been closed or offered virtually, eliminating the revenue typically generated to cover not only program fees but staff cost. Overall General Fund revenues are forecasted to increase around 1% year over year from 2022-2026.

Expenditures are projected to grow at an annual average rate of 1.48% during the succeeding four years, taking into account the City’s infrastructure needs and assumption of full implementation of the City’s current Capital Improvement Plan. **This forecast does not take into consideration changes in negotiated benefits or wage increases, as all of the City’s eight bargaining contracts expire on June 30, 2021.**

Forecasted Challenges – FY 2021-2025

Past the challenges discussed due to COVID-19, two major financial challenges will continue to face the City over the next decade, are legacy costs and infrastructure needs. 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 which are discussed separately below:

Pension

As part of the FY 2017 goal process, Council approved a goal to develop and implement a plan and policy to fully address the City’s unfunded liabilities for pension and other post-employment benefits. As part of accomplishing this goal, staff researched and Council approved the issuance of Pension Obligation Bonds (POBs) for \$15,250,000 for 16 years to fund the accrued liability for the General (non-sworn) employees in the Michigan Municipal Employee Retirement System (MERS). These bonds were issued on September 29, 2016, and funds were transferred to MERS bringing the general employees’ pension system to 106.6% funded. The current budget and the following four-year forecast include the bond payment plus the normal cost for the pension system on an annual basis. The normal cost is required to be paid even when funds are over 100% funded because the normal cost is not included in the accrued liability. It is the amount attributable to the current year of service.

Pension is a major concern with employees and management, and we continue to discuss solutions. The Police and Fire Pension Fund is only 46.67% funded down from 48.12% in FY 2019. This funding issue has not been addressed beyond making the additional annual actuarially required contributions and minor benefit changes for new hires. This pension plan remains open to new hires, although their benefits have been reduced through a tiered system. The funding of this liability is paid annually through the Public Act 345 millage, which is currently 7.1155 mills or 25.6% of the current overall millage rate. Increasing this funding rate to ensure the ability to make promised payments will be a focus on future budget submittals.

Retiree Health Care

Ten years ago, the Council approved the establishment of two Retiree Health Care Trust (HCTP) and since that time the City has funded over \$35.5 million; however, this pales in comparison to the amount needed, which is actuarially calculated to be \$99.6 million. The City budgets and contributes the normal cost for general employees and a base percentage for police and fire, which is approximately \$635,000 per year; much less than the actuarially determined contribution of \$5.9 million. While this is still better than many municipalities statewide, the current funding level does not meet the new recommended State funding level of 40% for the Police and Fire plan. Therefore, reducing this liability

while also increasing this funding will be a major focus of future budget proposals. On June 30, 2020, the actuarially calculated the net position of the General Employee HCTP was 45.58% and the Police and Fire HCTP was 38.75%. Both plans' assumptions considered the most recent negotiated changes that future retirees move to Medicare, with a monthly stipend, thus removing them from the City's health care plan entirely. In recent years, the City also amended the practice of paying premiums from the trust and instead is paying premiums from current year budget funds, allowing the trust to grow for future use.

This forecast includes level dollar funding of the contribution, as currently included in the FY 2021 budget.

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 2021-22 will be presented as part of the proposed budget and will address legacy costs to the City.

General Fund Forecast Summary
(in millions)

	2019-20 Actual	2020-21 Projected	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Revenues	\$30.3	\$31.4	\$33.2	\$33.6	\$33.9	\$34.3
Expenditures	\$30.6	\$ 33.2	\$33.2	\$33.9	\$34.4	\$34.4
	(\$0.3)	(\$1.8)	\$0.1	(\$0.3)	(\$0.4)	\$0.07
General Fund Non-restricted Reserves	\$8.965	\$7.165	\$7.265	\$6.965	\$6.565	\$6.635
% Reserves of Current Year Expenditures	29.3%	21.6 %	21.9 %	20.5%	19.1 %	19.3%

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 capital projects, including much needed renovations and upgrades in City Hall, Active Adult Center and Library will require the full levy of Proposal MH.**

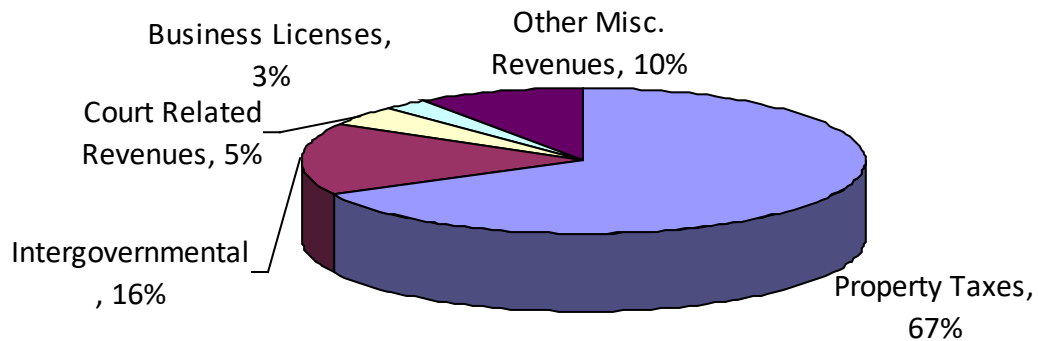
General Fund Revenue & Expenditure Assumptions

After 2020-21, overall total revenues are estimated to remain essentially flat without much growth over the forecast period. These projections in revenue are less than the annual forecasted increase in expenditures.

Forecast of Major General Fund Revenues
% Change from Prior Year

Revenue Category	2019-20 Actual	2020-21 Projected	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Property Tax	2.17%	7.3 %	10.2 %	1.3 %	1.4%	1.3%
Business Licenses	(4.0%)	(1.6%)	0.0%	0.0%	0.0%	0.0%
Intergovernmental	3.62%	(2.0%)	0.7%	0.8%	1.2%	0.3%
Court	(21.40%)	(7.0%)	1.8%	1.2%	1.50%	0.00%
Other	(18.77%)	1.4%	5.4%	1.1%	1.1%	1.00%
Total	(2.16%)	(0.05%)	1.23%	1.06%	1.14%	1.16%

General Fund Revenues
Major Revenues Forecasted in FY 2021-22 by Category



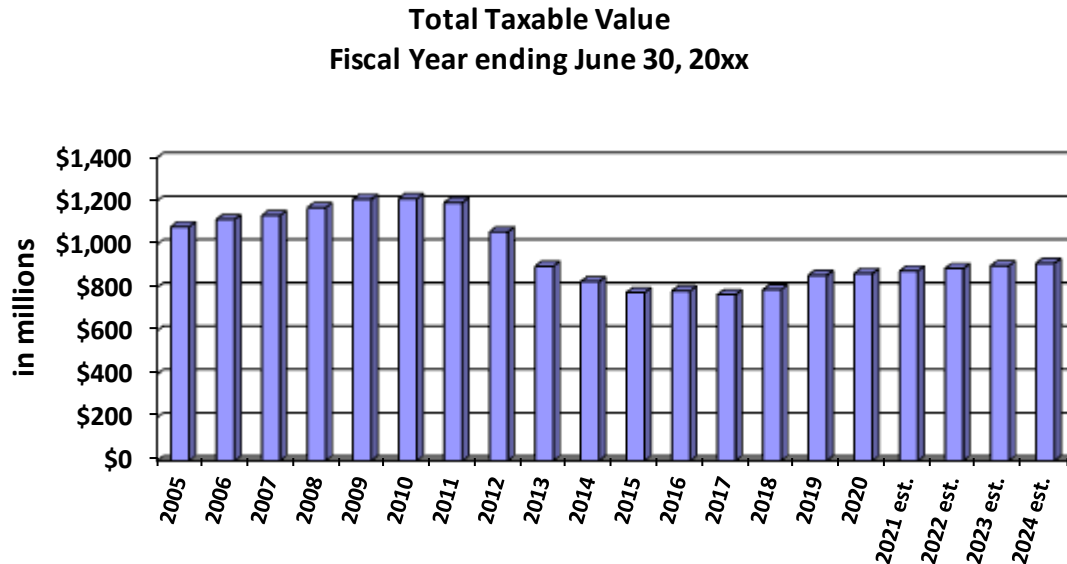
The following pages detail several key assumptions applied in the preparation of the financial forecast, as reflected in the table above.

General Fund Assumptions

Major Revenues

Property Tax

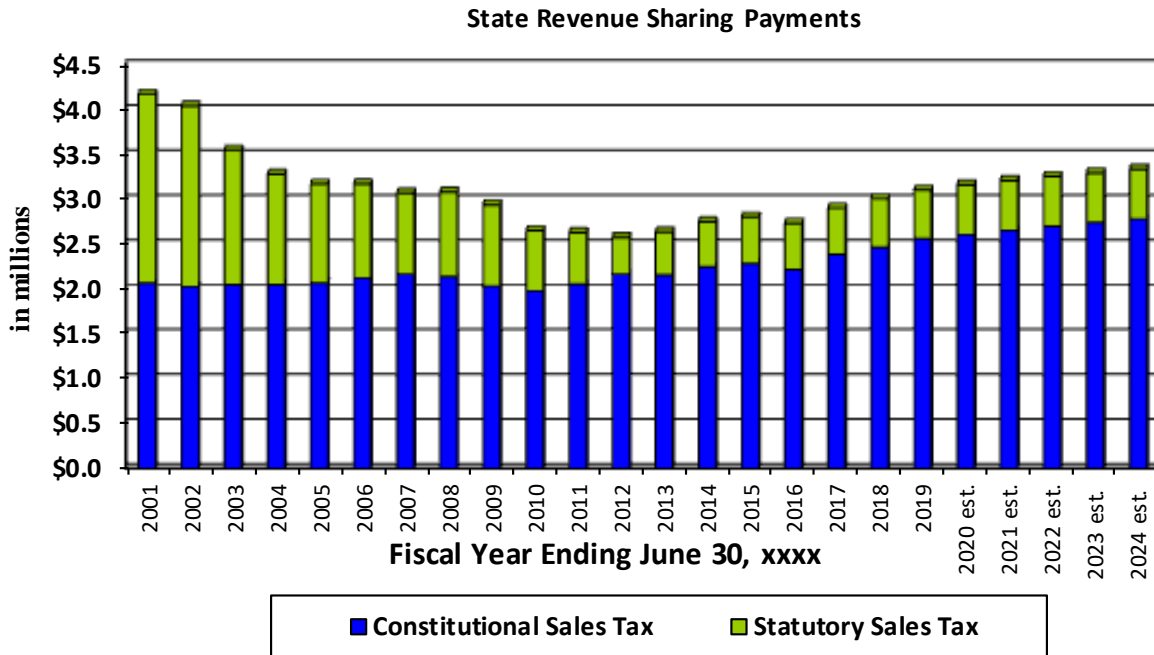
Real Property Tax revenues are projected to increase higher than inflation, which will result in a reduction of the millage capacity, inflation and growth has been forecasted at 1.4%. This information is based on the approved rate from the State Tax Commission.



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 property.

Intergovernmental – including State Shared Revenues

The State Revenue Sharing Program distributes sales tax collected by the State to local governments as unrestricted revenues. The distribution of funds is authorized by the State Revenue Sharing Act, Public Act 140 of 1971. Shared Revenues are comprised of two parts: Constitutional and Statutory, which includes the city, village, and township revenue sharing (CVTRS) program. In addition, the Act authorizes the appropriation and distribution of State General Fund-General Purpose revenues when local governments qualify for certain supplemental payments. The forecast includes no increase for FY 2022 and a 1.2% increase in the following forecasted years. The forecast assumes that the City continues to meet all the requirements to achieve 100% of the CVTRS funds. These requirements include a citizen's guide, performance dashboard, debt service, and projected budget report. These reports have been submitted and received ahead of the December 1 deadline for the upcoming fiscal year.



Court Revenues

With the closure of the Court in March 2020 due COVID-19 and the virtual nature of activities anticipated through the calendar year end, Court revenues are down over 21 percent and anticipated to remain low in the current fiscal year. Court Revenues are forecasted to increase slowly by an average of 1.2% over the forecast period until they reach pre-COVID-19 levels. Court fee structure and amounts retained by the State change frequently. This revenue source is also determined by collection rates.

Other Revenues

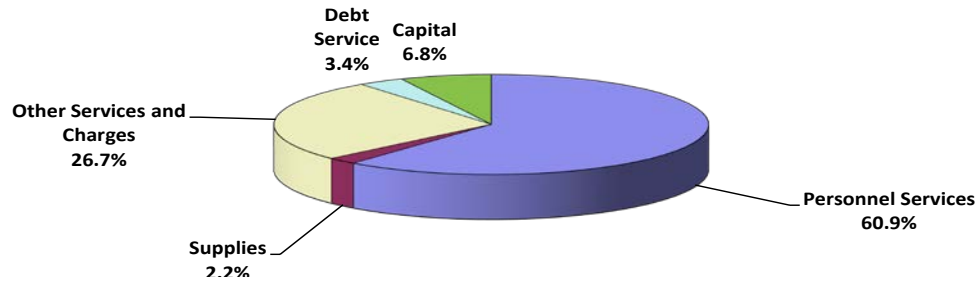
Parks and recreation revenues declined drastically during FY 2020, with the recreation and senior center closure due to COVID-19. We anticipate a continued decrease in current year revenues, as the first half of the fiscal year remains closed to recreation and senior activities and assumed a return to pre-COVID-19 levels in FY 2022. Miscellaneous revenues are also forecast to be lower than historical averages. 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 be stagnate based on the uncertain economic environment for businesses during and immediately following COVID-19. Currently, business license renewals have been placed on hold pending a reopening through the State due to COVID-19.

Major Expenditures

From 2009 until 2016, the City enacted a number of measures to keep operational expenditures in line with its declining revenues. FY 2017 and 2018 saw a gradual increase in expenditures. The City is still very cautious to insure a sustainable budget. Expenditures in the forecast are estimated to be \$33.1 million for Fiscal Year 2022, \$33.9 million in Fiscal Year 2023, \$34.5 million in Fiscal Year 2024, \$34.6 million in Fiscal Year 2025, and \$35.1 in Fiscal Year 2026. These expenditures are made up of personnel services, supplies, other services, and capital outlay.

General Fund Expenditures
Major Expenditures Forecasted in FY 2021-22 by Category

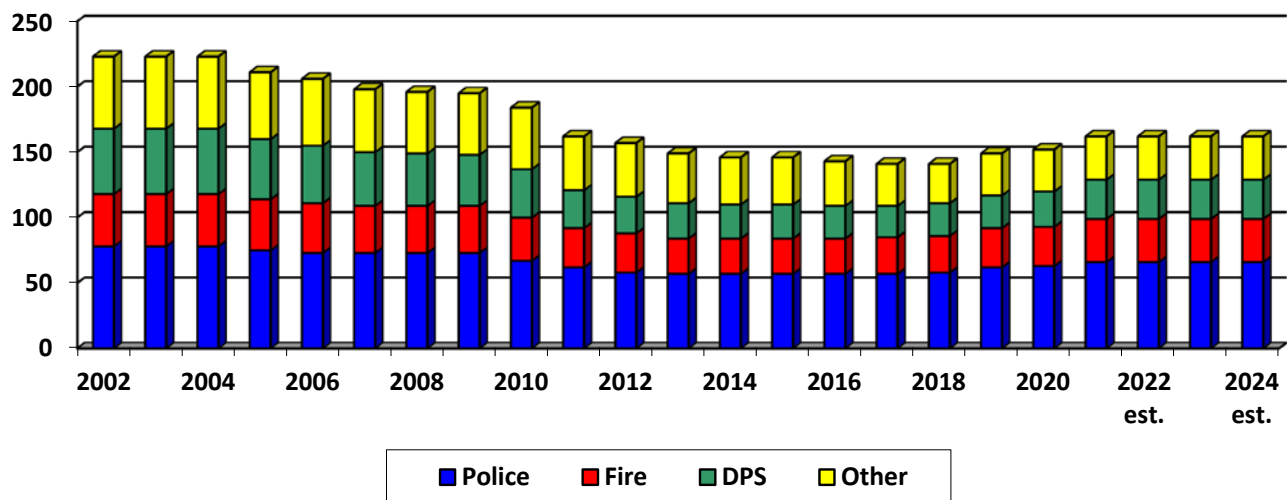


Personnel Categories

The personnel category, including health care premiums and retirement benefits, represents 71% of the General Fund budget.

Full-time staffing, which consists of 162 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 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

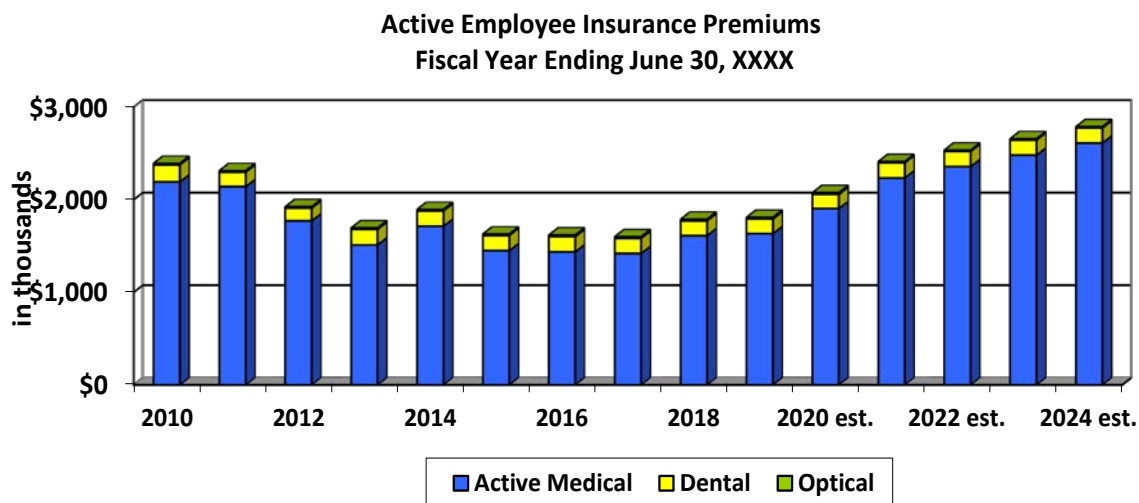


Expenditures related to negotiated salaries are included in the forecast through the current year, as all of the City's Union contracts expire on June 30, 2021. For estimating purposes, the forecast assumes status quo with both wages and benefit levels for all other groups. Changes in pension contributions are based on estimates by the Municipal Employees

Retirement System normal cost projections, which include newly adopted economic assumptions to begin with the 2019 annual actuarial valuation (FY 2021). These projections are dependent on the market returns and actuarial assumptions, but are forecast to change each of the next four years as follows: 45.1% FY 2022, 12.6% FY 2023, 13.2% FY 2024, and 15.1% FY 2025.

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 5% per year during the forecast period. The City is hopeful that the continued positive results from the implementation of the MiLife Employee Health and Wellness Center continue into future years with a positive influence on our rates. January 2020 was our 5th year operating the MiLife Health and Wellness Center. During the first five years of operations, we averaged a utilization rate of 54.3%. We have saved \$150,507 in hard dollars over the cost of operations, which averaged \$130,268 per year. Also, each year, CareHere analyses the number and types of health issues that were diagnosed in the center and estimate a potential long term savings had the diagnose gone undetected. This "soft dollar" savings is \$1,572,978. In addition, the employees have saved \$121,265 in co-pays, prescriptions, and lab tests. We have also seen a direct impact on our weekly health insurance cost. The MiLife Wellness Center delivers 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, and in FY 2018 we welcomed two more municipal partners: Hazel Park and Oak Park.

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.

In June 2015, the Governmental Accounting Standards Board (GASB) issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB, which refers to retiree healthcare). GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than

Pension Plans, was effective last year and addresses reporting by OPEB plans, whereas GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees and was effective FY 2019.

Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City must now recognize on the face of the financial statements its net OPEB liability.

The impacts of these liabilities are shown on the City's government-wide net position, reflected in this table:

	Reported at 6/30/17	With Unfunded Health Care at 6/30/18	With Unfunded Health Care at 6/30/19	With Unfunded Health Care at 6/30/20
Net position:				
Net investment in capital assets	\$86,465,940	\$90,214,663	\$92,123,323	\$95,631,955
Restricted	3,429,708	4,216,825	5,036,015	5,788,892
Unrestricted	(30,578,451)	(108,513,527)	(97,214,797)	(92,104,774)
Total net position	\$59,317,197	\$(14,082,039)	\$(55,459)	\$9,316,073

This change from negative total net position is a result of recent changes in OPEB benefits and a combination of all city activities. The Governmental Activities are still in negative position and indicate that legacy costs earned to date have not been funded; but this is largely offset by the capital assets that have been funded in advance of their use and cannot be used to fund retiree health care. Governmental Activities total net position exclusive of water and sewer activities are (\$27,337,283) at June 30, 2020.

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

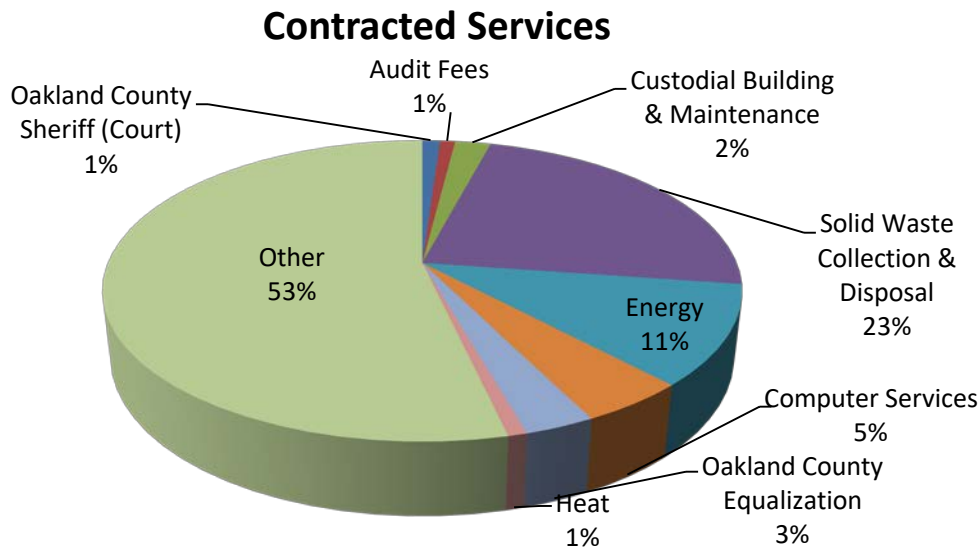
In April 2019, Council approved a fourth three-year contract with Oakland County for Equalization Services, which include a 1% increase in cost per parcel for each of the 3 years. We anticipate continuing this agreement with Oakland County and have forecasted this to continue with a 2% increase for the subsequent two years.

In 2014, following the completion of an Information Technology Assessment and Strategic Plan, Information Technology was contracted to BPI. These IT services were recently rebid and will be presented to City Council with a recommendation to award to BPI, our current vendor, for base cost of \$199,968 for FY 2022, with the option to extend in one-year periods.

In June 2018, the City extended an agreement with our Solid Waste Contractor, GFL Services, who was operating under a ten-year contract, scheduled to expire in 2020. This extension was approved in order to lock in rates to the City and

provide the options for larger totters for trash and recycling. Rate increases follow this extension at 2.5% annually until FY 2025.

In September 2020, City Council approved an agreement with Giffels Webster to contract planning services, resulting in a position elimination and reorganization of the Community Development Department. This contract is estimated to save the city approximately \$27,000, including extra projects with Giffels Webster such as the Zoning Text Amendment.



Capital Outlay Summary

As a result of dedicated funding sources, the City continues to make some progress with the preservation of two major asset classes including, watermain and sanitary sewers in the Water and Sewer Fund, and street-related rehabilitation projects in the Local Street Fund. Other dedicated millages such as Library and Proposal "V" for vehicles were rolled into Proposal MH, due to the rolled back amount of Proposal V not supporting our needs.

Assets included in the forecasted Capital Outlay include computer technology, building improvements, other vehicles, streets, and machinery and Equipment in the General Fund.

Last fiscal year, the City revamped the budget process to implement a bi-annual budget. This required departments to not only plan the five-year capital improvement plan (CIP) but budget the capital expenses in FY 2021 and FY 2022. This CIP and FY 2022 budget were used in the development of the five-year forecast, which includes all of the capital outlay items projected over the next five-years. Capital Outlay items recommended in the budget will depend on Council priorities and available funding.

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 2020-25					
Item	Budget	Forecast			
	2020-21	2021-22	2022-23	2023-24	2024-25
Computers and Upgrades:					
IT	53,500	59,000	75,000	75,000	75,000
General Admin	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Total - Computers	53,500	59,000	75,000	75,000	75,000
Machinery and Equipment:					
General Admin	-	-	-	-	-
Police	174,302	-	-	-	174,302
Fire	162,000	70,000	25,000	-	30,000
Solid Waste	20,000	230,000	175,000	50,000	190,000
Parks	-	-	-	-	-
Streets	-	-	-	-	-
Total - Machinery and Equipment	356,302	300,000	200,000	50,000	394,302
Vehicles :					
Police	176,274	185,000	210,000	210,000	185,000
Fire	312,745	140,000	62,000	200,000	200,000
Community Development	-	-	-	-	-
Streets	236,565	120,000	289,000	390,000	210,000
Parks	-	-	30,000		
Solid Waste	-	-	-	-	-
Seniors	100,000	100,000	32,000	-	-
Total - All Vehicles	825,584	545,000	623,000	800,000	595,000
Improvements					
Court	-	-	32,000	-	-
General Admin	126,000	320,000	210,000	200,000	180,000
Police	235,000	175,000	190,000	117,000	30,000
Fire	90,600	144,000	124,000	30,000	-
Parks	167,500	330,000	361,000	367,000	300,000
Nature Center	-	-	-	-	-
Senior Citizens	25,000	110,000	205,000	235,000	90,000
Library	7,500	117,500	225,000	195,000	150,000
Total - Improvements	651,600	1,196,500	1,315,000	1,144,000	750,000
Total - All Items	1,886,986	2,100,500	2,213,000	2,069,000	1,814,302

Major Street Fund Assumptions

Major Revenues

The primary revenue source of the Major Street Fund is Act 51 road funding from the State. The Michigan Department of Transportation has released projections for the remainder of FY 2021 and FY 2022 detailing a decrease of 3% before an increase of 1.2%.

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 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Traffic Signals	30,000	30,000	30,000	30,000	30,000
13 Mile Sectional Non-NHPP	350,000	0	0	0	0
Sectional Concrete Replacement - Major	1,247,000	815,000	525,000	600,000	940,000
Total	\$1,627,000	\$835,000	\$555,000	\$630,000	\$970,000

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

Local Street Fund Assumptions

Major Revenues

The primary funding source for Local Streets is the dedicated Proposal Neighborhood Roads Millage. Funds collected under this road millage have the same assumption as General Fund property tax revenues of a combined (real and personal) 1.4% in FY 2022, and an average of 1.3% each year thereafter.

Local Streets also receives funds through the Act 51 road program from the State. The Michigan Department of Transportation has released projections for the remainder of FY 2021 and 2022, which detail a decrease of 3% before an increase of 1.2%.

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:

At June 30, 2020, the fund balance for the Local Street Fund was \$2.25 million. Of this amount, \$2.23 million is reserved for Neighborhood Road projects and will be expended on R-3 projects in the upcoming year.

Local Road Project	Projected 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
Meadows Ave (Englewood Ave to Meadows)	\$ 263,000	\$ 0	\$ 0	\$ 0	\$ 0
W. Dallas Ave (Alger St to John R Road)	260,000	0	0	0	0
Kenwood Ave (Windemere to Englewood)	232,000	0	0	0	0
Madison Ave (Englewood Ave to Madison)	181,000	0	0	0	0
Kenwood Ave (Englewood Ave to Kenwood)	174,000	0	0	0	0
Windemere (Campbell Rd to Dorchester)	133,000	0	0	0	0
Westmore (30452 Westmore to Tanglewood)	0	975,000	0	0	0
Milton Ave (Moulin to Sheffield Dr)	0	167,000	0	0	0
Tanglewood Dr (Winthrop Dr to Yorkshire Dr)	0	75,000	0	0	0
Beverly Ave (Connie Ave to Dequindre Road)	0	98,000	0	0	0
Alger St (W Cowan Ave to Andover Ave)	0	0	212,000	0	0
Barrington (Mid Block -Lincoln to Cowan)	0	0	109,000	0	0
Alger St (Mid Block Alger St - Lincoln to Cowan)	0	0	109,000	0	0
Barrington St (W Lincoln Ave to W. Cowan Ave)	0	0	148,000	0	0
Alger St (W Lincoln Ave to W Cowan Ave)	0	0	148,000	0	0
Brush St (W Cowan Ave to Andover Ave)	0	0	120,000	0	0
W Cowan Ave (Stephenson Highway to Brettonwoods St)	0	0	140,000	0	0
W Cowan Ave (Alger St to John R Road)	0	0	75,000	0	0
Palmer St (W Lincoln Ave to W Cowan Ave)	0	0	210,000	0	0
W. Greig Ave (three sections)	0	0	0	482,000	0
Palmer Street (Andover Ave to W. Greig Ave)	0	0	0	293,000	0
Brush Street (Andover Ave to W. Greig Ave)	0	0	0	165,000	0
W. Greig Ave (five sections)	0	0	0	403,000	0
Hampden St (Andover Ave to Greig Ave)					168,000
Brettonwoods St (two sections)					349,000
Dartmouth St (Andover Ave to W. Greig Ave)					170,000
Barrington St (Andover Ave to W. Greig Ave)					170,000
Palmer St (W. Greig Ave to Eleven Mile Rd)					181,000
Alger St (two sections)					351,000
Sectional Replacements (R)	648,000	75,000	100,000	75,000	50,000
Sectional Replacements (Non-R)	100,000	630,000	400,000	525,000	300,000
Total	\$1,991,000	\$2,020,000	\$1,771,000	\$1,943,000	\$1,739,000

At June 30, 2020, the fund balance for the Local Street Fund was \$2.6 million, all of which is restricted for Neighborhood Road projects and will be expended on R-3 projects in the upcoming 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 and stormwater rates. As part of the FY 2018 budget process, a detailed Water and Sewer rate analysis was started. This analysis demonstrated a need to increase rates 3.25% in FY 2021, 3.25% in FY 2022 and 3.25% in FY 2023. Rates were evaluated during the budget process for FY 2020 and no increase was deemed necessary for the current year. These estimated increases were used in the financial forecast. However, this rate analysis will be updated once these major water and sewer expenditures and required use of fund balance are identified.

Effective with billings as or after July 1, 2016, the City began operating under a new sewer rate structure that splits out the stormwater charge, based on the individual parcel's stormwater runoff as calculated by the amount of pervious and impervious surface and shown through Equivalent Residential Units (ERUs). This charge did not affect the total amount charged for stormwater, but will more accurately reflect the differential between sanitary and stormwater usage. Effective with billings as or after July 1, 2017, the City separated the George W. Kuhn Drain debt payments from the water and sewer rate and included this amount on the summer tax bill. This change completed the implementation of the rate structure model. Additional billing method changes are not anticipated in the next four years.

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 Great Lakes Water Authority (GLWA) or the Oakland Water Resources Commissioner. To develop assumptions for the forecast, staff looked at the past three years of history. This will reflect the change to the GLWA as well as all the billing method changes implemented by the Oakland County Drain Commissioner. Based on this review, the forecast assumes an increase of 2% per year for each of the forecast years for stormwater charges, 3.0% for sewage treatment and 3.1% for water.

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, and in accordance with the continuation of the residential road millage. (Watermain replacement is completed in the fiscal year prior to road construction. In addition, the forecast includes watermain replacement in areas outside the R-3 construction project areas where the older watermain is in critical need of replacement.

Debt Service

In FY 2018, the Chapter 20 Drain Debt Service Fund was established for the debt repayment for the George W. Kuhn Drain. Previously the bonds were repaid from the Water and Sewer Fund. The Water and Sewer Fund still includes debt payments for Automatic Meter Reading System and 12.85 percent of the General Employee Pension Obligation bonds. The forecast includes redemption of the Automatic Meter Reading bonds in May of 2020. This should save the system

approximately \$60,000 in interest over the remaining life of the bonds. The remaining amounts used in the forecast are the actual amounts to be paid over the next four year period from the bond repayment schedules. The amounts included are as follows:

	Projected 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	Forecast 2023-24
Bond Principal Payments – Fixed Network System	110,000	640,000	0	0	0
Bond Principal Payments – Pension Obligation Bonds	107,298	108,583	110,510	113,080	115,650
Bond Interest Payments – Fixed Network System	25,600	46,600	0	0	0
Bond Interest Payments – Pension Obligation Bonds	45,866	44,042	42,033	39,690	37,123
Total	\$288,764	\$839,225	\$152,543	\$151,487	\$152,773

At June 30, 2019, the Water and Sewer Department has built up an unrestricted net position of \$5.5 million dollars. \$3.2 million of this is budgeted in the current fiscal year to cover planned capital expenditures such as the meter replacement program, for which the City has saved funds for over ten years. This forecast coupled with the Water and Sewer Rate Analysis forecasts a planned smoothed use of fund balance over the forecast period to spend down and then maintain fund balance at the minimum required reserve by FY 2023.