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: Benjamin I. Myers, City Manager
Melissa R. Marsh, Deputy City Manager

Date: November 13, 2017

RE: Five Year Financial Forecast – Fiscal Years 2018-2022

Attached please find the five year forecast for the City of Madison Heights for the Fiscal Years 2018-2022. 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, to serve as the first step in the upcoming year 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 proceed through the Goal Setting, 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 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.

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.

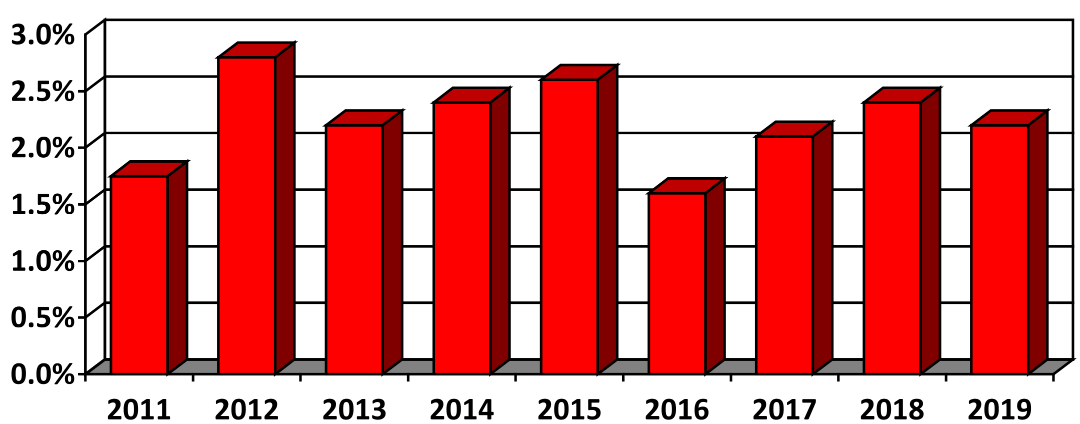
The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and expenditures into a single financial forecast. The GFOA recommends that a government should have a financial planning process that assesses long-term financial implications of current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

Regional Economic Outlook

Reflecting the country as a whole, Oakland County and the Southeast Michigan region continue the lackluster improvement during 2017. The best single measure of the U.S. economy is inflation-adjusted, or real, Gross Domestic Product, which comprises all of the goods, services, and structures produced in the economy. As reported by representatives of the University of Michigan's Institute for Research on Labor, Employment, and the Economy at the June 2017 Oakland County Economic Outlook Forum, real or inflation-adjusted U.S. Gross Domestic Product (GDP) downshifted from a 2.6% average rate in 2015 to 1.6% in 2016, held down by weak inventory investment and not exports, both of which can be quite volatile. Overall, the forecast is for real GDP growth accelerating to 2.1% in 2017 and 2.4% the next year, before moderating slightly to 2.2% in 2019.

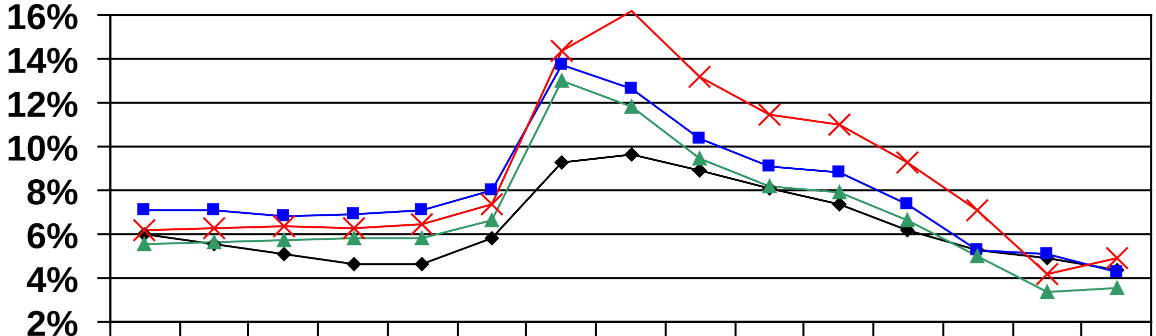
As forecasted, U.S. Light Vehicle Sales set a new all-time record of 17.4 million units in 2015, which was surpassed the next year with sales of 17.5 million units. The forecast is that sales have reached a cyclical peak, and will retreat a bit from here, to 17.4 million units in 2017 and 17.3 million in each of the following two years. Detroit's Big Three shares of these sales continue to fall from 43.6% in 2015 to 42.7% in 2016. The forecast increases to 43.4 percent in 2017, and climbing slowly from there, to 43.7% in 2018 and 43.9% in 2019. This flattening out of Detroit Big Three sales follows a period of vigorous growth from 2009 to 2015, and is consistent with a maturing economic expansion.

Growth in U.S. Gross Domestic Product, 2011-2019



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 that job growth will slow down over the next three years, to 2.1% in 2017, 1.9% in 2018, and 2.0% in 2019. The growth we foresee moving forward translates into gains of only 14,993 jobs in 2017, 14,012 in 2018, and 15,326 in 2019. Over the period from 2009 to 2016, the county's job growth of 18.0% has greatly outpaced both the nation's 9.9% and Michigan's 11.8% gains. The economists note that if the forecast proves correct, the span of Oakland's current recovery will extend to at least ten years. The county's upward trajectory continues to be supported by its strong economic fundamentals.

Annual Unemployment Rates, 2003 through September 2017



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Sept. 2017
United States	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%
Michigan	7.1%	7.1%	6.8%	6.9%	7.1%	8.0%	13.7%	12.6%	10.4%	9.1%	8.8%	7.4%	5.3%	5.1%	4.3%
Oakland County	5.5%	5.6%	5.7%	5.8%	5.8%	6.6%	13.0%	11.8%	9.5%	8.2%	7.9%	6.6%	5.0%	3.4%	3.5%
Madison Heights	6.2%	6.3%	6.4%	6.3%	6.5%	7.4%	14.4%	16.2%	13.2%	11.5%	11.0%	9.3%	7.1%	4.2%	4.9%

(Source: Bureau of Labor Statistics)

As indicated above, unemployment rates have returned to pre-recession levels, although Madison Heights remains slightly higher than the other unemployment indicators.

Financial Forecast

The forecast reflects actuals for Fiscal Year 2017, estimated expenditures for Fiscal Year 2018 and forecasted figures for Fiscal Years 2019-2022. 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 2016-17

Fiscal Year 2017 General Fund reserves ended at $7.05 million, down from $8.7 million in fiscal year 2016. Of this amount, $6.7 million is considered to be spendable and available to fund operations. This decrease in fund balance was a direct result of a planned use of fund balance in FY 2017 of $2.2 million, of which only $1.7 was utilized. This lower than anticipated use was due to a few items. First, the City's miscellaneous revenue is a source of income that is not typically reoccurring and is from unpredictable sources. The largest miscellaneous revenues are insurance distributions allocated from rebates and investment earnings. During 2017, the City received insurance distributions of $612,785 of which $514,955 was allocated to the General Fund. This exceeded the amount budgeted by $334,615. Second, Ambulance revenue came in higher than the budgeted $92,087. Third, several General Fund departments also completed the year under budget. Most notable were Human Resources at $68,942 under budget due to lower than anticipated consultant fee testing, the Finance Department at $31,207 under budget due to reduction in audit fees and changes in employee elections for health insurance, and the Community Development at $51,719 under budget with savings from a vacant position, computer equipment for Geographic Information System (GIS) and contractual site plan review needs.

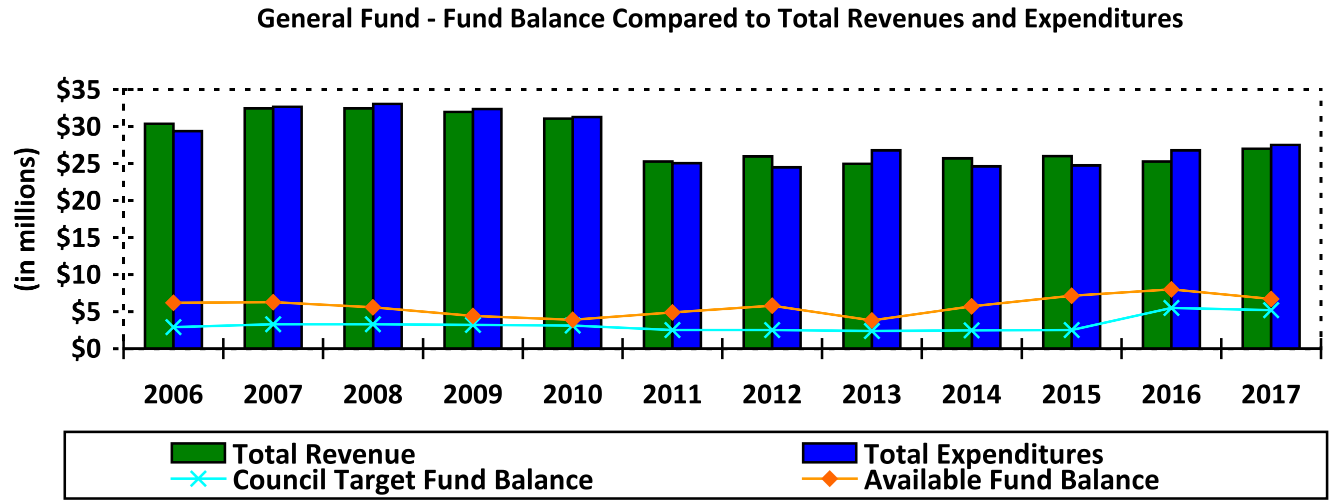
Overview of the Current Fiscal Year 2017-2018

The fiscal year 2018 General Fund budget of $27.6 million, which includes a budgeted use of fund balance of $326,585, was adopted by Council in May 2017. Budget amendments were approved in June 2017 including an additional use of fund balance of $212,375 for carry-over expenditures. Since that time, the majority of revenues have held steady as reported in the first quarter Council and departmental revenue and expenditure reports. Earlier in the year, we were informed by the State of Michigan that Constitutional Revenue Sharing would be higher than projected and a supplemental allocation for revenues sharing would be distributed in FY 2018. This amount is $108,758. We will not know for certain, until the State approves the FY 2019 budget if this supplemental allocation will continue next year or be a one-time allocation. This increase will be used to offset necessary personnel changes in the Department of Public Services and possible decreases in other revenues such as RV Lot fees which have been moved to an Enterprise Fund to match the RV lot expenses. Expenditures during the first quarter are also in line with budgeted expenditures with the exception of Police overtime, and Community Development contractual services which cover unexpected emergency demolition of properties and clean-up. There may also be emergencies or unknown expenses that can cause overages as of December 31, 2017. City Council will be asked to review and approve mid-year budget amendments if overages are likely to occur in January 2018.

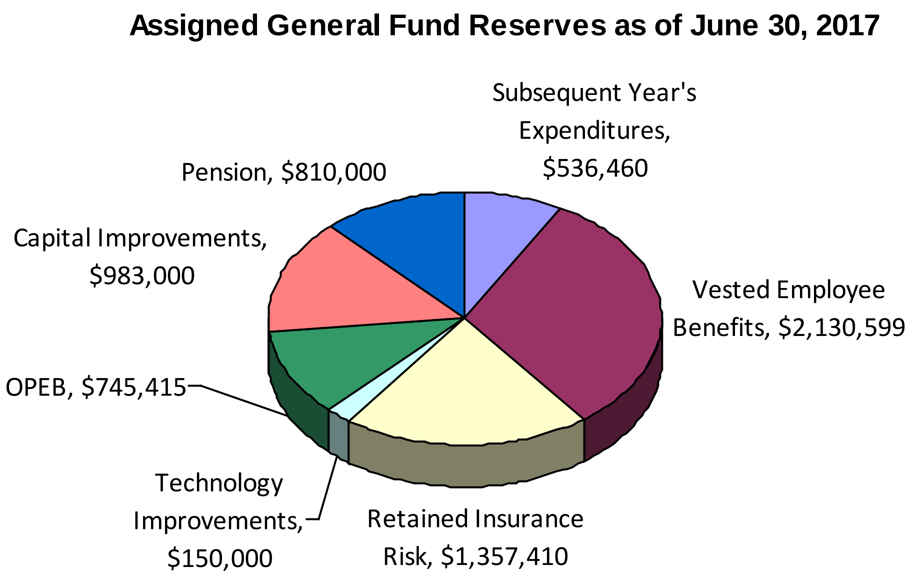
General Fund Reserves

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. Reserves are important in order to mitigate the negative impact on revenues from economic fluctuations, State budget adjustments and 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, in Fiscal Year 2017 General Fund reserves ended at $7.05 million, down from $8.7 million in FY 2016. Of this amount, $6.7 million is considered to be spendable and available to fund operations. Total FY 2018 operating expenditures are $25.9 million with general obligation debt payments at $1,036,274. The required fund balance reserve is $5,179,000. Strong financial policies that are reviewed on a regular basis are part of the reason the City has maintained its AA- bond rating.



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: 8.0% to fund subsequent year's expenditures, 31.7% for vested employee benefits (not including pension or retiree health care), 20.2% for retained insurance risk, 2.2% for technology improvements, 11.1% for other post-employment benefits (OPEB), 12.1% for pension obligation bond payments and 14.7% capital improvements (see the following pie chart).



Overview of Five Year Forecast - FY 2018-2022

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 with slow growth estimated to be at or slightly below the rate of inflation in the current year and next four years. This is mainly due to the reductions in personal property tax phase-in through the State of Michigan, the loss of taxable value in the Michigan Department of Transportation property takings, Proposal A and the Headlee Amendment. Major discretionary revenues are projected to increase less than 1% overall as property taxes (our largest revenue source) are forecasted to increase over the next four years through a combination of real property and personal property by an average of 1.6% per year. This compares to an historical average decrease of total revenues of 2.9% from 2010 to 2015, which included declines in property tax revenues, court revenues and state revenue sharing. Expenditures are projected to grow at an annual average rate of 1.15% 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 any changes in negotiated benefits or wage increases as all the City's eight bargaining contracts expire on June 30, 2018. (For reference, a 1% wage increase, with roll-up benefits, costs approximately $137,700 for the General Fund.)

Forecasted Challenges – FY 2018-2022

The two major financial challenges facing 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) in the amount of $15,250,000 for 16 years in order 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. 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.

The Police and Fire Pension Fund is only 58.6% funded and not been addressed beyond making the annual actuarially required contribution. 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 6.9586 mills or 27% of the current overall millage rate.

Retiree Health Care

Ten years ago, the Council approved the establishment of a Retiree Health Care Trust and since that time we have funded over $28.6 million into two trusts for retiree health care; however, this pales in comparison to the amount needed which is actuarially calculated to be $98.6 million. In FY 2015 and 2016, the City was not able to the recommended annually calculated contribution for retiree health care benefits. In 2017, the City budgeted to contribute a flat dollar amount equal to the 2016 contribution; however, City Council prudently approved a budget amendment to make an additional contribution exceeding the recommended contribution for the fiscal year by $279,284. While this is still better than many municipalities statewide, the current funding level is not considered acceptable to City management and does not meet the new recommended State funding level of 40%. Therefore, increasing this funding will be a major focus of future budget proposals. The combined Trust funding is 29% of the actuarially calculated liability.

Staff continues to work toward funding these liabilities and in FY 2018-19 a Goal proposal will address this OPEB funding shortfall by presenting Council with a recommended OPEB funding policy. Once the details of this policy have been created, and if approved by Council, this could impact the budget by allocating a larger portion of fund toward the OPEB benefits that have been promised but not paid.

The forecast includes level funding of 56.1% of the annually calculated contribution as currently included in the FY 2018 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 2018-19 will be presented as part of the proposed budget and will address legacy costs to the City.

General Fund Forecast Summary
(in millions)

	2016-17 Actual	2017-18 Projected	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Revenues	$40.320	$27.044	$27.376	$27.667	$27.983	$28.307
Expenditures	$41.986	$27.326	$27.897	$28.610	$29.107	$28.227
	($1.66)	($0.282)	($0.521)	($0.943)	($1.124)	$0.080
General Fund Non-restricted Reserves	$6.713	$6.431	$5.910	$4.967	$3.843	$3.923
% Reserves of Current Year Expenditures	**15.98%**	**23.53%**	**21.19%**	**17.36%**	**13.2%**	**13.9%**

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 or goals, reversal of "gap" measures used to balance the budget, during the great recession 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 the overall property tax will be stable but stagnate with combined increase in tax revenue of 1.6% per year. Although the housing sector continues to expand, the

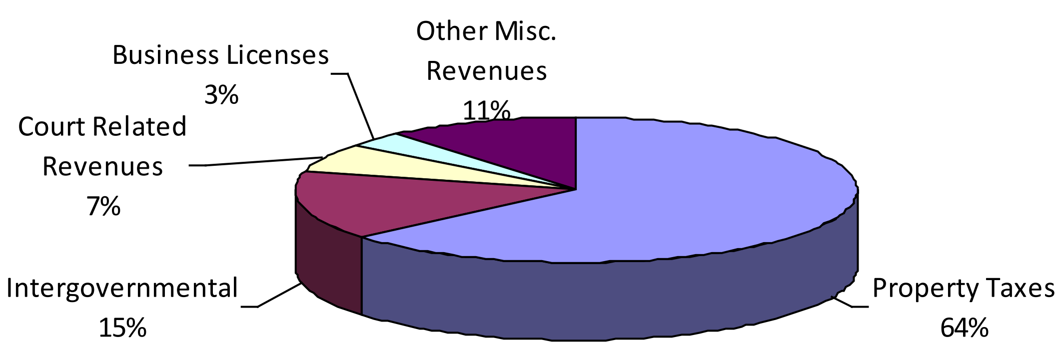
Michigan tax structure limits growth to CPI or 5%, whichever is less. The State Tax Commission calculation of the Inflation Rate Multiplier has been calculated to be 2.1% for 2017 (Tax Year 2018). Real property taxable value estimates are based on assumptions received from Oakland County Equalization of a maximum of 3% reduced for Proposal A and Headlee, and variations are due to Michigan Tax Tribunal reductions. Other major revenues such as State Revenue Sharing are assumed to see a modest increase of 2.1% to Constitutional portion and remaining flat for the Statutory portion based on the State of Michigan's budget projections.

After 2017-18, 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	2016-17 Actual	2017-18 Projected	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Property Tax	(3.09%)	0.46%	1.45%	1.63%	1.65%	1.67%
Business Licenses	(4.75%)	(5.04%)	1.19%	0.00%	0.00%	0.00%
Intergovernmental	44.59%	(14.92%)	1.55%	0.12%	0.54%	0.54%
Court	(9.88%)	0.04%	0.44%	0.00%	0.00%	0.00%
Other	(12.76%)	(6.8%)	(0.07%)	0.00%	0.00%	0.00%
Total	0.94%	(0.05%)	1.23%	1.06%	1.14%	1.16%

General Fund Revenues
Major Revenues Forecasted in FY 2018-19 by Category



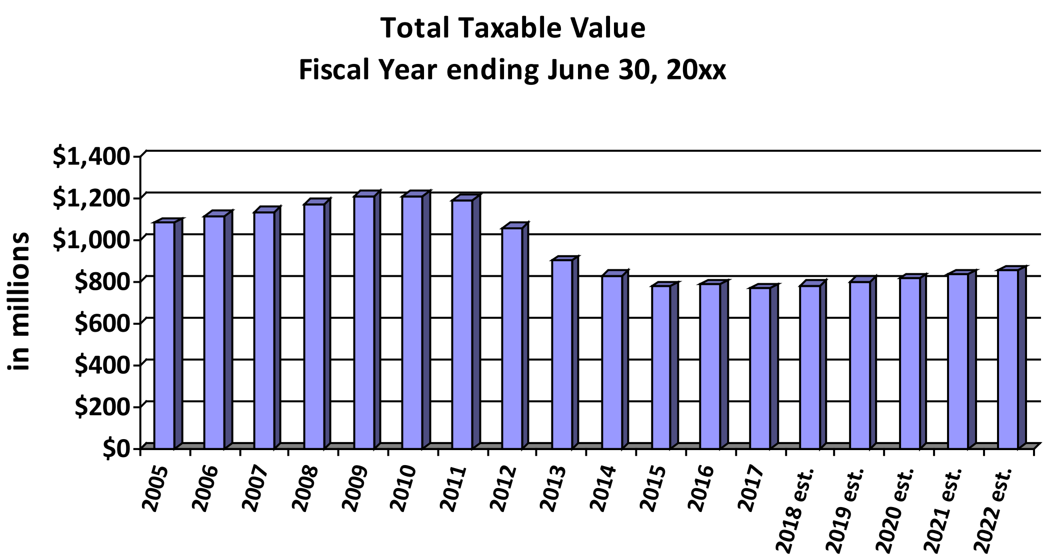
The following pages detail several key assumptions applied in the preparation of the financial forecast, as reflected in the table above.

General Fund Assumptions

Major Revenues

Property Tax

Real Property Tax revenues are projected to increase 3.0% - 3.5%, but reduced to the amount of inflation, which has been calculated at 2.1%. Personal property is estimated to continue to decrease as further property tax exemptions take effect and business operators learn more about the exemptions available. This information is based on estimates from Oakland County Equalization.

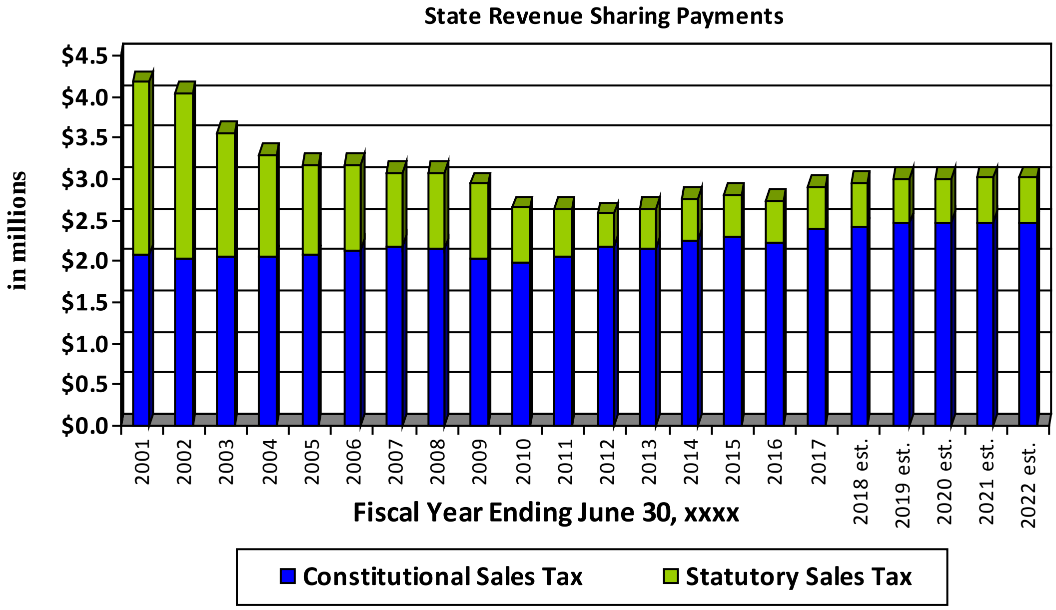


It is important to note that in Michigan, taxable value is approximately 50 percent of the property's fair market value in the year following the date of transfer, as adjusted for inflation in accordance with Proposal A of 1994, which limits future increases to five percent or the rate of inflation,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

Intergovernmental – including State Shared Revenues

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 a 2.1% increase in the Constitutional part of this payment, status quo for the statutory part, and a 2.1% increase in the new supplemental payment for FY 2019 and the following three years. We are unsure if we will be receiving this supplemental payment of an additional $24,111 in future years. 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. These reports have been submitted and received ahead of the December 1 deadline for the upcoming fiscal year.

Federal revenues are forecasted to decrease during the forecast years. The current federal revenue is Law Enforcement Grant revenue and Medicare Part D subsidy the Medicare Part D subsidy will be eliminated in FY 2019 as the city switched to a Medicare Employer Group Waiver Plan (EGWP) for retiree prescription payments.



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 2018 levels.

Other Revenues

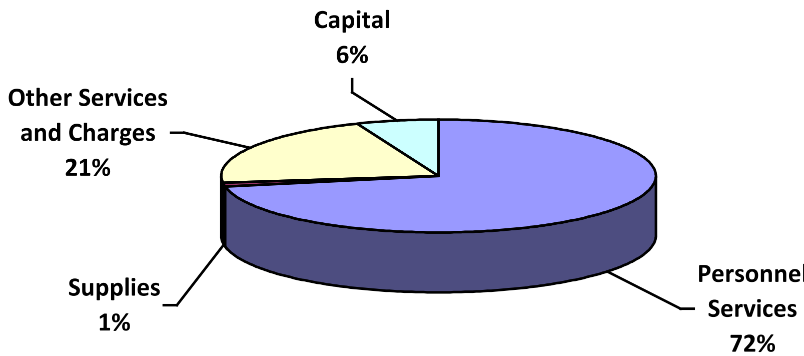
Miscellaneous Revenues are conservatively assumed to be stagnant at the FY 2018 budget level during the forecasted years. Miscellaneous revenues include revenues such as cable television franchise fees and interest income as well as one-time items.

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 2016, 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 $27.3 million for Fiscal Year 2018, $27.9 million in Fiscal Year 2019, $28.6 million in Fiscal Year 2020, $29.1 million in Fiscal Year 2021, and $28.2 in Fiscal Year 2022. 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.

General Fund Expenditures
Major Expenditures Forecasted in FY 2017-18 by Category

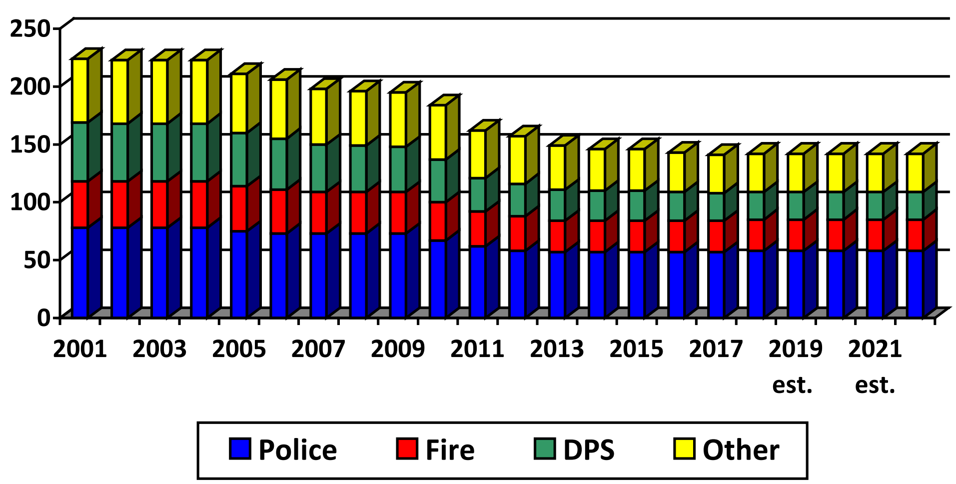


Personnel Categories

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

Full-time staffing, which consists of 142 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.

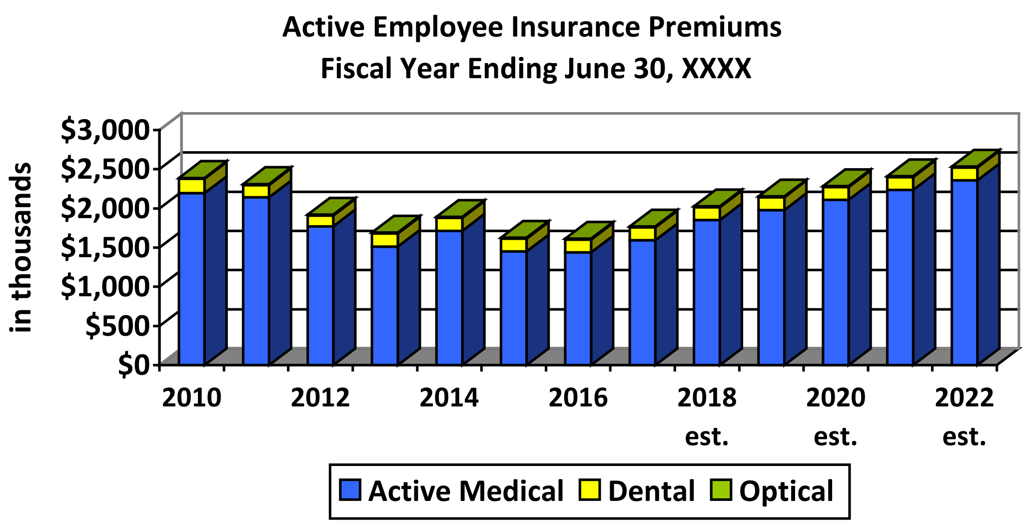
Budgeted Full-Time Positions
Fiscal Year Ending June 30, XXXX



Expenditures related to negotiated salaries are not included in the forecast because all of the City's Union contracts expire on June 30, 2018. For estimating purposes, the forecast assumes status quo with both wages and benefit levels. Changes in pension contributions are based on estimates by the Municipal Employees Retirement System normal cost projections. These projections are dependent on the market returns and actuarial assumptions, but are forecast for the next four years as follows: -9.9%, 11.3%, 59.4%, -1.7%, and -1.8%.

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 as follows: 7.0% in FY 2019, 6.5% in FY 2020, 6.0% in FY 2021, and 5.5% in FY 2022. The City is hopeful that the positive results from the implementation of the MiLife Employee Health and Wellness Center continue into future years. This center opened in January 2015 and first and second year results show a savings of almost $30,000 per year. We have also 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 and in FY 2018 we will be welcoming 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 this 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 is effective next year.

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 will, after adoption of GASB No. 75, recognize on the face of the financial statements its net OPEB liability.

A pro forma of how the reporting of these two liabilities is expected to impact the City's government-wide net position is shown below:

	As Currently Reported at 6/30/17	With Unfunded Health Care at 6/30/17
Net position:		
Net investment in capital assets	$86,465,940	$86,465,940
Restricted	3,429,708	3,429,708
Unrestricted	(30,578,451)	(102,756,370)
Total net position	$59,317,197	$(12,860,722)

This pro forma indicates that City will likely still have a negative total net position upon implementation. This generally means that the City has not fully funded the total cost of government services provided to date. The fact that the unrestricted portion is negative indicates 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.

Supplies

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

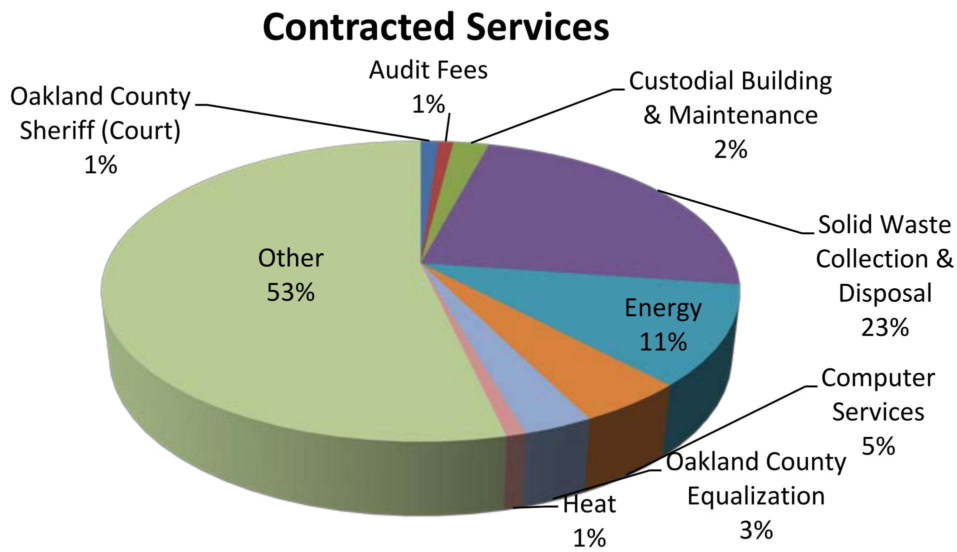
Other major expenditures included in the budget include contracted services. This category includes services for things such as auditing, solid waste collection and disposal, and assessing.

Contracted Services

In April 2016, Council approved a third three-year contract with Oakland County for Equalization Services, which will include a 3% increase in cost per parcel. This amount will then remain fixed through FY 2019.

Following, the completion of an Information Technology Assessment and Strategic Plan, City Council approved, in November of 2014 a three-year contract to BPI Information Systems which assumed reasonability for information technology support services City-wide at a base cost of $196,000 per year. As provided for under the Agreement, the contract has been extended for one-year until December 2018.

The City's Solid Waste Contractor, GFL Services, is currently operating under a ten-year contract originally negotiated with Rizzo Services, which began on July 1, 2010. In accordance with the contract, Fiscal year 2016 had a 6.8% increase, but no contractual increase in Fiscal Year 2017 and a budgeted increase of 1.4% in Fiscal Year 2018. The remainder of the forecast includes 1.48% in 2019 and 1.579% in 2020, and status quo for 2021 based on contractual pricing. In relation to an approved FY 2018 City goal, staff has started informal discussions with GFL on the possibility of extending this contract to include 96 – gallon trash carts and optional 64-gallon recycling carts; however, the forecast does not include any changes or extensions.



Capital Outlay Summary

As a result of dedicated millages, the City continues to make some 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 2018 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.

A major source of funding for police, fire and maintenance vehicle replacements, Proposal "V", was renewed by Madison Heights voters at the current level for a 10-year period beginning in FY 2018. Unfortunately this millage only generates approximately $200,000 per year which requires us to save this millage for three years to have enough funds to replace one pumper.

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 2018-2022					
Item	**Budget**	**Forecast**			
	2017-18	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Computers and Upgrades:					
IT	15,000	20,000	95,000	95,000	95,000
General Admin	10,000	-	-	-	-
Police	5,000	3,500	-	-	-
Fire	16,500	-	-	-	-
Total - Computers	46,500	23,500	95,000	95,000	95,000
Machinery and Equipment:					
General Admin	6,371	70,000	-	-	-
Police	12,700	-	-	-	-
Fire	80,000	-	-	70,000	-
Solid Waste	250,000	-	-	-	-
Parks	147,875	-	-	-	-
Streets	-	-	15,000	15,000	-
Total - Machinery and Equipment	490,575	70,000	15,000	85,000	-
Vehicles Proposal "V"					
Police	-	-	-	-	-
Streets	-	-	-	200,000	-
Fire	200,000	200,000	200,000	-	200,000
Subtotal - Proposal "V"	200,000	200,000	200,000	200,000	200,000
Vehicles - Non-Proposal "V"					
Police	-	57,000	115,000	115,000	115,000
Fire	135,000	135,000	-	135,000	135,000
Streets	75,000	838,000	214,000	125,000	175,000
Solid Waste	-	230,000	320,000	355,000	-
Seniors	-	62,000	-	132,000	200,000
Subtotal - Non-Proposal "V"	210,000	1,322,000	649,000	862,000	625,000
Total - All Vehicles	410,000	1,522,000	849,000	1,062,000	825,000
Improvements					
General Admin	5,853	7,500	117,500	317,500	117,500
Police	100,000	275,000	422,000	371,000	133,000
Fire	191,000	-	125,000	75,000	-
Parks	75,000	50,000	229,000	366,000	292,000
Nature Center	29,500	-	75,000	-	-
Senior Citizens	11,500	-	-	-	-
Library	45,000	-	-	-	-
Total - Improvements	457,853	332,500	968,500	1,129,500	542,500
Total - All Items	1,404,928	1,948,000	1,927,500	2,371,500	1,462,500

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 based on projection from the state to include the new State restricted revenue package. In FY 2019 of the forecast, this increase is 9.6% and 2% each year thereafter.

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 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Joint & Crack Sealing – City Wide	$75,000	$75,000	$75,000	$75,000	$75,000
Traffic Signals	30,000	30,000	30,000	30,000	30,000
13 Mile Sectional NHPP	135,476	240,000	0	0	0
13 Mile Sectional Non-NHPP	0	0	0	400,000	0
Stephenson Hwy Turnarounds	0	50,000	50,000	50,000	50,000
Sectional Concrete Replacement - Major	1,187,000	715,000	515,000	200,000	0
Total	**$1,427,476**	**$1,110,000**	**$670,000**	**$755,000**	**$155,000**

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.

Due to the enactment of Public Act 459 of 2017, the City will no longer be responsible for the $4.2 million local match to support the Michigan Department of Transportation's I-75 widening and Modernization Project.

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) 1.91% and 2% each year thereafter.

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 based on projection from the state to include the new State restricted revenue package. In FY 2019, the increase is forecast to be 5.7%.

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 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Dei – Lincoln to Southend	$1,030,000	$0	$0	$0	$0
Hales – 13 Mile to Winthrop	501,000	0	0	0	0
Brettonwoods St (11 Mile to W Farnum Ave.)	0	554,000	0	0	0
Harwood Ave (Battelle Ave to Tawas)	0	339,000	0	0	0
Brush St (W University Ave to 11 Mile)	0	172,000	0	0	0
Brush St (W University Ave to W Farnum)	0	207,000	0	0	0
Meadows Ave (Englewood Ave to Meadows)	0	0	263,000	0	0
W. Dallas Ave (Alger St to John R Road)	0	0	260,000	0	0
Kenwood Ave (Windemere to Englewood)	0	0	232,000	0	0
Madison Ave (Englewood Ave to Madison)	0	0	181,000	0	0
Kenwood Ave (Englewood Ave to Kenwood)	0	0	174,000	0	0
Windemere (Campbell Rd to Dorchester)	0	0	133,000	0	0
Westmore (30452 Westmore to Tanglewood)	0	0	0	975,000	0
Milton Ave (Moulin to Sheffield Dr)	0	0	0	167,000	0
Tanglewood Dr (Winthrop Dr to Yorkshire Dr)	0	0	0	72,000	0
Beverly Ave (Connie Ave to Dequindre Road)	0	0	0	98,000	0
Alger St (W Cowan Ave to Andover Ave)	0	0	0	0	212,000
Barrington (Mid Block -Lincoln to Cowan)	0	0	0	0	109,000
Alger St (Mid Block Alger St - Lincoln to Cowan)	0	0	0	0	109,000
Barrington St (W Lincoln Ave to W. Cowan Ave)	0	0	0	0	148,000
Alger St (W Lincoln Ave to W Cowan Ave)	0	0	0	0	148,000
Brush St (W Cowan Ave to Andover Ave)	0	0	0	0	120,000
W Cowan Ave (Stephenson Highway to Brettonwoods St)	0	0	0	0	140,000
W Cowan Ave (Alger St to John R Road)	0	0	0	0	75,000
Palmer St (W Lincoln Ave to W Cowan Ave)	0	0	0	0	210,000
Sectional Replacements (R)	314,000	75,000	100,000	75,000	100,000
Sectional Replacements (Non-R)	215,000	393,000	680,000	0	0
Additional Proposal R-2	0	350,000	0	0	0
Total	**$2,060,000**	**$2,090,000**	**$1,730,000**	**$1,582,103**	**$1,613,920**

At June 30, 2017, 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-2 projects in the upcoming year.

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. Once these major expenditures are identified, we will begin the process of recommending a water/sewer rate for FY 2019 which will be incorporated in the budget process and budget recommendation presented to Council.

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. We do not anticipate any significant billing method changes 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, 5% for sewage treatment and 6.6% 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 main is in critical need of replacement.

Future infrastructure needs continue to 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 in the forecast as this project started in the current fiscal year with District 1 and 2. On November 13, Council approved the acceleration of District 3 (12 mile to 13 mile) from FY 2019 into FY 2018, the forecast shows this expense for District 3 (10 mile to 12 mile) in FY 2018 and District 9 (commercial accounts) in FY 2019.

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 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 2017-18	**Forecast 2018-19**	**Forecast 2019-20**	**Forecast 2020-21**	**Forecast 2021-22**
Bond Principal Payments – Fixed Network System	100,000	105,000	110,000	115,000	120,000
Bond Principal Payments – Pension Obligation Bonds	104,085	105,370	107,298	108,583	110,510
Bond Interest Payments – Fixed Network System	33,400	29,726	25,600	21,000	16,200
Bond Interest Payments – Pension Obligation Bonds	48,706	47,425	45,866	44,042	42,033
Total	**$286,191**	**$287,521**	**$288,763**	**$288,624**	**$288,743**

At June 30, 2017, the Water and Sewer Department has built up an unrestricted net position of $8.7 million dollars. $2.3 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. Without any changes to revenues and expenses, the cash position will be $760,000 at the end of the forecast period.