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 – Administrative Services

Date: November 4, 2016

RE: Five Year Financial Forecast – Fiscal Years 2017-2021

Attached please find the five year forecast for the City of Madison Heights for the Fiscal Years 2017-2021. 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 strategy 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 the Headlee Amendment, changes by the State to property taxes and burden of legacy costs such as pension and retiree health care benefits.

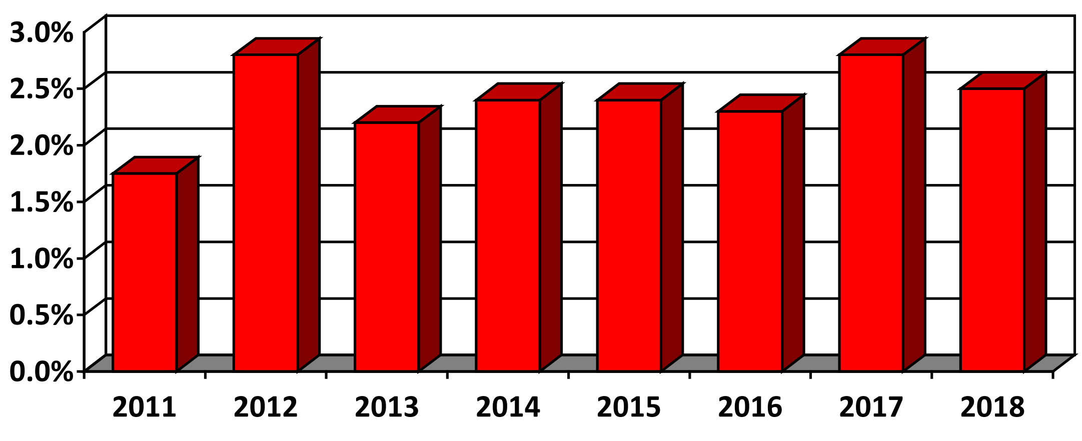
It is important to stress that this forecast is not a budget. It doesn't make expenditure decisions but does assess the need to continue to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health based on various assumptions over the current and next four years and 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

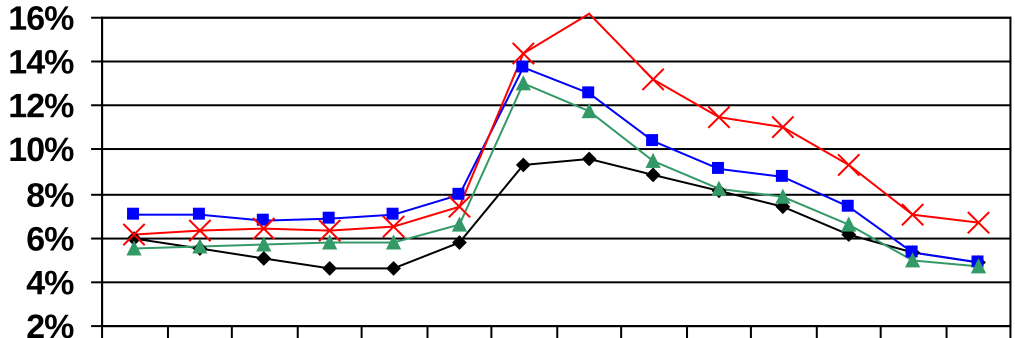
Reflecting the country as a whole, Oakland County and the Southeast Michigan region continue the slow economic recovery from the Great Recession of 2009. As reported by representatives of the University of Michigan's Institute for Research on Labor, Employment, and the Economy at the June 2016 Oakland County Economic Outlook Forum, real or inflation-adjusted U.S. Gross Domestic Product (GDP) averaged 2.4 percent in 2015 with forecasted growth of 2.3%, 2.8%, and 2.5% in 2016, 2017, and 2018, respectively. As forecasted, U.S. Light Vehicle Sales crossed the 16 million line in 2014, and then cleared the 17 million line in 2015, with the forecasted units sold continuing up from there. Pent-up demand continues to be a significant factor in the climb, as the average age of vehicles on the road today is still at a record high level and gasoline and interest rates remain low, and the labor market continues to improve. Detroit's Big Three shares of these sales have shrunk from 44.3 percent in 2014 to 43.6 percent in 2015. The forecast increases to 44.2 percent in 2016 and 44.5 percent in 2017 and 2018. After growing consistently over the recovery period, Detroit Three sales flatten out from 2016 to 2018.

Growth in U.S. Gross Domestic Product, 2011-2018



Of the key economic factors, job growth and unemployment are two of the most important financial indicators of recovery because a loss of jobs cuts across all sectors of Michigan's economy, impacting the housing market, and funding for state and local government services which rely on income, property and sales taxes. The University of Michigan economists forecast continued total private sector job growth in Oakland County. Over the period from 2009 to 2015, the county's job growth of 15.2 percent greatly outpaced both the nation's growth of 8.0 percent and the state's 9.6 percent. The economists note that this anticipated continued job growth would replenish 92 percent, or about twelve in thirteen, of the jobs lost from the spring of 2000 to the summer of 2009. This would also return Oakland County to the job levels it posted in the second half of 2001, about a year into the nine-year decline.

Annual Unemployment Rates, 2003 through August 2016



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Aug. 2016
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%
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%	4.9%
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%	4.7%
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%	6.7%

(Source: Bureau of Labor Statistics)

As indicated above, unemployment rates have continued to drop, although Madison Heights remains slightly higher than the State and Oakland County. The continued decline in unemployment is a positive trend with the University of Michigan economists forecasting that the County's unemployment rate will continue to fall to 3.3 percent by 2018. In 2016, Madison Heights experienced a slight decrease of 0.4% from the prior year.

Financial Forecast

The forecast reflects actuals for Fiscal Year 2016, estimated expenditures for Fiscal Year 2017 and forecasted figures for Fiscal Years 2018-2021. 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 2015-16

Fiscal Year 2016 General Fund reserves ended at $8.7 million, up from $7.95 million in fiscal year 2015. Of this amount, $8.36 million is considered to be spendable and available to fund operations. This increase in fund balance was a direct result of several 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 cable fees and insurance distributions. During FY 2016 cable fees exceeded the budget by $132,815. The City also received a Michigan Municipal Risk Management Authority (MMRMA) insurance distribution of $658,432 of which $511,930 was allocated to the General Fund. This exceeded the amount budgeted by $244,395. Second, several other revenue items exceeded the budget including interest income which was recorded at $224,804 or $64,804 more than budgeted, court fees which exceeded expectations by $106,778 and ambulance revenue which was higher by $88,309. Third, several General Fund departments completed the year with expenditures under budget. Most notable is Information Technology which ended the FY 2016 with a department balance under budget by $147,768, adding to fund balance; however, this money should have been carried forward to FY 2017 for payment of the new telephone system. We were anticipating having this project completed and paid by the end of FY 2016; however, several unanticipated contingences extended the project time and delayed payment. Other General Fund departments that came in significantly under budget were Human Resources at $77,537, due to lower than anticipated consultant fee testing and oral interview fees due to these tests not taking place until FY 2017. Also, the Community Development Department had vacant positions and renegotiated contracting fees for Building Official, inspection services and intermittent office assistance. Third, at year end, Council approved the budget carry-forwards for FY 2017 in the amount of for $144,394 which is an addition to budgeted use of fund balance in FY 2017 for a total of $1,218,834.

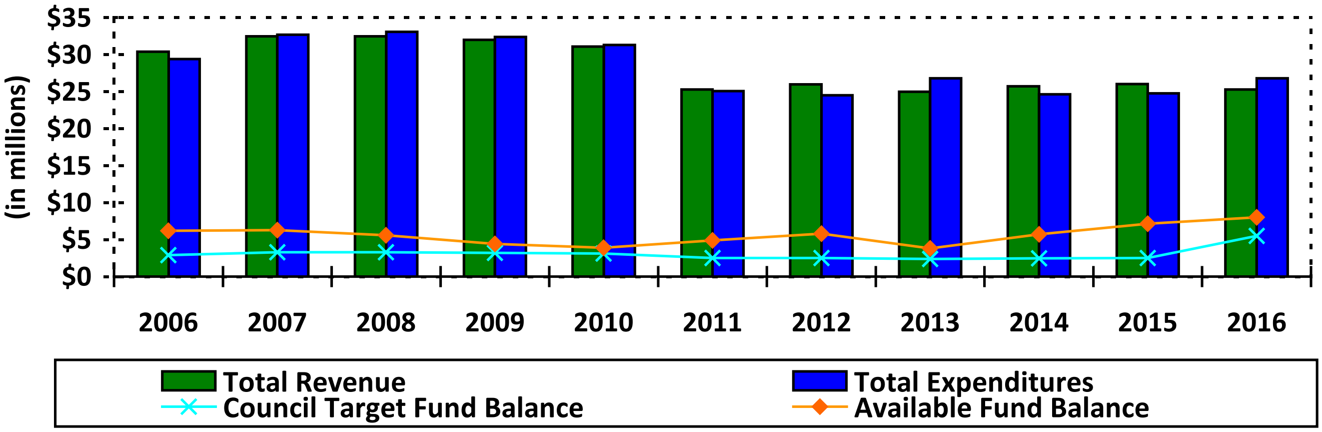
Overview of the Current Fiscal Year 2016-2017

The fiscal year 2017 General Fund budget of $26.8 million, which includes a budgeted use of fund balance of $1,074,440, was adopted by Council in May 2016. Budget amendments were approved in June 2016 including an additional use of fund balance of $144,394 for carry-over expenditures. Since that time, revenues have held steady as reported in the first quarter Council and departmental revenue and expenditure reports. Expenditures during the first quarter are also in line with budgeted expenditures with the exception of pension contributions. As Council is aware, on September 29, 2016 the City closed on a $15,250,000 sale of Pension Obligation Bonds. The bond payments (with interest) will replace the pension contribution except for the annual normal cost. We originally planned to have these bonds issued prior to July 2016; however, due to required state approvals the bonds were not issued until the end of September. This has cause approximately $350,000 in overage when the bond payment plus July through September contributions are compared to the FY 2017 budget. There may also be emergencies or unknown expenses that can cause overages as of December 31, 2016. City Council will be asked to review and approve mid-year budget amendments if overages are likely to occur.

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 bar/line graph below depicts the target and available General Fund Balances since 2006, as shown against total revenues and expenditures. In all years, the City has been able to maintain a fund balance at or slightly above the minimum target fund balance.

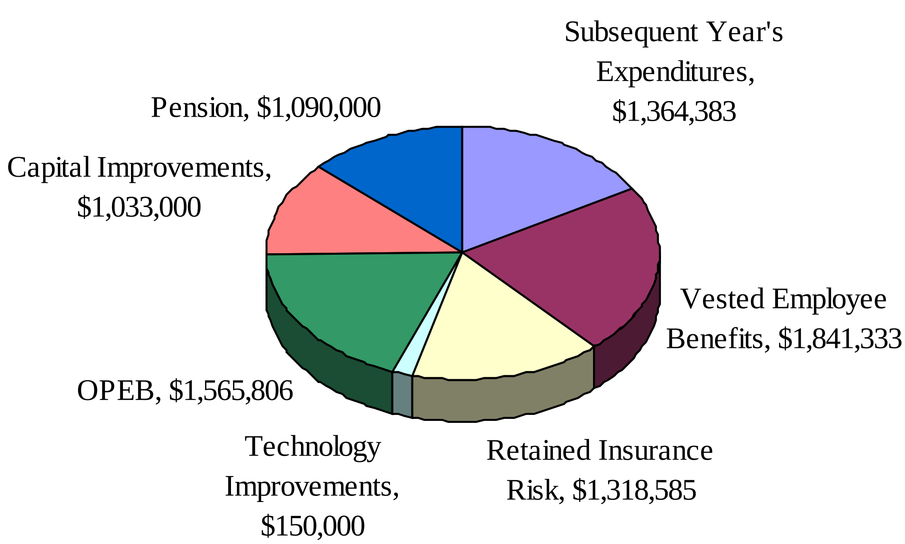
General Fund - Fund Balance Compared to Total Revenues and Expenditures



As stated previously, in Fiscal Year 2016 General Fund reserves ended at $8.7 million, up from $7.95 million in FY 2015. Of this amount, $8.36 million is considered to be spendable and available to fund operations. Total FY 2017 expenditures are $26.8 million with general obligation debt payments at $1,324,526. The required fund balance reserve is $5,618,000. Strong financial policies that are reviewed on a regular basis are part of the reason the City has maintained their 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: 16% to fund subsequent year's expenditures, 22% for vested employee benefits (not including pension or retire health care), 15% for retained insurance risk, 1% for technology improvements, 18% for other post-employment benefits, 13% for pension obligation bond payments and 12% capital improvements (see the following pie chart).

Assigned General Fund Reserves as of June 30, 2016



Overview of Five Year Forecast - FY 2017-2021

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

General Fund revenues are projected to continue to be stable in the current year remaining at the same level for the next four years. This is mainly due to the reductions in personal property tax phase-in through the State of Michigan. Although the State did establish a Local Community Stabilization Sharing allocation, this amount does not completely fill the gap created from the numerous new tax exemptions. Major discretionary revenues are projected to increase less than 1% overall as property taxes (our largest revenue source) are forecasted to decrease over the next four years through a combination of real property increasing by 1% and personal property decreasing by 20%. This compares to an historical average decrease of total revenues of 2.9% over the past five years (2010-2015), which included declines in property tax revenues, court revenues and state revenue sharing. After an increase from FY 2016 to 2017 of 3%, expenditures are projected to grow at an annual average rate of 1% during the current and 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, 2016. (For reference, a 1% wage increase cost approximately $135,000 for the General Fund with roll-up benefits.)

Forecasted Challenges – FY 2017-2021

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 as are discussed separately below:

Pension

As part of the FY 2017 goal process, Council approved Goal P: 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. Future budgets and the 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 services.

Police and Fire Pension fund is only 60.4% funded and not been addressed. 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 5.8612 mills or 25% of the current overall millage rate.

Retiree Health Care

Eight years ago, the Council approved the establishment of a Retiree Health Care Trust and since that time we have funded over $23.6 million into two trusts for Retiree health care; however, this pales in comparison to the amount needed which is actuarially calculated to be $78.1 million. In FY 2015, 2016 and 2017 budget, the City only funded 56.1% of the recommended annually calculated contribution for retiree health care benefits. While this is still better than many municipalities statewide, the current funding level is not considered acceptable to City management and increasing this funding will be a major focus of future budget proposals.

Staff has yet to address the OPEB portion of this goal but is considering presenting Council with a recommended OPEB funding policy. Once the details of this policy have been created and 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 including the FY 2017 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 2016-17 will be presented as part of the proposed budget and will address legacy costs to the City.

General Fund Forecast Summary
(in millions)

	2015-16 Actual	2016-17 Projected	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
Revenues	$26.779	$38.867	$25.448	$25.422	$25.451	$25.601
Expenditures	$26.011	$40.466	$28.153	$28.419	$27.729	$27.613
	$0.768	($1.598)	($2.705)	($2.998)	($2.277)	($2.012)
General Fund Non-restricted Reserves	$8.363	$6.764	$4.059	$1.062	($1.216)	($3.228)
% Reserves of Current Year Expenditures	**32.15%**	**26.82%**	**14.42%**	**3.74%**	**(4.39%)**	**(11.69%)**

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, or other major initiatives will require tradeoffs during the planning and budgeting processes.**

General Fund Revenue & Expenditure Assumptions

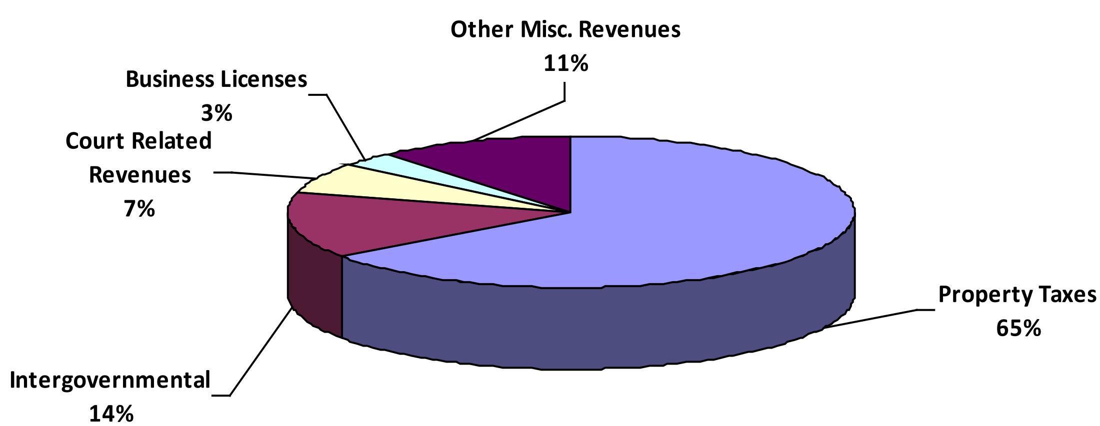
As mentioned earlier, current economic reports indicate that the state and county are showing signs of recovery. Revenue estimates contained in this forecast are based on assumptions that the overall property tax will be stable but stagnate with real property tax growing at a slow rate of 1% while personal property tax decreases. Although housing costs are increasing faster than this estimated 1%, the Michigan tax structure limits growth to CPI or 5% whichever is less. It is anticipated that CPI will be less than 1% and that the City will have both marginal growth and marginal tax roll additions. Real taxable value estimates are based on assumptions received from Oakland County Equalization and variations are due to the Michigan Tax Tribunal reductions. Other major revenues such as State Revenue Sharing are assumed to see a modest increase of 1.6% based on the State of Michigan budget projections.

After 2016-17, 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	2015-16 Actual	2016-17 Projected	2017-18 Forecast	2018-19 Forecast	2019-20 Forecast	2020-21 Forecast
Property Tax	1.81%	(2.91%)	(2.01%)	(1.23%)	(0.81%)	(0.46%)
Business Licenses	3.98%	(8.65%)	0.10%	0.00%	0.00%	0.00%
Intergovernmental	5.76%	1.77%	6.62%	4.65%	4.11%	5.56%
Court	3.95%	(3.28%)	(0.86%)	0.00%	0.00%	0.00%
Other	12.74%	(15.93%)	(0.49%)	0.00%	0.00%	0.00%
Total	3.87%	(4.48%)	(0.51%)	(0.10%)	0.12%	0.59%

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



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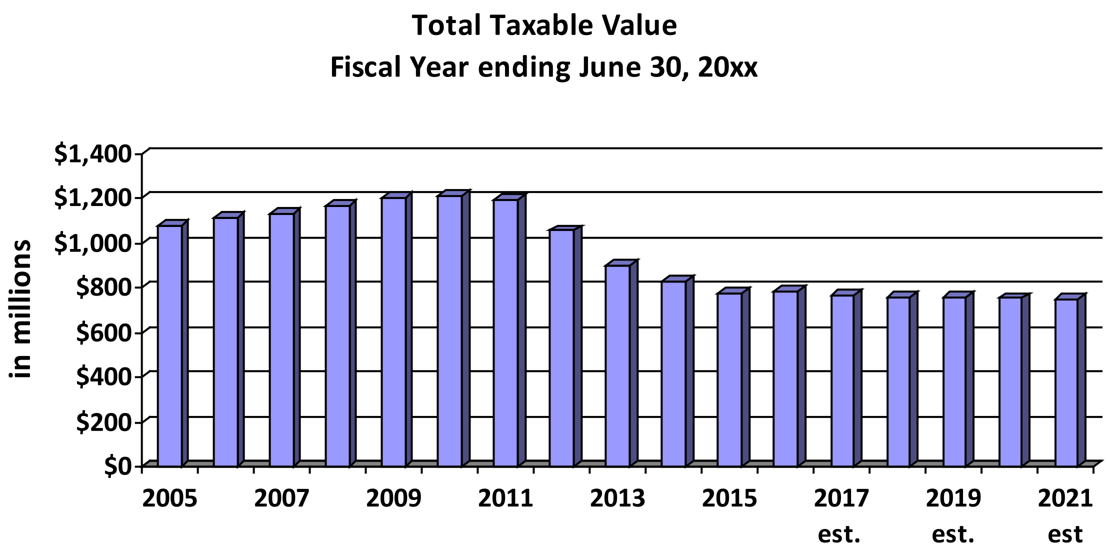
The following pages detail several key assumptions applied in the preparation of the financial forecast, as reflected in the table above.

General Fund Assumptions

<u>Major Revenues</u>

<u>Property Tax</u>

Real Property Tax revenues will remain relatively flat in Fiscal Year 2017 with a moderate decrease budgeted based on reductions in personal property for the next four years. This information is based on estimates from Oakland County Equalization. As mentioned earlier, the estimate from Oakland County was for growth of real property without factoring in Michigan Tax Tribunal (MTT) activity or personal property. The forecast assumes significant decreases in refunds through the MTT and stagnant revenues for personal property taxes.

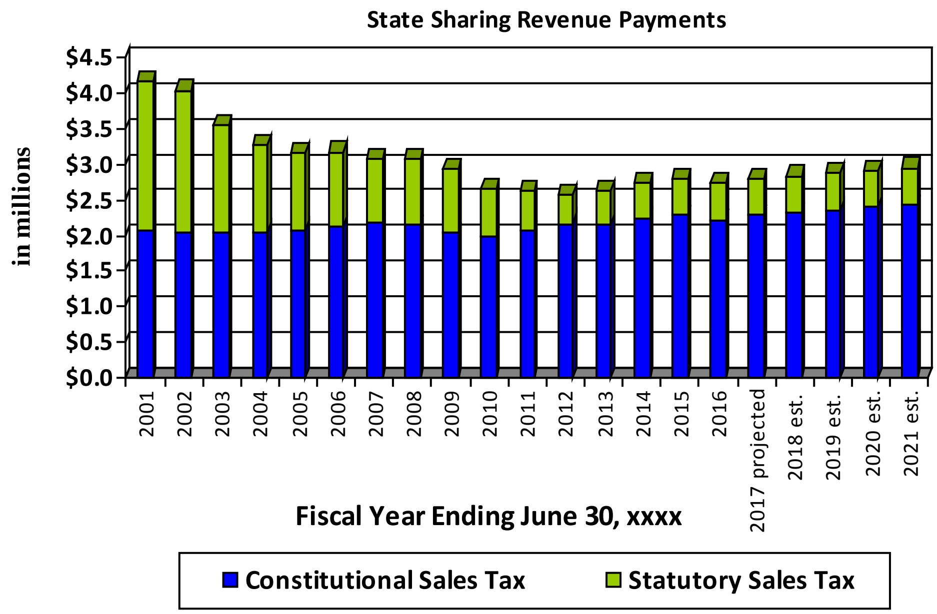


It is important to note that in Michigan, taxable value is approximately 50 percent of the property's fair market value in the year following the date of transfer as adjusted for inflation in accordance with Proposal A of 1994, which limits future increases to five percent or the rate of inflation, whichever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

<u>Intergovernmental – including State Shared Revenues</u>

State Shared Revenues including the new city, village, and township revenue sharing (CVTRS) program that replaced the Economic Vitality Incentive Program (EVIP) are anticipated to increase by 1.6% annually for Fiscal Years 2017-2021 based on projections from the State of Michigan. The forecast assumes that the City continues to meet all the requirements to achieve 100% of the CVTRS funds. These requirements now include a citizen's guide, performance dashboard, debt service and projected budget report.

Federal revenues are forecast to be flat during the forecast years. The only forecasted federal revenue is Law Enforcement Grant revenue.



<u>Court Revenues</u>

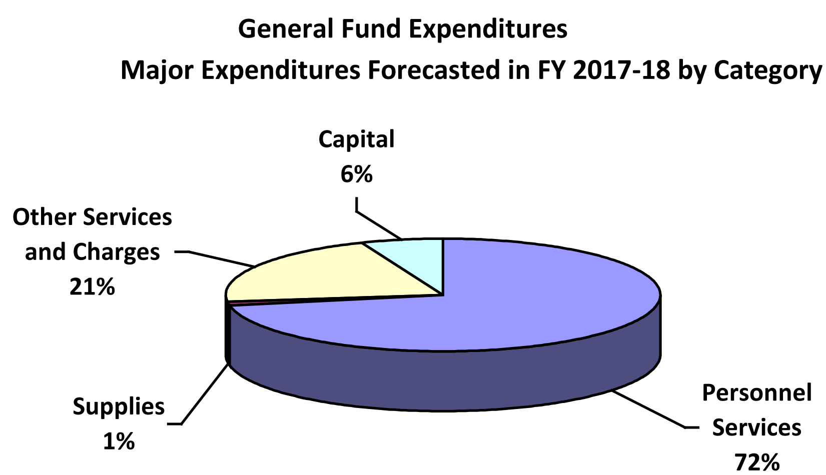
Court Revenues are forecasted to be down in the current year as actual revenues recorded to date are not tracking with budget estimates. The following four years are anticipated to remain steady at the Fiscal Year 2016 levels.

<u>Other Revenues</u>

Miscellaneous Revenues are conservatively assumed to be stagnant at the FY 2017 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



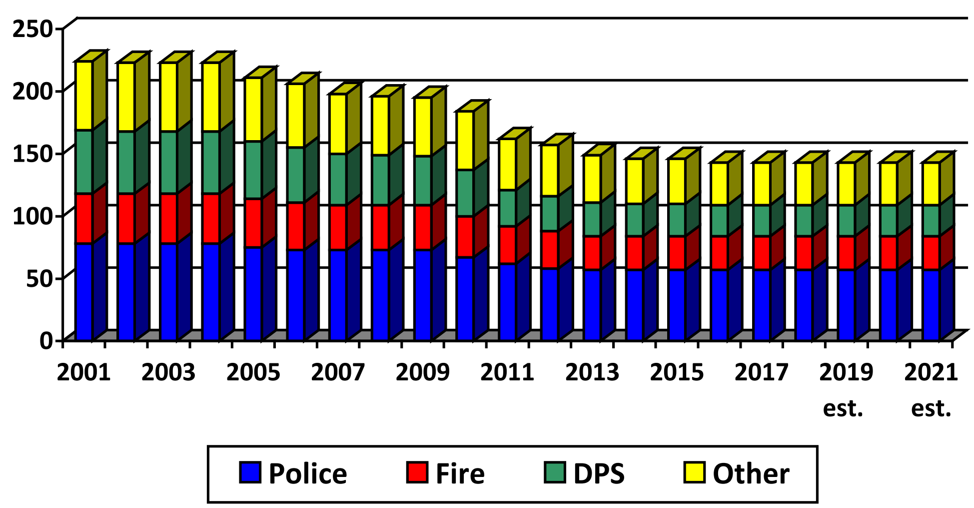
From 2009 until 2016, the City enacted a number of measures to keep operational expenditures in line with its declining revenues. Expenditures in the forecast are estimated to be $28.2 million for Fiscal Year 2018, $28.4 million in Fiscal Year 2019, $27.7 million in Fiscal Year 2020, and $27.6 million in Fiscal Year 2021. This is still lower than 2008 when the city ended the year with actual expenditures of $31.4 million. These expenditures are made up of personnel services, supplies, other services, and capital outlay.

Personnel Categories

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

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

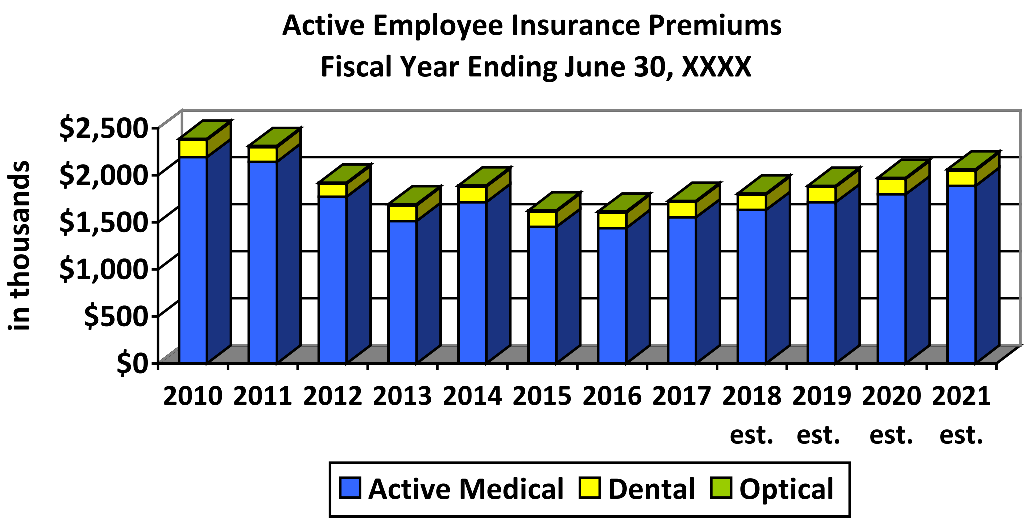
Budgeted Full-Time Positions
Fiscal Year Ending June 30, XXXX



Expenditures related to negotiated salaries are not included in the forecast due to all the unions in the City have contracts that expire June 30, 2017. For estimating purposes, the forecast assumes status quo with wages and benefits for years beyond the union contract periods.

Because of the volatility of health care costs, this forecast assumes rate increases in excess of inflation. Based on estimates from the City's health care consultant and national and state trends, health insurance is forecasted to increase an average of 5.0% during the forecasted years. The City is hopeful that the initial positive results from the implementation of the MiLife Employee Health and Wellness Center continue into future years. This center opened in January 2015 and first year results show a savings of almost $30,000. 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.

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



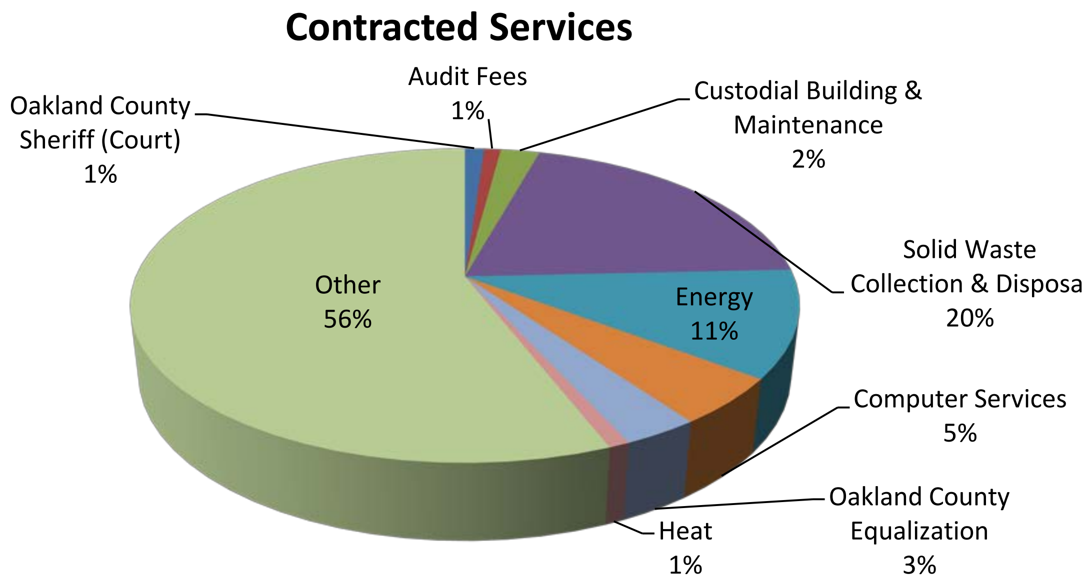
As mentioned previously in this report, the most significant expenditure issue included in the forecast relates to unfunded accrued liabilities. Unfunded accrued liabilities refer to employee pensions and other post-employment benefits.

Starting in FY 2015, municipal employers who provide defined benefit pensions and retiree health care benefits were required to recognize their unfunded obligations as a liability and must comprehensively measure and report the annual cost of pension. FY 2017 will require this same recognition for OPEB benefits. As a result of implementing these new standards, the City's net position will decrease from $82.9 million to $7.7 million. It is important to note that the majority of this $82.9 million net position is actually fixed assets that cannot be sold such as roads, watermains, sewer lines and buildings such as City Hall.

<u>Supplies</u>

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

The City's Solid Waste Contractor, Rizzo Services, is currently operating under a ten-year contract which began on July 1, 2010. In accordance with the contract, Rizzo has held the same price through year 5 which is Fiscal Year 2014-15. In Fiscal year 2016 there was a 6.8% increase, but no contractual increase in Fiscal Year 2017. The remainders of the forecast years increase 1.4% in Fiscal Year 2018, 1.48% in 2019 and 1.579% in 2020, and status quo for 2021 based on contractual pricing.

Capital Outlay Summary

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

The five-year forecast includes all of the capital outlay items contained in the Capital Improvement Plan (CIP) and included in the FY 2017 budget. Capital Outlay items recommended in the budget will depend on current year needs and available funding. A detailed listing will be presented when Council receives and files the CIP in early January.

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

Total - Computers	$ 19,000	$ 95,000	$ 95,000	$ 95,000	$ 95,000
Machinery and Equipment:					
Court	$ -	$ -	$ -	$ -	$ -
Streets	-	-	70,000	-	-
Solid Waste	-	-	-	-	-
Police	-	-	-	-	-
Fire	-	-	-	-	-
Total - Machinery and Equipment	$ -	$ -	$ 70,000	$ -	$ -
Vehicles - Proposal "V":					
Police	$ 57,000	$ 86,000	$ 56,000	$ 56,000	$ -
Fire	-	34,000	-	250,000	250,000
Parks	-	-	-	-	-
Streets	-	-	598,000	-	165,000
Subtotal - Proposal "V"	$ 57,000	$ 120,000	$ 654,000	$ 306,000	$ 415,000
Vehicles - Non-Proposal "V":					
Police	$ 57,000	$ 86,000	$ 115,000	$ 115,000	$ 86,000
Fire	-	35,000	270,000	-	270,000
Streets	-	514,000	-	165,000	-
Seniors	-	-	-	-	200,000
Solid Waste	75,000	575,000	75,000	-	-
Parks	220,000	131,000	267,000	-	-
Subtotal - Non-Proposal "V"	$ 352,000	$ 1,341,000	$ 727,000	$ 280,000	$ 556,000
Total - All Vehicles	$ 409,000	$ 1,461,000	$ 1,381,000	$ 586,000	$ 971,000
Improvements:					
Court	$ -	$ -	$ -	$ -	$ -
Gen Admin	-	303,000	238,000	239,000	-
Police	189,000	110,000	50,000	50,000	-
Fire	85,000	155,000	75,000	-	-
Nature Center	-	-	-	-	-
Parks	70,000	116,000	75,000	75,000	292,000
Senior Center	-	100,000	-	-	-
Library	50,000	-	-	-	-
Total - Improvements	$ 394,000	$ 784,000	$ 438,000	$ 364,000	$ 292,000
Total - All Items	$ 822,000	$ 2,340,000	$ 1,984,000	$ 1,045,000	$ 1,358,000
All Items Less Proposal "V"	$ 765,000	$ 2,220,000	$ 1,330,000	$ 739,000	$ 943,000

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.

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.

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 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
Joint & Crack Sealing – City Wide	$75,000	$75,000	$75,000	$75,000	$75,000
13 Mile Sectional NHPP – 13 Mile WB from Hales to Dequindre	$240,000	0	0	0	0
Campbell 12-13 Mile Curb Repairs/Sectional	24,000	0	0	0	0
Traffic Signals	30,000	30,000	30,000	30,000	30,000
11 Mile Sectional – John R to Dequindre	200,000	100,000	100,000	100,000	0
Stephenson Hwy Turnarounds	50,000	50,000	50,000	50,000	50,000
Edward – Mandoline to Whitcomb	50,000	0	0	0	0
Sectional Repairs	250,000	350,000	300,000	200,000	200,000
Total	**$919,000**	**$605,000**	**$480,000**	**$380,000**	**$280,000**

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

Also not included in the forecast is the first phase of the I-75 Modernization Project projected to start in FY 2019. The State of Michigan, though the Michigan Department of Transportation (MDOT), originally announced an intent to use regional road improvement funds to finance the I-75 widening project from 8 Mile to M-59. Since this original announcement the State has suggested they are reviewing other funding options that will be more equitable to all cities. The details or official approval of a different funding mechanism has not yet been disclosed. Without another funding option, the local match of $800,000 would be required from the City in FY 2019. Future project segments include local costs of $425,000 in FY 2024 and $2,800,000 in FY 2026. The funding structure established through Act 51 to fund this project will significantly impact the City's major road funds for years before, during and after construction.

Local Street Fund Assumptions

Major Revenues

The primary funding source for Local Streets is the dedicated Proposal "R-2" Neighborhood Roads Millage and, starting in FY 2018, the recently approved Proposal “R-3” millage renewal, which was approved for ten years. Funds collected under this road millage have the same assumption as General Fund property tax revenues of 1% per year.

Local Streets also receives funds through the Act 51 road program from the State. For the five years of this forecast, it is anticipated that funding will increase based on projection from the state to include the new State restricted revenue package.

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 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20	Forecast 2020-21
Traffic Signal Improvements	$30,000	$30,000	$30,000	$30,000	$30,000
Neighborhood Roads					
Dei – Lincoln to Southend	$0	$1,010,000	$0	$0	$0
Hales – 13 Mile to Winthrop	0	321,000	0	0	0
Madison - Millard to 31605 Madison	328,000	0	0	0	0
Meadows - Whitcomb to 31608 Meadows	321,000	0	0	0	0
Dorchester - 13 Mile to Windemere	87,000	0	0	0	0
Kenwood - Millard to 31601 Kenwood	286,000	0	0	0	0
Moulin	450,000	0	0	0	0
Windemere - Dorchester to Edgeworth	295,000	0	0	0	0
Sidewalk Replacement	20,000	0	0	0	0
Harlo	275,000	369,000	0	0	0
Sectional Replacements	256,000	75,000			
Additional Proposal R-2 and future R-3 projects	0	0	1,700,000	1,582,103	1,613,920
Total	**$2,348,000**	**$1,805,000**	**$1,730,000**	**$1,582,103**	**$1,613,920**

At June 30, 2016, the fund balance for the Local Street Fund was $2.5 million. Of this amount, $2.3 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 2018 which will be incorporated in the budget process and budget recommendation presented to Council.

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

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 will not affect the total amount charged for stormwater, but will more accurately reflect the differential between sanitary and stormwater usage.

Major Expenditures

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

Purchase of Commodities

As briefly mentioned under revenues, the City has not yet received the actual rate increase from the GLWA or the Oakland Water Resources Commissioner. The forecast assumes an increase of 4% per year for each of the forecast years for water and 4% for sewage treatment and stormwater services. This percentage is based on trends as historically the rates have been higher than 6% per year.

Infrastructure

The Water and Sewer Fund structure has ensured that adequate funding is available to proactively address watermain replacements in the upcoming four years in coordination with the road improvement projects, assuming a continuation of the residential road millage in FY 2018. (Watermain replacement is completed in the fiscal year prior to road construction. Therefore, for road millage projects to be completed in FY 2018, watermains must be estimated in fiscal year 2017.) In addition, the forecast includes watermain replacement in areas outside the R-3 construction project areas where the older main is in critical need of replacement.

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

Debt Service

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

	Projected 2016-17	**Forecast 2017-18**	**Forecast 2018-19**	**Forecast 2019-20**	**Forecast 2020-21**
Bond Principal Payment – GWK	$729,572	$752,731	$768,013	$785,919	$803,832
Bond Principal Payments – Fixed Network system	95,000	100,000	105,000	110,000	115,000
Bond Principal Payments – Pension Obligation Bonds	130,800	97,200	98,400	100,200	101,400
Bond Interest Payment – GWK	171,059	154,827	134,530	116,416	97,920
Bond Interest Payments – Fixed Network System	39,988	36,900	33,400	29,725	25,600
Bond Interest Payments – Pension Obligation Bonds	11,945	45,484	44,288	42,832	41,129
Total	**$1,033,141**	**$1,035,619**	**$1,036,078**	**$1,035,082**	**$1,035,536**

At June 30, 2016, the Water and Sewer Department had built up an unrestricted net position of $9.3 million dollars. Without any changes to revenues and expenses, the cash position will be ($1.4) million at the end of the forecast period.