

General Fund

Revenue and expenditures related to the general operations of the City except for street maintenance, utilities operation, waste collection, special activities, and major capital projects are accounted for in the General Fund. These (General Fund) activities include; City Council, Mayor, City Manager, Elections, Assessor, City Attorney, City Clerk, Treasurer, Public Rights of Way, Public Buildings, Public Safety, Public Works, Parks and Recreation and Forestry.

The primary sources of operating revenue to fund activities within the General Fund are property taxes and state shared revenues. The City Charter limits property tax rates to 10 mills (ten dollars per \$1,000 of taxable valuation). State law limits the City's annual growth in taxable valuation and its taxing authority. The City's net [of the Downtown Development Authority ("DDA") capture] taxable valuation for fiscal year 2008/2009 is \$82,717,247.

The primary source of state shared revenues is sales tax collected by the State of Michigan and redistributed to local units of government on a formula basis. Fees, permits, investments, and other miscellaneous sources generate the balance of operating revenue.

Revenues - General Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$1,295,606 — 4.8% less than the \$1,360,849 projected to be received for fiscal 2007/2008. There is no grant funding budgeted this year to assist in the development of capital projects. Investment revenue is projected to be \$21,233¹.

The taxable valuation for all parcels (inclusive of the DDA district) in the City is expected to increase 0.33% for fiscal 2008/2009. Property tax revenue to the General Fund will increase \$688 or 0.09% for fiscal year 2008/2009².

The trend of declining state shared revenues³ will continue through fiscal year 2008/2009. This trend began in 2001 and it is presently fueled by the soft national and state economies and the State's overall financial condition.

¹ Based on present market conditions the projected return on investment is expected to average 2.0% versus an average of almost 5% during fiscal year ended June 30, 2008. Fiscal year 2008/2009 investment revenue is expected to be 66.3% less than what is projected to be received in fiscal year 2007/2008.

² Due to the severely distressed real estate market, the equalization factor applied to property assessments for fiscal year 2008/2009 reduced the City's state equalized valuation ("SEV") and resulted in virtually no increase in the City's taxable value.

³ The City now receives \$104,105 (21.7%) less state revenue sharing per year than it was receiving in the fiscal year that ended June 30, 2001. The shortfall in revenue sharing is the equivalent of 1.26 mills of taxation based on 2008/2009 net taxable valuation.

Expenditures - General Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$1,268,918, which is a (*decrease*) of 6.8% versus *projected* fiscal 2007/2008 expenditures. The *approved* versus *projected* (*decrease*) in operating expenditures is primarily due the one-time supplemental payment in the amount of \$120,000 to the Michigan Employee's Retirement System to pay down the City's unfunded pension liability which was paid in fiscal year 2007/2008.

The various activities within the General Fund budget grouped by function are; *Legislation and Citizen Participation* — includes the City Council, the office of the Mayor and Elections — *General Administration* — includes the offices of the City Manager, City Clerk, City Treasurer, City Attorney, the City Assessor and Accounting & Audit — *Public Safety* — includes the Police and Fire activities — *Parks & Public Facilities* — includes City Hall, Forestry, Community Relations and Parks & Recreation — *Public Works* — includes Public Works, Sidewalk Repair/Construction, Public Rights of Way, and Street lighting — *Boards & Commissions* — includes Planning Commission, Board of Review and Zoning Board of Appeals.

A portion of the personnel expenses related to the offices of the City Manager, City Clerk, and the City Treasurer are distributed to activities within other funds commensurate with the administrative responsibility and oversight dedicated to those activities.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — \$16,500 in capital projects and purchases have been budgeted for fiscal year 2008/2009. The proposed capital expenditures include upgrading lighting at City Hall to reduce energy consumption and the amount of maintenance required for the lighting fixtures.

Sidewalk repair and replacement and forestry activities will again be limited in fiscal year 2008/2009. The General Fund will not receive grant funding this fiscal year to undertake any major public park improvements.

The rate of increase in the cost of providing health insurance and other benefits charged to the General Fund is beginning to stabilize due to changes in benefit policies implemented over the past four to five years.

■ ***Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:***

- City Attorney – Based on recent trends the budget for this activity will (*decrease*) \$7,500 or 27.3%.
- Planning/Zoning - The Planning Commission will continue its comprehensive review of the City's Zoning Ordinance and the budget for this activity will increase \$625 or 19.2%.
- Sidewalk Maintenance – Sidewalk repair and maintenance will be limited to critical areas of concern. The budget for this activity will (*decrease*) by \$3,559 or 19.7%.

- Insurance and Benefits – A supplemental payment to the Michigan Municipal Employees Retirement System in the amount of \$120,000 was paid in fiscal year 2007/2008 which will not be paid in fiscal year 2008/2009. Due to a change in the census of present retirees post-retirement health insurance costs will decline. The budget for this activity will (*decrease*) by \$127,230 or 32.0%.
- Capital Projects – The budget for this activity includes a phase retrofit of the lighting in City Hall and will increase by \$11,500 or 230.0%.
- Inter-Fund Transfers – It is anticipated that the inter-fund transfer to the Inspections Fund will increase by \$3,891 or 14.4%.

Based on projected gross revenue (from all sources) of \$1,295,606 and gross expenditures (including transfers and capital) of \$1,316,264 the General Fund will (*decrease*) its cash position by \$20,658. Base on approved operating expenditures of \$1,268,918 and operating revenues estimated at \$1,274,373 the projected operating margin is \$5,456.

Assuming a beginning cash position in fund balance of \$1,061,634 — the General Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$1,040,976. Consistent with the City Council's Fund Reserve Policy⁴, \$467,229 of the projected fund balance is reserved leaving \$573,747 available for discretionary appropriation by action of the City Council.

⁴ The City Council has designated an operating and contingency reserve for the General Fund in the amount equal to three months of the anticipated annual operating expenditures plus \$150,000 for contingencies.

Major Street Fund

Revenue and expenditures related to eligible maintenance and construction activities upon streets within the public rights-of-way designated as “Major” streets under Michigan Public Act 51 are accounted for in the Major Street Fund.

These maintenance activities are primarily funded with gas and weight tax collected by the State of Michigan and redistributed (by formula) to eligible public agencies. The distribution formula is based on population, street mileage, and functional classification.

The State Legislature establishes the funding formula and other guidelines related to a significant portion of the funding for maintenance and construction of state, county and local highway, road and street systems.

Presently, there are 6.52 miles of major streets within the City including — all or portions of Woodside, Borton, and Nebobish Avenues and Pine, Main, Saline, Mercer, Langstaff, Prairie, Hudson, and Scheurmann Streets.

Revenues - Major Street Fund revenue, from all categorical sources (including inter-fund transfers and investments) is projected to be \$516,207 — 200.7% more than the \$171,685 projected to be received in fiscal 2007/2008. Investment revenues are projected at \$1,560.

Expenditures - Major Street Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* to be \$151,571 — an increase of 3.2% from *projected* fiscal 2007/2008 expenditures. This difference between the *approved* versus the *projected* operating expenditures reflects projected inflationary increases primarily in the cost of fuel and street maintenance materials.

The Department of Public Works’ maintenance work plan for the year is the framework for the allocation of expense related to major street activities. Staff attempts to budget overall street, utility, and general public works activities to the appropriate “cost centers” within the various activities and funds. Construction and major reconstruction of the street system is typically, but not always, accounted for in the Capital Projects Fund.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — \$360,000 in capital projects has been budgeted for fiscal year 2008/2009. Capital expenditures include the reconstruction of three rail crossings, non-motorized improvements in the street right-of-way and the development of an Asset Management Plan⁵.

⁵ Recent changes in state law permit the City to transfer up to 100% of its Act 51 revenue from the Major Street Fund to the Local Street Fund if needed provided the City adopts a state approved Asset Management Plan.

■ **Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:**

- Storm Drainage - The allocation of labor and materials for this activity is based on the annual work plan and compliance activities related to the City's stormwater discharge permit. The budget for this activity is will (*decrease*) by \$2,835 or 11.5%.
- Traffic Services - The allocation of labor and materials for this activity is based on the annual work plan. The budget for this activity will (*decrease*) by \$1,458 or 10.7%
- Maintenance - The allocation of labor and materials for this activity is based on the annual work plan. The budget for this activity will increase by \$11,372 or 45.3%.
- Administrative Services – Based on the allocation of the administrative cost to support the Major Street Fund the budget for this activity will (*decrease*) by \$1,579 or 9.7%.
- Insurance and Benefits – Based on the cost of benefits and the allocation of labor to the Major Street Fund the budget for this activity will increase by \$5,111 or 20.4%.
- Capital Projects – It is anticipated that the City will facilitate, through its budget and accounting system, a state grant for the local railroad company to reconstruct three rail crossings and undertake other improvements within the City. The budget for this activity will increase by \$350,000 or 3500.0%.

Based on gross revenue (from all sources) of \$516,207 and gross expenditures (including transfers and capital) of \$552,225 the Major Street Fund will (*decrease*) its cash position by \$36,018. However, with approved operating expenditures of \$151,571 and operating revenues estimated at \$164,647 the operating margin is \$13,076.

Assuming a beginning cash position in fund balance of \$77,984 — the Major Street Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$41,965. Consistent with the City Council's Fund Reserve Policy⁶, all of the fund balance will be available for discretionary appropriation by action of the City Council.

⁶ The City Council policy does not specify an operating or contingency reserve for the Major Street Fund at this time.

Local Street Fund

Revenue and expenditures related to eligible maintenance and construction activities upon streets within the public rights-of-way designated as "Local" streets under Michigan Public Act 51 are accounted for in the Local Street Fund.

These maintenance activities are primarily funded with gas and weight tax collected by the State of Michigan and redistributed (by formula) to eligible public agencies. The distribution formula is based on population, street mileage, and functional classification.

Presently, there are 11.22 miles of local streets in the City's street system. Despite the local street mileage being almost twice the major street mileage, the Act 51 funding formula allocates significantly less money for local streets than for major streets. This results in a shortfall of revenue from this source to cover the annual maintenance of this part of the street system.

Generally, the Local Street Fund receives a transfer of funds from the Major Street Fund to cover the anticipated operating and maintenance expenses for the local street system.

Revenues - Local Street Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$100,888 — 13.9% more than the \$88,580 that is projected to be received in fiscal 2007/2008. The Local Street Fund will receive a \$40,000 inter-fund transfer⁷ from the Major Street Fund. Investment revenue is projected to be \$1,226.

Expenditures - Local Street Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$136,522 — 38.4% more than *projected* fiscal 2007/2008 operating expenditures. There is no capital expenditure budgeted for fiscal 2008/2009. The Department of Public Works' projected allocation of labor and materials by for fiscal year 2008/2009 accounts for the significant difference between the *approved* versus *projected* expenditures.

Allocation of expenses related to local street activities is based on the Department of Public Works' maintenance work plan for the year. Staff attempts to budget overall street, utility, and general public works activities to the appropriate "cost centers" in the various activities and funds.

⁷ Transfers between the Major and Local Street Fund are permitted by law. These transfers are made periodically to cover the shortfall in state funding for Local Street system maintenance that the City receives from its share of gas and weight taxes that is distributed to eligible governmental agencies based on a formula set by the state legislature.

■ **Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:**

- Storm Drainage - The allocation of labor and materials for this activity is based on the annual work plan. The budget for this activity will (*decrease*) by \$5,403 or 18.9%.
- Traffic Services - The allocation of labor and materials for this activity is based on the annual work plan. The budget for this activity will (*decrease*) by \$2,361 or 26.0%.
- Administrative - Based on the allocation of the administrative cost to support the Local Street Fund the budget for this activity will (*decrease*) by \$906 or 16.1%.
- Insurance and Benefits – Based on the cost of benefits and the allocation of labor to the Local Street Fund the budget for this activity will increase by \$5,462 or 17.8%.

Based on gross revenue (from all sources) of \$100,888 and gross expenditures (including transfers and capital) of \$137,206 the Local Street Fund will (*decrease*) its cash position by \$36,318. However, with approved operating expenditures of \$136,522 and operating revenues estimated at \$59,662 the Local Street Fund will have an operating deficit of \$76,860. The operating deficit will be made up with an inter-fund transfer from the Major Street Fund and fund balance.

Assuming a beginning cash position in fund balance of \$61,311 — the Local Street Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$24,993. Consistent with the City Council's Fund Reserve Policy⁸, all of the fund balance will be available for discretionary appropriation by action of the City Council.

⁸ The City Council policy does not specify an operating or contingency reserve for the Local Street Fund at this time.

Rubbish and Trash Fund

Revenue and expenditures related to the collection and disposal of residential and commercial rubbish, brush, leaves, and yard waste and recycling services are accounted for in the Rubbish and Trash Fund.

Residential and commercial properties within the City are assessed user fees, which finance rubbish, trash, yard waste and curb-side recycling services. Residential properties are charged a fixed quarterly fee⁹ for these services. Commercial properties pay a fee based on the level of service received.

The City Council approved a millage levy of .900 mills to fund brush and bulk trash pickup services in fiscal 2008/2009. The Department of Public Works provides the supplemental services that are outside of the City's general contract for waste collection services.

The City contracts with a private firm for rubbish collection, yard waste pickup, and recycling services. The Department of Public Works manages brush and bulk trash collection.

Revenues - Rubbish and Trash Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$328,593 — 8.9% more than the \$301,814 projected to be received in fiscal 2007/2008¹⁰. Investment revenue is projected to be \$36.

Expenditures - Rubbish and Trash Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$319,617 — an increase of 9.6% from *projected* fiscal 2007/2008 operating expenditures. The *approved* versus *projected* expenses in Rubbish and Trash Fund operating expenditures reflects an anticipated fuel adjustment increase in costs under the City's city-wide waste collection and recycling services contract and general inflationary increases related to the service.

■ **Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:**

- **Administrative** - Based on the allocation of the administrative cost to support the Rubbish and Trash Fund the budget for this activity will increase by \$1,898 or 23.4%.
- **Rubbish Collection** – Primarily due to fuel adjustment factor applied to the base cost for waste collection services under the terms of the City's contract with Waste Management, the budget for this activity will increase by \$31,077 or 13.6%.

⁹ The fee approved by the City Council and effective September 2008 is \$37.00 every three months.

¹⁰ The City projects receiving additional revenue from an increase in rates that will be necessary to cover increased fuel adjustment costs anticipated under the terms of a new waste collection contract.

- Brush and Leaves – The allocation of labor and materials for this activity is based on the annual work plan. The budget for this activity will (*decrease*) \$7,723 or 25.3%.
- Inter-Fund Transfers – The projected inter-fund transfer to the Fringe Benefit Fund will increase by \$51 or 11.0%.

Based on gross revenue (from all sources) of \$328,593 and gross expenditures (including transfers and capital) of \$320,134 the Rubbish and Trash Fund will increase its cash position by \$8,459. However, with approved operating expenditures of \$319,617 and operating revenues estimated at \$328,458, the operating surplus is expected to be \$8,841.

Assuming a beginning cash position in retained earnings of \$1,796 — the Rubbish and Trash Fund is projected to end fiscal 2008/2009 with a cash position in retained earnings of \$10,256. Consistent with the City Council's Fund Reserve Policy¹¹, all of the fund balance will be available for discretionary appropriation by action of the City Council.

¹¹ The City Council Reserve Policy no longer requires an operating expense reserve to be maintained in the Rubbish and Trash Fund.

Justice Training Fund

Revenue and expenditures related to eligible¹² police training is accounted for in the Justice Training Fund.

The primary revenue source for the Justice Training Fund is an annual entitlement authorized under Act 302, public acts of 1982. This funding is derived from fines collected for civil infractions that are then redistributed to local law enforcement agencies based on the number of certified police officers in the department.

Revenues - Justice Training Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$2,676 — 2.1% less than the \$2,735 projected to be received in fiscal 2007/2008. Investment revenues are projected at \$176.

Expenditures - Justice Training Fund operating expenditures are *approved* at \$2,500 — 6.4% more than *projected* fiscal 2007/2008 operating expenditures.

Based on gross revenue (from all sources) of \$2,676 and gross expenditures of \$2,500 the Justice Training will increase its cash position by \$176. However, with approved operating expenditures of \$2,500 and operating revenues estimated at \$2,500 the operating margin will be even.

Assuming a beginning cash position in fund balance of \$8,824 — the Justice Training Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$9,000. Consistent with law, all of the fund balance must be reserved for eligible expenditures and training activities.

¹² The Department of Public Safety provides ongoing police training for its public safety officers to maintain proficiency and as required by law. The Michigan Commission on Law Enforcement Standards (“MCOLES”) certifies training eligible to be paid with Act 302 funds.

Bond Debt Service Fund

Revenue and expenditures related to debt service for the issuance of general obligation bonds used to fund the construction of water, sewer, and storm drainage and related street improvements as approved by voters in August 1999 is accounted for in the Bond Debt Service Fund.

Revenues – Bond Debt Service Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$423,596. The City Council will levy 5.1123 mills in fiscal year 2008/2009 for debt service. Investment revenue is projected to be \$370.

Expenditures - Bond Debt Service Fund operating expenditures for all activities are *approved* at \$422,876.

Based on gross revenue (from all sources) of \$423,596 and gross expenditures of \$422,876 the Bond Debt Service Fund will increase its cash position by \$720.

Assuming a beginning cash position in fund balance of \$18,479 — the Bond Debt Service Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$19,199.

Capital Projects Fund

Revenue and expenditures related to major public infrastructure improvements are accounted for in the Capital Projects Fund.

The Fund acts as a revolving fund to account for revenue and expenditures necessary to construct major infrastructure projects.

Revenues - Capital Projects Fund revenues from all categorical sources (including inter-fund transfers and investments) is projected to be \$75¹³ — 28.6% less than the \$105 that is projected to be received in fiscal 2007/2008.

Expenditures - Capital Projects Fund expenditures for all activities (excluding inter-fund transfers) are *approved* at \$0 — non change from *projected* fiscal 2007/2008 expenditures.

Based on gross revenue (from all sources) of \$75 and gross expenditures of \$0 the Capital Projects Fund will increase its cash position by \$75.

Assuming a beginning cash position in fund balance of \$3,763 — the Capital Projects Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$3,838. Consistent with voter approval of the bond issue the entire fund balance is reserved for construction of water, sewer, drainage, and related street improvements.

¹³ The bonds authorized by voters in 1999 have been sold and the proceeds collected. All but a minimal amount of the proceeds collected from the sale of the infrastructure bonds have been expended on authorized projects. The only revenue source for this revolving fund in fiscal 2008/2009 will be a small amount of investment income.

Inspections Fund

Revenue and expenditures related to protective inspections and zoning administration are accounted for in the Inspections Fund.

This fund was created pursuant to 1999 amendments to the State Construction Code Act (Act 230, Public Acts of 1972.) Revenues sources include building, electrical, plumbing, and mechanical permits and a transfer from the General Fund. The General Fund previously accounted for all revenue and expenses related to protective inspections and zoning administration.

Revenues Inspections Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$28,241 — an increase of 9.9% from the \$25,698 that is projected to be received in fiscal 2007/2008. An inter-fund transfer from the General Fund is proposed at \$20,941. There is no investment revenue projected.

Expenditures Inspections Fund operating expenditures for all activities are *approved* at \$28,141 — 9.5% more than *projected* fiscal 2007/2008 expenditures.

■ ***Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:***

- Administrative - Based on the allocation of the administrative cost to support the Inspections Fund the budget for this activity will increase by \$1,009 or 14.2%.
- Electrical Inspector – Based on historical trends the budget for this activity will increase by \$500 or 14.0%.

Based on gross revenue (from all sources) of \$28,241 and gross expenditures of \$28,141 the Inspections Fund will increase its cash position by \$100.

Assuming beginning cash position in retained earnings of \$112 — the Inspections Fund is projected to end fiscal 2008/2009 with a cash position in retained earnings of \$212.

Sewer Fund

Revenue and expenditures related to the operation and maintenance of the sewer collection system and the wastewater treatment plant. Operation, maintenance, and debt expense related to the treatment and collection systems is paid by utility rates assessed to residential, commercial, and industrial sewer customers.

The wastewater treatment plant discharges into the Saginaw River within the requirements set forth in its Federal National Pollution Discharge Elimination System (“NPDES”) permit. The sewer collection system is 65% combined — collecting both wastewater and storm water — that imposes further state and Federal restrictions on the City in managing its combined sewer overflows.

Revenues. Sewer Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$793,480¹⁴ — 26.9% more than the \$625,260 that is projected to be received in fiscal 2007/2008. Investment revenue is projected to be \$8,280. Revenue estimates are based on a billed consumption of 115,000 hundred cubic feet (“CCF”) units.

Expenditures. Sewer Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$767,255 — an increase of 18.9% over *projected* for fiscal 2007/2008 operating expenditures.

The City is continuing the engineering study required by the terms of the National Pollutant Discharge Elimination System (“NPDES”) permit and the aggressive maintenance/cleaning program in the collection system.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — \$10,000 in capital projects and purchases have been budgeted for fiscal 2008/2009.

■ ***Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:***

- Administrative - Based on the allocation of the administrative cost to support the Sewer Fund the budget for this activity will increase by \$5,868 or 12.3%.

¹⁴ It is anticipated that the City will receive up to \$175,000 from a grant awarded to the City in 2006 which will reimburse the City for its project planning costs related to improvements that have been mandated by the Michigan Department of Environmental Quality (“MDEQ”) at the wastewater treatment plant.

- Treatment Plant – The second phase of the project planning for proposed improvements to the wastewater treatment plant will be undertaken in fiscal year 2008/2009. Due operational and staffing changes at the wastewater treatment plant, it is anticipated that the operations consultant will continue to be used through this fiscal year¹⁵. The budget for this activity will increase by \$78,813 or 23.5%.
- Capital Projects – Limited capital projects and purchases will be undertaken this fiscal year. The budget for this activity will (*decrease*) by \$10,000 or 50.0%.
- Inter-Fund Transfers - The projected inter-fund transfer to the Fringe Benefit Fund will increase by \$215 or 17.0%.

Based on gross revenue (from all sources) of \$793,480 and gross expenditures (including transfers, debt service, depreciation and capital) of \$778,732 the Sewer Fund will increase its cash position (factoring in the impact of depreciation expense) by \$79,748. However, with approved operating expenditures of \$767,255 and operating revenues (excluding investment revenue) estimated at \$609,950; the operating loss is expected to be \$157,305.

Assuming beginning cash position in retained earnings of \$413,992 — the Sewer Fund is projected to end fiscal 2008/2009 with a cash position in retained earnings of \$493,740. Consistent with the City Council's Fund Reserve Policy¹⁶, \$341,814 of the cash retained earnings will be designated as reserved.

¹⁵ The former Director of Public Works has provided administrative and operational oversight of the wastewater treatment on a consultant basis since his retirement in 2006.

¹⁶ The City Council has designated an operating and contingency reserve for the Sewer Fund in the amount equal to three months of the anticipated annual operating expenditures plus \$150,000 for contingencies.

Water Fund

Revenue and expenditures related to meter reading, utility billing, purchase of water and maintenance and operation of the distribution system are accounted for in the Water Fund. Operation and maintenance expense related to the water system is paid by utility rates assessed to residential, commercial, and industrial water customers. In addition to consumption charges, water customers pay a quarterly “meter charge” based on the size of the water meter that is used to fund meter replacement and maintenance.

The City purchases its water supply from the City of Bay City. Presently, the City’s water distribution system is connected to Bay City’s distribution system at the west city limits and to Hampton Township’s system at the east city limits. The per unit charge to the City for the purchase of water — and to all other governmental units in the Bay City System — is adjusted annually following an audited “true-up” process.¹⁷

Under a separate agreement with Hampton Township, Essexville pays the township an annual ready-to-serve charge and water tower maintenance charge for its connection to the township’s water system.

Revenues. Water Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$515,552¹⁸ — 3.4% more than is projected to be received in fiscal 2007/2008. Investment revenue is projected to be \$2,952. Revenue estimates are based on a billed consumption of 120,000 hundred cubic feet (“CCF”) units.

Expenditures. Water Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$510,547 — an increase of 7.1% from *projected* fiscal 2007/2008 operating expenditures. The difference in *approved* versus *projected* Water Fund expenditures is due to the anticipated increase in the wholesale cost of water and inflationary increases in energy, services and supplies.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — \$20,000 in capital projects and purchases have been budgeted for fiscal 2008/2009. Proposed projects include residential meter and fire hydrant replacement.

¹⁷ The City of Bay City is continuing to evaluate the use of the system-wide master meters which were installed in 2004. The effect using the master meters for billing the out-city customers is unknown at this time specifically its impact on wholesale water rates which is the single largest cost center in the Water Fund.

¹⁸ The City Council approved an increase in the water commodity charge to \$3.75 per CCF at its June 2008 meeting. The increase will take effect with bills that are due September 20, 2008.

■ **Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:**

- Administrative - Based on the allocation of the administrative cost to support the Water Fund the budget for this activity will increase by \$8,532 or 19.7%.
- Capital Projects - Water system improvements will be limited to residential meter and system hydrant replacement. The budget for this activity will (*decrease*) \$5,000 or 20.0%.

Based on gross revenue (from all sources) of \$515,552 and gross expenditures (including transfers, depreciation and capital) of \$531,966 the Water Fund will (*decrease*) its cash position (factoring in the impact of depreciation expense) by \$1,414. However, with approved operating expenditures of \$510,547 and operating revenues (excluding investment revenue) estimated at \$512,500 the operating margin is projected to be \$1,953.

Assuming beginning cash position in retained earnings of \$147,605 — the Water Fund is projected to end fiscal 2008/2009 with a cash position in retained earnings of \$146,191. Consistent with the City Council's Fund Reserve Policy¹⁹ all of the cash retained earnings will be designated as reserved.

¹⁹ The City Council has designated an operating and contingency reserve for the Water Fund in the amount equal to three months of the anticipated annual operating expenditures plus \$50,000 for contingencies.

Motor Vehicle & Equipment Fund

Revenue and expenditures related to the operation, maintenance, and replacement of city-owned vehicles and equipment are accounted for in the Motor Vehicle & Equipment Fund.

Equipment rental charges paid by the various operating departments pay the operation, maintenance, and capital cost of the City's vehicles and equipment. Rental charges are based on the state "Schedule C" which uses the actual operation, maintenance, and depreciation costs reported by Michigan's 83 County Road Commissions for various types of vehicles and equipment. The City is required to use this schedule for equipment rental charges allocated to the Major and Local Street Funds. However, the schedule is used to determine rental rates for other operating departments and activities with appropriate adjustments made based on the City's actual experience.

The Motor Vehicle & Equipment Fund owns all large vehicles and equipment for the purpose of centralized maintenance and purchasing.

Revenues. Motor Vehicle and Equipment Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$201,052 — an increase of 3.7% from operating revenues projected to be received in fiscal 2007/2008. Investment revenue is projected to be \$1,152.

Expenditures. Motor Vehicle and Equipment Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$209,432 — a (*decrease*) of 12.0% from *projected* fiscal 2007/2008 operating expenditures. The difference in *approved* versus *projected* expenditures reflects operational changes in the motor pool.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — no capital purchases have been budgeted for fiscal 2008/2009.

■ ***Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:***

- Insurance and Benefits – Based on operational changes and labor allocation the budget for this activity will (*decrease*) \$13,805 or 34.6%.

Based on gross revenue (from all sources) of \$201,052 and gross expenditures (including transfers, depreciation and capital) of \$209,985 the Motor Vehicle and Equipment Fund will (*decrease*) its cash position (factoring in the impact of depreciation expense) by \$8,934. However, with approved operating expenditures of \$209,432 and operating revenues (excluding investment revenue and sale of surplus equipment) estimated at \$171,900 the expected operating loss is \$37,532.

Assuming beginning cash position in retained earnings of \$76,778 — the Motor Vehicle and Equipment Fund is projected to end fiscal 2008/2009 with a cash position in retained earnings of \$67,844. Consistent with the City Council's Fund Reserve Policy²⁰, all of the cash portion of the projected retained earnings will be available for discretionary appropriation by action of the City Council.

²⁰ The City Council has not designated an operating or contingency reserve for the Motor Vehicle and Equipment Fund.

Fringe Benefit Fund

Revenue and expenditures related to accumulated fringe benefits that may be due an employee at the time of severance or retirement are accounted for in the Fringe Benefit Fund.

Transfers from the major operating funds of the City are used to finance the Fringe Benefit Fund.

Revenues. Fringe Benefit Fund revenue from all categorical sources (including inter-fund transfers and investments) is projected to be \$16,682 — a (*decrease*) of 3.0% from revenues projected to be received in fiscal 2007/2008. The change in revenue is attributable inter-fund transfers that are projected to be required to fund future vacation and leave liability²¹. Investment revenue is projected to be \$1,472.

Expenditures. 2008/2009 Fringe Benefit Fund expenditures are *approved* at \$16,371 — an increase of 7.8% from *projected* fiscal 2007/2008 expenditures. The *approved* versus *projected* increase is primarily due to the estimate of leave payout in fiscal 2008/2009.

Based on gross revenue (from all sources) of \$16,682 and gross expenditures of \$16,371 the Fringe Benefit Fund will increase its cash position by \$312.

Assuming a beginning cash position in fund balance of \$73,577 — the Fringe Benefit Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$73,889. Consistent with the City Council's Fund Reserve Policy, all of the projected fund balance will be reserved to fund future liability for fringe benefit severance payments.

²¹ The amount budgeted to be transferred each year assumes all employees will cash out the maximum allowable amount of unused annual sick leave.

Downtown Development Fund

Revenue and expenditures related to administration, planning, and construction of Downtown Development Authority (“DDA”) projects and improvements and other activities are accounted for in the Downtown Development Fund.

The City Council established the DDA under the authority of Act 197, Public Acts of 1975. The Essexville Downtown Development Authority manages development activity and promotes economic growth within the DDA District. A nine-member board consisting of the City Manager and eight other members governs the DDA.

The primary revenue source for the DDA Fund is a property tax levy. The DDA tax levy “captures” the growth²² in personal and real property value within the DDA district boundaries.

The DDA Board also serves as the executive board for the City's Brownfield Redevelopment Authority (“BRA”). The BRA is charged with planning and implementing development on properties in the City having contamination above acceptable limits for residential development.

Revenues. Downtown Development Fund revenue from all categorical sources (including grants, inter-fund transfers, and investments) is projected to be \$103,049 — a (*decrease*) of 2.8% from the \$106,010 projected to be received in fiscal 2007/2008. Investment revenue is projected to be \$3,026. The City Council approved a continuation of the one mil tax levy within the DDA District as recommended by the DDA Board and as permitted by law²³.

Expenditures. Downtown Development Fund operating expenditures for all activities (excluding capital expenditures and inter-fund transfers) are *approved* at \$81,814 — an increase of 16.8% from operating expenditures projected for fiscal 2007/2008. The difference in *approved* versus *projected* expenditures reflects the cost of additional consulting services related to the senior housing project.

Consistent with the six-year Capital Improvement Program - covering fiscal years 2008/2009 to 2013/2014 — \$50,000 for capital projects has been budgeted for fiscal 2008/2009.

²² The tax capture is based on growth in real and personal property above the total value of properties in the DDA District as of the 1989 tax year.

²³ Under Public Act 197 of 1975 [M.S.A. 5.3010(12)] with approval of the governing body the DDA may levy a tax of up to 2 mills on property located within the District

■ **Highlights of activity level expenditures approved for FY 2008/2009 which vary more than 10% and/or \$10,000 compared to the FY 2007/2008 budget:**

- Administrative – Based on the allocation of the administrative cost to support the Downtown Development Fund the budget for this activity will increase by \$4,242 or 23.4%.
- Capital Projects - The budget for this activity will increase \$20,000 or 66.7%.

Based on gross revenue (from all sources) of \$101,049 and gross expenditures (including transfers and capital) of \$131,814 the Downtown Development Fund will (*decrease*) its cash position by \$28,764. However, with approved operating expenditures of \$81,814 and operating revenues (excluding investment income and grants) estimated at \$99,923 the operating margin is \$18,109.

Assuming a beginning cash position in fund balance of \$151,321 — the Downtown Development Authority Fund is projected to end fiscal 2008/2009 with a cash position in fund balance of \$122,556. Consistent with the City Council's Fund Reserve Policy, all of the projected fund balance will be available for discretionary appropriation by the DDA Board will approval of the City Council.