

FINANCIAL FORECAST

(General Fund and Water and Sewer Utilities)

..... For Fiscal Years 2010/2011 through 2015/2016

Prepared by the City Manager
For Presentation to the City Council
May 2010

Executive Summary

Background

A recent “State of the Profession” survey conducted by the International City/County Management Association (“ICMA”) found that about two-thirds of the 2,200 city and county administrators that participated in the survey believe that the changes implemented to cope with the national recession and its impact on state governments across the country, represent a different way of operating that is here to stay and local governments are not going back up to where they were (financially) anytime in the foreseeable future.¹

In other words, this is the “new normal”. I concur with that assessment.

The state of Michigan’s financial condition, combined with the lingering national recession, has placed extraordinary financial pressures on local units of government in Michigan. Michigan’s financial health has been steadily declining for the past decade or more.

Given the present financial climate and the long-term financial forecast for Michigan and its political subdivisions, I believe that it is critical for the City of Essexville to adopt a long-term fiscal strategy and financial plan in order to identify and finance those services deemed by the City Council to be essential to the residents of our community.

Scope and Purpose

This analysis was undertaken to provide a starting point for the City Council, staff and community stakeholders to develop a strategic initiative to respond to these pressures and prepare for almost certain changes in how core and critical services will be provided to the community in the next five years and beyond.

The forecasts used in this report were prepared using data obtained from 1) the City’s financial records; 2) external federal, state and local government forecasts and other relevant sources and 3) the review of information available regarding state and federal legislative initiatives and actions that are likely to impact the City’s long term financial condition.

This report is a detailed five year financial forecast for the City’s General Fund and its Water and Sewer Utility funds with general observations for the combined street and other funds. The forecast does not include major capital improvements or purchases.

The scope of this analysis is more in depth and detailed than the five-year “snap shot” of these funds that is presented to the City Council each year with the City Manager’s annual budget presentation.

The financial forecast will provide the City Council and staff with the following:

- An in-depth estimate of the City’s short, medium and longer term financial condition covering fiscal years 2010/2011 through 2015/2016.
- A rational basis for identifying and evaluating cost centers and services of greatest concern.
- A framework for the development and implementation of a five-year strategic plan to maintain and finance the City’s core and critical services (as determined by priorities set by the City Council).
- A framework to establish benchmarks for financial and operational goals and objectives.

Executive Summary

The source and basis for assumptions used in the development of the financial forecasts can be found in the end notes of the report.

Fiscal Challenges Impacting Core Services

Essexville, like most Cities in Michigan, relies almost solely on (local property, state sales and state gas/weight) tax revenue to finance public safety, all administrative services and the maintenance of our street and drainage systems.

The ability for Essexville to finance these services is influenced by a number of internal and external factors including:

Limitations Placed Upon Major Revenue Sources

Property taxes

The property tax rate (millage) that Essexville is authorized to levy is limited by the Michigan Constitution, state law and its Charter. The Michigan Constitution further limits the growth in property values for purposes of taxation. The City is presently levying the maximum millage allowed by its Charter and law.

The presently depressed housing market has resulted in three years of stagnant or declining taxable value and property tax revenue. This trend is expected to continue through fiscal year 2011/2012.

State Revenue Sharing

The second largest source of revenue to the General Fund is state shared revenue. Revenue sharing distributed to local units of government *is determined by sales tax collections and annual authorization by the State Legislature.*

The amount of statutory revenue sharing received by the City of Essexville has declined since its peak in 2001[see table 2(G)]. It is projected that, in fiscal year 2009/2010, Essexville will be receiving almost 33% less revenue sharing (annually) than it received in 2001 and almost \$35,000 per year less than the City received in 1995 [see Chart 1(G)].

Without a significant turn-around in Michigan's economy and the State's overall financial condition, I believe that the statutory allocation of revenue sharing will continue to decline with the possibility that this important source of local government revenue will be eliminated altogether.

Gas and Weight Tax

The amount of gas and weight tax distributed to local units is dependent upon how much is collected and the formula set by the State Legislature under various statutes, principally Act 51, Michigan Public Acts of 1951. This is the principal source of revenue available to the City to finance street maintenance operations.

The amount of gas and weight tax distributed to local units of government has been flat and/or declining for the past several years. The Michigan Legislature has been unable to reach consensus on a fix for this significant problem.

Executive Summary

The State of Michigan's Financial Condition

Over the past decade the state of Michigan's financial condition has significantly deteriorated due, in large part, to the steady decline in jobs and tax revenue. The precipitous decline in Michigan's manufacturing sector (primarily the domestic automobile industry) is a major contributor to the change in these key economic indicators.

Michigan has lost nearly one million jobs since 2000 and the state's unemployment rate is at its highest level since 1983². Michigan's employment and economy never recovered in the past national expansion (through June 2009) and state employment levels are down 17.4% from its peak employment in June 2000³.

This significant loss in jobs, in particular good "living wage" jobs that were previously abundant in the manufacturing sector, has contributed to Michigan becoming one of the nation's poorer states. Michigan's average personal income fell from 2.1% below the national average in 2001 to 11.2% below the national average in 2008.⁴

This loss of jobs (and reduction in personal income) cuts across all sectors of Michigan's economy, including the housing market, and directly impacts revenue for state and local government which rely on income, property and sales taxes to finance general government services.

Local Economy and Demographics

The City of Essexville is principally a "bedroom community" where our residents generally commute to job opportunities within the Saginaw/Bay City/Midland Metropolitan Statistical Area ("MSA").

The City of Essexville has little industrial and commercial tax base and the significant downturn in the residential housing market has significantly impacted the City's property tax revenue. Owners of residential properties within Essexville pay over 80% of the property taxes that finance public safety and all general government services.

Population is a significant factor in the formulas that determine how the State distributes revenue sharing and gas and weight tax⁵ to eligible counties, cities, villages, and townships in Michigan. Because of the limited commercial businesses and industry within Essexville, population is also a significant factor in billable water and sewer which increases pressure on those utility rates.

From 1970 to 2000 the City of Essexville's population has declined by 24.5% from 4,990 to 3,766.⁶ The population of the City of Essexville is expected to decline another 8% (to 3,465) with the 2010 census.⁷

With the anticipated decline in (Essexville's) population coupled with the depressed housing market the present revenue shortfalls will worsen over the next few years.

Executive Summary

Response to Declining Revenues

Since 2001 the City has enacted a number of measures to keep operational expenditures in line with its declining revenues including:

Personnel

The City has reduced its full-time work force through attrition from 21 to 17; two positions in the Department of Public Works and two positions at the wastewater treatment plant ("WWTP").

The positions at the WWTP were filled with temporary employees (with limited benefits) who will work through November 2010 in anticipation of the decommissioning of the WWTP.

Subcontracted maintenance of City Hall and mowing of parks and other public facilities.

Wages and Fringe Benefits

The City has modified its Personnel Policy and negotiated changes in its two labor agreements to reduce and/or contain personnel costs including:

- Health, life and disability insurance coverage is evaluated annually
- Placed caps on the premiums the City will pay toward health insurance benefits for active employees and retirees
- Increased health insurance co-pays and deductibles for active employees and retirees
- Eliminated paid post retirement health insurance benefits for employees hired after January 2005
- Changed health insurance provider for post retirement benefits affecting Medicare eligible retiree resulting in a thirty percent savings in premiums paid by City
- Provided one-time lump sum payments in lieu of annual increases in base wage and salary rates

Infrastructure and Equipment

Sidewalk repair and replacement and street tree planting and removal have been limited to sidewalks and trees deemed to pose a hazard to the public.

The City's fleet of maintenance equipment has been and will continue to be downsized.

The purchase of new equipment has been deferred and purchasing rebuilt equipment when replacement is required will be considered where feasible.

Energy efficiency improvements have been implemented at City Hall and the Department of Public Works which have reduced costs.

Executive Summary

Conclusion

Options available to the City to further reduce expenditures without significantly reducing or eliminating present core services are very limited.

The decline in the City's taxable value will likely continue through fiscal year ending June 2012. The annual rate of increase in taxable value may not return to its historical levels of around 3% until after fiscal year ended June 2016.

This slow recovery in the annual rate of growth of the City's tax base will also require the City Council to levy additional authorized millage to maintain waste collection services and to meet the City's debt retirement obligations for the voter approved infrastructure bonds which will increase the local tax burden.

Based upon the revenue and expenditure forecasts detailed in this report, the City of Essexville will not be able to sustain the present level of services financed by the General Fund beyond the 2013/2014 fiscal year without finding additional revenue or reducing fund balance to critically low levels. If statutory revenue sharing is further reduced (beyond anticipated reductions due to census adjustments) or eliminated by the Legislature, the City will be forced to make significant adjustments in services.

Water and sewer utility rates will continue to rise in the face of a declining rate base, inflationary increases and additional debt service for sewer improvements. However, sewer rates should remain fairly stable for four to five years.

Street maintenance activities, such as sweeping and snow removal will have to be reduced if the Legislature does not take action within the next two years to shore up transportation funding.

Based upon the foregoing and the present economic indicators, it is imperative that the City prepare and implement a strategic initiative to proactively and responsibly adjust to the "new normal" with respect to its finances and delivery of municipal services.

General Fund

All revenue and expenditures related to the general operations of the City 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)⁸. State law further limits the City's annual growth in taxable valuation and its taxing authority. Presently the City Council levies 9.7266 mills for general operating purposes, the maximum allowed by the City Charter and law.

The General Fund has been impacted by the downturn in the economy and falling housing prices more than any of the City's other major operating funds.

The proposed General Fund budget for fiscal year 2010/2011 projects \$1,191,676 in revenue and \$1,280,686 in expenditures. The shortfall of revenue needed to cover expenses will be made up from fund balance. The General Fund will end fiscal year 2010/2011 with a cash balance of approximately \$1 million.

Revenue from property taxes has been stagnant or declining for the past three years and state shared revenue has been declining since 2001.

The City's taxable value (which determines the amount of property taxes the City is authorized to collect) cannot exceed its state equalized value ("SEV"). For fiscal year ended June 30, 2011 there will be a 1% difference between the City's SEV and its taxable value.

In the fiscal year ended 2005 the City's SEV was 18.2% higher than its taxable value.

The primary effect of the declining SEV is that the City will not see any significant increase in its taxable value for the next several years and until the housing market turns around.

It is projected that for fiscal year 2010/2011 the City (and the General Fund) will be receiving \$167,800 less revenue sharing annually than it received in 2001. This is a 35% reduction in that revenue source.

All indications are that the amount of revenue sharing the City receives over the next several years will be flat at best, with the possibility that the state legislature may eliminate the remaining statutory revenue sharing altogether. If the legislature were to eliminate the remaining statutory revenue sharing the City would lose another \$88,000 per year in revenue to the General Fund.

Additionally, we expect that the City will lose an estimated 6-8% in population with the 2010 census. Population is a primary factor in the formula for the distribution of revenue sharing.

As noted in the Executive Summary, the declining SEV and revenue sharing will significantly impact the City's ability to sustain the present services financed by the General Fund beyond fiscal year 2013/2014 without additional revenue.

General Fund

Several tables and charts are included with this report which provides a historical perspective of various factors impacting the General Fund. Also included is a forecast the financial position for the General Fund over five years inclusive of Fiscal Years Ended (FYE) 2012 – 2016.

Table 1(g) (Five Year Projections) was prepared based upon the following assumptions:

Revenue

1. Taxable value will decrease 1.5% in FYE 2012
2. Taxable value will increase 1% in FYE 2013
3. Taxable value will increase 2% FYE 2014-2016
4. Revenue sharing will decrease 3.5% FYE 2012 based on 2010 Census
5. Revenue sharing will decrease 3.25% FYE 2013 based on 2010 Census
6. There will be no further reductions or increases in revenue sharing beyond FYE 2014
7. Return on Investments will be 2% through FYE 2013
8. Return on Investments will be 3% in FYE 2014
9. Return on investments will be 4% in FYE 2015-2016

Expenditures

1. Legislative, Boards/Commissions and Transfers will increase 1% per year
2. Administration, Parks/Public Facilities and Public Works will increase 2% per year
3. Public Safety will increase 3% per year to account for insurance and benefits included in the total cost of that activity
4. Insurance and Benefit costs will increase 6% per year with two additional retirees added in FYE 2013 and one in FYE 2014

General Fund – Tables and Exhibits (Five Year Projections)

Table 1(G): Projected Revenue, Expenditures and Cash Position Fiscal Years Ended 2011 to 2016

Beginning Cash Position \$ 1,142,815 \$ 1,053,804 \$ 895,300 \$ 662,800 \$ 391,156 \$ 87,024

Revenue Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Property Taxes	805,033	792,957	800,887	816,904	833,242	849,907
State Shared Revenue	312,512	301,574	291,773	291,773	291,773	291,773
Investments	22,856	21,076	17,906	19,884	15,646	3,481
Franchise Fees	35,000	35,350	35,704	36,060	36,421	36,784
Other	16,275	16,438	16,602	16,769	16,936	17,107

Total Revenue \$ 1,191,676 \$ 1,167,395 \$ 1,162,871 \$ 1,181,390 \$ 1,194,019 \$ 1,199,052

Expenditure Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Legislative	23,598	23,834	24,073	24,314	24,557	24,802
Administration	201,639	205,671	209,784	213,890	218,259	222,625
Public Safety*	707,658	728,888	750,755	773,278	796,476	820,370
Parks/Public Facilities	75,580	77,092	78,634	80,206	81,810	83,447
Public Works	83,726	85,401	87,109	88,851	90,628	92,440
Boards/Commissions	3,452	3,486	3,521	3,556	3,592	3,628
Insurance & Benefits**	145,151	161,360	201,042	228,104	241,790	256,298
Debt Service	11,400	11,400	11,400	11,400	11,400	11,400
Transfers	28,483	28,768	29,055	29,346	29,639	29,936

Total Expenditures \$ 1,280,686 \$ 1,325,899 \$ 1,395,372 \$ 1,453,034 \$ 1,498,151 \$ 1,544,945

Revenue Over (Under) Expenditures \$ (89,010) \$ (158,504) \$ (232,500) \$ (271,644) \$ (304,133) \$ (345,893)

Ending Cash Position \$ 1,053,686 \$ 895,300 \$ 662,800 \$ 391,156 \$ 87,024 \$ (258,869)

*Includes insurance and benefits for Public Safety employees

**Includes insurance and benefits for Administration, Parks and Public Facilities and Public Works

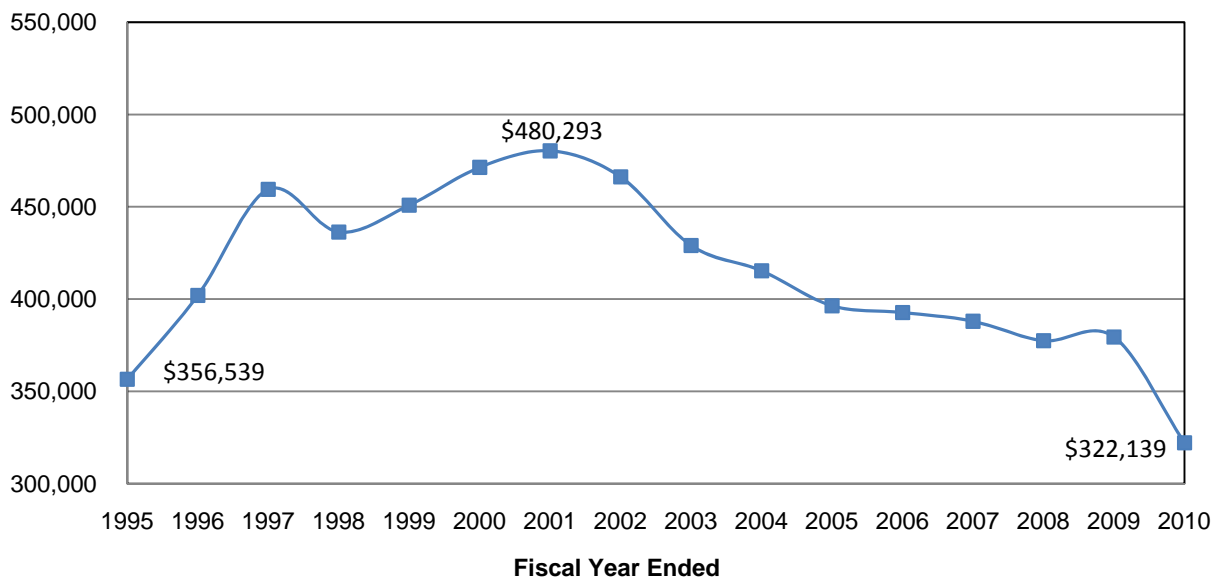
General Fund – Tables and Exhibits (Historical Data)

Table 2(G): Revenue Sharing Payments FYE 2001 to 2011

Fiscal Year Ended	Revenue Sharing	Change From Previous Year \$	Cumulative Change from FYE 2001 \$	Change From Previous Year %	Cumulative Change from FYE 2001 %
June 30, 2001	480,293				
June 30, 2002	466,176	(14,117)	(14,117)	-2.94%	-2.94%
June 30, 2003	429,023	(37,153)	(51,270)	-7.97%	-10.67%
June 30, 2004	415,296	(13,727)	(64,997)	-3.20%	-13.53%
June 30, 2005	396,338	(18,958)	(83,955)	-4.56%	-17.48%
June 30, 2006	392,696	(3,642)	(87,597)	-0.92%	-18.24%
June 30, 2007	387,957	(4,739)	(92,336)	-1.21%	-19.22%
June 30, 2008	377,412	(10,545)	(102,881)	-2.72%	-21.42%
June 30, 2009	379,402	1,990	(100,891)	0.53%	-21.01%
June 30, 2010*	322,139	(57,263)	(158,154)	-15.09%	-32.93%
June 30, 2011*	312,512	(9,627)	(167,781)	-2.98%	-34.93%

*Projected

Chart 1(G): Revenue Sharing Payments 1995 to 2010



Sources for Table and Chart: Audited financial Records of the City and Fiscal 2009/2010 Budget

General Fund – Tables and Exhibits (Historical Data)

Chart 2(G): Property Tax Revenue, Operating Expenditure, Cash Positions 1999 to 2009

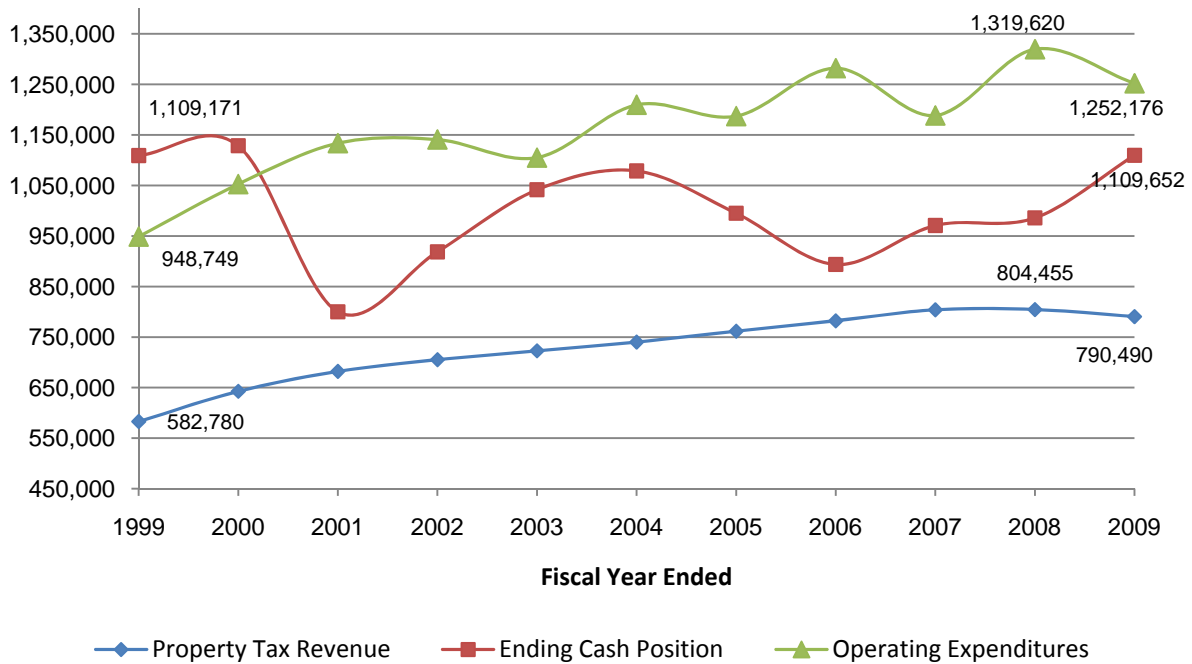
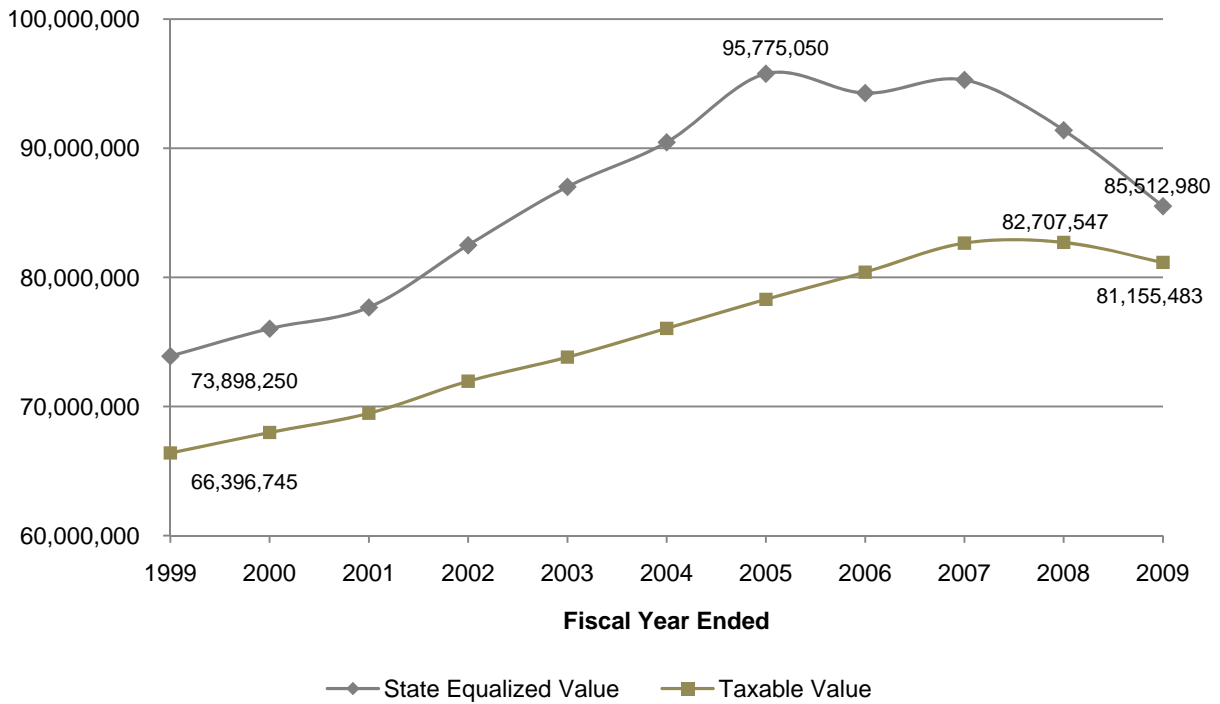


Chart 3(G): SEV and Taxable Value 1999 to 2009



Source for Charts: Audited financial Records of the City

General Fund – Tables and Exhibits (Historical Data)

Chart 4(G): Total Revenue, Revenue Sharing, Property Tax Revenue 1999 to 2009

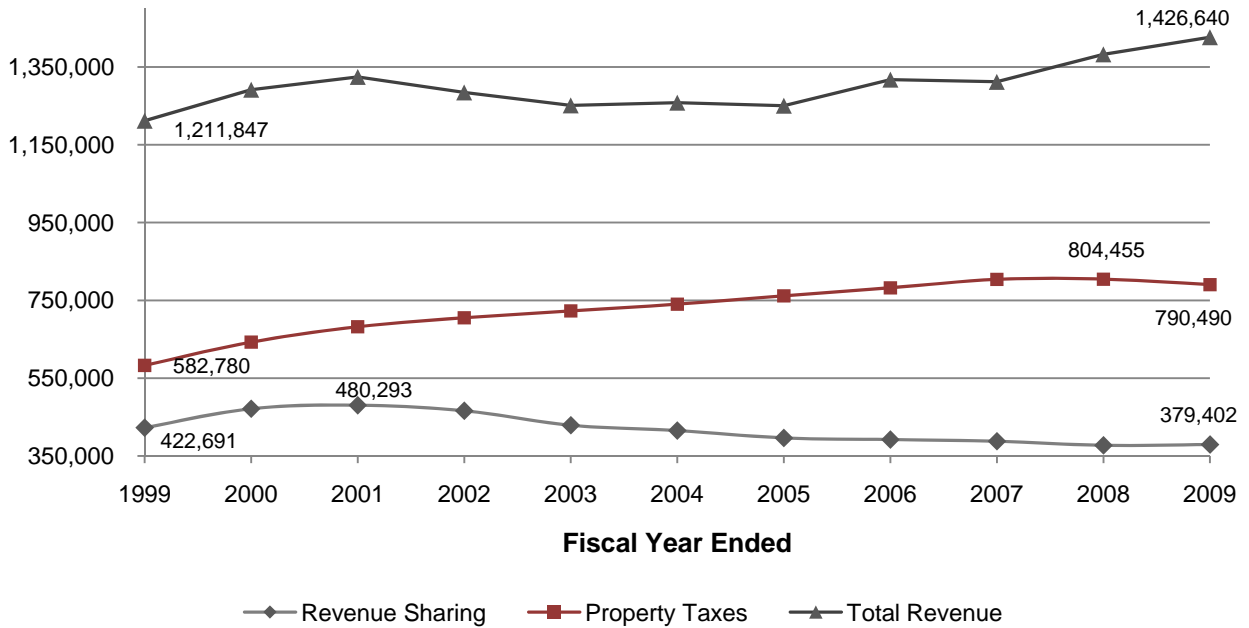
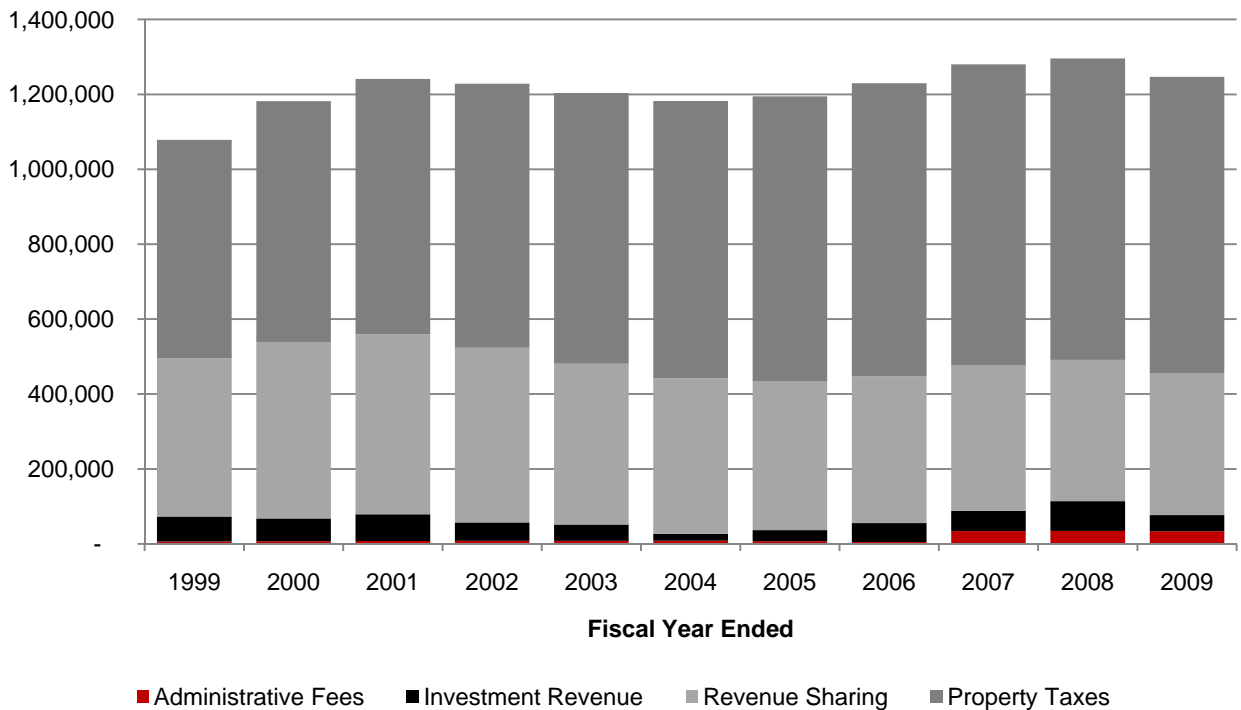


Chart 5(G): Primary General Fund Revenue Sources 1999 to 2009



Source for Charts: Audited financial Records of the City

Sewer Fund

The Sewer Fund accounts for all costs related to the operation and maintenance of the City's sanitary sewer collection and treatment systems. The City's system is 60% combined with that portion of the system transporting both sanitary and storm water.

The most significant impact on the Sewer Fund, and rates, is the increase in debt service resulting from the 2010 improvements to the City's wastewater treatment plant ("WWTP").

This project involves the construction of a large pumping facility to transport the City's wastewater and combined storm water to the West Bay County Regional Wastewater Treatment Plant for processing and treatment. Once the new pump station is operational the treatment works portion of the City's WWTP will be decommissioned and demolished.

The City also purchased capacity (and ownership) in the regional plant as part of the project.

The \$7.45 million project will be financed with a forty year low interest loan from the United States Department of Agriculture – Rural Development. The debt was sold as recently authorized "Build America Bonds" where the City will receive a rebate in the amount of 35% of the interest paid on the bonds as long as the United States Congress continues to fund the program.

The City also has debt remaining from the 1997 wastewater project. This debt is a State Revolving Fund low interest loan which will be retired in 2018. The annual debt service for this loan is \$125,000.

Beginning with fiscal year 2010/2011, it is proposed that the sewer rate include an increased monthly readiness to serve charge based on residential equivalency units ("REU"). One REU is the equivalent of 75,000 gallons of billable flow. The proposed REU charge is \$17.75 per month.

This REU charge will cover all of the debt service related to the wastewater treatment plant.

Each residential property will be assessed one REU. Commercial, institutional and Industrial properties will be assessed one REU for each 75,000 gallons of billable flow.

The sewer rate will continue to include a commodity charge. The commodity charge is based on a rate per one hundred cubic feet ("CCF") units of billable flow. One CCF is 748 gallons. Revenue derived from the commodity charge covers the cost of maintenance of the sewer collection system, treatment and administration.

Beginning with fiscal year 2010/2011 the commodity charge is proposed to be \$5.40/CCF. The average residential property is billed 60 CCF annually.

Total sewer revenue projections are based upon the City billing at least 1,620 REU's and 100,000 CCF annually. Rates are expected to be stable for the next several years.

Sewer Fund

Included in this report is a forecast the financial position for the Sewer Fund over five years inclusive of Fiscal Years Ended (FYE) 2012 – 2016.

Table 1(S) (Five Year Projections) was prepared based upon the following assumptions:

Revenue

1. Annual billable consumption will be 100,000 CCF or greater
2. Annual billable REU's will be 1,620 or greater
3. Federal interest rebate will continue throughout the life of the loan
4. Debt service (REU) rate will remain constant
5. Commodity Charge will Increase \$.15/CCF in FYE 2011 to \$5.40/CCF
6. Return on investments will be 2% through FYE 2013
7. Return on investments will be 3% for FYE 2014
8. Return on investments will be 4% for FYE 2015-2016
9. Revenue from interest and penalties will increase 2% per year

Expenditures

1. Administration costs will Increase 2% per year
2. Treatment costs will increase 1% per year
3. Sewer system costs will increase 2% per year
4. Transfers will increase 1% per year
5. Insurance and benefits will increase by 6% per year

Sewer Fund – Tables and Exhibits

Table 1(S): Projected Revenue, Expenditures and Cash Position Fiscal Years Ended 2011 to 2016

Beginning Cash Position	\$ 241,578	\$ 317,854	\$ 397,880	\$ 468,953	\$ 530,842	\$ 583,214
Revenue Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Debt Service (REU)	345,060	345,060	345,060	345,060	345,060	345,060
Commodity Charge	540,000	540,000	540,000	540,000	540,000	540,000
Interest/Penalties	6,450	6,579	6,711	6,845	6,982	7,121
Investment	4,832	4,928	5,027	5,178	5,385	5,600
Federal Interest Rebate	83,723	85,085	85,028	84,971	84,914	84,858
Total Revenue	\$ 980,065	\$ 981,652	\$ 981,825	\$ 982,053	\$ 982,340	\$ 982,639
Expenditure Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Administration	54,138	55,221	56,325	57,452	58,601	59,773
Sewage Treatment	362,016	353,140	356,671	360,238	363,840	367,479
System Operation	61,391	62,619	63,871	65,149	66,542	67,781
Insurance/Benefits	59,513	56,500	59,890	63,483	67,292	71,330
Debt Service	365,695	373,100	372,938	372,775	372,613	372,450
Transfers	1,036	1,046	1,056	1,067	1,080	1,099
Total Expenditures	\$ 903,789	\$ 901,626	\$ 910,752	\$ 920,164	\$ 929,968	\$ 939,912
Revenue Over (Under) Expenditures	\$ 76,276	\$ 80,026	\$ 71,073	\$ 61,889	\$ 52,372	\$ 42,728
Ending Cash Position	\$ 317,854	\$ 397,880	\$ 468,953	\$ 530,842	\$ 583,214	\$ 625,942
Restricted Reserves	\$ 188,242	\$ 259,975	\$ 331,708	\$ 403,441	\$ 475,174	\$ 546,907
Unrestricted Reserves	\$ 129,612	\$ 137,905	\$ 137,245	\$ 127,401	\$ 108,040	\$ 79,035

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.

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.

The largest single cost to the Water Fund, and impact on rates, is the cost to purchase water from the City of Bay City.

Based upon the projected wholesale cost of water and general inflation, rates will have to be periodically increased over the next five years to keep the pace with rising costs.

Beginning with fiscal year 2011/2012, the quarterly meter/billing charge should be increased 33%. Residential properties presently pay \$7.50 per quarter for this charge which would increase to \$10.00 per quarter under the new rate.

The commodity charge should also be increased by \$0.50/CCF in fiscal year 2012/2013 and \$0.25/CCF in fiscal year 2014/2015. The present commodity charge is \$3.75/CCF.

If annual billable water usage drops significantly below 120,000 CCF, or if the wholesale cost of water increases more than anticipated, rates will have to be increased sooner and/or in a greater amount.

The City of Essexville should continue to work with the surrounding townships and other governmental units within Bay County to form a water authority where Essexville and others would have more control over the future cost and quality of its potable drinking water.

Included in this report is a forecast the financial position for the Water Fund over five years inclusive of Fiscal Years Ended (FYE) 2012 – 2016.

Water Fund

Table 1(W) (Five Year Projections) was prepared based upon the following assumptions:

Revenue

1. Annual billable consumption will be 120,000 CCF or greater
2. The quarterly meter/billing charge will Increase 33% in FYE 2012
3. The commodity charge will increase \$ 0.50/CCF in FYE 2013
4. The commodity charge will increase \$0.25/CCF in FYE 2015
5. Revenue from interest and penalties will increase 2% per year
6. Return on Investments will be 2% through FYE 2013
7. Return on investments will be 3% for FYE 2014
8. Return on investments will be 4% for FYE 2015-2016

Expenditures

1. Administration costs will Increase 2% per year
2. Water system costs will increase 2% per year
3. Transfers will increase 1% per year
4. Insurance and benefits will increase by 6% per year

Water Fund – Tables and Exhibits

Table 1(W): Projected Revenue, Expenditures and Cash Position Fiscal Years Ended 2011 to 2016

Beginning Cash Position \$ 152,667 \$ 168,459 \$ 169,202 \$ 216,487 \$ 240,458 \$ 275,333

Revenue Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Commodity Charge	450,000	450,000	519,300	519,300	554,093	554,093
Meter/Billing Charge	56,500	75,145	75,145	75,145	75,145	75,145
Penalties	6,000	6,060	6,121	6,182	6,244	6,306
Investment	3,053	3,114	3,177	3,272	3,403	3,539
Other	100	101	102	103	104	105

Total Revenue \$ 515,663 \$ 534,420 \$ 603,844 \$ 604,002 \$ 638,989 \$ 639,188

Expenditure Source	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Administration	51,373	52,401	53,449	54,518	55,608	56,720
System Maintenance	114,471	126,760	139,296	152,082	165,123	178,426
Purchase of Water	280,386	297,730	303,685	309,758	315,953	322,273
Insurance/Benefits	52,370	55,513	58,843	62,374	66,116	70,083
Transfers	1,261	1,274	1,286	1,299	1,312	1,325

Total Expenditures \$ 499,862 \$ 533,677 \$ 555,559 \$ 580,031 \$ 604,113 \$ 628,827

Revenue Over (Under) Expenditures \$ 15,792 \$ 743 \$ 47,286 \$ 23,971 \$ 34,875 \$ 10,361

Ending Cash Position \$ 168,459 \$ 169,202 \$ 216,487 \$ 240,458 \$ 275,333 \$ 285,695

Other Major Funds

The Major and Local Street Funds and the Motor Vehicle and Equipment Fund are less impacted in the short term.

Street Systems

The primary funding source for street maintenance is state gas and weight taxes distributed to local units of government based upon a formula set by the state legislature. The amount of funding the City receives from this source has been flat or slightly declining over the past four years.

The present funding formula distributes allocates more revenue per mile for the Major Streets than Local Streets.

Like with revenue sharing, population is a major factor in the formula for the distribution of transportation funding. Accordingly, the City will see a similar reduction (6–8%) in funding over fiscal years 2011/2012 and 2012/2013.

Because the City has been in a position to rebuild its Major Streets over the last ten years that part of the system requires only minor preventive maintenance. The City is now able to transfer more funds from the Major to the Local Street Fund to cover the shortfall in funding for the local system.

Clearly, if the state legislature does not act soon to increase transportation funding, maintenance of the street system (i.e. snowplowing, sweeping, etc.) will have to be curtailed.

Motor Vehicle and 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". The City is required to use this schedule for equipment rental charges allocated to the Major and Local Street Funds.

The City does have the latitude to increase rental rates for the times when the equipment is used other than on the street system.

The City can also control expenditures by deferring the purchase of large vehicles and equipment, purchasing used and refurbished equipment, rebuilding equipment in lieu of replacement and replacing larger maintenance vehicles with smaller less expensive vehicles where practical.

The present cash position of the Motor Vehicle & Equipment Fund is not adequate to meet the long term equipment replacement needs of the City and must be replenished over time.

Appendix A – Local Taxes and Charges (Five Year Projections)

Projected Average Annual Cost of City Taxes and Charges to Residential Properties

Millage Levy and Other Chargers	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Operating Millage	9.7266	9.7266	9.7266	9.7266	9.7266	9.7266
Debt Service Millage	5.6987	6.1880	6.2276	6.8015	6.9929	7.1493
Solid Waste Millage	0.4500	0.4500	0.4500	0.5000	0.5000	0.5000
Admin Fee Taxes	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Water Charge/CCF	\$ 3.75	\$ 3.75	\$ 4.00	\$ 4.00	\$ 4.25	\$ 4.25
Meter Charge/Quarter	\$ 7.50	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Sewer Charge/CCF	\$ 5.40	\$ 5.40	\$ 5.40	\$ 5.40	\$ 5.40	\$ 5.40
REU Charge/Month	\$ 17.75	\$ 17.75	\$ 17.75	\$ 17.75	\$ 17.75	\$ 17.75
Solid Waste/Quarter	\$ 37.00	\$ 37.00	\$ 40.00	\$ 40.00	\$ 40.00	\$ 40.00

Average Annual Cost Residential Property	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
City Property Taxes	\$ 802.00	\$ 814.00	\$ 824.00	\$ 873.00	\$ 900.00	\$ 926.00
Water/Sewer Charges	\$ 848.00	\$ 858.00	\$ 877.00	\$ 877.00	\$ 896.00	\$ 896.00
Solid Waste Charges	\$ 148.00	\$ 148.00	\$ 160.00	\$ 160.00	\$ 160.00	\$ 160.00
Total Cost/Year	\$ 1,798.00	\$ 1,820.00	\$ 1,861.00	\$ 1,910.00	\$ 1,956.00	\$ 1,982.00

Assumptions:

1. The average residential property is billed for 75 CCF of water per year
2. The average residential property is billed for 60 CCF of sewer per year
3. The average taxable value for a residential property is \$50,000
4. The average taxable value will decrease 1.5% in FYE 2012
5. The average taxable value will increase 1% in FYE 2013
6. The average taxable value will increase 2% in FYE 2014-2016

Appendix B – Strategic Planning Process

Preparation	Plan	Implement	Revise
<p>Vision</p> <p>With stakeholders, update the City’s vision, mission and guiding principles</p> <p>Assessment</p> <p>Gather internal and external information</p> <p>Analyze the information</p> <p>Draw conclusions</p> <p>Develop and implement Planning Process</p> <p>Engage major players:</p> <ul style="list-style-type: none"> • City decision makers • City staff • Stakeholders <p>Establish Planning Structure</p> <p>Establish process for collecting input to develop the plan</p> <p>Clearly define roles and responsibilities</p> <p>Training for planning group</p> <p>Define planning terms</p> <p>Select plan format</p>	<p>Develop Plan</p> <p>Review assessment; build on analysis</p> <p>Prioritize; consider needs, strengths and resources</p> <p>Answer these questions:</p> <ul style="list-style-type: none"> • What do we want to accomplish? (Goals and outcomes) • What will we do to get there? (Strategies, Objectives, Action Steps) • How will we know if we are making progress? (Indicators, Measures, Benchmarks) • Who will be responsible? • When will goals be completed? <p>Draft Plan</p> <p>Circulate draft and revise plan</p> <p>Finalize Plan</p> <p>Share plan with stakeholders and staff</p> <p>Obtain Council Approval</p>	<p>Communicate Plan</p> <p>Distribute</p> <p>Ongoing communication of plan</p> <p>Manage the Plan</p> <p>Leadership assigns responsibilities</p> <p>Supervise Implementation</p> <p>All managers supervise actual work</p> <p>Local plans developed and implemented</p> <p>Monitor and Report on Progress</p> <p>Develop reporting system for plan</p> <p>Build on existing information systems and quality assurance systems</p> <p>Monitor progress</p>	<p>Review Progress</p> <p>Review progress:</p> <ul style="list-style-type: none"> • towards goals and outcomes and • towards implementing plan activities <p>Reconvene Planning Process and Revise Plan</p> <p>Reconvene planning groups</p> <p>Ongoing assessment process</p> <p>Draft revised plan</p> <p>Circulate revised plan</p> <p>Finalize revised plan</p> <p>Communicate revised plan</p> <p>Implement revised plan</p> <p>Monitor revised plan</p>

End Notes

¹ Source: International City/County Management Association (January 2010).

² Source: Bureau of Labor Statistics

³ Source: Bureau of Labor Statistics

⁴ Source: From a December 13, 2009 Detroit Free Press feature article citing the United States Bureau of Economic Analysis and the Mackinaw Center for Public Policy as sources for the data.

⁵ Under Act 51, Michigan public acts of 1951, the State distributes a portion of the gas and weight taxes that it collects to counties, cities and villages for the maintenance and operation of public street and road systems.

⁶ Source: United States Census (CD90-3A-27) STF3A

⁷ Source: United States Census Bureau, July 1, 2008 estimate.

⁸ This millage is levied by the City Council for general operations of the City. The amount of the (Charter) authorized millage authorized to be levied is reduced by the 1978 Headlee and 1994 Proposal A amendments to the state constitution.