

Budget Letter – From City Administrator to City Commission

April 26, 2011

To the Citizens of Auburn Michigan,
Honorable Mayor and City Commission:

I am pleased to present to you the City of Auburn's Fiscal Year 2011-2012 Proposed Annual Budget. This budget has been prepared to provide a balanced financial plan for municipal operations in a format that compares projected revenues and expenditures with those of the current fiscal year and the audited figures for 2010. In addition to the individual budgets of the various City Funds, this notebook contains supporting material and detailed information on various subjects related to the budget.

The proposed Fiscal Year 2011-2012 General Fund budget has been balanced as required by State law. However, this year I am proposing that it be done using general fund reserves. These funds have been saved over the years for just such a purpose. The other option will be to increase the general fund levy of 9 mills to 10 mills in addition to the 3 mills levied for street repair. The projected Fund Balance of \$1,141,645 is well within established guidelines for a municipality the size of Auburn. A good rule of thumb is three months of operating expenses.

The following table and chart illustrates the steady increase in the General Fund balance for the past eleven years and the proposed increase for the FY11 budgets.

Fiscal Year	Fund Balance
June 30, 2000	\$514,006
June 30, 2001	\$629,531
June 30, 2002	\$711,873
June 30, 2003	\$800,161
June 30, 2004	\$821,539
June 30, 2005	\$828,215
June 30, 2006	\$871,635
June 30, 2007	\$960,499
June 30, 2008	\$1,077,777
June 30, 2009	\$1,130,053
June 30, 2010	\$1,155,033
June 30, 2011	\$1,174,517

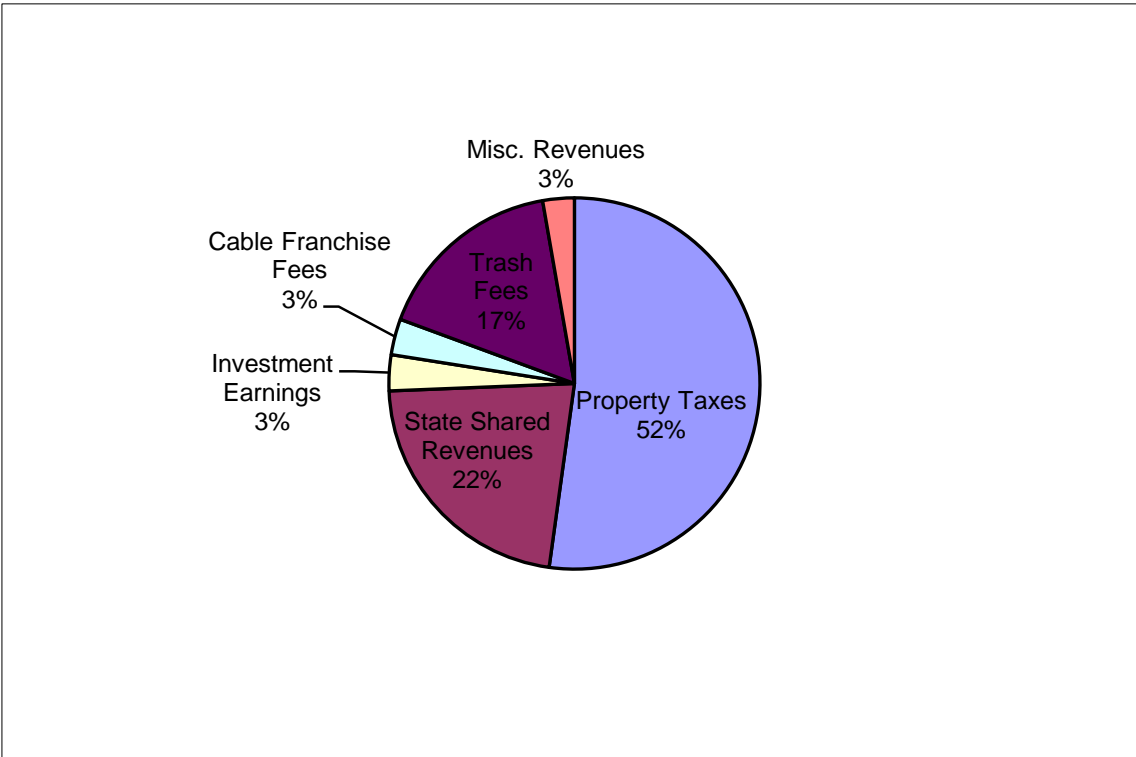
The breakdown of the unreserved and reserved fund balance at June 30, 2012 is as follows:

Unreserved Fund Balance	\$590,345
Reserved Fund Balance	<u>551,300</u>
06/30/2012 Fund Balance	<u>\$1,141,645</u>

The \$590,345 reserved fund balance is the amount due from the Water Fund of \$363,800 and the Street Repair Fund of \$187,500.

General Fund Revenues

The following chart illustrates the various revenues for the General Fund.



Mills Levied

The City Commission has authority from the City Charter to levy up to 2% of the assessed valuation as equalized. This computes to a tax rate of up to 20.0 mills without a vote of the citizens. The 20 mills authorized in the charter have been permanently reduced by the Headlee Millage Reduction Fraction in 2010 to 17.7963 mills. The 2010 millage reduction fraction will not affect the City until it is reduced below the 12 mills the City is currently levying.

The following chart depicts a comparison of this year's proposed and last year's actual millage rates. The overall rate has not changed. This will be the fourth consecutive year the City has reduced the overall millage rate. Two year by 3 mills and the last two years by 4 mills.

	<u>Actual</u> <u>2010-11</u>	<u>Proposed</u> <u>2011-12</u>
Operating	9.0000	9.0000
Road Revolving	<u>3.0000</u>	<u>3.0000</u>
Total Mills	<u>12.0000</u>	<u>12.0000</u>

Rate of Growth of Property Tax Base - Data from the City Assessor indicates that the taxable value of property located within the City of Auburn decreased at a rate of 2.35 percent, from 50,476,421 at December 31, 2009 to 49,316,400 at December 31, 2010. Of the overall 1,160,021 taxable value decrease all of it was outside the DDA district. There was an overall 261,014 increase within the DDA district.

The following chart depicts the total City taxable value, the total DDA taxable value and the growth (decline) in the DDA district and the City.

City of Auburn						
Taxable Value						
	City	Increase	Percent	DDA Captured	Increase	Percent
Year	Taxable Value	(Decrease)	Change	Taxable Value	(Decrease)	Change
2001-02	37,598,440	n/a		2,160,300	n/a	
2002-03	40,216,358	2,617,918	6.51%	3,300,037	1,139,737	34.54%
2003-04	43,869,952	3,653,594	8.33%	5,273,134	1,973,097	37.42%
2004-05	46,540,511	6,324,153	5.74%	6,660,313	1,387,179	20.83%
2005-06	48,871,191	2,330,680	4.77%	7,718,109	1,057,796	13.71%
2006-07	51,219,506	2,348,315	4.58%	8,559,943	841,834	9.83%
2007-08	53,431,407	2,211,901	4.14%	9,499,215	939,272	9.89%
2008-09	52,989,865	(441,542)	-0.83%	9,041,738	(457,477)	-5.06%
2009-10	52,901,426	(88,439)	-0.17%	9,090,611	48,873	0.54%
2010-11	50,476,421	(2,425,005)	-4.80%	8,264,192	(826,419)	-10.00%
2011-12	49,316,400	(1,160,021)	-2.35%	8,525,206	261,014	3.06%

STATE SHARED REVENUES

The State fiscal crisis is in part the result of the economy and in part the result of decisions made by the state legislature and Governor. For the past two decades, the State of Michigan has been cutting their tax rates. At one time, Michigan was a high tax state; it is now in the middle. The voter approved the Headlee amendment in the 1980's to limit the growth of state and local government. Michigan is currently \$6 billion below the Headlee cap on state spending. Originally, the legislature entered into a deal with the cities about the funding of state shared revenue in return for cities giving up the right to levy sales tax at the local level. Starting in FY 2000 the state started renegeing on their agreement with cities. While the State has had challenging budget times, their budget has continued to increase. At the same time the state has cut statutory revenue sharing to balance their budget. The main reasons for the state's budget crisis are numerous tax cuts and tax credits, rising welfare costs and rising health costs. The impact has been significant to our budget. Auburn would be receiving \$47,000 of additional revenue if compared with it highest total from FY 2000. By taking all of this money from locals they have put all our budgets in jeopardy. The State won't have to raise taxes, locals will.

In FY 2012, Governor Snyder proposes to dole out revenue sharing by thirds. Revenue sharing will be available through a competition. The Governor proposes three sections of competition. The first section is proof of collaboration in a manner that saves money. The second section has to do with accountability and transparency. The last section has to do with employee compensation – in particular with how we offer benefits.

The new census figures has not been calculated into the FY 2012 estimate. Over the last decade the City gained an additional 76 residents from 2,011 in 2000 to 2087 in 2010.

Investment Earnings

For the fourth year in a row, economic conditions have negatively impacted the investment market. The City is expecting annualized returns of less than .5%.

GENERAL FUND EXPENDITURES

- There are no capital purchases budgeted this year in the General Fund. We will continue to look at cost savings in all departments.

PERSONAL SERVICES

An overall 1.5% wage increase has been budgeted for staff rate increases.

Health Care remains a major concern. The two main sources of revenue for the General Fund has been declining. The double digit health care increases make preparing the budget very difficult. The budget assumes a 10 percent hike in health care premiums.

In FY 2012 , the City's pension percentage rate includes a 7.2% increase from 8.71% to 15.91%. Due to the market drop in 2008. Currently we have an actuarial value of 80%. The actuary uses a rolling average for the market value. That means the full impact of the market drop will soften but it will affect our contributions over the next ten years assuming the market rebounds.

OTHER FUNDS

MAJOR AND LOCAL STREET FUNDS

Our Major and Local Streets funds receive most of their revenue from gas and weight tax. The State's Gas and Weight tax has not changed since 1997. The State charges a flat 19 cents per gallon. With the increase in gasoline prices, people drive fewer miles and choose cars with better gas mileage. This has meant that our revenues for maintaining the streets have stagnated. At the same time, the asphalt, which is made from petroleum, has been rapidly increasing in cost. We cannot continue to provide the same level of service as we did ten years ago.

The Local Streets remaining to be improved are Moll, Kent and Sycamore (Midland Road to Green St. ROW). These have been budgeted for improvement in future years. Auburn Road from the rail road tracks to Union Street will also need improving in the next 5 years.

Elm Street (Auburn road to Edwards), at this time I have budgeted \$120,000 for road improvements. Cost estimates have not been finalized at this time.

The proposed Major Street Fund budget includes a \$22,000 transfer from the Major Street Fund to the Local Street Fund, as permitted by Act 51. The Act allows municipalities to transfer up to 25% without additional approval of MDOT. This transfer is necessary because the formula that is used to determine distribution of gas and weight tax does not provide enough revenue to cover the cost of maintenance related to the much larger local street system.

STREET REPAIR FUND

The City of Auburn levies 3 mills for road improvement and payment of the Midland Road Debt. In FY 2011 the bonds were refunded using money from the Street Repair Fund and with a \$250,000 loan from the General Fund. In doing so \$25,000 in interest expense was saved. It was a win situation for the General Fund as well. We used surplus funds that were earning less than ½ percent to earning 3% . This is an additional 15,500 in General Fund revenues over the next five years.

I am proposing the Local Street Fund be balanced by a \$20,000 transfer from the Street Repair Fund for the additional costs of snow plowing and crack sealing that occurred in FY 2011 and that \$30,000 be transferred in FY 2012 with \$20,000 earmarked for Elm Street improvement.

A \$100,000 transfer for Major Street is proposed for the portion of Elm Street improvements that are classified as a Major Street.

WASTEWATER FUND

The working capital for the Sewer Fund is estimated to increase by \$9,832 at the end of 2011 and increase by \$4,665 at the end of 2012 for a total of \$382,134. A decrease of \$10,000 in Bay County sewer billing is anticipated from the 2010 actual billings. This is due to Essexville and Hampton joining the system.

The Wastewater budget includes funds for various sanitary line televising and cleaning of the distribution system. In addition, there are funds budgeted for manhole rehabilitation throughout the City. This preventative maintenance program is designed to address both structural deficiencies of older manholes and helps reduce storm water infiltration to the sanitary sewer system.

A high level of working capital must be maintained to assure funds will be available for improvements to the pump station. The pump station was renovated in 2000 and the pumps are now 11 years old.

WATER FUND

The working capital for the Water Fund is estimated to increase by \$32,175 at the end of 2011 and increase by \$12,451 at the end of 2012 for a total of \$141,498.

We changed the meter replacement program from a 10 year replacement program to a 15 year meter replacement program in the 2009-2010 budget. We tested three residential ten year old meters pulled from various homes in the City, the meters tested at 100%, 101% and 94%. This is a projected \$10,000 yearly savings for the meters and does not include labor savings. At our request Michigan Rural Water conducted a survey. The results were 17 communities replaced their meter on an as-needed bases; six communities replaced their meters on a ten-year replacement schedule and one community replaced their meters on a fifteen-year replacement schedule. We will continue to monitor the water loss percentage every quarter to determine if increasing the number of years before replacing the meter is cost effective. Because of the high quality of water the City of Midland produces, meters there are replaced every twenty (20) years. The meters don't get the wear and deterioration over time. The deterioration is accelerated by poor water quality such as corrosive or abrasive water which in turn effects the accuracy of the meter. We will continue to replace stopped meters and meters that have slowed down.

As discussed earlier we will continue to look for cost savings and build the working capital in the Water Fund. At this time the older water mains remaining have not been problematic.

MOTOR POOL FUND

As you may know, this fund is designed to cover the costs of purchasing, maintaining and operating vehicles and equipment over the long-term and, as such, will spread financing so that in some years there will be yearly surpluses, and in some years there will be yearly deficits. The high cost of gasoline is going to greatly affect this FY 2012 budget. The budget has been nearly doubled from an actual cost of \$17,198 in FY 2010 to an estimate of \$31,000 in FY 2012. No new equipment has been budgeted.

Estimated cash balance for the end of FY 2011 is \$437,390 and for FY 2012 is \$423,378 for a decrease of \$14,012. The decrease is attributable to higher gasoline costs and lower revenues from the various funds.

RECOMMENDATIONS

It is recommended that copies of this proposed budget be placed on display in the City Clerk's office at City Hall, at the Auburn Branch of the Bay County Library and on the City's website for public examination.

The City Charter requires that the budget be adopted by the first Monday meeting in June, which is June 6th this year, and that a public hearing be held prior to adoption. Legislation enacted in 1995 allows the Truth In Taxation hearing to be combined with the Charter-mandated hearing. The public hearing and adoption can be on the same date. At this same meeting the tax rate can be set.

Respectfully submitted,

City Administrator