

Budget Letter – From City Administrator to City Commission

May 8, 2014

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 2014-2015 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 2013. 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.

GENERAL FUND

The proposed Fiscal Year 2014-2015 General Fund budget has been balanced as required by State law. The projected Fund Balance of \$1,206,713 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 changes in the General Fund balance for the past two years and the proposed decrease for the FY12 and slight increase FY13 budgets.

Fiscal Year	Fund Balance
June 30, 2011	\$1,188,391
June 30, 2012	\$1,226,952
June 30, 2013 (est)	\$1,204,395
June 30, 2014	\$1,206,713

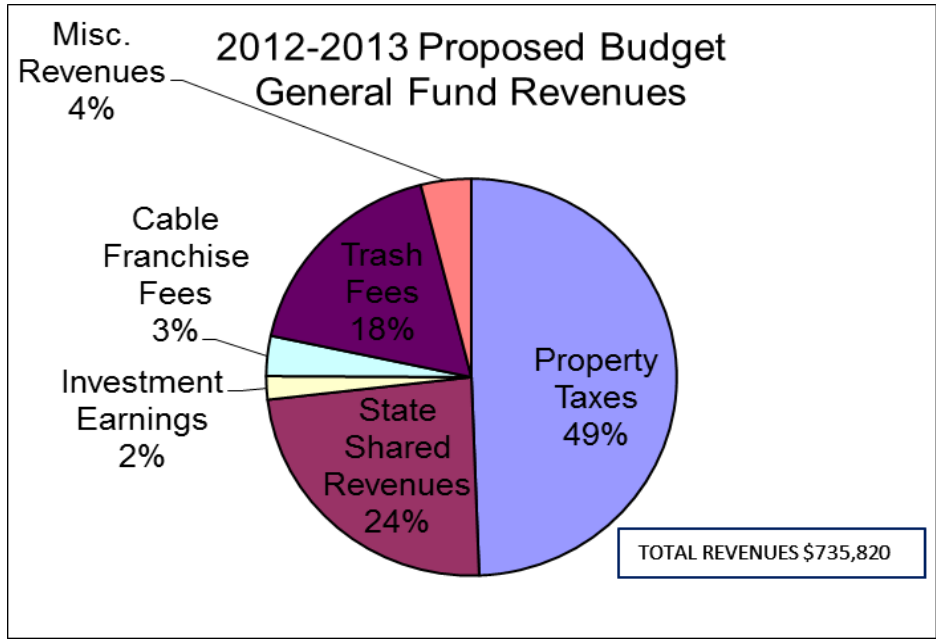
The breakdown of the unreserved and reserved fund balance at June 30, 2013 is as follows:

Unreserved Fund Balance	\$752,413
Reserved Fund Balance	<u>454,300</u>
06/30/2013 Fund Balance	<u>\$1,206,713</u>

The \$454,300 reserved fund balance is the amount due from the Water Fund of \$391,800 and the Street Repair Fund of \$62,500.

GENERAL FUND REVENUES

The following chart illustrates the various proposed General Fund revenue categories and the relative percentage of each.



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 2013 to 17.7963 mills. The 2013 millage reduction fraction will not affect the City until it is reduced below the 12 mills the City is currently levying. No increases are proposed in the upcoming FY 2014-2015 Budget. The City’s millage rate has remained at 12 mills since July 2010.

	Actual <u>2013-14</u>	Proposed <u>2014-15</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 increased at a rate of 0.56 percent, from 49,978,332 at December 31, 2012 to 50,259,020 at December 31, 2013. A slight increase of 280,688 which includes the loss of Personal Property taxes under \$40,000. The main loss in tax revenue from the personals effects DDA Fund as the majority of the City’s businesses are in the district. This loss will occur this year regardless of the vote in August 2014 to approve the State Use Tax “reimbursement”. Since we receive less than 2.3% of our tax revenue from Personal Property Tax, we do not expect any reimbursement for lost revenue. We hope that the losses will be offset by a few improvements and new construction in the City.

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						
Year	City Taxable Value	Increase (Decrease)	Percent Change	DDA Captured Taxable Value	Increase (Decrease)	Percent 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	48,777,518	(1,698,903)	-3.48%	8,523,806	259,614	3.05%
2012-13	49,364,278	586,760	1.19%	9,039,048	515,242	5.70%
2013-14	49,978,332	614,054	1.23%	9,915,500	876,452	8.84%
2014-15	50,259,020	280,688	0.56%	9,572,769	(342,731)	-3.58%

STATE SHARED REVENUES

The State has indicated that they will increase revenue sharing 12%. However the budget reflects 2% increase. The proposed 12% increase comes with conditions and hasn't been adopted by the legislature. Therefore, we have budgeted for a more likely scenario.

PERSONAL SERVICES

An overall 1.0% wage increase has been budgeted for staff rate increases this. This increase corresponds to the Consumer Price Index (CPI).

In FY 2013, the City's pension percentage rate remains the same at 17.84% although with the changes in benefits the amount includes a 1.08% increase from 16.76% to 17.84%. Due to the market drop in 2008 and additional retirees drawing on the plan. The makeup of the 17.84% is normal cost of 8.42% and 9.42% for the unfunded accrued liability. Currently we have an actuarial value of 73.4%. 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.

SIDEWALK REPAIR AND MAINTENANCE PROGRAM – CITY WIDE

Routine repair and maintenance of existing sidewalk is needed City wide. Funding for this project is proposed in the General Fund in the amount of \$20,000. As is the policy for sidewalk repair 50% of the repairs will be billed to the residents.

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 Major Street Fund, which support the day-to-day activities such as maintenance and snow plowing, is \$96,961. The City of Auburn maintains 4.02 miles of major streets. At the end of FY 2012-13, projections show an estimated fund balance of \$162,488. No major street improvements have been budgeted.

The proposed Major Street Fund budget includes a \$26,000 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.

The Local Street Fund, which supports day-to-day activities such maintenance and snow plowing, is \$77,773. The City of Auburn maintains 8.48 miles of local streets. At the end of FY 2012-13 , projections show an estimated fund balance of 31,996. The Local Streets remaining to be improved are Moll and Sycamore (Midland Road to Green St. ROW).

STREET REPAIR FUND

The City of Auburn levies 3 mills for road improvement and payment of the Midland Road Debt.

I am proposing the Local Street Fund be balanced by a \$10,000 transfer from the Street Repair Fund for the additional costs of snow plowing and crack sealing and \$65,000 for Sycamore Street.

WASTEWATER FUND

The Wastewater Fund budget, which supports the day-to-day activities of the sewer collection system and one lift station, is \$330,697. The working capital for the Sewer Fund is estimated to decrease by \$33,263 at the end of 2013 and decrease by \$22,007 at the end of 2014 for a projected ending balance of \$289,889.

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 13 years old.

An 8% rate increase is proposed with this budget. Sewer rate increases are attributed to needed capital improvements at the Bay County Sewer Plant and rising maintenance cost for maintenance of the system. This is in line with the recommended increases brought forth in 2010 when a 10%

increase was passed due to the increases from Bay County Sewer and Water to finance plant capital improvements. With the recommendation of 3% increases in 2011, 2012 and 2013 that were not implemented.

WATER FUND

The working capital for the Water Fund is estimated to decrease by \$4,107 at the end of 2012 and decrease by \$14,010 at the end of 2014 for a projected ending balance of \$286,846 for a total of \$34,516. Water rate increase for 3% in 2010 and 6% in 2014. A 3% rate increase is proposed with this budget as recommended from the 2014 rate study. Water rate increases are attributed to needed capital improvement within the city, raising cost for maintenance of the system and continued wholesale rate increases from the City of Midland.

The City of Midland budgeted a 3% increase in their water rates. A corresponding increase in water expenses has been budgeted. City of Midland has increased water rates a total of 17.50% since 2008. Current wholesale rates charged by Midland are \$2.24/1,000 with a flat rate of 383.37. In July the rate will increase to \$2.31/1,000 with a flat rate of \$394.87. Sanford Water District is another of Midland’s wholesale customers the current rate is \$4.10/1,0000. Below is the recommended annual increases from last year’s rate study.

Proposed Water and Sewer Rates

Water Rates	Rate/1,000	5,000	10,000	15,000	18,000	20,000
6/1/2010 Rate	\$ 4.12	\$ 20.60	\$ 41.20	\$ 61.80	\$ 74.16	\$ 82.40
6% 2013 Current	\$ 4.36	\$ 21.80	\$ 43.60	\$ 65.40	\$ 78.48	\$ 87.20
3% 2014 Proposed	\$ 4.49	\$ 22.45	\$ 44.91	\$ 67.36	\$ 80.83	\$ 89.82
3% 2015 Proposed	\$ 4.63	\$ 23.13	\$ 46.26	\$ 69.38	\$ 83.26	\$ 92.51
Sewer Rates						
	Rate/1,000	10,000	10,000	15,000	18,000	20,000
6/1/2010 Rate	\$ 4.90	\$ 49.00	\$ 49.00	\$ 73.50	\$ 88.20	\$ 98.00
8% 2013 Current	\$ 5.29	\$ 52.92	\$ 52.92	\$ 79.38	\$ 95.26	\$ 105.84
3% 2014 Proposed	\$ 5.45	\$ 54.51	\$ 54.51	\$ 81.76	\$ 98.11	\$ 109.02
3% 2015 Proposed	\$ 5.61	\$ 56.14	\$ 56.14	\$ 84.21	\$ 101.06	\$ 112.29
Total Water and Sewer Qrtly Bill						
	Rate/1,000	10,000	10,000	15,000	18,000	20,000
6/1/2010 Rate	\$ 9.02	\$ 69.60	\$ 90.20	\$ 135.30	\$ 162.36	\$ 180.40
2013 Current	\$ 9.65	\$ 74.72	\$ 96.52	\$ 144.78	\$ 173.74	\$ 193.04
2014 Proposed	\$ 9.94	\$ 76.96	\$ 99.42	\$ 149.12	\$ 178.95	\$ 198.83
2015 Proposed	\$ 10.24	\$ 79.27	\$ 102.40	\$ 153.60	\$ 184.32	\$ 204.80
Increase in Qrtly Bill						
	Rate/1,000	10,000	10,000	15,000	18,000	20,000
6/1/2010 Rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2013 Current	\$ 0.63	\$ 5.12	\$ 6.32	\$ 9.48	\$ 11.38	\$ 12.64
2014 Proposed	\$ 0.29	\$ 2.24	\$ 2.90	\$ 4.34	\$ 5.21	\$ 5.79
2015 Proposed	\$ 0.30	\$ 2.31	\$ 2.98	\$ 4.47	\$ 5.37	\$ 5.96

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 rate of increase for the cost of utilities and fleet fuel costs will continue to substantially exceed the basic rate of inflation. Activities impacted most by the energy and fuel costs are public safety and public works maintenance operations.

We need to take a look at ways to contain costs in the equipment fund. The costs of repairs and gasoline are rising faster than the charges for the equipment. Increasing rates to the other funds will substantially affect the bottom line of each and every fund.

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 resolution with or without amendment no later than June 30 of each year, and that a public hearing be held prior to adoption. The public hearing is scheduled for June 9, 2014 and the budget may be adopted at this meeting. 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.

The budget maximizes the available revenue and reflects the impact of previous and ongoing measures that have been implemented to help contain costs. However, I believe that the economic conditions and trends that have resulted in these fiscal challenges will continue for some time and an increase in the general operating millage will be necessary in the next couple of years.

Respectfully submitted,

Jo Ella Krantz
City Administrator