

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 \$1,232,327 is well within established guidelines for a municipality the size of Auburn. A good rule of thumb is three months of operating expenses. Three months operation with this budget would be a \$223,000 fund balance

The following table and chart illustrates the changes in the General Fund balance for fiscal year 2011 through 2015.

Fiscal Year	Fund Balance
June 30, 2011	\$1,188,391
June 30, 2012	\$1,280,555
June 30, 2013	\$1,280,555
June 30, 2014 (est)	\$1,381,612
June 30, 2015 (est)	\$1,162,727

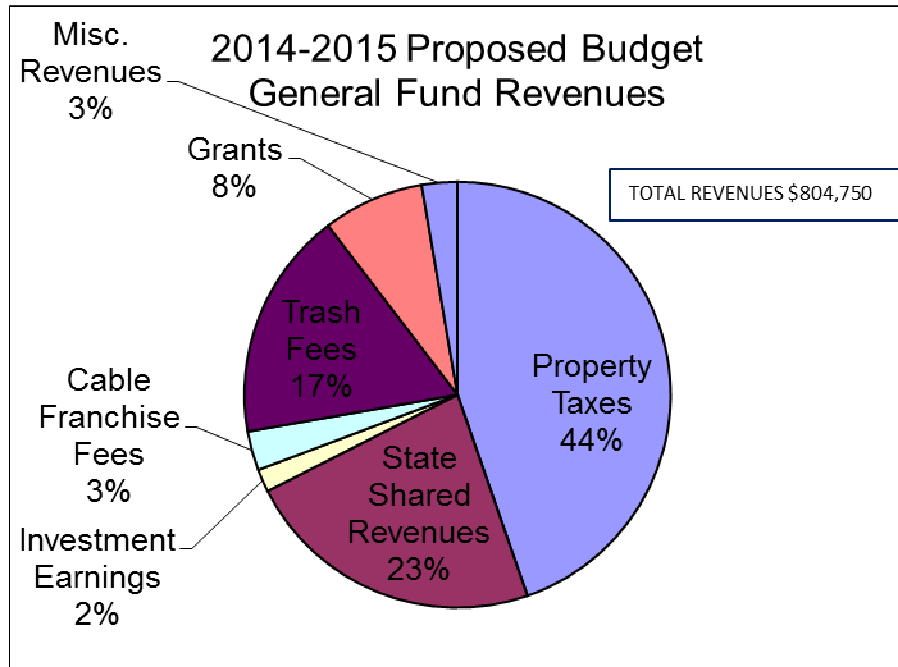
The breakdown of the unreserved and reserved fund balance at June 30, 2015 is as follows:

Unreserved Fund Balance	\$805,927
Reserved – Water Fund Loan	<u>356,800</u>
06/30/2013 Fund Balance	<u>\$1,162,727</u>

The general fund budget proposes using \$218,885 of fund balance reserves. This is attributable to one-time capital improvements. A summary of the project is listed on page 6 & 7 of this report.

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 2012 to 17.7963 mills. The 2012 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. Total loss in personal property was 339,400. The main loss in tax revenue from the personals effects the 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”.

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	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. This assumes we will meet the State's EVIP criteria to keep our legislative portion of these revenues.

PERSONAL SERVICES

An overall 1.016% wage increase has been budgeted for staff rate increases this. This increase corresponds to the Consumer Price Index (CPI). With a one-time adjustment for the Clerk/Treasurer position.

The City's required pension for employees hired before November 1, 2013 will no longer be invoiced based on a percentage of payroll but will be based on a fixed dollar amount (flat bill) for future submissions. The old pension plan of a 2.5% multiplier was changed to a 2% multiplier beginning January 1, 2014 in an effort to contain costs and reduce the unfunded amounts. MERS has continued to bill the City at the old employer rate of 17.84% versus the new employer rate calculated at 13.77% in an effort to eliminate the unfunded balance calculated on December 31, 2013 of \$607,240. For all new employees the plan was changed to a 1.5% multiplier. An additional rate of 2.06% will be paid on their wages. I recommend the City continue paying the additional amounts as calculated by MERS as two additional former DDA employees will have met the service requirements to begin drawing a pension in 2014 thus increasing the unfunded liability even more.

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 supports the day-to-day activities such as maintenance and snow plowing, is \$116,604. 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 \$214,997. 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. Street Sign replacement additional funds have been budgeted to replace old street signs turn arrows, stop bars, etc. on Midland and Auburn Roads. In addition to crack sealing on all the streets.

The Local Street Fund, which supports day-to-day activities such maintenance and snow plowing, is \$99,733. The City of Auburn maintains 8.48 miles of local streets. At the end of FY 2014-2015, projections show an estimated fund balance of \$8,044. Sycamore Street is budgeted at \$65,000 The only Local Streets remaining to be improved is Moll Street.

Last year's winter was brutal on all the streets. DPW will be spending time crack sealing all of the local streets this summer in addition to replacing pavement and repairing catch basins where needed. Several street signs throughout the city are faded and will be replaced.

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. Included with this budget is a cash flow analysis depicting current and future street improvements. The street loan from the general fund will be paid off this budget year.

WASTEWATER FUND

The Wastewater Fund budget, which supports the day-to-day activities of the sewer collection system and one lift station, is \$328,857. The working capital for the Sewer Fund is estimated to

decrease by \$2,900 at the end of 2014 and decrease by \$4,800 at the end of 2015 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 14 years old.

The SAW grant capital expenditures have not been budgeted as the amount of work done by the DPW could not be determined at this time. This will be a shift in where the wages and benefits are charged to comply with the States grant accounting procedures. These wages/benefits are allowed to be applied toward towards the required matching amount of \$109,000.

A 3% 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 last year's budget.

WATER FUND

The working capital for the Water Fund is estimated to decrease by \$36,964 at the end of 2014 due to a loan of \$60,000 from the General Fund for Kent Street water main replacement and decrease by \$2,865 the end of 2015 for a projected ending balance of \$126,897. A 3% rate increase is proposed with this budget as recommended from the 2014 rate study. Water rate increases are attributed to needed capital improvements 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 2% increase in their water rates. A corresponding increase in water expenses has been budgeted. City of Midland has increased water rates a total of 19.50% since 2008. Current wholesale rates charged by Midland are \$2.31/1,000 with a flat rate of 394.01.

The following chart illustrates the previous year's rate increases and the proposed rate increase for the Water and Sewer Funds.

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. A power washer is budgeted for purchase in this budget. Two items have been requested for purchase this year, a pump and power washer.

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.

Capital Improvements Summarized

General Fund - Parks

Multi-Use Recreational Facility	\$100,000	
Pond Improvements	\$124,000	
Energy Efficient Lighting	\$4,600	Consumers Rebate \$1,300
Walking Path Improvements	\$10,000	

General Fund – Building

Security Cameras	\$8,000
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Window/Door Replacement	\$15,000	
Energy Efficient Lighting	\$4,100	Consumers Rebate \$1,100
Gutters	\$2,000	
City Hall Painting	\$8,000	
Local Streets – Sycamore Street Repaving	\$65,000	
Motor Pool Fund		
Power Washer	\$3,500	
Trash Pump	<u>\$1,500</u>	
Total All Funds	<u>\$345,700</u>	

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. I am recommending the public hearing be scheduled for June 9, 2014. 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