

Brief Economic Update

February 2011

PURPOSE

To provide a brief fiscal update on material matters as the City's leadership team begins its strategic planning for the next rolling budget.

ECONOMIC OUTLOOK

Unemployment

- Nationally unemployment is 9.4%
(1% pt improvement from one year ago)
- Michigan's unemployment is 11.7%
(down 2.3% from its high in December 2009)

ECONOMIC OUTLOOK

- Many expect the federal deficit to rise to \$1.5 trillion or 10% of GDP (Gross Domestic Product) by the end of fiscal 2011
- Deficit is increasing although Pres Obama has proposed budget cuts including reports that indicate a 50% cut to CDBG programs. (uncertain how RO might be affected)
- The idea that the deficit will increase from \$1 trillion and \$1.5 trillion in the third year of recovery is troublesome to many. As output recovers, revenues normally increase and expenses decline thus moving the federal budget towards balance, however there are concerns by many that this is not occurring.

ECONOMIC OUTLOOK

- Governor Snyder is proposing to eliminate Statutory piece of State Shared Revenue (\$900,000 loss to the Royal Oak General Fund)
- A 4% increase in the Constitutional piece was mentioned, however not sure how Royal Oak will be affected at this time.

ECONOMIC OUTLOOK

- Gov is establishing an incentive program for local gov. that meet specific standards / best practices to possibly earn a portion of the Statutory Revenue
 - Standards that have been suggested include consolidation, service sharing, long-term planning, and a citizens guide to city finances.
(The State advises that details will be announced in March)

ECONOMIC OUTLOOK

- Gov Snyder suggested personal property tax reform. However no details.
 - The city currently receives approximately \$1.3 million from personal property tax revenue.

BUDGET UPDATE

Revenues

- The City's property tax collections are on the same pace as last year – approx 95%
- The balance will be collected after settlement with the County in a few months

BUDGET UPDATE

Revenues

- 3 - 4% decrease in taxable value for 2011/12 is estimated, after the March Board of Review a more precise value will be known
- 3.5% decrease results in a revenue loss of approx. \$550,000 and \$850,000 across all applicable funds

Taxable Value above is not considering any additions or deletions to the tax roll

BUDGET UPDATE

Revenues

- When the housing market recovers, taxable values cannot increase by more than the rate of inflation or 5% whichever is lower.
- On a individual house - lose of taxable value is permanent unless a residence is sold. It may not be until after 2020 when the City returns to its former taxable value levels.

BUDGET UPDATE

- The County's Sheriff Deeds Foreclosure increased 8.7% this past year
- Royal Oak had 410 Sheriff Deed Foreclosures in in 2010 and 363 in 2009, an increase of 11.5%

BUDGET UPDATE

Revenues

- Act 51 revenues / State Gas Tax & Vehicle Registration (significant funding source for the Major and Local Road Funds) are projected to decline continuously due to:
 - population loss
 - fewer miles being driven by the unemployed
 - increase in people working from home and
 - more fuel economical vehicles being manufactured
- Gas tax revenues may to be significantly insufficient in the future
- Currently the Major Rd Fund and Local Rd Fund receive no General Fund monies.

BUDGET UPDATE

Revenues

- Interest Income has significantly decreased over the last 4 years due to extremely low interest rates and now lower fund balances.
- In 2007/08, the City's General Fund benefited from \$1.5 million in interest income to help support operating costs; this year the City is on pace to earn only \$200,000.

BUDGET UPDATE

Revenues

- Current projections provide indication that the State Construction Code will be able to repay the General Fund approximately \$150,000 this year.
 - FY09/10 the State Construction was gifted \$583,000 from the General Fund to support expenditures

BUDGET UPDATE

Revenues

- USE OF FUND BALANCE TO BALANCE THE GENERAL FUND
 - FY 2009/10 nearly \$3 Million
 - FY 2010/11 nearly \$1.9 Million

BUDGET UPDATE

Revenues

■ FUND BALANCE

- Bond rating agencies review level of fund balance
- State of Michigan Score Card - downgrades City's for having less fund balance
- Royal Oak's score is now 5
 - 5 out of 10 = Fiscal Stress

BUDGET UPDATE

Revenues

- FY11/12 Significant Revenue News
 - \$1.3 Million in Projected SAFER revenue
 - \$930,000 in Projected ALS revenue

BUDGET UPDATE

Expenditures

- General Fund expenditures at the six month point are tracking slightly higher than budgeted, due the firefighter positions that are currently budgeted through April only.

BUDGET UPDATE

Expenditures

- Should the City experiences a surge of retirements at the end of the year, the current budget is not sufficient to cover the vacation and sick time payouts, therefore a budget amendment would be proposed to cover these costs (possibly in a form of a contingency) and additional use of fund balance would occur.
 - \$1.5 million in payouts could be realized in the next 16 months = potential use of fund balance

BUDGET UPDATE

Retirement

- FY11/12 - Contributions to the Pension System are anticipated to be nearly 40% of wages - Very Preliminary
- FY11/12 - Retiree Healthcare contributions are anticipated to approximately 50% of wages - Very Preliminary
- City will have two retirees to everyone one employee in the upcoming fiscal year.

BUDGET UPDATE

PRELIMINARY PROJECTIONS

GENERAL FUND

General Fund Summary	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Beginning Fund Balance	6,721,096	4,827,026	3,426,248	(347,242)	(5,825,592)	(11,741,852)
Revenues	30,232,990	30,460,602	29,528,240	28,193,530	28,362,300	28,553,650
Expenditures	35,072,060	34,012,900	34,771,730	34,966,880	35,433,560	36,056,560
Net	(4,839,070)	(3,552,298)	(5,243,490)	(6,773,350)	(7,071,260)	(7,502,910)
Transfers from other funds	2,945,000	1,455,000	1,295,000	1,295,000	1,155,000	1,055,000
Net Change in Fund Balance	(1,894,070)	(2,097,298)	(3,948,490)	(5,478,350)	(5,916,260)	(6,447,910)
Ending Fund Balance	4,827,026	3,426,248	(347,242)	(5,825,592)	(11,741,852)	(18,189,762)
Fund Balance as a percent of Expenditures	14%	10%	-1%	-17%	-33%	-50%

BUDGET UPDATE

- As the administration receives definitive fiscal information and completes its preparation of the recommended FY2011/13 budget, we will be able to more closely project and communicate the City's fiscal position.