General Fund
Long-Term Financial Plan

City of Marine City

May 15, 2014

Agenda

- Introduction to Long-Term Financial Planning
- Financial Environment Analysis
- Revenue Forecasts
- Expenditure Forecasts
- Financial Balance Analysis
- Financial Strategies
- Next Steps

General Fund Long-Term Financial Plan

INTRODUCTION

What is Long-Term Financial Planning?

- "Long-term financial planning (LTFP) is used to identify future financial challenges and opportunities through financial forecasting and analysis, and then, based on that information, to devise strategies to achieve financial sustainability.
  - Government Finance Officers Association (GFOA)

Elements of a Long-Term Financial Plan

- **Financial Environment Analysis:** Economic trends and critical issues
- **Revenue / Expenditure Forecasts:** Five to ten year projections
- **Debt Analysis:** Debt levels, debt sustainability, and debt capacity
- **Financial Balance Analysis:** Estimate future position and uncover imbalances
- **Financial Strategies:** Address future imbalances and maintain long-term balance
- **Cooperation:** A collaborative effort among elected officials, the finance office, and the public

Elements of this Review

- General Fund
  – Financial Environment Analysis
  – Revenue Forecasts
  – Expenditure Forecasts
  – Financial Balance Analysis
  – Financial Strategies

General Fund Long-Term Financial Plan

FINANCIAL ENVIRONMENT ANALYSIS

Economic Trends

Revenue (Decreases and/or Flat)

- Property taxes
- Loss of personal property tax
- State Revenue Sharing

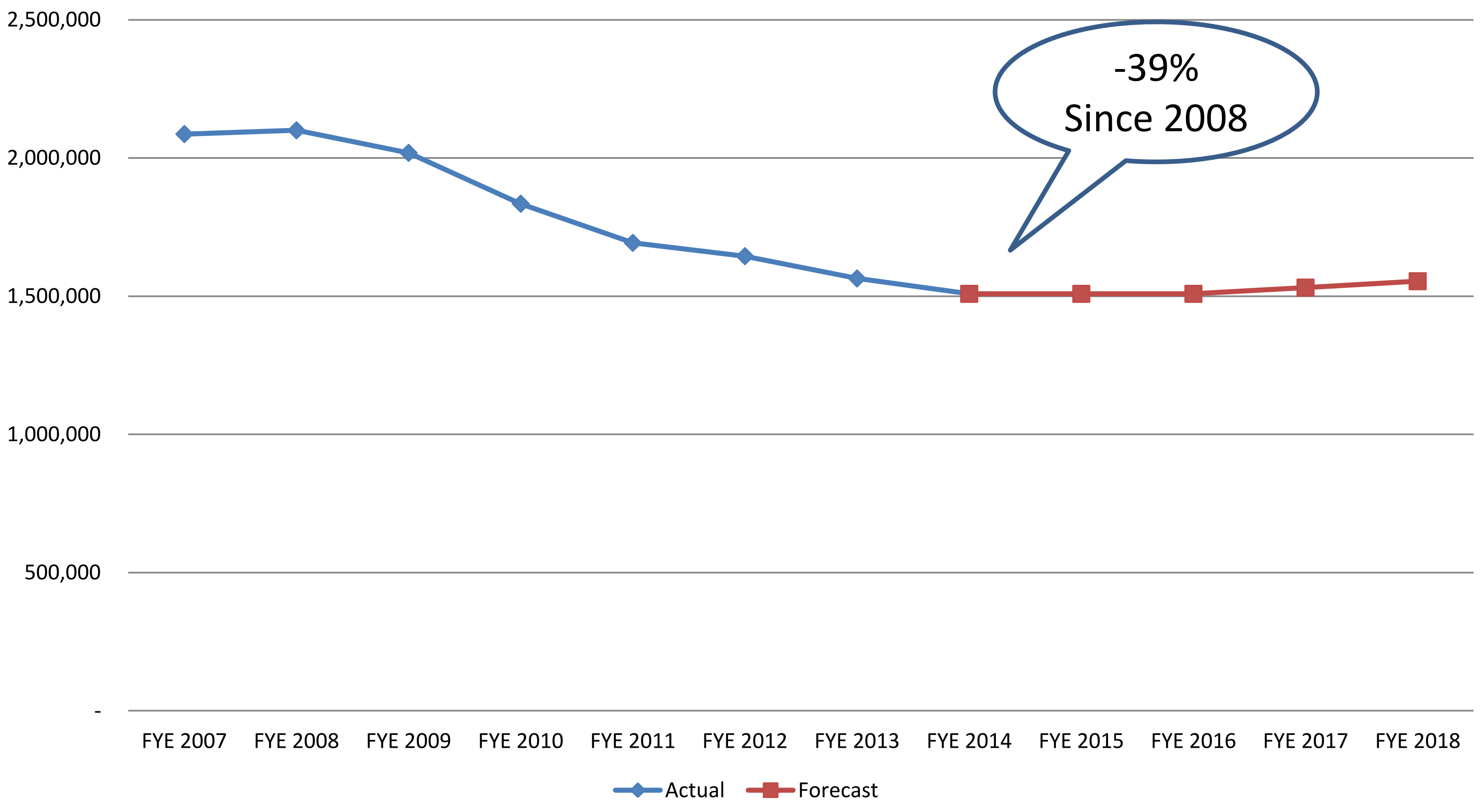
Cost Increases

- Unfunded Accrued Liabilities (Leave Hrs, Retiree H/C, Pensions)
- Fuel, electrical power, natural gas
- Equipment Maint, Buildings, Grounds
- Employee and retiree health insurance

Property Tax Revenue

- The City's total Taxable Value peaked in FYE 2008
- Decreased by more than 39% between FYE 2009 and FYE 2015
- Forecasted at zero increase between FYE 2015 and FYE 2016
- Forecasted at a 1.5% annual increase for FYE 2017 & 2018
- Forecasts are subject to change based on net effect of CPI

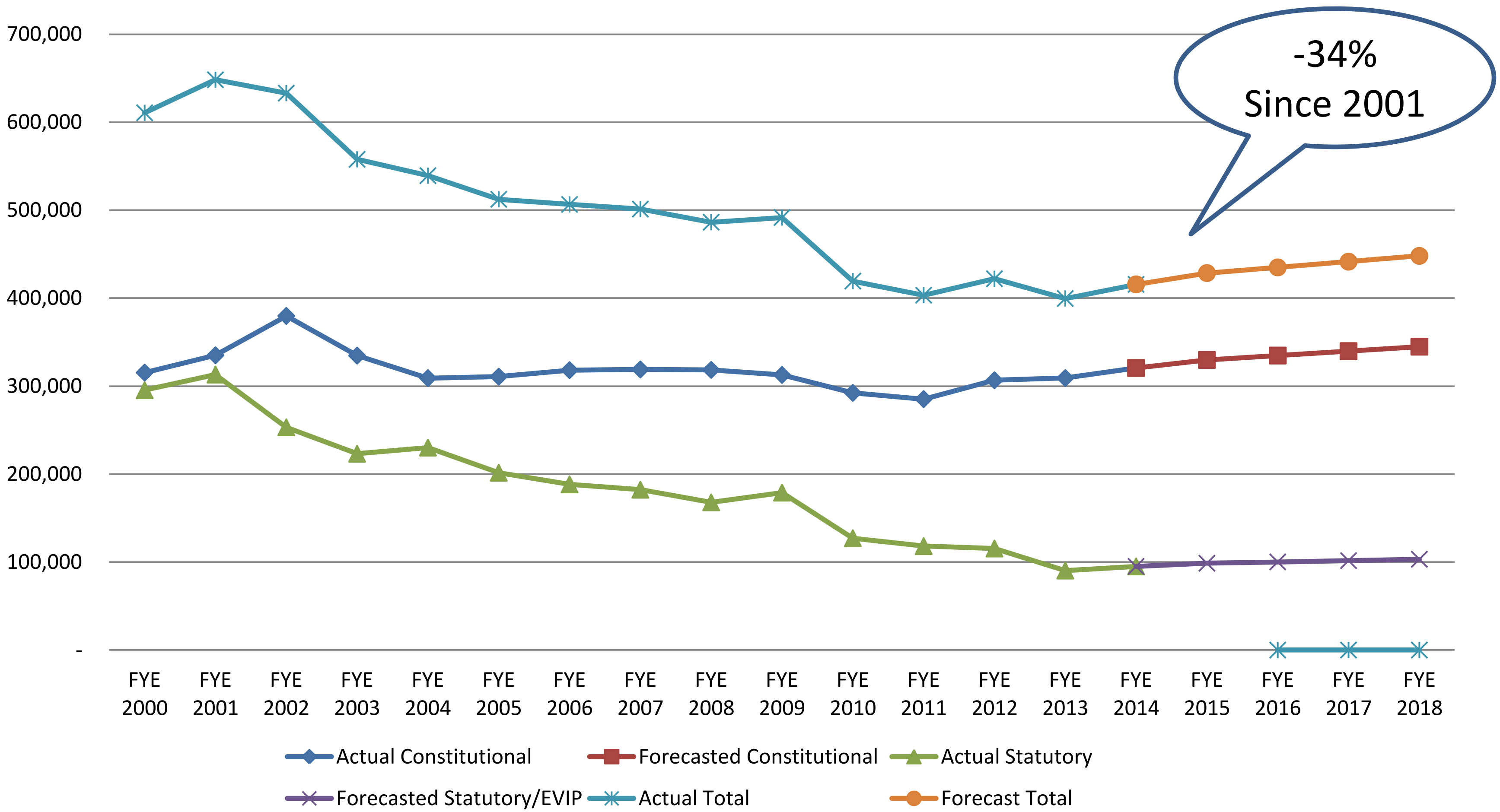
Property Tax Revenue Forecast



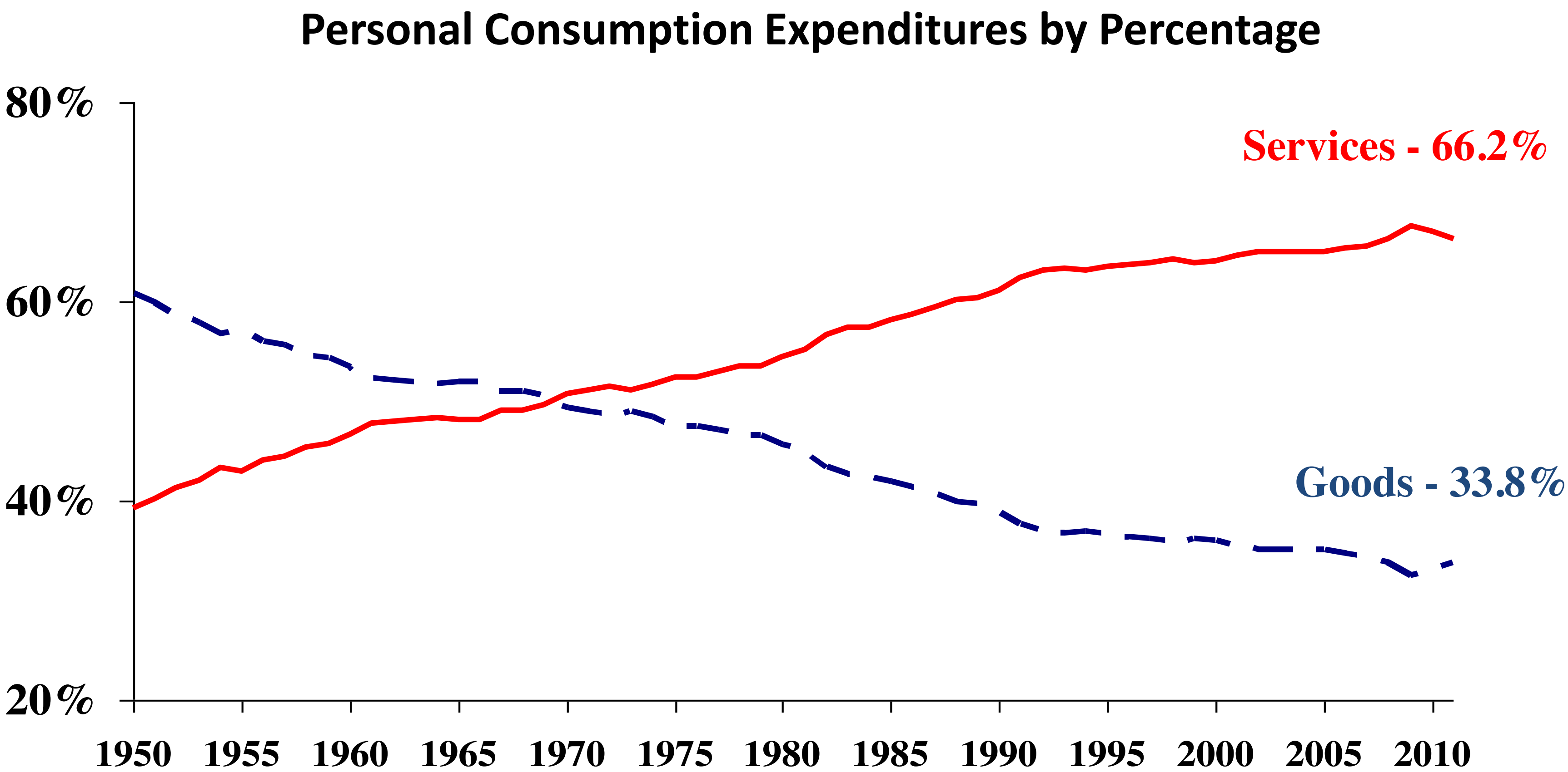
State Revenue Sharing

- The City's State Revenue Sharing decreased by more than 34% between FYE 2001 and FYE 2015
- Forecasted to increase by 1.5% annually between FYE 2016 and FYE 2018
- Forecasts are subject to change based on projected state wide sales tax revenues

State Revenue Sharing Forecast

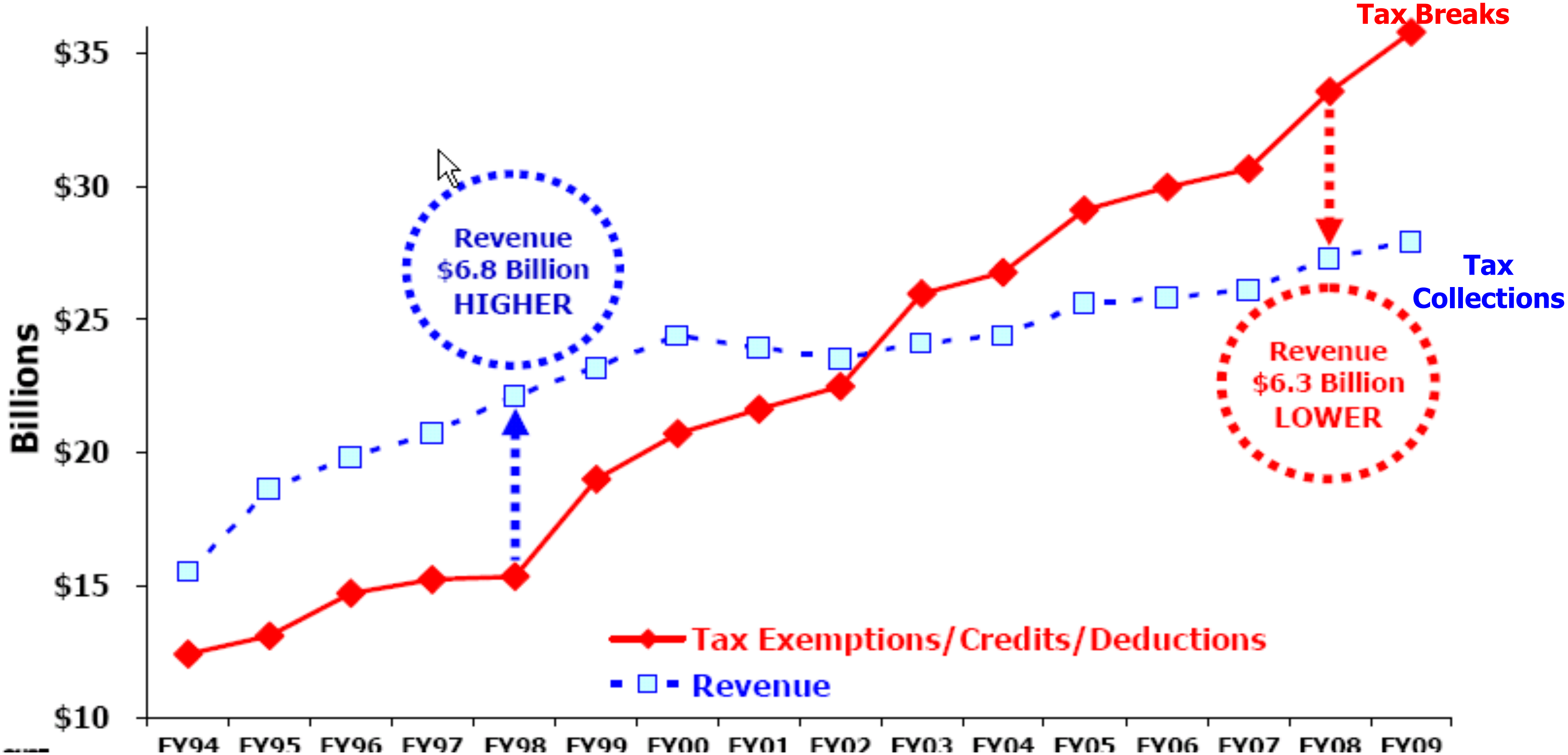


Our State Tax Structure Needs to Keep Pace With Changing Economy



Source: U.S. Bureau of Economic Analysis.

Tax Breaks / Tax Expenditures Larger Than Tax Collections



Source: House Fiscal Agency.

State Revenue Sharing Conclusion

- U.S. recession worst in decades
- Michigan has been in a recession since 2001 due to auto sector restructuring and U.S. recession
- Michigan recovery will require U.S. recovery, stability in the auto sector, <u>and</u> time
- Additional funding for local goverements, schools, economic development and other programs depend on the state economy growing <u>and</u> tax restructuring

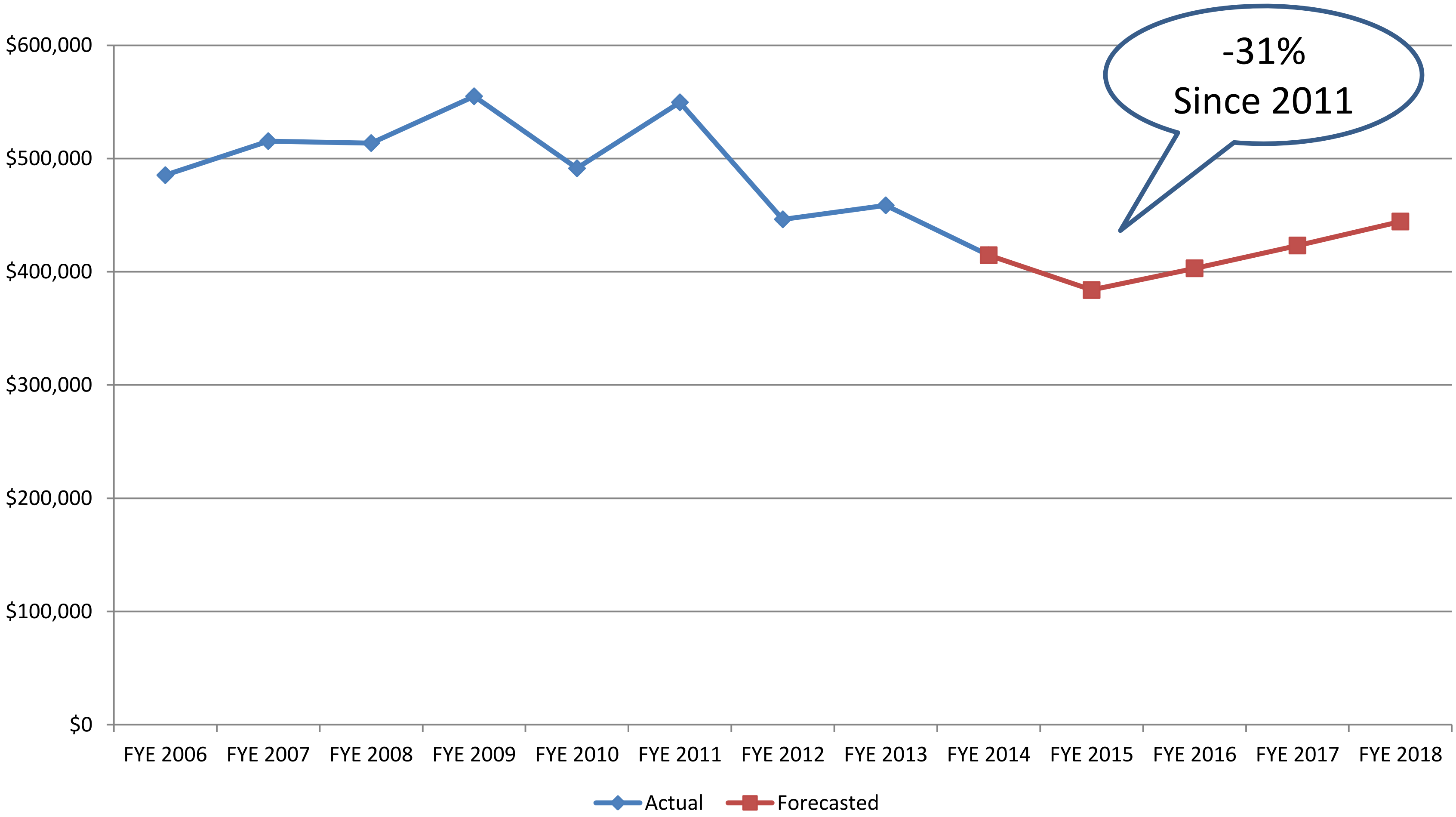
M/C Health Insurance

- The City’s employee and retiree health insurance costs have ***<u>DECREASED</u>*** by nearly 31% between FYE 2009 and FYE 2015
- Employees & retirees are currently paying 100% of the policy deductible along with some premium costs
- The City’s retiree healthcare plan is closed to future employees. A HSA plan is currently in place which will eliminate future legacy costs

Health Insurance

- Forecasted to increase by 5% annually 2016 and FYE 2018
- Forecasts are subject to change based on group demographics and actual usage

Health Insurance Forecast



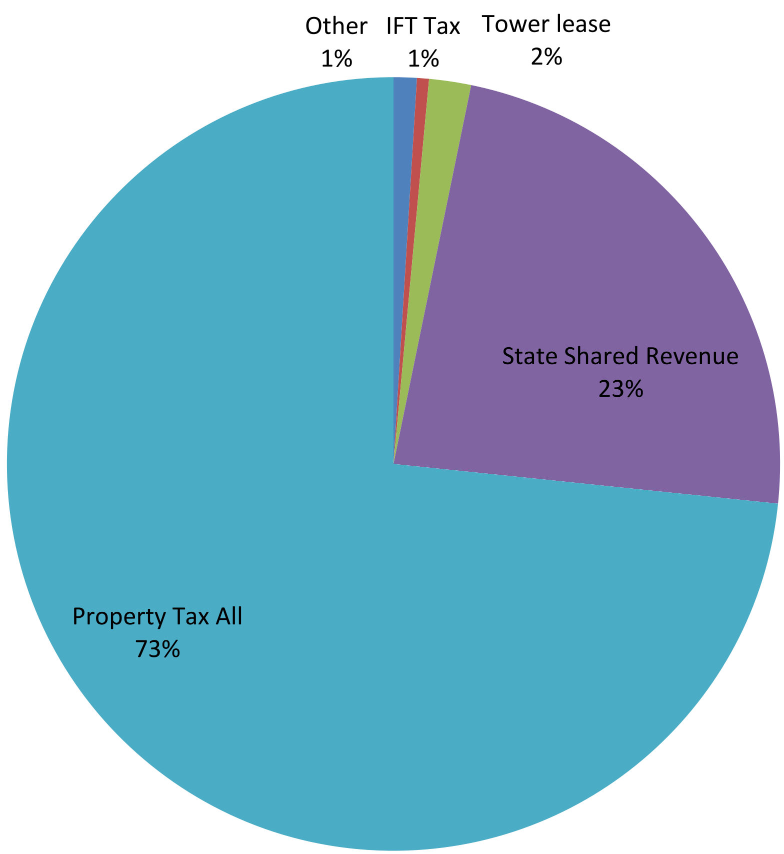
Critical Issues for 2015 & Beyond

- Deficit spending to a balanced sustainable city budget in FYE 2012, FYE 2013, FYE 2014, and FYE 2015 (projected)
  - A sustainable budget is a budget that meets all the requirements to support the required obligations for city services and costs year over year
- $7.6 million unfunded OPEB liability (Closed to new employees)
- $1.5 million unfunded pension liability (Closed to new employees)
- Our current revenue estimates will not keep up with projected expenses

General Fund Long-Term Financial Plan

REVENUE FORECASTS

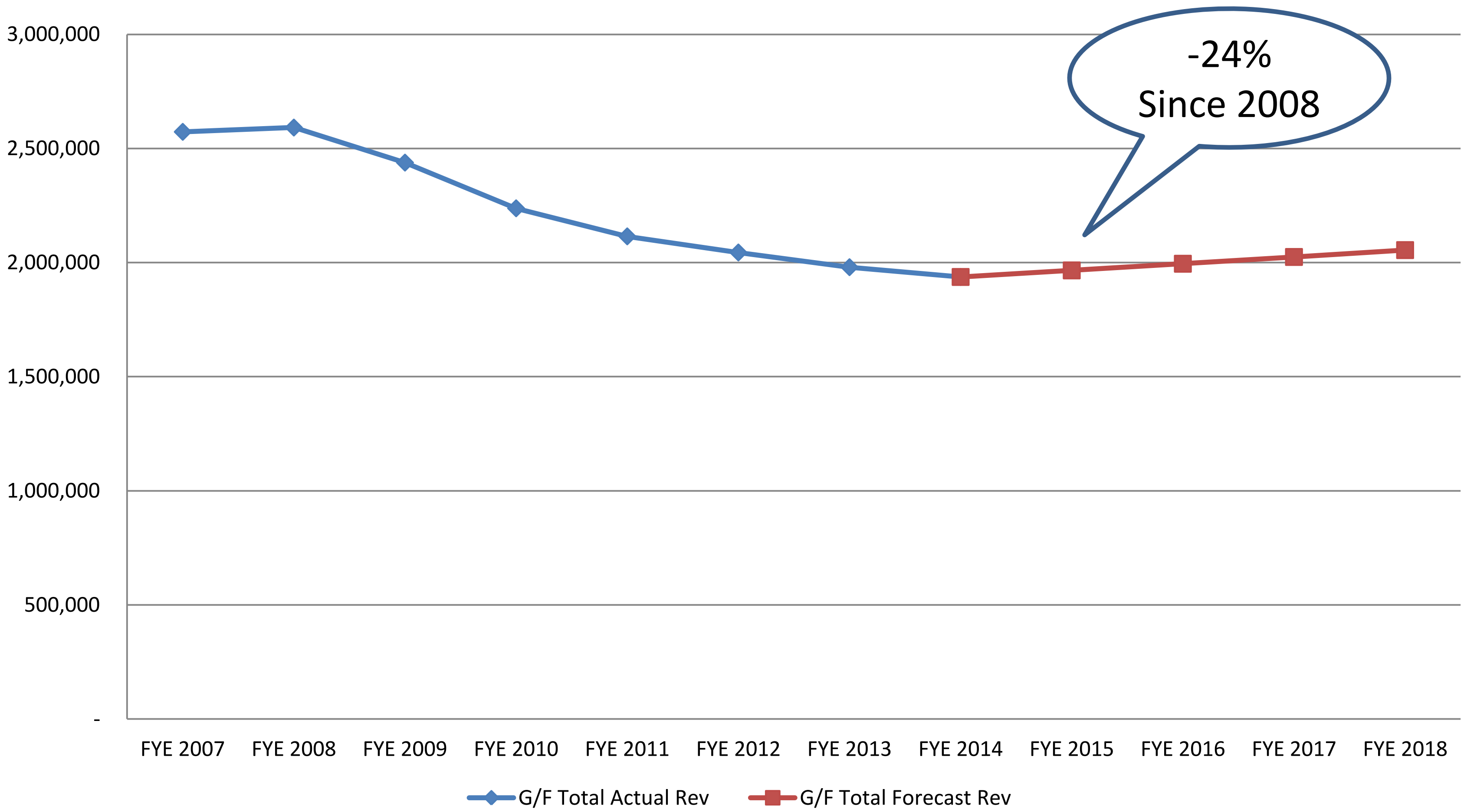
FYE 2015 General Fund Revenues



FYE 2015 General Fund Revenues

- Property taxes (real + personal) and State Shared Revenue account for nearly 96%:
  - Real Property Taxes = $1.4 million (73%)
  - State Revenue Sharing = $ 428,000 (23%)
  - IFT Property Taxes = $9,700 (1%)
- General fund revenues are down -24% from 2008

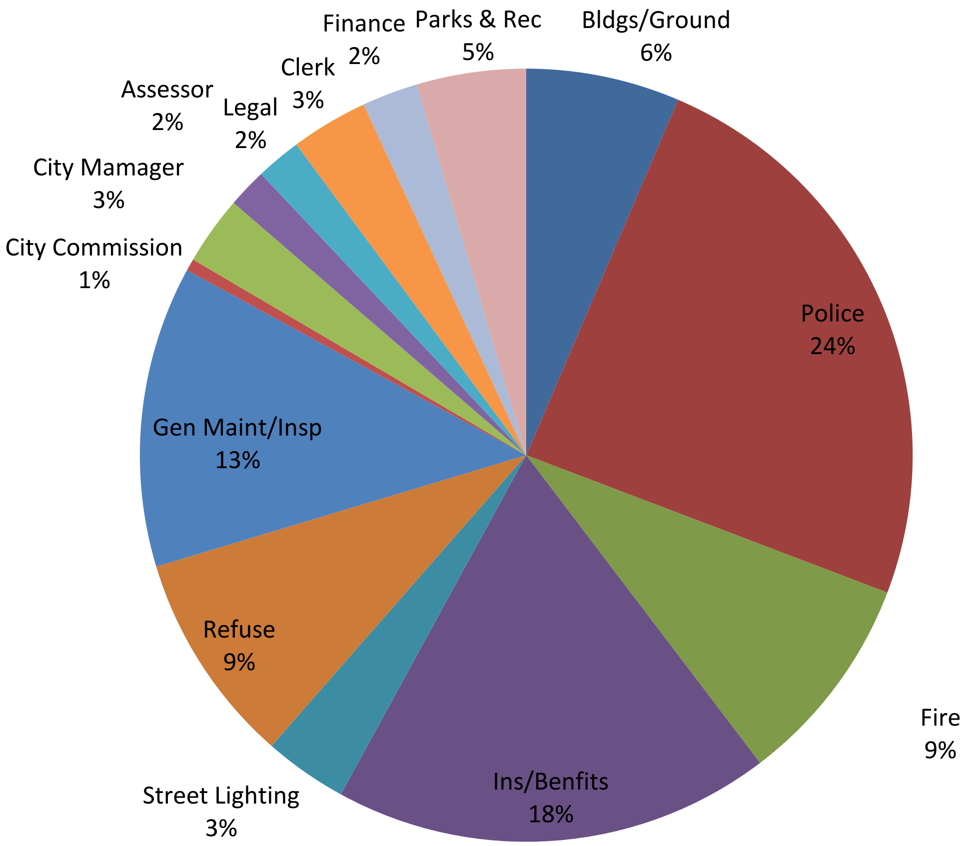
General Fund Revenue Forecast



General Fund Long-Term Financial Plan

EXPENDITURE FORECASTS

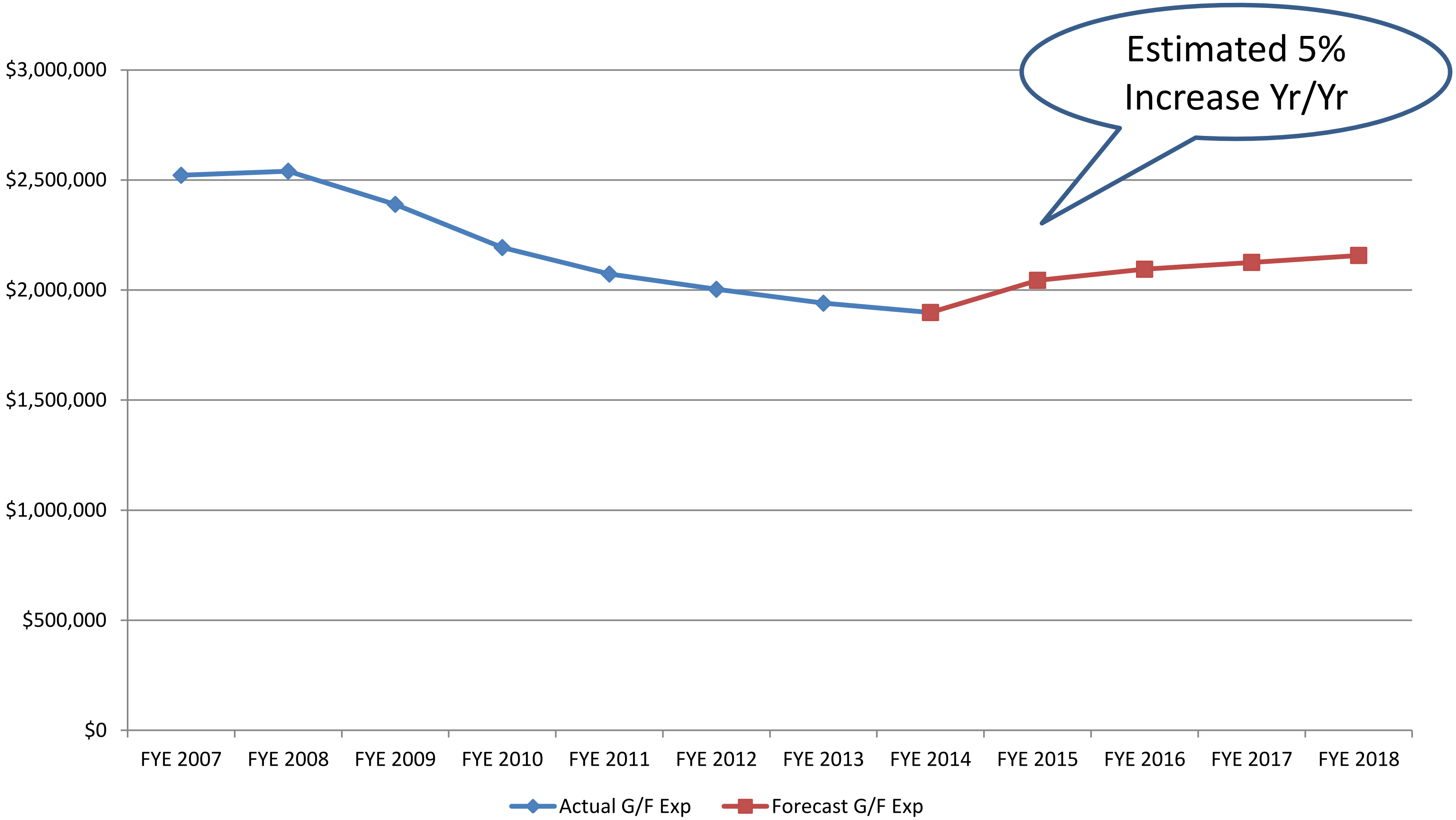
FYE 2015 General Fund Expenditures



FYE 2015 General Fund Expenditures

- Public safety accounts for 33% (Currently at minimum fulltime staffing levels (3) with part-time supplement)
- Employee benefits, street lighting, and refuse account for 30% (Fixed costs)
- General maintenance costs account for 13% (Currently at minimum fulltime staffing levels (4) with part-time supplement)
- Administrative accounts for 13% (Currently at minimum full time staffing levels (3) with part-time supplement)

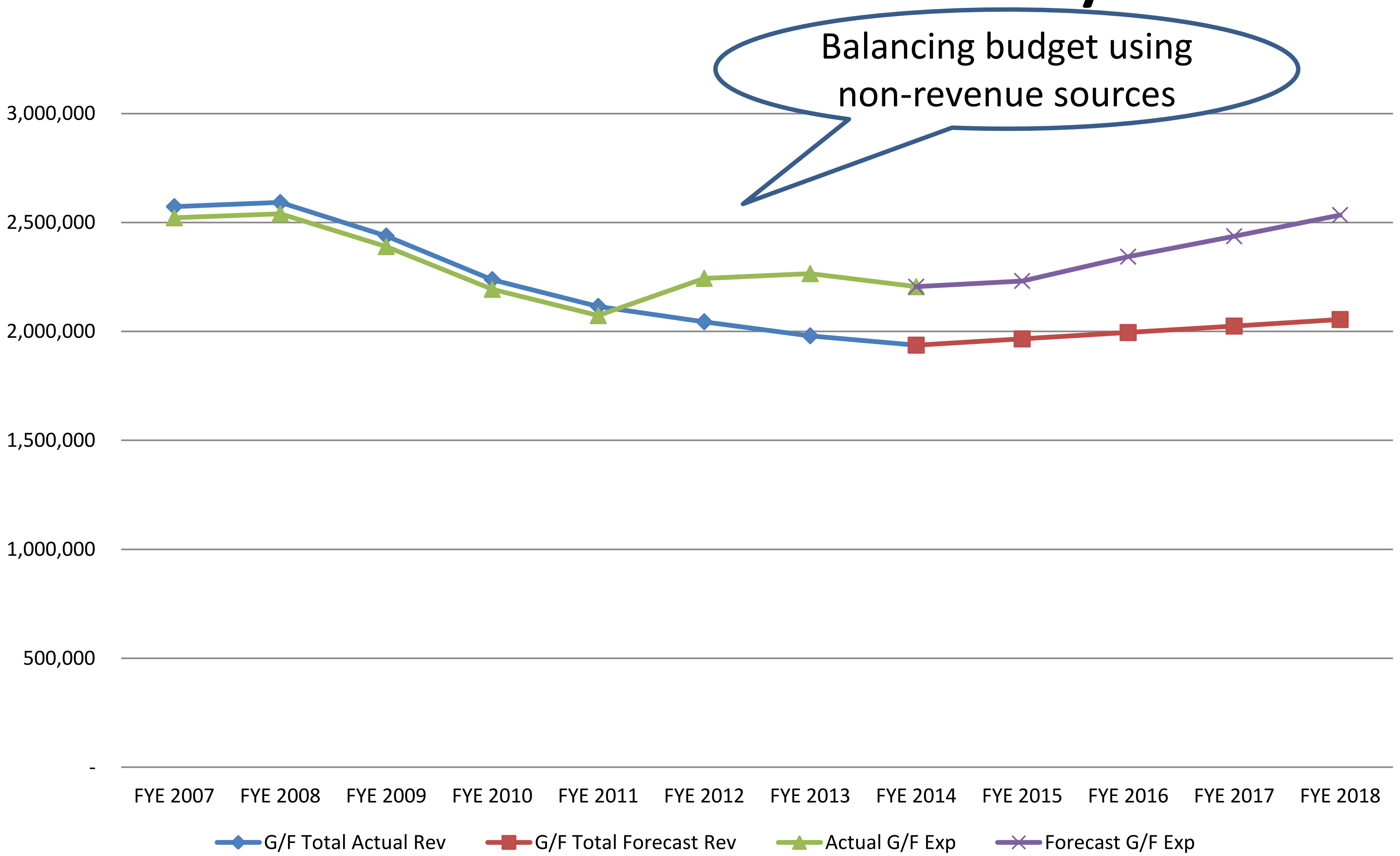
General Fund Expenditure Forecast



General Fund Long-Term Financial Plan

FINANCIAL BALANCE ANALYSIS

Financial Balance Analysis



Financial Balance Analysis

- Annual Imbalances
  - FYE 2012 = $240,000
  - FYE 2013 = $325,000
  - FYE 2014 (current fiscal year) = $307,00
  - FYE 2015 (next fiscal year) = $187,000
  - FYE 2016 = $249,000
  - FYE 2017 = $311,000
  - FYE 2018 = $377,000

Financial Balance Analysis

- Budget FYE 2012 (-$240,000)
  - Reduced (1) full-time employee in DPW (6-5)
  - Reduced (1) full-time employee PD (4 to 3)
  - Reduced Legal & Prof Services
  - Unfunded capital sinking fund for equipment replacement
  - Small misc adjustments

Financial Balance Analysis

- Budget FYE 2013 (-$325,000)
  - Cut 4-to-4 car in PD
  - Reduced (1) full-time employee DPW (5 to 4)
  - Transfer from Capital improvement fund to G/F
  - Supplement P/R with county millage
  - Small misc adjustments

Financial Balance Analysis

- Budget FYE 2014 (-$307,000)
  - Reduced (1) full-time employee DPW (4 to 3)
  - Reduce G/F pension contribution by 40% of actuary recommendation & transferred to G/F
  - Remove truck purchase from DPW
  - Stopped employer contribution to high deductible H/C plan
  - H/C insurance premium co-pay by active & retirees
  - Estimated deficit of $28,000 from fund balance

Financial Balance Analysis

- Budget FYE 2015 (-$187,000)
  - Cut capital improvements
    - PD, DPW, Building/Grounds, and Parks & Rec
  - Transferred funding from retiree healthcare fund to G/F
  - Reduce Parks & Rec budget for life guards and weak program attendance
  - Supplement P/R with county improvement millage

Financial Balance Analysis

- Cumulative imbalance FYE 2015-18 is estimated at $1.1 million in the General Fund
- Cumulative revenue increases for FYE 2015-18 is estimated at $117,761
- The city will be short an estimated $982,000 over this time period

Long-Term Financial Planning

FINANCIAL STRATEGIES

Shared Services

- Following services are already in place:
  - Assessing Services (St Clair County)
  - Government Cable Broadcasting Services
  - Library Services (St Clair County)
  - Police & Fire Dispatch (St Clair County Sheriff)
  - Marine City Fire Authority

Spend Cash Reserves

- Estimated FYE 2014 Reserves:
  - General Fund Balance = $594,000 (Est.)
  - Fiscal Reserve Policy (18% of $2.7 million FYE 2014 General Fund expenditures) = $500,000 (Est.)
- Expendable Cash = $94,000 (Est.)
- All other funds (debt service, enterprise, and special revenue) are legally restricted

Spend Cash Reserves

- Eliminates the City's ability to mitigate unanticipated expenditures and revenue shortfalls
- Compromises the City's ability to maintain infrastructure
- Exhausts cash reserves in FYE 2016 without balancing the budget with sustainable funding
- <u>*I cannot overstate how bad an idea this is and hesitate to include it but the Commission has the authority to do it*</u>

Dissolve & Transfer TIFA Cash Reserves in 2015

- Eliminates the City's ability to support economic development throughout Marine City
- Also compromises the City's ability to maintain infrastructure requirements
- Would require paying off all debt currently in place ($132,000)
- Would generate an estimated $271,000 (Estimated 50% of remaining fund balance of $542,000) additional G/F cash reserves

Dissolve & Transfer TIFA Cash Reserves

- Dissolving TIFA's will only generate an additional $10,000 in annual revenue to the G/F because of current charge backs already in place
- Based on current estimates the additional G/F cash reserves would be spent by FYE 2017 with no revenue recovery plan
- *<u>Again I cannot overstate how bad an idea this is and hesitate to include it but the Commission has the authority to do it</u>*

Expenditure Reductions

- Fixed costs account for approximately 63% of all General Fund expenses
  - Refuse (As billed)
  - Police & Fire (Currently at minimal levels)
  - Insurance / Benefits (Defined by contract)
  - Street Lighting (As billed)
- Variable costs account for approximately 37% all General Fund expenses
  - Employee pay and misc

Expenditure Reductions

- Non-personnel variable costs are estimated at just 20% of all General Fund expenses
- The City’s cumulative imbalance is greater than these costs so the City cannot balance the budget by eliminating these costs alone
- Balancing the budget without increasing revenues will require further service level and personnel reductions

Revenue Increases

- Tax base increase (economic development)
- Tax rate increase

Economic Development

- The City's existing tax base of $91,848,392 would have to grow by $18,000,000 (more than 20%) outside of the TIFA districts to generate an additional $300,000 in tax revenue
- Proposal-A and Headlee Amendments will never allow this to happen
- *Kicking the can down the road and wishing for things to get better is not a good business decision for our residents! This will not build confidence for our future*

Tax Rate Increase

- The City Charter currently limits the annual ad valorem tax levy to 20 mills
- “Headlee Rollbacks” have reduced the City’s maximum tax rate from 20 to 16.8707 mills during the good years
- A Headlee override would increase the limitation from 16.8707 back to 20 mills

Tax Rate Increase

- A 3.2 mill tax rate increase ($272,000) would definitely improve our short term revenue needs but may not generate what is needed for a long term sustainable budget

Financial Strategies

- Conclusion
  - The status quo is unsustainable
  - The City cannot continue to fund Unfunded Accrued Liabilities even on a pay-as-you-go basis while continuing to provide essential public services with existing revenues
  - A combination of continued expenditure reviews and revenue increases is necessary to sustain Marine City

Long-Term Financial Plan

NEXT STEPS

Next Steps

- The Marine City Commission must decide on the appropriate level of city services that are acceptable to sustain our long range goals and objectives
- The commission must decide on how to fund a sustainable budget to meet our long range goals and objectives well before July 2015

Long-Term Financial Plan

QUESTIONS