



CITY COUNCIL AGENDA ITEM

Date: April 5, 2012
 To: Mayor and City Council Members
 From: John Szerlag, City Manager
 Subject: General Fund Balance

Right out of the chute, let me state that the use of fund balance, and levels thereof, are up to the governing body. That said, let's delve a little deeper into this topic.

The simplest and most accurate definition of General Fund Balance is "What's left over". Every year our auditors review actual revenues and expenditures and advise whether a.) Revenues were greater than expenditures; or b.) Revenues were less than expenditures. If revenues are greater than expenditures, the fund balance amount is increased. The converse is true if revenues are less than expenditures. For a complete operational definition of fund balance please see attachment 1 from Interim Director of Finance and Administration, Thomas Darling.

The use of fund balance and levels thereto have been recommended and legislated for the past sixty-eight years. Before that, Troy was not a city. However, the salient discussion needs to focus on our rolling three-year budget.

Because of employee concessions, reduction of our workforce, and best management practices we now project revenues exceeding expenditures at June 30, 2012 in the amount of approximately 1.9 million in the general fund. And in terms of making a forecast, we expect the general fund balance to perform as follows:

Fiscal Year ending 6/30/13 even

Fiscal Year ending 6/30/14 (\$1,141,254)

Fiscal Year ending 6/30/15 (\$2,032,759)

	Estimated Unassigned Fund Balance	% of Expenditures
06/30/12	16.2 million	32.6%
06/30/13	14.5 million	28.9%
06/30/14	11.8 million	23.4%
06/30/15	11.3 million	21.9%

Also identified above are associated percentages of the fund balance to the total general fund budget.



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At this time I would like to make the following recommendation regarding use of fund balance:

Don't.

For fiscal year ending June 30, 2013 we have budgeted revenues even with expenditures. And fiscal years 2014 and 2015 have expenditures greater than revenues, which means fund balance will need to be utilized to have a balanced budget.

In addition, we are at the maximum of our millage levy. Therefore an increased percentage of fund balance could be used to get us through some rough spots should they be encountered. Many Cities, including Sterling Heights, Southfield and Allen Park have burned through a healthy fund balance over a relatively short time frame. So too, Oakland County, a paragon of county management, has a general fund balance of 44%.

Having made the above recommendation, I now wish to make an exception. And that is to allocate funding to keep unsustainable services in a particular area sustainable. The clear and only example we have is the museum and village green. Without an increased contribution from the city, the museum and village green will no longer be able to operate beyond July 1, 2012. As such, I recommend that the general fund allocation toward the museum be increased by \$75,000 per annum (Please know that \$50,000 per year is already included in the proposed budget). Over our three year budget, this increase will amount to \$225,000. When the museum was part of city government, our annual cost was over \$400,000 per year. In the aggregate, I am proposing about \$200,000 per year and this would yield a high quality service delivery venue. Attachment 2 is a letter from Museum Director Loraine Campbell which further delves into this matter.

When the time comes that revenues will be greater than expenditures, the governing body may wish to consider putting things back to increase our level of service. And I would suggest the following priority:

- a. Increase the level of productivity. The most cost efficient option would be to expunge furlough days.
- b. Add more police officers to the budget to generate a deployment beyond 1978 levels.
- c. Increase capital spending. And let me expound on this further.

The general fund balance can also be channeled toward capital improvement. It wasn't long ago that our standard for street systems was to maintain our entire network in a "good" condition. We have now ratcheted down to accept our street network on a "fair to good" scale. Why? Because it would cost approximately \$59 million to bring our entire local road system to a "good" condition and keep it there for the next five years. This breaks down to an additional budget of approximately \$9.7 million per year just for this item. Attachment 3 from the Engineering Department further addresses this issue.



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And to provide an even broader picture, let's speak now of our entire long range needs that fall under capital improvements. That amount is \$370,739,000. Attachment 4 provides a further breakdown of this number; specifically allocated toward major roads, local roads, drains and sidewalks. Our capital improvement plan for the next six years contains \$55,491,000 of scheduled improvements.

Before closing, let's address the issue of utilizing the fund balance to keep the library open seven days per week. Should it? From my perspective, "no". Here's why:

- a. It would cost an additional \$350,000 per annum to fund the library. Over the life of the millage, this comes to \$1.4 million. And we still have a declining revenue line in the general fund. Please know, however, that our initial forecast of tax revenue did not decline as much as originally anticipated. This means that we will be able to expend more on capital items to enhance our level of service. As example, during peak service delivery years we spent an average of \$775,000 per annum on library collection materials. We can now spend an average of \$664,000 on library collection materials which is up an average of \$130,000 per year based on earlier projections.

In short, the residents can have a six day per week library with a higher quality of collection materials and services. This beats a seven day per week library with a marginal collection materials and services.

Attachment 5 is a letter from Library Director Cathy Russ which further explains this matter.

- b. The voters authorized .7 mills for a library that would be open six days per week. This means an annual average budget of \$3.2 million; which is \$1.4 million lower than our highest budget year of 2007 - 2008.
- c. The sustainability of the museum, elimination of furlough days, increasing level of service in the police department, and advancing capital projects take precedence over a seven day a week library. This, of course, is only my recommendation. The final decision is yours.

As always, please feel free to contact me should you have any questions.

- c: Tom Darling, Interim Director of Finance and Administration
Mark Miller, Director Economic and Community Development
Steve Vandette, City Engineer
William Huotari, Deputy City Engineer
Monica Irelan, Assistant to the City Manager/Coordinator of Continuous Improvement
Cathy Russ, Library Director
Loraine Campbell, Museum Director



CITY MANAGER'S OFFICE MEMO

Date: April 12, 2012
To: John Szerlag, *City Manager*
From: Thomas Darling, *Interim Director of Finance and Administration*
Subject: Operational Definition of Fund Balance and Its Affect on Financial Stability

According to the Government Finance Officers Association (GFOA), financial stability is

"a government's ability to manage its finances so it can meet its spending commitments, both now and in the future," and whether "it ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation. (The, 1)"

A key component to financial stability is the governmental fund referred to as fund balance.

- 1) **What is Fund Balance?**
- 2) **Why does the City have a Fund Balance? What is the appropriate level of funding in the fund balance?**

- 1) According to the Government Finance Officers Association (GFOA), *[a]ccountants employ the term fund balance to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis. In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund (Appropriate, 1).*

The simplest way to define fund balance is: "What's left over."

During the budget process, the City (similar to any organization) should be conservative on both the revenue and expenditure lines.

There may be a time when the City receives more revenue than it budgeted; that may contribute to an increase in the fund balance.

There may be a time when the City expends less than budgeted; that may contribute to an increase in fund balance.

Conversely, there are times when the City receives less revenue than budgeted; that may contribute to a decrease in fund balance.

There may be a need for the City to expend more than revenues; that may contribute to a decrease in fund balance.

According to the "Comprehensive Annual Financial Report," the City needed to use fund balance to stabilize the budget six out of the last ten years (2002, 2003, 2004, 2007, 2008, and 2009).

The City Council approved the use of fund balance to continue service delivery and stabilize tax rates.



CITY MANAGER'S OFFICE MEMO

2) A fund balance is essential for fiscal stability.

The GFOA, within the context of Government Accounting Standards Board (GASB), has created Best Practices: Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR).

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning (Appropriate, 1).

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures (Appropriate, 2).

The fund balance is necessary "...to mitigate current and future risks..." but it is also necessary in order to keep the City's stellar credit rating.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments (Appropriate, 1).

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive" (Appropriate, 1).



CITY MANAGER'S OFFICE MEMO

Bibliography:

Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR), Government Finance Officers Association, Committee on Governmental Budgeting and Fiscal Policy, October 2009: http://www.gfoa.org/index.php?option=com_content&task=view&id=120&Itemid=134

The Public Finance Officers Role in Sustainability (Revised) (BUDGET) (2002, 2012), Government Finance Officers Association, Committee on Governmental Budgeting and Fiscal Policy, January 2012: http://www.gfoa.org/index.php?option=com_content&task=view&id=120&Itemid=134



TROY HISTORIC VILLAGE
where history lives

To: John Szerlag, City Manager
Mark Miller, Director of Economic & Community Development

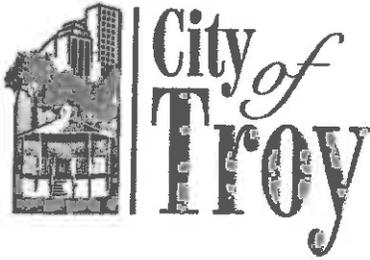
From: Cheryl Barnard, President Troy Historical Society
John Lavender, Treasurer Troy Historical Society
Loraine Campbell, Director Troy Historic Village

Re: Executive Summary: Progress of the City of Troy-Troy Historical Society
Public-Private Partnership

Date: April 11, 2012

The transition of the Troy Historic Village to a sustainable operational model by the Troy Historical Society, initiated on July 1, 2012, will not be accomplished in a single year and cannot succeed without additional financial resources. While the Historical Society has increased revenue from fundraising, programs and services over the levels of the prior year, the Troy Historic Village is still recovering from financial and operational cuts in FY 2009-10 and 2010-11 that resulted in a loss of staff, programs, public hours, and community confidence. These losses must be restored before the Historic Village can build regional institutional identity and donor support required for sustainable operations.

The letter of agreement between the City and the Troy Historical Society commits \$75,000 annual support for the core costs for which the City, as owner of the historic buildings, would be responsible whether or not the facility was open for the use and enjoyment of Troy residents and businesses. An additional annual allocation of \$75,000 from the City will enable the Historical Society to implement strategies to further increase revenues, strengthen programming, build regional recognition, and support a sustainable public-private operational model. This financial support and the increased efficiencies provided by our public-private service model can provide City residents a level of service that exceeds what was available in FY 2010/11 at a 31% reduction in City funding from FY 2010/11 levels.



BUDGET SUPPLEMENT – LOCAL ROADS

March 13, 2012

TO: John Szerlag, City Manager

FROM: Mark Miller, Director of Economic and Community Development
Steve Vandette, City Engineer *SV*
Bill Huotari, Deputy City Engineer/Traffic Engineer *WAA*

SUBJECT: Local Roads

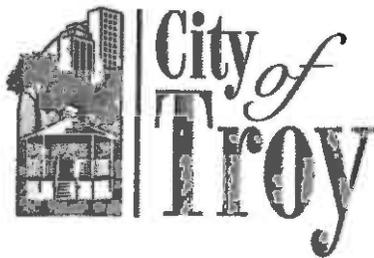
The City of Troy is responsible for the maintenance of approximately 265 miles of local roads. Approximately 246 miles of these are subdivision streets of concrete or asphalt, 5 miles are chip seal (a thin layer of liquid asphalt covered with stone chips) and 5 miles are gravel roads. Approximately 2/3 of these subdivision streets are concrete and 1/3 are asphalt.

In order to prioritize road maintenance activities, the City is using the PASER system. PASER is used statewide and is a "windshield" road rating system that uses a 1 to 10 rating scale, with a value of 10 representing a new road and a value of 1 representing a failed road. Condition ratings are assigned by visually identifying the type and amount of defects along a road segment while driving the segment. The PASER system translates these observations into a condition rating.

The City simplifies this system by grouping roads with a rating of 6 or higher as being in Good condition, 4 or 5 as Fair and 3 or less as Poor. Approximately 60% of local roads are currently rated in Good condition, with 39% in Fair condition and 1% in Poor condition.

It is estimated to cost \$59 million to bring the entire local road system to a "Good" condition and keep it there for the next 5 years. We would need to budget approximately \$9.7 million per year to implement this program. This amount does not account for staffing a program that would be over 3 times as large as our current local road improvement program.

Currently, the annual budget amount for local road maintenance is \$3,100,000 and typically involves concrete slab replacements, asphalt pavement overlays and crack sealing. It is managed by current staff with outside contractors performing the majority of the actual work.



BUDGET SUPPLEMENT –
LONG RANGE NEEDS

March 13, 2012

TO: John Szerlag, City Manager
FROM: Mark Miller, Director of Economic and Community Development
Steve Vandette, City Engineer *SV*
Bill Huotari, Deputy City Engineer *BH*
SUBJECT: Long Range Needs – Capital Improvement Funds

Background

The budget process includes the preparation of a 6-Year Capital Improvement Plan (CIP). In an effort to look into the future, beyond the 6-Year time frame, long range Capital Infrastructure needs in the Major Road Fund, Local Road Fund, Drains Fund and Sidewalk Fund have also been examined. The total cost for all long range Capital Infrastructure needs in these funds, beyond the 6-year timeframe, is estimated at \$370,739,000.

Major Roads - \$308,450,000

The City of Troy Master Plan includes a Thoroughfare Plan which identifies ultimate right-of-way widths for approximately 68 miles of major roads within the city, regardless of jurisdiction. These right-of-way widths vary from 120 feet to 204 feet. Typically, a five-lane pavement is built within 120 feet of right-of-way, while a six-lane boulevard is built within 150 feet to 204 feet of right-of-way. A four-lane boulevard is built in varying right-of-way widths from 120 feet to 150 feet. The estimated cost to construct all major roads to their ultimate lane widths is \$308,450,000 (which does not include projects that are currently in various phases and are planned to be reconstructed during the time frame of the 6-year CIP).

The major road projects can be classified in two categories:

- 1. New 5-lane roads - \$268,750,000 (87%)
- 2. New boulevards - \$39,700,000 (13%)

The estimated city share of these projects (based on a traditional 80% federal, 20% local match) is \$46,690,000 and assumes that the RCOC and city share equally in this match on County Roads. The estimated match by the RCOC or other communities (on border roads other agencies would be required to provide 50% of the local match) totals an estimated \$15,000,000. Federal funds in the amount of \$246,760,000 would be required to complete this scope of work. Normal maintenance activities for major roads are not included in these amounts.

In addition to the foregoing future costs, approximately \$4,000,000 per year is budgeted for normal maintenance activities, such as concrete slab replacement, asphalt overlays and crack sealing in the Major Road fund.

Attachment 4

Local Roads - \$7,260,000

The City of Troy is responsible for the maintenance of approximately 265 miles of local roads. Approximately 4.5 miles are gravel roads. Traditionally, paving of a local road is initiated by the residents living on the road by initiating a Special Assessment District (SAD). The cost to pave the road is split among the benefitting properties and the city. Once the road has been paved, future maintenance costs are traditionally borne by the City and paid for through the Local Road fund.

In an effort to quantify the cost to pave the remaining gravel roads, past SAD projects were analyzed. An estimated cost of \$275 per linear foot was derived, yielding an estimated cost of \$7,260,000 to pave the remaining gravel roads in the city. Applying the city's traditional share of an SAD paving project (approximately 65%) provides the city share of these projects at \$4,719,000. Residents living on these roads would be responsible to pay an estimated \$2,541,000. Normal maintenance activities for local roads are not included in these amounts.

In addition to the foregoing future costs, approximately \$3,000,000 per year is budgeted for normal maintenance activities, such as concrete slab replacement, asphalt overlays and crack sealing in the Local Road fund.

Storm Drains - \$24,908,000

The City of Troy is divided into two principal drainage areas or watersheds: the Rouge River Watershed and the Clinton River Watershed, which contain numerous county drains and are largely governed by the Oakland County Water Resources Commissioner.

Projects in the city's Drain Fund, many of which are on county drains, are proposed annually that comply with state and federal mandates as well as projects that address drainage concerns; soil erosion; flooding; and regional drainage in accordance with the 1999 Master Storm Drainage Plan Update.

Approximately \$5,000,000 in major storm drainage projects, identified in the Master Storm Drainage Plan Update, have been completed as part of major road projects on Big Beaver, Rochester, Long Lake, Livernois, Wattles and Dequindre Roads as well as the Dennis Powers drain project in Section 3.

A significant portion of the remaining \$24,908,000 in improvements will be constructed as part of future road widening projects. The majority of these costs will not be eligible for federal funding due to the fact that they provide for regional drainage and not just for the road project. The remaining storm drain projects are not related to road projects and would be constructed as capital funds allow in the future. Normal maintenance activities for storm sewers and drains are not included in these amounts.

In addition to the foregoing future costs, approximately \$200,000 per year is budgeted for normal maintenance activities, such as fence and pump replacements, detention basin maintenance and storm sewer cleaning in the Drains fund.

Sidewalks-- \$30,121,000

In order to facilitate pedestrian travel along major mile roads, the city requires 8-foot sidewalks along both sides of all major roads. In certain circumstances, 5-foot or 6-foot sidewalk has been constructed to accommodate existing utilities and/or natural features. In order to complete the sidewalk network, numerous gaps need to be filled in.

There are two primary methods to achieve this goal:

Attachment 4

1. Major road widening projects include construction of new sidewalks if they do not exist.
2. \$100,000 is budgeted annually for "New Construction" which is used to fill in gaps where significant right-of-way exists.

To date, the city has not condemned property for purposes of constructing sidewalks where right-of-way is needed. Acquisition of right-of-way is a significant portion of the estimated cost to fill in all major road sidewalk gaps, approximately twice the cost of the actual sidewalk construction.

There are over 22 miles of sidewalk gaps on major roads. The estimated cost to fill in these gaps and construct new sidewalk is approximately \$9,516,000. The estimated cost to acquire right-of-way for a significant portion of these gaps is \$20,605,000. In total, it is estimated to cost \$30,121,000 to fill in all major road sidewalk gaps. Normal maintenance activities for existing sidewalks are not included in these amounts.

In addition to the foregoing future costs, approximately \$400,000 per year is budgeted for normal maintenance activities, such as sidewalk replacement in the Sidewalk fund. A portion of this cost is reimbursed by residents for sidewalk repairs performed by the city's contractor.



Memo

To: John Szerlag, City Manager
From: Mark Miller, Economic & Community Development Director
Cathleen Russ, Library Director
CC:
Date: March 26, 2012
Re: Possible seven-day operations at the Troy Public Library

There has been some discussion regarding re-opening the Troy Public Library on Fridays, for a seven-day per week operation. In order to restore TPL to a 7-day operation in 2012-13, the City would have to subsidize the revenue generated by the library's dedicated 0.70 millage by \$350,000. These funds would be used to hire additional library staff and supplement the library's current allocation for utilities and custodial services.

We strongly recommend that this discussion be postponed for at least a year, for the following reasons.

First, Library Administration has not received any complaints from library cardholders about the library being open only 6 days per week, especially since the change to be open Saturday.

Next, the library has budgeted for a strategic planning consultant, per the request of the prior City Council. It is expected that the strategic planning process will commence within the next few months, pending City Council approval. The strategic planning process is the ideal time to ascertain whether or not the Troy community desires a 7-day library or if residents are fine with the way things are.

If the city council approved the appropriation of \$350,000 to fund the 7th day of library operations for FY 2012-13, it would be necessary for the city council to commit to sustain this level of funding over the remaining life of the millage, to ensure consistency and stability of library operations (4 years x \$350,000 = \$1.4 million).

If these funds were not guaranteed for the life of the millage, city council would have to re-appropriate these funds to the library every year.

If for some reason city council opted not to re-appropriate additional funds to the library in future fiscal years, the staff that was hired to support 7-day operations in FY 2012-13 would have to be laid off. This is of great concern to library administration, as the library's reputation as a respected and desirable place of employment would be damaged. It would be difficult to attract excellent candidates to positions which may be of temporary duration.

Further, library hours of operations and library services will not be consistent, if funding levels fluctuate. This is a disservice to the community. As demonstrated on the attached chart comparing area libraries to Troy Public Library, several libraries are now closed at least one, if not more days per week.

Lastly, in terms of the city's budget, the picture is complicated by the proposed elimination of the Personal Property Tax. The elimination of this tax will have implications for the city's budget. It seems rash to commit \$350,000 per year (\$1.4 million over 4 years) to fund a 7th day of library service when the city has other demands on its budget, and it is not clear that the community requires it.

Therefore, we strongly recommend that the council table the discussion of a 7-day library for at least a year, until the recommendations of the library's strategic planning process can be determined, as well as the impact on any changes to the PPT and the city's revenue stream and the resultant effect on the city's short- and long-term budgets.

Statistical Comparisons of Area Libraries (2011-12)

Library Population Served	Annual Budget	Circulation Statistics	Annual Visits	# of hours open/wk	# of Days open Day(s) closed	Staff			Director Salary
						FT	PT	Sub	
Birmingham 31,481	\$3,176,112	721,380	325,976	67	7	14	31	14	\$86,800
Bloomfield Twp 41,070	\$5,419,132	894,241	433,033	68.5	7	*19	*32		\$115,000
Brighton 43,254	\$1,584,185	482,124	253,245	51	Win: 6 (Thur) Sum: 5 (Thur/Sun)	9	50/51		*\$65,650
Canton 90,173	\$4,969,210	1,951,445	594,492	72	7	16	61	18	\$92,000
Clawson 11,825	\$476,250	85,530	74,938	40	5 Win: Fri/Sun Sum: Sat/Sun	1	12		\$64,595
Madison Heights 29,694	\$530,065	114,789	109,074	56	6 Sunday	3	10	4	\$89,388
Novi 55,264	\$2,683,487	759,021	371,274	62 Win 58 Sum	Win: 7 Sum: 6 (Sunday)	18	52		\$73,300-\$102,600
Plymouth 36,656	\$3,476,000	1,032,560	398,000	67	7	14	56	5/6	\$105,500
Rochester Hills *100,269 (YR 2000)	\$4,227,000	1,861,311	1,500-2,000 per day	71	7	*20	*37		\$130,915
Royal Oak 57,236	\$2,335,440	300,674	381,849	60	6 (Sunday)	10	27/28		\$77,000
Southfield 82,532	\$7,926,061	650,000	625,000	67 Win 63 Sum	Win: 7 Sum: 6 (Sunday)	28	89		\$90,000
Sterling Heights 129,699	\$2,565,210	614,905	484,259	57.5	6 (Sunday)	16	29	2	\$115,175
Troy 81,000	\$3,008,495	1,300,000	500,000	55	6 (Friday)	6	62	4	\$88,315
Warren 134,056	Exp: \$3,325,443 Rev: \$5,800,658	478,255	326,386	Main (WCV): Win: 58 Sum: 54 Branches Avg: 46.3	Win: 7 Sum: 6 (Sunday) Branches: 6 (Sunday)	*11	*22		\$91,911
Westland *87,000(YR 2000)	\$1,797,593	479,386	*221,543	69	7	*8	*24		\$78,000
West Bloomfield (incl Westacres) 89,656	\$4,860,773	2,785,702	2,500 per day	65	7	*20	*31		n/a