Tom Darling

From: Tom Darling
Sent: Wednesday, April 25, 2012 2:41 PM
To: John Szerlag
Cc: Beth L Tashnick
Subject: RE: Request for Information

Responses below.....

-----Original Message-----
From: Beth L Tashnick On Behalf Of John Szerlag
Sent: Wednesday, April 25, 2012 8:03 AM
To: Tom Darling
Subject: FW: Request for Information
Importance: High

Tom,
Would you like to respond to these questions and send your responses to John and me.

Thanks.
Beth

-----Original Message-----
From: Janice Daniels
Sent: Wednesday, April 25, 2012 6:45 AM
To: John Szerlag
Cc: Lori G Bluhm
Subject: Request for Information

Good morning John:

Could you please give me clarification regarding the following questions, some of which I posed at the April 23 Budget Study Session:

1) On page 23 of the Expenditure Comparison: All Funds chart, the 2012 estimated is $122.8 million. Why is the Total City Budget on the Financial Organizational Chart $131.8 million. In other words if the city can be run on $122.8 why budget for $131.8?

Response: Estimated amounts are what we are projecting will actually occur. Keep in mind that we will not know the outcome until the audited financials are compiled and submitted in December. Budgeted amounts are the financial plan. More to the point of why actual does not always equate to budget can be derived from several factors as explained in Item# 4 from the February 28, 2012 FAQ memo. One of the major factors in this particular case is the amount estimated to be paid for capital (page 21) of $9.8M and the amount budgeted for 2013 (18.0M). An example of this would be the Transit Center (or for that matter, any other capital project), we are not projected to pay for a Transit Center in 2012. We are however, budgeting to pay for a Transit Center in 2013 ($6.2M). Again, page 21 includes all funds and all activities including capital (which should be considered an investment as opposed to an operating cost). Finally, the budget is the framework that is setup for management to work within (estimated actual). It is a good thing to see that management is coloring inside the lines.

2) What is the difference between the original 2011/2012 total City Budget of $133.7 million and the revised 2012 budget $149.7 million?

Response: The $133.7M on page 17 of the 2011/2012 would be the original budget without amendments and in the case of 2011/2012, did not include capital expenditures for Internal Service or Enterprise Funds. You will see that the pg 17 $133.7M in 2011/2012 budget is different to the 2011/2012 budget page 23 amount of $146.1M which includes these capital expenditures.

In addition, amendments were made to the 2011/2012 budget for the Library. The 2012/13 budget includes these amendments in the 2012 budget column.

As such if you take the 2011/2012 budget amount from page 23 of $146M and add the library amendment of approximately $3M, you will arrive at the 2012 budget amount reported in the 2012/2013 budget of $149M.

3) The original 2011/2012 Capital Projects Fund Budget is $25.5 million, the 2012 estimate is $11.6 million ($14 million under spent) and the 2013 budget is $17.9 million. Two questions: Why the fluctuation and where is the $14 million under spent going?

Response: The major difference between budget and estimated for capital projects can be found on pages 143 to 147. Some of the major differences would be:

Garage Renovations budgeted at $160K, projected at $0
EEBG Wind Sires budgeted at $321K, projected at $0
Transportation Center budgeted at $9.2M, projected at $100
Drains budgeted at $2.5M, projected at $145K.

As mentioned in the previous response, although we budget for these projects, we do not always pull the trigger.

In point to your second question, any unspent funds remain in fund balance available to be appropriated to the future year. Perhaps again the Transit Center may be a good example. We budgeted $9.2M to be spent on the Transit Center in 2012, we spent $0. As such the $9.2M is available to be appropriated (budgeted) for 2013, and in this case $6.2M is. If we do not spend the entire $6.2M in 2013 (say the contractor does not complete the job by 6/30/2013), any difference will remain in fund balance and available to be appropriated the following year.

For example. Say of the $6.2M budgeted for 2013, the contractor only completes $4M of the work by 6/30/13. That would leave $2.2M available to be appropriated in 2014 to complete the job. As such we would budget $2.2 in 2014. Although we budgeted $6.2M in 2013 and $2.2M in 2014, we only actually paid $6.2M for the total contract ($4.0M in 2012 and $2.2M in 2013).

4) Can we break out the transit center dollars to a separate box on the Financial Organizational Chart (like the Library has been broken out) so that the citizens of Troy can easily track the project costs?

Response: If I understand correctly, you are referring to page 16. Page 16 is by a Fund Type and Fund/Dept Basis. The Transit Center is neither a Fund Type, Fund or Dept. It is only a component of Capital Projects which is already on the chart. I appreciate that you like this page as you have referred to it on several occasions during these questions (I do too!).

5) Can you tell the citizens more about what is going on with the Refuse and Debt Service millage increases? How much money do we have? What opportunities might we have for savings that might preclude the need for any millage increases?

Response: I can certainly try, but I may need your help. Clearly millage increases (driving the revenue line) are the last resort after making every effort to reduce expenditures. In the case of refuse and debt service, we do not have much if any opportunity to do the later.

As you know there is not much negotiating with a bond holder to take a cut in interest (if and when there is, we would refinance the bonds much like we did for the golf course). Refuse is contracted out. These contracts and services are provided and negotiated through Southeast Oakland County Resource Recovery Authority (SOCRRA). I am not sure of your familiarity with this entity but it is made up of approximately 14 member communities (including us), all with voting rights on the board (take a look at the website www.socrra.org). This example of consolidating services in government probably provides a good value for the cost.

Our problem with both debt service and refuse is the decrease in taxable value. As you are aware, tax revenue is mils X taxable value. We know that refuse costs are going up and debt service is somewhat consistent for cash requirements. Unfortunately, millage is the only variable (controllable) in the equation below:

If revenue=expenditures, then mils X taxable value = refuse + debt service costs.

6) In your April 16, 2012 memo Subject: City Council Member Questions and Responses: Clarification for Agenda Item N-09 from Mrs. Lorraine Campbell, she states that "While the Society will continue to run the Village in FY 2012/2013, they will terminate their operations agreement with the City and the Museum will close without identifying additional financial resources in 2012/13 to support a sustainable business model." At the April 23, 2012 Budget Study Session I believe Mrs. Campbell said that the Museum will not close even if we do not provide the $75 million budget contribution. Four questions: a) Can you please get clarification whether the Museum will or will not close in 2012/2013 without the additional contribution? b) Can we get a written report on the plan that the Museum will put in place to utilize the $75 million contribution so that we have some measurement for success? c) Has the city received documentation on Museum efforts to obtain the best pricing available for quality services, equipment, supplies and materials as outlined in The Agreement Made on March 28, 2011 by and between the City and the THS, No. 5 Start Up Funding by Troy? d) Can we make this a graduated reduction in additional contribution for the three year budget, say $75 million for the first year, $50 million for the second, $25 million for the third year, with the goal being to keep intact the previous council's decision to eliminate funds for the Museum?

Response: This may be more in line with a response from Lorraine Campbell.

Final Thought: In some cases it may be more advantages to discuss these issues in an informal face to face setting due to the technical nature of governmental finance and accounting that may not lend clarity in a memo/response platform. As such I would certainly be willing to schedule a meeting at any time to further discuss these concepts unique to government but also specific issues as they relate to the City of Troy. TD-

Thank you for your kind consideration.

Best regards,

Janice