



■ City of Southgate

Financial Assessment

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City of Southgate Overview



Southgate is historically a community that:

- Has budgeted conservatively
- Has set funds aside for severance, capital improvements, pensions
- Has started a retiree health care fund
- Has reduced staffing levels through attrition
- Has made the community a desirable place to live through investment in recreation facilities, roads and community development

City of Southgate Overview



Southgate is also a community faced with:

- Declining Tax Base
- Declining Revenue Sources
- Overwhelming Legacy Costs
- The income to operate the City is simply not enough to continue to pay active employees, maintain service programs and keep commitments to past employees
- Payments for pension and health benefits for retirees continues to increase and currently represents over 20% of the general funds budget

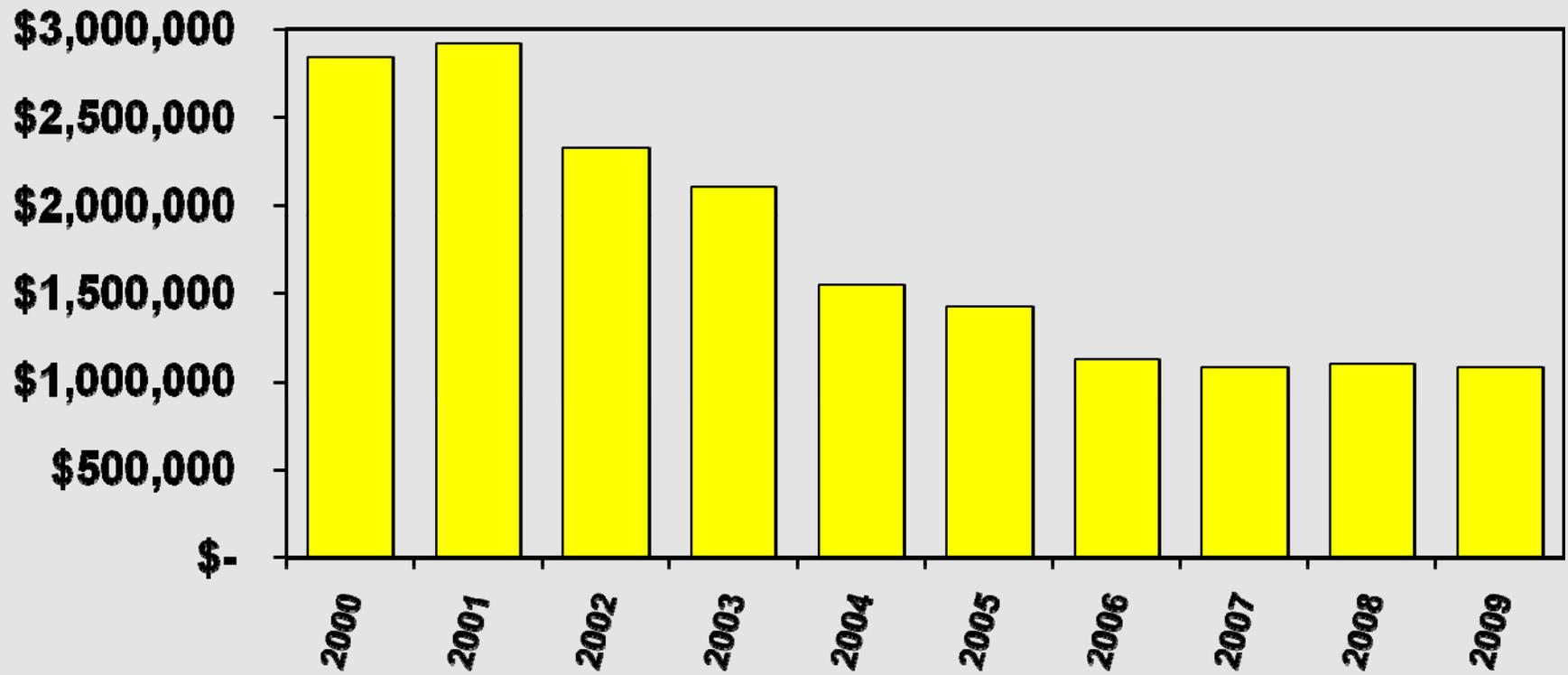
City of Southgate Legacy Costs - 6/30/09



General Fund Revenue	\$22,700,000
Less Fixed Expenses	
Required pension contribution – by State law	\$ 2,700,000
Retiree healthcare premiums	\$ 1,300,000
Retiree prescription costs	<u>\$ 700,000</u>
Current legacy costs	\$ 4,700,000
Current legacy costs as a percent of revenue	20.7%
Remaining revenue to provide services	\$18,000,000

City of Southgate

10 Year History of General Fund Undesignated Fund Balance



At June 30, 2009 Undesignated Fund balance was \$1,080,069 which represents about 14 days of expenses

City of Southgate Overview (continued)



Key External Revenue Factors:

Property taxes, which were 61% of the 2009 General Fund Revenue, will decrease

- Property values have decreased significantly and taxable value will follow suit

Revenue sharing which was 14% of the 2009 General Fund Revenue, is being further threatened

- Revenue sharing is funded totally by sales tax and sales tax collections are down in this economy
- The State has decreased 2010 revenue sharing payments by 14.3% a decrease of \$446,000
- The statutory portion of revenue sharing may be eliminated altogether which would result in a revenue loss of \$781,000

The City cannot impact its largest revenue sources

- Property taxes and state shared revenue account for 75% of total General Fund revenue

City of Southgate Overview (continued)



Key Internal Expense Factors:

The City's pension contribution has increased from \$525,000 to \$2.7 million annually over the past 10 years

- The retiree base is growing; there are more retirees than active employees

Pension assets have decreased by 20%

- Pension assets decreased approximately \$14 million (from \$69 to \$55 million) in 2009
- The Actuary has not taken this market decrease into account yet; however, the pension contribution will have to increase in the future to make up for these losses

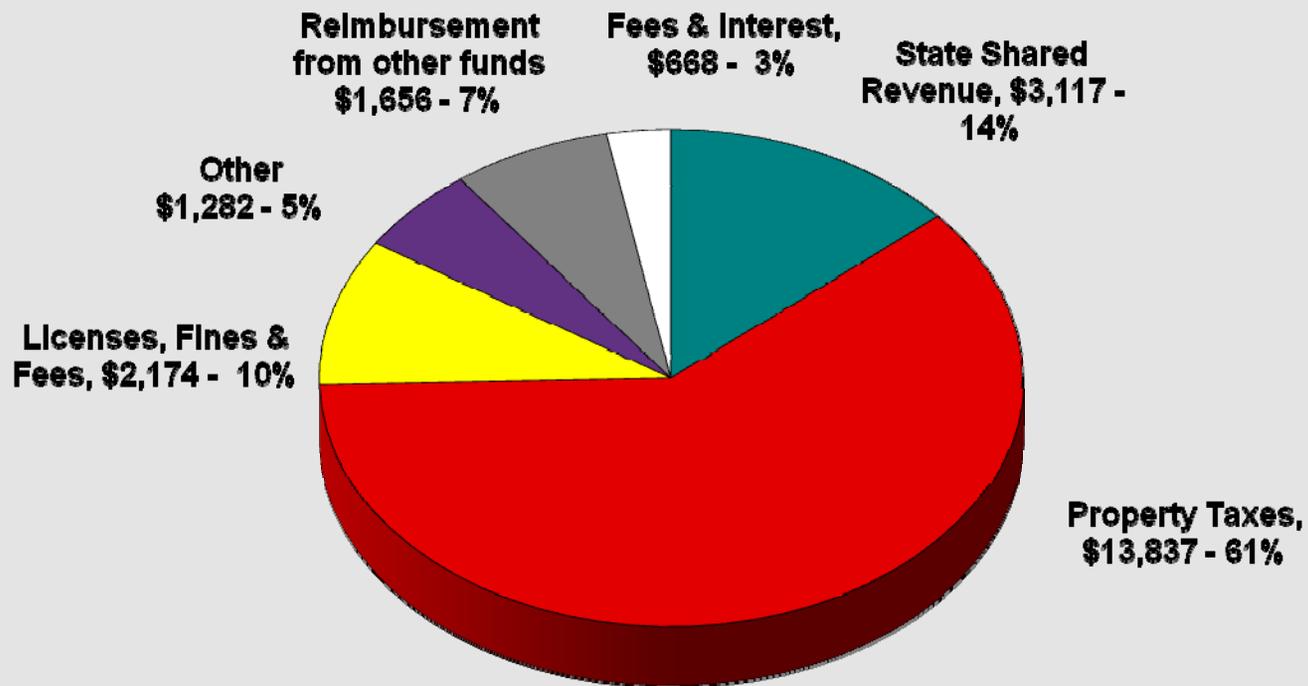
Health care costs will take up an increasing amount of the budget

- For 2009, health care costs were approximately \$3.8 million
- The City has an unfunded retiree health care liability of \$63 million

77% of expenditures in the General Fund are related to wages, fringe benefits and retirement payments

City of Southgate

General Fund Revenue by Type (000s omitted)
Year Ended June 30, 2009



Total
June 30, 2009
\$22,734

City of Southgate

10 Year History of State Shared Revenue Year Ended June 30



State Shared Revenue currently accounts for nearly 14 percent of the General Fund's revenue.

Year ended June 30	Constitutional	Statutory	Total
2000	\$2,079,983	\$1,973,116	\$4,053,099
2001	\$1,954,000	\$2,110,000	\$4,064,000
2002	\$1,973,000	\$1,898,000	\$3,871,000
2003	\$2,006,000	\$1,656,000	\$3,662,000
2004	\$1,990,000	\$1,306,000	\$3,296,000
2005	\$2,011,000	\$1,241,000	\$3,252,000
2006	\$2,059,000	\$1,157,000	\$3,216,000
2007	\$2,064,000	\$1,118,000	\$3,182,000
2008	\$2,060,000	\$1,030,000	\$3,090,000
2009	\$2,023,000	\$1,094,000	\$3,117,000
2010 Estimated	\$1,890,000	\$781,000	\$2,671,000

Funding has essentially been cut every year since 2000 and is estimated to be \$1.3 million less in 2010 than it was in 2000 which represents a cumulative loss of 7.2 million.

In addition, there have been proposals to eliminate the statutory portion of revenue sharing.

Statewide Economic Factors



Why Statutory Revenue Sharing is at Risk

- Total Statutory Revenue Sharing was approximately \$380 million in 2009 and the State's projected deficit is \$1.6 billion.

Mitchell Bean, Director of the Michigan House Fiscal Agency has authored a presentation entitled "Economic and Revenue Forecasts: Implications for Michigan's Budget"

Key points in this presentation:

- Michigan's unemployment rate is 2-3 percentage points higher than the national average
- Michigan lost 72,000 jobs in 08 and is predicted to lose 193,000 more in 09 and an additional 80,000 in 2010 (Vehicle employment decreased from 346,000 to 127,000 in 9 years)
- Big 3 market share has fallen from 70% to 45% and is expected to drop to 40% next year
- The Big 3 have a much smaller share of a shrinking market – US car sales have dropped from annual levels of 17 million to 11 million in 9 years
- Michigan sales tax revenue is expected to decrease 4.2% for 09 – this is sole source for state revenue sharing

City of Southgate Property Taxes

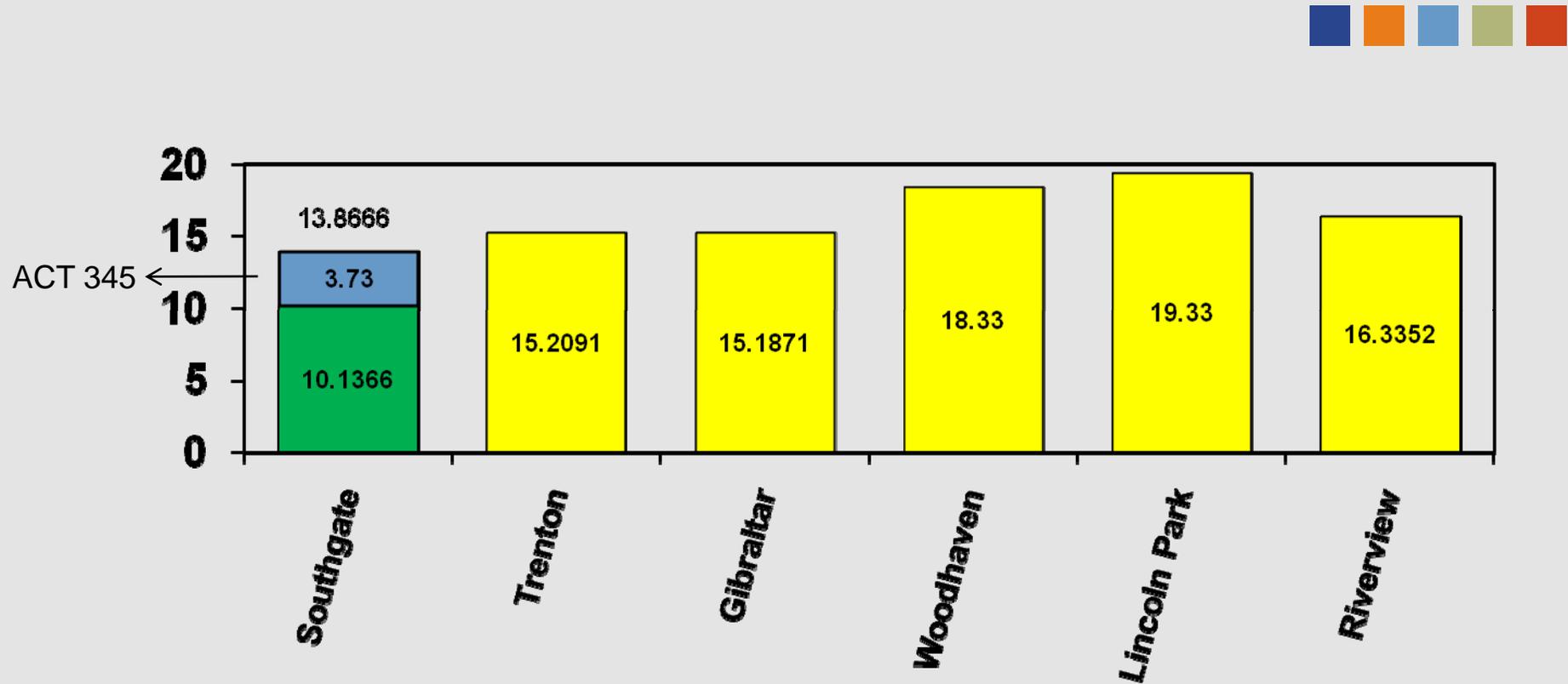


The Impact of Proposal A and the Headlee Amendment:

- Taxable value on existing parcels can only increase by inflation
- Real estate market issues are resulting in significant drops in taxable value, which will impact the City's property tax revenue.
- For Southgate, taxable values are expected to decrease by 7.8% for the year ending 6/30/11 which represents a loss of \$822,000 in property tax revenue. (Decreases are also expected for the year ending 6/30/12)
- Communities must have new construction/buildings in order to have growth above inflation
- Millage rate has been rolled back from 12.5 authorized charter mills to 10.1366 mills due to the Headlee amendment. This decrease of 2.3634 mills equates to annual lost tax revenue of \$2,000,000

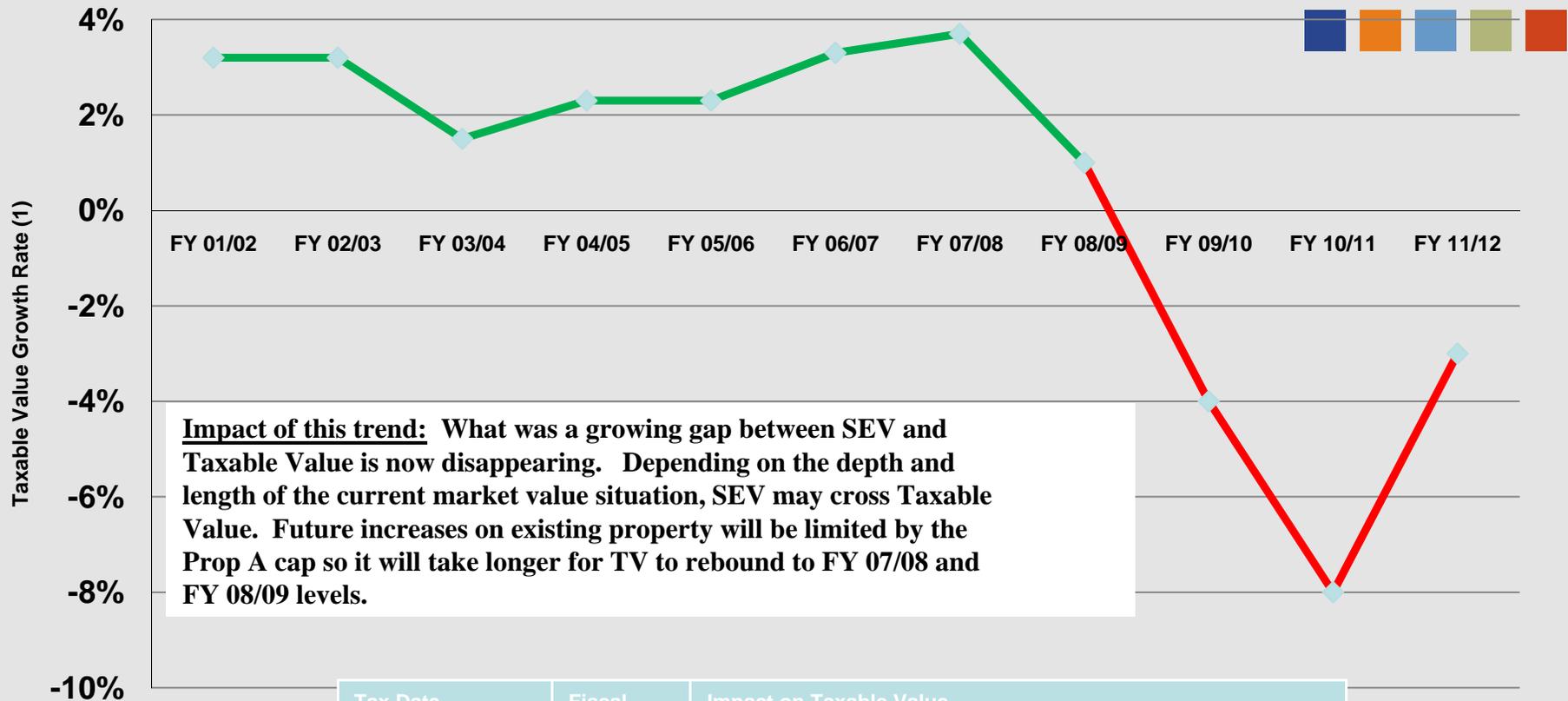
City of Southgate

Comparison of Operating Millages
Southgate and comparable communities



Note: Millages are from 2009 for comparable communities.

Metro Detroit Taxable Value Trends ⁽¹⁾



(1) Simulated growth for more fully developed community. Excludes new additions of TV to tax base and models TV trends to Prop A inflation factor for FY 01/02 – 07/08

Tax Date	Fiscal Year	Impact on Taxable Value
12/31/07	FY 08/09	Growth slowed (likely less than Prop A rate of 2.3%) but still slightly positive
12/31/08	FY 09/10	No growth; likely first decline – at least several percentage points below 0
12/31/09	FY 10/11	Currently, largest forecasted year over year decline
12/31/10	FY 11/12	Smaller decline than prior year?
12/31/11	FY 12/13	Have we turned the corner?

Property Taxes - 10 years out



City of Southgate Property Taxes



Budget year	6/30/09	6/30/10	6/30/11
Levy date	7/1/08	7/1/09	7/1/10
Assessment date *	12/31/07	12/31/08	12/31/09
Taxable value	\$890,240,280	\$866,183,464	\$798,429,140
Tax revenue	\$10,068,000	\$9,912,000	\$9,090,000
Decrease from prior year	-	\$156,000	\$822,000
Cumulative Decrease	-	\$156,000	\$978,000
Cumulative Percent lost	-	1.5%	9.7%

*Assessments based on sales data from preceding 12-24 months

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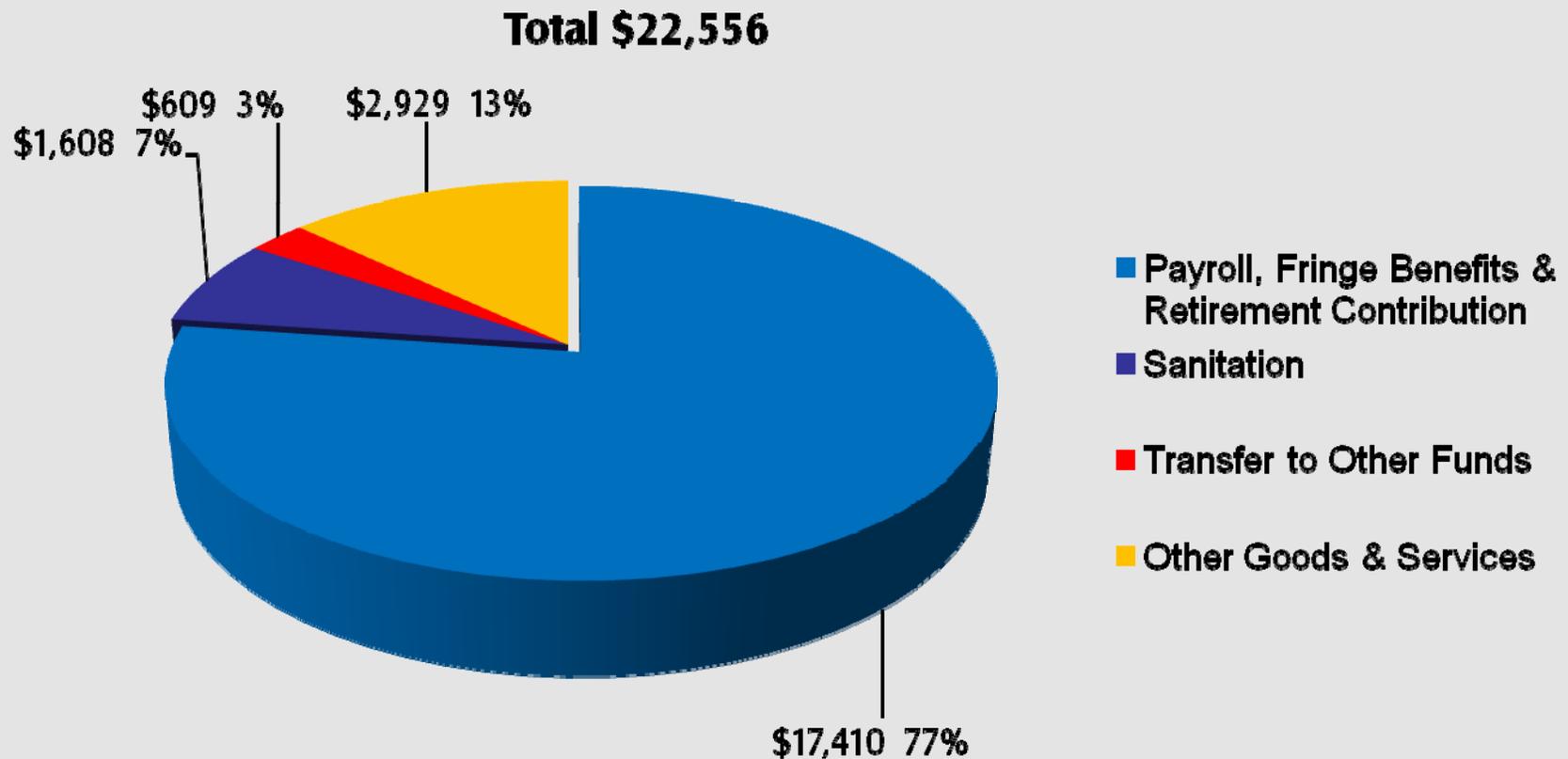
General Fund Expenditures Overview



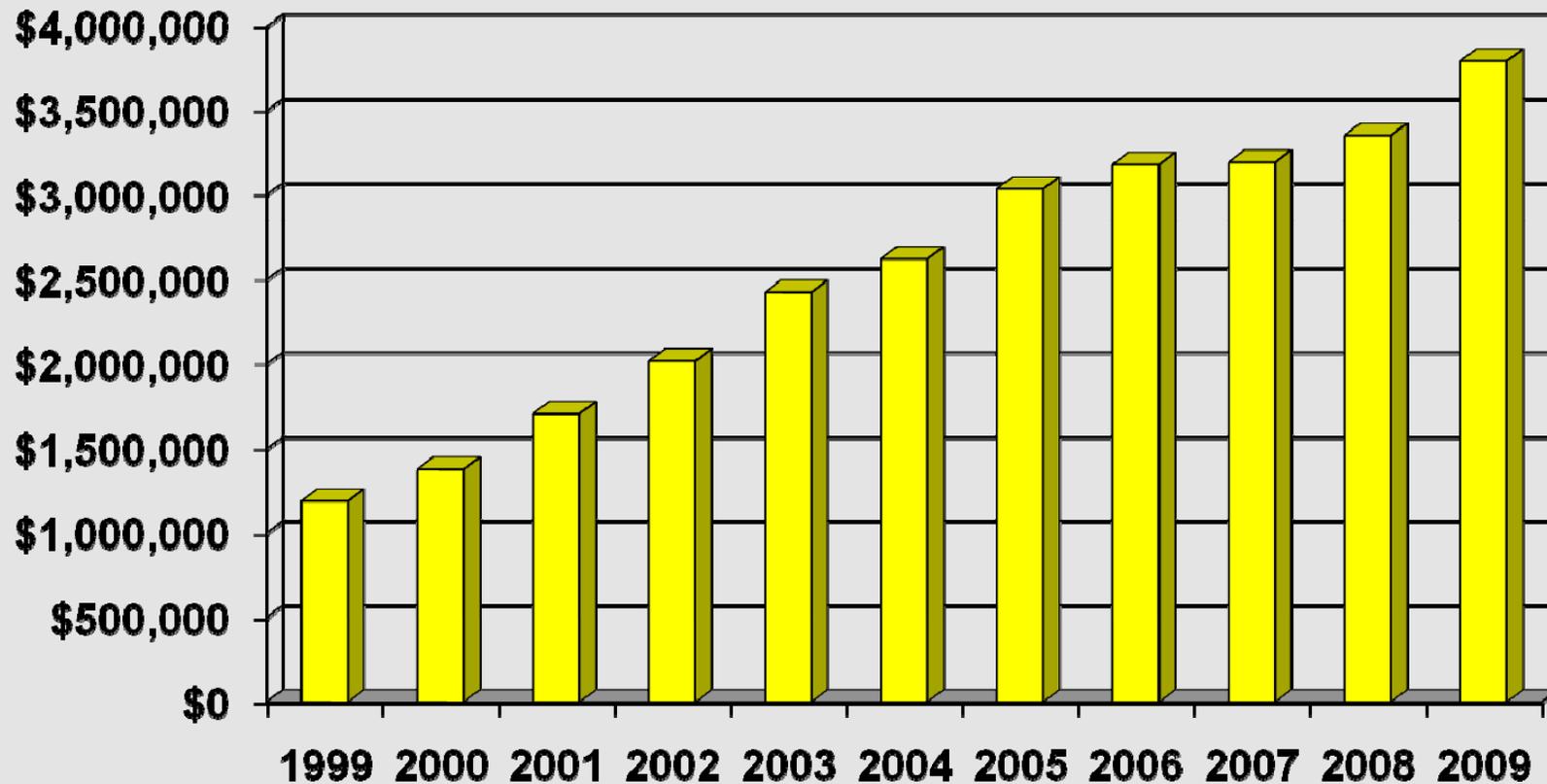
- Payroll and other fringe benefits account for over 77% of the City's General Fund expenditures
- Payroll and other fringe benefits are the only significant costs that are controllable - The City has been reducing these costs through attrition and changes to employee benefits.
- In 2010 the City has 142 full time employees compared to 180 in 2000 which represents a 21% reduction
- It is extremely difficult to impact other areas of spending such as insurance, street lighting, vehicle maintenance, utilities, etc.

City of Southgate

General Fund Expenditures by Type - Budgetary Basis
Year Ended June 30, 2009 (In 000s)



City of Southgate Health Care Cost Trends



Active and Retired Employee Health Care Costs

City of Southgate Pension Cost Trends



The City's retirement contributions have increased in recent years due to mixed investment results and an increase in the number of retirees

	Municipal Employees	Police & Fire Employees
2000	\$221,598	\$ 303,804
2001	\$221,409	\$ 74,494
2002	\$237,415	\$ 127,374
2003	\$211,625	\$ 146,443
2004	\$251,813	\$ 372,556
2005	\$501,299	\$1,110,060
2006	\$719,367	\$1,584,244
2007	\$747,469	\$1,881,109
2008	\$767,755	\$1,811,563
2009	\$889,043	\$1,833,567

City of Southgate

3 Year Financial Forecast



The City of Southgate was one of the first communities to embrace a long-range planning approach. The City has been preparing and updating the financial projection for many years. These plans have given the City a roadmap from which to make fiscal decisions. The plans are a key tool used by the City to ensure that the City is living within its means, not just for the current year, but for years to come.

The financial projection was updated in 2009 by management. The following slide contains a summary of the results of the projection. The following assumptions were used in the financial projection for 2010-2012:

- Revenues and expenses were based on 2010 budgeted amounts and future periods were based on management estimates. A detailed listing of assumptions is available in The City's Finance Department.

City of Southgate

Three Year Projection - Revenue Less Expenses



Year	2007-2008 Actual	2008-2009 Actual	2009-2010 Budget	<i>Estimated 2010-2011</i>	<i>Estimated 2011-2012</i>
Projected Revenue	\$22,413,474	\$22,734,360	\$21,003,331	\$20,241,773	\$19,747,080
Projected Expenditures	\$22,319,630	\$22,556,030	\$21,003,331	\$21,839,922	\$21,990,007
Total Net Increase (decrease) for year	\$93,844	\$178,330	-	(\$1,598,149)	(\$2,242,927)

Conclusion



- Something has to be done to address the projected shortfall
- Decreasing property taxes and state shared revenues are forcing the issue
- There is a new revenue reality and a comprehensive review of City services is necessary
- Time is of the essence regarding fiscal issues

Additional resources

- Cost cutting and Revenue Producing Checklist
- Plante & Moran's proprietary process can help you face financial challenges by evaluating where you are today, where you are going, and how to get on the path to fiscal sustainability.
- Other resources you may find of interest on Plante & Moran's website:
 - Fiscal Sustainability
 - Governmental Advisor

<http://www.plantemoran.com/industries/Government/Pages/home.aspx>

Please do not hesitate to ask your P&M team for assistance!!



■ **Thanks for listening!**

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