

# Economic & Budget Update

January 2010

# PURPOSE

To provide a brief fiscal update as the City's leadership team begins its strategic planning for the next 24 months.

- Economic Outlook
- Budget Update

# ECONOMIC OUTLOOK

## Unemployment

- Nationally 7.3 million jobs have been lost over the last 2 years – doubling the unemployment rate to 10%

# ECONOMIC OUTLOOK

- Michigan – as of November 2009, recorded the highest unemployment rate among all states.
- The state lost more than 240,000 jobs in 2009
- Job losses were broad based, with the most significant declines in manufacturing, construction, retail trade, government, leisure/hospitality and education/health services

# ECONOMIC OUTLOOK

- There may be some job gains beginning in the second half of 2011 – hopefully ending an 11 year decline; resulting in a total loss of nearly 937,000 jobs in the state.

Source: RSQE Research Seminar in Quantitative Economics - Michigan

# ECONOMIC OUTLOOK

- The Federal deficit nearly doubled in 2009, exceeding \$1 trillion
- Many expect the deficit to rise to \$1.5 trillion in 2010 or 10% of GDP (Gross Domestic Product)

# ECONOMIC OUTLOOK

- The Federal fund rate has been hovering in the 0 to  $\frac{1}{4}$  percent range yet credit constraints are continuing to be reported as a major problem hindering U.S. businesses, as banks are holding cash.
- Some forecast that the Fed will start nudging rates up off the floor in early 2011. (This is likely to make cash even more difficult to acquire.)

# ECONOMIC OUTLOOK

- The backlog of unsold homes is to blame for keeping downward pressure on new construction and housing values
- Oakland County is estimating a county-wide decrease in taxable value for 2010 to be 13% and 2011 to be 12.5%.
- County is estimating a total “true cash value” decline of 37% / \$58 billion between 2007 and 2011

# ECONOMIC OUTLOOK

- As of the third quarter 2009, nearly 37% of mortgages in Michigan exceeded the value of their home.
- Home equity no longer providing the support to consumption as it had in the past.

Source: The Michigan Senate Fiscal Agency

# ECONOMIC OUTLOOK

- The NASDAQ has rallied the past year – gaining over 40%

# BUDGET UPDATE

- 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

- 10% decrease in taxable value for 2010/11 is possible, after the March Board of Review a more precise value will be known
- 10% decrease results in a revenue loss of \$1.7 million or \$2.5 million across all city funds
- It doesn't appear the decline has ceased, based on current sales studies, RO may see a 9% decline for 2011/12

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

# BUDGET UPDATE

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

# BUDGET UPDATE

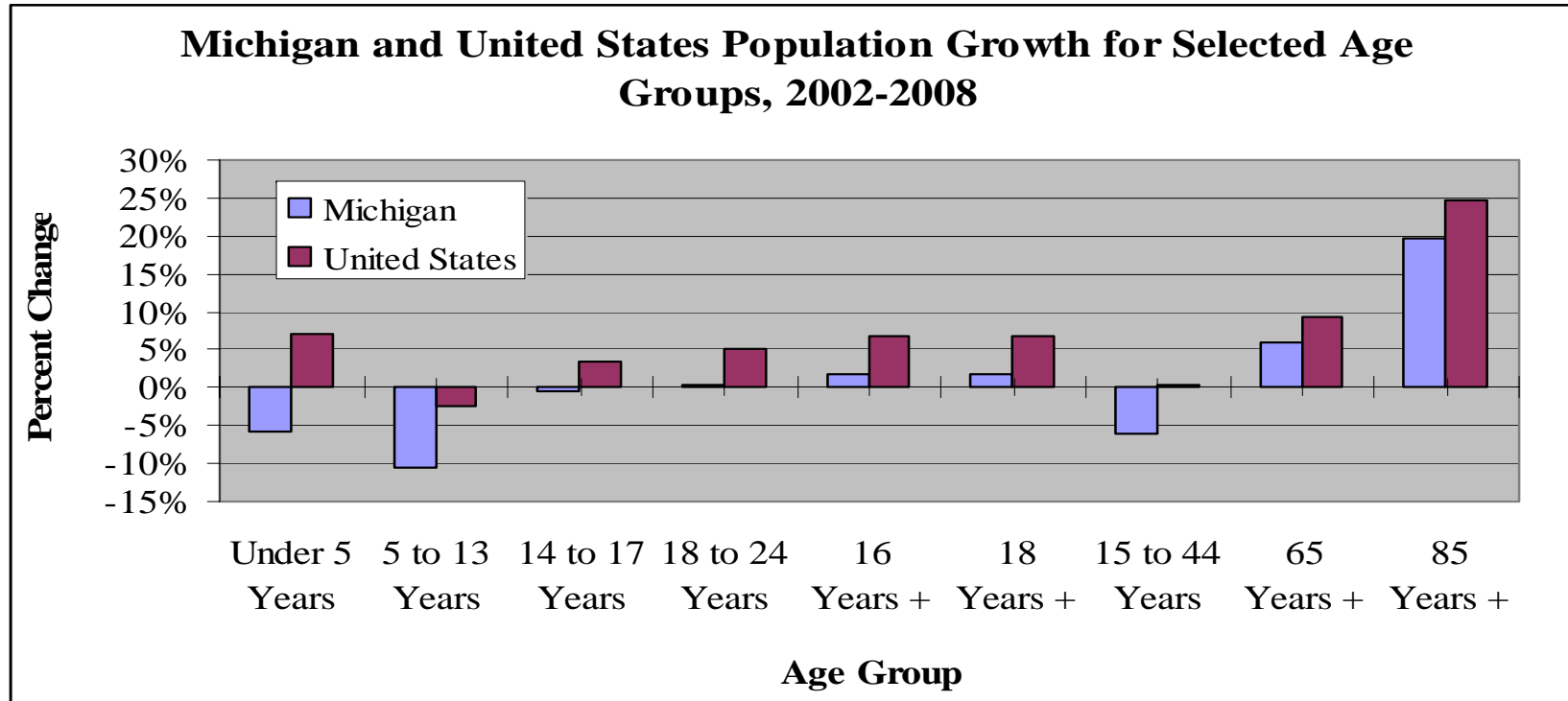
- The State's Sales and Use Tax collections are down nearly 12% from one year ago. RO's State shared revenue (generated by the States Sales Tax) is projected to decline by possibly \$600,000 to \$4.7 million in 2010
- Should the State eliminate the Statutory payment, as threatened in the past, RO will lose over \$1 million in the General Fund.

# BUDGET UPDATE

- Act 51 revenues / State Gas Tax & Vehicle Registration (significant funding source for the Major and Local Road Funds) are on pace to possibly decline slightly by \$100,000 due to population loss and fewer miles being driven by the unemployed
- As more fuel economical vehicles are utilized the current Gas tax revenues we may find to be significantly insufficient

# BUDGET UPDATE

## Michigan is Missing Population Growth in Key Age Groups



Source: Census

# BUDGET UPDATE

- Interest Income has significantly decreased over the last 3 years due to extremely low interest rates.
- 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 \$330,000.

# BUDGET UPDATE

## General Fund Expenditures

- Expenditures for the first 6 months of FY2009/10 are tracking higher than budgeted, mostly due to retirements not occurring as budgeted.

# BUDGET UPDATE

## General Fund

- Currently, expenditures are projected to exceed revenues this year by \$5 million, utilizing nearly \$2.5 million of fund balance.
- Should costs not be cut, \$5 million will be needed from fund balance to balance a 2010/11 budget and a deficit in the fund balance would occur in 2011/12.

# BUDGET UPDATE

<b>General Fund Summary</b>	<b>2009-2010 Estimated Year End</b>	<b>2010-2011 Projected Budget</b>	<b>2011-2012 Projected Budget</b>	<b>2012-2013 Projected Budget</b>	<b>2013-2014 Projected Budget</b>	<b>2014-2015 Projected Budget</b>
Beginning Fund Balance	9,806,898	7,360,160	2,273,550	(4,470,301)	(11,422,803)	(18,194,106)
Revenues	32,221,251	30,788,955	29,491,715	29,283,063	29,464,262	29,655,109
Expenditures	37,360,565	37,360,565	37,360,565	37,360,565	37,360,565	37,360,565
<b>Net</b>	<b>(5,139,314)</b>	<b>(6,571,610)</b>	<b>(7,868,850)</b>	<b>(8,077,502)</b>	<b>(7,896,303)</b>	<b>(7,705,456)</b>
Transfers from other funds	2,692,576	1,485,000	1,125,000	1,125,000	1,125,000	1,125,000
Net Change in Fund Balance	(2,446,738)	(5,086,610)	(6,743,850)	(6,952,502)	(6,771,303)	(6,580,456)
<b>Ending Fund Balance</b>	<b>7,360,160</b>	<b>2,273,550</b>	<b>(4,470,301)</b>	<b>(11,422,803)</b>	<b>(18,194,106)</b>	<b>(24,774,562)</b>
Fund Balance as a percentage of Expenditures	19.70%	6.09%	-11.97%	-30.57%	-48.70%	-66.31%
Net Change in Fund Balance	(2,446,738)	(5,086,610)	(6,743,850)	(6,952,502)	(6,771,303)	(6,580,456)

# BUDGET UPDATE

- As the administration begins to dive into the detailed preparation of the 2010/12 budget, the current year-end estimates will be more closely projected and communicated to the City Manager and Commission.