

**Township of Macomb
Macomb County, Michigan**

**Five-year General Fund Forecast
June 30, 2010 - June 30, 2014**

Township of Macomb

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To the Board of Trustees
Township of Macomb
Macomb County, Michigan

We have compiled the accompanying schedule of General Fund historical and forecasted financial operations of the Township of Macomb (the "Township") for the years ending June 30, 2010 through June 30, 2014, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The schedule does not present all significant financial measures that would be presented in fund financial statements. The presentation does not include a General Fund balance sheet or statement of revenue, expenditures, and changes in fund balance (budget and actual). Accordingly, this forecasted information is not designed for those who are not informed about the Township's General Fund financial position and results of operations.

A compilation is limited to presenting forecasted information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecasted information and, accordingly, do not express an opinion or any other form of assurance on the accompanying schedule or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecasted information and this report are intended solely for the information and use of the Township of Macomb and are not intended to be and should not be used by anyone other than the Township of Macomb.

Plante & Moran, PLLC

May 6, 2010

PROJECT BACKGROUND

Plante & Moran, PLLC was retained by the Township of Macomb (the “Township”) to compile a five-year financial forecast for the General Fund.

This is the first five-year financial forecast prepared by the Township of Macomb.

PROJECT SCOPE

The analysis and development of the financial forecast will provide the Township with the following:

- Estimation of future financial conditions
- Financial “framework” from which to evaluate the future financial condition of the Township
- A rational basis for identifying areas of greatest concern and devising fiscal strategy
- An automated tool to facilitate the analysis of financial and operational objectives

To assure a comprehensive evaluation, we collected and evaluated information from a variety of sources. Information was obtained from the following:

- Collection of information from internal sources within the Township
- Collection and review of operational, financial, capital, and other applicable information
- Discussions with and data collection from expert sources including governmental representatives and other relevant sources
- Collection and review of information related to legislative initiatives

The forecast has been developed using the best available information concerning financial trends and conditions. Changes in economic conditions and regulatory provisions could have a significant impact on the forecast. Based upon a review of the above information and discussions with the Township’s finance manager, the Township assessor, the Township clerk, and the Township supervisor, the forecast was developed using certain key assumptions and should not be evaluated without a thorough understanding of the assumptions. The assumptions and the accompanying rationale are documented in the assumption section of this report. These assumptions provide a basis for estimating future years’ revenues and expenditures. The underlying assumptions used in the estimations are likely to change and the costs projected are likely to differ from actual amounts.

CHALLENGES AHEAD

As noted above, this projection estimates that the Township will face some future challenges that need to be considered when analyzing its financial condition and ability to fund annual expenses as well as capital needs. There are many uncertainties related to major revenue sources, most specifically property tax revenue and state-shared revenue. These items could have a negative impact on the Township’s current strong financial condition.

PROPERTY TAX DEVELOPMENTS

Many communities in Michigan are continuing to face the challenges inherent in the real estate market decline given the effects of Proposal A. Some communities are seeing a decline in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. The one constant, however, is that there will be an impact that each community will need to consider come budget time.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have been reminded, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

PROJECT SUMMARY

The results of the analysis should be considered within the appropriate context. Essentially, the financial results for future fiscal years should be viewed only as financial estimates, derived from the best available financial information at this particular point in time. Considered in this light, the financial plan provides a benchmark from which to monitor and evaluate ongoing financial trends and results.

For the purpose of the General Fund, the level of projected fund balance is typically used as the barometer to measure likely future financial strength. In general, a level fund balance indicates a stable financial condition. A decreasing fund balance indicates a situation whereby the Township will have to monitor the financial situation closely in the coming years; it does not indicate a prediction that we believe an actual fund deficit will occur.

The Township's General Fund had a fund balance of approximately \$24.8 million at June 30, 2009, and the fund balance is projected to increase approximately \$4.9 million from fiscal year 2010 through 2014. These figures in the financial plan assume that the Township plans to continue to fully fund the annual required contribution calculated by the actuary related to retiree healthcare.

The financial plan also assumes large decreases in taxable value, which is the second largest source of revenues for the General Fund.

In this situation, sound decision making will be required as the Township strives to provide high quality service within a changing revenue base. The financial plan, as a "road map" of future events and of potential outcomes, is intended to assist the Township of Macomb in the process of developing ongoing strategies for dealing with flat revenue sources, containing costs, and assuring ongoing financial stability.

Township of Macomb

General Fund Summary of Significant Forecast Assumptions

Summary of Significant Accounting Policies - All forecasted revenues and expenditures are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is measurable and available. Available is defined as being collected within 60 days of the end of the current fiscal period or soon enough to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

This financial forecast presents, to the best of management's knowledge and belief, the Township's expected financial position and results of operations of its General Fund for the forecast periods. Accordingly, the forecast reflects management's judgment as of May 6, 2010, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between forecasted and actual results, because events or circumstances frequently do not occur as expected, and those differences may be material. The comparative historical information for the years ended June 30, 2008 and 2009 is extracted from the Township's financial statements for those years. Those financial statements should be read for additional information.

- Historical data for fiscal years 2008 and 2009 was taken from the Township's audited financial reports.
- Estimates for subsequent years were developed using compounding inflation building off of the 2009 actual amounts per the 2009 audited financial statements. Exceptions to this method are noted in the specific assumptions on the following pages.
- Annual inflation factors through fiscal years 2010-2014 are based upon projections obtained from the United States Congressional Budget Office (CBO). An inflation factor of 2 percent is used for each year. The Consumer Price Index (CPI) rose 4.1 percent in 2008, but decreased .4 percent in 2009 and is expected to rise 1.7 percent in 2010. However, the CBO forecasts the CPI to increase to 2.1 percent on average between 2011 and 2014. For this reason, a 2 percent inflation rate was used for the remaining years.
- Data has been collected and financial estimates have been developed utilizing a number of expert sources including the Township supervisor, the Township finance director, and various department heads, State of Michigan departments, and other professional sources.

REVENUE ASSUMPTIONS

Most revenues were increased by the inflation factors summarized above in the summary of significant forecast assumptions section.

Township of Macomb

General Fund

Summary of Significant Forecast Assumptions (Continued)

Property Taxes - Real and Personal - Property tax revenues for 2010 are based on projected numbers provided by the Macomb County Equalization Department. In light of recent economic events, the Township assessor believes that an increase in any Township millage rate is unfeasible. For purposes of the projection, the millage rate of 6.75 for the General Fund was used for all projected years. The calculated tax revenue for fiscal year 2010 is recalculated using the 2010 taxable value from the warrant (\$3,233,783,190 multiplied by the millage rate of 0.6757). The anticipated decline in taxable values for fiscal year 2011 is supported by information provided by the assessor and the Macomb County Equalization Department; therefore, the anticipated decline is fairly certain. The anticipated changes in taxable values for fiscal years 2012 through 2014 may vary from actual due to unforeseen future events. For the fiscal years 2011 through 2014 forecasted, the taxable value is expected to change as follows:

<u>Fiscal Years Ending June 30</u>	<u>Change in Taxable Value</u>
2011	Decrease 12.36%
2012	Decrease 5%
2013-2014	Increase 2%

Permit Fees - Permit fees are expected to decrease during fiscal year 2010 because fiscal year 2009 was a stimulus year. Although homebuyer incentives were extended through April 2010, permit fees have been projected to decrease by 5 percent for fiscal year 2010. The fees are then expected to remain the same during fiscal years 2011 and 2012 and subsequently increase by the rate of inflation from fiscal years 2013 through 2014.

State-shared Revenues - The Michigan Revenue Estimating Conference, which uses national and state economic indicators to formulate an accurate prediction of revenue available for appropriations, estimates that total sales tax collections for fiscal year 2010 would drop about 6.6 percent, and that the total sales tax collections for fiscal year 2011 would drop another 0.5 percent. Therefore, these decreases were incorporated into the fiscal years 2010 and 2011 state-shared revenue estimates.

In addition, the Township's 2010 census population is expected to increase to approximately 84,000 residents, which has been incorporated into the 2012 state-shared revenue forecast. Although State law requires this population to be effective for state-shared revenue payments as of October 1, 2010, the State historically does not adjust its revenue payments until approximately June of the following fiscal year. Therefore, a retroactive payment covering the period from October 1, 2010 through June 30, 2011 has been forecasted to occur during fiscal year 2012.

Interest Income - Given the current economic available interest rates, for the purposes of this projection, the estimated interest income for the fiscal years 2010 through 2014 is calculated as the average cash balance of \$24,000,000 multiplied by a 1 percent rate of return.

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General Fund Summary of Significant Forecast Assumptions (Continued)

EXPENDITURE ASSUMPTIONS

Most expenditures were increased by the inflation factors outlined in the general assumptions section of the executive summary. Any assumptions that varied significantly from the general assumptions are as follows:

Salary and Wages - Salary and wage expenses have been forecasted to remain consistent with 2009 for 2010 and 2011 and to subsequently increase by 2 percent for years 2012 through 2014. In addition, the level of employees in fiscal year 2009 is assumed to remain consistent through 2014.

Health Expense - Health expenses are expected to increase by 10 percent per year based on inquiries with Township personnel.

Contributions to the Health Care Fund - The Township had an actuarial valuation performed which stated that the Township's annual required contribution (ARC) for fiscal year 2009 was approximately \$637,000 for all funds. After allocating the ARC by fund employee levels, the General Fund's portion of the contribution was calculated to be \$374,019 during 2009. During 2009, the General Fund's actual funding was \$1,715,895. The large contribution during 2009 was to make up for a shortfall in contributions during previous years; therefore, it is projected that \$375,000 is the future anticipated contribution to the Health Care Fund through 2014.

Capital Outlay - With few exceptions, budgeted capital outlay is very minimal. The only significant anticipated General Fund capital outlay expenses projected over the forecast period are road improvements of approximately \$750,000 and building rehabilitation of about \$50,000 to \$70,000. For purposes of the forecast, the projected capital expenses, along with a \$10,000 allowance for miscellaneous capital outlay purchases, were allocated over the five-year forecast period.

Transfers Out - The 2009 actual transfers out from the General Fund were \$587,200 to the Building Authority Fund and \$100,000 to the Law Enforcement Fund. This forecast assumes that the transfers out would be equal to the required debt service bond payments associated with the General Fund; the 2000 Building Authority Bond and the 2001 Building Authority Bond (the percent attributable to the General Fund) plus a \$100,000 contribution to the Law Enforcement Fund.

Township of Macomb

Schedule of General Fund Historical and Forecast of Financial Operations

	Historical Data		Future Forecasted Data				
	Actual	Actual					
	2008	2009	2010	2011	2012	2013	2014
Revenue							
Property taxes and fees	\$ 2,091,342	\$ 2,334,527	\$ 2,185,067	\$ 1,914,993	\$ 1,819,243	\$ 1,855,628	\$ 1,892,740
Licenses and permits	1,690,894	1,280,799	1,260,288	1,260,288	1,260,288	1,323,303	1,389,468
Federal grants	190,274	11,067	11,288	11,514	11,744	11,979	12,219
State-shared revenues and grants	3,471,734	3,442,515	3,091,000	3,073,000	5,100,000	5,202,000	5,306,040
Retroactive state-shared revenue payment	-	-	-	-	1,520,250	-	-
Charges for services	244,362	189,737	193,532	197,402	201,350	205,377	209,485
Fines and forfeitures	44,922	82,341	83,988	85,668	87,381	89,129	90,911
Special assessment - Street lighting	774,339	783,649	799,322	815,308	831,615	848,247	865,212
Interest	1,080,699	801,875	240,000	240,000	240,000	240,000	240,000
Other	298,249	325,855	332,372	339,020	345,800	352,716	359,770
Total revenue	9,886,815	9,252,365	8,196,857	7,937,193	11,417,671	10,128,379	10,365,845
Expenditures							
Current:							
General government - Excludes contributions to postemployment Health Care Fund	3,053,957	3,066,945	3,082,245	3,097,645	3,159,598	3,222,790	3,287,246
Contributions to retiree Health Care Fund	-	1,715,895	375,000	375,000	375,000	375,000	375,000
Protective inspections	1,629,686	1,329,595	1,329,595	1,329,595	1,356,187	1,383,311	1,410,977
Public works - Street lighting	832,741	865,929	883,248	900,913	918,931	937,309	956,056
Broadcast media	140,016	191,538	191,538	191,538	195,369	199,276	203,262
Employee benefits and insurance	1,381,836	1,439,686	1,583,655	1,742,020	1,916,222	2,107,844	2,318,629
Capital outlay	7,469	167,862	170,000	170,000	170,000	170,000	170,000
Total expenditures	7,045,705	8,777,450	7,615,280	7,806,711	8,091,307	8,395,530	8,721,170
Excess of Revenue Over Expenditures	2,841,110	474,915	581,577	130,482	3,326,363	1,732,849	1,644,675
Other Financing Sources (Uses)							
Transfers in	198,972	61,958	-	-	-	-	-
Transfers out - Debt	(610,300)	(687,200)	(687,200)	(467,200)	(467,200)	(467,200)	(467,200)
Total other financing uses	(411,328)	(625,242)	(687,200)	(467,200)	(467,200)	(467,200)	(467,200)
Net Change in Fund Balances	\$ 2,429,782	\$ (150,327)	\$ (105,623)	\$ (336,718)	\$ 2,859,163	\$ 1,265,649	\$ 1,177,475

See Accompanying Summary of Significant
Forecast Assumptions and
Accountant's Report.