

*In the opinion of Dickinson Wright PLLC, Bond Counsel, under existing law, (i) the interest on the Taxable Limited Tax General Obligation Bonds, Series 2017-A (the “Series 2017-A Bonds”) and the Taxable Limited Tax General Obligation Bonds, Series 2017-B (the “Series 2017-B Bonds,” together with the Series 2017-A Bonds, the “Bonds”) is INCLUDED in gross income for federal income tax purposes, and (ii) the Bonds and the interest on and income from the Bonds are exempt from taxation by the State of Michigan or a political subdivision of the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. See “TAX MATTERS” herein and Appendix C hereto.*

**CITY OF ROYAL OAK  
COUNTY OF OAKLAND  
STATE OF MICHIGAN**

**\$106,040,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-A**

**\$20,570,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-B**

**Dated: February 21, 2017**

**Due: October 1, as shown on inside cover**

The Taxable Limited Tax General Obligation Bonds, Series 2017-A (the “Series 2017-A Bonds”) and the Taxable Limited Tax General Obligation Bonds, Series 2017-B (the “Series 2017-B Bonds,” together with the Series 2017-A Bonds, the “Bonds”) are being issued by the City of Royal Oak, County of Oakland, State of Michigan (the “City”) pursuant to the provisions of Act 34, Public Acts of Michigan, 2001, as amended (“Act 34”), and a resolution adopted by the City Commission of the City on September 12, 2016 (the “Resolution”). The Series 2017-A Bonds are being issued for the purposes of defraying part of the costs of the unfunded accrued health care liability of the City’s general, police and fire retiree healthcare plan and paying the costs of issuance of the Series 2017-A Bonds. The Series 2017-B Bonds are being issued for the purposes of defraying part of the costs of the unfunded pension liability of the City’s general employees’ defined benefit retirement plan, and paying the costs of issuance of the 2017-B Bonds.

The limited tax full faith and credit of the City have been pledged for the prompt payment of the principal of and interest on the Bonds. Each year, as a first budget obligation, the City shall advance moneys from its general funds or levy ad valorem property taxes on all taxable property within its corporate boundaries to pay such principal and interest as the same become due. The ability of the City to raise funds to pay such amounts is subject to applicable constitutional, statutory and charter limitations on the taxing power of the City.

The Bonds are issuable only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry-only form in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Bonds (the “Beneficial Owners”) will not receive certificates representing their beneficial interest in Bonds purchased. So long as Cede & Co. is the Bondholder, as nominee of DTC, references herein to the Bondholders or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. See “THE BONDS-Book-Entry-Only System” herein.

Principal of and interest on the Bonds will be paid through the designated corporate trust office of The Huntington National Bank, Grand Rapids, Michigan (the “Paying Agent”). So long as DTC or its nominee, Cede & Co., is the Bondholder, such payments will be made directly to such Bondholder. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct Participants and Indirect Participants, as more fully described herein. Interest will be payable semiannually on April 1 and October 1, commencing October 1, 2017, to the Bondholders of record as of the applicable record dates herein described.

The Bonds maturing on or after October 1, 2028 are subject to optional redemption beginning October 1, 2027, in the manner and at the times described herein. See “THE BONDS-Optional Redemption”. The Term Bonds maturing on October 1, 2037 are subject to annual mandatory redemption as further set forth herein. See “THE BONDS – Mandatory Redemption”.

The Bonds will be offered when, as and if issued by the City and accepted by the Underwriter, subject to the approving legal opinion of Dickinson Wright PLLC, Troy, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Dykema Gossett PLLC, Bloomfield Hills and Lansing, Michigan. It is expected that the Bonds will be available for delivery through DTC on February 21, 2017.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

**J.P. Morgan**

REGISTERED MUNICIPAL ADVISOR:

**Hutchinson, Shockey, Erley & Co.**

The date of this Official Statement is February 1, 2017.

<sup>†</sup> For an explanation of the ratings, see “RATINGS”- herein.

### **Series 2017-A Bonds**

<u>October 1</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <sup>§</sup>	<u>October 1</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <sup>§</sup>
2017	\$ 3,245,000	1.163%	100%	780464 JT1	2025	\$ 4,485,000	3.503%	100%	780464 KB8
2018	3,725,000	1.618	100	780464 JU8	2026	4,650,000	3.573	100	780464 KC6
2019	3,790,000	1.888	100	780464 JV6	2027	4,820,000	3.673	100	780464 KD4
2020	3,870,000	2.264	100	780464 JW4	2028	5,005,000*	3.853	100	780464 KE2
2021	3,970,000	2.613	100	780464 JX2	2029	5,205,000*	3.953	100	780464 KF9
2022	4,075,000	2.843	100	780464 JY0	2030	5,415,000*	4.053	100	780464 KG7
2023	4,200,000	3.102	100	780464 JZ7	2031	5,645,000*	4.153	100	780464 KH5
2024	4,335,000	3.302	100	780464 KA0	2032	5,885,000*	4.203	100	780464 KJ1

\$33,720,000\*\* 4.524% Term Bonds due October 1, 2037 – Price 100% - CUSIP<sup>§</sup> 780464 KK8

### **Series 2017-B Bonds**

<u>October 1</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <sup>§</sup>	<u>October 1</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP</u> <sup>§</sup>
2017	\$ 630,000	1.163%	100%	780464 KL6	2025	\$ 870,000	3.503%	100%	780464 KU6
2018	725,000	1.618	100	780464 KM4	2026	900,000	3.573	100	780464 KV4
2019	735,000	1.888	100	780464 KN2	2027	935,000	3.673	100	780464 KW2
2020	750,000	2.264	100	780464 KP7	2028	970,000*	3.853	100	780464 KX0
2021	770,000	2.613	100	780464 KQ5	2029	1,010,000*	3.953	100	780464 KY8
2022	790,000	2.843	100	780464 KR3	2030	1,050,000*	4.053	100	780464 KZ5
2023	815,000	3.102	100	780464 KS1	2031	1,095,000*	4.153	100	780464 LA9
2024	840,000	3.302	100	780464 KT9	2032	1,140,000*	4.203	100	780464 LB7

\$6,545,000\*\* 4.524% Term Bonds due October 1, 2037 – Price 100% - CUSIP<sup>§</sup> 780464 LC5

\* Subject to optional redemption prior to maturity. See “THE BONDS – Optional Redemption” herein.

\*\* Subject to optional and annual mandatory redemption. See “THE BONDS – Optional Redemption, Mandatory Redemption” herein.

§ CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Capital IQ. The CUSIP numbers are provided for convenience and reference only. Neither the City nor the Underwriter are responsible for the selection or use of CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as set forth in this Official Statement.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representation other than as contained in this Official Statement in connection with the offer made hereby and, if given or made such other information or representation must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may an offer to buy these securities be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Information herein has been obtained from the City, DTC, and other sources believed to be reliable. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information (except for information under the section captioned "UNDERWRITING" which was obtained from the Underwriter).

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the adequacy of this Official Statement, or, except for the City and the State of Michigan Department of Treasury, approved the Bonds for sale.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY'S FINANCIAL RECORDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

## **City of Royal Oak**

### **Mayor**

Michael C. Fournier

### **Commissioners**

Kyle DuBuc  
Sharlan Douglas

Pat Paruch  
David J. Poulton

Marie Donigan  
Jeremy Mahrle

## **ADMINISTRATION**

### **City Manager**

Donald E. Johnson

**Director of Finance**  
Julie Jenuwine Rudd

**Treasurer**  
Sekar Bawa

**Clerk**  
Melanie Halas

**City Attorney**  
David Gillam

## **Professional Services**

Bond Counsel: Dickinson Wright PLLC  
Troy, Michigan

Registered Municipal Advisor: Hutchinson, Shockey, Erley & Co.  
St. Clair Shores, Michigan

Bond Registrar and Paying Agent: The Huntington National Bank  
Grand Rapids, Michigan

Underwriter: J.P. Morgan Securities LLC

Underwriter's Counsel: Dykema Gossett PLLC  
Bloomfield Hills and Lansing, Michigan

Auditor: Rehmann Robson LLC  
Troy, Michigan

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**OFFICIAL STATEMENT  
relating to**

**CITY OF ROYAL OAK  
COUNTY OF OAKLAND  
STATE OF MICHIGAN**

**\$106,040,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-A**

**\$20,570,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-B**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover pages and Appendices, is to furnish information in connection with the issuance and sale by the City of Royal Oak, County of Oakland, State of Michigan (the “City”) of its Taxable Limited Tax General Obligation Bonds, Series 2017-A in the aggregate principal amount of \$106,040,000 (the “Series 2017-A Bonds”) and its Taxable Limited Tax General Obligation Bonds, Series 2017-B in the aggregate principal amount of \$20,570,000 (the “Series 2017-B Bonds”, together with the Series 2017-A Bonds, the “Bonds”).

**PURPOSE AND SECURITY**

The Series 2017-A Bonds are being issued for the purposes of defraying part of the costs of the unfunded accrued healthcare liability of the City’s general, police and fire retirees healthcare plan (the “Healthcare Plan”) and paying the costs of issuing the Series 2017-A Bonds. The Series 2017-B Bonds are being issued for the purposes of defraying part of the costs of the unfunded liability of the City’s defined benefit pension plan for general employees (the “Pension Plan”), and paying the costs of issuing the Series 2017-B Bonds. The Healthcare Plan and the Pension Plan have been closed to newly hired employees,. The City’s police and fire pension plan is not closed, and therefore bonds are not being issued to finance the unfunded liability of that pension plan.

The City will deposit \$105,474,114 from the proceeds of the Series 2017-A Bonds in a trust fund established in conjunction with the Healthcare Plan. The balance of the costs of the unfunded accrued healthcare liability in the amount of approximately \$2,497,230 is to be paid by the City from other available funds to be transferred from the City’s construction code fund contemporaneously with issuance of the Bonds. The actuarial assumptions for elimination of the unfunded healthcare liability include a projected 7.75% investment rate of return. If the investment return differs from that rate, the Healthcare Plan will be either overfunded or underfunded. If the Healthcare Plan is underfunded, the City may be required to make payments from its general fund to fully fund the Healthcare Plan. See “Other Postemployment Benefits” beginning on page A-17 of APPENDIX A.

The City will deposit \$20,444,467 from the proceeds of the Series 2017-B Bonds in a fund established by ordinance in conjunction with the Pension Plan. The balance of the costs of the unfunded pension liability in the amount of approximately \$982,819 is to be paid by the City from other available funds to be transferred from the City’s construction code fund contemporaneously with issuance of the Bonds. The actuarial assumptions for elimination of the unfunded pension liability include a projected 7.75% investment rate of return. If the investment return differs from that rate, the Pension Plan will be either overfunded or underfunded. If the Pension Plan is underfunded, the City will be required to make payments from its general fund to

fully fund the Pension Plan. See “Employees’ Retirement System” beginning on page A-16 of APPENDIX A.

The Bonds will be issued by the City pursuant to the provisions of Act 34, Public Acts of Michigan, 2001, as amended (“Act 34”), a resolution adopted by the City Commission of the City on September 12, 2016 (the “Resolution”), and an order approving sale executed and delivered on February 1, 2017 by an authorized officer of the City.

The Bonds will be general obligation limited tax obligations of the City. The City has pledged its full faith and credit for the prompt payment of the principal of and interest on the Bonds as the same shall become due. Each year the City shall be obligated, as a first budget obligation, to advance moneys from its general funds or to levy ad valorem property taxes on all taxable property within its corporate boundaries to pay such principal and interest as the same become due. The ability of the City to raise funds to pay such amounts is subject to applicable constitutional, statutory and charter limitations on the taxing power of the City. See APPENDIX A-“City Taxation and Limitations” for more detailed information.

The rights or remedies of holders of the Bonds may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors’ rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those relating to equitable subordination.

## **ESTIMATED SOURCES AND USES OF FUNDS**

### **Series 2017-A Bonds**

#### **SOURCES**

Par Amount of Series 2017-A Bonds	\$106,040,000.00
City Contribution from Construction Code Fund	2,497,230.00
Total Sources	<u>\$108,537,230.00</u>

#### **USES**

Deposit to General, Police and Fire Health Care Trust Fund	\$107,971,344.00
Underwriter’s Discount	262,640.93
Estimated Costs of Issuance <sup>(1)</sup>	303,245.07
Total Uses	<u>\$108,537,230.00</u>

### **Series 2017-B Bonds**

#### **SOURCES**

Par Amount of Series 2017-B Bonds	\$20,570,000.00
City Contribution from Construction Code Fund	982,819.00
Total Sources	<u>\$21,552,819.00</u>

#### **USES**

Deposit to General Employees’ Defined Benefit Retirement Plan	\$21,427,286.00
Underwriter’s Discount	50,947.98
Estimated Costs of Issuance <sup>(1)</sup>	74,585.02
Total Uses	<u>\$21,552,819.00</u>

<sup>(1)</sup> Includes legal, financial, ratings and other miscellaneous costs.



## **THE BONDS**

### **Description and Form of the Bonds**

The Bonds will be issued in book-entry-only form as one fully registered Bond per maturity, without coupons, in the aggregate principal amount for each maturity set forth on the cover page hereof and may be purchased in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated as of and bear interest from their date of delivery. Interest on the Bonds shall be payable semiannually each April 1 and October 1 to maturity or early redemption, commencing October 1, 2017. Interest on the Bonds shall be computed using a 360-day year with twelve 30-day months, and the Bonds will mature on the dates and in the principal amounts and will bear interest at the rates as set forth on the cover of this Official Statement.

The corporate trust office of The Huntington National Bank, Grand Rapids, Michigan, or its successor will serve as the bond registrar and paying agent (the “Paying Agent”) for the Bonds. For a description of the payment of principal of and interest on, along with transfers and exchanges on the Bonds, which are held in the book-entry-only system, see “Book-Entry-Only System” below. In the event the Bonds cease to be held in the book-entry-only system, then interest on the Bonds shall be payable when due by check or draft to the person or entity who or which is, as of the fifteenth (15th) day of the month preceding each interest payment date (the “Record Date”), the registered owner of record, at the owner’s registered address. See “Transfer Outside Book-Entry-Only System” below.

### **Book-Entry-Only System**

The information in this section has been furnished by The Depository Trust Company, New York, New York (“DTC”). No representation is made by the City, the Paying Agent or the Underwriter as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the City, the Paying Agent or the Underwriter to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the City nor the Paying Agent will have any responsibility or obligation to DTC Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers

and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The City, the Paying Agent, and the Underwriter cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Bonds (i) payments of principal of or interest on the Bonds, (ii) any document representing or confirming beneficial ownership interest in the Bonds, or (iii) notices sent to DTC or Cede & Co. its nominee, as the registered owner of the Bonds, or that it will do so on a timely basis or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with the Participants are on file with DTC.

Neither the City, the Paying Agent nor the Underwriter will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (a) the Bonds; (b) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant (c) the payment by DTC to any Participant, or by any Direct Participant or Indirect Participant to any Beneficial Owner of any amount due with respect to the principal of or interest on the Bonds; (d) the delivery by DTC to any participant, or by and Direct Participant or Indirect Participant to any Beneficial Owner of any notice which is required or permitted under the terms of the authorizing resolution for the Bonds to be given to Bondholders; (e) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or (f) any consent given or other action taken by DTC as Bondholder.

### **Transfer Outside Book-Entry-Only System**

In the event the Book-Entry-Only System is discontinued, the following provisions would apply to the Bonds. The Paying Agent shall keep the registration books for the Bonds (the "Bond Register") at its designated corporate trust office. Subject to the further conditions contained in the Resolution, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations, upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer

or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement bonds in authorized denominations. The Paying Agent shall not be required to effect or register any transfer or exchange of any Bond which has been selected for such redemption, except the Bonds properly surrendered for partial redemption may be exchanged for new Bonds in authorized denominations equal in the aggregate to the unredeemed portion. The City and the Paying Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owner of such Bonds for all purposes under the Resolution. No transfer or exchange made other than as described above and in the Resolution shall be valid or effective for any purposes under the Resolution.

### **Optional Redemption**

Series 2017-A Bonds. The Series 2017-A Bonds maturing prior to October 1, 2028 are not subject to optional redemption prior to maturity. The Series 2017-A Bonds or portions of Series 2017-A Bonds, in multiples of \$5,000, maturing on or after October 1, 2028, are subject to redemption prior to maturity at the option of the City in such order as the City may determine, and by lot within any maturity, on any date occurring on or after October 1, 2027, at a redemption price of par plus accrued and unpaid interest to the date fixed for redemption.

Series 2017-B Bonds. The Series 2017-B Bonds maturing prior to October 1, 2028 are not subject to optional redemption prior to maturity. The Series 2017-B Bonds or portions of Series 2017-B Bonds, in multiples of \$5,000, maturing on or after October 1, 2028, are subject to redemption prior to maturity at the option of the City in such order as the City may determine, and by lot within any maturity, on any date occurring on or after October 1, 2027, at a redemption price of par plus accrued and unpaid interest to the date fixed for redemption.

### **Mandatory Redemption**

Series 2017-A Bonds. The Series 2017-A Bonds maturing on October 1, 2037 (the “Series 2017-A Term Bonds”) are subject to mandatory redemption on each October 1 at a price of par plus accrued interest without premium in the years and amounts set forth below at a price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

#### **Series 2017-A Term Bonds Due October 1, 2037**

<u>October 1</u>	<u>Amount</u>
2033	\$6,150,000
2034	6,435,000
2035	6,730,000
2036	7,040,000
2037 (maturity)	7,365,000

The principal amount of Series 2017-A Term Bonds to be redeemed shall be reduced, in the order determined by the City, by the principal amount of the Series 2017-A Term Bonds of the same maturity that have been previously redeemed (otherwise than as a result of a previous mandatory redemption requirement) or purchased or acquired by the City and delivered to the Paying Agent for cancellation; provided, that each such Bond has not previously been applied as a credit against any mandatory redemption obligation.

Series 2017-B Bonds. The Series 2017-B Bonds maturing on October 1, 2037 (the “Series 2017-B Term Bonds”) are subject to mandatory redemption on each October 1 at a price of par plus accrued interest without premium in the years and amounts set forth below at a price equal to 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption.

Series 2017-B Term Bonds Due October 1, 2037

<u>October 1</u>	<u>Amount</u>
2033	\$1,195,000
2034	1,250,000
2035	1,305,000
2036	1,365,000
2037 (maturity)	1,430,000

The principal amount of Series 2017-B Term Bonds to be redeemed shall be reduced, in the order determined by the City, by the principal amount of the Series 2017-B Term Bonds of the same maturity that have been previously redeemed (otherwise than as a result of a previous mandatory redemption requirement) or purchased or acquired by the City and delivered to the Paying Agent for cancellation; provided, that each such Bond has not previously been applied as a credit against any mandatory redemption obligation.

**Notice of Redemption and Manner of Selection**

Notice of redemption of any Bond shall be given not less than 30 days prior to the date fixed for redemption by mail to the registered owner at the registered address shown on the registration books kept by the Paying Agent. The Bonds shall be called for redemption in multiples of \$5,000 and Bonds of denominations of more than \$5,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof.

If less than all of the Bonds of any maturity shall be called for redemption prior to maturity, unless otherwise provided, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Paying Agent, in the principal amounts designated by the City. Any Bonds selected for redemption will cease to bear interest on the date fixed for redemption, whether presented for redemption or not, provided funds are on hand to redeem such Bonds.

So long as the book-entry-only system remains in effect, in the event of a partial redemption the Paying Agent will give notice to Cede & Co., as nominee of DTC, only, and only Cede & Co. will be deemed to be a holder of the Bonds. DTC is expected to reduce the credit balances of the applicable DTC Participants in respect of the Bonds and in turn the DTC Participants are expected to select those Beneficial Owners whose ownership interests are to be extinguished or reduced by such partial redemption, each by such method as DTC or such DTC Participants, as the case may be, deems fair and appropriate in its sole discretion.

## **APPROVALS BY MICHIGAN DEPARTMENT OF TREASURY**

By letters dated January 24, 2017, the Department of Treasury of the State of Michigan has approved the issuance of each series of the Bonds by the City in accordance with Section 518(8) of Act 34.

## **LITIGATION**

The City has not been served with any litigation, administrative action or proceeding, and to the best knowledge of the appropriate officials of the City, no litigation or administrative action or proceeding has been threatened against the City, seeking to restrain or enjoin the issuance and delivery of the Bonds, or questioning or contesting the validity of the Bonds or the proceedings or authorities under which they are authorized to be issued, sold, executed and delivered, or which would have a material adverse effect on the financial position of the City or its ability to pay the debt service on the Bonds. A certificate to such effect will be delivered to the Underwriter at the time of the original delivery of the Bonds.

## **TAX MATTERS**

### **Tax Opinions**

**Not Exempt from Federal Tax.** In the opinion of Dickinson Wright PLLC, Bond Counsel, based on its examination of the documents described in its opinion, under existing law, the interest on the Bonds is included in gross income for federal income tax purposes. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

**Exempt from State Tax.** In addition, in the opinion of Bond Counsel, based on its examination of the documents described in its opinion, under existing law, the Bonds and the interest on and income from the Bonds are exempt from taxation by the State of Michigan or a political subdivision of the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

### **Certain Federal Tax Consequences**

There are certain additional federal income tax consequences of the purchase, ownership and disposition of the Bonds. Such federal income tax consequences include, but are not limited to, matters related to acquisition premium or discount, amortizable bond premium or discount, gain or loss on disposition, market discount, information reporting and backup withholding.

### **Future Developments**

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS THAT COULD CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE REGISTERED OWNERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS.

### **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Dickinson Wright PLLC, Troy, Michigan, as Bond Counsel. A copy of the opinion of Bond Counsel will be provided with the Bonds, which opinion will be in substantially the form set forth in APPENDIX C. The legal fees of Bond Counsel in connection with the issuance of the Bonds are expected to be paid from proceeds of the Bonds.

Certain legal matters will be passed on for the Underwriter by its counsel, Dykema Gossett PLLC, Bloomfield Hills and Lansing, Michigan.

### **RATINGS**

Fitch Ratings (“Fitch”) will assign, as of the date of delivery of the Bonds, its municipal bond rating of “AA” to the Bonds. S&P Global Ratings (“S&P”), will assign, as of the date of the delivery of the Bonds, its municipal bond rating of “AA+” to the Bonds.

No application has been made to any other ratings service for a rating on the Bonds. The City furnished to Fitch and S&P certain materials and information in addition to that provided herein. Generally, the rating agencies base their ratings on such information and materials, and on investigations, studies and assumptions. There is no assurance that such ratings will prevail for any given period of time or that the ratings will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Any ratings assigned represent only the view of such rating agency. Further information is available upon request from Fitch and S&P.

### **UNDERWRITING**

J.P. Morgan Securities LLC is acting as the Underwriter as shown on the cover page of this Official Statement (the “Underwriter”). The Underwriter has agreed, subject to the terms of the Bond Purchase Agreement relating to each series of the Bonds, to purchase the Bonds from the City. The Bond Purchase Agreement provides, in part, that the Underwriter, subject to certain conditions, will purchase from the City (i) the aggregate principal amount of Series 2017-A Bonds for a purchase price of \$105,777,359.07, which purchase price is equal to the par amount of the Series 2017-A Bonds, less Underwriter’s discount of \$262,640.93, and (ii) the aggregate principal amount of the Series 2017-B Bonds for a purchase price of \$20,519,052.02, which purchase price is equal to the par amount of the Series 2017-B Bonds, less Underwriter’s discount of \$50,947.98. The Underwriter has further agreed to offer the Bonds to the public at the approximate initial offering prices or yields as set forth on the cover page of this Official Statement. The initial public offering prices of the Bonds may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

J.P. Morgan Securities LLC (“JPMS”), the Underwriter of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

### **REGISTERED MUNICIPAL ADVISOR TO THE CITY**

Hutchinson, Shockey, Erley & Co. (the “Advisor”) has been retained by the City to provide certain financial services. Among the provisions of the Financial Advisory Agreement with the City are: (1) the Advisor’s Fee is contingent upon the delivery of bond proceeds and (2) nothing in the agreement shall allow the Advisor to submit a bid for the purchase of the Bonds either on its own behalf or as a manager or participant in any group or syndicate which may submit a bid for the purchase of the Bonds.

The information contained in this Official Statement was prepared in part by the Advisor and is based on information supplied by various officials from records, statements and reports required by various City, County, school district and State officials and agencies. To the best of the Advisor’s knowledge, all of the information contained in this Official Statement, which it assisted in preparing, while it may be summarized, (a) is complete and accurate; (b) does not contain any untrue statement of material fact; and (c) does not omit to state any material fact or make an untrue statement of a material fact which would be misleading in light of the circumstances under which the statement was made. However, the Advisor has not and will not independently verify the completeness and accuracy of the information contained in this Official Statement.

### **CONTINUING DISCLOSURE**

The City has covenanted and will covenant for the benefit of the Bondholders and the Beneficial Owners (as hereinafter defined) pursuant to a Resolution of the City Commission of the City and Continuing Disclosure Certificate relating to the Bonds to be delivered on the date of issuance of the Bonds to the purchaser(s) thereof (the “Disclosure Certificate”), to provide or cause to be provided: (i) each year, certain financial information and operating data relating to the City for its preceding fiscal year (the “Annual Report”) by not later than the date six months after the first day of each fiscal year, commencing with the Annual Report for its fiscal year ending June 30, 2017; provided, however, that if the audited financial statements of the City are not available by such date, they will be provided when and if available, and unaudited financial statements in a format similar to the audited financial statements then most recently prepared for the City will be included in the Annual Report; and (ii) timely notices of the occurrences of certain enumerated events. Currently, the fiscal year of the City commences on July 1. “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).



Each Annual Report will be filed with the Municipal Securities Rulemaking Board (“MSRB”) electronically through MSRB’s Electronic Municipal Market Access system (“EMMA”). If the City is unable to provide the MSRB its Annual Report by the date required, the City shall send in a timely manner, to the MSRB through EMMA, a notice of the failure to file the Annual Report by such date. The notices of the enumerated events will be filed by the City with the MSRB through EMMA. These covenants have been made by the City in order to assist the purchaser(s) of the Bonds and registered brokers, dealers and municipal securities dealers in complying with the requirements of subsection (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the “Rule”). The information to be contained in the Annual Report, the enumerated events, the occurrence of which will require a notice, and the other terms of the Disclosure Certificate are set forth in APPENDIX D, “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Other than as set forth below, in the past five years the City has not failed to comply in any material respect with the provisions of its outstanding continuing disclosure undertakings.

The City has filed, in the previous five years, its audited financial statements and annual disclosure information in a timely manner pursuant to the Rule. For the fiscal years ending June 30, 2014 through and including June 30, 2015, the City failed to include certain portions of its operating data as required by an undertaking entered into in 2014 in connection with a private placement of bonds. Additionally, on February 5, 2016 the City filed a late material event notice of a downgrade to its underlying rating which occurred in 2011.

In connection with the George W. Kuhn Drain District, for which the City is an obligated party, the City failed to timely file its audited financial statements and annual disclosure information for the fiscal years ending June 30, 2011, 2012 and 2013, and failed to include certain portions of its operating data in each of the past five years.

In connection with the City’s Building Authority undertakings, for the fiscal years ending June 30, 2012 through June 30, 2015, the Building Authority failed to include certain portions of its operating data as required in the filing of its annual disclosure information.

For the fiscal year ending June 30, 2016, the City and the City’s Building Authority have made all required filings with the MSRB on a timely basis.

In the past five years there have been numerous rating changes affecting the bond insurers that have insured bonds previously issued by the City and the City’s Building Authority. Due to the widespread knowledge of these rating changes and the rating agencies’ failure to provide notices of the changes to the City and the Building Authority, material event notices were not filed by the City and the Building Authority.

The City and the Building Authority have established procedures to ensure future compliance with the filing requirements of all outstanding continuing disclosure undertakings.

## **OTHER MATTERS**

All information contained in this Official Statement, other than that provided by the City, is subject in all respects to the complete body of information contained in the original sources thereof and no guaranty, warranty or representation is made concerning the accuracy or completeness of such information. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

The City certifies that to its best knowledge and belief, this Official Statement, insofar as it pertains to the City and its economic and financial condition, respectively, is true and correct as of the date of this Official Statement, and does not contain any untrue statement of a material fact or omit to state any material fact necessary to make such statements herein, in light of the circumstances in which they are made, not misleading.

This Official Statement has been duly approved, executed and delivered by the City as of the date set forth on the front cover of this Official Statement.

CITY OF ROYAL OAK

By: /s/ Julie J. Rudd

Its: Director of Finance

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**APPENDIX A**

**CITY OF ROYAL OAK GENERAL FINANCIAL, ECONOMIC  
AND STATISTICAL INFORMATION**

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**CITY OF ROYAL OAK**

**General**

The City of Royal Oak is a metropolitan Detroit suburb located in southeastern Oakland County, Michigan. The approximately 12 square mile community is located ten miles north of downtown Detroit, and is home to over 57,000 residents. Royal Oak's history dates back to the extension of the railroad line from Detroit to Pontiac. The region was organized as a township in 1832, established as a village in 1891, and chartered as a City in 1921.

**Government**

The City was organized as a township in 1832, as a village in 1891 and incorporated as a home rule city in 1921 under the Home Rule Cities Act, being Act 279, Public Acts of Michigan of 1909, as amended (the "Home Rule Cities Act"). The City operates under the Commission-Manager form of government. The Mayor and six commissioners are elected on a non-partisan, at large basis. The Mayor is elected for two-year term and the Commissioners serve for four-year overlapping terms. The City Manager, City Clerk and City Attorney are appointed by the Commission for indefinite terms and serve at the pleasure of the Commission. The City Manager is the chief administrative officer of the City and is responsible for the day-to-day operation of all departments except the City Attorney's Office and the City Clerk's Office.

**Population**

	City <u>Population</u>	Percent of <u>Increase (Decrease)</u>
1980 US Census	70,893	(17.8)%
1990 US Census	65,410	(7.7)
2000 US Census	60,062	(8.2)
2010 US Census	57,236	(4.7)
2015 US Census (Estimate) (1)	59,016	3.1

**SOURCE:** US Department of Commerce - Bureau of Census  
(1) Source: SEMCOG Southeast Michigan Council of Governments

## **CITY TAXATION AND LIMITATIONS**

### **Taxable Valuation**

The value of taxable property in the City as of December 31 of each year is assessed by the City Assessor and then equalized by the County of Oakland (the "County") and finally by the State of Michigan (the "State"). The value as equalized by the State becomes the state equalized valuation (the "State Equalized Valuation" or "SEV"). Property taxpayers may appeal their assessments to the local assessor, the local board of review and ultimately to the State Tax Tribunal. The City does not anticipate any material adverse effect on its financial condition as a result of any appeals currently pending.

State statutes provide that all ad valorem taxes ("Ad Valorem Taxes") be levied upon Taxable Value, as hereinafter defined, (the "Ad Valorem Tax Roll"). Article IX, Section 3, of the State of Michigan Constitution (the "State Constitution") limits the proportion of true cash value at which taxable property can be assessed to a percentage not to exceed 50%. The State of Michigan Legislature (the "State Legislature") or the electorate may at some future time change the percentage of true cash value at which property is assessed.

On March 15, 1994, the electorate of the State approved an amendment to the State Constitution permitting the State Legislature to authorize Ad Valorem Taxes on a non-uniform basis (the "1994 Amendment"). The legislation implementing the 1994 Amendment added a new measure of property value known as "Taxable Value". Beginning in 1995, taxable property will have two valuations - SEV and Taxable Value. Property taxes will be levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediately preceding year, adjusted for additions and losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, or (b) the property's current SEV. Under certain circumstances therefore the Taxable Value of property may be different from the same property's SEV.

This 1994 Amendment and the implementing legislation base the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994 and for the years 1996 and thereafter on the Taxable Value of the property in the preceding year. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of existing property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

Ad Valorem Taxable Value does not include any value of tax-exempt property (e.g., government facilities, churches, public schools, etc.) or property granted tax abatement under Act 198 of the Public Acts of Michigan of 1974, as amended ("Act 198"). See "**CITY TAXATION AND LIMITATIONS – Industrial Facilities Tax Abatement**" herein.

## **Property Tax**

The City's annual ad valorem tax levy is limited by both statute and City Charter. Home Rule cities are allowed by the Home Rule Act to authorize, by their charters, not to exceed 20 mills (1 mill is equal to \$1.00 per \$1,000 of SEV) as an annual ad valorem tax levy for operating purposes. The City, by its charter, is limited to levying annually a maximum of 11 mills for municipal purposes exclusive of any levy required for the payment of principal and interest on outstanding bonds of the City and exclusive of any levy authorized by statute to be made beyond the charter tax limitations. The 11 mill limitation has been rolled back to 7.2899 mills due to the effect of the Headlee Amendment to the State Constitution. The City is currently levying 7.2899 mills for operating purposes and .2665 mills for debt service and 10.3197 for other permitted purposes. In addition, the electorate may authorize the issuance of general obligation bonds that pledge the full faith and credit and unlimited taxing power of the City.

In November 1978, the electorate of the State passed an amendment to the State Constitution (the "Amendment") which placed certain limitations on the increase of taxes by the State and any political subdivisions from currently authorized levels of taxation. The Amendment and the enabling legislation, Act 35, Public Acts of Michigan, 1979, as amended, may have the effect of reducing the maximum authorized tax rate which may be levied by a local taxing unit. Under the Amendment's millage reduction provisions, should the value of taxable property, exclusive of new construction, increase at a percentage greater than the percentage increase in the Consumer Price Index (the "CPI"), then the maximum authorized tax rate would be reduced by a factor which would result in the same maximum potential tax revenues to the local taxing unit as if the valuation of taxable property (less new construction) had grown only at the CPI instead of the higher actual growth rate. Thus, should taxable property values rise faster than consumer prices, the maximum authorized tax rate would be reduced accordingly. The Amendment does not limit taxes for the payment of principal of and interest on bonds or other evidences of indebtedness outstanding at the time the Amendment became effective or which have been approved by the electors of the State or such political subdivisions.

The Amendment has had the effect of rolling back the City's maximum operating levy from 11.0000 to 7.2899 for the 2016/2017 fiscal year.

### Tax Rates - Five Year History

Levied July 1	City Operating (1)	Publicity Millage (2)	City Debt (3)	Library (4)	Recycling/Refuse Services (5)	Public Safety (6)	Public Roads (7)	Total	DDA (8)
2012	7.3947	.0225	.3363	.9597	3.0129	3.4750	-----	13.3738	1.6477
2013	7.3947	.0223	.3006	.9597	3.0129	3.4750	-----	15.1652	1.6477
2014	7.3947	.0218	.2910	.9597	3.0129	3.9750	2.5000	18.1551	1.6477
2015	7.3695	.0212	.2770	.9564	2.6026	3.9614	2.4915	17.6796	1.6409
2016	7.2899	.0206	.2665	.9460	2.9700	3.9186	2.4645	17.8761	1.6146

- (1) The City is currently levying its maximum operating millage based upon the Amendment described above.
- (2) Levied annually for city publication services and is limited to a specific millage or \$50,000 (whichever is lower).
- (3) Extra voted millage for unlimited tax general obligation bonds.
- (4) Extra voted millage for the Royal Oak City Library operations and debt. Expires in calendar year 2023.
- (5) Extra voted millage for recycling services expires in calendar year 2022. Millage for refuse services is an annual millage and is subject to the Amendment.
- (6) Extra voted millage for public safety services expires in calendar year 2022.
- (7) Extra voted millage for road maintenance and construction expires in calendar year 2024.
- (8) Extra voted millage only by businesses located in the City's Downtown Development Central Business District for operations and administration.

SOURCE: City of Royal Oak

## City Wide Millages

In addition to the City's tax rates, property owners in the City must pay taxes to other units of local government. City property owners are subject to the following millage tax rates on all taxable property from local units of government for the 2016/2017 fiscal year. Property owners pay property taxes at different levels based upon the status of the property as either Principal Residence or Non-Principal property.

### **Fiscal Year 2016/2017 (1)**

	<b><u>Homestead Properties (2)</u></b>	<b><u>Non-Homestead Properties</u></b>
Royal Oak Public Schools Debt	3.7500	3.7500
Royal Oak Public Schools Winter Operating Levy	0.0000	0.1566
County of Oakland	4.0400	4.0400
Oakland County Intermediate School District	3.3398	3.3398
Oakland County Community College	1.5707	1.5707
Oakland County Parks (3)	0.2392	0.2392
Oakland County Public Transit Authority (3)	0.9941	0.9941
Local Education Levy (Royal Oak Public Schools)	3.5411	0.0000
State Education Levy	6.0000	24.8297
Huron-Clinton Authority (3)	0.2146	0.2146
Detroit Zoo (3)	0.0990	0.0990
Detroit Institute of Arts	<u>0.1981</u>	<u>0.1981</u>
<b>Total</b>	<b><u>23.9866</u></b>	<b><u>39.4318</u></b>

- (1) Per \$1,000 of Taxable Value.
- (2) Homestead property includes principal residences, qualified agricultural property, qualified forest property and industrial personal property, which is excluded from taxes levied for school operating purposes. Moreover, commercial personal property is exempt from a portion of taxes levied for school operating purposes.
- (3) Current levies for Fiscal Year End 2016/2017. These Governmental entities will levy in December 2016.

SOURCE: City of Royal Oak

## **Real Property Tax Assessments**

Responsibility for assessing taxable property rests with the local assessing officer of each township and City. Any property owner may appeal the assessment to the local assessor, the local Board of Review and ultimately to the Michigan Tax Tribunal.

The Michigan Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government within a county are responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal assessments are then equalized to the 50% levels as determined by the County's Department of Equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important, aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs and in calculation of debt limits.

## **Personal Property Tax Reform**

On March 28 and April 1, 2014, Governor Snyder signed into law a package of bills amending and replacing legislation enacted in 2012 to reform personal property tax in Michigan. Commercial and industrial personal property of each owner with a combined true cash value in a local taxing unit of less than \$80,000 is exempt from ad valorem taxes beginning in 2014. All eligible manufacturing personal property ("EMPP") purchased or put into service beginning in 2013 and used more than 50% of the time in industrial processing or direct integrated support becomes exempt beginning in 2016. In addition, previously-existing EMPP will be exempt starting in 2016, if it was subject to taxation for ten (10) years or more, and eventually by 2023 all EMPP will be exempt as it is phased-in. For example, in 2016, EMPP acquired before 2006 will be exempt, and in 2017 EMPP acquired before 2007 becomes exempt, and so on. The legislation extends certain personal property tax exemptions and tax abatements for technology parks, industrial facilities and enterprise zones that were to expire after 2012, until the newly enacted personal property tax exemptions take effect. Pursuant to voter approval in August 2014, the 2014 legislation also includes a formula to reimburse local governments for lost personal property tax revenue. To provide the reimbursement, the legislation reduces the state use tax and creates a Local Community Stabilization Authority which will levy a local use tax component and distribute that revenue to qualifying local units. The final impact of this legislation cannot be determined at this time.

The ultimate nature, extent and impact of any other future amendments to Michigan's property tax laws on a local unit's finances cannot be predicted. Purchasers of the Bonds should consult with their legal counsel and financial advisors as to the consequences of any such legislation on the market price or marketability of the Bonds, the security therefor and the operations of the City.

## **Real Estate Market Developments**

There was a broad-based decline in the market prices of residential real estate in the United States that began in calendar year 2006, resulting in a slowing in appreciation and declines in residential and other real property assessed valuations. Commencing in 2013, total SEV and Taxable Valuation in the City began to increase, and has continued to increase in each subsequent year.



## **Industrial Facilities Tax Abatement**

Act 198 provides significant property tax incentives to industry to renovate and expand aging industrial facilities and to build new industrial facilities in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new industrial facilities.

Property owners situated in such districts pay an Industrial Facilities Tax (“IFT”) in lieu of ad valorem property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the IFT is determined by calculating the product of the state equalized valuation of the replacement facility in the year before the effective date of the abatement certificate multiplied by the total mills levied by all taxing units in the current year. A new plant and equipment that received its abatement certificate prior to January 1, 1994 is taxed at one-half the total mills levied by all taxing units, other than mills levied for local school district operating purposes or under the State Education Tax Act, plus one-half of the number of mills levied for local school district operating purposes in 1993. For new facility tax abatements granted after 1993, new plants and equipment are taxed at one-half of the total mills levied as ad valorem property taxes by all taxing units except mills levied under the State Education Tax Act, plus the number of mills levied under the State Education Tax Act. For new facility tax abatements granted after 1993, the State Treasurer may permit abatement of all, none or one-half of the mills levied under the State Education Tax Act. Ad valorem property taxes on land and inventory are not reduced in any way since both land and inventory are specifically excluded under Act 198. The equivalent effect of the abatements granted under Act 198 is to understate the City’s Ad Valorem Taxable Value for its fiscal year ending June 30, 2016 by \$7,856,290 or 0.32%.

## SEV/Taxable Valuation – Five-Year History

The City's Ad Valorem Taxable Value has increased \$239,446,000 or 10.90% between 2012 and 2016 (see table following). SEV and Taxable Value does not include any value of tax-exempt property (e.g., governmental facilities, churches, public schools, etc.) or property granted tax abatements under Abatement Acts (see "CITY TAXATION AND LIMITATIONS – Industrial Facilities Tax Abatement" herein).

<u>Assessed Value as of December 31,</u>	<u>Year of State Equalization and Tax Levy</u>	<u>Fiscal Year Ended June 30,</u>	<u>State Equalized Valuation (1)</u>	<u>Ad Valorem Taxable Valuation (1)</u>	<u>Total Taxable Valuation (2)</u>	<u>% Increase/ (Decrease)</u>
2011	2012	2013	\$2,279,234,230	\$2,196,356,290	\$2,205,933,330	(0.74)%
2012	2013	2014	2,320,467,120	2,223,340,000	2,232,847,670	1.22
2013	2014	2015	2,496,528,450	2,268,034,710	2,277,110,800	1.98
2014	2015	2016	2,693,722,050	2,358,343,090	2,366,199,380	3.91
2015	2016	2017	2,835,448,725	2,435,802,290	2,442,069,570	3.21

Per Capita 2016 Ad Valorem Taxable Valuation is \$42,557 and Per Capita 2016 Total Taxable Valuation is \$42,666 based on the City's 2010 US Census population of 57,236.

- (1) See "CITY TAXATION AND LIMITATIONS - Tax Abatement" herein.  
 (2) Includes tax abatements under Act 198.

## Breakdown of the 2016 Taxable Valuation

<b>By Use:</b>		<b>By Class:</b>	
Residential	77.15%	Real Property	94.93%
Industrial	0.52	Personal Property (1)	<u>5.07</u>
Commercial	17.26	Total	<u>100.00%</u>
Personal	<u>5.07</u>		
Total	<u>100.00%</u>		

SOURCE: City of Royal Oak

- (1) Personal Property Valuation decreases for the FY2017 tax levy based upon recent property tax changes enacted by the State of Michigan. See "Personal Property Tax Reform", page A-6.

## General Fund Balance

The following table sets forth the City's general fund balance for the fiscal years ended June 30, 2012 through June 30, 2016 and the City's estimate for fiscal year ended June 30, 2017.

<b>Fiscal Year <u>Ended</u></b>	<b>General Fund - <u>Fund Balance</u></b>
2012	\$ 7,839,577
2013	10,795,085
2014	14,649,116
2015	16,956,748
2016	18,279,755
2017 (1)	15,684,285

(1) Estimated by the City.

SOURCE: City of Royal Oak

## Property Tax Collections

The City's fiscal year begins on July 1. Real and personal property taxes are due July 1 and December 1 and are payable without penalty or interest until July 31 and February 14, respectively. Property owners who have not paid their property taxes on or before July 31 and February 14, respectively, are required to pay interest and penalties on, and collection fees with respect to, such unpaid taxes.

Oakland County (the "County") is responsible for the collection of real property taxes of the City which are delinquent as of March 1 of each fiscal year (the "Delinquent Real Property Taxes"). In recent years, the County has paid to the City all Delinquent Real Property Taxes from a tax payment fund established by the County. By law, the County receives all amounts payable to the City from the taxpayers with respect to such Delinquent Real Property Taxes. If such Delinquent Real Property Taxes remain uncollected after three years from the date on which such taxes become delinquent, the County may charge the respective amount of such taxes back to the City. The payment by the County from the City of the Delinquent Real Property Taxes as set forth above may be dependent upon the sale by the County of delinquent tax notes for that purpose, and there can be no assurance that the County will issue such delinquent tax notes or purchase such Delinquent Real Property Taxes in any fiscal year.

Delinquent Real Property Taxes collected by the County in any fiscal year in which the County does not purchase from the City such Delinquent Real Property Taxes are paid to the City as and when collected by the County on a monthly basis following such collection.

Personal property taxes uncollected as of the end of a fiscal year have historically accounted for less than 1.0% of the City's local tax levies. Suit may be brought to collect personal property taxes, and personal property may be seized and sold to satisfy the claim for unpaid taxes thereon.

# **Property Tax Collection Record - Five Year History**

<b>Fiscal Year <u>Ending</u></b>	<b><u>Tax Levy (1)</u></b>	<b><u>Collections to March 1, Year Following Levy</u></b>	<b><u>Percent Collected</u></b>	<b><u>Collections Plus Funding to June 30, Year Following Levy (2)</u></b>	<b><u>% Collection Plus Funding to June 30, Year Following Levy (2)</u></b>
2012	\$25,685,056	\$25,656,002	99.88%	\$25,669,748	99.94%
2013	32,676,999	32,629,339	99.85	32,655,134	99.93
2014	34,509,624	34,431,897	99.77	34,437,160	99.79
2015	42,085,769	41,995,560	99.79	42,000,560	99.80
2016	42,669,442	42,466,820	99.53	42,491,820	99.58
2017	43,656,674	<b>(In Process of Collection)</b>			

(1) Real and personal taxes combined.

(2) Includes collections from County Tax Payment Fund.

SOURCE: City of Royal Oak

## REVENUES FROM THE STATE OF MICHIGAN

The City receives revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended. The revenue sharing payments are composed of two components – a constitutional distribution and a statutory distribution.

The constitutional distribution is mandated by the State Constitution and distributed on a per capita basis to townships, cities and villages. The amount of the constitutionally mandated revenue sharing component distributed to the City can vary depending on the population of the City and the receipt of sales tax revenues by the State.

The statutory distribution is authorized by legislative action and distribution is subject to annual State appropriation by the State Legislature. Statutory distributions may be reduced or delayed by Executive Order during any State fiscal year in which the Governor, with the approval of the State Legislature's appropriations committees, determines that actual revenues will be less than the revenue estimates on which appropriations were based.

On June 18, 2015, Governor Snyder signed into law the budget for fiscal year 2016. The budget continues the incentive-based revenue sharing program known as the City, Village, and Township Revenue Sharing (or "CVTRS") program begun in fiscal year 2015, similar to the Economic Vitality Incentive Program ("EVIP") that from fiscal year 2012 through fiscal year 2014 distributed revenue sharing to municipalities that complied with certain "best practices" such as increasing transparency. The fiscal year 2016 budget includes an increased constitutional revenue sharing distribution to cities, villages and townships of 3.1% from the fiscal year 2015 distribution to approximately \$788,500,000. Under the fiscal year 2016 budget, approximately \$243 million, a reduction of 2.3% from fiscal year 2015 amounts, has been appropriated for revenue sharing to cities, villages and townships that meet requirements for accountability and transparency, including making a citizen's guide to its finances, a performance dashboard, a debt service report and a two-year budget projection available for public viewing.

Any portion of the CVTRS payment that the City would be eligible to receive would be subject to certain transparency filings that the City would need to meet. The City received revenue sharing payments of \$5,073,238 in fiscal year 2016 and anticipates meeting the requirements to receive \$5,077,134 in state shared revenue and CVTRS payments for fiscal year 2017.

**Purchasers of the Bonds should be alerted to further modifications to revenue sharing payments to Michigan local governmental units, to potential consequent impact on the City's general fund condition, and to the potential impact upon the market price or marketability of the Bonds resulting from changes in revenues received by the City from the State.**

The following table sets forth annual revenue sharing payments and other moneys received for the City's general operating fund for its fiscal years ended June 30, 2012 through June 30, 2016, and the currently budgeted revenue sharing payments to be received in the fiscal year ending June 30, 2017.

<b><u>Fiscal Year Ended/Ending</u></b>	<b><u>Constitutional Component</u></b>	<b><u>Statutory Component</u></b>	<b><u>Total Revenue Sharing Payments</u></b>
June 30, 2012 (1)	\$4,189,253	\$485,000	\$4,674,253
June 30, 2013 (1)	4,115,000	485,000	4,600,000
June 30, 2014 (1)	4,293,557	654,486	4,948,043
June 30, 2015	4,360,994	674,467	5,035,461
June 30, 2016	4,398,771	674,467	5,073,238
June 30, 2017 (2)	4,402,667	674,467	5,077,134

- (1) Act 63, Public Acts of Michigan, 2011, introduced the Economic Vitality Incentive Program ("EVIP"). Each city, village or township that received a FY 2010 statutory payment greater than \$4,500 and fulfilled all of the specific requirements of the EVIP was eligible to receive a maximum of 67.837363% of its FY 2010 total statutory payment (rounded to the nearest dollar). The EVIP expired in 2014.
- (2) Estimated by the City from the Michigan Department of Treasury Website based on Constitutional and CVTRS revenue sharing.  
<http://www.michigan.gov/treasury>

## CITY DEBT

### Statutory and Constitutional Debt Provisions

Section 21 of Article VII of the Michigan Constitution authorizes the enactment of laws for the incorporation of cities and grants cities the power to levy taxes for public purposes, subject to statutory and constitutional limitation:

"The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by the constitution or by law."

In accordance with the foregoing, the Home Rule City Act, Act 279, Michigan Public Acts, 1909, as amended, limits the amount of debt a home rule city may have outstanding at any time. Section 4-a of the Home Rule City Act provides, in pertinent part:

"Notwithstanding a charter provision to the contrary the net indebtedness incurred for all public purposes shall not exceed the greater of the following:

- (a) Ten percent of the assessed value of all the real and personal property in the city.
- (b) Fifteen percent of the assessed value of all the real and personal property in the city if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities."

The provision of the Home Rule City Act cited above overrides the City's Charter provision which limits City indebtedness to five percent of the "assessed valuation" (SEV) of all real and personal property in the City. Other limitations may apply, however, if specifically set forth in a statute authorizing a particular kind of borrowing.

Certain types of indebtedness are not subject to the 10% limitation of the Home Rule City Act, including: special assessment bonds, Michigan transportation fund bonds and revenue bonds, whether secured by a mortgage or not; bonds issued or contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction; obligations incurred for water supply, sewage, drainage or refuse disposal or resource recovery projects necessary to protect the public health by abating pollution; and bonds issued for construction, improvements and replacement of a combined sewer overflow abatement facility. The resources of a sinking fund pledged for the retirement of outstanding bonds shall also be excluded in computing the debt limitation.

### Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth above, the following table reflects the amount of additional debt the City may legally incur as of February 28, 2017, assuming issuance of the Bonds.

	<u>10% SEV</u>	<u>5% SEV</u>
2016 SEV	\$ 2,835,448,725	\$ 2,835,448,725
Debt Limit	283,544,873	141,772,436
Debt Outstanding (1)	168,676,558	168,676,558
Less: Exempt Obligations	<u>19,065,558</u>	<u>145,675,558</u>
Debt Subject to SEV Limitation	<u>149,611,000</u>	<u>23,001,000</u>
Additional Debt which can be legally incurred	<u>133,933,873</u>	<u>118,771,436</u>

Non-exempt debt outstanding as percentage of 2016 SEV	5.28%	0.81%
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(1) Includes all outstanding Bonds as of February 28, 2017

SOURCE: City of Royal Oak and the Municipal Advisory Council of Michigan.

## Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of February 28, 2017 including the Bonds. Bonds designated U.T.G.O. have an unlimited tax pledge, and L.T.G.O. have a limited tax pledge.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net Debt</u>	<u>Net Debt (1)</u> <u>Per</u> <u>Capita</u>	<u>% of</u> <u>SEV</u>
Taxable Limited Tax General Obligation Bonds, Series 2017A (2)	\$106,040,000	\$-0-	\$106,040,000		
Taxable Limited Tax General Obligation Bonds, Series 2017B (2)	20,570,000	-0-	20,570,000		
Capital Improvement Refunding Bonds, Series 2016 (LTGO) (3)	16,210,000	16,210,000	-0-		
Capital Improvement Refunding Bonds, Series 2014 (LTGO) (4)	1,821,000	1,821,000	-0-		
Capital Improvement Bonds, Series 2013 (LTGO) (5)	450,000	450,000	-0-		
Capital Improvement Bonds, Series 2008 (LTGO) (6)	990,000	990,000	-0-		
Capital Improvement Bonds, Series 2007A (LTGO) (7)	605,000	-0-	605,000		
Building Authority Bonds (UTGO) (8)	2,925,000	-0-	2,925,000		
Drain Bonds (LTGO) (9)	1,548,636	1,548,636	-0-		
Share of County Issued Drain Bonds	<u>17,516,922</u>	<u>17,516,922</u>	<u>-0-</u>		
Total Direct Debt	<u>\$168,676,558</u>	<u>\$38,536,558</u>	<u>\$130,140,000</u>	<u>\$2,274</u>	<u>4.59%</u>

<u>City Overlapping (10)</u>	<u>Gross</u>	<u>City Share as % of Gross</u>	<u>Net City Share</u>	<u>Net Debt (1)</u> <u>Per</u> <u>Capita</u>	<u>% of</u> <u>SEV</u>
Royal Oak Public Schools	\$33,475,000	96.91%	\$32,440,623		
Berkley Public Schools	64,490,000	1.84	1,186,616		
Clawson Public Schools	27,794,083	0.93	258,485		
Oakland – County at Large	395,418,387	4.61	18,228,788		
Oakland Intermediate School District	46,680,000	4.63	2,161,284		
Oakland Community College	<u>1,605,000</u>	4.65	<u>74,633</u>		
Total Overlapping Debt	<u>\$569,462,470</u>		<u>\$54,350,429</u>	<u>\$ 949</u>	<u>1.92%</u>
Total City Direct and Overlapping Debt	<u>\$738,139,028</u>		<u>\$184,490,429</u>	<u>\$3,223</u>	<u>6.51%</u>

- (1) Based upon the 2010 U.S. Census population of 57,236 and 2016 SEV of \$2,835,448,725.
- (2) The Bonds.
- (3) Capital Improvement Refunding Bonds, Series 2016 (LTGO) which are paid with funds from the City's Motor Pool Fund, Parking Fund, Water and Sewer Enterprise Fund, Downtown Development Authority Tax Increment Revenues and General Fund.
- (4) Capital Improvement Refunding Bonds, Series 2014 (LTGO) are paid with tax receipts from an earlier library millage.
- (5) Capital Improvement Bonds, Series 2013, (LTGO) are paid by special assessments on individual homeowners & businesses..
- (6) Non-callable Capital Improvement Bonds, Series 2008, due October 1, 2017 – October 1, 2018, inclusive. The Bonds are paid with funds from the Motor Pool Fund, Parking Fund and Water and Sewer Enterprise Fund.
- (7) Capital Improvement Bonds, Series 2007A (LTGO), financed City vehicles.
- (8) The Building Authority Bonds are a voted debt obligation.
- (9) The City's portion of the 1998 North Arm Relief Drain Bonds is approximately 49% or \$416,568 and is being paid by the City's Water and Sewer Enterprise Fund. The remaining amount is being paid by neighboring municipalities through inter local agreements with the City.
- (10) Overlapping debt is the portion of the debt of other taxing units for which the City is responsible.

SOURCE: City of Royal Oak and the Municipal Advisory Council of Michigan.



**CITY OF ROYAL OAK**  
**COUNTY OF OAKLAND, STATE OF MICHIGAN**  
**Schedule of Principal and Interest Payments for the City's**  
**Outstanding General Obligation Limited Tax Debt Service**  
**and Final Debt Service on the Bonds**

Fiscal Year Ending June 30	The Outstanding Bonds (1)			The Bonds (2)					
	Total Principal	Total Interest	Total Principal & Interest	New Principal	New Interest	New Principal & Interest	Total Debt Service	Debt Service Due Each 5 Years	Percent
2017	239,000	271,809	510,809				510,809		
2018	2,251,000	514,694	2,765,694	\$3,875,000	\$5,119,311	\$8,994,311	11,760,005		
2019	2,282,000	455,768	2,737,768	4,450,000	4,546,593	8,996,593	11,734,361		
2020	2,113,000	399,532	2,512,532	4,525,000	4,467,877	8,992,877	11,505,409		
2021	1,964,000	356,048	2,320,048	4,620,000	4,372,862	8,992,862	11,312,910	\$46,823,494	22.08%
2022	2,019,000	306,736	2,325,736	4,740,000	4,258,636	8,998,636	11,324,372		
2023	2,073,000	247,409	2,320,409	4,865,000	4,127,552	8,992,552	11,312,961		
2024	1,850,000	186,300	2,036,300	5,015,000	3,980,613	8,995,613	11,031,913		
2025	1,435,000	137,025	1,572,025	5,175,000	3,817,391	8,992,391	10,564,416		47.91%
2026	1,450,000	93,750	1,543,750	5,355,000	3,638,159	8,993,159	10,536,909	\$101,594,065	
2027	780,000	60,300	840,300	5,550,000	3,445,216	8,995,216	9,835,516		
2028	800,000	36,600	836,600	5,755,000	3,240,374	8,995,374	9,831,974		
2029	820,000	12,300	832,300	5,975,000	3,019,575	8,994,575	9,826,875		
2030				6,215,000	2,781,627	8,996,627	8,996,627		
2031				6,465,000	2,527,775	8,992,775	8,992,775	\$149,077,833	70.30%
2032				6,740,000	2,256,805	8,996,805	8,996,805		
2033				7,025,000	1,969,219	8,994,219	8,994,219		
2034				7,345,000	1,655,445	9,000,445	9,000,445		
2035				7,685,000	1,315,466	9,000,466	9,000,466		
2036				8,035,000	959,880	8,994,880	8,994,880	\$194,064,648	91.52%
2037				8,405,000	588,007	8,993,007	8,993,007		
2038				8,795,000	198,943	8,993,943	8,993,943	\$212,051,598	100.00%
	\$20,076,000	\$3,078,271	\$23,154,271	\$126,610,000	\$62,287,327	\$188,897,327	\$212,051,598		

(1) *The City of Royal Oak outstanding General Obligation Limited Tax debt as of Feb 28, 2017*

(2) *Final Debt Service on the Bonds at a True Interest Cost of 4.08%*

## **Debt History**

There is no record of a default on any obligations of the City. On August 2, 2016, the City made an interest payment of \$2,000 on its 2007 Energy Efficiency Bond (with a final maturity of February 1, 2017), which was one day late due to a clerical error. The interest payment was due August 1, 2016.

## **Short Term Financing**

The City does not utilize short-term borrowing.

## **Lease Obligations**

The City currently has no lease obligations outstanding.

## **Future Financings**

The City is in the discussion stage as to several projects that may be funded through the issuance of bonds. Limited tax general obligation bonds in an amount estimated not to exceed \$45,500,000 may be issued for a civic center complex comprised of a new city hall, new police building, and downtown park improvement project, the configuration of which is subject to further review and analysis. Additionally, the issuance of up to \$14,500,000 in parking system revenue bonds for a downtown parking structure is in the initial discussion stage. Lastly, a \$6,000,000 water meter/reading technology project is currently being analyzed and may be financed with water and sewer system revenue bonds.

## **Vacation and Sick Leave Liabilities**

As of June 30, 2016, the accrued accumulated vacation, longevity, and sick leave liability was \$3,683,500.

## **Employees' Retirement System**

The City contributes to the City of Royal Oak Retirement Plan System, which is the administrator of a single employer defined benefit pension plan that provides pensions to vested full-time employees who were hired as full-time employees prior to July 1, 2005, and which is a closed plan.

As of June 30, 2015, the plan had 240 active members (99 general employees), 555 retirees/beneficiaries, and the plan was considered to be 64% funded. The City allocates the pension contribution costs to the numerous City funds based on the active members working in that fund that receive the pension benefit.

The System is administered through a five-member Board of Trustees, consisting of two City Commissioners, the City Manager, one general member of the System elected by the general members of the System, and one member of the System who is either a fire member or police member to be elected by the fire and police members.

Historically, the City has made the annual employer contribution to the System required by State law, as determined by the plan's actuary.

<b>Valuation Year June 30,</b>	<b>Actuarial Accrued Liability</b>	<b>Actuarial Value of Assets</b>	<b>Net Assets Available as a % of Obligation</b>
2006	\$158,239,077	\$137,263,998	86.7%
2007	162,781,663	143,619,213	88.2
2008	166,957,321	145,560,741	87.2
2009	173,542,642	138,811,772	80.0
2010	178,656,736	132,168,268	74.0
2011	188,716,644	125,356,684	66.4
2012	190,595,000	124,013,000	65.1
2013	199,909,000	125,709,000	62.9
2014	203,770,000	130,740,000	64.2
2015	208,800,000	133,359,000	63.9

SOURCE: City of Royal Oak

See APPENDIX B - Note 11, "Employees' Retirement System" of Audited Financial Statements of the City for Fiscal Year Ending June 30, 2016, at page B-71.

### **Other Postemployment Benefits**

The City sponsors and administers a single-employer defined benefit health care plan that provides certain post-employment health care, dental benefits and life insurance benefits for certain eligible retired employees (including their spouse and certain dependents) under the provisions of applicable union contracts and salary plans. The City pays nearly all the costs. Substantially all employees may become eligible for these benefits through age and service. At the time of the last OPEB actuarial valuation study (November 30, 2015), the plan had 188 active members, 433 retirees/beneficiaries, and the plan was considered 12% funded. That study determined the actuarial accrued liability for benefits was \$122,643,668 and the market value of assets in the health care plan was \$14,672,324, resulting in an unfunded actuarial accrued liability of \$107,971,344.

Commencing with the City's fiscal year ending June 30, 2010, the City, in accordance with Governmental Accounting Standards Board Statement Number 45, was required to report its liability for post-employment health care benefits on an actuarial basis.

The City had actuarial studies of its OPEB liability performed by an independent actuary as of June 30, 2002, June 30, 2004, June 30, 2006, June 30, 2008, June 30, 2010, June 30, 2012, June 30, 2014 and November 30, 2015. Until July 1, 2007 the cost of these benefits was handled on a pay-as-you-go basis. The City was able to accumulate approximately \$16,996,692 toward the OPEB trust as of June 30, 2016. Currently, the City fully funds the ARC (Annual Required Contribution), which was \$11,677,122 for the year ending June 30, 2016.

See APPENDIX B -Note 12, "Other Postemployment Benefits" of Audited Financial Statements of the City for Fiscal Year Ending June 30, 2016, at page B-76.

## LABOR CONTRACTS

Approximately 66% of the City's 456 employees are represented by labor organizations. The following table illustrates the various organizations which represent City employees, the number of members as of July 1, 2016 and the expiration date of the present contracts.

<u>Employee Group</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Clerical Staff (TPOAM)	33	6/30/19
Department Head and Deputy Department Head Association	23	6/30/16 (1)
Public Works Employees (SEIU Local 517m)	48	6/30/19
Professional and Technical Association	29	6/30/19
Royal Oak Police Officers Association	65	6/30/16 (1)
Royal Oak Police Command Officers Association	15	6/30/19
Royal Oak Detectives Association	7	6/30/19
Royal Oak Firefighters Association	54	6/30/17
Royal Oak Foremen and Supervisors Association	4	6/30/16 (1)
Court Employees	26	6/30/19
Non-Affiliated Employees (full time)		
Non-Affiliated Employees (part time)	<u>151</u>	
<b>Total</b>	<u>456</u>	

(1) Currently in negotiations.

SOURCE: City of Royal Oak

## **ECONOMIC PROFILE**

### **General**

Royal Oak's economy is dominated by the health care, retail, professional services, and automotive parts manufacturing industries. In recent years, the City has experienced resurgence as a regional entertainment and cultural destination, dynamic place to live, and meeting grounds for creative minds. It was recently named one of the Top 10 Most Exciting Small Cities in America by Movoto, and the Best Place to Live in Michigan by areavibes.

### **Commercial**

The commercial character of the City is very diverse, ranging from turn of the century retail buildings located in downtown to modern shopping plazas along Woodward Avenue. The City's first commercial growth occurred in downtown. As development extended outward from downtown, the predominant land use became residential with the exception of the Mile Roads and the north/south connectors (Woodward Avenue, Rochester Road, Crooks Road and Main Street).

Commercial development in the City's one square mile downtown is geared toward a pedestrian friendly shopping experience. City parking lots and structures provide visitors with a central parking location. Since 2010, more than thirty creative and technology companies have opened offices downtown, including Hulu's Detroit office, Vectorform, Crowdrise, and Ambassador, which has tripled its staff in less than a year.

A 2015 retail trade study revealed that over 198,000 people live within the city's primary trade area. The household income of the primary trade area is over \$78,000.

There is over 600,000 square feet of floor space dedicated to shopping, services, dining and entertaining in downtown Royal Oak. Over 2,500 businesses call Royal Oak home, and the city has one of the lowest office and retail vacancy rates in Southeast Michigan. The downtown's increased popularity continues to prompt redevelopment of many sites in and around the downtown. Currently, four city-owned properties in downtown are under exclusive agreements with private developers to bring over well over 200,000 s.f. of new Class A office space to the downtown. A new 6-story, 120 room Hyatt Place hotel is also set for construction this year.

In the spring of 2011, a newly constructed 73,000 square foot, two-level entertainment facility with a state-of-the-art, 797 seat, 10 screen movie theatre (Emagine Theatre) and a 12 lane boutique bowling venue (Star Lanes) opened for business in downtown. The facility was an estimated \$14 million dollar private investment.

New multiple-family residential developments continue to expand the variety of housing opportunities within the city. A new 5-story mixed-use building directly adjacent to downtown is nearly complete. It contains 48 "stacked" apartment units. The renovation of a warehouse building is well underway. When complete, it will contain 75 "loft" style apartments. Directly adjacent, 6 new multiple-family residential building are under construction. It will contain 33 "stacked" style condominiums. Nine (9) new 3-story buildings are under construction. The

project will result in 37 “townhouse” style condominiums. Amber Apartments owns many apartment complexes throughout the city. They continue to add to their existing portfolio. Amber Apartments completed construction of a 5-story, 42 unit apartment building in 2011, a 4-story, 36 unit apartment building in 2013, a 3-story, 24 unit apartment building in 2014.

Auto-oriented commercial developments occur outside the boundaries of the downtown along the remaining commercial corridors of Main Street, Rochester Road, Crooks Road, Woodward Avenue and portions of Coolidge Highway. The City has experienced significant reinvestment in existing businesses and redevelopment of underutilized properties along its major thoroughfares with the recent local economic rebound.

Woodward Avenue has the highest daily traffic counts and is the largest commercial corridor in the City. Woodward Avenue continues to be a focal point of commercial redevelopment in the City. In 2010, an approximately 45,000 square foot, two-story, state-of-the-art fitness center (LA Fitness) opened for business. LA Fitness is located at one of the city’s most prominent intersections (Woodward and Interstate 696). In 2014, a new Burger King restaurant with drive through facility was completed. An approximately \$2.3 million 3-story, 116,000 square foot self-storage facility is nearing completion along Woodward Avenue just north of Interstate 696. Also in 2014, a new Starbucks restaurant with drive through facility was completed near the intersection of Woodward Avenue and 13 Mile Road in proximity to Beaumont Health’s Royal Oak campus. Directly adjacent, an approximately 8,500 square foot multi-tenant commercial building is currently under construction. Woodward Avenue also contains significant existing commercial buildings, most notably the 13.5 acre Northwood Shopping Center which is currently being redeveloped. The planned \$32.8 million redevelopment is expected to be completed in 2018 and will feature a 40,000 sq. ft. grocery store, five commercial buildings for retail stores and restaurants, and a five-story 100-unit hotel.

The overwhelming majority of the City’s existing commercial tenant spaces are less than 3,000 square feet. However, two large scale retail establishments are located on the City’s north side. A 230,000 square foot Meijer, grocer and super center, and a 36,000 square foot English Garden, lawn and garden center, are located along Coolidge Highway, north of 14 Mile Road. Meijer is currently undergoing an approximately \$7 million comprehensive interior and exterior renovation. Construction has also begun on a 125,000 s.f. Kroger Marketplace grocery store, a \$25 million investment. It is located on the southwest corner of Stephenson Highway and 12 Mile Road.

## **Industrial**

Historically, the area south of Lincoln Avenue (10 ½ Mile Rd), adjacent to the railroad right-of-way, has developed as the industrial sector of the City. As the City developed northward, the region of 14 Mile Road and Coolidge Highway became home to additional industrial developments. Today, the region is host to a varying scale of industrial businesses with a significant focus on the resurgence of several key automotive parts manufacturers.

The intersection of Fourteen Mile Road and Coolidge Highway is home to Form Tech Industries which employs approximately 300 skilled personnel at its 14 acre campus. The campus includes outdoor storage and a state-of-the-art 300,000 gross square foot manufacturing facility utilized for forging metal automobile parts. The automobile supplier’s parent company,

HHI Holdings, is the largest independent manufacturer of forged parts for the North American automotive industry.

The Flex-n-Gate Corporation is also located at the same key intersection. It employs approximately 300 skilled personnel at its 250,000 gross square foot metal stamping facility. The 14 acre manufacturing campus produces a wide variety of large stamped metal and welded assembly components for numerous automotive brands. Flex-N-Gate Corporation is a worldwide automotive parts supplier with 50 manufacturing facilities and 9 product development and engineering facilities throughout North America and South America. Flex-n-Gate and FormTech continue to be among the City's significant employers.

In February 2012, Comau Incorporated reopened its shuttered, for sale facility at the same intersection. New demand in the automotive sector has resulted in the firm investing \$2,000,000 in its existing power-train facility. The newly renovated, approximately 215,000 gross square foot facility has nearly 150 skilled workers. The product line for power-train components includes machine tools, assembly centers, and test stands for engines, transmissions and crankshafts. Comau is an automotive production division of Fiat Group S.P.A. with 24 operating centers, 14 manufacturing plants and 5 research and development centers in 13 countries. Through the modest revival of the automotive industry, Comau Inc. has re-emerged as one of the City top employers.

Directly adjacent to Flex-n-Gate and FormTech is a significant facility for Consumers Energy, the state's largest distributor of natural gas. The Royal Oak facility provides customer relation and corporate offices, and personnel and equipment to service its 136 square mile jurisdiction. The site is one of the focal points in the overall process of drawing natural gas from distant large-scale underground storage tanks and pressurizing the natural gas to accommodate the transfer from large diameter to smaller diameter pipelines for distribution through its extensive network. Consumers Energy continues to maintain its status as one of the City's largest employers.

## **Recreation and Culture**

Recreation and culture are an essential part of the Royal Oak community. The City offers a variety of recreational and cultural activities, which not only enhance the quality of life for residents but also attract large numbers of visitors. The City's goal to be recognized as a destination for entertainment, recreation, and cultural opportunities has led to the establishment of a Commission for the Arts. The newly formed Commission will work hard to enhance the community's cultural development, and continue to advance its reputation for being an entertainment destination for all of southeast Michigan.

Royal Oak sports an eclectic blend of restaurants, retail storefronts, theatres, and galleries. The recently renovated Royal Oak Music Theatre offers live music and entertainment as well as facilitating large corporate and private events. Constructed in 1922, the Baldwin Theatre continues to offer a variety of community theatre musical stage plays. The one-of-a-kind Main Art Theatre offers a diverse selection of first-run avant-garde and foreign films.

Downtown Royal Oak also boasts a successful Farmer's Market. The market is a source of great community pride and history. It continues to offer visitors an array of goods from fresh fruits and vegetables to handmade floral arrangements and rare antiques. Market patrons frequent numerous downtown businesses on Saturday and Sunday mornings.

Downtown Royal Oak is host to many annual community art fairs and special events including weekly summer concerts, the Holiday Magic Parade held in November, Memorial Day Parade, Oak Apple (charity) Run, Antique and Garage Sale, Trick or Treating, Clay & Glass Festival and Taste of Royal Oak, Royal Oak in Bloom (flower and plant sale), and numerous themed shopping events. The events, big or small, draw tens of thousands of visitors to downtown Royal Oak each year.

In 2016, Royal Oak will host the annual Arts, Beats, and Eats Festival for the seventh consecutive year. Arts, Beats, and Eats is an arts, music, and food festival held in downtown Royal Oak. It includes a juried fine arts show, cuisine from local restaurants, and more than 200 musical performances on 10 stages. The event attracts between 300,000 and 450,000 people to downtown Royal Oak over the Labor Day weekend to celebrate local cuisine, art and culture.

The Detroit Zoo, which is in Royal Oak and Huntington Woods, drew over 1.4 million visitors in 2016 (as of October 31). That marked the second consecutive year in which the Detroit Zoo had record breaking attendance.

In addition to events held in downtown, the City sponsors the Outdoor Art Fair at Memorial Park every summer. Every third Saturday in August, Memorial Park and the nearby 13 Mile Road and Woodward Avenue intersection transform into the epicenter of the Woodward Dream Cruise. The Woodward Dream Cruise is the world's largest one day car event. The event stretches along Woodward Avenue from 8 Mile Road to downtown Pontiac and draws over 1 million spectators to celebrate the regions automotive heritage. Classic car visitors pour millions of dollars into the region's economy during the event. Many Royal Oak businesses are a significant recipient of the economic impact of this event.

The City maintains a cooperative relationship with the Detroit Zoological Society. The zoo is located in the southwestern corner of the City at the intersection of Interstate 696 and Woodward Avenue. The zoo attracts thousands of visitors to businesses in the City every year. The zoo remains the State's number one tourist destination. . In 2016, it will be opening its new \$21 million penguin conservation center, which is anticipated to redefine "state of the art" for penguin exhibits around the world.

The City's recreational services include over 50 public parks, 30 baseball fields, an ice arena, public and private golf courses, a mini-course and driving range, 34 tennis courts and an indoor soccer facility. The Senior / Community Center provides recreational and outreach services to senior citizens and programs and classes for adults and children alike.

All of the above activities have served as stimulus to additional residential and commercial development in the City of Royal Oak. Each help make the City an attractive and viable community for residents and visitors.



## **Education**

The Royal Oak School District and six parochial schools educate the primary and secondary students in Royal Oak. Downtown Royal Oak is home to one of five main campuses in the Oakland Community College system. This significant campus has four buildings grouped around a full service library, all under one roof with a two-story, center mall. The campus offers associates degrees in arts and sciences and over fifty career certificates. The campus is located on public transportation routes, close to Interstate 696 and Woodward Avenue, and provides its students with convenient parking structure located directly across the street. The OCC-Royal Oak campus is an important part of vibrant day time street life in downtown Royal Oak.

There are many institutions of higher learning in southeast Michigan that provide a trained workforce to communities like Royal Oak. These include the University of Michigan in Ann Arbor, Oakland University in Rochester, Wayne State University in Detroit, Lawrence Technological University in neighboring Southfield, and Eastern Michigan University in Ypsilanti and Eastern Michigan University in Ypsilanti.

## **Medical Services**

The City is home to the flagship hospital and campus of the Beaumont Health. Beaumont Health, a not-for-profit organization, was created in a 2014 industry merger of Beaumont Health System, Oakwood Healthcare, and Botsford Health Care. The Royal Oak campus is greater than 100 acres and is located on 13 Mile Road just west of Woodward Avenue. Beaumont Hospital - Royal Oak is a 1,070 bed tertiary facility offering comprehensive inpatient and outpatient health care services. The campus is recognized for its wide range of specialties. In 2015, U. S. News and World Report recognized Beaumont Hospital – Royal Oak as the top regional hospital in Metropolitan Detroit and the second highest regional hospital in Michigan. It also ranked Beaumont Hospital – Royal Oak nationally in 9 adult specialties.

In September 2004, the campus opened its eight level, 656,000 square foot South Tower addition. At the time of construction, the South Tower addition was the most expensive project under construction in the entire State of Michigan. The campus now employs over 7,000 health care professionals in state-of-the-art facilities. Beaumont Health is not only the City's largest employer, but is also the largest employer in Oakland County.

Beaumont Health's Royal Oak campus continues to experience reinvestment and expansion. In 2014, it's \$22 million Neuroscience Center opened to assist patients. The 3-story, 80,000 square foot building offers 11 hospital-based clinics specializing in neurological conditions. The final beam has been put into place on its \$40 million Proton Therapy Center, the first single-room proton treatment facility in Michigan.. The 2-story, 25,200 square foot facility is expected to begin assisting patients in Spring 2017. Its new \$121 million Emergency Center addition is under construction and expected to be complete in Spring 2017. It will feature 125 private rooms and nearly double the size of the existing emergency facility to nearly 125,300 square feet.

## **Transportation**

The City of Royal Oak is located along metropolitan Detroit's historic Woodward Avenue (M-1). It is flanked by I-696 on the south and I-75 on the east, providing excellent highway access for residents and visitors alike. Royal Oak also has access to public transportation, air travel, and is continuing to implement additional pedestrian-friendly measures via its newly created Non-Motorized Transportation Plan.

Woodward Avenue's 27 mile stretch of roadway, which parallels the original railroad connecting Detroit to Pontiac, is an important part of the history of Detroit and arguably the world. It continues to be an important focal point for Royal Oak and all of metropolitan Detroit. The City is primarily laid out on a grid like street pattern with one half mile intervals. The City of Royal Oak extends along Woodward Avenue from 10 Mile Road to 14 Mile Road. Historic Woodward Avenue provides access to the network of City streets in addition to being the City's largest, contiguous commercial corridor. With a total of nearly 70,000 vehicles per day, Woodward Avenue is the lifeblood of Royal Oak and southeast Oakland County.

In 1956, the opening of Interstate 75 provided a new means of transportation to access the City of Royal Oak. Located along the City's eastern boundary, I-75 provides north / south access to the City for residents and visitors. Opened in 1989, Interstate 696 provides continuous east / west access to metropolitan Detroit. Interstates 75 and 696 intersect at the City of Royal Oak's southern border. Both interstates are among the most heavily traveled freeways in all of metropolitan Detroit. Since the completion of the freeway's intersection, the City has become easily accessible from any location in the region. One of the City's greatest economic assets continues to be its central location in the metropolitan region and its accessibility via major roadways, Woodward Avenue and Interstates 75 and 696.

SMART, Detroit's regional transportation agency provides bus service along Woodward Avenue and other major thoroughfares in the City and surrounding communities. Public transportation provides an important means of delivering access to employment, shopping, education, health care and cultural opportunities for citizens of metropolitan Detroit. The City of Royal Oak also provides door-to-door transportation service for its elderly and permanent disabled citizens.

The reemergence of communities along Woodward Avenue, known as the "Woodward Corridor", as desirable places to live, work and recreate has sparked the interest of mass transit activists. Royal Oak continues to meet and collaborate with other Woodward Corridor communities to research potential alternative forms of public transportation and redevelopment incentives to encourage transit-oriented development along Woodward Avenue.

Downtown Royal Oak is one of only four metropolitan Detroit locations to board AMTRAK for long distance passenger train service. AMTRAK service connects Royal Oak to Midwest metropolitan centers such as Chicago, Cleveland, Toledo, and beyond.

Passenger and general aviation service is available at nearby locations. Detroit Metropolitan Airport, one the nation's busy terminals, is located only 30 miles southwest of the City. Detroit City Airport is located only 16 miles southeast of the City. Oakland County

International Airport is located 19 miles northwest of the City and accessible via Woodward Avenue. Transportation services are available to and from all three regional airports.

Many people choose to live and visit Royal Oak because of the pedestrian scale of the City. The primary means of providing non-motorized transportation are traditional City sidewalks. Nearly every corner of the City is accessible via a public sidewalk that is diligently maintained. However, the City continues to improving its pedestrian-friendly nature through the implementation of policies established in its Non-Motorized Transportation Plan which aims to create “complete streets” in Royal Oak. Complete streets are those that are accessible to pedestrians, bicyclists, and motorists alike.

### **Banking Services**

Banking services are provided at a variety of branch locations for the following lending institutions: Comerica Bank, Chase, Bank of America, Charter One Bank, Citizens Bank, Fifth Third Bank, Flagstar Bank, PNC Bank, TCF Bank, Michigan Education Credit Union, OUR Credit Union, and Community Choice Credit Union.

### **Utilities**

Electricity is supplied to the City by DTE Energy Company, natural gas by Consumers Power Company, and telephone service by AT&T. The City operates its own water distribution system and purchases water from the South Oakland County Water Authority. The City also operates its own sewage collection and transmission system and purchases sewage treatment through Oakland County.

### **Building Permits**

The following is the value of building permits issued by the City during the past five calendar years.

	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>Commercial/Other</b>	382	300	203	176	191
Number of Permits					
Estimated Value	\$85,395,264	\$68,500,000	\$47,600,000	\$23,565,000	\$27,500,000
<b>Residential</b>	1,928	1,725	1,679	1,674	1,425
Number of Permits					
Estimated Construction Value	\$63,483,965	\$69,941,000	\$62,476,000	\$59,876,000	\$29,200,000
<b>Total</b>					
Number of Permits	2,310	2,025	1,882	1,850	1,616
Estimated Construction Value	\$148,879,229	\$133,441,000	\$110,076,000	\$83,441,000	\$56,700,000

SOURCE: City of Royal Oak

### Ten Largest Employers (1)

<b><u>10 Largest Employers</u></b>	<b><u>Product/Service</u></b>	<b><u>Number Employed</u></b>
William Beaumont Hospital	Hospital	10,514
Royal Oak School District	Education	500
City of Royal Oak	Municipality	486
Flex-N- Gate Royal Oak	Automotive Supplier	369
Consumers Energy	Utility	357
Oakland Community College	Education	318
Meijer, Inc.	Retailer/Grocery Store	316
Holiday Market	Grocery Store	300
Detroit Zoological Society	Zoo	220
Hollywood Markets	Grocery Store	<u>100</u>
<b>Total</b>		<b><u>13,480</u></b>

(1) As of November 1, 2016.

SOURCE: City of Royal Oak

### Ten Largest Ad-Valorem Taxpayers

<b><u>Taxpayer</u></b>	<b><u>2016 Total Taxable Valuation</u></b>	<b><u>% of 2016 Total Taxable Valuation</u></b>
DTE Electrical Company	\$20,688,360	0.85%
HHI FormTech	14,451,810	0.59
Consumers Energy	13,594,680	0.55
WM Beaumont Hospital	13,117,480	0.54
Sears Holding	6,505,040	0.27
MacLean – Fogg	6,299,490	0.26
H2 Royal Oak LLC	6,119,270	0.25
Washington Square Plaza LLC	4,973,880	0.20
National Retail Properties	4,781,590	0.19
Flex-N-Gate	<u>4,583,490</u>	<u>0.19</u>
<b>Total</b>	<b><u>\$95,115,090</u></b>	<b><u>3.89%</u></b>

SOURCE: City of Royal Oak

## Summary of General Housing Characteristics

There are 28,329 housing units located within the City of Royal Oak according to the 2010 U.S. Census of Population and Housing, of which 71% are year-round homes, 29% are rental properties. A breakdown of the dwelling units is as follows:

	<u>Number of Units</u>
Total Occupied Units	28,329
Owner Occupied Housing Units	20,119
Renter Occupied Housing Units	8,210

The estimated value of owner occupied housing units is as follows:

Less than \$50,000	563
\$50,000 to \$99,000	1,360
\$100,000 to \$149,999	4,105
\$150,000 to \$199,999	6,938
\$200,000 to \$299,999	5,109
\$300,000 to \$499,999	1,680
\$500,000 or more	362

SOURCE: U.S. Department of Commerce – Bureau of Census

## Employment Distribution

The following tables reflect the 2006-2010 American Community Survey (ACS) 5-Year Estimates, breakdown of employment by category for the City of Royal Oak and the State of Michigan as of the 2010 U.S. Census.

<u>Occupation</u>	<u>City of Royal Oak</u>		<u>State of Michigan</u>	
	<u>Number of Workers</u>	<u>% of Total Workers</u>	<u>Number of Workers</u>	<u>% of Total Workers</u>
Management, Professional, and Related Occupations	17,072	50.6%	1,466,434	33.5%
Service Occupations	4,053	12.0	784,602	18.0
Sales and Office Occupations	8,478	25.0	1,097,121	25.1
Natural Resources, Construction, Extraction and Maintenance Occupations	1,379	4.1	362,561	8.3
Production, Transportation, and Material Moving Occupations	2,869	8.3	659,067	15.1
Total	<u>33,671</u>	<u>100.0%</u>	<u>4,369,785</u>	<u>100.0%</u>

The following table reflects employment by major industry groups for the City of Royal Oak residents and the State of Michigan in the 2010 U.S. Census:

<u>Industry</u>	<u>City of Royal Oak</u>		<u>State of Michigan</u>	
	<u>Number of Workers</u>	<u>% of Total Workers</u>	<u>Number of Workers</u>	<u>% of Total Workers</u>
Agriculture, Forestry, Fishing, Hunting and Mining	31	0.1%	54,946	1.3%
Construction	932	2.8	230,365	5.3
Manufacturing	5,231	15.5	770,715	17.6
Wholesale Trade	1,129	3.4	122,318	2.8
Retail Trade	3,405	10.1	507,530	11.6
Transportation, Warehousing and Utilities	683	2.0	181,648	4.2
Information	948	2.8	82,395	1.9
Finance, Insurance, Real Estate, and Rental and Leasing	3,370	10.0	250,855	5.7
Professional Services	5,495	16.3	383,626	8.9
Educational, Health and Social Services	7,837	23.3	1,012,153	23.2
Arts, Entertainment, Recreation, Accommodation and Food Services	2,453	7.3	397,267	9.0
Other Services	1,231	3.6	206,152	4.7
Public Administration	<u>928</u>	<u>2.8</u>	<u>164,815</u>	<u>3.8</u>
Total	<u>33,671</u>	<u>100.0%</u>	<u>4,369,785</u>	<u>100.0%</u>

SOURCE: U.S. Department of Commerce-Bureau of Census

## Employment Rates

Reflected below are the unadjusted employment data for the calendar years 2012 through 2016 and the monthly averages for November 2015 and 2016 for the City, County and the State.

### City of Royal Oak (1)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Nov. 2015</u>	<u>Nov. 2016</u>
Employed	33,615	34,201	34,640	35,259	36,614	35,580	37,067
Unemployed	<u>1,813</u>	<u>1,754</u>	<u>1,478</u>	<u>1,122</u>	<u>1,005</u>	<u>910</u>	<u>946</u>
Labor Force	<u>35,428</u>	<u>35,955</u>	<u>36,118</u>	<u>36,381</u>	<u>37,610</u>	<u>36,490</u>	<u>38,013</u>
Unemployed as % of Labor Force	5.1%	4.9%	4.1%	3.1%	2.6%	2.5%	2.5%

### Oakland County (1)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Nov. 2015</u>	<u>Nov. 2016</u>
Employed	563,502	574,432	583,531	593,961	616,802	599,364	624,411
Unemployed	<u>50,485</u>	<u>48,936</u>	<u>41,362</u>	<u>31,385</u>	<u>27,843</u>	<u>25,472</u>	<u>26,468</u>
Labor Force\	<u>613,987</u>	<u>623,368</u>	<u>624,893</u>	<u>625,346</u>	<u>644,645</u>	<u>624,836</u>	<u>650,879</u>
Unemployed as % of Labor Force	8.2%	7.9%	6.6%	5.0%	4.3%	4.1%	4.1%

### State of Michigan (1)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Nov. 2015</u>	<u>Nov. 2016</u>
Employed	4,246	4,311	4,408	4,493	4,604	4,546	4,646
Unemployed	<u>426</u>	<u>418</u>	<u>346</u>	<u>258</u>	<u>234</u>	<u>201</u>	<u>218</u>
Labor Force	<u>4,672</u>	<u>4,730</u>	<u>4,754</u>	<u>4,751</u>	<u>4,839</u>	<u>4,747</u>	<u>4,864</u>
Unemployed as % of Labor Force	9.1%	8.8%	7.3%	5.4%	4.8%	4.2%	4.5%

(1) Numbers may not compute due to rounding. State numbers are in thousands.

SOURCE: Michigan Department of Labor and Economic Growth, Labor Market Analysis Section

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**Appendix B**

**Audited Financial Statements of the  
City for the Fiscal Year Ending June 30, 2016**

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## INDEPENDENT AUDITORS' REPORT

December 2, 2016

To the Honorable Mayor and City Commission  
Royal Oak, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Royal Oak, Michigan* (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Independent Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Royal Oak, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plans, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

#### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 2, 2016, on our consideration of the City of Royal Oak, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF ROYAL OAK, MICHIGAN

## Management's Discussion and Analysis

As management of the City of Royal Oak, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$214,645,199 (net position). Of this amount, (\$40,544,945) (unrestricted (deficit) net position) may be used to meet the government's ongoing obligations to residents and creditors.
- The government's total net position increased by \$19,903,250 as compared to a \$14,308,594 increase in the previous year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$42,460,350. Approximately 34 percent of this total amount, \$14,481,359 is unassigned, all in the general fund.
- At the end of the current fiscal year, the \$14,481,359 of unassigned fund balance for the general fund was 43 percent of total general fund expenditures and transfers out. The City's current general fund fund balance policy is to maintain unassigned at ten percent of budgeted expenditures but no more than twenty five percent of budgeted expenditures. Combined general fund and public safety fund balances are projected to fall within policy by fiscal year 2017 due to the need to increase transfers out to the public safety fund and personnel cost increases.
- General fund tax revenue increased by \$622,578 or 3.6 percent and total City tax revenue increased \$484,413 or 1.2 percent due to the new roads improvement millage. Licenses and permits revenue increased by \$1,282,619 or 24.0 percent, charges for services increased \$928,865 or 16.6 percent, and fines and forfeitures increased \$852,904 or 18.7 percent.
- Total governmental fund expenditures increased by \$8,798,606 or 13.4 percent mostly due to an increase of \$5,717,423 or 30.4 percent for public works, an increase of \$1,511,142 or 5.0 percent for public safety and an increase of \$1,454,155 or 16.5 percent for general government. Recreation increased \$227,677 or 6.0 percent, while health and welfare decreased \$123,200 or 14.4 percent.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).



# CITY OF ROYAL OAK, MICHIGAN

## Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health and welfare, community and economic development, and recreation and culture. The business-type activities of the City include a water and sewer system, an automobile parking system, recreation activities, and a farmers' market.

The government-wide financial statements include, not only the City itself (known as the primary government), but also a legally separate tax increment financing authority, a legally separate downtown development authority and a legally separate brownfield redevelopment authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The City of Royal Oak Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore its activities have been included as an integral part of the primary government of the City.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and four other major funds: public safety, solid waste, community development block grant, and City capital projects. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget in accordance with the General Appropriation Act for its general fund and special revenue funds. Budgetary comparison statements or schedules have been provided for these funds to demonstrate compliance with these budgets.

**Proprietary funds.** The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains six individual enterprise funds. The City's water and sewer operations and its automobile parking system operations are shown as major enterprise funds. Data from the other four enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool, information technology management, self-insured workers compensation, healthcare (BCBS) self-insurance and general liability/property self-insurance.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations and its automobile parking system operations, both of which are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

*Notes to Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits (OPEB) to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, internal service funds and agency funds are presented immediately following the required supplementary information on pensions and OPEB.

The City's discretely presented component units do not issue separate financial statements; therefore, the component units' fund financial statements have been included in this report.

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$214,645,199, an increase of \$19,903,250 or 10.22 percent, at the close of the most recent fiscal year.

By far, the largest portion of the City's net position reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment). The City uses these capital assets to provide services to residents and businesses; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11 percent) represents resources that are subject to external restrictions on how they may be used. The unrestricted deficit net position of \$40,544,945 occurred primarily due to the recording of the GASB 68 pension obligation.

## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

	Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 84,067,208	\$ 76,370,818	\$ 25,259,743	\$ 25,161,731	\$ 109,326,951	\$ 101,532,549
Capital assets, net	158,005,467	144,861,781	119,284,793	115,221,193	277,290,260	260,082,974
Total assets	242,072,675	221,232,599	144,544,536	140,382,924	386,617,211	361,615,523
Deferred charge on refunding	149,983	113,580	1,217,587	223,855	1,367,570	337,435
Deferred pension amounts	15,496,877	5,088,238	1,127,200	370,787	16,624,077	5,459,025
Total deferred outflows	15,646,860	5,201,818	2,344,787	594,642	17,991,647	5,796,460
Long-term liabilities	15,782,500	17,809,309	37,595,587	40,032,342	53,378,087	57,841,651
Other liabilities	125,168,120	105,654,032	11,417,452	9,174,351	136,585,572	114,828,383
Total liabilities	140,950,620	123,463,341	49,013,039	49,206,693	189,963,659	172,670,034
Net position:						
Net investment in capital assets	147,194,839	132,341,007	85,228,498	78,110,713	232,423,337	210,451,720
Restricted	22,766,807	22,551,701	-	-	22,766,807	22,551,701
Unrestricted (deficit)	(53,192,731)	(51,921,632)	12,647,786	13,660,160	(40,544,945)	(38,261,472)
Total net position	\$ 116,768,915	\$ 102,971,076	\$ 97,876,284	\$ 91,770,873	\$ 214,645,199	\$ 194,741,949

The City's net position increased by \$19,903,250 during the current fiscal year as compared to a \$14,308,594 increase in the previous year. The increase is mostly attributed to an increase in both current and other assets (primarily the increase in cash and investments) and capital assets. Deferred outflows also increased significantly due to recording deferred pension outflows for governmental activities in compliance with GASB 68.

#### *Governmental Activities*

Governmental activities increased the City's net position by \$13,797,839 as compared to a \$12,920,304 increase in the previous year, a difference of \$877,535 between the two years. This difference is due to an increase in charges for services of \$3,056,905 mostly from the addition of the roads improvement millage and increased public safety millage. Public safety expenses increased \$3,580,010 for personnel costs, increased building permit revenue, and increased court revenue due to improved collections and the Berkley Court merger.

#### *Business-type Activities*

Business-type activities increased the City's net position by \$6,105,411 as compared to a \$1,388,290 increase in the previous year, a difference of \$4,717,121. This was primarily due to increased charges for services in water and sewer.

# CITY OF ROYAL OAK, MICHIGAN

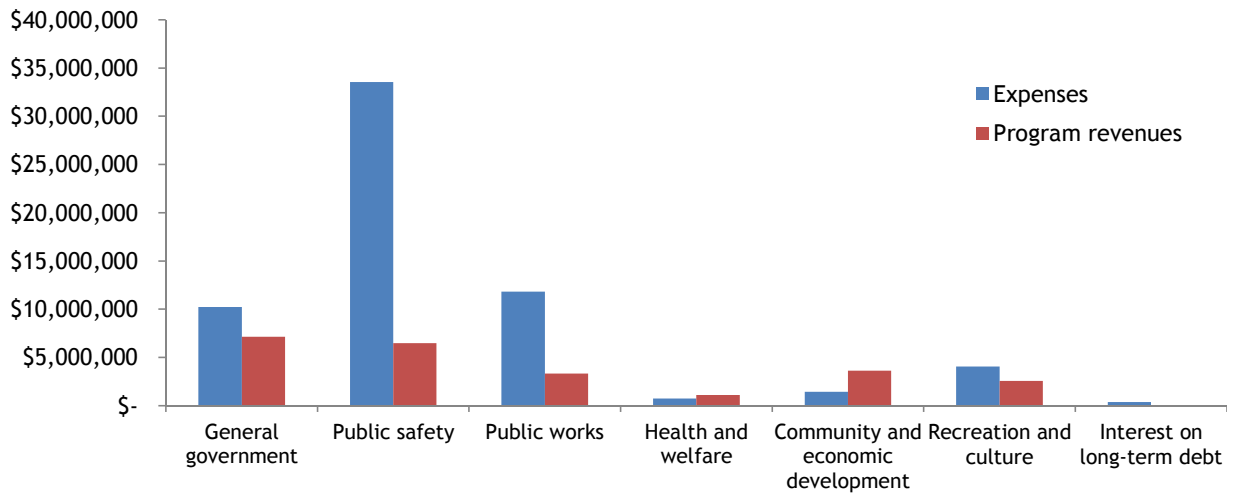
## Management's Discussion and Analysis

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program revenues:						
Charges for services	\$ 18,588,632	\$ 15,531,727	\$ 37,449,868	\$ 32,350,329	\$ 56,038,500	\$ 47,882,056
Operating grants	5,531,956	4,232,338	440,016	635,612	5,971,972	4,867,950
Capital grants	148,372	162,263	-	-	148,372	162,263
General revenues:						
Property taxes	40,810,616	39,990,264	-	-	40,810,616	39,990,264
State shared revenues	9,411,377	8,953,377	-	-	9,411,377	8,953,377
Other	514,225	420,706	-	272	514,225	420,978
Total revenues	<u>75,005,178</u>	<u>69,290,675</u>	<u>37,889,884</u>	<u>32,986,213</u>	<u>112,895,062</u>	<u>102,276,888</u>
Expenses:						
General government	10,233,170	9,017,535	-	-	10,233,170	9,017,535
Public safety	33,545,346	29,965,336	-	-	33,545,346	29,965,336
Public works	11,803,571	13,295,707	-	-	11,803,571	13,295,707
Health and welfare	741,945	834,244	-	-	741,945	834,244
Community and economic development	1,442,994	1,444,432	-	-	1,442,994	1,444,432
Recreation and culture	4,056,345	3,762,240	-	-	4,056,345	3,762,240
Interest on long-term debt	385,521	431,845	-	-	385,521	431,845
Water and sewer	-	-	24,989,668	23,658,591	24,989,668	23,658,591
Parking	-	-	3,130,520	2,857,366	3,130,520	2,857,366
Recreation	-	-	2,146,622	2,229,514	2,146,622	2,229,514
Farmers market	-	-	516,110	471,484	516,110	471,484
Total expenses	<u>62,208,892</u>	<u>58,751,339</u>	<u>30,782,920</u>	<u>29,216,955</u>	<u>92,991,812</u>	<u>87,968,294</u>
Change in net position, before transfers	12,796,286	10,539,336	7,106,964	3,769,258	19,903,250	14,308,594
Transfers	1,001,553	2,380,968	(1,001,553)	(2,380,968)	-	-
Change in net position	<u>13,797,839</u>	<u>12,920,304</u>	<u>6,105,411</u>	<u>1,388,290</u>	<u>19,903,250</u>	<u>14,308,594</u>
Net position:						
Beginning of year	102,971,076	148,981,199	91,770,873	94,676,905	194,741,949	243,658,104
Restatement for implementation of GASB 68	-	(58,930,427)	-	(4,294,322)	-	(63,224,749)
End of year	<u>\$ 116,768,915</u>	<u>\$ 102,971,076</u>	<u>\$ 97,876,284</u>	<u>\$ 91,770,873</u>	<u>\$ 214,645,199</u>	<u>\$ 194,741,949</u>

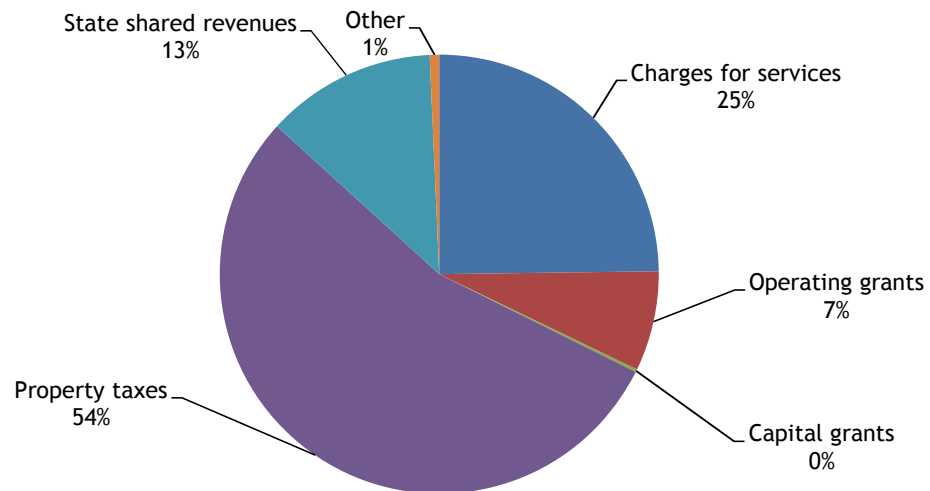
## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

#### Expenses and Program Revenues - Governmental Activities



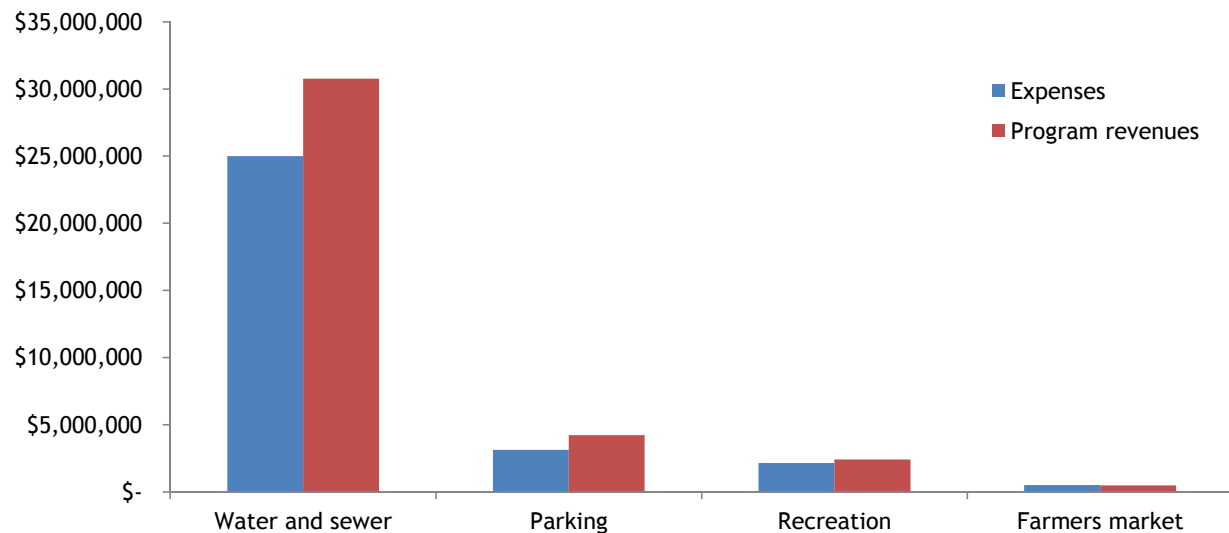
#### Revenues by Source - Governmental Activities



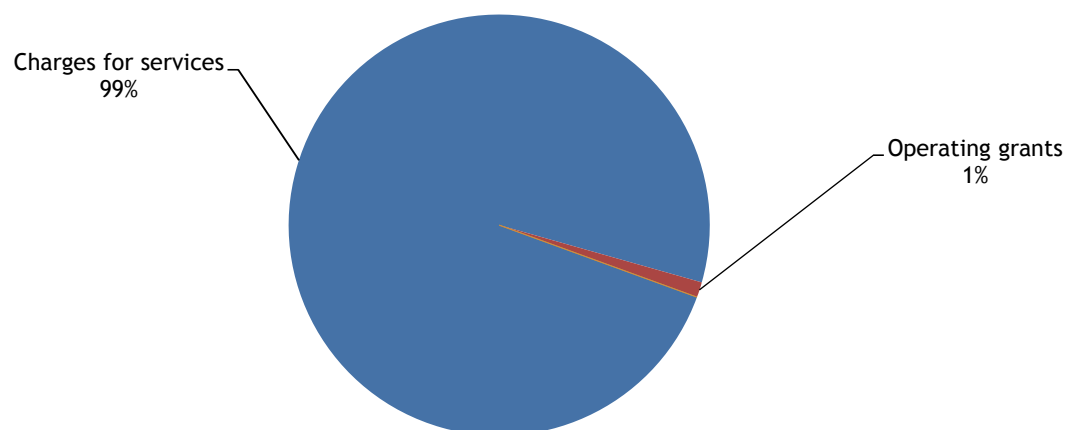
## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

#### Expenses and Program Revenues - Business-type Activities



#### Revenues by Source - Business-type Activities



#### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$42,460,350, an increase of \$1,403,130 in comparison with the prior year. Approximately 34 percent (\$14,481,359) of this total amount constitutes unassigned fund balance in the general fund, which is available for spending at the government's discretion, within allowable use. The remainder of fund balance is nonspendable such as prepaid items and inventories (\$200,686) and an endowment (\$1,000), restricted due to restraints of the fund (\$22,639,166) or assigned for eligible retirement bank payouts (\$462,000), public safety (\$2,046,139), and OPEB recovery contributions (\$2,630,000).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,481,359 while total fund balance was \$18,279,755. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 43 percent of total general fund expenditures and transfers out, while total fund balance represents 54 percent of general fund expenditures and transfers out. Since the creation of the public safety fund the City considers the combined unassigned fund balance. At fiscal year end, it was 33 percent and falling each year based on future budget projections.

The fund balance of the City's general fund increased by \$1,323,008 during the current fiscal year. The original budget included an \$1,787,680 use of fund balance. However, higher tax revenue, court fines, charges for services, and licenses and permits along with lower than budgeted general government and personnel expenditures contributed to the surplus.

The public safety fund revenue increased by \$1,652,414 relative to the prior fiscal year due to increased property tax revenue collection, ambulance revenues and increased transfer in from the downtown development authority for police services. Expenditures increased by \$826,857 for increased police and fire personnel costs. The original budget planned to use \$1,433,230 of fund balance. The fund realized a decrease in fund balance of \$271,315 due to lower personnel benefit expenditures (relative to budget), as well as higher tax revenue and ambulance revenue than budgeted.

The solid waste fund has a total fund balance of \$6,168,627, all of which is restricted for the sole use of this fund. The net decrease in fund balance during the current year in the solid waste fund was \$439,984. The solid waste fund revenue decreased by \$1,491,533 relative to the prior fiscal year due to a one-time reduction in the millage rate levied in fiscal year 2015-16 and one-time FEMA grant revenue to reimburse the City for damages from a (state of emergency) rain event. Expenditures decreased by \$1,047,725 mostly due to one-time rain event damages in the prior year.

The community development block grant fund revenue increased by \$519,822 relative to the prior year's revenue due to increased federal grant and miscellaneous revenue. Expenditures increased by \$919,774 due to increased capital project spending.

#### General Fund Budgetary Highlights

Revenues in the general fund were \$107,150 over the final budget and \$912,400 over the original budget. The increase is mostly attributed to additional property tax revenue, cable franchise revenue, transfers in from the capital projects fund, and court fines. Expenditures in the general fund were \$1,180,803 less than the amended budget and \$1,631,053 less than the original budget mostly due to personnel savings, contracted services savings and some capital projects not being performed.

#### Financial Analysis of the Business-type Funds

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer system at the end of the year amounted to \$3,784,663. The total increase in net position for water and sewer was \$5,193,194, as compared to a \$515,522 increase in the previous year. This increase in net position this year was mostly due an increase in revenue related to charges for services.

## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

Unrestricted net position for the auto parking system fund amounted to \$4,323,250. The total increase in net position for this fund was \$68,515 mostly due an increase in revenue related to charges for services and a decrease in operating expenses.

The total of the nonmajor enterprise funds unrestricted net position increased by \$321,574. The ice arena fund has unrestricted net position of \$482,118, an improvement from last year's \$232,954 unrestricted net position. The arts, beats, & eats, and ice arena fund unrestricted net position improved mostly due to increases in operating revenue. Both the recreation fund and farmers market fund had operating losses of \$60,101 and \$40,159 respectively.

#### Capital Assets and Debt Administration

##### *Capital Assets*

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$277,290,260 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the City's investment in capital assets for the current fiscal year approximately 6.6 percent and mostly due to construction in process.

Major capital asset costs during the current year included the continued construction of the street improvements, water main replacement, sewer line improvements, and replacement of fleet vehicles and equipment to name some of the projects.

	Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 66,774,752	\$ 66,774,752	\$ 9,958,656	\$ 9,958,656	\$ 76,733,408	\$ 76,733,408
Buildings	15,678,840	16,286,499	15,698,856	16,382,777	31,377,696	32,669,276
Improvements other than buildings	876,216	719,737	1,204,964	60,237	2,081,180	779,974
Machinery and equipment	6,057,417	5,094,863	271,017	181,239	6,328,434	5,276,102
Infrastructure	49,242,422	46,278,572	84,131,680	82,032,691	133,374,102	128,311,263
Construction in progress	19,375,820	9,707,358	8,019,620	6,605,593	27,395,440	16,312,951
Total	<u>\$ 158,005,467</u>	<u>\$ 144,861,781</u>	<u>\$ 119,284,793</u>	<u>\$ 115,221,193</u>	<u>\$ 277,290,260</u>	<u>\$ 260,082,974</u>

Additional information on the City of Royal Oak's capital assets can be found in Note 7 of this report.

##### *Long-term Debt*

At the end of the current fiscal year, the City had total debt outstanding of \$53,378,087. Of this amount, \$22,136,002 is limited general obligation debt issued by the City, which has pledged its full faith and credit for the repayment; dedicated revenue sources have been established for the repayment of this debt. A tax levy authorized by the residents of Royal Oak funds \$3,460,000 of unlimited general obligation debt. Another \$4,007,387 of the debt was obtained through the state revolving fund and is an obligation of the City and five surrounding communities; the City's portion of the debt is \$1,967,257 with the remainder being paid from receipts of the other five communities. Another \$17,648,475 of the debt is the City's portion of county debt issued for the benefit of the City and surrounding communities. The remainder of the debt is composed of vested benefits, general liability claims and unamortized bond discounts and premiums.



## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

	Outstanding Debt					
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Limited general obligation bonds	\$ 7,167,511	\$ 8,534,000	\$ 14,968,491	\$ 15,475,000	\$ 22,136,002	\$ 24,009,000
Unlimited general obligation bonds	3,460,000	3,975,000	-	-	3,460,000	3,975,000
State revolving fund	-	-	4,007,387	4,757,387	4,007,387	4,757,387
Contractual obligations	-	-	17,648,475	19,763,048	17,648,475	19,763,048
Compensated absences	3,527,409	3,550,106	281,575	276,058	3,808,984	3,826,164
General liability claims	498,430	609,590	-	-	498,430	609,590
Workers compensation claims	796,050	1,015,259	-	-	796,050	1,015,259
Less: unamortized discount and premium	333,100	125,354	689,659	(239,151)	1,022,759	(113,797)
Total	<u>\$ 15,782,500</u>	<u>\$ 17,809,309</u>	<u>\$ 37,595,587</u>	<u>\$ 40,032,342</u>	<u>\$ 53,378,087</u>	<u>\$ 57,841,651</u>

The City's total debt decreased by \$4,463,564 (8 percent) during the current fiscal year, mostly due to reductions in principal of bonds and contractual obligations.

The City's bond ratings are as follows:

	Unlimited	Limited
Standard & Poor's	AA+	AA+
Moody's	NR	A1
Fitch	AA	AA

The underlying rating reflects the City's own credit quality. Standard & Poor's raised the City's underlying rating in December 2013 from AA to AA+ stable based on the City's strong economy, budgetary flexibility, budgetary performance, very strong liquidity, very strong management and strong debt capacity and contingent liabilities position.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation, however section 517 of Act 34 limits capital improvement bonds to 5 percent. The current legal debt limitation for the City is \$134,686,103 (5 percent of \$2,693,722,050 assessed valuation for purposes of capital improvement bonds). As of June 30, 2016, the City's general obligation debt amounts to 19.76 percent of the legal debt limit.

Additional information on the City's long-term debt can be found in Note 8 of this report.

#### Economic Factors and Next Year's Budgets and Rates

During the current fiscal year, unassigned fund balance in the general fund significantly increased to \$14,481,359 mostly due to lower personnel costs, contracted services, and some capital projects not performed. The City's original budget forecast demonstrates the decline of fund balance, however, with the recent contribution to fund balance, the general fund will be in its target range in fiscal year 2017-2018.

For the fiscal year, the quarterly water and sewer rates are \$121.41 per 1,000 cubic feet for the first 2,000 cubic feet and \$139.24 for every 1,000 cubic feet thereafter. In addition, all customers pay a \$11.25 flat fee per billing period. The water and sewer rates increased by 3.3 percent, passing along a 2 percent Southeastern Oakland County Water Authority ("SOCWA") and a 4.0 percent increase from the Oakland County Water Resource Commission. The flat rate fee increased 4.7 percent to \$10.75 to recoup the City's water billing costs.

## CITY OF ROYAL OAK, MICHIGAN

### Management's Discussion and Analysis

Now that the public safety funding and street improvements funding concerns have been tentatively resolved, the City administration and legislative body are focused on resolution to the City's legacy cost funding concerns. The combined unfunded liability of the City's pension and retiree healthcare obligations amount to nearly \$184,000,000 based on the latest actuarial valuations. The City commission has authorized the sale of pension and OPEB bonds in the amount not to exceed \$135,000,000. This excludes the police and fire pension UAL, as the police and fire pension plan is not closed, therefore bonds cannot be issued. Should interest rates remain low when the bonds are sold (January 2017), this action will assist with stabilizing contributions to the trusts as well as possibly save millions of dollars in future years.

#### Requests for Information

This financial report is designed to provide a general overview of the City of Royal Oak's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the director of finance, City of Royal Oak, 211 S. Williams Street, Royal Oak, MI 48067.

## BASIC FINANCIAL STATEMENTS



# CITY OF ROYAL OAK, MICHIGAN

## Statement of Net Position

June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 78,678,330	\$ 10,421,326	\$ 89,099,656	\$ 1,495,711
Receivables, net	7,352,164	11,211,375	18,563,539	29,651
Deposits and other assets	973,258	-	973,258	50,000
Internal balances	(3,398,606)	3,398,606	-	-
Inventories	461,062	228,436	689,498	-
Restricted assets, cash	1,000	-	1,000	-
Capital assets not being depreciated	86,150,572	17,978,276	104,128,848	2,895,755
Capital assets being depreciated, net	71,854,895	101,306,517	173,161,412	925,059
<b>Total assets</b>	<b>242,072,675</b>	<b>144,544,536</b>	<b>386,617,211</b>	<b>5,396,176</b>
<b>Deferred outflows of resources</b>				
Deferred charge on refunding	149,983	1,217,587	1,367,570	-
Deferred pension amounts	15,496,877	1,127,200	16,624,077	50,750
<b>Total deferred outflows of resources</b>	<b>15,646,860</b>	<b>2,344,787</b>	<b>17,991,647</b>	<b>50,750</b>
<b>Liabilities</b>				
Accounts payable	6,735,025	2,793,486	9,528,511	342,975
Accrued and other liabilities	3,312,015	483,928	3,795,943	31,867
Cash bonds and deposits	3,266,808	12,191	3,278,999	-
Unearned revenue	3,466,496	-	3,466,496	-
Long-term debt:				
Due within one year	4,167,803	4,253,456	8,421,259	8,000
Due in more than one year	11,614,697	33,342,131	44,956,828	8,618
Net pension liability	79,622,157	5,791,504	85,413,661	260,746
Net other postemployment benefits obligation	28,765,619	2,336,343	31,101,962	132,002
<b>Total liabilities</b>	<b>140,950,620</b>	<b>49,013,039</b>	<b>189,963,659</b>	<b>784,208</b>
<b>Net position</b>				
Net investment in capital assets	147,194,839	85,228,498	232,423,337	3,820,814
Restricted for:				
Public, Educational, and Government				
Access ("PEG") fees	695,389	-	695,389	-
Highways and streets	4,143,221	-	4,143,221	-
Solid waste	6,168,627	-	6,168,627	-
Recreation and culture	2,241,252	-	2,241,252	-
Public safety	7,610,994	-	7,610,994	-
Grants	1,158,904	-	1,158,904	-
Debt service	38,695	-	38,695	-
Capital projects	698,261	-	698,261	-
Permanent fund:				
Expendable	10,464	-	10,464	-
Non-expendable	1,000	-	1,000	-
Unrestricted (deficit)	(53,192,731)	12,647,786	(40,544,945)	841,904
<b>Total net position</b>	<b>\$ 116,768,915</b>	<b>\$ 97,876,284</b>	<b>\$ 214,645,199</b>	<b>\$ 4,662,718</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 10,233,170	\$ 7,009,130	\$ 132,645	\$ -	\$ (3,091,395)
Public safety	33,545,346	5,474,015	965,332	46,377	(27,059,622)
Public works	11,803,571	2,395,568	831,197	101,995	(8,474,811)
Health and welfare	741,945	1,108,659	-	-	366,714
Community and economic development	1,442,994	478,678	3,157,977	-	2,193,661
Recreation and culture	4,056,345	2,122,582	444,805	-	(1,488,958)
Interest on long-term debt	385,521	-	-	-	(385,521)
Total governmental activities	62,208,892	18,588,632	5,531,956	148,372	(37,939,932)
Business-type activities:					
Water and sewer	24,989,668	30,672,689	88,612	-	5,771,633
Parking	3,130,520	3,921,394	310,397	-	1,101,271
Recreation	2,146,622	2,373,123	30,090	-	256,591
Farmers market	516,110	482,662	10,917	-	(22,531)
Total business-type activities	30,782,920	37,449,868	440,016	-	7,106,964
Total primary government	\$ 92,991,812	\$ 56,038,500	\$ 5,971,972	\$ 148,372	\$ (30,832,968)
Component units					
Tax Increment Financing Authority	\$ 4,221,342	\$ -	\$ 131,150	\$ -	\$ (4,090,192)
Downtown Development Authority	47,088	-	-	-	(47,088)
Brownfield Redevelopment Authority	26,754	-	-	-	(26,754)
Total component units	\$ 4,295,184	\$ -	\$ 131,150	\$ -	\$ (4,164,034)

continued...

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Activities

For the Year Ended June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business Activities	Total	
Changes in net position				
Net (expense) revenue	\$ (37,939,932)	\$ 7,106,964	\$ (30,832,968)	\$ (4,164,034)
General revenues:				
Property taxes	40,810,616	-	40,810,616	3,276,682
Unrestricted state shared revenues	9,411,377	-	9,411,377	-
Unrestricted investment earnings	119,498	-	119,498	14,986
Gain on sale of capital assets	57,705	-	57,705	-
Miscellaneous	337,022	-	337,022	21,312
Transfers	1,001,553	(1,001,553)	-	-
Total general revenues and transfers	51,737,771	(1,001,553)	50,736,218	3,312,980
Change in net position	13,797,839	6,105,411	19,903,250	(851,054)
Net position, beginning of year	102,971,076	91,770,873	194,741,949	5,513,772
Net position, end of year	\$ 116,768,915	\$ 97,876,284	\$ 214,645,199	\$ 4,662,718

concluded.

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Balance Sheet

Governmental Funds

June 30, 2016

	General	Public Safety	Solid Waste	Community Development Block Grant	City Capital Projects
<b>Assets</b>					
Cash and investments	\$ 21,483,465	\$ 3,229,335	\$ 6,574,284	\$ -	\$ 5,678,427
Receivables, net	115,501	171,908	27,518	3,438,029	849,384
Due from other governmental units	869,043	-	-	231,522	-
Due from other funds	176,945	-	-	-	-
Prepaid items	11,007	-	-	-	-
Inventories	-	-	-	-	-
Restricted assets, cash	-	-	-	-	-
<b>Total assets</b>	<b>\$ 22,655,961</b>	<b>\$ 3,401,243</b>	<b>\$ 6,601,802</b>	<b>\$ 3,669,551</b>	<b>\$ 6,527,811</b>
<b>Liabilities</b>					
Accounts payable	\$ 825,570	\$ 254,262	\$ 395,483	\$ 44,629	\$ 4,219,134
Accrued and other liabilities	265,419	1,094,210	31,240	9,948	790,619
Due to other funds	-	-	-	176,945	-
Cash bonds and deposits	3,266,508	-	-	-	-
Unearned revenue	-	-	-	3,438,029	-
<b>Total liabilities</b>	<b>4,357,497</b>	<b>1,348,472</b>	<b>426,723</b>	<b>3,669,551</b>	<b>5,009,753</b>
<b>Deferred inflows of resources</b>					
Unavailable revenue - property taxes and special assessments	18,709	6,632	6,452	-	832,802
<b>Fund balances</b>					
<b>Nonspendable:</b>					
Prepaid items	11,007	-	-	-	-
Inventories	-	-	-	-	-
Endowment	-	-	-	-	-
<b>Restricted:</b>					
PEG fees	695,389	-	-	-	-
Highways and streets	-	-	-	-	-
Solid waste	-	-	6,168,627	-	-
Recreation and culture	-	-	-	-	-
Public safety	-	-	-	-	-
Grants	-	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	685,256
Permanent fund	-	-	-	-	-
<b>Assigned:</b>					
Eligible retiree bank payouts	462,000	-	-	-	-
OPEB contribution recovery	2,630,000	-	-	-	-
Public safety	-	2,046,139	-	-	-
Unassigned	14,481,359	-	-	-	-
<b>Total fund balances</b>	<b>18,279,755</b>	<b>2,046,139</b>	<b>6,168,627</b>	<b>-</b>	<b>685,256</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 22,655,961</b>	<b>\$ 3,401,243</b>	<b>\$ 6,601,802</b>	<b>\$ 3,669,551</b>	<b>\$ 6,527,811</b>

The accompanying notes are an integral part of these financial statements.





Nonmajor Governmental Funds	Total Governmental Funds
\$ 14,799,489	\$ 51,765,000
541,195	5,143,535
1,041,248	2,141,813
-	176,945
-	11,007
189,679	189,679
1,000	1,000
<u>\$ 16,572,611</u>	<u>\$ 59,428,979</u>
\$ 598,729	\$ 6,337,807
214,510	2,405,946
-	176,945
300	3,266,808
28,467	3,466,496
<u>842,006</u>	<u>15,654,002</u>
<u>450,032</u>	<u>1,314,627</u>
-	11,007
189,679	189,679
1,000	1,000
-	695,389
3,953,542	3,953,542
-	6,168,627
2,241,252	2,241,252
7,610,994	7,610,994
1,158,904	1,158,904
101,733	101,733
13,005	698,261
10,464	10,464
-	462,000
-	2,630,000
-	2,046,139
-	14,481,359
<u>15,280,573</u>	<u>42,460,350</u>
<u>\$ 16,572,611</u>	<u>\$ 59,428,979</u>



## CITY OF ROYAL OAK, MICHIGAN

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2016

Fund balances for governmental funds	\$ 42,460,350
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets not being depreciated	86,150,572
Capital assets being depreciated, net	71,854,895
Less capital assets accounted for in internal service funds	(6,514,677)
The focus of governmental funds is on short-term financing. Accordingly, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred outflows in the governmental funds, and thus are not included in fund balance.	
Deferred property taxes and special assessments receivable	1,314,627
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities.	
Total internal service fund net position	28,057,235
Internal service fund net position accounted for in business-type activities	(3,398,606)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Accrued interest on bonds	(63,038)
Bonds payable	(9,314,579)
Unamortized bond discounts	264
Unamortized bond premiums	(309,257)
Deferred loss on refunding	98,380
Net other postemployment benefit obligation	(27,694,605)
Compensated absences	(3,390,583)
Certain pension-related amounts, such as the net pension liability and deferred amounts, are not due and payable in the current period or do not represent current financial resources, and therefore are not reported in the funds.	
Net pension liability	(77,581,832)
Deferred outflows related to the net pension liability	15,099,769
Net position of governmental activities	<u>\$ 116,768,915</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2016

	General	Public Safety	Solid Waste	Community Development Block Grant	City Capital Projects
<b>Revenues</b>					
Taxes	\$ 17,848,724	\$ 8,811,468	\$ 5,810,172	\$ -	\$ -
Licenses and permits	2,044,775	10,532	-	-	-
Federal grants	4,080	-	-	1,601,452	-
State grants	5,408,395	-	-	-	-
Charges for services	2,447,572	1,455,370	2,337	478,678	1,812,605
Fines and forfeitures	5,310,482	-	-	-	-
Interest and rentals	362,800	7,966	43,156	-	48,497
Contributions and donations	-	540,000	-	-	1,340,000
Other revenue	337,022	27,928	31,361	204,521	1,131
<b>Total revenues</b>	<b>33,763,850</b>	<b>10,853,264</b>	<b>5,887,026</b>	<b>2,284,651</b>	<b>3,202,233</b>
<b>Expenditures</b>					
Current:					
General government	10,183,680	-	-	-	-
Public safety	665,469	29,389,278	-	-	-
Public works	1,267,676	-	6,323,010	-	12,389,865
Health and welfare	-	735,301	-	-	-
Community and economic development	510,315	-	-	843,671	-
Recreation and culture	1,198,187	-	-	-	-
Debt service:					
Principal payments	-	-	-	-	226,000
Interest and paying agent fees	-	-	-	-	10,874
<b>Total expenditures</b>	<b>13,825,327</b>	<b>30,124,579</b>	<b>6,323,010</b>	<b>843,671</b>	<b>12,626,739</b>
<b>Revenues over (under) expenditures</b>	<b>19,938,523</b>	<b>(19,271,315)</b>	<b>(435,984)</b>	<b>1,440,980</b>	<b>(9,424,506)</b>
<b>Other financing sources (uses)</b>					
Issuance of long-term debt	-	-	-	-	-
Premium on issuance of long-term debt	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	1,367,376	19,000,000	-	-	10,042,328
Transfers out	(19,982,891)	-	(4,000)	(1,440,980)	(553,368)
<b>Total other financing sources (uses)</b>	<b>(18,615,515)</b>	<b>19,000,000</b>	<b>(4,000)</b>	<b>(1,440,980)</b>	<b>9,488,960</b>
<b>Net change in fund balances</b>	<b>1,323,008</b>	<b>(271,315)</b>	<b>(439,984)</b>	<b>-</b>	<b>64,454</b>
<b>Fund balances, beginning of year</b>	<b>16,956,747</b>	<b>2,317,454</b>	<b>6,608,611</b>	<b>-</b>	<b>620,802</b>
<b>Fund balances, end of year</b>	<b>\$ 18,279,755</b>	<b>\$ 2,046,139</b>	<b>\$ 6,168,627</b>	<b>\$ -</b>	<b>\$ 685,256</b>

The accompanying notes are an integral part of these financial statements.



Nonmajor Governmental Funds	Total Governmental Funds
\$ 8,341,934	\$ 40,812,298
4,573,828	6,629,135
71,846	1,677,378
4,954,137	10,362,532
317,009	6,513,571
89,051	5,399,533
109,035	571,454
337,097	2,217,097
274,681	876,644
<u>19,068,618</u>	<u>75,059,642</u>
75,620	10,259,300
1,803,923	31,858,670
4,564,149	24,544,700
-	735,301
42,571	1,396,557
2,844,692	4,042,879
1,197,000	1,423,000
388,285	399,159
<u>10,916,240</u>	<u>74,659,566</u>
<u>8,152,378</u>	<u>400,076</u>
3,258,578	3,258,578
153,451	153,451
(3,353,620)	(3,353,620)
1,202,988	31,612,692
(8,686,808)	(30,668,047)
<u>(7,425,411)</u>	<u>1,003,054</u>
726,967	1,403,130
<u>14,553,606</u>	<u>41,057,220</u>
<u>\$ 15,280,573</u>	<u>\$ 42,460,350</u>



# CITY OF ROYAL OAK, MICHIGAN

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ 1,403,130
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased/constructed	14,520,751
Depreciation expense	(2,388,344)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Net change in deferred property taxes and special assessments receivable	(1,682)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(3,258,578)
Premium on issuance of long-term debt	(153,451)
Payment to refunded bond escrow agent	3,353,620
Principal payments on long-term liabilities	1,423,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	14,087
Amortization of bond discount	(449)
Amortization of bond premium	46,803
Amortization of deferred loss on refunding	(12,134)
Change in the net pension liability and related deferred amounts	(4,608,796)
Change in other postemployment benefit obligation	(285,081)
Change in compensated absences	36,530

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Total change in net position of the internal service funds	4,503,978
Internal service fund change in net position accounted for in business-type activities	(795,545)

Change in net position of governmental activities	<u>\$ 13,797,839</u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 17,349,500	\$ 17,699,500	\$ 17,848,724	\$ 149,224
Licenses and permits	1,920,000	1,959,100	2,044,775	85,675
Federal grants	-	4,080	4,080	-
State grants	5,369,050	5,377,480	5,408,395	30,915
Charges for services	2,353,900	2,385,900	2,447,572	61,672
Fines and forfeitures	5,235,000	5,250,000	5,310,482	60,482
Interest and rentals	168,000	343,000	362,800	19,800
Other revenue	456,000	637,640	337,022	(300,618)
<b>Total revenues</b>	<b>32,851,450</b>	<b>33,656,700</b>	<b>33,763,850</b>	<b>107,150</b>
<b>Expenditures</b>				
Current:				
General government	11,536,370	10,847,470	10,183,680	(663,790)
Public safety	641,930	709,820	665,469	(44,351)
Public works	1,418,010	1,418,010	1,267,676	(150,334)
Community and economic development	577,020	616,780	510,315	(106,465)
Recreation and culture	1,283,050	1,414,050	1,198,187	(215,863)
<b>Total expenditures</b>	<b>15,456,380</b>	<b>15,006,130</b>	<b>13,825,327</b>	<b>(1,180,803)</b>
<b>Revenues over expenditures</b>	<b>17,395,070</b>	<b>18,650,570</b>	<b>19,938,523</b>	<b>1,287,953</b>
<b>Other financing sources (uses)</b>				
Transfers in	800,000	800,000	1,367,376	567,376
Transfers out	(19,982,750)	(19,983,670)	(19,982,891)	(779)
<b>Total other financing sources (uses)</b>	<b>(19,182,750)</b>	<b>(19,183,670)</b>	<b>(18,615,515)</b>	<b>568,155</b>
<b>Net change in fund balance</b>	<b>(1,787,680)</b>	<b>(533,100)</b>	<b>1,323,008</b>	<b>1,856,108</b>
<b>Fund balance, beginning of year</b>	<b>16,956,747</b>	<b>16,956,747</b>	<b>16,956,747</b>	<b>-</b>
<b>Fund balance, end of year</b>	<b>\$ 15,169,067</b>	<b>\$ 16,423,647</b>	<b>\$ 18,279,755</b>	<b>\$ 1,856,108</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF ROYAL OAK, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Public Safety Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 8,607,000	\$ 8,607,000	\$ 8,811,468	\$ 204,468
Licenses and permits	7,000	7,000	10,532	3,532
Charges for services	1,257,820	1,353,820	1,455,370	101,550
Interest and rentals	6,000	6,000	7,966	1,966
Contributions and donations	540,000	540,000	540,000	-
Other revenue	40,000	40,000	27,928	(12,072)
Total revenues	10,457,820	10,553,820	10,853,264	299,444
Expenditures				
Current:				
Public safety	29,899,620	29,900,970	29,389,278	(511,692)
Health and welfare	951,430	777,280	735,301	(41,979)
Total expenditures	30,851,050	30,678,250	30,124,579	(553,671)
Revenues under expenditures	(20,393,230)	(20,124,430)	(19,271,315)	853,115
Other financing sources				
Transfers in	19,000,000	19,000,000	19,000,000	-
Net change in fund balance	(1,433,230)	(1,124,430)	(271,315)	853,115
Fund balance, beginning of year	2,317,454	2,317,454	2,317,454	-
Fund balance, end of year	\$ 884,224	\$ 1,193,024	\$ 2,046,139	\$ 853,115

The accompanying notes are an integral part of these financial statements.

## CITY OF ROYAL OAK, MICHIGAN

### Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Solid Waste Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes	\$ 5,653,000	\$ 5,780,000	\$ 5,810,172	\$ 30,172
Charges for services	2,000	2,000	2,337	337
Interest and rentals	42,000	42,000	43,156	1,156
Other revenue	45,000	45,000	31,361	(13,639)
	<u>5,742,000</u>	<u>5,869,000</u>	<u>5,887,026</u>	<u>18,026</u>
Total revenues				
Expenditures				
Current -				
Public works	6,500,790	6,570,790	6,323,010	(247,780)
	<u>(758,790)</u>	<u>(701,790)</u>	<u>(435,984)</u>	<u>265,806</u>
Revenues under expenditures				
Other financing uses				
Transfers out	(4,000)	(4,000)	(4,000)	-
	<u>(762,790)</u>	<u>(705,790)</u>	<u>(439,984)</u>	<u>265,806</u>
Net change in fund balance				
Fund balance, beginning of year	6,608,611	6,608,611	6,608,611	-
	<u>6,608,611</u>	<u>6,608,611</u>	<u>6,608,611</u>	<u>-</u>
Fund balance, end of year	\$ 5,845,821	\$ 5,902,821	\$ 6,168,627	\$ 265,806
	<u>\$ 5,845,821</u>	<u>\$ 5,902,821</u>	<u>\$ 6,168,627</u>	<u>\$ 265,806</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Community Development Block Grant Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Federal grants	\$ 1,081,630	\$ 1,081,630	\$ 1,601,452	\$ 519,822
Charges for services	300,000	440,000	478,678	38,678
Other revenue	200,000	1,245,730	204,521	(1,041,209)
Total revenues	1,581,630	2,767,360	2,284,651	(482,709)
Expenditures				
Current -				
Community and economic development	896,630	1,159,550	843,671	(315,879)
Revenues over expenditures	685,000	1,607,810	1,440,980	(166,830)
Other financing uses				
Transfers out	(685,000)	(1,607,810)	(1,440,980)	(166,830)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Net Position

Proprietary Funds

June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water and Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Assets</b>					
Current assets:					
Cash and investments	\$ 2,592,217	\$ 6,070,611	\$ 1,758,498	\$ 10,421,326	\$ 26,913,330
Receivables, net	8,803,822	23,634	117,610	8,945,066	66,816
Prepaid items	-	-	-	-	962,251
Inventories	219,135	9,301	-	228,436	271,383
Total current assets	11,615,174	6,103,546	1,876,108	19,594,828	28,213,780
Noncurrent assets:					
Receivables, net	2,040,130	-	-	2,040,130	-
Due from other governmental units	226,179	-	-	226,179	-
Capital assets	134,765,397	32,271,799	12,220,915	179,258,111	19,161,087
Accumulated depreciation	(42,791,406)	(11,618,749)	(5,563,163)	(59,973,318)	(12,646,410)
Total noncurrent assets	94,240,300	20,653,050	6,657,752	121,551,102	6,514,677
Total assets	105,855,474	26,756,596	8,533,860	141,145,930	34,728,457
Deferred outflows of resources					
Deferred charge on refunding	297,496	920,091	-	1,217,587	51,603
Deferred pension amounts	808,338	228,122	90,740	1,127,200	397,108
Total deferred outflows of resources	1,105,834	1,148,213	90,740	2,344,787	448,711
<b>Liabilities</b>					
Current liabilities:					
Accounts payable	2,443,987	220,070	129,429	2,793,486	397,218
Accrued and other liabilities	384,301	87,902	11,725	483,928	843,031
Cash bonds and deposits	250	11,941	-	12,191	-
Bonds payable, due within one year	3,354,919	757,537	-	4,112,456	226,118
Other long-term liabilities, current	-	-	-	-	647,240
Compensated absences, current	95,545	33,566	11,889	141,000	68,796
Total current liabilities	6,279,002	1,111,016	153,043	7,543,061	2,182,403
Noncurrent liabilities:					
Bonds payable	23,749,280	9,452,276	-	33,201,556	1,110,921
Other long-term liabilities	-	-	-	-	647,240
Accrued compensated absences	95,257	33,465	11,853	140,575	68,030
Net pension liability	4,153,199	1,172,084	466,221	5,791,504	2,040,325
Net other postemployment benefit obligation	1,692,489	449,390	194,464	2,336,343	1,071,014
Total noncurrent liabilities	29,690,225	11,107,215	672,538	41,469,978	4,937,530
Total liabilities	35,969,227	12,218,231	825,581	49,013,039	7,119,933
<b>Net position</b>					
Net investment in capital assets	67,207,418	11,363,328	6,657,752	85,228,498	5,229,241
Unrestricted	3,784,663	4,323,250	1,141,267	9,249,180	22,827,994
Total net position	\$ 70,992,081	\$ 15,686,578	\$ 7,799,019	\$ 94,477,678	\$ 28,057,235

The accompanying notes are an integral part of these financial statements.

## CITY OF ROYAL OAK, MICHIGAN

### Reconciliation

Net Position of Enterprise Funds  
to Net Position of Business-type Activities  
June 30, 2016

Net position - total enterprise funds	\$ 94,477,678
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Amounts reported for *business-type activities* in the statement of net position are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the net position of the internal service funds is allocated to the enterprise funds and reported in the statement of net position.

Net position of business-type activities accounted for in governmental-type internal service funds	
--	--

	<u>3,398,606</u>
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Net position of business-type activities	
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	<u><u>\$ 97,876,284</u></u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water and Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues					
Charges for services	\$ 30,672,689	\$ 3,921,394	\$ 2,855,785	\$ 37,449,868	\$ 17,998,458
Other	74,507	6,088	27,823	108,418	1,246,322
Total operating revenues	30,747,196	3,927,482	2,883,608	37,558,286	19,244,780
Operating expenses					
Salaries and benefits	2,993,082	914,134	426,031	4,333,247	10,561,581
Supplies	478,511	57,459	136,043	672,013	742,576
Water purchases	4,079,173	-	-	4,079,173	-
Sewage disposal services	11,975,801	-	-	11,975,801	-
Other services and charges	2,383,960	1,244,159	1,901,002	5,529,121	2,398,365
Depreciation	2,797,786	507,741	273,417	3,578,944	1,083,471
Total operating expenses	24,708,313	2,723,493	2,736,493	30,168,299	14,785,993
Operating income	6,038,883	1,203,989	147,115	7,389,987	4,458,787
Nonoperating revenues (expenses)					
Federal grants	-	-	3,320	3,320	-
Interest income	14,105	56,706	9,864	80,675	-
Contributions and donations	-	247,603	-	247,603	-
Interest expense	(919,147)	(491,019)	-	(1,410,166)	(69,422)
Gain on sale of capital assets	-	-	-	-	57,705
Total nonoperating revenues (expenses)	(905,042)	(186,710)	13,184	(1,078,568)	(11,717)
Income before transfers	5,133,841	1,017,279	160,299	6,311,419	4,447,070
Transfers					
Transfers in	4,410,519	278,584	-	4,689,103	84,000
Transfers out	(4,351,166)	(1,227,348)	(112,142)	(5,690,656)	(27,092)
Net transfers	59,353	(948,764)	(112,142)	(1,001,553)	56,908
Change in net position	5,193,194	68,515	48,157	5,309,866	4,503,978
Net position, beginning of year	65,798,887	15,618,063	7,750,862	89,167,812	23,553,257
Net position, end of year	\$ 70,992,081	\$ 15,686,578	\$ 7,799,019	\$ 94,477,678	\$ 28,057,235

The accompanying notes are an integral part of these financial statements.

## CITY OF ROYAL OAK, MICHIGAN

### Reconciliation

Changes in Net Position of Enterprise Funds  
to Change in Net Position of Business-type Activities  
For the Year Ended June 30, 2016

Change in net position - total enterprise funds	\$ 5,309,866
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Amounts reported for *business-type activities* in the statement of activities  
are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. A portion of the operating income (loss) of the internal service funds is allocated to the enterprise funds and reported in the statement of activities.

Net operating income from business-type activities accounted  
for in governmental-type internal service funds

795,545
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Change in net position of business-type activities	<u>\$ 6,105,411</u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water and Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities					
Receipts from customers	\$ 29,866,013	\$ 3,916,722	\$ 2,783,005	\$ 36,565,740	\$ -
Internal activity - receipts from other funds	-	-	-	-	17,998,458
Other operating receipts	74,507	6,088	27,823	108,418	1,246,322
Payments to vendors	(18,035,734)	(1,144,126)	(2,017,234)	(21,197,094)	(2,988,265)
Payments to employees	(2,665,242)	(855,227)	(397,594)	(3,918,063)	(10,668,697)
Net cash provided by operating activities	9,239,544	1,923,457	396,000	11,559,001	5,587,818
Cash flows from noncapital financing activities					
Federal operating grants	-	-	3,320	3,320	-
Contributions and donations	-	247,603	-	247,603	-
Transfers from other funds	4,410,519	278,584	-	4,689,103	84,000
Transfers to other funds	(4,351,166)	(1,227,348)	(112,142)	(5,690,656)	(27,092)
Net cash provided by (used in) noncapital financing activities	59,353	(701,161)	(108,822)	(750,630)	56,908
Cash flows from capital and related financing activities					
Purchase of capital assets	(7,194,363)	(448,181)	-	(7,642,544)	(2,520,146)
Principal paid on capital debt	(3,160,487)	(595,000)	-	(3,755,487)	(320,000)
Interest paid on capital debt	(799,770)	(290,916)	-	(1,090,686)	(60,755)
Proceeds from sale of capital assets	-	-	-	-	483,101
Net cash used in capital and related financing activities	(11,154,620)	(1,334,097)	-	(12,488,717)	(2,417,800)
Cash flows from investing activities					
Interest received on investments	14,105	56,706	9,864	80,675	-
Net change in cash and investments	(1,841,618)	(55,095)	297,042	(1,599,671)	3,226,926
Cash and investments balances, beginning of year	4,433,835	6,125,706	1,461,456	12,020,997	23,686,404
Cash and investments balances, end of year	\$ 2,592,217	\$ 6,070,611	\$ 1,758,498	\$ 10,421,326	\$ 26,913,330

continued...



# CITY OF ROYAL OAK, MICHIGAN

## Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water and Sewer	Automobile Parking System	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 6,038,883	\$ 1,203,989	\$ 147,115	\$ 7,389,987	\$ 4,458,787
Adjustments to reconcile operating income to net cash provided by operating activities -					
Depreciation	2,797,786	507,741	273,417	3,578,944	1,083,471
Changes in assets and liabilities:					
Receivables, net	(1,413,013)	(4,672)	(50,424)	(1,468,109)	(25,864)
Prepaid items	-	-	-	-	114,599
Inventories	(36,565)	(4,001)	-	(40,566)	(29,984)
Long-term receivables	381,819	-	-	381,819	-
Due from other governmental units	224,718	-	-	224,718	-
Accounts payable	918,276	161,493	18,276	1,098,045	205,085
Accrued and other liabilities	125,350	(49,560)	1,429	77,219	264,255
Cash bonds and deposits	(200)	-	-	(200)	-
Other long-term liabilities	-	-	-	-	(330,369)
Unearned revenue	-	-	(22,356)	(22,356)	-
Accrued compensated absences	(2,236)	7,495	258	5,517	13,833
Net pension liability and deferred amounts	190,842	97,099	26,750	314,691	(172,730)
Net other postemployment benefits obligation	13,884	3,873	1,535	19,292	6,735
Net cash provided by operating activities	<u>\$ 9,239,544</u>	<u>\$ 1,923,457</u>	<u>\$ 396,000</u>	<u>\$ 11,559,001</u>	<u>\$ 5,587,818</u>

concluded.

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2016

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and investments	\$ 1,436,182	\$ 534,809
Retirement investments, at fair value		
Mutual funds	140,727,535	-
Receivables, net	65,859	-
	<hr/>	<hr/>
<b>Total assets</b>	<b>142,229,576</b>	<b>\$ 534,809</b>
	<hr/>	<hr/>
<b>Liabilities</b>		
Accounts payable	364,094	-
Undistributed receipts	-	158,438
Accrued and other liabilities	2,191	-
Due to other governmental units	-	46,188
Bonds and deposits	-	330,183
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>366,285</b>	<b>\$ 534,809</b>
	<hr/>	<hr/>
<b>Net position</b>		
Restricted for pension and other postemployment benefits	<u>\$ 141,863,291</u>	

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended June 30, 2016

	Pension and Other Employee Benefit Trust Funds
Additions	
Contributions:	
Employer	\$ 18,711,814
Plan members	900,697
Plan members' buybacks	256,600
Total contributions	<u>19,869,111</u>
Investment earnings:	
Net change in fair value of investments	(5,455,616)
Interest	5,034
Dividends	2,930,563
Other investment revenues	5,530
Total investment loss	<u>(2,514,489)</u>
Less investment expenses	354,383
Net investment loss	<u>(2,868,872)</u>
Total additions	<u>17,000,239</u>
Deductions	
Benefits	22,534,049
Refund of contributions	821,780
Administrative expenses	116,901
Total deductions	<u>23,472,730</u>
Change in net position	(6,472,491)
Net position, beginning of year	<u>148,335,782</u>
Net position, end of year	<u><u>\$ 141,863,291</u></u>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Combining Statement of Net Position

Discretely Presented Component Units

June 30, 2016

	Tax Increment Financing Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>				
Cash and investments	\$ 1,286,150	\$ 117,382	\$ 92,179	\$ 1,495,711
Receivables, net	28,891	510	250	29,651
Prepaid items	50,000	-	-	50,000
Capital assets not being depreciated	2,895,755	-	-	2,895,755
Capital assets being depreciated, net	925,059	-	-	925,059
<b>Total assets</b>	<b>5,185,855</b>	<b>117,892</b>	<b>92,429</b>	<b>5,396,176</b>
<b>Deferred outflows of resources</b>				
Deferred pension amounts	38,815	11,935	-	50,750
<b>Liabilities</b>				
Accounts payable	342,771	204	-	342,975
Accrued and other liabilities	31,199	668	-	31,867
Long-term debt:				
Due within one year	6,208	1,792	-	8,000
Due in more than one year	6,682	1,936	-	8,618
Net pension liability	199,425	61,321	-	260,746
Net other postemployment benefits obligation	111,308	20,694	-	132,002
<b>Total liabilities</b>	<b>697,593</b>	<b>86,615</b>	<b>-</b>	<b>784,208</b>
<b>Net position</b>				
Investment in capital assets	3,820,814	-	-	3,820,814
Unrestricted	706,263	43,212	92,429	841,904
<b>Total net position</b>	<b>\$ 4,527,077</b>	<b>\$ 43,212</b>	<b>\$ 92,429</b>	<b>\$ 4,662,718</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Combining Statement of Activities

Discretely Presented Component Units

For the Year Ended June 30, 2016

	Tax Increment Financing Authority	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Expenses				
Tax Increment Financing Authority	\$ 4,221,342	\$ -	\$ -	\$ 4,221,342
Downtown Development Authority	-	47,088	-	47,088
Brownfield Redevelopment Authority	-	-	26,754	26,754
Total expenses	4,221,342	47,088	26,754	4,295,184
Program revenues				
Operating grants and contributions	131,150	-	-	131,150
Net expense	(4,090,192)	(47,088)	(26,754)	(4,164,034)
General revenues				
Property taxes	3,192,484	50,458	33,740	3,276,682
Unrestricted investment earnings	13,835	665	486	14,986
Other revenue	21,312	-	-	21,312
Total general revenues	3,227,631	51,123	34,226	3,312,980
Change in net position	(862,561)	4,035	7,472	(851,054)
Net position, beginning of year	5,389,638	39,177	84,957	5,513,772
Net position, end of year	\$ 4,527,077	\$ 43,212	\$ 92,429	\$ 4,662,718

The accompanying notes are an integral part of these financial statements.



## NOTES TO FINANCIAL STATEMENTS

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The City of Royal Oak, the "City", operates under the council/manager form of government. The City is governed by an elected seven-member commission, including an elected mayor, which appoints the City Manager who oversees the administration and operations of the City.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

*Blended Component Units.* The individual component units set forth below are included as a part of the primary government due to the significance of their operational and financial relationships with the City.

*Building Authority.* A Board that is appointed by the City Commission governs the Building Authority. Although it is legally separate from the City, the Authority is reported as if it were part of the primary government because its sole business activity is acquiring and leasing property to the City. Activity in the fund, at this time, includes the repayment of ice arena bonds issued to construct a second rink, which is combined with the ice arena enterprise fund for inclusion in the City's financial statements; the repayment of general obligation bonds related to the construction of a courthouse; the repayment of general obligation bonds related to the construction of a parking deck which is combined with the automobile parking system enterprise fund for inclusion in the City's financial statements; the repayment of fire improvement bonds related to the construction of two fire stations, the renovation of one fire station, and for the purchase of various fire apparatus and equipment; and the recognition of expenditures for the renovation of the library and the repayment of the related general obligation bonds.

*Discretely Presented Component Units.* The component units column in the government-wide financial statements includes the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City. The following component units are included in the reporting entity because the officials of the primary government are financially accountable. The component units do not report separately. Financial accountability is defined as the appointment of a voting majority of the component unit's Board, and either (a) the ability to impose the will of the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

*Downtown Development Authority and Tax Increment Financing Authority.* The Downtown Development Authority and the Tax Increment Financing Authority were created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The authorities share the same governing body, consisting of 11 individuals who are selected by the City Manager and then approved by the City Commission. In addition, the authorities' budgets are subject to approval by the City Commission. The authorities are expected to provide a financial benefit to the City. The authorities use the modified accrual basis of accounting. The component units do not issue separate financial statements.



# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

*Brownfield Redevelopment Authority.* The Brownfield Redevelopment Authority ("BRA") is authorized by the state legislature, to help cleanup contaminated properties using property tax capture. The authority's governing body, which consists of nine individuals, is selected by the Mayor and approved by the City Commission. The BRA is expected to provide a financial benefit to the City. The Authority uses the modified accrual basis of accounting. The component unit does not issue separate financial statements.

### Joint Ventures

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2016, the City expensed approximately \$4,049,000 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

The City is also a member of the Southeastern Oakland County Water Authority, which provides a water supply system serving 11 member municipalities in Oakland County. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2016, the City expensed approximately \$4,079,000 of payments made to the Authority. Complete financial statements for the Southeastern Oakland County Water Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

### Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except reimbursement-based grants which use a one year period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenues, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *public safety fund* accounts for the collection of a separate tax millage, in addition to general fund budgeted amounts, that are used to fund police, fire, and emergency medical services.

The *solid waste fund* accounts for the collection of a separate tax millage that is used to fund refuse collection and disposal.

The *community development block grant fund* accounts for grants received from the U.S. Department of Housing and Urban Development.

The *city capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

The government reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the water distribution system and the sewage collection system.

The *automobile parking system fund* accounts for the operation and maintenance of the City-owned parking lots and structures.

Additionally, the government reports the following fund types:

*Special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *permanent fund* is used to account for the resources that are permanently restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizenry.

*Enterprise funds* account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds* are used to account for information systems services, fleet management services, workers' compensation insurance coverage, medical self-insurance, and general liability provided to other departments on a cost-reimbursement basis.

The *agency funds* are used to account for monies held by the City in a trustee capacity or as an agent for individuals, private organizations and other governments, specifically funds from district court fines and costs, property tax collection, and miscellaneous agencies like performance bonds, and contributions for the ROOTS Foundation and Historical Commission's Starr House.

Two *trust funds* account for the activities of the City of Royal Oak Retirement System, which accumulates resources for pension benefit payments to qualified employees, and the City of Royal Oak Retiree Health Care Plan, which accumulates resources to pay other postemployment benefits (OPEB), in this case health benefits for qualified retirees.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

#### *Deposits and Investments*

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

#### *Receivables and Payables*

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property taxes are levied as of July 1st on property values assessed as of the same date. The City bills twice a year, on July 1st and December 1st. The July bill, which contains the school, community college and most of the City levy, is due without interest by July 31st, although taxpayers may pay the bill in two installments provided half the bill is paid by July 31st. The second half is due without penalty by October 31st. The December bill, which typically contains the county levy and a small City levy, is payable without interest by the following February 14th. The bills are considered past due on March 1st, at which time the applicable property is subject to lien, and penalties and interest are assessed.

CITY OF ROYAL OAK, MICHIGAN

Notes to Financial Statements

*Inventories and Prepaid Items*

All inventories are valued at cost using the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financials.

*Restricted Assets*

Certain revenues and resources of the City are classified as restricted assets on the statement of net position because their use is limited. Permanent fund restricted assets are restricted by a legal endowment.

*Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. During the year, no interest was capitalized as part of the cost of assets under construction.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and renovations	25-45
Improvements	10-20
Infrastructure	40-50
Vehicles	3-10
Equipment	5-15
Intangibles	3-10

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### *Deferred Outflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans as well as for the deferred loss on refunding. A deferred refunding loss results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

### *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay, longevity pay, and a portion of sick pay is accrued when incurred in the government-wide and proprietary financial statements. Sick pay limits are based on the employee's union contract. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### *Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arises only under a modified accrual basis of accounting, from property taxes and special assessments receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### *Fund Balances*

The fund balance classifications are reported primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Commission (the City's highest level of decision-making authority). A formal resolution of the City Commission is required to establish, modify, or rescind a fund balance commitment. Assigned fund balance consists of amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed. By resolution, the City Commission has transferred the authority to assign fund balance to the Finance Director. Unassigned fund balance is the residual classification for the general fund.

The City's general fund fund balance policy is to maintain unassigned fund balance at ten percent, but no more than twenty-five percent, of budgeted expenditures.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned, and finally unassigned fund balance. The City's current general fund balance policy is to maintain unassigned fund balance at ten percent of budgeted expenditures, but no more than twenty five percent of budgeted expenditures.

### *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and all special revenue funds. All annual appropriations lapse at fiscal year end, except for those approved by the City Commission. The legal level of budgetary control is the activity level.

Department heads submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the City Commission for review. The Commission holds public hearings, and a final budget must be prepared and adopted no later than June 30<sup>th</sup>. The appropriated budget is prepared by fund, function, and department. Budget amendments are submitted for Commission approval on a quarterly basis. The Commission made several supplemental budgetary appropriations throughout the year mostly a result of the mid-year review. The supplementary budgetary appropriations made in the general fund material changes in appropriation categories, from expenditures to transfers.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end lapse, therefore do not constitute expenditures or liabilities because commitments will be reappropriated and honored during the subsequent year. The City did not have any significant encumbrances at year-end.

### 3. EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2016, the City incurred expenditures in certain budgeted funds which were in excess of the amount appropriated, as follows:

	Budget Appropriation	Actual Expenditure	Variance
ROOTS fund -			
Public safety	\$ 2,110	\$ 2,184	\$ 74

### 4. DEPOSITS AND INVESTMENTS

State of Michigan statutes authorize the City to invest in bonds and other direct and certain indirect obligations of the US Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration; and commercial paper must be rated within the two highest classifications established by not less than two standard rating services. The City is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The City Retirement System is allowed to invest in corporate stocks and bonds.

The City's investment policy allows for all of these types of investments. Investments of the City of Royal Oak Retirement System are subject to a number of restrictions as to type, quality and concentration of investments. Retirement System investments are held in a trust fund invested by SEI Investments Company.



# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

At year-end the City deposits and investments were reported in the basic financial statements in the following categories:

	Primary Government	Component Units	Totals
<b>Statement of Net Position</b>			
Cash and investments	\$ 89,099,656	\$ 1,495,711	\$ 90,595,367
Restricted assets (endowments cash)	1,000	-	1,000
	<u>89,100,656</u>	<u>1,495,711</u>	<u>90,596,367</u>
<b>Statement of Fiduciary Net Position</b>			
Pension and OPEB trust funds:			
Cash and investments	1,436,182	-	1,436,182
Retirement investments	140,727,535	-	140,727,535
Agency funds -			
Cash and investments	534,809	-	534,809
	<u>142,698,526</u>	<u>-</u>	<u>142,698,526</u>
<b>Total</b>	<u>\$ 231,799,182</u>	<u>\$ 1,495,711</u>	<u>\$ 233,294,893</u>
<b>Deposits and investments</b>			
Bank deposits (checking and savings accounts, certificates of deposit)			\$ 92,562,507
Investments:			
Bond mutual funds			11,874,857
Equity mutual funds			81,547,157
Other mutual funds			47,305,521
Cash on hand			<u>4,851</u>
<b>Total</b>			<u>\$ 233,294,893</u>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### *Investment and Deposit Risk*

*Interest Rate Risk.* Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits investment maturities for commercial paper to no more than 270 days after date of purchase. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest. The City's weighted average maturity dates for bond mutual funds are disclosed below:

	Fair Value	Weighted Average Maturity (Years)
Bond mutual funds:		
SEI Emerging Markets Debt	\$ 6,479,766	9.41
SEI High Yield Bond A	5,395,091	6.15
Total	<u>\$ 11,874,857</u>	

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments. Commercial paper must be rated within the two highest classifications established by not less than two standard rating services. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's investments in mutual funds are not rated.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of June 30, 2016, \$85,848,331 of the City's bank balance of \$89,149,884 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* As of June 30, 2016, the City's pooled investments consisted entirely of mutual funds totaling \$140,727,535. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of June 30, 2016, none of the City's investments were exposed to risk since the securities are held in the City's name by the counterparty.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk, and the City does not have a policy specifying limits on concentration of credit risk. At June 30, 2016, there were no individual investments with a fair value that represent 5% or more of the City's investments; and other than U.S. agencies, the City did not have 5% or more invested with any one issuer.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

*Fair Value Measurements.* The City categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable and are based on estimates and assumptions. These levels are determined by the management's review of the type and substance of investments held by the City.

The City had the following recurring fair value measurements as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Bond mutual funds	\$ 11,874,857	\$ -	\$ -	\$ 11,874,857
Equity mutual funds	81,547,157	-	-	81,547,157
Other mutual funds	30,308,829	16,996,692	-	47,305,521
Total investments at fair value	<u>\$ 123,730,843</u>	<u>\$ 16,996,692</u>	<u>\$ -</u>	<u>\$ 140,727,535</u>

## 5. RECEIVABLES

Receivables are comprised of the following at year end:

	Governmental Activities	Business-type Activities	Component Units	Not Expected to be Collected Within One Year
Accounts	\$ 384,883	\$ 11,066,992	\$ -	\$ 2,040,130
Loans	3,438,029	-	-	3,438,029
Taxes (current)	39,148	-	-	-
Taxes (delinquent)	41,852	-	53,843	-
Special assessments	1,276,137	-	-	489,400
Intergovernmental	2,141,813	226,179	-	226,179
Interest and other	198,544	21,277	4,061	-
Less: allowance for uncollectibles	(168,242)	(103,073)	(28,253)	-
	<u>\$ 7,352,164</u>	<u>\$ 11,211,375</u>	<u>\$ 29,651</u>	<u>\$ 6,193,738</u>

## 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016, was as follows:

	Due from Other Funds	Due to Other Funds
General	\$ 176,945	\$ -
Community development block grant	-	176,945
	<u>\$ 176,945</u>	<u>\$ 176,945</u>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

In addition, an interfund balance existed between governmental activities and business-type activities in the amount of \$3,398,606. This resulted from the allocation of a portion of internal service fund net position of governmental-type internal service funds to business-type activities.

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. All interfund balances are expected to be collected within one year.

Interfund transfers between the funds within the primary government were as follows:

Transfers Out	Transfers In			
	General	Public Safety	City Capital Projects	Nonmajor Governmental Funds
General fund	\$ -	\$ 19,000,000	\$ -	\$ 982,891
Solid waste fund	-	-	-	4,000
Community development block grant fund	-	-	1,440,980	-
City Capital Projects	553,368	-	-	-
Nonmajor governmental funds	14,008	-	8,383,550	151,599
Water and sewer fund	-	-	-	4,000
Automobile parking system fund	800,000	-	137,798	1,264
Nonmajor enterprise funds	-	-	80,000	32,142
Internal service funds	-	-	-	27,092
	<u>\$ 1,367,376</u>	<u>\$ 19,000,000</u>	<u>\$ 10,042,328</u>	<u>\$ 1,202,988</u>

Transfers Out	Transfers In			
	Water and Sewer Fund	Automobile Parking System	Internal Service Funds	Total
General fund	\$ -	\$ -	\$ -	\$ 19,982,891
Solid waste fund	-	-	-	4,000
Community development block grant fund	-	-	-	1,440,980
City Capital Projects	-	-	-	553,368
Nonmajor governmental funds	57,651	-	80,000	8,686,808
Water and sewer fund	4,347,166	-	-	4,351,166
Automobile parking system fund	5,702	278,584	4,000	1,227,348
Nonmajor enterprise funds	-	-	-	112,142
Internal service funds	-	-	-	27,092
	<u>\$ 4,410,519</u>	<u>\$ 278,584</u>	<u>\$ 84,000</u>	<u>\$ 36,385,795</u>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

Transfers are used to: (1) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; and (3) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.

## 7. CAPITAL ASSETS

### Primary Government

Capital asset activity for the current year was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 66,774,752	\$ -	\$ -	\$ -	\$ 66,774,752
Construction in progress	9,707,358	14,678,433	-	(5,009,971)	19,375,820
	<u>76,482,110</u>	<u>14,678,433</u>	<u>-</u>	<u>(5,009,971)</u>	<u>86,150,572</u>
Capital assets, being depreciated:					
Buildings	30,761,481	-	-	-	30,761,481
Improvements other than buildings	4,375,962	-	-	247,006	4,622,968
Machinery and equipment	21,974,197	2,362,464	(2,590,821)	240,526	21,986,366
Infrastructure	109,499,986	-	-	4,522,439	114,022,425
Intangibles	354,608	-	-	-	354,608
	<u>166,966,234</u>	<u>2,362,464</u>	<u>(2,590,821)</u>	<u>5,009,971</u>	<u>171,747,848</u>
Less accumulated depreciation for:					
Buildings	(14,474,982)	(607,659)	-	-	(15,082,641)
Improvements other than buildings	(3,656,225)	(90,527)	-	-	(3,746,752)
Machinery and equipment	(16,879,334)	(1,215,040)	2,165,425	-	(15,928,949)
Infrastructure	(63,221,414)	(1,558,589)	-	-	(64,780,003)
Intangibles	(354,608)	-	-	-	(354,608)
	<u>(98,586,563)</u>	<u>(3,471,815)</u>	<u>2,165,425</u>	<u>-</u>	<u>(99,892,953)</u>
Total capital assets being depreciated, net	<u>68,379,671</u>	<u>(1,109,351)</u>	<u>(425,396)</u>	<u>5,009,971</u>	<u>71,854,895</u>
Governmental activities capital assets, net	<u>\$ 144,861,781</u>	<u>\$ 13,569,082</u>	<u>\$ (425,396)</u>	<u>\$ -</u>	<u>\$ 158,005,467</u>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Business-type Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 9,958,656	\$ -	\$ -	\$ -	\$ 9,958,656
Construction in progress	6,605,593	7,509,107	-	(6,095,080)	8,019,620
	<u>16,564,249</u>	<u>7,509,107</u>	<u>-</u>	<u>(6,095,080)</u>	<u>17,978,276</u>
<b>Capital assets, being depreciated:</b>					
Buildings	30,428,365	-	-	-	30,428,365
Improvements other than buildings	302,575	-	-	1,151,037	1,453,612
Machinery and equipment	1,494,561	133,437	-	-	1,627,998
Infrastructure	122,825,817	-	-	4,944,043	127,769,860
	<u>155,051,318</u>	<u>133,437</u>	<u>-</u>	<u>6,095,080</u>	<u>161,279,835</u>
<b>Less accumulated depreciation for:</b>					
Buildings	(14,045,588)	(683,921)	-	-	(14,729,509)
Improvements other than buildings	(242,338)	(6,310)	-	-	(248,648)
Machinery and equipment	(1,313,322)	(43,659)	-	-	(1,356,981)
Infrastructure	(40,793,126)	(2,845,054)	-	-	(43,638,180)
	<u>(56,394,374)</u>	<u>(3,578,944)</u>	<u>-</u>	<u>-</u>	<u>(59,973,318)</u>
<b>Total capital assets being depreciated, net</b>	<u>98,656,944</u>	<u>(3,445,507)</u>	<u>-</u>	<u>6,095,080</u>	<u>101,306,517</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 115,221,193</u>	<u>\$ 4,063,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 119,284,793</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

### Depreciation of governmental activities by function

General government	\$ 354,801
Public safety	252,831
Public works	1,512,858
Health and welfare	200
Recreation and culture	267,654
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>1,083,471</u>

**Total depreciation expense - governmental activities** \$ 3,471,815

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

#### Depreciation of business-type activities by function

Water and sewer	\$ 2,797,786
Parking	507,741
Ice arena	115,708
Recreation	87,765
Farmers market	<u>69,944</u>
Total depreciation expense - business-type activities	<u><u>\$ 3,578,944</u></u>

#### Construction Commitments

The City has active construction projects as of June 30, 2016. The projects include infrastructure improvements. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Buildings	\$ 108,949	\$ 10,846
Roads	8,611,468	8,153,377
Water projects	4,514,172	1,278,495
Sewer projects	1,566,969	977,542
Sidewalks	<u>1,700,290</u>	<u>4,603,835</u>
Total	<u><u>\$ 16,501,848</u></u>	<u><u>\$ 15,024,095</u></u>

Oakland County has a major contract on the George W. Kuhn project. Of the amount spent to date, approximately \$38,846,000 is attributable to the City.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### Discretely Presented Component Units

	Beginning Balance	Additions	Disposals	Ending Balance
Component Unit - TIFA				
Capital assets, not being depreciated -				
Land	\$ 2,895,755	\$ -	\$ -	\$ 2,895,755
Capital assets, being depreciated:				
Improvements other				
than buildings	1,609,877	-	-	1,609,877
Infrastructure	439,529	-	-	439,529
	<u>2,049,406</u>	<u>-</u>	<u>-</u>	<u>2,049,406</u>
Less accumulated depreciation for:				
Improvements other				
than buildings	(708,706)	(77,262)	-	(785,968)
Infrastructure	(316,266)	(22,113)	-	(338,379)
	<u>(1,024,972)</u>	<u>(99,375)</u>	<u>-</u>	<u>(1,124,347)</u>
Total capital assets				
being depreciated, net	<u>1,024,434</u>	<u>(99,375)</u>	<u>-</u>	<u>925,059</u>
Component unit - TIFA				
capital assets, net	<u>\$ 3,920,189</u>	<u>\$ (99,375)</u>	<u>\$ -</u>	<u>\$ 3,820,814</u>



# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 8. LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the City. Bond and contractual obligation activity and other long-term liabilities can be summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 12,509,000	\$ 3,691,511	\$ (5,573,000)	\$ 10,627,511	\$ 1,706,994
Unamortized discount	(82,385)	-	82,121	(264)	(264)
Unamortized premium	207,739	175,519	(49,894)	333,364	49,833
Compensated absences	3,550,106	2,271,020	(2,293,717)	3,527,409	1,764,000
General liability claims	609,590	131,627	(242,787)	498,430	249,215
Workers compensation	1,015,259	128,645	(347,854)	796,050	398,025
<b>Total governmental activities</b>	<b>\$ 17,809,309</b>	<b>\$ 6,398,322</b>	<b>\$ (8,425,131)</b>	<b>\$ 15,782,500</b>	<b>\$ 4,167,803</b>
<b>Business-type Activities</b>					
Bonds payable, contractual obligations and State revolving fund	\$ 39,995,435	\$ 15,760,317	\$ (19,131,399)	\$ 36,624,353	\$ 4,049,601
Unamortized discount	(239,151)	-	239,151	-	-
Unamortized premium	-	752,514	(62,855)	689,659	62,855
Compensated absences	276,058	186,061	(180,544)	281,575	141,000
<b>Total business-type activities</b>	<b>\$ 40,032,342</b>	<b>\$ 16,698,892</b>	<b>\$ (19,135,647)</b>	<b>\$ 37,595,587</b>	<b>\$ 4,253,456</b>
<b>Component Units</b>					
Compensated absences	\$ 15,327	\$ 10,301	\$ (9,010)	\$ 16,618	\$ 8,000

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$136,826 of internal service funds compensated absences is included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

#### Governmental activities - bonds payable

2007 Capital Improvement Bonds; \$825,000 at issuance; payable in annual installments of \$65,000 to \$100,000; interest payable semi-annually at 4.00% through February 2017 \$ 100,000

2007 Capital Improvements Bonds; \$2,645,000 at issuance; payable in annual installments of \$185,000 to \$260,000; interest payable semi-annually at 4.00% through October 2019 800,000

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### Governmental activities - bonds payable (continued)

2008 Capital Improvement Bonds; \$11,825,000 at issuance; payable in annual installments of \$430,000 to \$900,000; interest payable semi-annually at 4.00% to 6.25% through October 2018	\$ 80,000
2012 Building Authority Refunding Bonds; \$4,965,000 at issuance; payable in annual installments of \$490,000 to \$620,000; interest payable semi-annually at 2.00% to 3.00% through September 2021	3,460,000
2013 Capital Improvement Bonds; \$1,127,000 at issuance; payable in annual installments of \$225,000 to \$226,000; interest payable semi-annually at 1.38% through October 2018	675,000
2014 Capital Improvement Refunding Bonds; \$2,053,000 at issuance; payable in annual installments of \$232,000 to \$283,000; interest payable semi-annually at 2.30% through June 2023	1,821,000
2016 Court Building Authority Refunding Bonds; \$3,258,678 at issuance; payable in annual installments of \$381,876 to \$447,570; interest payable semi-annually at 4.00% to 4.75% through May 2024	3,258,578
2016 Capital Improvement Refunding Bonds; \$432,933 at issuance; payable in annual installments of \$30,904 to \$45,557; interest payable semi-annually at 4.00% to 6.25% through October 2028	<u>432,933</u>
Total governmental activities bonds payable	<u>\$ 10,627,511</u>

### Business-type activities bonds payable, contractual obligations and State revolving fund

#### Business-type activities - bonds payable

2008 Capital Improvement Bonds; \$7,250,000 at issuance; payable in annual installments of \$225,000 to \$585,000; interest payable semi-annually at 4.00% to 6.25% through October 2018	\$ 940,000
2008 Capital Improvement Bonds; \$3,270,000 at issuance; payable in annual installments of \$100,000 to \$265,000; interest payable semi-annually at 4.00% to 6.25% through October 2018	425,000
2016 Capital Improvement Refunding Bonds; \$2,510,000 at issuance; payable in annual installments of \$130,000 to \$310,000; interest payable semi-annually at 3.50% to \$4.30% through May 2026	2,510,000
2016 Capital Improvement Refunding Bonds; \$4,926,473 at issuance; payable in annual installments of \$71,368 to \$533,000; interest payable semi-annually at 4.00% to 6.25% through October 2028	4,926,473

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

#### Business-type activities - bonds payable (continued)

2016 Capital Improvement Refunding Bonds; \$2,225,596 at issuance; payable in annual installments of \$71,368 to \$533,000; interest payable semi-annually at 4.00% to 6.25% through October 2018	\$ 2,225,596
2016 Parking Building Authority Refunding Bonds; \$3,941,422 at issuance; payable in annual installments of \$366,124 to \$410,000; interest payable semi-annually at 4.00% to 4.375% through October 2026	<u>3,941,422</u>
	<u>14,968,491</u>

#### Business-type activities - contractual obligations

1997 Garfield Drain Refunding Bonds; \$1,710,691 at issuance; payable in annual installments of \$40,623 to \$135,411; interest payable semi-annually at 5.00% to 5.125% through October 2017	\$ 266,308
2000 George W. Kuhn Drainage District, Series A; \$5,176,386 at issuance; payable in annual installments of \$202,655 to \$324,248; interest payable semi-annually at 2.50% through April 2022	1,829,685
2000 George W. Kuhn Drainage District, Series C; \$23,797,479 at issuance; payable in annual installments of \$932,213 to \$1,489,514; interest payable semi-annually at 2.50% through April 2024	10,944,814
2000 George W. Kuhn Drainage District, Series D; \$659,403 at issuance; payable in annual installments of \$27,503 to \$40,531; interest payable semi-annually at 2.50% through April 2024	288,834
2000 George W. Kuhn Drainage District, Series F; \$446,776 at issuance; payable in annual installments of \$20,265 to \$26,860; interest payable semi-annually at 1.63% through April 2026	238,610
2016 Drain Refunding Bonds; \$2,156,828 at issuance; payable in annual installments of \$154,887 to \$314,115; interest payable semi-annually at 4.25% to 4.38% through October 2024	2,156,828
2007 George W. Kuhn Drainage District, Series G; \$519,081 at issuance; payable in annual installments of \$22,057 to \$29,410; interest payable semi-annually at 1.63% through April 2028	330,859
2008 George W. Kuhn Drainage District, Series H; \$7,450,000 at issuance; payable in annual installments of \$88,229 to \$141,167; interest payable semi-annually at 2.50% through April 2029	<u>1,592,537</u>
	<u>17,648,475</u>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### Business-type activities - State revolving fund

1998 North Arm Relief Drain Revenue Bonds; \$13,877,387 at issuance; payable in annual installments of \$575,000 to \$822,387; interest payable semi-annually at 2.25% through October 2020

4,007,387

Total business-type activities bonds payable, contractual obligations and State revolving fund

\$ 36,624,353

### *Refunded Debt*

The City issued \$17,295,000 in 2016 Refunding Capital Improvement Bonds during the year which refunded \$2,590,000 of 2006A Capital Improvement Bonds, \$7,415,000 of 2006B Capital Improvement Bonds, and \$7,005,000 of 2008 Capital Improvement Bonds. The 2016 Refunding Capital Improvement Bonds resulted in a savings of \$2,638,055 over the next 13 years and an economic gain of \$2,253,737.

In the current year, the City defeased capital improvement bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2016, \$7,005,000 of defeased bonds remain outstanding.

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 1,706,994	\$ 241,783	\$ 4,049,601	\$ 909,985
2018	1,643,122	208,971	4,149,226	799,907
2019	1,659,552	176,233	4,105,433	693,733
2020	1,485,369	142,707	4,199,877	592,479
2021	1,318,026	109,808	4,284,893	497,388
2022-2026	2,677,995	149,170	13,098,274	1,198,358
2027-2029	136,453	6,233	2,737,049	125,284
	<u>\$ 10,627,511</u>	<u>\$ 1,034,905</u>	<u>\$ 36,624,353</u>	<u>\$ 4,817,134</u>

*No Commitment Debt.* Excluded from the governmental activity debt are bonds issued under Act No. 38, Public Acts of Michigan, 1969, as amended, to provide a method to enable nonprofit private hospitals to construct health care facilities. Also, revenue bonds issued by the Economic Development Corporation to acquire and lease property to third parties are excluded. The revenue bonds issued are payable solely from the net revenue derived from the hospital operations and the EDC leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

*Obligations for George W. Kuhn Project.* The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, federal and state grants, and contributions from Oakland County. The City and 13 other local communities are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's obligation at the end of construction will be approximately \$38,846,000 with an interest rate of 1.63-4.38%. As of June 30, 2016, the City's obligation is \$17,382,167 in principal.

## 9. RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority for general property and liability claims.

The Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to establish a member loss fund. The loss fund is used to pay the member's self-insured retention portion of claims.

The City has a \$250,000 per occurrence self-insured retention for liability claims and \$15,000,000 per occurrence of excess liability insurance coverage. Coverage limits, retentions and deductibles for other types of coverage vary. All coverage is on an occurrence basis except for a stop loss policy which is on a claims paid basis. The stop loss policy limits the maximum total self-insured retention payments in any one fiscal year to \$885,000. Settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the reported liability for the fiscal years 2015 and 2016 are as follows:

Fiscal Year	Liability at Beginning of Year	Current-Year Claims and Changes in Estimates	Claim Payments	Liability at End of Year
2015	\$ 666,930	\$ 318,043	\$ (375,383)	\$ 609,590
2016	609,590	131,627	(242,787)	498,430

The City was unable to obtain workers compensation insurance at a cost it considered to be economically justifiable. Therefore, the City utilizes the workers compensation fund, an internal service fund, to account for and finance its uninsured risks of loss related to employee work related accidents.

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$450,000. Settlements have not exceeded coverage for each of the past three fiscal years.

Changes in the reported liability for the fiscal years 2015 and 2016 are as follows:

Fiscal Year	Liability at Beginning of Year	Current-Year Claims and Changes in Estimates	Claim Payments	Liability at End of Year
2015	\$ 617,272	\$ 488,828	\$ (90,841)	\$ 1,015,259
2016	1,015,259	128,645	(347,854)	796,050

The City maintains multiple health care insurance programs, one of which is a self-insurance program with Blue Cross Blue Shield. The self-insurance program is accounted for in an internal service fund (medical self-insurance fund). The program is administered by a third party administrator who provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on actuarial and management estimates. These premiums are available to pay health care claims, claim reserves, stop loss coverage, prescriptions and administrative costs.

Health care liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. A stop loss coverage policy covers annual individual claims in excess of \$100,000. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

Changes in the reported liability for the fiscal years 2015 and 2016 are as follows:

Fiscal Year	Liability at Beginning of Year	Current-Year Claims and Changes in Estimates	Claim Payments	Liability at End of Year
2015	\$ 312,000	\$ 8,452,841	\$ (8,234,749)	\$ 530,092
2016	530,092	9,061,145	(8,840,398)	750,839

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 10. CONTINGENT LIABILITIES

*Litigation.* Various lawsuits are pending against the City, some of which are for substantial amounts. On the basis of opinions and information furnished by the City Attorney and Risk Manager, it is the judgment of City management that the ultimate liabilities, if any, resulting from such lawsuits have been adequately accrued as a part of general liability claims (see Note 9).

*Grants.* Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time although the City expects such amounts to be immaterial.

### 11. EMPLOYEES' RETIREMENT SYSTEM

#### *General Information about the Pension Plan*

*Plan Description.* The City contributes to the City of Royal Oak Retirement System, which is the administrator of a single-employer defined benefit pension plan that covers all full-time employees of the City. The System provides retirement, disability and death benefits to plan members and their beneficiaries; it does not provide for cost of living benefit adjustments. Management of the System is vested in the Retirement Board of the City of Royal Oak, which consists of five members: two members of the City Commission that are appointed by and serve at the pleasure of the City Commission, the City Manager of the City, one general member of the System that is elected by the general members and one fire or police member of the System that is elected by the fire and police members. The System is included in the City's financial statements as a pension trust fund. Separate financial statements are not issued for the Plan.

*Method Used to Value Investments.* Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have established market values are reported at estimated fair values as determined by the custodian under the direction of the Retirement Board with the assistance of a valuation service.

*Rate of Return.* For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (2.39) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

*Benefits Provided.* Eligible employees who retire with minimum age and years of service requirements are entitled to annual retirement benefits, payable in monthly installments for life, in an amount equal to a percentage of their final average compensation times years of credited service. The Plan is closed to all general employees as of June 30, 2008 and remains open for all police and fire employees. Regular service retirement benefits are available to employee groups as follows:

TPOAM (formerly AFSCME), executive department heads, department heads and deputies, technical and professional, supervisors and police service aides - age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

SEIU 517 - 30 years of service regardless of age, age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

Fire employees, police command, police officers and detectives - 25 years of service regardless of age or age 55 with 10 years of service.

*Contributions.* The obligation to contribute to the System for these employees was established by City ordinance and through negotiations with the employees' collective bargaining units. Employees are required to contribute 3.0 to 7.0 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates.

Bargaining Unit / Employee Group	Benefit Multiplier	Contribution Percentage	Maximum FAC
Executive Department Head	2.0%-2.5%	5.0%	80%
SEIU AFL-CIO Local 517M	2.2%-2.5%	7.0%	75%
Department Heads and Deputies	2.2%-2.5%	5.0%	80%
44th District Court	2.2%-2.5%	4.0%	75%
Professional and Technical	2.2%-2.5%	5.0%	80%
TPOAM (formerly AFSCME)	2.2%-2.5%	4.5%	80%
Foreman and Supervisors	2.2%-2.5%	7.0%	80%
Judges	2.0%-2.5%	3.0%	75%
Police Service Aides	2.2%-2.5%	4.0%	80%
Police Officers	2.5%-2.8%	6.0%	80%
Fire Fighters	2.5%-2.8%	6.0%	75%
Police Command	2.5%-2.8%	6.0%	80%
Detectives	2.5%-2.8%	6.0%	75%
Police and Fire Department Heads	2.5%-2.8%	6.0%	75%



## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

FAC is the highest two consecutive years out of the last ten for general employees. For police and fire employees, FAC is the highest two consecutive years out of the last ten hired before May 30, 2012 and September 30, 2009 respectively and for those hired after FAC is based on the highest three consecutive years out of the last ten. Deferred retirement benefits vest after five years of service for general employees and ten years of service for police and fire employees. Deferred benefits are not paid until the years of service and age requirements are met.

*Membership.* At June 30, 2016 (the date of the most recent actuarial report), membership consisted of:

Retirees and beneficiaries currently receiving benefits	555
Terminated employees entitled to benefits but not yet receiving them	26
Current full-time employees	<u>240</u>
Total members	<u>821</u>

*Reserves.* In accordance with the Plan policy, the City establishes reserves for various purposes. The reserves are adjusted annually based on recommendations from the City's actuaries. The policy for creating and adjusting reserves was established and can be amended by the Plan Board of Trustees. A summary of the Plan reserves at June 30, 2016 is as follows:

Reserve / Group	Balance
Police and fire members benefit fund	\$ 69,610,690
General members benefit fund	92,952,917
Undistributed investment income fund	(37,568,758)

*Net Pension Liability.* The City's net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.0-5.9 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation
Mortality rates	RP-2000 projected 20 years Health Life Mortality, setforward 10 years for Disabled Life Mortality

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 2006 through 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. This is then modified through a Monte-Carlo simulation process, by which a (downward) risk adjustment is applied to the baseline expected return. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, and the final investment return assumption, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
SEI Large Cap Fund	10.00%	6.91%	0.69%
SEI Large Cap Index Fund	10.00%	5.76%	0.58%
SEI Small Cap Fund	8.00%	8.82%	0.71%
SEI World Equity ex-US Fund	19.00%	8.32%	1.58%
SEI Emerging Market Equity	5.00%	9.83%	0.49%
SEI Dynamic Asset Allocation	8.00%	8.25%	0.66%
SEI Core Fixed Income Fund	13.00%	1.64%	0.21%
SEI Opportunistic Income Fund	12.00%	1.26%	0.15%
SEI High Yield Bond Fund	4.00%	5.10%	0.20%
SEI Emerging Markets Debt Fund	6.00%	6.42%	0.39%
SEI Core Property Fund	5.00%	5.59%	0.28%
	<u>100.00%</u>		5.94%
Inflation			2.50%
Risk adjustments			<u>-0.69%</u>
Investment rate of return			<u>7.75%</u>

*Discount Rate.* The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 206,080,854	\$ 136,325,204	\$ 69,755,650
Changes for the year:			
Service cost	2,542,348	-	2,542,348
Interest	15,445,529	-	15,445,529
Differences between expected and actual experience	2,710,293	-	2,710,293
Employer contributions	-	7,034,692	(7,034,692)
Employee contributions	-	1,157,297	(1,157,297)
Net investment income (loss)	-	(3,312,904)	3,312,904
Benefit payments, including refunds of employee contributions	(16,109,768)	(16,109,768)	-
Administrative expense	-	(99,672)	99,672
Net changes	4,588,402	(11,330,355)	15,918,757
Balances at June 30, 2016	\$ 210,669,256	\$ 124,994,849	\$ 85,674,407

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate.* The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's net pension liability	\$ 107,958,961	\$ 85,674,407	\$ 67,309,873

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is provided in Note 13.

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

*Pension Expense and Deferred Outflows of Resources Related to Pensions.* For the year ended June 30, 2016, the City recognized pension expense of \$10,257,579. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 2,170,687
Net difference between projected and actual earnings on pension plan investments	<u>14,504,140</u>
Total	<u><u>\$ 16,674,827</u></u>

Amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 5,087,919
2018	4,851,042
2019	4,021,232
2020	<u>2,714,634</u>
Total	<u><u>\$ 16,674,827</u></u>

### 12. OTHER POSTEMPLOYMENT BENEFITS

The City provides postemployment health and dental care benefits, as per the requirements of union contracts, for certain retirees and their dependents. The benefits vary depending on a retiree's years of service and the union contract under which they retired. Currently, 446 retirees are eligible, including one deferred retiree who will be eligible to receive postemployment benefits once pension payments begin. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

*Plan Description.* The City contributes to the City of Royal Oak Retiree Health Fund (RHF), which is a single-employer defined benefit healthcare plan administered by the City of Royal Oak Retirement System. The plan covers most full-time employees of the City. At June 30, 2014 (the date of the actuarial report applicable to the current fiscal year), membership consisted of:

Active service members:	
General employees	116
Public safety employees	92
Deferred members	10
Retired members and beneficiaries	435
	<hr/>
	653
	<hr/>

The RHF provides medical and prescription benefits to eligible retirees and their dependents. The RHF was established under State of Michigan Public Act 149 of 1999.

*Significant Accounting Policies.* The plan is included in the City's financial statements combined with the pension plan as the pension and other employee benefit trust fund. A stand-alone financial report has not been issued. The Plan's financial statements are prepared using information as of June 30, 2016. The plan's financial statements include contributions received and benefits paid through that date. At June 30, 2016, there were no investments in any one organization in excess of five percent of net position available for benefits.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs are financed through investment earnings.

*Contributions.* Public Act 149 authorizes the City Commission to establish and amend contribution requirements of the plan members. Active service members and retired members or their beneficiaries are not required to contribute to the plan. For the year ended June 30, 2016, the City contributed \$11,677,122.

Three-Year Trend Information			
Years Ended June 30,	Annual OPEB Cost (AOC)	Percentage Contributed	Net OPEB Obligation
2014	\$ 14,375,204	51.5%	\$ 30,901,883
2015	10,932,661	99.8%	30,921,987
2016	11,989,099	97.4%	31,233,964

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual contribution was determined as part of an actuarial valuation at June 30, 2014, using the entry actual age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 3.0% to 5.9% per year compounded annually, attributable to inflation, and an annual healthcare cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The excess of assets over the actuarial liability is being amortized as a level percentage of payroll on a open basis. The UAAL has a remaining amortization period at June 30, 2016 of 24 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution	\$ 11,750,408
Interest on net OPEB obligation	2,395,741
Adjustment to annual required contribution	<u>(2,157,050)</u>
Net OPEB cost (expense)	11,989,099
Contributions made	<u>(11,677,122)</u>
Increase in net OPEB obligation	311,977
Net OPEB obligation, beginning of year	<u>30,921,987</u>
Net OPEB obligation, end of year	<u><u>\$ 31,233,964</u></u>

*Funded Status and Funding Progress.* As of June 30, 2014, the most recent actuarial valuation, the Plan was 6.7 percent funded. The actuarial accrued liability for benefits was \$128,977,703, and the actuarial value of assets was \$8,668,092, resulting in an unfunded actuarial accrued liability (UAAL) of \$120,309,611. The covered payroll (annual payroll of active employees covered by the Plan) was \$13,381,586, and the ratio of the UAAL to the covered payroll was 899.0 percent.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 13. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT FUNDS

	Plan Net Position		
	Pension Trust Fund	Retiree Health Trust Fund	Total
<b>Assets</b>			
Cash and investments	\$ 1,436,182	\$ -	\$ 1,436,182
Retirement investments, at fair value			
Mutual funds	123,730,843	16,996,692	140,727,535
Receivables, net	65,859	-	65,859
<b>Total assets</b>	<b>125,232,884</b>	<b>16,996,692</b>	<b>142,229,576</b>
<b>Liabilities</b>			
Accounts payable	236,699	127,395	364,094
Accrued and other liabilities	1,336	855	2,191
<b>Total liabilities</b>	<b>238,035</b>	<b>128,250</b>	<b>366,285</b>
<b>Net position</b>			
Restricted for:			
Employees' pension benefits	124,994,849	-	124,994,849
Other postemployment benefits	-	16,868,442	16,868,442
<b>Total net position</b>	<b>\$ 124,994,849</b>	<b>\$ 16,868,442</b>	<b>\$ 141,863,291</b>

# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

	Changes in Plan Net Position		
	Pension Trust Fund	Retiree Health Trust Fund	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 7,034,692	\$ 11,677,122	\$ 18,711,814
Plan members	900,697	-	900,697
Plan members' buyback	256,600	-	256,600
<b>Total contributions</b>	<b>8,191,989</b>	<b>11,677,122</b>	<b>19,869,111</b>
Investment earnings:			
Net change in fair value of investments	(5,933,858)	478,242	(5,455,616)
Interest	4,194	840	5,034
Dividends	2,930,563	-	2,930,563
Other investment revenues	5,530	-	5,530
<b>Total investment gain (loss)</b>	<b>(2,993,571)</b>	<b>479,082</b>	<b>(2,514,489)</b>
Investment expense	319,333	35,050	354,383
<b>Net investment gain (loss)</b>	<b>(3,312,904)</b>	<b>444,032</b>	<b>(2,868,872)</b>
<b>Total additions</b>	<b>4,879,085</b>	<b>12,121,154</b>	<b>17,000,239</b>
<b>Deductions</b>			
Benefits	15,287,988	7,246,061	22,534,049
Refund of contributions	821,780	-	821,780
Administrative expenses	99,672	17,229	116,901
<b>Total deductions</b>	<b>16,209,440</b>	<b>7,263,290</b>	<b>23,472,730</b>
<b>Change in net position</b>	<b>(11,330,355)</b>	<b>4,857,864</b>	<b>(6,472,491)</b>
<b>Net position, beginning of year</b>	<b>136,325,204</b>	<b>12,010,578</b>	<b>148,335,782</b>
<b>Net position, end of year</b>	<b>\$ 124,994,849</b>	<b>\$ 16,868,442</b>	<b>\$ 141,863,291</b>



# CITY OF ROYAL OAK, MICHIGAN

## Notes to Financial Statements

### 14. DEFINED CONTRIBUTION PENSION PLAN

A Defined Contribution Plan has been established for all new hires of the following bargaining units as of the respective dates:

Bargaining Unit	Date	City Contribution	Employee Contribution
Executive department heads	May 1, 2008	7%	5%
Department heads and deputies	July 1, 2008	7%	5%
Technical and professional	July 1, 2007	7%	5%
Foreman and supervisors	July 1, 2006	7%	5%
SEIU	July 1, 2006	7%	5%
AFSCME	July 1, 2006	7%	5%

Uniformed groups (police and fire) do not have a defined contribution plan for their new hires. Instead, they increased their contribution rate to the defined benefit plan for all their employees, existing and new hires.

*Plan Description and Funding Requirements.* The Defined Contribution Plan is established by the City and administered by ICMA-RC (International City/County Management Association - Retirement Corporation), for new hire members of the City's six bargaining groups listed above. On June 30, 2016, there were 66 plan members. Plan members contribute a percentage of their annual covered payroll and the City provides a percentage match as noted in the table above. Plan provisions and contribution requirements are established by contract. Total contributions for the year ended June 30, 2016, were \$154,130 by the employees and \$215,781 by the City.

### 15. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2016, was as follows:

	Governmental Activities	Business-type Activities	Component Units
Capital assets:			
Capital assets not being depreciated	\$ 86,150,572	\$ 17,978,276	\$ 2,895,755
Capital assets being depreciated, net	71,854,895	101,306,517	925,059
	<u>158,005,467</u>	<u>119,284,793</u>	<u>3,820,814</u>
Related debt:			
General obligation bonds	10,627,511	14,968,491	-
Contractual obligations	-	17,648,475	-
State revolving fund	-	4,007,387	-
Less amounts owed from other communities	-	(2,040,130)	-
Bond discount	(264)	-	-
Bond premium	333,364	689,659	-
Deferred charge on refunding	(149,983)	(1,217,587)	-
	<u>10,810,628</u>	<u>34,056,295</u>	<u>-</u>
Net investment in capital assets	<u>\$ 147,194,839</u>	<u>\$ 85,228,498</u>	<u>\$ 3,820,814</u>

## CITY OF ROYAL OAK, MICHIGAN

### Notes to Financial Statements

#### 16. SUBSEQUENT EVENT

On September 30, 2015, the City issued an intent to issue up to \$135 million in pension and other postemployment benefits (OPEB) bonds. It is anticipated that State Treasury approval will be completed in November 2016 and bonds sold between December, 2016 and January, 2017. It is anticipated that slightly less than \$130 million in bonds will be issued.

The City Commission authorized the notice to publish the intent to bond for \$13.5 million for construction of a parking structure (source of revenue Auto Parking Fund). The official authorization to bond was approved by the City Commission on November 14, 2016.

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## REQUIRED SUPPLEMENTARY INFORMATION

# CITY OF ROYAL OAK, MICHIGAN

## Required Supplementary Information Employees' Retirement System

### Schedule of Changes in the City's Net Pension Liability and Related Ratios

	Fiscal Year Ended June 30,		
	2014	2015	2016
Change in total pension liability			
Service cost	\$ 2,485,567	\$ 2,555,924	\$ 2,542,348
Interest	15,021,782	15,214,726	15,445,529
Changes of benefit terms	-	96,556	-
Differences between expected and actual experience	-	903,595	2,710,293
Benefit payments, including refunds of member contributions	(14,643,773)	(15,462,071)	(16,109,768)
Net change in total pension liability	2,863,576	3,308,730	4,588,402
Total pension liability, beginning	199,908,548	202,772,124	206,080,854
Total pension liability, ending (a)	202,772,124	206,080,854	210,669,256
Change in plan fiduciary net position			
Contributions - employer	6,539,504	7,098,292	7,034,692
Contributions - member	1,603,847	981,785	1,157,297
Net investment income (loss)	21,788,939	4,465,722	(3,312,904)
Benefit payments, including refunds of member contributions	(14,644,935)	(15,462,070)	(16,109,768)
Administrative expense	(49,691)	(71,374)	(99,672)
Net change in plan fiduciary net position	15,237,664	(2,987,645)	(11,330,355)
Plan fiduciary net position, beginning	124,075,185	139,312,849	136,325,204
Plan fiduciary net position, ending (b)	139,312,849	136,325,204	124,994,849
City's net pension liability, ending (a)-(b)	\$63,459,275	\$ 69,755,650	\$ 85,674,407
Plan fiduciary net position as a percentage of the total pension liability	68.70%	66.15%	59.33%
Covered-employee payroll	\$15,296,167	\$ 15,391,242	\$ 15,845,062
City's net pension liability as a percentage of covered payroll	414.87%	453.22%	540.70%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# CITY OF ROYAL OAK, MICHIGAN

## Required Supplementary Information Employees' Retirement System

### Schedule of the Net Pension Liability

Fiscal Year Ended June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered- Employee Payroll	Net Pension Liability as Percentage of Covered Payroll
2014	\$202,772,124	\$ 139,312,849	\$ 63,459,275	68.7%	\$ 15,296,167	414.87%
2015	206,080,854	136,325,204	69,755,650	66.2%	15,391,242	453.22%
2016	210,669,256	124,994,849	85,674,407	59.3%	15,845,062	540.70%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# CITY OF ROYAL OAK, MICHIGAN

## Required Supplementary Information Employees' Retirement System

### Schedule of Contributions

Fiscal Year Ending June 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as Percentage of Covered- Employee Payroll
2014	\$ 6,480,707	\$ 6,503,436	\$ (22,729)	\$ 15,296,167	42.5%
2015	6,891,898	7,098,292	(206,394)	15,391,242	46.1%
2016	6,852,495	7,034,692	(182,197)	15,845,062	44.4%

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

#### Notes to Schedule of Contributions

Valuation Date June 30, 2015 (rolled forward to June 30, 2016)  
Notes Actuarially determined contribution rates are calculated as of June 30, 2015, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

#### Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	General: Level dollar amount, closed Police and Fire: Level percent of payroll, closed
Remaining amortization period	General: 23 years, closed Police and Fire: 28 years, closed
Asset valuation method	4-year smooth market
Inflation	3.00%
Salary increases	3.0% - 5.9%
Investment rate of return	7.75%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the period 2006 - 2012.
Mortality	RP-2000 projected 20 years (multiplied by 110%) Healthy Life Mortality, setforward 10 years for Disabled Life Mortality.

## CITY OF ROYAL OAK, MICHIGAN

### Required Supplementary Information Employees' Retirement System

#### Schedule of Investment Returns

Fiscal Year Ending June 30,	Annual Return <sup>(1)</sup>
2014	17.98%
2015	3.24%
2016	-2.39%

<sup>(1)</sup> Annual money-weighted rate of return, net of investment expenses

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# CITY OF ROYAL OAK, MICHIGAN

## Required Supplementary Information

### Retiree Health Fund

#### Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") Entry Age	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2010	\$ 4,814	\$ 116,791	\$ 111,977	4.1%	\$ 18,373	609.5%
6/30/2012	7,141	120,307	113,166	5.9%	15,463	731.8%
6/30/2014	8,668	128,978	120,309	6.7%	13,382	899.0%

#### Schedule of Employer Contributions (dollar amounts in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$ 14,035	51%
2014	14,618	51%
2015	10,913	100%
2016	11,750	99%



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**Appendix C**

**Forms of Approving Opinions of Bond Counsel**

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**FORM OF APPROVING OPINION OF BOND COUNSEL – SERIES 2017-A BONDS**

February 21, 2017

**City of Royal Oak**  
County of Oakland  
State of Michigan

Re: \$106,040,000 Taxable Limited Tax  
General Obligation Bonds, Series 2017-A

Ladies and Gentlemen:

We have acted as bond counsel to the City of Royal Oak, County of Oakland, State of Michigan (the "City") in connection with the issuance by the City of \$106,040,000 Taxable Limited Tax General Obligation Bonds, Series 2017-A, dated the date hereof (the "Series 2017-A Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Series 2017-A Bonds are valid and legally binding limited tax obligations of the City.
2. The full faith and credit of the City have been pledged for the payment of the principal of and interest on the Series 2017-A Bonds when due. The principal of and interest on the Series 2017-A Bonds are payable as a first budget obligation of the City from its general funds. Taxes imposed by the City for payment of such principal and interest are subject to constitutional, statutory, and charter limitations.
3. The Series 2017-A Bonds and the interest on and income from the Series 2017-A Bonds are exempt from taxation by the State of Michigan or a political subdivision of the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Series 2017-A Bonds.
4. The interest on the Series 2017-A Bonds is included in gross income for federal income tax purposes.

It is understood that the rights of the holders of the Series 2017-A Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement also may be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the official statement relating to the Series 2017-A Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

DICKINSON WRIGHT PLLC

**FORM OF APPROVING OPINION OF BOND COUNSEL – SERIES 2017-B BONDS**

February 21, 2017

**City of Royal Oak**  
County of Oakland  
State of Michigan

Re: \$20,570,000 Taxable Limited Tax  
General Obligation Bonds, Series 2017-B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Royal Oak, County of Oakland, State of Michigan (the "City") in connection with the issuance by the City of \$20,570,000 Taxable Limited Tax General Obligation Bonds, Series 2017-B, dated the date hereof (the "Series 2017-B Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Series 2017-B Bonds are valid and legally binding limited tax obligations of the City.
2. The full faith and credit of the City have been pledged for the payment of the principal of and interest on the Series 2017-B Bonds when due. The principal of and interest on the Series 2017-B Bonds are payable as a first budget obligation of the City from its general funds. Taxes imposed by the City for payment of such principal and interest are subject to constitutional, statutory, and charter limitations.
3. The Series 2017-B Bonds and the interest on and income from the Series 2017-B Bonds are exempt from taxation by the State of Michigan or a political subdivision of the State of Michigan, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Series 2017-B Bonds.
4. The interest on the Series 2017-B Bonds is included in gross income for federal income tax purposes.

It is understood that the rights of the holders of the Series 2017-B Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement also may be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the official statement relating to the Series 2017-B Bonds.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

DICKINSON WRIGHT PLLC

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**Appendix D**

**Form of Continuing Disclosure Certificate**

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## **CONTINUING DISCLOSURE CERTIFICATE**

### **CITY OF ROYAL OAK**

**\$106,040,000**  
**TAXABLE LIMITED TAX**  
**GENERAL OBLIGATION BONDS,**  
**SERIES 2017-A**

**\$20,570,000**  
**TAXABLE LIMITED TAX**  
**GENERAL OBLIGATION BONDS,**  
**SERIES 2017-B**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Royal Oak, Michigan (the “City”) in connection with the issuance of its Taxable Limited Tax General Obligation Bonds, Series 2017-A (the “Series 2017-A Bonds”) and its Taxable Limited Tax General Obligation Bonds, Series 2017-B (together with the Series 2017-A Bonds, the “Bonds”). The City covenants and agrees as follows:

#### **Section 1. Purpose of the Disclosure Certificate.**

(a) This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bondholders and the Beneficial Owners and in order to assist the Participating Underwriter in complying with subsection (b)(5) of the Rule.

(b) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the Bonds or shall own beneficial ownership interests therein from time to time, this Disclosure Certificate shall be deemed to be and shall constitute a contract between the City and the Bondholders and Beneficial Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed by or on behalf of the City shall be for the benefit of the Bondholders and Beneficial Owners of any and all of the Bonds.

#### **Section 2. Definitions.** The following capitalized terms have the following meanings:

“1934 Act” means the Securities Exchange Act of 1934, as amended.

“Annual Report” means any Annual Report of the City provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).

“Bondholder” means the registered owner of any Bonds.

“Dissemination Agent” means the City or any successor Dissemination Agent appointed in writing by the City and which has filed with the City a written acceptance of such appointment.

“EMMA” means the Electronic Municipal Market Access system of the MSRB. As of the date of this Disclosure Certificate, the EMMA Internet Web site address is <http://www.emma.msrb.org>.

“GAAP” means generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Governmental Accounting Standards Board and in effect from time to time.

“Listed Events” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the 1934 Act. As of the date of this Disclosure Certificate, the address and telephone and telecopy numbers of the MSRB are as follows:

Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, Virginia 22314  
Tel: (703) 797-6600  
Fax: (703) 797-6700

“Official Statement” means the final Official Statement for the Bonds dated February 1, 2017.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with the primary offering of the Bonds.

“Rule” means Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12) promulgated by the SEC pursuant to the 1934 Act, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

“SEC” means the United States Securities and Exchange Commission.

“Securities Counsel” means legal counsel expert in federal securities law.

“State” means the State of Michigan.

### **Section 3. Provision of Annual Reports.**

(a) Each year, the City shall provide, or shall cause the Dissemination Agent to provide, not later than the date six months after the end of the City’s fiscal year, commencing with the City’s Annual Report for its fiscal year ended June 30, 2017, to the MSRB an Annual Report for the fiscal year then ended which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) business days (or such lesser number of days as is acceptable to the Dissemination Agent) prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). Currently, the City’s fiscal year commences on July 1. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information as provided in Section 4 of this Disclosure Certificate; provided, however, that if the audited financial statements of the City are not available by the deadline for filing the Annual Report, they shall be provided

when and if available, and unaudited financial statements in a format similar to the audited financial statements then most recently prepared for the City shall be included in the Annual Report.

(b) If the City is unable to provide to the MSRB an Annual Report of the City by the date required in subsection (a), the City shall file a notice, in a timely fashion, with the MSRB, in substantially the form containing the information shown on attached Exhibit A.

(c) If the City's fiscal year changes, the City shall file written notice of such change with the MSRB, in substantially the form containing the information shown on attached Exhibit B.

(d) Whenever any Annual Report or portion thereof is filed as described above, it may be attached to a cover sheet in substantially the form attached as Exhibit C.

(e) If the Dissemination Agent is other than the City, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

(f) In connection with providing the Annual Report, the Dissemination Agent (if other than the City) is not obligated or responsible under this Disclosure Certificate to determine the sufficiency of the content of the Annual Report for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

**Section 4. Content of Annual Reports.** The City's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for its fiscal year immediately preceding the due date of the Annual Report.

(b) An update of the financial information and operating data relating to the City of the same nature as that contained in the following tables in the Official Statement:

	<u>Page</u>
(1) Tax Rates – Five-Year History	A-4
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The City's financial statements shall be audited and prepared in accordance with GAAP with such changes as may be required from time to time in accordance with State law.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the MSRB's Internet Web site or filed with the SEC. The City shall clearly identify each such other document so included by reference.

#### **Section 5. Reporting of Significant Events.**

(a) The City covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of ten (10) business days after the occurrence of the event and in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Tender offers;
- (13) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (14) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into

a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- (15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15), the City shall as soon as possible determine if such Listed Event would be material under applicable federal securities laws. The City covenants that its determination of materiality will be made in conformance with federal securities laws.

(c) If the City determines that (i) a Listed Event described in subsection (a)(1), (3), (4), (5), (6), (9), (11), (12) or (13) has occurred or (ii) the occurrence of a Listed Event described in subsection (a)(2), (7), (8), (10), (14) or (15) would be material under applicable federal securities laws, the City shall cause a notice of such occurrence to be filed with the MSRB within ten (10) business days of the occurrence of the Listed Event, together with a cover sheet in substantially the form containing the information shown on attached Exhibit D. In connection with providing a notice of the occurrence of a Listed Event described in subsection (a)(9), the City shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) In connection with providing a notice of the occurrence of a Listed Event, the Dissemination Agent (if other than the City), solely in its capacity as such, is not obligated or responsible under this Disclosure Certificate to determine the sufficiency of the content of the notice for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

(e) The City acknowledges that the “rating changes” referred to in subsection (a)(11) above may include, without limitation, any change in any rating on the Bonds or other indebtedness for which the City is liable.

(f) The City acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds, the City does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

## **Section 6. Mandatory Electronic Filing with EMMA.**

All filings with the MSRB under this Disclosure Certificate shall be made by electronically transmitting such filings through the EMMA Dataport at <http://www.emma.msrb.org> as provided by the amendments to the Rule adopted by the SEC in Securities Exchange Act Release No. 59062 on December 5, 2008.

## **Section 7. Termination of Reporting Obligation.**

(a) The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or the prior redemption or payment in full of all of the Bonds. If the City's obligation to pay a portion of the principal of and interest on the Bonds is assumed in full by some other entity, such entity shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the City, and the City shall have no further responsibility hereunder.

(b) This Disclosure Certificate, or any provision hereof, shall be null and void in the event that the City (i) receives an opinion of Securities Counsel, addressed to the City, to the effect that those portions of the Rule, which require such provisions of this Disclosure Certificate, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the Bonds, as shall be specified in such opinion, and (ii) files notice to such effect with the MSRB.

**Section 8. Dissemination Agent.** The City, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

## **Section 9. Amendment; Waiver.**

(a) Notwithstanding any other provision of this Disclosure Certificate, this Disclosure Certificate may be amended, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(i) if the amendment or waiver relates to the provisions of Section 3(a), (b), (c), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the City, or type of business conducted by the City;

(ii) this Disclosure Certificate, as so amended or taking into account such waiver, would, in the opinion of Securities Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders.

(b) In the event of any amendment to, or waiver of a provision of, this Disclosure Certificate, the City shall describe such amendment or waiver in the next Annual Report and shall include an explanation of the reason for such amendment or waiver. In particular, if the amendment results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Disclosure Certificate, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially

changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

(c) If the amendment results in a change to the accounting principles to be followed in preparing financial statements as set forth in Section 4 of this Disclosure Certificate, the Annual Report for the year in which the change is made shall include a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in accounting principles shall be filed by the City or the Dissemination Agent (if other than the City) at the written direction of the City with the MSRB.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 11. Failure to Comply.** In the event of a failure of the City or the Dissemination Agent (if other than the City) to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may bring an action to obtain specific performance of the obligations of the City or the Dissemination Agent (if other than the City) under this Disclosure Certificate, but no person or entity shall be entitled to recover monetary damages hereunder under any circumstances, and any failure to comply with the obligations under this Disclosure Certificate shall not constitute a default with respect to the Bonds. Notwithstanding the foregoing, if the alleged failure of the City to comply with this Disclosure Certificate is the inadequacy of the information disclosed pursuant hereto, then the Bondholders and the Beneficial Owners (on whose behalf a Bondholder has not acted with respect to this alleged failure) of not less than a majority of the aggregate principal amount of the then outstanding Bonds must take the actions described above before the City shall be compelled to perform with respect to the adequacy of such information disclosed pursuant to this Disclosure Certificate.

**Section 12. Duties of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter, the Bondholders and the Beneficial Owners, and shall create no rights in any other person or entity.

**Section 14. Transmission of Information and Notices.** Unless otherwise required by law or this Disclosure Certificate, and, in the sole determination of the City or the Dissemination Agent, as applicable, subject to technical and economic feasibility, the City or the Dissemination

Agent, as applicable, shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of such information and notices.

**Section 15. Additional Disclosure Obligations.** The City acknowledges and understands that other State and federal laws, including, without limitation, the Securities Act of 1933, as amended, and Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act, may apply to the City, and that under some circumstances, compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

**Section 16. Governing Law.** This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

#### **CITY OF ROYAL OAK**

By: \_\_\_\_\_  
Julie Rudd  
Its: Finance Director

Dated: February 21, 2017



**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of City: City of Royal Oak, County of Oakland, State of Michigan  
Name of Bond Issue: Taxable Limited Tax General Obligation Bonds, Series 2017[-A][-B]  
Date of Bonds: February 21, 2017

**NOTICE IS HEREBY GIVEN** that the City of Royal Oak has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Certificate with respect to the Bonds. The City of Royal Oak anticipates that the Annual Report will be filed by \_\_\_\_\_.

**CITY OF ROYAL OAK**

By: \_\_\_\_\_

Its \_\_\_\_\_

Dated: \_\_\_\_\_

**EXHIBIT B**

**NOTICE OF CHANGE IN CITY'S FISCAL YEAR**

Name of City: City of Royal Oak, County of Oakland, State of Michigan  
Name of Bond Issue: Taxable Limited Tax General Obligation Bonds, Series 2017[-A][-B]  
Date of Bonds: February 21, 2017

**NOTICE IS HEREBY GIVEN** that the City of Royal Oak's fiscal year has changed. Previously, the City of Royal Oak's fiscal year ended on \_\_\_\_\_. It now ends on \_\_\_\_\_.

**CITY OF ROYAL OAK**

By: \_\_\_\_\_

Its \_\_\_\_\_

Dated: \_\_\_\_\_

## EXHIBIT C

### ANNUAL REPORT COVER SHEET

This cover sheet and the attached Annual Report or portion thereof should be filed electronically with the Municipal Securities Rulemaking Board through the EMMA Dataport at <http://www.emma.msrb.org> pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(A) and (B).

City's Name: City of Royal Oak

City's Six-Digit CUSIP Number(s): 780464

or Nine-Digit CUSIP Number(s) to which the attached Annual Report relates: \_\_\_\_\_

Number of pages of the attached Annual Report or portion thereof: \_\_\_\_\_

Name of Bond Issue to which the attached Annual Report relates: \_\_\_\_\_  
Taxable Limited Tax General Obligation Bonds, Series 2017[-A][-B]

Date of such Bonds: February 21, 2017

I hereby represent that I am authorized by the City or its agent to distribute this information publicly:

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Employer: City of Royal Oak

Address: 211 S. Williams Street

City, State, Zip Code: Royal Oak, MI 48067

Voice Telephone Number: \_\_\_\_\_

## EXHIBIT D

### EVENT NOTICE COVER SHEET

This cover sheet and the attached Event Notice should be filed electronically with the Municipal Securities Rulemaking Board through the EMMA Dataport at <http://www.emma.msrb.org> pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

City's and/or Other Obligated Person's Name: City of Royal Oak  
City's Six-Digit CUSIP Number(s): 780464

or Nine-Digit CUSIP Number(s) to which the attached Event Notice relates: \_\_\_\_\_

Number of pages of the attached Event Notice: \_\_\_\_\_

Description of the attached Event Notice (Check One):

- |     |       |  |
|-----|-------|--|
| 1.  | _____ | Principal and interest payment delinquencies   |
| 2.  | _____ | Non-Payment related defaults   |
| 3.  | _____ | Unscheduled draws on debt service reserves reflecting financial difficulties   |
| 4.  | _____ | Unscheduled draws on credit enhancements reflecting financial difficulties   |
| 5.  | _____ | Substitution of credit or liquidity providers, or their failure to perform   |
| 6.  | _____ | Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security  |
| 7.  | _____ | Modifications to rights of securities holders  |
| 8.  | _____ | Bond calls   |
| 9.  | _____ | Defeasances  |
| 10. | _____ | Release, substitution, or sale of property securing repayment of the securities  |
| 11. | _____ | Rating changes   |
| 12. | _____ | Tender offers  |
| 13. | _____ | Bankruptcy, insolvency, receivership or similar event of an obligated person   |
| 14. | _____ | The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms |
| 15. | _____ | Appointment of a successor or additional trustee, or the change of name of a trustee   |
| 16. | _____ | Failure to provide annual financial information as required  |
| 17. | _____ | Other material event notice (specify) _____  |

I hereby represent that I am authorized by the City or its agent to distribute this information publicly:

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_ Title: \_\_\_\_\_  
Employer: City of Royal Oak  
Address: 211 S. Williams Street  
City, State, Zip Code: Royal Oak, MI 48067  
Voice Telephone Number: \_\_\_\_\_

**Please format the Event Notice attached to this cover sheet in 10 point type or larger. Contact the MSRB at (202) 223-9503 with questions regarding this form or the dissemination of this notice.**

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**CITY OF ROYAL OAK  
COUNTY OF OAKLAND  
STATE OF MICHIGAN**

**\$106,040,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-A**

**\$20,570,000  
TAXABLE LIMITED TAX GENERAL  
OBLIGATION BONDS, SERIES 2017-B**



**REGISTERED MUNICIPAL ADVISOR:**

**Hutchinson, Shockey, Erley & Co.**