City General Fund Revenues ‘21

February 15, 2021

Where does our General Fund revenue come from?

The City has multiple types and sources of revenues to keep General Fund operations fully funded. The different categories are listed below with examples.

- **Tax Revenues-** This is the traditional semi-annual payments received based on ad valorem tax values. These come from all property within the City of Otsego. (Ex. Summer Taxes)
- **Revenue Sharing-** Disbursements of revenue from the State of Michigan that includes a portion of constitutionally required payments and statutory payments that are based on the revenues that the State receives from taxes/fees. (Ex. Monthly CVTRS payments)

Where? Cont.

- **Permits/Fees-** Payments made in direct response to an application or request. (Ex. building permits and FOIA fees)
- **Other Miscellaneous Revenues-** This includes grants and other revenue sources that are undefined. These are difficult to plan for, considering the impossibility of knowing availability and exact numbers. (Ex. LCSA and EGLE, MDOT grants)

As expected; multiple categories are uncertain going forward. We will dig into some of those potential changes in the upcoming slides. Some are more significant than others.

Revenue Uncertainties and Potential Solutions

- Taxes
  - **<u>Uncertainty No. 1- COVID Recession</u>** There is a real chance that COVID could create a substantial recession (similar to '08). This would be a delayed effect that could be difficult to expect an immediate remedy. And in turn bring down the ad valorem taxable value for an extended period of time.
  - Potential Solution: Save money wherever possible in the upcoming years until an event like this concludes and try to plan accordingly.

Uncertainties and Solutions Cont.

- **Uncertainty No. 2- Headlee Amendment Effect** As we have discussed before; Headlee is consistently lowering our General Operations millage every year. The more property values go up (above inflation), the lower the millage rate goes down. This does not go in reverse, either. So this does not balance out over time. It only goes one way; down.
- Possible Solution- Headlee Amendment Reset approved by the electors would allow for us to collect an additional 1+ mill immediately. It would most likely begin to be chipped away until we did something similar in the future, when needed. If Headlee was in place in 2020, it would have resulted in $96,989.17 of additional revenue.

Uncertainties and Solutions Cont.

- Revenue Sharing
  - Uncertainty- **COVID Effect** No one really knows how long the COVID recovery will take and how much damage will be done by that point. This could drastically effect what we are receiving from the State for months or even years to come.
  - Potential Solution- Budget and plan accordingly for the years to come to secure fund balance going forward.

Uncertainties and Solutions Cont.

- Permits and Fees
  - Fortunately, we can change permit and fee schedule to make up for costs as needed with a simple Resolution. Unfortunately, this revenue is an extreme minority in where we get our money from. So not much can be done for this revenue source.
- Miscellaneous Revenues
  - Grants and LCSA funds are always welcomed. But, there is little we can do to plan and budget for their availability. We will continue to utilize these revenue streams as much as possible. (LCSA will be explained in upcoming slides.)

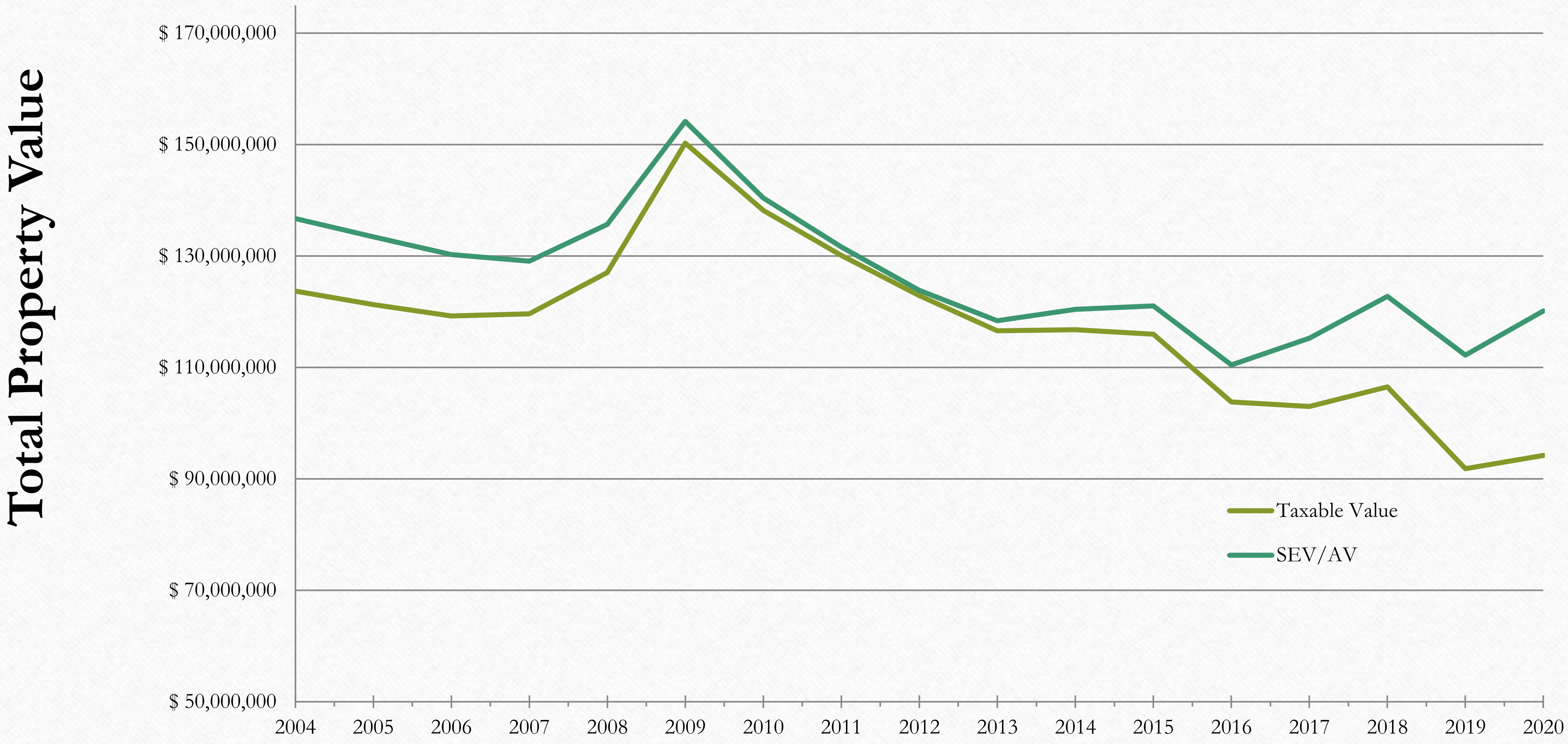
Drop in Taxable Value

- Year to year taxable values are an endless up and down swing. Many, many variables effect this such as: new home sales, turn over in residential houses and industrial/commercial investments. But, some larger trends are easier to track.
  - Taxable value peaked in 2009 at $150M
  - The Great Recession took hold until 2013, when taxable value fell to $116M due to the drop in residential values

Drop in TV, Cont.

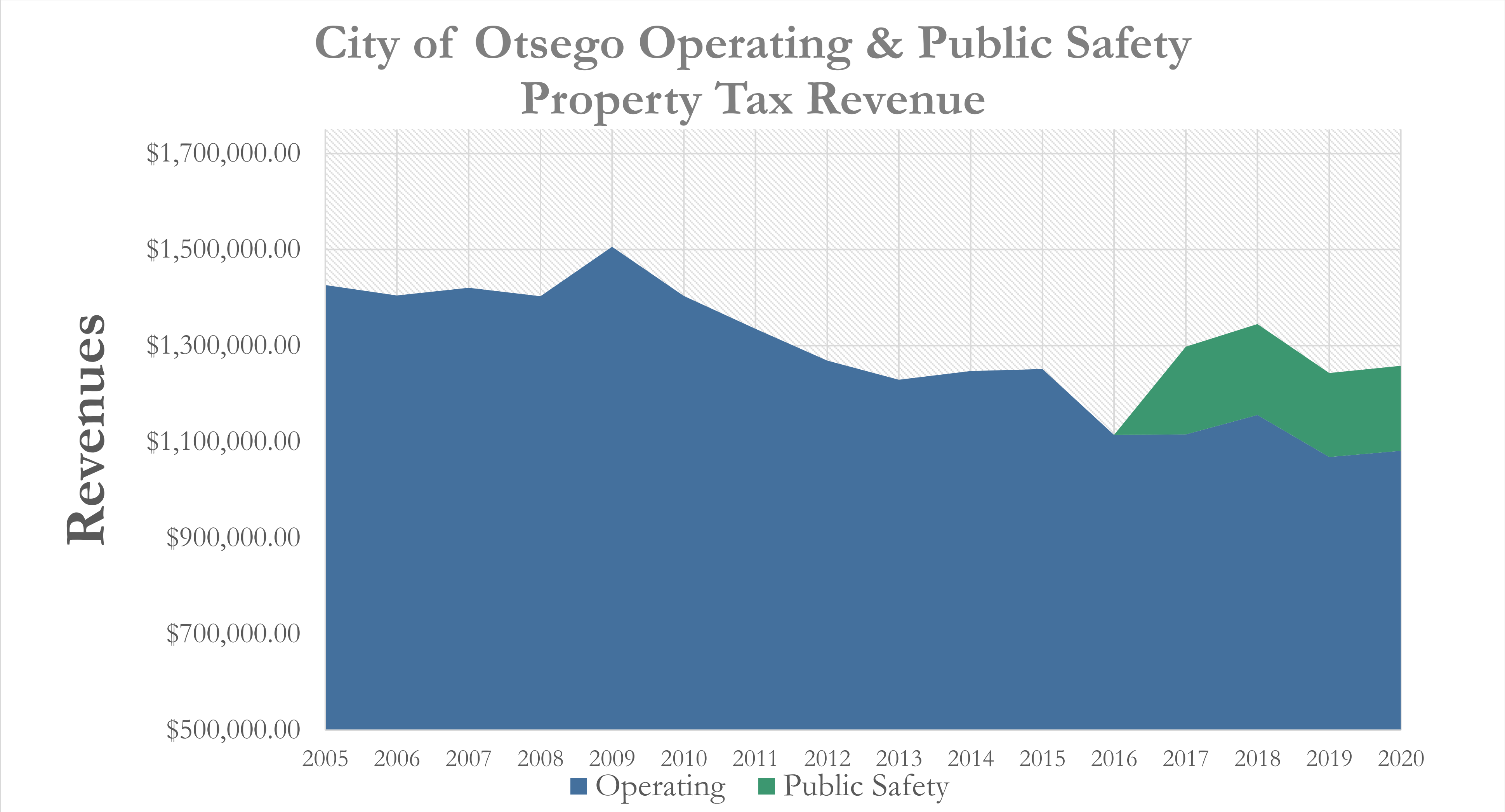
- As we will discuss in later slides Personal property Tax (PPT) was largely coming off of the role beginning in 2016. So just as the recovery was expected to come back, the taxable value dropped even further.
- IFTs were continuing to come off the roll and the taxable value hits a trough of $91M in 2019, before slightly picking up in 2020.
- Comparing 2009 to 2019 we lost 40% of our taxable value, 40%!
- Plus, due to Headlee Rollback, we are taxing that 40% smaller taxable value at a smaller millage. Not to mention the significant effect inflation had for over 10 years (20+% in total). These 2 problems make the drop in taxable value even worse than it initially appears on paper.

City of Otsego Ad Valorem + IFT Property Values



Taxable Value (TV) Revenue

- As you would imagine there is a strong correlation between the TV and the revenues received.
- In 2017 we began collecting the Public Safety millage. That provided some additional funding, but as you can tell it still does not compensate for the loss in revenues.
- In 2019 we received nearly $400,000 less in TV General Operating TV revenues than in 2009.
- This does <u>not</u> include LCSA payments that began in 2016.


City of Otsego Operating & Public Safety
Property Tax Revenue
Revenues
$1,700,000.00
$1,500,000.00
$1,300,000.00
$1,100,000.00
$900,000.00
$700,000.00
$500,000.00
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Operating
Public Safety

Personal Property Tax (PPT) & Local Community Stabilization Authority (LCSA)

- Commercial and Industrial property owners must pay a Personal Property Tax (PPT) for their personal property located on real property. This tax is paid at the current millage rate of the municipality of where the property is located. The personal property value is added to the ad valorem tax roll and paid in identical fashion as real property taxes, historically.
- The collection and enforcement of PPT has traditionally been burdensome on local governments and property owners. In response; in 2014 the State of Michigan legislature removed a vast majority of PPT from the ad valorem tax roll taking effect in 2016. Large Industrial PPT owners now pay directly to the State, not to local governments anymore.

PPT & LCSA Cont.

- This change removed large amounts of revenue from local governments. In hopes of supplying that lost revenue to local governments; the State established the Local Community Stabilization Authority (LCSA).
- To summarize: LCSA is revenue that is provided through state legislation to supplant for loss of PPT.
- LCSA's goal was to make communities "whole" based on their 2013 tax roll.
  - This has led to multiple different sets of numbers based on a 100+ column spreadsheet for each municipality.
  - LCSA is unable to forecast future revenues, due to so many variables
  - Notification of amounts is available only when they print checks in October and possibly May for a correction

PPT & LCSA Cont.

- LCSA disbursements are funded by revenue received through state taxes (including PPT) and user fees. LCSA does not know what revenues it has received before disbursements are sent to municipalities.
- LCSA was expected to comply with taxable values and millages set in 2013. Those taxable values vary from local, county and state levels. Plus they change years after the fact with tax tribunal decisions.

Tax Increment Financing (TIF)

- The DDA operates with a Tax Increment Financing (TIF).
- The TIF was originally established in 1985 and was later renewed in 2005. When TIFs are established they are a base taxable value at the time for a set geographic area. From that point on; the TIF captures all revenues from any taxable value increases above the base value (which includes IFTs).
- This model allows for General Operating millage to still be collected (on the base value) to pay for General Operations. Anything above that level goes to the DDA. This allows for the City to continue receiving monies for operations (PD/FD/DPW) at 1985 levels.

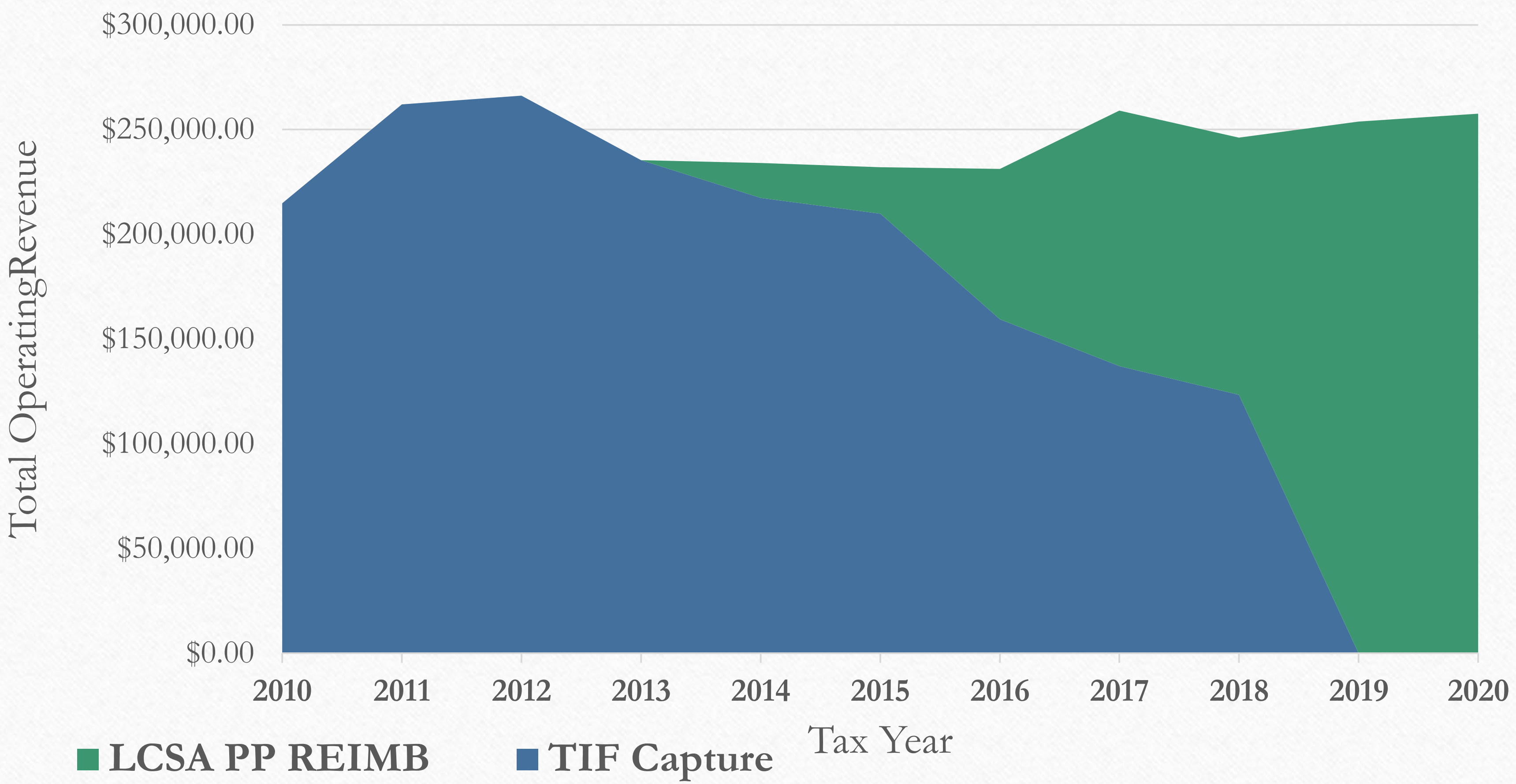
TIF Cont.

- In decades prior, the TIF has been very beneficial to the DDA and the City as a whole.
- When taxable values dropped and PPT were removed from the ad valorem tax roll, that made a significant impact on the TIF. That along with the expiration of recent IFTs made the TIF negative (USG is within DDA).
- The current taxable value of the TIF District is now less than it was in 1985.

TIF & LCSA

- The TIF & LCSA have a direct relationship.
- With the TIF providing $0 revenue, LCSA is the exclusive source of income for the DDA and MS operations (not including event revenues which usually breaks even).

Net DDA TIF & LCSA Funding



TIF & LCSA Cont.

- **<u>Uncertainty #1: Does the City want to throttle back DDA portion?</u>**
- LCSA offers the City the option to pay the DDA their revenue based on PPT losses. It is a simple form filing.
  - If we submit a request for LCSA revenue to go to the DDA, they take that immediately off the top
  - The remaining goes to the General Fund
  - In 2020 it was a 69%-31% split in DDA's favor
  - LCSA is not a determined number. If there is a poor year of statewide Industrial PPT and user fees. Less revenue would be available.

TIF & LCSA Cont.

- **<u>Uncertainty #2: Future of LCSA amount for DDA</u>**
- The State is looking at updating the allocation of PPT based on geography
  - Historically the PPT and LCSA basis has been revolving around 2013 PPT tax values.
  - If they update the PPT geographic location, that will change the LCSA amount. It will be a more accurate depiction of where personal property is currently possessed, but also makes everything unpredictable.