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CITY OF OTSEGO MUNICIPAL FUNDS

January 18, 2021

Financial Workshops

- Much of our work in 2021 will revolve around the finances of the City. I know, it is very exciting! There are so many significant questions that are centered around not only the financial present, but of the financial future of the City. The City of Otsego has always been blessed to have enough money to get by without significant cuts. The goal is to take the necessary steps now to make sure that continues to be the case in the future. The challenges ahead of us are much harder than any that the City has faced in recent history. There was always an answer behind a door. But, as FD Storbeck has mentioned before; “There are no more rabbits to pull out of hats.”

Financial Workshops, Contd.

- So with that in mind I will be assembling Workshop presentations centered around not only digging through the numbers. But, also methods for you to better understand the financial picture. Because at the end of the day, you will need to know the ins and outs of the checkbook to know what the current status is.
- The Goal:
 - *A Successful Headlee Amendment Override Ballot Proposal on August 3rd.*
 - *Establish a secure financial future for City operations for years to come*

Current Financial Status

- There will be moments where it sounds like times are dire. They are not, at least not now. Currently, every one of the funds are sitting in a place that we do not need to make harsh decisions, barring something unforeseen within the next couple of years. All of our conversations are looking to the future. The only fund that we are projecting to need some attention is the General Fund. If nothing is addressed, we are approximately 3 years away from having difficult decisions to make when you look at our General Fund balance.
- Why is this? We will spend some time to go over that exactly. But to simplify: a combination of less revenue coming in and more expenses going out. The funding of a Sinking Fund to maintained aged facilities.

Summary

- Before we can dig into the financial questions of the City to seek out some long term solutions; we need to break it all the way down and thoroughly discuss the financials, starting with the basic foundation of the funds. So let's get started!
- The City of Otsego from the outside seems like 1 entity that works with 1 pot of money. That is not the case. We not only have multiple different funds and multiple different purposes for that money, but there are strict regulations for each of the funds. The rest of this presentation will be dedicated to differentiate the 2 major categories.

Funds

- The best way to begin to comprehend the financial activity of the City is to break down the funds. There are 2 major categories of fund types that should be understood:
 - *Governmental Funds*
 - *Non-Governmental (Proprietary) Funds*
- Money will often transfer from one fund to the other. Many of those transfers are within government funds. There are significant regulations that must be strictly adhered to in order for that to occur.

Governmental Funds

- Governmental Funds are the most restrictive of all funds. This is just as it sounds; funds that provide for governmental services.
- Revenues come almost exclusively through taxes of some kind. Or revenue that at one time was originally tax revenue (state revenue sharing).
- Examples: *General Fund, DDA Fund, Public Safety Fund, Major and Local Road Funds, Recycling and Solid Waste Fund, etc..*

General Fund

- This is the grand daddy of them all! The General Fund is the most sacred of the governmental funds. When all else fails, the General Fund is expected to pick up the slack and pay the bill.
- The General Fund is the most scrutinized and most utilized fund.
 - *General Fund is the most restricted fund in the sense of regulations. Tax dollars are limited in the way they can be spent, more than any other revenue.*
 - *General Fund is expected to fill the gaps, when needed. When all else fails, the General Fund is expected to pay for governmental expenses if needed.*

General Fund, Contd.

- General Fund purposes:
 - *General DPW*
 - *PD*
 - *FD*
 - *General Governmental Activities*
 - *Etc...*

- There are significant annual transfers to other funds from the General Fund (Public Safety).

General Fund, Contd.

- Where does the revenue come from?
 - *Property Taxes*
 - *Revenue Sharing*
- Can't increase revenues easily
- Historically, the General Operating millage has been a large provider of revenues for the General Fund. About 10 years ago a trend began with Public Safety appropriations beginning to steadily increase. This motivated a Public Safety millage to being passed and subsequently the Public Safety Fund was created. The General Fund still subsidizes the Public Safety Fund by almost a million dollars every year.

Non-Governmental Funds

- Think of Non-Governmental Funds as the “business” funds. These funds have activities that are like businesses and not governments. So that means they have different regulations and limitations.
- These include internal funds (Motor Pool Fund) and Enterprise Funds (Sewer and Water Funds) that fall into this category. Internal funds are more of an accounting practice. Focus needs to be given to the Enterprise Funds.
- These funds are expected to follow normal business activities.

Water and Sewer Funds

- Revenues are utility bills and grants.
- Expenditures include the maintenance of all parts of the systems and administration.
- Both funds are sitting in solid position. We have an old system and proper maintenance has paid off.
- The only real way to save money in these funds is proper effective maintenance. This is demonstrated in the long term.

Water and Sewer Funds, Contd.

- The more use will lower the rates. Years ago when USG was using much more water than today, the community had much lower rates.
- Both of these funds have an increasing amount of requirements ushered down from EGLE.
- Historically, the Sewer Department rate increases were always neglected in hopes of keeping rates low. That led to an outdated system that required significant rate increases starting in 2018 to pay for the major upgrades that were long overdue.