



# General Fund Shortfall Fix Options

MAY 4, 2020 CITY COMMISSION MEETING

# The Problem

- ▶ In one word “Money”
- ▶ We must look to compensate for the funding of a Sinking Fund for future expenditures
- ▶ The General Fund (GF) has been tasked with subsidizing departments that it was simply not built to fund or intended to fund for many years
- ▶ There have been fixes made in the past, but they were only temporary patches
- ▶ General Fund balance is still healthy, but it won't be in the future if no action is taken

# Current General Fund Activities

- ▶ General Government Operations- Day-to-day operations including all traditional governmental duties not paid for elsewhere (basically everything except roads, W/S and Recycling), and all costs are increasing
- ▶ Subsidization for Public Safety Fund- We do have a Public Safety millage. However, the millage is small and the GF subsidizes the PS Fund over \$950K this year.
- ▶ DDA Personal Property Tax- This revenue was pulled from the DDA TIF and included with our annual check reimbursing this tax that we no longer collect. We give that portion to the DDA, lowering our available revenue.

# Sinking Fund

- ▶ Purpose- The SF serves as the fund that we pay for all substantial maintenance for our City facilities and Police and Fire Departments assets out of.
- ▶ The annual investment for everything is \$207,386
- ▶ The way it is calculated is you take each asset value and divide it by the expected life expectancy. So if a piece of equipment costs \$100,000 and had a life expectancy of 20 years, the annual investment in the sinking fund would be \$5,000. This is done for each facility and asset included in the SF. This is added for each new asset as well, such as the Community Pavilion.

# Sinking Fund, Cont.

- ▶ Forecasting into the near future, we will be spending some significant amount of money on these assets. 3 buildings are in need of roof repair. If the SF is not funded, it will come straight out of the draining GF.
- ▶ What have we previously been using as a SF?- Eley Acres revenue was viewed as a source for these expenses. That chapter is now over and was used for previous expenses. That revenue in the past year was transferred to the GF. Hence the increase in GF balance.

# Sinking Fund, Cont.

- ▶ What happens if no SF is funded?- This would lead to the inability to maintain and purchase needed City assets such as fire trucks and other major asset maintenance. A ballot proposal would be needed to bond for those costs. If that was turned down this could lead to layoffs, loss of quality services (24/7 PD Patrol and OFD Medical Calls), selling of assets and degradation of our infrastructure. This is an extreme instance, but it cannot be ruled out. Some form of this would be expected to occur in the coming years.

# Where we currently stand:

- ▶ Operating as normal with fully investing in the SF and everything continuing without changes we would be taking a significant hit from our GF balance in the 20-21 FY.

GF Fund Balance	
Starting on July 1, 2020	\$920,336
Ending on June 30, 2021	\$671,041

- ▶ That would drop our GF balance from roughly 44% to 31%
- ▶ That cannot continue for many more years. Remember we just transferred money from the Eley Acres Fund to the GF. That explains why it is currently so high.

# What Can We Do?

- ▶ We need to either find additional revenues or cut expenditures. Or both.
- ▶ Revenues- Increasing revenues is very difficult, if not impossible. Property tax and state shared revenues continue to be reduced by legislation. Promises of being “made whole” when Proposal A was promoted are now being negated by the Headlee Amendment. Plus, we have not even brought up the issues with the current economic uncertainties, making the numbers we are discussing an honest “best case scenario” and could be significantly worse.

# What Can We Do? Cont.

- ▶ Expenditures- There are some areas that we could be cutting expenditures. However, nothing of real substance. There is very little fat in our budget year in and year out. We could trim some, but any cutting of real substance would be felt in the services the residents receive.
- ▶ Not Be Wasteful- Going forward we can curb any unnecessary spending. However, those savings are insignificant in these circumstances and difficult to depend on.

# Options

- Understanding that the GF has been expected to subsidize other funds for many years prior and we are now at a point where something has got to give. Researching and discussing this issue with FD Storbeck and other department heads I believe we have 3 separate options. Unfortunately, there are no good or pleasant choices. The GF has fixed many problems in the past and we are at a point where the “status quo” will not allow for us to appropriately plan for the future for our assets.

# Option 1- Do Nothing

- ▶ We could simply go on as we have in the past. Make no investment to the SF and simply plan on paying for all of those costs with the GF as they are needed. This can occur without any immediate interruption to budgets.
- ▶ Positive- Nothing is changing
- ▶ Negative- This will likely lead to a SF/Fire Truck ballot measure when needed, similar to the current OPS ballot measure. Asking for more revenue is an uncertain, tricky and uncomfortable situation at best. Maintenance will be delayed, likely deteriorating assets. There is already a likelihood of needing to seek a Headlee rollback proposal in the near future and that is just to keep with the status quo.

# Option 1- Do Nothing (Result)

- ▶ What does this look like? This would keep everything the same for the next year or 2. After that we could find it difficult to balance budgets and still do major improvements such as roofs and parking lot repaving. Or maintenance may be delayed and pushed off until money is available.
- ▶ If forced, I would say the first way to save money would be to remove 24/7 police coverage and end medical calls by OFD (similar setup as Otsego Township proposed recently). This could be 2 years away or so.

# Option 1- Do Nothing (Result)

## Contd.

- ▶ Those expenses may require a ballot proposal that would have to be voted on by the residents. If that was not approved, it would get more drastic. Such as selling assets and not repairing or replacing fire trucks, such as the aerial. This would lead to a lowering of fire rating for residents.
- ▶ Usually the first question asked by the public during a bond proposal is “What did the City do with the money we are already paying you? Why are you not using that money for a Sinking Fund/Fire Truck?” It would be hard to argue at that point if the City Commission had options to fix the problem before it was too late, and they decided against it.

# Option 1- Do Nothing (Not My Recommendation)

- ▶ I strongly recommend that you do not take Option 1. To summarize this option, it is simply kicking the can down the road for another year. Except next year we will have a GF balance with a quarter of a million less. With a real possibility of having less revenues coming in with a decrease in revenue sharing from the State in 20-21 making the situation worse. We would also be one year closer of needing to go out to the residents to get a ballot measure approved. General Government services must be budgeted for responsibly. This is the time to take action, not when it is too late.

# Explanation of DDA Fund

- ▶ Let me give a brief description of how the DDA has traditionally been funded: When DDAs are established they are funded by a Tax Increment Financing (TIF). This is a collection of all taxes over an established taxable value for the entire district. When it was established in 1985 that included the collection of the Personal Property Tax (PPT). This TIF made up local and county taxes, the TIF kept it all. In 2019, the TIF capture went negative. This is due to large IFTs coming off of the books and the removal of PPT from the tax roll.

# DDA TIF is Negative, Now What?

- ▶ What does a negative TIF mean?- The DDA's current taxable value less than the base value in 1985, the DDA may not capture, the DDA may not capture TIF revenue. The State allows for DDAs to apply for reimbursement of Personal Property TIF loss which we have for the last 3 years.
- ▶ Looking forward, can the TIF go positive again to allow for the collection of revenues? In order to go back to the level of 2018. (We collected \$120,000 in revenue in 2018.) There would have to be a \$30,000,000-\$40,000,000 investment made in the DDA district with almost exclusively new construction. This would equate to roughly 4 story buildings on all corners of our downtown.

# DDA Fund Future

- ▶ There is only one source of revenues that are accessible to the GF that are not “essential” services. Those are the revenues transferred indirectly by the State to the DDA annually in the form of LCSA payments. In 2019 this totaled \$253,000. This is the only real source of income the DDA/Main Street has to operate with, other than the money collected for events, but all of that is spent on the cost of the event. This leads us to the next 2 options.

# Option 2- Dissolve the DDA

- ▶ This would end the DDA and Main Street programs. This would allow for the LCSA PPT revenues that are transferred to the DDA annually to be able to stay in the GF. All responsibilities of the DDA would fall back to other departments. Such as maintenance of our downtown would go to the General Services for activities like sidewalk maintenance and parking lot repair. Things like Economic Development and marketing would also absorb some of those activities previously done by the DDA and MS.

# Option 2- Dissolve the DDA (Result)

- ▶ Positive- The City could utilize that money with more flexibility and if savings and cuts were needed, it could be done easier. There would be substantial savings from not having a MS Manager and MS expenses.
- ▶ Negative- FD Storbeck researched what this would mean in relation to that large amount of revenue from LCSA if the DDA did in fact dissolve. The State said we would only be allowed to retain about 66% of that previous total. The other 33% would be going back to Allegan County, where it was originally intended to go prior to the DDA creation. So we would not be able to utilize 100% of the funds.

# Option 2- Dissolve the DDA (Result) Contd.

- ▶ This could be done by a Resolution and if you pursued this option; I would recommend for you to wait until the next FY for this to be completed. It would be pointless to make this move with an existing 3-year MS contract, which expires on 12/31/2020. You could begin the process now, knowing that by the time the 21-22 Budget was approved the DDA would be dissolved.
- ▶ Successful events such as Gus Macker and Hometown Christmas could still continue through the City. Those committees are highly functioning and require little to no attention and provide a wonderful service to the community.

# Option 2- Dissolve the DDA (Not My Recommendation)

- ▶ I would recommend for you to not pursue this option. It would not completely solve our financial concerns, considering we could not access 100% of the LCSA revenues. And you would be removing a public board that is based on downtown developments. So there would definitely be a political response to that decision. I believe this is too harsh of an option. We still need to do many of things that the DDA is tasked to do. The dissolving of the DDA is not exactly what is needed to fix the problem. Think of it as using a screwdriver when you need a hammer.

# Option 3- End MS and Modify DDA

- ▶ This option would end MS and revert the DDA back to a Capital Improvement Board. This was the status of the DDA before MS was started in 2013.
- ▶ The goal would be to retain the successful events (Gus Macker and Hometown Christmas) from MS as City events going forward. The DDA bylaws would likely be changed as well to only require quarterly meetings to handle the lighter workload.

# Option 3- End MS and Modify DDA (Result)

- ▶ Positive- This would allow the DDA to retain 100% of the LCSA revenue and focus solely on things like maintaining the DDA infrastructure, like parking lots and buildings. This along with the removal of the MS Manager position will create substantial savings within the GF, while also saving enough money to keep all of our buildings and equipment safe and up to date. This could be partially funding SF, alleviating stress on GF.
- ▶ Negative- This would be the end of the MS program that has been in place for 7 years now. A section of the community will be sad to see it go.

# Option 3- End MS and Modify DDA (Result) Contd.

- ▶ This would be a slow rollout. It would be expected that it would take full effect on January 1, 2021.
- ▶ This would allow for the Community Pavilion to be completed and give everyone 7 months to plan for the changes in the DDA and seek out alternative sources of revenues before any of this takes effect and the MS Manager to find other employment.
- ▶ This would coincide perfectly with the MS 3-year contract that would be required to continue in the program. The current contract expires on December 31, 2020. This would be the optimum time to make a decision like this.

# Option 3- End MS and Modify DDA (Result) Contd.

- ▶ DDA would still be active. They would no longer focus on individual Work Plans and work solely on maintaining the infrastructure of the downtown. That would include the buildings, sidewalks and parking lots. A different role, but still an important one.
- ▶ The other activities would be absorbed by other departments. Such as Economic Development and General Services.

# Option 3- End MS and Modify DDA (My Recommendation)

- ▶ I strongly recommend for you to choose Option 3. This is in many ways the only choice to make. If you anticipate keeping essential services at the level we currently operate at and keeping the infrastructure at the level we currently have. This choice is needed for that to continue. We are looking at a \$250,000 shortage in just this year's budget. This option will substantially fill that void. Not 100%, but it will go a long way to securing the funding for General Governmental services in the future.

# Option 3- End MS and Modify DDA (My Recommendation)- UPDATE

- ▶ As we prepared for this difficult discussion I reached out to DDA Chair Bennett to discuss these possibilities. I also sat down with MS Manager Saukus with Mayor Trobeck and Chairman Bennett, to assure that no one is blindsided on Monday night. Chairman Bennett has found that we could extend our existing MS contract by 6 months to get through the 20-21 FY. I think that would be a great idea if needed. The money in 20-21 Budget is already planned on being spent. The plan would be for the next 13 months spent on finding an independent funding source. This would assure that we have looked under every stone in search of funding for the MS program. So the effective date would be July 1, 2021.

# Why MS?

- ▶ I understand MS has played an important role in the community since its birth in 2013. However, when you look at what it started as; a ball full of energy to drive people and businesses to our downtown. I find that to no longer be the case. I am not saying the MS Manager is doing or has done anything wrong. I just don't see the energy behind it like it was in the past (as I have been told). I believe the “energy” is what makes it successful.

# Why MS? Contd.

- ▶ I struggle to see the way MS gets back on path to what it was intended to be for our community. The volunteers and committee members numbers have dwindled (in some cases disappeared). Most events have been canceled from lack of interest and none of our downtown businesses have chosen Otsego based on us being a MS community. Those are some of the major areas that MS was supposed to help with.
- ▶ When you assess those details with the issue that there is a major growing hole in the GF. And the need to budget appropriately for critical city infrastructure the decision becomes more tolerable.

# This Decision

- ▶ I apologize for the spot you are in. This is not an easy decision. We are discussing details that the vast majority of the residents do not know. No matter what choice you make, some in the community will be upset. If MS goes away, those that have supported the program will likely not be aware of or understand the need. However, if you decide to keep everything the same, you will likely be upsetting others (I would argue many more) when our essential services begin to break down.

# How I Came to my Recommendation

- ▶ Considering I have only been here for a little more than 2 years, I have asked a lot of people about the financial history with the GF and about the community response to MS. I have a lot of trust in my Department Heads who have filled in a lot of the blanks. In one way or another, they are all in agreement with my position on not only the status of MS but also the fact the GF cannot continue on this course much longer. As FD Storbeck often states, “there are no more rabbits in the hat.” So at the end of the day, I am recommending an investment into the essential services of Otsego.



# Thank you for your Consideration and Deliberation

Aaron Mitchell  
City Manager