



FREMONT Michigan

“NOW & ALWAYS – A Fine City • A Great Community”

CITY MANAGER'S FISCAL YEAR 18/19 BUDGET MESSAGE

To the Honorable James M. Rynberg, Mayor
and Members of the City Council of the
City of Fremont, Michigan:

I transmit herewith the Proposed Operating / Capital Budget for the City of Fremont for the fiscal year beginning July 1, 2018 and ending June 30, 2019.

CITY'S FINANCIAL CONDITION

All of the City's Funds are solvent at year-end 6/30/18, however the Local Street, DDA, Sewer, Water and Equipment Funds did make planned transfers from their fund balances last year. These transfers helped cover costs related to construction projects.

In order to balance the proposed FY 18/19 Budget, there are several funds that will require contributions from their fund balances:

- Major Street \$ 673,042
- Local Street 57,051
- Capital Projects Fund 219,800
- Sewer Fund 160,550
- Water Fund 109,710
- Spec Assess-Capital Impr Fd 12,187

Most municipal government financial advisors recommend maintaining an unrestricted General Fund fund balance equal to 15-25% of annual operating costs, to allow for sufficient working capital and emergency funding throughout the upcoming year. The General Fund was projected to decrease its existing fund balance last year, but fortunately was not necessary. The estimated ending fund balance for 6/30/18 is approximately \$914,628 (25.7 %.) The proposed FY 18/19 General Fund budget does not include any transfer from fund balance, so projected ending fund balance on 6/30/19 is \$967,727, which would equal approximately 27.2 % of this year's projected total expenditures. This will keep the City in a solvent position, just a little over the recommended fund balance level of 25%. In order to get the City to that level, it was forced to increase the tax millage in 2016 to 15 mills, as appose to continuing to reduce services provided by the City.

Adequate fund balance reserves allows the City to: 1) eliminate any need for short-term, higher interest-rate borrowing; 2) respond to emergency needs; 3) contribute to additional capital projects where needed; and 4) take advantage of sometimes unanticipated opportunities, such as the purchase of properties for public purposes.

The City's ability to maintain a fund balance over the last eight years is certainly positive, considering that only twenty years ago when I started working here the City was looking at a fund balance of only \$50,000 in the General Fund. We have worked hard since then to contain costs, increase efficiencies, trim or postpone equipment needs and capital projects and increase and diversify revenues in order to improve the fund balance situation and to hold the line on any further property tax increases. A \$940,858 fund balance may seem large, but not when you take into account the issues we may face in the coming months/years with declining State Revenues and uncertainty of the States commitment to keeping local governments whole on lost personal property taxes.

Issues include:

1. Use of fund balance from the General Fund as matching money toward state and federal grants for construction of new streets, park features and economic & community development projects.
2. Debt service to pay down capital improvement bonds for the Downtown Development Authority's (DDA's) "Downtown Enhancement Program", which included additional parking lot reconstruction and renovations throughout the entire downtown. Debt service is covered primarily by Tax Increment Finance (TIF) revenues, which will lead to a reduction in property tax revenues flowing to the General Fund from properties in the DDA District. Because this was "new" debt, under the State's "Proposal A" amendment to the Constitution, we can no longer capture tax increments from any school-related jurisdictions, including the Fremont Public Schools operating & debt levies, NC-RESA or the State Education Tax (SET).
3. The initial loss of \$30 Million in Taxable Value resulting from the designation of a portion of the Nestle Gerber production facility as an Agricultural Renaissance Zone. The use of this incentive tool has resulted in the total loss of all existing and future property tax revenues from real or personal property located in the Ag Ren Zone for the past 10 years, with 5 years remaining.
4. Moreover, the City has recently experienced and can expect additional Michigan Tax Tribunal Appeals of real property tax valuations from most of the commercial property owners in town, which create additional decline of tax revenues.
5. The State of Michigan's repeal of the Personal Property Tax (PPT), of which without the promised replacement could lead to a loss of up to 25% of the City's tax revenue. The State fell short of its obligation to fully reimburse the City for elimination of all personal property tax parcels with valuations of \$80,000 or less, which should have equaled \$30,000 in annual tax revenue for first few years. Last year was the first year the City received full-payment of lost personal property (PP) tax revenue, including PP tax valuations in the Ren-Zone.
6. The City's projected principal long-term debt balances at the beginning of FY 18/19 are as follows:

	Est. Principle Balance <u>June 30, 2018</u>
Compensated Absences:	\$ 400,000
MERS Retirement Debt (est 6/30/18)	5,600,000
OPEB Liability (est 6/30/18)	80,000
Capital improvement bonds:	
\$1,700,000 – '06 Capital Improvement Bonds; due in semi-annual installment payments of various principal amounts plus interest @ 3.87% through November 2021	<u>575,000</u>
Total Remaining Long-Term Debt @ Year-end FY 18/19:	\$ 6,655,000

PROPERTY TAX BASE CHANGES

The economy has improved and property values have finally started increasing, but increased filings with the Michigan Tax Tribunal by local businesses have decreased tax revenues equally. As illustrated in the table on the following page, investment in real and personal property in all sectors has either flattened or increased some. Obviously, Gerber Products investments of over \$300 million over the last six years and the new Fremont Community Digester (\$19 million) entering into the Industrial Park were welcome investments in terms of tax base and new jobs for our local economy. However, approximately 75% of Gerber's investments fall within the Agricultural Renaissance (tax-free) Zone, which doesn't come back on the tax roll till 2024.

With Ad Valorem real property values increasing 5.3%, and the State of Michigan following through with reimbursing the City for the lost personal property tax revenues, the City's tax revenues will finally be back to where they were in 2009. Gerber's real property valuations will start gradually increasing the Ad Valorem roll in 2021 as it phases out of the tax free Ren-Zone and becoming fully taxable in 2024.

PROPERTY TAX LEVIES

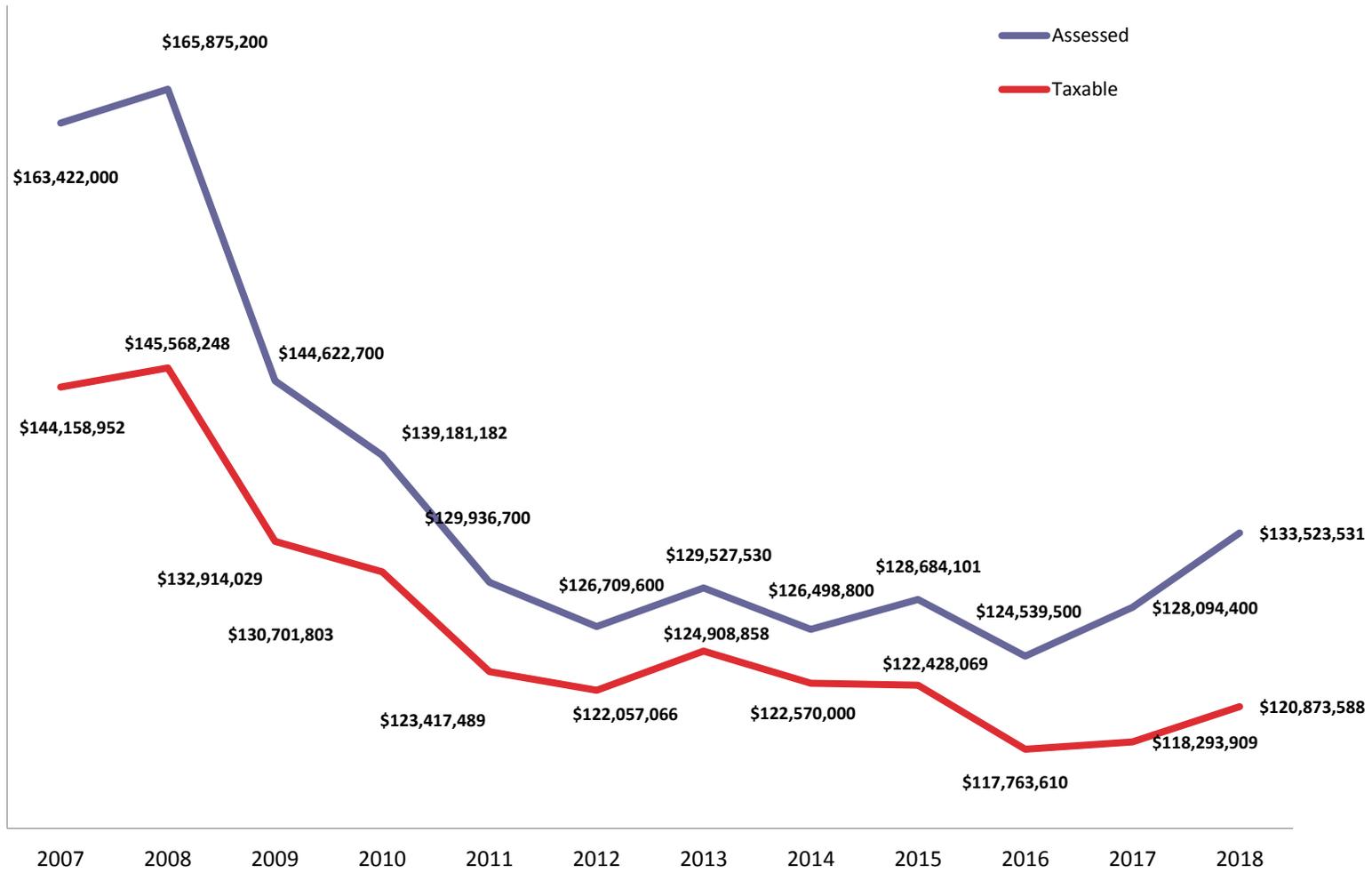
This proposed FY 18/19 budget is based on the property tax levy remaining at 15 mills. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes and it is admirable that the City has been able to keep its levy relatively low through the 2008-2014 Recession. It was at 14 mills for eighteen years following establishment of the millage for the then newly created Fremont Area District Library, whereas the City reduced its millage by one (1) to accommodate the District's new operating millage.

As a comparison, the MI State Tax Commission published data showing that the average property tax rate for cities is approximately 17 mills in Newaygo County. Closer to home, a quick look at the table on page VI shows that Fremont's city levy was still one of the lowest 2017 levies of the other full-service communities in Newaygo County. As the pie chart on page VI shows, **the City's levy represents only 23.3%** of the total millage levied by all jurisdictions upon property in the City.

TAXABLE VALUE CHANGES FY 17/18 TO FY 18/19				
PROPERTY CLASS	FY 17/18 TAXABLE VALUE	FY 18/19 TAXABLE VALUE	% CHANGE TAXABLE VALUE	NUMBER OF PARCELS
Ad Valorem Roll: Real Property				
101- Agricultural Zone	141,247	134,401	(4.8)%	5
201- Commercial	34,884,982	36,958,095	5.9	227
301- Industrial	21,227,170	22,318,083	5.1	31
401- Residential	56,994,510	58,749,428	3.0	1,409
800- Total Real Property:	\$ 113,296,909	\$ 118,160,007	4.2%	1,672
Ad Valorem Roll: Personal Property				
251- Commercial	6,198,300	5,728,400	(7.5)%	432
351- Industrial	8,421,700	7,030,900	(16.5)	9
551- Utility	4,072,100	5,278,300	29.6	3
850- Total Personal Prop.:	\$ 18,692,100	\$ 18,037,600	(3.5)%	444
TOTAL ADVALOREM:	\$ 131,989,009	\$ 136,197,607	3.1%	2,116
<i>Tax-Free Agri-Ren Zone Values</i>	(\$ 13,695,100)	(\$13,211,219)	(3.5)%	(3)
TOTAL TAXABLE ADVALOREM:	\$ 118,293,909	\$ 122,986,388	3.9%	2,113
IFT "New" Roll (Full Taxable Value; 50% Levy)				
301- Industrial Real	265,000	0	(100.0)%	1
351- Industrial Personal	2,299,100	3,722,900	61.9	3
TOTAL IFT "NEW":	2,564,100	\$ 3,722,900	45.1%	4
EXEMPT PROPERTY *	\$ 0	\$ 0	N/A	224
GRAND TOTAL - AD VALOREM / IFT ROLLS:	\$ 134,553,109	\$ 139,920,507	3.9%	2,320

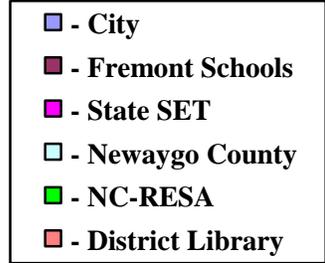
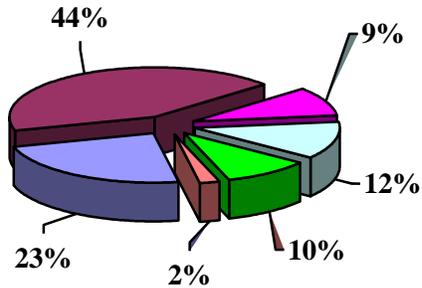
* = "Exempt property" includes City, school, hospital and other public properties, as well as nonprofit and church properties
 ** = "Renaissance Zone" this value is exempt from all taxes except debt, so there is no city tax revenue from it. The value is split between real and personal property and is included in the Industrial figures.

City of Fremont Advelorem Property Values *(Less Renaissance Zone Values)*



2017 PROPERTY TAX ALLOCATION

(Non-Homestead Properties)



2017 ACTUAL PROPERTY TAX LEVIES

NEWAYGO COUNTY COMMUNITIES

(Levy in mills, equal to \$1.00 per \$1,000 in taxable valuation.)

TAXING UNIT	FREMONT	NEWAYGO	WHITE CLOUD	GRANT	HESPERIA
City, Village or Twp.	15.0	19.4407	17.4792	17.0673	17.2497
Public Schools					
Non-Homesteads	18.0	17.8168	18.0	17.6525	18.0
Debt Service	7.0	6.5	9.5	3.5	7.5
Sinking Fund	2.5	0.0	0.0	0.0	0.0
Total	27.500	24.3168	27.50	21.1525	25.50
State Education Tax	6.0	6.0	6.0	6.0	6.0
District Libraries	1.4476	1.0992	1.2769	2.2652	1.4476
Fremont Comm Rec	0.5				
Newaygo ISD					
Operating	0.1151	0.1151	0.1151	0.1151	0.1151
Special Education	3.0000	3.0000	3.0000	3.0000	3.0000
Vocational Educ.	3.0000	3.0000	3.0000	3.0000	3.0000
Total	6.1151	6.1151	6.1151	6.1151	6.1151
Newaygo County					
Operating	5.3460	5.3460	5.3460	5.3460	5.3460
Sheriff, Aging & Veterans Affairs	2.1263	2.1263	2.1263	2.1263	2.1263
Medical Care Bonds	0.4000	0.4000	0.4000	0.4000	0.4000
Total	7.8527	7.8527	7.8527	7.8527	7.8527
TOTAL TAX LEVY	64.4154	64.8245	66.2239	60.3881	64.1651

Fremont:

- City's total millage is 15 mills (Charter allows 20) No additional mills are levied or special assessed for any City services, including fire.
- Fremont Schools received bond millage approval for a new high school, paying off existing debt and keeping it at 7.0. They also received approval of a 2.5 sinking fund millage.

Newaygo:

- City's millage includes general operating and a citywide special assessment for fire protection services.

Grant:

- City's millage of includes general operating, roads, public safety, fire protection and a sanitary sewer debt.
- The new District Library levy covers both debt on the new building and general operating.

Hesperia:

- Village millage includes general operating, streets, and Denver Township's general operating, roads and fire protection mills.

PROPOSED FISCAL YEAR APPROPRIATIONS

The table below titled "Total Appropriations All Funds" compares the proposed fiscal year appropriations for each fund with the prior fiscal year's approved budget totals. This chart also accounts for the transfers between funds (interfund transfers), which gives a truer picture of the actual appropriations. Without accounting for these transfers, they would be counted twice: once leaving a Fund and once going into another Fund.

The table below shows an **overall budget increase of 21.4%** from last year. And although the General Fund Budget only increased by 2.5%, more than half of the other Funds have proposed increases in their net appropriations for the year as well, thus driving the overall budget totals up. The proposed budget does contain appropriations to cover negotiated wage increases with both the Police & Public Works unions on 7/1/18 & a potential labor market adjustment to salaries for administrative/non-union personnel in 2019.

FY 18/19 vs. FY 17/18 NET OPERATING BUDGETS TOTAL APPROPRIATIONS – ALL FUNDS <small>*(Adjusted for Interfund Transfers)</small>					
FUND	FY 18/19 TOTAL APPROP.	LESS TRANS- FERS OUT TO OTHER FUNDS	NET FY 18/19 APPROP.	NET FY 17/18 APPROP.	PERCENT CHANGE
General	\$ 3,552,606	\$ 190,000	\$ 3,362,606	\$ 3,281,518	2.5 %
Major Street	1,907,467	83,750	1,823,717	638,831	185.5
Local Street	398,301	0	398,301	272,454	46.2
DDA Operating	320,887	128,452	192,435	192,440	0.0
LDFA Operating	22,185	22,185	0	0	0.0
Cap Imprv. Debt	145,637	0	145,637	150,474	(3.2)
Capital Project	310,000	0	310,000	80,000	287.5
Sewer	774,050	0	774,050	676,071	14.5
Water	822,810	0	822,810	770,771	14.5
Motor Pool	489,478	0	489,478	791,708	(38.2)
Cemetery Care	0	0	0	0	0.0
Local Improve.	39,987	39,987	0	0	0.0
TOTAL ALL FUNDS	\$ 8,783,408	\$ 464,374	\$ 8,319,034	\$ 6,854,267	21.4%

• = Year-end appropriations, net of transfers out to other funds per Amended Budget.

The overall effects of "Proposal A" on the City's revenues are now well known in local government finance. While the capped growth in taxable value is one major concern, so is the fact that tax increment financing (TIF) districts now capture virtually no "education" millage, which is made up for by the other taxing bodies. "Proposal A" also increased costs such as: 1) computer updates to differentiate homestead properties; 2) administration of dual assessment rolls due to the assessment cap; 3) complications with the TIF district captures; and 4) staff time to mail homestead forms and

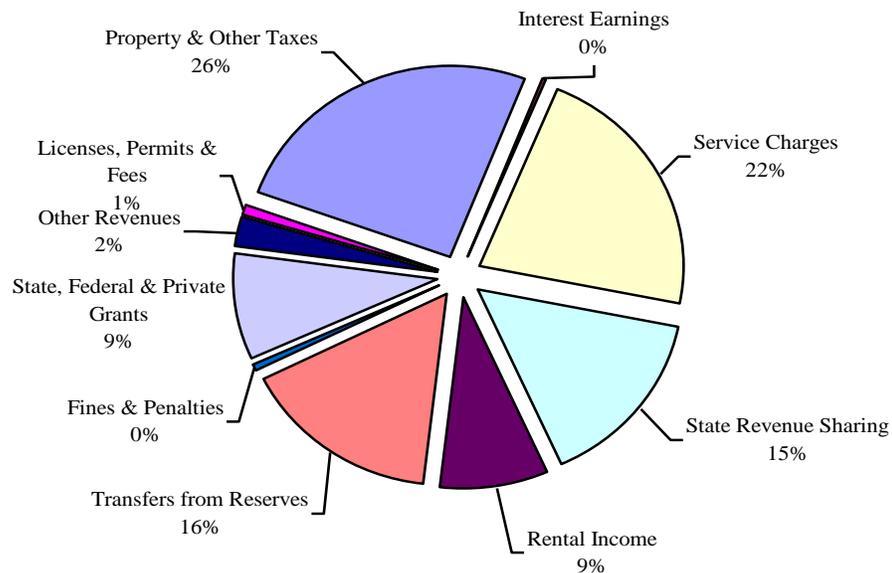
answer hundreds of questions. Unfortunately, most of our largest taxpayers have chosen to seek reductions in their taxable values through the Michigan Tax Tribunal, in order to lower their operating costs during the tough economic times of 2008-2014.

It is unfortunate that local governments must continue to cover this and other similar unfunded State and Federal mandates with fewer dollars in the name of state government reforms and belt-tightening. With the significant reductions in State Revenue Sharing payments from 2001 to 2015, and the State's limitations on local option revenues it sometimes makes for a tough balancing act for local communities. If other challenges were to arise in the future, the City could consider another means of raising revenues, such as a City income tax, tied to a corresponding drop in real property tax millage.

PROPOSED FISCAL YEAR REVENUES & EXPENDITURES

The following two graphs depict proposed revenues and expenditures for next year's budget. This pie chart shows the projected revenues for the fiscal year organized by ten general categories. Footnotes to that chart provide definitions and amounts for each of the categories. The four largest sources of revenue include: property taxes, state/federal/private grants, service charges and transfer from reserves. The graph vividly shows that **revenues from property and other taxes represent the largest percentage of total revenues at a 26%, similar to recent years. Revenues coming from transfers of reserve funds and State/Federal Grants have also increased.** These increases have driven most of the other budget revenue source percentages down.

FY 2018/19 REVENUES By SOURCE
(% of Total City Revenues)

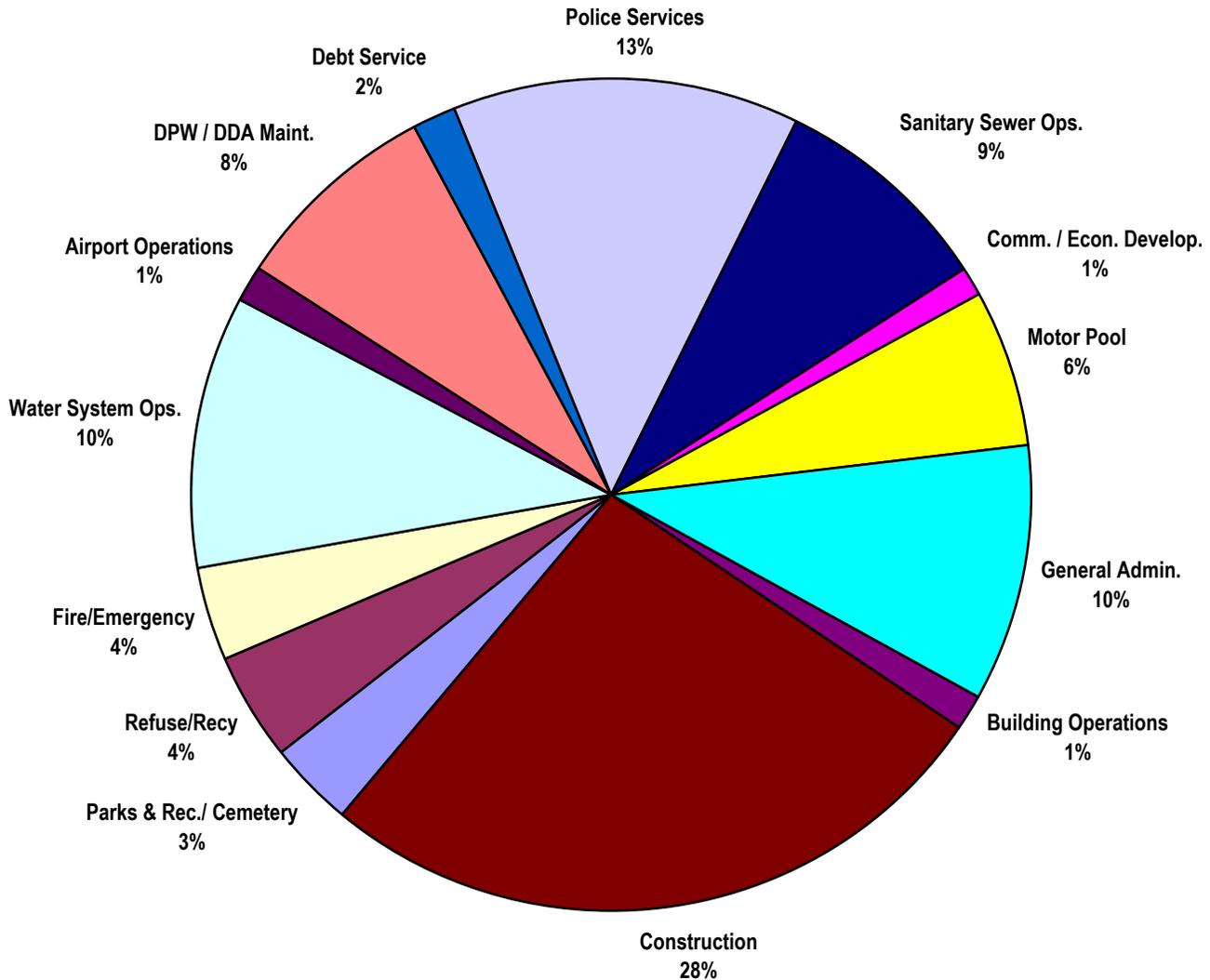


Definitions of Revenue Sources for Previous Chart:

Property & Other Taxes:	\$ 2,106,639. Real/personal ad valorem/IFT (abatement) taxes, mobile home taxes, payments-in-lieu-of-taxes (PILOT's)
Service Charges:	\$ 1,819,350. Water/sewer/refuse/recycling use charges, new Township Fire/Sewer Contracts, cemetery foundations/ grave openings, State M-82 Trunkline maintenance reimbursements, sale of water meters, tapping fees
State/Federal/Private Grants:	\$ 738,425. Police Explorer/Safe Community Celebration, airport grants and several grants from the Fremont Area Community Foundation
State Revenue Sharing:	\$ 1,284,000. State sales & use tax, PA 51 gas/weight fuel taxes, State liquor licenses
Rental Income:	\$ 723,360. City Hall, airport T-hangars, land leases, Branstrom Lodge, Fremont Lake Campground, City equipment rental rates
Interest Earnings:	\$ 33,160. Interest earned on investments from all Funds
Other Revenues:	\$ 207,950. Reimbursements, miscellaneous contributions, special assessment payments, and sales of crushed concrete, cemetery lots, Industrial Park lots, land, timber and used equipment & vehicles
Licenses, Permits & Fees:	\$ 79,050. CATV franchise, business & non-business zoning permits, property tax and administration fees, METRO Act ROW fees
Transfers from Reserves:	\$ 1,319,340. From Fund Balance reserves
Fines & Penalties:	\$ 36,000. Ordinance fines, District Court fines and tax & utility bill penalties

On the following page is a pie chart depicting proposed expenditures by program areas, expressed as a portion of total expenditures. **Expenditures for Construction, Water & Sewer, General Administration and Police & Fire Emergency Services generally total more than ½ of the chart, with this year totaling over \$5.6 million this year.** Individually, Police and Fire services are not the highest, but if they were added together as a "Public Safety" category, they would be the 2nd highest category of the chart representing proposed expenditures of over \$1.3 million. Footnotes to the chart provide definitions for the expenditure categories.

FY 2018/19 EXPENDITURES BY PROGRAM



Definitions of Program Areas for Above Chart:

- Construction:** Street reconstruction & resurfacing, park improvements, downtown improvements, etc.
- General Administration:** City Council, City Manager, elections, City Clerk, Assessor, Attorney, Treasurer, general admin., benefits
- Police:** Police operations
- DPW Operation & Maintenance:** Streets/storms, sidewalks, DDA, parking, traffic services, snow/ice control & M-82 maintenance
- Debt Service:** LDFA, Building Authority & Water Fund Bonds, land purchase payments
- Equipment/Motor Pool:** Purchase of new major equipment and vehicles
- Sanitary Sewer Operations:** Engineering/supervision, treatment, collection, pumping, meter reading
- Water System Operations:** Engineering/supervision, wells, pumping, treatment, transmission, distribution/storage, meter reading
- Parks & Recreation/Cemetery:** Park maintenance & minor improvements, cemetery maintenance, Comm. School Recreation contribution
- Fire:** Fire & rescue operations
- Community/Economic Develop.** Planning, zoning, engineering, public relations, marketing, community & economic development
- Refuse/Recycling/Yardwaste:** Contracts for refuse removal & recycling, yardwaste/leaf collection & brush chipping
- Municipal Building Operations:** City Hall, Police training/firing range, building systems operations & maintenance
- Airport Operations:** Operations, minor capital improvements

Note: Insurance (liability, property, health & life), pensions, worker's compensation & payroll taxes are spread across several operating Funds.

BUDGET FORMAT

Because of the more reliable financial data now available on a regular basis, staff is better able to project year-end estimates for all revenue and expense line items in all Funds. Once we have made these estimates, we are able to also provide the necessary year-end budget amendments by Department in each Fund when necessary. Even so, staff has continued to bring project-based budget amendments to Council throughout the year when the project budgets are approved. Therefore, very few mid-year and/or year-end budget amendments were necessary and are incorporated into the final FY 2017/18 Budget column.

As discussed last year, the accumulation of various projects required the City to play “catch up” during recent construction seasons in order to provide the services and infrastructure to which our citizens have become accustomed. However, it is important that the General Fund not be used to subsidize other funds on a regular basis. Contributions from the General Fund are acceptable for one-time projects or capital, equipment or study/analysis needs but the Fund should not subsidize the ongoing operating costs of the other Funds.

This proposed Budget includes substantial grant funds for capital projects, but also includes some General Fund subsidies to the Major, Local and Capital Projects Funds. Water/Sewer utility extensions and repairs have typically driven most of the street construction projects that have taken place in recent years, just not this year.

The City also maintains an internal service fund (Equipment & Motor Pool Fund 661) that has allowed for the consolidation of significant equipment and vehicle leases, purchases and repayment of vehicle purchase loans from the other Funds for ease of tracking and reporting. Any remaining unspent appropriations in this Fund remain with the Fund to be applied toward future leases/purchase/debt and to meet emergency needs for equipment or vehicle repair or replacement. Also, by segregating the equipment and vehicle expenses from other operating expenses, we create a more accurate picture of both. We have included a copy of the 5-yr Equipment Plan for Fund 661 in Appendix K.

Over ten years ago we added a new fund: the Fremont Community Joint Planning Commission Fund- 268 (Appendix R.) This Fund helps in tracking revenues & expenditures for joint planning in the area, which has been aligned with the City's fiscal year for ease of accounting.

CONCLUSION

Fremont continues to evolve from a relatively wealthy rural community with few amenities, to a regionalized commercial center. Our community is known for providing high quality services and visitors frequently marvel at our quality of life that they “never knew was here.” Unfortunately, this standard sometimes is endangered when property values decrease following recessions like 2009. Due to the State of Michigan's elimination of the Personal Property Tax (PPT) with a questionable replacement tool that will most likely phase it out over time, communities like Fremont that have large industrial employers like Nestle Gerber and numerous commercial properties (Wal-Mart, our historic downtown and west commercial corridor) may struggle.

Limitations on our revenue streams have forced us to look internally on ways to live within our budgetary means. Retiring staff positions have not all been refilled and new employees will receive lesser benefits. Pay-step increases for current employees have ended and we will continue to retrench our benefits levels as health insurance and retirement costs continue to increase. Each year

it becomes hard to control expenses while ensuring that we are not reducing the quality of our service to the public.

Recent and upcoming projects in Fremont:

- The City plans to finish the final phase of Cedar Street extending to from Gerber to Stone to complete the south alternate route to the Industrial Park, made possible with a \$740,000 EDA grant.
- The City is closing several blocks in the downtown area to implement a walkable greenspace with art nodes, connecting downtown with the Rec Center, the Gateway, the District Library and a new multi-family housing development.
- The City has joined up with FCRA to construct an 'Outdoor Pickleball Court' system in the downtown area.
- A successful fundraising campaign for the "Oak Arch" art piece, partnered with the State MEDC's Patronicity program grant raising over \$60,000, to be completed in 2018.
- Meijer Corporation will complete construction of its new superstore in April 2019.
- Green Acres started construction of their phase 2 plan to double the size of their 20 bed senior facility.
- The City Municipal Airport received \$2 million in grant funding to mill and resurface the mile-long north/south runway.
- The new Fremont High School that opened in 2012, a \$40 Million investment, is ranked in the top ten "techiest" schools in the state.
- Local governments partnered in the establishment of the Fremont Community Recreation Authority to repurpose the southern half of the old high school as a community recreation center and took over community recreational programming previously ran by Fremont Public Schools. They were successful in 2016 with their tax millage campaign for a ½ mill.
- The Gateway retiree housing project purchased the remaining north half of the old high school, renovated it into a 38-unit senior housing facility and opened in May 2015.
- In the Industrial Park, the Fremont Community Digester was sold and reopened by securing its energy producing contract with Consumers Energy. It's still an innovative "bio-digester" facility that will use local agricultural food waste products to produce electricity.
- MPH, located in the Industrial Park, has expand its packaging operations with a 60,000 sqft building, in coordination with Nestle/Gerber.

It is important that we continue to promote the community and highlight our successes while realistically addressing our challenges. The community will continue to evolve and age, but we should be prepared to adjust with it and work to provide the quality of life that originally attracted people to our city. City staff is to be commended for their commitment and endeavor to provide quality services to residents.

Respectfully Submitted,



Todd M. Blake
City Manager/Finance Director