



FREMONT Michigan

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

CITY MANAGER'S FISCAL YEAR 11/12 BUDGET MESSAGE

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

Lady and Gentlemen:

I transmit herewith the Proposed Operating / Capital Budget for the City of Fremont for the fiscal year beginning July 1, 2011 and ending June 30, 2012.

CITY'S FINANCIAL CONDITION

All of the City's Funds are solvent at year-end 6/30/11. However, the General, Major & Local Streets, Capital Projects, Sewer, Water, Equipment and Special Assessment Funds did make planned transfers from their fund balances. These transfers helped cover costs related to construction projects, as the City aggressively invests (especially over the last three fiscal years) to complete a significant roster of projects.

In order to balance the proposed FY 11/12 Budget, there are several funds that will require significant contributions from their fund balances:

- General \$192,710
- Major Street 125,000
- Local Street 80,550
- LDFA 4,500
- Capital Project 100,000
- Sanitary Sewer System 472,280
- Water System 556,925
- Equipment & Motor Pool 75,700
- Local Improvements 163,650

Most municipal government financial advisors recommend maintaining our unrestricted fund balances at approximately 15-25% of annual operating costs to allow for sufficient working capital and emergency funding throughout the upcoming year. The General Fund is projected to deduct approximately \$66,000 from the existing fund balance from last year (6/30/10) of \$871,400, bringing the current year's ending balance on 6/30/11 to approximately \$806,000. The proposed FY 11/12 General Fund budget includes a large transfer from fund balance of \$192,710, leaving a projected fund balance on 6/30/12 at \$613,000, which would equal approximately 20% of projected expenditures. This will keep the City in a solvent position, but at the bottom of the recommended levels. Adequate reserves allows the City to: 1) eliminate any need for short-term, higher interest-rate borrowing; 2) respond to emergency needs, such as the City did with the cleanup costs of the

1998 windstorms; 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 largely maintain the health of the fund balance is certainly good news, considering that only fifteen years ago we were looking at a fund balance of only \$25,000 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. The fund balance does not seem too large when you take into account the issues we will face in the coming months and years. These include:

1. The need to catch up on capital improvement projects to support a naturally aging infrastructure. The good news here is that major reconstruction and rehab projects are current. Maintenance of the City's facilities will be more difficult in future budgets.
2. Use of fund balance from the General Fund as matching money toward state and federal grants for improvement of streets, parks, downtown parking lots and construction of additional Town & Country Path.
3. 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. 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 is "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).
4. Use of fund balance from the Major, Local, Water, Sewer, Capital Projects & Local Improvement Funds to complete the major reconstruction of several streets & watermains in town.
5. The loss of 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 would result in the total loss of all existing and future property tax revenues from real or personal property located in the Ag Ren Zone for a period of 10-15 years. Moreover, the City can expect additional personal and real property tax appeals from Nestle Gerber and Dura Automotive, which create additional revenue challenges.

Finally, the City is in an enviable position regarding its long-term debt obligations. Projected principal balances remaining at year-end FY 11/12 are as follows:

SUMMARY OF REMAINING LONG-TERM DEBT

	Est. Principle Balance <u>June 30, 2011</u>
Compensated Absences:	\$ 200,000
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>1,275,000</u>
 Total Remaining Long-Term Debt @ Year-end FY 10/11:	 \$ 1,475,000

PROPERTY TAX BASE CHANGES

The economy and declining property values are placing a damper on the City's revenue's. As illustrated in the table on the following page, investment in real and personal property in all sectors is flat. Obviously, the expansion of the Gerber Life Insurance component of Nestle Gerber is welcome investment in terms of new jobs for our local economy, but even this success will not positively affect City revenues as a result of the Agricultural Renaissance Zone. The upcoming year will bring small gains in industrial revenues as Novi Energy enters the Fremont Industrial Park.

Taxable values have decreased for the second consecutive year. Overall, the City's taxable value for the combined Ad Valorem and IFT Rolls went down by \$6,401,203 over last year, a decrease of **5.5%**. This decrease is significantly larger than the \$1,957,000 reported in the FY 10/11 Fiscal Operating/Capital Budget.

PROPERTY TAX LEVIES

This proposed FY 11/12 budget is based on the continuation of the existing 14-mill property tax levy from last year. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes. It is admirable that the City has been able to keep its levy relatively low these last few years, and actually reduced it one full mill eleven years ago. This reduction fulfilled a pledge to the City's voters that the City would reduce its property tax millage from 15 to 14 mills if our citizens approved the vote establishing the millage for the then newly created Fremont Area District Library.

As a comparison, the MI State Tax Commission published data showing that the average property tax rate for cities is approximately 16 mills. Closer to home, a quick look at the table on page vi shows that Fremont's city levy is still below the 2010 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%** of the total millage levied by all jurisdictions upon property in the City.

The Fremont School District's voter approval of the 1.75-mill levy (now @ 1.7191 due to Headlee rollbacks) for five years for special capital outlay and maintenance projects increased the overall levy on all properties in the City. This was in response to the State's control over local school funding as approved under "Proposal A," under which Districts receive a per pupil formula amount from the State.

TAXABLE VALUE CHANGES FY 10/11 TO FY 11/12				
PROPERTY CLASS	FY 10/11 TAXABLE VALUE	FY 11/12 TAXABLE VALUE	% CHANGE TAXABLE VALUE	NUMBER OF PARCELS
Ad Valorem Roll: Real Property				
101- Agricultural Zone	5,050,379	5,018,886	(0.6)%	2
201- Commercial	39,509,660	36,672,018	(7.2)	221
301- Industrial	7,877,900	7,240,435	(8.1)	28
401- Residential	59,917,543	58,471,236	(2.4)	1,406
501- Timber Cutover	0	0	0.0	0
601- Developmental	0	0	0.0	0
800- Total Real Property:	\$ 112,355,482	\$ 107,402,575	(4.4)%	1,657
Ad Valorem Roll: Personal Property				
151- Agricultural Zone	25,446,500	24,728,900	(2.8)	1
251- Commercial	14,682,100	8,515,300	(42.0)	373
351- Industrial	6,575,900	10,323,000	57.0	6
451- Residential	0	0	0.0	0
551- Utility	2,138,700	2,195,500	2.7	3
850- Total Personal Prop.:	\$ 48,843,200	\$ 45,767,700	(6.3)%	383
TOTAL AD VALOREM:	\$ 161,198,682	\$ 153,165,275	(5.0)%	2,040
IFT "New" Roll (Full Taxable Value; 50% Levy)				
301- Industrial Real	320,305	322,053	0.5	2
351- Industrial Personal	349,900	10,900	(96.9)	2
TOTAL IFT "NEW":	670,205	332,953	(50.3)%	4
EXEMPT PROPERTY *	\$ 0	\$ 0	N/A	229
GRAND TOTAL AD VALOREM, IFT & EXEMPT ROLLS:	\$ 161,868,887	153,498,228	(5.2)%	2,273

* = "Exempt property" includes City, school, hospital and other public properties, as well as nonprofit and church properties

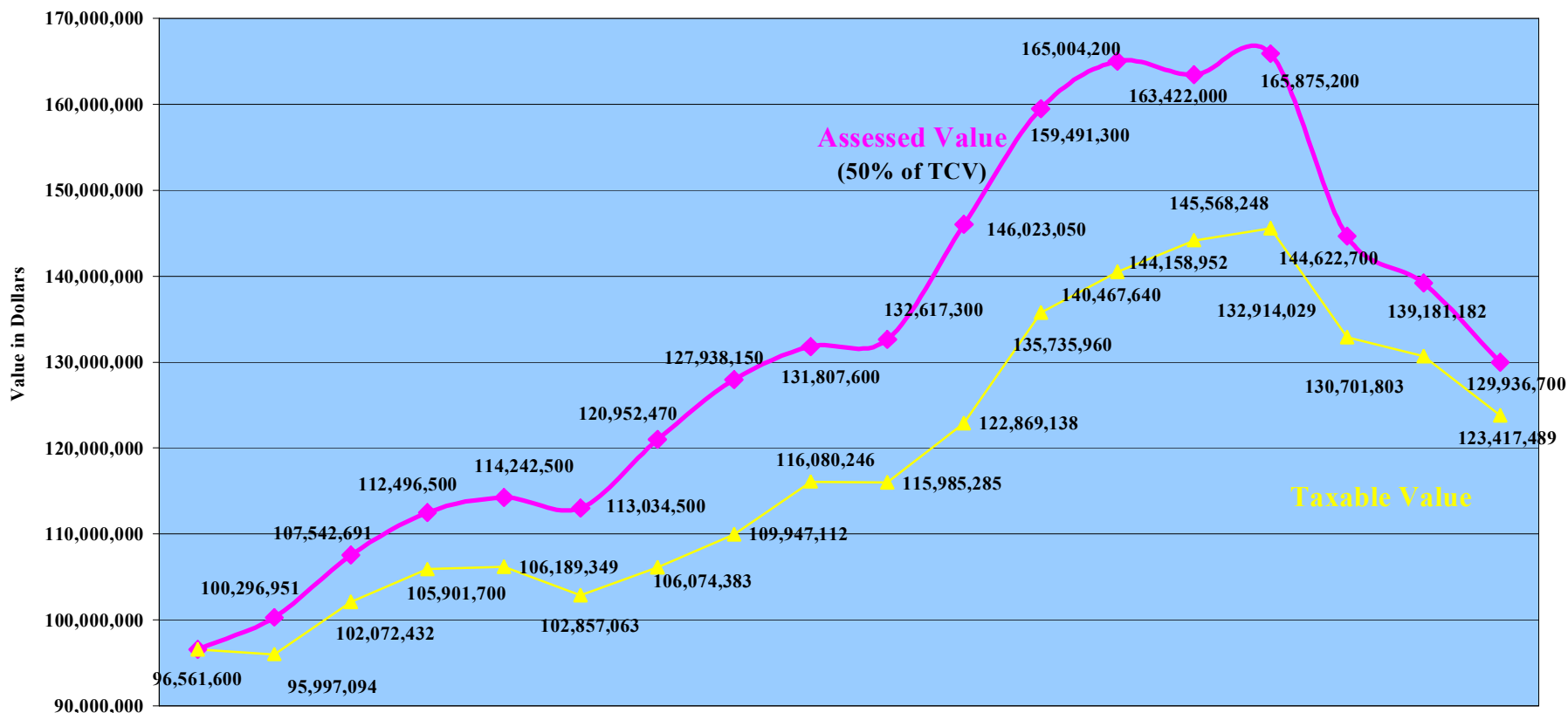
CITY OF FREMONT

The Effects of "Proposal A"

Prop. A"
Enacted
1994

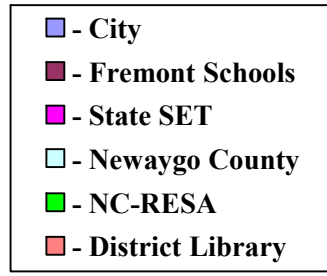
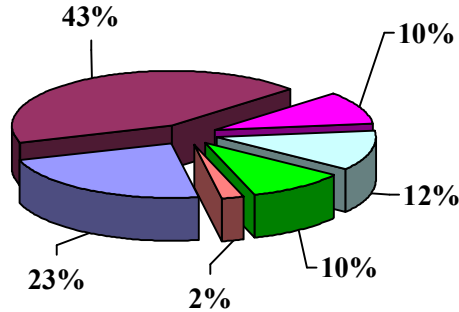
Assessed vs. Taxable Value
Ad Valorem Roll Only
(Includes Both Real & Personal Property)

2011



(Value as of March Board of Review for December 31st)

'10 PROPERTY TAX ALLOCATION
(Non-Homestead Properties)



2010 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.	14.0	18.6299	17.4792	17.3273	17.1829
Public Schools					
Non-Homesteads	18.0	18.0	18.0	18.0	18.0
Debt Service	7.0	6.5	8.25	4.2	7.0
Sinking Fund	1.7191	0.0	0.0	0.0	0.0
Total	26.7191	24.50	26.25	22.20	25.00
State Education Tax	6.0	6.0	6.0	6.0	6.0
District Libraries	1.4497	2.0834	1.2856	1.5394	1.6583
Newaygo ISD					
Operating	0.1351	0.1351	0.1351	0.1351	0.1351
Special Education	2.9531	2.9531	2.9531	2.9531	2.9531
Vocational Educ.	2.9543	2.9543	2.9543	2.9543	2.9543
Total	6.0425	6.0425	6.0425	6.0425	6.0425
Newaygo County					
Operating	5.3685	5.3685	5.3685	5.3685	5.3685
Sheriff, Aging & Veterans Affairs	1.5951	1.5951	1.5951	1.5951	1.5951
Medical Care Bonds	0.5000	0.5000	0.5000	0.5000	0.5000
Total	7.4176	7.4176	7.4176	7.4176	7.4176
TOTAL TAX LEVY	61.6749	64.6734	64.4749	60.5268	63.2472

Fremont:

- City's total millage is 14 mills (Charter allows 20.) No additional mills are levied or special assessed for any City services, including fire.
- Fremont Schools received approval for new bond millage for a new high school.

Newaygo:

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

Grant:

- City's millage of 17.3273 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 residents pay a total of 17.0814 mills. This includes the Village's millage of 14.5291 mills (for general operating and streets) plus the Denver Township levies for general operating (0.8516), roads (0.9264) and fire protection (0.8758 mills.)

Newaygo County: Voters approved an initial 0.47-mill levy for the N.C. Medical Care Facility in 11/04.; first levied on winter '05 bills.

PROPOSED FY 11/12 APPROPRIATIONS

The table below titled "Total Appropriations All Funds" compares the proposed FY 11/12 appropriations for each fund with the FY 10/11 projected year-end levels. 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.

While the table shows that the **overall budget will decrease by 1.72%** from last year, the **General Fund will decrease as well by 2.28%**. Most of the decreases in the various Funds are due to the completion of two years of capital projects last year, many of which were financed by the use of fund balances. The proposed budget does contain appropriations to cover negotiated wage increases with both the Police & Public Works unions & a potential labor market adjustment to salaries for administrative/non-union personnel.

<b style="color: blue;">FY 10/11 vs. FY 11/12 OPERATING BUDGETS TOTAL APPROPRIATIONS – ALL FUNDS <small>* (Adjusted for Interfund Transfers)</small>					
FUND	FY 10/11 TOTAL APPROP.	LESS TRANS- FERS OUT TO OTHER FUNDS	NET FY 11/12 APPROP.	NET FY 10/11 APPROP.	PERCENT CHANGE
General	\$ 3,456,145	\$ 380,000	\$ 3,076,145	\$ 3,148,180	(2.28)%
Major Street	457,000	260,500	196,500	204,000	(3.67)
Local Street	280,000	205,000	75,000	78,500	(4.45)
DDA Operating	698,370	248,730	449,640	392,400	14.58
LDFA Operating	27,900	0	27,900	10,000	179.0
Cap Imprv. Debt	151,627	0	151,627	155,500	(2.49)
Capital Project	1,196,250	0	1,196,250	1,668,763	(28.31)
Sewer	927,500	0	927,500	629,320	47.38
Water	1,267,325	0	1,267,325	936,510	35.32
Motor Pool	611,500	0	611,500	896,200	(31.76)
Parks Trust	37,000	37,000	0	0	0.0
Cemetery Care	1,200	1,200	0	0	0.0
Local Improve.	216,730	216,730	0	0	0.0
TOTAL ALL FUNDS	\$ 9,328,547	\$ 1,349,160	\$ 7,979,387	\$ 8,119,373	(-1.72)%

• = 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, our largest taxpayers have chosen to seek reductions in their taxable values in order to lower their operating costs during these tough economic times.

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 school finance and other government reforms and belt-tightening. With the significant reductions in State Revenue Sharing payments since 2001 and the State's limitations on local option revenues (such as a sales tax) it makes for a tough balancing act for local communities. In order to manage these challenges, the City may choose to consider other means of raising revenues, such as a City income tax, coupled with a corresponding drop in real property tax..

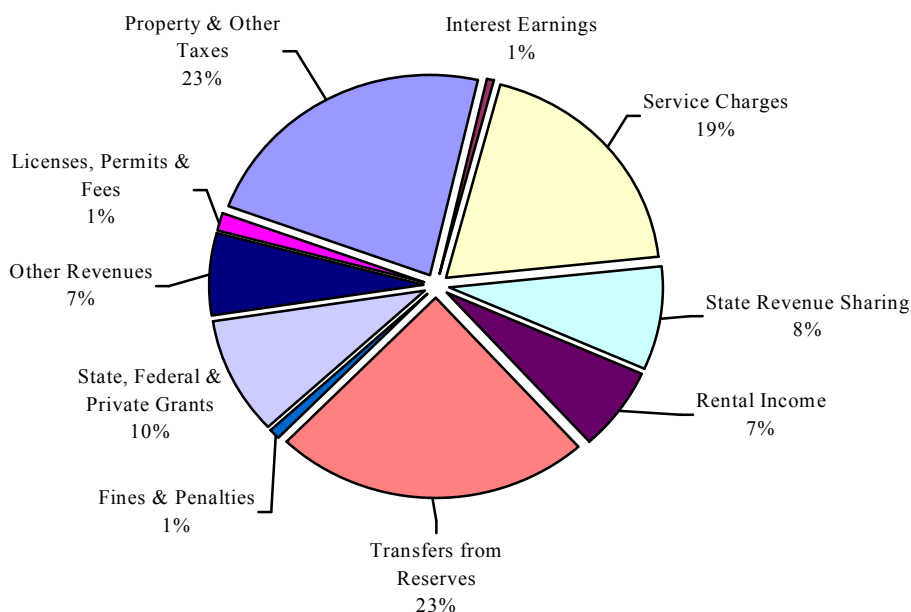
State revenue sharing cuts are less damaging than previous years due to another reduction in the Statutory portion – balanced only slightly by an increase in Constitutional formula.

PROPOSED FY 11/12 CITY REVENUES & EXPENDITURES

Budget documents can often be difficult to understand if all they contain are numbers organized by programs and departments. In an effort to make this document more user friendly, staff has again analyzed the proposed budget numbers and presented them in graphic formats. The pie chart and table on the next page showing the allocation of the overall property tax levy are examples of this more informative format. The graph showing the rising “untaxed value” gap is another example.

The following two graphs depict proposed revenues and expenditures for next year's budget. The pie chart shows the projected revenues for FY 11/12 organized by ten general categories. Footnotes to that chart provide definitions and amounts for each of the categories. The graph vividly shows that **revenues from property and other taxes represent the largest percentage of total revenues at 23% which is down from 26.4% last year.** The four largest sources of revenue include: taxes, state & federal grants, service charges and transfer from reserves. The percentage of **revenues derived from Revenue Sharing, however, have decreased to 8%** of the City's budget. **Revenues coming from transfers of reserve funds remain high at 23%, almost double from FY 10/11's 14%. Conversely, interest earnings have again slipped somewhat this past year, declining from 1.2% to 1%** of budgeted revenue.

FY 2011-2012 REVENUES By SOURCE
(% of Total City Revenues)

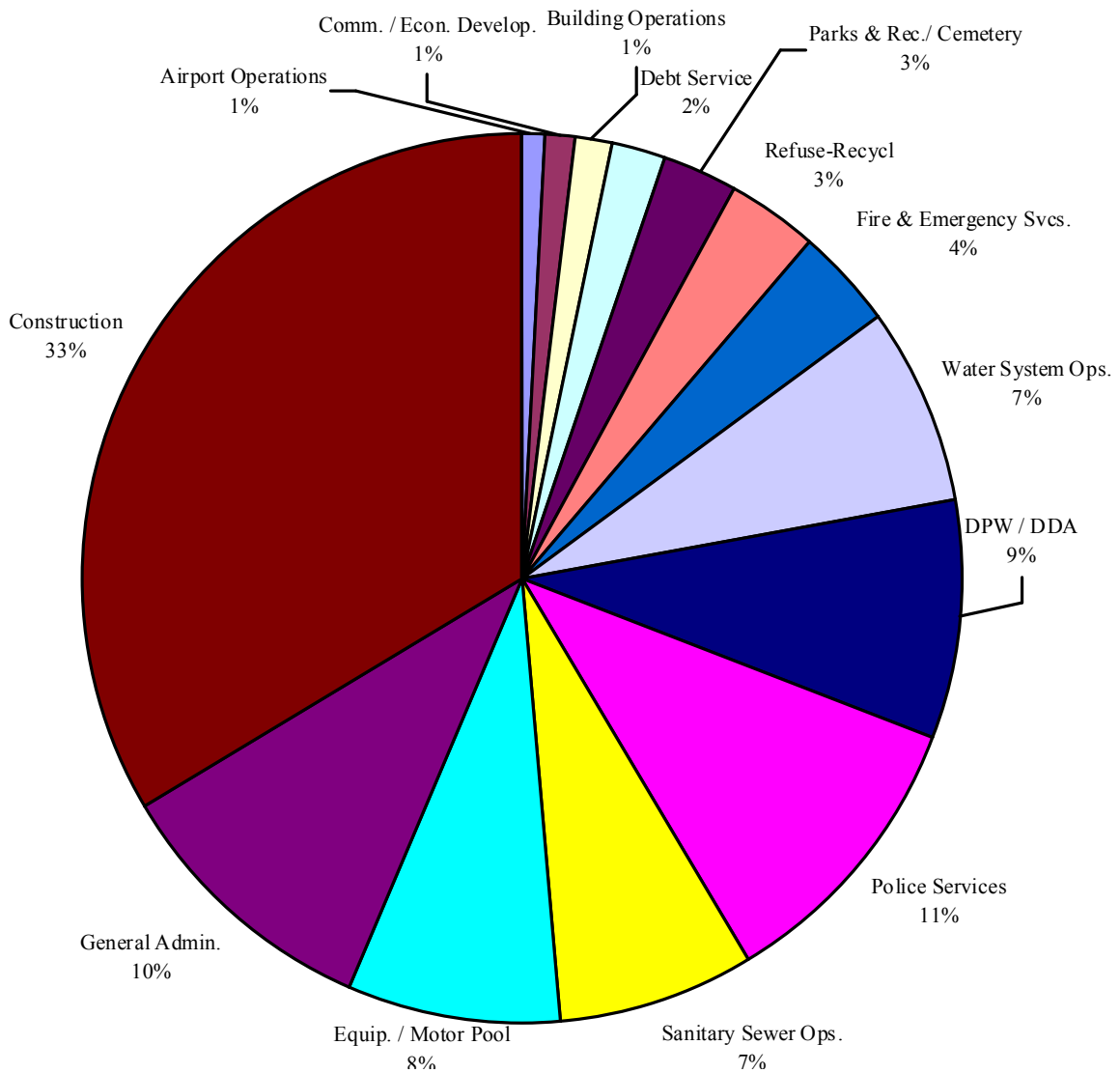


Definitions of Revenue Sources for Above Chart:

Property & Other Taxes:	\$ 1,921,600. Real/personal ad valorem/IFT (abatement) taxes, mobile home taxes, payments-in-lieu-of-taxes (PILOT's)
Service Charges:	\$ 1,593,400. 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:	\$ 792,000. Police Explorer/Safe Community Celebration, airport grants and several grants from the Fremont Area Community Foundation
State Revenue Sharing:	\$ 671,400. State sales & use tax, PA 51 gas/weight fuel taxes, State liquor licenses
Rental Income:	\$ 568,220. City Hall, airport T-hangars, land leases, Branstrom Lodge, Fremont Lake Campground, City equipment rental rates
Interest Earnings:	\$ 44,820. Interest earned on investments from all Funds
Other Revenues:	\$ 561,150. 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:	\$109,700. CATV franchise, business & non-business zoning permits, property tax and administration fees, METRO Act ROW fees
Transfers from Reserves:	\$ 1,987,515. From Fund Balance reserves
Fines & Penalties:	\$ 47,500. 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, General Administration, Water & Sewer Operations & Equipment/Motor Pool collectively top the chart at nearly \$5.1 million this year.** Individually, Police and Fire services are not among the highest, but if they were added together as a "Public Safety" category, they would be the 3rd highest category of the chart representing proposed expenditures of over \$1,161,820 per year. Footnotes to the chart provide definitions for the expenditure categories.

EXPENDITURES By PROGRAM AREA (FY 2011-1012)



Definitions of Program Areas for Above Chart:

- Construction:** Airport runway extension, street reconstruction & resurfacing, park 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/composting & 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. Even so, staff has continued to bring project-based budget amendments to Council throughout the year when the project budgets are approved. Therefore, we will need to make only minor final budget amendments by Fund to ensure that no Fund ends in a deficit situation. We will bring these amendments to Council for consideration before adoption of the final FY 11/12 budget.

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, particularly the two enterprise funds (Sewer and Water.) 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 continues to allow General Fund subsidy of various major construction projects in the Major, Local and Capital Projects Funds. Funds receiving a General Fund subsidy include the DDA Fund (for the fifth year of the wildly successful Downtown Façade Renovation program & not eligible for TIF capture), Capital Projects Fund (as local match for airport and other capital projects) and the Local Street Fund (to meet Act 51 matching requirements for street construction projects on Local Streets.)

A few years ago, the City made a significant format change by creating the Equipment & Motor Pool Fund (Fund #661.) This Fund 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 truer picture of both. We have included a copy of the 5-year Equipment Plan for Fund 661 in Appendix K.

Four years ago we added a new fund: the Fremont Community Joint Planning Commission Fund-268. This Fund helps in tracking revenues & expenditures for joint planning in the area. The Commission's budget has now been aligned with the City's fiscal year for ease of accounting.

CONCLUSION

Each year will continue to challenge the City of Fremont as it continues to seek ways to generate revenue and efficiently deliver services. In spite of difficult economic times, Fremont continues to be a charming community that offers the fullest range of services. Recent and planned expansions to the Fremont Public Schools and Nestle Gerber have sent a clear message to the area that Fremont enjoys a substantial quality of life. Novi Energy has broken ground in the industrial park and promises an exciting new technology which takes full advantage of our local agricultural skillset. Demand for spaces in the Fremont Lake Campground indicate a continued desire to spend in our community.

The last year has flown by (in a good way) because the people I work with are enjoyable – both personally and professionally – at all levels of our organization. As you are aware, the City's department heads are recognized and decorated at the state level within their respective professions. Similarly, City Staff works harder than anyone to make sure Fremont continues to be recognized as a great place to live, work and recreate.

I am convinced that the City Council is up to the challenges faced by our community. You are prepared each meeting to represent our community and provide informed and diverse points of view on every issue. And that is why I'm confident that we will do what needs to be done.

Respectfully Submitted,

Bryan Gruesbeck
City Manager