

April 20, 2017

The Honorable Gary Nelund, Mayor
 Norton Shores City Council Members
 City of Norton Shores
 4814 Henry Street
 Norton Shores, MI 49441

Dear Honorable Mayor and City Council Members:

I am pleased to present the proposed Fiscal Year 2018 Budget.

Introduction

Fiscal year 2018 will mark the fourth consecutive year in eight that overall property value will increase. Last year the increase was 4.55% and this year it will be 3.10%. However, inflation remains low. As the Council well knows, the Proposal A tax cap measure caps taxable value at the rate of inflation or 5% whichever is less. Therefore, taxable values will rise only 1.85%. Revenue from existing property continues to be limited. Fortunately, new construction remains steady, bolstered by commercial and industrial growth, although new home starts have declined somewhat.

Looking forward to next fiscal year, services will be maintained at present levels. Also, the property tax millage is proposed to continue at its current rate of 10.95 mills.

Revenues and Millage Rate

General Fund revenues are anticipated to increase \$562,089 for Fiscal Year 2018. However, the majority of the increase is attributable to the proposed TIFA pass-through. State shared revenue is estimated to increase \$56,994. The mix of revenues in the General Fund remain similar to the 2017 budget with the most significant ones being property taxes at 51.11% (up 6%), State revenue sharing at 19.09% (down 3%) and charges for services at 22.47% (up 1.5%). Other revenue includes fees, licenses and permits, investment income and refunds, fines and federal and state grants.

Constitutional State shared revenues are predicted to increase 2.2% based on Michigan State Treasury Department estimates. In addition, statutory revenue sharing through the City, Village and Township Revenue Sharing Program (CVTRS), is estimated at \$63,502. With the continued phase-out of the Personal Property Tax (PPT) and supplement of the Essential Services Assessment (ESA) tax revenue from personal property is estimated be status quo.

Administration/City Clerk (231) 798-4391	Assessing Division (231) 799-6806	Building Division (231) 799-6801	Finance/Treasurer (231) 799-6805	Fire Prevention (231) 799-6809	Fire Department (231) 798-2255
Parks/Recreation (231) 799-6802	Planning/Zoning (231) 799-6800	Police Department (231) 733-2691	Public Works (231) 799-6803	Streets Division (231) 798-2156	Water/Sewer (231) 799-6804

Regarding constitutional revenue sharing it should be noted, for the current Fiscal Year 2017, the State projection was off significantly, by \$300,000. This will negatively affect the current FY2017 budget.

Again, it is proposed that the City’s millage rate be maintained at the current level of 10.95 mills. General Fund and Capital Improvement Fund limits remain at thresholds established by City Charter. The breakdown of the proposed overall millage rate is as follows:

FUND	MILLAGE RATE Fiscal Year 2018
General	5.00
Capital Improvement	2.00
Solid Waste	1.10
Street Improvement	1.50
Public Safety	<u>1.35</u>
TOTAL	10.95

Department Highlights

City Administrator’s Office, Administrative Services Department, and Finance Department

The PlacePlan has been completed for the Seminole Road corridor between Henry Street and Seaway Drive by a professional consulting firm. Staff is beginning to implement the plan by engaging discussions with RD Management, owners of the former Kmart site, and Macatawa Bank, mortgage holder on the majority of properties in Eastowne. The goal is to create a Brownfield Tax Increment Financing Authority on the Kmart site to demolish the vacant building and develop a “greenfield” to improve aesthetics and prospects for development. The City will pursue title on the Eastowne sites and, if successful, hire a broker and get the stalled development moving again.

The Administrative Services Department will continue to assist other departments in recruitment and selection of personnel. Seven positions have been filled by promotion or new hire and nine openings advertised since January. Some of these positions include Water and Sewer Superintendent, Water and Sewer Supervisor, Streets and Drainage Supervisor and Facilities Maintenance Supervisor. Further, the Department is working with collective bargaining unions to re-open contracts to negotiate closing the Defined Benefit (DB) pension plan and creating Defined Contribution (DC) plans for new hires along with changes in retiree health insurance. Just this month staff successfully negotiated an amendment to the Teamsters’ Collective Bargaining Agreement closing the DB plan as well as lowering costs to current retirees’ health insurance. Also, the non-union DB plan was closed in March.

Managing unfunded liabilities continues to be a priority in the Fiscal Year 2018 Budget. For the fourth year in a row staff will propose additional funding above and beyond the pension Annual Required Contribution (ARC). Further, staff proposes to increase funding for the OPEB (i.e., retiree health insurance) Annual Recommended Contribution (ARC). At the same time, the City is implementing changes to decrease the cost of pension and retiree health benefits.

Economic Development

The local economy continues to maintain a strong pace. The industrial sector has seen at least four expansions this year representing more than \$39 million in investment and is projected to create 135 new full-time jobs. Results of this year's employment survey conducted by the City are positive. Of the 22 manufacturers surveyed seven increased employment, six stayed the same and nine declined in employment. The net increase in new full time jobs since December 2016 is 107.

Residential construction has declined slightly. The current fiscal year has seen 34 new home starts through March. That is six less home starts than last year to date.

Retail and commercial growth is positive. Site plans for one new and one redeveloped site were approved on Harvey Street. Also, a site plan for the former Comerica bank building was approved. The new development will include two restaurants and an eye care center. The Harvey Street corridor is also seeing new activity with a proposed new medical facility on Farr Road.

Overall, new construction is strong. Through March, total construction value is nearly \$27 million. This is more than the previous year to date by approximately \$10 million and about the same level as fiscal years 2014 and 2015.

Tax Increment Finance Authority

The Tax Increment Finance Authority (TIFA) Plan was extended ten years until December 31, 2026. The renewed 10-year plan will provide for street improvements, sidewalk construction, LED lighting conversion and other projects. With a healthy fund balance, the entire tax capture will not be required to fund these projects and the Fiscal Year 2018 proposed budget includes a 100% pass through of funds to the City and various taxing jurisdictions. This will provide \$525,000 in additional funds which will be put toward pension and retiree health insurance unfunded liabilities. Fiscal Year 2018 projects proposed within the district include:

- Ellis Road, Harvey to US-31 – sidewalk
- Industrial Park sign - repaint
- Pontaluna Road, Grand Haven Road to Pontaluna Shores - sidewalk
- Streetlight upgrade to LED

Parks and Recreation Division

The master plan for the Hines Property, which was added to Black Lake Park, was completed this year. The Fiscal Year 2018 budget provides for a grant match for a pending Coastal Zone Management Grant application is pending which would fund a kayak launch located where the Hines' home once stood.

Police Department

Proposed for Fiscal Year 2018 is the replacement of video system equipment including both in-car cameras and the addition of body cameras. The current video system has been out of warranty for several years and it is difficult to find replacement parts. Also proposed for the new budget is replacement of portable radios. The proposed radios will have blue tooth connectivity which will produce better sound quality with use of the body cameras.

Although not proposed in this year's budget, what may be considered during mid-year is the addition of a patrol officer. Several years ago the City lost the law enforcement and security contract with Muskegon County Airport and, since that time, the Sheriff's Department has provided the service. However, the City and County have recently discussed contracting once again. Unfortunately, it is unlikely a contract would cover 100% of the cost of the position. However, if the City were successful in renegotiating the police collective bargaining agreements to close the DB plan and open a DC plan for new hires, the City may be able to afford to hire the additional position. There is also a chance that the officer could provide some coverage in the school system as well. If so, an arrangement with the schools could potentially provide a source of revenue as well.

Fire Department

As mentioned previously to the City Council, staff is considering proposing that the "Kelly Shifts" (part-time Fire personnel working full-time station duty hours) be replaced with full-time personnel. Currently there are six Kelly shifts. While the proposed 2018 budget does not provide for this conversion, staff would consider proposing it mid-year if successful in renegotiating the full-time Firefighter Collective Bargaining Agreement to close DB plans and open DC plans for new hires.

Building Division

The Building Division is seeing a great deal of activity through new construction. This is placing an ever-increasing demand on staff. A part-time clerical position was added in fiscal year 2016. Proposed for Fiscal Year 2018 is to make the part-time position full-time. This would cost approximately \$28,650 in additional appropriation. The proposed budget also recommends hiring a part-time Construction Inspector at a cost of \$33,280. The City employed a part-time inspector for many years but eliminated the position in 2009 due to the recession. Also the City is currently recruiting for a new Building Official/Construction Inspector, a position that has been vacant since November 2016.

Current charges for service are sufficient to maintain a balanced budget for the Building Fund. Current fund balance is \$324,000.

Public Works Department
Streets and Drainage Division

The City continues to utilize various funding sources to improve the streets system. Following is a list of road reconstruction and resurfacing projects by fund:

CAPITAL IMPROVEMENT FUND

- Bailey Street, Summit Avenue to Cleveland Avenue - sealcoating
- Farr Road, Grand Haven Road to Martin Road- sealcoating
- Harvey Street, Judson Road to Wilson Road- sealcoating
- Manahan Avenue, Henry Street to Fairfield Street – regravelling
- Norton Avenue, Getty Street to Airline Road – regravelling
- Sternberg Road, Davis Road to Hillview Drive – regravelling
- Wickham Drive, Woodside Drive south to end near Norton Avenue – regravelling
- Henry Street, Randall Road to Forest Park Road (continued from FY-17) -sidewalk
- Lake Forest Drive, Seminole Road to Oakway Drive -sidewalk
- Mona Lake/Muskegon Bike Trail (Engineering)
- Miscellaneous Sidewalk Repairs
- Mona Shores High School at Padelt Street – crosswalk

MAJOR STREET FUND

- Broadway Avenue, Bailey to US-31 – reconstruction with MDOT grant
- Forest Park Road, Lake Harbor to Braeburn – resurfacing/reconstruction
- Grand Haven Road, Sternberg to Bryon – resurfacing
- Harvey St, Ellis to Hile – reconstruction with MDOT grant
- Merrill S. Bailey Bridge – joint replacement, structural repairs, coating with MDOT grant
- Sternberg, Martin, Porter – traffic flow improvement with MDOT grant

MUNICIPAL ROAD FUND

- Bonneville Drive, McCracken to cul-de-sac – resurfacing
- Broadway Avenue, Bailey to US-31 – reconstruction match
- Greisbach Street, Norton to Seminole – resurfacing
- Harvey St, Ellis to Hile – reconstruction match
- Hile Road, Grand Haven to west cul-de-sac - resurfacing
- Hillside Drive, Maryland to Montevue – resurfacing
- Lawnel Avenue, Estes to Wickham – resurfacing
- Manitou Boulevard, Manitou Circle to McCracken – resurfacing
- Manitou Boulevard, McCracken to Mohawk - resurfacing

- N. Manitou Circle, Manitou to S. Manitou – resurfacing
- S. Manitou Circle, Manitou to N. Manitou – resurfacing
- Montevue Drive, Hillside to Maryland – resurfacing
- Osceola Avenue, N. Manitou to S. Manitou - resurfacing
- Padelt Street, Norton to Seminole – resurfacing
- Seneca Court, N. Manitou to S. Manitou - resurfacing
- Sunset Point Drive, Lake Harbor to Westwood – resurfacing
- West Harbor Court, Westwood to south cul-de-sac - resurfacing
- Westwood Circle, Westwood to east cul-de-sac - resurfacing
- Westwood Drive, Lake Harbor to Sunset Point – resurfacing

In addition to the streets projects, the Capital Improvement Fund includes appropriations to repair existing sidewalks as well as construct a crosswalk on Seminole Road at Mona Shores High School per a request from the school. As mentioned during the March work session, the City will attempt to raise as much money as possible working with Mona Shores School District to offset the cost.

Water and Sewer Division

The following projects are proposed for Fiscal Year 2018:

WATER FUND

- Greisbach/Reneer/Arbor – engineering study
- Madison Street, Summit to Broadway – upgrade water main
- Miller Street, Randall to Lake – upgrade water main
- Porter Road, west of Henry – replace 300’ of water main, repair culvert (cont. of FY-17)
- Water Asset Management System – engineering study

SEWER FUND

- 3180 Henry Street lift station – pump replacement
- 4993 Henry Street lift station – pump replacement
- Lakeshore Boulevard lift station – pump replacement
- Lincoln Street lift station – pump replacement
- 2195 Reneer Avenue lift station – pump replacement
- 1175 Seminole Road lift station – pump replacement
- 1797 Seminole Road lift station – pump replacement

Building and Grounds Division – Cemetery

Improvements for the Norton Cemetery will continue in Fiscal Year 2018. These include resurfacing of roadways and maintenance of the office building. Additionally, the proposed budget includes an appropriation to acquire additional land for a second phase of the cemetery

as the current site is nearing capacity. The Perpetual Care Fund, which has a balance of \$689,191, will be utilized to fund these projects.

Solid Waste Division

The Fiscal Year 2018 proposed budget maintains the current millage rate at 1.10 mills. Services provided through the Solid Waste Fund millage include leaf disposal, street sweeping and refuse collection.

Equipment Replacement Program

The proposed Fiscal Year 2018 budget recommends the replacement of several pieces of mid-sized equipment through the Equipment Revolving Fund. The most notable ones include two patrol vehicles, a fire command vehicle and a brush chipper. Other purchases include a police video camera system and police and fire portable radios.

Lastly, as a reminder, all equipment recommended for replacement through the Equipment Revolving Fund is fully depreciated and funds have been accumulated for their replacement through the charging of annual rental rates to various operating budgets.

Capital Improvement Program

The proposed Fiscal Year 2018 Budget contains a complete listing of proposed projects. However several notable projects are outlined below:

POLICE DEPARTMENT

- Mobile Vision System (carryover) \$ 58,600
- Automatic Electronic Defibrillator Replacement (4) \$ 5,100
- Silent Alarm System \$ 4,000
- Mobile Finger Print Scanner \$ 5,000
- Crime Scene - Privacy Screen \$ 2,575

FIRE DEPARTMENT

- Station #2 Kitchen Renovation \$ 25,000
- Automatic Electronic Defibrillator Replacement (20) \$ 27,000
- Public Safety Training Center Props (carryover) \$ 13,000
- Side Scan Sonar Replacement (grant carryover) \$ 42,000

PARKS & RECREATION DIVISION

- Black Lake Park Kayak Launch (grant) \$114,132
- John Deere Utility Vehicle \$ 13,090

PUBLIC WORKS DEPARTMENT

• Street Sealcoating	\$ 103,000
• Sidewalk Repair & Construction	\$ 164,000
• Revitalization of Gravel Roads	\$ 83,137
• Enclosing of Padelt/York Streets Drain (carryover)	\$ 62,500
• Drain Restoration	\$ 40,000
• City Hall Lighting Upgrade (LED conversion)	\$ 25,000
• Cemetery Improvements (Perpetual Care Fund)	
○ Building Improvements	\$ 15,000
○ Road Resurface	\$ 56,000
○ Land Acquisition	\$ 135,000

STAFF SERVICES

• Election Supply Bags (11)	\$ 5,500
• Election Laptops (10)	\$ 6,000

Managing Unfunded Accrued Liabilities

Since being informed by the Municipal Employees Retirement System (MERS) last summer regarding their implementation of more conservative actuarial assumptions which will significantly increase our annual contribution toward the pension program, staff has developed new strategies for managing unfunded accrued liabilities. In September 2016 staff provided the City Council with a historic perspective related to the strategies that have been implemented to date and in November 2016 staff unveiled new, more extensive, strategies. The overall goal is to provide sustainable benefits for employees and retirees. The objectives are to lower costs, increase funding and spread costs over time.

Fortunately, MERS policy regarding closing DB plans and opening DC plans has allowed us to pursue this strategy. Thus far two employee groups, Management, Professional, Technical and Clerical (MPTC) and Teamsters (Department of Public Works employees) have closed their DB plans. Staff is in the process of requesting that remaining collective bargaining agreements be reopened with full-time Firefighters, Patrol Officers and Police Supervisors.

The proposed Fiscal Year 2018 budget also provides that non-union employees hired prior to 2010 contribute 3% toward their pension plans. Again, the budget proposes that the TIFA pass-through, which will provide over \$525,000, be used to help fund unfunded accrued liabilities including OPEB. Lastly, staff continues to pursue cost reductions in current retiree health insurance.

Final Notes

The proposed Fiscal Year 2018 General Fund Budget is a balanced budget. It proposes to use \$100,000 in fund reserves to increase funding toward the pension system and \$100,000 toward OPEB. Furthermore, an additional \$400,000 from non-general fund balances is proposed to be used toward the pension system and \$400,000 toward OPEB. Therefore, for the fourth consecutive year, the City would pay \$500,000 above the required annual pension contribution (which is increasing \$187,776 for FY2018). Further, for Fiscal Year 2018, the City would pay an additional \$223,000 toward OPEB unfunded liabilities. The Fiscal Year 2018 General Fund Budget leaves a projected 15% fund balance which is within generally accepted accounting practices.

As in past years, I would like to thank the Mayor and City Council for their continued direction and support during the budget process. I would also like to thank the executive staff including Public Works Director Jerry Bartoszek, Administrative Services Director Anthony Chandler, Finance Director Mike Huston, Fire Chief Robert Gagnon, and Police Chief Jon Gale for their thoughtful preparation of department budget recommendations.

I look forward to reviewing the proposed Fiscal Year 2018 budget with the City Council during the April 25, 2017 work session. In the meantime, please contact me with any comments or questions you may have.

Respectfully submitted,

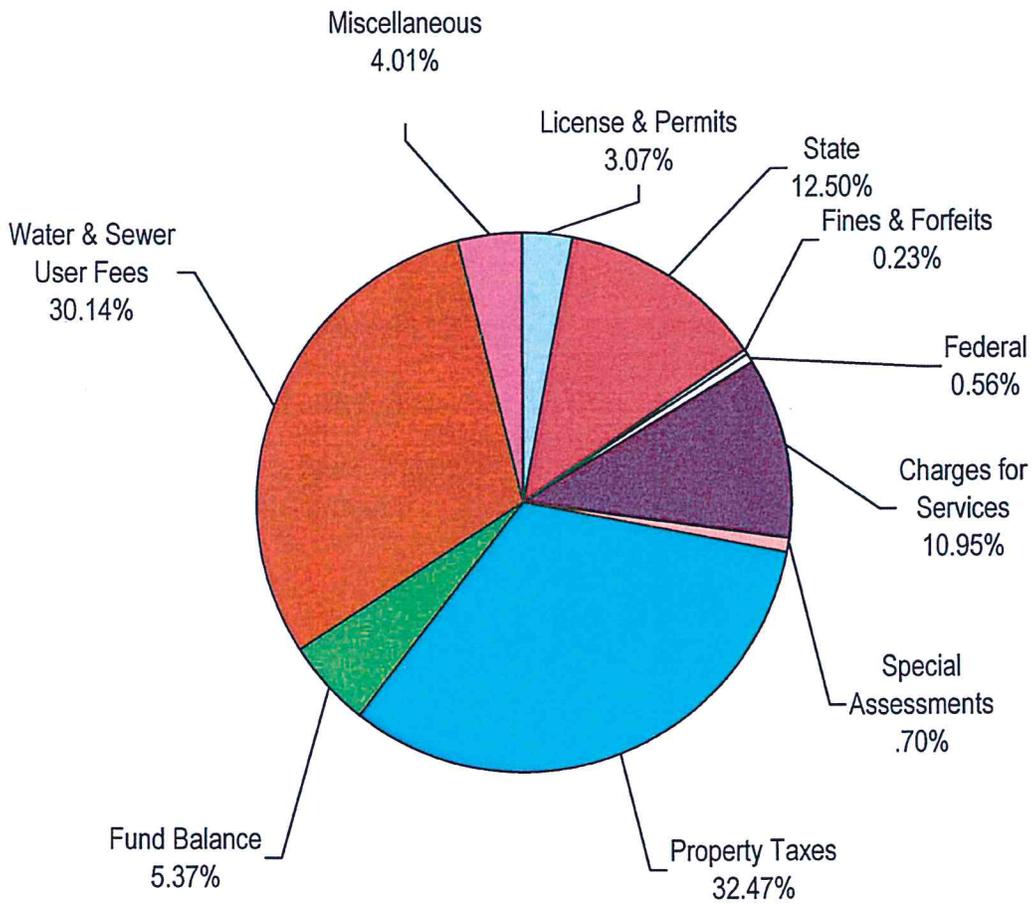


Mark C. Meyers
City Administrator

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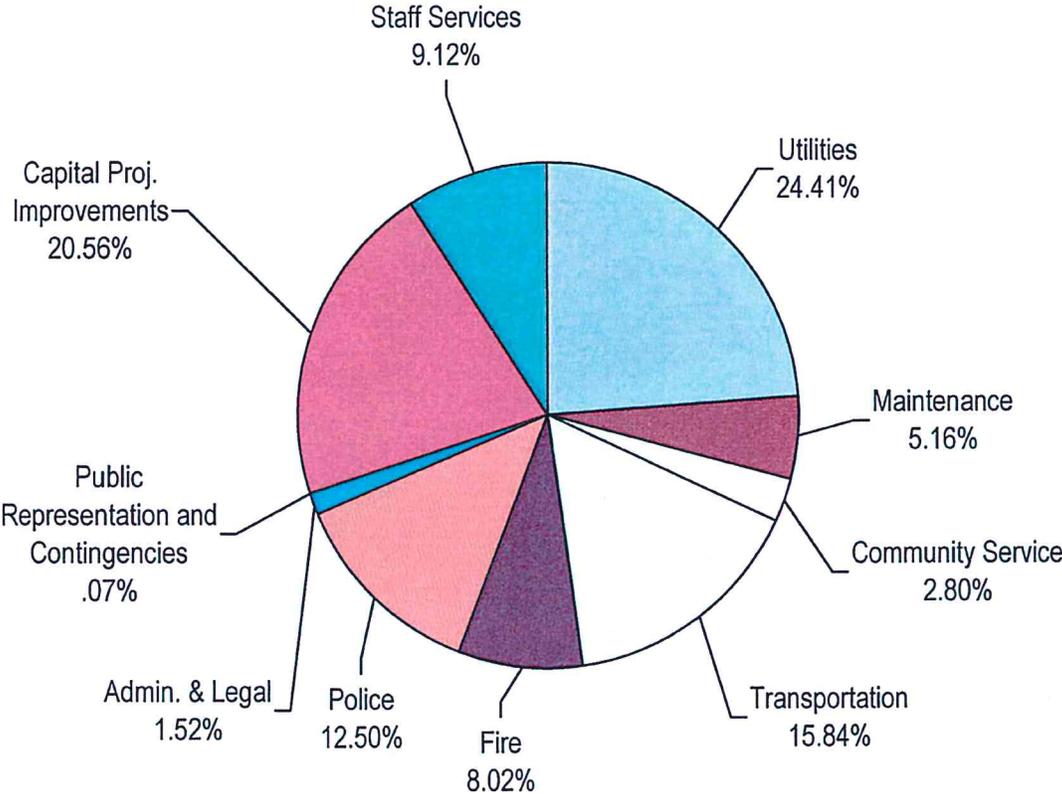
CITY OF NORTON SHORES
PROPOSED FY-2018 REVENUES

"Where It Comes From"
\$29,788,441 in Net Operating Revenue

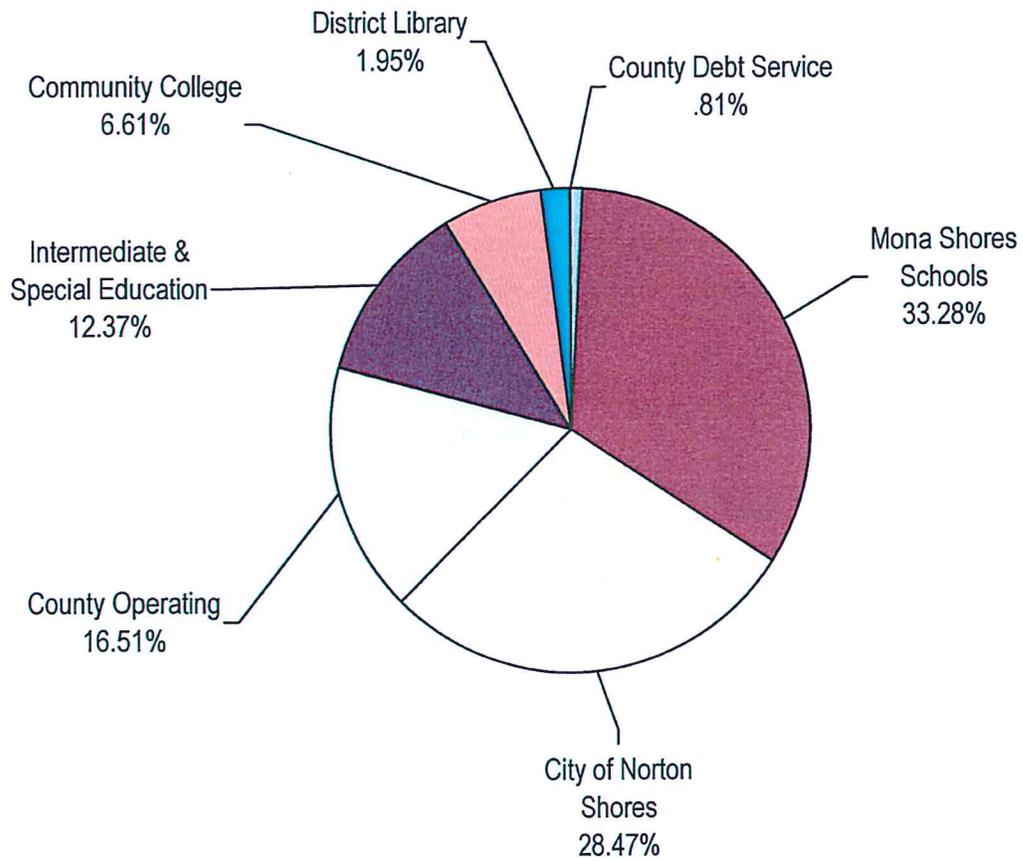


CITY OF NORTON SHORES
PROPOSED FY-2018 EXPENDITURES

"What Your Dollar Buys"
\$29,788,441 in Net Operating Expenditures



CITY OF NORTON SHORES
2017 PROPERTY TAX DOLLAR
Mona Shores School District
Proposed Millage
Homestead Tax



CITY OF NORTON SHORES
2017 PROPERTY TAX DOLLAR
Mona Shores School District
Proposed Millage
Non-Homestead Tax

