

CITY OF SCOTTVILLE


MEMORANDUM

To: Mayor Marcy Spencer and Members of the Scottville City Commission

From: Clarence E. Goodlein, Interim City Manager

Date: October 15, 2024

Subject: Financial Action Plan



Introduction

While the City's auditors, Brickley DeLong of Muskegon, have finished their site visit and review of the City's financial records for the 2023-2024 fiscal year but have not yet issued a final report, they have issued a draft report¹ which forms part of the basis for this memorandum and this writer's opinions. Other information that forms the basis for this report and this writer's thinking are meetings and conversations with personnel of Brickley DeLong as well as meetings and conversations with the City's Treasurer, Ms. Kathy Shafer. Readers of this memorandum will note that it expresses this writer's concern that the City's financial health is deteriorating, and that the City needs a financial strategy that can re-establish confidence in the City's ability to provide essential services as well as the maintenance and repair of critical infrastructure.

Operational Fundings Versus Unappropriated Fund Balances/Unrestricted Reserves

It is important to distinguish between operational fundings and unappropriated fund balances or unrestricted cash reserves. Operational fundings can be best conceptualized as checking accounts or funds from which normal and annual expenses are disbursed. This is different from unappropriated fund balances or unrestricted reserves that can best be thought of as savings accounts or funds that are kept aside for emergencies or planned and expensive projects such as infrastructure. Additionally, each operational funding has its own unappropriated fund balance/unrestricted cash reserves and funds can be moved between operational fundings and their corresponding unappropriated fund balances/unrestricted cash reserves based upon need. For municipalities, most financial advisors recommend that operational fundings at least balance revenue with expenses and that unappropriated fund balances or unrestricted cash reserves be 18%-30% of a fund's operational funding in "good times" and over 30% in "bad times"². Not unlike one's personal finances and the finances of corporations, debt and spending are always threats to the financial vitality of municipalities while thrift and economy encourage success and growth.

¹ The final report of the City's auditors may contain financial data that is slightly different due to adjustments and/or reassignments of certain revenue and expenses to different accounts than that to which they were attributed in the draft data sets.

² For Scottville, an eighteen percent (18%) unappropriated fund balance/cash reserve for the *General Fund* would be \$187,380 and a thirty percent (30%) unappropriated fund balance/cash reserve would be \$312,300.

Operational Fundings

In Michigan, policies and procedures for the design and functioning of municipal finance funds, including operational funds, are prescribed by the rules and principles of the Government Finance Officers Association (GFOA)³ as well as laws and the rules and regulations of the Michigan Department of Treasury⁴. In this regard, municipal revenue and expenses are typically split into general purpose and specialty funds. The *General Fund* is a general-purpose fund that provides for the revenue and expense accounting of core administrative and operational tasks. Money flowing into the *General Fund* generally emanates from collections of different taxes from different sources. Since the bulk of all resources flow through the general fund, it is most critical to maintain control over expenditures from it. Other Operational Funds include Local Streets, Major Streets, Garbage and Refuse, Cemetery, Parks, Water, Sewer, and etcetera. These funds' differences from the *General Fund* is that while they obtain their revenue from tax receipts and/or the imposition of fees, these funds are *Specialty Funds* that enable the specific functioning of different aspects and services of municipalities. Some *Specialty Funds*, such as Garbage and Refuse, Water, and Sewer derive their revenue almost exclusively from the imposition of fees while others, such as Local Streets and Major Streets, derive much of their revenue from State and Federal funding sources.

Unappropriated Fund Balances/Unrestricted Reserves

The importance of adequate unappropriated fund balances/unrestricted cash reserves for operational funds cannot be overstated. Adequate unappropriated fund balances/unrestricted reserves are a barometer of a municipality's financial health and a measure of their capacity to weather unexpected occurrences that demand other than budgeted financial resources or that overwhelm the ability of operational funding to provide for that expense without grave difficulty. Generally accepted accounting principles as well as rules and recommendations of the GFOA encourage not only the transfer of unused operational funds to unappropriated fund balances/cash reserves at the end of a fiscal year, but also strongly encourage replacement of funds transferred from an unappropriated fund balance/cash reserve as soon as possible and without delay. To do otherwise causes circumstances that encourage deterioration of a fund's financial vitality and health as well as, in extreme cases, a municipality's bond rating and its ability to borrow money at reasonable interest rates. In Michigan, negative unappropriated fund balances/unrestricted cash reserves trigger the necessity for municipalities to file a *Deficit Elimination Plan* with the Michigan Department of Treasury (MDOTR) and to enter into a monitoring agreement with them together with an annual payment plan to remove the deficit within five (5) years.

³ Key components of GFOA budgeting guidelines include the utilization of standards and measures to guide budget decision-making and compliance with budgetary limitations throughout the budget-cycle, citizen engagement during the budget process, and budgeting that considers short-term and long-term budgetary needs.

⁴ Statutory regulations include PA 2 of 1968, as amended (the Uniform Budgeting and Accounting Act) that require balanced fund budgets [§15(2)], for instance. Other rules and regulations are promulgated by the Department to facilitate good financial practices for municipalities.

City’s Financial Health

The financial health of the City has significantly deteriorated during the past three (3) years. In each of the past three fiscal years, the City has expensed more than it has received in revenue that provides for day-to-day operational expenses and that is reflected by its *General Fund* budget. These occurrences have accounted for a three-year expense of \$473,379 more than the City collected in revenue for this purpose and is shown in the following Table I.

Table I		
Fiscal Year	Expense Greater Than Revenue	Excess As Percent of General Fund
FY 2021/2022	\$16,728	1.80%
FY 2022/2023	\$227,739	19.14%
FY 2023/2024	\$228,912	18.93%
Total	\$473,379	N/A

It is important to call attention to the excesses of FY 2022/2023 and FY 2023/2024 that were \$227,739 and \$228,912, respectively, or 19.14% and 18.93%, respectively, more than what had been budgeted in each of those fiscal years. From my analysis, it appears that these excesses may have resulted from inattention to budgeted amounts that had been appropriated to various budget lines, a 346% increase in legal fees, the scheduling and completion of projects that had not been budgeted⁵, and a lack of clear and accurate communication between City Administration and City Commissioners. Expense more than budgeted amounts has resulted in the unappropriated fund balance/cash reserves of the *General Fund* falling from 62%⁶ of its budgeted operational funding to -5%⁷ of its budgeted operational funding. These occurrences have resulted in the City exhausting its entire unappropriated fund balance/cash reserves of the General Fund as of 06/30/2024 and this fund falling into deficit⁸ at the end of FY 2023/2024. It will result in the City being obligated to file a *deficit elimination plan*⁹ with the Michigan Department of Treasury and to eliminate the deficit within five (5) years.

Of other concern and an indicator of the City’s ill financial health is its *Water Fund*. The unappropriated fund balance/cash reserve of the City’s Water fund is \$87,688, but only because of a \$200,000 loan from the unappropriated fund balance/cash reserve of the City’s Motor Pool Fund. The City’s *Water Fund* was \$112,312 in deficit before this loan¹⁰ occurred. The deficit accrued

⁵ For example, the renovation of a downtown business without approved grant funding in the amount of \$42,944 and an unbudgeted repair of a portion of a city parking lot and Main Street in the amount of \$43,208.

⁶ FY 2020/2021.

⁷ FY 2024/2025.

⁸ The City’s *General Fund* reflects a deficit of \$52,220 according to the draft report of its auditors, Brickley DeLong of Muskegon, Michigan.

⁹ See Michigan Department of Treasury Letter 2016-1 **Michigan Department of Treasury – Numbered Letter 2016-1 v7 (michigan.gov)**

¹⁰ The \$200,000 loan has a 3% annual interest rate and 15-year repayment schedule; the annual repayment will be no less than \$17,756.

exclusively in FY2023/2024 and was due to the unbudgeted expense of \$368,005.17¹¹ for the replacement of a watermain in the alley bounded by Blaine Street, South Main Street, State Street, and the east/west alley along the CSX railroad tracks. It is important to note that, despite some Commissioners reports that City Administration made verbal statements that part or all the cost of this alley watermain replacement was funded by a “grant”, none of the expense for this work was paid by any entity except the City of Scottville and its *Water Fund*.

Despite the obvious and apparent harmful outcomes of the *General Fund* and the *Water Fund* deficits, the remaining funds¹² demonstrate adequate unappropriated fund balances/cash reserves and are in good health; in FY 2023/2024 none of these funds demonstrated expenditures that were significantly greater¹³ than their revenue. The following Table II shows the unappropriated fund balances/cash reserves of all funds, group of funds, and the water fund.

Table II	
Fund Description	Amount
General Fund	(\$52,220) ¹⁴
Major Streets	\$739,101
Garbage/Refuse	\$128,595
Other Funds	\$192,139 ¹⁵
Water	\$87,688 ¹⁶
Sewer	\$594,965 ¹⁷

The City’s financial well-being is also threatened by the poor and deteriorating condition of many of its streets. Currently, the City has no street revitalization plan and current employees report that, in their opinion, the City has had no written plan during any of their tenures. While a discussion of the importance, value, and mechanics of a street revitalization plan is not a discussion for this report to the City Commission, its absence explains why many of the City’s streets have fallen into

¹¹ This expense consisted of a \$292,305.17 payment for materials and construction-labor and a \$75,700 payment for design and construction engineering.

¹² Major Streets, Garbage/Refuse, Sewer, Local Streets, Cemetery, Downtown Development Authority, Police 302 Funding, Sculpture Project, and Motor Pool Fund.

¹³ The Local Streets Fund’s expenditures exceeded its revenue by approximately \$6,832.

¹⁴ Represents a -5% unappropriated fund balance/cash reserve.

¹⁵ Includes the following funds: Local Streets, Cemetery, Downtown Development Authority, Police 302 Funding, Sculpture Project, and Motor Pool Fund.

¹⁶ The unappropriated fund balance/cash reserves of this fund need to be considerable and to grow each year to provide for future infrastructure needs as well as maintenance and any needed repairs that cannot be addressed by operational funding. Rates and fees for the services that are provided by this fund need to emanate from analyses that include a strategic financial needs assessment, a ready-to-serve rate evaluation, and the expected future cost of the commodity and its delivery expense.

¹⁷ The unappropriated fund balance/cash reserves of this fund need to be considerable and to grow each year to provide for future infrastructure needs as well as maintenance and any needed repairs that cannot be addressed by operational funding. Rates and fees for the services that are provided by this fund need to emanate from analyses that include a strategic financial needs assessment, a ready-to-serve rate evaluation, and the expected future cost of transporting the waste for treatment.

extreme disrepair since these plans provide a street repair schedule that coincides with annual funding appropriations that are set aside and earmarked for only street repair and reconstruction.

To analyze the threat that street repair and reconstruction expenses pose to the City’s financial well-being, City Administration examined eight (8) streets that were selected by the City’s Department of Public Works (DPW) and that the DPW described as being in the “worst” condition. These streets were evaluated using a Pavement Surface and Evaluation Rating Scale (PASER)¹⁸ and the evaluation was performed by the City Manager who has been PASER trained. In the following Table III, the selected streets and their PASER rating results are shown.

Street	PASER Scale Rating	Repair Remedy	Cost @ \$600/l-ft
Green Street - Reinberg to City Lot ¹⁹	1	Reconstruction	858' - \$514,000
West Second - South Main to Crowley ²⁰	1-2	Reconstruction	344' - \$206,400
Clarke - North Main to Loomis ²¹	1-2	Reconstruction	335' - \$201,000
East Maple - North Main to Thomas ²²	1-2	Reconstruction	340' - \$204,000
West Maple - North Main to Reinberg ²³	2	Reconstruction	1080' - \$648,000
North Reinberg - Johnson to Beryl ²⁴	1-2	Reconstruction	899' - \$539,400
South Columbia - East State to RxR ²⁵	3	Reconstruction	590' - \$354,000
South Elm - South of East Second St ²⁶	1	Reconstruction	840' - \$504,000

¹⁸ The PASER scale is a 1-10 rating system for road pavement condition developed by the University of Wisconsin-Madison Transportation Information Center. PASER uses visual inspection to evaluate pavement surface conditions. When assessed correctly, PASER ratings provide a basis for comparing the quality of roadway segments. The PASER assessment method does not require measurements of individual distresses, and thus PASER ratings cannot be disaggregated into measurements of specific distress types. The advantage to this method is that roads may be assessed quickly, possibly even by "windshield survey." A primary disadvantage is that because PASER ratings cannot be disaggregated into component distress data, the metric cannot be used in mechanistic-empirical transportation asset management programs.

Numerical PASER ratings are translatable to condition categories and prescribed treatment options, as shown below.

Quality	Rating	Treatment (<u>Asphalt</u>)	Treatment (<u>PCC</u> - Portland Cement Concrete)
Excellent	9-10	No maintenance required	No maintenance required
Good	7-8	Crack sealing and minor patching	Routine maintenance
Fair	5-6	Preservation treatments (non-structural)	Surface repairs, partial-depth patching
Poor	3-4	Structural renewal (overlay)	Extensive slab or joint rehabilitation
Failed	1-2	Reconstruction	Reconstruction

The Michigan Transportation Asset Management Council has selected the PASER rating system as the statewide standard of pavement condition reporting.

¹⁹ See photographs - Exhibit A.

²⁰ See photographs - Exhibit B.

²¹ See photographs - Exhibit C.

²² See photographs - Exhibit D.

²³ See photographs - Exhibit E.

²⁴ See photographs - Exhibit F.

²⁵ See photographs - Exhibit G.

²⁶ See photographs - Exhibit H.

The extreme deterioration of these streets can be best appreciated by an examination of photographs of their roadway surfaces (see Exhibits A – H). In these photographs, you will notice that these streets share similar characteristics of crumbling street/roadway surfaces or erosion and a loss of street/roadway surfaces to each road’s base, as well as degradation of gutter pans, stormwater drains and catch basins. These circumstances make it difficult to provide an accurate cost-estimate of the reconstruction that would be required on any of these streets without an evaluation by a civil engineer. Nevertheless, it is known that street and roadway reconstruction costs normally vary between \$300 - \$500/linear-foot for a street or roadway that is forty (40) feet wide and \$700 - \$1000 if curb, gutter pan, and storm water drain repair is required.²⁷ The continuing deterioration of City streets is a direct threat to the financial health of the City by virtue of the burgeoning cost of repairs as streets further deteriorate and as reconstruction and repair costs increase. Without prioritization of roadway reconstruction and repair, the City can expect a reckoning and a point-in-time where the repair and reconstruction costs will exceed its wherewithal.

National Economy and Elements of Concern

While there continues to be debate about whether there will or will not be a “hard-landing recession”²⁸, many believe that the probability of it has increased significantly since January 2024 and that it will occur within the next 6 – 18 months. While this opinion is supported by an examination of the nation’s history of economic outcomes over the past fifty (50) years following a .50% drop of interest rates by the Federal Reserve (FED), many believe that it is also supported by significant increases²⁹ in the U3³⁰ unemployment rate and, more importantly, the U6³¹ unemployment rate. It is also supported by the recently reported 6.5% decrease³² in the Consumer

²⁷ Subdivision Development Costs (michigan.gov)

²⁸ A period of rapid and significant slowdown of the economy that is often characterized by one or more of the following: significant losses in the value of stocks and mutual funds; financial crises characterized by bank failures or a lack of liquidity; collapse of investor and/or consumer confidence; rising unemployment.

²⁹ U3 unemployment increased from 3.7% in January 2024 to 4.3% in September 2024 (+16.21%); U6 unemployment increased from 7.2% in January 2024 to 8.0% in September 2024 (+11.11%). In the past eighteen (18) months, there have been sweeping cuts at General Motors (35,000), Disney (21,000), Ford (12,900), GE (7,200), and Coca-Cola (6,000); Amazon has laid-off 100,000 since 2021 [Epoch Times, August 28, 2024, p. A15].

³⁰ U3 unemployment is known as the “official unemployment rate” and is the rate generally used by the media. It is the rate that is an expression of the percentage of adults who have no job, have searched for a job within the past four (4) weeks, and who are available for work.

³¹ U6 unemployment is the rate of unemployment that includes adults who have no job, have searched for a job within the past four (4) weeks, and who are available for work and those who are underemployed (i.e., those who are working part-time, but want to work full-time), marginally attached to the workforce (i.e., those working “odd jobs” with different employers), or have given up looking for work and often report that they have become discouraged due to the lack of jobs for which they qualify. In this regard, it is people who have searched for a job for twelve (12) months, have not found a job, and have not searched for a job in the past four (4) weeks. All unemployment reports before 1994 were U6.

³² The Consumer Confidence Index decreased from 105.6 to 98.7 from July 2024 – August 2024. Those between the ages of 34 and 54 and those making less than \$50,000 annually reported the largest drop in confidence according to the data. Many cited inflation and worry about the stability of their jobs as reasons for their reluctance to make

Confidence Index³³ that occurred in the past thirty (30) day reporting period as well as the burgeoning U.S. debt of \$34T.³⁴

The importance of an increasing likelihood of a moderate or severe recession is that it would most likely reduce the revenue of municipalities by decreasing revenue sharing because of decreased taxable purchases and State sales-tax revenue. Depending upon the extent of unemployment and the effect of it on foreclosures, it is conceivable that tax revenue could decrease from a loss of taxable value due to foreclosure sales. While it is arguable whether these circumstances will occur and what their effect would be, it is important to remember that the recession beginning in 2007/2008 decreased the taxable value of many homes in many communities by as much as 50% in only a few years. The importance of these likelihoods is that municipalities should consider these possibilities and their impact on future revenue when conceptualizing future operational expenses, scheduling capital improvements, and prioritizing the maintenance, repair, and improvement/replacement of critical infrastructure. Municipalities with deteriorating roads and water and sewer infrastructure should consider assigning priority to funding these mechanisms.

Methods of Reestablishing Financial Vitality

The City of Scottville's pathway to future financial vitality and success is dependent upon significantly reducing expenses and developing operational and strategic plans for the maintenance, repair, and improvement/replacement of critical infrastructure. Given the City's difficulties with its General Fund's unappropriated fund balance/cash reserves and its interfund loan to its Water Fund, the required repayment interfund loan and *debt elimination plan* schedules that will be required and City streets and water and sewer infrastructure in need of repair and improvement/replacement, future appropriations to General Fund expenses should decrease by no less than 15% (\approx \$156,000) and preferably 20% (\approx \$208,000) in the next fiscal year and should not increase for the foreseeable future. Decreasing expenses by 5% (\approx \$52,000) or 10% (\approx \$104,000) will not provide for a reduction of expenses that can adequately address the debt and unappropriated fund balance/cash reserves inadequacies of the General Fund and that would enable the City to adequately address its deteriorating infrastructure. In the current fiscal year, a

purchases and many reported an increasing reliance on credit and credit cards to purchase staples such as food, fuel, and housing.

³³ The Consumer Confidence Index (CCI) is widely regarded as the most credible gauge of U.S. consumer confidence. It is essentially a barometer of the health of the U.S. economy and is based upon consumers' perceptions of current business and employment conditions and their expectations for the business, employment, and income for the next six months. The Organization for Economic Cooperation and Development (OECD) considers the CCI to be a leading indicator for the U.S. economy. Leading indicators provide qualitative information used to monitor current economic occurrences and variables and are a warning of turning points in economic activity.

³⁴ In 2009, the U.S. debt was \$12T (Debt/GDP = 82%); in 2019, the U.S. debt was \$22.7T (Debt/GDP = 107%); in 2022, the U.S. debt was \$31.4T (Debt/GDP = 119%); in 2023, the U.S. debt was \$34T (Debt/GDP = 122%); [U.S. National Debt by Year \(thebalancemoney.com\)](#). U.S. federal debt has grown by \$4.5 trillion in one year, deficit spending is nearly \$2 trillion, and the debt service cost (interest on the debt) is now more than the U.S. defense budget and is \$1 trillion annually [Epoch Times, August 21, 2024, p A15].

prorated decrease of current expense allocations should occur, if it is possible, and that decrease should be approximate to that which is proposed for FY2025/2026.

Reduction of allocations to General Fund expenses of 15% or 20% cannot be accomplished without a reduction and change in the way City service is provided. Given the small size of the City’s workforce and the City’s need for the maintenance, repair, and improvement of the City’s infrastructure as well as the continuing need to provide the services rendered by the City Clerk and City Treasurer, you will notice that no reductions have been proposed for the Department of Public Works or City Administration staff. These are core City services that cannot be obtained elsewhere easily or reliably and are services that should not be outsourced. Consequently and for discussion purposes, City Administration offers the following methods by which General Fund expenses could be reduced through one or more of the following ways.

- **Reduction of the City Manager’s Compensation Through Reduction of Total Compensation or the Number of Hours Worked**

One reduction in expenses that could be implemented would be to reduce the total compensation of the City Manager either through a reduction in pay and/or benefits or a reduction in the number of hours worked that would be appropriated and funded. The following Table IV displays the outcome that could be achieved through a reduction in total compensation or a reduction of the number of hours worked by the City Manager.

<u>Table IV</u>	
<u>Expense Reduction Description</u>	<u>Expense Reduction Realized Annually</u>
Total Compensation Reduction	\$18,000 or 15.78% of salary
Reduction of Hours Worked to 32 Hrs/Week	\$22,800 or 20.00 % of salary
Reduction of Hours Worked to 24 Hrs/Week	\$45,600 or 40.00% of salary
Mix of 3-day, 4-day, & 5-day Weekly Schedule	≈ \$20,000 - \$30,000 or ≈ 18 - 26% of salary

Should the City Commission decide to reduce the number of hours of compensation to the City Manager by a reduction of authorized work-hours, then the City Commission can expect that the completion of some work and projects will be delayed. If these expense reduction methods are employed, then City Administration staff will continue to conduct the business of the City during the City Manager’s absence and would consult with the City Manager by phone in the event of an emergency.

- **Reassignment of Law Enforcement Duties and Responsibilities to the Mason County Sheriff's Office**

As you know, the City of Scottville is provided with law enforcement services through the efforts of both the Scottville Police Department and the Mason County Sheriff’s Office (MCSO). In this regard, the two (2) Scottville Police Officers provide approximately 3,920

hours³⁵/44% of the City's police service and the Mason County Sheriff's Office provides about 5,840 hours/56% of the City's police service each year. In the current fiscal year, FY 2024/2025, the City's appropriation for the operation of its Police Department is \$230,750 and its expense for the receipt of police service from MCSO is \$0. One difference between the extent of police service that is provided by each police agency is that the Scottville Police Officers provide directed police patrol and traffic and ordinance enforcement³⁶ while the MCSO only responds to calls for police service typically. Another difference is that the Scottville Police Officers, by virtue of their presence and availability, provide City residents with easy access to police related information and familiarity.

Should the City Commission decide to do so, law enforcement services could be obtained from the MCSO and could be acquired by appropriating funds for the assignment of a Deputy Sheriff to the City for 1,960 hours³⁷ annually, or could be procured by accepting circumstances whereby any available MCSO Deputy Sheriff would respond to any request for police service in the City, would provide only incidental/non-directed patrol, and no regularly assigned Deputy Sheriff. A decision to proceed with the latter of these two (2) policing formats would require the City to create a new position of part-time Ordinance Officer who would engage in self-directed and complaint-directed enforcement activities. Should the City Commission decide to obtain future law enforcement services by either of these two (2) methods, then City Administration would work with the MCSO and other law enforcement agencies to dispose of the Police Department's tools and equipment that have exclusive law enforcement purposes or that would be inappropriate for release to other than a law enforcement agency. Property held by the City's Police Department as evidence, found property, or another reason would be transferred to another police agency, perhaps the MCSO or the Michigan State Police (MSP), through a written agreement that could include an expense for the inventory and transfer of the property; this cost is unknown at this time. Police records and reports would be handled in a similar manner. Computers with confidential police information or restricted access would be scrubbed in accordance with guidelines of Criminal Justice Information Services Policy Council (CJIS) and repurposed for other City departments or sold. Decisions would be made concerning the retention and repurposing, or disposal of police vehicles.

During discussion of the feasibility of obtaining law enforcement service from the MCSO with representatives of Mason County Government (MCG) and the MCSO, it was learned that the City could obtain the services of an assigned Deputy Sheriff to the City for 1,960 hours annually, for a fee that would be billed monthly, and an amount that would vary and reflect the costs incurred by the employment of that Deputy Sheriff during the month for which the billing

³⁵ This number is reduced from that of a typical work year (i.e., 2080 hours) to reflect each Police Officer's annual paid-time-off (PTO) that is accrued annually.

³⁶ Ordinance enforcement includes the detection of ordinance violations (e.g., parking, grass, outside storage, and nuisance violations) and the initiation of an enforcement action (e.g., verbal warning and redirection, opening of a formal complaint and issuance of a citation or performing an arrest).

³⁷ Forty-nine (49) weeks and forty (40) hours/week; remaining hours are omitted to account for PTO/sick or vacation leave.

was issued. In this regard, discussions with representatives of MCG and the MCSO revealed that certain expenses, such as salaries, could be expected to increase consistently with current collective bargaining agreements and others would increase when the MCG's expenses for those items increased. Furthermore, it was noted that monthly fees could be expected to increase significantly when police equipment, including the assigned police vehicle, used by a City assigned Deputy Sheriff needed replacement for any reason. Credit for the MCSO's receipt of any police vehicles or equipment from the closing of the Scottville Police Department would be applied monthly over a twelve (12) month period following that when the transfer occurred.

As shown in Appendix A, the expected³⁸ fees from MCG for services from the MCSO for the assignment of a Deputy Sheriff that would be assigned to Scottville for 40 hours each week, except for paid-time-off (PTO), would total \$230,602.40 in 2025, 138,570.03 in 2026, and 143,288.20 in 2027 and would be reduced by \$64,290.40³⁹ in 2025 for Scottville Police Department vehicles and equipment that would be taken and repurposed by the MCSO for their use. Consequently, the expected fee in 2025 would be \$166,312 if no change for the cost of components for a Deputy Sheriff's assignment occurred. These 2025 MCSO Deputy Sheriff costs, as well as the 2026 and 2027 costs, do not reflect the total cost of receiving these services or allow for the determination of what savings the City of Scottville could realize from a Deputy Sheriff's assignment to Scottville.

As noted in Appendix A, the expected MCSO fees in 2025, 2026, and 2027 are affected by the loss of revenue from the termination of policing agreements with West Shore Community College (WSCC) and Gateway To Success (G2S), the loss of expenses from savings that would result from decreased insurance, office, utility, and fuel expenses⁴⁰, and the increased expense from the hiring of a part-time Ordinance Officer. In this regard, the total expense from the reassignment of law enforcement duties to a MCSO Deputy Sheriff dedicated and assigned to Scottville for 1960 hours annually would be \$200,320 in 2025, \$172,924.03 in 2026, and \$177,890.20 in 2027. Consequently, the savings that would be realized from this occurrence would be \$30,320 in 2025, \$69,363.97 in 2026, and \$75,511.80 in 2027.

This contrasts with the estimated savings that could be realized from the reassignment of law enforcement duties to the MCSO without the procurement of a MCSO Deputy Sheriff dedicated and assigned to Scottville. You will note from Appendix A that the potential savings that could be realized from this occurrence are \$196,632 in 2025, \$205,834 in 2026, and \$217,596 in 2027.

³⁸ As previously noted, any fee assessed by MCG for services of the MCSO could change unexpectedly during the course of any agreement depending upon any change in the cost of any component of the services that were received.

³⁹ The amount of this credit could change depending upon the number of vehicles and equipment that were accepted by the MCSO and the agreement as to their value.

⁴⁰ See Appendix A – General Fund Savings.

It is important to note that neither the expense nor the savings reported for either a contract with the MCSO for a dedicated and assigned Deputy Sheriff to the City or the procurement of law enforcement services from the MCSO that would provide non-directed patrol and only response to calls-for-police service do not include the undetermined costs of payouts to current Police Department employees for accumulated time and other settlements.

Should the City Commission decide to reassign the City's law enforcement duties and responsibilities to the MCSO, then it can expect that additional costs may be incurred from the need to request one or more dedicated MCSO Deputy Sheriff's for special events that occur in the City. In this regard, costs from these needs could be mitigated for some events by using City firefighters who have been trained in traffic direction and control⁴¹. While ostensibly this use of firefighters might seem unusual or inappropriate, it is not much different than in neighboring Lake County where the Lake County Sheriff's Office (LCSO) uses their trained *Police Explorers* for traffic direction and control at many events as well as firefighters.

Should the City Commission decide to direct City Administration to further investigate reassignment of law enforcement duties and responsibilities to the MCSO, then further discussion with MCG and the MCSO would begin immediately and would focus on a proposed timeline for the transition, a proposed process of transition, and any barriers that are unforeseen at this time. While it is acknowledged that the City would see less police presence at community events, it is not expected that this occurrence would result in less community support for law enforcement or a perception that the quality of law enforcement services had changed from the fine quality of law enforcement service that has been received from personnel of the Scottville Police Department. Should a transition of law enforcement duties and responsibilities to MCSO occur, the community could expect the same professionalism and excellence that they have experienced from the police personnel of the Scottville Police Department. The professionalism and excellence of the MCSO emanate from the strong and effective leadership of the Sheriff and his commitment to public safety and the people who he serves.

- **Reassignment of Zoning Administration, Building Code Enforcement, and Short-Term and Long-Term Property Rental Regulation to an Individual Employed By the City**

Currently, the Mason County Building Official's Office issues building permits, performs building permit inspections, and investigates building code complaints on behalf of the City/ It provides this service at no cost to the City and with no sharing of revenue derived from fees charged for these services. In a similar fashion, an agreement with a private company, *SAFEbuilt*, provides the City with zoning code administration and permit review as well as property code and rental inspection services. The fees for these services are shown in the following Table V.

⁴¹ Typically, firefighters receive classroom instruction concerning traffic direction and control during their basic training that certifies them as Firefighter I & II and field training that is provided by their department.

In FY 2023/2024, the City paid *SAFEbuilt* \$64,848.84 for the services listed in Table V and forewent approximately \$18,000 in annual inspection fees from long-term rental property inspections as well as approximately \$3,000 annually from pro-rata triennial long-term rental property registration fees⁴²; a total of approximately \$86,000 that was paid to *SAFEbuilt* for their services.

Rental Inspection Services	100% of City Fee Established By Ordinance
Code Enforcement Services	\$65/Hour – One (1) Hour Minimum
Permit Technician Services	\$1,750/Month
Zoning Permit Review & Administration	\$2,816/Month

The City should investigate the reassignment of zoning administration, building code enforcement, and enforcement of short-term and long-term rental regulations to its own employee and determine whether those duties and responsibilities could be assigned to an individual who was also qualified to act as the City’s Building Official. If these duties were combined with other City Code enforcement duties that include enforcement of violations that include blight, grass height, and inoperable vehicles on private property, for instance, then as much as approximately \$108,000 might be available to fund this position without an increase in overall expenses⁴³ and without revenue that would be derived from the receipt of building permit fees.

- **Lease of Boat Launch and Fish Cleaning Area to a Private Entity**

The City should explore whether there is an entity that would lease the park area that contains the boat launch and fish cleaning station. This area requires the expense of approximately \$4,500 annually for maintenance performed by City employees, \$1500 - 2,000 annual expense

⁴²

Triennial Registration Fee	\$75/Unit
Annual Inspection Fee	\$150/Unit
Re-Inspection Fee	\$150/Unit
Missed/Broken Inspection	\$150/Unit
Other/Court/Etc.	\$150/Hour; Minimum \$150
Failure To Register By March 1 st	\$500/Unit

⁴³ The combination of an Ordinance Officer duties and responsibilities with those of a building official and building code and short-term and long-term rental property code enforcement would only occur if a position was created because of reassignment of law enforcement services to the Mason County Sheriff’s Department. Additionally, it is unknown as of the issuance of this report whether an individual could be identified with all the qualifications that would be required to perform these duties and responsibilities and what the total compensation would be required for this new position.

for the removal of remains from fish cleaning activities⁴⁴, and currently requires approximately \$20,000 of expense to repair a non-functioning pump and malfunctioning grinder⁴⁵ that previously ground and pumped fish cleaning remains at that location to the City's wastewater system. Additionally, due to vandalism inside the comfort station, it has been closed and a portable toilet obtained and placed nearby⁴⁶. Other expenses that are related to this area have been the cost of police patrol, police enforcement of parking permit regulations, utility fees, and roadway maintenance⁴⁷. While it is undeniable that this park area and its boat launch and fish cleaning station indirectly benefit Riverside Park reservations and local and area businesses, the amount is unquantifiable and would be difficult to accurately measure. In this regard, the benefit to the Scottville community is questionable particularly when a cost/benefit analysis considers the location's utilization by Scottville residents whose tax dollars fund these expenses.

In addition to recent difficulties that have occurred with the unappropriated fund balance/cash reserves of the *General Fund*, the unappropriated fund balance/cash reserves of the *Water Fund* has also experienced difficulties, and this is another indicator of the City's ill financial health. The unappropriated fund balance/cash reserve of the City's Water fund is \$87,688, but only because of a \$200,000 loan from the unappropriated fund balance/cash reserve of the City's Motor Pool Fund. The City's *Water Fund* was \$112,312 in deficit before this loan⁴⁸ occurred. The deficit accrued exclusively in FY2023/2024 and was due to the unbudgeted expense of \$368,005.17⁴⁹ for the replacement of a watermain in the alley bounded by Blaine Street, South Main Street, State Street, and the east/west alley along the CSX railroad tracks. It is important to note that, despite some Commissioners reports that City Administration made verbal statements that part or all the cost of this alley watermain replacement was funded by a "grant", none of the expense for this work was paid by any entity except the City of Scottville and its *Water Fund*.

From previous discussion in this memorandum, readers know that unappropriated fund balances/cash reserves of any fund are affected by appropriations of revenue to expenses of operational portions of these mechanisms and that revenue must not only sustain a fund's operational needs, but it must also maintain sufficient unappropriated fund balances/cash reserves to enable any fund to accomplish its purpose effectively. In this regard, it is important for the *Water Fund* to not only control its expenses, but also be mindful of circumstances that could cause its revenue to be deficient needlessly. The City's *Water Fund's* revenue is threatened by a system of

⁴⁴ This expense could be eliminated if the pump and grinder unit were fully operational, or a cooler/freezer unit was utilized.

⁴⁵ The grinder and sewage pump are prone to malfunctioning and failure due to constraints posed by its design, placement, and the materials that it must pulverize.

⁴⁶ The cost of the portable toilet has been \$115/month.

⁴⁷ These expenses are undetermined as of the issuance of this memorandum.

⁴⁸ The \$200,000 loan has a 3% annual interest rate and 15-year repayment schedule; the annual repayment will be no less than \$17,756.

⁴⁹ This expense consisted of a \$292,305.17 payment for materials and construction-labor and a \$75,700 payment for design and construction engineering.

older water meters that are prone to slowing down as they age and by a rate structure that has been established without consultation with experts who forecasted current and future financial requirements of operations, the current infrastructure, and future infrastructure needs. Its personnel expenses are amplified by the presence of many manual-read meters that cause meter reading to be two (2) – three (3) times longer than could be accomplished with radio-read meters.

Consequently, Commissioners should consider authorizing a request-for-proposals (RFP) for a water and sewer rate study that would provide Commissioners with professional advice concerning both ready-to-use and consumption and usage rates and that would provide revenue from which the *Water Fund* could repay its loan from the *Motor Pool Fund*. It would enable the *Water Fund* to grow its unappropriated fund balance/cash reserves and to complete capital improvements that are and will be needed. The expected fee for this service would be \$35,000 - \$50,000. It should also consider authorizing a three - five-year program whereby all older meters and others incapable of being radio-read would be replaced at a cost of approximately \$10,000/year.

Conclusion

The purpose of this memorandum has been to provide the City Commission with a brief financial analysis of the City's current finances, internal and external threats to its financial vitality and well-being, and methods whereby it could increase or reallocate revenue and reduce expenses. It is hoped that this document will provide the basis for discussion and the identification of solutions to some of the financial challenges that the City faces.

Acknowledgements

It is important to acknowledge the assistance that was provided by the City Treasurer, Ms. Kathy Shafer, who without her help this memorandum would not have been possible.

Exhibit A
Green Street Between City Parking Lot & South Reinberg



Exhibit B
West Second Between S Main & Crowley



Exhibit C
Clarke Between North Main & Loomis



Exhibit D
East Maple Between North Main & Thomas



Exhibit E
West Maple Between North Main & North Reinberg



Exhibit F
North Reinberg Between Johnson & Beryl



Exhibit G
South Columbia Between East State Street & Railroad Tracks



Exhibit H
South Elm – South Of East Second



Estimated Cost - Dedicated MCSO Deputy (40 Hours/Week)						
Expense	2025	2026	2027	Total	Credits	Net
Salary	\$59,028.00	\$61,389.00	\$63,845.00	\$184,262.00		\$184,262.00
Overtime - 8%	\$4,722.24	\$4,911.12	\$5,107.60	\$14,740.96		\$14,740.96
Holiday Pay	\$2,951.40	\$3,069.45	\$3,192.25	\$9,213.10		\$9,213.10
Longevity	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00
Retirement	\$25,960.28	\$26,998.64	\$28,078.78	\$81,037.70		\$81,037.70
FICA	\$5,102.68	\$5,306.77	\$5,519.08	\$15,928.53		\$15,928.53
Health Insurance	\$21,049.85	\$21,681.35	\$22,331.79	\$65,062.99		\$65,062.99
Dental/Optical	\$1,200.00	\$1,200.00	\$1,200.00	\$3,600.00		\$3,600.00
Life Insurance	\$85.56	\$85.56	\$85.56	\$256.68		\$256.68
Liability Insurance	\$1,752.14	\$1,752.14	\$1,752.14	\$5,256.42		\$5,256.42
Vehicle & Upfit	\$61,676.22			\$61,676.22	\$58,000.00	\$3,676.22
Vehicle Insurance	\$551.00	\$551.00	\$551.00	\$1,653.00		\$1,653.00
Vehicle Maintenance	\$3,100.00	\$3,100.00	\$3,100.00	\$9,300.00		\$9,300.00
Car Camera	\$6,290.40			\$6,290.40	\$6,290.40	\$0.00
Car Radio	\$5,800.00			\$5,800.00		\$5,800.00
Body Camera	\$1,245.00			\$1,245.00		\$1,245.00
Car Computer	\$3,305.00			\$3,305.00		\$3,305.00
Firearms	\$2,568.55			\$2,568.55		\$2,568.55
Helmet	\$869.50			\$869.50		\$869.50
Shield	\$932.50			\$932.50		\$932.50
Taser	\$2,247.16			\$2,247.16		\$2,247.16
Ballistic Vest	\$2,321.89			\$2,321.89		\$2,321.89
Portable Breath Tester	\$292.00			\$292.00		\$292.00
Officer Radio	\$6,004.51			\$6,004.51		\$6,004.51
Cell Phone	\$555.00	\$555.00	\$555.00	\$1,665.00		\$1,665.00
Gasoline	\$2,475.00	\$2,475.00	\$2,475.00	\$7,425.00		\$7,425.00
Equipment Repairs	\$1,000.00	\$1,000.00	\$1,000.00	\$3,000.00		\$3,000.00
Uniforms & Hardware	\$2,721.52	\$500.00	\$500.00	\$3,721.52		\$3,721.52
Uniform Cleaning	\$420.00	\$420.00	\$420.00	\$1,260.00		\$1,260.00
Ammunition	\$600.00	\$600.00	\$600.00	\$1,800.00		\$1,800.00
Network O & M	\$975.00	\$975.00	\$975.00	\$2,925.00		\$2,925.00
Employee Physical	\$800.00			\$800.00		\$800.00
Training	\$2,000.00	\$2,000.00	\$2,000.00	\$6,000.00		\$6,000.00
SubTotal	\$230,602.40	\$138,570.03	\$143,288.20	\$512,460.63	\$64,290.40	\$448,170.23
Credits	\$64,290.40					
Total	\$166,312.00	\$138,570.03	\$143,288.20	\$448,170.23		
	2025	2026	2027	Total		
MCSO Fees	\$166,312.00	\$138,570.03	\$143,288.20	\$448,170.23		
Loss - WSCC Agreement	\$21,395.00	\$21,395.00	\$21,395.00	\$64,185.00		
Loss - G2S Agreement	\$8,000.00	\$8,000.00	\$8,000.00	\$24,000.00		
Total Loss WSCC & G2S	\$29,395.00	\$29,395.00	\$29,395.00	\$88,185.00		
General Fund Savings*	\$17,669.00	\$18,552.00	\$19,479.00	\$55,700.00		
Additional Expense - Ord. Officer**	\$22,392.00	\$23,511.00	\$24,686.00	\$70,589.00		
Total Cost - Scottville	\$200,430.00	\$172,924.03	\$177,890.20	\$551,244.23		
Total Savings*	\$30,320.00	\$69,363.97	\$76,511.80	\$176,195.77		
Estimated Cost - MCSO Response To Calls For Service; Incidental Patrol; No Dedicated Deputy						
	2025	2026	2027	3-yr Total		
Scottville Police Budget Savings*	\$230,750.00	\$242,288.00	\$254,402.00	\$727,440.00		
General Fund Savings*	\$17,669.00	\$16,452.00	\$17,275.00	\$51,396.00		
Loss - WSCC Agreement	\$21,395.00	\$21,395.00	\$21,395.00	\$64,185.00		
Loss - G2S Agreement	\$8,000.00	\$8,000.00	\$8,000.00	\$24,000.00		
Additional Expense - Ord. Officer**	\$22,392.00	\$23,511.00	\$24,686.00	\$70,589.00		
Total Savings	\$196,632.00	\$205,834.00	\$217,596.00	\$620,062.00		
*Assumes Annual Increase 5%						
**1040 Hours/Year; Assumes +5%/Year						