

What are the current available cash balances for the City of Petoskey?

As of December 31, 2009, the City of Petoskey is projected to have \$11,680,500 in unrestricted or unreserved cash on hand. These cash reserves are maintained in 15 different funds, which operate as stand-alone entities with different business activities in each fund. Generally, money held as a cash reserve within each fund can only be used for activities within the scope of each fund.

What are restricted or reserved funds?

As of December 31, 2009, the City of Petoskey is projected to have \$3,565,000 in reserved or restricted funds. These are funds that the City is legally required to set aside for various reasons. For example, the Water and Sewer Fund is required to have \$2,600,000 set aside for cash reserves as a condition of bonds that were issued by the City. These funds act as collateral and help insure the repayment of the bonds. In addition, the General Fund includes nearly \$700,000 in restricted money that the City's marina collected and \$30,000 in restricted funds from millage the City collects for solid waste.

Why does the City keep cash reserves?

Cash reserves are necessary to fund the City's day to day operations as well as fund capital improvements, and help ensure that the City can keep operating in case of an emergency. Under current economic conditions, these reserves are particularly important in case revenues for the City decline. In addition, many operations of the City, particularly within the water, sewer and electric utilities, require significant cash reserves because equipment operated and maintained by the City, which is crucial to maintaining each utility, can cost hundreds of thousands of dollars to replace.

What measures does the City use to ensure adequate cash reserves exist in case of an emergency?

Generally, the City aims to keep cash reserves equal to 50% of annual operating expenditures for each of its major funds: the General Fund, Water and Sewer Fund, and the Electric Fund. Currently, only the Electric Fund, which is projected to have cash reserves at the end of 2010 equal to 51% of annual expenditures, meets this goal. The General Fund is projected to have cash reserves equal to only 22% of annual expenditures at the end of 2010, and the Water and Sewer Fund is projecting a cash balance of 31% of annual expenditures at the end of 2010.

Why can't the City simply take money from one fund and use it for a different, unrelated purpose?

Almost all City funds are restricted as to their use in some way. In many cases, State laws regulate how money can be allocated and used. Property tax levies, for example, can only be used in ways consistent with their stated purpose. In the case of water and sewer and electric utilities, the funds are managed as enterprise funds meaning that the utilities are fully supported by user fees collected as part of customer billings.

Where can I find an explanation of each fund and fund type?

The City of Petoskey has 15 separate funds, and six fund types:

Governmental Fund

General Fund – The General Fund, which includes as a revenue source the general-operating millage and solid-waste millage, for the most part is unrestricted as to the use of the revenues received except for the solid-waste millage which may only be used for said purposes. Any unused solid-waste revenue is restricted, which is listed within the fund balance section of the financial statements.

Enterprise Funds

Electric Fund – The Electric Fund operates as an enterprise fund with revenues primarily comprised of electric-utility user fees which are unrestricted as to use. There are transfers of some type made annually to other City funds.

Water and Sewer Fund – The Water and Sewer Fund also operates as an enterprise fund, but due to a grant used in construction of the system, revenues which consist of water and sewer user fees may only be used for water- and sewer-related expenditures.

Downtown Parking Fund - The Downtown Parking Fund is managed by the Downtown Management Board and receives revenues from downtown parking operations. These revenues are unrestricted as to their use, but are used for downtown purposes.

Special Revenue Funds

The Major and Local Street Funds receive payments through the State of Michigan from tax on gasoline, which may only be used within that particular fund. These revenues fall far short of the monies necessary to support these funds and transfers are made from the Right-of-Way Fund to meet operating and capital-improvement needs. Transfers from the Right-of-Way Fund are restricted to expenses within street right-of-way, for which these funds qualify. Cash reserves are restricted as to uses within these funds.

General Street Fund – The General Street Fund accounts for ancillary services to the Major and Local Street Funds - that being sidewalks, trees, and street lighting. Revenues are made up of transfers from the Right-of-Way Fund (restricted as to use) and the Electric Fund (unrestricted as to use). Cash reserves would be restricted to uses within the street right-of-ways.

Tax Increment Finance Authority Fund - The TIFA Fund receives funds from captured tax revenues based on an increase in taxable values from certain properties located within the TIFA district, which is located mainly along the City's waterfront and within the Bear River Valley. Revenues derived from captured taxes may only be used for projects within that district as outlined within the TIFA plan.

Library Fund – The Library Fund receives revenues from a library millage that consists of a Council-approved and voter-approved component which may only be used for library purposes.

Downtown Management Fund – The Downtown Management Board manages this fund for services provide to support and maintain the downtown area. Revenues are derived from special assessments levied against businesses within the downtown area and are restricted for uses within that district.

Capital Improvement Fund

Right-of-Way Fund – The Right-of-Way Fund receives tax revenue from the right-of-way millage which is restricted to uses within the street rights-of-way. This fund mainly transfers tax revenue received to the particular fund performing the work, which are generally the street funds.

Debt Service Funds

The City has one debt-service fund used to make the required annual bond-debt payments. Monies are transferred in from the Parking Fund (parking improvements) as these funds are obligated to provide the necessary contributions used to make the annual debt payments. These funds are restricted to uses within the debt-service funds.

Internal Service Funds

Motor Pool Fund – The Motor Pool Fund is an internal service fund that provides vehicles and equipment to the various City Funds who pay equipment rental to cover the cost of operating, maintaining and replacing the City's vehicles and equipment. Cash reserves are used for purposes within this fund as some of the revenue received are from those funds that are restricted as to use.

What are the property tax levies that the City collects?

The City has five millage rates and they are as follows:

General Operating millage – The City Charter provides for up to ten (10) mills to be used for general operating purposes. Tax revenues from this millage can be used for any purpose by the City.

Right-of-Way millage – The City Charter provides for up to five (5) mills to be used for any operating or capital-improvement cost within the street right-of-ways. Tax revenue from this millage can be used for any purpose within the street right-of-ways, which could include expenditures for; streets, sidewalks, trees, water, sewer and electric, providing the work is within the street right-of way.

Library Operating (City Council approved) – State law allows the City Council to approve up to one (1) mill for operating purposes. Tax revenue from this millage may only be used for library purposes.

Library Operating (Voter approved) – State law allows, with voter approval, up to an additional one (1) mill for library purposes. Tax revenue from this millage may only be used for library purposes.

Solid Waste – State law allows the City Council to approve up to two (2) mills for solid-waste purposes. Tax revenue from this millage can only be used for solid-waste purposes.

These five millages are all subject to reduction by State law provisions known as the Headlee Amendment which has reduced the maximum allowable amount down to the following:

General Operating	7.6707
Right-of-Way	3.9502
Library operating (City Council approved)	.8600
Library operating (Voter approved)	.9541
Solid Waste	1.7282

I just bought my house and my property taxes increased significantly over what the previous owner was paying. Does the City benefit from this additional revenue?

No. Under "Proposal A" the taxable value of a home is capped at 5% per year or the rate of inflation, whichever is less. When a home is sold, and the market value of that home is higher than the capped taxable value, the taxable value is re-set to current market rates. This often means the purchaser of an existing home pays more in property tax than the previous owner.

However, under the 1978 Headlee Amendment to the Michigan Constitution, local municipalities must roll-back or lower overall property tax millage rates as a result of increased taxable values. This means that while an individual home purchaser may pay more in property taxes than a previous owner, the increase in taxable value from the sale of that home will lower the overall tax rate for all other residents in the community. The net result is that the City of Petoskey does not see an increase in property tax revenue from the sale and increased taxable value of a home.

As a result, since voter approval of Proposal A, increases in the tax base of local units of government can happen in only two ways: through the rate of inflation or 5%, whichever is less, or with additions of values through new construction.