

Projected Budget Report

Local Government Name:
Local Unit Code:
Current Fiscal Year End Date:
Fund Name:

City of Grand Rapids
412030
6/30/2024
General Operating Fund

City of Grand Rapids
412030
6/30/2024
General Operating Fund

REVENUES/EXPENDITURES	FYE 6/30/2024	Percentage Change	FYE 6/30/2025	Assumptions	Percentage Change	FYE 6/30/2026	Percentage Change	FYE 6/30/2027	Percentage Change	FYE 6/30/2028
REVENUES										
Property Taxes	\$16,670,103	2.99%	\$17,167,844	Property taxes are levied on a property's Taxable Value for which annual increases are limited to the lesser of 5% or the rate of inflation until the property is sold, improved, or transferred to a new owner. The 2023 (FY2024) Taxable Value for industrial, commercial, utility, and residential real and personal properties is \$6.8 billion; a 8.8% increase over FY2023. Industrial property accounts for 4.44% of total taxable value, commercial property accounts for 34.80% and utility-related property for 2.63%. The remaining 58.13% is residential property. Property taxes continue to grow steadily. A resilient real property market in West Michigan, combined with the expectation of 100% reimbursement for personal property exemption losses[1], are expected to result in steady property tax revenue increases. Overall taxable value increased significantly in 2023 (tax year 2023) but much of the new value is captured by Brownfields and tax capture districts. FY2024 General Fund property tax revenue is estimated to increase approximately 4% over FY2023 actual results. FY2025 and beyond is forecast to grow at a more conservative 2-3% annually. Property taxes are also a key source of funding for most of the City's Tax Increment Financing Authorities and Tax Capturing Authorities, including the Downtown Development Authority, the Monroe North Tax Increment Financing Authority, the Smart Zone Local Development Financing Authority, the Brownfield Redevelopment Authority, and the various corridor improvement districts.	2.60%	\$17,614,831.00	2.44%	\$18,044,929	2.21%	\$18,444,555
Other Taxes										
State Revenue Sharing	\$25,050,276	1.50%	\$25,424,980	Constitutional Revenue Sharing is projected per State of Michigan estimates. The City continues to qualify for 100% of CVTRS/Statutory payments. Staff have projected FY2024 State Revenue Sharing distributions to increase by 1.3% from the FY2023 forecast. This is comprised of a 1.7% increase in constitutional revenue sharing and no change in statutory (CVTRS) revenue sharing. Staff projections are based upon the most recent State of Michigan guidance available at the time of revenue forecast development (January Consensus released January 13, 2023). Constitutional Revenue Sharing distributions are deposited to the General Administration Department within the General Fund and CVTRS revenues are split evenly between the General Fund and Capital Reserve Fund.	1.50%	\$25,806,055	1.50%	\$26,193,607	1.50%	\$26,587,749
Income Tax	\$100,330,055	(0.04)%	\$100,285,268	Income tax receipts are deposited into the General Operating Fund (GOF), Capital Reserve Fund, Vital Streets Fund, and the Sidewalk Repair Fund. The GOF allocation is 82.8% in FY2024, slightly declining to 82.3% by FY2028 as the portion of income tax revenues dedicated to the City's capital improvement program is forecast to increase over the five-year horizon. Assumptions are made as to the rate at which taxable income is expected to grow and that growth rate is applied only to base income tax. Compliance receipts are forecast as a flat amount (not subject to an estimated annual percentage increase) by the Income Tax Department based upon outstanding compliance work from multiple past tax years. The estimated income tax revenues shown here include only an allocation of the portion not dedicated to the City's Vital Streets capital program as that additional revenue (0.2% of the 1.5% total income tax rate for residents) is allocated directly to the Vital Streets Fund and Sidewalk Repair Fund as required by the 2014 ballot measure approved by voters. The City's income tax revenue allocation target for the Capital Reserve Fund is 5% (excluding the required 0.2% Vital Streets allocation). The City has been below this target level since FY2018 due to constrained General Operating Fund capacity but has been working diligently to return to the 5% allocation. With the FY2024 budget, the City increased the planned capital set-aside from 4.25% in FY2023 to 4.5% in FY2024. Furthermore, the City will continue to annually increase the capital set-aside by 0.25% until target level of 5% is achieved in FY2026. Compliance receipts are forecast to remain strong at \$8 million in FY2024 but are down from approximately \$16 million in FY2022 and \$10 million anticipated in FY2023. This decrease is attributable to less outstanding compliance work from multiple past tax years. The increase in base income tax revenue is attributable to increased withholding and corporate estimates. The city has experienced a stable recovery with employees returning to the office and other worksites following the challenges brought about by the COVID-19 pandemic. This budget anticipates no increase in income taxes in FY2024, 2.0% in FY2025, and then a 3.0% increase each year of the remaining forecast period of FY2026-FY2028. The income tax growth projections are conservative, anticipating a steady but gradual economic recovery in the upcoming years with the potential for a mild recession beginning sometime in 2023 (flat growth) before slowly reaccelerating in 2024 (2-3% growth). This is in alignment with economic forecasts at the State level and a variety of more broad-based economic publications. Local economic development groups support an optimistic forecast and believe that West Michigan will be largely immune from the worst impacts of any recession, relative to the potential impacts felt at national and even State level.	1.76%	\$102,052,006	2.88%	\$104,990,066	2.88%	\$108,016,266

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					<p>A slight overall decline is expected from FY2024 to FY2025 primarily due to decreases in planning service fees and a reduction in central services cost allocation revenue. Departments will continue working toward the goal of sustainable services that are fully funded through cost recovery unless a specific subsidy has been approved. This category includes 2 CFR Part 200 Cost Allocation Revenue (\$6.7 million in FY2024), user fees and permits for the Street Lighting department's electric power distribution and communication infrastructure (Pole Line & Duct System) driven by the build-out of fiber optic and 5G networks in the City (\$3.1 million in FY2024), and Code Compliance housing fees (\$2.3 million in FY2024). Note: FY2025 (only) revenue in this category is overstated by \$821,300 due to an inadvertent data entry error.</p> <p>Cost Allocation: The Cost Allocation process identifies, accumulates, and distributes allowable direct and indirect costs for shared ("central") services provided by the General Fund to departments that receive benefits. The plan also identifies the allocation statistics and methods used for distribution to departments, on the basis of relative benefits received.</p> <p>Code Compliance: The Code Compliance Department seeks to protect the health, safety and general welfare of residents through enforcement of property maintenance and zoning codes intended to preserve housing stock and quality of life in neighborhoods. While enforcement actions are sometimes necessary, a new case management approach is used along with a variety of community partnerships to assist homeowners having difficulty making repairs. Fees including nuisance, zoning, code enforcement, and other housing-related fees are expected to increase 3% on average from FY2024 to FY2025.</p> <p>Energy, Lighting & Communications: The Energy, Lighting & Communications Department owns and operates the City's Street lighting system as well as a shared communications infrastructure. This infrastructure is referred to as the Pole Line & Duct System (PLDS). A major revenue source is the user fees, licensing, and permits associated with the Pole Line & Duct System. Revenue is also generated by electrical distribution billing to users of the system.</p>									
Charges for Services	14,393,232	3.82 %	\$	14,942,811		(2.96) %	\$	14,501,230	2.33 %	\$	14,838,988	2.39 %	\$	15,192,973
Fines & Forfeitures	2,216,000	2.45 %	\$	2,270,320	Parking Fine revenue (Police and Treasurer Departments) is expected to grow by 2.5% from FY2024 to FY2025 as additional enforcement is implemented and patrol zones are expanded.	2.40 %	\$	2,324,726.00	2.34 %	\$	2,379,221	2.29 %	\$	2,433,805
Licenses & Permits	2,356,761	(2.37) %	\$	2,300,921	These figures are estimated by departments. Strong Cannabis License revenue growth is projected from FY2024 to FY2026 (Clerk and Planning Dept.). FY2026 is the projected plateau and it decreases at an average of 3% through FY2028. An annual decrease of 5.25% is projected over the same period for Cable TV franchise fees leading to overall declines in this revenue category through FY2028. Cable TV franchise fees are declining due to customers switching from cable service to streaming platforms. There are a number of unknowns related to the future of this fee revenue including pending litigation and potential new legislation. Other licenses and permits include alarm permits and Land Use Development Services permits.	(0.76) %	\$	2,283,336	(3.67) %	\$	2,199,522	(2.10) %	\$	2,153,341
Investment Income & Rentals	4,002,990	2.92 %	\$	4,119,786	Interest revenue is forecast based upon "Adjusted Average Daily Cash Balances" and prevailing interest rates. The City's standard is to hold investments to maturity and funds were previously placed out longer in anticipation of lower rates. The City continues to actively invest excess funds with professional money managers including significant amounts of liquid cash that is anticipated to increase the liquidity of the investments and improve investment earnings further in the future. The cost/benefit of professional vs. in-house money managers remains under assessment by the Treasurer Department. Approximately 56% of funds remain in the City-managed portfolio at 6/22/2023 excluding funds managed and invested by the City based on drawdown schedules.	(2.70) %	\$	4,008,651	(7.54) %	\$	3,706,498	(6.10) %	\$	3,480,239
Grant Revenues	7,949,637	(82.34) %	\$	1,403,512	In FY2021, the City received one-half of a significant federal grant award in the amount of approximately \$46.1 million resulting from the American Rescue Plan Act of 2021 (ARPA). The City received the second identical installment in FY2022 (June 9, 2022) for a total estimated award of \$92.3 million. The ARPA specifies allowable uses and certain restrictions with a deadline of December 31, 2024 to utilize the funds (costs obligated by December 31, 2024 must be expended by December 31, 2026). Of the estimated award, \$3,985 million was forecast for General Operating Fund revenue replacement in FY2023 and \$6.5 million was forecast in FY2024. No additional revenue replacement is currently forecast in the General Fund for FY2025 and beyond. ARPA funding has been appropriated via budget amendments during FY2022 and FY2023, with additional amendments anticipated in FY2024.	(85.67) %	\$	201,144		\$	-		\$	-
Other Revenues	4,386,277	(2.26) %	\$	4,286,931	Departments continue working toward the goal of sustainable services that are funded through full cost recovery. Fluctuations are largely due to Cannabis tax revenue, which is forecast to decline through the forecast period from a peak of \$630,698 in FY2024. State Excise Tax distribution will trend with cannabis prices and the ratio of City licenses to the statewide total making it challenging to forecast. The City's portion of Excise Tax distributions is currently estimated to be approximately 3% using State of Michigan data and the anticipated number of licenses. This percentage is expected to increase but the number of retail shops opening in other municipalities is unknown. Therefore, 3% was projected for FY2024-25. However, the City's portion is expected to decline to 2% in FY2026 and beyond due to limited space being available for new retail shops, while other municipalities continue growing retail distribution. In addition to Cannabis revenue, the difference between FY2024 and FY2025 "Other Revenues" includes: 1) a one-time restricted contribution of \$28,000 in FY2024 for a grant-funded position in the Executive Office; and 2) a decrease of approximately \$200,000 in Police Department Reimbursements from FY2024 to FY2025. The cyclical nature of Clerk Dept. Special Election reimbursements is also impacting FY2025.	(5.87) %	\$	4,035,251	(2.03) %	\$	3,953,414	0.53 %	\$	3,974,527
Interfund Transfers (In)	1,699,634	0.25 %	\$	1,703,892	Unassigned Fund Balance in the General Operating Fund (GOF) is forecast to exceed the 15% target at the end of FY2024. A \$3.5 million transfer to the Budget Stabilization Fund (BSF) was made in FY2023 bringing the reserve back to the targeted 10% of GOF appropriations in FY2024. The BSF reserve is forecast to fall back below the 10% target in FY2025-28 due to inflationary appropriations if no additional transfers are made in these years. Additionally, Interfund Transfer amounts in all fiscal years include \$1.37M in support received from the Community Development Department for Code Compliance operations. Other transfers include Police Department reimbursement for Vehicle Storage Fund services and an Office of Special Events transfer from the Parking Fund. Transfers tend to fluctuate year to year depending on various factors and planned activities.	0.18 %	\$	1,707,003	0.22 %	\$	1,710,701	0.25 %	\$	1,714,934
Total Revenues	179,054,965		\$	173,906,265			\$	174,534,233		\$	178,016,946		\$	181,998,389

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EXPENDITURES										
General Government	\$ 32,451,132	(2.62) %	\$ 31,601,332	The City continues to closely monitor expenses and limit the overall growth of the general fund to remain financially sound. From FY2023 to FY2024, seventeen positions were added through the adopted budget process and another seven positions were added through budget amendments in FY2023. The General Fund personnel count remained flat between FY2024 and FY2025. Workforce numbers are projected to be similar in future years. Negotiated wages increased by an average of 2.6% in FY2024 and 2.2% in FY2025, and included other new or enhanced employee benefits for labor units as the FY2023-25 collective bargaining agreements have now all been finalized. High healthcare costs continue to drive up personnel expense while pension and OPEB rates have moderated or slightly declined. ARPA revenue in the amount of \$7.9 million is also included in the FY2024 GOF adopted budget and approximately \$49.4 million in planned citywide investments (all funds) are included in the ARPA Investment Plan between FY2024-26 (future appropriation mostly via budget amendments).The organization wide focus remains on continuous improvement and sustainable asset management as the City implements an updated three-year Strategic Plan (FY2023-25).	(0.92) %	\$ 31,311,374	3.24 %	\$ 32,324,844	2.16 %	\$ 33,023,122
Police and Fire	\$ 111,403,224	2.73 %	\$ 114,443,155	Public Safety services include many facets, some of which are policing, fire response, emergency medical response, 911 dispatch, emergency management, oversight and public accountability, Cure Violence Grand Rapids, and the SAFE Task Force. Nearly all of these services are funded from the General Operating Fund; however, the City continues to work hard to secure outside funding to support these essential services. It is important to note that most outside funding, including ARPA and other grants, is one-time funding, which cannot sustain services for a prolonged period of time. Grant funding currently supports three sworn Police personnel, two OPA personnel, an Emergency Management Specialist and 5 firefighters, reducing pressure on the General Operating Fund. Personnel expense comprises a significant portion of total Police and Fire budgets (85% for both). Police and Fire pension rates decreased slightly from FY2024 to FY2025, and rates are projected to continue to slowly trend down in FY2026-28, approaching FY2021-22 levels by FY2028. However, due to an 18-month implementation lag for actuarial valuation results for the Police and Fire Retirement System, pension rates used in the FY2024-28 Fiscal Plan do not yet fully reflect changes included in the most recent collective bargaining agreements, which reduces the employee pension contribution by 3.0% for employees hired on or after December 20, 2011. Fire OPEB rates also continue to decline from FY2024 and FY2025 and continue a downward trend through the end of the five-year forecast. Conversely, Police OPEB rates are projected to increase from FY2024 to FY2025 and are projected to continue to trend upward through the end of the five-year forecast. Dedicated staffing models have been developed for both the Police and Fire Departments for consistency in budgeting and stability in the General Fund. The staffing models are being closely monitored to ensure sustainability. FY2024 investments include police and fire recruiting and training, Cure Violence, Boys & Girls Club, SAFE Taskforce, OPA operations (\$1.8 million in FY2024), mental health mobile crisis police co-response with Network180, additional funding for emergency management, Fire apparatus and general fleet funding, and the Fire Cadet Program and CPAT.	1.91 %	\$ 116,626,327	2.23 %	\$ 119,226,707	2.25 %	\$ 121,908,440
Other Public Safety	\$ 3,427,820	5.83 %	\$ 3,627,551	This is the Attorney's Office. Costs are primarily personnel related (87% in FY2024) and are currently increasing by approximately 6% from FY2024 to FY2025 and between 3-5% annually thereafter.	4.56 %	\$ 3,792,928	2.82 %	\$ 3,899,774	3.14 %	\$ 4,022,342
Roads	\$	%	\$		%	\$	%	\$	%	\$
Other Public Works	\$ 7,408,620	5.74 %	\$ 7,833,929	Street Lighting - Overall electricity consumption continues trending down as the City transitions from HPS to LED street lights as well as implements other energy reduction projects. The City issued bonds in FY2019 and again in FY2022 for Street Lighting infrastructure improvements, concrete pole replacements, and LED deployment. A third bond issue of \$9 million is projected in FY2025. Continued investments include LED inventory, equipment, training and support for the expansion of Pole Line and Duct System (PLDS) capacity. Stormwater continues to receive funding allocations as part of the City's "Level C" asset management plan and to meet State mandates. Most Stormwater expenditures consist of full-time employees & hired contractor costs to obtain and maintain the stormwater system at the "Level C" rating.	2.90 %	\$ 8,061,117	(0.49) %	\$ 8,021,432	3.94 %	\$ 8,337,237
Health and Welfare	\$	%	\$		%	\$	%	\$	%	\$
Community & Economic Dev.	\$ 7,292,450	3.24 %	\$ 7,528,967	Planning: The cannabis industry has had a significant impact on the planning and zoning review workload, and this impact is expected to continue. The department will continue to support various initiatives, including corridor projects and area-specific plans. In FY 2024, the department will finalize the Community Master Plan (CMP) update, a project that began in 2020 and is undertaken approximately every 20 years. The update focuses on safe communities, climate resiliency, and affordable housing. To accomplish this effort, the department received budget approval of \$250,000 in both FY2023 and FY2024. After finalizing the CMP, the department will update the zoning ordinance to reflect the plan's outcomes. Economic Development: Downtown has seen a significant increase in development and continues to use economic tools as an effective means to encourage growth. Economic Development staff will continue its relationships with strategic community partners in examination of business and real estate development, neighborhood business districts and other strategic plan focus areas. Code Compliance: The department's General Fund footprint is approximately \$4 million and includes programs such as Residential Rental Property Certification, Residential Property Maintenance, Building Maintenance, and Zoning Compliance, Nuisance Remediation, and Blight Monitoring. Rental certifications must be renewed every two, four, or six years depending on specific criteria in the code. On average, blight cases are open 1,000 days and average \$4,500 in fees as the number of blight cases has been dropping each year but the average fees and days open keeps increasing. All years include a \$500,000 transfer to the Community Development Program Fund from Code Compliance fees for services supported by Community Development Block Grant (CDBG)	4.20 %	\$ 7,845,455	3.61 %	\$ 8,128,884	3.61 %	\$ 8,422,256
Recreation & Culture	\$	%	\$		%	\$	%	\$	%	\$

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Capital Outlay	\$ 1,018,353	25.09	%	\$ 1,273,831	This funds capital projects of a minor nature (many less than \$20,000) such as office furniture procurement which can vary from year to year. The majority of capital requests relate to Police and Fire Department equipment. Larger capital projects are funded from the Capital Reserve Fund.	(4.80)	%	\$ 1,212,705	(4.80)	%	\$ 1,154,547	0.91	%	\$ 1,165,034
Debt Service	\$		%	\$			%	\$		%	\$		%	\$
Other Expenditures	\$		%	\$			%	\$		%	\$		%	\$
					The majority of this category consists of amounts budgeted in the General Administration Department, which contains expenditures that benefit the overall organization. The City has been working in recent years to reduce subsidies to other funds and improve the stability of transfers. Transfers include Maintenance of Effort (MOE) support for the Parks department in fulfillment of the investment guidelines approved by voters in FY2013 and updated in 2019. In November 2019, residents approved a permanent Parks Millage that began to provide funding in 2022 (after the seven-year millage expired in 2021). The Vital Streets MOE transfer is also in fulfillment of the investment guidelines outlined as part of the income tax extension request approved by voters in FY2015 requiring General Fund support totaling \$13 million during the income tax extension period (currently budgeted at \$850,000 annually). Three of the Vital Streets transfers totaling \$2.55 million (\$850,000 X 3) were advanced to FY2021 (in addition to the annual transfer amount of \$850,000) to fund a debt service balloon payment that came due in August 2020. As a result of this advance, no transfers are forecast in FY2022-24 but will resume again in FY2025-28 at the previous amount of \$850,000 annually. Additional subsidies include support for the District Court (\$6.2 million in FY2024 and up to \$10.8 million in FY2028). The District Court also received ARPA revenue replacement funding in the amount of \$3.1 million in FY2023 (\$2.5 million of which was initially planned for FY2024) and is forecast to receive an additional \$2.9 million in FY2025. ARPA grant funding has been reducing the General Operating Fund subsidy to the Court. The end of ARPA is partially driving the significant increase in this subsidy that is forecast beginning in FY2026 though the end of the forecast period. In addition, court revenues have been declining due to the decriminalization of certain offenses, waivers of fees based on an inability to pay, and an increase in State Court Administrative Office (SCAO) mandates. The City's Contingent Account (\$1.5 million in FY2024-28) is also budgeted as an interfund transfer for use when emergency and other unforeseen situations occur. The annual General Fund appropriation lapse is \$5.5 million in FY2024 and will gradually increase to \$6.0 million by FY2028. The Appropriation Lapse assumption has been developed in recognition that the entire amount of the approved expenditures is generally not fully spent due to personnel position vacancies and other factors.									
Interfund Transfers (Out)	\$ 15,675,923	(12.03)	%	\$ 13,789,952		26.47	%	\$ 17,439,467	3.03	%	\$ 17,967,495	0.16	%	\$ 17,995,675
Total Expenditures	\$ 178,677,522			\$ 180,098,717				\$ 186,289,373			\$ 190,723,683			\$ 194,874,106
Net Revenues (Expenditures)	\$ 377,443			\$ (6,192,452)				\$ (11,755,140)			\$ (12,706,737)			\$ (12,875,717)
Beginning Fund Balance	\$ 73,057,864			\$ 73,435,307				\$ 67,242,855			\$ 55,487,715			\$ 42,780,978
Ending Fund Balance	\$ 73,435,307			\$ 67,242,855				\$ 55,487,715			\$ 42,780,978			\$ 29,905,261