



**CITIZENS RESEARCH COUNCIL
OF MICHIGAN**



**CONSOLIDATION ISSUES ASSOCIATED
WITH THE PROPOSED MERGER OF
THE CITY OF THE VILLAGE OF DOUGLAS
AND THE CITY OF SAUGATUCK**

JULY 2013

REPORT 384 - REVISED

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Why is this a revised version of CRC's analysis?

The Citizens Research Council of Michigan (CRC) was commissioned by the cities of Douglas and Saugatuck to shed light on the many issues associated with the proposed merger of their two cities. Because of the politically charged atmosphere in these two communities around the issue of consolidation, the two cities preferred to keep a hands-off approach while CRC conducted its analysis. To avoid accusations that the elected or appointed city officials were steering or swaying the analysis, it was agreed that those people would see the results of the analysis at the same time as everyone else -- when it was posted to the CRC website.

This approach created a few issues and inconsistencies that were identified when the city officials had the opportunity to review the paper. On Wednesday, July 14, 2013, CRC met with administrative and finance officials from the two cities to review several points. CRC agreed to amend the paper with the words and numbers that had been amended clearly identified with **red font**.

These revisions have reduced the amount of projected savings that could result from a merger of the two cities, but CRC's estimate remains at about \$500,000 per year.

Independence is a valued asset for the Citizens Research Council of Michigan. The approach of amending this paper was adopted because of our mission to provide trusted information to policy makers. In this case, the policy makers are the residents of Douglas and Saugatuck that will be called on to vote on the proposed merger moving forward at the November, 2013, election.

CONSOLIDATION ISSUES ASSOCIATED WITH THE PROPOSED MERGER OF THE CITY OF THE VILLAGE OF DOUGLAS AND THE CITY OF SAUGATUCK

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CONSOLIDATION ISSUES ASSOCIATED WITH THE PROPOSED MERGER OF THE CITY OF THE VILLAGE OF DOUGLAS AND THE CITY OF SAUGATUCK

Summary

In anticipation of the pending referendum on the proposed merger of Saugatuck and Douglas, those two cities governments have asked the Citizens Research Council of Michigan to investigate issues brought about by consolidation and describe how the finances of a merged city would differ from that of the two cities operating independently.

Saugatuck and Douglas are two small cities in Allegan County adjoined by a common border. They are located along Lake Michigan about 10 miles south of the City of Holland and about 20 miles north of the City of South Haven.

Douglas and Saugatuck stand out as cities with very small populations. With a population of 1,232 in 2010, Douglas ranks 251st in population size among the 275 Michigan cities. Saugatuck ranks 259th, with a population of 925 residents in 2010.

A. Planning and Zoning

Governmental functions that benefit from being done over larger geographic areas include land use planning, zoning, and stewardship of natural resources. These are functions inherent in the fundamental roles of government for which it is difficult to show evidence of tangible monetary or operational savings to two small, relatively stable communities such as Saugatuck and Douglas that would result from consolidation.

The City of Saugatuck, the City of the Village of Douglas, and Saugatuck Township have some history of working together and collaborating to jointly produce area-wide master plans. The first effort to create a joint plan occurred from 1987 to 1989. That document was updated in a multi-year process that culminated with adoption of a revised plan in 2005.

Given the existence of this working plan, the proposed merger of the cities of Saugatuck and Douglas can bring only marginal improvement to land use planning and coordination of zoning in the region. It is

foreseeable that a merged city would continue to respect the independent identities of what is currently Saugatuck and what is currently Douglas, at least in the short term. It also is foreseeable that a merged city will continue to collaborate with, maintain a joint master plan with, and take efforts to support Saugatuck Township. To that end, it could be expected that a master plan adopted after the merger of Saugatuck and Douglas would still have fewer specific details than if such a document were written independently for the new merged city.

The proposed merger of Douglas and Saugatuck also can marginally improve stewardship of the Kalamazoo River and Kalamazoo Lake. Merger will provide a clearer line of responsibility and simplify procedures when coordinating actions with the federal, state, county governments or when working with neighboring local governments. Because the Harbor Authority is relatively new, it is difficult to quantify how much difference merger would make compared to the status quo of working through the authority.

Efforts such as joint master planning and a multi-jurisdictional harbor authority reflect efforts to artificially create what would exist if a community was governed by one government instead of two or three entities. A merger of Saugatuck and Douglas would not likely result in much land use change that is noticeable to the average resident, but it could straighten the lines of accountability for carrying out these functions.

B. City Charters and Ordinances

If the electors in each city vote in the affirmative at the November referendum on a merger of the two cities, the next step will be election or appointment of charter commissioners for purposes of drafting a charter for a combined city. That proposed charter will have to come before the electors for approval before a merger of the two cities can proceed.

Voters and potential charter commissioners will find that the existing city charters for Saugatuck and Douglas are very similar.

The Codes of Ordinances adopted by the cities of Saugatuck and Douglas are very much alike. Only about twenty percent of the ordinances are unique to one city or the other or differ in substance. The relative importance of these sections can only be judged by those affected by them.

C. Payment of Indebtedness

The cities of Saugatuck and Douglas each have long-term debt obligations that will carry over if the two cities decide to consolidate. Douglas' debt comes from two loan agreements, capital improvement bonds, a litigation settlement, and compensated absences. By the end of this year the city should have paid off the remaining balance on the litigation settlement. The two loan agreements relate to amounts borrowed for upgrades to the Douglas City Hall. Its total debt amounts to \$954,651 and is scheduled to be paid off by 2021.

Saugatuck has much more debt, mostly in the form of general obligation tax bonds. By 2014 the city will pay the last of its debt that was issued for the Allegan Sanitary Sewer System. The city's remaining obligations thereafter are for compensated absences and an unlimited general obligation tax bond for city street and infrastructure projects. The city street and infrastructure bond debt is currently over \$3.4 million and is scheduled to be paid off by 2028.

Case law and statutory law provides conflicting guidance on the question of whether a newly consolidated city could, or should spread the voted debt millage across all taxable property or should only be spread on those properties that were located within the boundaries of the current City of Saugatuck.

D. Disposition of Real and Personal Property

A primary issue in the event of a merger of two governmental entities is the oversupply of such properties and assets. Clearly a merged city will need only

one city hall. Examination of the two facilities leaves little doubt that the present Douglas city hall would be adopted as the home of a consolidated government. It is not expected that the location or size of the police station will need to change. Douglas' public works facilities are probably better suited to meeting the needs of a merged city. Finally, it is assumed that the cities offer the amount of park and beach acreage desired to serve residents and guests. It is not assumed that any park space should be sold off nor any beaches closed. Combining the current vehicle fleet of Saugatuck Douglas would result in an excess supply of vehicles relative to peer cities.

E. Public Records

Public records are the property of the people of the State of Michigan. The cities are responsible for ensuring that the public records created and received while conducting public business are retained and only destroyed in accordance with Michigan law. The existing and new cities will need to preserve and manage the public records received in accordance with the *Records Management Manual for Local Governments* published by the Michigan Department of Technology Management and Budget. It is foreseeable that the basement of the Douglas city hall could provide ample storage space for these records. It is not expected that the retention of these records will provide significant additional costs for the new city.

F. Employees Issues

It is expected that a merger of the two cities will result in disruption of the municipal workforces. The cities each currently employ a city manager, city clerk, city treasurer, and a director or supervisor of public works. Each contracts or employs on a part time basis an assessor, a zoning administrator, and legal counsel. Each of those positions would change from two positions now (one in each city) to one for the merged city.

Neither the population nor the geography served by that department will be changed by a merger of the two cities, so it will not be necessary to reorganize the police department nor to change the staff size of the department.

THE PROPOSED MERGER OF DOUGLAS AND SAUGATUCK

Each city employs a director to provide leadership and manage the day-to-day operations of the public works staffs. Only one director will be needed. Putting together the two staffs would create a merged staff of eight full-time employees, plus part-time workers that are brought on during the summer months. It is assumed that the merged Saugatuck and Douglas would need six full-time public works staff and would need to continue hiring five to seven part-time workers during the summer months for maintenance of the parks and beaches.

G. Public Utilities and Public Services

The utilities in the Saugatuck and Douglas region are provided by private vendors and a special authority created by interlocal agreement.

H. Special Districts

Douglas and Saugatuck have each created special districts within their own boundaries for the purposes of economic development. Douglas' downtown development authority was created to invest and promote the downtown area. The DDA could continue as is if the city leaders so choose. Saugatuck's historic district is designed to preserve the unique historic flavor of the housing stock and other resources. The Local Historic Districts Act does not include provisions under which the existing district would continue unchanged in the event of annexation or consolidation with another government. A consolidated city could go through the necessary steps to re-establish a district with the existing boundaries or modified to include more properties, including those that are currently in Douglas.

I. Special Authorities

Both Saugatuck and Douglas are small enough that independent provision of capital intensive governmental services may be cost prohibitive. To overcome this problem, the cities have utilized a number of provisions in state law to jointly provide municipal services. The long-lasting relationship between the two governments and with Saugatuck Township has led to the creation of a number of inter-local agreements for the two cities or all three governments to share in

the cost of providing these services – fire protection, police protection, transit services, library, water and sewerage, and the harbor authority. It is not expected that any of these services, which account for nearly half of all local government spending in the Saugatuck/Douglas region, will be adversely affected by a merger of the two cities.

The use of these various laws that authorize local governments to jointly provide services reflect efforts to artificially create what would exist if the community was governed by one government instead of two or three entities. The result of this collaboration resembles what residents, visitors, and businesses could expect to get from a single governmental entity, but the tradeoff is diminished accountability. A merger of Saugatuck and Douglas would not change delivery of these services, but it could strengthen the lines of accountability.

J. Roads, Sidewalks, & Public Easements

Combining operations to care for streets will provide opportunities to achieve some efficiency, but the opportunities are not extensive because the two cities have used different designs to construct their streets. As separate operations, each city separately contracts for engineering studies; has its own equipment; and limits its work to streets within its borders. Operating over a wider geographic area with more streets under the jurisdiction of a single entity should allow the road agency to make better use of the equipment, to employ staff with greater expertise in the necessary tasks for road maintenance, and to provide consistency across the whole road system.

A merger of the two cities would result in a minor windfall in funding for road maintenance received from the state through Public Act 51.

A merger would cause issues because the cities have used the same names for different streets that do not run continuously through the cities. Some of the naming issues may be dealt with by adding "E" or "W" to the street names. Other issues would likely require the renaming of streets, but the disruption should be minor because the streets in question only have a few properties abutting them.

K. Fiscal Impact

The Fiscal Year 2012 Comprehensive Annual Financial Reports of the two cities report total expenditures of almost \$14 million. CRC adjusted this number to avoid double counting in police expenditures. The Douglas Police Department provides police protection to both cities, with Saugatuck purchasing protection in that city at a cost of \$523,525 in 2012. The police expenditures reported in Douglas' annual report include both the amount received from Saugatuck and the city's own general fund contribution to provision of this service. Rather than adding the amounts reported by the two cities, the amount reported by Douglas as total police expenditures is used, \$940,606.

This amount also grossly overstates general operations for Saugatuck because it includes an exceptional \$10.3 million grant funded expenditure for capital outlays. To get a better picture of total spending, capital outlay expenditures were removed from the totals for both cities, leaving total spending of **\$3,595,155**.

Based on comparisons with peer cities with populations of 2,000 to 4,500 residents, the assumed levels of spending for a merged city are expected to bring in savings **\$467,191**. This is equal to **13.0 percent** of the **\$3.6 million** total expenditures for the two cities (not including the grant-funded \$10 million capital expenditure Saugatuck made in 2012).

The **\$467,191** total savings is equal to 8.7 percent of the **\$6,775,096** that is the sum of total expenditures by the two cities and total expenditures by special authorities that serve the people and properties in Saugatuck and Douglas (and Saugatuck Township for some services).

The majority of the savings would come from streamlining operations of the city manager's, treasurer's, and clerk's offices. Savings can also be expected by consolidating the public works departments and from funding the cost of one city council instead of two.

Michigan local governments have very few options available to them to raise significant amounts of funding, and so it is presumed that the consolidated city will operate within that model.

The only assumption made here is that the reduced cost of city operations will be used to reduce the property tax rates that yield the revenues needed to fund government. City leaders could choose to use the funding for other purposes, such as providing new governmental services, expanding existing governmental services, or making capital improvements to improve the city.

The revenue sharing payments from the state are based largely on the populations of the local government. A consolidation of the two governments would result in a simple arithmetic addition of the populations of each city to create a combined population. The merged city would not cross any thresholds to meet any other conditions that would result in more revenues from state revenue sharing as a merged unit than the aggregate of what the cities' receive as individual units.

The tax rates currently levied by the two cities are close enough to equal that a merger of the two governments should have a nearly equal affect on taxpayers, regardless of which city they currently are located within. Currently, Saugatuck levies 15.1830 mills as a tax on properties in the city. (One mill of tax is equal to a dollar of tax per every \$1,000 of taxable value.) This rate is comprised of 12 mills for operations, one mill for road improvements, and 2.1830 mills to finance the principal and interest on outstanding debt (13.000 mills not counting the debt levy). Douglas levies 13.0818 mills for operations of the city.

Those tax rates yield over \$3.3 million in tax revenues, \$1.8 million (54 percent) is collected by Douglas and \$1.5 million (46 percent) by Saugatuck. Translating the **\$467,191** of projected expenditure reductions into tax savings, it is expected that a tax rate of only **11.2** mills would be needed to yield the revenues needed after the receipt of intergovernmental revenues, charges on services, and the other revenue sources. For a property valued at **\$200,000** (**\$100,000** in taxable value) in Douglas, the lower tax rate would result in about **\$192** a year in savings on city taxes. For an equally valued property in Saugatuck, the lower tax rate would result in about **\$184** a year in savings.

One-Time (or Short-Term) Costs

Whether in the public or private sectors, mergers and consolidations create costs above those experienced during the regular course of business. The costs will be one-time expenses or short-term expenses incurred by Saugatuck and Douglas in preparing for the merger, by the new city in beginning operations, and by residents, businesses, and property owners in these jurisdictions.

For Saugatuck and Douglas, the one-time or short-term costs are expected to involve:

- the cost of conducting elections
- the cost of hosting and providing technical support to a charter commission,
- moving costs, and
- the cost of archiving city records.

For the new city, the one-time or short-term costs can be expected to involve:

- the cost of branding and creating a new look for the city;
- legal costs for negotiating new contracts for the contractors, labor unions, and inter-local agreements;
- the time and legal support needed to draft or merge the city ordinances;

- the cost of recreating the historic district; unemployment compensation costs for displaced workers; and
- costs for consolidating and integrating the two cities' operating systems.

These costs for Douglas and Saugatuck can be expected to run in the hundreds of thousands of dollars. The cities will incur costs related to the State Boundary Commission process and costs of merging operations if the merger is approved.

The cities should not be expected to absorb these costs on their own. CRC recommends that the cities immediately begin taking appropriate steps to apply to the Michigan Department of Treasury for a Competitive Grant Assistance Program (CGAP) grant. According to the CGAP website, the program is designed "...to stimulate smaller, more efficient government and encourage mergers, consolidations, and cooperation between two or more qualified jurisdictions. The grants are to offset the costs associated with mergers, interlocal agreements, and cooperative efforts for cities, villages, townships, counties, school districts, and intermediate school districts that elect to combine government operations."

Conclusion

Douglas and Saugatuck are two cities unlike most others in the state. Plenty of Michigan's urban cities share common borders and collaborate to varying extents to provide services and serve their residents. Michigan also has a multitude of small cities located amongst sparsely populated townships. Very few of Michigan's non-urban cities are conjoined with another city and share an identity, service delivery responsibilities, and stewardship responsibilities for natural resources as do Douglas and Saugatuck.

Governance and the provision of services by Douglas and Saugatuck are not terribly inefficient in their current configuration. The two cities have been able to artificially create structures to act as a single governmental entity, with or without Saugatuck Township, because of laws that Michigan has enacted over the years to enable joint land use planning, joint stewardship of natural resources, and collaboration in the delivery of municipal services. The expenditures made by these special authorities created by inter-local agreements comprise nearly half of all the total expenditures for service provision for the people and properties in Douglas and Saugatuck. The tradeoff is diminished accountability for those items.

As others have before us, CRC estimates that **about**

\$500,000 in savings can result if consolidation does occur. This is equal to **13.0 percent** of the **\$3.6 million** total expenditures for the two cities (not including the grant-funded \$10 million capital expenditure Saugatuck made in 2012). The savings result from elimination of one of two city managers, city treasurers, city clerks, and other officers. It results from the achievement of economies of scale in the operations of these offices. And it results from consolidating the public works departments to streamline their operations. This level of savings translates into a tax rate of **11.2 mills** and a savings of about **\$217** per person in the two communities. For a property valued at **\$200,000** (**\$100,000** in taxable value) in Douglas, the lower tax rate would result in about **\$192** a year in savings on city taxes. For an equally valued property in Saugatuck, the lower tax rate would result in about **\$184** a year in savings.

The cities can expect some disruption and one-time costs if consolidation occurs. This can be expected with any consolidation, public or private. The electors of the two communities need to evaluate whether the short-term costs are outweighed by the long-term improvements in governmental services that can be expected.

CONSOLIDATION ISSUES ASSOCIATED WITH THE PROPOSED MERGER OF THE CITY OF THE VILLAGE OF DOUGLAS AND THE CITY OF SAUGATUCK

Residents of the City of the Village of Douglas, the City of Saugatuck, and Saugatuck Township have circulated petitions calling for the consolidation of these governments. Earlier in 2012, those petitions were submitted to the State Boundary Commission who approved the process moving forward but only as a merger of the two cities. As is their prerogative under the State Boundary Commission law, opponents to the merger of these two cities then circulated their own petitions calling for a referendum to be held on the proposal before any further actions are taken to draft a city charter or advance toward consolidation in other ways.

Michigan has very little experience with consolidating local units of government. Much of the history of local government in the state has been characterized by a period of division and a process of balkanization as small geographic areas and small populations incorporated as independent cities and villages to allow self governance and provide municipal government services. Limited efforts to undo this balkanization and create larger municipal governments have been tried in recent times.

Other than a few failed efforts to disincorporate villages, efforts to consolidate local governments have been limited to:

- In the 1960s, an attempt to merge the City of Jackson, in Jackson County, with the surround-

ing townships of Leoni, Summit, and Blackman failed.

- In the 1980s in Calhoun County, the City of Battle Creek successfully annexed Battle Creek Township in whole.
- In the 1990s, the cities of Iron River and Stambaugh, and the Village of Mineral Hills, in Iron County, merged to create a new City of Iron River.
- In the 2000s in Genesee County, an effort to merge the City of Grand Blanc with Grand Blanc Township was defeated.
- In 2012, the residents of Onekama, in Manistee County, voted against dissolving the village to move all governance and service provision to the township.

Thus, there is not a lot of evidence from past experiences for proponents, opponents, or interested citizens to rely on for evaluating the changes proposed for the Saugatuck and Douglas communities.

In anticipation of the pending referendum on the proposed merger of Saugatuck and Douglas, those two cities governments have asked the Citizens Research Council of Michigan to investigate issues brought about by consolidation and describe how the finances of a merged city would differ from that of the two cities operating independently.

1) About Douglas and Saugatuck

Saugatuck and Douglas are two small cities in Allegan County adjoined by a common border. They are located along Lake Michigan about 10 miles south of the City of Holland and about 20 miles north of the City of South Haven.

Like many Michigan communities, the geography of the area helps to define these cities. The Kalamazoo River and Kalamazoo Lake separate the two cities as well as parts of the City of Saugatuck. Both cities offer lake front properties, boat access to Lake Michigan, and both provide beaches for fun in the sun. The Saugatuck Dunes, just to the north of the two cities, draws people to the area for other types of recreational opportunities.

Although the two cities each have long histories as logging centers, fruit producers, vacation destinations, and attraction for artists, the two cities have maintained separate identities. Each community incorporated as a village at about the same time: Saugatuck in 1868 and Douglas in 1870. Saugatuck converted from a village to a city in 1984; Douglas just recently converted to a city in 2004.

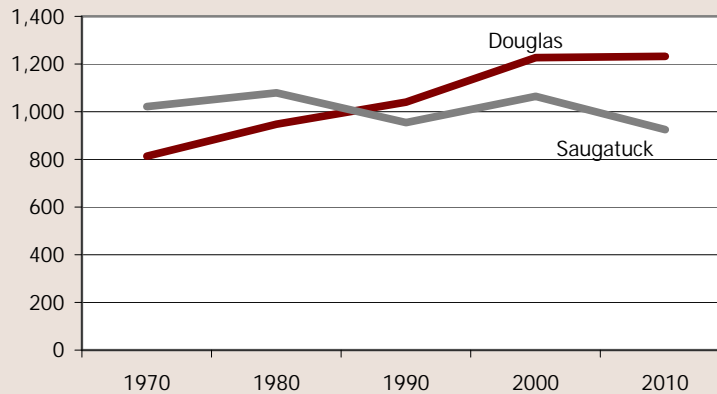
Two Relatively Small Governments

The populations of the two cities have been fairly stable for many years (See **Chart 1**). As far back as 1970, Saugatuck's population was 1,022 residents. In 2010, Saugatuck's population was 925. Douglas's 1970 population was 813 residents; in 2010 it was 1,232.

Michigan local governments are generally characterized as a quilt of sparsely populated governmental units. Almost 30 percent of all Michigan cities, villages, and townships have populations of less than 1,000 residents. More than 80 percent of all Michigan local governments have populations of less than 5,000 residents.

This is especially true for villages (99 percent with less than 5,000 residents) and townships (85 percent with 5,000 or less), but it rings true for cities as well with 48 percent of all cities having populations of less than 5,000 residents. While the average population among the 50 largest Michigan cities is more than 70,000 residents, the drop off after that is stark.

Chart 1
Douglas and Saugatuck Population, 1970 - 2010



Source: U.S. Census Bureau

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Even in this context, Douglas and Saugatuck stand out as cities with very small populations. With a population of 1,232 in 2010, Douglas ranks 251st in population size among the 275 Michigan cities. Saugatuck ranks 259th, with a population of 925 residents in 2010. (See **Chart 2.**)

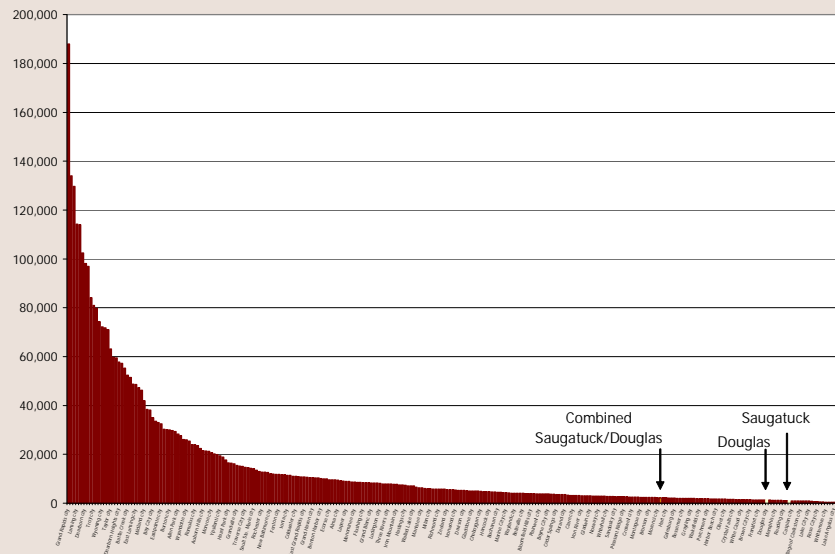
Summer Population

Located on the shores of Lake Michigan, the cities of Saugatuck and Douglas were able to stake a claim as early as the turn of the last century (1880s and 1890s into the early 1900s) as a summer destination. People from the Chicago and St. Louis areas found it easy to travel around the southern tip of Lake Michigan, or travel across the lake, for summer homes in Douglas and Saugatuck where natural breezes coming off the lake helped to moderate the temperatures. Over the years the communities have become a worldwide attraction for people with summer homes, and for tourists who appreciate the cities' beaches, dunes, and art shops. For these reasons, like many of the lakeside and northern communities, Saugatuck and Douglas have summertime populations that are much larger than their winter populations.

Being a summer destination has benefits and drawbacks for the cities. The primary benefit is that people have paid dearly to own properties in and around these cities. Unlike the downtowns in other Michigan cities that have suffered from business relocations and closures during the economic malaise that settled upon Michigan during the past decade, these downtown business districts enjoyed close to full occupancy.

The downside is that the cities must budget, staff, and design their operations to meet the needs of two populations: winter and summer. The winter

Chart 2
Michigan Cities (other than Detroit) by Population, 2010



Source: U.S. Census Bureau

populations are something less than the resident populations counted in the census: many of the working age residents are at their workplaces during daylight hours (not all of which are in Douglas or Saugatuck), few visitors come to the area, and many "snowbirds" have gone south to warmer climates. When the population spikes in the summer, the non-year-round residents have different characteristics and needs: they tend to be more transient, expect ready access to restaurants, beaches, and shopping, and are there for vacationing.

The consequences of these differences for the provision of city services and functions are varied. More resources are needed for services such as public safety and recreation than the geographic area or residential population would dictate in the summer months when the number of people drawing upon those services increase. Conversely, the resources needed to finance functions and responsibilities of the city clerk and treasurer remain relatively stable regardless of population fluctuations.

Similarities and Differences

Because there have been so few consolidations of local governments in Michigan, it is difficult to identify the factors that work for or against successful consolidations. The following is a list of factors that have been identified as potentially meaningful include:

- It is suspected that similarities or differences of the people in each jurisdiction matter – people often attempt to be near others with similar values or characteristics.

Both Douglas and Saugatuck have about 1,000 residents. Data collected in the 2010 Census shows that the populations of both Saugatuck and Douglas are more than 95 percent white. Both cities have become homes for “baby boomers;” roughly 40 percent of the populations of both cities are between 50 and 70 years old. A little more of Saugatuck’s population is of working age than Douglas’ (20 to 60 years of age) and a little more of Douglas’ population is beyond 70 years old than Saugatuck’s.

- It is suspected that similarities or differences in the tax base and tax effort matter. Would consolidation result in higher tax rates for residents of one of the communities? Would the wealthy tax base of one community be used to support the services and benefits of another community?

As is shown in the report, Douglas’ and Saugatuck’s tax base and tax effort are very similar. Douglas has 51.1 percent of the aggregate tax base of the two cities; Saugatuck 48.9 percent. Saugatuck levies just over 15 mills for property taxes (12 for operations, 1 for roads, and 2+ for debt); Douglas levies just over 13 mills.

Additionally, both cities – with or without Saugatuck Township – already jointly finance many of the municipal services provided to the residents of the two cities, including police, fire, library, transit, water and sewer, and the harbor.

- It is suspected that similarities or differences in the services provided matter. Would consolidation result in the addition of new services for one or more communities? Would it result in the loss of valued services for a community? Or would it result in a change in the level of services for any communities?

The menu of services provided to residents of Douglas and Saugatuck are very much alike with the more costly services already jointly provided. The close proximity and inter-dependence of the two cities means that residents of both communities benefit from uniquely provided services, such as Oval Beach as an attraction and a place for recreation.

- It is suspected that past relationships of municipal leaders matter – consolidations are thought

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to be more likely to occur if the present leaders of each community can amicably work toward that goal.

The long list of jointly provided services and close working relationships between the administrations of Saugatuck and Douglas serves as a testament to the amiable relationship of elected and appointed officials.

- It is suspected that opportunity for a well-balanced community is a consideration for voters. Would a merger into a single entity create a stronger and more diversified tax base than the individual governments have independently? Would a merged government be better suited to make land use decisions than the two individual governments? Would a merged government be better at attracting social and economic development than the individual governments?

Both Douglas and Saugatuck have a strong tax base and the two cities work with surrounding

communities for social and economic development. It is hard to make the case that consolidation of the city governments will improve these functions. It is possible to argue that land use planning could be improved if the cities are merged.

- It is suspected that opportunities for savings and/or service improvements are important considerations. Would consolidation result in savings that could be reflected in reduced taxes? Would residents receive better governmental services for the same price? Is it worth the effort?

The report that follows shows that consolidation would provide some opportunity for savings and/or service improvements, but those opportunities are limited because so many of the municipal services – especially the costly capital intensive services – are already provided jointly.

2) Operations of the Governments

To consider the pros and cons of the proposed consolidation of these two cities the analysis that follows will look at issues related to:

- A) land use planning, zoning and stewardship of natural resources;
- B) merging the city charters and city ordinances;
- C) payment of the cities' indebtedness;
- D) real and personal properties owned by the two cities;
- E) the need to maintain public records;
- F) city employees;
- G) accounting for public utilities and public services;
- H) the cities' special districts;
- I) the special authorities to which either or both cities are participants;
- J) changes to care of roads, sidewalks, and public easements that could come from consolidation;
- K) an estimate of the fiscal impact from consolidation; and
- L) projected changes to property values, public service levels, or costs that could result from consolidation.

A. Planning and Zoning

Governmental functions that benefit from being done over larger geographic areas include land use planning, zoning, and stewardship of natural resources. These are functions inherent in the fundamental roles of government for which it is difficult to show evidence of tangible monetary or operational savings that would result from the consolidation of two small, relatively stable communities such as Saugatuck and Douglas.

Efforts such as joint master planning and a multi-jurisdictional harbor authority reflect efforts to artificially create what would exist if a community was governed by one government instead of two or three entities. The result of the efforts in fact resemble what residents, visitors, and businesses could expect to get from a single governmental entity, but the tradeoff is diminished accountability. Instead of

the directly elected government officials setting direction and carrying out these responsibilities, they are being done by individuals appointed to represent each jurisdiction. Instead of electing a different candidate if you disagree with the land use or harbor plans, the residents of these communities must work through their legislative bodies (city council or the township board) to bring about change. A merger of Saugatuck and Douglas would not likely result in much land use change that is noticeable to the average resident, but it could straighten the lines of accountability for carrying out these functions.

Land Use Planning

Michigan's state laws and best practices in urban management support local governments, independently or jointly with neighboring municipalities, engaging in land use planning. The process of creating such land use plans draws together the governments' operations and the public's aspirations for their community. Once established the plan provides guidance for future decision making and service delivery by the governmental entity.

Because of the plethora of small local governments in Michigan and because some land uses have externalities (e.g., the smells of trash dumps), several communities have opted to engage in joint planning with their neighboring communities. A benefit of planning jointly is that the desirable and less desirable land uses can be spread evenly across the planning region. A danger with any joint master plan is that individual communities may be forced to surrender some of their unique characteristics in compromises that might be necessary for creation of such a plan. Or, to maintain that individual identity, such a plan might end up being so ambiguous and watered down that it does not provide any of the participating communities with the specifics they need to provide direction on economic development and land use planning within their jurisdictions.

The City of Saugatuck, the City of the Village of Douglas, and Saugatuck Township have some history of working together and collaborating to jointly produce area-wide master plans. The first effort to cre-

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ate a joint plan occurred from 1987 to 1989. That document was updated in a multi-year process that culminated with adoption of a revised plan in 2005.

The 2005 update to the Tri-Community Comprehensive Plan provides that sub-area plans will be adopted to address these potential weaknesses of the joint plan. Adoption of these sub-area plans, which remain a work in progress, will allow each community to better address their own needs, cultures, characteristics, and growth goals within the context of the entire region.

Given the existence of this working plan, the proposed merger of the cities of Saugatuck and Douglas can bring only marginal improvement to land use planning and coordination of zoning in the region. It is foreseeable that a merged city would continue to respect the independent identities of what is currently Saugatuck and what is currently Douglas, at least in the short term. It also is foreseeable that a merged city will continue to collaborate with, maintain a joint master plan with, and take efforts to support Saugatuck Township. To that end, it could be expected that a master plan adopted after the merger of Saugatuck and Douglas would still have fewer specific details than if such a document were written independently for the new merged city.

Natural Resource Stewardship

The Saugatuck/Douglas area is blessed with an abundance of natural resources: Kalamazoo Lake, the Kalamazoo River, sand dunes, beach acreage along Lake Michigan, and access to Lake Michigan itself. Although adjoining municipalities and the federal, state, and county governments all play significant

roles in stewardship of those resources, ultimately it is Saugatuck and Douglas that are responsible for much of the investment of resources and actual work in maintaining these natural resources for the benefit of the area.

Stewardship of natural resources can be done by multiple jurisdictions. However, those natural resources sometimes suffer when attempts are made to maintain resources in this way. As an example, the Saugatuck-Douglas Harbor Planning "Frequently Asked Questions" page on the City of Saugatuck website identifies the lack of clear responsibility for certain tasks to have been one motivation for creating the Harbor Authority. Like many other lakes and ports throughout Michigan, Kalamazoo Lake and the Kalamazoo River suffer from low lake levels and increased soil sediment accumulation. The website explains that these natural phenomenon were exacerbated by "the lack of a central agency that is charged with providing clear markers to designate the location of the river channel. As a result, boaters who do not know our harbor well would often have a poor experience trying to navigate the shallow waters. Some of these visitors have chosen not to return to the area due to the inconvenience."

The proposed merger of Douglas and Saugatuck can marginally improve stewardship of the Kalamazoo River and Kalamazoo Lake. Merger will provide a clearer line of responsibility and simplify procedures when coordinating actions with the federal, state, and county governments or when working with neighboring local governments. Because the Harbor Authority is relatively new, it is difficult to quantify how much difference a merger would make compared to the status quo of working through the authority.

B. City Charters and Ordinances

Residents and businesses interact with city governments in two ways: 1) the municipal services they receive and 2) the laws and rules that affect the interaction between people and their ability to use their properties.

A city charter is a basic law formulating the government for a city that, within the limitations of the state constitution and legislative enactments, establishes the framework of government, defines powers and duties, and identifies the rights and responsibilities of a city in fulfilling the needs of its citizens.

Ordinances provide substance and detail to charter provisions and establish laws that apply within the municipal boundaries. They must be consistent with applicable local, state, and federal laws and constitutions. Because Michigan is a strong home rule state, local governments are given wide latitude to establish ordinances.

Douglas' and Saugatuck's city charters and ordinances are compared to identify similarities and differences. It is suspected that commonalities in these documents should make a merger easier to accomplish without either community feeling that its identity would be compromised as a result. Existing differences reflect values unique to a singular entity. Voters will have to judge the importance of those differences and whether the risk of changes is outweighed by the other potential benefits gained in consolidation.

City Charters

If the electors in each city vote in the affirmative at the November referendum on a merger of the two cities, the next step will be election or appointment of charter commissioners for purposes of drafting a charter for a combined city. That proposed charter will have to come before the electors for approval before a merger of the two cities can proceed.

Voters and potential charter commissioners will find that the existing city charters for Saugatuck and Douglas are very similar.

Although the Douglas and Saugatuck city charters each currently define their city as one ward for pur-

poses of organization and elections, drafters of a city charter for a combined city may wish to devote extra attention to whether a combined city should be a single ward. It is possible that residents will seek assurances that their interests will continue to be represented in a new city that doubles the geographic size and population of the current cities through the city charter. Other Michigan cities of roughly 2.9 square miles and 2,000 residents are almost universally one ward, however, dividing the new city into wards would assure that interests from all sections of the city are represented and services are uniformly provided throughout the city.

The sections of the city charter that define the general powers of each city are identical. The city charters have identical sections on intergovernmental relations/cooperation. The charters have no substantial differences in the articles on elections. The only item of significance being that candidates for office in Douglas must circulate nominating petitions that garner at least 25 signatures, in Saugatuck the minimum number of signatures on a nominating petition is 20.

The city charter articles defining the organization of the governments are similar. Both city charters provide for city-manager, non-partisan forms of government. Each provide for seven-member city councils. Both provide that the city councils will select mayors and mayors pro-tem from among their members. In order to run for elective office in Douglas, a candidate must have been a city resident for at least one year; a candidate must have been a city resident for a minimum of six months in Saugatuck. The city council members in both cities serve a maximum of two-year terms, with four councilpersons elected one year, and three elected the next year.

The city charter provisions defining the functions and duties of the city managers are almost word for word identical. Likewise, the provisions detailing the functions and duties of other city officers are substantially alike.

Both city charters allow for initiative processes for citizens to introduce city ordinances.

Charter provisions relating to the operations and finances of the cities are substantially alike. Both cities operate with fiscal years that run from July to

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June. The Douglas city charter provides authorization to levy property taxes at higher rates than is authorized in Saugatuck, but this difference is currently inconsequential because neither city is levying property taxes at the maximum authorized rates. The Douglas property tax rate is limited to 20 mills and the Saugatuck rate is limited to 17.5 mills. Other provisions in the city charters that are almost identical relate to finance, special assessments, franchises and purchasing. The Douglas city charter has more detail than Saugatuck's charter on bonding authority and procedures, but the substance produces the same results.

Codes of Ordinances

City ordinances are laws and regulations that apply only within the jurisdiction of the municipality that adopted them. They are adopted by the local governing body and must comply with federal and state laws.

The Codes of Ordinances adopted by the cities of Saugatuck and Douglas are very much alike. Only about twenty percent of the ordinances are unique to one city or the other or differ in substance. The relative importance of these sections can only be judged by those affected by them. The common chapters in the two cities' ordinances address administration of the city governments; general regulations; criminal offenses; and other topics.

The ordinance provisions unique to Saugatuck address snowmobiles, skateboards, garage sales, hawkers and peddlers, taxicabs, offenses against the person, historic district regulations, subdivision regulations, and parks and recreation.

Ordinance provisions unique to Douglas address the Downtown Development Authority, city property, municipal civil infractions, bicycles and motorcycles, human relations, and cable communication.

Examination of the city ordinances also identified a number of provisions that differ to varying degrees. (The following discussion of differences relates to their appearance in the codes of ordinances. It is not meant to infer degrees of importance.)

Special Assessments. The provisions are nearly identical. Saugatuck ordinances allow for special

assessments for single lot improvements. Douglas ordinances allow for special assessments for hazards and nuisances.

Finances. The Saugatuck ordinances provide for a payment in lieu of taxes from the Olde Mill Apartments. The Douglas ordinances include a section on investment policy.

Both sets of ordinances entrust purchasing decisions to the city managers within certain limits. The ordinances differ in the monetary levels at which the city managers must either consult with the city councils or seek their approval to make purchases.

Water Service. About half of the cities' ordinances related to water service/regulations are alike. Both delegate rule-making authority to the Kalamazoo Lake Sewer and Water Authority Board. The Water Connection Equivalent User Factors are identical. Also, the sections with policies about existing connections and restricting the public system during times of scarcity are similar. The differences in the water ordinances are that,

- Saugatuck describes meters and their usage;
- Douglas has rejected the addition of fluoride into the public water supply;
- Douglas prohibits anyone from turning on/off any water connecting or supplying pipe at the curb box line without written permission from the city; and
- Douglas has specific section for connections under the KLSWA.

Alcoholic Beverages. While both cities include similar headings within these chapters, Saugatuck has considerably more regulations, fines, and specifications (11 pages versus 2 pages for Douglas) related to alcoholic beverages. Douglas does not list out punishment toward minors if they violate rules of possession, purchase, or consumption. Additionally, Saugatuck has a section for Special Events Licenses.

Nuisances. Both cities have similar limitations about certain sounds (animals/birds, musical/sound producing devices, horns/signal devices, construction noises), and respecting certain community locations (churches, schools, Saugatuck hospital, Douglas court house). The differences in the city ordinances relate to,

- the types of nuisances – Saugatuck includes limits

on bill posting, handbills, and littering; and measurement of noise nuisances – Douglas includes a table for measuring sound levels;

- restrictions – Saugatuck does not allow for any shouting or whistling on public streets, whereas Douglas only restricts shouting or whistling between 10pm and 7am if it does not unreasonably upset the peace;
- exceptions to nuisance ordinances allowed – Douglas accounts for five more allowable instances than does Saugatuck; and
- provisions for grass and weeds – both cities have limits on the height of such vegetation but Saugatuck defines nuisance growth 16 inches and Douglas does so at 12 inches. Douglas prohibits certain weeds/poisonous plants grown on property.

General Business Regulations. The general business regulations provisions are distinctly different for each city. The Saugatuck ordinances cross-reference four kinds of licenses (garbage collector, mechanical amusement devices, public entertainment, and special event liquor) that are located in other chapters. The ordinances list regulations and penalties, but do not mention any kind of registration procedure. The Douglas ordinances specifically explain the registration process and provide for motor scooter rentals, but do not specifically address business regulations.

Disorderly Conduct / General Offenses and Offenses Affecting Governmental Functions.

These chapters are completely identical except for one key difference: Saugatuck includes a Non-Discrimination Ordinance with certain exemptions and avenues for complaint. Offenses in both cities include: window peeping, begging, spitting, false alarm of a fire, resisting or impersonating officers, and obstructing or disobeying firefighters.

Watercraft. A provision in the Saugatuck ordinances deals mainly with regulations for watercraft usage. The provision restricts operation while under the influence and at night (one hour after sunset to one hour before sunrise) without proper lighting. The Saugatuck ordinances limit water traffic speed on the Kalamazoo River within the city; warn against reckless operation and endangerment of others; require accidents to be reported and parties assisted; restrict watercrafts from anchoring in the Kalamazoo

River within city limits; specify conditions for surfboarding and water skiing; and hold owners liable for their watercraft and its use. The Douglas ordinances do not go into as much detail and are restricted to display of light required in darkness or low visibility, and speed regulations.

Garage Sales. The Saugatuck ordinances specify that garage sales require a permit issued by the City Clerk which is obtained with an application and fee (refunded if all signs advertising the sale are removed within 48 hours of the sale). This permit must be displayed in a place visible from the street. Non-compliance is subject to a penalty each day. The Douglas ordinances do not address garage sales.

Hawkers and Peddlers. The Saugatuck ordinances regulate hawkers and peddlers in an effort to promote public health, safety, and welfare for the city. To engage in this form of commerce, permission is required in the form of a license from the City Clerk after completion of an application, and submission of a bond and certificate of insurance. The Chief of Police is required to investigate the applicant and their business. Individuals are restricted from certain public areas or from using loud noises/speakers. The Douglas ordinances do not address hawkers and peddlers.

Taxicabs. The Saugatuck ordinances outline the city's policies regarding taxis, rate fares, licenses, insurance, and conduct of drivers. They provide for penalties for driving under the influence, using the vehicle for immoral purposes, overcharging, and failing to notify the police of any accident. The Douglas ordinances do not address taxicabs.

Recap. Reconciling the ordinances for Saugatuck and Douglas should not be too difficult in terms of volume of content. Most of the ordinances are either identical or substantially alike to a sufficient extent that much of the work of merging the two documents could be done in short order. The balance of the two cities' codes of ordinances differs in topics addressed and/or the city's approaches to regulating activities such that some debate will be required to reach middle ground. The differences are not so significant that one would think middle ground is inconceivable, but the development of a character and feel for a new city will require that certain ordinance-related issues receive careful consideration.

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C. Payment of Indebtedness

Just like in a marriage or a corporate merger, the consolidation of governmental entities requires a plan for repaying the indebtedness that each party brings to the merger. Local governments incur different forms of debt and make varying types of pledges to creditors that confound any efforts to formulate a one-size-fits-all approach to dealing with these obligations.

Summary of Debt Obligations

The cities of Saugatuck and Douglas each have long-term debt obligations that will carry over if the two cities decide to consolidate. Douglas' debt comes from two loan agreements, capital improvement bonds, a litigation settlement, and compensated absences. By the end of this year the city should have paid off the remaining balance on the litigation settlement. The two loan agreements listed in **Table 1** relate to amounts borrowed for upgrades to the Douglas City Hall. Its total debt amounts to \$954,651 and is scheduled to be paid off by 2021.

Saugatuck has much more debt, mostly in the form of general obligation tax bonds. By 2014 the city will pay the last of its debt that was issued for the Allegan Sanitary Sewer System. The city's remaining obligations thereafter are for compensated absences and an unlimited general obligation tax bond for city street and infrastructure projects. The city street and infrastructure bond debt is currently over

\$3.4 million and is scheduled to be paid off by 2028.

Payment of Indebtedness

The two cities combined have over \$4.66 million in long-term debt, 80 percent of which is owed by the City of Saugatuck. The repayment of that debt occurs with regular payments on the principal and interest required in legal covenants. The total principal plus interest that will retire current debt obligations equals \$6,026,571 (See **Table 2**).

Municipal bonds generally are created in two different forms: 1) general obligation bonds and 2) revenue bonds. General obligation bonds are backed by the full faith and credit of the issuing government – meaning the government promises to use available resources to meet its obligations. General obligation bonds can be further delineated into a) unlimited tax obligation bonds and b) limited tax obligation bonds. Unlimited tax general obligation bonds are secured by the issuer's taxing power as limited by statute and constitutional law. They generally must be approved by the electorate and can be repaid using any general source of revenue available to the municipality. Limited tax general obligation bonds are those that are secured by limited taxing powers—limited to certain revenue sources and maximum property tax millage amounts.

Revenue bonds are issued for either project or enterprise financings in which the bond issuers pledge

Table 1
Long-Term Debt as of June 30, 2012

	<u>Douglas</u>	<u>Saugatuck</u>	<u>Pay -off Date</u>
Allegan Sanitary Sewer System Bonds		\$ 225,000	2014
City Street & Infrastructure Bonds		\$ 3,460,000	2028
Loan Agreement	\$ 128,010		2021
Loan Agreement	\$ 208,933		2017
Capital improvement bonds	\$ 285,000		2020
Litigation settlement	\$ 223,511		2013
Compensated Absences	<u>\$ 109,197</u>	<u>\$ 22,621</u>	
Total	\$ 954,651	\$ 3,707,621	

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

CRC Report

Table 2
Debt Repayment Schedules for Douglas and Saugatuck

	<u>Douglas</u>	<u>Saugatuck</u>	<u>Combined Unit</u>	<u>Percent of Debt from Saugatuck</u>
Total Annual Debt Service	\$ 954,651	\$ 3,707,621	\$ 4,662,272	79.5%
Annual Debt Service				
FY2013	\$ 114,071	\$ 302,108	\$ 416,179	72.6%
FY2014	\$ 113,013	\$ 306,194	\$ 419,207	73.0%
FY2015	\$ 112,798	\$ 309,710	\$ 422,508	73.3%
FY2016	\$ 116,346	\$ 244,678	\$ 361,024	67.8%
FY2017	\$ 113,684	\$ 255,965	\$ 369,649	69.2%
FY2018-FY2022	\$ 133,120*	\$ 1,427,956	\$ 1,561,076	91.5%
FY2023-FY2027		\$ 1,712,658	\$ 1,712,658	100.0%
FY2028-FY2029		\$ 764,270	\$ 764,270	100.0%
Total Amortized Debt Service	\$ 703,032	\$ 5,323,539	\$ 6,026,571	88.3%

*The City of the Village of Douglas will retire all its current existing debt by 2021.

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

to the bondholders the revenues generated by the operating projects financed. They can include water and sewer bonds to be repaid with the fees charged to users of that system and bonds issued against a particular revenue source, such as bonds for which tolls from bridge crossings are pledged to repay the borrowing to build that bridge.

To the extent possible, Douglas and Saugatuck each should endeavor to repay their outstanding obligations before consolidation takes place, if the people of those cities choose to merge the two cities. The compensated absences and the loan agreements would be prime candidates for early repayment, if the funds are available and if the legal wording in those borrowings so permit.

Beyond that, it cannot be stated with certainty where the obligation to repay outstanding debt will fall – on the taxpayers across the merged city; on the property owners in the current city(s) carried forward; or otherwise. Saugatuck's general obligation tax bond obligates the city to collect tax revenues in addition to those levied for general operations to fund the principal and interest on those notes. The Bond Authorizing

Resolution adopted by the city on March 23, 2009, authorizes the City of Saugatuck to levy, in addition to other taxes which the city may be authorized to levy, "ad valorem taxes on all taxable property within the boundaries of the City without limitation as to rate or amount to the extent necessary to pay the principal and interest on the Bonds when due."

Neither that Bond Authorizing Resolution nor the bond itself contemplated that a consolidation with Douglas would be considered and neither contain any language which addresses what should happen in the event of the consolidation of two cities.

The history of municipal consolidations in Michigan is very limited. Case law and statutory law provides conflicting guidance on the question of whether a newly consolidated city could, or should spread the voted debt millage across all taxable property or should only be spread on those properties that were located within the boundaries of the current City of Saugatuck. This is a complicated legal question which is unresolved. Relevant law includes the Home Rule Cities Act, the State Boundary Commission enabling legislation and case law.

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D. Disposition of Real and Personal Property

The real and personal properties and other assets of the cities include the land, buildings, vehicles, office furniture and supplies, tools and equipment, and other tangible and intangible materials purchased or acquired using public funds by each entity. The primary issue in the event of a merger of two governmental entities is the oversupply of such properties and assets.

Real Property

The land and buildings held by the two cities include two city halls, Douglas' police station, separate public works facilities, several public parks, and two beaches.

Clearly a merged city will need only one city hall. Examination of the two facilities leaves little doubt that the present Douglas city hall would be adopted as the home of a consolidated government. City leaders could decide what to do with the present Saugatuck city hall – the options for which would include: selling it and using the proceeds to fund the cost of consolidation; continuing to use it for city purposes; or repurposing it as a library or public meeting place.

As is explained below, no changes are expected to police services as a result of merging the two cities. As a result, it is not expected that the location or size of the police station will need to change.

Each city also owns and maintains separate equipment storage facilities for public works. The aggregate of the facilities maintained by the two cities is in excess of the average of 14,000 square feet of storage facility space maintained by a number of cities that are comparable in size, population, and geographic isolation from other cities or villages. Additionally, it is foreseeable that a merged city would

need fewer vehicles than the two cities need in aggregate as independent entities, thus less space would be required to store vehicles. **As neither Douglas' nor Saugatuck's DPW facilities are presently adequate for their needs, it is expected that a merged city would continue to use both cities' facilities or seek opportunities to construct a new facility sufficient in size to meet the needs of a combined department of public works.**

As a destination community for vacationers and tourists, it is assumed that the cities offer the amount of park and beach acreage desired to serve residents and guests. It is not assumed that any park space should be sold off nor any beaches closed.

Equipment Needs

The cities' personal property includes equipment needed to perform public services such as snow plowing, salting of roads, lawn mowing, and other services. Most of this equipment is related to services performed by the departments of public works. A combined Saugatuck and Douglas city would need fewer pieces of equipment than they now have in aggregate. Peer cities own the following vehicles: four to five pickup trucks for use by the department of public works (some of which are converted to snow plows during winter months), one pick-up for general city use, three to four dump trucks (some of which are also used as snow plows), four to five snow plows (some of which have removable plows so the truck can serve other purposes), and two salt spreaders.

Combining the current vehicle fleet of Saugatuck Douglas would result in an excess supply of vehicles relative to peer cities. For example, the merged cities would own eight pickup trucks, three dedicated snow plows, and three dump trucks. The unnecessary or outdated city vehicles could be sold or otherwise purged and proceeds could help to fund the city merger.

E. Public Records

If merger of the cities of Saugatuck and Douglas is approved by the voters, all records from the two cities' histories including files, books, papers, and electronic information, will be inventoried, copied, and archived.

These records include materials currently maintained by the city clerks, generally falling into the following categories:

- Minutes, resolutions and official actions of the cities
- Elections records
- Charters and Ordinances
- Cemetery records
- Parks
- Liquor control records
- Bills and vouchers
- Payroll records

These records also include materials currently maintained by the city treasurers, generally falling under the following categories:

- Banking records
- Water and sanitary sewage disposal system records, including bonds and bond payments

- Tax billings and payments
- Personal property tax records

Some of the above records may be kept only in hardcopy and some may be kept electronically.

Public records are the property of the people of the State of Michigan. The cities are responsible for ensuring that the public records created and received while conducting public business are retained and only destroyed in accordance with Michigan law. The existing and new cities will need to preserve and manage the public records received in accordance with the *Records Management Manual for Local Governments* published by the Michigan Department of Technology Management and Budget.

It is foreseeable that the basement of the Douglas city hall could provide ample storage space for these records. It is not expected that the retention of these records will provide significant additional costs for the new city. If merger is approved by the voters, there will be transition costs in ensuring that records stored in the available space will not become subject to water damage. Other costs will be borne by the cities inventorying, copying, converting files to digital form when appropriate, and moving files to the storage space.

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F. Employee Issues

As detailed below, it is expected that a merger of the two cities will result in disruption of the municipal workforces. The cities each currently employ a city manager, city clerk, city treasurer, and a director or supervisor of public works. Each city contracts or employs on a part time basis an assessor, a zoning administrator, and legal counsel. Each of those positions would change from two positions now (one in each city) to one for the merged city.

Police

Douglas maintains a police department that provides police protection under contract to Saugatuck. Neither the population nor the geography served by that department will be changed by a merger of the two cities, so it will not be necessary to reorganize the police department nor to change the staff size of the department.

Public Works

The two cities currently maintain their own departments of public works. Merger of the staffs of the public works departments will create some unique issues. Each city employs a director to provide leadership and manage the day-to-day operations of the staffs, **as well as perform work in the cities alongside their staffs**. Only one director will be needed. Putting together the two staffs would create a merged staff of **ten** full-time employees (**two directors and eight workers**), plus part-time workers that are brought on during the summer months. Other cities serving populations of 2,000 or more residents generally employ about six staff members for public works. The DPW staffs in some of those cities also must maintain the water and sewer services and/or airport facilities. It is assumed that the merged Saugatuck and Douglas would need six

full-time workers and would need to continue hiring five to seven part-time workers during the summer months for maintenance of the parks and beaches. It would not be necessary to employ a deputy director to manage a sub-group of the staff or to oversee management of a particular function.

Unionization

Additionally, the issue of unionization may need to be ironed out. Presently, the public works staff in Douglas is unionized and the staff in Saugatuck is not. This might have been a more contentious issue a year ago, but enactment of Public Act 349 in late 2012, eliminated provisions in Michigan's Public Employment Relations Act (PERA) making membership in a union a condition of employment by a governmental entity (except for public safety workers). The controversial Right-to-Work legislation allows public employees to organize in a union for purposes of collective negotiation or bargaining, but employees are not required to become members or remain members of a union or to pay dues, fees, assessments, or other charges to support a union. As a result of this change, it is possible for part of the staff to belong to a union while others may choose to join the union or not based on their own self interests. As a result, it is not expected that the merged city will necessarily have to consolidate the public works operations into a single union or to dissolve the union to give all workers equal status.

Table 3
Douglas and Saugatuck City Employees

	<u>Douglas</u>	<u>Saugatuck</u>
City Manager	1	1
Clerk	2	1
Treasurer	1	1
Police	9	
Public Works	5	5 FT/5 PT
Economic Development	1	
Recreation	1	30
Total	20	34

G. Public Utilities and Public Services

Public utilities can include electricity, water and sewer, gas, or other commodities. Although it is most common in Michigan for these utilities to be provided by private firms, local governments are authorized to provide the utilities. The utilities in the Saugatuck and Douglas region are provided by private vendors and a special authority created by interlocal agreement. The cities are not engaged in the provision of electricity or other energy resources.

Public services can cover a wide gamut of possibilities. Again, Saugatuck and Douglas have little exposure in the provision of public services. Both cities contract with Chef Container for the provision of garbage collection and recycling. The beaches may be considered a public service and those are expected to continue unchanged.

It will not be necessary for any changes to be made with regard to the provision of public utilities and public services if the electors in Saugatuck and Douglas approve a merger of the two cities.

H. Special Districts

Douglas and Saugatuck have each created special districts within their own boundaries for the purposes of economic development. Douglas' downtown development authority was created to invest in and promote the downtown area. Saugatuck's historic district is designed to preserve the unique historic flavor of the housing stock and other resources.

Downtown Development Authority

Douglas has a Downtown Development Authority (DDA) (Public Act 197 of 1975) in its downtown area as an economic development tool. DDAs raise revenue for physical improvements, property acquisition, marketing, and economic development operations within the district by the use of tax increment financing, revenue bonds, tax levies, fee collection, and grants. This state law allows local units of government to establish an authority in designated downtown areas as a public body. It was created by the city council, is controlled by a board of directors which was appointed by the city council, and has

jurisdiction for limited purposes over a district within the municipality.

The issue for residents considering consolidation is whether a merged city should have a DDA, and if so, should it continue in its current geographic form or assume a new form. Clearly a new city could create a new DDA (or other economic development district), but it is also possible that the new city can choose to continue Douglas' DDA in its current form pursuant to Section 3a of the DDA act:

If a downtown district is part of an area annexed to or consolidated with another municipality, the authority managing that district shall become an authority of the annexing or consolidated municipality. Obligations of that authority incurred under a development or tax increment plan, agreements related to a development or tax increment plan, and bonds issued under this act shall remain in effect following the annexation or consolidation.

The larger question is whether the business district in either city would need to utilize these economic development tools to compete with surrounding communities. Balancing the needs of both business districts will require special care by the new city leaders.

Historic District

Saugatuck has a historic district organized under the Local Historic Districts Act (Public Act 169 of 1970). This state law allows local governments to create Local Historic Districts for the purposes of acquiring certain resources for historic preservation purposes and to provide for preservation of historic and non-historic resources within historic districts. Local governments are authorized to create a commission for the purposes of carrying out the historic preservation powers authorized in the act.

The existence of a local historic district is a precondition for local governments to capture tax revenues to make improvements within the district under the Historic Neighborhood Tax Increment Financing Authority Act (PA 530 of 2004), but the City of Saugatuck has not acted to use tax increment financing for the funding of improvements within its

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historic district. The Saugatuck historic district encompasses about one third of the city on the east side of Kalamazoo Lake and the Kalamazoo River and almost all of the lakefront and riverfront properties on the east side of the water.

Again, an issue for residents considering consolidation is whether a merged city should have a historic district, and if so, should it continue in its current form or assume a new form. Unlike the DDA act, the Local Historic Districts Act does not include provisions under which the existing district would continue unchanged in the event of annexation or consolidation with another government. A consolidated city could go through the necessary steps to re-establish a district with the existing boundaries or modified to include more properties, including those that are currently in Douglas.

The current provisions of the law for establishing a historic district from the provisions in the law that were used to create the local historic district in Saugatuck in 1981. The law as originally enacted required the municipality to “conduct studies and

research and make a report on the historical significance of buildings, structures, features, sites, objects and surroundings in the local unit.” Under those provisions of the law, the district could be considered created and a commission could be appointed once that report was filed with the appropriate parties.

Establishment of a historic district was made more complicated by amendments to the Local Historic Districts Act in 1980 and 1992. Under current provisions of the act, committee membership is required to include representation from one or more duly organized local historic preservation organizations. The committee is required to conduct a photographic inventory of resources within the proposed historic district; conduct basic research of the district and the resources located therein; determine the ratio of historic to non-historic resources within the district guided in part by inclusion of resources on the national register of historic places; and prepare a preliminary report of the importance of the district. The committee is required to file a final report after holding a public hearing.

I. Special Authorities

Both Saugatuck and Douglas are small enough that independent provision of capital intensive governmental services may be cost prohibitive. To overcome this problem, the cities have utilized a number of provisions in state law to jointly provide municipal services. The long-lasting relationship between the two governments and with Saugatuck Township has led to the creation of a number of inter-local agreements for the two cities or all three governments to share in the cost of providing these services. It is not expected that any of these services will be adversely affected by a merger of the two cities.

While there is no reason to think that the delivery services by these special authorities will change, each special authority is created through an inter-local agreement. That implies that they were created with Douglas and Saugatuck as participants in legal agreements. The dissolution of the cities, to be replaced by a merged city, does not suggest that the new city will automatically become a participant to the agreements. Rather, each inter-local agreement will have

to be rewritten, even if substantially from its current form.

The use of these various laws that authorize local governments to jointly provide services reflect efforts to artificially create what would exist if the community was governed by one government instead of two or three entities. The result of this collaboration resembles what residents, visitors, and businesses could expect to get from a single governmental entity, but the tradeoff is diminished accountability. Instead of the directly elected government officials deciding service levels, setting direction, answering for service delivery problems, and carrying out these responsibilities, governance is entrusted to individuals appointed to represent each jurisdiction. Instead of electing a different candidate if delivery of these services is problematic, the residents of these communities must work through their legislative bodies (city council or the township board) to bring about change. A merger of Saugatuck and Douglas would not change delivery of these services, but it could strengthen the lines of accountability.

Fire Protection

Both Saugatuck and Douglas receive fire protection via an inter-local agreement with the Township of Saugatuck Fire District. The board of the district consists of five members, two at-large members and one member from each of the three participating units. While that body sets policy for the district, the budget of the district is determined at a joint meeting of the three governments. The operations and capital expenditures of the district are funded using special millages for fire protection. The City of Saugatuck assists with administration of the fire district. It is not expected that the arrangement with Saugatuck Township will be disrupted by merging the two cities, nor should residents and businesses expect the cost of fire protection to be altered because of a merger.

Table 4
Total Operating Expenditures for Local Governmental Services Provided to Properties in Douglas and Saugatuck, Fiscal Years Ending in 2012

Interurban Transit Authority ¹	\$ 741,641
Kalamazoo Lake Sewer and Water Authority ²	
Water Fund	592,785
Sewer Fund	855,973
Saugatuck Township Fire District ³	628,754
Saugatuck-Douglas District Library ⁴	<u>360,788</u>
Total Operating Expenses	\$3,179,941

Sources:

¹ Interurban Transit Authority Financial Statements, www.michigan.gov/documents/treasury/037516InterurbanTransitAuth20130123_409408_7.pdf

² Kalamazoo Lake Sewer and Water Authority Financial Statements, www.michigan.gov/documents/treasury/037512KalamazooLakeSewerWaterAuth20120823_396267_7.pdf

³ Saugatuck Township Fire District Financial Statements, www.michigan.gov/documents/treasury/037515SaugatuckTwpFireDistrict20130109_407998_7.pdf

⁴ Saugatuck-Douglas District Library Audit Report, www.michigan.gov/documents/treasury/038004Saugatuck-DouglasDistrictLibrary20130211_411264_7.pdf

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Police Protection

The Saugatuck Douglas Police Department is an operation of the City of Douglas with whom the City of Saugatuck contracts to provide police protection as well. Administration of the department is a responsibility of the City of Douglas. Rather than needing to rewrite the inter-local agreement in the advent of a city merger (as is the case for the other services described in this section), the need for the inter-local agreement will disappear and police protection simply will be a city service. It is not expected that the level of policing will be altered by merging the two cities, nor should residents and businesses expect the cost of police protection to be altered because of the merger.

Transit

The Interurban Transit Authority provides dial-a-ride transportation services to residents of the cities of Saugatuck, Douglas, and Saugatuck Township. The authority is governed by a board that consists of six members, with two members appointed by each of the three jurisdictions. It is not expected that the Authority will be disrupted by merging the two cities, nor should residents and businesses expect the cost of operating the service to be altered because of a merger.

Library

The Saugatuck-Douglas Library exists as a collaborative service provided by the cities of Saugatuck and Douglas and Saugatuck Township. Although the library building is located in Douglas, library services are provided to residents of all three communities. It is not expected that the arrangement for joint provision of library services will be disrupted by the merger of the two cities, nor should residents expect the cost of library services to be altered because of the merger.

Water and Sewerage

The provision of potable drinking water and sanitary sewer services in the Saugatuck and Douglas region are provided through the Kalamazoo Lake Sewer and Water Authority, a joint venture of Saugatuck, Douglas, and Saugatuck Township. The Authority is gov-

erned by a five-member board that is appointed by each of the governments. The Authority was formed to operate, maintain, administer, and manage the water and sewerage systems located within the three governments. It is not expected that the arrangement for joint provision of water and sewerage services will be disrupted by the merger of the two cities, nor should residents expect the cost of water and sewerage services to be altered because of the merger.

Harbor Authority

In 2008, the two cities and Saugatuck Township united to create a study committee to address the problems of historically low water levels and the increasing amounts of sediment collecting on the bottom of the harbor. The committee comprised one representative from each jurisdiction. That led to the creation of a Harbor Authority in 2010 by an inter-local agreement between the cities of Saugatuck and Douglas (without the township) under the statutory authority of the Water Resource Improvement Tax Increment Finance Authority Act.

The Water Resource Improvement Tax Increment Finance Authority Act authorizes local governments to create water resource improvement authorities to correct and prevent deterioration in water resources and to promote water resource improvement. The Authority is governed by a five-member board with members appointed by each city. The Authority was formed to obtain funding to maintain the Kalamazoo River harbor.

The state act authorizing creation of these authorities was allowed to sunset in 2011. If the leaders of a new city choose to end the authority, it could not be recreated unless new legislation is enacted. The merged city may choose to continue operation of the water resource improvement authority under section 6 of the act:

If a development area is part of an area annexed to or consolidated with another municipality, the authority managing that development area shall become an authority of the annexing or consolidated municipality. Obligations of that authority incurred under a development or tax increment plan, agreements related to a development or tax increment plan, and bonds issued under this act shall remain in effect following the annexation or consolidation.

J. Roads, Sidewalks, & Public Easements

As a proposed merger of two cities, the consolidation of Saugatuck and Douglas poses few issues related to the roads. With the exception of a small stretch of I-196 that runs through Douglas, all roads currently within the two cities are either city streets or private roads. County roads end where each city begins. Thus, responsibility for road care and funding for roads will remain largely unchanged.

Road Care

Combining operations to care for streets will provide opportunities to achieve some efficiency, but the opportunities are not extensive because the two cities have used different designs to construct their streets. As separate operations, each city separately contracts for engineering studies; has its own equipment; and limits its work to streets within its borders. Operating over a wider geographic area with more streets under the jurisdiction of a single entity should allow the road agency to make better use of the equipment, to employ staff with greater expertise in the necessary tasks for road maintenance, and to provide consistency across the whole road system.

The ability to achieve these efficiencies will be limited to some extent by the designs used to construct the streets in each jurisdiction. A driving tour of the two cities shows that most Saugatuck streets have a curb and most Douglas streets simply have a gravel shoulder. The equipment needed to perform winter maintenance on these streets is usually different, with most road agencies employing smaller trucks to clear streets with curbs and larger trucks to operate on the streets without curbs. Street maintenance involves more equipment than the trucks, but trucks are a major cost center and there will be minimal ability to achieve savings by minimizing the necessary number of trucks by consolidating operations.

Highway Funding

Michigan's Public Act 51 of 1951, the State Trunk Line Highway System act that governs jurisdiction over roads and the distribution of state funding for the construction and maintenance of the roads, streets, highways, and bridges, distributes the state collected gas tax and registration fee revenues to cities and villages based on population and the number of miles of major streets, trunk line roads, and local streets. The number of

miles of major streets and trunk line roads are weighted to account for the population of the city or village.

Saugatuck (925 residents as of 2010) and Douglas (1,232 residents as of 2010) both fall below the minimum threshold to begin weighting the road miles of 2,000 people. A combined city of 2,157 people would move the combined city above the first threshold resulting in a minor increase in road funds received from the state. Given the current state tax rates and distribution methods, this would yield about \$400 more per year than the aggregate amount that the cities receive as independent entities.

Street Names

Officials in a merged city may have to rename a few streets that share the same name but do not run continuously through Saugatuck and Douglas. Each city has a Main Street and a Water Street. Because the Main Street in Saugatuck runs east-west and the Main Street in Douglas runs north-south, the numbering of the buildings is different. It might be as easy as assigning an "E" or "W" to properties on Main Street in Saugatuck and a "N" or "S" to properties on Main Street in Douglas to differentiate which city street one is referring to if the cities are merged. The Water Streets in each city both run north and south and both go on for some distance. It would be the recommendation of CRC that Water Street in Douglas be renamed in the event the cities are merged to avoid confusion in mapping and street numbering.

The other street names in common in each city are Park, East, and West. Park Street in Saugatuck is a major street that extends for some distance. Park Drive in Douglas is a local street on the east end of 3rd Street. If having a street and a drive with the same name will be confusing, renaming Park Drive in Douglas will cause the least amount of disruption because there are only four houses located on that short stretch of road.

East and West Streets in Saugatuck are two short streets that run between Old Allegan Road and Mason Street. East and West Drives serve a minor mobile home park in Douglas. They come off of Wiley Road just east of Blue Star Highway. Neither of the streets in either city serves a more substantial role than the other. Simply because the mobile homes located on the streets in Douglas are more compact and located closer together, changing the street names for East and West Streets in Saugatuck would cause disruption for fewer parcels.

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K. Fiscal Impact

A general challenge of analyzing the finances of smaller units of government in Michigan is the lack of specialization inherent in their organization and assignment of responsibilities for the performance of functions and delivery of services. Government employees typically wear several hats in small cities and divide their time fulfilling different roles. This is possible because no one task requires sufficient time and resources that it should occupy those employees in a full-time capacity throughout a year. It is necessary because these smaller governments typically do not have the resources to employ large staffs to carry out each task individually.

Presently, this is true in Saugatuck where the city does not employ clerical support to act as a receptionist or perform clerical tasks and the executive staff performs custodial duties to keep city hall tidy. Similarly, in Douglas employees perform tasks beyond the responsibilities that can be assumed from their job titles.

This is also apparent when cities comparable in geographic size and population were solicited for staffing and budget information. Those cities reported that besides managing the day-to-day operations of their cities, the city managers serve to operate the downtown development authority, serve as public service superintendent, serve as the code enforcement official, serve as the fire code enforcement official, perform tasks as the zoning administrator and for the planning commission, serve as the airport manager, and serve as director of the department of public works.

Additionally, the treasurers typically serve as finance directors and perform financial and clerical tasks for the authorities to which those cities are members. Clerks perform duties for their planning commissions, perform financial duties, and manage operation of the city cemetery. Some comparable cities have merged the offices of treasurer and clerk, with a single person fulfilling both responsibilities.

If merger of the cities of Saugatuck and Douglas moves forward and lean operations are desired, those designing a new city could be aggressive in consolidating functions in as few officials as possible. The

combination of the clerk and treasurer's offices discussed below is one example of how other cities have been aggressive in consolidating functions. Conversely, because the structures of Douglas and Saugatuck are substantially the same, if the new city is structured to continue with this operating model, it would eliminate some of the duplication caused by having two cities, but would leave some potential savings untapped.

Expenditures

As was discussed above, one challenge in estimating the operating costs and organizational issues for a combined Saugatuck and Douglas is dealing with the varying service needs as the transient populations increase demand on city services during the summer months. While the resident population of these cities is about 2,000 people in aggregate, the cities serve much larger populations during periods when visitors occupy their second homes and use other accommodations to enjoy the beaches and access to Lake Michigan.

CRC surveyed a number of Michigan cities ranging in size from 1,700 to 4,500 residents for staffing and financial information. The wide range of city sizes allowed CRC to consider a range of organizational models and to understand how staffing of core governmental services varies in relatively small cities with different types and levels of auxiliary services provided by the government. CRC survey sought cities that are as much like Saugatuck and Douglas as possible. To do so, efforts were made to use information for comparison cities that are vacation and tourism destinations. CRC also sought cities that operate police and fire services as part of city government or provide one or more of these public safety functions through interlocal agreements.

Aggregated Current Expenditures

The Fiscal Year 2012 Comprehensive Annual Financial Reports of the two cities report total expenditures of almost \$14 million. This number was adjusted to avoid double counting in police expenditures. The Douglas Police Department provides police protection to both cities, with Saugatuck purchasing protection in that city at a cost of

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\$523,525 in 2012. The police expenditures reported in Douglas' annual report include both the amount received from Saugatuck and the city's own general fund contribution to provision of this service. Rather than adding the amounts reported by the two cities, the amount reported by Douglas as total police expenditures is used, \$940,606.

Still this amount grossly overstates general operations for Saugatuck because it includes an exceptional \$10.3 million grant funded expenditure for capital outlays. To get a better picture of total spending, capital outlay expenditures were removed from

the totals for both cities, leaving total spending of **\$3,610,462**.

Some highlights of current spending patterns in the two cities (see **Table 5**):

- Police protection is the major category of expenditures for these two cities, accounting for more than one quarter of all non-capital outlay expenditures.
- Spending on the clerk and treasurer functions consumed **11.3 percent** of the total, with Douglas accounting for two-thirds of that amount.

Table 5
General Fund Final Spending by the Cities of Douglas and Saugatuck by Function, FY2012

	<u>Douglas</u>	<u>Saugatuck</u>	<u>Combined</u>
General Government			
City Council/Legislative	\$ 12,153	\$ 16,420	\$ 28,573
City Manager	111,562	136,167	247,729
Attorney	20,333	45,500	65,833
Clerk	239,502*	82,192	321,694
Treasurer		86,912	86,912
Assessing	44,344	53,364	97,708
Elections	3,564	-	3,564
Building & Grounds	51,419	22,943	74,362
Other	10,500	-	10,500
Public Safety			
Police	940,606	**	940,606
Building Inspection & Regulation		38,025	38,025
Public Works	191,922	269,458	461,380
Community & Economic Development	209,373	-	209,373
Recreation & Culture	89,627	427,695	517,322
Transfer for Major Roads	320,000	-	320,000
Debt Service	107,355	49,055	156,410
Capital Outlay	58,854	10,250,854	10,309,708
Other	25,664		25,664
Total Expenditures	\$2,227,405	\$11,478,585	\$ 13,680,326
Total w/o Capital Outlay	\$2,227,405	\$ 1,408,721	\$ 3,610,462

* Douglas spending for clerk and treasurer included large amount for MERS pension benefits. This was adjusted to the Fiscal Year 2013 amount to enable better comparisons with peer cities.

** Saugatuck 2012 CAFR reported \$523,525 total expenditures for police. This amount was paid to Douglas to purchase police protection. The amount was backed out for purposes of this table to avoid double counting.

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

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- Recreation and culture spending was **14.3 percent** of the total, with more than 80 percent of the total spent on the Saugatuck side for operation of the beach, parks, and other amenities.
- Spending on public works accounted for **12.8 percent** of the total, with Saugatuck accounting for a little more of this amount than Douglas.
- Finally, **9.5 percent** of the combined spending by the two cities was for their city councils, the city managers' offices, and legal counsel. Saugatuck devotes more resources to these functions than does Douglas.

Estimated Expenditures for Merged City

The following discussion looks at the present responsibilities of the cities' civil servants and the expected responsibilities of those employees if the two cities are merged.

Customer interaction is the hardest aspect of the job function to quantify and account for in projecting expenditures. Both cities have minimal staffs that must wear several hats to perform the administrative tasks necessary to keep these cities operating. Both have their city managers, treasurers, and clerks in positions to respond directly to telephone calls and inquiries as residents, property owners, business owners, and others attempt to resolve issues involving the city governments. Currently, that responsibility is spread over seven people – three in Saugatuck and four in Douglas. If the cities are merged, the responsibility for the same number of residents, property owners, business owners, and others would fall on half as many people. The need for an administrative assistant, perhaps spread among the several functions, may arise in response to the need to fill this role – especially in the short term as the new administrative entity works out the kinks in blending the two entities together.

City Council/Legislative

The cost of the new city council will depend highly on the structure created in the new city charter. The seven-member councils that currently govern Douglas and Saugatuck are fairly common for smaller Michigan cities. If it is assumed the new city (population 2,157) will continue with a seven-member board, then an expense of \$10,000 or \$20,000 can be expected. This would be a savings of about \$40,000 compared to the \$61,000 that the two cities paid in aggregate.

If, on the other hand, it is considered that the charter commission could provide for a larger city council to provide greater representation, then the cost of the city council could be a little higher.

City Manager

Saugatuck and Douglas each employ a single person to manage the administration of their city. Besides the cost of the salaries and fringe benefits, these cities budget for the offices to provide needed supplies and equipment.

In cities contacted for peer review, the administrative management is mostly provided in offices of a single full-time manager. Some peer cities provide administrative support or a deputy city manager to work with the city managers, but those cities tend to provide more services than does Saugatuck or Douglas, such as water and/or sewer systems and airports. Whereas fire protection is provided to Saugatuck and Douglas residents by the Township of Saugatuck Fire District, an entity external to city operations, and Saugatuck contracts with Douglas for police protection, most of Saugatuck's and Douglas' peer cities operate police and fire departments as part of their city governments. Additionally, several of these peer cities assign their city managers tasks in addition to their normal responsibilities, such

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as: managing the downtown development authority, the planning commission, or the housing commission; directing airport operations or the departments of public service or public works; or serving as the zoning administrator or in code enforcement.

The salaries of the Saugatuck (\$80,500) and Douglas city managers (\$71,400), are a little higher than the average among the peer cities, as are the amounts budgeted for operations of the city managers' offices (See **Table 6**). The peer cities pay their city managers an average salary of \$68,400, plus benefits, and budget for the managers' offices at \$102,500.

A merged city would require only one city manager. Based on the spending patterns in the peer cities, it seems safe to assume that a new city could be managed administratively with what Saugatuck currently spends on its city manager's office – \$135,000. This would be less than half of the cost of what the two cities presently pay in aggregate.

The city manager will be at the heart of all transition efforts for a new city, so cost of operating this office during the consolidation process can be expected to be higher.

Table 6
Staffing and Costs of City Managers/Administrators in Peer Cities

	<u>Number of FTEs</u>	<u>Size of Budget</u>	<u>Manager's Salary</u>	<u>Extra Responsibilities</u>
Algonac	1	\$ 110,000	\$ 75,000	Exec. Director DDA, planning commission
Clio	1.5	\$ 47,714	\$ 60,000	Interim Department of Public Service Superintendent, code enforcement official, fire [code enforcement] official
DeWitt	2	\$ 197,839	\$ 80,000	DDA, Planning Commission, ZBA
East Jordan	1	\$ 66,065	\$ 65,000	Zoning Administrator; staff to Planning Commission, ZBA & DDA; Airport Manager; on Housing Commission Board
East Tawas	1	\$ 87,950	\$ 66,000	Serves on numerous authorities including Police, Utilities Authority, Regional Water Authority, Brownfield Redevelopment Authority, Housing Commission, 911 Board
Imlay City	1	\$ 115,325	\$ 68,500	
Iron River	1	\$ 105,000	\$ 67,000	Zoning Administrator
Ithaca	1	\$ 91,000	\$ 65,000	
Lowell	0	\$ 116,200	\$ 82,500	Zoning Administrator, DDA Director
Rockwood	2	\$ -	\$ 47,000	Deputy city clerk
St. Ignace	2	\$ 102,480	\$ 60,000	City Manager/DPW Director/ Water & Sewer
Vassar	1	\$ 89,352	\$ 59,000	
Montague	2.5	\$ 199,000	\$ 89,306	
Average		\$ 110,660	\$ 68,024	
Median		\$ 103,740	\$ 66,000	

Source: CRC survey of city managers

THE PROPOSED MERGER OF DOUGLAS AND SAUGATUCK

City Treasurer

Saugatuck and Douglas both employ a single staff member to perform the treasurer's responsibilities. As is common among smaller cities, these responsibilities include fiscal management, such as preparing budgets, and treasurer's roles, such as depositing revenues and managing funds.

Other cities call upon their treasurers to serve as the finance manager, serve a human resource role in terms of managing payroll and benefits, and help to manage the finances of special authorities in which those cities are participants. (See **Table 7**.)

The salaries of the Saugatuck (\$58,500) and Douglas (\$56,000) treasurers are higher than the

\$53,000 a year average of these other cities. The cost of operating the treasurer's office is about equal to the median amount for the cities that report for this function, \$87,000, and less than the average for those cities, \$94,000.

A merged city would require only one city treasurer. It is expected that that person would have financial responsibilities related to both the police department, which are already performed by the Douglas Treasurer, and fire authority, which are presently performed by the Saugatuck Treasurer. It is expected that the merged city would pay that person a salary of \$60,000 per year and will need to fund the office in the range of \$100,000 per year.

Table 7
Staffing and Costs of Treasurer in Peer Cities

	Number of FTEs	Size of Budget	Treasurer's Salary	Extra Responsibilities
Algonac	3	\$ 240,000	\$ 62,000	one position is paid to perform utility billing
Clio	1.5	\$ 31,950	\$ 46,363	
East Jordan	2	\$ 98,338	\$ 40,000	finance director, payroll administration, benefit administration
East Tawas	3	\$ 120,200	\$ 60,361	treasurer of most of the authorities, also takes minutes at many authority meetings
Essexville	1	\$ 48,900	\$ 48,250	
Iron River	1.5	\$ 103,000	\$ 58,800	
Ithaca	1.5	\$ 66,000	\$ 54,300	
Lowell	0	\$ 104,300	\$ 56,129	
Vassar	1	\$ 61,118	\$ 39,390	
Montague	1	\$ 76,000	\$ 68,037	finance director
Average	1.2	\$ 94,081	\$ 53,363	
Median	1	\$ 82,669	\$ 55,215	

Source: CRC survey of city managers

CRC Report

City Clerk

Saugatuck and Douglas each employ one person to perform the clerk functions for their city.

The compensation provided to the Saugatuck (\$45,500) and Douglas (\$56,000) clerks and the amounts allotted to operations of their offices are very comparable to that provided by the peer cities that provided feedback. (See **Table 8**.)

A merged city would require only one city clerk. It is expected that that person would be paid in the range of \$50,000 per year and the city would fund the office in the range of \$85,000 per year.

The cost of funding the treasurer and clerk functions at \$185,000 for a merged city would be about half of what the two cities pay in aggregate currently.

Administrative Support

Douglas presently employs a deputy clerk to assist with responsibilities of the office (\$33,000).

In addition to the staff that will be needed to carry out the responsibilities of the city manager, city treasurer, and city clerk, it is expected that the merged city will find it valuable to employ a support person to perform administrative tasks and support the efforts of those employees. The cost of that staff person has been built into the assumed budgets for the offices of the city manager, treasurer, and clerk.

Joint City Clerk/Treasurer

In the big picture, there usually is not sufficient work to keep a clerk or treasurer engaged on a full-time basis in cities of less than 5,000 people. Some Michigan cities have used this excess capacity to have those officials serve auxiliary roles for the cities and/or for the special authorities to which the cities are members.

Among the 17 cities that responded to a request for information for this analysis, four cities have combined their treasurer and clerk position. The cities – Ferrysburg, DeWitt, Imlay City, and St. Ignace – are

Table 8
Staffing and Costs of Clerk in Peer Cities

	<u>Number of FTEs</u>	<u>Size of Budget</u>	<u>Clerk's Salary</u>	<u>Extra Responsibilities</u>
Algonac city	0.5	\$ 80,000	\$ -	25-30 hours/week, no benefits
Clio city	1.5	\$ 31,590	\$ 37,502	Finance Officer
East Jordan	1	\$ 76,060	\$ 44,000	Secretary to Planning Commission; Assistant Zoning Administrator; Personnel Administrator; FOIA Coordinator
Essexville city	1	\$ 47,000	\$ 48,250	
Iron River city	1.5	\$ 96,000	\$ 54,600	
Ithaca city	1.5	\$ 66,000	\$ 54,300	
Lowell city	0	\$107,500	\$ 48,536	
Vassar city	1	\$ 68,183	\$ 44,158	
Montague city	1	\$ 76,000	\$ 51,002	payroll, cemetery
Average		\$ 72,037	\$ 47,794	
Median		\$ 76,000	\$ 48,393	

Source: CRC survey of city managers

THE PROPOSED MERGER OF DOUGLAS AND SAUGATUCK

Table 9
Staffing and Costs of Clerk/Treasurer in Peer Cities

	<u>Number of FTEs</u>	<u>Size of Budget</u>	<u>Treasurer's Salary</u>	<u>Extra Responsibilities</u>
Ferrysburg			\$ 57,121	Treasurer and Clerk Position is combined
DeWitt	1.75	\$ 138,770	\$ 66,000	Clerk/Treasurer
St. Ignace	3	\$ 211,410	\$ 55,000	Clerk/Treasurer
Imlay City	0.5	\$ 170,758	\$ 48,000	Clerk/Treasurer

each larger than would be a combined city if Douglas and Saugatuck are merged. Those cities have attempted to minimize the amount of excess capacity in these administrative tasks and acted to achieve the efficiencies by combining the administrative functions into a single office. Those cities supplement the clerk/treasurer position with administrative support. In the end, the staffing might be roughly the same as having one person for each office, but savings could be realized because administrative support for a combined office would be paid less than a professional heading the office.

Public Works

Saugatuck and Douglas each employ four full-time employees to work in their departments of public works. Additionally, each employs part-time workers in the summer when more needs to be done to maintain the parks, beaches, and other city properties.

Employment of eight full-time public works staff would leave the merged city with two and a half to three more staff members than are employed by the peer cities that are of comparable geographic size. While there is little doubt that the merged city would be able to keep this enlarged staff engaged during the summer months, it is questionable that the merged city would have sufficient work to justify maintaining all present workers on staff during the winter months.

It is assumed that the merged city would need six full-time workers and would need to hire five to seven part-time workers during the summer months.

Assessing

The City of Saugatuck currently has 1,106 (172 commercial and 934 residential) parcels of real property and the City of the Village of Douglas has 1,304 parcels (151 commercial, 7 industrial, and 1,146 residential). Real property includes the land, buildings, and fixtures on the land, and appurtenances to the land. The assessors also must value personal property for purposes of taxation. The City of Saugatuck currently has 147 parcels of personal property (145 commercial and 2 utility) and the City of the Village of Douglas has 164 parcels (158 commercial, 3 industrial, and 3 utility). Personal property is generally considered tangible things that are movable (but not inventory).

Of the 17 cities ranging in size between 2,300 and 4,500 residents that were contacted as part of the peer city review, only a few cities employed their assessors as part of municipal staff. These cities combined the responsibilities of the assessor with those of the zoning administrator. It was far more common for the cities to contract with a person, firm, or the county equalization department to perform the assessing tasks.

CRC Report

Table 10
Staffing and Costs of City Assessor in Peer Cities

	<u>Required Level of Certification</u>	<u>Number of FTEs</u>	<u>Size of Budget</u>
Algonac		contract with county equalization	\$ 27,000
Clio	1	Contracted	\$ 13,715
DeWitt	2	Contractor	\$ 36,147
East Jordan	3		\$ 27,940
East Tawas	MCAO	1	\$ 57,225
Essexville		Contracted	\$ 17,000
Ferrysburg	3	Contracted position	\$ 23,500
Gladwin	0	1	\$ 45,000
Imlay City	3		\$ 21,880
Lowell	2		\$ 47,550
Montague	3	contracted	\$ 19,000
Rockwood	3		\$ 12,600
St. Ignace	3	1	\$ 43,750
Vassar	4		\$ 17,307
Average			\$ 27,308
Median			\$ 23,500

Source: CRC survey of city managers

Those cities paid amounts ranging from \$12,600 to \$47,550 a year for assessing services. The city expenditures ranged from \$9 per parcel of real property to \$28 per parcel, with a median of \$13 per parcel of real property and an average of \$16 per parcel.

Markets vary for specialized services such as property appraisals and assessing, but based on the ratios of cost to parcels in the peer cities it is expected that a new city could get assessing services for what Saugatuck currently pays, about \$55,000 a year.

Community Development

Expenditures for community development are reported only by Douglas. It is assumed that those costs will need to be met by the new city. The expenses of Douglas are assumed to carry forward for the new city.

Buildings and Grounds

With consolidation of the city hall into Douglas' current building and use of Douglas' public works building, it is expected that the merged city should be able to save what Saugatuck is currently paying for buildings and grounds, about \$23,000 per year.

Planning and Zoning

It is expected that one person will be needed to oversee the planning and zoning responsibilities of a new merged city. That person will be expected to oversee continuance of the Downtown Development Authority in what is now Douglas and to oversee the Historic District in what is now Saugatuck if city officials opt to continue operation of each entity.

THE PROPOSED MERGER OF DOUGLAS AND SAUGATUCK

Table 11
Merged City Staffing and Budget

	<u>Assumed Staffing Needs</u>	<u>Assumed Budget</u>	<u>Two-City Total</u>	<u>Difference</u>
General Government				
City Council/Legislative	Mayor			
	Mayor Pro Tem	\$ 15,000	\$ 28,573	\$ 13,573
	5 council members			
City Manager	1.3	135,000	247,729	112,729
Attorney	contract	50,000	65,833	15,833
Clerk	1.3	85,000	408,606	223,606
Treasurer	1.3	100,000		
Assessing	contract	55,000	97,708	42,708
Elections		\$3,564	3,564	0
Building & Grounds		\$52,000	74,362	22,362
Public Safety				
Police	9	940,606	940,606	0
Building Inspection & Regulation		38,025	38,025	0
Public Works	1 Director + 6 FT / 5 PT	425,000	461,380	36,380
Community & Economic Development		209,373	209,373	0
Recreation & Culture	30	517,322	517,322	0
Transfer for Road Funding		320,000	320,000	0
Debt Service and Other		<u>182,074</u>	<u>182,074</u>	<u>0</u>
Total Expenditures		\$3,127,964	\$3,595,155	\$467,191

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

Recap

Table 11 summarizes current and assumed expenditure levels. Based on comparisons with peer cities with populations of 2,000 to 4,500 residents, the assumed levels of spending for a merged city are expected to bring in annual savings of about \$500,000. The estimated total savings displayed in **Table 11**, **\$467,191**, is equal to **13.0 percent** of the **\$3.6 million** total expenditures for the two cities (not including the grant-funded \$10 million capital expenditure Saugatuck made in 2012).

The **\$467,191** total savings is equal to **6.9 percent** of the **\$6,775,096** that is the sum of total expenditures by the two cities and total expenditures by special authorities (see **Table 4** on page 22) that serve the people and properties in Saugatuck and Douglas (and Saugatuck Township for some services).

The majority of the savings would come from streamlining operations of the city manager's, treasurer's, and clerk's offices. Savings can also be expected by consolidating the public works departments and from funding the cost of one city council instead of two.

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Revenues

Compared to the assessment of expenditures, it is necessary to make far fewer assumptions when analyzing how city consolidation and reduced expenditure demands should affect the collection of revenues for city operations. Michigan local governments have very few options available to them to raise significant amounts of funding, and so it is presumed that the consolidated city will operate within that model.

If the above assumptions are correct and merger would allow for decreased expenditures, the city would have options. City leaders could choose to use the savings to decrease taxes or for purposes such as providing new governmental services, expanding existing governmental services, or making capital improvements to improve the city. For illustration purposes, it is shown how the reduced cost of city operations could be used to reduce the property tax rates that yield the revenues needed to fund government.

Aggregated Current Revenues

As can be seen in **Table 12**, Douglas and Saugatuck both receive most of their funding from property tax revenues and distributions from higher levels of government (mostly state funding). Saugatuck also receives revenues as charges for services for the chain ferry and as entrance fees for Oval Beach. Other revenues are collected for licenses and permits, fines and forfeitures, interest revenues, and rentals.

As was done with the table consolidating expenditures above (see **Table 5** on page 22), the total revenue for Saugatuck has been adjusted to account for the extraordinary capital grant that was a one time occurrence and does not reflect ongoing operations.

Projected Revenues in Merged City

Because it is presumed that the general operations of the merged city will carry on the activities currently provided by Douglas and Saugatuck individually and collectively, most of the revenue sources are not expected to change.

Table 12
Adjusted Revenue for the Cities of Douglas and Saugatuck by Source, FY2012

	<u>Douglas</u>	<u>Saugatuck</u>	<u>Combined</u>
Taxes	\$ 1,788,389	\$ 1,530,911	\$ 3,319,300
Licenses & permits	45,544	47,199	92,743
Intergovernmental (state and federal)	186,439*	10,069,864	10,256,303
Charges for services	42,144	318,832	360,976
Fines and forfeitures	5,763	20,863	26,626
Interest revenue	9,729	11,010	20,739
Rentals	500	46,662	47,162
Other revenue	40,077	18,305	58,382
Total Revenue	\$ 2,118,585	\$12,063,646	\$14,182,231
Total w/o \$10 million Capital Grant	\$ 2,118,585	\$ 2,170,782	\$ 4,112,367

* Saugatuck 2012 CAFR reported \$523,525 total expenditures for police. This amount was paid to Douglas to purchase police protection. This amount was backed out of Douglas' intergovernmental receipts to avoid double counting.

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

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Charges for Services

It is presumed that the Chain Ferry and operation of Oval Beach will continue unchanged, and therefore it is expected that the revenue that the merged city receives as charges for services will continue in the aggregate amount that the two cities collect individually – approximately \$361,000.

Licenses and Permits

The cities receive revenues from business licenses and permits such as licenses to serve alcoholic beverages, professional and occupational licenses, and cable TV franchises. In the fiscal year that ended in 2012, Douglas received \$45,544 from licenses and permits; Saugatuck received \$47,199.

Merging the two cities will not increase the number of alcohol serving establishments, increase the number of businesses that are required to obtain business licenses to operate in the city, or put the merged city over any thresholds that will allow it to charge higher rates for licenses or permits. It can be assumed that the merged city will receive in license and permit revenue an amount roughly equal to the aggregate of what the two cities receive individually – an estimated \$93,000.

Other Revenues

The cities receive revenues from fines and forfeitures, interest on invested funds, rentals, and other miscellaneous sources. It is assumed that these will continue to flow to the consolidated city in amounts equal to what the two cities currently collect in aggregate.

Intergovernmental Revenue

The second largest source of revenue for the two cities in an average year is intergovernmental revenue from the state and federal governments.

Cities, villages, and townships in Michigan benefit from an unrestricted state revenue sharing program. Unlike restricted revenue sharing programs, such as highway funding, that limit the purposes for which the shared revenues may be used, this program allows local governments to use the money received at their discretion. Revenue sharing distributes state sales tax revenues using two formulae: a constitu-

tional distribution on a per capita basis and a statutory distribution that is currently distributed through the Economic Vitality Incentive Program (EVIP).

State revenue sharing has been subject to several reductions in recent years because of the state's fiscal difficulties. Cuts in state revenue sharing have altered the distribution of the statutory amounts. While the per capita distribution is constitutionally protected, the statutory distribution has been reduced drastically with little hope of returning to full funding in the near future.

In the fiscal year that ended in 2012, Douglas received \$88,469 in constitutional revenue sharing payments based on the city's 2010 population as a proportion of the total state population. The city received \$2,927 in EVIP payments that were distributed based on a formula that weights the city's population and required the city to meet specific conditions. In that same year, Saugatuck received \$66,424 in constitutional revenue sharing payments and \$8,190 in EVIP payments.

These payments are based largely on the populations of the local government. A consolidation of the two governments would result in a simple arithmetic addition of the populations of each city to create a combined population. The merged city would not cross any thresholds to meet any other conditions that would result in more revenues from state revenue sharing as a merged unit than the aggregate of what the cities' receive as individual units.

The cities also receive Act 51 highway funding distributions from the state to subsidize care of city streets. The distributions are based on the miles of roadway in each city and each city's population as a proportion of the population in all cities in Michigan. A merger will have an additive affect on these metrics that will result in only a minor adjustment in funding from the state. As was discussed above in the section on roads, a merger would move the city population over the 2,000 population threshold resulting in a minor increase in road funds received from the state of about \$400 more per year than the aggregate amount that the cities receive as independent entities.

Both cities have been successful in recent years of drawing state and federal grants for capital improvements. These revenues do not improve or detract from the cities' abilities to fund general operations. It is assumed that a merged city will share in the success of drawing these grants.

Property Taxes

Given that revenue amounts from other sources are expected to remain unchanged for the merged city, the expected result of city merger and cost savings from streamlined operations is a reduction in property tax rates.

The tax rates currently levied by the two cities are close enough to equal that a merger of the two governments should have a nearly equal affect on taxpayers, regardless of which city they currently are located within. Currently, Saugatuck levies 15.1830 mills as a tax on properties in the city. (One mill of tax is equal to a dollar of tax per every \$1,000 of taxable value.) This rate is comprised of 12 mills for operations, one mill for road improvements, and 2.1830 mills to finance the principal and interest on outstanding debt (13.000 mills not counting the debt levy). Douglas levies 13.0818 mills for operations of the city.

Those tax rates yield over \$3.3 million in tax revenues, \$1.8 million (54 percent) is collected by Douglas and \$1.5 million (46 percent) by Saugatuck. **Table 11** above projects an expected saving of **\$467,191** by consolidating the operations of the two cities. Translating that into tax savings, it is expect-

Table 13
Millages Levied by Douglas and Saugatuck, 2012

	<u>Douglas</u>	<u>Saugatuck</u>
General Operating	13.0818	12.0000
Road Millage		1.0000
Road Debt		1.6160
Sewer Debt		0.5670

ed that a tax rate of only **11.2** mills would be needed to yield the revenues needed after the receipt of intergovernmental revenues, charges on services, and the other revenue sources. For a property valued at **\$200,000** (**\$100,000** in taxable value) in Douglas, the lower tax rate would result in about **\$192** a year in savings on city taxes. For an equally valued property in Saugatuck, the lower tax rate would result in about **\$184** a year in savings.

Repayment of Saugatuck's debt will remain outstanding as well (see discussion starting on page 11). As was summarized above, it is unknown at this time whether repayment of that debt would remain with the properties in what is now Saugatuck or be spread across all properties in the combined city. Keeping the debt repayment burden with the properties in what is now Saugatuck would not change the potential for tax savings. Spreading the debt repayment burden across the entire merged city would lessen the tax savings for properties presently in Douglas for several years, and would provide greater tax savings for properties presently in Saugatuck.

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Liabilities

Both cities offer defined benefit pension plans for municipal employees through the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit plan that provides retirement, death, and disability benefits. The plans are administered by the MERS retirement board along with many other Michigan municipal retirement plans.

Employees that work sufficient time to become vested in the system qualify for retirement benefits. Retirement amounts are typically based on a calculation using the compensation amounts paid during the employee's years of service, payable for life. Employer contributions to the plans are based on actuarial calculations of present and future earnings and expected life spans. Funds contributed to the plans are invested, with the plans assuming a regular rate of return that may or may not be met in some years.

The Douglas and Saugatuck plans, like private and public pension plans all over the nation, suffered from the sharp market declines in the later half of the last decade because of stock market contractions. As a result, the plan funding rules dictate that the employers (the cities) should make larger contributions to the plans to cover normal costs and to make up the unfunded accrued liabilities created by the unmet expectations. (See **Table 14.**)

If voters approve merger of the two cities, CRC recommends that city leaders choose from two courses of action for the retirement plans. One option is for the two defined benefit pension plans to be closed and a new plan for all qualified municipal employees be created in their place. The merged government will still need to pay into the old defined benefit plan until that plan is fully funded, and the plan will continue to make the required payments to beneficiaries of the plan that have retired and are receiving monthly amounts. Wise investing and the aging of retired municipal employees in the old systems should serve to limit the liability for the old plans. Current and future employees would become members of a new plan with funding the responsibility of the new city.

A second option is to replace the defined benefit plans with a defined contribution IRA-type plan. Private and public sector employers that offer defined benefit plans have suffered under the volatility of market swings and economic changes that at times creates the need to contribute major sums to cover the normal costs and the unfunded accrued liabilities of the pension plans. Private sector employers are migrating in large numbers to defined contribution plans and a number of public sector employers are striving to follow suit. A defined contribution plan for municipal employees would minimize the market risk for the new city and allow employees to manage investments for their retirement on their own.

Table 14
Funded Status of Douglas' and Saugatuck's Defined Benefit Pension Plans, Fiscal Year 2012

	<u>Douglas</u>	<u>Saugatuck</u>	<u>Combined</u>
Assets	\$ 1,691,096	\$ 1,268,387	\$ 2,959,483
Actuarial Liabilities	\$ 2,216,487	\$ 1,359,695	\$ 3,576,182
Underfunded AAL	\$ 525,391	\$ 91,308	\$ 616,699
Percent Funded	76%	93%	83%

Source: Douglas and Saugatuck's Comprehensive Annual Financial Reports.

L. Property Values, Public Service Levels and Costs

It is not foreseen that consolidation of the governments of Douglas and Saugatuck will have tangible consequences on the value of properties in the two cities, or for the level of services provided to the residents, visitors, and businesses in the two cities. Consolidation should marginally decrease the cost of government for taxpayers in the two cities.

Outsiders tend to see these two cities as one entity already – Saugatuck/Douglas or Douglas/Saugatuck. As such, people identify the community as a vaca-

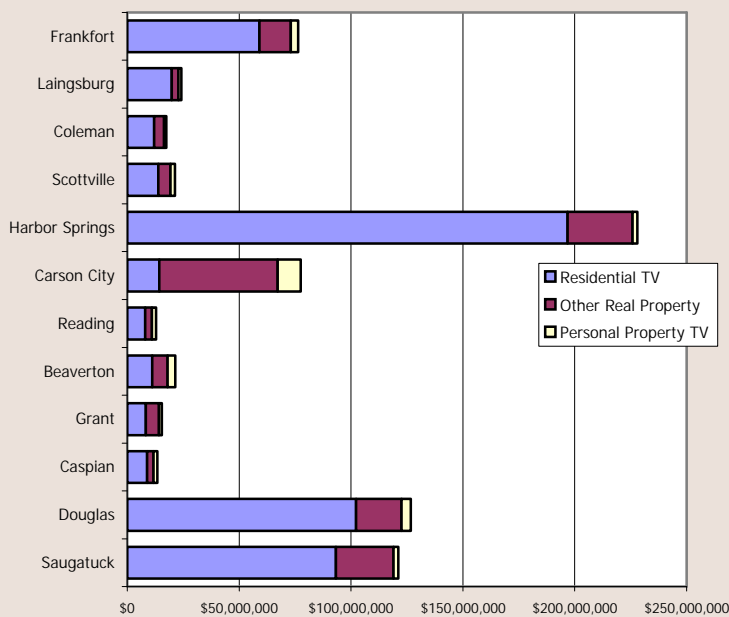
tion destination and arts community and are determined to reside in the area because of that reputation. While people may choose to reside in one city or the other for personal reasons, the two cities are already intertwined to such an extent that many may not be aware of where one city ends and the other begins.

The city services that are most costly – police, fire, library, water and sewer, etc. – are already jointly provided by the two cities, with or without participation from Saugatuck Township. Consolidation of the two cities will formalize this joint arrangement, but will not alter the level of services provided. Changes in service levels may occur for other reasons.

Douglas and Saugatuck – Two Cities with Exceptional Property Wealth

Individually or collectively, the two cities have more property wealth than most other cities of comparable size because of the inflated values of properties. **Chart 3** shows the total taxable value of Saugatuck and Douglas relative to other cities of roughly 1,000 residents. Only Harbor Springs in Emmett County has more property value than Saugatuck or Douglas among cities this size. Like Saugatuck and Douglas, much of Harbor Springs' taxable value is from the residential properties within its borders.

Chart 3
Taxable Value of Michigan Cities of About 1,000 Population



Source: State Tax Commission, Michigan Department of Treasury

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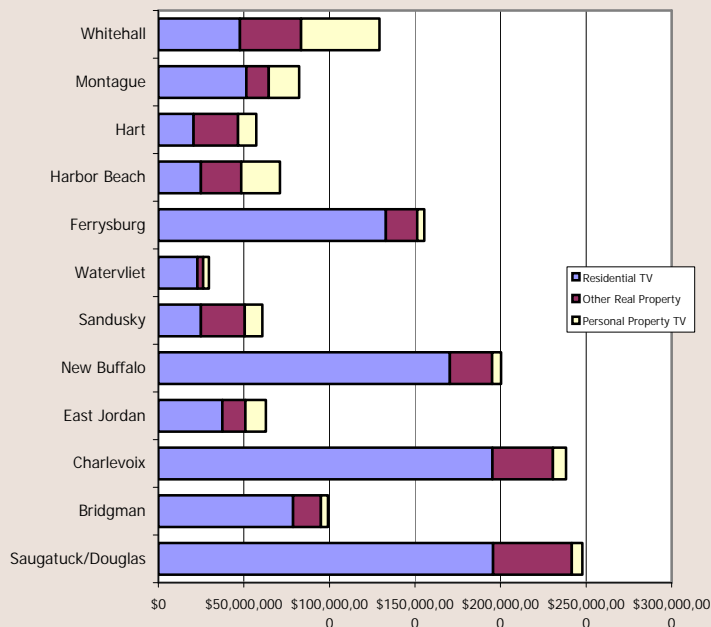
Public works is the major city service that is not currently jointly provided by the two cities. The CRC analysis indicates that both cities are probably over staffed and have acquired too much equipment because they act independently. With or without consolidation of the two cities, it is in the interest of the cities and city taxpayers to pursue consolidation of the operations of the public works departments.

Equipment should be shared and personnel directed to projects with the greatest needs, regardless of the location in either city.

As is detailed above, streamlining the administrative functions and consolidation of the public works departments should lead to reduced costs which **could** be passed on to city taxpayers.

Consolidating the two cities will result in a single city with relatively high taxable value of the properties within its borders. **Chart 4** shows that the consolidated taxable value of a merged city would exceed that of Charlevoix and New Buffalo, two cities with exceptionally large tax bases.

Chart 4
Taxable Value of Michigan Cities of About 2,000 Population



Source: State Tax Commission, Michigan Department of Treasury

3) One-Time (or Short-Term) Costs

Whether in the public or private sectors, mergers and consolidations create costs above those experienced during the regular course of business. The costs will be one-time expenses or short-term expenses incurred by Saugatuck and Douglas in preparing for the merger, by the new city in beginning operations, and by residents, businesses, and property owners in these jurisdictions.

These costs for Douglas and Saugatuck can be expected to run in the hundreds of thousands of dollars. The cities will incur costs related to the State Boundary Commission process and costs of merging operations if the merger is approved.

The cities should not be expected to absorb these costs on their own. CRC recommends that the cities immediately begin taking appropriate steps to apply to the Michigan Department of Treasury for a Competitive Grant Assistance Program (CGAP) grant. According to the CGAP website, the program is designed "...to stimulate smaller, more efficient government and encourage mergers, consolidations, and cooperation between two or more qualified jurisdictions. The grants are to offset the costs associated with mergers, interlocal agreements, and cooperative efforts for cities, villages, townships, counties, school districts, and intermediate school districts that elect to combine government operations."

The grant program is designed as a reimbursable program. Saugatuck and/or Douglas or the new city would make expenditures for functions in categories that had prior approval to qualify for grant funding and those expenses would be reimbursed by the state. If at any time the process breaks down or the voters indicate that they do not wish for it to proceed further, the grant would halt and the state would be able to divert the resources for other collaboration or consolidation efforts being undertaken by other municipalities.

Saugatuck and Douglas Pre-Merger

For the governments of Saugatuck and Douglas, the costs related to merger are likely to be dominated by legal costs related to labor issues, debt and bond

covenants, combining ordinances into a single code, and other related matters.

Election Costs

If the electors of Saugatuck and Douglas affirmatively endorse the merger process at the November 2013 election, the next step will be for a charter commission to convene for the purpose of drafting a charter for the new city that would be submitted to the same electors at a later date. Subsection 2 of Section 13 of the State Boundary Commission law, Public Act 191 of 1968, authorizes the city councils to adopt resolutions to appoint their charter commissioners, rather than selecting commissioners through an election. Should the two cities not decide to go that route, it will be necessary for each city to pay for the cost of a special election for the selection of charter commissioners. That election would be expected to happen at the February 2014 or May 2014 election dates that are provided for in the Michigan Election Law. Because other state or county elections are not scheduled for those election dates, the cost of those elections will fall completely on the cities.

The charter commissioners, once appointed or elected, will convene and set about the business of drafting a city charter that will satisfy the needs and desires of the electorates of both cities. Once that work is completed and a charter is drafted, it is submitted to the Governor's office to be evaluated for compliance with state constitutional and statutory law. It is then submitted to the electorates of Douglas and Saugatuck for their approval. If the electorate of either or both cities disapproves of incorporating a new city under the proposed charter, the commission may reconvene and redraft any or all of the proposed charter to try to address perceived weaknesses of the document. This all must happen within a three year time frame starting from the time at which commissioners are selected. Depending on the timing of the charter drafting process and approval from the Governor's office, elections to vote on the proposed charter may or may not occur at a time when state or county elections are already scheduled. If an election for officials of a higher level of government is scheduled to occur, the cost

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of the election may be defrayed. If not, the cost will again fall completely on the two cities.

Finally, the two cities can foresee the cost of electing new city officials (e.g., city council members) at some point in the future. Again, the timing of the election will determine the extent to which the costs must be absorbed by the cities.

Support for Charter Commission

Saugatuck and Douglas may individually or collectively incur costs associated with supporting the activities of the charter commission. Charter commissions are convened and operate under a wide array of circumstances, so there are no hard and fast rules for predicting how much it will cost to go through such a process. Sometimes the city(s) are supportive of the charter drafting/revision process and they provide a budget for meeting space, stipends for charter commissioners, resources for their work, and necessary costs to publish and describe the proposed document. At other times, elected officials may feel that the charter drafting/revision process is not in their or the city's best interest and the charter commission is forced to operate without city resources and on more of a "shoe string" budget.

Additionally, charter commissioners often look to existing city officials for help in understanding the operations of an existing governmental structure, strengths and weaknesses of the existing charter document, and legal issues created from federal and/or state constitutional and/or statutory provisions that may not be preempted by city charters or ordinances. In the best of circumstances, the city clerk and the city's legal counsel helps with the administrative responsibilities of keeping track of the commission's proceedings and drafting the new charter. The charter commission might offer city officials the opportunity to testify before the charter commission to discuss these matters. In other circumstances, resources and assistance are less forthcoming.

Moving into New City Hall

If all goes as the proponents of consolidation wish and the process proceeds to an affirmative vote for adoption of a new city charter and incorporation of a new city where currently there stand two, Douglas and Saugatuck can expect to incur some expenses

in preparing for the merger. Office equipment will need to be moved into the new city hall or offered for other purposes (donated, sold, repurposed, etc.). Relevant documents will need to be transported to the new city hall. These and other costs associated with moving may fall upon the existing cities.

Archiving Records of the Old Cities

Douglas and Saugatuck may also be expected to incur costs in archiving records of their cities that will not be needed by the new city but may not be disposed of under Michigan law. As detailed above, all records from the two cities' histories including files, books, papers, and electronic information, will be inventoried, copied, and archived.

Public records are the property of the people of the State of Michigan. The cities are responsible for ensuring that the public records created and received while conducting public business are retained and only destroyed in accordance with Michigan law. The existing and new cities will need to preserve and manage the public records received in accordance with the *Records Management Manual for Local Governments* published by the Michigan Department of Technology Management and Budget.

While the new city would be responsible for the cost of securely archiving the public records, the existing cities could be expected to incur some costs in identifying and documenting the records that exist so that the records can be stored and efficiently found if needed at any point in the future.

New City

Other one-time or short-term costs will not be incurred until after the new city begins operations.

Creating a New City Identity

One of the lowest cost items (in the big picture) is likely to be one of the most noticed changes for residents and visitors to the new city. Either internally or by contracting with a public relations firm, the city will create a new logo, marketing phrase, and look that will be the city's new identity. This will go on new letterhead and business cards, a new city flag, the welcome signs on the side of the road, the

sides of police cars and public works trucks.

Negotiating New Contracts

Both Douglas and Saugatuck have contracts with vendors, service companies, and other private businesses as part of the general operations of each city. Both cities contract with Chef Container for the provision of garbage collection and recycling. The cities contract to purchase road salt for winter maintenance. The cities contract with auditors to review the financial records annually and lawyers to provide legal counsel on an ongoing basis. They contract with BS&A Software for accounting and assessing programs. They contract with Internet service providers for email and web hosting. The list may be extensive. Unless provisions were written into contracts to continue service provision in the event of merger or consolidation, each existing contract will have to be terminated and new contracts will have to be negotiated so the new city can be operated at least as well as the existing cities. This will occupy the time of city officials and require legal support.

Renegotiating Inter-Local Agreements

Similar to existing contracts with private businesses, existing contracts with other governmental entities will need to be modified if a new city is created. Most of the inter-local agreements to which these cities are participants are with each other and with Saugatuck Township. They were created for water and sewerage services, fire protection, library services, transit service, and to create the harbor authority. Each of these are important governmental services that the residents of the area value and would likely wish to continue. Modifying or rewriting the contracts will occupy the time of city officials and require legal support.

Drafting/Merging Ordinances

City ordinances are laws and regulations that apply only within the jurisdiction of the municipality that adopted them. They are adopted by the local governing body and must comply with federal and state laws. As identified above, large parts of the ordinances of Douglas and Saugatuck are nearly or exactly alike. However, those parts not alike will have to be sorted through and rectified. This is largely a process for the new city council, but it will require

hours of legal support to coordinate the effort and ensure that everything is handled appropriately.

Recreating Historic District

As documented above, Saugatuck's historic district cannot simply continue to exist through a consolidation of the governments. The state authorizing act does not provide for continuation of existing districts under these circumstances. If the elected officials in the new city deem it valuable to recreate the local historic district in the new city, the city must go through a process that requires inventorying properties, historic research, and documentation of the historic nature of the buildings, structures, features, sites, objects and surroundings in the proposed district. Public hearings must be held and the city must solicit input from owners of the properties to be included in the district. The city may enact ordinances maintaining the historic nature of resources in the district only after this process is complete and the conditions laid out by the proper state and historic preservation organizations are met.

Unemployment Compensation

Whether in the public sector or the private sector, mergers and consolidations typically result in some employees losing their jobs. Because Saugatuck and Douglas already jointly provide a number of services, either by these two governments or in cooperation with Saugatuck Township, the number of governmental employees that stand to become displaced by the merger is small. For those that are displaced, the new city can expect to pay unemployment compensation costs for a short time following the merger to help the displaced workers get by until they can obtain new employment.

Consolidate Operating Systems

It will be necessary to consolidate software for operating systems such as budgeting, elections, and property assessing into a single program. It is possible that collapsing the records into a single system may occur smoothly because both cities presently use BS&A Software for at least parts of their accounting and property assessing operations. This is where the "devil is in the details," for minor differences in spreadsheets or databases can create unforeseen problems that require technical skills to iron out.

Conclusion

Douglas and Saugatuck are two cities unlike most others in the state. Plenty of Michigan's urban cities share common borders and collaborate to varying extents to provide services and serve their residents. Michigan also has a multitude of small cities located amongst sparsely populated townships. Very few of Michigan's non-urban cities are conjoined with another city and share an identity, service delivery responsibilities, and stewardship responsibilities for natural resources as do Douglas and Saugatuck.

Governance and the provision of services by Douglas and Saugatuck are not terribly inefficient in their current configuration. The two cities have been able to artificially create structures to act as a single governmental entity, with or without Saugatuck Township, because of laws that Michigan has enacted over the years to enable joint land use planning, joint stewardship of natural resources, and collaboration in the delivery of municipal services. The expenditures made by these special authorities created by inter-local agreements comprise nearly half of all the total expenditures for service provision for the people and properties in Douglas and Saugatuck. The tradeoff is diminished accountability for those items.

As others have before us, CRC estimates that **about \$500,000** in annual savings can result if consolidation does occur. This is equal to **13.0** percent of the **\$3.6 million** total expenditures for the two cities (not including the grant-funded \$10 million capital expenditure Saugatuck made in 2012). The savings result from elimination of one of two city managers, city treasurers, city clerks, and other officers. It results from the achievement of economies of scale in the operations of these offices. And it results from consolidating the public works departments to streamline their operations. This level of savings translates into a tax rate of **11.2** mills and an average savings of about **\$217** per person in the two communities. For a property valued at **\$200,000** (**\$100,000** in taxable value) in Douglas, the lower tax rate would result in about **\$192** a year in savings on city taxes. For an equally valued property in Saugatuck, the lower tax rate would result in about **\$184** a year in savings.

The cities can expect some disruption and one-time costs if consolidation occurs. This can be expected with any consolidation, public or private. The electors of the two communities need to evaluate whether the short-term costs are outweighed by the long-term improvements in governmental services that can be expected.

CRC Report

Appendix A Legislative Expenditures in Peer Cities

<u>City</u>	<u>Population</u>	<u>Land Area</u> (Sq. Miles)	<u>Legislative</u> <u>Expenditures</u>
Algonac	4,110	1.4	\$12,691
Bad Axe	3,129	2.3	10,543
Boyer City	3,735	4.1	17,665
Bridgman	2,291	2.9	45,564
Cedar Springs	3,509	2.0	9,384
Charlevoix	2,513	2.0	47,189
Clare	3,118	3.4	35,204
Corunna	3,497	3.2	21,368
Croswell	2,447	2.3	33,828
DeWitt	4,507	2.9	28,019
Durand	3,446	2.1	11,023
East Jordan	2,351	3.0	25,342
East Tawas	2,808	2.8	39,411
Essexville	3,478	1.3	14,145
Fremont	4,081	3.4	12,001
Gaylord	3,645	4.8	32,659
Gladwin	2,933	2.9	53,848
Hartford	2,688	1.3	14,400
Iron River	3,029	6.7	10,494
Ithaca	2,910	5.2	22,155
Lowell	3,783	2.9	15,824
Marine City	4,248	2.1	14,594
New Buffalo	1,883	2.5	36,187
Otsego	3,956	2.1	19,185
Pottsville	2,617	1.7	49,141
Reed City	2,425	2.1	25,947
Rockwood	3,289	2.5	46,160
Rogers City	2,827	4.5	24,920
Roosevelt Park	3,831	1.0	10,905
Sandusky	2,679	2.1	12,344
South Haven	4,403	3.4	27,334
St. Ignace	2,452	2.7	23,210
Ferrysburg	2,892	3.0	5,034
Montague	2,361	2.6	14,635
Harbor Beach	1,703	0.5	12,607
Hart	2,126	1.9	8,833
Manistique	3,097	3.2	12,374
Munising	2,355	5.3	16,116
Norway	2,845	8.7	48,873
Plainwell	3,804	2.0	10,151
Wayland	4,079	3.0	37,693
Whitehall	2,706	3.1	16,494

Source: Michigan's F-65 Database