

193 E. MICHIGAN AVENUE ● ROGERS CITY, MI 49779-1697

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January 21, 2010

**Testimony of Mayor Beach Hall regarding local government financial flexibility bills:**

**House Bills 5550-5554**

Good morning. I'd like to thank the Chair of the Banking and Financial Services Committee and its members for giving me the opportunity to testify concerning these very important bills that can favorably impact my community and many other communities in Michigan..

I am Beach Hall, the Mayor of Rogers City, starting my fifth term as Mayor. I am here to testify that Rogers City fully supports passage of House Bills 5550-5545. Rogers City is located on Lake Huron in North East Michigan, has a population of about 3300 and a general fund budget of about \$1,942,000. The City has had a fine small boat harbor and marina since 1954; the marina is operated as a separate enterprise fund apart from the general fund. My comments today, therefore, may be different than most others since our financing problem results from lack of revenue caused by the serious decline in pleasure boat traffic.

On December 15<sup>th</sup> of last year, the City Council passed Resolution 2009- 136 which reads, in part, as follows-the full text is attached to my written comments: "...House Bills 5550-5554 would substantially benefit the City's Marina and General Funds, help retain existing municipal jobs, and prevent risks to the health, safety, and welfare of the citizens of Rogers City and be it

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further resolved that our elected officials in Lansing approve House Bills NO5550—5554 as soon as possible to prevent further hardship to their constituents.”

As noted in more detail later on in my written remarks, passage of these bills is critical to the City because our situation involves serious cash flow problems resulting from repaying debt incurred in financing the marina several years ago. A refunding loan will solve these cash flow issues and is available from a local bank. The State of Michigan Treasury Department has denied permission to secure the loan because of State refunding restrictions.

In order to appreciate the situation facing Rogers City, the following background is in order:

In the early 1990s, it was evident that the current boat harbor was too small and the marina facilities outdated. Working with the DNR’s Waterways Commission, three 50% grants were secured and the City issued three series of bonds for the remaining 50%: a 1994 series now paid off, a 1995 series which will be paid off during the next fiscal year, and a 2000 series which will be paid off in 2016. At the time these bonds were issued, taxpayers were assured that tax dollars were not, and would not, be involved although the bonds were secured with the “full faith and credit” of the City.

Revenues from operations were more than adequate to make bond payments and set aside a reserve fund until 2004. Revenues have gone steadily downhill ever since because of the downturn in seasonal and transient boat traffic, coupled with the decline in sports fishing, largely caused by invasive species and new fish pathogens.

Between 2004 and this year, harbor revenues from seasonal slip rentals declined from \$135,576 to \$54,918, and revenues from transient boaters declined from \$68,209 to

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\$28,448. Fuel and other related sales also dropped as did seasonal and daily launch fees. Launch fees went from \$19,835 in 2004 to a low of \$6,792 in 2008; they increased last year as a result of the improved fishery in northern Lake Huron.

As a result of this decline, revenues no longer were adequate to cover bond payments, and it became necessary to use the marina's reserve funds. When these funds were exhausted a few years ago, the City's DDA began to contribute funds and the marina began to borrow from City funds such as cemetery perpetual care and separation pay reserves. At the same time, the city approached the Waterways Commission to inquire about a loan and/or a grant to help pay off the bonds. These conversations started in 2006 and concluded at a meeting on February 13, 2009 when Waterways representatives advised us that the DNR could not help and that we needed to talk to the Treasury Department. Representative Andy Neumann arranged for and attended a meeting with myself, the City's harbormaster, and Treasury Staff on June 23<sup>rd</sup>.

Prior to my meeting with Treasury, the City Manager and myself contacted a locally owned bank and received a verbal commitment of its willingness to provide a fifteen-year low interest loan with only interest payable until after the final bond payment was made. This arrangement would have solved the cash flow problem but did not provide present value savings. It would have been the answer to the City's marina financing dilemma and its increasingly negative impact on the City's general fund which is in serious difficulty for reasons commented on by others testifying today.

When this refinancing plan was reviewed with Treasury representatives, all of us on the Rogers City side of the table felt strongly that Treasury would agree to our proposal

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because it solved cash flow issues even though it did not provide present value savings.

As a result of the anticipated favorable outcome, on August 5, 2009 City Council passed resolution 2009-95 calling for the issue and sale of \$385,000 of refunding bonds; this action started the legally required 45-day objection period running (no objections were filed).

When the City next heard from Treasury in early September, we were stunned and disappointed to say the least. Treasury denied our request, suggested raising taxes to the limit allowed, and, based on the June 30, 2008 audit, required a deficit reduction plan for the marina debt before the City could borrow money. City Manager Mark Slown appealed this decision in a September 14<sup>th</sup> letter which is attached to my written comments but states in part:

“... the City of Rogers City continues to pledge "full faith and credit" into repaying the marina debt. A decision to not increase taxes does not weaken this commitment. We have loaned money from the general fund (and from other internal city resources) to the marina. We fully intend to continue marina operations and pay all debts as they come due. While a waiver for the refunding will increase the total debt interest, it will lower annual debt payments. The marina will have a level of debt that it can support with current and projected revenue streams. Historically, our marina has made a profit. Because boating activity of all kinds has decreased in recent years, the marina with its current debt level, does not make a profit now. However, there is no reason to assume that the level of activity will cease completely. With lower annual payments, the marina will be able to "hold its own" for the foreseeable future. A stable or increasing level of marina activity will allow the marina to make all debt payments from the expected revenue streams. The Community Development Authority has already committed

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to sustain a \$20,000 per year contribution to the marina for the refunding bonds. An alternative, to close the marina, serves no useful purpose.

Third, current economic conditions are very grim--the worst since the Great Depression. Increasing the tax levy on the taxpayers already struggling with lost jobs, foreclosures, high medical expenses, and reduced wages makes no economic sense. We would likely increase the number of failed personal, family, and business finances in our area. Such a choice only further increases the stress on other parts of the financial system, including state government, welfare, transportation, and others. Our local area has been particularly hard hit due to our geographic isolation and seasonal economy. Currently, Presque Isle County is experiencing 20% unemployment.

For all these reasons, I respectfully request the Michigan Department of Treasury authorize a waiver to allow the marina bond refunding as detailed in other documents provided to you by our bond and financial advisors. The City of Rogers City and our advisors are conservative in projecting these matters. I am confident that the proposal you have before you will, in fact, be successful in restructuring our financial situation so all parties benefit. Thank you for your assistance in this matter.”

As required by Treasury, the City put together a debt reduction plan and submitted it on September 16th. This plan was denied on October 21<sup>st</sup>. In response, the City submitted a new plan on November 16<sup>th</sup> which Treasury approved on November 30<sup>th</sup>. To date, the City has spent over \$10,000 for bond counsel and financial advisor fees with nothing to show for their efforts, reasonable though they were.

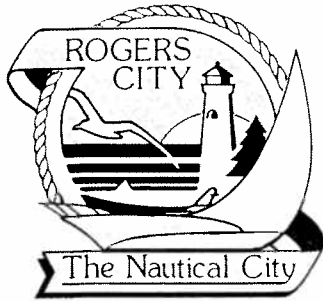
Following receipt of the original denial, the City began working with Representative Neumann’s office to find an alternate legislative solution to our problem, but the subsequent introduction of House Bills 5550-5554 provide the answer to the City’s

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marina financing problem along with an answer to a growing number of other cities' financial problems .

I urge prompt passage of House Bills 5550-5554 so that the legislative process can be completed in time to affect Roger City's budget planning process for the 2010-2011 budget year which commences July 1<sup>st</sup>. I'm sure many other communities also would appreciate prompt passage of these bills for the same reason.

Thank you for your consideration of my testimony this morning. I will be happy to answer any questions you may have.



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**CITY OF ROGERS CITY**  
**RESOLUTION NO. 2009-136**

The following resolution was offered by Council Member Nowak, seconded by Council Member Sobeck:

WHEREAS, the City of Rogers City Municipal Marina has for many years provided a valuable tourist attraction, significant economic development, and a source of revenue, and

WHEREAS, the City of Rogers City Municipal Marina has over the past few years experienced a significant decline in revenue due to the State of Michigan economic crisis and major decline in Great Lakes Boating, and

WHEREAS, the City of Rogers City Municipal Marina Building Authority has bonded debt and other debt totaling about \$500,000, and

WHEREAS, the City of Rogers City Municipal Marina Building Authority debt is backed by the "full faith and credit" of the City of Rogers City and all sources of revenue are shrinking, and

WHEREAS, the City of Rogers City has sources locally to refinance Marina Building Authority Bonds and other debt in order to match cash flow with debt payments and responsibly preserve vital community assets, and

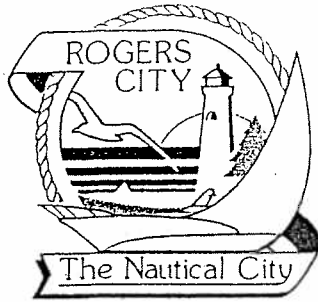
WHEREAS, the City of Rogers City has requested bond refinancing authority from the State of Michigan Department of Treasury and been denied said authority.

NOW, THEREFORE, BE IT RESOLVED, that House Bills No. 5550-5554 would substantially benefit the City's Marina and General Funds, help retain existing municipal jobs, and prevent risks to the health, safety, and welfare of the citizens of Rogers City, and

BE IT FURTHER RESOLVED, that our elected officials in Lansing approve House Bills No. 5550-5554 as soon as possible to prevent financial hardship to their constituents.

ROLL CALL: Ayes – All, the motion carried.

EXHIBIT B



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Manager of Local Audit and Finance  
Attention: Regina Blough  
Austin Building  
PO Box 30728  
Lansing, MI 48909-8228

September 14, 2009

In Regard: City of Rogers City Refunding Bonds, Series 2009 Application for Refunding Exemption

Dear Ms. Blough,

Regarding taxes, the City currently levies 17.1208 mills for general government operations, .2 mills for City Band, and an additional 1 mill is levied for fire operations (through a regional authority). Our City Charter allows a maximum of 20 mills which is rolled back by the Headlee Amendment to 18.1208 mills. So, although we could legally levy an additional mil, for the reasons set forth in the next paragraph, we feel that we can not morally do so.

The Rogers City Area Fire Department Authority (RCAFDA) was voted in by the City and four neighboring Townships in 2008 as a replacement for a city only fire department. The information sent to city votes about the RCAFDA proposal stated the city would reduce its millage by one mill to keep the net tax impact of the fire authority neutral. The City did in fact reduce its tax levy from 18.1208 to 17.1208 mills in the fiscal year following RCAFDA's approval by the voters. Therefore, the City Council has no authority to levy any additional mills without exceeding the Headlee Roll Back millage limit and breaking faith with the voters who approved the RCAFDA with the understanding it was tax neutral.

Also, there are several more significant reasons not to increase the tax levy. First, and perhaps most important, is that the marina is an enterprise fund. Taxpayers in our low to moderate income community will not understand or accept the use of general tax revenues to support the marina (an activity that most taxpayers do not use). Increasing the tax levy with express purpose of paying the marina debt will create a local tax-payer revolt. Such an action may possibly cost the elected officials, along with some staff, their jobs.

Second, the City of Rogers City continues to pledge "full faith and credit" into repaying the marina debt. A decision to not increase taxes does not weaken this commitment. We have loaned money from the general fund (and from other internal city resources) to the marina. We



fully intend to continue marina operations and pay all debts as they come due. While a waiver for the refunding will increase the total debt interest, it will lower annual debt payments. The marina will have a level of debt that it can support with current and projected revenue streams. Historically, our marina has made a profit. Because boating activity of all kinds has decreased in recent years, the marina with its current debt level does not make a profit now. However, there is no reason to assume that the level of activity will cease completely. With lower annual payments, the marina will be able to "hold its own" for the foreseeable future. A stable or increasing level of marina activity will allow the marina to make all debt payments from the expected revenue streams. The Community Development Authority has already committed to sustain a \$20,000 per year contribution to the marina for the refunding bonds. An alternative, to close the marina, serves no useful purpose.

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Mark D. Slown  
City Manager