



Property tax constraints and fiscal health in rural communities: A case study of Fennville, Michigan

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Introduction and Background

This case study examines the fiscal health of the City of Fennville, a small, rural community in western Michigan. In particular, it assesses how the City's financial well-being and future sustainability are largely influenced by its administrative context, namely Michigan's property tax and assessment regulations, as well as the economic development strategies it has implemented in response. The analysis relies on common fiscal indicators, contextualized by the City's policy decisions and rural character, and capital improvement planning. Overall, the analysis finds that Fennville's deteriorated liquidity and increased reliance on external revenue reflect deliberate policy decisions rather than fiscal distress. The report concludes with four recommendations: continuing to build the administrative capacity that has made the City grant competitive, tracking the effects of its tax base strategy, maintaining the fiscal discipline needed to replenish reserves, and securing a new anchor customer for the municipal water system.

History and Today's Population Demographics

Located in southwest Michigan's Allegan County, less than 10 miles from Lake Michigan, modern-day Fennville was first established by European settlers in the 1830s on land originally home to the Potawatomi, Ottawa, and Chippewa people.¹ Known as the "Fruit Basket of Allegan County," the community's agricultural production, especially fruit farming, thrived due to the region's rich soil. Infrastructure development has been a key part of Fennville's growth since its early history, with the community becoming a village in 1887 after the 1865 completion of the Chicago and Michigan Lake Shore Railroad, which established Fennville as a trading and shipping hub for produce.² The construction of nearby interstate highways in the mid-20th century further boosted population and economic development, leading to Fennville's incorporation as a city in 1961.³

Fennville's neighbors, the shoreline communities of Saugatuck, Douglas, South Haven, and Holland, play a significant role in Allegan County's tourism industry, attracting visitors from across Michigan, northern Indiana, and eastern Illinois.⁴ In addition to tourism, a large part of the county's economy today still depends on farming and light industry. While Fennville's economy still mainly revolves around agriculture, it has maturing downtown restaurant and agrotourism scenes, and has employment connections to the nearby cities of Holland, Saugatuck, and Douglas.⁵

Today, Fennville, a city just one square mile in size, has a population of approximately 1,745 residents living across 558 households.⁶ One of 35 jurisdictions in Allegan County, it has a significantly high population density, at 1,586 people per square mile compared to the county's average of 146 people per square mile. This density, more characteristic of a mid-sized city than a rural community, shapes Fennville's infrastructure and service needs differently than many other Allegan County jurisdictions. Contrasted with this report's peer benchmarking communities, the Cities of Allegan and Saugatuck, Fennville also has the fewest total housing units, at 607, versus 2,013 and 910, respectively. This limited housing stock, in part, results in a narrow property tax base. As this report examines, this reality places Fennville at a fiscal disadvantage.



Figure 1: A view of Fennville's Downtown (Photo courtesy of Ann Wilkinson)

Fennville's population is also relatively unique within Allegan County. Its median age of 29.8 is considerably younger than the county's (41.3) and Michigan's (40.2) median ages.⁷ The city also has a much larger Hispanic/Latino population, at 41.6% compared to the county average of 7.8%. Finally, its median household income of \$59,167 also falls well below the county median of \$85,257.

Table 1
Comparative Data from Peer Communities⁸

	City of Fennville	City of Allegan	City of Saugatuck	Allegan County
Population	1,745	5,222	865	120,502
Population % Hispanic or Latino	41.6%	5.1%	6.4%	7.8%
Median Age	29.8	33.0	53.9	41.3
Median Income (\$)	\$59,167	\$52,925	\$121,178	\$85,257
Total Housing Units	607	2,013	910	53,495
Total Households	558	1,925	417	46,506
Population Density (Per Sq Mi)	1,586	1,374	618	146
Land Size (Sq Mi)	1.1	3.8	1.4	825.3



Governmental Administration

Like many rural communities, Fennville operates with a small administration of approximately four full-time employees. It introduced a city administrator position in 2017, after previously relying on a joint clerk-treasurer position to support the city council and mayor.⁹ Fennville's second and current City Administrator joined the city in 2022. The city's downtown businesses and infrastructure are supported by the Fennville Downtown Development Authority, established in 1992, which is currently supported by a DDA Coordinator. As is common in smaller communities, Fennville relies heavily on contracted support for specialized professional services, such as planning, zoning administration, property assessment, and accounting. The City also benefits from regional service collaborations by participating in the county's police program and an interlocal agreement for ambulance services.¹⁰ Despite its small staff, Fennville has been able to deliberately invest in its administrative capacity. Conversations with Fennville's leaders highlighted some of the City's best strategies, such as adopting a sustainability plan to qualify for new grants and correcting address records in the downtown district to better position the city for population-based funding. This groundwork, developed over several years, positions Fennville to compete for external funding.

Fiscal Health Analysis

Methodology

This analysis draws from Fennville's publicly available annual financial reports from fiscal year 2018 (FY18) through fiscal year 2025 (FY25) to evaluate the City's fiscal health across three dimensions: liquidity, long-term solvency, and financial performance. Liquidity metrics reveal the City's ability to meet short-term obligations, long-term solvency metrics shed light on its capacity to manage long-range costs, and financial performance metrics represent its ability to sustainably balance revenue and expenditures. It is important to place analysis of these ratios in the context of Fennville's fund policies and deliberate infrastructure investments. As the study period captures the effects of intentional policy decisions, ratio trends that appear concerning at first glance may actually reflect Fennville's broader economic development strategy of investments in capital and amenities.

To provide benchmarking context for Fennville's fiscal health, this analysis also draws on FY25 annual financial reports from two peer governments, the City of Allegan and the City of Saugatuck, both situated within Allegan County.

A Note on Data Volatility

As is often the case with small or rural municipalities, one-time grants or acute events can have outsized effects on fiscal health trend analysis. In FY25, Fennville received \$1.6 million in one-time grant funding from the Department of Housing and Urban Development's Community Development Block Grant program (through the Public Gathering Spaces Initiative), as well as the Michigan Department of Labor and Economic Opportunity (LEO) Community Center Grant (sourced from COVID-19 Coronavirus State and Local Fiscal Recovery Funds). Because these grants make up about 51.8% of FY25 total general fund revenue and 48.9% of total expenditures, their inclusion substantially changes the values of certain fiscal indicators. This assessment incorporates both unadjusted and adjusted values by excluding the grant funding as equal offsetting revenues and expenditures from that fiscal year, to better understand Fennville's trending fiscal position outside of year-to-year grant volatility.

Table 2
Summary of Fiscal Indicators

Indicator	Fennville FY18	Fennville FY25	Fennville FY25 (Adjusted)	Allegan FY25	Saugatuck FY25
Liquidity					
Quick Ratio (General Fund)	5.27	0.23	–	0.02	157.56
Current Ratio (General Fund)	5.46	1.70	–	2.72	32.92
Unrestricted Fund Balance-to-Expenditures	1.19	0.11	0.22	0.79	1.92
Long-term Solvency					
Governmental funds debt service burden	0.00	0.05	–	0.06	0.08
Capital asset condition (governmental assets)	-0.05	0.50	–	0.07	0.01
Capital assets per capita (governmental activities)	\$1,111	\$2,185	–	\$3,738	\$33,566
Financial Performance					
External revenue ratio	0.37	0.65	0.43	0.30	0.14
Property tax share of general fund revenue	0.67	0.18	0.37	0.39	0.72
Note: The adjusted column removes \$1,618,566 in one-time federal grants from FY25 revenues and expenditures. Dashes indicate indicators unaffected by the adjustment.					

Liquidity

Liquidity ratios provide insight into a government's capacity to meet its short-term obligations, including payroll and lease payments, as well as its ability to respond to unexpected events that require the immediate use of cash or cash equivalents. This analysis relies on three metrics to examine Fennville's liquidity: the general fund's quick ratio, current ratio, and the unrestricted general fund balance expenditures ratio. Overall, while Fennville maintained high liquidity throughout most of the study period, declining cash balances and increasing liabilities in FY25 weakened several metrics.

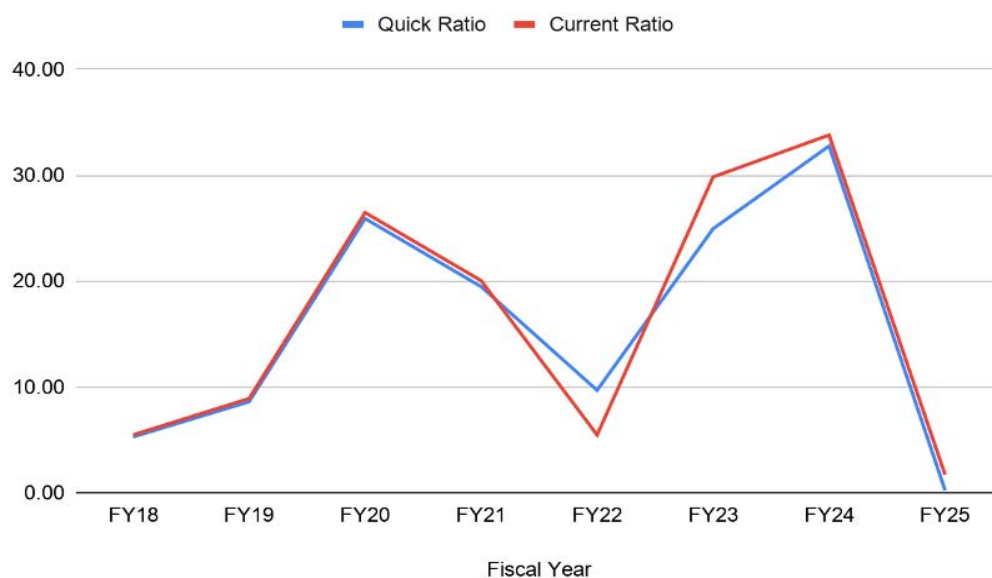
Fennville's general fund quick ratio measures the fund's liquid assets, or cash and cash equivalents, relative to its current liabilities. Typically, a ratio of 1.0 or higher is considered ideal, as it means that for every dollar of short-term obligations, there is at least one corresponding dollar in highly liquid assets to cover that obligation. Fluctuating between 5.27 and 32.76 from FY18 to FY24, Fennville's quick ratio was very high until FY25, when it dropped to 0.23 due to the City's ongoing decision to spend down its robust general fund reserves to invest in public infrastructure projects. As a result, in FY25 the general fund experienced a significant drop in cash and cash equivalents, from \$501,957 to \$124,082, and a large increase in liabilities, from \$20,322 to \$549,771. In contrast, in FY25, Saugatuck's general fund quick ratio was 157.56, while Allegan's was 0.02. Allegan's extremely low ratio is due to it keeping much of its general fund assets in investments and receivables rather than cash.

While high liquidity may seem desirable, large cash holdings have a significant opportunity cost, as those funds could instead be used to address deferred maintenance, reduce debt, or invest in amenities as an economic development strategy. Additionally, too much cash sitting idle can make it challenging for municipalities to win grants, as it can signal poor financial management. Fennville's reduced liquidity during the study period reflects an intentional decision to spend down Fennville's historically robust general fund reserves to invest in several infrastructure projects, in alignment with its Capital Improvement Plan. These projects include updates to a local park (Paradise Park), the development of a city square, and improvements to the Fennville District Library parking lot and Fennville Public School tennis courts. So, while Fennville's FY25 quick ratio is below the 1.0 ideal, it reflects strategic spending. Nevertheless, this trend signals a need for the city to rebuild liquid reserves to comfortably meet future cash flow needs.

Another liquidity metric is the general fund current ratio. Like the quick ratio, it measures a municipality's ability to cover short-term obligations; however, it offers a different perspective by considering all current assets rather than only cash and cash equivalents. A 1.5 to 2.0 ratio is considered healthy, providing an adequate cushion for a municipality to meet its short-term debt obligations. Between FY18 and FY24, Fennville's general fund current ratio experienced a net increase, from 5.46 to 33.79, before dropping to 1.7 in FY25. This means that for Fennville's latest full fiscal year, its current general fund assets could sufficiently cover liabilities over one and a half times. While Fennville's current ratio is sufficient, its peers Allegan and Saugatuck were even better positioned in FY25, with current ratios of 2.72 and 32.92, respectively, for their general funds.

Figure 2

General Fund Quick Ratio vs Current Ratio, FY18 - FY25



A final measure of liquidity is the ratio between the unrestricted portion of a general fund's balance and its expenditures. This common metric measures how long a municipality could hypothetically operate without additional revenue. The Government Finance Officers Association (GFOA) recommends maintaining a minimum unrestricted fund balance of at least 2 months or 16.7% of annual expenditures. Fennville's unadjusted unrestricted balance-to-expenditures ratio ranges from a peak of 1.77 in FY22 to a low of 0.11 in FY25, which is below the ideal. The removal of the one-time federal grants, however, raises the FY25 ratio to a comfortable value of 0.22. By comparison, Allegan's unrestricted general fund balance-to-expenditures ratio was 0.79 in FY25, while Saugatuck's was 1.92.

Long-term Solvency

While liquidity measures a municipality's ability to meet its short-term debts and obligations, long-term solvency measures a municipality's stamina to meet long-term obligations such as pension legacy costs, bond debt, and capital infrastructure obligations. Municipalities with assets that exceed long-term debts, and thus have a positive net position, are considered solvent and fiscally sustainable. While legacy pension and other post-employment benefit (OPEB) obligations are often a significant concern for cities, Fennville uniquely does not have any. Because of Fennville's considerable grant funding and existing reserves, the city was able to pursue its desired capital investments with minimal new borrowing, and its long-term solvency metrics remained healthy throughout the study period. During the period, governmental debt consisted of only two installment purchase agreements in 2019 and 2020.¹² Outside of governmental funds, Fennville's debt consisted of bonds issued in 2020 to finance wastewater and water system improvements within the City's municipally owned water utility. Totalling \$3.5 million, not including interest, they were issued through the USDA and the State Revolving Fund, at interest rates ranging from 1.5 to 2.25%, with associated payments through 2062. They are repaid using utility revenues.

One metric to measure a municipality's long-term solvency is its governmental funds debt service burden ratio. This ratio, calculated as governmental funds debt service expenditures divided by primary government total general revenues, measures how much of a government's revenue streams is consumed by annual debt payments. A lower ratio is ideal and indicates budgetary flexibility, while a higher ratio signals the government may have less flexibility to meet its annual debt obligations from recurring revenues. Fennville began the study period with no governmental debt service. Between FY18 and FY25, Fennville's governmental funds debt service burden ratio increased as the City entered into its 2019 and 2020 installment purchase agreements, and debt service grew to \$47,223 by FY25, or approximately 5.3% of general revenues. At its FY25 peak, Fennville's governmental funds burden ratio was the lowest amongst its peers: Allegan and Saugatuck recorded FY25 burdens of 5.9% and 7.9%, respectively. As the ratio's denominator excludes capital grants and contributions, this ratio is unaffected by the FY25 grants.

Another important long-term solvency metric is the net change in the value of a municipality's capital assets. A positive ratio indicates the municipality is investing in its capital assets and staying ahead of depreciation. Throughout the study period, Fennville's capital asset condition for governmental activities has improved, rising from -0.05 to 0.5, ending in FY25 with a value well above both Allegan (0.07) and Saugatuck (0.01). The final fiscal year's spike reflects grant-funded construction, while the overall trend indicates Fennville's recent commitment to infrastructure investments.

While the condition ratio measures whether assets are being maintained, capital assets per capita serves as a proxy for service capacity by measuring the stock of infrastructure available to serve residents. Fennville's governmental activities capital assets grew from \$1,111 per resident in FY18 to \$2,185 in FY25, a 97% increase reflecting the City's recent investments and its trajectory toward becoming a high-amenity community with expanded long-term service capacity.¹³ Since a portion of project spending improved partner-owned facilities, those belonging to the library, DDA, and school district, and therefore does not appear in the City's governmental activities capital assets, these figures understate the infrastructure currently available to Fennville's residents.

Since the effects of capital investments take time to materialize, Fennville has also pursued other strategies to redefine itself as a high-amenity community. For example, in 2021, Fennville joined the regional Art Coast tourism campaign, highlighting its emerging art, restaurant, and agrotourism scenes alongside the broader Saugatuck-Douglas tourism economy.¹⁴

While Fennville's governmental activities assets are well-positioned, its municipal water utility also warrants examination, as it accounts for the City's most significant debt. The system's outstanding bonds total \$3,510,235. With interest, remaining payments through 2062 will total \$4,598,713. The system faces approximately \$160,000 in annual debt service through 2050 (and decreasing thereafter), which is an obligation that must be met regardless

of how much water the system sells. The largest of these obligations is a 2020 State Revolving Fund bond for wastewater system improvements, with the remaining debt in two 2020 USDA water system improvement bonds. The City's financial statements describe the USDA loans as direct obligations pledging its full faith and credit, meaning ongoing deficits in the enterprise fund could ultimately impact the City's general fund.

In recent years, the utility's capital assets have depreciated faster than they have been replaced. In FY25, while the City was investing in public spaces and other facilities, the utility's depreciation expense of \$332,295 exceeded new investment, reducing net capital assets from \$8,899,241 to \$8,790,665. Combined with the system's debt service obligations, depreciation contributed to net position declines of \$194,124 in FY24 (3.1%) and \$155,157 in FY25 (2.5%).

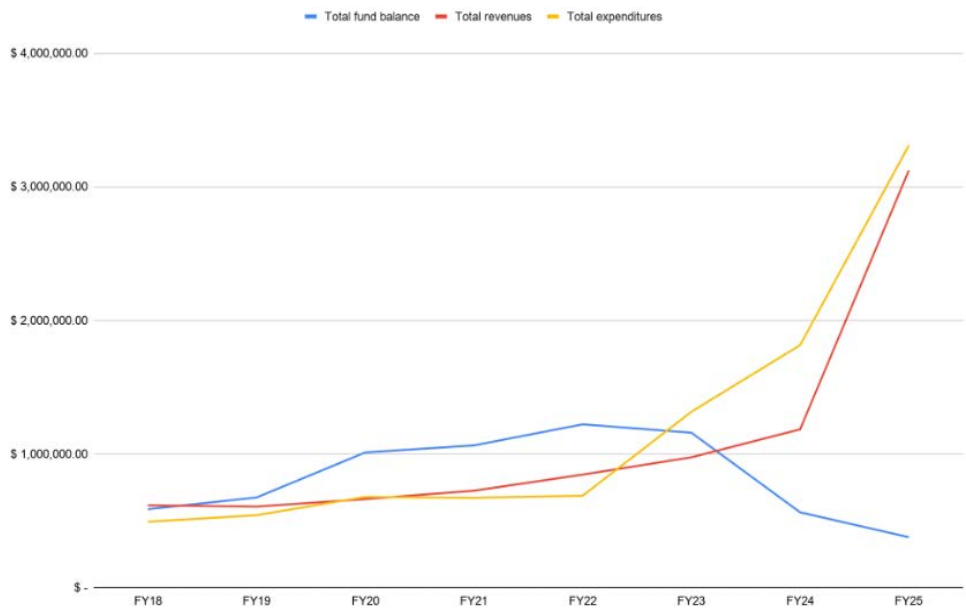
A significant near-term risk adds to the situation. The Conagra Foods fruit processing plant, which used about 500,000 gallons of water daily during full operation, closed in June 2025 after 96 years of operation in Fennville.¹⁵ As the water system's largest customer, Conagra's departure will decrease operating revenues while debt service, depreciation, and other fixed costs remain unchanged.

Financial Performance

Financial performance ratios measure a municipality's ability to balance its budgets while providing sufficient public services, even through economic shocks and stresses. Fennville's current Fund Balance and Reserve policy, which requires maintaining a minimum General Fund reserve of 25% or an amount equal to 3 months of operational expenditures, aligns with its goal of maintaining healthy performance.¹⁶ Consideration of Fennville's general fund balance growth, reliance on external revenues, property tax trends, and enterprise fund performance show that while Fennville's reserves supported its recent capital investments, the City faces pressure to strengthen its internally generated revenue base.

Generally, an increase in a municipality's general fund balance over time indicates fiscal sustainability, as annual revenues consistently exceed annual expenditures. While Fennville's general fund balance more than doubled between FY18 and FY22, it then decreased significantly in the following years, resulting in an overall 35.7% decline during the study period, ending at \$376,932, reflecting the City's deliberate use of its own reserves.

Figure 3
General Fund Revenues & Expenditures, FY18 - FY25



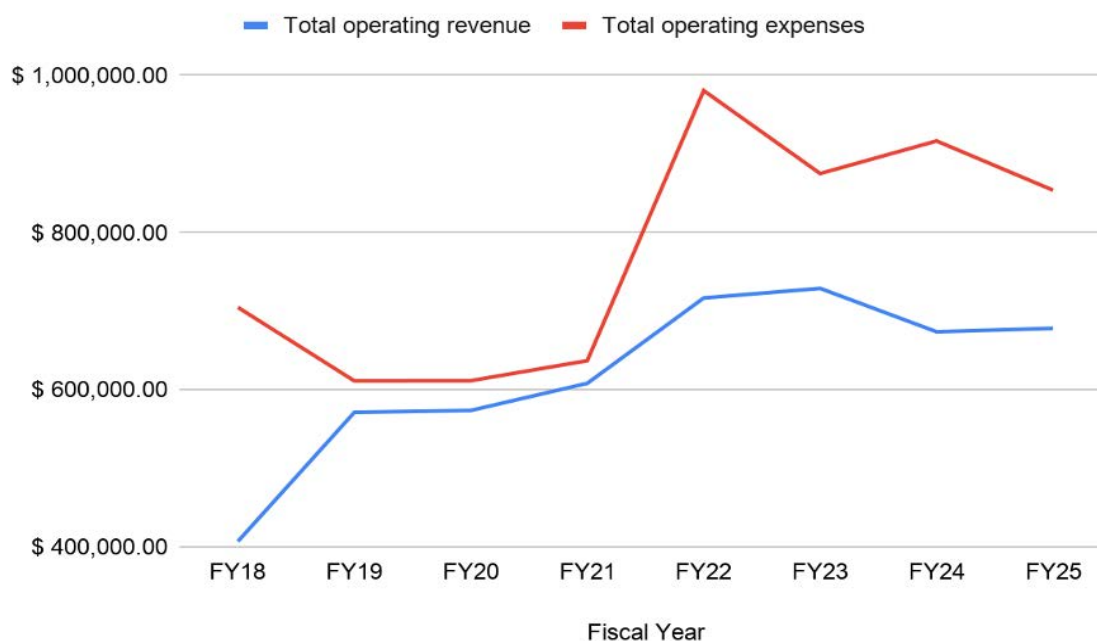
Another measure of financial performance is the ratio of external revenue relative to total revenue. External revenue refers to a city's revenue from state and federal aid, as well as other transfers or grants, rather than locally generated revenue from taxes or fees. Municipalities with lower external revenues proportional to internal revenue streams are generally perceived as more fiscally self-sufficient and less vulnerable to fluctuations in external funding. Throughout most of the study period, Fennville's external revenue ratio experienced a general rise, ranging between 0.29 and 0.49 from FY18 to FY24. However, the ratio spiked to 0.65 in FY25 due to one-time federal grant funding, dropping to 0.43 after excluding the funding. By comparison, Allegan and Saugatuck recorded FY25 ratios of 0.30 and 0.14, respectively, suggesting that, even after adjusting for the grant, Fennville remains more dependent on external revenues than its peers. While these one-time grants benefit Fennville overall, overreliance on state grants and intergovernmental revenues could leave the city vulnerable as future state and federal funding opportunities become scarce.

Property taxes, recognized as revenue in the year for which they are levied, are among the most significant internal revenue streams for most municipalities, and their stability and growth are important indicators of fiscal health. While Fennville's property tax revenue grew in absolute terms from \$414,440 in FY18 to \$551,293 in FY25, property tax revenue as a percentage of total general fund revenues declined significantly over the study period, from 0.67 in FY18 to 0.18 in FY25. FY25's low point is largely attributable to one-time grants that inflated total revenues. Removing those grants, the ratio recovers to 0.37, still representing a notable decline from earlier years. This trend reflects that Fennville's property tax revenues have not kept pace with overall revenue growth. By comparison, Allegan and Saugatuck recorded FY25 ratios of 0.39 and 0.72, respectively, with Saugatuck's significantly higher ratio reflecting a reliance on a robust local tax base.

The water and sewer system's operating expenses have exceeded operating revenues since FY22. In FY25, operating expenses of \$853,913 exceeded operating revenues of \$678,119 due to depreciation, producing an operating loss of \$175,794. Excluding depreciation, operating expenses were \$521,618, leaving a surplus of \$156,501. While operating revenues grew 67% over the study period, they have decreased since FY23. The loss of revenue from Conagra will further reduce the utility's incoming funds unless intervening steps are taken.

Figure 4

Enterprise Funds Operating Revenue vs. Expenses, FY18 - FY25





Property Tax Capacity and Assessment Legacy

Fennville's drawn-down reserves, dependence on external revenue, and lagging property tax growth all highlight the importance of sustainably expanding the City's recurring revenue base. However, this goal is limited by Michigan's property tax laws. Under the Headlee Amendment, passed in 1978, a municipality's authorized millage rate is reduced when its existing tax base grows faster than inflation. Additionally, under Proposal A, passed in 1994, the taxable value of each parcel cannot increase faster annually than the lower of 5% or inflation unless the property is sold. Together, these laws restrict the revenue municipalities can collect by restraining growth in both the tax rate and the tax base.

Understanding Assessed Value, State Equalized Value, and Taxable Value¹⁷

A property's assessed value, set annually by a municipal assessor, equals 50% of that property's market value ("true cash value"). After a review conducted by the county equalization department, this value becomes the property's state equalized value (SEV). However, the property's taxable value (TV) is what factors into property tax calculations (taxable value x millage rate = property tax), and is impacted by Proposal A. For a newly purchased property and new construction, the state equalized value and taxable value are equal. Going forward, the property's taxable value cannot grow faster than the lesser of 5% or inflation, usually resulting in a growing gap between TV and SEV.

The Headlee Amendment's constraints are clear in Fennville's tax levy history during the study period. Between Fennville's 2017 and 2024 levy years, the City's taxable value increased by 46%, from \$21.2 million to \$30.9 million, while property tax revenue only grew by 33%. This gap persisted despite the City's voter-approved Headlee Override in 2022, which restored the full original charter millage for general operations, from 11.2770 back to 15 mills, after Headlee reductions.¹⁸ Notably, the 46% increase in taxable value is itself a figure capped by Proposal A.

The impact of Proposal A on Fennville's property tax revenue stream is evident in the widening gap between the City's equalized and taxable values. Between 2018 and 2025, Fennville's equalized value nearly doubled, growing by 91.6%, while its taxable value only increased by 45.2%.¹⁹ This gap is reflected in the ratio of taxable values to equalized values, which decreased from 80.9% to 61.3%, with the most severe change occurring after 2020, when equalized values surged (see *Figure 5*). Reappraisal activity in Fennville during this period also contributed to the widening gap. An interview with the Allegan County Equalization Department indicated that assessment consistency across properties has improved since the reappraisal. Because Proposal A caps annual growth in taxable value, reassessed properties can see their equalized value rise without a corresponding increase in taxable value, widening the ratio gap.

As of FY25, approximately \$20 million of Fennville's state equalized value (sourced from approximately \$40 million of market value) does not factor into taxable value calculations, and therefore property tax calculations, until individual properties transfer ownership and uncap, or new construction expands the property tax base.

Figure 5
2018-2025 Ratio of Taxable Value to Equalized Value, Peer Comparison

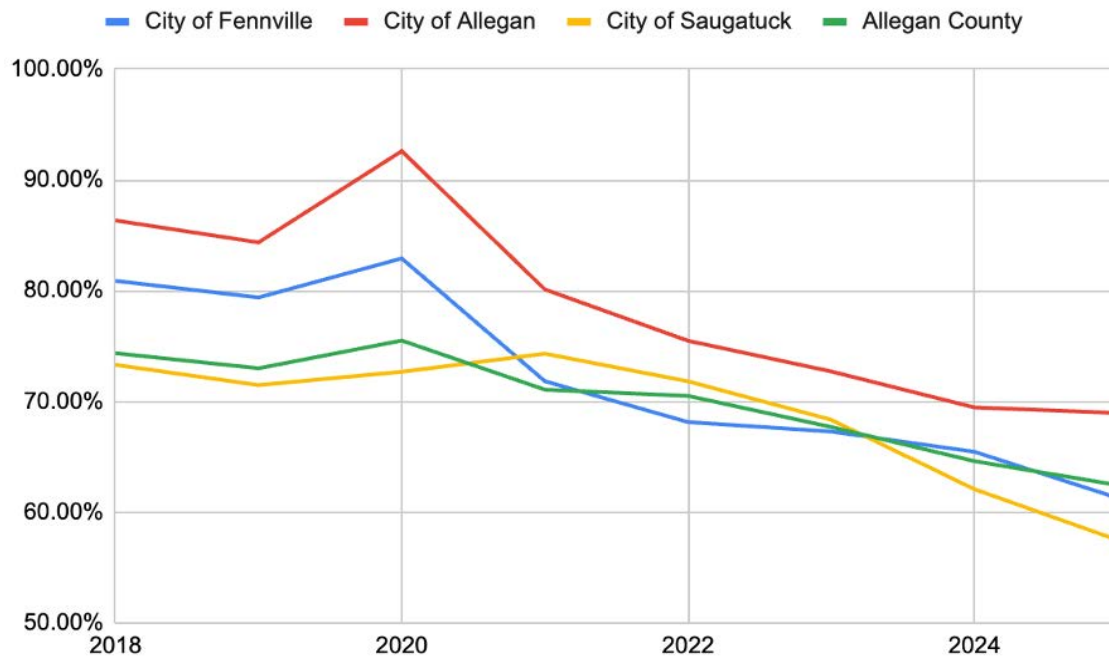
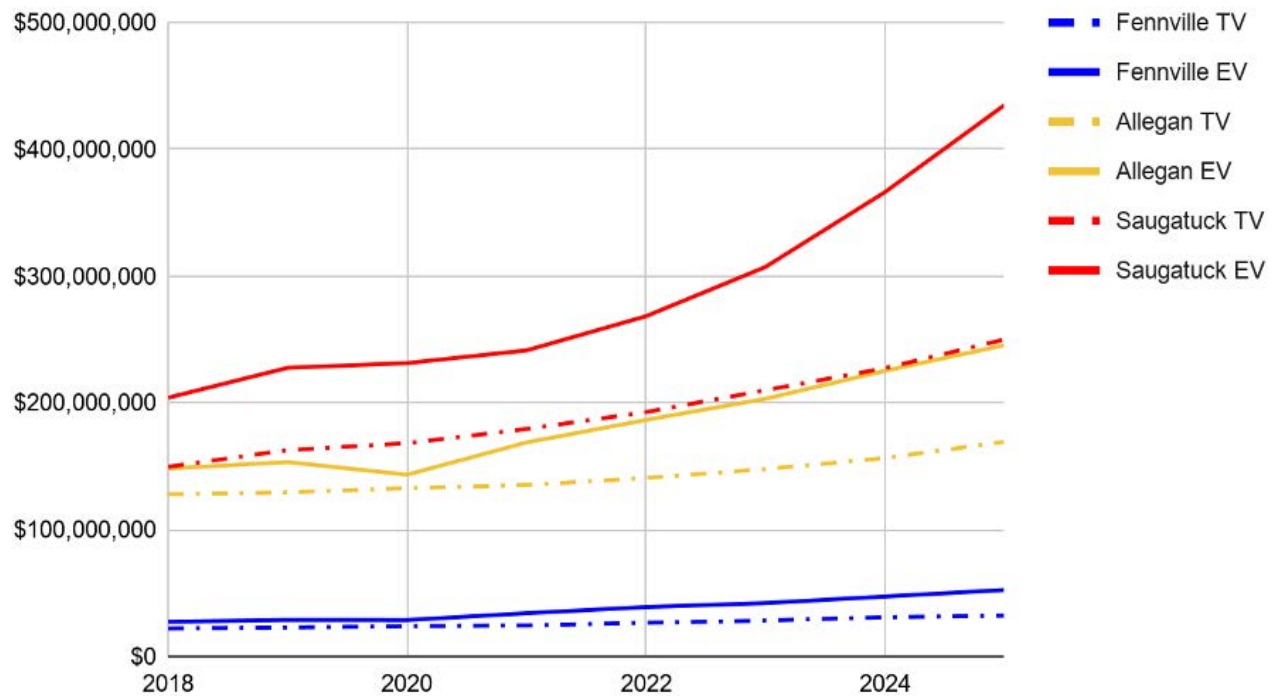


Figure 6
2018 - 2025 Taxable Value vs. Equalized Value, Peer Comparison





Beyond state statute, assessment administration is an essential piece of property tax revenue strategy. The property tax base can increase based on both new construction and improvements to existing homes. Capturing that growth depends on the local assessor's property records and periodic field inspections of parcels. County equalization does not close gaps in these records because it reviews the average assessment level across property classes within an assessment unit rather than examining individual parcels. That is, equalization cannot detect improvements that never entered the property record.

In a city of Fennville's size, where the total taxable base is relatively small, even a modest number of missed improvements could have significant revenue consequences. The State of Michigan recommends that assessors conduct field reviews for 20% of parcels annually, completing the full unit every five years.²¹ However, this standard is effectively voluntary and, without robust, centralized support, is unevenly followed across the state.²² While Fennville had not previously met this standard in recent history, the City's current contract-assessor model requires it.²³ Ultimately, improved capture benefits the City's position under Proposal A: omitted improvements, once identified, are added to taxable value outside the annual cap, like new construction. This means that Fennville's contract requirements to abide by Michigan's 20% per year field assessment standard are an important opportunity within the City's administrative control to maximize property tax revenue under Proposal A constraints.

Nevertheless, reassessment should be understood as one tool among many rather than a comprehensive solution. If Fennville succeeds in capturing omitted improvements and expanding its assessment base through rigorous field review, the result will likely be an incremental increase in revenue rather than the larger growth needed to fund major capital priorities. Because the Headlee Amendment and Proposal A limit the growth of own-source revenue, improved assessment practices are best pursued alongside external funding and broader tax base growth strategies.

Conclusion and Recommendations

This case study of Fennville's fiscal health reveals a community actively and strategically managing its position amid structural constraints. The City's fiscal indicators, taken at face value, could suggest a worrying situation involving depleted reserves, increased reliance on external revenue, and a strained enterprise fund. When considering Michigan's property tax framework and Fennville's deliberate policy decisions, these metrics reflect the City's intentional investments in its future.

The following conclusions and recommendations are organized around the main themes of this analysis.

1. Fennville has positioned itself well to compete for external funding and should continue building on that capacity.

Fennville's success in securing over \$1.6 million in federal funding during the study period is representative of years of groundwork to become grant competitive. This groundwork, from adopting a sustainability plan to correcting downtown address records, represents institutional infrastructure that the City built intentionally. As federal and state funding landscapes shift, the City should continue investing in the planning documents, partnerships, and administrative capacity that make it grant-ready, and treat this institutional infrastructure as seriously as physical infrastructure. Additionally, own-source revenue does not grow quickly enough under Michigan's tax limitations to finance investments of this scale, making the City's ability to bring in external revenue essential to its long-term strategy.

2. Fennville's capital investments are a key part of a larger, deliberate tax base strategy, and tracking future effects will help demonstrate results.

Not only are Fennville's investments in public spaces and community facilities designed to improve the quality of life for current residents, but they are also intended to attract potential residents, visitors, and developers. Under Michigan's property tax system, this appeal could unlock revenue from SEV after new residents or business owners purchase property, improve existing property, or from new housing or commercial spaces taxed at their full SEV.

Because Fennville's capital investments will likely have gradual and indirect benefits, the City has paired these investments with other strategies, such as the regional Art Coast campaign. To demonstrate progress to current residents and future investors, Fennville should monitor metrics that measure the impact of its tax base strategy, such as turnover rates and taxable value growth, and compare them to a pre-investment baseline as it pursues multiple growth strategies simultaneously.

3. As a small community, Fennville must be strategic and disciplined in choosing its investments and in rebuilding its reserves.

Unlike larger urban communities, small communities often cannot afford to try a variety of financial strategies at once and to determine which is most effective. Each major initiative draws down a meaningful share of the City's total resources, so growth strategies must be carefully sequenced and prioritized. Fennville's decision to spend down its general fund reserves was deliberate, but it is not one the City can easily repeat until those reserves are rebuilt. Consistent with its Fund Balance and Reserve policy, the City should establish a clear timeline for replenishing its general fund balance and liquid reserves through disciplined annual budgeting. Rebuilding reserves will allow the City to comfortably meet cash flow needs, absorb unexpected events, and maintain the strong financial position that grant funders look for.

4. The City should develop a plan to strengthen the water and sewer fund, including recruiting a new large water user that aligns with the City's values.

Conagra's closure leaves the water system without its largest customer, while approximately \$160,000 in annual debt service continues through 2050. Because the City's USDA loans pledge the City's full faith and credit, an

ongoing enterprise fund deficit could ultimately impact the general fund. Rate increases alone are unlikely to close a gap of this size across Fennville's small residential customer base. One potential solution is to attract another large water user to replace the lost demand, ideally one whose operations align with the city's values and long-term vision. This issue is not unique to Fennville. Other small, rural Michigan communities are exploring the recruitment of utility-intensive customers, such as data centers, capable of generating substantial water and tax revenue. Any such opportunity should be weighed against its demands on the City's water resources and infrastructure, as well as its fit with the community.



Figure 7: A Mural in Downtown Fennville (Photo courtesy of Ann Wilkinson)

About the Fiscal Health Project

CLOSUP's Fiscal Health Project aims to develop a deeper understanding of the fiscal health and fiscal challenges of local governments in Michigan, and beyond. These case studies focus on specific Michigan local governments and are intended to highlight some of the unique and possibly overlooked fiscal challenges they face.

The findings reported here do not necessarily reflect the views of the University of Michigan, or the City of Fennville.

Notes

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