

City Manager's 2020 Budget Message

October 14, 2019

TO: Mayor Lehmann, City Council Members, Key Staff, and General Public
FROM: Steven J. Snowaert, Interim City Manager
SUBJECT: 2020 Budget Message

Executive Summary

The City of Ishpeming 2020 budget is being presented. I would first like to comment on the year end 2018 General Fund budget. We had projected 2018 to end with a loss of \$168,790, however, the actual General Fund budget ended in the positive of \$8,172. This change of \$176,962 gave us a 2019 General Fund start of \$893,834. Since 2013, we have raised the General Fund Budget from \$172,000 to where it is today. We have challenges ahead of us, Healthcare, funding retirement, and flat revenues. With that said, our 2019 General Fund fund balances projected to go down \$191,085. We have reviewed the requests from Department Heads for the 2020 Budget and cut over \$100,000 from those requests, however the 2020 General Fund budget is expected to go down \$198,085.

The City of Ishpeming needs to look at the rising cost of Healthcare, the increasing cost of funding the MERS Retirement System, and need to look at increasing our revenues. We can look at our investments to generate revenue, and look to raise certain fees in order to make some services fiscally balanced. We may also need to look at other options to raise revenue which I have outlined at the end of the Message.

I have also told all Department Heads that they need to make a conscious effort to only spend what is needed for the 4th quarter of this year.

Outline of Budget Message

There are three sections to this budget message:

1. Expected Outcome of 2019—summary of the expected financial position ending 2019
2. Proposals for 2020—highlights of proposed financial plans for on-going services
3. Financial Problems and Opportunities—looking at some options for the future

Note: This budget message does not review every fund. To keep the message brief, I cover only major funds or funds with specific issues.

City Manager's 2020 Budget Message

Section 1--Expected Outcome of 2019

2019 General Fund

Staff projects the Fund Balance for the General Fund to be \$702,749 at the end of 2019—a decrease of \$191,085 due to increased General Fund expenses. Council added a full-time employee at DPW which was not budgeted and there were un-budgeted contributions to MERS. There was some off-setting cost because of vacancies at the Police Department and the vacancy in the City Manager position.

2019 Major and Local Streets

Fund Balance for Major Streets is expected to increase by \$153,536 to \$456,010 at the end of 2019. We are building up the fund to pay for future street construction work. Fund Balance for Local Streets is expected to increase by \$4,700 to \$302,569 at the end of 2019.

2019 Fire Fighter Longevity Fund

Fund Balance is expected to end the year at \$225,469. Payments are made, per policy to Fire fighter retirees.

2019 Waste Disposal Fund

The Waste Disposal Fund (Garbage Fund) balance is expected to end 2019 at \$219,032, down \$10,012. The planned spend-down of this fund was begun in 2014. In 2019 Council raised rates (\$3.50/month). This amount slowed the rate of loss and in 2020 we propose an increase of \$3.70/month to offset the increase in Marquette County Landfill tipping fees.

2019 Downtown Development Authority

For 2019, the DDA Fund Balance is expected to end at \$728,082, down by \$267,480. Note: Most of the DDA Fund Balance is restricted. We released \$250,000 in restricted fund balance for the Lake Bancroft Pavilion Project.

2019 Public Improvement Fund

In 2019, the Fund Balance for the Public Improvement Fund is projected to decrease \$17,040 to \$353,071. 2019 we made a down payment for BS&A, leased to own two police cars, replaced phone systems that had been damaged, and added a generator at the Fire Hall, just to mention a few of the expenses.

City Manager's 2020 Budget Message

2019 Sewer Funds

Sewer Fund is projected to end 2019 with an unrestricted net position of \$658,702 which is up \$317,110. The City needs to build up the fund balance of the Sewer Fund to pay for future capital projects.

2019 Water Fund

The Water Fund is expected to end 2019 with an unrestricted net position of negative \$1,988.331 which is an increase of \$49,195. However, the Deficit Elimination Plan is on track and the Water Fund is expected to have positive working capital in 2020. So, the Deficit Elimination Plan will no longer need to be filed with the Michigan Treasury if things continue to go as planned.

2019 Motor Pool Fund

This fund was established in 2018 with an initial fund balance of \$30,000. It is expected to end 2019 with a Fund Balance of \$158,330, down \$76,035. The decrease is because of the financing of a snow plow and because of the purchase of a front-end loader.

The City's other funds remain healthy and are operating as planned. Please refer to the detailed budget sheets in the budget proposal document.

City Manager's 2020 Budget Message

Section 2--2020 Proposal

Taxable Values and Millage Rate

Based on information from the County Equalization Department, the City's 2019 taxable value (the 2019 value is used to compute the 2020 tax collection) is \$121,306,820 (up slightly from \$119,488,574 in 2018). The City Council has adopted a tax levy (Millage) with revenues:

Tax category	Millage	Tax Revenues* (After DDA Recapture)
Operations:	13.3545	\$1,508,284
Act 345 Retirement:	2.2670	\$243,720
Public Improvement:	4.4514	\$502,946
Fire Equipment	.8940	\$108,670
Total:	20.9669	\$2,363,620

*Note: Tax Revenues are subject to change based on Board of Review, Tax Tribunal, or other adjustments. It is certain there will be some reductions; however, they are not expected to be major. City revenues are reduced by the DDA recapture which is estimated to be \$238,106.

2020 General Fund

Staff projects General Fund revenues of \$2,850,414 and expenses of \$3,048,499, and by adding \$198,085 from Fund Balance this will provide a balanced budget. **At this time, we are proposing to not fill the 2nd part-time position in City Hall, the 2nd Code Enforcement position and not to create (as proposed) additional part-time employee at the Library for 2020. These positions could be added in 2020 after the final numbers for the year are confirmed and the budget allows. The majority of the expense from the General Fund are Health Care cost, MERS Contributions, and Salaries for employees.**

Most revenues and expenses remain about the same in 2020 as in 2019; however, all the funding and expenses for equipment maintenance have been transferred to the Motor Pool Fund. The proposed budget includes an annual contribution to UPSET of \$10,000, and a payment of \$9,000 to the Senior Center.

To preserve the City's financial position, Department Heads voluntarily reduced their requests over \$100,000 in total. So, please note that the Department Request lines already included cuts. Recommendations to change fees will be coming to City Council in a separate document. If the proposed budget is executed as planned, the Fund Balance will be about \$504,664 at the end of 2020. This fund balance level is about 16.6 percent of the 2020 expected expenses.

City Manager's 2020 Budget Message

2020 Major and Local Street Funds

Condition of some City streets has significantly improved due to the USDA project. Unfortunately, we still have a lot of streets needing help. Due to action of the State, our Street funding is up somewhat. As we build funding, the City may plan to repair more street segments. In the 2020 budget proposal, we have not laid out specific plans for a major construction project. Our USDA Water Project is set to conclude at the end of 2019.

During 2020, DPW will assess the conditions of the streets and put together specific project plans for the next street repair project. We also have obtained numbers for specific road repairs that were identified by the "Street Committee". Waiting until 2020 will give us one more year to build up the fund for a better project(s). Also, in 2021 the City of Ishpeming is due to receive a Small Urban Grant (SUG) of about \$375,000. The SUG requires the City of Ishpeming to make a local match of \$125,000 to obtain those funds. We must make sure that we have the local match available for the SUG. During 2020, The SUG is scheduled for Empire St., from 3rd St. to Main St. We should also look at Water and Sewer work under the SUG in 2021 if feasible.

State of Michigan action to increase funding, while a positive step, did not fully correct the state-wide shortage in road funding. Even with the increased Act 51 revenue, the City is unable to keep up with basic maintenance expenses, purchase equipment and supplies, and apply the appropriate repairs to maintain deteriorating streets. It is recommended to not repave a street unless the underground infrastructure is in good shape.

The City spent about \$70,000 on routine maintenance on the Major Streets. To reduce the cost of routine maintenance, we will have to improve the quality of most City streets. City residents benefit double from continued use of USDA funding for infrastructure projects. Not only do we fix the water and sewer but also obtain pavement repairs. Continued investment in USDA projects will eventually reduce the cost of maintenance.

In 2020, this budget shows Major Street expenses of \$577,555 with revenue of \$716,750. This results in a Major Street Fund Balance of \$595,205 at the end of 2020.

In 2020 the Local Street Fund, we plan to spend \$315,600 with revenue of \$335,800. The difference of \$20,200 will go into the Fund Balance, resulting in an expected Local Street Fund Balance of \$322,769 at the end of 2020.

If Council chooses to move forward with the recommendations of the "Street Committee" for any of the local road projects, the funding would be a draw-down from the Fund Balance.

2020 Garbage Fund

In 2020, the fund is expected to spend \$756,400 against revenues of \$765,890. The projected 2020 ending Fund Balance of the Garbage Fund is \$228,522, up \$9,490. Staff will be recommending an increase in the Residential Waste Disposal Fee in 2020. The Council may wish to discuss this rate increase during the budget workshop.

City Manager's 2020 Budget Message

2020 Downtown Development Authority

In 2020, the Downtown Development Authority (DDA) Fund continues with reduced spending because of high bond payment levels. However, the DDA is participating in a special project: The Lake Bancroft Pavilion. This project is estimated to cost about \$600,000 with \$50,000 from the DDA (spent in 2018), \$250,000 (in 2019) donation from The Cliffs/Lundin Community Foundation, and \$300,000 from DNR. In 2020 the DDA will have about \$239,356 in new revenue and \$257,565 in expenses. The DDA will have \$709,873 in the Fund Balance of which \$188,414 is unassigned and available for use.

2020 Public Improvement Fund

The fund expects revenues of \$507,696 and expenses of about \$571,505, resulting in a decrease of \$63,809 in the fund balance. Without unplanned capital spending, the fund balance would end 2020 with \$289,262.

The proposed 2020 Public Improvement Fund budget includes the following:

City – Final installment of BS&A, \$60,500.

DPW – New Roof, \$100,000.

Police - \$37,800 for equipment and building Improvement, Main expense in equipment are the purchase of portable radios, \$14,000.

Fire - \$17,000 for truck ramp and driveway. \$24,000 for various Fire Equipment.

Parks - \$2,000 for improvements.

Al Quaal - \$5,000 new heating system for the Al Quaal Lodge.

Library – \$46,800 for building improvements, books, periodicals, video and audio products, and computer work stations.

Contracted Services - \$28,500 and of that \$20,000 is for demolition. Limited funds included for curb and sidewalk repair.

Transfers Out -\$151,357 to pay building debt to Building Authority.

Bond and Interest Payments - \$73,558 for Fire Truck Bond.

City Manager's 2020 Budget Message

2020 Sewer Fund

The Sewer Fund is expected to have \$1,546,000 in revenues against \$1,413,189 in expenses, putting the unrestricted net position at \$791,513 by the end of 2020. We are budgeting \$250,000 for the construction of a new Park Street Lift Station. Also, this is the final year of our Vector Truck payment.

2020 Water Fund

The Water Fund is project to eliminate the deficit by the end of 2020. The deficit was created several years ago by extreme cold weather conditions and by previously unreimbursed expenses related to the USDA project. In 2020, revenues are expected to be \$2,517,313 with expenses of \$2,469,949. However, requirements of the deficit elimination plan and funding the USDA project together will keep the fund balance from growing. The resulting ending unrestricted net position is a negative \$1,940,967.

2020 Motor Pool Fund

This was a new fund for the City of Ishpeming in 2018. It consolidates the revenues and expenses related to DPW equipment operations and maintenance from several other funds, including: General Fund, Public Improvement Fund, Water Fund, Sewer Fund, and Street Funds. The idea of this fund is to provide direct public visibility of the funds used with this important fleet. The Motor Pool Fund started with a \$30,000 fund balance in 2018. Total revenues for this fund are expected to be \$710,850 with expenses of \$630,620, resulting in an ending unrestricted net position of \$238,560.

City Manager's 2020 Budget Message

Section 3 Financial Problems and Opportunities

Topics of discussion here are about some of these important financial consideration for the future. The areas addressed below are not technically part of the 2020 budget; however, they need to be considered going forward.

New Revenue Sources

To keep up with cost growth, the City needs new revenue. Unfortunately, **none** of these may be put in place for the 2020 fiscal year. All would require action in 2020 to implement in 2021.

A. Library Millage

Under Act 164, the City Council is authorized to levy 1 mill to pay for public library expenses. The City currently does not levy this tax, but pays for the entire cost of the Library out of other sources of revenue, including the General Fund. The soonest that the City could use this millage as a source of funding in the 2021 budget. The idea of this millage is that by dedicating this new specific tax to the Library, the City will free up tax revenue for other needs. This increase in taxation would bring in about \$120,000, costing the average tax payer about \$50 per year.

B. Headlee Override

With the correct legal process, the City has a legal means to override the Headlee Amendment, returning the millage rate for the City of Ishpeming to the maximum constitutional rate of 20 mills. Currently, the City levies 17.8059 mills between General Operating and Public Improvement Fund (only these two mileages are impacted by the Headlee Amendment). Therefore, using this process could gain the City about 2.2 mills (or about \$250,000) of new revenue. This action requires a public vote, which could be defeated.

C. Voted Mileages

Similar to the Fire Truck Ballot Proposal, the City has the authority to place a wide variety of specific ballot initiatives before the voters. This choice could help with various expenses, such as Parks, Cemetery, Library, or roads, and it may be needed at some point in the future.

Reducing Costs Via Employee Healthcare

Healthcare costs have increased significantly. We are still getting quotes for the Healthcare Cost for 2020. The City Healthcare Committee should convene to examine options to reduce costs and still maintain reasonable healthcare benefits for our employees.

Under Public Act 152, the City Council must vote in 2019 by a super majority (4-1) to continue this total support into 2020. Per State law, if this policy is not continued the City must move to either an 80/20 cost share or to pay not more than a fixed "cap" per employee. The State of Michigan sets the cap annually. Either of these options would force the employees to pay a

City Manager's 2020 Budget Message

Reducing Costs Via Employee Healthcare (continued)

substantially larger share of healthcare costs in the form of payroll deductions. Because healthcare costs have increased greatly while our revenue is stagnant, some form of healthcare premium cost-sharing with our employees is going to be necessary at some point.

MERS

This is the most difficult issue facing the City. From 2019 to 2020, our annual required contribution (ARC) has increased from \$686,208 to \$789,324. MERS has informed us that required contributions will continue to increase to pay down the unfunded liability in our MERS plan which is reported to be more than \$9,000,000. Future ARC payments are projected to increase above \$1,000,000 in a few years, depending on mortality rate, investment return, and other factors. Clearly, the City cannot afford expenses like these without deep cuts to services or significant new revenue. I believe that a combination of all techniques--including concessions from the employees, service cuts, new revenue/taxes, and smart money management—will be necessary to weather this storm. We have been meeting with Department Heads, union representatives, and MERS staff to review the facts and discuss the way forward.

Pension Obligation Bonds

We have been exploring the feasibility of Pension Obligation Bonds. We would borrow money at a lower rate of interests and through the pension system, invest it at a higher rate of return. The initial analysis shows the City could save a projected net present value of \$2.8 Million over 20 years. In theory we would have a flat payment for the 20 years. There are other pros and cons to these types of bonds. The first thing that would have to happen to even consider this is we would have to close the MERS Plan to new hires.

Fees and Investments

Because of our financial condition, we need to consider raising fees. There are services we provide that the goal should be to make them financially sustainable. To name a few, Code/Rental Enforcement, the Cemetery, and the Tube-Slide. This could be accomplished by raising fees and taking a serious look at some of the City's investments. We have already started the conversation on investments and are looking at some changes for 2020.

Final Note: City Staff worked together, diligently, and carefully to create this proposed 2020 budget. Thank you to all the staff involved.

Steven J. Snowaert
Interim City Manager