

City Manager's 2023 Budget Message

October 5, 2022

TO: Mayor Bean, City Council Members, Key Staff, and General Public

FROM: Craig H. Cugini, City Manager 

SUBJECT: 2023 Budget Message

Executive Summary

The City of Ishpeming 2023 budget reflects the many challenges that face the city. For many years, the City has experienced limited revenue growth and continued growth in expenses. The City's revenue has failed to keep up with continuously and significantly increasing fixed and unavoidable costs. The past year has seen some return to normalcy, uncertainty remains as to the future funding levels from the State of Michigan as the State faces its own budgetary challenges. Tough choices have already been made to bring this budget proposal before you and to attempt to sustain the City's financial position. In 2021, the final approved budget for the General Fund showed a reduction of fund balance of \$(182,762); however, due to slightly higher revenues than estimated and additional funding from the State, the final 2021 result was to add \$104,760 to fund balance. For 2022, The General Fund budget showed a reduction in fund balance of \$(187,085). For the 2023 budget year, the City continues to take a conservative position in regards to budgeting by presenting a "worst-case scenario" approach this is favored by Standard and Poor's, the City's bond credit rating agency. As such, the 2023 General Fund budget show a reduction in fund balance of \$(49,957). As management has successfully achieved in the past, staff will continue to work on cost saving measures to try to improve performance over current "worst-case scenario" expectations.

In 2021, the City addressed the MERS unfunded liability. The funded level of the MERS defined benefit pension plan was 48% funded as of 12/31/2020. On October 19, 2021, the City issued \$9,125,000 in pension bonds in order to fund up to 95% of the actuarial liabilities. Issuing these pension bonds is projected to stabilize the annual contribution moving forward and potentially save the City an estimated \$5.3 million over the life of the bonds.

Outline of Budget Message

There are three sections to this budget message:

1. Expected Outcome of 2022-summary of the expected financial position ending 2021
2. Proposals for 2023-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 concerns.

## City Manager's 2023 Budget Message

### Section 1 - Expected Outcome of 2022

#### 2022 – 101 General Fund

Current projections place the Fund Balance for the General Fund near \$828,635 at the end of 2022, a decrease of \$187,085 from beginning fund balance of \$1,015,720.

#### 2022 – 202 Major Street and 203 Local Street Funds

Fund Balance for Major Streets is expected to decrease by \$194,032 to \$791,420 at the end of 2022. The reconstruction of Empire Street is scheduled for completion in October 2022. Fund balance for Local Streets is expected to increase by \$57,484 to \$379,101 at the end of 2022. Increased fuel prices are the biggest concern for winter maintenance. However, the increase in fuel prices have resulted in an increase of funding provided by the Michigan Department of Transportation.

#### 2022 - 206 Special Fire Fund (Fire Truck Purchase)

Fund Balance for the Special Fire Fund is expected to increase \$25,531, ending 2022 at \$119,778. This fund is used to capture the tax revenue from the millage used to purchase and record payments on the purchased fire truck.

#### 2022 – 211 Fire Fighter Longevity Fund

Fund Balance is expected to end the year at \$212,015. Any payments out will be made per policy covering Fire fighter retirees.

#### 2022 – 226 Garbage Fund

The Garbage Fund balance is expected to end 2022 at \$335,967, an increase of \$14,350. The planned spend-down of this fund had begun in 2014. In 2018, Council voted to raise rates and end the fund decline. While garbage rates will need to increase over time to generate revenues necessary to meet the continuing tipping fee increases at the Marquette County Solid Waste Management Authority, at this time staff is not proposing a garbage rate fee increase for 2023.

#### 2022 – 248 Downtown Development Authority (DDA)

For 2022, the DDA fund balance is expected to end at \$726,154 up by \$16,655. Refinancing the 2011 Bonds has lowered the annual debt obligation for the DDA by \$62,376. The DDA has a restricted fund balance of \$521,460.

#### 2022 - 401 Public Improvement Fund

In 2022, the Fund Balance for the Public Improvement Fund is projected to decrease \$16,762 to \$349,917. This fund is critical for supporting much needed projects throughout the city. It will be important for the City to find opportunities to increase this fund balance over time.

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### 2022 – 590 Sewer Funds

Sewer Fund is projected to end 2022 with an unrestricted net position of \$1,129,064, which is up \$118,169 from 2021. The City has been working towards the goal of beginning a sewer infrastructure replacement project in the future. We anticipate receiving a final firm offer from the State in late October or Early November related to the Clean Water Strategic Revolving Fund. The expectation is that the preliminary offer will not change and be presented as an \$8M Grant and a 50% matching (\$8M) low interest loan allowing the City to apply up to \$16M in funding towards major improvements to the sewer infrastructure.

### 2022 – 591 Water Fund

The Water Fund is expected to end 2022 with an unrestricted net position of \$649,625, which is an increase of \$530,990 over the prior year. The City of Ishpeming is working to complete a Financially Distressed Communities Grant from the State of Michigan in the amount of \$250,000 to be used to purchase water meters and radio read units. We also plan to execute \$1.2M in funding for completing the full replacement of remaining water meters throughout the city in 2023/2024 (depending on supply chain issues).

### 2022 – 661 Motor Pool Fund

This fund was established in 2018 with an initial fund balance of \$30,000. It is expected to end 2022 with an unrestricted net position of \$187,488, down \$137,930 due to significant investment in new equipment during 2022. The goal is to continue to work on growing this fund with continued strategy for long-term sustainable life-cycle management of vehicles and equipment.

### Other Funds

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

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### Section 2 - 2023 Proposal

#### Taxable Values and Millage Rate

Based on information from the County Equalization Department, the City's 2023 taxable value (the 2022 value is used to compute the 2023 tax collection) is \$133,770,209. The City Council has adopted a tax levy (Millage) with revenues:

Tax category	Millage	Tax Revenues*
Operations:	13.1795	\$1,639,250
Act 345 Retirement:	2.8197	\$321,575
Public Improvement:	4.3930	\$546,580
Fire Equipment	0.8822	\$117,268
Total:	21.2744	\$2,624,673

\*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 significant. City revenues are further reduced by the DDA recapture estimated at \$254,708.

#### 2023 - 101 General Fund

Current projections for the General Fund revenues are \$3,116,565 and expenses of \$3,166,522, using \$49,957 from Fund Balance to provide a balanced budget. As previously discussed, this is a "worst-case scenario,". The staff will continue to reduce expenditures to improve the financial outlook.

State Revenue Sharing for 2023 is projected at \$993,000. At this time, the outcome of the health insurance renewal for 2023 is still unknown. The proposed budget includes annual contribution to UPSET of \$10,000 and a payment of \$9,000 for the long-term care and maintenance of the Senior Center (outlined in a lease agreement).

The City addressed the MERS pension liability by issuing \$9,125,000 in bond in late 2021. The bond payments were disbursed across the General, Water and Sewer Funds. The City also received permission from the Department of Transportation for allocating an appropriate apportionment of the bond payment to the Major & Local Street Funds. This provided a reduction in the bond payment obligation from the General Fund by 16% or \$89,070 for 2023.

To preserve the City's financial position, I have asked our Finance Office Manager to establish future budget meetings to identify areas and develop plans for long-term sustainability of the City's operational expenses. If the proposed budget is executed as planned, the fund balance will be about \$778,678 at the end of 2023. This fund balance level is about 24.6 percent of the 2023 expected expenses-a decline of about 2.3 percent from 2022.

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### 2023 – 202 Major Street Fund and 203 Local Street Fund

Condition of some City streets had significantly improved due to a past USDA project. Unfortunately, most of our roadways are rated very poor. Due to action of the State in prior years, our Major Street funding is somewhat higher; however, the City's winter maintenance also increased last winter due to a higher total snowfall. The 2023 budget anticipates an average amount of snowfall, but our intent is to continue our focus on operational efficiency costs and potentially reduce the overall winter maintenance expenses. In the past, increased winter maintenance costs have also caused decreases in the Local Street budget.

State of Michigan action to increase funding a couple years ago, 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. The 2022 budget proposed transferring \$300,000 from the Public Improvement Fund to the Local Street Fund in order to put \$400,000 towards street paving. This \$300,000 transfer is carried over to the 2023 budget to leverage grant funding (MDOT Cat B) planned road infrastructure projects.

In 2023, this budget shows Major Street revenues of \$1,005,150 and expenses of \$987,487, which includes a \$100,000 transfer to the Local Street Fund preservation of the local street system as allowed under Act 51.

In 2023, the Local Street Fund, we plan to spend \$856,851 total budget, with revenue of \$864,300, which includes \$100,000 annual contribution from the Major Street Fund.

### 2023 – 226 Garbage Fund

In 2023, the fund is expected to spend \$784,830 against revenues of \$786,050. The projected 2023 ending Fund Balance of the Garbage Fund is \$337,187, up \$1,220. Council approved an increase in the Residential Waste Disposal Fee in 2021 of \$1.00 per month for a monthly fee of \$21.90; however, there is no recommended increase to the Residential Waste Disposal Fee in 2023. The Marquette County Solid Waste Management Authority tipping fee has gone from \$49.50 per ton in 2019 to \$61.50 per ton for its fiscal year 2021-2022. Marquette County Solid Waste Management Authority is projecting an annual \$2.00 increase in the per ton tipping fee until it reaches \$69.50 in its 2025-2026 fiscal year. This planned fee schedule by Marquette County Solid Waste Management Authority will require annual increases to the City of Ishpeming garbage customers. The Council may wish to discuss this rate increase during the budget workshop.

### 2023 - 248 Downtown Development Authority (DDA)

In 2023, the Downtown Development Authority (DDA) Fund has increased spending capacity due to refunding of its 2011 Capital Improvement Bond, which issued a new bond at a lower interest rate which is estimated to save the DDA \$170,470 over the life of the bond. Because of high bond payment levels, although the DDA bond payments peaked in 2020 and will now decline over the next couple years. Therefore, in 2023 the DDA will not need to utilize fund balance to make investments into the downtown. This means that expenses will be lower than the revenues in 2023. With about \$256,908 in revenue in 2023 and \$253,220 in expenses, the DDA will add \$3,688 to the fund balance.

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### 2023 - 401 Public Improvement Fund

The fund expects revenues of \$551,380 and expenses of about \$546,373, resulting in an increase of \$5,007 in the fund balance. The Public Improvement Fund has committed debt payments of \$189,923, which leaves \$361,457 available for use in 2023. In 2023, the improvement fund will be utilized for a number capital purchase and projects for parks, the cemetery, police and fire departments, and other need items.

### 2023 - 590 Sewer Fund

The Sewer Fund is expected to have \$1,839,300 in revenues against \$1,837,315 in expenses, adding \$1,985 to fund balance by the end of 2023. City anticipates moving forward with a \$16,000,000 sewer project funded through the State CWRP program. Fifty percent of the project is funded by grant, remaining 50% would be a low interest loan, payments will be incorporated into the 2024 budget and beyond (up to 30 years). Currently, the ordinance for the Sewer Fund requires an annual five percent increase in the sewer rate.

### 2023 - 591 Water Fund

The Water Fund is building a health fund balance projected at \$649,625 at the end of 2022. The City budget includes \$1.2M reduction of the fund balance for purchasing and installing the remaining balance of Water Meters to complete the replacement of antiquated technology. In 2023, revenues are expected to be \$2,536,000 with expenses of \$3,730,337.

### 2023 - 661 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. This fund has grown since its inception, and the City has been able to purchase a couple significant pieces of equipment from this fund. In 2023, total revenues for this fund are expected to be \$746,000 with expenses of \$745,932, including depreciation, resulting in an ending unrestricted net position of \$187,448. These 2023 expenses also include \$52,500 for capitalizable equipment purchases.

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### Section 3 Financial Issues and Opportunities

As described above, the City continues to look at opportunities to obtain grant funding, look for ways to grow revenue, and seek solutions to some of the financial challenges. Topics of discussion here are about some of these important financial consideration for the future. The areas below are items that could be considered in future budget meetings as we seek a sustainable path for the City of Ishpeming.

#### 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 2023 fiscal year. All would require action in 2023 to implement in 2024.

##### 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 2024 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 (see attached Fact Sheet and sample ballot language), 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 20.9 mills. Currently, the City levies 18.4547 mills between General Operating and Public Improvement Fund. Therefore, using this process could gain the City about 2.4 mills (or about \$280,000) of new revenue. This action requires a public vote, which could be defeated.

##### C. Voted Millages

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, including providing funding for road improvements or park maintenance.

#### Reducing Costs Via Employee Healthcare

While the City of Ishpeming reviews its healthcare costs on an annual basis in order to obtain the best outcome, healthcare costs continue to be a significant portion of the budget. The City Healthcare Committee should convene in order to explore options to further reduce this cost while maintaining reasonable healthcare for employees.

Reducing Costs Via Employee Healthcare (continued)

Under Public Act 152, the City Council must vote in 2022 by a super majority (4-1) to continue this total support into 2023. 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 substantially larger share of healthcare costs in the form of payroll deductions. The challenge of this option is balancing the benefits offered to employees while balancing the other employee/employer costs. A healthcare premium cost-sharing with our employees may be necessary in the future.