

2024 Budget Message

October 14, 2023

TO: Mayor Chapman, City Council Members, Staff, and General Public
FROM: The Finance Department and the Office of the City Manager
SUBJECT: 2024 Budget Message

A Message from the Director of the Finance Department

2024 will be an especially important year for the City of Ishpeming. Previous years have presented many fiscal challenges for the City and 2024 offers the opportunity to reverse the unsustainable momentum built up in several key funds. While other communities face the same external pressures that shape the City's financial landscape, factors that have been outlined in years prior, Ishpeming has been presented with many internal hurdles since 2021. The effect can be seen in the projections for the final months of fiscal year 2023. While fiscal responsibility is a key metric for all management within the organization, it is centered around the City's Finance Department. For the Finance Office specifically, the majority of the staff (three of five) will have been hired in 2023, assuming the department's two vacancies will be filled by year end. Three different Finance Directors, and for a period an outside contractor, have overseen the City's books since 2021. Four different people have occupied the role of Treasurer in the same period. Finance professionals nationwide remain in short supply and governmental accounting is full of nuances which can only be learned with experience.

The dominant financial challenge the City faces for 2024 will be managing its growing General Fund expenditures against a limited revenue stream. Hard decisions will have to be made about the City's needs and priorities in all areas of the General Fund budget. 2023 saw the acceptance of a renewed labor contract and cost of living adjustments. These salary increases will hopefully strengthen retention but personnel costs weigh heavily on the flexibility of the General Fund. The introduction of health insurance premium shares, later outlined in the General Fund 2024 proposal, will be critical in maintaining the long-term sustainability of the City's staffing levels.

Though 2024 presents significant challenges, for the General Fund in particular, it also presents some exciting opportunities for investment into the community. The 2023 CWSRF project will replace key sections of sewer line, leaving new roadways behind when the work is complete. In the Water Fund, radio meters are being installed in place of aging mechanical infrastructure. Increased R&M budgets are proposed to take care of the sunken man hole covers on Third Street, drastically altering the main drive into town for the good. The Public Improvement Fund has significant reserves which can help repair some of the worst portions of roadway in the City until entire roads can be replaced. A new enclosed handicap entrance for City Hall with a lift is slated to replace the crumbling access ramp behind the building. Money is set aside to replace the parking lot and alley around the building and open up additional handicap parking. The parks and cemeteries are slated to see roof repairs, ADA compliant bathrooms, GIS infrastructure investments, and new equipment critical for serving the community. The Motor Pool Fund has performed strongly enough in prior periods to give the General Fund some reprieve from vehicle rentals, mainly used in the clearing of alleys and sidewalks, while still outlaying the purchase of a new sidewalk plow better suited for downtown as well as a new pickup to replace one of the DPW vehicles surly approaching its last leg.

2024 Budget Message

The attached preliminary budget for 2024 is broken down into two main components:

- a. A departmental budget for each fund which I am asking council to adopt and pass.
- b. A supporting line by line breakout of what makes up the proposed departmental budgets.

It is my hope in presenting the budget this way that management will be afforded the ability within their departments to shape things to their needs as the year unfolds and inevitably varies from the attached estimates. It is also my hope that a departmental view will limit the burden of scrutiny for line by line metrics which will surely vary anyway, and free up the focus of discussion towards the goals and preferred direction of the organization.

Thank you in advance for your review of the attached preliminary budget.

A handwritten signature in black ink, appearing to read 'G. Getschow', enclosed within a large, loopy oval shape.

Grant Getschow
Finance Director
City of Ishpeming

2024 Budget Message

Notations on Key Areas of the 2024 Budget

101 General Fund

2023 Outlook

Year end fund balances estimates for the General Fund place the balance at \$842k at the end of 2023, a decrease of \$301k. This represents an additional \$248k in expenditures over revenues from the original budget passed. Key drivers in the budget miss include unfavorable benefit allocation corrections, snow removal efforts in alleys and sidewalks, underestimated utility costs, contractual services, and an overestimate of revenues.

2024 Proposal

General Fund revenues remain tight for the many departments dependent on them. Although the City has maxed its total millage, a large portion of that millage compared to its Sister City is set aside each year for the public improvement fund, about 25%. In addition, taxable property values throughout the City remain low. It is often remarked that the residents of the City pay a very high tax rate, but it is often a 'high rate' on a relatively 'low number.' Residential taxable values in the range of 20k-30k are common in the City of Ishpeming.

General Fund				
2023 Taxable Value	Millage	Taxes Receivable	Less DDA Capture	General Fund Tax Revenue
139,915,246.00	13.0661	1,828,146.60	(140,206.44)	1,687,940.16

Seen above the City's 13.0661 operating millage on \$139M in taxable value gives the General fund \$1.83M in tax revenue before the DDA capture and \$1.69M after the DDA capture is taken into account.

It will be critical for the City to control its general fund costs for 2024 and set a strategy to begin building its General Fund balance to prior reserve levels. Contained in the proposed budget for 2024 are a few strategies to help get the City back on track towards fiscal sustainability.

- A. Personnel costs continue to be a dominant portion of General Fund expenditures year over year. In an effort to keep personnel costs at a sustainable level, it is recommended the City implement biweekly medical premium shares through payroll. In order to balance this year's budget, the City would collect 20% of medical and dental premiums from all employees. The yearly cost of premiums would range from roughly \$1,500/year per single employee to \$4,125/year for a family. This equates to \$60-\$160 a paycheck depending on dependents. Biweekly premiums are pre-tax deductions and the resulting tax liability reduction to employees presents a decrease in net costs of the premium share. Staff would still retain the same benefits and extremely low rate of out-of-pocket expenditures keeping the health care plan for the City very competitive to those available in the surrounding area. See table below (HRA, Admin, and Vision costs not included here).

2024 Budget Message

- B. Vehicle Rentals are the primary mechanism from which the City builds and maintains its fleet in the Motor Pool Fund. In 2024 the City is proposing a pause on all vehicle rentals paid from the general fund on the grounds that if the General Fund budget is not balanced, the General Fund should not be setting aside money for new vehicles.
- C. Contracted services vary in nature and importance in the General Fund but for 2024 the City will reduce some contracted services in favor of keeping the staffing levels it already maintains.
- D. Snow removal from sidewalks and alleys is funded with General Fund revenues as the state considers these non-motorized surfaces and prohibits cities from using what little snow funding they receive towards the winter maintenance of these areas of infrastructure. In 2024 the City will have to reduce its snow hauling practice and limit its time and effort removing snow from non-motorized surfaces and uncertified roads.

# of Employees	Dependents	Dental Premiums	Medical Premiums	Total Monthly Premiums Per Employee	Total City Cost Per Month	Total Cost Per Year	20% of Monthly Cost Per Employee	Yearly Cost to Employee	Per Paycheck	Total Share
12	None (single)	37.17	604.18	641.35	7,696.16	92,353.92	128.27	1,539.23	59.20	18,470.78
5	Spouse	71.17	1,108.80	1,179.97	5,899.83	70,798.00	235.99	2,831.92	108.92	14,159.60
3	Family	137.50	1,581.54	1,719.04	22,347.52	268,170.24	343.81	4,125.70	158.68	53,634.05
					\$ 35,943.51	\$431,322.16				\$86,264.43

202 Major Street Fund and 203 Local Street Fund

2023 Outlook

Fund Balance for Major Streets is expected to increase by \$160k to \$854k at the end of 2023. Fund balance for Local Streets is expected to decrease by \$254k to \$648k at the end of 2023. Our community has seen increases in snowfall over the last two winter seasons which contributed to increased winter maintenance costs. Over the last four years the shortage in snow funding over winter maintenance costs represents an additional \$1.6M strain on the City’s roadway funding.

Agency Fiscal Year	Agency Name	Winter Maintenance Streets and Structures - Major	Winter Maintenance Streets and Structures - Local	Payment Year February Processing Month	Major Snow Received	Local Snow Received
2018	Ishpeming	\$356,852.00	\$220,605.00	2020	113,186.52	54,543.20
2019	Ishpeming	\$491,965.00	\$321,957.00	2021	183,362.65	107,246.70
2020	Ishpeming	\$247,124.00	\$347,909.00	2022	76,892.12	131,228.14
2021	Ishpeming	\$202,791.00	\$144,497.00	2023	46,308.05	22,502.32
2022	Ishpeming	\$298,807.00	\$237,966.00			

2024 Proposal

Total combined Major and Local Street Fund revenues from the state are estimated to be \$957k as shown in the calculation below. There is \$500,000 available in disaster funding as 2023 closes, all of which will carry

2024 Budget Message

over if not used in 2023. A transfer in of \$300k from public improvement fund will serve to repair problem sections of local streets throughout town until total replacement of the roadways are viable. Equipment rentals and personnel costs remain the highest source of expenditures proposed for 2024.

CITY AND VILLAGE ESTIMATED AVERAGE UNIT VALUES

FOR THE PERIOD OF 10/2023 - 09/2024

Based on ORTA Revenue Estimate of 02/08/2023

Includes \$600M Redirected Income Tax Revenue and \$83.6M Recreational Marijuana Tax Revenue

Includes \$33M Local Road Program

Does not include any special payments (Snow or Jurisdictional Transfers) at individual agency level

Prepared: 3/2/2023

<p>\$716,873,729 NET DISTRIBUTION CITIES AND VILLAGES</p>	<p style="text-align: center;">75% TO MAJOR STREETS</p>	\$537,655,296	\$322,593,178	/	5,105,073	=	\$63.19	
			60% ON POPULATION	POPULATION	AS OF	01/31/23	PER CAPITA	
			\$215,062,119	\$107,531,059	/	11,749.115	=	\$18,305
			40% ON MILEAGE	E.M.M. MILEAGE	AS OF	01/31/23	PER MILE	
	<p style="text-align: center;">25% TO LOCAL STREETS</p>	\$179,218,432	\$71,687,373	/	14,941.72	=	\$4,798	
		60% ON POPULATION	POPULATION	AS OF	01/31/23	PER CAPITA		
		40% ON MILEAGE	LOCAL MILEAGE	AS OF	01/31/23	PER MILE		

POPULATION FACTORS (PF) FOR CITIES AND VILLAGES

- 1.0 for population of 2,000 or less.
- 1.1 for population from 2,001 to 10,000.
- 1.2 for population from 10,001 to 20,000.
- 1.3 for population from 20,001 to 30,000.
- 1.4 for population from 30,001 to 40,000.
- 1.5 for population from 40,001 to 50,000.
- 1.6 for population from 50,001 to 65,000.
- 1.7 for population from 65,001 to 80,000.
- 1.8 for population from 80,001 to 95,000.
- 1.9 for population from 95,001 to 160,000.
- 2.0 for population from 160,001 to 320,000.
- Over 320,000, 2.1 plus 0.1 for each 160,000 increment over 320,000.

* NOTE: 25,000 and over receive monies for trunkline.

ESTIMATING FORMAT

<u>FACTOR</u>	<u>UNITS</u>	<u>PF</u>	<u>UNIT VALUE</u>	<u>SHARE</u>
MAJOR STREETS: POPULATION	6,167		x \$63.19 =	\$389,697
MAJOR MILES	13.85	x 1.1	x \$18,305 =	\$278,870
LOCAL STREETS: POPULATION	6,167		x \$21.06 =	\$129,899
LOCAL MILES	33.20		x \$4,798 =	\$159,287
			TOTAL SHARE	\$957,753

2024 Budget Message

248 Downtown Development Authority (DDA)

2023 Outlook

For 2023, the DDA fund balance is expected to end at \$812k, an increase of \$33k.

2024 Proposal

For 2024 estimated revenues are \$252k. The DDA budget earmarks 10% of the total expected revenues for the year for a potential grant match for the City's community center skate park. Beautification supplies and façade grants make up two other notable categories of outflow for the DDA. The Debt service obligation of \$145k remains the largest expenditure for 2024.

PARCEL INFORMATION		TAX HEADING	TAX BILLED	CAPTURED TAX	NET TOTAL
SCHOOL: 52180, DDA/LDEA: TIFA-OLD		SCHOOL: 52180, DDA/LDEA: TIFA-OLD			
TOTAL PARCELS:	483	COUNTY TRANSIT	12,859.56	6,404.13	6,455.43
TAXABLE VALUE:	20,814,686	COUNTY AGING	9,544.15	4,752.75	4,791.40
BASE VALUE:	9,990,349	COUNTY M.O.E.	11,734.99	5,844.07	5,890.92
CAPTURED VALUE:	10,824,337	COUNTY DISPATCH	10,604.04	5,280.67	5,323.37
PRE/NET TAXABLE:	2,572,974	COUNTY RESCUE	3,251.51	1,618.22	1,633.29
NON PRE/NET TAXABLE:	18,241,712	COUNTY VET AFF	1,722.13	856.63	865.50
PRE/NET CAPTURED:	978,315	IC CITY TAX	281,479.41	140,206.44	141,272.97
NON PRE/NET CAPTURED:	8,851,022	IC RETIRE	57,136.80	28,477.02	28,659.79
COM. PERS. TAXABLE:	1,062,470	IC PUB IMP	93,821.94	47,089.51	47,089.51
IND. PERS. TAXABLE:	0	IC FIRE EQP	18,737.43	9,417.23	9,417.23
SPEC. ACT PERS. TAXABLE:	0	HERITAGE TRAIL	4,240.33	2,110.35	2,129.38
		IC P & F RETIRE	186.11	160.70	26.41
		IC FIRE EQUIP	102.58	62.97	39.61
		IC RETIRE	18.36	-76.81	95.17
		TOTALS----->	505,439.34	253,760.36	253,688.98

401 Public Improvement Fund

2023 Outlook

Public Improvement Fund balance is projected to end at \$709k, a \$162k increase from 2022. The increase in 2023 is largely a result of unused funding that had been earmarked for Al Quaal.

2024 Outlook

Public Improvement				
2023 Taxable Value	Millage	Taxes Receivable	Less DDA Capture	Net Tax Revenue
139,915,246.00	4.3552	609,358.88	(46,732.43)	562,626.45

The City has an opportunity with the projected beginning fund balance in 2024 of \$709k and an additional \$562k projected tax revenue for 2024 to put a significant amount of money back into the community. Below is a proposed list of major projects totaling \$1.04M. Combined with other smaller projects and debt payments this would spend down the balance in Public Improvement to \$90k. As you will see several projects are geared towards ADA compliance and there is a significant amount of money proposed to be put towards road repairs in problem areas of town.

2024 Budget Message

Account	Account Description	Improvement/purchase	Amount	Notes
401-265-976.001	City Hall - Building Improvements	Handicap Ramp replacement	200,000.00	Replace ramp with an enclosed lift
401-265-976.002	City Hall - Building Improvements	Parking lot and alley	100,000.00	Replace the parking lot and alley behind City Hall
401-567-974.001	Cemetery - Land Improvements	GIS System	46,000.00	2024 phase of cemetery GIS
401-567-976.000	Cemetery - Columbarium	2 new columbariums	60,000.00	A need driven by the growing demand for columbariums over graves
401-567-981.000	Cemetery - Vehicles	Backhoe	160,000.00	Smaller sized backhoe for Cemetery.
401-757-975.003	Al Quaal - Building Improvements	Roof for lodge	110,000.00	A carryover project from 2023
401-757-975.003	Al Quaal - Building Improvements	ADA Compliant Bathroom	50,000.00	Ensuring everyone has access to our parks
401-301-975.000	Police - Building Improvements	Breakroom remodel	12,000.00	The police breakroom is dated and non-functional
401-965-999.203	Transfer Out - Local Streets	Provide additional funding	300,000.00	Repair problem sections of local roadways
			\$ 1,038,000.00	

590 – Sewer Funds

2023 Outlook

The Sewer Fund is projected to increase \$78k in 2023 for an ending fiscal year balance of \$10.19M. The single largest expenditure in the sewer fund for 2023 is expected to be its monthly obligation covering O&M, sinking & capital costs to the Ishpeming Area Joint Wastewater Treatment Facility totaling \$617k. A sizeable portion of engineering costs have been incurred for the 2023 CWSRF project and full reimbursement from the project funding is expected for all costs associated. The Sewer Fund performed \$110k in slip lining towards the City's non-participating category B funding requirements in 2023.

2024 Proposal

It is expected the bulk of the 2023 CWSRF sewer project to take place in 2024. It is important to note that the project is funded by draws and not in lump sum. What this means is that the financial impact of the project on the City's revenue and expenditure reports should be net zero regardless of whether the estimated timeline of the project is correct.

Outside of the CWSRF project the fund is expected to perform well into 2024. The City has implemented a tighter operating supply and contract service targets and favored R&M services and supplies in an effort to ensure money being spent through the fund is being invested into the system at an acceptable rate. A proposed \$80k transfer to the Water Fund will help cover the meter replacement project. The reasoning behind the transfer is that the meters are used to track water usage and the sewer charges are based on water usage.

Payments to the wastewater treatment plant are expected to increase monthly by \$10k (a total cost of \$730k for 2024) in part due to an increased flow rate experienced in the spring of 2022 & 2023. The City of Ishpeming makes up 60% of all flow sent to the treatment plant, double the City of Negaunee (30%) and six times Ishpeming Township (10%). Flow numbers range from 16M gallons during dry months like September to 81M gallons in May. This paints a very clear picture of the stormwater infiltration problems the City faces with its sanitary sewer system.

Metered sales for the year are projected at \$1.65M This number is based on an estimated 2023 ending revenue figure of \$1.59M increased by 5% as outlined in the fee schedule. The projected revenues / expenditures for 2024 is \$104k. The City waived the rate increase last year and is strongly recommended to implement it this year due to heavy infrastructure spending and rate study consistency.

591 Water Fund

2023 Outlook

The Water Fund is expected to increase its fund balance in 2023 by \$255k to a total of \$9.88M. The beginning unrestricted fund balance for 2023 was \$(106)k and the projected ending unrestricted net position is estimated to be positive for the first time in several years. The City continued to upgrade its meter infrastructure in 2023 and is still planning on contracting some of the work out to help with the large installation workload.

2024 Proposal

Metered sales estimates for 2024 are based on an ending 2023 projection of \$2.22M factored by 5% to \$2.33M. Other revenues consist of penalties and fees and an \$80k transfer in from the sewer fund to cover a portion of the meter replacement project.

Like the Sewer Fund, the Water Fund has been tightened targets for operating supplies and contractual services in favor of R&M supplies and services. Major expenditures for 2024 include an estimated \$550k in water supplied to the system and the continuing meter replacement project which represents \$370k in supplies and services. The project is estimated to cost significantly less in supplies than originally thought due to a change in approach using press fittings as opposed to copper and brass. With the meter replacement project on the books the water fund is projected to finish out 2024 with a thin but positive margin. This leaves the fund balance increased by its investment in its meter structure and other capital assets but its unrestricted net position relatively unchanged from 2023.

596 Garbage and Recycle Fund

2023 Outlook

The Garbage and Recycle Fund is projected to end 2023 with a fund balance of \$451k, an increase of \$25k.

2024 Proposal

Due to the nature of its operations, Fund 596 remains very regular year over year. The revenues for the fund are all fee based and the expenditures are almost all third-party services. The 2024 budget doesn't change much other than plan on a small inflationary increase of expenditures.

661 Motor Pool Fund

2023 Outlook

This fund was established in 2018 with an initial fund balance of \$30k. The Motor Pool Fund is expected to end 2023 with a fund balance of \$1.15M, an increase of \$106k from 2022. Equipment rentals are the main source of revenue for the fund.

2024 Proposal

Estimated rental revenues for the fund are \$830k for Fiscal 2024. This is a decrease of \$43k from 2023's ending projection accounting for the increased plowing activity that took place in spring 2023.

As outlined in the General Fund proposal, the Motor Pool Fund will pause rents assessed against the General Fund for 2024. In order to maintain an accurate accounting for both funds, rental expenses will still continue to be processed and assessed but will be refunded back to the General Fund from the Motor Pool Fund in the form of a transfer in/out. The projected total of such transfers for 2024 is \$165k.

The 2024 Motor Pool Budget plans to use a portion of the balance built up since 2018 to purchase two new vehicles.

1. A new pickup truck for use by the DPW to replace one of its aging vehicle fleet: \$40k
2. A new sidewalk plow which will be better suited to the snow load the City experiences and the narrow width of its sidewalks: \$245k

The purchases above are estimated to leave the fund with an ending unrestricted balance of \$281k for fiscal year 2024.