August 07, 2019

Honorable Mayor, Members of the City Commission,
And the Citizens of the City of Marquette, Michigan

Ladies and Gentlemen:

In accordance with Sections 7.1 and 7.2 of the City Charter, this Proposed Budget for Fiscal Year 2020 (October 1, 2019 through September 30, 2020) is submitted for your review.

We are proud to present a balanced Proposed Budget for FY 20. There remain unprecedented challenges, including, but not limited to, the City's largest taxpayer (WE Energies) closing its plant, tax tribunal cases, and fringe benefit underfunded liabilities.

The following synopsis is offered to provide a "snapshot" of details to be discussed during scheduled Budget Meetings. But first and foremost, we extend our sincerest thanks to City Staff and Departmental leadership for their tremendous effort and extraordinary support during this year's formulation.

OVERVIEW

Chapter 7.2(d) of the City Charter requires a balanced budget wherein "*The total amount of appropriation shall not exceed the revenues of the city as estimated by the city commission*". The City Commission utilizes staff and other assumptions as a basis for determining revenue availability, as well as adopting budget practices and revenue assumptions using quantitative probable assumptions. Speculative sources, such as asset sales, competitive program grants, state and federal revenue subject to statutory changes, are considered "volatile", and therefore not included in the baseline budget. If any of these speculative sources are realized, they will be added for use in support of supplemental appropriations.

In addition, fiscal controls have been established for the General Fund Balance to mitigate potential liquidity problems that may arise from short-term fluctuations in State revenue, tax tribunal cases, and economic cycles.

If the City Budget is impacted by negative disruptions, in addition to the buffer provided by use of General Fund Balance, mitigation options include reducing expenditures, creating additional reserves, and raising taxes necessary to mitigate potential budget deficits. The broad budget goals would maintain focus on reducing expenses and taxes – and thereby avoid counter-cyclical fiscal policy to that of the State (i.e., the State lowers taxes, and therefore the City raises them, defeating the positive economic development outcome).

Over the course of the last several years, the State has initiated policies and legislation that have drastically re-structured revenue sharing, greatly impairing the City's ability to predictably plan state contributions. The use of Statutory Revenue Sharing funding, although viewed as "speculative", has become an important revenue source to the General Fund. In the past, this

revenue source was only included in the budget as it was received and became an important reserve process. In FY 19, Statutory Revenue Sharing was incorporated in the budget with the hopes that in future years we can go back to the reserve process. This practice is being used again for FY 20.

Local budget discussion includes explicit identification of "sleeping dragon events" (i.e., potential unfunded liabilities), as well as "prince charming's" (i.e., authorized expenditures for consideration as supplemental appropriations). The resultant budget includes explicit authorization of either category, if realized, or otherwise enabled by available revenue during the fiscal year.

"Sleeping Dragons" typically include tax tribunal cases, lawsuits, insurance claims, damage from weather emergencies, unfunded liabilities, etc.; "Prince Charmings" are authorized potential supplemental appropriations such as increased road and infrastructure maintenance; economic development opportunities, and other increases in community services.

The prime financial goal of the City Administration remains a clear focus on avoiding tax millage increases and the effective cost management of service delivery.

Specific to this Proposed Budget Document:

1) Zero-based budget formulation was used again this year to address the potential losses of revenues due to pending cases filed with the Michigan Tax Tribunal and the closing of the WE Energies Power Plant. While these measures necessarily lead to more austere and conservative baseline assumptions, we remain optimistic that actual revenues will improve once elements of volatility are mitigated.

2) $360,000 of General Fund Balance is needed to balance the FY20 General Fund Budget. It is hoped this amount will not be needed but until such time that revenues stabilize, this is needed to provide the services demanded by the City's citizens.

3) This budget is being recommended with no layoffs of personnel, no reductions in wages and fringe benefits, and budgeting as tightly as possible in all areas. Should we experience favorable outcomes with tax tribunal cases or experience other unanticipated increases in revenue or decreases in expenditures, then we will be able to release those funds that were targeted.

4) The City Commission approved a Performance Contract with Johnson Controls, Inc for a City-wide energy-based performance solution. The goal of the program is for savings in energy and other costs to, in effect, pay for the enhancements over a twenty (20) year term. The total project is just over $28 million and is being financed utilizing Tax-Exempt Lease Purchase. This project will take care of some of the projects in the City's current six (6) year CIP plans going forward. There will be impact to the Proposed FY 20 Budget but, as of this writing, we are unable to accurately quantify the exact impact in all funds. Therefore, the Proposed FY 20 Budget is presented using the best estimates provided to us at this time.

5) A Utility Rate Study was performed by a professional rate consultant for FY 19 and beyond. The resultant recommendations in Stormwater, Water, and Sewer utility rates have been incorporated in the FY 20 Proposed Budget.

6) 1 mill of Property Taxes equates to $626,000.

7) 1% of utility rates equates as follows:

Stormwater = $15,000
Water = $47,500
Sewer = $61,400

GENERAL FUND

Revenues:

Property Taxes: The proposed FY 20 tax millage rate remains the same as the FY 19 rate of 14.9225 mills. Property taxes continue to serve as the single largest revenue source available to City government – and property for "Greenfield" development in the City is largely "built out". As a result, Marquette has a largely inelastic tax base with relatively few opportunities for expansion of previously undeveloped areas.

What had been the City's largest taxpayer, WE Energies/Presque Isle Power Plant, has shut down operations in the City and closed the plant. The City was collecting $1.6 million in property tax revenue from WE Energies and now it is projected to be approximately $300,000. While the City will continue to collect property taxes at a much reduced value, we will continue to work with WE Energies to attempt to get the property into a position to increase the current taxable value and, therefore, help restore property tax revenue to historical levels.

Duke LifePoint has completed construction of its new hospital campus on a site in the City that is a Brownfield TIF District. As of this writing, it is still yet to be determined what will happen to the existing hospital site. Again, City staff is working to keep the property on the tax rolls and not erode the City's tax base.

Proposal A restrictions and results of Tax Tribunal cases combine to negatively impact the City's General Fund. Proposal A caps taxable value growth to the lesser of a State directed inflation rate or 5% until the property is sold. Once sold, only then is the property uncapped and the process starts over. It is projected this capping process costs the City's General Fund approximately $1 million per year. Tax Tribunal cases continue to plaque the General Fund and has at times, cost the City an additional $1 million per year.

The above listed factors make it ever more challenging to provide the services our citizens expect and demand and to address other areas of need, (i.e., "Sleeping Dragons").

State Shared Revenue: As mentioned previously, budgeted State Shared Revenues reflects the inclusion of Statutory Revenue Sharing for the second time. Previously, only the constitutional portion was incorporated into the Proposed Budget.

All other revenue sources are anticipated to behave as status quo, with service fees recommended to reflect the true cost of service provision where possible.

Expenditures:

Overall, the FY 20 Proposed Budget is 2.8% higher than the FY 19 Budget. A brief summary by category is provided below with more detail discussed during the budget sessions:

Salaries and Wages: Proposed FY 20 is 4.1% higher than Budget FY 19. The increase is the result of existing labor contractual obligations. All labor contracts are current.

Fringe Benefits: Proposed FY 20 is 8.1% higher than Budget FY 19. Workers Compensation Insurance and required Pension payments increased 75.9% and 11.1% respectively. Health Insurance increased a modest 0.5%.

Supplies & Services: Proposed FY 20 is 7.9% higher than Budget FY 19, mostly due to items that will receive grant funding and a need to increase funding for Police and Fire communications equipment.

Capital Outlay: Proposed FY 20 is 70.4% higher than Budget FY 19, reflecting the Capital Improvement Plan recommendation. Some projects are to be grant funded and will not be done if the grants are not approved.

Transfers Out: Proposed FY 20 is (28.6)% lower than Budget FY 19, mostly due to transfers to the Heartwood Forestland and the Founders Landing Debt Service Funds no longer being needed due to the payoff of that debt. Transfers are needed to fund the General Fund portion of Debt Service, and to balance the operations of the Major and Local Street Funds, and the Lakeview Arena Fund.

SPECIAL REVENUE FUNDS

Of note in the Special Revenue Fund section, the General Fund makes transfers to the Major Street, Local Street, and Lakeview Arena Funds to balance out their operations. The total transfer to these three funds for FY 20 is budgeted at $1,709,065; the FY 19 amount is $1,518,140; an increase of 12.6%.

ENTERPRISE FUNDS

In the Utility Funds, in FY 19, an Automated Meter Infrastructure project (AMI) was initiated and a professional rate consultant provided a rate analysis study for five years. The AMI project is nearing completion which will provide more accurate billing flow data. The rate analysis is reflected below.

Recommended rate increases are as follows for FY 20:

A) Stormwater – 15.25%
B) Water – 12.25%
C) Sewer – 11.5%

With these increases, a residential customer with 4,000 gallons of monthly usage would have a monthly bill of:

1) Stormwater – New rate of $5.50 from $4.78 per month.
2) Water – New rate of $41.07 from $36.59 per month.
3) Sewer – New rate of $64.75 from $58.20 per month.
4) In total, a residential customer with 4,000 gallons of monthly usage would be

billed for all three utility charges at $111.32 per month, an increase of approximately $11.75 per month.

INTERNAL SERVICE FUNDS

The fees charged to the City's funds/departments by our three Internal Service Funds (Technology Services, Municipal Service Center, and Motor Pool) are budgeted for FY 20 to reflect the anticipated use of services by City funds/departments.

OTHER INFORMATION

The Finances of the City of Marquette continue to face unprecedented volatility and require far greater agility than previous incremental financing practices allowed. Basic changes in governmental accounting standards; changes in state financing across a wide spectrum of revenue sharing, tax law, and program sources; and concurrent challenges by the top City property tax payers create huge uncertainty that cannot be managed with a strategy of "business as usual". As such, the zero-base budget formulation and implementation strategy will ensure the City mitigates, to the best of its ability, these risks and provides the City Commission with a strategy for making shrewd and timely adjustments toward an optimistic future. It is because of this, which despite the continued uncertainty as mentioned above, we believe this Proposed Budget addresses the needs and services demanded by the citizens of the City of Marquette, within the constraints imposed by their tax expectations.

Respectfully submitted,

L. M. Angeli

L. Michael Angeli
City Manager

Gary W. Simpson
Chief Financial Officer