



## 2020-21 BUDGET General Comments

May 9, 2020

To: Mayor O'Donnell and Council

In 2019 the City developed a two-year budget to better forecast and plan for future expenditures. The upcoming 2020-21 budget was reviewed at the budget hearing last year. However, some adjustments to the budget have been incorporated, subject to council approval, in response to the economic impact and increasing expenses associated with high lake levels and the COVID-19 pandemic.

### **Revenues:**

As a result of the COVID-19 pandemic, shortfalls in revenues for the upcoming 2020-21 budget year are expected. The funds anticipated to be most impacted by the pandemic are the Major and Local Street funds (which are funded by the state gas tax), and the LRSB Fund (funded by revenue sharing from the casino).

### ***Major/Local Street Funds:***

The State of Michigan recently sent out revised numbers for Major and Local Street fund distributions, which show expected decreases in revenues due to COVID-19. Since the City's budget for the Major and Local street funds estimated lower, conservative revenues, at this point the revised numbers do not greatly impact the City. The City will closely monitor changes in the distributions and make budget/project adjustments as necessary.

Both street funds have healthy fund balances, which are essentially savings accounts in that fund balance money is not allocated as part of the annual budget. The Major Street fund has a current fund balance of \$430,721; the Local Street fund has a fund balance of \$299,567. These "savings accounts" will help the City mitigate the effects of reduced state revenues.

***Local Revenue Sharing Board Fund (LRSB), also known as the "Casino Fund":*** The LRSB fund receives between \$275,000 and \$300,000 annually in revenue sharing. The LRSB fund has historically been used, and continues to be used, as a special projects fund for the city. It does not fund the general operations of the city. The current fund balance of the LRSB account is \$508,802. A significant loss in LRSB revenue could result in special projects being put on hold but would not negatively impact the day-to-day operations of the city.

### ***General Fund:***

The General Fund is the main operating fund of the City and is primarily funded by property taxes. An increase in unpaid property taxes due to economic hardships brought on by the pandemic could result in less taxes being collected up front by the City. However, delinquent property taxes are sent to the County annually after the final tax collection date. Berrien County sends a check to the City in the amount of delinquent taxes outstanding, and then takes on role of collecting the delinquent taxes. The Berrien County Treasurer confirmed this process will continue as usual. The City will monitor tax collections and plan for the possibility of delayed revenue.

The General Fund receives approximately \$170,000 annually in state revenue from the liquor tax, and other state revenue sharing programs. These state revenues make up 5% of the total revenues in the General Fund. The potential loss of state revenues, while detrimental, would not have a severe impact on the City's main operating fund.

The General Fund has a solid fund balance of \$1,526,437 which will hopefully help the City weather reductions in revenues and unforeseen expenses.

***Downtown Development Authority (DDA):***

The DDA will not receive funds again this year due to a negative tax capture in the district. The DDA has not received funds since the 2016-17 fiscal year, when fund received \$1,193.00 in tax revenue.

**Expenses:**

With the onset of the 2020-21 fiscal year on July 1st, the City will adopt a cautionary "wait and see" approach before moving forward with projects and expenses—even budgeted ones-- not necessary to normal operations. Budgeted expenses include:

- The transfer from the General Fund to the Parks Fund to support operating expenses was increased from \$50,000 to \$75,000 to address ongoing erosion and storm damage costs due to high water levels.
- The Parks Fund budget includes the hiring of a full-time Parks Maintenance Assistant. The Parks Department currently has one full-time employee.
- Lifeguards are budgeted for in the Parks Funds, with estimated costs of \$41,500 for salaries, \$2,154 for lifeguard and equipment, and \$4,250 for lifeguard recruitment and training. The total program budget is \$47,904.
- Ambulance service expenses in the General Fund rose as a result of a 3% increase by Medic One.
- The Cemetery Board increased the City's annual contribution from \$24,500 to \$30,000 annually. The contribution comes out of the General Fund.
- Health insurance is expected to increase as a result of COVID-19. An 8% increase is budgeted. For reference, the rate increased by 6.51% in 2019, and by 5.33% the previous year. Beginning with this 2019-20 fiscal year, the employee contribution rate was doubled to offset the costs to the City.
- Notable special projects budgeted (subject to change in response to the economic impact of COVID-19):
  - Crack sealing of city streets
  - Completion of the bridge rehabilitation project
  - Renovation of the dune walk at the beach
  - Upgrade the hanging traffic signal light at Whittaker to a mast arm
  - Marquette Greenway trailhead
  - Repair and restoration of the 50-year old clearwell tank (ground storage tank that holds 300,000 gallons of finished drinking water) at the water plant

- Replace the water main extension on North Drive from Chicago to Berrien
- Repair storm sewers, address drainage issues and expand sewer service on several city streets
- Repair Marquette drive by the beach/boat launch

**Debt:**

The final payment for the 2010 Seawall occurred this fiscal year, reducing the City's total annual debt by \$51,000 for the upcoming fiscal year.

The budget will be closely monitored and amended as necessary during the fiscal year in response to changes in the economic environment that may impact the City. Please do not hesitate to contact me should you have any questions.

Kind regards,

*Kate Vyskocil, Treasurer*