



To: Huron City Council
Cc: Finance Committee, Department Heads
From: Matt Lasko, City Manager
Re: Recommended FY 2022 Budget
Date: November 29, 2021

In accordance with Section 6.05 of the Huron City Charter it is my pleasure to present you with the City Manager's Recommended FY 2022 Budget. The 2022 budget document aims to blend realistic revenue and expense projections for next year in a manner that seeks to provide a high level of services to our residents and property owners. The 2022 budget coupled with the Capital Improvement Plan and recently completed Vision 2020 Action Plan also serves to make recommended capital investments throughout the City.

This 2022 budget was presented through an online interactive platform, called OpenGov, intended to provide the reader with multiple levels of information including: a user guide, defined city policies, the budget process, revenue analysis, fund breakdown, debt obligations, capital equipment summary, and capital improvement plan (CIP). While establishing a plan for 2022, this budget additionally forecasts the impact of its adoption through 2031. Detailed plans have been analyzed and included for all City operations on an annual basis for 2022 through 2031. Inflationary cost and revenue adjustments have been made for all departmental activities as well as inclusion of capital investment expenses over the next ten (10) years. Council went through a master plan update (included in the budget book), termed the Vision 2020 Action Plan in 2021. The CIP references various initiatives that were prioritized in the master plan to be undertaken in the next 3-5 years.

The City's adopted General Fund Balance reserve policy is reflected on an annual basis through 2031. The policy requires a minimum available surplus of 15% (a maximum of 25%) of operating expenditures. Based on year-to-date activity in 2021 the City's General Fund is expected to exceed this minimum and be at 29% at year end and maintain at that level through 2025. The City will monitor the General Fund balance through year-end and consider one-time capital transfers for future unbudgeted projects thereby reducing the General Fund balance to minimally, the required maximum. This reserve has a direct impact to the City's Bond Rating and spending plans and is trending in a positive direction. As resources increase above the minimum surplus the City has the opportunity consider additional investments going forward such as parks and recreation, economic and community development, fleet and facilities, and infrastructure. At the end of 2020, the City transferred \$100,000 to the economic development fund and \$100,000 to the capital improvement fund to support development in the City and finance improvements on US 6.

At the onset of the COVID-19 pandemic, fiscal controls were put into place to both protect the fiscal solvency of the City and ensure our employees and community at large were insulated from as much as harm from the pandemic as possible. Based on those measures and in combination with various aid programs and economic development activities, the City has improved its annual fiscal position while also ensuring stability during the pandemic. A great deal of this financial activity and benefit has been rooted in economic development projects - years in planning - that are beginning to positively impact the City's budget – and therefore operations. The City will continue to monitor these projects and related revenue streams to determine how and when additional investments can be recommended and planned for –

while simultaneously exploring additional economic development projects that will benefit the community and enhance quality of life for all. The FY 2022 Budget provides an opportunity to continue that dialogue and exploration with the ultimate goal of strong and reliable service delivery.

Financial Performance – A Review 2021

General Fund Performance: In 2017 (revised in 2019), City Council adopted a fiscal policy designed to ensure sufficient resources to be maintained in reserve to offset a potential economic downturn. This was a critical policy considering the economic crisis surrounding a global pandemic in 2020 and 2021. The policy dictates that between 15% - 25% of anticipated expenditures be maintained in unencumbered fund balance. Staff has projected that we will end FY 2021 with over \$1.4 million in unencumbered fund balance, a factor of 29%.

Revenues: Since the beginning of the pandemic, Staff has been closely monitoring major revenue and expense activity. Immediate cost savings measures were enacted to maintain existing fund balances, specifically in essential service operational funds such as the Fire Levy and General Fund. Fortunately, the City received over \$450,000 in CARES ACT funding and multiple reimbursements from BWC to assist with COVID-19 related expenses in 2020. In 2021, the City was awarded with over \$700,000 in federal stimulus funds to be used on local recovery. Staff will present a draft plan to the finance committee for anticipated uses of these funds. Council authorized the creation of a separate special revenue fund to account for the receipt and expenditure of these stimulus funds.

Revenue collections across all funds improved in 2021. The main source of revenue within the General Fund is the collection of an income tax on all withholdings and corporate net profits. Based on past performance, staff forecasted income tax collections for 2021 at \$3.1 million, a 10% increase from 2020. Reasons for the 10% increase is partially due to the recovery of the pandemic, activity at the former IAC facility, and growth in existing commercial businesses such as Mucci Farms and Firelands Scientific. The City is anticipating a 3% increase in income tax revenue in 2022. Income tax revenue challenges include the State's initiative to modify the municipal income tax collection policy relative to non-residents. Although the City may be impacted, the current trend on income tax suggests the City will not be impacted on total income tax revenue.

Staff conservatively budget increases for all other revenue sources at 1-2% unless historical trends show consistency in annual revenue.

New initiatives in 2020/2021: Although financial activity significantly underperformed on new initiatives due to the COVID-19 pandemic, such as the bed tax and transient rental program in 2020, the City is expected to collect more than budgeted for bed tax in 2021 (\$111,000 collected vs \$72,500 budgeted). The transient rental registration program did not meet budget expectations in 2021 (\$48,000 collected vs \$60,000 budgeted). However, 2021 transient rental registration revenue was higher by \$8,000 from 2020. The City has been more active on code enforcement with the hiring of a PT code enforcement officer in 2020 and hiring of a FT Planning and Zoning Manager in 2021. The 2022 budget includes budget for transitioning the PT zoning inspector into a FT position.

Additionally, the Sawmill Creek Resort annexation and related development will provide new revenue streams moving forward. Although not budgeted in 2022, as the exact completion date of the project renovations are unclear, the City will soon be receiving income tax from the project site and also

minimum service payment/special assessment revenue. Bed tax from the project site, per the annexation agreement with Huron Township, will remain 100% with Huron Township. Staff is still working to determine estimates on income tax revenues; however, the minimum service payment/special assessment revenue is anticipated to be approximately \$330,000 (once reduced per compensation agreements with Huron Schools and EHOVE). The approximate \$330,000 per year for thirty (30) years will be used to finance a portion of the renovations to the project site and will mainly be utilized for critical public infrastructure improvements on the west end of the City.

Finally, in 2021, the City officially formalized state recognition of the Rye Beach TIF Area. This designated area includes approximately seventy (70) parcels of property whose real estate tax increases (based on property investments) are to be 100% exempted (with the exception of those taxes that would normally be due to the Huron Schools and EHOVE) for 30 years. Instead of increased tax liabilities being paid to certain taxing districts, they will instead be diverted into a TIF account managed by the City and are to be used on future public infrastructure improvements around the TIF area. It should be noted that many parcels included in the TIF area are also subject to tax abatements which will reduce the amount of revenue realized in the TIF account until the abatements expire. Next year (2022) will be the first year the City is realizing revenues into the TIF account. The City will continue to keep the Council and Finance Committee up to date with expected projections into the account as we move through 2022.

Budget 2022

The 2022 budget was built with a mindset of cautious optimism, especially with the uncertainty of State and local revenues as the current pandemic still appears to be looming at times. Although the pandemic had a negative impact on City revenue in 2020, the City's ended the year in a strong financial position to implement the 2021 budget. 2021 revenue sources rebounded from the pandemic and allowed the City to competitively negotiate with all bargaining units and budget for necessary capital expenses. Items of note in the 2022 budget include:

Property Tax Revenue: Real property valuations are anticipated to increase in 2022. However, County Auditor estimates as of October 2021 does not show an increase in property tax revenues, therefore, the City is projecting a 1% increase in property tax proceeds for 2022. Property tax revenue for 2022 is expected to exceed \$1 million for all funds.

Income Tax Revenue: Staff conservatively forecasted this vitally important revenue stream for 2021. However, 2021 income tax revenue is projected at over 10% from 2020 actuals and the City is budgeting a 5% increase in 2022 from the 2021 budget, at \$3.2 million. Growing payroll at Mucci Farms and Firelands Scientific along with annexation of Sawmill Creek Resort and expectation that former IAC facility will be fully operational in 2022 justifies a 5% increase projection.

Personnel: Due to the fiscal awareness by City staff during the crisis, the 2021 budget was cautiously built with modest personnel increases and additional staffing for safety services. The 2022 budget includes proposed additions to the City's workforce to strengthen City support and safety services, as follows:

- 1 FT Police Officer – Budget impact = +\$84,697 (General Fund)
- PT Firefighter Wage Increase – Budget impact = +\$50,000 (Fire Levy Fund) – 50% split with Twp.
- 1 FT Parks Maintenance Worker – Budget impact = +\$73,433 (Parks and Recreation)

Fund) - although it should be noted that the ability to hire this position will also be dependent on Huron Joint Recreation District budget approvals from both Huron Township and Huron Schools.

- 1 PT Zoning Inspector to 1 FT Zoning Inspector – Budget Impact - +\$45,000 (General Fund)
- The Service Director and Director of Operations positions were included in the 2021 budget. There is no impact to the 2022 budget.

Parks and Recreation Revenue: Overall, Parks and Recreation budgeted revenue is projected to increase from 2021 to 2022. This is mostly due to having two full years of record-breaking parking fee revenues at Nickel Plate Beach. Nickel Plate Beach revenue exceeded budget by over 125% in 2020, as the parking fees exceeded \$80,000 for the first time in the Park’s history. In 2021, parking fees exceeded budget by 86% as actual revenue was just under \$65,000 for the summer. The Parks and Recreation 2022 budget was conservatively built but included an increase of Nickle Plate Beach parking fees from \$35,000 to \$50,000. Although some revenue sources outperformed initial budget amounts, such as Nickle Plate Beach fees, the 2022 revenue budget was not significantly modified. Maintaining the operations of the Parks and Recreation Department is mostly dependent of the Huron Joint Recreation District’s annual contribution, making up 74% of the total budget in 2022. Any net impact on HJRD contributions could result in budget costs directly related to services provided to residents.

Capital Assets: The 2022 budget book includes the City’s capital asset replacement schedule. The schedule shows the City’s commitment to purchasing and maintaining adequate vehicles and equipment for City services. In 2021, the City spent over \$287,000 on new vehicles and equipment, including four (4) new police cruisers and a street service truck. The recommended 2022 budget includes the purchase of one (1) new police cruiser, a new ambulance, and a street sweeper, totaling over \$500,000 in capital asset expenditures.

Capital Projects: The 2022 budget book also includes the City’s current capital improvement plan. Although the City’s current capital improvement plan (totaling over \$86 million) includes over \$70 million in unfunded projects over the next ten (10) years, the City is committed to spending over \$8 million on major capital improvements in the City in 2022. Major 2022 capital expenses include water plant improvements aimed at increasing overall plant capacity, Sawmill Parkway improvements, fish cleaning station at the boat launch, development at the former Con-Agra property, and conceptual design work on South Main street.

Debt Management: Starting in 2014, the City began a strategy to invest in critical capital infrastructure that had been under invested in as the City recovered from the Great Recession. Utilizing historically low interest rates, close to \$15 million worth of capital was invested in critical infrastructure projects. Currently, the City has over \$10 million in outstanding bonded debt, not inclusive of programmatic loans. As we plan for future years of investment, 2023 is the first major milestone to consider as a substantial portion of the City’s debt will then be retired, freeing up additional resources available for debt service as well as capacity. The COVID-19 pandemic has created an additional opportunity to consider, as all indications show the interest rates available will likely remain low for multiple budgetary cycles and should be considered while finalizing the funding strategy going forward. The City is taking fiscally responsible steps in 2022 to formalize a debt management policy and plan for strategic debt financing options beyond 2022 to undertake projects related to Sawmill Creek Report and related infrastructure investments, ConAgra redevelopment, comprehensive local street resurfacing, Huron Public Expansion, Main Street redevelopment and a new parks and service facility.

Future Policy Discussions: The staff also looks forward to engaging Council in 2022 on several larger, and impactful project and policy discussions including but not limited to the list below. The Finance Committee recommended the 2022 budget to Council and also recommended Council to further review and consider the first two items on the list below.

- *Water Rate Study*
- *Permissive Tax Consideration*
- Storm Water Fee
- Water Asset Management Plan
- Garbage and Recycling Services
- City Organizational Structure
- City-wide pavement condition report
- Capital Improvement Program Financing Plan

This budget is the work product of countless hours of preparation, analysis and input from a wide variety of personnel. I appreciate the time, effort, and input of all department heads and staff members who have been instrumental in providing information, feedback and capital projections for their respective departments - and the coordination and leadership displayed by Cory Swaisgood and his staff specifically. I also want to thank the Finance Committee who have been tremendous stewards of the 2022 budget process and have brought forth expertise and thought-provoking considerations and dialogue.