



To: Huron City Council
Cc: Finance Committee, Department Heads
From: Matt Lasko, City Manager
Re: Recommended FY 2023 Budget
Date: November 29, 2022

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 2023 Budget. The 2023 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 2023 budget coupled with the Capital Improvement Plan and the updated Vision 2020 Action Plan also serves to make recommended capital investments throughout the City.

This 2023 budget was presented through an online interactive platform, called OpenGov¹, 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 2023, this budget additionally forecasts the impact of its adoption through 2032. Detailed plans have been analyzed and included for all City operations on an annual basis for 2023 through 2032. 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 2032. The policy requires a minimum available surplus of 15% (a maximum of 25%) of operating expenditures. Based on year-to-date activity in 2022 the City's General Fund is expected to exceed this minimum and be at 24% at year end and maintain at 18% or higher through 2032. 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 2021, the City transferred \$300,000 to the Capital Improvement Fund to cash finance the local paving program for 2022.

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

¹ [Online Budget Book Link](#)

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 2023 Budget provides an opportunity to continue that dialogue and exploration with the ultimate goal of strong and reliable service delivery.

Financial Performance – A Review 2022

General Fund Performance: Staff has projected that we will end FY 2022 with over \$1.4 million in unencumbered fund balance, a factor of 24%. Budgeting conservatively for the next ten years, the General Fund is expected to maintain an 18% or higher fund balance reserve.

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. These funds are mostly committed to downtown improvements and future economic development investments.

Other revenue increases in 2022 include bed tax revenue (+\$40,000 from 2021). The City received federal and state grants during the year for the fish cleaning station and Sawmill Parkway improvements.

Revenue collections across all funds improved in 2022. The main source of revenue within the General Fund is the collection of an income tax on all withholdings and corporate net profits. Staff is forecasting a 10% increase in income tax collections for 2022. Reasons for the 10% increase is mostly due to the expansion and production at the Ardagh facility on Sawmill Parkway. Growth in existing commercial businesses such as Mucci Farms and Firelands Scientific also played a factor. The City is anticipating a 3% increase in income tax revenue in 2023.

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

New initiatives/Revenue in 2022/2023: One of the major new revenue sources to be received in 2023 will be within the Water Department. After a thorough and exhaustive process, informed by a water rate study completed by Poggemeyer, the City's Finance Committee and Council ultimately approved the first water rate increase in fifteen (15) years. Starting in 2023, annual water rates will increase 5% annually for ten (10) consecutive years – although these rates will be studied tri-annually to determine if additional measures (in the form of increases or decrease) are warranted. The rate increase is critical for ensuring the City's ability to maintain water security of our customers as well as undertake a series of major capital projects. These projects include, but are not limited to, creation of a secondary water intake on the Huron River, South Main Street watermain replacement, Old Platt water line replacement, construction of a new elevated water tank on the west side of town and the Superior Avenue water line replacement.

Additionally, the Sawmill Creek Resort annexation and related development will provide new revenue streams moving forward. Beginning in late 2022 and budgeted for 2023, the City will 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 anticipates the income tax annually from the site to be between \$50,000-\$70,000. 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 start being received during the first half of 2024 and will continue for thirty (30) years. These funds will be utilized to reimburse Cedar Fair for renovations to the resort, serve as Huron's local contribution to the US 6 transformation, aid in the City's strategic land acquisition efforts on the west end of the City and also help finance portions of the new service complex to be constructed on River Road in the future years.

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. The City started realizing these semi-annual payments which, for the moment, total \$15,000 per half (\$30,000 annually). This number will steadily increase as new projects within the TIF area come online and existing tax abatements fall off.

Budget 2023

The 2023 budget was built with a mindset of cautious optimism, especially with the uncertainty of current economic inflationary trends. Although the pandemic had a negative impact on City revenue in 2020, the City ended the year in a strong financial position to implement the 2021 budget. In 2022, revenue continued to rebound and began to notice income tax revenue increases from Ardagh's expansion and production at the former IAC facility. Items of note in the 2023 budget include:

Property Tax Revenue: Real property valuations are anticipated to increase in 2023. However, County Auditor estimates as of October 2022 does not show much of an increase in property tax revenues, therefore, the City is projecting a 1% increase in property tax proceeds for 2023. Property tax revenue for 2023 is expected to exceed \$1 million for all funds.

Income Tax Revenue: Staff conservatively forecasted this vitally important revenue stream for 2022. However, 2022 income tax revenue is projected at over 10% from 2021 actuals and the City is budgeting a 2% increase in 2023 from the 2022 projections, at \$3.7 million. Growing payroll at Firelands Scientific and Ardagh along with annexation of Sawmill Creek Resort justifies a 2% increase projection at the least.

Personnel: Due to the fiscal awareness by City staff during the crisis, the 2022 budget was cautiously built with personnel cost increases and additional staffing for safety services, including a new police officer, part-time HR Manager, and wage increases for part-time fire personnel. The 2023 budget includes proposed additions to the City's workforce to strengthen City services, as follows:

- 1 FT Service Maintenance Foreman – Budget impact = +\$104,771 (General Fund and

Service Funds). A similar position was included in the 2022 Parks budget.

- Salary Adjustments to Parks and Recreation Personnel – Budget impact = +\$30,000 (General Fund)
- Increasing the annual HR personnel budget from \$25,000 annually to \$45,000. 2022 marked the first year with a dedicated HR staff person and the City knew this number may fluctuate moving forward depending on the needs of this position. 2022 displayed that our HR needs are significant and growing and therefore warrant increasing this budget to ensure a proper level of service to our employees.

Parks and Recreation Revenue: Overall, Parks and Recreation budgeted revenue is projected to decrease from 2022 to 2023. This is mostly due to having two years of record-breaking parking fee revenues at Nickel Plate Beach from 2020 to 2021. Although still above 2019 revenue numbers, 2022 Nickel Plate Beach revenue was \$9,000 lower than 2021. The Parks and Recreation 2023 budget was conservatively built but still maintained a budget of \$50,000 for Nickel Plate Beach parking fees, up from 2019's budget of \$35,000. Although some revenue sources outperformed initial budget amounts, such as Nickel Plate Beach fees, the 2023 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 59% of the total budget in 2023. Any net impact on HJRD contributions could result in budget cuts directly related to services provided to residents.

Capital Assets: The 2023 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 2022, the City spent over \$346,000 on new vehicles and equipment, including a street service truck and upgrades to the City's IT servers. The recommended 2023 budget includes the purchase of two (2) new police cruisers, two ambulances (one ambulance scheduled for 2022 was canceled), tennis courts at Fabens, and a street sweeper, totaling over \$1.4 million in capital asset expenditures.

Capital Projects: The 2023 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 2023. Major 2023 capital expenses include Sawmill Parkway reconstruction, Fabens tennis court reconstruction, a major local road resurfacing program, east side sidewalks extension, US 6 design and engineering, Rt. 6 Phase II design and Main Street detailed design, and the South Main Street water main replacement.

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 \$8 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 City took fiscally responsible steps in 2022 to develop a debt strategy for future capital needs and wants, including projects related to the Sawmill Creek Resort TIF, ConAgra redevelopment, comprehensive local street resurfacing, Huron Public Power Expansion, Main Street redevelopment and a new parks and service facility. For 2023, the City is planning to issue 20 to 30-year bonds on street resurfacing and public improvements related to the Sawmill Creek Resort TIF.

Future Policy Discussions: The staff also looks forward to engaging Council in 2023 on several larger, and impactful project and policy discussions including but not limited to the list below. The Finance Committee recommended the 2023 budget to Council and also recommended Council to further review and consider the first item on the list below.

- *Permissive Tax Consideration*
- Storm Water Fee
- Electric Rate Study
- Garbage and Recycling Services
- City Organizational Structure
- Parks Master Plan
- City-wide pavement condition report
- Capital Improvement Program Financing Plan (continued discussion)

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 2023 budget process and have brought forth expertise and thought-provoking considerations and dialogue.