



## City of New Buffalo Fiscal Year 2025 Budget Memorandum

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**TO:** Mayor Humphrey and the New Buffalo City Council

**FROM:** Darwin Watson, City Manager

**DATE:** April 29, 2024

**RE:** Fiscal Year 2024-2025 Proposed Budget

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On behalf of the City of New Buffalo's administrative staff, we present the recommended Fiscal Year 2024-2025 budget for the city.

For Fiscal Year 2024-2025, it is anticipated that the city and its major funds will stay in solid financial condition for the current operations. General Fund revenues are expected to increase 3.8% from the current Fiscal Year 2023-2024 budget. Concurrently, the city will see an overall increase in property taxable value, and our expenditures are keeping pace with that increase. The overall General Fund expenditures are projected to increase 3.1% for Fiscal Year 2024-2025.

In recent years, one of the main factors affecting municipalities has been the effects of inflationary strain on goods and services, coupled with increased cost in regulatory and compliance burdens. This has remained an enormous obstacle for local governments. In the "post COVID-19" era, local governments have also been saddled with the mistrust of government, recruiting/retaining of staff, digital transformation, infrastructure, and economic development. New Buffalo is no exception. For the near future, we do not think these challenges will diminish; however, the city stays poised to continue providing services to its residents, visitors, and stakeholders.

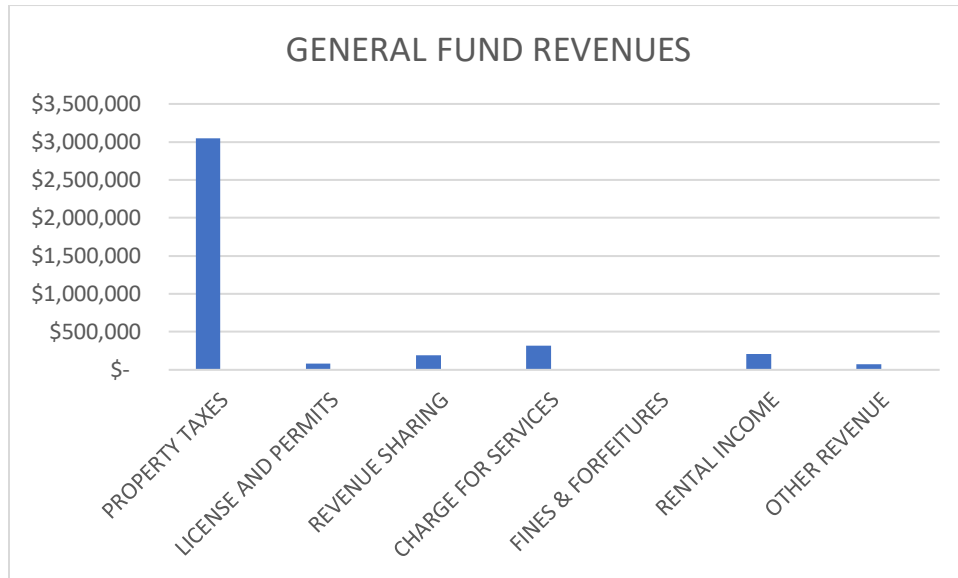
The Parks, Harbor Operations, Water and Sewer funds anticipate the continued funding of significant infrastructure and deferred maintenance projects. In the upcoming fiscal year, we will continue working on several of our major projects, including the Broadside Dock and Marina expansion; marina electrical upgrades; lead service investigation and remediation; and upgrades to the parks system. To facilitate these projects, specifically the Broadside Dock and Marina expansion, the General Fund will transfer more than \$500,000 to the various funds.

Following are summations of our major funds, the anticipated events for the upcoming fiscal year and impacts that will affect them.

### **GENERAL FUND**

The city's General Fund is a fund used to account for all transactions of a governmental unit which are not accounted for in another fund. The General Fund is used to account for the ordinary operations of governmental units which are financed from taxes and other general revenues.

The General Fund is the principal financial support for such basic core governmental functions services such as police and fire departments, parks and recreation, and general government operations (i.e., assessing, personnel, finance, and other internal services). The primary revenue source to support these services is property taxes (78%), with charges for services, fees and state revenues also being revenue sources for the General Fund.



**Property Taxes**

In Fiscal Year 2024-2025, General Fund property tax revenues are projected to increase due to overall taxable values increasing by approximately 9.0% compared to the previous year. This is attributed to the uncapping of the taxable values of transferred properties, new construction in the city, and the rate of inflation’s effect on the value of existing properties. This equates to an increase of just over \$26 million in taxable value for the city. New construction, citywide, also contributed to the increase of a little over \$2 million. This was slightly offset by \$338,505 in taxable value removed from the rolls.

The Downtown Development Authority’s (DDA) Tax Incremental Financing (TIF) Plan expired in December 2023. The TIF Plan was extended an additional five (5) year to expire in December 2028. In the 2023-2024 fiscal year, the DDA saw an additional TIF capture of approximately \$150,000. Per the 2016 City Council resolution, the initial \$40,000 of the capture is earmarked for implementation of the TIF Plan. The remaining balance assists with the Debt Service on the bonds for the Downtown Whittaker Street project. In Fiscal Year 2024-2025, the projected capture should be \$150,000 - \$200,000.

In January 1966, the city voted to authorize 20.0000 General Operating millage rate. The proposed general operating millage rate for Fiscal Year 2024-2025 is once again set at 9.7631 mills, without a Truth-In-Taxation hearing. Therefore, the total mills levied under the general operating authority is 10.4408 mills, which is 10.2691 mills below the maximum allowable levy of 20.7099 mills.

With the 5% increase, the taxable value of the properties in the city are anticipated to be roughly \$311,615,459. The maximum allowable levies, along with the proposed levies, and the resulting revenues and potential amounts left unlevied are summarized below in the following table:

Function	Maximum Allowable	Maximum Tax Revenue	Proposed Fiscal Year 2024 Levy	Proposed Tax Revenue	Unlevied Tax Revenue
General Fund	20.0000	\$6,232,309	9.7631	\$3,042,333	\$3,189,976
Parks	0.4599	\$143,312	0.4391	\$136,830	\$6,482
Road	0.2500	\$77,904	0.2386	\$74,351	\$3,553
Total Millage Levy	20.7099	\$6,458,525	10.4408	\$3,253,514	\$3,200,011

### **State Shared Revenues**

In Fiscal Year 2000, the city's state shared revenue was more than \$246,381, which represented 11% of total revenues. Since that time, state shared revenue has declined. The city's state shared revenue projection is \$190,200, which equates to an overall 22.8% decrease from the Fiscal Year 2000 high and a 3.7% drop from Fiscal Year 2023-2024. This reduction in revenue is independent of the overall effect(s) of inflation and cost of doing business during that same period. The dollar had an average inflation rate of 2.44% per year between 2000 and 2022, producing a cumulative price increase of 69.95%. This means that today's prices on goods and services are 1.70 times as high as average prices since 2000, according to the Bureau of Labor Statistics Consumer Price Index (CPI). For Fiscal Year 2024-2025, the State Shared Revenue amount represents 4.84% of General Fund revenues compared to Fiscal Year 2000.

### **Fund Balance**

The General Fund ended Fiscal Year 2022-2023 with net revenues greater than expenditures by \$732,136 for a total General Fund balance of \$3,139,702. The city's unassigned fund balance for the General Fund was \$3,026,020 or 80.6% of the General fund's total expenditures and transfers out.

The Government Finance Officers Association (GFOA), in its best practices for Fund Balance Guidelines for the General Fund document, recommends that, at a minimum, unrestricted budgetary fund balance in the general fund shall be no less than two months (16.7%) of regular general fund operating revenues (or regular general fund operating expenditures). The City's unrestricted fund balance level is above this best practice benchmark as of year-end. The City's Fund Balance Policy (adopted in 2010) maintains that minimum unrestricted fund balance be the sum of the top two taxpayer's total annual city tax or 25% of general fund revenue, whichever is higher. The maximum unrestricted fund balance shall be the sum of the minimum, plus an infrastructure emergency reserve of \$1 million, plus an operating reserve of 15% of the General Fund expenditures. The City's unrestricted fund balance level is above this best practice benchmark as of year-end.

For Fiscal Year 2023-2024, the sum of the top two taxpayer's total annual tax was \$87,678, while 25% of General Fund revenue was \$946,333. Therefore, the minimum unrestricted fund balance, per the city's policy, would be \$946,333. Conversely, the maximum unrestricted fund balance, per the city's policy, would be \$2,629,925. Although the balance is higher than required, it is expected to decrease significantly during Fiscal Year 2024-2025 as the city continues to move forward with capital projects, inflation on goods and services and the assemblance of funding. The city is planning a budgeted deficit of \$573,294 in the General Fund this fiscal year.

### **Special Revenue Funds**

#### **Major and Local Street Funds**

The City has three (3) road funds: Major Streets, Local Streets, and the Municipal Road millage. These funds allow the City to perform street maintenance, assist with minor street reconstruction and

rehabilitation projects and match monies for potential state and federal funding opportunities. The major and local streets funds receive most of their revenue from Public Act 51 of 1951, or sometimes called the “gas tax”, which governs the Michigan Transportation Fund (MTF) where specific transportation taxes are deposited. MTF prescribes how these revenues are to be distributed and the purposes, or activities, for which they can be spent. Act 51 also establishes jurisdictional road networks, sets priorities for the use of transportation revenues, and allows bonded indebtedness for transportation improvements and guarantees repayment of debt.

In Fiscal Year 2023-2024 the city is projected to receive a total of \$355,842 (\$235,492 for Major Streets and \$120,350 for Local Streets). According to the Michigan Transportation Fund Reports, the city is projected to receive roughly \$381,888 for Fiscal Year 2024-2025. This equates to a 7.3% increase. For Fiscal Year 2023-2024, the expenditures for the Streets Operating fund were \$447,531. This has been increased 3.0% to \$461,157 for Fiscal Year 2024-2025. This increase is due to inflation and increased benefits costs.

As a supplement to road funding, the city passed a Municipal Road millage in November 2020. This millage rate is set at 0.25 mills for a period of 20 years (2021-2040 inclusive). Over the years, this millage rate has declined from the initial 2020 0.25 mills to 0.2386 mills for 2024-2025, due to the Headlee rollback. This fund was forecasted to generate \$70,811 for Fiscal Year 2023-2024 and generate \$74,851 for Fiscal Year 2024-2025.

The most recent road project in the city was a mill & resurface project on Indiana Street in 2021. The cost of this project was around \$200,000 and was the last of the rehabilitation projects (i.e., crack and fog sealing, milling, and resurfacing, and crush and shape treatments). Based on the Pavement Surface Evaluation & Rating (PASER) study of the road conditions in the city in April 2021 all future road projects will be reconstruction. The city has seen inflationary increases on road projects post COVID-19 of anywhere from 200-400%. This has forced the city to look for additional funding mechanisms to address the declining road infrastructure. It was determined in 2021 that it would take nearly \$1,100,000, annually for 10 years, to have 75% of the roads in good condition. Based on the cost increase, this amount may be anywhere from \$1,500,000 to \$2,000,000, annually. This dollar amount **does not** include any necessary replacement of any city underground utilities which could multiply these numbers by 1.5%.

### **Park Improvement Fund**

In November 2020, the voters passed a Parks millage for the purpose of funding certain park improvements in the city. This millage rate was set at 0.4599 mills for a period of 5 years (2021-2025 inclusive). As with the Municipal Road millage, this rate has been affected by the Headlee rollback. For Fiscal Year 2024-2025, the rate will be 0.4391. The initial estimation was the millage would generate an estimated \$112,512 in revenue needed for improvements within the park system in 2020. This millage generated \$132,680 in Fiscal Year 2023-2024 and is anticipated to generate approximately \$137,180 for Fiscal Year 2024-2025. The city will embark on the development of a parks Capital Improvement Plan that will be a part of the city’s overall Capital Improvement Plan. In 2023, the city updated and submitted its 5-Year Recreational Plan to the State of Michigan’s Department of Natural Resources (DNR). This qualifies the city to receive grants to supplement the funding for improvements to the park system.

### **Park Fund**

The major revenue stream for this fund is comes from fees charged for beach parking. The revenue in this account is earmarked for the operations and maintenance of the city’s park system. For Fiscal Year 2023-2024, revenues were projected to be \$386,400, with expenditures of \$544,654. The revenues included a transfer-in of \$100,000 from the General Fund. For Fiscal Year 2024-2025, revenues are

expected to be \$386,850 with expenditures of \$490,786. The General Fund transfer will remain the same. For 2024-2025, the revenues remain flat, and the expenditures are reduced by 9.9%.

The city parks are:

- Riverfront Park
- Lions Pavilion Park
- Oselka Park
- Sari Asher Memorial Dog Park
- Turtle Pond Nature Preserve

**Dredge Fund**

On March 17, 2009, the city passed an ordinance for the Emergency Dredge Fund. The purpose of this fund is to provide money for the dredging of the federal channel of the New Buffalo Harbor, on an emergency basis and not to supplant the regular maintenance dredging performed by the United States Army Corps of Engineers. The current Dredge Fund contribution schedule was created by the Harbor Commission in June 2014 and subsequently approved by the City Council. The initial annual contribution from each slip in the harbor was \$10. This contribution was modified, and the current schedule charges the various associations \$1 per foot for each boat slip.

As of January 2024, the Dredge Fund had a balance of \$337,492, after the city performed minor dredging in Fiscal Year 2022-23 at a cost of \$105,000. The city provides a matching contribution of approximately \$35,000 to the fund. It is imperative that the associations make their annual required contributions to ensure adequate funding for the necessary activities. Dredging of the harbor, in its entirety, can range in cost from \$250,000 to \$300,000 or more, depending on the winter month’s activities.

The City Council approved annual harbor maintenance soundings in February 2023. This allows staff to know the conditions of the harbor and determine dredging necessities for the upcoming year. Based on the late Winter 2024 soundings, it appears that dredging will be required in calendar year 2024. This will more than likely occur during the 2023-2024 budget.

**Harbor Operations**

The Harbor Operations Fund was created in Fiscal Year 2020-2021 and separated from the Parks fund. The revenues for this fund are derived from the marina and boat launch fees. The fund accounts for the operations and maintenance of the city’s transient marina and boat launch.

The Broadside Dock and Marina Electrical upgrade project have begun in Fiscal Year 2023-2024. The project is estimated to be \$3,011,674, with the city receiving \$1,481,383 in grant funds from federal and state agencies. Funds have been received from the following:

Issuing Agency	Grant Name	Scope	Grant Amount
US Department of Agriculture (USDA)	Rural Development Business Grant	Preliminary Engineering	\$40,000
Michigan Waterways Commission	Michigan Waterways Grant	Construction & Engineering	\$500,000
US Economic Development Administration (USEDA)	U.S. Department of Commerce Grant	Construction	\$941,383

The city has applied for the U.S. Department of Agriculture (USDA) Community Facilities Loan to offset a portion of the costs and help with managing cash flow through the project. The Marina Electrical project is expected to be completed prior to Memorial Day 2024. The Broadside Dock project is scheduled to begin Fall 2024 and take place over the next two years and must be completed by December 2025.

### **Water and Sewer Funds**

#### ***Water Fund***

The water and sewer funds are Enterprise Funds that rely on user fees or rates for revenues. The city commissioned a rate study in 2022. As a result of the study, the fees were raised in Fiscal Year 2022-23. Due to the cost of capital projects, inflation, and the deference of maintenance (sewer), the city will review the rates on an annual basis.

In 2018, the State of Michigan revised its lead and copper rules, under the Michigan Safe Drinking Water Act, governing lead service lines (LSLs). By January 1, 2020, community water supplies were required to submit a Preliminary Distribution System Materials Inventory (PDSMI) to Michigan EGLE. By January 1, 2025, the water supply must develop and maintain a complete Distribution System Materials Inventory (DSMI). The Complete DSMI is to characterize, record, and maintain a comprehensive inventory of distribution system materials, including service line materials on both public and private property. Also under the new rules, Michigan requires community water supplies to replace an average of 5% of their total LSLs each year, meaning 100% replacement in 20 years, with all lead water service lines in the state must be replaced by 2041 **at the expense of the water supplier**. The DSMI is underway and needs to be completed by October 2024.

#### ***Sewer Fund***

The city is a charter member of the Galien River Sewer District (GRSD) established in 1977 to serve the City of New Buffalo, Chikaming Township, and New Buffalo Township. In December 2022, the GRSD adjusted their billing methodology because of revenue shortfall in 2021. The change was from a flow-based billing method to an expense-based billing method, which provides consistent monthly billings to each of the member units. During Fiscal Year 2022-2023, the city expensed approximately \$790,000 for treatment of the city's sanitary waste and \$1,060,134 for Fiscal Year 2023-2024. The anticipated expenditure for 2024-2025 is \$1,091,938.

### **Local Revenue Sharing Board Fund**

Revenues for this fund are discretionary payments received from the Local Revenue Sharing Board, based upon a percentage of net earnings from the casino. The Local Revenue Sharing Board fund has helped in funding several community projects, including a significant part of the Downtown Redevelopment in 2017.

The revenues for this fund are expected to remain relatively flat at nearly \$260,000.

### **Debt Management**

For Fiscal Year 2023-2024, the city had \$8,457,876 in outstanding debt, which was used to fund major infrastructure, redevelopment, and projects. These include GRSD bonds, Lighthouse Creek (Berrien County) and the Downtown Improvements. The city has funded a significant amount of this debt through grants and bonds. Michigan's Public Act 99 of 1909 restricts the outstanding balance amount of Installment Purchase Agreement (IPA) to not exceed 1.25% of the taxable value of the real and personal property in the village, township, city, or school district at the date of the contract or agreement. Additionally, municipalities in Michigan are restricted in the amount of General Obligation (GO) bond debt they can carry. Municipalities are limited to a debt capacity of 10% of their state equalized value,

exclusive of interest. The City of New Buffalo's outstanding debt, on June 30, 2023, was below the debt limits in both categories.

This is exhibited in the following charts:

IPA Debt Margin on June 30, 2023

2023 Taxable Value	\$277,050,560
IPA Debt Limit (1.25% of Taxable Value)	\$3,463,132
IPA Debt on June 30, 2023	\$1,143,420
<b>IPA Debt Margin</b>	<b>\$2,319,712</b>

GO Debt Margin on June 30, 2023

2023 State Equalized Value	\$296,776,627
GO Debt Limit (10% of SEV)	\$29,677,663
GO Debt on June 30, 2023	\$4,157,150
<b>GO Debt Margin</b>	<b>\$25,520,513</b>

Most of the debt is in revenue bonds funded by the General Fund, water, and sewer systems. The General Fund is supporting approximately 37.6%, or \$1,563,088, in outstanding bonds, including debt associated with the Downtown Improvements. For Fiscal Year 2024-2025, it is anticipated that the city will incur additional debt to fund the construction of the Broadside Dock, Marina Electrical upgrades, and the Pedestrian Bridge.

**OBSERVATIONS**

The City of New Buffalo is at a pivotal point since being chartered as a city on March 8, 1965. It should be reaffirmed that the community has benefitted from the work of its forefathers. The city continues to evolve beyond the days of yesteryear and at this point, the city must take an introspective look at where we go from here. It will take the collective efforts of ALL involved to ensure the posterity of the community.

An enormous amount of work has been done over the years; however, there is a long way to go. This was put at the forefront during the “high water” years (2019-2020) of Lake Michigan. Understanding the potential of this phenomena repeating itself, the city undertook methods to mitigate the impact of future occurrences. There was never the thought that a worldwide pandemic would place everything on hold. Following this unforeseen event, the costs of the projects increased as much as 200% in some cases. Additionally, cities across Michigan have been mandated to do lead investigation, inventory, and remediation. This unfunded mandate placed further stress on the city’s resources as the citizens bear the cost of the mandate. It is of the utmost importance that the city embraces the exercise of looking towards the future and planning to that end.

As previously stated, this is a monumental task that requires commitment, vision and coordinated planning. Currently, the city's Master Plan needs to be updated, a citywide Capital Improvement Plan needs to be developed, a comprehensive Asset Management implemented for infrastructure, and a Strategic Plan to determine the direction of the city.

These will allow the city to:

- Establish a dynamic long-term planning document that provides a conceptual layout to guide future growth and development, while making the connection between buildings, social settings, and their surrounding environments (Master Plan).
- Provide a connection between planning and budgeting for capital expenditures that ensures that those improvements are fiscally responsible and consistent with the City's long-range goals and objectives as identified in the Master Plan (Capital Improvement Plan).
- Create a vital tool to ensure that the priorities set by the City Council are conveyed in the city's goals, that those strategies are clearly developed to meet the established goals, and that city government is accountable to meeting the community's needs (Strategic Plan).
- Implement an integrated set of processes to minimize the lifecycle costs of assets, at an acceptable level of risk, while continuously delivering the intended function, or a high quality of life to the entire community. More importantly, it allows us to manage municipal infrastructure assets and make better investment decisions (Asset Management Plan).

### **CONCLUSION AND NEXT STEPS**

The city staff will continue to improve our overall operations, work with local stakeholders and business owners, and to make New Buffalo the preeminent place to live, work and play. We will need to incorporate the wishes of our citizens, visitors, employees, and others to better maintain our community as a home, and destination, which works for all in its ecosystem.

On Monday, May 20, 2024, the City Council will hold a Public Hearing to take public comments on the proposed 2024 millage rates. A copy of the proposed budget shall be on file and available to the public for inspection during office hours at the Office of the Clerk for a period of not less than one week prior to such public hearing. Following the close of the Public Hearing, the City Council will be asked to consider approving the Fiscal Year 2024-2025 budget, Fiscal Year 2023-2024 budgetary amendments (if necessary) and authorize the millage rates for Fiscal Year 2024-2025. If approved, the budget will be in effect from July 1, 2024 – June 30, 2025.

I would like to express my sincere gratitude to the City Council and staff for their input, guidance, and hard work in the development of this year's budget. Special kudos to the Department Heads and supervisors for their commitment to providing services to the community, while remaining fiscally responsible.