



# City of CHARLOTTE

## MEMORANDUM

TO: Mayor Ridge and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: FY 2020-21 Proposed Budget

DATE: May 1, 2020

Pursuant to the provisions of the City Charter, I have submitted for Council review and consideration the proposed budget for the fiscal year that begins July 1, 2020.

The preparation of this budget was made especially challenging by economic uncertainties related to the COVID-19 pandemic. The extraordinary length of the most recent economic expansion had led to predictions from economists of a looming recession but those predictions had been surfacing for the last several years. Although there were some signs of weakening in the economy, and prudence warranted a conservative outlook, there was no cause for undue alarm. The impact of measures deemed necessary to limit the spread of the coronavirus, however, represented a significant shock to an economy influenced so greatly by consumer spending.

This shock is expected to affect two key sources of revenue over the short term at least. The payments to the City through state shared revenue are based on revenues derived from the sales tax. As consumer spending declines in Michigan, so, too, will these revenues. I anticipate decreases in the 2019-20 fiscal year that reflect the impact of isolation measures that began in mid-March. I am pessimistic that the economy will return to normalcy soon after those measures are eased. I suspect that re-starting the economy will be far more difficult than shutting it down. Higher levels of unemployment are likely to persist for some time. Some businesses are likely to be unable to re-open their doors as the financial impact of their closure will prove insurmountable. More importantly, with COVID-19 with us through the end of 2020 and beyond, it seems reasonable that consumers will be conservative with their spending. In addition, tourism dollars in 2020, a major contributor to the state's economy, are likely to be far below typical levels.

With these factors in mind, I have assumed a 20% reduction in state shared revenue as compared to that budgeted for the 2019-20 fiscal year.

The second major revenue source affected by the economic downturn is gas tax payments that are the primary source of funding for street maintenance and

repairs. Preliminary indications from the Michigan Department of Treasury is that payments based on receipts during the isolation period will be 50% of the amounts forecast. As the economy returns to normal, it seems likely that revenues will return to near customary levels. Loss of tourism will affect these revenues as well, however, as will higher unemployment numbers.

The budget assumes normal levels of gas tax funding for streets. If this proves to be an incorrect assumption, the primary impact will be on funds available for street reconstruction and rehabilitation projects. The state of the economy and low oil prices could make such projects less expensive than in recent years. In short, there is a level of uncertainty with regard to street funding that will warrant careful monitoring over the next year.

Weakness in the economy generally might affect property values, particularly if business failures or job losses lead to additional properties coming on to the market. The difference under Proposal A between assessed value and taxable value can be expected to absorb most of the loss of value without having an impact on tax revenues, unless we experience a market such as that experienced in 2008-09. This seems unlikely. It would not affect the budget in any case until the 2021-22 fiscal year. Accordingly, the budget estimates a small increase in property tax revenues reflecting general price inflation.

The General Fund budget assumes revenues from two additional sources worth noting. It is proposed that the cost of police and fire pensions be paid through the imposition of a public safety special assessment. Council is aware of the rationale behind this proposal.

A less obvious feature of this proposal is important to highlight. The use of a public safety special assessment is intended to accelerate the funding of the liabilities that have accrued in the pension fund. This budget makes very little progress in doing so because of assumed reductions in revenue generally. In a more normal budget year, we would continue the level of funding that we have been paying and utilize the special assessment revenue to reduce the accrued liability for past promises. If actual revenues are greater than forecast, those additional funds should be allocated to pension liabilities.

The second General Fund revenue to which I wish to call attention is the use of an internal loan from the Revolving Fund Special Account to finance the City's half of the cost of the purchase of a new mini pumper fire truck. (The other half is paid by the Rural Fire Association.) The repayment of this loan of \$182,500 would affect the budget beginning in the 2021-22 fiscal year. This debt service cost will be partially offset by the retirement at the end of the 2020-21 fiscal year of an internal loan for a 2010 fire truck purchase. The annual debt service for that loan is slightly more than \$11,000.

The operating budget for the General Fund reflects a continuation of staffing levels from the prior year. As noted in prior discussions, we have reduced staff below levels that are sustainable in terms of the volume of work that needs to be accomplished. The budget outlook generally does not permit adding staff to address this issue. At the same time, I cannot identify any staff positions that should be eliminated without further impairing our ability to accomplish essential functions.

A few cost items in the budget are worth noting. I have already mentioned the proposed replacement of a fire truck. This is consistent with an equipment replacement schedule developed ten or more years ago to ensure that these critical pieces of apparatus are replaced before the cost of their maintenance becomes too high or they become unreliable.

Funds are also included in the budget for upgrades to the men's police locker room. This is a project that we have put off far too long. Among other challenges that will be addressed with this project is the replacement of lockers that are too small to accommodate the amount of equipment that officers must not carry.

I have budgeted \$50,000 for the first of eight payments on the loan for the reconstruction of parking lot #1 that Council approved earlier this year. I have also included \$30,000 in the City Manager budget to contract for executive search services to assist Council in selecting the next city manager. Contractual services in the Finance and Treasury budget are down by \$30,000, reflecting reductions associated with switching to a BS&A software application for payroll processing.

The proposed budget calls for the closure of the Recycling Center. For many years, the sale of recyclables and grants from the Eaton County Resource Recovery covered the cost of operating the facility. A few years ago, the Center saw its first operating deficit, a function of increases in the state minimum wage and a significant softening in the market for recycled materials. At the time, three neighboring townships withdrew from the Charlotte Area Recycling Authority in order to avoid contributing funds. Carmel Township has remained in the Authority and has made contributions. Efforts to generate additional contributions from users and other supporters has fallen short of what is needed to offset operating shortfalls. The forecast deficit has continued to climb and was projected to exceed \$16,000 in FY 2020-21, roughly 20% of the budget.

The Airport budget also shows the need for a greater than usual General Fund subsidy. Critical roof repairs and needed trimming of trees in flight paths are driving this increase. I expect this to return to more normal levels of subsidy in subsequent years.

Mayor and Local Streets' budgets continue with the approved schedule of street reconstruction and rehabilitation projects. We evaluate and update this schedule

annually. As noted above, however, revenue reductions from the state might force a rethinking of some projects.

The Water and Sewer Fund budget continues a trend observed for several years of high levels of capital investments. A variety of factors contribute to this: an aging wastewater treatment plant in need of regular upgrades; replacement of underground infrastructure when streets are reconstructed; and expenditures necessary to comply with unfunded mandates at the state level, including the replacement of private lead and galvanized service lines.

A year ago, City staff proposed a significant increase in water and sewer rates. Council implemented half the increase with the expectation that the issue would need to be revisited at this time. As is our practice, we take a fresh look each year at factors driving rate increases to determine the appropriate level of funding necessary to meet operating and capital requirements while also complying with ordinance and bond provisions. We are mindful this year that some of our budget uncertainty is seen as well in household and business budgets. Our recommendation, when it is finalized, will be sympathetic to the challenges many face at this time.

The preparation of the budget each year is a team project. Department heads research needs and formulate their proposals, recognizing their obligation to temper their desire to advance the programs they wish to advance and the investments they believe prudent with a practical understanding that there will never be sufficient funds to do everything. I find I need to make few adjustments to their proposals. I appreciate their diligence and the assistance they provide to me as I assemble the budget proposal.

The next steps in the process belong to Council: reviewing and questioning the contents of the budget, achieving consensus for the final shape the spending plan should take, and appropriating the funds necessary to carry out that plan. As always, my staff members and I remain ready to assist you in this process.