



City of Petoskey

MEMO

DATE: September 16, 2025

TO: Honorable John Murphy, Mayor
City Council
Planning Commission

FROM: Shane Horn, City Manager

SUBJECT: FY 2026-2031 Capital Improvement Plan

The six-year departmental Capital Improvement Plan (CIP) covering the period of Fiscal Year (FY) 2026-2031, is presented for review and consideration. The CIP is a planning and fiscal management tool used to coordinate the location, timing, and financing of capital improvements over a multi-year period. Capital improvements refer to major, non-recurring physical expenditures such as land, buildings, public infrastructure and equipment.

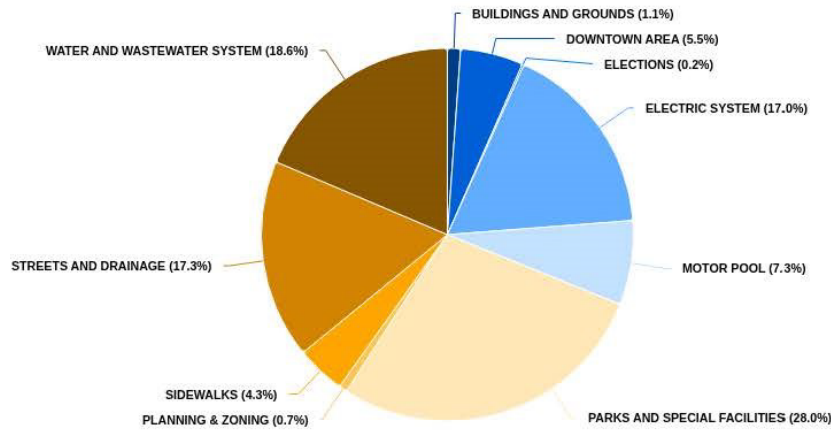
Planning for capital improvements helps build the foundation for the implementation of strategic planning efforts and priorities of City Council while ensuring for the efficient and effective use of public funds. Capital improvement planning helps guide future growth and development while maintaining a financially sound guide for effective decision-making.

The Capital Improvement Plan provides significant direction to the City on funding priorities. Those projects and programs associated within the first year of the plan will be financed and adopted in the Annual Budget. As this is a planning document, programs and projects in subsequent years may be adjusted, modified or removed based upon future priorities, grant opportunities, and budget constraints.

The 2026-2031 Capital Improvement Plan totals \$48.3 million in expenditures. The FY 2026 budget anticipates \$7.6 million allocation across all funds with \$1.2 million from the General Fund. The General Fund revenue for capital projects includes a \$500,000 allocation from cash reserves.

The following chart provides a categorical summary breakdown by percent and dollars for the proposed 2026-2031 CIP:

2026 through 2031
Capital Improvement Plan
 Petoskey, MI
Category Summary



Category	2026	2027	2028	2029	2030	2031	Total
BUILDINGS AND GROUNDS	225,000	125,000	200,000				550,000
DOWNTOWN AREA	502,000	10,000	30,000	1,700,000	400,000		2,642,000
ELECTIONS	75,000						75,000
ELECTRIC SYSTEM	1,921,000	1,195,000	1,153,400	1,271,000	1,323,000	1,381,000	8,244,400
MOTOR POOL	870,000	540,000	580,000	510,000	475,000	555,000	3,530,000
PARKS AND SPECIAL FACILITIES	1,210,000	435,000	3,765,000	3,260,000	4,610,000	285,000	13,565,000
PLANNING & ZONING	80,000	90,000	165,000				335,000
SIDEWALKS	310,000	630,000	325,000	300,000	250,000	250,000	2,065,000
STREETS AND DRAINAGE	705,000	2,750,000	1,310,000	1,700,000	600,000	1,300,000	8,365,000
WATER AND WASTEWATER SYSTEM	1,750,000	2,300,000	1,200,000	1,450,000	1,200,000	1,100,000	9,000,000
GRAND TOTAL	7,648,000	8,075,000	8,728,400	10,191,000	8,858,000	4,871,000	48,371,400

The City has committed significant funding for infrastructure updates and enhancements over the past several years. The 2026 FY continues that investment with the following projects proposed to be completed:

<i>General Fund</i>	\$1,177,500
• City Hall Key Fob Security Phase II • City Hall Elevator Upgrades • Public Safety - East Lake Street Fire Station Renovations • Marina Pier B Electrical Upgrades • Public Art • Riverbend Park Skateboard Equipment Replacement • Sub-Area Plan for Ward 4 – Emmet & Standish Corridor • Little Traverse Wheelway Resurfacing • Little Traverse Wheelway Relocation • Election Voting Equipment Replacement • Historic District Study Committee • Dog Park	
<i>Streets and Drainage</i>	\$1,087,000
• Howard Street – East Mitchell to Michigan Street • Miscellaneous sidewalk construction and replacement • Sidewalk Replacement – Howard and East Mitchell Street • Miscellaneous Street Preservation – various locations • Park Garden Lot Upgrades	
<i>Electric</i>	\$1,921,000
• 46kV Metering Structure Replacement • Advanced Metering Infrastructure (AMI) – Phase 1 • Distribution Pole Testing • Residential Conversion Project – Morgan/Priebe/Hillcrest/Curtis • River Valley Underground – PET1 (McLaren/CBD) • River Valley Underground – PET5 (McLaren/Burns) • Winter Sports Park Rink	
<i>Water & Wastewater</i>	\$1,450,000
• Advanced Metering Infrastructure (AMI) – Phase 1 • Lime Kiln Well and Control Building Improvements • Water – Howard Street Water Upgrades • Water – Lead and Copper Rule Materials Inventory • Sanitary – Howard Street Sewer Main Upgrades	
<i>Parking</i>	\$430,000
• Park Garden Lot Upgrades • Bike Infrastructure	
<i>Motor Pool</i>	\$870,000
• Hydraulic Sewer Cleaner & Excavation Truck • Patrol Vehicle – Public Safety – Replacement • Modular Vehicle Barrier System	
<i>TIFA</i>	\$250,000
• Bayfront East Arboretum Enhancements – Phase 2	

There are other long-term projects associated with the Capital Improvement Plan that are significant in nature and will need further input and prioritization as needs and budget discussions move forward.

The City has done a wonderful job in addressing critical infrastructure needs and has effectively prioritized resources while seeking out grant opportunities. The projects as considered in the 2026- 2031 CIP should align with the goals, action items, and priorities as listed in 2023-2025 Action Plan and 2021 Livable Petoskey Master Plan. These planning documents will remain key initiatives and require continued feedback and collaboration between staff, City Council and community leaders as we look to address these critical community needs.

The preparation of the Capital Improvement Plan is the result of significant time and effort from many City staff covering all departments. Department Heads have collaborated with their supervisors as needs are prioritized to ensure that essential services remain viable and accessible both today and into future planning efforts. My thanks and appreciation for their efforts in recognizing and prioritizing these critical needs to continue to position the City of Petoskey as a great place to live, work, and play.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read 'Shane Horn', with a stylized flourish at the end.

Shane Horn
City Manager

CIP Overview

The Capital Improvement Plan is a six-year schedule of proposed major capital projects, cost estimates and financing methods. The requirement for capital budgeting is found in Act 33 of the Michigan Public Acts of 2008 being the Michigan Planning Enabling Act.

The Capital Improvement Plan (CIP) establishes the City's blueprint for investment in its capital infrastructure. This document is used as a tool to help ensure that the City's long and short-term capital investments are made in the context of careful consideration of the City's needs as well as the resources available to fund all projects.

The financial guidelines used in the preparation of the CIP will provide assurance that the City can meet, in a full and timely manner, both our debt service obligations and all other obligations competing for available resources. It is our objective to complete as many needed capital improvement projects as financially possible while maintaining flexibility and the ability to adapt to changes as they occur.

Capital Improvement Plan vs. Annual Operating Budget

The Capital Improvement Plan and Annual Operating Budget are two critical documents prepared each year. The relationship between these two documents is summarized by the following points:

Capital Improvement Plan

- Represents a long-term financial plan, including funding sources.
- Establishes priorities and serves as a planning document or blueprint for the City's investment in capital infrastructure.
- Provides a breakdown of major project costs and their phasing.
- Does not appropriate money.
- As indicated by the above points, the Annual Operating Budget is the document which authorizes the actual funding for the major and non-major capital projects.

Annual Operating Budget

- Appropriates money to implement the first year of the Six-Year Capital Improvement plan.
- Appropriates money to implement current year's phase of a major, multi-year project.
- Appropriates money for operating expenditures and expenditures of a continuing nature.

Capital Improvement Plan Guidelines & Benefits

There are several key guidelines the Administration utilized in determining the City's fiscal capacity to complete capital projects over the next six years. These are summarized as follows:

- The Capital Improvement Plan will be reviewed and updated annually.
- The City has determined that paying cash for projects where financially possible (pay-as-you-go financing) reduces long term costs and maintains financial flexibility for the future. In utilizing pay-as-you-go financing, revenue projections and estimated fund balances will be reviewed and evaluated to assure that sufficient reserves are maintained.
- It is not economically feasible to issue debt for some projects, nor do all projects have a projected lifespan long enough to warrant the issuance of debt.
- Under current economic conditions, the ability to complete many projects will depend on identifying and obtaining outside sources of funding.
- Our philosophy for projecting property tax revenues is to be conservative. Between 2009 and 2012 property tax revenues decreased 20%. Fortunately, in the last five years the City has experienced increases in taxable value of 3.6% in 2021, 7.3% in 2022, 6.7% in 2023, 10.5% in 2024, and 7.4% in 2025. For 2026, the City is being conservative in our property tax revenue forecasts anticipating an increase of 3.0% in taxable value.

- The availability of adequate financial reserves or balances that can be used to address unforeseen contingencies or take advantage of sudden opportunities is a critical element in evaluating financial strength.
- Since a significant portion of outstanding debt and future capital improvements are related to the water and sewer utility, user fees associated with these utilities are evaluated in parallel with the CIP.
- As a matter of general policy, the City will do the following in order to be able to fund additional projects needed to serve the citizens of Petoskey:
 - Pursue, when feasible, federal, state and local assistance in the form of grants, low-interest loans, cost-sharing, etc.
 - Look increasingly at ways to obtain revenue through user fees as a means to fund capital projects or as a way to free-up other dollars so they may become available to fund capital projects.

There are many benefits of an effective and ongoing Capital Improvement Plan, including:

- Coordination of the community's physical planning with its fiscal planning capabilities;
- Ensuring that public improvements are undertaken in the most desirable order of priority;
- Assisting in stabilization of tax and utility rates and other charges over a period of years;
- Producing savings in total project costs by promoting a "pay as you go" policy of capital financing thereby reducing interest expense and financing costs;
- Providing adequate time for planning and engineering of proposed projects;
- Ensuring the maximum benefit of the monies expended for public improvements; and
- Scheduling municipal construction activities to be better coordinated with those of other public agencies within the community.

As a regional service center, the City of Petoskey streets, utilities (water, sewer, stormwater, electric), public facilities and parkland service much more than the City's 5,800 residents, therefore, the capital needs are many and will certainly surpass available resources. Capital improvement planning and budgeting encourages the early identification of those needs and resources and thus improves the scheduling, financing, and coordination of individual and related projects to reflect the goals and objectives established in the City's Master Plan and other planning documents.

Funding Sources

The City of Petoskey primarily uses the General Fund, Enterprise Funds or Special Revenue Funds for capital project funding. Examples of Enterprise Funds in this CIP are Parking, Water, Sewer and Electric Funds. Special Revenue Funds are supported by resources dedicated to a specific use, but not supported entirely by their own fee structures. An example is the Right-of-Way Improvement Fund, which receives revenues through annual property-tax levies to offset costs of maintenance, operations and public improvements within street rights-of-way. Capital outlays for buildings and grounds, including parkland, come primarily from the General Fund or Tax Increment Finance Fund. Outside sources of funding have also significantly contributed to capital projects and are reflected in the current capital plan as well. Projects that identify outside funding sources have a more uncertain time-frame, but staff has attempted to be realistic with projections based on the need for a match in local funding.

Capital Improvement Plan and Structure

A capital expenditure is defined as an item that has a significant value and a useful life greater than three years. Expenditures for building construction and renovation, land purchases and improvements, and major equipment are generally capital expenditures in contrast to operating costs such as salaries, supplies and services that are budgeted annually in the various department operating budgets.

Significant value is defined for purposes of the Plan as any infrastructure project that costs \$25,000 or more and any equipment, materials or vehicles that cost \$10,000 or more. Minor capital purchases not meeting these thresholds are not included in this document.

Projects that correspond with City priorities and have a potential funding source available, are included in the Plan. The Capital Improvement Plan is then presented to both the Planning Commission and City Council. The CIP is designed to be amended on an annual basis, as projects scheduled in later years are identified on a needs basis, and may not have an available funding source. Projects can be added or subtracted as the needs and resources of the community change.

2026 Scheduled Capital Improvement Projects

Streets and Drainage

In 2026, Howard Street from East Mitchell to Michigan Street will be fully reconstructed with new pavement, curb and gutter, sidewalks and ADA ramps. Water and Sewer mains and services will be replaced as part of this project. The intersection concrete will be removed and replaced as well as the brick on East Mitchell and Howard.

We will also replace or rehabilitate existing pavement and curb and gutter on streets and alleys with specific repair areas to be identified based upon poor drainage, deteriorated curb and gutter and distressed pavement.

Water and Wastewater System

Water and sanitary sewer mains will be replaced as part of the street reconstruction work on Howard Street between East Mitchell and Michigan Street. There are funds proposed for improvements to the Lime Kiln Well to convert from a vertical turbine pump to a submersible pump system, updated chlorine feed system and control and monitoring renovations. We have also budgeted for miscellaneous water and sewer spot repairs and upgrades as needed. We continue to budget for Lead and Copper Rule Materials Inventory work as we work to compile a Complete Distribution Service Materials Inventory (CDSMI). This work will be offset by the use of EGLE grant funding for this effort. We are proposing the start of an Advanced Metering Infrastructure (AMI) project to replace outdated water and electrical meters with updated automatic meter reading technology.

Sidewalks

In our continuing efforts to improve upon walkability within the City of Petoskey, the City has budgeted \$310,000 for sidewalk construction and replacements in conjunction with the Howard Street reconstruction project between East Mitchell and Michigan Street. We continue to budget for miscellaneous City-wide sidewalk spot repairs in 2026.

Electric System

Each year the City makes substantial investments into the municipal electric distribution system enhancing reliability through system upgrades and the undergrounding of overhead electric lines. In 2026, the City will continue its strong investments in the electric distribution system by earmarking \$1.9 million for system-wide upgrades.

Specifically, just over \$460,000 has been earmarked for the installation of three-phase underground lines in the residential areas including portions of Morgan, Priebe, Hillcrest, and Curtis. Funds are also allocated for the undergrounding of overhead electrical circuits in the Bear River Valley.

Not only does undergrounding electric lines improve reliability of our municipal electric service delivery but it also creates more aesthetically pleasing neighborhoods.

The City will also be completing a 46kV metering structure replacement at the River Road connection. We are also continuing to study the initial phase of Automated Metering Infrastructure (AMI) for the water and electric system.

Motor Vehicle Pool

Motor Vehicle Pool purchases planned for 2026 total \$870,000 and include the following:

- Combination sewer and hydro excavation vehicle
- Public Safety - patrol vehicle replacement
- Modular Vehicle Barrier System

Buildings and Grounds

We have allocated \$225,000 for improvements to City buildings and grounds including:

- \$125,000 City Hall elevator safety improvements per last inspection
- \$ 50,000 City Hall Phase II security lock conversion project
- \$ 50,000 Public Safety East Facility Improvements

Parks and Special Facilities Improvements

In the City's continuing efforts to improve upon and expand parks and city facilities, the City will undertake a variety of projects in 2026:

Slope Restoration Project

The Slope Restoration Project engineering and design is complete and will be presented at an upcoming meeting. With the overall scope and cost of the project, we have put additional funds in the 2026 CIP budget to further explore the option of staying along the north side of the highway and position the wheelway off the right-of way using property owned by the City, County and MDOT. This will provide another option for consideration on restoring this section of the wheelway.

Little Traverse Wheelway Resurfacing

We have \$150,000 to continue to invest in on-going resurfacing needs for the wheelway.

Dog Park

We have \$50,000 budgeted for the completion of the Dog Park in the Bear River Valley.

Parking

The 2026 Capital Improvement Plan includes funds from the Parking Fund to improve the Park Garden Lot with new paving, storm water infrastructure, and landscaping. This project also includes work in the alley adjacent to the lot. In 2026, the Parking Fund also includes resources to add additional bike racks and bike corrals for bikes and scooters.

TIFA

The section of the wheelway from the Bayfront at the turn-around bathroom to Boyne Country Sports was improved with a new concrete surface this spring. Phase II of the Arboretum project involve naturalization of the meadow area, reforestations, interpretive signage and new hard surface pathways.