City of Riders

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CITY OF Sturgis

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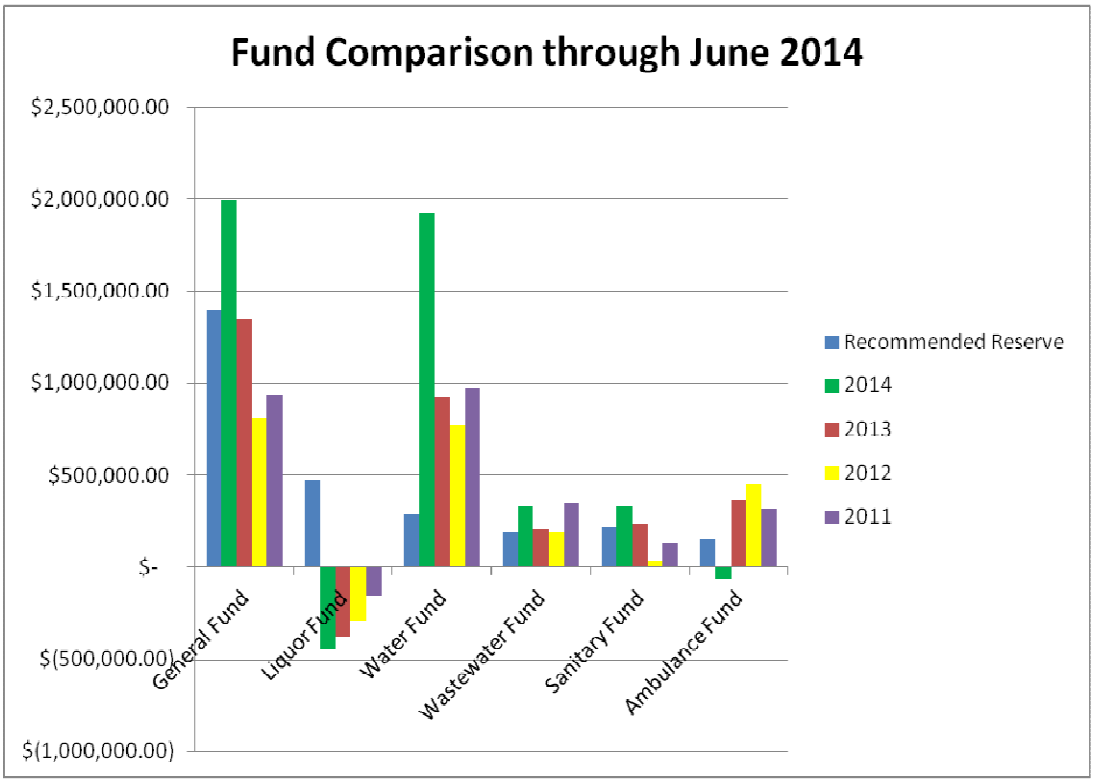
Council Report

August 18, 2014
Daniel Ainslie, City Manager
Consideration to approve first reading of 2015 Budget

Recent History

Over the past three years, the City's financial position has improved significantly. The chart included below includes a four year comparison for the midyear cash balances of each fund.



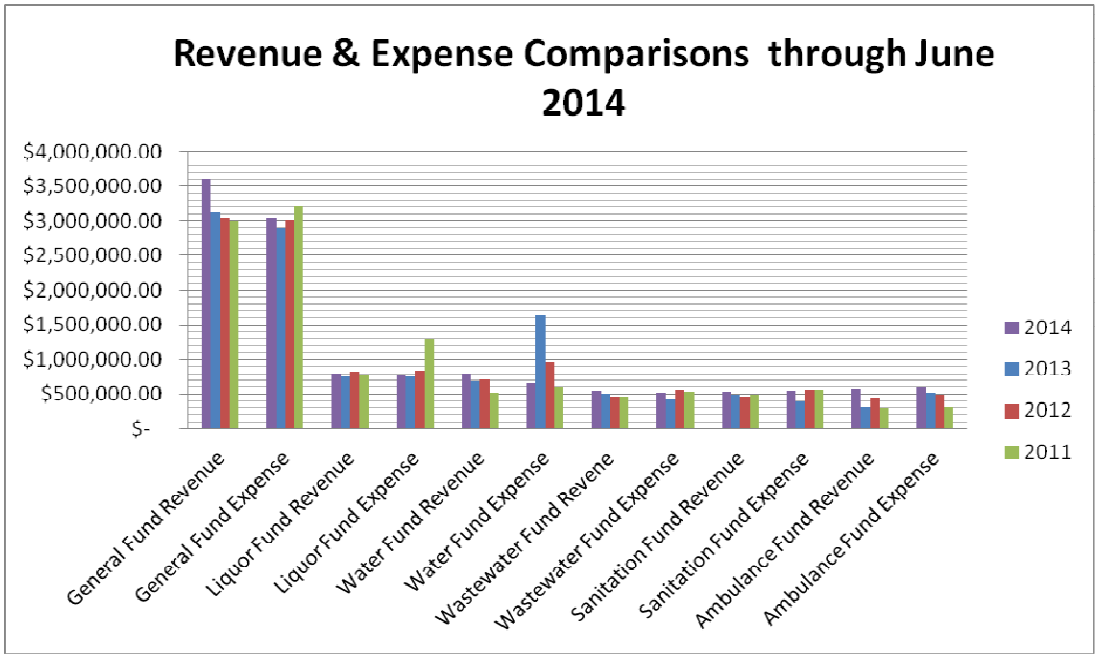
As illustrated, the General Fund's cash balance (which is similar to the savings account of the fund) has for the first time exceeded the recommended reserve balance. This reserve balance is set at 20% of the total annual expenditures. This recommended level has been set by the government Finance Officers' Association. It allows for a stable cash flow during months of reduced revenues and the ability to react in emergencies.

Beyond improvement within the General Fund, the Water, Wastewater and Sanitation Fund all have reserves which exceed the recommended 20% reserve. The two operating funds which do not are the Liquor Fund and the Ambulance Fund. It is very important to note that the Liquor Store has been and remains profitable. The reduction in cash balances in the Liquor Fund stem from significant onetime expenses associated with the construction of the new store (additional inventory and building costs) and

the transferring of funds from the Liquor Fund into the General Fund. With the completion of the Liquor Store construction and the stopping of transfers to the General Fund, the Liquor Fund's cash balance should steadily improve, though it will likely take several years to return to a healthy level.

The Ambulance Fund reserves were used in 2013 for the purchase of two new ambulances at a cost of nearly $300,000. Beyond that cost, the Ambulance Service ended its previous practice of outsourcing billing to a third party. This has shown a significant increase in the average call collection. During 2013, however, there was a significant time of transition. During this time, the service did not receive any proceeds from Medicare and very little from private insurers. This led to a significant increase in the Ambulance Fund's accounts receivables. This number exceeded $1,000,000 by the end of 2013. This situation will gradually improve with each successive month.

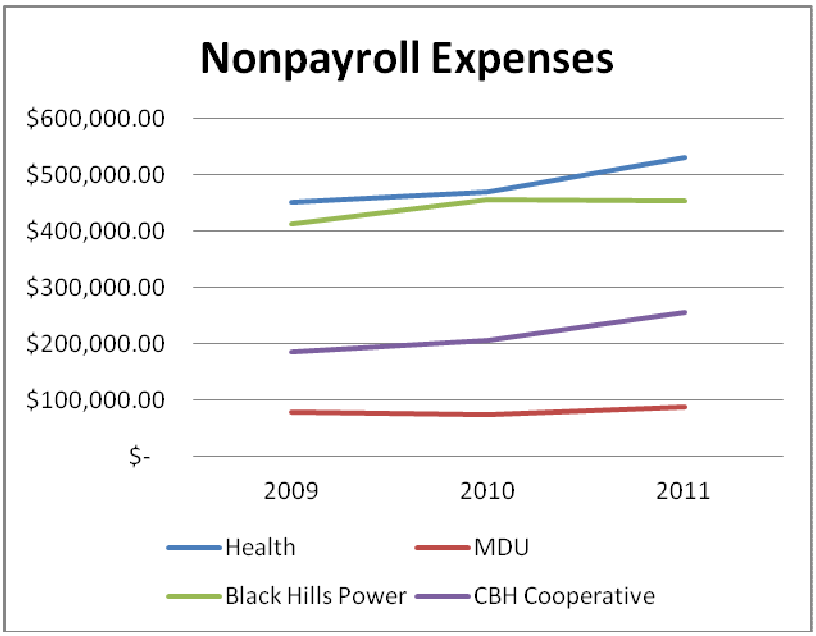
The significant improvement in the City's finances are linked to numerous decisions to reduce expenditures and increase revenues. The following chart illustrates the ongoing reduction in expenses and the growth in revenues:



The trends in each operating fund identify an ongoing reduction in costs and an increase in revenues. A few outliers in these trends include the following:

- Atlas Storm – the City received the first reimbursement from the Federal Government for the storm cleanup in early 2014. In addition, much of the overtime and third party contractor expenses associated with the cleanup occurred in early 2014. This occurrence explains the entire increase in General Fund expenses to date in 2014 and approximately half of the General Fund revenue increase.
- The peak of the Liquor Fund expense occurred in 2011 with the increased onetime costs associated with construction costs and an increase in inventory purchases
- The peak of the water fund expenses occurred in 2013 with the completion of the Lazelle Street water project and the Phase II capital improvement project
- The Ambulance Fund has a separate trend of increased costs. This is due to an ongoing increase in call volume. The service is averaging an increase of more than 15% per year. This increase has required an increase in staffing. The decline in revenue in 2013 is associated with the change to internal billing. The increase in revenue displayed in 2014 is anticipated to continue to grow with the completion of the conversion to internal billing.

There were significant pressures on the City's budgets throughout the recessions. Numerous operational costs continued to rise even though revenues were stagnate. These expenses included (electricity, natural gas, fuel and health care expenses). On average, these costs increased more than 8% each year. Despite those increases, there were very few revenue increases.



In order to bridge the gap of the increased expenses and flat revenue, the City began a significant restructuring of each department. This has led to a leaner, more efficient organization. In addition, numerous operational functions were studied in order to ensure the greatest efficiency possible. At times, significant investments were made in order to gain greater long term returns. This was especially true at the Community Center were nearly $750,000 was invested in new HVAC and water appliances. These investments have effectively reduced the ongoing energy costs of the center by nearly 20%. In total, these operational efficiencies have allowed the total 2014 General Fund budget of $7.0 million to return to the 2010 General Fund budget of $6.95 million. During the same time period, the Consumer Price Index increased 7.1%. Had the City's General Fund budget increased by inflation, the 2014 budget would have been $7.6 million. These cost saving measures have saved the taxpayer more than $600,000 per year.

Debts

Along with the operational efficiencies obtained by the City, significant debt has been able to be paid off. In budget year 2014, nearly $1,600,000 of City funds will be used to pay off previous debt. This number will continue to decrease significantly each year. Beginning in 2016 the Marcotte purchase will be completed and a significant portion of the sewer bond will have been paid. This will result in an annual ongoing savings of $282,000. In 2018 the Palisades TIF is scheduled to have been paid off along with another significant portion of the Sewer Bond. This is anticipated to provide an additional $120,000 in ongoing savings. By 2021, the general obligation bond which funded the construction of the Fire/Ambulance Hall, City Hall, Library and Community Center will have been paid off. This will provide an ongoing annual savings of $615,000. Lastly, in 2022, the last remaining segment of the sewer bond will have been paid off, this will provide an additional $100,000 in ongoing annual savings.

Infrastructure and Personnel Requirements

Beginning in 2014, the City made significant strides to ensure a fully equipped and functional City fleet. All City Departments identified capital equipment valued in excess of $10,000. The valuations were combined with the anticipated lifespan of the equipment. This provided an annualized expense for each

piece of equipment. Each Department then was required to budget for this annualized expense. This has ensured that there is an ongoing funding mechanism whereby the City's fleet can be replaced, eliminating the emergency situation which can occur when a significant piece of equipment needs to be replaced.

For several years, the City has managed to fund preventative maintenance on approximately 1/8 of all City roadways. Ideally this funding level should be nearly doubled in order to allow roads to be maintained in accordance to ideal structural engineering standards. To fully fund this initiative approximately $400,000 of additional revenue would need to be identified. This is not possible in 2015, though with growing sales tax revenue and a broader tax basis, this possibility could be reached in the near future.

In large part, the City's recreational facilities are in good, stable condition. Several park playground equipment and shelters have been identified to be needing to be replaced. The budget allows for an organized replacement of the facilities over the course of the next 5 years. This however, does not provide capacity for new facilities beyond the Starline Park and the Soccer Field concession building. The Community Center had little reinvestment over the past two decades. This has begun to change with a significant reinvestment in nearly every mechanical system. Over the next five years, new paint, a gym floor, swimming pool area floor, windows and doors are scheduled to be replaced.

The City is still in need of a larger or several smaller cold storage areas. One historic need is for a location for salt and sand storage. This need has limited the ability of the City to purchase these needed winter supplies in bulk and requires the City to store these materials in the open which reduces their effectiveness. The City Council will be considering constructing a facility in the third quarter of 2014. Other storage areas are needed to store vehicles and capital equipment. Currently, a significant number of fleet vehicles for the Public Works and Parks Departments are stored outside. These vehicles face the harsh winter and summer environments and reduce the life expectancy of the equipment.

The City's Water system is in good repair. The Water Department is making systematic upgrades each year. In addition to replacing the Main Street water main (which dates back to the 1800's), the department will be installing water mains along blocks where there are presently no mains. In these situations, homeowners have service lines connecting their structures to water mains on neighboring roadways. In some cases these service lines extend hundreds of feet and place the property owner under significant liability, since a leak in the service line is the responsibility of the homeowner. Each year, the water department will install a water main along a block with the longest service lines. Within less than a decade all streets should have direct water mains.

The City's Wastewater system has begun to face some strain. The City is currently working to obtain a discharge permit to allow discharges regularly of fully treated water. In addition, during the 3rd quarter of 2014, the City will complete a nearly $400,000 project to complete rip rap placement along Lagoon 4, a project that should have been completed in the 90's when the lagoons were constructed. In addition, the City will need to complete negotiations in 2014 for the renewal of water release areas with an adjoining property owner. If these negotiations do not prove successful, an alternative will need to be sought. This would likely require constructing pipe to transfer effluent to pasture area further from the lagoons. Lastly, investment will be needed in the near future for irrigation equipment replacement. Most of the City's irrigation equipment exceeds 20 years old and is becoming obsolete.

It is believed that much of the sewage which is currently being treated is groundwater which infiltrates various cracks in the sewer lines that run throughout our community. The majority of the older community have original sewer lines which have never been replaced. Current technology allows these lines to be lined to reopen the lines and fix holes and cracks which allow groundwater infiltration. The 2015 budget includes $200,000 for a pilot lining project. If this proves successful, the City will need to

continue with this each year until all of the old portions of the community have been lined. The anticipated lifespan of the lining is 30 – 50 years. It is fortunate, that each year, additional portions of the sewer lagoon bonds will be paid off. This will allow additional revenue to invest in lining, irrigation equipment and potential effluent discharge lines. Though, depending on the total costs of the lining pilot project, additional revenues in the near future may be necessary.

The City's sanitation fund is in adequate capacity to completely pay for a new truck if necessary. In addition, enough revenue has been set aside in the vehicle replacement fund to acquire a new truck in 2015. Other than the expense of a new truck, the most challenging item will be with the rubble site. Given current loads, the lifespan of the rubble site is likely less than 20 years. When the rubble site is at capacity, additional costs will be incurred in order to reclaim the site. In addition, the City will be faced with the option to either discontinue the service or purchase additional property. This is a situation which should be studied in further detail in 2015. In addition, the City's recycling program is currently operating at capacity. According to the December 2013 constituent survey, more than 80% of residents believe it is an important service and more than 60% use the service regularly. There was significant interest in expanding the recycling program to include curbside pickup, though this would require new equipment purchases and personnel. This is another item which should be studied in 2015.

There has been increased pressure to complete significant capital improvements in storm water. While a few capital improvement projects may be able to be completed in the near future, a comprehensive solution to mitigate the storm water runoff will require a new funding stream, similar to what Rapid City established in October of 2013.

The Rally Department's successes are growing. New events have been created and are expanding the tourist season which are helping to fuel the growth of the City's sales tax receipts and enhance the economic viability of existing businesses in our community. In addition, the Rally has made significant strides financially. The net proceeds from the Rally have grown substantially and are on the verge of completing several significant sponsorship agreements. This increase in workload will need additional personnel in the very near future.

2015 Budget

The revenue forecasts included in the 2015 Budget are conservative but acknowledge the growing strength of the Sturgis economy. The sales tax revenue anticipates a 4% increase. This is consistent with recent increases experienced by the City where from 2012-13 the City witnessed a 6.8% increase and during the first half of 2014 where the City witnessed a 3.2% increase. This is significant improvement from the 2005-2010 time period where the average annual growth was 1.7%. This growth has been led by renewed residential growth, additional recreational uses, new retail outlets and growth in tourism. The City utilities are forecasted to increase costs by an inflationary 3%. This will help to cover some (but not all) of the increased costs associated with fuel, tipping fees and insurances. Rally related income has been held steady with the income received in 2014. Lastly, property tax revenue has been held steady. This means that the increased assessed valuation will result in a slight reduction in the City's mill levy. The anticipated City mill levy is 0.785%. This is a significant improvement from the recent high in 2004 of 1.05%. In other words, the consistent efforts to improve efficiency and grow the economy has allowed the City's mill levy to be reduced by 33.7%. Further progress is anticipated to be made as future growth in the assessed value can be used to reduce the mill levy.

The 2015 expenditures slightly reduces the administrative staffing levels by 1 FTE. This has been achieved through efficiencies of combining the Water Department billing function with the Finance department. The Ambulance Fund includes 6 additional FTEs which were hired midyear 2014. This is needed in order to ensure adequate staffing for the continually increasing number of runs completed by the department.

The equipment replacement fund has continued and charges to each department has been increased by 5% in order to reflect anticipated inflationary costs. Utility costs (fuel, electricity and natural gas) have been increased by 5% in order to reflect anticipated inflationary increases. Employee health care costs are anticipated to increase by 10% and have been budgeted appropriately. The budget presented includes the cost of living adjust that has been proposed by the City to the two bargaining units of 1.75%. This number may be adjusted dependent upon the final negotiated agreement. In addition, all employee step or market survey adjustments have been included. Lastly, the 11-12 year quirk of 27 pay periods has been budgeted. Not every organization includes this oddity in their budget; however, staff believes this is necessary in order to portray the true economic realities of the community. Therefore, one will see an approximate 3.85% increase in each employee's budgetary authority. This is a onetime cost which will not carry forward into 2016. In order to account for this onetime cost, most funds are required to use a minor portion of the fund's reserves. Each fund is making use of less than 2% of the fund's 2014 budget. It is strongly believed that nearly every fund will finish 2014 with at least 2% of the budgeted authority remaining. This means that no fund is anticipated to use existing fund balances (reserves) in 2015.

Recommendation

The 2015 budget makes continued strides to enhance the community's infrastructure, reduce debt, enhance recreation and cultural amenities, redevelop the Downtown, grow the economy, maintain the City's status as an employer of choice and reduce property taxes. The City's financial picture is quite strong which was reflected in last quarter's credit rating increase. This is in stark contrast to the majority of America's cities. In order to maintain this progress, the City must make measured infrastructure improvements while matching new ongoing expenditures with new ongoing revenue sources. In order to achieve significant property tax reductions a growth in the Community's tax basis is necessary. This can immediately be completed with residential growth. Growth in rooftops allows the existing community's infrastructure costs to be spread amongst more individuals and allows the existing businesses to grow their customer basis. Residential growth is historically the most important factor in determining new retail growth, which is tremendously important in enhancing services, reducing property taxes and enhancing the quality of life of residents.

Staff recommends approval of the first reading of the 2015 budget as presented.

Approved:	_____ Daniel Ainslie, City Manager