Informal Staff Report to the Mayor and City Council

Date: August 16, 2017

Subject: Follow Up Budget Questions

Originated by: Brady Olsen, Finance Director

Summary:
At the August 11th, 2017 budget presentation, several questions were raised throughout the presentation. Below is staff's response to any outstanding questions, including questions sent since the meeting.

1. Is the transfer from the Water and Sewer Fund to the Street Fund meant to cover specific street costs associated with Water and Sewer projects?

No, the right-of-way or franchise fee paid from the Water and Sewer Fund to the Street fund is not earmarked for any specific expenditures. The Fund is paying for the use of City owned rights of way and the ability to be primary operator of utility services in the City. Cable, telecom, solid waste, and electric all pay the city a similar fee.

2. Can any portion of the sales tax currently collected by the EDC be used for street maintenance?

The EDC has pledged it sales tax revenue to first pay existing EDC debt until 2027. Sales tax may be collected by the EDC above the amount required to pay the EDC debt. These funds can be used by the EDC for other economic development purposes, but the debt payment must be met first. The city could not use EDC sales tax revenue for street maintenance without approval by the EDC Board.

A portion of sales tax collected by the City (not by the EDC) is dedicated for property tax relief. If that portion of the sales tax were, through voter approval, re-directed to the

Street Fund, the General Fund would experience an even greater deficit than currently exists.

Other sales tax revenue collected by the city goes to the General Fund and may be used for any legitimate expense of the City.

3. How would certain General Fund administrative salaries and costs be paid if there was not an administrative transfer from the Water and Sewer fund?

Without an administrative transfer, the salaries and costs covered by the General Fund for provided services to the Water and Sewer Fund would be completely covered by the General Fund. As proposed, a portion of certain administrative salaries are allocated to and paid for by the Water and Sewer Fund and EDC Fund to cover actual costs of service to those funds.

4. How much of Personnel costs are related to Salary vs Benefits?

For the totality of personnel costs, 26% are for benefits and 74% are for salary.

5. What percentage of health insurance premiums are paid for by employees?

For the current year, the city covers 100% of the HSA, which has a $5,000 deductible and no copay, and ~20% of the PPO with a lower deductible and copays.

INSURANCE RENEWAL RATES:

UHC (medical) *HSA*	**Monthly**	**City Pays Monthly**	**Employee Pays Monthly**	**Employee Pays Biweekly (24 checks)**
Employee Only*	$363.71	$363.71	$0.00	$0.00
Employee + Children	$672.86	$483.58	$189.28	$94.64
Employee + Spouse	$800.16	$557.34	$242.82	$121.41
Employee + Family	$1,163.87	$745.37	$418.50	$209.25
PPO Buy-up Plan	**Monthly**	**City Pays Monthly**	**Employee Pays Monthly**	**Employee Pays Biweekly (24 checks)**
Employee Only	$453.34	$359.94	$93.40	$46.70
Employee + Children	$838.68	$542.41	$296.27	$148.14
Employee + Spouse	$997.35	$631.25	$366.10	$183.05
Employee + Family	$1,450.69	$855.53	$595.16	$297.58

6. How much does the 2% proposed salary increase cost the City?

Each percentage point is equal to about $47,500. The 2% would cost about $95,000.

7. What percent of the General Fund personnel expense is for Police and Fire?

Fire accounts for 33% of GF personnel costs and Police accounts for 41% of GF personnel costs. The combined percentage of police and fire is 74% of General Fund personnel costs.

8. Since the new Council came on board, what programs have been put on hold?

During the meeting, it was mentioned that, as a generality, department heads have placed a hold on new programs/new spending since the new Council was elected. An effort was made to wait for new direction before moving forward with discretionary spending. Several programs fall under this category, including the engineering for New Hope Road, negotiations with the race track, checking water/sewer line condition, and cleaning sewer lines.

9. What EDC land is available to sell in order to regain fund balance?

Below is a list of real property owned by the EDC:

<u>Town Center</u>
223 W KENNEDALE PKWY
121 W KENNEDALE PKWY
109 W KENNEDALE PKWY
105 W KENNEDALE PKWY
107 W KENNEDALE PKWY
113 W KENNEDALE PKWY
111 W KENNEDALE PKWY

<u>Bloxom Industrial Park</u>

7236 BLOXOM PARK RD
BLOXOM PARK RD
BLOXOM PARK RD
BLOXOM PARK RD
7224 BLOXOM PARK RD

<u>Hotel Site</u>

5424 HIGH RIDGE RD
5400 HIGH RIDGE RD

<u>Oak Crest Redevelopment</u>

6701 OAK CREST DR W
6713 OAK CREST DR W
6708 LINDALE RD
6820 OAK CREST DR W
6704 LINDALE RD

<u>Miscellaneous</u>

600 W KENNEDALE PKWY
509 MUNICIPAL DR
509 MUNICIPAL DR
1170 E KENNEDALE PKWY (Red's Roadhouse)

10. Do employees need both a laptop and a desktop computer?

Generally, each department has one laptop for use in meetings and travel situations. In addition, several department heads have an additional laptop for similar situations. Desktops tend to have greater computing power for a lesser price when compared to a similar laptop. By being primarily reliant on desktop computers, the City is able to maintain computers for a longer shelf life and delay replacement costs. We can examine the benefits of acquiring laptops with docking stations in appropriate circumstances.

11. If the City were to adopt the Effective Tax Rate, how would it change the budget?

As mentioned in the presentation, changing the property tax rate by 1 cent is the equivalent of approximately $65,000. With the proposed tax rate, the General Fund will have $6.45 million in revenues and a $212,000 deficit. This lowers the fund balance to $890,000, or 13.4% of expenditures—well below the fund balance policy. Using the effective tax rate of $.726967, general fund revenues would decline to $6.06 million and the deficit would increase to $607,000. Fund balance would decline to $500,000, or

7.5% of expenditures. Using our 5-year projections, the fund balance would now be negative in year 2 (FY 2018-2019) as opposed to year 5. This is shown below:

Scenario 4

**Assume 4% Property Valuation Growth & 1% Annual Sales Tax Growth
**Effective tax Rate in current year

	Proposed Budget 2017-18	Year 2 Projected 2018-19	Year 3 Projected 2019-20	Year 4 Projected 2020-21	Year 5 Projected 2021-22
Beginning Fund Balance	**$ 1,104,740**	**$ 497,559**	**$ (133,800)**	**$ (788,463)**	**$ (1,465,692)**
Revenues	$ 6,058,865	$ 6,210,546	$ 6,367,929	$ 6,531,238	$ 6,700,708
Expenditures	$ 6,666,046				
2% Annual Salary Increase		$ 58,724	$ 118,623	$ 179,720	$ 242,039
10% Health Insurance Annual Increase		$ 33,151	$ 69,616	$ 109,729	$ 153,852
1% Annual Inflation		$ 33,983	$ 68,306	$ 102,973	$ 137,985
Annually New Programs		$ 50,000	$ 100,000	$ 150,000	$ 200,000
New Expenses		$ 175,858	$ 356,546	$ 542,421	$ 733,877
New Total Expenses	$ 6,666,046	$ 6,841,904	$ 7,022,592	$ 7,208,467	$ 7,399,923
Ending Fund Balance	**$ 497,559**	**$ (133,800)**	**$ (788,463)**	**$ (1,465,692)**	**$ (2,164,906)**
Change in Fund Balance	$ (607,181)	$ (631,359)	$ (654,663)	$ (677,229)	$ (699,215)
Fund Balance as % of Expend.	7.5%	-2.0%	-11.2%	-20.3%	-29.3%