

CITY COMMISSION AGENDA MEMO
May 17, 2021

FROM: Jason Hilgers, Deputy City Manager

MEETING: May 25, 2021

SUBJECT: 2022 Budget Work Session

PRESENTER: Jason Hilgers, Deputy City Manager

BACKGROUND

Please recall that, under state law, the annual budgetary process is left up to each municipality across the state of Kansas. Typically, the budget is approved and certified to the State in late August. This year, State law changes were passed that will require the City to annually consider whether the proposed budget is “Revenue Neutral”. If the City is considering a budget that captures the growth within the community, it will require the City to follow a process for notices and hearings that will result in a budget to be certified by October 1st. This may require some additional adjustments to the proposed budget calendar.

As a result, both revenue and expenditure forecasts are reliant on early financial information in order to prepare a City budget that will not begin until about six months later. Each work session with the City Commission is intended to answer budget-related questions and, when necessary, supply additional information at the next budget work session.

Once budgetary information is submitted to the City Manager, meetings are set for discussions with each City Department and/or Division. At that time, Management reviews all requests and either (1) allows an item to stay in the budget for further review and consideration, (2) modifies an item, (3) moves an item to another timeframe, or (4) deletes an item.

This internal process is always accomplished prior to the first budget work session with the City Commission.

Traditionally, the first budget work session only provides a broad overview of what City Administration believes will be the key issues shaping the annual City budget process, including early estimates on revenues, expenditures, and very preliminary property tax levies. Invariably, the first work session focuses on the City’s General Fund, which is the main operational account.

DISCUSSION

General Fund

The General Fund cash balance has been temporarily bolstered by a decrease in spending for 2020 and federal stimulus from CARES and SPARK.

The General Fund is also our most exposed operating fund relying on a fluctuating cash balance, which is up from \$3M to \$6M currently. It remains below the best practice recommendation of \$8.8M from Government Finance Officers Association (GFOA). GFOA indicates “it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates”. GFOA recommends, at a minimum, that general purpose governments, regardless of size, maintain an unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating. The \$8.8M is a combination of the City’s General Fund calculation and the exposure the City carries with the statutory commitment to fund the Riley County Police Department (RCPD). GFOA goes on to suggest a higher cash balance may be necessary if the government is exposed to the following factors:

- Predictability of its revenues and the volatility of its expenditures (i.e. sales tax)
- Exposure to significant one-time outlays (disasters, state cuts, federal cuts) – i.e. Kansas State University and Fort Riley
- Potential drain on general fund resources from other funds
- Potential impact on bond ratings and increased costs to borrow funds (dropped by Standards and Poor; downgraded by Fitch)
- Commitments and assignments – governments may exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balances, rather than on restricted fund balances.

Capital Improvement Funding. During budget preparations, departments were required to prioritize capital improvement projects using the City’s capital improvement planning software. Department rank their proposed equipment, vehicles and facility improvements on a scale of 1-5. Priority 1 items (most critical to the department) are what is reflected in the total requested for 2022 below. The following five-year timeline provides a perspective of capital improvement funding within the General Fund.

	2018	2019	2020*	2021	2022
General Fund CIP Budget Impact	\$344,680	\$160,000	\$127,096	\$125,000	\$967,712 (Requested)

*Please note that a substantial portion of the 2020 CIP was funded by a *New Equipment Reserve Fund*. A total of \$96,715 is being transferred annually out of the Water and Wastewater Funds into the Equipment Reserve Fund to finance equipment/vehicles.

Special Revenue Funds

The City has 25 special revenue funds that are budgeted annually. Nine of these funds are authorized to have property taxes as a funding source; however, three of these funds have not had a mill levy for years (General Improvement Fund, Industrial Promotion Fund, and the Park Development Fund).

There are two special revenue budgets that are not under control of the City Manager, the Riley County Police Department (RCPD) and the Manhattan Public Library. Early indications are that the Riley County Police Department will have about a 2.5% increase to their 2022 budget.

Bond and Interest Fund

The City's Bond and Interest Fund is the primary account from which annual principal and interest payments are made on debt issuances that have been approved by the City Commission. The issuance of permanent financing for growth-related projects, including the recent bond sale coupled with flat revenues, will result in higher annual principal and interest payments within the Bond and Interest Fund for 2022.

Enterprise Funds

The City's enterprise funds include the Water Fund, Wastewater Fund, and Stormwater Fund. Each of these funds are supported by user fees associated with each utility and are not supported by annual property taxes or sales taxes. Operational improvements in the capital improvement program for the enterprise funds are based on community growth as well as an ongoing commitment to maintain existing infrastructure.

Any necessary rate adjustments for 2022 would be used to adequately fund capital improvement projects, bolster cash reserves, and to meet loan repayment requirements to the Kansas Department of Health and Environment. All enterprise funds and possible rate adjustments will be discussed separately as part of a work session later this summer.

Summary

City Management and the Finance Department are happy to respond to any Commissioner request for additional budget information or analysis. Please keep in mind that considerable budget data also is available on the City's website.

June 8th – Second work session with the City Commission on proposed 2022 Budget and 2022-2026 CIP. (Second Tuesday)

June 22nd – Third work session with the City Commission on proposed 2022 Budget and 2022-2026 CIP plus outside entities appear before the City Commission to present 2022 funding requests. (Fourth Tuesday)

July 13th – Fourth work session with the City Commission on request from Chamber of Commerce/CVB second quarter report and proposed 2022 Budget and 2022-2026 CIP. (Second Tuesday)

July 20th – Notification required to the County Clerk regarding on if the City intends on exceeding the Revenue Neutral Rate. (Third Tuesday)

July 27th or August 10th - Fifth work session with the City Commission on discussion of utility rates for the three enterprise funds and proposed 2022 Budget and 2022-2026 CIP. (Fourth Tuesday)

August 24 – Sixth work session to summarize and determine budget for the public hearing on September 7th.

August 26th – Publish Notice of Tax Rate Hearing and 2022 City Budget Public Hearing.

September 7th – Public Hearing on the Tax Rate as well as 2022 Budget and 2022-2026 CIP. The first reading of an ordinance to exceed the revenue neutral rate as well as first reading of an additional ordinance to approve the 2022 City Budget and the amended 2021 City Budget for select funds, if necessary. (First Tuesday)

September 21st - City Commission approves second reading of an ordinance to exceed the revenue neutral rate as well as an additional ordinance approving the 2022 City Budget and 2022-2026 CIP and amended 2021 City Budget for select funds if necessary. (Third Tuesday)

Summary of 2022 Challenges:

Personnel, CIP and General Fund Cash Balances

City management is recommending a 4% increase to personnel (2% market adjustment, and 2% step) for 2022. There is a handful of promotions/adjustments being considered as well, three of which are additional for the implementation and facilitation of the parking management plan in Aggieville and Downtown. These three new positions are anticipated to have minimal financial impact as projected revenues are anticipated to cover these costs.

Total financial impact for personnel in 2022 is proposed at roughly \$1.35 million (\$680,000 for 4%, \$440,000 for new positions, and \$210,000 in promotions or adjustments). The new positions and promotions/adjustments are still under consideration by Administration. The intent here is again, much like the CIP requests, to reflect to the City Commission what the City Department Heads are recommending for 2022.

City Management continues to highlight and promote a pay study starting this summer that will position the City for a multi-year implementation plan. City Administration's focus on our Organization Excellence Initiative (OEI) was strengthened in the results provided by the Manhattan Chamber of Commerce "Business Condition's Report", which highlighted that 72% of the companies interviewed reported problems with recruiting and retaining employees. The report also highlighted the "quality of life" as the top community strength and the "labor supply-skilled" as the top weakness. In addition, the businesses contacted as part of the study ranked "local streets, property tax assessments, and zoning changes/building permits" as 3 of the 4 lowest rated community services.

Cutting services, raising taxes, and/or transferring funds all have justifiable arguments. Cutting services will generate reactions and potential negative backlash from previous or interested participants in that program or service. Raising property taxes, while always subject to political pressure, offers the general fund the most stable and sustainable source of revenue. One-time transfers offer a quick fix to a situation that will need attention each year if a dedicated funding source is not ultimately identified.

The increased cash balances achieved from the hiring freeze and other cost avoidances in 2020, along with the additional previous and anticipated reimbursements from COVID related expenses offer the City an opportunity to develop a multi-year approach to deliver sustainable, quality and anticipated services. These financial circumstances will coincide with the pay study being performed this summer and fall, and the anticipated implementation of the City's Strategic Plan later this year. The City anticipates adequate data and feedback from both processes to facilitate a 3–5 year strategy for the organization.

FINANCING

Decisions considered and made for the 2022 Budget have a direct impact on the services provided by the City.

ALTERNATIVE

It appears the Commission has the following alternatives concerning the issue at hand. The Commission may:

1. Provide feedback and direction on the 2022 Budget

RECOMMENDATION

City Administration recommends the City Commission provide feedback and direction on the 2022 Budget.

POSSIBLE MOTION

No motion is necessary as this is a work session.

JH
21025

Enclosure:

1. Revenue Neutral Flowchart

JUNE 15
County provides Revenue
Neutral Rate



JULY 20
City to notify County Clerk

**Are we exceeding the
Revenue Neutral Rate?**

Yes



PUBLIC HEARING

AUGUST 20-SEPTEMBER 20
Public Hearing timeframe



10 DAYS PRIOR
Notification of Tax
Hearing & Budget Hearing

*September 10 last day to give notice of
Tax Hearing and Budget Hearing



OCTOBER 1
Certify County Clerk &
State Budget Forms Due

No



BUDGET HEARING

AUGUST 15
Last Day Public Hearing



10 DAYS PRIOR
Publish proposed Budget
& Budget Hearing



AUGUST 25
Certify County Clerk &
State Budget Forms Due