Finance Director
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City of Chesterfield

M E M O

DATE: September 20, 2017

TO: Mayor & City Council

FROM: Joan Jadali, Finance Director *JJ*

RE: Budget Workshop I

As part of the FY2018 budget process, the City has scheduled three Finance & Administration "Committee of the Whole" meetings or "budget workshops". The materials that will be discussed at each of these meetings are included in the attached budget binder. They will be updated to incorporate any changes made at each of the budget workshops and redistributed to Council in advance of the subsequent meeting. As a reminder, these workshops are scheduled to begin at 5:30p.m.:

- Budget Workshop I – Monday, September 25, 2017 (Room 102-103)
- Budget Workshop II – Monday, October 30, 2017 (Room 101)
- Budget Workshop III – Monday, November 6, 2017 (Room 102-103)

It is our expectation that on or before the end of the third budget workshop, Council will approve a tentative budget, which will subsequently be presented at a Public Hearing prior to the regularly scheduled City Council meeting on Monday, December 3, 2017. The December 3rd Council agenda will include a proposed resolution to approve the proposed 2018 City Budget.

The three workshop approach was initiated in 2016 for the preparation of the 2017 budget, and we believe it provides a more interactive and informative process. A brief description of Budget Workshop I is presented below followed by an overview of each of the City's major funds which corresponds with the contents of the Budget Binder. As a reminder, the budget workshops are technically part of F&A Committee meetings so some non-budget business may be necessary in conjunction with each meeting, but we will attempt to keep such business to a minimum.

BUDGET WORKSHOP I

At this first meeting we will begin by covering F&A agenda items which directly impact the budget process. The Finance Director will then provide a brief overview of the materials provided, budget timeline, and the City's financial picture. Focus will then shift to the discretionary items that Council will review and determine if they should be included in the City's FY2018 budget. Inasmuch as the Council has not yet provided direction on what amount is to be included in the 2018 budget for merit increase, the preliminary budget provided does not yet include any funding for merit increases. The merit pool is one of the first agenda items on the workshop agenda, and whatever direction the Council provides will be incorporated into the subsequent budget version.

BUDGET BINDER

The budget binder contains support for each of the City's three major funds and includes additional information per Council's request. As in the past, each section contains each Fund's:

- 2017 Projected Statement of Revenues & Expenditures
- 2017 Projected Statement of Itemized Revenues (Parks & General Funds)
- 2018 Budgeted Statement of Revenues & Expenditures
- 2018 Projected Statement of Itemized Revenues (Parks & General Funds)
- 2018 Budgeted Detail of Capital Expenditures

This year, the budget binder will include, as it did in the prior year:

- One page summary of all funds (this will be provided prior to the meeting on Monday, but is not yet complete)
- Listing of budget assumptions
- Budget Detail for each fund – A listing of the individual items making up the contractual, commodities and capital account budgets
- Personnel Expenditure Section – A breakdown of personnel expenditures by Fund, Division and Type
- An Appendix with useful budget information
    - Mission statement
    - Major budget policies
    - Budget process
    - Budget calendar
    - Basis of budgeting
    - Bonded debt schedule

BUDGET SUMMARY – 2017 PROJECTIONS & 2018 BUDGET

CAPITAL IMPROVEMENT SALES TAX FUND

2017 Projections

As you know, this fund's primary revenue source is a ½-cent sales tax, which is designated for road & streets and collected on a "point-of-sale" basis. 15% of the taxes collected is shared with those who receive revenue from the Sales Tax Pool. It has been the policy of City Council that this Fund "lives within its means", that total expenditures shall not exceed the total amount of revenue available, including Capital Fund - Fund Reserves for this Fund. We are projecting that this fund will have a balance of $88,321 at the end of FY2017. This is due to the fact that many of the projects that were in progress in 2017 have been completed.

The City's Capital Improvement Sales Tax revenues consist almost entirely of two sources: Sales Taxes and Capital Grants.

Projected sales tax revenues are down 3% from the prior year and 5.7% below the 2017 amended budget. As always, the holiday season will be the most impactful and is subject to a multitude of external factors and unknowns. As such, we are cautiously projecting revenues to finish at $5,957,446 or 5.7% short of the 2017 amended budget.

Capital grants budgeted for FY2017 included the Schoettler Road Bridge Reconstruction ($1,392,880 is grant funded of the total $1,741,000 project cost.) We anticipate receiving most of the grant revenues reimbursements during FY2018.

Expenditures are projected to finish approximately $814,700 or 6.3% below budget. (The 2017 amended budget showed a negative fund balance at the end of the year of $2,063,199.) This decrease is primarily due to the CNG project not being completed during FY2017. Funds from the capital fund to reimburse the general fund for the $2,100,000 loan in 2016 were not entirely received in 2017. The capital fund will reimburse the general fund for a majority of this transfer in 2018. More details will follow in the explanation below.

2018 Proposed Budget

We are projecting revenues of $6,920,315 and expenditures/transfers of $6,887,919. This will slightly increase the projected fund balance from $88,321 to $120,717 at 12/31/18. In recent years, Capital Improvement

Sales Tax Fund – Fund Reserves have grown due to increased sales tax receipts and the timing of various planned projects. This is not the case for FY 2018.

We do not anticipate an increase in sales tax revenues based on current growth trends and known economic factors. Grant revenue recognized during the year is budgeted to decrease. Revenue from the CNG grant is expected to be received in 2018 in the amount of $962,869. Half of this grant revenue will be transferred to the general fund in 2018 to reimburse it for the transfer in 2016, while the other half will be transferred in 2019. The reason for this is that we would like to keep the capital fund at a positive fund balance and would prefer not to cut funding on existing projects.

Whereas five projects with a significant grant funded component were in progress during 2016, only one significant project – Schoettler Road Bridge Reconstruction – commenced during 2017. No new grant projects are scheduled for 2018.

Likewise, 2018 budgeted expenditures will decrease substantially, at least on paper. For accounting purposes, this decrease will shrink as projects that are currently ongoing and were encumbered in 2017 will roll into 2018 when they are expected to be completed. These encumbrances and budgeted expenditures are moved from year to year upon Council's approval of the annual "PO Roll". This is merely a housekeeping transaction, where existing contractual encumbrances are carried over from the prior year to the current fiscal year.

A detailed breakdown of Capital Improvement Fund expenditures is included in the budget binder. Major 2018 expenditures include: Concrete Street Reconstruction ($1,840,000), Asphalt Overlay ($310,000), Three 1.5 ton CNG trucks ($282,000), Sidewalk Replacement ($257,000), and Trench Grate Replacement ($10,000).

PARKS SALES TAX FUND

2017 Projections

Like the Capital Projects Fund, the Parks Fund revenues have performed below expectations during FY2017. Sales tax revenues are projected to finish 3% under last year, and we anticipate that they will also come in 5.7% below the 2017 amended budget.

We are also currently projecting charges for services to come in approximately $74,881 below budget. Almost all individual charges for services are below budget, with General revenue concessions-cvac decreasing $95,142. General revenue concessions-cp reflects a $33,738 reduction and Field rentals are down $27,000. We continue to monitor these projections as the peak season is coming to a close and we are confident that the final numbers will, at a minimum, meet and possibly exceed these projections based on the strong summer finish.

On the expenditure side, the Parks Fund is on target to finish at or below budget in all categories. Despite the challenges previously noted, the Fund will finish the year with a Fund Reserve balance of $2.26 million.

2018 Proposed Budget

Consistent with the Capital Improvement Sales Tax Revenue, we have budgeted no increase in sales tax revenues for 2018 based on current growth observations and known economic factors. We have, alternatively, budgeted charges for services revenue to be increase by 8.8% from 2017 to 2018. There will be a concerted effort to maximize amphitheater utilization by increasing the concerts/events offered during FY2018.

Projected expenditures reflect a decrease of $348,551 or 5.5% from FY2017. This is the direct result of a careful review of the Department's capital needs and wants. It is also an intentional strategic re-direction as we have previously identified the annual increases in debt services as being a significant concern within this fund. A detailed breakdown of the Fund's capital expenditures is included in the budget binder. Major 2018 expenditures include: Backhoe attachment for Skid steer-replacement ($10,000), Field Groomer-replacement ($11,500), Heavy Duty Utility Cart-replacement ($22,500), Roller attachment for Skid steer-new ($8,300), Utility Cart-replacement ($6,800), ½ ton truck replacement ($27,500), repair of amphitheater steps ($25,000), and a few other items.

Based on these projections, we expect the Parks Fund – Fund Reserves to increase by $51,713 during FY2018.

<u>GENERAL FUND</u>

2017 Projections

The General Fund had a mixed year with a $119,654 under-performance of revenues that was more than offset by the strong management of expenditures, which are projected to finish $725,694 below budget. These figures are inclusive of the budgeting method to reduce the impact of savings from employee turnover. This is further detailed in our assumptions document that is included in the budget binder. Throughout the year, budget amendments totaling $4,384,150 enabled the City to perform a number of significant projects. At year-end we are projecting General Fund – Fund Reserves of $7,485,971 in addition to one-time reimbursements of $3,223,624. These combined figures exceed the 40% requirement policy by $1,038,235.

As previously mentioned, revenues are projected finish $119,654 or 0.5% below budget. The multi-year balances of individual revenue accounts are available in the budget binder.

Performance of "utility tax" revenues, was the primary reason for the General Fund's projected underperformance during FY2017. These combined revenue sources are projected to finish $145,646 or 2.1% below budget, in FY2017. Despite a rate increase midway through 2015 and above average temperatures this summer, electric utility taxes have remained flat and are projected substantially below our projections. Likewise, gas utility taxes are also flat from the prior year and down from historical averages. This is due, in part, to relatively mild winters during 2016 and 2017.

Telephone utility tax revenues continue to fall at a significant rate, and we are projecting revenues to finish $208,046 or 5.1% below the amended 2017 budget. As you know, this revenue source has decreased sharply among area municipalities over the past several years due to the continued drop in land-line phones and cellphone companies that are not charging the utility tax on the data plan and prepaid wireless activity. Telecommunications companies frequently change product offerings and pricing. As these changes are made, the phone companies contend that the “new” revenues are not subject to the utility tax. There are ongoing efforts from the Missouri Municipal League and others to change this practice via lawsuits and litigation.

Sales tax revenues are projected to finish at $7,840,557 which is $354,448 or 4.7% over the FY2017 General Fund Budget. The County-wide 1% sales tax is estimated to have no increase from the 2017 amended budget. However, the new 0.5% Proposition P tax that businesses in St. Louis County will be collecting beginning October 1, 2017, will be bringing an additional $525,000 into the City's coffers by the end of 2017.

Court Fines and Fees are projected to fall 15.9% below budget ($926,508 vs. $779,056). This is due to a combination of factors. First, under Senate Bill 5, courts are no longer be able to suspend drivers' licenses for failure to appear in court or failure to pay a fine for a minor traffic violation. The absence of “failure to appear” has had a more significant impact on the City's court fines than was initially anticipated. Second, the total number of cases filed in Chesterfield – from traffic violations, shoplifting, etc. – has decreased over 15% since FY2015. Due to publicized incidents involving law enforcement during the past couple years, routine traffic stops and other police activity is down nationwide.

“Intergovernmental Revenues” are projected to finish $74,345 or 1.6% below the budget during FY2017. This decrease comes from Motor Fuel Tax which is based on consumption rather than sales price. As the price of gas stays low, as it has over the past couple years, fuel consumption increases. However, since the distribution of the revenue is based on population and the price has been so low, our receipts are lower than they had been when the cost for fuel was slightly higher. Road & Bridge Revenues which are based on the City’s assessed value are also projected to come in below budget expectations by approximately $66,749 for FY2017.

As previously noted, City Council amended the budget by $4,384,150 related to one-time projects or events that were not originally budgeted. Examples of those are the 2017 Emerald Ash Borer (EAB) Activity ($518,000), the Document Management System ($150,000), the River Valley Drive Closure Design & Construction Costs (203,000), Security Enhancements ($100,336), and the CNG Project ($2,100,000).

The net effect of these transactions is a PLANNED decrease in General Fund – Fund Reserves of $3,940,574 which would bring Fund Reserves to $6,640,623 at 12/31/17. However, due to the City outperforming the budget by $845,348, we project Fund Reserves will actually be $7,485,971 at year-end.

2018 Proposed Budget

We are projecting that FY2018 General Fund revenues will total $24,378,659; an increase of $2,038,869, or 9.1% above our 12/31/17 projections. This increase is primarily due to the Proposition P .5% sales tax that was approved by St. Louis County voters and will begin to be collected in October of 2017. A full year of receipts for 2018 are projected at $2,300,000. The City also has two other new revenue sources that drive up this revenue number. The City began providing police services to Clarkson Valley beginning July 1, 2017. This will provide additional revenues of $407,107 to the City in 2018. However, with this revenue source the increase is minimal once you net the revenue with the additional expenses of providing this service. Finally, the City also is providing School Resource Officers to the Rockwood School District beginning in 2017. The revenue from this service will provide $121,000 in additional revenues to the City in 2018. This revenue source, like the one from Clarkson Valley, will be netted against expenses incurred and is not expected to provide additional revenue once you net revenues against expenses for this service.

There is no increase in sales tax projected for the 1% county-wide tax for 2018. There could potentially be a slight increase with the pending holiday shopping later this year, but at this point, sales tax revenues are just now keeping pace with the 2017 budget.

Utility revenues are budgeted to be relative flat from FY2017 to FY2018. Projected increases in electric and gas taxes will likely be nullified by the continued decrease of the telephone utility tax. We are budgeting water utility taxes to come in flat from 2017 based on historical averages.

The City's FY2018 budgeted intergovernmental revenues are projected to increase $150,353 or 3.3% from FY2017. The majority of this increase comes from recent upward trends in the county road & bridge tax, as well as the Rockwood School District School Resource Officer which will be budgeted for a full year in 2018 as opposed to half of the year in 2017.

Licenses and fees primarily consist of revenue from business licenses, liquor licenses, and cable fees. We anticipate this revenue, of approximately $1.6 million to remain flat with three exceptions. The most significant are the cable tax remittances. For FY2017, the City estimates receipts of $960,967 while projecting a decrease to $857,951; a difference of $103,016. This is because an additional payment was received in 2017 that increased the anticipated 2017 revenue receipts by over $100,000. However, for FY2018 we anticipate timely receipt of payments that will average what the City has received for the past several years.

As noted earlier, court fines and fees are difficult to project due to the implications of Senate Bill 5 and other factors facing law enforcement on the national stage. We do expect some modest growth based on recent trends and have budgeted a $15,500 or 2% increase.

Total operating expenditures are forecasted to increase by $1,121,062 or 5.7% compared to the projected 12/31/17 totals. This increase is somewhat misleading as it does not consider the one-time purchase price savings and other cost management decisions that enabled the Fund's expenditures to finish $725,694 below budget during FY2017. When comparing the adopted FY2017 budget to the FY2018 budget, operating expenditures actually increase by only $395,368 or 2%. The majority of this comes from police personnel expenditures which is budgeted to increase by $824,471 primarily due to the influx in officers during the City's recent history. Allocations were also made to properly charge the police department for charges provided for various services such as IT that are provided to the police department and solely benefit them.

Finally, a transfer in of $1,551,865 will be made in FY2018 from the capital fund to the general fund to pay back most of the money loaned to the capital fund for the CNG project in 2016. (The details of this payback were noted previously in this memo.)

In total, capital asset expenditures of $445,144 have been budgeted which primarily consist of replacement vehicles. All general fund capital expenditures are detailed in the Budget Binder. The City always realizes savings through the use of co-ops and aggressive negotiating.

Despite the numerous challenges noted, we have carefully produced a revenue positive budget. We project the General Fund will increase by $3,683,181 during the year with final Fund Reserves $6,447,227 above the 40% requirement policy. Again, this figure will be adjusted after adjusting the proposed budget when Council provides direction on the Merit Pool allocation.