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OFFICE OF THE CITY ADMINISTRATOR

TO: Mayor & City Council (for review by the F&A Committee of the Whole)

Date: August 30th, 2019

RE: Proposed 2020 Budget

In conjunction with the FY2020 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 electronically. 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:

- Budget Workshop 1 – Tuesday, Sept 3rd, 2019 5:30pm (Room 102 -103)
- Budget Workshop 2 – Tuesday, October 1st, 2019 5:30 pm (Room 102 -103)
- Budget Workshop 3 – Tuesday, October 29th, 2019 5:30 pm (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 a regularly scheduled City Council meeting on or before Monday, December 2, 2018. Approval is generally accomplished by a resolution to approve the proposed 2020 City Budget.

The three-workshop approach was initiated in 2016 for the preparation of the 2017 budget. We believe it provides a more interactive and informative process. As a reminder, the budget workshops are part of F&A Committee meetings, some non-budget business may be necessary in conjunction with each meeting, but we will attempt to keep such business to a minimum.

At this first meeting we will begin by covering F&A agenda items which directly impact the budget process. In addition, per City policy, staff has provided information to assist the Council in determining the percentage compensation increase for the merit pool, if any, for the 2020 budget. Inasmuch as it has been previously negotiated, the initial draft 2020 budget provided to Council for the first budget workshop, **ALREADY INCLUDES THE ANNUAL CONTRACTUAL INCREASES FOR THOSE COMMISSIONED POLICE OFFICERS AND SERGEANTS** covered by the City’s collective bargaining agreement. Staff will 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 FY2020 budget.

BUDGET OVERVIEW

As a place to start reviewing our 2020 budget submission, we first must look to how our fiscal position actually ended 2018. We must then incorporate those economic

impacts to the 2019 budget, including budget amendments and revenue reductions, to reflect on where we anticipate starting the 2020 budget year.

As we prepared our estimates for the end of 2018, which by the way is the starting point for the 2019 budget, it is important to recognize that City revenue reporting lags and we were anticipating several months of receipts. Also, contracts and purchases were still in progress, personnel was changing, and so our expense picture, although clearer, was still uncertain. As is inherent in governmental accounting, we are conservative and typically will understate our estimated revenues and overstate our actual expenditures. As such, our 2018 end of year position was significantly better than we expected when we adopted the budget for the 2019 fiscal year.

Looking retrospectively, you will recall that much like 2017, we were concerned about lagging sales tax revenues and we were actively managing expenditures to reduce or avoid any non-essential costs. We lowered our revenue estimates based on the sales tax receipts. Late in the year, our sales tax revenues rebounded, while we continued to avoid budgeted expenditures. It should be recognized, that we did not have final audited revenues and expenditures for 2018 until the end of June, 2019. While it seems obvious, any deviation from the 2018 end of year projections, directly impacts the current fiscal year. The 2019 approved budget, estimated a starting 2019 General Fund Balance of \$7,277,444. The final audited 2018 end of year fund balance, was actually \$11,829,032. A portion of this \$4 million betterment is the result of the rollover purchase orders, which increases the end of year balance by moving and increasing the encumbered expenses into the next year. However, the General Fund actually ended with significant revenue above our projections and expenses were reduced well below our projections. In total, these **final 2018 audited values leave us projected to be \$1.8 million better at the end of 2019 than we originally budgeted.**



General Fund Projected Fund Activity

	<u>From 2019 Budget</u>	<u>CURRENT PROJECTED</u>	<u>Difference</u>
Fund Balance as of 12/31/2018	\$7,277,444	\$11,829,032	\$4,551,588 \$3,631,176 rollovers \$834,916 Expenditure Savings
Estimated 2019 Revenues	\$20,475,966	\$20,160,400	-\$277,033 Pooled Sales Tax
Estimated 2019 Expenditures	\$10,064,606	\$11,295,415**	\$1,230,809 Incl. Rollovers
Transfers Out 2019	\$9,180,551	\$8,293,011	Transfer to PD \$887,540 Debt Service - \$238,500*
Fund Balance 12/31/2019	\$9,689,062	\$11,513,466	\$1,824,404 Better than projected in December 2018

* \$238,500 reflects only increase in PS sales tax receipts

\$920,412 Roll-over purchase orders
\$3,681,176 Delta minus Rollovers
\$310,397 Expense minus rollovers

** Assumes expending 100% of budgeted expenditures.

The 2019 approved budget, projected that we would be \$2,286,000 above the 40% policy threshold at the end of 2019. I would be remiss if I did not mention that this level resulted AFTER the City set aside an additional \$1 million from the General Fund – Fund Reserve for pre-paid debt service.

However, we have re-calculated the end of year General Fund – Fund Balance, using the final audited values for 2018, reducing the 2019 projected general fund pooled sales tax revenues by \$277,000, while concurrently projecting an increase in the Public Safety Sales tax proceeds of \$238,500. The new, projected starting balance for the 2020 General Fund – Fund Balance is \$11,513,466. In turn, we then

subsequently prepared an early estimate of the 2020 End of Year fund balance, using initial budget submission values. Please note that although the initial budget submission does not currently contain values for the non-FOP merit pool, for the purpose of Fund Balance estimates, we have reduced the annual fiscal activity in 2020 by roughly \$128,000. The calculation is provided below for your convenience, which provides an initial projection that **the 2019 General Fund - end of year fund balance will exceed the 40% policy threshold by more than \$4,000,000**. While we must stay in a liquid financial position until we receive the Supreme Court decision, I suggest that it might be appropriate for the Council to consider using some of the excess fund reserves to further reduce the Parks Fund Debt service for the next five years, until the parks debt service is reduced in 2026.



**General Fund
EARLY FUND BALANCE ESTIMATE
(AS SUBMITTED)**

12/31/2019 FUND BALANCE	\$11,513,466
2020 NET ACTIVITY	<u>\$ 1,500,000</u> (REDUCED TO INCLUDE MERIT POOL)
PROJECTED 12/31/2020 GENERAL FUND - FUND RESERVES	\$13,013,466
DEDUCT FUNDING FOR	
RESTRICTED FUNDS (COURT)	\$130,000
EAB	\$560,000
SNOW REMOVAL REIMB.	<u>\$163,012</u>
PROJECTED UNRESERVED FUND RESERVES	\$12,160,454
LESS 40% RESERVE REQUIREMENT (\$19,700,218 * .40)	<u>\$7,880,087</u>
GENERAL FUND - FUND RESERVE END OF YEAR 12/31/2020 AVAILABLE OVER 40% POLICY THRESHOLD	<u>\$4,280,366</u> (estimated)

While the complete budget submission is reviewed in greater detail later, we are very pleased to submit a budget which is **\$1,656,592 revenue over expenditures**. The bulk of this surplus occurs in the General Fund, in the amount of \$1,624,086. While the General Fund -Pooled Sales tax has been consistent and is at 99% of budget halfway through the year, we have conservatively reduced the 2020 pooled sales tax revenue estimates by \$277,033 below the 2019 budgeted values, based on the 2018 actual. We have projected the 2020 pooled sales tax to be 1.5% less, (\$93,772) than the 2018 actual sales tax receipts.

We have substantially reduced the projections for Parks and Capital Projects Sales Tax revenues by roughly 5% each, \$352,553 and \$238,500 respectively, from the 2019 budgeted values. Clearly, preparing the Parks Fund budget was the most challenging, having to trim more than one-half million from the initial budget request. Likewise, we reduced the original Capital Fund budget request by approximately \$300,000. Both budgets were impacted by the loss of sales tax revenues. The Parks Fund can be impacted most significantly by further reducing the annual debt service payments through 2025.

It should also be noted that we had specifically identified multiple one-time, non-repeatable savings for the 2019 budget. We used Forfeiture funds to purchase body cameras (\$140,000), did not include police vehicles in the 2019 budget (\$340,000 early purchase was made in 2018), and several other items which were uniquely identified and described. All of which made the 2020 budget challenging, but our Department Heads were very cooperative and creative in developing this budget submission, which provides for a General Fund budget which is notably 8.2% revenues over expenditures.

MERIT POOL

Inasmuch as the merit pool is a significant component of the proposed annual budget, it 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. As described in the salary administration manual, Staff will provide information related to the CPI, Labor Indexes, surrounding Cities and our Current financial status.

The table below provides information as to the budgetary impact of the potential merit pool. The left hand column depict incremental potential percentage increases for the pool ranging from 1/2% to 4%. Moving from left to right, the first column provides the 2020 increase in compensation from each respective level of the potential merit pool. For example, a 3% merit pool would increase the 2020 non-FOP compensation by \$130,415. The next column describes the fully loaded 2020 budget increase. That is to say, the total increase in the 2020 resulting from the proposed merit pool, which not only includes compensation, but retirement, social security, and other payroll related expense. The next four columns allocate the increase in 2020 compensation between the four major funds. The last two columns are simply double the first two columns to reflect the full 12 month expense of a merit increase.

	2020 Budget Impact of Merit Pool	2020 Budget Impact of Merit Pool (Loaded Cost)	G e n e r a l	P a r k s	C a p i t a l	P S u b u r n i t y	12 Month Impact of Merit Pool (Salaries)	12 Month Impact of Merit Pool (Loaded Cost)
0.5%	\$21,736	\$28,416	\$12,123	\$5,357	\$543	\$3,713	\$43,472	\$56,833
1%	\$43,472	\$56,833	\$24,245	\$10,714	\$1,086	\$7,426	\$86,943	\$113,666
1.50%	\$65,207	\$85,249	\$36,368	\$16,071	\$1,629	\$11,139	\$130,415	\$170,498
2%	\$86,943	\$113,666	\$48,491	\$21,428	\$2,173	\$14,852	\$173,886	\$227,331
2.50%	\$108,679	\$142,082	\$60,613	\$26,785	\$2,716	\$18,565	\$217,358	\$284,164
3%	\$130,415	\$170,498	\$72,736	\$32,142	\$3,259	\$22,278	\$260,829	\$340,997
3.50%	\$152,150	\$198,915	\$84,858	\$37,499	\$3,802	\$25,991	\$304,301	\$397,830
4%	\$173,886	\$227,331	\$96,981	\$42,856	\$4,345	\$29,704	\$347,773	\$454,663

BUDGET

I am quite pleased with the draft 2020 budget proposal. Staff has been working since mid-June in preparing the draft 2020 budget. There have been multiple iterations within each department to trim non-essential expenses. Even with very conservative revenue estimates, we are proposing a budget that is more than \$1.65 million in the black, **revenues exceed expenditures by \$1,656,592**. While the initial draft budget does NOT reflect the civilian merit pool, it DOES already include the scheduled annual increases for our police officers and sergeants as provided by our collective bargaining agreement, and yet, it is \$1.7 million revenue positive.

As you will gather from the information contained herein, we have been very conservative in our revenue projections. We have projected no growth from the projected 2019 pooled sales tax revenues, no growth in the majority of revenue sources, and limited growth in a limited number of revenue sources, each described below. In general, we are using the projected 2019 end of year revenue projections as our budgeted revenues for 2020. While this is very conservative, we'd rather utilize experienced revenue growth than prospective growth given our most recent experiences with erratic revenues.

As we progress through the review of the 2020 budget, please recognize that I have authorized staff to proceed through their respective committees requesting tentative consideration of two additional employees for the 2020 fiscal year. Per

policy, each request is to be forwarded to the respective standing committee of Council for consideration and recommendation. That recommendation is subsequently forwarded to the F&A Committee of the Whole for a determination as to whether the position is to be incorporated into the proposed budget. The Police department is requesting one additional Code Enforcement Official. The Parks department is requesting one additional Facilities Attendant.

There are a few important topics that dominate the proposed 2020 budget:

- 1) The budget submission is net revenue positive.
 - a. **General Fund** as proposed is **\$1,624,086 REVENUES OVER EXPENDITURES**
 - b. **Public Safety Fund** is net zero. (by design, this fund is heavily subsidized by the General fund, with a proposed transfer in of \$7,868,998.
 - c. **Parks Fund** as proposed is **\$104,600 REVENUES OVER EXPENDITURES**
 - d. **Capital Projects Fund**, as proposed is **-\$72,094 REVENUES OVER EXPENDITURES**, dipping slightly into the excess fund reserves achieved in 2019. The City has normally not maintained any substantial fund balance in the Capital Projects Fund.
- 2) As we have strategically elected to maintain liquidity in our assets, we expected that our investment income would be significantly reduced. However, we have experienced, that by having more than \$4 million in pre-paid debt set aside, our investment income has actually increased.
- 3) The debt in the Capital Projects fund was completely retired in 2019. There is no debt service payments for Propositions R & S in the 2020 budget. Those funds have remained in the Capital Projects fund, somewhat offsetting decreased sales tax revenues, but funding the scheduled expansion of capital projects.
- 4) The budget reflects the City's strategy for a level debt service using previous set-asides for debt pre-payment. In total, more than \$4 million has been set aside to reduce annual debt service payments and to retire debt earlier than scheduled.
 - a) With the current level of pre-payments, the last year (2022) of debt service for City Hall Certificates of Participation has been completely funded. In addition, the annual debt payments in 2020 and 2021 have been reduced to \$1,073,880. With the scheduled debt service payment in 2020, we have only ONE additional year (2021) to fund the remaining City Hall debt.
 - b) With the current level of pre-payments, the debt service in the Parks Fund has been reduced to \$2,984,200 annually through 2025. Thereafter, the annual debt service remains below \$970,000 through 2031. Council's approved strategy is to create lower, level annual debt service payments through 2025, when the annual debt payments decrease by 2/3rds.
 - c) It should be noted, that should Council elect to set aside additional funds from the excess Fund Reserves above the 40% policy threshold, the annual debt payments described in a & b above, could be further reduced. This simply provides additional flexibility and capacity to fund routine growth.
- 5) The proposed budget includes the addition of Revenues associated with the Information Technologies contract with adjacent Cities, as well as the addition of the approved technician and compensation increases for existing staff.

- 6) While not affecting the 2020 budget submission, Council will separately consider funding the annual funding of the Snow Removal Reimbursement (\$163,012) and the Emerald Ash Borer (\$560,000) programs from excess fund reserves, in the amount of \$723,012. If funded, these programs will reduce the fund balance, but not impact the annual budget.
- 7) The Doorack Lease assignment expired in February of 2019. There are no City of Chesterfield lease or tax obligations for this real estate going forward.
- 8) There were no Police Vehicles included in the 2019 budget, as the annual vehicle replacements were pre-funded in the fall of 2018. The 2020 budget includes \$340,000 for the routine, scheduled replacement of 11 police vehicles.
- 9) In conjunction with the 2019 budget, the City contracted for body cameras and car camera system replacements. The initial effort was funded by \$140,000 transferred from accumulated Police Forfeiture Funds. The 2020 budget includes \$140,880 for the annual contract for these items.
- 10) The proposed budget already INCLUDES the 2020 compensation increases for the FOP employees, which is 2.43% for Police Officers and 2.51% for Sergeants.
- 11) The proposed budget DOES NOT INCLUDE any merit increases in compensation for non-FOP employees. Per City Policy, the F&A Committee will make a recommendation on the value of the merit pool and that value will be included in the next version of the 2020 budget.
- 12) You may recall during budget workshop #3 for the 2019 budget, staff identified a number of additional final reductions, many of which were identified as one-time, non-repeatable reductions due to specific circumstances. Examples of such one-time reductions were:
 - a) 5261 Professional Services - Reduce Transportation Modeling. One year reduction only due to funding the comprehensive plan and traffic demand model since demand model is updated in 2018
REDUCTION \$4,000
 - b) 5313 Departmental Supplies - Reduce concrete materials. One year reduction only due to funding the EAB program and cumulative purchase order savings. Total amount will have to be restored in future years.
REDUCTION \$60,000
 - c) 5313 Departmental Supplies - Reduce aggregate materials. One year reduction only due to funding the EAB program and cumulative purchase order savings. Total amount will have to be restored in future years.
REDUCTION \$70,000
 - d) 5313 Departmental Supplies - Ammunition - Trade in of 40 Cal. Since City Council authorized the purchase of new sidearms with forfeiture funds, the City is able to trade in its existing cache of ammunition, and the new 9 mm ammunition is less expensive. Since this savings represents a one-time trade in allowance, it is not a repeatable annual savings and is a one-year reduction only.
REDUCTION \$6,000
 - e) 5251 Miscellaneous Contractual - Tree and Bush replacement. Expense the tree and bush replacement from the Tree preservation account, which is funded by developer contributions.
REDUCTION \$10,000
 - f) Reduce EAB program request from normal \$538,000 to \$438,000. One year reduction only due to reduced tree replacement requests and cumulative purchase order savings.
REDUCTION \$100,000

CAPITAL IMPROVEMENT SALES TAX FUND

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 strives to use the "pay as you go" approach. Total expenditures shall not exceed the total amount of revenue available, including Capital Fund - Fund Reserves for this Fund.

The City's Capital Improvement Sales Tax revenues consist almost entirely of two sources: Sales Taxes and Capital Grants. The City has repeatedly and unsuccessfully applied for grant funding for the Schoettler Road project. As such, there are no grant funds budgeted for the Capital Projects Fund in 2020. Budgeted projects for 2020 will expand proportionally, with the elimination of the debt service payments.

Capital Sales Tax Revenues \$5,679,178

The 2019 budget provides \$5,973,114 for the Capital Sales Tax revenues. Year to date, collections are lagging at 95.34% of budget, and 97.81% of the 2018 receipts. As such, we've interpolated these two data points and estimated the 2020 revenues to be \$5,679,178, which is \$293,936 below the 2019 budgeted revenue level. **We are projecting Capital Sales Tax revenues of \$5,679,178 and expenditures/transfers of \$5,751,272.** The proposed budgeted sales tax revenues reflect the projected, reduced sales tax revenues for 2019. It is our recommendation that we use this same figure for budgeted 2020 revenues, reflecting reduced sales tax revenues. While we recognize that this is extremely conservative, we believe it to be warranted.

PARKS SALES TAX FUND

Unlike the Capital Projects Fund which is funded by only sales tax and grant receipts, the Parks Fund includes more than \$2 million in "other" Parks revenues. We continue to monitor these projections as the peak season is coming to a close. We are confident that the final numbers will, at a minimum, meet and possibly exceed these projections based on the strong summer finish.

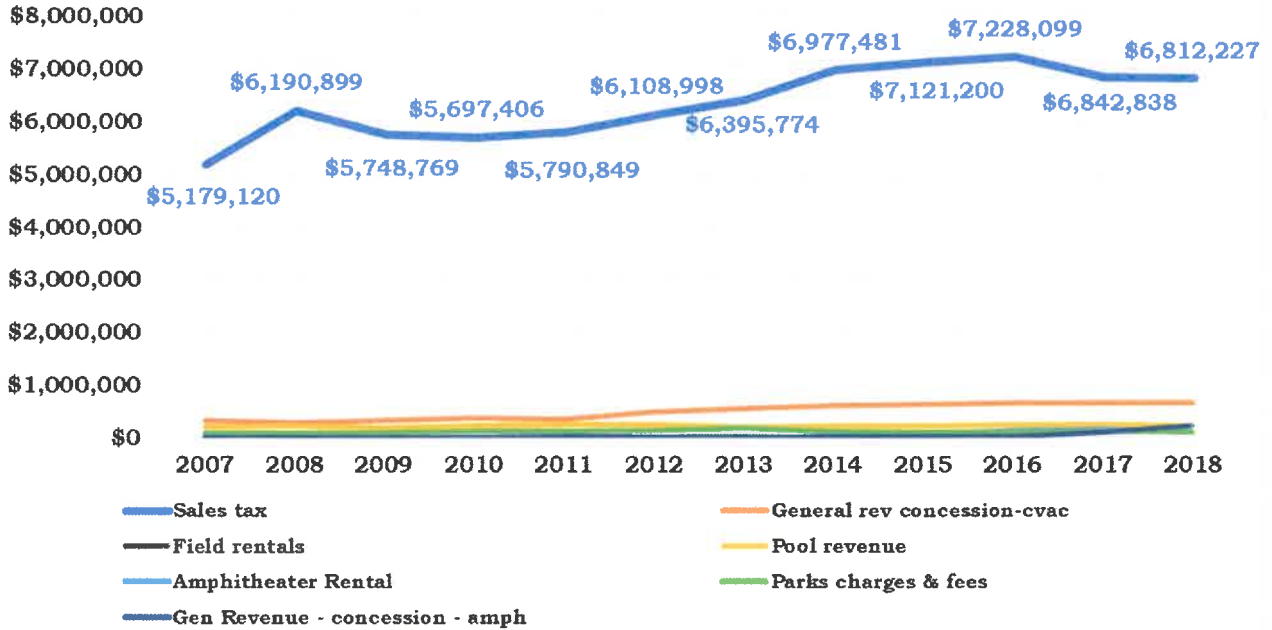
We are projecting Parks Fund revenues of \$8,890,045 and expenditures/transfers of \$8,707,445. The proposed budgeted sales tax revenues reflect the projected, reduced sales tax revenues for 2019. It is our recommendation that we use this same figure for budgeted 2020 revenues, reflecting no growth in sales tax revenues. While we recognize that this is extremely conservative, we believe it to be warranted. Consistent with our thoughts for the Capital Improvement Sales Tax Revenue, we have incorporated no growth in the sales tax receipts for 2020. The 2020 draft budget Parks Sales Tax revenues are \$352,553 LESS than the 2019 budget. Again, this reduction reflects a conservative approach, but also recognizes the obvious spike in revenues from 2017. We want to be very clear so as not to perpetuate the belief that sales tax receipts are falling precipitously. That is not the case, and can be demonstrated graphically. In keeping with our 2019 effort, we have budgeted charges for services to increase by \$250,943 from 2019 to 2020. There continues to be a concerted effort to maximize amphitheater utilization by increasing the concerts/events offered during the past year and we expect this to continue in FY2020.

Projected expenditures reflect a decrease of \$174,710 or 2% from FY2019. It should be noted that, per Council Policy, Staff is forwarding a recommendation to add one additional Facility Attendant for 2020. This is the lowest compensated position in the Parks Department. Per Policy, this request is first forwarded to the Parks, Recreation and Arts Committee, and their recommendation will subsequently be forwarded to the Finance and Administration Committee of the Whole to determine if the position is to be included in the 2020 budget.

Parks Sales Tax Revenues \$6,674,640

Like the Capital Projects Fund, Projected sales tax revenues currently lag budget by 4.6%. The values for the Parks Sales tax parallel those of the Capital Projects receipts. When the current 2019 Capital sales tax revenues are compared to a multi-year trend line, with the exception of the unusually high 2017 actual receipts, they are relatively consistent. That being said, we are projecting Parks Fund sales tax receipts of \$6,674,640, which represents 95.3% or \$352,553 below the 2019 budget, and 97.81% of the 2018 actual receipts.

PARKS FUND - MAJOR REVENUE SOURCES

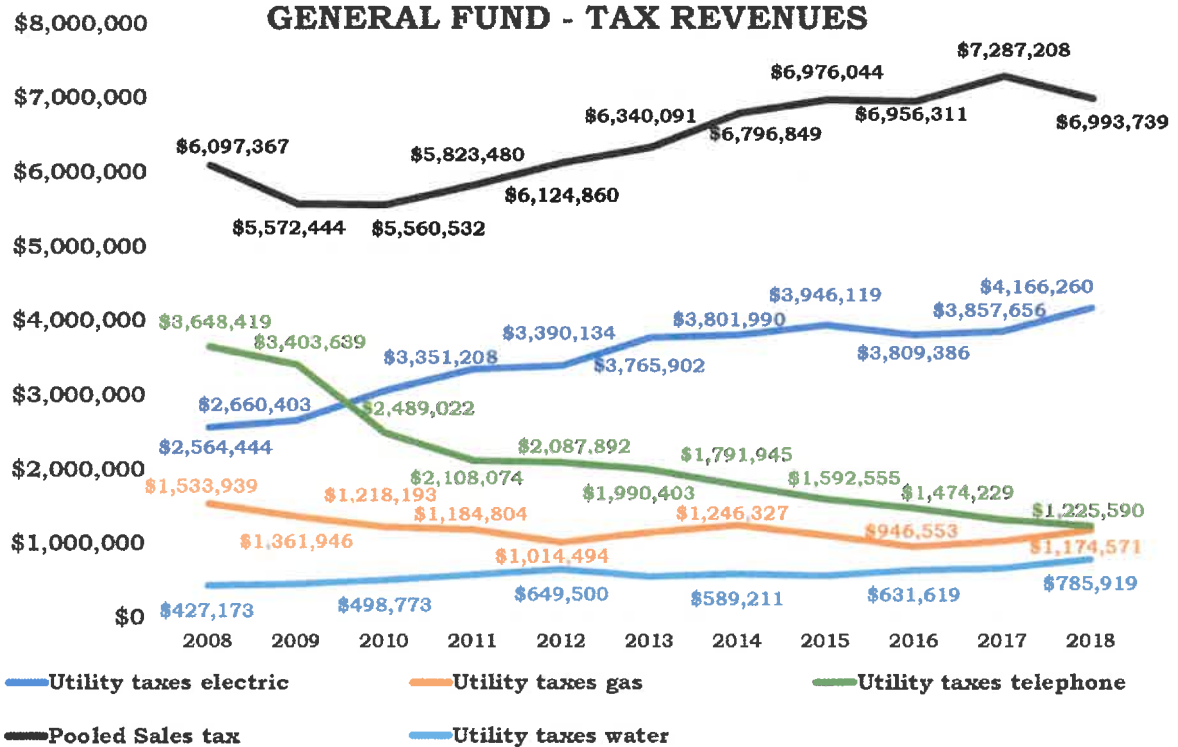


GENERAL FUND

Sales Tax, Pooled \$6,899,967

Even though the current receipts are at 99% of budget, they are also down 3.72% from same period in 2018. We have elected to take the more conservative approach and have projected 2019 pooled sales tax at 96.28% of the prior year, instead of 99% of the current budget. Accordingly, that reduces the proposed 2020 Pooled Sales Tax revenues by \$277,033 from the 2019 budget levels.

GENERAL FUND - TAX REVENUES



Sales Tax, Public Safety - \$2,670,500

The 2019 budget provided \$2,432,000 for the Public Safety Sales tax and actual receipts are 11.88% ahead of budget and 4% ahead of the prior full year. It should be noted that the 2019 budget revenue estimates were prepared prior to having a full year's Public Safety revenues. The 2018 actual revenues were \$2,527,168. As such, we have estimated the 2020 revenues to be \$2,670,500, up \$238,500 from the 2019 budget levels.

Utility Taxes – Electric \$3,963,825

The 2019 budget was \$3,801,000. The 2018 actual revenue was \$4,166,260, with no individual year since 2015 with revenue of less than \$3.8 million. Based on the actual revenues, as depicted in the graph below, we estimated the 2020 revenues to increase \$162,825 from the current budget, but still \$202,435 below the 2018 actual revenues, roughly 5% below the 2018 actual level.

Utility Taxes – Gas \$1,200,929

The 2019 budget provided \$1,000,000 in Gas tax revenue, but the 2018 revenue was \$1,174,571. Accordingly, we have estimated 2020 Gas tax revenue to increase \$200,929 over the 2019 budget.

Utility Taxes – Telephone \$1,110,831

Telephone taxes continue to trend downward. As such, we've projected a continuing downward trend at 8.3% from the prior year. This reduces the revenues by \$55,169 as compared to the 2019 budget levels.

Utility Taxes Water - \$786,000

The 2019 budget provided \$615,000 for Water taxes. The 2-18 actual revenue was \$785,919. We have estimated the 2020 revenues to be roughly equivalent to the 2018 actuals, at \$786,000, an increase of \$171,000 over the 2019 budget levels.

In summary:

There are two requests for additional personnel that are to be processed through the Standing Committees of Council, subsequently to provide a recommendation to the F&A Committee of the whole.

The budget submission includes the impact of the contracted compensation increases for Police Officers and Sergeants (2.43% & 2.51% respectively).

The budget submission does not include any funds for the merit pool for other employees. The value of the merit pool is to be recommended by the F&A Committee of the Whole.

It is noteworthy that the 2018 end of year audited finances leaves the City in a significantly better position than was projected during budget preparation last year.

The budget submission projects Revenues in excess of Expenditures in the amount of \$1,656,592, broken out as follows:

General Fund	\$1,624,086
Parks Fund	\$104,600
Public Safety	\$0
Capital Projects	-\$72,094

Based on the proposed budget, the General Fund – Fund Reserve for the end of 2020, will exceed the 40% policy threshold by more than \$4 million, after funding the EAB program, the Snow Removal Reimbursement Program, and the merit pool. If Council is so inclined, Staff would recommend setting a portion of these excess fund reserves aside for additional debt pre-payment these projections, we expect the Parks Fund – Fund Reserves to increase by \$10482,600 during FY2020, before the addition of the Facility Attendant and inclusion of the merit pool.