



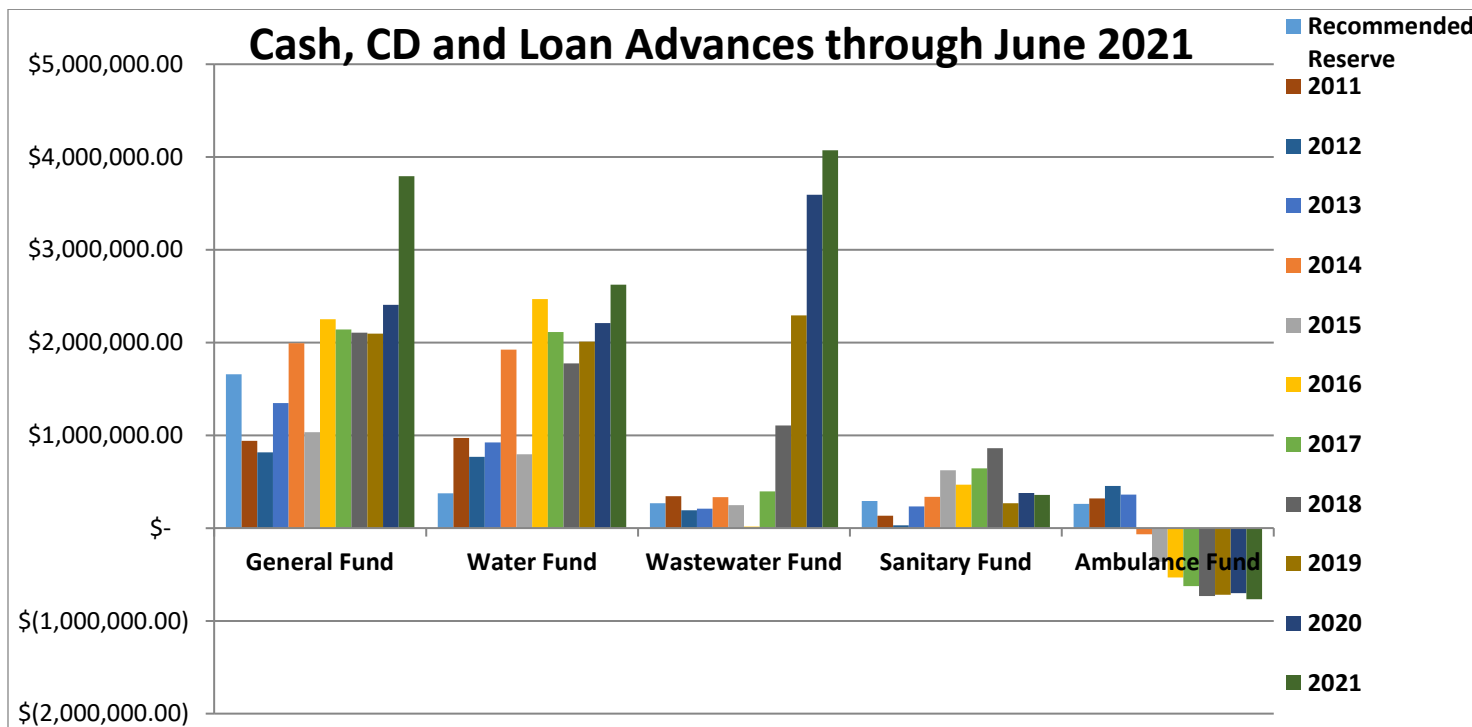
1040 Harley-Davidson Way  
Sturgis, SD 57785  
605-347-4422

## City Council Report

Meeting Date: August 23, 2021  
Agenda Item: First Reading of 2022 Budget  
Prepared By: Daniel Ainslie, City Manager

### City's Financial Position

Over the past ten years, the City's financial health has improved significantly. This has allowed the City to rebuild its "Rainy Day" fund for nearly every operational fund. The chart below illustrates the yearend cash and investment comparisons for the majority of the City's major operating funds. The light blue bar on the left indicates the recommended minimum reserve level (rainy day fund). This is equal to 20% of the fund's annual operating budget. The remaining bars from left to right represent the mid-year cash balances from 2011 (burgandy) to 2021 (green).



### General Fund

The City's General Fund is in a very strong position, with a reserve of 229% of its annual operational budget. The fund has been increasing for several years as the City's growth related income (sales tax, development income) have increased and the General Fund's expenditures have decreased. There was a significant increase in the Fund's reserves between 2020 and

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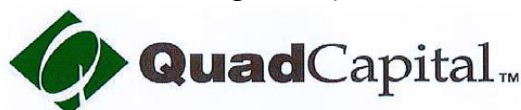
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2021 due to \$1,300,000 in CARES Act funds that exceeded expenses and \$250,000 in higher sales tax revenue than budgeted.

This completes a ten-year initiative to ensure that the City had adequate savings to respond in case of an emergency. With the General Fund stabilized, the City can now focus on simply maintaining its reserve balance. This stable financial environment has allowed the City's bond rating (similar to a family's credit rating) to improve significantly (there is not a more recent rating since the City no longer has outstanding bonds):



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### Rating Agency Credit Scale

Moody's	S&P	Fitch	NAIC*	
Aaa	AAA	AAA	1	Investment Grade
Aa1	AA+	AA+	1	
Aa2	AA	AA	1	
Aa3	AA-	AA-	1	
A1	A+	A+	1	
A2	A	A	1	
A3	A-	A-	1	
Baa1	BBB+	BBB+	2	
Baa2	BBB	BBB	2	
Baa3	BBB-	BBB-	2	
Ba1	BB+	BB+	3	Non-Investment Grade
Ba2	BB	BB	3	
Ba3	BB-	BB-	3	
B1	B+	B+	3	
B2	B	B	3	
B3	B-	B-	3	

\* National Association of Insurance Commissioners

In addition, this stable financial position has allowed the City to make further enhancements in its infrastructure at far lower interest costs. Over the past 48 months, the various infrastructure financing applications have benefited from this high credit rating from banks and the USRDA. Overtime this rating enhancement will save taxpayers literally millions of dollars over the terms of the loans.

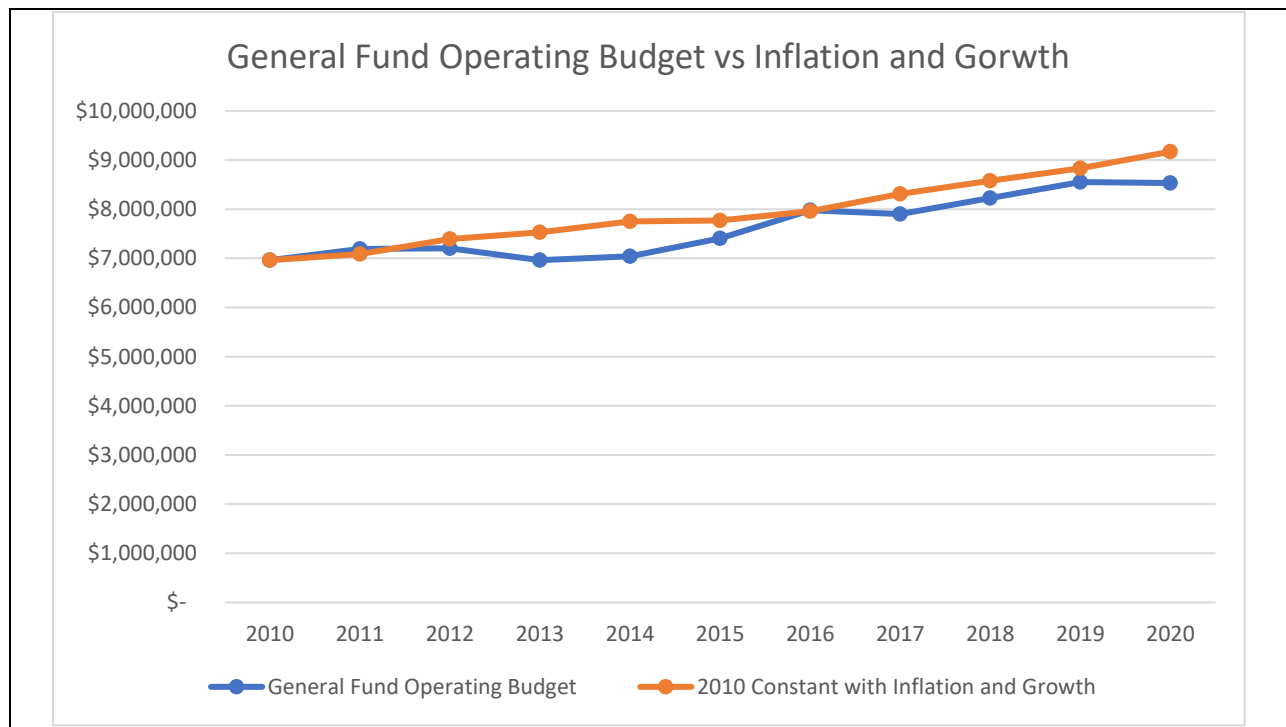
Due to the growth of the community and the continued focus on innovation and efficiency, the City has been able to ensure that the ongoing cost of providing general municipal services (Public Safety, Streets, Parks, Recreation, Library, Adminsitration, etc.) has coninutally declined. When measured in real dollars (adjusted for inflation) and the City's population growth, the cost of providing the basic services of the municipality has been reduced by 7.5% from 2010 to 2020.

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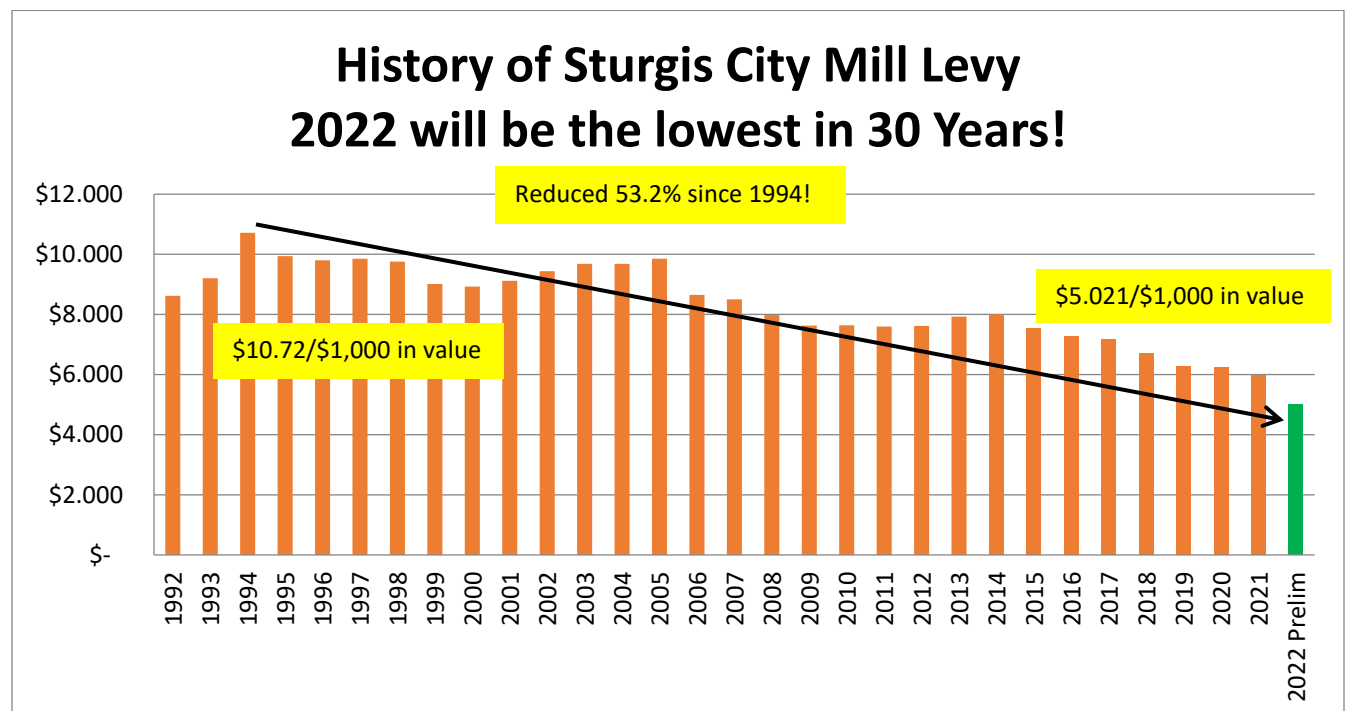
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The growth of the community, the continued profitability of the annual City of Sturgis Motorcycle Rally and continued efficiency has allowed the City to continually reduce its property tax rate. In total, by next year, the City will have reduced its property tax rate by 34.3% since 2010.



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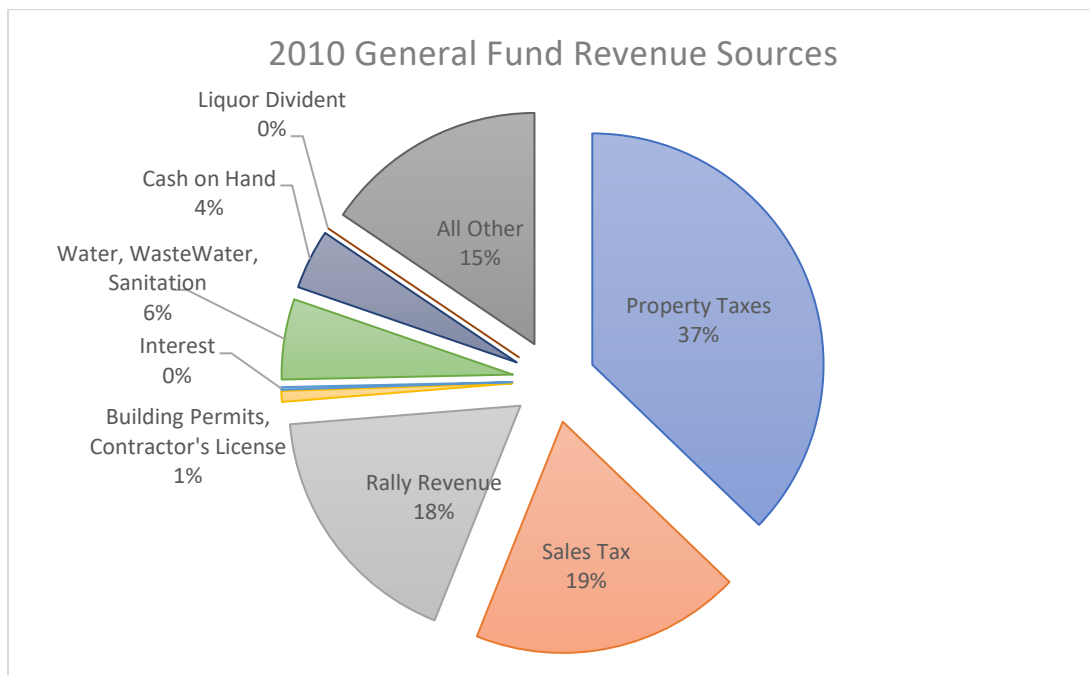
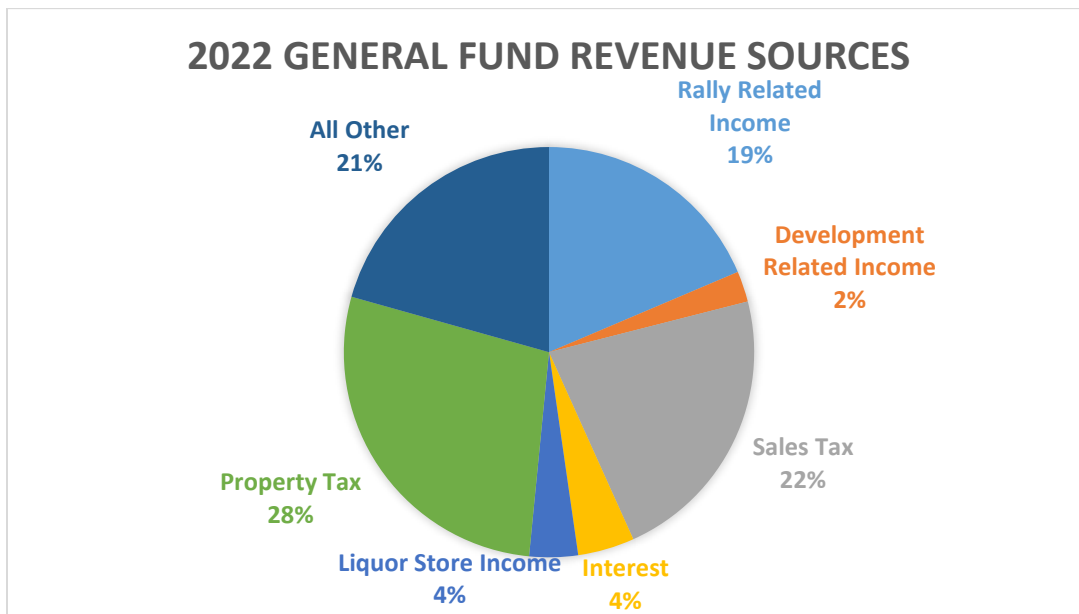
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The reduction in property taxes has been funded through an increase in a larger variety of revenue. As illustrated below, in 2022, property taxes will now account for 28% of General Fund revenue, compared to 37% in 2010. The major contributors allowing for this reduction include:

- The increased profitability of the Liquor Store
- The increased profitability of the annual City of Sturgis Motorcycle Rally
- The increased revenue from interest payments made to the City on TIF loans
- Increased sales tax revenue
- Increased contractor licenses and building permits



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## **Water Fund**

As of the end of June 2021, the Water Fund retained a reserve balance of 701% of its operational budget. This significant savings is due to retaining revenue for future larger water main replacements and other capital improvements. The Municipal Utility Board (MUB) determined the best course of action for funding future capital improvement projects is to provide payment from water reserves. This compares to the past practice of taking on loans from the US Rural Development which requires additional surcharges to be placed on the monthly utility bill. The MUB has asked for funds to be saved and larger projects to be constructed every 2-4 years. With sufficient revenue now having been saved, the next water main replacement project will begin to be developed.

## **Wastewater Fund**

The Wastewater Fund end June of 2021 with a total reserve of 1,511% of its operational budget. This tremendous balance was part of the original financing plan for the wastewater treatment plant. The plant is currently under construction and is anticipated to become operational in a few weeks. The financing package requires the City to make the final few construction payments totally approximately \$2.8 million. The initial operation period will be staffed by the contractor, however soon after operations begin, the City will need to increase the wastewater workforce to operate the new facility. The increased labor costs, increased utility costs, savings for equipment replacement and loan repayment will consume the additional revenue that had been collected each year since the surcharge went into effect. With an annual growth rate of 35 new customer units per year, the City should be in a position to maintain or potentially reduce the surcharge in the future. The City has grown faster than this estimate since the financing package was approved. As such, the Council was able to reduce the surcharge and monthly wastewater fee earlier this year. If growth continues to exceed 35 new customers per year, future reductions could be seen.

## **Sanitation Fund**

The Sanitation Fund continues to be quite challenged. Though the existing reserve is 123% of its operational expenses, 60% of the reserve balance would be consumed through the purchase of a single new truck (we maintain a fleet of 3 routinely operated trucks). The fund's fixed costs (Belle Fourche landfill fees, truck replacement and insurance) continue to increase faster than the fund's utility fee increases. Over the years, this eroding annual surplus has meant that the fund has been unable to continue to build reserves for needed equipment replacement. In 2020 the City reviewed labor practices and instituted a revised work schedule which has reduced some overtime expense. When the City Council reviewed utility rates in January of 2021, water and wastewater fees were reduced. Approximately 29% of the reduction was used to increase the sanitation revenue. This has made a difference, however the fund remains challenged.

## **Ambulance Fund**

The Ambulance Fund continues to be challenged though it has stabilized. The City has taken significant strides to ensure the structural imbalance of the fund ends. This has included requiring all property owners receiving the benefits of guaranteed coverage to provide financial contributions to the Service. It has also included an increase in the City's contribution to the

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Ambulance Fund. These changes have stabilized the fund however further improvements will be needed to begin balancing the debt of the fund. The fleet has been enhanced greatly by the City investing nearly \$250,000 of its CARES Act funding to purchase a new ambulance and remount an existing ambulance.

### **Summer 2019 Flooding Events**

During the Summer of 2019, the City experienced a historical amount of rainfall, culminating in two separate Presidentially Declared Disasters. These disasters caused significant debris to accumulate on City streets, damaged two low water crossings along Deadman debris way, destroyed the crossing into the City's lagoons (twice), destroyed the two crossings (Blanche and Sly) into the City Park, destroyed the 7<sup>th</sup> Street crossing, damaged several areas of the Bear Butte Creek levee, collapsed part of the Woodland Drive bike path and destroyed the 15<sup>th</sup> Street crossing next to the City limits.

The City completed the reconstruction of the road into the City's lagoons and the two crossings into the City Park. After these immediate repairs, FEMA flagged the City's lack of previous authority to construct the 7<sup>th</sup> Street, Blanche and Sly crossings. When the City originally installed these crossings (prior to 2010) it did not acquire necessary permitting from the Army Corps or FEMA and had not completed a hydrological analysis to determine the impact the crossings would have on the flood plain.

Due to this inadequacy, the City had to begin the hydrological study to close out the Sly and Blanche crossing and a hydrological study to determine if FEMA would allow the reconstruction of the 7<sup>th</sup> Street crossing. The outside engineering firm has completed this study and a design to reconstruct the 7<sup>th</sup> Street crossing while not increasing the floodplain upstream. These plans have been approved by FEMA. The City has submitted the necessary funding requests to ask FEMA to provide partial funding for this reconstruction project. However, since the original crossing was not approved, they are not required to provide any funding towards its reconstruction. We believe that we will hear from FEMA in the Fall of 2021 as to if it will provide any funding towards a reconstruction project. The initial findings for the Sly and Blanche crossings indicate a rise in upstream floodplain as well. The outside engineering firm is completing an analysis to determine if these crossing can be modified so that they will not impact any structures upstream. If upon final conclusion of the process no structures are affected, the crossings will be allowed to stay in place and FEMA may reimburse up to 75% of the cost incurred.

The 15<sup>th</sup> Street crossing is located on private land outside the City limits. As such, FEMA is unable to provide any funding towards its reconstruction. Similar to the other crossings, the 15<sup>th</sup> Street crossing was not properly permitted when it was constructed. As such, a hydrological study and design are necessary to ensure that there is not a base flood elevation rise upstream. The City has provided a proposal to the County residents to assist but the majority of the costs would need to be paid for by the property owners or the County as it is not a City owned crossing. To date, the City has not received acceptance from the residents or the County of this proposal.

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## **COVID-19 Impact**

Similar to much of the Country, the City's economic forecast changed dramatically in mid-March of 2020, when the entire nation joined together in addressing the changing environment caused by the outbreak of COVID-19.

The City's response to the March "15 Days to Slow the Spread" initiative was quite unique from other communities throughout the region. The City did not issue business closure mandates or stay at home orders. Instead, the City sought to support vulnerable residents by providing free shopping and delivery services. The Sturgis Good Deeds Program provided free, contactless delivery to more than 200 residents. In addition, the City ensured that outdoor playgrounds and recreational areas were open and sanitized routinely. This allowed some semblance of normalcy to continue during this peculiar time. The cleaning continued until CDC guidance changed to no longer suggest that COVID-19 was spread through surface transmission.

Many Sturgis businesses remained open throughout this time; though some businesses voluntarily closed. The vast majority of these businesses reopened following CDC Guidelines in a far quicker manner than neighboring communities. The City supported this reopening effort through numerous visitations and suggestions and a significant advertising and gift card giveaway campaign, "Sturgis Strong." The campaign was a partnership between the City, the Chamber of Commerce and the Sturgis Economic Development Corp.

By late June most metrics indicated that the community's economy had emerged from the recession (far earlier than the nation). Throughout the course of the pandemic, the City expensed approximately \$200,000 in additional unbudgeted COVID-19 related supplies and labor costs. In late June, the Governor announced the COVID-19 Recovery Fund (CRF) for local counties and municipalities. The City of Sturgis' allocation was \$1.56 million. However, the City was able to receive approximately \$1.8 million through significant work by the Finance Office. The additional funds were used to pay for a mass testing event, purchase a new ambulance and a remount of an ambulance. The remaining funds were used to further increase the City's General Fund reserve.

Though the community's approach was controversial, the results have been very promising. The community's economy recovered and expanded at a rate faster than the region. To illustrate, the July 1, 2020 through June 30, 2021 taxable sales in Sturgis rose 9.8%, compared to 8.6% in Spearfish and 8.5% in Rapid City. This is despite the 2020 Rally being smaller than the 2019 event. More importantly though, the health impact of COVID-19 has been lower in Sturgis than in South Dakota and the Nation. The cumulative infection rate within Meade County is 4% lower than the national average, the lowest rate in the Black Hills (15.2% lower than the Black Hills average) and 29.8% lower than the State's average. Most importantly, the mortality rate of our community is 41.6% lower than the national average and 52.8% lower than the state's average.

## **City's 2022 Income Projections**

The city's sales tax receipts continue to remain strong. This is being fueled by the continued growth of the community, increased number of retail outlets and the continued growth of the tourism industry. Through the end of May, the City has seen a 18% increase in general sales tax

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revenue over 2020 and a 57.6% increase in tourism sales tax. However, the first five months of 2021 are compared to the first five months of 2020 which were marked by historic market upheaval. As such, we cannot expect this robust growth to continue. The proposed budget anticipates a 7% general sales tax growth in 2021 and a 5% sales tax growth in 2022. The tourism sales tax is anticipated to grow 7% in 2021 and 5% in 2022.

Development is anticipated to remain at a very strong pace. The community continues to witness a historic number of individuals and families seeking to return or relocate to our community. This has occurred for more than 24 months and is anticipated to continue for some time. The proposed budget anticipates a 1% growth in population in 2021 and a 2.6% increase in 2022. Due to the continued growth of the community and diversification of the economy the City can continue to reduce its dependence on property taxes. The proposed budget includes a reduction in actual property tax collections of \$134,660. This in combination with the increased number of properties paying property tax and the increased valuation is anticipated to lead to a **reduction in the City's mill levy of 16.6%.**

The preliminary 2021 includes anticipated City of Sturgis Motorcycle Rally profit is approximately \$1,000,000. This has been the historical floor (besides 2020) for the past five years.

The City Water utility is anticipated to have a 3% increase in the monthly minimum charge to maintain revenue consistent with increases costs. There is no anticipated change to metered water sales or surcharges. The Wastewater utility base rate is anticipated to increase by 3%. There is no anticipated change in the surcharge. The Sanitation utility rate is anticipated to need to be increased by 3%, which remains lower than the prices increases that the fund is experiencing from the City of Belle Fourche landfill (where Sturgis' trash is transported to and dumped), fuel, equipment and other costs.

### **Infrastructure**

The proposed budget is consistent with the Generation Fund Infrastructure Plan adopted by the Council in August of 2018 and as reviewed by the Infrastructure Advisory Committee. This plan provides funding for significant parks and recreation improvements, street enhancements and utility upgrades. As identified in the plan, the proposed budget provides funding for

\$200,000 Boulder Canyon Trail Project (there is an additional \$400,000 grant)

\$250,000 Road resurfacing

\$700,000 Reconstruct portions of Moose Drive (will likely occur in 2023)

\$900,000 Reconstruct E. Main & E. Sherman (will likely occur in 2023)

\$ 62,000 Upgrades at the Armory (curtain and ceiling tiles)

\$170,000 Upgrades to the Dispatch Center Control Panels

### **Additional 2020 Budget Highlights**

In addition to the infrastructure investments, the proposed 2021 Budget continues the City's efforts to ensure a fully equipped and functional City fleet. All City Departments have identified capital equipment valued in excess of \$10,000 and the anticipated life expectancy of the equipment. From that point, a schedule for eventual replacement for each of the pieces of equipment has been scheduled. This helps to ensure that the City maintains a more functional

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and efficient fleet and reduces the impact when major pieces of equipment fails. The equipment scheduled for purchase in 2022 include:

\$ 30,000 New mowers for Parks

\$435,820 Purchase 2 new graders

In addition, we will continue to have \$140,000 saved for a new snow blower. The blower will be purchased once the existing machine becomes inoperable.

Personnel modifications include a change in the City Attorney department, one new staff attorney was hired to assist with the backlog of legal affairs. A new mechanic position is anticipated to be filled mid-year 2022. The second School Resource Officer is funded along with the Community Resource Officer. This completes an increase of two Full Time Officers over the past 3 years. The proposed budget includes a significant increase in the number of summer seasonal employees within the Parks Department. This is intended to ensure that there is a higher ability to maintain the community's land including the downtown flower beds. The proposed budget includes a significant increase in wages for all seasonal employees in order to be more competitive with the rising wages within our community. Further changes within the Rally and Events and Sponsorships Department will likely be made before the budget is presented for a first reading on August 23. The proposed budget seeks to demonstrate to all regular full-time employees that their work and dedication on behalf of the residents of the community is truly appreciated. In doing so, the proposed budget includes a 4.5% COLA, which is 50% higher than the City is required to provide according to the existing labor contracts.

### **Closing**

The proposed 2022 budget makes continued strides to enhance the community's infrastructure, 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 budget maintains the City's strong financial position. 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 continue the City's property tax reductions, the Community's tax basis must continue to expand. 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. In addition, residential customer base is the best way to attract new retailers to enhance the existing retail base within the community.

The preliminary budget will be posted in its entirety on the City of Sturgis website on July 29. The first reading of the 2022 Budget Ordinance is scheduled for August 23.

### **City's Income Projections**

The city's sales tax receipts continue to remain strong. However, given the very significant upheaval in the national economy, the 2021 budget is anticipating a reduction of 3.5% over the current trend in 2020. The BBB sales tax continues to be challenged given the significant changes in the travel industry. The 2021 proposed budget includes the same tax collections in 2021 as in 2019 for the BBB Fund.

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Development is anticipated to remain at the same pace as has been experienced over the past 24 months (this affect contractors licenses, building permits and new utility accounts). Due to the continued growth of the community and diversification of the economy the City can continue to reduce its dependence on property taxes. The 2021 budget anticipates a 4.3% reduction in the City mill levy.

The preliminary 2021 includes anticipated City of Sturgis Motorcycle Rally profit is approximately \$1,000,000. This has been the historical floor (besides 2020) for the past five years.

The City Water utilities are not anticipated to have any increase in either flat rates, metered water sales or surcharges. The Wastewater utility base rate is anticipated to increase by 3%. There is no anticipated change in the surcharge, though with continued growth in the near future it is a potential to begin to reduce the surcharge. The Sanitation utility rate is anticipated to need to be increased to be similar to Rapid City or Spearfish in future years. The 2021 budget includes a 3% increase. The City is preparing a request for proposals to see if a private sector hauler is able to provide the service at a more affordable level.

### **Infrastructure**

The proposed budget is consistent with the Generation Fund Infrastructure Plan adopted by the Council in August of 2018 and as reviewed by the Infrastructure Advisory Committee. This plan provides funding for significant parks and recreation improvements, street enhancements and utility upgrades. As identified in the plan, the proposed budget provides funding for

- \$150,000 Sports field improvements

- \$200,000 Plash Park

- \$100,000 Road resurfacing

- \$120,000 Community Center and Armory Upgrades

- \$16,471 for payment on the SVFD Fire Truck

These projects would not require additional taxes.

### **Additional 2020 Budget Highlights**

In addition to the infrastructure investments, the proposed 2021 Budget continues the City's efforts to ensure a fully equipped and functional City fleet. All City Departments have identified capital equipment valued in excess of \$10,000 and the anticipated life expectancy of the equipment. From that point, a schedule for eventual replacement for each of the pieces of equipment has been scheduled. This helps to ensure that the City maintains a more functional and efficient fleet and reduces the impact when major pieces of equipment fails. The equipment scheduled for purchase in 2021 include:

- 1 New Pickup for Public Works

- 1 New Sand Truck for Public Works

- 1 New SUV for Planning and Permitting

In addition, we will continue to have \$140,000 saved for a new snow blower. The blower will be purchased once the existing machine becomes inoperable. The City will continue to work towards saving for the purchase of the two motor graders that are currently being leased. They will be purchased in 2022.

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Personnel modifications include a change in janitorial servicing. For several years, the City has contracted the janitorial services for City Hall and Public Works. This was recently expanded to include portions of the Community Center. The 2021 budget includes using these funds to hire two additional full-time janitors within the Community Center budget. Those positions would provide janitorial support for the Community Center as well as City Hall and the Public Works Campus.

### **Closing**

The proposed 2021 budget makes continued strides to enhance the community's infrastructure, 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 budget maintains the City's strong financial position. 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 continue the City's property tax reductions, the Community's tax basis must continue to expand. 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. In addition, residential customer base is the best way to attract new retailers to enhance the existing retail base within the community.

The preliminary budget was posted in its entirety on the City of Sturgis website on July 28. Should the Council adopt this first reading, the second reading would be scheduled for September 8.

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**City Manager Approval:** \_\_\_\_\_

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