



*City of Riders*

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## Council Report

September 7, 2021

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Consideration to approve first reading of Ordinance 2021-08 – Supplement to the 2021 Budget

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### **Background/History**

Each year, the City of Sturgis adopts a budget that includes projected revenue and projected expenses. The budget is developed in July and adopted in August and September. The expenses are calculated by looking at previous expenditures over the past several years and anticipating the costs for the same items for the upcoming year. The City does not including “padding” in any of the budgets. Instead, the City explains to each Department to anticipate the costs necessary to operate during a “typical” year. Then during the year, if there are unforeseen issues that arise or if the City begins new initiatives, a supplemental appropriation is needed. A supplemental appropriation formalizes previous actions that have been approved by the Council. It amends the budget so that it coincides with the realities and new initiatives that were not known when the original budget was adopted.

### **Discussion**

#### **Supplemental Appropriation for TIFs**

The vast majority of the proposed Supplemental Appropriation changes the budget for several Tax Increment Finance Districts (TIF)s. A description of each of the TIF supplements is included below. In each case, the City loans the TIFs funds to pay for portions of the development. The TIF repays the City at a 5% interest rate. This return is 33 times greater than what the City would receive in a savings account. As included in the proposed 2022 Budget, these TIF loans will return \$445,000 to the taxpayers of Sturgis. This is the same amount of revenue generated from hosting the Rally in 2011.

#### **TIF #16 – Trailhead Loop**

The Trailhead Development was approved by the Council on September 21, 2020. The plan was adopted following a public hearing at the Planning and Zoning Commission. The approved Project Plan includes \$935,000 in funding for infrastructure improvements and interest payments. This was not included in the adopted 2021 Budget as the TIF was approved after the 2021 budget was adopted. A large portion of the subdivision has been completed, however not all of the improvements have been finished. As such, the anticipation is that \$495,000 of the \$935,000 will be used in 2021. The supplement includes \$495,000 for the TIF Development.

#### TIF #17 – Smitty’s

The Katie Lane Development (Smitty’s) was approved by the Council on July 28, 2020. The plan was adopted following a public hearing at the Planning and Zoning Commission. The project was completed faster than originally anticipated. The construction costs were included in the adopted 2021 budget. However, the interest payments were not included as the construction was not anticipated to be completed as quickly as they were. The supplement includes \$6,000 for the TIF Development interest payments.

#### TIF #20 – Garden Grove

The Garden Grove Development was approved by the Council on December 21, 2021. The plan was adopted following a public hearing at the Planning and Zoning Commission. The approved Project Plan includes \$2,200,000 in funding for infrastructure improvements and interest payments. This was not included in the adopted 2021 Budget as the TIF was approved after the 2021 budget was adopted. Nearly all of the improvements have been completed. As such, it is anticipated that up to \$2,010,000 of the \$2,200,000 will be used in 2021. The supplement includes \$2,010,000 for the TIF Development.

#### TIF #21 – Hidden Hills Estates

The Hidden Hills Estates Development was approved by the Council on March 15, 2021. The plan was adopted following a public hearing at the Planning and Zoning Commission. The approved Project Plan includes \$3,505,000 in funding for infrastructure improvements and interest payments. This was not included in the adopted 2021 Budget as the project required significant utility improvements and coordination were required and was not anticipated to be completed in 2021. It was highly doubtful that the extension of water lines would be possible until 2022, as such it was anticipated to be included in the 2022 budget. However, after months of discussion and engineering, a route underneath the interstate was selected. This allowed the development to proceed faster than anticipated. It is anticipated that nearly all of the improvements will be completed by the end of this calendar year. As such, it is anticipated that up to \$1,805,000 of the \$3,505,000 will be used in 2021. The supplement includes \$1,805,000 for the TIF Development.

#### **Supplemental Appropriation for BID Fund**

The Downtown BID Fund is where the Downtown Business Improvement Fees and various event sponsorship revenue and expenses are accounted. Unexpectedly, the Downtown Fund hosted a new Memorial Day event. Also, the cost for all of the bands used throughout the summer were more than what the City had paid in years past and the number of attendees and events held in association with the Camaro Rally were higher than originally anticipated. Lastly, there were some additional upgrades with the Harley-Davidson Rally Point sound system to allow easier connections. All of these additional costs are paid for through additional ticket sales from the 2021 Camaro Rally and the Downtown Fund’s existing surpluses from years past (as of December 31, 2020, \$130,234).

#### **Supplemental Appropriation for Capital Improvement Fund**

The Capital Improvement Fund Supplement will not increase the actual amount of money spent on Capital Improvements. For the 2021 budget, the City allocated a lump sum of \$930,000. When the City uses portions of this allocation for smaller projects, the large lump sum must be separated. This appropriation will not increase the total budgeted amount of funds for capital improvements. Instead, it moves \$22,000 out of the large lump sum and into the smaller projects that were completed.

### **Supplemental Appropriation for General Fund**

The General Fund Supplement includes additional costs for purchases that were made due to the unexpected CARES Act funds that the City received. The City received \$1,808,102.04 in CARES Act funding. This was 13.8% (\$243,205.04) higher than our allocation. The City received more than our allocation because of the significant time invested by our Finance Department to find every possible item for reimbursement. On May 17, 2021, the City Council authorized the transfer of funds from the General Fund to the Ambulance Fund. This transfer funded the purchase of a new ambulance and the remount of an existing ambulance box on a new chassis. The proposed supplement matches the budget to this previous action taken by the City Council.

The airport has continued to see an increased amount of activity. This has led to further sales of Av Gas and Jet A fuel. Importantly, the City receives a net profit from every gallon sold. Given the rate of fuel sales, we anticipate that we will need \$50,000 of fuel beyond what we budgeted in September of 2020. In addition, \$9,000 in unforeseen repairs to the sewer lines were required this year.

The Community Center began overseeing the custodial services over almost all of the City facilities in 2021. We anticipated this change and included a line item for janitorial supplies (in the past the professional services contract included the outside contractor supplying the janitorial supplies). However, we did underestimate the cost of the various supplies. The proposed supplement includes \$29,500 for additional supplies.

Earlier this year, the City completed the process of terminating its licensee agreement with SMRi and launching its own brand and logo for the City of Sturgis Motorcycle Rally. This was a significant process that involved significant Council and community discussion. The City incurred additional expenses for the termination of the SMRi licensee agreement, logo design fees and legal fees that were not included in the 2021 budget. The proposed supplemental appropriation includes \$472,000 to formalize these previous Council actions.

The Council authorized the use of open container cups during this year's City of Sturgis Motorcycle Rally. As it was the first year of the initiative, the projected demand for the official cup was not known. There was significant concern that the City would run out of cups during the first few days of the Rally. In order to address the concern, the City purchased a large number of cups, with most being undated so that they could be used during future events. This initiative was not anticipated during the development of the 2021 budget. \$182,000 of the proposed supplemental appropriations budget formalizes this previous Council action.

The Rally and Events Department greatly increased the amount of merchandise available for sale on the Rally's Superstore website. This new initiative was made available once the SMRi licensee agreement was terminated. The City had to purchase the additional product, but has made a net profit from the items sold on the site. This new initiative requires \$20,000 in budget authority.

In February of this year, many parts of America experienced weeks of tremendously unseasonably cold temperatures. The temperatures greatly increased demand for electricity production. These increased costs have been passed on from Black Hills Energy to customers. The City of Sturgis included typical energy costs plus 3%. However, this massive regional storm is increasing total charges to City facilities by \$40,000.

A few months ago, our City Attorney retired. This required several payouts and led to a different structure within the City Attorney Office. In addition, there have been several personnel changes within our Library. These changes have likewise impacted the 2021 budget. All of these personnel changes have been accounted for in the 2022 budget, however they need to be accounted for in the 2021 budget. The proposed supplemental appropriations authorize \$46,500 for these purposes.

The remaining \$149,400 of the General Fund supplemental appropriation provides authority for minor equipment, supplies and professional fees and other items that were not anticipated when the 2021 budget was adopted. Importantly, this represents less than 2% of the adopted 2021 General Fund budget.

**Recommendation**

Staff recommends approving first reading of this ordinance.

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Approved:	<div></div> <div></div> <div>Daniel Ainslie, City Manager</div>
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