



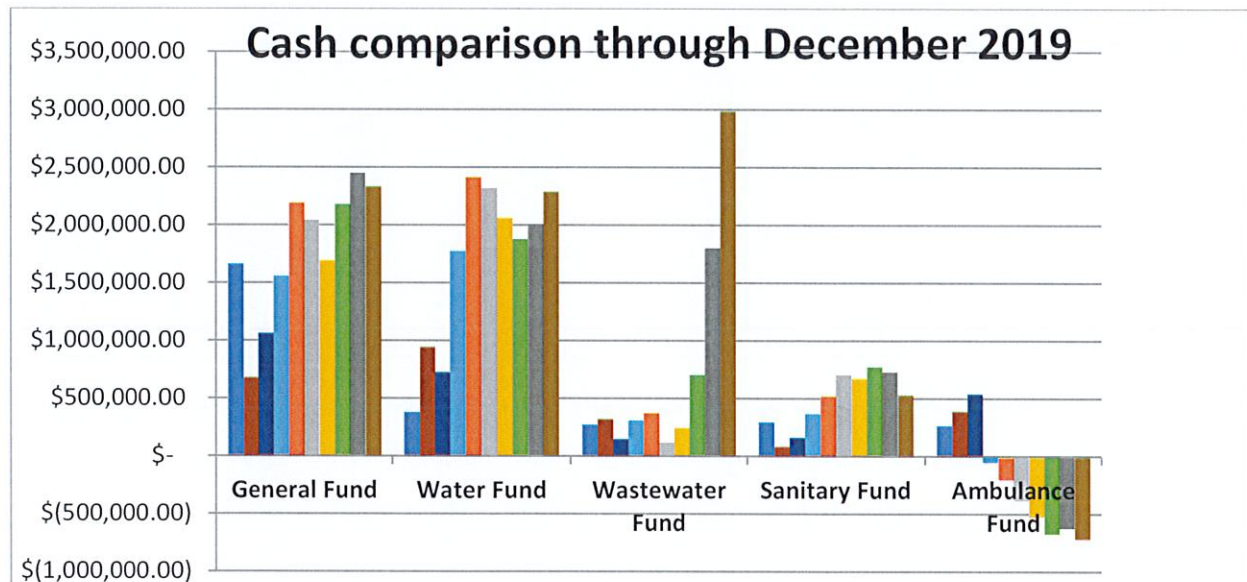
1040 Harley-Davidson Way
Sturgis, SD 57785
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City Council Report

Meeting Date: July 27, 2020
Agenda Item: Presentation of 2021 Preliminary Budget
Prepared By: Daniel Ainslie, City Manager

City's Financial Position

Over the past nine 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 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 year end cash balances from 2011 (burgandy) to 2019 (brown).



General Fund

The City's General Fund remains in a very strong position, with a reserve of 41% of its annual operational budget. The minor decrease compared to 2018 is due to more than \$250,000 in expenses incurred during the Summer of 2019 flooding events that were presidentially declared disasters. The City anticipates a reimbursement of much of those expenses in 2020 or 2021. In addition, several future Rally lease payments were prepaid in 2019 in order to achieve a total savings of more than 10%. It is anticipated that the cash balance in the General Fund will be more than restored by the end of 2020.

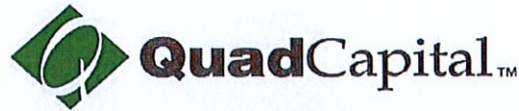
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In 2012, the City had to begin to focus on rebuilding its savings. These efforts have succeeded in adequately stabilizing the General Fund, as such, the City can now focus on simply maintaining its reserve balance. This stable financial environment 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 36 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.

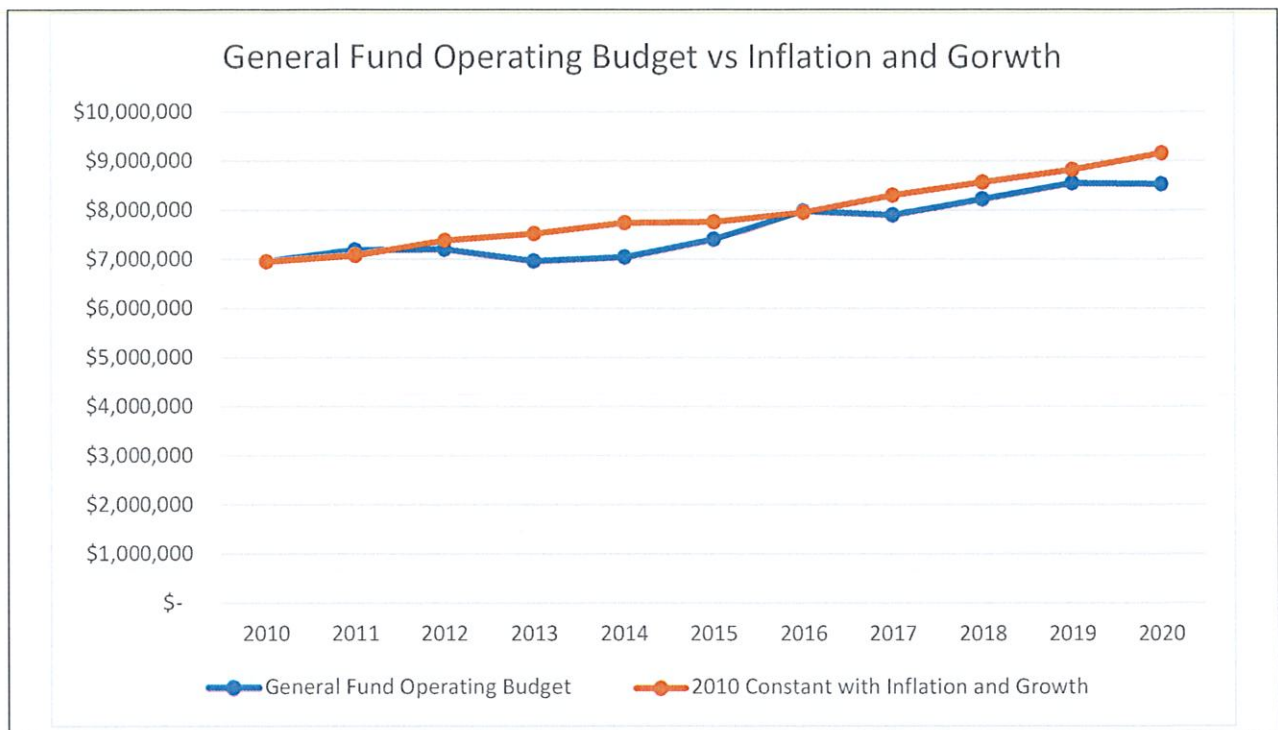
Due to the growth of the community and the continued focus on innovation and efficiency, the City has been able to ensure that the ongoing cost of providing general municipal services (Public Safety, Streets, Parks, Recreation, Library, Adminsitration, etc.) has coninutally declined. When measured in 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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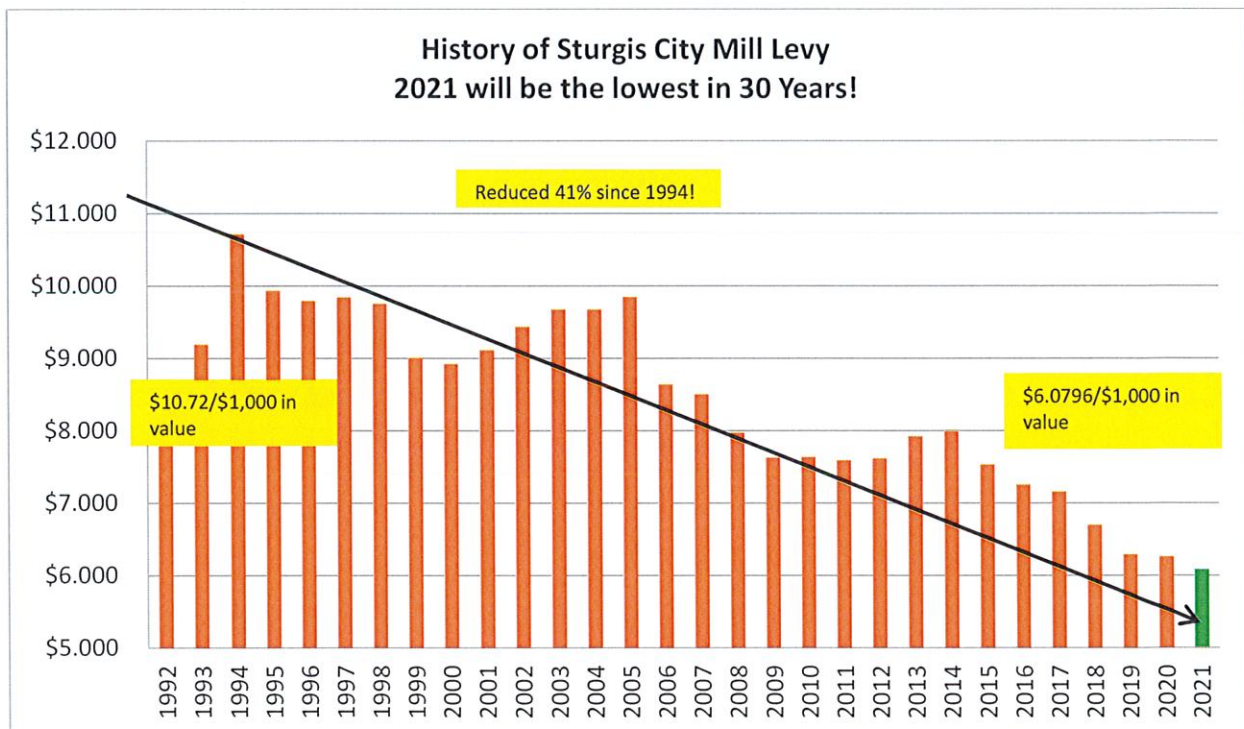
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The growth of the community, the continued profitability of the annual City of Sturgis Motorcycle Rally and continued efficiency has allowed the City to continually reduce its property tax rate. In total, by next year, the City will have reduced its property tax rate by 20.5% since 2010.



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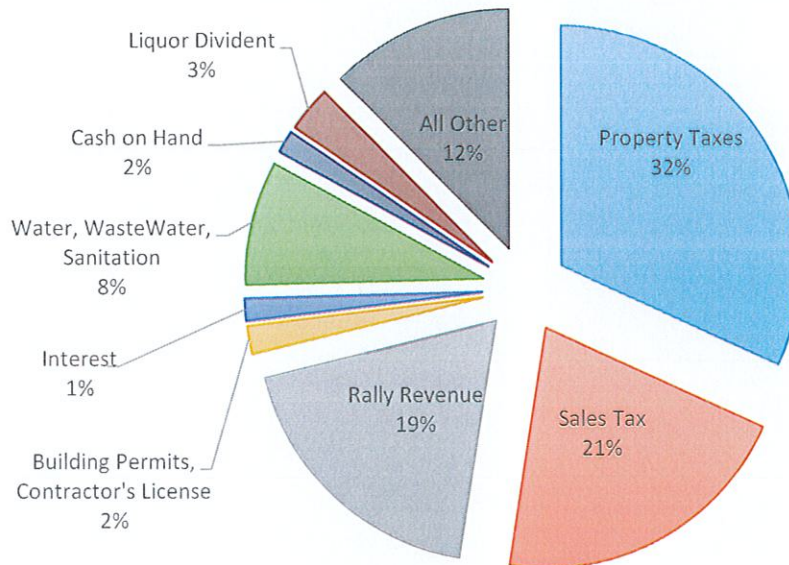


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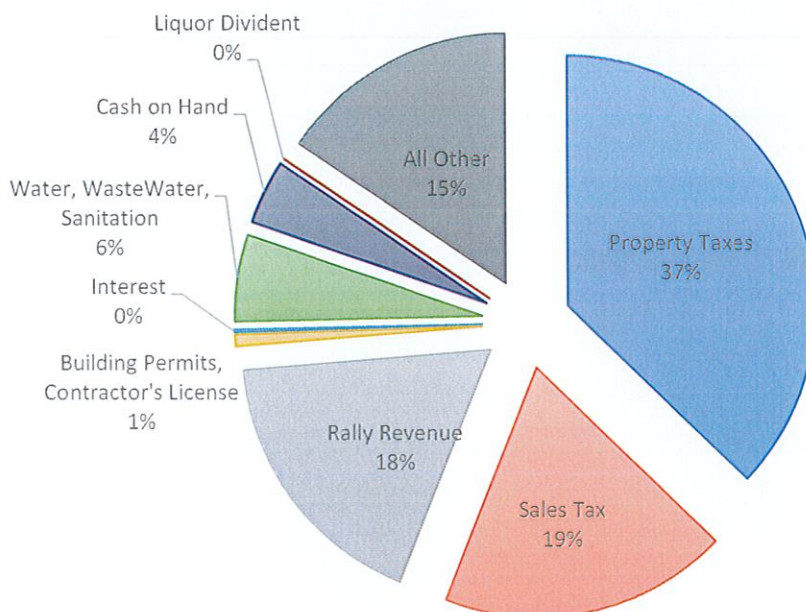
The reduction in property taxes has been funded through a diversification in its funding sources. As illustrated below, in 2021, property taxes now account for 32% of General Fund revenue, compared to 37% in 2010. The major contributors allowing for this reduction include:

- 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 contractor licenses and building permits

2021 General Fund Revenue Sources



2010 General Fund Revenue Sources



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Water Fund

As of the end of 2019, the Water Fund retained a reserve balance of 511% 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 ended 2019 with a total reserve of 1,007% 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 the Spring of 2021. 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.

Sanitation Fund

The Sanitation Fund continues to be quite challenged. Though the existing reserve is 81% 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 has reviewed labor practices and is instituting a revised work schedule to greatly reduce any overtime expense. Additional cost saving measures have also been instituted, however, they are insufficient to make up the long term deficit for equipment. The City will be investigating potentially outsourcing this service to private providers as well as potential changes to the utility fee schedule.

Ambulance Fund

The Ambulance Fund continues to be greatly challenged. 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 Ambulance Fund. Lastly, the City is completing an analysis of the potential benefits of alternative billing practices.

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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 7th Street crossing, damaged several areas of the Bear Butte Creek levee, collapsed part of the Woodland Drive bike path and destroyed the 15th 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 7th 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 7th Street crossing. The outside engineering firm is still working to finalize the 7th Street study. The initial findings indicated that reconstructing the 7th Street crossing similar to the pre-flood state would increase the base flood elevation by 1', which is unacceptable to FEMA. If a solution cannot be found to replace the crossing without increasing the base flood elevation, the City will not receive the necessary permits to reconstruct the crossing. The initial findings for the Sly and Blanche crossings indicate a rise as well, however, it is believed that it would not impact any structures. 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 15th 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 15th 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 of this proposal.

In May, the City received FEMA reimbursement for the costs incurred during the debris removal. The City is anticipated to complete the reconstruction of the Woodland Drive intersection and bike path this summer. This was not included in the adopted 2020 budget and will need a supplemental appropriation. Eventually up to 75% of the cost will be reimbursed by FEMA. The remaining embankment repairs have been completed, similar to the Woodland project, these repairs were not included in the 2020 budget and will require a supplemental appropriation. FEMA will eventually reimburse up to 75% of these costs.

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COVID-19 Impact

Similar to much of the Country, the City's economic year was looking quite promising in 2020. Negotiations for the long awaited Independent Senior Living project were nearly complete, local sales during the 2019 Christmas season were the highest ever, construction had just completed the second largest year ever and the 80th City of Sturgis Motorcycle Rally was anticipated to be one of the largest events on record.

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 has provided free, contactless delivery to more than 100 residents to date and will continue to assist vulnerable residents until the pandemic has passed. 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.

Many Sturgis businesses remained open throughout the 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.

To date, the City has expensed approximately \$100,000 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. The allocation will be able to fully replenish the added costs expensed on COVID-19. In addition, it will provide funding for public safety related personnel costs from March 1 through December 31. The public safety related expenses are anticipated to total approximately \$1.2 million.

December 31, 2020 Financial Projection

The City is actively monitoring the significant upheaval that is occurring throughout the national economy. Nearly every national metric indicates the current national economy is at its worst point in nearly a century.

IMF: 'This is the worst recession since the Great Depression'

The International Monetary Fund has sharply lowered its forecast for global growth this year because it envisions far more ...

Get ready for the worst unemployment reading since the Great Depression: Morning Brief

This report is expected to show the economy lost 7.5 million jobs ... At this level, the unemployment rate would be the highest since the Great Depression. And as we head into the summer months ...

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Due to this upheaval, the City has been carefully monitoring the organization's finances to ensure that it can maintain its strong financial position. This includes careful analysis of all 14 of the City's funds with heightened attention being paid to the 8 largest funds.

General Fund

The City's General Fund includes 40.5% of the City's budget. To date, expenses have largely been in line with the original budget with the exception of 2019 FEMA recovery projects and COVID expenditures. As previously described, the majority of these expenditures will eventually be repaid to the City. Additional savings have arisen from greater efficiencies in the utilities used in several buildings and the reorganization of several positions. In addition, Departments have been greatly reducing overtime expenditures. By the end of the year, total General Fund expenditures are anticipated to be lower than originally budgeted (with the exceptions previously described).

Property Taxes provide 31% of the General Fund's revenues. To date, revenue has been in line with projections. Rally revenue accounts for 19% of the fund's revenue. Given the greatly diminished event that is anticipated a very early estimate is that total net from the event will be approximately \$500,000 versus the \$1,000,000 anticipated in the budget. Sales Tax represents 19% of the Fund's revenue. As of the end of May collections, sales taxes are 9.7% higher than anticipated when developing the 2020 budget. This percentage will decrease as Rally sales taxes are included and the reduction in internet provider services are eliminated this July. However, this revenue stream appears to exceed the projections included in the 2020 budget.

The Liquor Store provides approximately 3% of the total General Fund revenue. To date in 2020, the Liquor Store's profitability has exceeded projections by more than 40%. All other General Fund revenue sources including building permits and interest are fairly similar to the initial projections included in the 2020 Budget.

A very early projection of the ending General Fund Reserve balance (cash and investments) would be \$3,000,000. This includes the 2020 Budget's increase in the reserves of \$180,000, the anticipated reduced profitability of the City of Sturgis Motorcycle Rally, the CRF reimbursement, and FEMA related projects and reimbursements.

Municipal Utilities

The City's utilities total 27.3% of the City's budget. To date, revenue collections have been in line with projections as have costs. Beyond the ongoing structural deficiencies in the Sanitation Fund previously described, there is no significant change to this portion of the City's budget.

Capital Improvement Fund

The City's Capital Improvement fund represents 9% of the City's budget. It is funded through 45% of the City's sales tax collection. To date 2020 Capital Project expenses have been in line with projections and the revenue has been 9.7% higher than budgeted.

Tourism (BBB) Fund

The City's Tourism Tax or BBB Fund totals 2% of the City's budget. To date, the tourism tax fund is 14% lower than anticipated in the 2020 Budget. This reduction has been due to the

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dramatically lower tourism rental rates of hotels and the voluntary closure of restaurants during March and April. Given the likelihood of a far smaller Rally, this deficit is likely to grow. As such, significant reductions in expenditures in 2020 and 2021 will be necessary. The City has already reduced expenditures from this fund through eliminating the annual Supermoto event in the fall and the Summer movie series. The 2021 Budget will need to include these reductions as well as further reductions to the funding of the Chamber of Commerce and SEDC in order to rebuild the fund's balance. Over time, the City will need focused attention to expand and enhance tourism draws in order to rebuild this fund.

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 an increase of 1% over the total 2019 collections. 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.

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 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. The Sanitation utility rate is anticipated to need to be increased to be similar to Rapid City or Spearfish. 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. Further information will be available by the first reading of the 2021 budget on August 24.

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 Splash 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.

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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.

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 will be posted in its entirety on the City of Sturgis website on July 28. The first reading of the 2020 Budget Ordinance is scheduled for August 24.

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City Manager Approval:

Dan Ari

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