



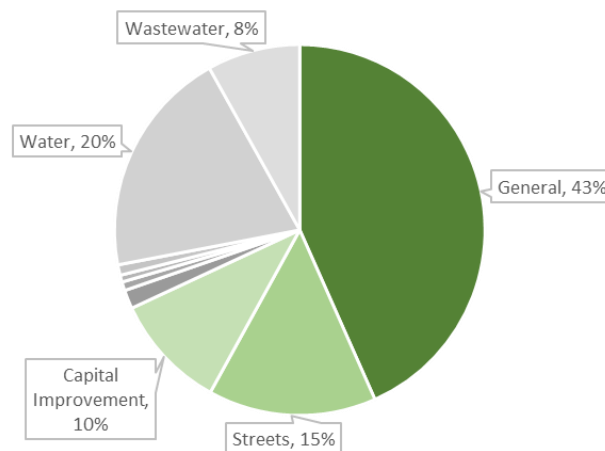
CITY COUNCIL WORK SESSION

MEETING DATE: September 7, 2021
AGENDA ITEM: 2022 Budget Discussion
FROM: Aimee Tihonovich, Finance Director

For this evening's budget discussion, the following key decision points will be discussed in detail:

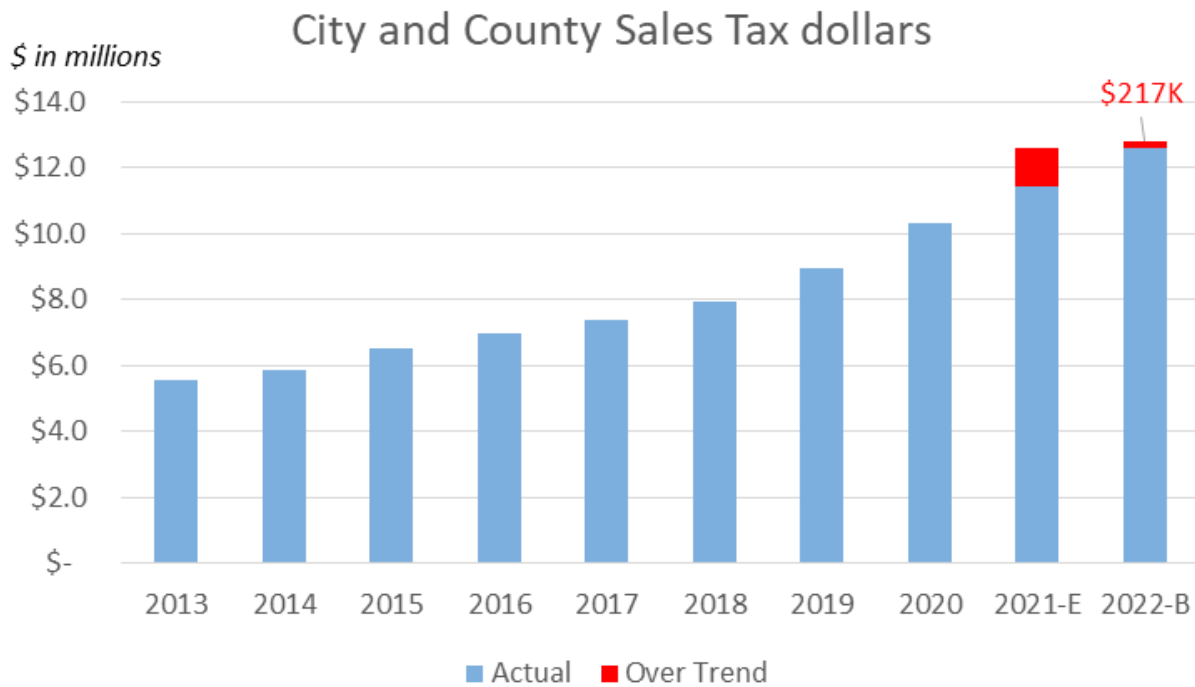
1. 2022 sales tax projections at 24% higher than 2020 actual.
2. Utilization of fund balance in the General fund budget of \$2.3M
3. Utilization of fund balance in the Streets Fund Budget of \$324K
4. Evaluate the impact of one-time funding requests contained in the budget.
5. Continue with annual water and wastewater usage fee increases as recommended by rate study (2.58% increase for water, 8.85% increase for wastewater)

Most of the focus will be on the budget funds shown in green on the below chart, these funds are reliant on sales tax to support their operations:



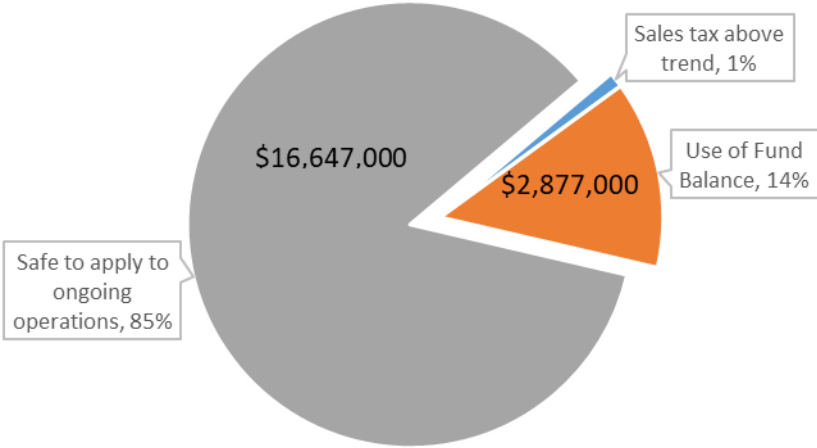
City and County sales tax collections represent 78% of the revenue for these 3 funds in 2022. Sales tax can be unpredictable and volatile in nature which is why

the City of Salida tracks it carefully looking for any indication that the budget should be adjusted when the trend is altered. 2021 is a year of unprecedented sales tax growth thus far. Year to date as of June 2021, collections were up 29.4% over June year to date 2020. The 2022 budget anticipates that 2021 will end 24% higher than 2020 and that 2022 will be level with 2021. This seems conservative for the times, yet this rate is higher than the trend of the last 9 years. The below chart shows the portion of the sales tax growth in the 2021 and 2022 projections that are above the trend line (the red portion of the bars for those years):



For the portion of sales tax that is over the trend line (\$217,000), best practices suggest that these funds NOT be applied toward recurring expenses in the budget. This same rule of thumb applies toward the use of fund balance reserves. The budget for these 3 funds calls for a \$2,660,000 use of fund balance reserves (\$2,336,000 in the General Fund and \$324,000 in the Streets Fund).

To summarize, it is recommended that at least \$2,877,000 of the City’s “major” funds contained in the budget be utilized only for non-recurring expenditures. The below is a pictorial representation of what portion of total revenues in the General, Capital Improvement and Streets fund this represents:



Following is a list of non-recurring expenses contained in the 2022 budget. It should be noted that this list does NOT include things like replacements of capital equipment and machinery or routine maintenance of streets and parks—the city can find more flexibility within the budget by postponing these type of costs when absolutely necessary.

	Description	Cost in Proposed Budget
	<i>General & Capital Improvement Funds</i>	
1	Soaking Pools	\$ 2,000,000
2	Splash Pad	\$ 350,000
3	Aquatic facility upgrades (new floor, temperature controls, boiler, highway sign, sound system, seating, landscaping, inflatable obstacle course)	\$ 287,000
4	Vandaveer Master Plan & related professional services	\$ 150,000
5	Caboose exterior resoration net of grant	\$ 150,000
6	Scout wave replacement on river	\$ 100,000
7	Site development for possible public art plaza	\$ 100,000
8	Develop ADA transition plan for City Park & Rec facilities and parks	\$ 80,000
9	Implementation of new software purchases (project managemnet, budget document, lodging tax online)	\$ 70,000
10	Firehouse funding package and due diligence for construction site	\$ 65,000
11	Document imaging of Clerk & Recorder records	\$ 54,000
12	Touber Building remodeling	\$ 50,000
13	Completion of land use code re-write net of grant revenue offset	\$ 35,000
14	<i>Subtotal - General & Capital Improvement Funds</i>	\$ 3,491,000
	<i>Streets Fund</i>	
15	Street reconstruction 10th and 12, paving with pedestrian improvements	\$ 1,700,000
16	Expand and move mechanic shop to Multi-use facility in preparation for an Emergency Vehicle Technician FTE in 2022 and Fleet Manager in 2023	\$ 100,000
17	<i>Subtotal - Streets Fund</i>	\$ 1,800,000
18	Total	\$ 5,291,000

The above numbers should provide assurance that one-time funding is not being committed to ongoing expenses in the proposed 2022 budget.

However, Council should be aware that spending at this level will bring the funds undesignated reserves down to the “minimum” level of 25% of Operating Expenses per the City’s Fund Balance Reserve Policy. This is a worse case projection as it assumes the City will spend \$1M in 2021 purchasing condemned property without reimbursing itself with American Rescue Plan funds at our disposal.

Water and Wastewater service fee increases

Council should be aware that the budget assumes a continuation of the annual fee increase recommended by the rate study completed by Ehlers in 2020. This fee increase will be built into the 2022 fee tables to be approved by Council later this year.

Future Work Session agenda topics

To help plan for future budget discussions, the following provides a rough idea of the agenda topics planned (many will depend on professional consultants input and availability):

- September 20, 2021
 - Ehlers, Inc. to present an updated Financial Management Plan
 - Policies for Revenues, Expenses, and Budgeting will be proposed for later adoption by council
- October 4, 2021
 - Estimated cost updates for the soaking pool project will be presented
 - The results of the salary market study will be presented
 - Council will be asked to consider a list of new *recurring* costs placed in the proposed budget (i.e. new employees and employee benefit and salary cost increases)
- October 18, 2021
 - Tie up any loose ends
 - Planning for the public hearing and adoption of the budget on October 19, 2021