

Budget Message

BRING YOUR DREAMS.



December 21, 2020

Honorable Keith W. Corbett, Mayor
Members of the City Council

It is my honor and pleasure to present the 2021 Budget to City Council and the public in a format which allows high-level discussion while offering an in-depth understanding of each department and service area. A continued enhancement for the 2021 Budget is the Budget in Brief (p. 12-15), which provides a summarized overview of revenues and expenditures, operations, projects, and outcomes. Narratives are included for all General Fund departments and service areas to provide greater understanding of budget history, goals, and outcomes (p. 23-70).

The 2021 General Fund budget is balanced in that incoming revenues are equal to outgoing expenditures. The total 2021 Budget decreased by over \$1.5 million, or 2.1%, from the 2020 Budget due to a completed large-scale capital project in the Solid Waste Enterprise Fund and continued cost-saving measures in the General Fund. Annual budget fluctuation is expected based on varying operational and capital projects, programs, and activities.

The budget will continually evolve to create greater intuitiveness and functionality as a policy document, operations guide, financial plan, and communications device. Specific to 2021, the budget is balanced and delineation of expenditures is drawn. Social service outside agency funding is centralized in the General Fund while funding for economic development and marketing agencies is provided through 3rd Penny Sales Tax. The 10-Year Capital Improvement Plan and City Council Priority Projects defines available funding while prioritizing community needs and projects (p. 107-155). The Consolidated Fee Schedule allows for all City fees to be located in one convenient location for the public and staff (p. 206-232).

General Fund

Several significant changes were made to the General Fund in 2021 to align on-going revenues with on-going expenditures and appropriately locate revenues and expenditures in corresponding cost centers to create a more sustainable and user-friendly financial plan. The General Fund saw a reduction of nearly \$7 million as the liquor pass through was moved to the

Liquor Enterprise Fund. The funds-in/funds-out scenario provided an artificially large General Fund, which misrepresented actual fund capability and capacity.

There was a staff restructuring that involved the Engineering, Community Development, and Street Departments. Building services, which included two full-time positions, was moved from under the umbrella of the Engineering Department to the Community Development Department. In addition, building services took on the function of facility maintenance from the Street Department. As a corresponding move, a full-time position was transferred from the Street Department to the Community Development Department to assist with facility maintenance. While the restructuring had a net neutral impact in terms of budget dollars and full-time employees, the change will result in enhanced service, capture efficiencies, and cohesively locate all development and building functions within the Community Development Department.

A final change for the 2021 Budget was moving the vast majority of expenses out of the Non-Departmental expenditure account and housing them within appropriate departments to create more accountability and ease of expense tracking.

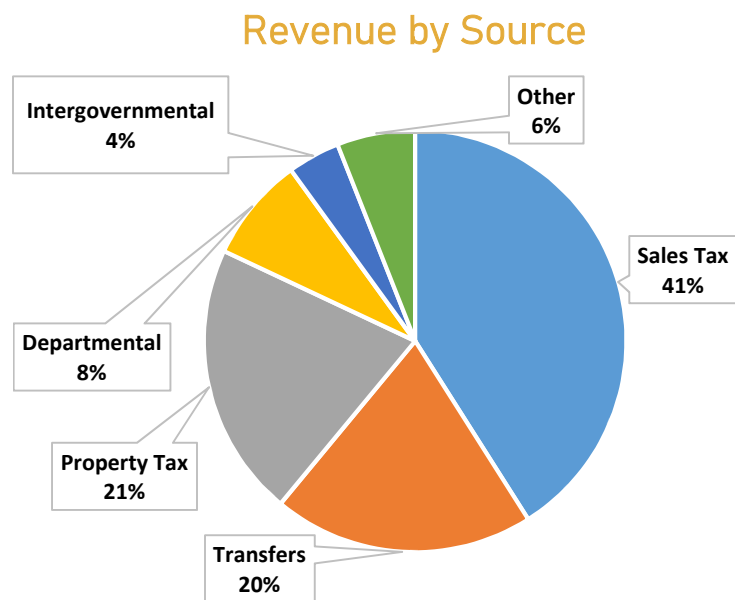
The total General Fund Budget for 2021 is \$16,826,047. When taking into account the transfer of the liquor pass-through to the Liquor Enterprise Fund, the General Fund decreased by nearly \$300k, or 1.7%, from 2020.

General Fund Revenue

82% of General Fund revenue comes from three (3) sources – 1st Penny Sales Tax, Transfers, and Property Tax. Primary transfers into the General Fund are provided from Brookings Municipal Utilities, Solid Waste Enterprise Fund, and Liquor Enterprise Fund.

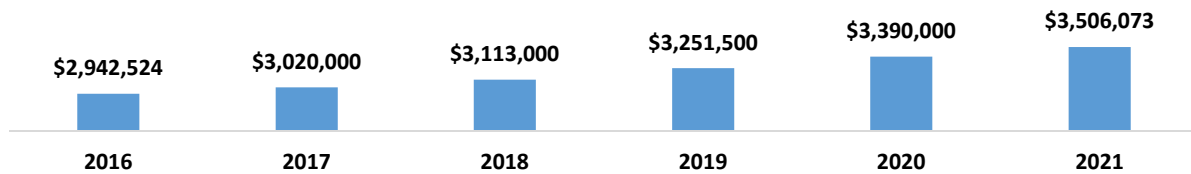
1st Penny Sales Tax estimates are calculated utilizing a conservative approach that weighs historical data, recent trends, and economic conditions. While the City had previously observed strong sales tax

performance, concern is primarily driven by the lasting impact of the global COVID-19 pandemic and uncertainty of the agricultural industry. The City made a mid-year adjustment of an 8% decrease in projected sales tax revenue for 2020. The 2021 Budget projects a two-thirds, or 5.3%, recovery in 1st Penny Sales Tax, which closely aligns budgeted 2021 1st Penny Sales Tax with actual sales tax revenue received in Fiscal Year 2018.



Property Tax levy increases are formulaic based on growth and the Consumer Price Index (CPI). The property tax levy increased by \$116,073, or approximately 3.42%, for the 2021 Budget in comparison to the 2020 Budget.

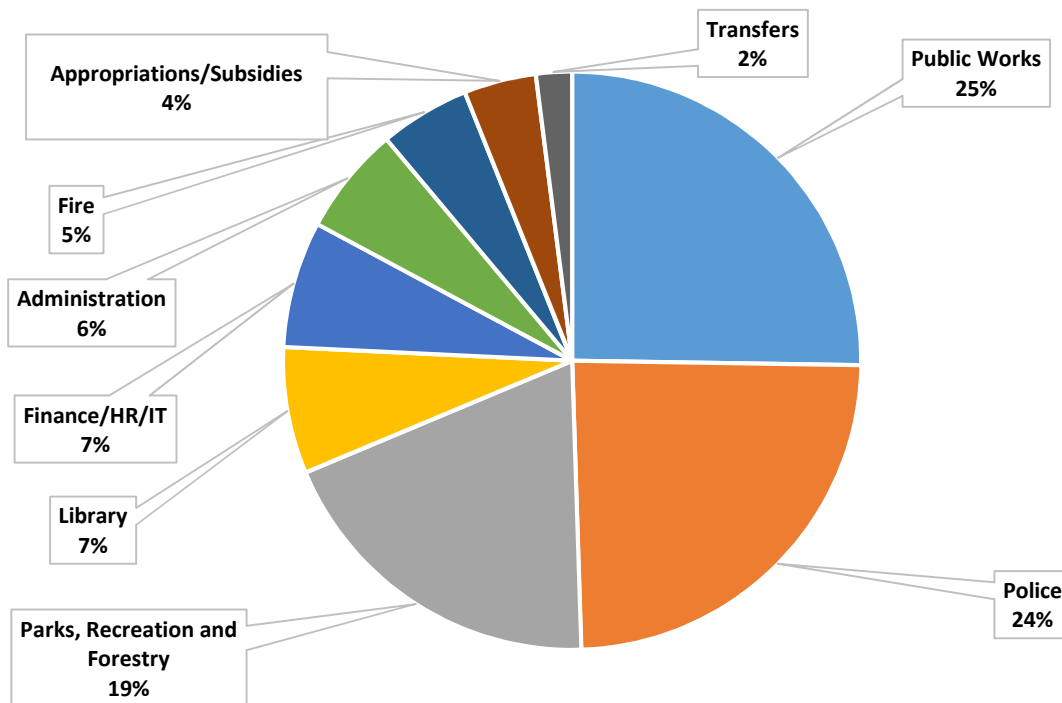
Property Tax by Year



General Fund Expenditures

Within the balanced General Fund budget, expenditures are utilized to fund projects, programs, activities and services which promote Brookings high quality of life through strong neighborhoods, beautiful community and parks, public safety, entertainment and recreation, and arts and culture.

Expenditure by Service Area



In order to achieve the core elements that contribute to Brookings high quality of life, 73% of the 2021 General Fund budget is allocated to Public Works, Public Safety, and Parks, Forestry, and Recreation.

General Fund Highlights and Conclusions

The 2021 Budget includes a balanced General Fund budget which utilized strategic decision-making and data to project revenues and expenditures. Revenues were estimated using conservative estimates and tactical adjustments were made based on the COVID-19 global pandemic, past performance, and financial trends. The Consolidated Fee Schedule allowed for initial comparative analysis. Fee analysis and benchmarking will continue to be incorporated into the annual budget preparation process.

Form a personnel perspective, the City will have 144 employees in 2021 (p. 17-18). This reflects the reduction of one (1) full-time position at the Liquor Store and a position in the Street Department pending repurposing. City staff continually evaluate and assess staffing needs any time a position becomes vacant and provide a data-driven determination on how or if to fill positions.

The 2021 General Fund budget provides for the restructuring of the Engineering, Community Development, and Streets Department. As aforementioned, the restructuring will result in a net neutral impact in terms of full-time employees and budgetary expense. From a structural, efficiency, and effectiveness perspective, a Chief Building Official will now oversee a multi-talented team who collaboratively achieve the functions of building inspections and services, code enforcement, and facility maintenance.

Special Revenue and Debt Service Funds

Special Revenue and Debt Service Funds include 3rd Penny Sales Tax, Pillow Tax, Storm Drainage, Tax Increment Financing, Swiftel Center, Library Fines and Donations, and Special Assessments (p. 71-76). 3rd Penny Sales Tax and Pillow Tax experienced more drastic effects from the COVID-19 pandemic, which resulted in a mid-year adjustment for 2020 as well as updated revenue projection formulas for 2021. The updated 3rd Penny Sales Tax revenue projection for 2020, approximately \$700k, was based on a 35% contraction from actual revenue received from Fiscal Year 2019. 3rd Penny Sales Tax is projected to regain a conservative 50% of the economic contraction back which led to a \$825,000 revenue projection for 3rd Penny Sales Tax in 2021.

For Pillow Tax, a 50% contraction in 2020 revenue received was projected by utilizing actual revenue received in Fiscal Year 2019 which resulted in an updated 2020 Pillow Tax revenue of approximately \$133k. Pillow tax is projected to regain a conservative 50% of the economic contraction back which led to a \$170,000 revenue projection for 2021. As a note of interest, the Budget Book will show a much higher revenue figure for Pillow Tax as the City can only collect

up to the amount recorded. With this in mind, staff puts a best case scenario into the annual budget to ensure all potential revenues are captured and available for utilization.

To achieve balanced 3rd Penny Sales Tax and Pillow Tax budgets, the City's economic development partners who receive funding through these sources agreed to approximately 20% funding reductions across the board. It is through the commitment of the City's economic development partners and responsible utilization of reserve funds that Brookings will navigate tumultuous economic times for this particularly hard hit sector.

There were several other noteworthy changes in the special revenue and debt service funds. Within Fiscal Year 2020, Tax Increment Financing Districts #3 and #4, which were used for affordable housing projects, both paid off ahead of schedule. The Storm Drainage Fund utilization increased by approximately \$1 million from the 2020 Budget as the City looks to take on additional projects which promote storm water best management practices, mitigate flooding concerns, and enhance sustainability. Lastly, the Special Assessment fund shows a \$2 million increase from the 2020 Budget as the City moves forward with the necessary infrastructure for the affordable housing project at the intersection of 15th Street and 7th Avenue.

Enterprise Funds

The City of Brookings has six (6) enterprise funds, which include Solid Waste Collections, Solid Waste Disposal (Landfill), Liquor Fund, Edgebrook Golf Course, Airport, and Research and Technology Center (p. 77-106). Enterprise fund service areas are constructed to operate similar to a business where collected revenues fund on-going operating and capital expenses. However, there are specific nuances to each of the City's Enterprise Funds.

Solid Waste Collections and Disposal are solvent with no proposed fee increase. Solid Waste saw a substantial budget decrease from the 2020 Budget to the 2021 Budget with the successful completion of an approximate \$2 million cell construction project. Over the coming years and starting in 2021, larger-scale Solid Waste expenditures will come through the planned and fully-funded replacement of automated collection trucks. The Solid Waste transfer to the General Fund was significantly reduced for 2021 as direct transfers from Solid Waste were utilized to offset the Airport's operational deficit.

The Airport's budget decreased by over \$2 million for the 2021 Budget with the successful completion of large-scale taxiway and apron improvement projects in 2020. Only 6% of Airport funding is received through airport fees. Approximately 65% of airport operation is related to South Dakota State University.

The Liquor Store transfers funds to the General Fund and Edgebrook Golf Course to promote Brookings' high quality of life, recreation opportunities, and amenities. The 2021 Liquor Budget will show an approximate \$6.5 million increase from 2020, which is driven by the relocation of

the Liquor pass through funding that was previously located in the General Fund. It's important to reiterate that the Liquor pass through is funds-in/funds-out which has a net neutral impact on overall expenditures.

Capital Improvement Fund

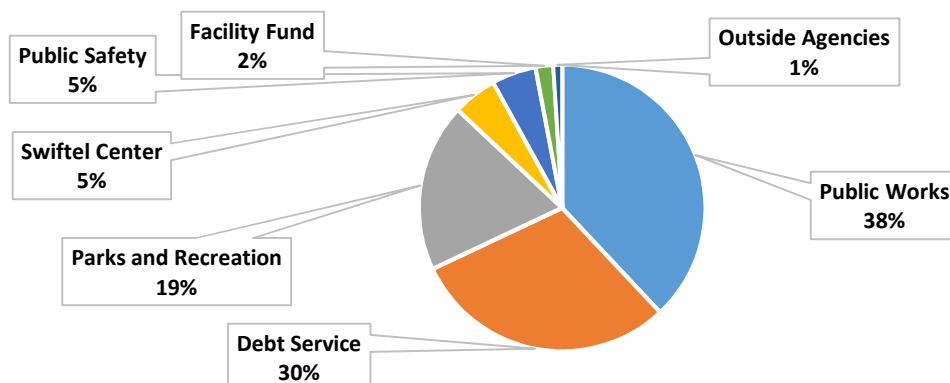
The 10-Year Capital Improvement Plan summarizes the needs of all departments with projected revenues to assure a sustainable plan (p. 108-109). The Capital Improvement Plan is supplemented by the City Council Priority Project Fund. City Council will be made aware quarterly of available unrestricted funds that can be committed towards prioritized projects not funded within the Capital Improvement Plan, buy down debt, or fund future Capital Improvement Plan shortfalls. The Capital Improvement Plan is a combination of the former 212 and 213 Funds.

A completed facility condition assessment has better informed the maintenance needs of City-owned facilities and associated costs are now reflected within the Capital Improvement Plan. To prepare for necessary facility maintenance and mitigate against emergency repairs, City Council contributed \$250,000 into a sinking fund for 2020 and approved an additional \$200,000 in 2021.

While most outside agency funding has been centralized in the General Fund and 3rd Penny Sales Tax, the City's commitment to the Oscar Larson Performing Arts Center and Brookings Health System remain in the Capital Improvement Fund as these are capital project based commitments.

The adopted Capital Improvement Plan for 2021 totals \$9,248,846. Of that number, over \$2.7 million is committed to debt service. An overview of Capital Improvement Plan funding by major category is included below. The major categories are Public Works (streets, infrastructure, and airport), Debt Service, Parks and Recreation (Parks, Recreation, Edgebrook Golf Course, Public Library, Brookings Activity Center, and public art), Swiftel Center, Public Safety (Police and Fire), Facility Fund, and Outside Agencies.

Capital Improvement Plan Funding



Closing

I want to close by commending City Council and staff for their hard work and dedication in creating a sustainable financial plan through strategic decision-making and a future-orientation. The balanced 2021 Budget puts Brookings on course to continue achieving its dreams.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Briseno", with a large, sweeping flourish extending to the right.

Paul Briseno
City Manager