

BRING YOUR DREAMS.



JEFFREY W. WELDON
City Manager

August 22, 2017

Mayor Keith Corbett and City Councilors
City of Brookings, City Hall
520 Third Street
Brookings, SD 57006

RE: 2018 Budget Message

Dear Mayor Corbett, Councilors, and Citizens of Brookings:

Enclosed herewith is transmitted the proposed budget for the City of Brookings for fiscal year 2018. The proposed budget contains my recommendations commensurate with the obligations of the City Manager pursuant to the City Charter and Code of Ordinances. It contains recommendations for all municipal funds except those under the fiduciary control of Brookings Health System and Brookings Municipal Utilities. As always, this budget is prepared in accordance with government accounting standards.

As with past years, staff begins assembling the budget on a department-by-department basis in May with the Capital Improvement Plan (CIP) followed by the operating budgets. Departmental requests are aggregated and compared to anticipated revenues. I encourage staff to include items that may be a *want* in addition to those that are a *need*. By doing so, we can develop a priority list of potential expenditures for programs that can allow for continuous improvement and innovation for our implementation of public services. Only by identifying such investment opportunities can we effectively decide what actual priorities should be. The staff know that in my final recommendation, which often results in reductions to such lists of *wants*, my budgetary philosophy has always been to make sure the departments have what they *need*, even though we may not be able to provide everything they initially request. My final budgetary recommendation considers what qualifies as essential services, what are community standards, and what I believe the City Council expects in the provision and implementation of our services and programs. At the end of the day, the General Fund budget must balance and all other public enterprise and special revenue funds must be stabilized and sustainable.

General Fund

The General Fund is the primary fund utilized for basic, general operations and public services. It finances the day-to-day operations of city government. All City departments with the exception of public

enterprise operations are within the General Fund. The General Fund budget is segmented by each department or departmental operations. It is financed by any revenue generated within each respective department through special benefit service charges or other fees for services. One of the most significant revenues from this category are the alcohol operating agreements. This revenue is projected to be \$674,300 and is only legally possible because we have a municipal liquor store. Some state or county intergovernmental transfers also finance the General Fund. However, the two primary revenue streams are property taxes and the first penny sales tax.

The General Fund for 2018 is balanced at \$22,968,051 in current revenues and \$23,506,961 in current expenditures. This difference is rectified with a transfer into the budget from General Fund reserves in the amount of \$540,000 for a specific list of capital items leaving a budgeted surplus of \$1,090. For 2018, the budget is up only \$475,694, or 2.05 percent, over 2017. A contingency fund of \$225,000 is included for emergencies and unanticipated expenditures the Council desires to make over the course of the year. Even with the use of some reserves, the projected year-end 2018 cash balance remains relatively healthy at \$3,677,158; down slightly from projected year-end 2017 of \$4,216,068. You will recall we also used some reserves for capital items last year, and I need to caution you that such a practice is not financially sustainable over the long term.

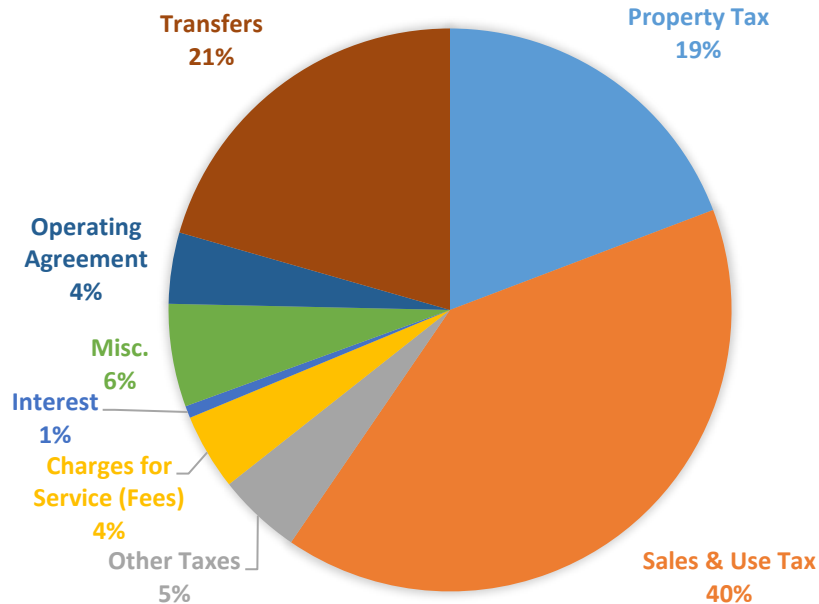
With regard to property tax, we continue to operate under a rate freeze imposed by the State of South Dakota for many years. Without the opportunity to increase the rate, our property tax revenue can only grow with inflation and an expansion of the tax base resulting from increasing property values and new property begin developed. Brookings is fortunate to one of the few cities in South Dakota that is experiencing growth. With each new building permit, our tax base grows. This growth is shared with other taxing jurisdictions such as the school district and the county. Cities receive the smallest percentage of property tax revenue of these three taxing jurisdictions. For 2018, our estimated property tax revenue is \$3,113,000, up slightly from \$3,020,000 estimated for 2017.

First penny sales tax revenue also finances the General Fund. For 2018, we are estimating an increase of three percent (3%) over 2017, or \$6,620,000. We continue to experience sales tax growth that exceeds the state and virtually all other cities. This is attributable to our strength and diversity of our retail and service economy. Our economic development plans should continue to emphasize opportunities that produce growth in the sales tax revenue stream if we are to continue to re-invest in infrastructure, quality of life amenities, and incentives to fuel the next round of growth and development. This is one reason why the development of the Brookings Marketplace, as our next major retail/service sector is so important to our tax base. Our expenses are certain to grow over the years with inflation, size, and demands for more or expanded services.

Another significant revenue stream for the General Fund are transfers from other funds. The municipal liquor store is self-sustaining and has always made a transfer to help finance the General Fund. This transfer is projected to be \$325,000, an increase of \$25,000 over 2017. The landfill also makes a transfer to the General Fund and it is projected to be \$625,000, an increase of \$25,000 over 2017. The purpose of the landfill transfer is to off-set administrative and management services provided by the General Fund and also provide a return-on-investment to Brookings taxpayers from other non-Brookings users of the facility because it is a regional facility. The Research & Technology Center will transfer \$120,000 to the General Fund; the same amount as 2017. We are experiencing fewer tenants in the building as its functionality will be phased-out to make way for re-development to a higher and better use of this commercial property. Finally, the General Fund will receive a transfer of \$2,305,000 from Brookings Municipal Utilities, and increase of \$50,000 over 2017. Like the landfill, the purpose of this

transfer is to provide a return-on-investment to the Brookings taxpayers much like dividends paid to shareholders of investor-owned utilities. Such transfers help reduce our reliance on taxes to finance our basic governmental services and further diversity our tax base. Such diversification helps cushion our revenue stream in the event economic conditions cause an adverse effect on any specific revenue stream. Brookings Health System does not provide such a transfer despite being a municipal enterprise.

REVENUES BY SOURCE GENERAL FUND FOR FY 2018

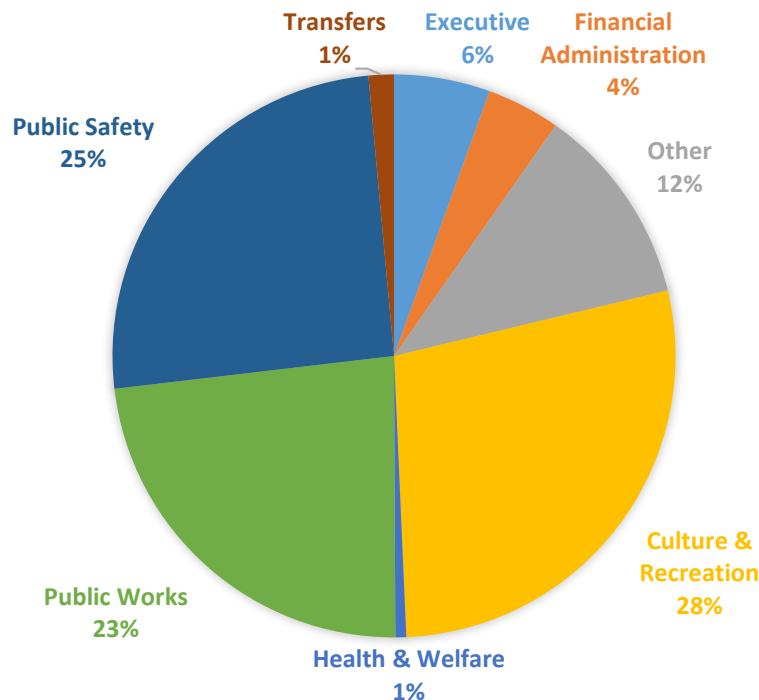


With regard to expenditures, each departmental budget segment utilizes a line-item budgetary format listing total revenues that may be generated by each department followed by expenditures for personnel, operating, and capital expenditures for that respective budget division of each department. The expenditure tables also provide past history so we can analyze trends within each line item.

The following is a summary of General Fund expenditures compared to the current year:

<u>Category</u>	<u>Proposed 2018</u>	<u>Amended 2017</u>
Personnel	\$ 9,896,383	\$ 9,550,745
Operating expenses	\$11,152,453	\$10,872,703
Subsidies	\$ 670,700	\$ 730,400
Capital expenses	\$ 1,541,400	\$ 1,626,456
Transfers out	\$ 246,025	\$ 242,963
Total	\$23,506,961	\$23,031,267
Ending cash balance	\$ 3,677,158	\$ 4,216,068

EXPENDITURES BY FUNCTION GENERAL FUND FOR FY 2018



Capital budgets

The five-year Capital Improvement Plan (CIP) was also updated as part of the overall budget process. Capital items are described as durable goods that usually have at least a five-year useful life and are most often depreciated. The various capitalized categories of expenditures include vehicles and equipment, land, buildings and structures, and infrastructure. The CIP provides a five-year window for planning of these expenditures because of their high price tags compared to general operating expenses. Such a five-year window provides for more prudent and effective planning and cash flow management so expenses can be adjusted from year-to-year to be aligned with revenues. Two years ago, we expanded the CIP by adding a subsequent five-year period referred to as the Community Reinvestment Plan (CRP) to further plan long-range capital improvements.

The CIP/CRP is the sole-source document where capitalized projects and planning are aggregated and identified. It lists the project, type, department, estimated cost, intended year or purchase, and fund that will finance the item. In addition, these same capital items are found in virtually all funds and most departmental budgets, distributed among the General Fund, storm drainage fund, airport fund, or the two, second penny capital funds (Fund 212 & 213).

Usual and customary capital items such as vehicles and equipment are included as well as annual street maintenance projects. Specialized capital projects include: completion of the Highway 14 gateway improvements, apron re-design for the airport, various storm drainage projects, various upgrades and improvements to the overall park system, and several maintenance/mechanical upgrades to buildings and structures. If Tax Increment District #7 remains financially viable, the 20th Street improvement project can begin. If changes are made to the finance plan for this TIF district, it is possible funding may

not be available to finance this street improvement from Main Avenue South to Rio Grande Street. Pending approval from the Corps of Engineers, we expect to finally make some advancement on the 15th Avenue and 7th Street improvement project. This will connect two dead-end streets and provide another important east-west transportation route. It will also provide the opportunity for a small, affordable housing subdivision.

The General Fund reserves of \$540,000 will be used specifically to fund the following capital items: pay loader and side-dump for the Street Department, condenser for Larson Ice Center, and re-surfacing of tennis courts at Hillcrest and Indian Hills parks. The total amount of capital expenditures across all funds and all departments for 2018 is \$10,794,722.

Fund 212 (25% second penny) is used chiefly to finance capital projects that are public safety in nature with some street maintenance improvements. As such, capital items for police, fire, and approximately one-half the street/sidewalk improvements for seal-coating and overlayments are financed with this fund. Bike lane projects incorporated into street/sidewalks are also in this budget. We are anticipating an ending cash balance of \$322,357.

Fund 213 (75% second penny) is used chiefly to fund other capitalized items such as public improvements. It pays for debt service of capital items, the remaining one-half of street/sidewalk improvements, annual appropriation debt amounts to the Boys & Girls Club, Performing Arts Center, and Brookings Health System. Several park improvements, railroad safety crossing improvements, bike/trail system improvements, and the land purchase with Brookings County for the expanded Government Center parking lot. We are anticipating an ending cash balance of \$861,796. Since most capital debt is financed by this fund, examining long-term cash flow of current and future projects in this fund is a vital exercise.

The City will take ownership of the Brookings County Resource Center by year-end. This acquisition will provide a much-needed facility expansion opportunity for the services and programs at the Swiftel Center. The space will provide for two additional meetings room and re-located offices for the VenuWorks staff. Because cost estimates have not been developed yet, a remodeling project is not contemplated in this budget. As a result, a budget amendment will be necessary once the scope of the project is determined.

Personnel

This budget provides for an overall increase in the full-time workforce of .5 staff. This will be the addition of a patrol officer in the Police Department effective July 1. That will bring our full-time workforce to 139. Salaries and wages will increase for the cost-of-living adjustment by 2.25 percent pending final approval of the collective bargaining agreements for 2018 effective January 1. In addition, eligible staff moving through the steps and ranges will receive salary adjustments commensurate with our pay plan. As always, we rely on a cadre of seasonal and part-time employees to assist us with several programs, services, and operations across several departments. They are an essential component of economically financing our services, responding to seasonal adjustments in these services, and providing employment opportunities for many residents. Our pay plan is reflective of the market for both the public and private sectors. The comprehensive wage and benefit package allows us to effectively compete in the marketplace to attract and retain a qualified workforce.

As a cautionary note, I am concerned we may be starting to fall behind on adequate staffing levels in the maintenance area. With each passing year, we have more streets in new subdivisions which means

more streets to plow snow, deposit salt and sand, seal-coat, fill potholes, fix curbs and gutters, and pick up garbage, recyclables, and yard waste. Likewise, with each passing year, we acquire more parks and greenspace and extend trails. These parks need to be mowed, trees trimmed, planted, or removed if they are diseased. With the expansion of our trail system and new bike pathways, they need to be repaired, signed, and some need to be plowed. We have taken on more open space responsibilities by accepting private open space such as Gateway greenbelt on 6th Street, the Prairie Cemetery, the expanded dog park, and quite possibly the dog memorial park on Western Avenue and 8th Street South, which you will be offered. What's more, diseased trees are becoming more prevalent and such trees need to be eradicated quickly to control their spreading to minimize further infestation of our urban forests. This all translates into recurring expenses and responsibilities for more resources in equipment and personnel. The result of more workload with no more resources can only be a slower response time in plowing streets, picking up garbage, repairing playground equipment, or mowing parks.

While this budget does not provide for increased staffing at this point beyond the one-half police officer, I will look for ways during the course of the coming year to identify revenue to at least one full-time personnel to park maintenance and forestry. Certainly, my proposed 2019 budget recommendation next year will include this personnel increase.

Debt service

This budget does not anticipate the issuance of any substantial debt for 2018. The possible exceptions include additional debt in the Storm Drainage fund for DENR financing from the State Revolving Loan Fund for the State Street storm drainage project. Another possible exception is dependent upon the Council's determination of financing for the possibility of the indoor recreation center. The Public Improvement Fund (213) provides for most of our debt service with debt consuming approximately 46 percent of this fund's revenue leaving the balance to pay cash for capital projects. For 2018, our debt service and annual appropriation obligations total \$2,894,242. Debt payments are expected to remain at current levels until they drop in 2022 to approximately one-half the current amount, with another slight drop beginning in 2023 as major debt issuances will be retired. Such reductions, of course, do not materialize if replacement debt is added by then. Annual appropriations function like debt except they are not creditor-issued. They are simply backed by the Council's moral obligation to make annual payments. These amounts include Boys & Girls Club building expansion, PAC II, and Brookings Health System. In addition, we have incentive payments owed on two economic development incentive projects which include our sales tax refund program for Bel Brands, USA and the plant expansion for 3M. Our debt levels are relatively on par with our peer cities. The strength of our creditworthiness is exemplified by our current bond rating of Aa3.

Projected Annual Debt Service for 75% Sales Tax Fund



Projected Annual Debt Service for 75% Sales Tax Fund



Funding requests from outside agencies

Appropriations to outside agencies and entities that assist us with our public service missions are listed in generally two locations, the General Fund and the 3B special revenue fund depending upon the nature and type of the organization. Economic development constitutes the most significant area of such funding which include:

Brookings Economic Development Fund	\$165,000	Funds 101, 284
Growth Partnership/SDSU Research Park	\$150,000	Fund 213
Convention & Visitors Bureau	\$485,000	Funds 284, 285
Convention & Visitors Bureau (special event)	\$ 30,000	Fund 284
Downtown Retail Accel. Grant Program	\$ 50,000	Fund 284
Brookings Area Chamber of Commerce	\$ 27,000	Fund 284

New initiatives

The newest program initiative will be initial implementation of the recently-completed bicycle master plan. Several priority projects identified in the Plan are incorporated into the CIP/CRP. Some projects are combined with scheduled street improvement projects to provide economies of scale. Future

budget planning will need to strategically incorporate prioritized bike projects to continue to make incremental advancements in this area. Specific initiatives started within the past few years that will ramp-up this year include sustainability projects and public art. The special revenue fund for public art is financed by various funds based on one percent of capital expenditures. It remains to be seen what new initiatives may develop from our Mental Health Task Force. The Sustainability Council will be delving further into developing and promoting residential and commercial composting as another tool for better stewardship of solid waste. The update of the comprehensive plan will be complete by year-end. The new plan will be administered chiefly by the Community Development Department but all departments and operations will be able to effect change prescribed in the new document. The BEDC will continue to push entrepreneurship initiatives and build upon the successes of the past three years.

The Council will need to address the fate of a second possible run at an indoor recreation center and whether or not to pursue the 20th Street overpass/interchange at Interstate 29. By year-end, staff will complete its recommendations for a comprehensive site plan improvement for upgrading the Bob Sheldon/Dwiggins-Medary outdoor recreation complex.

On the private sector side, Bel Brands, USA will likely continue moving forward with their ambitious plans for Phase II plant expansion within the next few years. Brookings Marketplace should see substantial infrastructure development as well announcements of several retail and service businesses locating in what will be our newest retail commercial center. We expect Christie Heights to reach maximum build-out and development to begin on Christie Springs. Several new subdivisions have been platted within the past year resulting in significant new home construction. We expect Brookings to grow at a robust rate of four-to-five percent annually.

The Affordable Housing Task Force is expected to complete its work by later this fall and present recommendations to the City Council to address the chronic affordable housing shortage. This, along with workforce development to bolster a very tight labor market, will be primary objectives for the City and our economic development partners. We are not alone in experiencing this twin set of community challenges, but they are essential for continued economic growth and development.

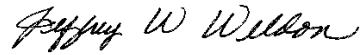
Conclusion

The City budget is perhaps the most significant policy document a City Council has in its mission of providing public services. It provides the necessary financial resources without which very little of our mission could ever possibly be accomplished. This budget recommendation, with your input through recently-completed reviews, is conservative in nature and yet bold in ambition. It remains true to our core services placing them our highest priority while also providing for ambitious initiatives you have determined to be important for Brookings' future. It provides for financial stability with our fund balances, targets prudent re-investment, preserves our excellent credit rating, and maintains reasonable and responsible debt levels. It also continues our commitment to our community partners in helping us to fulfill our mission. This fact recognizes the work of building and sustaining communities cannot be done alone and requires a vast network of partnerships to knit together the community fabric to truly make a difference, to never be satisfied with the status quo, to be bold enough to recognize and take reasonable risk, and remain accountable and transparent in our process. In its entirety, the General Fund and 17 other special revenue and enterprise funds, total in excess of \$51.1 million for 2018 to make all of this happen.

I need to express my appreciation to all 137 of my co-workers, and especially the department heads for their diligence, professionalism, expertise, and continued commitment to public service and the

community of Brookings in helping me prepare this budget recommendation. I also want to express my appreciation to the Mayor and Council for your leadership and vision for the community, which makes Brookings truly the place to bring our dreams. As always, it remains an honor and a privilege to serve as your City Manager.

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey W. Weldon".

Jeffrey W. Weldon
City Manager