City of Rapid City, SD

Mayor Steve Allender

2019 Mayor's Budget Presentation

Socio-Economic Conditions

- South Dakota's GDP Growth in 2017 was 0.3%
- Ranked 45th of 50 states (18th last year). Nationally, GDP rose 2.1 percent.
  - Rebounded in Q1 2018 – quarterly annualized growth of 3.1% for SD and 2.2% for U.S.
- South Dakota Personal Income grew 1.4% in 2017 (3.1% growth nationally)
- SD non-farm income increased by 2.6% (3.2% growth nationally)
- SD farm income declined by 41.8% (6.9% decline nationally)
- CPI inflation = 1.7%

Sources: U.S. Bureau of Economic Analysis; SD Dept. of Revenue; Rapid City Community Development Department; U.S. Census Bureau; Pennington County Auditor's Office; Rapid City Finance Department

Socio Economic Conditions

◉ Rapid City General Taxable Sales increased by 1.8% in 2017 (SD up 1.05%)

- Retail trade up 0.9% (SD 0.5%); Services up 0.7% (SD 1.4%)

◉ Rapid City population is estimated at 75,488 at the end of 2017

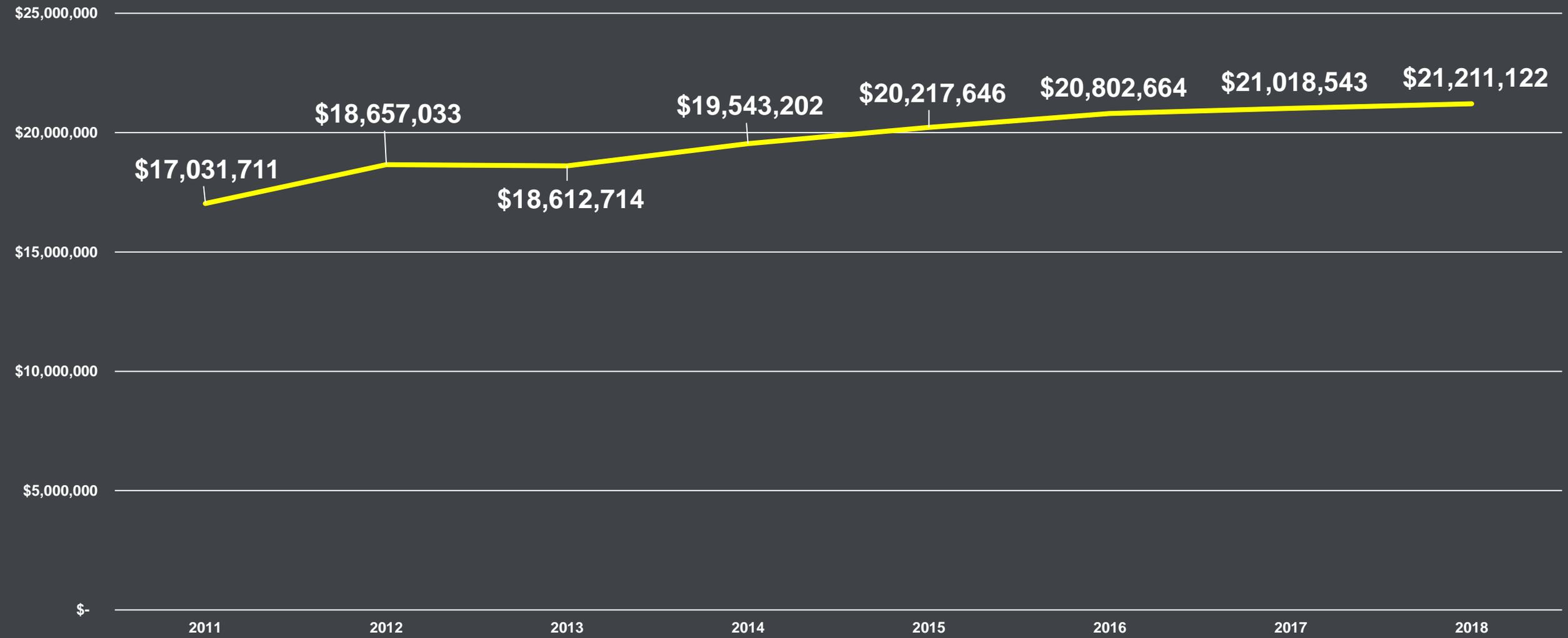- 2.32% increase from 2016 (SD grew at 0.9%; U.S. grew at 0.72%)

Tourism

- Tourism Tax Collections
  - $853 mil. statewide in 2017 (2.7% increase from 2016)
  - $244 mil. in Pennington Co. or 28.6% of SD (7.4% increase from 2016)
  - For comparison: $121 mil. in Minnehaha Co. or 14.1% of SD (1.6% decrease from 2016)
- Rapid City Gross Municipal Receipts Tax (BBB) taxable sales increased by 3.35% in 2017
- Rapid City Regional Airport set record with 595,936 passengers flying to or from RCRA in 2017
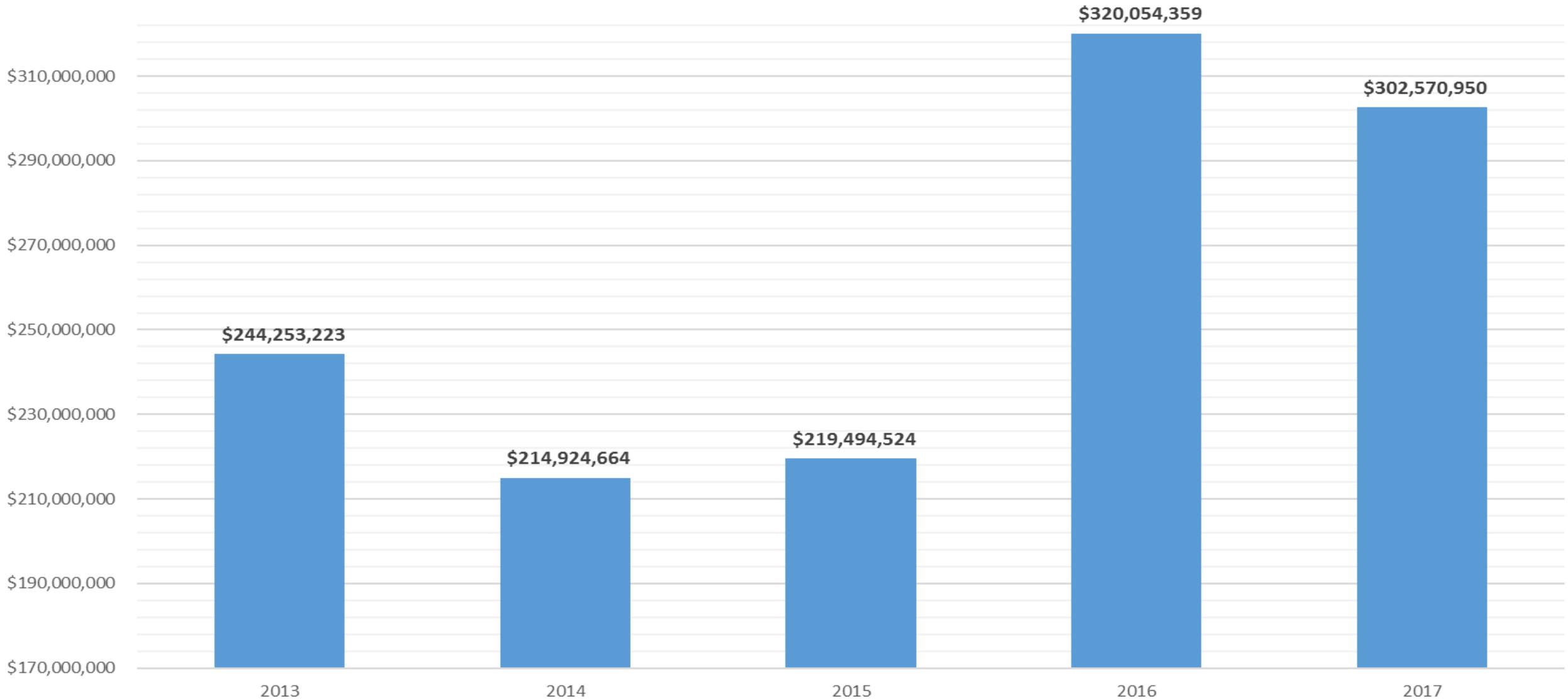
Source: SD Department of Revenue; Rapid City Regional Airport

Rapid City General Sales Tax Collections (first 5 months)
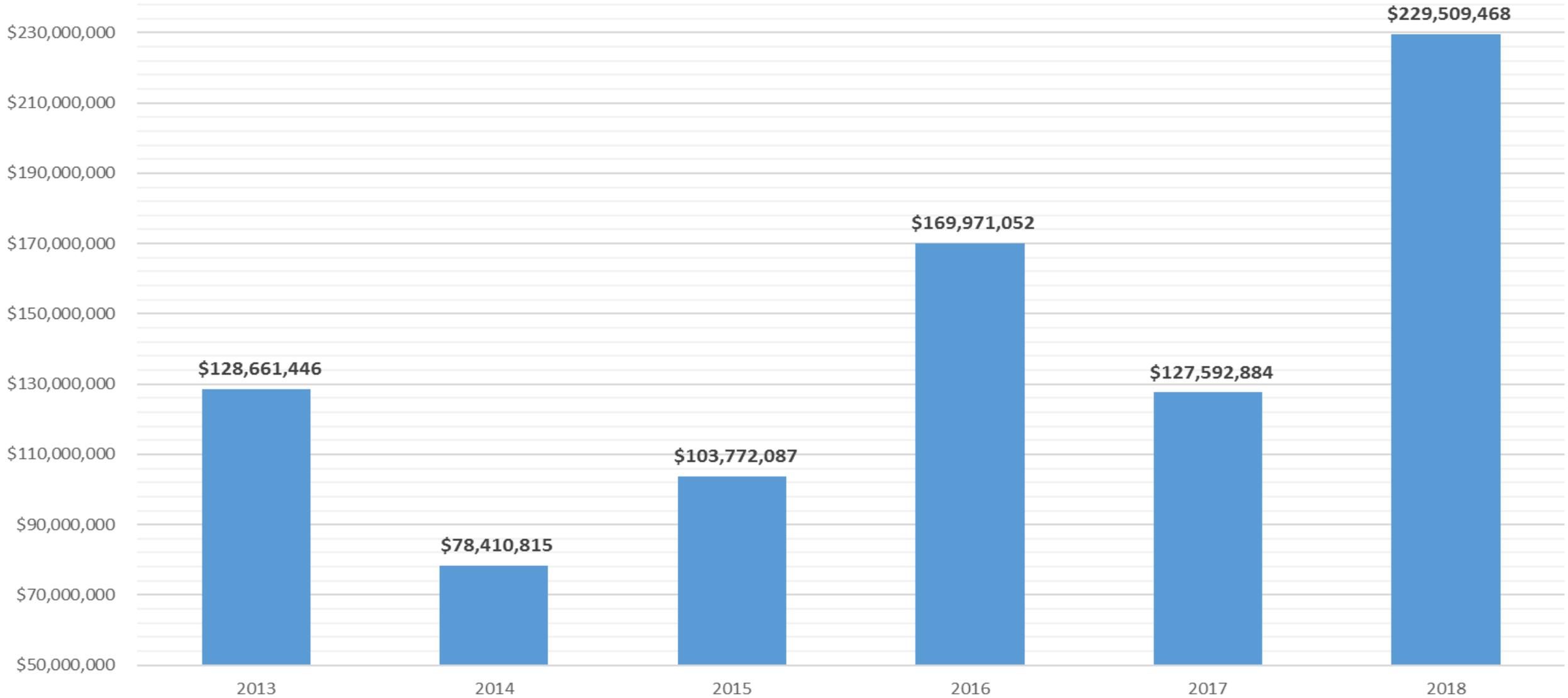
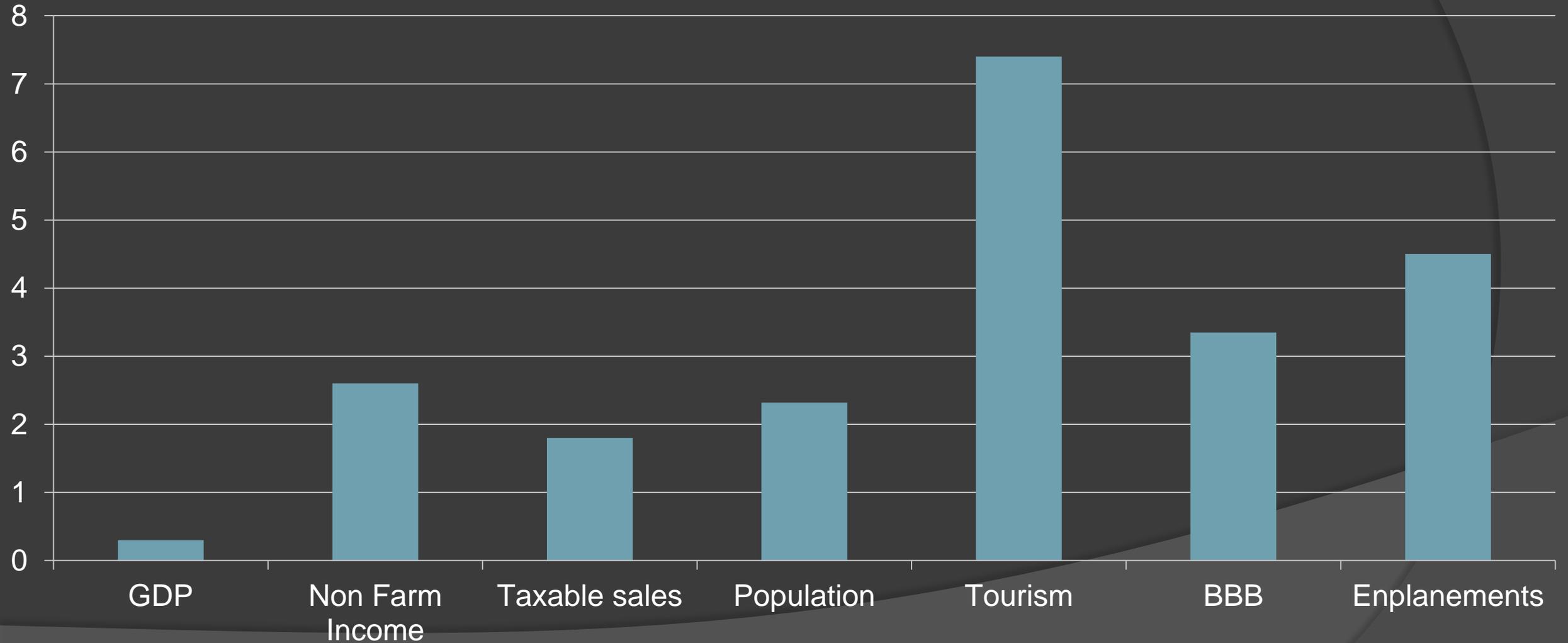- 2011: $17,031,711
- 2012: $18,657,033
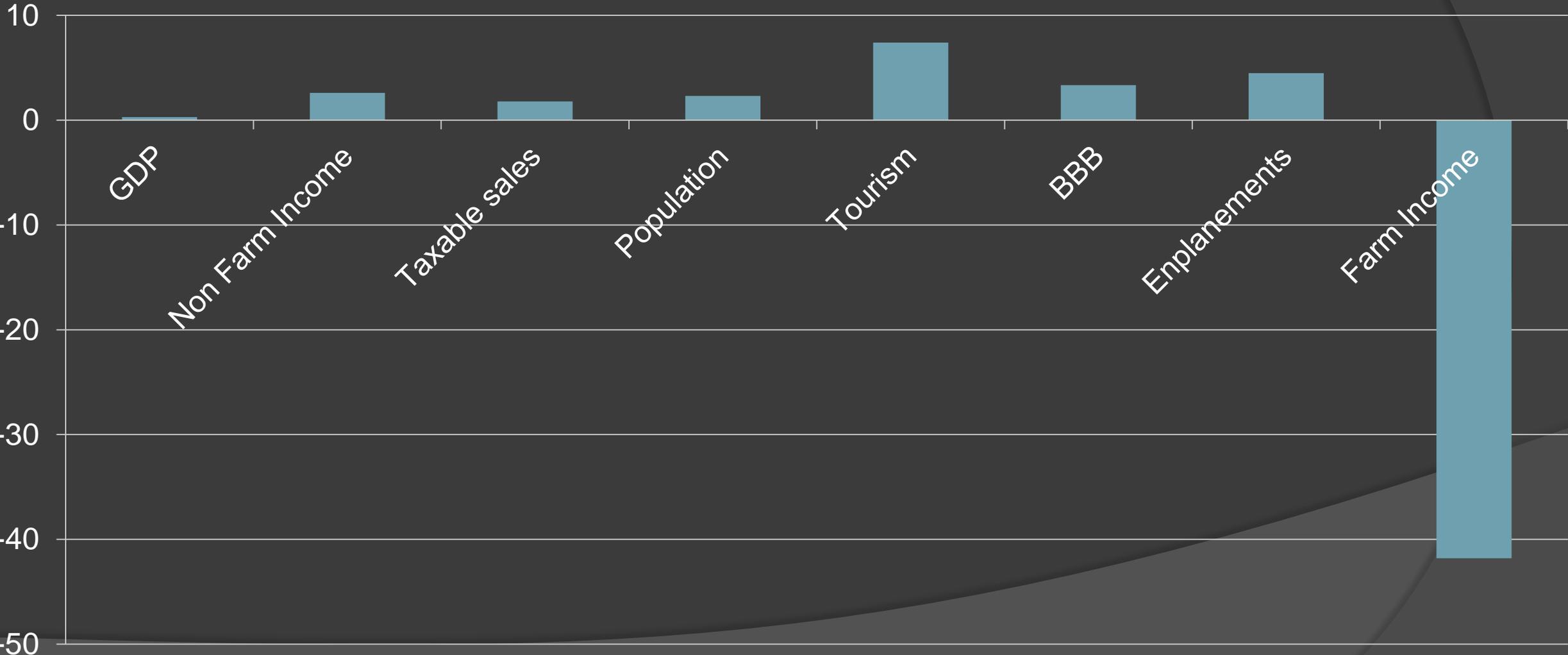- 2013: $18,612,714
- 2014: $19,543,202
- 2015: $20,217,646
- 2016: $20,802,664
- 2017: $21,018,543
- 2018: $21,211,122

The Good News

The Other News

2019 Budget Highlights

General Fund Revenue

	2018	2019	%
◉ Sales tax	$28,194,909	$29,237,399	+3.7
◉ Property tax	16,863,201	17,732,146	+4.9
◉ Other taxes	3,270,000	3,331,500	+1.9
◉ Grants/Intergov't revenue	3,762,012	3,307,386	-12.1
◉ Licenses and permits	2,435,000	2,656,780	+9.1
◉ Court fines	25,000	10,000	-60
◉ Sales of goods/services	3,311,432	3,570,985	+7.48
◉ Miscellaneous	915,868	650,000	-65.5
◉ Interdept charges/PILT	5,450,523	5,661,653	+2.8
◉ Transfer out	(65,000)	(25,000)	-61.5
◉ Undesignated cash	1,350,405	0	
◉ **Total General Fund Revenue**	**$65,513,350**	**$66,132,849**	**+ .95**

2019 General Fund Revenue
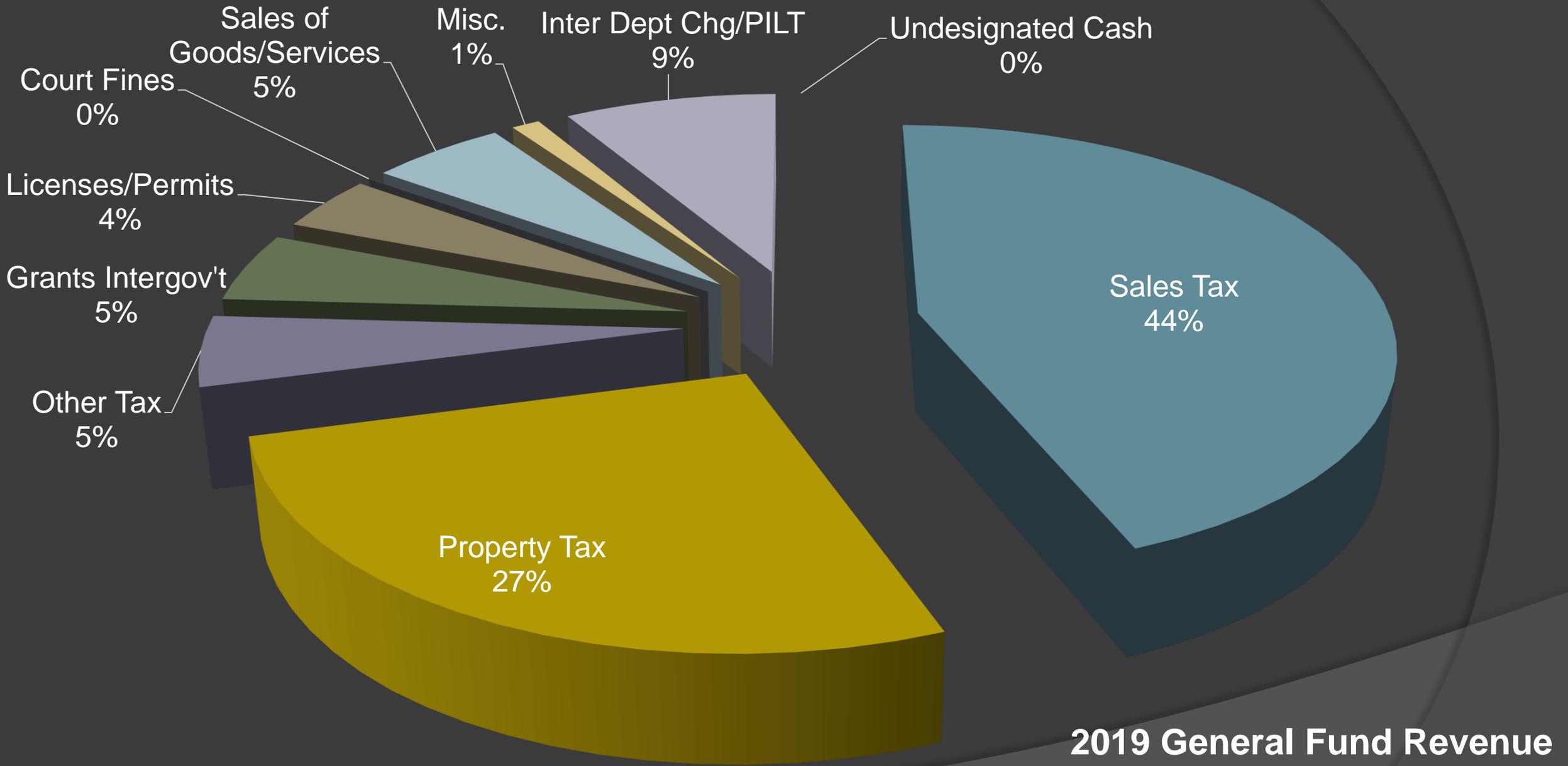
General Fund Expenditures

	2018	2019	%
◉ Mayors Office	489,649	572,543	+16.9*
◉ Council	183,820	187,497	+2
◉ Council Contingency	0	50,000	
◉ Attorney	377,291	382,256	+1.3
◉ Public Works	12,216,940	11,427,074	-6.5
◉ Community Dev.	2,651,755	2,987,191	+12.6*
◉ Police	15,629,339	15,648,879	+.12
◉ Fire	11,039,178	11,534,322	+4.5
◉ HR	642,632	589,396	-8.3
◉ Library	3,114,834	2,954,676	-5.1
◉ Finance	613,423	631,449	+2.9
◉ IT	728,420	755,625	+3.7

General Fund Expenditures

	2018	2019	%
◉ Parks and Rec	7,772,633	7,630,484	-1.8
◉ City Hall Maintenance	325,538	416,588	+28*
◉ Gov't Buildings other	5,675	5,725	+.9
◉ Detox (new name)	611,227	757,013	+23.9*
◉ ESCC	1,440,259	1,526,512	+6
◉ Emergency Mgmt.	140,000	148,500	+6.1
◉ Search and Rescue	22,000	21,450	-2.5
◉ Humane Society	309,192	309,192	0
◉ WAVI	118,133	115,180	-2.5
◉ Dahl / Arts Council	236,081	232,176	-1.6
◉ Economic Dev.	350,000	350,000	0
◉ BH Council of Gov't	17,500	47,500	+171.4*

General Fund Expenditures

	2018	2019	%
◉ Chamber of Comm.	34,000	37,000	8.8
◉ Journey Museum	331,500	323,213	-2.5
◉ Cornerstone	175,000	170,625	-2.5
◉ Senior Centers	35,550	35,550	0
◉ Lifeways	60,000	58,500	-2.5
◉ Performing Arts	36,100	35,198	-2.5
◉ Early Childhood Con.	50,000	48,750	-2.5
◉ Arts Contingency	102,000	99,450	-2.5
◉ Human Srvcs Con.	50,000	48,750	-2.5
◉ Total General Fund	60,373,726	60,518,494	◉ +.24

(Net of interdepartmental charges)

General Fund Expenses
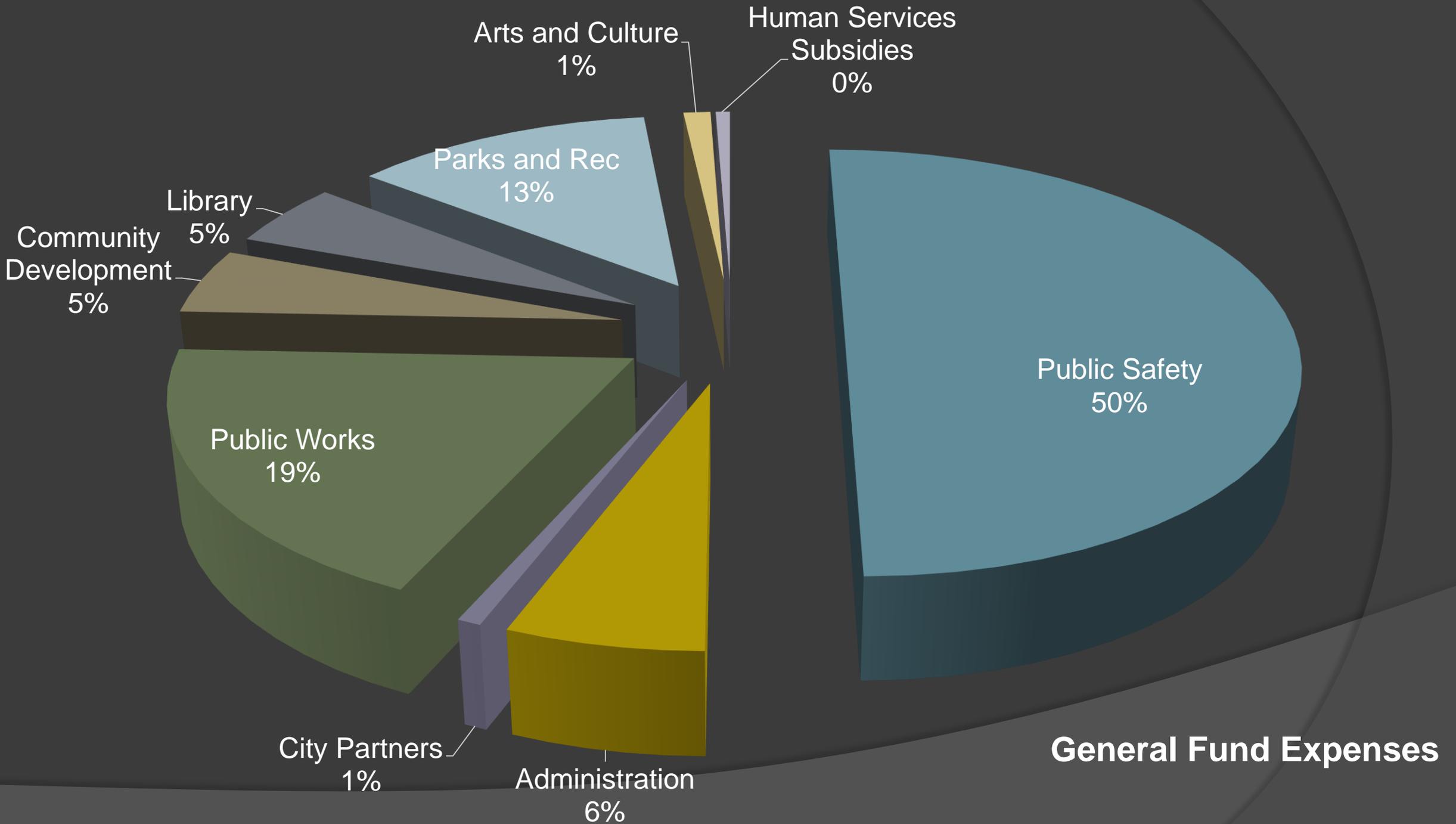
Enterprise, Special Revenue, Internal Service Funds

	2018	2019	%
⦿ Civic Center	11,157,961	11,310,874	+1.4
⦿ Community Dev.	534,486	488,875	-8.5
• Code Enforcement	55,000	55,651	1.2
• Community Dev.	479,486	433,224	-9.6
⦿ Finance Department	1,969,395	1,907,182	-3.16
• Downtown BID	182,000	184,000	1.1
• Occupancy Tax	1,670,180	1,669,486	-0.4
• RSVP+	117,215	53,696	-54.2
⦿ Fire Department	4,822,350	4,792,775	-0.6
• EMS Operations	4,468,516	4,438,941	-0.7
• Fire & Life Safety	353,834	353,834	0
⦿ Office of City Attorney	2,226,436	2,246,708	.9
• Risk Management	2,226,436	2,246,708	.9

Enterprise, Special Revenue, Internal Service Funds

	2018	2019	%
◉ Other SRF Budgets	19,801,914	22,787,454	15.1
• CIP	17,885,703	22,439,366	25.5
• Education Loan Fund	30,000	30,000	0
• Vision Fund	311,851	318,088	2
◉ Parks & Recreation	1,434,129	1,306,351	8.9
◉ Public Library	87,009	77,050	-11.5
• Library Board	87,009	77,050	-11.5
◉ Public Works	45,741,210	48,790,875	6.77
• Admin. & Engineering Svcs.	66,066	69,876	5.8
• Rapid Transit	708,680	688,465	-2.8
• Solid Waste	11,552,575	12,211,196	5.7
• Water	17,903,336	20,772,612	16.03
• Water Reclamation	15,510,553	15,048,726	-2.98
◉ Regional Airport	16,232,274	11,147,553	-31.3
◉ Grand Total	$104,007,164	$104,855,697	+ .82

Major Challenges

- Overreliance on sales tax revenue creates nearly unpredictable long range revenue forecast
  - Sales tax is the most volatile source of the City's revenue
  - Too many factors can disrupt this revenue stream: Tourism, consumer confidence, internet sales, agriculture industry
- Demand for City services increasing:
  - 2007-2017 Rapid City population growth: 9.0%
  - 2007-2017 City area increased by 1.6 sq. miles, or 2.1%
  - 2007-2017 number of:
    - Single-family residential properties increased by 2,401 units
    - Multi-family residential properties increased by 1,829 units
  - 2006-2018 road lane miles increased by 140.14 miles or 12.5%
  - 2007-2017 CPI increase of 16.0%

Major Challenges

- Balancing the 2019 General Fund Budget
  - Revenue not keeping up with expenses
  - Increased need and expectation on human services delivery
  - Balancing vs. creating a sustainable budget

Major Challenges

- Multi-year union contracts are executed without regard for City's revenue
- 2019 reductions made only partially on PBB and Citizen Survey data
  - Intended for reallocation, not reduction
- Lack of consensus:
  - Use of undesignated cash
  - Reserve policy

Major Opportunities

- Fee adjustments
  - Building permits – the first step in revenue diversification effort
- CDBG Grant
  - Black Hills Council of Local Gov't
  - Looking for new grant administration partner
- New sales tax revenue forecast methodology
  - Based on past performance and current trends
  - Better for long term financial planning
- Future of on-line sales tax submissions
  - Too early to determine
- Arena construction
- Vision Fund process

Major Opportunities

- Population is increasing
- Building industry is booming
- Mt Rushmore Road Corridor
- Elevate Rapid City

New Sales Tax Forecasting Methodology

- Current method – Previous full year + 2% + 2%. (Or 2019 revenue = 2017 sales tax receipts x 1.0404)
  - 2% is arbitrary and does not necessarily reflect long-term and local trends
  - Unsuitable for longer term forecasting and cannot be used for 5-year Outlook and longer term contract negotiations (e.g. union)
  - Ignores all data points but one
- Proposed method – combination of time-series models
  - Based on robust and widely-accepted scientific approaches
  - Improved accuracy. More data = more accuracy over time.
  - Uses all available data
  - Suitable for long-term projections and 5-year financial outlook
  - Updated on monthly basis
  - Estimated 2019 revenue = 2017 receipts x 1.053

Building permit fee analysis

- Valuations are susceptible to underestimation due to self-reporting.
- Fee schedule has not been updated in more than 25 years.
- With inflation, more of the project's value falls into a lower fee bracket, causing fee revenues to lag behind inflation (.9% annually)
- Proposed solutions:
  - Use International Code Council Building Valuation Data (BVD) if documentation is not presented
  - Flat rate at $5.50 per $1,000 valuation for both residential and commercial
  - $43 minimum to cover average inspection cost
- Impact:
  - Level playing field due to standardized building valuation method.
  - Estimated 9.7% increase in revenue in 2019
  - Elimination of graduated brackets will allow permit fees to be automatically adjusted for inflation.
  - Most projects will see a fee decrease (92% based on past five years).
- Timeline – final approval by December 31, 2018

Building permit fee analysis

If revenue does not keep pace with growth and demand for services, which of the following options would you prefer the City use to balance the budget in the following service areas?	Maintain Service Levels But Raise Taxes	Maintain Service Levels But Raise User Fees	Reduce Service Levels	Privatize or Outsource Service
Police services	54.0%	32.7%	8.3%	4.9%
Fire services	53.1%	34.0%	7.3%	5.6%
Street repair and maintenance	48.8%	26.9%	6.6%	17.7%
Street cleaning and snow removal	36.7%	24.1%	13.0%	26.2%
Public transit system	14.8%	42.2%	17.0%	26.0%
Land use, planning and zoning	8.6%	43.9%	36.7%	10.8%
Code enforcement	8.0%	44.8%	31.5%	15.8%
City parks maintenance and development	34.3%	34.5%	18.3%	13.0%
Recreation facilities and programs	15.8%	57.8%	12.5%	13.9%
Building permits and inspection	6.9%	55.3%	26.0%	11.8%
Public libraries	29.2%	41.0%	21.7%	8.2%
Economic development	23.3%	34.2%	23.3%	19.3%
Social program support	35.8%	24.5%	13.9%	25.7%
Arts and cultural program support	20.3%	36.8%	19.2%	23.7%

Summary

- The General Fund Budget is balanced
- City services will remain mostly as they are today
- Some of Rapid City's budget woes are self-imposed
- Sales tax collections are susceptible to negative influence from various sources
- Protecting the City's interests is the same as protecting the tax payer interests.
- Questions?