

PROCEEDINGS OF THE CITY COUNCIL
Rapid City, South Dakota

August 28, 2018

Pursuant to due call and notice thereof, a special meeting of the City Council of the City of Rapid City was held at the City/School Administration Center in Rapid City, South Dakota on Wednesday, August 28, 2018 at 5:30 P.M.

The following members were present: Council President Amanda Scott and the following Alderpersons: Lisa Modrick, Becky Drury, Ritchie Nordstrom, Steve Laurenti, Darla Drew and Laura Armstrong; and the following Alderpersons arrived during the course of the meeting: None; and the following were absent: Chad Lewis

Staff members present included: Finance Officer Pauline Sumption, Deputy Finance Officer Tracy Davis, City Attorney Joel Landeen, Public Works Director Dale Tech, Community Development Director Ken Young, Police Chief Karl Jegeris, Fire Chief Rod Seals, Community Resources Director Nick Stroot, Parks and Recreation Director Jeff Biegler, Budget Analyst Sean Kurbanov, Airport Director Patrick Dame, Civic Center Director Craig Baltzer, Library Director Terri Davis, IT Director Jim Gilbert, Civic Center Assistant General Manager Tracy Heitsch and Administrative Coordinator Heidi Weaver-Norris

GENERAL PUBLIC COMMENT

Dean Hedrick, President of Black Hills Homebuilders addressed the council. He said he was against raising the building permit fees. He said builders are going to Box Elder and Summerset to build because it's getting too expensive to build in Rapid City. Ellen Shirley spoke to the Council. She moved here two years ago. She is a member of many musical organizations in town. She is in support of funding for the arts. Tim Shirley spoke in support for the arts. He thinks Rapid City has a vibrant art theme. He is in favor of supporting the arts. Gina Plooster, Board Member of Dakota Choral Union, has a passion for singing. She is learning the budget of DCU. She said members pay an annual due. Without funding from Allied Arts they would struggle. They do all they can to give back. She wants to keep the richness and quality of life in Rapid City. Bill Casper started the Veteran Honors Project. He went to Allied Arts and Gigi Lagge to help him establish a 501(c)3. He would like to see the arts get all the funding they can get.

Scott read in item (CC082818-01) Detox Discussion – Sheriff Kevin Thom and Pennington County Commission Chair Lloyd LaCroix. The detox agreement was attached to the agenda. Scott asked the gentleman to approach the podium to speak. Thom said he was going to reference his budget and data sheet he handed out. Thom spoke of the 5-year savings, detox admissions, and safe bed admissions. He said he figures together quickly so the numbers could vary 5-10%. Care campus cost county 13,100,000 and city 900,000. Thom said this is a jail diversion option. Overall costs will be saved when people are sent here rather than the jail when they are intoxicated. He went on to explain the spreadsheet. LaCroix said he was there if Council wanted to know the history of the detox information between the city and county. Jegeris said this expansion has been in the making for a few years but has been in need for over a decade. The resources don't meet demand of the city. The population is at greater risk than they need to be. The new facility will reduce the burden for calls of service. Drew asked why there is a 23% increase. Thom said 11% of the increase is because of salary. They are going from 44 to 52 FTE's. He said the McCarthur Foundation Grant has offset some of the charges. Drew asked what contract services were for. Thom said for copy machines, to cleaning, to medical supplies. Drew said utilities were up from \$133K to \$186K and Thom said they are going from 25,000 sq. ft. to 75,000 sq. feet so the costs will go up. They will also be running two facilities until they are able to move over completely to Kansas City Street. Drew

asked about the numbers regarding the Care Campus. Thom explained they have 7 mattresses right now and going up to 42 mattresses, now females are included. He said generally people who can't stay at the Cornerstone end up at the jail or detox. Detox only takes people who are intoxicated. Cornerstone deals with sober people. Laurenti stated he supports these rehabilitated services. He asked if the expansion is driving the need for services. Jegeris said the transient population is an insignificant portion of the population. He said the alternative to detox is the Pennington County Jail, which is expensive for taxpayers. He said they needed to expand services to be more efficient. Laurenti said, in the discussion to spend this money, if grant funds eventually run out, where is the tipping point where you put burden on the taxpayers. Jegeris said there are always grants to apply for along with donors in Rapid City. In response to a question from Laurenti, Jegeris said when they were studying the new facility they did compare it to other facilities. Lacroix reminded council that Rapid City has a portion of the population who are chronic alcoholics and drug users. He said the city and county have always worked together when it comes to addressing these problems. In response to a question from Nordstrom, Thom said there was .5 FTE unfunded. He said the county can choose to give that .5 FTE to another department if they want. He stated the cost of warehousing someone in the jail system is \$80 per day versus detox is \$20 per day. Nordstrom said he was on board with funding the detox facility. Salamun asked what the community could do to help people who are intoxicated. Jegeris said he discourages direct cash to intoxicated person. A great amount of his experience shows they turn cash in for alcohol or drugs. Thom said community engagement is important. Without public private partnerships, they wouldn't be able to operate. Lacroix has many success stories including his own. Scott asked Thom when the second floor will be completed. He said 8-10 months is their goal. Motion was made by Nordstrom, second by Laurenti and carried to acknowledge the discussion.

Scott read in item (CC082818-02) Discussion Interdepartmental Charges and PILT (Payment in lieu of taxes) Sean Kurbanov was asked to explain PILT he deferred to Sumption to explain the formulas for PILT. She said the civic center was being charged 1/3 to them. Scott asked Kurbanov how many more formulas were done this year to figure interdepartmental charges. He said the formulas take much more investment of time. It is a work in progress. Scott stated the council needs a complete picture and have definition for all interdepartmental charges. There is \$5 million total with \$2 million being central services, which includes HR, IT, attorney, finance and, equipment maintenance. Laurenti asked Sumption what current method is being used for interdepartmental charges. Sumption said the spreadsheets are attached and the specific function the number is tied to. Laurenti asked if there is a new method being looked at for other non-central services interdepartmental charges. He is disappointed this isn't complete a year later. Council needs to make this a priority. Money shifts but no number or methodology. Laurenti said he would bring this item it to Legal and Finance Committee, to make sure the calculations get done. Scott said central services do have a formula. We need to see what it costs each department. Right now, influx from enterprise funds to general funds. \$2 million is defined and \$3 million is not defined. Scott said her biggest concern, as a city council, is we raised water and sewer rates. Did any interdepartmental charges increase to take in more money in those funds (water and sewer) that is going to go to the general fund? When the new rates were approved, the reason for the increase was to put money in reserves, not supplement the general fund. The method for central services did not change. Nordstrom to Kurbanov, how long will it take to do the project? Kurbanov said he can't say how long it will take. Budget analyst is not part of central services. Tech, all general fund users are tracked but are not billed. Civic center pays for the water that they use. Nordstrom used the library as an example, customers use the facilities, and how is the cost recovered from the library? Tech said water is metered but not billed. Library doesn't pay a water bill, fees pay for water. Rate payers are not paying twice. Scott to Tech, stated if the library is not paying the bill, general fund water user is metered but not billed then the other rate payers cover the library water usage. Motion was made by Laurenti that the water fund retains 100% of the water rate increases within the water fund, second by Drury. Increase to get funds in reserve. Retain increases remain in the water

fund with interdepartmental charges remaining the same as 2018's budget. Roberts said just like the library, non-billed water to parks, etc. rate payers are on the hook for these bills. People from out of town should be paying part of the bill. Modrick, why are we isolating one fund. She asked what end result would Council get out this motion. Laurenti said increases of interdepartmental charges can't use water funds because that money was set aside to protect the water fund. In response to a question from Modrick, Tech said partial water rate increase is to operate water system and for capital improvement projects. Interdepartmental will need to go up, he doesn't think this is a problem as those services are being provided and water fund should pay for these services. Modrick doesn't agree with the motion. Scott said additional \$3 million has no definitive equation. Drury said as an opponent to the rate increase, council needs to safeguard funds for the reserves. Sumption told council if they cut interdepartmental charges, they will need to tell her where to cut expenses. Nordstrom to Tech, as the director of the water department, he doesn't like water funds going to interdepartmental charges either but understands that these services are being provided and there should be a cost for those services. Sumption said the water enterprise is at \$20.7 million dollars, the budget shows a \$2.9 million increase, and the interdepartmental charges is \$61,000. Scott asked what the Mayor's total for interdepartmental charges for the water enterprise fund is. Sumption had to do some research. Meanwhile, Laurenti to Tech, what's the best way, understanding his intent, to ensure council isn't spreading the money out. Tech answered to allow Kurbanov to do his work to ensure each enterprise fund is paying the correct share. It's not fair to take away from the water fund and make the other departments pick up the slack. Laurenti withdrew his motion, Drury second. Laurenti said it's important to get the calculations on interdepartmental charges done with deadlines to City Council so they can start understanding it completely. Sumption said the total for interdepartmental charges for the water enterprise fund (net) is \$555,266. Salamun said he is most comfortable allowing Kurbanov to do his calculations. Scott asked Sumption as a benchmark, what is the total city attorney budget for 2019? Sumption said the total net budget is \$781,250. How much interdepartmental revenue going to the attorney's? Sumption said just shy of \$399,000. Scott congratulated Kurbanov on straightening out a portion of the budget because Scott said it used to be a lot more lop-sided than this. Motion was made by Modrick, second by Laurenti and carried to acknowledge.

Scott read in (CC082818-03) Last three years building department revenue and fees. Roberts asked Sumption, on the numbers she sent him; do those include all the numbers on the revenue side? Sumption said it includes revenue labeled building permits and plan review on the revenue sheet. She said it was made up of several object codes. Roberts said on the building permit website, they have it broke down into total fees. Sumption said she doesn't provide the number shown on their website so she doesn't know where that number is coming from. Roberts said the building services number is \$2,537,306 million for all permit fees collected. Roberts said that probably contains inspection fees. Sumption said her collection fees are separate. Roberts asked if he could refer to the number of the website and Sumption said she didn't know what part of the website Robert's was looking at. Young said he wasn't sure what Roberts was looking at either. Young explained the budgeting for Community Development, they lump together planning and building into development services. Young said the paper Roberts showed him would be specific to building permit fees. Roberts said the building permit fee for 2017 was \$2,537,306 off the website. The expenses for that department, of what Sumption gave them, was \$1,576,213 for 2017. Roberts said if those numbers are correct \$912,000 had to go back somewhere and he's guessing it was the general fund. Sumption said part of the revenue also includes the fire department's inspection fees but those costs are not in the numbers she gave council. She took strictly the building inspections org-code for costs. Those were the only costs she included. She knows there are costs outside of the org-code that if they did interdepartmental charges between the general fund departments, that number would be increased for those expenses, but they quit doing those when Alan Hanks was the Mayor. Scott said let's say there really was a \$912,000 difference did the money go into the general fund to offset the costs of the central services? Sumption said all the revenues are brought into

the general fund. Roberts said by ordinance, we have a policy for fees to be refunded. If the city has that much more money coming in on building permits, how do contractors get their money back? Landeen said a fee is meant to cover the cost of the program or service. The law doesn't give a scientific formula for how much can be made off of a fee before it becomes a tax. If you are making an unreasonable revenue then it's a tax and if challenged can be a problem. Landeen said there is a problem because people are using numbers that are favorable to them. We need to make sure the cost is the total cost of what it actually cost to provide that service. It can't just be the building services budget. It's all the overhead, all the IT support, all the fire, etc. But if the revenue exceeds it, by an amount that's significant and consistently, then it could potentially be considered a problem. Landeen is not aware of the ordinance Roberts is referring to. Roberts clarified and said it's a resolution not an ordinance. Regarding the building code, Roberts said there is a reference in regard to the city not charge over 20% of what the cost of services are. Roberts said if council goes by his numbers, then the city is way over 20%. He said if council looks at Sumption's numbers, the city is only about 10% over. Roberts said no matter which number they use, the city is already over the amount to run that department. Roberts said, in his opinion, this is a way to pad the general fund. He wants to remove the money from the budget and keep permits where they are at now. Salamun deferred to the Mayor. Mayor stated this was in part why he urged the council to look at building permits separately. He said this is an incomplete picture. He said to clarify, the building inspection, the development service center, the administration staff, others working in planning, public works and the fire department, all in the general fund. The general fund does not have the same type of accounting as enterprise funds. Enterprise funds are very close to accounting for a private business. So to go into this now and try to create and explore the actual expenses to produce building permits and everything that is involved with that, takes time. He will bring back the figures needed to produce a building permit. Scott stated if the budget is approved as presented with building fees, it can be rescinded at a later meeting with a negative supplemental appropriation. Salamun wants to know how much it costs to run the department but it seems there is no concrete answer. Salamun asked how the city is currently calculating building permit fees. Young asked Salamun to be more specific. Salamun asked the methodology to getting the building permit amount? Young said that staff allows the applicant to project their value. The valuation is based on a thousand square feet. In response to a question from Salamun, Young said we do not have a bad system. We need to look at how we calculate fees and adjust it. Young said we should not compare ourselves to Sioux Falls. How they do things isn't necessarily the way to view things. He said the inspection fees are considerably higher there. The way it's expressed isn't a fair picture. Salamun said the burden of proof is on the city. We don't have a clear picture why we need the increase. He doesn't want to increase when they don't have all the answers. Roberts asked Hedrick how much more it cost for a building permit in Rapid City compared to Box Elder and Hedrick said it's 17% higher in Rapid City for the exact same home. Roberts said any time the city adds to a building permit they are losing business in Rapid City to another community. The numbers he asked for regarding revenues and expenses already generate more money than it takes to run that department. Motion was made by Drew to remove this item from the budget because of expediency and lack of information. Scott clarified and said the Mayor is recommending council pass his budget as presented and then if the fee structure that comes before council in November does not pass the city council, a supplemental appropriation for 2019 budget would be created to decrease the 2019 budget at that time. Drew said she would still like to make her motion because she doesn't think they have enough information at this time. Scott asked Sumption if council had to direct her to what fund this should come from. Sumption said council would need to tell them what department or program they want to reduce the funding from. Drew withdrew her motion since she wasn't sure where the new funding would come from. Laurenti thinks council needs to take greater control of what is happening here. We need to make sure these come back to us and make ourselves accountable. We need to look at the numbers and look at the specifics. Sioux Falls has an untold number of fees outside of building permits. He hopes our additional fees come forward as council continues to have discussions. He doesn't feel like the mayor has bad intentions and will

be open to change the costs later if needed. Modrick stated that council's intention is going down the right path. She would like to move the budget forward but there does need to be more data. She said numbers are flying around but they will get true numbers if they defer this portion to October or November. She noted the fees have not been changed in 25-years and there is more information to come out of that statement. Motion was made by Roberts to take the \$200,000 out of the budget for the increase in building permit fees. Scott said Roberts would need to name where he wants that money to be taken from. Roberts asked Sumption what is in Young's budget this year and how much did it go up. Sumption said he has multiple org-codes for community development Scott said according to what the mayor presented: community development was \$2.6 million last year to \$3.0 million this year. Scott clarified that Roberts wants to remove from the budget the building fee increases, and take from the community development budget. There was a second by Laurenti. Roberts thinks it is easier to raise the fees later than take it away now. Once you budget something, you don't cut it. Roberts wants to see the City prove they are not generating enough money to run this department. Roberts said he has different numbers than Sumption gave them. The total number budgeted for the increase is \$203,280. Roberts thinks this is a bad way to budget. The city shouldn't budget for something they don't have. Modrick said the difficult part of the budgeting is that it's forecasting. She stated they need to move the budget forward and also analyze permit fees. Mayor wanted to explain the asterisk, when he presented the budget he mentioned the \$330,000 increase in community development is directly related which is a transportation grant from the federal government. In order to spend it, the expenses are raised by that amount. Community Development is the same as 2018. A decrease of this magnitude can only be made up in personnel. Then a policy would need to be changed on how they intend to deregulate or intend to change that department. He said the department directors are all proud executives who want to run their department in the best way possible and they have made the reductions in their requests to provide the basic bare minimum rate of service. Modrick said there is no other offset that makes sense other than to use community development. We are using tools that we haven't had in the past. 1300 quartiles got down to 800. We have an analyst that does this for a living. Modrick asked the mayor for further direction regarding the \$203,000 reduction in revenue. He said it was possible to find the money citywide so it wouldn't involve laying off staff or taking away from the most used services. Mayor saying taking money from one department will be big consequences for that one department. Scott said the Finance Officer advised city council to narrow down where expenses should be cut from. Mayor suggesting we want revenue source to be reduced by a certain amount. Sumption said technically once the mayor presents the budget and turns it over to council, it is then council's job to make the changes, make it balance, and bring it forward for approval. However, if the mayor wants to take on the task of looking over the budget again to find reduction in expenses to make up this money, he can request to do that. In response to a question from Scott, Landeen said the Mayor has presented council his budget and spent a lot of time preparing it and trimming it where he could. On one hand it would be helpful if council gave him guidance on where to trim. On the other hand, council doesn't have the budget in detail or have access to the staff so to some degree. He would probably prefer to have some input into that versus council just slashing it. At the end of the day when council approves it, it needs to balance. So if the Mayor and Department Directors can't cut it, then council will have to cut it. If the Mayor is willing to look again and bring back a revised budget, there is nothing illegal about that. Motion to amend by Roberts, remove building revenue increase, let the mayor identify, at his discretion, where to cut the fees by second reading for final approval. There was a second to the amendment by Laurenti. What really bothers Laurenti about city budgets is council can't get the votes to hold the budget to a true balanced budget. But it's always after the fact. Council is put in a position to spend money on future projection of revenue. In his opinion, the city should be running every department as an enterprise fund. We should have balance sheets. We should run the city like a business. Take from discretionary funds first. Drury thanked the mayor for going back and looking at the budget. She would rather vote for something firm, than guess on calculations. Encourage the vote to take it off the budget. Salamun said the mayor has shown good faith in the past and he will come back with reduction.

He is going to come back with that \$203,280 reduction and it might make someone mad and we'll have to live with it. We need to understand that sacrifices have to be made. Scott clarified that the Mayor will have to bring back recommended cuts and the council still has the final vote. Armstrong said council needs to understand the amount of work put into this budget. She believes if they could have found the \$200,000 they would have. She fears the cuts will come from places that come from places she holds dear. She is leery about the motion. She has faith in the leaders. Laurenti supports the item because we need to hold the line on this type of budgeting. We need to take a stand and do the right thing. Nordstrom said he is not comfortable with the motion either. He doesn't have enough information. Modrick is concerned with how the CPI vote will turn out and have the mayor find \$500,000 to cut. She said slashing could be bad. Scott read the motion: to reduce the 2019 budget revenue stream from building permits, the \$203,280 and request that the mayor bring back recommended cuts of \$203,280 before the second reading before council. Motion passed 5-4 with Drew, Nordstrom, Modrick and Armstrong voting no. Scott said council will be taking a ten minute recess. She asked that items 4-8 be combined when they return and to speak on them altogether. There were no objections. Mayor said this seemed logical to him to discuss the budget and the building permit issue separately. He said it was his fault for seeing that opposite of how council sees it. He said it was an extraordinary year in doing the budget. He stated there are more policy issues at stake than the numbers that appear on the page. He will need the council's input on cutting costs. There is a policy issue and at the end of this discussion, there are 75,000 people who are asking for more. He is offering time to participate in discussion. Mayor stated that Sumption and Davis and the finance department are the geniuses behind the budget. The Finance Officer is the chief budget authority from the Mayor's Office. Scott recessed the meeting at 8:16 p.m.

Scott called the meeting to order at 8:29 p.m. with Roberts absent. Scott wanted to address items 4-8 together. Scott read in the following items: CC082818-04 – Last five years budgets with percentage of increase and decrease; CC082818-05 – Historical property tax revenue; CC082818-06 – Historical sales tax revenue; CC082818-07 – Discussion if CPI should be taken; CC082818-08 – Discussion on additional alterations to the budget, this was offered to the other committees as a way to bring up anything they want to address regarding the budget. Laurenti asked to see the 5-year budget. He said 2015, 2016, 2017 looks like the city has a total percentage increase of 12% in the general budget. He reviewed the sales tax and property tax figures as well. He stated the city is outspending what we get in revenues. In response to a question from Laurenti, Sumption said historically it's been 2 + 2 and as high as 4 + 4. She stated that Kurbanov found a model to track our sales tax. She believes it was a little over 5% total over 2017 actual as what was budgeted for 2019. Roberts returned at 8:34 p.m. Laurenti said we are outspending our revenues. He said the percentage of growth in sales tax revenue is over 4%, which is very healthy. He stated we don't have a revenue problem. Laurenti wants to send the CPI back to the Mayor and wants him to work on the numbers for building permit fees and CPI. He does not want to take either. Scott stated that the council has to vote separately on taking the CPI. Sumption said that resolution typically goes along with the second reading of the ordinance. Motion was made by Modrick to accept the CPI as it was presented in the budget, second by Nordstrom. Modrick stated that council should not look at taking the CPI in a devalued way of a funding source. She said the budget needs the revenue source. The taxpayer gets value for the increase. Taking CPI is nominal, generates \$285,379 revenue. It is at a nominal increase of 1.7%. She feels if they take anything else away from the budget they will have a tremendous amount of loss and create a level of failure. The percentage of the CPI is 1.7% which equals \$285,379, and that was the full amount available to take. In response to a question from Scott, Sumption said they do not have any claw-back available to them at this time. She said the city has never done a claw-back. Nordstrom pointed out that the city generates \$16,055,494 in property tax and looking over PD and HR, it looks like the property tax funds those. He is not comfortable running the city like a business. He thinks by not taking the CPI we are giving up our quality of life. Roberts said he can't budget on projections. Modrick said fixed numbers of revenue is property tax at 27% and our reliance is sales tax at 44%. She

said the only way to grow the number is to buy local. Laurenti said this is backward thinking. He said citizens already pay a high amount in property taxes and they should not have to pay anymore. He said the spending of government money is the problem. Drew said she supports taking the CPI; she isn't willing to cut arts to compensate for this. She believes taking the \$203,000 away in building permit fees was irresponsible and taking this away would be irresponsible as well. Drury complimented Sumption on all of the facts brought to the meeting tonight. Drury asked Sumption if she knew how much assessments went up in the last year. Sumption didn't know off hand but could get the figures if needed. Drury said it's not just property taxes that go up but property assessments go up as well. Sumption said theoretically if assessments go up then the mill levy goes down and we would probably collect the same exact amount of tax from each person. Sumption said that CPI is not about growing the pot. It's about providing services that we currently provide and covering the increased cost. The growth part of your property taxes is for new annexations, new buildings, or an addition to your house, that's what is considered growth. And growth should pay for growth. CPI should pay for the increased cost of doing business. Scott has tried to track the property taxes and the monkey wrench is the equalization factor that the state does. Laurenti said even in the face of the revenue growth increases, the city is trying to say is somehow this good revenue growth doesn't cost the increased cost of government to do business. It comes down to government's refusal to make priorities. Nordstrom said the city added another employee in Human Resources and in Engineering. He believes these people are needed to provide better services to the city employees and the citizens of Rapid City. The main factor is the quality of life and these people add to the quality of life. He supports taking the CPI. Motion passed 5-4 with Laurenti, Drury, Roberts and Scott voting no.

Scott read in item (CC082818-09) and asked if there was any Further City Council Discussion of 2019 Budget as presented by Mayor Allender. There were no additional comments. Scott asked if the council needed the additional budget meeting on Wednesday, August 29, 2018. Motion was made by Drury, second by Drew to cancel the tentative special council meeting scheduled on August 29, 2018. Motion carried. Scott thanked everyone for their participation in the hearings.

ADJOURN

There being no further business to come before the Council at this time, motion was made by Drury, second by Laurenti and carried to adjourn the meeting at 9:11 p.m.

ATTEST:

Finance Officer

(SEAL)

CITY OF RAPID CITY

Mayor