



CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

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April 19, 2017

Rapid City Common Council
300 Sixth Street
Rapid City, SD 57701

Re: Temporary Moratorium on Hiring Replacement Employees

Dear Council Member:

As you are well aware, sales tax collections are down statewide, and Rapid City is no exception. Our 2016 projected collections were \$25,110,427 (based on 2% increase over 2014 actual), but our 2016 actual collections came to \$24,932,061. This equates to a shortfall of \$178,366.

The 2017 collections were projected at \$26,466,558, based on 2% increase over 2015 actual and 2% over 2016 projected increase. The first two months of this year have indicated that things are not improving. Sales tax receipts for January totaled \$1,749,423, which is just 0.17% over January 2016. February observed a shortfall of -4.42% under the prior year, totaling \$1,786,756. Our sales tax revenue to date for this year is \$3,536,179, which is -2.21% under what we experienced at this point last year.

Statewide, the Municipal Gross Receipts tax (also known as the Bed, Booze and Board tax, or BBB) collections have been under last year's YTD collections. In Rapid City, our BBB collections were down 5.53% from this time last year. The easy conclusion is: people are not travelling or spending as much as last year or the year before. The more difficult and meaningful questions are: why, and how long will it last?

The SD Department of Revenue has not released 2016 gross sales data yet, and the substantial sales increase in 2015 over 2014 is not helpful in analyzing 2016. The fact is: sales are down from our projected increases in 2016. Additionally and more importantly, the first two months of 2017 are down from the 2016 actual collections. The added decrease in BBB tax is more telling in terms of the travel and tourism industry.



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A glance at national data including unemployment and stock market fluctuations do not indicate to me that another recession is looming. It has, however been seven or eight years since the Great Recession and the tremendous recovery following the recession would typically lead to an adjustment. Hopefully, this is an adjustment and not the beginning of a longer-term economic downturn.

Statewide tourism taxable sales were flat in 2014 and 2015 which may have been an unseen warning sign of overall sales in 2016. More conclusive data is not yet available from the Dept. of Revenue for 2016, but I think it's obvious the result is unfavorable.

Overall, South Dakota has a stable economy in terms of job growth, GDP and overall gross sales but we are not immune to a downward adjustment. We know we are experiencing a downturn of some sort now, and although it is not time to panic, I believe it is time to take some corrective action.

Here is a brief summary of the City of Rapid City job openings over the past two years:

There were 95 City job position openings in 2016 and 70 in 2015. Of those, I subtracted the enterprise fund employees and police and fire operational employees (see explanation later in this letter) to isolate a group of general fund position openings. I conducted an analysis of the starting wage of each of these positions and the point in time in which the openings occurred during the year. I created and applied the following delayed-hiring schedule for the positions based on department size:

Departments with 25 and fewer employees:	30 days
City Attorney (7)	
Community Planning (24)	
Finance (18.5)	
Mayor's Office (3)	
(Not a City department but will participate in the plan)	

Departments with 26-100 employees:	60 days
Community Resources (28.5)	
Library (36)	
Parks and recreation (49)	
Public Works general fund only (89)	

Departments with 101 and greater general fund employees:	90 days
Fire Department (158)*	
Police Department (153)*	

The application of this hiring delay will be the general fund departments. Enterprise fund departments generate their own operating revenue and the proceeds (profits) cannot be seamlessly used to fund the budget shortfalls outside of their own business model.

Furthermore, the services delivered by enterprise employees generate the proceeds so delaying hiring will not produce a positive result.

The waiting period will be applied beginning the day after the last paid day of employment for the person leaving the position. No sooner than 30, 60, or 90 days later, depending on department size, can the position be advertised formally or informally. Human Resources will be the enforcing agency for this program. This moratorium will become effective May 1, 2017.

The expected end result of this temporary hiring delay is based on the cost savings for each position, for each month of the delayed hiring. The expected result is a savings during the remaining 2017 calendar year of \$337,969

- *This figure is based on 12 months of savings estimated to be \$450,626, pro-rated for the remaining 75% of this calendar year.*

The accumulated cash from this program will be coupled with a so-far unknown amount of other undesignated cash from 2017 and will be used to balance 2017 expenses and revenues, with any remainder being carried over to balance the 2018 budget.

- On the positive side, this budget treatment is not using one-time funds to fix an on-going budget shortage. This delayed hiring practice may be carried on for years if necessary.
- On the negative side, the cash savings is generated from a purposeful reduction in productivity and perhaps efficiency. Based on this, it should not be seen as a multi-year solution.

Our implementation of Priority Based Budgeting is near completion and will be used fully to generate the 2018 budget proposal. The benefits of this budgeting method are not specifically known at the time of this letter, and are not generally known for the long term. The program will be adjusted and customized for greater benefit as the years go on.

As with all budgets, whether corporate or personal, a budget has two important components: revenue and expenses. This week, I am holding a staff brainstorming session to explore additional sources of revenue. In my opinion, the 2017 and 2018 budgets cannot and should not be balanced by simply or exclusively slashing spending.

The next few weeks will be very exciting for the budgeting process. I will keep you posted when the Priority Based Budgeting software is loaded and ready for display. There is much to learn about our City programs and ultimately some difficult choices may have to be made. In the meantime, it is my wish that we not negatively exaggerate the financial position we are in. Consumer confidence is a major factor in the economy and while we are not in an emergency situation, we have the ability to contribute to one if we are not careful.

*Exceptions to this program are police and fire operational employees, specifically, police officers or firefighters. These two groups already delay hiring for these positions to accommodate hiring groups of employees at the same time. Employees within these departments that are not in those job descriptions will be subject to the delay. Other exceptions will be considered based on unusual circumstances only.

If you have comments or questions, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "Steve Allender". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Steve Allender, Mayor
Rapid City, South Dakota