Overall Economic Condition

• South Dakota’s GDP growth from 2015-2016 was 1.7%
  • Ranked 18th of 50 states
• South Dakota total GDP $40.7 billion in 2015
• Gross sales in SD on the rise, but fairly flat for the Black Hills Region
• Rapid City’s gross sales rose by $907 million in 2016 to $6.04 billion
  • No explanation yet as to low sales tax receipts

Source: U.S. Dept of Economic Analysis, Regional Economic Accounts
SD Dept. of Revenue, returns filed for calendar year 2016
Tourism Tax Collections

• $831 million statewide in 2016
• Pennington County collected 27.4% of SD’s tourism tax
• Minnehaha collected 14.1%

Source – SD Dept of Revenue
Rapid City Sales Tax Collections (First 6 months)

Sales Tax

- 2013: 24814040
- 2014: 26076670
- 2015: 27036661
- 2016: 27722399
- 2017: 28280706
2017 Monthly Sales Tax Collections

January
February
March
April
May
June

2017 Sales Tax
Building Permit Totals
2013-2017 January-June each year

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$128,661,446.00</td>
</tr>
<tr>
<td>2014</td>
<td>$78,410,815.00</td>
</tr>
<tr>
<td>2015</td>
<td>$103,772,087.00</td>
</tr>
<tr>
<td>2016</td>
<td>$169,971,052.00</td>
</tr>
<tr>
<td>2017</td>
<td>$127,592,884.00</td>
</tr>
</tbody>
</table>
Building Permit Totals 2013-2016

- 2013: $244,253,223.00
- 2014: $214,924,664.00
- 2015: $219,494,524.00
- 2016: $320,054,359.00
2018 Budget Preparation
Major Challenges and Opportunities

- Growing Demand
- Population Increase
- New Development
- Increased Valuation
- Increased Tourism
- Over-reliance on sales tax growth
- Outdated rates and fees for services
- Reassessment of General Fund Reserve Policy
- Program creation and reassessment – PBB (first year)
Major Challenges and Opportunities (cont’d)

• Interdepartmental charge reassessment (currently based on old formulas)
  • Phase 1: Equitable and benefit-based Central Service charges and PILT (in this budget)
  • Phase 2: Traditional interdepartmental charge structure for 2019

• Sales tax redistribution – General Fund, Streets and Public Infrastructure

• Transfer of Golf Courses/Cemetery enterprise funds to General Fund

• Community Resources reorganization

• HR strengthening

• Budget Document
General Fund – Demand and Cost Increase for Public Services

• 2006-2016 RC population growth – 9.4%
• 2008-2016 assessed value increase – 26%
• 2006-2016 City Area increased by 5.76 sq. miles or 11.3%
• 2005-2015 number of:
  • single-family residential properties increased by 3,894 units
  • multi-family residential properties increased by 1,616 units
  • more than 2.2 million additional retail establishment sq. footage
  • more than 676K additional sq. footage office space
  • more than 1.72 million sq. feet of industrial property
• 2006-2017 road lane miles increased by 128.5 miles or 13%
• 2006-2016 CPI Increase – 17.1%
### Revenue – General Fund only

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales tax</td>
<td>$28,444,909</td>
</tr>
<tr>
<td>Property tax</td>
<td>$16,863,201</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$3,020,000</td>
</tr>
<tr>
<td>Grants/Intergov revenue</td>
<td>$3,762,012</td>
</tr>
<tr>
<td>Licenses/Permits</td>
<td>$2,435,000</td>
</tr>
<tr>
<td>Court fines</td>
<td>$25,000</td>
</tr>
<tr>
<td>Sale of goods/services</td>
<td>$4,594,732</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$915,868</td>
</tr>
<tr>
<td>Interdept. charges/PILT</td>
<td>$5,418,799</td>
</tr>
<tr>
<td>Transfers out</td>
<td>($25,000)</td>
</tr>
<tr>
<td>Undesignated cash</td>
<td>$1,337,512</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$66,792,033</strong></td>
</tr>
</tbody>
</table>
2018 Revenue

- Property Tax: 25%
- Sales Tax: 43%
- Other Tax: 4%
- Grants etc: 6%
- Licenses/Permits: 4%
- Court Fines: 0%
- Goods/Services: 7%
- Misc: 1%
- InterDept. Charge/PILT: 8%
- Undesignated Cash: 2%
- Sales: 43%
- Property Tax: 25%
<table>
<thead>
<tr>
<th>YEAR</th>
<th>GROWTH RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>9.30%</td>
</tr>
<tr>
<td>2005</td>
<td>8.97%</td>
</tr>
<tr>
<td>2006</td>
<td>8.77%</td>
</tr>
<tr>
<td>2007</td>
<td>5.97%</td>
</tr>
<tr>
<td>2008</td>
<td>5.83%</td>
</tr>
<tr>
<td>2009</td>
<td>-2.74%</td>
</tr>
<tr>
<td>2010</td>
<td>3.61%</td>
</tr>
<tr>
<td>2011</td>
<td>6.03%</td>
</tr>
<tr>
<td>2012</td>
<td>5.57%</td>
</tr>
<tr>
<td>2013</td>
<td>3.32%</td>
</tr>
<tr>
<td>2014</td>
<td>4.38%</td>
</tr>
<tr>
<td>2015</td>
<td>4.10%</td>
</tr>
<tr>
<td>2016</td>
<td>0.71%</td>
</tr>
<tr>
<td>2017</td>
<td>2.01%</td>
</tr>
</tbody>
</table>
Revenue Overview - General Fund Only

2008-2016 AVERAGE ANNUAL CHANGE IN ACTUAL REVENUES

- Property Taxes: 4.04%
- Sales Taxes: 2.84%
- Licenses & Permits: 1.86%
- Interdepartmental Charges: 1.59%
- PILT: 1.14%
- Total Revenue: 0.00%
Revenue Overview

- Sales tax reliance (prone to fluctuations) and decline in the last 2 years
- Potential of other own-source revenues has been neglected
- Property tax revenue philosophy should be evaluated
- Use of undesignated cash increasingly necessary
- Fees for permits, licenses, service charges need to be evaluated if this is to be a source for replenishing expended funds
General Fund Budget

• Major drivers:
  • Increase in personnel costs - mainly wage increases
  • Up to 5 new FTEs. 1-Streets, 3-4 HR
  • Decrease in Capital Outlays
  • Additional costs and revenues for Parks & Rec due to addition of golf courses
  • Increasing costs for Cemetery since being added to Gen Fund in 2017
  • Increased Central Services Charges and PILT
2018 General Fund Budget Request

- Mayor/Council: $673,469
- Attorney’s Office: $766,831
- Community Resources*: $2,902,664
- Finance: $1,250,189
- Community Planning: $2,401,774
- Public Works: $15,172,546
- Police: $15,529,339
- Fire: $11,040,378
- Library: $3,394,085
- Community Invest/Subsidies: $4,473,597
- Parks and Recreation: $9,187,161

- TOTAL: $66,792,033
General Fund Proposed Spending

- Public Safety, 47%
- Culture and Recreation, 22%
- Public Works, 15%
- Community Development, 6%
- Trans., 4%
- General Gov't, 6%
- Subsidies, 0%
Reallocation of Sales Tax

• Current Allocation:
   • .92 General Fund
   • .16 Utility Support
   • .46 CIP (Capital Improvement Plan)
   • .46 Vision Fund

• Proposed 2018 Allocation
   • 1.00 General Fund (increase of $2,255,593)
   • 0.58 CIP (increase of $3,383,389)
   • 0.42 Vision (decrease of $1,127,796)

• Advantages of Reallocation
   • Increase in infrastructure funding
   • Increase in General Fund revenue

• Disadvantage of Reallocation
   • Slight reduction in Vision Funding
   • Does not cure all of the allocation issues
Reallocation of Sales Tax

- Streets, drainage, MIP
  - +$874,840 (first year)
  - +$300,000 (second year)
  - +$362,304 (third year)
  - +$1,537,144 total increase, not including growth

- Slight increases to Parks (+$28,332) and Gov’t facilities (+$25,941) and interdepartmental charges (+$11,742)

- Reduction in IT (-$70,214) as part of long term plan

- Reduction in Fire Vehicles (-$36,253) as part of long term plan

- Elimination of Capital matching grant (-$225,000)

- Elimination of contingency (-$300,000)
General Fund: Central Services Cost Allocation

Goals:
• Identify the actual cost of services being provided to citizens
• Equitably share the costs of central services
• Ensure accuracy of cost-based user fees for enterprise funds

Central Services:
• Human Resources
• Information Technology
• Legal Services
• Finance
• Equipment Maintenance
<table>
<thead>
<tr>
<th></th>
<th>Human Resources</th>
<th>Information Technology</th>
<th>Equipment Maintenance</th>
<th>Finance</th>
<th>Attorney's Office</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>$ 145,788</td>
<td>$ 339,821</td>
<td>$ 375,300</td>
<td>$ 479,390</td>
<td>$ 497,192</td>
</tr>
<tr>
<td><strong>Proposed</strong></td>
<td>$ 202,347</td>
<td>$ 479,257</td>
<td>$ 426,093</td>
<td>$ 710,221</td>
<td>$ 256,989</td>
</tr>
</tbody>
</table>
General Fund – Reserve Policy

• **Rapid City Code 2.40.140**: “reserve balance shall be calculated as follows: Fifteen percent (15%) of the budgeted general fund expenditures less those expenditures for capital outlay”

• National Advisory Council on State and Local Budgeting (NACSLB) recommendation: “Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures... The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used.”
General Fund – Reserve Policy

• Proposed Policy
  • Create and maintain **Emergency Reserve** and **Stability Reserve** based on available General Fund Reserves.
  • Emergency Reserve permitted uses are natural disasters and other unforeseen catastrophic events. 2/3 majority required.
  • Stability Reserve is for mitigation of financial and service delivery risks due to unexpected revenue shortfalls and unanticipated critical expenditures.
  • Stability Reserve may not be used for new programs.
  • Mayor recommends. Council approves. Simple majority required.
  • Assessment of use is tied to indicators of economic activity such as Sales Tax.
  • Must be followed by a replenishment plan.
Summary and the Road Ahead

• Our economy is ok, but the budgeting process must be changed
  • Streamlining
  • Revenue philosophy

• Phase 2 Assessment of Interdepartmental Charges in 2019

• GFOA-compliant Budget Document (one-stop document to increase transparency, accountability, and citizen involvement in the budget process)

• More PBB-based program optimization to include closer review of Q3&Q4 programs and Q1&2 programs with low reliance, low/declining demand.
Notable Budget Cuts for 2018

- Elimination of RSVP ($40,000)
- IT Live Streaming of meetings ($18,000)
- Crossing Guard program ($17,000)
- Journey Museum ($30,000)
- Human Services Community Investments ($52,000)
- Allied Arts Fund Community investments ($27,000)

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- Total ($184,000)

- Minneluzahan Sr. Citizens (was 21,500) $17,750
- Canyon Lake Sr. Citizens (was 14,000) $17,750
Conclusion

• Budget packets available
• Direct questions to the Mayor’s Office for written answers
• Coordinate invitations to budget hearings through the Mayor’s Office