



CITY COUNCIL AGENDA STAFF REPORT

MEETING DATE: April 14, 2014

Title: Consideration, discussion, and possible approval of fiscal year 2014-2015 budget recommendations and fiscal items including 1) the City Manager's recommendations for the City of Sparks final budget; 2) the City's property tax rate; and 3) the proposed five year Capital Improvement Plan. [For Possible Action]
Petitioner: Stephen W. Driscoll, ICMA-CM, City Manager Presenter: Jeff Cronk, CPA, Financial Services Director
Recommendation: That the City Council approve 1) the City Manager's recommendations for the fiscal year 2014-2015 final budget; 2) an increase in the City's property tax rate equal to 4.37 pennies per \$100 of assessed valuation; and 3) the proposed five year Capital Improvement Plan.
Financial Impact: Recommending the City's budget for Fiscal Year 2014-2015.
Business Impact (Per NRS 237) <input type="checkbox"/> A Business Impact Statement is attached. <input checked="" type="checkbox"/> A Business Impact Statement is not required because this is not a rule. <input type="checkbox"/> A Business Impact Statement is not required. This is a rule but does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or exemption of a business. <input type="checkbox"/> A Business Impact Statement is not required. Thus is a rule but emergency action is necessary to protect the public health and safety (requires a unanimous vote of the City Council and cannot be in effect for more than six months).
Agenda Item Brief: This agenda item provides the City Council with the City Manager's recommendations for the fiscal year 2014-2015 budget and fiscal impacts for the City of Sparks.

BACKGROUND & ANALYSIS:

The City Manager and Financial Services Director are presenting the City Manager's final budget recommendations for fiscal year 2014-2015 (FY '15). Today, the City Council is being asked to direct staff in preparing the City's final budget document for submission to the State of Nevada. City staff has filed the tentative budget for FY '15, and City Council will receive public comment on the FY '15 tentative budget on Tuesday morning, May 20, 2014 at 9:00 am. Immediately following the public hearing on the FY '15 tentative budget at 9:00 am, the City Manager and Financial Services Director will present the final budget document which will be prepared based upon direction received today. The final budget must be filed with the Nevada Department of Taxation by June 1 annually. During years in which the Legislature is in session, should the Legislature take action which affects the City's budget for the subsequent fiscal year, an additional 30 days would be granted to file an amended budget if necessary with the Nevada Department of Taxation.

Attached to this agenda is the City Manager's Budget Recommendation book as well as the proposed five-year Capital Improvements Plan (CIP). The City Manager's Recommendation book provides a synopsis of results and expectations of the City Manager's budget recommendations for the various Funds maintained by the City of Sparks and the Sparks Redevelopment Agency for FY '15. Today, the Financial Services Department Director will be presenting the material found in the City Manager's Recommendations book, and is seeking feedback and approval to proceed to prepare the City's final budget for FY '15.

Today, the City Manager is seeking the following:

1. Approval of the FY '15 City Manager's final budget recommendations;
2. Approval of the City's property tax rate -- including an increase of the property tax rate equal to 4.37 pennies per \$100 of assessed value
3. Approval of the proposed five-year Capital Improvements Plan (CIP)

Item #1 -- Information Regarding the City Manager's Budget Recommendations:

- The City Manager's final budget recommendations have been prepared based upon direction received from City Council at the February 25, 2014 budget workshop. See attached Budget Recommendations book for more detailed information on the City Manager's final budget recommendations for FY '15.
- The City Manager's final budget recommendations include the following items which were specifically voted on by Council at the February 25 workshop:
 - ✓ No changes are included in the City Manager's final budget recommendations from what was presented on February 25 regarding new needs, reclassifications, and department budget reductions
 - ✓ Increasing the property tax rate by 4.37 pennies to the maximum rate allowed -- expected to provide an additional \$250K of General Fund revenue -- **approval to include this rate increase in the final budget is being sought today**
 - ✓ Increasing the garbage franchise fee from 5% to 8% -- expected to raise additional General Fund revenue of about \$400K -- approval of the City Manager's final budget recommendations will be sufficient to move forward with this action

Summary of the City Manager's budget recommendations for FY '15 according to fiscal policy direction received on February 25, 2014:

- **Policy #1:** General Fund ending fund balance
 - Council provided direction to reduce the ending fund balance to no lower than 5.5% of expenditures in FY '15
 - Final budget recommendations include an ending fund balance of 6.4% of expenditures
 - Fund balance would be 5.9% without the property tax rate increase only (~\$250K revenue); 5.7% without the garbage franchise fee increase only (~\$400K); and 5.2% without either the increased property tax rate or garbage franchise fee (~\$650K)
- **Policy #2:** Maintain a General Fund contingency budget
 - The City Manager's final budget recommendations include a contingency budget of \$1.0M within the General Fund, offset by a transfer-in of an equal amount from the Motor Vehicle Internal Service Fund.
 - This offsetting transfer-in is available as long as resources are available within the Motor Vehicle Fund. The contingency budget is established for use only upon Council designation to cover unexpected one-time emergency budget shortfalls

- **Policy #3:** Transfer resources from the General Fund to the Capital Projects Fund to help pay for needs identified within the Capital Improvements Plan (CIP)
 - The City Manager's final budget recommendations include a transfer of \$902K for FY '15 (including \$662K for technology and \$240K for other capital needs)
- **Policy #4:** Commit Business License revenue to the Stabilization Fund
 - The City Manager's recommendations include no commitment of Business License Revenue to the Stabilization Fund for FY '15
 - The Stabilization Fund has a current fund balance of ~\$229K
- **Policy #5:** Reduce personnel costs to 78% of total General Fund revenues
 - City Manager's final budget recommendations include personnel costs equal to 80.5% of total revenues
- **Policy #6:** Consider the option for funding the City's Other Post-Employment Benefit (OPEB) liability using an irrevocable trust or maintain pay-as-you-go
 - City Manager's final budget recommendations include maintaining the current pay-as-you-go status

Other FY '15 items that have already been presented or discussed at the February 25 budget workshop are presented here with updated estimates that are captured in the final budget recommendations and fiscal policies listed above:

- FY '15 General Fund revenues compared to FY '14 estimates:
 - Property Taxes increasing 4.4% (up 3% without property tax increase)
 - CTAX revenues increasing 3.0%
 - License & Permit revenue increasing 4.6% (0.5% without the garbage franchise fee increase)
 - Total G.F. revenues increasing 3.2% (2.0% without the property rate & franchise fee increases)
- FY '15 General Fund Expenditures compared to FY '14 estimates:
 - Salaries & Wages increasing 1.7%
 - Benefits increasing 11.9% -- primarily driven by a 25% contribution and premium rate increase planned for the Group Health Self Insurance Fund
 - Services & Supplies increasing 2.5%
 - Total G.F. expenditures increasing 4.7%
- FY '15 General Fund transfers:
 - \$1.116M subsidy to the Development Services Fund made during the recession is expected to be paid back to the General Fund during FY '15

- \$1.0M transfer-in from the Motor Vehicle Fund to offset the contingency budget
- \$734K transfer-out to the Parks & Rec. Fund representing a subsidy of about 22.6% of the expenditures in that Fund
- \$902K transfer-out to the Capital Projects Fund
- Transfer-out to the Debt Service Fund of approximately \$730K for the City's 2007 CTAX bonds was removed in FY '15 as the debt service will be paid from unspent CTAX bond proceeds. The transfer from the General Fund to pay debt service will need to be reinstated in FY '16
- General Fund ending fund balance:
 - A net reduction of \$766K is included in the final budget recommendation
- General Fund subsidy of the Redevelopment Agency:
 - \$250K was paid to RDA #2 in FY '13, and another \$786K is estimated for FY '14. No subsidy is expected in FY '15 pending the outcome of the 10.2 acre land sale and final property assessments
 - No subsidy is expected for RDA #1, but a subsidy may become necessary in FY '16 or FY '17 pending the result of property assessments
- Other Post-Employment Benefit (OPEB) Liability
 - Net OPEB liability was ~\$6.0M as of June 30, 2013 (latest valuation available) and is expected to grow by ~\$500K annually
- Workers Compensation Liability
 - Long-term liabilities from the heart/lung/cancer benefits for the City's public safety employees is ~\$6.7M as of June 30, 2013 (latest valuation available)
 - A negative fund balance of \$757K existed at June 30, 2013
 - Fund assets (\$6.5M as of June 30, 2013) are expected to be sufficient to cover claims as they come due for the next few years, but long-term solutions are needed
- Information on other Funds maintained by the City can be found in the City Manager's final budget recommendations book attached to this agenda item

Item #2 -- Information Regarding the City's Property Tax Rate:

- The Nevada State Constitution caps the property tax rate at \$5.00 per \$100 of assessed value. NRS 361.453 further caps the rate at \$3.64 per \$100 of assessed value
- SB 507 ('03 Legislature) added a total of 2 cents considered to be outside of the \$3.64 cap, which effectively raised the cap to \$3.66 per \$100 of assessed value
- The City of Sparks current property tax rate is \$3.6163 per \$100 of assessed value
- This means that the City of Sparks total tax rate is \$0.0437 (4.37 cents) under the maximum rate allowed of \$3.66 per \$100 of assessed value
- The City Council has the authority to raise the property tax rate up to the \$3.66 cap by approving the rate increase as part of the final budget

- NRS 361.4722 and NRS 361.4723 (the “property tax abatement laws”) place further restrictions on property taxes requiring the amount of calculated tax that is greater than 3% for residential properties and up to 8% for certain commercial properties from the previous year’s tax levy, be abated (i.e., removed) from the current property tax levy. In other words, tax bills may only increase no more than 3% for residential properties and up to 8% for certain commercial properties (the “up to” 8% for commercial properties is actually calculated annually per a formula based on the average 10 year assessed value growth rate in a county and changes in CPI). For FY ’15, this formula for commercial properties resulted in a cap of 3%. Thus, both residential and commercial properties are capped at 3% for FY ’15
- Due to the abatement laws, increasing the property tax rate to the maximum will only result in additional revenue for FY ’15 of an estimated \$250K. An additional \$960K would have been generated in FY ’15 if the abatement laws were not in effect
- Based on data provided by the County Treasurer and Assessor offices, an estimated 11.2%, or 3,750 of the 33,595 parcels in Sparks will be affected by a property tax increase. An estimated 1,239 residential parcels are expected to be affected (3.7% of all City parcels)
- If the property tax rate increase is approved, abatement for FY ’15 is estimated to be \$2.5M. Without the property tax rate increase, abatement is still estimated to be quite high at \$1.8M due to increased assessed valuations (up from about \$280K of abatement in FY ’14)
- If approved, this will be the first property tax increase in 10 years since the current rate was established in FY ’05

Item #3 -- Information Regarding the City’s Five-Year Capital Improvements Plan (CIP):

- The CIP document can be found as the final attachment to the City Manager’s Budget Recommendations book.

Nevada Revised Statutes (NRS) 354.59801 requires that each local government have on file, a copy of its plan for capital improvements. NRS 354.5945 further requires a five year capital improvement plan be submitted to the Department of Taxation, Debt Management Commission of Washoe County, and the Director of the Legislative Counsel Bureau. In addition, NRS 354.5945 requires that copies be available for public record and inspection at the offices of the Sparks City Clerk and the Washoe County Clerk.

ALTERNATIVES:

City Council could also choose alternatives other than those presented today, and direct staff to prepare a final budget and Capital Improvements Plan for fiscal year 2014-2015 accordingly.

RECOMMENDED MOTIONS:

Recommended Motion #1: “I move to approve the City Manager’s final budget recommendations for fiscal year 2014-2015”.

Recommended Motion #2: “I move to approve that a property tax rate increase of 4.37 cents, from \$3.6163 to the statutory limit of \$3.66 per \$100 of assessed value, is included in the final budget for fiscal year 2014-2015.”

Recommended Motion #3: “I move to approve the proposed five-year Capital Improvements Plan for fiscal year 2014-2015 through fiscal year 2018-2019”.