



MAYOR
Ed Lawson

CITY COUNCIL
Donald Abbott, Ward I
Dian VanderWell, Ward II
Paul Anderson, Ward III
Charlene Bybee, Ward IV
Kristopher Dahir, Ward V

CITY ATTORNEY
Chet Adams

CITY MANAGER
Neil C Krutz, ICMA-CM

SPARKS CITY COUNCIL BUDGET WORKSHOP MINUTES

8:30 A.M., Monday, February 22, 2021

This meeting was held virtually due to the COVID-19 pandemic

1. Call to Order

The Workshop was called to order by Mayor Ed Lawson at 8:30 a.m.

2. Roll Call

Mayor Ed Lawson, Council Members Donald Abbott, Dian VanderWell, Paul Anderson, Charlene Bybee, Kristopher Dahir, City Manager Neil Krutz, Acting City Attorney Brandon Sendall and City Clerk Lisa Hunderman, PRESENT.

3. Pledge of Allegiance

The Pledge of Allegiance was led by Council Member Bybee.

4. Public Comment

None

5. Approval of the Agenda

5.1 Approval of the Agenda (FOR POSSIBLE ACTION)

Consideration of taking items out of sequence, deleting items and adding items which require action upon a finding that an emergency exists.

Motion: Move to approve the agenda as submitted.

Moved by: Council Member Dahir

Seconded by: Council Member Abbott

Yes: Council Members Abbott, VanderWell, Anderson, Bybee, Dahir

No: None

Abstain: None

Vote: Motion passed unanimously, 5-0.

6. Presentations

None.

7. General Business

7.1 Review of current fiscal estimates for the 2020/2021 and 2021/2022 fiscal years, and consideration and possible direction on fiscal policies to be utilized to create the 2021/2022 fiscal year budget

A presentation from City Manager Neil Krutz and presented by Chief Financial Officer Jeff Cronk providing an overview of the current estimates and other fiscal considerations relating to Fiscal Year 21 (FY21) and Fiscal Year 22 (FY22). The City Manager is also seeking input from the City Council regarding fiscal policies to be integrated into the FY22 budget. Mr. Krutz opened the workshop by noting what items will be reviewed and encouraging open dialogue.

Mr. Cronk began his presentation with key dates and deadlines for the FY22 budget. This is the first Council meeting regarding the FY22 budget, and the final budget will be based on input and direction received over the course of the proceeding and subsequent meetings. There will be a Capital Improvements Projects (CIP) workshop meeting on March 22, 2021 for further discussion and recommendations on CIP budgeting. On April 15, 2021, the tentative budget is due to the Department of Taxation. Then the City Manager will present his final budget recommendations for further direction and approval to Council and Redevelopment Agency at the regular City Council meeting on April 26, 2021. The City Manager will then present the final FY22 budget to Council and Redevelopment Agency on the May 24, 2021 regular City Council meeting for approval. The final budget must be submitted to the Department of Taxation by June 1, 2021.

In the General Fund Fiscal Review, Mr. Cronk went over the FY21 ending balance estimates and tentative FY22 budget balances of the General Fund. The FY21 estimates include a transfer-in of approximately \$16 million from the CARES Act Coronavirus Relief Fund eligible expenditures into the General Fund. Of that transfer-in, \$8 million was used to cover unbudgeted pandemic related expenditures and \$8 million was used to fund budgeted payroll expenditures of employees who were significantly dedicated to the COVID-19 pandemic response. Due to this additional funding, the City's ending General Fund balance is estimated to be at \$16.5 million for FY21, roughly 19.9% of expenditures. This number was noted to be a lot higher than usual as the City's standard goal for the ending General Fund balance is 8.3% of expenditures. Council asked if there were any penalties associated with a high ending fund balance such as this. Mr. Cronk stated there are no penalties, only regulations for how low an ending fund balance can go. He also noted the FY21 budget did not consider pandemic expenses, so the ending fund balance is mostly due to the CARES Act funding. Council asked if the additional CARES Act funding currently in legislation will affect the FY22 budget. Mr. Cronk stated those new funds are flexible and could be used for the remaining FY21 or for upcoming FY22 budgets. As the bill reads now, additional funding could cover lost revenues due to the pandemic, but Mr. Cronk suggested additional CARES Act funds should not be considered for the upcoming FY22 budget since there are too many unknown factors at this time. The ending fund balance for FY22 is projected to be 13.8% of expenditures.

Mr. Cronk then went over the expectations for FY22 revenues and compared it to the FY21 so far. In order of impact, CTAX, property taxes, and licenses and permits

were the top revenue earners for the City for FY21. CTAX revenue increased by 9.3% in FY21 with only an expected 5% increase for FY22 based on current trends. Council asked if the increase in CTAX revenue this year was due to the influx of people moving to the area. Mr. Cronk agreed the population increase was a factor, but the business economy diversification played a big part as well. Council was surprised CTAX revenue remained strong despite restaurants and bars being closed or limited for the pandemic. Mr. Cronk explained it was due to strong retail and construction tax revenues. Council asked about how the special event revenue was affected by the pandemic. Mr. Cronk stated since there were no special events this year, that revenue which usually goes into Parks and Recreation Fund was subsidized by General Fund.

Expenditures for FY21 increased by 70.4% in services and supplies which was mostly used to react to new pandemic expenses and funded by \$8 million from the CARES Act. Going into FY22, services and supplies expenditures are expected to decrease by 20.6% in FY22 as the City returns to normal operations. Salary and Benefit expenditure are expected to increase by 8.4% in FY22. Mr. Cronk then went over transfers-out which include Capital Projects, IT hardware & software replacement plans, GERP turf replacement, Parks and Rec operations fund subsidy, debt service and self-insurance fund. The biggest changes are to be in Capital Projects which are estimated to be \$900,000 in transfers for FY21 and expected to increase to \$2.1 million for FY22.

Mr. Cronk had several key budget items that remain high on his radar for FY22. Employee contracts are currently being negotiated with employee groups, but nothing has been settled at this time. PERS rates will slightly increase for some employees. For health insurance, as of now there are no premium increases and the ending fund balance is projected to be \$9 million, or nine months of expenses. For worker's compensation, there is an expected 21% increase in FY22 contributions to this fund in order to maintain a minimum \$1 million cash reserve. Finance dept recommends increasing this fund to \$3 million over the course of one to three years. Council asked if having a large amount in that fund would make the City a target for workers compensation lawsuits. Mr. Cronk stated the City can be sued for all kinds of reasons, and regardless if there is any money in this fund or not, any lawsuit has to be paid. Cash reserves in the General Liability Fund are down to critically low levels which Mr. Cronk recommends high contributions from the General Fund for FY22. Capital Improvement Plan includes transferring \$2.1 million from the General Fund and \$655,000 of marijuana license revenue to fund IT hardware and software needs and turf replacement at Golden Eagle Recreational Park.

Council took a recess at 9:40. Council resumed at 9:50 with Wes Duncan as Acting City Attorney.

Next Mr. Cronk reviewed six fiscal policies that the City uses as fiscal goals to create and maintain its budget. This discussion excludes new needs which will be brought to Council in the April budget workshop.

Fiscal policy 1: Achieve an ending fund balance equal to at least 8.3% of expenditures. The purpose of this policy is to help maintain fiscal stability throughout each fiscal year. Council discussed if raising the target ending fund balance would be a good idea due to the uncertainty of the market and future federal aid. Mr. Krutz suggested leaving the target at 8.3% since it can accommodate for a variety of unexpected or new needs, giving an example of using it to add more staff to the police force for FY21.

Fiscal policy 2: Establish a General Fund Contingency amount up to 3% of total expenditures in the annual budget in case of a one time, unexpected, and maybe of an emergency nature. This is not a separate fund, but rather a separate budget that would allow the City to spend money on a new need when there is no authorized budget to do so. Typically, the money for a contingency is taken out of the Motor Vehicle Fund. Mr. Cronk gave an example of using this contingency to purchase public safety radios several years ago that had not been in the budget. Council asked if Mr. Cronk recommends putting more money in this contingency. Mr. Cronk stated that the amount works great for the City as is. Council asked when departments are applying for grants, is it this contingency amount used for the match. Mr. Cronk stated it can be, but it is pretty flexible and can be used for many things.

Fiscal policy 3: Transfer a minimum of 2.5% of total General Fund revenues plus full funding of IT hardware and software replacement plans from General Fund to the Capital Projects fund. This policy ensures that the City continues to invest in infrastructure and technology needs as detailed in the City's Five-Year Capital Improvement Plan. Part of this policy also includes funding IT hardware and software replacement plans with marijuana licensing fees. Council asked if there were some IT projects that we weren't able to do in the FY21 budget that need to be addressed in FY22 budget. Mr. Cronk stated the City has been addressing many of the hardware needs over the last couple of years, and the CARES Act funding in FY21 allowed the City to catch up on most of the hardware refreshing by way of upgrading staff for remote work. More about the IT upgrades and new needs will be covered in the CIP budget meeting.

Fiscal policy 4: Commit a portion of annual business license receipts to the Stabilization Fund. The purpose of this policy is to stabilize operation of the City and mitigate efforts of natural disasters. Council asked if this fund could help with pandemic expenses in the next coming years if things didn't go as planned and recovery was slow. Mr. Cronk stated this fund would be off limits unless revenue decreased by 4% or more from the previous fiscal year or if a natural disaster is declared. For context, he gave an amount of \$3.2 million for how much revenue would have to drop from FY21 to FY22 to use this fund. Council asked for examples of when the City tapped into this fund. Mr. Cronk spoke about using this fund down to zero during the Great Recession and was only used once again for emergency snowfall expenses in 2017. Currently, the City is at a historic high for this fund. Council asked if a disaster happens, can the City use FEMA or other emergency funds instead of the Stabilization Fund. Mr. Cronk stated they can ask FEMA for natural disaster relief at the time of the disaster or have them reimburse

the City afterwards, but it often takes several years to receive any FEMA funds. In most cases, they keep money in the Stabilization Fund and would have FEMA reimburse money used out of the General Fund instead. Council asked if the standard \$200,000 annual commitment to the fund is a significant amount taken out of the business license receipts, especially during the pandemic. Mr. Cronk stated the commitment amount is not a big impact to business license revenues, even for FY21. Mayor and Council expressed interest in increasing the annual contribution amount and Mr. Krutz confirmed another \$50,000 will be budgeted to the annual contribution.

Fiscal policy 5: General Fund personnel costs to not exceed 78% of General Fund revenues. The purpose of this policy is to achieve a balanced, sustainable expenditure model. Council agreed to leave as is.

Fiscal policy 6: Report the annual Other Post Employment Benefit (OPEB), Workers Compensation, and other benefit liabilities and determine strategies to reduce or fund these abilities. OPEB and Workers Comp obligations have been identified as two of the greatest financial risks threatening the City's short-term fiscal sustainability. Other large benefit liabilities worth noting include sick leave conversion, compensated absences, and pension liabilities. These liabilities are currently on a "pay-as-you-go" funding status and the City Manager recommends continuing that status. The purpose of this policy is to make sure that these liabilities are kept in mind while creating the budget. Mr. Cronk noted that the pension liability may show on the City's books, as it has to by law, but it is the State's responsibility to pay it, not the City's.

Lastly, Mr. Cronk went over FY22 payments to other governments and non-profits. The most significant of which were payments to Washoe County for various services including, \$1 million in forensic services. Mr. Krutz spoke about the forensic services contract with Washoe County stating the large payment to the County is still in discussion, but it is budgeted at the large amount in case the City is found to owe them that much. \$650,000 is set aside to pay to the City of Reno for Sparks's share of the NV Cares Campus homeless facility. Other notable payments included membership dues to organizations such as Economic Development Authority of Nevada (EDAWN).

8. Comments from the Mayor, Council and City Manager

None.

9. Public Comment

None.

10. Adjournment

The workshop was adjourned at 11:25 a.m.

Ed Lawson, Mayor

ATTEST:

Lisa Hunderman, City Clerk

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