



February 24, 2020 Budget Workshop

Fiscal Review and Policy Discussion

FY21 Budget Preparation

Supporting Detail



February 24, 2020 Council Budget Workshop Agenda Item Topics

General Fund Fiscal Review

- FY18 Through FY21 Summary
- FY20 & FY21 Assumptions & Expectations
- FY21 Key Budget Items

Fiscal Policy Review

- Current Fiscal Policies
- Payments to Other Governments

New Needs & FY21 Budget Direction

- Top Priority FY21 New Needs Requests
- FY21 New Needs Funding & Fiscal Policy Considerations

Other Fiscal Items for Reference

- Redevelopment Agency Fiscal Summary
- Debt Overview



General Fund Fiscal Review

City of Sparks General Fund Summary

FY18 Results Through FY21 City Manager Recommended Budget

(Amounts listed in \$000's)

	FY18 Actuals	FY19 Actuals	FY20 Budget	FY20 Estimates	FY21 Budget
<u>Resources (excluding beginning fund balance)</u>					
Total Revenues	\$68,671	\$72,853	\$76,833	\$77,597	\$80,570
Transfer-In From Vehicle Fund (Assume No Usage, Budget Matches Contingency)	\$0	\$0	\$1,000	\$0	\$1,000
Transfers-In, Other	\$0	\$0	\$0	\$0	\$0
Total Resources	\$68,671	\$72,853	\$77,833	\$77,597	\$81,570
	11.4%	6.1%	5.5%	6.5%	3.8%
<i>% Change in Total Revenues (excl. transfers) =</i>					
<i>% Change in Total Resources =</i>	10.8%	6.1%	6.8%	6.5%	5.1%
<u>Uses</u>					
Total Expenditures	\$61,947	\$66,231	\$74,578	\$72,118	\$77,278
Total Transfers-Out	\$2,622	\$5,081	\$5,816	\$7,216	\$5,145
Contingency (FY20 Assume No Usage; Budget Matches Trans-In from Vehicle Fund)	\$0	\$0	\$1,000	\$0	\$1,000
Total Uses	\$64,569	\$71,311	\$81,394	\$79,334	\$83,423
	1.1%	6.9%	12.6%	8.9%	7.2%
<i>% Change in Total Expenditures (excl. transfers & contingency) =</i>					
<i>% Change in Total Uses =</i>	-1.1%	10.4%	14.1%	11.2%	5.2%
Net Resources/(Uses)	\$4,101	\$1,541	(\$3,561)	(\$1,737)	(\$1,853)
<u>Fund Balance</u>					
Unrestricted Beginning Fund Balance	\$2,714	\$6,815	\$8,026	\$8,357	\$6,619
Unrestricted Ending Fund Balance	\$6,815	\$8,357	\$4,465	\$6,619	\$4,766
Unrestricted Ending Fund Balance as a % of Exp's (Less Capital Outlay)	11.0%	12.6%	6.0%	9.2%	6.2%
Unrestricted Ending Fund Balance Amount Over/(Short) of 8.3%	\$1,550	\$2,650	(\$1,600)	\$600	(\$1,500)

FY20 & FY21 Assumptions and Expectations - General Fund

FY20 Estimates

FY21 Tentative Budget

Revenues

CTAX & Fair Share (42% of total rev)	7.5% increase over FY19	4.4% increase over FY20 Estimates
Property Taxes (33% of total rev)	7.5% increase over FY19	4.9% increase over FY20 Estimates
Licenses & Permits (19% of total rev)	2.5% increase over FY19	2.5% increase over FY20. Estimates
Total Revenues	6.5% increase over FY19	3.8% increase over FY20 Estimates

Transfers-In & Contingency Usage

Transfer-In from Motor Vehicle Fund	\$0	\$1M
Contingency Budget	\$0	\$1M

Expenditures & Transfers-Out

Staffing Vacancies	Captures savings from all vacancies already realized through December 2019 and assumes a slightly lower vacancy rate for the remainder of FY20 for a total anticipated FY20 vacancy savings of \$2.9M.	Assumes no vacancies.
New Needs	Includes FY20 budgeted New Needs.	No New Needs are included in the base budget.
Salaries	Includes all negotiated contract changes with all employee groups.	Includes all negotiated contract changes for employee groups who have settled contracts. No contract changes for Municipal Court employees, Fire Battalion Chiefs, Police Non-Supervisory, Police Supervisory or Police Lieutenants.
Special Events	Assumes full cost recovery from producers with the exception of \$34K Rescue Task Force costs related to Rib Cook-off.	Assumes full cost recovery from producers. Note: This assumption could change pending Council direction on the Rescue Task Force costs estimated to be approximately \$260K for all events.
Health Insurance	1.5% rate increase.	1.5% rate increase (General Fund impact \$115K)
PERS Contribution Rates	Public Safety 42.5%; Regular 29.25%; Judicial 22.5%.	No changes to contribution rates.

FY20 & FY21 Assumptions and Expectations - General Fund

FY20 Estimates

FY21 Tentative Budget

Expenditures & Transfers-Out, continued...

Fire Apparatus & Equipment Replacement Plans	Assumes full funding (\$850K) of contribution to Motor Vehicle Fund.	Assumes full funding (\$850K) of contribution to Motor Vehicle Fund.
Contributions to Workers Compensation Self-Insurance Fund	Total funding increased to \$1.5M (General Fund \$1.4M) to further slow the cash burn and maintain a \$1M reserve. In addition, an unbudgeted \$1.4M transfer was required in FY20 to cover anticipated costs of a large claim.	Total funding increased to \$1.9M (General Fund \$1.8M) to maintain a \$1M reserve. No additional transfer is expected, but may become necessary should large claims materialize during FY21.
Contributions to Municipal Liability Self-Insurance Fund	To remain solvent in FY20, this fund requires the full General Fund contribution of \$690K plus an extra \$300K to replenish for past years of underfunding. Even with the increased contribution, this will be the fifth year of having no reserves budgeted.	To remain solvent in FY21, this fund requires the full General Fund contribution of \$960K plus an extra \$100K to replenish for past years of underfunding. Even with the increased contribution, this will be the sixth year of having no reserves budgeted.
Common Service Charges for Central Services	\$3.0M recovered from other funds representing 24% of total central service costs of \$12.5M.	\$3.1M recovered from other funds representing 24% of total central service costs of \$13.0M.
* Travel & Training	Assumes budget will be spent (\$556K).	All travel and training requests included (\$611K).
* Professional Services (Legal, Temp Agency & Other)	Assumes budget plus \$124K will be spent (\$2.2M).	All professional service requests included (\$2.5M).
* Software	Assumes budget plus \$5K will be spent (\$732K).	All software requests included (\$959K).
* Equipment and Furnishings	Assumes under budget by \$176K (\$356K).	All equipment & furnishing requests included (\$316K).
* Maintenance and Repairs	Assumes budget will be spent (\$376K).	All maintenance and repairs requests included (\$198K).
Grant Match	Assumes only Bullet Proof Vest Grant match (\$5K)	Assumes \$5K Bullet Proof Vest Grant match plus \$75K for unknown grants.
Vehicles	Assumes budget plus \$40K for unbudgeted vehicle for FY20 New Need Patrol Officer (\$100K).	No new vehicles are assumed.
Total Expenditures	8.9% increase over FY19	7.2% increase over FY20 Estimates

FY20 & FY21 Assumptions and Expectations - General Fund

FY20 Estimates

FY21 Tentative Budget

Expenditures & Transfers-Out, continued...

Transfers-Out to Capital Projects Fund for CIP Needs	2.5% of total revenues (\$1.9M) for General CIP + full funding (via marijuana license revenue allocation) of IT Hardware (\$484K) and Software (\$433K) Replacement Plans. Meets Fiscal Policy 3 goal.	2.5% of total revenues (\$2.0M) for General CIP + full funding (via marijuana license revenue allocation) of IT Hardware (\$200K) and Software Replacement Plans (\$233K). Meets Fiscal Policy 3 goal.
Transfers-Out to Parks & Rec Capital Projects Fund for GERP turf replacement	\$883K of Marijuana revenues designated for GERP turf replacement.	\$800K of Marijuana revenues designated for GERP turf replacement.
Transfer-Out to Parks & Rec Operations Fund (1221)	Subsidy of FY20 Recreation Programs (\$1.4M).	Subsidy of FY21 Recreation Programs (\$1.2M).
Transfer-Out to Debt Service	Debt service fully funded (\$711K).	Debt service fully funded (\$712K).
Transfer-Out to Workers Comp	Unbudgeted \$1.4M to cover large claim	No additional transfers included

* A zero-based budget methodology was used to determine FY21 Budget amounts for travel & training, professional services, software, equipment & furnishings, maintenance & repairs and overtime. This provides a better understanding and accountability of expenditures within these discretionary categories.

FY21 Key Budget Items

Council Workshop – February 24, 2020

Employee Contracts

- All employee groups excluding Battalion Chiefs, Police Non-Supervisory, Police Supervisory, Police Lieutenants and Municipal Court have settled contracts through FY21. The FY21 tentative budget contains a 2.8% Cost of Living Adjustment (COLA) effective 7/1/20 for all settled groups excluding Fire Fighters.
- Fire Fighters will receive a 1.5% COLA effective 7/1/20 and a 1.5% COLA effective 1/1/21.
- Battalion Chiefs, Police Non-Supervisory, Police Supervisory & Police Lieutenants are currently in negotiations

PERS

- FY21 PERS contribution rates remain unchanged for FY21:
 - 29.25% for non-public safety employees
 - 42.5% for public safety employees
 - 22.5 for judicial employees

Health Insurance

- 1.5% premium increase included in FY21 tentative budget.
- Total Plan costs expected to be \$13.3M (11% increase) with \$12.0M or 90% representing claims costs.
- FY21 ending fund balance is projected to be \$5.1M, equating to approximately 4.6 months of expenses.

Workers Compensation

- 27% increase in regular contributions to this Fund from \$1.5M in FY20 (General Fund impact \$1.4M) to \$1.9M in FY21 (General Fund impact \$1.8M). In addition to the regular contribution of \$1.5M in FY20, a \$1.4M unbudgeted transfer was required from the General Fund to cover the cost of a large workers comp claim expected to hit the stop loss limit of \$2M. These contributions are expected to maintain a minimum \$1M cash reserve in the Fund at the end of FY21.
- Cash reserves at the end of FY19 were \$1.8M. Reserves are expected to drop by \$800K to \$1.0M by the end of FY20. With the increased contribution in FY21, the cash drain will have been eliminated, leaving a \$1.0M reserve at the end of FY20. Contributions will need to keep pace with claims costs every year. The Financial Services Department recommends increasing the reserve in this Fund to \$3M in subsequent years which is the stop loss limit on just a single Heart/Lung/Cancer claim.

FY21 Key Budget Items Continued...

- Long-term solutions are needed to cover this liability for future Heart, Lung, and Cancer (HLC) claims; however, the HLC benefits are driven by State Legislature.
- Due to the long-term liabilities, there was a *negative ending fund balance of \$7.1M* at the end of FY19.

General Liability Fund

- Cash reserves in this Fund are down to critically low levels. An unbudgeted transfer from the General Fund of \$150K was needed in FY19 for cash flow purposes. FY20 contributions to the Fund will total \$1.2M and FY21 tentative budget assumes a \$1.3M (\$1M General Fund) contribution. These planned contributions simply cover the anticipated policy premiums and claims costs leaving ending reserves at the same critically low levels. Additional funding will likely be needed in FY22 to secure the financial health of this fund, but simply maintaining solvency is the initial goal for FY21.

Marijuana Licensing Revenue Designation

- Per Council direction for the FY20 Budget, \$883K of Marijuana License revenues were transferred to the Parks & Rec Capital Project Fund for turf replacement at GERP.
- Additionally, per Council direction for the FY20 Budget, \$917K of Marijuana License revenues were transferred to the Capital Projects Fund for IT Hardware and Software Replacement Plans.
- The City Manager is currently recommending that FY21 Marijuana License revenues, projected to be \$1.9M, be designated for non-operational uses. The FY21 tentative budget transfers \$800K of these revenues to the Parks and Rec Project Fund for GERP turf replacement; \$433K to fund the IT Hardware and Software Replacement Plans and leaves the remaining \$667K unallocated in ending fund balance in the General Fund.

Capital Improvement Plan (CIP)

- The FY20 budget includes full policy implementation of 2.5% of revenues (\$1.9M) plus \$917K of designated marijuana license revenue to fund IT hardware needs (\$484K) and IT software needs (\$433K).
- The FY21 budget includes full policy implementation of 2.5% of revenues (\$2.0M) plus \$433K of designated marijuana license revenue to fund IT hardware needs (\$200K) and IT software needs (\$233K).

Sewer Rate Study

- On Monday December 10, 2018, City Council approved amendments to title 13 of the Sparks Municipal Code as part of a rate study.
- Effective January 1, 2019, residential connection fees increased 24%, but will again index to the Engineering News Record Construction Cost Index per Sparks Municipal Code 13.24 each January beginning on January 1, 2020. January 1, 2020's increase was 1.8% bringing the single-family residential connection fee to \$7,689.
- The sewer and storm drain portion of the single-family residential and commercial customer user fee increased 5% effective July 1, 2019 and will increase 5% each year thereafter effective July 1 of 2020, 2021 and 2022. The sewer portion of the multi-family residential user fee was increased to match the single-family rate resulting in a 31% increase effective July 1, 2019. In subsequent years, the multi-family sewer and storm drain fees will increase at the same rate as single-family residential. The resulting user fees are as follows:

Sewer User Rates (SMC 13.09.020 & 13.09.030):

User Fees - Monthly						
Effective Date	July 1, 2017	July 1, 2018	July 1, 2019	July 1, 2020	July 1, 2021	July 1, 2022
User Rate: Single Family Residential						
Sewer	\$ 21.76	\$ 21.76	\$ 22.85	\$ 23.99	\$ 25.19	\$ 26.45
Storm	\$ 8.32	\$ 8.32	\$ 8.74	\$ 9.17	\$ 9.63	\$ 10.11
Flood	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41
Total	\$ 35.49	\$ 35.49	\$ 37.00	\$ 38.58	\$ 40.24	\$ 41.98
User Rate: Multi-family Residential						
Sewer	\$ 17.42	\$ 17.42	\$ 22.85	\$ 23.99	\$ 25.19	\$ 26.45
Storm	\$ 8.32	\$ 8.32	\$ 8.74	\$ 9.17	\$ 9.63	\$ 10.11
Flood	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41	\$ 5.41
Total	\$ 31.15	\$ 31.15	\$ 37.00	\$ 38.58	\$ 40.24	\$ 41.98
User Rate: Commercial (per 1,000 gal)						
Sewer	\$ 4.43	\$ 4.43	\$ 4.65	\$ 4.88	\$ 5.13	\$ 5.38
Storm	\$ 0.98	\$ 0.98	\$ 1.03	\$ 1.08	\$ 1.13	\$ 1.19
Flood	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64
Total	\$ 6.05	\$ 6.05	\$ 6.32	\$ 6.60	\$ 6.90	\$ 7.22



Fiscal Policy Review

FY21 Budget - Fiscal Policy Impact Summary

- Fully meets all Council fiscal policies EXCEPT:
 - Ending Fund Balance % of Expenditures = 6.2%
 - ❖ \$1.5M below Council Policy of 8.3%
- Excludes New Needs
- Fully funds current complement (i.e., no vacancy savings)

CITY OF SPARKS FISCAL POLICIES

1. Achieve a General Fund minimum unrestricted ending fund balance equal to 8.3% of expenditures

	Policy Target	RESULTS	AMOUNT OVER/ (UNDER) Policy Target	STATUS
FY19 Actuals	8.3%	12.6%	\$2,650,000	✔
FY20 Estimates	8.3%	9.2%	\$600,000	✔
FY21 BUDGET	8.3%	6.2%	(\$1,500,000)	⚠

City Targets		Statutory Targets	
Minimum Budget Target	Cash Flow Target	Must provide corrective action plan to State if under target per NAC 354.650	Removed From Negotiations per NRS 354.6241
6.0%	12.5%	4.0%	16.67%
FY21 Budget is \$100K over Target	FY20 Budget \$4.4M Under Target	FY20 Budget \$1.6M Over Target	FY20 Budget \$7.0M Under Target

Purpose of this Fiscal Policy

The purpose of this policy is to help maintain fiscal stability throughout each fiscal year.

Policy Target

City of Sparks formally adopted a policy of achieving an 8.3% minimum ending fund balance in 2011.

Budget Target

In past discussions, Council has stated the minimum budgeted ending fund balance should be no lower than 5% in order to avoid State intervention which begins with budgeted ending fund balance below 4%. For FY20, Council provided direction to prepare a budget with an ending fund balance of 6.0% which is below the policy target, but provides for flexibility in spending throughout the year, and allowed the City Manager to fund critical new needs in FY20.

Cash Flow Target

For fiscal health and to meet cash flow needs throughout the year, the Financial Services Department recommends achieving a 12.5% ending fund balance at the end of each year.

Statutory Targets

There are two statutory targets that should also be mentioned:

- Per NAC 354.650, a budgeted ending fund balance of less than 4% requires a city to provide a written explanation to the Department of Taxation that includes the reason for the low ending fund balance and a plan to increase the fund balance.
- NRS 354.6241 excludes a portion of ending fund balance from negotiations, equal to 16.67% of expenditures, less capital outlay.

CITY OF SPARKS FISCAL POLICIES

2. Establish a General Fund Contingency amount up to 3% of total expenditures in the annual budget

	GOAL	BUDGET	Contingency Amount	STATUS
FY19 BUDGET	up to 3%	1.5%	1,000,000	✓
FY20 BUDGET	up to 3%	1.3%	1,000,000	✓
FY21 BUDGET	up to 3%	1.3%	1,000,000	✓

Purpose of this Fiscal Policy

The contingency budget was established using the guidelines set forth in NRS 354.608 to provide for expenditures that are one-time, unexpected, and may be of an emergency nature.

Utilization of the contingency budget requires the approval of City Council, and is distinguished from the Stabilization Fund in that the Stabilization Fund is much more restrictive in nature and may only be used for two specific reasons (see details in Policy #4).

In order to maximize flexibility and the City's ability to respond to emergency needs, a transfer into the General Fund from the Motor Vehicle Internal Service Fund will also be included in the budget matching the amount established as the contingency budget. This transfer-in is only expected to be utilized if General Fund resources are insufficient to meet any contingency budget usage. *It must be recognized that a transfer from the Motor Vehicle Fund would damage the fiscal stability of that Fund and should be made only as a measure of last resort.*

Note: Per NRS 354.608, contingency and transfers-out are excluded from the calculation of total expenditures.

CITY OF SPARKS FISCAL POLICIES

3. Transfer a minimum of 2.5% of total General Fund revenues plus full funding of IT Hardware and Software Replacement Plans from the General Fund to the Capital Projects Fund

2.5% of General Fund Revenues	GOAL		RESULTS		STATUS
	%	\$	%	\$	
FY19 Actuals	2.5%	\$ 1,800,000	2.0%	\$ 1,400,000	⚠
FY20 Estimates	2.5%	\$ 1,900,000	2.5%	\$ 1,900,000	✅
FY21 BUDGET	2.5%	\$ 2,000,000	2.5%	\$ 2,000,000	✅

Full funding of IT Hardware & Software	GOAL		RESULTS		STATUS
	Hardware	Software	Hardware	Software	
FY19 Actuals	\$ 399,187	\$ 500,813	\$ 399,187	\$ 500,813	✅
FY20 Estimates	\$ 483,842	\$ 433,400	\$ 483,842	\$ 433,400	✅
FY21 BUDGET	\$ 199,940	\$ 233,000	\$ 199,940	\$ 233,000	✅

3a. Council Allocation of Electric and Gas Franchise Fees:

	FY19	FY20	FY21
General Fund	2%	2%	2%
Road Fund	2%	2%	2%
Parks & Rec Project Fund	1%	1%	1%
Parks & Rec Project Fund - GERP	0%	0%	0%
Total	5%	5%	5%

3b. Council Designation of Revenue from Marijuana Licensing Fees

	FY19	FY20	FY21
GERP Turf Replacement/Maintenance	\$ 500,000	\$ 882,758	\$ 800,000
IT Hardware & Software Replacement Plans	\$ 900,000	\$ 917,242	\$ 432,940
Total	\$ 1,400,000	\$ 1,800,000	\$ 1,232,940

Purpose of this Fiscal Policy

This policy ensures that the City continues to invest in infrastructure and technology needs as detailed in the City's 5 Year Capital Improvement Plan.

The current goal for the FY21 Budget is 2.5% of total revenues (\$2.0M) plus full funding of both the IT Hardware (\$200K) and IT Software (\$233K) Replacement Plans. The FY21 tentative budget meets this goal.

FY20 will meet the funding goal. FY19 fell short of the funding goal by \$400K.

Per Council direction for the FY18 Budget, approximately \$983K of Electric and Gas Franchise fees were re-directed from road maintenance to fund turf replacement at GERP. For FY19 and FY20, Council directed that the revenues revert back to the Road Fund as originally allocated in FY17 and prior years. Council may choose to change the franchise fee allocations annually.

CITY OF SPARKS FISCAL POLICIES

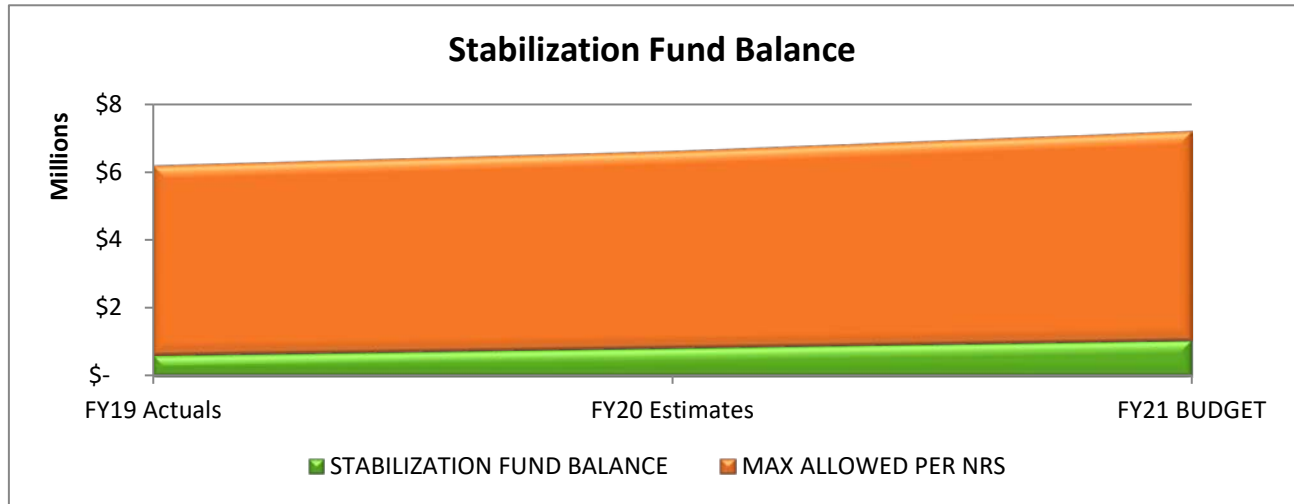
Fiscal Policy #3 Continued...

The City Manager recommended in FY20 that marijuana licensing fees, projected to be \$1.8M, be designated for non-operational uses. The FY20 budget fully allocated the revenue source transferring \$883K to the Parks and Rec Project Fund for GERP turf replacement and \$917K to fund the IT Hardware and Software Replacement Plans. The FY21 Budget projects marijuana licensing fees will be \$1.9M and designates \$800K of that revenue to the Parks and Rec Project Fund for GERP turf replacement and designates \$301K to fund the IT Hardware and Software Replacement Plans. The remaining \$799K will be retained in ending fund balance, preserving a minimum level of fund balance as outlined in fiscal policy #1 .

CITY OF SPARKS FISCAL POLICIES

4. Commit a portion of annual business license receipts to the Stabilization Fund up to the maximum fund balance allowed within NRS 354.6115

	MAX ALLOWED PER NRS	STABILIZATION FUND BALANCE	AMOUNT COMMITTED	STATUS
FY19 Actuals	\$ 6,194,747	\$ 601,749	\$ 200,000	✔
FY20 Estimates	\$ 6,623,068	\$ 817,749	\$ 200,000	✔
FY21 BUDGET	\$ 7,211,798	\$ 1,037,749	\$ 200,000	✔



Purpose of this Fiscal Policy

The Stabilization Fund was established in accordance with NRS 354.6115 to stabilize operation of local government and mitigate effects of natural disasters. Per NRS 354.6115: *"The balance in the fund must not exceed 10 percent of the expenditures from the general fund for the previous fiscal year, excluding any federal funds expended by the local government."*

In June 2011, the City Council adopted the following Stabilization policy in compliance with GASB Statement 54: *"The Council will authorize the use of the Stabilization Fund's resources only if A) the total actual General Fund revenues decrease by 4% or more from the previous year; or B) to pay for expenses incurred to mitigate the effects of a natural disaster (upon formal declaration by the City)."*

In 2009, the City transferred \$625K from the Stabilization Fund to the General Fund in order to help mitigate the steep revenue decline brought about from the effects of the Great Recession. That 2009 transfer essentially eliminated all the reserves within the Stabilization fund, so in 2011 and 2012, the City Council established a fiscal policy goal of re-establishing the Stabilization Fund by gradually committing a portion of the City's business license revenues to the Stabilization Fund.

A transfer from the Stabilization Fund of \$252K was required in FY17 to defray the costs of the 2017 Flood Emergency. While this transfer more than negated the FY17 revenue commitment, the FY18, FY19, FY20 and FY21 commitments are expected to grow the Fund balance to approximately \$1M by the end of FY21.

CITY OF SPARKS FISCAL POLICIES

5. General Fund personnel costs do not exceed 78% of General Fund total revenues

	GOAL	RESULTS	STATUS
FY19 Actuals	<=78%	72.9%	
FY20 Estimates	<=78%	73.5%	
FY21 BUDGET	<=78%	76.3%	

Purpose of this Fiscal Policy

The purpose of this policy is to achieve a balanced, sustainable expenditure model. This policy was adopted by Council in FY11 and modified in FY13 based on historical expenditure and fiscal stability trends.

Expanded Dashboard for Historical Comparison

TOTAL USES AS % OF TOTAL REVENUES BY EXPENSE CATEGORY	2 Prior Years (FY17 & FY18) Historical Average	FY19 Actuals	FY20 Estimates	FY21 BUDGET
PERSONNEL COSTS	76%	73%	73%	76%
SERVICES & SUPPLIES & CAP. OUTLAY	18%	18%	19%	20%
TRANSFERS-OUT	5%	7%	9%	6%
*TOTAL	99%	98%	101%	102%

* Total uses as a % of total revenues exceeding 100% indicates that the year experienced greater expenses than revenues.

CITY OF SPARKS FISCAL POLICIES

6. Report the annual Other Post Employment Benefit (OPEB), Workers Compensation, and other benefit liabilities and determine strategies to reduce or fund these liabilities

	OPEB OBLIGATION	Workers Comp L/T Liability	Sick Leave Conversion	Compensated Absences	Pension Liability
FY09	\$2,025,422	\$2,252,767	\$3,703,492	\$7,507,629	N/A
FY10	\$4,566,159	\$2,321,000	\$5,148,990	\$9,309,862	N/A
FY11	\$4,958,920	\$3,414,452	\$5,579,918	\$9,169,161	N/A
FY12	\$5,473,423	\$3,206,012	\$5,245,464	\$9,610,125	N/A
FY13	\$6,018,434	\$6,749,369	\$5,010,761	\$10,363,135	N/A
FY14	\$6,680,705	\$9,258,452	\$5,358,051	\$12,315,501	N/A
FY15	\$7,414,353	\$5,068,496	\$5,525,864	\$12,015,239	\$71,650,806
FY16	\$8,058,889	\$6,190,050	\$5,296,356	\$13,200,845	\$77,407,621
FY17	\$9,087,068	\$5,528,459	\$5,143,950	\$13,905,438	\$87,624,211
FY18	\$34,637,555	\$5,244,238	\$4,848,680	\$14,950,456	\$86,625,696
FY19	\$35,835,214	\$7,313,134	\$5,279,911	\$15,265,336	\$88,692,434

Purpose of this Fiscal Policy

OPEB and Workers Comp obligations (particularly the Heart, Lung and Cancer (HLC) portion) have been identified by the Financial Services Department as two of the greatest financial risks threatening the City's short-term and long-term fiscal sustainability. Other large benefit liabilities worth noting include Sick Leave Conversion, Compensated Absences, and Pension liabilities. ***All of these liabilities are currently on a "Pay-As-You-Go" funding status, and the City Manager recommends continuing that status.***

Other Post Employment Benefits (OPEB) - This \$35.8M liability represents post-employment healthcare insurance benefits accrued on both past and present employees.

Specific sources of the liability:

1. NRS 287.023 Nevada Public Employees' Benefits Program (NPEBP) subsidies (option for those retired before 11/29/08)
2. Firefighters and Fire Chief Officers pay reduced health insurance premiums on the City's plan upon retirement
3. Subsidies to certain employees retired after 1992 and before December 2001 (\$5 per month for each year of service)
4. Implied subsidy derived from the fact that retiree loss is pooled with active loss experience for the purpose of setting rates.

GASB Statement 75, implemented in FY18, changed how the City must report the OPEB liability by requiring the entire unfunded liability to be reported on the City's annual financial statements. ***This resulted in the liability increasing from \$9.1M in FY17 to \$34.6M in FY18.*** For reference, had GASB Statement 75 been implemented in FY17, the reported liability would have been \$32.8M.

CITY OF SPARKS FISCAL POLICIES

Fiscal Policy #6 Continued...

There are currently no reserves in the City's Health Insurance Fund designated to mitigate our future health care liability (OPEB).

Alternate OPEB Funding Option:

Primarily due to 1) the healthcare industry being still very much in a state of flux; 2) GASB Statement 75, which was implemented by the City in FY18 and changed the way the City's OPEB liability was accounted for; 3) the inflexible nature of an irrevocable trust; and 4) inadequate resources, the City Council has decided not to establish an irrevocable trust to fund the City's OPEB liability at this time. However, an irrevocable trust may be considered to be a viable OPEB liability funding tool in subsequent years.

Workers Compensation Liability - This \$7.3M liability represents the present value of future claims costs that will be paid on past and present employees for general workers compensation claims and Heart/Lung/Cancer (HLC) claims from Police and Fire personnel. The Liability grew dramatically during the years leading up to FY14. This is due to the increasing number of expected Heart/Lung/Cancer claims from Police and Fire personnel and the benefits that were added by the Nevada Legislature.

The 2015 Legislative session, however, brought changes that significantly reduced this liability. Most impactful was the change to the number of years a retiree is eligible to file a claim once they have separated from employment. Before this change, there was no limit, and a retiree could file a claim any time. The legislative change limited the eligibility period to the number of years the person worked as a police officer or firefighter. The increase in FY16 is due to new information provided by a complete actuarial valuation on all Workers Compensation claims. Past actuarial valuations had only considered HLC claims. FY17's workers compensation long-term liability decreased by \$662K due to a reduction in the retained case reserves as set by our claims administrator. One claim in particular drove this reduction as it neared the \$1.0M retention limit where our stop-loss insurance policy would kick in. FY18 brought another \$284K reduction to the liability based on claims data.

The \$2.1M increase in FY19 is due to several legislative changes passed in June 2019. Among the many changes are the following: an expansion of the presumptive occupational cancer benefit to include not just firefighters, but also investigators of fires, instructors for training concerning fire or hazardous material; expansion of the list of covered cancers; expansion of the sunset period to file a claim; and the addition of PTSD to the standard workers comp benefits for mental injury from extreme stress to police officers, firefighters and emergency communication dispatchers.

Especially costly is the situation where a public safety employee files a claim before he or she retires and is subsequently granted a permanent disability status. In these cases, the City will be required, in addition to the medical payments, to make indemnity (wage replacement) payments to the employee for the rest of the employee's life and to his or her spouse for the rest of his or her life upon the death of the employee. The actuarially determined liability estimates for these types of claims can run into the millions as evidenced by the City's current Stop Loss policy amount of \$3.0M.

CITY OF SPARKS FISCAL POLICIES

Fiscal Policy #6 Continued...

As of June 30, 2019, The Workers Compensation Fund had cash reserves of \$1.8M. We had been seeing cash balance drop by about \$500K per year in FY12 through FY14; however, FY15 saw a \$900K drop; FY16 cash balance dropped \$1.1M; FY17 dropped by \$1.0M; and FY18 dropped by \$600K. In FY19, contributions to the Fund nearly tripled and the cash burn slowed to \$400K. In FY20, in addition to normal contributions nearly doubling, an unbudgeted transfer from the General Fund of \$1.4M was required to cover the cost of a large worker's comp claim expected to hit the stop loss limit of \$2M. It is projected that the FY21 ending cash reserve will be \$1M.

We expect that periodic unplanned cash infusions will continue to be needed in the future as more heart and lung claims are incurred and paid. The Financial Services Department recommends increasing the reserve in this Fund to \$3M in subsequent year which is the stop loss limit on just one HLC claim.

Sick Leave Conversion - This \$5.3M liability represents balances available to retirees who have converted their accumulated sick leave balances to help pay their health insurance premiums and remain in the City's health insurance plan in accordance with their employment contract at time of retirement.

Compensated Absences - This \$15.3M liability represents the current value of all leave balances for every active employee. Examples include sick leave and annual leave.

Pension Liability - Pension liability was first added to the City's balance sheet in FY15 in compliance with GASB Statement 68, representing the City's portion of the total unfunded liability of the Nevada Public Employees Retirement System.

Payments to Other Governments and Non-Profits

Interlocal service agreements, NRS mandates, cost sharing arrangements or Council approved subsidies

	FY19 Actuals	FY20 Estimates	FY21 Budget
State of Nevada			
Nevada Commission on Ethics (Costshare) NRS 281A.270	19,069	19,956	19,956
**Nevada Division of Forestry (WFPP, Wildland Fire Protection Plan)	0	25,633	25,633
TOTAL PAYMENTS TO STATE OF NEVADA	19,069	45,589	45,589

Washoe County

Regional Training Center	152,648	143,625	144,171
Registrar of Voters Election Services (Expenses occur during election cycles)	16,240	0	35,000
Regional Emergency Operation Center (EOC)	26,612	16,785	17,120
Regional Emergency Operation Center (EOC) Roof Repair	0	18,000	0
Regional Planning (Fiscal Year 19 Includes \$12K For Servers)	267,625	266,669	248,164
Forensic Services	489,500	539,500	589,500
Sheriff's Office Extraditions	33,735	25,000	40,000
Senior Center	21,500	21,500	21,500
Base Map Subscription (WC Tech Srvcs)	10,000	10,000	10,000
Sheriff's Work Crew Park Maintenance & Weed Abatement	66,863	70,557	80,000
Accela Annual Subscription	81,383	90,000	109,500
800 Megahertz (MHz) Radio	117,373	118,637	122,196
TOTAL PAYMENTS TO WASHOE COUNTY	1,283,478	1,320,273	1,417,151

City of Reno

*Community Assistance Center	283,899	302,267	333,001
Contribution for Temporary Homeless Overflow Shelter	24,000	24,000	24,000
City of Reno Triage Center	4,780	87,000	87,000
Regional Hazmat Team (TRIAD)	16,000	16,000	16,000
TOTAL PAYMENTS TO CITY OF RENO	328,679	429,267	460,001

Membership Dues and Subsidies

Economic Development Authority of Nevada (EDAWN)	100,000	100,000	100,000
Keep Truckee Meadows Beautiful	20,000	10,000	10,000
Nevada League of Cities and Municipalities (NLC and M)	21,136	21,136	21,819
National League of Cities	8,051	8,051	8,051
Western Nevada Development District (WNDD)	5,000	5,000	5,000
Alliance for Innovation	9,100	5,100	5,100
The Chamber	1,362	1,362	1,362
Sparks Heritage Foundation and Museum	1,000	1,000	1,000
Mesa Meadows Landscape Maintenance Subsidy	47,500	56,500	62,000
Promontory Landscape Maintenance Subsidy	0	25,500	18,500
Regional Air Services Corporation	0	10,000	10,000
TOTAL MEMBERSHIPS AND SUBSIDIES	213,149	243,649	242,832

Total Payments to Other Governments and Non-Profits **1,844,375** **2,038,778** **2,165,573**

* Community Assistance Center funding breakdown

	FY19 Actuals	FY20 Estimates	FY21 Budget
General Fund	161,941	224,397	243,539
Community Development Block Grant (CDBG) Fund	121,958	77,870	89,462
Total	283,899	302,267	333,001

** Nevada Division of Forestry for FY19 was prepaid in FY17 so there are no expense in FY19 for that reason. Payments began again in FY20.



New Needs & FY21 Budget Direction

FY21 Budget – New Needs Top Priority Requests

Description	FY21 Budget Impact (Total = \$1,946,024)
2 Emergency Dispatchers	\$204,000
2 Patrol Sergeants	\$465,800
3 Police Officers	\$437,800
1 Police Office Assistant	\$ 96,000
East Industrial Area Feasibility Analysis	\$150,000
P25 Radio System (financed portion)	\$107,000
Special Events Rescue Task Force	\$260,000
Police Detective	\$186,000
Agenda System	\$ 25,000
Maintenance Management System Clean-up	\$ 14,424

FY21 Budget – New Needs Funding & Fiscal Policy Considerations

- Fiscal policy adjustments recommended to fill the top priority New Needs listed on the previous slide:
 - Reduce General Fund transfer to the CIP Fund by \$1.1M → \$1M for general purposes and \$132K for IT hardware refresh
 - ✓ Underfunds Policy #3
 - Reduce General Fund ending fund balance to 5.0% of expenditures
 - ✓ \$2.4M below Fiscal Policy #1 of 8.3%
 - ✓ \$750K below 6.0%



Other Fiscal Items for Reference

Sparks Redevelopment Agency Fiscal Summary

Sparks Redevelopment Area #1 (Chief Administrative Officer's FY21 Budget Recommendations)

	FY17 Actuals	FY18 Actuals	FY19 Actuals	FY20 Estimate	FY21 Budget
Revenues	\$2,666,289	\$2,940,371	\$3,409,535	\$3,519,572	\$3,619,572
Land Sale Proceeds	\$1,096,000	\$0	\$0	\$0	\$0
Expenditures	(\$2,668,724)	(\$2,970,912)	(\$3,259,669)	(\$6,286,369)	(\$3,647,909)
Net Revenues/(Expenses)	\$1,093,564	(\$30,541)	\$149,866	(\$2,766,797)	(\$28,337)
Beginning Fund Balance	\$4,017,306	\$5,110,871	\$5,080,330	\$5,230,196	\$2,463,399
Ending Fund Balance	\$5,110,871	\$5,080,330	\$5,230,196	\$2,463,399	\$2,435,062
Less: Restricted for Debt Service	(\$3,224,870)	(\$3,354,041)	(\$3,486,429)	(\$2,384,895)	(\$2,324,767)
Unrestricted Ending Fund Balance	\$1,886,001	\$1,726,289	\$1,743,767	\$78,505	\$110,296

Victorian Square Room Tax Fund Balance	\$4,373,982	\$5,107,400	\$5,103,856	\$4,622,707	\$6,014,707
--	-------------	-------------	-------------	-------------	-------------

Note: The Victorian Square Room Tax Fund is a City Resource, but is Potentially Available for Victorian Square CIP Needs

** City Issued Debt Partially Paid by RDA #1

RDA #1 Debt Information	Tax Increment Refunding Bonds	2011 CTAX Refunding Bonds	2014 CTAX Refunding Bonds	Total RDA #1 Debt Service
Original Issue Amount	\$22,165,000	\$4,180,000	\$7,330,000	
Issue Date	5/11/2010	5/12/2011	8/14/2014	
Maturity Date	1/15/2022	5/1/2018	5/1/2026	
Interest Rate	4.0% - 5.375%	3.05%	3.09%	
FY20 Principal Payment	\$4,055,000	\$0	\$838,000	
FY20 Interest Payment	\$415,006	\$0	\$198,780	
Total FY20 Debt Service	\$4,470,006	\$0	\$1,036,780	
Total FY20 Debt Service Paid by RDA	\$4,470,006	\$0	\$297,962	\$4,767,968
6/30/20 Debt Outstanding	\$4,050,000	\$0	\$5,595,000	
FY21 Principal Payment	\$1,975,000	\$0	\$865,000	
FY21 Interest Payment	\$202,500	\$0	\$172,886	
Total FY21 Debt Service	\$2,177,500	\$0	\$1,037,886	
Total FY21 Debt Service Paid by RDA	\$2,177,500	\$0	\$298,280	\$2,475,780
6/30/21 Debt Outstanding	\$2,075,000	\$0	\$4,730,000	

**** Both CTAX bonds were issued by the City, but about 29% (\$298,280 in FY21) is allocated to RDA #1 for the downtown portion of the original project.**

Sparks Redevelopment Agency Fiscal Summary

Sparks Redevelopment Area #2

(Chief Administrative Officer's FY21 Budget Recommendations)

	<u>FY17 Actuals</u>	<u>FY18 Actuals</u>	<u>FY19 Actuals</u>	<u>FY20 Estimate</u>	<u>FY21 Budget</u>
Revenues	\$1,317,638	\$2,726,580	\$3,555,085	\$3,620,000	\$3,715,000
Transfer-In From General Fund	\$0	\$0	\$0	\$0	\$0
Expenditures	(\$2,415,094)	(\$1,598,670)	(\$1,686,853)	(\$1,637,505)	(\$1,662,368)
Net Revenues/(Expenses)	(\$1,097,456)	\$1,127,910	\$1,868,231	\$1,982,495	\$2,052,632
Beginning Fund Balance	\$3,988,246	\$2,890,790	\$4,018,700	\$5,886,931	\$7,869,426
Ending Fund Balance	\$2,890,790	\$4,018,700	\$5,886,931	\$7,869,426	\$9,922,058
Less: Restricted for Debt Service & Note Receivable	(\$1,565,857)	(\$1,804,665)	(\$2,082,306)	(\$2,354,669)	(\$2,300,000)
Unrestricted Ending Fund Balance	\$1,324,933	\$2,214,035	\$3,804,625	\$5,514,757	\$7,622,057

RDA #2 Debt Information

	<u>2016 TIF Refunding Bonds</u>	<u>2014 Tax Increment Bonds</u>	<u>Total RDA #2 Debt Service</u>
Original Issue Amount	\$9,660,000	\$7,285,000	
Issue Date	9/26/2016	8/14/2014	
Maturity Date	6/1/2028	6/1/2029	
Interest Rate	2.33%	3.25%	
FY20 Principal Payment	\$775,000	\$415,000	
FY20 Interest Payment	\$178,991	\$171,547	
Total FY20 Debt Service	\$953,991	\$586,547	\$1,540,538
6/30/20 Debt Outstanding	\$6,907,000	\$4,865,000	
FY21 Principal Payment	\$794,000	\$430,000	
FY21 Interest Payment	\$160,933	\$158,064	
Total FY21 Debt Service	\$954,933	\$588,064	\$1,542,997
6/30/21 Debt Outstanding	\$6,113,000	\$4,435,000	

City of Sparks & Redevelopment Agency Issued Debt and Long-Term Employee Benefit Liabilities

City of Sparks & Redevelopment Agency Issued Debt					
NAME OF BOND OR LOAN	Term (years)	Original Amount of Issue	Scheduled Maturity Date	Outstanding Principal ending 6/30/2020	FY21 Debt Service (P&I)
City General Obligation (G.O) Bonds and Notes Payable					
*The City currently has no General Obligation debt outstanding with the exception of the Sewer and Effluent G.O. debt					
City Issued Revenue & Tax Allocation Bonds					
CTAX Bond Series 2014 (partially funded by RDA)	12	\$7,330,000	5/1/2026	\$5,595,000	\$1,037,886
Senior Sales Tax Anticipation Series A Refunded 2019	8	\$79,905,000	6/15/2028	\$76,440,000	\$9,114,488
Subordinate Tax Exempt Series B 2019	8	\$8,926,847	6/15/2028	\$8,926,847	\$312,440
Subordinate Taxable Series C 2019	8	\$3,886,437	6/15/2028	\$3,886,437	\$213,754
LID #3	10	\$13,498,290	9/1/2027	\$6,374,679	\$965,858
City Issued Sewer & Effluent G.O. Bonds & Loans					
Enterprise Debt SRF 2016B	13	\$27,099,691	7/1/2029	\$16,312,885	\$3,242,469
Flood Control Bonds Series 2016	10	\$18,010,000	3/1/2026	\$11,620	\$11,926,250
TMWRF Expansion Loan- Sparks Portion of Reno-issued SRF Water Pollution Bonds	8	\$12,029,831	7/1/2025	\$3,470,629	\$822,092
Redevelopment Issued Debt					
RED Agency #1 Series 2010	14	\$22,165,000	1/15/2022	\$4,050,000	\$2,177,500
RED Agency #2 Series 2014	15	\$7,285,000	6/1/2029	\$4,865,000	\$588,064
RED Agency #2 Series 2016	12	\$9,660,000	6/1/2028	\$6,907,000	\$954,933
TOTAL CITY & REDEVELOPMENT ISSUED DEBT		\$209,796,096		\$136,840,097	\$31,355,734

City of Sparks & Redevelopment Agency Issued Debt and Long-Term Employee Benefit Liabilities

