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TO: City Council
FROM: Sam Anselm, Interim City Manager
DATE: 8/15/2014
RE: Weekly Report

Good morning, everyone. This memo will be relatively brief, so you can enjoy some light reading from our finance director (memo attached) about her perspective on the proposed budget for next year, which is currently at the printer.

Key Meetings

- Yesterday, Brian Kelly, Leslie Haase and I had a conference call with Jon Johnson from the Priority Based Budgeting Center to discuss their budget method, which has been endorsed by ICMA. We talked for about an hour and a half and it sounds like a good process to consider, however I'm not sure if we want to start that process now in light of the issues we face with next year's budget (the price is estimated between \$40,000-\$45,000). However, it won't cost us anything to invite you to sit in on a future conference call/webinar to present the concept to you, so after the dust settles with this year's budget discussions, we will look to set that up.

Miscellaneous

- Speaking of the upcoming budget discussions, there is a slight change of plans to the schedule. We will have our budget meetings on September 22nd, 23rd and 24rd (if needed), so please mark your calendars accordingly. This is possible because we are not moving the second council meeting from the 15th to the 22nd to accommodate MML, as we have done in the past.
- We have contacted the state auditor's office and are trying to confirm a visit by them to present the steps that will be taken in order to conduct the audit. Tentatively we're planning on having them here on 9/2 to address members of council and our residents during our regular meeting. I've already fielded one question about whether or not they'll be looking at charter issues and whether those processes were followed over the past 2-3 years. I would respectfully ask that you limit your questions to the process itself, i.e. how long they'll be here, estimated cost, how results will be communicated to the public, etc. Staff and I will have an initial kick-off meeting with the auditors sometime after that to

get into the weeds and ask more detailed questions, and I'll keep you informed throughout the process.

- We are moving forward with the creation of a separate planning department that I have discussed previously. The city attorney's office is preparing the ordinance for your consideration in September, but I wanted to give you a heads up that it will be coming soon.

As a reminder, I will be out of the office this afternoon through Monday, August 25th. Starting on the 18th I won't have access to phone or email, but until then, please don't hesitate to contact me if anything comes up. Otherwise, Director Heatherly will be in charge, and any citizen/resident concerns can be brought to the attention of Brian Kelly (bkelly@joplinmo.org, or ext. 203) in my office.

Please let me know if you have any questions. Have a great weekend, and don't have too much fun on Monday night without me.

**** *Memo attached***

MEMORANDUM

TO: Sam Anselm, Interim City Manager and
Joplin City Council

FROM: Leslie Haase, Finance Director

DATE: August 11, 2014

SUBJECT: Fiscal Year 2015 Budget Update

Through the preparation of the fiscal year 2015 budget, there are certain financial concerns that need to be brought to your attention. The following funds are faced with serious financial constraints:

- General Fund
- Parks Fund
- Golf Course
- Airport

Background

There are two main factors with each fund. The first is to ensure sufficient fund balance in the governmental funds or net assets in the enterprise funds to meet cash flow needs, maintain a cushion against revenue shortfalls and unanticipated expenditures, provide an accumulation of funds for large capital projects, as well as contribute to a favorable bond rating. The second is for operational revenues to cover operational expenditures. If expenditures exceed operational revenues, fund balance is being used to cover the shortage. Fund balance can't cover operational expenditures for an extended time period; because once fund balance is depleted it is gone. Fund balance is the cumulative difference of all revenues less all expenditures. The fund balance in the general fund grew for several years by revenues exceeding expenditures.

Additionally, one-time revenue sources can't cover ongoing operational expenditures, since they are not ongoing sources of income. The best comparison is to think of fund balance or net assets as a savings account. Much like a home budget, if savings are being used to fund operational costs such as utilities, once the savings are gone there is nothing to fund the ongoing operational costs.

FY 2015 Budget

In the proposed budget, the general fund budget is exactly balanced, except for using the \$500,000 cell phone settlement proceeds that have been earmarked in fund balance for the renovations to Joe Becker Stadium and using public safety fund balance to build the Public Safety Training Center. However, in order to balance the budget, certain measures

were taken. There are no raises included in the budget. Additionally, there is very little ordinary capital replacement in the budget.

The parks fund has a projected deficit of nearly \$106,000 and the transfer from the general fund had to be increased by \$155,000. The general fund has subsidized the parks fund by \$2,116,500 for about five years. However, the transfer had to be increased to balance the fund balance for this fund. Additionally, nearly all ordinary capital replacement was cut from the parks fund.

The golf course has a projected deficit of just over \$136,000, after a transfer from the general fund of \$33,000. All ordinary capital replacement was cut from this fund. This leaves a projected negative balance of nearly \$140,000 in unrestricted net assets.

The airport has had a negative unrestricted net asset balance since the new terminal was built. The transfer from transportation sales tax was increased to slowly bring the net assets into a positive balance. However, this budget projects the negative unrestricted net asset balance will nearly double from 2013 to the end of next year.

Discussion

Ongoing operational revenues are not down, but are slightly up. Expenditures are outpacing the slight increase in revenue. The largest expenditure for the City is payroll. Several positions were added over the last few years, as well as granting an average pay increase of approximately 3.5% for two years and certain special raises. The revenue can't sustain these expenditures. During my tenure with the City, 4% raises have been tried in the past, but that level has never been sustainable year after year, along with the additional positions given the small revenue growth the City sees each year.

Additionally, over the past several years, the City has received some one-time revenues, such as the lease payment for Memorial Hall and increased permit revenues as a result of rebuilding from the tornado, which were used to cover ongoing operational expenditures. The City also has continued to build additional facilities and add programs. This has added to the overall operating expenditures of the City.

And, while it is too soon to tell, the Recovery TIF could have a significant financial impact on the City. In a regular TIF, there is no existing business and a development is built that is contained to a relatively small area. As you know, fifty percent of the incremental increase in sales tax (EATS) is redirected away from the City to help pay for the public improvements related to the TIF. With a regular TIF, this does not unduly harm the City. The statute only uses fifty percent of EATS, because of the following example. Let's say Jane Doe has one hundred spendable dollars. She normally spends that money somewhere in the City and the City receives the full sales tax on those purchases. After the TIF, Jane now spends sixty dollars somewhere in the City and forty dollars in the new TIF development. The City will receive the full sales tax on sixty dollars, but only fifty percent of the sales tax on the forty dollars. A regular TIF benefits the City overall and hopefully helps grow the overall spendable dollars in the community.

However, the Recovery TIF spans so much of the City and currently includes approximately 475 businesses. Redirecting fifty percent of sales tax on development that would have occurred without the TIF could have a significant financial impact to the City. The current collections are going to repay the debt issued for the redevelopment. The City budgets the full sales tax as revenue and records an expenditure for the payment to the TIF, which could indicate revenue growth unless the TIF payments are subtracted from the sales tax revenue. Therefore, the Finance Department will closely monitor the expenditure going out for the Recovery TIF and the financial impact on the City.

Next Year

The measures taken this year to balance the general fund are temporary measures in order to grant time to outline long-term resolutions.

The following are some suggested short-term changes:

- Restrict travel to only necessary travel
- Departments must stay within the budget
- Restrict overtime to only necessary overtime
- No additional monies granted for any special projects from these funds

The following are possible long-term resolutions at this point in time:

- Review added positions for sustainability
- Adopt a pay plan that allows flexibility for sustainable raises
- Prioritize services
- Adopt policy to review future operational costs before adding programs or facilities
- Review possibility of ending Recovery TIF as soon as debt is repaid

Understanding our current financial position is essential, as well as working together to identify and address both short-term and long-term resolutions. The fiscal year 2016 budget must include ordinary capital replacement and raises.