

These minutes are considered a draft until approval at the next meeting.

MINUTES                    Tuesday, February 5, 2013

5:00 PM

Fiscal Committee Carnegie Town Hall

235 West 10th Street

Members Present: Council Member Dean Karsky, Council Member Greg Jamison,  
Council Member Sue Aguilar

Members Absent: Council Member James Entenman

Staff Present: Lorie Hogstad, CMC, City Clerk; Dave Bixler, Budget Analyst

Guests: Council Member Rex Rolfing; Tracy Turbak, Finance Director

1. Call To Order

Committee Chair Dean Karsky called the meeting to order at 5:00 p.m.

2. Approval of Minutes

A. Meeting held on Tuesday, October 2, 2012

A motion was made by Sue Aguilar and seconded by Greg Jamison to approve the minutes dated October 2, 2012.

Karsky called for a voice vote on that motion and all members voted yes.

Motion Passed.

3. Reports and Updates

A. Staff Update by David Bixler, Budget Analyst

1) Fee categorization cost recovery measures (Fiscal Committee). Bixler reported that the fee index is on the Sioux Falls website under American Legal. He will work with Multimedia Support to place this on the key resources section for easy accessibility.

2) Facade Easement Program (Land Use Committee). Bixler is meeting this week with the City Attorney's Office to clarify the parameters that are set by statute that the program is administered under including historic preservation, the length and duration of the easements, etc. He hopes to have more information by the end of week.

3) Peer Review Preparation (Audit Committee). Discussed this with the Association of the Local Government Auditors and will be reporting the findings to the Audit Committee on Thursday.

Karsky thanked Bixler for his work on these projects.

B. 2012 Capital Fund Surplus by Tracy Turbak, Finance Director

Tracy Turbak, Finance Director, stated his intent today is to start the conversation with the City Council with continued discussion in the next several weeks. Beginning this process early will allow the departments and Council to maintain good communication throughout this process. Turbak will cover a number of points including how the City came to a point where there is a surplus situation, the surplus amount, the options that the City has, and what Turbak sees as the decision-making process going forward.

Turbak stated that the Capital Fund is unique in how it is budgeted. Traditionally, the City has always budgeted to spend the revenues that we anticipate receiving in our Capital Fund and does not make plans for a reserve. This is contrary to the General Fund as the City does plan each year to have a Reserve Fund left in the General Fund. It is important for the Council and the public to understand this difference.

Turbak began by explaining how the City ended up with surplus funds. One example is if revenues come in higher than what was anticipated in the budget or secondly, funds are remaining in the budget after completion of projects in which all the funds were not used. Generally, the surplus is largely due to the fact that revenues come in higher than anticipated and this has been the case the last couple of years.

In 2011 the City had unobligated funds in the amount of \$4 million and in 2010 the amount was \$3.8 million. This year the preliminary number identified is \$1.7 million of unobligated balance in the Capital Fund. This is unaudited as the financial statement audit is still in the early stages of the process and subject to change.

The largest source for revenue in the Capital Fund is the Second Penny Sales Tax. Some of the other fairly significant revenues are platting fees from subdivision development and unanticipated funds that come in. The City had a significant transaction at the end of 2012 from a land sale in the Uptown area on Phillips Avenue which was sold to developer Craig Lloyd. Community Development coordinated this development project and transaction and has a strong desire to see these dollars reinvested in the Uptown area.

The \$1.7 million in unobligated funds can be appropriated and spent on projects, but the City is limited to Capital projects that the Second Penny Sales Tax is restricted to. As this has been approached in the past and again this year, we first take a look at the 2013 budget and determine if we expect a shortfall of funding which would be a higher priority on the allocation of these funds. There are also opportunities, as has been done in the past, to move projects up from 2014 to accelerate those projects. In addition, projects that are not necessarily in the long-term Capital plan, but have become identified as priorities, have been considered.

An additional alternative is not to appropriate and spend in 2013, rather let the balance roll into the planning process for the 2014 Capital plan as we move forward to determine what projects will be in this plan. At some point in the past the City has also utilized this approach.

There are times when paying down debt would be an alternative use of funds, however, that will not be recommended or identified this year as there are only certain times during the life of the bonds when they can be prepaid.

Lastly, a bit of a change of policy would be to take some of these dollars

and utilize them as a Reserve Fund within the Capital Fund. One of the advantages of a Capital Projects Reserve Fund is if we put a project out for bid and the bids come in higher than what was budgeted, this Reserve Fund would be available. If faced with this situation currently, the options are to delay or reduce the scope of the project.

The next step will be the decision-making process. Turbak has asked all departments to submit ideas, suggestions, and proposals as to how the Capital dollars could be used. They are in the process of compiling this information and identifying projects. This will be presented in the near future at an Informational Meeting to enable the Council to determine priorities. The priorities could be one alternative or a combination of some of the above items that were suggested. However, this will be the City Council's decision.

Karsky thanked Turbak for giving the committee their options and starting the process earlier.

Jamison echoed Karsky's comments. In reviewing the minutes of the October 2, 2012, Fiscal Committee Meeting, the discussion centered on regrouping and reapproaching this. The minutes of the last meeting are a testament to a failed approach in the past and this is the beginning of a smoother road ahead.

Jamison asked about the 2011 surplus, which was \$4 million, and what percentage that surplus was of the total Capital budget. Turbak responded this would have been approximately 10 percent of the 2011 total budget. Another item that could result in surplus to the Capital budget is grants received for various projects.

Using the percentages from 2011, Jamison figured the surplus of \$1.7 million is about 5 percent of the 2012 Capital budget. Planning for this can be quite a challenge in keeping the numbers allocated below the revenues received. Jamison asked if there were any other changes or practices done to bring the surplus down from 10 percent, as in 2011, to 5 percent as in 2012.

Turbak felt that the biggest influence in going from \$4 million in 2011 to less than half of that in 2012 had to do with how revenues were projected in the budget. In the 2011 budget, the revenue growth was anticipated at zero percent. For 2012 the City anticipated some growth and budgeted 3 percent. Ideally if the City estimated exactly what our growth would be, there would be very little surplus left. A smaller surplus is an indicator, at least in 2012, that we will hit a lot closer to our budget numbers.

Jamison added that the sale of the Uptown land to Craig Lloyd was \$1.1 million. If this was taken out, this puts the margin at \$600,000 which seems very close.

Turbak asked the committee members to keep in mind that sales tax is not the only revenue in this fund. He reiterated that other revenues include platting fees, supplementing of the budget with some of the excess which created a larger surplus, state and federal grants, and special assessments for past projects that are being collected which can fluctuate from year-to-year. Another factor is the active bonds such as those for the Prairie West Library which utilized a Quality of Life bond issue. The timing is an issue and it is tough to forecast and can also have an impact on the amount of surplus or unobligated funds at the end of the year.

Aguilar asked for a time line as far as when the Council will have the concrete number of dollars in unobligated funds and the information from the departments on their proposals.

Turbak stated the audit will not be done until the latter part of March and we would not want to spend money until the audit is finished. Turbak is hopeful that in early March he can show the Council the specifics of projects the departments have identified as potential candidates for funding. Turbak referenced the fact that in 2010 and 2011, the final supplemental appropriation ordinance came to the Council in mid-June. He is hoping to beat that by a significant margin.

Karsky asked if establishing a Reserve Fund for the Capital projects is a common practice. Turbak responded he has not researched this, but would imagine it is fairly common.

Karsky questioned the difference between having a Reserve Fund in capital and carrying over money from the 2012 to the 2013 Capital Fund. Turbak stated if we were to establish a Reserve Fund within our Capital Fund or reserve account, that money could not be spent until appropriated by the Council. This would be a similar process in terms of what we are going through with surplus dollars and the Council would have some flexibility to appropriate dollars. The funds would be unobligated.

Karsky added, for the benefit of citizens in the community, the City has two budgets -- the Capital Fund and the General Fund. Turbak explained the differences between the two funds.

#### 4. Open Discussion

There was none.

#### 5. Adjournment

Karsky adjourned the meeting at 5:25 p.m.

Lorie Hogstad, CMC

City Clerk