

City of Montgomery
City Council Special Session Minutes
September 15, 2022

Present

Brian Riblet, City Manager
Tracy Henao, Asst. City Manager
John Crowell, Chief of Police
Gary Heitkamp, Public Works Director
Chris Bigham, Interim Finance Director
Matthew Vanderhorst, Community and Information Services Director
Paul Wright, Fire Chief
Ben Shapiro, Asst. Fire Chief
Julie Machon, Recreation Director
Connie Gaylor, Clerk of Council
Derek Morgan, Finance Specialist
Mike Rogers, Asst. Public Works Director
Dan Miller, Public Works Supervisor
Taryn Radford, Finance Specialist
Greg Vonden Benken, Asst. Police Chief

City Council Members Present

Craig Margolis, Mayor
Lee Ann Bissmeyer, Vice Mayor
Mike Cappel
Chris Dobrozsi
Ron Messer
Sasha Naiman
Ken Suer

City Council convened at in Council Chambers for the Special Budget Review Session at 5:30 p.m. with Mayor Margolis presiding.

Mayor Margolis asked for a motion to dispense of roll call as all members were present. Mr. Cappel made the motion. Mr. Messer seconded. City Council unanimously agreed.

Mayor Margolis thanked staff for their work in the preparation of the 2023 Operating and Capital Budgets.

Mr. Riblet thanked all department heads and their staff for their time in compiling and reviewing the 2023-2027 budgets and for striving to be good stewards of the city's resources. He also thanked Chris Bigham for stepping in during the process and collaborating with staff to conduct thorough reviews of the budget. Mr. Riblet extended a special thank you to Taryn Radford and Derek Morgan in capturing changes and putting together well-presented budget books.

Mayor Margolis asked Mr. Riblet and Mr. Bigham to proceed with their budget presentations.

Review of the 2023 Operating and Capital Budget

Mr. Riblet and Mr. Bigham presented an overview of the 2023-2027 Operating and Capital Improvement Budget.

Mr. Bigham provided a summary of the anticipated 2023 beginning and ending balances as shown below:

	Beginning Balance	Estimated Revenues	Estimated Expenses	Ending Balance
General Fund	\$ 14,021,754	\$ 12,916,804	\$ 13,178,265	\$ 13,760,293
Special Revenue Funds	18,873,516	7,739,717	8,893,647	17,719,586
Debt Service Funds	7,187,528	4,672,846	5,167,280	6,693,094
Capital Projects Funds	5,148,639	6,620,220	6,208,117	5,560,742
Fiduciary Funds	1,081,610	175,500	189,850	1,067,260
Total Budget	\$ 46,313,047	\$ 32,125,087	\$ 33,637,159	\$ 44,800,975

Revenues Estimates

Mr. Bigham stated that the 2023 Operating and Capital Budget includes a few revenue assumptions as listed below:

- Earnings Tax estimate of \$11.2 million is a 6.7% increase over 2022 due to increased collections in 2022.
- Real Estate Taxes are estimated to be at 2022 levels.
- All other revenue sources to remain relatively flat over the next five years.

Expenditures Assumptions

Mr. Bigham explained that total personnel estimates are in line with current union agreements and include a 3% cost of living adjustment in 2023. He stated that non-personnel line items such as contractual services, materials and supplies for the General Fund and Special Revenue Funds have increased an average of 3% due to increase in cost of goods and services.

General Fund Budget

Mr. Bigham explained the following details for the revenue and expenditures in the General Fund.

- For 2023 General Fund Revenues and transfers-in are about 11% higher than the 2022 Budget due to actual 2022 collections trending above estimates. This includes the updated earnings tax projection to include 5% of receipts diverted to the General Bond Retirement Fund to save dollars to pay off the bond anticipation notes, which is explained further in Section 1.A of the transmittal letter that accompanies the budget document. If these funds remained in the General Fund, the annual net revenue (expense) amount would be a positive \$298,000.
- The 2023 General Fund estimated expenditures (excludes transfers out) increased by \$595,000 or 4.9% year over year due to cost-of-living adjustments for staff and increased materials and supplies cost in department budgets.
- The budget includes staffing all positions at 100% of cost so any vacancies will generate budget savings while the position is recruited and filled.

Capital Improvement Fund

Mr. Bigham and Mr. Riblet provided the following details regarding the Capital Improvement Fund.

American Rescue Plan Act (ARPA) Funds 221/222

- The City of Montgomery received \$1,143,400 in ARPA funds.
- \$52,000 has been spent on Wi-Fi improvements and additional operations at the City pool.
- The balance of fund 221 will be transferred to the General Fund for general government expenditures per Treasury Guidance.
- 2022 includes a transfer out to the Downtown Improvement Fund in the amount of \$500,000 to fund the remaining expenses for Montgomery Quarter Phase One.
- The remaining fund balance increase of \$591,237 is transferred to Fund 222, Pandemic Relief Fund.
- 2023 includes a transfer to the capital budget for the Huntersknoll storm sewer drainage project in the amount of \$350,000. This project also includes \$125,000 from Fund 228, Environmental Impact Area II, for drainage improvements.
- The projected remaining balance in the Pandemic Relief Fund 222 is \$232,885 for future projects.

Roundabout Hardscape/Landscape Project

The 2023 Budget includes a transfer from the Montgomery Community Improvement Corporation in the amount of \$2,091,595 for the hardscape and landscape construction for the roundabout adjacent to Montgomery Quarter. The source of the funds is from the sale of land at the Montgomery Quarter project and will be used for permanent improvements. \$1 million is budgeted in 2023 and \$1 million budgeted in 2024 for the project.

Other Projects

- Montgomery Road Sidewalk addition in the amount of \$263,900 as part of a SORTA grant.
- Street Resurfacing funded at \$1.2 million.
- Fire Department budget includes \$1.5 million for the replacement of the Quint fire truck.

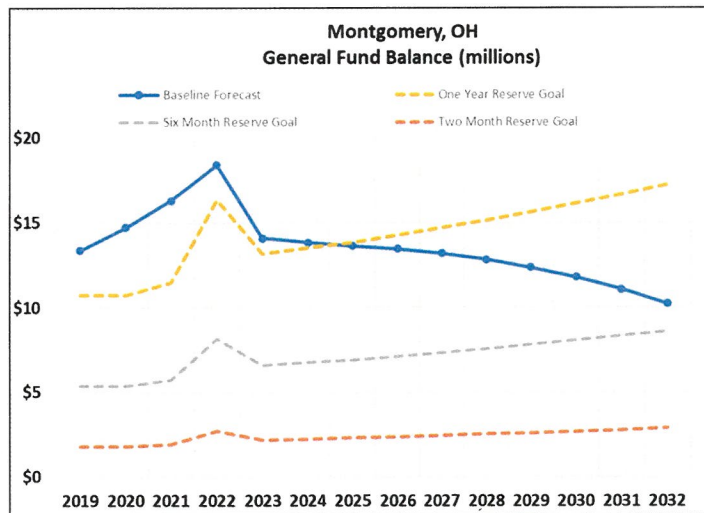
Fund Balance Policy

Mr. Bigham provided a summary and forecast of the fund balance policy as depicted below:

**City of Montgomery
 General Fund Budget Summary
 Fiscal Year 2023**

Projected Beginning Balance	\$ 14,021,754
Estimated Revenues and Transfers In	12,916,804
Estimated Expenditures and Transfers Out	<u>13,178,265</u>
Annual Net Revenue (Expense)	<u>(261,461)</u>
Projected Ending Balance	13,760,293
6 Months Reserve Policy	<u>6,589,133</u>
Unreserved Fund Balance	\$ 7,171,161

Fund Balance Baseline



Fund Balance Policy – Other Funds

- Capital Improvement Fund 410 - established at \$1,000,000.
- General Bond Retirement Fund 324 (established as the total principal and interest of the subsequent year's debt service payment).
- Street Maintenance and Repair Fund 261 (no current policy).
- Arts and Amenities Fund 485 (established at \$376,237, equivalent to two substantial restricted bequests to the fund).
- Fire/EMS Levy Fund 223 (established as six – twelve months of operating expenditures).

Fund	Description	Policy	Projected Balance 2027	Policy Met?	Page Number
Fund 223	Fire/EMS Levy	6-12 months operating expenditures	\$ 15,906,739	Yes	P 55
Fund 261	Street Maintenance and Repair	no current policy	\$ 1,484,107	N/A	P 61
Fund 324	General Bond Retirement	total principal and interest in subsequent year	\$ 1,899,435	Yes	P 70
Fund 410	Capital Improvement	\$1,000,000	\$ 1,417,767	Yes	P 76
Fund 485	Arts and Amenities	restricted bequests of \$376,237	\$ 525,994	Yes	P 68

10-year General Fund Forecast Scenarios

Mr. Bigham continued the discussion of fund balance baselines with a ten year forecast. He stated that baseline assumptions regarding revenue and expenses are as follows:

Revenues:

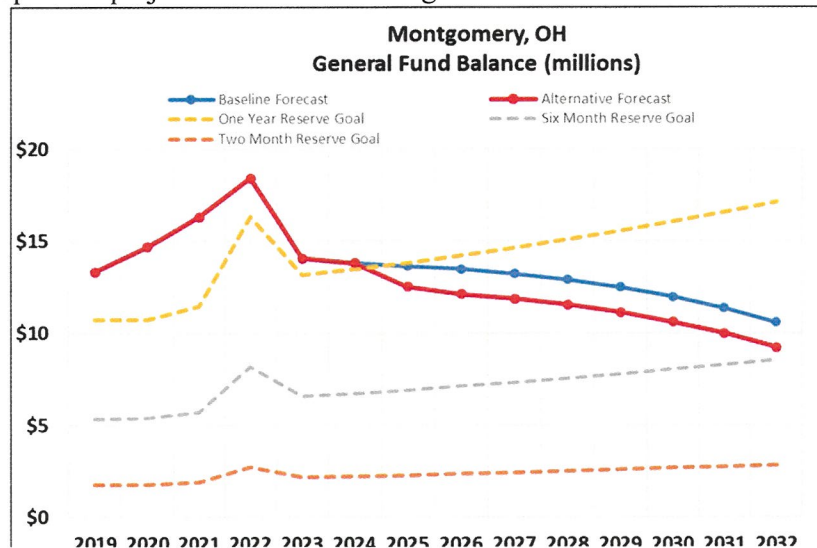
- Earnings Tax annual growth of 2.75%.
- Real Estate Property Taxes annual growth of 3%.
- Investments annual estimate of 1.5% of Fund Balance.
- All other revenue types are a 1% annual growth.

Expenditures:

- Salaries increase at 3.75% for 2024, 3% for 2025 and beyond.
- Healthcare projected to increase 10% annually.
- Non-personnel expenditures (contracts, supplies, etc.) increases 0% for 2024 and 2025 due to factoring in one-time expenditures in 2023 (master plan).
- Non-personnel expenditures projected increase of 2% in 2026 and beyond.

Mr. Bigham noted that projected expenditures, specifically personnel and healthcare, outpace projected revenues resulting in a downward sloping curve. This projection does not factor in any budget savings which has annually resulted in an 8%-13% savings, or \$949,000-\$1,740,000 annually, that is returned to fund balance. He added that this projection also does not factor in any earnings taxes increase resulting from various developments being completed in the coming years. Even with these conservative estimates, the fund balance is still projected above the six-month reserve goal.

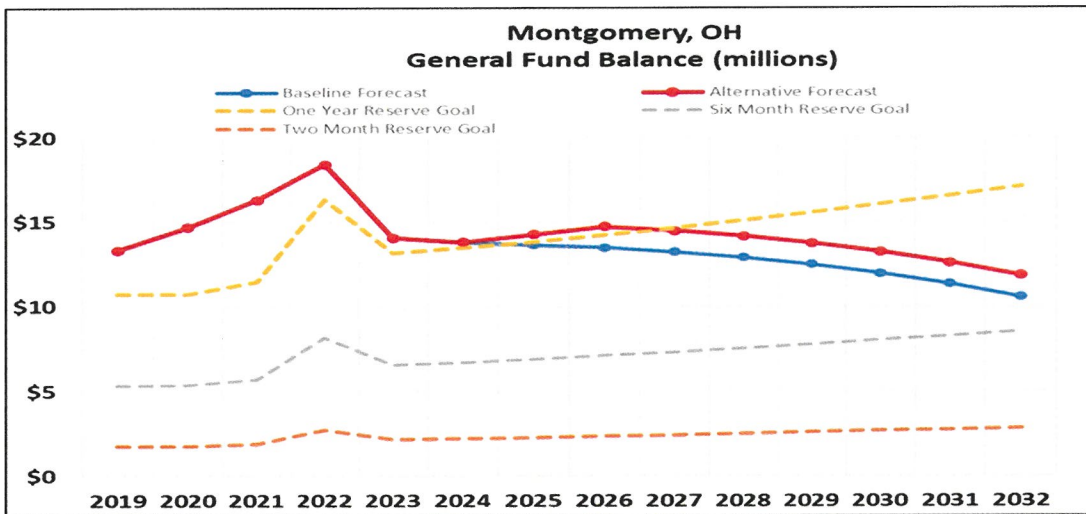
Mr. Bigham explained that using the financial forecasting tool it is anticipated there could be a recession in 2024. He provided the following graph with projected forecasts for the general fund balance.



Mr. Bigham explained that anticipating a recession there could be a 10% decrease in earnings tax in 2024, 0% growth in 2025, and then an anticipated recovery to 2.75% growth in 2026 and beyond. He stated all other assumptions remain the same.

Mr. Bigham explained that even with a 10% drop in earnings taxes, the projection still shows exceeding the six-month fund balance policy. The baseline forecast in blue is based on a conservative increase of 6.7% over the 2022 estimate. This is important to note because actual collections in 2022 is trending about 14% over the prior year actual collections.

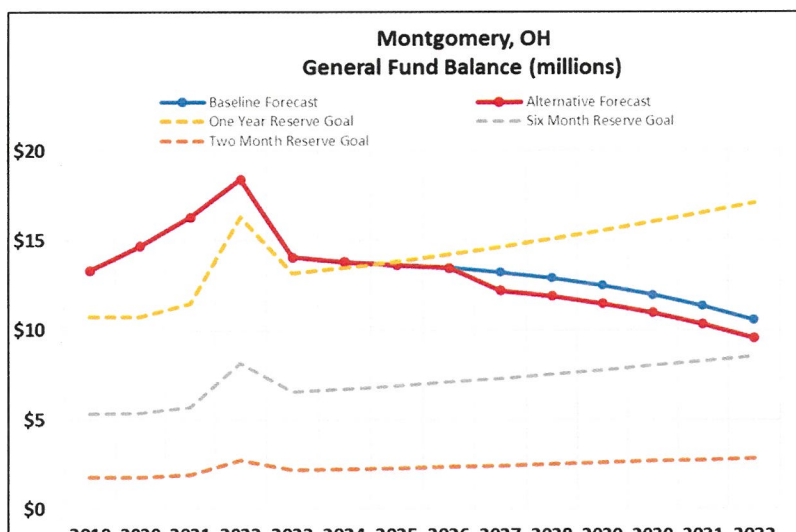
Mr. Riblet explained that assumptions from the impact of the Montgomery Quarter businesses coming online include Earnings Tax increases 10% in 2024 and 2025 then settles back to 2.75%. All other assumptions remain the same. This is depicted in the graph below:



Mr. Bigham gave an overview of the current Bond Anticipation Notes (BANS):

- Refinance BANS in 2026 and use the following sources to pay down principal:
 - General Bond Retirement Fund-- \$2 million
 - Montgomery Quarter TIF Fund -- \$2 million
 - General Fund -- \$1 million
- Refinanced amount of \$2.5 million is the total outstanding amount.
- All other assumptions remain the same.

The following graph depicts the payment of \$5 million towards BANS principal in 2026.



271 Mr. Bigham explained that using \$1 million of General Fund balance results in remaining above the six-month fund
272 balance policy through 2032. He stated the resulting balance can be paid off utilizing the General Bond Retirement
273 Fund in five years (assumes collections of over \$500,000 annually) or with additional excess TIF dollars which
274 could come in higher. Once BANS are paid off, Council can revisit the earnings tax allocation of 75% to General
275 Fund, 20% to Capital Improvements and 5% to General Bond Retirement.

276 Mr. Riblet and Mr. Bigham concluded their presentations at which time staff and Council continued through each
277 department's budget lines and discussed 2022 accomplishments and 2023 requests.

278
279 City Council thanked all staff for their continued good work of delivering a budget with a conservative approach to
280 spending. They stated that it is this perspective that has preserved that targeted fund balances and reserves needed
281 when facing possible economic downturns.

282
283 **OTHER BUSINESS**

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285 Mayor Margolis asked if there was any further business to discuss in Public Session. There being none, he asked
286 for a motion to adjourn.

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288 Mr. Cappel moved to adjourn. Vice Mayor Bissmeyer seconded. City Council unanimously agreed.

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290 The Special Budget Review Session of City Council adjourned at 7:49 p.m.
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Connie Gaylor, Clerk of Council