CITY OF NEW RICHMOND

2021 Budget

Process and Considerations

NR Strong Together

Efficient | Inclusive | Transparent

July 14, 2020

Background

The City of New Richmond began preparing reorganization, mobilization, and response efforts related to COVID-19 in early March, 2020. By taking swift action during a period of uncertainty, the City was able to absorb financial stress during the first 100 days of the pandemic by creating a balanced approach designed to:

- ✓ Bridge anticipated revenue shortfalls
- ✓ Safeguard financial reserves
- ✓ Continue delivering essential services
- ✓ Provide business and community support in these unprecedented times
- ✓ Maintain financial capacity to take advantage of the eventual economic recovery

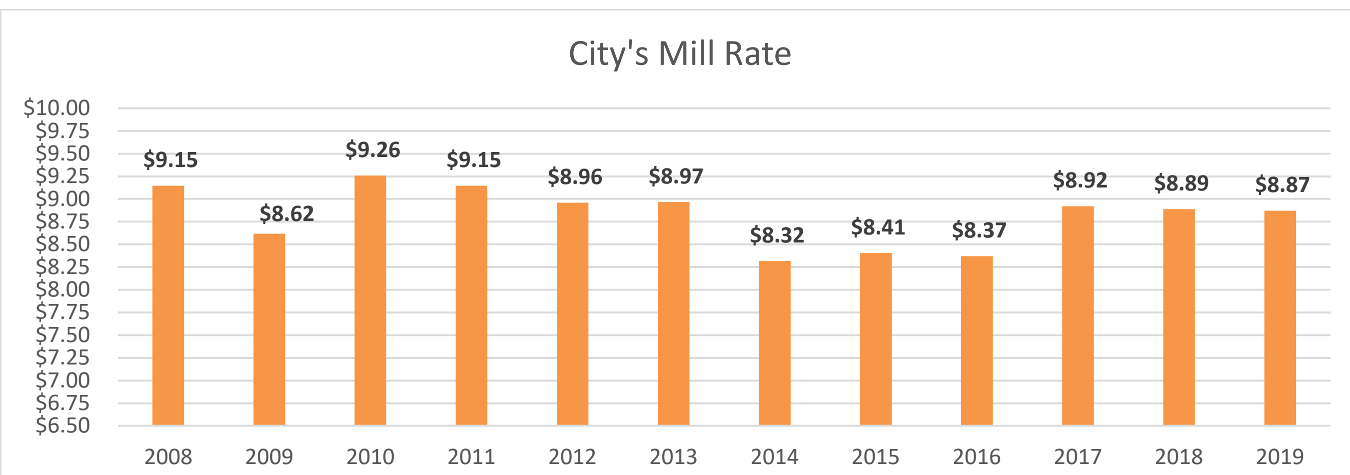
By focusing on only core and essential government services during this time, we have been able to offset revenue shortfall in entirety by freezing all hires, including seasonal staff; reducing operational budgets, delaying non-essential infrastructure, and capital projects.

These combined measures have allowed for the preservation of City reserves. Furthermore, with continued cost containment strategies in place through 2020, we anticipate a projected surplus of $325,000 to assist with any anticipated 2021 budget reductions and/or initiatives. This $325,000 surplus includes $200,000 in cost reductions and $125,000 from Routes to Recovery grant funds.

Financial Position

The City has positioned itself to weather storms from time to time, however COVID-19 and the economic uncertainty ahead has created new challenges. Beyond looking at expenditures during this time, we want to also examine our revenues, which to date, have remained relatively flat.

While we anticipate there will be revenue reductions in state aid, room tax and fee collections, the City continues to experience a significant increase in tax base through new commercial and residential construction. The City has matched operational growth with economic growth which has resulted in the City's tax levy remaining relatively flat over the last decade.



Equalized value is an important economic and financial measurement of a city and represents the value of all taxable real and personal property within a geographic area. Since 2012, the City's equalized value, has increased $330M from $549M to $879M. This increase is value is attributable to increased residential and commercial development within the city.

When we look at construction trends prior to and during the last financial crisis of 2008 and compare that to the COVID 19 pandemic, we anticipate the City will experience a downward trend, as we did in 2010-2013. However, the difference between 2009-2013 and 2021-2025 is the significant difference in housing and development leading up to each crisis. See below:

Residential Construction Trend

Five Years Prior to Recession

Year	Construction Value	% Inc/Dec Prior Year	# New Units
2003	$25,527,550		143
2004	$19,078,500	-25%	106
2005	$19,244,552	+.9%	127
2006	$12,168,053	-37%	77
2007	$10,107,900	-16%	61

Great Recession (December 2007 – June 2009)

Year	Construction Value	% Inc/Dec Prior Year	# New Units
2008	$ 8,849,805	-12%	34
2009	$ 3,141,194	-64%	11

Five Years Post Recession

Year	Construction Value	% Inc/Dec Prior Year	# New Units
2010	$ 2,907,103	-7%	16
2011	$ 2,393,546	-17%	16
2012 *(Waived Impact Fees)*	$ 9,642,582	+302%	90
2013	$ 2,386,009	-75%	7
2014	$ 7,574,582	+214%	67

Five Years Prior to COVID Pandemic

Year	Construction Value	% Inc/Dec Prior Year	# New Units
2015	$ 8,738,191	+15%	56
2016	$ 9,936,131	+13%	57
2017	$26,487,010	+166%	102
2018	$32,748,845	+23%	157
2019	$27,017,119	-17%	223

During COVID Pandemic

Year	Construction Value	% Inc/Dec Prior Year	# New Units
2020 **As of 6.30.2020*	$ 10,607,469		57

Observations

In the five years leading up to the recession of 2009, the City saw a steady slowdown in housing. This trend continued through the Great Recession (2008-2009) and in the four years following the recession (2010-2013). In 2012, thanks to a city-sponsored "waiver" of impact fees, large numbers of building permits were pulled creating an increase in value of $7,249,036 from the previous year.

In short, the City's residential construction saw a slowdown prior to the recession and for the years following. If history is any predicator, it is likely, the City will see a slowing in construction throughout the pandemic and for a period of time during economic recovery. The good news is that the last four years of development has added substantial value to our tax base which will help to hedge potential property devaluation. (i.e. assessed property values decreased 7.8% from 2009-2014 with equalized values decreasing 15% over the same time period).

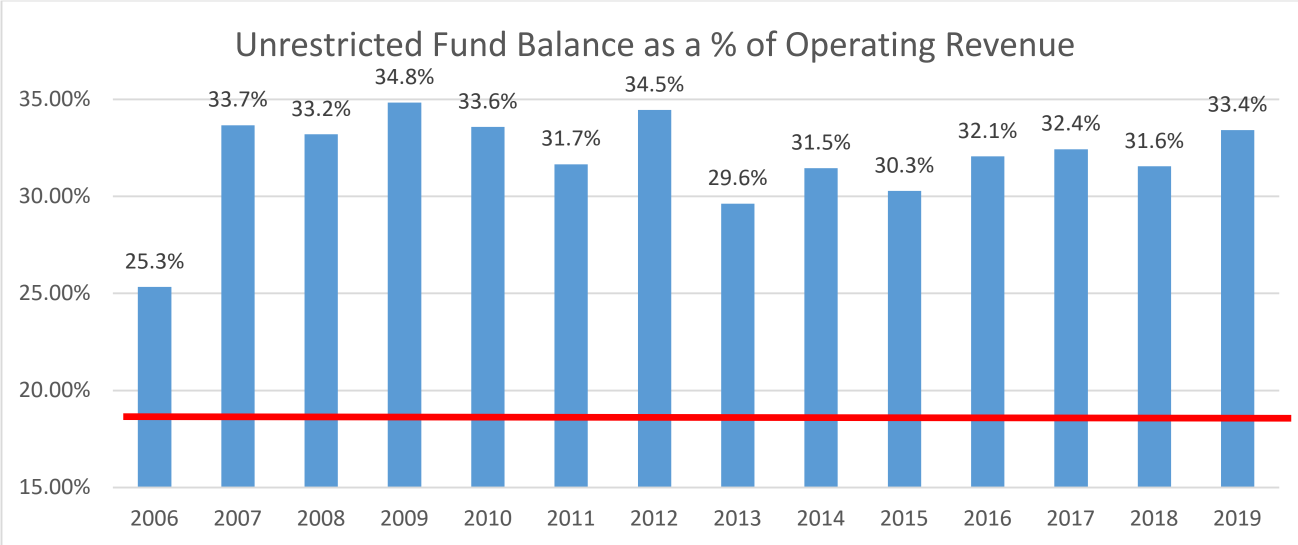
Financial Sustainability

Over the last several years, the City has implemented significant financial and operational efficiences which have positioned the City well to react, adapt and weather uncertain economic times. Some of these include:

- ✓ Aggressive repayment of debt from 20 years to a conversion of 15 and more recently 10 year payoffs.
- ✓ Reduction of unfunded liabilities through revision of paid time off and sick pay.
- ✓ Streamlined operations for example combining City and Utility operations in the winter of 2019.
- ✓ Cross training of staff allowing for greater flexibility in delivery of services. The most recent example is having staff from a variety of positions assist with grants during the pandemic.
- ✓ Alternative funding sources (i.e. grants) allowing for new services or addressing capital needs without burdening taxpayers.
- ✓ Collaborative budget approach through innovation with our leadership team, Mayor and City Council.
- ✓ Strong fund balance.

Fund Reserves

The City's unrestricted fund reserves have remained strong during periods of economic prosperity and also during economic downturn. The purpose of fund reserves is to mitigate current and future risks such as revenue shortfalls or unanticipated expenditures. From the chart below, you can see that during times of economic downturn the city has leveraged other options to balance revenue shortfalls or expenditure increases limiting the impact to fund reserves.

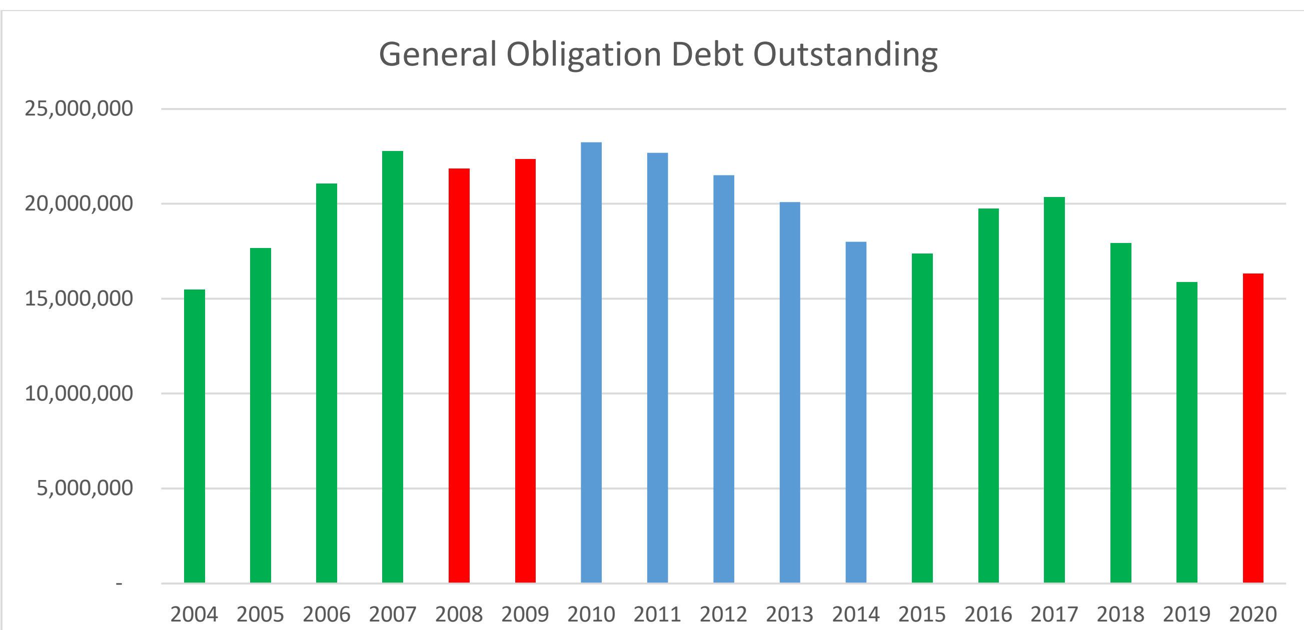


It is important to note fund reserves are not easily replenished. In a June 2020 article published by the Government Finance Officer's Association, cities which utilized fund reserves during the Great Recession are just seeing their reserves return to pre-recession balances, close to 12 years later.

General Debt Outstanding Trend

As mentioned above, the City has taken aggressive steps to address the issuance and repayment of debt. These steps included shortening repayment of debt from 20 years to 15, and more recently, 10 year payoff periods. Additionally, the Capital Improvement Planning process has served as an important guiding plan, assisting us in forecasting projects and funding sources needed to support those projects.

The table below illustrates the City's outstanding debt over the last seventeen years. During this time, the City has been able to significantly reduce outstanding debt to levels similar to 2004 while addressing critical infrastructure improvements. Principal repayment of debt is $2.2M per year.



**Green bars denote years prior to recession, red indicates recession years and blue is five years after recession.*

2021 Budget Considerations

Over the next 45 days, we would like the City Council to meet with constituents to discuss the various impacts in the event that the Council looks at continued budget reductions. We have provided five budget scenarios for discussion, providing a glimpse at the potential impact on service level, operations and impact on property taxes. These scenarios are outlined below and include expenditure reductions from 5-20% or $359,617 to $1,438,469.

20% Budget Reduction- A reduction in the general fund budget of 20% would be approximately a $1,400,000 decrease in expenditures. Expenditure reductions of this magnitude would require a comprehensive review of all services and programs provided by each department. Reductions at this level would have a large scale impact on non-emergency and emergency services.

15% Budget Reduction- A reduction in the general fund budget of 15% would be a decrease in expenditures of $1,000,000. Expenditure reductions at this level would require a comprehensive review of services and programs, particularly non-emergency services. Reductions at this level would have a large scale impact on non-emergency and would impact some emergency services.

10% Budget Reduction- A reduction in the general fund budget of 10% would be a decrease in expenditures of $719,000. A comprehensive review of services would be required. It is anticipated that a 10% reduction could be absorbed in 2021 with similar cost containment strategies implemented in 2020. The potential impact would include limited to no seasonal assistance and some open positions may remain unfilled.

5% Budget Reduction- A reduction in the general fund budget of 5% would be a decrease in expenditures of $359,617. The City would be able to absorb a portion of this reduction through an anticipated surplus of $200,000 from reductions implemented in 2020.

0% Budget Reduction – Due to the uncertainty of the pandemic, City Administration is not recommending this option at this time. We anticipate the need to reduce expenditures to ensure adequate reserve funds are available if the pandemic continues for an extended period of time.

The table below outlines estimated property tax reductions and the impact of those reductions at various property values. For example, a general fund expenditure reduction of 20% would reduce taxes by $276 for the year on a $250,000 property. Likewise, a 10% reduction in general fund expenditures on would reduce taxes by $138 for the year on a $250,000 property.

General Fund Expenditure Reduction as a %	General Fund Expenditure Reduction in dollars	$100,000 Property Value	$250,000 Property Value	$500,000 Property Value	$1,000,000 Property Value
20%	$1,438,469	$110	$276	$552	$1,105
15%	$1,078,852	$82	$207	$414	$828
10%	$ 719,235	$55	$138	$276	$552
5%	$ 359,617	$27	$69	$138	$276

Lessons from 2009 and Considerations

In the four years after the economic recession of 2009, the City saw a gradual downward trend in overall equalized value. Additionally, the City saw a reduction in construction value for that same period of time. Beginning in 2012, the City aggressively moved forward with streamlining operations while expanding services. Some examples include: changing to a PTO system and eliminating a separate sick and vacation program, combining streets and parks departments into one public works department conversion and combining Civic Center customer service functions.

While the need for expenditure reductions will need to continue in the coming year, so will the need to create and continue with across the board innovation in local government. We believe with an emphasis on innovation, we can develop a budget reduction of 7% without significant impacts on city services, our employees or the mission of creating a community built on the values of health, safety and general welfare. To get to 7-10% reduction, we would propose the following:

- ✓ Utilization of $325,000 in general operating reserves from 2020
- ✓ Utilization of $200,000 in the sale of GG for 2021 general funds
- ✓ Wage and hiring freeze in 2021 for employees which would include a cost savings of $150,000
- ✓ Keep reserves at current value
- ✓ Continue to be aggressive in debt
- ✓ Continue operations and services at present level

It is also important to note, that health insurance premiums for 2021, which represent 8% of the budget, are not finalized at this time. However, the city is actively soliciting options to evaluate in the coming months. Likewise, as we approach the 2021 capital budget, we recommend evaluating and establishing criteria to evaluate potential 2021 projects.

What this pandemic has unveiled in local governments from coast to coast is that we have been siloed, and in some cases rendered vastly inefficient. The City of New Richmond should be proud of our progressive approaches to collaboration, however there is still much opportunity ahead of us.

As we enter this budget process, we ask you to reflect on the following:

What can the years after the Great Recession teach us as we prepare for the years after COVID-19?

Create key aspects and values for the 2021 budget. What is most important to the Council?

Be Bold- In 2012, the City eliminated impact fees to spur residential development. The result was an increase in 90 new permits.

Be Transparent- It is critical that the City continue to present budget information through budget books, budget hearings, on-line forums and through regular council meetings as a way to inform our community and solicit feedback.

Be Innovative- Now is the time to look at reshaping local government through collaboration, innovation, technology and transparency.

Next Steps

We typically begin each budget process in June or July with one-on-one meetings with key staff, stakeholders, preliminary budget meetings and consultations with Council members. This year, we would like you as a Council member to consider budget reductions as outlined above and gather your own thoughts and ideas over the next 45 days. If you would like a one-on-one meeting with Mike and Rae Ann, we are happy to set that up. We would like to reconvene in August with a recommendation from the City Council on the reduction percentage you would like to move forward with in 2021.

The late August timeline will give you approximately 45 days to review, discuss and meet with constituents and will allow us time to provide financials for the first two quarters in 2020 as well as estimates for the remainder of the year.

As we have seen throughout this year, normality is an afterthought. However, our collaboration and innovation have made overcoming challenges something to behold and celebrated.