



## MEMORANDUM

To: Mayor Pat Fribis and the Board of Aldermen

From: Brittany Gillett, City Administrator

Date: November 10, 2020

Re: Fiscal Year 2021 Budget

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We are pleased to present the Fiscal Year 2021 budget for your consideration. The proposed budget allows the City of Sunset Hills to maintain current service levels while continuing to invest in our capital infrastructure.

### **Economic Outlook**

Near the end of the first quarter of 2020, the St. Louis Metropolitan area began to experience the effects of the global Coronavirus pandemic (COVID-19), which resulted in a significant disruption to businesses and individuals not only within our community, but around the world. The outbreak has significantly affected operations and revenue within the city and at this time, there remains a level of uncertainty when forecasting future revenues and expenses. Until the City is able to fully quantify the effects of COVID-19, it is recommended that we continue operating within a restricted budget, focusing heavily on maintaining high-quality levels of service and saving where possible.

Additionally, the City is facing some economic challenges. Sales tax receipts continue to decline each year despite continued growth in the national and state economy; staff has forecasted a 5% decline in sales tax receipts, absent lasting COVID-19 effects. Since the beginning of 2018 the City has lost two significant sales tax generators, Johnny Macs and Toys R Us, which has put downward pressure on taxable sales in the City.

The City does remain an attractive place for economic development due to our location near major interstates, and our strong demographics. According to the United States Census Bureau, the median household income in Sunset Hills in 2015 was \$97,273. This compares favorably with both St. Louis County (\$59,755) and the State of Missouri (\$48,173). While we operate in a largely built out environment, the City has seen several new development proposals that serve as a reminder of the strength of the Lindbergh, Watson, and Gravois corridors as the economic engine of the City. The occupancy rates at our existing retail centers remain high, with the exception of a large vacancy at the former Toys R Us location. The City is looking forward to several new businesses coming online in late 2020 and early 2021: Comfort Suites hotel, Tidal Wave/Kaldi's/Smoothie King gas station, and a new Subaru dealership.

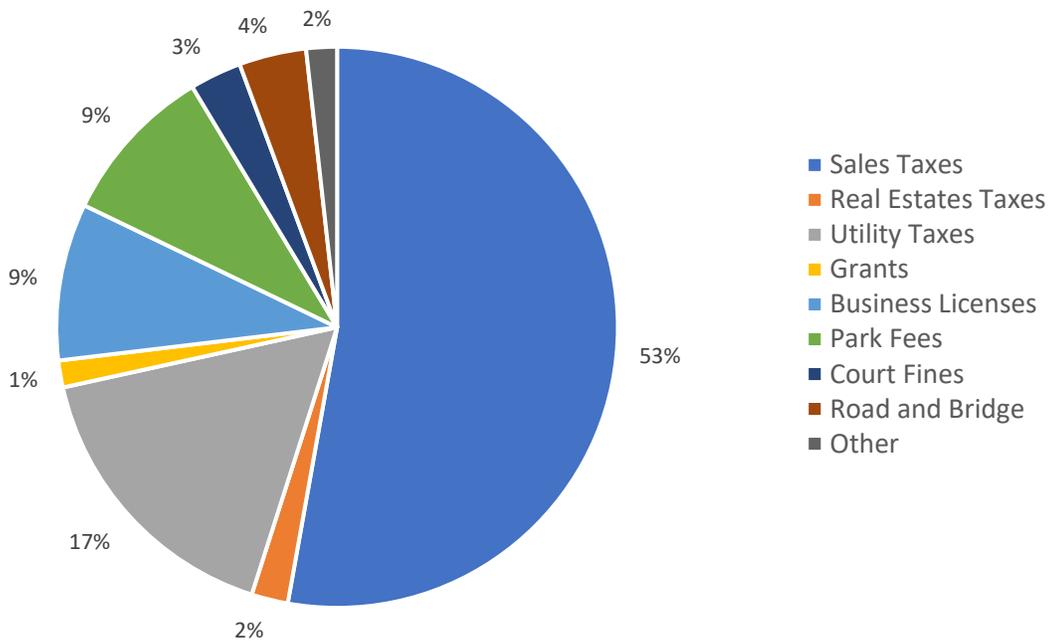
The City has numerous large employers including the world headquarters of Panera Bread, a member of the Fortune 1000. Panera currently has approximately 370 employees in Sunset Hills. Several other large employers in the City include Mercy Health System (400 employees), ADP (205 employees), St. Anthony’s Medical Center (190 employees), Janitron (175 employees), and New Balance (170 Employees). Sunset Hills has one of the lowest unemployment rates in the St. Louis area, and is below the state and national average.

The City’s assessed valuation (including real estate and personal property) for 2020 is \$442,621,131. This represents a significant increase over 2018 which was \$392,833,956. The next reassessment will occur in 2021. The noticeable increase with each assessment serves as a testament to the City being an in-demand place to live. The City’s convenient location, excellent park system, low crime rate, and the award-winning Lindbergh School District are among many factors that should keep Sunset Hills a desirable place to live in the future.

**Revenue**

The City’s budget contains a variety of different revenue sources. The majority of revenue is derived from taxes, primarily sales and utility taxes. Sales taxes provide 53% of the city’s overall revenue, and nearly 100% of the revenue for the Capital Improvements and Parks and Stormwater funds. The second largest source of revenue is utility tax. Other sources of revenue include business license fees, property taxes, road and bridge taxes, court fines, park programs, permit fees, grants, and others.

Figure 1 - 2021 Budgeted Revenue by Source



**Revenue Trends**

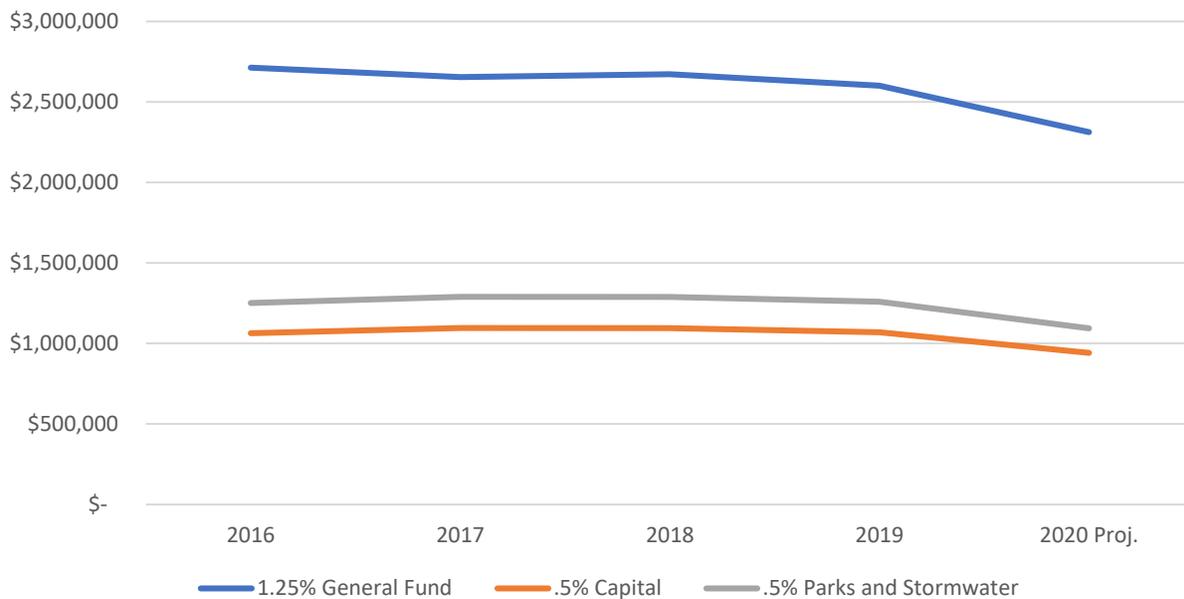
Generally speaking, the City’s revenues have been flat or increased slightly in recent years. The City has a strong retail tax base that had resulted in increasing sales tax receipts, though that source of revenue is leveling off and even declining slightly currently. Other revenue

sources, such as court fines, business licenses, and utility taxes have been mixed in recent years. Below is a five-year snapshot of sales tax revenues:

|                          | 2016         | 2017         | 2018         | 2019         | 2020 Proj.   |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| 1.25% General Fund       | \$ 2,713,254 | \$ 2,654,771 | \$ 2,671,574 | \$ 2,601,296 | \$ 2,312,805 |
| .5% Capital              | \$ 1,064,121 | \$ 1,096,371 | \$ 1,096,077 | \$ 1,070,404 | \$ 941,870   |
| .5% Parks and Stormwater | \$ 1,251,961 | \$ 1,289,848 | \$ 1,289,551 | \$ 1,259,300 | \$ 1,094,376 |

The City is home to over 500 businesses and has a strong retail tax base. Several medium and big box stores reside in Sunset Hills including Home Depot, Old Navy, Bed Bath and Beyond, Marshalls, Ross Dress For Less, and PetSmart. The City’s sales tax per capita is among the higher of cities in St. Louis County. Sales tax helps pay for many City services and almost all of the capital purchases within the City. While sales tax used to grow consistently from year to year, retail sales at traditional brick and mortar stores are starting to slow. This is largely driven by competition from online retailers. The closure of the Toys R Us, Johnny Macs, and Stein Mart stores have caused a decrease in sales tax revenue for the City until such time as those storefronts are filled with comparable tax generating businesses. COVID-19 has also played a significant part in shopping habits of consumers and will likely continue to do so, quickening the decline of brick and mortar retail sales.

Figure 2 – Five Year Sales Tax History



The City levies a gross receipts tax (5% on residential and 7.5% on commercial) on electric, gas, telephone, and water service. Utility taxes have generally been flat or down in recent years and that trend is expected to continue. Utility tax receipts tend to fluctuate based on weather during any given year. The City’s utility tax history from 2016-2020 is as follows:

|           | 2016       | 2017         | 2018         | 2019       | 2020 Proj. |
|-----------|------------|--------------|--------------|------------|------------|
| Electric  | \$ 984,168 | \$ 1,007,603 | \$ 1,061,838 | \$ 941,636 | \$ 899,460 |
| Gas       | \$ 196,584 | \$ 232,417   | \$ 262,159   | \$ 262,454 | \$ 236,797 |
| Telephone | \$ 395,433 | \$ 384,916   | \$ 317,754   | \$ 275,280 | \$ 229,353 |
| Water     | \$ 157,231 | \$ 173,338   | \$ 185,233   | \$ 164,997 | \$ 157,598 |

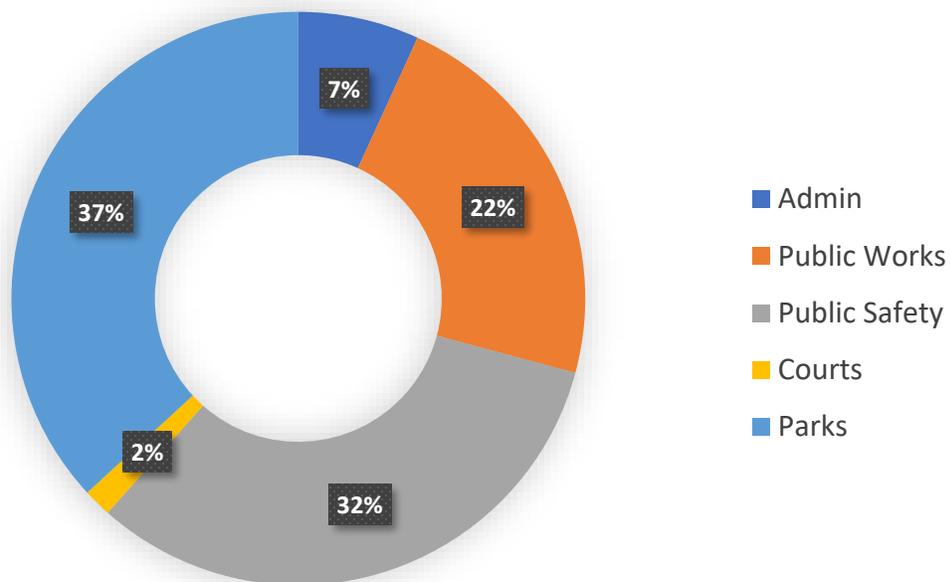
### Expenditures

The City spends money primarily out of four funds: the General Fund, the Capital Improvements Fund, the Parks and Stormwater Fund, and the Road and Bridge Fund. Each fund has a dedicated revenue source or sources.

For 2021 the City will be spending 56.1% of the budget on salaries and benefits. An additional 15.3% will be spent on capital projects. 10% will be spent on debt service. The remaining expenditures will be on commodities, supplies, professional services, building maintenance, and similar items.

The breakdown by department is as follows:

Figure 3 – 2021 Budgeted Expenditures by Department (includes debt service)



## **General Fund**

The General Fund is the main operating fund of the City representing 76.4% of all expenditures in the 2021 budget. The majority of general fund expenditures pay for salary and benefits for the City's departments - administration, finance, court, public works general, parks general, and police. Aquatic facility and community center salaries have been transitioned to the Parks and Stormwater fund. Additionally, street maintenance salaries remain an expenditure of the County Road fund. The City experienced a 3.5% increase to health insurance costs at renewal in October, though employee health insurance premiums are still lower than the City paid in 2017.

The City's contribution rates to the employee pension program, LAGERS, have changed to 6.8% (from 6.9%) for General employees, and 6.1% (from 5.3%) for Police employees. There are no additions to staffing levels budgeted in 2021. The City contracted with Trane in 2018 to upgrade to more energy efficient HVAC and lighting at City facilities. This has resulted in savings of roughly \$62,000 in energy bills out of the General Fund each subsequent year.

## **Capital Improvements Fund**

The City utilizes the Capital Improvements Fund to pay for capital purchases. Capital items are tangible assets such as building, roads, vehicles, and equipment. This fund is funded entirely by a one-half cent sales tax dedicated for capital purchases.

Some of the major projects and equipment budgeted out of the Capital Improvements Fund for 2021 include:

- Public Works – West Watson Road Improvements: \$210,000
- Public Works – Concrete Slab Replacement: \$300,000
- Public Works – Asphalt Roadway Maintenance: \$100,000
- Parks – Fitness Equipment Replacement: \$23,000
- Parks – Irrigation at the Driving Range: \$24,000
- Parks – Painting of the Leisure Pool: \$23,000
- Police – Three Patrol Vehicle: \$134,000
- Administration/PD: Roof Replacements: \$95,000
- Debt payment on citywide facility energy upgrades: \$142,000

## **Parks and Stormwater Fund**

The City utilizes the Parks and Stormwater Fund to pay for improvements related to parks and/or stormwater. This fund is funded entirely by a one-half cent sales tax dedicated for parks and stormwater. In 2018 the City began investing the \$2 million fund balance in the account, per the City's investment policy. The fixed component of investment earnings is budgeted at \$50,000 in 2021.

The majority of revenue to this fund is used to pay the debt owed on the City's 2009 (refinanced in 2016) Certificates of Participation that were used to construct the aquatic facility and community center, which will be retired April 1, 2027. The remaining proceeds from this fund are used for parks and stormwater related projects and personnel in the City.

## **Road and Bridge Fund**

The Road and Bridge Fund is used to pay for purchases related to street maintenance and construction. This fund is funded entirely by payments received from St. Louis County. Those payments are a rebate of certain property tax funds collected from property owners

within Sunset Hills.

In 2021, proceeds from this fund will be used to pay for salary expenses related to street maintenance. The City will also pay for maintenance and repair of roads and storm sewers.

### **Projects Not Funded**

Due to budget constraints, several projects listed in the City's five-year capital plan were not able to be funded in 2021. Those projects include a new sidewalk on Leebur Drive (\$300,000), a 2-ton dump truck for Public Works (\$185,000), and an unmarked police vehicle (\$43,000). Those projects will be targeted for funding in future years.

### **Fund Balance Summary**

The City experienced donations within Fiscal Year 2020 which will be expended in Fiscal Year 2021. As a result, we intend to utilize \$385,602 of our healthy reserves to balance the budget on an operating basis. City policy dictates that "reserves shall be maintained that are within a range of 30% to 50% of the City's prior year operating expenses or revenue, whichever is greater, exclusive of grant revenues, to be kept in the City's General Fund Cash and Investment Reserves." At the end of Fiscal Year 2018, the General Fund reserve was approximately 81% of operating expenses, 2019 was approximately 85% and 2020 it is expected to be 96% of operating expenses. At Fiscal Year-End 2021, General Fund revenues are anticipated to be at 98% of 2020 revenue, exclusive of grants. While the City currently maintains a higher reserve than necessary, this will help the City weather any unforeseen expenses or drop of revenue should that occur in the future.

The budget does call for a draw down of reserves within the Capital Improvements Fund. Savings were realized in 2020 as projects were cut due to COVID-19 and the fund is still anticipated to have \$727,743 at Fiscal Year-End 2021. As stated in previous years, the City does not typically intend to keep a balance in this fund, as all revenue is budgeted to be spent on capital goods/projects during the year. However, over time certain projects have been delayed or were cheaper than anticipated; this has led to an increase in the Capital Improvements Fund balance to between \$500,000 and \$1,000,000 in recent years.

A full view of the anticipated beginning and ending balances in each fund can be found within the budget document.

### **Summary**

Fiscal Year 2020 brought about some unique and lasting challenges, but the City of Sunset Hills has been able to continue offering quality services to our residents thanks to the hard work and dedication of our employees. The proposed 2021 City of Sunset Hills budget provides that same level of service, even with declining revenues as staff has been able to tighten up expenditures and find new efficiencies. The City is largely dependent on sales tax and as retail sales shift to out-of-state online retailers, those sales tax numbers will continue to decrease. It is important that the City look for future revenue sources including economic development opportunities, and the implementation of a use tax. This will help to ensure the City is in a position to maintain infrastructure, invest in our excellent park system, and support our outstanding Police Department for decades to come.

If you have any questions or would like any further information, please let me know.