



## MEMORANDUM

To: Mayor Pat Fribis and the Board of Aldermen

From: Brittany Gillett, City Administrator

Date: November 9, 2021

Re: Fiscal Year 2022 Budget

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We are pleased to present the Fiscal Year 2022 budget for your consideration. The proposed budget allows the City of Sunset Hills to return to a healthy level of service for our residents and to complete several projects that have been put on hold due to the financial impact of the COVID-19 pandemic.

### **Economic Outlook**

The St. Louis Metropolitan area began to experience the effects of the global Coronavirus pandemic (COVID-19) in early 2020, which resulted in a significant disruption to businesses and individuals not only within our community, but around the world. The outbreak significantly affected operations and revenue within the city for some time, but we are beginning to return to normal, healthy levels of revenues. With the help of Federal Grant funding the City is looking forward to normal service operations and the completion of several capital projects.

Historically, the City has faced some economic challenges. Sales tax receipts continue to decline each year despite continued growth in the national and state economy. 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. However, the residents of the City of Sunset Hills recently voted in favor of the implementation of a Use Tax, and the State Legislature approved the implantation of the "Wayfair Bill". While the City's Use Tax collection began in late 2021, the state-wide collection remittance obligation will begin in January 2023.

The City does remain an attractive place for economic development due to our location near major interstates, and our strong demographics, proved once again by Bass Pro's decision to locate in the former Toys R Us building at the corner of Lindbergh and Watson. Bass Pro is currently working on their application to begin the Amended Development Plan process but is hoping to be open for business in late 2022.

The City has numerous large employers including Panera Bread, which currently has approximately 370 employees in Sunset Hills. Several other large employers in the City include

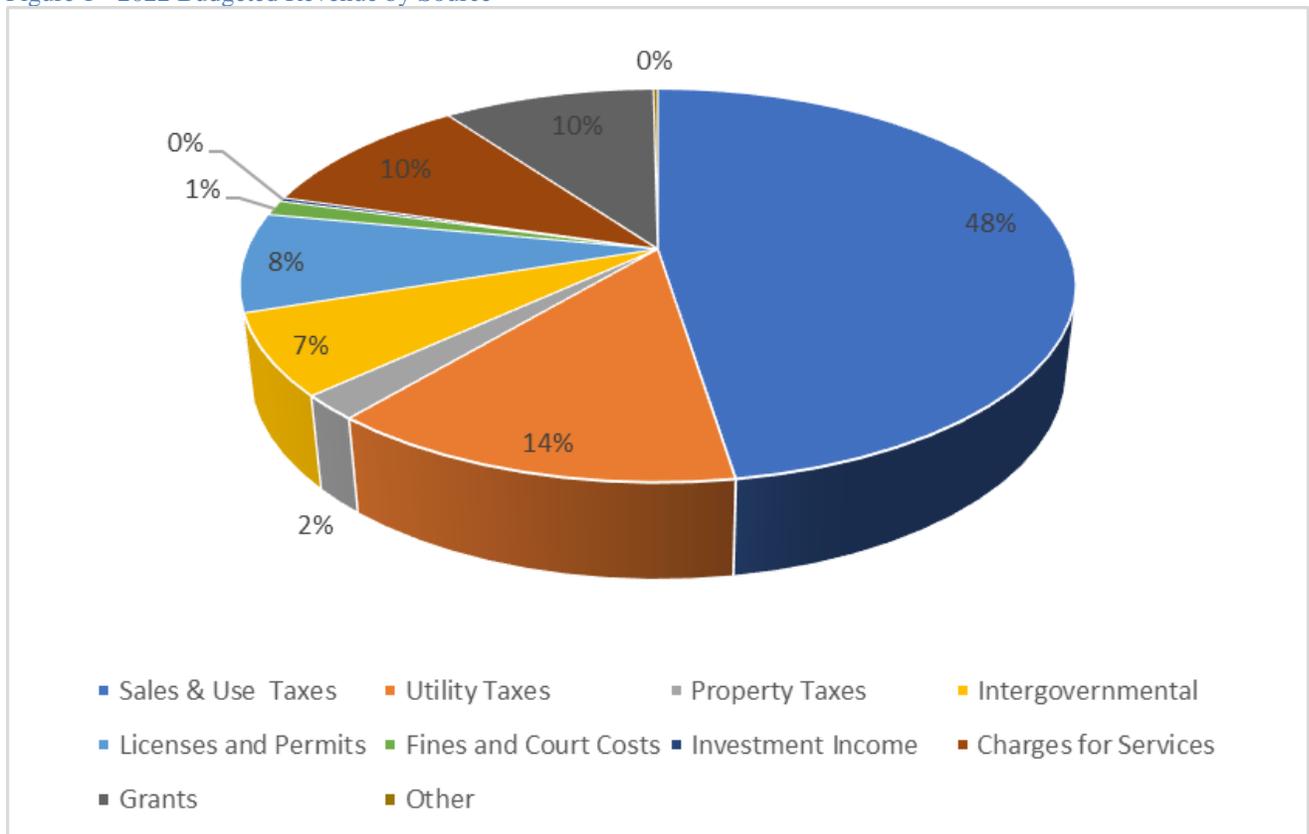
Mercy Health System (400 employees), ADP (205 employees), St. Anthony’s Medical Center (190 employees), Janitron (175 employees), and New Balance (170 Employees). Sunset Hills has one of the lowest unemployment rates in the St. Louis area, and is below the state and national average.

The City’s assessed valuation (including real estate and personal property) for 2021 is \$478,408,608. This represents a significant increase over 2018 which was \$392,833,956. 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 are budgeted to provide 48% 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 - 2022 Budgeted Revenue by Source



**Revenue Trends**

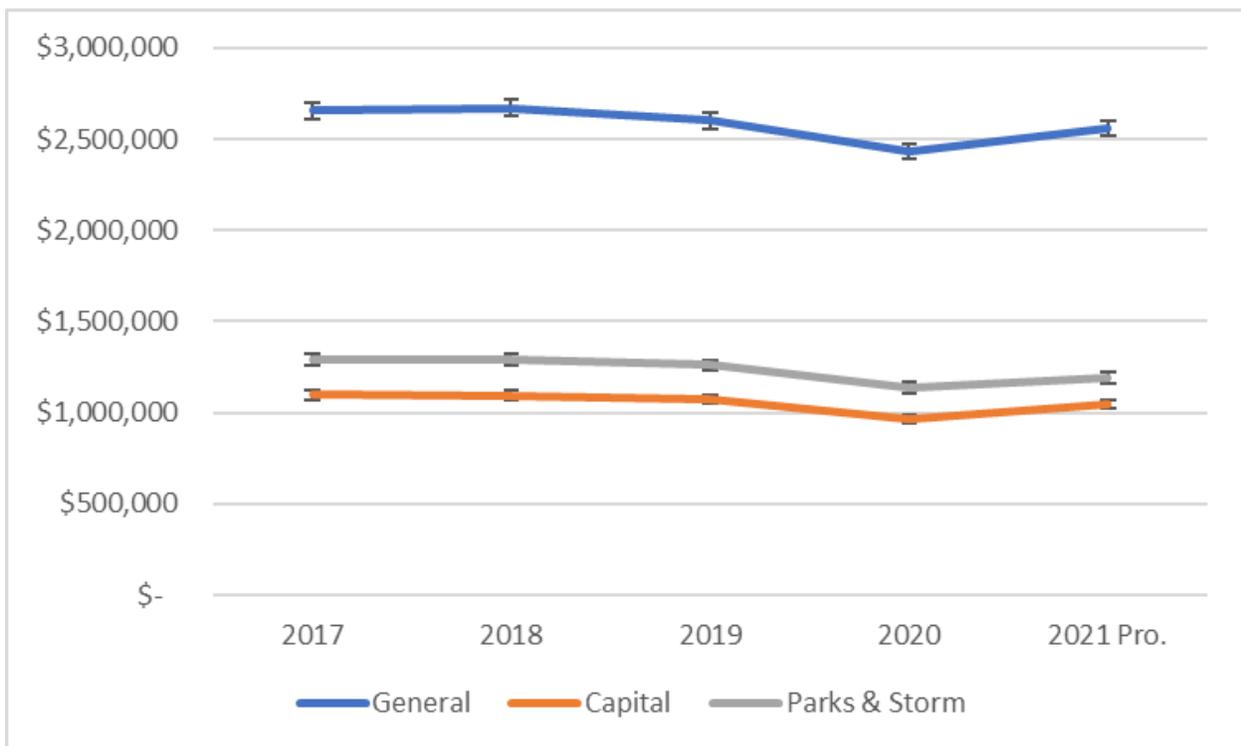
Generally speaking, the City’s revenues have been flat or increased slightly in recent years. The City has a strong retail tax base that had resulted in increasing sales tax receipts, though that source of revenue is leveling off and even declining slightly currently. Other revenue

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:

	2019 Actual	2020 Actual	2021 Projected	2022 Budgeted
1.25% General Fund	\$ 2,601,296.00	\$ 2,435,132.00	\$ 2,556,605.00	\$ 2,607,737.00
.5% Capital	\$ 1,070,404.00	\$ 966,657.00	\$ 1,049,269.00	\$ 1,070,254.00
.5% Parks and Storm	\$ 1,259,300.00	\$ 1,137,239.00	\$ 1,192,081.00	\$ 1,215,923.00

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, 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, though we are beginning to see a return to normalcy as far as shopping habits go.

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:

	2018	2019	2020	2021 Proj.	2022 Budget
Electric	\$ 1,061,838	\$ 941,636	\$ 876,232	\$ 809,757	\$ 825,953
Gas	\$ 262,159	\$ 262,454	\$ 230,153	\$ 223,341	\$ 227,808
Telephone	\$ 317,754	\$ 275,280	\$ 216,971	\$ 231,266	\$ 210,000
Water	\$ 185,233	\$ 164,997	\$ 195,528	\$ 151,624	\$ 154,656

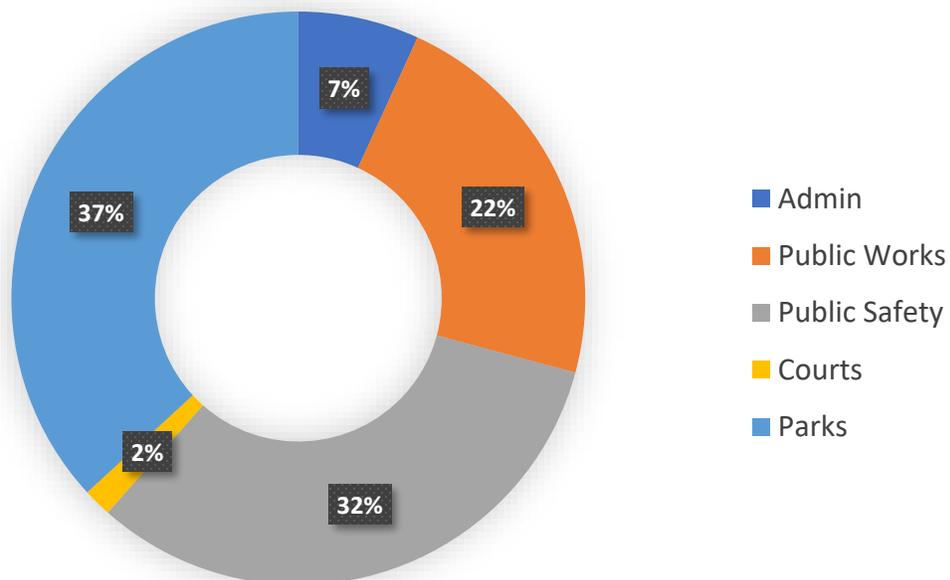
### Expenditures

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. Within the 2022 Budget you will notice a newly created fund: Prop P. Each fund, including the Prop P fund, has a dedicated revenue source or sources.

For 2022 the City will be spending 47.3% of the budget on salaries and benefits. An additional 27% will be spent on capital projects and equipment. 8% 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 – 2022 Budgeted Expenditures by Department (includes debt service)



## **General Fund**

The General Fund is the main operating fund of the City representing 67.7% of all expenditures in the 2022 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 2.1% 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 4.9% (from 6.8%) for General employees, and 4.2% (from 6.1%) for Police employees. There are no additions to staffing levels budgeted in 2022. 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 2022 include:

- Administration – Chambers A/V Upgrade: \$65,000
- Administration – City Hall Entrance Reconfiguration: \$75,000
- Administration/Public Works – Laptop Computers with VPN Capability - \$6,000
- Public Works – Salt Dome Repair: \$100,000
- Public Works – Eddie & Park Sidewalks: \$300,000
- Public Works – W. Watson Engineer and ROW Acquisition: \$300,000
- Public Safety – Surveillance Camera Upgrades: \$30,000
- Public Safety – Roof Replacement: \$60,000
- Public Safety – Body Cameras: \$41,000
- Parks & Rec – Diving Board Replacement: \$13,000
- Parks & Rec – Pool House Upgrade: \$21,000
- Parks & Rec – Completion of Electrical Move: \$25,000
- Parks & Rec – Trail System Resurfacing at Watson Trail Park: \$20,000

## **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 \$15,000 in 2022.

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 2022, 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.

### **Prop P Fund**

The Board of Aldermen recently voted to approve the creation of the Prop P fund, diverting St. Louis County Prop P revenues to this fund, in lieu of the General Fund. Along with the revenue, the Finance Committee has recommended allocating 14% of Police Department salaries which will create a small reserve balance for future departmental expenditures, if needed.

### **Fund Balance Summary**

The City was fortunate to have received more \$2M in donations and grants in 2021. Those earmarked funds were added to the General Fund reserve balance and are expected to be exhausted before the end of the FY2024. At the end of Fiscal Year 2019, the General Fund reserve was approximately 81% of operating expenses, 2020 was approximately 109% and 2021 it is expected to be 103% of operating expenses. At Fiscal Year-End 2022, General Fund reserves are anticipated to be at 74% of 2022 expenditures, 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 and 2021 as projects were cut due to COVID-19 and the fund is still anticipated to have \$426,064 at Fiscal Year-End 2022. 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 Years 2020 and 2021 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, along with excellent decision making on the part of our Board of Aldermen. The proposed 2022 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, though we look forward

to healthier tax projections in the coming years with the implementation of Wayfair and our Use Tax. These additional revenue source will help to ensure the City is in a position to maintain infrastructure, invest in our excellent park system, and support our outstand Police Department for decades to come.

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