



Agenda Item Summary

City Commission - February 27, 2024

Subject:

2024 Financial Update

Staff Contact/Department:

Jason Hilgers, Deputy City Manager

Action Item:

Discussion: Provide feedback and direction for 2024 operations and 2025 budget preparation.

Executive Summary:

At the January 26, 2024, City Commission retreat, City Administration provided a financial overview of the General Fund. The cash balance in the General Fund is estimated at the end of 2023 at roughly \$10 million. See attached preliminary end of year summary. The City started 2023 with a cash balance of around \$16 million in the General Fund. The reduction from \$16 million to \$10 million was somewhat anticipated since there was one-time money inserted into the General Fund from the federal funds received from American Rescue Plan Act (ARPA).

In order to provide consistent services to the community from the General Fund, either a consistent revenue stream has to be utilized (i.e. property taxes) or revenue streams that fluctuate or remain volatile must be supported by healthy cash balances. Government Finance Officers Association (GFOA) recommends 3 months of operating funds as a cash balance. At \$45 million currently budgeted for 2024 in the General Fund, \$3,750,000 per month is necessary to operate the departments. Three months of operating revenues would result in around \$11.2 million as a cash balance. This recommendation from GFOA is with consistent and reliable revenue streams available. Since the City of Manhattan relies on sales tax primarily, a larger cash balance is recommended.

Forecasted revenues for the 2024 budget are not sufficient to maintain the cash balance. Alternatives at this point consist of increasing revenues or identifying services in the General Fund to pause or eliminate. In the past, the City has eliminated one-time purchases or conducted hiring freezes to push expenses into a time period when revenues may be realized. Again, being so dependent on sales taxes and fees in the General Fund, these can be difficult to predict. Essentially vehicles, equipment, and capital improvements are delayed, and we have seen it result in a significant backlog in each and a long list of deferred maintenance. Hiring freezes can impact the provision of services or programs and employee retention and morale.

City Administration recommends the City Commission consider increasing the permanent sales tax rate from 1% to 1.5% or 2%. This would allow the City to realize an additional \$7.5 million to \$15 million annually to help support a healthy cash balance and operating dollars in the General Fund. Per state statute, the City has the authority to have a permanent sales tax up to 2% and it must be approved by the electorate. Currently in the city limits of Manhattan in Riley County the total sales tax rate is 9.15%. In the city limits of Manhattan in Pottawatomie County the total sales tax rate is 9.45%. Sales tax information is provided as an attachment.

In recent discussions with the Riley County Clerk, there is hesitancy with Riley County Clerk's Office staff capacity to facilitate a mail ballot. There are 3 presidential votes that will take place

in 2024 in March (Pre-Presidential), August (Presidential Primary) and November (General Election for President). The Riley County Clerk suggested either the August primary or the November general election if the Commission desired a question in 2024. If the August primary is an option, the Commission would need to act by passing a resolution prior to June 3rd and deliver the question to the County for the August primary.

One alternative to consider as we approach the registered voters of Manhattan is to factor in the construction of an indoor aquatics facility. The City has conducted 3 surveys of the community in the past 4 years that have yielded a significant amount of support for an indoor aquatics facility (hovering around 70% in support). One of the major challenges with an indoor aquatics facility is the annual operating expense. While the expense to build the facility is likely to be north of \$50 million, City Administration has started conversations with USD 383 and the Park and Recreation Foundation to assist with a capital campaign to assist with the construction costs. Annual operating costs have ranged between \$1.5 million and \$3 million annually depending on the revenue that could be generated within the facility.

City Administration recommends an operation funding source be identified and secured before asking the indoor aquatics facility construction question. The same revenue gap realized in the General Fund would only be increased and magnified by building another facility with an operating subsidy anticipated.

One strategy to consider would be to ask a sales tax question at the August primary, and if successful in that vote, turn around and ask the voters to renew the .25% quality of life sales tax set to expire in 2027. This would provide the commitment needed to start designing the facility, identify a location, and generate the funding partners necessary to build the indoor aquatics facility. This process is anticipated to take 18-24 months before construction would commence. The City Commission could potentially realize positive results from the August 6th primary for the additional .5% to 1% sales tax for General Fund operations and pass a resolution prior to September 2nd and ask for the Quality of Life sales tax to renew in 2027. City Administration would essentially use 2025 and 2026 to prepare for the indoor aquatics facility construction. One could expect the indoor facility to open in 2027 or 2028.

Strategic Plan Implementation Factor:

Goal 1: A well-run City organization

1.10 Explore additional sources of revenue for City operations.

Fiscal Impact:

N/A

Action Requested:

Provide feedback and direction for 2024 operations and 2025 budget preparation.

Previous Agenda Reports:

N/A

Attachments:

1. [2023 Year End Preliminary Summary](#)
2. [Sales Tax 2024 Information](#)
3. [PowerPoint Presentation](#)