

July 20, 2020 Budget Session

The City Council of the City of Idaho Falls met in Council Budget Session, Monday, July 20, 2020, at the City Council Chambers in the City Annex Building located at 680 Park Avenue in Idaho Falls, Idaho at 2:00 p.m.

There were present:

- Mayor Rebecca L. Noah Casper (arrived at 2:12 p.m.)
- Councilmember Michelle Ziel-Dingman
- Councilmember John Radford (by WebEx)
- Councilmember Thomas Hally
- Councilmember Jim Freeman
- Councilmember Jim Francis
- Councilmember Shelly Smede

Also present:

- Pamela Alexander, Municipal Services Director
- Mark Hagedorn, Controller
- Rick Cloutier, Airport Director
- Jayne Verish, Airport Operations Manager
- Brent Davis, Airport Administration Manager
- Ryan Tew, Human Resources Director
- AJ Argyle, Insurance Broker
- Michael Kirkham, Assistant City Attorney
- Ed Morgan, Civic Center for the Performing Arts Manager
- Randy Fife, City Attorney
- Kathy Hampton, City Clerk

Councilmember Dingman called the meeting to order at 2:00 p.m. with the following:

Opening Remarks, Announcements:

Councilmember Dingman stated due to Mayor Casper running late from a previous meeting, she requested Announcements be moved to the end of the agenda. There was consensus of the Council for this request.

Introductory Remarks as Needed:

There were no introductory remarks.

2020-2021 Budget Review, Airport (IDA):

Director Cloutier stated this budget was presented at the Airport Leadership Workshop on June 20, 2020, although slight adjustments have been made to costs and revenues. He reviewed the following with general discussion throughout:

Department Structure: Administration, Building Maintenance, Grounds Maintenance, Safety and Security, Airport Improvements (Capital Improvement Projects (CIP)), and, Fire Services (Aircraft Rescue and Firefighting (ARFF)).

Department Budget Overview

Department	2019/20 Expenditure Budget	2019/20 Revenue Budget	2020/21 Proposed Expenditure Budget	2020/21 Proposed Revenue Budget	\$ Change Expenditure	% Change Expenditure	2020/21 Proposed Position Count
Administration	\$1,279,913	\$15,944,110	\$1,258,067	\$14,881,175	\$(21,846)	-2%	4
Building Maintenance	793,447	-	505,517	-	(287,930)	-57%	6
Grounds Maintenance	774,819	-	772,082	-	(2,737)	0%	7

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Airport Security	698,966	-	598,975	-	(99,991)	-17%	1
Airport Imprv.	12,200,000	-	11,900,000	-	(300,000)	-3%	-
Airport Fire Protection	405,000	-	391,960	-	(13,040)	-3%	-
Total	\$16,152,145	\$15,944,110	\$15,426,601	\$14,881,175	\$(725,544)	-5%	18

Director Cloutier stated this budget has been reduced from the previous year, the revenue is reflective as well.

Ten-Year Review of Expenditure Categories – Director Cloutier stated salary and wages have typically remained the same. He was anticipating an approximate 30% increase in operations from the projected budget prior to Coronavirus (COVID-19).

2020/21 Highlights, Strategies and Goals

- Aligned the budget to Accounts Receivable and Accounts Payable bookings (reduced revenue accounts from 36 to 16)
- Compared to current 2020 Budget (cut personnel expenses by \$234,370, 15%; laid off three (3) filled positions; and, did not fill one (1) vacant position)
- Cut Operating Expense by \$217,490, 9.3% (reductions in professional services, repair and maintenance, and, service level change in policing services)
- Total Operations (excluding Capital) was reduced by \$451,860, 11.6%

Areas of Concern – Director Cloutier stated the budget was built on reduced activity - 50% of 2019 calendar year enplanements are the majority of IDA’s revenue which comes from passenger services (airline fees, car rental fees, parking fees). He indicated IDA has decreased by approximately 60% over the previous year, compared to 75-80% nationwide. He stated there is potential of federal legislation that could increase funding for up to three (3) years for airports which would allow capital improvement opportunities.

Proposed new fee – Customer Facility Charge (CFC). Director Cloutier stated the vast majority (90%) of airports have this fee. This fee is collected by the car rental agencies and would provide dedicated funding for CIPs that are not eligible for Airport Improvement Program (AIP) grant funding through the Federal Aviation Administration (FAA). Director Cloutier stated the CFC would be similar to the \$4.50 Passenger Facility Charge (PFC) for airlines which is dedicated funding to CIPs. The proposed \$2.50 would be per day per car rental and, the proposed amount would not change the projected 2021 operating deficit because these funds would be restricted for car rental capital projects only.

Director Cloutier stated IDA does not normally seek General Fund monies, however, due to COVID-19 impacts, IDA is requesting \$545,426 due to the net operating deficit. He is hopeful the federal government will assist with airports based on size, not debt ratio and reserve funds. Councilmember Dingman questioned the timing for a second round of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Director Cloutier stated this is unknown at this time, the Washington DC consultant has been watching this closely. Mayor Casper stated this has been announced as one (1) of the highest priority items. She also stated, per discussion at the Airport Leadership Workshop, the Council believed this is a reasonable and appropriate request. To the response of Councilmember Francis, Director Cloutier stated any capital improvement money cannot be shifted to operations. Councilmember Dingman believes the IDA leadership has worked hard on capital improvements and gaining access to federal dollars. She also believes this shows progression. She noted the Council meets as an Airport Board on a quarterly basis, the budget items and issues were discussed at length.

Municipal Services:

Inter-Fund Transfers - High-level Overview –

Director Alexander stated the finance team generally uses the Government Finance Officers Association (GFOA) methodology including indirect cost allocation and pricing internal services for inter-fund transfers. The finance team is also familiar with the Office of Management and Budget Circular A-87, due to federal grants.

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Director Alexander stated the administrative support (“The Pool”) areas include Mayor, City Council, Legal, Municipal Service Administration, City Clerk, Information Technology, Treasurer’s Office, Finance, General Services, and, Human Resources.

Director Alexander stated the process for inter-fund transfers includes the methodology or cost drivers to illustrate a nexus of data to support the allocation; annual conversation with enterprise fund directors reviewing the data and proposed methodology and provide feedback; allocation amounts that are currently finalized when the administrative support areas submit their proposed budgets during the annual budget workshop; request enterprise departments to insert a placeholder based on the current year to develop their budgets; and, the goal is to transition into an equitable, consistent, and, auditable process.

Mr. Hagedorn stated changes are made each year to this process which has gone from a direct ‘this is what you pay’ conversation to ‘we want you to be part of the process’. If the directors are willing to participate in this conversation there is less complaining/criticizing. Those directors that are not involved are more concerned. Mr. Hagedorn stated the finance team is trying to include additional people in the discussion. He noted this is a group creation that has brain-stormed ideas together. He also noted this process has occurred for the previous three (3) years. Mr. Hagedorn stated the director feedback has included lack of timeliness (the calculation cannot be completed until the budget is complete), fluctuations (not inclusive to programs), allocation versus use (could be an education piece), allocation versus market (never will be, this is allocation program not a billable service), segregation between user and pool (central service that is servicing all internal departments, not directly tied to an external service. It is typical that a user does not participate). Mr. Hagedorn stated inter-fund transfers are charged by fund, with exception of the General Fund. Director Alexander believes every municipality has these issues. Councilmember Freeman reiterated this process is reviewed every year.

Mr. Hagedorn stated future discussion topics include:

- Segregation versus centralized – the service is still being provided, services within the same department means a shift to less users which becomes more expensive and contentious.
- Different strategies – currently a cost allocation plan, costs are allocated by a reasonable basis; billable service (services are charged per hour – Mr. Hagedorn believes this is less-likely to be used and is less efficient. He indicated he is not aware of any City that does a billable service although the City of Idaho Falls does a formula of billable service based on cost rate, not a market rate); or, indirect cost rate (‘overhead’ a percentage per \$, this is not transparent).
- Internal service funds – take centralized service into its own fund which is designed to break even each year and is charged to every department on a usage rate. This is more common although not consistent in Idaho.
- Changing current allocation factors – deadlines (budgets would need to be submitted earlier), cost drivers (changed each year based on methodology), pool participation (change from Director-supported to Council-approved for multiple years, federal standard is three (3) years as the maximum), and, Council action. Director Alexander used the example of Information Technology (IT) utilizing ‘tickets’. Councilmember Radford clarified, per his comments at the July 16 Council Budget Session, he believes the IT Division should be a separate department in the next 10-20 years. He commended Director Alexander for her work with IT.

Mr. Hagedorn reviewed inter-fund transfer allocation by the support areas, stating IT is the largest allocation. He also reviewed inter-fund transfer allocation by fund, stating General Fund and Electric are the largest.

Mr. Hagedorn stated the goal for distributing central services are: sustainable (perpetuating a rational without significant retooling); consistent (having a model that provides consistence calculations with predictable fluctuations); reasonable (the allocation is relatable to the level of service provided); and, has buy-in (the users understand and sustain the distribution methodology).

Mayor Casper believes this dialogue is important although she realizes everyone may not be happy. This needs to be realistic for the deep-dive discussion in the fall. Councilmember Hally believes the costs may have come on abruptly. To the response of Councilmember Hally, Mr. Hagedorn believes the enterprise funds are paying their fair share

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based on the data. Mr. Hagedorn reiterated he prefers Council approval as this is not his plan. He stated everyone must participate in order to have ‘the pool’. There is concern for the ability to apply for grants and, this hinders the ability to assess what things are costing. Mr. Hagedorn stated discounting a metric makes it more complicated. Councilmember Smede questioned the extensive amount in the Parks and Recreation Department. Mr. Hagedorn stated the amount was right-sized. He believes this information was communicated to all directors. Brief comments followed regarding the audit process. Mr. Hagedorn stated this process could as simple as the size of the department budget although the allocation needs to be based on the service provided. He also stated all options will be explored.

Levy Rate Discussion –

Mr. Hagedorn noted the State provides annual training on property taxes. He reviewed the following with general discussion throughout:

General definitions –

- Base - previously levied amount (highest amount of the previous three (3) years)
- Statutory allowable increase - the maximum amount the City could levy from the base is 3%
- New construction - value of construction placed in service in the previous year and not assessed taxes
- Annexation - value of annexation placed in service in the previous year
- Valuation - the value of property within the City (either by land, building, or, personal property value); assets value; or, revenue value (this is hard to predict)
- Levy rate - the amount the City levies (whole dollars)/valuation at November
- Personal property - items not attached to a structure
- Personal property tax exemption - homeowners are allowed a 50% decrease in valuation for personal property not to exceed \$100,000

Net taxable value - total valuation minus personal property, redevelopment districts, and, miscellaneous adjustments

Misconceptions –

- As valuation goes up property taxes go up - these are not related as the City only assess whole dollars. As valuation increases the levy rate decreases. Valuation only affects the levy rate of the property owners’ proportionate share of the City’s levy. Valuation is done by the County, the value of the taxes is done by the Council.
- The City sets a levy rate - the County sets the levy rate based on valuation. The City is indirectly involved as the City submits the whole dollar amount.

Types of property tax that the City could levy for - Temporary Levy, Permanent Levy, General Fund (Police and Fire retirement, Tort), Airport, Bonds, Capital Improvement, Cemetery, Library, Recreation, and, Streets.

Allocation of Property Tax since 2013 based on the fund. Mr. Hagedorn stated there have been increases each year and, each fund has a maximum rate.

Levy Allocation since 2013. Mr. Hagedorn stated the lion’s share are General Fund and Street Fund.

Property Tax Relationships since 2015 including Total Levy, Valuation, Levy Rate, and, Home Value Index. Mr. Hagedorn stated these relationships show trends. The assessor’s valuation is based on the percentage of change. The largest increase for Valuation change (18%) and Home Value occurred in the previous year. Mr. Hagedorn stated the valuation was inconsistent with Home Value change, therefore, a correction was made to this valuation. The largest increase of taxes is not City levy increases, it is valuation. Mayor Casper stated one (1) of the things that drive property is supply and demand.

Levy Calculation

2019-2020 Property Tax Levy	\$ 36,970,601
2019-2020 Personal Property Replacement & Agriculture Equipment	<u>478,160</u>
Total 2019-2020 Property Tax Revenue	\$ 37,448,761

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New Growth - Net Taxable Value			
Add 2019 New Annexations:	\$ 16,849,381	0.008795734	\$148,203
Add 2019 New Construction:	\$111,179,613	0.008795734	977,906
2019 - 2020 Personal Property Replacement & Agriculture Equipment			<u>(478,160)</u>
2019 - 2020 Certified Property Tax With Current Growth:			<u>\$38,096,710</u>
Add Statutory Allowable Increase - (3% of the highest of the last three (3) years certified property tax)			
	\$ 37,448,761	3.00%	\$1,123,463
Prior years foregone amount:			\$5,387,930
Total amount that can be levied:			44,608,103
Amount of available tax revenue not levied:			<u>(6,511,393)</u>
Property Tax Revenue			\$ 38,096,710

Mr. Hagedorn stated he was not expecting a 13% increase, therefore there is approximately \$1.1M in new construction and annexation that is unbudgeted. He indicated the valuation of the closeout of the Pancheri Urban Renewal District from the Idaho Falls Redevelopment Agency (IFRdA) is included in the New Construction. He is unaware if the Idaho Falls Community Hospital is included. Mr. Hagedorn stated the Property Tax Revenue will change slightly. He also stated the current budget was based on \$37,448,761 as the numbers were unknown. Mr. Hagedorn stated he will always advocate for new annexation, new construction, and, the statutory 3%. The statutory 3% would add \$1,123,463.

Mr. Hagedorn reviewed the estimated tax increase based on valuation and levy rate for \$150,000, \$200,000, \$250,000, \$300,000, and, \$350,000 residential and \$500,000, \$2M, and, \$10M commercial. He also reviewed the proposed Tax Relief Program amounts and the Net Tax Change amounts for the residential and commercial values. He noted taxes will increase even with the Tax Relief Program. He reiterated as the levy rate decreases, the valuation increases. Mayor Casper noted City services can be cut although there can still be an increase in property taxes. This makes a regressive affect. Councilmember Radford noted the lower levy rate will give more options in the future. He stated this is staggering growth. Mr. Hagedorn believes, based on the current trend line, this will double again in seven (7) years. Per council request, Mr. Hagedorn will compile additional data based on statutory 1%, 2%, and, 3%.

General Fund Overview –

Mr. Hagedorn reviewed the 2020-2021 General Fund Revenue Summary = \$48,053,305. He stated the \$529,000 request from Airport will change slightly. This amount goes into revenue, not expenditure, because it's a cash transfer. He also reviewed the 2020-2021 General Fund Expenditure Summary = \$49,077,449. He stated the majority of General Fund is from taxes and franchise fees although the only franchise fees were from Funland. He also stated Enterprise Charges for Services, per the City as a whole, has the highest revenue as the nature of the General Fund is supported by taxes and not fees. Mr. Hagedorn reviewed the Ten-Year Summary of the General Fund stating taxes decreased in 2017 due to a swap of State-shared revenues with the Street Fund. Population has also increased the revenue, fee-based services are also increasing. He reviewed Expenditures by Fund Type stating the majority of General Fund expense are salaries and wages, with the largest being Police and Fire (at 50%), and, P&R. City-wide salaries and wages are approximately 42%. He also reviewed Ten-Year Review of Expenditure Categories and Department Budget to Actual by Year. He stated this information will be interactively available to the elected officials in the near future.

General Fund Budget Status	
Revenue	\$48,053,305
Snow designated funds	1,000,000
Narc designated funds	<u>40,000</u>
	\$49,093,305

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Expenditures	\$49,077,449
Difference	\$15,856

Unbudgeted Revenues

Property tax	
New construction	\$ 977,906
Annexation	148,203
IFRdA close out	<u>600,000 (one-time money)</u>
Total	\$1,726,109

Mr. Hagedorn stated new construction and annexation does not have to be applied to the General Fund. Options include Recreation Levy, Aquatic Center improvements, redevelopment funding (one-time money), Police personnel, Police Station, building a rainy day fund, and/or, ease cuts to departments. Options for creating reserves include payroll savings not allowed to be re-budgeted, a percentage of excess/unplanned revenues be designated as reserves (similar to the IFRdA closeout), or, decrease expenditures. Mayor Casper indicated discussion needs to occur including data for a 1%, 2%, and, 3% statutory allowable.

Self-insurance Discussion:

Councilmember Dingman believes the Q&A is a great template for other discussions, she expressed her appreciation to Director Tew for this information. Director Tew stated the objective is to obtain Council’s approval to create a medical health insurance self-insurance trust and, transfer the designated funds into this trust by a resolution. This discussion has been occurring for several years. Director Tew clarified the funds transferred would not move the City to self-insurance at this time. He stated approximately 20 years ago the City wanted to go self-insurance. \$4M was set aside from a health insurance carrier, although half of these funds were used for a project outside of HR. Two (2) years ago, other funds were made available to HR from a life insurance program refund. In September of 2018, the Council gave approval to set up a trust to protect available funds from other uses. At that time, the City was to partner with the City of Rexburg. Since that time, the City of Rexburg has backed out.

Mr. Argyle reviewed the following with general discussion throughout:

Current Benefit Structure – the City is currently insured through Blue Cross of Idaho (BCI) through a fully insured one-way retention agreement. One-way retention is basically self-insurance without the risks. A premium is paid to BCI who then pays the claims for an agreed amount. Any savings are allocated to an account that the City could pull from at any time, while trying to keep this account as close as possible to zero. Currently, this account is approximately -\$2M. A disadvantage to the one-way retention agreement is the City does not have the claims funding volatility. Disadvantages to the current benefit is that no one will bid the current contract, the City doesn’t have complete control of the structure of the plan, and, the City has to pay premium tax (approximately \$460,000). Director Tew stated this premium tax was a compelling reason to go self-insured, however, Congress is doing away with the premium tax.

Defining Self Insurance – an insurance plan that the employer sets up to fund and pay insurance claims as put forth by a plan document. These services are provided by a third-party administrator (TPA) or administrative services only (ASO). The City would not be responsible for paying all claims, a reinsurance carrier would pay claims over a certain amount. Why is the City considering self-insurance – to get out of paying the premium tax (will no longer be the driving force), walk away from possible debt to BCI, to leverage the position with BCI, and, take complete control of the City’s plan and the benefits. Mr. Argyle stated claims were decreased due to demographic shift, increases are now anticipated. Mayor Casper believes a plan with emphasis on healthcare is attractive. To the response of Councilmember Freeman, Mr. Argyle stated the City could not administer the plan. Director Tew reiterated the request is to create the trust so these funds would not be used for other projects. A trust fund is required by Idaho law with a minimum reserve amount. Mr. Kirkham stated a resolution would be prepared. To the response of Councilmember Francis, Mr. Argyle stated claims were decreased due to medical procedures that may have been delayed by COVID. He believes claims will increase in the next year due to these delays. He also believes this year would not be a good year to go self-insured. Councilmember Francis noted the Council would have to budget the

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annual premium each year for this account. Mr. Argyle stated all claims funding will go into this account and claims will be paid out of this trust account, including a 30% for any lag of claims. Mr. Argyle reviewed the actuary rate/amount process, stating the trustees have the ability to increase the amount but they do not have the ability to decrease the amount once this amount is approved by the Idaho Department of Insurance. To the response of Councilmember Francis, Mr. Kirkham stated he is reviewing the language for the trust in the event of a national program. He does not believe any money would come back to the General Fund. Mayor Casper believes the City is not the only self-insurance entity in the State. Mr. Kirkham reiterated the trust would continue to exist although the money transferred to the trust would not come back to the City. Mayor Casper stated the intent is to spend this money on benefits. Councilmember Francis questioned the pressure of this trust at the current time. Mayor Casper indicated it would secure the money for the fund as the goal is to become self-insured. Mr. Kirkham stated this also helps the 'cards' to negotiate with BCI. Councilmember Francis expressed his concern for spending money at this time although he believes there needs to be discipline for this money. He also expressed his concern for the timeline of self-insurance to move forward. Director Tew stated this is setting aside money for employee benefits. He also stated this process allows the City to move to the next step. Mayor Casper believes prior to the COVID pandemic, the City could have moved to self-insurance in the current year. Councilmember Hally is in favor of moving forward. Councilmember Dingman is comfortable moving forward although she recognizes/acknowledges Councilmember Francis' concerns. To the response of Councilmember Francis, Mr. Kirkham believes this is only for traditional medical insurance. He also believes this is the right time to move forward. He reviewed the process if the trust is dissolved. Councilmember Freeman believes the new employees will see the benefit of this funding. He is in favor of moving forward. Councilmember Radford believes the City should move forward. Councilmembers Smede agreed. Brief comments followed. Mayor Casper indicated a resolution for the Council will be forthcoming.

Wrap-up, Budget Discussions, Requests for Additional Data:

Mayor Casper stated a presentation/discussion from Eastern Idaho Public Health (EIPH) will occur on July 22. Brief discussion followed regarding upcoming budget sessions and additional discussion items including the Recreation Levy, savings, splashpad, Funland, Police Station funding, potential statutory increase, and, the governor's Property Tax Relief Program.

Announcements, including COVID-19 Update:

Mayor Casper stated the COVID-19 Regional Response Plan was adopted by the 9-member board from EIPH on July 15. She briefly reviewed the metrics monitored and mitigation strategies for the Moderate Risk Level. She noted the rate of active cases has been exceeded for the previous two (2) days. If the cases are sustained for three (3) days, recommendations, in addition to continuation of everyday preventative measures, will be made per the mitigation strategies which include: mandatory face coverings in public order; events limited to no more than 150 people; extra precautions for vulnerable populations; telework where possible; minimize non-essential travel; implement strict policies for living facilities; and, implement strategies for schools. Mayor Casper stated EIPH will be meeting on July 23 and will determine if any order will go into effect. Any order would be effective immediately and would be in place for 14 days. Enforcement could include a misdemeanor within the cities and counties. Exceptions would be addressed with EIPH. Mayor Casper questioned the Council's preference for any adoption/approval of EIPH's plan. Councilmember Smede is supportive of the City adopting a plan. Councilmember Dingman believes there is already another governmental entity to make public health decisions. She does not see a benefit and there is no legal reason to adopt a plan. Mayor Casper believes EIPH stepped up to adopt a plan and, she noted any plan from the City cannot be less-restrictive. Councilmember Dingman believes this will be a partnership with EIPH. Councilmember Radford believes this item should remain on the agenda as an option. Per data received for July 20, the active cases were sustained for the third day in Bonneville County.

There being no further business, the meeting adjourned at 6:01 p.m.

s/ Kathy Hampton

CITY CLERK

s/ Rebecca L. Noah Casper

MAYOR