2018
Five Year Financial Plan

City of
Pittsburg
Forward Together.

Five Year Financial Plan
City of Pittsburg, Kansas
May 19, 2018

Introduction:

It is the role of the City Commission and the City's management staff to find ways to not just overcome, but to thrive. A long-term financial plan is an important tool that can assist in accomplishing this goal.

There are several reasons to prepare a long-term financial plan.

- Help develop strategies to achieve goals and objectives.
- Assess the implications today's decisions have on future financial viability.
- Identify programs and services that may be offered or eliminated.
- Are used by rating agencies to increase bond ratings.
- Analyze revenue and expenditure trends for improved decision making.

A financial forecast is a tool used in developing a long-term financial plan by estimating future revenues and expenditures and identifying the factors which impact them. This forecast is intended to help formulate decisions that encourage financial stability while delivering essential community services.

The information in this forecast includes an analysis of major revenue sources and uses for the primary government and its enterprise funds. The estimates include both quantitative and qualitative information. Quantitative estimates are based on historical data and trends, as well as economic conditions that may impact the City's ability to collect or generate revenue. The qualitative estimates are based on the experience and knowledge of management that will indicate the most likely outcome.

Financial forecasts include a lot of economic variables that can and do change frequently. Other things that will affect the accuracy of the forecast include operational changes, the timing of large capital projects, and policy changes.

Executive Summary:

The City constantly looks for ways to maximize limited resources in order to address the priorities set by the City Commission. The current priorities were the result of the 2030 Visioning process, updated in 2017. The result is a list of priorities which allows the City to attain the overall vision of where Pittsburg should be in the year 2030. Two core areas were added to the original four. These goals will continue to be a priority in the 2019 Budget and subsequent years through 2022. They are:

- Housing
- Economic Development
- Infrastructure Improvement
- Public Wellness
- Marketing
- Education

In addition to the goals established by the Vision 2030 process, the following goals were identified by the City Commission and Executive Team:

- Build reserves to a minimum acceptable level
- Establish and maintain a Debt Management Plan

The following discussion reviews the 2017 financial forecast recommendations, discusses the steps taken to address the issues identified, and identifies the impact of those steps on the major sources and uses of the resources available to the City to accomplish these goals, as well as, potential challenges that will need to be overcome.

2017 Recap

During the 2017 working day session, the following recommendations were made. The actual actions that were approved by the City Commission are noted at the end of each section.

To ensure our future financial stability we must consider:

- ✓ Increasing revenues incrementally
- ✓ Monitor and control expenditures
- ✓ Build reserves
- ✓ Practice long term planning
- ✓ Monitor and update written policies
- ✓ Make data driven decisions

Specifically, we recommended:

1. No change to the General Fund mill rate for years 2018-2021

   Action Taken: The City Commission approved the 2018 General Fund with no mill rate increase.

2. Increasing utility rates by

   a. 1% for 2018
   b. 1% for 2019
   c. 1% for 2020
   d. 1% for 2021

   Action Taken: The City Commission approved a 1% increase in utility rates for the 2018 budget.

3. Increasing the Debt Service Fund mill rate minimally as needed for the years 2018-2021

   Action Taken: The City Commission approved the 2018 General Fund with a 0.073 mill rate increase.

4. Adopting the following long term plans

   a. Five Year Capital Improvements Plan
   b. Five Year Equipment Replacement Plan
   c. Five Year Financial Plan

   Action Taken: The City Commission adopted a., b. and c. as presented.

5. Limit merit salary increases to

   a. 2.0% in 2019 and 2021: no salary increase in 2018 or 2020.

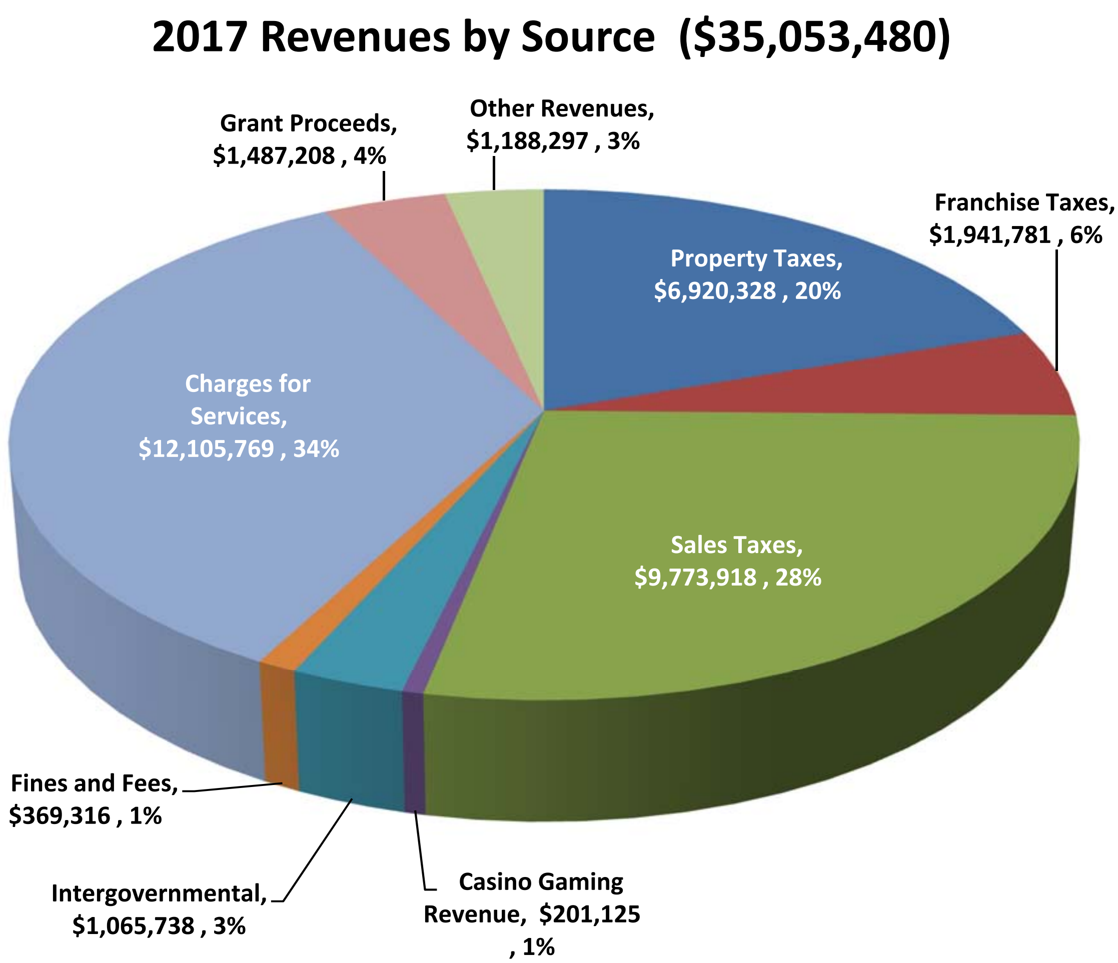
   Action Taken: The City Commission approved the 2018 budget with a 0% salary increase.

Changes in our economic condition will affect projections. The City management will review the situation every year and adjust activity to meet the City's needs.

REVENUES

The City of Pittsburg receives revenue from a variety of sources, however, nearly all revenue is collected into one of three main funds: the General Fund, the Public Utility Fund and the Debt Service Fund.

When compared to the 2016 total revenues, the 2017 revenues increased by $831,503. The following pie chart shows the City's 2017 revenues by source and the percentage of total revenues each source represents.



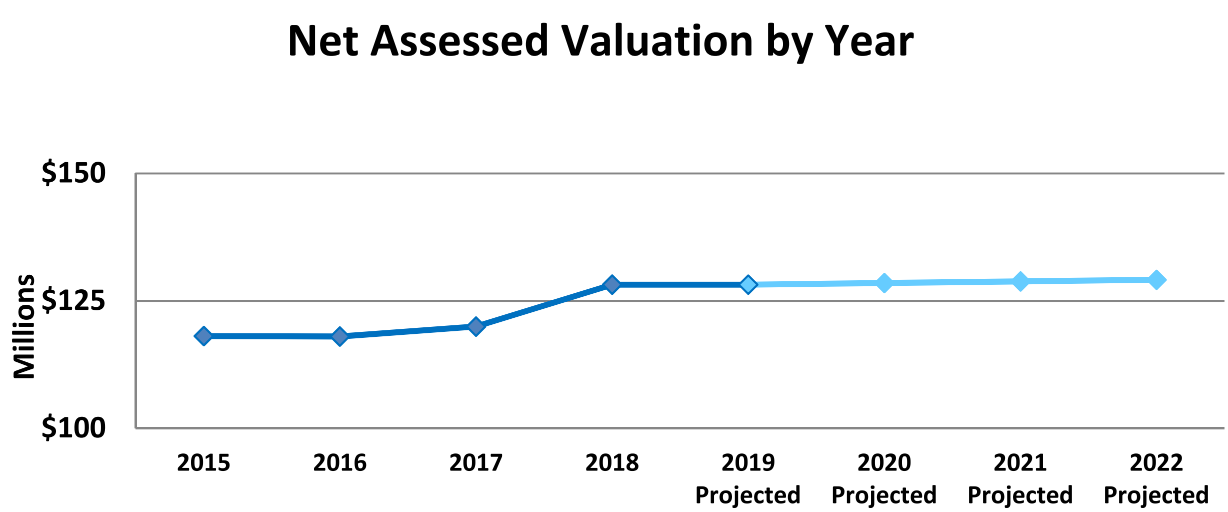
General Fund

The four main sources of revenue in the General Fund are: Property Tax, Sales Tax, Franchise Tax and Public Utility Transfers. The Kansas Crossing Casino opened April of 2017. Casino gaming revenue will be a new revenue source for the general fund.

- **Property Tax**

The property tax is an ad valorem tax, meaning it is based on the value of real estate or personal property owned by an individual or company. There are two components for calculating property taxes: property valuations and the mill levy. The City determines the level of service for the upcoming year and sets the property tax rate at an amount which will pay for those services.

The City's net assessed valuation has remained relatively flat until 2018 whereby it increased by $8.2 million or 6.84%. This increase is mainly due to the Kansas Crossing Casino and the Hampton Inn Hotel. For years 2019 through 2022 staff is projecting minimal growth in the City's net assessed valuation. The graph below shows the projected trend in Pittsburg's net assessed valuation.

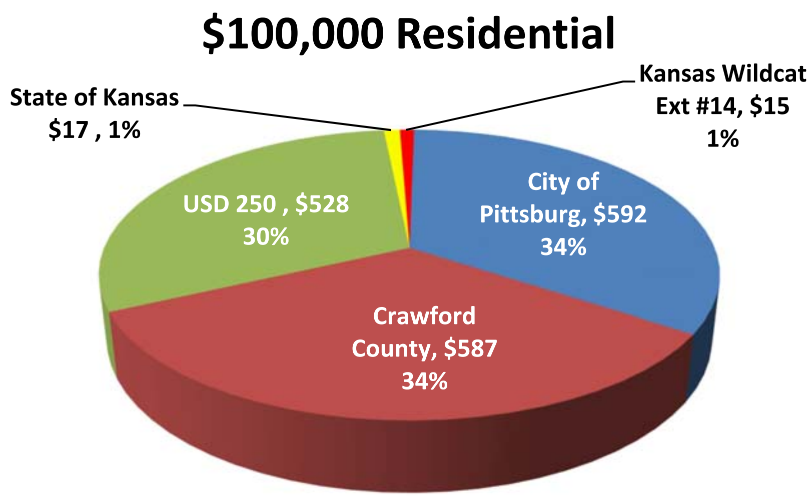


For the 2018 budget year one mill in the City of Pittsburg generates $128,182. The City collects approximately 96.5% of the taxes levied. The table below shows the general fund mill rate and actual tax dollars generated for the last five years with 2018 being estimated.

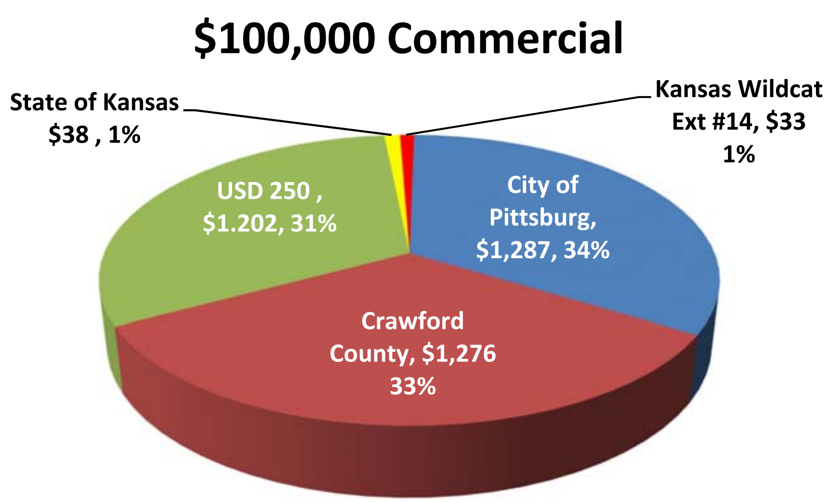
Valued for	Net Valuation	General Fund Mill Rate	Tax Dollars Collected
2013	$ 117,721,546	31.933	$ 3,716,583
2014	$ 117,495,446	31.880	$ 3,737,708
2015	$ 118,098,699	33.851	$ 3,819,508
2016	$ 118,016,161	33.076	$ 3,966,486
2017	$ 119,976,319	36.946	$ 4,294,357
2018	$ 128,182,295	36.961	$ 4,571,956 est

The City receives only a portion of the property taxes paid by residents. The State of Kansas, Crawford County, Unified School District #250 and the Kansas Wildcat Extension #14 also assess taxes on property. One mill on a residential property appraised at $100,000 will generate $11.50 in property tax annually while one mill on a commercial property appraised at $100,000 will generate $25.00 in property tax annually.

The following pie chart shows the various property tax jurisdictions within Pittsburg and their approximate 2018 cost on a residential property with an appraised value of $100,000.



The following pie chart shows the various property tax jurisdictions within Pittsburg and their approximate 2018 cost on a commercial property with appraised value of $100,000.

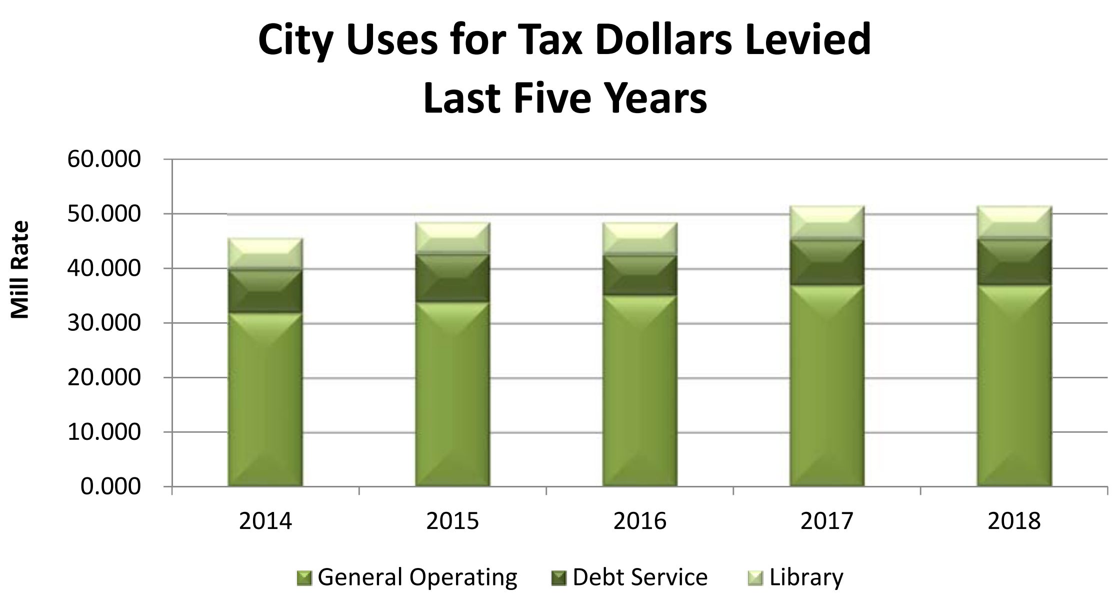


The following table shows the various property tax jurisdictions within Pittsburg and their respective 2018 mill rates.

Entity	Mill Rate
City of Pittsburg	51.467
Crawford County	51.052
USD 250*	49.924
State of Kansas	1.500
Kansas Wildcat Extension #14	1.329
TOTAL	**155.272**

*Per Kansas statute, Unified School Districts are exempt from the 20 mill statewide Portion of the mill rate which equates to $46.00 annually

The following graph shows the breakdown of the City property taxes levied for the last five years.

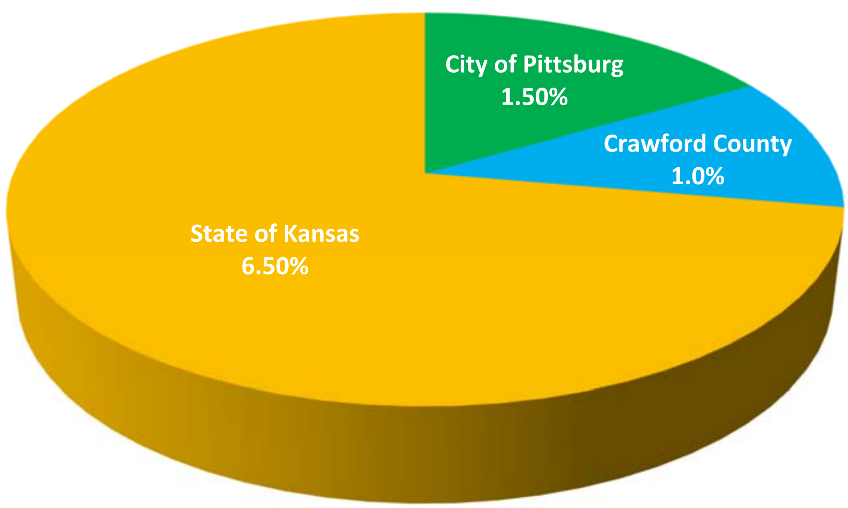


Sales Tax

Sales taxes are a source of revenue paid to a government entity for the sales of certain goods and services. For most sales in Kansas, the law requires the seller to collect the tax from the consumer at the point of sale. Generally sales tax is collected one month, then the sales tax collected is remitted to the state the following month and then the state remits the appropriate share of the tax to the appropriate governmental entity in the third month.

The following pie chart shows the total sales tax rate within the Pittsburg city limits (excluding the Tax Increment Financing District).

Overall Sales Tax Rate - 9.00%



Sales taxes are the leading sole source of revenue for the City of Pittsburg. However, all the City sales taxes are earmarked for specific uses. The portion of the Crawford County sales tax received by the City is unrestricted and is used to support the General Fund operations. It is estimated the City will receive approximately $2.42 million of the Crawford County sales tax in 2018.

There are five programs funded by dedicated sales taxes in Pittsburg. Three have renewal or end dates. The original sales tax for street maintenance was approved by voters for another five years in 2015 and will expire March 31, 2021; an additional quarter-cent sales tax was approved by voters in 2017 and will expire September 30, 2022; and the half-cent sales tax to enhance public safety was approved by voters in 2013 and will expire December 31, 2023. The quarter-cent for economic development and the eighth-cent for the auditorium and capital outlay have no expiration date.

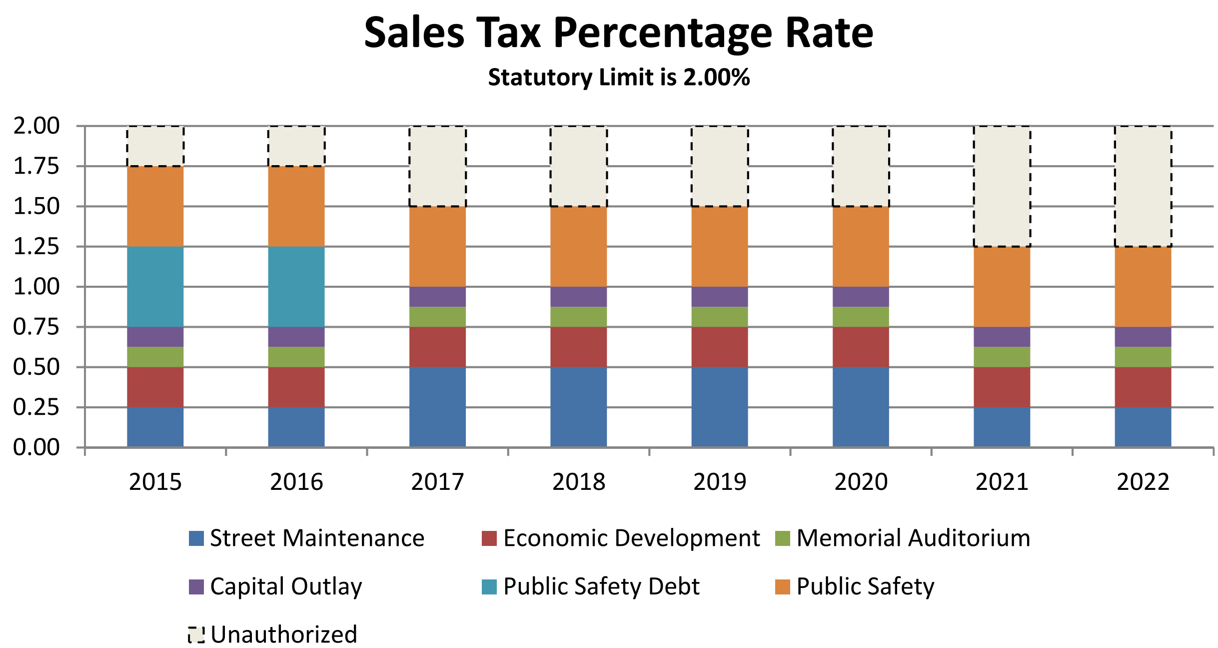
The State of Kansas statutory limit on sales tax rates is 2.00 percent for municipalities. The City's portion of the sales tax rate is currently 1.50 percent and is earmarked as follows:

Pittsburg Sales Tax Earmarks

Purpose	Rate	End Date
Street Maintenance	.25	2021
Street Maintenance	.25	2022
Public Safety	.50	2023
Economic Development	.25	Ongoing
Capital Outlay	.125	Ongoing
Memorial Auditorium	.125	Ongoing
Total	**1.50**	

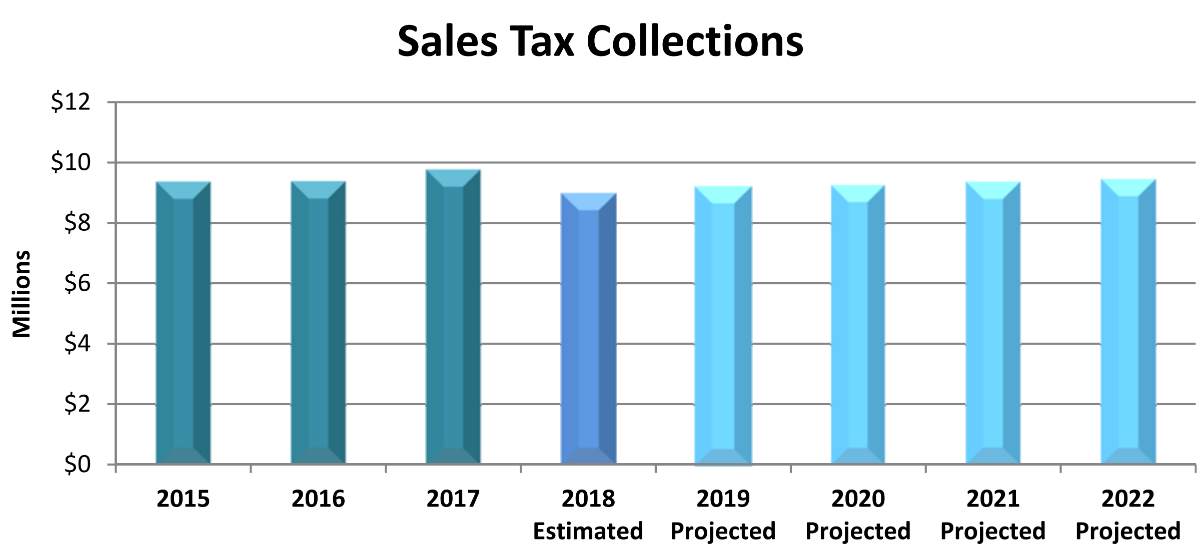
The City's Tax Increment Financing District has an additional .30 sales tax rate and is used to repay the Transportation Development District debt which is expected to be retired in 2027.

The graph below shows the City's dedicated sales tax rates over time.



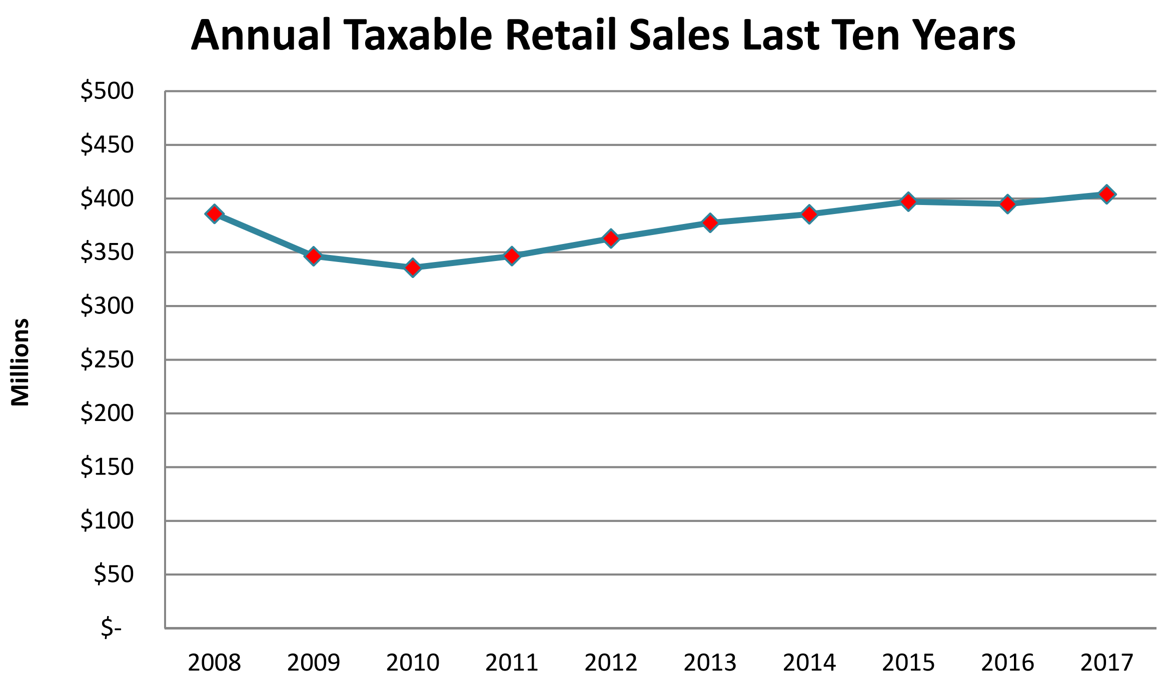
Sales tax revenue collections for 2017 is up significantly with a 5.0% increase over 2016. The revised estimate for 2018 is 2.0% growth over 2017 and 2.0% growth for 2019 over 2018. Sales tax projections for 2020 through 2022 include a 1% increase per year.

The graph below shows actual and projected sales tax revenue collections for the City through 2022. The drop in sales tax revenue from 2017 to 2018 reflect the Public Safety debt sales tax retirement in the fall of 2017.



Annual Retail Sales

The following graph shows the City's annual taxable retail sales for the last ten years.



Due to the great recession taxable retail sales peaked in 2008; then dropped by over $39 million in 2009, with another drop of $11 million in 2010. Since then taxable retail sales have steadily increased. In 2015 retail sales surpassed the level set in 2008 and have hit the highest level ever in 2017. Keep in mind however that sales tax collections include costs of inflation, so not all of the taxable sales growth is due to increased volume. However, it does indicate that the economy in Pittsburg is showing strong growth.

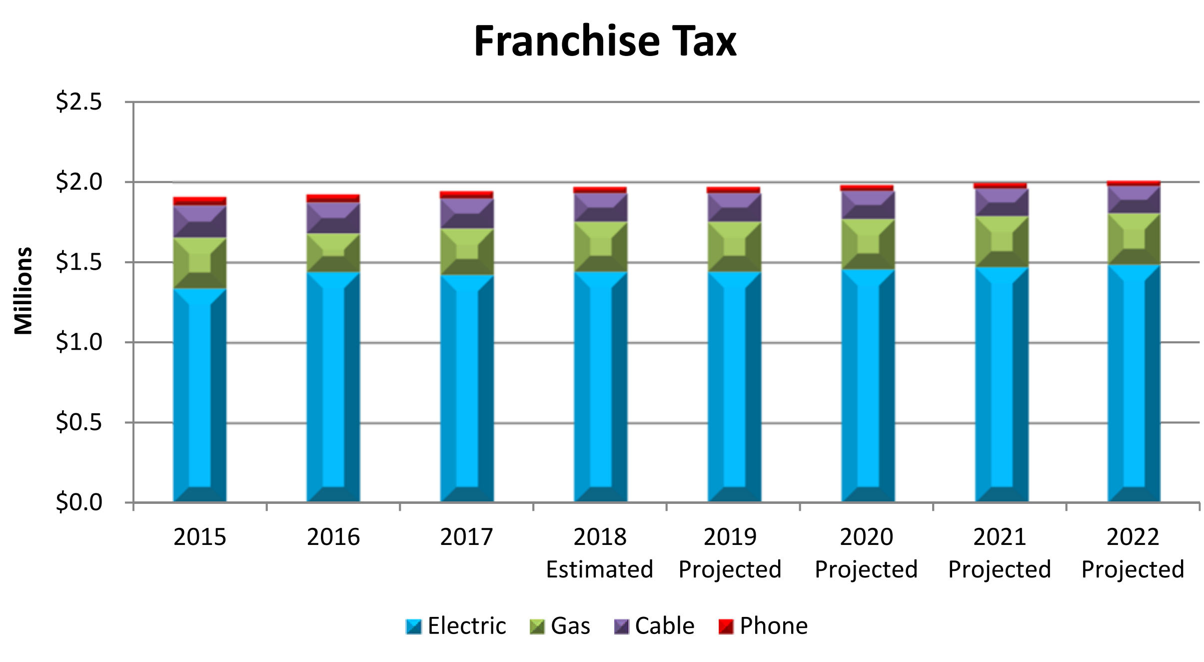
Franchise Taxes

Franchise taxes are the general governments' third largest revenue source; and the second largest unrestricted revenue-second only to property taxes. Franchise taxes for the City include:

- Electric
- Natural Gas
- Cable
- Telephone

Franchise taxes are not consistent; their unpredictability is based more on annual climatic conditions and the commodities market instead of the economy. The electric franchise taxes comprised 73% of the total franchise taxes collected in 2017 and are specifically driven by the climate and stock holder demands. Natural gas franchise tax collections increased 20% in 2017 compared to 2016 due to weather conditions and the commodities markets. Cable franchise taxes have been declining for several years and cell phones have reduced the dependence on land-line telephones, so that portion of franchise tax continues to decline. Staff is projecting flat growth in franchise tax collections in 2019 and 1% growth for years 2019-2022.

The graph below shows actual and projected franchise tax collections.



Casino Gaming Revenue

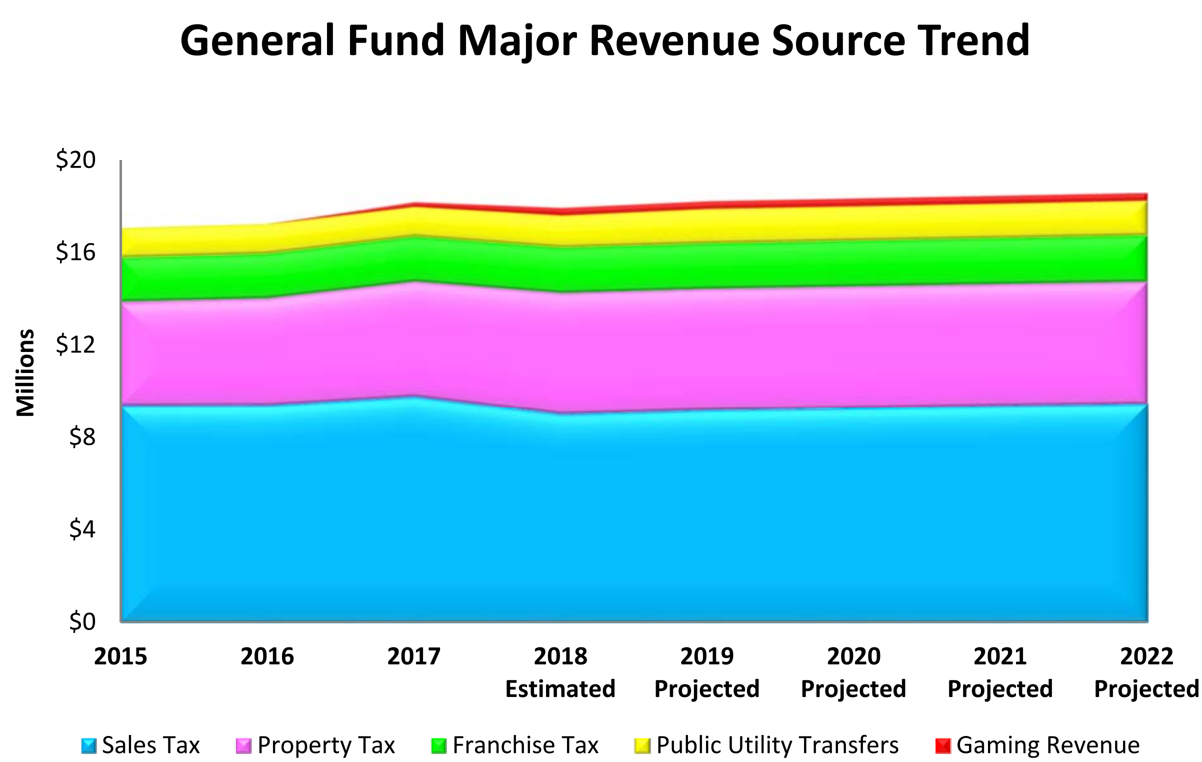
The City receives 1% of the gaming revenues generated by the Kansas Crossing Casino plus property taxes and utility charges for service. As stated earlier, the Kansas Crossing Casino opened in April of 2017 and generated $201,000 in gaming revenue for the City. Staff is estimating $325,000 in gaming revenue for year 2018 and $335,000 for years 2019 through 2022.

Other types of Revenues

The City receives other types of revenue; however, the total is insignificant compared to property taxes, sales taxes, and franchise taxes.

- **Intergovernmental Revenues**
- **Investment Income**
- **Fines and Fees**
- **User fees**
- **Licenses and permits**
- **Miscellaneous revenues**

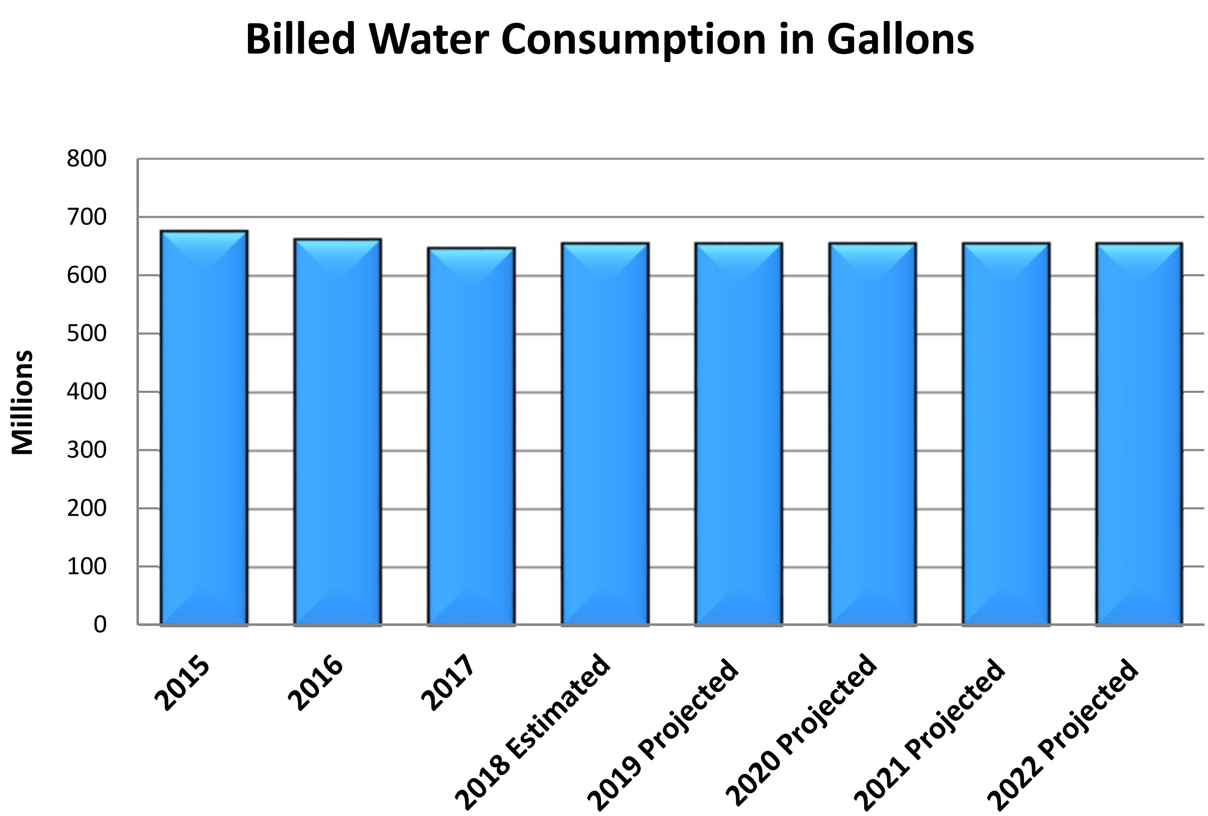
The following graph depicts the City's major sources of general fund revenue with sales taxes being the top source. The slight dip in 2018 sales tax is due to the Public Safety debt being paid off one year early and the dedicated ½ cent sales coming off on October 1, 2017.



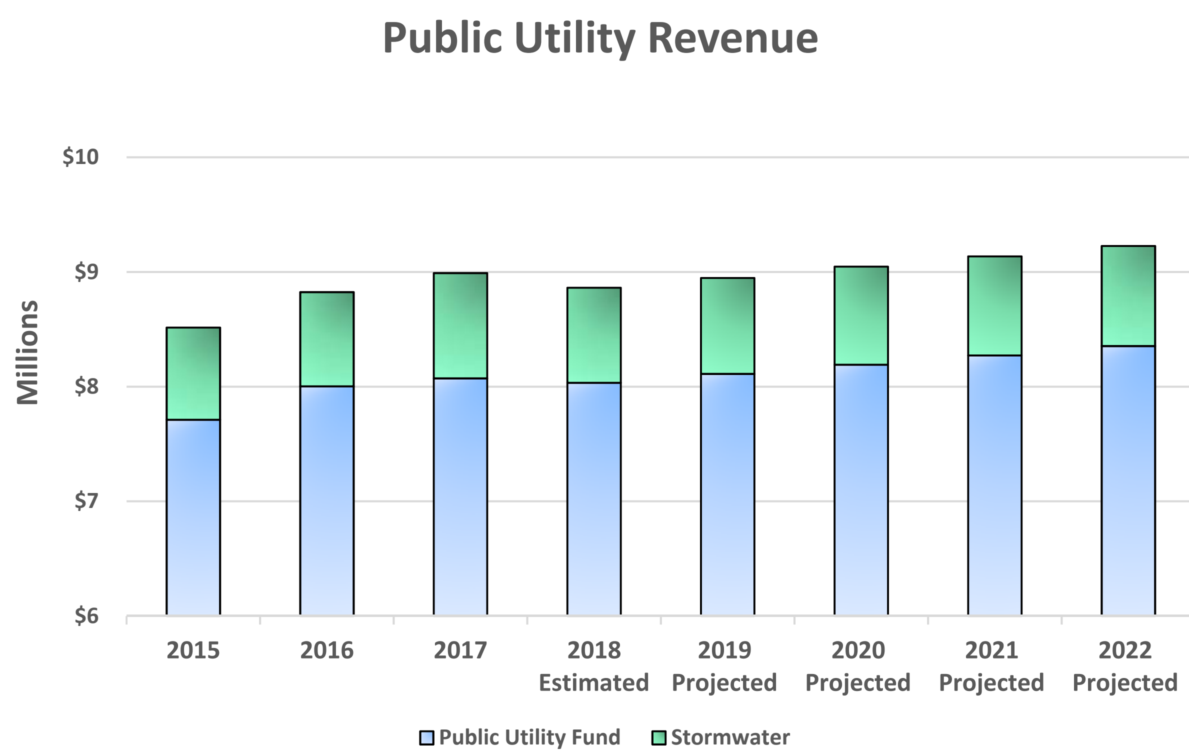
Public Utilities

The primary revenue source for public utility activities is user fees. In the case of water and wastewater, the levels of usage are volatile and based on climatic conditions, as well as types of consumer base. Also if the season is mild and wet, water use is lower than during high heat and drought conditions.

The graph below depicts actual and projected billed water consumption for the City's water utility. The billed 2017 water consumption level is slightly lower than the 2016 level due to a cooler and wetter year in 2017. Since we cannot predict what climate conditions will be or what economic development will occur to impact water and wastewater usage, consumption is projected to remain at the average of the 2016 and 2017 levels for years 2018 through 2022.

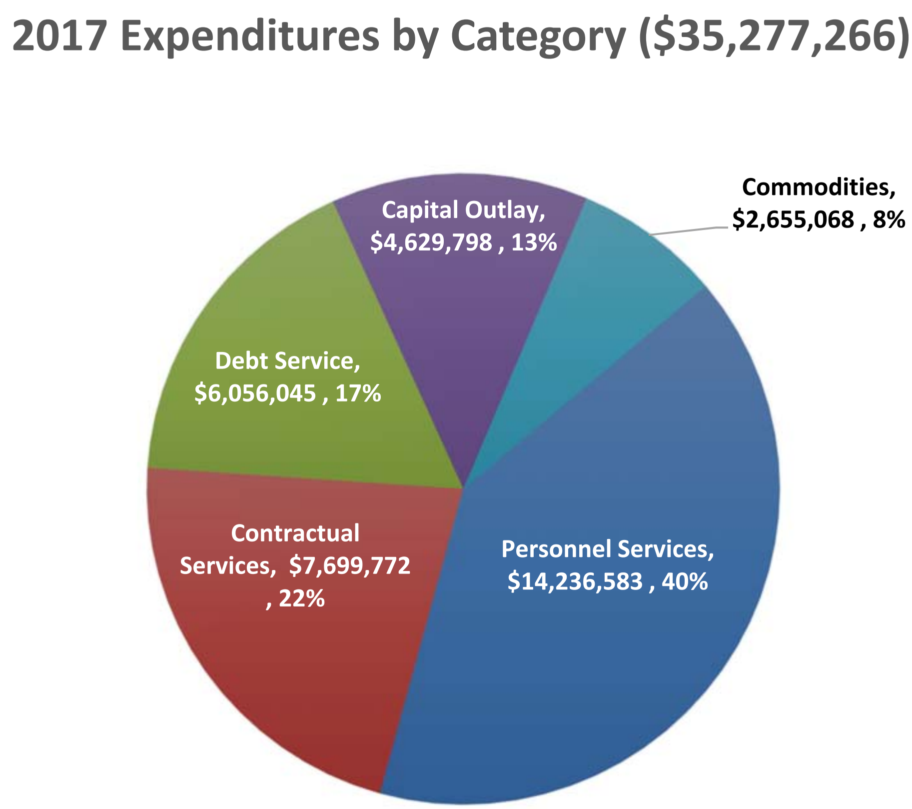


Things that impact utility revenues are annual climate conditions, water loss, whether through aged meters or unidentified leaks, changes in impervious areas, and rate changes. During the 2018 budget process, the City Commission approved a 1% increase in rates that became effective January 1, 2018. The graph below shows actual and projected utility revenue. The slight revenue increase in 2017 is due to excess stormwater project funds being transferred in the Stormwater Fund. Years 2019 through 2022 include an annual rate increase of 1% to cover annual operating cost increases.



EXPENDITURES

The City directs its financial focus to program-based initiatives and is budgeting expenditures accordingly, in order to accomplish goals. The following chart shows the expenditures by category for 2017 excluding inter-fund transfers.

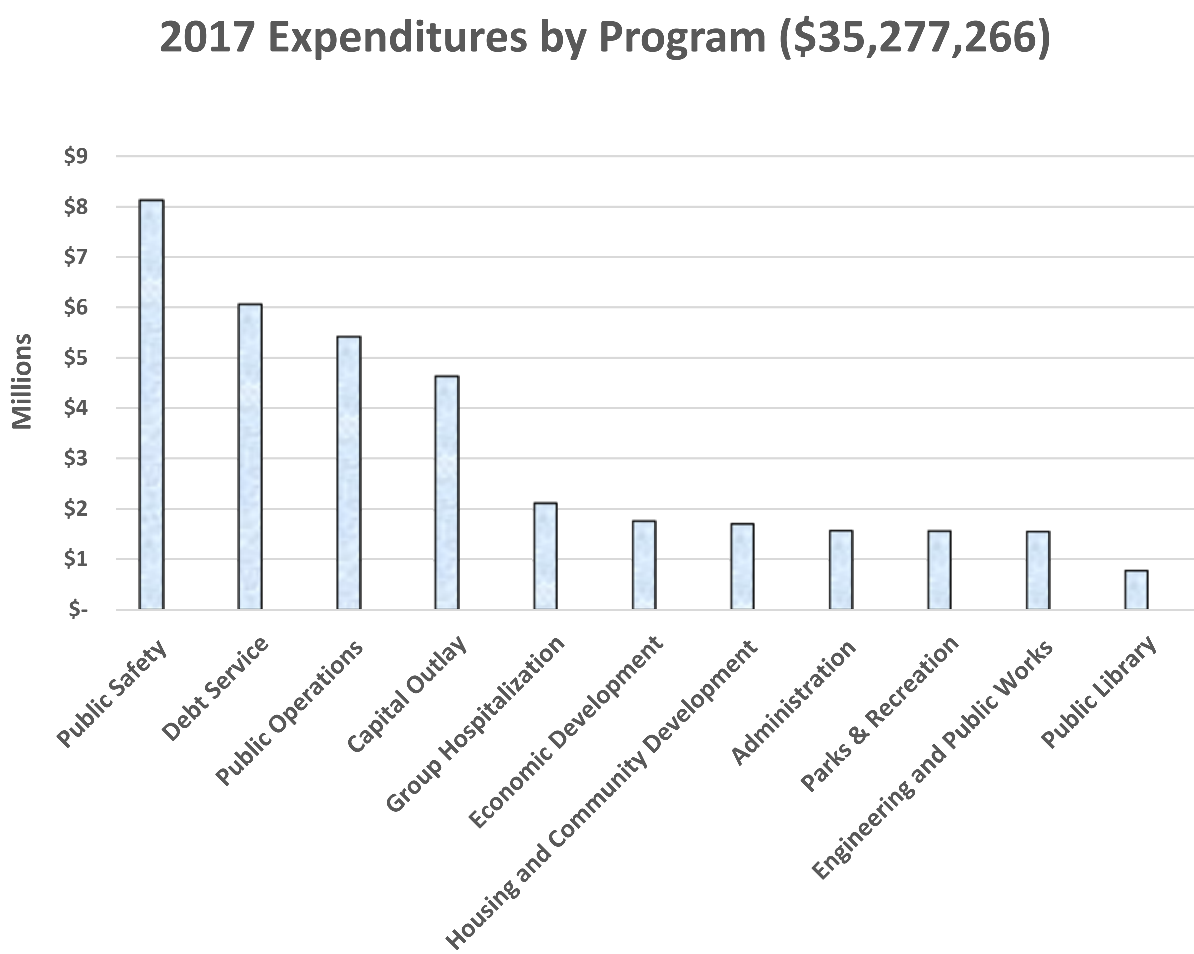


Personnel expenditures, as is the case with most entities, represent the majority of the City's expenditures. The personnel costs include salaries and benefits. For 2018 there are approximately 291 full time equivalent employees, with 240 having full time status. The City's benefit costs include health insurance, pensions, social security, worker's compensation insurance, Medicare and unemployment insurance.

Contractual services include a variety of expenses including but not limited to property and liability insurance, group health claims expense, software license agreements, utility costs, professional services and lease payments for certain equipment.

Commodities include operating materials needed to perform City services and include but are not limited to equipment maintenance, gas and oil, chemicals, concrete, rock, computer and network materials, uniforms, janitorial supplies and office supplies.

Another useful way to view the City's expenditures is by program. The 2017 expenditures by program excluding inter-fund transfers are shown below. In 2017 four program categories comprise 68% of City expenditures. They are Public Safety at 23%, Debt Service at 17%, Public Operations (utilities and streets) at 15%, and Capital Outlay at 13%.



City Health Insurance Plan

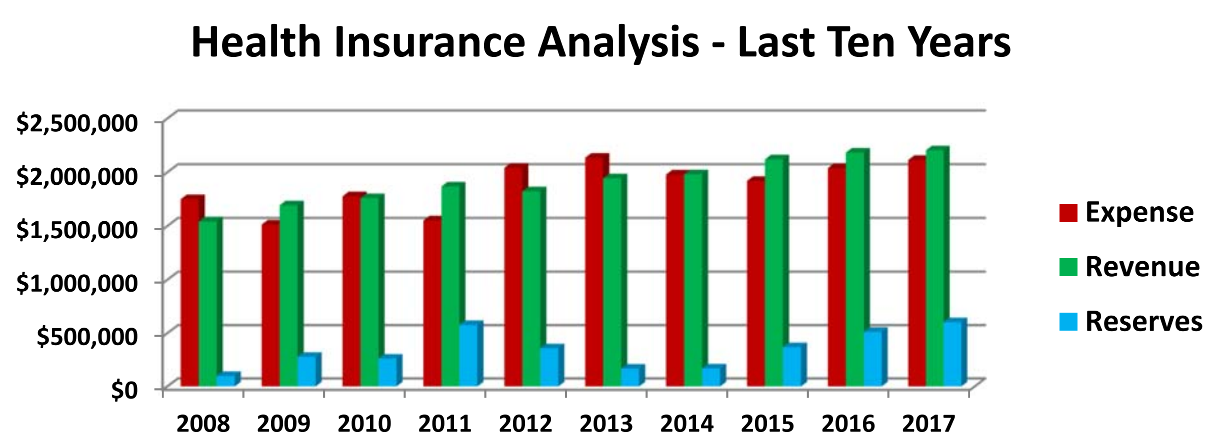
The City offers health insurance coverage to active employees and their dependents. Retired employees have the option to remain on the City's plan until they are eligible for Medicare or become covered or are eligible to be covered under another plan.

The City's health insurance plan is a self-funded plan paid for by employer and employee contributions to the plan based upon the tier of coverage selected. Self-insured plans are often referred to as "pay as you go." This is because the claims are paid as they are incurred rather than paying premiums. Any balance that is unused stays in the fund to help offset future costs.

While being self-funded has the advantage of paying for only what is used, health care costs generally increase annually. Based on the City's historical costs for the years 2008 through 2017 the average annual increase in health plan costs were three percent. During this period, annual expenses were higher than the revenues generated for four of the ten years. Fortunately, the City had health plan reserves available to offset the shortfalls.

In 2015, the City changed its health insurance plan from a single provider and carved out the provider's network, the pharmaceutical provider, the dental provider, the stop loss insurance provider and the third party administrator with the expectation of getting better service and saving money. The City's health plan reserves were $168,669 at the start of 2015 and were $603,460 at the end of 2017, an increase of $434,791. The Five Year Financial Plan projections are for 3% cost increases for years 2018 through 2022 based on the historical averages. Due to the volatility of health insurance costs, staff will review the City's health plan every fiscal year to address affordability and cost containment.

The graph below shows a comparison of revenues to expenditures for the last ten years of the City's health insurance program.



Capital Improvements

Capital expenditures are resources used to acquire, maintain, repair, replace, or upgrade fixed assets. Fixed assets are typically those assets with a life span exceeding a normal business cycle and whose cost exceeds a minimum dollar threshold established by management.

These assets are used to provide services to the public and during the course of their lifetime will require maintenance to keep them operating safely and efficiently. The performance and continued use of assets is essential to the health, safety, economic development, and quality of life for the public.

Budgetary pressures often cause maintenance to be delayed due to lack of resources. This is referred to as deferred maintenance. Prolonged deferred maintenance results in higher costs, asset failure, and health and safety issues. Therefore, in order to adequately address these issues, a capital improvement plan is essential.

Currently, the City's fixed assets have a net value of approximately $101 million dollars. It is estimated that the city should spend about 5% of the value of assets annually on maintenance. This equates to approximately $5 million dollars each year.

In the City's 2017 Five Year Capital Improvements Plan, staff identified approximately $63 million of needs for years 2018 through 2022 and beyond; $30 million of this total is un-funded. During the 2017 budget year the following major needs were addressed:

- New 600 foot extension on the main airport runway was completed
- Milled and paved East 4th Street from the railroad overpass to Kings Highway
- Repaved Kings Highway from 20th Street to Atkinson
- Milled and paved East Centennial from Rouse to east City limits
- Milled and paved South Rouse from Ford to Centennial
- New Kansas Crossing Casino water line, sewer line and lift station
- New water line on West Park from Broadway to College
- New water line on West Kansas from Chestnut to Georgia
- New water line on West Monroe from Broadway to Walnut
- New water line on East 7th Street from Fairview to Rouse
- New water line on East 8th Street from Fairview to Rouse
- New Sugar Creek sewer sampling station
- Various sanitary sewer improvements
- Various water meter and fire hydrant replacements

DEBT SERVICE

Effective financial management includes analyzing several funding mechanisms to determine what option is the most beneficial to the City. In some cases, issuing debt is the best available option. The City of Pittsburg traditionally uses debt for infrastructure improvements which have a long useful life and are unable to be paid from the operating budget. The revenues for making the debt payments are derived from the following sources based upon the nature of the improvement and the type of debt that has been issued:

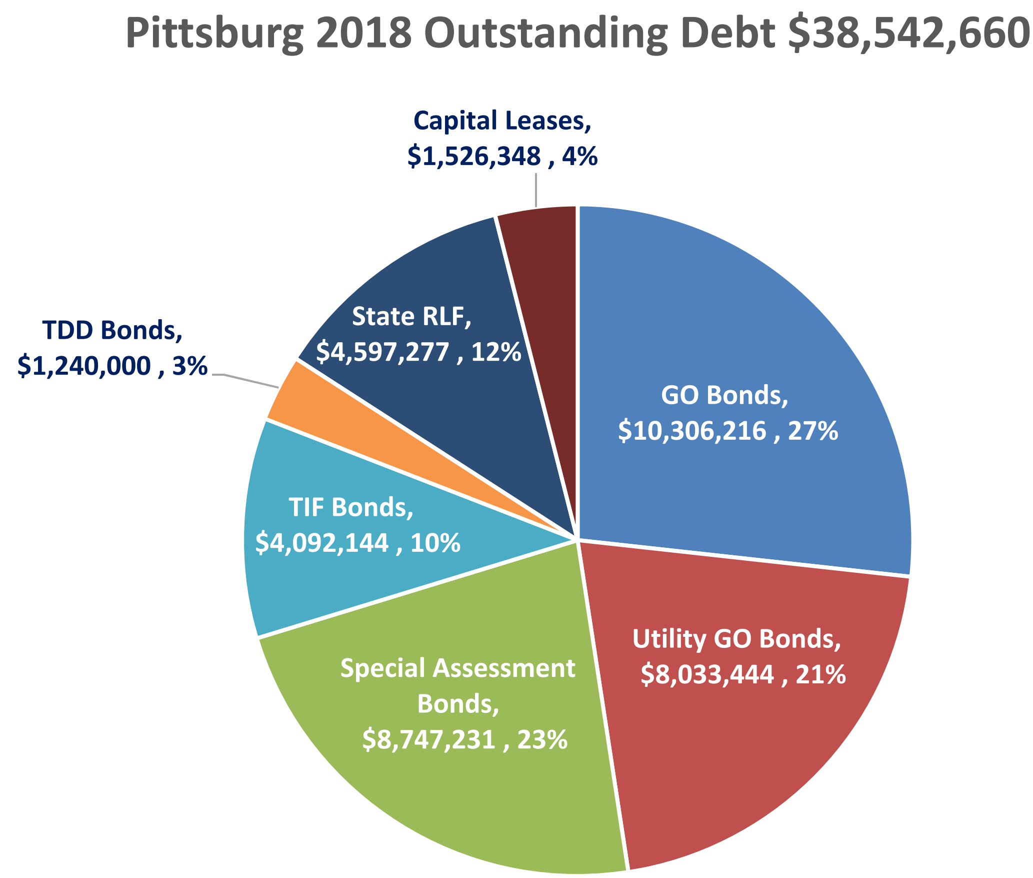
- Property Taxes
- Charges for Services
- Special Assessments
- Transfers

The City's bond rating was upgraded from A+ to AA- by Standard and Poor's in 2015 and reaffirmed in 2016. The upgraded bond rating was due to the City's enhanced financial management practices coupled with stable budgetary performance and projected stability in future years.

The financial plan for the City includes debt payments for current obligations and forecasted payments associated with issuing new debt in 2019 and 2021. The City's general obligation bond series 2007B were paid in full September 2017. The bonds were issued to build, furnish and equip the Law Enforcement Center and Fire Station #1. These bonds had an original maturity date of September 2018 and were being paid by a dedicated one-half cent City sales tax. This dedicated one-half cent City sales tax expired September 30, 2017.

Types of Debt

The City of Pittsburg uses several types of debt to pay for capital improvements and expensive equipment. The total debt amount of outstanding debt including principal and interest is $38,542,660. The graph on the following page shows the type of debt and the category percentage of the City's total debt.

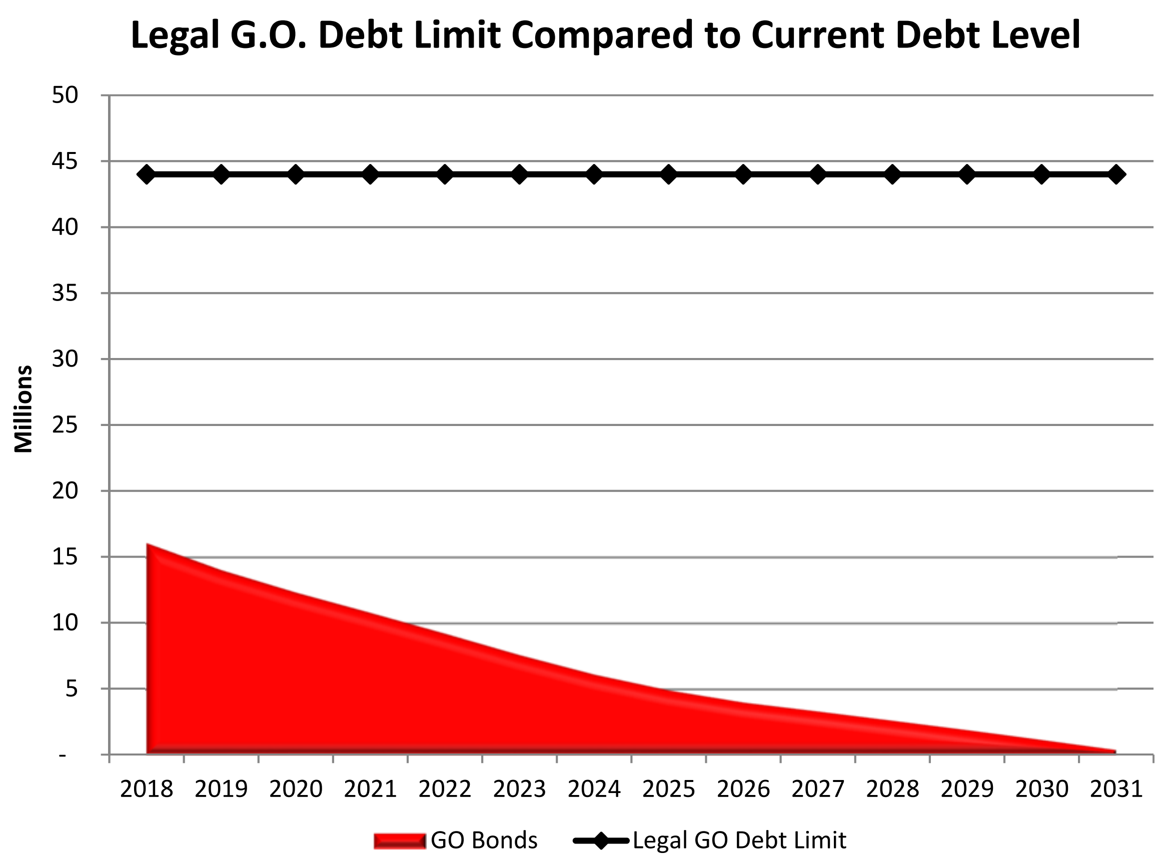


Effective debt management requires monitoring debt levels to ensure the soundness of the City's financial position and continued credit worthiness.

For Fiscal Year 2018

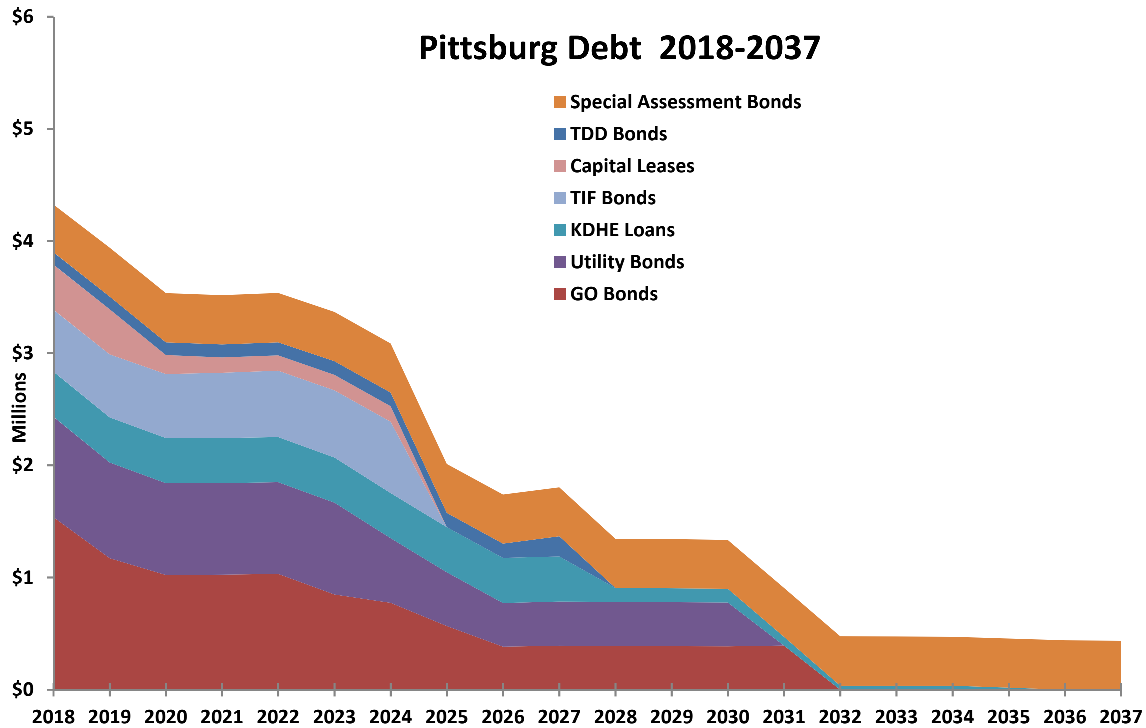
City's property tax supported G.O. debt as a percentage of net assessed valuation	8%
City's property tax supported G.O. debt per capita	$506
Mill Rate	8.506 mills

Kansas statutes require general obligation debt to be less than 30% of assessed valuation including motor vehicle. The current legal debt margin is $44 million. The following graph shows the difference between the City's current total outstanding G.O. Debt (principal only) of $16 million compared to what is allowed according to state statutes. The red indicates the City's level of G.O. Debt as compared to the black line which indicates the legal limits (30% of assessed valuation including motor vehicle):



Cumulative Debt:

The following graph depicts the City's total annual debt by type and the year the bonds are scheduled to be retired.



RESERVES

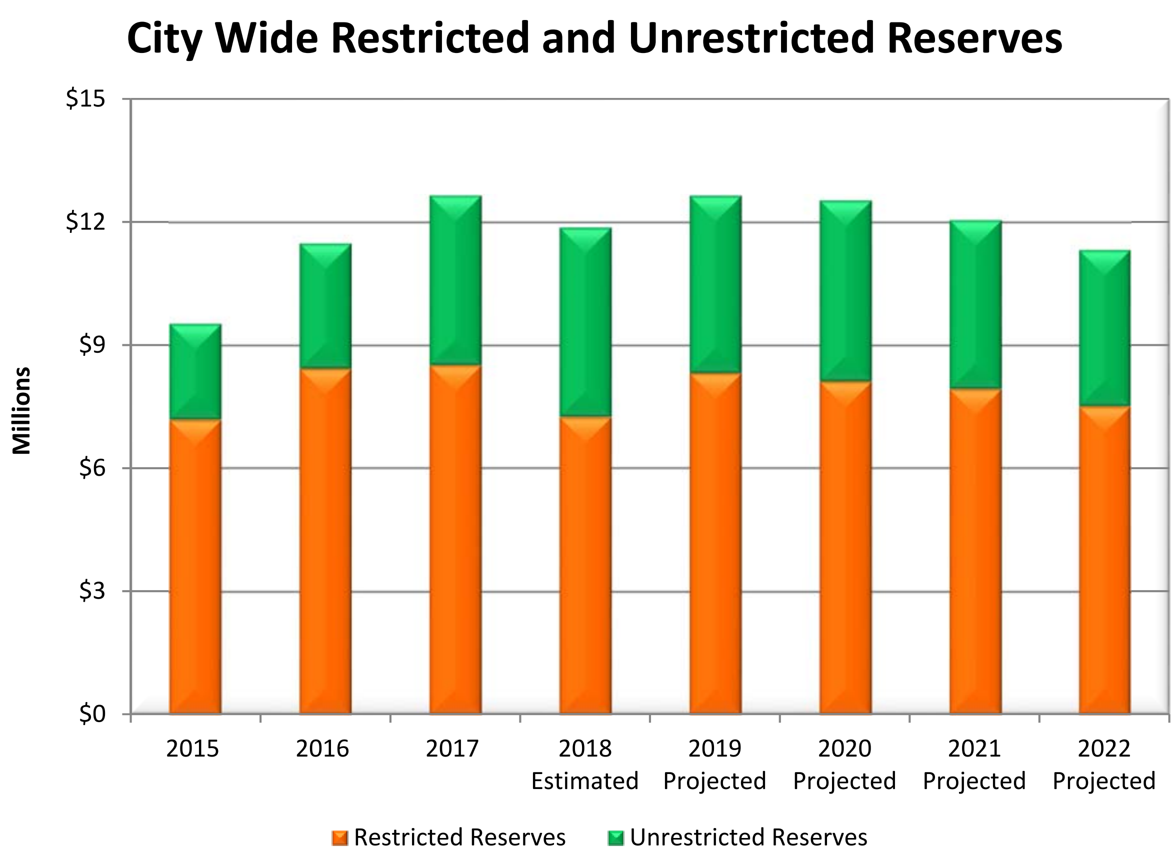
Reserves are the cornerstone of financial stability and flexibility, providing options to respond to unforeseen risks. The Government Finance Officers Association (GFOA) recommends minimum reserve levels at 16% of revenues or two months of expenditures. The City's goal is two months of expenditures.

Several risk factors to be considered are:

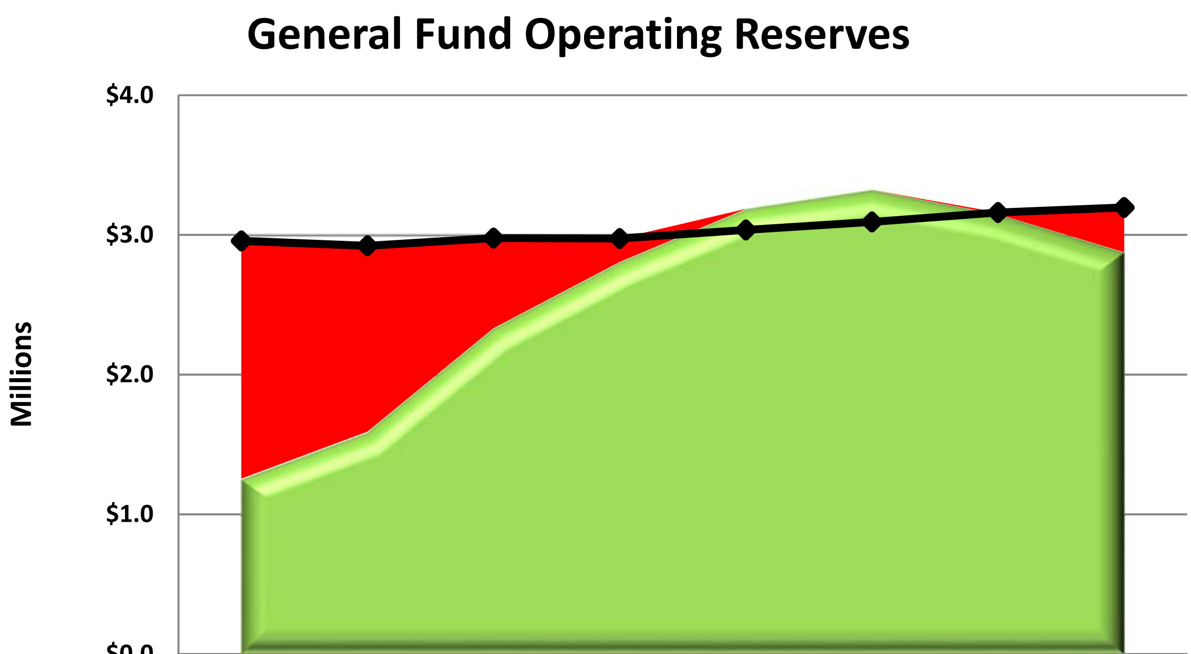
- Revenue volatility
- Infrastructure condition
- Extreme events such as weather
- External Factors

During the great recession, some measures were taken to offset the decrease in property tax revenues including staffing reductions through attrition and some reductions of expenditures, however, reserves were used to maintain programs and services. With the growth in property and sales tax collections, reserve levels are improving.

The chart below shows the impact of staff projections on restricted and unrestricted reserves. The 2018 decrease in total reserves is due to the Public Utility south water tower expenditures and economic development expenditures. The unrestricted reserves peak in 2018 and then slowly decline through 2022; the decline is mainly in the general fund reserves excluding public safety sales tax reserves. The restricted reserves peak in 2019 and then start to decline beginning with 2020 mostly due to projected increases in the City's health plan expenditures unless some changes are made to the plan in the future.



The following graph shows the projected operating reserves of the General Fund compared to the reserve goal of 16% of expenditures.

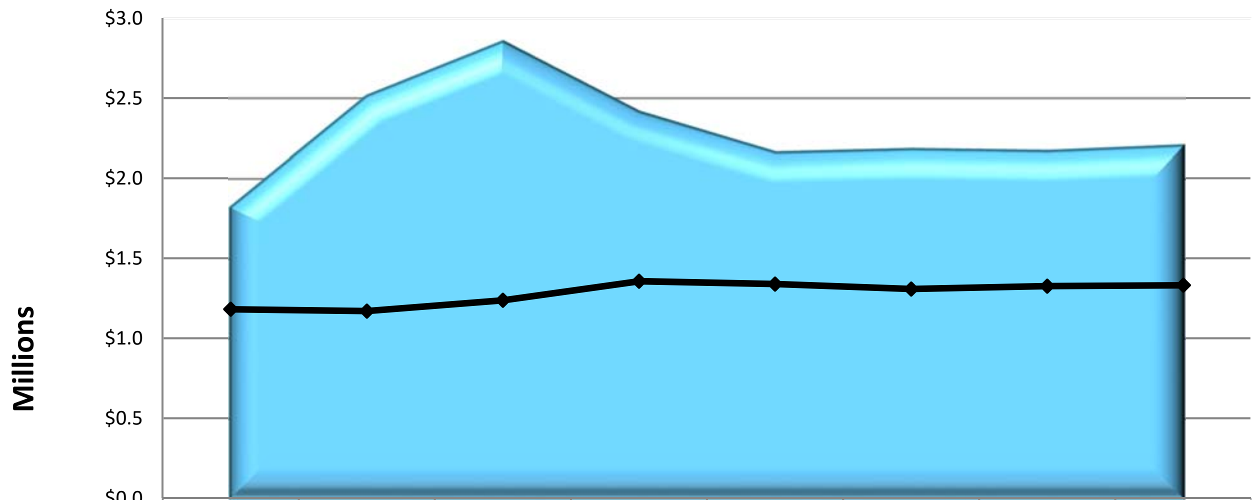


	2015	2016	2017	2018 Estimated	2019 Projected	2020 Projected	2021 Projected	2022 Projected
Below Goal	$1.701	$1.331	$0.645	$0.168	$0.000	$0.000	$0.012	$0.321
Reserves	$1.255	$1.591	$2.332	$2.806	$3.185	$3.321	$3.148	$2.875
16% Goal	$2.956	$2.922	$2.977	$2.974	$3.035	$3.093	$3.161	$3.196

The red portion shows that the General Fund was not meeting the reserve goal in years 2015 through 2017. The estimated and projected years of 2018 thru 2021 meet or nearly meet the reserve goal. Year 2022 shows a decline of $321,000 from the goal which equates to approximately 2.5 mills.

The graph below shows the projected operating reserves of the Public Utility compared to the reserve goal of 16% of expenditures.

Public Utility Operating Reserves



	2015	2016	2017	2018 Estimated	2019 Projected	2020 Projected	2021 Projected	2022 Projected
Reserves	$1.817	$2.512	$2.852	$2.412	$2.158	$2.179	$2.168	$2.203
16%	$1.181	$1.169	$1.237	$1.356	$1.338	$1.307	$1.325	$1.331

The spike building up to 2017 is the banking of reserves to pay for the South Water Tower and the Northeast Industrial Park Water Tower sandblasting and painting in year 2018.

SUMMARY AND RECOMMENDATION

Current decisions and plans will have a direct impact on the financial stability of the City. External factors are those that the City has very little control over and yet those factors have a significant impact on our financial position. Some of those factors are property valuations, extreme or unusual weather, intergovernmental funding source reductions, health insurance costs, property and liability insurance costs, retirement costs, legislative mandates, electricity and natural gas costs and other operating cost increases.

In 2016, the Kansas legislature approved a property tax lid for cities which became effective with the City's 2018 budget. This means going forward that the City can no longer increase the General Fund tax levy greater than the Consumer Price Index (CPI) change from the prior year without a vote of the people. For 2019 the CPI is set at 1.4%. There are some exceptions for new construction values and public safety. This provides yet another mandated challenge to managing the task of providing adequate, affordable services to the citizens of Pittsburg.

Based upon our projections of revenues and expenditures, using historical data and other known factors, this financial plan was prepared using the following assumptions, considerations and recommendations. Staff will continue to review the City's financial position each year and make recommendations to the Five Year Financial Plan for your consideration.

Assumptions

- 2.0% annual sales tax collection growth in 2018 and 2019 and 1.0% for years 2020-2022
- Assessed valuation increase of 0.25% for years 2019 thru 2022
- Gaming revenue from the Kansas Crossing Casino is projected at $325k in 2018 and $335k for years 2019-2022
- All other revenues project minimal growth
- The City's Health Insurance costs will increase 3.3% annually based on the City's last seven years average
- Retirement costs will continue to rise with a 0.6% KPERS increase and a 2.54% KPF increase in 2019, one-half percent increases per year are projected for both KPERS and KPF in years 2020-2022
- Worker's compensation insurance will continue to increase at a rate of 3% annually
- Electric utility rates will continue to rise
- Property and liability insurance will continue to increase at an average rate of 3% annually
- Contractual and Commodities expenses are projected to increase 2.5% annually for years 2020-2022

Considerations

- Adjust revenues based upon historical trends
- Monitor and control expenditures
- Maintain minimum reserve levels
- Continue to practice long term planning
- Make data driven decisions

Recommendations

- 1% cola increase in years 2019-2022
- 2.0% merit increase in years 2019 and 2021
- Minimal changes to the Debt Service Fund mill rate for years 2019-2022
- Increase utility rates by 1% annually for years 2019-2022