2016
Five Year Financial Plan

City of Pittsburg
Land of Promise

Five Year Financial Plan
City of Pittsburg, Kansas
May 21, 2016

Introduction:

Local governments will always face serious challenges from external forces that include natural disasters, policy changes from other levels of government, and economic downturns, just to name a few. It is the role of the City Commission and the City's management staff to find ways to not just overcome, but to thrive in this type of environment. 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.

- Long term financial planning is a key factor in creating an organization that can not only survive but thrive during economic challenges.
- Rating agencies tend to increase bond ratings for those entities with a long-term financial plan in place.
- A long-term financial plan assesses the implications today's decisions have on future financial viability.
- A long-term financial plan assesses programs and services that may be offered.
- Long -term financial plans can help develop strategies to achieve goals and objectives.

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. This effort involved one-on-one interviews, focus groups, written surveys and town hall meetings. The result was a list of priorities which would allow the City to attain the overall vision of where Pittsburg should be in the year 2030. Four core areas were identified as critical and are the focus of the implementation plan going forward. These goals continue to be a priority in the 2017 Budget and subsequent years through 2020. They are:

- Housing
- Economic Development
- Infrastructure Improvement
- Public Wellness

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

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

The following discussion reviews the 2015 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.

2015 Recap

During the 2015 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. **1.** Increasing the mill rate
   a. In the 2016 Budget by 2.0 mills
   b. In the 2017 Budget by 2.0 mills
   c. In the 2018 Budget by 2.0 mills
   d. In the 2019 Budget by 1.0 mill

   Action Taken: The City Commission elected to maintain the 2015 total mill rate for the 2016 budget (no mill rate increase).

2. **2.** Increasing utility revenues by
   a. 1% for 2016
   b. 2% for 2017
   c. 2% for 2018
   d. 3% for 2019

   Action Taken: The City Commission approved a 1% increase in utility revenues for the 2016 budget.

3. **3.** 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. and b. as presented; c. was adopted as amended by City Commission.

4. **4.** Holding the line on expenses by limiting increases to:
   a. No salary increase in 2016 or 2018 and 2.0% in 2017 and 2019.
   b. Increase the employer/employee contribution for health insurance by 5% per year to meet the increasing cost for group hospitalization

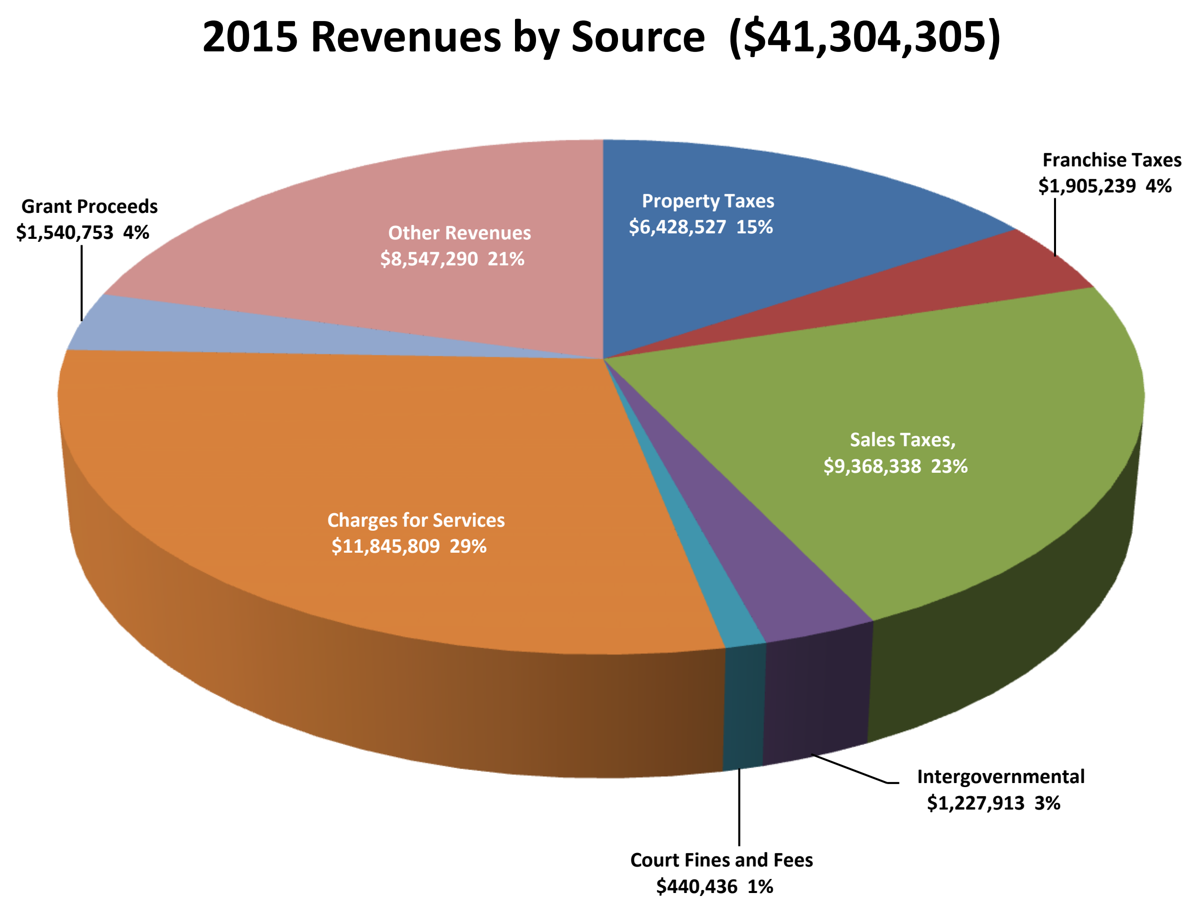
   Action Taken: The City Commission approved the 2016 budget with no salary increase and no change to the employer/employee contribution to the health insurance program.

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

As with all levels of local government, the City of Pittsburg had been adversely affected by the reduction of property values, reduced sales tax, reduced funding from higher levels of government, and other reductions of revenue due to the great recession. When compared to the 2014 total revenues, the 2015 revenues increased by $7.8 million. This is due to several things: a 3% increase in sales tax collections, a $6.4 million bond refunding, a full year of the Public Safety Sales Tax, a decrease in Franchise tax collections, and a slight increase of water/wastewater usage in 2015.

While, the City of Pittsburg receives revenue from a variety of sources, nearly all revenue is collected into one of three main funds: the General Fund, the Public Utility Fund and the Debt Service Fund. The following pie chart shows the City's 2015 revenues by source and the percentage of total revenues each source represents.



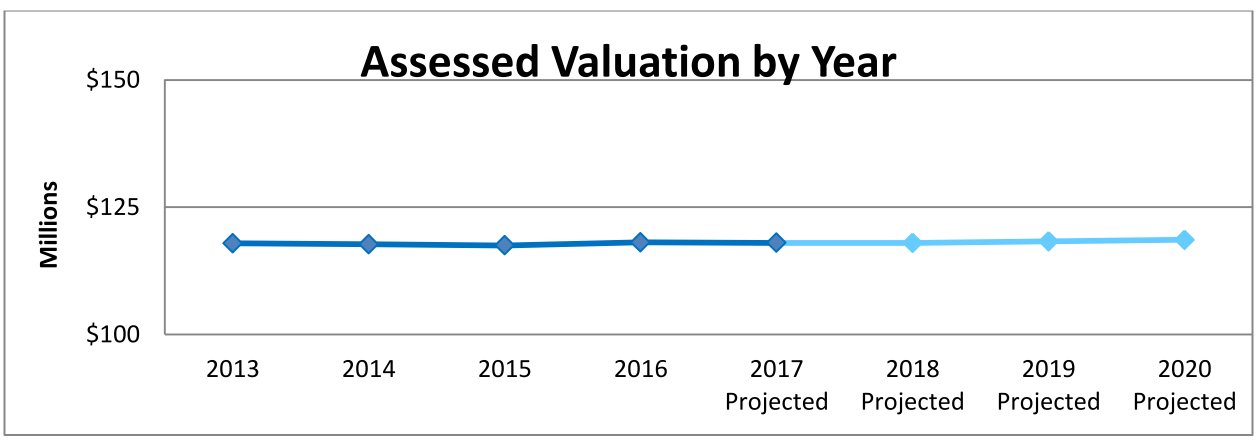
General Fund

The four main sources of revenue in the General Fund are: Property Tax, Sales Tax, Franchise Tax and Public Utility Transfers. On June 23, 2015, The Kansas Gaming and Racing Commission voted to award the Southeast Gaming Zone license to Kansas Crossing, a destination casino to be located in Pittsburg. Kansas Crossing's original planned completion date was September 30, 2016; however, due to unforeseen delays, the expected opening is now projected for late 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 for the past three years. Management is projecting no change in the City's net valuation for 2016 and 2017 and a 0.25% increase each year from 2018 through 2020. The graph below shows the projected trend in assessed valuation.

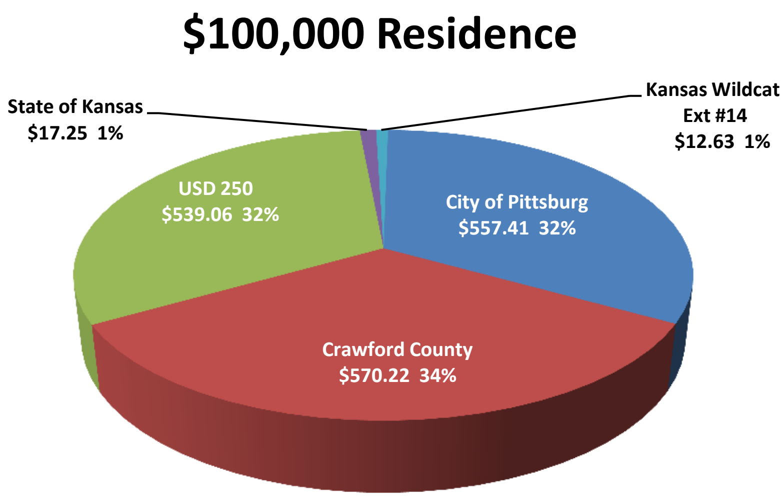


For the 2016 budget year one mill in the City of Pittsburg generates $118,016. Historically, the City collects approximately 95% of the taxes levied. The table below shows the general fund mill rate and actual tax dollars generated for the last five years with 2016 being estimated.

Valued for	Net Valuation	General Fund Mill Rate	Tax Dollars Collected
2011	$118,213,825	30.907	$3,569,028
2012	$ 117,919,158	30.956	$3,637,172
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	35.076	$3,953,299 est

The City receives only a portion of the property taxes paid by residents. The State of Kansas, Crawford County, and the Unified School District #250 also assess taxes on property. A one mill increase on a house appraised at $100,000 would equal $11.50 annually.

The following pie chart shows the various property tax jurisdictions within Pittsburg and their approximate 2016 cost on a home with an appraised value of $100,000.

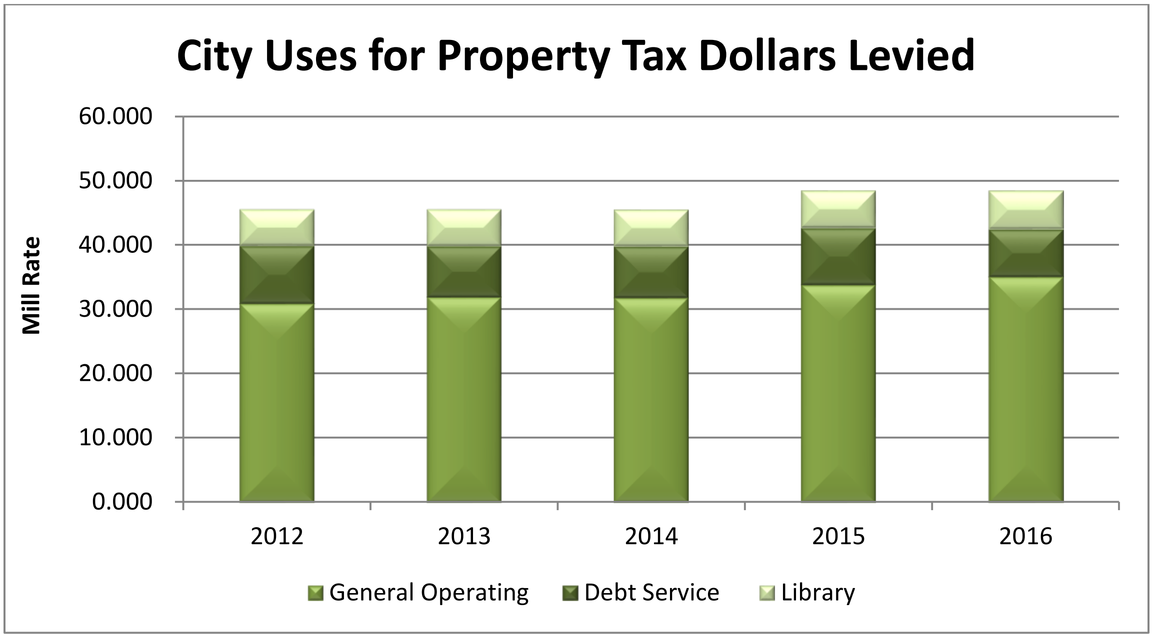


The following chart shows the various property tax jurisdictions within Pittsburg and their respective 2016 mill rates.

Entity	Mill Rate
City of Pittsburg	48.471
Crawford County	49.584
USD 250*	50.875
State of Kansas	1.500
Kansas Wildcat Extension #14	1.098
TOTAL	**151.528**

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

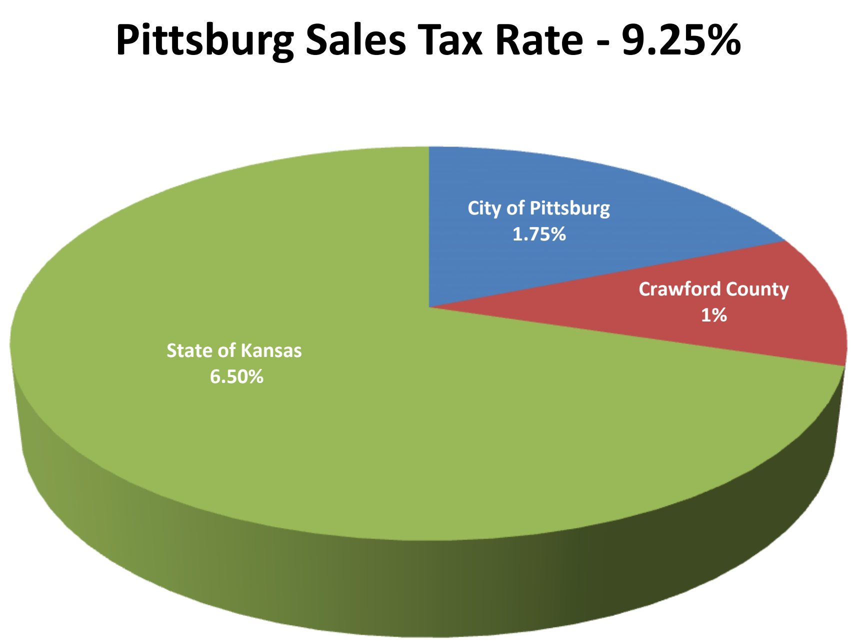
The following graph shows the breakdown of the City property taxes levied for the last five years.



Sales Tax:

Sales taxes are a source of revenue that is 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).



Sales taxes are the leading 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 $2.2 million of the Crawford County sales tax in 2017.

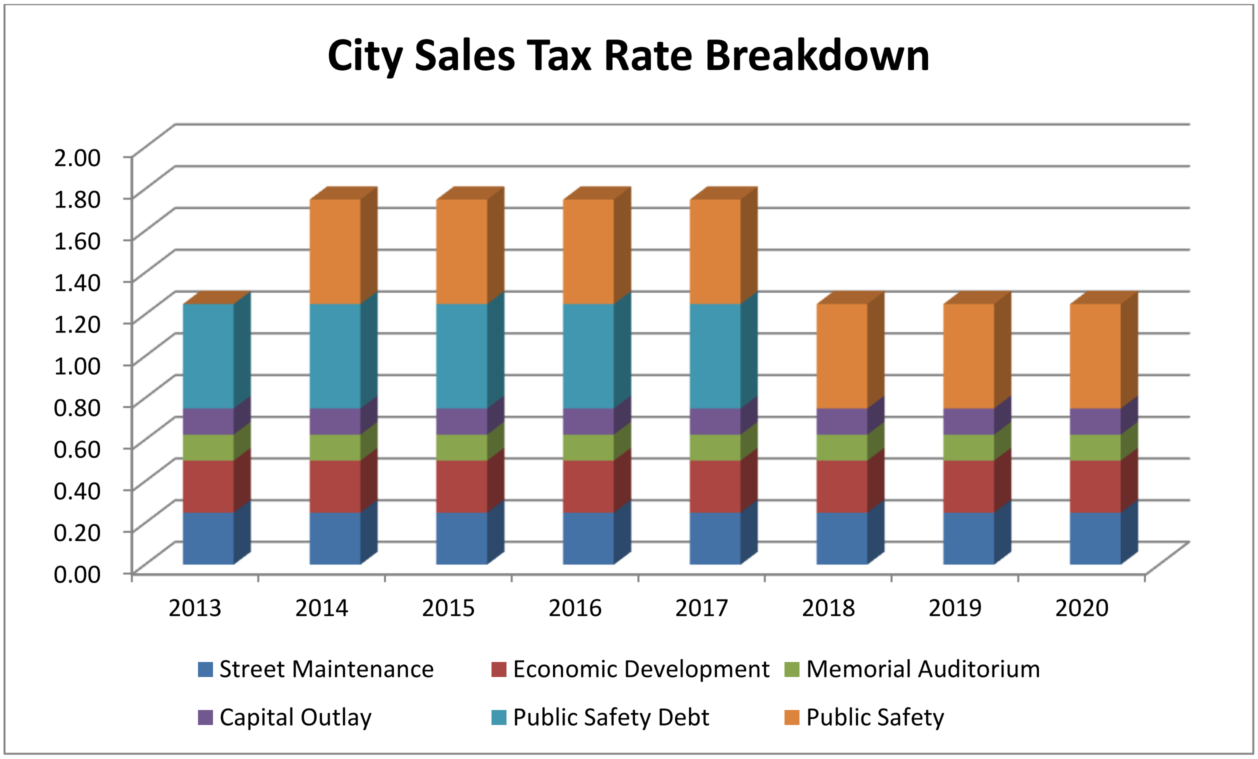
There are six programs funded by dedicated sales taxes in Pittsburg. Three have renewal or end dates. The sales tax for street maintenance was approved by voters for another five years in 2015 and will expire March 31, 2021; the public safety debt sales tax was approved by voters to remain in effect until the bonds are paid off which is projected to happen in the fall of 2017; the 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 City's portion of the sales tax rate is 1.75 percent and is earmarked as follows:

Pittsburg Sales Tax Earmarks		
Purpose	**Rate**	**End Date**
Public Safety Debt	**.50**	**2017**
Street Maintenance	.25	2021
Public Safety	.50	2023
Economic Development	.50	Ongoing
Capital Outlay	.125	Ongoing
Memorial Auditorium	.125	Ongoing
Total	**1.75**	

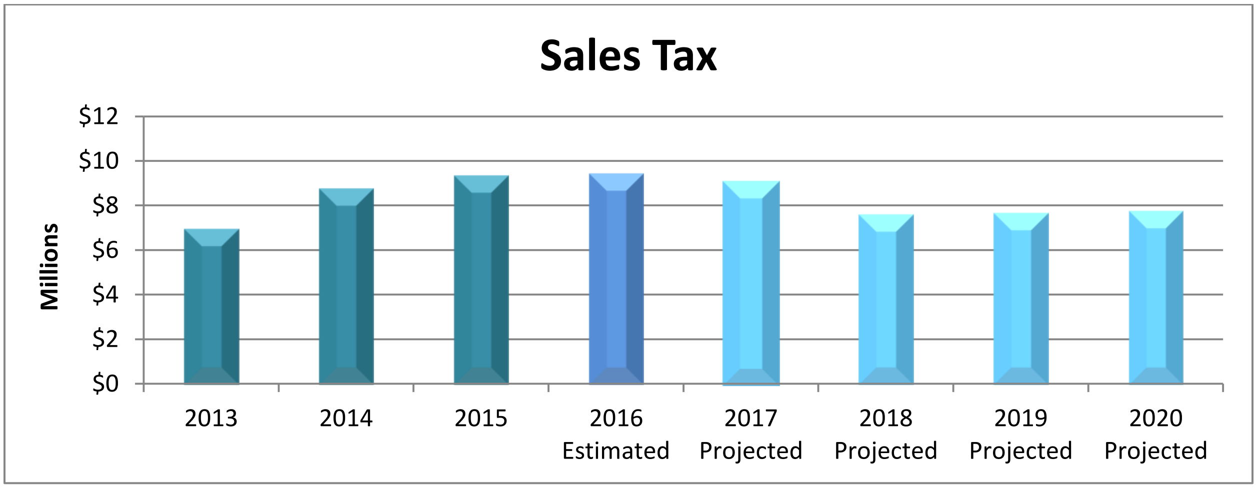
The City's Tax Increment Financing District has an additional .30 sales tax rate and is used to repay the Transportation Development District debt.

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



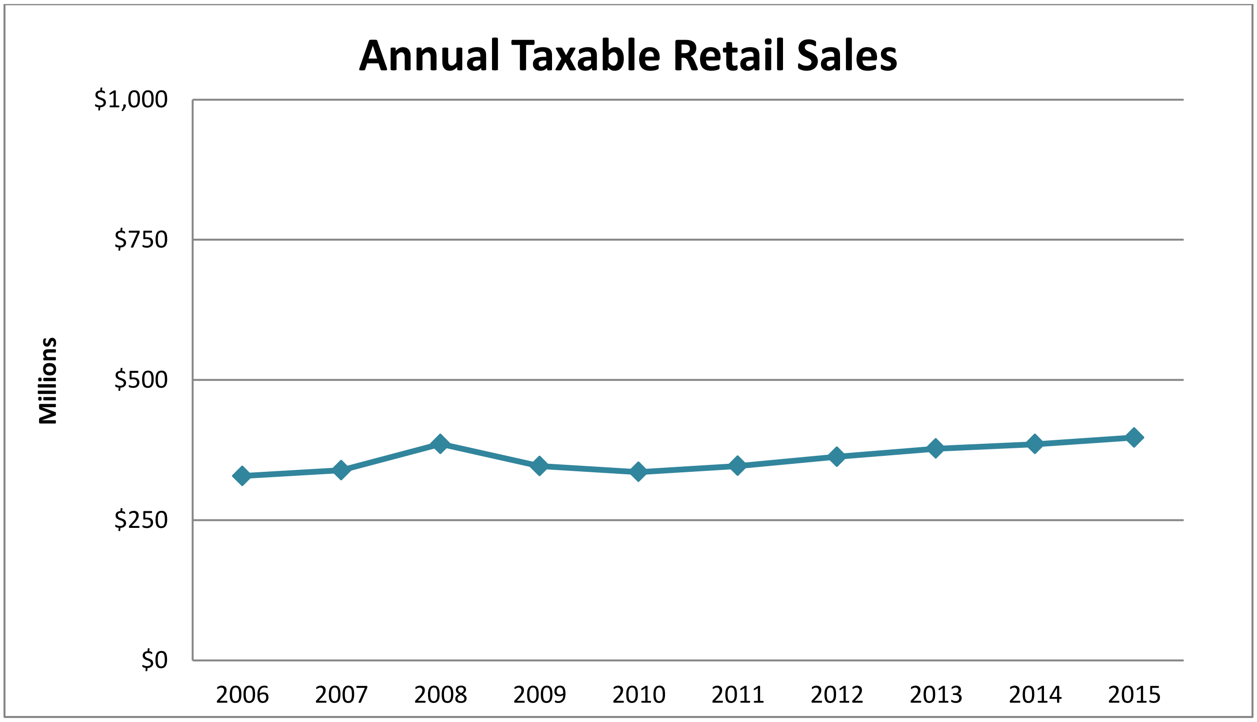
The large spike from 2013 to 2014 is due to the implementation of the new Public Safety Sales Tax beginning January 1, 2014 with the first tax collection received in March 2014. Sales tax revenue collections for 2015 were 3% higher than 2014, the estimated 2016 budget contains 1% growth over 2015. Sales tax projections for 2017 through 2020 include a 1% increase per year as well. Current estimates project that the public safety debt will be repaid in the fall of 2017, therefore, the graph reflects the retirement of the half cent public safety debt in 2017.

The following graph shows actual and projected sales tax revenue collections for the City through 2020. The drop in projected revenues in 2018 through 2020 reflects the Public Safety debt retirement in 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 as shown in the previous graph; 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, however, considering that the 2015 totals also include costs of inflation since 2008, not all of the taxable sales growth is due to increased volume. However, it does show that the economy in Pittsburg is showing steady growth.

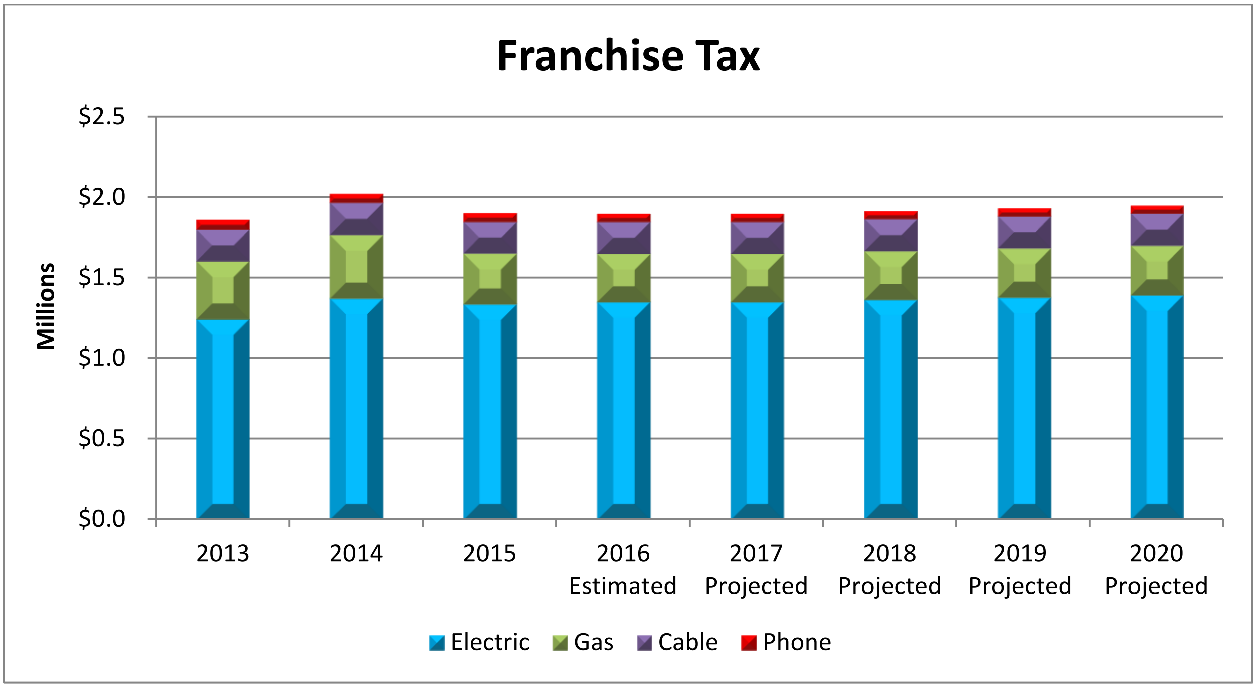
- **Franchise Taxes:**

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 and natural gas franchise taxes which comprised 87% of the total franchise taxes collected in 2015 are specifically driven by the climate and commodities market. The electric provider for the Pittsburg area implemented an average commercial rate increase of 5% beginning in November of 2015, however during the winter of 2015 and continuing into 2016 the City experienced milder than normal weather, so the estimated 2016 franchise tax collections remain flat. With the decline in natural gas prices and milder seasons, projections for natural gas franchise taxes are projected to be flat as well. Cable franchise taxes have been flat for several years and cell phones have reduced the dependence on land-line telephones, so that portion of franchise tax continues to decline. Management is estimating no increase over 2015 in franchise tax collections in the 2016 and 2017 fiscal years and 1% annual increase in franchise tax collections is being projected for years 2018 through 2020 due to expected electric rate increases.

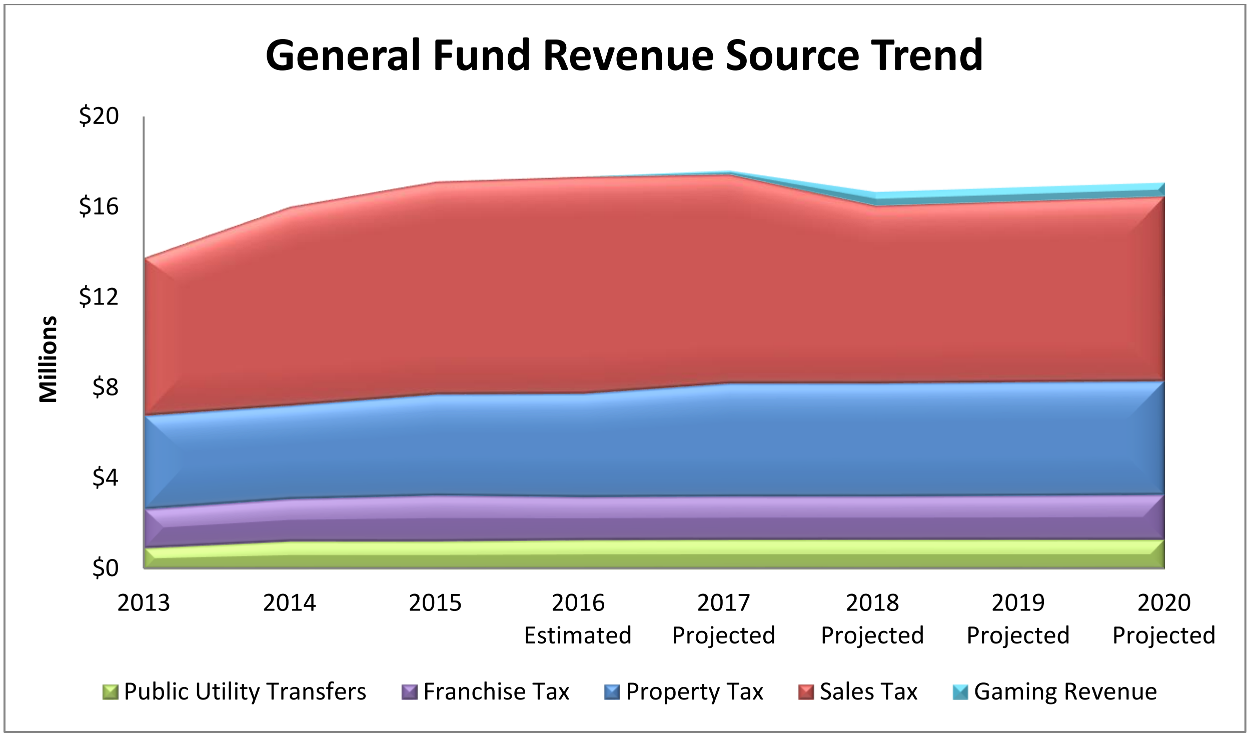
The graph below shows actual and projected franchise tax collections.



Gaming Revenue:

As stated earlier, the Kansas Crossing Casino is projected to be open for business in late 2017. The City's share of property taxes and gaming revenues are estimated to total $600,000 annually. Management is estimating $150,000 in new revenue for budget year 2017 and $600,000 annually in budget years 2018 through 2020.

The following graph depicts how the City's major source of general fund revenue has shifted from property taxes to sales taxes.



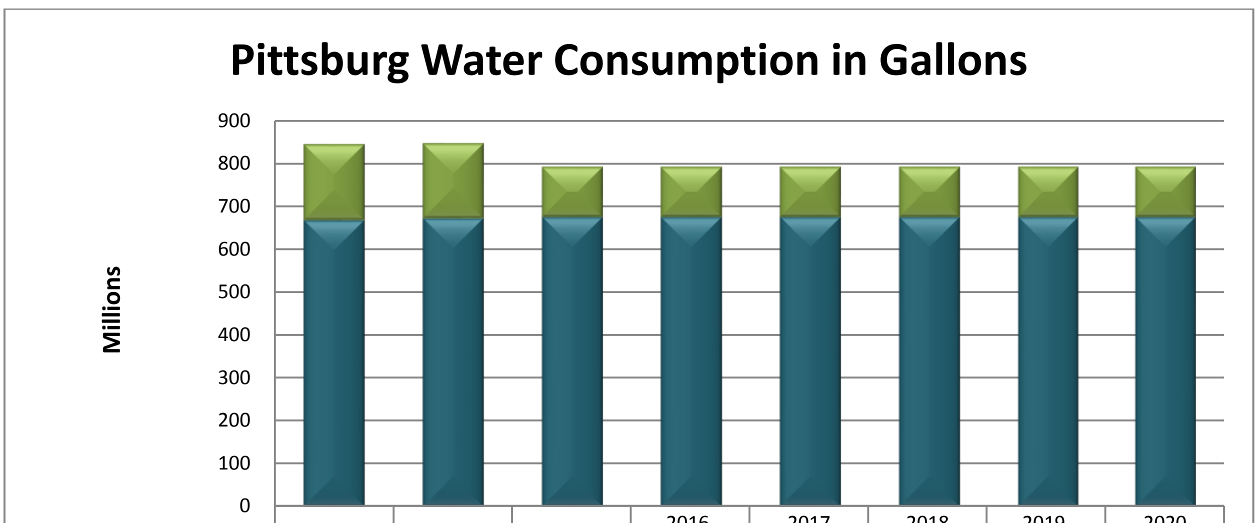
- **Other types of Revenues:** The City receives other types of revenue; however, the total is insignificant compared to property taxes, sales taxes, and franchise taxes.

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

Public Utilities:

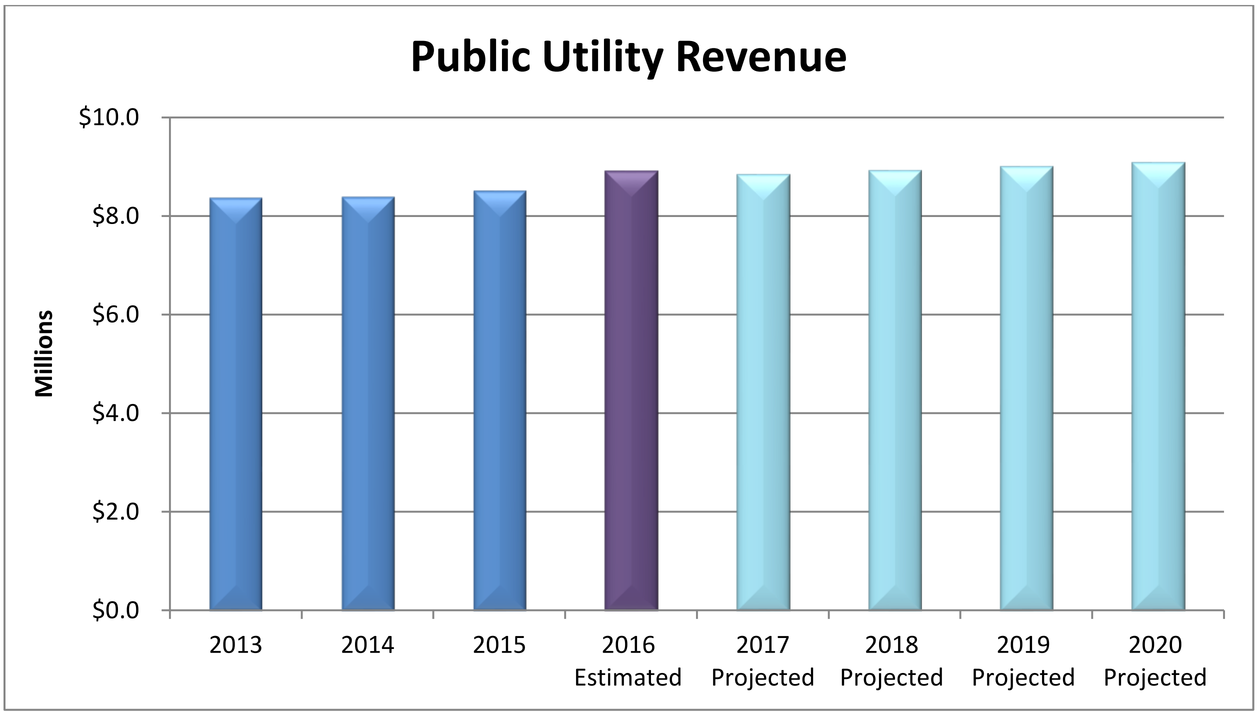
The primary revenue source for public utility activities is user fees. In the case of water and wastewater, the levels of usage are volatile and based on climatic conditions, as well as types of consumer base. For example, the City experienced a large drop in water consumption between the years 2007 and 2009 due to the closure of Superior Industries, which was the City's largest water consumer. 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 water consumption for the City's water utility. The 2015 consumption level is slightly lower than 2014 due to the mild wet weather the City experienced. 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 2015 level for years 2016 through 2020. The blue portion of the graph represents billed consumption and the green portion of the graph represents un-billed consumption. Un-billed consumption consists of the water used for hydrant flushing and water lost during main breaks. The years 2013-2015 show that progress was made in reducing water loss in the system.



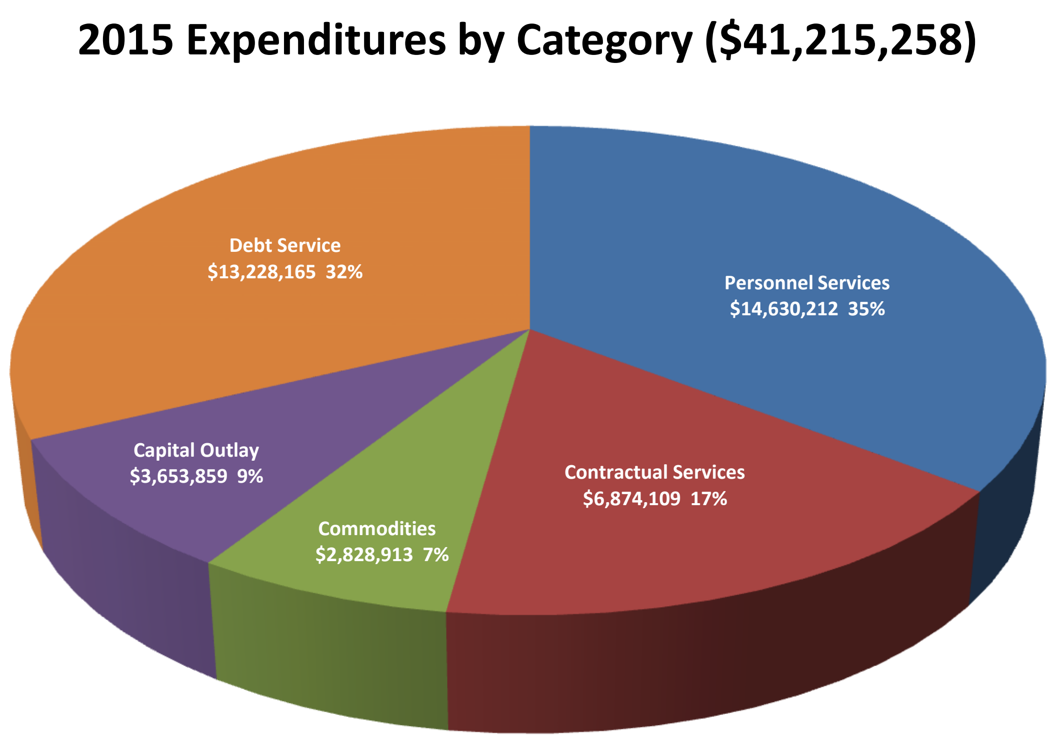
	2013	2014	2015	2016 Estimated	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Unbilled Consumption	177	175	118	118	118	118	118	118
Billed Consumption	669	673	676	676	676	676	676	676

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 2016 budget process, the City Commission approved a 1% increase in rates that became effective January 1, 2016. The graph below shows actual and projected utility revenue. The revenue increase in 2016 is due to one-time pre-treatment surcharges on an industrial customer. Years 2017 through 2020 include an annual rate increase of 1% to cover annual operating cost increases.



EXPENDITURES

The City is redirecting 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 2015.



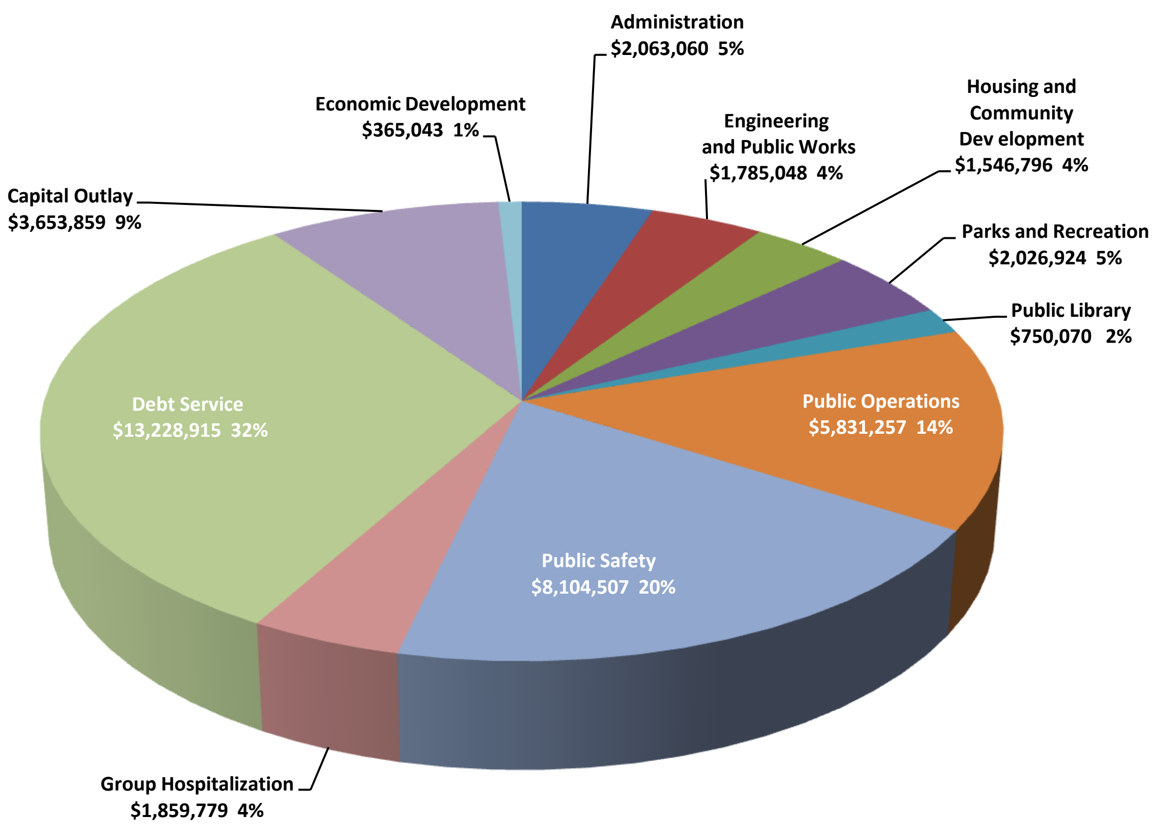
Personnel expenditures, as is the case with most entities, represent the majority of the City's expenditures. The personnel costs include salaries and benefits. For 2016 there are approximately 280 full time equivalent employees, with 234 having full time status. The City's benefit costs include health insurance, pensions, social security, workers compensation insurance, medicare and unemployment insurance.

Contractual services includes 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 2015 expenditures by program are shown below. In 2015 the Debt Service program shows the largest percentage of expenditures which is due to the refunding of two Kansas Department of Health and Environment loans with general obligation bonds to save on interest expense. Generally Public Safety is the largest program cost center followed by Public Operations (utilities and streets) and then Capital Outlay.

2015 Expenditures by Program ($41,215,258)



City Health Insurance Plan

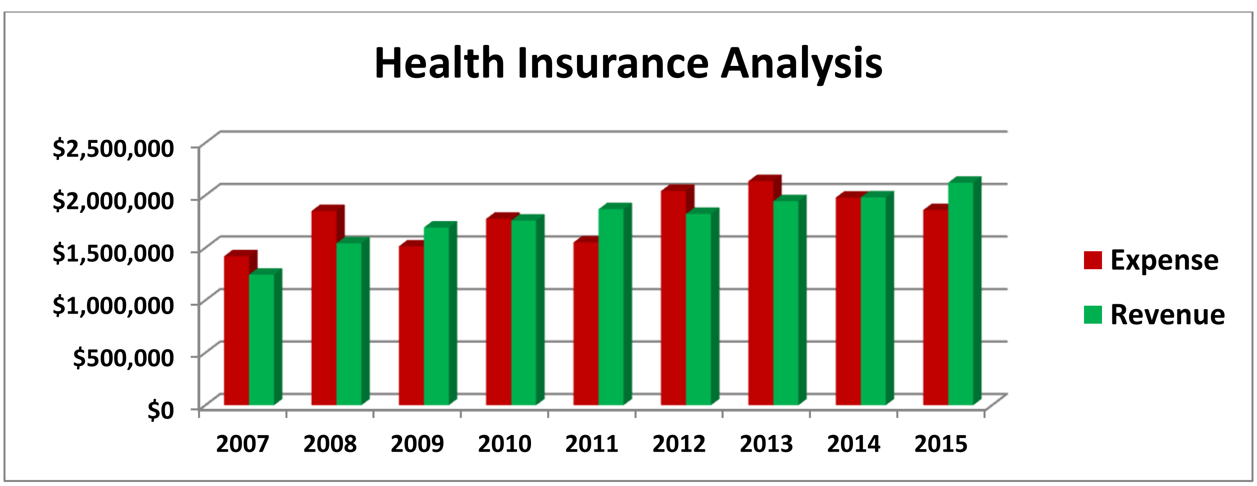
The City offers health insurance coverage to active employees and their dependents. Retired employees have the option to remain on the City's plan until they are eligible for Medicare or become covered or are eligible to be covered under another plan.

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 2007 through 2015 the average annual increase in health care costs were 4.96%. During this period, annual expenses were higher than the revenues generated for five of the nine 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 providers 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 ended 2015 with a balance of $369,401, an increase of $200,732. The Five Year Financial Plan projections are for 5% cost increases for years 2017 through 2020 based on 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 nine 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 in excess of $98 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 2016 Five Year Capital Improvements Plan, staff identified approximately $48.2 million of needs for years 2016 through 2020 and beyond. Of this amount, approximately $11.3 million is unfunded. The capital Improvement program located in the supplemental information section summarizes the estimated costs of repairs, maintenance, and replacements for 2016 through 2020 and beyond, by department and asset type. During the 2015 budget year the following needs were addressed:

- Mill and resurface West 4th Street from Pine to the west City limits
- Road reconstruction and new 8" water line on East Quincy from Broadway to Joplin
- Quincy and Joplin intersection signalization
- Centennial and Rouse intersection signalization
- East-West Trail from Trail Head Park on Broadway to Schlanger Park on East 4th Street
- Pitsco-Sunflower Trail from PSU Tech Center to Jefferson along Rouse
- New parking lot on Broadway between 11th Street and Garman Avenue
- Rebuild Water Well #9
- New 8" water line on West Jefferson from Catalpa to Georgia
- New 8" water line on Elmwood from Jefferson to Quincy
- New 8" water line on Fairview from 5th to 6th and on Highland from 6th to 7th
- Various sanitary sewer improvements
- Various water meter and fire hydrant replacements

In late 2015 the City acquired an asset management system which is to be implemented mid-year of 2016. This software will better enable the City to manage infrastructure capital assets and to minimize the cost of owning, operating and maintaining assets at acceptable levels of service.

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
- Investment Income
- Transfers
- Other

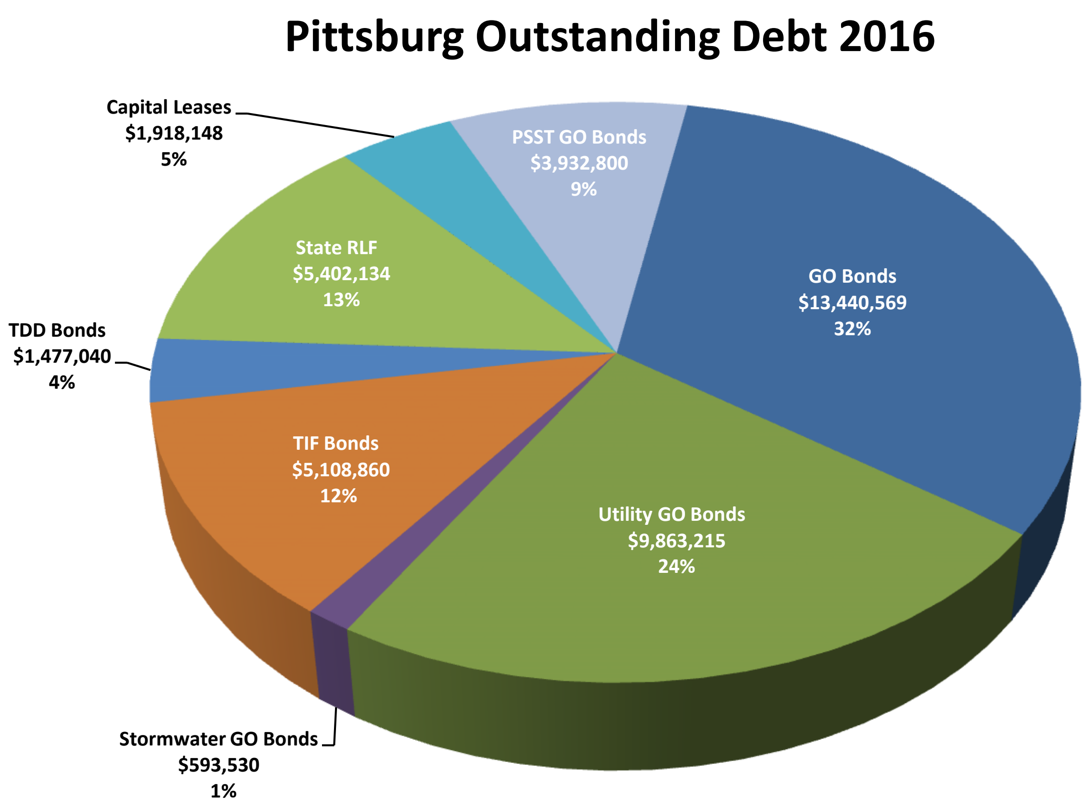
The City's bond rating was upgraded from A+ to AA- by Standard and Poor's in 2015. The upgraded bond rating was due to the City's enhanced financial management practices coupled with stable budgetary performance and projected stability in future years.

The financial plan for the City includes debt payments for current obligations and forecasted payments associated with issuing new debt in the fall of 2016. The anticipated 2016 $5 million general obligation bond issue will be for South Rouse road improvements from the Centennial intersection to the south city limits and for the City's share of the airport 16/34 runway milling, asphalt overlay and 600 foot extension. This 2016 bond issue repayment is anticipated to begin in 2017 with an estimated cost of approximately $400,000 annually for fifteen years.

Staff is projecting the early pay off of the City's general obligation bonds series 2007B in the fall of 2017. The bonds were issued to build, furnish and equip the Law Enforcement Center and Fire Station #1. These bonds were originally scheduled to be repaid in September 2018 and are being paid by a dedicated one-half cent City sales tax.

Types of Debt

The City of Pittsburg uses several types of debt to pay for capital improvements and expensive equipment. The graph below shows the type of debt and the category percentage of the City's total debt. The total debt amount of outstanding debt including principal and interest is $41,736,296.



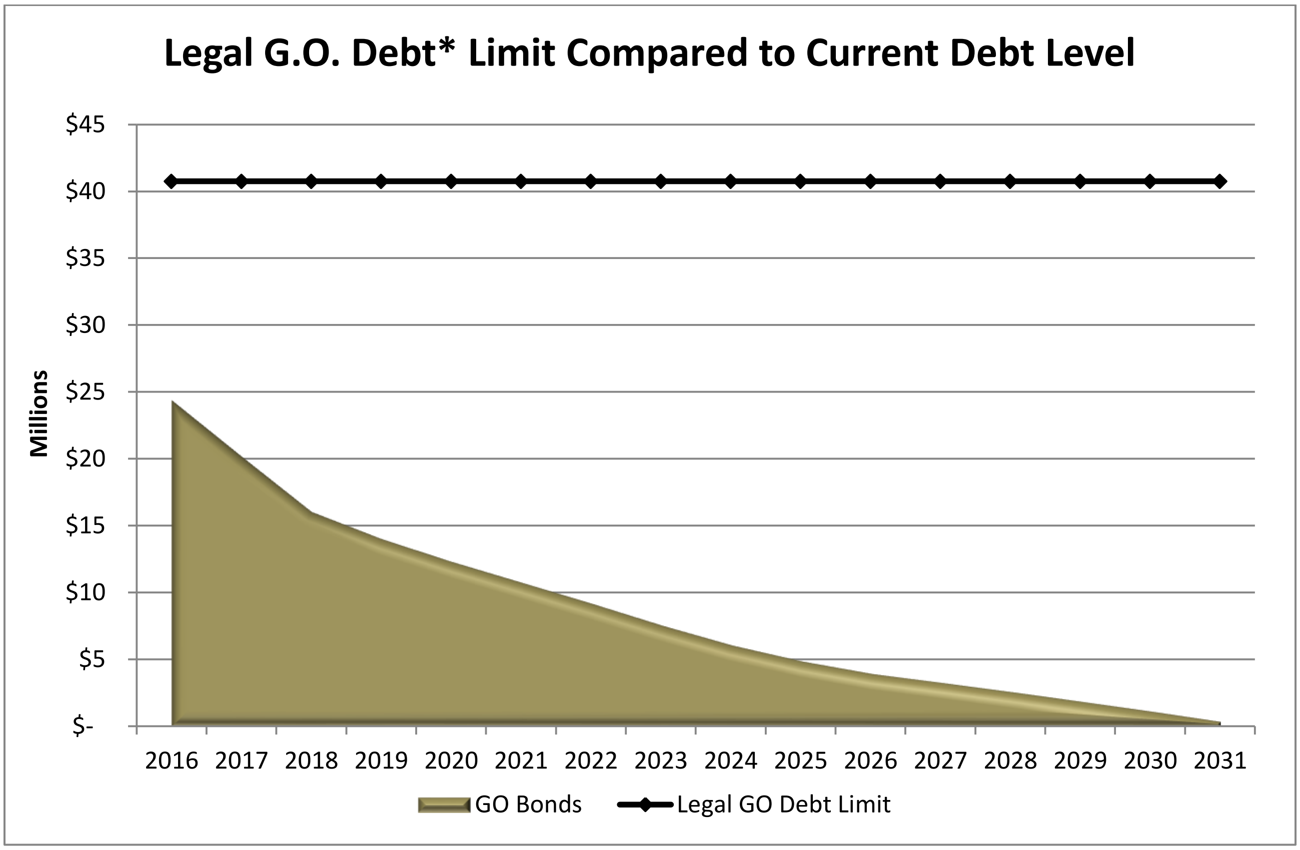
Effective debt management requires monitoring debt levels to ensure the soundness of the City's financial position and continued credit worthiness. The City uses the following measurement tools to manage its debt levels:

For Fiscal Year 2016

City's G.O. debt as a percentage of assessed valuation including motor vehicle	18%
General obligation debt per capita	$1,196
Mill Rate	7.457 mills

Kansas statutes require general obligation debt to be less than 30% of assessed valuation.

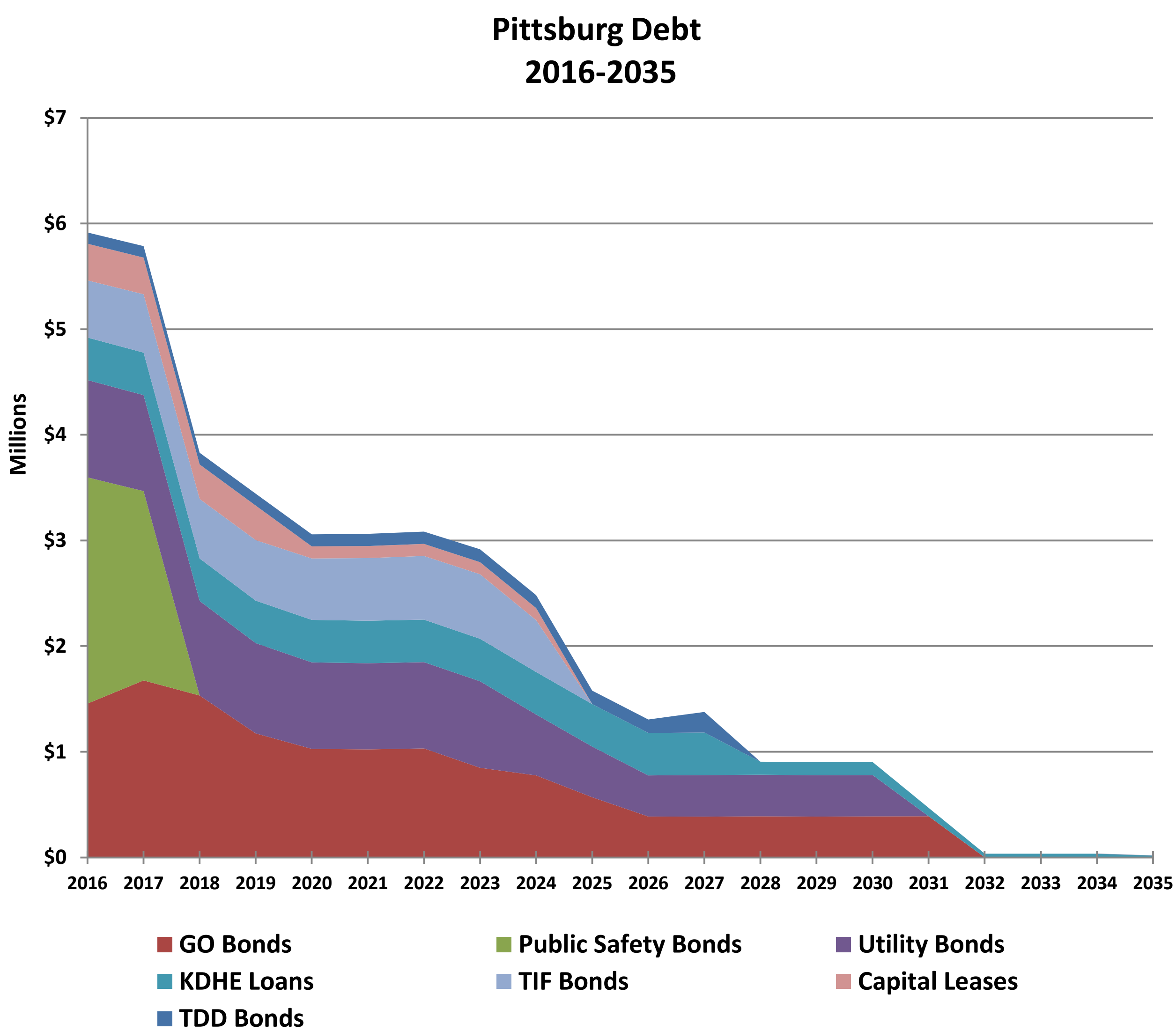
The following graph shows the difference between the City's current total outstanding G.O. Debt compared to what is allowed according to state statutes. The brown indicates the City's current level of G.O. Debt and the black line indicates the legal limits (30% of assessed valuation including motor vehicle):



*Principal only and includes Utility G.O. debt and PSST G.O. debt

Cumulative Debt:

The following graph depicts the City's total annual debt by type and the year the bonds are scheduled to be retired. The Stormwater bonds and the Public Safety bonds are scheduled to be retired in 2017.



RESERVES

Reserves are the cornerstone of financial stability and flexibility, providing an organization options with which to respond to unforeseen risks. The most challenging issue regarding reserves is the balance between enough and too much. While there is no specific right or wrong answer, there are analytical tools that can determine what an appropriate level is for each organization. Several risk factors to be considered are:

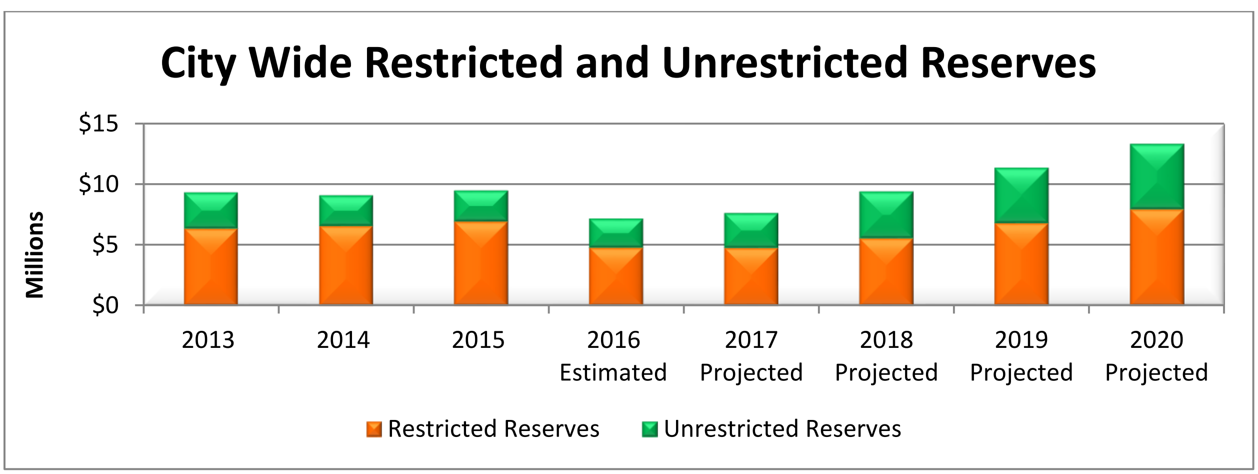
- Revenue volatility
- Infrastructure condition
- Extreme events such as weather
- External Factors

The Government Finance Officers Association (GFOA) recommends minimum reserve levels at 16% of revenues for governmental funds and two months of expenditures for enterprise funds. The City has determined that its goal should be to maintain the equivalent of two months of expenditures as a minimum reserve level for governmental funds and enterprise funds.

During the great recession, some minor 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 most often to pay for programs and services.

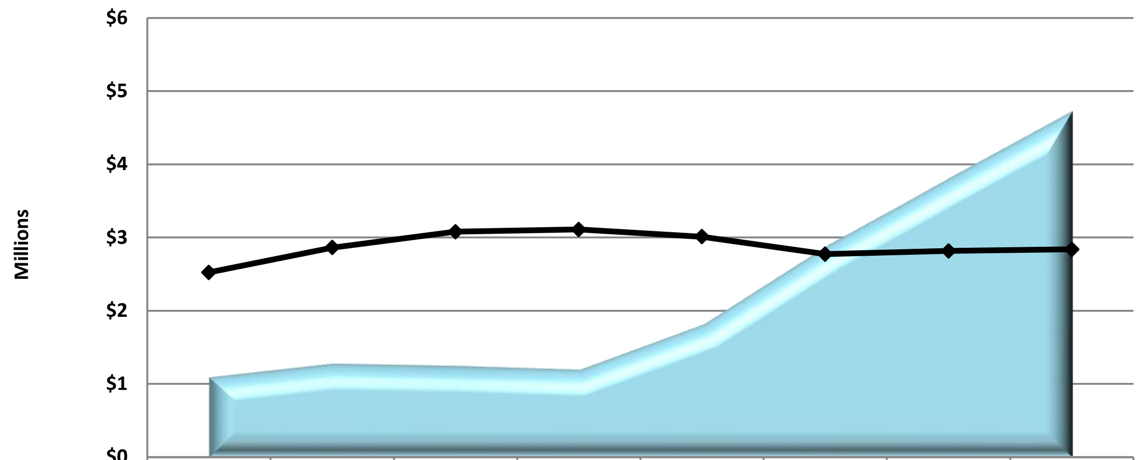
With the projected growth in property and sales tax collections, reserves should start to improve, as long as we continue to adjust our spending and revenue picture.

The Chart below shows the impact of staff recommendations on restricted and unrestricted reserves. The 2016 decrease is due to projected economic development expenditures for infrastructure improvements associated with the new La Quinta Hotel and three downtown projects; 4th & Broadway student housing, the Lord's Diner, and a 6th & Broadway housing incentive.



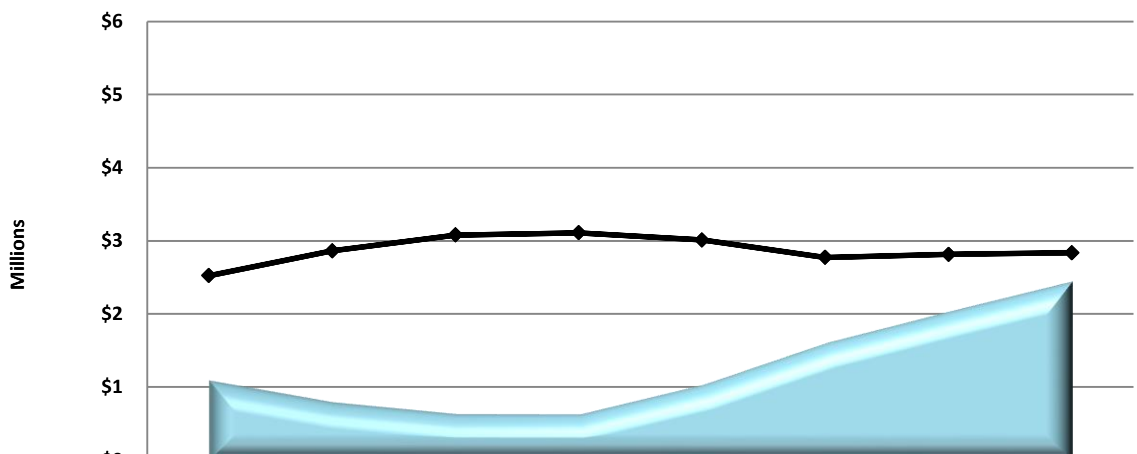
The following graphs show the projected General Fund operating reserves compared to the reserve goal (16% of expenditures) with the PSST and without:

General Fund Operating Reserves



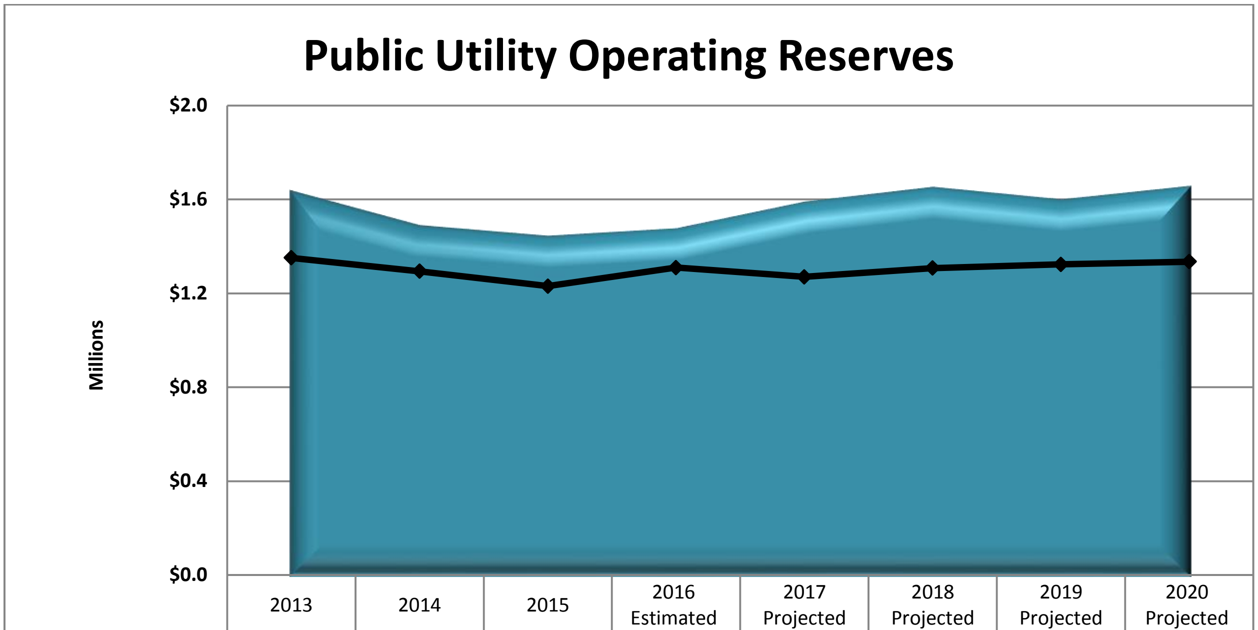
	2013	2014	2015	2016 Estimated	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Fund Balance	$1.097	$1.287	$1.255	$1.203	$1.823	$2.899	$3.827	$4.734
Reserve Goal	$2.523	$2.862	$3.079	$3.110	$3.011	$2.773	$2.815	$2.837

General Fund Operating Reserves without PSST



	2013	2014	2015	2016 Estimated	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Fund Balance	$1.097	$0.800	$0.639	$0.632	$1.038	$1.614	$2.043	$2.450
Reserve Goal	$2.523	$2.862	$3.079	$3.110	$3.011	$2.773	$2.815	$2.837

The following graph shows the projected Public Utility Fund operating reserves excluding capital reserves compared to the reserve goal (16% of expenditures):



	2013	2014	2015	2016 Estimated	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Fund Balance	$1.634	$1.487	$1.442	$1.473	$1.586	$1.650	$1.596	$1.654
Reserve Goal	$1.351	$1.294	$1.230	$1.310	$1.270	$1.308	$1.323	$1.335

SUMMARY AND RECOMMENDATION:

The purpose of this document is to outline the current financial position and provide insight to some of the issues that the City faces in the future. Current decisions and plans will have a direct impact on the financial stability and the ability of the City to thrive throughout future financial challenges.

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.

On May 2, 2016 the Kansas legislature approved Senate Substitute for House Bill No. 2088 which changed the property tax lid effective date for cities to January 1, 2017. This new law means the 2017 budget will be the last budget whereby local governments can levy taxes without having to meet state mandated restrictions (see Section 4, page 107 in the City Commission Working Day Book for provisions of this new law). This provides yet another costly hurdle to managing the difficult task of providing adequate, affordable services to Pittsburg.

Based upon our projections of revenues and expenditures, using historical data and other known factors, the financial plan was prepared using the following assumptions, considerations and recommendations.

Assumptions

- 1% annual growth in sales tax collections for years 2017-2020
- 0.25% growth in assessed valuations for years 2018-2020
- All other revenues project minimal growth
- Health Insurance costs have risen historically at an average rate of 5% annually therefore projecting a 5% increase for years 2017-2020
- Retirement costs and workers compensation insurance will continue to increase
- Utility rates continue to rise (electricity will increase 5% in years 2017-2020)
- Property and liability insurance will continue to increase at an average rate of 5% annually

Considerations

- Increase revenues incrementally
- Monitor and control expenditures
- Increase reserves
- Practices long term planning
- Make data driven decisions

Recommendations

- 2.0% salary increase in 2017 and 2019; no salary increase in 2018 or 2020
- Increase the General Fund mill rate by 4 mills in 2017
- Increase the Debt Service mill rate by 1 mill in 2017; 1.5 mills in 2018
- Increase utility rates by 1% annually for years 2017-2020

Staff will continue to review the City's financial position each year and make recommendations to the Five Year Financial Plan for your consideration.