

2017 Five Year Financial Plan



Five Year Financial Plan

City of Pittsburg, Kansas

May 20, 2017

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. Long-term financial plans...

- 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.
- 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, recently 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 2018 Budget and subsequent years through 2021. 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 2016 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.

2016 Recap

During the 2016 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. Increasing the mill rate

- a. In the 2017 General Fund mill rate by 4.0 mills, due to the property tax lid going into effect beginning with year 2018.
- b. Increase the Debt Service mill rate by 1.0 mill in 2017 and 1.5 mills in 2018.

Action Taken: The City Commission elected to raise the 2017 General Fund mill rate by 2.0 mills and the Debt Service mill rate by 1.0 mill.

2. Increasing utility rates by

- a. 1% for 2016
- b. 1% for 2017
- c. 1% for 2018
- d. 1% for 2019
- e. 1% for 2020

Action Taken: The City Commission approved a 1% increase in utility rates for the 2017 budget.

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., b. and c. as presented.

4. Limit merit salary increases to

- a. 2.0% in 2017 and 2019: no salary increase in 2018 or 2020.

Action Taken: The City Commission approved the 2017 budget with a 2.0% salary increase.

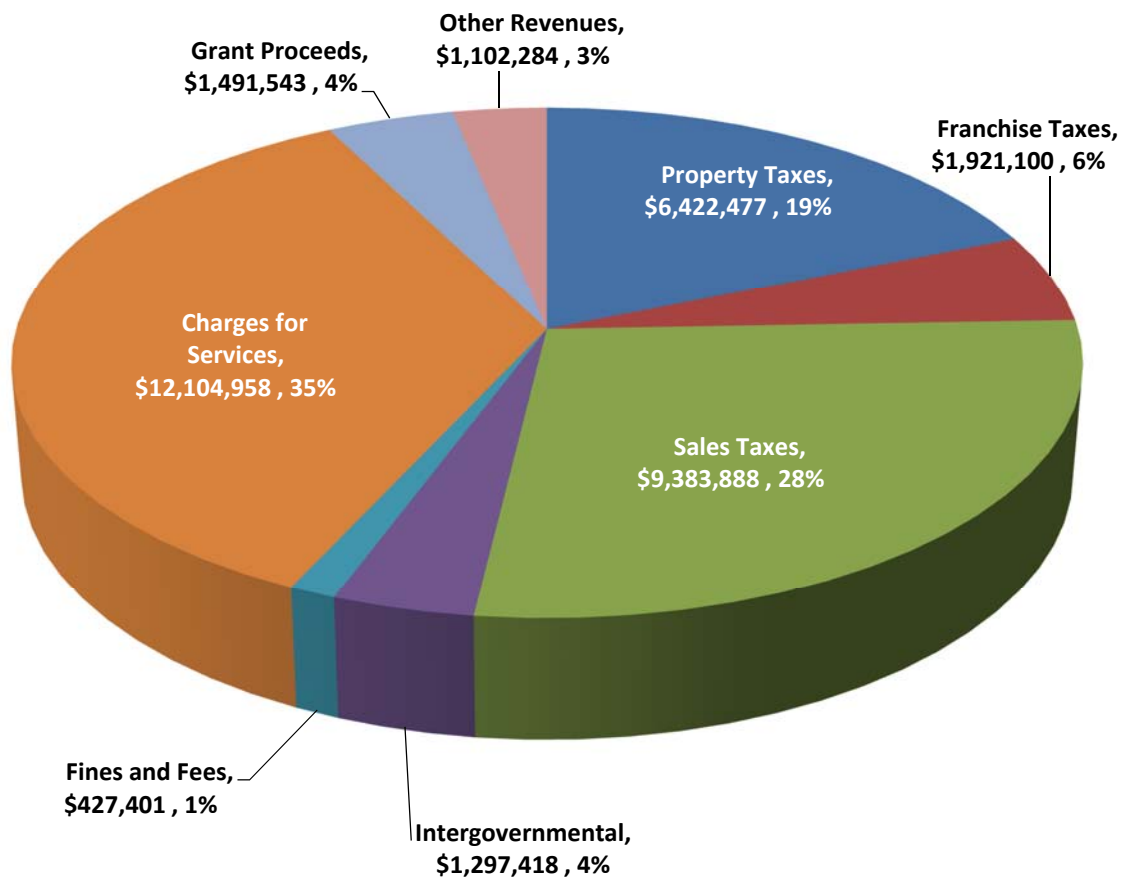
Changes in our economic condition will affect projections. The City management will review the situation every year and adjust activity to meet the City's needs.

REVENUES

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 2015 total revenues, the 2016 revenues decreased by \$7.1 million. This is due to \$6.7 million in bond refunding in 2015 and RLF loan activity.

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 2016 revenues by source and the percentage of total revenues each source represents.

2016 Revenues by Source (\$34,151,069)



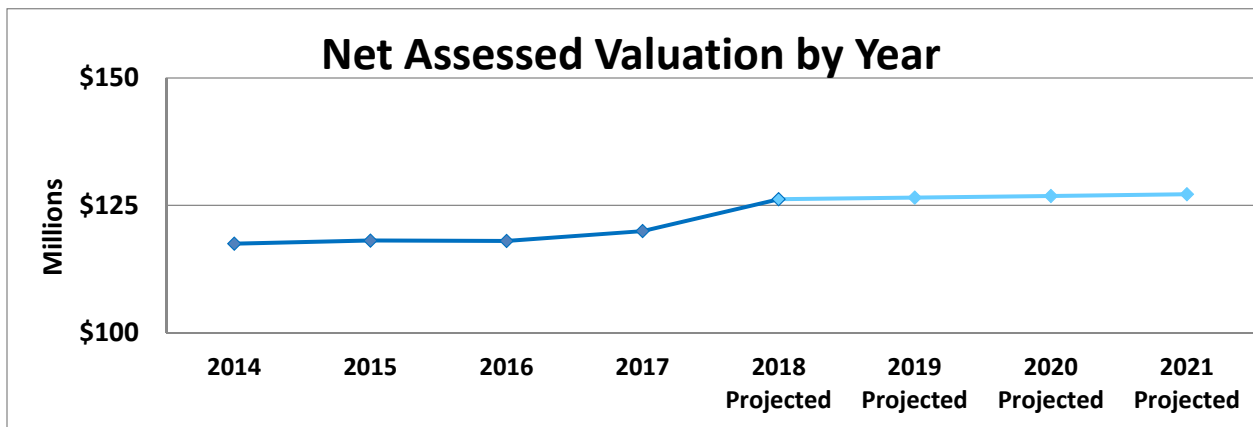
General Fund

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 for the past six years with slight growth for 2017. Staff is projecting an increase in the City's net assessed valuation of approximately 5.0% for 2018 due to the Kansas Crossing Casino, the Hampton Inn Hotel, the La Quinta Hotel and the Tractor Supply Store. For years 2019 through 2021 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.

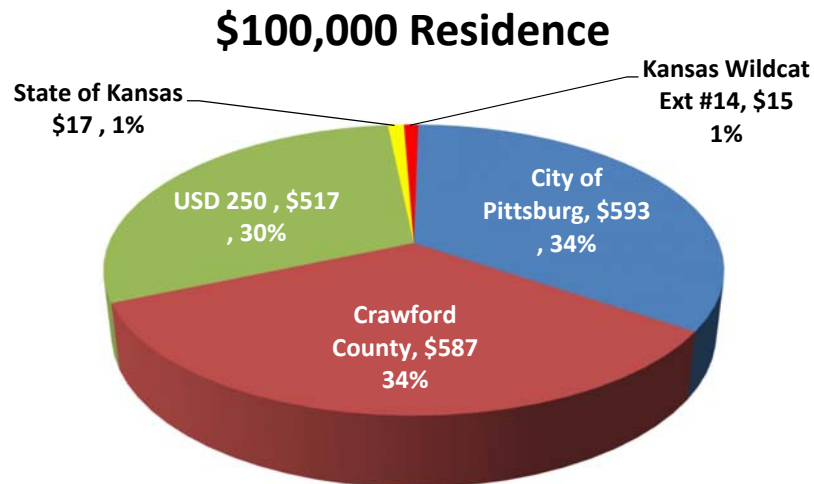


For the 2017 budget year one mill in the City of Pittsburg generates \$119,976. Historically, the City collects approximately 95.5% of the taxes levied. The table below shows the general fund mill rate and actual tax dollars generated for the last five years with 2017 being estimated.

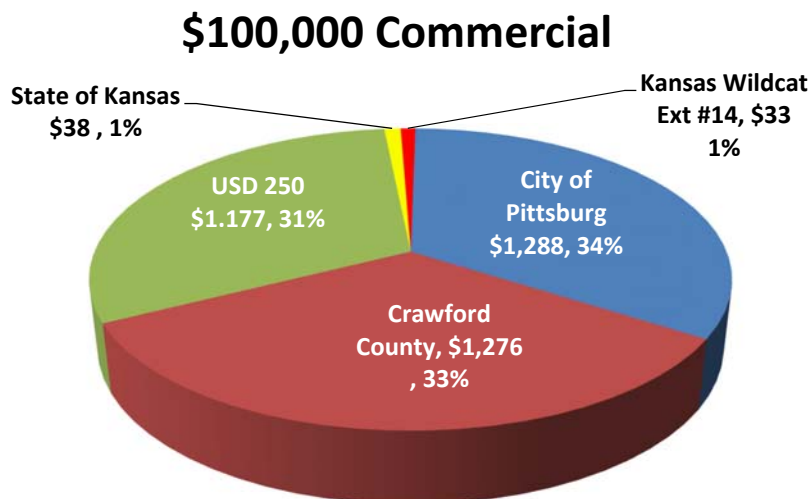
Valued for	Net Valuation	General Fund Mill Rate	Tax Dollars Collected
2012	\$ 117,919,158	30.956	\$ 3,637,172
2013	\$ 117,721,546	31.933	\$ 3,716,583
2014	\$ 117,495,446	31.880	\$ 3,737,708
2015	\$ 118,098,699	33.851	\$ 3,819,508
2016	\$ 118,016,161	35.076	\$ 3,966,486
2017	\$ 119,976,319	36.946	\$ 4,232,605 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 2017 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 2017 cost on a commercial property with appraised value of \$100,000.

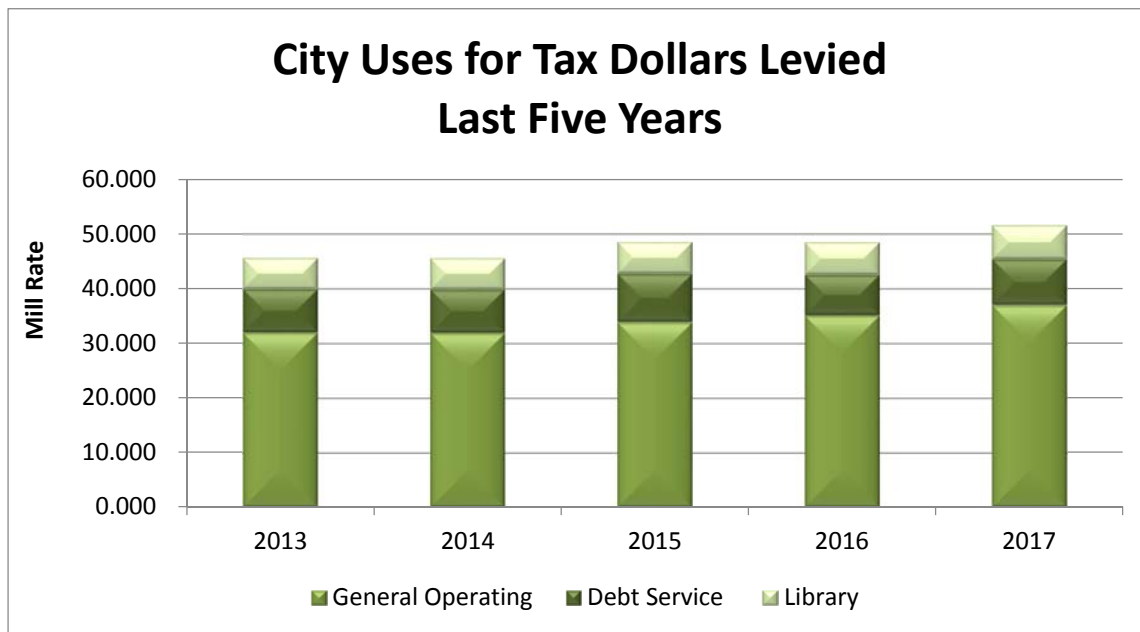


The following chart shows the various property tax jurisdictions within Pittsburg and their respective 2017 mill rates.

Entity	Mill Rate
City of Pittsburg	51.539
Crawford County	51.057
USD 250*	49.914
State of Kansas	1.500
Kansas Wildcat Extension #14	1.339
TOTAL	154.349

*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.

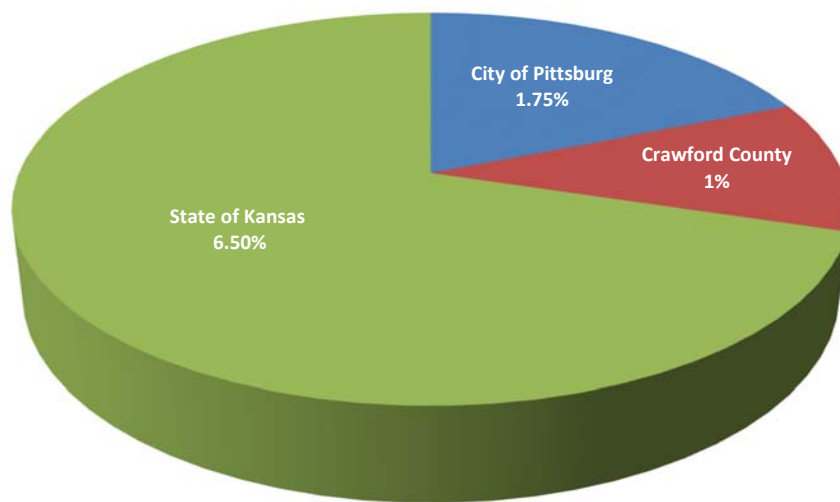


Sales Tax

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).

Pittsburg Sales Tax Rate - 9.25%



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 \$2.3 million of the Crawford County sales tax in 2017.

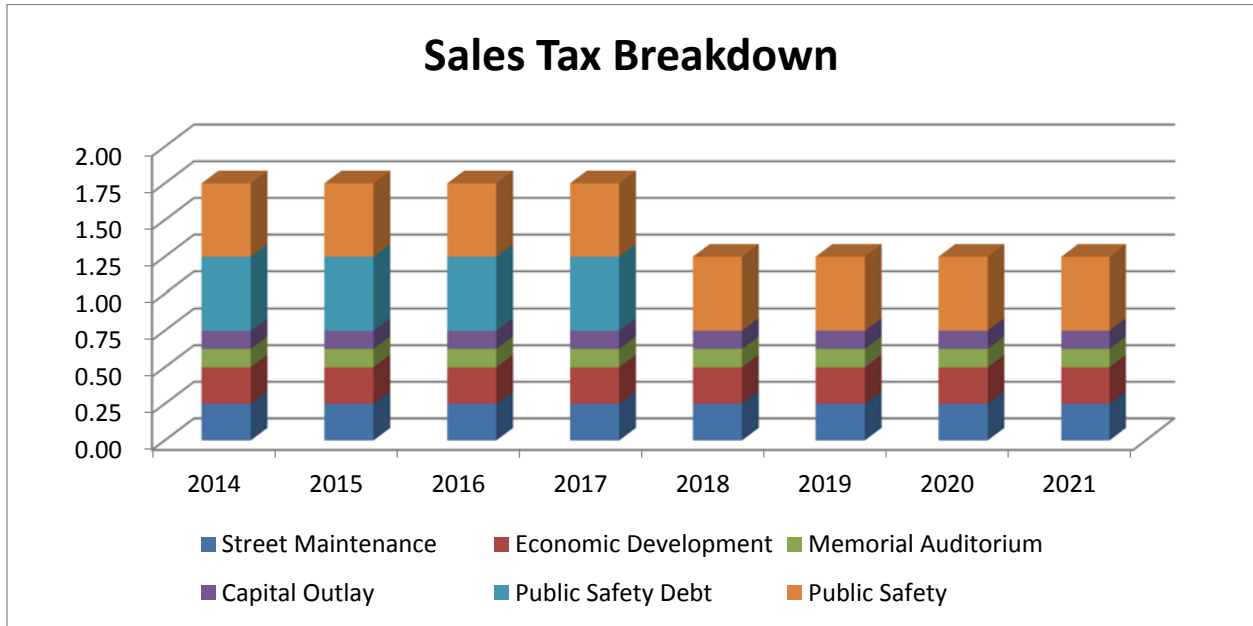
There are six programs funded by dedicated sales taxes in Pittsburg. Three have renewal or end dates. The sales tax for street maintenance was approved by voters for another five years in 2015 and will expire March 31, 2021; the public safety debt sales tax was approved by voters to remain in effect until the bonds are paid off which will 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 is holding a Special Election on July 11, 2017 asking for a quarter cent sales tax for road improvements for five years.

The City's portion of the sales tax rate is currently 1.75 percent and is earmarked as follows:

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

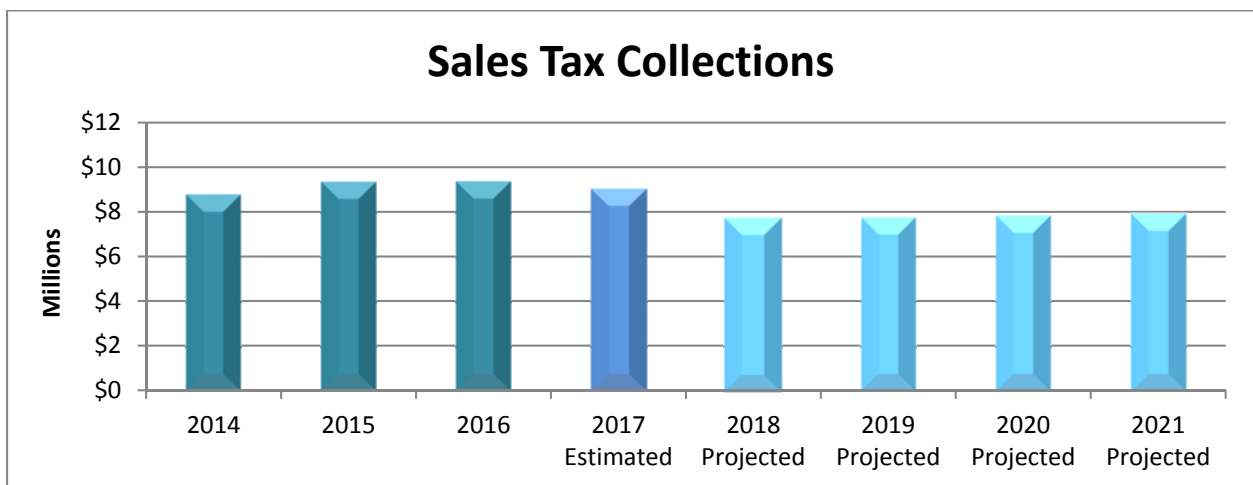
The City's Tax Increment Financing District has an additional .30 sales tax rate and is used to repay the Transportation Development District debt which is expected to be retired in 2027.

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



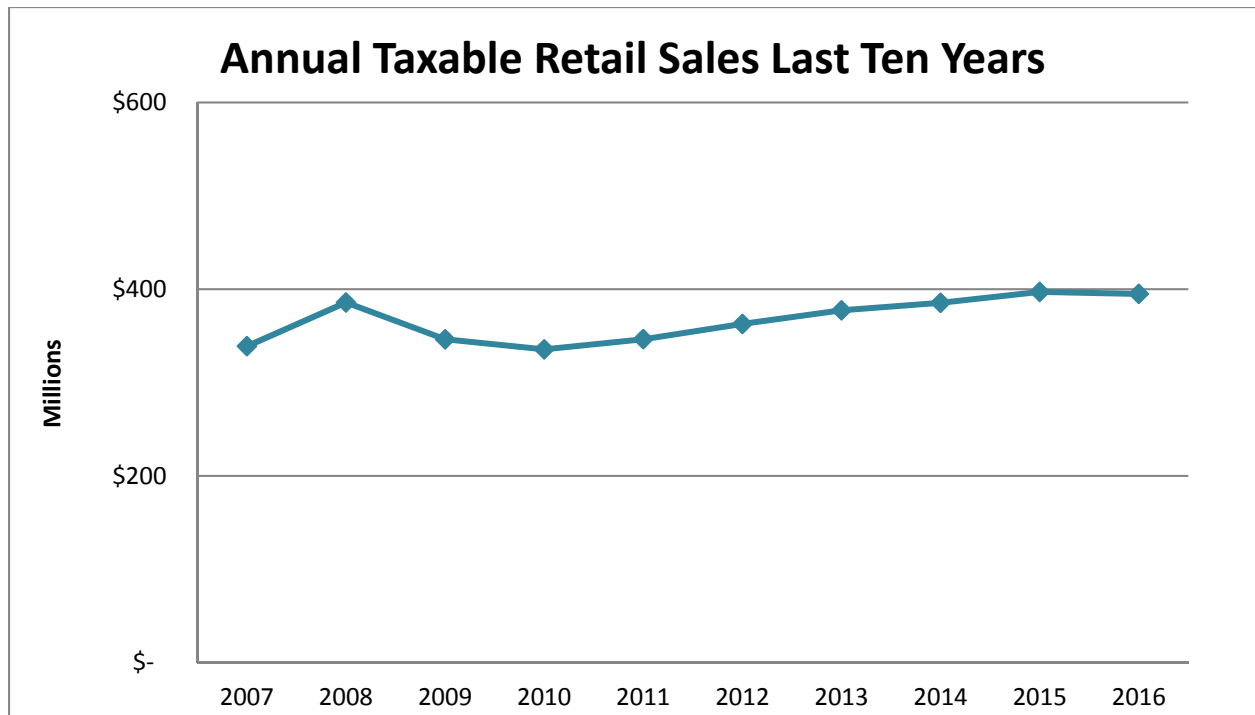
Sales tax revenue collections for 2016 were flat with only a 0.17% increase over 2015. The revised estimate for 2017 is 2.5% growth over 2016 and 2.0% growth for 2018 over 2017 due to the Kansas Crossing Casino, the Hampton Inn Hotel, the La Quinta Hotel and the Tractor Supply Store. Sales tax projections for 2019 through 2021 include a 1% increase per year as well.

The graph below shows actual and projected sales tax revenue collections for the City through 2021. The drop in sales tax revenue from 2016 to 2018 reflects 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 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 Pittsburgh is showing steady growth.

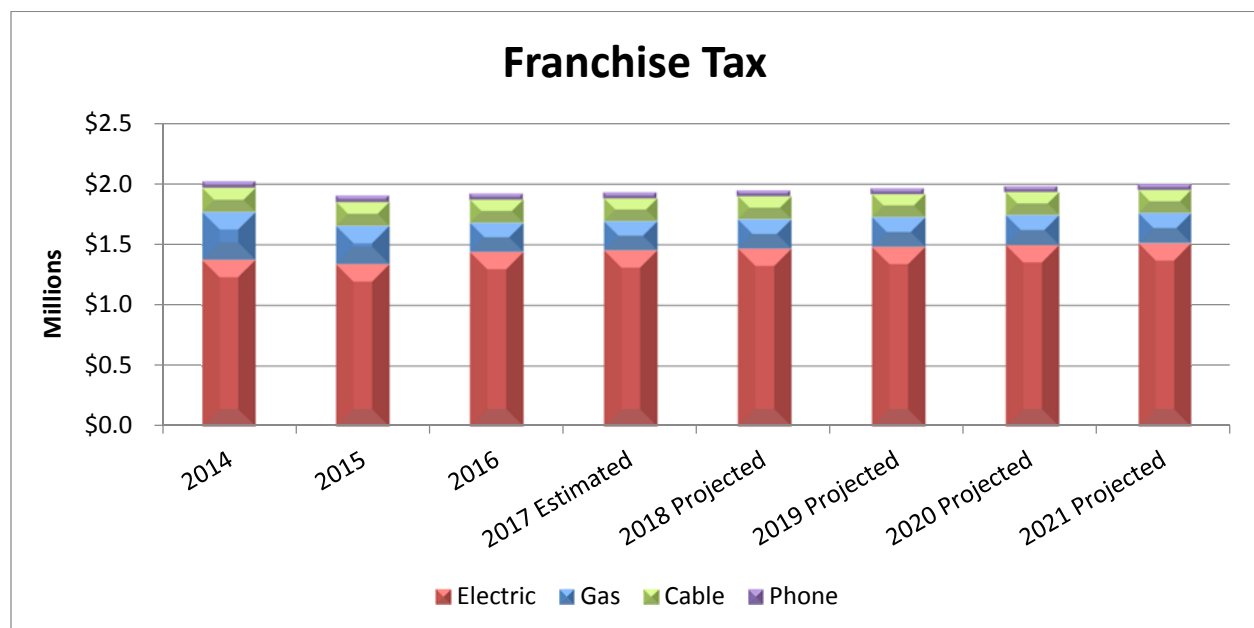
Franchise Taxes

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 franchise taxes comprised 75% of the total franchise taxes collected in 2016 and are specifically driven by the climate and commodities market. Westar Electric implemented an average commercial rate increase of 5% in November of 2015 and 2016 electric franchise taxes increased by 7.6% over 2015. Natural gas franchise taxes are projected to increase slightly in 2017 due to price increases in 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 remain flat or decline. Staff is estimating a 1% increase in 2017 for electric and natural gas franchise taxes over 2016 while cable and phone franchise fees remain flat. For years 2018 through 2021 a 1% increase is projected for franchise tax revenues.

The graph below shows actual and projected franchise tax collections.



Gaming Revenue

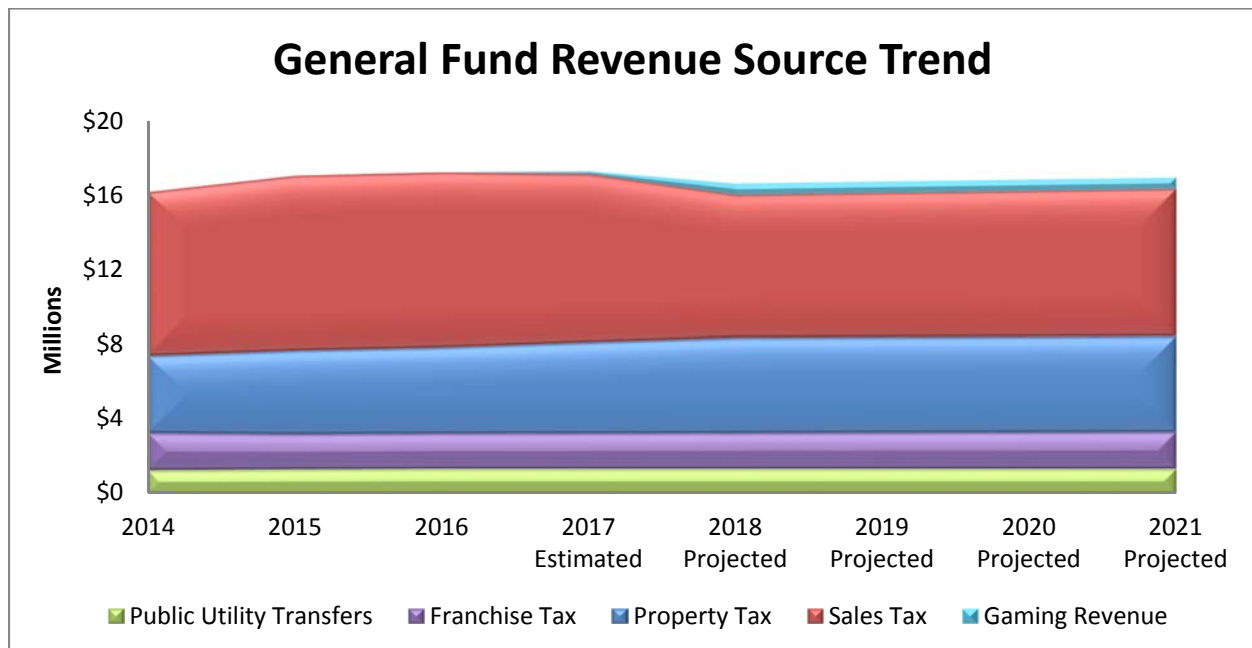
As stated earlier, the Kansas Crossing Casino opened in April of 2017. The City will receive 1% of the gaming revenues generated by the Casino plus property taxes and utility charges for service. Staff is estimating \$255,000 in gaming revenue for budget year 2017 and \$375,000 for years 2018 through 2021. The City's share of property taxes is estimated to be approximately \$300,000 in 2018 through 2021.

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

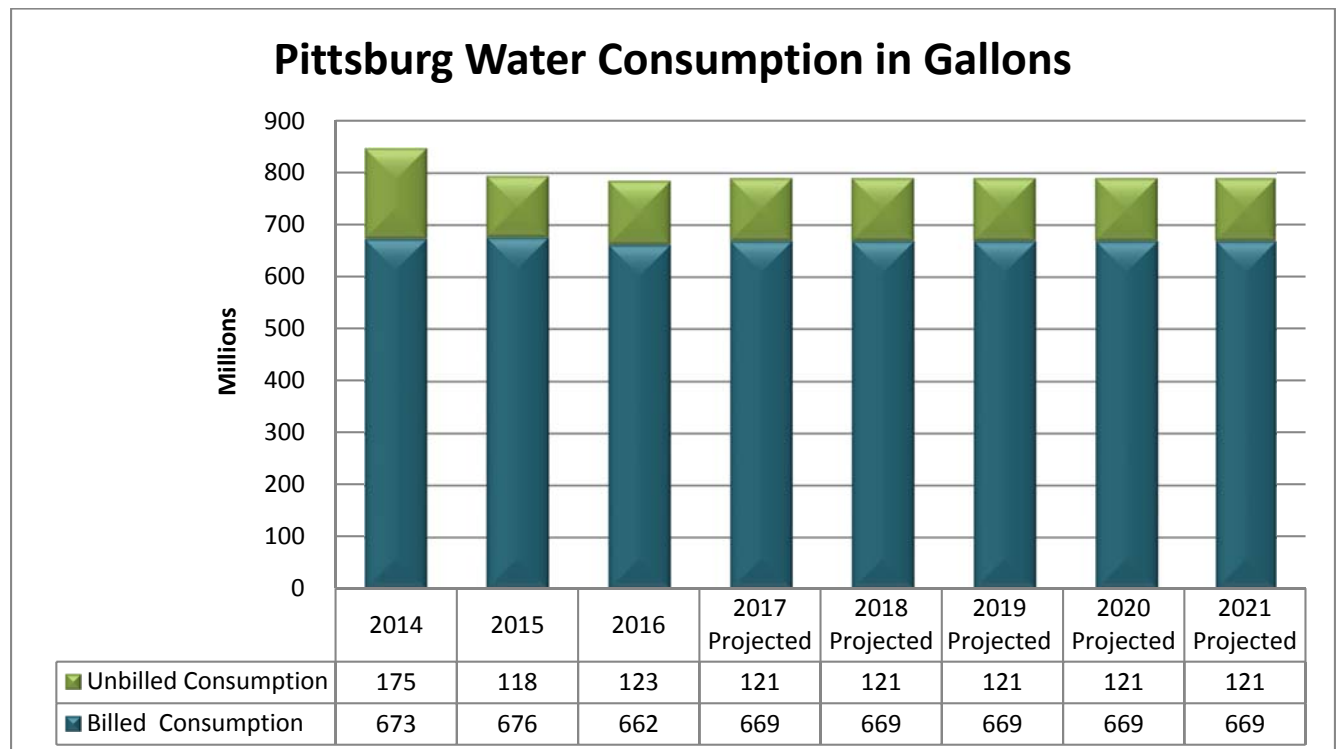
The following graph depicts the City's major sources of general fund revenue with sales taxes being the top source. As mentioned previously, the decline beginning in 2017 is due to the Public Safety debt sales tax retirement in the fall of 2017.



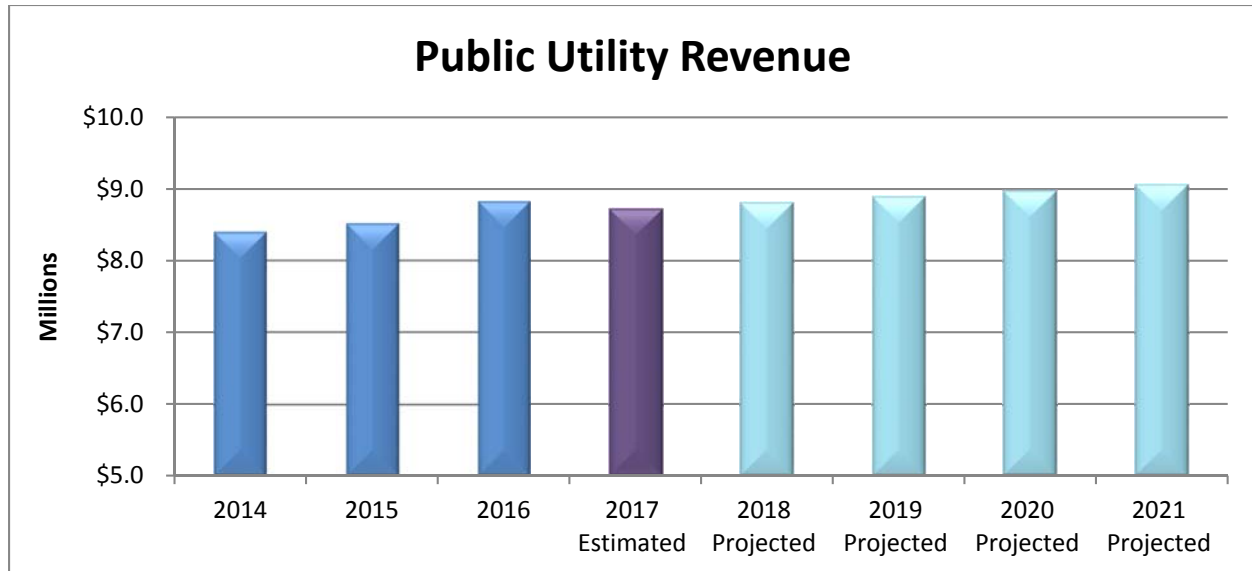
Public Utilities

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 water consumption for the City's water utility. The 2016 consumption level is slightly lower than 2015 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 average of the 2015 and 2016 levels for years 2017 through 2021. 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 during hydrant flushing and the water lost during main breaks. The years after 2014 show that progress was made in reducing water loss in the system.



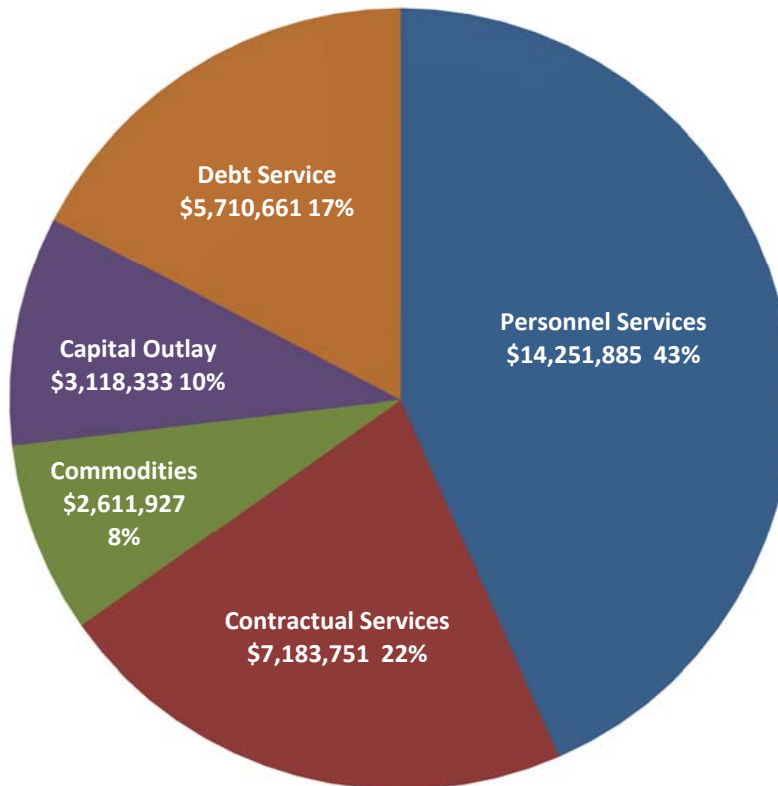
Things that impact utility revenues are annual climate conditions, water loss, whether through aged meters or unidentified leaks, changes in impervious areas, and rate changes. During the 2017 budget process, the City Commission approved a 1% increase in rates that became effective January 1, 2017. The 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 2018 through 2021 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 2016 excluding inter-fund transfers.

2016 Expenditures by Category (\$32,876,557)



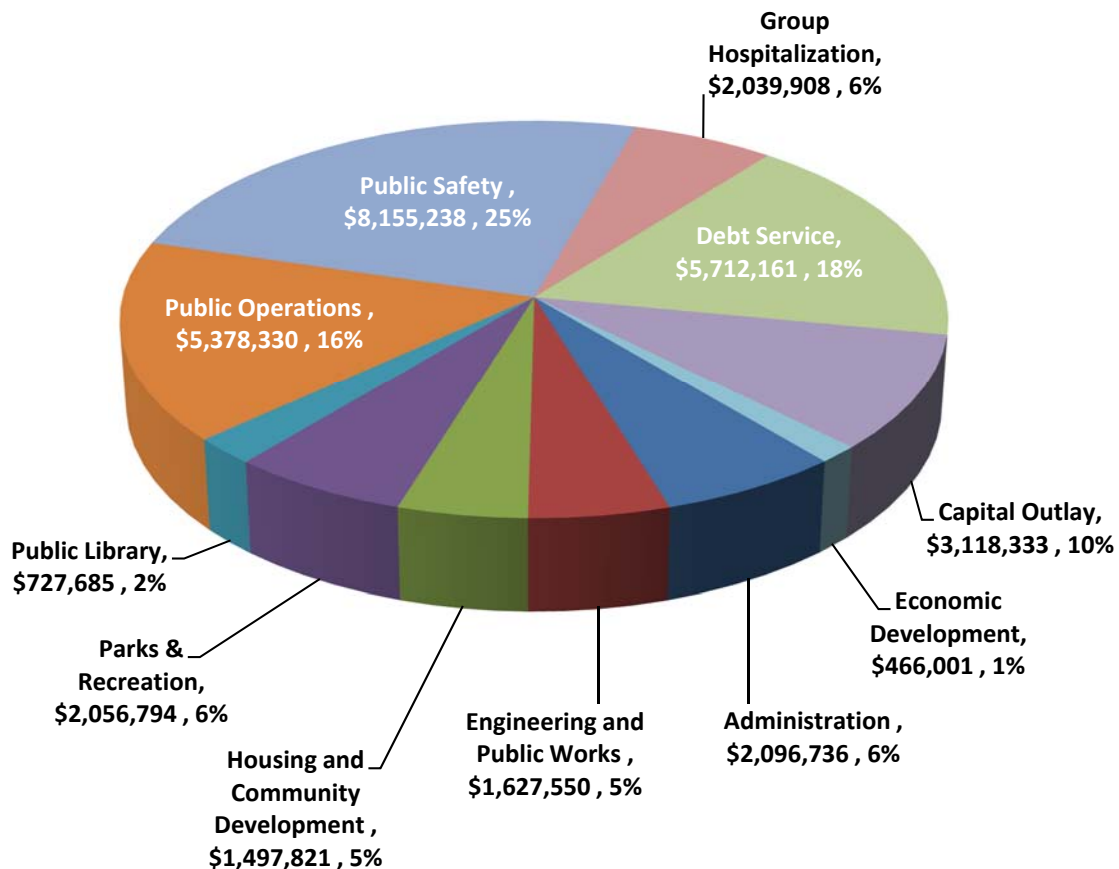
Personnel expenditures, as is the case with most entities, represent the majority of the City's expenditures. The personnel costs include salaries and benefits. For 2017 there are approximately 286 full time equivalent employees, with 239 having full time status. The City's benefit costs include health 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 2016 expenditures by program excluding inter-fund transfers are shown below. In 2016 the Public Safety program shows the largest percentage of expenditures followed by Public Operations (utilities and streets) and then Debt Service.

2016 Expenditures by Program (\$32,876,557)



City Health Insurance Plan

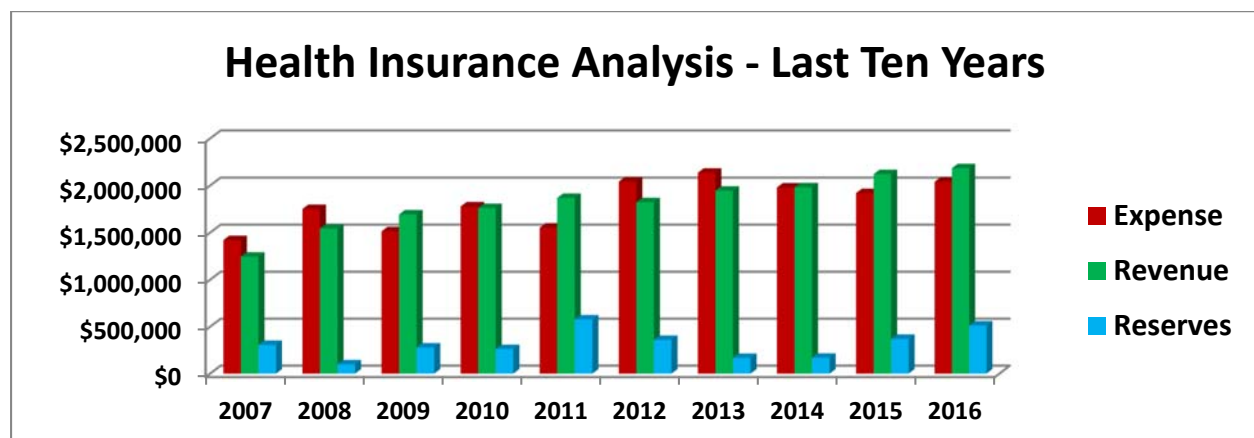
The City offers health insurance coverage to active employees and their dependents. Retired employees have the option to remain on the City's plan until they are eligible for Medicare or become covered or are eligible to be covered under another plan.

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 2016 the average annual increase in health care costs were 5.17%. During this period, annual expenses were higher than the revenues generated for five 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 \$369,401 at the start of 2016 and ended 2016 with a balance of \$512,992, an increase of \$143,591. The Five Year Financial Plan projections are for 5% cost increases for years 2017 through 2021 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 of approximately \$97 million dollars. It is estimated that the city should spend about 5% of the value of assets, annually, on maintenance. This equates to approximately \$4.8 million dollars each year.

In the City's 2017 Five Year Capital Improvements Plan, staff identified approximately \$44.7 million of needs for years 2017 through 2021 and beyond. The Capital Improvement Program located in the supplemental information section summarizes the estimated costs of repairs, maintenance, and replacements for 2017 through 2021 and beyond, by department and asset type. During the 2016 budget year the following major needs were addressed:

- Sold bonds for new section of North Walnut Street from 28th to 30th
- Sold bonds for South Rouse Street improvements from Centennial south to city limits
- Sold bonds and completed Airport 16/34 runway mill and overlay
- Paved Free Kings Highway from 20th to 4th
- Milled and paved South Rouse from Quincy to KCS railroad tracks
- Milled and paved West 20th from Walnut to the 69 Bypass
- Milled and paved West Jefferson from Broadway to Georgia
- Phase one of the City fiber backbone
- Rebuild Water Well #10
- New water line on Hobson Drive and Hobson Place
- 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

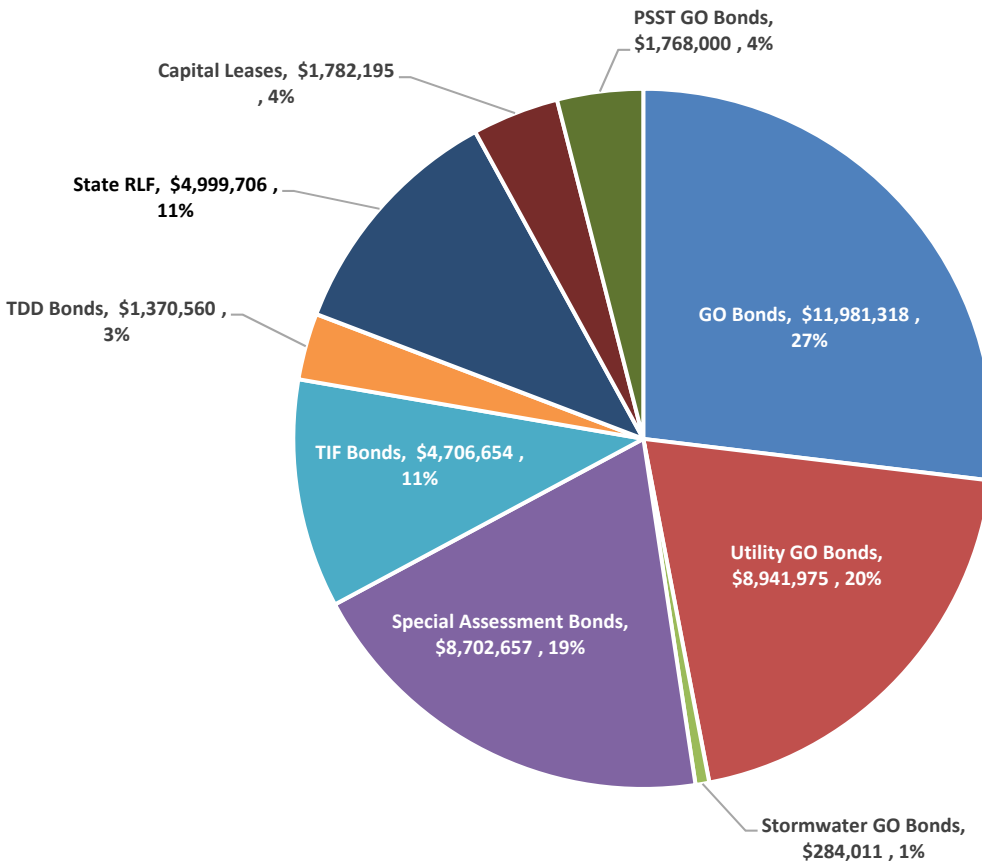
The City's bond rating was upgraded from A+ to AA- by Standard and Poor's in 2015 and reaffirmed in 2016. The upgraded bond rating was due to the City's enhanced financial management practices coupled with stable budgetary performance and projected stability in future years.

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 bonds series 2007B will be paid in full in 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 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 total debt amount of outstanding debt including principal and interest is \$44,537,076. The following graph shows the type of debt and the category percentage of the City's total debt.

Pittsburg Outstanding Debt 2017

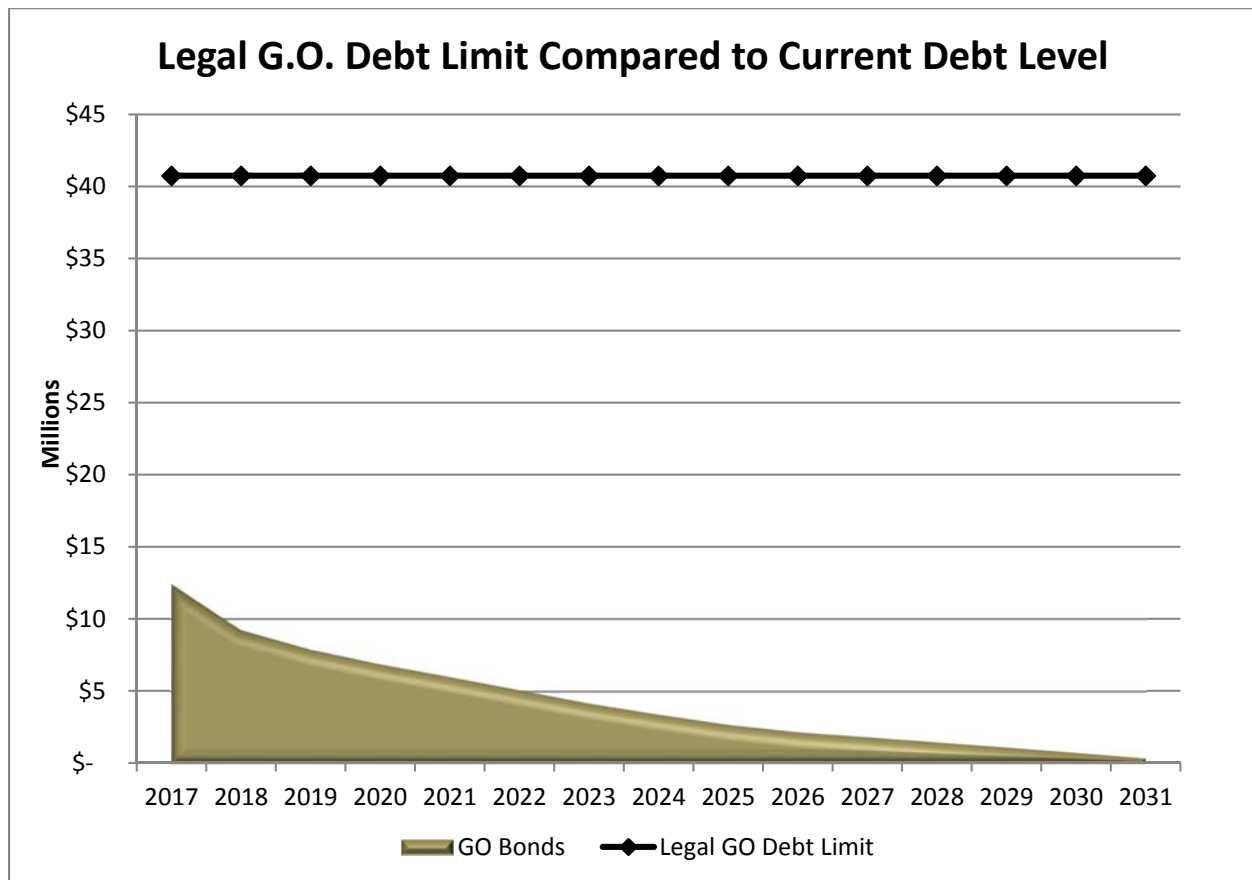


Effective debt management requires monitoring debt levels to ensure the soundness of the City's financial position and continued credit worthiness.

For Fiscal Year 2017

City's property tax supported G.O. debt as a percentage of net assessed valuation	10%
City's property tax supported G.O. debt per capita	\$587
Mill Rate	8.427 mills

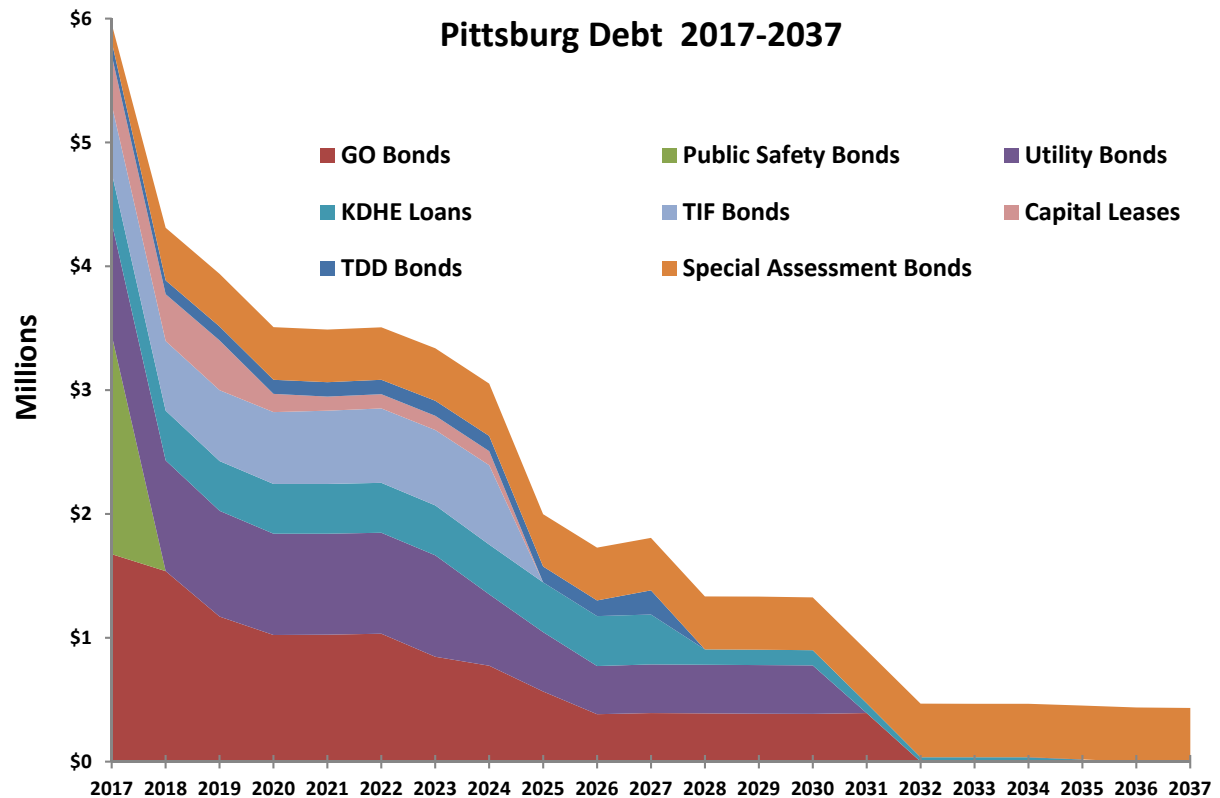
Kansas statutes require general obligation debt to be less than 30% of assessed valuation including motor vehicle. The following graph shows the difference between the City's current total outstanding G.O. Debt compared to what is allowed according to state statutes. The brown indicates the City's current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



*Principal only and includes 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 will be retired in 2017.



RESERVES

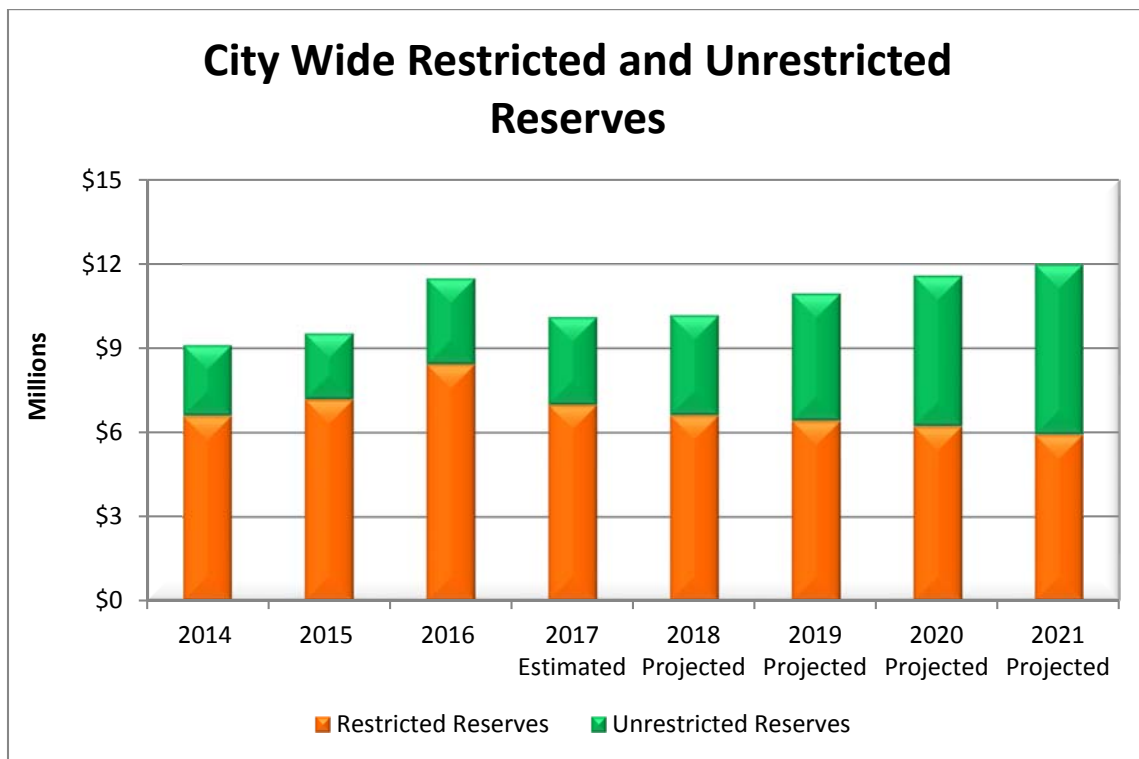
Reserves are the cornerstone of financial stability and flexibility, providing options to respond to unforeseen risks. The Government Finance Officers Association (GFOA) recommends minimum reserve levels at 16% of revenues or two months of expenditures. The City's goal is two months of expenditures.

Several risk factors to be considered are:

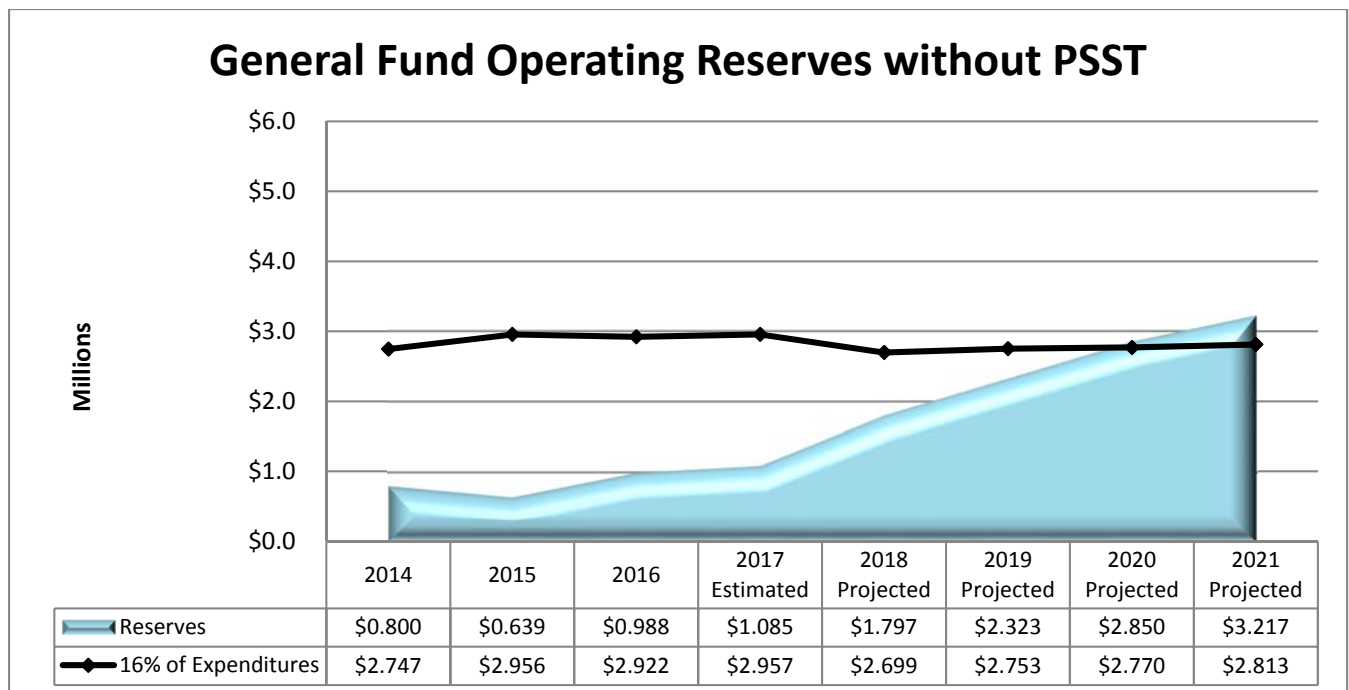
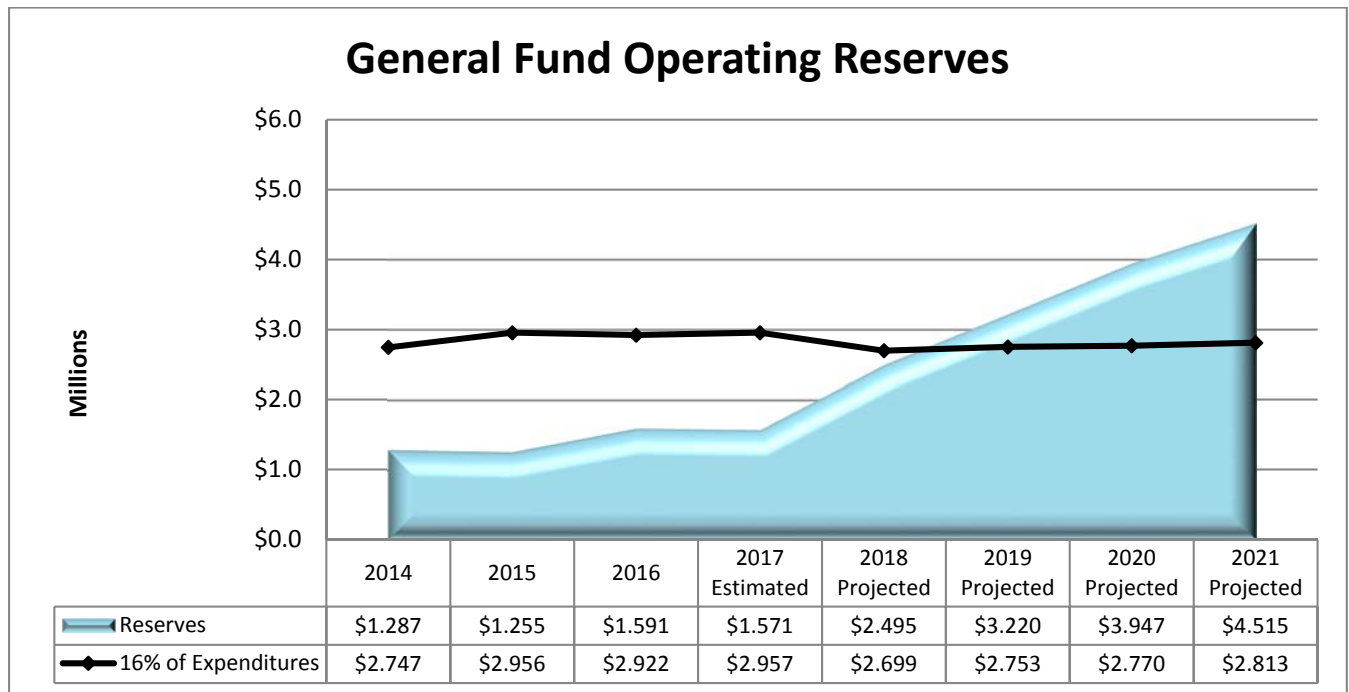
- Revenue volatility
- Infrastructure condition
- Extreme events such as weather
- External Factors

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.

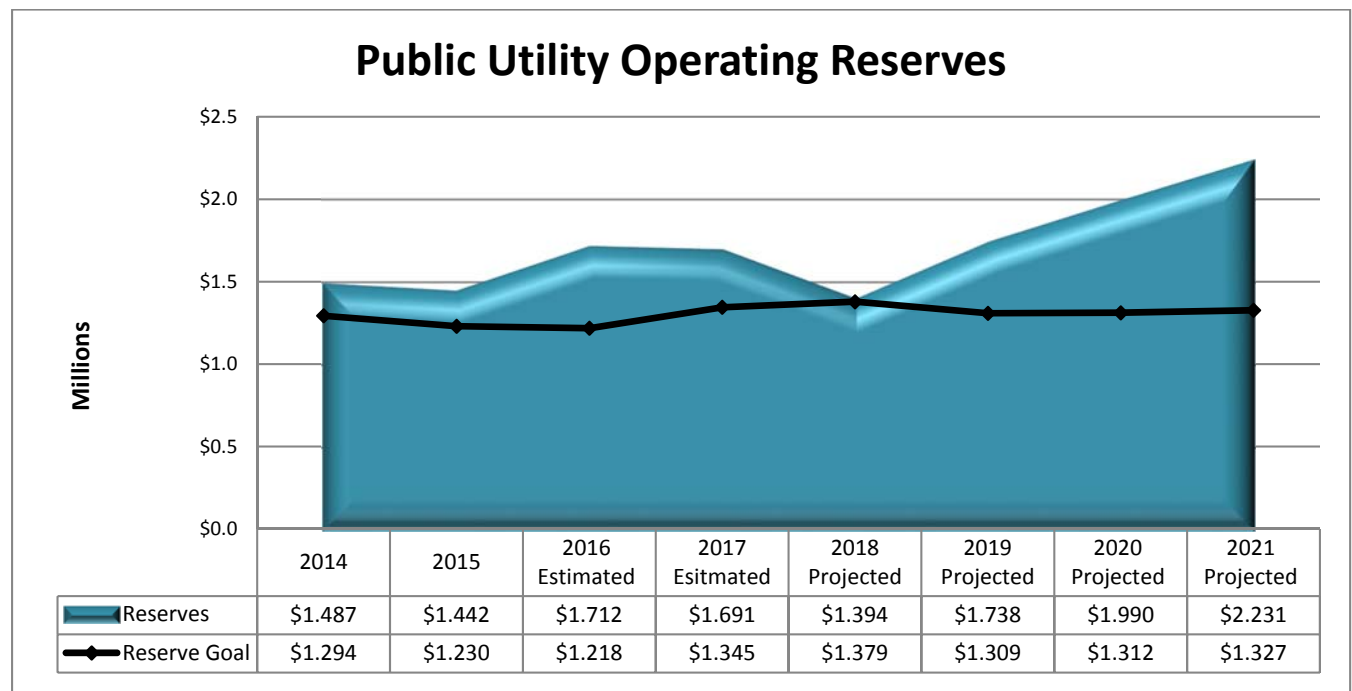
The Chart below shows the impact of staff projections on restricted and unrestricted reserves. The 2016 increase is due to street sales tax, utility capital outlay and economic development reserves. The restricted reserves decline beginning with 2017 represents the spending of these reserves on the East 4th Street KLINK project, the City's commitment of economic development funds towards the Block 22 project and the South Water Tower rehab. Unrestricted reserves begin to show improvement in 2018 and then strengthen thru 2021.



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



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



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.

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 and counties effective for budgets prepared after January 1, 2017. This means that starting with the 2018 budget, the City can no longer increase the tax levy greater than the Consumer Price Index change from the prior year without a vote of the people. There are some exceptions for new construction values, public safety and debt service. This provides yet another 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.

Assumptions

- 2.5% annual sales tax collection growth in 2017, 2.0% in 2018 and 1.0% for years 2019-2021
- Assessed valuation increase of 5% for 2018 due to the Kansas Crossing Casino, the Hampton Inn Hotel, the La Quinta Hotel and the Tractor Supply Store
- 0.25% growth in assessed valuations for years 2019-2021
- Gaming revenue from the new Kansas Crossing Casino is projected at \$255k in 2017 and \$375k for years 2018-2021
- 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 2017-2021
- Retirement costs and worker's compensation insurance will continue to increase
- Utility rates continue to rise (electricity will increase 5% in years 2017-2021)
- Property and liability insurance will continue to increase at an average rate of 3% annually

Considerations

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

Recommendations

- 2.0% salary increase in 2019 and 2021; no salary increase in 2018 or 2020
- No change in the General Fund mill rate for years 2018-2021
- Minimal changes to the Debt Service Fund mill rate for years 2018-2021
- Increase utility rates by 1% annually for years 2018-2021

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