2021
Long-Term Financial Plan

City of Pittsburg
Forward Together.

Five-Year Financial Plan
May 22, 2021

Introduction:

The Five-Year Financial Plan is a forecasting tool that assists City leaders in developing strategies to achieve the City's goals. The objectives of the financial plan are to:

1. ***Assess*** the implications today's decisions have on future financial viability
2. ***Develop*** strategies to achieve goals and objectives
3. ***Analyze*** revenue and expenditure trends
4. ***Plan*** for programs and services that may be offered or eliminated
5. ***Grow*** the City strategic decision-making to achieve financial stability and increase bond rating

The information in this forecast includes an analysis of the City's major revenue sources and expenditures. Financial forecasts are derived from quantitative trend estimates, including those dependent on economic conditions such as the current pandemic, as well as qualitative estimates utilizing the experience and knowledge of the City's professional staff.

Assess	Develop	Analyze	Plan	Grow
• Financial Environment • Goals and Priorities	• Financial Trends • Revenue and Expenditure Forecast	• Reserve levels • Gap Analysis	• Future Projects • Rate schedules • Structurally balanced budget	• Make data driven decisions • Achieve Goals

Background:

The community's strategic visioning process, Imagine Pittsburg, reflects the priorities and input of the community, and serves as a strategic guide for the City of Pittsburg. The Imagine Pittsburg plan describes six areas of focus that direct the community towards attaining the overall vision of where Pittsburg should be. These areas of focus will continue to be a priority in the 2022 Budget and subsequent years.

Within these areas of focus, The City Commission and Executive team identified the following priorities for each

- Create planned neighborhoods
- Encourage infill development

- Market to targeted industries
- Migrate local skills shortages

- Identify mental health resources
- Identify permanent funding for the Children's Advocacy Center

- Increase access to technology
- Develop a sustainable capital investment program

- Workforce development alignment
- Availability of quality child care and pre-K

- Tell Pittsburg's story
- Increase awareness of Imagine Pittsburg with stakeholders

Although the COVID-19 pandemic continues to influence municipal operations, we anticipate the bulk of the financial impact is in the past. The estimates built into this forecast assume economic-influenced revenues will generally return to pre-pandemic levels. The resilience of our community through their support of the local economy in 2020, along with the organization's operational adjustments, mitigated the impairment to the City's financial health. The City was able to continue contributions to fund reserves in 2020 without lowering levels of service.

In 2020, voters approved to extend a 0.50% Street Sales Tax through 2031. The next renewable sales tax set to expire is the 0.50% Public Safety Sales Tax ($2.2M revenue) in 2023.

Moving forward together, the City and community is in a positive state of progress. Historical financial management has put the City in an encouraging position to continue moving Pittsburg forward to meet Imagine Pittsburg goals by leveraging current momentum and optimizing City operations.

To ensure future financial stability, while developing and analyzing the five year plan we must consider:

- Increasing revenues incrementally
- Maintain reserves
- Updating policies and procedures
- Monitoring and controlling expenditures
- Practicing long term planning
- Making data driven decisions

2020 Working Day Recap

During the 2020 working day session, the following recommendations were made. The actual actions approved by the City Commission are noted at the end of each section.

Specifically, we recommended:

1. No change to the General Fund mill rate for years 2021-2024

Action Taken: The City Commission approved the 2021 General Fund with no mill rate increase.

2. Increasing utility rates by

a. 0% for 2021
b. 3% for 2022
c. 3% for 2023
d. 3% for 2024

Action Taken: The City Commission approved a 0% increase in utility rates for the 2021 budget.

3. Increasing the Debt Service Fund mill rate minimally as needed for the years 2021-2024

Action Taken: The City Commission approved the 2021 Debt Service Fund with no mill rate increase.

4. Adopting the following long-term plans

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

Action Taken: The City Commission adopted as presented.

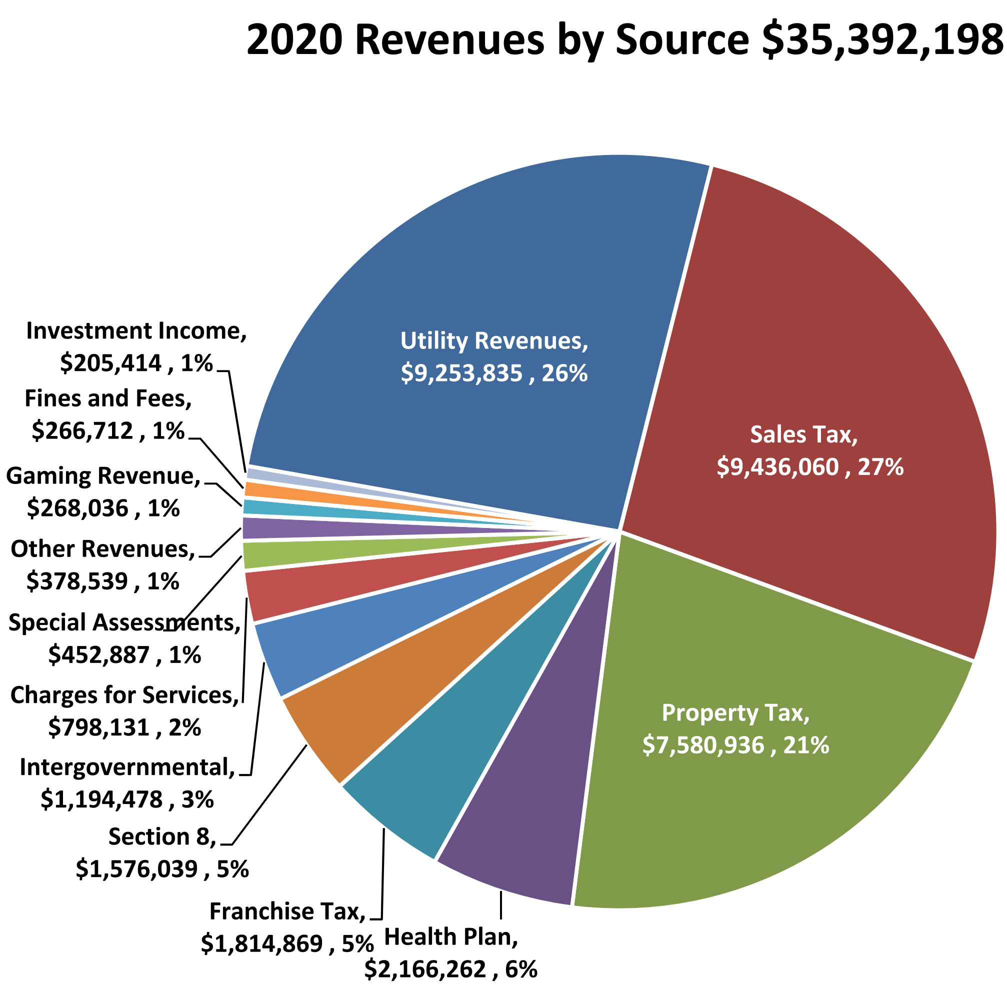
5. Limit salary increases to

a. 0% COLA and 0% merit increase in 2021.
b. 1.0% COLA in 2022-2024 and 1.0% merit salary increase in 2023.

Action Taken: The City Commission approved the 2021 budget with a 3.0% COLA salary increase. With financial uncertainty from the COVID-19 pandemic, no COLA or merit increase was supported for the revised 2021 budget. However, with financial goals being met at the end of the 2020 fiscal year, the Commission supported a 2% COLA.

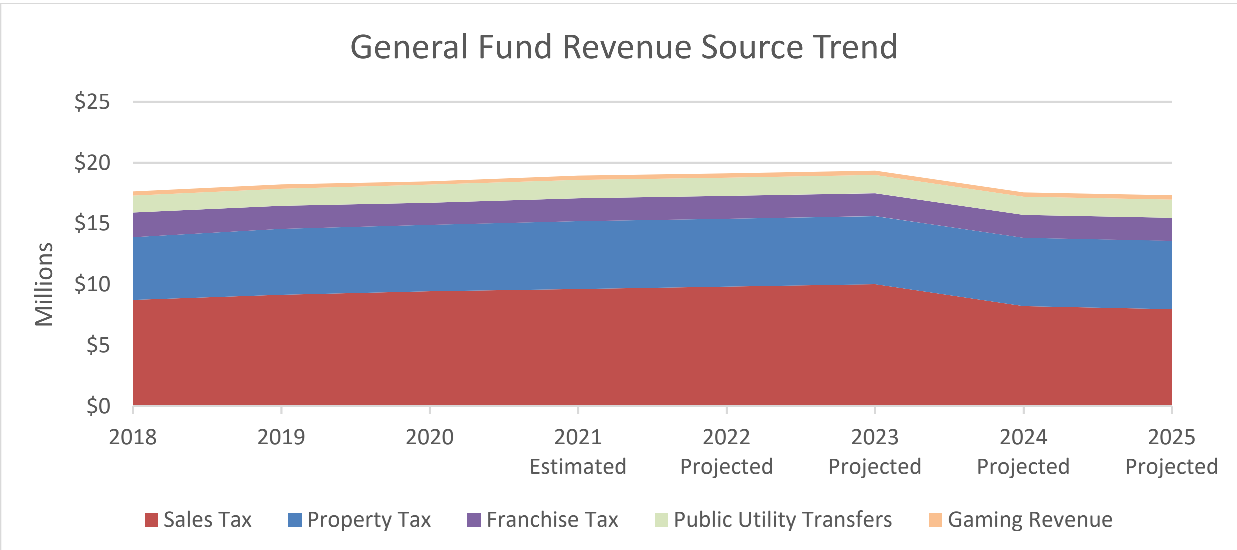
REVENUES

The City of Pittsburg receives revenue from a variety of sources; however, nearly all revenue is collected into two main funds: the general fund and the public utility fund. When compared to 2019 total revenues, 2020 revenues increased by $443,999. The following pie chart shows the City's 2020 revenues by source and the percentage of total revenues each source represents. Utility revenue, sales tax revenue and property tax revenue comprise 74% of the City's total revenues.



General Fund

The four main sources of revenue in the general fund are as follows: property tax, sales tax, franchise tax and transfers from the public utility fund. Gaming revenue from the Kansas Crossing Casino is a newer revenue stream in the general fund with the casino opening in April 2017.



Other Types of Revenues

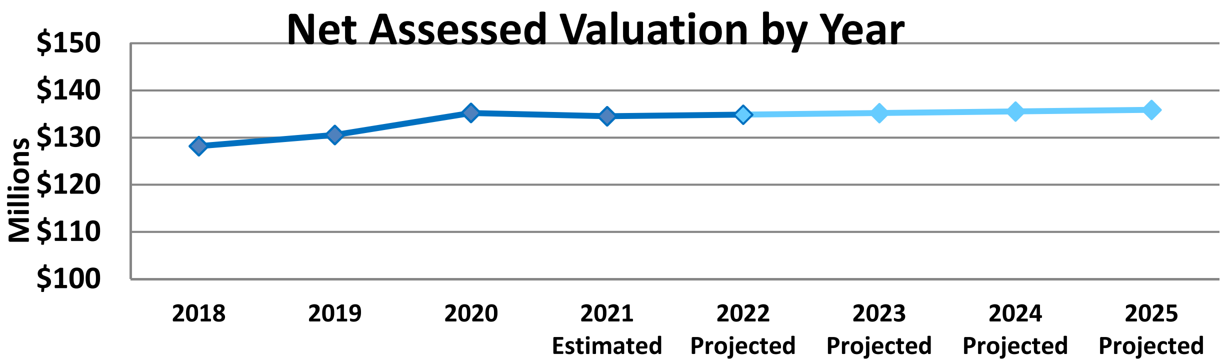
The City's other general fund revenue sources are:

- Intergovernmental
- Investment Income
- Fines and Fees
- User Fees
- Licenses and Permits
- Miscellaneous

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 had remained relatively flat until 2018 when it increased by $8.2 million or 6.84% which was due to the construction of the Kansas Crossing Casino and Hampton Inn Hotel. In 2020, net assessed valuation decreased by $696,575 or 0.52%. This was in due to a change by the State in valuating low-income housing. For the years 2021 through 2025, staff is projecting minimal growth of 0.25% in the City's net assessed valuation. The graph below shows the projected trend in Pittsburg's net assessed valuation.

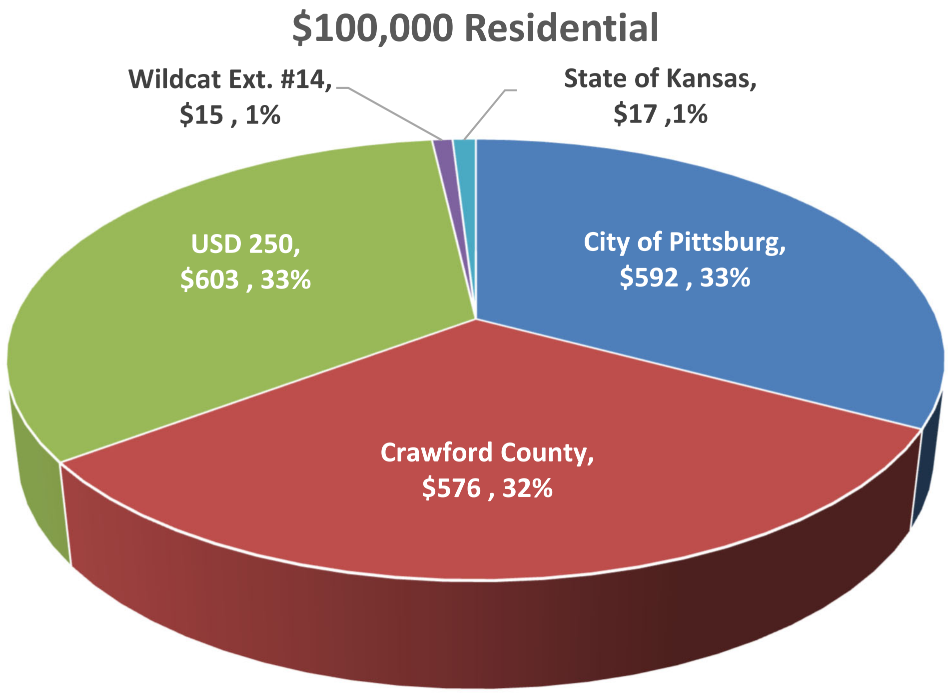


For the 2021 budget year, one mill in the City of Pittsburg generates $134,528. Historically the City has collected 96% of the taxes levied using the last five-year average. The table below shows the general fund mill rate and actual tax dollars generated for the last five years and 2021 estimates.

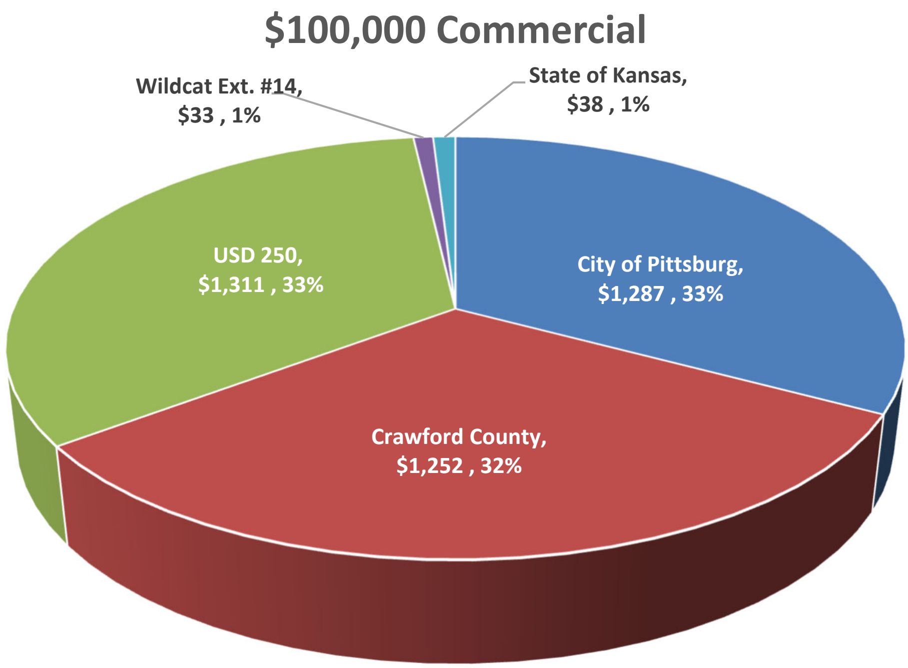
Valued for	Net Valuation	General Fund Mill Rate	Tax Dollars Collected
2016	$ 118,016,161	33.076	$ 3,966,486
2017	$ 119,976,319	36.946	$ 4,294,357
2018	$ 128,182,295	36.961	$ 4,505,260
2019	$ 130,553,454	36.984	$ 4,623,134
2020	$135,225,048	36.967	$ 4,707,235
2021	$134,528,473	37.403	$ 4,773,863

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 2021 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 2021 cost on a commercial property with appraised value of $100,000.

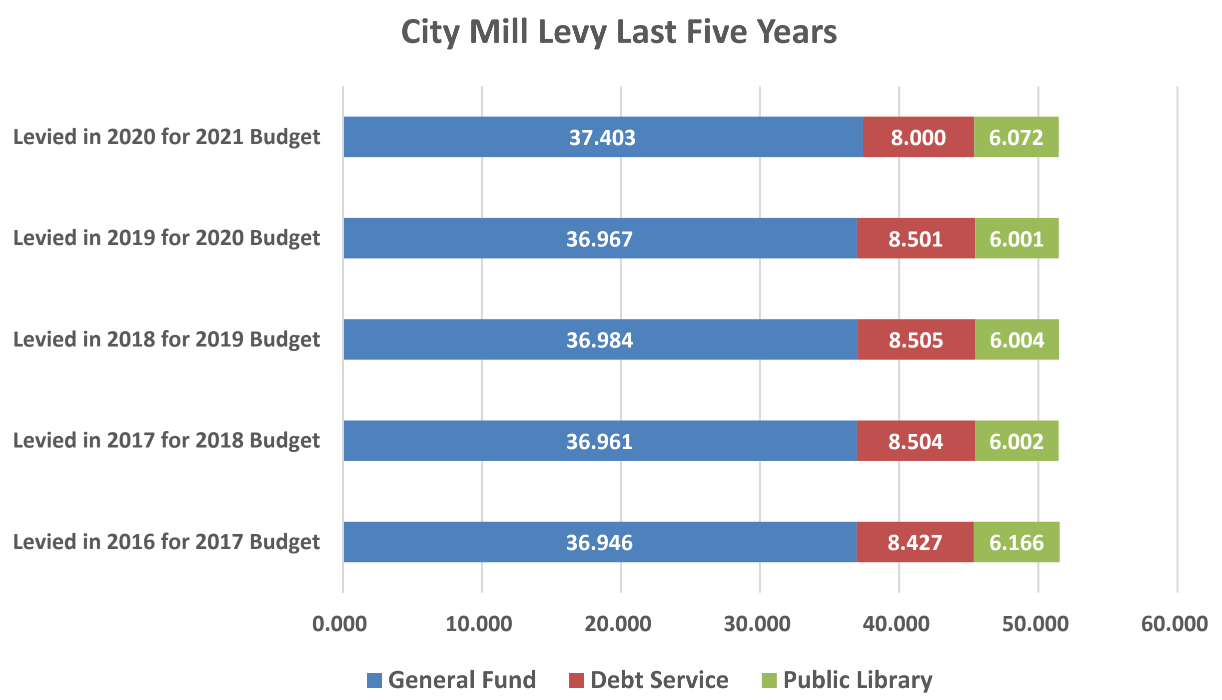


The following table shows the various property tax jurisdictions within Pittsburg and their respective 2020 mill rates.

Entity	Mill Rate
USD 250*	52.420
City of Pittsburg	51.475
Crawford County	50.067
State of Kansas	1.500
Kansas Wildcat Extension #14	1.383
TOTAL	**156.783**

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

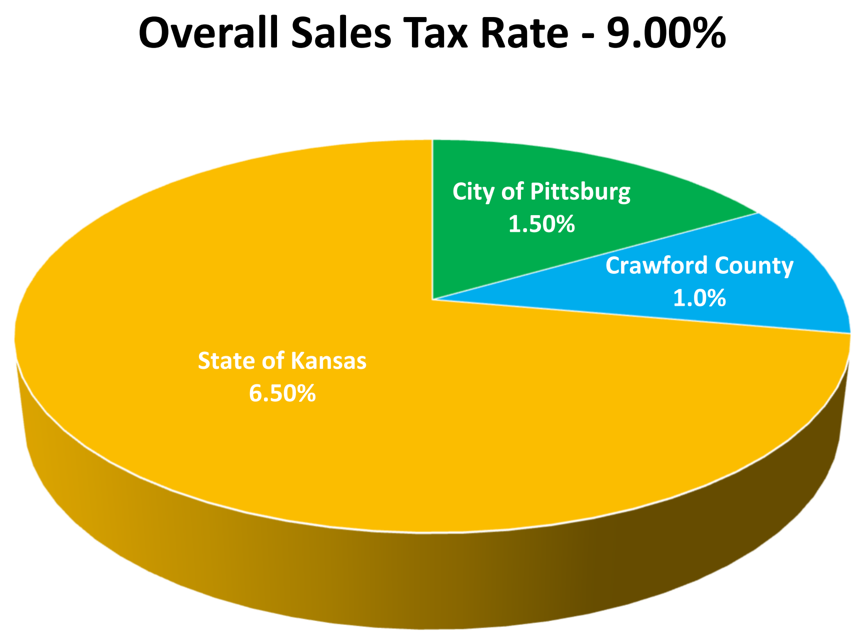
The following graph shows the breakdown of the City property taxes levied for the last five years.



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 and Northgate Community Improvement District).



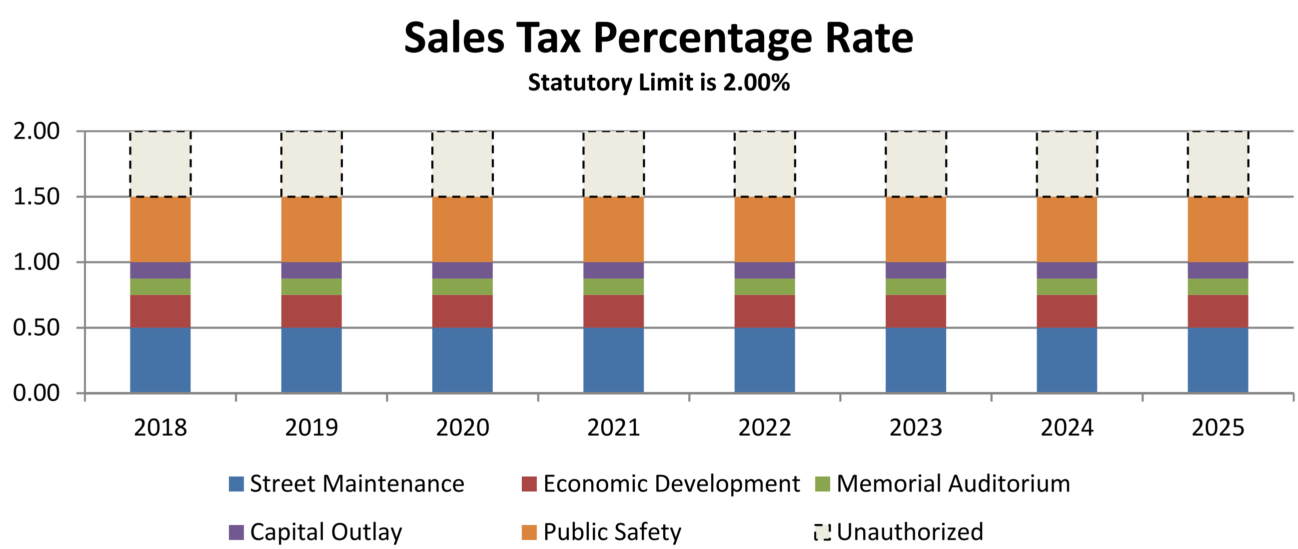
Sales taxes are the leading sole source revenue stream for the City of Pittsburg. However, all the City sales taxes are earmarked for specific uses. The portion of the Crawford County sales tax received by the City is unrestricted and is used to support the General Fund operations. Staff is projecting the City will receive approximately $2.5 million of the Crawford County sales tax in 2021.

Of the five programs funded by dedicated sales taxes in Pittsburg, two have renewal or end dates. The two original sales taxes for street maintenance were consolidated and approved by voters for another ten years in 2020 and will expire December 31, 2031. 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 two percent for municipalities. The City's portion of the sales tax rate is currently one and a half percent.

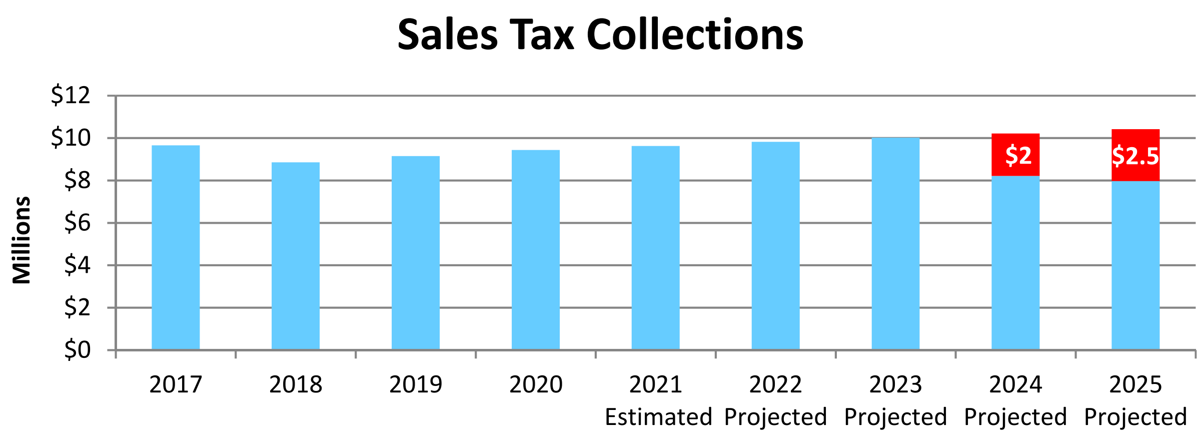
Pittsburg Sales Tax Earmarks		
Purpose	**Rate**	**End Date**
Public Safety	.50	12-31-2023
Street Maintenance	.50	3-31-2031
Economic Development	.25	Ongoing
Capital Outlay	.125	Ongoing
Memorial Auditorium	.125	Ongoing
Total	**1.50**	

The City's Tax Increment Financing District has an additional .30 sales tax rate and is used to repay the Transportation Development District (TDD) debt which is expected to be retired in 2027. Historically, the TDD sales tax has not been sufficient to pay the annual debt payments and the general fund has to make transfers of $15,000 to $30,000 annually.



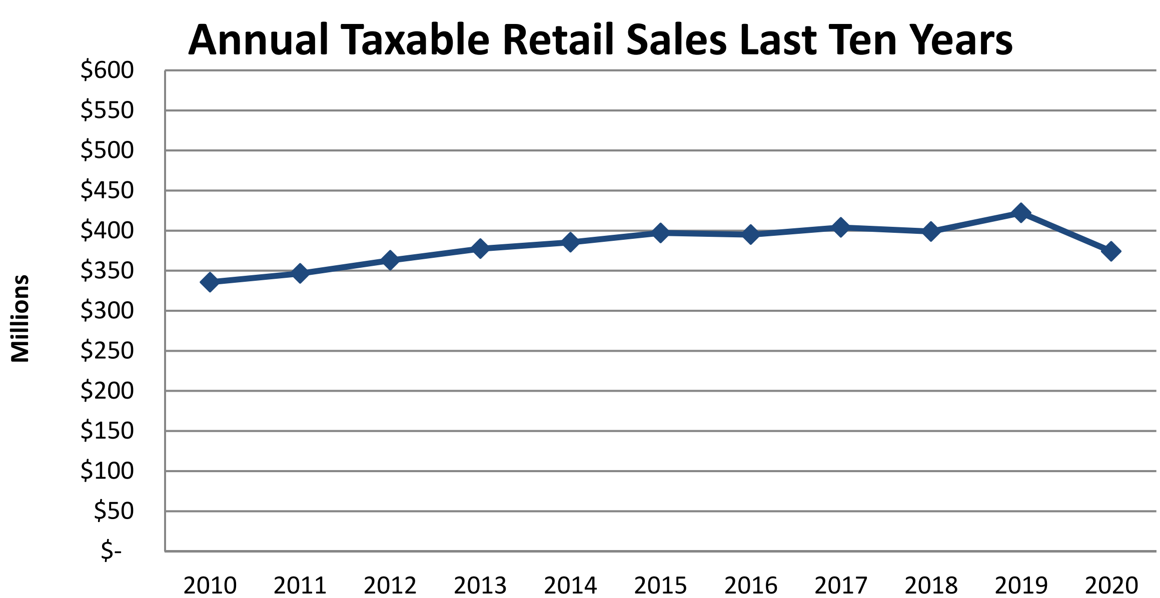
Better than expected, the local economy tolerated the pandemic resulting in a 3.14% growth in sales tax revenue collections when compared to 2020. Initial estimates forecasted a 15% decline in sales tax revenue for 2020. The revised estimates for 2021 through 2025 is 2% growth annually.

The graph below shows actual and projected sales tax revenue collections for the City through 2025. The red starting in 2024 is the projected amount of sales tax that the City would collect if the half-cent public safety sales tax was renewed.



Annual Retail Sales

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



Sales tax collections can vary for lots of reasons. In 2020, we saw a shift in use tax due to legislation that required remote sellers to collect and remit use tax. Therefore, we noticed a significant increase in use tax collections, while sales tax collections dropped slightly. We also saw a change in consumer behavior in 2020, likely due to COVID-19. Consumers were more likely to choose to have purchases delivered to their homes rather than going to a store.

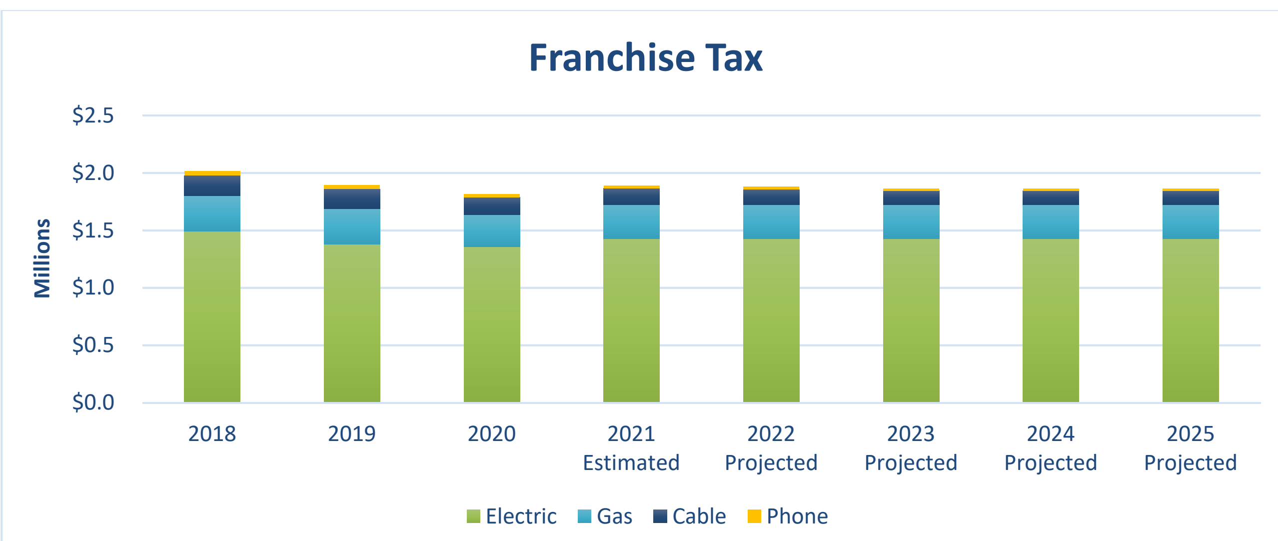
Franchise Taxes

Franchise taxes are the general funds third largest revenue source; and the third largest unrestricted revenue source. 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 2020 and are specifically driven by the climate and stockholder demands. Natural gas franchise tax collections were flat in 2020 compared to 2019 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 landline telephones, so that portion of franchise tax continues to decline. Staff is projecting 2021 franchise tax collections to remain relatively flat. Total franchise collections are expected to slightly decline for the period of 2022-2025.

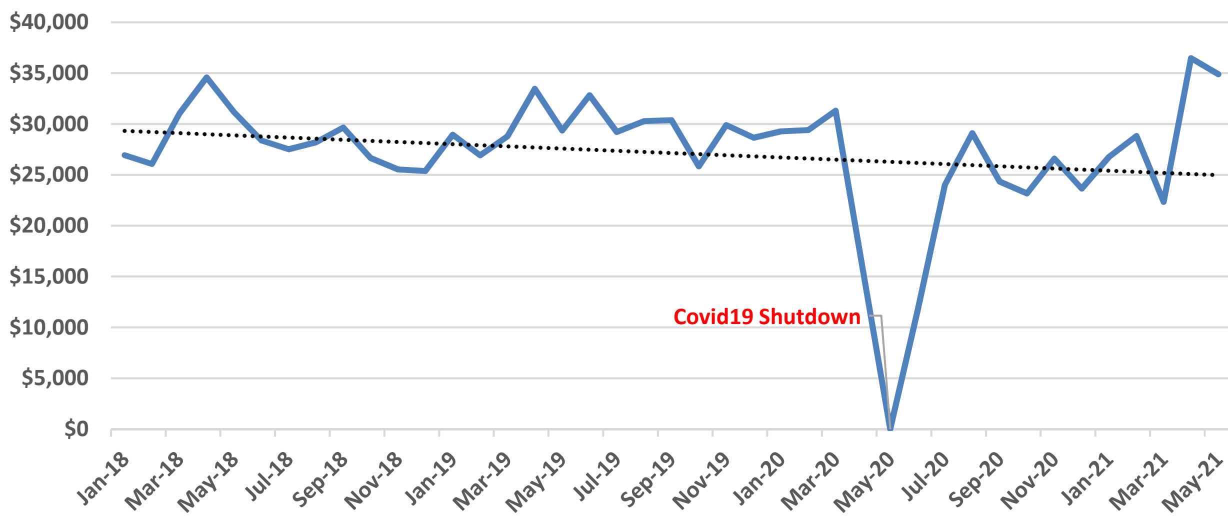
The graph below shows actual and projected franchise tax collections.



Casino Gaming Revenue

The City receives one percent of the gaming revenues generated by the Kansas Crossing Casino plus property taxes and utility charges for service. In 2020, the City collected $268,036 of gaming revenue. Due to the casino being closed for the months of March and April in 2020 gaming revenue was $0 for those months. Revenues in 2021 are estimated at $355,000. For years 2022-2025 staff is projecting to return to pre-pandemic revenue amounts of $355,000 annually.

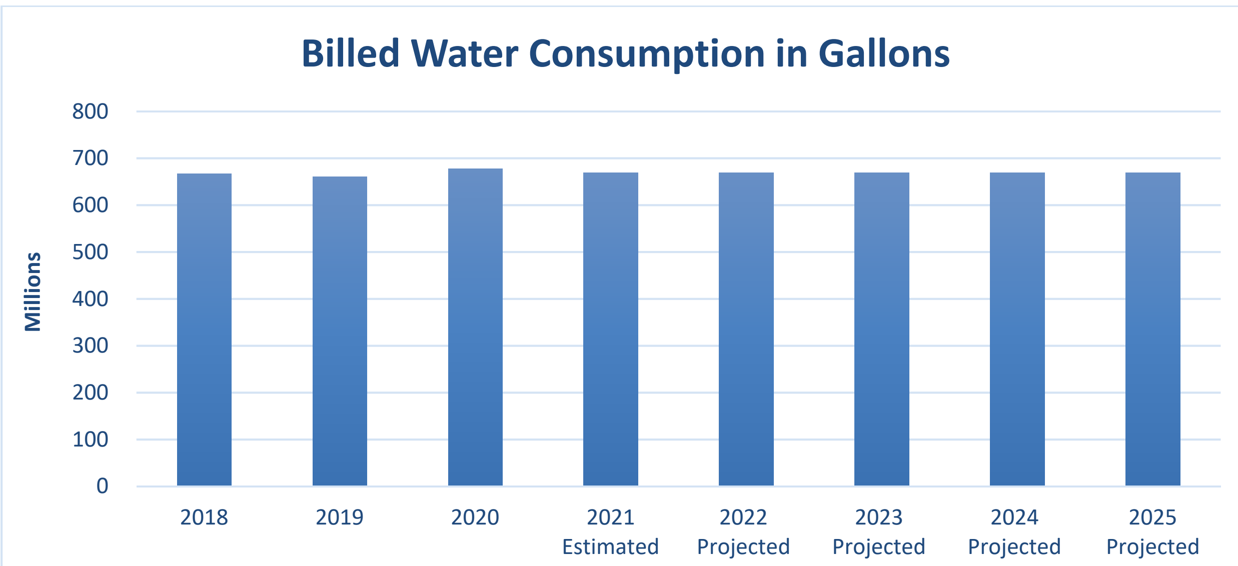
Casino Gaming Revenues Collections by Month



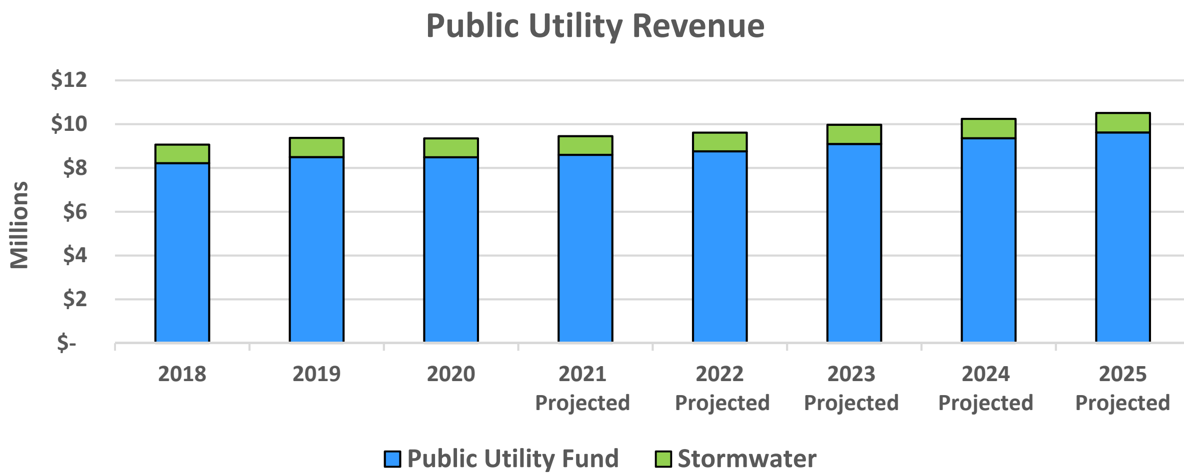
Public Utilities

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. 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 years 2018 thru 2020 for years 2021 through 2025.

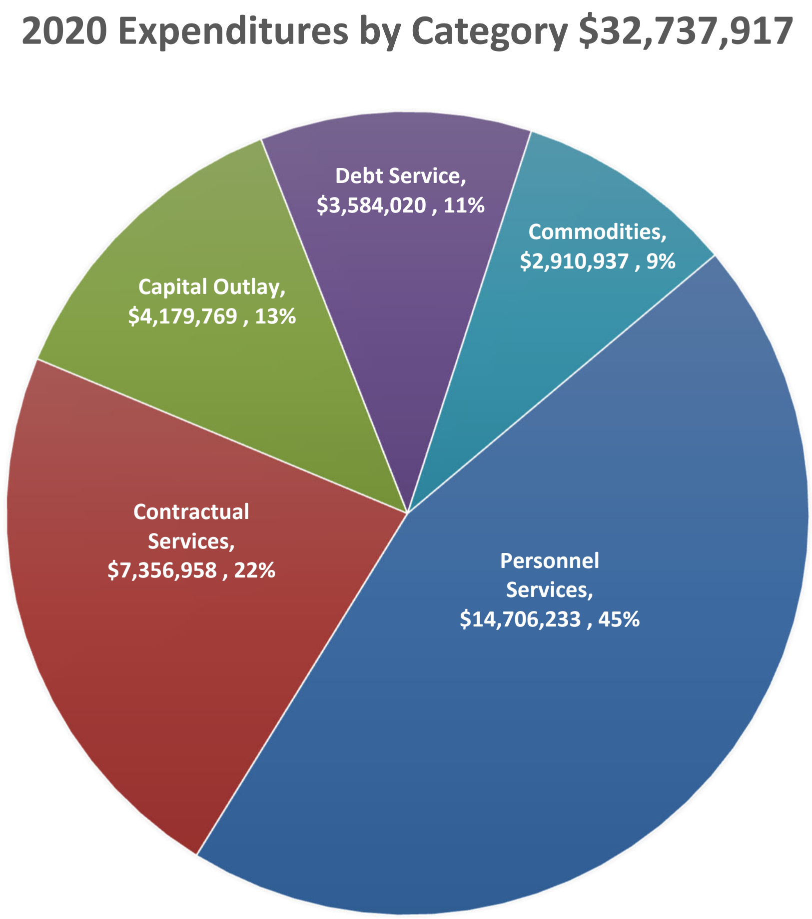


No rate increases were budgeted in 2020 due to a healthy reserve, and once again remained flat in 2021 due to the pandemic. Staff recommends a 3% per year increase from 2022-2025 to cover operating expenses and debt cost, particularly with the upcoming Wastewater Treatment Plant Project.


Public Utility Revenue
Millions
$12
$10
$8
$6
$4
$2
$-
2018
2019
2020
2021 Projected
2022 Projected
2023 Projected
2024 Projected
2025 Projected
Public Utility Fund
Stormwater

EXPENDITURES

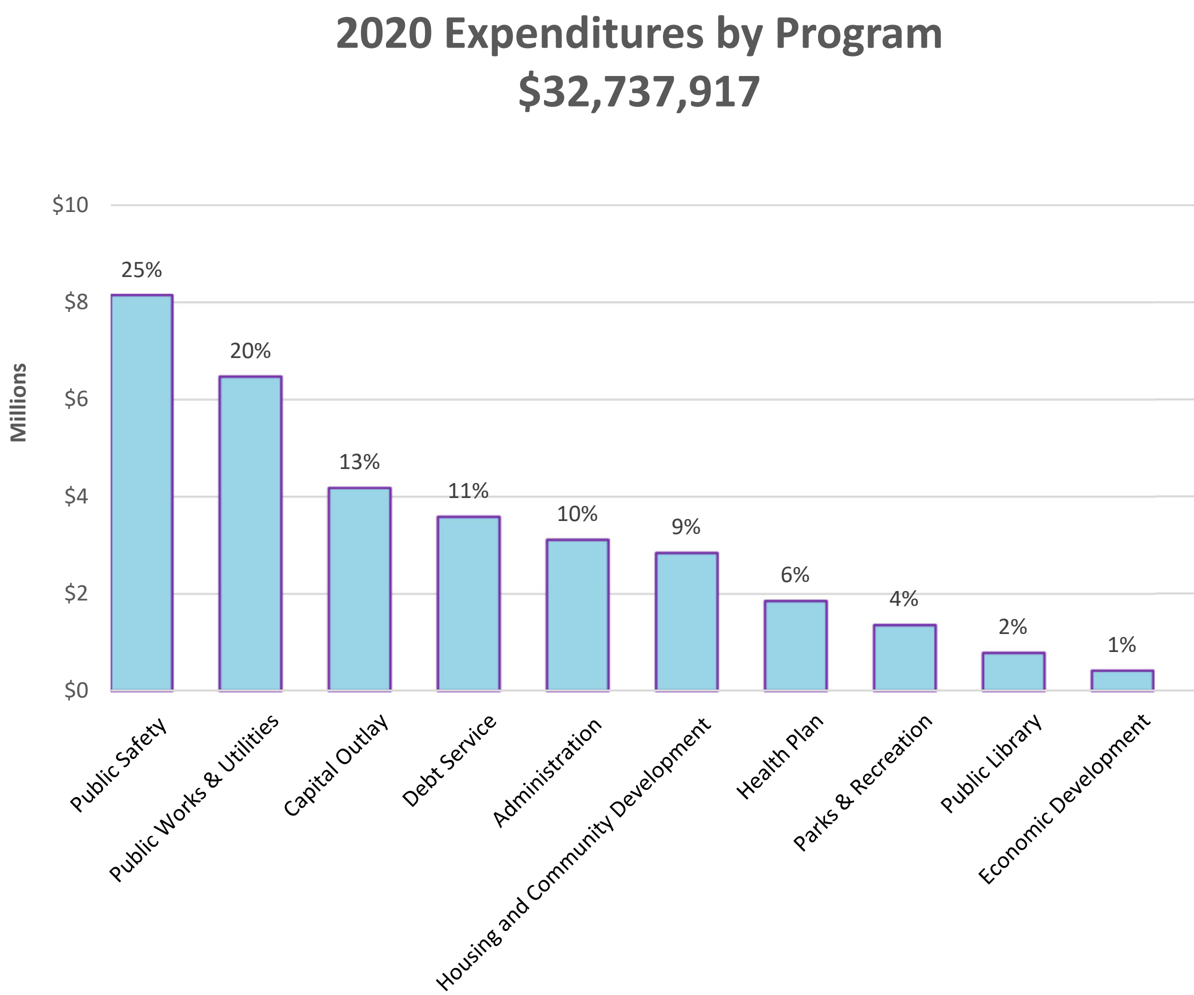
The City directs its financial focus to program-based initiatives and is budgeting expenditures accordingly, in order to accomplish goals. The following chart shows the expenditures by category for 2020 excluding inter-fund transfers.



Personnel expenditures, as is the case with most entities, represent the majority of the City's expenditures. The personnel costs include salaries and benefits. 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. For 2021 the City has 293 full time equivalent employees (FTE) budgeted, with 242 positions having full time status.

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 2020 expenditures by program excluding inter-fund transfers are shown below. In 2020 four program categories comprise 69% of City expenditures. They are Public Safety at 25%, Public Operations (utilities and streets) at 20%, Capital Outlay at 13% and Debt Service at 11%.



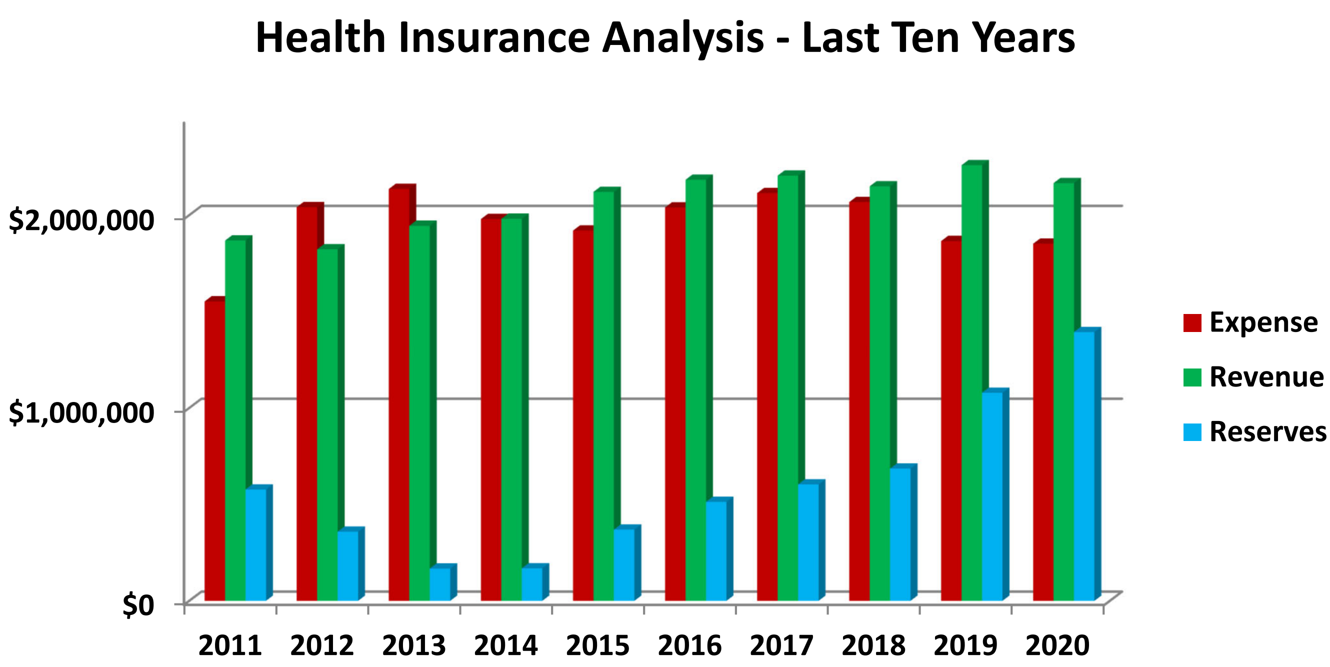
City Health Insurance Plan

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.

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 $1,393,576 at the end of 2020, an increase of $1,224,907. The Five-Year Financial Plan projections are for cost increases of 3% or less. However, there have been no raise in premiums for six years. 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 $102.5 million dollars. It is estimated that the city should spend about 5% of the value of assets annually on maintenance. This equates to approximately $5.1 million dollars each year.

In the City's 2020 Five-Year Capital Improvements Plan, staff identified approximately $236.8 million of needs for years 2021 through 2025 and beyond; $170.2 million of this total is unfunded. During the 2020 budget year the following major infrastructure needs were completed for approximately $4.9 million:

- Milled and overlay of several residential streets - **$704,079**
- Construction of East 14th Bridge was completed - **$454,946**
- New water meters installed - **$440,015**
- Milled and overlay North Broadway from 10th to 20th - **$266,918**
- Milled and overlay Locust from Jefferson to 4th - **$225,675**
- Various sanitary sewer improvements - **$150,099**
- Blast and recoat of water treatment plant solids contact - **$100,170**
- New water lines completed - **$95,000**
- Milled and overlay Atkinson from Broadway - **$81,748**
- Upgraded Airport Automatic Weather Observation System - **$36,177**

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:

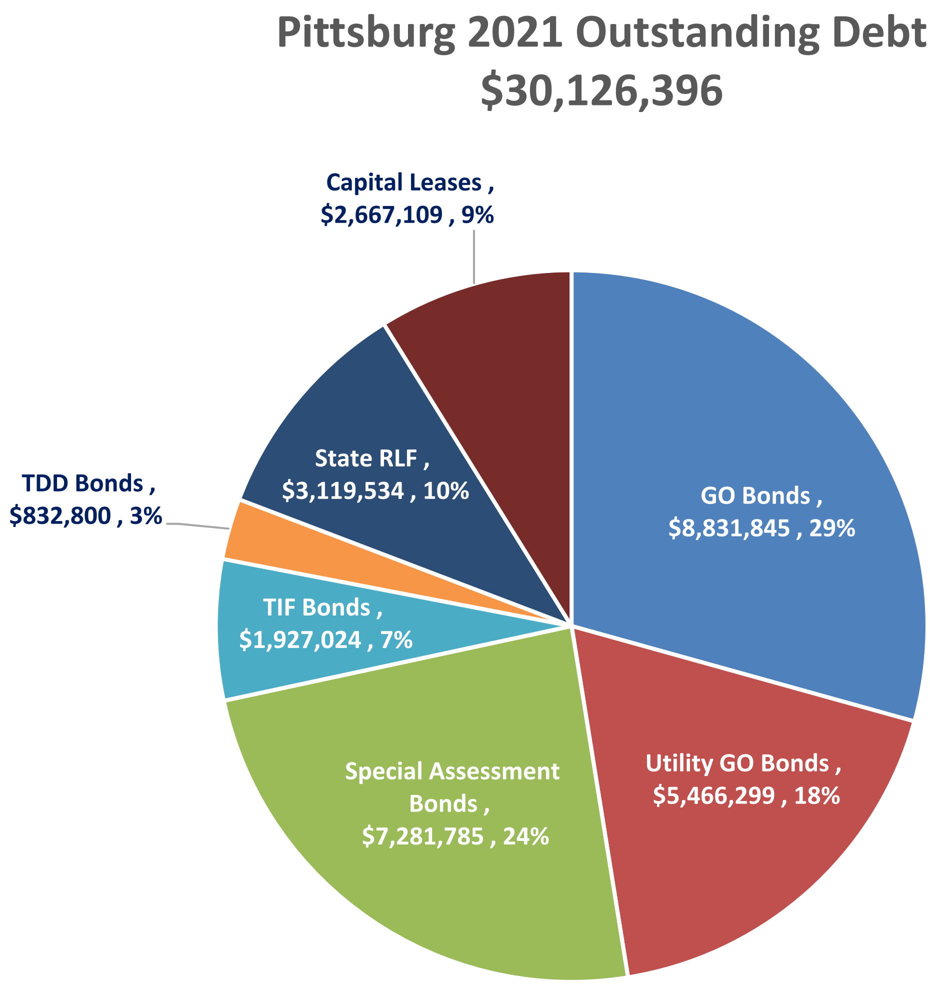
- Property Taxes
- Charges for Services
- Sales Taxes
- Special Assessments
- Transfers

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 City's current goal for general obligation bonded debt is to keep the debt service fund mill levy rate between 8 and 10 mills annually. This levy is used to fund general obligation debt payments.

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 at December 31, 2020 including principal and interest is $30,126,396. The graph on the following page shows the type of debt and the category percentage of the City's total debt.



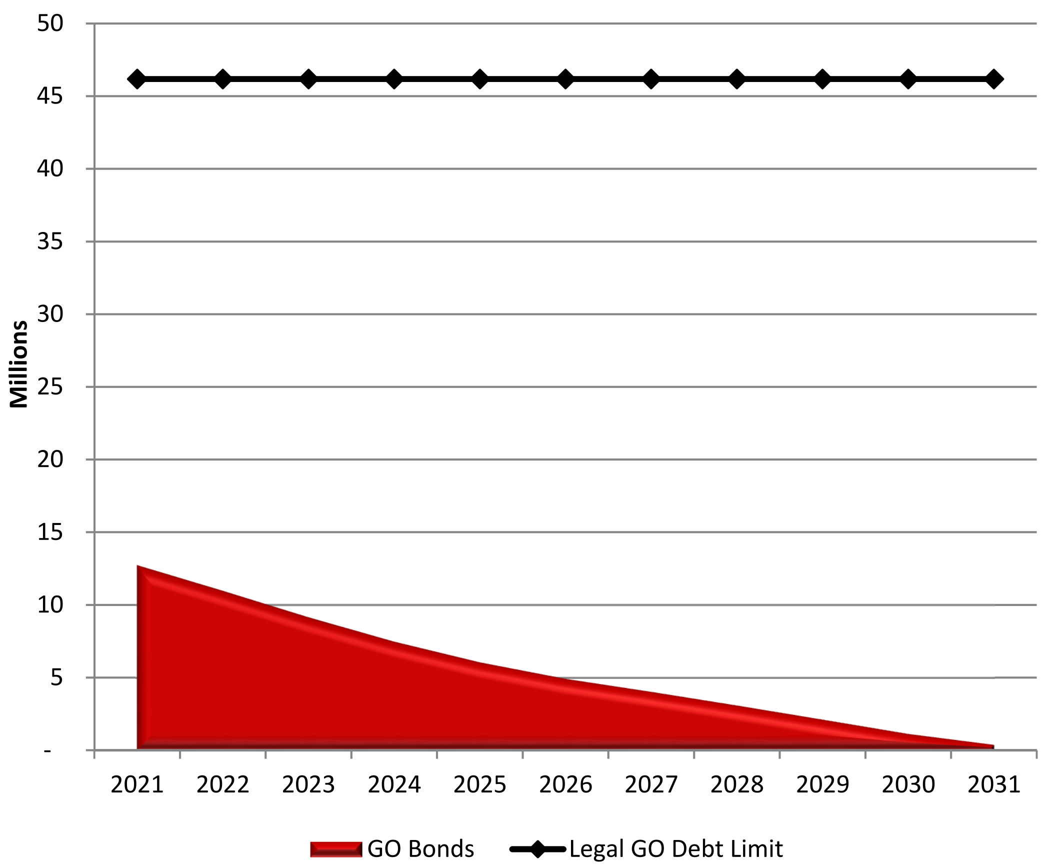
Effective debt management requires monitoring debt levels to ensure the soundness of the City's financial position and continued credit worthiness.

For Fiscal Year 2021

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	8.000 mills

There are two main types of municipal bonds: general obligation bonds and revenue bonds. A general obligation bond (GO) is a municipal bond backed by the full credit and taxing power of the City. When GO bonds are issued, the City pledges to use all available resources, including general funds and taxes, to repay the bondholders. General obligation bonds are used to finance public projects that do not make money such as parks. Revenue bonds, rather, are used to finance projects with a built-in revenue stream, such as the City's utilities. Revenue bonds are backed by specific sources of revenue. With GO bonds, the City can, and is expected to, use all means necessary to repay bondholders.

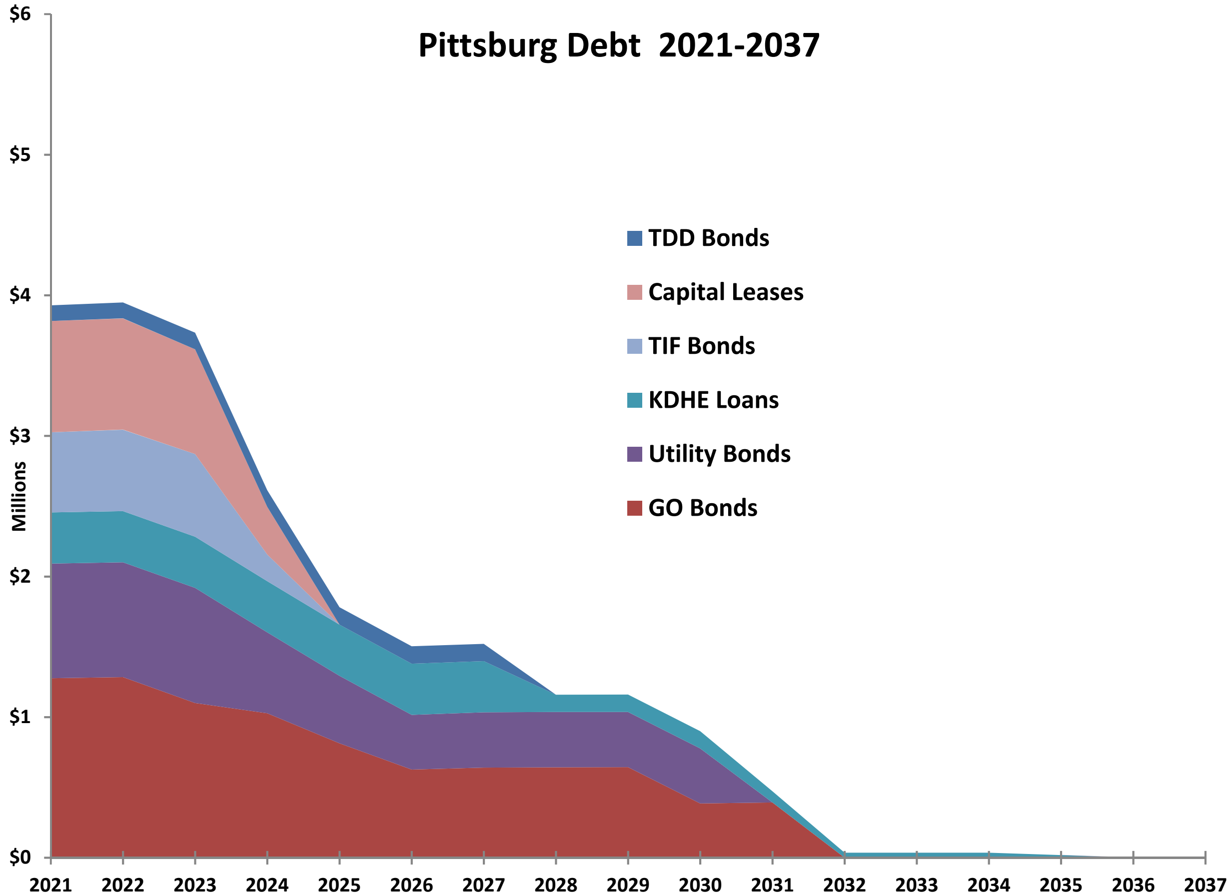
Legal G.O. Debt Limit
Compares to Current Debt Level



Kansas statutes require general obligation debt to be less than 30% of assessed valuation including motor vehicle. The current legal debt limit is $46.1 million. The graph above shows the difference between the City's current total outstanding G.O. Debt (principal only) of $12.7 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 retire. The graph excludes the special assessment bonds being repaid by the Kansas Crossing Casino.



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 consider are:

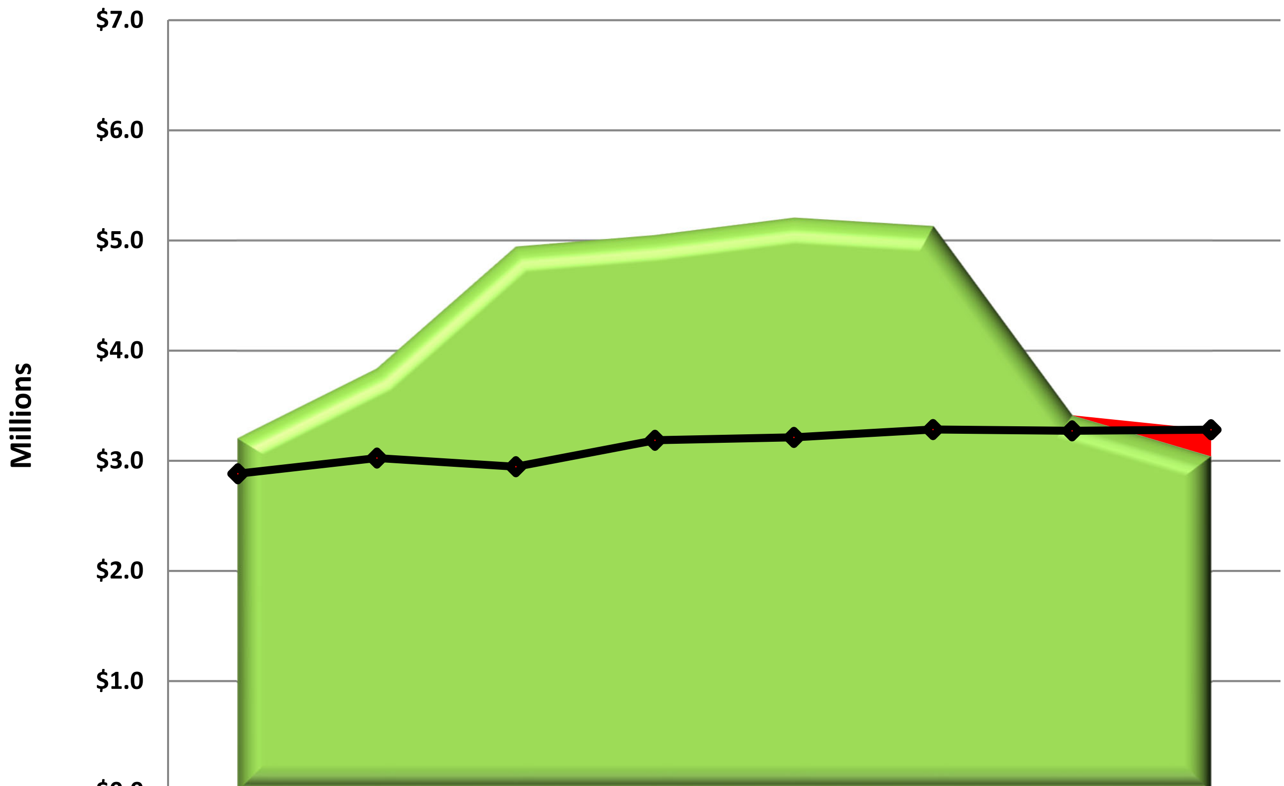
- Revenue volatility
- Infrastructure condition
- Extreme events such as weather and COVID-19 pandemic

Since the great recession the City has realized growth in community investment with property valuations and sales tax collections increasing each year. At the close of 2020 fund reserve levels for the general fund and utility fund met the City's goal of at least 16% of expenditures. The chart below shows the impact of staff projections on restricted and unrestricted reserves.

The unrestricted reserves peaked in 2020 and are projected to remain relatively flat until 2023. The decline in 2024 projects the effect of the public safety sales tax not being renewed.

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

General Fund Operating Reserves

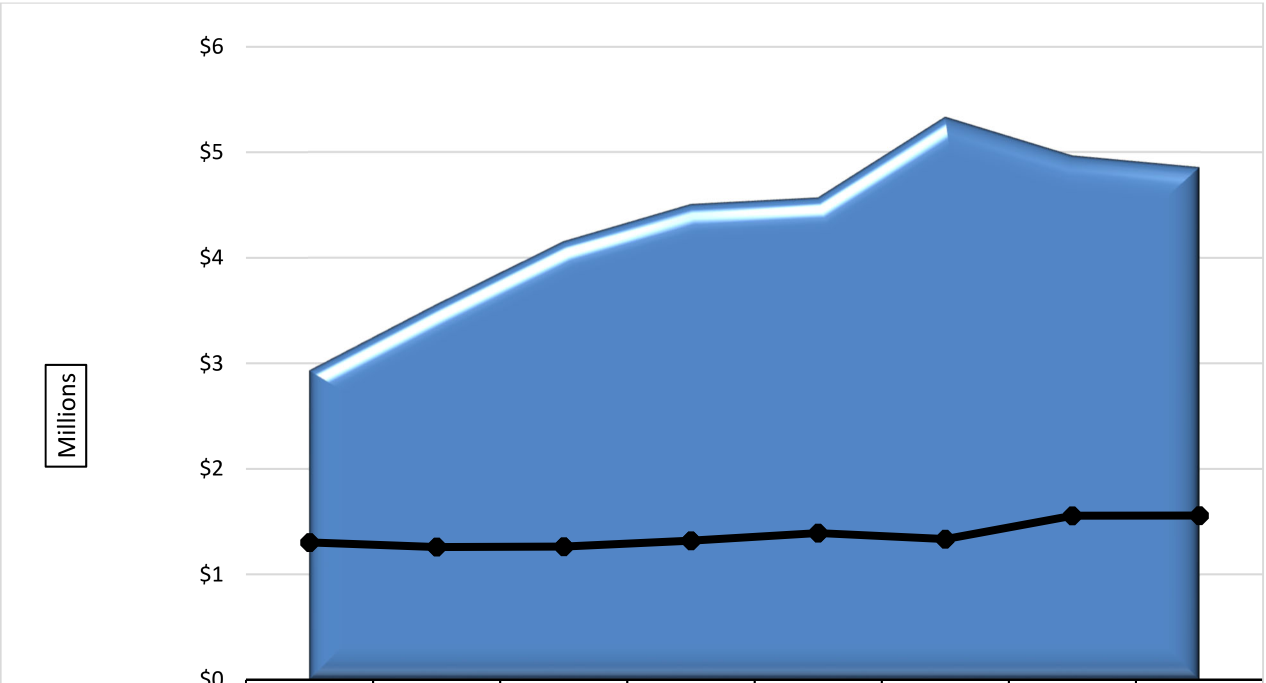


	2018	2019	2020	2021 Estimated	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Below Goal	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000	$0.242
Reserves	$3.204	$3.835	$4.940	$5.045	$5.203	$5.126	$3.413	$3.040
16% Goal	$2.883	$3.025	$2.946	$3.187	$3.212	$3.284	$3.272	$3.282

The end of the 2018 fiscal year is the first time that the reserve goal was met since the great recession. The general fund reserves peaked at the close of 2019 and that was beneficial as it allowed the City to start the 2020 fiscal year with healthy reserves, which equipped us for the uncertainty of COVID-19. **The above graph projects what will happen if the public safety sales tax is not renewed, as it expires on December 31, 2023**.

The graph on the next page shows the projected operating reserves for the Public Utility compared to the reserve goal of 16% of expenditures.

Public Utility Operating Reserves



	2018	2019	2020	2021 Estimated	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Fund Balance	$2.931	$3.558	$4.153	$4.504	$4.568	$5.331	$4.964	$4.853
Reserve Goal	$1.302	$1.259	$1.263	$1.320	$1.391	$1.334	$1.556	$1.558

We project that reserves with climb steadily over the next few years. The increase from 2021 to 2025 is due to putting aside reserves for future debt costs of the planned new wastewater treatment plant. Permanent financing for this new plant will be through the Kansas Division of Health and Environment loan program. Staff is projecting the Public Utility Fund will meet the 16% of expenditures reserve goal for years 2021-2025.

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. As we saw in 2020, the pandemic brought a lot of uncertainty. The City feels like we have weathered the storm and continue to see growth in our community. Some other 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.

During the 2021 legislative session, the tax lid was removed and the legislature enacted Senate Bill 13. This legislation establishes new notice and public hearing requirements if the proposed budget will exceed the property tax levy's revenue neutral rate. Revenue Neutral rate is when the mill would generate the same property tax revenue in dollars as levied the previous tax year using the current tax year's total assessed valuation.

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

- Sales tax revenue, 2% growth for years 2022-2025 using the prior year's level
- Assessed valuation is projected to be flat for years 2021 and then 0.25% growth for years 2022 thru 2025
- Gaming revenue from the Kansas Crossing Casino returns to $355,000 annually for years 2021-2025
- Utility rate increases in 2022 of 3% and then a 3% rate increase annually for years 2022-2025 to offset the debt expense for the new wastewater treatment plant
- All other revenues project flat to minimal growth
- Retirement costs will continue to rise in years 2022-2025 with a 0.25% KPERS and 0.25% KPF increases per annum
- Worker's compensation insurance will continue to increase at a rate of 3% annually
- Electric utility expense will continue to rise at an average of 3% annually
- Property and liability insurance will continue to increase at an average rate of 3% annually

- Contractual and commodities expenses are projected to increase 2% annually for years 2022-2025

Considerations

- Adjust revenues based upon historical and current trends
- Monitor and control expenditures
- Maintain a structurally balanced budget
- Maintain minimum reserve levels
- Continue to practice long term planning
- Make data driven decisions
- Provide programs and services guided by the Imagine Pittsburg goals

Recommendations

- 1% cola in years 2022-2025
- 2% merit increase in year 2023 and 2025
- Minimal changes to the Debt Service Fund mill rate for years 2022-2025
- Increase utility rates by 3% annually for years 2022-2025