

2022

Long-Term Financial Plan





Five-Year Financial Plan

May 7th, 2022

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's strategic decision-making to achieve financial stability and increase bond ratings

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, as well as qualitative estimates utilizing the experience and knowledge of the City's professional staff. Variables affecting the financial forecast can change quickly, such as capital project timing and financial aid, therefore City staff continuously assess the City's budget and financial health outside of developing this annual forecast.

Assess	Develop	Analyze	Plan	Grow
<ul style="list-style-type: none">• Financial Environment• Goals and Priorities	<ul style="list-style-type: none">• Financial Trends• Revenue and Expenditure Forecast	<ul style="list-style-type: none">• Reserve levels• Gap Analysis	<ul style="list-style-type: none">• Future Projects• Rate schedules• Structurally balanced budget	<ul style="list-style-type: none">• Make data driven decisions• Achieve Goals

Background:

The community's strategic visioning process, Imagine Pittsburgh, reflects the priorities and input of the community, and serves as a strategic guide for the City of Pittsburgh. The Imagine Pittsburgh plan describes six areas of focus that direct the community towards attaining the overall vision of where Pittsburgh should be. These areas of focus will continue to be a priority in the 2023 Budget and subsequent years.



Within these areas of focus, The City Commission and Executive team identified the following priorities for the City's involvement.



- Create planned neighborhoods
- Encourage infill development



- Market to targeted industries
- Seek new housing developments



- Continue investment into public safety programs
- Develop youth sports facilities



- Increase access to technology
- Maintain a sustainable capital improvement program



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



- Tell Pittsburgh's story
- Continue strengthening City of Pittsburgh brand

The strength of the local economy supported the City's financials throughout the uncertainty caused by the global pandemic. The City's overall fund balances are healthy, exceeding the minimum reserve targets. With sales tax revenues continuing to grow, the City moves through 2022 in a strong position to fund our essential services and make necessary enhancements to match our community's progress.

The City's dedicated sales taxes have been critical for funding the City's programs and addressing community priorities. The 0.50% Public Safety Sales Tax (2.5M revenue) is set to expire 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 Pittsburgh forward to meet Imagine Pittsburgh 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
- Maintaining reserves
- Updating policies and procedures
- Monitoring and controlling expenditures
- Practicing long term planning
- Making data driven decisions

2021 Working Day Recap

During the 2021 working day session, the following recommendations were made. The actual actions approved by the City Commission are noted for each recommendation.

Specifically, we recommended:

1. No change to the General Fund mill rate for years 2022-2025

Action Taken: The City Commission approved the 2022 General Fund with no mill rate increase.

2. Increasing utility rates by 3% and stormwater rates by 1% for 2022.

Action Taken: The City Commission approved a 3% increase in utility rates and 1% for stormwater for the 2022 budget. The first rate increases since 2019.

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. Five-Year Financial Plan

Action Taken: The City Commission adopted as presented.

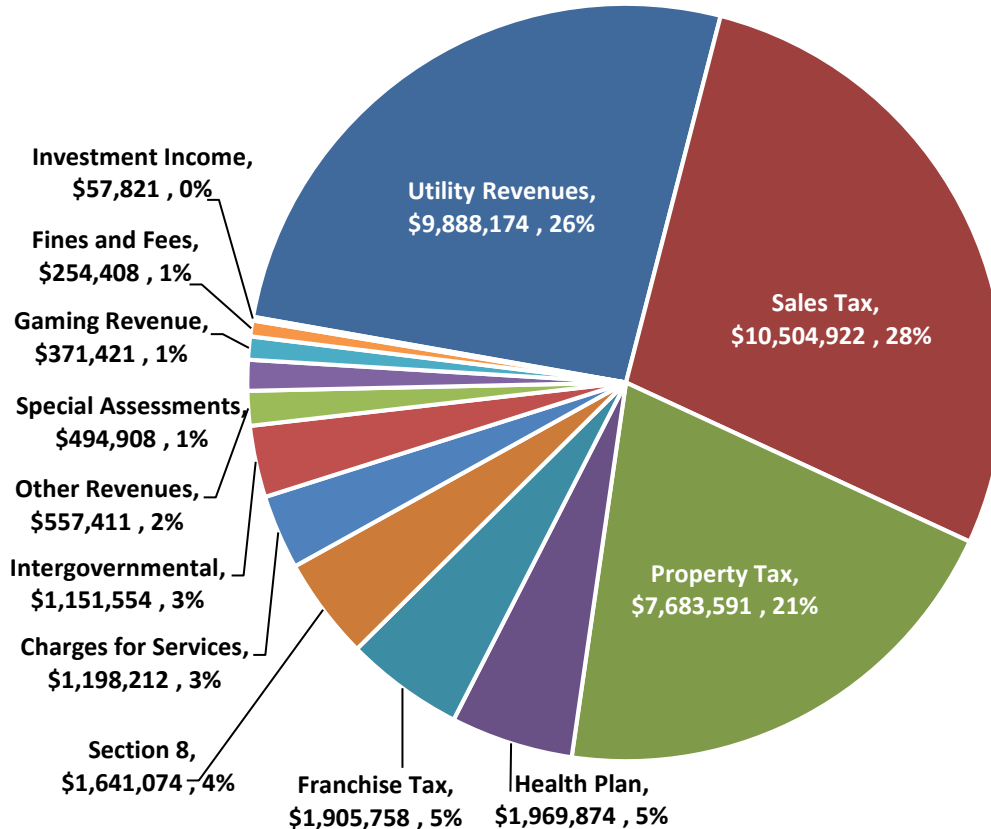
5. Approval of salary increases
 - a. Compensation Study market adjustments and a 1% COLA in 2022

Action Taken: The City Commission approved the 2022 budget with a 1.0% COLA salary increase. The timing of the 2021 Compensation Study resulted in additional market adjustments also taking effect January 2022.

REVENUES

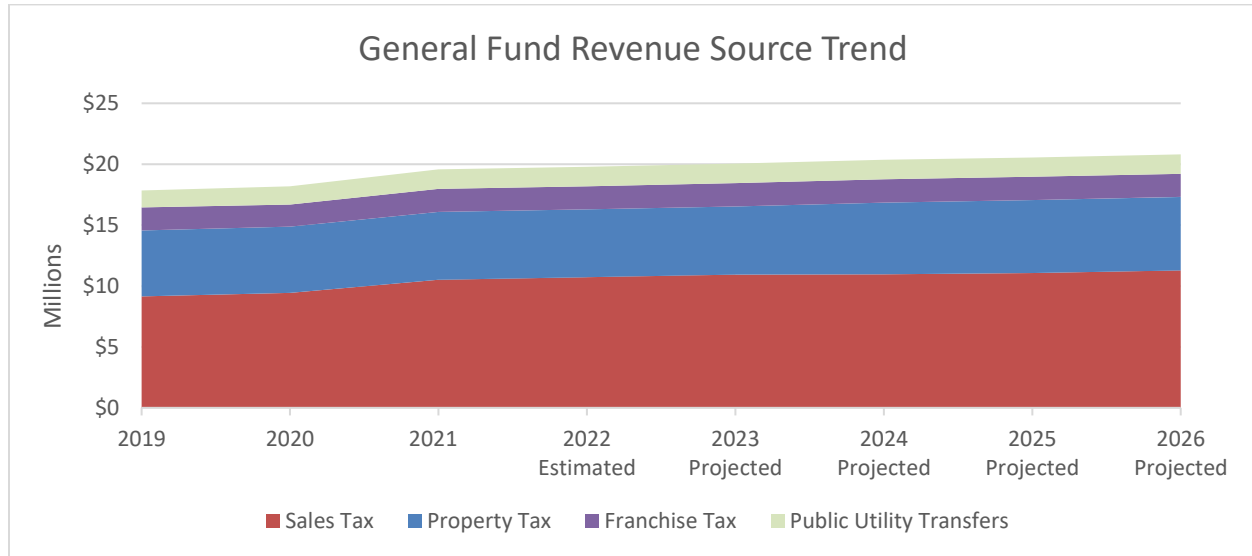
The City of Pittsburg receives revenue from a variety of sources; however, nearly all revenue is collected into two main funds: the General Fund and the Public Utility Fund. When compared to 2020 total revenues, 2021 revenues increased by \$2,286,929. The following pie chart shows the City's 2021 revenues by source and the percentage of total revenues each source represents. Utility revenue, sales tax revenue and property tax revenue comprise 75% of the City's total revenues.

2021 Revenues by Source \$37,679,128



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.



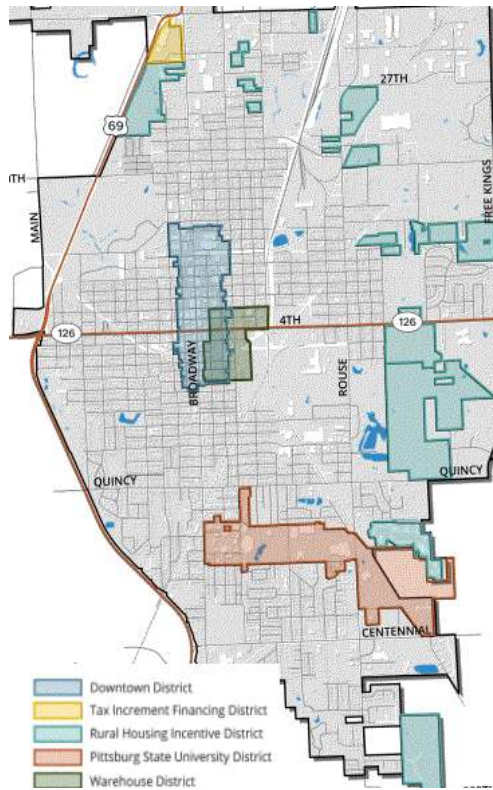
Other Types of Revenues

The City's other General Fund revenue sources are:

- Intergovernmental
- Investment Income
- Fines and Fees
- Charges for Services
- Licenses and Permits
- Gaming Revenue

Property Tax

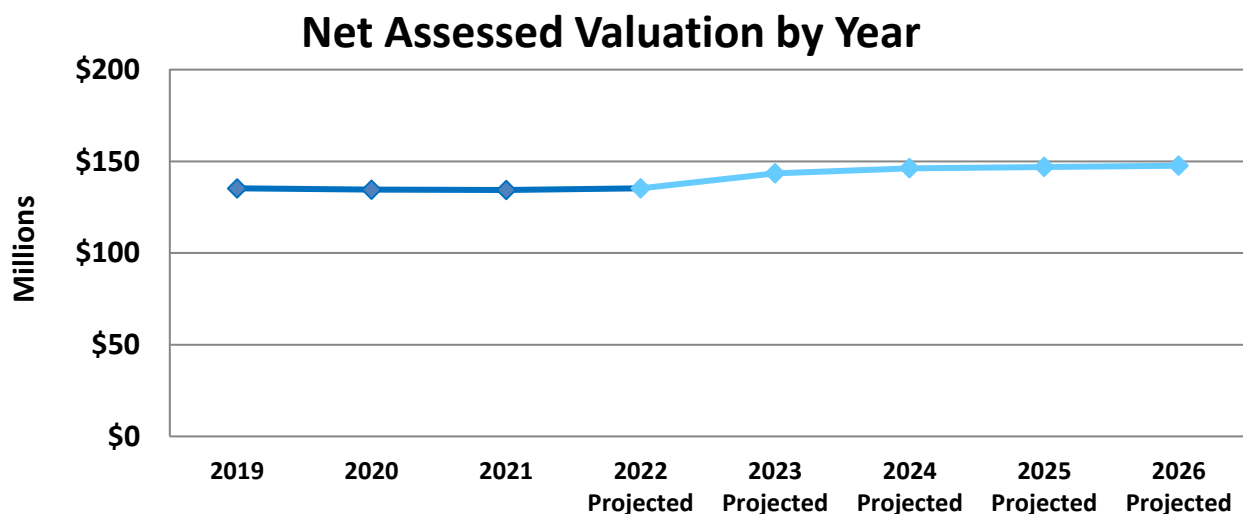
Property tax is an ad valorem tax, meaning it is based on the value of real estate or personal property owned by an individual or company. There are two components for calculating property taxes: property valuations and the mill levy. The City determines the level of service for the upcoming year and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



2020 Pittsburg Land Use Plan – Targeted Overlay Zones

Pittsburg's net assessed valuation has remained relatively flat for the last three years. Property tax abatement programs such as the Neighborhood Revitalization Program and Rural Housing Incentive Districts, used to incentivize growth in our community, offset the slight increase in valuation. A change by the State in valuing low income housing also impacted net valuation.

In 2021, net assessed valuation decreased by \$175,925 or 0.13%. For the years 2022 through 2026, staff is projecting general valuation growth of 0.5% annually. With the addition of new commercial developments and expiration of property tax incentives, the total net assessed valuation increase is projected at 10% over the five-year period. The graph below shows the projected trend in net assessed valuation.



For the 2022 budget year, one mill in the City of Pittsburg generates \$134,352. Historically the City has collected 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 and 2022 estimates.

Valued for	Net Valuation	General Fund Mill Rate	Tax Dollars Collected
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
2022	\$134,352,548	37.520	\$ 4,788,862

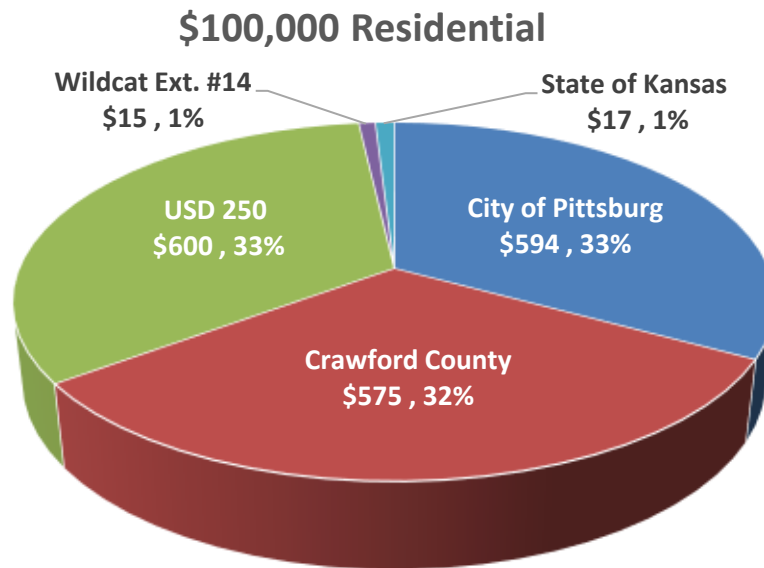
The City receives only a portion of the property taxes paid by residents. The State of Kansas, Crawford County, Unified School District #250 and the Kansas Wildcat Extension #14 also assess taxes on property.

The following table shows the various property tax jurisdictions within Pittsburg and their respective 2022 mill rates.

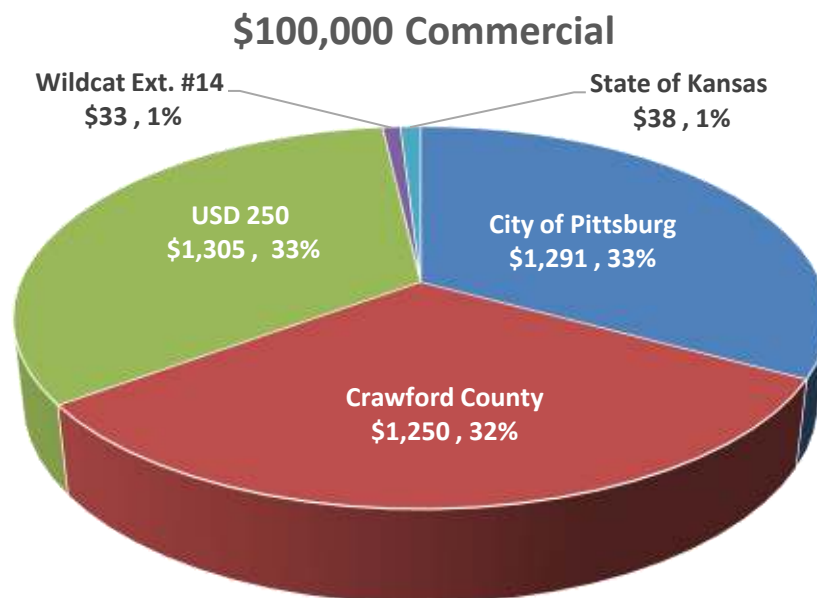
Entity	Mill Rate
USD 250	52.186
City of Pittsburg	51.636
Crawford County	50.011
State of Kansas	1.500
Kansas Wildcat Extension #14	1.389
TOTAL	156.722

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.

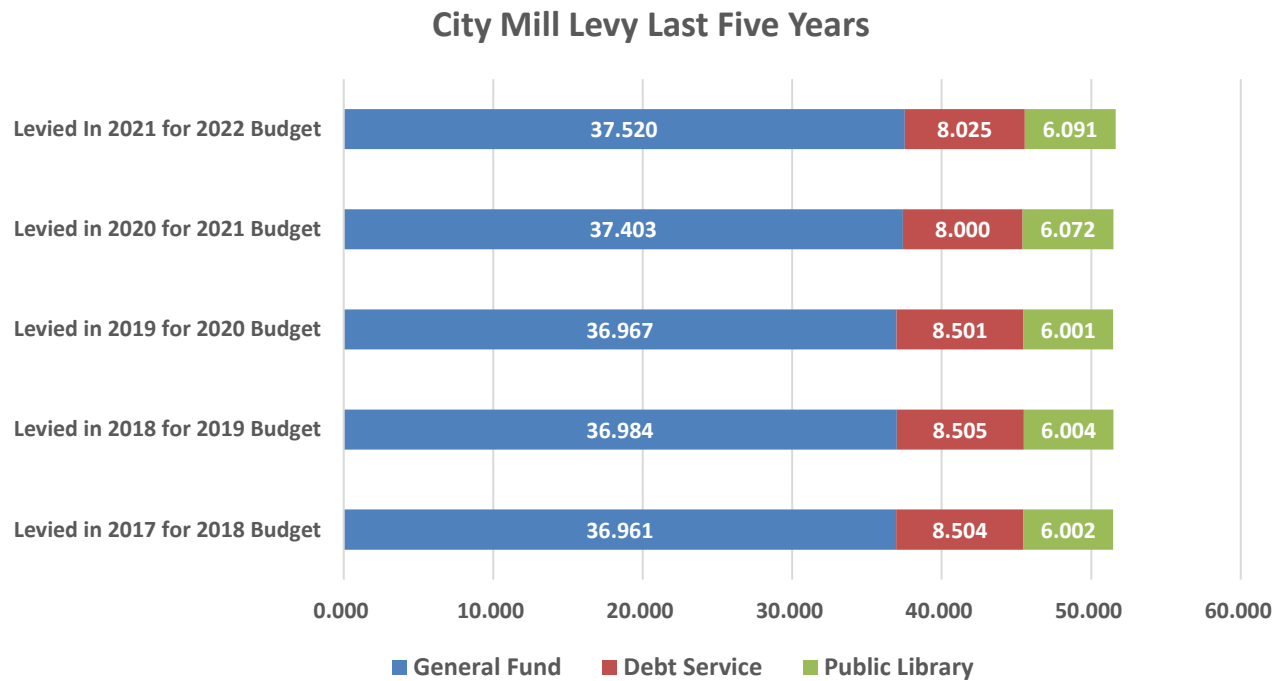
The following pie chart shows the various property tax jurisdictions within Pittsburg and their approximate 2022 cost on a residential property with an appraised value of \$100,000.



The following pie chart shows the various property tax jurisdictions within Pittsburg and their approximate 2022 cost on a commercial property with appraised value of \$100,000.



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

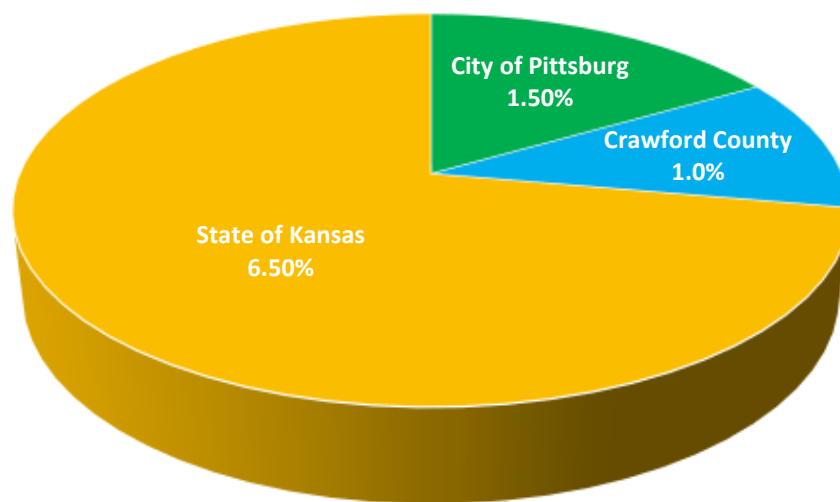


Sales Tax

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).

Overall Sales Tax Rate - 9.00%



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 2022.

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

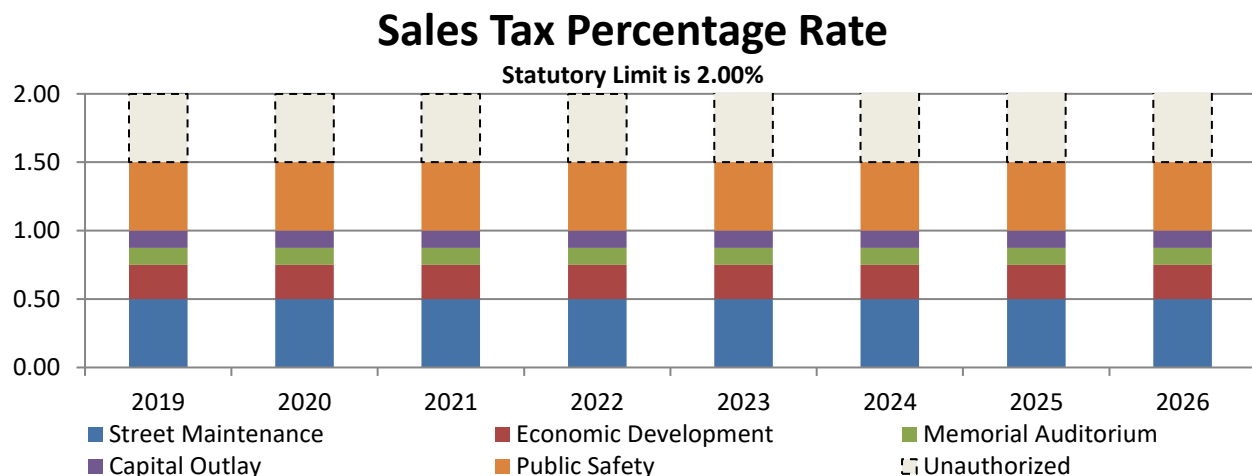
will expire December 31, 2023. The quarter-cent for economic development and the eighth-cent for the auditorium and capital outlay have no expiration date.

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		
<u>Purpose</u>	<u>Rate</u>	<u>End Date</u>
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	

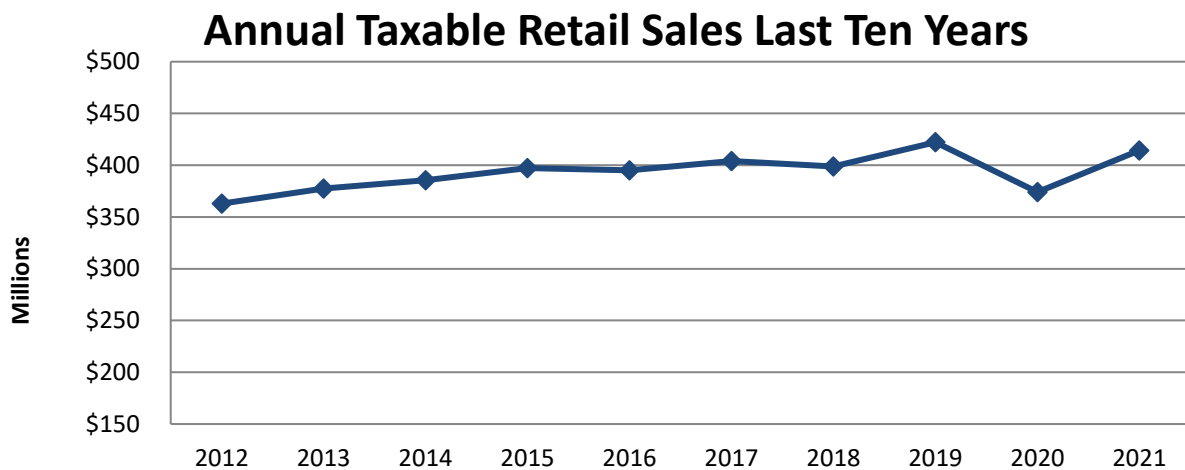
The City's Tax Increment Financing District has an additional .30 sales tax rate and is used to repay the Transportation Development District (TDD) debt which is expected to be retired in 2027. Historically, the TDD sales tax has not been sufficient to pay the annual debt payments and the General Fund has to make transfers of \$10,000 to \$20,000 annually.

Expiration of the half-cent public safety sales tax will have an impact on the City's level of service provided by our Police and Fire Departments. The five-year forecast reflects renewal of the half-cent tax.

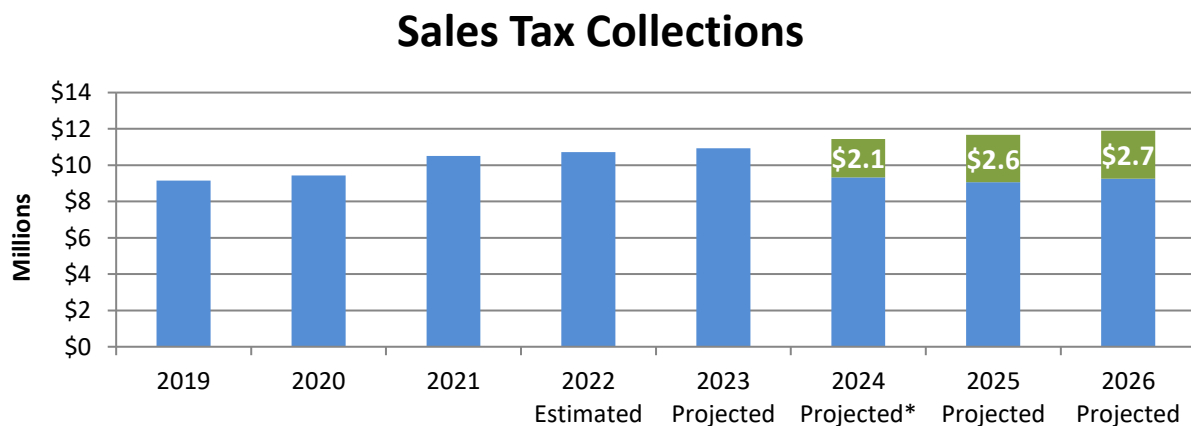


Online use tax collections and the strength of the local economy continue to bolster sales tax collections, resulting in 11.3% growth in sales tax revenue when compared to 2020. The estimate for 2022 through 2026 is 2% growth annually.

In 2020, Pittsburg experienced 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, likely due to COVID-19. Consumers were more likely to choose to have purchases delivered to their homes rather than going to a store. Retail sales rebounded to pre-pandemic levels in 2021.



The graph below shows actual and projected sales tax revenue collections for the City through 2026. The green starting in 2024 is the projected amount of sales tax that the City would collect if the half-cent sales tax was renewed.



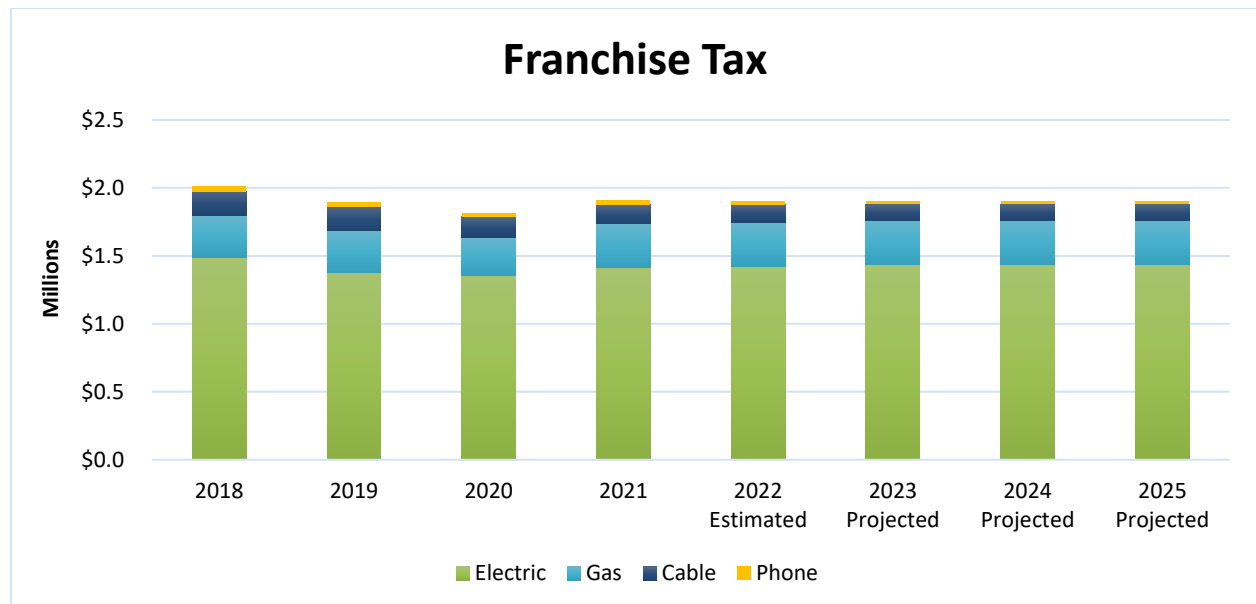
*Two months of Public Safety Sales Tax revenues will be received in 2024

Franchise Taxes

Franchise taxes are the General Fund's third largest revenue source; and the third largest unrestricted revenue source. Franchise taxes for the City include:

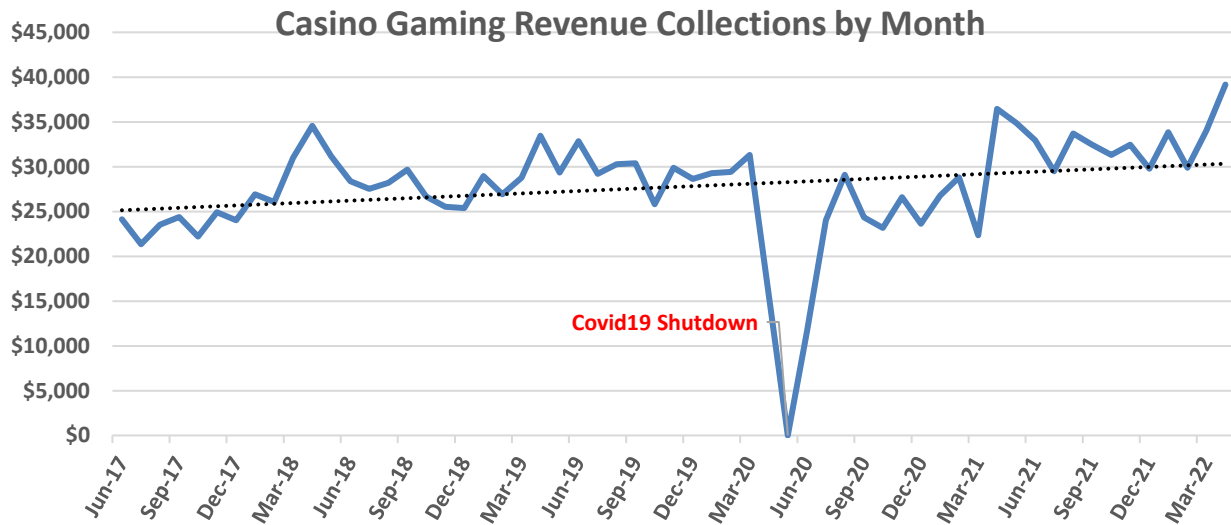
- Electric
- Natural Gas
- Cable
- Telephone

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 74% of the total franchise taxes collected in 2021 and are specifically driven by the climate and stockholder demands. 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 total franchise collections to remain flat for the period of 2022-2026.



Casino Gaming Revenue

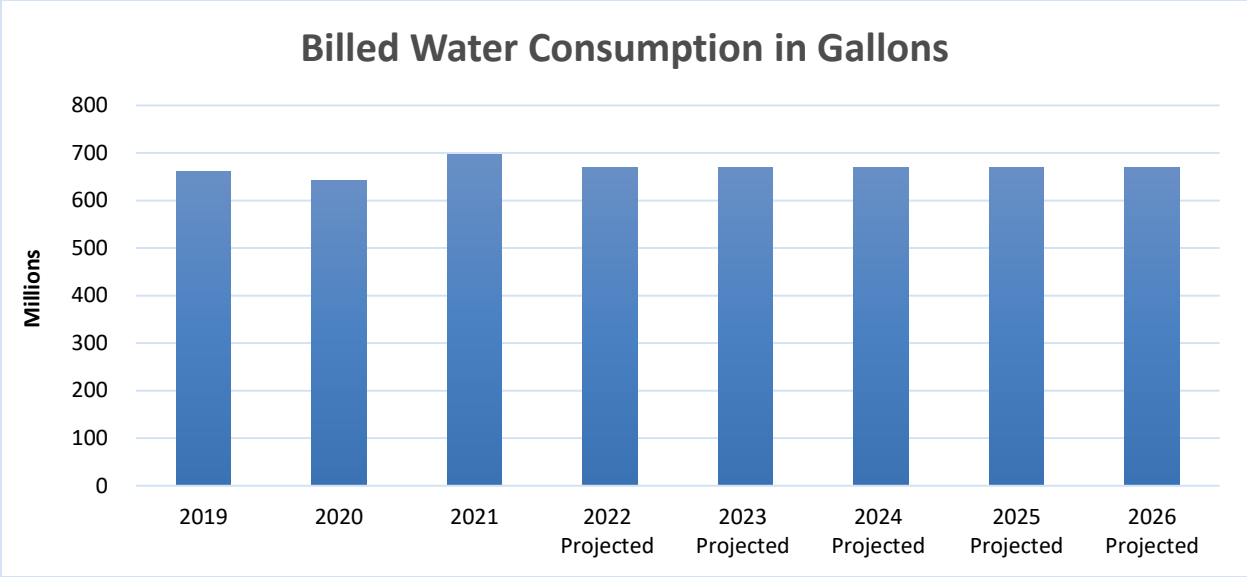
The City receives one percent of the gaming revenues generated by the Kansas Crossing Casino. Gaming revenue for the City is undedicated and supports the City's General Fund. In 2021, the City collected \$371,420 of gaming revenue. For years 2022-2025 staff is projecting revenue amounts of \$370,000 annually.



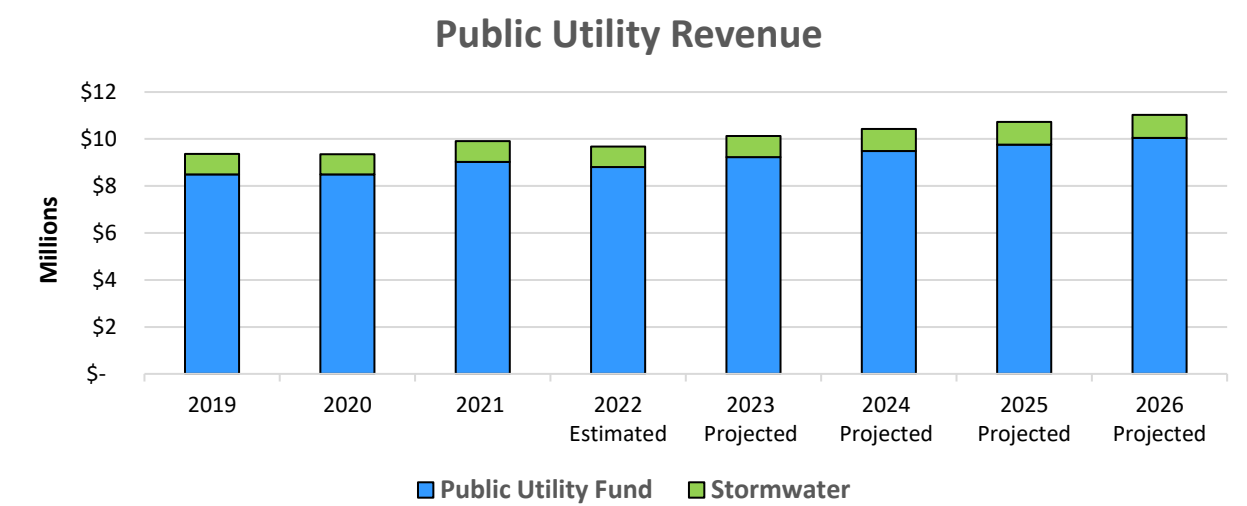
Public Utilities

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. If the season is mild and wet, water use is lower than during high heat and drought conditions.

The graph on the next page depicts actual and projected billed water consumption for the City's water utility. Last year's consumption increased by 8% over 2020, and is projected to remain closer to the historical average for years 2022 through 2026.



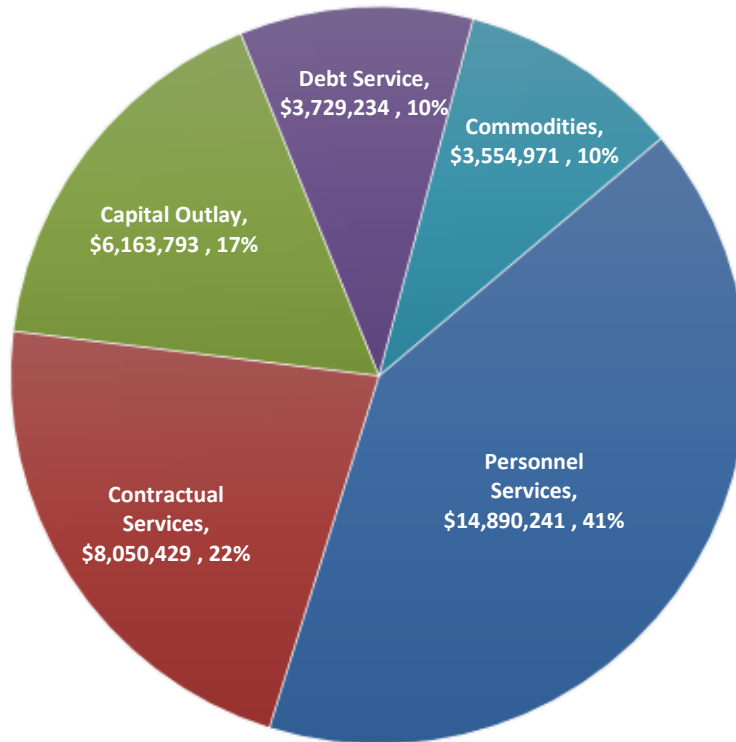
Utility rates were increased by 3% for 2022 after two years without an increase. Staff recommends 3% per year increase from 2023-2026 to cover operating expenses and debt cost, particularly with the upcoming Wastewater Treatment Plant Project.



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 2021 excluding inter-fund transfers.

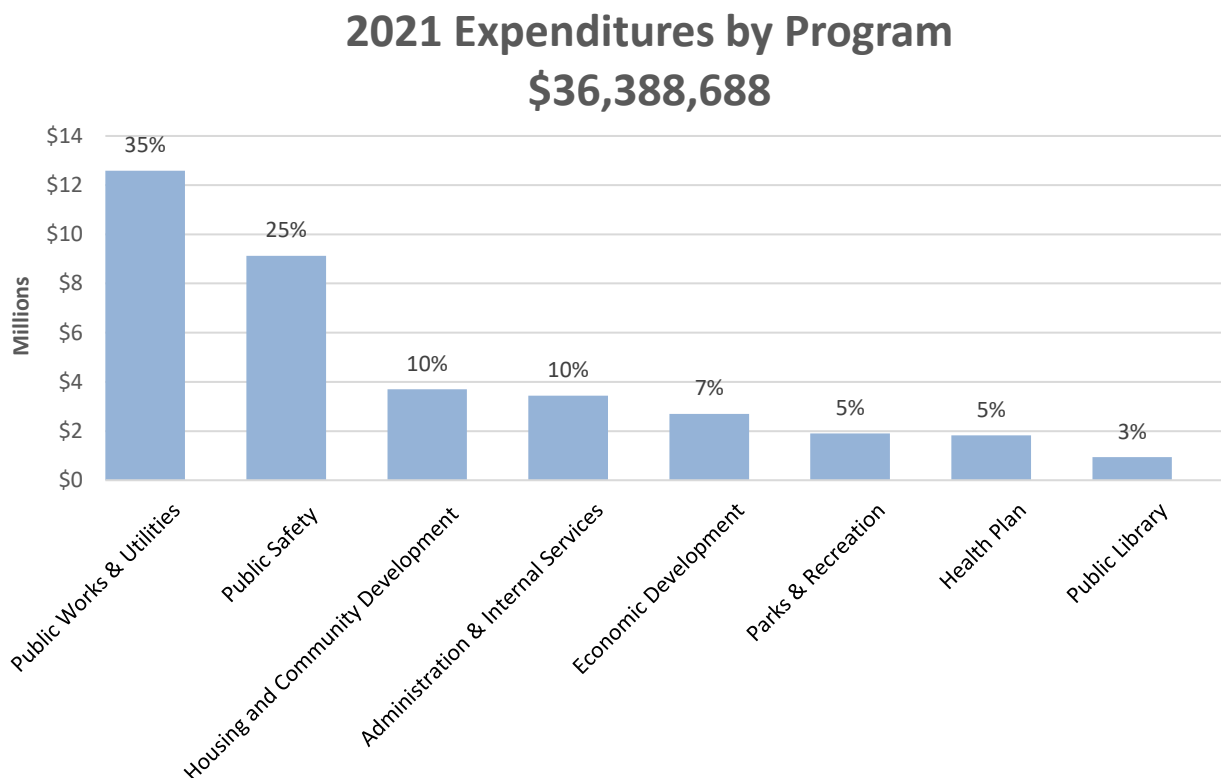
2021 Expenditures by Category \$36,388,668



Personnel expenditures, as is the case with most municipalities, 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 2022 the City has 293 full time equivalent employees (FTE) budgeted, with 243 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 2021 expenditures by program excluding inter-fund transfers are shown below. Major expenditures such as capital outlay and debt service are included within each program.



City Health Insurance Plan

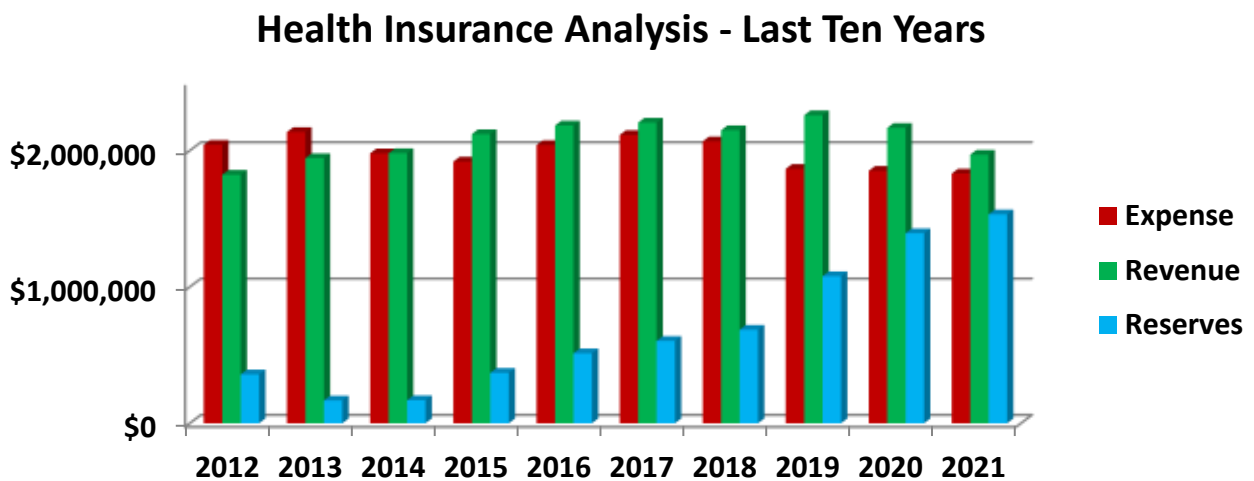
The City offers health insurance coverage to active employees and their dependents. Retired employees have the option to remain on the City's plan until they are eligible for Medicare or become covered under another plan.

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 \$1,532,229 at the end of 2021, an increase of \$1,363,560. The Five-Year Financial Plan projections are for cost increases of 2% 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 are essential to the health, safety, economic development, and quality of life for the public.

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

Currently, the City's fixed assets have a net value of approximately \$101.4 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 2021 Five-Year Capital Improvements Plan, staff identified approximately \$255 million of needs for years 2022 through 2026 and beyond; \$171 million of this total is unfunded. During the 2021 budget year the following major infrastructure needs were completed for approximately \$1.7 million:

- Construction of Georgia Street Culvert and Channel was completed - **\$539,580**
- Installation of Schlanger Splash Pad completed - **\$299,652**
- Various sanitary sewer improvements - **\$213,589**
- New water meters installed - **\$170,390**
- Milled and overlay of Atkinson: Hwy 69-200th - **\$123,329**
- Milled and overlay of 210th Street - **\$120,547**
- Milled and overlay of NE Industrial Park - **\$113,893**
- Milled and overlay of Airport Parking and Drive - **\$46,491**
- New water lines completed - **\$31,103**



North Georgia Street Improvement 2021

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

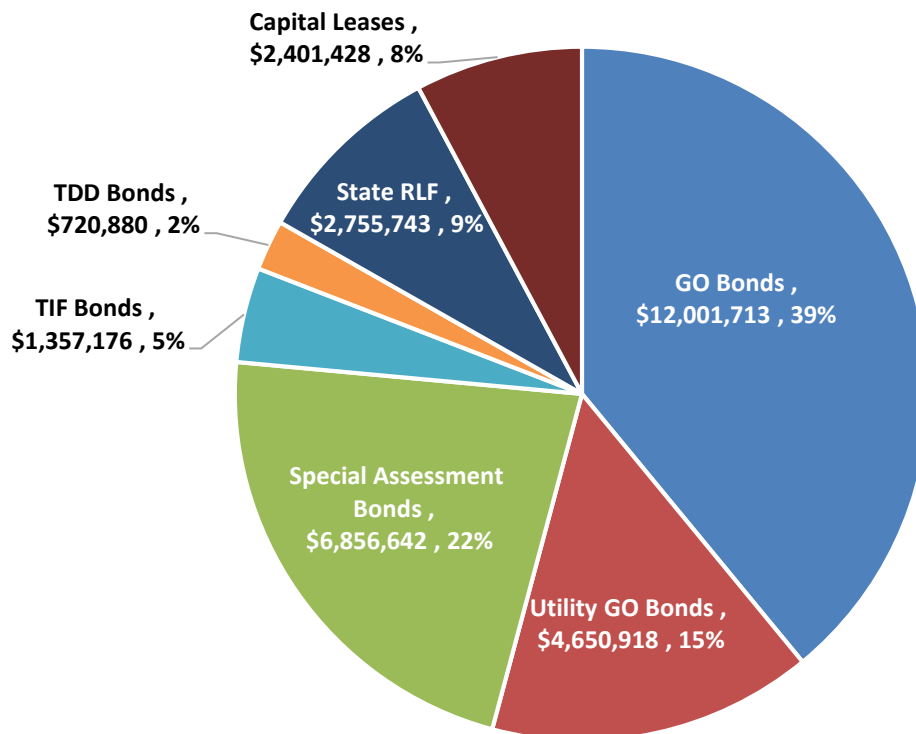
The City's bond rating was upgraded from A+ to AA- by Standard and Poor's in 2015. The upgraded bond rating was due to the City's enhanced financial management practices coupled with stable budgetary performance and projected stability in future years.

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 amount of outstanding debt including principal and interest is forecasted at \$30,744,500 following the 2022 bond issuance. The graph on the following page shows the type of debt and the category percentage of the City's total debt.

Pittsburg 2022 Outstanding Debt \$30,744,500



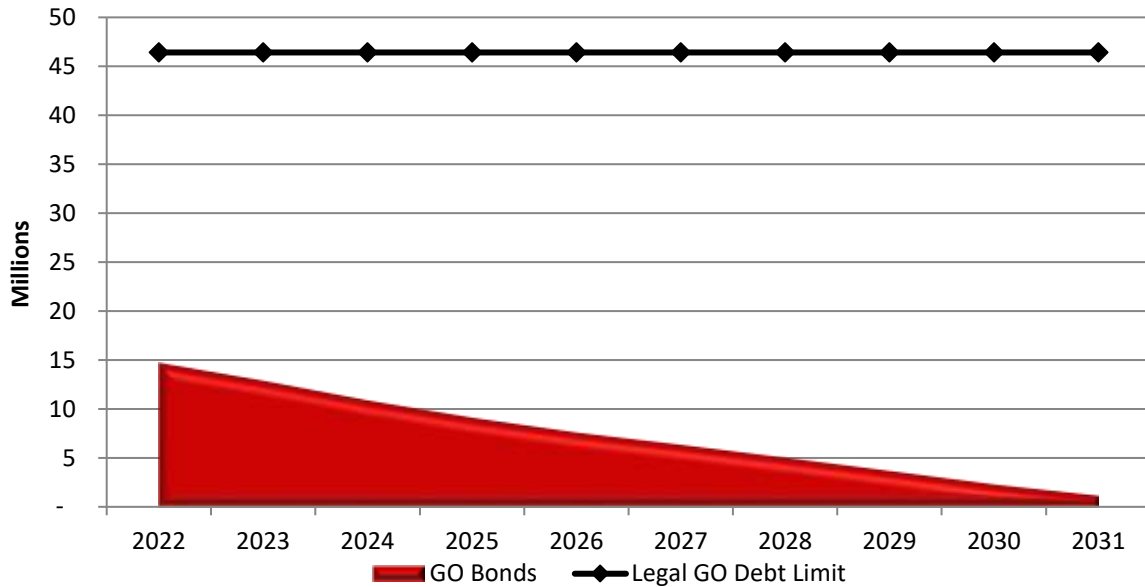
Effective debt management requires monitoring debt levels to ensure the soundness of the City's financial position and continued credit worthiness.

For Fiscal Year 2022

City's property tax supported G.O. debt as a percentage of net assessed valuation	10.8%
City's property tax supported G.O. debt per capita	\$807
Mill Rate	8.025 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 streets and 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.

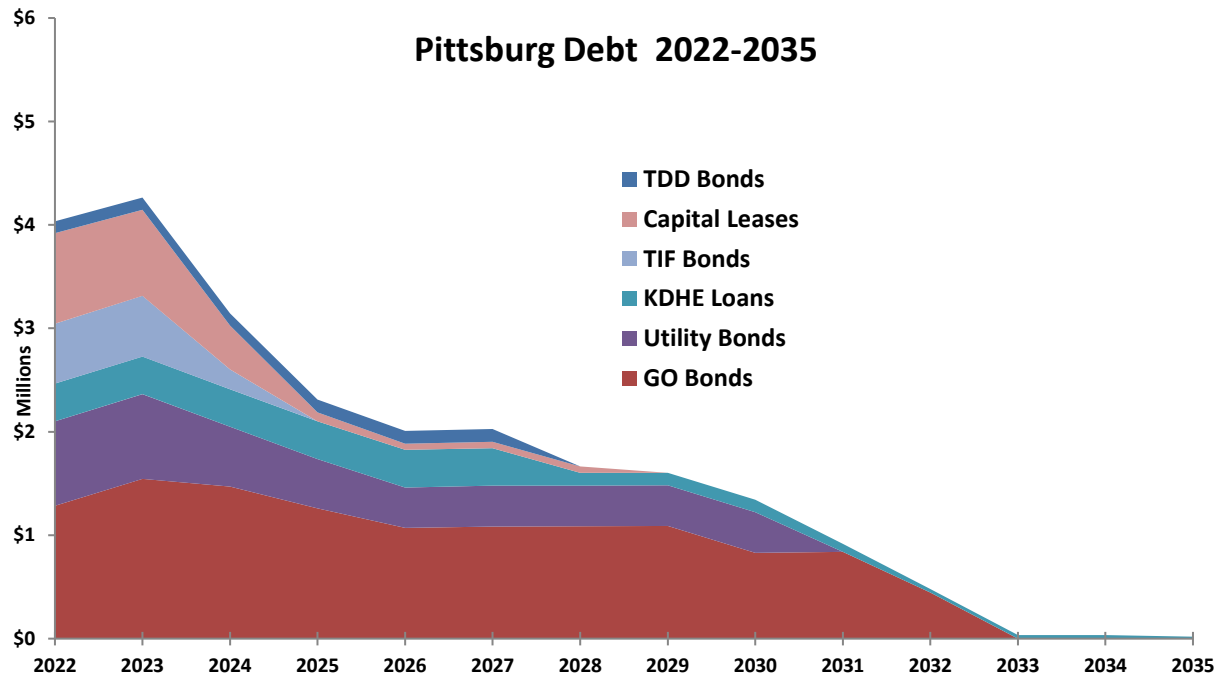
Legal G.O. Debt Limit Compared to Current Debt Level



Kansas statutes require general obligation debt to be less than 30% of assessed valuation including motor vehicle. The current legal debt limit is \$46.4 million. The graph above shows the difference between the City's current total outstanding G.O. debt (principal only) of \$14.7 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.

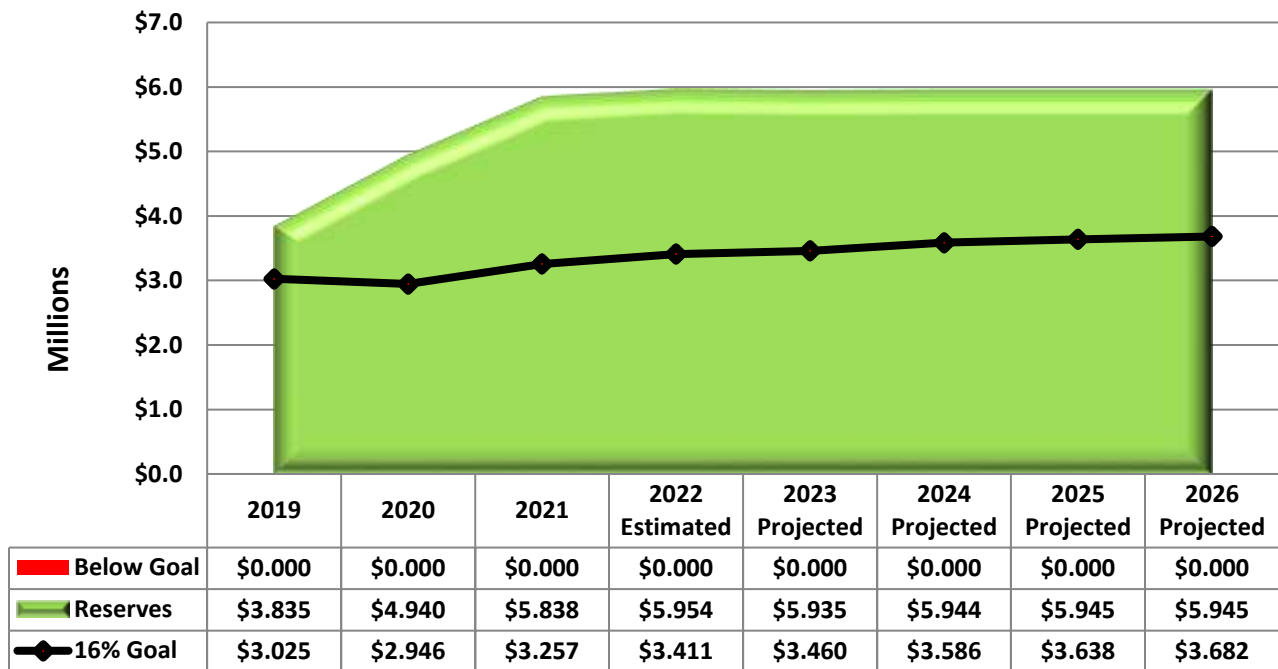
Several risk factors to consider are:

- Revenue volatility
- Infrastructure condition
- Extreme events such as weather and pandemics

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 2021, fund reserve levels for the General Fund and Utility Fund met the City's goal of at least 16% of expenditures.

Reserves are continually evaluated when determining department budgets and approving expenditures throughout the year. The expiration or renewal of the sales tax in 2023 will establish the revenue forecast from which management will adjust operational expenditures and reserve targets accordingly. The following graph shows the projected operating reserves of the General Fund compared to the reserve goal of 16% of expenditures. In this projection, the half-cent sales tax is fully renewed at one half-cent.

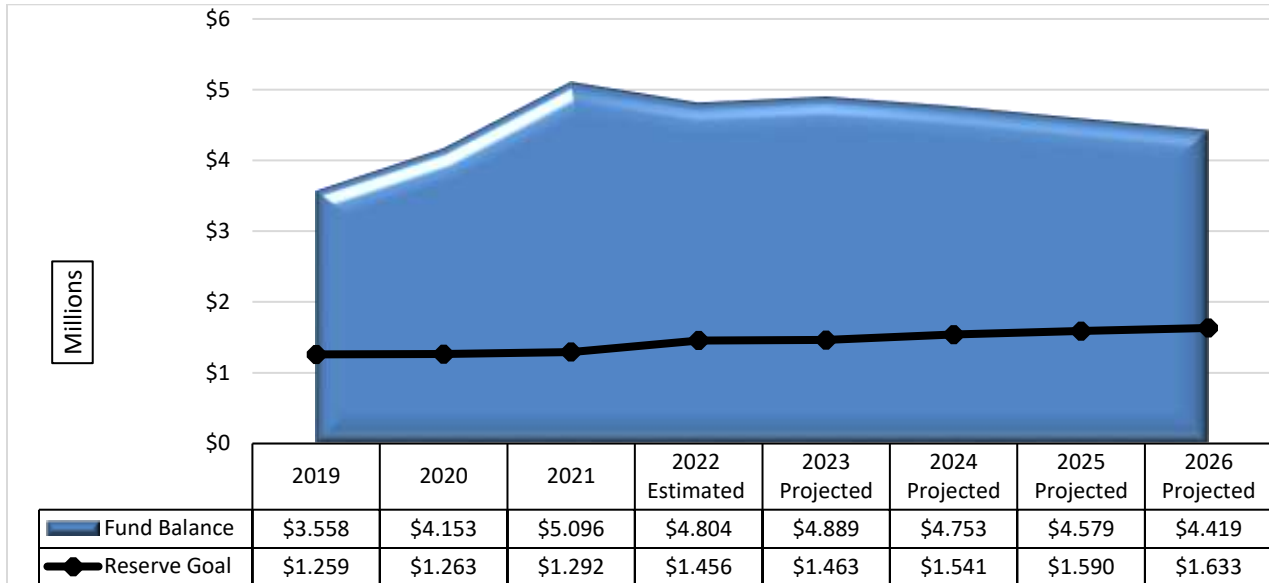
General Fund Operating Reserves



The end of the 2018 fiscal year is the first time that the reserve goal was met since the great recession. Growing reserves the last three years has placed the City in a better position to mitigate operational effects from revenue changes, take advantage of economic development opportunities, and support the City's workforce through wage or staffing increases.

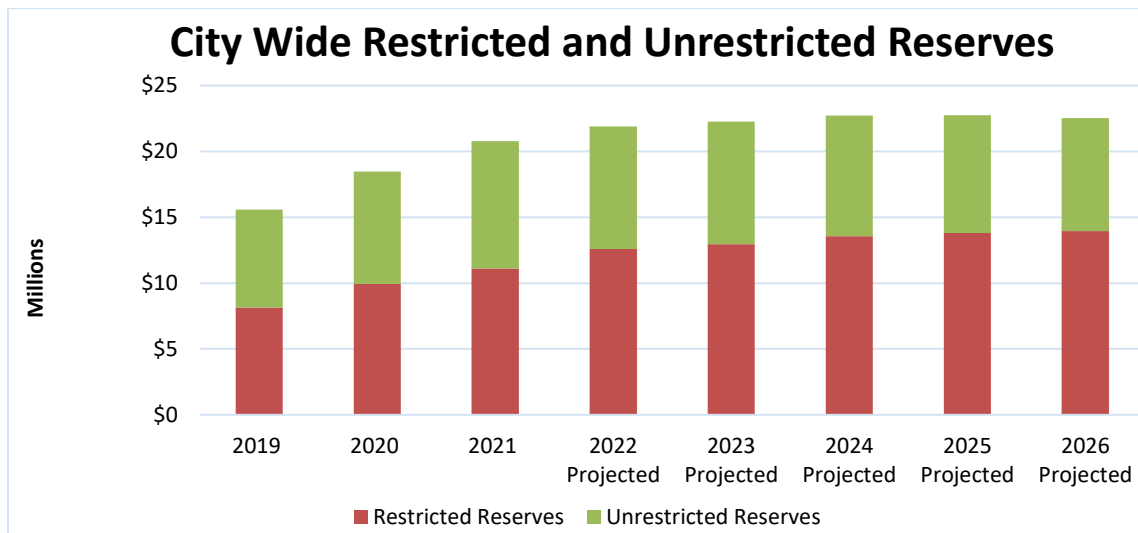
The following graph shows projected operating reserves for the public utility fund compared to the reserve goal of 16% of expenditures.

Public Utility Operating Reserves



The increase from 2019 to 2021 is due to putting aside reserves for future debt costs of the 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 2022-2026.

The chart below shows the forecast of restricted and unrestricted reserves. The unrestricted reserves are projected to slightly decrease with payments towards utility debt service.



SUMMARY AND RECOMMENDATION

Not unlike our local businesses, the City is feeling the impact of rising commodity prices and the tight labor market. Revenue sources for the General Fund, such as sales tax, are keeping pace and allowing the City to minimally grow operations to match our community's growth. Utility revenues will need ongoing rate increases to keep up with similar demands and to fund critical improvements to our infrastructure.

Effective financial management has put the City's reserves in a healthy position to mitigate uncontrollable factors such as, extreme weather, rising costs of health insurance, utility and other unforeseen operating costs.

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. The revenue neutral rate is the mill rate that would generate the same property tax revenue 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 in the Five-Year Financial Plan for your consideration.

Assumptions

- Sales tax revenue, 2% growth for years 2022-2026 using the prior year's level
- Assessed valuation is projected to increase 10% over the period of 2022 to 2026
- Gaming revenue from the Kansas Crossing Casino continues at \$370,000 annually for years 2022-2026
- Utility rate increases of 3% annually for years 2023-2026
- All other revenues project flat to minimal growth
- Retirement costs will continue to rise in years 2022-2026 with a 0.20% KPERS and 0.25% KPF increases annually
- Worker's compensation insurance will continue to increase at a rate of 3% annually
- Contractual and commodities expenses are projected to increase 2% annually for years 2022-2026

Considerations

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

Recommendations

- 2% COLA in years 2023-2026
- Additional 2% merit increase in year 2023 and 2025
- Minimal changes to the Debt Service Fund mill rate for years 2023-2026
- Increase utility rates by 3% annually for years 2023-2026