

Minutes

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 6:00 P.M., on Monday, April 6, 2015. Mayor Peggy Dunn presided.

Councilmembers Present: Debra Filla, Chuck Sipple, Lou Rasmussen, Jim Rawlings, Julie Cain, Carrie Rezac and James Azeltine

Councilmembers Absent: Andrew Osman

Staff present:

Scott Lambers, City Administrator	Patty Bennett, City Attorney
Chief Dave Williams, Fire Department	Joe Johnson, Public Works Director
Chief John Meier, Police Department	Chris Claxton, Parks & Rec. Director
Mark Andrasik, Info. Services Director	Kathy Byard, Budget Manager
Richard Coleman, Com. Dev. Director	Nic Sanders, Human Res. Director
Dawn Long, Finance Director	Major Troy Rettig, Deputy Officer
Deb Harper, City Clerk	Cindy Jacobus, Assistant City Clerk

Others Present: Kevin Jeffries, President and CEO, Leawood Chamber of Commerce

Discuss 2016 – 2020 Budget Model Assumptions and Review and Discuss 2016 Budget Presentations

Mayor Dunn called the meeting to order at 6:03 P.M. and introductions were made.

Ms. Long stated the meeting would follow the yellow agenda provided in the meeting packet. She provided an overview of meeting documentation, assisted by Ms. Byard and Mr. Lambers. Specific discussion highlights, as follows:

Handout #1 – 2015 Budget – Financial Assumptions

- A. Covers a 10-year period, 2015 to 2025.
- B. Proposed mill levy increases of 0.95% only in 2020, 2021 and 2022.
- C. Includes all the current Capital Improvement Program [CIP] debt-service.
- D. Includes \$1M to \$1.3M per year for City-wide park improvement Pay As You Go [PAYG] projects.
- E. New – Addition of 1.0 Full Time Equivalent [FTE] each year beginning in 2016.
- F. Second page – Strategic Planning Model Assumptions
 1. Assumptions/drivers for the models on the first page.
 2. Assessed value increase of 5% in 2016, then decreases to 2.95% each year 2017 through 2025.
 3. City Sales [3.90%], County Sales [3.95%] and Use Tax [3.95%] revenue increases remain static.

4. Interest earnings rise gradually from 1% in 2016 to 3.50% in 2025.
5. Expenditures for salaries increase, benefits increase and health insurance increase are presented separately.
6. Salaries increase remains static at 3.7% each year.
7. Benefits increase starts at 5.55% in 2016 and rises 0.05% each year to 6% in 2025.
8. Health insurance increase starts at 9% in 2016 and rises to 12% in 2025. There are many new and unknown factors regarding health insurance. Therefore, for modeling, aggressive assumptions were used.
9. As in the past, Contractual & Commodities remain static at 1.5%. Contractual Services are 16% of the budget and Commodities are 6% of the budget.
10. The only change in the Street Program is bonded Stormwater Projects (corrugated pipe) are now \$3M every other year; had been \$5M for seven years. [See clarification by Mr. Johnson below.]
11. Service levels are listed at the bottom.

Councilmember Rasmussen expressed concern that benefits expenditures would eventually become greater than 50% of a total cost of an employee, and to be cognizant of the relationship between take-home pay and benefits package. Mayor Dunn stated these expenditures would be reviewed every year at this annual meeting.

Councilmember Rasmussen inquired how increased interest cost of bonded projects would be handled if the Federal Reserve revises rates. Ms. Byard stated that estimated increase of 3.5% had been included this year, rising to 4.5%.

Mr. Johnson clarified the bonded Stormwater Projects will be budgeted \$3M every other year for 13 years, totaling \$35M. Mr. Lambers stated that project reference had been changed from “Galvanized Pipe” to “Stormwater Improvement” to allow flexibility in regard to materials. Spending of the \$35M for Stormwater Projects has not yet begun. Curbs were replaced first and there are still some to complete.

The flow of street and curb projects is tied to the CIP. A portion of bonding for the 143rd Street Program will begin in 2017. Additional phases of this project would be bonded every other year thereafter.

In regard to bonding, Mr. Lambers stated a project must be complete by end of June to be part of the September bond market. If this cannot occur, temporary notes are rolled over and the project is bonded the following year. To obtain favorable bond rates, it is best for the City to have a large bond issue. Ms. Long stated the City currently has one bonded street and one bonded curb project, and that there are no projects to be bonded in 2016.

Mayor Dunn stated City sales tax revenue of 3.9% was optimistic. Mr. Lambers provided rationale for this assumption, as follows:

- A. Sales tax is volatile and will be evaluated each year.
- B. Inflation may return to 2% to 3%.

- C. Current annual City sales tax revenue is only \$320,000; not a significant part of budget.
- D. The City receives 1.225% of total County sales tax, and 0.25% of this is placed in the City's Public Safety Fund.
- E. The City received a total of \$600,000 from the County seven years ago, which was used for the Justice Center. The revenue received from County has since grown to about \$1M.
- F. City sales tax revenue should eventually stabilize, while the County sales tax revenue should continue to grow. Currently, only 40% of the County has been developed.
- G. Although the City's percentage of County sales tax remains static, as the overall County tax base grows through development/new shopping, the City should receive an increased dollar amount from the County.
- H. In 20 years revenue from City/County sales taxes, with County being the largest portion, will probably exceed revenue generated by property tax.
- I. Currently, the City of Overland Park relies 75% on revenue from sales taxes because their mill levy is low.

In follow-up, Ms. Byard will research and provide the basis and allocation percentages received by other area cities from the County sales tax. It is estimated the County retains only 27% to 30% of County sales tax revenue and the remainder is distributed.

Handout #2 – 2015 Budget – Financial Assumptions

- A. Covers a 10-year period, 2015 to 2025.
- B. Does not include any current CIP debt-service.
- C. Does not include a mill levy increase for any year.
- D. Modeling presents “what-if no driving force” scenario.

Handout #3 – 2016 – 2020 Five-Year Financial Plan

- A. Provides information on all sales taxes for which the City receives revenue.
- B. Page 2 – Depicts diversified revenue sources.
- C. Page 3 – In 2013, the total amount of City sales and Use taxes was reduced and presents -3.1% as a result of Use tax payments erroneously remitted to Leawood instead of Overland Park. This error was noted by Ms. Byard and \$465,000 was refunded. Bottom right chart shows 2013/2014 sales and use taxes for select cities. Overall, ten out of twelve Johnson County cities had an increase in these taxes.
- D. Page 4 – Of the top ten categories of City sales tax revenue for 2012 to 2014, “Grocery Stores” was the largest contributor, followed by “Full-Service Restaurants” and “Other Electrical Power Generation”. Electrical generation revenue increased 30% over two years, and rates are expected to continue to rise due to federal mandates and alternate energy reimbursements. Overall, in the Midwest the rates charged to users of electricity are very low.
- E. Page 5 – Presents the top ten categories of City sales tax revenue in bar-graph form for 2013 and 2014. Red percentages are negative, representing a decrease. From 2013 to 2014, six categories experienced positive revenue growth, while revenue from four categories declined.

- F. Page 6 – City sales tax actuals for 2013 and 2014, and forecast for 2015 to 2020. The financial planning model includes annual 3.90% increase from the 2014 actual.
- G. Page 7 – Actual County sales tax for 2013/2014 was 8.5%, exceeding the City forecast of only 3.95%. Actual County use tax for 2013/2014 was 15.2%, exceeding the City forecast of only 3.95%.
- H. Page 8 – Provides the assessed valuation and mill levy for 2007 to 2015. The line located above the graph bars represents the mill levy. One mill is currently slightly over \$750,000. Notices to taxpayers were distributed March 1; appeals deadline is estimated to be end of April. Finance is not aware of any appeals at this time. Approximately 0.05% of notices are protested. Not all appeals are successful, but if so, these should have a minimal dollar impact.
- I. Page 9 – Each year, property tax revenue can shift between the General Fund and Debt-Service, depending on debt-service. The spike in 2016 General Fund is currently forecast due to a large General Fund balance in 2014 and bonding no debt in 2016. Department Budgets were just received by Finance on Friday, April 3, and these budgets will be reviewed to determine expenditures. Currently, the graph depicts a forecast and the budget in June will be more accurate.
- J. Page 10 – Provides the residential property tax values for Leawood, and these values compared to Johnson County as a whole, over the last three years.
- K. Page 11 – This new metric has been added. Leawood’s average appraised value for 2015 is \$455,172, which exceeds average appraised value for 2008 of \$447,601.
- L. Page 12 – The third component of the City’s revenue base includes “All Other Revenue Sources”. It is comprised of franchise fees, licenses, permits [including building permits], charges for services [including golf course], intergovernmental revenue [such as motor vehicle and alcohol taxes], and other [interest income, transfers, refunds/reimbursements and fines/forfeitures]. Franchise Fees are the largest of these sources, and it is anticipated to grow along with Kansas City Power & Light and AT&T U-Verse®.
- M. Page 13 – Building permits issued in 2013 [total \$1,222,658] were higher in valuation due to the construction of the Villa Milano apartment complex project at 137th and Mission. Forecast for 2015 [\$650,000] and 2016 [\$600,000] permits is significantly lower, as the City’s available land space will continue to decrease and eventually diminish, replaced by permits issued for remodels, reconstruction and maintenance.
- N. Pages 14 to 16 – Presents a summary of 2016 to 2020 assumptions for “Operating Expenditures”, “Current Mill Levy”, “Population Estimate”, “Debt Service Expenditures” and “Capital Expenditures”.
- O. Page 14 – Mr. Lambers stated the 2015 original City budget includes a projection of \$4.50 per gallon for unleaded gasoline and diesel fuel. The City currently pays \$1.95 to \$2.09 per gallon for fuel. Any remaining budget authority for fuel expense in 2015 will be reserved to install two additional fuel tanks at the Public Works Maintenance Facility. This project is estimated to cost \$200,000 and would be undertaken as a hedge against a rise in fuel prices and to ensure a strategic City reserve of a four to five month on-hand supply. The new tanks would be located on the east side of the facility, buried to the west of existing two tanks. Public Works would ensure the fuel is kept in a usable condition. It was noted the City does not pay highway tax, but does pay sales tax on fuel.

- P. Page 15 – Project cost certifications for the \$8M in new bond debt issued in 2015 will be placed on the next Council Agenda. The 85th Terrace traffic-calming project had to be addressed as a Special Benefit District, and residents of this district can pay the debt within 30 days without interest. If not paid within this time [typical case], an assessment/tax is placed on the property which is usually passed along to the next owner. The traffic-calming project cost of \$80,000 will be divided between 27 property owners, equating to \$200 a year each, for a period of ten years. Except for this project, there are no other special assessments in the CIP.
- Q. Page 16 – CIP projects are 40% PAYG and 60% debt-service. The box at the bottom of page provides the funding sources the PAYG projects. The Capital Improvement Fund includes \$158,400 for fiber technology, also referred to as fiber infrastructure, which will connect the Justice Center with other City facilities to the south [Public Works, Fire Station Nos. 2 and 3, Ironhorse Golf Course, Golf Course Maintenance and Ironwoods Park].

Handout #4 – 2015 Estimate & 2016 Budget Wages

Not discussed.

Handout #5 – 2016 – 2023 Pay As You Go Capital

2016 – 2022 Major & Routine Repairs to Facilities

2016 – 2013 Vehicles

2016 – 2013 Capital Equipment

2016 – 2013 Other Equipment

2016 – 2023 Proposed Capital Leases

Not discussed.

Handout #6 – Vehicle and Equipment Replacement Policy, Last Revised February 2008

Not discussed.

Councilmember Rasmussen requested to know the portion of land use tax for agricultural zoning within City limits. Ms. Byard will research and supply the requested data. Mr. Lambers stated agricultural land is assessed at 30%, but there are formulas related to land production that greatly reduce the assessed percentage.

Per the request of Councilmember Azeltine, Ms. Byard will prepare a pie chart presenting blended assumptions for total personnel costs. Mr. Lambers stated the City budgets for full employment and other cities in the area no longer do so. Any unspent employment costs are rolled over January of the following year.

Mr. Lambers stated final property tax payments are received at end of the year and sales tax revenue is received two months later. Since 2007 and as first priority, this revenue has always been used to defer mill levy increase. Thereafter, it can be used for other purposes. At the close of the year expenses are known, but based on the above, not final revenue.

Regarding the proposed Ironhorse clubhouse expansion, Mr. Coleman confirmed the City had just received final plans today, which address code issues. Mr. Lambers stated the project would be bid in summer 2016, with construction to start fall 2016 and continue into 2017. To bid, the City must have cash on hand and the 2016 budget will show \$1M for the expansion. If bids are received that are higher than expected, the CIP could be amended.

For June budget preparation, Mr. Lambers asked that items/topics for consideration be provided to Ms. Long and Ms. Byard by the end of April.

There being no further business, the work session was adjourned at 7:16 P.M.

Debra Harper, CMC, City Clerk

Cindy Jacobus, Assistant City Clerk