

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, May 2, 2016. Mayor Peggy Dunn presided.

Councilmembers Present: Debra Filla, Chuck Sipple, Lou Rasmussen, Jim Rawlings, Julie Cain and Andrew Osman

Councilmembers Absent: James Azeltine

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

Others Present: Kevin Jeffries, President, Chief Executive Officer and Director of Economic Development, Leawood Chamber of Commerce

Discuss 2017 – 2021 Budget Model Assumptions and Review and Discuss 2017 Budget Presentations

Mayor Dunn called the meeting to order at 6:05 P.M. and introductions were made.

Mr. Lambers provided an update on the Kansas property tax lid legislation which is not relevant to discussion tonight as the law would impact the 2018 rather than the 2017 budget. The law states if a city has property tax revenue in excess of inflation, measurement determined by the state, the city would need to reduce its mill levy to not exceed, unless approved by a vote of the people. The voting process would simply not work, so it is not an option. When the 2017 budget is complete, he will meet with Ms. Long and Ms. Byard and revisit the 2017 budget as if the statute was in effect to see how the City would respond. There would be unknowns for the unknown values of certain exemptions and tax revenues. If exemptions in the law do not provide for the growth in revenue, to avoid an election the City could roll-back the mill levy as part of the budget and reduce reserves to cover; it would be too late take any other action.

Mr. Lambers stated the goal of tonight's Work Session would be to decide what items should be in the budget. The dollar amount impact of the statute is not that great. Governor Sam Brownback had favored no exemptions and there may be a continued assault in this regard, but the law does contain exemptions that are subject to interpretation. Mr. Lambers stated his interpretation that the law's language on Public Safety regarding the Police and Fire Departments is any growth from year to year above 3% is not covered by the property tax lid. Each year the exemptions the Kansas legislation allows may change and will need to be addressed case-by-case. He stated his opinion this may be the result the intended by the state.

Mayor Dunn inquired if the law contained an exemption for population growth or development growth. An exemption for population growth had been mentioned by Kansas Republican Senator Jim Denning and supported by Johnson County Board of Commissioners Chairman Ed Eilert. Mr. Lambers responded the statute has an exemption for development growth only. The statute does contain bonded interest. If you could not hold a vote of the people for a PAYG [Pay As You Go] project funding the project would need to be bonded, with the City incurring cost for bond issuance and interest, as opposed to pay on an annual basis as not to encumber a mill levy for 20 years. Reserves might be built as a result. The statute is basically an incentive to borrow money and seems nonsensical.

Ms. Long stated the meeting would follow the blue agenda and four hand-outs had been 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 – Review Five Year Financial Plan

- A. Page 2 – Revenues by source of sales tax, property tax [assessed valuation] and other governmental revenues, fairly evenly distributed.
- B. Page 3 – Specific totals of City sales and use taxes, 2008 to 2015 trends, increase of 3.5% from 2014 to 2015, and City sales and use taxes for 2014 and 2015 for nearby cities.
City Sales and Use Taxes
 - a. The sales and use taxes for nearby cities was obtained from the County Economic Research Institute [CERI].
 - b. The five-year average growth of the combined sales and use taxes is 3.5% for Leawood.
 - c. City financial model projects sales and use taxes growth at 2.95% annually, 2017 through 2021.
 - d. Projected growth is calculated based on growth of new business and growth of existing business [0.9%] and growth due to inflation [2.0%]. The federal target for inflation 2.0%.
 - e. If inflation returns to a more normal rate, projected growth would be closer to 3.5%.
- C. Page 4 – The green bar chart depicts a sales and use tax collection growth of 3.0% from 2014 to 2015, which is based on actual cash receipts. CERI data states Leawood's growth is 2.0% for the same period since they only estimate.

- D. Page 5 – Changes in City Sales Tax Collections from 2014 to 2015
- a. As stated in the chart header, approximately \$200,000 of the \$6,932,102 in 2015 City Sales Tax collection was the result of NEW retail. If the NEW retail had not begun in 2015, the change in City Sales Tax growth from 2014 to 2015 would have been decreased by 2.5%.
 - b. There is a two-month lag in reporting of sales tax collections.
 - c. The 1.6% decrease for Sporting Goods Stores could be attributed to many new stores of this type in the area. There is a two-month lag in sales tax collection, and current collections for a two month period in this category are 19% greater than the same period last year. There is some growth in areas that experienced a decrease last year.
 - d. Category of “Other Electric Power Generation” includes all utilities such as water and natural gas, and these items have seasonal impacts. Less natural gas would be used in a mild winter and less water used for outdoor watering if there is sufficient rain.

Mayor Dunn inquired why the growth in City sales and use tax was low in 2015, compared to that of 2011, 2012 and 2013, noting in 2013 there had been a state adjustment to the taxes. Ms. Long referred to Page 5, stating several top ten categories for sales tax collection types decreased including grocery stores, which represent 12.6% of receipts in 2015, which is down from 2013 and 2014. A decrease in City tax collections for grocery stores may be expected in 2016 due to Hen House closure during construction.

Mr. Lambers stated the Kansas sales tax on groceries is one of the highest in the United States and a Johnson County legislator has proposed to abolish the tax. If Kansas sales tax rate was reduced, the City’s rate would remain the same. However, if the Kansas sales tax on groceries was abolished, the City’s 1% sales tax on groceries would be lost as the City can only impose a sales tax if Kansas does. Mr. Lambers gave his opinion there would be continued and even increased sales tax avoidance by purchasing food, alcohol and gasoline in Missouri. Persons residing within a 20 mile radius of the Kansas-Missouri state line who purchase items in Missouri have considerable savings.

Mayor Dunn stated the Camelot Court Community Improvement District [CID] is based on the payback of a 1% sales tax and it might be short-sighted if Kansas legislators abolish all sales tax on food.

- E. Page 6 – 2014 and 2015 actuals and 2016 through 2021 estimates of City sales tax. The financial planning model includes a 2.00% increase from the 2015 actuals for the 2016 estimated budget, in all sales tax areas. The estimates increase 2.95% each year based on growth of new and existing business, and inflation [total 2.90%].
- F. Page 7 – Presents ALL sales tax categories, with percentage of change from 2014 to 2015 actuals for each category shown in green. Every category experienced growth. The County Public Safety Sales Tax increased 1.9% from 2014 to 2015.
- G. Page 8 – Mill levy for 2008 to 2016 remains relatively flat. The mill levy for 2016 is 24.508.

- H. Page 9 – Assessed Valuation [Property Tax] Forecast
 - a. Property tax actuals for 2014 and 2015, and estimates for 2016 through 2021.
 - b. Bonded portion rises from 2014 to 2021 to pay scheduled debt service.
 - c. The City's 2017 estimate of a 5.00% increase in assessed valuation is based on meeting with Mr. Paul Welcome, Johnson County Appraiser.
 - d. Used conservative estimate of 2.75% for 2018 through 2021.

Councilmember Cain stated in recent experience, prospective home buyers are submitting bids in excess of asking price, and appraisals and banks are supportive of the higher price. Two years ago, homes on the market did not appraise for the asking price. Homes priced at \$550,000 in Leawood are moving quickly. Mr. Lambers stated the Johnson County Appraiser typically assesses valuations at 5% less. Councilmember Cain stated once a home is sold the appraised value is adjusted, reflecting the last sales price. Inventory of homes is down approximately 17% less than the same time last prior year. Councilmember Filla noted the adjustment in appraised value that occurs when older homes in north Leawood are demolished and replaced.

- I. Page 10 – Depicts the last five years of property tax valuation, showing increase in values from year to year. Leawood had a 93.2% increase and Johnson County had a 93.1% increase from 2015 to 2016.
- J. Page 11 – Average appraised value of a Leawood home increased from \$453,859 for 2015 to \$472,405 for 2016, a change of 4.1% or about \$52.27 more in property tax annually. The previous highest appraised value was \$447,601 in 2008, from which the 2016 value is 5.5% higher.
- K. Page 12 – Presents anticipated Other Governmental Revenues data by fund percentage and dollar amount, which is expected to increase by 4% from 2016 to 2017.
 - a. Other Governmental Revenues include franchise fees, charges for service, interlocals, licenses/permits and all other.
 - b. Intergovernment revenue is the largest and includes motor vehicle, alcohol, transient guest tax, special assessment tax payments and contributions from other entities for capital projects, including CARS [County Road Assistant System].
 - c. Building permits are estimated at \$1.4 Million in 2016 and \$1.2 Million in 2017.
- L. Page 13 – General Fund Expenditures by type percentage and dollar amount. Personnel is always the largest expenditure.
- M. Page 14 – The January 1, 2016 beginning balance for Other Budgeted Funds and forecast through 2016, by fund type.
- N. Page 15 – 2017 – 2021 Assumptions
 - a. Certified mill levy of 24.508; 19.104 for General and 5.404 for Bond and Interest.
 - b. A 0.95 mill levy increase is anticipated for three consecutive years, beginning in 2021.
 - c. Current mill levy equates to approximately \$870,000 each year; with compounding, estimate that will equate to \$1 Million each year by 2021.

- d. Population estimate of 32,973 for 2017.
- e. 2016 Budget includes \$7,763,800 for general obligation debt payments. The 2017 debt payments are estimated to decrease as debt service decreases.
- f. No scheduled new debt in 2016. Only one-half of cost of 143rd Street project will be bonded in 2017; currently temporary notes.
- g. No special assessments are planned to be issued.
- h. Two current refundings are planned, 2006 and 2007B, and the City's financial advisors are reviewing but they have not advised of any opportunities for any advance refundings. These are now temporary notes.

Mr. Lambers confirmed to Councilmember Rawlings there had been an intentional delay of about six months to fill positions, but less benefit of this is now realized as new hires are starting at a lower rate of pay. The recruiting process takes about 60 days. The City recently received about 60 to 70 applications for the open Planner 1 position. There is currently an open position for a Code Enforcement Officer.

Mr. Lambers suggested that if the property tax lid legislation requires a public vote to be needed to obtain approval for 1% mill levy increases in 2021, 2022 and 2023, the increase would all be done at once for 3%. At that time the Council may want to consider having a special sales tax rather than use property tax for debt-service financing projects. In this manner, many people would be supporting the project rather than just property owners. The main driver will be the amount of property tax revenue that comes in over budget. Once the cap is reached that ability would be curtailed as well. The City needs to proactively address any impacts.

Mr. Lambers stated that other states have enacted similar legislation. Colorado legislation includes exemptions for population growth and cost of living; current taxation on marijuana may be ruled illegal as it is considered a special substance. California Proposition 13 caps and limits the rate of increase to 1% for residential property values. Most states do not have such legislation.

Mr. Lambers confirmed the new legislation would not impact the construction of the new fire station. The City is accumulating funding and if the City decides to bond the project, that becomes exempt, so the City is motivated to bond and use the money for other projects. The Public Safety exemption in the law does not allow for buildings. Projected bond interest payments for 2027 to 2030 show a decrease in mill levy need for bonded projects. If there are no additional bonded projects, then the mill levy can be transferred to the General Fund to the Bond and Interest Fund.

Mr. Lambers stated the City had been conservative and utilized an ideal "three-leg stool" of one-third revenues each from sales tax, property tax and other governmental revenues. Mayor Dunn stated the City has good housing stock and an average home value of \$470,000. The City has not had to reduce staff or services, as other nearby cities have done.

Councilmember Rasmussen stated Ward Two residents had never turned down a tax and he did not have concern about having an election for large capital issues such as stormwater. Mr. Lambers stated the concern is in regard to timing within the city's budget process, resulting in a special election independent of the budget which must be approved by October 1.

Mayor Dunn stated the voter-approved 4/10th tax was discontinued after four years, one year earlier than had been stated in the election. Mr. Lambers suggested the option of a sales tax for five to seven years period to fund projects and then accelerate payments. Leawood has lower sales tax rates and durations for streets and stormwater than nearby cities, and use of a sales tax rather than property tax could be considered, as sales tax is not covered by the property tax legislation. Special election to seek an increase could be conducted in August, for the next budget year.

O. Page 16 – Operating Assumptions

- a. Beginning in 2019, one full-time position will be added every other year.
- b. The 2016 Original Budget included \$28,138,800 for personnel costs. This projection will decrease to \$28,037,200 in the 2016 Estimated Budget due to a few unfilled positions.
- c. A 1.5% increase in Contractual Services and Commodities assumed for each year, 2017 – 2021.
- d. First payment in 2017 on proposed lease for a replacement Fire Platform Truck.
- e. A 1.0% budget variance for revenues and a 2.0% variance for expenditures is included in the current financial planning model.

P. Page 17 – 2017 Capital Expenditures

- a. PAYG capital projects comprise 67% of the 2017 Budget.
- b. A 2.5% increase in Gasoline Tax receipts is projected.
- c. A 3.0% increase Alcohol Tax is assumed.
- d. Leawood's share of the Arterial street repair program is projected to be \$1,031,200 after funding from partner cities and CARS is received in 2017.
- e. Total of \$2,200,000 in stormwater projects are planned in 2017 with the City receiving \$1,200,000 in reimbursements from the County.
- f. The Capital Improvement Fund contains \$105,000 included for park improvements, \$1,065,000 for the second half of the Ironhorse Golf Clubhouse project, \$668,000 for City facility building repairs and replacements and \$158,400 for fiber technology.
- g. The Special Parks & Recreation Fund includes \$600,000 to be used towards the \$1 Million in park improvements in 2017.
- h. Art acquisitions to be identified total \$70,000 in 2017.

Ms. Claxton confirmed repairs would be complete for the Aquatic Center to open as scheduled in May.

Handout #2 – Strategic Planning Model

- A. Budget variance of 1.0% for revenue and budget variance of -2.0% for expenditures. The revenue budget variance is extremely conservative and typically 4% to 5% higher than conservative estimate.
- B. The bar chart provides data on various funds, and current and future debt service over the next 10 years.

Handout #3 – 2016 and 2017 Wages

- A. Budgeted wage-only data for 2016 and 2017; increase of 2.19%.
- B. Animal Control is comprised of three staff. Shifts are staggered, there may be two officers on duty at one time and there is no overnight shift.

Handout #4 – PAYG Capital, 2017 - 2014

- A. Page 1 presents a high-level summary by category.
- B. Pages 2 through 15 provide additional details for each category.
- C. The only new lease projected is the fire platform truck. With financing, payments are estimated to be \$120,000 to \$130,000 a year for 10 years.

It is planned that the new fire platform truck would be delivered in 13 months and be parked at Fire Station No. 2. Mr. Lambers suggested that because trade-in value was so slight and intrinsic value of having a second truck, the older fire truck would be kept in back-up storage. This would be a cheap insurance policy for the City in case a truck is out of service, but it would not be expected to respond to an emergency. Once another future replacement is made in 10 years, the oldest truck could be donated to another Fire Department. The truck could be kept in stand-by for several years, but it is uncertain if the old fire truck could enter the doors of the Justice Center basement or if there would be a need to build a dedicated storage shelter.

On Page 2, Councilmember Rawlings noted \$143,000 for HVAC replacement at Fire Station No. 3. Mr. Lambers stated Fire Station No. 3 was built in 2002 and has age-related problems. This is a facilities maintenance program expense scheduled for 10 years out.

Councilmember Sipple inquired about the Arbitrator System for Mobile Cameras in Police Department Equipment on Page 12. Chief Rettig stated Arbitrator is the Panasonic brand name and this would be the cost for an upgrade to the current system.

Handout #4 – Vehicle and Equipment Replacement Policy, Revised March, 2016

Mayor Dunn reminded the Governing Body had recently approved policy modifications related to the years of vehicle service, but not the mileage.

Ms. Long confirmed to Mayor Dunn that no other Work Session was on the calendars before the scheduled Budget & Finance Committee meeting. Ms. Byard stated the budget would be available on May 26 and the Budget & Finance Committee meeting had been scheduled for Tuesday, June 7. Mayor Dunn stated that Mr. Lambers anticipated the impact of the Kansas legislation and had accelerated the budget process calendar/timeline, but Johnson County kept the budget certification date the same as previous, August 25.

Mr. Lambers shared Kansas Secretary of State Kris Kobach's concerns related to governmental entities with promotional versus informational brochures and he would like to pass a law that precludes a city or a county from advising voters as to the nature of the election. Mr. Kobach did not provide specific entity names or material examples related to this concern.

Mr. Lambers stated the City's 2017 budget is extremely status quo. For 2018 we may have more opportunity for a more normal process. In 2018, each department may request one additional person.

Mayor Dunn inquired if the primary use of the Parks & Recreation budget would be the clubhouse expansion as Americans with Disabilities Act [ADA] compliance had already been addressed. Ms. Claxton confirmed and stated the low water trail/bridge crossing will occur in 2016. She added there were no new additions to parks projects, only timing adjustments. Mr. Lambers stated if the property tax lid comes into play, Parks & Recreation items would come under review as non-essential service.

Ms. Claxton confirmed for Mayor Dunn that no storm damage had occurred at the Ironhorse Golf Course in the recent storms, only cost of some sand and labor, and there had been no damage to the Leawood Dog Park fence.

There being no further business, the work session was adjourned at 7:09 P.M.

Debra Harper, CMC, City Clerk

Cindy Jacobus, Assistant City Clerk