Work Session

THE LEAWOOD CITY COUNCIL

April 17, 2017

Minutes

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting, 4800 Town Center Drive, at 6:00 P.M., on Monday, April 17, 2017. Mayor Peggy Dunn presided.

Councilmembers Present: Chuck Sipple, Jim Rawlings, Julie Cain, Andrew Osman, James Azeltine, Debra Filla, Dr. Steven Kaster and Lisa Harrison

Councilmembers Absent: None

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

Others Present: Kevin Jeffries, Chief Executive Officer and President, and Director of Economic Development, Leawood Chamber of Commerce
Matthew Kincaid, 10531 Mission Road

Presentation of 2018-2022 Capital Improvement Program [C.I.P.] and 2018 Budget Model Assumptions

1. OPENING BY THE MAYOR

Mayor Dunn called the meeting to order at 6:09 P.M. Introductions with affiliation were made. She thanked all attendees and Ms. Long and Ms. Byard for the documentation, praising the manual cover depicting various public art pieces in the City.

Mr. Lambers introduced Ms. Long and Ms. Byard, stating they would present. If the Work Session would conclude early, the Work Session agenda would be amended for an Executive Session of the Governing Body. If time was not available between the Work Session and the Council Meeting, an Executive Session would take place after the Council Meeting. Ms. Long stated that Ms. Byard had worked diligently with staff throughout the year ensure accurate documentation.

2. REVIEW THE 2018 – 2022 CAPITAL IMPROVEMENT PROGRAM [C.I.P.]

Ms. Byard led the presentation, using the detailed agenda and its attached documentation, noting the C.I.P. manual that had been provided in advance of the meeting could be referenced for additional details.

Handout #2C – Cover page of the CIP submission letter dated April 7, 2017

Items highlighted in yellow in the chart are included for the first time and not included in previous CIP documents, or are items that have changed considerably from the previous CIP. She read each item, adding the Waterford Storm Water item was a Stormwater Management Advisory Council [SMAC] Project with the City funding 25% and SMAC 75%, and the PAYG: Art Projects item had been reviewed and adjusted in conjunction Ms. Claxton and the Arts Council, which is done every year.

Mr. Johnson confirmed to Mayor Dunn the item "PAYG: In 2018, add $50,000 in the Slurry Seal Program to treat trails parallel to the street" would utilize slurry seal rather similar to what had been done in front of I-Lan Park. Mr. Johnson stated slurry seal is sufficient for trails that have no vehicle traffic and are not plowed for snow removal.

In regard to item "Move the construction of Fire Station #1 (#80158) to 2019, debt issuance in 2020", Ms. Byard confirmed to Councilmember Cain the reason for push-back of project timing was based on the lease expiration date of the cell tower located on the property.

Handout #2A – FY 2017 Summary

Presents 2017 Debt-Financed Projects at the top of the page, followed by 2017 Pay-As-You-Go [PAYG] Projects, grouped by "Program" type. "Total Cost" may differ from "Leawood Cost" because of other funding source(s), such as SMAC and County Assistance Road System [CARS]

Councilmember Cain noted $950,000 was listed in 2017 Debt – Finance Projects for replacement of the College Boulevard Wall. She inquired if there was any recourse available from the engineer or insurance for the wall's failure. Mr. Johnson said the wall is the first wall between Mission and Brookwood, along the northern-most edge of Hallbrook and south side of College, near the Overbrook stoplight. The wall was built when College Boulevard was constructed in 1997, 20 years ago. JBM did the original engineering design for the KDOT project bid. Clarkston sub-contractor bid a proprietary wall system and a second set of engineering drawings were reviewed and approved. The City requires two-year maintenance and performance bonds; bonds are not required KDOT. Mr. Johnson stated his belief that all the right steps were taken. The reason for failure is unknown and would be difficult to determine. Property lots behind the wall are vacant. Repair rather than replace cost would be $400,000, but repair would not eliminate concern for a repeat failure. The single, rather than tiered, replacement wall will be of similar materials, slightly moved back. There is a protrusion in a nearby wall that will be examined. A complete inspection and report is planned for the remaining walls this year or next.

Mayor Dunn recalled the City had contributed $1 Million and the County and State each contributed $5.5 Million to construct College Boulevard to State Line Road.

Mr. Johnson stated a contract for the wall replacement project would be placed on the June 5, 2017 Governing Body Meeting agenda. Ten days to two weeks would be needed to finish design work, then materials would be ordered. Demolition of the existing wall could begin awaiting material delivery. The project should be complete in about 75 days. One lane of the road would remain closed as an area for construction staging.

Mr. Johnson confirmed to Councilmember Rawlings that the City would not need to acquire new right-of-way, but some temporary easements may be needed from Hallbrook. Hallbrook has indicated their agreement to provide temporary easements.

Councilmember Sipple pointed out the total cost of about $6.5 Million for PAYG projects seemed consistent over the years and questioned if any change in sales or property tax would impact funding. Ms. Byard stated the total cost for PAYG projects in 2018 is $7.5 Million. Some funding is restricted for certain projects based on funding source. For example, the 1/8th cent Sales Tax must be used for streets and stormwater, Gasoline Tax must be used for street repair and Special Parks used for parks. If taxes should increase, it could allow the City to spend more on PAYG Projects. The General Fund is only a transfer source for Capital Fund type of repairs.

<u>Handout 2B – FY 2018 Summary</u>
Presents 2018 Debt-Financed Projects at the top of the page, followed by 2018 Pay-As-You-Go [PAYG] Projects, grouped by “Program” type. “Total Cost” may differ from “Leawood Cost” because of other funding source(s). There is only one 2018 debt-financed project. Many of the PAYG items are for HVAC repairs and building maintenance projects of significant cost. The new item addition for $1 Million bay addition to the Public Works Maintenance Facility is listed in PAYG.

Councilmember Filla asked about the scope and reasoning for the bay addition. Mr. Johnson stated the facility was original built for expansion. The cost would expand the facility from four double-bays to six double-bays. It is planned that two bays would be used for fleet maintenance and Police equipment installation, two bays would be used for vehicle maintenance, and the two new bays used for street maintenance, equipment and storage. End bays would be used for units with prolonged maintenance. Over time, the vehicle fleet has increased and all space is occupied on a regular basis. The City has more specialized vehicles, plows and larger trucks to push snow on four-lane roads, and equipment added since the facility was built. Fire trucks and large equipment take up two bays and remain at the facility for several days. Additional bays would provide for flexibility. The Parks & Recreation Maintenance Facility near 105th and I-435 is fully utilized, short on space, and is land-locked.

Councilmember Harrison asked for additional details of the 2018 PAYG Waterford Stormsewer project. Mr. Johnson stated the line item was for project design only. Construction would typically follow the next year. The project will replace existing undersized, but good condition, stormsewer along the rear properties. A large diameter pipe would be placed underneath the center of the road that would drain into Leawood South. The project would start south of the traffic circle. Heavy rain produces a lake in front of the houses in this area.

Councilmember Azeltine requested footnotes be added in regard to costs to denote the type of partial funding source such as SMAC or CARS. Ms. Byard agreed to add this requested information.

<u>Handout #2D – Current Principal Debt Payments</u>
A visual depiction of existing General Obligation debt by Bond Series numbers, amount of annual principal debt payments and final payment year for existing debt. The bar chart does not include the debt for the recently approved $42 Million for stormwater pipe replacement over a 25-year period; this has not been issued. Bond Series 2015A was the last issuance of new debt, to be paid off in 2030.

Handout #2E – Capital Improvements Program, 2018-2022, Debt Service

This listing relates to Handout #2D. In August or September of 2017, approximately $20 Million will be bonded for projects, resulting in a new color code to be added to the Handout #2D bar chart. There are years when no projects would be bonded. It is usually not advantageous to bond small costs; Bond Counsel analyzes in light of the market. Bond Counsel will facilitate a current refunding of 2008C Series Bond with maturity of 2023, a savings of 6% and reduction of 11 years. An advance refunding of 2010A Series Bond was not fiscally beneficial, but this will be reviewed again next year.

Councilmember Sipple questioned the impact on PAYG rather than bond issue debt in regard to Kansas legislature rules and exemptions. Mr. Lambers stated Kansas legislation included a cap on property values; debt service is currently exempted. At this time, the City stands in the margin based on analysis of financial scenarios, and may look to debt service, if appropriate. This is probably going to become even more crucial for smaller cities that are not as well-positioned as the City. Increased assessed valuation is for both existing and new growth, which reveals a demand for services. The cost of providing services has increased. The City will analyze PAYG funding scenario, but the days of PAYG are numbered. It is the opinion of the City Administrator that if elections for project funding that the State seems to want to force on property owners do not take place, the State may take further actions to trigger voting. Kansas may be copying Missouri legislation. Kansas does not impose the same legislation limitations on itself.

Councilmember Azeltine inquired if PAYG funding could be accomplished by issuing temporary notes. Mr. Lambers stated this may be a possibility, but would probably need to be a shortened term debt of 7 years with a 5-year call. PAYG funding could be used to make debt service payments, which usually have a low interest rate of 2% to 3% based of the City's financial rating.

Mr. Lambers confirmed for Councilmember Cain that if the City mill levy increases from 0.95 to 1, that would not automatically trigger a voter election. Dollar amount would be the trigger. A mill levy increase planned for 2009 was pushed into the future because the City was conservative in estimates of assessed valuation increases on existing properties and growth, operating budget carryover and unanticipated revenue of $3 Million to $5 Million. Around 2025, the City will begin to retire debt quicker and around 2030, a large amount of debt will not be renewed. For example, 143rd Street would be built only once and thereafter maintained. The City would be in maintenance-mode, similar to Prairie Village.

Councilmember Cain shared unprecedented events in the real estate market. Inventory hit a historic low in 2016 and is now 20% lower. There are only 7,000 to 8,000 listings in the Kansas City metro area at this time and often MLS [multiple listing system or multiple listings service] listings are posted retroactively. Properties priced under $300,000 have multiple contracts, inflated appraisals are part of the buying process and financing is available. Multiple contracts result in about 50% of contracts failing to close. She questioned if this might translate into Johnson County action next year. Mr. Lambers pointed out that Johnson County Appraiser Paul Welcome stated County appraisals are typically undervalued 3% to 5% below market. Mr. Lambers stated a bubble is being created when a $450,000 property is appraised by Johnson County at $435,000 and at $475,000 to $480,000 during the sales/purchase process. He believes the discrepancy will continue for several years, but all bubbles eventually burst. Property sales in his neighborhood average 37 days.

Councilmember Azeltine disagreed with Mr. Lambers in regard to bubble market, stating in 2008 and 2009, buyers could not procure financing which stopped building, creating demand for lower inventory. Mayor Dunn noted it a seller's market.

Mayor Dunn requested "Mission Road" be added to the last sentence of the description box on manual Page 34. Ms. Byard agreed to make the revision.

Ms. Byard stated the C.I.P. was reviewed by the Planning Commission on April 11, 2017 and they would make recommendations at their April 25, 2017 meeting.

Mayor Dunn thanked Ms. Byard for a job well-done.

3. **2018 – 2022 OPERATING BUDGET ASSUMPTIONS**

<u>Handout #3A – Five Year Financial Plan</u>

Ms. Byard stated the format of the slide deck was similar to the format used in previous years. Slide highlights and discussion as follows:

Page 2 – "Three-leg stool" of financing by source; 29% sales tax, 40% property tax and 31% other governmental revenues. Property tax increased from 38% last year and other governmental revenues decreased for the difference.

Page 3 – Overview of City sales and use taxes collected, and also 2015 and 2016 sales and use taxes for Lenexa, Olathe, Shawnee and Overland Park, shared by the Johnson County Economic Research Institute [CERI]. No incremental information is available on other cities. The reason for Olathe's increase from 3.6% in 2015 to 9.6% in 2016 could be due to car sales and overall expansion of the City. The County's retail sales increased by 4.6% in 2016, as compared to 0.8% in 2015.

Councilmember Filla questioned the reason for the City's change in sales and use taxes of 10.9% in 2012 to -3.1% in 2013. Mr. Lambers confirmed these were the years business taxes due Overland Park and been sent to the City, and then the City refunded the next year. This continues to happen as businesses erroneously think they are located in Leawood, but are in Overland Park. This is a vicious cycle and has implications for the City as the City incorporates growth.

Page 4 – Top 10 tax categories that comprise 57% of the City's sales tax revenue in 2016. Standard for the City, the largest contributor is groceries, which is somewhat less due in 2016 due to remodel of a major retailer. "Other Electric Power Generation" are utilities that collect sales tax from residents which the City receives.

Page 5 – Another view of Page 4 data, comparing two-year growth for the same areas. Ms. Byard generates this breakdown; the State does not provide. An estimate of $170,000 was used for new retail restaurants opening in 2016; without there would be a slight decrease from 2015 to 2016.

Regarding State legislation, Councilmember Filla pointed out the City has about 5,000 new homes and new residents. Mr. Lambers stated the legislation does not recognize that the City has more citizens to serve or an increased service base. Mayor Dunn noted the State legislation does not have exemptions for growth, despite fierce lobbying in favor.

Page 6 – Presents a visual of City sales tax forecast, assuming a 2.95% growth factor each year starting with 2016 actuals.

Page 7 – Sales tax categories forecast for City Sales, County Sales, City Use, County Use and 1/8th cent Sales taxes, as well as the County Public Safety tax, which is maintained separately. Mr. Lambers stated the approved 10-year County tax for renovation of the County courthouse and coroner facility is not part of the data. The collection of this tax just started and would be included in next year's model.

Councilmember Azeltine requested the last five years growth. Mr. Byard stated the City Sales Tax growth is 2.1% for three years and five-year average is 1.8%. An estimate for the last five years could have some lower economies. New retail growth is assumed and prior to 2009, growth was steady upward.

Councilmember Azeltine questioned the impact of on-line sales and potential decline of retail stores. Ms. Byard stated internet taxes should be a part of Compensation Use Tax, the amount of which has grown. Compensation Use Tax is also paid on building materials. Mr. Lambers stated the only exemption for construction materials is when Industrial Revenue Bonds [IRB] are issued.

Councilmember Osman inquired if any sales tax in the City had passed 10%. Customers may notice such a tax rate on large ticket purchases and travel to purchase in a City with lower tax rate. Ms. Byard stated sales tax in the City exceeds 10% in special districts such as TDD or CID [Community Improvement District]. Mr. Lambers stated the TDD special tax of an additional ¼ cent for Town Center Crossing has a revenue cap and was expected to be repaid in eight to nine years, which will end in the next few years. Ms. Long stated total sales tax in the City is 9.1%, so in a TDD the total sales tax is 10.1%. Mayor Dunn stated area mayors agree a tax rate of 10% can make a difference to a customer.

Page 8 – Property appraisal growth increase of 5.21% in the assessed valuation in the City for 2018 budget with assumption of mill levy remaining at 24.513. The City is fortunate to be able to maintain services, staff and capital improvements without any mill levy increases over the past several years. Minimal changes in the mill levy each year are the result of adjustments made annually by the County Clerk, based on assessed valuation.

Councilmember Sipple inquired if State budget forms had been received. Ms. Long stated that she and Ms. Byard will be attending a State workshop next week. Mr. Lambers stated in regard to State legislation, the State is not using the Consumer Price Index [CPI], but is using a different inflation index over 5 years for calculation, which would have a ripple effect. Using this average calculation includes 2008, when there was no inflation. Ms. Byard stated she had received a calculation of 1.4% of 5-year average CPI. She stated the City's budget model includes 3.1% increase in assessed valuation, which is just an estimate.

Councilmember Filla asked if there is a model or limit on property tax growth that should be considered in advance. Mr. Lambers stated the impact of the cap will not be known until the budget is approved. Once the budget is approved, a report will be made. In the interim, the City is flying blind.

Page 9 – Another view of assessed valuation [property tax] forecast, estimating 5.21% for 2018, and 3.10% for years 2019 through 2022.

Page 10 – Property valuation comparison for the last five years. A memorandum of this information was distributed to the Governing Body in early March.

Page 11 – Average appraised home value in the City of $498,269, an increase of 5.7% from 2016, and an increase of 11.7% since the 2009 value of $446,055. The chart in the lower right corner of the slide estimates residential taxpayer calculation. The increase from 2016 to 2017 equates to an increase to taxpayers of $75.23 annually, or $6.27 per month.

Page 12 – Other Governmental Revenues, consistent at 2% to 3%, including franchise fees, charges for services, intergovernmental revenue, licenses/permits and all other categories. Intergovernmental revenue has remained fairly constant, but tax increases as well as SMAC and CARS could result in an increase.

Page 13 – General fund expenditure data is still being finalized. Major cost of the General Fund is personnel services. As stated in the footnote, 2016 actual expenditures were 10.4% lower than budget. The City plans to budget for unforeseen circumstances.

Page 14 – Special Revenue Funds, Capital Funds and Debt Service Funds comprise "Other Budgeted Funds." Special Revenue Funds are for revenue sources which are restricted to expenditures for a specific purposes. Capital Funds, includes the 1/8 cent Sales Tax used for street improvements and impact fees. All impact fees are restricted. Capital Funds also includes the City Equipment Fund and the Capital Improvement Fund, which are financed by general funds. Higher balances in certain Capital Funds are because the City forecasts repairs and equipment needs for five to 10 years; funding is maintained in "out" years.

Councilmember Azeltine asked for an estimate of the interest cost increase for the recently approved 25-year corrugated pipe replacement program, which had previously been a 7-year program. Ms. Byard estimated this would be 3.5%, or $300,000 a year, for the 15-year term. The overall program cost increased from $35 Million to $42 Million.

Pages 15 and 16 – Presents the financial assumptions for 2018 to 2022. Assumed the mill levy will remain the same in 2018 budget. A 0.95 mill levy increase is anticipated in 2022, 2024 and 2026. The financial model assumes a 0.5% growth factor each year in City population, with projected estimate of 35,101 in 2018. Debt service payments on General Obligation Bond payments of about $7.8 Million in 2017 and debt payment projection of about $9.3 Million in 2018. The increase in 2018 would result from the issuance of $20 Million debt in 2017. Debt refunding in 2017 will be a savings for the City. No new special-financed debt is included. No new employees were requested and no departmental decision packages were allowed. Beginning in 2019, one full-time position will be added every other year. Model includes assumptions of increases of 3.70% for wages, 11.00% to 11.75% through 2021 for health insurance and 5.25% to 5.40% for all other benefits such as Social Security and the Kansas Public Employee Retirement System [KPERS]. The 2017 original budget included approximately $29 Million for all personnel costs. This projection will decrease to about $28 Million in the 2017 Estimated Budget. The 2018 Budget is projected to include about $29 Million for personnel expenses, an increase of 3.0% for wages, 14.8% for health insurance and 7.8%. A 1.5% increase in Contractual Services and Commodities for each year, and a 1.0% budget variance for revenues and a 2.0% variance for expenditures has been included.

Councilmember Sipple requested the number of full-time employees [FTEs] per 1,000 residents compared to Overland Park, Olathe and Prairie Village to document the City has been financially responsible in regard to the number of employees. Ms. Byard stated the information is shown on Page 27 of the 2018 budget manual. Ms. Long stated the information may be in a table in the back of the CAFR [Comprehensive Annual Financial Report]. Mayor Dunn pointed out the City retained employees during the economic downturn, while cities such as Olathe and Lenexa had not.

Page 17 – Recaps Handout #2B, addressing PAYG projects planned for 2018.

<u>Handout #3B – 2018 Budget – Financial Assumptions</u>
Presents estimated parameters for the 2018 budget, which is still being developed. The City likes to keep reserves as a percentage of expenditures below 8.5% and debt service as a percent of expenditures at 35%. The 2018 Budget – Financial Assumptions that includes an *assumption of no new debt projects* is also provided [green page].

Remaining Handouts #3C; #3D, i, ii; and #3D, iii were provided for information and Governing Body review.

Councilmember Azeltine and Ms. Byard clarified for Councilmember Kaster that the $322,000 cost of the Justice Center art piece had been in the Justice Center budget, so $102,000 Capital Arts Fund shown on Page 17 of Handout #3A would be available. Funding for the Justice Center art piece had not required an accumulation of 3-years of funding. Ms. Byard stated Ms. Claxton and the Arts Council recommend art purchases. Mayor Dunn stated that art funding maybe carried over from year to year if a large purchase is planned.

Councilmember Harrison requested the reason for separate items for Neighborhood Services and Codes Services on Handout #3C. Mr. Coleman stated Codes Services handles building codes and Neighborhood Services handles property maintenance.

Mayor Dunn thanked Ms. Byard and Ms. Long for the excellent documentation. She stated the Planning Commission would review at their meeting on Tuesday, April 25. Budget documentation would be provided to the Governing Body on Thursday, June 1. A Budget and Finance Committee Work Session has been scheduled for Monday, June 12, and Tuesday, June 13, if a second meeting is needed.

After consulting with Mr. Lambers, Mayor Dunn stated the Executive Session would be held after the Council meeting.

ADJOURN

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

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Debra Harper, CMC, City Clerk

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Cindy Jacobus, Assistant City Clerk