TO:                   Governing Body
FROM:                Nolan Sunderman - City Manager
DATE:                May 7, 2019
SUBJECT:             Budget Overview - 2019 Revised/2020 Budget Process, Revenues, Reserves

BACKGROUND:
The budget is the greatest tool the Governing Body has to create the kind of city they believe
the residents and businesses want Shawnee to be. We have defined that City through the
development of the Results, and have aligned the work that we do and the funding for that work
in support of those Results.

Our overall budget goals have included building a strong foundation so that we can provide
high-quality services, maintain ample reserves and adequately protect our assets to include:
infrastructure; equipment; facilities; technology, and human capital. This has been accomplished by:

• Using results from the Citizen Satisfaction Survey
• Utilizing the Priority Based Budgeting tool to cost out programs and examine their value
to the community based on the established Results
• Using ten-year forecasting to plan for the future
• Identifying and addressing unmet needs
• Identifying dedicated sources of revenue to ensure we maintain strong reserves
• Developing equipment replacement schedules, comprehensive facility maintenance
  programs, and long term technology plans to maintain our assets
• Identifying specific gaps in the critical priorities of stormwater, street maintenance, and
  public safety and gaining public support and initiating new revenue sources to help fill
  those gaps
• Establishing policies that define our best practices for financial management and total
  compensation
• Leveraging outside funding to help us achieve our goals
• Dedicating a portion of the landfill impact fee to economic development, providing an
  otherwise non-existent resource for special projects that will increase our tax base and
  enhance the economic viability of our community

The 2020 Budget continues this work. As we move forward into our Strategic Planning process
and other long term planning throughout the City, this budget provides a solid starting point. It
has allowed us to address additional unmet needs and to provide a foundation that will support
high quality services, maintain ample reserves, and adequately protect our City assets for the
years ahead.
DISCUSSION:
We have used Shawnee’s Priority Based Budgeting Results as a guide throughout the budget process. These include:

1. Safe Community
2. Effective Mobility and Reliable Infrastructure
3. Environmentally Sustainable and Well-Planned Community
4. Economic Growth and Vitality
5. Attractive, Healthy and Well-Maintained Community
6. Quality Cultural and Recreational Opportunities
7. Good Governance

Following an introduction, Finance Director Rogers will present financial background information relevant to the budget. Prior to finalization of the 2019 Revised (2019R)/2020 Budget, discussions related to the following issues are warranted:

- Proposed Community Center
- Public Safety Radio Replacement
- Unmet Needs

Proposed Community Center
The 2019R/2020 Budget includes Phase 1 consultant costs approved by the Governing Body on October 22 and November 13, 2018, to develop capital and operating project cost estimates for the proposed Community Center. There are no other expenditures currently included in the draft budget, pending the election outcome at the end of May. If the proposed community center is approved by the voters, there will be additional discussions at the June 4, 2019 Committee meeting.

Public Safety Radio Replacement
There is a federal mandate that requires all public safety radios transition to an Advance Encryption Standard to improve interoperability among public safety agencies. The Police Department made an informational presentation on December 4, 2018, regarding the need to replace all of our Police and Fire radios by late 2019 or early 2020, anticipating discussion during the 2019R/2020 budget process. The estimated cost is approximately $1.2 million. In previous budget discussions, the Governing Body indicated that the Courthouse sales tax should be used for public safety purposes. Shawnee’s portion of the Johnson County Courthouse sales tax was committed approximately through the end of 2018 to pay for a portion of Fire Station 74. Starting in 2019 this funding source is not specifically earmarked. The 2019R budget projects $1,079,200 for the unallocated project fund, with $1,115,000 projected for the 2020 budget. Staff recommends using this fund to purchase the radios.

Unmet Needs
Presentation and discussion of unmet needs is scheduled for the May 21, 2019 Committee meeting. The proposed 2019R/2020 Budget will also be presented at that meeting.

FINANCIAL INFORMATION:
At the May 7, 2019 Committee meeting, Finance Director Rogers will review the revenue collections and projections. Highlights of financial performance for 2018 include:

- Ended year with 45% fund balance
- Revenues were 0.4% over 2018R (revised budget)
• Assessed valuation up 6.3% from tax year 2017 to 2018
• Sales/use taxes 0.7% below 2018R
• Franchise tax revenue 1.8% below 2018R
• Expenditures under 2018R by $3.07 million (5.6%)

**Revenue Projections**
Assessed Valuation: The Johnson County Appraiser provided preliminary estimates in early March projecting valuation growth for tax year 2019 (budget year 2020). The following table shows the recent history and projections for assessed valuation. Staff has reduced the Appraiser’s numbers per typical practice to allow for appeals and contractual tax increment financing payments.

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Appraiser Projected 2019</th>
<th>Staff Projected 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>5.4</td>
<td>6.2</td>
<td>6.3</td>
<td>7.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Commercial</td>
<td>15.4</td>
<td>3.9</td>
<td>6.3</td>
<td>5.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Personal Property</td>
<td>-3.1</td>
<td>-4.5</td>
<td>-5.7</td>
<td>NA</td>
<td>9.0</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.7</td>
<td>2.2</td>
<td>8.7</td>
<td>NA</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total Growth</strong></td>
<td>7.6</td>
<td>5.3</td>
<td>6.3</td>
<td>6.3</td>
<td>5.1</td>
</tr>
</tbody>
</table>

**Tax Lid:** Staff has completed the Kansas Department of Administration (KDA) form based on a preliminary draft of the proposed 2020 Budget. Using the 5-year rolling average of December CPI-U inflation rates (1.5%) and incorporating the exemptions and formulas set out by the KDA, it appears that the City can incorporate the estimated appraisal growth without limitation.

Sales/Use Taxes: The first four months of 2019 are slightly below budget projections and are consistent with seasonal patterns. The recent trend among most area cities is a slowing growth rate for sales tax and continued growth of use tax for online sales. Use tax revenues are a much smaller dollar amount in total than sales tax revenues. In 2018, online sales continued to grow in Shawnee, with that growth partially offset by some apparent reduction in large purchases of construction materials and equipment within the community. These investment patterns fluctuate significantly and are very difficult for the City to predict. In general, sales tax is associated more with brick and mortar stores within Shawnee, while use tax is more related to sales to Shawnee addresses from locations outside the City or state.

Electric and Gas Franchise Fees: These have been running closer to average in 2018 and early 2019 after recent mild winters led to reduced revenues for the prior few years. Kansas City Power and Light (KCP&L) electric franchise fees were significantly reduced in February 2019 due to a one time billing adjustment related to federal tax reform legislation. Budget projections are based on recent actual receipts and long term average annual receipts to mitigate the effect of weather fluctuations.

Telecommunication and Fiber Franchise Taxes: These are projected with flat growth, as some modes of delivery and providers grow and others decline for an overall static effect. Alternative non-cable television options continue to impact telecommunication franchise tax revenue.
The City’s culture has been to use conservative revenue projections, and the 2019R/2020 budget process is no exception. Sales tax projections are in line with local and national trends as well as actual City experience. The following table summarizes the growth assumptions:

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>2019 Revised - Increase Over 2018 Actual</th>
<th>2020 Budget - Increase Over 2019 Revised</th>
<th>2021 – 2029</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessed Valuation</td>
<td>Final 2018 valuation</td>
<td>5.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Tax Levy growth (Tax Lid)</td>
<td>NA</td>
<td>5.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Motor Vehicle Tax</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>City Sales Tax</td>
<td>1.0%</td>
<td>1.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>City Use Tax</td>
<td>2.5%</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>County Sales Tax</td>
<td>2.0%</td>
<td>2.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>County Use Tax</td>
<td>4.0%</td>
<td>3.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Liquor Tax</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Electric Franchise Tax</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Gas Franchise Tax</td>
<td>based on actuals 2018</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Telecom/Cable Franchise</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Highway Tax</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Building Permits</td>
<td>based on actuals 2018</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

**Reserves**

The proposed budget anticipates the ending fund balance as a percentage of revenue in the General Fund at 36% for 2019R and 31% for 2020. These reserves meet the City’s policy target of greater than 30% of revenues, but it should be noted that the percentage is reduced from last year’s budget (39% 2018R and 33% 2019). Significant factors include an active snow season in early 2019 and slowing to flat sales tax growth in recent months.

As is typical, the 10 year forecast shows declining balances over the years. The City does not spend all of its budget, and each year actual ending fund balances end up somewhat higher than budgeted.

**RESULTS:**

The City has established key Results or goals to achieve on behalf of its citizens. This item contributes to the Result of Good Governance.

**RECOMMENDATION:**

This item is for informational purposes only. Throughout the budget process, staff hopes that Councilmembers will share ideas, ask questions and provide direction. As Councilmembers know, while staff’s goal is to present a sound budget based on needs and goals expressed by Councilmembers and citizens in the past, the budget process is fluid. Staff can adapt to any direction, research any question, and bring forward any type of presentation that will provide the information needed so that the Governing Body can make the best possible decisions.