

May 20, 2020

Mayor and City Council,

The Fiscal Year 2020-2021 (FY21) budget was prepared during a challenging and unprecedented time. The COVID-19 pandemic has affected the lives of numerous people and the economy throughout our city, region, and nation. Social distancing, a term and concept unknown to many people only a few months ago, has become the “new normal” influencing how we live, work, learn, and play.

Although this is a challenging time, the FY21 budget has been prepared in a thoughtful manner. Top of mind throughout this budget preparation process has been the City’s Core Values.



Service Excellence: We are committed to quality in all we do. The proposed budget recommends spending down a portion of the General Fund reserves to ensure that our citizens continue to receive the services that they have come to expect.

Integrity: We are transparent, ethical and accountable in our actions. The budget review, approval, and monitoring process is designed to be transparent and ensure that our actions are ethical and accountable.

Stewardship: We are innovative and use our resources wisely. Although the proposed budget recommends spending down a portion the General Fund reserves, it is important to point out that where possible staff have identified and cut expenses from the budget. Specific areas where this was accomplished occurred with spending cuts for employee travel and training, as well as studies performed by outside entities.

Strategic Plan

In FY19, the City launched a citizen based strategic planning process called “Lee’s Summit Ignite! Your Ideas. Our Future.” The process, which was facilitated by the Novak Consulting Group, engaged citizens and stakeholders through community conversations, focus groups, and an online engagement platform. The Lee’s Summit community very much embraced the process with hundreds of people giving their input and ideas.

The community’s vision for Lee’s Summit is “a world-class community striving to ensure purposeful growth and quality of life for future generations.” In order to achieve that vision seven critical success factors were identified:

- strategic economic development;
- strong neighborhoods with housing choices;
- cultural and recreational amenities;
- community engagement;
- community health and wellbeing;
- collaborative relations with education partners; and
- city services and infrastructure.

The strategic planning efforts continued in FY20 with the formation of C4 groups (Citizens, Council, City Partners, and City Staff). These groups are being assisted by consultants from the University of Kansas Public Management Center and have been tasked with creating implementation plans for each of the critical success factors. This will serve as a foundation to ensure that our resources align to our strategic priorities and needs. Although the COVID-19 pandemic has impacted the timeframe and schedule for the implementation plans, it is anticipated that this work will be concluded in the near future.

1. Budget Request

In the FY21 Budget, and in future budgets, staff works to allocate resources to best support the delivery of municipal services. The City has approximately 70 different funds, each categorized by purpose. We are proposing a total budget expenditure of \$234,371,328. This includes all proposed funding for daily operations, capital improvements, debt service, internal services, and enterprise operations.

Total Proposed Budget		
	FY20	FY21
	Budget	Proposed
General Fund	\$78,514,897	\$75,898,833
Special Revenue Funds	\$18,653,341	\$17,022,977
Capital Project Funds	\$50,190,012	\$62,381,818
Debt Service Funds	\$12,800,275	\$13,924,098
Enterprise Funds	\$58,651,798	\$52,164,532
Internal Service Funds	\$17,814,809	\$12,979,070
Total Proposed Expenditures	\$236,625,132	\$234,371,328

General Fund: This fund includes budgets for nine departments that provide the mission critical services to our residents such as police and fire protection, street maintenance, planning, codes, municipal court, and general administration of the City.

Special Revenue Funds: These funds include Parks, grants, tax increment financing (TIF), and transportation development district (TDD) funds. These funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital project) requiring separate accounting because of legal or regulatory provisions or administrative actions.

Debt Service Funds: The City utilizes two funds to record the receipt and disbursement of monies used to repay principal and interest charges on city-issued debt. The General Obligation Debt Service Fund and Park COP Debt Service Fund are used to account for the annual retirement of bonds issued since 2003.

Enterprise Funds: The City’s enterprise funds hold the budgets for departments that operate in business-type activities. These funds rely on revenues generated from sales of materials or services. The enterprise funds include budgets for Water Utilities, Solid Waste, Harris Park Community Center, and Airport activities.

Internal Service Funds: The City uses internal service funds, or Proprietary Funds, to account for its fleet of vehicles and equipment, information technology systems, central building services, and trust funds. The internal service departments allocate costs for the reimbursement of services to other departments.

2. General Fund Overview

The General Fund includes budgets for nine departments that provide the mission critical services to our residents such as police and fire protection, street maintenance, planning, codes, municipal court, and general administration of the City. In FY21, General Fund revenues are estimated to total \$70,322,934 and the expenditures are estimated to total \$75,898,833.

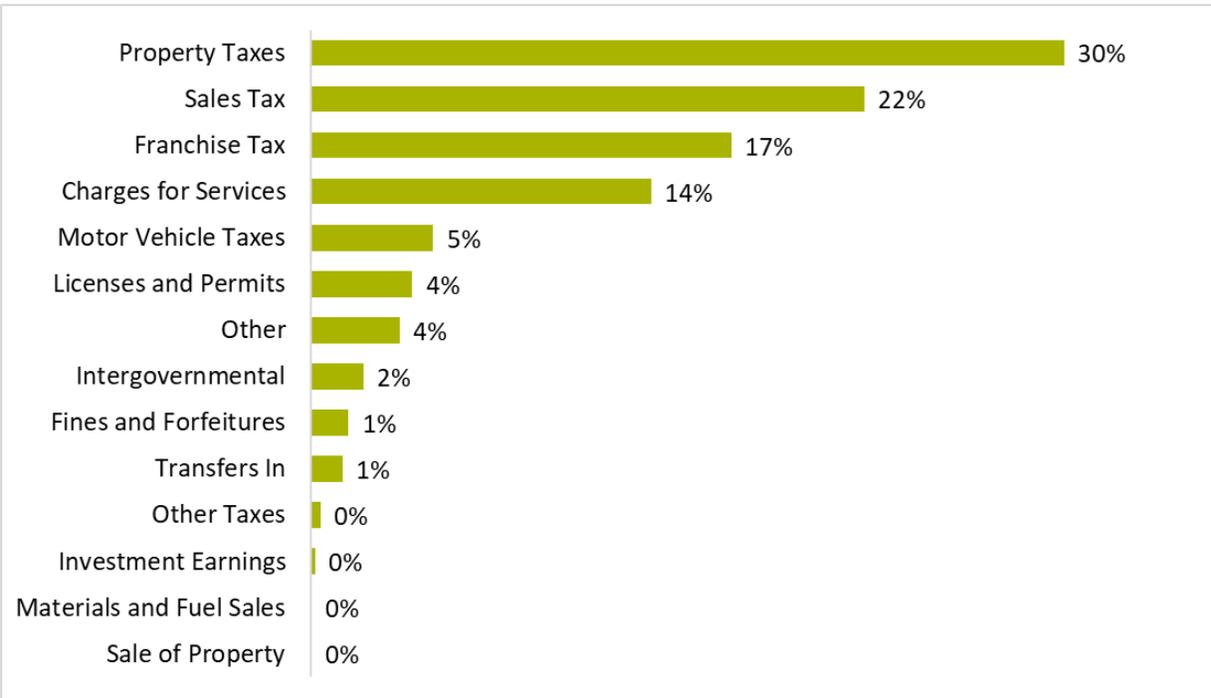
Revenues	2021 Forecast
Property Taxes	21,076,390
Sales Tax	15,475,569
Franchise Tax	11,770,257
Motor Vehicle Taxes	3,408,925
Other Taxes	269,410
Fines and Forfeitures	1,043,397
Licenses and Permits	2,825,126
Intergovernmental	1,457,795
Charges for Services	9,528,761
Materials and Fuel Sales	3,945
Investment Earnings	111,304
Other	2,481,942
Sale of Property	0
Transfers In	870,113
Total	70,322,934

Expenses	2021 Request
Personnel Services	52,843,228
Supplies for resale	255,500
Other supplies, services and charges	6,895,310
Repairs and maintenance	1,735,030
Utilities	1,905,430
Fuel and lubricants	493,262
Miscellaneous	405,430
Capital outlay	0
Construction	0
Interdepartment charges	7,045,434
Transfers out	380,210
Receivables Adjustment	3,940,000
Total	75,898,833

GENERAL FUND REVENUES

The forecast for the FY21 General Fund revenues was put together during unprecedented times with the COVID-19 pandemic affecting the health and economies of cities, states, and countries around the world. In order to combat the virus, measures like the stay-at-home orders and social distancing were put into place, which will affect the City’s revenues.

In FY21, the forecasted revenues for the General Fund is estimated to total \$70,322,934, which is a decrease of \$3.1 million (or 4.22 percent) from the FY20 projections. The primary cause of the decrease is due to the anticipated economic impacts from the COVID-19 pandemic.

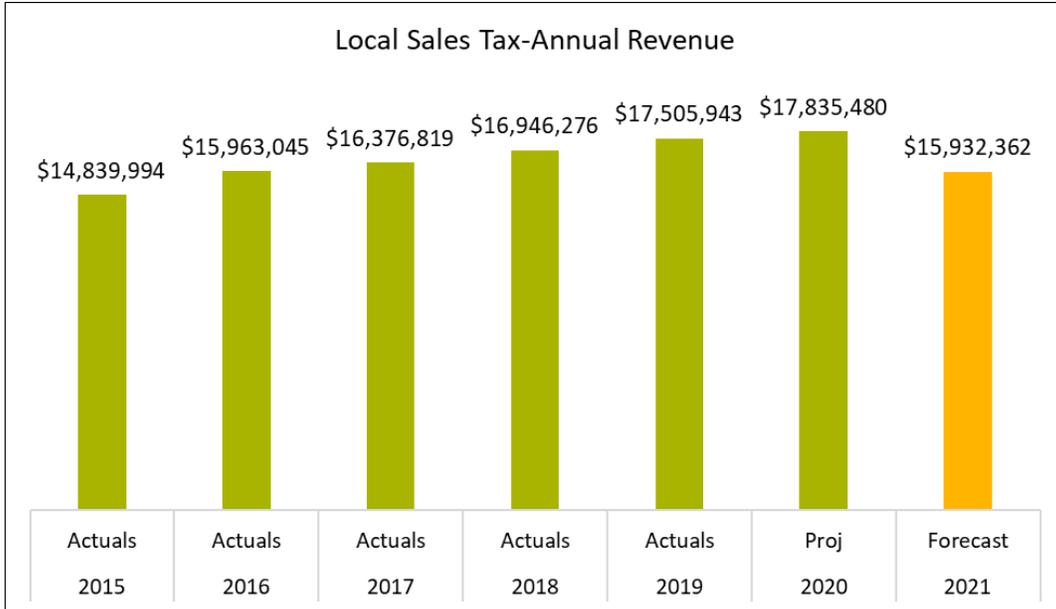


Property Tax: Property tax estimates are based on the City’s assessed value in Jackson and Cass Counties, as well as anticipated new development and property. Beginning in FY21, the City will change how Property Tax-Payment in Lieu of Taxes (also referred to as PILOTs) revenue is reported. Prior to FY21, the City reported the total revenue, which included the portion passed-through to other entities (approximately 85 percent of revenue). Beginning in FY21, the City will only report the net revenue, which is the portion retained by the City.

Property tax is the largest revenue source for the City’s General Fund, accounting for approximately 30 percent of all General Fund revenues. As a category, property tax revenues are forecasted at approximately \$21 million, which is an estimated increase of \$383,000 (or 1.85 percent) over the FY20 revenue projections.

Sales Tax: Sales tax is the second largest revenue source for the City’s General Fund, accounting for approximately 22 percent of revenues. General Fund sales tax revenue is a net figure of the gross one percent sales tax receipts less sales tax redirection from Economic Activity Taxes (EATs) generated within Tax Increment Financing (TIF) districts in Lee’s Summit. The General Fund also receives a monthly payment from Cass County for a prior period remittance error. These payments are spread over 36 months and began in January 2018. The City is scheduled to receive the final payment in December 2020.

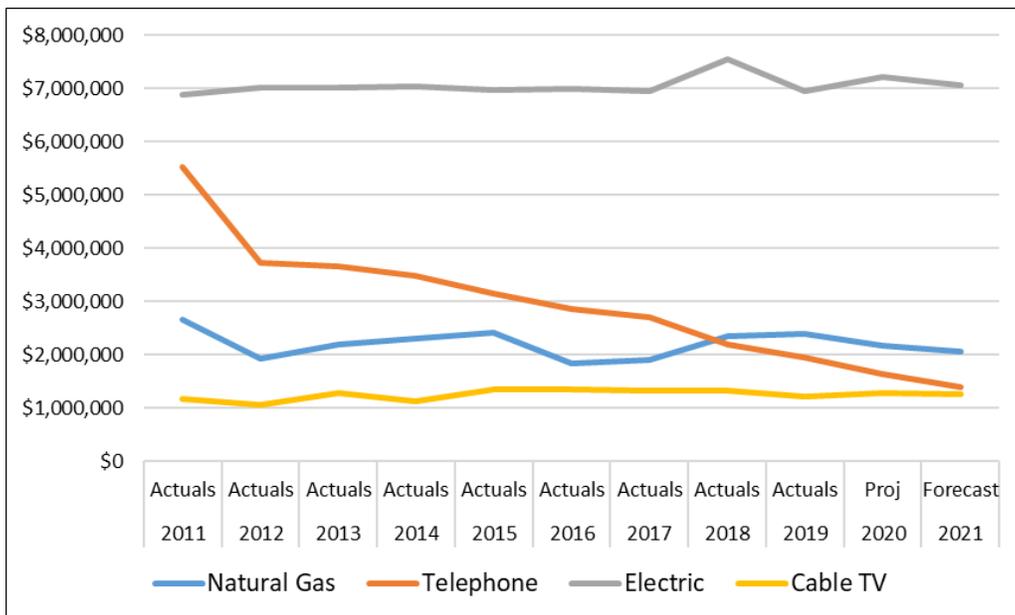
Sales tax revenue is an area that is anticipated to be impacted by the COVID-19 pandemic. In order to plan for the anticipated impact and forecast the FY21 Local Sales Tax and Local Sales Tax-EATs revenues, the City assumed a 10 percent decrease from FY20 amounts. Sales tax is forecasted to total approximately \$15.5 million, which is a decrease of almost \$2 million.



In FY19, the City's General Fund received a one-time payment of \$300,000. This has been removed from the amount in the above chart for comparative purposes.

Franchise Taxes: Franchise taxes are a gross receipts tax on utility providers who attain access to the City's right-of-ways to deliver private services. There are four types of franchise taxes: Natural Gas, Telephone, Electric, and Cable TV.

A significant trend from previous fiscal years that continues to cause concern is the long-term deterioration of franchise taxes, which are the third largest revenue source for the City. In FY11, revenue from franchise taxes totaled \$16.3 million and accounted for approximately 28 percent of all General Fund revenues. By comparison, for the FY21 budget, it is forecasted that revenue from franchise taxes will total \$11.8 million and account for approximately 16 percent of all General Fund revenues.



As it can be seen from the chart, a major cause of the deterioration of franchise taxes can be attributed to the decline in telephone franchise tax revenue. From FY11 to present, telephone franchise tax revenue has decreased by a total of \$4.2 million (or 75 percent). The decline has occurred as people are increasingly eliminating landlines in favor of cell phones.

Telephone and Cable TV franchise taxes were forecasted by subtracting the 3-year average amount that the revenues have decreased from the FY20 projections.

The two most impactful variables for Natural Gas and Electric franchise tax revenues are (1) rates and (2) usage, which is impacted by the weather. In order to forecast the FY21 amounts, a baseline was estimated using historical averages. Once the baseline was established, then 3 percent was subtracted from the baseline to account for the COVID-19 impact. (Because of the increase in unemployment from the stay-at-home orders and social distancing practices, an increase in delinquent utility accounts is anticipated.)

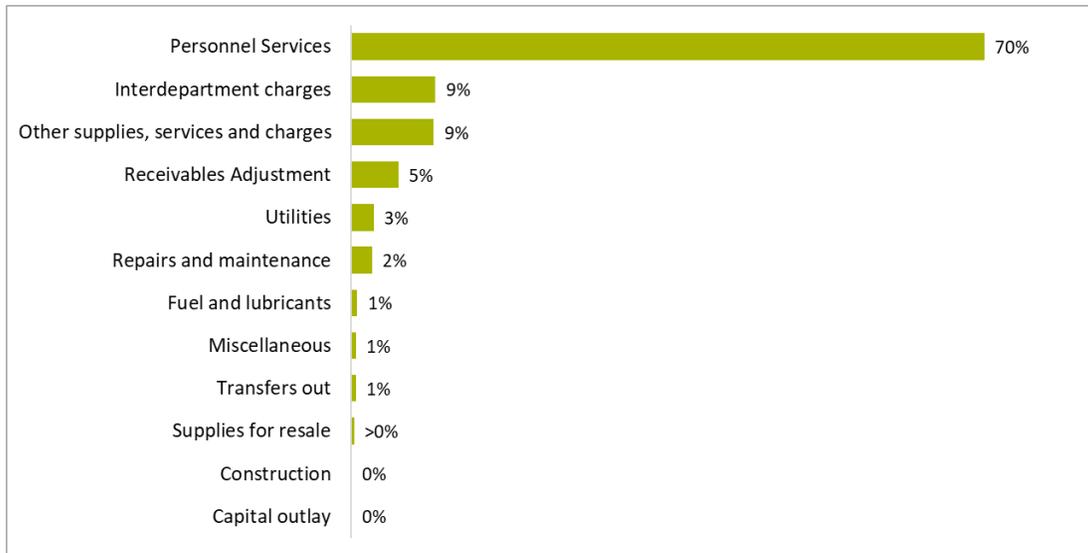
Charges for Services: This revenue category consists of the charges for services provided by the City. The largest revenue source in this category are the fees charged for ambulance services. In the FY21 budget, the total revenue for the charges for services is \$9.5 million, accounts for approximately 14 percent of all revenues in the General Fund.

Motor Vehicle Taxes: This revenue category accounts for approximately 4% of General Fund revenues and consists of three different revenues: Motor Vehicle-Fuel tax, Motor Vehicle-Sales tax, and Motor Vehicle-License/ Transfer fee. This is another revenue category that is anticipated to be impacted by the COVID-19 pandemic. In order to plan for the anticipated impact and forecast the FY21 revenues, the City used a similar methodology that was used for Sales Tax and assumed a 10 percent decrease from FY20 amounts.

Licenses and Permits: This revenue category accounts for approximately 4 percent of General Fund revenues. The revenue category consists of approximately 20 different revenues, with a majority of the total revenues dealing with development related licenses and permits. The methodology used to calculate this category's forecast was to estimate the revenues under normal conditions, which served as the baseline. Then to account for the anticipated impacts of COVID-19, a 15 percent decrease from the baseline forecast was assumed.

GENERAL FUND EXPENDITURES

The challenge each budget planning process is to maximize the limited resources provided by taxpayers and residents of the community in the most efficient manner possible. During the COVID-19 environment, this is an even greater challenge because of the impact it is having on the revenues. From an expenditure viewpoint, the focus was to ensure that our citizens continue to receive the services and level of service that they come to expect. In FY21, the forecasted expenses for the General Fund is estimated to total \$75,898,833.



Personnel Services: As a service organization, our largest expense (70 percent of all General Fund expenses) is for those who provide our municipal services such as accountants, police officers, fire fighters, and other dedicated professionals. Personnel services includes the costs associated with employees’ compensation and benefits.

For FY21, personnel services expenses will total approximately \$52.8 million, which is an increase of approximately \$1.7 million over the FY20 budget. It is important to mention that the cause of the increase in personnel services is not from an increase in the workforce. Rather, the increase in personnel services is primarily the result of three items: (1) wage increases, (2) insurance adjustments/increases, and (3) increases in employer contribution rates for LAGERS (Local Government Employees Retirement System).

Department	2019 Budget	2020 Budget [^]	2021 Budget	Difference FY20
Administration	30.29	30.43	29.75	-0.68
PW Engineering	42.25	42.00	42.00	0.00
Law Enforcement	206.50	207.50	207.50	0.00
Fire/Ems Services	154.00	155.00	155.00	0.00
Finance	22.00	22.00	22.00	0.00
Legal Services	10.50	10.88	10.88	0.00
Municipal Court	11.96	10.90	10.90	0.00
PW Operations Division	33.80	33.80	33.75	-0.05
Development Services*	40.67	41.42	40.40	-1.02
General Fund Total	551.97	553.93	552.18	-1.75

*FY19 Development Services includes employee totals from the Planning and Special Projects department.

[^] FY20 Budget amounts includes position changes resulting from Budget Amendments.

Wage increases. A priority of the Council and Management Team was to provide funding for wage increases for the City’s workforce. This includes funding the commitments made by the City to the

represented employees that are in step plans, which provide for a mandatory wage increase according to an established schedule. Also, to ensure that there was pay equity for other positions in the City, the budget also includes a two-percent merit increase for those employees that are not in a step plan.

Insurance Adjustments/ Increases. The City offers medical, dental, and vision insurance to benefits-eligible employees. Within the medical plan there are three different types of insurance (Preferred Care Blue Choice-\$0 deductible; Preferred Care Blue-\$500 deductible; and Blue Saver-High Deductible Health Plan) and three different tiers of insurance (individual, individual plus one, and family). The employer contribution is different depending on the tier of plan. As a result, the City uses a “blended rate” to budget insurance expenses. Part of the FY21 budget process included adjusting the blended insurance rate that is applied to benefit eligible employees in the budget.

The City also anticipates that the medical insurance premiums will increase approximately 10 percent on January 1, 2021. The employer contribution increases are reflected in the budget and is a factor in why the personnel services have increased. In addition, because there is a cost share between the City and workforce with insurance benefits, the employee portion will also increase. It is important to mention that the increase to employees for insurance benefits was one of the key reasons why City leadership felt it was important to include funding for the wage increases mentioned above.

LAGERS rate increases. The City provides retirement benefits to eligible employees through the Local Government Employees Retirement System, also referred to as LAGERS. The retirement benefit is 100 percent funded by the City. Depending on the position and type of work performed by the employees, there are three different types of LAGERS plans: (1) General, (2) Police, and (3) Fire. Each plan has a rate that determines what the City pays and the rates for all three plans will increase in FY21.

LAGERS Type	FY20 Budget	FY21 Budget	% Change Increase
General	9.60%	10.60%	1.00%
Police	13.50%	13.80%	0.30%
Fire	11.90%	12.30%	0.40%

Inter-department Charges: This expense category accounts for approximately 9 percent of all General Fund expenses. Inter-department charges are the expenses for internal services that are charged to departments. There are two types of inter-department charges:

Overhead Costs. These are the actual operational costs incurred by Information Technology Services, Central Building Services, and Fleet Operations. They are charged to departments for services that are provided. The amounts charged to departments are determined and calculated using formulas.

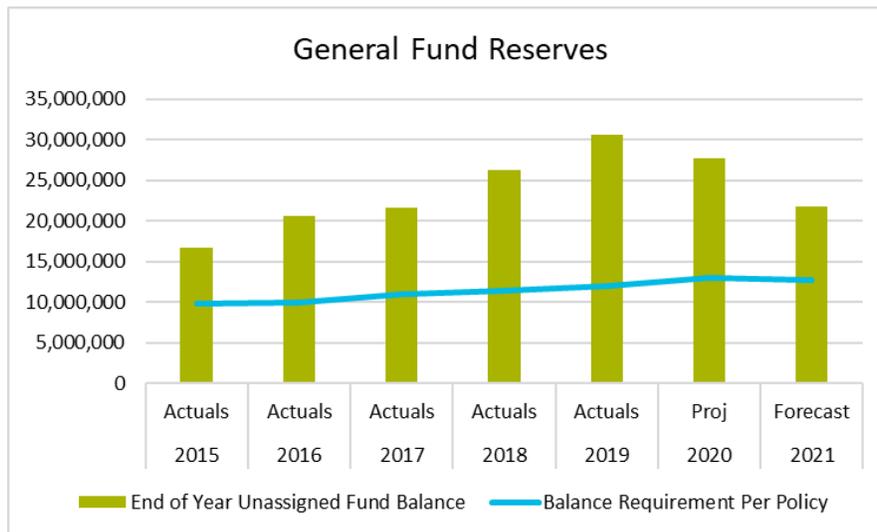
Equipment Replacement Programs (also known as ERPs). These are the costs associated with the Vehicle Equipment Replacement Program (VERP), Building Equipment Replacement Program (BERP), MIS Equipment Replacement Program (MERP) and Software Licenses Equipment Replacement Program (SLERP). Departments are charged for ERPs based on the equipment that they have in the programs.

Other Supplies, Services, and Charges: This expense category accounts for approximately 9 percent of all General Fund expenses. Examples of expenses for other supplies, services, and charges include professional fees, non-employee insurance (i.e. general liability, auto, and property), and materials and equipment (i.e. tools, concrete, and road salt).

It is important to point out that with the FY21 budget, the City will change how Property Tax-Payment in Lieu of Taxes (also referred to as PILOTs) are reported. Prior to FY21, the City reported the total revenue, which included the portion passed-through to other entities (approximately 85 percent of revenue). The portion that was passed through to the other entities was an expense that was applied to this category. Beginning in FY21, the City will only report the net revenue, which is the portion retained by the City, and as a result there will no longer be a PILOT expense in the City's General Fund budget.

3. Review of Financial Condition – General Fund

One of the many strengths of this organization is the strong fiscal management and stewardship of the City's resources. This can be seen in the strategic and thoughtful way that taxpayer dollars are spent on municipal services to achieve outcomes that benefit the citizens of Lee's Summit. In addition, the City has made efforts in recent fiscal years to increase the General Fund reserve balance to ensure a healthy reserve position. Because of these efforts, the City of Lee's Summit achieved a triple A (AAa) credit rating from Moody's Investor Service.



Although the triple A (AAa) credit rating is a distinction that the City can be proud of, the primary purpose of the General Fund reserves is to provide economic stability during times of fiscal strain and emergency. With the effects of the COVID-19 pandemic on the economy and City's revenues, the General Fund reserves ensure that our citizens continue to receive the municipal services and level of service that they have come to expect.

For the FY21 Budget, the City is forecasting to have revenues less than expenditures by \$5,575,899, which would require the City to spend down a portion of the General Fund Reserves by that amount. The City anticipates that the unassigned General Fund Reserve Balance to begin FY21 will be approximately \$27,729,680 (which is 36.5 percent of the FY21 operating expenditures). Because of the need for deficit spending in FY21, the end-of-year reserve balance is estimated to be approximately \$22,153,781 (which is 29.2 percent of the operating expenditures).

City Ordinance No. 7428 outlines the General Fund Reserve Balance Guidelines and states that the General Fund balance shall be maintained in an amount equal to that of at least two (2) average months

of regular general fund operating revenues or expenditures, whichever is greater (16.67%) based on the prior fiscal year, to address emergencies and provide for economic stability. Based on the requirements of the ordinance, the General Fund Reserve Balance would need to be at least \$12,649,806. As it can be seen from the above information, the estimated General Fund Reserve Balance to end FY21 is still well above the requirements outlined by the ordinance.

4. Enterprise and Internal Service Funds

Enterprise and internal service funds receive revenues from user fees and charges directly from internal and external customers. These funds are not directly supported by tax revenue, but by charges to City departments and users of provided services.

	FY20	FY21
Enterprise Funds	Budget	Proposed
Water/Sewer Fund	\$50,080,335	\$47,773,890
Airport Fund	\$2,892,256	\$2,956,827
Solid Waste Management	\$4,040,332	\$180,362
Harris Park Community Ctr	\$1,638,875	\$1,253,453
Total	\$58,651,798	\$52,164,532

Water Utilities is responsible for providing clean, safe drinking water to the City with the exception of two areas served by other water districts. The department purchases treated water from Independence and Kansas City to serve over 35,000 residential, commercial, and irrigation accounts. Similarly, the department operates and maintains facilities to collect wastewater from its customers so that it is conveyed to Little Blue Valley Sewer District for treatment. The department provides sanitary sewer service to approximately 32,500 accounts.

The **Airport** provides general management and administration of resources to operate, maintain, market, and promote the airport, which operates two runways and eight taxiways, totaling 166,044 square yards of pavement, and 23 buildings.

Following the closure of the landfill, **Solid Waste** will provide oversight of the post-closure process to ensure compliance with state laws and regulations.

	FY20	FY21
Internal Service Funds	Budget	Proposed
Central Building Services	\$2,110,750	\$1,391,007
Fleet Operations	\$7,988,676	\$4,561,712
ITS Services	\$5,190,953	\$4,940,872
Short Term Disability Fnd	\$31,074	\$20,393
Unemployment Trust Fund	\$30,792	\$32,630
Claims & Damages Reserve Fund	\$982,000	\$1,005,874
Work Comp Self Insurance	\$1,480,564	\$1,008,423
Health Insurance Reserve Funds	\$0	\$18,159
Total	\$17,814,809	\$12,979,070

Information Technology Services (ITS) provides central management of information technology resources and initiatives for the entire organization. Key projects to be led by ITS for the upcoming fiscal year include implementation of a new Enterprise Content Management system, completion of the Police Department Computer Automated Dispatch/Records Management System, and implementation of new a budgeting software and open data portal.

Fleet Management provides oversight and management of the City’s motor vehicle and equipment fleet, including administration of the Vehicle and Equipment Replacement Program (VERP), motor pool, maintenance and repair services, acquisition and disposal of the City’s fleet units. Key work done in this arena includes expanding capabilities to doing repairs in-house thereby reducing maintenance costs for the City.

Central Building Services (CBS) provides oversight and management of the City’s facilities including administration of the Building and Equipment Replacement Program (BERP), project management, facility maintenance services and custodial services programs, as well as maintenance and repair services for leased facilities.

5. Capital Improvement Plan

The 2021–2025 Capital Improvement Plan (CIP) has been divided into seven major categories, plus the Public Works and Water Utilities programs. All funding sources that may be used for various capital improvements are reviewed each year. Much of the work to develop the CIP focuses on the balancing of available resources with the identified capital needs. Consideration must be given to factors such as annual revenue projections from various sources, restrictions on the uses of certain funds, legal limitations on debt capacity, and City policies relative to project funding.

For budgeting purposes, the first year’s funding is included in the annual budget with the subsequent years funding added to each future annual budget respectively.

	FY21
CIP Summary	Proposed
Airport	\$5,485,000
Bridges, Streets and Signals	\$11,378,000
Facilities	\$13,475,000
Parks and Recreation	\$350,000
Public Works Programs	\$7,323,000
Storm Water	\$3,703,000
Sanitary Sewer	\$4,880,000
Water	\$8,783,000
Water Utilities Programs	\$1,045,000
Total Proposed Expenditures	\$56,422,000

The following are examples of major CIP projects receiving funding in FY21:

- Colbern Road – M350 to Douglas Street
- Fire Station 4 Replacement
- Police Department Renovations

6. Workforce and Expansion Requests

Workforce, or employee counts, is defined as a ratio of full-time equivalents (FTE) where one full-time employee is estimated to work 2,080 hours annually, or 2,912 hours for certain Fire Department personnel.

Fund	2019 Budget	2020 Budget	2021 Budget	Difference FY20
General Fund	551.97	553.93	552.18	-1.75
Parks and Recreation	126.92	139.29	122.22	-17.07
Water Utilities	62.46	66.92	66.92	0.00
Airport	8.46	9.30	9.30	0.00
Solid Waste	1.60	1.60	1.00	-0.60
Central Building Services	8.12	8.12	6.10	-2.02
Fleet	10.12	10.12	10.00	-0.12
ITS	28.13	27.99	28.02	0.03
Total	797.78	817.27	795.74	-21.53

The primary goal of the budget-creation process is to maintain the level of service our community currently receives. In addition to that, every year departments are asked to submit expansion requests for consideration of funding in the annual budget. An expansion request is a new expenditure that is to be made in an effort to enhance services, increase efficiency, or improve the working environment. For a growing community, it is common for these needs to be in excess of available resources. The City of Lee's Summit is in this position and must carefully consider each new request as well as the current needs of the organization. Unfortunately, due to the economic impacts that COVID-19 has had on the economy and City's revenues, it is not feasible to include any additional expansion requests in the FY21 Budget proposal.

7. Summary

In looking to the future, the City will continue to face challenges that will require all of us working together if we are to overcome them. Like most municipalities throughout the country, Lee's Summit faces the difficulty of balancing operating costs while keeping within revenue sources. The COVID-19 pandemic has brought those issues to the forefront. In order to address our current and future needs it will be essential for the City to plan and identify sustainable revenue resources that can be counted on to support the level of service expected by the citizens of Lee's Summit.

In closing, I want to express my appreciation to the Finance and Budget Committee; the City's Management Team; and the City's Budget Technicians for their important work in preparing this budget for your consideration.

Sincerely,



Stephen Arbo
City Manager