

# ***City of Mission***

## **CITY COUNCIL WORK SESSION**

**May 27, 2020**

**6:30 p.m.**

**MISSION CITY HALL, 6090 WOODSON**

### **AGENDA**

1. 2020 and 2021 General Fund Revenue Considerations
2. Adjournment

Mission City Hall  
6090 Woodson, Mission, Kansas  
913-676-8350



**MEMORANDUM**

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**Date:** May 22, 2020  
**To:** Mayor and City Council  
**From:** Laura Smith, City Administrator  
**RE:** 2021 Budget Memo #1

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As we begin the review and development of Mission’s 2021 Budget, there are challenges ahead of us that no one could have anticipated 6-12 months ago. As trusted stewards of the public resources no budget process is ever “easy,” but making decisions for the remainder of the 2020 fiscal year and planning for 2021 will present challenges we have not faced in many years.

We understand that our budget is not just an accounting document - it is a management and planning tool that helps determine which programs and services have the highest priority, will meet the greatest needs, and produce the greatest positive impact for the community. The City’s annual budget becomes a dollars and cents expression of our priorities. It will be fair to say that the most immediate issues will be driven by the COVID-19 pandemic.

Internally, the budget is a living and breathing document, discussed and monitored regularly by the Leadership Team to assess our progress from month to month. We expect that in the next 12-18 months it will take on a similar characteristic for the Governing Body as we seek to remain flexible and responsive to a continually evolving financial landscape. This budget will be a journey, and in many respects a journey without a roadmap. Staff is committed to moving slowly and deliberately through the process over the coming months to ensure we answer questions, provide alternatives and keep Mission positioned appropriately for the future.

**Budget Structure**

The City of Mission's budget covers the period of January 1st through December 31st each year. The total budget is made up of more than a dozen individual funds, and annual budget discussions are typically focused in two areas. First, on the City’s General Fund - an operating fund supporting basic functions such as Police, Public Works and Parks and Recreation. And second, on those funds tied specifically to capital infrastructure investments such as streets, stormwater, park improvements or amenities and public buildings and facilities, many of which have limited or special-purpose revenue streams. The entire budget will eventually be adopted together, but the City’s operating and infrastructure budgets are generally discussed separately throughout the process.

**General Fund**

The City’s General Fund accounts for the core municipal functions and services such as Public Safety, Public Works, Parks & Recreation, and Administration. It is an operating budget, focused primarily on revenues coming and going in a particular fiscal year. There are four primary revenue streams that support the General Fund budget: sales/use taxes, property taxes, parks and recreation revenues, and fines and forfeitures. Diversification of these revenue streams is important to help weather fluctuations in each, as they impact how the City is able to pay for and maintain core services.



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For the last several years, sales tax receipts have outperformed budget projections, and have allowed the City to build healthy reserve funds. However, the sales tax revenues have masked revenue shortfalls in other categories that need to be addressed. Part of our work in the 2020/2021 budget development is to “true up” certain revenues while also trying to identify or anticipate the impacts of COVID-19 on each major revenue source.

### Capital Project Funds

Capital infrastructure projects are generally large in scope (expensive) and may take several years to complete. Because of this, they are more appropriately handled outside of the General Fund. Mission continues to emphasize investment in infrastructure, primarily for storm water and streets. With an increased investment in these long-term assets, dedicated revenue streams have been implemented to increase transparency and accountability.

COVID-19 will also certainly impact many of the revenue streams which support Mission’s 5-Year Capital Improvement Program (CIP). Analysis of these impacts will occur during future budget work sessions. In addition to potential revenue reductions as a result of the coronavirus, there are two important capital revenues streams that will expire within the next few years. The ¼-cent Street Sales Tax (expires March 31, 2022) and the ⅜-cent Parks and Recreation Sales Tax (expires March 31, 2023). Both revenue streams will be important to the future development and implementation of capital infrastructure improvements, and will be central themes in our budget considerations.

### Budget Development Process

The Mayor, City Council, staff, and the citizens of Mission are all important participants in the creation and execution of the City’s budget. The formal budget process typically begins in the first quarter of each year. State law requires the City’s budget be balanced and submitted to the County Clerk by August 25th.

In order to discern which programs and issues are of the highest priority to citizens, it is important for the residents of Mission to play an active role in the budget process. It has historically been difficult to get meaningful citizen input in the annual budget process, especially with no controversial issues in play. Staff will work throughout the process to encourage input and suggestions through the City Council committee and legislative meetings, work sessions, public forums, and through social media outlets.

In response to the uncertainty introduced by the COVID-19 pandemic, our annual budget process has been slowed down in an effort to secure as much information about potential revenue impacts as possible before making final decisions or recommendations. These are unique times and circumstances and our budget work will undoubtedly be harder than in recent years.

Following the May 27, 2020 work session a revised budget calendar will be posted and shared with the Council and the public outlining the anticipated budget topics to be discussed at each meeting. Working through our first several budget meetings virtually will be a new experience, and sharing the detailed information typically provided may be somewhat difficult via the Zoom platform, but we will make it work!



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### **Council Goals and Objectives**

Over the last couple of years, the Council and staff have re-engaged in periodic retreats to help develop consensus around both short and longer-term priorities, goals and objectives. We will refer to and rely on information from the February 2020 retreat materials as we move through the budget discussions.

### **Challenges and Opportunities for the 2020 and 2021 Budget**

Can you say COVID-19? Each year we identify potential threats (-) and opportunities (+) to our service delivery objectives. Many of these remain unchanged from year to year, regardless of the current financial circumstances, and the list may be modified or updated as the year progresses. On-going considerations include:

- Balancing service delivery/operating needs with infrastructure investment
- Appropriately funding facility and equipment needs
- Personnel costs (wages, health/welfare benefits and retirement) that outpace inflation
- Building and/or maintaining adequate reserve funds

Over the past several years, we've also faced issues such as:

- Increased redevelopment opportunities city-wide (+)
- Resolution of TUF litigation (-)
- Upcoming renewal of dedicated sales taxes (-)
- Legislative tax lid limitations (-)

We have been patient and diligent in addressing many of these challenges over the last 2-3 years, particularly through resolution of the TUF litigation and a renewed emphasis on reprioritizing our street and stormwater infrastructure plans. Less than six months ago, we were looking ahead with great optimism to the opportunities that were unfolding in 2020 and 2021, but the coronavirus had other plans.

Our current fund balance position provides us with the unique opportunity to approach our budget deliberations cautiously and thoughtfully, without having to make hasty decisions with potentially long-ranging impacts. Depleting our reserves is not the remedy for the long-term, but our conservative fiscal management will help ease the transition to a new normal. One that is likely not to be fully evident for 12-18 months.

Recognizing the varying ways that COVID-19 may influence our budget, and therefore, our priorities and objectives, our first budget work session will be dedicated to a review of the major revenue streams and structure of the General Fund budget and how we anticipate building alternatives and flexibility to respond appropriately.



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### General Fund Revenue Forecasts and Assumptions

For the 2020 and 2021 budget conversations, we return to a 5-Year revenue forecasting model that we have used in the past in order to:

- Obtain a better understanding of future challenges
- Create a common set of assumptions and expectations
- Place an emphasis on long-term financial planning

In our current economic environment, this model, which provides a more refined look at each of the major revenue streams, can assist us in fine-tuning our estimates while helping us to keep an eye on future years. Our May 27 review will be focused on revenues, and as we develop more detail on the expenditure side, we will align the two. Historically, the 5-Year model consistently predicts that expenditures will outpace revenues within the forecast period, resulting in negative fund balances. This is true even in a more robust economy, and certainly anticipated over the upcoming 5-year period. Since every budget adopted by the Council is statutorily required to be balanced, the deficits reflect the work that must be done every year to ensure expenditures are in line with revenues.

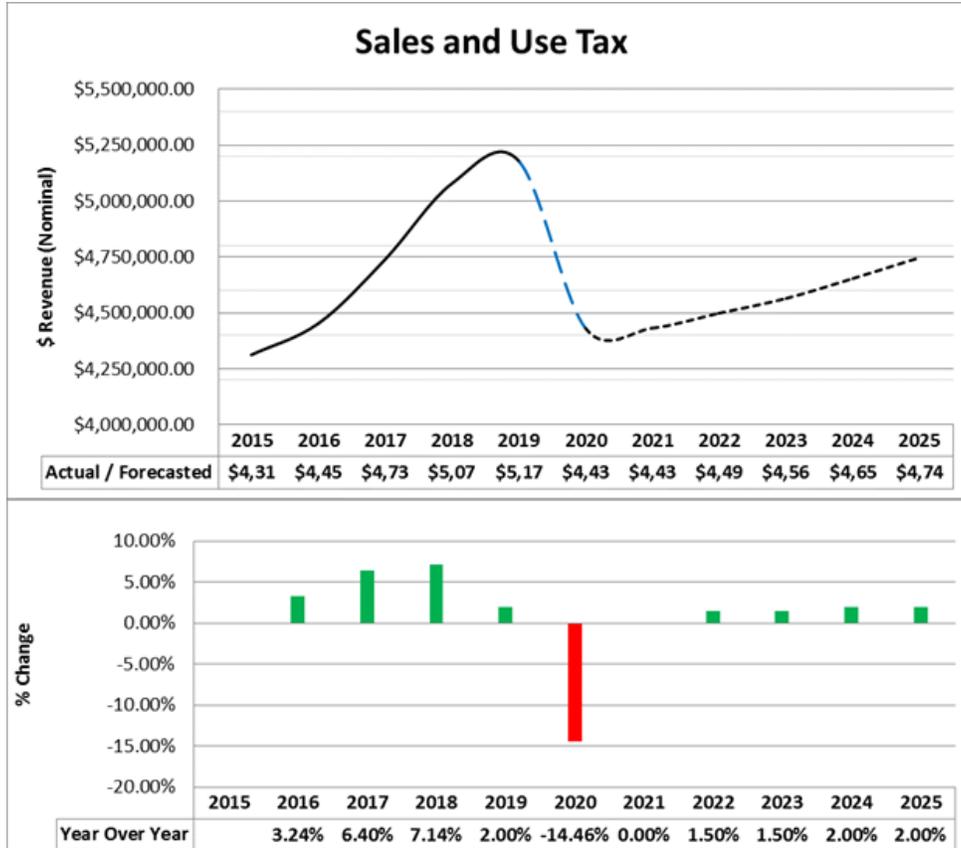
### Sales and Use Tax Revenues

The largest revenue stream in the City's general fund comes from sales and use taxes. This revenue stream includes the City's 1% general sales tax and the portion of the County's sales tax (general and special use) that is distributed based on a statutory formula. Sales and use tax revenues comprised approximately 39% of the budgeted General Fund revenues in 2020.

As referenced previously, sales and use tax revenues have consistently outperformed budget estimates for the last several years. In 2019, even as other cities began to experience sales tax declines, Mission's revenues remained strong. Receipts for the 1Q 2020 were on track with budget estimates, but receipts which reflect the first impacts of COVID-19 shut-downs will not be available until next week. Even then, the receipts will not reflect a full month of business closures and stay-at-home orders. Those receipts will not be available until the end of June.

In an effort to build the alternative scenarios discussed above, staff has built out three sales tax revenue alternatives for the remainder of 2020 - with high (25% reduction), medium (15% reduction) and low (25% reduction) impact estimates. The chart below depicts the City's actual (solid line) and forecasted (dotted line) sales and use tax revenues from 2015 through the end of the forecast period in 2025. We have used the medium impact scenario, or a reduction in sales tax revenue for 2020 totaling approximately \$782,000. Sales tax revenues were held flat for 2021 and estimated to grow at a conservative 1.5-2.0% through 2025.

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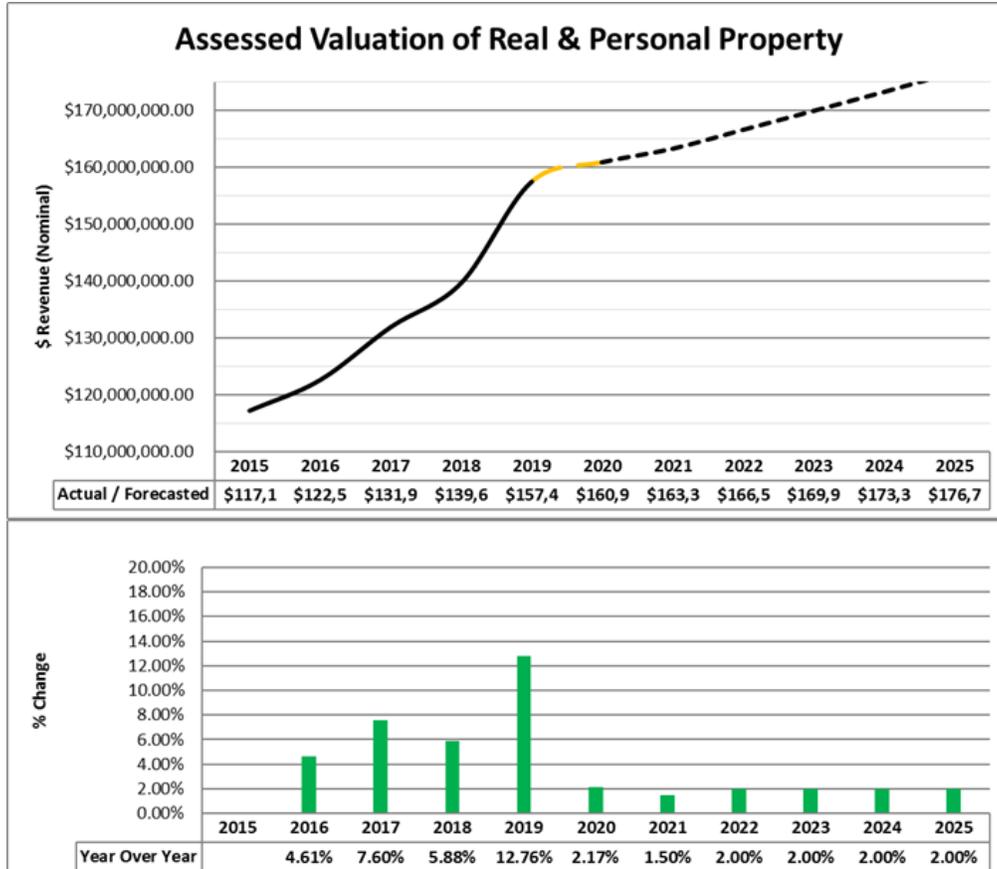
As a point of reference, the low impact (5% reduction) scenario results in a loss of \$260,000 and the high impact (25% reduction) scenario estimates a loss of \$1,303,000 in sales and use tax revenues in 2020. As additional sales tax receipts are remitted in the coming months, the forecast data will be revised accordingly.

### Property Tax Revenues

Property tax revenues comprise approximately 21% of the General Fund revenues in the 2020 Budget. This revenue stream is based on the assessed valuation of taxable real and personal property in each taxing jurisdiction. The City Council is responsible for setting the mill levy annually during the budget process. One mill is equivalent to one dollar for every \$1,000 of assessed property value.

The assessed valuation is established by the Johnson County Appraiser’s office. The chart below details Mission’s actual assessed valuation since 2010, and projections through the forecast period.

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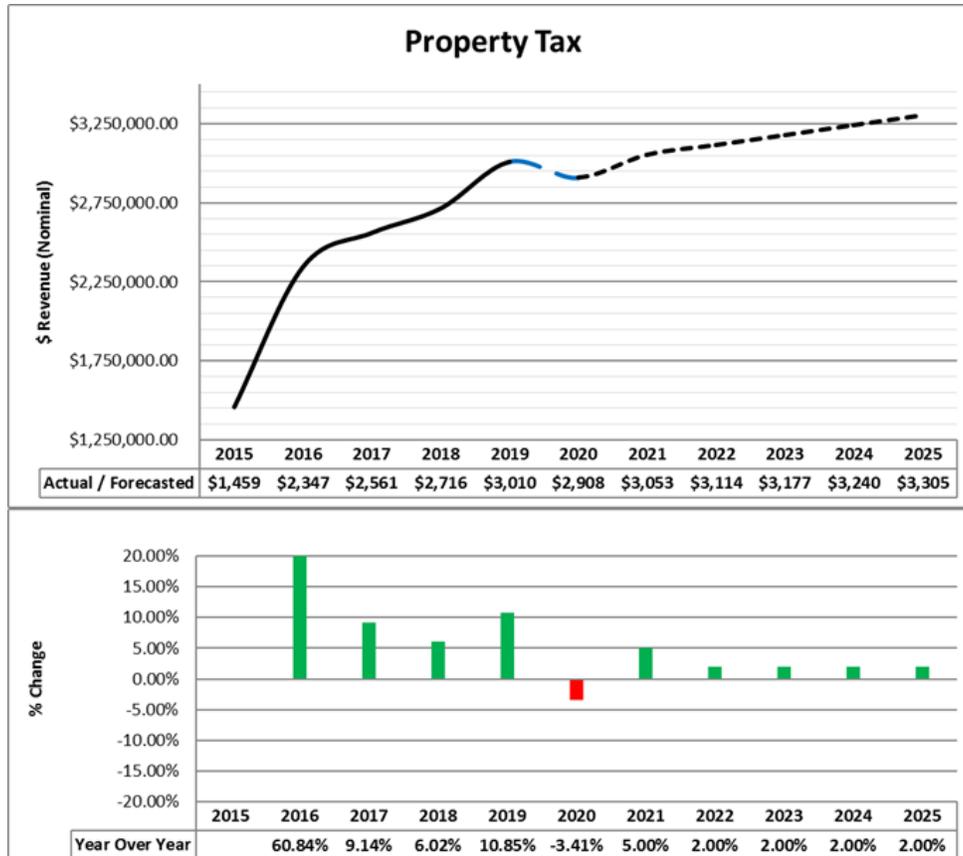


We have been conservative in estimating the impact of final 2020 valuation, and this may be adjusted upward once the final valuation is provided in mid-June. Based on the forecast estimates, one mill is expected to generate approximately \$163,000 in the 2020 Budget.

Mission’s current mill rate is 17.157, seven mills of which is dedicated (transferred out) for street improvements, with the remaining 10.157 mills dedicated to General Fund operations. The tables below detail historical and forecasted information for the City’s property tax revenues.

Property tax assumptions through the forecast period are based on the mill levy being held constant (17.157 mills), with a 5% increase for 2021 and modest 2.0% increases over the remainder of the forecast period.

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The opportunities available to the City to impact/change property tax revenues are through increases or decreases in the annual mill levy, or efforts to increase property values. This can be accomplished by encouraging density in development/redevelopment, public infrastructure investment, and efforts to maintain the overall quality of existing commercial and residential properties.

### Parks and Recreation Revenues

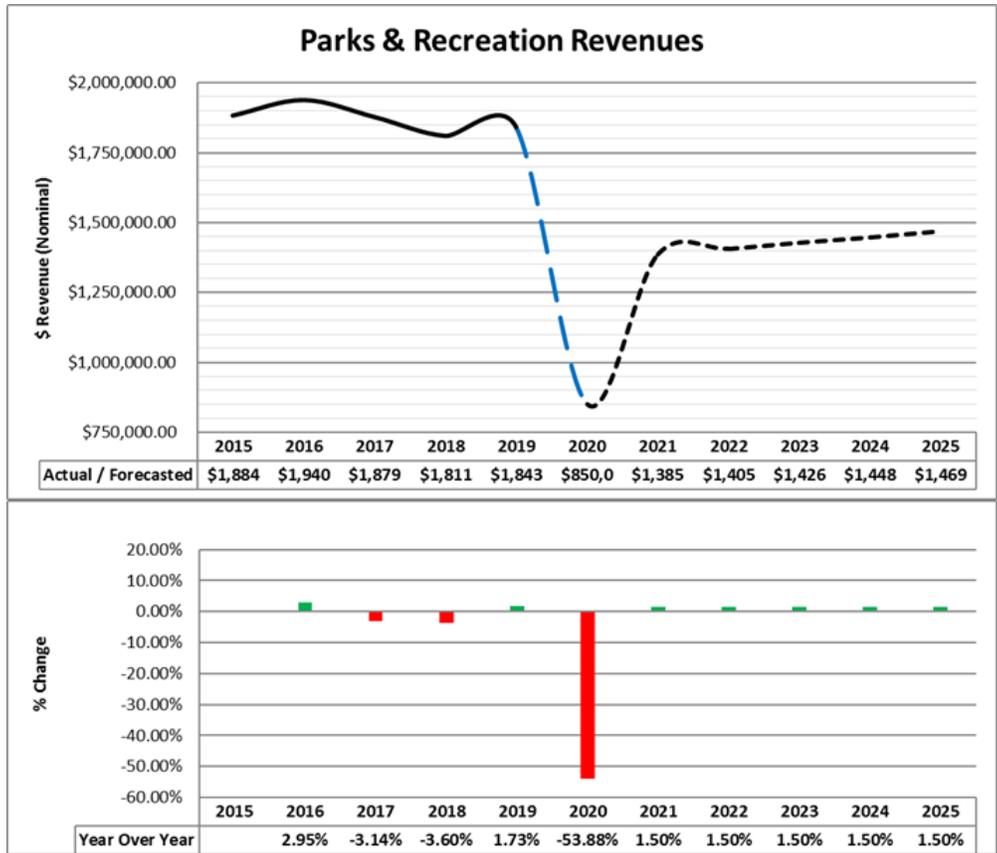
Parks and Recreation revenues were estimated to make up 15% of the original 2020 budget and are generated through a variety of sources including:

- Memberships, facility rentals, class/program fees and summer camp fees from the Community Center
- Memberships, daily fees and concessions from the Mission Family Aquatic Center

Parks and recreation revenues streams have underperformed budget estimates for several years and were in line for adjustments prior to COVID-19 considerations. The 2020 revenues are expected to be especially hard hit because of closure of the Community Center facility for three months, and the decisions to cancel the summer camp program and not open the outdoor aquatic facility for the 2020 season. With a transition to recovery and reopening of the Community Center in the weeks ahead

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revenue impacts will continue to fluctuate. Therefore, similar to the sales and use tax revenue alternatives, staff developed high (75% reduction), medium (50% reduction) and low (25% reduction) impact revenue scenarios for discussion purposes.



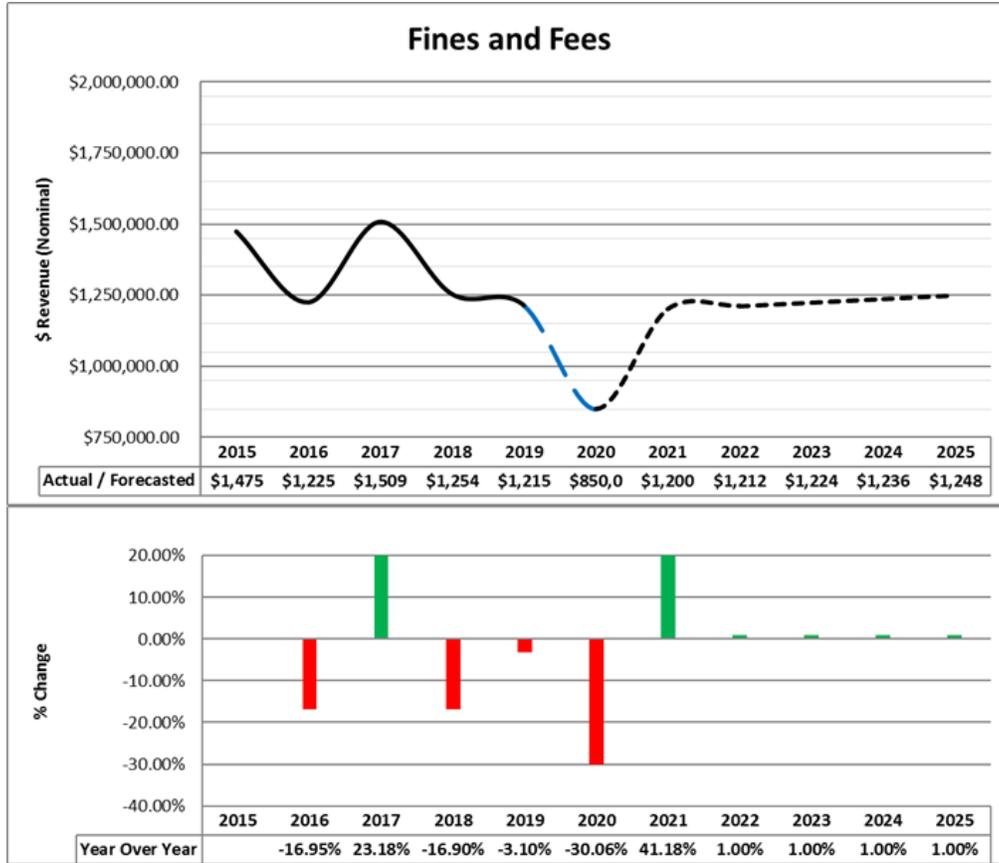
The chart above details an anticipated 50% reduction (\$850,000) in Parks and Recreation revenues for the remainder of 2020. The 2021 forecast assumes the MFAC opens for the summer but still includes a 25% reduction in Community Center revenues overall.

Fine and Forfeiture Revenues

Fine and forfeiture revenues are collected as a result of law enforcement activity, primarily traffic enforcement, and associated municipal court charges. This revenue category represented approximately 9% of anticipated 2020 General Fund Revenues. The performance of this revenue stream has been masked by the over performance of the sales and use taxes. An adjustment was going to be required even before evaluating COVID-19 impacts.

The table below brings the 2020 estimates in line with prior year collections, and then anticipates a 30% decrease overall for 2020. The estimated recovery in 2021 is more dramatic for this revenue stream than others as it is not as dependent on an overall economic recovery.

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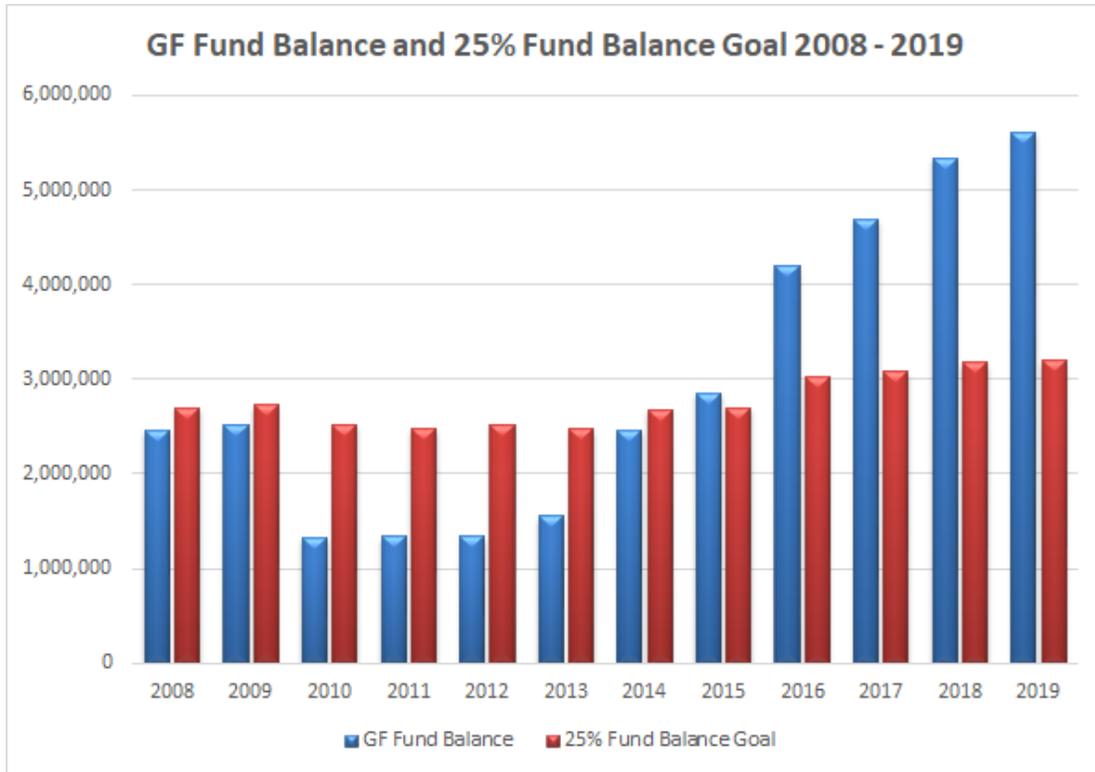
**Revenue Summary**

We developed alternative scenarios by revenue stream so that as things come more clearly into focus over the next 6-8 weeks, we can fine-tune the overall General Fund revenues to stretch resources as far as possible. The balance of the 2020 fiscal year will truly be a time when “every dollar matters.”

**General Fund Reserves**

The City Council has an established fund balance target/goal of 25% of budgeted revenues in the General Fund. Over the last several years we have not only achieved that goal, but have exceeded it, ending fiscal year 2019 with approximately \$4,927,836 of fund balance or 36% of budgeted 2020 revenues. The chart below details the City’s General Fund position from 2008 through 2019. Potential revenue reductions in both 2020 and 2021 may require us to discuss the use of excess fund balance to account for revenue shortfalls. However, staff is not approaching the budget process with the mindset that we will rely entirely on reserves to solve the problem.

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Ultimately, getting to a balanced budget can occur in a variety of ways including increasing revenues, reducing expenditures or tapping into reserve funds. We are working to prepare a list of projects/programs budgeted in 2020 that have not yet been started (no or limited funds expended) as well as supplemental program requests for 2021. We will work collaboratively in our upcoming meetings to prioritize and model the impacts of various alternatives until we can achieve a plan which makes sense for both today and the future.

Now, more than ever, it will be important for us to think beyond a one-year budget horizon. Both in the General Fund, and in the Capital Improvement Program our focus will remain on strategic investments, items that go directly to improving the quality of life for our residents and businesses. If you have questions regarding any of the material included, please feel free to contact me prior to Wednesday's work session.