

**EDGERTON CITY COUNCIL
WORK SESSION AGENDA
CITY HALL
404 EAST NELSON STREET
June 25, 2020**

**Work Session will begin following adjournment
of regularly scheduled council meeting.**

1. Call to Order
2. Roll Call ____ Roberts ____ Longanecker ____ Conus ____ Lewis ____ Smith ____ Beem
3. Budget Work Session Regarding the Recommended 2021 Budget
4. Adjourn



July 21, 2020

To: Mayor and City Council Members

From: Beth Linn, City Administrator
Karen Kindle, Finance Director
Dan Merkh, Public Works Director

Re: 2021 Recommended Sewer Fund Budget

Staff presented the recommended 2021 Sewer Fund Budget during the June 11, 2020 Budget Work Session. At the July 9th Work Session, the Governing Body requested staff provide additional information related to the recommended 2021 Sewer Fund. Below is that additional information. Attached for your reference is the 2021 Recommended Budget for the Sewer Fund as originally presented.

Revenue Requirements

The sewer utility operations are considered an enterprise fund (i.e. business fund as defined by the Kansas Municipal Audit and Accounting Guide), and as such, the funding for operations are required to come from user charges. The user charges needed to fund the utility operations are calculated based on the operation and maintenance costs required to run the utility, the debt service payments required on outstanding debt and any costs for capital outlay such as equipment or capital improvements to the system.

For cities of the third class, Kansas Statute (K.S.A. 12-825d) requires utilities revenue derived from the sale or consumption of water be used only for the purpose of operating, renewing or extending the plant or distribution system from which the revenue was derived. Similar regulations apply to sanitary sewer.

Proposed 2021 Rates

The typical residential customer in Edgerton uses 3,000 gallons per month of water. For 2021 as proposed, the typical customer would pay an additional \$0.89 per month in sewer charges, or an additional \$10.68 per year. The proposed monthly cost is less than the cost of one cup of coffee or one candy bar.

Growth in System

Size of System

The size of the Edgerton sanitary sewer operations has grown significantly in the last 10 years.

- Prior to 2013:
 - Edgerton Wastewater Treatment Plant – 187,000 gpd
 - Sanitary Sewer Pipe – 46,500 linear feet

- 2013: Construction of Big Bull Creek Wastewater Treatment Facility and Conveyance System
 - New 500,000 gallon per day plant
 - 2 lift stations: Intermodal Facility (IMF) and Homestead Lane
 - 14,100 linear feet new pipe
- 2016-2018: Connection of LPKC Phase I (north of I-35)
 - 3 lift stations: Edgerton Lift Station, Essex Lift Station, Big Industrial Lift Station
 - 41,870 linear feet new pipe
- 2019-2020: Connection of LPKC Phase II (south of I-35)
 - Big Bull Creek Lift Station
 - 10,600 linear feet new pipe
- **TOTAL GROWTH SINCE 2013:**
 - New wastewater treatment plant (additional 313,000 gpd treated)
 - 5 lift stations
 - 66,570 linear feet of pipe (12.6 miles)

KDHE Requirements for Operation

Kansas Department of Health and Environment issues the operation permit for the Big Bull Creek Wastewater Treatment Facility. The City of Edgerton permit requires two employees with at least one holding a Class III Wastewater Operator License.

Variable Treatment Costs

One of the largest costs for the operation of the sanitary sewer utility is the purchase of electricity. This includes power needed to move and treat sanitary sewer (i.e. operate lift stations and operate of Big Bull Creek Wastewater Treatment Facility, etc.) Increases in the amount of sanitary sewer treated or system infrastructure operated increases the amount of electricity required.

Prior to 2016, Edgerton absorbed significant increases from Kansas Power & Light for cost of electricity. Today, Edgerton budgets annually for possible rate increases from outside utilities, recognizing a budget savings if rates do not increase. Failure to budget for annual increases and absorbing these significant increases in costs of operation and treatment over time led to much steeper proposed rate increases to the Edgerton utility customers.

KCP&L increases

2016: 0%
 2015: 7.4% increase
 2014: 2.2% increase
 2013: 6.7% increase
 2012: 0%
 2011: 0%
 2010: 4.6% increase
 2009: 14.4% increase
 2008: 6.5% increase
 2007: 7.4% increase

Utility Rate Study History

In October 2015, the Edgerton City Council approved the first comprehensive utility rate study with Raftelis Financial Consultants. A new utility rate structure and amount was approved in March 2016 and implemented in May 2016.

Since 2017, Edgerton has completed annual utility rate studies to develop financial plans and set rates to ensure financial sufficiency which continue the financial health of the utility funds. These studies provide staff and the Governing Body with annual projections of the financial health of the utility to better allow for incremental adjustments over time rather than large increases due to unforeseen circumstances.

Similar to the 2020 utility rate study, the 2015 study included proposed/projected revenue adjustments needed for the next five years and a five-year forecast of rates. Below is that 2015 data and how it compares to actual.

	2017		2018		2019		2020	
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual
Monthly Sewer Bill (3,000 gal)	\$27.63	\$26.12	\$32.39	\$27.74	\$36.23	\$28.83	\$38.07	\$29.29

	Forecasted 2020	Actual 2020	Recommended 2021
Customer Service Charge	\$8.34	\$7.58	\$7.81
Volumetric Rate (per 1,000 gallons)	\$9.91	\$6.55	\$6.75

Both the ACTUAL 2020 and the PROPOSED 2021 are significantly below the forecasted rates for 2020.

Investment Driven by Governing Body

Over the last several years of preparation of annual sewer operating budget, the Edgerton City Council directed staff to work towards the allocation of funding from the operating budget for one-time expenditures deemed a priority for the system. These include an allocation to fund future Vehicle and Equipment Purchases and future Capital Improvement Projects.

- **Vehicle and Equipment:** Without the scheduled transfer to Equipment Reserve in 2021 the Sewer Equipment Reserve Fund will have a negative balance at the end of 2025. Below are items that are schedule for replacement in the next five years. The Sewer Fund shares in the cost of two of these items with the Water Fund.
 - Sewer Jetter
 - Uniloaders
 - Chevy 2WD Truck

- **Capital Improvement Projects:** The most significant type of capital improvement project discussed for the sanitary sewer fund is the systematic identification and replacement of gravity sewer mains that allow for stormwater to enter into the sanitary sewer system (inflow and infiltration (I&I)).

Unnecessarily treating stormwater results in higher costs for electricity and chemicals. Removing stormwater from the system results in less flow at the EWWLS and less flow to treat at Big Bull Creek Wastewater Treatment Plant reducing these same variable costs of electricity and chemicals. Reducing the flow also prolongs the equipment by reducing the wear and tear on the lift stations and plant. It also postpones the need to expand the plant's capacity.

City of Edgerton Sewer Fund

	2018 Actual	2019 Actual	2020 Estimate	2021 Recommended
Balance 1/1	\$ 256,291	\$ 434,960	\$ 508,001	\$ 413,698
Revenues:				
Charges for Services	777,944	692,635	651,494	682,408
Reimbursements	-	564	-	-
Bond Proceeds	-	-	-	-
Investment Income	4,770	10,588	3,500	3,500
Total Revenue	\$ 782,714	\$ 703,787	\$ 654,994	\$ 685,908
Transfers from Other funds:				
Transfer from Sewer Reserve Fund	-	-	16,330	-
Transfer from Capital Projects Fund	35,741	-	-	-
Total	\$ 35,741	\$ -	\$ 16,330	\$ -
Total Sources	\$ 818,455	\$ 703,787	\$ 671,324	\$ 685,908
Expenditures:				
Fleet Maintenance	-	-	4,700	5,700
Information Technology	19,289	24,671	33,326	25,499
Treatment Plant	150,972	111,722	204,945	198,330
Sewer Line Maintenance	2,141	7,409	7,100	10,700
Lift Stations/Vaults	10,247	20,445	21,114	29,967
Administrative - Sewer	195,193	297,871	193,811	214,858
Employee Benefits	37,506	44,190	56,193	61,513
Debt Service	94,438	94,438	94,438	94,438
Total Expenditures	\$ 509,786	\$ 600,746	\$ 615,627	\$ 641,005
Sources Over(Under) Expenditures	\$ 308,669	\$ 103,041	\$ 55,697	\$ 44,903
Transfers to Other Funds:				
Transfer to Equipment Reserve Fund-Sewer	30,000	30,000	50,000	50,000
Transfer to Capital Projects Fund	100,000	-	100,000	118,000
Total	\$ 130,000	\$ 30,000	\$ 150,000	\$ 168,000
Total Uses	\$ 639,786	\$ 630,746	\$ 765,627	\$ 809,005
Sources Over(Under) Uses	\$ 178,669	\$ 73,041	\$ (94,303)	\$ (123,097)
Prior Period Adjustment	-	-	-	-
Balance 12/31	\$ 434,960	\$ 508,001	\$ 413,698	\$ 290,601
Reserve Per Policy - 17% of Budgeted Expenditures:	\$		109,757	\$ 108,971
Unencumbered Cash Over(Under) Requirement:	\$		303,941	\$ 181,630
Reserve Per Policy - 25% of Budgeted Expenditures:	\$		161,407	\$ 160,251
Unencumbered Cash Over(Under) Requirement:	\$		252,291	\$ 130,350

Funding Sources: Charges to users of the City's sewer system

Expenditures: Sewer system operation and maintenance



July 21, 2019

To: Mayor and City Council Members

From: Beth Linn, City Administrator
Karen Kindle, Finance Director

Re: 2021 Recommended General Fund Budget

On July 9, 2020, staff presented the 2021 Recommended General Fund Budget. At that Work Session, the Governing Body asked staff to bring back two additional scenarios: (1) lowering the revenue equal to the 2019 mill rate (29.919); and (2) lowering the revenue equal to a decrease of one-half of a mill (30.381).

Please find enclosed with this memo the 2021 Recommended General Fund Budget schedule that includes these two scenarios added and the revenue amounts updated. NOTE: staff did not adjust any expenditures. Staff has provided additional information regarding expenditures below for the Governing Body to consider during the Work Session.

Property Tax Revenue

Property Tax Revenue

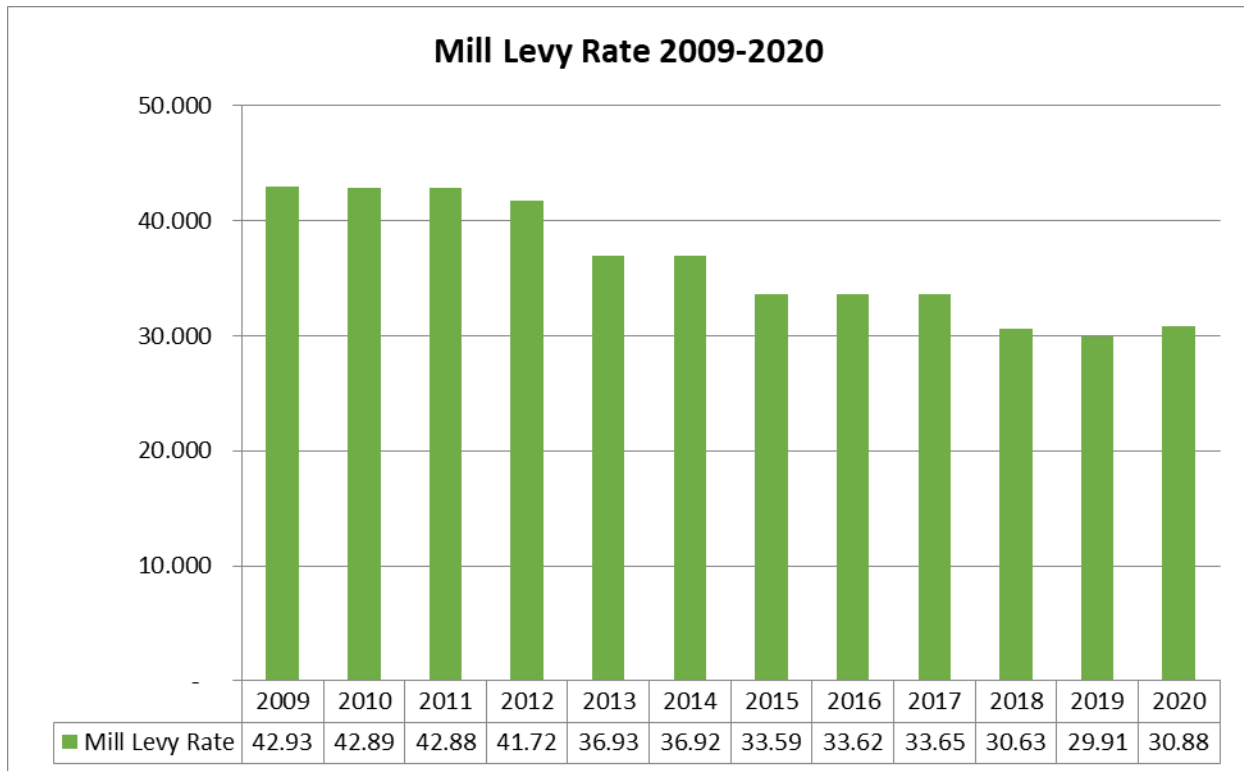
Each year the Edgerton Governing Body sets the amount of revenue collection necessary from property taxes. Citizens often use the mill levy rate as the tool to measure the increase or decrease in amount of taxes paid. However, the City of Edgerton sets the amount of revenue (in dollar amount), then Johnson County calculates the mill levy rate based on final assessed valuation for the City. Staff included estimated mill levy rates based on current appraised valuation data provided by Johnson County.

Under the tax lid law, the critical data point that gets set and held is the amount of revenue generated, not the mill levy rate. Under that law, the revenue amount set for 2021 becomes the starting point for the 2022 budget with some exceptions for new growth, CPI, increases in cost of public safety, etc.

Mill Levy Rate and Value of One Mill

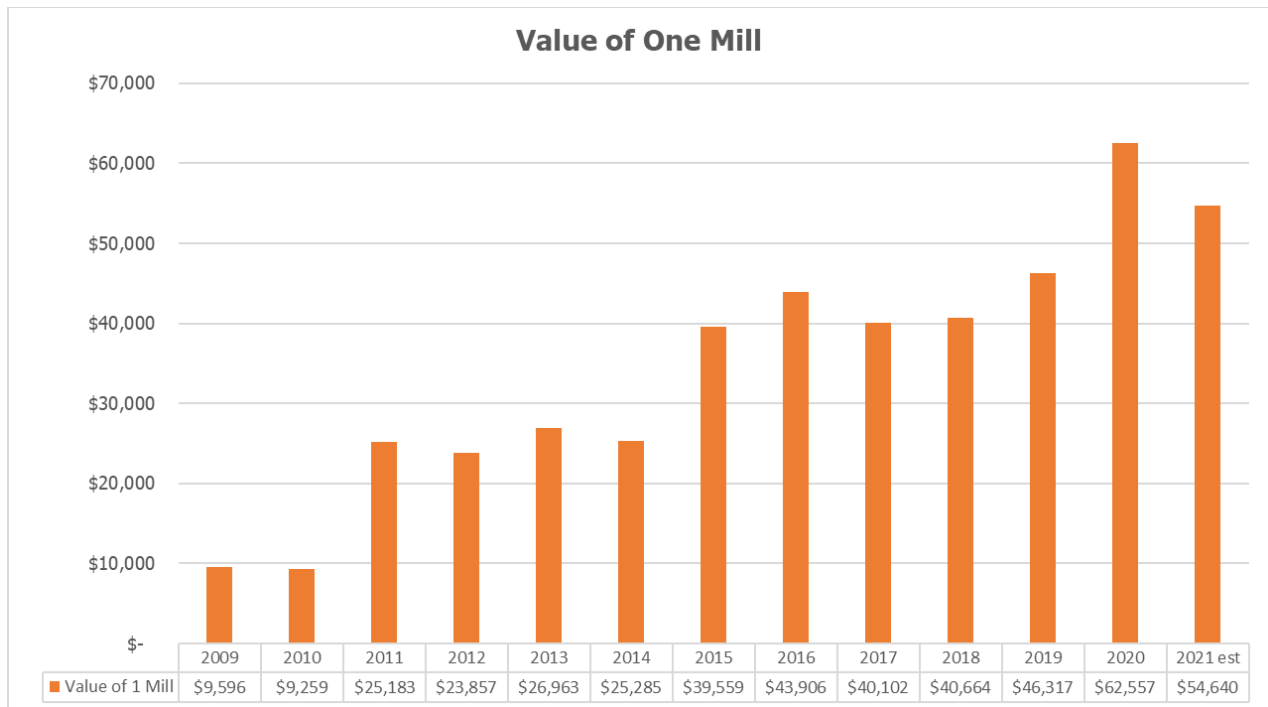
Mill Levy Rate

Since 2009, the City of Edgerton has lowered the mill levy rate over 12 mills. The ability to lower the mill levy rate while maintaining or increasing property tax revenue collection is driven by the growth in the value of one mill.



Value of One Mill

Growth in the value of one mill results from citywide increase in appraised valuation. Since 2009, the value of one mill has grown \$45,044. The most significant factor in increasing the city's appraised valuation is the new construction at Logistics Park Kansas City and surrounding area.



Expenditures Driven by Policies and Priorities

Since 2013, the Edgerton City Council has conducted four biennial citizen surveys to understand the services desired by the citizens of Edgerton. The Governing Body has then used these surveys as a tool to guide annual priorities. These priorities set by the Governing Body have driven investment over time in new or increased levels of services to the citizens.

Throughout all of the Citizen Surveys (2013, 2015, 2018 and 2020) several priorities have consistently remained at the top. A summary of those priorities is listed below. Also included are the corresponding annual investments or increases in annual investments from 2018 to 2021 based those priorities. Staff did not include one-time expenditures (i.e. capital improvement projects or vehicle/equipment purchases).

PRIORITY: MAINTENANCE OF CITY PARKS AND FACILITIES

- number of walking/biking trails
- maintenance of city parks and park equipment
- city special events and festivals
- programs for kids

Frontier Days Annual Sponsorship: \$18,000
Frontier Days Annual In-Kind Support: \$10,000
Frontier Days 50th Anniversary Sponsorship: \$12,000
Replacement of Existing Park Equipment: \$12,000
Additional/Expanded Community Events: \$8,400
Groundskeeping/Ball Field Maintenance: \$7,000

PRIORITY: MAINTENANCE OF CITY STREETS, BUILDINGS AND FACILITIES

- maintenance of streets in neighborhoods
- maintenance of sidewalks
- maintenance of major city streets
- adequacy of city street lighting

Street Maintenance: \$5,000
Snow/Ice Control: \$8,000

PRIORITY: ENFORCEMENT OF CITY CODES AND ORDINANCES

- enforcing the cleanup of litter and debris
- enforcing the maintenance of residential property
- enforcing the mowing and trimming of weeds on private property

Code Enforcement Abatements/Clean-up: \$7,500

PRIORITY: PUBLIC SAFETY

- visibility of police in neighborhoods
- quality of community public safety programs
- enforcement of local traffic laws

Edgerton Community Police Officer: \$133,000

Operational Costs

The City's budget process has been refined over the last several years to include contingencies in anticipation of possible cost increases in operational costs outside of the city's control. The three most significant examples of these contingencies are listed below.

- **Utility Costs.** Approximately \$17,500 in additional funding for rate increases from the various outside utility providers to all city facilities (electric, gas, phone, internet). The City has not typically utilized those contingencies but include budget authority in case necessary.
- **Property Insurance.** Approximately \$12,500 in additional funding for rate increases from the City's property insurance provider.
- **Legal Fees.** Approximately \$7,500 in additional funding for increased or unanticipated legal fees required due to outside forces.

Information Technology Replacement

One of the most critical pieces of the "infrastructure" in providing services to Edgerton residents and businesses is information technology (IT) equipment. Nearly everything staff does today requires a computer from processing a utility payment to writing a code violation letter to printing a replacement street sign.

Prior to 2018, the City of Edgerton did not have an inventory of its IT equipment nor a replacement schedule for that equipment. The proposed 2021 budget includes \$10,875 for the annual replacement of certain IT equipment, including desktops and a laptop as included on the four-year replacement schedule. These costs can be delayed but not deleted, typically requiring a larger investment in future years to "catch up". Delay of replacement can also expose the city to increased downtime for employees or possible risk from the computer out of warranty, software or hardware components not maintained, security patches no longer issued, etc.

Impact of Logistics Park Kansas City

The annual budget process provides an opportunity to highlight the tremendous financial impact Logistics Park Kansas City has had on the financial health of the City of Edgerton.

Additional Revenue Generation

New commercial growth at LPKC has increased several types of the city's revenue.

- **Property Tax.** LPKC has grown the City's appraised value and generated \$1,955,833 in payment in lieu of taxes. At the conclusion of the 10-year property tax abatement period, LPKC businesses appraised value will be returned to the city's total appraised value in full for collection of property tax.
- **Sales Tax.** Goods and services purchased by LPKC businesses come from 7 of the top 10 sales tax remitters, which accounts for 43% of the City's 1% sales tax. This also increase our portion of collection of the county's sales tax.
- **Compensating Use Tax.** LPKC businesses provide more opportunity for businesses to purchase goods that are delivered to their Edgerton location increasing the use tax.

Capital Improvement Projects

Several large capital projects are funded entirely from revenue generated by Logistics Park Kansas City (LPKC). A few examples of those are included below. If these projects were not funded by LPKC revenue, an alternate funding source (such as general property tax revenue or utility charges for service) would have been required or the project could not have been completed.

- Big Bull Creek Wastewater Treatment Facility – approx. \$10,000,000
- Residential Street Reconstruction – approx. \$3,450,000
- 207th Street Grade Separation Project – approx. \$15,000,000

One-Time Expenditures

In addition to annual, recurring expenditures, the Governing Body has directed staff to work towards the allocation of funding from the operating budget for one-time expenditures deemed a priority for the City. These include allocations to fund future Vehicle and Equipment Purchases and future Capital Improvement Projects.

City of Edgerton General Fund																		
		2021		2021														
Mill Rate: Revenue from 1 Mill:		30.633 \$40,664		29.919 \$46,317		30.881 \$62,557		30.881 (estimate) \$54,640	29.919 (estimate) \$54,640	30.381 (estimate) \$54,640								
Balance 1/1	2018 Actual		2018 Budget		2019 Actual		2019 Budget		2020 Estimate		2020 Budget		2021 Recommended		Scenario 1 2019 Mill Rate		Scenario 2 1/2 Mill Decrease	
	\$	1,582,616	\$	1,822,289	\$	1,725,650	\$	1,738,092	\$	1,698,769	\$	1,617,667	\$	1,582,699	\$	1,582,699	\$	1,582,699
Revenues:																		
Ad Valorem Tax		1,585,109		1,245,664		1,790,880		1,385,761		1,931,860		1,931,860		1,687,364		1,634,800		1,660,044
LPKC PILOT		-		428,990		-		437,123		483,853		483,853		545,837		545,837		545,837
Delinquent Tax		4,414		6,000		1,952		-		-		-		-		-		-
Motor Vehicle Tax		51,599		48,197		53,361		48,993		52,969		52,969		52,830		52,830		52,830
Recreational Vehicle Tax		1,138		794		1,133		775		933		933		835		835		835
16/20M Vehicle Tax		455		100		264		420		372		372		375		375		375
Local Alcoholic Liquor Tax		3,107		3,300		3,463		2,725		1,000		2,780		2,780		2,780		2,780
City 1% Use Tax		148,145		250,000		182,087		180,000		182,000		113,600		182,000		182,000		182,000
County Use Tax		68,837		n/a		72,486		n/a		53,000		70,000		70,000		70,000		70,000
City 1% Sales Tax		410,481		646,300		415,367		750,000		431,000		431,000		471,000		471,000		471,000
County Sales Tax		324,616		n/a		331,910		n/a		242,000		334,000		322,000		322,000		322,000
Franchise Tax		141,856		100,000		162,372		110,000		110,000		110,000		110,000		110,000		110,000
Licenses & Permits		484,313		757,600		429,634		756,300		336,400		756,300		321,000		321,000		321,000
Charges for Services		154,008		108,744		84,322		123,000		118,000		118,000		118,000		118,000		118,000
Fines & Forfeitures		30,123		15,100		42,297		25,000		30,000		30,000		30,000		30,000		30,000
Reimbursements		31,059		-		46,610		-		24,601		-		-		-		-
Miscellaneous		197,693		-		-		-		-		-		-		-		-
Investment Income		26,206		8,000		34,438		15,000		17,000		15,000		17,000		17,000		17,000
Total Revenue	\$	3,663,159	\$	3,618,789	\$	3,652,576	\$	3,835,097	\$	4,014,988	\$	4,450,667	\$	3,931,021	\$	3,878,457	\$	3,903,701
Expenditures:																		
General Government		838,102		758,439		812,676		941,959		891,578		961,959		1,027,951		1,027,951		1,027,951
Law Enforcement		313,263		334,534		326,894		359,525		489,063		502,868		507,043		507,043		507,043
Public Works		514,339		472,193		617,807		610,340		564,446		596,688		597,835		597,835		597,835
Parks		185,999		267,852		193,479		282,236		187,098		253,490		271,989		271,989		271,989
Facilities		144,774		90,039		109,224		110,740		113,724		115,450		126,325		126,325		126,325
Fleet Maintenance		-		-		-		-		49,605		51,200		54,200		54,200		54,200
Community Development		290,404		326,214		305,862		374,680		278,444		356,153		338,271		338,271		338,271
Economic Development		311,840		344,099		457,943		475,200		489,650		507,200		502,200		502,200		502,200
Information Technology		58,607		61,157		37,976		47,848		61,592		57,631		49,587		49,587		49,587
Employee Benefits		269,844		329,138		363,702		419,274		410,169		484,532		586,447		586,447		586,447
Total Expenditures	\$	2,927,172	\$	2,983,665	\$	3,225,563	\$	3,621,802	\$	3,535,369	\$	3,887,171	\$	4,061,848	\$	4,061,848	\$	4,061,848
Revenues Over(Under) Expenditures	\$	735,987	\$	635,124	\$	427,013	\$	213,295	\$	479,619	\$	563,496	\$	(130,827)	\$	(183,391)	\$	(158,147)
Other Financing Sources & Uses																		
Transfers from Other funds:																		
Transfer from Capital Projects Fund	\$	706	\$	-	\$	41,097	\$	-	\$	2,752	\$	-	\$	-	\$	-	\$	-
Transfers to Other Funds:																		
Transfer to Equipment Reserve Fund-General		79,250		79,250		79,250		79,250		325,000		325,000		125,000		125,000		125,000
Transfer to Mayor's Holiday Fund		150		-		150		-		-		-		-		-		-
Transfer to Capital Projects Fund		514,259		202,259		415,591		274,180		273,441		150,000		66,500		66,500		66,500
Total Other Financing Sources & Uses	\$	(592,953)	\$	(281,509)	\$	(453,894)	\$	(353,430)	\$	(595,689)	\$	(475,000)	\$	(191,500)	\$	(191,500)	\$	(191,500)
Balance 12/31	\$	1,725,650			\$	1,698,769			\$	1,582,699			\$	1,260,372	\$	1,207,808	\$	1,233,052
Undesignated Reserve: \$ 610,819 \$ 640,514 \$ 640,514 \$ 640,514																		
Portion Designated for Self-Insured Losses: \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000																		
Reserve Per Policy - 17% of Budgeted Expenditures: \$ 660,819 \$ 690,514 \$ 690,514 \$ 690,514																		
Unencumbered Cash Over(Under) Requirement: \$ 921,880 \$ 569,858 \$ 517,294 \$ 542,538																		
Undesignated Reserve: \$ 921,793 \$ 965,462 \$ 965,462 \$ 965,462																		
Portion Designated for Self-Insured Losses: \$ 50,000 \$ 50,000 \$ 50,000 \$ 50,000																		
Reserve Per Policy - 25% of Budgeted Expenditures: \$ 971,793 \$ 1,015,462 \$ 1,015,462 \$ 1,015,462																		
Unencumbered Cash Over(Under) Requirement: \$ 610,906 \$ 244,910 \$ 192,346 \$ 217,590																		