



## 2015 Year in Review

### *Introduction*

Presented is a broad financial overview of the City of Valley Center's 2015 unaudited fiscal year ending December 31, 2015. Since the recession in 2008 began, the City Council and staff have taken a very conservative approach to budgeting, estimating revenues low and keeping expenditures below budgeted amounts when possible. This has allowed the City to increase fund balances in all funds, providing additional security in the event of unexpected need or catastrophe. Through sound conservative fiscal policy, an aggressive approach to maintaining expenses (doing more with less) and maintaining strong reserves, the City has been able to weather the recession while continuing to make progress in capital improvements. Reflective of that is the strong Aa- rating the City received from Standard and Poor (up from an A+ given in 2009).

It can be stated with confidence the City's finances remain strong at the end of FY2015, with no fund balance in any fund decreased without intent. All funds supported by ad valorem (property) tax are in excellent shape, with the General, Employee Benefit and Bond Interest funds seeing significant increases in fund balance. Similarly, all four utility funds had significant fund balance increases at the end of the fiscal year as well. There were no budget violations, and only one budget amendment was necessary in the Special Highway Fund, which allowed the purchase of a dump truck. In general, staff was able to stay within budgetary constraints while remaining progressive, to include infrastructure improvement and purchases of much-needed equipment. Several capital improvements were made, including completion of the City's largest public works project in history, the Ford/ Meridian Street drainage project, which has reduced flooding on arterial roads and provided an economic development opportunity for solid growth for the City.

City staff continued to enhance efficiencies through process improvement, to include consolidation of obsolete funds. Given the City has several funds that have remained inactive for a long period of time, some were dissolved in 2015 and the balances moved over to more permanent funds (noted in the Fund Balance section of the report). Staff will continue to evaluate existing funds with the expectation more can be dissolved in 2016. This will provide a more concise means of managing the City finances in the future.

It should be noted this review is not intended to be an all-encompassing representation of the 2015 fiscal year; the 2015 independent audit presented in June will provide a more in-depth explanation of the year. This summary should merely serve as a highlight of the financial standing of the fundamental funds of the City at the close of FY2015. As the financial statement is prepared over the next few months, some information could change if necessary.

## *Income Statements: Budget vs. Actual*

Provided below is a summary of the actual revenues and expenses within the funds most used in daily operations throughout the year, as compared to their budgets. All funds that are tax supported, through either property tax or local sales tax are included, as well as all utility funds.

### ***Tax-Supported Funds***

#### General Fund

The General Fund is responsible for all operations of the City outside public works functions. Housed within the General Fund are several departments, to include Administration and Finance, Police, Fire, Municipal Court and Parks. This fund is supported by property tax, which constituted 38.8% of the fund's revenues. Other revenue sources include local sales tax, permit/ license fees and police fines. Fund revenues finished the year at over 106% of budget, while expenditures came in around 99% of budget. All departments with the exception of two, Finance and Administration and Municipal Court, all finished within their budgets. In both departments, contributing factors to exceeding the budget were nearly isolated to a transition in personnel in F&A and higher than expected jail housing fees in Municipal Court. Fund balance increased over 25%, ending the year at approximately \$706, 000. It should be noted the City's fiscal policy dictates the General Fund maintain a fund balance equal to 25% of expenditures for the year; at the end of FY2015 fund balance is approximately 32% of the 2015 expenditures. Further, fund balance will be at approximately 22% of 2016 budgeted expenditures, which includes the one-time transfers to the Capital Project and Equipment Reserve Funds.

#### Employee Benefits Fund

The Employee Benefits Fund is a property tax supported fund and provides funding for benefits, such as health insurance, worker's compensation insurance, pension, etc., for all General Fund employees. Revenue sources are 100% property taxes, which came in at 103.3% of budget. Expenditures are historically budgeted higher than actuals in this fund, but this is due to the lack of health insurance premium information when the budget is certified in August of every year. As such, expenditures were only at 69.4% of budget. A healthy fund balance exists in this fund, of which a portion will be transferred through General Fund into the Equipment Reserve Fund, as dictated in the 2016 Budget. Staff will continue to evaluate health insurance trends to ensure no budget shortfalls occur in the future; as such, fund balance should be managed responsibly and moved where necessary in the event of excess funds.

#### Library Fund

The City of Valley Center is the taxing authority for the Valley Center Library system, and appropriates approximately 4.5 mills annually. The City merely acts as a pass-thru for those funds when distributed throughout the year, so 100% of revenues are made up of property taxes and are directly distributed to the VC Library. In 2015, revenues were slightly below budget at 99.35%, and expenditures were at 100% of budget. The expenditures were higher than revenues, due to a portion of the fund balance (which should be \$0) was drawn down while avoiding a budget violation. It should be noted, a fund balance can exist in the Library Fund if actual revenues exceed budgeted expenditures. Given the timing of the last tax distribution of the year, exact revenues are not known in time for the Council to amend the budget to allow for payment of excess revenues. Staff will recommend a budget amendment following a year where excess revenues have created a fund balance if necessary.

### Emergency Equipment Fund

The Emergency Equipment Fund was created with the sole intent of providing funding for public safety equipment needs, which are often critically necessary and costly to replace. One mill of property tax is designated to this fund, and provides funding for equipment for Police and Fire departments as the need arises. This fund is solely supported by property tax and is not used frequently, as the intent is to build up the fund balance in preparation of replacing costly vehicles such as fire trucks (cost can exceed \$400,000 per vehicle). Revenues were 100.4% of budget, and expenditures were 83.9% of budget. Though expenditures were under budget, they exceeded revenues slightly, so fund balance decreased slightly. This could be expected, given expenditures were budgeted higher than revenues, and cost of a drug dog to be used in the Valley Center schools came from this fund.

### Bond and Interest Fund

The Bond and Interest Fund is the fund that pays the debt service of the City, with no other function. Sources of revenue of the B&I Fund can vary, but the City of Valley Center currently only holds general obligation bonds and one revolving loan through the Kansas Department of Health and Environment. The City's total outstanding debt is approximately \$20 million which is   % of the City's debt capacity. Currently, the Water and Sewer Funds transfer a portion of the principal and interest payments made each year, as the City refinanced two revolving loans from KDHE in 2009 and 2012 into general obligation bonds. Property tax and special assessment payments fund a significant portion of the revenues with property tax at 38% and special assessments at 40%. The remainder of revenues come from transfers from the utility funds. Overall, actual revenues were collected at 96.5% of budget and actual expenditures were 85.6% of budget. This resulted in a 17.6% increase to fund balance in 2015. Given the large fund balance that has built over the years, Council has made the decision to transfer those funds to the General Fund over a period of 3 years (2016-2018) through a mill transfer. Ultimately, the fund balance will go to pay cash for the overage of the Meridian/ Ford Street drainage project totaling \$1.3 million. In addition, a portion of the debt associated with the Meridian/ Ford Street drainage project is to be funded by stormwater fees. At this time, there is a shortfall in the amount of fees being collected, so City staff is currently working on a rate structure that alleviates that shortfall, which should be introduced sometime in the 1<sup>st</sup> quarter of 2016.

### Special Highway Fund

The Special Highway Fund is responsible for all road repair and replacement within the City. Throughout the year, City staff manages the roads, addressing areas related to potholes, grading dirt roads and overall maintenance of city streets. In addition, once a year a prioritized section of city streets are either completely replaced or extensively overhauled through the Annual Street Program. Council took an aggressive approach with the approval of the 2005 budget to allocate half of all local sales tax collected to the Special Highway Fund for purposes of maintaining and improving roads; this policy has remained in place with the same allocation of local sales tax going to Special Highway Fund since 2005. Sales tax is 69% of all revenues collected in this fund, with fuel taxes making up the majority of the rest. In 2015, actual revenues were at 104.6% and actual expenditures were at 98.4% of budget at the end of the year. The only budget amendment adopted by the Council was for this fund, where a much-needed dump truck was purchased to replace an antiquated one. This purchase was approximately \$125,000, and a portion of fund balance was used to fund the purchase. There is still a large fund balance of approximately \$489,000, and it is likely recommendations will be made by staff to spend down fund balance even further.

## ***Enterprise Funds***

### Water Utility Fund

The Water Utility Fund, along with all other utility funds, are business-type funds and are not supported by taxes. The majority of revenues for this fund come from the sale of water to the utility customers. At one time, the City treated the water from city wells to the utility customers, but as the needs for the City grew, the decision was made to purchase water from the City of Wichita. Though consideration is being given to a new water treatment facility in the future, the City still remains a wholesale water customer of the City of Wichita. The Water Fund is very healthy, with fund balance at over \$1 million. Actual revenues were at 115.9% of budget; actual expenditures finished 2015 at 96.4% of budget. This allowed to contribute roughly \$278,000 (34.9%) to fund balance, adding to the health of the fund. There is a progressive rate structure in place, meaning each year per ordinance, water rates are increased slightly to mitigate the possibility of rate shock in the event of catastrophe or major improvements are necessary.

### Sewer Fund

The Sewer Fund is a utility fund that provides sewer services to the City. The City maintains a wastewater treatment plant that has grown over the years as population has increased. Almost all revenues for the fund are generated through sewer service fees charged to the utility customers, and actual revenues exceed budget in 2015. Specifically, revenues were at 105.3% of budget; expenditures were 83.9% of budget. Fund balance has been decreasing slightly over the years, so given the fact revenues were over budget and expenditures were under budget, this fund balance increased by over 82%. It is imperative the Sewer Fund remain strong, as the need will exist in the near future to add capacity to the wastewater treatment plant. Staff plans to continue the trend of increasing fund balance, which would include transfers to reserve funds, allowing additional needs to be met in the future. The sewer rates, like the water rates, are on progressive rate structure, so revenues continue to increase slightly each year.

### Stormwater Fund

The Stormwater Fund was implemented at the time the Environmental Protection Agency began mandating municipalities get a National Pollutant Discharge Elimination System permit which forced them to begin controlling the "urban runoff" that initiated from the cities. In 2009, Valley Center implemented a stormwater fee that provided funding for the unfunded mandates set forth by the federal government. Over the life of the fund, fees have steadily increased, and there will be continued need for additional increases. A portion of the debt service associated with the recently completed Meridian/ Ford Street drainage project is to be paid by the Stormwater Fund, and rates are still not at a level to make budgeted payments. Staff is currently working on this issue, and until full payments are made, the Stormwater Fund is not heavily used to fund anything other than basic support of the utility and transfers to the debt service fund. Actual revenues for 2015 came in at 148.6% of budget; expenditures came in at 97.6% of budget. It should be noted expenditures were budgeted far less than budgeted revenues; purpose of this is to continue to build a fund balance that can ultimately be used to pay debt service in the future.

## Solid Waste Fund

The Solid Waste Fund was created with the implementation of the city trash franchise on January 1, 2011, where City Council made the decision to become the sole provider of residential trash within the City. The City contracts with Waste Management to provide trash service, and the City charges an administration fee of \$1.05 per customer per month above Waste Management's fees. This administration fee is used to provide support for the utility in terms of personnel and equipment used in the billing and customer service responsibilities. Very little has been budgeted in this fund in terms of expense over the years. As such, the Solid Waste Fund balance has grown significantly over the years. For 2015, revenues were 93.5% of budget and expenditures were 89.2% of budget. EOY fund balance for the fund increased 9% to approximately \$170,400, which Council can use to support other funds, if necessary.

## *Outcomes- Department Highlights*

## *Conclusion*

The City of Valley Center, through the City Council's aggressive fiscal policy and City staff's diligence in maintaining efficient operations, has again completed another successful year. City property taxes in 2015 increased less than 2% while maintaining a steady mill levy, and continued progress was made in capital improvements. Though there was significant transition in personnel, City staff remained focused and progressive. Certain improvements, like the Meridian/ Ford Street drainage improvement has paved the way to a brighter future in regards to future growth while improving the quality of City streets and accessibility. Added personnel in several departments has provided an opportunity for City staff to increase productivity and enhance city services at a greater level.

In general, the City is sitting in a better financial position than in 2014, with increases in fund balance for many funds will allow for additional improvements in 2016. There were no budget violations, and only one budget amendment to allow the purchase of necessary equipment. City expenditures were held below budgeted amounts, yet progress was still made with City infrastructure and enhancing efficiency and productivity. Given the progress made in both process and infrastructure improvements and increased cash flow, fiscal year 2016 should maintain the same path as 2015.

Respectfully,

Kristine Polian, Finance and Administration Director