



November 8, 2014

Honorable Members of the City Commission
1101 Poyntz Avenue
Manhattan, KS 66502

Dear Honorable Members of the Manhattan City Commission:

The Management team is pleased to present the 2015 City Budget to the City Commission. City Administration, Department Heads, and employees have worked hard to prepare the annual budget that will guide City operations for next year. I would like to express my thanks to the City Commission for its guidance and work on the 2015 Budget, as well as several Advisory Boards, organizations, and citizens who provided valuable input into the 2015—2020 Capital Improvement Program and budget process.

2015 Budget Overview and Highlights

The Manhattan area continues to grow accompanied with low unemployment. In 2014, the community's tax base increased approximately 3.2% (3.3% in Riley County and 2.5% in Pottawatomie County) as development of residential and commercial property continues throughout the City. The 2015 City Budget is \$134,125,392, an increase of almost \$3.3 million over 2014. However, nearly all of this increase is non-operational in nature. The enterprise fund budgets have increased by almost \$317,000 to fund the federally mandated expansion of the Wastewater Treatment plant and also expansion and modernization of the Water Treatment Plant along with Wellfield expansion improvements. The Bond & Interest Fund has increased by \$1.6 million. However, nearly 90% of this increase is due to the proceeds of a quarter-cent special sales tax approved by voters (Sunset Zoo Nature Exploration Center and City Park, Northview and CICO pools) that has been collected and must be reserved for future principal and interest payments on these bond issues. None of the above items have any impact on local property taxes. The Riley County Police Department and Manhattan Library have increased expenditures which together total \$731,010. The remaining budget increase for 2015 can be attributed to community-wide growth.

The City's General Fund reflects about a 3.7% increase, or \$1,008,531 over the 2014 budget. These increases are due to costs for employee benefits, as well as utility cost increases for gas, electricity, fuel and street lighting. Despite this budget increase in the General Fund for 2015, property taxes supporting the General Fund have only increased \$190,642 over 2014. The Commission utilized economic development funds to help keep the General Fund mill levy relatively stable for 2015.

The 2015 Budget includes three new positions, which one of those positions to be funded in the General Fund. Currently this position is part time at the Flint Hills Discovery Center and part time at the Sunset Zoo. The approved new position will adjust to one full time position at the Flint Hills Discovery Center and one

full time position at the Sunset Zoo. Within the Enterprise Funds, two new positions are budgeted. One position is for an additional maintenance technician for sewer maintenance, and will be funded through the Wastewater Fund. The other additional position is for water maintenance, and will be funded through the Water Fund. The two positions identified in the Water and Wastewater Funds will have off-setting savings that will absorb the annual cost of these positions.

The following highlights key initiatives and developments in the City of Manhattan anticipated to begin, continue, or are to be completed in 2015.

- The Downtown Redevelopment project is near completion. In the South-end a few projects are finishing including Holiday Inn Express and a mixed-use building. The mixed-use building finished construction in 2014, and is occupied by several businesses including a local coffeehouse and roastery. In the North-end, Taco Johns was constructed and opened in 2014, and the construction of Qdoba Mexican Grill began in 2014.
- Revenues associated with the Downtown Redevelopment STAR and TIF bonds are keeping pace with projections. To date, the City has been able to retire \$7.6 million of STAR bonds earlier than anticipated.
- In May of 2013, the Commission approved an economic development agreement with CivicPlus, a local company specializing in cost-effective website solutions to enhance community engagement for public sector clients. In 2014, as part of the economic development agreement, CivicPlus made a capital investment of approximately \$8.85 million for the construction of a new 50,000 square foot, five-story office facility located in downtown Manhattan. The agreement also includes an incentive package with a \$750,000 forgivable loan and partial tax abatement of this expansion project. CivicPlus is expected to create 250 jobs in the next 10 years with an average wage of at least \$45,055 annually.
- Site preparation, design, and pre-construction services continue for the National Bio and Agro-Defense Facility (NBAF). Construction of the Central Utility Plant began in 2013 and continued through 2014. The City of Manhattan committed \$5 million in Economic Development Funds for infrastructure improvements needed for the site. Of this amount, \$2.2 million has been expended to-date for the relocation of water, gas, and electric utilities. As of the last quarter in 2014, the city has dedicated \$3.4 million of the originally pledged amount for infrastructure improvements.
- With relocation of the Kansas Department of Agriculture from Topeka to Manhattan, and the construction of NBAF, the North Manhattan Avenue corridor is planned to undergo an expansion. In 2013, City Administration received approval to design street improvements for the corridor. The total project cost is approximately \$2 million and construction is anticipated to start in the spring of 2015. The city will utilize Economic Development Funds for this expansion project.
- Construction of a 42,000 square-foot passenger terminal building began at the airport in late 2013, and continued in 2014. The construction will be completed in two phases and Phase I is anticipated to be completed in early 2015. Phase II will begin at the completion of Phase I and will have an estimated completion date of August 2015. The airport also has plans to construct a parking lot, General Aviation area, and Fixed Base Operator facility in 2015.

Budget Process

The City Budget represents the single most important document the City prepares on an annual basis. The budget has been organized in such a manner to clearly convey information of importance to the City Commission, citizens and other stakeholders. The budget serves as the following:

- **A Policy Document:** The annual budget is an expression of City Commission policy. City Commission policy is implemented by appropriations made, projects funded, staffing levels authorized, and goals and objectives promoted and tracked.
- **A Financial Plan:** The financial planning emphasis of the budget is the most familiar aspect of this annual document. The budget sets out how expenditures are to be made and specifies anticipated revenues and other resources to fund those expenditures. This document also delineates the financial policies that guide the City's financial affairs and describes the formulation and implementation of the budget. The budget is balanced in all funds, meaning that total resources in each fund are equal to or greater than total expenditures.

The annual budget also includes proposed capital expenditures for equipment, vehicles, and projects which are more than \$5,000 in cost. The Capital Improvement Program is a long-term capital purchase planning document that attempts to balance future needs with future revenue. The out-years of the current Capital Improvements Program (CIP) are challenged with anticipated expenditures likely being much more than projected future revenues will support.

- **An Operations Guide:** In addition to listing revenues and expenditures, the budget also includes missions and goals outlining an overview of the broad range of City services provided to citizens. The operations guide of the budget focuses on financial planning and achieving results.
- **A Communications Device:** Through the budget, the City communicates its annual priorities. The budget contains graphics, tables, summaries, and directions that are designed to assist citizens, the City Commission, and others in getting needed information quickly and easily. The annual budget, as well as many other related documents, has been made available online (www.cityofmnh.com). Similar to other City services, there is continuous scrutiny to improve the budget and make it more useful and functional.

Every year a budget calendar is set and closely followed, allowing for greater transparency and participation. The 2014 budget calendar reflects the timeline that was essential to the 2015 Budget process:

- January 2, 2014 - City Commission held a goal setting session to set strategic goals for the upcoming year.
- January 17, 2014—2015-2020 Capital Improvements Program citizen request forms were distributed to Advisory Boards/Media/Citizens as well as City Departments.
- February 11, 2014—City Commission work session was held to discuss budget calendar, current revenue assumptions and 2015 revenue projections.
- During January and February, advisory boards and citizens had the opportunity to submit Capital Improvement Program requests.
- During April and May, internal meetings were held to formulate the proposed 2015-2020 CIP and 2015 Budget.

- May 27, 2014—City Commission first work session held on proposed Budget and 2015-2020 Capital Improvements Program with primary concentration on 2015 proposed capital expenditures.
- June 10, 2014—The second City Commission work session on 2015 Budget and 2015-2020 Capital Improvements Program was held.
- June 24, 2014—The third City Commission work session on 2015 Budget and 2015-2020 Capital Improvements Program was held focusing on outside agency requests for the 2015 Budget.
- July 7, 2014—The Manhattan Urban Area Planning Board determined that the 2015-2020 CIP is in conformance with the City’s Comprehensive Plan.
- July 8, 2014—The fourth City Commission work session on 2015 Budget and 2015-2020 Capital Improvements Program was held.
- July 22, 2014—The fourth City Commission work session on 2015 Budget and 2015-2020 Capital Improvements Program was held.
- July 25, 2014—Notice of Public Hearing for 2015 Budget and Capital Improvements Program was published.
- August 5, 2014— The City Commission held the official public hearing on the 2015 Budget and 2015-2020 Capital Improvements Program and approved first reading of the ordinance adopting the 2015 Budget.
- August 19, 2014 – The City Commission approved the second reading of the ordinance adopting the 2015 Budget.

Budget Revenue and Expenditure Summary

The following provides highlights regarding the City’s major sources of revenue and expenditures:

Revenues

Property Taxes

Assessed valuation figures provided by Riley and Pottawatomie County Clerks indicate that the 2015 assessed valuation has increased by \$15,543,992 or 3.2% over 2014. City Administration continues to believe it is important to capture at least part of the property taxes from newly developed commercial and residential properties in order to maintain current service levels in the City’s General Fund.

However, in an effort to maintain a relatively flat mill levy rate, these new property taxes were not captured for City services that are under the control of the City Manager. Overall, the increase in property taxes for City services was \$669,307. The increase in property taxes for City agencies governed by separate boards, including RCPD and the Library, totaled \$275,329.

Franchise Fees

Franchise fees compensate the City for the use of the public right-of-way by private utilities. Franchise fees range from 3% to 5% of gross revenues for the gas, electric, and cable television utilities, and are \$1.20 per access line for the telephone utility company. Overall, franchise fee revenues are budgeted at \$2.9 million for 2015.

Local Sales Tax

Impact from the economic recession did have an effect, although minor, on Manhattan’s local City sales tax during 2009 and 2010. However, sales tax receipts for 2011 and 2012 improved and are projected to

continue improvement through 2014 and 2015. The 2015 budget maintains a 1% increase in sales taxes over 2013 actual receipts. The following table reflects the City’s sales tax forecast:

	----- Actual -----				----- Budget -----	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
TOTALS	\$8,862,999	\$9,317,923	\$9,782,786	9,766,806	\$9,880,688	\$9,875,257

Although sales taxes are difficult to predict and are highly elastic since they are consumer-driven, the expansion of businesses across the community and prior troop build-up at Ft. Riley indicate that the City’s sales tax revenues should remain stable and increase slightly in 2015.

Investment Income

Investment income has been declining dramatically since mid-2007 when interest rates plummeted to all time lows. At the same time cash balances in several City funds began to decline. The following table reflects past receipts and future projections for investment income across all budgeted funds:

	----- Actual -----					----- Budget -----	
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
TOTALS	\$505,738	\$96,483	\$99,998	\$91,991	\$20,145	\$31,223	\$32,012

Utility Fees

Water Fund

In 2010, City staff and Springsted, Inc. conducted a “Cost of Services” study for the existing City water rate structure, and recommended a modification of the rate structure to ensure the costs of the water utility are equitably spread across all customer classes. The City Commission approved gradually flattening the City’s declining water rate structure over a 5-year period, beginning in January 2011.

Based on utility growth and consumption in 2013 and to-date in 2014, City Administration is currently recommending a 5% increase in water rates for 2015. Generally, these planned rate increases will not affect the monthly water bills of many residential users, but they will have an impact on the City’s larger water customers. All proposed water rate increases will be implemented, in large part, to provide revenue to pay the \$1.27 million annual KDHE loan payment for the water treatment plant and well field improvements project. The water treatment plant expansion and modernization, including an expansion to the City well fields and an additional raw water line to the plant, cost approximately \$17 million.

Wastewater Fund

Federal and state mandates for new treatment methods and a major wastewater treatment plant expansion have required wastewater rate increases over several years. One half of the \$23.5M Wastewater Plant upgrade and expansion project cost is due to new federal nutrient reduction requirements.

Although rate increases have been substantial for the past few years due to these improvements, City Administration is recommending a much smaller rate increase of 3%, effective January 2015.

Stormwater Fund

The City’s Stormwater Fund remains in stable financial condition as the result of recent rate increases. However, City Administration is recommending a 4% increase to stormwater rates in January 2015 due to the number of stormwater projects citywide that will be constructed to accommodate growth across the community.

The Finance Department forecasts potential increases to utility rates as part of an ongoing analytical program. Larger utility rate increases have been avoided through the management of all enterprise funds and appropriate scheduling of projects in light of available resources, particularly in the Stormwater Fund.

The following table provides historical and current rate increases for all three utility funds:

AVERAGE UTILITY USER	2011	2012	2013	2014	2015
	----- Increases -----				
Water Rates (3-20 units)	\$ 0.14	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Wastewater Rates (over 2 units)	\$ 0.39	\$ 0.36	\$ 0.09	\$ 0.08	\$ 0.09
Stormwater Rates – Residential	\$ 0.18	\$ 0.20	\$ 0.16	\$ 0.13	\$ 0.18
Stormwater Rates – Commercial	<i>(Rate is based on the square footage of the commercial enterprise)</i>				

Municipal Court Fees

Due to the City assuming prosecution of certain misdemeanors and the increase in caseloads, Municipal Court revenues historically have increased although revenues slowed in 2009 and 2010. There was a slight revenue increase in 2013, and revenues in 2014 are estimated to come in slightly higher than budgeted. As a result, 2015 budgeted Municipal Court revenues were increased by \$21,855.

Expenditures

Personnel

The City is able to offer quality services to our citizens as a result of our City employees. The 2015 proposed General Fund budget includes the same salary increases that were provided in 2014 with a 1.7% cost of living adjustment for employees along with a 2% merit pool, retirements, reclassifications and promotions for qualifying positions.

Contractual Services and Commodities

The City contracts with the Chamber of Commerce to perform economic development recruitment in the amount of \$143,080 and also to serve as a liaison for Ft. Riley military affairs in the amount of \$40,000.

Outside Agencies

The budget submitted by the Riley County Police Department Law Board requires an additional \$685,008 in City funding over the 2014 budget. In 2015, The Manhattan Public Library’s budget will increase by \$46,002.

In addition, a number of other outside agencies requested funding in 2014 from the City Commission during the budget process. The following chart indicates the funding provided in the 2015 budget.

<u>Special Revenue Outside Agencies</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Riley County Police Department	\$14,144,590	\$14,449,680	\$15,134,688
Manhattan Public Library	2,620,658	2,714,998	2,761,000
Downtown Manhattan, Inc.	45,000	-----	-----
Convention and Visitors Bureau	1,225,634	1,285,197	1,312,742
Special Alcohol Funding	429,566	440,162	470,848
Aggieville/Downtown BID	112,772	131,955	132,000
<u>General Fund Outside Agencies</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Social Service Agencies	354,920	378,400	384,965
Flint Hills Area Transportation Agency	52,138	53,024	54,882
Manhattan Center for the Arts (*)	43,700	-----	-----
Wolf House Museum (**)	4,750	-----	-----
TOTAL	\$19,033,728	\$19,453,416	\$20,251,125

(*) In 2014 & 2015, the Manhattan Art Center budget has been funded from the Economic Development Fund.

(**) In 2014 & 2015, the Wolf House Museum budget has been funded from the Economic Development Fund.

Capital Outlay

The Capital Improvement Program (CIP) is a multi-year plan for capital expenditures needed to replace, expand, renovate, and improve infrastructure, systems, vehicles, and equipment. The *total* cost of the CIP in 2015 is approximately \$33.8 million. This is approximately \$9.5 million more than was programmed for 2014.

The overall CIP budget impact in 2015 is \$562,525 less than it was in 2014. A portion of this decrease can be attributed to several capital projects from the City's utility funds that are no longer categorized as improvements, but rather programmed in the budget as maintenance items.

The 2015-2020 CIP incorporates a substantial investment in the City's infrastructure and programs while also leveraging significant state and federal funding. The following are some highlights from various departments for 2015.

Fire

- The 1995 pumper truck replacement project cost is \$625,000 and will be purchased using a lease purchase program. The first payment will be funded from Economic Development Fund.
- \$35,000 for laptop computers for all fire engines and will be funded through the Economic Development Fund.

Parks and Recreation

- \$400,000 for new field turf on Twin Oaks and funded by the Special Park & Recreation Fund.
- \$3,000,000 for the Douglas Neighborhood Recreation Center. The project will be funded by a grant.
- \$1,000,000 for new soccer field artificial turf and funded by Special Park & Recreation Fund.
- \$800,000 for replacing Anneberg sports field lights and funded from the Special Park & Recreation Fund.

Public Works

- \$2,000,000 to North Manhattan Avenue Expansion, Kimball to Research Park project will be funded from the Economic Development Fund.
- \$2,254,380 for K-18 and K-113 interchange improvements study. The funding source will be from grants and the Special Street and Highway Fund.
- \$860,861 for Juliette to Poyntz to Bluemont brick replacement project. The funding sources are grants and the Bond & Interest Fund.

Bond and Interest Fund

The City's portion of capital debt will continue to increase in the foreseeable future. The annual principal and interest payments on a growing number of city-wide improvement projects and city participation in benefit districts may also increase in 2015.

The Bond & Interest Fund tax levy increased in 2015 by 0.227 mills. However, in future years, given the maturing of current outstanding temporary notes and their conversion to general obligation bonds, it may be necessary to increase the levy in this fund. Some of the major projects in the 2015 Bond and Interest fund such as several Downtown Redevelopment projects including the conference center, the parking garage, and the Discovery Center exhibit design. In addition, several benefit district projects are funded by the Bond & Interest Fund. The majority of these projects are paid by private homeowners over a 20-year repayment period.

City Administration remains committed to not bonding smaller capital projects if at all possible through the use of temporary note authority. Continuous efforts are also made to retire as much or more principal debt than is incurred each year, with the exception of special assessment debt. It is important to note that the City's debt service is paid from a variety of revenue sources, most of which has dedicated primary revenue streams. Only about 7% of the debt service is paid from local property taxes.

Future Initiatives

In 2014, the City began updating the Manhattan Urban Area Comprehensive Plan, which is the official policy guide for future decisions regarding growth and the future use and development of land. This update is critical to address a range of issues facing Manhattan and the urbanizing fringe areas around the City that are directly related to growth-opportunities presented by Fort Riley Military Post, Kansas State University, and National Bio and Agro-Defense Facility.

This update will identify additional long-term growth areas, as well as higher density redevelopment areas, transportation and connectivity, land use, and growth management. The project also includes updates of the transportation portion of the Comprehensive Plan and the Utility Master Plan. In addition, both Riley and Pottawatomie Counties have identified this project as a benefit to their long term planning efforts and have committed their financial assistance and been active participants.

The City continued its membership in the Flint Hills Regional Council, a voluntary service association of local governments from Clay, Dickinson, Geary, Morris, Riley, Pottawatomie and Wabaunsee counties and their respective municipalities and unincorporated areas. Through open communications, shared data resources and professional expertise the Council provides leadership support, cooperation and technical assistance across all government and civic sectors of these counties and beyond.

In 2013, the City partnered with Junction City and Geary, Pottawatomie and Riley Counties to create the Flint Hills Metropolitan Planning Organization (FHMPPO). The FHMPPO allows the region to cooperate in planning transportation projects and strategies as per State and Federal regulations. The organization is housed and managed within the offices of the Flint Hills Regional Council.

The City will continue to seek opportunities available through joint partnerships and cooperation with other municipalities and government entities. Currently, the City is engaged in an intergovernmental support partnership of mutual benefit with Fort Riley, Junction City, Riley County and Geary County for joint training opportunities and equipment sharing. This not only serves the interests of Manhattan citizens but also the interests of citizens across the region.

Economic Development

In 2002, the voters of Riley County passed a County half-cent sales tax for Roads and Jobs to replace the half-cent sales tax which was being collected to pay off the Law Enforcement Center bonds. On November 6, 2012, voters approved a renewal of the sales tax for an additional ten years. The City Commission has committed to use these funds for economic development initiatives including traditional incentives, infrastructure projects, and property tax relief. It will be the future focus of the City Commission and City Administration to use these funds in the most advantageous way possible.

Funds from the previous economic development sales tax are being directed toward several different industry sectors. One of the largest investments is the City's \$5 million commitment toward the National Bio and Agro-Defense Facility (NBAF). This facility will be a state-of-the-art bio-containment facility for the study of emerging and zoonotic (transmitted from animals to humans) diseases that threaten U.S. animal agriculture and public health. The Central Utility Plant is currently under construction while the main facility is not anticipated to be completed until 2019 with operations beginning by 2020. The impact to the Manhattan community during this lengthy construction period is expected to be significant with more than 1,600 construction jobs on site during the construction timeframe. Once the facility is fully operational, it will support 560 direct and indirect jobs in the Manhattan area.

In April 2014, the City Commission approved an economic development agreement with Tallgrass Brewing Company, Inc., a local microbrewery in Manhattan. The company purchased a 58,000 square foot building located in the Corporate Technology Park and has dedicated \$3.2 million for renovations, equipment and improvements to the property. The agreement included a \$430,000 forgivable loan, which will be paid in a series of installments provided performance measurements are achieved. The company has pledged to create forty new jobs over the next ten years.

Infrastructure Investment

The most significant infrastructure improvement completed in 2014 is the K-18 improvement project from Ogden to Manhattan. This \$96 million project is financed by funds from the 2009 American Recovery and Reinvestment Act (ARRA). The K-18 project includes three interchanges, one of which supports the municipal airport; four bridges; a four-lane freeway; and drainage improvements. The project was identified to support the significant population and economic growth that has occurred between Fort Riley and Manhattan. Total estimated economic impact is \$121 million. The City contributed \$1.25 million to ensure construction of an interchange near the municipal airport.

Wildcat Creek Lift station and the Western Interceptor project are now completed. This lift station upgrade with new larger pumps includes a new force main that has the capacity to serve roughly one-third of the total acreage in western Manhattan. These two projects have set the stage for continued growth on the west side of the community including Eureka Valley, Lee Mill, Grand Mere, and Scenic Meadows areas.

The CiCo Detention project is scheduled to begin in 2015. This project will construct two large detention ponds south of Kimball Avenue and north of Dickens Avenue. The size of the ponds has the potential to reduce runoff and reduce flooding to downstream properties. The CiCo Tributary is one of four minor tributaries that drain into Wildcat Creek.

The Blue Township water tower and main project began construction in 2014 starting with the foundation of a new water tower north of US-24 along Excel Road in Pottawatomie County. A sixteen inch water main from Heritage Square will extend east along US-24 to Excel road then enter into a pumping station that will supply the water tower. This project will allow for new commercial development along the US-24 corridor by increasing water pressure and volume for fire protection.

Communication and Service to Citizens

Modifications to the City's website are planned for 2015. In addition to the city's website, there are several online resources for citizens including utility payments, parks & recreation registrations, citizen requests or comments, and a media center to allow 24/7 viewing of current and past City Commission meetings. The City continues to explore additional resources which promote transparency to our citizens.

The Citizens' Academy continues providing quality public interest education to citizens by highlighting each department and function of City government. 2015 will mark the eighteenth anniversary of this successful program.

Conclusion

As the 2015 Budget was developed there were many discussions related to the challenges of how best to address community growth while maintaining quality services to citizens at a reasonable cost. I believe that the 2015 Budget will serve the citizens of Manhattan well as a reasonable response to our growing population and the community's future.

Respectfully,

A handwritten signature in black ink, appearing to read "Ron R. Fehr". The signature is written in a cursive, flowing style.

Ron R. Fehr
City Manager