



**EL DORADO**  
THE FINE ART OF LIVING WELL

May 23, 2018

**Honorable City Commission and Citizens of El Dorado:**

The City of El Dorado, Kansas finished the year ended December 31, 2017 with an aggregate net position of \$38,399,410 compared to an aggregate net position of \$38,176,062 at year ended December 31, 2016. This information is meaningless unless we consider its purpose. The ultimate goal of the City's financial statements is to determine whether the City is financially healthy.

This past year, the City's financial health was not in the best of conditions. Several funds were experiencing depleting reserves as such funds were spending more than was coming in from revenue sources. The City was not making the tough decisions necessary to resolve the underlying structural trend. Further complicating matters, the City had been facilitating this spending habit for a few years.

As I mentioned in last year's report, financial health for a municipality is defined as a local government's ability to deliver the public services its residents expect, with the resources its citizens provide, both now and in the future. Despite the financial situation the City found itself in, I confidently say that the actions taken by the City during 2017 will put the City's finances back on track to success without greatly undermining the public services the community has come to rely on.

The last year has been one of difficult decisions for both the governing body and staff. We have taken on this challenge and have placed the City in a much better position for the effort put in by all parties. I am truly grateful for the hard work everyone has done to develop and implement the 2017 budget. The financial statements contained with this letter will provide you the financial information you need to better understand the City's financial condition. I hope the information will enlighten you.

**WHAT THE CITY HOPES TO ACCOMPLISH**

The City's financial statements must provide the general public with enough information to determine whether the municipality will continue to provide public services, at a price residents are willing to pay, in the near- and long-term time horizons. The City hopes to provide sufficient information to allow the public to confidently trust its ability to meet the public's needs.

This task is further complicated by these facts: 1) tastes and preferences change; 2) time moves on without missing a beat; and 3) the City cannot control the uncontrollable. There are many factors that the City, and its elected and appointed officials, simply cannot affect. Even so, successful management and staff are able to use the available resources to continue providing services at a level that meets or exceeds the public's demands.

**HEADWINDS AND TAILWINDS**

As with any organization, the City of El Dorado operates in an environment that is subject to the ebb and flow of various factors. Such factors affecting the 2017 financial statements include, but are in no way limited to the following:

Continued Fiscal Pressure. As previously mentioned, several of the City's primary funds were operating with structural deficits, meaning the City was spending more from these funds than the annual revenue being brought in during the year. In some cases, the practice of "spending down reserves" could have been strategic. In others, it was likely caused by loose budgeting that would be managed throughout the year.

There are few options for addressing structural deficits: 1) increase revenues; 2) decrease expenses; or 3) do a combination of both. While staff may prefer more revenue in lieu of further spending reductions, the political realm we work in must acknowledge an invisible price of government that may not be surpassed from the taxpayer's perspective. Thus, the City Commission took actions that both increased revenues and decreased expenditures. This formula allowed the City to maintain public services to the greatest extent possible, while recognizing that new revenues would quickly correct the trend and allow the City to reinvest in its infrastructure and service delivery.

The City, like many governments, operates in an environment of perpetual fiscal constraint. The primary reason is economic; scarce resources cannot address the seemingly infinite challenges facing society. Government spending is merely a reflection of the public's priorities for these resources. The resources available to government are also not growing at a rate that allows more to be done. It is rare that the public sector obtains a 15% rate of return on its investments. Infrastructure and public services rarely yield double digit growth rates, and if so, only for short periods of time. The needs, however, do not stop and seem to compound themselves. The divergence between available resources and public demands create the fiscal pressure that the City must work through each and every year.

Rising Health Insurance Costs. The City's employee health insurance plan increased in cost by 6.5% for the 2017-18 plan year, which represents an increase of about \$63,500. The Public Works Department gave up one maintenance worker position for the year and the City discontinued its wellness program, which was previously paid for out of the self-insurance fund, to absorb the increase without directly affecting the employees. The City has taken proactive steps to manage its health insurance costs over the last few years by increasing premiums, deductibles, and maximum out-of-pocket expenses. Conversations about these continue throughout the year to prepare for upcoming increases.

Salaries and benefits comprise the main ways a company or government can attract quality employees. As a government entity, salaries of the City are typically lower than the private sector equivalent but the City's health insurance plan helps bridge the gap for employees. The benefit of the health insurance plan is attractive for those who desire a career in public service while still desiring a quality benefits plan. The City would likely have a more difficult time recruiting qualified (and quality) employees without having the combination of salary and benefits currently offered employees.

Underfunded Public Pensions. The City of El Dorado participates in the Kansas Public Employees Retirement System (KPERs) for its post-employment retirement benefits. Employees of the City are required to participate in KPERs, and the City is required to contribute to KPERs on employees' behalf. Recent changes to state law require the City to publish in its financial statements the current and future liability associated with the unfunded portion of KPERs attributed to the City. The City's unfunded pension liability as December 31, 2017 totaled \$7,741,878 compared to \$7,980,756 from a year ago. The pension liability may be subdivided as follows: KPERs at \$3,608,956, Kansas Police & Fire (KP&F) at \$3,929,095, and the Library's participation in KPERs at \$203,827.

Recruitment Challenges. Recruitment is perhaps the most critical challenge to the City's current level of service, and 2017 was no exception. During the year, the Police Department, Public Works Department, and Public Utilities Department experienced challenges in filling vacant positions. It goes without saying that people are the City's most important asset because in a service-oriented government, people provide services directly to citizens.

Some of these challenges were likely caused, at least in part, by external factors outside of the City's control. The riots and unrest in Ferguson, Missouri and other communities changed the national landscape for law enforcement. What was once considered a noble trade seemed to lose credibility with the general public throughout the nation. As a result, interest in serving as a police officer seemed to wane as young people considered different options for a career. The City's application pool for new police officers went from being in the hundreds to barely reaching twenty.

Other departments, like Public Works and Public Utilities, are having a more difficult time finding qualified candidates who want to work. These positions require a certain type of individual who enjoys working outdoors in an environment similar to construction. The City's wages may not be as competitive as the private sector, which pushes laborers to jobs beyond the public sector.

In departments that have experienced a tougher recruiting environment, the City has taken a more proactive approach and has tried many different and innovative ways of reaching out to prospective employees. Job fairs, Facebook advertisements, and face-to-face recruiting are just some of the ways departments are working to recruit the next generation of employees. The City is also reviewing its pay plan to determine if adjustments are necessary to compete with the private sector.

Property Tax Lid. During the 2016 legislative session, the Kansas Legislature passed and the Governor signed a bill that established a limit on the City's ability to raise ad valorem property taxes. The City is now limited to increasing its mill levy, or rate of taxation on real property, to the Consumer Price Index. The legislation became effective July 1, 2016, and first applied to the City's 2017 budget and subsequent future budgets.

The property tax lid is not ideal, although cities throughout Kansas have had a year to adapt to its implementation. The City was able to increase its mill levy by about five mills (which generated about \$420,000 in new revenue) to provide much needed revenue to the General Fund as a means of addressing some of the financial challenges previously discussed. A property tax increase is highly unlikely in the near future, especially considering the property tax law. The City will see some relief in the form of maturing tax abatements that will increase the overall tax base. Indeed, over the next decade these expiring abatements will increase the City's tax base by about \$33.8 million, translating into about \$406,000 in new property tax revenue at the present mill levy.

## **RESTRUCTURINGS AND/OR MAJOR ORGANIZATIONAL CHANGES**

In the short time that I have been employed by the City of El Dorado as City Manager, I have observed the organization and feel that there are several opportunities that would allow it to operate more efficiently and effectively. While restructuring events are often lipstick for management's unwillingness to address more problematic issues within an organization, careful consideration has brought the conclusion that restructuring in certain instances will benefit the organization and the general public the City is charged with serving. Ideally, the general public will not even notice any changes in the service delivery.

The Prairie Trails Golf Course was placed under the management of the Parks and Recreation Department. Golf is a form of recreation that some prefer over other forms of recreation, and therefore it made sense to move the golf course under the direct supervision of the Parks and Recreation Department instead of reporting directly to the City Manager. Prairie Trails still receives some financial assistance from the General Fund and is attempting to develop a business plan that will allow the golf course operations to break-even in the next few years.

The human resources function is now managed by a committee, with a Human Resources Specialist handling the daily responsibilities of organizing the City's internal personnel services. While not ideal, this method of administering the human resources of the organization allows a brain trust to review and discuss options before making decisions that affect personnel within the organization with the goal of minimizing the opportunity for missteps. The change is primarily the result of financial circumstances the City continues to negotiate. The City's ultimate goal is to hire a full-time Human Resources Director when sustainable resources allow.

### **GOOD NEWS, BAD NEWS**

There is always good and bad news that may be discovered when looking at a municipality's financial statements. Many local governments, however, will require readers to do the work of searching for the bad news while disclosing the greatness of the organization. In the interest of full disclosure, current management is of the opinion that citizens (and investors of the City's bonds) are entitled to a transparent discussion of the City's financial condition without requiring a degree in accounting or public finance.

To that end, the City has been operating a structural deficit in several of its operating funds for the last several years. The good news is that the City is in the process of developing a plan to remedy the situation and "right the ship." Changing a government's spending habits can be a challenging task, and one that should not be taken lightly or without much thought. Throwing darts at a dart board with your eyes closed may allow you to hit a target, but you may not hit the target you intended.

The City has revised its operational budget for 2017 by decreasing proposed expenditures by approximately \$1.3 million. An additional \$0.5 million has been reduced from the proposed 2018 budget. Expenditure reductions include, but are not limited to:

- Modification of legal services contracts for the City;
- Deferring major capital projects and replacement of vehicles and equipment;
- Closing unfilled, vacant positions that were included in the budget but not offset with a revenue source;
- Reduction of various transfers from various funds one fund to another;
- Changing the way various positions were allocated across funds of the organization;
- Reducing hours of operation at the municipal pool and activity center, and closing the operation of the Prairie Trails Golf Course pool; and
- Discontinuing the mosquito spraying program.

In addition to expenditure reductions, the City is also looking at opportunities to increase revenue to fund increases in the cost of service delivery. The City Commission increased the readiness-to-serve fees for both water and sewer utilities to increase revenues to offset debt obligations in these utilities. Court costs were also increased to recover the City's expenses in administering Municipal Court. Other sources of revenue are being reviewed and may be considered if

determined to be feasible options to generate revenue. The City is also undertaking a review of all of its existing fees and making adjustments that will bring in additional dollars.

The task at hand has not been an easy one, although staff has been very cooperative and willing to consider the options.

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The City is required to provide language in its transmittal letter, included with its Comprehensive Annual Financial Report (“CAFR”) that explains the policies and controls designed to ensure the City’s stewardship of public assets. I will briefly discuss these items in this next section of the letter.

The Comprehensive Annual Financial Report of the City of El Dorado, Kansas, for the year ended December 31, 2017, has been prepared for the review of the governing body, citizens, and other interested in the financial condition of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. Staff believes the data as presented is accurate in all material respects and that it is presented in a manner designed to fairly represent the financial position and results of operations of the City measured by the financial activity of its various funds. Disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activity have been included.

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to warrant that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. Management believes that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Generally accepted accounting principles, also known by the abbreviation GAAP, require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (also referred to as MD&A). This Letter of Transmittal is designed to complement the MD&A section, and should be read in conjunction with it. The MD&A section of the report may be found immediately following the report of the independent auditors.

#### **INDEPENDENT AUDIT**

State statutes require an annual audit of the books of accounts, financial records and transactions of all departments of the City be performed by independent certified public accountants. Berberich Trahan & Co., P.A., conducted an independent audit of the City’s financial statements, and their opinion has been included with the financial statements. Interested persons are encouraged to refer to their opinion in reviewing the City’s financial statements.

## **RELEVANT FINANCIAL POLICIES**

The City of El Dorado's "General Financial and Budgetary Policies," adopted by Resolution No. 2849, have been included with the Comprehensive Annual Financial Report for your information. I would recommend readers who are interested in reviewing these policies refer to the table of contents to determine where the policies are located in the document. These financial policies provide the framework with which the City is working to resolve the financial challenges discussed earlier, and will provide readers with a better understanding on how the City will manage its finances differently than in the past. There were no changes to these policies during the year.

## **ECONOMIC CONDITION AND OUTLOOK**

### Private Sector Investment:

The City of El Dorado continues to maintain a positive investment environment in the private sector. BG Products, Inc. committed to the construction of a \$24.2 million warehouse and distribution center in El Dorado. The project will commence construction in 2018, and is expected to create fifteen jobs when completed. Pioneer Balloon Company committed to a \$10.0 million expansion of its El Dorado facility that is expected to begin in 2018. The company expects to create fifty-three jobs as a result of the investment.

The City established two Community Improvement Districts (CIDs) to assist with the renovation of anchor hotels in the community. The seventy-three room Red Coach Inn, owned and operated by HRSP LLC, obtained a 2% CID sales tax to finance a \$1.1 million renovation. The sixty-three room Holiday Inn, owned and operated by Central Kansas Properties, also obtained a 2% CID sales tax to finance a \$1.1 million renovation. Both projects will be completed in 2018.

The City also established a CID to assist with the financing of a \$1.89 million renovation and expansion of 20,000 square feet of retail space owned and operated by Gumwalt Zuffey Properties, LLC. The overall project is expected to create about ten new jobs.

Other new construction included a \$0.35 million investment by the Commercial Investment Group and \$0.16 million in storage units owned and operated by Eddie Dean. Vintage Bank also renovated its El Dorado branch with an investment of \$0.35 million that will result in the creation of about five new jobs.

While not private sector investment, Unified School District No. 490 has undertaken a significant investment in its school facilities. The School District committed \$32.3 million to construct two new elementary schools to replace facilities that were originally constructed in the 1950s. Construction started on these facilities in 2017, and the buildings will be completed and ready for school in August 2018. The School District also committed to the conversion of a former school building to a renovated performing arts building to serve the community.

In 2017, the City experienced private development activity that contributed \$39.2 million in valuation. Six building permits were issued for new commercial development with an aggregate valuation of \$26.5 million, compared to five new commercial developments in 2016 with a valuation of \$5.7 million. In 2017, the City issued twenty-six building permits for commercial additions, remodels, and repairs with a valuation of \$8.4 million. Comparatively, the City issued twenty-three building permits for similar activity with a valuation of \$1.7 million in 2016.

The City issued twenty residential building permits for new construction with a valuation of \$3.8 million. The City issued nine building permits for new residential construction in 2016 with a valuation of \$1.9 million. Sixty building permits were issued in 2017 for residential additions,

remodels, and repairs, with a valuation of \$0.60 million. In 2016, ninety-four building permits were issued for the same activity with a valuation of \$0.84 million.

To assist the development of moderate income housing, the City applied for and received a \$190,000 Moderate Income Housing grant from the Kansas Housing Resources Corporation. The program will provide first-time homebuyer down payment assistance and financial assistance to developers building new residential properties meeting moderate income requirements.

The City also hosted several prominent events that contributed to the local economy. BG Products Veterans Stadium hosted the Kansas Shrine Bowl, Drums Across Kansas, and an AAU regional track meet. The economic impact of these three events is estimated at \$1.4 million in direct and indirect benefits as well as \$18,740 in local sales taxes and hotel guest taxes. The Dam Music Festival was also hosted at El Dorado Lake, providing a unique music experience in El Dorado. The City, and its various partners, continue to look for ways to bring more events to the community.

**Public Sector Investment:**

The City decreased its investment in public infrastructure during 2017 primarily to help shore up several funds as a temporary strategy to strengthen the City's financial condition. In 2017, the City invested \$2.9 million in various public infrastructure projects compared to \$4.2 million in 2016. These projects include:

- 12<sup>th</sup> Avenue Mill and Overlay Project from Main Street to the city limits (\$203,672);
- Central Avenue Resurfacing Project from Jones to Summit (\$150,958);
- Haverhill Resurfacing Project to School (\$178,776);
- Overlay of Walnut Valley Cemetery and Sunset Lawns Cemetery roads (\$93,625);
- Airport Parking and Road Mill and Overlay Project (\$61,126);
- North Haverhill Widening Project (\$51,698);
- Sanitary Sewer Extension Project (\$420,294) and Country Club Road Extension Project (\$1.29 million) to support the new Grandview Elementary School currently under construction;
- Construction of the 18-hole El Dorado Disc Golf Course at Legion Park (\$65,000);
- Acquired a building for a new Parks Department maintenance building (\$209,000);
- Engineering Department Solar Lighting Project (\$18,000); and
- Refuse Truck Acquisition (\$189,935).

In addition to these major projects and acquisitions, the City completed various maintenance projects throughout the community.

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**RECOGNITION**

It goes without saying that a municipal government cannot operate and provide public services without a dedicated workforce. The financial statements merely articulate the numbers associated with the provision of such public services; the employees of the City work each day towards the task of serving the public in a myriad of different ways that ultimately make El Dorado a great place to live, work, and play. On behalf of the City, I am extremely appreciative of their hard work and effort in making El Dorado a great community. Department Directors and supervisors are also commended for their efforts in managing the daily activities of the municipal government.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of El Dorado, Kansas for its comprehensive annual financial report for the fiscal year ended December 31, 2016. This was the fortieth consecutive year that the municipal government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a municipal government must publish an easily readable and efficiently organized comprehensive annual financial report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. It should also communicate the City's financial condition in a manner that allows the public to understand such condition and affirm the City's spending meets prudent standards and public expectations.

The Certificate of Achievement is valid for one year period only. The City believes that the comprehensive annual financial report for year-ending December 31, 2017 continues to meet the Certificate of Achievement Program's requirements and will submit it to the GFOA for consideration for another certificate.

Respectfully Submitted,



David B. Dillner  
City Manager



Tammy Schaffer  
Finance Director