

CITY COMMISSION AGENDA MEMO
May 18, 2009

FROM: Bernie Hayen, Director of Finance

MEETING: May 26, 2009

SUBJECT: First Work Session on the 2010 City Budget and 2010-2015 Capital Improvement Program

PRESENTER: Bernie Hayen, Director of Finance

BACKGROUND

Every year, there is an extensive budgeting and planning process that begins in earnest around March and involves City Management, the Department of Finance, and virtually every Department/Division of the City. The budgeting process includes preparation of budgeting and capital planning worksheets for City Departments to complete and for Management to review prior to this information being presented to the City Commission.

Under State law the annual budgetary process is left up to each municipality across the state of Kansas. However, there is a uniform standard that every municipality required to submit a budget must complete their internal reviews and budget adoption process by August 15th of each year.

As required by the City Manager, the Finance Department must submit preliminary information related to the entire 2010 City Budget to his office for review and discussions with each City department director or manager. At that time, Management reviews all requests and either (1) allows an item to stay in the budget for further review and consideration, (2) modifies an item, (3) moves an item to another timeframe, or (4) deletes an item altogether. This internal process is always accomplished *prior* to the first budget work session with the City Commission.

DISCUSSION

This memorandum summarizes the detailed information that has been distributed which is related to the 2010 City Budget and 2010-2015 Capital Improvements Program. In particular, this memo will focus on the budget challenges facing the City's General Fund and the Bond & Interest Fund.

In particular, the City's Bond & Interest Fund, as previewed on several occasions with the City Commission, will experience a significant mill levy increase in 2010 due to the many projects associated with city growth in the past few years. Most likely, additional increases to this Fund's mill levy will also be required in the near future.

Overall, the proposed 2010 City Budget will increase over the 2009 City Budget due to a number of issues related to both this growth across the City as well as future projects that will have an effect on the City's budgeting process and property tax rates in 2010 and beyond.

General Fund

As proposed, the 2010 General Fund budget reflects a \$ 1,514,689 increase over the 2009 General Fund Budget or about 6.8%. However, the additional property taxes associated with this proposed increase is negligible, amounting to less than \$6,000. This preliminary increase suggested by Management and Administration for the 2010 General Fund budget is reflected in the following increases compared to the 2009 General Fund budget:

Personnel Expenses

| | |
|---|---|
| Cost of Living Adjustment (COLA) | \$ 0 |
| 2010 Merit (1%) | \$ 51,761 |
| Increase due to certification, classifications, promotions, licenses, and Union adjustments | \$340,235 |
| New employee position | \$ 40,904 (related to rental inspections and revenue neutral) |
| Extra Pay Period | \$ 491,300 |
| Temp/Seasonal/Other | \$ 51,854 (increase mostly related to Swimming pools) |
| Employee health insurance increase | \$ 250,000 |

Operational Expenses

| | |
|---------------------------------|-------------|
| Contractual services | \$ (59,526) |
| Commodities | \$ (765) |
| Debt service and lease payments | \$ 72,458 |

Capital Improvements

| | |
|------------------------------|---|
| Capital improvement spending | \$ 65,167 (related to rental inspections and revenue neutral) |
|------------------------------|---|

Budget Reserves & Other

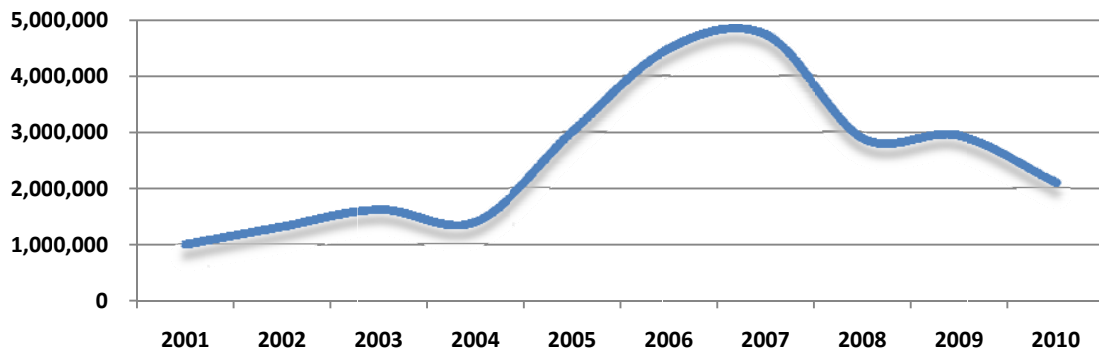
| | |
|----------------------------------|---|
| General fund reserves | \$ 0 |
| Grants, transfers, other charges | \$ 211,301 (due to Outside Agencies and a small increase in General Services) |

One item that dramatically impacts the General Fund budget in 2010 is the addition of an extra payroll period, an occurrence that happens about once every 10 years. This unusual payment alone accounts for about \$ 491,300 in property taxes or a mill levy of about 1.3 mills. In addition, investment income budgeted for the General Fund in 2009 is expected to be down by more than \$300 hundred thousand by the end of this budget year.

A troubling aspect of the 2010 General Fund budget and the budget years that follow, is the continuing downward slide of ending cash balances. For most of this decade, the Finance Department has forecasted revenues conservatively and expenditures more liberally which has produced ending cash balances that, in 2007, reached nearly \$5 million.

However, with annual operational expenditures continuing to increase due to unprecedented community-wide growth coupled with an attempt to keep General Fund property tax levies low, ending fund balances have slowly declined.

As a result, the Finance Department is projecting a 2009 ending cash balance of less than \$2.1 million. The current multi-year forecast suggests that this decline will continue unless two things happen in tandem — a return of *both* assessed property valuation *and* local sales taxes growing at a rate of 6% to 8% annually.



Overall, the General Fund for 2010 represents a modest 2% increase in spending over 2009 *after* certain budgeted items have been reserved (such as the City’s new rental inspection program).

Bond & Interest Fund

The City’s Bond & Interest Fund is the primary account from which annual principal and interest payments are made on debt issuances that have been approved by the City Commission.

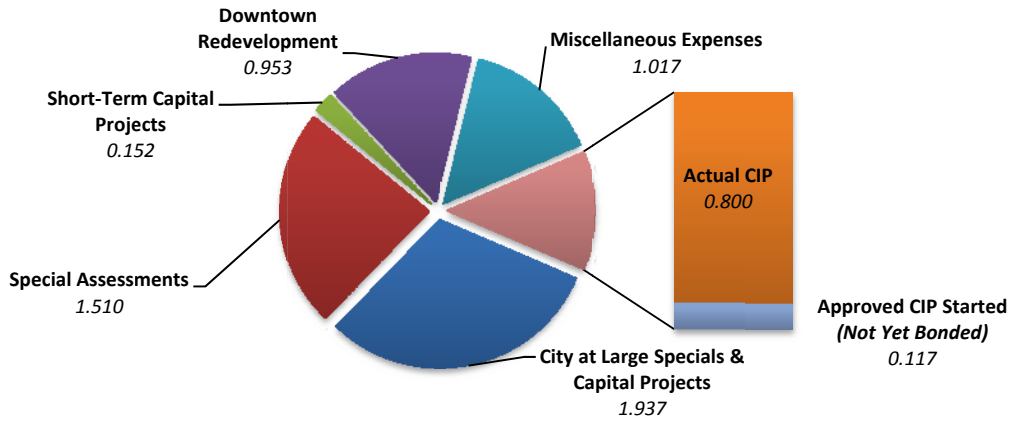
The Bond & Interest Fund has continued to grow as the number of new city-wide benefit districts and related special assessments have increased across the city. Many benefit district improvements have direct city-at-large costs that are incurred due to over-sizing of utilities, wider streets, drainage improvements, trails, and other such

amenities. These costs are paid directly from property taxes levied in the Bond & Interest Fund.

As a direct result of this growth, it is anticipated that the Bond & Interest Fund budget will increase by about 20% in 2010 in order to meet the special assessment and the city-at-large bond payments that will be coming due. Part of this proposed budget increase will be used to grow fund reserves from \$498,000 this year to \$1,000,000. This significant increase in reserves is intended to off-set any delinquencies in 2010 special assessment payments and to make up any other revenue shortfalls that may occur in the Bond & Interest Fund.

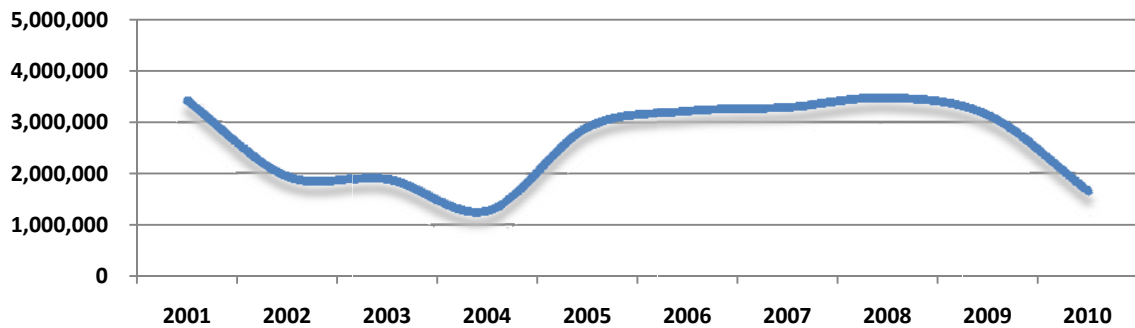
It is also important to note that the City’s bond rating agencies (including the City’s newest rating agency, Standard & Poor’s) have all noted the importance of adequate and growing reserve funds for both the General Fund as well as the Bond & Interest Fund.

The following graph reflects the possible tax levy requirements of this fund for 2010 which is currently projected to increase by 4.73 mills from the 2009 levy of 1.36 mills:



[Note: See the detailed listing of projects on pages 177 and 178 of the attached budget document.]

In addition, ending cash balances in the Bond & Interest Fund also are anticipated to decline by the end of 2009 as depicted in the graph below:



The previous cash balance decline that occurred in 2002 was due to an adjustment by the Riley County Treasurer adjusting the manner in which special assessment taxes were distributed to the City.

In part, the projected decline in the 2009 ending cash balance is attributed to reducing the reserves in the Bond & Interest Fund this year to \$498,000.

Special Revenue Funds

It is anticipated at this early stage that most special revenue funds will not increase appreciably in 2010 compared to their 2009 budgets. However, the Riley County Police Department budget will see a budget increase of 6.2% along with the budgets of the City Library which is proposed to increase by 4% and the Health Department which is proposed to increase by 6%. All of these budgets are supported primarily by property tax levies.

It should be noted that, for the past three budget years, sales taxes were transferred to the Library budget to help balance the overall mill levy of the City. This transfer was reduced in 2009 and will be discontinued in 2010 and, as a result, property taxes will increase slightly in the Library Fund.

Also, the Tourism & Convention Promotion Fund does not reflect a possible increase to the City's "bed tax." This discussion and possible approval of a new charter ordinance raising the rate is scheduled for a legislative decision in the near future. There is not a property tax implication associated with this issue.

Enterprise Funds

During last year's 2009 public budget hearing, the City Commission agreed to implement a 7% increase to water rates effective in January, 2009. At that time, City Administration recommended to postpone further rate increases planned on an annual basis to see if they were warranted. City Administration will be recommending another 7% increase to water rates effective in January, 2010.

In addition, federal and state mandates continue to require substantial rate increases for several years in order to pay for improvements to the City's wastewater treatment facility. City Administration will be recommending a 25% increase to wastewater rates effective in January, 2010.

Although the City's Stormwater Fund is in much improved financial condition as the result of recent rate increases, it will be necessary to again increase fees by a recommended 7% in order to continue to improve and maintain the City's stormwater system.

The table on the following page shows the effect of these proposed rate increases on a typical monthly billing for a residential and commercial customer:

| Utility | Residential | | Commercial | |
|-------------------|-------------|----------|------------|----------|
| | Current | Proposed | Current | Proposed |
| Water | \$18.46 | \$19.75 | \$91.33 | \$96.81 |
| Wastewater | \$18.61 | \$23.26 | \$87.41 | \$109.26 |
| Stormwater | \$3.50 | \$3.75 | \$5.68 | \$6.08 |

Capital Improvement Program

The City’s overall capital improvement program (CIP) is proposed to decrease significantly to \$14,103,800 in 2010 from \$38,595,702 in 2009. The CIP budget impact for the General Fund in 2010 is proposed to be \$359,650 compared to \$294,483 in 2009.

This CIP increase of \$65,167 is directly associated with the rental inspection program and is revenue neutral. Please note that citizen requests which are part of the 2010-2015 Capital Improvement Program booklet can be found under the “Citizen Request” tab. These requests are not funded in the 2010 CIP. If desired, these projects would have to be added to the 2010 CIP and revenue identified to fund these requests.

New Employee Positions

There are several proposed changes to the City’s employment structure within the 2010 City Budget including a new position associated with the City’s designation as an entitlement community (see the new special revenue budget called “Federal Entitlement (128)” found on pages 172 and 173 of this budget packet).

The following table summarizes these proposed employee positions:

| | |
|--|---------------------------|
| New Positions & Other Changes | 2010 Budget Impact |
|--|---------------------------|

General Fund

| | |
|--|----------|
| <i>Rental Inspector added in 2010 *</i> | \$40,904 |
| <i>Secretary/Receptionist (rental inspection related/part-time in 2009 to full-time in 2010) *</i> | \$24,648 |

Increased personnel charges at Municipal Court for extended operation, including new City Prosecutor 122,159

Special Revenue Fund

*Planner II (CDBG Grant Coordinator) ** \$24,800

[* **Note:** These two positions are funded from rental licensing fees, the Planner from grant proceeds.]

Summary

Since this is the first work session on the 2010 City Budget and 2010-2015 CIP, it is probable that additional changes—both increases as well as decreases—will occur before the next scheduled work session later in June. The following is the current calendar regarding the 2010 City Budget and 2010-2015 Capital Improvement Program:

June 9th Second work session with the City Commission on proposed 2010 Budget and 2010 CIP. *(Second Tuesday)*

June 23rd Third work session with the City Commission on proposed 2010 Budget and 2010 CIP plus outside agencies appear before the City Commission to present 2010 funding requests. *(Fourth Tuesday)*

July 14th Fourth work session with the City Commission on proposed 2010 Budget and 2010 CIP. *(Second Tuesday)*

July 21st Publish notice of 2010 City Budget and CIP public hearing on August 4th.

August 4th Special Meeting for required Public Hearing on the 2010 Budget and CIP and first reading of an ordinance to approve the 2010 Budget and the amended 2009 Budget for select funds if necessary. *(First Tuesday)*

August 18th .City Commission approves second reading of an ordinance approving the 2010 Budget and CIP and amended 2009 Budget for select funds if necessary. *(Third Tuesday)*

Please note that the above budget calendar may change at the discretion of Management and the City Commission.

Similar to past years, City Administration continued a budgeting process for 2010 involving Finance staff as well as key staff in every major City department who were responsible for entering their own budget data plus CIP projects and equipment.

A special thank you should go to Emily Heim, Budget Officer, who is coordinating the entire 2010 budgetary process and also to Pamela Jager and Matt Wolfe, Budget & Audit Analysts, Rina Neal, Operations Officer, and Gulden Celebi, Senior Accountant, who all worked on various components within the City Budget.

ALTERNATIVES

The Commission has the following alternatives concerning the issue at hand. The Commission may:

1. Provide direction regarding any issue, revenue source, or expenditure discussed in the 2010 City Budget and 2010-2015 Capital Improvement Program as presented.

RECOMMENDATION

City Administration recommends that the City Commission propose changes to the proposed 2010 City Budget and 2010-2015 Capital Improvement Program as presented.

POSSIBLE MOTION

No motion is needed since this is an informational work session.

Attachments:

1. 2010 Budget Overview
2. 2010 City Budget detail
3. 2010-2015 Capital Improvement Program detail