Special Call Meeting

THE LEAWOOD CITY COUNCIL

March 12, 2003

MINUTES

Audio Tape No. 578

The Governing Body of the City of Leawood, Kansas, met for a Work Session at City Hall, 4800 Town Center Drive, at 5:30 P.M. on Wednesday, March 12, 2003. Mayor Peggy Dunn presided.

Councilmembers present: Jim Rawlings, Louis Rasmussen, Gary L. Bussing, Scott Gulledge, and Mike Gill.

Councilmembers absent: Patrick Dunn, Shelby Story, James E. Taylor, Sr.

Staff present:
Scott Lambers, City Administrator
Joe Johnson, Director, Public Works
Kathy Rogers, Director, Finance
Kathy Byard, Budget Coordinator
Chris Claxton, Director, Parks and Recreation
Deb Harper, City Clerk
Emily Watson, Deputy City Clerk

Mayor Dunn called the meeting to order at 5:50 P.M., to discuss Capital Improvement Projects (CIP) for 2004-2008. Scott Lambers stated the purpose of the meeting was to arrive at a conclusion in regards to CIP, to help streamline the budget process, with Kathy Rogers presenting an overview of the assumptions that go into the CIP. The objective of the meeting was to determine if the current CIP plan should remain as is or if changes should be made, taking the current fiscal situation into consideration. Mr. Lambers stated that he would be expressing the financial requirements to achieve the financial goals of the City in terms of mill levy equivalencies, with the mill levy equivalency being defined by either revenue enhancement or expenditure reductions to equal the amount necessary to achieve those financial parameters.

Ms. Rogers stated one of the big items in the assumptions is that Ironhorse would meet its debt service obligations, operating costs, and capital improvement and equipment needs over twenty-year issue. The City was assuming it will get special assessments back in a timely manner from the special benefit district properties. Currently the 1/8th cent sales tax was in the budget from 2004-2008 to support the mill & overlay projects and non-SMAC stormwater projects. There was a one-mill increase included in both 2004 and 2005 for the accelerated street program. In addition, the mill & overlay would be funded by the 1/8th cent sales tax monies and the general fund. The 1/8th cent sales tax would be a part of the $1 million in the general fund.

Councilmember Rasmussen stated that he believed a reasonable assumption was that Ironhorse could meet its debt service obligations and operations, but it could not meet the capital improvement costs. He asked that that assumption be changed. If the Governing Body accepted this assumption, it would mean Ironhorse would need to have a CIP program. Since 2003, none of the items on Ironhorse's Capital Improvement Schedule have been in the Budget and that the money would have to come from the Contingency Fund.

Councilmember Bussing stated he remembered that the Council accepted the Business Plan but the approval of the Ironhorse Business Plan had been deferred pending CIP and Budget discussions. Councilmember Rasmussen replied that the City Council approved the Business Plan, with the Capital Improvement section being deferred. Councilmember Bussing asked why Ironhorse could not pay for its operating costs and CIP, and pull the debt service, which was a predictable amount. Councilman Rasmussen replied that either way was acceptable in terms of developing the fee structure, and it was a reasonable assumption for the fee structure to cover the debt service. Mayor Dunn added that as this was an Enterprise Fund and without the debt, it would no longer be such but would go back into the General Fund.

Mayor Dunn stated CIP items are typically $100,000 or more, and the Ironhorse CIP items did not come close to this amount. Ms. Rogers stated some of the Ironhorse items could be bundled into a package.

Mr. Lambers said the issue of capital equipment would also not be subject to an assumption because we have circumstances where the General Budget would provide for capital equipment expenditures. An Enterprise Fund needed to have a positive balance at yearend; without that occurring, another transfer would be necessary in the year. If this assumption (Ironhorse) was to be changed, the other parts of the Budget would need expenditure assumptions for capital equipment, capital improvement, and a yearend transfer. It would have opportunity costs for other parts of the budget competing with those aspects of the Budget as well. This would be a significant policy change from the current assumption.

Mayor Dunn asked the Councilmembers present how they felt about the changing of the assumption. Councilmembers Bussing and Rawlings both indicated they would like more information before being totally sold on the idea. Mayor Dunn asked that Staff provide a report on the full range of alternatives. Chris Claxton stated it was her opinion that Ironhorse could not support any of their significant CIP's or equipment. Mr. Lambers concurred.

Mayor Dunn asked about the 1/8th cent sales tax that was to help fund the $1 million mill & overlay pay-as-you-go. She stated it had been sold as half accelerated and half non-SMAC. She asked if the $1 million was an acceleration; that she believed it had been $1.5 million. Ms. Rogers stated the City was switching from debting a large portion to maintaining $1 million to be used against the mill & overlay as a portion of that. Mayor Dunn asked if $1 million was enough. Mr. Johnson said the Street Department was in two parts: the accelerated part with $10.5 million over the next 4-5 years for complete rehab, and $1 million for complete mill & overlay. Currently they take $2 million and divide it up between the mill & overlay and rehab.

Ms. Rogers continued by discussing page 60 of the CIP concerning ratios. An item that has changed was the debt payout over ten years which was not as rapid as it once was because of longer term projects. The proposed mill levy would stay at 7.98%; which was high compared to the historical amount. The total debt service as percentage of expenditures was in the 20% range. New Benefit District projects were added in. There was more room for additional mill increases based on a calculation that was for valuation of property as compared to debt; Leawood was below the standard of 1.5.

Councilmember Gill stated he was comfortable with going over the 20% provided, George K. Baum advised Leawood that the City's bond rating would not be jeopardized. Mr. Lambers said that George K. Baum would attend the Monday, March 17, 2003 meeting wherein questions of this type would be addressed. Councilmember Gill also stated he was in full support of the benefit district financing, citing several benefits to Leawood of the plan.

Mr. Lambers said that the evening's meeting would lead into the March 17, 2003, meeting, specifically expenditure reduction. He went over the three CIP option scenarios. Scenario 1 would shut down the CIP in 2005, with no projects being done after that time. Scenario 2 would see the current CIP being completed with the exception of the accelerated residential street program. Scenario 3 would see the current CIP being completed including the accelerated residential street program. None of the scenarios assumed any mill levy or expenditure reductions to offset the impact on the City's budget.

Mr. Lambers continued that he felt the CIP was rational and conservative. If the City had to reduce spending, the first place to look would be the Capital Improvement Budget because it was an ongoing, long-term commitment with high cost. The downside would be the City would use that money to leverage other money. For that reason he felt Scenario 1 was not realistic. If funds were tight, he would suggest going to Scenario 2; however this would only further defer projects that were already being deferred and create a larger backlog. That would leave Scenario 3 as being the best choice. Mr. Lambers asked the Governing Body to decide which Scenario they would like to see utilized for budget planning purposes.

Councilmember Rasmussen felt Scenario 3 was the most rational. He said that despite the changes in the economic climate, the projects voted on were still needed for Leawood. He stated he had observed other companies and governments sacrifice during economic stress and their infrastructures had deteriorated. He also pointed out it was not just the Governing Body that had voted for these projects, but also the electorate, voting for improvements such as the park system.

Councilmember Gill agreed with Scenario 3, stating if there was a budgeting crisis, he felt the police facility should be the first item to defer.

Councilmember Bussing agreed with Scenario 3, stating if there was a budgeting crisis, the first place he would look would be at the CIP. The infrastructure was needed and was important, and the City needed to proceed with it.

Mayor Dunn stated Councilmember Taylor was also for Scenario 3. Councilmembers Rawlings and Gulledge agreed with Scenario 3. Mayor Dunn added she was also for Scenario 3.

Mr. Lambers presented a handout on the impact of each scenario on the financial parameters of the City. He stated that it was important to realize that by accepting a scenario, it would be a firm commitment for five years.

Mayor Dunn stated the 2.25 mill levy increase voted on by the voters had not been enacted yet.

Mr. Lambers advised that for the March 24, 2003, work session he would identify program reductions and expenditures for those programs the Governing Body would like to have considered as part of this process. He would do a fiscal impact on them and equate the reductions in terms of mill levy equivalencies.

There being no further business the meeting was adjourned the meeting at 6:40 P.M.

Emily Watson, Deputy City Clerk