Special Call Meeting

THE LEAWOOD CITY COUNCIL

February 2, 2004

Minutes

Audio Tapes Nos. 614

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 5:40 P.M., on Monday, February 2, 2004. Mayor Peggy Dunn presided.

Councilmembers present: James E. Taylor, Sr., Scott E. Gulledge, Shelby Story, Gary L. Bussing, Jim Rawlings, Mike Gill, Patrick L. Dunn, and Louis Rasmussen.

Councilmembers absent: **None.**

Public Finance Consultants, Inc.: Julie Carmichael
Stacy Miller

Staff present: Scott Lambers, City Administrator
Kathy Rogers, Finance Director
Kathy Byard, Budget Coordinator
Deb Harper, City Clerk
Emily Gleasure, Deputy City Clerk

75 **1. Discuss 2005-2009 Budget Assumptions and Budget Presentation**

Kathy Rogers discussed the Sales and Use Tax Analysis Report. She stated the City had a one-cent City general sales tax, a 1/8-cent capital tax, school tax money, and use tax. Ms. Rogers discussed the chart on page 2 of the Report that showed the several taxes combined over a 10-year period. She indicated that the use tax was beginning to increase. This could be accounted for by the passage of House Bill 2205 [HB-2205], wherein all out-of-state purchases that are used or consumed by Kansas businesses are not only subject to state sales tax, but also now to a local use tax. This meant an additional $500,000 of use tax was collected by Leawood between October and December of 2003 that had not been anticipated. She pointed out on the pie charts on page 3 of the Report the percentage of use tax had increased from 7% in 1994 to 13% in 2003, and was becoming a new source of revenue.

Mayor Dunn stated that when she attended the Leawood Chamber of Commerce Board Meeting, some people familiar with stores that had implemented early streamlined sales indicated that Shawnee, for instance, had experienced huge rates of growth, due in part to Nebraska Furniture Mart.

Councilmember Gill asked if there was a backlog of taxes, where there might be a one-time catch-up of payments. Scott Lambers stated that because the numbers could not be validated yet, the budget model showed a modest increase projected for the entire year. Next year at this time, the numbers should be more representative of the proposed sustainable growth rate in sales tax.

Councilmember Rasmussen confirmed with Ms. Rogers that because of the increase in use taxes, the reserves projected for the year-end of 2003 would be greater than projected in 2002.

375 Ms. Rogers discussed the Property Tax Base Analysis Report, stating that since 1994, the City's taxable property tax base had increased an average of 11% per year. However, this past year the tax base increased only 5%. She indicated that commercial property had grown faster than the residential property that has caused a shift in the property base. Accordingly, in the budget assumption, a conservative amount of 4-5% increase had been included. The City will meet with the Assessor in February, at which time the preliminary figures will be available for 2005.

514 Councilmember Gill confirmed with Ms. Rogers that the City would be built out in approximately 20 years. By the year 2013 or 2014, a new tax base model could be worked out to incorporate that anticipation. Within the Capital Improvement Project (CIP) was a policy to rapidly payoff debt. Most structures on debt were at 15 years, with the buildings and parks being at 20 years. Almost all of the projects have been done and the bond money bonded except for Fire Station No. 2, and funding for a Justice Center or Community Center. If those projects were started in 2009, it would be necessary to look ahead to see if the tax base would support the debt for an additional five years.

585 Scott Lambers stated the model represented a lot of assumptions being brought together, and it was important to look at the numbers as an average over a five-year span, and not at specific numbers for certain years. Mr. Lambers said the property tax was conservatively projected below what the trend would indicate, but should it not materialize, it could cause the City to be in a position it does not want to be in. Because of its volatility, the sales tax prediction was probable, with the use tax causing the numbers to change in the future. He stated that within the expenditure assumptions, the first two numbers were new. They were intended for use as a gauge as to the numbers presented that were in error to some degree. The City traditionally took in more money than was budgeted, and typically does not expend 100% of the budget. Therefore, it can be expected that the City would bring in 102% of revenue and 97-98% of expenditures.

682 Mr. Lambers pointed out that employees represented a large cost to the City both currently and in the future. Some of the costs such as pay increases and benefits could be controlled by City policy, while others were market driven.

Mr. Lambers indicated that the financial forecast was based on the assumption of the population growth continuing at a 2% increase each year. The ultimate build out would be approximately 40,000.

In discussing the first bar graph on page 5 of the Strategic Planning Model, Mr. Lambers noted the first line indicated the standard reserve of 11%, with the second line at 7% as the one-month cash requirement. He stated if reserves fell below 7%, the City would be insolvent. For Leawood's operating purposes, the 7% line represented zero. Mr. Lambers stated the chart showed that should the revenues and expenditures transpire without any new initiatives being proposed during the five-year period, the City would be financially secure through 2008. However, in 2009 the City would drop down to a level that would be unacceptable. With the next CIP, a proposal for a Justice Center or Community Center could change the outcome of the 2009 figures.

816 Mr. Lambers advised that instead of using the 1.5% mill levy increase or expenditure reduction in 2005, because of the change in the financial picture, an increase of 1 mill was deferred to 2006 and another .5 mill in 2007. If the sales tax revenues moved forward in the direction predicted, the mill levy could be reduced in the future.

In looking at the two charts on page 6 of the Strategic Planning Model, Mr. Lambers indicated that the City was on target with the thresholds of the reserves in the Debt Service Fund and the debt service as a percentage of all funds expenditures.

867 Mayor Dunn stated that Julie Carmichael and Stacy Miller of Public Finance Consultants had advised that Leawood was one of the few cities forecasting to this length of time. Ms. Carmichael stated that the unique aspect of Leawood's model was the incorporation of both operating and capital, and how each impacted the other. She advised most cities had a five-year forecast based on only the operating side. Ms. Miller stated the level of detail of Leawood's Plan had the advantage of being able to pull out different revenue sources and separating salary increase from benefit increases.

Councilmember Bussing confirmed with Mr. Lambers that the total headcount in 2003 was 247 fulltime employees. This number did not include part-time employee positions. Ms. Rogers stated the City had budgeted a total of 274 FTE's for 2004, which included the volunteer firefighters, school crossing guards, and park employees. She indicated there were currently eight open positions for which no one had been hired.

1012 Councilmember Rasmussen confirmed with Mr. Lambers that the new hires were being deferred until the second quarter. Councilmember Gulledge verified with Ms. Rogers that the FTEs were based on 28 workdays per month, 8 hours per day calculations. Mr. Lambers stated calculations were based on the assumption that all positions were filled 100% throughout the year.

Mayor Dunn questioned the difference between full-time employees and FTEs. Ms. Rogers replied that full-time employees meant those employed full-time with full benefits. FTEs represented full-time equivalent positions, many without benefits.

1100 Councilmember Gill questioned whether it was prudent of the City to stay above the 11% standard reserve calculation. Ms. Rogers indicated that a portion of the reserve was earmarked for capital improvements that had not already taken place. Mr. Lambers added the earmarked funds were a reserve that was carried over from a previous year. Councilmember Bussing advised that he thought Councilmember Gill was questioning whether there might be a better use for funds sitting in the reserves, maximizing the funds that were available. Mr. Lambers advised that funds in the debt service would best be served by keeping them there, as they were restricted and available for possible unforseen purposes.

1340 Councilmember Rasmussen confirmed with Mr. Lambers that by the modeling, the mill levy would be able to be deferred and reduced to 1 mill in 2006, with an additional .5 mill in 2007. He stated that as per the chart he distributed, his revenue assumptions from 2004-2009 were off to the good of ½%, and the expenditure assumptions were off to the good of 99.5%. There would not be a need for a mill levy increase projected to take place in 2006 and 2007. That small amount would have a significant impact over the modeling, because of a compounding effect over six years. His purpose for these projections was because the City had incurred significant debt through 2009. If the numbers were conservative and the chart appeared to show the City going down, and if his numbers were off only one percent, the City would be able to fund all of the new initiatives without requiring a property tax increase.

1566 Councilmember Taylor verified with Mr. Lambers that the 1.5 mill levy increase was due to the loss of State revenue, the projected decline in sales tax revenues, and the initiation of the Residential Street Program.

Councilmember Gill asked when the $.5 million on the 1/8-cent sales tax came up for renewal. Mr. Lambers replied it would go on the ballot in August, with the Resolution presented to the Governing Body in May. He stated that the City was in a good position through 2007-2008, so that decisions made today for 2005-2006 were based upon sound financial data without the possibility for overspending.

Councilmember Dunn asked if the City's prior model had more than 1 mill in 2006 and .5 mills in 2007. Mr. Lambers stated the model showed 1.5 mills in 2005. By placing it a year earlier, more revenue could be assumed to be generated for the model. Now that he has deferred it to 2006-2007, less revenue from those adjustments would be realized. Mr. Lambers added that it was necessary to raise the mill levy in 2006 to be prepared for 2009.

1745 Ms. Rogers stated that the new CIP would be very similar to the one planned last year, with everything scheduled the same with no acceleration.

Ms. Rogers commented on the survey results she passed out, pertaining to how the budget was to be presented to the Governing Body.

1809 Mr. Lambers added that there was one further change on the Expenditure Assumptions model that had an impact. He stated he was forecasting an operational deficit for Ironhorse Golf Course of $200,000 per year. Despite that, the numbers were able to absorb the reduction plus the loss from the State of $650,000, and still have the financial forecast of what had been proposed. Ms. Rogers clarified that $200,000 would come out of the General Fund and go into Ironhorse.

Councilmember Gulledge left the Conference Room at 6:55 P.M. and returned at 6:57 P.M.

1903 Mr. Lambers stated that in discussions with Councilmembers, several budget issues were requested to be pursued in more detail. He would like the Councilmembers to identify these issues, prioritize them, and submit them to him within the next 45 days. The Governing Body would have more of a roundtable discussion with the Department Heads instead of a canned presentation as had previously been done. Councilmember Bussing suggested that the Governing Body give Mr. Lambers and the Department Heads sufficient time to research the targeted issues. Mr. Lambers would then come back to lead the discussion with the Governing Body and present the findings, instead of having the Department Heads give individual presentations.

2092 Councilmembers Bussing and Story, Mayor Dunn and Mr. Lambers discussed the difference in budgeting for necessary personnel within the goal setting confines and the staffing model for full build-out. Mr. Lambers stated the growth areas for personnel in the years to come would be in the Police Department, Fire Department and Public Works Department. Councilmember Bussing stated it was necessary to first determine what service level was wanted before anticipating the number of staff to hire.

2334 Mayor Dunn suggested having a Work Session with the Governing Body to help guide Staff in preparing for meeting with the Budget & Finance Committee in June. Mayor Dunn advised that the Governing Body continued to want a Budget book from Finance. Councilmember Dunn suggested that the Budget presentation include structured time to talk about specific issues. He suggested having this time set sometime during the remainder of the year, and not during the Budget process. Councilmember Story agreed, stating he felt it should be held before the Budget meetings. Councilmember Gill asked for information on Municipal Court's fine structure and its rationale, with a comparison on similar fines in other municipalities.

2570 Ms. Rogers advised that after the CIP was delivered on February 27th, discussions would be held on the Justice Center, Mission Road/Nall, and the Street Rehab Program; SMAC projects; and the 1/8-cent sales tax. Mr. Lambers stated the Community Center and the backlog of the residential street work were two CIP projects that had been identified but not yet funded. He asked for any other projects that the Governing Body may have in excess of $3-4 million be put on a list for consideration. Ms. Rogers asked that projects or performance measures be identified before March 5th, when the budget directions to the Department Heads would be sent out.

2703 Councilmember Rasmussen questioned the inventory of City-owned stormwater sewers. His concern was that older sewers, particularly in North Leawood, might collapse or require extensive repair. He also mentioned that there was a listing of projects that were only partially funded by the 1/8-cent sales tax. Councilmember Rasmussen felt that these concerns should be looked at as potential financial problems in the future.

There being no further discussion, Mayor Dunn adjourned the meeting at 7:00 P.M.

Emily Gleasure, Recording Deputy City Clerk