Special Call Meeting

THE LEAWOOD CITY COUNCIL

June 14, 2006

Minutes

Audio Tape Nos. 668

The City Council of the City of Leawood, Kansas, met for a Budget and Finance Committee work session at City Hall, 4800 Town Center Drive, at 6:00 P.M., on Wednesday, June 14, 2006. Mayor Peggy Dunn presided.

Councilmembers present: Louis Rasmussen, Jim Rawlings, Greg Peppes, James Azeltine, Gary Bussing, Debra Filla, and Mike Gill (via telecommunications).

Councilmembers absent: Scott Gulledge.

Staff present:

Scott Lambers, City Administrator	Patty Bennett, City Attorney
Kathy Rogers, Finance Director	Kathy Byard, Budget Coordinator
Chief Sid Mitchell, Police Department	Major John Meier, Police Department
Chief Ben Florance, Fire Department	Deputy Chief Randy Hill, Fire Department
Joe Johnson, Public Works Director	Chris Claxton, Parks & Recreation Director
Mark Andrasik, IS Director	Jeff Cantrell, Neighborhood Serv. Admin.
Deb Harper, City Clerk	Christy Wise, Deputy City Clerk

Budget & Finance Committee members present:
Mark Meierhoffer
Greg Bussing
Bill Venable
Ken Roberson
Scott Picker

Welcome by the Mayor
Mayor Dunn called the meeting to order at 6:05 P.M. She thanked Councilmembers, Committee members, and Staff for attending the Budget Session.

Overall
City Administrator Scott Lambers addressed requests from Monday's Budget Session to resolve problems with IRONHORSE Golf Course and the enterprise fund through some other means than the scheduled 0.83 mill levy for 2007. There was suggestion that city-at-large debt be incorporated into golf course debt and operations. Accomplishing this would require dissolving the existing enterprise fund, moving revenues to the general fund, and moving expenses to the Parks & Recreation Department under a separately created division for the golf course.

Financials would not change with this measure, but it will eliminate having the golf course in an independent enterprise fund that must comply with the Kansas Cash Basis Law on an annual basis through perpetuity. Confirmation has been received from auditors regarding the City's right to make these changes. Governing Body approval is needed to prepare the 2007 Budget with the revision.

Greg Bussing confirmed with Mr. Lambers the change would not diminish transparency of golf course operations. The funds will be covered in the All Fund Report and the Parks & Recreation Departmental Report. There is no downside to modifying the budget in this manner.

Councilmember Bussing arrived at 6:10 P.M.

Mr. Lambers explained enterprise funds are traditionally used by independent cities possessing a monopoly on utility services. Profits are transferred into the general fund to offset property tax increases. Although the golf course is eligible for an enterprise fund, there is no monopoly or required utilization associated with the facility.

Councilmember Azeltine voiced favor with the modification.

Mr. Lambers stated the enterprise fund contains specific debt for the golf course. The City's debt rating will not be compromised by the transfer as golf course debt is currently included in overall debt. There will be no differences in terms of budgeting for the Parks & Recreation Department.

Councilmember Azeltine noted golf course debt represents approximately 10% of the City's total debt.

Finance Director Kathy Rogers explained how the Finance Department will accommodate the budget change: Golf course operations will go into the general fund, equipment will go into the equipment fund, and the greens renovation project will go into the capital improvement fund. Cochran, Head & Co., will most likely restate financial statements as a result of the transfer. Mark Meierhoffer suggested informing George K. Baum of the reason for the restatements.

Councilmember Peppes confirmed with Mr. Lambers it will still be possible to assemble financial reports pertaining only to golf course activity when needed.

Bill Venable agreed that Mr. Lambers' proposal would be beneficial.

Councilmember Bussing stated the proposed accounting transaction would be a good opportunity for the Governing Body to rethink the role of the IRONHORSE Advisory Board with consideration given to potential disbandment. Mr. Lambers reviewed the original intent of the IRONHORSE Advisory Board was to act as an arbitrator between private property owners and the golf course in resolving small issues such as fencing, errant golf balls, and trespassing. The entity has since branched into other areas. Mayor Dunn agreed with Councilmember Bussing's statement that clarification of the group's role is needed and offered to discuss the matter with him in the future.

Mayor Dunn confirmed no dissent from Councilmembers regarding dissolution of the enterprise fund.

With the aid of slides, Mr. Lambers proposed formalizing budget directives previously given by the Governing Body within the budget document. Previous Council consensus considers one mill or less acceptable on any given budget year, however there is also the request to avoid consecutive year spikes in the mill levy. He recommended utilizing a seven-year model of projections for each budget year while meeting these requirements. The seven-year period will allow opportunity of four maximum one mill increases. Additionally, analysis of revenue/expenditure projections to the overall budget reveals a typical 2-3% variance. Mr. Lambers suggested programming the model with a 1% variance, assuming 101% revenue and 99% expenditures.

Mr. Lambers verified for Ken Roberson that five-year financial forecasts are submitted to the rating agencies. Discussion took place regarding the City's current AA-1 rating.

Councilmember Filla arrived at 6:35 P.M.

Scott Picker asked the nature of the major drivers causing the reduction in forecasted reserves. Mr. Lambers informed the reserves are being used to pay-off increased debt service requirements including a major street improvement project in 2011, the community center in 2012, and Mission Road in 2016. Assessed value revenue assumptions are incorporated into the projections. Ms. Rogers added there are also projections for operating expenditures. Mr. Lambers reminded the residential street reconstruction program averages $2-million per year.

Ms. Rogers attributed the current accumulation of reserves to expansion of commercial and residential growth. The commercial base has almost doubled within the last ten years. The Council goal to reduce the amount of property taxes for residential users and place onto commercial users has been accomplished. Revenue from retail sales tax, use tax, and streamlined sales tax has also been a factor. At times there are reserves held over from Council-approved capital improvement projects that may not have been finished during the programmed year.

Verifying with Ms. Rogers there is $5-million programmed into the budget for the uncommitted community center facility, Mr. Meierhoffer noted there is flexibility at the Governing Body level to defer projects. Mr. Lambers affirmed the street reconstruction program could also be decelerated if necessary.

Referencing minutes from the February 20, 2006, Work Session, Councilmember Azeltine confirmed with Ms. Rogers that a $500,000 bond authority was built into the Council-approved Capital Improvement Program [CIP] for improvements to Ironwoods Park. The project is reflected on pages 102-103 of the 2007 Budget.

Mr. Lambers presented more slides revealing various financial scenarios with the 1% variance and no mill levy in 2007. If the recommended seven-year model is implemented as policy, it will be necessary to project a 1 mill levy increase in 2009, 2011, and 2013.

Displaying a slide depicting no mill levies, Mr. Lambers clarified for Councilmember Azeltine the first four years reveal reserves as a percent of expenditures at 25-30% across all funds.

Councilmember Bussing noted that significant trouble appears to accelerate between years 2012 and 2013 due to the $5.1-million community center project. Mr. Lambers noted a major street project in 2011 is also a contributing factor. Councilmember Bussing questioned the inclusion of the community center into the forecasts as it is a significant scope of work and he does not think the City needs such a facility. Mayor Dunn reminded a feasibility study for the community center will be performed in 2007, which will provide insight into citizen demand for the amenity. She noted it is much easier to remove forecasted projects from the budget than it is to insert them.

Councilmember Peppes and Mr. Lambers discussed the benefits of a five-year versus a seven-year model. Higher mill levy increases are necessary with the five-year model.

Councilmember Filla stated if explanation could be given of how the $4.1-million investment into the golf course will be of long-term benefit to the City, she would not raise issue with the topic in the future. Mr. Lambers presented a chart revealing the history of positive profits maintained by the golf course since 1996 by comparing operating revenue and expenses and excluding capital equipment, capital improvements, and debt service. In theory, ending cash balances will be encumbered to the next year for capital purchases.

Councilmember Gill joined the meeting via teleconference at 6:55 P.M. He noted the golf course outperforms all other departments in the City in terms of profit margins.

Mr. Venable encouraged councilmembers to continue exploring innovative ideas to raise City revenue.

Mr. Bussing and Councilmember Filla discussed other Parks & Recreation programs that require subsidization. Mayor Dunn pointed out the Parks & Recreation Department serves the entire metropolitan community in addition to Leawood citizens.

Mr. Bussing and Mr. Lambers discussed the alternative of cutting the budget versus raising additional revenue through mill levies. Mayor Dunn confirmed for Mr. Bussing that other factors such as annual goal setting and the CIP are driving forces of the budget document. She assured the Governing Body encourages innovation within the budget process.

Wrap-Up/Discussion

Discussion and agreement took place regarding the importance of investing dollars into maintenance of the golf course.

Mr. Lambers informed Mr. Meierhoffer there are no measures set in place for the golf course management company in terms of financial performance. The contract includes a bonus calculation based upon revenues that are generated in excess of $1.2-million.

Mr. Venable and Mr. Lambers discussed the benefits of having an outside management company run the golf course versus a staff managed facility. With staff management, the need for contractual services with golfing professionals would still exist. Additionally, the management company currently holds the alcohol license as the City cannot do so. Under a staff managed scenario, Mr. Venable suggested providing the opportunity for local golfers to become the golfing professionals at IRONHORSE in order to cut costs and increase profits.

Mr. Meierhoffer questioned whether the current contract provides incentive for Orion to perform in the City's best interests.

Mayor Dunn requested opinions from the Governing Body and members of the Budget and Finance Committee regarding the following recommendations:

1. Dissolution of the enterprise fund with placement of IRONHORSE Golf Course operations into the general fund and into a separate division of the Parks & Recreation Department.
2. Forgo the originally recommended 0.83 mill increase for 2007, leaving the mill levy flat.

Councilmember Rasmussen stated favor with No. 2 and requested more time to consider No. 1. In terms of the overall budget, he stated the Parks & Recreation Department should be encouraged to review and possibly revise the fee schedule as this will affect revenue in 2007. He requested the intern in Neighborhood Services submit a Planning Amenity Audit at the end of the 2007 term. Councilmember Rasmussen also suggested that Mr. Lambers review the ratio of training expenses to total payroll as well as membership and subscription costs.

Mr. Meierhoffer took a neutral position on recommendation No. 1 and stated agreement with No. 2. He also stated preference with a 10-year budget model.

Mr. Venable stated approval for both recommendations.

Councilmember Azeltine extended gratitude to Mayor Dunn, Mr. Lambers, and Staff for successfully acting upon his request to avoid the mill levy increase. He voiced favor for both recommendations.

Councilmember Rawlings echoed Councilmember Azeltine's comments.

Mr. Bussing agreed with recommendation No. 1 and No. 2.

Mr. Picker suggested setting aside more time to analyze the Strategic Planning Model for year 2008. He also suggested setting a more consistent variance target between the annual budget and forecast assumptions. Mr. Lambers explained the percentage variance of the assumptions is currently set to avoid getting into specific revenue and expense issues on a case-by-case basis.

Councilmember Gill concurred with the recommendations and then disconnected from the meeting.

Mr. Picker stated favor with the recommendations. Mayor Dunn encouraged Mr. Picker to document his suggestions on the evaluation form that will be sent by Ms. Rogers.

Councilmember Bussing, Mr. Roberson, and Councilmember Peppes expressed agreement with the recommendations.

Councilmember Filla stated she is neutral regarding recommendation No. 1 and is in favor of No. 2.

Ms. Rogers extended appreciation to Mr. Meierhoffer, Mr. Bussing, Councilmember Bussing and IS Director Mark Andrasik for their previous efforts in 2000 that facilitated the current budget model; to Mayor Dunn and councilmembers for their support; and to Budget Coordinator Kathy Byard for mastering the budget process.

Mayor Dunn thanked members of the Budget and Finance Committee and City Council for attending the meetings and complimented Ms. Rogers, Ms. Byard, and members of the Finance Department for their exceptional work.

Mayor Dunn adjourned the meeting at 7:30 P.M.

____

Christy Wise, Recording Deputy City Clerk