

Performance Audit: Financial Indicators

October 2013

City Auditor
City of Lawrence, Kansas

October 3, 2013

Members of the City Commission

This performance audit of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the city's finances in context, and encourage discussion of the city's finances.

I make one recommendation to provide updated information on obligations related to retired employee health care benefits.

I provided the City Manager with a draft of this report on September 9, 2013. The City Manager's written response is included in the report.

Michael Eglinski
City Auditor

Performance Audit: Financial Indicators

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Performance Audit: Financial Indicators

Results in Brief

This analysis of financial indicators for Lawrence is intended to identify significant existing or emerging financial problems, put the city's finances in context, and encourage discussion of the city's finances.

Overall, the financial indicators show mixed results. Among the highlights:

- Government activities' indicators are generally strong when compared to medians based on a group of similar cities, but trends in recent years are not as favorable. Business activities' indicators are generally strong when compared to medians and trends in recent years have been favorable or neutral.
- Financial indicators for long-term liabilities show favorable trends, but those indicators will change as the city issues additional debt for a number of projects in coming years and as retiree health care obligations increase.
- Capital asset indicators for both government and business activities show aging machinery and equipment (which includes vehicles). The city may not be keeping up with maintenance and may face increased costs in the near future.
- After adjusting for inflation, governmental funds expenditures per resident have been relatively flat while revenues have generally grown over the last 10-years.
- Two indicators of community resources – employment and assessed valuation – have been relatively flat in recent years.

The report includes one recommendation about providing the City Commission with information about obligations related to health care insurance for retired employees.

Figure 1 and Figure 2 summarize the results of the main financial indicators for Lawrence.

Figure 1 Governmental activities indicator summary

Measure for government activities	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	↔	↑	↔
Performance: financial resource growth	↓	↑	↓
General support: reliance on taxes and transfers to pay expenses	↔	↔	↑
Liquidity: resources to meet immediate needs	↓	↓	↓
Long-term liabilities: burden of debt and other long-term liabilities	↑	↑	↔
Interest coverage: interest payment effect on flexibility	↔	↑	↔
Capital assets: aging of capital assets	↓	↑	↓

Figure 2 Business activities indicator summary

Measure for business activities	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	↑	↑	↔
Performance: financial resource growth	↔	↑	↑
General support: reliance on taxes and transfers to pay expenses	↑	↔	↑
Liquidity: resources to meet immediate needs	↓	↑	↔
Long-term liabilities: burden of debt and other long-term liabilities	↑	↓	↔
Capital assets: aging of capital assets	↔	↑	↔

Legend	
Favorable	↑
Neutral	↔
Unfavorable	↓

Performance Audit: Financial Indicators

Financial indicators help understand Lawrence's financial condition

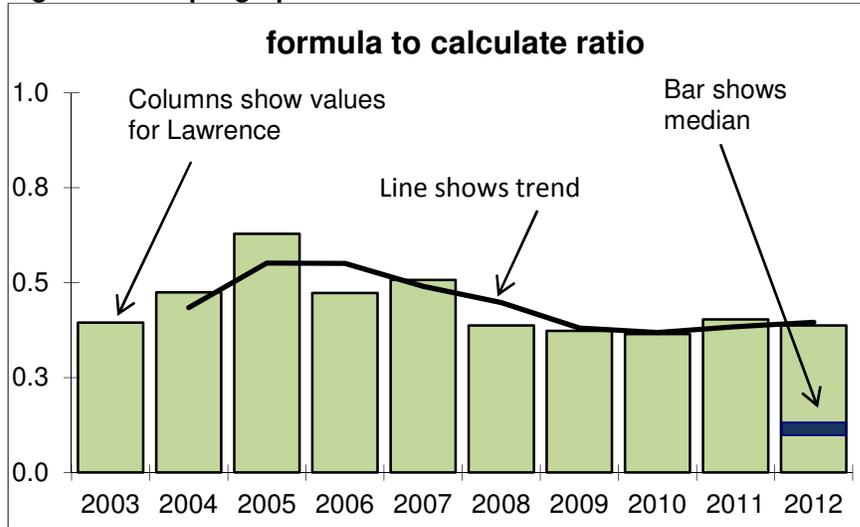
This performance audit, which analyzes financial ratios, provides the City Commission and city management with information about Lawrence's finances. The performance audit is intended to encourage discussion of the city's finances and to:

- identify significant existing or emerging financial problems
- put the city's finances in context by compiling data for 10 years and comparing to the median of 14 cities

This report includes 10 years of data for Lawrence (2003-2012) and compares data for Lawrence with medians based on an analysis of similar communities. Comprehensive annual financial reports provide most of the data. Information from the annual financial reports provides consistent, reliable data because it conforms to generally accepted accounting principles and is audited under generally accepted government auditing standards.

Financial ratios are presented as graphs throughout the report. To evaluate the ratios consider the trend over the last 2-3 years and the level compared to a median. Both trends and levels can be characterized as more or less favorable. Characterizing each indicator using this method allows for overall conclusions about potential financial strengths and weaknesses. For each ratio, the analysis also includes a trend line showing the general trend for the entire 10-year period. Use the trend line to evaluate long-term trends. See Figure 3 for an example graph.

Figure 3 Example graph



The cities used to create medians for comparison to Lawrence have characteristics similar to Lawrence. Based on 2005-2009 data from the U.S. Census Bureau, the cities have similar:

- Urban area populations
- Portion of population under the age of 18
- Per capita income
- Median age of housing

All of the cities have significant university student populations.

Analyzing financial ratios provides an assessment of Lawrence’s financial condition, but it is important to recognize strengths and limitations to this sort of analysis. Figure 4 highlights some of the strengths and weaknesses of the method.

Figure 4 Strengths and limitations of the ratio analysis

Strengths	Limitations
Lawrence data compiled under consistent accounting principles and audited under Government Auditing Standards	Analysis provides a broad overview rather than detailed analysis
Ratios developed independent of city management and provides an independent view of Lawrence finances	Excludes information on level and quality of services and infrastructure
Comparative data compiled under consistent accounting principles and audited under Government Auditing Standards	Excludes external factors, such as demographic and economic trends, that may affect city finances
	Provides historical analysis rather than projections of future condition

Government activities ratio analysis

Government activities include public safety, public works and general government. Taxes provide the funding for most of government activities. Figure 5 summarizes the analysis of financial ratios for government activities.

Figure 5 Governmental activities indicator summary

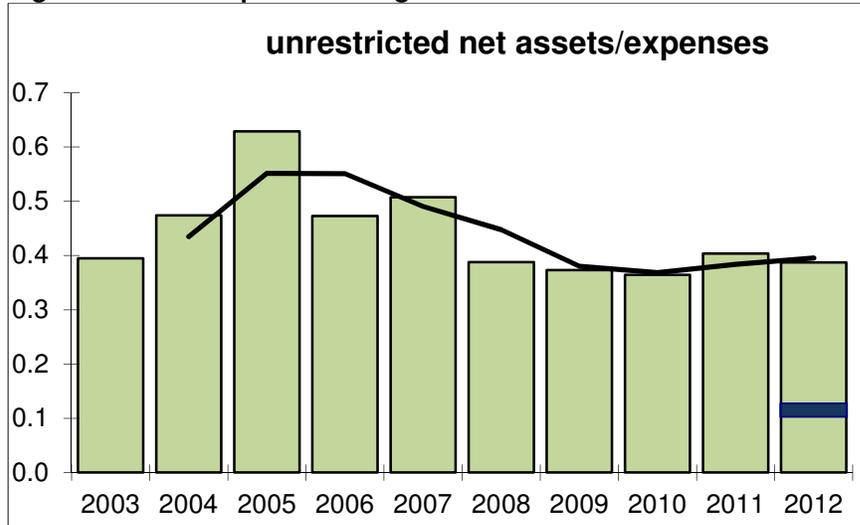
Measure for government activities	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	↔	↑	↔
Performance: financial resource growth	↓	↑	↓
General support: reliance on taxes and transfers to pay expenses	↔	↔	↑
Liquidity: resources to meet immediate needs	↓	↓	↓
Long-term liabilities: burden of debt and other long-term liabilities	↑	↑	↔
Interest coverage: interest payment effect on flexibility	↔	↑	↔
Capital assets: aging of capital assets	↓	↑	↓

Legend	
Favorable	↑
Neutral	↔
Unfavorable	↓

Financial position: ability to maintain services

Lawrence's financial position shows no clear trend in the most recent years and has a level more favorable than the median. The measure indicates the city's ability to maintain the provision of services.

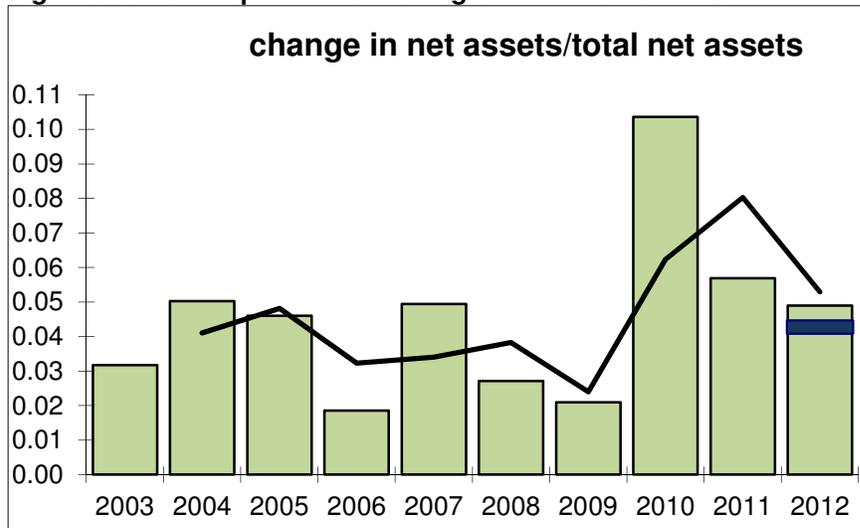
Figure 6 Financial position for government activities



Financial performance: rate resources grow

Lawrence’s financial performance shows a less favorable trend in recent years and has a level more favorable than the median. The measure indicates the rate at which resources grow.

Figure 7 Financial performance for government activities

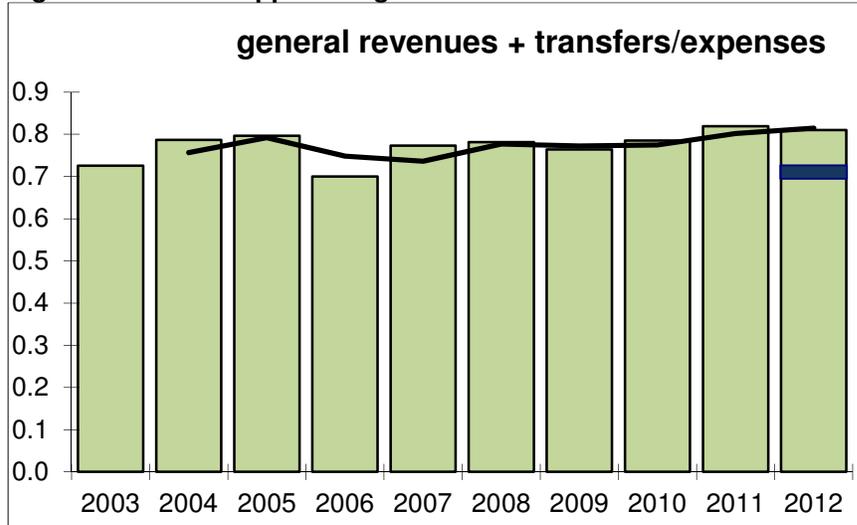


The measure was very high in 2010. This largely reflects the \$8.5 million the city received when it acquired the former Farmland property and \$2 million in federal American Recovery and Reinvestment Act Funds.

General support: reliance on taxes and transfers to pay expenses

Lawrence's general support shows no clear trend in recent years and is above the median. General support reflects the extent to which the city relies on general taxes and transfers from enterprise operations rather than service charges and grants. Higher levels, such as Lawrence's, indicate greater reliance on taxes and transfers.

Figure 8 General support for government activities



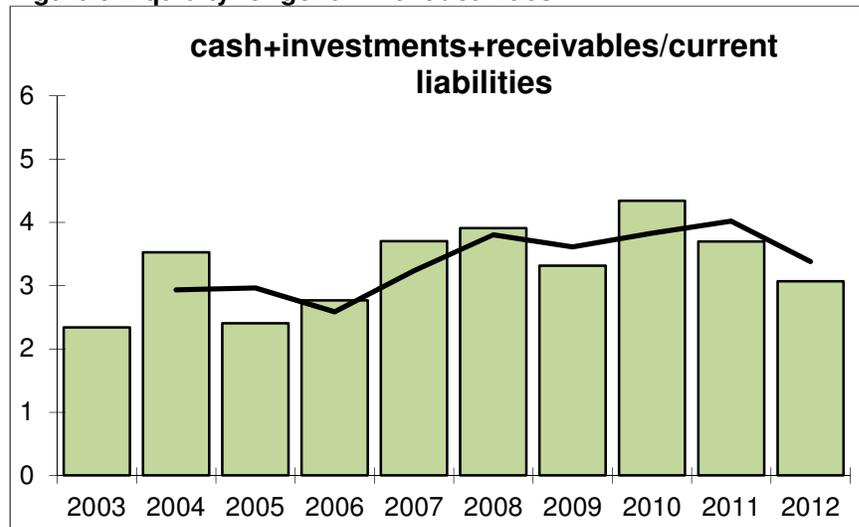
Changing general revenue structure

The city's general revenue structure has shifted in the 10-years covered in this analysis. Sales and property taxes remain the main sources of revenue. However, property taxes and investment earnings have become less important and sales taxes and transfers from enterprise operations have become more important.

Liquidity: ability to meet immediate needs

Lawrence's liquidity shows a less favorable trend over recent years and the level is below the city's median for the period of 2003-2012. The liquidity measure is evaluated in relation to the median value for Lawrence over the ten year period. The median was 3.53 compared to the 2012 level of 3.33. The measure indicates the city's ability to meet immediate needs.

Figure 9 Liquidity for government activities



Liquidity identified as less favorable in analysis of regional cities

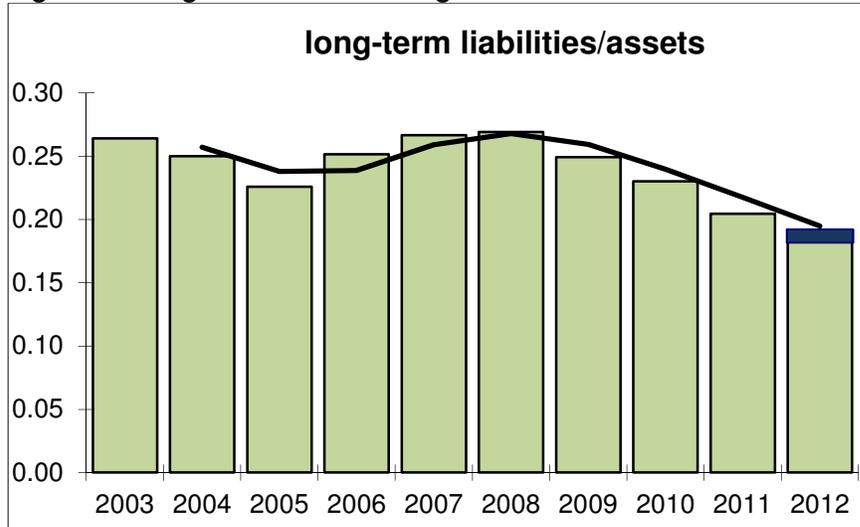
Liquidity was identified as a less favorable indicator for Lawrence in a study of Kansas City metropolitan area municipalities by RubinBrown LLP¹. The study was based on financial data for 2011 and used a liquidity measure to assess the ability of a municipality to meet current obligations from existing cash and short-term investment balances. Lawrence's ratio was in a less favorable category when compared with other regional cities.

Long-term liabilities: debt burden

Lawrence's long-term liabilities ratio shows a favorable trend and level. The ratio measures the budget of debt and other long-term liabilities.

¹ *Public Sector Stats '12*, RubinBrown LLP

Figure 10 Long-term liabilities for government activities



Keep in mind that the ratio for 2013 and future years will likely change as the city issues debt for new projects. Major projects for which the city will be issuing debt include the library expansion, Farmland development, and the indoor recreation center. See Appendix A for additional information on debt funding.

Bonds make up most of the long-term liabilities, however a significant and growing portion of those liabilities related to employee compensation. Figure 11 shows the employee compensation related components of long-term liabilities. Compensated absences and retired employee health care obligations made over 10 percent of the long-term liabilities in 2012. Those employee related obligations increased at a rate of 22 percent per year since 2008.

Figure 11 Compensation long-term liabilities for government activities

	2008	2009	2010	2011	2012
Compensated absences	4,955,344	5,253,770	5,465,997	5,804,614	5,993,169
Net obligation for retiree health care	190,475	74,164	734,600	1,826,196	3,280,852
Sum	5,145,819	5,327,934	6,200,597	7,630,810	9,274,021

Lawrence provides health care benefits to retired city employees as part of the city’s overall compensation package to attract and retain qualified employees. The city provides medical and dental benefits to retirees and their dependents until the retiree reaches the age of 65 or becomes eligible for Medicare. State law requires the city to make these benefits available to eligible retirees. In Lawrence, retirees contribute 80 percent of

premiums, which range from \$256 to \$865 per month. Figure 12 shows the net obligation for retiree health care.

Figure 12 Net obligation for retiree health care for the city

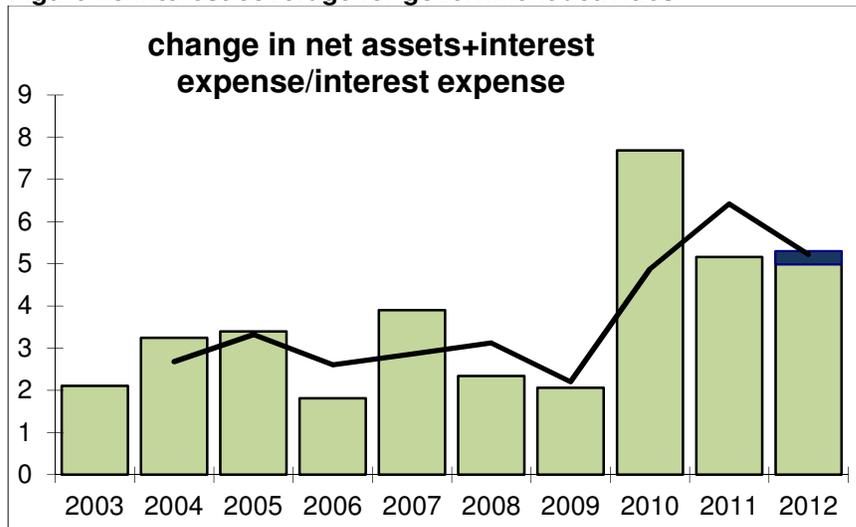
year	net obligation for retiree health care
2008	60,000
2009	101,000
2010	1,000,000
2011	2,487,000
2012	4,468,000

The city is currently working on a new study to calculate the liability of the city’s retiree health care. An actuarial consultant will complete the analysis and prepare a report. The analysis should be ready in 2014. The City Manager should present information from the updated valuation to the City Commission once the report is complete.

Interest coverage: interest payment effect on flexibility

Lawrence’s interest coverage shows no clear trend in recent years and is more favorable than the median. Higher levels generally indicate more flexibility. Keep in mind that this ratio is likely to be less favorable as the city issues debt related to planned projects.

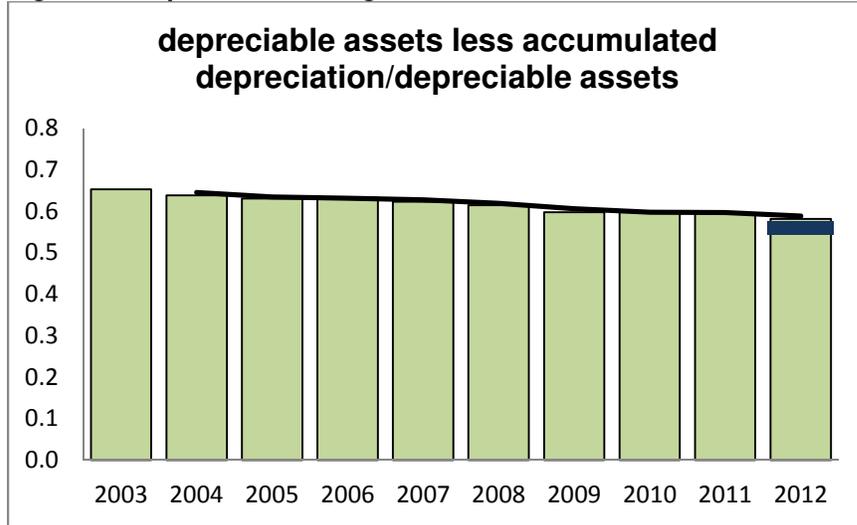
Figure 13 Interest coverage for government activities



Capital assets: aging of capital assets

The capital asset indicator shows an unfavorable trend and the level is more favorable than the median. The measure indicates the aging of capital assets such as streets, buildings and vehicles. The trend indicates that the city may not be keeping up with maintenance of capital assets.

Figure 14 Capital assets for government activities



Buildings, machinery and equipment rate lower than other types of assets. These low ratings indicate that the city may be facing significant replacement costs for these assets in the near future. Figure 15 shows the capital assets ratio for each type of asset. For this ratio, higher numbers are better.

Figure 15 Capital assets by type for government activities

Asset type	depreciable less accumulated depreciation over depreciable assets
Buildings	48%
Improvements other than buildings	55%
Machinery and equipment	36%
Infrastructure	66%

Business activities ratio analysis

The City of Lawrence business activities include water and sewer, solid waste, parking, stormwater and golf. User fees and charges provide most of the support for these business activities. Figure 16 summarizes the analysis of financial ratios for business activities.

Figure 16 Business activities indicator summary

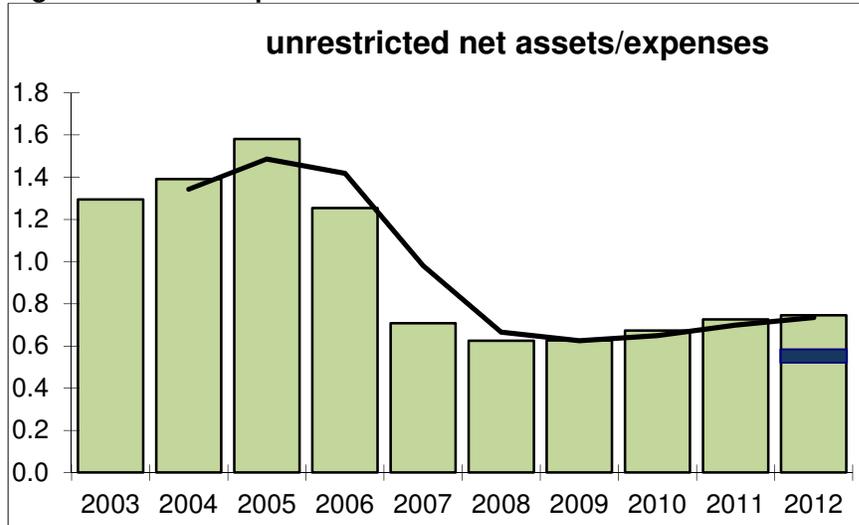
Measure for business activities	Trend	Compared to benchmark	Compared to last year's analysis
Position: ability to maintain services	↑	↑	↔
Performance: financial resource growth	↔	↑	↑
General support: reliance on taxes and transfers to pay expenses	↑	↔	↑
Liquidity: resources to meet immediate needs	↓	↑	↔
Long-term liabilities: burden of debt and other long-term liabilities	↑	↓	↔
Capital assets: aging of capital assets	↔	↑	↔

Legend	
Favorable	↑
Neutral	↔
Unfavorable	↓

Financial position: ability to maintain services

Lawrence's financial position shows a favorable trend in recent years and has a level more favorable than the median. The measure indicates the city's ability to maintain the provision of services.

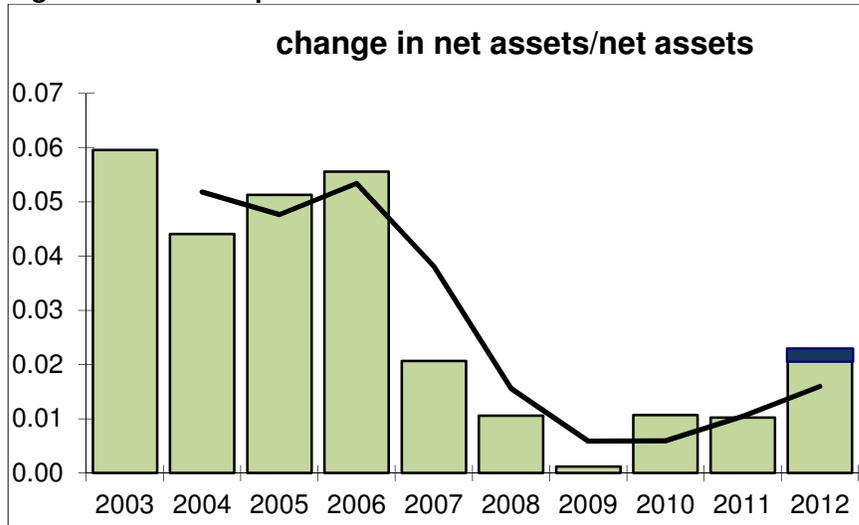
Figure 17 Financial position for business activities



Financial performance: rate resources grow

Lawrence’s financial performance shows no clear trend in recent years and is at the median. The measure indicates the rate at which resources grow.

Figure 18 Financial performance for business activities



The individual business activities perform differently. Parking and golf have not generated enough revenue to offset expenses in any of the last five years. Figure 19 shows the difference between revenues and expenses for each activity as net revenue. If net revenue is negative, then the revenues haven’t covered the expenses.

Figure 19 Net revenue for business activities

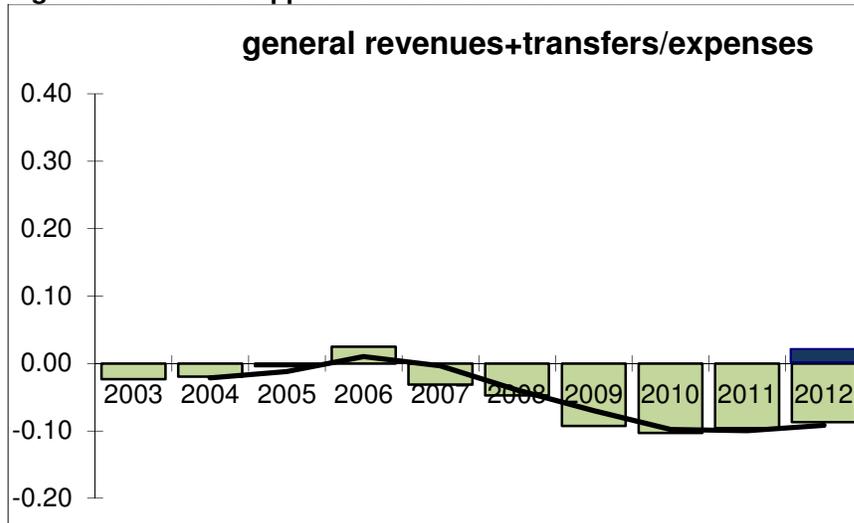
Activity	2008	2009	2010	2011	2012
Water and sewer	3,419,804	3,237,253	4,093,001	4,118,134	5,734,327
Solid waste	-746,555	-30,954	799,881	601,136	986,145
Parking	-236,315	-286,022	-167,204	-65,646	-114,957
Stormwater	1,115,533	1,051,813	1,253,491	1,130,787	819,390
Golf	-83,149	-96,595	-217,717	-199,441	-123,705
Total	3,469,318	3,875,495	5,761,452	5,584,970	7,301,200

Water and sewer net revenues were significantly higher in 2012 due, in part, to an especially hot and dry summer. The city sold almost 20 percent more gallons of water in 2012 than the average for the period of 2008-2012.

General support: reliance on taxes and transfers to pay expenses

Lawrence’s general support for business activities shows a trend moving towards the median and a level below the median. The indicator reflects the extent to which the business activities rely on taxes rather than service charges. Levels below zero indicate that the business activities contribute to governmental activities. In particular, the city uses water and sewer revenues to provide resources to support general government activities.

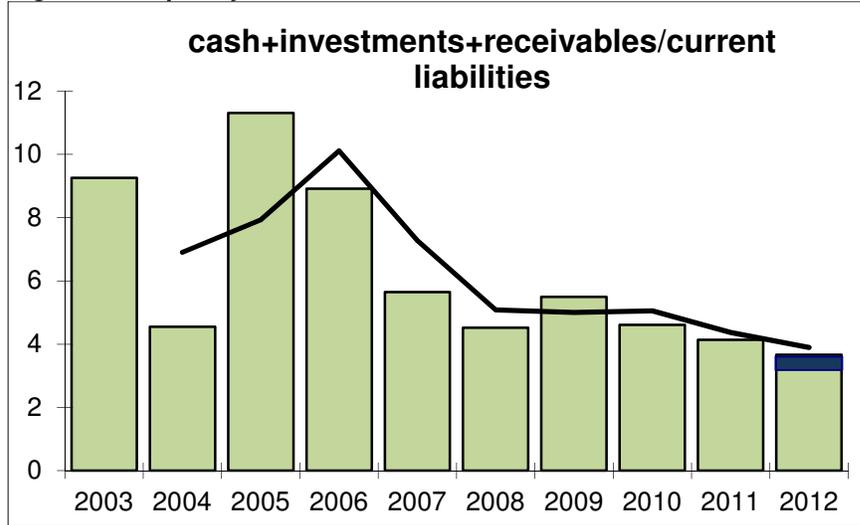
Figure 20 General support for business activities



Liquidity: ability to meet immediate needs

Lawrence’s liquidity indicator shows a less favorable trend and the level is more favorable than the median. The measure indicates the city’s ability to meet immediate needs.

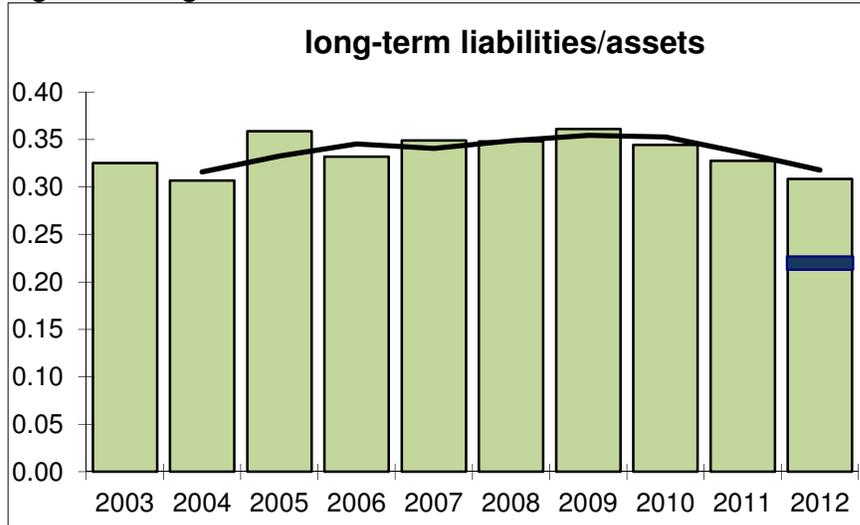
Figure 21 Liquidity for business activities



Long-term liabilities: debt burden

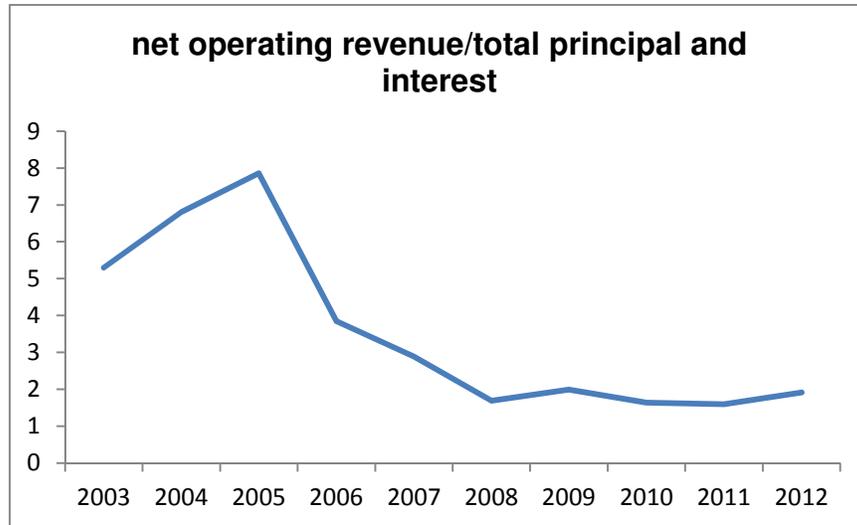
Lawrence’s long-term liabilities indicator shows a favorable trend and the level is less favorable than the median. The ratio measures the burden of debt and other long-term liabilities.

Figure 22 Long-term liabilities for business activities



Water and sewer bond coverage ratio

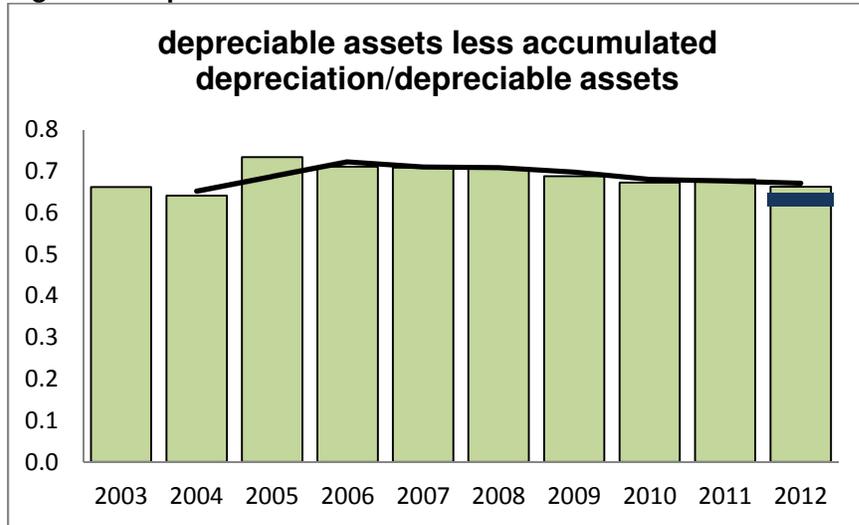
The revenue available for debt service remains more than 1.5 times the annual principal and interest payments for water and sewer revenue bonds. The "coverage ratio" increased in 2012 as operating revenues grew more than operating expenses. Coverage is a measure of the revenue available to pay debt service.



Capital assets: aging of capital assets

The capital asset ratio has no clear trend and is more favorable than the median. The measure indicates the aging of capital assets such as streets, buildings and vehicles.

Figure 23 Capital assets for business activities



Machinery and equipment rate lower than other types of assets. This low ratings indicate that the city may be facing significant replacement costs for machinery and equipment in the near future. Figure 24 shows the capital assets ratio for each type of asset. For this ratio, higher numbers are better.

Figure 24 Capital assets by type for business activities

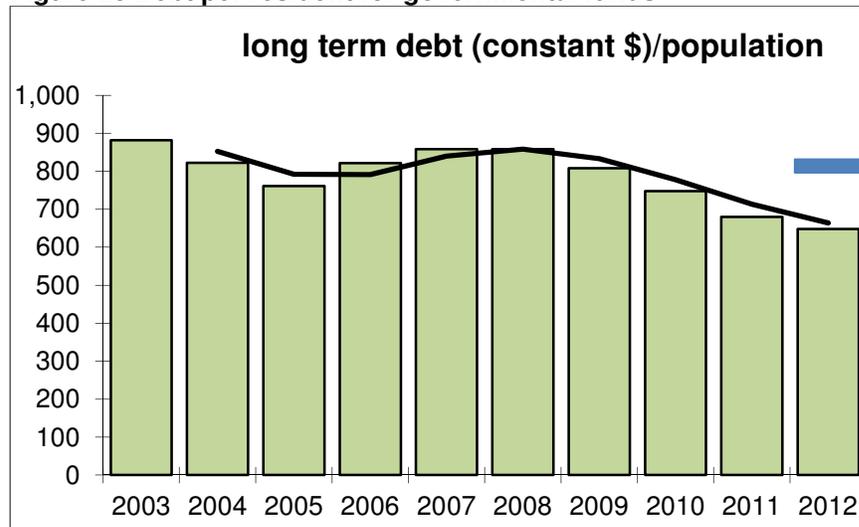
Asset type	depreciable less accumulated depreciation over depreciable assets
Buildings	78%
Improvements other than buildings	64%
Machinery and equipment	29%

Debt, revenue and expenditure trends

Debt, revenue and expenditure trends provide information on financial flexibility and sustainability. The graphs show data for all governmental fund. The graphs adjust for inflation and show each measure per Lawrence resident. In this analysis, the median is based on the median value for Lawrence over the 10-year period of 2003-2012.

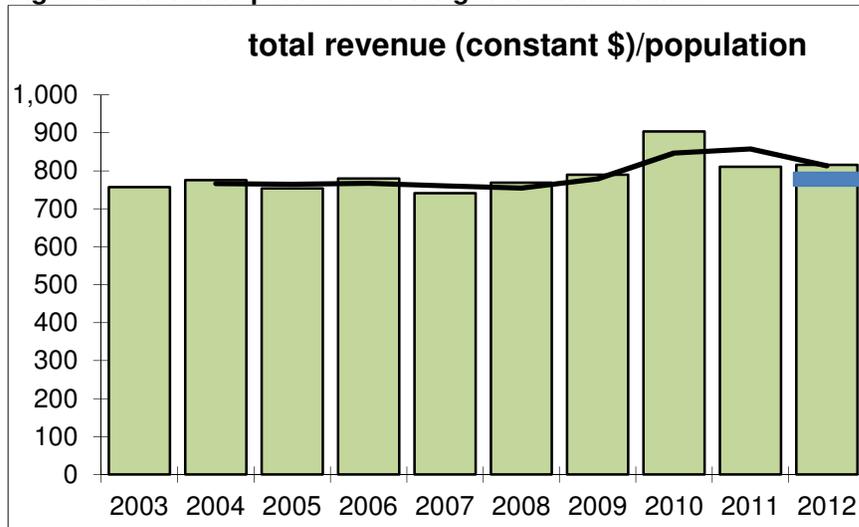
Inflation adjusted long-term debt per resident has declined in recent years and the level is below the 10-year median. See Figure 25. Note that the city plans to issue additional debt in coming years and this ratio will likely change in the future. See Appendix A for information about planned debt.

Figure 25 Debt per resident for governmental funds



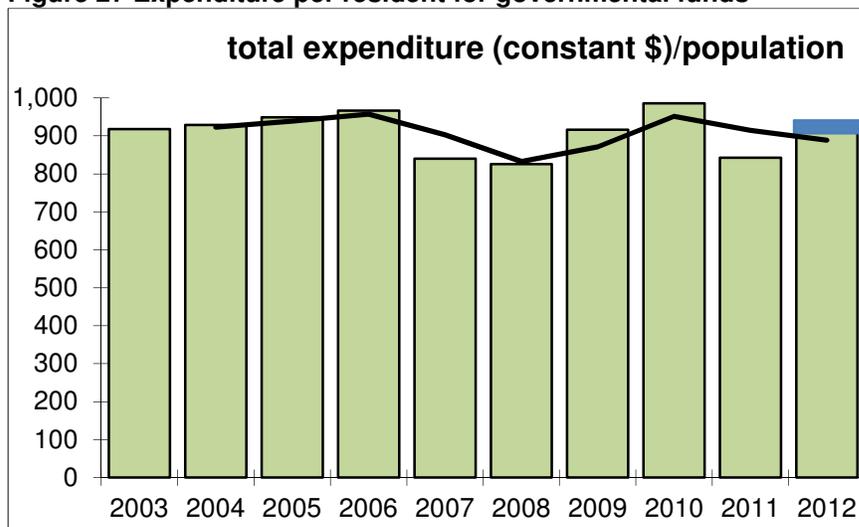
Inflation adjusted revenue per person has no clear trend in recent years and the level is above the 10-year median. See Figure 26.

Figure 26 Revenue per resident for governmental funds



Inflation adjusted expenditure per person has no clear trend in recent years and the level is above the 10-year median. See Figure 27.

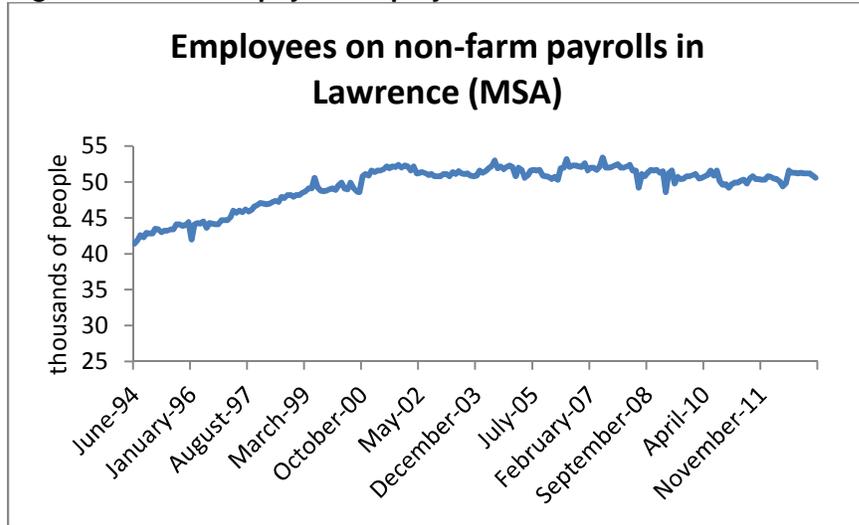
Figure 27 Expenditure per resident for governmental funds



Two measures of the economic environment provide additional context for the analysis of debt, revenue and expenditures trends. Figure 28 and Figure 29 show employees and assessed value for the period of 1994-2012. Both of these indicators help understand the community's resources. The trends are shown for a longer period of time to help provide context for the more recent 10-year period used through the rest of the report.

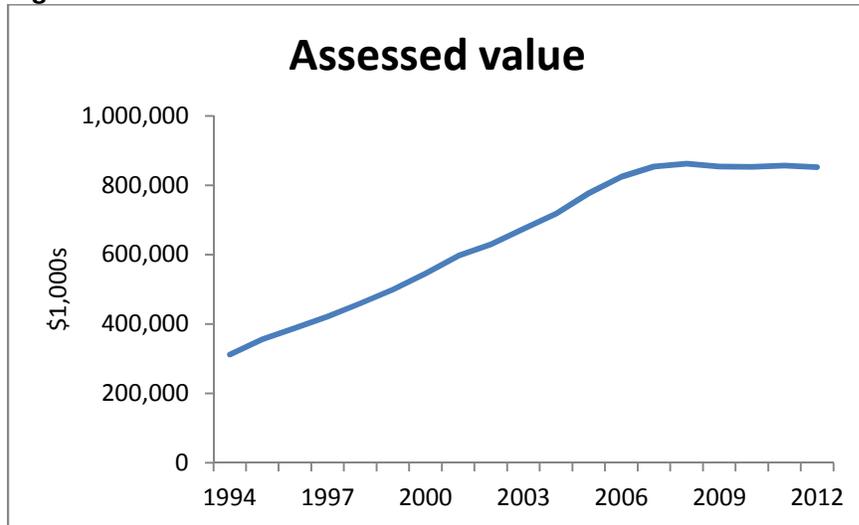
Growth in employees has been relatively flat since about 2001 after growing steadily from 1994-2001². See Figure 28.

Figure 28 Non-farm payroll employees



Assessed value has been relatively flat since about 2007-2008 after growing steadily since 1994. See Figure 29.

Figure 29 Assessed value



² Employees on Nonfarm payrolls in Lawrence, KS (MSA), Federal Reserve Bank of St Louis.

Some other cities monitor community resource measures

Indicators of employment and assessed valuation provide information about a community's resources and are included in some local governments' financial trend monitoring reports. Management in two of the similar cities – State College, PA, and St Cloud, MN – prepare monitoring reports based on a model developed by the International City/County Management Association that include. Regionally, the cities of Salina, Columbia, MO, and Kansas City, MO, also prepare trend monitoring reports that include community resource measures. Among the community resource measures used in these reports are:

- Population
- Population density
- Age cohorts
- Per capita and median household income
- Poverty households
- Employment
- Unemployment rate
- Crime rate
- Property value
- Residential development

Recommendation

The City Auditor recommends:

1. Once the city has received an updated study of obligations related to retired employee health care, the City Manager should provide the City Commission updated information about those costs and risks associated with those costs.

Performance Audit: Financial Indicators

Scope, methods and objectives

Analyzing financial ratios provides the City Commission and city management with an assessment of Lawrence's financial condition. The analysis is intended to encourage discussion of the city's financial condition and to:

- Identify significant existing or emerging financial problems; and
- Put the city's financial condition in context of the 10 year period of 2003-2012 and through comparisons to medians of communities similar to Lawrence.

The City Auditor updated the analysis done in *Performance Audit: Financial Indicators* (September 2012). The auditor compiled information from Comprehensive Annual Financial Reports or financial statements for Lawrence and 14 similar cities; evaluated ratios for Lawrence by looking at trends and comparing Lawrence to medians; and discussed the analysis with city staff. Chaney, Mead and Scherman developed most of the indicators in this performance audit.³

What is the source of the financial information in this report?

Comprehensive annual financial reports and financial statements from Lawrence and the similar cities provide the financial data used in this performance audit. Nearly all of the information comes from the government-wide financial statements. Those statements rely on "full accrual" accounting. That means that the financial statements include capital assets and long-term liabilities as well as current assets and liabilities. The government-wide financial statements report all revenues and costs of providing government services, not just those received or paid in the current year or soon after.

The government-wide financial statements provide information about the cost of government services, including the cost of consumption of capital as well as financial resources. Capital resources include buildings, machinery, roads, and other assets.

³ Barbara A. Chaney, Dean Michael Mead, and Kenneth R. Scherman, "The New Governmental Financial Reporting Model: What it Means for Analyzing Government Financial Condition," *Journal of Government Financial Management*, Spring 2002.

The Planning and Development Services Department provided estimates for Lawrence population that are included in the Comprehensive Annual Financial Report. Those estimates were used to calculate per capita debt, revenue, and expenditure trends. The trends were adjusted for inflation using the chained consumer price index for all urban consumers with a base year of 2010.

The City Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The City Auditor provided the City Manager with a draft of the report on September 9, 2013.

Comparable communities

To identify comparable cities, the City Auditor reviewed data from the U.S. Census Bureau American Community Survey 2005-2009 five-year estimates. Data on 3,602 urban areas and urban clusters were used to identify those most similar to Lawrence on four measures:

- Population of the urban area or cluster
- Portion of residents under the age of 18
- Per capita income
- Median year of construction of housing

Figure 30 Similar communities

Urbanized area	Population	Per capita income 2009	Median year housing built	Portion of population under 18
Lawrence, KS	83,482	22,289	1978	15.9%
Iowa City, IA	94,499	24,770	1978	17.0%
Bellingham, WA	96,400	24,151	1979	17.0%
Norman, OK	92,321	24,257	1978	18.0%
Missoula, MT	77,502	21,829	1974	18.0%
Bloomington, IN	93,884	19,071	1978	14.3%
Charlottesville, VA	87,086	26,624	1977	17.9%
Chico, CA	96,424	22,839	1978	19.3%
DeKalb, IL	62,167	20,829	1975	18.2%
St. Cloud, MN	97,914	23,587	1980	19.9%
Auburn, AL	66,206	21,337	1985	17.7%
Corvallis, OR	59,610	22,738	1975	18.3%
Davis, CA	67,947	28,590	1978	16.0%
Morgantown, WV	60,920	21,042	1972	15.0%
State College, PA	76,348	20,038	1976	11.0%
Grand Forks, ND-MN	57,403	22,416	1974	18.3%

The City Auditor excluded Bloomington from the analysis because Bloomington did not follow accounting principles generally accepted in the U.S. in its most recent annual financial report. Consequently, the financial statements from Bloomington would not be comparable to the financial statements from Lawrence or the other similar communities.

Key Terms

City finances cover both governmental activities and business-type activities. **Governmental activities** include services like police and fire, public works, and administration. **Business-type activities** include services paid for largely by charges for service, such as trash collection and water and sewer utilities.

City **assets** are resources the city can use to provide services and operate the government. Among other things, assets include cash, investments, land, buildings, streets and water mains.

City **liabilities** are obligations the city has to turn over resources to other organizations or individuals. Liabilities include things like money the city has to pay to companies that provide services to the city and repayments for money the city borrowed.

Subtract liabilities from assets and the result is **net assets**. A portion of the city's assets may be used to meet ongoing obligations and this is referred to as **unrestricted net assets**.

The city collects taxes, such as sales taxes and property taxes, as **general revenues**. In addition to general revenues, **transfers** from other governmental activities can provide resources.

Expenses include costs incurred regardless of whether or not cash has actually changed hands. Expenses include depreciation of capital assets. These "accrual-basis" expenses provide a comprehensive measure of the cost of providing services.

Source of Financial Data

Comprehensive annual financial reports and financial statements from Lawrence and the similar cities provide the financial data used in this performance audit. Nearly all of the information comes from the government-wide financial statements. Those statements rely on "full accrual" accounting. That means that the financial statements include capital assets and long-term liabilities as well as current assets and liabilities. The government-wide financial statements report all revenues and costs of providing government services, not just those received or paid in the current year or soon after.

The City Auditor calculated ratios using the most recent available comprehensive annual financial report. All but two of the annual reports from other cities cover a 2012 fiscal year. Two annual reports cover a 2011 fiscal year.

Performance Audit: Financial Indicators

Appendix A: Debt Funding Plan

The city provided the debt funding plan in this appendix as a voluntary disclosure document to the Municipal Securities Rulemaking Board in August 2013.

**City of Lawrence, Kansas
Debt Funding Plan
August 2013**

The City of Lawrence has initiated several major capital improvement projects due to a desire to meet citizen's expectations for service levels. The projects include an \$18 million library expansion at its current location, \$2.2 million to initiate a curbside recycling program, \$8.2 million to develop the Farmland Business Park, and \$22.5 million for an indoor recreation center adjacent to the University of Kansas outdoor track and soccer facility. These projects are in addition to the \$5.0 to \$6.0 million planned annually for capital improvement projects to address infrastructure and facility needs.

The following information is intended to provide details on the funding for these projects. Funding will come from a variety of sources, including property taxes, sales taxes, sanitation user fees, and possible special assessments.

Library

The voters of Lawrence approved an \$18 million library expansion and parking garage in November 2010. The City Commission subsequently approved a 1.5 mill increase in the debt levy as part of the 2012 budget to generate the approximated \$1.25 million annually to pay the principal and interest on the general obligation bonds over 20 years. The construction of the facility is underway and should be complete in 2014. The city has issued \$18.1 million in bond anticipation notes to fund the construction. It is anticipated that the notes will be financed with an \$18 million general obligation bond to be sold in September 2014. The 1.5 mill increase in the debt levy should be sufficient to generate the estimated \$1.25 million annually over 20 years to pay the principal and interest on the bonds. The amount of revenue generated by the 1.5 mill levy should produce additional revenue in the future as the assessed valuation of the city increases.

Recycling Program

In 2012, the City Commission adopted a goal of recycling 50% of the city's solid waste by the year 2020. To reach this goal, the city issued a request for proposals for curbside recycling for residential and multi-family customers in September 2012. A total of four proposals were received and the City Commission selected the city's Public Works Department to operate the program. The program is scheduled to begin in 2014. To operate the system, the Sanitation Division will require \$2.2 million in polycarts and new trucks. The equipment will be funded with general obligation bonds maturing over a period of seven years. Sanitation rates will generate the estimated \$340,000 annually required to service the debt.

Farmland Business Park

In September 2010, the city obtained the former Farmland fertilizer plant out of bankruptcy. The site covers 463 acres and soil and groundwater contains nitrate and ammonia levels in excess of environmental regulations. The city received \$8.5 million from a trust account to pay the estimated \$11.8 million in future clean-up costs over a period of 30 years. The remediation consists primarily of pumping the ground water into containers and land applying it. As of June 30, 2013, the Farmland account had a total of \$7.7 million in cash and investments.

The former Farmland site is adjacent to the East Hills Business Park. The East Hills Business Park has fewer remaining lots. To provide space for future development, the former Farmland site is being developed into a business park. As part of this effort, the city will construct approximately \$8.2 million in infrastructure improvements, including streets, water lines and sanitary sewers. The site is now a benefit district which means it is possible that some of the cost of improvements can be captured by future special assessments. Since the city development policy allows for ten year property tax abatements, the city will issue 20 year general obligation bonds to increase the probability that special assessment revenue will pay for a portion of the debt.

The table below shows a projection of non-special assessment revenue and debt service payments from the city's Bond and Interest Fund through the year 2020. The projection assumes a 1.0% annual increase in assessed valuation and a constant debt levy. Other revenue includes motor vehicle taxes, rent payments, and interest earnings. The current projection does not anticipate future special assessments from the former Farmland site.

Projection of City At-Large Revenue and Debt Payments
(Excludes debt paid from sales tax, enterprise revenue and specials)

	Assessed	Debt	Property Tax	Other	Debt	Net	Ending
Year	Value	Levy	Revenue	Revenue	Service	Income	Balance
2013	848,845,690	8.50	7,143,036	844,000	7,370,384	616,652	9,920,420
2014	856,509,989	8.50	7,207,531	840,000	6,829,460	1,218,071	11,138,491
2015	865,075,089	8.50	7,279,607	890,000	9,621,459	-1,451,852	9,686,638
2016	873,725,819	8.50	7,352,403	890,000	9,987,998	-1,745,595	7,941,043
2017	882,463,078	8.50	7,425,927	896,000	10,166,674	-1,844,747	6,096,296
2018	891,287,708	8.50	7,500,186	846,000	10,791,339	-2,445,153	3,651,143
2019	900,200,585	8.50	7,575,188	846,000	9,657,896	-1,236,708	2,414,435
2020	909,202,591	8.50	7,650,940	855,000	9,155,753	-649,814	1,764,622

Recreation Center

The City Commission has approved a development agreement for the Rock Chalk Park recreation center. The project is located on a 26 acre city-owned site and will include an 181,000 square foot recreation center containing eight full size basketball courts, an indoor track, space for recreation programs, and office space. The project also includes an outdoor walking path, parking, and related infrastructure. The city's cost is capped at \$22.5 million. The facility is being built adjacent to the University of Kansas new outdoor track facility and soccer fields.

The city has previously issued the 2013 Series II note in the amount of \$12.3 million to pay for the facility. A total of \$10.2 million from the Series III note will be used to pay for the infrastructure. Both notes mature October 1, 2014. It is planned to finance the note with a general obligation bond in the amount of \$22.5 million at that time. A total of \$21 million of the debt will be paid with the city's share of the 1.0% county sales tax. The remaining \$1.5 million will be paid from property taxes and is included in the projection above. It is anticipated that operating expenses will exceed operating revenues by approximately \$350,000 on an annual basis. The operating deficit will also be covered by the city's share of the county sales tax.

A projection of the city's share of the county sales tax is attached.

Capital Improvement Budget

The city has attempted to maintain a capital improvement budget that is partially funded with \$5.0 to \$6.0 million in general obligation bonds on an annual basis. This provides funding for needed capital improvements while allowing for the city to maintain a constant mill levy for debt service. The 2013 Series A general obligation bond is planned in the amount of \$4.5 million. The 2013 Series III note includes \$6.6 million in capital projects that will be funded with a general obligation bond scheduled for September 2014. These amounts are included in the projection provided in the Farmland Business Park section. The projects in the capital improvement budget are financed with general obligation bonds with a maximum maturity of twelve years.

Performance Audit: Financial Indicators

Management's Response



City of Lawrence KANSAS

CITY COMMISSION

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MICHAEL DEVER

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September 26, 2013

Michael Eglinski
City Auditor
City of Lawrence, Kansas

Re: Performance Audit: 2013 Financial Indicators

Dear Michael,

Thank you for your report. This letter responds to the September 6, 2013 draft of the report. In the report you provide the following recommendation:

Once the city has received an updated study of obligations related to retired employee health care, the City Manager should provide the City Commission updated information about those costs and risks associated with those costs.

I agree with this recommendation, and also believe that it will be appropriate to have the City Commission direct staff to prepare options and recommendations to respond to these future cost increases and liabilities.

Your report provides a good overview of a number of financial indicators for the City. I agree that the indicators provide a mixed picture – some positive and other negative movements. The City has made a number of substantial investments and is poised to make additional investments in the near future. These investments reflect the strong desire to invest in our future to ensure a strong, vibrant community. As would be expected there is a balance: investment in infrastructure, replacement of equipment, investment in economic development opportunities, adequate resources and compensation for our employees, appropriate mixture of tax, fee and charge demands from citizens, etc. Our focus has been on seeking a good balance while achieving commission and community goals in a time of relatively modest economic growth – all laying a foundation for stronger growth in the future.

Sincerely,

David L. Corliss
City Manager