June 25, 2003

The Honorable Mayor and  
Members of the City Commission
City of Lawrence  
P.O. Box 708  
Lawrence, KS  66044

I am presenting the City Manager’s Recommended Operating and Capital Budget for the fiscal year 2004 (January 1 – December 31) for the City of Lawrence with what I believe to be an understanding of the City Commission’s financial goals. The City Commission and staff faced a variety of challenges this year during the budget preparation process due to significant revenue issues that continue to challenge the State of Kansas and a substantial number of municipalities, Lawrence included. In addition, our local economy has experienced a slower rate of growth in both interest earnings and sales tax receipts. These revenue issues and their impact to the 2004 budget year and beyond will be discussed later in this document. This year’s transmittal letter to the City Commission addresses not only the issues, challenges, and recommendations that were developed over the past several weeks during the budget preparation process, but will also follow the Government Finance Officers Association (GFOA) criteria and guidelines for budget development.

Background

Even before the 2003 fiscal year began and prior to the start of the 2004 budget process, it became apparent that the significant reduction in State revenue sharing would have an impact on the City’s operating budget for 2003, specifically for those departments in the General Fund. Budgets for departments in the General fund were adjusted in 2003 to compensate for the decreased revenues. This conservative cost-cutting approach was carried over into the 2004 budget preparation process by the Department Heads as they began to fashion their 2004 budget proposals. During the budget conferences that were held by the City Commission with each Department Head, priorities and issues were discussed as well as concerns related to the anticipation of providing our current level of high quality service with significant reductions in revenue.
The City Commission also held budget conferences with the Outside Agencies requesting funds from the General Fund, Special Recreation Fund, Library Fund, and Guest Tax Fund. In addition, the City's Alcohol Advisory Board reviewed all agency applications for funding from the Special Alcohol Fund and forwarded their recommendations to the City Commission. Attached to this transmittal letter is a summary of the various funding requests for 2004 and the proposed budget for these requests (A-6 to A-7). As noted by the Commission during their conferences with the outside agencies and evident from the summary, decreased available funding is not an issue affecting only the State and local governments, but many of the non-profit social service and public service agencies are feeling the pinch due to decreased grant and agency funding of their programs. In turn, they have looked to the City to assist them to maintain their program service levels. Staff initially recommended that outside agency funding, particularly those agencies funded by the General Fund, should be limited to the 2003 funding levels and should not include new agencies. The resulting "recommended budget" that is included in the summary is my understanding of the City Commission's direction regarding funding for these agencies. A word of caution - and one that will become a theme in this year's transmittal letter - the City's ability to continue funding programs (outside agency or City programs) appears to be diminishing as we struggle to keep annual expenditures within revenue constraints.

In keeping with GFOA guidelines that view a municipal budget as “a political and managerial process that also has financial and technical dimensions”, the City Commission adopted a set of broad goals that will serve to guide decision-making in the future. These goals were the result of what has become an annual goal setting session, held this year in May and facilitated by a consultant. The resulting priorities were a reaffirmation of the governing body's commitment to the goals established in 2003 with an additional priority of continued excellence in service delivery. City staff will continue developing and completing objectives that will tie performance to these goals and provide a system of measuring progress in meeting established priorities:

**City Commission Top Priorities**

- Economic Development – promoting the economic development of Lawrence to provide varied work and business opportunities.
- Planned Growth – encouraging growth that protects our environment, neighborhoods, and cultural features while benefiting all of our citizens.
- Community Building – expand efforts and markets.
- Public Safety/Staffing – creating social capital and celebrating our heritage.
- Neighborhood Planning – improving the livability of all Lawrence neighborhoods.
- Environment – integrating the environment into our decisions as we work towards a sustainable city.
- Transportation – improving access for all citizens.
- Downtown Development – protecting the integrity of downtown while maintaining it as a unique community resource.
- City Services – providing excellent City services consistent with resources.
At the forefront of budgetary concerns for 2004 and beyond, the subject of dwindling resources produced the greatest challenge during this year's budget process. It became apparent that state transfer payments, discontinued in 2003 and likely never to return, will have to be made up with some other revenue source. Due to the lack of sales tax growth, interest income and the ability of other revenue sources to generate the type of revenue lost with reduced state transfers, increasing property taxes emerged as the remaining viable source of revenue. Another concern was the need to reduce expenditures in order to close the gap between revenue and expenditures. For the past couple of years, staff has cautioned that the City's general fund balance, healthy due to a conservative approach to budgeting and expenditures, was dwindling to a level that dropped it below the percentage that had been established by the previous City Commission as an acceptable level (15% of expenditures). The following sections provide more detailed discussion of the revenue and expenditure issues challenging us in this year's budget process.

**Revenue Issues and Requirements**

Revenue estimates provided for 2004 are anticipated to reflect several economic factors at the State and local level. In addition, various fee increases are assumed for the Water and Sewer fund, the Golf Course fund, the Solid Waste fund, the Parking fund, and the Recreation fund in order to continue providing service at levels acceptable to and expected by the community. The following assumptions were made in developing revenue estimates for the 2004 City Manager's Recommended Budget:

1. Sales tax trend - assumption of flat or negligible growth of both local sales tax and county-wide sales tax.
2. State transfer payments - the local ad valorem tax relief transfer (LAVTR) and state revenue sharing transfers were not included as revenue sources.
3. Assessed valuation - perhaps one of the few bright spots in this otherwise dreary prediction of revenue is the increase in assessed valuation to 7% over this past year's 6% increase.
4. Utility fee increases - for sewer treatment and solid waste services are necessary in order to continue providing quality services and meeting state and federal regulations.
5. Fund balances - of particular concern is the General Fund and the reduction in fund balance experienced the past few years as expenditures have exceeded revenue levels.
6. Interest on investments - with the noted weakness in the national and local economy, interest rates and related earnings will continue to be less than in past years. Decisions about rates by the Federal Reserve just this week will only exacerbate the problems.

**Expenditures - Services and Debt**

The budget proposals submitted by the Department Heads were reflective of the direction provided at the onset of this process to "maintain" service levels without increasing or adding new programs or features. After initial review of the budget proposals and with an understanding that considerable "trimming" had already taken place, the staff prepared a list of "moderate expenditure reduction proposals" and "significant expenditure reduction proposals" (A-8 to A-10) for consideration as methods to close the gap between budgeted expenditures and projected revenues.
Discussion of these proposals at a City Commission study session resulted in additional reductions during the drafting of the General Fund budget recommendation. It is also my recommendation, based on discussions during the study sessions and a continued dedication to "holding the line" on development of new programs or expanded services, to include only one program improvement of those submitted by the various department heads for 2004. The improvement I am recommending is the addition of a plant maintenance position to the Water and Sewer fund as part of the Wastewater Treatment division's efforts to provide responsible maintenance service to the newly expanded treatment plant. A summary of the various recommendations proposed by the Department Heads in their budget submittals for 2004 is attached (A-11).

**Summary**

Pages A-16 thru A-21 contain information that relates the revenue requirements for the 2004 recommended budget to the mill levy, as well as tables and pie charts that summarize the revenue and expenditure requirements for the 2004 proposed budget. Additionally, I have provided (A-12) some longer term (through 2007) projections that Ed Mullins, Finance Director, developed to illustrate the very real concerns I have about the General Fund's fund balance if expenditures aren't more closely matched to revenues in the upcoming years and if we continue on with some anticipated capital improvement projects, such as the construction and operation of Fire Station #5. The total expenditures for the fourteen funds that make up the City's annual operating budget is $110,678,698, according to my recommended budget for 2004. Based on an estimated assessed valuation of $674,353,182 for taxable property within the City limits, the proposed mill levy for this recommended budget is 28.065. This represents a 2.50 mill increase (9.8%) over the 2003 budget mill levy. The property tax supports five (5) funds - Recreation, Library, Public Transit, Bond and Debt, and the General Fund.

I realize this 2004 budget process has been a difficult one for the City Commission and the City staff. The recommended budget includes an anticipated mill levy increase along with some recommended fee increases. However, I think the difficult decisions that have to be made will not go away and must be faced in the 2004 budget and beyond in order to weather these tough economic conditions. Perhaps the most difficult decisions have been those that impact our employees. This recommended budget includes no general wage adjustment for City employees in 2004. This struggle with our new fiscal reality has been difficult, not only for City employees but will become a community struggle when/if services are reduced that impact the quality of life we've come to enjoy in Lawrence. I am positive that the Commission's leadership and support, along with the ongoing commitment from our employees to continue providing quality services, will allow us to get through these difficult times with much of what makes Lawrence special intact. The challenge to meet service expectations is before us. I look forward to working with you, City staff, and the citizens of Lawrence in meeting this challenge.
I have been assisted in the preparation of this budget recommendation by Debbie Van Saun, Brad Hoff, Ed Mullins, Laura Warner, Joe Yager, and the department directors and staff. My thanks to them and to you for your time commitment these past few weeks during budget conferences and study sessions. As you review this document, please do not hesitate to contact me with your questions and comments.

Respectfully,

Mike Wildgen
City Manager