June 24, 2005

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 2006 (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 continued to face a variety of challenges this year during the budget preparation process due to significant issues such as aging infrastructure, homelessness, staffing, and other areas vital to providing services to the community. Topics of particular concern and discussion included appropriate levels of funding for street maintenance, identifying a funding source for bioscience efforts, providing for case management, coordination support and job support/training per the Homeless Task Force Report, and funding additional after school program needs. Fortunately, the local economy continues to show signs of a moderate rate of growth in sales tax receipts and the assessed valuation increase rose to 8% after several years in the 6% range. Both of these developments represent positive revenue impacts for the 2006 budget if projections are accurate. The expenditure issues and their impact to the 2006 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 guidelines for budget development.

Background
The General Fund revenue has been impacted in recent years, as noted in previous budget documents, by the loss of state revenue sharing and static sales tax and interest revenue. Budgets for General fund departments were adjusted in 2003 and 2004 to compensate for the decreased revenues. A conservative approach was used during the 2006 budget process as Department Heads fashioned their budget proposals. During the budget conferences with the City Commission, each Department Head discussed priorities and issues as well as concerns related to providing excellent city services while attempting to fashion a compensation plan for City employees that rewards in a market appropriate fashion the efforts necessary to provide that level of service.
The City Commission appointed a committee of two commissioners (Schauner and Amyx) to study the outside agency requests that were considered "discretionary" and develop funding recommendations for submittal to the whole Commission for their review. 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 2006 and the proposed budget for these requests (A-6 to A-7). As noted by the commission committee during their review of outside agency requests and evident from the summary, developing a method for determining a funding level and equitable distribution of same was challenging. Additional requests from agencies/programs not previously funded are included in this recommended budget: funding for recommendations presented by the Homeless Task Force, funding for bioscience initiatives, along with increased funding for after school programming.

For the Lawrence Public Library, all Commissioners expressed interest in funding the budget proposal submitted by the Director that included various enhancements to that facility's ability to serve the public. The resulting "recommended budget" that is included in the summary is my understanding of the City Commission's direction regarding funding for the Library.

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 continued to guide staff with a broad set of goals that will serve to guide decision-making in the future. These goals were the result of a goal setting session held in November, 2004. 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 - creating social capital and celebrating our heritage.
- Neighborhood Quality - 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 2006 and beyond, the subject of increasing expenses and diminishing fund balances continued to produce the greatest challenge during this year's budget process. Of particular concern is the rate at which our street maintenance program is impacting (improving) the conditions of Lawrence streets. Following Commission direction in this area, we have increased funding for the street maintenance program (overlay and crack sealing).
particular) in the 2006 budget. We are also looking forward to the completion of the pavement inventory process that is a critical component in development of the aforementioned program. This 2006 budget continues the practice of transfers to the general fund from the stormwater fund for curb repairs and a 5% increase in the transfer to the general fund from the water and sewer fund (following recommendations from the 2004 Water and Wastewater Rate Study). Other concerns included the need to accommodate the recommendations from the Health Care Committee regarding increased costs for the family health care coverage, continue to meet the stated goal of providing compensation for employees that is at the median of peer cities, and allow for energy and fuel increases that are projected to significantly increase in the future. The recommended budget that follows has met those challenges. 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 2006 are anticipated to reflect several economic factors at the State and local level. This budget reflects anticipated tax abatements for two companies taking place in 2005. In addition, various fee increases are assumed for the Water and Sewer fund, the Golf Course fund, and the Solid Waste 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 2006 City Manager's Recommended Budget:

1. Sales tax trend - assumption of moderate growth of both local sales tax and county-wide sales tax.
2. Assessed valuation - continued growth (8.3%) anticipated for 2006.
3. Utility fee increases - for water/sewer treatment and solid waste services are necessary in order to continue providing quality services and meeting regulations.
4. Fund balances - of ongoing concern for the General Fund, although recent efforts to keep expenditures below revenue levels has helped this issue.
5. Interest on investments - slight increase in 2005 of investment rates for idle funds.

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. Payroll projections based on the compensation survey that was conducted in response to the Compensation Study recommendations have been included in the recommended budget with a general wage adjustment of 3% for all City employees. This adjustment has been reviewed and acknowledged as appropriate during discussions this year with the two employee groups (Lawrence Police Officers Association and the International Fire Fighters Association). Previous negotiations with these groups produced a two year contract (2005/2006) that acknowledged the compensation philosophies established in the Compensation Study and the City's ongoing attempts to follow those philosophies by providing compensation that is at the median market level of area municipalities.

The Commissioners were presented with a variety of program improvements via the budget proposals developed by the department heads. It is my recommendation, based on budgetary
constraints and direction received previously from the City Commission, to recommend the following additions for the 2006 budget:

1. Collection System Operator position for Water/Wastewater Fund
2. Water Quality Technician position for Water/Wastewater Fund
3. Field Service Representative position for Water/Wastewater Fund
4. Telephone system replacement for Kaw Plant for Water/Wastewater Fund
5. Solid Waste Operator I and II positions for Solid Waste Fund
6. Solid Waste Loader position for Solid Waste Fund
7. Bus Shelter Maintenance Program for Public Transit Fund
8. Replacement of two servers for Recreation Fund
9. Human Resource Information System software (Equipment Reserve Fund)
10. Webmaster position for improved external communications
11. Cooperative fiber optic cable installation with Douglas County
12. Additional firefighter positions for new fire station #5
13. Funding for a consultant to perform development process review & analysis
14. Maintenance of new landscaped medians and Memorial Park Cemetery
15. Senior Maintenance Worker position for building maintenance
16. Zoning Enforcement Manager for code enforcement operations
17. Single health insurance coverage for extraboard firefighters

The last eight additions affect the General Fund, however, increased revenue associated with the programs in #14 is anticipated to offset some of the added expense. A summary of the various recommendations proposed by the Department Heads in their budget submittals for 2006 is attached (A-8). A commission request in increase funding of downtown landscaping is also included in this recommended budget.

Summary
Pages A-14 thru A-22 contain information that relates the revenue requirements for the 2006 recommended budget to the mill levy, as well as tables and pie charts that summarize the revenue and expenditure requirements for the 2006 proposed budget. Additionally, I have provided (A-9 thru A-13) some longer term projections that Ed Mullins, Finance Director, developed for the property tax supported funds to illustrate the need to be vigilant in our tracking of fund balances for these funds in the future. The total expenditures for the fourteen funds that make up the City's annual operating budget is $126,126,489 according to my recommended budget for 2006. Based on an estimated assessed valuation of $777,237,474 for taxable property within the City limits, the proposed mill levy for this recommended budget is 26.362 This represents a mill decrease of 1.5 from the 2005 budget mill levy. The property tax supports five (5) funds - Recreation, Library, Public Transit, Bond and Debt, and the General Fund.

The budget process continues to challenge the City Commission and the City staff to balance revenue with expenditures while maintaining service levels. The recommended budget includes an anticipated mill levy decrease along with some recommended fee increases. I am encouraged by our ability to incorporate the compensation philosophies that were developed in 2003 and further refined in 2004 that allow for an overall positive impact on our employees. Employees
with family coverage will be sharing in the anticipated increases in the City's health care plan. This recommended budget includes a 3% general wage adjustment for City employees in 2006, and follows City Commission direction in this area.

Additionally, an emphasis on street and curb maintenance, continued park facility maintenance (including pesticide free park projects), ongoing improvements in providing web-based information for the public, and transfers to the capital improvement reserve and equipment reserve funds are included in the 2006 budget. As our infrastructure grows and ages and the costs to maintain it increase (equipment, vehicles, and staffing), we will continue to be challenged to stay within the constraints of our resources in the future.

I have been assisted in the preparation of this budget recommendation by Debbie Van Saun, Casey Liebst, Regan Gerlt, Jonathan Douglass, Ed Mullins, Laura Warner, and the various members of the Management Team. My thanks to them and to you for the time commitment these past few months during budget conferences, meetings, and study sessions.

I believe I can speak for all City staff when I express my appreciation for your continued support and confidence in our efforts to provide excellent city services to this community.

Sincerely,

Mike Wildgen
City Manager