

July 5, 2006

Honorable Mayor & City Council Members:

We submit for your consideration the proposed 2007 Budget for the City of Topeka. This budget was prepared under my supervision by Director of Budget and Financial Services Jim Langford, with recommendations from each department director. Given that I have been in Topeka only a few months and must meet a required budget deadline, I have relied in large part on the expertise of City staff. While I have started to become familiar with the operational components of the various departments, it is my intent to do a more thorough analysis of each City function during the upcoming months.

The Topeka City government provides our residents with a wide array of municipal services. Police and fire protection, beautiful parks and recreational programming, street repair and maintenance programs, water and wastewater utilities, and many other fine services are provided by dedicated City employees. I have also observed and been told of unmet needs and the desire of many to expand existing programs and provide new services. One common element is that each of these requires additional funds. The driving focus in preparing this budget is to make an investment in the organization that will allow us to move forward and improve how we provide services to our customers, while maintaining an acceptable tax rate. This budget seeks to provide our employees with the tools and resources that they need to enable them to perform their jobs in a manner that provides the residents of Topeka with quality services.

Overall Budget Numbers

To fund the proposed budget requires a 2.92 mill levy increase.

The 2007 budget from all funding sources (not including internal service funds and contingencies serving as fund balances) grows by \$7.5 million or 4.3 percent, from \$175.3 million for the 2006 Revised Estimate to \$182.8 million. General Fund expenditures for ongoing operations grow by \$1.8 million or 2.7 percent, from \$65.9 million to \$67.7 million. Expenditures from the General Improvement Fund increase by \$1.1 million or 262.0 percent to finance various projects, and expenditures for Parks and Recreation and the Zoo increase by \$0.5 million or 4.2 percent. Debt Service demand from the Bond and Interest Fund grows by \$4.1 million or 25.4 percent, primarily reflecting the payment on the Topeka Boulevard Bridge from half-cent sales tax revenue. Expenditures from the Enterprise Funds grow by \$2.9 million or 5.3%. In addition there is \$0.6 million of one-time monies to be transferred from the General Fund to capital

projects financed from surplus dollars, above the 10.0 percent budgeted fund balance. Less that one-time money, the increase in the General Fund from the Adopted 2006 Budget is \$2.4 million.

The General Fund for 2007 has an ending balance of 10.0 percent of revenues, budgeted as the contingency expenditure for flexibility reasons. The General Fund budget is balanced with ongoing revenues sufficient to pay for ongoing operational costs. To adhere to the policy of providing an additional one-percent of expenditures financed by ongoing revenue as a non-appropriated fund balance would require an additional \$680,000 or another 0.6 mills. This has not been included in this budget. It is estimated that the 2006 ending balance will be 11.4 percent. It is important to maintain an adequate fund balance, not only to provide flexibility in case of extreme circumstances, but also to demonstrate prudent financial management. Both the ending balance and a balanced budget are considered by Moody's Investors Services in determining the City's general obligation bond rating, which is currently Aa3, with a stable outlook.

Revenues

Revenue collections from all budgeted funding sources are estimated at \$165.7 million for 2006 and \$180.0 million for 2007 (does not include revenue for internal service funds). The 2007 estimate is 8.7 percent greater than the revised 2006 estimate. The majority of the increase is found in fees for services in the enterprise fund and taxes. Property tax revenue increases by \$4.4 million and the rest is sales tax revenue, including \$2.9 million to pay debt service on the Topeka Boulevard Bridge bonds. City funds receive monies from a variety of revenue sources, including taxes, licenses and permits, state and federal grants, fees for services, court costs and fines, special assessments, earned interest, and other miscellaneous sources. Taxes constitute 46 percent of the total revenue, and 34 percent comes from fees for services. Actual and estimated revenues for the majority of the budgeted funds can be found in the Fund Summaries Section of this document.

- Sales tax revenue to the General Fund for 2006 is reduced by \$800,000 from the Adopted level of \$27.2 million because of the actual 2005 collection experience. The 2006 revised estimate of \$26.4 million is a 2.0 percent increase from 2005 collections of \$25.9 million. The 2007 estimate of almost \$27.0 million is another 2.0 percent above the 2006 revised estimate.
- The 2006 Revised Estimate for Utility Franchise Fee revenue is increased by \$750,000 above the Adopted level, offsetting the loss of sales tax revenue. This increase is based on the 2005 actual experience.
- Revenue for the Transient Guest Tax Fund is estimated at \$1,590,000 for 2006 and \$1,610,000 for 2007, a 1.3 percent increase.

Assessed Property Valuation and Mill Levy

The mill levy required to fund the 2007 budget is based on the 2006 assessed valuation. The preliminary assessed valuation from Shawnee County for 2006 is \$1,028.3 million, growth of 5.0 percent as compared to 4.1 percent last year. The table

below shows the change in property valuation over the last five years. Three components make up the valuation for property taxes: real property, personal property, and state-assessed or corporate property. The change in valuation alone, with no change in mill levy, generates approximately \$1.5 million for the six property tax funds. The table on the next page shows the percentage change in assessed valuation for the past five years, plus the estimate for 2006.

2001	2002	2003	2004	2005	2006
6.9%	2.2%	4.3%	5.6%	4.4%	5.0%

The overall mill levy for the six funds that will receive property tax revenue increases by 2.92 mills above the 2006 level, from 30.65 mills to 33.57 mills. The General Fund increases by 1.9 mills. The increase is tied to providing additional revenue for a balanced budget and pay increases. The 2006 Adopted General Fund budget was not balanced. Ongoing expenditures exceeded ongoing revenue by just over \$1.0 million. This means that excess fund balance, which is one-time, is being used to fund ongoing operating costs in 2006. In order to have a balanced budget in 2007, the one-time revenue has to be replaced with ongoing revenue. The situation was helped by an increase in the revised revenue for 2006. The General Improvement Fund increases by 1.3 mills to finance projects approved in the 2006-2007 Capital Improvement Budget. The Bond and Interest Fund mill levy is reduced by almost one-half a mill because unneeded project revenue is being carried over from 2006 to help fund debt service in 2007. This is the second year in a row that the mill levy for the Bond and Interest Fund has gone down. One of these years, when there is no additional revenue, the mill levy will have to be restored.

Budget Support Information

As stated earlier, this budget was prepared with an eye to the future. Its focus is to enhance, through internal changes, our ability to effectively manage the operations of the City.

The most valuable resource any organization has is its employees. The men and women that comprise our workforce determine the quality of services we provide our customers. This budget provides employees with a 2.5 percent cost of living adjustment (COLA) along with step movement. It is important for employees to feel that their work effort is valued and appreciated by their employer. This salary adjustment allows our employees to maintain their spending power. Our intent is to have a work force that will be motivated to give us their best work effort.

Overall, the authorized Full-Time Equivalent (FTE) positions increase by 1.9 FTE from the 2006 Adopted Budget to the 2007 City Manager’s recommended budget. In the Mayor’s Office, an additional position was authorized for 2006 by the City Council to assist with neighborhood clean-ups and other neighborhood related duties. The net FTE count for the Mayor’s Officer in 2007 increases by only 0.5 because half an Office

Assistant III position is shifted to the City Manager's Office, thus showing a gain of 0.5 for the City Manager staff. Also in the City Manager's Office, the Labor Relations Director position is moved from Legal, and a Deputy City Manager and support staff person is added resulting in the 3.5 FTE position increase in the City Manager's office. The Financial Services Department increases by 1.0 FTE Management Analyst position. The Police Department has a 1.0 FTE position increase because a helicopter mechanic was hired in 2006 rather than contract for the service. Public Works has an overall reduction of 1.0 FTE positions in the utilities. In Parks and Recreation, 5.0 FTE positions are eliminated in the Golf Enterprise operation and a 0.6 FTE part-time position is converted to full-time. The Zoo increases by 1.5 FTE positions because their veterinary services are converted from a contract to a City employee and FOTZ is supporting an additional 0.5 FTE Education Specialist. The Municipal Court staff increases by 1.0 FTE Protective Services Officer for additional security for the Court and City Council meetings.

To strengthen the City's internal framework, the budget includes first year funding for an Enterprise Resource Planning (ERP) system to replace the antiquated "green screen" accounting and payroll system. This web-based financial and human resource system will provide flexibility, enhanced reporting capabilities, and allow us to re-engineer our business processes.

The current organizational arrangement of our City government does not lend itself to effectiveness. Currently, sixteen (16) operational components report directly to the City Manager. The City Manager also directly works with each of the ten (10) members of the governing body. To provide a better management span of control, a reorganization of the City's structure is being developed to include two Deputy City Managers. The vacant Director of Public Works position is being rethought to serve as the Deputy City Manager for Community Services; a Deputy City Manager for Administrative Services is also included in the in the 2007 budget.

Energy costs strain the City's budget at increasing levels on an almost monthly schedule. From June 2005 to June 2006, the cost of a gallon of gas increased from \$1.99 to \$2.50. Utility costs overall have increased by approximately \$200,000 from the adopted 2006 budget to the 2007 recommendation. The main culprit is natural gas which increases by \$55,000 from the General Fund; \$45,000 for the Parks and Recreation Fund; and \$25,000 for the Zoo. Total natural gas expenditures went from \$676,000 in 2004 to \$762,000 in 2005, an increase of 12.7 percent.

Fuel costs for operating vehicles continue to increase. The 2007 budget is based on an estimate of \$2.15 per gallon, up from the 2006 estimate of \$2.06. Unless gas prices recede from current prices, fuel conservation measures will be required in 2007, along with the shifting of budgeted dollars from other line items. The General Fund budgets increase by \$79,752 or 14.3 percent from the 2006 Adopted level.

Given the fiscal constraints facing the City, it is appropriate for the City to continue examining the level of funding it provides outside organizations and grants. This budget

does not eliminate such funding but does reduce the level previously provided to some activities.

The “Protect with Honor” initiative included in the 2006 budget for the Police Department is not funded in the 2007 budget. Not all the projects approved for 2007 in the Capital Improvement Budget from the General Improvement Fund (GIF) are included in the budget, but \$800,000 is provided to continue replacing police cars using \$200,000 from the GIF and \$600,000 from the General Fund.

A new fiscal issue was recently handed to us by the Kansas legislature. The 2006 Legislature passed into law a requirement that those convicted a third time for Driving on a Suspended Driver’s License must be sentenced to 90 days in jail. This went into effect on July 1, 2006, and will cost the City about \$6,300 per conviction. A fiscal note is being prepared as this issue is scheduled to be before the City Council on July 18th. The budget does not take into account any impact of this change in Kansas law.

Departmental Details

The Departmental write-ups in the tabbed sections provide descriptions of the Departments, their functions, budget numbers, and discussion of significant features.

Budget Highlights and Issues

2006

- The 2006 Revised Estimate for the General Fund contains \$1.0 million more than the adopted budget. The extra monies will be used for the following:
 - \$400,000 from the General Fund is budgeted for City Hall office remodeling.
 - A total of \$679,000 from the General Fund is recommended for purchase of a replacement police helicopter. This is funded with \$343,000 of insurance proceeds; \$220,000 that was scheduled to be spent on a thermal imaging camera for a police helicopter; \$48,000 from the Police Department operating budget; and \$68,000 from the General Fund contingency line.
 - The budget to pay the incarceration costs at the Shawnee County Jail is increased by \$300,000 to \$1,250,000. This is in line with past year expenditures.

2007

- Total FTE's decrease by one-tenth.
- The 2007 budget provides a 2.5 percent cost of living increase for all employees plus step movement. The size of step an employee is eligible for will determine our overall increase. Executive group employees do not have step movement, so they receive 4.0 percent which is equal to the 2.5 percent COLA and a 1.5 percent step.
- The City's contribution for employee health insurance will increase by 5 percent at a cost of about \$300,000 city-wide.
- Contributions for the Kansas Police and Fire Retirement System (KP&F) increase by approximately \$300,000 from the General Fund.
- \$50,000 from the General Fund is provided to the Financial Services Department to contract with an actuary to assess the probable costs of Other Post-Employment Retirement Benefits (OPEB) liability under GASB 45. This ruling requires government to account for the future liability cost of benefits, primarily health insurance, provided to employees when they retire from the City.
- In the City Manager's Office, a total of \$158,618 is provided for a new Deputy City Manager, an Office Assistant and support costs.
- A Management Analyst position is added to Financial Services at a cost of \$58,759. The position will serve the City Manager and other staff in the areas of management and budget analysis, strategic planning, and analysis of financial and organizational issues.
- The Municipal Court staff is increased by 1.0 FTE Protective Services Officer at a cost of \$40,848. This position will provide additional security for the Court and security at the City Council meetings by screening persons attending the meetings.
- \$50,000 is budgeted in Human Resources, to be devoted to the Diversity Committee's training recommendations.
- \$71,000 is included in the Police Department budget to provide City funding for the Shawnee County Family Resource Center's Juvenile Intake Program.
- The \$200,000 transfer from the General Fund to the Unsafe Structures Fund is continued in 2007.
- The following projects are financed through the General Improvement Fund (GIF):

- \$600,000 for the ERP Financial and Human Resource Management System.
- \$100,000 for the lease payment on the Fire Department's Self Contained Breathing Apparatus units.
- \$50,000 for the 50/50 Sidewalk Repair Program.
- \$50,000 for Zoo Infrastructure.
- \$200,000 from the GIF plus \$600,000 from the General Fund provides \$800,000 for Police vehicles.
- \$200,000 for City Hall Repair and Rehabilitation
- \$275,000 to serve as match for Housing and Neighborhood's HOME program and meet other low income housing needs in the community.

Capital Improvements Program

The City Manager's five-year Capital Improvements Plan (CIP) will be presented to the City Council before the end of July.

Conclusion

During the next several weeks we will be meeting to review and discuss this budget. We look forward to providing you with supportive information and answering any questions you may have.

Sincerely,

Norton N. Bonaparte, Jr.
City Manager

Jim Langford
Director of Budget & Financial Services