

# Overview of Proposed Budget

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Note: This information was presented to the Topeka City Council on July 6, 2004 along with the Mayor's Budget Message.

## An Explanation of the 2005 Proposed Budget

When the 2004 budget was adopted it was known that to a large degree the minimal property tax levy increase was attributable to one-time savings of approximately \$2.4 million from the refunding of existing debt service. The operating budgets the Mayor is proposing for the City departments in 2005 are basically flat. The budget is based on existing revenue sources as authorized by state and local laws and ordinances. The 4 mill growth is attributable to replacement of the one-time savings and new debt service in the Bond and Interest Fund and increased funding for capital improvement projects in the General Improvement Fund.

The 2005 budget from all funding sources (not including internal service funds and contingencies serving as fund balances) grows by \$6.5 million or 4.4 percent, from \$147.3 million to \$153.8 million. The debt service demand grows by \$2.7 million; capital improvements from the General Improvement Fund increase by \$0.6 million; expenditures from the Enterprise Funds grow by \$2.1 million; Health Insurance expenditures are expected grow by \$0.9 million; and General Fund expenditures grow by \$1.1 million or 1.8 percent, from \$61.3 million to \$62.4 million. More than half the increase for the General Fund has to do with the contribution for Kansas Police and Fire Retirement (KP&F) System payments, which increase by a little less than \$600,000, and the Kansas Public Employees Retirement System (KPERs) contribution, which goes up by \$50,000. Rates for both these system increase in 2005. Departments financed by property tax funds were instructed to build budgets providing for the 1.5 percent salary increase within existing or 2004 funding levels. Allowances were made for the increase in KP&F rates and some one-time reductions in equipment purchases and bridge maintenance. This explains the flat budgets for many of the departments.

The General Fund for 2005 has an ending balance of 10.0 percent, budgeted as the contingency expenditure for flexibility reasons. It is estimated that the 2004 ending balance will be 8.4 percent. It is costing about \$1.1 million to increase the ending balance to 10.0 percent in 2005. 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 Investor Services in determining the City's bond rating, which is currently Aa3. However, the outlook on the rating has been downgraded from "stable" to "negative". When the 2004 budget was adopted, it was done with a 9.0 percent ending balance in 2004 with the projection to go to 10 percent in 2005. The Mayor's budget maintains that strategy, even though the 2004 ending balance is projected at less than the adopted 9.0 percent.

The overall mill levy for the proposed six funds, which that will receive property tax revenue, increases by a little more than 4.0 mills. The preliminary assessed valuation from Shawnee County is \$939.9 million, growth of 5.8 percent as compared to 4.3 percent last year. A one-time factor in property valuation growth is the Target Distribution Center. For 2004 (2005 budget), the City gets the benefit of the \$9.7 million in assessed valuation. It will become exempt next year. The Bond and Interest and General Improvement Funds go up about 5.3 mills, partially offset by reductions in the 4 other funds.

There are three outstanding issues that will need to be reviewed and addressed during the City Council's review of the budget. The first is increasing the franchise fees for electric and natural gas from 3.0 percent to 5.0 percent and raising development services fees and other licensure fees. The second is the refinancing of the KP&F unfunded liability, which is expected to generate savings of about \$1.0 million over a 10 year period. Both of these can impact the funding of the 2005 budget. The third issue is the forthcoming recommendations from the Optimization Study being conducted by Management Partners. Those recommendations could very well affect the final approved expenditures for both 2005 and future years. These recommendations may also impact the organizational structure of some departments and the manner in which the city does business. The Departmental write-ups in the tabbed sections provide descriptions of the Departments, their functions, budget numbers and discussion of significant features.

## Budget Highlights

- \$150,000 is provided to Downtown Topeka Inc. for grants to encourage downtown business expansion.
- The Unsafe Structures Fund is provided transfers of \$50,000 from the General Fund in 2004 and \$70,000 in 2005.
- A Zoning Inspector II is added to the Topeka Planning Department.

# Overview of Proposed Budget

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- \$100,000 is provided for the Office of the Arts in the Mayor's budget.
- The 2005 Proposed Budget has 6.0 FTE positions fewer than the 2004 Adopted Budget.
- Public Information responsibilities are shifted to a non-sworn position without an increase in total FTE positions in the Police Department.
- Workers Compensation rates are reduced by an overall 8.2 percent, saving approximately \$110,000 in the 2005 budget from all funding sources, including \$40,000 from the General Fund.

## Revenues

Revenue collections from all budgeted funding sources are estimated at \$145.2 million for 2004 and \$153.6 million for 2005 (does not include revenue for internal service funds). The 2005 estimate is 5.8 percent greater than the revised 2004 estimate. 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 45 percent of the total revenue, and 37 percent of total revenue comes from fees for services. Actual and estimated revenues for the majority of the budgeted funds can be found in the Budget Certificate and Fund Summaries Section of this document.

## Assessed Property Valuation

The mill levy required to fund the 2005 budget will be based on the 2004 assessed valuation. The percentage growth or decline in this amount can contribute significantly to any change in the mill levy. If valuation increases a great deal, the mill levy may be able to stay the same or be reduced. However, property owners will still experience a property tax increase based on their individual property valuation growth. If valuation decreases, the mill levy can easily increase *even though actual property taxes paid could go down*.

The 2004 valuation for the 2005 budget is estimated at \$939.9 million, an increase of 5.8 percent from the 2003 valuation of \$888.4 million. This is greater than the 4.3 percent that valuation grew in 2003, returning to rates experienced in prior years when valuation grew 5.7 percent (1999), 5.9 percent (2000), and 6.9 percent (2001). The valuation figure represents a preliminary estimate from the County Clerk's Office, and there will likely be some adjustments for Neighborhood Revitalization Act Rebates and other factors in the final estimate. Three components make up the valuation for property taxes: real property, personal property, and state-assessed or corporate property.

## General Fund

### Current Year Adjustments

General Fund revenues are increased by \$320,133 from \$61,963,308 to \$62,283,441. This represents a 0.5 percent increase from the 2004 adopted. The 2004 estimate is \$7.0 million more than the 2003 actual figure of \$55,212,634. The increase comes from property tax (\$4.1 million) and sales tax (\$1.2 million) primarily.

The major categories of increase in the 2004 Revised Estimate are from sales tax (\$250,000) and from the one-time sale of property (\$267,154 connected to the Westar purchase of the old Macy's Building). Sales tax revenue is projected to climb 5.2 percent from 2003. Collections have been boosted somewhat by the modest recovery in the economy. The more important factor is the collection of compensating use taxes. The City sales tax numbers are composed of both straight sales taxes, where a local vendor or merchant collects tax, and use tax paid on a purchase made in another state or jurisdiction and delivered to the consumer. Prior to July 1, 2003, local use taxes were restricted to the purchase of motor vehicles and boats. The tax was paid at the time of registration. 2003 HB 2005 brought Kansas into compliance with the Streamlined Sales and Use Tax Agreement. In order to level the playing field for local retailers and allow local governments to benefit from the agreement, the local use tax was extended to cover all transactions subject to the State of Kansas use tax.

### 2005 General Fund Revenue

The 2005 estimate of \$63,546,900 is an increase of \$1,263,459 or 2.0 percent from the 2004 revised estimate. Property tax revenue is increased by 2.4 percent while all other sources increase 1.9 percent. Total taxes and assessments increase by

# Overview of Proposed Budget

\$1.7 million, including \$505,000 from sales tax and \$502,595 from payments in lieu of taxes. Motor vehicle property taxes are projected to increase by almost \$400,000. Motor vehicle property tax estimates are based on a formula and are reported by Shawnee County. The 2004 sale of property, a one-time event, partially offsets the increase in taxes and assessments.

## Parks and Recreation Fund and the Zoo Fund

### Parks and Recreation Fund

2004 is the first year the Zoo and the Parks and Recreation Funds have been separated. The 2004 estimate for the P&R Fund is increased by \$49,325. Fees for services increase by \$69,423. Reductions in concessions and other revenues offset this increase.

For 2005, revenue is projected to increase by \$48,122 or 0.6 percent overall from the 2004 estimate. The total 2005 estimate is \$8,413,019. An increase of \$120,011 in property tax revenue is offset partially by decreases in motor vehicle property taxes (\$43,025 less) and liquor gross tax (\$21,357 less). The table below reflects 2003 Actual and the estimates for 2004 and 2005. It should be kept in mind that 2003 included revenue from the operation of the Zoo and property tax which supported the Zoo.

	2003 Actual	2004 Adopted	2004 Revised	2005 Proposed	Difference Revised	Percent Difference
<b>REVENUE:</b>						
General Property Tax-Current	6,622,985	5,254,739	5,254,739	5,374,750	120,011	2.3%
General Property Tax-Delinq	77,837	40,000	40,000	40,000	-	0.0%
NRA Rebates	-	(69,598)	(69,598)	(71,686)	(2,088)	-
Motor Vehicle/RV Tax	814,156	658,212	658,212	615,187	(43,025)	-6.5%
Licenses and permits	396	-	-	-	-	-
Liquor Gross	420,234	438,000	438,000	416,643	(21,357)	-4.9%
Fees for Service	1,761,817	1,513,877	1,583,300	1,578,925	(4,375)	-0.3%
Concessions	-	150,000	141,000	141,000	-	0.0%
Rent of Property	98,639	91,500	98,000	97,000	(1,000)	-1.1%
Transfer from Other Funds	114,700	115,000	115,000	115,000	-	0.0%
I-70 ROW Reimbursement	201,655	98,744	98,744	98,700	(44)	0.0%
Other Revenues	38,708	25,098	7,500	7,500	-	0.0%
<b>TOTAL</b>	<b>10,151,127</b>	<b>8,315,572</b>	<b>8,364,897</b>	<b>8,413,019</b>	<b>48,122</b>	<b>0.6%</b>

### Zoo Fund Revenue

The revenue estimate for the Zoo Fund totals \$1,961,989 in 2004, the same as the adopted level. For 2005, revenue is projected at \$1,973,835, an increase of \$11,846. Real property taxes make up \$1,387,382 of the total, a decrease of \$12,728 from 2004. Revenue from zoo admissions is \$325,000, an increase of \$25,000 from 2004. Revenue from other sources is close to the 2004 level.

### Other Revenues

→ Revenue for the Transient Guest Tax Fund for 2004 is estimated at \$1,548,000, the same level as the adopted. In 2005, the estimate is increased by \$30,960 or 2.0 percent to \$1,578,960. 2003 collections of \$1,458,615 fell short of the estimate by \$7,635.

→ The estimated receipts for 2005 to the Special Street Fund from the Motor Fuel Tax distribution from the Kansas Department of Transportation are increased by \$268,900, from \$5,164,080 in 2004 to \$5,432,980 in 2005. The estimate is based on the amount the League of Municipalities has provided. The Legislature abolished the Special City and County Highway Fund (SCCHF) transfer from the State General Fund for state fiscal year 2004, but restored it for 2005.

# Overview of Proposed Budget

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## Expenditures

Adjusting for contingency amounts, expenditures from **all funding sources** (except internal service funds) total grows by \$6.5 million or 4.4 percent, from the 2004 revised estimate of \$147.6 million to \$153.7 million for the 2005 Proposed Budget. Personnel costs increase by 1.9 percent; other operating expenditures by 3.2 percent; non-cash expenditures by 7.8 percent; and other financial uses by 13.4 percent. Debt service increases by 15.8 percent

With the same adjustments for contingency, **General Fund** expenditures increase by \$1.1 million, from \$61.3 million in 2004 to \$62.4 million in 2005. This is an overall increase of 1.8 percent. 2005 increases \$1.6 million from the Adopted Budget of \$60.8 million, or 2.6 percent. From the 2004 Revised Estimate, personnel costs increase by \$1.06 million or 2.2 percent; other operating expenditures by \$68,311 or 0.5 percent; and other financial (transfers to the Planning Fund and the Unsafe Structures Fund) decline by 1.9 percent.

Expenditures from the Parks and Recreation Fund increase by \$42,867 or 0.5 percent from the 2004 estimate of \$8,469,897 to the 2005 Proposed \$8,512,764, not including the contingency amount in 2005. Zoo Fund expenditures also increase just 0.5 percent in 2005, from \$1,985,435 to \$1,994,541.

## Salaries and Wages

Salary Increases. The 2005 Proposed Budget provides a 1.5 percent across-the-board salary increase for all employees. No step movement is funded. There is additional cost to annualize step movement that was received part of the way through 2004 and must be funded the whole year in 2005.

Group Health Insurance contributions are held flat from 2004. This is the second year in a row that the City has been able to hold its contribution flat. A 10.0 percent increase was adopted for 2003, from \$3,846 per employee in 2002 to \$4,230 in 2003. This was on top of a 20.0 percent increase from 2001 to 2002. The changes that have been made to the City's health care plan were designed to control the growth in health care claims, and so far have proven successful. A major contributor to this effort is the growing awareness of employees to the importance of being good health care consumers and of wellness in general. It is very likely that 2006 will require increased contributions or significant change in plan design.

The amount budgeted for KP&F Retirement Contributions by the City on behalf of police officers and firefighters increases \$552,564 from the General Fund. The contribution rate, which is a percentage on the total compensation, increased by 2.4 percent, from 15.8 percent in 2003 to 17.8 percent. The majority of the increase was statewide, but a small portion is tied to the final compensation of retirees exceeding the actuarial limit established by the Kansas Public Employees Retirement System (KPERs), which administers KP&F. When this happens, the unfunded liability is charged to the City. The KPERs contribution rate, which covers all other city employees, increases from 3.22 percent to 3.41 percent. The employer contribution for the Death and Disability Insurance will increase from 0.6 percent in 2004 to 0.8 percent in 2005, and 1.0 percent in 2006. While the latter two factors are not huge in terms of dollars (will cost about \$50,000 from the General Fund and \$115,000 from all funding sources), they are evidence of incremental cost increases that must be paid.

Workers Comp Rates are reduced by 8.2 percent after the results of an actuarial study resulting in \$110,000 of savings in 2005.

## FTE Position Adjustments

For 2004, the Mayor is recommending a total of 1,293.85 FTE positions, a decrease of 1.75 from the 2004 Adopted Budget level of 1,295.6 FTE positions. For 2004, the Planning Department drops 2.0 FTE positions related to the dissolution of the joint city/county planning agency. The Police Department gains 1.0 FTE, which is dropped in 2005, and Parks and Recreation picks up 0.25 FTE position in the Community Centers. This part-time position also drops off in 2005. The Fire Department budget reflects an additional Maintenance Worker II, shifted from Facilities Operations in Public Works, which loses 1.0 FTE. Housing and Neighborhood Development loses the 1.0 FTE position associated with the Weed and Seed Program which is shifted to the Police Department.

In 2005, a total of \$1,289.6 FTE positions are recommended, six less than the 2004 Adopted level. Financial Services is reduced by 1.0 FTE Accountant I position; Public Works reduces 3.0 FTE positions; and the Fire Department eliminates 1.0 FTE position in anticipation of an administrative reorganization. One FTE Zoning Inspector II is added to the Planning Department, which results in the net loss of one position from the 2004 Adopted, since 2.0 FTE positions are reduced in the 2004 estimate.

# Overview of Proposed Budget

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## Other Operating Costs

Other operating costs, which are the basic non-salary operational expenses, increased by 3.2 percent from all funding sources from the 2004 revised estimate to 2005. In the General Fund, other operating costs increase by 0.5 percent or \$68,311 from the 2004 Revised Estimate. However, 2005 includes \$150,000 of new spending to provide grants for downtown economic development and \$100,000 for the Office of the Arts. After adjusting for the new expenditures, these costs decrease by 1.4 percent.

**Fleet** charges to city departments increased by \$20,914 or 1.8 percent from 2004 Estimate to 2005 Proposed levels. The basic payments to the Information Technology Department, **IT fees**, were reduced overall by \$150,000 or 5.7 percent. **Insurance costs** increased by 8.5 percent or \$89,311. The Police Department's vehicle liability insurance increases by \$21,190.

Fuel costs for operating vehicles have increased significantly. The 2004 Adopted Budget relied on a per gallon estimate of \$1.30 with a total of \$788,515 from all funding sources budgeted. The Revised 2004 Estimate for fuel is \$853,492, reflecting the jump in gas prices the first 6 months of the year. The Proposed Budget incorporates a per gallon estimate of \$1.70 with a total of \$957,066 budgeted, including \$486,027 from the General Fund. The General Fund fuel budget has increased by over \$105,000 from the 2004 Adopted to the 2005 Mayor Proposed. Much of this cost is absorbed within existing budget levels.

## Capital Improvements Program

The Mayor's five-year capital improvements plan will be presented to the City Council before the end of July.