

Overview of Budget

Note: This document was presented to the Topeka City Council on July 5, 2005. It has been updated to reflect the final approved budget.

An Overview of the 2006 Budget

The City Manager's Proposed 2006 Budget was built taking into consideration the financing criteria for the General Fund laid out in Resolution 7490; the need to provide adequate operating budgets for city departments plus provide salary increases for city employees; and maintaining sufficient fund balances while holding any increase in property tax mill levy to a minimum. Resolution 7490, passed on July 20, 2004, requires recurring revenues to exceed recurring expenditures by one percent in the General Fund. Any surplus can be used for capital projects, increasing the fund balance or debt reduction, but not ongoing operating expenditures. The concept is to have ongoing revenue to finance the operating costs and not rely on surplus fund balance for that purpose. Following this practice will provide consistency and stability to the City's General Fund budget, which finances the core public safety services for the City, and provide a buffer in case revenue declines. The policy frees up fund balance for one-time expenditures, which is appropriate in that surplus fund balance is one-time revenue. The practice of depending on surplus fund balance to finance ongoing operations works fine as long as the surplus shows up every year, which it doesn't. The City of Topeka discovered this when developing the 2004 budget. It had lost revenue sharing dollars from the State of Kansas and had no growth in sales tax in 2003, resulting in a declining ending balance rather than surplus. The 2006 Adopted Budget did not adhere to the new policy. Rather, surplus fund balance was shifted to reduce the mill levy and finance the operating budget. Approximately \$1.6 million of additional revenue would have been required to balance the budget and provide the 1.0 percent buffer.

The 2006 budget from all funding sources (not including internal service funds and contingencies serving as fund balances) grows by \$11.9 million or 7.8 percent, from \$153.2 million for the 2005 Revised Estimate to \$165.1 million. Debt service demand from the Bond and Interest Fund grows by \$1.1 million; expenditures from the Enterprise Funds grow by \$3.0 million; expenditures for Parks and Recreation and the Zoo increase by \$0.6 million; and General Fund expenditures for ongoing operations grow by \$3.4 million or 5.5 percent, from \$61.9 million to \$65.3 million. In addition, there is \$2.2 million to be transferred from the General Fund to capital projects financed from surplus dollars. The 2005 Revised Estimate for the General Fund contains \$900,000 more than the adopted budget to purchase a fire truck, and pay for transition costs, and increased jail costs.

The General Fund for 2006 has an ending balance of 10.6 percent of revenues. Nine and one-half percent of the balance is budgeted as the contingency expenditure for flexibility reasons, and the remaining 1.1 percent is budgeted as non-appropriated fund balance. It is estimated that the 2005 ending balance will be 16.1 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 negative outlook. The turnaround in fund balance from 7.6 percent at the end of 2003 to 11.4 percent in 2004 and the 2005 estimate should help with returning the City's outlook to "stable" (Note: Moody's rated the City in October of 2005 as Aa3 with a stable outlook).

Assessed Property Valuation

The mill levy required to fund the 2006 budget will be based on the 2005 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 assessed valuation from Shawnee County for 2005 is \$979.4 million, growth of 4.4 percent as compared to 5.6 percent last year. The 2004 valuation included \$9.7 million in assessed valuation from the Target Distribution Center. It is exempt for 2005. 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 \$1.3million.

The overall mill levy for the six funds that will receive property tax revenue is reduced from 32.391 mills to 30.653, which is a 1.78 mill reduction from the 2005 budget level. The Bond and Interest Fund goes down about 1.9 mills while the General Fund goes up by about 0.3 mills. There are minor differences in the other funds. The Revenue Section of the

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Budget Document provides a more extensive discussion of property taxes, property valuation and mill levy. A *Comparison of Property Tax Dollars and Mill Levy* table is under the Statistical Section. The Departmental write-ups in the tabbed sections provide descriptions of the Departments, their functions, budget numbers and discussion of significant features.

Budget Highlights

2005

- The General Fund estimate includes an additional \$200,000 for costs associated with the Transition to the City Manager-Council form of government and the Consolidation Commission; \$235,000 for housing prisoners in the county jail; and \$289,963 to purchase a Fire Truck outright rather than paying the costs of interest.

2006

- The 2006 budget provides a 2.1 percent cost of living increase for all employees plus step movement. The size of step an employee is eligible for will determine overall increase. Executive group employees do not have step movement, so they receive 3.6 percent which is equal to the 2.1 percent COLA and a 1.5 percent step.
- The City's contribution for employee health insurance will increase by 12 percent at a cost of about \$700,000.
- Contributions for the Kansas Police and Fire Retirement System (KP&F) increase by approximately \$570,000.
- 8.0 FTE Firefighter positions and \$600,000 from the General Fund are added to re-staff a fire station company that had been closed in 2004.
- The "Protect with Honor" initiative was funded with \$316,000 from the General Fund. The initiative will promote and recognize excellence in public service in the Topeka Police Department.
- \$77,000 and 1.0 FTE position are added to the Human Relations Commission budget for 2006 to address diversity issues in the community.
- The General Fund finances \$198,400 to begin purchasing software and implementing a Cityworks Maintenance Management System (CMMS) in 2006. The remaining costs will be absorbed by the utilities and other Public Works divisions.
- \$120,000 from the General Fund will start to address problems with salary compression, beginning with the Police Department.
- \$120,000 from the General Fund begins the replacement of Mobile Data Terminals for police vehicles. These costs are budgeted as IT fees and included in the Information Technology budget.
- \$100,000 for the first year payment for the replacement of breathing apparatus units for the Fire Department is budgeted from the General Improvement Fund.
- \$100,000 from the General Fund is added to the Finance Department to contract for audits of the cable television, telephone and other utility franchises to determine if the correct amounts have been paid to the City. The audit is financed with increased franchise fee revenue.
- An Office Assistant II position is added to the Police Department to relieve detectives of clerical related tasks in filing reports.
- Support from the General Fund to the Topeka Performing Arts Center is increased from \$210,000 to \$395,000.

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- The Planning Fund is abolished and operations of the Planning Department are financed with the General Fund and federal resources. Revenue from zoning fees is shifted to the General Fund.
- A new position is added to Parks and Recreation to enhance programming and services to special populations.

Recommendations for General Fund Surplus

A total of \$2.2 million is available for expenditure for capital projects. The following recommended projects will be part of the 2006-2007 Capital Improvement recommendation, except for the transfer to the Unsafe Structures Fund, which is shown in the operating budget.

- \$800,000 to purchase police vehicles. The recommendation would provide approximately 36 new police cruisers or a combination of cruisers and other vehicles.
- \$220,000 for a Thermal Imaging Camera for the Police Helicopter Unit. This item was approved for purchase from the General Improvement Fund (GIF) for 2006 in the 2005-06 Capital Improvement Budget (CIB).
- \$100,000 for a sidewalk repair program financed 50 percent by the City and 50 percent by the property owner.
- \$751,579 to replace deteriorating curbs and gutters and make other improvements in City Neighborhoods.
- \$235,000 for major maintenance on City Hall, the Holliday Building or other facilities.
- \$130,000 to add to the \$70,000 currently transferred to the Unsafe Structures Fund for the demolition of unsafe buildings.

Other Issues

Information Technology Fees are assessed to every department for the use and maintenance of IT services. In 2006, the IT fees increase by \$971,000, from \$2,571,229 to \$3,542,229. Of the total increase, \$371,000 is related to IT services, including the \$120,000 for the Mobile Data Terminals in the police vehicles. In addition, the Public Affairs division is shifted from the Executive Department and 100 percent General Fund financing to IT, where costs are spread among all funds. That leaves \$600,000, which is plugged in to begin to restore the ending balance in the IT Fund. The fund ended 2004 with about \$380,000 owed to the pooled fund balance. The IT Fund is an internal service fund and has no tax revenue like the General Fund or other special revenue fund. The fund's net assets were \$250,000; however, it needs some assistance in shoring up its cash situation. Over the last few years, lease payments of around \$500,000 were made from the fund by relieving a liability so the costs did not show up in the fund's operating expenditures, like salaries or utility payments or office supplies. Therefore, these lease payments have not been built into the IT fees each year and the fund found its way to a negative cash position. The additional \$600,000 in fees will need to remain in the fee structure at least through 2007 and begin to be phased out in 2008.

Fuel costs for operating vehicles continue to increase. The 2006 budget is based on an estimate of \$1.90 per gallon, up from the 2005 estimate of \$1.70. The General Fund budgets increase by \$70,710 from the 2005 Adopted level.

Revenues

Revenue collections from all budgeted funding sources are estimated at \$153.9 million for 2005 and \$158.1 million for 2006 (does not include revenue for internal service funds). The 2006 estimate is 2.7 percent greater than the revised 2005 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 43 percent of the total revenue, and 36 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. Further discussion of all revenue sources is in the Revenue Section.

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- Sales tax revenue to the General Fund for 2005 is increased to \$26.7 million, the same level as 2004 actual receipts. This is an increase of \$1.4 million and is the primary reason the 2005 General Fund estimate is increased by \$1.5 million.
- Revenue for the Transient Guest Tax Fund for 2005 is estimated at \$1,578,960, the same level as the adopted. That level is continued for 2006.
- Revenue from the half-cent county sales tax, \$7.1 million in 2005 and \$8.7 million in 2006, is budgeted through a Trust and Agency Fund.