

To: Members of the Governing Body

From: Eric Wade, City Administrator
Doug Robinson, Finance Director

Date: February 5, 2009

Re: Resolution approving certain 2009 budget adjustments

For your consideration at the February 10th Council meeting are budget reductions of approximately \$2.6 million for the FY 2009 General Fund budget. These proposed reductions equate to 4.5% of the original General Fund expenditure budget, which is \$58.8 million for FY 2009.

Overview

The evolving economic crisis is creating new challenges for everyone, including the City of Lenexa. As a result, city staff has spent the past few months reviewing city services to determine where expenditure reductions could be made without substantially impacting the services provided to the community.

At this time, we feel it is appropriate to implement budget reductions for 2009 in anticipation of revenue reductions that are likely to occur due to State of Kansas budget actions (which would affect the city's 2009 and 2010 budgets) and lower assessed valuations (which would affect the city's 2010 property tax revenue). The Governor's proposed budget includes the potential elimination of alcohol tax funding and the machinery & equipment property tax slider reimbursement, as well as the reduction of Special Highway Funding that is used for the city's pavement maintenance program. If approved by the Kansas Legislature, these reductions would mean the loss of \$1.3 million in city revenue for FY 2009 and \$1.8 million for FY 2010.

In addition to the state budget issues, we anticipate the city's property tax base (i.e., assessed valuation) will decrease for the FY 2010 budget, which would be the second consecutive year of decline. For FY 2009, the city's assessed valuation decreased by approximately 1%. Although initial assessed valuation information for FY 2010 will not be available until later this month, based on preliminary data staff currently estimates the city will experience a decline ranging from 3% to 5%, or the equivalent of \$0.8 million to \$1.3 million in property tax revenue.

Proposed Budget Reductions

The proposed budget reductions of \$2,617,343 are summarized by department in Attachment A. These reductions can be achieved by reducing employee compensation increases, leaving some vacant staff positions unfilled, adjusting scheduling methods to reduce overtime costs, reducing travel expenditures, and cutting back on all nonessential expenditures. These proposed reductions will not require the city to layoff any employees at this time.

Specific examples of the proposed adjustments include:

- Reducing the pool of funds for employee compensation increases by \$347,000 (the average merit increase will be 2.4% instead of 3.75% as originally budgeted).
- Holding 13 vacant positions open at various times during FY 2009 to achieve a net reduction of \$213,000 (the FY 2009 budget includes a total of 466 full-time equivalent positions).
- Reducing the General Fund transfer to the Capital Improvement Fund by \$387,000.
- Reducing funding for the Worker's Compensation Fund by \$150,000 (sufficient reserves exist within the Worker's Compensation Fund to make this adjustment for 2009). This adjustment is allocated to the General Fund personnel budgets in all city departments.
- Reducing fuel costs by \$258,000. This reduction can be achieved due to fuel conservation efforts and lower fuel prices.
- Using the Tourism & Convention Fund instead of the General Fund to fund Legler Barn operations. This change will save \$49,000 in the General Fund.

In addition to the budget reductions listed in Attachment A, staff is also deferring major equipment replacement and some capital improvement projects for a few months until we have additional information about the city's projected revenues for 2009 and 2010.

Overall, staff believes it is prudent to implement the proposed budget adjustments now to conserve resources and offset potential revenue reductions in 2009. These 2009 adjustments are the first phase of what will likely be a multi-phase approach over the next two years to address a challenging financial situation for the city. Staff anticipates the budget choices for the Governing Body will be even more difficult for FY 2010 and FY 2011 as the city adjusts to the loss of the machinery & equipment property tax base (annual revenue loss of \$4.6 million by 2013), reduced valuations for real property, potential use tax refunds to a major taxpayer, the reduction or elimination of alcohol tax revenue, and the reduction of Special Highway Funding. On the expenditure side, the city will be faced with increasing cost pressures including funding demands for state and city pension plans.

Please contact us if you have any questions regarding the proposed budget reductions for FY 2009.