

Minutes

Audio Tape No. 688

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 6:00 P.M., on Monday, March 3, 2008. Mayor Peggy Dunn presided.

Councilmembers present: Lou Rasmussen, Debra Filla, Jim Rawlings, Gary Bussing, Gregory Peppes, James Azeltine, and Mike Gill

Councilmember Scott Gullledge arrived at 6:15 P.M.

Mayor/Councilmembers absent: - None.

Staff present: Scott Lambers, City Administrator
Patty Bennett, City Attorney
Kathy Rogers, Finance Director
Chris Claxton, Parks & Recreation Director
Kathy Byard, Budget Coordinator
Karry Rood, Accountant II
Joe Johnson, Public Works Director
Deb Harper, City Clerk
Pam Gregory, Deputy City Clerk

Others present: Philip Batson, reporter for *The Johnson County Sun*
Roger Edgar, George K. Baum & Co.

1. Opening Remarks

Mayor Dunn called the Work Session to order at 6:00 P.M. The purpose of the meeting is to discuss the 2009-2013 Budget Model Assumptions & 2009 Budget Presentations. Introductions were made by those present.

City Administrator Scott Lambers commented that the reason for the meeting at this time each year is to review the assessed evaluation numbers from the County. They are then plugged in to the financial forecast for 2009. This year, however, the County has not yet released these numbers; therefore, we do not have the numbers in the forecast. We should receive them within the next 30-45 days. Because of this factor, a meeting may be necessary prior to the June budget meeting. The number displayed for 2009 is a model number, not an actual number. Mr. Lambers stated that Finance Director, Kathy Rogers, would speak regarding the State's effort to promote economic development.

Ms. Rogers noted the *green colored* sheet would show the decrease in personal property as a result of the state changes to the listed equipment in valuation and depreciation. The City received \$359,000 from that part of the assessed valuation figures. It increased in 2006 to \$362,000, prior to the change in the laws. Subsequent to the law change, we experienced a drop of \$64,000. This will eventually be going down to zero. It will be an average of about 15 percent per year. By 2010, a cumulative effect would be about \$168,000. Assessed valuation figures were proposed at about 5.9 percent. This would equal approximately one-half of a mill. One mill is worth \$742,000. Mr. Lambers stated that as everyone is aware, the state is not in a position of giving money, so the City can anticipate this as a revenue loss, therefore, a transfer is not anticipated.

Mr. Lambers continued to speak on the three bar charts of expenditures. The first attachment shows where the City is expected to end the year in 2008 and starting 2009 that had in the financial model a one mill increase in 2011 and 2013. Two years ago, the financial model projected mill levy increases of one mill for 2009, 2011 and 2013. At that point, the Council requested that the City introduce the variance component to represent the fact that revenues come up a little higher and expenditures are a little less. As a result, the 2009 mill levy increase was eliminated and the 2011 and 2013 mill levies were needed in order to maintain the minimum financial standard with the seven year financial model. As a result of the ending cash balances that were greater than anticipated, attachment 2 reflects the impact this had on the model. There will be some expenses that will occur that were carried over, but those figures won't be known for another month. As a result, attachment 3 shows what would happen if the mill levy increases that are forecast were moved back another two years to 2013 and 2015. It is important to note that most cities do five year financial forecasting, whereas the City of Leawood does seven. So you're looking at a one mill increase in the last five year financial forecast and two over the seven year period. Comparing attachment No. 1 to attachment No. 2, revenues are coming in at 2 or 3 percent above and the definitive would be 7 or 8 percent below how this has a significant impact on the model with regards to the City's position.

Mr. Lambers stated that the direction received from the Council four or five years ago was that the financial model needed to meet the minimum financial standards. There is to be mill levy increases of no more than one mill and they are not to be consecutive.

Councilmember Azeltine noted that he would like to see these projections with no levy increases. He noted the importance of this since we are the only first class city in Johnson County that does this. He stated his concerns due to the property values leveling off.

Ms. Rogers noted that one of the bond rating criteria is the ability and the willingness of the Governing Body to pay for the obligations that might be entered into today that the payments don't come due or accumulate in the other years.

One of the reasons why we have included a mill is to recognize if you are going on to the Council and you are going to do this five years from now, at least some of these financial decisions have already been put in place. Once you've obligated the debt, then you are back to the operating and certain levels have been set for police officers per one thousand and fire fighters per one thousand.

Councilmember Azeltine noted that this is a discussion that should be done when the staff comes back with a budget without the levy increases. He stated his concerns of how we talk about how we use conservative methods in our budget projections, but in his eyes he doesn't see that happening, assuming there is going to be a tax increase in a future year. If we have a multi-year period where assessed valuation is either flat or down, (not a prediction) you are not only in for a mill increase, but a much larger one.

Ms. Rogers confirmed that because you are already in for the debt portion of it and if you want the surface portion to stay or be near where it is, the choices are to raise that. The City has already refinanced most of the debt to get the lower savings, so there is only one call provision on refinancing. Many of those financial decisions have been already made.

Councilmember Azeltine expressed his objection to this. He stated that raising the mill levy is a political decision. When staff factored in to projections, he feels the City would be forced to raise the mill levy. Up to this point, the increase in the assessed valuations has been good enough to basically bail us out, where we haven't had to do that. Ms. Rogers answered by stating that this is the mill levy equivalent. She stated that the other direction is reduced by \$742,000 for that year.

Mayor Dunn noted that there is no levy increase for 2009 or 2010. The budget is done on an annual basis and that right now, this is just forecasting.

Councilmember Azeltine questioned why we can't look at this without the mill levy increases. Mr. Lambers answered the City wants to show Moody's for the City's bond rating what it takes for the City to maintain the financial standards that have been established. If you want to show a deficit spending situation it will not be well received by the rating industry. Councilmember Azeltine stated that under these assumptions, the mill levy would have to be raised. Mr. Lambers stated that the spending could also be reduced.

Councilmember Filla noted that you can look at the chart, but what she is hearing Scott say, is that you don't want to create that chart and publish it for any of the bond rating agencies because that is not the graph you're going to want to show them. Ms. Rogers stated they would say mill levy equivalent. Either you increase or you decrease. Mr. Lambers stated that the last time we had budget constraints was not due to economic conditions, but it was due to the state having problems and they took money from us without very much notification. Our economy is what is going to drive the budget. There is no more revenue sharing coming from the State.

Councilmember Gill noted he was in agreement with Ms. Filla that the mill levy is lower today than it was when he joined the Council 11 years ago. When you figure the size of the total budget and you're talking about one mill. Although this is a meaningful amount, compared to the size of the budget, it appears to be a rather small amount. Showing a realistic, if not a conservative approach, is good. Goals have been set and the City always seems to continue to meet them.

Councilmember Bussing questioned the assumption page whether the assessed value increase assumes both an increase in the valuation of existing property, as well as new property. Ms. Rogers was in agreement to this and noted that the assessor currently has 2 of the 3 sections done in Leawood and is somewhere around a 1 ½ - 2 percent increase. Mr. Bussing questioned how much of the assumption is on the addition of new property. Ms. Rogers stated that it would be the balance of 5.9 percent. Ms. Rogers stated that the price of housing has not gone up, compared to our surrounding states. Ms. Rogers stated that per capita market value, we are low. Our property is not overinflated; it is realistic.

Mayor Dunn noted that Moody's looks at debt per capita and the level it is. They always comment on the willingness to payoff that debt as one of the reasons the City has a AA1 bond rating with AAA rating benefits for borrowing.

Mayor Dunn questioned if we are willing to adopt attachment No. 3 based upon the information received tonight. Mr. Lambers stated that they are waiting on the Johnson County appraiser's numbers.

Mayor Dunn noted the arrival of Roger Edgar, George K. Baum & Co. at 6:30 P.M.

Councilmember Filla questioned why the County has not yet given the assessed property values. Mr. Lambers stated that they have had a departure in staff and they have been converting to a new software program.

Councilmember Rasmussen referred to the attachments and noted all the reserves are significantly higher. Last year, he suggested that the mill levy be lowered one mill to show taxpayers good faith. Mr. Rasmussen questioned why we wouldn't want to look at this. He would assume that the City has intentionally built up the reserves to pay cash for future construction of the Justice Center. He went on to state the assumption that some time in this period, that amount would be expended. Ms. Rogers stated that the Justice Center is not figured in on these numbers. Mr. Lambers noted that there will not be a cash carryover. It will be there until construction starts. Over a two year period it will be completely depleted. Mr. Rasmussen stated that not only are these things "conservative" but they are more than that. He questioned if there was going to be \$10 or \$12 million worth of cash that is put away for the Justice Center. Mr. Lambers stated that there will be between \$14 and \$16 million dollars for this. Mr. Rasmussen stated that he doesn't understand why the tax mill levy can't be reduced by one mill. Mr. Lambers stated that one of the primary drivers is the increase in capital improvement projects that the City is bonding in order to play catch up and our natural growth does not provide enough money to make those debt service payments.

Mr. Rasmussen stated that the reserves are high enough to provide a decrease in the mill levy.

Mayor Dunn stated it would be a better savings for the taxpayer to pay cash for some of the City's accelerated street and stormwater projects. She stated that our consistency with our mill levy has been very well received by the public. The forecast is for 5 years from now. Mr. Rasmussen felt the City could afford to do this.

Mayor Dunn questioned that if we were a AAA rated City, what would be the expectation of the reserves amounts compared to what we have.

Roger Edgar stated that by adjusting the reserves it wouldn't necessarily be the one thing that could cause your rating to change. If you're going to isolate the one variable, it would have to be a significant adjustment. The rating agencies will look at a lot of different factors. The reserves are a part of it. After reviewing the reserves, Mr. Edgar felt they are neither high nor low. Mr. Lambers noted that on page 12 of the GO Rating Distribution and Summary Ratio sheets, the last column on the right reflects the mean calculated triple AAA rating with a percentage rate of 48 and 52 percent. Presently, the City is at 46 percent.

Councilmember Bussing noted that the debt service fund charts are a percent of expenditures and there are 2 drivers to the bar charts. It could be viewed one way of being overfunded in reserves; or, it limits the City's ability to add new debt.

Kathy Rogers stated that the *yellow sheet* is the summary of several excel spreadsheets for the Capital Improvement Projects. One of Joe Johnson's platforms has been to work on keeping the infrastructure we have already bought in place in order to keep maintenance up and not let all of the investment go down. Kathy went on to say that as Mr. Azeltine mentioned, the other cities aren't necessarily projecting mill levies, however, they do not have their capital totally integrated and linked into their operating, as Leawood does. She stated that every vehicle, every building, HVAC system, hand rails, park shelter houses, etc, are figured into the operating figures. All of these things feed into the overall model. She stated that tonight's agenda reflects a proposal to lease finance 2 pieces of fire equipment, and to lease finance 3 dump trucks that are over \$150,000 each, in order to keep the cash, in case the numbers are not 100 percent correct.

Councilmember Gullledge questioned if there is a residual at the end of the lease contract. Ms. Rogers stated that it is a dollar buyout at 4.1 percent. Mr. Lambers stated that there are still 2 items outstanding. As part of the next Capital Improvement Project [CIP] meeting there will be a proposal to evaluate the cities curbs and gutters. Currently, there is not a curb and gutter or a sidewalk and trail replacement program.

Once these two components are in place, everything will be on a minimum of a 5-year repair or replacement schedule. Ms. Rogers stated that everything will be able to be reviewed at that 5-year period. All of this is tied together with GASB-34.

Councilmember Gill suggested that some of the numbers looked a little lumpy to him and wanted Kathy to comment on that. He stated when he thinks of repair/replacement he also thinks of consistently recurring levels of spending. He noted that when you look at the total repairs, it drops in 2008 from \$737,000 and the aggregate drops \$200,000 for 2009 and another \$130,000 in 2010; it stays about the same in 2011, and drops another \$100,000 in 2012 and 50,000 in 2013. Looking at the rolling stock under equipment in particular, it looks like there is some fairly wide variability. Ms. Rogers stated that they tried to stick to the bottom line number. Mr. Lambers stated that as we get closer to 2012/2013 depending on how the equipment to be replaced is holding up, we may accelerate to 2012 or perhaps defer something to 2014 to level it out. We have flexibility to adjust this as we get closer to it. Ms. Rogers stated that the maintenance schedules are being incorporated into the City, whereas the equipment was previously maintained by the maintenance companies.

Councilmember Filla questioned the improvement to Fire Station No. 1. Mr. Lambers stated that the Council will need to discuss how the fire station should be reconstructed. He stated that it needs to be either totally reconstructed or replaced. Ms. Filla also questioned as to what year this would need to be done. Mr. Lambers stated this has yet to be determined. The City does plan to keep the fire station there.

Councilmember Rasmussen stated he thought the responsibility of maintaining the sidewalks was that of the adjoining property owner. Mr. Lambers stated that this is correct, but sometimes cities assist in the maintenance. Mayor Dunn stated that we have noted the "need" for repair, whether or not the City takes care of it or the property owner. Mr. Lambers stated that it is the property owner responsibility to maintain and keep the sidewalks clear. If someone slips and falls during bad weather, the property owner would be liable.

Councilmember Azeltine questioned if the City's Code regulates the standard where the property owner would have to maintain the sidewalks to a certain level, and then if they do not adhere to this, they could then be cited. Mr. Lambers stated he does not believe so. Mr. Azeltine questioned what would be done if a sidewalk deteriorated to a point where there could be a public safety hazard. Joe Johnson, Public Works Director, stated previously in a situation like this, a letter would be sent to the property owner giving them 10 days to repair it. If it was not repaired within 10 days, the City could make the decision to fix it and then assess the property. However, the problem with this method is that no one did anything. To do the work and the assessment to recover the cost was more time consuming than what it was worth. The Council determined in approximately 1998 or 1999 that about \$15,000- \$20,000 a year would be dedicated for these repairs. He stated that the City replaces a few thousand feet of sidewalk per year.

Councilmember Rasmussen questioned the City's liability. Mayor Dunn noted that she didn't realize so much work could be done with such a small amount of funds. Mr. Johnson stated that the City is obligated to be in compliance with the American Disabilities Act [ADA]. Mayor Dunn stated that sometimes there is an issue of where it is more of a liability not to have it fixed promptly than it is to expedite it and have it fixed. Councilmember Gullledge noted that at a level of \$25,000 there needs to be a line drawn as to what needs to be replaced and what doesn't. He noted that Mr. Johnson had done some repairs on sidewalks of some neighbors and they were very pleased with the results.

Mayor Dunn noted discussion on Budget Directives to Staff for 2009. Mr. Lambers stated that staff is limited to 2 personnel requests as part of the budget for this year. Mayor Dunn noted however, that if there is a need for additional, it would be brought to the Budget and Finance Committee. Councilmember Gill questioned what would be done if a position is not replenished that has become unnecessary. He stated he would like to see some incentive to various departments that if they are able to eliminate a position, they don't suffer a long term consequence from the elimination if there is a one or two year situation where they don't need to refill the position. Mr. Lambers noted that it is not a rule, but a guideline. Councilmember Gullledge noted to Mr. Gill that the keywords used was "various departments" and that he would like to stay away from providing any type of incentive for the police and fire departments due to a liability stand point. Councilmember Gill agreed.

Mr. Lambers stated that the main event for the Budget Calendar is the Council/Budget & Finance Committee Work Sessions on June 23, 24, & 25th. Last year, the committee preferred to work later to complete the work in 2 days. The agenda will be structured to that effect and if there is a need to carryover a third day will be for overflow.

Mr. Lambers asked the Council to advise by the end of this week if there is some particular division in the City that they would like to have an analysis presented or more information on and he will incorporate it into the presentation. Mr. Lambers stated that the only change in the Vehicle/Equipment Replacement Policy is the directive that was given to him as part of his goals to consider the availability of alternative fuel. The more he has learned about alternative fuel, the more he is unsure if it is really helping the environment. However, funds will be placed in the budget and bids will be taken.

Mayor Dunn questioned what the national average income is for the City of Leawood, as it refers to being more than twice the national average on page 3 of the Standard & Poors AAA Cities comparison chart.

Councilmember Rasmussen questioned what the effect would be on the charts of getting a one mill decrease in 2009.

Mayor Dunn stated that information has been provided during the budget session, and if you would like to look at that we can have it shown, although it probably won't be the recommendation, since it is not what we are forecasting. Mayor Dunn stated that this was at the request of Mr. Rasmussen. Mayor Dunn noted that there was not really a reason to look at 2013 and 2015 when we do the 2009 budget, due to the fact that this is a forecast for 5 years from now. She stated that it will change at the end of this year and next year, as it is very speculative. Councilmember Azeltine stated that every other city in the county and probably the state does it in a neutral fashion. It does not assume out year levy increases. He stated that it was at least worth looking at. Mayor Dunn stated that she doesn't want any member to feel they are not getting information that they want, however, she did emphasize this is a group process that requires consensus. She also stated that staff is forecasting based upon what we have asked them for our citizens, which is an accelerated \$6 million of storm water improvements and the streets are \$16 million. This forecast is analyzed based upon a monthly level that changes. Mayor Dunn stated that staff will continue to analyze this information.

Councilmember Rasmussen questioned if the City of Leawood purchased insurance for any of their bond issues. Roger Edgar stated in the affirmative.

Mayor Dunn expressed her appreciation to Kathy Rogers and her department for their hard work in preparing all of the information needed for the meeting.

There being no further business, Mayor Dunn adjourned the Work Session at 7:19 P.M.

Pam Gregory, Recording Deputy City Clerk