



City of Tonganoxie
Office of the City Administrator

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Date: July 31, 2012

To: The Honorable Mayor Jason K. Ward and Members of the City Council

Subject: Submitted Budget for Fiscal Year 2013

I am pleased to submit for review and discussion a preliminary budget for Fiscal Year 2013 that anticipates total operating expenditures of \$6,789,785, which is a reduction of \$484,086 or 6.7% from the Fiscal Year 2012 budget and \$1,109,774 less than actual expenditures at the close of Fiscal Year 2011. Reductions in budget are almost entirely due to fewer planned capital projects and increased operational efficiencies in personnel, materials, equipment, and supplies. While the reduction is nearly \$600,000, it is offset by rising obligations to debt service. General obligation debt payments collectively will increase by \$151,085 over the Fiscal Year 2012 budget, most of which is attributed to the escalating payment schedule for the retirement of the debt on the water park.

Economic Reality: Back to Basic Services

The structure of this budget is adjusted from prior budgets as a reflection of a flat local economy since 2008, rising debt service obligations, deferred technology upgrades, rising costs in employee benefits, anticipated fuel cost increases, the lease for the police department, and past reductions in fund balances. General municipal revenues are anticipated to **decline in 2013 mostly due to real estate taxes and retail sales tax**. Enterprise revenues should slightly increase approximately three percent, which will be directly attributed to their planned rate increases yet with no anticipated change in the number of customers. In light of this reality, the 2013 budget plans much greater efficiency in operational costs to offset the lack of revenue growth.

Primary efficiencies include **reductions in funding for one management position** in the Administration Department, purchases of materials and equipment, and automotive servicing. With considerably deliberate effort to achieve efficiencies, I anticipate that revenues in Fiscal Year 2012 will cover nearly all anticipated expenditures and prepare the beginning of Fiscal Year 2013 with an adequate financial foundation.

While the Debt Bond and Interest Fund and the Employee Benefits Fund are expected to end 2012 positively, their fund balances will be just sufficient to begin the coming year. The General Fund is projected to end 2012 with an approximate balance of \$280,000. Ten percent of the planned operating expenditures in the General Fund for 2013 is approximately \$163,000. It is important to keep in mind that there are shared demands on the tax levy among funds. In this case, the library requests an additional \$15,000 to cover increased costs in health insurance. When adjusted for library benefits, the remaining amount **available above ten percent in the General Fund is \$102,000** and under special consideration for appropriation by the City Council. I recommend considering this source like one-time cash rather than sustainable revenue.

The 2013 budget provides funding for basic municipal services, debt service, and capital improvements. Among basic services are public safety, infrastructure, and application of policy and regulations. To implement these core services, the City of Tonganoxie, in 2013, is anticipated to **employ twenty-seven full-time employees**, twenty-five part-time employees, and thirty-five seasonal employees during the summer. Please notice the enclosed document called, "Tonganoxie Position Count 2006-2013." The number of full-time staff has fluctuated very minimally in the past seven years.

Proposed Restructuring

Included in this submittal is a request to **reclassify a position** from Meter Reader to Maintenance Worker II. The person in the position has specialized certifications as an automotive mechanic. I feel that we can maximize his skills above the demand of Meter Reader by providing preventative automotive maintenance in the public works building on most municipal vehicles, especially on police vehicles, and achieve significant savings in costs for contracted automotive services. I estimate a pay increase of \$2,800 annually, which is the result of the employee's salary converting to the first step of the pay grade for Maintenance Worker II. In addition, we are continually installing automated water meters, which is reducing the need for the meter reading function. At the same time, there is significant demand in wastewater treatment. This current meter reader is capable to provide relief there, too.

This budget proposes some **restructuring of the allocation of personnel salaries** among the funds in which the employees work. For example, the salaries of those employees that perform work in the water supply plant or on a water line repair job would be charged to the Water Operations Fund. The same reasoning applies for the administrative and management employees that oversee the utility billing. I believe this recalculation is more suitable to the actual work performed than was previously allocated. Although you will find a significant increase in the salary line of the Streets Department in the General Fund, the overall recalculation offsets this increase sufficiently to allow the General Fund to balance in 2013. The restructuring also will help the Sewer Operations Fund to balance in 2013 after a planned reduction in its fund balance in 2012. While the projection for 2012 still shows a reduction, I believe that some additional savings may be achievable before the end of the current fiscal year.

Included, also, is another restructuring regarding the revenues of Water Tap Fee and Water Tower Lease. In 2012, these revenues have been dedicated to the Water Capital Reserve Fund. I propose **directing these continuous operating revenues** into the Water Operations Fund where continuous operating expenses occur. In the event that the City Council still would desire to fund a water infrastructure project, it still would reserve the option at any time to transfer an agreeable amount from the remaining fund balance of the Water Operations Fund to the Water Capital Reserve Fund.

In the detailed pages of the Water and Sewer Operating Funds you will find proposed transfers from these funds to their respective capital reserve funds, which amounts would leave twenty percent (20%) in the operating fund balances. In the detailed pages of the Water and Sewer Capital Reserve Funds, you will see transfers in and then an expenditure that anticipates **utility infrastructure improvements**.

Capital Projects

The only active capital project is Chieftain Trail, which was originally estimated to cost the City of Tonganoxie approximately \$270,000, which is the amount that has been committed from the County Sales Tax. The budget for 2012 allocated \$100,000, and this proposed budget for 2013 commits an

additional \$170,000. The County Sales Tax Fund has a sufficient fund balance that can pay for the full \$270,000. The projected fund balance on the enclosed document, "2012 Budget Year End Projection by Fund," anticipates that significant payments for construction will occur in 2013, which would allow time to save up more fund balance. Given that Chieftain Trail would then be constructed and paid for in 2013, the County Sales tax once again would become available for consideration of other capital projects in Fiscal Year 2014.

Debt Service

General obligation debt service, which is backed by the full faith and credit of the City of Tonganoxie (General Fund), is rising due to the escalating payment schedule of the Series 2007B bonds that funded the construction of the water park. In 2013, that payment is planned to be funded first by the Water Park Sales Tax and the **remainder by taxes that will be levied** in the Debt Bond and Interest Fund.

Our financial advisors express strong confidence that the "balloon" payment for the industrial park of \$1,707,000 can be refinanced for twenty years with fixed payments of principal and interest. They proposed a scenario in which the first-year payment would be approximately \$60,000 and subsequent years would require full principal-and-interest payments of nearly \$130,000 annually. In doing so, there would be **no obligation in Fiscal Year 2013** for this particular debt. I structure this proposed budget to withhold debt service payment on the industrial park in 2013. However, this debt will be a significant challenge in the following years.

While I calculate that both the Water Operations Fund and the Sewer Operations Fund will adequately fund respective debt service payments, both funds should be monitored for growth in 2013. The City Council has agreed in prior years to increase service charges by three percent (3%) per year in order to meet the demand of the debt service. The original pro-forma schedules for each fund also anticipated **three percent growth in customer base, yet this increase has not been realized**. I projected in this proposed budget three percent increase in service charges due to the rate increases but added nothing more in consideration of the current number of customers.

Other Commitments

Listed below are commitments in addition to basic services that remain fully funded by the 2013 budget.

Kansas League of Municipalities	\$ 2,000
Chamber of Commerce	5,000
Leavenworth County Development Corporation	7,425
Retail Commercial Development Corporation	10,000
Annual Street Maintenance	100,000
Water & Sewer Line Repairs	120,000
County Road 1	100,000
Chieftain Trail	170,000
Utility Infrastructure Improvements	<u>840,000</u>
	\$ 1,354,425

Some increasing items are much less in our control and are contemplated in this budget are increased costs for pension, workers compensation, motor fuel, and software licensing. Included, per request of the library director, is also an increase of \$15,000 for library benefits.

Ways to Save

After considerable analysis, I feel confident that we can relieve the 2013 budget of \$25,000 for an overall information technology upgrade and pay this expense with the current budget. I cannot stress enough the importance of having an exchange server system with security, redundant back-up of records, filtering of usage, and the ease of doing business.

The police chief and I also feel confident that he can revise the schedule of officers among full-time and part-time personnel in order to 1) offset the \$6,000 increase in pay for part-time officers and 2) remove the need to increase funding overall for part-time scheduling. The police department endured a lengthy period of time in 2012 with fewer available full-time officers due to injury, training, and resignation. 2013 looks more promising to have all current full-time and fully trained officers available for duty, which should **reduce the demand for overtime**.

In earlier budget discussions, I listed a decision package for two police vehicles due to some of the fleet aging with significant mileage and growing repair costs. An option could be to pay for one equipped vehicle with equipment reserve funds. **This option would still advance the usable condition of the fleet, cause no burden on the General Fund, and avoid additional debt.**

Due to an exceptionally limited time to prepare this budget, I have a few other ideas that may achieve more savings for Fiscal Year 2013, but they will require time to research. As examples, I believe that we may **find better rates** for mobile and desktop telephone service, property insurance, and health insurance. I also feel certain that there are options to lower the health insurance premiums with the current carrier by implementing a wellness program. The same possibility may be true for workers compensation if we were to implement a routine safety program.

What Is Missing

Not contemplated in the current proposal of the 2013 budget are the following:

Two police vehicles	\$ 19,000 (first of four annual lease payments)			
High risk pension (fire/police)	\$ 75,000			
	Fund	1.5%	2.0%	2.5%
Employee raises	General	\$ 17,023	\$ 22,698	\$ 28,372
	Water	2,949	3,932	4,915
	Sewer	1,937	2,583	3,228
	Sanitation	<u>337</u>	<u>449</u>	<u>561</u>
		\$ 22,246	\$ 29,661	\$ 37,076
New Police Facility	\$100,000 (annual payment with ten-year financing)			
Tongy Days Festival	\$ 5,000			

In the following pages you will find a schedule of personnel positions and their approval history back to 2006, a summary of all funds with their carry-over balances, a summary of revenues and expenditures by department, and line-item detail by fund and by department. I feel confident that this budget is fully achievable, and I am available for discussion and clarification.

Respectfully submitted,



Nathan D. McCommon
City Administrator

Enclosures

Tonganoxie Position Count 2006-2013
2012 Budget Year End Projection by Fund
2013 budget – fund by dept by function
2013 budget – fund by department by line item

cc: Kent Heskett, City Superintendent
Dave Bennett, Fire Chief
Jeff Brandau, Police Chief
Patricia Hagg, Interim City Clerk