

October 1, 2010

Honorable Mayor and City Council:

I am pleased to present to you the 2011 Budget for the City of Gardner. It is the third budget that the Governing Body has had to deal directly with the economic recession that has swept the country. Though the recession is officially over, the impacts to municipal budgets will continue to be felt for some time as the housing industry is still hurting, people are not increasing their spending habits, and property valuations have continued to drop.

Over the last three years spending has been slashed through position elimination, capital projects left unfunded, no raises for employees, reductions in overtime, and reductions in benefits. In addition the Council raised the General Fund taxes in 2010 by .5 mill, and now in 2011 has had to increase the Bond and Interest Fund by 6.5 mills. This last mill increase is designed to get the Bond Fund past a shortfall through 2016, while reducing the mill rate back to the original 2010 rate over this time. From double-digit increases in valuation due to new construction and sales tax growth, to negative growth in sales tax and a 0% increase in property tax, the funds of the City have been struggling to manage this unprecedented drop in revenues, and unprecedented slow recovery. The fund balances have remained healthy due to our sound financial policies. We do feel we are at the bottom of the economic drop and are expecting a recovery over the next few years. Our economy is not anticipated to be back to the years when there were 400 single family homes permitted in one year, but to a new normal with hopefully less boom and bust.

The staff and the Governing Body have planned not only 2011, but have developed a financial plan for the five years after that. The 2011 Budget has been guided by the strategic goals that are listed in this document, that the departments have planned their objectives around. In addition the Governing Body has set out to develop a new strategic plan for the City for the 2012 Budget cycle that will take us through this five-year recovery period and position the City for when revenues return in earnest in 2016. Until then the budgets remain tight and the decisions hard. City employees have stepped up and filled in where vacancies were eliminated or, as in 2010, when fellow employees were laid off. The Governing Body has recognized these hard efforts and have set aside a \$300 bonus payment for each employee in 2011.

Below are highlights of the various funds that are found within this document. I want to thank the Directors and staff for their efforts to find ways to manage their budgets and still maintain a good level of service, and to Finance Director Laura Gourley and Assistant City Administrator Melissa Mundt for their efforts in developing this budget and what you see in this document. I would also like to thank the Governing Body, many of them newly sworn in, for their work on this budget and their support of staff and myself during this process.

Sincerely,

Stewart Fairburn

City Administrator
City of Gardner

City of Gardner 2011 Operating Budget

The annual operating budget was prepared using a modified accrual basis of accounting for all governmental, proprietary and fiduciary fund types. The basis of budgeting differs from the basis of accounting used by the City since the latter uses a modified accrual basis for all governmental fund types and an accrual basis for proprietary and fiduciary fund types. The budget can be amended through City Council action as necessary. The amending process can be done at anytime during the year, but must be completed before exceeding the municipality's budget authority. The last time amending the budget may occur is on or before December 31 of the budgeted year. In order for the City to meeting the December 31 deadline, the same process for approval of the annual budget must occur, State forms completed, Notice of Budget Hearing published, budget hearing held, City Council certifies the amendment, and amendment sent to the County Clerk. The City must present a balanced budget for each fund with a tax levy, which for the City of Gardner is the General Fund and Bond and Interest Fund. The State of Kansas budget law requires a balanced budget be presented for each fund with a tax levy for the Proposed Budget Year. Budgeted expenditures must equal estimated revenues, including the amount of advalorem taxes to be levied.

General Fund

Taxes and Fees:

The General Fund has been greatly affected by the economic recession since most of its revenues come from property taxes, sales and use taxes, and franchise fees.

AdValorem Property Tax

2001 - 2008 per year avg:	17%
2009 - 2010 per year avg:	3%
2011:	1%

Sales and Use Taxes

2001 - 2006 per year avg:	15%
2007 - 2010 per year avg:	- 5%
2011:	1%

Franchise Taxes

2001 - 2008 per year avg:	10%
2009 - 2010 per year avg:	- 1%
2011:	5%

Additionally Municipal Court revenues, another major revenue source, are \$78,000 less than budget and nearly \$44,000 less than the year before. Tickets are down due to staffing shortages from vacancies and medical issues in Public Safety, road construction, as well as the enactment of higher speed limits last year on several of our arterial roads.

Building Activity:

The City has doubled its population in the last ten years, but building activity, and valuation increases of current structures have fallen off sharply.

Single Family House Permits:

2001 - 2007 per year avg:	291
2008 - 2010 per year avg:	66
2011:	72

But all in all, it is anticipated that the recession impacts have bottomed out and that we are expecting a slow improvement in building activity and revenues over the next few years. A positive impact for the General Fund will come in 2016, when it is estimated that the revenue from the TIF Fund will be returned. But the General fund will also be called on to help out other funds: 2010 and 2011 Bond and Interest Fund transfers of \$500,000; 2012-2016 transfers to the Park Sales Tax Fund of \$1,450,000.

As can be seen in the following summaries, revenues have held fairly constant but only with transfers from other funds and a 2010 .5 mill increase in property taxes. Expense has dropped, but it would have dropped more were it not for the transfers to Bond and Interest that were needed. The number of employees has dropped by 19 positions or 19% since 2008. 2010 reflects the six position reduction in force from the Community Development Department that was implemented in May 2010. The four positions dropped in 2011 consist of a Parks Administrative Assistant, two Public Safety Officers, and a funding transfer of one half of the Operations Manager and Public Works Administrative Assistant to Water/Wastewater, that accompanies the transfer of supervision of the Line Maintenance Division from Water/Wastewater to the Operations Manager.

Revenues (in millions):

2008: \$8.6

2009: \$8.6

2010: \$9.0 includes \$493,000 transfer from CIP and Risk funds; \$65,000 of .5 mill increase.

2011: \$8.9 includes \$60,000 transfer from CIP; \$90,000 of asset sales; \$150,000 from extending TIF payments (\$150,000/year for four years and extend the TIF by one year)

Expenditures (in millions):

2008: \$9.7

2009: \$8.9

2010: \$9.0 includes \$200,000 transfer to Bond and Interest Fund

2011: \$8.8 includes \$100,000 transfer to Bond and Interest Fund

Fund Balance \$ (in millions) and as % of Expenditures:

2008: \$2.6 27%

2009: \$2.3 26%

2010: \$2.3 25%

2011: \$2.4 27%

Budgeted Employees:

2008: 99

2009: 96

2010: 84

2011: 80

2011 Budget Overview:

The 2011 Budget expenditures are less than the 2010 estimate due to a full year of reduced expenditures from the elimination of six positions in Community Development, as well as the elimination of the three vacant positions (2 -Public Safety Officers, 1-Administrative Assistant in Parks and Recreation) and funding 1 FTE out of Water/Wastewater funds. The transfer to the Gardner Township for the cemetery was reduced by half (\$7,600). Furthermore, the Southwest Johnson County Economic Development Corporation (EDC) payment is being moved from the General Fund to the Economic Development Fund to balance revenues to expenditures in the General Fund. Consequently, there is a corresponding 50% drop in the payment to \$25,000 per year to EDC, since there are not enough sufficient reserves in the Economic Development Fund to cover the EDC payments at the traditional rate over the next five year period. The combination of reductions noted above are offset in part by increases in health insurance, unemployment insurance, and KPERs retirement. The 2011 Budget does not show any pay increases for full-time or seasonal employees. Expenditures are also showing a \$100,000 transfer to Bond and Interest Fund.

2012-2016 Projection:

The assumption for these five years is that there is a slow improvement in the economy and the homebuilding industry. In 2016 it is anticipated that the TIF funds will come back to the General Fund. Starting in 2012, there is a 3% per year increase in salaries included in order to keep staff and to be able

to recruit when necessary. Transfers to Bond and Interest Fund are anticipated to stop in 2011. From 2012-2016 the General Fund shows transfers to the Park Sales Tax Fund between \$200,000 and \$400,000 each year. The five-year plan also shows the need to reduce expenses starting in 2012 by approximately 4% or \$360,000. The fund balance during this time stays at 21% or better except for 2015 where it drops to 16%. A one year drop with a major increase from TIF revenues the next year is very workable.

Bond and Interest Fund

The Bond and Interest Fund has three parts: Projects supported by Taxes, Projects supported by Fees, and Projects supported by Benefit Districts. Each part has its own problems.

Property taxes went from double digit increases from valuation changes and new construction (2005 - 2008 averaged 10% increases per year (2007 was 20%), to a rapid drop in growth due to the recession (4% in 2009 and 0% in 2010).

Fees being transferred in from the Street Improvement Fund are also reducing due to reductions in platting. 2010 estimate shows a shortfall of \$150,000 and the 2011 Budget shows a shortfall of \$690,000. These shortfalls are projected to remain through 2016.

Benefit District payments are being reduced due to bankruptcies. Though there are payments made in the General Fund for 2010 and 2011 (\$200,000 and \$100,000) significant shortfalls remain that will have to be paid for by taxes. Eventually the payments will be made and the property sells, but it is expected to be several years before any balance can be maintained.

In addition to the General Fund payments, the Special Highway will also be making \$150,000 to \$200,000 payments through 2016. The City Council had to raise the Bond and Interest mill rate by 6.5 mills or \$845,000. There is a possibility that another 1 mill may be required in 2012, but it is expected to be reduced by 2.5 mills in 2014 and 5 mills in 2017.

Special Revenue Funds

Economic Development Fund

This fund supports business recruitment, retention and expansion, as well as tourism efforts through the Gardner Area Chamber of Commerce and by providing grants to agencies. Beginning in 2011, it will also support the Southwest Johnson County Economic Development Corporation (EDC), previously funded in the General Fund - Administrative Department.

The revenue source for this fund is a guest tax of four percent upon the gross receipts paid by guests for sleeping accommodations at the one hotel in the City. Revenue is anticipated to be \$35,000 in 2010 and 2011, the same as 2009, however that is down \$10,000 from the all-time high in 2008.

Due to the shortfall in the General Fund, the funding for the Southwest Johnson County Economic Development Corporation has been moved here. The funding has been reduced from \$50,700 in 2010 to the proposed \$25,000 for 2011 and beyond. The City of Edgerton was able to budget \$25,000 for the Economic Development Corporation for the first time, which offset the loss from Gardner. Intact is the Chamber funding at \$20,000, but the grant dollars have been reduced to only \$10,000. In 2010 the Festival on the Trails received \$11,000, Gardner Museum \$7,000, and the Gardner Community Theater \$3,000. All of these organizations asked for funding for 2011, but the Festival on the Trails was not funded. Gardner Museum has \$7,000 and Gardner Theater has \$3,000.

Risk Management Reserve Fund

All of the monies from this fund were transferred to the General Fund in 2010, to assist with the downturn in the economy. However, there is no contingency left to handle claim payments or purchase safety items

that are not budgeted. There is no future budget for this fund.

Special Alcohol and Drug Fund

This program provides funding for institutions in the County to combat and prevent drug use, as well as other societal issues. In Gardner the funding is primarily going to the USD 231 for materials to use in educating students about illegal drug use.

The Special Alcohol and Drug Fund is collected from a levy of 10% of gross receipts tax on the sale of any drink containing alcoholic liquor, sold by a club, caterer or drinking establishment. The revenue generated from this tax is allocated 30% to the state of Kansas and 70% to cities and counties where the tax is collected. The city share is mandated (by Kansas State law) to be allocated 1/3 to the General Fund, 1/3 to the Special Parks and Recreation Fund and 1/3 to the Special Alcohol and Drug Fund. The program is administered by the County.

The revenue was the highest in 2008 at \$30,057, dropping to \$29,050 in 2009 and an estimated \$29,000 in 2010 (down from the budget of \$36,000). 2011 is projected to be the same as 2010. This is a pass through account and the City is not liable to provide funding beyond what it receives. Expenses for 2011 are budgeted at \$32,000, down from the \$35,800 spent in 2010.

Administrative Benefit Fee Fund

The City of Gardner established a fee for management of Benefit Districts as they are established in the City of Gardner. This fund accounts for those fees collected and the disbursement to the General Fund, which conducts the work to administer the benefit districts. No new benefit districts are anticipated so new revenue is only projected to be interest. With payments of \$50,000 per year to the General Fund, there is funding available through 2016.

Law Enforcement Trust

The City of Gardner from time to time receives distributions of monies that are distributed from drug seizures. These funds are then set aside for use by Public Safety for purchase of items to support its ongoing efforts to combat drug activity in the community. No new funding is anticipated at this time so no expense is planned for 2011. There is no requirement to spend it in the year it is received.

Capital Project Funds

Park Improvement Fund

The Park Improvement Fund is collected through park impact fees on a per lot basis. The Park Improvement Fund accounts for the transfers made to the Park Sales Tax Fund for the purpose of funding park related debt. In the past, transfers were made to the Capital Improvement Program for Park Development projects, but due to the downturn in the economy all park funds are transferred to the Park Sales Tax Fund through 2016.

Revenues between 2005-2007 averaged \$237,000 per year. Then in 2008 they dropped to \$53,671. Due to the Coleman project, 2009 revenues were \$207,881, of which only about \$40,000 was not attributable to Coleman. The 2010 estimate is \$165,700 due to an apartment complex being built, but 2011 is only projected at \$61,900. The only expense budgeted for the next several years will be to transfer funds to the Park Sales Tax Fund - \$550,000 in 2011.

Special Parks Fund

Through the revenues of the alcohol tax, this program provides funding for the design of new parks and other engineering and planning studies that are needed. However, these funds are being transferred to Park Sales Tax Fund to help pay for the Aquatic Center and Celebration Park.

2011 Revenues are projected at \$29,000, the same as 2009 and 2010. The transfer expense is budgeted at \$40,000 for 2011, and projected at \$35,000 per year through 2016.

Park Sales Tax Fund

In June of 2005, the citizens of Gardner approved a one-half of one percent (0.5%) sales tax increase that took effect January 2006 and will last through 2015. The sales tax increase is specifically earmarked for the expansion to the City's swimming pool and the development of Celebration Park.

Revenues dropped off in 2009 but are anticipated to hold steady. The main issue is that the anticipated yearly increases in sales tax did not materialize, nor did the second large retailer. Because of this the Park Improvement Fund and the Special Parks Fund have been and will continue to transfer in revenues and the General Fund will begin transferring funding in 2012. 2011 revenues are budgeted at \$1,589,700, of which \$1,449,700 is debt service and \$140,000 is a cash contingency.

Street Improvement Fund

This program funds the development of major street development. The excise tax that is paid at time of platting goes to this fund. Other funds used for these projects are federal and state grants, County CARS program, and developer reimbursements.

The most revenue received in one year was in 2005 with \$1.5 million, followed in 2006 with \$1.3 million. Then it fell off. 2009 had \$456,000, of which all but \$12,000 was related to the Coleman project. 2010 is estimated at \$131,000 in excise tax, more than half of this for the Horizon Apartment project. Also in 2010 there is \$400,000 pass through for the ARRA grant for the 56 Highway intersection project. 2011 is projected with \$243,800, with 48% of that coming from a possible large project.

Expenditures are primarily for debt service transfers with \$1.4 million estimated for 2010 and \$947,000 for 2011. The reduction in expense is due to the Bond and Interest Fund using property taxes to cover the shortfall. There are no cash projects planned for 2011-2016

Special Highway Fund

The Special Highway Fund provides funding for various street and curb programs. These programs include an overlay program, street slurry sealing program, and curb repair. This fund also contributes to the provision of Americans with Disabilities Act sidewalk ramps and sidewalk extensions in areas where developers have stopped short of connecting with the proximal sidewalk.

Revenues come from the Gas Tax which topped out at \$461,000 in 2008 and has falling off since and is estimated for 2010 and 2011 at \$420,000.

Starting in 2009, this fund has begun paying for some of the debt service projects from Bond and Interest Fund. 2010 and 2011 has \$150,000 each to support the B&I Fund, with \$300,000 and \$440,000 respectively to support road maintenance. The 2010 project is Madison rehab, and the 2011 project is a portion of 183rd Street. More funding for road maintenance is needed, but until the Bond and Interest Fund is balanced out Special Highway will still be used, possibly through 2016.

Capital Improvement Reserve Fund

The Capital Improvement Reserve accounts for capital improvement projects or studies that are financed from transfers from the general fund, park improvement fund and other sources of revenue.

The City Council decided to transfer available funding from this fund to the General Fund in the 2010 Budget. There were additional savings in 2009 and 2010, so that 2011 has one sidewalk project budgeted for \$35,000. 2011 also includes \$1,000,000 for the Airport Drainage Project that is being funded from a federal grant and from the airport. There is a transfer to the General Fund budgeted of \$60,000 to eliminate the fund balance.

Stormwater Fund

This program funds the stormwater management projects throughout Gardner. The City receives grant funding from Johnson County to pay for portions of these projects. The grant funding is completed, no storm water utility was implemented, and there are no future projects planned.

Internal Service Funds

These funds include Risk Services, Building Services, Information Technology Services, and Utility Billing. By design these funds are charged back to the operating departments and revenues therefore equal expenditures.

Risk Services

The 2011 Budget is 6% higher than the 2010 estimate, but 3% less than the 2010 Budget. The increases are in Worker Compensation and General Liability insurance.

Building Services

The 2011 Budget is 2% less than the 2010 Estimate. Considering that Electricity for City buildings is 35% of the Budget and increased 5%, the additional savings show a close watch on contracted services and purchases. No major repairs are planned for.

Information Technology

The 2011 Budget is nearly 7% less than 2010. This is primarily due to managing contractual services and reducing capital replacement of equipment. It is hoped that the aging copiers and computers can be kept in service and replaced as a last resort over the next few years.

Utility Billing

The 2011 Budget is 3% higher than 2010 due to changes in Health insurance coverage among the staff and increases in the charges from the other Internal Services. Between 2012 and 2016, four pickup trucks are scheduled for replacement.

Water and Wastewater Utility Funds

Water Fund:

The Water Fund itself has been quite stable, but this fund has been, and will be, used to assist the Water Development and the Wastewater Development Funds in paying debt service for capital projects due to growth revenues being down. Between 2004 and 2008 the Water Fund has transferred \$3.2 million to the Water Development Fund. Another \$2.8 million transfer is planned between 2012 and 2015. Between 2009 and 2013, the Water Fund is transferring \$4.4 million to the Wastewater Development Fund. Because of these transfers, the Water Fund has had 5% rate increases in 2009, 2010 and for 2011. A 4% rate increase is planned for 2012. In addition, the Water Fund has had to curtail some of its capital projects, such as water line replacement. The 2011 Budget does include \$337,000 for maintenance to the storage facilities, and \$75,000 for design of the Spillway rehab project. This project estimates \$1,425,000 in expense in 2012, funded through a County grant, and \$600,000 of City debt service over ten years.

Water Development Fund:

The Water Development Fund has and will receive funding from the Water Fund as explained above. No new projects are planned through 2016.

Wastewater Fund:

The Wastewater Fund must transfer funds Wastewater Development to pay for one-half of the new treatment plant, but it has also been put into the position that it must transfer more to cover the debt service on the development projects due to growth revenues being down. Between 2008 and 2016, \$14.5 million is estimated to be transferred to Wastewater Development, \$1.4 million in 2011 alone. The wastewater has been increasing its rate by 8% per year, and rate increases are planned through 2016. There are no capital improvement projects for 2011, and it is not until 2016 that there is sufficient money to begin wastewater line replacements.

Wastewater Development Fund:

This fund has also seen its growth revenues being reduced which has resulted in transfers in from Wastewater Fund and Water Fund. Together these funds are transferring in \$18.9 million between 2008 and 2016; \$2.4 million budgeted for 2011. During this same period of time growth revenues are estimated at \$7.7 million. Three projects (Overflow tank and two line improvement projects) are planned between

2012 and 2016 for \$3.7 million. In 2011, \$90,000 is being set aside to plan for the Treatment plant expansion that needs to be constructed by 2017.