



Honorable Mayor Carl Brewer,
Members of Wichita City Council

November 1, 2007

Dear Mayor Brewer and City Council Members:

I am pleased to present the City of Wichita's 2008-2009 Adopted Budget, a guiding organizational document that reflects efficiency, financial stewardship and best organizational practices.

The Adopted Budget is the result of an inclusive, months long process that promotes transparency, empowers employees ranging from the front-lines of service to top administrators and encourages collaboration embodied in Budget Strategy and Budget Project Teams. Scores of employees from all departments, participated in the detailed, time-consuming work of producing the Adopted Budget.

Further, the Adopted Budget is consistent with the guiding principles of Transforming Wichita (TW), an organizational improvement initiative that promotes the core principles of Integrity, Respect, Inclusion, Stewardship and Excellence. The budget component of TW is Managing For Results (MFR), the performance-based process that aims to achieve the best results, known also as outcomes, within the City's budget.

Producing a budget for a large and diverse community of approximately 360,000 people is a significant and complex undertaking. The ramifications can be profound. This budget funds outcomes important to achieving success related to the primary goals established by the Wichita City Council, the seven-member governing body that represents citizens. The primary goals are 1) Safe and Secure Community, 2) Economic Vitality and Affordable Living, 3) Efficient Infrastructure, 4) Quality of Life, and 5) Core Area & Neighborhood. Performance targets are established for each primary goal in the form of Indicators, which help measure success of the primary goals. Strategies have been developed to ensure efficient outcomes.

The governing body's expenditure priorities help determine which services will be provided for citizens and which outcomes will be achieved. The governing body sets policy and helps the organization set the price of government. Based on recent policy direction, for example, the price of government includes maintaining a stable and equitable mill levy rate and General Fund Reserve, or savings account, representing at least 10% of expenditures. The budget process focuses on providing services within projected revenues and prioritizing which outcomes provide the most significant and efficient results. The City Council's goals and input drive the budget process.

The 2008-2009 Adopted Budget totals \$495,619,910; of this amount, the general fund is \$195,354,740. Like a family's household budget, City government must live within its means, the income projected to be generated for the year. It's important to stress that expenditures must be set and based upon available revenues. One significant revenue source is the mill levy, which is not projected to increase. However, the assessed valuation of the City is increasing as determined by the Sedgwick County Appraiser. Increases in appraised values raise property tax revenue. However, like many local households, the City of Wichita is facing significant budget pressure from rising costs associated with goods and services.



For example, fuel, insurance, construction and labor costs continue to escalate. Increasing costs will continue to impact the organization's ability to purchase desirable outcomes, particularly since revenues are not keeping pace with rising costs.

CITY COUNCIL PRIORITIES

The Governing Body represents the citizens who are served by this significant and complex budget process. City Council members help convey the needs and desires of citizens. Elected officials also help the organization convey realities and challenges regarding the budget. Within the context of budget challenges such as rising costs and diminishing revenue, the 2008-2009 Adopted Budget funds several top Council priorities, including:

- ◆ Providing funding for economic incentives to promote job growth up to \$1,000,000 annually;
- ◆ Maintaining a stable mill levy rate, which marks the 14th straight year;
- ◆ Maintaining an appropriate reserve level in the General Fund of \$23,025,888 or 11.8% in 2008;
- ◆ Continuing an emphasis on providing affordable air fares in Wichita by providing \$953,010 annually;
- ◆ Providing one full mill of funding for cultural arts, which amounts to \$2,994,790;
- ◆ Enhancing emergency response service with the projected opening of three new fire stations, which amounts to \$2,500,000;
- ◆ Continuing the emphasis on providing policing services, with no significant adjustments to the current level of policing outcomes, including at least a 6½ percent annual wage increases over three years to the majority of its members;
- ◆ Continuing support for the current level of the School Resource Officer program, in conjunction with the USD 259 Board of Education, with a total costs of \$1,996,560 of which the City's share is \$1,156,290.

BUDGET CHALLENGES

This budget year has presented tough decisions due, in part, to expenditures outpacing revenues, an inconsistency that requires the governing body to assess and re-assess priorities, forces administration to focus on appropriate funding levels and demands staff to review service outcomes. Although revenue projections are largely in line with forecasts from the previous year, there are key areas of concern.

- ◆ ***Machinery and Equipment Impact:*** Beginning in 2007 the elimination of the Machinery and Equipment (M&E) revenue from the property tax base, which is based on State Legislative action, reduces revenues by an estimated \$200,000 in 2007. This is manageable in this budget cycle, due in part to efforts by the Legislature to mitigate the impact. However, in future years, as additional M&E funds dwindle and the State's assistance to mitigate the impact significantly declines, the resources available to provide desirable outcomes will also significantly decline. By 2013, the financial impact of reduced M&E funds is expected to rise to \$7.7 million annually. It should be noted that the revenue shortfalls may be mitigated by business growth and expansion incentivized by the removal of the M & E tax.
- ◆ ***Gas Tax:*** The State gas tax is a significant source of revenue for the City. As gasoline prices significantly rise, gas tax reductions are forecasted. An impact of \$600,000 is anticipated beginning in 2007. To the extent higher pricing impacts the consumption of gasoline, City revenues could be additionally and adversely impacted, since the gas tax is based on the volume of gallons consumed.
- ◆ ***Assessed Valuation Uncertainty:*** With a stable mill levy rate, property tax revenues for the City grow only with annexation, real estate transactions and, most significantly, changes in the value of real estate as determined by the County Appraiser. In the past, property tax revenue has performed well, even with a stable mill levy rate, due to continued strength in local real estate values, as reflected by the County Appraiser. For 2008, valuation is projected to increase by 5.7 percent. The budget is based in the future on the presumption of a continued strong and vibrant real estate market in Wichita. However, the General Fund could be affected adversely by sub-prime borrowing, over supply in the market or an economic downturn in assessed valuation. This is particularly acute due to the significance of property taxes in the General Fund revenue portfolio.



- ◆ ***Non-recurring revenue sources:*** The budget is based, particularly in 2007, on several non-recurring revenue sources such as an additional \$500,000 from the Property Management Fund, Pension Reserve Fund transfers of up to \$500,000, and an additional \$200,000 transferred from the Landfill Post Closure Fund. These transfer amounts are not expected to be recurring revenue streams. If these non-recurring expenditures are needed to fund recurring costs, the unplanned expenditures could adversely affect the ability to finance future government services.

EMERGING ISSUES

Beyond current budget challenges, there are emerging issues that could have a major impact on the operating budget and alter service delivery and outcomes.

- ◆ ***Reserve Fund Levels:*** Future forecasts project a deficit in 2009 and beyond, based on current policy and staff's best estimates of revenue and cost projections. These projected deficits potentially threaten Council direction to maintain a Cash Reserve Fund balance amounting to 10-15% of the General Fund Budget. If this potential threat materializes, the Governing Body may have to drastically reduce expenditures or explore new revenue streams.
- ◆ ***Continued Reliance on Property Tax:*** A key emerging issue that will need to be addressed soon is the continued and increasing reliance on property tax. In 1991 the property tax consisted of 32.5% of the General Fund revenues; in 2007, the property tax consists of 37.3% of revenues. This trend reflects an increasing and perhaps over reliance on Property Tax revenue.
- ◆ ***Imposed County Jail Fee:*** Sedgwick County currently levies taxes to provide jail services to all citizens of the county, including citizens residing in Wichita. Based on recent County Commission action, the County is seeking to shift the cost of providing jail service from County taxpayers to City taxpayers. This Budget does not include funding for this proposed fee, which could cost the City of Wichita as much as \$3 million annually.
- ◆ ***Casino in Region:*** The approval by Sumner County voters to allow a destination casino in this region with a possible location 18 miles from downtown Wichita could have an impact on City services and finances.
- ◆ ***Arena Redevelopment Plan:*** City staffers have been in discussions with elected officials on the redevelopment of the area around the proposed Downtown Arena. The Downtown Arena affects the Capital Improvement Program (CIP) as well as the annual Operating Budget. Public safety service levels will increase in downtown based on increased social and residential activity. The increased activity will require the City to examine relevant resources and assess service delivery strategies.
- ◆ ***Pavement Management:*** A key service level reduction in the 2008-2009 Adopted Budget will lower the level of pavement maintenance in an effort to help balance the budget. This reduction will decrease the pavement index score levels, a key indicator regarding street conditions. Without additional funding, the pavement maintenance score will soon reach levels inconsistent with community standards.
- ◆ ***Aging Fleet:*** The average age of the City's fleet of vehicles is rising and already exceeding undesirable levels. Lowering the average fleet age decreases inefficiencies and maintenance costs. If additional investments aren't made to City fleet, inefficiencies will continue, maintenance costs will rise and service, or outcomes, will suffer.
- ◆ ***Employee Compensation:*** An adequately compensated staff, relative to competition in the market, is critical to retaining productive employees and sustaining good morale. However, adequate employee compensation must be balanced against fiscal responsibility, sound financial stewardship and consideration to the taxpayers



who fund compensation packages. Additionally, as the work force reacts to demographic trends and globalization, competition for highly skilled and productive employees intensifies. Compensation remains a significant issue for organizations that want to thrive, motivate employees and encourage high performance that can result in efficiencies, better service delivery and cost-savings.

ENVIRONMENTAL SCAN

In addition to reviewing budget challenges and considering emerging issues, the budget process also benefits against the backdrop of an environmental scan, presented to City Council members at the beginning of the budget process. The scan is designed to provide a snapshot of future trends that may have a significant impact on the City of Wichita. More specifically, the trends may affect future budget considerations or expenditures. To quote social and political commentator George Will, "The future has a way of arriving unannounced."

City employees, administrators and policymakers may want to consider these trends as a means of gaining more insight and guidance relative to future budget processes. Discussing these trends help us plan for future challenges rather than replicate past actions that may no longer be effective.

The following abbreviated list of trends relate to changing demographics, media, technology, community patterns, and fiscal stress on governments.

Changing demographics: Changing demographics will likely have an impact on community needs and expectations as well as the ranges and levels of service delivered by local government. Wichita is a community that is aging while growing increasingly racially and ethnically diverse. Since 1980, the City's median age has increased to 34.2 years from 29 years. The population numbers of Asians and African-Americans have remained proportional to the overall population. However, the representation of Hispanics in the community has increased to 12.1 percent from 3.5 percent, over the same period.

With a population growing older and more diverse, it's increasingly important to retain or attract young people to maintain Wichita's vibrancy and to address language and other challenges related to a growing population of Latino immigrants. What will be the role of government in retaining young people and accommodating a growing number of immigrants? How will such changing demographics influence the range and delivery of services?

According to *Visioneering Wichita*, regional improvement collaboration, each year 8,500 youth transition to young adulthood in the Wichita Metropolitan Statistical Area (MSA). Each young adult who leaves the area represents a lost investment of \$300,000, not including the future losses related to brain drain. Wichita is positioned to retain and recruit young people, in part, because of its relatively attractive cost of living, housing market and commute times – community strengths that recently have garnered recognition in several national publications.

Media: Traditionally, print and electronic media have played significant roles in shaping public perceptions about City Hall, in part through watchdog and investigative coverage that often focus on contentious issues and scandal-driven stories. City Hall seemingly is newsworthy largely when there is a sound-bite item on the Council Agenda, an incident of violent crime or some other sensational news report. This provides an incomplete picture of city government, according to *Governing Magazine*.

Consequently, local governments are increasingly investing in personnel and technology in an effort to cultivate a complete public image. While newspaper circulation and local news viewers decline in markets across the country, City governments are spreading messages about their respective services through the user-friendly Web sites, nonstop public television programs, regularly published newsletters and other channels of information. The goal is to enhance the organization's ability to communicate to the public through the seamless convergence of print, electronic and Internet information sources. This information convergence harnesses technology, delivers information directly to citizens and enhances the organization's ability to shape a complete public image. For example, the City of Wichita's Communications Team utilizes City Channel 7, Your Connection newsletter and www.wichita.gov to increase knowledge about local government.



Technology: Local government continues to identify new technology that helps meet rising expectations of citizens seeking better access, greater responsiveness and more transparency. Citizens expect 24/7 City Halls that operate at the speed of private-sector businesses, an expectation that overlooks the inherently deliberative process that purposely slows decision-making in a democracy. Technology helps create greater efficiencies without undermining the democratic process.

The City of Wichita has already implemented many e-government programs that speed administrative processes and strengthen connections between City employees and the public. Additionally, the City's Web site contains a wealth of information about government business. The continuing trend to using greater technology will also allow employees to play a greater role in problem-solving, strategic planning and citizen engagement. Despite successes gained through technology, requests for future improvements must be weighed against competing budget needs and desires.

Community Patterns: There are two development trends that characterize America's cities. The changing definition and development patterns of community are evidenced by strong growth in suburbs and exurbs coupled with the growing attraction of living in urban environments for baby boomers, empty nesters and young professionals.

These two trends are evident in Wichita. Reinvestment and interest in downtown is evident in the arena project, the increasing number of downtown condominiums and apartments and projects such as Fidelity Bank's renovation of the Carnegie Library and Marriott's new Old Town hotel. There's a desire to build a new Central Library that better matches the changing needs of citizens. Additionally, the City's commitment to making Wichita a vibrant community is reflected in the one-mill allocation for cultural arts organizations as well as public art incorporated into public facilities and projects. Because of this focus on creating a vibrant core area, Wichita, like many cities, has seen a boom in young professionals and empty nesters moving to Old Town and Downtown. Visioneering Wichita's goal is to bring 25,000 new residents to the downtown area. If that goal is fulfilled, what will be the impact on local government policy and services?

Fiscal Stress on Government: Both state and federal governments face long-term structural challenges due to the aging population and corresponding increases in the cost of providing programs such as Social Security, Medicare, and Medicaid. These programs are "off budget" entitlements, which means that they are funded annually without Congress appropriating funds, as enrollees receive benefits regardless of the political climate or the nation's economic condition. At the same time, federal priorities have changed, as a greater proportion of funds are appropriated for defense or homeland security functions.

What does this mean for local government? The stresses on federal and state governments will result in fewer funds allocated for local government operations or particular projects. This trend is already true in Kansas, as the state government eliminated aid to municipalities to close a budgetary gap, while the Federal Department of Transportation allocates fewer dollars for metropolitan planning organizations. In turn, the trend is for local governments to self-generate an increasingly greater portion of revenues. For the 2007 budget year, the City of Wichita will receive \$46.8 million in federal and state funds, which in turn pays for 164 full-time employees as well as many programs related to housing, transportation, and public safety. How can the City close the funding gap if federal and state aid is further eroded over the next five, 10 or 20 years? The increasing decline of Community Development Block Grant funds since 2000 is an example of this trend.

As City staff, administrators and policymakers plan for the future, the budget challenges, emerging issues and current trends will require a collaborative community effort. Some matters may be sufficiently addressed at the local level, but most require the City to partner with other local governments, state and federal agencies, as well as non-profit organizations. Addressing these issues requires collaboration, partnership, and problem solving across organizational boundaries.

DETERMINING OUTCOMES

After determining the price of government based on City Council priorities in the context of budget challenges and emerging issues, the budget process must focus on prioritizing goals, pricing services and identifying outcomes. While demands and needs related to the budget grow, the 2008-2009 Adopted Budget identifies outcomes based on what the City of Wichita can afford. This budget does not contain every desired service or desirable level of service. Resources and reality simply don't allow that luxury. However, the budget aims to provide the most meaningful services and outcomes possible within the available funding level.



The budget also is a continuation of the Transforming Wichita process, which focuses on outcomes, measures progress and seeks to transform City government into a high-performing organization. TW is designed to create a model organization that is responsive to citizens, provides taxpayers with the best value for their dollars spent and values transparency and accountability. This effort will distinguish Wichita as a leader among successful cities.

Transforming Wichita has also utilized the Managing For Results (MFR), the budget component of Transforming Wichita which promotes employee collaboration, seeks citizen feedback and engages the City Council. City Council engagement is crucial to achieving a representative government in tune with the service needs and desires of citizens. Without the support and participation of the City Council, preparing a performance-based, citizen-driven budget would not be possible. The Council's dedication, vision and leadership are essential, especially in the development and guidance of the five primary budget goals.

Strategy Teams, comprised of staff representing the City's 17 departments were again utilized in the execution of the budget process, known also as MFR. Staffers divided into the five goal areas. The teams reviewed and evaluated each department's Service Plans (SP), which functionally serve as the strategic operating plans for each service; and Service Adjustment Plans (SAP), revised requests for additional or reallocated funding seeking new or enhanced outcomes.

BRIEF HISTORY OF 5 PRIMARY GOALS AND TRANSFORMING WICHITA

On January 24, 2006 the City Council set forth a new direction for the City of Wichita, in adopting five goal areas to drive the delivery of City services. On March 7, 2006 the relating indicators were approved in order to measure performance and place an emphasis on providing results, or outcomes. The primary goals and indicators stemmed from the organizational improvement initiative, known as Transforming Wichita. TW was implemented during the 2007-2008 budget process.

Throughout this budget document, outcomes are linked to strategies to deliver services in the stated goal areas. Each service is reviewed based on provided outcomes and, accordingly, decisions are made regarding budget allocations. Following are the five Primary Goals and accompanying Indicators.

SAFE AND SECURE COMMUNITY

The Safe and Secure Community goal area is focused on increasing safety from crime, increasing medical emergency safety, reducing the effects of fire, and ensuring citizens feel safe and secure. This goal area consists of Fire, Police, Law, Public Works, Environmental Services, Municipal Court and Central Inspection. Following are indicators:



- Maintain and/or improve response times and the crime rate
- Improve environmental health and community safety
- Maintain and improve citizen perception of public safety

This budget will provide the outcome of lower emergency response rates by adding three new fire stations and 31 additional firefighters. Strategically placing stations and staff throughout the City of Wichita, according to call demand, improves the goals of quicker response times and greater overall efficiencies.

To maintain the safety of schools and provide opportunities for valuable mentoring, 22 school resource officers are included based upon an agreement with USD 259.



ECONOMIC VITALITY AND AFFORDABLE LIVING

The Economic Vitality and Affordable Living goal area seeks to address the economic condition of the City, which supports successful businesses, a large inventory of jobs, comparable wages and access to affordable living for all citizens. This goal consists of services from the City Manager's Office, Finance, Planning, Airport, and Housing. Following are indicators:



- Improve availability, quality, and diversity of jobs
- Sustain affordable living
- Partner with economic development and affordable living stakeholders

The City of Wichita proposes to continue its support of the Air Tran program by budgeting \$953,010 to leverage State and County funding. Outcomes produced by this strategy include maintaining an affordable average airfare, which will assist with attracting and retaining current businesses and sustaining affordable living. Also included in order to sustain affordable living and improve availability, quality and diversity of jobs is up to \$1,000,000 annually in economic development incentives.

EFFICIENT INFRASTRUCTURE

The Efficient Infrastructure goal area focuses on the tangible assets of the City, including but not limited to air, water, buildings, streets, bridges, highways, railroads, runways, parking lots, pedestrian systems, bikeways, open-spaces, transit systems, and utilities. Following are indicators:



- Maintain safe and dependable transportation systems
- Provide reliable, complete, and secure utilities
- Maintain and optimize public facilities and assets

Included in the budget is funding for the replacement of street signal light bulbs to LED bulbs. Converting from regular incandescent bulbs to light emitting diode bulbs protects the environment, improves efficiencies and capitalizes on the benefits of technology. In addition, this will produce a desirable infrastructure outcome – reduce bulb burnouts. The budget also maintains the Water Utilities infrastructure by providing adequate funding for planned Capital Improvement Plan projects. Although this will require a Water rate increases of 3% in 2007 a Water and Sewer rate increase of 6% in 2008 and 2009, it will produce a needed outcome – the continuation of a reliable and stable water supply over future decades.

QUALITY OF LIFE

The Quality of Life goal focuses on a community that has a vibrant recreation and arts focus that enhances the quality of life for area residents. Following are indicators:



- Retain citizens in the community
- Satisfy citizens with the quality of life
- Ensure citizens receive a positive return on all of their quality of life investments

Arts and Cultural funding is included in the 2008-2009 budget and represents approximately \$3 million invested locally in arts and cultural organizations. According to a recent study from the Arts and Economic Prosperity group, arts organizations contribute \$50 million annually in the local economy and supports more than 1,500 jobs. In addition, this funding provides the outcome of enhancing the cultural vibrancy of our community.



CORE AREA AND NEIGHBORHOOD

The Core Area and Neighborhood goal area focuses on supporting clean, safe, connected and growing neighborhoods and supporting downtown as a place of commerce, recreation and living. Following are indicators:



- Increase and sustain neighborhood vibrancy citywide
- Increase sense of community, neighborhood involvement and satisfaction
- Continue revitalization of the core area

In an effort to provide the outcome of enhanced neighborhood vibrancy, this budget includes a strategic shift of environmental maintenance inspectors to the Office of Central Inspection. Through this movement of staff, the City expects to gain efficiencies in inspection activities. This will also provide a single place of contact for code enforcement issues for the citizens of the City of Wichita, which will result in a friendlier customer service environment. The reassignments demonstrate the responsive, customer-focus, efficient principles of TW.

Another initiative in the Core Area goal is to improve the efficiencies and rotations of mowing parks throughout the City. By investing approximately \$500,000 in new and right-sized equipment, staff will be able to maintain landscaping more efficiently and create more inviting recreational areas.

CONCLUSION

The information provided in the 2008-2009 Adopted Budget provides the foundation for a constructive and comprehensive discussion about the City's immediate and long-term direction. The financial health of the City will be explained more thoroughly through public budget meetings, which will preview the budget, further engage the Governing Body and seek input from citizens. In developing the proposed budget, I sought to:

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| ◆ Exercise sound financial stewardship, | ◆ Maintain a level of Cash Fund reserves based upon City Council policy, |
| ◆ Engage employees throughout the organization, | ◆ Redeploy existing staff to improve efficiencies, |
| ◆ Use a results-based focus to justify service levels, | ◆ Utilize conservative revenue projections. |
| ◆ Consider the input of City government stakeholders | ◆ Portray an optimism and realism. |

The Transforming Wichita initiative is about listening to citizens to determine which services are most needed based on the price that citizens are willing to pay for effective and efficient local government services. I want to thank the employees who participated on the MFR Budget teams, their peers who supported them and City government stakeholders who provided helpful feedback.

I would also like to thank the Finance Budget and Research Division for their leadership and dedication to the Managing For Results process. The Finance Department's thorough training was essential to empowering staff, engaging the Council and enhancing transparency. I am especially grateful to the City Council for embracing and supporting this process. The Governing Body's commitment and insight enhances and validates the budget process.

As City Manager, I am charged with submitting an annual budget in accordance with City policies and State law, a guiding and defining document that focuses on using available resources to deliver the best results. To the best of my abilities, that obligation has been met.

Respectfully submitted,

George R. Kolb
City Manager