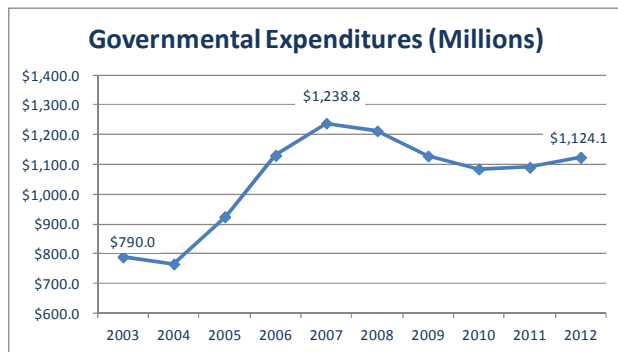
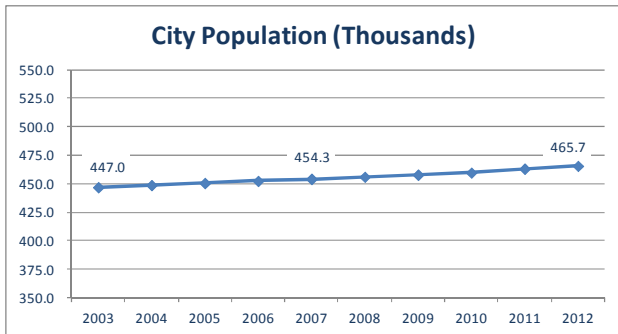




The Citizens Project is a series of quarterly forums jointly presented by The Citizens Association of Kansas City and the Kansas City Public Library. These forums explore significant policy issues facing Kansas City including finance, public safety, economic development and transportation. These forums are designed to prepare and engage citizens in the democratic process as informed decision makers holding elected officials accountable.

In the next three to five years, Kansas City will need to fund existing operations, past commitments and future initiatives, both known and unknown, all of which are and will be costly for a city our size and age. Existing financial resources are very badly stretched to meet just the current needs, let alone future needs. We need to be smart, very smart, with our tax dollars to understand how to pay for all this as we face what should be our bright future. We need a process everyone understands, that sets specific goals and holds the City accountable.



Understanding the City's finances is not easy or obvious. The City plans and operates on an *annual* budgeting cycle,¹ but virtually all City revenues and expenses work on a *multi-year* basis. For example, the City's biggest operating expense is its work force, a large portion of which is covered by collective bargaining agreements spanning two to three years.

The City has taken on significant amounts of new debt which must be paid off with multi-year annual bond payments. Brick and mortar expenditures for water and sewer will increasingly be driven by emergency repairs of aged, obsolete mains. New EPA requirements for fixing our old-fashioned combined sanitary and storm sewers need to be met over the next 20 years. These are all multi-year requirements.

To compound matters, our city's financial environment has changed dramatically. While the City's population has increased only 4.2% from 2003 to 2012 (by only 18,662 people – there actually were losses south of the river but they were offset by gains north of the river), government activity expenditures to serve essentially the

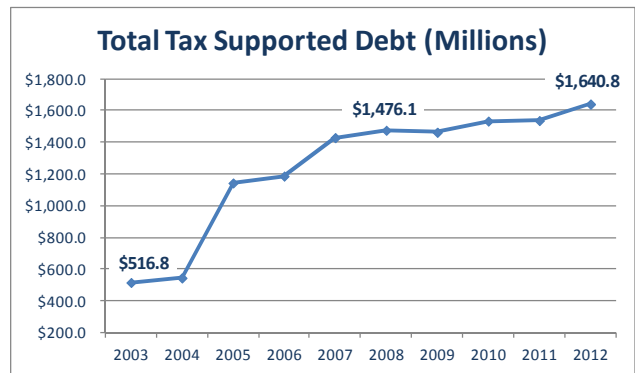
same sized population since then have increased by \$334 million (42%), ten times the amount of the population increase.

Costs for public safety from 2003 to 2012 are up \$130 million (58%), public works costs are up \$56 million (53%) and general government services costs are up \$81 million (140%). In addition, we haven't materially addressed billions in deferred maintenance or over \$600 million in unfunded city employee pension obligations.

To keep up, the City's tax and other revenues for the same years have increased by \$196 million (26%), but much of this been due to inflation (23%) and tax rate increases, not real growth in our economy. Is this sustainable?

¹ The City Manager submits a recommended budget to the Mayor in January, who in turn submits the budget with any recommended revisions to the City Council in mid-February. The Mayor and City Council must approve the budget by late March for the new fiscal year beginning May 1.

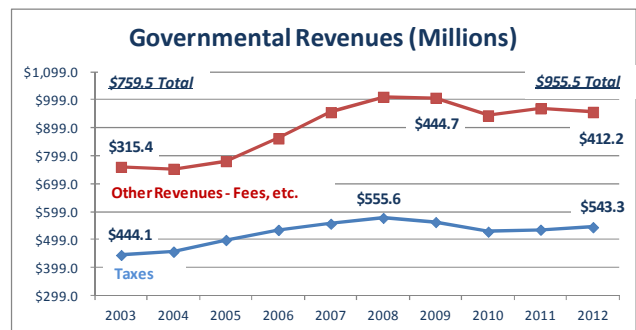
Perhaps the greatest change in the recent past has been ballooning debt. In 2003, total tax-supported debt was \$517 million, \$1,156 per resident. Tax-supported debt has more than tripled (317%) to \$1.6 billion in 2012, \$3,523 per resident, higher than many comparable cities. Indeed, in February 2011, Fitch Ratings, one of three important bond rating firms, downgraded Kansas City's general obligation bonds. In March 2012, it revised its outlook for the City's credit to "negative." Some comfort, Moody's Investors Service's and Standard & Poor's Rating Services' outlooks for Kansas City are "stable."



New "21st Century" forces complicate the matter further. Retired and aging populations in cities like ours pay less in earnings and sales taxes but require more in health and transit services. We face increasing energy costs as oil becomes a less reliable resource, driving up fuel and asphalt costs. Transition to a service economy generates less in property and sales taxes. Rapidly growing Internet retail sales are not subject to local sales taxes in Missouri.

Taxpayer driven limits on taxes play a role. Missouri's five-year limit on Kansas City's earnings tax adds uncertainty. The "Hancock rollback" levels out property tax revenues. And a new twist . . . Kansas has "upped the ante" in a jobs-poaching "border war" with big reductions in its income tax. What will Kansas City and Missouri do?

What is Kansas City's plan or process to address these *very serious* financial challenges? It's been five years since City staff prepared a multi-year plan. That plan, prepared with outside experts, was not adopted and evidently has not played a direct role in the City's annual budget deliberations. The City Council in October 2012 passed Resolution No. 120879 committing to long range financial planning with annual reviews and updates. Is it following through? Are elected officials committed?



More and more cities are developing comprehensive five to ten-year financial plans. These plans set priorities, establish service levels, predict and correct revenue shortfalls, identify and develop alternatives for escalating expenses and manage debt to live within their means and protect their credit ratings. These plans are not "carved in stone" multi-year budgets. They are more like outlines for the future, tied to strategic plans. They generally are updated annually or once every few years. These plans have three basic steps:

Strategic Plan. Elected officials develop a non-financial strategic plan setting long term goals and objectives for city services and activities like police and fire protection; neighborhood redevelopment; street, bridge, water, sewer and public building maintenance and renovation; debt management and business sectors targeted for growth. Kansas City's Mayor and City Council have just completed a strategic plan.

Long Range Financial Plan. The long range financial plan then develops a multi-year financial framework for implementing the strategic plan and maintaining existing services. It operates as a financial "reality check" showing what the city can afford and alternatives for funding goals beyond a city's current financial reach. This is all done by a city's professional staff. It generally takes six to nine months. Staff collects highly detailed financial information on existing revenues and expenses. Future revenue and expense trends are projected based on historic performance and anticipated external events. Input from elected officials and the public is included. Staff then develops options for elected officials to consider for reaching the strategic plan's goals and objectives.

Annual Budget. The process ends with developing the specific annual budget for the coming year adopted by the city council. Because of the comprehensive nature of the long range financial plan, much of the annual budget for the coming year already has been worked out.