



Proud Past • Brilliant Future

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Letter of Transmittal – Fiscal Year 2011 Budget

July 13, 2010

The Honorable Mayor and Councilors and Citizens of Osage City:

The City of Osage City, along with other local jurisdictions, the State, and the federal government are facing an exceptionally challenging economic environment. The credit crisis, stock market instability, housing foreclosures, business bankruptcies, continuing high unemployment, and eroding consumer confidence have led to deteriorating revenue streams. For us, sharp declines in assessed valuation, sales tax, and continuation of low returns on investment income, serve as the unfortunate backdrop for this budget message. The City is faced with the necessity of making painful decisions that will affect employees, residents, and businesses alike. I can assure you we are not alone as surrounding jurisdictions are continuously revising their revenue projections and having to adjust their current and future budgets.

The 2011 Budget assumes that this decline in the economy and revenues will bottom out soon and slowly begin to rebound, but amid all the challenges we now face, I am optimistic that residents, businesses, Council, and staff will harness the energy and will to make Osage City a better place to live and work.

I must admit that we are in the midst of the most significant economic/fiscal change in environment that local government has seen in the past 80 years. Buffeted by a series of increasing federal deficits and State expenditure cuts, and the ever increasing number of unfunded mandates, our local governments in Kansas are at risk. We are not managing through a business downturn in which our actions are laying the groundwork for an eventual return to normalcy. This year, we are faced with managing through a severe downturn. But the real difference is that we shouldn't (and can't) be planning for a return to normal. Instead, our budget and other decisions need to be laying the foundations for a sustainable 21st century; and to acknowledge and confront the challenges of an increasingly competitive global economy and the impacts of our choices on the quality of life for people in Osage City, and of course, the world. Increasingly, whether we like it or not, we must recognize we can't with any clear conscience, expect our children or grandchildren to "pick up the tab" for our own avoidance or indecisiveness. I am thankful our Council understands what is at stake.

A special thank you goes to the entire City staff team involved in preparing the Fiscal Year 2011 Proposed Budget. Mike Gilliland, Utility Director; Linda Jones, City Clerk; and all department heads, as they have been through an especially challenging task. Special acknowledgement goes to Robyn Liebelt's analysis and creative thought in the preparation and assembly of the budget as City Treasurer.

Respectfully submitted,

A handwritten signature in cursive script that reads "Nickolaus J. Hernandez".

Nickolaus James Hernandez
City Manager

Manager's Message

Introduction

Each year, the City Manager recommends and the Osage City City Council approves a budget for providing essential services to residents. This budget document is a plan; it is the framework for how the City will allocate its resources to assure continuing excellence in the community's quality of life.

The enclosed budget for fiscal year 2011 was developed by city staff with input from the governing body as informed by the public. It includes departmental operating budgets, a five-year Capital Improvement Plan (CIP), and an Equipment Replacement Plan (ERP).

Overview of the 2011 Budget

Capital Improvement Plan (CIP)

A CIP is a major public infrastructure and planning tool for municipalities. The CIP is a statement of the City's policies and financial abilities to manage the physical development and redevelopment of the community. The development of a five-year CIP provides a systematic plan for providing infrastructure improvements within a prioritized framework.

The five-year CIP for the City of Osage City sets the general schedule within which public improvements are proposed to be undertaken. The plan serves as a guide for the efficient and effective provision of public infrastructure facilities, outline a timeline and schedule of capital projects for a five-year period of time.

There are several benefits to developing and adopting a CIP. Not only does the CIP become a management tool for the governing body and city staff, a CIP also provides valuable information to the Planning Commission, citizens, developers, and businesses who are interested in the development and redevelopment of Osage City. The CIP document will assist in leveraging available resources through improved timing of projects, and coordination of the City's projects with those of other public or private entities.

Following are some of the major projects included in the 2011 CIP:

Power Plant

It is necessary to install sync protection on all generator units and add an automatic reset for the Westar intertie line. This project is a preventative maintenance item and continues ongoing upgrades to the electric utility. The length of the project is expected to be two years. The City also purchased a used engine/generator and related appurtenances from the City of Greensburg, KS in June 2009. Costs associated with the purchase and transportation of the unit totaled \$121,608 as of May 2010, and the total project cost is expected to reach \$500,000-\$600,000 in order to bring the apparatus to working order. Construction of a new cooling tower is also anticipated to begin in 2011.

Water Treatment Plant

The City recognizes the importance of preventative maintenance, and has dedicated \$45,000 towards a roof replacement at the Water Treatment Plant.

Streets

\$100,000 has been set aside in the Capital Improvement Fund for 2011 to continue the chip seal and sidewalk maintenance programs. The City has also been approved for a 75% State/25% Local grant with the Kansas Link (KLINK) program to make necessary repairs to the west section of Market Street (K-31) from 4th to Martin. \$70,000 has been reserved for the City's share of this cost. Other possible street improvements in 2011 include a 3 inch overlay of portions of Lakin, 9th, and 7th streets and repairs to Nichols Road (contingent upon the airport improvement projects). Major street repairs will be prioritized according to available funds.

Wastewater

2011 will see the replacement of 100-200 feet of existing sewer pipe on Holliday Street. \$100,000 is reserved for the maintenance project.

Parks and Recreation

2011 includes possible improvements to parking lots in Jones Park. Areas included in the improvements are a slurry seal on the pavement between the ball fields, a mill and overlay of the parking area at the ball fields, a mill and overlay of the parking areas near the community building, and concrete/asphalt work at the concession stand at the ball fields. An irrigation system on the baseball field is also a possible capital improvement project that could take place in 2011.

Equipment Replacement Plan

In 2011 the City will continue to produce a concrete equipment replacement plan. The 2011 Equipment Reserve Fund budget includes a cash balance of \$365,133 on January 1, 2011. The fund has been accumulating a balance over the past several years through interfund transfers in order to begin implementation of such a plan. Highlights of the plan include:

- Last payment of the CAT Loader Lease Purchase
- Mower purchases for both the Street and Parks Departments
- Purchase of two 1 ton flatbed trucks for both the Street and Parks Departments
- Possible payment on a new street sweeper
- Purchase of a new tractor with cab and loader

2011 Revenue Projections

The City Council has historically dictated that conservative fiscal projections be used in all budget processes. Staff has dedicated itself to that goal in the preparation of this year's budget which resulted in conservative revenue estimates for the coming fiscal year.

To plan a City budget, staff must evaluate the condition of the local, regional, and national economy to properly forecast revenues. The current economic conditions are less than ideal as local assessed valuations are down 4.89% as compared to 2010. The majority of the downfall is due to business depreciation of equipment and a general decrease in value. The 2009 State Legislative Session eliminated the machinery and equipment slider, causing the City to not

recuperate any of the value lost from the new machinery and equipment tax exemption enacted in 2006. The 2011 budget will be stretched thin as personal property and real-estate values will see a decrease of \$883,038 in one year.

This budget is presented with a slight mill levy increase from 2010. The City's current property tax rate is 43.228 and will increase to 44.098. At this rate, the City will receive 756,158 in property taxes in 2011, which is \$22,564 less than in 2010.

For the future, the City will continue to explore new and alternative revenue sources. With the State budget cuts to local governments over previous years, diversifying revenue streams will become even more important in the years ahead to maintain a strong financial footing.

Summary

Budget difficulties have continued in 2010 because of the drastic turn our nation's economy took in late 2007. Osage City has certainly felt the impacts of the economic downturn, but the City will continue to serve its citizens at the highest level possible. The City of Osage City has been able to position itself for further success through scheduled capital improvement projects and improved zoning and code enforcement in 2011. It is the intention of City Staff to continue increasing various opportunities and the quality of life in Osage City.

