

2007 Budget Message

Honorable Mayor and Members of Kent City Council,

Together, the city staff and I have prepared the **Proposed Fiscal Year 2007 Kent City Budget** for Council consideration. In developing the 2007 budget our challenge was to find ways to stretch resources for the eighth consecutive year so that we remain capable of delivering services that meet the expectations of our citizens while also honoring our commitment to fiscal responsibility. I believe we have accomplished that by submitting a budget that focuses resources on core services and Council priorities. The 2007 Proposed Budget will not meet all of the needs of either our community or our employees but it does enable us to move forward with our commitment to adopt a long term financial strategy in 2007.

About the Budget

The budget serves as a blueprint for the upcoming year and provides a snapshot of the City's fiscal condition for 2007. The budget translates the values of our community into dollars and cents, detailing the costs of city services and programs in a way that is meant to be easy to read and understand. The purpose of this Manager's Message is to summarize the budget and bring to the forefront those issues that will need to be considered as Council moves forward with its final adopted budget. In its adopted form, the budget becomes a work plan of objectives to be accomplished over the coming year.

What This Budget Does

The proposed budget addresses the most significant challenges facing our community in 2007. We've maintained staffing levels for critical public safety services. We've shifted resources to better align with our most pressing community needs. We've made some cuts and consolidations in order to do more with less. We've done what we've had to do to maintain the quality of life enjoyed in Kent for another year.

Despite the ongoing fiscal challenges, the recommendations in this proposed budget continue to focus on City Council priorities, directing resources toward essential services, basic infrastructure requirements and maintaining the City's commitment to neighborhoods. Our ability to sustain services through what has become an extended economic recession for Kent has rested on the conservative fiscal policies adhered to by the City Council and the organization over the past eight years—a commitment we must maintain again next year.

This budget offers few surprises. The enterprise funds will hold their own for another year while the General Fund continues to struggle with needs that exceed our capacity to pay for them. We are proud that this community has come to expect a high level of city services from us, but it is becoming increasingly difficult to meet all those needs with existing revenues.

The 2007 budget represents another escalation in belt tightening as we adopted a "no net" increase requirement for each department this year. In previous years, we allowed budget line items to rise commensurate with rates of inflation but even that was cut out this year. As in years past, we will also continue the freeze in hiring for non-critical positions with the intent of reducing expenditures and preserving vacancies to avoid lay-offs if services are to be reduced or eliminated.

More Cuts

In making more cuts, the total city operation and maintenance budget for 2007 is \$60,000 less than 2006. With the exception of a few unavoidable cost increases, such as vehicle fuel and utilities, budget line items are uniformly less or the same as last year – which given material cost increases ranging from 3% to 16% -- is a credit to the resourcefulness of city employees to do more with less.

When we started developing the 2007 budget we set a goal to provide for the continuation of core city services at no less than 2006 service levels – and I believe we have done so. But it has come at a price. We have had to make concessions in many areas, cutting travel and training, delaying equipment replacements, freezing positions and deferring infrastructure maintenance. After 8 years of cuts, this approach cannot continue to be sustained much longer without significant consequences. Infrastructure maintenance needs that are left unattended will lead to more expensive repairs down the road. A workforce asked to do too much, with too little, for too long will struggle with injuries, morale and performance.

As your staff we understand and accept these consequences for 2007 knowing that after 11 months of financial study we are close to a solution. As dire as a \$2 million deficit may appear, we are optimistic that we can turn the corner and put Kent back on track for a prosperous future. We made a commitment to Council and the community to fix the problem by working towards a multi-year financial strategy and we will uphold that commitment even if it means another year of financial stress for 2007.

The 2007 proposed budget also honors our commitment to the city workforce – which is operating at a level that is 10% smaller than it was 8 years ago – by keeping salaries competitive with cost of living and merit increases as agreed to in our labor contracts. In times of fiscal shortfall this commitment is significant, but we did it because we know that whatever we want to do, or hope to do as a city, depends upon our employees to make it happen, and the budget makes sure they are compensated in a way that is commensurate with their workload and the significance of the challenges they face.

Although the budget shortfall has again required the use of reserve funds in 2007 to balance the city budget, the city has continued to be prudent in our use of reserve funds and this cautious approach is one of the key factors that has enabled Kent to sustain a favorable Aa3 bond rating with Moody's. This "high quality" rating has translated directly to the City's bottom line by keeping interest rates low when we borrow money.

Reserve Funds

Finally, this budget once again illustrates the dilemma that we have drawn attention to over the last several years: job growth has not occurred at a rate that is capable of supporting routine increases in service costs so we've increasingly had to rely on reserve funds to balance the budget. Conservative fiscal management has stretched reserve balances to fill this gap in the short term, but we are moving closer to exhausting those balances sometime in 2009.

What This Budget Does Not Do

Our city budgets are approved on a year-by-year basis, but this budget in particular looks no further than the 12 months of 2007. The limitations of our current revenues and expenditures do not afford us the opportunity to leverage our budget as an investment for future growth. Instead, this budget is focused on sustaining what we have, using available resources to keep services whole.

Short Term Focus

This budget does not solve our structural deficit. Instead, it is about holding the line for another year so that we have time to finish what we started back in January 2006 when we began our financial strategy study. To that end, this budget only tackles the immediate challenge of getting us through another year with insufficient revenues.

It is important to remember that the _____ budget is the means by which we translate our strategies into actions. _____ With that in mind, the budget is not the problem; it is a symptom of a failing _____ **Failing Strategy** financial strategy that seeks to do more than it can afford to pay for. For years, the staff has worked to treat the symptom through budget cuts, but until changes are made to the City's core financial strategy, the best we can hope for is to delay the inevitable – and unfortunately the inevitable moves closer with each passing year.

I would also note that the structural shortfall was not created in a single year nor will it likely be solved in a single budget – which is why we all agreed to take the unprecedented step of spending an entire year to study the problem and develop a multi-year solution. We've invested a lot of time in that study and with a financial strategy proposal in-hand from our Blue Ribbon Panel we did not want to do anything in this budget to undermine or disrupt the progress of that effort.

Budget Economic Context

As is the case every year, one of the more challenging parts of formulating a budget for the coming year is projecting the condition of the local economy and the associated level of revenue collections. Monitoring of revenue collections through the first nine months of 2006 have confirmed _____ the key assumptions used to build the 2007 budget: 1) income tax revenues are flat; 2) the Kent economy remains in transition with a declining manufacturing base that has yet to be replaced; 3) Kent State University (our largest employer) is sustaining, not growing, its employee base; 4) the JEDD's _____ **Revenue Forecast** hold promise, but it will be years before significant new income tax dollars will be generated from the current business growth in the townships; and 5) the city does not have the depth of economic development resources to out-compete with cities in our region for new business prospects.

As a result, we took a conservative approach in our budget projections for General Fund revenue collections and used a 2% growth factor for income taxes and 5.6% for property taxes (reflecting the six year re-valuation and replacement of levies).

Budget Snapshot

Related Budget Facts

- The City will satisfy the 25% threshold for capital expenditures as required by City Charter by allocating \$3.8 million towards capital (38.7%) in 2007.
- There are no water rate increases proposed for 2007 but the previously approved 3% sewer rate increase will go into effect January 1, 2007 (adding approximately \$1.14/house/month).
- Social Services funding has been reduced for the second year in a row by \$10,000 from \$110,000 to \$100,000.
- Personnel costs are up 3.2% over 2006 figures.
- Operations and Maintenance Costs are down approximately 1% from 2006 figures.
- Between \$2 and \$3 million in reserve funds will likely be required to balance the budget in 2007 depending on actual outlays made during the year.
- The City's debt load continues to decline as we pay off our debt with the 2007 balance down by approximately \$800,000 from 2006.

- Three vacant firefighter and 2 police officer positions were kept in the budget, but they will remain unfilled.
- This budget marks the 23rd year in a row without an income tax rate increase.
- \$128,000 has been allocated to cover relevant land banking expenses.
- \$100,000 remains budgeted for urban renewal of downtown Kent.
- \$77,000 in salary and benefits have been allocated to support the Downtown Main Street Program in Kent.
- CDBG funds have been reduced by \$40,000 due to a smaller federal distribution.

Unfunded Budget Priorities

The proposed 2007 budget does not include funding for several key strategic priority investments such as increases in fire and police personnel, expanded neighborhood services and economic development initiatives. These program and service enhancements exceed our funding capacity for next fiscal year, but they remain city management priorities for future investment when deemed affordable by City Council.

2006 Budget Highlights

Our budget provides an opportunity to reflect upon where we've come as we prepare to set our course for where we're going next year. Despite difficult economic times, I believe that there is much to be proud of this past year.

- ✓ We have continued to uphold our commitment to reinvest in Kent's infrastructure through our capital plan.
- ✓ We resolved our legal dispute with CSX Railroad and the Middlebury Road bridge is scheduled to re-open before the end of 2006.
- ✓ We used \$75,000 in city personnel dollars to leverage a \$80,000 in private funds to jump start the Downtown Main Street Program in Kent.
- ✓ We made progress compelling renovation of the old hotel.

Final Budget Remarks

I began this budget message by noting that the City staff and I have prepared this budget together and I want to end on that same note. Developing tough budgets is hard on everyone in the organization. It's even harder when you do it 8 years in row. Yet in the end, your staff delivered, as they always do.

As the manager I set a budget goal of "no net" increase and the departments made it happen. Many creative solutions have been put forth by staff in an effort to balance the budget without major service impacts. I would like to acknowledge the collective efforts of the finance department, the department heads and all the employees who contributed ideas and a tremendous amount of

Working Together

work to the preparation of this document. For all of these efforts, I am extremely grateful and proud.

We are in the midst of one of the most challenging periods in our city's financial history. The good news is that we have the expertise and commitment of an exceptional workforce to provide the best service possible to this community. The staff and I ask for your continued support, and we offer you in return our unwavering dedication as we pursue the best interests of our citizens and the community we call home.

Respectfully,

A handwritten signature in black ink that reads "Dave Ruller". The signature is stylized, with a large, sweeping "D" and "R" that are connected to the rest of the name.

Dave Ruller
City Manager

And the Kent City Staff.