



Inter-Departmental Communication

DATE: October 17, 2001

TO: Evert Asjes III, Chair, and Members of the Finance and Audit Committee

FROM: Mark Funkhouser, City Auditor

SUBJECT: Analysis of the City's Budget Structure

Introduction

On September 5, 2001, the Finance and Audit Committee asked the City Auditor's Office to look at how department and program area expenditures and staffing have changed since 1991. We presented a scope statement for this project at the September 12 meeting of the Finance and Audit Committee. The purpose of this work is to help understand the structure – and changes in the structure – of the city's budget during the last decade. This information is intended to provide context for discussions about future budgets and about the current budget.

Graphs showing the changes in expenditures and staffing for each department or program area are attached.

Conclusion

The city's budget structure has changed in several major ways during the last decade:

- Development incentives and debt service expenditures grew substantially.
- The city no longer provides funding to the school districts, shifting those resources to capital.
- Capital expenditures increased.
- Aviation expenditures grew substantially.
- Expenditures for police and fire grew, but the portion of the city's total budget devoted to police and fire decreased.

In addition to these major changes, the city moved residential trash collection, information technology and pollution control, shifting both expenditures and personnel, and created two new departments.

Work Performed

To identify major changes in the structure of the city budget, we compiled expenditure and staffing information for 1991 through 2002. For 2001 and 2002, we used budgeted amounts, and for prior years, we used actual expenditures. We also compared expenditure patterns for 1996 and 2001. We reviewed relevant work from the City Auditor's Office.

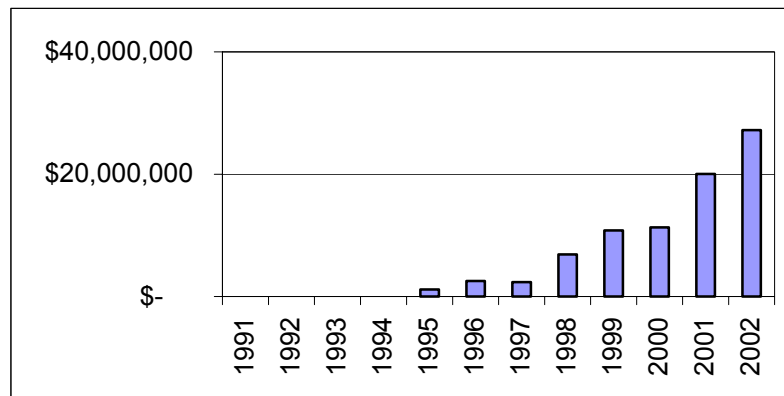
Analysis

Development Incentives and Debt Service Grew Substantially

City expenditures for development incentives have grown sharply in the last five years. (See Exhibit 1.) The expenditures are related to tax increment finance and super tax increment finance funded development. The growth in expenditures for development incentives is expected to continue in coming years.

In prior work, we described the growth in development incentives as a growing financial management challenge for the city. We pointed out that the increase in these expenditures reduces the city's financial flexibility, that the long-term revenue effects are unknown, and that the city lacks a policy on development incentives. We have made numerous recommendations to address these issues.¹

Exhibit 1. Development Incentives and Contingent Appropriation Expenditures

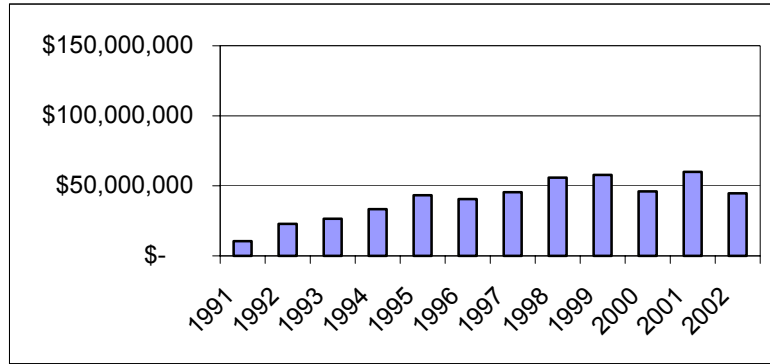


Sources: Adopted City Budgets.

Throughout the 1990s, expenditures for debt service have grown steadily (see Exhibit 2.) Major components of the debt service expenditures are the sales tax debt program, general obligation bonds, bonds related to the expansion of Bartle Hall and the American Royal Center, and bonds related to TIF and Super TIF projects.

¹ *Review of the Submitted Budget For Fiscal Year 2002*, City Auditor's Office, City of Kansas City, Missouri, pp. 5-8; *Review of the Submitted Budget For Fiscal Year 2001*, pp. 12, 16-20; *Review of the Submitted Budget For Fiscal Year 2000*, pp. 28-31; and *Review of the Submitted Budget For Fiscal Year 1998*, pp. 14-15.

Exhibit 2. Debt Service Expenditures



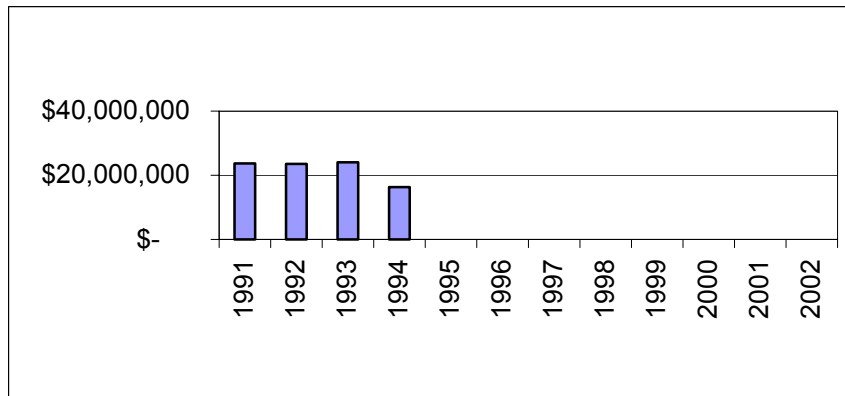
Sources: Adopted City Budgets.

In prior work, we described the growth in debt service. Increasing debt service reduces the city's financial flexibility.²

City Funding For School Districts Shifted To Capital

In 1994, the city stopped providing direct support to school districts. (See Exhibit 3.) A one-half percent sales tax was used to provide financial assistance to fourteen school districts in Kansas City. For example, in fiscal year 1993, the city passed \$24 million through to the school districts. In January 1994, the financial assistance was discontinued, and 75 percent of the tax proceeds were redirected to finance debt service on KCMAC sales tax bond program. Twenty-five percent were directed to Neighborhood and Community Services. Since 1995, 75 percent of the tax collections have been allocated for capital improvements and 25 percent for Neighborhood and Community Services.

Exhibit 3. Financial Assistance to School Districts



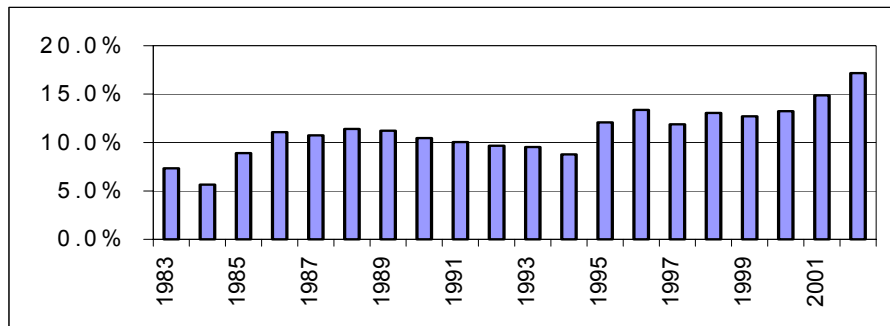
Sources: Adopted City Budgets.

² *Review of the Submitted Budget For Fiscal Year 2001*, City Auditor's Office, City of Kansas City, Missouri, p. 11; *Review of the Submitted Budget For Fiscal Year 2000*, p. 9; *Review of the Submitted Budget For Fiscal Year 1999*, pp. 12-13; and *Review of the Submitted Budget For Fiscal Year 1998*, pp. 8-9, 13-14.

Capital Expenditures Increased

To address deferred maintenance, the city has steadily increased capital spending since the early 1990s. (See Exhibit 4.) While in 1994, capital spending accounted for only 8.8 percent of general municipal expenditures, in 2002, budgeted capital spending is 17.2 percent of total budgeted expenditures. A 1992 Citizens Budget Review Commission report recommended that at least 20 percent of the city's general municipal budget go to capital spending in order to eliminate the backlog of deferred maintenance. At the time of our February 2001 budget review, the backlog was \$325 million.

Exhibit 4. Capital Spending as a Percentage of Total Expenditures



Sources: Adopted City Budgets.

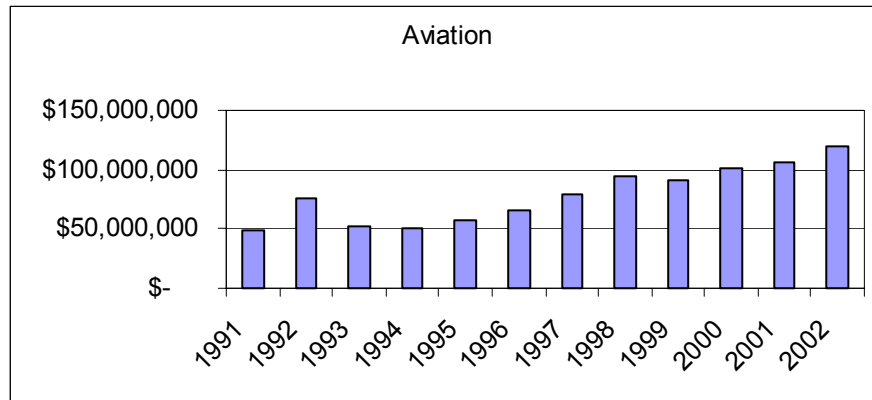
In prior work, we addressed the levels of deferred maintenance and capital spending, and the city's capital planning and budgeting process.³

Aviation Expenditures Increased

Aviation expenditures represent a large portion of the city's total budget and have increased substantially since 1991. In 1991, aviation expenditures were about 9.4 percent of total city expenditures. By 2001, aviation expenditures had grown to 12.1 percent.

³ *Review of the Submitted Budget For Fiscal Year 2002*, City Auditor's Office, City of Kansas City, Mo., pp. 2, 17; *Review of the Submitted Budget For Fiscal Year 2001*, pp. 14-15; *Review of the Submitted Budget For Fiscal Year 2000*, pp. 14-15; *Review of the Submitted Budget For Fiscal Year 1999*, pp. 5-7; *Review of the Submitted Budget for Fiscal Year 1998*, p. 3, 5-7; *Review of the Submitted Budget For Fiscal Year 1997*, pp. 6-7; *Review of the Submitted Budget for Fiscal Year 1996*, pp. 6-8; *Review of the Submitted Budget for Fiscal Year 1995*, p. 27.

Exhibit 5. Aviation Expenditures



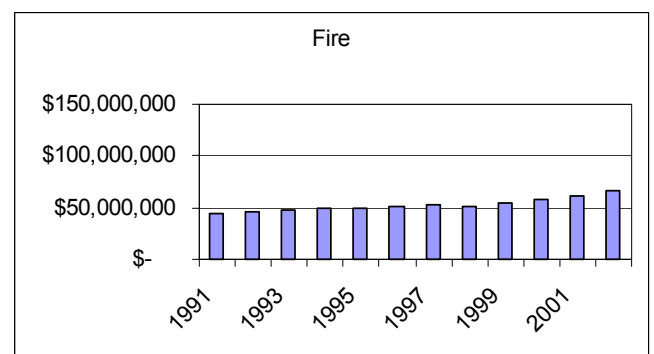
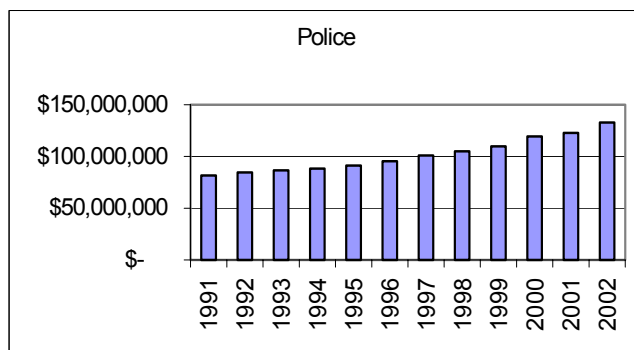
Source: City Budgets.

Public Safety Expenditures Grew, But Represent a Decreasing Portion of The City’s Budget

In 2001, expenditures for the Police and Fire departments were \$36.4 million more than in 1996, but combined expenditures decreased as a portion of the city’s total budget. (See Exhibit 6.) In 2001, Police and Fire expenditures were 20.8 percent of the total city budget. In 1996, they were 22.4 percent.

As a portion of general municipal operating expenditures, police operating expenditures increased from 28.0 to 28.3 percent, while fire expenditures decreased from 15.1 to 13.9 percent.

Exhibit 6. Police and Fire Expenditures



Sources: City Budgets.

Although the City Auditor’s Office has not specifically addressed the level of police and fire expenditures, we have addressed resource allocation for both departments. For example, in prior audit work, we recommended that the Police Department increase on-duty patrol staffing and that the department put civilians in certain positions held by sworn law enforcement officers. These changes would require an increase in police expenditures, but may not require an increase in the Police

Department's portion of total city expenditures. In addition, we recommended consolidation of police and city information technology functions.⁴

Trash Collection, IT and Pollution Control Were Moved Among Departments

During the decade of 1991-2001, the city underwent several reorganizations. In 1997, Pollution Control was merged with Water Services. That same year, Information Systems was transferred from Finance into a newly created Department of Technology and Information Services. In 1998, the Solid Waste Division of Public Works was moved to the Department of Environmental Management, created in 1997.

Please let me know if you have any questions, or need additional information.

Attachments

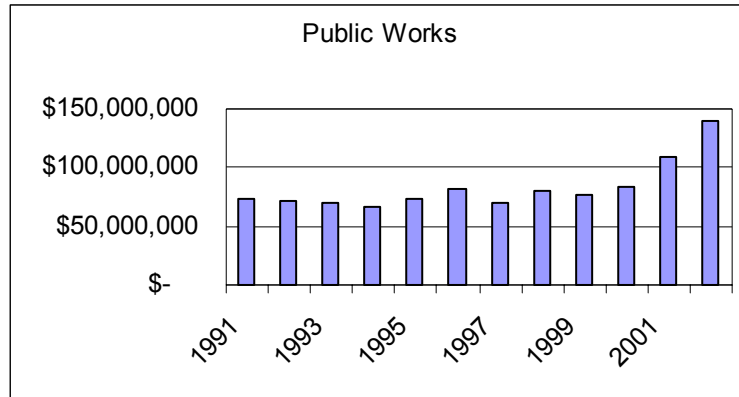
cc: Mayor Kay Barnes
Members of the City Council
Robert L. Collins, City Manager
Larry Plaisted, City Budget Officer

⁴ *Patrol Deployment: Blackout Analysis*, City Auditor's Office, City of Kansas City, Mo., January 1998; *Kansas City, Mo., Police Department: Opportunities for Civilianization*, September 1998; *Performance Audit: Consolidating City and Police Support Services*, January 2001; and *Follow-up Audit: Fire Fighting Force Resource Allocation*, September 2000.

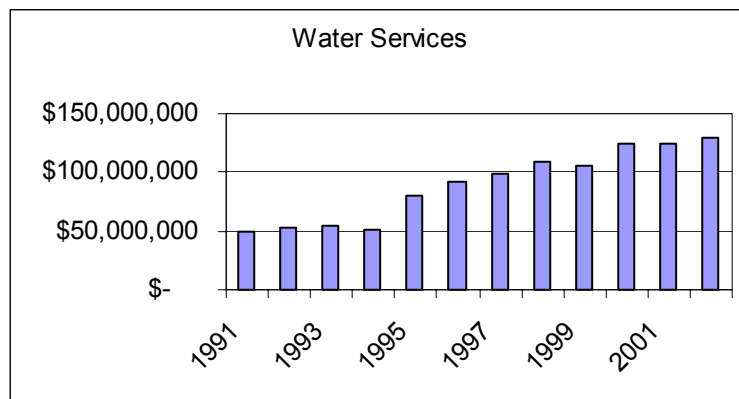
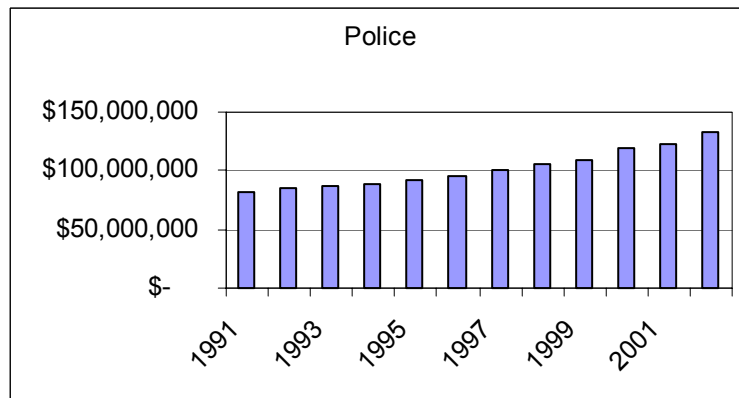
Attachment A

All Expenditures For the Seven Largest Department or Program Areas (1991-2002)

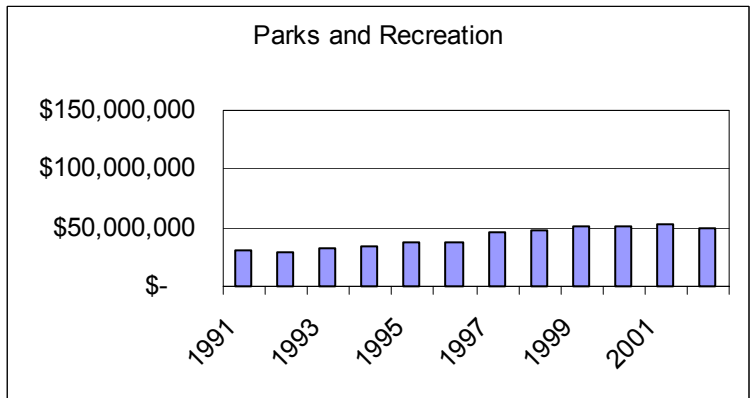
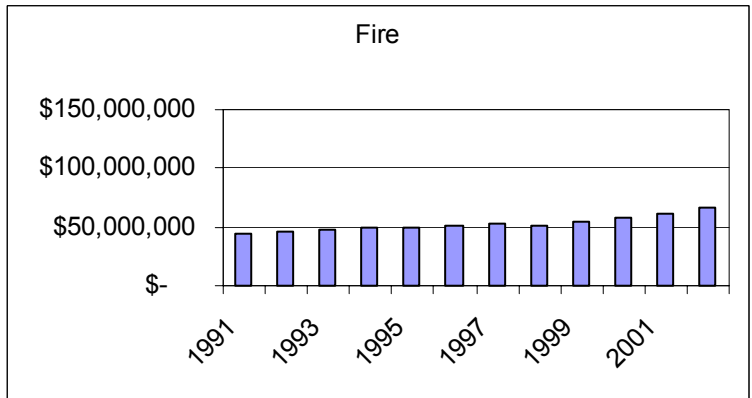
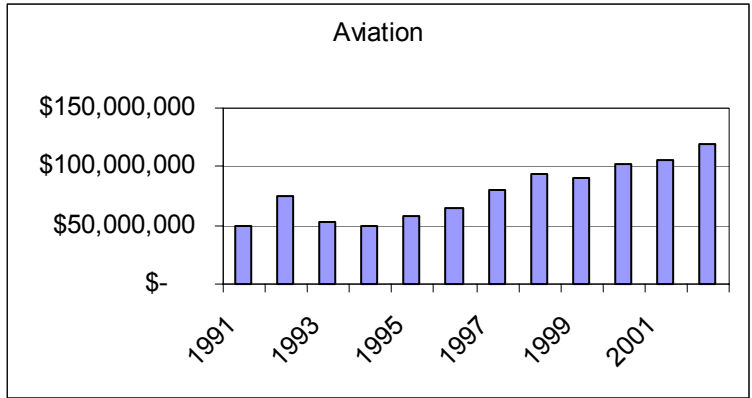
The following seven graphs, show expenditures by department or program area on a scale of \$0 to \$150 million. Combined, these seven graphs represent about two-thirds of the city's total expenditures.

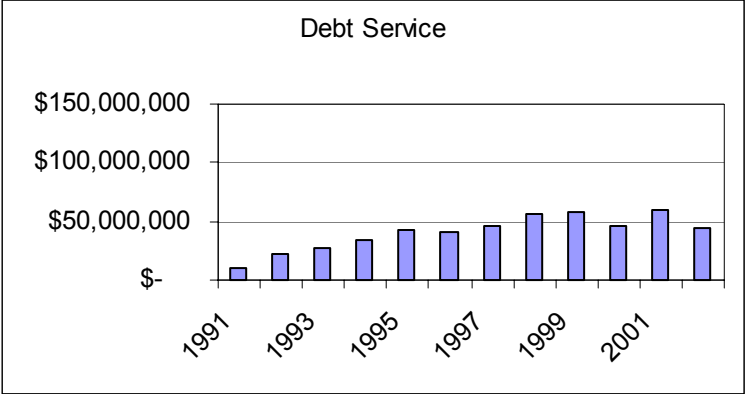


In 1998, residential trash collection was transferred from Public Works to Environmental Management.



In 1997, the pollution control function was merged with the Water Services Department.

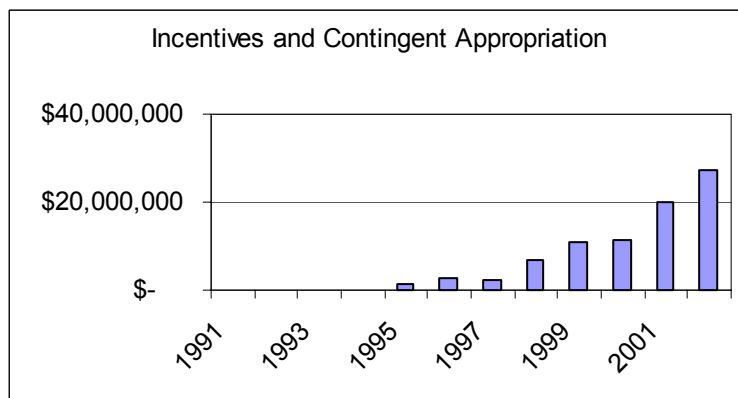
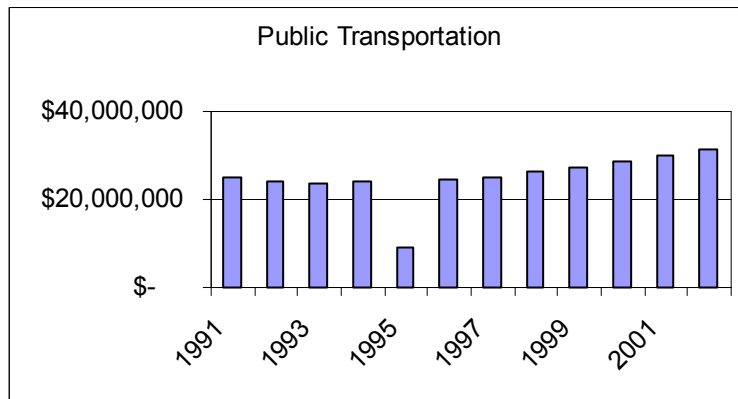
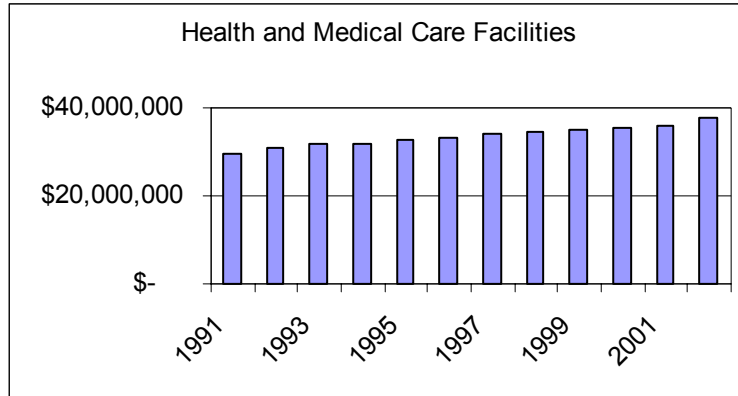


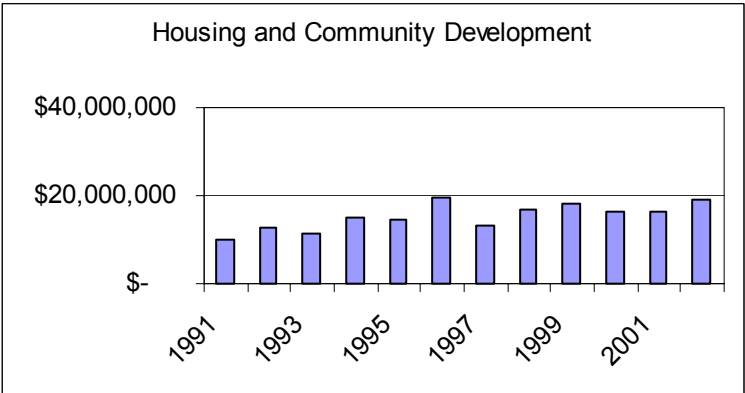
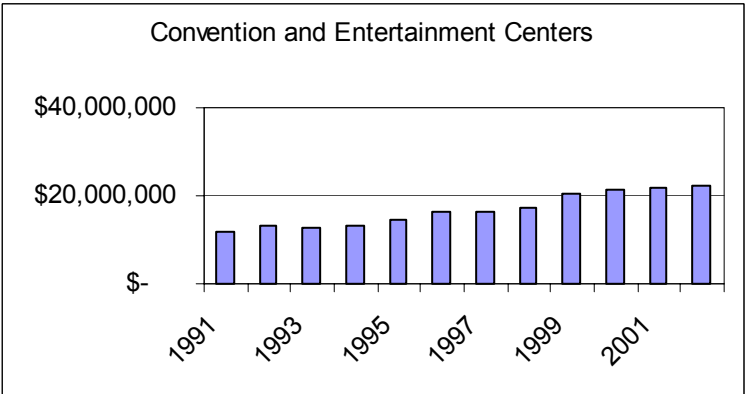
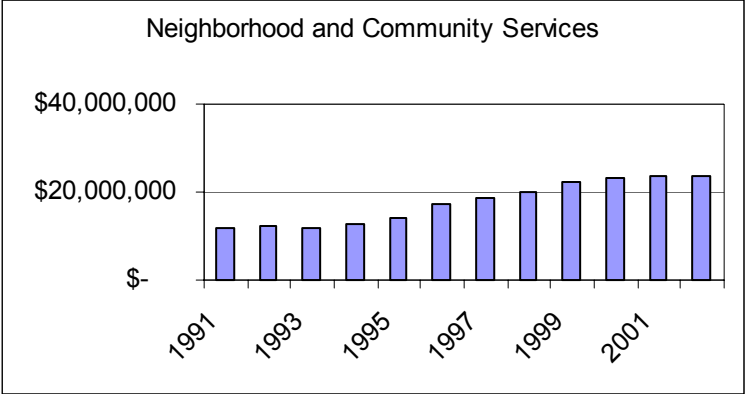


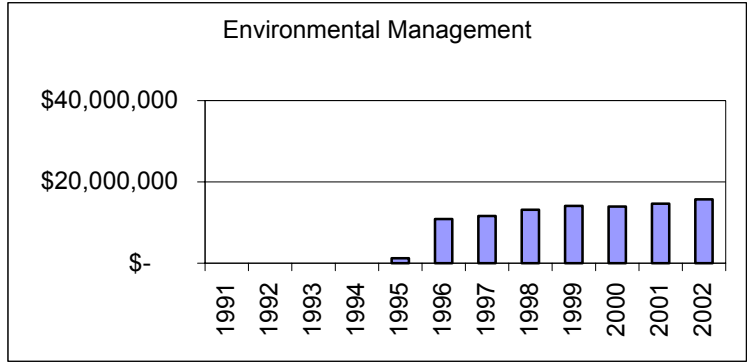
Attachment B

All Expenditures For Other Departments or Program Areas (1991-2002)

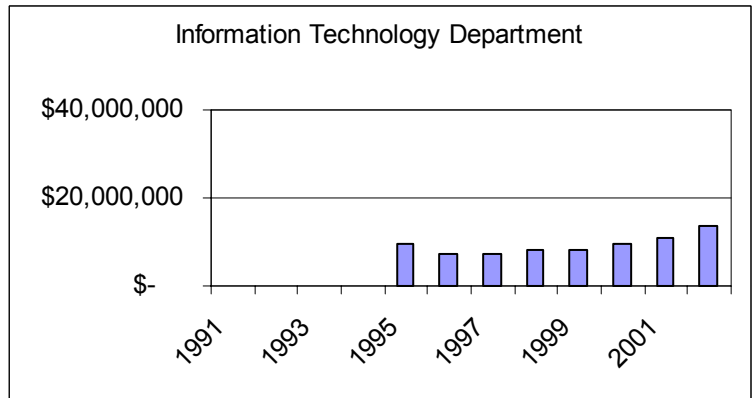
The following graphs show expenditures on a scale of \$0 to \$40 million.



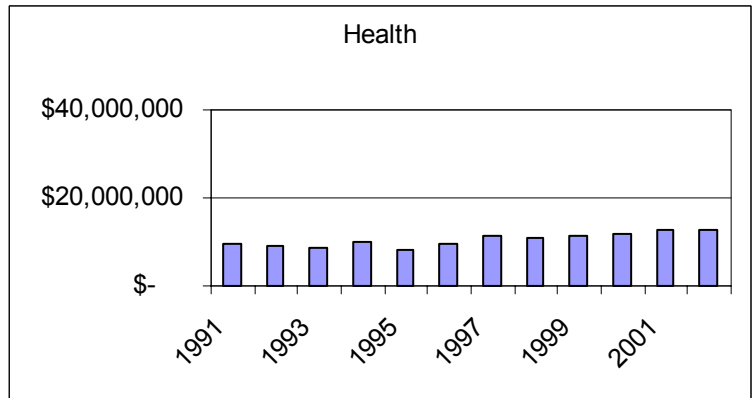




The Environmental Management Department was created in 1997.⁵ In 1998, residential trash collection was transferred from Public Works to Environmental Management.

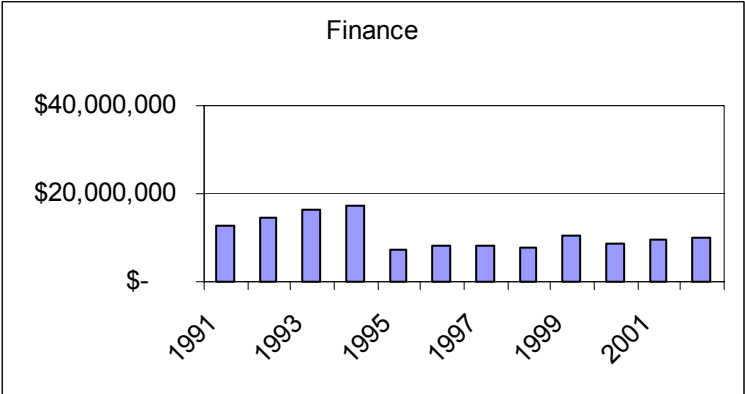
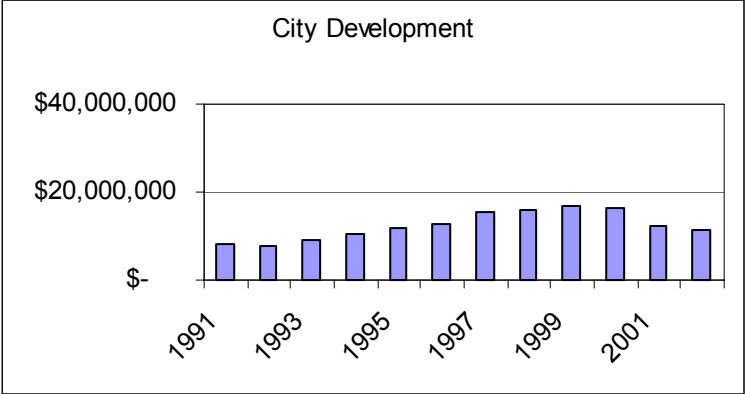


The Information Technology Department was created in 1995.⁶ Prior to that time, the information technology function was part of the Finance Department.

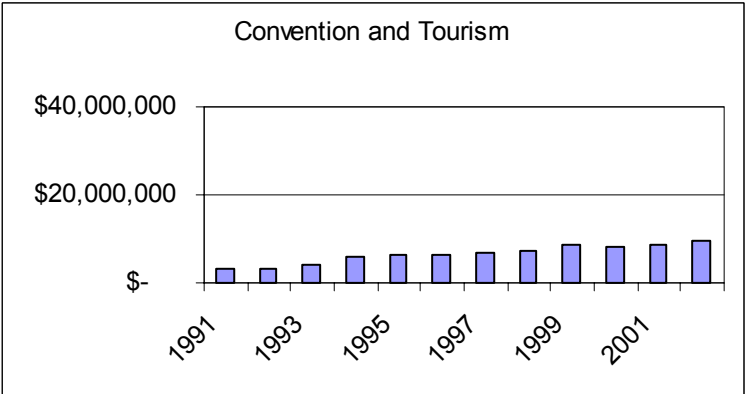


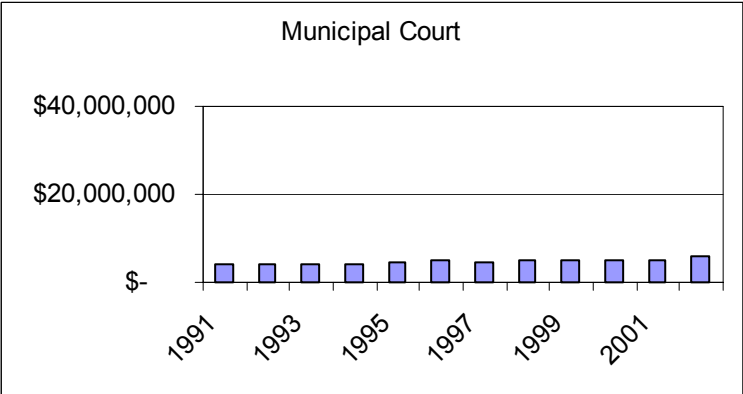
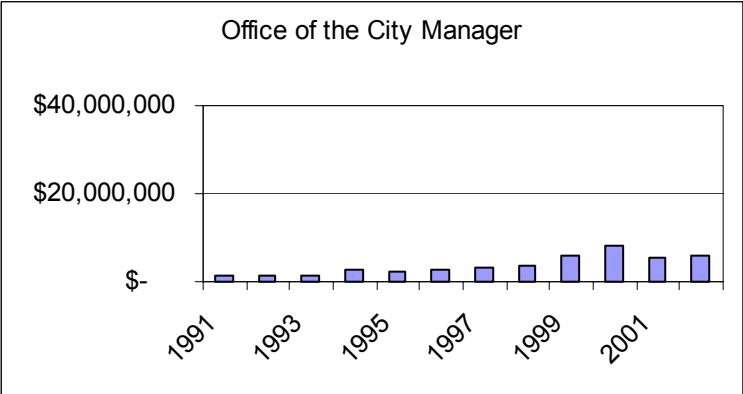
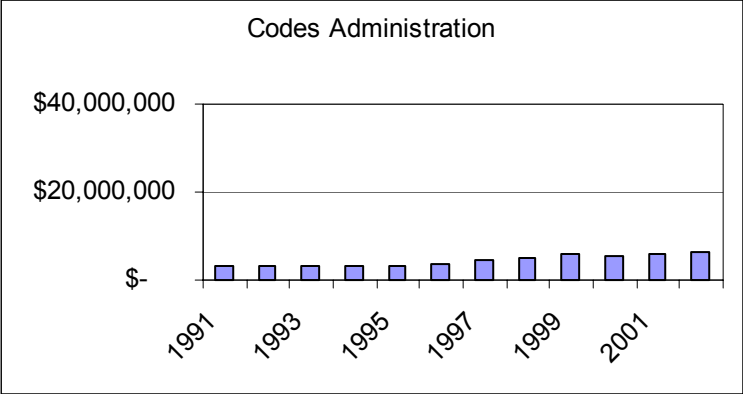
⁵ Ordinance No. 970437, §1, April 17, 1997.

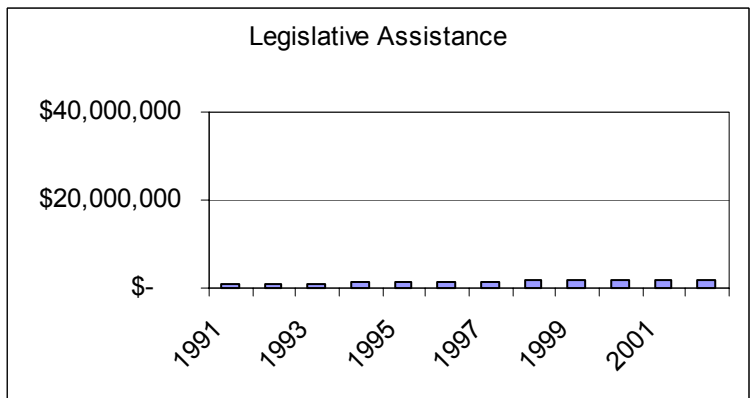
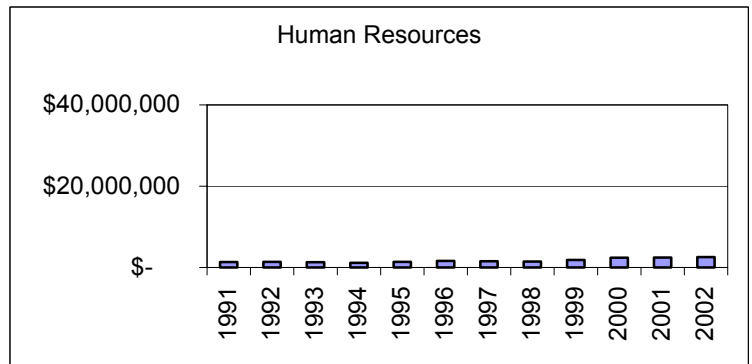
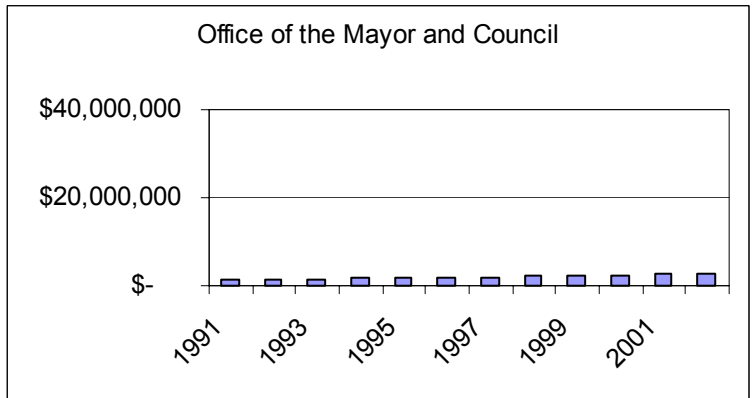
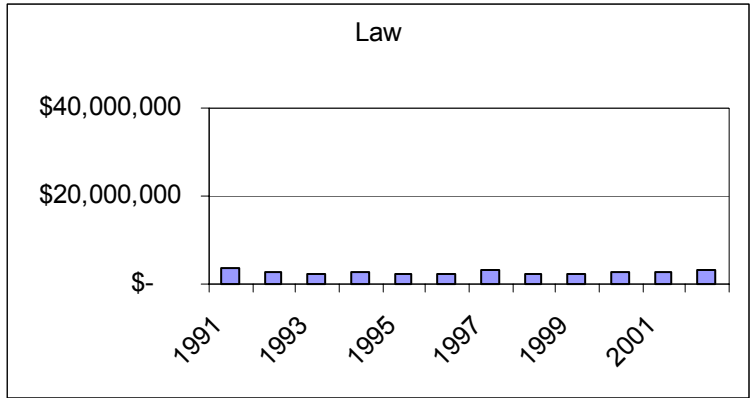
⁶ Ordinance No. 951260, §A, September 14, 1995.

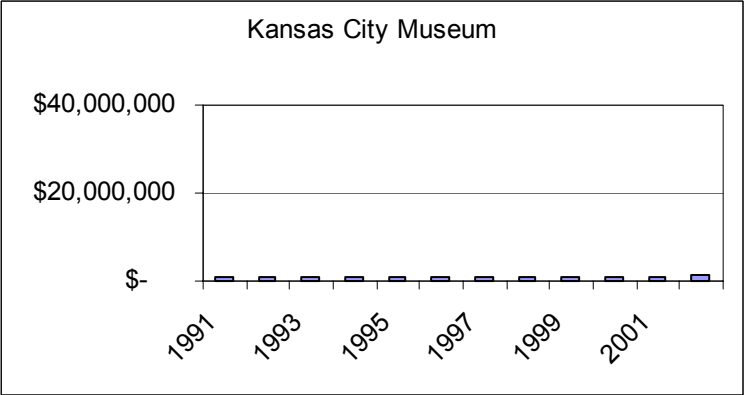
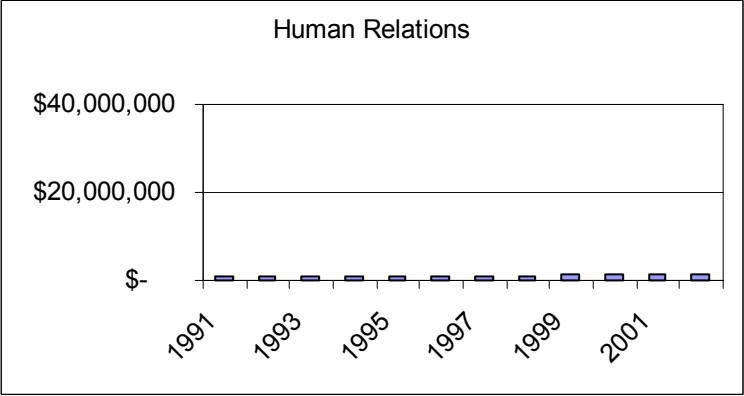
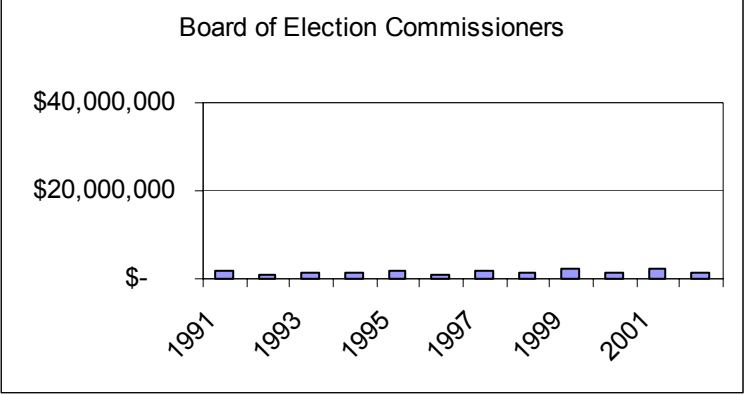


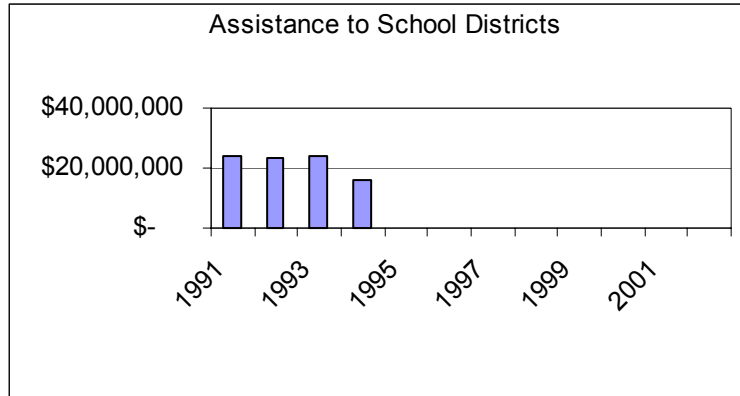
In 1995, the information technology function was transferred from Finance to Information Technology.



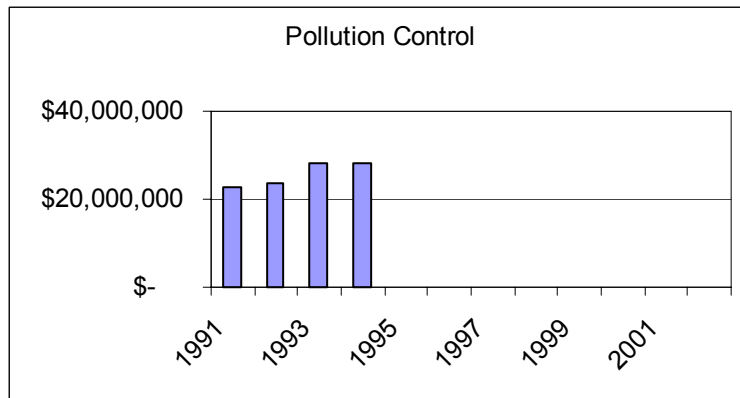




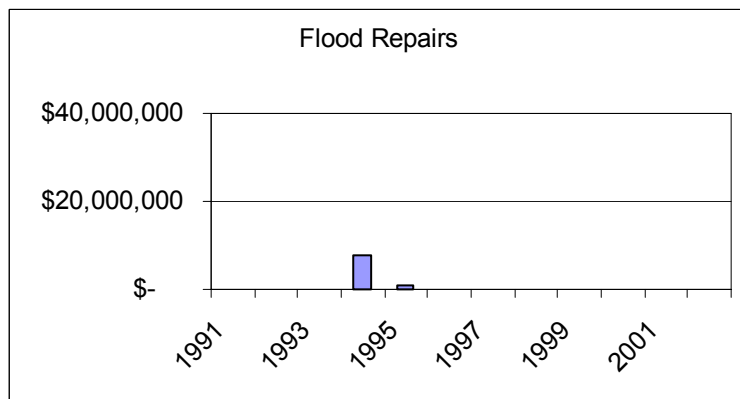




The city stopped transferring sales tax revenue to the school districts in 1994.



The Pollution Control Department was merged in to Water Services in 1997.

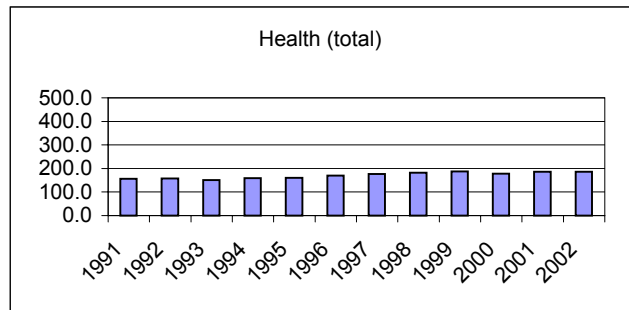
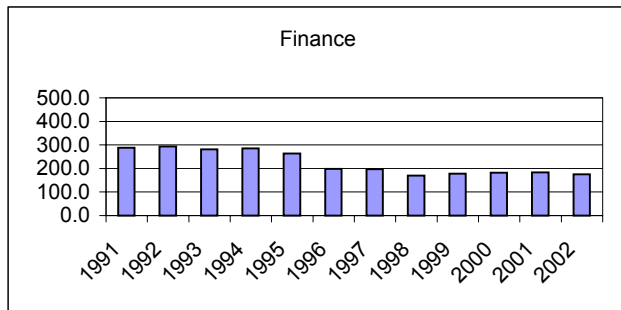
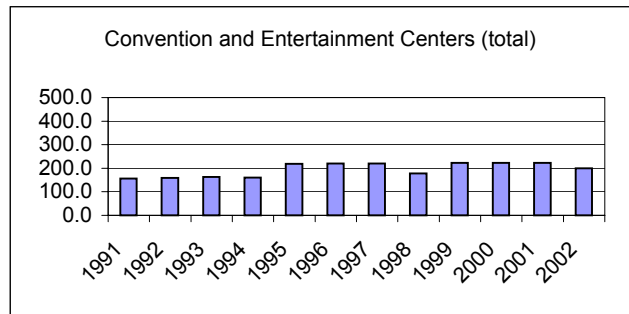
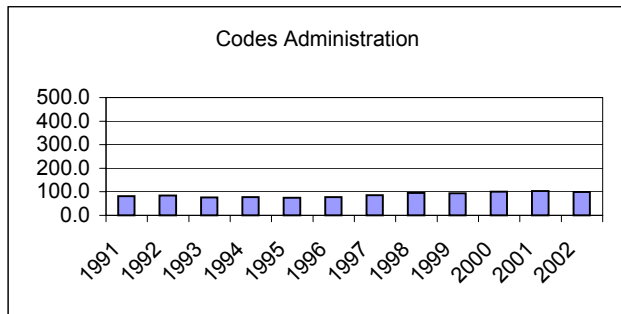
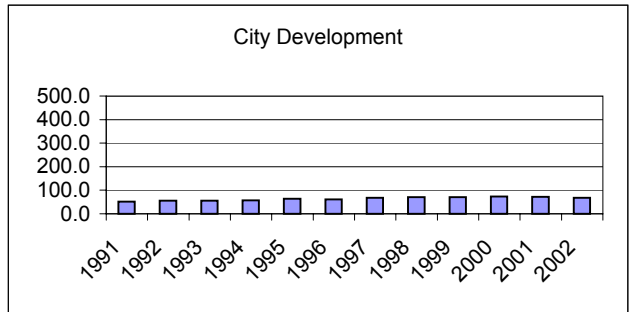
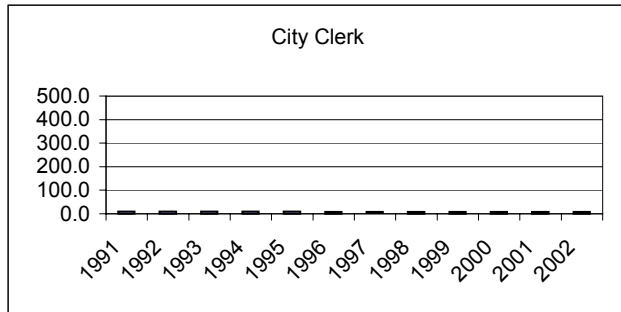
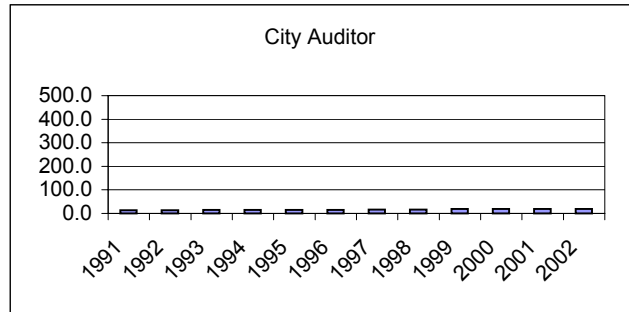
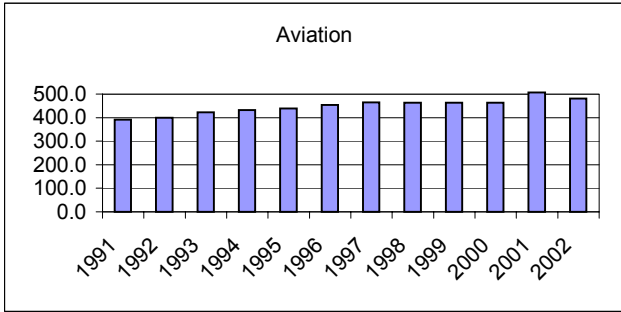


Attachment C

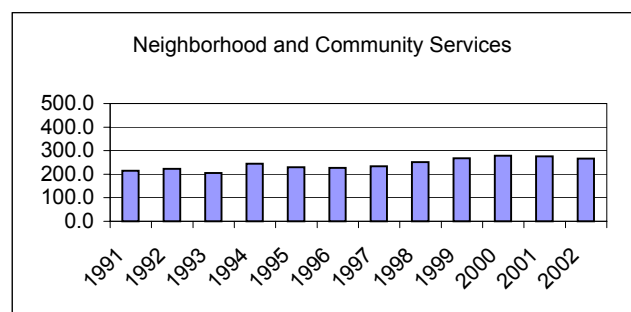
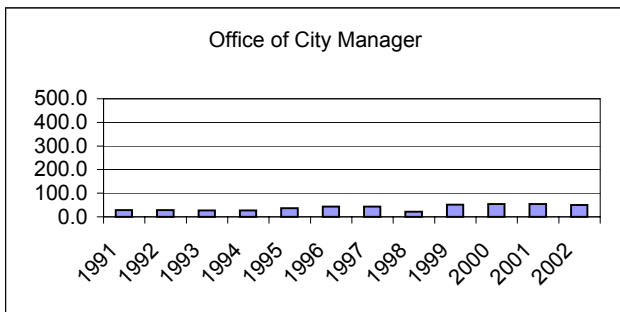
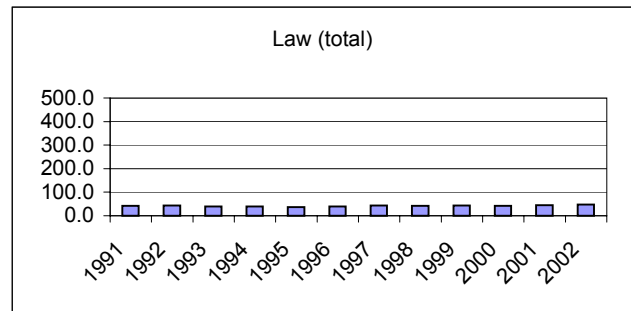
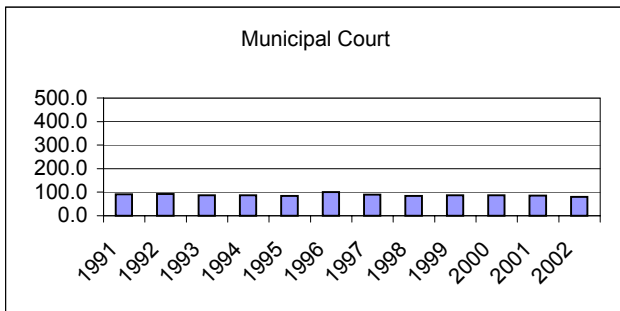
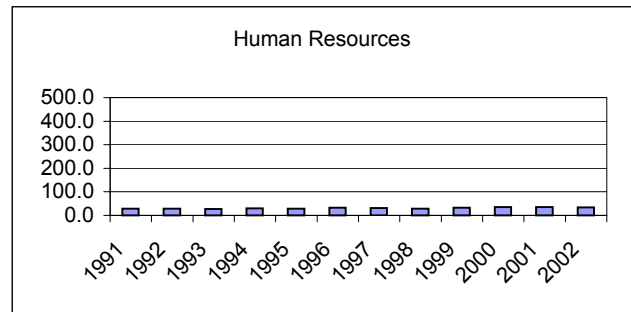
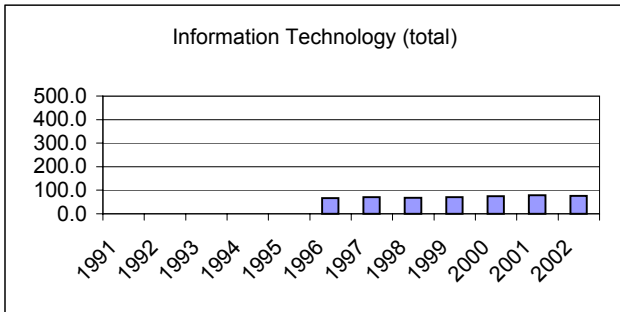
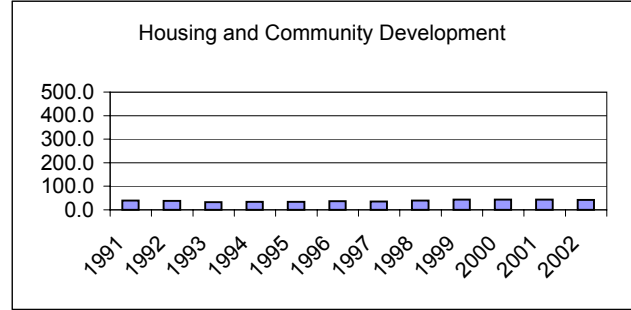
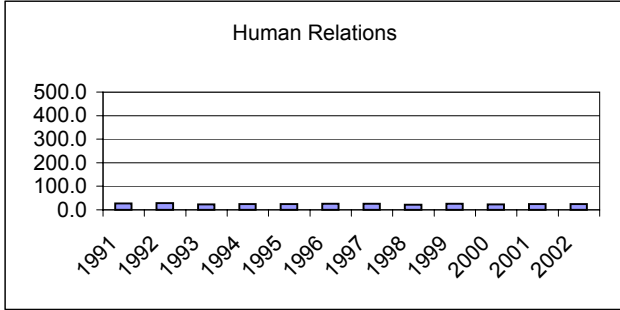
Share of Total Expenditures by Department and Program Area (1996 and 2001)

Department or program area	Portion of total city expenditures in 1996	Portion of total city expenditures in 2001	Expenditures 2001 (\$ millions)	What would expenditures be in 2001 if the portion was the same as in 1996 (\$ millions)	Difference (\$ millions)
Aviation	10.0%	12.1%	\$106.5	\$ 88.0	\$ 18.5
Board of Election Commissioners	0.2%	0.2%	2.1	1.4	0.7
City Development	2.0%	1.4%	12.4	17.4	-5.0
Codes Administration	0.6%	0.7%	6.0	4.9	1.0
Contingent Appropriation	0.4%	2.3%	20.0	3.4	16.6
Convention and Entertainment Centers	2.5%	2.5%	21.7	22.2	-0.5
Convention and Tourism	1.0%	1.0%	8.8	8.8	0
Debt Service	6.2%	6.8%	60.0	54.7	5.3
Environmental Management	1.7%	1.7%	14.6	14.6	0
Finance	1.2%	1.1%	9.5	11.0	-1.5
Fire	7.9%	6.9%	60.5	69.6	-9.0
Health	1.5%	1.4%	12.5	13.0	-0.5
Health and Medical Care Facilities	5.1%	4.0%	35.8	45.0	-9.3
Housing and Community Development	3.0%	1.8%	16.2	26.2	-10.0
Human Relations	0.2%	0.2%	1.4	1.3	0
Human Resources	0.2%	0.3%	2.4	2.2	0.2
Information Technology Department	1.1%	1.3%	11.1	9.6	1.5
Kansas City Museum	0.1%	0.1%	1.1	1.2	0.1
Law	0.4%	0.3%	2.8	3.2	0.4
Legislative Assistance	0.2%	0.2%	1.8	1.6	0.1
Municipal Court	0.7%	0.6%	5.2	6.5	-1.3
Neighborhood and Community Services	2.6%	2.7%	23.5	23.3	0.2
Office of the City Manager	0.4%	0.6%	5.5	3.9	1.6
Office of the Mayor and Council	0.3%	0.3%	2.6	2.5	0.1
Parks and Recreation	5.8%	5.9%	52.3	51.2	1.1
Police	14.6%	13.9%	122.8	128.7	-5.9
Public Transportation	3.8%	3.4%	30.0	33.4	-3.4
Public Works	12.4%	12.4%	109.5	109.6	-0.2
Water Services	14.1%	14.1%	\$124.8	\$124.9	\$ -0.1

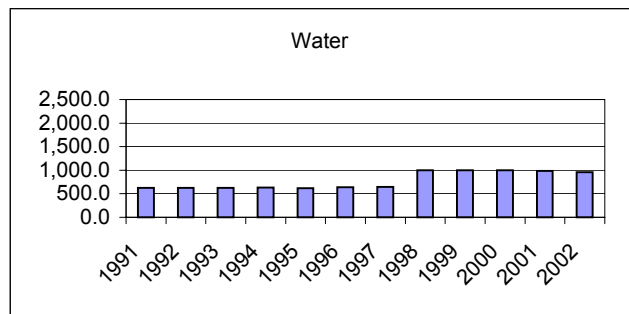
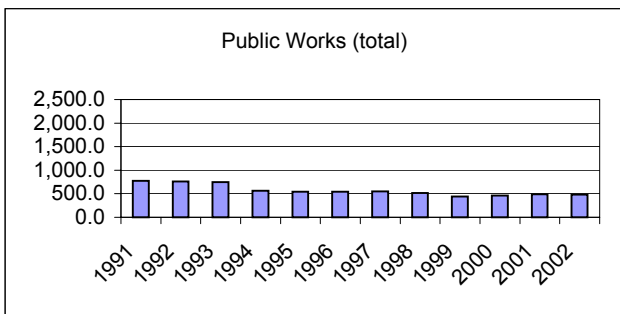
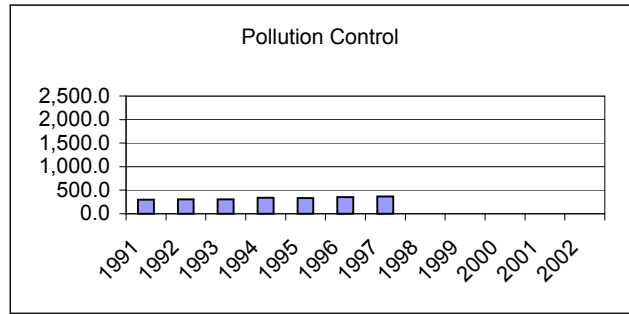
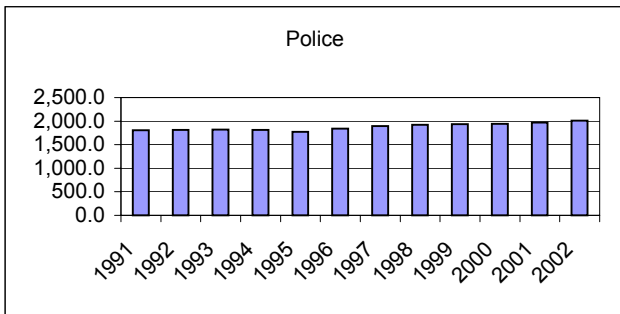
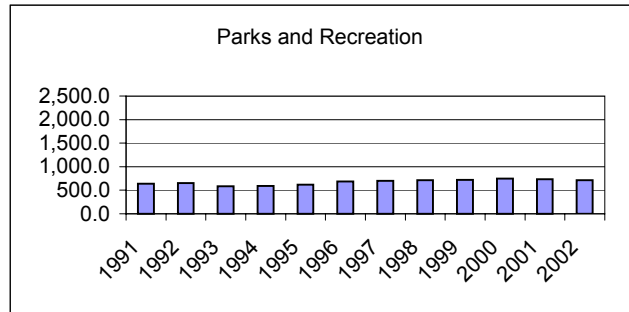
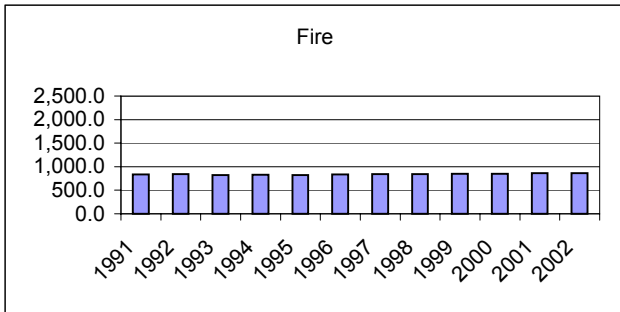
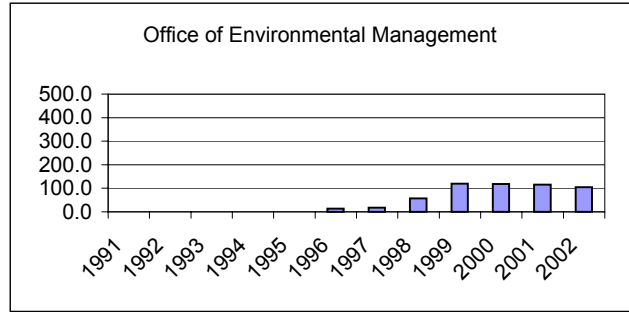
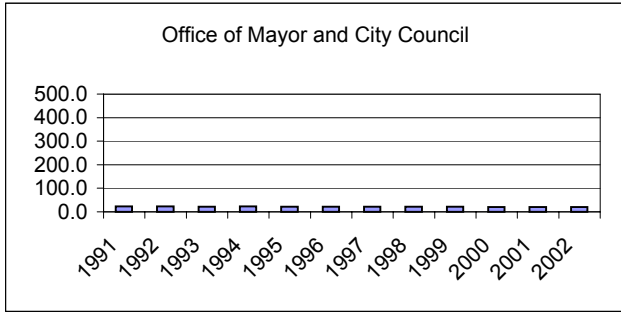
Attachment D FTE Comparison Graphs



Attachment D FTE Comparison Graphs



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Attachment D
FTE Comparison Graphs

