



City of Independence

Budget Constraint Analysis

City Of Independence, Missouri

**Report to the Mayor and City Council
By the Management Analyst
September 24th, 2014
Report No. 14-01**

City of Independence

City Council Office



September 24th, 2014

Honorable Mayor and Members of the City Council:

This report was assigned by the Audit and Finance Committee in August 2012 and was initiated by the City Management Analyst pursuant to Chapter 1, Article 43 of the City Code of Ordinances. The Audit and Finance requested that this report be updated following adoption of the annual budget. The report identifies nine categories that restrict the use of funds within the City's budget: Enterprise Activities, Debt and Lease Payments, State Law and Charter Requirements, Voter-Approved Allocations, Grant Programs, Dedicated Program Revenue, Programs Approved by Ordinance or Resolution, Fixed Costs, and Discretionary Resources. Ultimately, the City Charter governs the budget-setting process and requires that decisions be made at the fund level to ensure that proposed expenditures for each fund do not exceed anticipated revenues. The Budget Constraint Analysis builds upon these Charter requirements to demonstrate that, much like a family budget, resources are difficult to shift from one purpose to another. Similarly, the City's budget restricts many resources that can only be used for specific purposes. The starting point for this analysis is the Fiscal Year 2014-15 Adopted Budget for the City of Independence, which totals \$303,903,515.

Enterprise Activities comprise \$202,233,662 or 66.5% of the City's budget and fund services that are based primarily on utility rates, including water, sanitary sewer, and electrical services. The City Charter prohibits the municipally owned and operated electrical system from being operated as a general-revenue producing agency for the City. The City's Water and Water Pollution Control Departments are also operated so as to satisfy the Charter requirement that other public utilities and enterprises acquired by the City be operated separate from the General fund. Bond covenants also restrict the use of these funds.

Principal and interest payments on debt incurred by the City total \$3,099,307 or 1.0% of the City's budget and are restricted to the purposes for which the debt was incurred. Requirements established by Missouri state law and the Charter of Independence, Missouri total \$7,173,225 or 2.4% of the total budget.

Voter-approved authorizations account for \$21,561,647 or 7.1% of the overall budget. These represent resources that have been approved by a vote of the citizens of Independence and are to be used to support the activities associated with each authorization. Independence currently utilizes five voter-approved sales taxes: Street Improvement Sales Tax, Park Improvement Sales Tax, Storm Water Sales Tax, Police Public Safety Sales Tax, and Fire Sales Tax. Independence voters have also authorized a transient guest tax, while Jackson County voters collectively have endorsed an anti-drug sales tax.

Federal and state grant programs total \$2,739,702 or 0.9% of the City's budget. These grants are restricted to the purpose for which they were awarded. Dedicated program revenue totals \$3,100,566 or

1.0% of the budget. This category includes service charges and fees assessed to program users that help support the cost of providing the program or regulatory service.

Ordinances and resolutions adopted by both past and present City Council's total \$9,732,753 or 3.2% of the City's budget. These actions have specified programs or policies that are to be provided by the City to the citizens of Independence or have earmarked revenue in support of specific programs.

\$38,530,494 or 12.7% of the City's budget has been identified as fixed costs. These are costs that are difficult to adjust on an annual basis and should be approached on a multi-year basis if change is desired. These items are not necessarily restricted in their use, but represent complex programs and policies that are not easily modified on an annual basis.

The remaining expenditures, \$15,732,159 or 5.2% of the City's budget, have been identified as discretionary resources. The term discretionary, however, is used to identify a diverse range of services, some of which may not be as discretionary as they appear. For this analysis, the term discretionary is used to refer to those resources that are more easily reallocated from one purpose to another on an annual basis. It does not refer to the quality or desirability of each service.

The largest share of discretionary resources, public safety, constitutes 34.7% of discretionary resources, and includes various police and fire activities. Business operations represent 34.3% of discretionary resources and include many of the day-to-day administrative functions. Planning and development efforts represent 11.2% of discretionary resources, while public health activities encompass an additional 8.0% of discretionary resources. Parks and recreation activities make up 6.2% of discretionary resources, and public infrastructure undertakings represents the remaining 5.5% of discretionary resources.

Because the General Fund represents the largest fund while also affording the greatest flexibility for resource allocation, a separate analysis is appropriate to determine the allocation of resources among the various restrictions. The General Fund includes most basic services of the City, such as police and fire protection, parks and recreation, public works, and business operations. This analysis shows 20.8% of the City's General Fund being allocated as discretionary, while 51.0% is considered fixed costs. The remaining General Fund allocation is restricted by programs established via ordinance and resolution (12.9%), State Law and City Charter requirements (9.5%), grants programs and dedicated program revenue (4.1%), voter approved allocations (1.0%), and repayment of debt and lease obligations (0.7%),

Staff from the Finance Department reviewed a draft of this report. The draft report was also reviewed by the City Manager and City Counselor, and a response from the City Counselor is appended. Finally, members of the Audit and Finance Committee reviewed this report before it was finalized. The cooperation and courtesy of all who provided assistance is greatly appreciated.

Respectfully,

A handwritten signature in black ink that reads "Zachary Walker". The signature is written in a cursive, flowing style.

Zachary Walker
City Management Analyst

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Introduction

Report Objectives

This analysis of the Fiscal Year 2014-15 Adopted Budget for the City of Independence has been conducted pursuant to Chapter 1, Article 43 of the City Code of the City of Independence, which outlines the duties of the City Management Analyst. This report represents a non-audit activity, which is defined as professional services other than audits or attestation engagements.¹ As such, the report does not constitute an audit conducted in accordance with Generally Accepted Government Auditing Standards.

This report has been designed to answer the following questions:

- What are the various constraints and restrictions on the City budget?
- What percentage of the City budget is reserved by each of these constraints?
- What percentage of the City budget is considered “discretionary”, or most easily reallocated from one purpose to another on an annual basis?

Scope and Methodology

The report illustrates the extent to which the various resources that comprise the City’s budget are restricted in their use while determining how much of the City’s budget can be considered “discretionary”. The report was originally assigned by the City Council’s Audit and Finance Committee in August 2012. Following the presentation of this report in April 2013, the Audit and Finance Committee requested that this report be updated and presented annually to the City Council.

The starting point for this analysis is the Fiscal Year 2014-15 Adopted Budget, which totals \$303,903,515. Report methods include:

- Interviewing staff in the City’s Finance Department.
- Reviewing documents related to the Fiscal Year 2014-15 Adopted Budget for the City of Independence, including the Operating Budget, Line Item Supplement, and Revenue Manual.
- Reviewing resources that inform development of the budget, including Missouri State Statutes, the Charter, ballot language for voter-approved sales taxes, and City ordinances and resolutions.
- Identifying and defining nine restrictive categories within the City’s budget: Enterprise Activities, Debt and Lease Payments, State Law and Charter Requirements, Voter-Approved Allocations, Grant Programs, Dedicated Program Revenue, Programs Approved by Ordinance or Resolution, Fixed Costs, and Discretionary Resources.

Though the report provides an analysis of the allocation of City resources amongst these nine areas, it is not intended to be prospective in nature or to draw conclusions regarding the desirability of the

¹ Comptroller General of the United States, *Government Auditing Standards*, (Washington, D.C.: U.S. Government Printing Office, 2011), p. 19.

outcome in the budget that was reviewed. Instead, the report should be used to retrospectively assess the adopted budget, to enhance awareness of the various restrictions that guided policymaking decisions, and to serve as an indicator of the areas and manner in which change can be made, if desired.

It is also important to distinguish how this exercise varies from Charter requirements for the annual budget development process. This report evaluates the City’s budget from a global perspective and provides an assessment of restrictions that constrain the decision-making process. In so doing, the exercise does not differentiate between unique City funds or departments, but instead categorizes the City’s many programs, activities, and uses as defined by these restrictions. The City Charter, in contrast, requires that decisions be made at the fund level. Section 8.2 of the Charter states “the budget shall include the general fund and at least all other regular operating funds which are deemed to require formal annual budgeting” and further dictates “the total of the proposed expenditures from any fund shall not exceed the total of the anticipated revenues thereof”. The City has established numerous individual funds representing a variety of sources and uses. The revenues and expenditures for each of these funds are individually adopted by the City Council annually. Therefore, while this report highlights the constraints that exist and are considered in the budget-setting process, it is ultimately the individual funds themselves that are the determining basis of how budgetary decisions must be made.

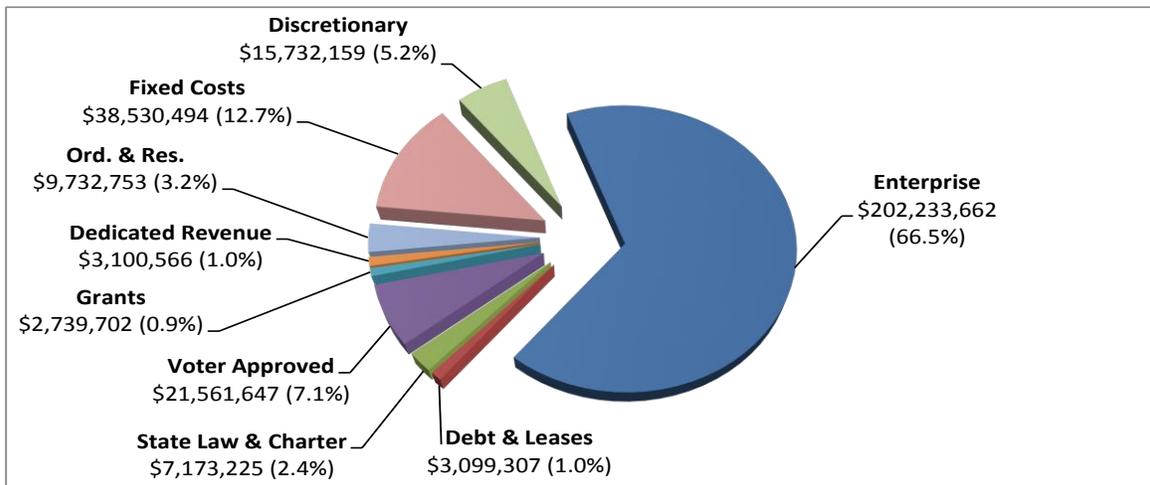
No information was omitted from this report because it was deemed privileged or confidential.

Report Analysis

Summary

The Budget Constraint Analysis demonstrates that, much like a family budget, resources are difficult to shift from one purpose to another. Similarly, the City’s budget restricts many resources that can only be used for specific purposes. This analysis identifies nine restrictive areas within the City’s budget and indicates the amount allocated to each category. The starting point for this analysis is the Fiscal Year 2014-15 Adopted Budget for the City of Independence, which totals \$303,903,515.

EXHIBIT 1: FY 2014-15 ADOPTED BUDGET: \$303,903,515



Enterprise Activities comprise \$202,233,662 or 66.5% of the City's budget and fund services that are based primarily on utility rates, including water, sanitary sewer, and electrical services. The City Charter prohibits the municipally owned and operated electrical system from being operated as a general-revenue producing agency for the City. These restrictions were upheld in a 1980 Jackson County Circuit Court decision. The City's Water and Water Pollution Control Departments are also operated so as to satisfy the Charter requirement that other public utilities and enterprises acquired by the City be operated separate from the General fund. Bond covenants also restrict the use of these funds.

Principal and interest payments on debt incurred by the City total \$3,099,307 or 1.0% of the City's budget, and are restricted to the purposes for which the debt was incurred. These purposes include economic development activities, street and bridge improvements, aquatics facilities, park projects, police and fire equipment, computer equipment, and fleet vehicles.

State Law and City Charter requirements total \$7,173,225 or 2.4% of the total budget. These requirements are established by the laws of the State of Missouri or by the Charter of Independence, Missouri. For example, motor fuel taxes levied by the State of Missouri and distributed on a formula basis to Independence are restricted to street and transportation-related purposes. The City Charter, in turn, establishes various functions to guide City policy management, such as the Mayor, City Council, City Manager, City Clerk, City Management Analyst, and various Department Directors.

Voter-approved authorizations account for \$21,561,647 or 7.1% of the overall budget. These represent resources that have been approved by a vote of the citizens of Independence and are to be used to support the activities associated with each authorization. Independence currently utilizes five voter-approved sales taxes, which are used to support street, curb, and sidewalks improvements; storm water management and system improvements; park facility enhancements and recreational activities; and the purchase, construction, maintenance, and repair of police and fire facilities and equipment. Independence voters have also authorized a transient guest tax, which is used to support the City's tourism promotion initiatives. This category also includes funds made available by Jackson County voters through support of an anti-drug sales tax, which supports police tactical and special operations.

Federal and state grant programs total \$2,739,702 or 0.9% of the City's budget. These grants are restricted to the purpose for which they were awarded, including housing and community development, law enforcement and fire protection services, as well as a variety of health care and human services.

Dedicated program revenue totals \$3,100,566 or 1.0% of the budget. This category includes service charges and fees assessed to program users that help support the cost of providing the program or regulatory service. These resources are generated from building-code and development-related services, recreation and cultural activities, community centers and other recreation-oriented facilities, fire prevention activities, restaurant and community health inspections, animal control and sheltering, cemetery services, court fees, and the issuance of official records, such as birth certificates.

Ordinances and resolutions adopted by both past and present City Council's total \$9,732,753 or 3.2% of the total budget. These actions have specified programs or policies that are to be provided by the City as a service to the citizens of Independence, or, in some instances, have earmarked revenue in support

of specific programs. These activities include animal control and sheltering, cemetery services, dangerous building demolition, emergency preparedness, domestic violence shelter operations, law enforcement training, police and fire non-personnel items, historic preservation, and transportation services. Ordinance and resolution actions have also established the City's Truman Award and Sister Cities program, as well as providing for City's Technology Services Department. Finally, this area includes costs associated with benefits afforded to both current and former City employees, such as retiree health care, unemployment compensation, the employee assistance program, third-party administration costs of the flexible benefits program, and employee physicals and drug testing.

\$38,530,494 or 12.7% of the City's budget has been identified as fixed costs. These are costs that are difficult to adjust on an annual basis and should be approached on a multi-year basis if change is desired. These items are not necessarily restricted in their use, but represent complex programs and policies that are not easily modified on an annual basis. Programs and services funded in this category include police and fire services, fleet maintenance and fuel expenses, and software and technology support services. This area also represents many of the day-to-day "overhead" costs associated with providing City services, such as municipal building and property maintenance as well as utility costs.

The remaining expenditures, \$15,732,159 or 5.2% of the City's total budget, have been identified as discretionary resources. The term discretionary, however, is used to identify a diverse range of services, some of which may not be as discretionary as they appear. For this analysis, the term discretionary is used to refer to those resources that are more easily reallocated from one purpose to another on an annual basis. It does not refer to the quality or desirability of each service.

Public Safety constitutes the largest share of discretionary resources with 34.7%, and includes various police and fire activities. The second largest share of discretionary resources, 34.3%, is dedicated to business operations and includes many of the day-to-day administrative and support functions, such as financial, purchasing, and accounting services, legal support, human resources, and technology services. Planning and development efforts represent 11.2% of discretionary resources, and include many of the City's community development and business licensing activities as well as various neighborhood and transit services. Public health encompasses 8.0% of discretionary resources, and involves activities such as neighborhood cleanup and property remediation, health promotion and advocacy efforts, and some inspection and permitting activities. Parks and recreation activities make up 6.2% of the City's discretionary resources and are used to support park and facility maintenance, community center and other facility operations, and programming activities. Finally, public infrastructure represents the smallest allocation with only 5.5% of the discretionary resources, but supports a diverse range of activities, such as plan review, project design, contract specifications, inspections, permits, land acquisition, right-of-way, and recycling operations.

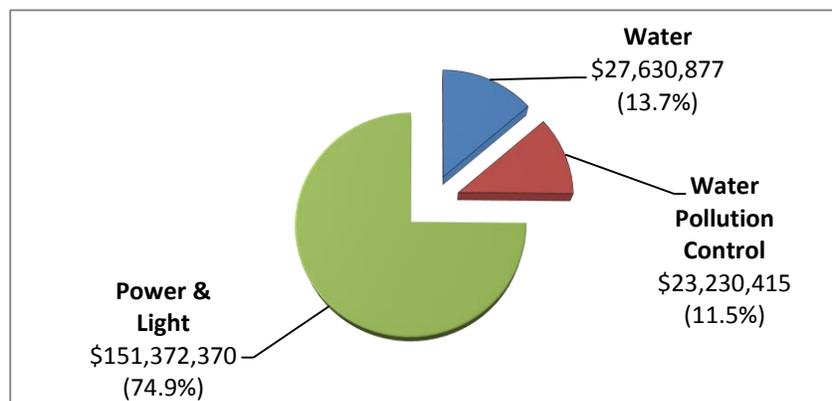
Because the General Fund represents the largest fund while also affording the greatest flexibility for resource allocation, a separate analysis is appropriate to determine the allocation of resources among the various restrictions. The General Fund includes most basic services of the City, such as police and fire protection, parks and recreation, public works, and business operations. This analysis shows 20.8% of the City's General Fund being allocated as discretionary, while 51.0% is considered fixed costs. The

remaining General Fund allocation is restricted by programs established by ordinance and resolution (12.9%), State Law and City Charter requirements (9.5%), grants programs and dedicated program revenue (4.1%), voter approved allocations (1.0%), and repayment of debt and lease obligations (0.7%).

Enterprise Activities

Enterprise Activities representing operating, capital, and debt service expenditures total \$202,233,662 or 66.5% of the total City budget. Enterprise funds support the operation of the City’s Power & Light, Water, and Water Pollution Control Departments. Revenues are based primarily on utility rates. These funds are established to account for services financed and operated in a manner similar to private businesses. Power and Light uses account for the largest portion of Enterprise Activities, totaling \$151,372,370 or 74.9% of the Enterprise category. Revenue is generated from the sale of electricity to Independence Power and Light customers. Water uses total \$27,630,877 or 13.7% of Enterprise Activities and is based on revenue from the metered usage or purchase of water by a variety of customers. Finally, Sanitary Sewer uses of \$23,230,415 make up 11.5% of Enterprise Activities. Sanitary Sewer charges are based upon the volume of water used by a customer during each billing cycle.

EXHIBIT 2: ALLOCATION OF ENTERPRISE ACTIVITIES



Usage Restrictions

The City Charter of the City of Independence regulates the operation of the “municipally owned and operated electric system”. The Charter holds that the electric system “shall be operated in a businesslike manner”, that it “shall not be operated for the benefit of other municipal functions”, and “shall not be used directly or indirectly as a general-revenue producing agency”.² This section of the Charter was the subject of a 1980 Jackson County Circuit Court decision, *City of Independence, Missouri v. Russell W. Pearson, et al.*, in which it was held that the Power and Light Department was “to be operated for the benefit of ratepayers, not for the benefit of taxpayers...(or) for the benefit of other City departments.”³ The ruling further held that City of Independence could not charge or otherwise benefit

² Charter of the City of Independence, Missouri, Section 3.17 “Municipally owned and operated utilities and enterprises”, pg. 18.

³ *City of Independence, Missouri v. Russell W. Pearson, et al*, pg. 12.

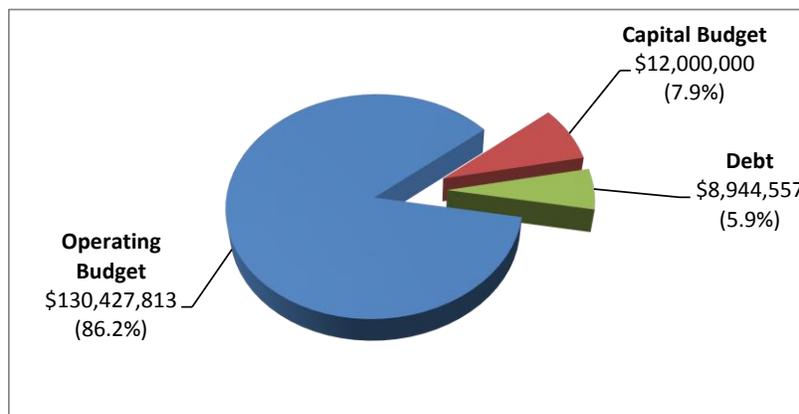
from operation of the Power and Light Department, except for reasonable charges for services provided, property supplied, or an amount in lieu of taxes as normally levied upon private utilities.

When the Charter was last revised, and at the time the 1980 Circuit Court ruling was issued, the City was only operating the electric system. As such, both of these spoke exclusively to the electric system. However, Section 3.17 of the Charter provides for additional public utilities by noting that “the electric utility and such other public utilities and enterprises as the City may acquire shall be operated from funds separate from the general fund” and “an accounting system for each such fund shall be established within the general accounting system of the City”.⁴ To that end, both the Water and Water Pollution Control Departments have been operated so as to “not be used directly or indirectly as a general revenue producing agency”, as is explicitly stated by the Charter for the Power and Light Department. Staff also noted that the Water and Water Pollution Control Departments have been restricted in their operation by bond covenants for water and sewer, respectively.

Power and Light Fund

Rate structures for the sale of electricity (both retail and wholesale) to Independence Power and Light customers are established by City ordinance and vary by customer type and metered usage. 86.2% of these fees are used to support operating activities associated with the production, transmission, and distribution of electricity, along with customer support services, regular infrastructure maintenance, and other field services activities. 7.9% is allocated as part of the capital budget, which funds major infrastructure and facility maintenance and improvement activities associated with the Power and Light Department. The remaining 5.9% of funds support debt service activities associated with the sale of revenue bonds for capital improvement projects.

EXHIBIT 3: ALLOCATION OF POWER AND LIGHT FUNDS



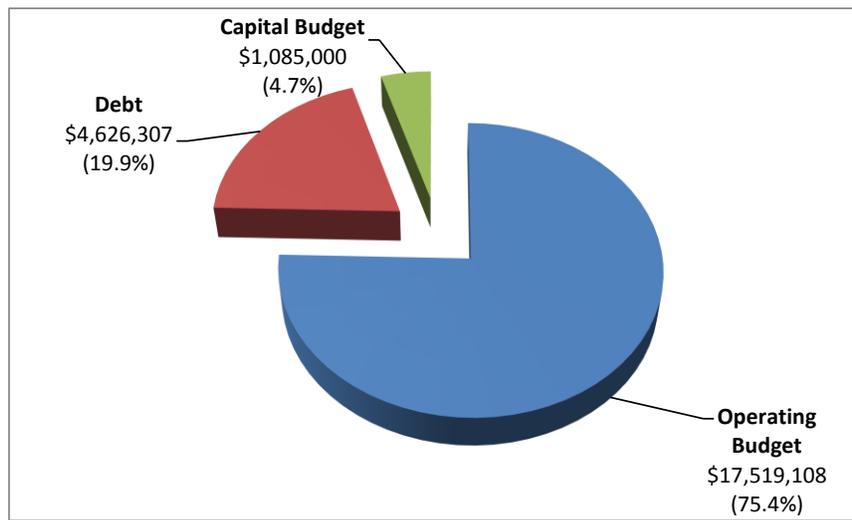
Sanitary Sewer Fund

The Sanitary Sewer Fund is supported largely by rates set by City Ordinance for the treatment of wastewater based upon customer type and the volume of water used by a customer during each billing

⁴ Charter of the City of Independence, Missouri, Section 3.17 “Municipally owned and operated utilities and enterprises”, pg. 18.

cycle. 75.4% of these funds are dedicated to the operating activities of the Water Pollution Control Department, such as operation and maintenance of the wastewater treatment plant and eleven pumping stations, maintenance of 614 miles of sanitary sewer pipe and 14,957 manholes, ongoing performance of water quality testing to monitor compliance with federal and state regulations, and other system and customer support activities. 19.9% of funds support debt service activities associated with the sale of revenue bonds for capital improvement projects. Capital budget expenditures constitute the remaining 4.7% of Sanitary Sewer Fund usages. These dollars support various sanitary sewer collection system projects as well as wastewater treatment plant and pump station improvement projects.

EXHIBIT 4: ALLOCATION OF SANITARY SEWER FUNDS

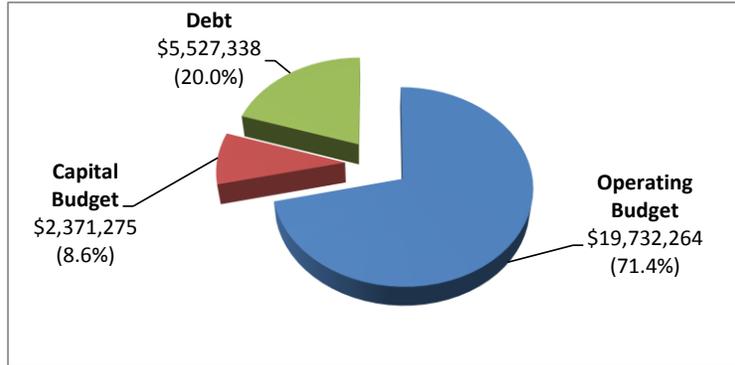


Water Fund

Revenue from the sale of water is generated primarily by assessing City of Independence Water customers a minimum rate set by City ordinance and based on customer type, location, and meter size as well as individual customer consumption. Revenue is also generated from the wholesale of water to 14 wholesalers⁵. These dollars support activities associated with providing these services, such as the operation, maintenance, and management of 753 miles of water mains, more than 4,826 fire hydrants, 41 wells, and the production of up to 48 million gallons of water daily at the City’s water treatment plant. Activities also include testing for water quality assurance in compliance with federal and state regulations as well as other customer and field service responsibilities. These “operating” activities total 71.4% of the expenditure of Water funds. 20.0% of these funds are used to support debt incurred to issue three series of revenue bonds, the proceeds of which are used to finance major capital projects. The remaining 8.6% of the Water funds support capital improvement projects ranging from main replacements to facility and system upgrades.

⁵ City of Lee’s Summit and City of Blue Springs have two accounts each with the Independence Water Department.

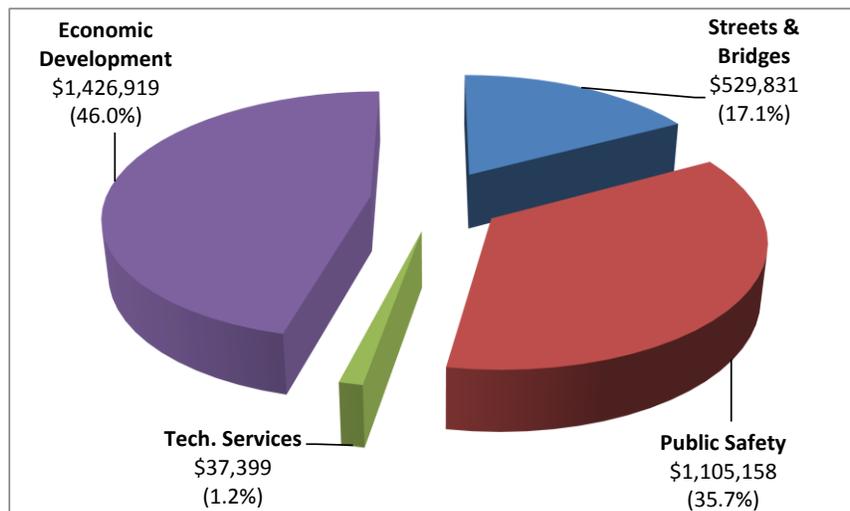
EXHIBIT 5: ALLOCATION OF WATER FUNDS



Non-Enterprise Activities Debt and Lease

Principal, interest, fiscal agent’s fees, and bond reserve requirements on the City’s outstanding debt totals \$3,099,307 or 1.0% of the budget. Debt service expenditures are the result of bonded indebtedness of the City, and revenue is restricted to the purpose for which the debt was incurred. This category is representative of the non-enterprise fund debt, as enterprise-related debt was issued using resources that are restricted for use in each of those funds. Conversely, debt in this category represents commitments that may include economic development activities, street and bridge improvements, aquatics facilities, park projects, police and fire equipment, computer equipment, and fleet vehicles.

EXHIBIT 6: ALLOCATION OF DEBT AND LEASE OBLIGATIONS



At 46.0%, economic development activities represent the largest portion of debt requirements, and entail bond repayment for the efforts associated with new growth and revitalization. Specifically, debt service requirements for the Falls at Crackerneck Creek project include \$419,716 from the General Fund, \$722,565 from the Storm Water Sales Tax Fund, and \$248,138 from utility funds.

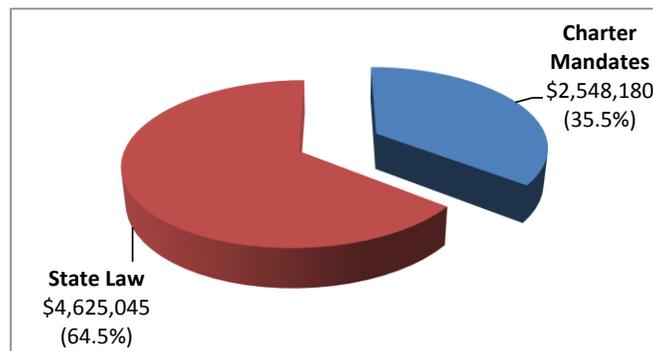
Public safety facility and equipment improvements represent an additional 35.7% of the debt category. Debt issued for street and bridge improvements comprises 17.1% of this area, with the remaining 1.2% being issued for technology improvements.

This category does not include a number of other economic development-related activities for which the City budget indicates debt service requirements. One such classification includes Neighborhood Improvement District Debt Service. In this instance, a select group within a defined geographical area has agreed to a self-imposed tax rate, the revenue of which is used for various maintenance and improvement activities in each taxing district. This revenue would not exist but for the self-imposed tax, and is therefore eliminated from consideration for this analysis because it cannot be redirected for any other purpose. The second category omitted from this analysis involves Tax Increment Financing Funds. In this circumstance, the City is but one of many taxing jurisdictions that are involved in a defined project area. Because this revenue is restricted by state law and redevelopment agreements, it cannot be considered as an exclusive City resource and is therefore not considered as part of this analysis.

State Law and City Charter Requirements

State law and City Charter requirements total \$7,173,225 or 2.4% of the total budget. These requirements are established by the laws of the State of Missouri or by the City Charter of Independence, Missouri. State statute provides for a 17 cent-per-gallon motor fuel tax that is levied by the State of Missouri, of which a total of 15% is distributed to Independence and other Missouri cities on a population-based formula. The amount of motor fuel taxes allocated in the FY 2014-15 Adopted Budget for the City of Independence is \$3,100,000. The use of these funds, in turn, is restricted to street-and transportation-related purposes, including construction, reconstruction, maintenance, repair, policing, signing, lighting, and cleaning roads and streets in the City. Other costs associated with satisfying state law requirements include public advertisement and notification of various meetings and other City activities as well as some liability and insurance items.

EXHIBIT 7: ALLOCATION OF STATE LAW AND CITY CHARTER REQUIREMENTS



The City Charter establishes a number of functions and positions to guide City policy management, such as the Mayor, City Council, City Manager, City Clerk, City Management Analyst, and various Department Directors. The City Charter requires the completion of an annual independent audit of the City's

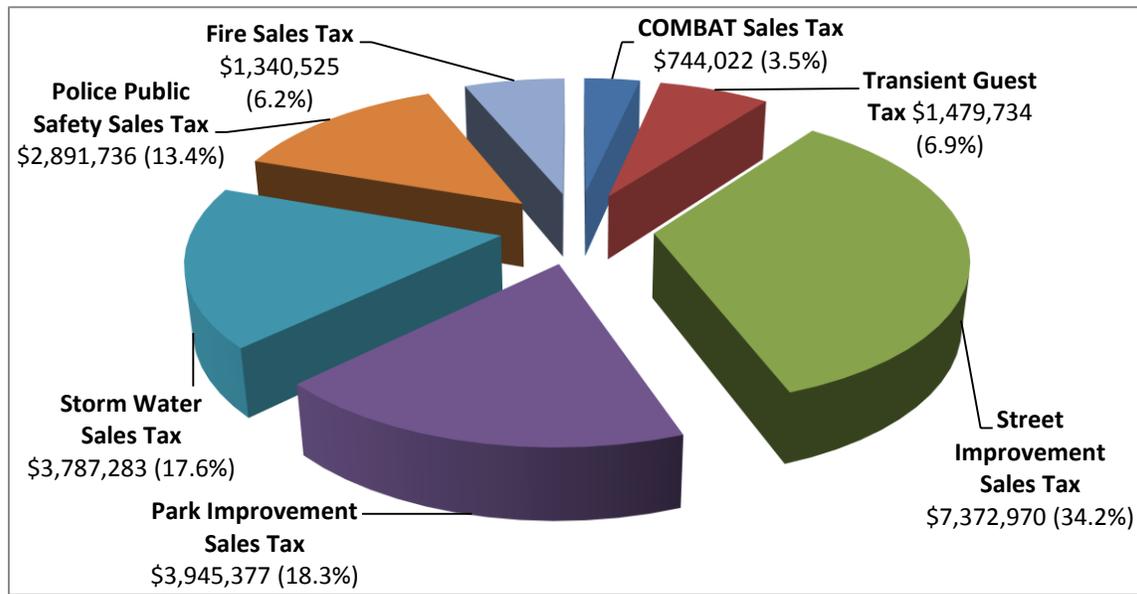
finances. Finally, State Law and the Charter both set forth guidelines for the creation, management, and publication of official City records.

Voter-Approved Authorizations

Voter-approved authorizations account for \$21,561,547 or 7.1% of the overall budget and are to be used in support of the activities associated with each authorization. These uses are supported by revenue that has been generated as a result of sales taxes approved by a vote of the citizens of Independence. Independence voters have currently authorized five City-sales taxes, one county-wide sales tax, and a transient guest tax.

On October 9th, 1973, the citizens of Independence approved a 1% City sales tax on the receipts from sales on all tangible personal property or taxable services at retail establishments within the City of Independence. Individual and business personal property taxes were repealed at that time. Merchant and Manufacturer inventory taxes were repealed the following year. As stated in Ordinance 3398, “all such tax received by the City of Independence shall be placed in the General Fund for payment for principal of and interest on General Obligation Bonds to be issued by the City or for general municipal expenses and uses”. While the sales taxes included in the voter-approved category are restricted in their use, this 1 % City sales tax is not similarly limited. Instead, it is used to support a variety of activities. As such, use of this sales tax is not considered in this category.

EXHIBIT 8: VOTER-APPROVED AUTHORIZATIONS



Use of the Street Improvement Sales Tax represents 34.2% of the voter-approved allocations. Pursuit of this tax is provided by the Transportation Sales Tax Act of Missouri. This tax was initially approved in August 2002 at a rate of 3/8 of one percent. It was reapproved in August 2007 for the period January 1st, 2009 to December 31st, 2019 at rate of ½ of one percent of the receipts from the sale of all tangible personal property or taxable services. Ballot language requires the tax be used for “transportation

purposes, including but not limited to the construction, maintenance and repair of City streets, bridges, culverts, and traffic signals”.⁶ As such, the tax is used to execute a variety of road, bridge, and curb and sidewalk activities annually. The City Council appoints members of the Street Improvement Oversight Committee to monitor projects funded by the Street Improvement Sales Tax. The committee is required to make public reports to the City Council every six months.

Use of the Park Improvement Sales Tax constitutes 18.3% of the voter-approved allocations. Pursuit of this tax is provided by the Storm Water Control and Local Parks Sales Tax Act of the State of Missouri. The tax was initially approved in August 2002 at the rate of ¼ of one percent of the receipts from the sale of all tangible personal property or taxable services. Voters approved a perpetual renewal of this tax in August 2010, which began January 1st, 2011. Ballot language requires the tax be used for “funding local park purposes, including, but not limited to the revitalization and enhancement of existing parks and recreation facilities, trail construction and the development of new parks in the City in line with the Independence Parks and Recreation Master Plan”.⁷ Consistent with those requirements, this tax is used to perform park maintenance and revitalization efforts, the programming and facility maintenance needs at Truman Memorial Building and the Palmer Center, family recreational programs, and the maintenance and operation of the City’s Adventure Oasis Aquatics Facility. Voter approval also requires an oversight committee (Independence Parks Commission) appointed by members of the City Council to monitor the status of projects funded by the Parks Improvement Sales Tax. The committee is required to make public reports to the City Council every six months.

Use of the Storm Water Control Sales Tax represents 17.6% of the voter-approved allocations. Pursuit of this tax is provided by the Storm Water Control and Local Parks Sales Tax Act of the State of Missouri. The tax was initially approved August 8th, 2000 and implemented at the rate of ¼ of one percent of the receipts from the sale of all tangible personal property or taxable services for a period of ten years. Voters approved a perpetual renewal of this tax in August 2010, which began January 1st, 2011. Ballot language requires the tax be used to “provide funding for storm water purposes, including but not limited to the construction, management, operation and maintenance of storm water control measures, and administration of pollution control activities as needed or mandated by the State of Missouri Pollution Control Operating Permit”.⁸ As such, the tax is used by the Water Pollution Control Department to support a variety of storm water control activities, including bank stabilization, detention basin improvements, and neighborhood construction projects. Voter approval also requires the creation of an oversight committee (Storm Water Control Oversight Committee) appointed by members of the City Council to monitor storm water control program elements funded by the Storm Water Control Sales Tax. The committee is required to make public reports to the City Council every six months.

Use of the Capital Improvements for Police Sales Tax comprises 13.4% of the voter-approved allocation. Pursuit of this tax is provided by the Capital Improvements Sales Tax Act of the State of Missouri. The tax was approved in August 2004 at the rate of 1/8 of one percent of the receipts from the sale of all

⁶ City of Independence Ordinance 16683 of 5/7/2007

⁷ City of Independence Ordinance 17555 of 5/17/2010

⁸ City of Independence Ordinance 17555 of 5/17/2010

tangible personal property or taxable services for the period of January 1st, 2005 through December 31st, 2016. This particular sales tax is unique in that it is collected for all utility services provided within the City, including electric, natural gas, telephone, water, and sanitary sewer. All other sales taxes are exempted by state statute from being collected for utility services. Ballot language requires the tax be used for “funding capital improvements for Public Safety purposes, including but not limited to the purchase, construction, repair and maintenance of Facilities and Equipment”.⁹ As such, the tax primarily funds communication system improvements, facility modifications, and police equipment upgrades. The City Council appoints members of the Public Safety Sales Tax Oversight Committee to ensure appropriate expenditures and to monitor projects funded by the Capital Improvements for Police Sales Tax. The committee is required to make public reports to the City Council every six months.

Independence voters have also authorized the implementation and use of a transient guest tax, which comprises 6.9% of the voter-approved allocations. This tax is to be paid by transient guests of all hotels and motels, bed and breakfast inns, and campgrounds. A public vote on February 2nd, 2002, established a tax rate of 6.5% of the gross daily rent be levied on transient guests of all lodging facilities. Revenue generated from this tax is used to support the City’s tourism promotion initiatives.

Use of the Fire Protection Sales Tax represents 6.2% of the voter-approved allocations. This tax was approved in August 2004 at the rate of ¼ of one percent of the receipts from the sale of all tangible personal property or taxable services for the period of January 1st, 2005 through December 31st, 2008. The rate decreased to 1/8 of one percent for the period of January 1st, 2009 through December 31st, 2016. Ballot language requires the tax be used for the “purchase, construction, repair, maintenance and reconstruction of facilities and equipment and for training within the operation of the municipal fire department”.¹⁰ As such, the tax is used chiefly for the purchase of fire equipment and supplies, facility modifications and building maintenance, and training and development of fire personnel. The City Council appoints members of the Public Safety Sales Tax Oversight Committee to ensure appropriate expenditures and to monitor projects funded by the Fire Protection Sales Tax. The committee is required to make public reports to the City Council every six months.

This category also includes allocations made possible by the support of Jackson County voters for the County Anti-Drug Sales Tax of the State of Missouri (referred to as COMBAT in Jackson County). This tax represents 3.5% of the total voter-approved allocations and funds police tactical and special operations. The one-quarter of one percent county sales tax was first approved by the voters in 1989 for seven years. County residents voted to renew the tax in 1996, 2003 and most recently, 2009.

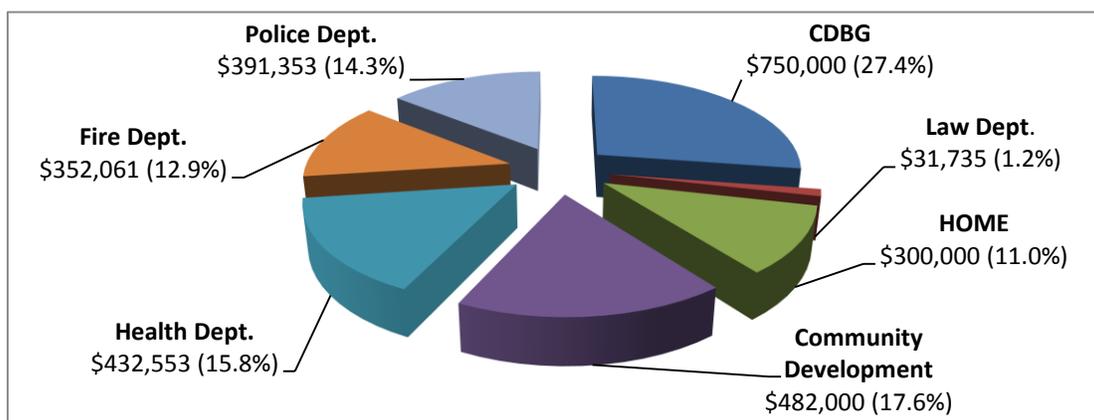
Grant Programs

Federal and state grants programs total \$2,739,702 or 0.9% of the City’s budget. These grants are restricted to the purpose for which they were awarded, such as housing and community development, law enforcement and fire protection, and various health care and human services. The amount and type of grants utilized by the City varies as program funding and eligibility change from budget to budget.

⁹ City of Independence Ordinance 15754 of 5/17/2004

¹⁰ City of Independence Ordinance 15753 of 5/17/2004

EXHIBIT 9: GRANT PROGRAM ALLOCATIONS



The Community Development Block Grant Program represents 27.4% of the overall grant allocation. The primary goal of this federally-authorized program is to “develop viable urban communities that offer decent housing, suitable living environments, and economic opportunities for low and moderate-income people.”¹¹ These resources are used to support housing rehabilitation, commercial façade improvements, historic preservation, parks improvements, and numerous social service programs.

The Community Development portion represents 17.6% of the grant allocation. This consists of grants supporting public transit services including the inter-city (Inde-Bus) and intra-city (KCATA) bus services, as well as the Dial-A-Ride services. This portion also includes grant funding to help support salary costs for the City’s Historic Preservation Manager.

Health Department activities account for 15.8% of the overall grant allocation. These grants provide for emergency preparedness, chronic disease intervention, senior services, maternal and teenage health, communicable disease surveillance, and other environmental issues.

Police Department grants make up 14.3% of the overall grant allocation. These various federal and state grant programs support the operations of the City’s Police Department, including the hiring of police officers, detectives, criminal analysts, and other key personnel.

Fire Department grants comprise 12.9% of the grant allocation and support ongoing operations of the City’s Fire Department, including purchase of critical equipment and fire apparatus.

The Home Investment Partnership Program is a federally funded grant program that represents 11.0% of the City’s overall grant allocation. This grant program seeks to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing.

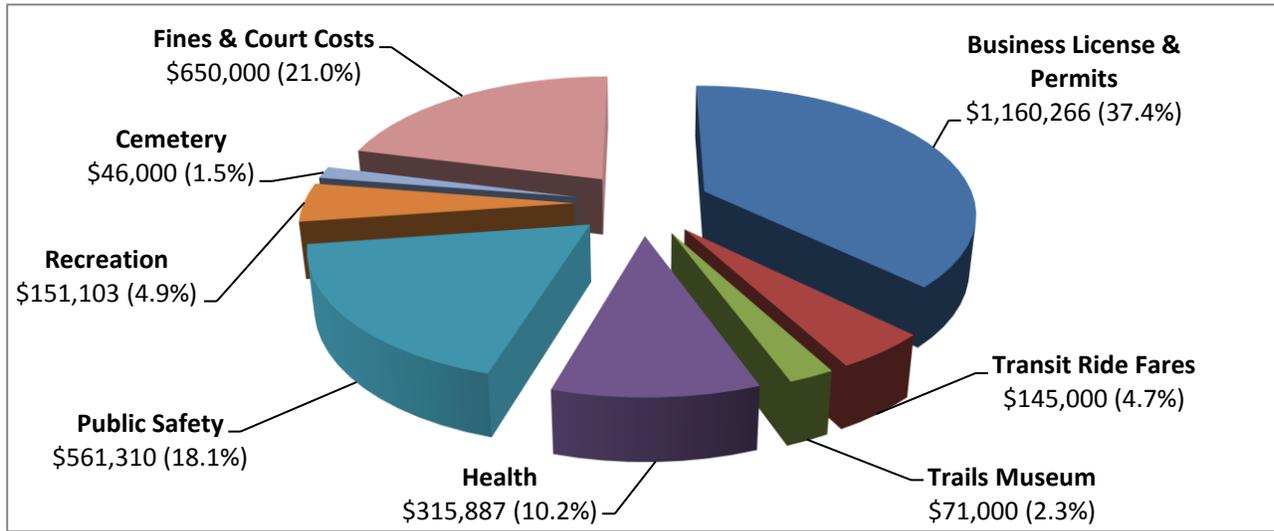
Finally, federal and state grants that support the operation of the City’s Law Department represent 0.8% of the grant allocation category and help the department furnish all required legal services for the City.

¹¹ Fiscal Year 2014-15 City of Independence Revenue Manual, pg. 53.

Dedicated Program Revenue

The use of dedicated program revenue totals \$3,100,566 or 1.0% of the budget. This category represents service charges and fees assessed to program customers and support the costs of providing the program or regulatory service, though they do not fully offset the total cost of each program.

EXHIBIT 10: DEDICATED PROGRAM REVENUE ALLOCATIONS



These dedicated revenues reflect the amount estimated and adopted as part of the Fiscal Year 2014-15 Budget. Staff tracks and monitors the revenue generated by each activity throughout the fiscal year. However, these revenues are not allocated to separate “special revenue funds” requiring the proceeds of each specific revenue source to be used to finance specified activities. Instead, they are recorded as general revenue and may be used to support a variety of activities. That being said, a redirection of these revenues away from their original use would result in a greater unsupported cost of service for the revenue-producing program. As such, these uses are classified as being constrained in that they help offset the cost of providing these programs and services.

The largest percentage of dedicated program revenue comes from licensing and permitting activities, accounting for 37.4%. These activities include plan review, the issuance of building permits for residential or commercial construction, public works construction permits for erosion control and right-of-way activities, builders trade license and exams, licenses for the operation of nursing home and day care facilities, licenses for the operation of massage therapy, tattoo, or piercing facilities, food handler permits and food inspection fees, and ambulance permits.

Revenue from fees assessed for failure to appear in Municipal Court represents 21.0% of dedicated program revenue. These fees help support costs associated with operating the Municipal Court.

The public safety category totals 18.1% of dedicated program revenue and represents fees established by City ordinance for responding to police and fire alarms, reimbursement for police services related to certain functions, and reimbursement for school resource officers at specific schools

Health and human service activities total 10.2% of the dedicated revenue category. This revenue is primarily from pit-bull registration fees, micro-chipping fees, and health training programs. Animal service fees are set by City ordinance.

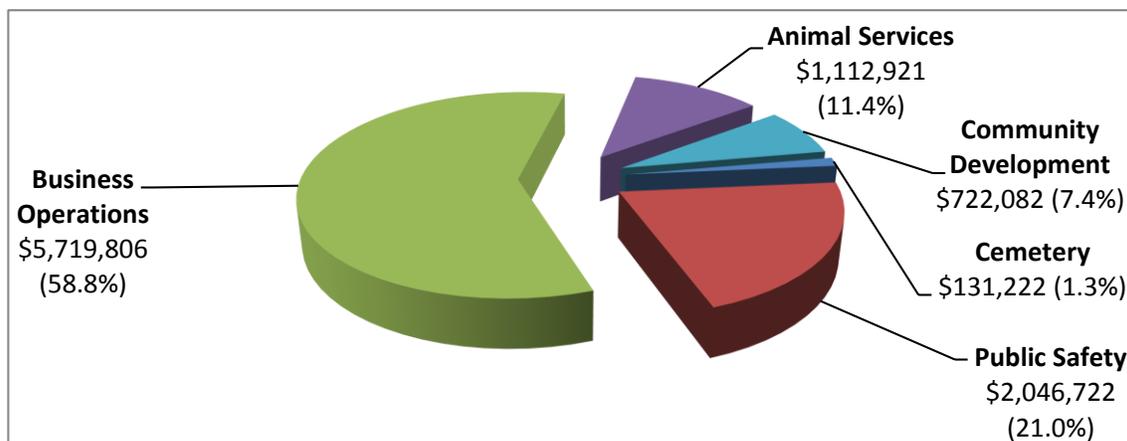
4.9% of the overall dedicated revenue is used to support park and recreation activities, including fees for participation in various programming, use of the City’s Sermon Community Center, facility rentals, and the sale of concessions. Meanwhile, 4.7% of the dedicated revenue category is generated by users of the City’s transit system and are used to support the cost of operating this service.

Finally, 2.3% of the dedicated program revenue is from admissions and gift shop sales at the National Frontier Trails Museum. This revenue supports the ongoing operation of the museum. The remaining 1.5% of the dedicated program revenue comes from the sale of cemetery lots, monument bases, and grave opening charges at the City cemetery, which are used to support the cost of these services.

Programs Approved by Ordinance or Resolution

Ordinances and resolutions adopted by the City Council (both past and present Council’s) total \$9,732,753 or 3.2% of the total budget. These actions have specified programs or policies that are to be provided by the City as a service to the citizens of Independence, or, in some instances, have earmarked revenue in support of specific programs.

EXHIBIT 11: ALLOCATION OF PROGRAMS APPROVED BY ORDINANCE OR RESOLUTION



At 58.8%, business operations represent the largest allocation of resources for programs approved by ordinance or resolution. This area includes activities related to Section 1.41.001 of the City’s Code of Ordinances, which provides for the City’s Technology Services Department and creates the position of Director of Technology Services. This area also includes several costs associated with benefits afforded to both current and former City employees, such as retiree health care, unemployment compensation, the employee assistance program, third-party administration costs of the flexible benefits program, and employee physicals and drug testing. Finally, this area includes funding for the City’s Truman Award, which has been established in Section 1.37.003 of the City’s Code of Ordinances, and the Sister Cities program, which was established by Resolution 1239.

Public safety activities constitute 21.0% of the ordinance and resolution activity. Section 1.22.017 of the City Code establishes a \$2 Municipal Court cost fee that is to be provided to support domestic violence shelter operations, while Section 1.22.018 provides for an additional \$2 court cost for the training of law enforcement officers. Additionally, Section 11.12.001 of the City Code establishes an “Emergency Management Organization” to oversee the preparation and implementation of emergency functions. This organization is to be overseen by an Emergency Preparedness Coordinator. As part of the requirements associated with the Capital Improvements for Police Sales Tax, Ordinance 15754 requires that the General Fund level of funding for non-personnel items within the Police Department be maintained at a minimum amount of no less than \$900,000 per year while the sales tax is in effect. Similarly, the requirements set forth in Ordinance 15753 for the Fire Protection Sales Tax require that the General Fund level of funding for non-personnel items within the Fire Department be maintained at a minimum amount of not less than \$900,000 per year while the sales tax is in effect.

Funding for animal service activities make up 11.4% of the ordinance and resolution allocation. Pursuant to an intergovernmental agreement with Jackson County, the Fiscal Year 2014-15 Adopted Budget provides funding in the amount of \$495,000 to contract with Jackson County for operation of the Regional Animal Shelter. Meanwhile, the City continues to provide animal control services as part of this agreement.

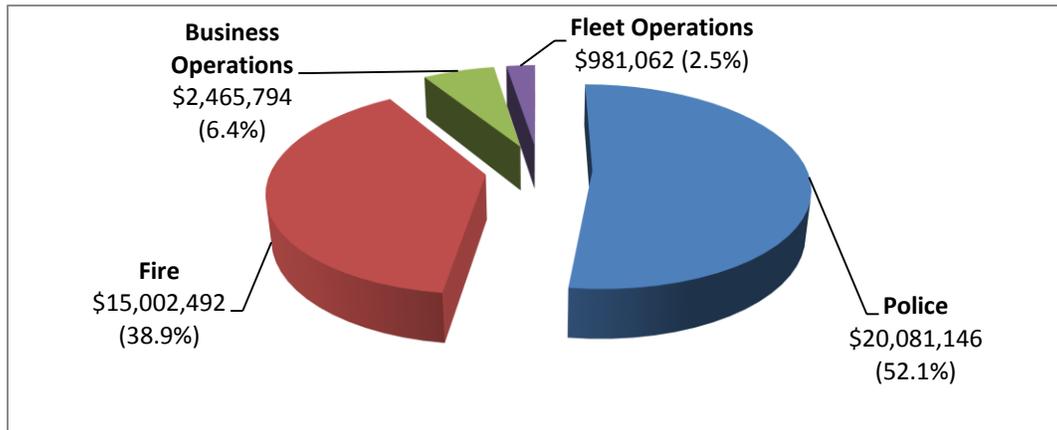
Community Development activities represent 7.4% of the ordinance and resolution allocation. This category includes funding for transportation activities. Resolution 650 was passed in 1973 in response to efforts by the Missouri General Assembly to establish a sales tax to fund public transportation. This resolution expressed its support for the passage of this sales tax and established the City Council’s commitment to utilize a minimum of \$450,000 annually from any such sales tax for bus transportation in Independence. The community development category also includes funding for a Historic Preservation Manager, which is established in Section 1.30.002 of the City Code. Finally, Section 1.30.003 of the City Code requires that members of the Heritage Commission attend at least one training or presentation annually related to historic preservation, the cost of which is to be supported by the City budget.

The remaining 1.3% of the ordinance and resolution allocation represents funding associated with the City Cemetery. Section 6.01.013 of the City Code provides that all work in the City Cemetery is to be done “by City personnel under the supervision of the City Sexton”. Recall that a portion of this category was supported by dedicated revenue from user fees for these services, while this allocation represents the remaining “out-of-pocket” cost to provide this service.

Fixed Costs

\$38,530,494 or 12.7% of the City’s budget has been identified as fixed costs. These are costs that are difficult to adjust on an annual basis and should be approached on a multi-year basis if change is desired. These items are not necessarily restricted in their use, but represent complex programs and policies that are not easily modified on an annual basis and should be seen as being better suited for extended deliberation to determine the best manner in which resources can be redirected to adjust the level of service provided by each of these programs.

EXHIBIT 12: ALLOCATION OF FIXED COSTS



The largest portion of programs and services funded in this category represent police-related activities, comprising 52.1% of the fixed cost items. Though the City Charter establishes the Police Department and the Chief of Police position, neither it nor the City Code specify the number or type of police personnel and services to be provide. Instead, this function has adapted to the varying and unique challenges facing Independence by providing services that address current needs. Such services include patrol, investigations, crime scene analysis, special enforcement duties, detention of arrested individuals, and processing emergency and non-emergency communications with the general public.

Similarly, 38.9% of fixed cost items are represented by Fire Department services. As with the Police Department, the City Charter establishes the Fire Department and tasks the Fire Chief with leading this unit, but neither it nor the City Code detail the level or type of service to be provided. The Fire Department has also modified and refined its operations to respond to the growth, development, and evolving needs of the Independence citizenry. To that end, this category includes the funding provided for fire operations, emergency medical services, fire prevention, and the equipment and resources necessary to support Fire personnel.

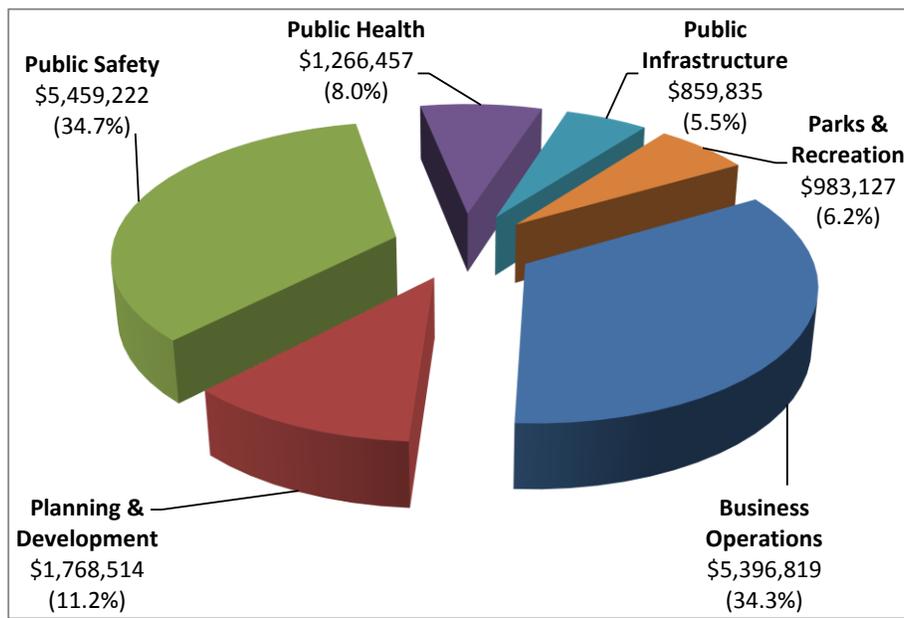
Business Operations represent 6.4% of the fixed cost allocation, which are costs associated with the day-to-day operation of the City’s government. Items include funding for software and technology support services that allow for enhanced efficiency in delivering various City programs. This area also includes municipal building and property maintenance expenses as well as utility costs for multiple City facilities.

Finally, 2.5% of the fixed cost allocation represent costs for the maintenance, repair, and fueling of City fleet. City staff requires use of vehicles and equipment that allow them to achieve many of the services performed by the City of Independence. The cost of servicing the fleet for the City’s three utility departments is recorded as part of the Enterprise Activities category, while an additional portion of the total fleet maintenance and fueling costs are noted as part of the Voter-Approved allocations. The remainder of the City’s fleet expenditures is recorded in this portion of the fixed cost allocation.

Discretionary Resources

Expenditures totaling \$15,733,974, or 5.2% of the City’s budget, have been identified as discretionary resources. The term discretionary, however, is used to identify a diverse range of services, some of which may not be as discretionary as they appear. For this analysis, the term discretionary refers to those resources that are most easily reallocated from one purpose to another on an annual basis. It does not refer to the quality or desirability of each service. This category differs from the Fixed Cost allocation in that discretionary resources are likely to be more easily redistributed on an annual basis, should such action be desired.

EXHIBIT 13: ALLOCATION OF DISCRETIONARY RESOURCES



The largest share of discretionary resources, 34.7%, is dedicated to Public Safety and includes various police and fire services such as training for public safety personnel, records and document management, and other administrative support functions. This category also includes City Council Goals funding for crime prevention initiatives.

34.3% of discretionary resources is dedicated to Business Operations and includes many of the day-to-day operational and support functions associated with program delivery, such as financial and accounting activities, legal services, human resources management, and technology support. This category also includes City Council Goals funding to support the Hungry and Homeless Coalition along with other administrative needs.

Planning and Development efforts represent 11.2% of discretionary resources, and include many of the City’s community development activities as well as various neighborhood support services. These include neighborhood revitalization efforts and housing management programs, public transit services, and City Council Goals funding to support neighborhood development entities such as Northwest Community Development Corporation.

Public Health encompasses 8.0% of discretionary resources, and involves activities such as health promotion and advocacy efforts along with public health inspection and permitting activities. This category also includes City Council Goals support for the Neighborhood Cleanup program along with funding to support the City’s Beautification Commission.

Parks and Recreation activities make up 6.2% of the City’s discretionary resources and supports park and facility maintenance, operation and maintenance of the Roger T. Sermon Community Center and George Owens Nature Park, and a wide array of programming activities.

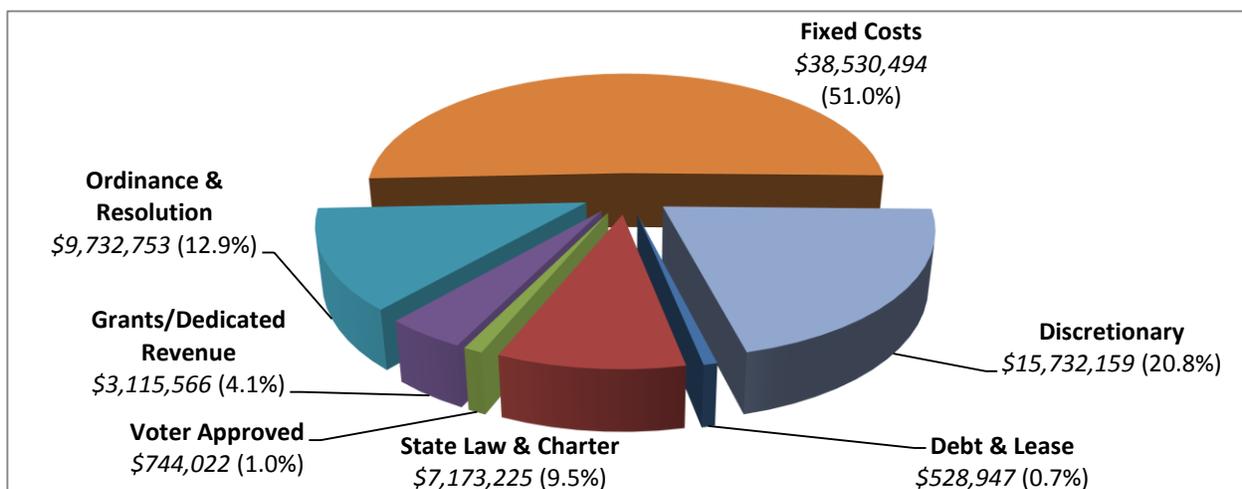
Public Infrastructure activities represent 5.5% of discretionary resources, but support services such as plan review, project design, contract specifications, inspections, permits, land acquisition right-of-way and code enforcement, and recycling operations.

General Fund Analysis

The General Fund is the largest governmental fund and accounts for most of the general financial resources of the general government. The majority of revenue in the General Fund is received from franchises fees, licenses and permits, sales taxes, service charges, real estate taxes and other types of revenue. The General Fund includes most of the basic operating services of the City, such as police and fire protection, parks and recreation activities, public works services, and general government administration. Many of the activities and uses detailed in this report are supported by the City’s General Fund.

Because the General Fund represents the largest governmental fund while also affording the greatest flexibility for resource allocation, a separate analysis is appropriate to determine the allocation of resources among the various restrictions. The exhibit below summarizes this allocation of resources when considering General Fund activities only.

EXHIBIT 14: ANALYSIS OF GENERAL FUND RESOURCE ALLOCATION



As expected, this exhibit shows the largest allocations of General Fund resources representing fixed costs (51.0% of General Fund allocation) and discretionary uses (20.8% of General Fund allocation). Of the remaining 28.2% of General Fund resources, 12.9% are reserved by ordinances and resolutions issued by both current and former City Councils, 9.5% are restricted in their use by Missouri State Law and the Charter of the City of Independence, 4.1% is representative of dedicated revenue used to support the cost of providing certain programs, 1.0% is used for voter-approved activities (in this instance, police anti-drug abatement services made possible by the Jackson County COMBAT Sales Tax), and the remaining 0.7% is committed for repayment of debt issued for specific purposes.

Conclusion

This report has reviewed the Fiscal Year 2014-15 Adopted Budget for the City of Independence to determine the total allocation of resources among nine restrictive categories. The report noted the dollar and percent amount committed to each category until it was determined that 5.2% of the City's budget can be considered discretionary, or more easily reallocated to various programs and services on an annual basis. An additional 12.7% was found to be allocated as fixed costs, which are not bound by any specific restriction but are more easily adjusted on a multi-year basis due to their complex nature. When the City's General Fund (the largest and least restrictive fund) was considered exclusively, discretionary resources totaled 20.8% and fixed costs represented an additional 51.0%.

The report does not seek to provide judgment on the desirability of the allocation of resources, nor does it seek to be prospective in nature. Instead, the report should be used to retrospectively assess the allocation of resources among the nine restrictive categories, to enhance awareness of the various restrictions that guided policymaking decisions, and to serve as an indicator of the areas and manner in which changes can be made, if desired.

Appendix A: City Counselor's Response

City of Independence

MEMORANDUM

Law Department

DATE: August 18, 2014

TO: **Zach Walker, Management Analyst**

FROM: Dayla Bishop Schwartz, City Counselor *DBS*



**SUBJECT: Report No. 14-01
Budget Constraint Analysis**

I have reviewed the draft report for Report No. 14-01, Budget Constraint Analysis. I am of the opinion that there is nothing contained within the draft report that would expose the City to a lawsuit. Furthermore, it is my opinion that the draft report would not qualify for an executive session discussion before either the Council Audit and Finance Committee or the City Council.

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