Fiscal Transformation Plan

City of Junction City

May 2011

Executive Summary

In the middle part of the last decade, Junction City faced an awesome task: preparing the community for the return of the US Army's 1st Infantry Division (the Big Red One) from Germany to Fort Riley. The City faced significant pressures from state and Federal officials to respond decisively to this challenge. And, the City did respond, issuing more than $133 million in bonds supporting commercial and residential development in response to the Big Red One's return to Kansas.

Slower than expected troop redeployments, changing troop demographics and a massive global recession brought to light the inherent risk in the City's development strategy. New residential neighborhoods, infrastructure fully-developed, never filled. City sales tax growth did not materialize. Special assessment collections lagged.

Previous City officials made well-documented mistakes. And while the City should take every effort to ensure these situations do not arise again, the financial situation the City faces today might not be materially different if no corners had been cut. The fundamentals of the US economy changed dramatically in 2008 and 2009. The City was not only unprepared for this downturn, its investment in residential real estate was an unintentional "double-down" bet on the continued health of the real estate market and the broader economy.

The City's present fiscal situation is stark. City officials have made significant reductions in operating costs. The City Commission and the voters have approved a new sales tax for debt retirement. Despite these efforts, however, City officials project—without action—that the City will face a General Fund deficit of $4.5 million for the remainder of 2011 and another $5.0 million in 2012. And, the City is near its now-declining statutory debt limit.

In order to address these issues, this Fiscal Transformation Plan presents the following recommendations:

junction city
kansas

Immediate Actions

- Restructure 2011 debt service due September 1, 2011, to provide immediate budgetary relief and substantially improve the City's cash position. Look to additional restructuring in 2012 to address anticipated budget shortfalls

- Raise the City's property tax mill levy significantly as part of the 2012 budget

- Work closely with Standard and Poor's to protect the City's bond rating

- Begin to brief the community on the City's Fiscal Transformation Plan and the actions necessary to restore the City's long-term fiscal health

Short-Term Actions (1-6 Months)

- Petition the Kansas Department of Health and Environment and Kansas Department of Transportation to modify the terms of the City's loan repayments under State Revolving Fund and Transportation Revolving Fund programs

- Work closely with commanders and planners at Ft. Riley to communicate the seriousness of the City's financial condition and to ensure the Army takes no actions to exacerbate the situation by fostering competing on-base development

- Brief the City's legislative delegation on the City's Fiscal Transformation Plan and build support for a delay in the reduction of the City's bonded indebtedness limit

- Undertake an in-depth evaluation of the City's contracted services to evaluate cost-effectiveness, competitiveness and potential alternatives

- Undertake an in-depth study of the City's staffing plan to ensure City services are delivered in an effective way

- Standardize the City's approach to charging administrative overhead and franchise fees to its own utilities as a way to increase General Fund revenues

Mid-Term Actions (6-12 months)

- Obtain modifications to statute with the effect of delaying reductions in the City's statutory debt limit

- Reduce, limit or eliminate the City's program of financing neighborhood improvements under Kansas special assessment district law (KSA 12-6a01). Instead, require developers to self-finance infrastructure, passing those costs onto the eventual property owners in the purchase price of each lot

- Refund or restructure the City's payments under its economic development obligations

- Evaluate the future role and purpose of the Spirit of '76

junction city
kansas

Long-Term Actions (12-24 months)

- Work with bond counsel to identify opportunities to undertake borrowings for general government activities in a way that will not impact the City's statutory debt limit

- Develop annual budgets and periodic budget updates to be shared with the City Commission and the public that are prepared in accordance with national municipal budgeting best practices. Update debt and economic development policies to reflect the City's new economic reality

- Standardize approaches to individual fund tax levies to provide consistency and transparency to the costs and funding sources for the various functions of city government

- Consider seeking voter approval for a temporary sales tax increase that would be dedicated to cash-financing needed capital improvements and/or retiring outstanding debt

- Use the City's market position as a natural monopoly provider of services to increase fees and charges, benefitting the City's General Fund

- Develop a long-term plan for the City to recognize some upside as failing special assessment districts eventually develop. Part of this strategy might include the City purchasing these failing subdivisions either from banks or at tax sale in order to take the position as developer and/or working with the US Army to develop the neighborhoods as "on-base" housing

It took the City about a half-decade to create the environment leading to today's financial crisis. It will likely take the City at least that long to restore its fiscal health. The recommendations provided in this Fiscal Transformation Plan will be critical to this effort.

junction city
k a n s a s

Introduction

One of the key findings from the BKD Report on the City's mobilization for the return of the Army's 1st Infantry Division to Fort Riley was that the City did not have a plan. As the result of planning failures (for which the City had some control) and the impact of the global credit crisis (for which the City had no control), the City of Junction City faces imminent financial crisis. And, while the new city manager and finance director have spent much of the last year trying to manage the City's financial crisis, it is time now for a plan to resolve the crisis and return the City to solid financial footing.

This Financial Transition Plan sets the groundwork for recovery planning efforts. The document provides a foundation for understanding of the financial problems facing the City and identifies specific, actionable recommendations for the City to resolve the immediate crisis and put itself on a road to solid financial footing again.

The City has already made a number of painful decisions to manage its financial crisis and, unfortunately, more pain will be necessary in the coming months. The City's current problems, however, are soluble. We look forward to working collaboratively with the City Commission, City staff and the Junction City community to help return the City to financial health.

Columbia Capital Management, LLC
May 2011

junction city
kansas

Columbia Capital Management, LLC has relied extensively on information prepared and provided by City staff, the City's auditors and outside accountants, and other units of government. While we have worked in collaboration with City staff to prepare this Plan, the reader should not assume we have independently verified all data presented herein.

junction city
k a n s a s

Table of Contents

BACKGROUND 1

DOING NOTHING IS NOT AN OPTION: THE CASE FOR CHANGE 3

RECOMMENDATIONS FOR ACTION: IMMEDIATE 19

- Recommendation #1—Debt Restructuring 19
- Recommendation #2—Increase Property Tax Levy Significantly 20
- Recommendation #3—Protect the City's Bond Rating 20
- Recommendation #4—Engage the Community in Discussion 21

RECOMMENDATIONS FOR ACTION: SHORT-TERM (1 TO 6 MONTHS) 23

- Recommendation #5—Restructure State Revolving Loans 23
- Recommendation #6—Foster Partnership with Fort Riley 23
- Recommendation #7—Brief the City's Legislative Delegation 24
- Recommendation #8—Review Contracted Services 25
- Recommendation #9—Review City Staffing Plan 25
- Recommendation #10—City Utility Administrative Costs and Franchise Fees 26

RECOMMENDATIONS FOR ACTION: MID-TERM (6 TO 12 MONTHS) 29

- Recommendation #11—Statutory Debt Limit Change 29
- Recommendation #12—Change the City's Special Assessment Practices 30
- Recommendation #13—Restructure Economic Development Debt 31
- Recommendation #14—Re-evaluate the Role and Purpose of Spirit of '76 32

junction city
kansas

RECOMMENDATIONS FOR ACTION: LONG-TERM (12 TO 24 MONTHS) 33

- Recommendation #15—Assess Alternatives to Statutorily Limited Debt 33
- Recommendation #16—Best Practices Financial Reporting 34
- Recommendation #17—Standardize How Property Taxes are Levied 35
- Recommendation #18—Additional Dedicated Sales Tax 35
- Recommendation #19—Solidify Natural Municipal Monopolies 36
- Recommendation #20—Strategy to Gain Upside Economics on Development 36

WHAT DOES "SUCCESS" LOOK LIKE? 39

- Measure of Success A—Budgetary Balance 39
- Measure of Success B—Fund Balances Rebuilt to Recommended Levels 39
- Measure of Success C—Reduction of Debt Service Burden 40
- Measure of Success D—Special Assessment Receipts Cover Most Costs 40
- Measure of Success E—General Obligation Bond Rating of 'A' 40
- Measure of Success F—Restructuring of Obligations with Variable Rates 41
- Measure of Success G—Forbearance on Statutory Debt Limit 41
- Measure of Success H—Implementation of Fiscal Management Best Practices 41
- Measure of Success I—Shared Burden for Housing Recovery 42
- Measure of Success J—Financial Upside from Housing Recovery 42

junction city
kansas

"When written in Chinese, the word 'crisis' is composed of two characters. One represents danger, and the other represents opportunity."

—John F. Kennedy, US president

Background

The City of Junction City faced a situation in 2005 that represented both an enormous opportunity and an enormous risk: respond to the Army's challenge to house thousands of returning soldiers and their families with the relocation of the 1st Infantry Division from Germany to Fort Riley.

The City's responses to this effort are well-documented, as are the decisions and actions—some ill-advised—that led to the City's present financial condition. And, while City staff and advisors were important actors in both the successes and failures resulting from this effort, there is no question that the collapse of the world economy in 2008 amplified and accelerated the City's financial risks. The purpose of this Financial Transition Plan is not to rehash the past, but to document the City's current financial state and to provide specific, actionable recommendations to return the City to solid financial footing.

To illustrate the City's current financial standing, it is important for the reader to understand some key statistics (a number of which are discussed in more detail in subsequent pages):

junction city
kansas

- **LIQUIDITY CRISIS:** Unaudited figures show the City ended 2010 with a *negative* fund balance in its General Fund.
- **CASHFLOW CRISIS:** Without immediate intervention, the City will not have sufficient cash to make its required debt service payments on September 1, 2011. Current projections show a negative cash balance of nearly $5 million by year-end.
- **DEBT CRISIS:** Since 1995, the City has entered into bonds and other obligations in excess of $130 million to support housing and ancillary development. In 2011 these obligations will generate debt service demands totaling more than 160% of total 2005 General Fund expenditures.
- **CAPITAL INVESTMENT CRISIS:** The City projects nearly $17 million in capital investment needs over the next half-decade. It does not have the cash available to pay for these projects and its ability to issue additional debt is significantly constrained by state law.

The City has precious little margin for error. The City Commission will need to take significant, decisive actions over the next 12-18 months to fully implement the recommendations of this Financial Transformation Plan. Just as it took the City a period of years to work itself into financial crisis, it will take a number of years to restore its fiscal strength.

junction city
k a n s a s

"We can try to avoid making choices by doing nothing, but even that is a decision."
—Gary Collins, author

Doing Nothing is Not an Option: The Case for Change

The City's current financial situation was created through a variety of decisions to attempt to grow the community or to prepare it for growth. In almost every case, this was accomplished by leveraging the City's balance sheet and assuming some or all of the risk of the success of the financed project, in exchange for obtaining debt financing in the capital markets. The result of these actions is a crushing debt burden with very significant shortfalls in project revenues necessary to avoid general taxpayer subsidy of development project debt. Unfortunately, this "economic development" turned into "economic detriment" for existing taxpayers of the City. The debt burden has grown to a point where it is impinging on the City's ability to provide regular, recurring government services to the community. Without action—significant and immediate action—the City will not be able to continue to meet its debt burdens *and* provide even basic public services.

Debt Directly Related to Military Housing Development

The precipitating event for the City's current financial crisis was the City's significant investment in residential real estate to support the purported housing needs of soldiers returning to Fort Riley from Germany. According to the BKD report, the City annexed more than 1,400 acres of land, and supported and encouraged the development of more than 50 housing subdivisions.

junction city
kansas

In many cases the City took an active role in co-developing the subdivisions through its approval of special assessment districts (also known as benefit districts). Under the provisions of KSA 12-6a01 *et seq*., the City authorized the development of public infrastructure in these subdivisions, either directly or via agreement with developers where they would provide public infrastructure on a turnkey basis, using the City's full faith and credit obligation. The City issued temporary notes during construction and then, when the project was complete, issued long-term general obligation bonds to permanently finance the infrastructure projects. The City then assessed the costs of the projects, including financing costs, to the individual parcels within the benefitted subdivisions. Because of the structure of these bonds under state law, bond investors are *not* exposed to the credit of the underlying property owners. Instead, the City takes the credit risk of the underlying property owners and provides the bondholders with a general obligation pledge. Regardless of whether the subdivision is successful or if the property owners actually pay their special assessments when due, the City has committed to raise property taxes in any amount necessary to retire the bonds.

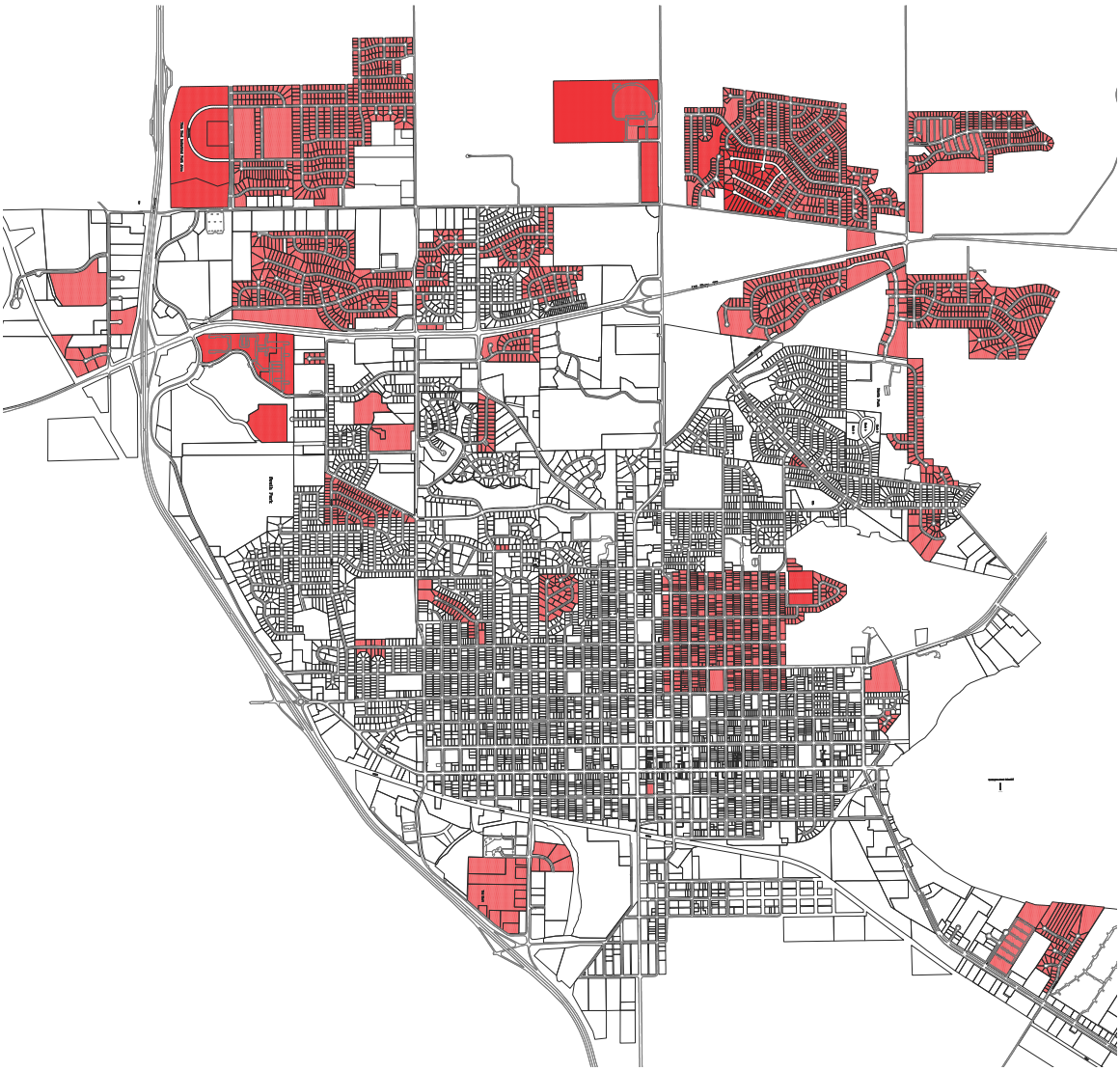

Figure 1—Special Assessment Districts (Shaded Areas) in Junction City

junction city
kansas

The table below demonstrates the amount of notes and bonds issued in recent years to support special assessment projects in the City:

Source: Bond Offering Documents

Year	Notes Issued	Bonds Issued	Notes Retired	Net New Debt	Cumulative Net New Debt
2005	7,930,000	6,000,000	-	13,930,000	13,930,000
2006	52,345,000	4,475,000	(7,930,000)	48,890,000	62,820,000
2007	59,325,000	28,430,000	(47,445,000)	40,310,000	103,130,000
2008	57,690,000	15,854,794	(64,225,000)	9,319,794	112,449,794
2009	32,025,000	40,045,000	(58,780,000)	13,290,000	125,739,794
2010	-	38,910,000	(30,935,000)	7,975,000	133,714,794
Totals	**209,315,000**	**133,714,794**	**(209,315,000)**	**133,714,794**	

Table 1—Debt Issued to Support Housing Program Since 2005

A September 2010 memorandum from Junction City/Geary County Planning and Zoning highlights the significant challenge the City faces in stabilizing the housing market in Junction City.

Source: Junction City/Geary County Planning & Zoning

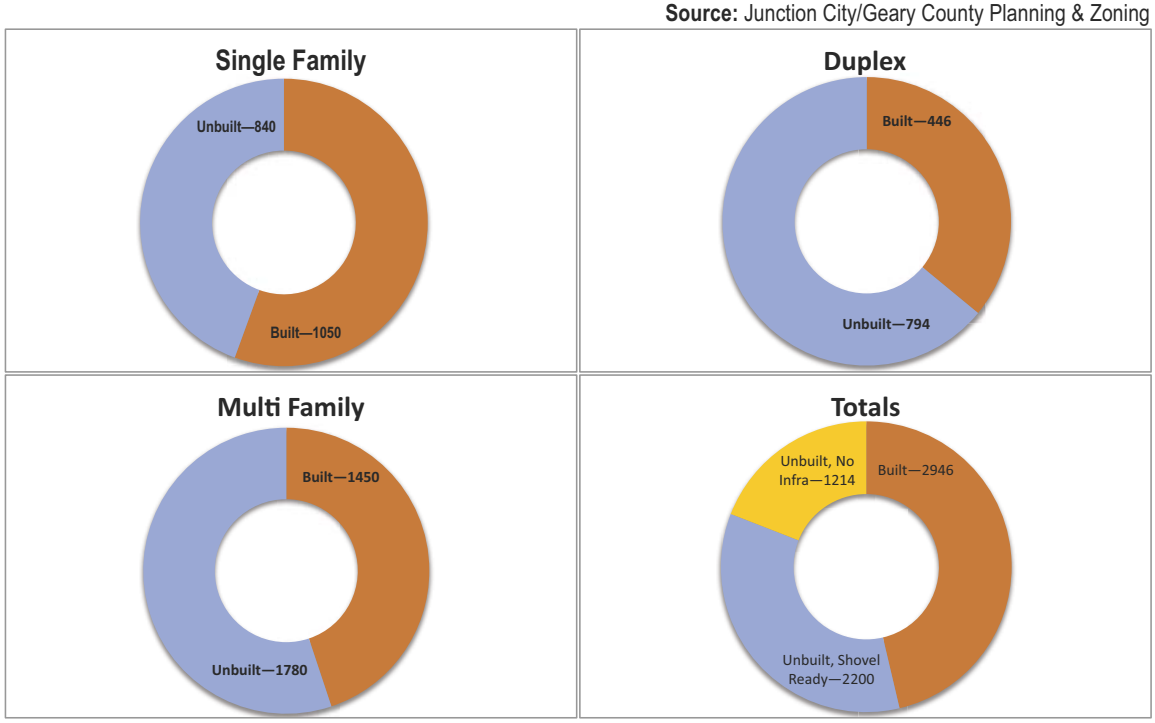

Figure 2—Lots Approved for Housing Development since 2006, by type and category

The graphics above show the total number of buildable lots developed for single-family housing and authorized units of multi-family housing in Junction City since 2005 and the number of housing units actually developed. Of the nearly 6,400 buildable lots/units approved, approximately 2,200 are "shovel ready" (approved with infrastructure in place) but unbuilt. According to its records, the City issued building permits for less than 150 new units of housing in 2010 (single- and multi-

junction city
kansas

family). Unless the housing economic ramps up considerably from current levels, the City has at least a 10-year supply of buildable lots/units, plus another five-year supply of lots/units approved for housing that could relatively quickly be made shovel-ready through the extension of infrastructure.

Due to slower than projected force level growth at Fort Riley, fewer military families relocating to the Fort Riley area and the collapse of the housing economy in Kansas and around the nation, the revenues expected from special assessments collected by Geary County on behalf of the City are dramatically below actual debt service.

Table 2 compares special assessments levied vs. assessment revenues collected or expected to be collected.

Source: City records

	2006	2007	2008	2009	2010	2011e
Levied	198,488	1,264,936	1,376,412	1,350,305	3,646,003	3,994,024
Collected	194,266	268,954	971,578	988,274	1,845,972	1,937,326
%	97.9%	21.3%	70.6%	73.2%	50.6%	48.5%
Shortfall	4,222	995,982	404,835	362,031	1,800,031	2,056,698
Cum Shortfall	4,222	1,000,205	1,405,039	1,767,070	3,567,101	5,623,799

Table 2—Special Assessment Levies vs. Collections

In the short- and mid-term, these collections are unlikely to improve quickly for two reasons: first, the US housing economy has not recovered; and second, according to the BKD Report and based on military projections, the demand for net new off-base housing units for Fort Riley soldiers will be affordable two-bedroom townhomes or apartments, *not* single family homes. In large part this is due to the fact that new housing is not affordable to the soldiers in pay grades with the highest housing demand. Each issue is discussed in turn below.

The Case-Shiller index is a composite of single-family home prices across the United States. It is updated monthly and reported after the end of each calendar quarter. The index has a base year of 2000 where home prices produced an index value of 100. A value of 150 today, for instance, would reflect a 50% growth in housing prices since 2000. As the figure below reflects, home prices nationally at the end of 2010 were roughly the same as they were at the end of 2002.

junction city
kansas

Source: Bloomberg LP

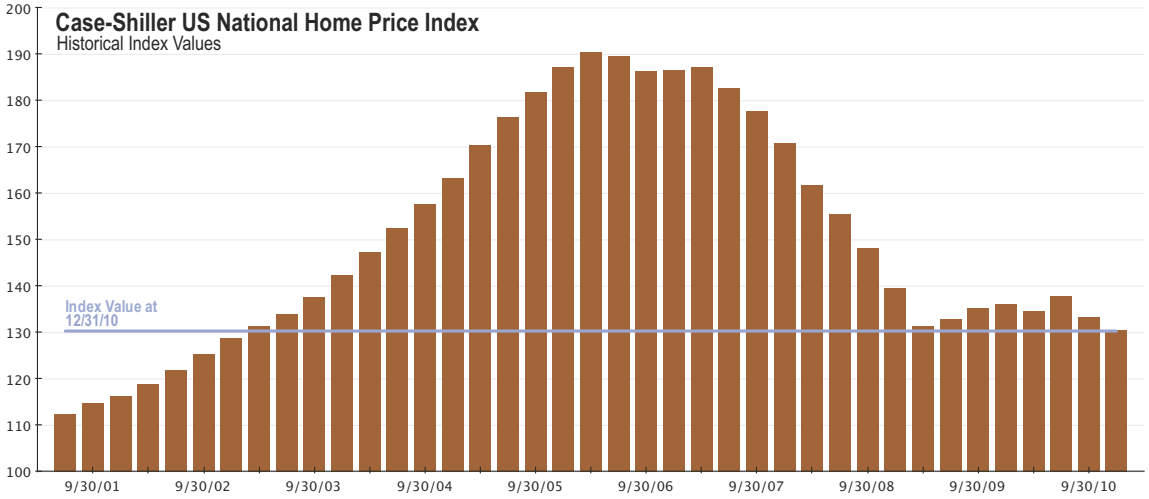

Figure 3—National Index of Home Prices Since 2000

The BKD Report references a presentation by the Army from 2009 that projects base housing demand by 2013. A summary of those projections is provided below. The BKD report and its source data provided by the US military indicate that many new single family homes constructed in Junction City were financially out of reach to the cohort of troops with the greatest demand for housing. There is a significant likelihood the City will have to look to its natural market for housing, rather than the military, to soak up the significant supply of available single-family lots.

Source: BKD Report and http://www.riley.army.mil/Documents/CPC_Housing/090908165009.pdf

	2013 Housing Requirement	2013 Proj. On-Base Inventory	2013 Proj. Off-Base Inventory	2013 Projected Net Housing Demand
Two-Bedroom	4,226	735	1,881	(1,610)
Three-Bedroom	2,911	1,157	2,493	739
Four-Bedroom	2,255	1,415	1,226	386
Totals	9,392	3,307	5,600	(485)

Table 3—Projected Fort Riley Housing Demand by 2013

junction city
kansas

Debt Indirectly Related to Military Housing Development

Along with direct support of subdivision development, the City was also faced with the responsibility of improving general public infrastructure to meet the needs of 5,000 or more new households. The City met much of its transportation and water/wastewater system improvements needs through revolving loan fund borrowings. These programs, administered by the Kansas Department of Transportation and the Kansas Department of Health and Environment, respectively, provide funds for capital investment at sub-market interest rates. In exchange, the City provides its general obligation pledge, assuring repayment to the State. Since 2006 the City has borrowed from these programs nine times.

In addition, in 2006 the City issued its $4,475,000 Certificates of Participation (COP) to finance the acquisition and development of park land associated with The Bluffs development. COPs are a form of lease financing, where the proceeds are used to construct an asset, that asset is held by a bank trustee and the bank trustee leases the asset to the City. The City pledges to appropriate sufficient funds annually from its operating budget to pay the lease rents which are equivalent to the annual debt service requirements on the COPs.

The table below reflects scheduled debt service on these loans and COPs.

Source: COP offering documents; loan schedules from KDHE and KDOT

Fiscal Year	TRF	SRF	COPs (Bluffs Park)	Totals
2011	$ 1,622,640	$ 703,022	$ 487,488	$ 2,813,150
2012	1,622,640	703,022	489,488	2,815,150
2013	1,622,640	703,022	485,888	2,811,550
2014	1,622,640	703,022	486,888	2,812,550
2015	1,622,640	703,022	487,288	2,812,950
2016	1,622,640	703,022	487,088	2,812,750
2017	1,486,361	703,022	486,288	2,675,671
2018	1,294,678	703,022	488,863	2,486,563
2019	1,294,678	703,022	160,588	2,158,288
2020	1,294,678	703,022	160,488	2,158,188
2021	1,294,678	703,022	160,175	2,157,875
2022	1,294,678	468,586	604,650	2,367,914
2023	1,294,678	442,117	-	1,736,795
2024	1,294,678	442,117	-	1,736,795
2025	1,294,678	442,117	-	1,736,795
2026	1,294,678	442,117	-	1,736,795
2027	798,128	46,056	-	844,184
2028	391,071	46,056	-	437,127
2029	70,751	46,056	-	116,807
2030	-	46,056	-	46,056
2031				
Totals	$ 24,134,253	$ 10,154,520	$ 4,985,180	$ 39,273,953

Table 4—Non-General Obligation Bond Borrowing to Support Housing Program Since 2006

junction city
kansas

Debt Directly Related to Economic Development Efforts

Since its efforts commenced to develop new off-base military housing, the City has also been involved with a number of economic development transactions. By using the City's balance sheet, the City improved the creditworthiness of the projects and decreased the borrowing costs for developers. The City also took the risk that the projects would not perform at pro forma or would fail altogether. The table below

lists scheduled debt service for City-backed economic development projects, along with aggregate levels of actual project income each year. To the extent project income falls short of covering project debt service, the City is obligated to make up the difference from its General Fund or Debt Service Fund.

Source: 2008 and 2009 City audits; City records

	Ventria (Building)	Ventria (Equip)	Capgemini (Building)	Capgemini (Equip)	Opera Hse, NRP, Other	Total Obligations	Project Receipts	Net City Cost
2005	98,234	-	-	-	88,800	187,034	(90,000)	97,034
2006	196,468	-	-	-	532,800	729,268	(180,000)	549,268
2007	196,468	-	91,035	-	587,800	875,303	(180,000)	695,303
2008	196,468	1,199,582	546,209	506,147	587,800	3,036,206	(473,762)	2,562,444
2009	196,468	1,199,582	546,209	506,147	1,128,926	3,577,332	(473,762)	3,103,570
2010	196,468	1,199,582	546,209	506,147	1,237,981	3,686,387	(473,762)	3,212,625
2011	196,468	1,199,582	362,000	506,147	688,963	2,953,160	(473,762)	2,479,398
2012	196,468	1,199,582	362,000	-	555,000	2,313,050	(322,857)	1,990,193
2013	196,468	-	362,000	-	455,000	1,013,468	(322,857)	690,611
2014	196,468	-	500,000	-	355,000	1,051,468	(322,857)	728,611
2015	98,234	-	500,000	-	255,000	853,234	(232,857)	620,377
2016	-	-	500,000	-	155,000	655,000	(142,857)	512,143
2017	-	-	500,000	-	100,000	600,000	(142,857)	457,143
2018	-	-	500,000	-	100,000	600,000	(142,857)	457,143
2019	-	-	500,000	-	100,000	600,000	(142,857)	457,143
2020	-	-	500,000	-	100,000	600,000	(142,857)	457,143
2021	-	-	500,000	-	100,000	600,000	(142,857)	457,143
2022	-	-	500,000	-	100,000	600,000	(142,857)	457,143
Totals	1,964,680	5,997,910	7,315,662	2,024,588	7,228,070	24,530,910	(4,546,475)	19,984,435

Table 5—City General Obligation-Backed Economic Development Subsidies Since 2005

The City heavily subsidized economic development investment using general obligation bonds, as well. Table 6 itemizes economic development projects financed with GO bonds. The debt service effects of those investments are not reflected in Table 5, but are instead included in the "Bonds" column of Table 7 below.

junction city
kansas

Source: City records

Project	Amount Financed	Bond Series Designation
Hotel and Convention Center	$ 940,299	DN
Upland Grant	126,359	DN
Bartell House Grant	242,200	DN
UPU Grant	2,662,021	DN
Grocery Supply (aka Nash Finch)	1,937,500	DO
JC Logistics Grant	727,500	DO
Empire	1,822,572	DO
DJ Christie Grant	1,360,000	DO
Tom Neal Industrial Park	382,423	DP
I-70 Business Park	491,900	DP
US77 Industrial Park	228,362	DP
Kaw Valley Industrial Park	1,713,825	DR
Round House	410,114	DP
Lead Horse Technologies	289,263	DR
Unplugged Cities	438,278	DR
Edenspace	4,807,361	DR
Cap Gemini/Ventria	1,995,000	DT
Tom Neal Industrial Park	888,090	DW
Russell Johnson (Ash St. project)	419,238	DW
Pepsi Cola	111,295	DW
New Horizons	1,927,251	DX
Edenspace	395,422	DX
Downtown Property (land)	705,027	DX
Totals	$ 25,021,300	

Table 6—Economic Development Projects Financed by GO Bonds Since 2004

junction city
kansas

Total Net Financial Obligations Imposed on the City Since 2005

The table below reflects the increased burden placed on the City and its taxpayers since 2005 and indicates the gross financial risk to the City in years to come from housing program and economic development obligations incurred from 2005 through 2010.

Source: Compilation of other information in this report; City budget forms

	Bonds	COPs	SRF Loans	TRF Loans	Eco Devo	Total Annual D/S	2005 General Fund Exps	D/S as % of GF Exps
2005	751,361	-	453,663	-	187,034	1,392,058	10,345,355	13%
2006	1,382,823	-	450,481	178,557	729,268	2,741,129	10,345,355	26%
2007	2,399,663	130,480	586,395	327,962	875,303	4,319,803	10,345,355	42%
2008	3,640,359	183,488	639,743	327,962	3,036,206	7,827,758	10,345,355	76%
2009	4,702,652	398,488	656,966	1,229,262	3,577,332	10,564,700	10,345,355	102%
2010	8,532,357	484,888	656,966	1,548,812	3,686,387	14,909,410	10,345,355	144%
2011	10,904,606	487,488	703,022	1,622,640	2,953,160	16,670,916	10,345,355	161%
2012	11,566,933	489,488	703,022	1,622,640	2,313,050	16,695,133	10,345,355	161%
2013	11,543,542	485,888	703,022	1,622,640	1,013,468	15,368,560	10,345,355	149%
2014	11,550,994	486,888	703,022	1,622,640	1,051,468	15,415,012	10,345,355	149%
2015	11,571,895	487,288	703,022	1,622,640	853,234	15,238,079	10,345,355	147%
2016	11,547,258	487,088	703,022	1,622,640	655,000	15,015,008	10,345,355	145%
2017	11,281,014	486,288	703,022	1,486,361	600,000	14,556,685	10,345,355	141%
2018	10,617,780	488,863	703,022	1,294,678	600,000	13,704,343	10,345,355	132%
2019	10,628,407	160,588	703,022	1,294,678	600,000	13,386,695	10,345,355	129%
2020	10,625,736	160,488	703,022	1,294,678	600,000	13,383,924	10,345,355	129%
2021	10,633,373	160,175	703,022	1,294,678	600,000	13,391,248	10,345,355	129%
2022	10,643,308	604,650	468,586	1,294,678	600,000	13,611,222	10,345,355	132%
2023	10,553,371	-	442,117	1,294,678	-	12,290,166	10,345,355	119%
2024	10,183,065	-	442,117	1,294,678	-	11,919,860	10,345,355	115%
2025	9,595,579	-	442,117	1,294,678	-	11,332,374	10,345,355	110%
2026	9,107,345	-	442,117	1,294,678	-	10,844,140	10,345,355	105%
2027	9,121,882	-	46,056	798,128	-	9,966,066	10,345,355	96%
2028	6,840,128	-	46,056	391,071	-	7,277,255	10,345,355	70%
2029	5,601,608	-	46,056	70,751	-	5,718,415	10,345,355	55%
2030	2,949,610	-	46,056	-	-	2,995,666	10,345,355	29%
2031	2,149,900	-	-	-	-	2,149,900	10,345,355	21%
Totals	220,626,549	6,182,524	13,598,734	27,746,808	24,530,910	292,685,525		

Table 7—Aggregate New Financial Burdens on Debt Obligations Entered into Since 2005 vs. 2005 Actual General Fund Expenditures.

junction city
k a n s a s

In addition to the annual debt service demands of these various obligations, the table above includes a relative measure of impact: the percentage of 2005 General Fund Expenditures that this debt service represents. This calculation is, in effect, a measure of affordability for the City: the higher the percentage, the higher the budget stress suffered by the City in meeting these obligations.

Impacts on City Operating Budget

The significant increase in debt supported by the City's General Fund serves to "crowd-out" other General Fund expenditures, barring growth in revenues to support the additional debt service. Despite significant revenue growth, most years reflected spending that exceeded available revenues. Figures for 2010 reflect

estimated amounts (2010e), as reflected in the City's budget form for 2011. Figures for 2011 reflect budgeted amounts (2011b), as reflected in the City's budget for 2011.

Source: City budget forms

GF Revenues	2005	2006	2007	2008	2009	2010e	2011b
Property Tax	940,259	1,550,458	519,652	280,311	726,786	359,618	3,306,590
Sales Tax	4,523,233	5,482,147	5,914,465	6,109,101	6,208,329	6,292,374	6,250,000
Franchise Fees	1,316,876	1,388,710	1,527,318	1,667,953	1,748,703	1,949,560	1,900,000
Fines/Forfeitures	557,812	475,955	665,596	915,312	856,831	894,666	910,000
Licenses/Permits	224,736	854,233	756,896	300,194	357,056	250,000	350,000
Charges for Service	724,377	835,258	752,612	786,400	868,819	866,446	895,000
Intergovernmental	833,863	833,289	1,163,977	1,171,697	1,704,482	1,233,845	1,460,000
Other	896,326	298,545	609,084	508,784	1,350,296	1,050,658	520,000
Totals	10,017,482	11,718,595	11,909,600	11,739,752	13,821,302	12,897,167	15,591,590
Cum % Growth from 2005	n/a	17.0%	18.9%	17.2%	38.0%	28.7%	55.6%

GF Expenditures	2005	2006	2007	2008	2009	2010e	2011b
Public Safety	5,382,999	6,140,586	6,481,378	6,990,485	7,787,272	7,042,469	8,680,992
Street	1,459,111	1,584,854	1,675,957	1,761,322	1,710,136	2,575,000	2,220,057
Parks/Rec	885,535	729,339	889,859	913,860	823,059	705,416	982,698
Administration	1,786,003	2,333,450	2,364,201	1,739,103	2,038,548	1,154,512	908,648
All Other	831,707	766,472	725,619	688,085	1,697,348	1,162,443	2,821,462
Totals	10,345,355	11,554,701	12,137,014	12,092,855	14,056,363	12,639,840	15,613,857
Cum % Growth from 2005	n/a	11.7%	17.3%	16.9%	35.9%	22.2%	50.9%

Table 8—General Fund Revenues vs. Expenditures Since 2005

As the next table illustrates, aggregate General Fund expenditures have exceeded available revenues in many years, leading to draws on fund balances.

junction city
kansas

General Fund	2005	2006	2007	2008	2009	2010e	2011b
Revenues	10,017,482	11,718,595	11,909,600	11,739,752	13,821,302	12,897,167	15,591,590
Expenditures	10,345,355	11,554,701	12,137,014	12,092,855	14,056,363	12,639,840	15,613,857
Surplus/(Deficit)	(327,873)	163,894	(227,414)	(353,103)	(235,061)	257,327	(22,267)
As % of Revenues	-3.3%	1.4%	-1.9%	-3.0%	-1.7%	2.0%	-0.1%

Table 9—Summary of General Fund Surplus and Deficit Since 2005

A similar trend of deficits is also found in the Debt Service Fund, the fund dedicated to tracking revenues related to and expenses for general debt.

Source: City budget forms

DS Revenues	2005	2006	2007	2008	2009	2010e	2011b
Property Tax	1,461,000	1,570,897	1,895,041	2,305,221	3,028,658	3,539,142	2,939,650
Sales Tax †	-	-	-	-	-	-	2,556,000
Special Assessments	203,935	194,266	242,965	987,788	1,092,708	1,845,972	1,588,023
Interfund Transfers	-	-	-	-	359,248	-	800,000
Intergovernmental	-	125,000	482,790	204,457	150,000	165,010	150,000
Eco Devo Leases	-	-	-	-	-	-	533,760
Other	126,557	1,698	1,661	1,869	398,488	5,001	-
Totals	1,791,492	1,877,274	2,662,457	3,499,335	5,029,102	5,555,125	8,567,433

† Reflects the imposition of a 1% citywide retail sales tax effective January 2011, authorized by the voters to be collected through December 31, 2020.

DS Expenditures	2005	2006	2007	2008	2009	2010e	2011b
GO Debt Service †	1,878,868	1,877,274	1,657,139	3,895,758	4,523,657	1,761,542	9,582,067
TRF Debt Service	-	-	-	-	-	1,401,629	1,629,210
Eco Devo Debt Service	-	-	-	-	-	-	1,984,439
Other	-	14,064	2,123	131,416	173,318	393,669	391,146
Totals	1,878,868	1,891,338	1,659,262	4,027,174	4,696,975	3,556,840	13,586,862

Table 10—Debt Service Fund Revenues vs. Expenditures Since 2005

† Significant budget relief provided in FY2010 due May 2010 refunding.

As the next table illustrates, aggregate Bond and Interest Fund expenditures have exceeded available revenues in many years, leading to draws on balances.

Debt Service Fund	2005	2006	2007	2008	2009	2010e	2011b
Revenues	1,791,492	1,877,274	2,662,457	3,499,335	5,029,102	5,555,125	8,567,433
Expenditures	1,878,868	1,891,338	1,659,262	4,027,174	4,696,975	3,556,840	13,586,862
Surplus/(Deficit)	(87,376)	(14,064)	1,003,195	(527,839)	332,127	1,998,285	(5,019,429)
As % of Revenues	-4.9%	-0.7%	37.7%	-15.1%	6.6%	36.0%	-58.6%

Table 11—Debt Service Fund Surplus and Deficit Since 2005

junction city
k a n s a s

The cumulative effect of structural deficits in the General Fund and Debt Service Fund has been a depletion of fund balances. Maintaining adequate fund balances provides the City with day-to-day liquidity in periods of low revenue inflows, gives the City a ready source of capital in the event of an emergency and assures the City's bondholders that it is serious about prudent fiscal management.

The Government Finance Officers' Association (GFOA) recommends most units of government maintain an unrestricted General Fund balance equal to two months' (17% of) revenues or expenditures. This recommendation is consistent with the

expectations of the bond rating agencies, which like to see general fund balances in the 15-25% of revenues or expenditures range.

The table below shows the City's historical and projected unencumbered General Fund balances as reported on the City's budget forms to the State.

Source: City budget forms; GFOA recommended practice on replenishing fund balance

	2005	2006	2007	2008	2009	2010e
Ending Cash Balance	61,762	225,656	89,135	107,972	(235,060)	(109,610)
Expenditures	10,345,355	11,554,701	12,137,014	12,092,855	14,056,363	12,639,840
Balance % of Expenditures	**0.60%**	**1.95%**	**0.73%**	**0.89%**	**(1.67)%**	**(0.87)%**
GFOA Target % †	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%

Table 12—Historical General Fund Ending Cash Balances Since 2005

† The GFOA target relates to unrestricted fund balance, the calculation of which includes more than just cash. While comparing the City's ending cash balance to the GFOA target fund balance level is not exactly an "apples-to-apples" comparison, it is an appropriate comparison in a planning context.

Impacts on City Cash Balances

One of the most urgent immediate problems facing the City is staff's projection of an all funds (pooled cash) cash position at the end of 2011 of *negative* $5 million. Unabated, this negative balance is projected to double in 2012, leaving the City with negative cash of approximately $10 million.

The table below shows projected monthly net cashflows for the City's pooled cash through the end of 2011:

Source: City records

	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Beg Bal	3,447,903	3,131,315	3,001,486	6,173,774	6,033,062	4,078,239	(4,402,563)	(4,483,651)	(4,797,480)
Revs	2,253,900	2,393,900	5,649,900	2,391,900	2,373,900	2,615,900	2,434,900	2,287,900	2,281,900
Exps †	2,570,488	2,523,729	2,477,612	2,532,612	4,328,723	11,096,702	2,515,988	2,601,729	2,459,612
Surplus/ (Deficit)	(316,588)	(129,829)	3,172,288	(140,712)	(1,954,823)	(8,480,802)	(81,088)	(313,829)	(177,712)
End Bal	3,131,315	3,001,486	6,173,774	6,033,062	4,078,239	(4,402,563)	(4,483,651)	(4,797,480)	(4,975,192)

Table 13—Projected Pooled Cash Ending Balance for 2011

† Significant expenditures in September due to debt service payments on general obligation bonds.

junction city
kansas

Overview of Actions to Date to Reduce Structural Budget Imbalance

City staff report they have implemented the following approaches to enhance revenues, reduce expenditures and bring the City's General Fund closer to structural balance:

1. Generating vacancy savings by not immediately filling open positions.

2. Reduction in staff by reducing custodian to half-time.
3. Eliminating salary increases for City staff.
4. Eliminating vacation buy-back and longevity pay.
5. Cutting non-essential services such as: Military Affairs, Juneteenth Celebration, Arts Council, Sundown Salute, Community Band, Geary County Historical Society, and KONZA (Mental Health Center).
6. Significantly reducing funding for the C.L. Hoover Opera House.
7. Deferring most capital expenditures in 2010 or 2011.
8. Reviewing and increasing most city fees, including court fines, building permit fees, planning and zoning fees, credit card fees, recreation fees, and facility use fees.
9. Reviewing and increasing user fees for City utilities except Storm Water utility.
10. Disposing of unused City property and assets.
11. Changing policies to increase revenue or decrease expenditures in a variety of ways:
    a. Charges for services for everyone (school district, YMCA, etc.) for use of facilities
    b. No waiver of fees by staff. Waivers can only be granted by the City Commission.
    f. Purchase procedures and purchase system established with formal approval of all purchases over $1,000.
15. Reducing cost of contract services through close scrutiny and re-evaluation.
16. Imposing a very tight limit on travel and training.
17. Conserving energy, reducing custodial work and eliminating under-used phone lines.
18. Reviewing all contracts in place and ensuring that City billing of third-parties was happening in a timely fashion.

Budget Cutting Alone Cannot Solve the Problems

The burdens of the obligations created over the last half-decade are only now fully materializing. Developing projections for the future budget demands of the General Fund and Debt Service Fund are made more difficult by the budget practices of the past. Until the implementation of the 2011 annual budget, it was very common for the City's fiscal managers to shift tax levies from fund-to-fund, to charge expenditures to incorrect categories and to provide for inconsistent overhead charging among the City's various funds. Staff in the 2011 budget has attempted to improve budgetary transparency by standardizing mill levy allocation and by charging revenues and expenditures to the correct categories.

junction city
k a n s a s

The table below reflecting the City's property tax levies by funds since 2005 illustrates the challenge of using historical information to make any sort of projections for the future.

Source: City budget forms

Property Tax Levies	2005	2006	2007	2008	2009	2010	2011b
General Fund	8.67	15.518	2.024	0.874	4.429	1.627	20.972
Debt Service Fund	14.248	15.001	13.980	14.961	17.032	20.494	16.815
Economic Development	1.429	1.387	1.091	-	0.962	0.095	1.084
Library	4.518	4.194	4.064	3.780	3.329	3.666	4.726
Capital Improvements	3.757	4.778	1.899	5.259	13.867	10.560	-
Utility Charges	4.500	4.598	4.295	3.898	4.217	3.879	0.255
Employee Benefit	18.103	9.727	19.814	16.989	4.036	7.698	3.773
Fire Equipment Reserve	0.490	0.158	0.569	1.633	0.400	0.455	0.842
Totals	55.715	55.361	47.736	47.394	48.272	48.474	48.467
Cum. Change (Mills)	n/a	-0.354	-7.979	-8.321	-7.443	-7.241	-7.248
Assessed Value ($000s)	88,285	97,235	118,354	141,512	163,663	165,027	166,366
Expected Tax Revenues	4,918,799	5,383,027	5,649,747	6,706,820	7,900,340	7,999,519	8,063,261
Cum. Change ($)	n/a	464,228	730,948	1,788,021	2,981,542	3,080,720	3,144,462

Table 14—Approved Property Tax Rates and Levies Since 2005

During this period of massive accumulation of debt and other obligations, the City's total property tax levy actually *declined* by 13%, about 7.5 mills. Due to very significant growth in assessed valuation, however, property tax revenues generated by those levies increased by more than $3 million per year. Even that impressive growth in collections, though, will not be sufficient over time to offset the anticipated burden of new debt and other obligations related to the housing program.

The table below summarizes projected shortfalls in sources of funds from 2012 to 2016 sufficient to offset incremental new costs incurred since 2005. The shortfall is expected to be the highest in 2012, declining slowly each year thereafter.

These shortfalls will need to be addressed. While the City may ultimately employ a number of sources of funds to offset the shortfalls, the shortfalls in the table are converted into property tax mill equivalents based upon the 2011 assessed valuation for comparison purposes.

junction city
kansas

Source: City budget forms; compilation of other information in this report

	2012e	2013e	2014e	2015e	2016e
Property Tax	3,197,250	3,245,209	3,293,887	3,343,295	3,393,445
Sales Tax	3,720,000	3,757,200	3,794,772	3,832,720	3,871,047
Economic Development	322,857	322,857	322,857	232,857	142,857
Rural Housing Incentive District	172,550	175,138	177,765	180,432	183,138
Special Assessments	1,700,000	1,750,000	1,800,000	1,850,000	1,900,000
Total New Sources	9,112,657	9,250,404	9,389,281	9,439,304	9,490,487
Projected Debt Service Demands on New Obligations	16,695,133	15,368,560	15,415,012	15,238,079	15,015,008
Surplus/(Deficit)	(7,582,476)	(6,118,156)	(6,025,731)	(5,798,775)	(5,524,521)
Tax Levy Increase/ (Decrease) Required to Offset Surplus or Deficit	45.58	36.78	36.22	34.86	33.21

Table 15—Summary of Ability to Cover Incremental Costs of Obligations Incurred Since 2005

Despite the significance of the additional housing program-related burdens the City will experience in coming years, existing public infrastructure continues to age and wear, requiring regular maintenance, upgrade and replacement. City staff recently compiled a cursory list of capital improvements needed over the next five years, as reflected in the table below. These demands may increase, especially with more in-depth analysis of capital needs over the next year or two.

Source: City records

	2012	2013	2014	2015	2016
General Government	1,354,469	2,353,456	1,481,000	1,751,685	2,746,858
Golf Course	15,000	25,000	15,000	20,000	58,000
Water System	4,202,000	300,000	650,000	300,000	300,000
Wastewater System	240,000	170,000	170,000	170,000	170,000
Stormwater System	140,000	50,000	50,000	50,000	50,000
Totals	5,951,469	2,898,456	2,366,000	2,291,685	3,324,858

Table 16—Five-Year Capital Improvements Needs

junction city
kansas

While some of the projects can be financed from enterprise funds, such as the water and wastewater projects, many of the general government projects will require either direct appropriation from the already-stressed General Fund or from debt financing.

Summary

An analysis of the City's present fiscal condition quickly leads to the conclusion that an immediate fiscal intervention is necessary. The sections of the Plan that follow provide actionable recommendations to the City, initially, to avert financial disaster and, ultimately, to return the City to solid financial footing.

junction city
k a n s a s

"The curse of me and my nation is that we always think things can be bettered by immediate action of some sort, any sort rather than no sort."

—Plato, Greek philosopher

Recommendations for Action: Immediate

The recommendations below are intended to be implemented immediately. For each, time is of the essence and City Commission action will be necessary within 30-60 days.

Recommendation #1—Debt Restructuring

WHAT: Issue refunding bonds and/or restructure debt obligations in 2011 and 2012 to attempt to provide $4.5 million in budget relief in 2011 and $5.0 million in budget relief in 2012.

WHY: Using debt restructuring, the City can offset most of the negative year-end cash position it projects for 2011 and can address some of budget shortfall it anticipates for 2012. In order to provide budget relief this year, the 2011 transaction must be priced and closed by September 1, 2011. The timing of the transaction is necessitated by the September 1 scheduled principal and interest payment date for most of its outstanding bonds.

Due to declining statutory debt limit constrains, the City is unlikely to be able to refund enough bonds in 2012 to generate the full $5 million in savings recommended. The City will need to explore other alternatives as well as the general obligation bond refunding, including refunding or restructuring other transactions, such as the certificates of participation or revolving loans.

ACTION: City Commission formal direction to staff to execute the 2011 refunding as soon as possible. City Commission's approval of a bond ordinance and resolution in late May or early June 2011 authorizing issuance of the bonds.

FINANCIAL IMPLICATIONS: For 2011, the transaction is expected to produce budgetary savings in the 2011 budget year of $4.5 million, significantly improving the City's year-end cash position. Together with the recommended

2012 restructuring, the 2011 refunding provides the City with some time to implement other recommendations.

The City anticipates structuring both transactions to "smooth" (provide more budget predictability of) future debt service obligations and to lengthen the City's bond repayment obligations. Although it is costly to defer repayment of the City's bonds through a restructuring, the City's cash position is a very significant immediate concern and the restructured debt may allow the City to more closely match the timing of its debt service demands with, hopefully, improved special assessment payments over time.

Recommendation #2—Increase Property Tax Levy Significantly

WHAT: Increase the aggregate City property tax levy significantly for the 2012 budget year, with increases split as necessary between the General Fund and Debt Service Fund, to cover debt service obligations.

WHY: Despite the reductions in operating expenses made by City staff and supported by the City Commission to date, budget cuts alone will not be sufficient to overcome the enormous debt burden generated over the last half decade. The Commission must act by August 25 to include the new levy in its 2012 budget.

ACTION: City Commission's approval of a FY2012 budget including a significant levy increase, split as needed between the General Fund and Debt Service Fund, including publishing required notices and holding required public hearings.

FINANCIAL IMPLICATIONS: Th City will recognize approximately $164,000 (minus delinquencies) in new FY2012 revenues for each new mill levied that it can use to stabilize operations, offset special assessment delinquencies and pay for economic development debt obligations.

junction city
kansas

Recommendation #3—Protect the City's Bond Rating

WHAT: Work closely with Standard and Poor's, including inviting the analyst to visit Junction City, to ensure their understanding that the City has both an immediate action plan and a long-term plan to restore the City to fiscal health.

WHY: Standard and Poor's (S&P) will review the City's debt program as part of its rating process on the bond issue recommended above. If S&P downgrades the City, the City's cost of borrowing will increase significantly, negatively

impacting its fiscal health over time. Given the state of the City's cash position, the impact of special assessment delinquencies and the overall burden of debt on the City's operations, a rating downgrade is a significant concern.

ACTION: The City Commission's vocal and visible support of the Fiscal Transformation Plan, including revenue raising, will be an important signal to the rating agencies.

FINANCIAL IMPLICATIONS: The cost differential to the City resulting from a downgrade to the BBB category could be more than 0.50% per year on new debt service.

Recommendation #4—Engage the Community in Discussion

WHAT: Through a variety of media, engage community members in understanding the status of the City's finances, as well as the plan to improve them over time.

WHY: Despite the anti-tax mood that voters expressed in the fall elections and in the rancorous politics at the state and federal levels earlier this year, successes by cities, counties and schools in local bond and tax elections in Kansas and around the Midwest show that local communities still believe in their local governments. By increasing transparency and using data-driven presentation of information to reflect the current and projected future status of the City, the City should be able to solidify a base of popular support for its implementation of the Plan.

junction city
kansas

ACTION: City Commission members and City staff should work jointly together to present information about the City's fiscal status and discuss details about its plan to fix its financial situation. The City should consider a wide variety of media to engage in this debate: clear information posted to the City's website, small and large public meetings, dialogue with civic and community groups and frequent financial reporting are all ways in which other communities have improved citizen engagement in the process.

Consider seeking grants to fund a revision to the City's long-range comprehensive plan for the community to reflect the City's new economic reality and the changing relationship with the US military.

FINANCIAL IMPLICATIONS: The cost of engaging in these civic engagement activities is mostly one of time and effort. Strengthening community support for the plan should help the City in its revenue-raising activities, now and in

the future. Planning grants are available occasionally from a variety of sources to update long-range urban plans.

junction city
k a n s a s

"Excellent firms don't believe in excellence—only in constant improvement and constant change."

—Tom Peters, business guru

Recommendations for Action: Short-Term (1 to 6 Months)

The recommendations below are intended to be implemented within six months, either in parallel with the recommended debt restructuring or immediately following that action.

Recommendation #5—Restructure State Revolving Loans

WHAT: Petition the Kansas Department of Health and Environment and Kansas Department of Transportation to modify the terms of the City's loan repayments under State Revolving Fund and Transportation Revolving Fund programs to provide short-term budgetary relief.

WHY: These loan programs provide sub-market interest rates, so they are more affordable to restructure than the City's own bonds. By restructuring the loans, the City is able to use debt service savings to build cash balances, finance unmet capital needs and/or service other debt obligations.

ACTION: Working in conjunction with its financial advisor, City staff should communicate its efforts to improve its fiscal condition in the short- and long-term and present a solid case to KDOT and KDHE why debt restructuring is necessary.

junction city
kansas

FINANCIAL IMPLICATIONS: As with bonds, deferring repayment on these loans will improve budgetary conditions in the short-term, but will increase the City's debt service costs over time. That said, these loans are less costly for the City to restructure than its other borrowings and the City's immediate need is to enhance liquidity and stabilize operating budgets.

Recommendation #6—Foster Partnership with Fort Riley

WHAT: Work closely with commanders and planners at Fort Riley to communicate the seriousness of the City's financial condition and to ensure the Army takes no actions to exacerbate the situation by fostering competing on-base development.

WHY: The Army will be a significant partner in the success of the City's plans to improve its financial condition. Ultimately, the City hopes that troop movements to Fort Riley will result in housing demand and other economic activity in Junction City. The base is a strategic partner for the City, both in the short- and long-term.

ACTION: Continue the existing regular dialogue with base commanders to understand how the Fort's housing demands are changing, to gain feedback on the perceived retail and commercial needs of civilian and military personnel at the base and to ensure the Army understands the direct and indirect impacts of its actions on the City's financial condition. It will be important for the City to brief the new commanders coming on to Fort Riley later in 2011 about the history of the City's housing program and its consequences on the City's finances.

FINANCIAL IMPLICATIONS: By creating a feedback loop and working to meet the needs of the base and its civilian and military personnel, the City can fine-tune its development and re-development efforts. By regularly communicating with base commanders the financial and related impacts of their decisions on the City, the City can hope to influence future decisions through mutual understanding and trust.

Recommendation #7—Brief the City's Legislative Delegation

WHAT: Brief the City's legislative delegation on the City's Fiscal Transformation Plan and build support for a delay in the reduction of the City's bonded indebtedness limit.

junction city
kansas

WHY: With the debt restructuring recommended above, the City will have little or no ability to finance general capital through general obligation bonds for a half-decade or more, barring unexpected and dramatic assessed valuation growth. Delaying the implementation of the reduction in the City's special exemption to the statutory debt limit would permit the City to execute a limited capital improvement program over the next three to five years. With a significant amount of maintenance and replacement delayed or cancelled in recent budget cycles, the City will likely be unable to wait to make capital investments until such time as the current statutory framework would permit.

ACTION: Invitation to the Statehouse delegation to learn more about the City's fiscal position and to answer questions about the City's actions to date to fix its own problems.

FINANCIAL IMPLICATIONS: Eventually, the City will have to invest in capital assets crucial to government operations. If the City can do so in the short window between the end of the asset's regular useful life and the asset's complete failure, the City will save money versus replacing capital assets only after they have failed completely.

Recommendation #8—Review Contracted Services

WHAT: Undertake an in-depth evaluation of the City's contracted services to evaluate cost-effectiveness, competitiveness and potential alternatives.

WHY: The City spent almost $7 million in 2010 with a single contractor to provide City services in lieu of direct service delivery by City employees. That contract was negotiated, executed and renewed in a different financial time. As City staff overturns every stone at the City looking for costs savings, it is only proper that its contractors providing direct city services do the same.

ACTION: City Commission direct staff to undertake a formal review of existing contracts for services in excess of $50,000 per year. The review should include an analysis of the effectiveness and quality of the contract operations, an evaluation of whether contracting for that service still makes operational and economic sense, an assessment of whether the private marketplace produces enough competition for firms seeking to perform such services for city governments to ensure competitive pricing and a recommendation on whether the contracts should be left in place, re-opened for negotiation of terms and costs (with an eye to cost reductions), re-bid to test market competitiveness or terminated in favor of service elimination or municipalization.

FINANCIAL IMPLICATIONS: It is reasonable to believe that subjecting the City's large contracts for service to an evaluation of effectiveness and economic competitiveness would produce significant cost savings, operational improvements and more satisfied residents.

junction city
kansas

Recommendation #9—Review City Staffing Plan

WHAT: In conjunction with the analysis on the City's contracted services, undertake an in-depth evaluation of the City's staffing plan across all departments. The study should evaluate both appropriate staffing levels necessary to deliver City services effectively and the specific education and training needs for those positions.

WHY: Nearly across the board in local government, personnel costs comprise the largest component of operating budgets. Forced changes in staffing through budget cuts may be necessary, but a better plan is to ensure that the City is deploying resources to high priority public services. Appropriately staffed departments and adequately trained employees provide the foundation for quality service and widespread public support for those services.

ACTION: City Commission direct the City Manager to undertake a formal review of staffing levels and required skill sets for those staff positions across the organization. The study should rely on best practices benchmarking from other comparable communities around the country and should involve the input of City staff on ways to make the organization function more effectively.

FINANCIAL IMPLICATIONS: Continued budget pressures will certainly make it difficult to increase staffing in the short- and mid-term. But the study should identify how staffing can be reallocated and retrained to improve the effectiveness of service delivery, hopefully reducing operational costs in the future.

Recommendation #10—City Utility Administrative Costs and Franchise Fees

WHAT: Undertake an in-depth evaluation of the City's method and approach to charging its enterprise funds, including water and wastewater, for the administrative services they receive from administration, finance, etc. In addition, survey other municipal utilities in Kansas to determine whether the imposition of a franchise fee on the City's enterprise funds would be an appropriate way to generate revenues for the City's General Fund.

junction city
kansas

WHY: City enterprise funds benefit from the centralized administrative services provided to all City departments. In addition, City enterprise funds, in many cases, benefit from a monopoly market position and relatively unencumbered use of public rights-of-way, much like investor-owned gas and electric utilities. In those cases the City charges a franchise fee to those entities to reflect the benefit they derive from their monopoly position and their access to and uses of rights-of-way (much like cities charge investor-owned utilities franchise fees for the same reasons).

ACTION: City staff should survey other cities in Kansas and identify best practice approaches to overhead and franchise fee charges to municipal utilities. City staff should then formalize a policy for how to calculate and charge both administrative fees and franchise fees. City Commission should take action on that policy prior to its implementation.

FINANCIAL IMPLICATIONS: The City should provide reimbursement to taxpayers for services and access provided to municipal utilities, which are supported by users of those utilities. These fees are typically paid into the General Fund to support general government operations, thus reducing the burden of the costs of those services on the taxpayers.

junction city
k a n s a s

junction city
k a n s a s

"If there is no struggle, there is no progress."
—Frederick Douglass, abolitionist

Recommendations for Action: Mid-Term (6 to 12 Months)

The recommendations below are intended to be implemented within one year. The timing of some—the statutory change, in particular—requires some advance preparation, so some work on these recommendations will need to commence in the very short term.

Recommendation #11—Statutory Debt Limit Change

WHAT: Obtain modifications to KSA 10-308 with the effect of delaying reductions in the City's statutory debt limit. KSA 10-308 provides limits on the amount of general obligation bonds the City is permitted to have outstanding, except if those bonds are issued to finance water, wastewater, stormwater or other municipal utility improvements, or streets and alleys immediately in front of city or school district property.

WHY: In 2006 the City received temporary relief from the long-standing limit of debt outstanding not exceeding 30% of assessed valuation. For Junction City this limit was raised to 40% through June 30, 2011; 37% through June 30, 2013; and 34% through June 30, 2015. On July 1, 2015, the City will again be subject to the 30% debt limit. Including the effects of the debt restructuring recommended above, the City will have effectively exhausted its authority to issue debt subject to the limit until 2016 (barring very dramatic growth in assessed valuation between now and 2016). Should the City need to borrow funds for general purpose capital investments in the interim, it would have very few options to do so.

junction city
kansas

ACTION: The City Commission should petition the city's legislative delegation to introduce legislation in the 2012 Kansas Legislature to delay reductions in the City's debt limit. By extending the 37% limit that will be in effect on July 1, 2011, through 2016, and the 34% limit from 2017 through 2020, the City would have some capacity for additional borrowings, if necessary, between 2012 and 2016.

FINANCIAL IMPLICATIONS: There is no cost to the State of Kansas to modify the City's debt limit. The City would benefit from the additional capacity to borrow for capital items subject to the limit, even if it ultimately chose not to.

Recommendation #12—Change the City's Special Assessment Practices

WHAT: Reduce, limit or eliminate the City's program of financing neighborhood improvements under Kansas special assessment district law (KSA 12-6a01 *et seq.*) where notes and bonds are issued backed by the full faith and credit of the City. Instead, require developers to self-finance infrastructure, passing those costs onto the eventual property owners in the purchase price of each lot, or to issue bonds and notes without the credit support of the City (i.e., a "special obligation").

WHY: While many economic development professionals might point to STAR bonds or community improvement districts or tax increment finance as the most powerful local government economic development tools in Kansas, arguably the most useful in today's lending environment is Kansas' special assessment district law. Under this statute, property owners may petition the City to create a district within which public infrastructure may be developed, the final cost of which is apportioned to property owners benefitting from such improvements. While the creation of a district to allow a subset of a city's citizens to tax themselves incrementally may not be as flashy as a TIF district, KSA 12-6a01 goes further, permitting the City to issue general obligation temporary notes during construction of the improvements and general obligation bonds to permanently finance such improvements.

By using KSA 12-6a01, the developer is able to finance the public improvements associated with his/her development over 20 years at the City's tax-exempt borrowing rate. If the developer were forced to construct such improvements on his/her own, the borrowing to finance such improvements would likely be limited to a three- or five-year term at a very high taxable rate, reflecting the developer's credit quality and the inherent riskiness in loaning to a project that does not yet have value or produce any significant revenues (i.e., construction risk).

junction city
kansas

Cities which permit the issuance of general obligation bonds and notes for special assessment projects are, in effect, serving as a banker and providing subsidized loans to borrowers at very favorable terms. When the developer is unable to make good on his/her promise to develop the property, the City is left with the burden of repaying the bondholders from its own sources of funds.

The permitted expenditures under KSA 12-6a01 are very broad, including public improvements such as: streets; right-of-way acquisition; water, sewer and stormwater improvements; street lights; parks and recreational facilities; landscaping and street trees; flood control facilities; bridges, overpasses and

tunnels for pedestrians and vehicles; retaining walls; off-street parking; and, lead abatement activities.

ACTION: The City Commission should direct staff to study alternatives to providing developers access to KSA 12-6a01, to assess the probable impacts on development if special assessment district financing were not made available to developers, to survey other Kansas communities' special assessment district risk management approaches, and to make recommendations to the City Commission on the development of a formal policy under which public improvements in private developments are financed.

FINANCIAL IMPLICATIONS: In today's lending environment, it is likely most developers would find it nearly impossible to secure bank lending for public improvement development for a large-scale development. As a result, a City policy to eliminate or reduce the use of special assessment districts (or at least those backed by the City's full faith and credit) would stifle development, especially for single-family subdivisions. For the foreseeable future, however, that approach may be beneficial to the City by funneling residential growth to the existing surplus of developable lots.

Recommendation #13—Restructure Economic Development Debt

WHAT: Refund or restructure the City's obligations under its economic development commitments related to Ventria, Capgemini and others.

WHY: Using a creative but risky structure, the City effectively extended its balance sheet (through binding backstops, not subject to annual appropriation) to private developers to assist and incentivize their investment in the community. The City issued multiple series of industrial revenue bonds (IRBs), normally for which the City would not have any obligation. In this case, debt service on the IRBs is assured by lease payments made by Spirit of '76. Since Sprit of '76 has no recurring revenue stream with which to make such lease payments, the City then agreed to make economic development grants to the Spirit of '76 as necessary to allow it to make full debt service payments on the IRBs. Spirit of '76 then subleased the financed facilities to the underlying private companies. Unfortunately, the payments under the subleases are not sufficient to meet the debt service of the Spirit of '76 IRBs and, as a result, the City is subsidizing debt service obligations on each of these projects. Additionally, some of the loans bear interest at a variable rate, providing budgetary uncertainty to the City's annual payment obligations.

junction city
kansas

Restructuring or prepaying the City's grant obligations to Spirit of '76 might provide the City with both economic savings and short-term budgetary relief.

ACTION: The City Commission should direct staff to study possible approaches to refunding or restructuring its credit support for these IRBs, with an eye toward converting the obligations to fixed rate, reducing its credit risk to underlying borrowers and lowering the effective rate of borrowing for the combined projects. Further direction should include a review and analysis of ways to unwind the Edenspace stock grant transaction.

FINANCIAL IMPLICATIONS: The City's projected subsidy of these projects is currently more than $1.5 million each year. Restructuring the commitments would provide certain short-term budget relief and might provide lower overall costs in future years.

Recommendation #14—Re-evaluate the Role and Purpose of Spirit of '76

WHAT: Study the future role of Spirit of '76 and the value it provides to the City.

WHY: Spirit of '76 played significant role in the significant increase in the City's financial obligations related to economic development transactions undertaken during implementation of the housing program. It is a natural time to re-evaluate its future role and importance to the City.

ACTION: The City Commission should direct staff to evaluate the effectiveness of Spirit of '76 and to assess its role and purpose in assisting the City in the future. The assessment should include specific findings about the level of value Spirit of '76 provides to the City today and its potential purpose in the future.

FINANCIAL IMPLICATIONS: Besides staff time and effort, there are no other immediate material financial implications.

junction city
kansas

"Plans are nothing; planning is everything."
—Dwight D. Eisenhower, US president

Recommendations for Action: Long-Term (12 to 24 Months)

The recommendations below are intended to be implemented within two years. Planning for many of the recommendations will be lengthy, so work should begin immediately to ensure timely implementation.

Recommendation #15—Assess Alternatives to Statutorily Limited Debt

WHAT: Work with bond counsel to identify opportunities to undertake borrowings for general government activities in a way that will not impact the City's statutory debt limit.

WHY: In the event the City is not successful in obtaining additional relief from the statutory debt limit it will need additional options for borrowing to support required capital investment over the next five years. As the result of its current fiscal crisis, the City has already deferred most capital investment for two years. It is simply not reasonable to assume it can continue to do so until debt limit capacity emerges in 2016 and it is unlikely the City will have rebuilt cash balances in such a way as to permit significant pay-as-you-go capital investment over the short-run.

ACTION: City staff should work with bond counsel and its financial advisor to assess opportunities to develop borrowing programs for capital that (a) will not initially count against the debt limit but (b) are affordable and easily could be refinanced with general obligation bonds subject to the limit after capacity emerges under the statutory limit.

junction city
kansas

FINANCIAL IMPLICATIONS: Implementation costs for the study phase are limited. If the City is forced to implement these alternatives, the borrowings will likely be more costly than issuing general obligation bonds. Without general obligation borrowing capacity available, however, the City could use such alternatives to finance some capital investment over the next half-decade as an alternative to spending its very finite cash. It is important to note that, just because the City identifies an alternative approach to using general obligation bonds to finance capital projects, it is not obligating itself to actually issue any debt if and until such time as the City Commission deems it important to do so.

Recommendation #16—Best Practices Financial Reporting

WHAT: Develop annual budgets and periodic budget updates to be shared with the City Commission and the public that are prepared in accordance with municipal budgeting best practices from around the country. Develop and maintain a multi-year capital improvements program (CIP). Revise the City's debt policy and create a comprehensive economic development policy, each with input from and approval by the City Commission.

WHY: In implementing this Fiscal Transformation Plan, the City Commission and City staff will invest significant time and effort conveying to the Junction City community the need to take the difficult actions recommended in the Plan. But the communication cannot stop there. The key to maintaining the public's trust is to communicate what the City hopes to accomplish, whether the City has actually met its goals and, if not, what the City is planning to do differently next time to fix what did not work. The budget serves as the financial plan for the coming fiscal year (and, hopefully, for a longer period of time by using multi-year budgeting). While the annual audit is important for understanding what happened, the budget is the beginning of the cycle, communicating the goals of, expectations for and approaches to fiscal management in the coming year.

ACTION: City staff should prepare its 2013 budget in accordance with municipal budgeting best practices from around the country. Potentially use peer reviewers to provide constructive feedback on the City's budget information. Because of the rigors of that process, planning for the 2013 budget should commence as soon as the 2012 budget is adopted. The City Commission should direct staff to begin work on a revised debt policy and a comprehensive economic development policy, consistent with rating agency medians and national best practices, with the intention that the City Commission will have a substantive role in their development.

FINANCIAL IMPLICATIONS: Designing a budget in conformance with national budgetary best practices will involve significant staff time and effort, but there are no other material financial implications.

junction city
kansas

Recommendation #17—Standardize How Property Taxes are Levied

WHAT: Standardize approaches to individual fund tax levies to provide consistency and transparency to the costs and funding sources for the various functions of city government over time.

WHY: Historical context is important to any budget reader. The reader needs to know intuitively how past results have influenced current budget priorities. By dramatically shifting levies from fund-to-fund each year, it is impossible for a budget reader to assess trends and identify potential future structural imbalances.

ACTION: City staff should standardize and document how they will levy for each taxing fund and, if necessary, use appropriated and explicitly disclosed budgetary transfers from one fund to another to resolve unusual budget difficulties.

FINANCIAL IMPLICATIONS: None.

Recommendation #18—Additional Dedicated Sales Tax

WHAT: Consider seeking voter approval for a temporary sales tax increase that would be dedicated to cash-financing needed capital improvements.

WHY: While voters were supportive in approving a 10-year, one-cent sales tax increase that went into effect on January 1, 2011, those revenues are directed to debt reduction. With a very constrained ability to issue bonds for many capital projects for the next five years, the City needs an additional major source of funds to finance capital investment. KSA 12-189 provides that cities may levy a sales tax up to 3% —2% for general purposes and 1% as a 10-year levy for special purposes. The City's current levy is 2%.

junction city
kansas

Sales taxes are an effective way to "export" local tax burdens to individuals not paying property taxes to Junction City, but who rely on City roads, traffic signals, parking and other government services when they commute to their jobs and patronize local businesses.

ACTION: The City Commission should direct staff to explore the opportunity to levy an additional sales tax and advise it on the process of assuring voter approval for the new levy. Staff's report should also include a recommendation on the size of the levy.

FINANCIAL IMPLICATIONS: A full one-cent sales tax levy would be expected to produce approximately $3.7 million per year.

Recommendation #19—Solidify Natural Municipal Monopolies

WHAT: Use the value of natural municipal monopolies—public health and safety, public utilities, right of way access—to improve the fiscal health of the City.

WHY: Passing small portions of the cost of general government overhead along to customers and beneficiaries of natural municipal monopolies is a very effective way to "export" a portion of the costs City government away from property taxpayers. While the City already maintains and controls some natural monopolies—water and wastewater, access to rights-of-way via franchise fees charged to investor-owned utilities—it might be able to further monetize the intrinsic value of those relationships, as well as to strengthen others. Centralizing solid waste services, either through municipal provision or through a single contract provider, for instance, could generate additional financial resources for the City's General Fund through interfund charges or the sale of a right to an exclusive franchise.

ACTION: The City Commission should direct staff to explore whether the City is extracting the maximum benefit from its natural municipal monopolies to the benefit of the City's General Fund. This effort should include conducting audits of utilities currently subject to franchise fee to ensure compliance, it might include a survey of other communities to develop a best practices approach to monopoly management, and it might include changes in the way some services are provided to the community.

junction city
kansas

FINANCIAL IMPLICATIONS: This is one area where a financial investment will be necessary to yield results. A number of firms around the country specialize in auditing cable, telephone and electric/gas franchise fee payers. Others can assist the City in properly allocating overhead costs to its own business-like operation and in evaluating the benefit of centralizing certain public services.

The long-term implications could be significantly positive for the City's General Fund and for taxpayers.

Recommendation #20—Strategy to Gain Upside Economics on Development

WHAT: Develop a long-term plan for the City to recognize some upside as failing special assessment districts eventually develop. Part of this strategy might include the City purchasing these subdivisions either from banks now

or from the County at tax sale in order to take the position as developer. Another strategy might be to have the Department of Defense purchase, develop and operate failed subdivisions as satellite "on-base" housing.

WHY: Under Kansas law, unpaid special assessments are treated as unpaid real estate taxes. If taxes remain unpaid the property is subject to foreclosure and may be sold by the appropriate county to generate proceeds to pay back taxes, accrued interest and fees. This process generally takes more than three years.

For Junction City, during that three-year period, the City is making payments on bonds issued to support special assessments for the subject property. If the tax sale is successful in generating sufficient proceeds to pay all taxes due, the City will be made whole on its infrastructure investment. Unless it were to get involved, the City would have no role in determining who the eventual owner of foreclosed properties would be, what that future owner's interest in actually developing the subdivision would be or the developer's financial capacity to do so in a way consistent with the City's long-range development plan.

By stepping into the developer's shoes as a principal in the development, the City could take control of distressed developments, renew their development in an appropriate and market-sensitive manner, and potentially generate some profit upon the eventual sale of the properties. By working cooperatively with banks that loaned to the defaulted developments, the City might find a motivated partner willing to assist it in getting the developments back on track. In fact, the City may be able to work with the bank to avoid a tax foreclosure proceeding through the execution of a short sale or related approach.

The City could also convince the military to partner with it. By packaging a transaction, for instance, where the City purchased the failing development from the bank, the military entered into a long-term lease to construct housing, operate it and maintain it as "on-base" housing, while paying off the special assessments, the City and the military might create a model for other base development around the country.

junction city
kansas

ACTION: The City Commission should direct staff, in conjunction with the city attorney and, potentially, representatives of Geary County to identify ways in which the City could gain control of distressed special assessment districts, restart those developments and find a way to position itself to gain upside for its significant investment and credit support of the project. Additionally, the City Commission and staff should work with base commanders and the Kansas Congressional delegation to gain approval for a demonstration project where the military either owns or leases, operates and maintains "on-base" housing off-base.

FINANCIAL IMPLICATIONS: The City already has a very significant investment in distressed special assessment districts. And while Kansas law provides a mechanism to trigger a tax sale to (potentially) make the City whole, there are no guarantees that buyers will emerge (even at significantly discounted prices) or that the eventual buyers will be interested in producing quality housing to meet the needs of Fort Riley and the Junction City community.

By stepping into a principal's role on the projects, the City is increasing its short-term risk in a way to protect its long-term investment. Careful, thoughtful, entrepreneurial approaches to this problem, including potentially negotiated short sales with the failed developers' lenders, may generate significant upside for the City over the next decade.

junction city
kansas

"It's the quality of the ordinary, the straight, the square, that accounts for the great stability and success of our nation. It's a quality to be proud of."

—Gerald Ford, US president

What Does "Success" Look Like?

The premise of this Fiscal Transformation Plan is to resolve the City's immediate fiscal crisis, while setting it on a path to fiscal stability within a reasonable period of time. But, what does success look like? "Success" as measured in a local government finance context is stable, predictable, ordinary and, as President Ford suggests, even a bit square. It is the diametric opposite to the chaotic and disordered system the City has suffered under since 2008.

To provide a more direct answer to the question, the paragraphs below present a vision to help the City Commission and broader community understand when the City has returned to fiscal stability. While these paragraphs provide a snapshot of what the end of the journey looks like, it is important for the City Commission and City staff to work jointly to assess the approach to and timing of the work program leading to the ultimate attainment of each goal.

Measure of Success A—Budgetary Balance

MEASURE: The City's tax-supported funds are in balance each year, with recurring revenues equaling or exceeding recurring expenditures. Long-term structural balance is not obtained through temporary shifts in property tax mill levy or through one-time accounting fixes.

WHY: The City cannot address its debt burden without bringing its operational costs in balance with available funds. In fact, without regular surpluses, the City will have a difficult time building cash balances or reducing its debt burden in advance of scheduled amortization.

junction city
kansas

Measure of Success B—Fund Balances Rebuilt to Recommended Levels

MEASURE: The City's General Fund balance is 15-20% of annual recurring expenditures (not including appropriated reserves), or about $2.5 million relative to FY2011 expenditures.

WHY: General Fund balance provides liquidity during low revenue collection periods, cushion in the event of a dramatic fiscal downturn or natural disaster, resources in the event of a strategic opportunity requiring quickly available cash and assistance in maintaining a high-quality bond rating.

Measure of Success C—Reduction of Debt Service Burden

MEASURE: The portion of the City's annual debt service not supported directly by specific revenue sources is less than 15% of General Fund expenditures.

WHY: Generally, City debt service that does not have a funding source (such as utility revenues, special assessment collections, a dedicated sales tax, etc.) requires a property tax levy or competes directly with operating departments for financial resources (like sales tax dollars). Large debt service requirements decrease financial flexibility and perpetuate the issuance of additional debt to finance necessary capital improvements, because that debt service consumes resources that might otherwise be available for cash-financed capital investment.

Measure of Success D—Special Assessment Receipts Cover Most Costs

MEASURE: Special assessment collections exceed 85% of actual amounts due.

WHY: The City's financial strength would improve significantly through a material reduction in the amount of special assessment delinquencies each year. While it is possible that the City will recoup some of the outstanding special assessment delinquencies when properties are sold at tax sale, this process is lengthy and uncertain: there may be no buyers for the properties at auction, even with the purchase price equaling only unpaid taxes and specials. As a result, the best outcome for the City is to see annual payments on special assessments increase significantly from current levels.

junction city
kansas

Measure of Success E—General Obligation Bond Rating of 'A'

MEASURE: The City's general obligation bonds are rated 'A' with a stable outlook.

WHY: An 'A' rating is the median rating for cities and counties around the country. It reflects solid financial management, a manageable debt load and stable, sustainable finances. Although a bond rating is important from a debt affordability standpoint (generally, the higher the rating, the less expensive the borrowing cost), in this context it is intended also to serve the broader purpose

of the City having independent third-party validation that its financial management approach is reasonable and prudent.

Measure of Success F—Restructuring of Obligations with Variable Rates

MEASURE: The City no longer has debt obligations for economic development projects with variable repayment terms.

WHY: For organizations like the City that have highly constrained fiscal environments, variable rate payment obligations can create unexpected and relatively sudden crises. The City does now and expects to continue to have access to the long-term fixed rate debt market; budgetary certainty is more important than the promise (but not guarantee) of lower borrowing costs due resulting from the use of variable rate obligations.

Measure of Success G—Forbearance on Statutory Debt Limit

MEASURE: The City successfully petitions the Kansas legislature to delay by three- to five-years its return to a 30% statutory debt limit.

WHY: Without significant growth in assessed valuation following the bond refinancing proposed for the summer of 2011, the City will not have room to issue meaningful amounts of statutorily-limited debt until 2016. (Limited debt is generally all purposes except the financing of water and wastewater system improvements.) A more gradual return to the 30% standard provides the City with some capacity to borrow for capital investment purposes over the next half-decade.

Measure of Success H—Implementation of Fiscal Management Best Practices

junction city
kansas

MEASURE: The City maintains multi-year operating and capital budgets developed using national budgeting best practices, uses debt management and fund balance policies to guide its capital investment decisions and limits its exposure to special assessment districts and economic development financings. The City obtains peer/expert review and incorporates comments and criticism from those experts in its budget, annual financial report and policies.

WHY: Because of its limited financial flexibility, the City must have a very solid understanding of the challenges it will face three- to five-years into the future. By implementing long-range operating and capital budgets and by making decisions consistent with its policy and planning documents, the City can meet the needs of its citizens, businesses and visitors without returning to

fiscal crisis. The use of national best practices and the implementation of a peer review process will provide independent third-party verification of the City's level of progress toward this success measure.

Measure of Success I—Shared Burden for Housing Recovery

MEASURE: The United States military takes an active role in reducing the financial burden on the City from housing developments built specifically to support troops stationed at Fort Riley and their families.

WHY: The delayed troop level growth and changing demographics at Fort Riley played a significant role in the failure of the City's plan to invest heavily in housing units in support of the return of the Army's 1st Infantry Division. A shared financial burden would reflect the unique partnership the City maintains with the Fort.

Measure of Success J—Financial Upside from Housing Recovery

MEASURE: The City gains significant economic return on its investment in housing as the housing market improves locally and around the country.

WHY: The City has borne most of the cost of failing housing projects to date. If those projects are allowed to go to tax sale—and if the City does not take an active role in bidding for those projects at the auction (or finding a way to prevent them from going to tax sale at all)—it faces a situation where its best case scenario is simply coming out even on its special assessments revenues. By stepping into the role of development principal through negotiations with bank lenders and acquisitions of failed developments, the City has the ability not only to improve its special assessment revenues, but also to ensure developments are quality, timely and beneficial to the community. In addition, as developer, the City has the ability to benefit from an economic return as private buyers acquire lots or completed homes and where private renters produce market rents, all to the ultimate benefit of the City.

junction city
kansas

Many of these measures of success are multi-year endeavors. Quick action by the City is necessary to start the dialogue, to encourage thinking about the process and to build consensus about the outcomes. The City will likely not experience universal success and some measures of success may become irrelevant or less important than new measures that might arise over time. As a result, the City should regularly revisit this list.

By whatever yardstick the City uses to measure its success, progress on the points addressed in the recommendations in this document are all likely to be steps in the right direction.

junction city
k a n s a s