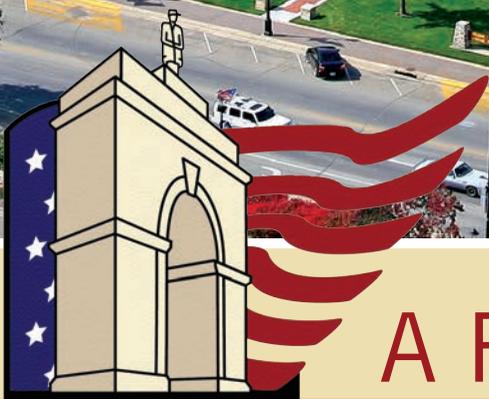


Aerial view of Heritage Park in Junction City. Photo provided by the City of Junction City.



A Fiscal Transformation

by Gerry Vernon & Cheryl Beatty



Junction City, Kansas—a growing and diverse community located on I-70 and U.S. 77—is a major presence in the Flint Hills. Nestled near Lake Milford, it offers a wide variety of outdoor activities. A proud community, also known as Fort Riley’s hometown, it has strong ties to the Fort. It was these strong ties that pushed the City to a financial brink. It began with the economic euphoria in 2005 created by population growth, sky rocketing valuation increases, and cheap credit. Poor judgment and unethical behavior added to the City’s problems. Disaster struck with the collapse of the economy and housing market crash of 2008. This is a story about a community’s response to severe fiscal crisis by pulling together and sacrificing for the greater good to achieve a tremendous recovery that continues today.

-The Situation-

Heeding the call of significant new housing following the Department of Defense 2005 Base Realignment and Closure (2005 BRAC), the City of Junction City faced significant pressures from state and federal officials to address a predicted housing shortage. The City responded by annexing 1,400 acres and accepting plans for as many as 50 new subdivisions. To fund many of those subdivisions, city staff and commissioners signed off on rich development incentives in the form of general obligation bond backed special assessment districts to construct residential infrastructure. The aggressive plan created 1,890 single family

lots, 1,190 duplex units on 595 lots, and 3,230 multi-family units. Taxes were to be levied against the individual lots in those districts to pay infrastructure costs. In four short years, the City’s debt load increased 10-fold, going from \$13 million to \$130 million. Many mistakes were made and tremendous errors in judgment occurred during the building boom. A corrupt mayor and aggressive city manager exacerbated its fiscal problems with additional State revolving loan funds and other complex economic development financing schemes that pushed the debt near \$170 million by year end 2009. The former mayor was convicted and the city manager was forced to resign, leaving the city without leadership.

-The Plan-

The City Commission quickly hired a new city manager and ultimately a new chief financial officer to solve the immediate fiscal crisis and develop a long-term debt plan. For success, the plan needed to be simple, precise, forward thinking, and rock solid in its implementation. Due to the sheer magnitude, it also had to utilize community strengths and full engagement of its citizens. A huge community team comprised of all stakeholders was enlisted to initiate and sustain the recovery. The City Commission, the citizens of Junction City, the County Commission, the residents of Geary County, members of the USD 475 School District, and ultimately Kansas congressional officials, and the Governor were called to take a part. All city employees including full-time and

Junction City Municipal Building.



part-time workers, union employees, contractual employees, and other interested parties joined forces with the community team to also participate in the recovery plan. The actions of this community-driven team created tremendous momentum that continues even today.

The first months were spent unraveling the fiscal condition of the City. A forensic audit and additional staff work revealed an organization near bankruptcy and unable to meet its financial obligations. Seven budgetary funds were negative with the General Fund projected to be \$1,000,000 in the red by year end 2010. Given the soft housing market, the default rate on the special assessment bond payments hovering at 50% left the remainder to be picked up by the Junction City taxpayer. At its lowest point, the City had \$98,000 in cash on hand to pay bills and meet the payroll of its 150 employees. The immediate recovery plan called for: 1) severe spending cutbacks; 2) identifying and consolidating debt; 3) increasing revenues; and 4) living within one's means. These four principles were implemented swiftly and completely throughout the entire organization. What did it take? The City reduced services, cut services, furloughed employees, cut employees, and analyzed and reviewed programs to become smaller and more efficient. The citizens voted to impose an additional 1¢ sales tax, they endured increased property taxes, premium water and sewer rates, increased user fees, increased franchise fees, and increased administrative fees to achieve debt payment schedules.

Everyone on the team was participating, sacrificing, and working toward recovery. For example, in response to an awareness of the severe cash crisis of the City, many utility customers prepaid several months of their water bills at premium

rates to provide critical cash to maintain operations. Efforts by the team averted the financial crisis by the end of 2010 and set the recovery in motion.

-The Transformation-

Beginning immediately in 2011, the recovery plan was fine-tuned and formalized by a new financial advisor with input from the finance director and the existing bond counsel. This fiscal transformation plan set out 20 specific action recommendations for the team to achieve recovery. The team set about accomplishing those tasks one-by-one. Internal spending limits were still in place and cash continued to build through the reduction in spending and increases in revenue streams. The team was kept abreast of the process through a newly improved and updated website, televised informational meetings, informal "coffee conversations" between the community and the city manager, and an open and transparent communication flow with the citizens and the media utilizing all possible communication channels.

The 2012 budget proved the formidable task for the City's recovery to continue. Debt payments were to be the highest amounts representing a peak in the long-term schedule. They were 95% of the general fund and 35% of the total budget. One more round of reductions was imminent creating a difficult and very divisive budget development process. To assist, a two-night community roundtable budget discussion was facilitated by Kansas State's Center for Democracy. The focus was on what services to keep and not what to cut. Framing the question in this manner provided for areas of agreement instead of "kingdom saving" argument. This capstone event greatly assisted the

community in making very tough decisions. The budget was ultimately passed to fund only the core services, build cash, invest in infrastructure, and meet all debt obligations for the year.

Stability ensued through 2012. Constant monitoring of the city's financial condition assisted in making critical decisions to stabilize operations and ensure debt payments could be made. New fiscal policies were put in place to provide guidance and to prevent reoccurrence of financial problems. A new paid time off policy for general employees was initiated to reduce long-term liabilities to provide even more stability. The public works operations were reassumed by the City from its contractor for a projected annual savings of \$500,000. Cash continues to build and provide a margin of error for unexpected emergencies. The June 30, 2012, cash report revealed a balance approaching \$19 million. Much of that cash is spoken for to cover debt payments, but it reveals a tremendous 30-month recovery.

With the passage of the 2013 budget, the City is programmed for normalcy. While Junction City's new "normal" is more constrained than most, standard operations should return to the City in the upcoming year. The City landscape was significantly changed. Approximately half of all the lots created are now built upon. Overall, the housing challenge was met and Junction City continues to see growth still averaging over 100 single family homes per year. With every building permit issued, the special assessment burden placed on the city diminishes.

A successful recovery was obtained through definitive planning, intensive community involvement, highly transparent action, and focusing on the future. Core community characteristics such as mid-western work ethics, Kansas values, tremendous community pride, and individual sacrifice provided for the recovery. Junction City is a success story because the community was involved and committed, the City Commission was willing to make tough decisions for long-term stability, the management team, and employees were willing to sacrifice and change. Junction City truly came together as a community team to overcome seemingly impossible fiscal problems and set itself up for a bright future.

The best results are co-produced by citizens and their government. We've lost sight of the act of governing as more than running a vending machine when it has much more in common with a barn raising. It's time to get it back.

-Dr. Mark Funkhouser, Director of the Governing Institute

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