State of Kansas – **<u>Senate Committee on Local Government</u>**
Testimony: Cheryl S. Beatty, Junction City Finance Director
Hearing: February 20, 2012, Room 159-S

Chairman Reitz and Committee Members:

I am sure that many eloquent speakers have testified before you, but I can truthfully say I am not one of them. So, I hope my reference to quotes will help. My first quote comes from Mason Cooley that said "Faith moves mountains, but you have to keep pushing while you are praying."

Over the last 18 months that is exactly what has been occurring in Junction City. Many people have been praying for success while city staff, elected officials, and our citizens have worked hard and made sacrifices to move a mountain of financial problems toward the completion of a financial recovery plan to ultimately achieve financial stability. Our purpose today is **not** to ask for financial assistance – but to simply ask for the extension of the debt limit as outlined in the proposed legislation. As I will discuss, we have taken aggressive action to bring our fiscal house in order. Under current law, however, we project that the City will be unable to borrow more than $50,000 for general government purposes until 2016. An accommodation on the debt limit will ensure this city of 23,000 has the capacity to borrow, if necessary, over the next few years to meet the needs of the community.

By way of history, in the middle part of the last decade the Kansas Legislature authorized a modification to the debt limit for cities at KSA 10-308, specifically to assist the City of Junction City to finance the housing infrastructure necessary to accommodate the move of the Big Red One from Germany back to Fort Riley. The City responded swiftly to this challenge; however, a combination of poor decisions, delayed troop movements and the onset of the global financial crisis caused the City to maximize its authority under the new debt limit without the related growth in assessed value expected.

Adoption of HB2420 will allow us to complete our financial plan. This debt limit extension is one of the final steps needed to complete our recovery plan. As part of our plan we enlisted a financial advisory team from Columbia Capital Management LLC. That partnership led to the creation of a document known to us as the *Junction City Fiscal Transformation Plan,* which we have followed. Within this document there are twenty recommendations for action to achieve financial recovery. I am here to report that we have either achieved or are following these recommendations.

The proposed legislation, HB2420, would delay the step-down in the City's debt limit to allow us to complete our fiscal transformation. Specifically, the proposed legislation would delay the implementation of the step-down in debt being limited to an amount equal to or less than 37% of assessed value to 34% by three years and from 34% to 30% by five years. If enacted, HB2420 would delay the City's return to the status quo ante debt limit of 30% of assessed valuation from June 30, 2015, to June 30, 2020.

Adoption of HB2420 will allow us to:

- meet our debt payments without further bond restructuring,
- reduce or hold property taxes to current levels. Our city could face a 10 to 15-mill levy increase if our financial recovery plan does not succeed,
- have a gradual return to the 30% standard debt limit . This would provide the City some capacity to borrow for day-to-day operational and critical capital investment demands over the next half-decade, and
- ensures that the City reaches financial stability.

I don't intend to read each recommendation, but you can see in the written testimony that no recommendation has been ignored. What is important now is that the City of Junction City's elected officials, staff and citizens have worked diligently to restructure to achieve success.

Advisor's Recommendations:	**Action to Date:**
1. Debt Restructuring	This was completed to improve the cities cash position.
2. Increase Property Tax Levy	City Commission increased 2012 Tax Levy by 2.068 mills.
3. Protect City Bond Rating	The City bond rating was revaluated June 2010 by S & P and remains at an A rating.
4. Engage the Community	A series of community town hall meetings, radio programs, community coffee sessions, and a community forum for setting budget priorities have been held to discuss the cities financial issues, educate the public, and garner citizen input.
5. Restructure State Revolving Loans	By choice, we have not pursued this recommendation since it may impact the State of Kansas and other cities. At this time, we do not need to do so.
6. Foster Partnership with Fort Riley	Junction City has provided strong support for Fort Riley and will continue to work with them to ensure that communication channels remain open for mutual understanding and trust as recommended. We meet with the base commander and staff members regularly.
7. Brief the City's Legislative Delegation	This recommendation has been accomplished.
8. Review contracted services.	All City contract services have been or are in process of being evaluated. We have returned to a more aggressive, competitive bid process for contract services, we have renegotiated service contract, we have enforced existing contracts that weren't being followed, and are in process of taking back some contract services that no longer present a financial savings.
9. Review City Staffing Plan	The City has restructured the city staff plan to create a lean, more efficient staff. The city laid off employees that did not fit the new staff plan.
10. Evaluate City Utility Admin. Costs & Franchise Fees.	A state-wide survey was conducted to learn 'best practice' for fee charges to municipal utilities. Upon completion of the survey, such fees were adopted and implanted in the 2012 budget

11. Statutory Debt Limit Change	**This has been requested and is the purpose of this testimony.**
12. Change City's Special Assessment Practices	The City has an existing surplus of developable lots and does not see a need in the near future for public supported special assessments. In addition, a formal policy for private development is being formulated to protect the city against future financial risks.
13. Restructure Economic Development Debt	Steps have been taken to the economic development restructuring are being pursued.
14. Re-evaluate the Role & Purpose of the Spirit of '76	A new consolidated Chamber of Commerce, Junction City/Geary County Economic Development, Military Affairs, and the Junction City/Geary County Convention and Visitors Bureau has been formed. With this consolidation, the Spirit of '76 will only exit to complete the obligations of previously developed contracts.
15. Assess Alternative to Statutorily Limited Debt	This recommendation has been thoroughly discussed and evaluated, but not pursued. It would only be necessary if The debt limit extension is not granted.
16. Best Practices Followed for Financial Reporting	The city hired myself as its' first financial director. A great deal of work has been accomplished since June 2010 to ensure that best practices for accounting and auditing are being followed.
17. Standardize How Property Taxes are Levied	This recommendation has been accomplished.
18. Additional Dedicated Sales Tax	The citizens of Junction City passed a one-cent, 10 year, dedicated sales tax for debt relief.
19. Solidify Natural Municipal Monopolies	This has been started and will be ongoing. Each municipal utility is being studied to make sure that each is operating effectively, that needed capital investments are not being ignored, and rate structures have been adopted that meet the needs of each utility.
20. Strategy to Gain Upside Economics on Development	This recommendation is being pursued and will be ongoing. Bankruptcy proceedings are being monitored. The City is working cooperatively with the County Attorney to pursue Sheriff Sales for unpaid property taxes. And, the city is pursuing all alternatives for collection of all bad debts.

There is not enough time today to list all the things that the City of Junction City has accomplished in the last year that has lead us to a positive recovery. I can share with you that we hit the bottom of the barrel on February 28, 2010 - the city had only $98,000 in cash in the bank for all funds for a $37 million dollar budget. We've come a long way. I am happy to report that on December 31, 2011, our month-end cash report showed just over $9 million for all funds.

That doesn't mean we are out of the woods. We still have six negative fund balances that have planned recovery strategies in place for recovery, and we still face a slow and challenging path to ensure financial stability and we continue to have very little margin for error. Given the City's weak cash position over the last three years, we have made very few capital investments and we remain exposed to significant external shocks like natural disasters, defense spending reductions and another fiscal downturn.

Harry Crews wrote that "Survival is triumph enough." However, we are not satisfied with survival. We are committed to take our city beyond survival for the betterment of our citizens and the State of Kansas.

We thank you for your time and consideration of our request. We hope that you will assist us in achieving our goals in our *Fiscal Transformation Plan* for mutual benefit.

ATTACHEMENT A:

Table 7 of the *Fiscal Transformation Plan* – showing the growth in City debt and other obligations compared to 2005 City General Fund expenditures.

	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		

ATTACHMENT B:

Projected Debt Capacity Under Current Law and with the Effects of HB2420

Fiscal Year	**Projected Debt Capacity Under Current Law**	**Projected Debt Capacity Under HB2420**
2012	$ 3,030,481	$ 3,030,481
2013	499,164	6,005,176
2014	3,610,093	9,116,105
2015	46,794	13,022,628
2016	3,391,103	10,805,865
2017	6,877,597	14,292,359
2018	10,574,212	17,988,974
2019	14,562,752	21,977,514
2020	18,640,479	18,640,479
2021	22,909,810	22,909,810

Notes:

1) The amount of new debt that can be issued in any fiscal year is the *smallest Debt Capacity number in that year or any subsequent year*. For instance, under current law, the City's debt issuance in 2012, 2013, 2014 or 2015 would be limited to $46,794, the amount of Debt Capacity projected for 2015.
2) A dollar of debt issued this year reduces Debt Capacity in this year and every subsequent year by a dollar.
3) This projection assumes very limited growth in assessed valuation. Significant assessed valuation growth would improve debt capacity in every year.