June 29, 2004

Honorable Mayor and Commissioners:

1. Introduction

In accordance with the authority granted me by City ordinance and State Statute, I submit for your review and approval the recommended budget for fiscal year 2004/05. In this regard, you have previously received the Multi-Year Financing Plan with its revenue/expenditure forecast of all funds in which the budget is projected out through 2006/07. That report indicates sufficient financial resources to finance future budgets and is a standard practice in our budget development process.

This budget is the final stage of an eight-month process initiated last November in the development of Strategic Plan 2004-2009-2020. Many of the priorities established in the strategic plan process are included as part of the spending priorities recommended in this budget. Included in this document are the Vision 2020 and Bowling Green 2009: Our Goals which formed the basis of the Action Agenda 2004, which is also included in this budget report.

This budget also represents the second year for the \( \frac{1}{2} \% \) increase in the occupational tax and net profits tax. Since the net profits tax did not go into effect until January 1, 2004, this budget includes a full year of this revenue source. Part of my budget message will include a status report on meeting the objectives developed in the presentation of my recommendation for that tax rate increase.

The total budget of all funds is $71,985,500. The budget is financed from the following sources: local funds $64,808,500; State assistance $1,106,000; Federal grants $4,312,000; and borrowed monies $1,759,000.

2. Service Enhancement Fee Objectives

The service enhancement fee or occupational tax/net profit tax rate increase proceeds are segregated in our revenue collection/expenditure process and are within a multi-year
spending plan projected out nine years. This was done because the additional revenues are being allocated to long term expenses such as enhanced reserve levels, funding shortage for existing service levels, downtown redevelopment, additional personnel, pay plan implementation, storm water management and capital improvements.

It should be noted that two other funding sources were also allocated to finance these planned expenditures. The two revenues were General fund revenues, previously allocated to support the Golf Enterprise Fund and replaced by excess revenues previously allocated to the Convention Center, and revenues generated by a variable rate interest SWAP program associated with a FY2000 General Obligation bond issue. The service enhancements are listed below:

**Enhanced Reserve Level**

General Fund reserves were increased from 10% to 15% for more prudent fiscal management and to improve the bond rating of the City. The issuance of debt is the most important part of our capital improvement program. The current and improved bond rating is Aa3, which is one category below Lexington and the State of Kentucky, equal to Louisville/Jefferson County and superior to all other second class cities.

**Funding Shortages Existing Services**

Additional revenues were allocated to cover the expense of a cost-of-living adjustment in FY2003, payment for refinanced debt, the loss of a school resource grant; increase health insurance costs and implementation of the new compensation plan.

**Downtown Redevelopment**

The major focus in stimulating redevelopment is the purchase and consolidation of property, without which private investment would not be feasible. Federal and State funding sources are not adequate for this and it has been necessary to provide local revenues. Included in a recent bond issue was $2 million designated for downtown redevelopment, with the debt costs of that portion of the bond issue financed from this revenue source.

**Additional Personnel**

The major emphasis was in public safety with a multi-year plan to increase the number of police and fire personnel. For the first year that increase was 4 and 3 respectively. Personnel were also added to the code enforcement program to develop a concentrated neighborhood code enforcement program implemented in 2003/04. Other departments received additional personnel that had been requested for several years. Including the storm water management program, 21 additional positions were funded.
Storm Water Management

This Federal program became effective in March 2003 and is directed at improving the quality of storm water runoff into the Barren River and adversely impacting that important water source. Program startup included the addition of five technical personnel to the Public Works Department. Other accomplishments included computerized record keeping and mapping, public education, construction site monitoring, elicit discharge inspection and an annual appropriation to correct localized or backyard run off problems.

Capital Improvements

Important capital improvements were completed for Parks and Recreation: the Covington Woods parking area, roadways at Fairview Cemetery and new softball field lighting at Lampkin Park. Under construction, with completion scheduled for this fall, is a 16,000 square foot addition to police headquarters, which, in part, will provide significantly expanded work areas for communications, evidence and property, and traffic and patrol.

3. 2004/05 Budget-Service/Redevelopment/Capital Improvements

The new budget continues building on the service and facility improvements initiated in 2004/05 and previous fiscal years.

Downtown Redevelopment

The receipt of several Federal grants will result in significant new development in the downtown area with property acquisition and clearance in the Circus Square area, including renovation of the Quick Lincoln Mercury Building. Property acquisition and construction of low and moderate-income housing will occur in the Lee Square area. Construction will also be initiated for elderly housing and a day care facility. Obtained through the efforts of Senator McConnell, Federal funding will be used to begin the next phase of the Riverfront Park development. Also included in the budget is the reconstruction of three intersections and a traffic signalization study regarding converting the one-way street system to two-way traffic.

Additional Personnel

The second year of a nine-year program to expand the personnel complement in the police department will include four new positions for three patrol officers and one investigator. Three additional firefighter positions will provide the second of a three-year program to provide staffing of another ladder company for improved response coverage in the southwest section of the city. Three other
positions will be provided in information technology, landscape division and fleet management.

**Storm Water Management**

The second year for this program will see an expansion of public education and involvement, which is of critical importance for program effectiveness. A water quality testing program will be developed with a recently formed consortium that includes WKU and Mammoth Cave National Park. New ordinances and best management practices will be developed for site and post construction as well as good housekeeping practices.

**Capital Improvements**

As usual, capital improvements are an important part of the annual budget. The following capital improvements are carryovers from the FY2003/04 budget that are currently underway. The Operations Division of the Public Works Department will be relocated from its Raven Street location to Lapsley Lane, adjacent to Lovers Lane and Scottsville Road, which will provide a larger facility at an improvement location. Bale Boulevard between Scottsville Road and Shive Lane will be constructed to open additional sites for retail/commercial development, including Sims. Turner Court, off US 68 and serving Hills Pet Food and UPS, will be relocated and a traffic signal installed which will reduce a safety hazard for Moss Middle School at that location. Construction has begun of a new Hobson Grove Golf Course clubhouse and equipment storage building destroyed by fire. Finally, due to roof structure problems inherent in the original building design, now occupied by the Bowling Green Community Center, it is necessary to replace a significant portion of that facility and construction should begin in 2004/05.

**Neighborhood Code Enforcement**

Upgrading this service has been an important priority in the strategic planning process with the concentrated neighborhood inspection program initiated this year in two neighborhoods comprising almost 400 residential dwellings. This effort, involving several departments will continue and expand in the coming fiscal year with improved staff support of the inspection software program and a focus on new residential construction on vacant properties will be initiated.

4. **2004-2005 Budget-Personnel**

Personnel, including salaries and fringe benefits, comprise 39.2 % of the recommended total budget. With the additional personnel being recommended, the total full time workforce will be 428.
During the last three years there has been an extensive effort to upgrade and improve the compensation plan to insure that the City can maintain a competitive salary level and attract and retain the highest quality employee possible. The coming fiscal year will complete a two-year upgrade of the compensation plan. All City employees will receive at least a 2% salary adjustment. 274 employees will receive an additional adjustment to complete the update of the compensation plan. In addition, as part of an ongoing salary strategy, a salary survey will be conducted and done every other year in the future to insure that city salaries are at market level.

Beginning this July, the City will begin a significant training effort in the performance evaluation process. This training is in preparation of the implementation of a pay for performance system in 2005/06. The key factor in this new system is the performance evaluation system and the training will involve all employees.

Health insurance costs are significant personnel expenditures, as is the case with all employers. In an effort to control expenditure growth during 2003/04, the co-pay portion of the prescription insurance program was revised with the employee share being increased. This was the first such action since changing health insurance in 1992. That action and, perhaps more importantly, having a good experience year have resulted in a slight reduction in health insurance costs over the preceding year in an environment of double digit cost increases. The proposed health insurance budget shows a $313,000 or 11.1% increase over 2003/04.

However, there has been a significant increased cost to participate in the state retirement program in the amount of $ 738,000 or 42% over the present year. This increase, in the employer share and not the employee, is due primarily to the increased cost of health insurance provided to retirees. This cost increase is drawing increasing attention by the Governor and General Assembly and any proposed legislative action will be carefully monitored for its local fiscal impact.

There is another additional cost with the state retirement program and that is to comply with the requirement that certain part-time employees are to be included in the retirement system based upon hours worked. This will require a contribution from both the City and the part-time employee.

5. **Employee Safety Program**

The importance of this program and its success merits special attention in this budget message and is the result of a lot of hard work and focus by all departments. The OSHA Recordable Injury and Lost-Time Injury rates (100 employees working a 40-hour work week) continue to trend below the national average. These rates, followed by the national rate, are 6.0/8.0 and 1.8/2.0 respectively.

The City continues to save money through its self-insurance program, in spite of the rising cost of workers compensation insurance and medical care. City costs are less than
half the amount of a fully insured program. Over the last eight fiscal years this savings has been in excess of $3 million.

6. New Revenues

There are three new or increased revenues sources incorporated into this budget which will expedite our neighborhood improvement effort, enhance the existing transit program and provide additional police facilities. Two of these new or expanded revenues are a direct result of the 2000 Census and the other through the 2004 Kentucky General Assembly.

CDBG Entitlement Program

With the result of the population growth shown in the 2000 Census, Bowling Green has achieved entitlement status under the Community Development Block Grant Program. This is the primary funding source for our neighborhood redevelopment effort. In previous years, the City was required to compete for these funds which resulted in extending the community development effort over a considerable number of years. Bowling Green now is an automatic recipient of $676,000, annually. In 2004/05, these monies will be allocated to site acquisition Senior Housing and the relocation/expansion of Little Treasures Child Care, both in the downtown redevelopment area; the purchase of property in the St. Joseph Neighborhood for construction of senior/disabled housing; rehabilitation of homeowner occupied housing in the Shake Rag Neighborhood; and development of a Fair Housing Education Program.

Transit Funding

This increase in funding support is also a result of the 2000 Census. For almost 10 years, the City has been supporting the public transportation system of Community Action of Southern Kentucky with both cash and in-kind services. Over 36,000 riders have benefited from the service last year. However funding levels and when that funding was received were uncertain, again due to the competitive grant process. This system is now under entitlement status with a significant growth in Federal grant support. This revenue has increased from $95,000 in 2002/03; $200,000 in 2003/04; to an estimated $400,000 in 2004/05. This fund can be used for operations, capital and planning. With these increased funds, planning is underway to explore the feasibility of expanding the transit from three to four routes.

Law Enforcement Fees

Enacted by the 2004 General Assembly, this legislation adds a $20 fee to court costs on all criminal cases resulting in a guilty plea or conviction. The revenue estimate provided by the Kentucky League of Cities estimates that Bowling
Green will receive $82,000 for the last three quarters of the 2004/05 fiscal year. The remaining phases of the police headquarters expansion project include construction of bulk storage and classroom buildings. A review is now underway to determine if this new revenue source will be able to finance bonds for this purpose.

7. Conclusion

The 2004/2005 Budget recommended for your approval represents the second revenue/expenditure plan since enactment of the service enhancement fee in 2003. A significant result of these additional revenues, beyond that of improved services and facilities, is the improved fiscal condition of the City of Bowling Green and this budget. Prior to 2003/2004 the budgets were prepared using significant reserves as well as anticipated under spending to in order to submit a balanced budget. The last two budgets have been financed with estimated revenues only.

The major revenue source is still the occupational tax, which now represents 67% of the General Fund. Even though there has been significant growth in the net profits tax this cannot be expected to continue. That being said, the projected growth of the occupational tax for the current fiscal year is 3.9% with growth projected for the coming fiscal year at 4%. This is not a growth rate able to meet all needs of this portion of the budget.

To further analyze the occupational tax, the previous tax rate of 1.5% is being allocated to the expenditure/service needs within the budget prior to 2003/04. The service enhancement fee of ½% is being allocated to new or expanded services, primarily in public safety. These additional revenues are being segregated and carefully monitored to insure that the priorities present to you last year are being met. An update of those projections will be provided in the very near future.

All of this means that it is of critical importance that we continue to focus on the importance of economic development in regards to both new and existing employers. The continued growth and prosperity of this community depends on such growth, as does the operation of this government.

In closing, I wish to express the appreciation of all of us to you for your continued support of our efforts in serving the citizens of Bowling Green. This budget was prepared through a lot of hard work by all departments. I also want to acknowledge the major role of Davis Cooper, Chief Financial Officer and Shawna Dowell, Assistant to the City Manager in this recommended budget.

Respectfully submitted,

Charles W. Coates
City Manager