



City of Lawrence KANSAS

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June 29, 2010

Michael Eglinski
City Auditor
City of Lawrence, Kansas

Re: Performance Audit: Financial Indicators June 2010

Dear Michael,

Thank you for your recent report regarding financial indicators. The report contains a partial picture of the City's financial and operational conditions. Additional information concerning taxing comparisons and level of service comparisons are likely necessary to provide a fuller view of the City's financial and operational conditions. My speculation is that this additional information, however, is unlikely to alter the general conclusion of your report that our financial condition is mixed – with some favorable and unfavorable trends.

I do believe it is appropriate to place the report in some national economic context. From the end of 2007 to the end of 2009, the net worth of American households declined by almost 11 trillion dollars. This is a loss of almost 17% of all new worth for American households. During this same time, the American economy lost 7.4 million jobs, a loss of over 5% of all jobs in our country. Nationally, home prices have fallen by almost 10 percent. Fortunately, Lawrence has not experienced this large of decline in jobs or housing values. However, we have been negatively impacted by the recessionary economy. In Lawrence, new building permits are significantly below historic levels, assessed valuation has declined, interest income has stagnated, and sales tax revenues have not met historic projections for growth.

These larger economic trends have placed a heightened emphasis on expenditure reduction to balance against challenged revenues – something the City has been able to largely accomplish. The City spent less on vendor services in 2009 than it did in 2008. Figure 13 in your report documents that our 2009 expenditures were lower than expenditures in the period 2003-2006.



Readers should understand that we have recently reduced expenditures – largely through attrition of vacant positions – in our solid waste division. The City's golf course has brought in more revenue than operational expenses in recent years, but an accounting of the depreciation of the golf course (based on its debt retirement, not its life expectancy) results in a full accounting which shows expenses (including depreciation) exceeding revenues. Similar comments about depreciation expense are likely true in other comparisons – they are also true of other comparison communities as well. I believe a primary value of this report is a strong reminder that the cash basis of our budgeting process – where we do generally balance revenues with expenditures – should also be informed with the depreciating value of our assets (an accounting expense).

This returns us to a theme that I believe remains important: Lawrence needs to continue to invest in its infrastructure – raising the necessary revenues to do so without reducing other spending priorities. I do not believe we are providing sufficient revenues to meet all of our capital/infrastructure needs. Our current philosophy is to grow our local tax base to provide these revenues without increasing our mill levy.

I note your recommendation concerning an additional policy governing transfers. I believe that we have earlier responded that we would follow a practice to document significant alterations in future enterprise interfund transfers. If the Commission desires to devote additional staff resources to development of additional policy guidance in this area; staff can prepare such documentation as well.

Thank you again for your report.

Sincerely,

A handwritten signature in black ink, appearing to read "David L. Corliss". The signature is written in a cursive, flowing style with a large initial "D".

David L. Corliss
City Manager