




# Less Money, More Problems

## BUDGET PREPARATIONS ARE UNDERWAY BY CITY GOVERNMENTS

by Sarah Razor, Government Affairs & Communications Specialist



*It's springtime in the Bluegrass State. The birds are chirping. The grass is getting greener (or bluer, depending on what kind of grass you have), and city officials everywhere are starting the tedious process of preparing FY 2011 city budgets.*

Because each city is required to operate and expend funds under an annual budget that must be adopted by ordinance on or before July 1, many cities begin the process in late April or May. If the city fails to adopt a budget prior to the start of the fiscal year, the city must continue to operate on the budget from the prior year.

The executive authority of the city is responsible for preparing a budget proposal and submitting that proposal along with a budget message (see KRS 91A.030[7]) to the legislative body at least 30 days prior to the beginning of the new fiscal year, which is July 1. The legislative body may adopt the budget presented by the executive authority or a revised budget prepared by the legislative body. The budget becomes effective when the ordinance, or a summary of the ordinance, is published in a newspaper pursuant to KRS 424.240.

City governments are broke. Although the factors that are involved are complicated, the reason is simple: expenses are outpacing revenues. The problem is not new or even surprising. Occupational taxes are declining because of high unemployment and lower business profits. Insurance-premium taxes are declining because residents are forgoing insurance or increasing risk to lower their premiums. Property taxes could decline as homes are reassessed, resulting in lower home values. Demands for city services, health care costs and mandatory retirement contributions are all increasing.

Unfortunately, it's about to get worse. According to the "City Budget Shortfalls and Responses" research brief by the National League of Cities, "Current economic indicators

suggest that the U.S. economy has recently passed the low point of the current recession, which means that the low point for city fiscal conditions will likely be experienced sometime in 2011.”

As you begin the process of building and approving a budget in your own community, chances are good that you will quickly discover the “easy” answers have already been explored. Eliminating unfilled positions, incentivizing retirement, increasing fees, cutting out the extras and putting off projects ... the low-hanging fruit has been plucked.

So now what?

Many cities are taking a hard look at how their communities govern themselves and finding ways to redesign how they deliver services.

## COMPENSATION REMINDER

KRS 83A.070 requires that the compensation of elected city officers be set by ordinance by the first Monday in May in the year that the officer is first elected and must remain the same during the officer's term in office. Compensation to be paid to all appointed (nonelected) city officers must be set forth in an ordinance, whether it is the ordinance creating the office, the annual budget ordinance or some other ordinance. Pursuant to KRS 83A.080, appointed (nonelected) city officers include the city clerk, the city manager, the city administrator, the chief of police and the fire chief.

For example, in 2009, city officials used input provided from the citizens of Murray during nine community forums to voice their ideas about existing services and to provide input on new or different services they would like to see in the future. Murray's FY 2009 city budget was created based on information gleaned from citizens.

In mayor-counsel cities, the executive authority is the mayor. In commission cities, the executive authority is the city commission. It is the responsibility of the city manager to prepare the proposal in cities with a manager form of government.

Kentucky city leaders will face significant budgetary pressures and decisions in FY 2011 and for years to come. Serious planning and evaluating will help community leaders determine local priorities and make tough budgetary decisions.

### KLC Resources Available to Help Cities Prepare Budgets

As your city begins the budgeting process, please make note of the many valuable resources available to you as a member of KLC:

- Chapter 18 of the *2011 City Officials Legal Handbook* provides extensive information on budgeting, auditing and reporting requirements.
- The 2010 Wage and Salary Survey of Kentucky Cities report includes more than 70 tables on wage and benefits data from more than 200 member cities. All KLC member cities can download a PDF of the report through the KLC library available at [klc.org](http://klc.org).
- The KLC Legal Department can assist you with your legal questions concerning budget responsibilities.
- The KLC Research Department can also assist you with questions on tax rates, revenue projections and other city-related budget and expenditure information.
- KLC Community Consulting Services can assist you in facilitating public meetings, budget process development or elected officials/staff collaboration.

If you have questions about these services or other ways to receive assistance in your budget process, please contact KLC at 800.876.4552. **KYC**

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