

**An Updated Analysis of Kansas City,  
Missouri's Deferred Maintenance  
For  
The Greater Kansas City Chamber of  
Commerce**

**January 2007**

**Ed Wolf**

**Jamie Green**

## **Introduction**

The Greater Kansas City Chamber of Commerce has long taken an interest in deferred maintenance and its impact on Kansas City. The Chamber first released a report on the issue back in 1993, where it found there was a deferred maintenance backlog of \$750 million. That report led to a greater emphasis on the importance of deferred maintenance. A Community Infrastructure Committee (CIC) was formed among business and civic leaders to assess the situation and make recommendations. The CIC report led to City leaders making a commitment to investing an additional \$5 million more annually in the annual maintenance fund.

At the turn of the millennium, Kansas City faced an economic downturn, and City coffers had a reduction in revenues. City leaders stopped the annual increase in the annual maintenance fund, and began to make cuts in annual funding levels.

It was at that time that The Chamber embarked on a second study of deferred maintenance and its impact on Kansas City. The 2003 report found that the City now had a backlog of \$753 million, and if trends were to continue, that number would grow exponentially in the near future. The report recommended that the City make a concerted effort to fully fund the annual maintenance fund, to use bonds to help with capital improvement projects and to reconvene the CIC to

once again assess the situation and make funding recommendations to City leaders.

Since the release of the Chamber report in December 2003, there have been some significant changes within City Hall in regards to capital improvements policy. Most notably, the City of Kansas Missouri conducted an election in April 2004 to authorize the sale of up to \$300 million in general obligation bonds over 12 years for capital improvements. The first issuance of debt was in September 2004 when \$80 million of debt was issued. The City decided to pay the entire debt service from the annual maintenance fund.

Kansas City had many systemic changes as well. In January of 2004, the City Manager established the Capital Improvements Management Office (CIMO). The stated goal of CIMO was *“to speed up previously funded capital improvement projects like streets, bridges, fire stations and sewers, and to improve the way these projects are completed and delivered to the citizens of Kansas City.”*

MWH Americas, a Colorado consulting firm, was hired to oversee the implementation of the new office. CIMO began with 151 projects but soon expanded its charge to over 300 projects at a value of \$1.2 billion.

In August of 2004, Kansas City voters approved an increase in hotel, motel and rental car taxes to pay for the new Sprint Center arena. The arena is located in downtown Kansas City. Ground was broken in March of 2005. The total arena cost is estimated at \$280 million and it is expected to open October 2007.

The City entered into an agreement with the Cordish group in December 2003 for the new Power and Light district, also known as “Kansas City Live!” The \$850 million project utilizes the new Missouri Downtown and Rural Economic Stimulus Act (MODESA). MODESA funnels new income and state sales taxes generated by a new development to pay for new infrastructure. Approximately 37.5% of the entire project cost will come from public funding.

The Mayor and City Council appointed a Bond Financial Advisory Committee to oversee the issuance of the \$250 million general obligation bonds. On May 12, 2004, that committee adopted a resolution that stated *“The Mayor and Council will use its best efforts to appropriate funds from tax revenues and other revenues exclusive of bond proceeds into the Maintenance Program of the CIP Program in an amount no less than \$35,300,000 per year for each year the Infrastructure Bonds are outstanding.”*

At the time of this publication, the City continues to struggle with the annual capital maintenance program. One City official deemed the program’s funding level as “dismal and getting worse.” New capital projects are being constructed

with the use of G.O. bonds, but unless adequate funds to maintain those new facilities are identified, they, too, could fall into disrepair.

City officials are now targeting November 2007 as the most likely time for an election to renew the one cent sales tax for capital improvements. The tax currently produces over \$68 million annually in revenues. These funds are used solely to fund capital projects approved through the PIAC process.

### **An Overview on Capital Improvements Budgeting**

The Public Improvement Advisory Committee (PIAC) is an advisory board appointed by the Mayor and City Council. PIAC was created in 1984 as a stipulation of the half cent sales tax election for capital improvements. PIAC was fashioned to work in an oversight capacity for both new capital projects and the maintaining of existing City assets. PIAC members work with City staff to produce the Five-Year Capital Improvements Plan (CIP).

The CIP has to work under several restrictions, including debt service requirements, cooperative funding agreements and federal and state mandates. In addition, the one cent sales tax that is administered has its own restrictions. Thirty percent of the sales tax collection is obligated for neighborhood improvements while twenty five percent of the sales tax must be used for bridge rehabilitation.

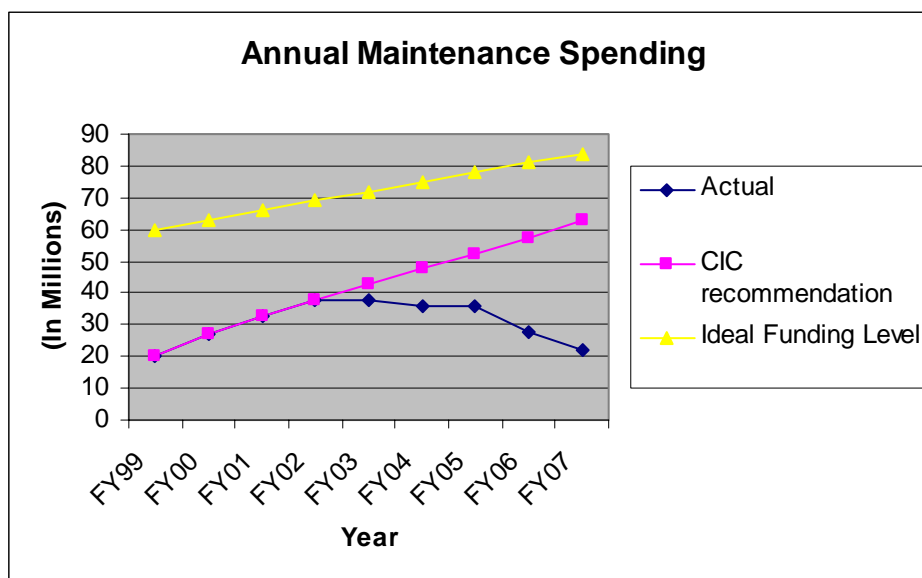
After all the required obligations are met, the PIAC works on using the remaining funds for new capital construction and maintenance among existing assets.

Historically, PIAC would use the one cent sales tax solely for new capital projects and would fund maintenance projects through the general fund. However, in an attempt to bolster annual maintenance funding levels, PIAC recently used sales tax proceeds for maintenance projects. For example, in FY2006 PIAC chose to fund \$3 million in street preservation, \$1 million in downtown traffic signals and another \$1 million in bridge rehabilitation out of the one cent sales tax revenues.

### **Annual maintenance funding levels**

Since the initial findings in 2003, the City's annual maintenance funding has regressed. (See Figure 1)

FIGURE 1



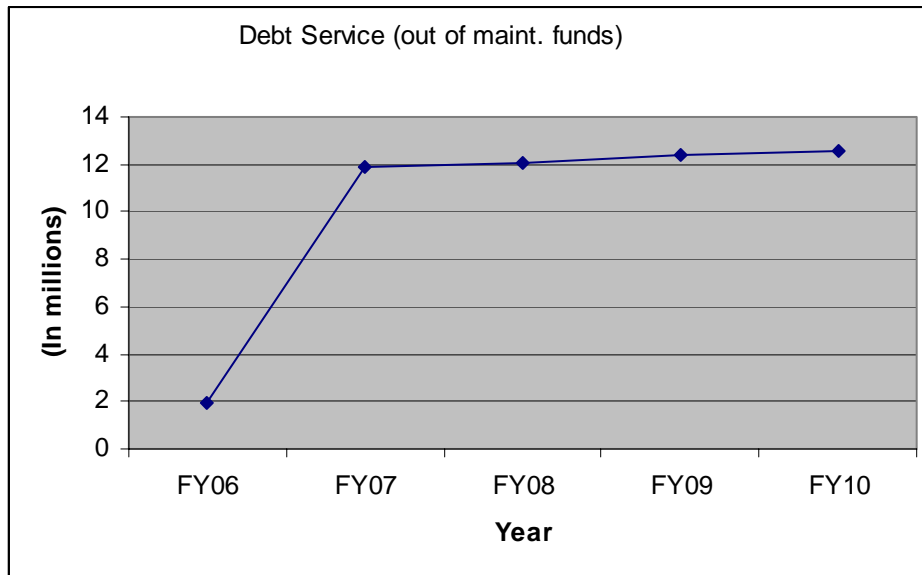
SOURCE: CITY OF KANSAS CITY, OFFICE OF MANAGEMENT AND BUDGET

According to City staff, the ideal annual maintenance funding in FY06 should be at \$80 million. In September 1997, the Community Infrastructure Committee recommended that the City should increase its annual general fund contributions to maintenance by \$5 million annually. Kansas City adhered to that strategy until 2003, when funding decreased by \$4 million instead of increasing by \$5 million. Had the CIC's recommendations been followed, current year funding levels would be at \$56 million. Instead, the City has funded the program at \$28 million. City officials state that every category of maintenance is being under funded. .

The City Council elected to take the entire debt service for the G.O. bond issuance out of the annual maintenance fund rather than the general fund. While

in 2006 this will hardly have an effect, the debt service in 2007 and 2008 will have a dramatic impact on the annual maintenance fund because these dollars will be used for debt service rather than to repair infrastructure. Approximately \$12 million will come out of the annual maintenance fund for debt service in FY07 and that trend will continue (See Figure 2).

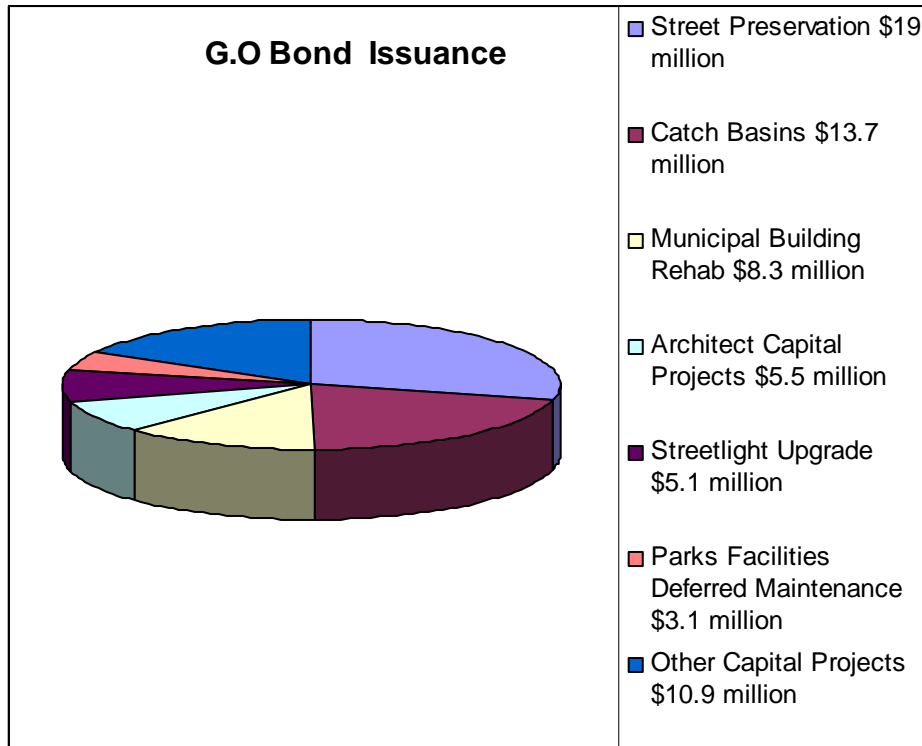
**FIGURE 2**



SOURCE: CITY OF KANSAS CITY, OFFICE OF MANAGEMENT AND BUDGET

The City Council chose to spend the initial \$65.6 million of the \$80 million bond issuance on both new capital projects and maintenance programs, with the remaining funds going for the Liberty Memorial rehabilitation and the Zoo improvements. (See Figure 3)

**FIGURE 3**



SOURCE: CITY OF KANSAS CITY, OFFICE OF MANAGEMENT AND BUDGET

Even with a percentage of bond money going for maintenance programs, the City is still greatly under funding those programs. Street preservation is a prime example. In fiscal year 2005, \$4.7 million of bond funds were used for street preservation. General municipal funds for street preservation were \$7.7 million, for a total of \$12.4 million. According to the City Engineer, street preservation should be funded at \$30 million annually. Therefore, even with the bond funds, the street preservation program is deferring almost 60% of its annual need. Once the bond money is utilized, there will be virtually no money at all for street preservation. The proposed budget for FY 2008 street preservation program is only \$7 million.

While it is true that new infrastructure will not need maintenance in the immediate future, maintenance will need to begin well within the period that the debt service continues to be paid. For example, a new road improvement, such as Barry Road, will need crack sealing within 3-4 years, and will need to be resurfaced within 8-10 years. The bond repayments will greatly overlap the maintenance-free period on Barry Road. As a result, there will be a period where Kansas City taxpayers will be paying for the annual maintenance of projects while still paying off the initial debt service for constructing the project. This also places new project maintenance in conflict with existing projects which are already under funded.

### **Backlog of capital improvements**

In the 2006 Five Year Capital Improvements plan, Kansas City identified almost \$3.2 billion worth of projects that will be unfunded in the next five years. (See Figure 4)

**FIGURE 4 – Capital Projects Funding vs. Need**

Project	Funding (in millions)	Need (in millions)	% Funded	Amount Unfunded (in millions)
Roadways	\$153.9	\$750	20.5%	\$596.1
Bridges	\$52.5	\$120	43.8%	\$67.1
Flood Control	\$55.2	\$1400	3.9%	\$1344.8
Buildings	\$169.7	\$325	52.2%	\$155.3
Recreation	\$12.4	\$205.9	6.0%	\$193.5
Development	\$124.4	\$250	49.8	\$125.6
Environ. & Equip.	\$1.5	\$40	3.8%	\$38.5
Walkways	\$17	\$695	2.4%	\$678
Totals	\$586.60	\$3785.90	15.9%	\$3199.30

**SOURCE: CITY OF KANSAS CITY, MISSOURI, FIVE YEAR CAPITAL IMPROVEMENTS PLAN 2006-07 – 2010-11**

Every capital project category is projected to be under funded in the next five years. Overall, the City is estimating available funding for only 15.9% of these projects, leaving 84.1% of projects unfunded.

These projects have been individually identified within the five year capital plan.

Only one category - buildings - will fund more projects than it will defer in the

next five years. This is due to the dedicated sales tax for police

and fire department improvements. Some programs, such as

flood control, are planning on deferring over 95%

of their projects in the next five years.

The Parks and Recreation Department stated in its September

*“(T)he General Municipal capital program would require an average of \$757 million per year over the next five years in order to address all the needs stated in the departments’ requests” – City of Kansas City, Missouri, Five Year Capital Improvements Plan*

22, 2006 presentation to PIAC that there was a total maintenance backlog of \$214 million for its department alone. It went on to state that its annual maintenance funding is \$4.7 million, although the annual need is more than \$8.5 million.

The Public Works Department stated in its presentation to PIAC that there are approximately \$90 million of bridge repairs needed across the City, even with the concerted effort to utilize  $\frac{1}{4}$  of the current sales tax collection for bridge repair. Furthermore, they asserted that several maintenance programs are unfunded, including traffic capacity and safety improvements, slope repair and stabilization, guardrail safety projects, traffic calming and sidewalk projects.

In its presentation to PIAC on October 13, 2006, the Water Services Department stated in regards to stormwater funding *“Approximately \$600,000 per year is available to fund capital projects from over \$700 million in the stormwater masterplan recommendations and over \$200 million in waterways programs.”*

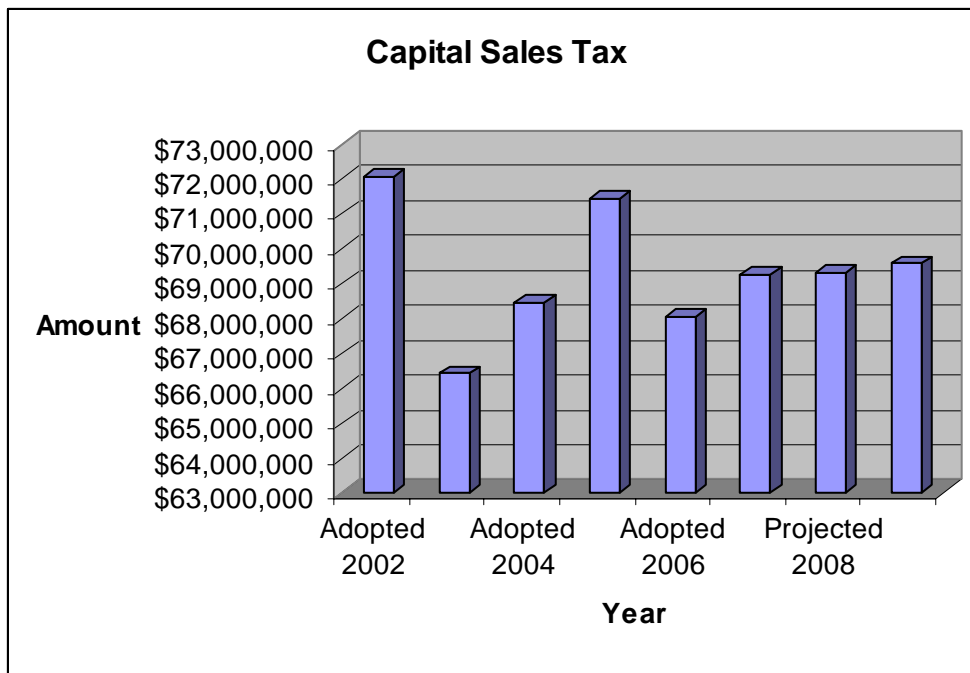
It is evident that even with the influx of bond monies to help expedite capital projects each department continues to lose ground with its capital backlog. That backlog will only become more dramatic as debt service continues to be repaid for the next two decades.

### Capital Improvements Sales Tax Renewal

In November of 1999, 67% of Kansas City voters approved the renewal of the capital improvements sales tax for an additional eight years. Over that period, the City collected over \$500 million for capital projects through the sales tax.

(See Figure 5)

**FIGURE 5**



The current sales tax will expire in December 2008. More than \$68 million are collected annually from the tax, having a significant impact on Kansas City's capital improvements needs. Although the needs still far outweigh the available funds, the sales tax collection has helped Kansas City with some of its most pressing maintenance needs – most notably the 25% set aside for bridge

maintenance in the latest authorization. Kansas City would suffer a serious blow if the sales tax was not renewed before it expires.

### **Other Factors That Could Affect Capital Improvements Funding Levels**

Debt Accumulation – In 2004, the City of Kansas City, Missouri had approximately \$1 billion in principal and interest on tax-supported debt. One year later, projected principal and interest payments on outstanding debt were estimated to be \$2.3 billion.

Debt in itself is not a bad thing – it does allow the City to leverage new projects and to expedite projects to completion. However, the City lacks a formal debt policy. In addition, the Community Infrastructure Committee recommended in 1997 the City calculate and report a debt capacity score each month. City staff provided such a score until 2002 when Moody's stopped publishing the comparative ratios needed to calculate such a score. City staff presented the City Council with an alternative methodology for debt capacity scoring in 2002, however, the Council did not take any action on the recommendation, and the City has been without any methodology for over three years.

The carrying of a large amount of debt, coupled with an extremely tight city budget makes the Kansas City budget vulnerable. If a downturn in the economy occurred while the City is retiring its current debt, reduction in basic services could be required. Historically, capital improvements and deferred maintenance

programs have faced stiff cuts in economic downturns. In October 2005, City Manager Wayne Cauthen cautioned that the City would need to boost tourism dollars from the new Sprint Center, KC Live! and the Bartle Hall investments or cuts would have to be made in basic city services in order to make payments on the debt service.

### **Combined Sewer Overflow/Sanitary Sewer Overflow (CSO/SSO)**

Kansas City has been mandated by the Environmental Protection Agency to ameliorate its Combined Sewer Overflow and Sanitary Sewer Overflows (CSO/SSO). The Water Services Department is working on a conceptual plan that will be submitted to the Department of Natural Resources and the EPA in September 2007.

The engineering firm of Burns and McDonnell has been hired as the program manager for the project. Negotiations will take place between the City and DNR/EPA to submit a final plan in September 2008. The EPA will then either accept the entire plan, or can choose to only agree upon portions of the plan, while continuing negotiations on other portions.

Negotiations hinge on two key components, the level of control and the timeline in which the project will be completed. The level of control refers to the measures that will be in place to assess whether the City is making progress on CSO/SSO. The City and the EPA will have to come to an agreement about the

total reduction of CSO/SSO overflows and how those overflows will be monitored. The timeline will also have to be agreed upon; EPA officials would like to see a shorter timeline from 12-15 years, while City officials would like a longer timeline of 20-25 years.

The size of the project is startling. Kansas City has combined sewers in the area south of the Missouri River, from the state line on the west, I-435 on the east and to 87<sup>th</sup> Street on the south. In addition, sanitary sewer overflows take place north of the river and in areas south of 87<sup>th</sup> street in southern Kansas City. No exact costs have been identified as of yet, however \$1 to \$3 billion is often given as a best estimate for cost. Such enormous cost will create an even greater burden on Kansas City taxpayers.

There has been some talk of assistance from the federal and state governments; however, water services officials stated that the only local funds that might be available would be state revolving funds - funds that are in fact a low interest loan that would have to be repaid. The only other hope for funding assistance would be if the Clean Water Trust Fund Act were to be adopted by Congress. The act calls for a national tax on sewers, and would take those revenues to create a "superfund" for CSO/SSO. The act was introduced in the 109<sup>th</sup> Congress but did not make it out of committee. Therefore, it is very likely that the City will have to consider a combination of higher water and wastewater rates along with a sales tax or other tax increase in order to pay for the repairs needed to make Kansas

City compliant. Failure to do so will lead to penalties from the federal government, along with the specter of lawsuits from environmental groups.

### **Recommendations**

#### **Fully fund the annual maintenance fund**

It is imperative that Kansas City do a better job of funding its annual maintenance fund. Deferring maintenance projects in the short term has exponential costs in the long term. The problem is two-fold; initial repairs are always much cheaper than larger scale replacements due to the continued deterioration of an asset (e.g. a road that initially would need to be resurfaced would have to be completely replaced at a much greater cost), and construction costs continue to skyrocket, especially in the areas of steel and oil products.

Every effort should be made to insure that the annual maintenance funds are not used for other projects unless there is no other option. While the annual maintenance fund has never been fully funded, real progress was being made by adhering to the CIC's recommendations in the late 1990s into the new millennium. A downturn in the economy coupled with using the maintenance fund to pay all the bond debt service has crippled the fund. The City's own projections show the fund getting even lower in the foreseeable future. Such a policy will have a deleterious effect on the City's ability to maintain its assets, which continue to grow as the City continues to build new infrastructure.

### **Renew One Cent Sales Tax**

Voters will be asked to renew the one cent sales tax for capital improvements most likely in November 2007. It is imperative that this sales tax be renewed in order for Kansas City to meet its most basic obligations. Over \$68 million a year is collected in sales tax. The loss of that funding would prove catastrophic for Kansas Citians.

It is readily apparent that some of the promises made and goals put forth in earlier campaigns have not come completely to fruition. Therefore, it is necessary that City officials make a firm commitment with the capital improvements sales tax renewal to try to tackle the ever burgeoning deferred maintenance backlog. We strongly recommend ballot language be created that commits 50% of the collected sales tax (roughly \$35 million annually) solely to maintain existing city assets. Kansas Citians should be given assurances that 50% of the new sales tax would go exclusively for maintaining structures and facilities that have already been built. Such a commitment would allow City staff to build upon that \$35 million earmark with no less than \$35 million in general fund monies to help bolster the annual maintenance fund at a level of no less than \$70 million annually.

## **Respect the Integrity of the Public Improvement Advisory Committee**

### **process**

PIAC has long been seen as an integral part of the capital improvement process. Giving residents a readily available route for making suggestions on how to allocate scarce resources has been an unqualified success. Not only is the process a fair one, it engenders buy-in for the City's capital improvement process by its citizens. PIAC representatives are citizen volunteers who dedicate numerous hours to evaluate and make recommendations on countless public requests. The work is long and tedious and not without headaches. PIAC representatives should feel that their dedication and selflessness will be rewarded.

It is crucial that the PIAC process be honored and utilized. The renewal of the sales tax is not guaranteed and such tactics will only hurt the campaign in the eyes of Kansas City voters. The City Council should renew its commitment to the process by passing a Resolution similar to the Second Committee Substitute for Resolution #971326 as amended.

## **Reconvene the Community Infrastructure Committee**

Almost 10 years after it made its formal recommendations, the work of the original CIC continues to be an asset to Kansas City. As this report has shown, the challenges for Kansas City in its capital improvements and deferred maintenance programs are daunting.

Having a citizens group that could review the original recommendations, receive input from staff and formulate new recommendations based on past progress, current and future needs and pressure on City funds, would help the City as it tries to allocate scarce resources to numerous projects.

### **Kansas City should develop a formal debt policy**

The large amount of City accumulated debt leaves little room for error when it comes to fiscal policy. Kansas City voters approved a new city charter in August 2006 that requires a formal debt policy. Kansas City elected officials need to make a strong commitment to fiscal responsibility by adopting a formal debt policy as soon as possible. Ideally, the City's policy should mirror the Government Finance Officer Association (GFOA) guidelines. Having written guidelines and restrictions would strengthen the City's financial position. Such a policy would improve the quality of decisions when issuing debt service and would help codify public policy goals in regards to debt issuance.

## **CONCLUSIONS**

In the past three years Kansas City has made large investments in new capital improvement projects. The KC Live! entertainment district, the new Sprint Center and the new H&R Block headquarters have transformed downtown Kansas City. In addition, the City has used G.O. bonds to fund projects throughout the City. Although a portion of those bond funds were used to supplement maintenance projects, such as street resurfacing, a larger portion went to constructing new infrastructure, such as a new community center.

Whenever municipalities bring on new capital investments, it is imperative that they have the necessary funds to maintain those new assets. While it is true there will be a short respite from maintenance of new facilities, those structures will need maintenance long before the bonds are repaid. Unless there are dramatic increases in revenues for the City, it will be unable to maintain most of the new infrastructure being built.

Even more alarming, Kansas City has lost ground on maintaining its existing infrastructure. According to City officials, almost \$52 million of maintenance

projects will not be funded in the next year, and that number is estimated to grow to \$58 million in the next fiscal year. Kansas City is not adequately funding the most basic of infrastructure - street preservation, bridge repair, sewer lines, fountains and boulevards. These have an impact on the daily life of residents, and are a quality of life issue.

A large amount of debt, coupled with outstanding financial obligations such as the combined sewer/storm sewer overflow issue means the City has no room for error. The City Manager himself has warned that Kansas City must have success with its new downtown investments or cuts will have to be made to the most basic city services to pay for those investments.

In light of those conditions, the City finds itself near the end of its capital sales tax authorization. In December 2008, the one cent sales tax will expire unless reauthorized by Kansas City voters. The sales tax is a crucial component to the success of Kansas City; over half a billion dollars was raised in the last eight years. It is essential that the sales tax be renewed, with one caveat – the City must dedicate 50% of the funding for maintaining its existing assets.

The City Auditor conducts an annual citizen's satisfaction survey. The results have consistently shown dissatisfaction with the maintenance of City assets. These same residents will be asked to pay for the new sales tax. It is imperative that voters feel those tax dollars will be used wisely and will improve their daily

life. Having a firm commitment to maintaining the most basic capital projects will go a long way in assuaging their misgivings about the current status of deferred maintenance in Kansas City.

## **ABOUT THE AUTHORS**

### **Ed Wolf**

Ed Wolf was the Public Works Director for the City of Kansas City from 1994 until his retirement in January of 2003, after 35 years of service for the City. Ed served as assistant city engineer and deputy public works director prior to being appointed director in 1994. He also was appointed Assistant City Manager in 1996. He led the Public Works Department in doubling the size of Bartle Hall and helped oversee the upgrading of the city's streetlight system. In 1999, Wolf was recognized by the American Public Works Association as one of its top ten leaders.

### **Jamie Green**

Jamie Green is Director of Government Relations and Policies for the Greater Kansas City Chamber of Commerce. Prior to joining The Chamber, he was the founder of Druten Green, L.L.C., a government relations/consulting firm located in Kansas City. His earlier work includes acting as the Assistant Executive Director for the Heavy Constructors Association of Greater Kansas City and as a

Cookingham Fellow for the City of Kansas City, Missouri. Before coming to Kansas City, he worked for the City of Phoenix as an aide to Mayor Skip Rimsza, and in the Intergovernmental Programs Office.

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Interview with Frank Pogge, Director Kansas City Water Services

Interview with Jim Mellem, Deputy Director, Kansas City Water Services

Interview with Mark Funkhouser, Kansas City, Missouri City Auditor

Interview with Mike Burke, Chair, Public Improvement Advisory Committee

Interview with Gregory Rokos, City Engineer, City of Kansas City, Missouri

Interview with Art Spratlin, Director Water, Wetlands and Pesticides Division, EPA

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September 28, 2006



## From the Office of the Mayor

January 30, 2007

John Bluford  
Chairman of the Board  
Greater Kansas City Chamber of Commerce  
911 Main  
Kansas City, Missouri 64105

Dear John,

City Manager Wayne Cauthen and I appreciated the opportunity to speak to the Chamber Board on January, 22 regarding the staff report on Deferred Maintenance. We both wish to thank the Board for amending the key recommendation after listening to our concerns about dedicating 50% of a renewal of the one cent sales tax just for maintenance.

Below is a summary of our remarks to the Board that we understand will be attached to your report.

We both appreciate the Chamber's efforts over the years to bring to the attention of our citizens and City officials the need to maintain our infrastructure.

However, we are concerned that the report lacked context and adequate information, which was the reason behind our request to meet with Chamber staff prior to the release of the report.

Kansas City is one of the largest cities in America as measured in square miles. We have approximately 317 square miles within our city limits. The demands for infrastructure---roads, bridges, catch basins, etc. --- are enormous. The City will never have ALL the money necessary to fund all the needs of our city every year.

We also strongly believe that the City could budget all the money it wanted for maintenance, but it does little good if you cannot build the necessary new projects, build new roads and replace catch basins.

In recent years, the City Staff has not dramatically increased the money for deferred maintenance because the funds from prior years' budgets were in effect building up in the "bank". Critics seem overly focused on a budget number, which is just that, a number on a page, as opposed to the hundreds of millions of dollars in infrastructure AND deferred maintenance work that the CIMO and City Staff has moved from a number on a page to work on the City's streets, bridges and catch basins. However, this is a challenge from which we can never rest.

Further affecting the City's ability to budget for deferred maintenance has been the fact that the United States endured an economic recession in the early part of this decade. It so impacted our city revenues that for the first time in our history we collected fewer earnings tax dollars than the previous year.

Since Wayne Cauthen began as City Manager, the City has dramatically improved the way it addresses capital and deferred maintenance.

For example, in 2003 the City had a backlog of \$400 million in infrastructure projects that were funded, but had not begun.

That year the City only spent \$45 million on projects such as street repair and fixing or replacing bridges with millions left unspent from previous budgets. The City's deferred maintenance budget reached a high of \$39 million under the previous City Manager, but the city administration could not get the projects built and the significant backlog accumulated.

Every year since 2003 the City has cleared out that huge backlog and constructed an average of \$170 million a year in projects that restored and built the infrastructure of our city. This EXCLUDES the tens of million spent revitalizing our new downtown. Examples of these projects include:

Sprint Center

H&R Block World Headquarters

Power & Light District

New IRS center adjacent to Union Station

Expansion of Bartle Hall

Liberty Memorial and WWI Museum

Downtown housing developments

It is important to remember that expenditures for new infrastructure projects are also addressing deferred maintenance. A good example is building a new bridge to replace an old one. Yes, it is new infrastructure, but it also immediately relieves the need to keep spending deferred maintenance dollars on the old bridge.

In this year's budget, the City Manager and I are proposing that the City commit a total of \$54 million to deferred maintenance. This shot in the arm will help us catch up and allow future budgets to increase the annual allocation from the City's General Fund for deferred maintenance.

To reach \$54 million, the City Manager has requested that the Council increase the annual allocation from \$21 to \$24 million. In addition, he is also recommending that we commit an additional \$30 million from General Obligation Bonds approved by voters in 2004. (With the passage of the new Charter, the City now has the ability to restructure and refinance our existing general obligation debt to align debt service payments more closely with revenues generated from the current debt levy property tax. This restructuring and refinancing allows the City to issue up to \$40 million additional general obligation debt without additional overall cost to the City.)

The Manager's proposed budget was delivered to me last week. I am currently reviewing the budget and, under the City Charter, have until February 8<sup>th</sup> to present it to the City Council along with my comments and recommendations.

I strongly support the Manager's recommendation to commit \$54 million this year for deferred maintenance. This infusion of millions of dollars more for deferred maintenance for the City's streets, bridges, catch basins and other priorities is a significant step forward in the City's efforts to catch up and get ahead of a situation that was not of his creation.

I am also concerned about the Chamber report implying that the City's debt is too large with no context for that statement. The reality is that the City continues to receive high bond ratings from the national rating agencies and over 80% of our bonds have dedicated sources of revenue.

Finally, we both disagreed with the Chamber report's principle recommendation that the renewal of the one-cent sales tax should dedicate 50% of the proceeds exclusively for deferred maintenance. The Manager believes that such a requirement would hamstring the ability of future City Managers and Councils to

deal with infrastructure and maintenance needs across a City as large and diverse as Kansas City.

Again, thank you for amending the recommendation regarding the proposed renewal of the one cent sales tax for infrastructure.

In conclusion, the City Manager and I look forward to working with the Chamber to put forward a ballot proposition to renew the critical one-cent sales tax for infrastructure.

Sincerely,

A handwritten signature in cursive script that reads "Kay Barnes". The signature is written in black ink and is positioned below the word "Sincerely,".

Kay Barnes

CITY OF FOUNTAINS  
HEART OF THE NATION



KANSAS CITY  
MISSOURI

## Office of the City Manager

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Missouri



2006

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February 2, 2007

Mr. Peter S. Levi  
President  
Greater Kansas City Chamber of Commerce  
911 Main Street, Suite 2600  
Kansas City, MO 64105

Dear Mr. Levi:

The purpose of this communication is to provide you with highlights of the City's progress in the delivery of capital construction projects to the citizens of Kansas City during the past three years. Established by the City Council in January 2004, the City's Capital Improvements Management Office (CIMO) is fully staffed and managed by city personnel today.

The result of the three-year public/private partnership is the use of private industry best practices and tools by city staff to optimize the city's management of capital projects, and completion of more than 199 projects in the learning process. This partnership resulted in the formation of a self-sustained, centralized and consolidated capital improvements office. This office was devised by the mayor, city council, and myself to address an existing backlog of capital projects while simultaneously making improvements to the city's delivery system and taking on new capital projects. This decision has proven a success in not only the volume of contracts issued to the local contracting community but in the cost effectiveness for internally managing capital projects as well.

CIMO is currently responsible for managing a portfolio of 233 active capital projects, valued at more than \$960 million. Numerous process improvements have been made in the process of managing this project portfolio. Project completion time is now averaging 18 months, as opposed to the 36 months prior to CIMO. Payments to contractors are now being processed at an average of 23 days, three times faster than in 2003. These achievements help both the contracting and business community in cost savings and resource planning for projects. These process improvements also enable us to stand behind our dedication to addressing our capital and deferred maintenance project portfolios.

The efforts from CIMO have greatly improved the quality of service and projects produced from City Hall. As we have witnessed, the central business district is in the midst of a great revitalization. More than \$60 million in infrastructure improvements have been spent in the Power and Light District alone. Much of the progress would not have been possible to achieve in such a short time frame were it not for the efforts of CIMO, and combined team work of industry professionals alongside city staff. It has also engendered the confidence of the private sector, encouraging the investment of private sector dollars to our downtown renaissance.

city's capital improvement system and provide a first class capital projects delivery system to the citizens of Kansas City.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne A. Cauthen". The signature is written in a cursive style with a large initial 'W'.

Wayne A. Cauthen  
City Manager

# The Capital Improvements Management Office of Kansas City, Mo.

## BACKGROUND

- CIMO was established by ordinance in January 2004.
- The original CIMO team consisted of six city employees from various departments and 25 staff from private industry.
- CIMO's original project load was 151 projects, valued at \$250 million.
- Seventy-five percent of the original backlogged projects were identified as being stalled due to the budget, design, or contract issues.
- Six months after its inception, CIMO's original task load increased to include the majority of the City's capital infrastructure projects, including more than 400 capital projects.
- 2005 City Auditor's report showed a city capital backlog of \$400 million and concluded that "CIMO is the right strategy" for the City.
- CIMO became a city staff managed organization in January 2007.

## CHALLENGES

- **Right-of-way:** Prior to CIMO, right-of-way services were fragmented, resulting in inconsistent approaches to resolving project ROW issues.
- **Contracting:** Prior to CIMO, contractors typically placed a premium on their bids for city construction jobs as the city was historically a slow payer and bid to notice-to-proceed durations took at least six months. This also affected how contractors planned for resources, often resulting in either a low number of bids or higher cost bids for the city.
- **Estimating:** Project estimates prepared prior to CEMO were often outdated or inaccurate. This resulted in projects being significantly under-funded by the time they were ready to bid for construction. This often delayed projects, which led to higher construction costs.
- **M/WBE Participation:** Prior to CIMO, there were no effective mechanisms in place for small businesses to act as primes on city projects. Most MBE and WBE firms were included as subcontractors in order to meet goal requirements.
- **Communication:** City government has continuously been criticized for not effectively communicating with its citizens. In addition, projects did not have city-managed schedules, or schedule tracking, which led to contractor dictated schedules as opposed schedules driven by the city's needs.

## PROCESS/SYSTEM IMPROVEMENTS

- **Right-of-way:** Right-of-way services and acquisition are now part of CIMO. This allows for better communication between the project manager and the right-of-way specialist, keeping projects on schedule and to scope.
- **Contracting:** CIMO instituted a design-build standard in 2004, allowing construction firms and design professionals to serve as a joint prime contractor, creating cost and schedule savings. Prior to CIMO, payments to contractors took an average of 60 to 90 days. As of the end of 2006, the average time for payment was 23 days, garnering preferred client status.
- **Estimating:** CIMO provides estimating support for all CIMO projects throughout the project's lifecycle. PIAC estimates are now reviewed and the engineer's estimate is validated, allowing for more secure budget forecasting.
- **M/WBE Participation:** In 2004, CIMO introduced an extensive prequalification process for design and construction firms, speeding the bidding process on low-dollar projects and allowing work to be completed in a timely manner. This process allows small, minority and women-owned construction firms and design professionals to serve as the prime contractor. Of these firms, one-third of the design firms and one-fifth of the construction forms are classified as woman or minority-owned businesses.
- **Communication:** The Public Access Link, powered by Primavera software, launched in January 2005 on the CIMO Web site for increased accessibility and transparency to project information.

# **The Capital Improvements Management Office of Kansas City, Mo.**

- Additionally, CDVtO publishes a comprehensive progress report twice a year that is posted on its Web site and mailed to stakeholders. Meetings with these stakeholders, including City Council members, occur quarterly in order to solicit feedback on CIMO progress and look for ways to improve.
- To provide timely information regarding schedule, budget, and scope, a project controls system was developed under the CIMO organization. Using recognized industry systems, CIMO now has current project information to efficiently manage capital projects.

## **PROGRESS**

- Since 2005, CIMO's total project portfolio has consisted of 432 projects, valued at \$1.2 billion, of which 301 have entered the construction phase.
- CIMO is currently responsible for managing a portfolio of 233 active projects, valued at \$966,619,193.
- Since 2004, CIMO has completed 199 projects, valued at \$ 159,463,760.
- In the 2003, average project completion time was 36 months. In 2006, CDVIO project completion time averaged 18 months.
- In 2006 the bid to Notice-to-Proceed duration for CIMO projects averaged 88 days, a threefold improvement over pre-CIMO timeframe, which was in the 270 day range.
- In 2006 CIMO payment processing averaged 23 days, three times faster than pre-CIMO.

### ***Capital Expenditures***

- Since the 2005 fiscal year, \$295.3 million was expended on all active CIMO projects. Prior to CIMO \$86.39 million was expended on those same projects throughout their existence.
- In 2003, prior to CIMO, the City expended \$121.4 million for non-enterprise capital construction, while in 2004 it expended \$83.7 million for non-enterprise capital construction. Since CIMO's inception, capital expenditure has increased with \$142 million expended in 2005, \$199.7 million expended in 2006, and \$191.5 million projected for 2007.
- Since CIMO's inception, City expenditures have increased to an average of \$200 million per year, not only halting the project backlog growth but reducing it by \$60 million per year.

### ***Contracts***

- In 2003, prior to CIMO, the City issued 45 capital construction contracts.
- In 2004, CIMO issued 112 design and construction contracts, valued at \$91.3 million.
- In 2005, CIMO issued 252 design and construction contracts, valued at \$339.2 million (including Power and Light District and Sprint Center contracts).
- In 2006, CIMO issued 244 design and construction contracts, valued at \$255 million.

### ***Construction: 2004***

In 2004, CIMO issued 52 Construction Notices-to-Proceed valued at \$55,368,420, which included:

- Three bridge projects, valued at \$15,765,159
- Nine building projects, valued at \$7,636,640
- Five park projects, valued at \$279,362
- One sanitary sewer project, valued at \$585,632
- One sidewalk project, valued at \$41,924
- Twenty-two storm sewer projects, valued at \$5,243,220
- Eight street-type projects, valued at \$12,669,115
- Two streetscape projects, valued at \$2,107,190
- One water project, valued at \$ 11,040,178

# The Capital Improvements Management Office of Kansas City, Mo.

## *Construction: 2005*

In 2005, CCVIO issued 116 Construction Notices-to-Proceed valued at \$630,334,591, which included:

- Thirteen bridge projects, valued at \$46,607,632
- Twenty-three building projects, valued at \$516,404,718
- Five sanitary sewer projects, valued at \$3,649,642
- One sidewalk project, valued at \$418,354
- Twenty-six storm sewer projects, valued at \$6,029,111
- Twenty-four street projects, valued at \$53,595,248
- Twenty-three traffic signal projects, valued at \$3,517,112
- One trail/path project, valued at \$ 112,775

## *Construction: 2006*

In 2006, CIMO issued 132 Construction Notices-to-Proceed valued at \$161,417,177, which included:

- Eleven bridge projects, valued at \$35,415,578
- Twenty-four building and public art projects, valued at \$57,830,952
- Three sanitary sewer projects, valued at \$3,803,281
- Twenty-seven storm sewer projects, valued at \$13,188,487
- Fourteen street-type projects, valued at \$33,863,297
- Six streetscape projects, valued at \$4,994,110
- Forty-six traffic signal projects, valued at \$11,317,430
- One trail/path project, valued at \$1,004,043

## **PROJECTS: Completed**

### *Downtown*

- CIMO's responsibility for the Power and Light District consisted of preparing the nine-block area for private development, including all environmental, demolition, and infrastructure construction.
- A total of \$63 million in construction dollars have been spent on the infrastructure improvements for the Power and Light District: \$19.5 million on Environmental Abatement and Building Demolition; \$3.2 million for the Telecommunication Conduit System; and \$40.3 million for public utility improvements including water mains, sanitary and storm sewer separation and street reconstruction

### *Public Safety and Buildings*

- Since 2004, 24 building projects have been completed, valued at \$63,425,409.
- To date, ten public safety projects have been completed including fire stations 14, 16, 19, 23, 29, 36, 43, 45, the Fire Search and Rescue Training Facility and the Shoal Creek Patrol Station. The total value of these completed projects exceeds \$42.45 million.

### *Transportation*

- Since 2004, ten bridge projects have been completed, valued at \$29,465,705.
- Since 2004, 31 street, sidewalk and streetscape projects have been completed, valued at \$24,565,264.
- CIMO has managed 77 street and streetscape projects totaling more than \$200 million in complete or in-progress roadway and streetscape construction.
- Since 2004, 69 traffic signal projects have been completed, valued at \$14,378,423.

# **The Capital Improvements Management Office of Kansas City, Mo.**

- Prior to CIMO's involvement, it took 19 months to move a set of 40 traffic signal projects from design to completion. Under CIMO, this has been reduced to 11 months, a 42 percent reduction in delivery time.

## *Water*

- Fifty-nine water projects (water, sanitary sewer and storm sewer) have been completed, valued at \$27,236,822.
- \$8 million in sanitary sewer projects are completed, enabling 1,000 residents to tie into the City sewer system.
- The Bannister Acres sanitary sewer project was completed in 2006, allowing 90 residences to be removed from septic systems and tie into the City sewer system.

## **PROJECTS: In Progress**

### *Downtown*

- Bartle Hall, worth \$147 million, and the Sprint Center Arena, worth \$276 million, constitutes more than \$42 million of CIMO's downtown investment portfolio.
- CIMO is responsible for 44 downtown projects valued at \$487 million, including the Library District streetscape, City Hall improvements and the Music Hall renovations, which are all currently in construction.

### *Public Safety and Buildings*

- Thirty-two building projects are either planned or in construction.
- CIMO is managing the construction of 78 building and public art projects with a total value of more than \$620 million.
- The Bartle Hall Expansion public art project and the Sprint Center public art project are currently in construction with completion set for this year.
- CIMO is responsible for managing the 2001 public safety bond projects, approved by voters to fund the renovation and construction of 14 fire and police facilities, adding more than \$90 million to the City's public safety infrastructure.

### *Transportation*

- Seventeen bridge projects are either planned or in construction.
- Twenty-three street and streetscape projects are either planned or in construction.

### *Water*

- Twenty-six water projects are either planned or in construction.
- More than \$25 million in sanitary sewer projects are either underway or planned.
- To date, CIMO has managed 132 water, stormwater, and sanitary sewer projects worth more than \$82 million.