Lenexa KANSAS

Citizen Questions
FY2027 Recommended Budget
(Updated 7/8/2026)

The following questions were submitted by citizens of Lenexa regarding the FY2027 budget and have been summarized for clarity, effectiveness and common themes. Responses have been provided by City staff to help explain key aspects of the proposed budget, including spending priorities, funding sources, and the anticipated impact on City services. This Q&A is intended to address common questions raised by the community.

Q: Why does the FY2027 budget project only $4.0 million in investment income ("Use of Money") when the City's current investment portfolio appears large enough to generate approximately $7.5 million in annual interest earnings? Please explain the difference and how investment income is allocated among City funds.

The City generally allocates investment income among all funds based on each fund's cash balance when income is generated from the City's investment portfolio. This includes not only the budgeted funds listed in the annual operating budget but also capital and maintenance funds that are not included in the operating budget, as required by state law. Examples of these funds include the Capital Improvement Fund, Facilities Maintenance Fund, and Equipment Reserve Fund.

The City's bond funds may also be included in the investment portfolio, and the investment income generated must be allocated to each bond series. Additionally, arbitrage calculations are required to ensure compliance with federal law so that the City does not earn an impermissible profit on tax-exempt debt.

In short, the FY2027 operating budget includes a conservative estimate of investment income for the City's budgeted funds but does not include investment income allocated to funds that are not part of the operating budget.

Q: In the FY2025 ACFR, the General Fund Schedule of Revenues, Expenditures etc. on page 102 lists total final budgeted Investment Earnings of $2.5mm with actuals of $4.1 million for a $1.6 million positive variance. Please explain the significant variance. Please also confirm this excess is added to reserves? Would the council ever consider using excesses to lower future property tax mill rates?

The City adheres to its budget principles and uses a conservative approach to revenue estimation which includes investment income. The City exceeded its investment income projections in 2025 using a mixture of short-term and long-term investments strategies based upon cash flow needs and changes in market conditions.

No, the “excess” revenue from investment income was not added to reserves. On the schedule referenced on page 102-103 of the City’s Annual Comprehensive Financial Report, you can see that the General Fund balance decreased for FY2025.

The City is recommending a 9th consecutive mill levy reduction with the FY2027 Recommended Budget. Generally, the City uses revenues that exceed projections in total, and not just in one line item such as investment income, to cash finance major capital projects instead of using debt. This saves taxpayers millions of dollars in interest costs and helps set the City up for possible mill levy reductions in the future.

Q: The list of holdings as of 3/31/26 indicates very short maturities (most within 12 months), which should result in much less interest rate risk but at the cost of potentially higher yields. Is this correct and is this a conscious decision as it is much shorter durations than portfolios of the recent past?

Each time the City invests taxpayer funds, the safety of principal and cash flow requirements are the main priority - then the City uses a competitive bidding process to get the best available rate for the investment. The term of each investment in the current portfolio is based on cash flow requirements and to generate highest available return on the investment within that context.

Q: The current investment policy approved on 11/4/25 states the City will minimize interest rate risk by "structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and debt service payments…". With such short maturities in the current portfolio is the City in compliance with this policy?

Yes, the current investment portfolio is fully in compliance with the investment policy. Every time the City makes an investment cash flow requirements are considered – if we were not in compliance with the policy, the City would have failed to meet our obligations for debt, payroll, and vendor payments.

Additionally, the City has the highest possible credit rating (AAA/Aaa) from both Moody's and Standard & Poor's. The City would not have achieved this rating without liquidity and the ability to meet its obligations.

Q: Reserves are significantly beyond the max guideline how does this get balanced out?

In the FY2027 Recommended Budget, available on the City's website, the General Fund reserve balance is projected to range between 35% and 38% from FY2027 through FY2031. While maintaining sufficient funds for unexpected events is the primary purpose of the General Fund reserve, it also plays a critical role in supporting the City's AAA (Aaa) bond rating from Moody's Investors Service and Standard & Poor's—the highest possible credit rating for a municipality. These ratings reflect the City's conservative financial management, minimal debt burden, and strong, diverse tax base. Both rating agencies cite available cash as a key factor in achieving and maintaining this top rating. For these reasons, the goal is to maintain reserves at or slightly above the City's policy target.

Additionally, Lenexa's Reserve Policy lays out four options for the use of General Fund reserves (unassigned) that exceed the target:

General Fund reserve amounts in excess of 35% of the budgeted annual General Fund revenues are one-time funds and shall be used only for the following purposes:

- For one-time expenditures, including capital outlays, studies, and payments to reduce outstanding City debt
- For capital projects through transfers to the Capital Improvement Fund and other City funds
- To increase reserve amounts in other City funds as needed
- To offset the impact of economic downturns on a short-term (one or two fiscal years) basis

One of the most impactful uses of these funds is transferring them to the Capital Improvement Fund—either to pay for capital projects originally planned to be debt-financed (thereby saving taxpayers interest costs) or to fund essential projects that may have been delayed due to a lack of available funding (thereby improving services). Both uses have a positive impact on the City's residents and support the potential for continued mill levy reductions in the future.

Q: Why are the mill levy decreases so small? It seems that the City could implement much larger cuts and reduce the mill levy by at least 1.500 mills and bring it in line with other cities in Johnson County?

With the FY2027 recommended budget, the City plans to reduce the mill levy for the ninth consecutive year. Lenexa is one of only a few cities in Johnson County proposing a mill levy reduction in 2027. Among those, Lenexa is proposing the largest tax rate decrease (aside from DeSoto which is experiencing structural changes due to Panasonic and other economic development). Further, all cities in Johnson County are exceeding the revenue-neutral rate. The City remains committed to responsibly lowering the mill levy and will continue to evaluate future reductions during every budget cycle.

Lenexa's growth and competitive position have contributed to increased assessed valuation, supporting reductions in the property tax rate. However, this growth also brings more residents and businesses to be served along with increased responsibility to fund infrastructure, public safety, and other services in newly developed areas. For example, while a fully-developed city like Prairie Village may have a higher property tax rate (including a separate fire district mill levy), it does not face the financial burden of constructing $40–50 million in new roads to serve future neighborhoods and commercial development — a challenge Lenexa continues to manage while continuing to reduce the mill levy.

Q: The City's 2026 Forecast for Sales and Use Tax shows an increase of 2%, but current budget shows it coming in at more than 8%. Is this intentional?

As referenced, the City's revenue from sales and use tax is exceeding projections for the first quarter of FY2026. In the City's FY2027 Recommended Budget, the re-estimate for sales and use tax revenues in FY2026 includes significant increases to projected revenue while still adhering to the City's budget principles of using conservative revenue estimates to avoid budget shortfalls.

City sales tax revenue is composed of three sources: the general sales tax, the 3/8-cent sales tax, and the City's share of the Countywide sales tax. The 3/8-cent sales tax, approved by Lenexa voters, is dedicated to parks and street improvements and is passed through the General Fund to support those projects. Because contracts for the Pavement Management Program (PMP) and Parks & Recreation capital projects are established at the beginning of the budget year and are not easily adjusted, the City must use conservative revenue estimates to avoid potential shortfalls.

Additionally, the City's share of the Countywide sales tax includes the 1/4-cent Public Safety Sales Tax III, which was dedicated to funding the Lenexa Justice Center project. The Public Safety Sales Tax III is set to expire in March 2027.

Q: Based on the City's debt repayment schedule, it appears the outstanding debt may be retired nearly four years earlier than planned. If the debt is paid off early, will the approximately 2.74 mills currently levied for debt service be eliminated, reducing the overall property tax rate? If not, why would those mills remain in place?

In the FY2027 Recommended Budget, 4.533 mills are levied to support the Debt Service Fund. These funds in the Debt Service Fund may only be used to service the City's debt and cannot be used for operations or other expenditures. As shown in the Debt Service Fund projections included in the FY2027 Recommended Budget, expenditures are expected to exceed revenues in each year of the multi-year forecast. This is intentional, as the City is obligated to construct several major road and facility projects in the coming years, in addition to supporting its ongoing debt financing program.

As with the General Fund, the mill levy for the Debt Service Fund is reviewed annually and adjusted based on projected needs and revenue requirements. Because the City's debt program is used to finance major capital improvements, there will likely always be a need to issue debt. As the community grows, the City must construct new infrastructure; as it matures, investment will shift toward the replacement and maintenance of existing assets. As a result, the City anticipates the continued need for a dedicated debt service mill levy for the foreseeable future.

Q: I would like an outside auditor to audit the City's Capital Improvement spending. Does the City have this type of audit done?

Yes, each year the City hires an external auditor independently examine the City's financial statements, internal controls, and selected financial transactions to determine whether the statements are fairly presented in accordance with generally accepted accounting principles (GAAP). The auditor also issues an opinion on the accuracy and reliability of the City's financial statements, providing assurance to the Governing Body, residents, bondholders, and other stakeholders.

As part of the annual audit, the City's external auditors review and test the City's capital expenditures. Additionally, if the City expends $1.0 million or more in federal awards during the fiscal year, the auditors are required to perform a Single Audit to ensure compliance with applicable federal requirements.

Q: Will the City's budget be adjusted upon the completion of the salary study?

The City is in the process of conducting the compensation study and does not have final results. However, at this time, we do not anticipate adjustments to the FY2026 budget.

Q: Have you consulted with organizations probably closer to these future sales and use tax trends than staff such as Lenexa Chamber of Commerce, MARC, CERI, etc.?

Yes. Staff regularly monitors economic conditions and consults a variety of local, regional, and national sources when developing sales and use tax projections. This includes reviewing economic forecasts and market data from organizations such as the Lenexa Chamber of Commerce, Mid-America Regional Council (MARC), the Center for Economic Research Institute (CERI), and other public and private sector resources, along with the City's own historical revenue trends.

Q: How much time and expense would be saved by enacting a revenue neutral rate?

The City would save approximately $400 in publication costs required by state law when exceeding the revenue neutral rate. Additionally, the public hearing on the revenue neutral rate, which is typically held on the same night and immediately before the budget public hearing, would no longer be required.