Citizen Questions
FY2026 Recommended Budget

The following questions were submitted by citizens of Lenexa regarding the FY2026 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 are 2024 General Fund Reserves 44% while the city's target is 35%—has the target changed?

The City's reserve policy for the General Fund sets a target reserve level of 30–35%, but there are many factors to consider, including changing economic conditions and the potential impacts of state statutory changes. Due to the timeline required by Kansas budget laws, staff prepares the City's revenue and expenditure projections almost two years in advance of the end of the budget year. Predicting economic conditions that far in advance can be challenging, so the City adheres to its budget principles and uses conservative revenue estimates. Several direct comparisons with our neighbors, Shawnee, were highlighted in the community questions. For comparison with Lenexa's proposed budget, Shawnee carries a 54% reserve balance for their General Fund while having a comparable reserve policy.

In 2024, the City's revenues exceeded expectations, driven primarily by strong development activity and an excellent return on its investment portfolio. The City issued its second-highest number of building permits ever in 2024, generating $3.0 million in revenue. Additionally, staff strategically managed the City's investment portfolio to generate $4.6 million in revenue. City expenditures also came in under budget, primarily due to personnel cost savings from vacant positions—mainly in public safety.

Q: Why were reserves increased by $9.2 million to over $87 million in FY2026?

Approximately 52%, or $4.8 million, of the increase in reserves is attributable to the City's economic development funds. These are not revenues to the City but are required by Kansas law to be budgeted as expenditures. The funds can only be used for eligible expenses within the respective districts, yet the City cannot disburse them until eligible costs are submitted by the developer and certified by the City. If the developer does not certify costs, the funds remain in the fund balance (reserves) until eligible expenses are certified.

Another 22%, or $2.0 million, of the increase in reserves is due to special revenue funds, which are restricted in their use based on their specific revenue sources. For example, Special Alcohol Funds can only be used for programs focused on preventing alcohol abuse and treating its consequences.

Q: Is it correct that the average residential appraisal rose by 6.8%, with the 0.50 mill rate reduction offsetting 1.8%, resulting in a net 5% property tax increase for the average homeowner?

No. The City's total assessed valuation (residential and commercial) increased by 7.2% for the FY2026 budget. With the recommended mill levy reduction of 0.500 mills, the City's property tax revenue is projected to increase by 5.3% over FY2025. However, approximately 30% of that increase is due to new development within the City, meaning pre-existing residential and commercial properties account for approximately 3.71% of the total increase in property taxes.

For further context, Lenexa's property tax revenue is generated by both residential (55%) and commercial (45%) properties. This equates to an average residential impact of just over 2% in property tax increases for existing residential taxpayers.

Q: Why is the 2026 budgeted sales tax revenue essentially flat since 2022 and down 1.4% from the 2025 budget?

While there are normal fluctuations month to month in sales tax collections, the State of Kansas recently exempted certain communications equipment and software from sales tax, which has significantly reduced the City's sales and use tax revenue in the Information Services category. As a result, revenue in this category is down nearly 55% through June 2025 and has been trending down since the sales tax exemption was implemented in July 2024. Conversely, sales tax revenue from Retail Trade and Hotels, Restaurants, & Bars continues to remain strong, up 6% and 5% respectively which helps to offset the reductions in the information services category. The strong performance in these industries indicates that the public is spending their disposable income in Lenexa.

The following chart details the City's sales tax revenue by industry and compares FY2025 collections to FY2024. This information is provided to the City by the Kansas Department of Revenue.

Lenexa Sales Tax By Industry (June 2025)

Industry	FY2024 Revenue	FY2025 Revenue	$ Increase/Decrease	% Increase/Decrease
Construction & Manufacturing	$987,074	$907,102	-$79,972	-8%
Information Services	**$754,655**	**$337,075**	**-$417,580**	**-55%**
Leasing & Rental Services	$282,175	$278,786	-$3,389	-1%
Retail Trade	**$5,299,161**	**$5,601,281**	**$302,120**	**6%**
Hotels, Restaurants, & Bars	**$1,217,987**	**$1,284,644**	**$66,657**	**5%**
Utilities	$787,391	$781,042	-$6,349	-1%
Whole Sale Trade	$1,348,736	$1,315,496	-$33,240	-2%
Other Merchants	$1,251,081	$1,251,197	$116	0%
Total	**$11,928,260**	**$11,756,623**	**-$171,637**	**-1%**

While the City's overall sales tax revenue chart (included in the FY2026 budget document) appears relatively flat since 2022, it's important to note that annual projections have increased each year—by approximately $700,000 to $750,000—reflecting our expectation of steady growth until the recent exemptions by the State. Between 2021-2024, the city experienced an 18.3% growth in sales tax revenue – one of the largest increases in Johnson County.

Looking ahead, the City anticipates a potential short-term boost in sales tax revenue related to the World Cup. One metro organization has estimated that the World Cup impact to Lenexa could be approximately $18 million to local businesses – if this estimate is accurate, it could potentially generate approximately $250,000 in sales tax revenue to the City. However, given the unprecedented nature of the event in the Kansas City region and the short-term nature of the potential impact, we remain cautiously optimistic and do not intend to rely on a potential one-time revenue windfall to support ongoing revenue expectations.

Q: The 6% compensation increase seems generous compared to local organizations. How is this increase determined?

The City will complete a comprehensive compensation study in 2026 and will bring forward a resolution with recommended compensation adjustments, based on the study's findings, for Council consideration after the study is completed. The 6% funding included in the recommended budget for compensation increases and appropriate market adjustments is an estimate. By approving the budget, Council is not approving across-the-board 6% pay increases - 3% has been included in department budgets while 3% is reserved in non-departmental as potential funding for the results of the study. If the study results in a recommendation for compensation increases of less than 6%, the City will not spend the full amount and will consider other ways to best utilize any excess funds – including possible future mill levy reductions.

Q: While the city's contribution to employee health insurance is increasing by 12.2%, how much additional are employees paying? Is this cost shared, as is typical in the private sector?

Yes, this cost is shared between the employee (17%) and the City (83%). The 12.2% increase for the City is an estimate based on current market conditions and recent experience. Final rates and the employee cost share for 2026 will be determined later this year, but it is expected to be relatively consistent with prior years.

Q: What is the average ratio of employee benefits to compensation, and how does it compare to other local organizations?

The City's ratio of employee benefits to compensation is approximately 40/60. While the City conducts periodic surveys of compensation and benefits to assess how the City compares to other jurisdictions, we do not specifically track this ratio.

Q: Why are the City's economic development payments only increasing $100,000 in FY2026 as there are TIF/CID project developments nearing completion?

The increase in economic development payments is primarily due to the new Midas Dual Hotel CID, which will come online in 2026, and an increase to the estimated reimbursement amount for the CCE #2 CID. The City anticipates having sufficient budget authority in other TIF/CID funds to meet its obligations under the agreements with the developers.

Q: The City has several properties with expiring tax abatements, how much tax revenue will the City receive from these properties in 2026?

Three properties with expired IRBs will fully return to the tax rolls for the FY2026 budget. Based on the City's recommended mill levy of 26.459 mills, these properties are projected to generate approximately $450,876 in revenue for the City in 2026—an increase of $120,576 over the prior PILOT payments. This estimate reflects only the City's portion; other jurisdictions, such as Johnson County and the applicable school district, will also receive their respective shares of the tax revenue.

Q: Shawnee, with a population approximately 15% larger than Lenexa, has a general fund budget nearly $40 million less. What are some of the factors creating the difference?

There are significant differences in how cities account for their revenue and expenditure transactions. Lenexa uses the General Fund to track many types of transactions that Shawnee records in separate, specialized funds. While both approaches are appropriate, these differences make it difficult to directly compare each city's General Fund.

For example, Lenexa's 3/8-cent sales tax dedicated to parks and pavement—generating approximately $10 million annually—is accounted for in the General Fund. In contrast, Shawnee has a similar sales tax dedicated to parks and pipes but records those transactions in a separate fund rather than in the General Fund.

There are other differences between cities that can impact a direct comparison such as a city's assessed valuation split between commercial and residential development. In this case, commercial properties make up a significantly larger portion of Lenexa's assessed valuation compared to Shawnee. As a result, comparing each city's General Fund budget on a per-capita basis incorporates the substantial revenue generated by commercial properties in Lenexa but ignores the costs associated with providing services to those businesses. This can lead to a misleading interpretation of how much funding or expenditure is actually allocated to each resident.

Q: By comparing Lenexa and Shawnee's General Funds, it appears Lenexa's residential property taxes are 33% higher per capita than Shawnee. Is this accurate?

This is not a valid comparison. Specifically, there are significant differences in how cities account for their revenue and expenditure transactions. Lenexa uses the General Fund to track many types of transactions that Shawnee records in separate, specialized funds. While both approaches are appropriate, these differences make it difficult to directly compare each city's General Fund.

One example is that Shawnee has a separate property tax mill levy for its Public Safety Equipment Fund which generates approximately $2.0 million in revenue for the City while these same expenses are paid for out of Lenexa's General Fund.

Along with the revenue from this separate mill levy, there are other things that could be taken into account when comparing residential property taxes generated by each city which would make such a comparison more appropriate - such as the number of housing units, the difference in the value of land and cost of making land developable, the split between multi-family and single-family homes in residential assessed valuation and the service levels provided by each city.

Q: If reserves exceed the maximum target in the city's General Fund, can the additional reserves be returned to taxpayers through lower property taxes instead of transferring to the Capital Improvement Fund?

The City's reserve policy, published on the Finance Department's website, outlines the acceptable uses of General Fund reserves that exceed the 35% target. Excess reserves are one-time revenues and lowering on-going property taxes based upon this would violate the City's budget principles.

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.

The mechanics of transferring these funds to the Capital Improvement Fund is a very public process – the City has noted this transfer in the recommended budget, brings forward a resolution to the City Council to approve the transfer and finally allocates the funds to specific capital projects through the budgeting process for the City's Capital Improvement Program.

Q: Will the Fire Station 6/Old City Hall project be brought forward for a public vote?

To date, the City Council has only approved a study of a potential Fire Station at the Old City Hall site and have not fully approved a project to construct anything at this location. We anticipate reviewing the study results and making a decision later this year.

The city is not required by law to seek a public vote prior to approving such a project nor financing it and we do not anticipate doing so in this instance.

Q: Has the final decision been made to pursue the K-10 and Lone Elm Interchange project?

The Lone Elm Interchange is one element of KDOT's K10 Project and the final decision to construct the interchange lies with KDOT. The City's local contribution to this project will be for a fraction of the total cost of the interchange and is significantly less expensive than the cost to widen both 101st Street and Woodland Road should the interchange not be constructed – 100% of the cost of which would have to be borne by the City of Lenexa.

Q: With Lenexa reportedly having the highest ratio of rentals/apartments to owned homes in the county, has the city analyzed the economic impact of this trend?

While Lenexa's ratio of rented to owned households is slightly higher than other neighboring communities, a significant number of apartments are located in or adjacent to Lenexa City Center which is a longstanding community goal where a certain level of density is necessary to support the mixed-use walkable amenities and community gathering spots that our community desired. If apartments which are either in or located very near LCC were excluded from this comparison, Lenexa's numbers and ratios look very similar to neighboring communities.

The vast majority of apartments in Lenexa received no tax incentives. Of those that received or are receiving TIF, the projects will always continue to pay the base year tax amount (which is shared prorata among all jurisdictions) and the state school mill levy. The remaining taxes which are captured in the TIF (which includes everything but the base year taxes and the school mill levy) are partially or entirely rebated to them for approved, eligible expenses. The City also receives reimbursements for its eligible expenses, which pay for infrastructure and other costs that would otherwise be paid by general tax dollars.

Q: What makes up the "other transfers" function and transfers to Capital Improvement Fund line items in the General Fund?

The complete list of transfers is shown on page 91 of the FY2026 recommended budget document under Non-Departmental. These transfers fund the City's Equipment Reserve Fund, Facilities Maintenance Fund, and Capital Improvement Fund. The City also shows the TIF reserve amount as a transfer in the General Fund, however, this is a placeholder and is not spendable.

Q: Can you explain the City's department level budget process?

The City's budget process begins with a comprehensive review of departmental operations to identify efficiencies and reduce costs without compromising service quality. Staff evaluates employee compensation to ensure the organization remains competitive in attracting and retaining talent. Emerging technologies, including AI, are leveraged to streamline workflows and improve productivity. Throughout the process, the broader economic environment—including revenue trends and demand for City services—is carefully analyzed to inform budget decisions and ensure long-term fiscal sustainability.

Additional information on the departmental budgeting process will be discussed during the department budget presentations on July 8th.