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2016 Budget Outlook

From:

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Summary:

Each year through the annual budget process, the City projects revenues from all sources and departments examine their operations, look for operational efficiencies, and make budget requests to provide core municipal services and to achieve both the Executive Branch and Legislative Branch strategic goals.

This 2016 Budget Outlook will largely focus on the City's General Fund as it is the largest fund through which the City provides municipal services and the fund that the City has the most discretion with regard to how the monies are allocated. Other funds available to provide core municipal services are the Public Safety Sales Tax (PSST) Fund which is restricted to public safety expenditures, the Trails Open Space and Parks Tax (TOPS) Fund, which is restricted to trails, open space and parks expenditures, the Conservation Trust Fund (CTF or "Lottery Fund") which is restricted to expenditures on parks, grants and gift trust funds which are restricted to the specific purpose as designated by the grant or gift. The City also has six enterprises (Airport, Cemeteries, Development Review, Golf, Parking and Pikes Peak America's Mountain), which operate like a business, with user fees covering all costs, and that receive no local taxpayer support. Those funds will not be discussed in this outlook, but their budgets will be discussed in detail during the City Council Budget Work Sessions on October 19 and 20, 2015.

General Fund Revenue:

The current estimates for 2016 General Fund revenues is \$267.6 million. This is \$8.9 million or 3.5% more than the 2015 Original General Fund Budget. This estimate includes:

- An increase in sales and use tax revenue of \$9.5 million, which is approximated a 6.3% increase from the 2015 Original Budget and 2.8% over the current end-of-year estimate. A portion of the estimated increase in sales and use tax revenue is attributed to activity within the North Nevada URA and the Copper Ridge URA (Polaris Point), so there is a direct sales tax sharing payment increase associated with that portion of the revenue increase which is discussed later in this memo.

- An increase in property tax revenue of \$1.1 million, which is based upon preliminary information from El Paso County. This reflects an increase of 5.7% due to the 2015 property reassessment (reassessments are conducted in odd years). The City will receive the final assessed valuation (AV) from the County in December.

- A net increase of \$893,400 in other non-departmental revenue changes. Increases are projected from Highway Users Trust Fund (HUTF), Cigarette tax, Road and Bridge tax, and Utilities Surplus revenue (based upon Utilities' forecast).

- A decrease in 2015 one-time revenues of \$2.1 million including the draw from fund balance of \$1.5 million and the \$600,000 transfer from the Fleet fund.

- A decrease of \$700,000 in property tax revenue due to the proposed phase-out over three years of the business personal property tax (BPPT). It is expected that property tax revenue will likely grow at a rate that exceeds the TABOR growth rate, therefore the City may be at risk of exceeding the TABOR Property Tax Revenue Limit. Beginning the phase-out of the BPPT may help the City's actual property tax revenue remain below the TABOR limit.

-A net increase in departmental revenues of \$235,500.

General Fund Expenditures:

-Unavoidable expenditure increases from the 2015 Original General Fund budget total \$5.9 million.

These expenditures include:

- An increase of \$406,000 for utilities (based upon preliminary rate increase estimates of electricity 6%, gas 0%, water 5%, wastewater 0%)

- An increase of \$7.0 million in the transfer to the Capital Improvement Project Fund to fulfill the pledge by City Council per Resolution 08-15 and the Mayor's priority to commit a total of \$16.0 million toward stormwater operating costs and projects (General Fund and Grants funded)

- An increase of \$1.36 million funding for the Employee Benefits Self-Insurance Trust fund. This includes \$860,000 for expected 2016 employee healthcare costs based upon current claims costs trends and a planned \$500,000 contribution to the fund balance. Currently, the Employee Benefits Self-insurance Fund has a negative unrestricted fund balance of (\$5.9 million). While this includes a liability for Incurred But Not Reported claims (IBNR) which the City will not need to pay at any one point in time, the unrestricted fund balance excluding IBNR is also negative, (\$3.0 million). The Employee Benefits Fund unrestricted fund balance fell significantly in 2013, when there was an unusual spike in claims costs. While it has been the City's informal policy to first build the General Fund unrestricted fund balance to the recommended level of 25% of the following year's expenditure budget - as the General Fund is the backstop for the City's non-enterprise liabilities, and offers

greater flexibility to apply those reserves as needed to liabilities that arise - the City believes it is a fiduciary responsibility and a best practice, as a first-step, to incrementally bring the internal service funds (Employee Benefits Self-Insurance Fund, Claims Reserve Self-Insurance Fund, and Workers' Compensation Self-Insurance Fund) Unrestricted fund balances to a positive balance excluding the IBNR liability. Once that is achieved, as funds allow, the next goal would be to bring those funds to a positive fund balance including the IBNR liability.

- An increase of \$400,000 in funding required for the City's Claims Reserve Self-Insurance Fund. This \$400,000 of additional funding includes \$200,000 for expected 2016 claims costs and a \$200,000 contribution to the unrestricted fund balance. This is the recommendation of the Claims Review Board which is comprised of the City Auditor, Chief Financial Officer, City Attorney, Human Resources Director, Risk Manager and Budget Manager. As discussed above with respect to the Employee Benefits Self-Insurance Fund, the Claims Reserve Fund has a negative unrestricted fund balance (\$800,000). This balance also includes liabilities for IBNR. The fund balance excluding IBNR, however, is also slightly negative, (\$200,000).

- An increase of \$305,000 in funding required for the City's Workers' Compensation Fund. This additional funding need is based upon claims trends, unrestricted fund balance and the recommendation of the Claims Review Board. This fund also has a negative fund balance (\$9.2 million), however, excluding the IBNR is positive, \$750,000, so the City is not proposing a contribution to the fund balance until the other two self-insurance funds have positive Excluding IBNR Unrestricted fund balances as well.

- An increase of \$1.1 million in costs to fund current actual positions. This provides funding for the additional 3 months of the 2015 pay for performance increases implemented March 31, step increases for firefighters and police officers progressing through the rank system, full year funding for the police officer positions added in the 2015 budget, and other changes to actual salaries based upon turnover or reclassifications.

- An increase of \$1.1 million in sales tax sharing agreement payments. This expenditure increase relates to URA sales tax sharing agreements and has more than 100% revenue offset which is included in the sales and use tax revenue increase noted earlier in this memo of \$9.4 million. The revenue offset is more than 100% because the Copper Ridge agreement requires the city to make a payment based upon half of the General Fund collections within the area, or collections of 1%. In all cases the City retains the 0.1% TOPS revenue and 0.4% PSST revenue.

- A decrease of \$5.1 million in the Springs Community Improvement Project (SCIP) debt service payment. The 2015 debt service payment was \$7.9 million and the 2016 debt service payment is only \$2.8 million. The 2016 payment will be the final payment.

- A decrease of \$580,000 in the funding required for the closed New Hire Pension Plans. Each year the City receives an actuarial report from the Fire and Police Pension Association (FPPA) for the New Hire Pension Plans. The actuarial reports determine the annual required contributions. According to the reports received in June, the annual required contributions for both the Police and Fire components are decreasing for 2016.

- A net decrease of \$33,000 in contract costs for the Serco fleet services contract, the Humane Society animal control contract, security contract and the fuel contract.

In addition, there are significant needs and funding requests from City Departments to meet important operational goals, mitigate risks, and respond to core citizen service demands or requests. While the list below is not exhaustive, it reflects some of the most pressing needs identified.

City Attorney: case management system, funding to properly align attorney classifications, funding for FT legislative counsel, prosecuting attorney(s), discovery clerk, eDiscovery paralegal.

City Auditor: information systems penetration testing.

City Clerk: records management coordinator, additional liquor and marijuana licensing enforcement officer, other operational needs.

Communications: electronic media specialist, interactive audience response system.

Economic Development: maintain funding for contracts and special projects.

Finance: professional buyers, capital asset accountant, accounts receivable technician.

Fire: 12 firefighter positions for Fire Station #22, Squad #11, 4th Battalion, fire code inspectors, human resources recruiter, fleet technician, medical analyst, senior office specialist, fire and life safety educator, fire medical lieutenants.

Fleet: fleet software cloud hosting, replace street sweepers, analyst.

Human Resources: HR business partners, workforce development and training specialist, senior recruiter, training, surveys.

Information Technology: network/data center/security project phase III, decommission PD CJIS system, service management project phase II, fiber mitigation project.

Municipal Court: increase in constitutionally mandated court appointed attorney costs, increase in mandated interpreter costs, support for rewrite of the JIS system.

Parks, Recreation and Cultural Services: funding for Garden of the Gods staff (had been generously supported by Garden of the Gods Foundation - prefer to fund projects rather than staff), funding for spray to prevent infestation of Tussock Moths in park wildland areas, increased funding for watering the City's parks and medians; increased contract costs for mowing parks, medians and rights-of-way, funding for additional full-time maintenance staff in each of the City's four park districts (currently temporary/seasonal staff - request to maintain funding for temporary/seasonal and add four full-time), other operational needs.

Planning and Development: code enforcement division manager for more strategic direction in moving from an enforcement focus to an education/neighborhood services focus, planners to address growing workload, outreach coordinator, land use inspector, funding for a more complete update of the comprehensive plan and economic opportunity zone plans, real estate specialist, and other operating needs.

Police: body worn cameras and other operational needs. (The replacement of Sand Creek substation is one of the Police department's highest priorities and will be discussed in the Capital Improvement Projects (CIP) section of this memo and the presentation).

Public Works: increased funding for transit to partially bridge remaining gap in meeting the

Maintenance of Effort goal, conversion of temporary positions to authorized positions, CIP projects (in CIP section of memo and presentation).

CIP: design for replacement Sand Creek police sub-station, stormwater projects, rewrite of the Municipal Court's JIS system, citywide facilities highest priority maintenance needs, contribution to PPRCN radio tower project, grant matches, road paving as planned per 2015 5-year CIP plan, funding for first steps in moving to next-generation enterprise resource planning software (PeopleSoft is the City's financial software system and going out of support), other high-priority backlog of capital projects.

As is clear, the 2016 General Fund budget process is very challenging.

Other Funds - the City's special revenue funds are considered PSST, and TOPS are trending up in line with the increases in General Fund Sales and Use Tax, and Conservation Trust Fund (Lottery Fund) revenue is trending down.

Previous Council Action:

On December 9, 2014, City Council approved Ordinance No. 14-101 (Annual appropriations ordinance), and on:

- March 3, 2015, Ordinance 15-19 for demolition of a dangerous building
- April 28, 2015, Ordinance 15-25 for the Acacia Park Ice Rink operations
- May 26, 2015, Ordinance 15-36 for repair of the May 210 rain and flood damages
- July 28, 2015, Ordinance 15-41, for hail damage, insurance premiums and court-appointed attorney costs at Municipal Court
- August 25, 2015, first reading approved, for November 2015 special election costs.

On January 27, 2015, City Council approved Resolution 8-15 pledging \$16 million of General Fund monies and \$3 million of Utilities monies to stormwater operating, maintenance and control activities.

At the May 11, 2015 Worksession, City finance provided a preliminary 2016 Budget Outlook to City Council based upon revenue and expenditure trends.

Background:

See summary above.

Financial Implications:

This briefing is for informational purposes, to give City Council information regarding the tough funding choices that must be made for the 2016 budget.

Board/Commission Recommendation:

N/A

Stakeholder Process:

The City developed an online 2016 Budget Survey to obtain input from the community on what they believe the City should prioritize in the 2016 budget. The survey was open during the month of June. The City received over 2,400 responses to the survey. The kick-off was presented to City Council at the June 8, 2015 Work Session, and summary results were presented to City Council at the July 13, 2015 Work Session.

Alternatives:

N/A

Proposed Motion:

N/A

N/A