

City of Englewood, Colorado
Budget Advisory Committee

Annual Report to
City Council

Submitted
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Prepared by

Harvey Pratt, Chair
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The Budget Advisory Committee is pleased to present its first annual report to the Englewood City Council.

Background

The Budget Advisory Committee was created by the Englewood City Council in May 2013 (Ordinance 16, Series 2013) with the following purpose:

The Budget Advisory Committee (BAC) is established by Council and the City Manager to advise the City on the development, implementation, and evaluation of the annual City Budget. Participation in the Budget Advisory Committee is an opportunity not only to advise on the prioritization of how city tax dollars are spent, but also to advise policymakers in their decision-making process in an open and transparent manner.

The BAC is comprised of:

- Harvey Pratt, Chair
- Christine McGroarty, Vice Chair
- Joel Day
- John Moore
- Steve Ward
- Joe Jefferson, City Council Liaison
- Linda Olson, Alternate City Council Liaison

For the last year the BAC has been meeting along with various City staff to deliver on its charge:

Once the budgets have been reviewed and have incorporated requests for new programs and/or personnel authorized by the City Manager, the Budget Advisory Committee shall submit a written report of its findings and recommendations (BAC Report). The BAC Report shall be delivered to Council prior to the public hearing regarding the budget.

Overview

The BAC enjoyed the opportunity to participate in the budget process. The BAC appreciates the complexity and importance of the annual budget process for City Council. This inaugural BAC Report can only begin to touch on a few of the many significant issues that are involved in the budget. We collectively believe that the BAC Report will continue to evolve and grow in its value to City Council and the citizens of Englewood.

Overall, the BAC is very impressed by the commitment and dedication of Council and City staff. All City departments follow the goals developed by the Council:

- A City that provides and maintains quality infrastructure
- A City that is safe, clean healthy and attractive
- A progressive City that provides responsive and cost efficient services
- A City that is business-friendly and economically diverse
- A City that provides diverse cultural, recreational and entertainment

It is our opinion that the City departments are not only committed to these goals, but continually try “to do more with less.” As an example, we point to the Public Works Department. In his 2015 proposed budget summary, Rick Kahm, Director of Public Works, stated the 2014 staffing levels were the same as 2013, and:

Over the last nine budget cycles (including the 2014 Budget), Public Works has reduced staffing levels by 12 FTE's... 17.4% (Engineering 2.5, Traffic Engineering 0.50, Streets by 5.0 and Building Operations by 4.0.). Through new found efficiencies, we have managed to minimize loss of service to the public. Over those many years, the reductions and efficiencies have equated to sustainable savings exceeding \$1,100,000 per year.

It was apparent at the annual budget meeting that all of the departments Directors not only strive for an efficient department budget, but they are committed to working collectively to support each other in achieving an efficient budget for the City as a whole.

In our report below, we will provide comments or recommendations around the following issues:

- Citizen involvement
- Sales tax dependency
- Reserves
- Aging infrastructure
- Regionalization
- Bond issuance and mill levies
- Long-term sustainability

Citizen involvement

In establishing the BAC, “the City Council recognized the importance of citizen involvement in setting the scope of the budget activities in the City.” Beyond our own participation as citizens, the BAC quickly identified Council’s objective of citizen involvement could be furthered by improving the citizens’ ability to understand the budget. As such, we have produced a communication, “The Englewood Budget in Brief,” (Appendix) that is targeted towards citizens and succinctly addresses:

- Full service city
- Sources and uses of funds
- Sales vs. property tax
- Accomplishments
- Future challenges

We recommend Council consider publishing the Budget in Brief through appropriate channels. In this first year we suggest that a limited number of copies of the publication be made available in central locations such as city hall, the library and the recreation center and that the document be posted on the BAC website. In future years the BAC would like Council to consider including the annual Budget in Brief either as an insert in or a special edition of the *Englewood Citizen* newsletter.

Sales tax dependency

The BAC is keenly aware of the concerns related to significant dependency on sales tax revenue; 58% of Englewood's annual revenues derive from sales tax. While we as a city have been fortunate to have such a source of revenues, we are also at risk. Sales tax is a very volatile revenue source as demonstrated by the significant impact the 2008 economic recession had on the City's finances. When city revenues are heavily dependent on consumer spending, as they are with sales tax, revenue can fluctuate significantly. Yet, 73% of the City's expenditures are for personnel costs, which are relatively fixed. Thus, the fluctuations in revenue can, in turn, negatively impact services to citizens as the City has to reduce expenditures to respond to temporary declines in revenue. When the economy improves and revenue increases, it is often costly to restore services that have been reduced. Staff must be rehired and retrained, facilities and equipment must be revitalized and citizens must be reaccustomed to using restored services.

In addition to volatility associated with fluctuations in consumer spending, heavy dependency on sales tax is problematic in other ways. Due to land constraints, there is little significant retail development opportunities left in the City of Englewood. And with the growth of internet sales, which do not currently generate local sales tax revenue, our key revenue source could suffer attack.

While there are no obvious means to mitigate the risks of sales tax dependency in the short run, we believe this risk should constantly be "front of mind" for Council. A stable revenue source is essential to protecting the high quality of life Englewood's citizens enjoy. City Council must constantly consider options to diversify the revenue source (e.g., taxes of a different form or enterprise opportunities like Pirates Cove), solidify it (e.g., vigilance in attracting and retaining businesses), or find ways to enhance it (e.g., watching for the unique development opportunities as with the McLellan property).

Reserves

Over the long run, the City must balance its budget. That is, over the long run, the City can only spend what it takes in. But the annual budget process recognizes that in each year, revenues and expenses will not exactly match. Section 83 of the Charter defines the scope of the annual budget (emphasis added):

The Budget shall contain:

- (a) An estimate of anticipated revenue from all sources other than the tax levy of the ensuing fiscal year.
- (b) *An estimate of the general fund cash surplus at the end of the current fiscal year or of the deficit to be made up by appropriation.*
- (c) The estimated expenditures necessary for the operation of the several departments, offices, and agencies of the City.
- (d) Debt service requirements for the ensuing fiscal year.
- (e) An estimate of the sum required to be raised by the tax levy for the ensuing fiscal year, and the rate of levy necessary to produce such sum, based on a percentage of collection not exceeding the lowest percentage of current levy collection experienced during the three preceding complete fiscal years.

(f) A balance between the total estimated expenditures and total anticipated revenue from all sources, taking into account the estimated general fund cash surplus or deficit at the end of the current fiscal year. All estimates shall be in detail, showing revenues by sources and expenditures by organizational units, activities, character or object. The budget shall be arranged to show comparative figures for receipts and expenditures for at least two prior years and for the current year, and the City Manager's recommendations for the ensuing year.

When revenues exceed expenses, reserves develop. These reserves can then be used to cover the differences in the estimates in the budget versus actual experience, and to smooth out the year-to-year variability in the budget. But beyond just being a tool to address routine fluctuations in revenues, reserves are a critical tool to protect against significant negative shocks to the City. In essence, reserves are a form of insurance to help weather a sudden downturn in revenues (as happened after the market crash in 2008) or a spike in expenses (as can happen in years with particularly heavy snows or other natural disasters). Thus, maintaining a proper unrestricted reserve is critical as part of the budget process. And this is particularly true for a municipality dependent upon a volatile revenue source. While Councils have historically been very conscious about the reserve level, a policy has never been set as to what constitutes a proper reserve level.

The BAC encourages the Council to develop such a policy (accepting that such a policy is not binding on any particular Council). Doing so would bring additional discipline to the budget process and would facilitate the transfer of knowledge between Councils.

The BAC is not in a position to suggest specific target levels at this time, but we do believe a sound policy would set reserve level targets for good, average and lean years in the economic cycle.

Aging infrastructure

Englewood's infrastructure is aging and a significant amount is near the end of its lifespan. The BAC has heard from various departments regarding their efforts to squeeze additional life out of our resources. It is obvious that a major investment will be necessary to rebuild the infrastructure. While the City does have a capital improvement fund, the BAC is concerned it is meant to cover only "routine" capital improvements, and not the level of rebuilding that it appears our City needs in the near to mid-term.

As an example, when the Fire Chief, Andrew Marsh, spoke with us about his department's needs, the discussion went beyond the current need for fire engines and other vehicles. Additionally, almost every facility was built decades ago, and not only needs to be at the least rebuilt, but needs to be modernized to accommodate the way fire departments have changed.

Another example, when the Public Works Director, Rick Kahm spoke to the BAC regarding his department's needs, such as the repair or replacement of the HVAC for the Civic Center, he also explained that 36% of the public work's budget is for commodities and a minor increase in energy, fuel, vehicles, asphalt, concrete, compensation or benefits can cause a substantial increase in the budget which can cause delay in needed repairs and replacements such as HVAC and the chiller on the Englewood Recreation Center.

Like the sales tax issues, there are no easy solutions to the aging infrastructure challenge. But the BAC believes the Council should explicitly acknowledge the problem and begin to develop a plan to address the needs over the next five to 10 years.

Regionalization

We wanted to acknowledge the significance of regionalization as a potential tool to address the challenges facing the City, for example, both with sales tax dependency and aging infrastructure. The issues became most apparent to us in the discussions around the fire department. As a full service city, we understand the desire to have full autonomy with our own fire department. Yet, we see the potential cost and efficiency advantages of having a fire department that operates over a larger region. And in fact, we now better understand how fire departments already operate regionally as standard operating procedure in terms of responding to fires.

Again, the BAC is not expressing an opinion about whether we should regionalize various services or not (in fact, the BAC would, for example, find it difficult to imagine ever regionalizing something like our police department). Rather, we support Council aggressively considering such options in case they may be beneficial. For example, we note that the Englewood/Littleton wastewater treatment plant is an early, and successful, example of regionalization.

Bond issuance and mill levies

As noted above, one of the big challenges facing the City is our aging infrastructure. During the lean times over the last decade or so, much maintenance was deferred. In a down economy, sales tax revenues decrease, but the cost of goods does not. The City has done well in determining which needs are urgent and which items can be stretched another year. However, it is wise to plan major maintenance items in advance rather than replace them on an emergency basis.

There are several options for funding major infrastructure repairs and improvements in addition to the status quo:

1. A general mill levy increase would provide a steady stream of income that could be used for capital projects and maintenance.
2. A targeted mill levy increase could increase funding for specific activities or departments such as police and fire or capital projects and infrastructure.
3. A temporary mill levy increase could fund specific projects such as construction of new fire stations or repairing roads and bridges. When the projects are completed and paid for, the mill levy would return to current levels.
4. A revenue bond issue could provide a one-time “surge” of cash for specifically earmarked projects. Revenue bonds must have a specified source of revenue, such as admissions and concessions revenues that fund the Pirates Cove revenue bond.
5. A general obligation (GO) bond could likewise provide instant funding for specific projects, but debt service would be supported by City revenues. It is likely that to fund a GO bond a property tax/mill levy increase would be necessary, since existing revenues are already allocated to providing services.

As described above, such an increase would sunset when the debt was paid

Englewood has not had a mill levy increase since before TABOR was passed in 1992. By comparison to other nearby municipalities, Englewood's total mill levy is lower because we do not pay separately for a library district, a parks and recreation district, or a fire district. Each of those services that are funded with a special mill levy in other municipalities are provided by other funding mechanisms such as sales tax and fees for services in Englewood.

If Council chose to propose a mill levy increase, we encourage consideration of a targeted mill levy increase. For instance, a public safety mill levy could be used to provide additional funding to the fire department for its capital improvement needs and to the police department to satisfy its staffing and equipment needs.

For many, a bond issue may be more favorable than a mill levy increase. Bonds provide two advantages over a mill levy increase. First, they provide an immediate pool of cash to fund major projects at current market rates. Second, the debt service is supported with an increase in property taxes that sunsets when the debt is paid. Because our City's finances have been competently managed, Englewood's current bond rating is very good. This makes the City favorable to lenders and ensures that the interest rate on any bonds will be low.

Bonds are not a perfect solution, however. Just like a tax increase, any new debt must be approved by voters, and the voters must be informed as to how the money will be spent. Resources may be expended in planning for a bond issuance that the voters do not approve. Englewood's history with bonds is mixed. Bonds were rejected by the voters in 1993 (sidewalk repairs), 1994 (sidewalk repairs), 1995 (public safety and a separate issue for fire equipment), and 1996 (water system). A bond issue was successful in 1997 as was the Pirates Cove issue in 2001.

The Pirates Cove issue in 2001 proved that a key to securing voter consent is to communicate to voters well ahead of the election. Voters need to know where the money will go in order to support the cause. If a capital projects bond does not contain items that are of interest to the voters, it is likely doomed to failure.

Further, while a revenue bond may seem appealing because it does not require an accompanying increase in property taxes, revenue bonds are more expensive in the long run because rates on revenue bonds are higher. There is also a risk of debt service for a revenue bond lowering the amount of money available in the general fund and thereby making it more difficult for the City to balance the budget year-to-year.

Our time on the BAC has given us great faith in the stewardship of the City's leaders. City Council and staff have worked diligently, year after year, to maintain services for our citizens despite increasing budgetary pressures. The accomplishments of the various departments are highlighted earlier in this report. If these accomplishments are communicated to the citizens and the citizens can see what great things the City leaders have done when resources are scarce, our fellow citizens may be more inclined to entrust the City with an additional chunk of their hard-earned money. We welcome the opportunity to attend community meetings and assist the Council in getting out the

message regarding how a revenue-related ballot issue would serve Englewood's long-term needs.

Long-term sustainability

The annual budget process by its very nature favors a shorter-term focus. Pulling the above items together, the BAC believes the long-term sustainability of the City demands that the annual budget process include an increasing look down the road. From our sales tax dependency to our aging infrastructure, tremendous stress on future budgets can be anticipated, and we support an explicit and ever increasing focus on those challenges. The earlier we begin to recognize, quantify, and address those upcoming strains, the less intense the pain will be on future generations of taxpayers. Whatever course is chosen, we encourage the City Council to investigate options to generate revenue that will allow the City to catch up on deferred maintenance and capital projects.

Constant and vigilant examination of possible mitigating steps that can be taken, from evaluating regionalization and revenue raising opportunities to adding additional regimen around the budgeting process with respect to reserves and forecasting, will better prepare the City to continue to provide excellent services to the citizens.

APPENDIX



City of Englewood

The Englewood Budget in Brief

Simply Explaining the State of the City

September 2014



Dear Neighbors,

Thank you for taking the time to review this budget overview. The five members of the Budget Advisory Committee (BAC) have learned a substantial amount regarding the City and its finances since the BAC was created by the Englewood City Council in May 2013. We have been extremely impressed by the commitment and dedication of both Council and City staff. We especially appreciate the sincere effort City staff make to provide excellent services while doing more with less. The City of Englewood is financially strong, but does have some long term issues that need to be addressed.

The purpose of this document is to provide a general overview of the state of the City's budget, outline how the City spends money, highlight several successes, and raise important questions about the long term sustainability of Englewood as a full service city.

Most importantly, we hope this document encourages broader citizen participation in the budgeting process. To get involved, please visit our website at www.engagewoodgov.org/budget-advisory-committee.

For a great Englewood,

Harvey Pratt, *Chair*

Christine McGroarty, *Vice Chair*

Joel Day

John Moore

Steve Ward

City Values

Englewood is...

- A City that provides and maintains quality infrastructure
- A City that is safe, clean, healthy and attractive
- A progressive City that provides responsive and cost efficient services
- A City that is business-friendly and economically diverse
- A City that provides diverse cultural, recreational and entertainment

Community Profile

Englewood is a full-service city that is centrally located within the Denver metropolitan area. With outstanding access, Englewood is ideally situated for residents, businesses, and visitors. Englewood boasts a strong employee base and business-friendly government. Englewood has long been the location of choice for successful business. Light rail transit and excellent access to the Denver metro area are among the many reasons that put Englewood at the crossroads to commerce. Englewood offers small town convenience with big-city amenities and is home to 30,255 residents and 1,699 businesses.

“A Full Service City”

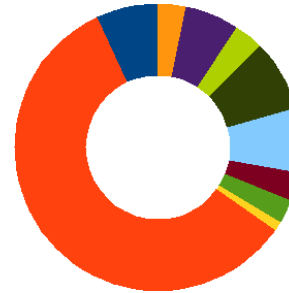
The charts below indicate a breakdown of City revenue, expenditures, and an estimation of how individuals citizens are served. Numbers used are *proposed for 2015*.

Revenues

City revenues are a combination of sales tax, property tax, and fees.

Englewood’s charter requires a balanced budget (expenditures cannot exceed revenues and general fund reserves). As of June 2014, the unassigned fund reserve balance is 15.3% of revenues, while restricted reserves (TABOR and LTAR) stand at an additional 9.9%.

- Property Tax
- Sales & Use Taxes
- Other Tax
- Licenses & Permits
- Intergovernmental Revenue
- Franchise Fees
- Charges for Services
- Fines & Forfeitures
- Recreation Program Fees
- Other



Individual Breakdown

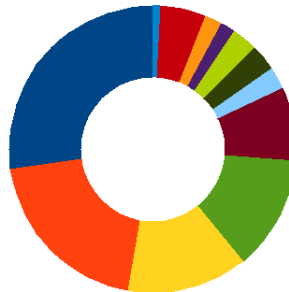
On average, our citizens pay only \$94 per year in property taxes for comprehensive services like police, fire, public works, road maintenance, snow plowing, parks and recreation, courts, the library, and other community essentials. There are other services, such as water and sewer and the school district, that operate separately from the general fund, paid for by other revenues.

For less than what many pay for their cable and cell-phone bills per month, property owners contribute to the City’s general fund, providing a high-functioning, full service community aimed at sustaining a high quality of life.

Expenditures

The General Fund accounts for the major “governmental” activities of the City. These activities include “direct” services to the public such as police, fire, public works, parks and recreation, and library services.

- Police
- Fire
- Parks & Recreation Services
- Public Works
- HR/Finance/Admin/IT
- Municipal Court
- Library Services
- Community Development
- City Manager’s Office
- City Attorney’s Office
- Debts/Contingencies
- Legislation



City Successes

How Does Englewood Serve Me?

Public Works The Department of Public Works constructs, repairs, and maintains the infrastructure of the City, making our streets safer and our preserving our high quality of life.

Police It is the mission of the Englewood Police Department to protect life and property; enforce the law in a fair and impartial manner; and preserve the peace, order and safety of the community.

Fire The Fire Department provides a secure environment for the community by being the front line for disaster response and emergency services, 24 hours per day, 365 days a year.

Parks & Rec Englewood's Recreation Center, Golf Course, Malley Senior Recreation Center, and Aquatics programs have received numerous awards over the years and Englewood boasts some of the finest parks around.

Utilities The Utilities Department handles every aspect of water supply and treatment, including administration, supply, power and pumping, purification, transmission and distribution, wastewater collection, and storm water quality.

Library The City Library is a hub of community activity and a resources for citizens of all ages.

Serving You Smarter

Throughout the last year, the Budget Advisory Committee spoke with many department heads to learn about their individual budgeting needs.

In that process, Rick Kahm, Director of Public Works, stated that “Over the last nine budget cycles (including the 2014 Budget), Public Works has reduced staffing levels by 12 FTE's... 17.4% (Engineering 2.5, Traffic Engineering 0.50, Streets by 5.0 and Building Operations by 4.0.). Through new found efficiencies, we have managed to minimize loss of service to the public. Over those many years, the reductions and efficiencies have equated to sustainable savings exceeding \$1,100,000 per year.”

Through our conversations and meetings, we believe that Department Directors not only strive for an efficient department budget, but they are committed to working collectively to support each other in achieving an efficient budget for the City as a whole.

Future Challenges & Questions

Addressing Rising Costs of Serving Citizens

Expenditures are structurally rising, meaning that even without growing the size of City government, the costs of doing business go up each year (e.g. rising insurance costs, pension contributions, upkeep). Amazingly, Englewood has not seen a rise in property taxes since 1993. Each year, the City Council and staff work to balance the annual budget, as required by City charter. During recession years, this meant that staffing levels were cut dramatically so as to match income and expenditures. It may be appropriate for citizens to consider increasing local taxes to better resource the City.

Investing in the Future

The most significant challenge to the City remains the volatility of revenues. Since 58% of City funds come from sales tax, when sales drop, so do City resources. Therefore, we are in a classic Catch-22: while more resources are needed to develop and attract business, those resources depend upon business already being present. To overcome this predicament, it may be appropriate to put a bond measure or mill levy before citizens to modernize an aging infrastructure, support Police and Fire, and attract new business.

BuyEnglewood!

A full service City requires engaged citizens. We should commit to supporting our Englewood businesses, thinking of it as an investment in our shared quality of life. It may be appropriate for the City to launch an effort to boost local support for business.

Questions for the Future

Are citizens willing to support living in a full service city or, as an alternative, regionalize some of services?

How should the City embark on a development campaign to revitalize infrastructure and raise revenue for police and fire?

How can we revitalize our neighborhoods and promote a better quality of life?

We Need Your Voice!

Meeting Times:

Monthly/3rd Tuesday/Civic Center

Facebook:

[facebook.com/CityofEnglewoodCO](https://www.facebook.com/CityofEnglewoodCO)