

Budget Advisory Committee

City of Englewood, Colorado

City Manager's Office

1000 Englewood Parkway

Englewood, CO 80110-2373

Website: www.engagewoodgov.org/budget-advisory-committee



AGENDA

Englewood Civic Center

City Council Conference Room, Third Floor

Tuesday, June 16, 2015

4:30pm to 6:00pm

These meetings are recorded, please be mindful of side conversations.

1. Call to Order and Roll Call of Members
2. Clarification to the Meeting Recording – May 19, 2015
3. New Business
 - City Branding Project Update – Introduce the Consultants, **Slate Communication** and Discuss Project Time Line (Mike Flaherty, Deputy City Manager)
 - Officer Elections (Chair and Vice Chair) - Officers may serve for one year but no more than two consecutive years (Englewood Municipal Code Title 2 Chapter 14 Section 6)
 - Discuss City Financial Policies and Provide Recommended Changes for City Council Consideration
 - Discuss Annual Report Outline and Content
4. Old Business
5. Budget Advisory Members' Choice
 - Joel Day's Resignation from the Committee – May 20, 2015
6. Adjourn

Please note: If you have a disability and need auxiliary aids or services, please notify the City of Englewood (303-762-2409) at least 48 hours in advance of when services are needed. Thank you.

CITY OF ENGLEWOOD Branding

WHAT IS A BRAND:

A collection of thoughts and feelings about experiences with a product/service/community delivered through consistent visuals and messaging.

Developing a brand platform allows the City to develop key messages targeted to different facets of the community (e.g., residents, prospective businesses, etc.) Visuals, such as the logo and graphic elements, will reflect the brand platform.

BRAND PLATFORM:



POSITION

How the community is perceived in the context of competitive alternatives



PERSONALITY

A set of human characteristics associated with a community



PROMISE

Long-term commitments a community makes to their target audience



VALUE PROPOSITION

Community benefits that are relevant, unique, compelling and believable



THE BOTTOM LINE

Your core message

CITY OF ENGLEWOOD, COLORADO

DRAFT FINANCIAL POLICIES

MAY, 2015

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OVERVIEW

The City's Mission Statement, "*to promote and ensure a high quality of life, economic vitality, and uniquely desirable identity*" focuses every employee to use the limited resources available in a manner that supports the Mission Statement.

The Financial Policies are intended as a guide for employees and City Council to make consistent decisions so the City resources are used in an effective and efficient manner. This prudent oversight of City assets will ensure the long-term sustainability of the City's services and infrastructure.

The Financial Policies will help sustain the services the citizens expect and provide employees with more job security knowing long-term planning will identify funding gaps sooner so plans can be made to address them without impacting employees' careers with the City.

These policies should be reviewed and updated as necessary.

We would like to acknowledge that recommendations from the Government Finance Officers' Association Best Practices and the National Advisory Council on State and Local Budgeting Practice were used in the development of the City's financial policies.

LONG-RANGE PLANNING

Long-range planning, from five to ten years will help the City identify future potential strengths, weaknesses, opportunities, and threats. The City's strategic plan is part of the "Comprehensive Plan." At the beginning of the budget process the Finance and Administrative Services (FAS) Department will provide the City Council with a General Fund Five Year Pro Forma (FYPF) that will include actual results from the prior five years, the budget and estimate for the current year and estimated revenues, expenditures, fund balances for the following five years. The FYPF and the "Comprehensive Plan" will be the basis for following year's budget guidelines.

Other funds will also be the subject of long-range planning.

Before the City adds new programs, personnel, improves pension benefits, purchases or constructs capital projects the long-range financial impact will be examined.

CONTINGENCY PLANNING

As part of the Long-Range Planning and the Continuity Of Operation Plan (COOP), the City will review and identify the financial actions to take in the event of emergencies, natural disasters, or other unexpected events. Policies on contingency planning are used as a general guide when an emergency or unexpected event occurs. A set of actions and strategies will be identified for each type of situation. When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of the City to take timely action and aids in the overall management of such situations. This policy should identify types of emergencies or unexpected events and the way in which these situations will be handled from a financial management perspective. It should consider operational and management impacts. This policy should be reviewed periodically and updated as needed.

BALANCED AND SUSTAINABLE BUDGET

The City of Englewood strives to adopt a budget that provides for revenues meeting or exceeding expenditures. Balancing the budget using reserves or transfers will only be done on a *temporary* basis not to exceed two years.

The City of Englewood is required to “balance” its budget each year as outlined in the City’s Charter (X-1-81 through 96) and the Colorado Revised Statutes (29-1-103). The Proposed Budget is submitted to City Council prior to September 15 of each year must be balanced in that total sources of funds minus total uses of funds and the reduction of reserves cannot be less than zero. While the use of one-time revenues, reserves and/or transfers may technically balance the budget in the short-term, it is not sustainable in the long-term. Balancing the budget by using transfers or drawing down reserves only delays difficult decision making and usually causes deficits to increase and reduces funds needed for other needs (e.g. capital projects). A balanced budget is intended to ensure the City of Englewood’s spending does not exceed its resources.

Careful long-range planning will identify projected surpluses or deficits and will be the main tool to take the necessary actions to bring sources and uses of funds in balance.

INFRASTRUCTURE

The City's infrastructure is a critical asset of the citizens. The City is entrusted with the duty to plan for the construction, purchase, or replacement of public infrastructure. Every capital project should be thoroughly analyzed, researched and planned. Prior to proceeding with any capital project it should be thoroughly analyzed to ensure all maintenance costs and ultimate replacement costs are known.

All capital and infrastructure needs must be included in the Long Term Capital Plan. Each project's base cost, shipping and installation costs, expected life, replacement cost, residual value, and maintenance costs should be included. Any savings from acquiring or construction capital assets should be identified and included in the total cost of ownership calculation.

Funding for infrastructure is generally provided from a number of sources, including Building Use Tax, Vehicle Use Tax, grants (e.g. Arapahoe County Road and Bridge), bonds, leases, and transfers from the General Fund. Funding for capital projects should be analyzed as part of the annual budget process.

REVENUES

Understanding the City's revenues is probably the most critical aspect of budgeting and long-range planning. City services and capital construction are sustainable only if current and future revenues are available so it is important to understand each major revenue source available. Revenues should be forecast in the short and long-term to ensure they will be adequate to sustain service levels. Threats and opportunities to the major revenue sources must be constantly reviewed and assessed.

The adoption of the Tax Payers Bill of Rights (TABOR) in 1994 requires an affirmative vote of the citizens prior to enacting any new tax or change in tax policy that adds additional revenue.

DIVERSIFICATION

The City will maximize and diversify its revenue base to help offset the effects of fluctuations in individual sources of revenues. All revenue sources have particular characteristics in terms of stability, growth, sensitivity to inflation or business cycle effects, and impact on tax and rate payers. A diversity of revenue sources can improve the City's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services.

UNPREDICABLE REVENUE

Unpredictable revenue sources by definition cannot be fully relied upon as a predictable source of funding for public services. Sales and Use Taxes, the City's main revenue source for supporting many public services can vary widely, especially during turbulent economic times. The City will conservatively estimate sales and use tax receipts for budgetary purposes to ensure funds are available to support the government's financial outlook and ability to operate programs in the current and future budget periods. Sales and use taxes are the City's largest and most volatile revenue source. Due to the volatile nature of sales and use taxes, forecasting can be challenging. Conservative, well researched forecasts are necessary for budgeting sales tax. A long-term forecast is critical to insuring sales taxes will be able to support City services into the future.

Generally, sales and use taxes will be conservatively budgeted to minimize over-budgeting services and then having to adjust them if actual collections fall short

FEES AND CHARGES

Fees and charges are most often charged to cover the partial or full cost of providing a good or service that benefits a limited portion of the public. Each fee or charge should be set in a manner that meets the percentage of cost the fee is intended to cover. Fees will be set to, at most, cover the cost of providing or administering a program, but in no cases will the fee exceed the cost of providing a service. Fees charged should cover direct and indirect costs.

Generally, City Council sets fees by resolution. The various departments should review the fees they charge as part of the annual budget process to ensure they are adequate to cover the cost of

administering the underlying program for which the fee is charged. Council may set fees at a level that does not fully cover all costs if deemed necessary to advance the public good.

Internal Fees and Charges - The City's Internal Service Funds (ISF) charge fees that should cover the operating costs (labor, materials, etc.) and capital replacement costs incurred to provide the product or service internally. These fees should be evaluated periodically to ensure they are set properly; an indicator that fees are set too high or too low is indicated by holding too much or too little in the reserves of these funds.

ONE-TIME REVENUES

One-time revenues (e.g. sales of assets, etc.) should only be used for one-time, nonrecurring expenditures not for ongoing expenditures. One-time revenues cannot be relied upon to fund future ongoing expenditures so they should only be used for one-time expenditures or deposited in the City's reserves. If one-time expenditures are used to fund capital assets or other nonrecurring purchases, ongoing expenditures and replacement costs of these one-time purchases must also be determined to ensure the City does not place a burden on future resources.

Grants are an example of "one-time" revenue that must be evaluated fully prior to acceptance. Grants should not be accepted for ongoing expenditures if a funding source will not be available when grant funds cease. Grant funding of ongoing expenditures are an "unfunded mandate" if there are no funds available in the future.

EXPENDITURES

Expenditures define the ongoing, prioritized service commitments and capital investment of the City.

Of the three main components of the budgetary equation (Fund Balance = Revenues – Expenditures), only expenditures are under the direct control of the City. Even spending control is somewhat limited by contracts and debt service requirements.

To insure the long-term sustainability of City services, expenditures will only exceed revenues if it is determined the imbalance is temporary. Expenditures exceeding revenues for a period exceeding one or two years indicates a structurally imbalanced budget than cannot be sustained.

Expenditures should support the City’s Mission and follow these guidelines:

- Is the expenditure necessary for official City of Englewood business?
- Is the expenditure in the best interest of the City of Englewood?
- Is the expenditure in compliance with City policies, ordinances, statutes, laws or rules?
- Is the expenditure approved by the proper authority?
- Is the expenditure related to an “arm’s length” transaction or could it create the appearance of providing a personal benefit to an employee or an employee’s friends or family?
- Is the expenditure within the approved budget?
- Is the expenditure reasonable? Is the City getting the highest quality product for the funds expended?

The City will compare actual expenditures to budgeted amounts as well as estimated expenditures to estimated revenues on a monthly basis to identify potential shortfalls and actions to prevent them.

Develop programs/services and evaluate delivery mechanisms

The City will continually evaluate the programs and services it provides and will evaluate alternative delivery mechanisms if available. Also, current programs and services will be constantly evaluated to ensure they address current priorities established by City Council and staff. All proposed programs and services will be evaluated to ensure their total cost is known prior to implementing them, and that there are processes in place to measure if the program or service’s goals are being met.

Any efforts to outsource services to another governmental agency or privately-owned enterprise must not only meet financial goals but also City standards for quality and sustainability.

TRANSFERS

The City of Englewood will use interfund transfers conservatively. Periodic transfers from Internal Service Funds (ISF) or Enterprise Funds will be limited per the provisions of this document. used only to fund one-time expenditures or purchases. Transfers should rarely be used as they can obscure structural imbalances.

Enterprise and Internal Services Funds may be required to transfer funds for services provided by the City (administrative fees) or other legitimate charges.

CAPITAL PROJECTS FUNDS

The Public Improvement Fund (PIF) and Capital Improve Fund (CIF) are used to account for the revenue and expenditures related to the purchase or construction of long-term, capital projects. The Englewood Municipal Code (4-4-3) does not allow the transfer of Building Use Taxes for anything but capital improvements.

INTERNAL SERVICE FUNDS

Internal Services Funds should limit their reserves to no more than ten percent of revenues unless more reserves are held for identified capital projects. Any amounts exceeding 15 percent and the amount for identified capital projects should be returned to the departments making payments to the ISFs. Any return of excess funds from Internal Services Funds must be proportional to that fund's payment to the ISF.

ENTERPRISE FUNDS

Enterprise Funds (EFs) should limit their reserves to no more than twenty percent of revenues unless more reserves are held for identified capital projects. Any transfer from the EFs should be treated as a loan with the principal amount returned along with interest as determined by the effective interest rate in effect at the time of the transfer.

ECONOMIC INCENTIVES

Economic incentives should only be used for projects that yield a financial, cultural, or aesthetic benefit to the citizens of Englewood.

Each project subject to an economic incentive should be analyzed to ensure the project's benefits outweigh the economic incentive.

The City's Economic Development Incentive Policy should be reviewed periodically and modified when warranted. The City of Englewood Economic Development Policy was established through Resolution No. 76, Series 2012.

Evaluating and Managing Economic Development Incentives

The City's economic development policy promotes and grows the local economy through job creation, wage and compensation growth, or tax base expansion. Economic development incentives have very different objectives from the businesses receiving them. The City is responsible for providing services to citizens while businesses, who in many cases have come to rely on incentives and subsidies, are focused on maximizing profits.

To reach the goals identified in the policy and ensure the City's accountability, the City needs to measure the benefits of projects receiving economic development incentives against the cost of the public expenditure, or willingness to forgo future revenue. While there is no single best method for conducting analysis and it is impossible to predict all impacts a project will have on the City, providing a thorough and rigorous analysis of each project is critical for the purposes of the City's accountability and long-term revenue impacts. Responsible use of public funding requires that projects funded provide a suitable return for the City, are consistent with overall community goals and priorities, and require that investments are made in a transparent manner with full understanding of all short- and long-term costs and benefits. Finally, when presenting the results, the analysis should contain a clear description of the net impact for the City, the constructed methodology, and the assumptions employed. It is important to acknowledge the strengths, weaknesses, and limitations of results so that decision makers are fully informed.

It is recommended that City staff and Council examine the specific benefits and costs associated with economic development projects, programs, and policies. Such an examination should also include an analysis of the assumptions, cost/benefit elements and methodologies being used to justify the incentive.

Overall Analysis of Projects:

At minimum, an analysis of each project or group of projects will include:

- **A clear understanding of the financial and non-financial costs and benefits.**
Most economic development projects will result in both financial costs and benefits and non-financial costs and benefits. Financial costs and benefits are those that will impact the City's

financial position. For example, additional sales or property tax revenue collected and expenditures related to the project over time are items that will be reported on the City's financial statements. Non-financial costs and benefits are realized and have value, but do not translate directly into increases in revenues or expenditures. For example, consider public safety, pollution abatement, energy savings, and cultural impacts and quality of life components. Economic costs and benefits would include both financial and non-financial costs and benefits.

- **Timing of Costs and Benefits.**

Economic development projects usually incur costs and provide benefits over multiple years and ideally provide benefits long after they are initially paid for. It is important to understand when estimated costs and benefits will occur to calculate the net cost/benefit for each year as well as a total net cost/benefit. When comparing costs and/or benefits from different years, it is important to discount future year impacts to compensate for the time value of money.

- **Scope of the Analysis.**

The geographic area for which the analysis will be conducted needs to be identified. Depending on the incentives, other jurisdictions, including municipalities, school districts, recreation districts, etc. could be included in the scope of the project. Consideration is given to other jurisdictions because they could have a positive or negative impact from a City initiated project.

- **Identification of all cost and benefits.**

The direct and indirect costs and benefits resulting from initiating a project, program, or policy must be fully identified and analyzed, including:

- **Direct Costs:** Initial capital expenditure, ongoing operating and maintenance expenditures must be identified. Existing infrastructure (utilities, roads, and recreational services) and services (police, fire, street maintenance, etc.) that may be impacted from additional need should be projected as well.
- **Direct Benefits:** Revenues increases from sales and property taxes as well as other revenues must be thoroughly analyzed.
- **Indirect Impacts:** Indirect costs and intangible benefits are difficult to quantify but should be included in the analysis.

- **Assessment of the Chance that Each Cost and Benefit will Occur.**

Projecting future costs and benefits of a project always involve some degree of uncertainty. Future revenues and expenditures may or may not follow past trends. The success of any project is never guaranteed nor are actual costs or benefits known. The degree of probability of incurring costs or receiving benefits should be reviewed and included in the project analysis.

- **Communicating Results.**

All assumptions used to develop the net impact is as important as the impact itself.

Analysis of project benefits

The analysis of project benefits should, at a minimum, include:

- **Growth and Diversification of Revenue Base.** The City of Englewood is interested in realizing direct economic benefits of from development activities. An analysis should include items such as:
 - Estimates of incremental sales and property tax gains
 - Estimate on the impact of increasing employment opportunities in the City that could increase spending (sales taxes).
 - Estimate of increased demand for new or remodeled businesses as a result of economic incentives
 - Estimate the impact new retailers may have on existing businesses.
- **Multi-jurisdictional Benefits.** The full benefit economic development activity may impact more than the City alone. An analysis of impact of projected benefits on other jurisdictions should be completed.
- **Assessing Intangible Benefits.** A project may provide non-economic benefits that cannot be quantified in dollar but they should be estimated for the purpose of decision making by the City Council. Examples of intangible benefits include donated facilities or infrastructure, quality of life amenities, and community pride.
- **Net Present Value Consideration.** Determining the benefit of a project requires assumptions about the timing of benefit streams that will take place in the future and are based on variable such as retail sales activity, increased economic activities, etc. These benefits should extend out for multiple years beyond the period funds were expended. This will require calculation of the net present value of projects. The net present value of revenue inflows and expenditure outflows must be *compared*. Analyses must include methodology employed, assumptions used and also an acknowledgment of the strengths, weaknesses, and limitations of results so that decision makers are fully informed.

Analysis of Project Costs An analysis of the entire cost of a project or group of projects should, at a minimum, include:

- **Opportunity Costs.** Each potential use of incentives (funds, land, other) should be analyzed. This should include upfront and ongoing developer subsidies, rebates, concessions, etc. Evaluations should include other possible current uses or potential uses that could develop in the future (recognizing the future uses are inherently uncertain) The important consideration is the project the highest and best use of limited incentive(s) or are opportunity costs too high.
- **Operational Costs.** The direct and indirect costs should be identified and quantified. A potential new project or expansion may strain other limited resources including police, fire, roads, sidewalks, utilities and recreational facilities.
- **Multi-jurisdictional Impacts.** The direct or indirect cost impacts to other jurisdictions should be should be considered whenever possible to ensure good inter-jurisdictional relations.
- **Market Impact.** Each project should be evaluated to understand its impact directly or indirectly on the overall market in the City. Market impacts include absorption or saturation, capacity for growth, and potential displacement or substitution of existing local businesses and service providers.

- **Assessing Intangible Costs.** Project analysis should consider the intangible impacts including quality-of-life or amenities. Intangibles are difficult to quantify in dollars but the impact can influence public perception far beyond what is expended in dollars. Insuring intangible impacts are assessed and in some cases alleviated can mean the difference between project success and failure. Intangibles may include noise, light pollution, traffic, congestion, parking, perceived decreases in property values, etc.
- **Cost Analysis Methodologies:**
 - **Net Present Value Consideration.** The timing of the costs must be accounted for in the analysis, as additional revenue generated from a project usually is realized in future years. An investment may be required at the onset of a project with additional annual commitments to operational costs. Developing meaningful comparisons between the costs and benefits will usually require the preparation of a net present value analysis.
 - **Other Methods.** Additional methods for cost analysis may be employed if needed.

All analyses should contain a clear description of the net impact on the City of Englewood, the methodology used, and the assumptions employed. The strengths, weaknesses, and limitations of methodologies should be reviewed so that decision makers are fully informed.

DEBT

Issuing debt commits the City and its citizens to using scarce resources to the payment of debt service for many years in the future. If possible, those benefitting from a debt-financed project should bear the burden of repaying the debt if possible.

The City of Englewood will issue general obligation debt for projects that benefit the general public. The City will issue revenue bonds for capital projects that benefit those who will repay debt service.

Long-term debt will be issued only for projects with a useful life that equals or exceeds the term of the bonds or lease.

The City of Englewood will insure its compliance with the Taxpayer's Bill of Rights (TABOR) prior to incurring any debt.

On November 6, 2001, a majority of the City's electors voted to change the Home Rule Charter of the City of Englewood by allowing the debt ceiling to be three percent (3%) of actual valuation versus three percent (3%) of assessed valuation. The entire section (Section 104) of the Charter that establishes the debt margin follows:

Indebtedness and obligations of the City shall be incurred and limited as provided in Article XI of the Constitution of the State of Colorado applicable to towns and cities except as otherwise provided in this Charter. Council shall have power to issue general obligation bonds of the City for any public capital purpose, upon majority vote of the registered electors of the City voting thereon at a special election; provided, however, that water extension and water improvement bonds may be issued without an election upon determination to that effect by Council. The total outstanding general obligation indebtedness of the City, other than for water bonds, shall not at any time exceed three percent (3%) of the actual valuation of the taxable property within the City as shown by the last preceding assessment for tax purposes. Water bonds shall mature and be payable as provided by the ordinance authorizing the issuance of said bonds.

RESERVES

The City holds reserves for a variety of reasons. Reserves are a hedge against risk. The General Fund holds reserves to weather temporary economic downturns by backfilling revenue shortfalls but should never be used if a structural deficit exists that is, a long-term revenue shortfall or expenditure increase is expected to last for more than one or two budget cycles. The City may also use its reserves to take advantages of one-time opportunities.

GENERAL FUND

The City's General Fund accounts for the majority of "public" services (Police, Fire, Public Works, etc.) the public depends upon. For this reason it is imperative service levels are maintained, even in an economic downturn. In an economic downturn revenues generally decline temporarily and reserves are used to make up the difference. The use of reserves preserves service level and guards against the loss of efficiency and effectiveness that would occur by downsizing and rehiring employees every time the City experienced temporary change in revenue collections. If revenues are not expected to rebound, then reserves should not be used and other cost cutting or revenue enhancements should be employed.

The City will maintain no less than **ten** and no more than **seventeen** percent of budgeted revenues in unassigned reserves. Amounts exceeding the seventeen percent and not restricted, committed or assigned for other purposes should be transferred to the Capital Projects Fund or Public Improvement Fund.

LONG TERM ASSET RESERVE (LTAR)

The LTAR was established in 2008 at the Budget Workshop; City Council discussed and directed staff to establish a General Fund reserve account to accumulate funds from the sale, lease, or earnings from long-term assets. It was also determined that these funds should be used in a careful, judicious and strategic manner. The funds restricted in this account are to be expended if the funds are appropriated in the annual budget or by supplemental appropriation.

TABOR RESERVE

The City of Englewood is required by Article X, Section 20 of the Colorado Constitution to "reserve 3% or more of its fiscal year spending excluding bonded debt service" as an "Emergency" reserve. It should be noted that an emergency "excludes economic conditions, revenue shortfalls, or district salary or fringe benefit increases;" in other words the emergency would be an event arising from a natural disaster or other unanticipated event. It is generally understood that any spending of the emergency reserve must be replaced on later than the following year.

CAPITAL PROJECT FUNDS

Capital Project Funds (CPF) should hold a prudent level of reserves to meet unexpected, temporary revenue declines or unplanned expenditures. The CPFs should hold no less than **ten** percent in reserves for unexpected revenue declines or unplanned expenditures.

INTERNAL SERVICE FUNDS

Internal Service Funds (ISF) should hold a prudent level of reserves to meet unexpected, temporary revenue declines or unplanned expenditures. Also, funds should be reserved for the orderly replacement of capital assets. The ISFs should not hold more than **fifteen** percent in reserves for unexpected revenue declines or unplanned expenditures. If reserves exceed seventeen percent, an operating transfer to those funds in proportion to the amounts they paid in over the prior three years should be made.

ENTERPRISE FUNDS

Enterprise Funds (EF) should hold a prudent level of reserves to meet unexpected, temporary revenue declines or unplanned expenditures. Also, funds should be reserved for the orderly replacement of capital assets. The EFs should not hold less than **ten** percent in reserves for unexpected revenue declines or unplanned expenditures; the maximum reserve may vary depending on future capital needs.

From:

Subject: Resignation
Date: Wednesday, May 20, 2015 9:46:48 AM

Dear Budget Advisory Committee and City Council,

This letter serves to notify you of my resignation as a member of the Englewood Budget Advisory Committee. The resignation is effective today, May 20, 2015. It has been a great pleasure serving with this committee and working on behalf of Englewood. I wish you all the best.

Joel

Joel Keith Day
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