

City of Englewood, Colorado
Budget Advisory Committee

*Long Term Asset Reserve Fund
(LTAR)*

An Issue Brief Prepared for
City Council

Submitted
July 19, 2016

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The Budget Advisory Committee (BAC) is pleased to present its first “issue brief” to Englewood City Council. Issue briefs allow us to address specific topics directly. In this inaugural issue brief, the BAC will share its perspectives on the Long Term Asset Reserve (LTAR) fund.

Background on the BAC

The Englewood City Council created the Budget Advisory Committee 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:

- Christine McGroarty, Chair
- Steve Ward, Vice Chair
- Shelley Manzano (appointed July 5, 2016)
- John Moore (term expired June 30, 2016)
- Harvey Pratt
- Ben Rector

The BAC has been meeting monthly 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.

In our ongoing efforts with respect to the annual budget process, the BAC found the issues around the LTAR fund to be critical, and warranted this supplementary communication to Council.

Up front we note that former BAC member John Moore was an integral part of the creation of LTAR during his tenure as a Council member. And while his personal knowledge of the history of LTAR has been helpful in building the BAC’s knowledge base and the creation of this issue brief, the opinions expressed herein represent the collective opinion of the BAC.

Creation of LTAR

Around 2005 or so, the City found itself dealing with some significant real estate issues, two in particular:

- In the 1950s, to secure water rights and the McLellan Reservoir, the City purchased 165 acres of land in what became the Highlands Ranch area. Eventually C-470 split the land. By 2005, the City was working with car dealerships interested in the land north of C-470 and the Regional Transportation District (RTD), which was interested in putting in a light rail station on the land south of C-470.
- In the 1970s, the City of Englewood created a golf course within the boundaries of the City of Sheridan, its neighbor to the west. By 2005, Sheridan was working with Englewood to reconfigure the golf course so that commercial development could proceed on the Sante Fe Drive side of Englewood's golf course.

Generally the City's land can't be sold without a vote of the citizens, so for the most part, lease arrangements were pursued. The exception was with RTD. They required full ownership of the land they needed to acquire for light rail, so, in effect, they used their condemnation powers to acquire the land from the City. These transactions resulted in the inflow of new monies beginning in 2007, at which time Council established the LTAR and directed that all proceeds from the disposition of long term assets (i.e., real estate), were to be funneled through the LTAR. This formally occurred with Resolution No. 90 on October 15, 2007, as reflected in the minutes of that meeting:

The City Council of the City of Englewood, Colorado has determined that funds from the sale, lease, or earnings from long-term assets should be used in a careful, judicious and strategic manner. For this reason, City Council hereby authorizes the creation of a Long Term Asset Reserve Fund (LTAR), and funds received from the sale, lease, or earnings from long-term assets shall be reserved in the LTAR Fund. The funds in this restricted account can only be expended if the funds are appropriated in the annual budget or by supplemental appropriation.

In moving the resolution forward, then Council Member Moore noted:

As you all know, I very much support the creation of this Reserve, if nothing else, for the sake of allowing us to make very conscious decisions about the use of our long-term assets...The creation of this Reserve will provide very transparent tracking of when we do utilize those funds, both for this Council and hopefully for many future Councils.

More recently the electors voted in November 2015 to allow the sale of McLellan Reservoir property with City Council approval after the first 20-year lease term.

Usage of LTAR

The chart on the next page summarizes all of the LTAR transactions since its inception. Up front it is important to distinguish between sale versus lease proceeds. While both are covered by the LTAR resolution, the Council that created LTAR and every Council since have agreed through the annual budgeting process to use lease proceeds to support the City's annual operating budget. These transactions (totaling \$4.4 million) are shown in the first section.

The two sections that follow show the inflow and outflow associated with sale proceeds. We have divided those into "temporary" and "permanent" transactions. Roughly \$3.5 million in proceeds from the sale of land has been contributed. Funds from LTAR have been used on a temporary basis a few times, either for short term loans or for the development of the property to be leased (currently, this category is in a net use position by about \$1.0 million). Thus far, just under \$600 thousand has been "permanently" used on expenditures not related to the underlying long term assets.

		Sources of Funds	Uses of Funds
		Additions	Deletions
LTAR - General Fund Operation Transactions			
Dec-08	Proceeds from leases	599,143.00	
Dec-08	Transfer to General Fund for Operations	-	(599,143.00)
Dec-09	Proceeds from leases	611,837.00	
Dec-09	Transfer to General Fund for Operations	-	(611,837.00)
Dec-10	Proceeds from leases	105,125.00	
Dec-10	Transfer to General Fund for Operations	-	(105,125.00)
Dec-11	Proceeds from leases	425,159.00	
Dec-11	Transfer to General Fund for Operations	-	(425,159.00)
Dec-12	Proceeds from leases	551,295.00	
Dec-12	Transfer to General Fund for Operations	-	(551,295.00)
Dec-13	Proceeds from leases	573,526.00	
Dec-13	Transfer to General Fund for Operations	-	(573,526.00)
Dec-14	Proceeds from leases	684,683.00	
Dec-14	Transfer to General Fund for Operations	-	(684,683.00)
Dec-15	Proceeds from leases	873,347.00	
Dec-15	Transfer to General Fund for Operations	-	(873,347.00)
	<i>Subtotal</i>	4,424,115.00	(4,424,115.00)
LTAR - Temporary Transactions			
Mar-09	Fund McLellan improvements to increase lease payments	-	(800,000.00)
Dec-09	Partial return of funds for McLellan improvements	591,836.86	-
Apr-10	Borrow to support NSP	-	(750,000.00)
Jun-12	Return of NSP funds	755,907.52	-
Jun-12	Borrow for fountain repairs	-	(100,000.00)
Jun-14	Partial return of funds for fountain repairs	43,723.70	-
Jan-16	Fund McLellan improvements to increase lease payments	-	(800,000.00)
	<i>Subtotal</i>	1,391,468.08	(2,450,000.00)
LTAR - Permanent Transactions			
Oct-07	Proceeds from golf course	1,986,000.00	
Apr-08	Proceeds from sale of McLellan land to RTD	499,142.50	
Jun-08	Transfer from General Fund Unreserved Fund Balance	1,000,000.00	
Dec-09	Proceeds from leases	20,000.00	
Mar-09	Fund regular city street improvements	-	(165,000.00)
Jan-10	Fund COPS Grant reserve	-	(298,512.00)
Mar-11	Fund 2011 Catalyst Program	-	(120,000.00)
	<i>Subtotal</i>	3,505,142.50	(583,512.00)
	<i>Total</i>	9,320,725.58	(7,457,627.00)
		Net Additions (Deletions)	1,863,098.58
		Opening Balance LTAR	0.00
		Balance LTAR as of January 31, 2016	1,863,098.58

BAC Perspectives on Using LTAR

With the history of LTAR laid out, the BAC would like to share its perspectives on the usage of LTAR. We suggest several principles:

- It seems clear that the Council (of 2007, at least) believed that the disposition of the City's long held assets should not simply flow into the annual operating budget without conscious thought.
- We believe there are at least two key perspectives embedded in that statement:
 - These assets were held for decades by the citizens of Englewood, with no benefit to the operating budgets effecting those citizens during that time. In consideration of intergenerational equity, proceeds from the liquidation of those assets should not benefit some small cohort(s) of later citizenry.
 - The long-term assets do provide financial security for the City. To the extent such assets are being "cashed in," the proceeds should be used strategically, presumably for the ongoing long term benefit of the City.
- While it is clear Council did not want such proceeds (particularly sale proceeds) to simply be absorbed into the annual budget, the LTAR was not meant to be a permanent repository for the funds. The funds were to be used, albeit in a "careful, judicious and strategic manner."

The BAC sees the LTAR revenues in two distinct categories: one-time revenue associated with sale of an asset and ongoing revenue from lease payments. The BAC believes that the principles of intergenerational equity are especially relevant for the portion of the LTAR fund that is derived from sale of assets. Alternatively, the BAC believes that revenue generated from lease of assets, such as the McLellan Reservoir property, could be viewed with more flexibility. In recent years, as shown above, McLellan Reservoir lease revenues have been used to support ongoing annual operating expenses. However, since the McLellan Reservoir properties could be sold at the end of their 20-year lease, the BAC suggests that this lease revenue might be better viewed as temporary in nature. Consistent with the "fiscal health and wellness" approach now being used by Council and the City Manager, we suggest caution in relying on temporary lease revenue to fund on-going operating expenses. We encourage Council to consider migrating towards using temporary lease revenue for the capital improvements fund to avoid creating a reliance on temporary funding for on-going operating expenses. The City has significant capital needs and there is not a dedicated funding stream to meet these needs. Although dedicating lease revenue would not be sufficient to meet the full capital needs, this would secure some much needed funding for the capital improvements fund. We also note that capital improvements tend to benefit generations of taxpayers, not just the current generation, consistent with the principle above.

Putting this into an example, investing funds into something that would produce long-term revenue for the City, such as updates to Pirate's Cove, would be consistent with the principles outlined above. But going further, the BAC believes that using those long-term revenues, generated from an investment funded through LTAR, to support

the City's operating budget could be a reasonable consideration. Most notably in that example, the proceeds would be used to support the ongoing generations of taxpayers, and not spent inequitably on a small cohort of citizens. Further, the City must find ways to diversify its revenue against not just the volatility of sales tax streams, but their inherent uncertainty in an increasingly internet-based society. Therefore using the LTAR to fund investments that would generate revenue, such as upgrades to Pirate's Cove or the golf course, would have an on-going benefit for multiple generations of citizens. If desirable, LTAR could serve as a loan source to fund these types of investments and some or all of the additional revenue could be used to pay back the fund over time.

Another example of a use for LTAR that would be consistent with these principles would be to purchase an asset, such as land, that could be used for a park or other amenity. The LTAR funds may best be used to benefit multiple generations with a guiding principle of replacing an asset with an asset. Ideally there would be something on-going and tangible for the community associated with utilization of the LTAR funds.

The BAC is encouraging the Council to consider clarifying and codifying its policy around utilization of LTAR and we offer the above as guidelines for those policies. The BAC hopes to see LTAR funds used for long-term, intergenerational benefits to the community. Summarizing:

- The BAC encourages Council to invest LTAR funds productively into the City, and not leave them permanently idle.
- Ideally funds would provide long-term benefit to the citizens, and not benefit just a small cohort of taxpayers.
- A long-term benefit can be "quality of life" in nature, such as with additional parks and green space.
- A permanent revenue source that supports the ongoing operating budget would also provide a long-term benefit by, for example, reducing sales tax dependency.
- A temporary revenue source is not an ideal use for operating expenses, as that could create dependencies and produce intergenerational inequity.
- Loans from LTAR that are used to develop property and increase lease income are appropriate investments towards realizing long-term benefits; however, loans to support short-term operational issues may be viewed with reservation and would ideally be paid back quickly.