

City of Englewood, Colorado
Budget Advisory Committee
2018 Annual Report

Submitted on
August 27, 2018

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Introduction

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 pleased to present our 2018 annual report to Council. We believe we have added a valuable voice to the City's financial and budgeting processes and policies, and we look forward to continuing to work with Council and the citizens to ensure a fiscally responsible city that has the resources to serve its citizens.

This year's report to Council will address the following subjects:

- Community engagement
- Sales tax policy and enforcement
- Police department staffing
- Long term asset reserve policy
- Fiscal cliff

Many of this year's topics address issues that the BAC recognizes as politically sensitive. Through our discussions, we've developed consensus on these issues as a committee, and we are addressing them in this year's report because we believe that these issues must be addressed by Council for the sake of Englewood's long-term fiscal health.

Community Engagement

The BAC commends the City for its investment in community engagement over the last two years, as demonstrated by the addition of a Communications Manager to city staff, the launch of the Englewood Block Party and the Community budget workshops. The BAC also commends the Communications Department for implementing cost saving measures such as merging the Citizen Magazine with the Recreation Guide, which reportedly saves approximately \$30,000 per year in postage alone.

Equally important is investing in community relationships and activities, specifically the Sounds of Summer Series, the 4th of July celebration at Cornerstone Park, the annual holiday parade, and the previously mentioned Englewood Block Party. Although these are not revenue-generating events, we recognize how return on investment is not always a financial return and a price cannot be placed on the benefit of healthy community relationships. With this in mind, the BAC asks Council to protect funds in the annual budget to support community events as these events continue to develop, become self-sustainable, and in optimal circumstances, generate revenue for the City.

As citizens, the BAC members value the opportunity to promote and participate in community events and support Council in activities that drive relationship-building and networking among neighbors and local community members. These events enhance Englewood's vibrancy and unique identity.

Sales Tax Policy and Enforcement

In each of our past reports, the Budget Advisory Committee has highlighted the way that Englewood's dependence upon sales tax as its primary revenue source makes the city vulnerable to disruptions in service during prolonged economic downturns. Even as Englewood's economy booms with increasing property values and a renewed business sector, past trends demonstrate that an economic downturn is inevitable. See the Appendix of this report for a history of revenues and expenditures in Englewood over the past 20 years.

Because nearly two thirds of the city's revenue comes from sales and use taxes, it is vitally important to enforce collection of these taxes. In 2017 the Finance Department identified approximately \$175,000 in uncollected sales tax revenue and projects uncollected sales tax for fiscal year 2018 at approximately \$66,000.

The BAC believes that as stakeholders in our community, businesses must comply with the city's regulations regarding sales taxes, use taxes, and licensing and zoning. Failure to comply with the tax regulations in Englewood is a violation of the same social contract that allows a business owner to benefit from such services as the fire department response to a fire, gas leak, or medical emergency or the police arriving to prevent or investigate a crime.

The BAC understands that not all businesses in Englewood are required to have licenses. We believe it could be beneficial for the city to be aware of all businesses and encourages Council and staff to explore whether a city license should be required for all businesses regardless of whether those businesses remit sales tax. We also ask Council to work with staff to develop a uniform sales tax collection and enforcement policy that will impact all businesses in Englewood and will allow the city to collect previously uncollected sales taxes. Clear guidelines are needed for when enforcement actions should take place and what those enforcement actions should be. Given the significant uncollected sales tax revenue over the past two years, we suggest that Council consider adding a new position to manage city business licensure and increase collection and enforcement activities. Considering the past and projected uncollected revenue, we believe that such a position would likely more than pay for itself.

Police Department Staffing

Englewood has a busy Police Department. Through June 2018, 44,000 calls for service were handled by the Police Department with an authorized staffing level of 111 people including 30 civilians, 78 sworn Police Officers and three sworn Fire Marshal personnel. Because of changing dynamics in the City, including population growth and the influx of transients, the department has shifted its focus from safety management (i.e. traffic enforcement) to crime prevention.

Meanwhile, the department often reports understaffing due to employee injury, retirement, and attrition. Recruitment issues also impact staffing levels. With a daytime population of 50,000, and in the midst of population growth, Englewood would benefit from the addition of up to five more Police Officers to support a district and provide a more robust police presence in the community. Some sources estimate a benchmark of 17 police employees per 10,000 residents, but this does not account for crime rates and geography. (Englewood's borders features lots of annexes such as "the hill" which can compromise patrol resources and response times.)

The BAC asks Council to consider allocation of funds to EPD to expand its force to better serve and protect Englewood residents, visitors, and neighborhoods. Additionally, the BAC advises Council to protect funds for the marketing and implementation of a second Citizen's Academy so citizens can become better community partners with EPD. If feasible, the BAC asks Council to dedicate a small amount of funding for volunteer management of a Youth/Teen Citizen Academy program.

We recognize that increasing headcount is expensive. Recently, Englewood voters approved retail marijuana sales in Englewood. In 2017, marijuana sales taxes generated \$107,182 in revenue. Marijuana sales taxes have generated \$327,585 through June 2018. We recommend investing this marijuana sales tax windfall into additional law enforcement resources for Englewood. Our estimated cost of \$100,000 per officer per year includes an \$80,000 estimated salary plus fringe.

Long Term Asset Reserve

In 2016, The BAC sent an issue brief to Council regarding the Long Term Asset Reserve (LTAR). In that issue brief, we discussed the relationship between the Englewood McLellan Reservoir Foundation (EMRF) land and the LTAR. Since 2007, when the city has sold land to another party, the proceeds of the transaction have gone into the LTAR fund. LTAR funds get used at the discretion of Council, but are generally used for the acquisition of similar long-term assets such as land for parks.

In 2015, voters approved referred question 2K which authorized the sale of certain EMRF lands after a lease period of at least 20 years. Subsequent to the passage of 2K, several leases for EMRF properties were signed. Since that revenue began arriving, Council has chosen to place the lease proceeds into LTAR. The BAC believes that those lease proceeds might be better used to fund projects and purchase capital for the duration of those leases rather than being directed to and sitting unused in LTAR.

Make no mistake: saving money is wise. However, the city's current reserves are sitting at an all-time high while needs – capital expenses in particular – are being deferred. As of June 2018, Englewood's total reserves were at \$15,849,894. That amount includes a fully-funded TABOR reserve of \$1,580,000, an unassigned fund balance of \$10,082,693, and a long-term asset reserve balance of \$4,187,201. Under current conditions, further expanding the city's reserves rather than using available funds for needed projects does not seem to be in the best interests of the city and its residents. Given the City's considerable infrastructure needs, the BAC suggests that Council consider using EMRF lease proceeds for pre-planned projects. This would add approximately \$1.5 million per year toward the City's unfunded infrastructure needs over the next 20 years.

Some excellent progress has been made toward developing, approving, and executing a plan for replacement of the city's capital assets. The BAC believes that this plan could be accelerated without detriment to the community or the need for additional taxes if the city's annual budget directed EMRF lease proceeds into the Capital Projects Fund or Public Improvement Fund rather than sending them to LTAR where they will sit unused. In approximately 20 years, consistent with the BAC's interpretation of Council intent for the LTAR funds, if the land sells, sale proceeds should be placed in LTAR and used to acquire new assets.

Fiscal Cliff

For several years, there has been discussion about the impending "fiscal cliff." "Fiscal cliff" refers to a projected long-term trend where expenses eventually exceed revenues. Expenditures and revenue both fluctuate resulting in some years where expenditures outpace revenue and other years where revenue outpaces expenditures. The city can use reserves to weather a short-term deficit, but in the case of a long-term structural imbalance, there are two options, increase revenue or reduce expenditures. Reducing expenditures typically means reducing services.

Englewood has been anticipating the fiscal cliff for several years. Fortunately, a strong economy and cost cutting measures have delayed the budget shortfall. Currently projections are that expenditures will begin to exceed revenue with the 2023 budget. Projected shortfalls may be mitigated by retiring debt. However, large capital projects are forthcoming and may be funded with new debt.

It is possible that another strong year could delay the fiscal cliff, but budget deficits are inevitable under the City's current financial structure. The City's significant infrastructure needs compound this precarious situation. The BAC urges Council to continue to engage staff, elected officials, citizens and business owners to identify a long term strategy for addressing the fiscal cliff. Citizens need to be informed and given the opportunity to participate in the difficult decisions the City is facing around whether to reduce services or pursue increasing revenue.

There has been some discussion recently about the possibility of implementing an occupational privilege tax in Englewood, similar to other surrounding communities. Occupational privilege taxes are a way for people who work in Englewood to contribute to the cost of providing city services such as maintaining roads and ensuring emergency response services.

The discussion of raising taxes is a difficult one that elicits strong feelings. Neither Council nor the Budget Advisory Committee decides tax policy in Englewood. That right is reserved to the People by the Taxpayers' Bill of Rights (TABOR). The BAC celebrates this requirement of TABOR because it allows the citizens to decide on the policy question of whether they prefer a cut to services and delayed capital investment or an increase in taxes.

The BAC is not in a position to recommend a tax increase, however we do recommend that citizens be invited to participate in decision making that will determine the services they will receive and the type of community they call home. We hope that a wide spectrum of options will be considered during those discussions.

In previous reports, the BAC has repeatedly expressed concern about the lack of diversification in the City's revenue base and the vulnerability that comes from relying on volatile sales tax for approximately 60% of the City's revenue. A tax, such as the occupational privilege tax, is one option for diversifying the revenue stream. TABOR requires citizens to approve proposed tax increases. Since asking the voters their preference can be a lengthy process, the BAC strongly encourages Council to make a serious, citywide conversation about the options available to secure Englewood's future financial stability a top priority.

Conclusion

We hope this year's report is useful to Council as its members engage in the discussions that will decide policy for 2019. The BAC is looking forward to making an earlier contribution to the budget cycle in the upcoming year. We've already scheduled a visit with Parks, Recreation, and Library to discuss ongoing needs with the leadership of that department.

If there are budget issues that Council would like the BAC to investigate or address, we will gratefully receive feedback through our Council liaisons. Thank you for the opportunity to serve the city and to weigh in on the important financial issues that affect Englewood and its citizens now and in the future.

Appendix – Tax and Revenue Data Past 20 Years

From the Comprehensive Annual Financial Reports 2006-2017

Year	Sales Tax Collections	Total Tax Collections	Total Revenues	Total Expenditures
1997	\$16,112,457	\$22,123,329	\$30,094,630	\$30,202,012
1998	\$18,848,384	\$25,562,587	\$33,496,436	\$42,962,632
1999	\$20,170,709	\$27,175,461	\$36,649,010	\$44,578,432
2000	\$23,941,579	\$31,737,405	\$43,331,163	\$51,053,339
2001	\$22,635,921	\$31,257,005	\$42,875,234	\$42,333,903
2002	\$20,069,192	\$28,148,933	\$36,630,224	\$43,566,213
2003	\$20,554,656	\$28,438,774	\$36,917,495	\$49,062,381
2004	\$20,591,394	\$28,884,148	\$39,363,664	\$42,559,090
2005	\$20,886,855	\$29,518,593	\$40,328,745	\$39,835,991
2006	\$20,688,258	\$29,300,961	\$40,921,282	\$40,907,839
2007	\$22,753,820	\$32,876,011	\$46,401,110	\$46,550,769
2008	\$22,617,767	\$31,978,782	\$45,826,353	\$46,877,714
2009	\$20,624,659	\$28,933,845	\$42,396,619	\$45,168,210
2010	\$20,866,515	\$29,495,567	\$43,247,803	\$45,626,845
2011	\$21,737,110	\$30,532,471	\$44,384,781	\$46,442,444
2012	\$22,363,618	\$31,573,167	\$45,947,321	\$45,471,778
2013	\$23,214,071	\$34,136,103	\$48,225,775	\$45,192,152
2014	\$24,839,296	\$36,127,239	\$50,137,363	\$49,182,067
2015	\$23,283,430	\$38,827,710	\$52,779,078	\$50,847,497
2016	\$26,234,316	\$37,701,075	\$50,817,825	\$49,395,190
2017	\$24,820,075	\$42,868,732	\$56,969,180	\$53,789,283

Englewood Revenues and Expenditures 1997-2017

