

City of Englewood, Colorado

Budget Advisory Committee

2019 Annual Report

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I. Reserves.

In its Inaugural Report issued in 2014, the Budget Advisory Committee (BAC) discussed the City's financial stability as well as the City's unallocated fund balance, referred to herein as "reserves". The BAC also addressed reserves in 2016 and 2018 reports to Council. In the past, the BAC has focused its discussion of reserves primarily on the City's long-term asset reserve (LTAR). This year, the BAC looked at the reserves as a whole.

The 2014 BAC Annual Report encouraged Council to adopt a reserve policy that set target levels for reserves. The BAC did not make a specific recommendation, but eventually Council decided on two months' revenue, or 16.7% of annual revenue, as a reserve target. Recent years have been fiscally kind to Englewood, and the City's reserves continue to grow.

The reserve balance at the end of 2019 is projected to be more than \$7 million above this target, nearly double the target percentage of 16.7%. Meanwhile, the city continues to experience problems such as flooding, leaking roofs, and inaccessible alleys due to underfunded capital maintenance. The members of the BAC believe that these problems are attributable to lean budgets in recent years.

In each of the BAC's Annual Reports since its inception, the BAC has counseled against a short-term approach to the City's budget. Once again, the BAC intends to examine Englewood's approach to reserves and to capital projects by recommending what may seem like a radical new approach. Rather than using a fixed target for reserves, the BAC recommends a sliding reserve target. The BAC believes that the primary purpose of reserves is to ensure the stability of the City's government in lean times by allowing the City's coffers to grow during boom times. A fixed-target reserve policy does not offer that stability, because, by definition, the Council would need to violate the reserve policy in order to use reserves to backfill a shortfall.

If Council adopts a sliding reserve policy rather than the current fixed-target policy, the City's reserve level is allowed to increase during times of economic growth, like the City is currently experiencing. As an example, half of the surplus revenue above projected revenues could be put away into such a sliding reserve. Then, in a year that revenue falls below projections due to a recession, such as the one Englewood experienced from 2008 through 2010, the reserve target could "slide" down such that existing reserves can be utilized to backfill missing revenue and ensure stability and continuity of services.

If applied properly, such a policy could allow the City to better plan and execute capital projects and maintenance in the future because funds set aside for capital projects would not be compromised during lean times, when reserve funds could be utilized instead. This sliding reserve policy would also allow a future Council to stabilize expenditures across several years as revenue fluctuates and would further empower Council to plan for the future. It is important to note that the BAC is not recommending running a deficit in order to expand services in any given year. But, when the City projects a deficit, the deficit should be covered by City reserves and used exclusively to maintain service levels.

II, Capital expenditures and deferred maintenance.

The BAC recommends Council reduce future capital expenditures by taking a proactive approach to investing in capital maintenance. A proactive approach to capital maintenance is not only more cost effective, but also benefits the community by helping prevent catastrophic failure.

There are significant risks to deferring maintenance. A quick Google search reveals universal consensus that deferring maintenance is financially costly in a variety of ways. Failure to maintain assets (equipment, facilities, roads, bridges, water and sewer pipes) that citizens rely on escalates the need to replace the asset, leads to more costly repairs, can result in emergencies that reduce productivity, create inconvenience and endangers staff and citizens.¹

Since its creation in 2013, the BAC has time and again expressed concern about Englewood's significant infrastructure needs. Several years ago the City Manager identified over \$100 million in infrastructure needs. Since that time, the City has invested approximately \$3 million per year in capital projects, conducted a bond issue to build a new police station, and contracted out responsibility for the City's fire service. Despite these investments, the City's annual maintenance needs remain significant and the urgency to address those needs continues to grow. Maintaining assets and infrastructure extends the life of those assets, reduces costs, and allows for planned (rather than costly emergency) replacement. Planned maintenance also reduces disruption to staff and citizens.

A February 4, 2019 article² from *Governing Magazine* compared the issue of deferred maintenance to the recent issues of unfunded pension liability. Unfunded pension liability is now required to be recorded on a government's balance sheet. It seems likely that deferred maintenance and infrastructure requirements could, someday soon, also be treated as a liability that must be reported on a balance sheet and in financial reports. As an illustration of this emerging issue, the article cites an example of Washington D.C.'s credit rating being improved as a result of actively addressing deferred maintenance and infrastructure needs.

The BAC urges Council to continue working with staff to conduct an inventory of city assets and develop condition-assessment practices and a comprehensive, long-range plan for addressing infrastructure needs. As the City continues to develop and its infrastructure continues to age, the need for a proactive, adequately funded plan to maintain existing city assets and infrastructure becomes ever more critical to our City's future.

¹ <https://www.facilitiesnet.com/maintenanceoperations/tip/The-Real-Cost-of-Deferred-Maintenance--38366>

<https://www.facilitiesnet.com/maintenanceoperations/article/Paying-the-Price-for-Deferred-Maintenance--17407>

<https://www.chthealthcare.com/blog/deferred-maintenance>

² <https://www.governing.com/gov-institute/voices/col-infrastructure-deferred-maintenance-balance-sheets-financial-reports.html>

III. Single-hauler waste services.

The BAC requests Council support the adoption of single-hauler waste services in the City of Englewood. Single-hauler waste services are anticipated to:

- Reduce wear and tear on the City's roads and alleys, leading to cost-savings for public works (see **II. Capital expenditures and deferred maintenance** above);
- Reduce the cost of trash and recycling services to residents and businesses;
- Reduce noise pollution on trash collection days
- Improve accountability from the service provider (i.e. companies will be more likely to pick up trash as scheduled if their contract is with the city a large account rather than a small residential account); and
- Reduce the number of complaints to City Code Enforcement due to two factors:
 - Residences and businesses would be required to utilize trash collection; and
 - Providers may offer concierge services, reducing the number of illegal large-item dumps in alleyways.

Albeit informal and lacking specifics, a survey on Nextdoor in Q2 2019 solicited hundreds of responses from Englewood residents who indicated they would be in favor of the City pursuing single-hauler trash service.

The single-hauler topic has been discussed with and within Council, and at this time the BAC formally recommends Council pursue a Request for Proposal from service providers.

IV. Scope of Annual Report and BAC intentions.

This Annual Report reflects the opinions of BAC members who served in 2018-2019. It has been reviewed by, but not substantively altered by, members who joined the committee in July 2019.

We anticipate that many suggestions contained in this Annual Report will not be discussed or adopted by Council until the 2021 budget cycle. However, it is our hope that Council will take these issues under serious consideration and explore implementation as soon as is practicable.