

Budget Challenges

July 2018



City Fund Structure

- ▶ Government typically uses fund structure to account for separation of revenues because many revenues are restricted as to use.
- ▶ City funds most operations through the General Fund, which adopted a \$82.7 million budget for 2018. The 2018 budget includes \$60.1 million of non-earmarked tax revenue. Sales & use tax in the General Fund is budgeted at \$34.6 million in 2018 while property tax is budgeted at \$18.8 million.

City Fund Structure

- ▶ Other funds are for special purposes such as for earmarked taxes, capital projects fund, or gifts and grants.
 - Public Safety tax of \$11.7 million budgeted for 2018.
 - Streets tax of \$15.38 million budgeted for 2018.
 - Open Space tax of \$4.1 million budgeted for 2018
 - PIF capital projects fund of \$6.1 million budgeted for 2018.

City Fund Structure

- ▶ The General Fund and the Public Safety Fund are used to fund public safety services. In the 2018 budget there is \$35.5 million for public safety from the General Fund and \$13.38 million from the Public Safety Fund.
- ▶ The General Fund funds community services such as the Library, Museum and Senior Services.
- ▶ General Fund taxes partially fund Shared Services, Recreation Services, Judicial Services and Development Services, which all have some offsetting revenues

Financial Policies

- ▶ **Balanced Budget:** The City of Longmont budget will balance operating expenditures with operating revenues. Fund balances will be used as a funding source in the General Fund for capital and one-time expenditures only.

Financial Policies

- ▶ **Pension Funding:** The City will follow a policy of fully funding the City of Longmont defined benefit retirement plans, which include the General Employees' Retirement Plan, Police Pension Plan and Fire Pension Plan.



Financial Policies

- ▶ **Human Service Agency Funding:** In order to provide a stable funding source to independent human service agencies that provide needed programs to Longmont residents and/or to fund Council-directed initiatives that address system changes to improve human service outcomes, 2.05% of the General Fund's budgeted ongoing tax revenues (including property tax, sales and use tax, cigarette tax, and all franchise revenues) will be allocated for this purpose.

Financial Policies

- ▶ **Employee Pay:** The City of Longmont will strive to establish prevailing market ranges of pay for City positions. Because the City has high expectations and accountability levels for our employees, the City will strive to budget and manage salaries at 2% above market for all non-collectively bargained employees.

Financial Policies

- ▶ **Longmont Cable Trust Funding:** In order to provide a stable funding source to the Longmont Cable Trust, which provides local public access cable television services to the Longmont community, 25% of the General Fund's budgeted cable television franchise revenues will be allocated to the Longmont Cable Trust.



Financial Policies

- ▶ **The City will maintain a fund balance restricted for emergencies in compliance with TABOR.** The restricted fund balance will be calculated at 3% of “fiscal year spending” and can be used only for “emergencies” as allowed under Article X Section 20 of the Colorado Constitution.



Financial Policies

- ▶ **The City will maintain an unrestricted fund balance in an amount equal to approximately 2 to 3 months of General Fund operating expenditures.** Within the unrestricted fund balance the City will strive to meet the following reserve targets:

Financial Policies

- ▶ **Committed to Emergencies:** This portion would be maintained at 8% of General Fund operating expenditures with use limited to emergency situations such as natural disasters, acts of terrorism or war, widespread riots or similar emergencies impacting the community.

Financial Policies

- ▶ **Committed to Emergencies:** Stabilization Reserve - This portion would be used during times of reduced revenue due to economic conditions to allow General Fund services to continue to be provided throughout an economic downturn. The reserve is targeted as a range with a minimum of 3% and a maximum of 8% of the General Fund operating expenditures.

Fund Balance & Reserves

- ▶ Governments maintain adequate levels of fund balance to mitigate current and future risks such as short-term revenue shortfalls and unanticipated expenditures.
- ▶ Credit rating agencies carefully monitor levels of fund balance and unreserved fund balance in a government's general fund to evaluate a government's continued creditworthiness.

Fund Balance & Reserves

- ▶ The City financial policy sets a goal of a General Fund fund balance committed to emergencies of from 11% to 16% of General Fund operating expenditures. This is currently funded at 6.9% (\$5.56 million).
- ▶ The City is required by TABOR to restrict 3% in reserves that can be used only for emergencies (non-financial) and must be replenished by year-end. This is fully funded at \$4.4 million.



Fund Balance & Reserves

- ▶ GFOA recommends that governments maintain, at a minimum, unrestricted fund balance in their general fund of two to three months (16.7% to 25%) of regular general fund operating expenditures.
- ▶ The City unrestricted fund balance is 17.0% at the end of 2017.



Fund Balance & Reserves

- ▶ The unreserved undesignated (or “unassigned”) fund balance represents the amount of fund balance that has no appropriated or designated use and typically is what is available for one-time expenses for the next budget process.
- ▶ Fund balances are "one-time" sources and should not be used to fund ongoing expenditures but are used instead for one-time costs.



Fund Balance & Reserves

- ▶ The unreserved, undesignated fund balance at the end of 2017 is \$1.13 million.
- ▶ Outcome of revenues and expenses being closer to budget in the 2017 General Fund
- ▶ Also \$822,446 of 2017 fee revenues subject to waiver in 2018; \$414,034 of it from the General Fund



General Fund Revenue

- ▶ Taxes provided 73.7% of the City's General Fund revenues in 2017. They are budgeted to provide 76.6% in 2018.
- ▶ Sales taxes made up 42.8% of the General Fund revenues in 2017. It is budgeted to provide 43.1% in 2018.
- ▶ Property taxes made up 20.8% of the General Fund revenues in 2017. It is budgeted to provide 23.4% in 2018.

Other Budgetary Impacts

- ▶ Approximately 73.5% of General Fund expenses are salary and benefit costs, which can pose a budgetary challenge when market increases exceed growth in revenue.
- ▶ Insurance-type costs can have a significant impact in each of three primary areas of coverage:
 - 1) Health benefits
 - 2) Workers' compensation benefits
 - 3) Liability claims

2018 Overview

General Fund revenues projected to not meet budget in 2018:

▶ Sales & use tax	\$277,156
▶ Cable franchise fee	\$100,000
▶ Various court & fine revenues	\$130,000
▶ Parking fines	\$ 52,000
▶ False alarm fines	\$ 12,000

2018 Overview

- ▶ Overall City sales & use tax is budgeted at \$72,310,201, which is an increase of 6.25% over 2017 actual revenue. Through five months the overall YTD growth is 2.6%.
- ▶ Staff currently projects overall sales & use tax for 2018 to fall short of budget by \$274,418.

2018 Overview

2018 **Sales** tax projections:

- ▶ General Fund short \$277,156
- ▶ PIF short \$31,262
- ▶ Streets Fund short \$78,155
- ▶ Open Space Fund short \$20,842
- ▶ Public Safety Fund over by \$132,997



Sales Tax Impacts

- ▶ Sales & use tax in the General Fund for 2018 is budgeted at \$34,662,742, which is an increase of 3.07% over 2017 actual revenue. Through five months the YTD growth is 2.1% in the General Fund.
- ▶ Sales tax has performed well in the categories of Food, General and Apparel.
- ▶ Sales tax performance has lagged behind projections in the categories of Automotive, Lodging, Lumber, Utilities and Manufacturing.

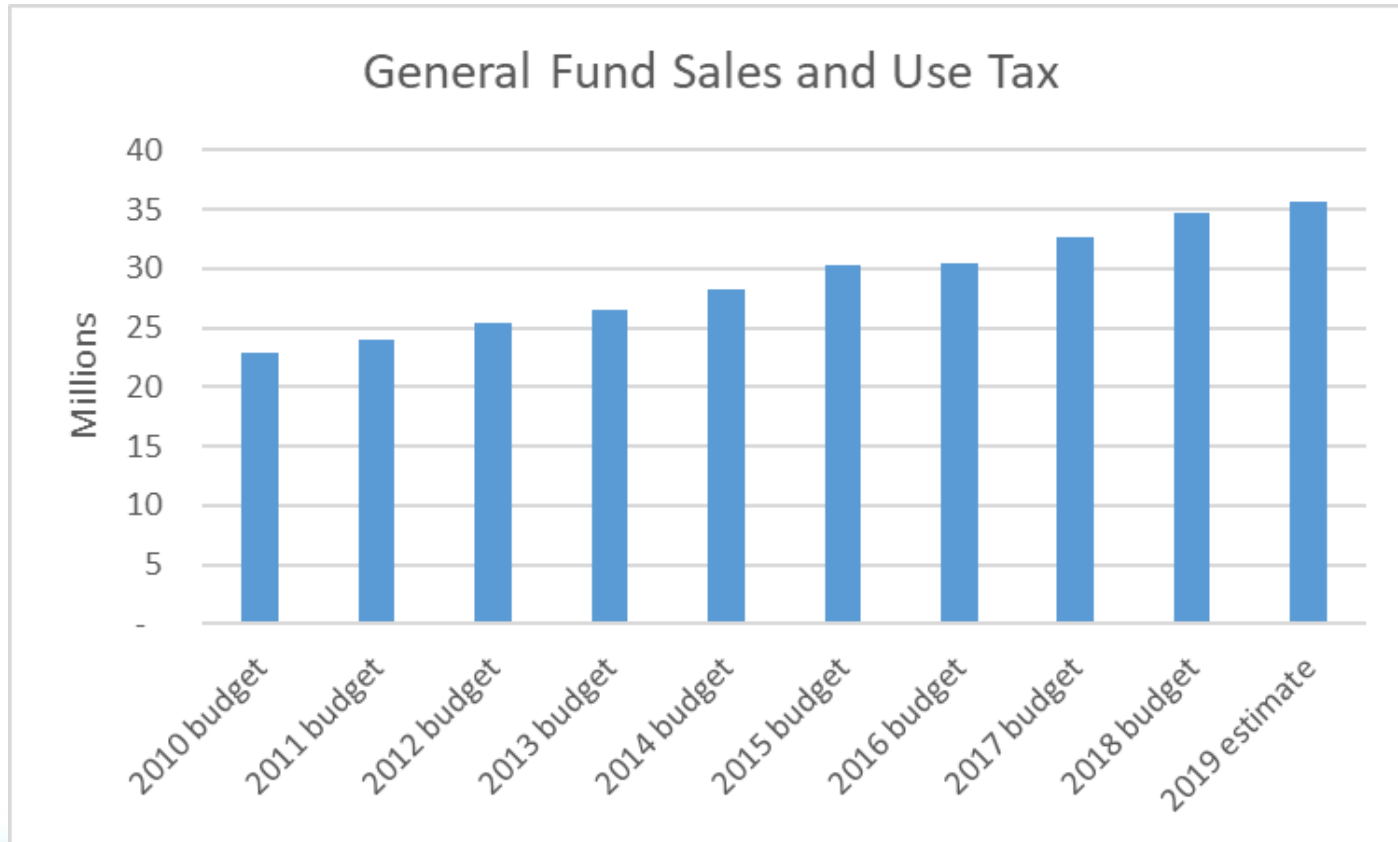
Sales Tax Impacts

- ▶ Use tax revenue has not met projections.
 - Primary employer use tax (rate-adjusted) is down 55.2% through the five months of 2018. Total use tax is down 8.5% in the same period despite a rate increase. It is down 15.1% when adjusted for the rate increase
 - Lumber use tax (rate-adjusted) is down 0.5%.

Sales Tax Impacts

- ▶ 2018 revised sales & use tax projections are for 5.85% growth. This is inclusive of the rate increase, which was effectively 7.8%.
- ▶ 2019 sales & use tax is projected to grow 3.5% over 2018 revised projections.
- ▶ Projection of use tax from building permits is still unresolved.
- ▶ General fund sales & use tax revenue available for ongoing expense in 2019 is projected to grow by \$933k.
- ▶ In the 2018 budget, sales & use tax revenue in the General Fund grew by almost \$2.09 million, from \$32.6 million to \$34.7 million.

Sales Tax Impacts



Development Revenue

- ▶ Construction-related revenue is up in 2017 and 2018.
- ▶ Dwelling unit permits were up 3.8% in 2017 and are up 9.7% in 2018.
 - ▶ PDS revenue generally supports PDS expenses
 - ▶ Use tax is generated on building permits
 - ▶ Growth eventually translates into greater property tax and sales tax in the General Fund

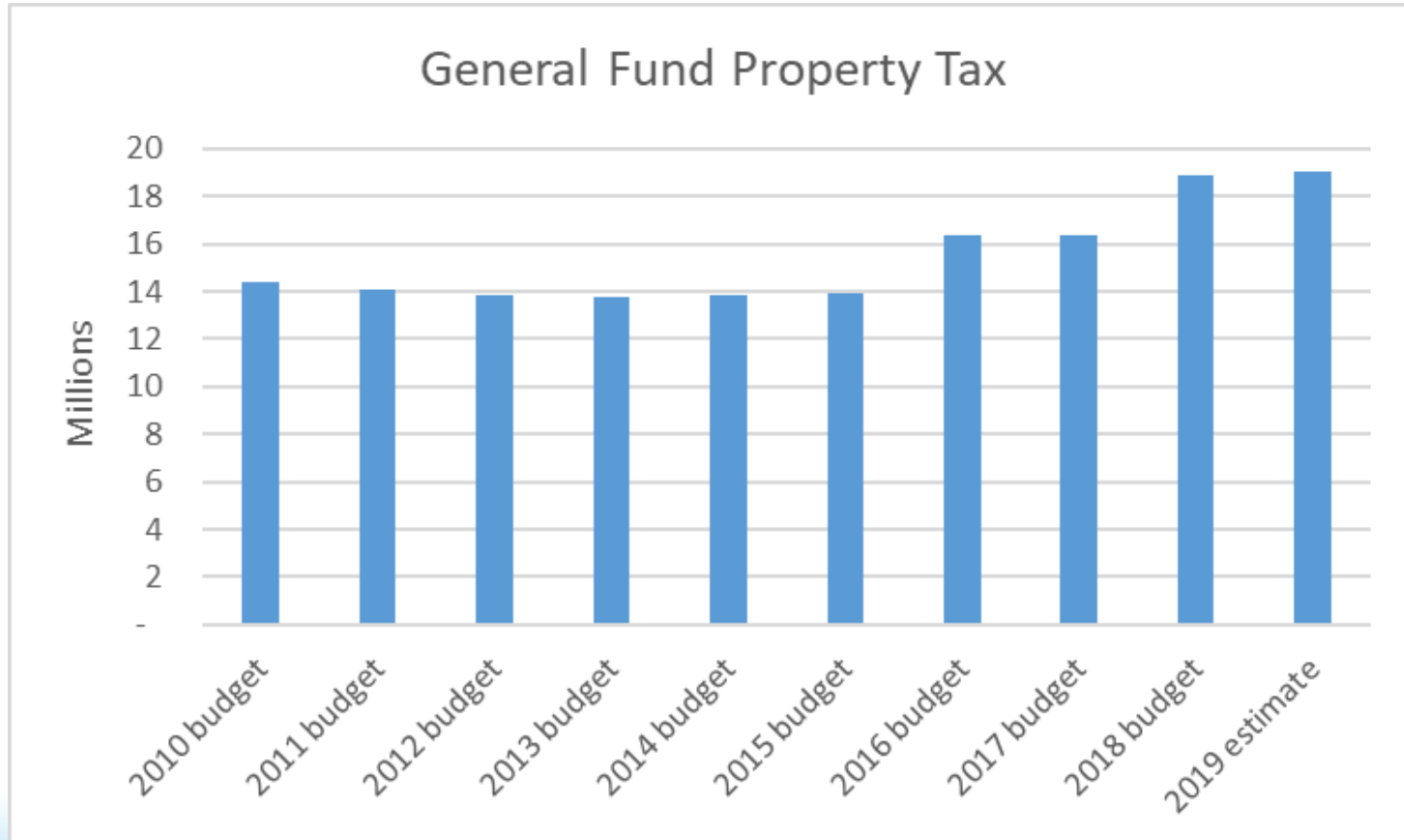
Property Tax Impacts

- ▶ Property values continue to grow, but property tax revenue growth is questionable.
- ▶ State is forecasting that with projected property value increases, and between the impact of the constitutional provisions of Gallagher and Tabor, the Residential Assessment Rate for property taxes will reduce from 7.2% to 6.11% in 2019. It's a significant decrease and it can negatively impact any government entity that levies a property tax.

Property Tax Impacts

- ▶ 2019 property tax revenue may grow about \$200k from new construction but likely should only be used on one-time expenses
- ▶ In the 2018 budget, property tax revenue grew by almost \$2.5 million, from \$16.4 million to \$18.87 million.

Property Tax Impacts



Impacts of Village at the Peaks

- ▶ VATP is within an Urban Renewal Authority, and sales tax increment on 2% is pledged toward debt service.
- ▶ Debt service on COPs is paid through URA revenue at \$2.13 million in 2018.
- ▶ Property tax TIF projected at \$1.527 million in 2018
- ▶ Metro District tax projected at \$245k in 2018
- ▶ Sales tax TIF only responsible for 16.7% of the COP payment or \$356k in 2018.
- ▶ Sales tax from VATP in 2018 appears to be on track for about \$3.8 million.

Challenges for 2019

- ▶ Currently we are projecting only about \$933k of new revenue from sales tax and none from property tax to fund ongoing expense increases in the General Fund.
- ▶ Comparatively, in the 2018 General Fund budget, overall net ongoing increases were \$5.36 million of which \$4.57 million were from new revenue from sales tax & property tax

Challenges for 2019

- ▶ 2019 budget requests in the General Fund include over \$810k of level 1 expenses and over \$1.64 million of level 2 expenses plus FTE requests.
- ▶ Maintaining market pay for City employees
- ▶ Increased health care costs
- ▶ Increased human service agency funding of \$32k
- ▶ Funding a grocery tax rebate program

Challenges for 2019

- ▶ Current rough projections are that the new General Fund ongoing expenses identified are about \$3.3 million with new revenues of about \$1.3 million.
- ▶ To balance ongoing revenues and ongoing expenses for 2019 will require close to \$2 million of reductions to base ongoing expenses in the General Fund.
- ▶ Priority Based Budgeting is expected to play a large role in making decisions to balance the General Fund budget.

Challenges for Other Funds

- ▶ The Public Improvement Fund is facing funding challenges due to revenue shortfalls, tax rebates, and increasing project costs.
- ▶ The Street Fund is expected to be able to withstand the 2018 revenue shortfall due to expenditure savings, but looking ahead it is still challenged to fund proposed CIP projects.
- ▶ The Open Space Fund should be able to withstand the 2018 revenue shortfall due to expenditure savings and/or fund balance.
- ▶ The Public Safety Fund may not be impacted by sales tax revenue estimates since its 2018 revenue is on target to exceed budget.

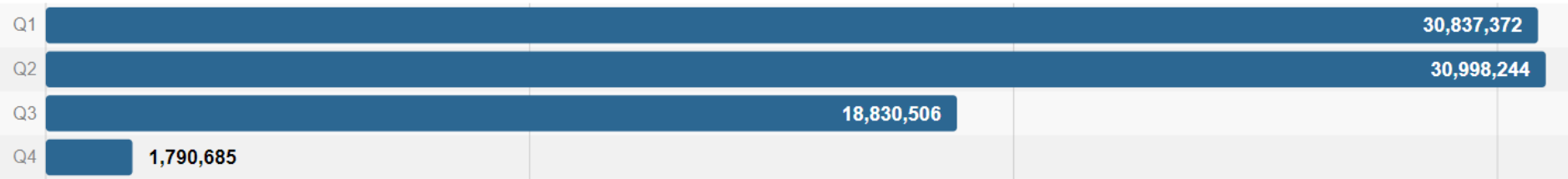
Questions for City Council

- ▶ Should the 2019 budget be built with market pay increases?
- ▶ Should Longmont Cable Trust continue to be funded at only 25% of budgeted franchise revenues?
- ▶ Should ongoing expenses continue to be balanced with ongoing revenues?
- ▶ Should new property tax revenue be treated as one-time revenue in 2019?
- ▶ Should new use tax revenue be treated as one-time revenue in 2019?

Priority Based Budgeting

- ▶ Results linked to Envision Longmont
- ▶ Programs scored relative to their influence on the Results and Basic Program Attributes
- ▶ Program scores loaded into model to list of prioritized city services and quartile graphs

Program Costs



Overproviding to Mandated Services

- ▶ High Mandate (4), Low Relevance (Q3/Q4)
- ▶ Five programs meet this criteria

Program Costs					
Q1	0				
Q2	0				
Q3					1,029,934
Q4	0				

City Mandated

- ▶ Self Mandate (2), Little to No Cost Recovery (0, 1, 2), Low Relevance (Q3/Q4)
- ▶ Twenty-two programs meet this criteria

Program Costs		
Q1	0	
Q2	0	
Q3		1,369,317
Q4	245,697	

Low Impact on Results

- ▶ Mandate (0-1), Little to No Cost Recovery (0, 1, 2), Reliance on the City to Provide Program (0-1)
- ▶ Thirty-four programs meet this criteria

