



City of Edgewater

OFFICE OF THE CITY MANAGER

Date: October 31, 2015
To: Mayor & City Council
From: HJ Stalf, City Manager
RE: 2015 Budget

Mayor McNulty & Council Members,

Attached you will find a draft, balanced budget document for 2015 for your consideration. Also included is an Executive Summary that hopefully compiles the overall view of the General Fund and another summarizing the Utility Fund. This draft does result in a General Fund budget that is balanced for the coming year. The Utility Funds have drawn down fund balances over the past several years with this expenditure of reserves appropriately invested in capital improvements. We continue to have small reserves in these funds, but also significant capital needs, especially in the water fund. We are proposing accepting a very low interest loan from the State Water Fund to complete between \$1.5 million and \$2 million in projects that should complete that major infrastructure needs of our water fund.. Should further upgrades be necessary sooner than anticipated, rate increases and borrowing from the General Fund may be in order, but that is not anticipated in the foreseeable future (10-20 years).

Based upon recent audits of the City financial statements, we have continued to improve our accounting systems. We are confident that the beginning balances in each fund are accurate for January 1, 2014. At this time, we are making our very best assumptions for budget projections and will continue to refine all of our systems, with more accurate figures based on Q3 sales tax, utility revenues, benefit pricing and other important variables available in the coming weeks.

Fiscal Policy Recommendations

The City of Edgewater has significant reserves, yet even more significant unfunded needs, especially the capital needs of our public safety facilities, street maintenance and utilities. We have developed strategies to address these issues and may be able to fund these requirements from our greatly increased revenues from new businesses and retail marijuana sales. It appears as though the marijuana revenue is covering nearly all of the expense of our long overdue street maintenance program. We are projecting these revenues to continue for the next 3-4 years enabling us to catch up with the deferred maintenance of our streets, sidewalks, curbs and gutters.

Our reserve funds are invested in very low return instruments at this time. However, cities even larger than Edgewater are experiencing a very difficult time with return on investments lingering well below 1%. We have partially implemented adjustments to our

investment approach that will allow for our short term cash flow needs while better utilizing our reserves earning capacity. Rates remain at record lows and returns are very limited. Investment of some of these reserves in capital assets such as new public structures, although not included in the attached budget, may be considered during this process and may well be advisable in the near future.

The City of Edgewater continues to depend greatly on retail sales tax revenues, as does nearly every city in Colorado. 2014 has seen a surge in sales tax over what we have experienced in the past several years, we hope to realize a 6% increase over 2013. Our best strategy is to position ourselves as a destination for high revenue retail establishments by continuing to work with the development and commercial real estate communities. In partnership with the ERA, the City may well find itself with opportunities in the next several years to further enhance our sales tax revenues. At this time, we are fortunate to have several new businesses under construction that are likely to return significant sales tax to our revenues in 2015 and beyond. Existing businesses are performing well overall and revenues are up in most categories. We will continue to monitor these trends over the coming months to ascertain its continued impact on revenues to our major commercial establishments. We need to properly and accurately position ourselves to realize the highest returns possible at each opportunity. However, due to sales tax sharing arrangements with major developers and payment of our outstanding debt service, our net return remains somewhat limited through 2020.

As far as the general operations of the City, these areas must compete with the capital needs each year. The Parks and Recreation Department is fortunate to have multiple funding sources and the potential for even more grant money. We have implemented an aggressive roll out of recreation programs that should return revenues to significantly offset their costs. We have overhauled the three funds that are utilized in this area (Open Space, Conservation Trust and the General Fund), more accurately reflecting the appropriate use of moneys in each area and more properly accounting for their use.

We addressed our salary schedule once more in 2014, as we did in 2012, through appropriate survey work and have confirmed the appropriateness of our labor costs as well as needed changes that have been implemented in 2015. This study will be repeated in 2016 and every two years going forward. We have already put in place many of these recommendations in the Police Department as we have seen significant turnover and new opportunities for advancement. We will realize this as part of our work plan, and it will be fully implemented in 2015.

In conclusion, Edgewater has significant reserve funds in relationship to its annual operating budget, however, the capital requirements of the City are significant. A comprehensive analysis of all of our funds, our investments and assets this year has permitted us to continue the development of a long-term plan to meet the facility and service needs of our community and position the City to remain sound financially.

Important Features

The budget once again has footnotes to identify changes that represent a significant increase, decrease, change of funding source, or change of service level. Hopefully this is helpful as the budget is reviewed, but undoubtedly questions will remain and the staff is available to help answer them.

Estimate of fund surpluses

You will find that all funds continue to have surpluses, but that several, including some of the utility funds required continued use of reserves to sustain service levels as we completed the transition to a new rate structure and made significant capital investments. The major sewer line projects begun in 2012 and scheduled for completion later this year, has upgraded the system and should lead to greater dependability as well as anticipated assurance of cost of service going forward. This has required the funds to enter into debt to meet these long-term improvements and will be repaid by future users benefitting from these projects.

The budget document contains a statement indicating the balance in each fund with interaction between funds. Again this interaction has changed most dramatically in the funds that support the Utility and General Funds. We have been able to address this through analysis leading to a complete rate study and long-term investment plan.

The Fire Pension Fund is a fiduciary fund of the City with no operations, therefore no budget is required other than the annual contribution by the City which is now located in "non-departmental" due to the phasing out of the Fire Department. We completed an actuarial study of this fund in late 2013 and we have another scheduled for later this year.

Bottom line...

I find the City of Edgewater to be sound financially and improving in nearly every aspect in its financial systems and management. Our recent "A" rating by Standard and Poor's of our financial condition confirms the improvements made in our financial operations and investment strategies as a city. We have achieved a great deal of progress in our professional delivery of services with accountability and fiscal restraint. The long neglected maintenance requiring comprehensive repair and revitalization of our financial systems has educated us and allowed for extensive improvements to those systems.

I thank you for your patience and support as we have worked diligently to improve our city. I find this to be a very worthy effort that will continue to serve as a precursor to virtually every other action we will consider in the coming years.

Respectfully Yours,



City Manager

Capital Budget (Addendum)

We do not look at future sales or property tax increases as options for meeting the long-term needs of our community. Every effort continues to be made to identify the revenues necessary to make the capital investments Edgewater requires through growth of our existing revenue streams. I believe this goal will continue to be achieved.

We currently have limited cash reserves in our Capital Equipment and Capital Improvement budgets. We have begun funding these areas from surpluses we have generated in the General Fund and anticipate the ability to continue this source of funding for the foreseeable future. The Police Department requires new facilities, and we need to better utilize our capital investments to return our municipal buildings that are located in prime

commercial areas to more productive use in the private sector. The capital budget we are presenting at this time no longer reflects a need to plan for capital investment in Fire equipment or facilities. This change decreased the funds needed over the next ten years from the \$250,000 annually that was estimated in recent years, to a more manageable \$100,000 annually for all other equipment needs. We have, in fact, been able to include in the 2013, 2014 and 2015 budgets. This ten-year plan for capital equipment covers all areas of the city - police, public works, parks & recreation and office equipment. It also removes the need to finance these acquisitions, freeing capital for other needs such as street maintenance and facilities, including recreation needs from Open Space funds.

Estimates of the funds needed for street maintenance, curb and gutter replacement, alley improvements and street overlays are currently being refined and will total \$2+ million over the five years.. We hope to have approximately \$375,000 annually freed up beginning in 2021 from current bond payments. While we are experiencing a savings of over \$50,000 annually from our recent refinancing, the bulk of new revenues may still lie five or more years in the future. While this is less than ideal, the staff believes that for the most part this can, and probably will improve as our sales tax base improves with new investment in an improving economy over the next 3-5 years. However this is dependent upon significant commercial development at 20th & Depew, as well as elsewhere in the City, enabled by our getting out of our own way and redeveloping our prime commercial properties. Residential development in our neighboring communities is also key to the success of our commercial establishments and has picked up greatly in the past 18 months.

A strategy that recognizes and funds the appropriate facilities for Police, City Hall, Parks & Recreation, Public Works and possibly a library, is necessary and overdue. Clearly freeing our city of the enormous capital expenses associated with fire service was critical to our ability to meet the many other needs we face over the next decade. The total cost of these facilities currently would be in the area of \$7 million, including the library facilities. Parks & Recreation needs fortunately have funding options that may allow for facilities to be built with modest involvement by the General Fund of the City. We remain hopeful that a comprehensive capital facility project may be implemented in the near future. If so, a separate budget will be developed for this effort.

For 2015, we are looking at another modest budget for capital items. The equipment and vehicle capital budgets are slightly more than \$100,000. Capital improvements, mostly in street repairs and upgrades are likely to be funded through current revenues for the first time in many years. As we develop a maintenance plan for these efforts, we must keep in mind that significant investment is most likely to occur prior to 2020 at which time both our capital maintenance budget should be greatly reduced, while our unrestricted revenues increase. Our capital funds had not been directly funded for nearly a decade and they reflect the neglect that has occurred to our streets and sidewalks. Our new revenue sources that have evolved in 2014 are being put to use for these purposes.

In conclusion, we have been able to further develop and specify costs and opportunities for Council consideration this year. I believe by responsibly utilizing our current assets, aggressively positioning our high traffic commercial areas to maximize their long-term income potential for investors as the commercial real estate economy rebounds, the City of Edgewater and its citizens will develop a realistic plan of action regarding these significant issues in keeping with the recently adopted goals of the Edgewater City Council and the 2013 Comprehensive Plan.