



City of Edgewater

OFFICE OF THE CITY MANAGER

Date: October 14, 2015
To: Mayor & City Council
From: HJ Stalf, City Manager
RE: 2016 Budget

Mayor McNulty & Council Members,

Attached you will find a draft, balanced budget document for 2016 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 ample reserves in these funds, with decreasing needs. 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+ 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, 2015. 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. Most of this information has been anticipated and will be reviewed for accuracy.

Fiscal Policy Recommendations

The City of Edgewater has significant reserves, yet even more significant unfunded needs, especially the capital needs of our public safety recreation and civic facilities. 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 for the second consecutive year. We are projecting these revenues to continue for the next several years enabling us to complete the deferred maintenance of our streets, sidewalks, curbs and gutters. Our greatest threat to these revenues would be an extension of MJ sales hours in Denver which has been discussed.

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, approaching 0%. 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. 2015 has seen a surge in sales tax over what we have experienced in the past several years, we hope to realize a 17% 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 that have opened this year and are returning significant sales tax to our revenues for 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 will remain somewhat limited through 2020 at which time our current debt will be retired.

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 realize 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) in recent years to more accurately reflect the appropriate use of moneys in each area and more properly account for their use.

We addressed our salary schedule 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 were 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 was fully implemented in 2015. Additionally, we have been able to increase both the city retirement match for employees who have been with us for five or more years, as well as implementing a long overdue enhancement to our long-term disability plan.

In conclusion, Edgewater has significant reserve funds in relationship to its annual operating budget, however, the capital requirements of the City remain 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 was completed this year. It has upgraded the system and should lead to greater dependability as well as anticipated assurance of cost of service going forward. The water fund is completing the largest year of improvements in recent memory. This includes the replacement of the 26th Avenue main including the addition of valves and the replacement of the remaining (known) lead service lines. This has required the fund to enter into debt for these long-term improvements which will be repaid by future users who benefit 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 2015 and we have another scheduled in two years.

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,

A handwritten signature in blue ink that reads "HJ Stalf". The signature is written in a cursive, flowing style.

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 have begun funding our capital needs from surpluses we have generated in the General Fund and anticipate continuing this funding for the foreseeable future. The Police Department requires new facilities, and we need to better utilize our investments to return our buildings that are located in prime commercial areas to more productive use in the private sector.

Our 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 have been refined and will total nearly \$5 million over 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 and possibly a library, is necessary. 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. 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 2016, 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, will again be funded through current revenues. Our capital funds had not been fully 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 since 2014 are being put to use for these purposes and substantial completion is anticipated in 2016.

In conclusion, 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 has developed a realistic plan of action regarding these significant capital investment issues in keeping with the recently adopted goals of the Edgewater City Council and our Comprehensive Plan.