GRAND JUNCTION CITY COUNCIL
FRIDAY, SEPTEMBER 25, 2015

BUDGET WORKSHOP RETREAT, 10:00 A.M.
LINCOLN PARK HOSPITALITY SUITE
1307 NORTH AVENUE

To become the most livable community west of the Rockies by 2025

I. 10:00-10:15 Introduction-Tim Moore *Attachment*

II. 10:15-11:45 Department Presentations

A. Parks & Recreation – Rob Schoeber
B. Public Works – Greg Lanning
C. Fire – Ken Watkins
D. Police – John Camper
E. Administration – Tim Moore

III. 11:45-12:15 Lunch Break

IV. 12:15-2:30 General Fund Budget-Jodi Romero

A. Revenue
B. Labor
  1. Labor Detail
C. Interfund Charges
D. Capital
  1. Operations Capital
  2. Major Capital
  3. Capital Detail
E. Riverside Parkway Revenue-Tim Moore *Attachment*
F. Economic Development
  1. Economic Development Requests
  2. Economic Development Worksheets

V. 2:30-3:00 Next Steps-Tim Moore

1. Follow Up from This Workshop-September 28th
2. October 5th-Internal Service Funds, Enterprise Funds
3. October 19th-Fund Balance Worksheet/Budget Wrap
4. November-Budget Adoption

VI. Adjournment

City Council
State of the 2016 General Government Budget
September 23rd, 2015

General Government Services
The City's General Government services, providing public safety, maintaining multimodal transportation systems, maintaining parks and open space and providing recreation opportunities are funded through the General Fund.

Revenue:
The major revenues for the General Fund are sales and use tax (60%), property tax (13%), and pass through taxes (6%) (highway users, cigarette, severance and federal mineral lease).

Sales tax is collected on all retail sales of tangible personal property and a few specified services. The City does not tax groceries (food for home consumption), residential utilities, prescription drugs, or gasoline. Because of these exemptions consumer "discretionary" spending drives the growth or decline of sales tax revenues for the City. In 2009, the City's sales and use tax revenues declined 20% and another 2% in 2010 coming off of two years of double digit growth and a 20 year average growth rate of 9.3%. Currently the revenues are only back up to between 2006 and 2007 levels and the average growth rate over the last three years is 2%. The City is projecting a sales tax increase of 2% in 2016 while the County is projecting 3%, Fruita is projecting 1% and Palisade is projecting 2%. After the vendor fee transfer to the Visitor and Convention Bureau, the projected increases in sales tax nets to an increase of $600k and a 3% increase in the City's share of the County's sales tax results in an increase of $192k.

The mill levy for property taxes has been 8 mills for at least the last 25 years. Because of the schedule of valuing properties and the levy/collection delay, revenues from property taxes dropped due to recessionary pressure on property values in 2012 through 2014 for a combined decrease of 24%. Based on the preliminary certification from the Mesa County Assessor's office property tax revenues are expected to increase 1.9% or $140k in 2016.

Charges for services such as ambulance transport fees, parks and recreation fees, and professional services contracts (police at CMU, rural fire district, road work for State, etc.) are the next largest category of revenues in the General Fund. They are directly related with services provided, however most of the time the charges do not cover the full cost of providing the service and therefore the service or program is subsidized by tax dollars.

Expenses:

>Labor

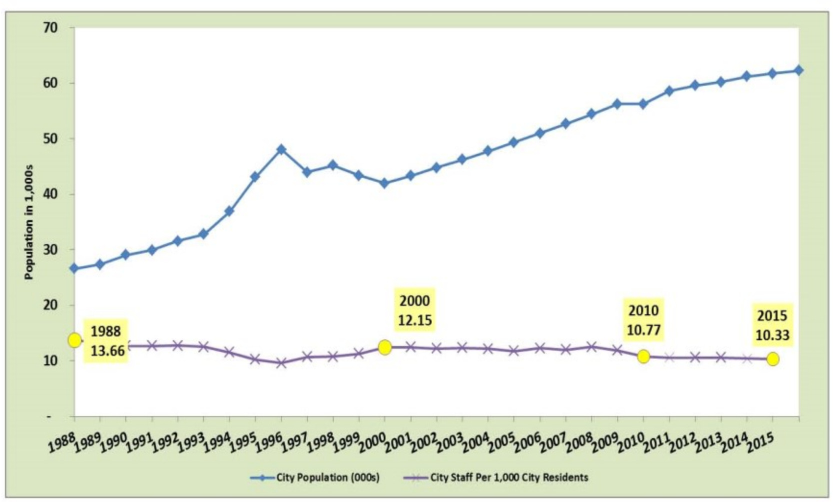
The City organization is a predominantly service-based organization and as such labor is 44% of the City's total budget with over half the employees in public safety. Labor comprises 67% of the General Fund Operating Budget.

The City currently has 640 full-time employees with 432 of those in the General Fund. During the recession the City reduced its workforce by 12% (82 positions), implemented a hiring freeze and across- the-board wage cuts of 3% (for two years), and shifted more of the cost share for health insurance to the employees.

During the last five years there have been 12 positions re-established, predominantly in public safety and self-supporting enterprise operations. The 2010 3% wage cut was reinstated in two phases in 2012, wages were then brought to a 2013 market rate over a two-year period in 2013 and 2014 followed by a two-phase implementation of 2015 market wages this year with the most recent mid-year authorization by City Council.

In 2016, it is estimated that a 1.2% across the board wage increase is needed to keep wages from falling behind market and it has been included in the proposed budget. Although 22 new General Fund positions have been determined by the Department Directors to be necessary, no new positions are requested in the proposed 2016 General Fund budget with the exception of 3 grant-funded firefighter positions.

For the organization as a whole, the number of employees per capita has continually gone down since 1988 with currently 10.33 employees for every 1,000 City residents: the area of the City has grown from 14.6 square miles to 39.5 square miles, more than 2 ½ times the size it was in 1988.



A major component of labor expense is health insurance. The City through its partially self-insured program with Rocky Mountain Health Plans has been successful in keeping health insurance increases below area and national averages for the last several years as the result of an organization wide commitment to employee health and wellness. Because of this success and recent good experience in actual claims, staff has negotiated a flat premium rate in 2016 equal to 2015.

The Affordable Care Act is also creating pressure on cost of employee benefits. The Act requires that employers offer the same health insurance plans and premiums to employees who work over 30 hours per week as are provided to full-time employees. Eight employees are impacted by this requirement including five seasonal employees and three 3/4 time employees who already receive a prorated premium payment for health insurance. If all employees chose the highest option plan with family coverage the impact of the law will be additional costs of $71k in 2016. Most of the employees that will be eligible are in general fund operations.

Additionally, at the end of 2015, the City will be required to produce the 1094-B and 1095-B reports for the Federal government. These reports are used to provide information to taxpayers (employees) and the IRS that will identify if the employee and their family are covered by a health plan that provides minimal essential coverage and therefore are not liable for the individual shared responsibility payment.

>Interfund Charges

The City's Internal Service operations are established to finance, administer, and provide goods and services to departments of the City and to some external partners (i.e., Comm Center services to other public safety entities). The City's Information Technology, Fleet, Facilities, and Communication Center support over $134 million worth of assets used in the operations of the City and deliver services to the community. The use of internal service funds to accrue for the replacement of assets is a critical financial planning tool and develops a long term strategy to ensure that the resources necessary to provide basic government services are available to the departments. The City's Insurance Fund manages health, property and liability, and worker's compensation insurance for the organization. For this reason, funding internal service charges is a priority in the budget each year. Interfund charges make up 20% of the General Fund Operating Budget. It is anticipated that the majority of the 2016 increase in these charges will be from Information Technology and the Communication Center.

The organization is heavily dependent on Information Technology particularly in the areas of public safety (i.e., dispatch, records, and emergency medical services). Because of this commitment to supporting the information technology infrastructure of the City, the budget is impacted by the rising cost or inflation of the industry. Over the last five years the average annual increase in information technology costs has been 10%.

The Communication Center operations are funded through an intergovernmental agreement among the County-wide law enforcement, fire, and emergency medical services agencies. Charges for service/interfund charges (to the City's Police and Fire Departments) are determined by call volume. The City's Fire and Police Departments make up 58% of the Communication Center funding and are budgeted within their budgets in the General Fund. Staffing of 911 Dispatchers and the ability of the agencies to support needed staffing levels continue to be a significant challenge. Five new positions were identified for 2016 (4 Dispatchers and 1 Quality Assurance Analyst), however only the Quality Assurance Analyst remains in the budget.

>Non-Personnel Operating

The remainder of the General Government operating costs (after labor and interfund charges) make up 12% of General Fund Operating Budget. The top five operating costs are contract services (animal control, ambulance billing, stormwater cleaning), utilities (street lights and signals are most of the cost), operating supplies (medical supplies, ammunition, police and fire recruitment), materials (asphalt, paint, road salt), and training (public safety certifications, professional development, dues).

Because the direction over the last several years has been to maintain a flat operating budget, the departments have had to decrease areas in their non-personnel operating budgets in order to absorb other cost increases such as information technology, fuel, utilities, and materials. Over the last five years Non-Personnel Operating budgets have been **decreased** by an average of 4%.

General Government Capital

The General Fund's major source of revenue is sales and use taxes. A portion of the City's 2.75% tax rate is dedicated to capital and economic development projects. Other revenue sources available for specific types of general government (drainage and transportation capacity) come from user fees; however, those user fees are not sufficient to fund the improvements and therefore resources from either the General Fund or Sales Tax Capital Fund must be used to complete the projects. In the past, economic prosperity allowed the General Fund to assist with capital projects. The most significant use of General Fund reserves for capital over the last few years has been for the Riverside Parkway (including 29 Road Overpass), 22 Road, and the Avalon Theatre renovation. Additionally Parks & Recreation capital projects are funded by Conservation Trust Funds (lottery proceeds from the State and Open Space user fees). The City has very successfully leveraged all these capital dollars to obtain grant funding to help pay for projects.

For 2016 there are $16.3 million worth of needed capital projects, while current resources can only fund 60% ($9.6 million) of those projects.

Over the last few years, City Council has made a significant commitment to economic development projects and partners. In the past, resources for economic development have come from the General Fund and the Capital Fund; however, currently there are more needs than resources available. Council has recently discussed a sustainable source of revenue to fund economic development efforts.

Summary

Significant economic challenges face the organization: the operating revenues have increased at a very nominal rate and have not kept pace with increasing operating costs. Based on Council's direction at the last budget workshop, staff is evaluating potential increases in general government fees and rates, as well as potential decrease in services and programs; however as discussed there are many needs already that have not been funded in the current proposed budget.

During the years of recession, the departments made significant budget cuts in order to sustain capital and economic stimulus to the local economy. In the years following the recession, the departments have been successful in providing virtually the same service levels to the community, while living within the limited resources available: however without an increase in resources, we are at the point that we can no longer sustain the current service delivery model, capital, and economic development investment. Alternatives will be brought for Council's consideration at the September 25th Workshop.

Riverside Parkway Fund

On April 3, 2007, 59.4% of Grand Junction voters authorized the City to spend the revenues that would have been refunded under TABOR to pay the Riverside Parkway debt. That ballot question was submitted by City Council approving Resolution no. 13-07.

- Resolution No. 13-07 also provided that the TABOR excess be "added to debt service payments budgeted by the City" and "allocated solely for additional payment" to pay the debt as early as possible.

- The Resolution does not specify the amount of "debt service payments budgeted by the City" and accordingly the Council may want to consider the amount(s) it budgets in 2016 and thereafter. Each year since 2007 the City has budgeted between $7.0 and $3.8 million and has continued to accumulate the TABOR excess in the Parkway Fund.

- Although the Resolution considers the Parkway Fund for "additional payment" the voter approved ballot question only provides that those amounts be used for payment of the bonded debt. Using the Parkway Fund to make the current annual payment, as authorized by voters, would free up $3.8 million of current resources that could be used for capital and economic development.

- In 2007 in order to realize interest earnings and to further the goal of an earlier payoff target, the City Council transferred an additional $7.2 million dollars to the Parkway Fund.

- In 2012 the City re-financed the Parkway debt using the dollars accumulated in the Parkway Fund ($19 million) and reduced the interest rate from 4.78% to 2.26%. This resulted in $7.5 million in interest savings and effectively accomplished the "accelerated payment" commitment started with the Resolution.

- The current projected ending balance in the Parkway Fund is $9.9 million in 2015 and $11.5 million in 2016.

- Because debt payments are excluded from the annual TABOR calculation, once the Parkway debt is paid off, the annual payment amount (+/-$3.8 million) will be added to the calculation. If that occurs and if the economy improves, the City could be faced with significant TABOR impacts, including but not limited to "Black Box" excess and an annual "ratchet down effect."

With the state of the Grand Junction economy as it was in 2007, the early payoff decision had economic and financial merit. Today, the economic conditions are dramatically different. A comparison of then and now is included below.

Grand Junction in 2007
Sales & Use Tax revenues increased by 12% over the prior year.
General Fund revenues of $62.5 million were the highest ever collected.

Grand Junction Now
Sales & Use tax revenue is expected to increase 2% over the prior year.
General Fund revenue is expected to total $64.7 million, a 3.5% growth in 9 years.

The Sales Tax CIP Fund ended the year with a $6.6 million fund balance to assist 2008's capital plan.	The Sales Tax CIP Fund does not have a fund balance and has less than $6 million total to allocate to capital projects.
Grand Junction in 2007	**Grand Junction Now**
Grand Junction was the 14th fastest growing economy in the nation and 1 in job growth in Colorado.	Grand Junction is not on the list of fastest growing economies and is 2nd to last in job growth in Colorado.
The unemployment rate was 2.8% and we had the fastest growing wage and income growth in the State at 12%.	The unemployment rate is currently 5.4% and the annual wage and income growth rate is last in the state at 1%.
Average yield on investments was 5.3%.	Average yield on investments is projected at .7%
Interest rate on Parkway bonds was 4.78%	Interest rate on Parkway bonds is 2.26%.

Given these differences in the economy there are some questions that the Council may want to consider. Those are:

1) Is the Council willing to reexamine Resolution 13-07?

2) If so, will a majority approve of:

a) budgeting a lesser payment than has typically been made and using some funds from the Parkway fund to satisfy the total required annual payment amount? OR

b) budgeting payment of the required annual payment amount exclusively from the Parkway Fund? OR

c) devising an alternative(s) to use the Parkway Fund for a project to complete the Beltway Project and for a possible ballot question?