



## CITY OF COLORADO SPRINGS

January 1, 2012

Honorable President and Members of City Council:

This transmits to you the final 2012 budget. One of my three main objectives as Mayor is to transform City government so that it works for everyone without increasing taxes. This requires a longer-term, more strategic view. Looking out five to eight years, there are clear fiscal challenges that will require creative solutions. It is within this context that I present a 2012 budget that provides core City services and the opportunity to contribute to the City's fund balance. While City sales and use tax revenues have been improving, we expect expenditure growth to outpace revenue growth in the coming years. In addition, recent negative economic reports and a volatile stock market suggest caution and a conservative revenue forecast are prudent.

This annual budget is a financially sound operational plan for programs and services that meet the critical public needs of the citizens of Colorado Springs. This budget was developed with a fresh philosophy toward budgeting. While there was not sufficient time between my inauguration and the Charter mandated release of the budget to complete a zero or priority-based budget process, the methodology used is a step in that direction. Salaries, benefits and operating expenses are budgeted more closely to recent actual experience. In addition, departments were challenged to examine all vacant positions and opportunities for efficiencies. I commend their efforts as this exercise resulted in over \$3 million in savings that was necessary to support other unavoidable expenses; but still allowing continued funding of valued services and programs as well as funding customer service and quality-of-service enhancements.

In the coming months I will present a four-year plan to address our long-term fiscal challenges. While that plan is not fully-developed, some strategies already in place include: engaging an independent consultant to conduct a total compensation study to ensure we have a fiscally-responsible salary plan that also works to attract and retain high-performing employees; working with our legislative delegation to propose and gain support for legislation enacting more sustainable pension funding practices; and implementing an innovation and sustainability program. The City has spent the past four years becoming a leaner organization; the innovation and sustainability program will help the City become a stronger, healthier organization. Together these budget and planning initiatives along with economic vitality programs that include the *Spirit of the Springs* program will bring a renewed sense of pride, positive energy and vibrancy to our community.

## Budget Totals

The General Fund budget, which provides for the majority of public services to our community, totals \$223,451,500. This includes an \$811,000 contribution to the fund balance a portion of which is to repay the amount drawn from fund balance during 2011 to accelerate the Pikes Peak America's Mountain Erosion Control Project. The 2012 budget total is a 0.11 percent increase from the 2011 budget and a 0.34 percent decrease from the current end-of-year revenue projection. The increase, however, is due to the transfer of functions from other funds to the General Fund. For 2012, Real Estate Services and Risk Management are transferred from the Support Services Fund to the General Fund. Also, for 2012, the Stormwater Enterprise Fund will be closed and any remaining funds, as well as responsibility for all activities and related expenditures required to comply with the federal Municipal Separate Storm Sewer System (MS4) permit, are transferred to the General Fund.

The All Funds balanced budget totals \$378,773,540. This total includes an appropriation for expected grant funds of \$57.0 million. Excluding grant funds in both years, the 2012 All Funds budget reflects a decrease from the 2011 budget of less than one percent. The net change to the All Funds position total is a reduction of approximately 35 positions.

## Sales and Use Tax

The primary source of revenue for the General Fund is sales and use tax. Sales and use tax revenue fell precipitously during the recent recession. The 2012 forecast assumes sales and use tax revenue will be approximately one-half of a percent below the current 2011 end-of-year forecast or 2.06 percent above the 2011 budget. The City uses three models to forecast sales and use tax revenue. Given the results of those models and the consensus that the recovery is faltering, we believe a conservative projection is the appropriate strategy.

- Nationally – “The National Association of Business Economists September Outlook panel revised its growth projections downward for both 2011 and 2012.”<sup>1</sup> Specifically, “a wide variety of factors were seen as restraining growth, including low consumer and business confidence, uncertainty about future economic policies, a tepid housing market, and financial headwinds caused by tight credit conditions and balance sheet restructuring. Panelists were very concerned about high unemployment, federal deficits, and the European sovereign debt crisis.”<sup>2</sup>
- Locally - The Southern Colorado Economic Forum – July 2011 Quarterly Updates and Estimates (QUE) states “The near-term outlook for the local economy seems to be slow growth, at best. Nothing suggests the economy is poised for good growth.” As this outlook was prior to a number of negative economic events including the downgrade of the United States' credit rating by Standard & Poor's, volatile stock markets, and poor jobs reports it is anticipated the next outlook will be more pessimistic.

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<sup>1</sup> <http://www.nabe.com/publib/macsum.html>, September 23, 2011

<sup>2</sup> *ibid*

Acknowledging that these slow growth projections may not be realized, and sales and use tax revenues might outpace our forecast, I propose to reevaluate the City's position after the first quarter of 2012. At that time we will have final figures for 2011 and can reassess the revenue trend. If our updated models suggest revenues will exceed the forecast upon which the budget is based, I may propose funding additional services at that time. This strategy would minimize the possibility of implementing additional services without sufficient revenues to fund them.

### **General Fund Expenditures**

During the 2012 budget process, departments were challenged to identify further efficiencies and to flatten their organizations. As a result, 37.50 vacant positions are eliminated which resulted in no net gain in salary and operating savings year over year.

The 2012 General Fund budget includes unavoidable expenditure increases for utilities, the employee medical plan, stormwater maintenance activities required to remain in compliance with the federal Municipal Separate Storm Sewer System (MS4) permit, fuel, streetlights, maintenance for the Police Department's records management system, replacement of Police mobile data computers, and other department unavoidable expenditures. The budget also continues the supplemental funding for additional watering of neighborhood parks; however, with the discontinuation of Colorado Springs Utilities' pilot water conservation rate, water rates for 2012 will increase significantly.

For 2011, City management recommended and City Council approved a change to the cost sharing formula used to fund employee medical plan premiums to 86 percent employer/14 percent employee. For 2012, a second cost shift phase is included to move the cost sharing formula to 80 percent employer/20 percent employee. This continues to move the cost sharing to be more in-line with both public and private industry standards. This shift is expected to save the General Fund \$742,000 for 2012.

### **Other Funds**

The budget includes details for all funds of the City's municipal operations, including Enterprise, Special Revenue, Internal Service, and the Permanent Funds. For 2012, the Enterprise Funds total \$35,962,930; the Special Revenue Funds total \$62,022,610; the Internal Service Funds total \$62,393,804; and the Permanent Funds total \$336,500.

### **Enterprise Funds**

The Enterprise Funds include the Airport, Cemeteries, Development Review, Golf, Parking, and Pikes Peak - America's Mountain. These funds provide services similar to a private business and have their own set of accounting records detailing their financial condition. Several of these enterprises are impacted by the local economy and have adjusted their budgets to reflect the necessary user charges and funding to support the delivery of services.

### **Public Safety Sales Tax (PSST) Fund**

The largest of the Special Revenue Funds is the PSST Fund, with total expenditures of \$24,401,794 for 2012. To satisfy the level of effort required by the PSST ballot question, the General Fund budget must allocate more than 47.65 percent of total resources for public safety purposes. For 2012, the General Fund budget allocates 56.45 percent for public safety purposes.

### **TABOR Cap**

For 2012, revenue subject to TABOR is projected to be \$11 million under the cap. This estimate is based on eligible revenue included in the 2011 budget, a projected inflation rate of 3.51 percent and a projected local growth rate of 1.00 percent. Projections under the cap leave fiscal capacity for additions to the unrestricted fund balance or municipal services enhancement if revenues exceed projections.

### **Fiscal Sustainability**

This 2012 budget continues municipal services at their current 2011 level. During 2012, City Council and I will engage the community in a process to develop a new Strategic Plan that will incorporate specific measurable outcomes. I will also develop a four-year plan to address the City's long-term fiscal sustainability. Absent creative solutions and changes to current practices, intermediate-term projections for revenues and expenditures suggest the City may be forced to substantially deplete its fund balance and/or reduce services.

This budget is the product of the hard work and talent of dedicated professionals from each department. As always, staff has fulfilled their responsibilities with utmost professionalism. It is with gratitude that I would like to thank them and present this final budget to you.

Sincerely,

A handwritten signature in black ink, appearing to read 'SB', with a long horizontal flourish extending to the right.

Steve Bach  
Mayor  
City of Colorado Springs