



November 2, 2009

Dear Honorable Mayor and Members of City Council:

Thank you for your leadership again in our budget process this year. Because of the economic challenges facing us, we had more information to present to Council and were able to spread that information out over several meetings. This allowed us to focus on policy issues and true budget alternatives at the September 22nd budget meeting.

On August 31st, we reviewed the Long-Range Financial Plan as adopted by the City Council in October 2004. There has been tremendous progress made toward implementing many of the goals of that financial plan, however, there are several items that remain to be accomplished. Long-range plans are imperfect when predicting all of the variables within the market and in our case, as well as that of the nation's, did not anticipate the tremendous drop-off in residential construction that began in 2006.

As I mentioned to you last year, we have been in a "perfect storm" of revenues versus expenditures due to the national economy. New home construction fell to the extent that Commerce City saw no residential permits issued in January and March 2009. Thankfully, the housing market has shown signs of recovery. Also, retail sales dropped off and are now slowly growing again. Both housing construction and the general economic recession impacted the City's revenues. As a City, we are in a position of trying to wean ourselves off of "one-time revenues" as we are facing more unfunded mandates from State and Federal governments and higher levels of service needs from the public. We are not facing a critical situation this year, but we have to constantly monitor our direction to avoid a worse situation next year where our operating reserves could begin to be depleted. It is our intent to avoid this downward trend by evaluating every option that is available to us.

The City has coped with three year's of revenue shortfalls by tapping a variety of fund balances that in good years helps fund the repair and replacement of computers and vehicles. Although not preferable, I believe that this is our best way of managing our resources and budget to leverage the best service to our citizens. Last year we were able to balance the budget because staff in each department worked diligently to reduce their expenditures and put simply... "do more with less". For 2010, we were facing an approximate \$5.8 million shortfall that we were able to cover by various Retained Earnings transfers and tapping into Fund Balances including General Fund. This is remarkable during a time of severe economic hardship. Given the fact that the City departments presented very lean budgets which included additional cuts above 2009 levels, we were faced with either looking at deeper cuts to programs, dipping into the reserves again, or looking at certain revenue enhancements.

The current economy is one of the most difficult this country has seen in many years. To think that our community's economy would be immune from this would be irresponsible. We know what our situation is as a State and a region. The signs that the economy has hit the bottom are beginning to surface and only time will tell if the various federal stimulus packages will begin to shore up our economy. By some estimates, the market won't recover

for 5 years. Consequently, as we look toward future years, we need to evaluate innovative means of providing services.

Commerce City's Economic Outlook

The national's financial system has been in turmoil and economic activity started to a very slowing rebound at the end of 2008. The national economy went into recession and some economists have declared the recession to be over. But the recovery will be slow. The state of the national economy is reflected in revenue generated from certain sales and use taxes. Sales and use tax revenues are forecasted to increase a modest 1.5% in 2010 and 3.0% in 2011.

There has been a drop off in the residential development market as was forecasted last year. If economic conditions worsen in 2010, a balanced budget may be maintained by deferring major operating expenditures, freezing vacant staff positions within certain departments, and deferring selected capital improvement projects.

What's Ahead

City Council's commitment to its goals and vision will be important as we move forward while continuing to experience the impact of the current economy. The past residential growth continues to exert pressure on the City's budget due to the demand for additional services. Until commercial and retail development begins, there will be pressure to increase expenditures faster than revenues will increase. This will require prudent financial and management planning to control the growth in the capital and operating budgets.

The Commerce City staff is committed to providing quality services to our citizens and assisting City Council in attaining its goals, and trust that you will find the 2010 budget and 2011 plan to be helpful as you consider future policy decisions.

The deputy city managers and finance director meet monthly to monitor the expenditures and revenues as compared to the approved budget. I meet with my deputy managers weekly on all management issues in the city and also meet with them quarterly to review the City's financial status. In addition, staff will continue to provide a quarterly financial update to Council. We will do this to ensure that the City does respond appropriately to changing economic conditions.

Commerce City's annual budget document is built to support and sustain the values of the community and the goals of City Council. We continue to demonstrate that we are using the public's resources effectively, keeping city assets in good condition, planning for future needs, providing quality services and attracting and retaining good employees. The 2010 budget provides a positive and disciplined approach to financial management.

Biennial Budget

The budget is again presented as a biennial budget for 2010-2011. It provides the 2010 budget and the 2011 financial plan. The budget document is essentially a policy tool, a financial plan, an operational tool for the managers and a communication device providing information to the public. With this in mind, we have made every effort to make the information available for all levels of readers. We have presented key information through the use of data charts, graphs, and tables making it easier for the reader to follow the relationships between data, and interpret and understand financial information.

Following are some of the more significant additions and changes to this year's budget document, many of which are more fully discussed in the "Budget Overview" section:

- The 2009 consolidation of the Sales and Use Tax Fund, Street and Bridge Fund and Parks and Recreation Fund within the General Fund has been successful and is continued in this budget.
- A City-wide contingency fund is again established to deal with unbudgeted circumstances.
- Four previously authorized but vacant staff positions have been eliminated.
- Thirteen and one-half previously authorized but vacant staff positions will remain authorized but not funded. There is also an authorized but unfunded intern position within the Human Resources Department.

Budget and Financial Highlights

The 2010 budget as presented is balanced and is in conformance with the City Charter and State budget laws. This year's budget continues to support City Council goals while maintaining fiscal conservancy in revenue and expenditure assumptions. The total expenditures of all funds (including the enterprise funds) are \$52,255,533 for 2010 and \$53,764,166 for 2011.

The General Fund (now including Street and Bridge and Parks and Recreation) comprises 82.5% and 83.5% of all funds, in 2010 and 2011 respectively. This fund supports the major operations of the City. The General Fund budget is \$43,299,324 in 2010 representing an increase of 5.0% over the adopted 2009 budget and it will increase another 0.5% to \$43,515,547 in 2011. The Capital Improvements & Preservation Program was presented to the City Council at the budget meeting. The 2010 Capital Improvements & Preservation Program is adopted by the City Council along with the 2010-2011 Budget. The 2010 CIPP budget utilizes only restricted funds.

The City of Commerce City has a relatively diverse and conservative revenue structure. The City's sales and use tax rate is 3.5%. Excluding interest earnings, sales and use tax revenues represent 34.1% of the City's operating revenues totaling \$41,934,165 (license, permits, fees and taxes). The 2010 budget reflects an 11.0% increase in sales and use tax revenues and an increase of 1.0% in total revenues. The 2011 plan reflects a 4.4% growth in sales and use tax revenues due to an anticipated rebound in residential construction and an increase of 6.5% in total revenues.

Commerce City experienced unprecedented residential growth from 1999 to 2005, but in 2005 the rate of new construction slowed to 1,648 units. In 2006 it dropped to 819, in 2007 it dropped farther to 469 and in 2008 it dropped to 238. Based upon the building permits year-to-date we project approximately 111 units will be built during 2009. The proposed budget is based on the assumption that 50 residential units will be built in 2010.

Growth and the resulting population influx have increased the demand for City provided programs and services. To maintain the current levels of service, departments requested increased staffing levels. However, because of the decline in sales and use tax revenue, no

new positions are budgeted for 2010. Thirteen and one-half positions approved previously will remain authorized in 2010 but will not be funded. In addition, four vacant positions will be eliminated.

The City has cash reserves of \$12,345,550 which includes the 3% TABOR emergency reserve and the City's self-imposed operating and safeguard reserves. The City's reserves meet the reserves policy. Commerce City is in a period of dynamic change, which will continue for the next fifteen to twenty years. During this period Commerce City will face significant financial challenges if we are to maintain the current levels of service residents have come to expect.

Acknowledgements

The preparation of every budget requires a significant amount of team effort. I would like to give special thanks to Nanette Neelan, Tom Acre, Roger Tinklenberg, Carol Enninga, Sheryl Carstens, Jason Leslie, and the entire Finance Staff. In addition, I would like to thank each of the departments who worked collaboratively with the Finance Department to prepare the budget.

Respectfully,



Gerald M. Flannery
City Manager