

November 1, 2008

Dear Honorable Mayor and Members of City Council:

Thank you for allowing us to use a different approach in the 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 29th budget meeting.

On September 8th, we reviewed the Long-Range Financial Plan as adopted by the City Council in October 2004 and the tremendous progress made toward implementing the Financial Plan. There are a number of items that have not been accomplished. Long-range plans cannot perfectly anticipate what will occur and in this case did not anticipate the tremendous drop-off in residential construction that began in 2006.

As I mentioned to you on August 25th, we are currently in a “perfect storm” of revenues versus expenditures due to the national economy. Currently, Colorado Builders, like builders throughout the country, are experiencing record layoffs and some are shutting down. 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 and higher levels of service needs from the public. We are not facing a critical situation this year but we have to change our direction to avoid a worse situation next year and a situation where our emergency reserves could be depleted in two years.

Last year we had an approximate \$3 million shortfall that we tapped \$2.1 million of our reserves to fill. This 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”. This is remarkable during a time of severe economic hardship. Given the fact that the City departments presented very lean budgets, 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. I don't recall a time in recent history where the Federal Government had to bail out major financial institutions such as Freddie Mac and Fannie Mae, AIG and a number of national banks. 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

In 2008, the national economy has been in turmoil and economic growth has been slowing. Some economists are predicting a recession and others say we are already in one. Commerce City's economy grew up to 2008. The growth was reflected in revenue generated from certain sales and use taxes. Sales and use tax revenues are forecasted to increase a modest 3% in 2009 and 2010.

There has been a drop off in the residential development market as was forecasted last year. If economic conditions worsen in 2009, 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 recent 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 planning and management 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 2009 budget and 2010 plan to be helpful as you consider future policy decisions.

I will be meeting monthly with the deputy city managers and finance director to monitor the expenditures and revenues as compared to the approved budget. In addition, staff will 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 2009 budget provides a positive and disciplined approach to financial management.

Biennial Budget

The budget is again presented as a biennial budget for 2009-2010. It provides the 2009 budget and the 2010 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 Sales and Use Tax Fund, Street and Bridge Fund and Parks and Recreation Fund are all combined with the General Fund.
- A City-wide contingency fund is established to deal with unbudgeted circumstances.
- Five previously authorized but vacant staff positions have been eliminated.

- Twelve 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 2009 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 \$52,945,685 for 2009 and \$55,100,551 for 2010.

The General Fund (now including Street and Bridge and Parks and Recreation) comprises 80.6% and 80.9% of all funds, in 2009 and 2010 respectively. This fund supports the major operations of the City. The General Fund budget is \$41,202,038 in 2009 representing an increase of 2.5% over the adopted 2008 budget and it will increase another 3.1% to \$42,609,054 in 2010. The Capital Improvements & Preservation Program was presented to the City Council at the budget meeting. The 2009 Capital Improvements & Preservation Program is adopted by the City Council along with the 2009-2010 Budget. The 2009 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 67.8% of the City's operating revenues totaling \$41,526,656 (license, permits, fees and taxes). The 2009 budget reflects a 10.4% reduction in sales and use tax revenues and a decrease of 3.4% in total revenues. The 2010 plan reflects a 8.8% growth in sales and use tax revenues and an increase of 9.2% 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 and in 2007 dropped further to 469. Based upon the building permits year-to-date we project approximately 279 units will be built during 2008.

The proposed budget is based on the assumption that 300 residential units will be built in 2009. However, it is possible that a lower number of residential units will be built in 2009. As discussed at the budget meeting, if the number of residential units permitted in 2009 is less than 300, then additional money will need to be cut from the 2009 budget.

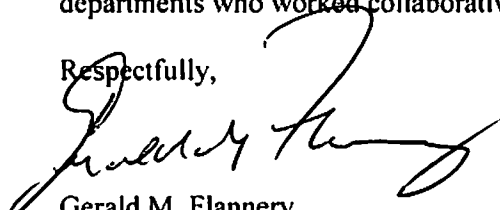
Growth and the resulting population influx has increased the demand for City provided programs and services. To maintain the current levels of service, departments requested increased staffing levels. However, because of the decline in sales and use tax revenue, no new positions are budgeted for 2009. Twelve and one-half positions approved previously will remain authorized in 2009 but will not be funded. In addition, five vacant positions will be eliminated.

The City has cash reserves of \$11,856,485 which includes the 3% TABOR emergency reserve and the City's self-imposed operating and safeguard reserves. The City's reserves met the reserves policy until it became necessary to budget \$2,145,493 from the Operating Reserve in 2008. If the revenues exceed expenditures in 2008, then the Operating Reserve may be replenished. 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, Lynn Roberts 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