

Memorandum

To: Mayor and Council
From: Tom Baker and Lyle Layton
Date: September 1, 2015
Re: Policy Discussion: 2016 Budget – Revenue and Expenditure Direction

Purpose: The purpose of this item is to give Council information and recommendations so that Council can engage in a policy discussion on revenues and expenditures, and give staff direction for the 2016 budget.

Background and Discussion: Council's discussion tonight will provide staff with direction to develop a first draft of the 2016 budget, which will be delivered to Council at the October 6th meeting. At the October 6th meeting, staff will suggest a schedule of budget meetings to allow modifications and ultimately adoption of the budget in November/December.

As you know, DOLA's Direct Distribution for Mineral Leasing and Severance Tax Funds will be published on September 1st and staff will bring that information to the meeting as an additional input.

General Fund Revenues – This section will cover the major GF revenues: Sales Tax, Property Tax, and Mineral Leasing and Severance Tax.

Sales Tax. Our sales tax summary for the first half of 2015 shows that these revenues are up 8.66% from this same period in 2014, see attachment 1. This increase is across all categories and likely reflects a general improvement in household economies – gasoline prices have not spiked this year, housing foreclosures have diminished significantly, home sales are climbing (residential sales for the first eight months of 2015 equal the residential sales for all of 2014, see attachment 2), and new homes are being constructed.

This year, monthly increases in sales tax range from a low of 5.15% to a high of 13.93%. Clearly the sales tax trend is up and staff finds no reason to think this trend will not continue. **Staff recommends that we project sales tax for 2015 to be up 5%.**

In the 2015 budget, we projected sales tax to increase approximately 2% over that projected for the 2014 budget. **Staff recommends that in 2016 we project sales tax to be up 2% over our 2015 projection.**

Property Tax.

As all property owners know, the reassessment of property values, which occurs every two years, is up significantly with the current reassessment. Staff and friends have seen value increases between 20% and 51% for their residential property. As you know, since 2010 property tax revenues have fallen over 50% (\$280k). **Staff recommends that we project property tax revenue to increase \$70,000 in the 2016 budget.**

Building Department Revenues. Building activity is slow but moving in the right direction. New home starts from 2010 thru 2013 totaled one (1) unit. In 2014 we had

12 new home starts. In 2015, through July, we have had 12 new home starts. Building Permit revenues through July, 2015 total \$60,816. There continues to be talk and some evidence that the housing market is recovering. In New Castle the rental market shows little in the way of vacancies. Real estate sales are strong compared to last year, see attachment 2. The table seems to be set for new residential construction, however, it may be several more years before any substantial development occurs. In 2016, we may see 40+ Senior Housing units, golf clubhouse and additional new housing construction, which will add revenue to the general fund and utility fund.

Staff expects that building permits will increase next year and perhaps increase substantially; however, while the number of building permits is likely to increase the revenue impact is still modest. Therefore, staff suggests estimating building permit revenues at \$65,000 for 2015.

Mineral Leasing and Severance Tax direct Deposits (MLSTDD). On September 1st, DOLA will post the MLSTDD figures for 2015. In the 2014 budget we estimated a total of \$225,000 for this line item and we received \$583,000. Staff has found no reliable way to estimate MLSTDD. Staff recommends this line item be estimated at \$225,000. We have two reason for this low estimate: first, we see little risk in a conservative estimate; and second, Garfield County persons in this field expect a downturn of this revenue stream due to reduced oil and gas activity. They expect this downturn to last through 2017.

Utility Fund Revenues – The Utility Fund has a reserve balance near \$1.4M after the \$815K match for the WTP Grant. We have three potential capital investments that need to be considered in the foreseeable future. First, the south interceptor needs to be replaced/repared and increased in capacity. This project is estimated to cost \$2M, which means that with a DOLA Grant we will need a 50% match (\$1M). The second capital investment is utility service to the Kuersten property. The County has indicated a desire to assist with this project and the Town can expect to provide a 30%-50% match to any grant for this purpose. The third investment is the raw water improvements for the CVR area...cost \$800k (\$400k match for DOLA Grant).

Staff will discuss a Utility Plan at the October 10th Retreat. This plan will guide Council on rate increases based upon projected reserve fund targets.

Tap fee collections over the past 5 years

Year	Tap Fees (\$)
2011	16,000
2012	0
2013	36,000
2014	157,000
2015 thru August 15	135,000

Tap fees were budgeted at \$180k for 2015, which we will likely attain with modest continued activity. Monthly service charges are on budget even though we have had a very wet spring and summer. Staff recommends that tap fees and monthly service charges remain flat for 2016.

General Fund Reserve - The General Fund Unassigned Reserve is our safety valve and safety net. During the 2013 and 2014 budget processes Council set a policy target of \$500,000 for this fund. After the 2014 Audit, staff projects a GF Reserve balance of \$400,000 at the end of 2015. (Please note that this number is likely \$100,000 to \$250,000 low and will depend on the Direct Distribution for Mineral Leasing and Severance Tax. Council budgeted \$225,000 for this line item and staff expects the actual amount to be higher. This number is scheduled to be published on September 1st.) Once again, staff suggest we start the budget process with the GF Reserve target of \$500,000 and adjust as opportunities and necessity dictate.

Expenditures – While our local economy is showing signs of improvement it seems impossible to say that continued economic growth is a certainty. Staff feels cautiously optimistic that our modest economic improvements will continue. Therefore, staff is building a budget with a goal of keeping operating cost within 2% of last year. Capital expenditures will depend on grants and matching funds for those grants. Currently, we have four grants in process:

- GFMLD Mini-Grant for Community Center Improvements
- GFMLD Traditional Grant for Street Maintenance (match required)
- GOCO Mini-Grant for Pedestrian Bridge Lighting (match required)
- GOCO Grant for Sports Park (match required)

At this time, we expect to budget for two police cars, public works equipment and of course the Kuersten property (amount unknown).