

**Memorandum**

**To: Mayor and Council**  
**From: Tom Baker and Lyle Layton**  
**Date: August 19, 2014**  
**Re: 2015 Budget Revenue Projections**

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**Purpose:** The purpose of this item is to discuss the Town’s revenue trends and give ourselves a foundation to develop the 2015 Budget.

**Background and Discussion:** One of staff’s early exercises (early in the budget cycle) is to project revenues for 2015. These revenue projections provide us with information to help set expectations on the expenditure side of the 2015 budget as the department heads develop budget worksheets in late August. For the purposes of this exercise, the General Fund has four main revenue categories: Sales Tax, Property Tax, Building Department Revenues, and Mineral Lease and Severance Tax Direct Distribution. While there are many other revenue line items we will focus on the above four to develop a big picture view of 2015 revenues.

Sales Tax – As we all know, the 2008 economic contraction impacted all tax revenues. Sales tax collections dropped significantly in the subsequent two years (-14.5% in 2009 and another -9.9% in 2010). Since that time sales tax collections have stabilized... in 2011 collections increased 3.96, in 2012 collections increased 1.99, and in 2013 collections increased 2.47 (as a reference we can think of a 1% increase in sales tax collections equating to \$10,000). In 2014, from January to June sales tax collections have hovered just below 2013 collections, which is disappointing because two new downtown restaurants were opened in April of this year. (In 2014 a bike store and jewelry store closed, a downtown retail shop reduced its hours, and one restaurant reduced their hours to serve breakfast and lunch.)

In terms of the second half of 2014, we are hopeful that sales tax collections will recover and bring the year’s collections closer to our budgeted 2% projected increase. Of course this means that collections will need to increase over 4% in the remaining 6-months. While this seems unlikely, there will be construction crews working on both the pedestrian bridge and 335 trail from mid-August through mid-November and this fact may boost spending in the grocery store and restaurants in the mall area.

Given what we know from our sales tax analysis January to June, **we recommend that sales tax revenues be projected as flat for 2015.** Staff will continue to monitor these collections on a monthly basis and report any changes in this projection, if needed.

Property Tax – As Council knows, property tax revenues are down 51% from the 2009 peak. The Assessor’s Office reassesses property values on a bi-annual basis. The Assessor’s Office last completed reassessment was for 2014 and 2015 and, therefore, we know with very high certainty that **property tax collections for 2015 will be little changed from 2014.**

Building Department Revenues – Building Department activity is slow but moving in the right direction. For example, in 2013, we had 3 new house starts and in 2014 (through mid-August)

we have a total of 12 new house starts. Building permit revenues in 2014 (through mid-August) are \$34,000.

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 and the number of “For Sale” signs is reduced from 1 to 2 years ago, but the demand for new construction is still low through the first half of 2014. People in the construction and real estate professions say that their business in the Aspen area is trending up and as we all know, the recovery will begin in the Aspen area and move down valley. The table seems to be set for new residential construction, however, it may be several more years before any substantial development occurs. In 2015, we may see 37 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 \$50,000 for 2015.**

Mineral Leasing and Severance Tax Direct Deposit (MLSTDD) – On September 1<sup>st</sup>, DOLA will post the MLSTDD figures for 2014. In the 2014 budget we estimated a total of \$225,700 for this line item. You may recall last year we were disappointed when the actual MLSTDD amount was lower than estimated – in 2013 our budget estimate was approximately \$350,000 and the actual amount we received was approximately \$282,000. As a result of our 2013 experience, our 2014 budget estimate is conservative (\$225,700).

Staff has found no reliable way to estimate MLSTDD. **Our approach is to take the previous year actual number and use 80% for a next year budget estimate.** Staff believes this approach is very conservative, but also appropriate given the nature of this revenue stream and our use of the revenue for general operations.

The Utility Fund has a healthy reserve and, due to past Council actions, has a rate structure that services utility debt even as tap fee revenues have decreased since 2009. Tap fee revenues have recovered modestly and, as you know, mirror construction activity.

**Tap fee collections over the past 4 years**

Year	Tap Fees (\$)
2011	16,000
2012	0
2013	36,000
2014 – through July	144,000

Currently, the Utility Fund generates more revenue than it expends; however, John Cutler pointed out that long term replacement costs need to be considered. To a large degree, the existing rate structure is supporting both O&M, as well as debt service. As growth occurs tap fees can play a more balanced role in supporting the fund.

Staff finds that the current rate structure is adequate to meet the fund needs and will not recommend a rate increase. It may be useful for Council and staff to discuss the future challenges of the Utility Fund during the September 27<sup>th</sup> Retreat and perhaps develop a 5-year plan for water and sewer rates given various tap fee collection scenarios.

The General Fund Reserve is our safety valve and safety net. During the 2014 budget process staff and Council agreed that an informal target of \$500,000 was prudent to give Council the flexibility to address important opportunities (Pedestrian Bridge) and also to guard against unexpected revenue shortfalls. After the 2013 Audit, staff projects a GF Reserve balance of \$487,000 at the end of 2014. This balance takes into consideration the Town's \$200,000 expenditure in 2014 on the Pedestrian Bridge (\$100k in the 2014 budget and \$100k in July to make the project go). As we did last year, staff will carefully review all the remaining expenditures in 2014 with an eye for saving as much as possible. Once again, staff suggest we start the budget process with the GF Reserve target of \$500,000 and adjust as opportunities and necessity dictate.