

Economic/Fiscal Sustainability

Introduction

The economic and fiscal sustainability portion of the City Council retreat will focus on discussions of how the City may best position itself to retain and attract high quality jobs and retail development, and enact fiscal policies that will ensure that the programs and services that are provided to Longmont's residents, businesses and visitors are of the highest quality well into the future.

The purpose of this white paper is to provide information that will serve as the basis for discussions of how the downturn of the economy has impacted the City's economic base and fiscal condition, how the City organization may best work with our economic development partner agencies to take advantage of the expected economic recovery, and to outline and review the policies and programs that are, or could be, put in place to guide the City's long-term fiscal health.

The economic/fiscal sustainability portion of the retreat will address three topic areas, including:

- A facilitated discussion between the Council and the City's economic development partners;
- A presentation from and a discussion with a well-known Colorado economist on the prospects for economic recovery in 2010 and beyond; and
- A presentation and discussion on the City's fiscal health.

These presentations and discussions are intended to enable the City Council to establish goals and work plan items for 2010 that will enable the community to position itself well for economic recovery.

The American Recession

By all measures, the United States has been experiencing the most serious recession since the Great Depression of the 1930s. Financial, housing and consumer markets imploded, which created a protracted period of growing unemployment, frozen credit, reduced business growth and curtailed consumer spending.

The stock market rebounded strongly in 2009, and there are indications that the downturn in the housing market may have reached its low point, although some economists worry that with the planned end to federal incentives for home purchases in 2010, the recovery of the housing market may remain tentative. Consumer spending also has rebounded marginally over 2008 levels, but 2008 produced the steepest decline in consumer spending in the last 30 years. Many economists predict the beginnings of recovery in 2010, but many also warn that job growth will recover at a slow pace. There also are predictions that unlike the residential market, the commercial real estate sector has yet to experience the full

shake-out associated with the limits to credit, which may result in delayed demand for new development for another two or more years.

The Recession in Longmont

All of the factors associated with the recession have impacted Longmont. Housing starts have virtually ceased, and the constrained mortgage lending environment is affecting the ability of homeowners to buy new homes, and in some instances, to service or refinance existing mortgage debt. Businesses of all sizes and in most industries have not had much, if any, growth recently, and many have downsized their employment base due to diminishing demand and sales. Some businesses have closed. Other areas of the country have been affected to a greater degree than has the Front Range of Colorado. The mortgage crisis has been particularly pronounced in Florida, Arizona, Nevada and California. Nevertheless, the scale and depth of the recession has not enabled the community to fulfill all of its economic goals and potential.

The Road to Recovery in 2010 and Beyond

Colorado, the Front Range and Longmont are well positioned to take advantage when new investment and job creation reach a sustainable pace. The state's employment base is more diversified than in the past, and emerging industries such as alternative energy and energy conservation are locating along the Front Range. The lifestyle offered by Colorado's environment has attracted a highly educated workforce. In comparison to other metropolitan areas in the Southwest, the Front Range did not expand new housing in the 1990s as did many areas in other states, which currently have a multiyear inventory of unsold homes. Job growth and expansion reasonably may be expected to return to the area. The questions are when that will happen and at what pace new investment will drive business expansion and creation of new economic activity.

If the majority of economists are correct in predicting the emergence of a national economic recovery in 2010, the City's work plan for the next year should incorporate goals that will focus on positioning the community to take advantage of new business investment and creation, recovery of the housing and credit markets, and an upturn in consumer spending.

The Ingredients for Successful Partnerships

On Friday afternoon, Sarah Spencer-Workman of AECOM in Denver will lead a discussion of how communities and economic development agencies can work most effectively to achieve mutually recognized goals. Longmont has established relationships with several agencies that focus on activities, including job creation, tourist/visitor attraction, entrepreneurial business development, and small business development. The City has long-standing and effective partnerships with the Longmont Area Economic Council (LAEC) and the Longmont Area Chamber of Commerce, and relatively new partnerships have been developed with organizations such as the Longmont Area Visitors Association (LAVA).

Ms. Spencer-Workman will provide an overview of how other communities have sustained effective partnerships over time, and she will facilitate an interactive brainstorming session and discussion between Council members and representatives from the City's partner agencies. Representatives from LAEC, LAVA, the Longmont Downtown Development Authority (LDDA), the Small Business Development Center (SBDC) and the Longmont Area Chamber of Commerce have been invited to share their perspectives with the Council on how the community can best be situated to attract and sustain future job and economic growth.

Ms. Spencer-Workman is a presenter of the Urban Land Institute's (ULI) highly successful Sustainable Development Workshop, and she has facilitated processes for many communities in Colorado and throughout the country. Some of the issues that will be reviewed and offered for Council and partner agency discussion during this session include:

- Review of successful partnerships and best practices from other cities/regions that may have relevance to Longmont, understanding that "one size does not fit all";
- How effective leadership and collaboration produce results;
- How partnerships can stay energized and sustained over time;
- How effectiveness can be maintained during times of constrained resources; and
- Developing a consensus for how to position the community for economic recovery.

Questions for Discussion

1. What are the strengths associated with the economic development partnerships that have been forged and are currently being implemented in Longmont?
2. Are there aspects of the partnerships that could be improved?
3. What opportunities may exist to enhance the effectiveness and success of all of the partnerships?
4. Are there specific focus areas that the Council would encourage the partners to consider?

Attachments

The following attachments provide additional information for your review and consideration prior to this portion of the retreat:

- A. Sarah Spencer-Workman Biography and Presentation Outline
- B. Longmont's Existing Economic Development Incentives/Programs
- C. 2010 Goals to Achieve with Economic Development Partners
- D. Information Submitted by the LAEC and LAVA

The Recession and Recovery

On Saturday morning, the City Council will receive a presentation from Dr. Richard Wobbekind on the impacts of the unprecedented recession on the state, the Front Range and Longmont. Dr. Wobbekind is the Director of the Business Research Division and Associate Dean of MBA and Enterprise Programs at the University of Colorado Leeds School of Business.

In addition to reviewing the impacts of the recession on the region, Dr. Wobbekind will provide a look ahead for 2010 and will discuss the major factors that can lead the state and region to economic recovery. His annual economic forecast is the subject of significant attention in the state and the region, and the forecast is widely reported by the media. The 45th annual Colorado Business Economic Outlook 2010 was published in December and will serve as the basis of Dr. Wobbekind's presentation. Excerpts from the report are included for your review prior to the retreat. The entire report may be viewed at: <http://leeds.colorado.edu/outlook>

Dr. Wobbekind's presentation will include the topics outlined below, which will be followed by a question and answer and discussion period between Dr. Wobbekind and the Council:

- Review of the national recession's impacts on the Colorado economy;
- The economic prospects for the Front Range area in 2010; and
- A Longmont economic perspective – Where is the area headed? What economic growth opportunities should we focus on? When might a recovery take hold?

Questions for Discussion

1. Given the depth and breadth of the economic downturn and the prospect for a period of continuing uncertainty into 2010, what efforts should the City undertake to be in the position to take advantage of the expected economic recovery?
2. Are there specific industries, business sectors or retailers that should be considered as long-term opportunities that would sustain the City's future economic base?

Attachments

The following attachments provide additional information for your review and consideration prior to the retreat. They include information from Dr. Wobbekind's 2010 economic forecast, a summary of expected national trends in real estate development for all product types, a survey of how the recession has affected retail consumer shopping, and an article that comments on retailer expansion plans expected in 2010:

- E. Biography of Dr. Richard Wobbekind
- F. Excerpts from the Colorado Business Economic Outlook 2010
- G. Excerpts from the Urban Land Institute's 2010 Emerging Trends in Real Estate
- H. International Council of Shopping Centers 2009 Shopping Habits Report
- I. *Shopping Centers Today* Article on Retail Development in 2010

Fiscal Sustainability

With many economists predicting a slow recovery in 2010 fiscal sustainability will remain a challenge for all of the City's funds. Funds that are funded with tax dollars and are used primarily to fund operations, as opposed to capital, face the more significant and immediate challenge. Those funds are the General Fund and the Public Safety Fund. City staff annually prepares a Financial Assessment Report (FAR), which contains a five-year projection of revenue and expenditures for the major operating funds. A copy of the 2009 FAR is included as Attachment J.

General Fund – The five-year projections for the General Fund begin on page 32 of the FAR and continue in detail through page 39. It is hard to predict when the local economy will begin to recover but the projections do include sales and use tax growth of 2.15% in 2010 and 3% annually in 2011 and beyond.

Property tax projections are less optimistic. While 2010 property tax bills show a slight growth of 0.5%, staff projects zero growth in 2011 followed by a 4% decrease in 2012. This is due to the lag in property values in the assessment process. Therefore, we expect current values to translate onto property tax bills in 2012 followed by zero growth in 2013 and 2014.

These two sources of revenue, sales and use tax and property tax, make up 39.6% and 24.8% respectively of our General Fund ongoing revenues in the 2010 budget. At over 64% of the total revenue, they tend to drive the direction of the fiscal health of the General Fund.

Expenditures also are conservatively projected in the FAR. It assumes no increase in staffing or service levels. Salary and benefit costs are projected to grow 3% annually from 2011 through 2014 with the exception of health insurance costs at a 5% increase. Operating costs vary by line item from 2% to 3.5% annually except for fleet lease costs at 4% to 5%.

Using all of these assumptions, in order to maintain existing General Fund service levels for 2010, our forecast shows expenses exceeding revenues by \$946,068 in 2011; \$1,995,318 in 2012; \$2,444,658 in 2013; and \$2,914,702 in 2014.

The FAR is produced annually and typically has included three to four years of projected deficits. The City is unable to adopt an annual budget with an operating deficit. Revenue increases have been necessary in recent years to help to eliminate these deficits. Some better than anticipated results in revenues other than sales and use tax also have helped. Much of it has been accomplished through continued reductions in expenditure budgets throughout the General Fund. This practice has been hard to accomplish without weakening services. It is less likely to be able to continue these reductions without actually reducing services in the future.

The FAR is produced as the proposed budget is submitted to the City Council, so it does not incorporate changes made in the budget between proposed and final. Thus

it includes a Parks and Greenway maintenance fee of \$4.25 as opposed to the \$1 fee that was adopted. Two significant changes were made in order to reduce that fee:

1. An increase in pension contributions to the General Employees Retirement Plan of \$490,666 was shifted to one-time funding to be covered by a transfer from the Health Benefits Fund; AND
2. The allocation of sales and use tax revenue between the General Fund and the Public Improvement Fund (PIF) was shifted from a split of 85%/15% to a split of 88.3%/11.7% resulting in \$857,630 of additional sales and use tax revenue to the General Fund.

Both of these changes present challenges to the long-term fiscal sustainability of the City. While the Health Benefits Fund is well funded at around \$6 million, the pension contributions are truly ongoing expenses of the General Fund. That contribution requirement will change from year to year, but it is a significant obligation that needs to be funded. The allocation of the 2% sales and use tax between the General Fund and the PIF has changed over the years, but this is the highest percentage ever directed to the General Fund. The reduction in funding to the PIF puts that fund in the long-term position of being able to meet bonded debt requirements but leaves very little funding for capital projects and capital maintenance that are key responsibilities that have been met by this fund in the past. If the proper level of capital maintenance is not resumed we run the risk of deteriorating infrastructure and an escalation in asset replacement costs in future budgets.

Public Safety Fund – The five-year projections for the Public Safety Fund are included on page 46 of the FAR. They show a continued decline in the balance of the Public Safety Fund over the period of 2010 through 2014. While the current level of services from this fund can be maintained throughout that period of time it cannot be maintained over the long term unless there is stabilization between its revenues and expenditures to protect the fund balance.

The Public Safety Fund was created in 2006 when Longmont voters approved the 0.325% Public Safety sales and use tax to begin January 1, 2007. The fund can be used only to pay for enhanced public safety services, so it should not be used to pay for services or service levels that were being provided by the General Fund prior to 2007. When the public safety tax was marketed to the voters the sales and use tax levels being projected were adequate to fund the addition of 46 FTEs phased in over three years. By phasing the FTEs, we would be able to build up a significant fund balance to assist with some capital projects and establish an adequate reserve for this operating fund. As originally planned, 25 FTEs were hired in 2007. In 2008, 13 more FTEs were hired but not until halfway through the year. With sales and use tax not meeting projections in 2008 and taking a major dip in 2009, the fund can no longer add the final 8 FTEs that were identified in 2006. In fact, with the projection used in the 2009 FAR, the fund could not bring its ongoing expenditures into alignment with its ongoing revenues thus requiring an annual draw on the fund balance to sustain operations. As indicated above, this cannot be sustained over the

long term. If performance does not exceed projections beyond 2014 we may not be able to continue to fund the 38 FTEs that are budgeted in 2010. This situation would be rectified by having sales and use tax performance exceed expectations. We will continue to monitor its status as the revenue projections change to see if the long-term issues remain a concern.

Tax Increment Financing

Tax increment financing (TIF) is a tool used by local governments to promote economic development and redevelopment. In Colorado TIF can be used by both downtown development authorities (DDAs) and urban renewal authorities (URAs). TIFs generally include property tax revenue, and they can also include sales tax revenue. The TIF process splits tax revenue generated from properties within the TIF district into two components:

- Base revenues – This is the amount available before the TIF district is established; base property tax revenues are shared among a mix of local governments that have the power to assess property taxes: schools, cities, counties and special districts.
- Incremental revenues – The new revenues in excess of the base revenues are generated by growth in property values typically through development projects. These dollars are TIF dollars and they are allocated to the DDA or URA that sponsors the TIF project.

By giving exclusive use of TIF revenue to the sponsoring DDA or URA a successful TIF process generates a revenue stream to underwrite projects within the TIF district and to provide development subsidies to encourage growth in the TIF area. TIF has been viewed as a way to combat blight or deterioration within City districts or neighborhoods. Common goals for a TIF project, besides alleviating blight, include downtown redevelopment, neighborhood commercial development, attracting new businesses, and retaining or expanding existing businesses. Urban renewal authorities often use TIF to prepare land for development or redevelopment.

Part of the logic of the TIF is that development would not occur within a designated area *but for* the establishment of the TIF district. In other words, if the DDA or URA does not provide the TIF-financed improvements or subsidies, economic activity will remain stagnant and increases in assessed value and taxable sales will not occur. If development actually would have occurred without the TIF-financed improvements or subsidies then the TIF district essentially fails the *but for* test and is ineffective and an opportunity cost for the local government.

Property Tax TIF - While the *but for* logic supports the concept of the incremental property tax revenue being allocated to the TIF there is much concern and discussion underway in the state regarding whether this concept is fair to the other local governments that assess a property tax since they are capped at the base revenues from the TIF district. Currently in Colorado, the state backfills the revenue “lost” by a school district from a TIF district. Counties have no such source of backfill and have attempted annually to change the URA TIF process in the state legislature.

Counties argue that they rely on growth in property tax revenue throughout the county, both inside and outside of a TIF, to enable them to continue to meet the rising costs of providing services countywide. They maintain that it is impossible to provide the level of county services needed by residents in some areas of the county if they provided services based only on the funds actually collected in a specific geographic area.

Sales Tax TIF – While all TIF projects are set up to include property tax revenue, that is not the case with sales tax revenues. Our own DDA TIF does not include sales tax revenue. Finance staff is very concerned about any plans or attempts to include sales tax as a part of the two URA plans currently approved within Longmont. The concept of a property tax increment clearly does not occur at the expense or reduction of some other assessed valuation outside of the TIF district. Thus, there is no reduction in base property tax revenue to the City's General Fund from a property tax TIF. The same cannot be said about a sales tax TIF.

New retail developments in Longmont always can be the beneficiary of cannibalization where sales are drawn from other previously existing retail establishments. Developers and consultants are quick to assure that their redevelopment will be a unique offering to Longmont, but staff must evaluate such claims carefully before agreeing to include any amount of sales tax within a TIF. If such a redevelopment were to include specific retailers or a category of retail that has been identified as a source of leakage in Longmont then it is a better situation in which to include sales tax as part of the TIF. Unfortunately, between timing and markets, this is very hard to ensure in advance of the actual development.

An example of this concern would be the movie theater scenario. Part of the logic of a new movie theater was that it could also include new restaurants within the TIF area and that the new sales tax from those restaurants should be directed back into the TIF. While it is true that people leave town to see movies and that trip may also include dining out it should not lead to the conclusion that *all* sales from that new restaurant should be considered "net new" and not cannibalized. Any long-term resident of Longmont probably is well aware of the new restaurant syndrome that occurs regularly. Once a new restaurant opens (e.g., Oskar Blues and Chick-Fil-A) it is always crowded for quite some time while the older restaurants in town lose some sales as a result. This clearly is cannibalization, and while we cannot identify the actual dollar amount of cannibalization, it is easy to see the trends in evaluating individual restaurant sales tax returns from month to month.

Another complication in Longmont with subjecting our sales tax to a TIF is that of our 3.275% tax rate, 1.275% of it is legally earmarked for use for Streets, Open Space and Public Safety. That leaves the remaining 2% for the General Fund and the Public Improvement Fund available to be in the TIF. While the three earmarked funds clearly benefit from any new retail brought in within the TIF district, the cannibalization risk is borne only by the General Fund and the PIF. If that remaining 2% amount is reduced by potential cannibalization estimates, it makes the available

TIF revenue much less attractive to the private-sector partner and much harder for them to make their project cost effective. It puts a lot of pressure on the remaining 2% to be maximized into the TIF.

Using TIF in redevelopment districts can be a powerful tool to facilitate and leverage private investment to achieve community goals. The adopted urban renewal plans for the Twin Peaks Mall Area and the Southeast Longmont Area could be amended in the future to enable the use of TIF. Given the factors that have been identified, the use of TIF would require careful review and consideration.

Rainy Day Fund

The term “rainy day fund” is not a technical term that can be found in the formal statements of the Government Accounting Standards Board (GASB), which sets the accounting standards that Longmont is bound to follow. Nevertheless, the term “rainy day fund” is used widely in government and it commonly refers to some sort of contingency fund or stabilization account that can provide a financial cushion in emergency situations or when revenue shortages or budgetary imbalances arise. A rainy day fund could be the amount of emergency reserves maintained in the General Fund or it could be a separate fund.

Longmont has had a financial policy for over 25 years that requires an unappropriated reserve in the General Fund. Two years ago the amount of that reserve requirement was increased from 6% to 8% of the General Fund operating budget. This policy is shown as indicator #1 on the chart on page 11.

The Government Finance Officers Association (GFOA) is a professional association of state and local finance officers in the U.S. and Canada whose members are dedicated to sound management of government financial resources. The GFOA provides leadership to the government finance profession through research, education and recommended practices. Attachment K is the recommended practice from the GFOA issued in 2002 on the appropriate levels of unreserved fund balance in the General Fund. The GFOA recommends, at a minimum, an unreserved fund balance in the General Fund of no less than 5% to 15% of regular General Fund operating revenues, or of no less than one to two months (8.3% to 16.6%) of regular General Fund operating expenditures. Due to the issuance of the new GASB Statement No. 54 on Fund Balance Reporting this recommended practice was reissued this past October as a Best Practice with a new recommendation of no less than two months (16.6%) of operating revenues or operating expenditures. In Longmont’s annual adopted budget, operating revenues and expenditures are always equal so the measurement of either is the same. This is indicator #2 on the chart on page 11, and it shows that over the past five years we exceeded the recommended best practice except for year-end 2008 which was slightly below it.

Bond rating agencies assess a number of indicators when they perform a rating analysis of a municipality. Guidelines from Moody’s and Standard and Poor’s from 2005 were similar to the 2002 GFOA guidelines ranging from 5% to 15%. In fact,

S&P indicated that high fund balances could be an indicator that ongoing maintenance and capital needs are not being met and could require large dollar needs down the road.

The rating agencies look to measures such as total assets, current assets, total debt outstanding and debt coverage. They also have their own tests of an entity's fund balance. In early 2009, Moody's released its 2008 Local Government National Medians. In regard to the fund balance of a General Fund they measure it in two ways: the total General Fund fund balance as a percentage of revenues and the unreserved undesignated General Fund fund balance as a percentage of revenues. Regarding the latter indicator Moody's glossary states that "in some cases" the unreserved, undesignated fund balance may include certain amounts shown as reserves or designations that its analysts have deemed would be available to meet operating contingencies. We believe that this probably would make this the same measurement as the GFOA Best Practice definition.

General Fund Fund Balance Indicators

Fund Balance Breakdown	2004	2005	2006	2007	2008
Reserved for encumbrances	1,713,104	1,735,985	1,162,459	1,046,307	1,708,936
Reserved for TABOR	2,916,360	2,773,219	2,779,156	3,085,410	3,060,058
Reserved for loans/notes receivable	117,770	113,750	106,088	86,345	83,090
Reserved for prepaid expenditures	66,279	71,729	120,334	96,153	66,169
Reserved for staff contracts	100,248	104,532	105,636	111,291	114,489
Reserved for police block grant	9,664	3,408	59,100	63,376	55,879
Reserved for donations	5,048	5,048	5,048	17,750	6,748
Designated for carryover projects	746,230	1,211,068	1,898,536	665,212	795,197
Designated for emergencies	597,930	823,465	764,098	1,626,856	1,824,462
Designated for subsequent years' expenditures	3,944,233	3,892,616	2,613,114	1,850,000	2,608,085
Designated for future Council 1 time exp		993,825	993,825	907,566	407,566
Undesignated	4,285,943	2,171,284	1,128,399	2,426,469	933,219
	\$14,502,809	\$13,899,929	\$11,735,793	\$ 11,982,735	\$ 11,663,898

Indicator #1: City Financial Policy: 8%

TABOR reserve & emergency designation	3,514,290	3,596,684	3,543,254	4,712,266	4,884,520
Subsequent year budget	58,571,496	59,944,727	59,054,241	58,903,325	61,373,394
Emergency reserves as % of subseq. Yr budget	6.00%	6.00%	6.00%	8.00%	7.96%

Indicator #2: GFOA Best Practice: 16.6%

Unreserved fund balance & TABOR reserve	12,490,696	11,865,477	10,177,128	10,561,513	9,628,587
Subsequent year budget operating revenue	54,627,263	56,052,111	56,441,127	56,824,934	58,623,231
Unreserved FB as % of subseq. Yr oper rev	22.87%	21.17%	18.03%	18.59%	16.42%

Indicator #3: Moody's measure: 29.7% to 32.6%

Total fund balance	\$14,502,809	\$13,899,929	\$11,735,793	\$11,982,735	\$11,663,898
Subsequent year budget operating revenue	54,627,263	56,052,111	56,441,127	56,824,934	58,623,231
Total fund balance as % of subseq. Yr oper rev	26.55%	24.80%	20.79%	21.09%	19.90%

Indicator #4: Moody's measure: 24.5% to 26.6%

Unreserved fund balance & TABOR reserve	12,490,696	11,865,477	10,177,128	10,561,513	9,628,587
Subsequent year budget operating revenue	54,627,263	56,052,111	56,441,127	56,824,934	58,623,231
Unreserved FB as % of subseq. Yr oper rev	22.87%	21.17%	18.03%	18.59%	16.42%

Indicator #5

Unreserved undesignated fund balance	4,285,943	2,171,284	1,128,399	2,426,469	933,219
Subsequent year budget operating revenue	54,627,263	56,052,111	56,441,127	56,824,934	58,623,231
Unres undesig FB as % of subseq. Yr oper rev	7.85%	3.87%	2.00%	4.27%	1.59%

The median results for these indicators from Moody's were:

	<u>All Cities</u>	<u>All Aa Cities</u>	<u>All Aa cities Population 50-100K</u>
General Fund fund balance as a percentage of revenues	29.76%	29.81%	32.63%
Unreserved fund balance and TABOR reserve as a percentage of revenues	24.50%	25.12%	26.57%

These two indicators are #3 and #4 on the chart on page 11. Longmont has not reached these median levels in any of the years presented. It is important to realize that these are median figures as opposed to best practices. Since these are median results, there are cities within the same Aa bond rating as our own that fall below the stated medians. The greater concern is that the direction of our trend in these indicators has been downward over the five-year period.

The final indicator shown is a measurement of the unreserved, undesignated fund balance as a percentage of revenues. While this is not necessarily a best practice measurement or a benchmark indicator, it is of note that this measurement has dropped to all-time low levels in recent years. The significance of this measure is that the unreserved undesignated fund balance of the General Fund typically is the starting point for what is available for capital and one-time expenditures in the subsequent year budget process. Capital and one-time expenditures are key components of the resources in our annual budget that allow essential City services to be provided to the residents of Longmont. In order to meet these needs this percentage should be a minimum of 5% and preferably as high as 10%.

Attachment L includes data on minimum fund balance policies for other Colorado cities. This data has been collected in different efforts over the past two years, so some of it could be outdated. Generally, the smaller the City the larger the policy that may be in place. This is partially because of the size of the budgets. It also is a reflection of the stability of the revenue base. The more stable the revenue base, the lower the reserves. Likewise, cities that are reliant on property tax are able to have lower reserve policies than cities that rely on sales tax. While we do have the minimum fund balance percentage for each of these cities it is not likely that all of them are consistent in how they define the measurement of the reserve. In Longmont, our 8% applies only to what we specifically set aside as an emergency reserve. But as shown in indicators #2 and #3 on the chart on page 11, if other components of the fund balance also are considered, our fund balance percentage rises considerably.

TABOR requires that the City have an emergency reserve of 3% of total "fiscal year spending." "Fiscal year spending" in TABOR is a complicated definition, but it involves most all of the governmental fund (non-enterprise) revenue (as opposed to spending). Based on 2008 revenue this reserve was just over \$3 million for 2009. Currently, we account for all of that reserve in the General Fund although it would be

possible to allocate it across the other governmental funds that maintain operating reserves. We also choose to include the TABOR reserve within our total 8% reserve requirement dictated by our financial policy. Thus, there is over \$1.8 million designated for emergencies within the General Fund 2008 fund balance. Combined, these two amounts make up the 8% emergency reserve of \$4,884,520 in the 2009 General Fund.

The TABOR reserve has restrictions that limit its use and make it almost impossible to use. It can be used only for “emergencies,” which are defined to exclude economic conditions, revenue shortfalls and salary or benefit increases. Since the reserve has to be in place each year, effectively, if any of the reserve were to be used for an allowable emergency during any fiscal year, it would need to be replenished by year-end.

In addition to the 8% reserve in the General Fund, there is a fund balance in the Health Benefit Fund of over \$6 million. From the early 1980s through 2006 the City operated a self-insured employee health and dental benefit program. Since 2007 the City has been fully insured for its health benefits, but it still continues the self-insured dental program. When the self-insured health program terminated in 2006 the fund balance was \$6.8 million. Besides the self-insured dental program the City also pays for EAP services and premiums for vision, long-term disability and life coverage from this fund. These costs are budgeted to be covered by City and employee program contributions. Expenditures that draw down the fund balance are for wellness incentives and the amortization of an OPEB (other post employment benefit) liability from a partial subsidy of retiree health care premiums. Additionally, in 2010, this fund will transfer \$490,666 to the General Fund to cover the cost of increased contributions to the general employees defined benefit retirement plan.

While the fund balance in the Health Benefit Fund technically is not an emergency reserve or a rainy day fund it does present similar opportunities. There will be a continual need for some of the balance to be available to cover some of the minor costs related to wellness and the OPEB liability (these annually combine to be \$200,000 but could grow to over \$300,000). As long as the fund balance exists without a stated intended use it certainly serves the purpose of a rainy day fund. If there were to be an emergency or catastrophe causing a dire need for funds staff would probably recommend considering this fund balance.

As the 2009 Comprehensive Annual Financial Report is prepared staff plans to implement the new requirements of GASB Statement No. 54 on Fund Balance Reporting. This will change some of the terminology and classification of the reserves and designations in the General Fund balance. After its completion in the second quarter will be an opportune time to propose a more comprehensive formal policy on the level and use of the balance in the General Fund. This would put the City in a better position of compliance with the GFOA Best Practice and would be an opportunity for the City Council to change the reserve targets if desired.

Fiscal Transparency

As requested by a Council Member, staff has evaluated two government entities in Colorado that recently have implemented fiscal transparency efforts. We have reviewed the capabilities of these efforts and the resources that would be needed to do the same in Longmont. That information can be found in Attachment M.

Questions for Discussion

1. Does Council want a separate presentation covering the FAR?
2. Would Council like additional information or a follow-up discussion on the budget prioritization process?
3. Does Council need any additional information regarding allocation of the 2% sales and use tax between the General Fund and the Public Improvement Fund?
4. What additional TIF information would be useful prior to receiving concrete information regarding a specific future project?
5. Does Council want to direct staff to increase the City's emergency reserve or create a separate rainy day fund?
6. Does Council wish to pursue a fiscal transparency web site similar to those of Fort Collins or Jefferson County?

Attachments

- J. 2009 Financial Assessment Report
- K. GFOA Recommended Best Practice on the Appropriate Level of Unreserved Fund Balance in the General Fund
- L. Minimum Fund Balance Policies for Colorado Municipal Governments
- M. Fiscal Transparency Information