



December 1, 2007

Honorable Mayor, Council Members and Residents of Centennial:

Pursuant to Colorado Revised Statute 29-1-101, I am pleased to present the City Manager's 2007 Revised and 2008 Adopted budgets. The annual budget is one of the most important documents the City Manager and Staff prepare and the Council adopts each year. The Adopted budget provides the financial planning and legal authority to obligate or expend funds in each budget year. It provides the necessary funding for city services, programs, and transportation improvements and projects. The budget is a financial tool and provides the resources to support the City's strategic planning efforts in a number of key areas. The budget process offers an understanding of the various operations of the City and how they relate to each other to attain the overall goals of the City Council and the community.

The 2007 Revised and 2008 Adopted budgets for the City of Centennial are submitted to you as balanced budgets which is a requirement under the State of Colorado budget laws.

New Look

Budget Overview. There have been numerous additions to the 2008 budget document, including a budget overview focusing on how to use the budget document, a brief community profile, an outline of the government structure, City demographics, budget and financial policies, a description of the City's fund types, revenue and expenditure policies, a reserve policy, discussion on cash management and investments, risk management, and discussion regarding the Taxpayer's Bill of Rights (TABOR) as it relates to the City's budget.

Mission, Accomplishments, Goals & Objectives. The new document also provides the reader with insights into the mission of each department, a description of the external/internal functions and responsibilities, prior year department accomplishments, and upcoming budget year department goals and objectives.

Charts and Graphic Illustrations. In addition to the numeric analysis provided in both summary and detail worksheets, the new document also integrates graphic illustrations providing comparative and historic data by department. Given 2008 is the first year in using this new format, the historic charts are only populated with 2008 data. As data is collected over the years, these charts will become much more meaningful to the reader.

Summary of Differences/Variations. A summary of differences/variances between prior year amended and current year adopted budgets is at the conclusion of each Departmental Budget Detail Summary. This section provides the reader a synopsis of the significant changes in each functional area, including discussion about the number of full-time equivalents (FTE) budgeted to each department/function.

Glossary. At the end of the budget document, you will also note a glossary of terms and acronyms that have been used throughout the document. This section of the budget is designed to help the reader gain a more clear understanding of industry and organizational terms.

Economic Outlook

On the national and state levels, economic data has been mixed for a number of months. While there is some difference of opinion amongst economists, recent trends indicate a continued slowing economy. Economic growth in the first quarter of 2007 was the lowest in almost four years, and most economists predicted below normal growth throughout 2007. The Federal Open Market Committee (FOMC) still views inflation as a primary economic threat, recognizing growing instability in financial markets and the ongoing slump in housing¹. Although consumer spending remains somewhat strong, purchases of large items, such as automobiles have decreased, in part impacted by a substantial decrease in mortgage refinancing.

The Colorado economy, like the national economy, is showing signs of weakness. The key factor for Colorado has been the downturn in the residential real estate market. Recent data indicates that the drop in home sales and prices may have bottomed out, and personal income and taxable sales in 2007 and 2008 are expected to increase by lower rates than in 2006. In the second quarter 2007, as real after-tax income declined 0.8%, consumers reduced their spending on durable goods (those lasting 3 years or more)², and increased their overall spending only 1.3%, one of the slowest rates of increase in the recent expansion. With high energy costs and rising payments on adjustable-rate and variable mortgages, the consumer is less able to spend on other goods and services. Mid-year 2007, casual dining sales and department store sales were down, and most retail sales categories declined between May and June.

¹ Development Research Partners, Metro Denver Economic Development Corporation, 9/5/07.

² Ibid.

Prices in the Denver-Boulder-Greeley area grew by 2.5% in the first half of 2007, which was lower than expected. And, the local inflation rate is expected to be 2.8% in 2007 and 2.7% in 2008 representing a downward revision from June 2007 forecasts³. For Centennial, the economy is expected to improve modestly throughout 2007 and into 2008 tracking with the region as a whole. Modest growth, below the expected CPI-Denver, has been projected in the 2008 budget for economy-driven revenues, such as sales tax (3.0%) and building use tax. Staff continues to keep a close eye on current and projected economic indicators and any potential impact to revenue and expenditure projections.

Stable, Fiscally Prudent Finance Plan

The 2007 Revised and 2008 Adopted budgets were developed in the context of an uncertain economy. While Centennial has been fortunate to be somewhat resilient to the impact of a downturn in the housing market, staff remains cautiously optimistic about the local economy over the next several years. In addition, the most recent five-year forecast prepared by the Finance Department predicts expenditure growth that outpaces revenue growth, and the City will need to begin looking at measures to bring the two in balance over the long term – either through a reduction in service levels or increased revenues.

Within our limited revenue growth, this budget responds to the challenge of balancing the on-going maintenance of our infrastructure with the community's standards of excellence in public works, public safety, quality of life, and the increasing additional demands for services and facilities. The Council's and the community's priorities to date have guided our decision making in this budget. It is with great anticipation that we look forward to the results of the *Our Voice. Our Vision. Centennial 2030* visioning process in helping us more clearly define the community priorities, and possibly identify additional or new revenue sources that may be available to support the service expectations.

Community Outreach and Input

Our Voice. Our Vision. Centennial 2030. Community input will continue to be an integral part of the City of Centennial. During the creation of the City, extensive community involvement helped frame the vision and goals for the City. Six years later, at the annual planning session, the City Council consensus was to once again go to the community in order to gauge the community's satisfaction of services provided. *Our Voice. Our Vision. Centennial 2030* is a citizen-led effort that will chart the City's future by re-engaging the spirit and energy that formed the City six years ago. The Centennial visioning process kicked off with great success in August with ice cream socials that were held at regularly scheduled Ward meetings, on-line/telephone and intercept surveys, and other outreach efforts. The visioning process is expected to continue into the first

³ Office of State Planning and Budget 9/20/07

quarter of 2008 culminating in community consensus for a long range strategic plan for Centennial.

Parks, Open Space, Trails & Recreation Master Plan. In July 2007, Centennial launched a master planning process to complete an inaugural “green space” plan for the City, to provide an overriding vision and direction as the City continues to grow, and to provide a means for investing in specific projects. The master plan is focusing on making Centennial a more “connected” community by completing key missing links in the trails and bikeway system, identifying improvements and enhancements to the existing parks system, including “land banking” to meet future needs, and identifying potential open space acquisitions. Other issues for the group include raising awareness and pride in the existing system through better signage and distinctive design elements.

Home Rule. After spending its first six years as the largest “statutory” city in Colorado, Centennial’s residents were asked if they wanted a different form of city government to take the community into the future. On November 6, 2007, Centennial voters approved the first step in this process, and voted to initiate the home rule process by approving the formation of a Centennial Home Rule Charter Commission and electing members to the Commission. The Commission will have the exciting task of exploring home rule status for the City, and within a quick 120 day timeframe, draft a proposed home rule charter. Voters will ultimately decide whether the proposed charter is acceptable at a second election tentatively scheduled for the summer of 2008. There was a great rally of citizens, and ultimately 35 candidates vied for the maximum of 21 seats on the Commission.

Strategic Planning

As a result of the Council’s annual planning session in April, staff has embarked upon a systematic process of reevaluating the required service levels for the City and reviewing how the City delivers services to the community. At the pinnacle of it all is the Council’s desire to be a responsive government focusing on efficient and effective results. This budget was designed to more closely align resources available with the desired outcomes of the Council and its constituencies.

Reorganization

As most Centennial citizens will tell you, the original concept for the City’s incorporation was “limited government and lower taxes”. While the City has made every effort to ensure this initial vision is maintained, over time it has become apparent that the needs and wishes of our community may be changing, requiring a higher standard of service and responsiveness (i.e., the snow removal issues of this past winter). As a result, the City’s organizational structure has and will be changing over time to more closely follow and accommodate the

needs and desires of the community. The 2008 Adopted budget incorporates many “structural” changes that are designed to increase accountability, more evenly distribute workload, and foster collaboration between departments. You can see these changes in the *Organization Chart* included in the budget book.

New Departments. There are three new departments that have been created. These departments are Community Services - which will eventually cover Animal Control and Code Enforcement, Human Resource and Risk Management, and Support Services - which includes Information Technology, Facilities, and Fleet Services.

The departments of *Human Resource/Risk Management and Support Services* simply replace the previous departments of Administrative Services, Citizen Service Center and Insurance.

The new *Community Services* department is not yet clearly defined since a decision has not yet been made on how to integrate the animal control functions that will be transitioned to the City in July 2008 after the IGA with Arapahoe County Public Works is terminated.

The department of *Central Services* has been created in the budget (only) in order to better manage central charges including printing, copying, office supplies, dues and memberships, travel and training, publications and subscriptions.

In addition, the department of *Planning & Development* (and Land Use Services) has undergone significant reorganization with the majority of services being brought in-house versus contracting with an outside consultant.

Lastly, we have moved a number of positions that were in various other departments, but focusing primarily on customer service and communications, into the department of *Communications*.

The combination of these and many other structural enhancements will ultimately provide improved internal support resulting in efficiencies of services. Many of the changes do not have a direct impact on the budget; however a number of changes – including the Land Use transition and the transition of Public Works services from County management to direct city management, will have a very definite and direct impact on the budget.

Major Impacts to Service Delivery

The 2008 Adopted budget includes resources to support improved service delivery as a result of the reorganization, and addresses numerous changes in service delivery that have been affected by external factors including the transition of public works functions from Arapahoe County to the City in July

2008. During the upcoming year, there will be a tremendous focus on the following critical areas:

Capital Improvements. In December 2006, Arapahoe County gave the City notice to terminate as the City's Capital Improvement Program (CIP) manager effective January 1, 2008. The County had performed the CIP management services since the City's incorporation under an intergovernmental agreement (IGA). During 2007, the City announced a request for proposals for CIP management services. *Short Elliott Hendrickson (SEH)* was selected as the service provider and will be primarily responsible for 1) assisting the City in developing a five and 10 year Capital Improvement Plan and 2) managing a number of capital projects that are anticipated to begin in the spring of 2008.

Termination of Public Works Services and Continuation of Public Safety Services - Arapahoe County Intergovernmental Agreement (IGA). Early in 2007, the City and the County agreed to renegotiate the contract for both public works and public safety services that had been in place since 2004. In August 2007, Arapahoe County informed the City that they desired a 10 year commitment and capital funding from the City to support the construction of a new Road & Bridge Facility. Recognizing the County was not willing to agree to a contract term of less than 10 years, and not knowing the extent of the capital contribution required, the City and the County were unable to negotiate terms to continue the public works functions in the IGA. However, since the Public Safety (Sheriff's Office) contract was not tied to a significant funding request, the City and the County have agreed to bifurcate the original IGA and extend the current contract for public safety with the Sheriff's Office on a long term basis. At the time of this message, the public safety contract provisions have been drafted, but have not yet been approved by either the City or the County. The City and the County have agreed in written letter form to terminate all remaining public works services, including animal control functions, under contract effective July 1, 2008.

Dual Public Works Budgets and Program Transition. The 2008 budget incorporates two separate expenditure budgets for the public works functions – 1) for the first half of 2008 under a defined scope of work that the County will continue to provide through June 30; and 2) for the second half of 2008 with the City as the direct provider of all public works services. The 2008 *Nondepartmental* budget includes funding for consulting services of \$695,000 for the coordination and management of the public works program implementation, including the animal control program.

Staff is currently in an assessment process to determine how the new public works department and animal control functions might best be organized, including the possibility of 1) contracting the entire department to one sole vendor, 2) internalizing the function in-house (with minor service contracts), or 3) a hybrid of privatization and in-house. As staff continues the analysis, anticipated costs for public works services will become much more defined.

Space Planning. At the Council's request in 2006, staff began a physical needs assessment for operational facilities, and to determine the feasibility of 1) continuing to lease space at the Citizen Service Center in the current building, 2) lease space in a different building, or 3) purchase/purchase-build new a new civic space. RNL Design was contracted in the summer 2007 to assist the City in space planning and design, determining current/future needs, and to ensure the space is functional and provides service efficiencies.

In an effort to eliminate the high costs associated with a temporary move, staff is looking at options to redesign the current leased office space and is assessing the potential for additional space within the current building. Some of the space needs are in flux given the recent decision to transition public works services, and many of the decisions will be dependent upon the level of service that is determined by the Council and whether services are brought in-house or privatized.

Once the overall plan is approved by Council, the tenant improvements are complete, and everyone is in their respective space - staff will begin working to identify a three to five year plan for a new civic facility.

Department of Planning & Development. Early in 2007, staff prepared a Request for Proposal (RFP) for land use services as these services had not been bid for a number of years. As a result of the RFP, the City received a number of excellent proposals from outside consultants to provide planning and development services. After a lengthy analysis of the responses, and at Council's request to compare continued contracted services to in-house services, the Council approved staff's recommendation to bring all land use functions in-house in 2008. The City will continue to contract separately with *SAFEbuilt* for building permit/inspection services and *PReMA* for all contractor licensing functions. Staff identified savings of roughly \$750,000 annually over the cost of current contracted services by bringing a large portion of the land use services in-house. These savings are included in the 2008 budget.

Restructuring. In reviewing the General Fund Summary you will note a number of seemingly large variances (+/-) between the 2008 and the 2007 Adopted budgets. In part, these variances are due to some restructuring of functional areas within the organization. Each of the individual department summaries have notes explaining these variances and identifying changes in personnel and benefits, as well as expenditures that may have been moved to another functional area or were combined for more centralized management.

2007 Revised / 2008 Adopted Budget

General Fund

2007 Revised Budget. As you will see in the General Fund Summary, the 2007 expenditures and other uses are anticipated to close at \$46.5M which is \$1.2M below the Amended Budgeted expenditures of \$47.7M. Revised revenue and other source projections for 2007 are expected to be \$50.8M against the Amended Budget of \$47.9M, or \$2.9M higher than originally projected. The revenue projections for 2007 were planned to be somewhat conservative given the uncertainties of the economic markets and in light of the redevelopment of SouthGlenn Mall. All in all, between the conservative revenue projections and diligence in managing expenditures, we are anticipating an ending fund balance for the Estimated 2007 General Fund totaling \$18.7M (or 40% of general fund expenditures and other uses) - an increase of \$4.3M over the beginning fund balance from 2006 Amended. The estimated 2007 fund balance includes the required 3% TABOR emergency reserves totaling \$1.3M of revenues, as well as the 10% (\$4.5M) restricted fund balance that is required as a result of Council policy, and numerous other designated reserves.

2008 Adopted Budget. Moving into 2008, revenue projections continue to be somewhat cautious. There are no new taxes or fees included in the revenue projections, and no increases in sales, use or property taxes associated with the Southglenn redevelopment (Streets at SouthGlenn) or ancillary retail. It is expected that only a few of the retailers at the Streets at SouthGlenn will open in late 2008, with the majority of the business, residential, and office components opening in spring 2009.

In addition to economic threats to revenue, there continue to be legislative challenges (federal and state) that could impact the City's ability to impose sales tax on telecommunications and cable franchise fees. It is important to note that four of the Top 15 sales tax producers for the City are related to the telecommunication industry and represent \$1.8M annually in sales tax. Cable Franchise fees represent an additional \$1.0M of the City's revenues. Combined, these sources represent nearly \$2.8M or 6.2% of the City's general fund revenues that could be in jeopardy should legislation pass that would limit the City's ability to impose these taxes and fees. We will continue to watch this legislative session very closely.

Given the variables noted above, staff is projecting General Fund revenues (excluding transfers in) for 2008 at \$45.5M, or an increase of \$893,023 (2.0%) over the 2007 estimated actual. Largely due to the projected savings from the reorganization of the Planning & Development Department and the Land Use Services Fund, the General Fund expenditures (including transfers out for the Land Use and Capital Improvement funds) are expected to come in at \$44.4M or \$2.1M (4.5%) below the \$46.5M for the 2007 estimated actual.

Public Safety. The Sheriff's Office submitted a budget request of \$19,467,500 or a 1.2% increase over the 2007 Estimated Actual of \$19,246,000. Under the current Intergovernmental Agreement (IGA) with Arapahoe County, the Sheriff's Office may request up to a 3.5% annual increase in their requested budget. The entire Public Safety budget represents 40.1% or \$19.5M of the general fund (including the traffic officers that are budgeted and cost-centered in the Municipal Court).

Public Works. The 2008 General Fund Public Works budget is broken out into two distinct programs 1) Arapahoe County Public Works, as the City's contractor, and 2) the City as the service provider. The 2008 County Intergovernmental Agreement (IGA) budget excludes all capital improvement programming costs, moves Mosquito Control into City programming, and splits most of the remaining programming costs (50%-50%) between County IGA related expenses and City Non-IGA related expenses. Since the majority of all the concrete and paving work will not begin until after the public works programs are transitioned from Arapahoe County to the City on July 1, 2008, the County will assist the City during the first half of the year by managing the annual work plan which will be devised by City staff for all concrete and paving rehabilitation and maintenance costs.

Transportation designations. The City is required by law to use 100% of the auto use tax revenues (\$3.74M) and a maximum of \$2.8M of sales tax for the acquisition, construction, operation, maintenance and financing for transportation system improvements (a combined amount of \$6.5M). The City's 2008 Adopted Budget ensures these requirements are fulfilled.

One-time Public Works Transition Costs. \$1.3M has been set aside in the Public Works budget to cover potential transition/implementation costs (e.g., equipment, facility, materials, etc.) anticipated for 2008. In addition, expenditures of \$695,000 (primarily for consulting services for public works and animal control) have been budgeted in the *Nondepartmental* budget to assist in the transition. These funds are all assumed to be non-recurring or one-time expenditures.

Use of 2007 Anticipated Reserves – Streets at SouthGlenn. An additional \$100,000 has been budgeted in the 2008 Nondepartmental "anticipated reserves" budget to provide for unanticipated costs that may arise throughout the year pertaining to the Streets at SouthGlenn project or other unexpected costs that come up from time to time.

Code Enforcement. The 2008 Adopted budget includes costs for both in-house staff and contracted services for Code Enforcement. Staff will be reviewing the current service contract and associated programming in the first quarter of 2008 (which may include issuing a Request for Proposals (RFP)) and

will make a recommendation to Council regarding options for level of service, management, and staffing of the program.

Compensation & Benefit Study. In line with Council's direction at the annual planning session, the City is currently undergoing a compensation and benefit study to ensure we remain competitive with metro-area governments in being able to hire and retain highly skilled and high-performing employees. The 2008 Adopted Budget includes \$140,188 (4%) for a "raise pool" that has been set-aside for performance-based salary increases. An additional \$225,000 (\$170,000 - Benefit Cost Increases and \$55,000 - Benefit Improvements) has been set aside for any salary/benefit adjustments that may be required as a result of the study.

Other Funds

Land Use Fund. The City's Land Use Fund is intended to be an enterprise fund which basically means it is self-funded through charges and fees imposed on development related services. In order to meet the requirements of a fully functioning enterprise fund, the fund must not be subsidized by another fund by more than 10%. In light of the Council's recent decision to bring planning and development services in-house, the Land Use Fund has significantly reduced its dependency upon General Fund subsidy. The 2008 budget reflects a General Fund subsidy of only \$354,248, or 13.7%. The department of Planning and Development is also undergoing rate and/or operational studies to ensure that services are delivered in the most efficient and practical manner and that fees charged for services are sufficient to cover both operating and capital needs. This budget does not include any potential revenues from these studies.

Capital Improvement Fund. The 2007 Estimated Actual budget for the Capital Improvement Fund is \$10.4M. These funds are reserved specifically for a number of road and transportation related improvements, many of which will begin in the early spring 2008. Projects include the Arapahoe Road (Colorado-Holly) rehabilitation, the Arapahoe Road & University intersection improvements, and the Slaughterhouse Gulch Drainage project.

The City was recently advised by the County Public Works department that their initial project budget for the Arapahoe (Colorado-Holly) Road project did not include construction management fees, and that the County had intended to provide those services directly through the IGA in 2007. However, since the project was delayed until 2008, the City must now bear the burden of these costs. As a result, the 2008 Adopted Budget appropriates an additional \$700,000 (roughly 14% of the \$5M project budget) for project management fees.

No additional funds have been budgeted in 2008 for major capital improvement projects. However, as requested by Council, staff with the help of the City's new Capital Improvement Program (CIP) managers (SEH) will bring forward a five and 10 year CIP plan for consideration during 2008.

In Conclusion

The 2007 Revised and 2008 Adopted budgets maintain our commitment to respond to community needs, while focusing resources on strategic planning efforts in order to maintain our long term financial and infrastructure viability.

I want to express my appreciation to the Mayor and City Council for their leadership and dedication to the residents and businesses of Centennial. I have great admiration and respect for our City workforce as well, they each continue to impress me with their strong commitment to this community and their high degree of professionalism – their advice and help in preparing this document has been invaluable. I also sincerely thank Charles Montoya, Director of Finance and Dawn Priday, Director of Accounting for their hard work and many hours they have dedicated to making the revisions to the budget document and building the financial details – and, to Jill Proctor, Assistant to the City Manager and Allison Wittern, Communications Specialist for their great work in pulling together the narrative portions and new design.

Sincerely,

Jacque Wedding-Scott

Jacque Wedding-Scott
City Manager