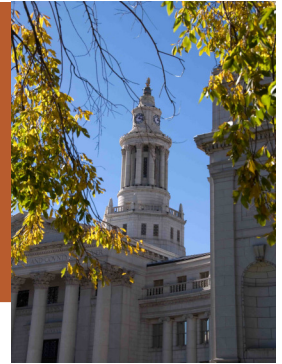


City and County of Denver Budget and Management Financial Newsletter



NOVEMBER 2011

BMO STAFF

Cary Kennedy,
Chief Financial Officer

Ed Scholz,
Deputy Chief Financial Officer

Brendan Hanlon,
Acting Budget Director

Stephanie Adams,
Manager of Performance Initiatives

Laura Wachter, Manager of Budget
Operations

Scotty Martin, Manager of Business
Process Analysis

Gretchen Hollrah, Capital Program
Manager

Laurel Bandy

Steve Bohn

Tom Chase

Milton Cherry

Catherine Dockery

Molly Duplechian

Scott Fischer

Alyson Gawlikowski

Kelly Greunke

Laura Kane

Derrick Kuhl

Barbara Marshall

Tom Migaki

Sadia Sattar

Theresa Wilson

INSIDE THIS ISSUE:

2011 Budget: Revenue and Expenditure Update	2
2012 Budget Overview	3
Performance Management in BMO	3
Buster's Corner: Update from the Structural Financial Task Force	4

A Message From BMO

Greetings:

We're currently wrapping up work on the 2012 budget, which is scheduled for adoption by City Council on November 14th. Once again, staff from all levels and departments made difficult choices to close the 2012 deficit. This will be the fourth year in a row overcoming this kind of challenge and brings the total amount of deficits closed to \$446 million since 2008. That equates to approximately 13% of the General Fund operating budget each year. It has not been without sacrifice from all areas.

There is some good news to report. 2011 revenues continue to meet our revised budget projections. Core sales and use tax is up 5.2% through August compared to the same time last year and total revenues are expected to meet the revised 2011 budget. Please remember that contained within our budget is a structural deficit caused by expenditure growth outpacing revenue growth. The measures we have taken over the past years have helped address both the gap created by the recession as well as the structural gap. The Structural Financial Task Force has been meeting since February to develop recommendations to solve the City's structural gap. If you would like to learn more about their work please follow this link: [Structural Financial Task Force](#). We anticipate they will finish their work in November and

their recommendations will be reviewed with the Mayor, Council, employees and the public in the coming months.

Considering the structural budget deficit, as well as the significant loss of revenues due to the recession, we do anticipate a gap in 2013. There are measures we must all take to help reduce the projected deficit for next year. Spend only what is absolutely necessary through the end of this year. The 2011 budget has a large savings goal for expenditures and it is critical that we meet this goal. Please delay non-critical spending and delay filling vacancies where ever possible. The more we save in 2011, the less we'll have to cut in 2012 and 2013 in order to maintain reserves.

The City and County of Denver continues to be in a much stronger position than most other large cities around the nation. Departments are being innovative in creating efficiencies and improving service delivery methods. Please continue to share your suggestions on how to save via MileHighMayor@denvergov.org. When we receive these suggestions we will often forward them to the managers of departments to which the suggestion pertains and work with them to evaluate the feasibility.

Thank you again for your hard work.

Sincerely,

Brendan Hanlon,

Acting Budget Director

Denver's Economic Outlook

- The **national unemployment rate** totaled 9.1 percent in September, down from 9.6 percent in September of last year. The Congressional Budget Office expects unemployment to remain around 9 percent through 2012. (Source: U.S. Bureau of Labor Statistics, Washington Post)
- In Colorado, the **state unemployment rate** totaled 8.5 percent in August, down from 8.8 percent during the same period last year. (Source: U.S. Bureau of Labor Statistics)
- **Consumer confidence** declined sharply in August, falling to its lowest level in more than two years. In September, consumer confidence remained low with consumers continuing to express concern over the economy and their expected earnings. (Source: The Conference Board)
- Following a temporary boost from the homebuyers' tax credit, **home prices** in the Denver region have been decreasing since July of 2010. In July 2011, Denver home prices decreased 2.1 percent year-over-year. This compares to a 4.1 percent decrease in July home prices across 20 metropolitan regions nationwide. (Source: Case Shiller Home Price Index)
- In July, **occupancy rates** in Denver area lodging facilities averaged 80 percent, the same as last year. **Room rates** in July increased 6 percent year-over-year. (Source: Rocky Mountain Lodging Report)
- Through September, Denver's **residential building permits** were flat with last year and dollar valuations associated with those permits were up 38 percent year-over-year. Despite growth in valuations, collections are still not at the level they were in 2008. (Source: Monthly valuation reports from CPD)

2011 BUDGET UPDATE

2011 REVENUES

Preliminary Third Quarter Revenue Comparison: 2010 vs. 2011

(in thousands)

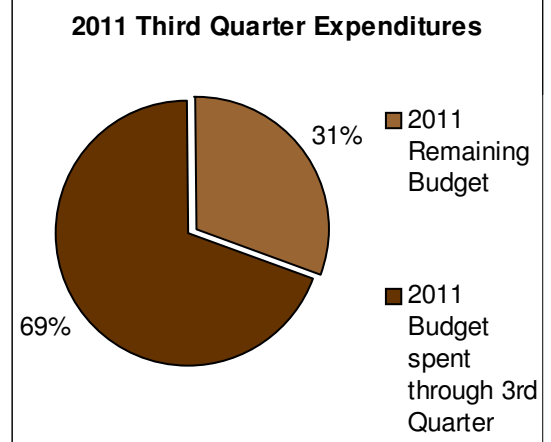
	2010 YTD		2011 YTD	
	Revenue	% of Actuals	Revenue	% of Revised Budget
Sales and Use Tax	\$259,216	63%	\$267,705	63%
Property Tax	\$64,319	99%	\$67,034	98%
Other Taxes	\$48,506	53%	\$56,356	68%
Intergovernmental	\$18,711	66%	\$18,463	70%
General Government	\$145,245	61%	\$158,956	62%
Transfers	\$4,597	12%	\$3,950	13%
Total	\$540,594	62%	\$572,464	64%

2011 EXPENDITURES

	2011 Revised Budget	2011 3rd Quarter Actuals	2011 % Spent YTD
General Government	\$253,801,296	\$152,830,267	60.22%
Parks & Rec, Culturals	\$81,363,860	\$56,936,840	69.98%
Public Works	\$87,608,900	\$59,752,634	68.20%
Public Safety	\$426,673,690	\$325,241,237	76.23%
Health*	\$43,725,900	\$39,287,961	89.85%
Human Services	\$142,593,856	\$85,059,585	59.67%
Total:	\$1,035,767,502	\$719,138,524	69.43%

*Includes the full payment made in the first quarter to Denver Health for Medically Indigent Care.

This diagram displays the percentage of the 2011 budget that has been spent through the third quarter of 2011.



As a part of the 2012 budget, Departments committed to an identified amount of savings throughout the rest of this year. The 2011 revised budget assumes approximately **\$14.6 million** in additional savings beyond what is typically achieved in the General Fund. BMO is currently working with Departments on detailed year-end projections to ensure savings targets are met in 2011.

2012 Budget Overview

Projecting the 2012 Gap...

The initial projected General Fund deficit between revenues and expenditures for 2012 was approximately \$100 million. This assumed, as a starting point, that funding was restored for 2011 temporary items, in addition to funding normal annual operating costs such as merit increases and insurance costs. There were four main reasons for this projected deficit:

- \$17.5 million due to slower than average revenue growth-Revenues grow 3.5-4.0% in a "normal" year. Originally, revenues were projected to grow by only 2.0% in 2012.
- \$48.3 million due to higher than average expenditure growth-Expenditures grow by 4.0-4.5% in a "normal" year. Original projections assumed expenditures would grow by 9.3% due to temporary items from 2011 being added back in and minor operating expansions for bond projects.
- \$24.6 million due to use of reserves in 2011-2011 used \$24.6m in reserves, meaning expenditures were higher than revenues. 2012 starts with this deficit and reserves are now at minimum levels.
- Up to \$9 million for fund balance needed to maintain minimum levels-To the extent that expenditures grow, reserves must grow as well to maintain minimum levels.

Closing the 2012 Gap...

The budget office started the 2012 budget process in January 2011 to provide agencies more time to develop proposals. The budget deficit is being solved with approximately 50% temporary and 50% permanent solutions. Through exceptional effort and commitment from Agencies and Departments across the City, the \$100 million budget gap is being closed with the following measures:

◇ Expenditure Savings: \$62.4 million

Examples include:

- \$12.4 million through a reduction in FTE's, most of which are vacant.
- \$12 million in reductions to supplies and professional services.
- \$11.7 million in alternative funding is being appropriately used for operating costs.
- \$5 million in savings through implementation of the police resource allocation plan.

◇ Revenue Enhancements: \$37.6 million

Examples include:

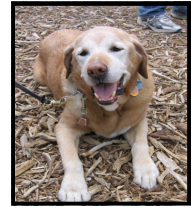
- \$17.4 million through improved revenue over base assumptions.
- \$10 million from one-time use of the fire mill levy for fire operational costs.
- \$2 million from a tax amnesty program that mirror's the State's program.
- \$1 million from increased recreation center fees that were passed by Council earlier in the year.

The full 2012 Budget can be found at www.denvergov.org/budget

Performance Management in the Budget Office **Getting the word out about all the good work Denver is doing!**

Performance management is vital to ensuring strategic and effective investment. To this end, BMO contributes to or leads several initiatives to support the City's performance management system and communicating it to the Denver Community. BMO is currently involved with the following initiatives:

- * *Gathering feedback from the Public-* Since 2002, the City and County of Denver has conducted The National Citizen Survey. The 2011 survey will be sent out in November 2011 and the final report will be available in January 2012.
- * *Explaining the Investment in Services to the Community-* The Citizen Budget is organized by program instead of work unit to better explain to citizens the investment in programs. The Citizen Budget will be available in January 2012.
- * *Reporting on City's Performance-* The annual Report to Citizens provides an overview of community indicators and the work Denver is doing to help improve the quality of life for those who live, work and play in Denver.
- * *Supporting Operational Improvement-* BMO is supporting the Mayor's Office on Peak Performance. Peak Performance is predicated on an organization's strategic plan and opportunities for improvement to meet the goal laid out in the Strategic Plan. BMO is offering guidance on the elements of a measurable and focused Strategic Plan.



Buster's Corner: What is the status of the Structural Financial Task Force and when will the recommendations be made?

Welcome to Buster's Corner. Here, you'll learn some finance facts about the City and County of Denver. If you have a question about the City's finances, please send it to BMO and Buster will address your question in an upcoming issue.

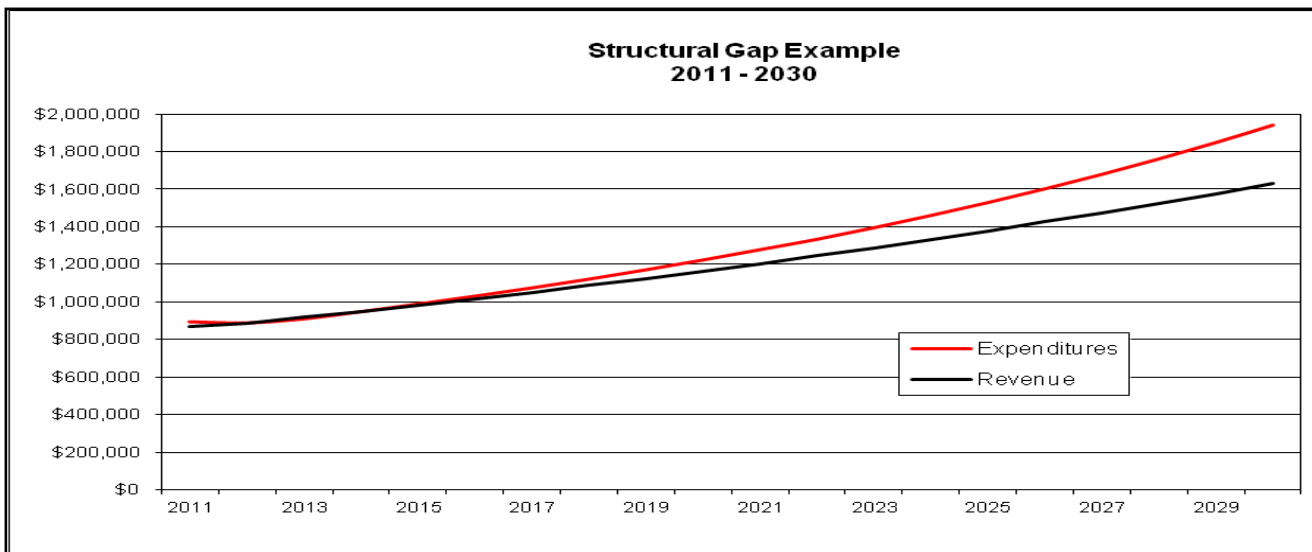
The Structural Financial Task Force was set up in the Spring of 2011 to help the City of Denver to address the structural budget gap that has resulted in year-after-year reductions to the City's General Fund budget.

Denver's revenue growth has slowed and no longer keeps pace with expenditure growth. This Task Force is addressing the structural budget deficit that would have been an issue even if there hadn't been a recession. The structural deficit between revenues and expenditures has been growing over the last decade.

The structural gap is mostly being caused by:

- A changing economy, spending habits, and demographics that are causing revenues to grow at slower rates, especially in the last ten years.
- Pressures on expenditures, such as health care costs, that prevent the reduction of on-going costs without impacts on services.

The graph below is an example of how much expenditures and revenue would deviate over the next 30 years if no action was taken.



*This chart assumes that the 2012 gap was solved with 100% permanent reductions to demonstrate that even if that had occurred the structural gap remains.

Thus far, the Task Force has learned about the City's revenues, expenditures and tax burden, challenged and validated Denver's thirty year expenditure and revenue forecasts identifying a structural budget gap, generated and vetted expenditures and revenue ideas that could solve the structural gap. The final step in the process will be to recommend to the City a package of options that will solve the structural gap.

Examples of potential recommendations include:

- * Health Insurance Program Design
- * Pension Contributions
- * Efficiency Studies
- * Retail Enhancement Strategies
- * Dedicated Revenues
- * Trash Collection Fee
- * "Debrucing" Property Taxes
- * Indexing Fees and Fines to Inflation

There are two monthly meetings remaining in November and December. The outcome of all the hard work will be a report, including recommendations, to be made public by the end of the year. The recommendations are not be binding and will require a public vetting process. Public outreach will be conducted after the Mayor and Council review the recommendations.

STAY TUNED FOR THE RELEASE OF THE STRUCTURAL FINANCIAL TASK FORCE REPORT!