

# City and County of Denver Budget and Management Financial Newsletter



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## A Message From Ed

Greetings:

We're currently wrapping up work on the 2011 budget, which is scheduled for adoption by City Council on November 8<sup>th</sup>. Once again, staff from all levels and departments pulled together to close a significant deficit.

This will be the third year in a row overcoming this kind of challenge and brings the total amount of deficits closed to \$346 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. 2010 revenues continue to meet our revised budget projections. Core sales and use tax is up 4.6% through August compared to the same time last year. The 2010 budget assumes we will end the year with a total growth of 3.8%. Other revenues also continue to improve. If revenues are growing, it may be hard to understand how we will continue to have challenging budgets ahead of us. The reason is that revenues dropped back to 2006 levels while expenditures, though flattened in 2010, have not. This, combined with using some temporary savings measures in 2010 and 2011 such as furloughs, is the primary reason we will have another deficit to close in 2012.

There are measures we must all take to help reduce the projected deficit for 2012. The first is to spend only what is absolutely necessary through the end of this year.

The 2010 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 when possible. The more we save in 2010, the less we'll have to cut in 2011 and 2012 to maintain minimum reserve levels.

The second critical task is to catch-up on processing all internal billings between funds. Billings for services to other funds and grants brings vital revenue into the General Fund and allows BMO to accurately project year-end balances. These transactions need to be processed as soon as possible, and regularly throughout the year.

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 creative and innovative in creating efficiencies and improving service delivery methods. Please continue to share your suggestions on how to save via [MileHighMayor@denvergov.org](mailto:MileHighMayor@denvergov.org). When we receive these suggestions we will often forward them to the managers of departments to which the suggestion pertains or we will evaluate the feasibility and share with key decision makers.

Thank you again for your hard work.

Sincerely,

Ed Scholz,  
Budget Director

## Denver's Economic Outlook

- In the third quarter of 2010, the **national unemployment rate** averaged 9.6 percent, compared to 9.7 percent in the first and second quarters and 10.0 percent in the fourth quarter of 2009. In August, the most recent month for which state and local unemployment data are available, **Colorado's unemployment rate** totaled 8.2 percent (up from 7.9 percent in August 2009) and the **unemployment rate in the Denver-Aurora-Broomfield area** totaled 8.1 percent (compared to 8.0 percent in August 2009). (Source: U.S. Bureau of Labor Statistics)
- After improving slightly in August, **consumer confidence** fell in September, indicating that consumers were more pessimistic about the economy and labor market. In September, **consumer confidence** was at its lowest level since February. (Source: The Conference Board)
- **Sales of new and existing homes** fell to record lows in July following the expiration of the home-buyers tax credit. With a large supply of foreclosed properties expected to come on the market, downward pressure on home prices remains a major area of concern. (Source: Bloomberg)
- Through September, **occupancy rates** in Denver-area lodging facilities have consistently been up compared to 2009. Room rates have also shown year-over-year gains since May. (Source: Rocky Mountain Lodging Report)
- Through September, **residential building permits** are up 12 percent year-over-year and dollar valuations associated with those permits are up 33 percent. However, permit activity and dollar valuations are still behind 2008 levels. (Source: Monthly valuation reports from CPD)

# 2010 BUDGET UPDATE

## 2010 REVENUES

### Preliminary Third Quarter Revenue Comparison: 2009 vs. 2010

(in thousands)

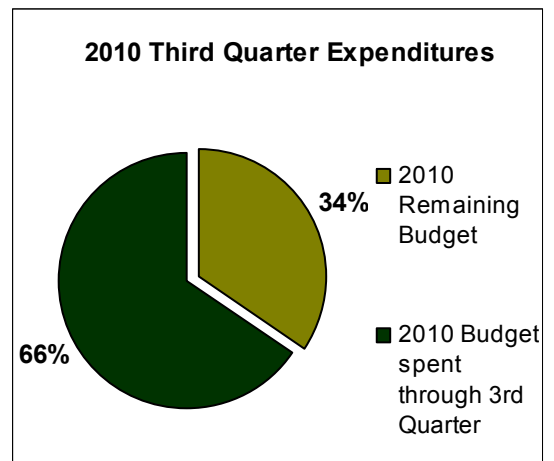
	2009 YTD		2010 YTD	
	Revenue	% of Actuals	Revenue	% of Revised Budget
Sales and Use Tax	\$244,074	62.9%	\$259,216	62.6%
Property Tax	\$62,806	97.6%	\$64,319	98.1%
Other Taxes	\$47,824	66.3%	\$48,506	64.9%
Intergovernmental	\$16,898	61.3%	\$15,362	62.3%
General Government	\$138,143	60.6%	\$158,853	65.2%
Transfers	\$3,089	10.1%	\$4,597	15.7%
<b>Total</b>	<b>\$512,834</b>	<b>63.3%</b>	<b>\$550,853</b>	<b>64.7%</b>

## 2010 EXPENDITURES

	2010 Revised Budget	2010 3rd Quarter Actuals	2010 % Spent YTD
General Government	\$251,737,498	\$144,219,814	57.29%
Parks & Rec, Culturals	\$79,750,200	\$50,832,428	63.74%
Public Works	\$80,219,715	\$53,189,966	66.31%
Public Safety	\$426,673,690	\$303,719,053	71.18%
Health*	\$43,664,400	\$38,940,743	89.18%
Human Services	\$136,926,931	\$76,526,419	55.89%
<b>Total:</b>	<b>\$1,018,972,434</b>	<b>\$667,428,423</b>	<b>65.50%</b>

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

This diagram displays the percentage of the 2010 budget that was spent through the third quarter of 2010.



As a part of the 2011 budget, Departments committed to an identified amount of savings throughout the rest of this year. The 2010 revised budget assumes **\$9 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 2010.

# 2011 Budget Overview

The total deficits solved in 2009 through 2011 equal \$346 million or approximately 13% of the budget each year. City agencies put forth an exceptional effort to help solve the \$100 million budget gap for 2011. Below is an overview of the 2011 budget.

## **2011 REVENUES:**

- ◇ Total revenues are projected to grow by 4.6% in 2010 and 2.8% in 2011 (when large one-time items are removed). Core Sales and Use Tax (50% of the total revenue) is projected to grow by 3.8% in 2010 and 3.5% in 2011.

## **2011 EXPENDITURES:**

- ◇ The 2011 budget includes \$52 million in expenditure reductions. Without the \$52 million in reductions, expenditures would have grown by 9%. This has been reduced to 4.1%. The growth is attributable to operating and maintaining new facilities, utility rate increases and increased personnel costs (health insurance, merit, etc.).

## **The \$100 million budget gap is being closed with the following measures:**

- ◇ Expenditure Savings: \$52 million
  - Includes reducing personnel costs through no wage increases for Cabinet members or City Council members, five furlough days for all CSA employees, abolishing 158 positions and over \$15 million in reductions to supplies, services and equipment replacement.
  - The 2011 budget does include wage increases for police, fire and sheriff union employees per the current contracts as well as wage increases for CSA employees delivered through the merit system.
- ◇ Revenue Enhancements: \$39 million
  - Includes increasing traffic fines to match metro-area averages, eliminating the early payment discount for traffic tickets and the one-time use of fire mill levy funds for fire operational costs.
- ◇ Use of reserves/undesignated fund balance: \$9 million
  - Reserves balance is now projected to be 10.5% by the end of 2011. Use of reserves is consistent with our financial policies for use during economic downturns.

**The full 2011 Budget can be found at [www.denvergov.org/budget](http://www.denvergov.org/budget)**

## **Buster's Corner: Why does the budget office still sign encumbrances for Capital Projects?**

*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 your question to BMO and Buster will address your question in an upcoming issue.*



Capital projects often last for one to three years, and the budgets and encumbrances for those projects are non-lapsing. This is the major difference between capital and operating (General Fund) encumbrances, which are typically closed at the end of each year.

Due to the non-lapsing status of capital project encumbrances, BMO follows a process that is slightly different for capital encumbrances and change orders:

- All capital project encumbrances and change orders require a BMO signature. This is to ensure that expenditures continue to meet the intent of the appropriating language approved by Council. This is different from operating encumbrances, which do not require BMO signature and are typically closed out at the end of each calendar year.

- Purchase orders (POs) that utilize capital budgets require a BMO signature for:

- 1) purchases greater than \$50,000, and
- 2) all controlled assets.

This is different from operating PO's, which require a signature only for controlled assets.

- Capital budget encumbrances should be reviewed at the end of the year by agencies along with the close-out of operating encumbrances, so that corrections and clean-up can be done. However, capital encumbrances will remain in place until specific action is taken by an agency to close them.

With the process changes due to implementation of P2P, BMO is working to maintain consistency in the capital program. Please let us know if you have questions or concerns by contacting Gretchen Hollrah, Capital Program Manager, 720-913-5516.

# Performance Management in the Budget Office

## How far we have come...

The performance management initiative in the budget office continues to lay the foundation for program-based budgeting and to enhance performance-based decisions. With your help, the City has taken some significant steps in this direction, including:

### 1) Program Inventory

In 2009, BMO worked with Departments to compile a list of all the programs that the City provides to the community through the Departments and agencies. The City's list of programs total 130+ and can be found on DOT under Budget Resources.

### 2) Resources by Program

The budget office is also now able to identify the amount of resources (including dollars and FTE's) in each program. Soon we will be able to run reports that will show us the amount of dollars and FTE that are dedicated to each program.

### 3) Budget changes by Program

In the 2011 budget book, all significant budget changes were listed out by Program, including changes outside the General Fund. This provides a better understanding of the investment changes within the programs the City provides.

### 4) Context for performance measures

A performance context section was also added to the 2011 budget book. This section gives departments an opportunity to describe any major changes in the performance measure data. It also explains why a measure matters to a program.

### 5) Citizen's Budget

In January, a citizen's budget document will be released. This document will be a user friendly summary of the budget focused on major programs.

### 6) Annual Citizen Report

The City's second annual report to citizens can be found online at [www.denvergov.org/budget](http://www.denvergov.org/budget). This report identifies Community Measures and the initiatives the City is implementing to positively impact these outcome measures.

These are all very important steps of progress towards a citywide comprehensive performance management system and program-based budgeting process. We will continue to build upon this foundation of performance management.

## Where do we go next...

Understanding the data and goals for each Program is key to making effective decisions about strategy and investment. The Budget and Management Office is conducting Program Evaluation and Reviews of the City's Programs to collect this performance data. Program Reviews will identify the critical information that should be considered when decisions are being made. For example, strategic plans, staffing models and legal mandates on a program are all crucial pieces of information when making decisions.

### ***Program Reviews will support the performance management efforts in the City by:***

- Developing agreed upon performance measures within each program
- Looking in depth at the decision drivers within programs
- Providing a starting point for evaluating how decision packages affect programs
- Setting the ground work for program-based budgeting

Program Review teams from BMO will visit with Managers of programs to clearly understand the mission, goals and important initiatives of their program. The team will then identify the key data and vital decision information that should be included in the Program Review documents.

***Please keep your eye out for a Program Review team coming to your agency!***