



**City
of
Boulder**
Office of the City Manager

DATE: August 12, 2003
TO: Mayor, City Council and the Citizens of Boulder
FROM: Frank W. Bruno
SUBJECT: 2004/2005 BUDGET MESSAGE

INTRODUCTION

As required by City Charter, Article V, Section 64(h), enclosed is the City Manager's Recommended 2004-2005 Budget ("Budget") for all funds.

The City of Boulder provides a broad variety of programs and services. Some are totally funded by charges for the services provided such as the water, wastewater and stormwater/flood control utility funds. Rates are set in these business areas to adequately provide and maintain required assets and fully support the provision of on-going services. These "enterprise" or "business type" funds remain in a very strong financial position to provide their critical services for the long term.

Unfortunately, most other "general governmental" funds, where services are partially or fully subsidized by various taxes, do not share the same level of fiscal health. Like many other governments and private businesses, the City of Boulder is experiencing a significant gap between revenue collections and the expense of providing current services. Reductions in sales tax revenue have negatively impacted all sales tax supported funds. Again, like any other business, our municipal corporation has to live within fiscal constraints and must balance its budget through some combination of reducing costs and increasing revenue. The need to reduce programs and services and downsize the organization has resulted in a very challenging budget development process.

Meeting this challenge required developing a budget that:

- adequately maintains the basic services that are most critical to the community;
 - reduces or eliminates other programs and services while continuing the best on-going mix of services to support quality of life for our residents;
 - accomplishes the work of the City government at the highest attainable level of efficiency;
 - attempts to preserve support for city efforts that enhance the economic vitality of our community; and
 - meets the absolute requirement of maintaining fiscal responsibility.
-

This Budget reflects the trade-offs and compromises necessary to fulfill our responsibilities and protect the long-term fiscal health of our community. It will result in balanced budgets for all funds and, I believe that it meets all of the above-mentioned challenges.

BUDGET DEVELOPMENT PROCESS

Development of the 2004-2005 Proposed Budget was different than many previous budget processes. It has been much more complex, with many steps building upon the conclusions of previous steps. Two City Council budget review meetings have already occurred and the proposed budget incorporates direction received from Council at both of these meetings:

- March 14 & 15 City Council Retreat; and
- July 8 Budget Study Session.

During both of these pre-budget discussion sessions with City Council, I was pleased to find that Council and staff were in close alignment with respect to the majority of budgetary issues and challenges facing the community.

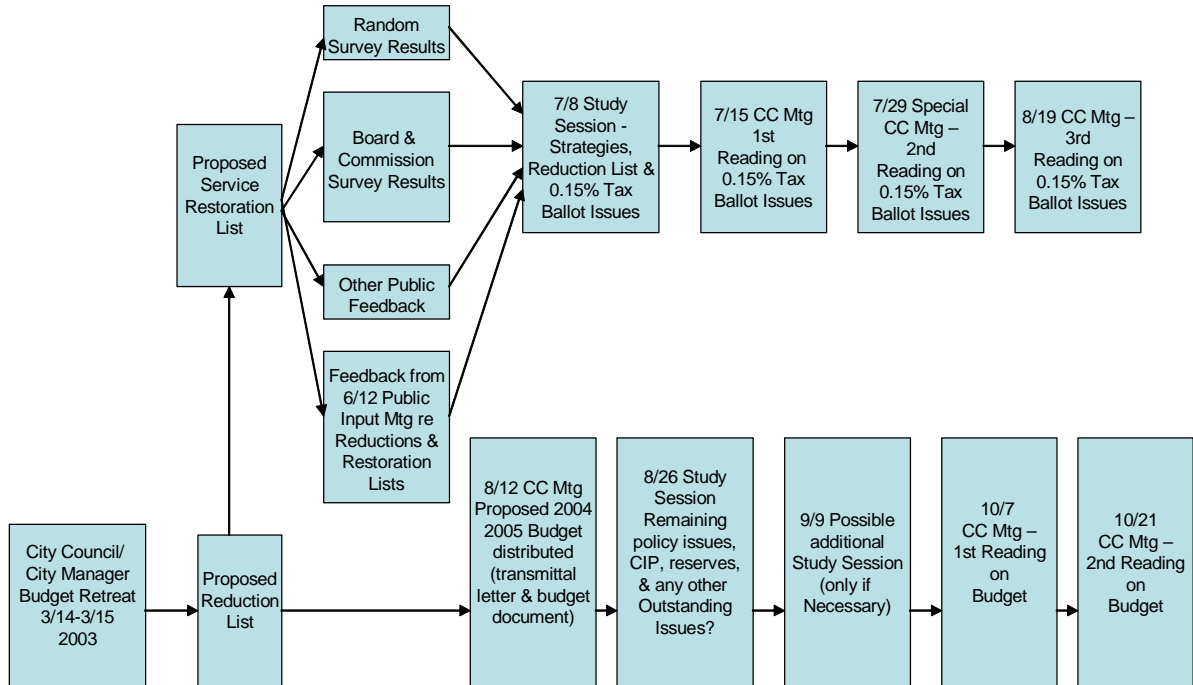
Multiple opportunities for public input have also taken place as follows:

- random survey;
- non-random paper and web based surveys and survey of Boards and Commissions (since the information received is not random, it cannot be considered representative of broader community opinion.);
- public open house held on June 12, 2003;
- public hearing at first readings of both the General Fund and Open Space ballot issues on July 15, 2003; and
- public hearing at second readings of both the General Fund and Open Space ballot issues on July 29, 2003.

The information received during these public input processes has been disseminated at various times and continues to be available on our website at ci.boulder.co.us/budgetgap.

The following flow chart graphically illustrates the various steps that will have preceded adoption of the City of Boulder 2004-2005 Budget.

2004-2005 BUDGET PROCESS



BUDGET OVERVIEW

The 2004 Proposed Budget totals \$190,234,000 for all funds, including governmental, enterprise and capital improvement funds (amount does not incorporate the Reduction and Revenue Enhancement Plan for the General Fund). The following charts (in \$1,000s) illustrate comparable amounts for other periods; the 1st chart does not incorporate the Reduction and Revenue Enhancement Plan for the General and Public Safety Funds and the 2nd chart does incorporate the plan.

Chart 1 – Reduction and Revenue Enhancement Plan for the General Fund not incorporated :

Expense Type	2003 Approved	2004 Proposed	2005 Projected
Operating	136,760	137,610	141,531
Capital	34,729	24,988	27,185
Debt Service	27,179	27,636	28,041
Total	198,668	190,234	196,757

Chart 2 – Reduction and Revenue Enhancement Plan for the General Fund incorporated:

Expense Type	2003 Approved	2004 Proposed	2005 Projected
Operating	136,760	129,145	130,395
Capital	34,729	24,988	27,185
Debt Service	27,179	27,636	28,041
Total	198,668	181,769	185,621

GENERAL ECONOMY AND SALES TAX REVENUE

The Boulder economy has declined dramatically since the year 2000. As measured in the context of sales and use tax collections, tax revenue to the City of Boulder has fallen by approximately 20% over the past three years. This change did not occur overnight, but reflects a long-term structural shift that has resulted in the City of Boulder no longer enjoying the role of regional retail and business center. While some portion of this decline can be attributed to the ongoing national and international recession, the greatest measure of the problem relates to Boulder’s loss of competitive position.

Competition from neighboring communities in constructing new retail options continues to drain resources that had formerly funded community services such as open space, affordable housing and transit. In addition, corporate site selection decisions have emptied buildings in Boulder, and filled others in Broomfield, Louisville and Lafayette. This means that as these businesses expand and purchase equipment they are no longer paying sales and use tax to the City of Boulder. Their relocated employees are also not shopping and eating in Boulder as often. This further erodes the City’s ability to fund services.

As previously stated, sales and use tax revenue has declined by about 20% since the year 2000. This has resulted from a combination of the poor economy and retail sales “leakage” to places like Costco and Flatiron Crossing Mall. In addition, a 0.15% sales tax for public safety purposes will expire at the end of 2004 eliminating another \$3.1 million in revenue. Therefore, sales tax revenue available to support programs and services is and will continue to be down from previous levels, resulting in a total General Fund budget gap of about \$14.1 million. Other sales tax supported funds such as Transportation and Open Space/Mountain Parks are also experiencing similar revenue declines.

All sales tax supported funds have already implemented major expenditure reductions, first looking for efficiencies and, only as a last resort, eliminating projects, programs and services. Because sales tax supported funds other than the General Fund have significant capital components, the impacts of reductions, though very significant for the longer-term, have less of an impact on the day-to-day lives of our residents. The General Fund supports most of the basic services used daily by residents such as libraries, parks, recreation, law enforcement, and fire protection. Since most General Fund services are

provided by employees (labor rather than capital intensive) reduced revenue translates to employee layoffs which have to result in immediate program or service reductions.

As a contingency plan, in 2002, the city began implementation of a four-year \$5 million General Fund budget reduction plan which was developed as a contingency to address one of the following three possibilities:

- significant declines in the economy;
- the expiring 0.15% sales tax not being extended; or
- major store closures at Crossroads Mall.

Unfortunately, all three of these possibilities have come to pass, resulting in the need for even more program and service reductions.

WHAT COULD IMPROVE THE SITUATION?

Several economic vitality initiatives are in progress:

- The City Manager has convened a group of business leaders (Economic Vitality Action Group) to recommend tools and strategies that can be used to improve the vitality of both the business and retail economy in the city. A final report from this group will be presented to City Council in September 2003.
- Council has appropriated monetary resources to support economic vitality initiatives.
- The Boulder Convention and Visitors Bureau is developing a master plan to increase visitors and tourism and associated sales tax revenue.
- The Central Area General Improvement District has issued bonds to build & operate a parking garage under the new hotel being built at 9th & Canyon. This hotel will bring additional visitors (and retail sales) to the downtown.
- Westcor has submitted a concept plan for redevelopment of the Crossroads Mall and tentatively plans to break ground for the first phase of the project mid-year 2004.

Also, City Council approved placement of two questions on the November 2003 ballot:

- a 0.15% sales tax for General Fund purposes; and
- a 0.15% sales tax for Open Space/Mountain Parks purposes.

Therefore, citizens have the opportunity to diminish the extent of service reductions by authorizing one or both of the ballot issues.

WHAT SHOULD WE EXPECT IN THE FUTURE?

In terms of the general economy, a recent article by Dr. Richard Wobbekind in *The Boulder County Business Report* predicts the following for the Boulder County economy:

- both Colorado and Boulder (County) unemployment have bottomed out;

- a recovery in local employment is not expected to begin until the fourth quarter of 2003; and
- based upon a forecast from the *Office of State Planning and Budgeting*, retail sales are not anticipated to rebound dramatically anytime soon.

Whenever they happen, improvements in the general economy will be welcome and will improve the revenue picture for the City of Boulder. Unfortunately, concurrent with declines in the economy, the economic base has changed such that Boulder is no longer in the position of being the retail and employment center for the Boulder Valley.

Therefore, we do not believe that the City will ever return to enjoying the high percentage of sales and use tax previously generated. Thus, we are not predicting an automatic return to the revenue picture of the past. The following defines our forecast for the next five years which serves as the basis for the proposed budget:

- Some level of slow increase in capital purchases by businesses located in the City as the economy improves. But, because there is so much available commercial office space in the area (up to a 30% vacancy rate in the Interlocken area), we continue to experience an outflow of businesses seeking lower lease rates and we may never get back to the magnitude of business generated taxes that we enjoyed during the 1990s.
- Some level of slow increase in consumer retail purchases as the economy improves and Crossroads Mall is redeveloped. But, we will never again be the regional retail shopping center for the Boulder Valley, so we cannot count on returning to the level of taxes previously generated through consumer retail purchases.

The proposed budget assumes that, with the exception of continuing growth in ancillary retail around Flatiron Crossing Mall, most of the retail leakage will have taken place by the end of 2003 and a more normal growth pattern will begin from a new, much lower base. The base sales tax forecast does not assume any increase from a renovated Crossroads Mall or other new retail in the City. While recognizing that there is some risk involved, because the redevelopment of Crossroads Mall appears to be on-track for a mid-2004 groundbreaking, the Reduction and Revenue Enhancement Plan for the General Fund does include an incremental \$600,000 in construction use tax and admissions tax beginning in 2005. This would be a very conservative amount if the project moves forward as currently envisioned. A contingency reduction plan is available to balance the General Fund budget if this incremental revenue is not generated.

Assumed base sales/use tax increases follow:

	2000	2001	2002	2003	2004	2005	2006	2007
Year	Actual	Actual	Actual	Plan	Plan	Plan	Plan	Plan
% Change	5.19%	-2.58%	-9.38%	-8.00%	3.07%	3.48%	3.47%	3.75%

MEETING OUR FISCAL RESPONSIBILITY FOR BALANCED BUDGETS

The city has already implemented multiple strategic actions to deal with the loss of sales tax revenue. In 1999, over \$1 million in reductions were made in the operating expense

base of the General Fund and the "savings" were allocated to increasing reserves in virtually all areas. In addition to building the General Fund Reserve to the 12% level by the end of 2002, a number of additional initiatives were included in past budgets to promote long-term fiscal stability. A synopsis of actions to date follows:

- reduction in the backlog of building maintenance needs;
- funding for major maintenance and renovation/replacement of buildings (with the exception of debt-financed buildings) at a rate of 2% of current replacement value per year;
- full funding for the Equipment Replacement Fund;
- full funding for the Computer Replacement Fund;
- funding to make the Workers Compensation and Property and Casualty Insurance Funds actuarially sound;
- elimination of certain employee termination benefits and the establishment of a reserve to pay for those benefits that were vested and/or "grandfathered" in; and
- implementation of a 4 year, \$5 million General Fund budget reduction plan beginning in 2002.

This budget incorporates further reductions in revenue for all sales tax supported funds. For the General Fund, this includes approximately \$9.1 million in new reductions. Strategies underlying these further reductions are listed in the next section of this budget message.

Once current downsizing actions are completed, a combination of the new Boulder retail stores recently opened or planned for the future and increased retail spending due to the growth related general increases in disposable income in the region, should support a lower but healthy, on-going retail sales tax base.

PROPOSED REDUCTION & REVENUE ENHANCEMENT PLANS

GENERAL FUND

Budget Reduction Strategy

While it would be great to have the proverbial crystal ball to foresee the future, such is not the case, so we have to base revenue estimates on a series of assumptions regarding the economy, visitorship, consumer and business purchasing activity and the extent of new development.

Sales/use tax forecasts were based upon what staff considers "most likely" revenue assumptions. This is the point where we think the upside potential and the downside potential are approximately equal. Each sales tax supported fund developed reduction strategies to best fit their specific mission(s). The following information defines the strategies utilized in developing the General Fund budget.

1. Reductions implemented based upon “most likely” revenue estimates, with the goal of downsizing to a financially sustainable position.
2. Administrative resources reduced first, down to the minimum level required to maintain necessary services.
3. Police, Fire and Human Service “safety net services” sheltered (required to take significantly smaller reductions than other service areas).
4. General & Public Safety Funds combined to use cash more efficiently, allow use of the Public Safety Fund Balance to buffer reductions in Police and Fire, and serve as a “bridge” to maintain some services pending some revenue from a renovated Crossroads Mall.
5. Facility maintenance reduced, but continued at a level adequate to enable addressing all life/safety projects and to minimize increases in the building maintenance backlog beyond the current level of \$3.3 million.
6. Facility renovation and replacement funding temporarily reduced, but build back to achieve the goal of funding at 2% of replacement value by 2007.
7. Emergency/stabilization reserve level maintained at a minimum of 10%.
8. Listing developed of specific services to be restored if .15% extension ballot issue passes (based upon survey & citizen input).
9. If revenues come in lower than estimated, contingency plans have been developed to increase reductions.
10. If revenues come in higher than estimated, allocate increases in the order as follows:
 - facility maintenance, renovation & replacement funds
 - emergency/stabilization reserve to achieve 15% target

A total of \$11.9 million in reductions/revenue enhancements in the General Fund is proposed for 2004 and 2005, including new cuts as well as previously planned reductions. In addition to the strategies listed above, the following steps were taken to develop the reduction and revenue enhancement plan for the General Fund:

- the elimination of 93.20 full-time equivalent (FTE) positions, plus numerous seasonal and temporary positions that are not part of that overall count;
- elimination of general salary increases for management employees in 2004;
- elimination of general salary increases for Fire employees in 2004 as part of the current bargaining unit contract negotiations;
- maintenance of general salary increases for Police and Boulder Municipal Employees Association employees in 2004, because of existing bargaining unit contracts (elimination of these increases in 2005 will be considered as part of contract negotiations next year);
- elimination of an increase to the city’s portion of employee health insurance premiums;
- maintenance of reserve levels at a minimum of 10 percent;
- assumption of a minimal amount of revenue from the Crossroads site beginning in 2005; and
- use of fund balance in Public Safety to maintain some services that would otherwise have to be cut in anticipation that revenues eventually will increase slightly.

What follows is a brief summary of the major reductions and revenue enhancements proposed, by department. The detailed plan is also included under a separate tab in the budget document for your reference. These highlights combine the newest proposed reductions with those already taken, so you can have a picture of how each department is being affected.

City Attorney

- eliminates one attorney
- reduces administrative support for prosecutors

City Council

- suggests a voluntary freeze in pay
- eliminates Council memberships to Metro Mayors Caucus and Energy Alliance
- restores membership to Rocky Flats Coalition of Local Governments
- reduces Council travel budget
- eliminates outside facilitator for Council retreats

City Manager/Support Services/City Clerk

- eliminates matching funding for campaign finance reform but retains program with voluntary cap on spending
- reduces funding for general elections
- reduces city manager's contingency fund for special projects
- eliminates funding for BURA

DUHMD/Parking

- eliminates free Eco Pass to about 800 downtown employees outside the CAGID area
- eliminates creation of new NPP districts or expansion of existing districts, requiring contracted studies

Environmental Affairs

- reduces contract with Boulder Energy Conservation Center
- streamlines recycling at city offices
- prevents expansion of recycling programs at city parks
- eliminates the Environmental Affairs Director position

Finance

- adds another tax auditor
- reorganizes the budget office, sales tax, support services and revenue operations
- reduces centralized purchasing resources

Fire

- eliminates the Rescue Squad
- eliminates four firefighter positions that are now vacant

Housing and Human Services – Safety Net

- reduces subsidy of Meals on Wheels program
- reduces funding for human services programs operated by community agencies

- reduces funding for affordable housing programs such as Habitat for Humanity

Housing and Human Services – Other Services

- reduces funding available for affordable housing fee rebates
- eliminates some staffing in Children, Youth and Families
- reduces administrative support and community programs for Senior Services
- consolidates department and division heads, eliminating the director position

Human Resources and Organizational Effectiveness

- reduces advertisements for vacant positions
- reduces use of consulting services
- eliminates the employee survey
- reduces administrative support for the department
- reduces staffing for HR liaisons, who advise departments on HR matters
- eliminates Evaluation function and associated services

Information Technology

- reduces funding for technology replacements
- reduces staffing for end-user and computer support services
- eliminates technical training classes and the computer training center

Library/Arts

- closes Main Library, branch libraries and Carnegie Library one day a week and reduces hours on other days
- reduces staffing in Main Library's first floor, reference area, interlibrary loan services, and shelving services
- reduces the collection budget by 5 percent, resulting in lost purchasing power of 8-10 percent when increases in the cost to purchase items are taken into account
- reduces the number of concerts and other programs presented at the Main Library
- reduces outreach programs such as adult literacy
- reduces administrative and technical support to the library staff
- reduces staffing in cataloging and materials processing
- reduces amount of grant funding available for community-based artists and theater groups
- eliminates the Assistant Library Director position

Municipal Court

- eliminates some staffing without changes to current level of service
- eliminates temporary staffing and overtime budget
- eliminates restorative justice program
- eliminates one Associate Judge position

Parks and Recreation

- closes Boulder Reservoir for three months in the winter
- closes recreation centers one hour earlier
- eliminates some recreation classes with low attendance
- increases some fees for recreation services

- reorganizes staff at Flatirons Golf Course
- closes the pool at the former Angel Pines Country Club
- provides reduced maintenance of neighborhood parks and Columbia Cemetery
- eliminates flower planting in all but a few areas
- eliminates administrative and communication positions

Planning and Public Works

- eliminates some technical support positions
- reduces staffing and consulting budget in long range planning
- eliminates a position focused on code compliance
- reduces staffing in land use review
- outsources and reduces custodial services
- lengthens response times for routine building maintenance requests
- delays major maintenance, renovation and replacement of facilities

Police

- reduces contract with Humane Society, resulting in increased response times for service calls related to animals
- reduces administrative support and records division staffing
- eliminates the K-9 officer program
- removes School Resource Officers at Middle Schools
- closes the South Community Police Center in Table Mesa
- reduces staffing at the dispatch center
- eliminates DUI enforcement program
- reduces Employee Assistance Program for Police employees

Public Affairs

- eliminates administrative support position
- proposes additional cuts to Channel 8 and CATV
- restores the neighborhood services coordinator position

OPEN SPACE FUND

The Open Space and Mountain Parks Program Budget is based on the Acquisition and Management Plan (AMP) adopted in 2001 by the Open Space Board of Trustees (OSBT) and City Council. This Plan focuses on the purchase of approximately 7,500 acres of additional land, while maintaining stewardship of over 42,700 acres currently under management. The OSBT has directed that this be accomplished within the financial sustainability of the Open Space Fund by:

- maintaining annual payments of all bonds and notes currently \$10,000,000 per year;
- maintaining the Acquisition Program CIP at \$1,500,000 per year;
- maintaining Fund Reserves of \$6,000,000; and
- striving to maintain stewardship of the OSMP system in order to provide for a safe visitor experience through resource management, restoration, and education.

With limited resources, the OSBT will be utilizing the AMP, Visitor Plan and related Resource Management Plans to focus on the highest priority areas.

2002 and 2003 Budget Reductions

In 2002 and 2003, in order to maintain fund financial sustainability due to declining sales tax revenues, the OSMP has made reductions totaling approximately \$8,000,000 from both capital and management operations funding. City Council supported a reduction strategy to lower OSMP spending while maintaining integrity with program objectives. Principles of this strategy were to:

- maintain the integrity of the OSMP Program in light of the Open Space Fund's highly leveraged financial position;
- scale back system expansion in the areas of water, minerals, and trails, while continuing to make progress on acquisitions;
- achieve sustainable reductions while preserving the safety and visitor experience;
- take a balanced approach to reductions across all programs including operating and CIP projects;
- maintain stewardship of the resources such as forest, wetlands, wildlife, water, and vegetation; and
- attempt to minimize reductions to maintenance and operations functions while initiating implementation of Forest Ecosystem Plan and Integrated Pest Management (IPM) efforts.

Based on these general principles, an 18% reduction in operation and maintenance programs and a 50% reduction in capital programs were implemented. Examples of budget and service reduced during 2002 and 2003 include:

- reduce 2003 Junior Ranger positions by 50%;
- reduce Trails capital projects by 95%;
- reduce Unrestricted Ending Fund Balance over the next five years;
- eliminate funding for 6.50 vacant positions in resource conversation, central services and maintenance;
- eliminate all Seasonal Hiring for 2003 involved in FEMP (Forest Ecosystem Management Plan), IPM, and Trails Maintenance;
- reduce Mineral and Water Acquisition funding by \$200,000; and
- reduce Fleet Services by \$150,000 partially accomplished by lease agreement with BVSD for Junior Ranger vehicles.

2004 Budget Reductions

The 2004 proposed budget reflects a balanced budget incorporating and extending indefinitely the 2003 budget reductions based on the latest sales tax projections. Consistent with prior reductions, our focus is to maintain service integrity and a fiscally constrained budget. Also,

OSMP continues to identify and implement efficiencies in services and programs to assure resources are wisely managed.

By incorporating these budget reductions, the Open Space Fund will be able to remain financially sustainable; make required debt service payments; maintain a \$6,000,000 reserve; continue funding the Land Acquisition program at \$1,500,000 per year; and continue most current resource management services, but at reduced levels.

The proposed \$1,575,000 reduction of management and operating expenditures is approximately 20% from the adopted 2003 OSMP budgeted level of \$7,889,000. The Trails CIP would be reduced \$245,000, approximately 98%. Additionally, the ending fund balance would be reduced in 2006 by approximately \$170,000 from \$821,000 to \$651,000. The aggregate reduction of operational expenditures planned for 2004 is approximately 22%.

Additional Adjustments to 2004 Proposed Budget

In addition to the reductions proposed above, which included cutting 5.5 Standard FTEs and 27 Seasonal/Temporary FTEs, the department will implement the following additional adjustments in order to address the revised sales tax revenue projection of - 8.0% for 2003:

On-going adjustments starting in 2004

\$176,000	additional miscellaneous and lease revenues
<u>224,000</u>	NPE and/or PE based on contingency plan
\$400,000	total in 2004 and ongoing

Contingency Plan

OSMP is developing details for a two tier contingency plan for 2004 and thereafter.

Tier I assumes that the department will accomplish the OSMP mission and goals within the current budget amounts as proposed in the 2004 budget.

Tier II would accommodate additional sales tax funds received if the 0.15 cent tax Open Space is approved generally as illustrated for City Council in an analysis distributed on July 29, 2003. In the first year this would include restorations of \$750,000 in Management Operations expenses, including Junior Rangers and \$250,000 in the Trails CIP, as well as restoration of funding for acquisitions of land, water and minerals, including sufficient funds to issue bonds.

These proposed reductions will provide a positive base for future years through 2008. This is staff's best estimate in order to maintain the financial sustainability of the Open Space Fund for priority acquisitions and management goals that have been identified by the OSBT and Council.

A significant challenge exists regarding the preservation and expansion of our current and future OSMP system of over 42,700 acres.

TRANSPORTATION FUND

The Transportation Master Plan (TMP) is based on implementing a balanced multimodal-based transportation system. The TMP advocates that we:

- adequately preserve the existing infrastructure;
- strive to increase safety;
- maximize the efficiency of our existing systems (pedestrian, bicycle, transit and roadway); and
- enhance mobility through investments in the completion of the alternative transportation system (pedestrian, bicycle and transit).

Investment on enhancements to the modal systems is focused in multimodal corridors. With limited resources, investments are focused on the highest priority corridors.

2002 & 2003 Budget Reductions

In 2002 and 2003, the Transportation Fund made sustainable reductions totaling approximately \$3M across all programs in order to adjust for the decline in sales tax revenues. City Council supported a reduction strategy to lower transportation spending while maintaining integrity with program objectives. Principles of this strategy were to:

- maintain the integrity of the Transportation Prioritization approach developed with Council two years ago;
- scale back system expansion while continuing to make progress on the multimodal system;
- achieve sustainable reductions, rather than one-time reductions;
- take a balanced approach to reductions and include all modes across all programs including CIP projects;
- maintain leveraged funded CIP projects; and
- minimize reductions to maintenance and operations functions.

Based on these principles, generally a 15% reduction in operation and maintenance programs and a 50% reduction in enhancement programs were achieved. This approach meant that sidewalk repair, chip and seal, asphalt overlay and other important program budget reductions were minimized to continue to adequately maintain our existing infrastructure.

Examples of budget and service reduced during 2002 & 2003 include:

- elimination of two positions in the planning/operations and project construction work groups;
- reduction in mowing cycles in Transportation right-of-way (an aesthetic issue);
- slowing the expansion of bicycle and pedestrian system enhancements by 50%;
- reduction in the number of LED signal replacements;

- reduced asphalt overlay and chip and seal programs extending the maintenance cycle for city streets from 7 to 10 years to 15 to 20 years;
- defer capital funding for the Neighborhood Traffic Mitigation Program, while the education and enforcement components will continue;
- defer median upgrades; and
- halt city-funded expansion of the Community Transit Network, focusing existing investments on preserving core elements of the system including pass programs and successful existing transit services.

2004 Budget Reductions

The 2004 proposed budget reflects a balanced budget incorporating additional reductions based on the latest sales tax projections. Consistent with prior reductions, our focus is to maintain service integrity and a fiscally constrained budget. Also, Transportation continues to identify and implement efficiencies in services and programs to assure resources are wisely managed.

The Guiding principles identified for 2002 and 2003 continue; however, a refined set is as follows:

- maintain integrity of the Transportation Prioritization approach previously developed by Council, in priority order:
 1. maintenance and operations, limited/strategic reductions
 2. multi-modal system expansion – slow expansion, focusing reductions on projects which increase maintenance responsibilities
 3. neighborhood quality of life – defer additional capital investments;
- achieve sustainable reductions over time, rather than one-time reductions;
- continue efficiency improvements, such as reducing service in technical support categories where appropriate; and
- maintain leveraged funded projects.

The initial round of 2004 Transportation budget reductions (\$475,000 annually) held operations and maintenance reductions at the 15% level that occurred in 2002/2003, making strategic reductions in the expansion of the multi-modal system. However, the further decline in sales tax revenue, from negative 5.5% to negative 8% (another \$300,000 annually), requires that operations and maintenance be considered for further reductions.

The total annual budget reduction through 2002-2004 is approximately \$3.8 M annually. Since significant budget reductions began, including the July 2003 downward revenue adjustment, the overall reductions in Transportation include a general reduction in operations and maintenance by 18%, a reduction to the modal expansion/enhancement program by over 50%, and a deferral in neighborhood enhancement projects.

In the two sets of 2004 budget reductions, totaling \$775,000 annually, examples of additional service level reductions through the proposed budget cuts include, but are not limited to:

- the elimination of two additional FTE's in the modal planning area and two FTE's in transportation maintenance;
- the reduction of modal system expansion to leveraged-funded projects and limited opportunities that arise for system expansion;
- the extension of cycles for technical support services such as traffic counts;
- limiting support for surveying and technical studies;
- contracting out the Chip & Seal Program; and
- the elimination of two fleet vehicles.

While a number of other departments are personnel intensive, only about 20% of Transportation expenditures have been for personnel. To date, six FTE's either have been eliminated or are proposed for elimination. However, other personnel expenses have been reduced such as use of overtime and seasonal employees.

Given the uncertainty of the economy, Transportation also is in the process of developing an additional contingency list to reduce Transportation expenditures by up to \$700,000 annually, if necessary. As a part of developing this contingency list, Transportation will prioritize the set of leverage-funded projects and will establish a decision-making timeline to determine if the city will be able to provide the matching funds for the lowest priority projects.

A significant challenge exists regarding preserving and expanding our current and future transit system. RTD is cutting transit service locally and across the region. Previous support for the Community Transit Network in Boulder and Boulder County is no longer evident. A new model of providing transit service needs to be developed by Boulder and, hopefully, Boulder County. Importantly, the Boulder County Consortium of Cities has endorsed a Boulder County-hosted transportation task force focused on transit. City staff is shifting its transit planning orientation to support the development of a new model for transit provision. There will be no additional services pursued by the city at this time. In addition, there will be no investment in new shelters, benches or other transit enhancements. While the city is investing more in transit operations, it also has been seeking service efficiencies to reduce costs and to increase leveraged funds from sources such as University of Colorado students and Boulder County.

The existing agreement with RTD for the property acquisition for the Boulder Transit Village will continue. Also, Boulder County, the city of Longmont and the University of Colorado continue their efforts on the DASH, DART and STAMPEDE with limited support from Boulder. These additional transit services will face challenges regarding long-term funding once their grant periods end. These transit funding and service provision issues are addressed further in the 2003 TMP Update.

**OPPORTUNITY TO RESTORE
SOME OF THE REDUCED OR ELIMINATED SERVICES**

As previously noted, City Council has approved placement of two questions on the November 2003 ballot:

- a 0.15% sales tax for General Fund purposes; and
- a 0.15% sales tax for Open Space/Mountain Parks purposes.

These ballot issues provide the opportunity to diminish the extent of service reductions by authorizing one or both of the ballot issues.

Based upon City Council and public input, if the General Fund Ballot issue passes, I recommend that City Council appropriate the associated revenue as follows (the listing is presented in the order of preference supported by the random survey results):

Fire Protection Services

- 4 Firefighters \$283,000
- Fire Rescue Squad 163,000

Law Enforcement

- School Resource Officers at middle schools 107,000
- DUI Enforcement Program 174,000
- Humane Society animal control services 41,500
- Forensic criminalists (crime lab) 165,000
- Dispatch supervisor or communications technician 54,000
- Prosecution legal assistant and secretary/receptionist 71,000

Human Services

- Human service agency funding 176,000
- Meals on Wheels subsidy 4,000
- Coordinators in Children, Youth & Family Division 17,000

Library

- Return main library & 2 branches to 7 day/week schedule 334,600
- Return Carnegie branch to 40 hour/week schedule 28,800
- Restore funding for library materials 73,100
- Cultural programming (films, concerts, exhibits, lectures) 46,000
- Adult literacy program 13,600
- Associated computer network & cataloging support 74,900
- Additional reductions (based on -8.00% sales tax forecast) 47,000

City Parks, Flower Plantings & Forestry

- Parks maintenance & flower plantings 348,000
- Tree pruning, removal of dead trees & arboretum maint 40,000
- ½ time volunteer for adopt-a-park programs 25,000

Facility Maintenance, Renovation & Replacement	
▪ Facility maintenance, renovation & replacement	369,000
Recreation	
▪ Recreation Centers hours & staffing	105,000
▪ Youth Services (Kids Camp & rec coord & low inc subsidies)	86,000
▪ Expand Program	6,000
▪ Maintenance for athletic fields at current standards	19,000
Affordable Housing	
▪ Affordable housing grant funding	158,500
▪ Affordable housing fee rebates	50,000
Arts and Culture	
▪ Arts grants	8,000
▪ Historic preservation intern	12,000
TOTAL	\$3,100,000

If the Open Space/Mountain Parks ballot issue passes, I recommend appropriating funds to:

- restore seasonal jobs for youth through the Junior Ranger Program. These young people would work with staff to perform trails maintenance and restoration projects, many of which would be in the mountain backdrop areas;
- restore seasonal workers to maintain trails throughout the OSMP Trail System;
- restore an Integrated Pest Management crew to help combat noxious weed infestations;
- continue land purchases for habitat and wildlife protection and preservation, preservation of view corridors and natural features, wetlands and floodplains, trail connections and linkages for passive recreation as approved in the 2001 Acquisition and Management Plan;
- restore important mineral and water rights acquisition funding so that full protection is provided to existing and future purchases;
- restore capital for trails construction and major maintenance, trails linkages and connections;
- restore resource and wildlife protection and monitoring, habitat preservation, and educational and outreach programs for the general public, and to enhance the visitor experience;
- continue funding for youth conservation employment and volunteer programs providing opportunities for young people to work and learn with staff to accomplish seasonal trail maintenance;
- continue funding for a full range of Ranger Services for the protection and safety of Open Space & Mountain Parks visitors; and
- continue funding resource conservation efforts including the Forest Ecosystem Management Plan (FEMP) to ensure the health of our forested lands and provide mitigation for severe wildfire hazard to these lands and surrounding homes.

POLICY & REVENUE ISSUES REQUIRING CITY COUNCIL DIRECTION

Planning and Development Services Fee Increases

Prior to fiscal year 2001, development related activities were budgeted across five different funds, including the General Fund. At the February 29, 2000 Study Session on Development Fees, Pricing Policies and Options for Fiscal Management, City Council supported further evaluation of a special revenue fund in this area in order to simplify the administration of the budget and improve fiscal accountability. As the creation of a special revenue fund was more fully evaluated and discussed in greater detail with the City Council at the August 22, 2000 Budget Study Session, Council directed staff to proceed with implementation of the fund as a part of a larger initiative that was then called "Improving Building Services." Council support for the establishment of the fund included the following policy direction:

- development related fees should be used to fund services for which the fee is charged;
- a special revenue fund is an appropriate mechanism to account for the multi-year nature of many development projects;
- a General Fund transfer to the proposed special revenue fund is needed to support "general governance" activities;
- a waiver system for permanently affordable units should be included; and
- fees for specific housing types (OAU, ADUs, and Cooperative Housing) should not be increased.

The establishment of the Planning & Development Services Fund was authorized with the approval of the 2001 Budget on October 17, 2000. Subsequently, as part of the reorganization of development-related functions in the Planning and Public Works departments, a service area called Planning and Development Services (P&DS) was formed. P&DS services are funded from three primary sources: 35% General Fund, 56% fees and 9% restricted fund transfers (Public Works restricted funds pay for specific services provided by P&DS on their behalf.)

Some fees charged to customers were adjusted in 2001 to align with existing and revised cost recovery policies. In particular, a new cost recovery policy was supported by City Council for development review activities at 50% of full cost. To align with this policy, existing fee structures were revised and new fees were implemented for processes for which no fee was previously charged. While the best information available at the time was used to calculate these fees, our experience over the past two years indicates that revenues are not achieving cost recovery targets and that assumptions regarding activity levels and allocation of staff time were not accurate. This is a significant issue as the revenues and expenditures within the P&DS Fund must balance.

In addition to the costing of all of our services, we evaluated development review, building permits, service center operations and internal billing business processes to determine further opportunities for improvement. A list of business process improvements has been identified and will continue to be implemented over the next six

months. As part of our preparation for fiscal year 2005, we will identify any savings by these efficiencies.

A revised fee schedule that meets City Council supported cost recovery targets, aligns fee revenues with costs, and is based upon time-tracked data to better project activity types and levels and the allocation of staff resources, has been developed in conjunction with feedback received from our Fund Management Project Community Stakeholder Team and the general public. Public input was received on the proposal at the Administrative Hearing on June 25, 2003. A follow up public meeting will be conducted on August 20, 2003 and fee issues and cost recovery policies will be discussed at an August 26, 2003 budget Study Session.

Education Excise Tax Fee Increases

City Council requested that a potential increase in the tax be considered as part of the budget process. Currently, all new residential units are taxed at \$1.04 per square foot of floor area, up to a cap of 6000 square feet. The amount of the tax increases each year by the Consumer Price Index. The City Council has the ability to increase the tax up to \$3.43 per square foot.

Today, the Education Excise Tax (EET) on a new 2000 square foot dwelling unit is \$2,080, which is approximately 10% of the total city permit fees. If City Council were to raise the tax to the maximum, the EET for a 2000 square foot dwelling unit would increase to \$6,860 and would comprise more than 30% of the total fees paid to the city.

Staff is not recommending an increase in the EET at this time for the following reasons:

1. **Housing Affordability** - An increase in the tax will increase the cost of housing and put housing in Boulder further out of reach of Boulder residents and workers.
2. **Equity** - The EET is a tax on new residential units. If Council's primary reason for increasing the tax is to have more funds available to address closure issues, the EET may not be the appropriate funding mechanism.

Only two other jurisdictions in the BVSD have a similar tax: Broomfield and Louisville. Boulder's is currently twice as much as Broomfield's and Louisville's is roughly equivalent.

3. **Adequate Facility Funding** - The uses of the increased funds have not been identified.

If Council would like to increase the tax, staff recommends that an updated assessment of the financial impact of new development on BVSD facilities be prepared jointly with the school district prior to considering an increase.

Workplan and Funding Sources for Greenhouse Gas Reductions

Historically, Trash Tax revenues, which are based on the amount of trash collected from residents and businesses in the city of Boulder, have been used exclusively for waste reduction-related programs. At the August 26th Budget Study Session, Council will be discussing whether it is appropriate to use Trash Tax revenues to pay for Greenhouse Gas (GHG) emissions reduction work plan items.

The Trash Tax was instituted in 1988, increased by the voters in 1994, and by Council again in 1998. From 1989 through November 2001, the majority of Trash Tax revenues were appropriated for the citywide curbside recycling collection program. In 2001, trash service was changed to “pay-as-you-throw” and the curbside recycling program was re-structured to be a regulated, free-market system. At that time, residents’ trash bills increased, but the Trash Tax portion of their bill stayed the same. Instead of using the Trash Tax to pay for curbside recycling, Council directed staff to use Trash Tax revenues to expand recycling programs, specifically reaching out to businesses to meet the community goal of 50% waste reduction.

Programs currently funded by Trash Tax revenues include:

- Recycle Boulder Hotline
- Spring Cleanup
- Yard Waste Drop-Off Center
- Fall Leaf Collection
- City Office Recycling program
- Parks recycling & public recycling bins
- Wood Waste Drop Off Center
- EcoCycle’s Center for Hard-to-Recycle Materials
- In-school programs for Boulder Valley School District
- Backyard composting education programs, including Farmers’ market booth
- Neighborhood composting project at North Boulder Iris Center Community Gardens
- 3.25 FTEs (1.0 Recycling Coordinator, 1.0 Business Recycling Coordinator, 1.0 PACE Program Coordinator and .25 Environmental Affairs Director)
- “Recycle Row” development

The Trash Tax is based on the amount of trash being generated in the city. It is not subject to the same fluctuations as sales tax revenues. Rather, the amount of trash being generated in the city has increased at a relatively steady pace of approximately one percent per year, except for 2001-2002, when “pay-as-you-throw” went into effect, and residential generation decreased substantially.

Other than the Trash Tax, the remainder of Environmental Affairs’ budget is based on sales tax revenues: \$243,000 from the Environmental Fund portion of the 0.15% Sales Tax, and \$128,735 from a General Fund subsidy. The budget reduction strategy currently being proposed by staff for 2004 assumes Environmental Affairs no longer receives the \$128,735 General Fund subsidy.

Given the significant gap between sales tax revenue collections and the increasing desire to provide environmental services, staff is proposing the Trash Tax revenues be appropriated for programs which help achieve the city Environmental Sustainability Goal, as well as those which further waste reduction efforts. At their July 9 meeting, the Environmental Advisory Board passed a resolution approving of this expansion to the purview of the Trash Tax. Toward this end, part of the staff budget cut proposal also shifts \$7,500 from Public Works' Facilities General Fund expenses to be paid for from the Trash Tax for Wind Source purchases for the Municipal Building.

On August 26th, Council will discuss raising the Trash Tax to be used for some of the following GHG programs:

- begin 2004 municipalization/franchise re-negotiation analysis, investigate urban cooperative approaches;
- identify and respond to grant funding opportunities;
- create a climate change plan with costs, profits, benefits (both CO₂ and economic) clearly identified, analyzed and prioritized;
- investigate energy rebate programs;
- coordinate overall community education (“Sustainability 101”);
- coordinate small business and commercial programs, providing rebates, incentives and implementation assistance;
- investigate wholesale WindSource purchases from Xcel; and
- conduct periodic monitoring and accounting of CO₂ budgeting and cumulative greenhouse gas emission reductions attributable to programs.

OTHER FEE HIGHLIGHTS

The majority of user fees and/or rates are increased according to established pricing policy guidelines and, correspondingly, most are increased annually by the rate of inflation. In addition, user fee/rate modifications are reviewed by each applicable Board or Commission prior to inclusion in the proposed budget. The following fee or rate increases proposed for 2004 are highlighted for City Council information and staff will be available to discuss any issues at the August 26, 2003 Budget Study Session.

Utility Rates

Rate adjustments will be made in 2004 to result in the following additional revenue for each utility (the 2003 numbers were implemented 1/1/2003, with a subsequent mid-year increase for the water rates)

Year	Water	Wastewater	Stormwater/Flood Management
2003	3%	12%	6%
2004	0%	6%	3%
2005	3%	5%	3%
2006	3%	5%	3%
2007	4%	5%	3%

If approved the proposed increases would become effective 1/1/2004. The rate adjustments will increase a typical residential customer's bill approximately \$11 per year or \$0.95 per month. Significant planned programs and projects with budgetary impacts include:

Water Utility

- Betasso Water Treatment Plant Improvements (\$5.0 million included in 2006 CIP, plus increase in operating budget)
- Boulder Reservoir Water Treatment Plant Improvements (\$6.3 million included in 2006 CIP, plus increase in operating budget)

Wastewater Utility

- Class A Biosolids Composting Facility (\$9.0 million included in 2004 CIP, plus increase in operating budget)
- Biosolids Handling and Dewatering Facility (\$6.0 million included in 2004 CIP, plus increase in operating budget)
- Wastewater Treatment Plant Improvements related to the discharge permit renewal (\$12.0 million included in 2004 CIP, plus increase in operating budget)

Flood Control Utility

- Initial improvements related to South Boulder Creek (\$3.0 million included in 2005 CIP)

Combined Water, Wastewater and Flood Control Utility

- Implementation of the new utility rate structure and utility billing system (\$1.75 million included in 2004 CIP)

Library – Books by Mail Fees

The Books by Mail program was started on a permanent basis in early 1995. At the time, the \$.50/item fee was not intended to cover the full costs of the program as the benefits created by the service - fewer car trips to the downtown area, staff and space savings through elimination of the in-house hold shelves, and faster turnaround time - outweighed the costs not covered by the fee. In 2003, the fee was raised to \$1.00/item, in part to cover several postal rate increases that had occurred since 1995 and also to reduce the Library's subsidy burden. Through 2003, any Boulder cardholder living within Boulder County can place a hold on a Boulder Public Library item and have it delivered by mail. Patrons can no longer pick up hold items at the library.

Actual costs to process and mail out a hold item average \$2.50. In preparing the 2004 and 2005 budget, the Library recognized that it could no longer continue to subsidize

such a significant portion of the Books by Mail service, particularly to residents living outside the City of Boulder. Beginning in 2004, holds placed by people living within Boulder County, but outside the city limits, will be charged a \$2.50 per item fee. City of Boulder residents will continue paying the \$1.00 per item fee. The option of in-house hold pick-up will not be reinstated; out of city residents will either have to pay the new fee or wait until the desired item is available for general circulation.

Parks and Recreation – Youth/Teen Daily Pass and Punch Cards

Youth and Teen daily admission fees are proposed to go from 2.75 and 3.00 to 3.25 and 3.50 respectively. Punch card and annual fees would be raised in accordance with these increases. These increases of .50 are slightly higher than in past years.

These fees have been increased to better reflect the market for this type of service. Area municipal recreation centers (e.g., Broomfield, Louisville and Longmont) were reviewed and found to all have higher admission fees than Boulder's fee.

Based on the \$5 - \$6 an hour average leisure experience costs nationwide and that youth and teens tend to spend approximately two hours at a recreation center per visit, the cost for a youth to attend will be \$1.67 and \$1.75 for teens. These fees fall well below the standard.

It is not the intent to eliminate recreational opportunities for youth and teens from low income families. We provide specific programs for youth and teens that live in low income housing, have a reduced rate program that gives half price fees to participants, and are working to enhance our youth scholarship program for other youth that do not have access to our services.

Parks and Recreation – Flatirons Gold Course Fees

The Parks and Recreation Department is proposing to eliminate separate resident and non-resident player fees in 2004. Analysis of surveys of 2003 Public Golf Operator Green Fees in the Denver metropolitan area indicates that many municipalities are eliminating resident/non-resident player fees. Municipal golf courses in Denver, Ft. Collins, and Loveland are examples of cities that have adopted a standard fee approach. Additionally, staff believes that continuing to increase non-resident player fees will result in fewer non-resident golfers playing at Flatirons Golf Course. In 2002, 51,740 rounds of golf were played at Flatirons Golf Course. This is a reduction of over 6,900 rounds from peak rounds played in 1999. Of the 51,740 rounds played in 2002, approximately 51% were resident golfers (35% adults, 8% juniors and 8% seniors). Non-resident golfers represent approximately 49% of the total rounds played in 2002. Staff believes that increased competition in the municipal golf marketplace as well as the economy has resulted in the decrease in rounds. Additionally, the support facilities at Flatirons are approaching 50 years of age, and the non-resident golfer has newer and modern facilities in which to play in the marketplace. Staff believes that developing a standard player fee will attract additional players from outside the City that might not normally play at

Flatirons Golf Course. Staff believes that \$60,000 in additional revenues through increased volume could be generated by implementing a standard player fee approach.

Parks and Recreation – Boulder Reservoir Boating Fees

The Parks & Recreation Department is proposing to increase boating fees at Boulder Reservoir between 3.9% and 48.1%. The largest increase being proposed is for a season pass that is valid 7 days per week for a motorboat under 49 horsepower. These crafts are normally used by the public for fishing in the Reservoir. Resident fees in this category are proposed to be increased from \$80 to \$100 (25%). Boulder County fees in this category are being increased from \$130 to \$150 (15.4%) and Out-of-Boulder County fees are being increased from \$135 to \$200 (48.1%). Staff believes these fees are still a good value. Based on an estimated 200 days of fishing weather yearly, the resident fee of \$100 equates to a daily fee of \$0.50. Staff believes that boaters should pay a higher proportion of the costs to manage and operate the Reservoir due to the higher costs of providing safety services such as boat patrol during high peak times and boat launching facilities.

DUHMD/Parking Services – Long Term, Permit Parking Rates

In 2004, the CAGID and UHGID long term, permit parking rates will increase by 5% to \$213.00. The 5% increases are scheduled every two years. Also in 2004 the Neighborhood Parking Permit program commuter permit rates will increase 5% and get on a regular schedule for a 5% increase every two years.

The 9th and Canyon parking structure will be completed in June 2004 with 556 parking spaces coming on line. 70% of those spaces will be long term, permit parking and 30% will be short term spaces.

Humane Society of Boulder Valley (HSBV) Fees

The Humane Society of Boulder Valley (HSBV) is proposing the following changes in the reclaim and board fees at the facility:

	2003 Fee	2004 Proposed Fee
Dog with license tag	\$35	\$40
Dog without tag	\$50	\$55
Cat impound fee	\$35	\$40
Daily board fee	\$10	\$12

These reclaim and board fee revisions are projected to increase revenues for HSBV by \$6,500 per year.

Average length of stay for a stray dog is 1.2 days and, on average, it will cost HSBV clients \$54 to reclaim a licensed dog.

CAPITAL IMPROVEMENT PROGRAM

The 2004 Capital Improvements Program (CIP) includes proposed funding of \$49.5 million for 58 projects and programs. Please note that this amount includes approximately \$28 million in Wastewater Utility Fund projects (i.e., biosolids composting facility) which will not be formally appropriated until bond funding is secured. As a result, the \$28 million for Wastewater Utility projects is not included in the 2004 proposed budget amount.

The total 2004 CIP is 15% less than the 2003 capital program. Given decreased revenue available for capital improvements in many funds, the proposed projects have been prioritized to 'take care of what we have' and maintain matching funds from outside sources. Funding is reduced for new projects and enhancements.

CONCLUDING COMMENTS

The 2004/2005 proposed budget supports the City Council's policies of balanced budgets with adequate reserves, contingency plans to enable reacting to economic changes, and making decisions within the context of balanced multi-year financial plans. Although it reduces the number of services we offer, for those that remain, it continues to support the excellent services our customers deserve and have come to expect.

Respectfully submitted,



Frank W. Bruno
City Manager

CITY COUNCIL ACTION ON ITEMS IN THE PROPOSED BUDGET

The following policy and revenue issues, as outlined in the City Manager's 2004/2005 Budget Message, were addressed by City Council as part of the 2004 budget process:

Reduction Strategies for Funds Supported by Sales Tax

The City Council approved the 2004 reduction strategies recommended for the Open Space, Transportation and General/Public Safety Funds. A detailed listing of the General/Public Safety Fund reductions is included in the section of this document titled "General Fund Reduction Plan". Descriptions of the reductions for Open Space and Transportation are included in the City Manager's Budget Message.

Planning and Development Services Fee Increases

As part of the 2004 budget process, City Council approved the recommended fee changes, including a flat rate for initial applications and an hourly rate for staff time required after issuance of the first set of comments for Land Use Review and Technical Document Review application types. In addition, City Council provided continued support for the established cost recovery policy for Planning and Development Services fees.

Education Excise Tax Fee Increases

City Council supported the recommendation to not increase the Education Excise Tax rate at this time.

Greenhouse Gas Reduction Program

City Council approved an addition of \$100,000 for the Greenhouse Gas Reduction Program for 2004 only.