2012 Proposed Budget Overview

September 20, 2011

Agenda

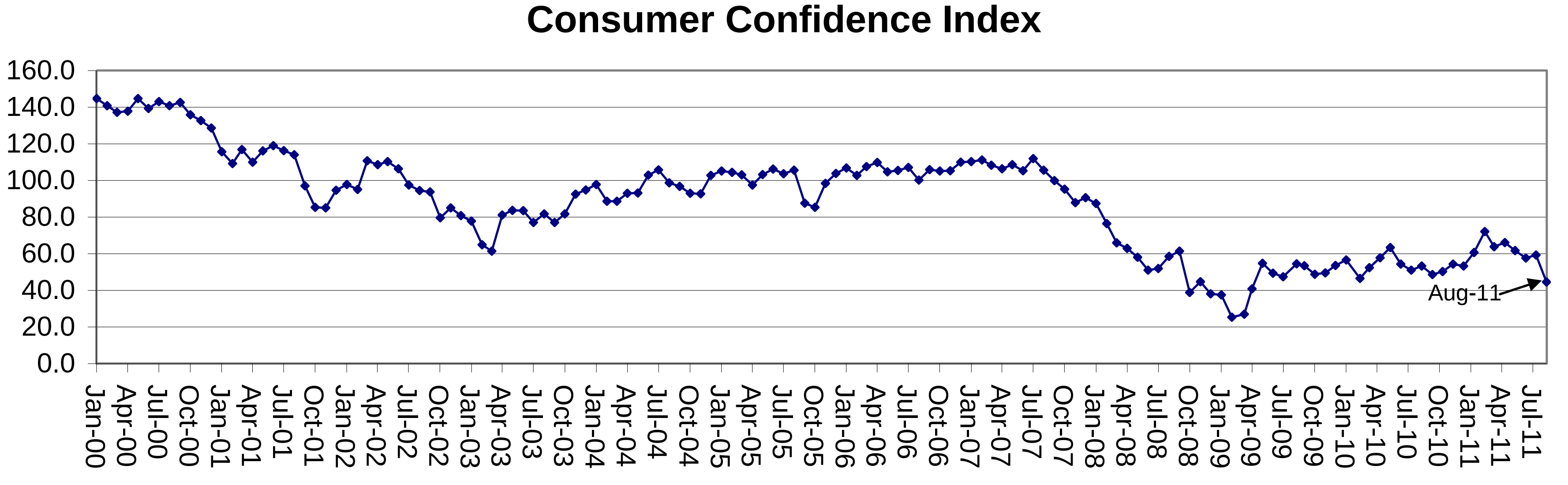
- Economic Overview
- Savings Plan
- Revenue Overview
- Expenditure Overview
- Capital Improvement Program

Overview of Economic Outlook

- The United States has officially been out of a recession since June of 2009.
- However, the pace of the recovery has been slow. A very depressed housing market and an historic financial crisis have been major deterrents to economic expansion.
- High oil prices, the disaster in Japan, and the European financial crisis have all contributed to a recent slowdown in the recovery.
- Some fear another recession may be looming:
  - Chief Economist for Moody's Analytics says there's a 40% chance the U.S. will enter into a recession in the next 6-12 months.
  - A recent issue of The Economist states the odds of another U.S. recession are as high as 50%.

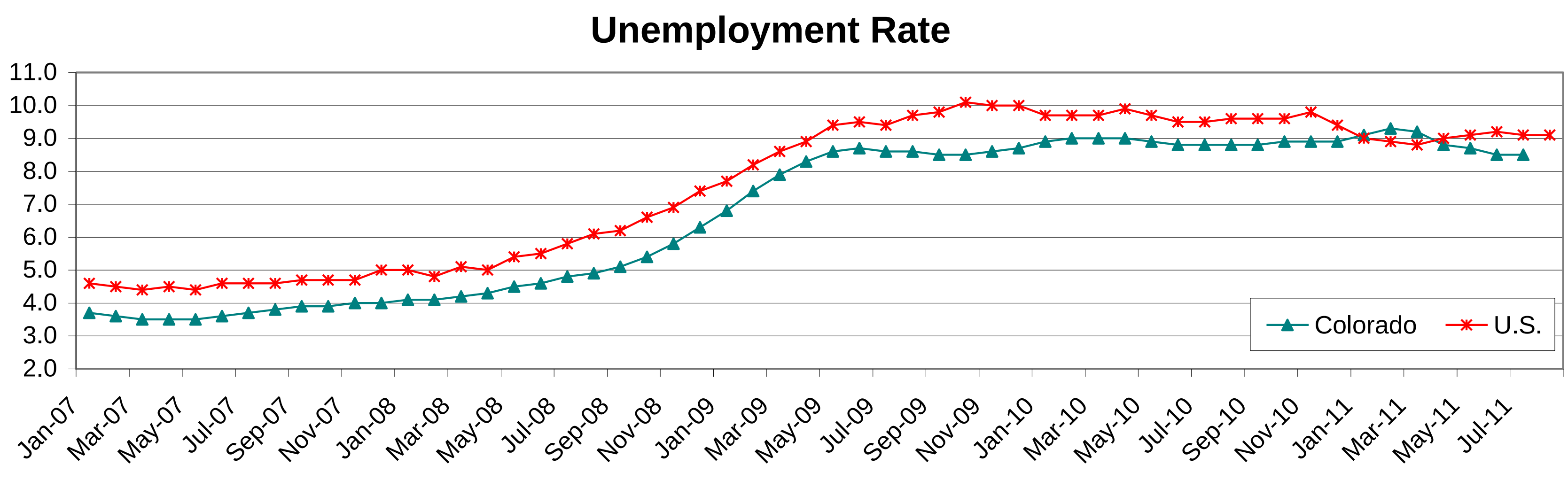
Economic Indicators

- **Consumer confidence** declined sharply in August, falling to its lowest level in more than two years. Some of this drop is attributable to the contentious debt ceiling debates in Congress. (Source: The Conference Board)



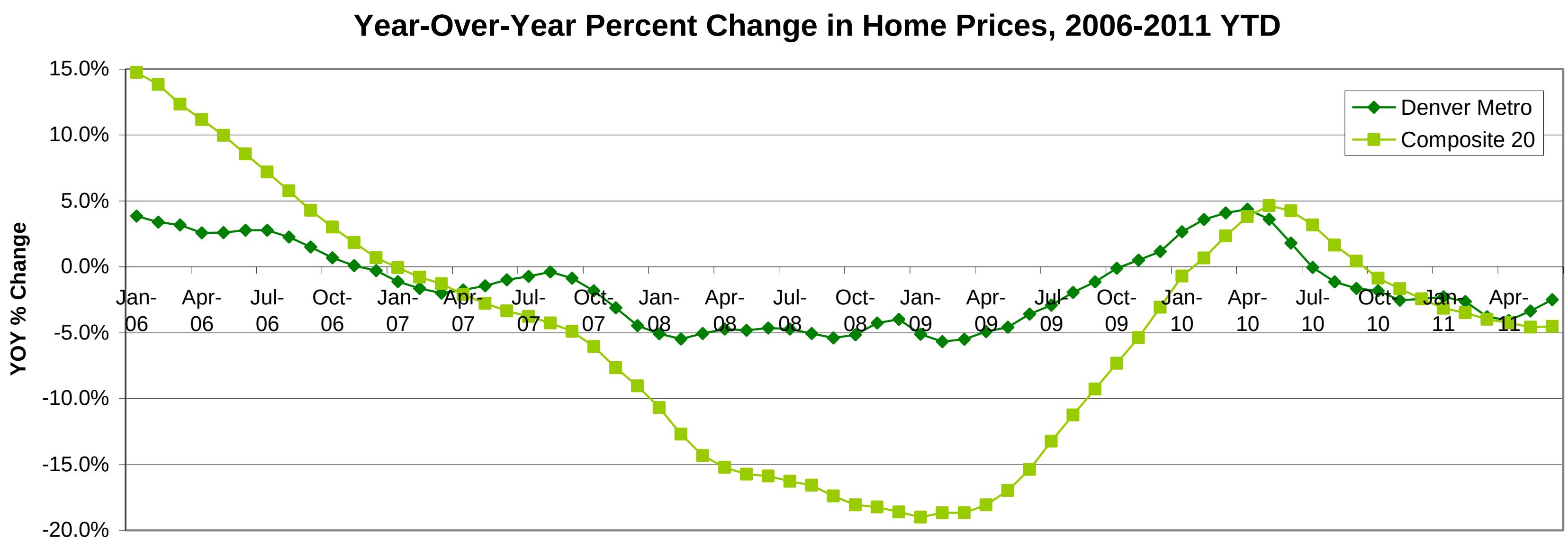
Economic Indicators (cont.)

- In August, the national **unemployment rate** totaled 9.1 percent. The Congressional Budget Office expects unemployment to remain around 9 percent through 2012.
- Colorado's **unemployment rate** totaled 8.5 percent in July, down from 8.8 percent in July of last year. (Source: U.S. Bureau of Labor Statistics)



Economic Indicators (cont.)

- Following a temporary boost from the homebuyers' tax credit, **home prices** in the Denver region have been decreasing since July of 2010. (Source: Case-Shiller Home Price Index)



Economic Indicators (cont.)

- Through August, Denver's **residential building permits** are up 1 percent year-over-year and dollar valuations associated with those permits are up 53 percent. However, we're still not where we were back in 2008. (Source: Monthly valuation reports from CPD)

- 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)

Bond Ratings

Key points made in recent ratings review:

- **Fitch**: "The City's financial profile remains sound due to management's notable efforts to curb expenditures in the wake of the recent recessionary pressures on the City's largest revenue source, sales and use taxes."
- **Moody's**: "The rating assignments incorporate the city's strong credit characteristics including Denver's regional economic importance, well-managed financial operations despite recent declines in major revenue streams, and increasing, but manageable debt levels." "STRONG, INSTITUTIONALIZED MANAGEMENT PRACTICES ENABLED CITY TO WEATHER ECONOMIC CYCLES"
- "**Moody's** expects that Denver's sound fiscal management will continue to result in relatively stable financial performance."
- "**Moody's** expects that debt levels will remain manageable given continuation of generally conservative debt management practices, the city's history of pay-as-you-go financing, above average principal payout, and expected tax base growth."

However:

- **Fitch**:"Substantial progress in achieving structural balance is key to retaining the highest level of credit quality; failure to identify recurring solutions to budget gaps beyond 2012 will lead to negative rating pressure."
- **Moody's**: On August 4, Moody's assigned a negative outlook to the City's AAA rating as a result of the downgrade of the Federal government.

Financial Impact from Recession

Largest revenue declines since the 1930's

- 2009 total revenues declined 6.4% from 2008 to pre-2007 levels.
- 2009 sales tax (50% of the total) declined 10% from 2008 to 2005 levels. We had 14 consecutive months of declining sales tax revenues.
- 2010 revenues grew 7.5%, but the majority of this was one-time revenues.
- Though there is some growth projected in 2011 and 2012 (2.2% and 2.1% respectively), it is on this significantly reduced base and at a slower rate than normal.

Response to Recession 2009-2011

- Not filling nonessential positions since the summer of 2008.
- Froze wages in 2009, eliminated raises in 2010, suspended the bonus program beginning in 2009.
- Reduced the workforce by over 5%
- Concessions from collective bargaining units.
- Furlough days in 2009 - 2011.
- We have closed deficits of $86m in 2008, $160m in 2010, and $100m in 2011.

Total deficits solved in 2009-2011: $346 million or approximately 13% of the budget each year

2012 Initial Projections

The initial projected General Fund deficit between revenues and expenditures for 2012 was approximately $100 million (back in January). 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:

Slower than average revenue growth projected for 2012	**$17.5m**
Revenues grow 3.5-4.0% in a ”normal” year. Originally, revenues were projected to grow by only 2.0% in 2012.	
Higher than average expenditure growth	**$48.3m**
Expenditures grow by 4.0-4.5% in a “normal” year. Our original projection assumed expenditures would grow by 9.3% due to temporary items from 2011 being added back in and minor operating expansions for bond projects.	
Use of reserves in 2011 (exp higher than revenues)	**$24.6m**
2011 used $24.6m in reserves, meaning expenditures were higher than revenues. 2012 starts with this deficit and reserves are now at minimum levels.	
Fund balance needed to maintain minimum levels	**up to $9m**
To the extent that expenditures grow, reserves must grow as well to maintain minimum levels.	
	$99.4m

This brings the total to $446 million, still approximately 13% of the budget each year.

Budget Process - 2012

- 2012 Budget process required exceptional effort and commitment from everyone
- The process started in January 2012 to provide agencies more time to develop proposals
- Core principles followed to balance the budget:
  - Continue to work on increasing both efficiency and effectiveness
  - Protect core services
  - Minimize impact on employees
  - Strive for permanent savings

2012 Savings Plan

How we solved the $100 million deficit in the 2012 proposed budget:

• Revenue improved projections:	$17.4 million
• Revenue enhancements:	$20.2 million
• Expenditure savings:	$62.4 million
	$100 million

Expenditure Savings: $62.4m

- Largest component is reduction in FTE’s, most of which are vacant, $12.4m.
  - Less than 5 of the 95 FTE’s abolished in the budget are filled
  - Across all funds, there will be 759 fewer budgeted position in 2012 than in 2009. That’s a 7% reduction in workforce.
- There is over $12m in reductions to supplies and professional services.
- Alternative funding is appropriately being used for $11.7m of operating costs (DOCA, 911, grants and bonds).
- A savings of $5m through the implementation of the police resource allocation plan.
- There are no hour reductions or closures proposed for libraries or for recreation centers.

Expenditure Savings – $62.4m

- Without the $62.4m in reductions, expenditures would have grown by 9.4%. We have reduced this to 5.7%. This remaining growth is attributable to:
  - Personnel costs (health insurance, pension, uniform compensation)
  - Operating, maintaining, and insuring new facilities
  - Utility rate increases
  - Costs for CSA merit are off-set by 5 furlough days

- The deficit is being solved with approximately 50% temporary solutions and 50% permanent. This means there will be a deficit in 2013 if nothing else is done.

Revenue Growth and Enhancements

$37.6 million

- Improved revenue over base assumptions – **$17.4m**
- Additional one-time use of fire mill levy funds for other fire operational costs (new-hire pension, worker's comp, equipment, etc.). Required contributions will be met in 2011 and 2012. - **$10m**
- Tax amnesty program that mirror's the State's program – **$2m**
- Transferring excess cash balances to the GF - **$2m**
- Courts document discovery fee and delinquent accounts revenue **$1.6m**
- Recreation center fees (passed by Council) – **$1m**

Personnel

- Includes wage increases for police, fire and sheriff union employees per the current contracts.
- Includes a reserve for wage increases for Career Service employees delivered through the merit system. Final decision will be made at the beginning of the year.
- Includes five furlough days for CSA employees. We will evaluate when to schedule these days in the next few weeks.
  - Wage increases based on wage survey keep us in line with the market and prevent us from losing staff. Furloughs are flexible and can be cancelled should things improve significantly mid-year.
- Suspension of the tuition reimbursement program for a savings of $140,000. This program has served 2% of city employees.

Personnel

- The City will share the increased costs for health insurance premiums with employees. The average increase in premiums (for both the City and employees) across all plans is 7%, which is below the national average of 10-12%.
- The Denver Employee Retirement Plan (DERP) will require a 1.5% increase in contribution to individual pension plans to maintain the positive fiscal health of the Plan. This increased contribution will be split between the City and employees.

Reserves

- Original 2011 budget projected ending with 10.5% of expenditures in undesignated fund balance (reserves) or $94m.
- Balance is now projected to be 10.8% by the end of 2012, or $101m.
- This is consistent with our financial policies and goal to build reserves back to 15% as for use during economic downturns.
- There is a temporary use of reserves in 2012, that were originally intended to be used in 2011, but the bottom line balance is increasing over what was originally budgeted in 2011.

General Fund – Fund Balance

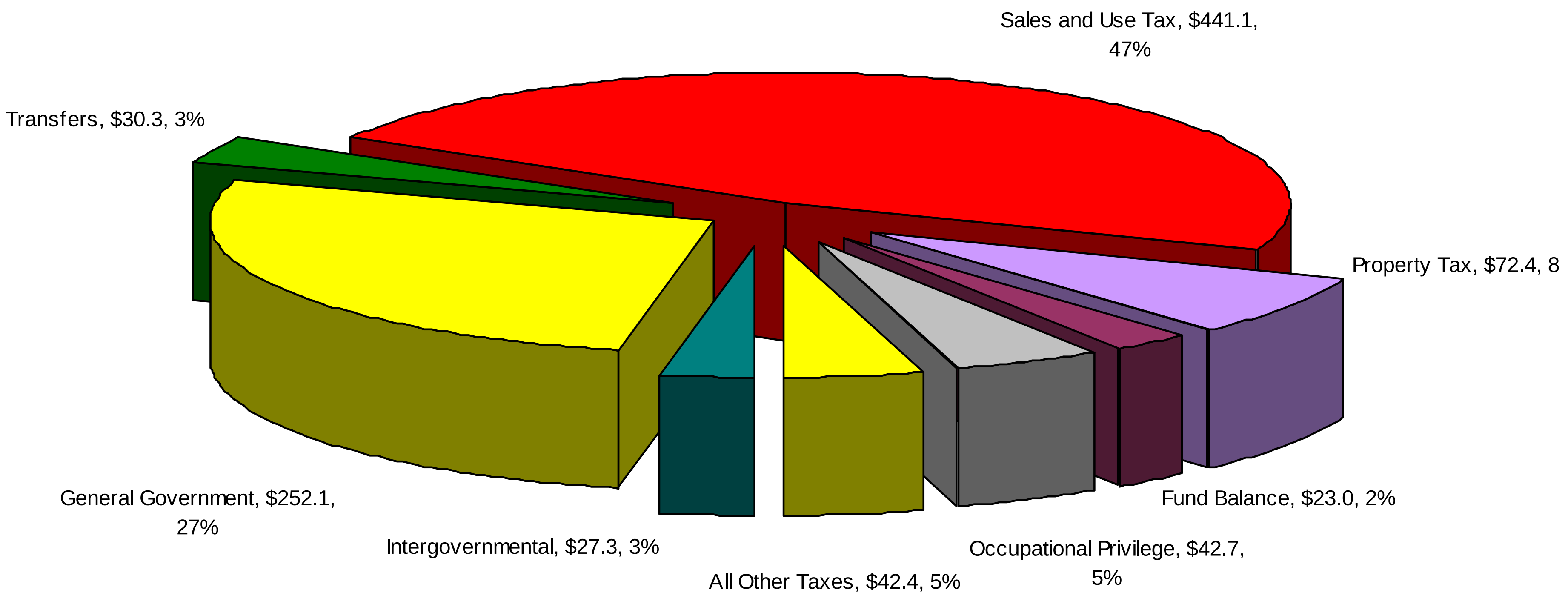
	2010 Actuals	2011 Original	2011 Revised	2012 Original
Financial Resources	**$870,761**	**$871,498**	**$889,685**	**$908,338**
Uses of Resources				
Appropriations/Expenditures	$847,920	$897,121	$897,782	$925,565
General Contingency	0	17,932	17,794	18,605
Reserve for merit	0	0	0	4,700
Estimated Unspent Appropriations	0	(18,900)	(18,900)	(17,500)
Additional cuts in operating expenditures	0	0	(15,445)	0
Subtotal Expenditures	**$847,920**	**$896,153**	**$881,231**	**$931,371**
Net Increase (Decrease) in Fund Balance	$22,841	($24,655)	$8,454	($23,033)
Undesignated Fund Balance - January 1	**92,990**	**118,772**	**115,586**	**124,040**
(Increase)/Decrease in Designated Reserves	(245)	0	0	0
Undesignated Fund Balance - December 31	**115,586**	**94,117**	**124,040**	**101,007**
Increase/(Decrease) in Fund Balance	**22,596**	**(24,655)**	**8,454**	**(23,033)**
Undesignated as a % of Expenditures	13.63%	**10.50%**	14.08%	**10.84%**

General Fund
Revenue & Expenditure Growth

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Revised	2012 Projection	Growth 11-12	Avg. Annual Growth 07-12
Taxes	$552,417	$573,873	$524,304	$565,424	$576,992	$598,546	3.74%	1.62%
Intergovernmental	$29,215	$27,623	$27,576	$28,441	$26,438	$27,274	3.16%	-1.37%
Charges for Svcs, Licenses & Permits, Interest, Misc	$234,673	$233,884	$227,804	$238,932	$255,062	$252,145	-1.14%	1.45%
Transfers In	$32,333	$30,731	$30,577	$37,963	$31,193	$30,373	-2.63%	-1.24%
Actual GF Revenues	**$848,638**	**$866,111**	**$810,261**	**$870,760**	**$889,685**	**$908,338**	**2.10%**	**1.37%**
Total GF Expenditures	**$838,702**	**$869,853**	**$868,489**	**$847,920**	**$881,231**	**$931,371**	**5.69%**	**2.12%**

2012 General Fund Revenues

Where the money comes from - $931.3 million



($ in millions)

2012 General Fund Revenues

Total Revenues

- 2.1% growth in 2011 and 2.2% growth in 2012
- Revenue growth in a normal year is 3-4%

Sales and Use Tax

- 4.1% core growth projected for 2011 and 3.5% projected for 2012
- 2009 declined back to 2005 levels
- YTD 2011 is still back at 2007 levels
- Though we revised 2011 up slightly in this budget to 4.1%, performance is still unpredictable: -0.8%-Feb, 1.9%-March, 9.2%-April, -1.2%-May, 10.7%-June, 8.2%-July

2012 General Fund Revenues

Property tax

- Average 10% decrease in the assessed valuation
- 70% of property values decreased and 30% of values increased
- Even with the removal of the temporary credit allowed by TABOR in some funds, property tax revenues across all funds projected to be flat.

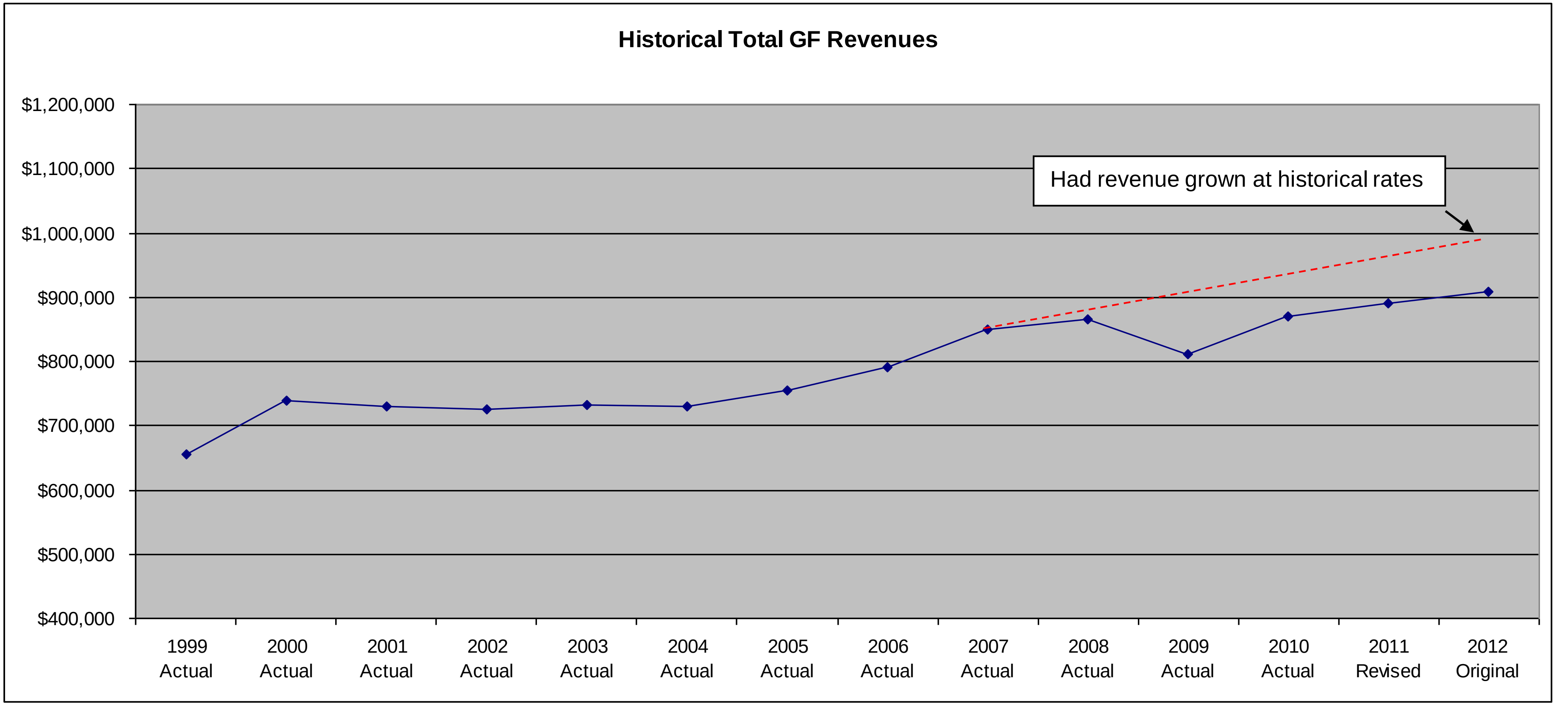
Lodger’s tax

- Occupancy rates and room rates are improving
- 8.5% growth in lodger’s tax is projected in 2012 (includes some audit revenue)

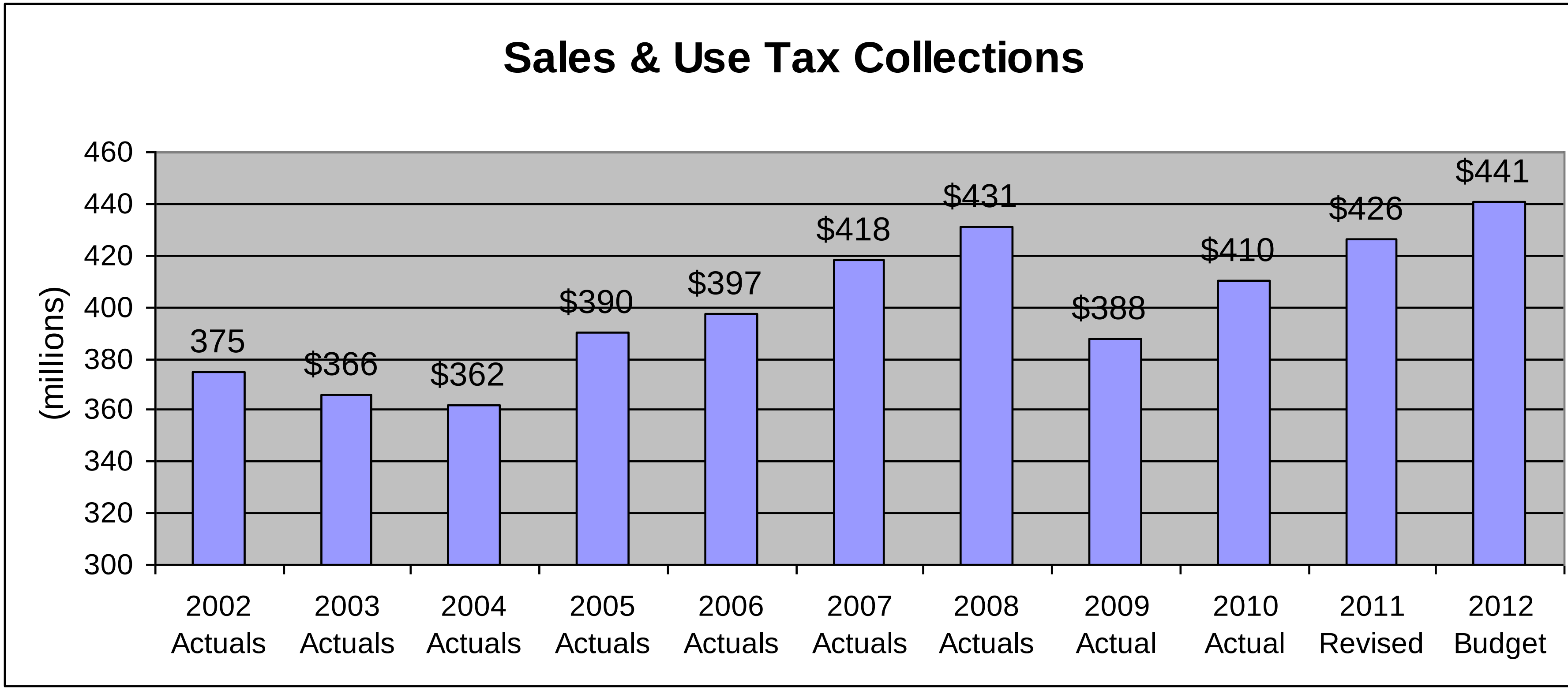
Permit/Construction Revenues

- Activity in these areas improved in 2011 but is expected to be relatively flat in 2012; mostly smaller projects and renovations

2012 General Fund Revenues



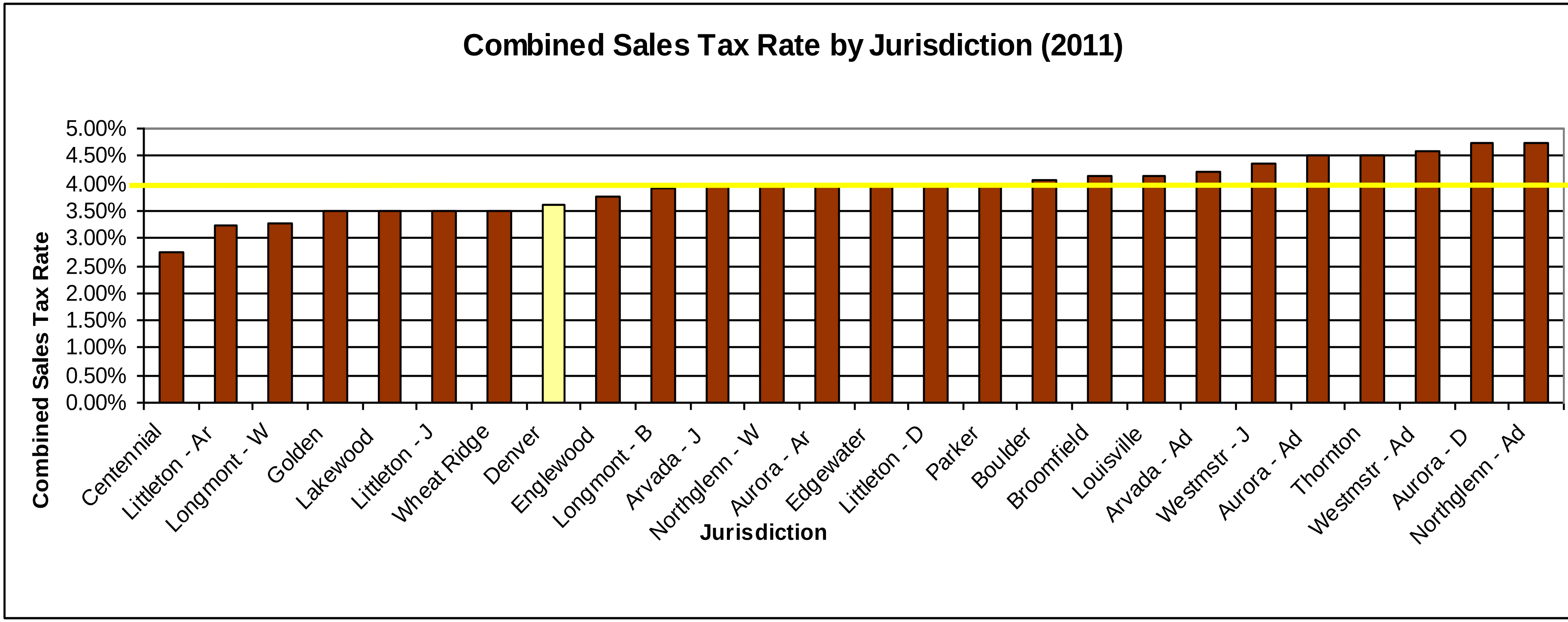
Historical Revenue



10, 20 & 30 year annual Sales Tax Growth Rates

82-12	**92-12**	**02-12**
4.11%	3.95%	1.63%

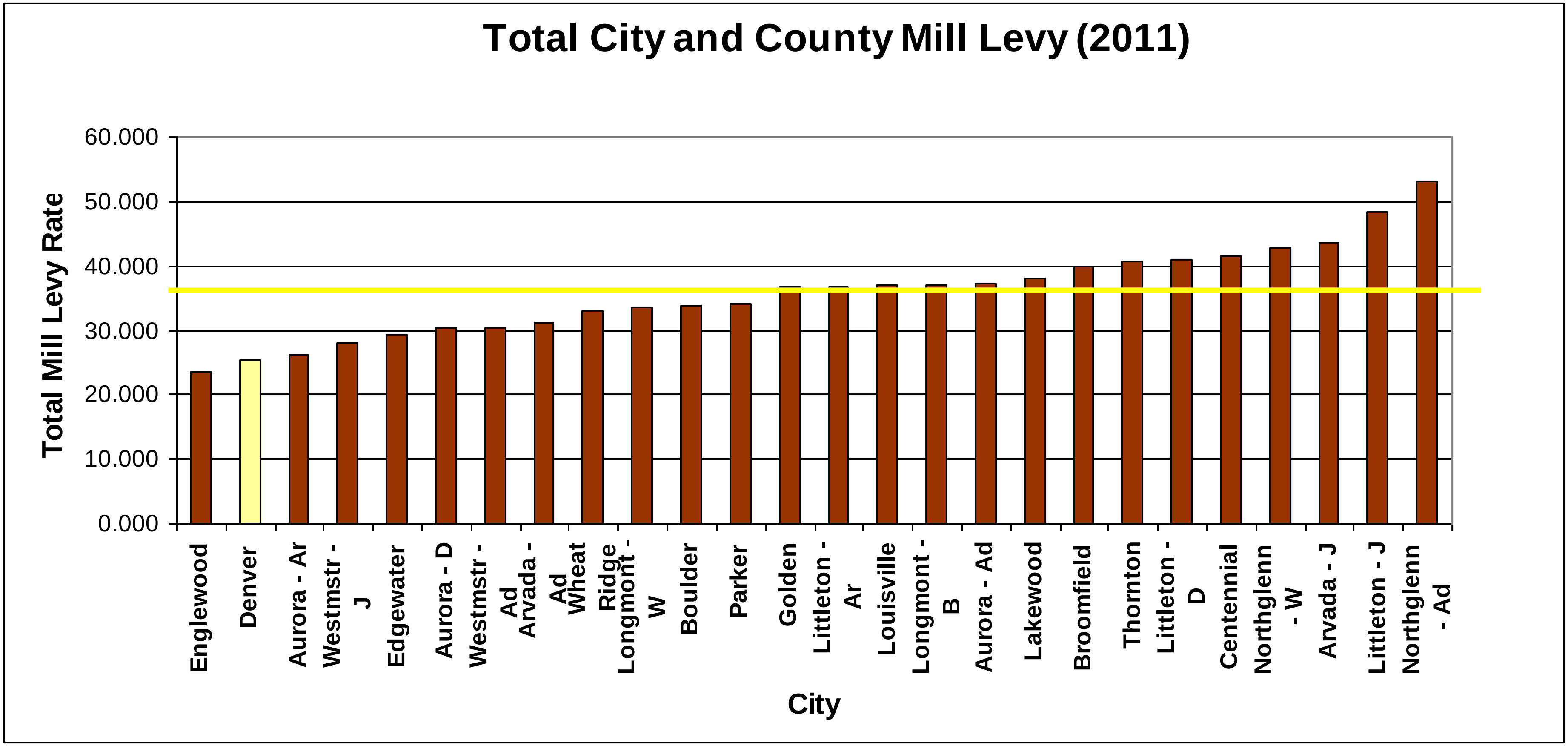
Sales Tax Rate Comparison



Average = 3.96%   Denver = 3.62%

Includes City and County sales tax

Property Tax Mill Comparison

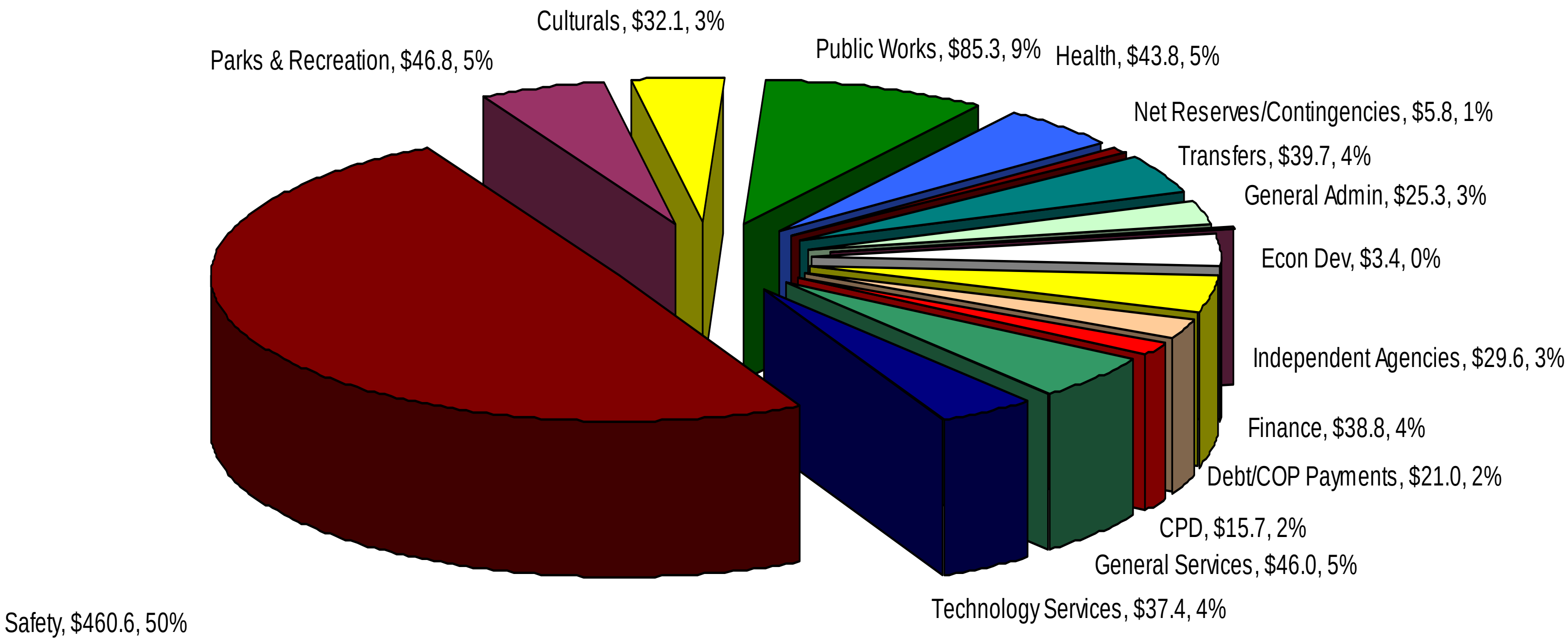


Average = 36.59   Denver = 26.04

Includes City and County operational mills, and library, fire, and recreation districts

2012 General Fund Expenditures

Where the money goes - $931.3 million



($ in millions)

2012 General Fund Expenditures

Personnel – $657m or 71%

- Wages and benefits.

Supplies and Services - $179m or 19%

- Supplies, utilities, computer services, contract services, maintenance, insurance, rent, etc.

Vehicle & Equipment Replacement - $25m or 3%

- Critical vehicle and computer equipment/systems replacements.

Internal Services - $69m or 7%

- Charges for fleet maintenance and fuel, worker's compensation, transfers, and COP payments.

Human Services

Human Services is funded primarily by Federal and State funds and a dedicated County mill levy.

Federal and State funding continues to decline while caseloads increase, requiring cuts in basic services.

Projected decreases in revenues in 2012:

TANF	-5%
Child Care	-3%
Child Welfare	-4%
County Admin	-2%

Structural Financial Task Force

The Task Force represents another part of the plan to address the structural imbalance between revenues and expenditures and identify long-term solutions.

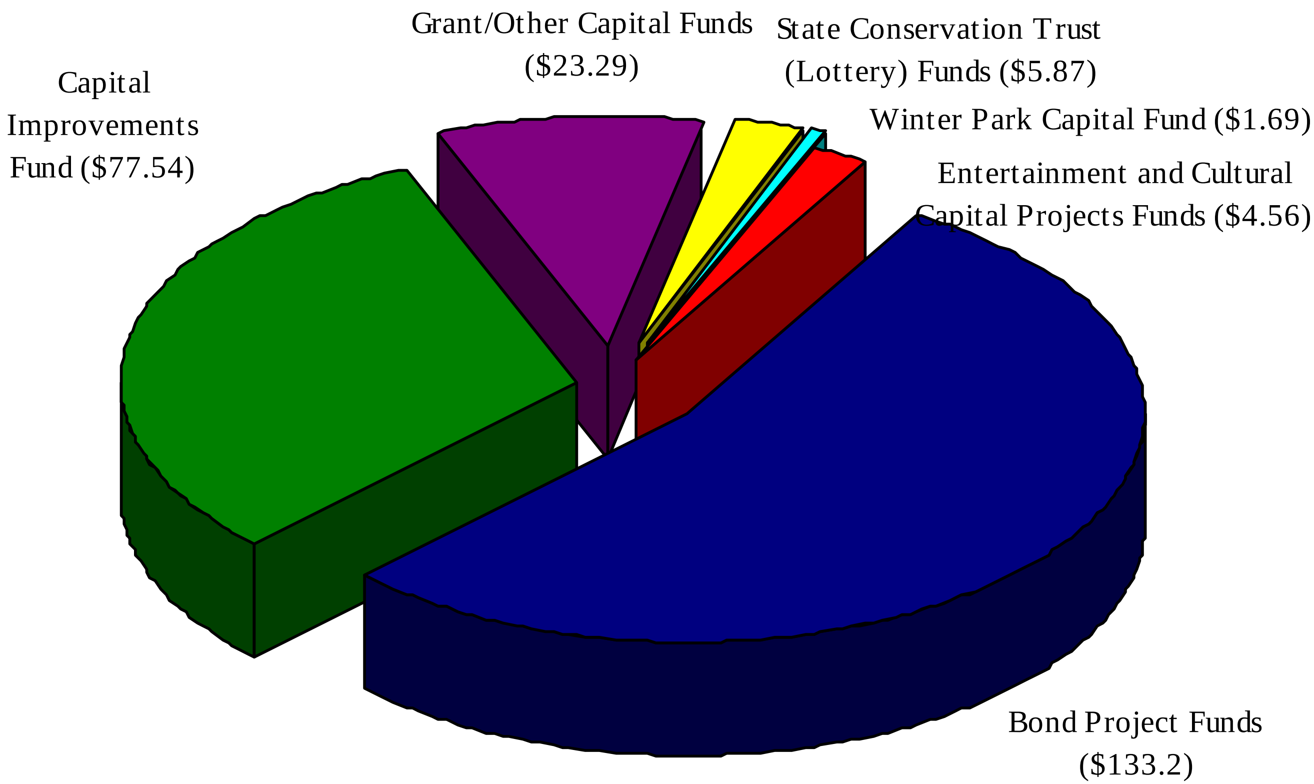
They are not considering what services to fund or grow, but rather mechanisms for generating funding (through both savings and enhanced revenues).

The goal is for them to wrap-up their work in late October.

CIP Program by Funding Source

(all sources)

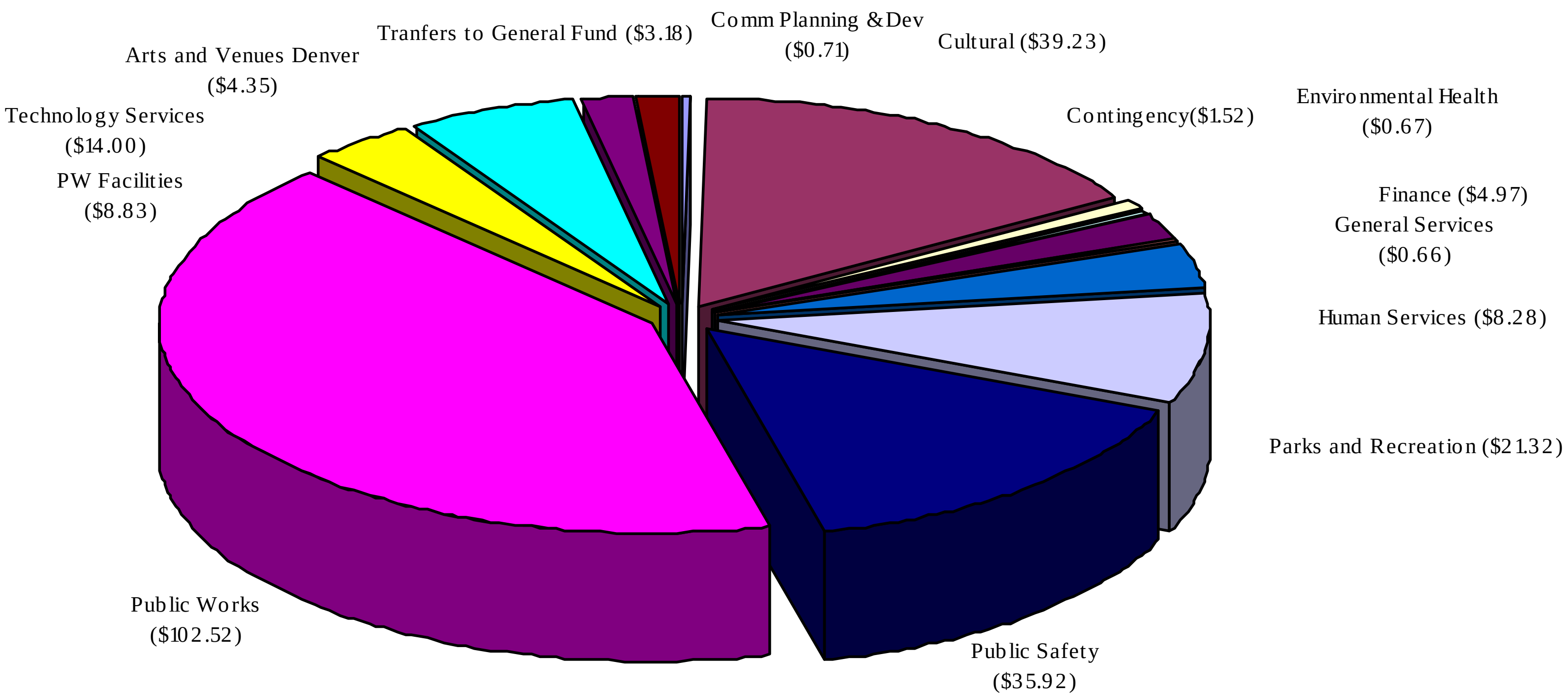
$246.2 million



($ in millions)

CIP Program by Dept.
(all sources)

$246.2 million



($ in millions)

CIP 6-Year Planning Process

- Annual Capital Program is approximately $75m each year.
- Majority spent on payments ($7.4m or 10%) and annual capital maintenance programs ($48m or 68%).
- Planning process includes:
  - Citywide discussion on capital investment priorities, including non-implementing departments
  - Coordination on available funding and program resources
  - Coordination with citywide strategic plans
  - Facilitates partnerships and leverages outside funding

CIP –Capital Mtce Programs

- Traffic Signal Federal Match
- Signal System/ITS Match
- Signal System Conduit, Cable, Electronics
- Traffic Signal Reconstruction
- Traffic Signal Loop Reconstruction
- Intersection Safety Improvements
- Pavement Markings
- Faded Signs
- Transportation Management Center
- Transportation Mgmt Center Program
- Parking Garage Maintenance
- Parking –Neighborhood Transition
- Concrete Street and Alley Repair
- Street Rotomill and Overlay
- Curb and Gutter
- Curb Ramps
- Unimproved Alley Program
- Bridge Programmed Maint/Replace
- Bridge/Viaduct Emergency Repairs
- City Facility Capital Rehabilitation (All Buildings)
- City Theatres & Arenas Capital Rehabilitation
- Cultural Maintenance (DAM, DMNS, Zoo, DBG)
- Parks Walks Rehabilitation
- Recreation Center Rehabilitation
- Turf Restoration
- Median Rehabilitation
- Asphalt and Concrete Repairs
- Parks Furnishings
- Parks Structure Rehabilitation
- Parks ADA Upgrades
- Athletic Fields
- Parks Signage Program
- Parks Sustainability Program
- Tree Program
- Parks Water Conservation
- Natural Areas
- Mountain Parks Rehabilitation
- General Trails
- Citywide Parks Bridges
- Fountain Repairs
- Courts Rehabilitation
- General Pool Rehabilitation
- Playgrounds
- Parks & Recreation Roads
- Parks Restrooms

CIP Discretionary Funding

- Remaining funding once payments and maintenance commitments fulfilled - approximately $15.6m (22% of total revenue). Includes $5.5m FASTER transportation funding.
- Investment Committee made funding recommendations
  - Departments manage vetting process and priority setting
  - Decisions brought to a wider audience for comprehensive look at capital investments
  - Tie-ins to Greenprint, master plans, Tech Services, etc. evaluated
  - Focus on maintaining level-of-service across asset categories
- Assists in building fiscally-constrained 6-Year Plan and list of unfunded project needs for future bond initiatives.

CIP – Highlights

- Continued rehabilitation of major public buildings, including the Central Library and City & County Building.
- Ongoing rehabilitation of rec centers, playgrounds and walkways.
- Improvements to regional parks, including rehabilitation of Washington Park, Civic Center Park, City Park and Berkeley Park.
- Projects which leverage federal transportation funding awarded to the City through the DRCOG TIP and FTA processes.
- Improvements to support build-out of FasTracks, including East Corridor grade separated crossings and improvements at 38th/Blake.
- Continued implementation of major improvements at I-25/Broadway.
- Support for construction of the Montbello Health Clinic.
- Planned relocation of the Metro SWAT facility.
- Phased replacement of the City's Outdoor Warning Siren System.

Next Steps

Sept. 20th – Sept. 28th	Budget Hearings
Oct 17th	Proposed Budget Delivered
Oct 24th	Public Hearing
Nov 14th	Adoption of Budget