

**TOWN OF GEORGETOWN
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To: Bob Smith, Police Judge/Ex-Officio Mayor Memo #2006-038
Board of Selectmen

From: Chuck Stearns, Town Administrator

Re: 2007 Budget Transmittal

Date: October 6, 2006

Attached to this memo is the proposed 2007 budget as required. This transmittal memo will describe the major aspects and issues of the proposed budget.

The General Fund is barely balanced and uses some of the beginning cash balance to support operations. If sales taxes don't begin to increase, we may have to look at significant cuts in expenditures or proposing a permanent increase in the property tax to support General Fund expenditures. We had to cut almost all discretionary items in the general fund and we cannot even afford to replace the character generator for the cable TV system for the scrolling messages (\$2,000) or paint Town Hall (\$4,000), or do much of anything. This topic will be discussed further under expenditures, but our current level of operations may not be sustainable for the future. We should discuss various options for revenues and expenditures during this year's budget work sessions.

Another major issue arose on Thursday, October 5th when Mary Sims – Town Treasurer, Jack Salewski – Town Auditor, and I sat down to go through some conflicts that Mary had with some of Jack's audit entries and also to try to resolve discrepancies in fund balances. During that discussion, I discovered why we had almost run out of cash this summer despite the fact that all of our water and sewer capital projects had worked financially in the 2006 budget that we prepared last year.

It is fairly arcane accounting procedures, but basically, in prior jobs, I had always budgeted on a cash basis and then the auditor would make adjusting entries to put it into a GAAP (Generally Accepted Accounting Principles) basis for compliance. However, our budgets in Georgetown were always prepared on a GAAP basis and we used fund balances at the start of the year rather than cash balances. Anyway, fund balances are typically much higher than cash balances, especially in an enterprise fund, so using fund balances as the starting balance last year led me to

believe that we had more cash than we actually had. Thus, the budgeting in the water and sewer funds actually were budgeted to over-spend more cash than we had.

We have corrected the problem and added some lines to the fund balance reconciliation page and I can explain that solution better when we look at those pages. Suffice it to say that we are lucky that we discovered this problem before we budgeted for 2007. Thus, as you know, we have drawn down our cash balances farther than we expected to do, but with some cuts in spending in the water and sewer funds, our cash balances should be sufficient throughout the rest of 2006 and 2007.

GENERAL FUND

Cash Balance

Mary estimates the beginning of the 2007-year **fund** balance for the general fund at January 1st, 2007 to be \$37,611 although this amount will change as estimates turn into reality between now and January 1st. This figure equates to a **cash** balance of \$167,925 after doing GAAP adjustments. This level of fund balance is a \$10,191 decrease from the January 1, 2006 audited fund balance of \$47,802.

General Fund revenues equal \$707,136 and expenditures and transfers out total \$724,380, so we project to decrease the fund and cash balances during 2007 by \$17,244 for a year-end fund balance of \$20,367.

In making expenditure cuts to balance the budget with revenues, I went as far as I could in making reductions without getting into personnel, important O&M expenditures, and programs. However, it may be time to look at some fundamental changes in expenditures or propose a property tax increase because we cannot continue to spend more than we take in for revenues for very long.

Revenues

As mentioned, the General Fund revenues are estimated to be \$707,136, which is an increase of \$17,467 or 2.53% from the 2006 budget.

In taxes, property taxes would be increased by \$10,099 by increasing the property tax mill levy by 0.607 mills or 6.93%. This would be the first time in many years that we could levy the full 9.36 mills that we are allowed to levy under the TABOR amendment restrictions. I initially hesitated to propose this property tax increase, but given the cost increases we face and other revenue problems, I think we need to take advantage of the small allowances, which TABOR gives us.

Sales taxes are budgeted at \$250,000, which is \$1,000 less than the 2006 budget was, but is still \$20,000 higher than Mary's forecast for 2006 actual sales tax revenues. We have to hope for some strong months for the rest of 2006 and a good year in 2007 to make these forecasts. The re-opening of the Alpine Inn for the rest of this year and its remodeling and re-opening next year should provide a little boost.

Most other General Fund revenue sources are fairly stable in their estimates. The Franchise Fee with Xcel is showing a projected \$20,000 increase because of their rate increases of the past year, especially in natural gas prices. Highway Users Trust Fund (HUTF) revenue which is our allocation of the state gas tax would decrease from \$39,000 to \$37,467 because of population and road mileage growth in other jurisdictions around the state and because of decreasing gas purchases leading to less state revenue to allocate.

We are again budgeting \$20,000 of revenues and it is offset by \$20,000 of expenditures to hire consultants or engineers to help evaluate Scott Russell's proposed development on the Berry Trust Land. The Town Code allows the Town to hire outside help on land use applications and to charge the developer for the cost of such outside help. So any such costs are offset entirely by new revenues charged to the applicant.

There are two pages with narrative explanations of many of the revenue sources at the beginning of the General Fund section of the budget.

Expenditures

With very limited revenue growth, balancing the budget was very difficult and frustrating. There are just not many other places to cut unless we make significant changes such as reducing the Town Administrator position to $\frac{3}{4}$ or $\frac{1}{2}$ time, changing call-out pay for Police, reducing positions such as Road and Bridge or Parks or even eliminating programs or services. As it stands now, we can't budget to paint town hall, repair the retaining wall at the ball fields, replace the scrolling character generator for Channel 8, replace a sander, or do other necessary on-going maintenance projects.

When Mary and I sat down to figure out budget cuts, we had \$98,171 to cut from expenditures or to increase revenues. We cut almost all capital outlay requests except for replacing Merinel's computer system and a new board meeting recording system.

There are no new employees requested anywhere in the Town budget. I retained the Merit Pay Pool for pay increases or bonuses of \$2,000, but I had hoped to increase it to \$4,000. In past years we had not budgeted to pay Police Officers holiday pay for when they worked on holidays instead of getting that day or another day off, even though we had always paid the officers for holiday pay. So adding \$3,500 is more accurate budgeting, but it is not adding a new expenditure item – it was always paid in the past.

Overall, General Fund expenditures are up by 3.34% and there is Budget Comparison Sheet on

an 11 X 17 inch paper that will help you evaluate which departments and accounts had significant changes.

OTHER FUNDS

The other funds have their revenues and expenditures budget pages together for each fund along with a narrative for major revenue and expenditure

Town Business Promotions Fund

Revenues are almost exactly same in 2007 as was budgeted for 2006 and expenditures/transfers are \$1,102 less. The Promotions Commission will carry over \$6,000 from the 2006 budget and add another \$6,000 in 2007 to contribute \$12,000 as matching funds for the Preserve America grant for doing the wayfinding signage project.

Sales Tax Capital Improvement Fund

There are a lot of changes in the Sales Tax Capital Improvement Fund in 2007. We anticipate closing on the purchase of Block 83 in 2006, but if something changes we might have to revise the budget to put that back in for a 2007 closing. Thus revenues for the GOCO grant which were in the 2006 budget are no longer in the 2007 budget. We will increase work on the Gateway project by burying the overhead power lines in 2007 and moving the Historic Georgetown sign south to a location by Loop Drive. The budget includes \$65,200 for doing the Wayfinding Signage project which is partially funded by a \$33,000 grant from Preserve America along with contributions from Promotions Commission and Historic Georgetown, Inc. The budget also includes the matching funds for the grant application to do the sidewalks and fencing around City Park. \$13,000 is budgeted for placing culverts under Argentine Street and a new concrete pan at 6th and Rose for drainage improvements prior to the FHWA paving project.

Water and Sewer Operating Funds

I will describe both of these funds together, but they do have separate cash balance, revenue, and expenditure budget pages. We will likely have to consider a rate increase for water and sewer rates in 2007, but I am not budgeting any revenues from a rate increase at this time.

As far as the operating funds are concerned, the water operating fund is \$20,000 higher in expenditures than the 2006 budget when transfers to the water capital fund are excluded. We have to inspect the inside of the water storage tank next year before we fill it higher with the new pumping system. In the sewer operating fund, excluding transfers, the operating budget is \$30,000 higher mostly because of higher sludge removal costs, a new computer for the sewer

plant, and purchases of laboratory equipment.

Water and Sewer Capital Improvement Funds

Given our discovery of my error in interpreting fund balance as cash balance, we have to limit water and sewer capital projects much more in 2007 than we anticipated. In water we will continue with the project to stabilize the water storage tank with compaction grouting, continue automating the dam gate valve, and continuing paying the water attorney and water engineer, but not much else. We had hoped to be able to budget for an engineer to begin design work for the next phase of water treatment plant improvements, but we will have to delay that work until our cash balances recover.

In sewer, we are budgeting to plant trees at the wastewater treatment plant in order to finish the Phase I improvements project. We will also do another year of inflow and infiltration improvements, and install a Scada telemetry system for remote readings and operation.

All in all, it was a very difficult budget to put together. There may still be some changes as time goes along, especially in the Water and Sewer Capital Improvements Funds or if the closing on Block 83 gets delayed. As I have said before, I believe our financial issues are much more of a lack of revenues and resources, rather than extravagant or unnecessary expenditures.

Please begin reviewing the budget and we will have our first work session on the budget on Tuesday, October 17th at 7:00 p.m. in the Board Chambers at Town Hall.