



November 7, 2011

Mayor Noon and Members of City Council:

In accordance with Article 11 of the Centennial Home Rule Charter and Colorado Revised Statutes 29, Article 1, Local Government Budget Law of Colorado, I am pleased to present to you the 2011 Revised and 2012 Adopted Annual Budget.

This document provides the City the legal authority to appropriate and expend funds each budget year and serves as an operations guide for the City by detailing service levels for projects and programs that are in accordance with the policy directions of City Council. As required by State law and the City's Home Rule Charter, all Funds in the 2011 Revised and 2012 Adopted Budgets are balanced.

The 2011 Revised / 2012 Adopted Budget Process

The budget process is an ongoing, year-long effort that culminates in the adoption of the current year revised and future year adopted budgets. The annual adopted budget is the City's best effort to match the upcoming year's desired service levels with anticipated revenues. From the moment the Budget is adopted in November, it is limited by the fact that its budgeted revenues and expenditures are projections and that the City's actual revenues and expenditures may differ from what is anticipated. Therefore, throughout the year, City Council and Staff closely monitor revenues and expenditures to identify any needs for amendments from the adopted budget. Various workshops, supplemental budget appropriations, policy dialogues, and Budget Committee meetings will provide the City opportunities to consider revising the annual budget as the need arises.

Strategic Planning Workshop

In February 2011, at the Strategic Planning Workshop, City Council's discussion focused largely on establishing priorities for the upcoming budget cycle. Council articulated a number of priorities expressed by constituents and businesses in the community, with particular emphasis given to the City's visioning document, *Our Voice. Our Vision. Centennial 2030*, citizen survey data, and considerations of the successes and changes that a year brings. These priorities were organized into a number of common themes under four core values established in the City's visioning

document. Although these themes were achieved as a result of a unique prioritization process, Council's direction reaffirmed the commitment to:

- Sustain infrastructure throughout the City
- Remain a fiscally responsible and transparent government
- Focus on communication
- Provide for higher quality of life through the City's Open Space Program

Direction received from Council at this workshop included researching the expiration of the TABOR exemption, the impact to the City of certain revenues sunseting, identifying financing mechanisms to provide for infrastructure maintenance and improvements, and providing a policy dialogue on additional snow removal efforts.

April Budget Workshop

The April Budget Workshop was held on April 25th. This workshop gave Staff a formal opportunity to present final revenue and expenditure data for 2010, provide revenue updates for 2011, and discuss policy issues affecting budgetary decisions.

Going into the April Budget Workshop, the City's financial condition was preliminarily indicating favorable variances compared to the 2010 Revised Budget adopted in November, 2010. The variances included:

- General Fund Revenues were projected to exceed the 2010 Revised Budget by \$2.6 million.
- General Fund Expenditures and Transfers were favorable to the 2010 Revised Budget by \$2.0 million.
- Despite the fact the 2010 Revised General Fund Budget allowed for the use of approximately \$700,000 of General Fund – Fund Balance to cover a possible shortfall in revenue, the City actually increased fund balance by \$3.9 million. As of December 31, 2010, the total General Fund - Fund Balance totaled nearly an all-time record amount of approximately \$22.0 million, approaching nearly 50 percent of Operating Expenditures & Transfers Out.

Staff also updated City Council on new information regarding retail based revenues that were not included in the original 2011 Adopted Budget. In 2011, the City made significant strides to ensure its fiscal sustainability with the completion of two key economic development projects. The annexation of the Centennial Promenade retail center brought a new variety of anchor retailers, including Michael's, Toys R' Us, and Guitar Center into the City. This 512,000 square foot retail center enhances consumer diversity and creates a nexus with several key retail brands. Likewise, IKEA Centennial's location adjacent to Centennial Promenade created a superb regional retail destination. IKEA Centennial's late summer opening introduced the Denver market to one of the world's strongest retail brands and created a shopping fervor that resonated throughout the area.

The success of the opening illustrated that despite weak national consumer confidence indicators, the Centennial Promenade/Park Meadows trade area is outperforming the market due to strong demographics and destination attractions.

In the context of this updated financial outlook, City Council engaged in a policy discussion on issues covering the City's capital needs, potential revenue threats created by the sunseting of voter-approved TABOR exemptions, City employee compensation and benefits, sponsorships, and levels of services.

Additionally, a capital improvement needs discussion garnered a high level of concern because future projections of the City's revenues and expenditures showed decreasing availability of funds for capital projects. Council discussed the merits of various options to increase future funding to the Capital Improvement Fund (CIF). These alternatives included increasing City revenues, issuing bonds, and decreasing service levels in other City functions.

In order for the City to increase tax revenues or issue bonds, voters must authorize any such actions through a ballot measure. At the Workshop, Council directed Staff to gauge community perception of capital-oriented revenue increases before Council would make a decision on whether or not to include a question to pursue an increase on the November ballot.

Capital Improvement Program

A major priority for the City continues to be funding of the Capital Improvement Program (CIP) and, more specifically, the Capital Improvement Fund (CIF). The ongoing capital needs of the City continue to exceed the City's capacity to fund all projects. In the past, Council has made the decision to use General Fund - Fund Balance (undesignated savings) to help supplement the CIF and the majority of those funds have gone into street maintenance in an effort to maintain the City's pavement condition index. Through Council's efforts to provide for sustainable infrastructure, the additional funding to street projects has resulted in a pavement condition index of 78. This rating indicates the City's streets are in relatively good condition. Future projections of City revenues and expenditures paint a long-term picture in which the General Fund - Fund Balance may eventually be unable to adequately supplement the CIF, potentially impacting the City's pavement condition index rating.

Following Council's direction at the April Budget Workshop to explore possible funding sources for the City's CIF, the City hired a consultant to conduct a statistically valid survey. The survey identified the opinion of probable voters in the City in regards to a possible ballot question that would allow the City to issue as much as \$50 million in debt and raise the sales/use tax by 1 percent for the purpose of funding CIP projects. The survey revealed there was a clear understanding of the need for preventative maintenance. However, there was not overwhelming support from a majority of citizens to support a tax increase or a municipal bond offering to fund large dollar CIP projects. Without the opportunity for additional funding mechanisms in the City's near future, Council

decided the City must continue to look at utilizing fund balance or reducing funding to other City programming to continue to fund the City's CIP.

Centennial Budget Committee (CBC)

In preparation for the August Budget Workshop, the Budget Committee met multiple times throughout the year to review the City's finances, revenue projections, departmental budget variances, and budgetary decision packages for 2011 and 2012. These meetings served to not only communicate the details supporting all of the line items in the City's budget, but to also describe the City's short and long-range financial projections in terms of service levels. Despite the detail, the Committee decided to keep their focus on the larger picture and made specific comments on certain decision packages that the majority of the Committee believed City Council should consider during the August Budget Workshop.

Consequently, the Budget Committee provided City Council with a report for the workshop and identified the following as the primary points for City Council's consideration:

- Continue to focus on the unconstrained capital needs of the City.
- Consider funding a reserve for major capital projects and add to this reserve each year to fund larger capital projects.
- Continue to look at the long term financial picture of the City and keep in mind when expenditures are projected to exceed revenues.
- Consider potential threats to revenues such as the expiration of TABOR exemptions or the unforeseen loss of a major retailer.
- Consider the basis and limitations of all revenue projections, understanding that some projections are more consistent than others.
- Consider updating the Fund Balance policy to determine what level is appropriate to maintain a healthy Fund Balance.

August Budget Workshop

The August Budget Workshop was held on August 22nd and 23rd. At this workshop, City Council was presented with preliminary budget information for the 2011 Revised and 2012 Adopted Budget, including financial projections, budget line item detail, and Capital Improvement Program (CIP) funding for the upcoming year. In addition, this workshop provided Council the opportunity to discuss and consider 2011 Revised / 2012 Adopted decision packages.

Included in the 2012 decision package requests presented by staff to City Council were four employee positions. In addition to these positions, there was also a recommendation and concurrence for a two percent merit based salary increase for staff. The City Council further provided concurrence to fund \$2.2 million of the \$5.4 million capital projects in the CIF 2012 project list and identified an additional \$2.2 million to put toward the CIF, bringing the total 2012 CIF funding to \$4.4 million. The additional funding identified by City Council was composed of \$1.8 million from the 2010 amount added to the General Fund – Fund Balance (a total of \$3.9

million was added to the Fund Balance from 2010), and the remaining \$400,000 was reassigned from the Public Works Department to the Capital Improvement Fund program.

After hearing recommendations from Staff and the Budget Committee, Council engaged in a thoughtful dialogue about City priorities and the allocation of City resources. The result of this dialogue was a list of approved 2011 and 2012 Budget decision packages. The 2012 Budget decision packages resulted in a \$4.4 million transfer from the General Fund to the CIF for capital projects, a two percent performance based salary increase for Staff, and one part-time Passport Clerk position. No full-time employees were added to the 2012 Budget. All of the Council recommended decision packages and other variances between the 2011 Revised and 2012 Adopted Budgets are listed in the Executive Summary section of the budget document.

Current Economic Conditions

In assessing surrounding economic conditions, the City constantly monitors key economic indicators such as the consumer confidence index, various retail indicators, unemployment figures, the consumer price index, producer price index, and home price index. Current economic indicators portray an economic environment that will continue to be uncertain in 2012.

As of July, 2011 Colorado ranked 28th in unemployment with a rate of 8.5 percent. This represents an improvement from 9.3 percent in February, 2011. The Denver-Aurora-Broomfield Metropolitan Statistical Areas (MSA) unemployment rate (8.6 percent) is consistent with the state level, ranking #180 out of 372 MSAs. Arapahoe County's unemployment rate for July, 2011 was 8.6 percent, whereas Centennial's remained at a very respectable 6.6 percent.

The U.S. City Average Consumer Price Index (CPI) for all urban consumers rose slightly through mid-year. The 2010 Annual CPI was 218, holding steady between 216 and 218 for the entire year. The measure has risen from 220 in January to nearly 226 in July. Instability in pricing is expected to continue through 2011 and likely well into 2012 as natural disasters, global economic instability, and competition for the natural resource supply chain impact the production and availability of capital and goods. The S&P/Case-Shiller Home Price Indices show Denver holding relatively stable at 125.97 in June 2011, as compared to 129.20 in June 2010 and 126.92 in June 2009.

At the local level, economic conditions tend to be active at both ends of the spectrum. Trading of high quality commercial real estate assets has been lucrative. Likewise, companies with positive equity and capital positions, as well as strong market positions, have chosen to deploy excess capital for facility, equipment, and personnel expansions. Retail merchants with strong product offerings and market positions are seeing positive year-over-year growth.

The 2011 Revised / 2012 Adopted Budget

2011 Revenues

It is important to note the 2011 Revised / 2012 Adopted Budgets are balanced. The 2011 revenues

for all funds are revised from \$52.4 million to \$65.6 million. This increase is due to several factors, including an increase of sales tax collections and property valuation at The Streets at SouthGlenn, the annexation in April 2011 of Centennial Promenade Retail Center, and the opening of IKEA Centennial in July 2011. The City also realized an increase in the number of Retail Sales Tax Licenses issued to retailers in and outside of the City and an increase in the collection of delinquent sales tax. The City's property tax is likewise slightly higher than expected based on the certification of property tax provided at the end of 2010 by Arapahoe County. Other grant revenues increased \$2.3 million primarily as a result of Open Space grants through the Arapahoe County Open Space Grant Program and the Great Outdoors Colorado Trust Fund. The \$3.0 million increase in federal grant revenue is primarily from several Denver Regional Council of Governments (DRCOG) grants, the Energy Efficiency and Conservation Block Grant (EECBG), and the Community Development Block Grant (CDBG).

2011 Expenditures

The 2011 expenditures are revised from \$53.2 million to \$78.3 million. The increase in expenditures is primarily due to Council's commitment to capital projects (\$2.8 million) and the carry forward of funding for capital projects that were in progress but incomplete at the end of 2010 (\$15.4 million). City Council approved and appropriated funding for several major capital projects in the 2010 Open Space, Conservation Trust, and Capital Improvement Funds. Those projects not completed in 2010 are reappropriated in the 2011 Revised Budget, including the Centennial Center Park, several City-wide trail projects, and major street and intersection improvement projects. Additionally, funding has been programmed in the 2011 Revised Budget for revenue sharing agreements as a result of retail developments (\$6.3 million). These agreements require the City to share and or pass through sales and/or use tax revenues for public and public related improvements and are based upon corresponding sales, use and/or property tax receipts by the City, which are also included in the budget. Finally, fund balances in the General Improvement Districts have been appropriated for use in 2011 should the General Improvement Districts need additional funding for projects (\$0.4 million).

2012 Revenues

The 2012 revenues for all funds are budgeted at \$61.8 million, which is a 17.9 percent increase over the 2011 Adopted revenues of \$52.4. The overall change is due to increases in:

- Sales Tax \$4.2 million
- Building Materials Use Tax \$0.1 million
- Automobile Use Tax \$0.3 million
- Property Tax \$3.8 million
- Franchise Fees \$0.1 million
- Right-of-Way Fees \$0.1 million
- Licenses and Permits \$0.3 million
- Other Intergovernmental Revenue \$0.3 million

The increase in sales tax is related to actual trends resulting from The Streets at SouthGlenn, newly annexed properties at Centennial Promenade, and the opening of IKEA Centennial. The City expects to realize greater compliance levels from current vendors through an increase in licensed vendors that are located outside of the City but doing business in Centennial; these vendors were not previously licensed or collecting and remitting City of Centennial sales tax.

Despite the overall City-wide downward trend in assessed property valuations, the 2012 budget reflects a sharp increase in property tax revenues. This increase is primarily a result of updated valuations for The Streets at SouthGlenn. Property tax receipts for The Streets at SouthGlenn are collected through the Centennial Urban Redevelopment Authority (CURA).

The volatility of recent market trends continues to make forecasting difficult for the City. As a result, the City relies heavily on the State's professional economists for guidance, in addition to careful analysis of current trends and future projections.

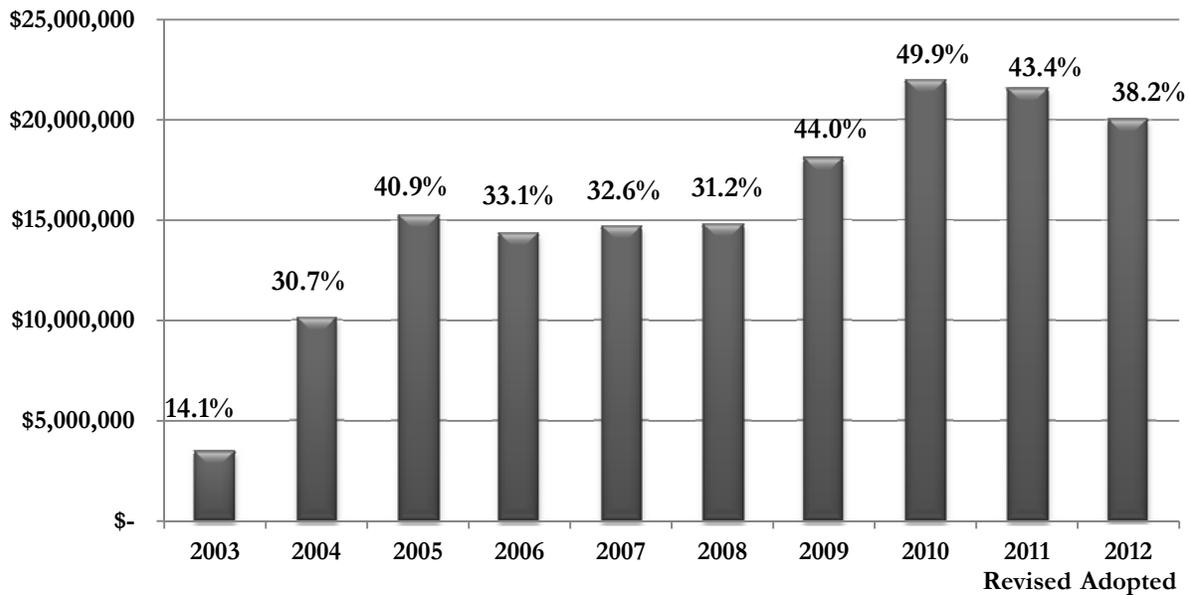
2012 Expenditures

The 2012 expenditures are budgeted at \$63.9 million, which is a 20.0 percent increase from the 2011 Budget. The increase primarily results from economic development based incentive agreements, which are directly tied to related revenue sources, contractual obligations required by service providers, and other expenditures that are beyond the control of the City (e.g. gas, asphalt, concrete, and other materials). Staff prepared their 2012 requested budgets assuming a zero percent increase in expenditures compared to adopted 2011 budgets, excluding increases for salaries, health care costs, and other mandated costs beyond the control of the City. Some changes were approved to current service levels in order to achieve City Council's overall goals and objectives. All the increases are discussed in the Executive Summary section of this document.

Fund Balance

A healthy fund balance is important to the fiscal strength of the City. It's the City's policy to maintain a General Fund - Fund Balance equal to at least 25 percent of General Fund expenditures and other financing uses. During the past six years, the City's General Fund - Fund Balance has been well in excess of 25 percent and reached as high as 50 percent in 2010. The 2011 projection is anticipated to be around 43.4 percent for 2011. In consideration of the deliberate withdrawal from the Fund Balance for use in enhancing the street maintenance program in the 2011 Revised / 2012 Adopted Budget, the City anticipates the 2012 ending General Fund – Fund Balance for 2012 to be \$19.9 million, or about 38.2 percent of total General Fund expenditures and other financing sources. The following chart shows historical General Fund – Fund Balance levels:

Fund Balance General Fund



Strategic Plan

The City continues to focus on the long range fiscal viability in providing City services. The budget document includes a strategic plan which represents the Five-Year Financial Forecast (the “Forecast”). This is a multi-year forecast that includes eleven years of financial data. Based on emerging issues and trends, the Forecast directs the City’s resources to meet specific and achievable goals as directed by City Council. The Forecast is based upon available information, and does not consider changes in policy or service levels. In addition, revenues and expenditures are estimated conservatively. Typically, the City experiences certain circumstances or anomalies in revenue collection or expenditure savings. Historically, the City has often realized additional revenues and expenditure savings, yielding consistent increases to the City’s Fund Balance or ‘savings account’. Additional information regarding the City’s Five-Year Financial Forecast is located in the Strategic Plan section of the budget document.

In this time of economic uncertainty, the capacity of the City to continue to operate at this level is challenging and requires the City to be even more strategic with how it delivers services and utilizes resources. It is staff’s desire to produce a budget that is conservative, transparent, and demonstrates accountability in the use of revenues for the provision of City services. It is our hope that we have fulfilled the citizens’ expectations and that this document presents the financial and policy plans of the City in a clear, concise, and understandable manner.

In conclusion, I would like to first recognize the Centennial Budget Committee (CBC) for their dedicated efforts and particularly for helping to bring an invaluable perspective of Centennial

residents to the budget process. CBC membership includes two elected officials, three residents, the City Manager, and the Finance Director. The CBC meets throughout the year, receiving presentations from every department in the City, vetting potential budget decisions, reviewing decision packages, and providing formal reports to Council about citizen perceptions regarding the allocation of City resources. I thank the following elected officials and residents of Centennial for all the work they put into this budget process by serving on the CBC:

- Mayor, Cathy Noon
- Councilmember, Patrick Anderson
- Citizen Representative, C.J. Whelan
- Citizen Representative, Curtis Winar
- Citizen Representative, Ken Lucas

Next, I would like to recognize the City's Department Directors, CMO Staff, and Contractors for their commitment to continuous quality improvement and efficiencies in the delivery of services that help Centennial effectively serve its residents.

Finally, I would like to thank the City Council for their continued strong and unrelenting leadership, and their dedication to Centennial's vision and values.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'David S. Zelenok', with a stylized flourish at the end.

David S. Zelenok
Interim City Manager



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