



City of Centennial

Office of the City Manager

November 15, 2010

Dear Honorable 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 2010 Revised and 2011 Adopted Annual Budgets.

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 2010 Revised and 2011 Adopted Budgets are balanced.

Entering into the 2010 Revised / 2011 Adopted Budget Process

The City of Centennial, like many other communities these past two years, has faced reductions in revenues and City services as it deals with the negative impacts of prevailing economic conditions. The continued challenge of this government has been to provide desired City services at the maximum level possible while maintaining financially responsible practices. Centennial has achieved this goal through continued monitoring of revenues by City staff, vetting of budget information with the Centennial Budget Committee, and continuously updated policy direction from City Council delivered at workshops and meetings throughout the year.

In early 2009, the City conducted an assessment of economic conditions and revenues received and consequently revised projected 2009 revenues downward from \$46.5 million to \$42.5 million (8%) and made strategic corresponding reductions in services. Staff was also instructed to reduce expenditures in all operational areas and \$3.0 million was reduced from the City's Capital Improvement Fund, largely impacting the City's street maintenance and rehabilitation program.

Later in 2009, as the City entered into the 2010 budget process, the revenue outlook was not expected to significantly improve. Staff was directed to maintain 2010 expenditures at or below 2009 revised budgeted amounts except for instances where mandated costs (contractual obligations, legal liabilities, utilities, materials, etc.) were beyond the City's control and required an increase. Although City Council authorized a 2% performance based salary increase for 2010, it was contingent upon a 2010 mid-year review of revenues and further consideration of

Council prior to finalizing any increase. Mid-year 2010, after assessing economic conditions, I made the recommendation to not provide salary increase to staff for 2010.

Additional decision packages presented to City Council for the 2010 budget included reductions to contracted services. The majority of the City's services are provided through contract and several of these contracts (law enforcement, public works, code compliance, animal services and sales and use tax administration) had set escalators, rates, or requested increases for 2010. This meant the City faced contractual obligations that would have put City expenditures well above anticipated revenues. To address this problem, the City went to its contract partners and asked them to identify service reductions that would allow the City to keep contract costs near the 2009 levels. All of the City's contractors agreed to reductions, even though they were not contractually obligated to do so. Major contracted service reductions in 2010 included:

- Public Works contract – reduction of \$506,050, included reductions in sweeping, striping, major patching, pothole repair, patchback, crack sealing, gravel maintenance, the elimination or reduction of 4 traffic engineering projects, and right-of-way maintenance. Other reductions included elimination of the customer service survey, decrease in concrete work and thermo plastic, the reduction of 1 full-time equivalent (FTE) field inspector and a reduction of .25 FTE for GIS activity.
- Law Enforcement contract – reduction of \$61,527, included the temporary elimination of three positions through an internal reorganization. The following positions were temporarily eliminated: Neighborhood Traffic Enforcement Deputy Sheriff, Elementary School Resource Officer, and the Computer Crime Investigations Detective. Although a required reduction was made, a subsequent annexation resulted in adding a School Resource Officer at Arapahoe High School increasing the contract by \$120,000 for 2010.
- Sales and Use Tax Administration, Animal Control Services, and Code Compliance Services contracts – total reduction of \$49,744, no reductions in services, and all three contractors absorbed the financial impacts of the reductions.

In 2009, a newly formed Budget Committee was created to serve in an advisory capacity to City Council in regard to reviewing the budget document. The Budget Committee met three times during the 2009 Revised / 2010 Annual Budget process to review estimates, forecasts, and decision packages, including proposed reductions. At the adoption of the 2009 Revised / 2010 Proposed Budgets, this committee provided a formalized report to City Council in support of the City Manager's Proposed Budget.

The 2010 Revised / 2011 Adopted Budget Process

City Council Strategic Planning Workshop

As the City entered into 2010 we felt confident that the City had adequately prepared for a continued economic downturn. In January, similar to prior years, we began the 2010 Revised / 2011 Adopted budget process at the City Council Strategic Planning Workshop.

The workshop focused on critical questions regarding community priorities in context with the community's visioning document, *Our Voice. Our Vision. Centennial 2030*. The alignment of

priorities was very similar to 2009, reaffirming the Council's commitment to sustaining the City's infrastructure and focus on community quality of life. Due to the uncertainties of the economic climate and pending state-wide ballot issues that could have significantly restricted revenues, City Council placed more emphasis on fiscal responsibility.

The following 2010 strategic planning priorities were a continuation from 2009:

- **City Services Strategy 3:** Ensure accountability in the management and delivery of City services. Respect the original vision while evolving in areas where needs are changing.
- **City Services Strategy 4:** Ensure an adequate level of improvement to infrastructure to sustain the City through 2030.
- **City Services Strategy 6:** Maintain the City in such a way that property values are protected.
- **Community Quality of Life / Citizen Engagement Strategy 3:** Outdoor Recreation Opportunities. Parks, open spaces, lakes, bike trails, recreational facilities and playgrounds provide places to relax, play and enjoy family.
- **Economic Health Strategy 1:** Fiscal responsibility. The City takes a disciplined approach to financial responsibility and a long-term view of development opportunities.
- **Economic Health Strategy 2:** Develop innovative, diverse revenue generation sources, both inside and outside Centennial.
- **Economic Health Strategy 3:** Business friendly government. Centennial streamlines processes that meet business' relocation and growth needs. The City helps promote business in Centennial.

The following two priorities were identified for 2010 and 2011:

- **Community Quality of Life / Citizen Engagement Strategy 5:** Recreation opportunities for seniors. Recreation programs and a system of parks that support diversity in active and passive recreation.
- **Economic Health Strategy 6:** Maintain a level of spending that keeps taxes and fees lower than those of surrounding municipalities to retain and attract customers and business.

Council provided direction for staff to develop implementation plans and identify financial impacts to be considered in the upcoming budget process.

Spring Budget Workshop

On April 26th and 27th, Centennial had its Spring Budget Workshop. This workshop gave staff a formal opportunity to present final revenue and expenditure data for 2009, provide revenue updates for 2010, and discuss a plan for sustaining operations pending election outcomes on the proposed 2010 ballot initiatives.

A major development at the Spring Workshop was that fiscal planning and subsequent reductions in 2009 resulted in expenditure savings of \$1.1 million. The City's 2009 financial audit showed the City received additional one-time, unexpected revenues of \$1.8 million, a large

percentage of which was received in December 2009. Because of the additional revenues and savings, the City ended 2009 with a 44% General Fund fund balance, an increase of 8% over the estimated 2009 Revised Budget General Fund fund balance.

At the time of the Spring Budget Workshop, the City was also receiving favorable bid pricing on capital projects and because the City's revenues were on pace to meet or exceed 2010 estimates, Council expressed interest in using some of the one-time expenditure savings for one-time capital improvement projects to further the commitment to sustaining the City's infrastructure. However, because of uncertain economic times, Council wanted an official recommendation from the Centennial Budget Committee to get a sense of whether or not residents also shared this view.

Given staff and Budget Committee recommendations, and because the City was experiencing favorable pricing for street improvement contracts, Council authorized placing another \$2.1 million toward the City's Street Rehabilitation Program, Concrete Replacement Program, Capital Improvement Management, and the Peoria Reconstruction and Intersection Improvements project. Even with redirecting these resources from the General Fund fund balance to the Capital Improvement Fund, the City maintained a healthy General Fund fund balance of 34%.

As previously mentioned, there were three citizen initiated, state-wide proposed ballot initiatives, Amendments 60 and 61 and Proposition 101. A fiscal impact analysis was presented to City Council reflecting a potential \$5.6 million (12.4%) reduction in revenues for 2011. Council directed staff to prepare a contingency plan on how to address the shortfalls in the event the ballot initiatives passed. As of Election Day, November 2nd, all three initiatives failed and the contingency plan was not necessary.

August Budget Workshop

At the August 2010 Budget Workshop, staff presented updated 2010 and 2011 revenue estimates and expenditure decision packages to Council. By this time, the City had almost two full quarters of 2010 revenue data by which to modify the 2010 estimates and create 2011 projections. Based on increasing trends and other known anomalies, 2010 revenues for all funds were increased from \$52.5 million to \$55.1 million. Revenue estimates for the 2011 budget factored out one-time revenues and have resulted in 2011 projections of \$52.4 million, which is similar to the 2010 adopted revenue budget.

There are several factors that contributed to the 2010 increase, including the receipt of one-time grant revenues, a substantial Building Materials Use Tax payment for a major construction project in the City, and additional retail openings at The Streets at SouthGlenn development. Additionally, in 2009 a new revenue source from the State, the Funding Advancements for Surface Transportation and Economic Recovery (FASTER), was received by the City. At the time the 2009 Revised Budget / 2010 Adopted Budget was being adopted, it was unknown how much or when the City would begin to receive this fee. It was therefore not budgeted in the 2010 Adopted Budget. The 2010 Revised and 2011 Adopted Budgets include anticipated FASTER revenues as well as other known increases in revenues, including sales and use tax revenues from The Streets at SouthGlenn and the new IKEA Centennial.

Consistent with the last two budget cycles, staff was directed to maintain 2011 expenditures at or below 2010 Adopted Budget amounts except for instances where mandated costs (contractual obligations, legal liabilities, utilities, materials, etc.) were beyond the City's control and required an increase. Any increase beyond the 2010 Adopted Budget amounts (with the exception of mandated costs) were presented as decision packages that were first reviewed and recommended by the City Manager.

Leading up to the August 2010 Budget Workshop, staff presented the 2010 Revised and 2011 Proposed budgeted revenues and decision packages to the Budget Committee. Staff went through each of the decision packages for 2010 and 2011 in detail with the Committee and received feedback regarding the potential expenditures, making modest edits in the final recommendations to Council. The Committee conveyed an official opinion about the revenue projections and decision packages to City Council at the workshop. After hearing the recommendations from staff and the Budget Committee, Council engaged in a thoughtful dialogue about City priorities and the allocation of resources.

The 2011 Budget includes bringing all contracts whole to the 2011 prescribed levels, adding four full time equivalent positions, 2% performance based salary increases and an additional \$1 million toward the City's capital improvement programming. The approved decision packages along with other variances between the 2009 Revised / 2010 Adopted and 2010 Revised / 2011 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 improving economic environment that, though better than 2009, is still well short of highs achieved in 2007 and 2008.

In 2010, consumer confidence stabilized, with the consumer confidence index (CCI) varying between the high forties and low sixties. The CCI is an indicator of the willingness of people to spend money, with higher numbers reflecting a higher willingness and lower number reflecting a lower willingness. Stabilization in the CCI allows the City to have confidence in several of its retail sales based revenue sources. Though improvement in this index is heartening, the full impact of the recession is demonstrated by how low the CCI remains compared to the high in July, 2007, of 111.9.

National retail chain store sales indicators, vehicle sales data, and local unemployment rates illustrate the willingness of consumer spending. Retail chain store sales indicators show significant improvement across nearly all subsectors. The average monthly change through August showed a 6.1% increase, with the most notable improvements coming from the luxury store (7.8%) and wholesale club (7.7%) categories. New light vehicle sales for 2010 through August also increased by 8.4% compared to 2009, with the major three American brands all showing positive trends. Similar to the retail sale indicators, the most notable change in the industry is the increase in the luxury brand year over year new car sales. Unemployment in

Centennial (6.0%) is also significantly lower than it is at the State (8.2%) and Federal (9.6%) levels through September 2010.

Despite the increases in retail sales and low unemployment rates, revenue forecasts for the City are tempered by relatively low increases in the consumer price index (-0.1 to 0.3) and producer price index (-0.1 to 0.3). The consumer price index (CPI) generally conveys the rate the price of retail goods change. The producer price index (PPI) conveys the rate the price producers get for selling their goods change. If these indices exhibit small rates of growths, it is typically a sign of a weaker economy. This would indicate weak sales based on revenue collections as there are multiplier effects between CPI, PPI, and revenues received by the City. It is encouraging that retail sales are increasing and the low rates of unemployment demonstrate a strong buying force in the City, but the low increases in CPI and PPI indicate that revenue growth in 2011 will be modest.

Housing price indicators for Centennial are relatively positive. The S&P/Case-Shiller Home Price Index for the Denver market remained stable well into 2010 and is only 10 points lower than the highs reached in 2007. This is quite good compared to the national performance of housing prices. The S&P/Case-Shiller Home Price Index - Composite-10 shows changes in housing prices over 10 cities nationally. Its performance over the same three year period is 60 points lower. This indicates that, though housing prices are not where they were in 2007; the housing market in Centennial is performing better than the national average.

The 2010 Revised / 2011 Adopted Budget

As mentioned, the 2010 Revised and 2011 Adopted Budgets are balanced and provide the legal basis for the City to appropriate funds and spend money. 2010 revenues for all funds are revised from \$52.5 million to \$55.1 million, and expenditures and other financing uses are revised from \$54.3 million to \$70.6 million, the increase is primarily the result of better than anticipated revenues, Council's commitment to capital projects, and the use of a large portion of the Open Space and Conservation Trust Fund fund balances on one-time parks and trails projects.

2011 revenues for all funds are budgeted at \$52.4 million, which is fairly consistent with the 2010 Adopted Budget. Although the City is experiencing better than anticipated revenues, we remain cautiously optimistic going into 2011 from a revenue perspective. 2011 expenditures and other financing uses for all funds are budgeted at \$53.6 million, which is \$0.7 million (1.2%) below the 2010 Adopted Budget.

The General Fund is the primary operating fund of the City and from a revenue perspective the General Fund represents 88.0% of the City's total revenue sources. 2011 budgeted revenues for the General Fund are expected to increase from the 2010 Adopted Budget by \$3.0 million (6.8%). This increase is due to a projected increase in sales tax and FASTER revenues, and is partially offset by a decline in one-time grant revenue, automobile use tax and pavement degradation fees. General Fund expenditures, including transfers, are expected to increase from the 2010 Adopted Budget by \$3.6 million (8.3%), partially due to restoring all targeted program cuts that were made in 2010 back to the 2011 contractually obligated amounts. In

addition, as mentioned above, City Council directed an additional \$1.0 million towards the City streets for 2011.

A healthy fund balance is important to the fiscal strength of the City. It is the City's policy to maintain a fund balance for the General Fund equal to at least 25% of General Fund expenditures and other financing uses. Over the past few years, the City's General Fund fund balance has been well over 30%. In consideration of the information presented in the 2010 Revised and 2011 Adopted Budgets, the City anticipates the 2011 ending fund balance for the General Fund to be \$16.4 million (34.6%) of expenditures and other financing uses.

City Accomplishments

Entering our 10th year as an "intentional city", Centennial stands poised to enter into 2011 true to our vision of a lean, efficient, and responsive government while continuing to adapt to the changing economic conditions and meeting the expectations of our residents and businesses.

The City of Centennial is young and the demands of its residents and the capability of its staff have grown considerably since the City's incorporation in 2001. Two years ago, the City completed a formal visioning process in which residents were asked to communicate their expectations and long term vision for Centennial, culminating in the City's visioning document, *Our Voice. Our Vision. Centennial 2030*. This document identified that residents, though believing in the City's fundamental tenets of limited government, were ready for the City to play a larger leadership role. Four major core values emerged through the visioning process, including City Services, Community Quality of Life/Citizen Engagement, Economic Health, and Environment. These core values called upon the City to identify and coordinate efforts with supporting service agencies in the community such as fire, library, parks and recreation, water, sanitation, storm water, metro districts, and schools. They also required the City direct its resources to create a safe and secure community, improve the transportation network, provide infrastructure and open space, be accountable and transparent, and improve the community's economic vitality.

Celebrating our 10th anniversary, it's important that we look back and recognize Centennial's many successes, including several of the milestones noted below:

- July 1, 2008, the City completed the largest public to private transition of public works in the history of the nation. After an eight year partnership with Arapahoe County, a new five year contract was negotiated with CH2M Hill. Today, the City's public works program is nationally recognized for the high level of service provided to the community including, a 24/7 call center and a performance-based contract that fluctuates with the City's demands and available resources.
- After a competitive bid process, in 2008, City Council elected to bring the City's Land Use service functions in-house. These services were previously provided under contract. This transition saved the City more than \$750,000 annually and significantly improved service provision to citizens, businesses, and the development community.
- In 2011, the Planning and Development department will change its name to Community Development to better reflect the full scope of services it provides. This department has

developed and is implementing major master plans for parks, trails, and open space, and has also developed sub-area plans for planned development, transportation, and land use (including the Arapahoe Urban Corridor and Southglenn Sub-Area plans).

- At Council direction, in 2008, the City's code compliance efforts went from a reactive-based model to a blend of reactive and proactive case initiations, demonstrating an exceptional compliance rate.
- Centennial continues to offer, through the Arapahoe County Sheriff's Office, first-class award winning law enforcement services, including a focus on community policing and crime prevention which benefits everyone. In 2010, the Sheriff's Office received its 5th accreditation, including a new accreditation for Communications.
- With the partnership of the Sheriff's Office, the City was once again recognized by Congressional Quarterly in 2010 as the "safest city in Colorado" and the fifteenth safest city in the nation with populations over 75,000.
- By a large margin of voters, the Home Rule Charter was approved in June 2008. Among other significant benefits, Home Rule authority resulted in a change in form and structure of government as well as the ability to self-collect sales tax revenues.
- By leveraging resources toward the pursuit of grant funds, the City was able to complete more than \$6 million of federal grant awarded transportation improvements, and has been awarded an additional \$5.0 million for other public works projects and \$1.25 million in open space grants. Much of this work simply could not have been possible had Council not authorized the leveraging of City dollars to take advantage of new federal and state grant programs.
- In 2008, the same time the City transitioned public works from Arapahoe County, a new contract service provider was selected to provide animal welfare services. The Humane Society of the Pikes Peak Region (HSPPR) provides certified, professional animal welfare officers and program performance indicators demonstrate a greater than 90% return to owner (RTO) rate. Sheltering services and ancillary functions are also contracted out to the private sector.
- In November, 2008, the City purchased a 34,000 square foot building on five acres for its administrative offices. An almost 15 acre parcel surrounding the new Civic Center was also acquired and after a significant public outreach effort, 11 acres is now being planned for the new Civic Center Park. It is expected that the City will be able to host its 10th year anniversary event in September 2011 at the new park.
- The City's connection to its citizens is at record highs with four Centennial Connection newsletters published, 300 press releases produced, and six signature community events (Spring Fling, Battle of the Bands, Relay for Life, Centennial Under the Stars, and 2 movie nights) each year. The City's award winning website is also packed full of information about community events, service offerings, resource links, public announcements, job postings, and includes a new Accountability and Transparency link that provides both performance and financial reports.
- In 2010, a new federal grant funded bus bench program was implemented to improve the appearance of bus benches throughout the community, tying design elements of our street furniture program to the City's way-finding and signage program.

- Centennial's dedication to economic development has resulted in the completion of a retail market analysis, an annual business recognition dinner – The Best of Centennial, recruitment and retention efforts resulting in one on one meetings with more than 50 individual businesses annually, and strong partnerships with our local chambers and economic development organizations.
- In early 2010, the City initiated a Citizen Survey, polling 3,000 randomly selected Centennial addresses. A total of 940 completed surveys were received, resulting in a 32% response rate. Three quarters of those respondents rated the overall quality of services provided in Centennial as “excellent” or “good”, which was similar to ratings in other jurisdictions across the nation. Although the City was thrilled with the overall results of the survey, a desire for improvement in snow plowing and street maintenance was indicated, and the City Council has responded accordingly through increased funding for these programs in the 2011 budget.
- Nationally, the City of Centennial had the third highest mail-in participation rate for cities more than 100,000 in the 2010 Census, boasting an 83% response rate.
- In accordance with the City's commitment to transparency and resident engagement, and as prescribed under the Home Rule Charter, the Investment, Audit, and Budget Committees were created in 2009 and now meet regularly in their advisory capacity.
- The City adopted an ordinance in early 2010 establishing a performance measurement reporting system, furthering the City's commitment to excellence in service provision. Monthly reports are generated detailing the performance activities of key functional areas, and monthly meetings occur with Department Directors, Program Managers, and the City Manager to ensure accountability.

As Centennial enters 2011, the precedence of excellence has been established through our accomplishments. 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 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) that was created in 2009 for their valuable insights, dedication of time, and to helping us to bring the voice of Centennial to the budget process. Including me, the Committee's members are:

- Mayor, Cathy Noon
- Councilmember, Sue Bosier
- Citizen Representative, C.J. Whelan
- Citizen Representative, Curtis Winar
- Citizen Representative, Susan Bockenfeld
- Director of Finance, Dawn Priday

The CBC met ten times throughout the year, receiving presentations from every department in the City to familiarize the Committee with how the City operated, as well as vetting potential

budget decisions, reviewing decision packages, and providing formal reports to Council about citizen perceptions regarding allocation of resources.

I would like to offer my very sincere appreciation for the amazing and dedicated efforts of the Budget Team, including Elisha Thomas, Assistant to the City Manager, Dawn Priday, Director of Finance, James Clanton, Management Analyst, and Jessica Savko, Revenue Analyst. This year's budget, in particular with the contingency planning efforts for the proposed ballot initiatives, was extremely complex and time consuming, but they kept their sense of humor through it all. A big thank you also goes out to our awesome Department Directors for their efforts in carefully managing our City resources and their commitment to continuous quality improvement and efficiencies in our service provision. And, to the many supporting employees and contractors that really make things happen in Centennial...thank you!

Finally, great organizations have great leadership. And, I would like to thank the City Council for their continued strong and unrelenting leadership, and their dedication to Centennial's vision and values in precarious and challenging times.

Respectfully Submitted,

Jacque Wedding-Scott

Jacque Wedding-Scott
City Manager