



# City of Centennial

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## MEMORANDUM

TO: Honorable Mayor Pye and City Council Members

THROUGH: Jacque Wedding-Scott, City Manager

FROM: Charles A. Montoya, Director of Finance  
Dawn C. Priday, Director of Accounting

DATE: December 17, 2007

RE: Unaudited October Month End Financial Statements

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### COLORADO'S ECONOMY

#### Snapshot of Colorado's Economy

- Cost-of-living in Denver was 3.7% above the national average in the second quarter of 2007<sup>1</sup>
- Total population in Colorado is expected to grow by 2% in 2007<sup>2</sup>
- Arapahoe County's unemployment rate through August 2007 is 3.8%<sup>3</sup>
- The unemployment rate in October was 3.4% in Colorado compared to a U.S. rate of 4.4%. The unemployment rate in the 7 county Metro Denver area dropped from 3.8% in September to 3.5% in October. The year-to-date unemployment rate for Metro Denver is 3.8%.<sup>4</sup>
- Metro Denver employment growth through October was 1.7%; outpacing the U.S. job growth rate of 1.4%.<sup>4</sup>
- Total retail sales through August were up 9%, while they were up 9.2% in Colorado (\$7.7 billion ahead of where they were through August of 2006.)<sup>4</sup>
- Retail sales in Arapahoe County through June were 8.8% higher than through the same period in 2006.<sup>3</sup>
- Keeping in line with the U.S. increase, prices for the first half of 2007 rose 2.5% in the Denver/Boulder/Greeley metro area.<sup>2</sup>

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<sup>1</sup> The Adams Group, Inc., "Today's Economy: A Colorado Viewpoint," <http://www.coloradoeconomy.com>

<sup>2</sup> State of Colorado, "Colorado Economic Perspective-State Revenue and Economic Quarterly Forecast," Office of State Planning and Budgeting, <http://www.lcolorado.gov>

<sup>3</sup> Development Research Partners, "Monthly Economic Summary," <http://www.developmentresearch.net>

<sup>4</sup> Metro Denver Economic Development Corporation, "The Metro Denver Economy," <http://www.metrodenver.org/metro-denver-economy/monthly-summary>

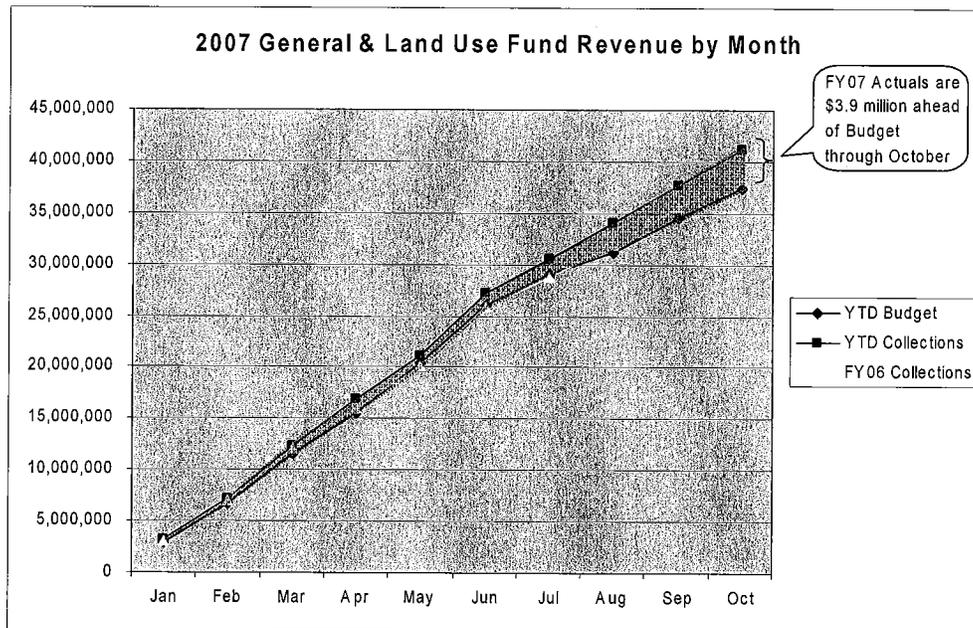
- Inflation in the Denver/Boulder/Greeley area is expected to be 2.8% for 2007.<sup>2</sup>

Existing home sales in Metro Denver were down in September, but increased 3% in October. There was a 3% increase in the number of single-family home sales and 2.7% in condominium sales from September to October. There was a decline in the sold prices of single-family homes of 5% and condominiums of 3% for the same time period.<sup>4</sup>

A 5% apartment vacancy rate is considered optimal. The vacancy rate in Colorado was 5.3% in the third quarter of 2007. It had not been that low since the first quarter of 2001.<sup>1</sup> Metro Denver foreclosure filings were up in October after a lull in September. Through October of 2007, foreclosure filings for Metro Denver were up 40% over the same period last year.<sup>4</sup>

### CITY FINANCIAL ANALYSIS

In comparing actual to budgeted revenues and expenditures, it is important to note that actual amounts reported include all actual amounts received or paid to date, in addition to accruals based upon either budget or amounts expected to be received or paid. In addition, budgeted amounts have been allocated by month based upon estimates; however the timing and amount of actual cash receipts/disbursements may vary from estimated budget amounts. As a result, monthly financial statements may show variances between actual and budgeted amounts which are likely to change as the year progresses; these variances may be the result of timing differences between when actual amounts are received, paid or accrued and how the budget was allocated by month.



Total year to date General Fund and Land Use Fund actual revenues of \$41.3 million compared to budgeted revenue of \$37.4 million (excluding revenue from other sources and fund transfers) produced a favorable variance of \$3.9 million, or 10.2%. Year to date General Fund and Land Use Fund revenues compared to 2006 revenues produce a \$2.8 million, or 7.3% favorable variance.

### GENERAL FUND OVERVIEW AND ANALYSIS

The General Fund accounts for the major governmental activities of the City. These activities include “direct” services to the public such as public safety, public works, and community services. The General

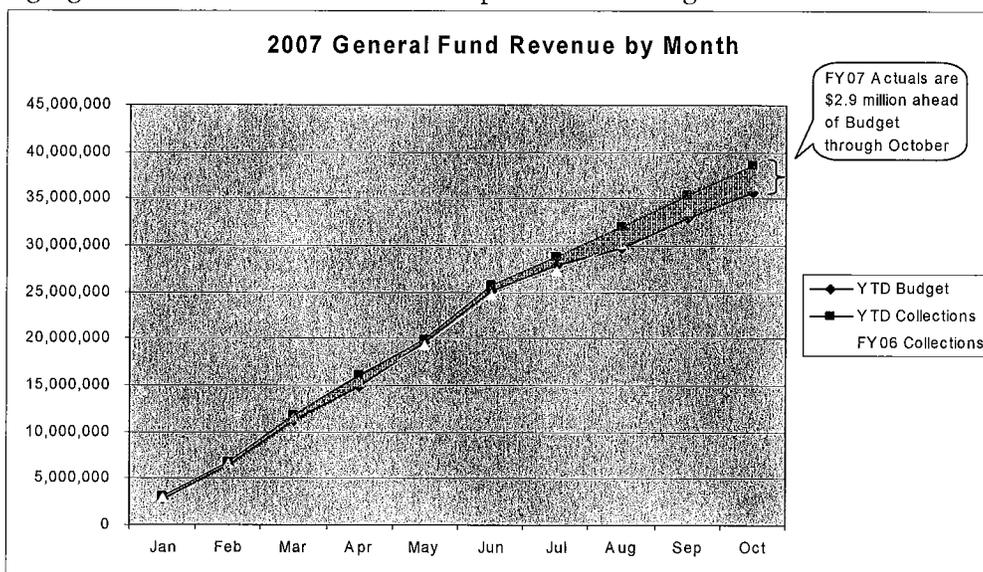
Fund also provides funds for services by the offices of city manager, city attorney, and other city departments.

### REVENUES

The primary general fund revenues are derived from taxes and fees. As the City receives and analyzes actual data through the year, projections of the City's financial position are updated.

General Fund revenue through October, before revenue from other sources, of \$38.6 million compared to budgeted revenues of \$35.7 million produced a favorable variance to budget of \$2.9 million, or 8.1%. The majority of this variance is attributable to sales tax (\$1.4 million, or 48.7% of the total variance), auto use tax (\$.4 million, or 14.2% of the total variance), and building materials use tax (\$.3 million, or 9.1% of the total variance).

Below are highlights of individual revenue sources reported within the general fund.



**Sales Tax:** Sales tax is the primary revenue source for the City. Sales taxes year to date through October generated 39.8% of all revenues in the general fund. This tax is levied based upon the sales price of taxable goods purchased. The City budgeted \$14.0 million for sales tax revenues through October, and actual collections were \$15.4 million representing a favorable variance to budget of approximately \$1.4 million, or 10.1%. Year to date, sales tax revenues are favorable by \$1.1 million, or 7.8% compared to 2006.

Sales tax revenues tend to ebb and flow with the economy; growing during economic expansions and contracting during downturns. In addition to the economic conditions, when comparing actual to budgeted revenues, the timing of cash collections and the allocation methodology of the annual budget by month are also important considerations. Budgeted sales tax revenue by month is based on the actual inflow of revenues during prior years. Sales tax is reported to the City primarily by the Colorado Department of Revenue (DOR) representing 38.5% of total revenues in the general fund through October. Budgeted sales tax collected by the DOR is \$13.5 million through October while actual collections were \$14.8 million creating a favorable variance to budget of approximately 9.9%.

A small portion of sales tax is reported by Arapahoe County. The source of this revenue is a tax on two-party auto sales that is collected by the County and remitted to the City the following month net of a 5% vendor fee. Budgeted sales tax collected by the County is \$.4 million through October and actual collections were \$.5 million representing a favorable variance to budget of approximately \$.1 million, or 17.4%.

**Use Tax:** Use tax is another primary revenue source for the City. Use tax revenue year to date through October generated 11.6% percent of all revenues in the general fund. The City budgeted \$3.8 million for use tax revenue through October and actual collections were \$4.5 million representing a favorable variance to budget of approximately \$.7 million, or 17.6%. Year to date, use tax revenues are favorable by \$.5 million, or 11.4% compared to 2006. Budgeted use tax revenue by month is based on the actual inflow of revenues during the prior years.

Automobile use tax makes up the majority of revenues in this category. Through October, automobile use tax generated 8.7% of all revenues in the general fund. The automobile use tax is a tax on all motor vehicles purchased outside of the City but registered in the City. This tax is collected by the Arapahoe County Treasurer and there is a 5% fee paid to the County as the collecting body. Budgeted auto use tax of \$2.9 million compared to actual collections of \$3.3 million produced a favorable variance to budget of approximately 14.0%.

Building materials use tax is collected by the City at the time a permit is issued to a business or homeowner within the City to build or remodel commercial or residential property. The City budgeted \$.8 million for building materials use tax revenues through October and actual collections were \$1.1 million creating a favorable variance to budget year to date of approximately \$.3 million, or 31.9%.

Additional supplemental use tax is collected by contractor licensing on un-permitted construction projects when valued in excess of the project valuation at the time the initial use tax was paid. This source of revenue represents less than 1.0% of total general fund revenues.

**Property Tax:** Gross property tax is collected based on the assessed value of all properties in the City and the City's mill levy assessed against the property. The City's total 2006 mill levy collected in 2007 is 5.031 mills. The City budgeted \$7.2 million for property tax revenue through October and actual collections were approximately the same. Year to date, property tax revenues are favorable by \$.1 million, or 0.6% compared to 2006. The City receives its portion of property tax collections, net of a 1% treasurer collection fee, through the Arapahoe County Treasurer and is based on actual collections from property owners (note that property taxes are payable in full in May, or if in equal installments at the taxpayer's election, in February and July). Thus the timing of collections by the City is based on actual collections by the County. The revenue budget allocation by month is based on the timing of collections during prior years.

**Franchise Fees:** The City collects a franchise fee on electric, gas and cable services provided by Xcel Energy, IREA and Comcast. The City budgeted revenue from this source of \$3.5 million and actual collections through October were approximately the same, producing a slight unfavorable variance of less than (\$.1) million, or (1.9%). Year to date, franchise fee revenues are an unfavorable (\$7,622), or (0.2%) compared to 2006.

Xcel Energy has proposed an electricity rate increase for the fourth quarter due to expected higher costs associated with changes to fuel costs for winter months and purchased energy for the fourth quarter of 2007, and lower than expected cost recovery from the third quarter of 2007. Customers could expect to see their electricity bills increase by 11% in the fourth quarter. However, natural gas prices were 19% lower in October than they were in September and 10% lower than in October of 2006. Xcel Energy says that the local market is being driven by excess regional supply and lack of gas transportation options.

The variance between the actual and budgeted Xcel Energy electric franchise fee is due to an overpayment by Xcel in April of 2006 which was corrected through the May 2006 payment. Since the monthly budget allocations for 2007 were derived from an average of the prior three year monthly actuals, it resulted in a skewed monthly budget allocation for April and May of 2007. The anomaly for April and May of 2006 can be averaged, so as not to impact the budget allocation going forward for April and May of 2008.

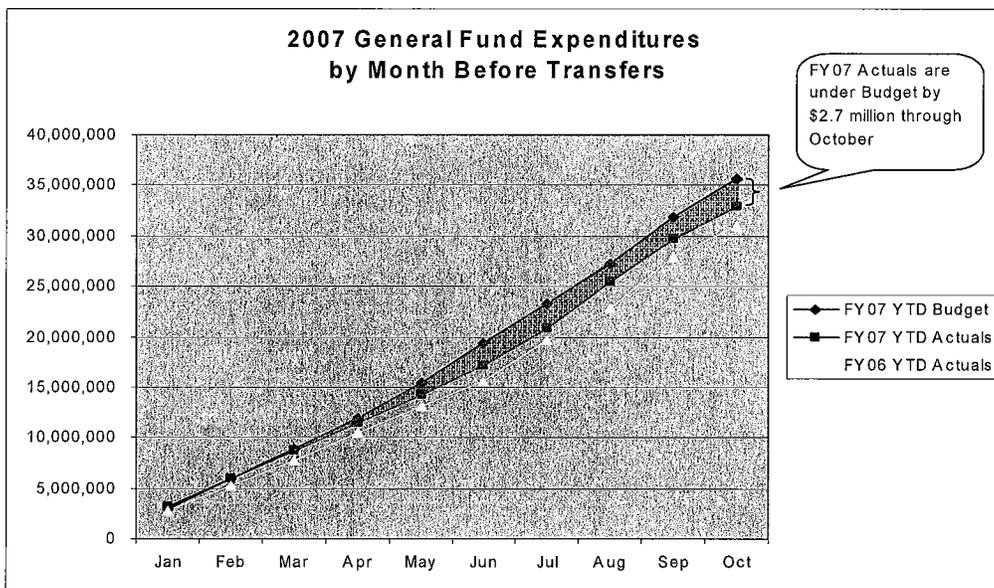
**Court Fines:** Total court fines received through October of \$1.8 million compared to budget of \$1.5 million resulted in a favorable variance to budget of \$.3 million, or 16.8%. Year to date, court fine revenues are favorable by \$.4 million, or 28.4% compared to 2006.

**Interest:** The City currently earns interest on cash investments. Actual interest earnings through October were \$1.0 million compared to budgeted interest earnings of \$.7 million, creating a favorable variance to budget of \$.3 million, or 51.9%. Year to date, interest revenues are favorable \$.3 million, or 33.5% compared to 2006. As the City's cash balances continue to increase, interest earnings will continue to produce a positive variance to budget. However as large capital projects begin through the year, it is expected that these cash balances will decrease causing the interest earnings to decrease as well.

EXPENDITURES

Total General Fund expenditures through October before transfers, of \$32.9 million compared to budgeted expenditures of \$35.6 million produced a favorable variance of \$2.7 million, or 7.6%. The favorable variance between actual and budgeted expenditures is primarily due to the following:

- ⇒ Public Works - \$1.2 million favorable variance to budget is due to timing of the roadway rehabilitation concrete replacement and other project billings.
- ⇒ Communications - \$.2 million favorable variance to budget is primarily due to the timing of expenditures for the branding project and producing the newsletter.
- ⇒ Planning and Development - \$.3 million favorable variance to budget primarily due to vacancy savings and economic development programming which did not commence until August.
- ⇒ Human Resources - \$.2 million favorable variance to budget is due to budgeted, but not expended, funding for salary and benefit cost increases and benefit improvements.
- ⇒ Finance - \$.2 million favorable variance to budget due to personnel vacancy and contracted services savings.



The attached summary report for the general fund lists each of the individual departments operating within the general fund. Note actual year to date expenditures include actual amounts paid to date and accrued amounts based either on invoices received after the financial statement date, or budget.

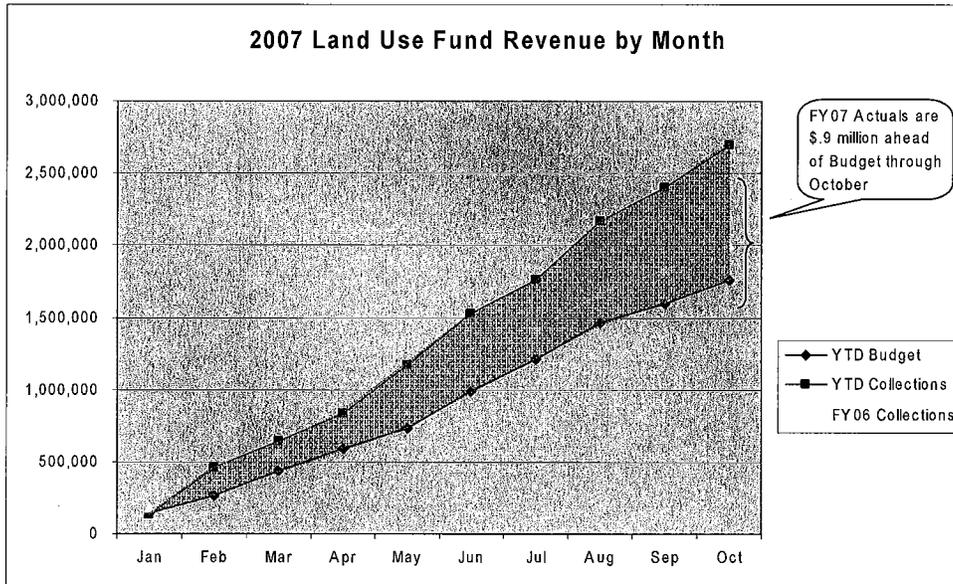
The City's budgeted expenditures after transfers through October of \$41.3 million compared to actual expenditures of \$37.0 million created a favorable variance to budget of \$4.3 million, or 10.5%. This favorable variance to budget is attributable to several departments and appears to be the result of timing differences between budget allocations and actual amounts expended. Year to date, expenditures are higher, by \$0.4 million, or 1.2% compared to the same time during the prior year (but still within budget.)

### LAND USE FUND OVERVIEW AND ANALYSIS

The Land Use Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises (this is not a qualified enterprise fund). The Land Use Fund accounts for the financial resources to be used in land use planning services.

Land Use Fund revenue through October, excluding transfers from the general fund, of \$2.7 million compared to budgeted revenue of \$1.8 million and produced a favorable variance to budget of \$.9 million, or 53.0%. Land Use Fund revenue through October compared to year to date revenue in 2006 produced a favorable variance of \$.6 million, or 28.0%.

#### REVENUES



**SAFEBuilt (previously CIA) Revenues:** This revenue source consists of fees collected for building permits and building plan review fees from contractors and developers who obtain licenses from the City to build or remodel property in the City. The City budgeted \$1.1 million in revenue through October and actual collections were \$1.6 million causing a favorable variance of \$.5 million, or 53.1% compared to budget. There are several factors which may affect the services the building department provides, including the local economy, weather, and time of year. SAFEBuilt is analyzing the current construction trends to determine if growth in this area will continue through the end of FY 2007. This information will be incorporated into the FY 2008 budget process.

**PReMA Corp Revenues:** This revenue source is derived from contractor licensing and fees associated with bus bench and shelter services. The City budgeted \$.3 million in revenue through October and actual collections were approximately the same, producing a slightly favorable variance. Note this favorable budget to actual variance is partially due to the timing of budget allocations through the year versus actual collections. This revenue source is primarily driven by the licensing renewal process. Annual renewals are completed in July of each year.

**URS Revenues:** This revenue source results from providing land use, development/planning services and collecting the related fees. The City budgeted \$.3 million in revenue through October and actual collections were \$.7 million causing a favorable variance to budget of \$.4 million, or 95.5%. There are several factors which may affect land use services, including the local economy, weather, and time of year.

### EXPENDITURES

The attached summary report for the Land Use Fund lists each of the individual departments within the fund. Note actual year to date expenditures include actual amounts paid to date and accrued amounts based either on invoices received after the financial statement date or budget.

Land use fund budgeted expenditures through October of \$3.1 million compared to actual expenditures of \$3.3 million produced an unfavorable variance to budget of \$(.2) million, or (8.7%). This unfavorable variance is primarily attributable to the timing difference between budgeted work order expenditures and related actual expenditures; this unfavorable variance is expected to diminish by year end. The City's Planning Director has been evaluating the services provided to insure the related expenditures are within budgeted funds.

## CAPITAL IMPROVEMENT FUND OVERVIEW AND ANALYSIS

The Capital Improvement Fund is used to account for financial resources available through general fund transfers for the acquisition and construction of capital infrastructure and other assets. The fund's budgeted expenditures through October of \$10.4 million compared to actual expenditures of \$3.6 million produced a favorable variance of \$6.8 million, or 64.9%. This favorable variance to budget is the result of timing differences between budget allocations and actual amounts expended, and is expected to diminish by the end of the year with many capital improvements projects currently under way.

### CONSERVATION TRUST FUND

The Conservation Trust Fund is used to account for financial resources to be used in accordance with Greater Outdoor Colorado (GOCO) funds, which are received as a result of lottery ticket sales. The fund, through October, contains virtually no activity with the exception of funds received from the State of Colorado (as explained above) and interest earnings and expenditures for professional services related to the Open Space Master Plan.

### OPEN SPACE FUND

The Open Space Fund is used to account for the financial resources to be used for the acquisition or maintenance of open space projects. The fund, through October, contains minimal activity with the exception of funds received from Arapahoe County as part of the county-wide Open Space Sales Tax Shareback grant program of \$2.1 million and interest earnings. Collection of this sales tax is set to expire on December 31, 2013.

### GENERAL IMPROVEMENT DISTRICT FUNDS

In 2002, Arapahoe County transferred governing responsibility and accountability of three GIDs (Foxridge, Cherry Park and Walnut Hills) to the City. In 2004, the Antelope GID was created for the purpose of acquiring, contracting, installing and providing a water system of underground water pipelines to furnish municipal water service within the District. The City Manager is authorized to serve as managing agent for all GIDs within the City.

The summary reports for each of the General Improvement Districts (Cherry Park, Walnut Hills, Foxridge, and Antelope) are attached. These reports reflect revenues and expenditures for each of the funds. Overall, actual year to date revenues exceeded budgeted year to date revenue by \$.1 million, or 27.2%. In total, the GID's budgeted expenditures through October of \$.3 million compared to actual expenditures of \$.2 million created a favorable variance to budget of \$.1 million or 27.6%. Note these funds are not considered to be a part of the City's general fund budget.

### **CENTENNIAL URBAN REDEVELOPMENT AUTHORITY FUND**

The Centennial Urban Redevelopment Authority Fund is an approved Urban Renewal Authority used to account for services provided for re-development of the Southglenn Mall. The services provided through the Fund are expected to be reimbursed through the development associated with the project. Specifically, the expenditures in this fund are reimbursable from development activity associated with the redevelopment of Southglenn Mall. This fund had minimal activity through October, 2007.

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The Finance Department staff works closely with the City Manager and the various departments to help identify revenue and expenditure trends and opportunities as well as strategies to balance revenues and expenditures. We will continue to provide Council with monthly reports during 2007. It is important to frequently monitor the financial condition of the City so City staff and Council can work together to take action, if necessary, to maintain service levels, employees, and fiscal health of the City.