

City Council Meeting Minutes

**October 4, 2018
Library Meeting Room
951 Spruce Street
6:00 PM**

Call to Order – Mayor Muckle called the meeting to order at 6:00 p.m.

Roll Call was taken and the following members were present:

City Council: ***Mayor Robert Muckle
Mayor Pro Tem Jeff Lipton
Councilmember Jay Keany
Councilmember Chris Leh
Councilmember Susan Loo
Councilmember Dennis Maloney
Councilmember Ashley Stolzmann***

Staff Present: ***Heather Balsler, City Manager
Megan Davis, Deputy City Manager
Emily Hogan, Assistant to the City Manager
Kevin Watson, Finance Director
Cara Golden, Accounting Manager
Aaron DeJong, Economic Development Director
Kurt Kowar, Public Works Director
Rob Zuccaro, Planning & Building Safety Director
Chris Neves, Information Technology Director
Becky Campbell, Interim Library Director
Kathy Martin, Recreation Superintendent
Dave Hayes, Police Chief
Kathleen Hix, Human Resources Director
Meredyth Muth, City Clerk***

DISCUSSION/DIRECTION – CITY MANAGER’S PROPOSED 2019-2020 OPERATING & CAPITAL BUDGET, 2019 – 2024 CAPITAL IMPROVEMENTS PLAN, AND 2019-2024 LONG-TERM FINANCIAL PLAN

City Manager Balsler stated she is looking for feedback on the proposed budget.

Finance Director Watson reviewed some questions from the meeting earlier this week and some budget terms related to assumptions and targets. Mayor Pro Tem Lipton stated the term target is not specific enough to set limits on the spending. Councilmember Maloney stated he would prefer the term limit or cap. Mayor Pro Tem Lipton would prefer both revenue and expenditures be “assumptions.”

Councilmember Maloney would like the target for wage growth lowered to 3%. Director Watson stated the percentage increase includes merit raises, market adjustments, and new Full Time Equivalents (FTEs) and variable hours. Mayor Pro Tem Lipton stated 5% increases indefinitely is not realistic and doesn't meet our revenue stream. He would like some limit set on what the manager can have available for the next five years.

Councilmember Loo asked where the 5% comes from. Director Hix stated the numbers are from the Employers' Council which gives information from across the state with an average wage increase at 3.1% for government in the Denver-Boulder region.

Councilmember Stolzmann confirmed the 5% includes new employees and market increases, not just the increase in wages. City Manager Balsler noted bringing Boulder into our market pool did raise our costs. Director Hix noted we also compete with Boulder for employees so that is one reason.

City Manager Balsler noted staff will always make the budget balance and the reserve balance is significant.

Mayor Pro Tem Lipton asked how much the out year deficits are. Director Watson noted it ranged from \$1-3M for those out years. He noted this is a measure to make sure recurring expenses are not being paid by one-time revenue. It is the structural difference.

Mayor Pro Tem Lipton said we are over leveraging on the expenditures and that is caused in part from the 2019-2020 decisions. We need a 5-year balanced budget.

MOTION: Councilmember Maloney moved we adopt a principle of having a balanced structural budget for six year planning. Councilmember Loo seconded.

Mayor Muckle stated he wouldn't support this motion even though he likes the principle, but the General Fund is never just made up of simply consistent recurring expenses and revenues and that is why we don't want to build a budget based on one-time revenues. When a plan is made when you don't know what will happen in out years you are doing a disservice to the residents. By truing it up every two years you have much better information. If this is done, there could be money in the bank that could be being used.

Councilmember Stolzmann stated one-time revenue should support one-time expenses. She supports the motion. We can't put positions in place that count on one-time revenue.

City Manager Balsler noted this is a significant change to the budget and will leave over \$10M in fund balance.

Councilmember Maloney stated we won't end up with large fund balances as we can true it up every year.

Director Watson stated long term financial planning is not intended to project the future but to help manage it.

Mayor Muckle stated there has to be a way to plan properly for out years.

Councilmember Stolzmann noted the organization shouldn't grow in a way where ongoing expenditures exceed ongoing revenues. If there is a surplus of one-time revenue to use, it shouldn't be used for salaries. Should keep the magnitude of growth in check with the magnitude of the organizational revenue growth.

Councilmember Maloney said over the course of 6 years he wants a percentage near zero revenue to expenditures. Mayor Pro Tem Lipton stated he wants it balanced every year.

Mayor Pro Tem Lipton stated using 5% for wages sets an expectation, would rather it be more in line with other regional employers.

Director Hix noted the low unemployment rate will affect hiring. City Manager Balsler noted the 5% is not the average for the merit increases, it is a combination of things. 2019 and 2020 are impacted by new positions. Director Watson stated the 2019 market adjustments are already known and 2020 is assumed at 1%. Merit increases average 4%.

Director Hix stated we do not do COLA increases, we do market adjustments and merits based on performance, and part-time employees get a percentage increase that is the average.

Mayor Pro Tem Lipton stated the out year assumptions seem higher than what everyone else is using and we set an expectation when we set this.

Mayor Muckle suggested a friendly amendment to say we have to balance the out years in the General Fund within 2% with an average of zero. Councilmember Maloney accepted the amendment.

Councilmember Leh wanted to make sure the salary costs were realistic. Director Hix noted the salary ranges are bound by what the market will bear.

Councilmember Loo liked the motion and stated the budget should be balanced and let staff figure out how to do that with Council recommendations. She accepted the friendly amendment as the seconder.

Motion restated: General Fund will balance over six years.

Councilmember Keany offered a friendly amendment it should be for all funds.

Mayor Pro Tem Lipton stated his concern with this approach is one year can be very out of balance and it affects later years; it could cause a problem in out years other people have to fix.

Councilmember Maloney agreed with this principle except in enterprise funds.

Director Watson reviewed the City's definition of a balanced budget: requires each fund's revenue plus appropriated fund balance/working capital to be equal to, or greater than, each fund's total appropriations. However, it is the City's intent to go further and develop structurally balanced budgets for the General Fund and the other major operating funds (excluding capital project funds). In a structurally balanced budget, annual recurring revenue will be projected to equal or exceed annual recurring expenditures for each fund. If a structural imbalance (recurring expenditures exceeding recurring revenue) should occur in the General Fund or in any of the major operating funds, a plan will be developed and implemented to bring the budget back into structural balance.

Revised motion: Councilmember Maloney moved to apply financial policy 5.3 to all six years. Second by Councilmember Stolzmann. Vote: All in favor.

Director Watson reviewed the past General Fund subsidies for the Rec Center and Memory Square Pool. He noted the proposed transfers for the next 5 years are between 17-22%.

Councilmember Keany stated he wants to make sure we continue to fund recreation services at the same level we did prior to the tax.

Mayor Pro Tem Lipton stated generally we want to have this Rec Fund be a revenue maximizer and not drain the General Fund.

Councilmember Maloney stated there should be two sources of revenue for the Rec Fund. Director Watson said as presented all capital costs are in the CIP. Right now the sales tax alone cannot fund the Rec Center and its capital renewal and replacement.

Mayor Pro Tem Lipton stated there is also significantly new revenue from new services.

Mayor Pro Tem Lipton stated Council should not obsess on the recreation issue in this budget cycle as we don't have all the information until we open.

Mayor Muckle felt it is important we are transferring from the General Fund for operations of the recreation center some number that is typical of what we were doing before not including the deficit in 2018.

Councilmember Maloney agreed this principle is important and that we continue to fund the Rec at a pre-tax level.

Councilmember Stolzmann felt we should define what the fees cover and what the General Fund will subsidize and should set policies over the year.

Councilmember Keany stated CIP costs for Rec should compete with all other CIP. He doesn't think the CIP transfer should be a set amount, it should compete with every project city-wide so the Council can make a determination of what is important at that time. Same for the Golf Fund.

Councilmember Maloney felt the recreation financial plan should have a principle for how to make the recreation fund work. We know there is a problem we need to fix.

Recreation Superintendent Martin stated the finance committee of the Recreation Board has been looking at all fees and running numbers from 16-30% to see how it affects the bottom line. One significant difference from the Greenplay report to real-time is the cost of employees.

Mayor Pro Tem Lipton stated the Greenplay report had 2015 revenue and expenses which gave us the \$569,000 deficit which is what the sales tax number is based on. He thinks the revenue will be much higher than this, the non-resident fee was raised and this is all very manageable.

Councilmember Loo would like to see an effort to get the revenue higher and doesn't want to give people the assumption that if we don't meet revenue goals we will subsidize it from the General Fund.

City Manager Balser stated there are increased revenue assumptions included here. Councilmember Stolzmann would like a report at some point on what the plans are to increase revenue at the Rec Center.

Councilmember Maloney noted the way it is structured for Rec and Golf assumes the General Fund will fund deficits and there is no incentive if the General Fund will always make up the deficit.

City Manager Balser stated that is understood and we will address it.

Golf Course

Director Watson stated there are issues with overspending in the golf budget that need to be addressed based on employee costs. This would result in an upcoming amendment of about 3-4 FTEs or \$100,000. Councilmember Stolzmann said she would like to see enterprise dashboards in the future and felt this issue may have been recognized sooner if those dashboards had been available.

Director Watson reviewed the golf operational budget with General Fund support and without it and how it is affected by the water charges. He noted some reasons for charging ourselves for water as good financial management and proper accounting.

Councilmember Maloney agreed the enterprise funds in particular should be paying for the services they get. He suggested the rates for reuse water should be charged at the true marginal cost.

Director Kowar stated the charges for reuse water are the same for all customers including the golf course. Councilmember Stolzmann noted that is true but providing service to the golf course really costs the utility fund very little.

City Manager Balser said staff will bring back new options for golf. She noted a rate study will be done in 2019 and might affect out years.

Mayor Muckle would like to see some reasonable marginal cost for water for the golf course. Councilmember Maloney agreed. City Manager Balser and Director Kowar will look at options.

Director Watson reviewed the options for reclassifying some additional projects from capital to operating. City Manager Balser stated this is an initial look and if these types of projects are agreed to, staff will look at other projects as well.

Director Watson stated the athletic fields are in Program 53 Recreation and asked if it can move to Program 51 Parks. This move would also affect the Recreation Fund and it is a complex adjustment to revenue as well so it might need to wait until 2020. Superintendent Martin noted a definition of Athletic Fields would need to be clarified so it could be applied correctly to all fields.

Councilmember Stolzmann noted how it relates to the key performance measures and stated what gives her pause about putting it in the Recreation Fund is that these should not be subsidized by the new sales tax.

City Manager Balser stated staff can continue to work on this but it will take some time and it would be helpful for the new director to be involved in this conversation. Possibly a 2019 work plan project.

Mayor Pro Tem Lipton asked what the proportion of the benefit costs are for employer and employee. City Manager Balsler stated the cost is split and that same split is used for the assumptions.

FINANCIAL POLICES

Director Watson reviewed the proposed changes in policies:

2.2 Open Space & Parks Fund Reserves

- Removes “targeted” fund balance.
- Establishes recurring annual support transfers from the General Fund.
- States City Council will annually consider interfund transfers of excess General Fund or Capital Project Fund balances for property acquisition reserves.

2.5 Recreation Fund Reserves

- Sets minimum fund balance = 15% of operating expenditures.
- Establishes recurring annual support transfers from the General Fund.
- Requires capital asset renewal and replacement reserve, separate from operating reserve.

2.6 Golf Course Fund Reserves

- Sets minimum fund balance = 15% of operating expenditures.
- Establishes recurring annual support transfers from the General Fund.
- Requires capital asset renewal and replacement reserve, separate from operating reserve.

Mayor Pro Tem Lipton asked why the Golf and Rec Funds need reserves, couldn't the General Fund act as their reserves. City Manager Balsler noted it is more transparent to have it in the individual funds. Mayor Pro Tem Lipton noted it was going to be a large amount for the initial transfer. The balance is needed either way and Director Watson noted why not make the transfer in this year when the funds are available.

Councilmember Maloney stated there is a need to have funds for renewal and replacement at the rec center. He recommended getting rid of the 15% operating fund balance for rec except for renewal and replacement.

Recreation

Councilmember Stolzmann noted the finance committee suggested creating the rec fund and making a transfer to support the 15% fund balance for the rec center. A separate conversation needs to be had in the future to decide the renewal and replacement policies.

Mayor Muckle can probably support capital reserve for renewal and replacement for the rec center, but not for the golf so we aren't guaranteeing subsidizing the course.

Staff will refine the language.

Golf

Councilmembers felt the first paragraph is okay and agreed on a 15% fund reserve in 2019.

Councilmember Stolzmann felt saying it requires a transfer to make up the operational deficit was what had been causing the problems. It's not that there would never be funding from the General Fund or Capital fund but to just say there is an automatic transfer is what is problematic. Council needs to see the business plan for the golf course and the additional work staff is planning for the budget.

Director Watson asked if the positions proposed for 2019-2020 are acceptable. City Manager Balser stated she feels they are warranted and it is conservative.

Councilmember Loo stated she does not support the data analyst and the natural resource specialist position.

City Manager Balser stated the data analyst is now a termed position for 2 years. Director Neves stated the position is to meet the demand for more data requests from multiple sources.

Mayor Muckle asked if Council was okay with the proposed staff positions. Mayor Pro Tem Lipton was fine with proposal. Councilmember Leh agreed. Councilmember Keany agreed. Councilmember Stolzmann noted she has questions about how particular KPIs affect the staff proposals. Councilmember Maloney also would like more conversation.

Mayor Muckle felt there was a majority of agreement with the City Manager's proposal for staff. He noted there could be continuing conversation where priorities might change.

RECREATION AND SENIOR CENTER 2019 FEES

Superintendent Martin presented some history on the fee structure. Proposals for 2019:

- Proposed to increase all Daily Admission fees \$1.00
- Punch passes - Propose to keep the discount of \$1.50 per visit off Daily Admission by purchasing a punch card. Rates would increase if the proposed Daily Admission fee was implemented
- Monthly passes - Propose to keep the discount of \$1.50 per visit off Daily Admission by purchasing a punch card. Rates would increase if the proposed Daily Admission fee was implemented

Fees are benchmarked against surrounding competing facilities. The Finance Committee of the Recreation Advisory Board has reviewed these as has the Council Finance Committee.

Mayor Pro Tem Lipton stated these proposals are lower than the Greenplay report. We are starting at a deficit. Our competition is going to be the YMCA and private facilities that are much more expensive. He was not sure we are being aggressive enough.

Council members discussed whether the proposed fees should be higher and how to make it equitable for tax payers as well as competitive. What rates would have to be used to keep the subsidy down to an acceptable level and what higher rates might do to membership.

Councilmember Stolzmann asked to see different scenarios with increases in rates as well as comparisons to surrounding facilities. How sensitive are users going to be to price increases.

Superintendent Martin noted the advisory board felt this was a reasonable rate increase and the fees need to be continually evaluated instead of such long periods of time between increases. Councilmember Maloney expressed caution concerning the context and timeframe in which the advisory board looked at these numbers.

Councilmember Stolzmann noted this is the time for a larger increase.

Councilmember Keany stated we should be cautious about being too aggressive with rate increases as that is part of how the sales tax was passed.

Mayor Pro Tem Lipton stated those who use it should pay more than those who don't. From a competition perspective we need to be strategic and geographic, we want to get the residents from Superior back.

Mayor Pro Tem Lipton stated the larger percentage increases are for resident rates, which may be hard to justify to residents. Martin noted the non-resident rate has been increased more often than residents. Those non-resident fee increases did not significantly affect usage.

City Manager Balsler noted staff will bring back a new proposal with different scenarios and comparisons. Mayor Pro Tem Lipton asked for more on the philosophy of setting these prices.

PAVEMENT MANAGEMENT

Director Kowar stated pavement is averaging \$4.4M per year. Concrete averages about 40% of total cost. Kowar reviewed the various scenarios and proposed to stay at 4.4M.

He asked Council if the current trajectory is okay and are we getting close to the target street level fast enough.

Councilmember Maloney asked how long this proposal will take to get us to our goal of 75 street index. Director Kowar stated it starts to level out at about 2030.

Councilmember Stolzmann expressed her frustration this is not turning out to be a 5-year plan as originally proposed and some major streets are not done. She would like more money in the current years given the model shows the target will not be met.

Mayor Muckle was okay with what staff has proposed and they will come back in January with more data for another conversation. Councilmember Maloney noted in January we should have a conversation and may want to do a budget amendment to meet the expectations.

Councilmember Leh stated the average of 75 is not solving the problems for some people and we aren't prioritizing streets that are most important.

Members generally agreed all streets should be addressed before they fall to below a 35 on the street index. Council would like to know what it would cost to raise the lowest street index and trigger point to 40 and maintain the 75 over time.

Members asked for the numbers in the 2019 and 2020 to be increased to \$4.6 and \$4.8 million respectively as in the 2016 adopted budget. Members decided to have further conversations in January when the pavement survey numbers are in.

Councilmember Leh left at 10:07 pm.

Councilmembers approved scheduling a special meeting either October 11 or 12, 2018.

ADJOURN

Members adjourned at 10:14 pm.

Robert P. Muckle, Mayor

Meredyth Muth, City Clerk