



TOWN OF ERIE MEMORANDUM

TO: Board of Trustees
Malcolm Fleming, Town Administrator

Copy: Town Clerk's Office

FROM: Candice Huot – Finance Manager

DATE: December 8, 2020

SUBJECT: 2021 Proposed Town Budget

We are pleased to present the Board of Trustees with the 2021 Proposed Budget for the Town. The 2021 Proposed Budget was first presented to the Board on September 29th, followed by a public Study session on October 20th. Changes were made to the proposed Budget after the Study session and were presented to the Board during the Board Retreat on November 19th. We believe this budget is in compliance with the Board's Financial Policies and addresses the Board's goals and the Town's operational standards.

Accompanying this memo are various schedules, described below. This memorandum and the attached schedules provide significant changes between 2020 Amended Budget and 2021 Proposed Budget as well as detail budget line items. Although some data is presented as the total of all funds, each fund is independent of the other funds.

The following schedules are included in this packet:

- Combined Funds statement of revenues and expenditures (for reference purposes only as each fund must stand on its own)
- 2020 and 2021 Budget Schedules
- 2021 Staffing requests
- 2021 Capital Projects
- 2021 Fleet Additions

Fund Recap

The following table provides a summary of beginning and ending fund balance/working capital by fund and changes therein. Totals are for presentation purposes only as each fund must stand on its own. Comments on individual funds will be discussed in the subsequent section of this memo.

Changes in Fund Balances/Working Capital - 2021 Budget						
	Beginning Balance	Revenues	Expenditures	Net Increase/Decrease	Other Changes	Ending Balance
General Fund	\$ 25,203,107	\$ 34,506,900	\$ 33,196,100	\$ 1,310,800	\$ (244,900)	\$ 26,269,007
Trails & Natural Areas Fund	850,140	2,074,000	981,000	1,093,000	-	1,943,140
Conservation Trust Fund	578,289	230,000	296,400	(66,400)	-	511,889
Cemetery Fund	254,823	28,000	-	28,000	-	282,823
Total special revenue funds	1,683,252	2,332,000	1,277,400	1,054,600	-	2,737,852
Transportation Impact Fund	9,173,461	6,498,200	8,480,000	(1,981,800)	-	7,191,661
Public Facilities Impact Fund	4,767,155	1,387,700	-	1,387,700	-	6,154,855
Parks Improvement Impact Fund	9,524,139	3,506,400	7,234,500	(3,728,100)	-	5,796,039
Tree Impact Fund	721,688	187,000	264,300	(77,300)	-	644,388
Storm Drainage Impact Fund	4,235,533	990,400	-	990,400	-	5,225,933
Fleet & Equipment Acquisition Fund	383,300	717,400	1,048,300	(330,900)	-	52,400
Total capital funds	28,805,276	13,287,100	17,027,100	(3,740,000)	-	25,065,276
Water Fund	39,391,931	26,035,400	34,742,900	(8,707,500)	-	30,684,431
Wastewater Fund	4,006,395	10,532,800	10,417,600	115,200	-	4,121,595
Storm Drainage Operating Fund	2,020,261	1,750,000	1,326,900	423,100	-	2,443,361
Airport Fund	124,981	234,500	240,400	(5,900)	-	119,081
Total enterprise funds	45,543,568	38,552,700	46,727,800	(8,175,100)	-	37,368,468
Totals (for memorandum purposes only)	\$ 101,235,203	\$ 88,678,700	\$ 98,228,400	\$ (9,549,700)	\$ (244,900)	\$ 91,440,603

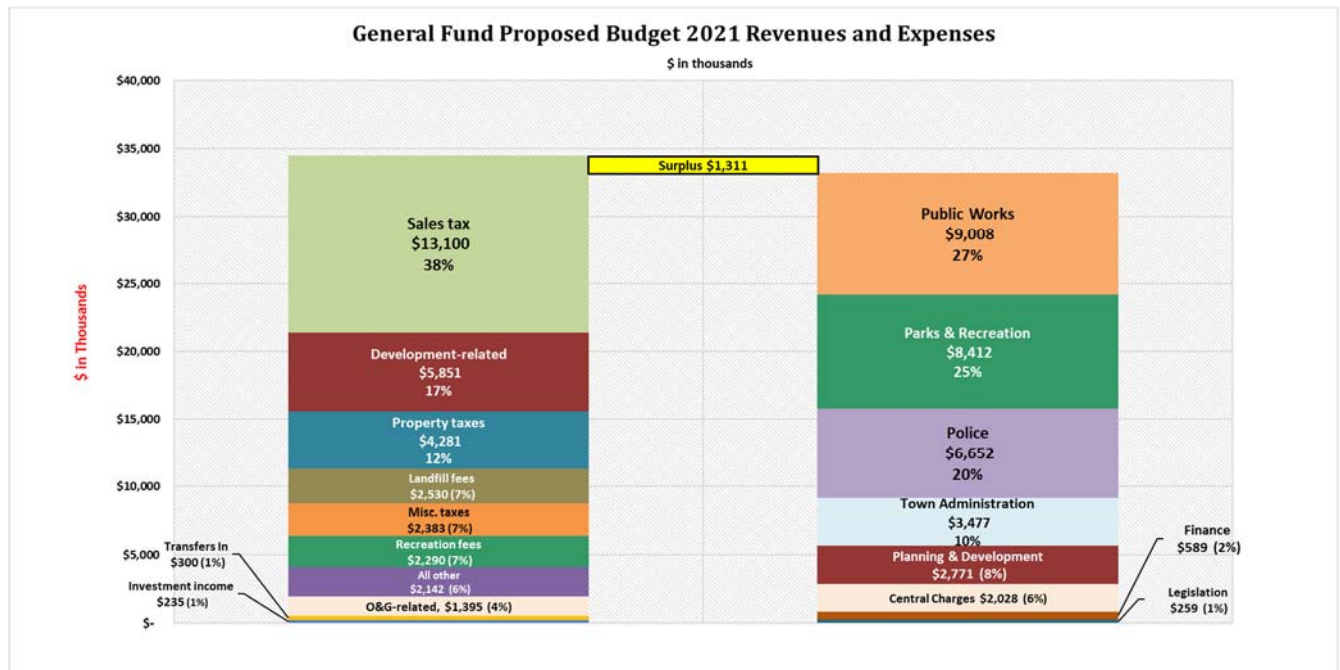
Staff is assuming a modest recovery in 2021. While permit activity is down considerably from recent years, we expect that 450 permits will be issued in 2021 as developer interest remains strong. Site development at Nine Mile has begun, and construction of the new Lowe's will begin soon (with construction of the apartments at Nine Mile expected to start in 2021).

The Town has also been fortunate in that its sales tax revenues have remained strong even during the pandemic. Adjusted for one-time receipt from an audit received in May 2020, year-to-date sales tax revenue as of November increased by approximately \$2.9 million (39%) compared to the same period in 2019, mainly due to strong internet, grocery sales, and sales tax collected from vendors outside of Erie due to the change in State law in 2019.

However, should the economy not recover as expected staff will respond as it did in the spring and will make appropriate changes to its budget to ensure fiscal soundness.

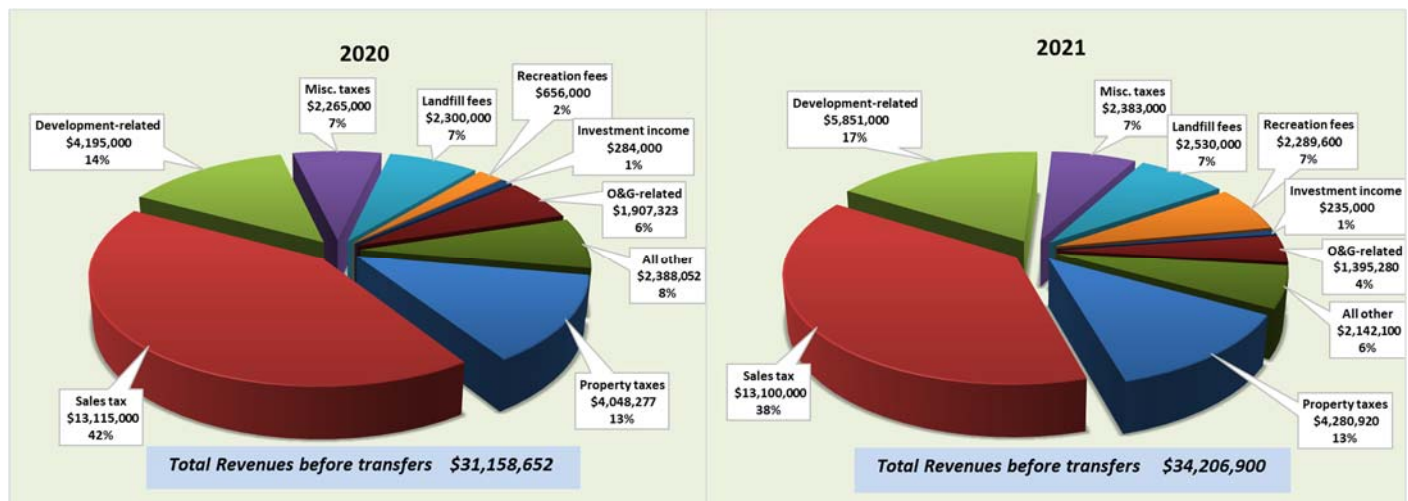
The General Fund:

The General Fund 2021 budget reflects a surplus of approximately \$1.3 million, compared to a 2020 projected surplus of \$939,000, as shown in the following illustration. This is primarily due to Nine Mile development activities and conservative economic recovery assumptions.



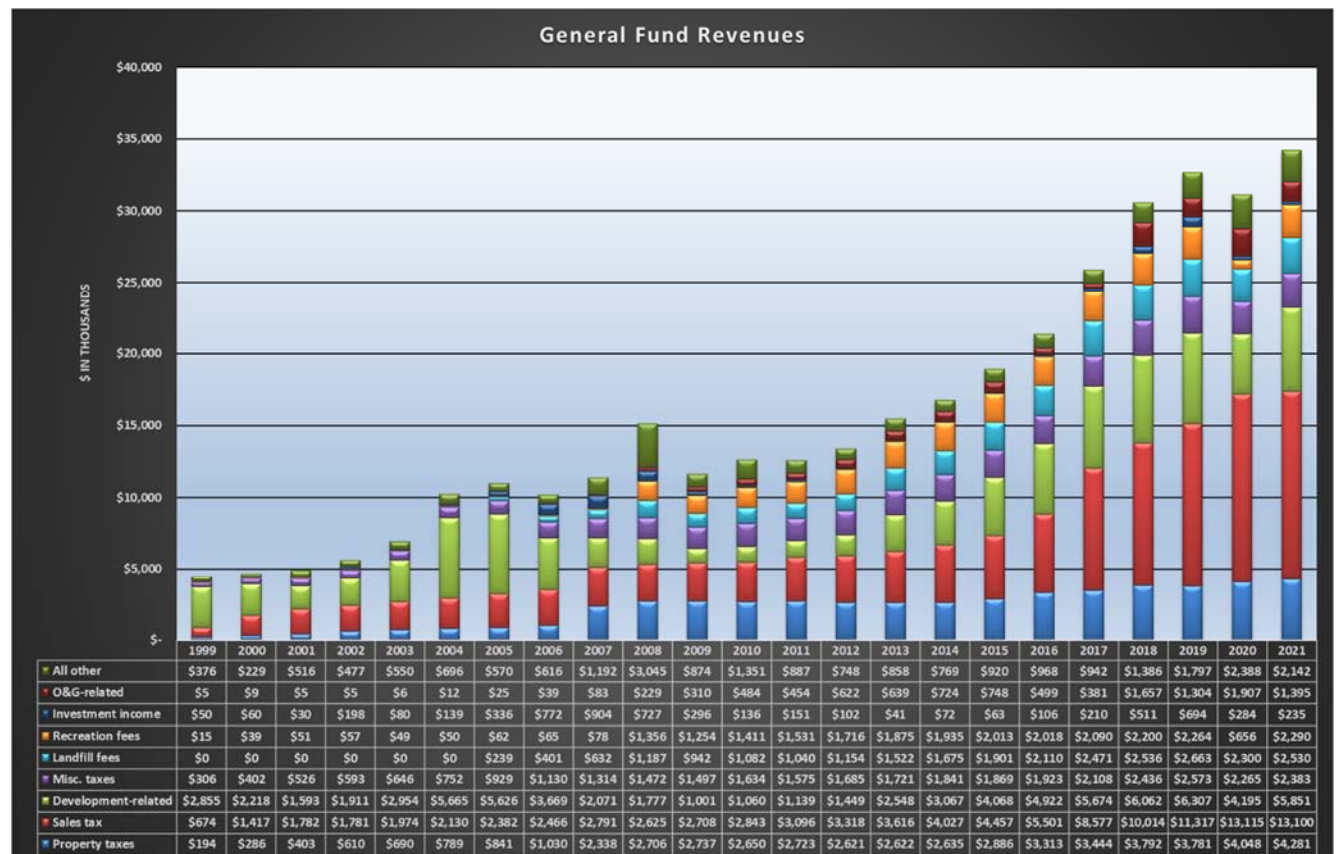
Revenues & Transfers from Other Funds:

Total General Fund revenues including transfers in for 2021 total \$34.5 million, up \$2.7 million or 8.6%. General Fund revenues (before transfers in from other funds) for 2021 total \$34.2 million, up \$3 million, or 10%, compared to 2020, reflecting an assumed modest recovery from the pandemic. The relative amounts by revenue source (before transfers in) for 2021 as compared to 2020 can be seen in the following graph:



As can be seen from the graph above, taxes - sales, property and miscellaneous taxes - account for 58% of General fund revenues (before transfers) in 2021. (Note: Property taxes as reflected in the various charts do not include property taxes related to oil and gas activities, which are reflected in "O&G-related" revenues and discussed below.) The next biggest category of revenues for 2021 is development-related revenues at 17% of revenues.

Perhaps more helpful in gaining an understanding of revenues would be a look at how fund revenues by category have trended over time, as depicted in the following chart.



Sales tax:

Sales tax, which makes up approximately 38% of total General Fund Revenues in 2021 has shown consistent growth throughout the last 20+ years, with particularly strong growth since 2017 with the opening of King Soopers and other stores, even during the pandemic. The total Sales Tax revenues for 2021 are projected at \$13.1 million, which includes \$10.6 million of retail sales tax and \$2.5 million of sales tax arising from vehicles purchased by Erie residents.

While sales tax arising from vehicle purchases are projected to increase in 2021 by \$185,000 or 8% compared to 2020 projected revenues, this is still approximately \$185,000 lower than 2019, assuming a conservative economic recovery. 2021 retail sales tax is projected to decrease by \$200,000 or 2%, to \$10.6 million compared to 2020 after factoring out the one-time receipt in 2020 and anticipating a slowdown of internet and grocery sales which were partly fueled by the pandemic in 2020.

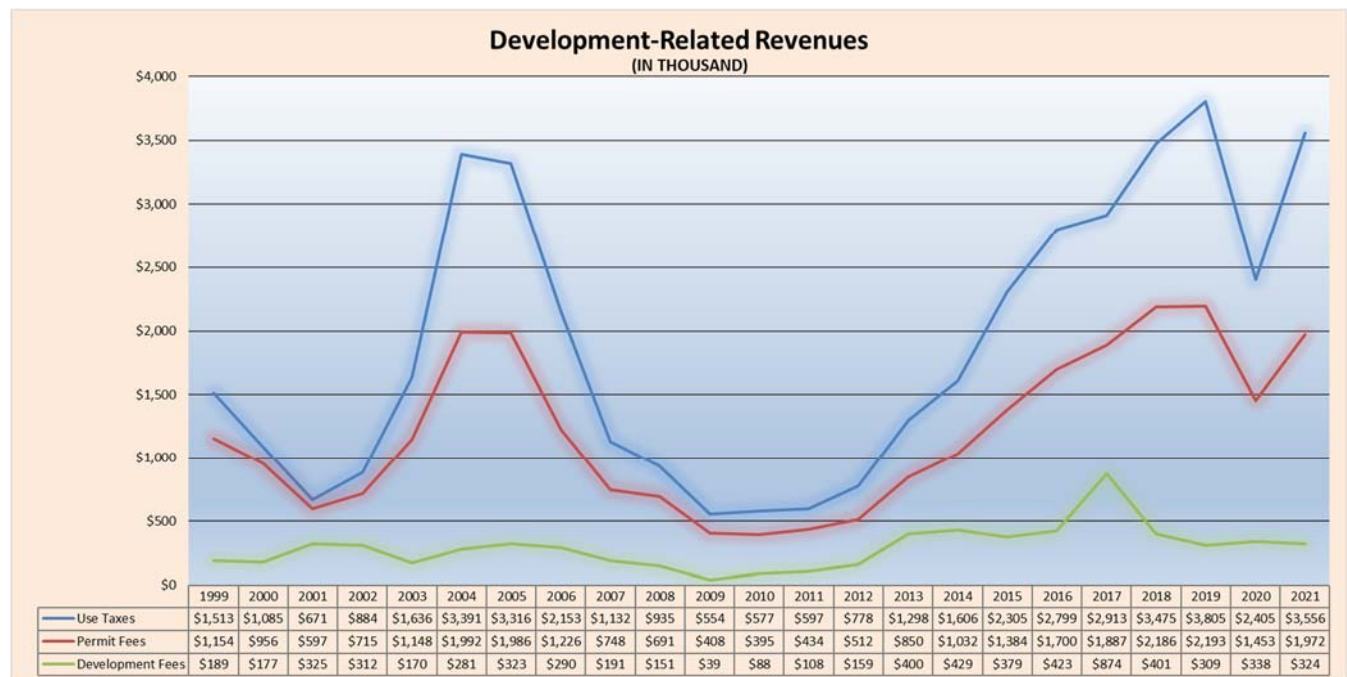
Property Tax (excluding oil & gas related):

Property tax revenues not including oil and gas related activities makes up approximately 13% of the total General Fund revenues in 2021. The key driver to this revenue stream is assessed valuations from Weld and Boulder County and assessment rates. As shown in the revenue graph above, property tax revenues have been growing steadily over the years, reflecting additional constructions in the Town and increased assessed valuations while assessment rates have stayed somewhat constant since 2018.

The assessment rates for 2021 continue to be at 7.15% for residential properties and 29% for commercial properties and are expected to be locked in for future years with the repealing of the Gallagher Amendment. Decreases to these rates are allowable through State law but increases to the rates would require voter approval due to TABOR. Staff expects the repeal to have minimal but positive impacts on the Town property tax revenues as the Town continues to grow and assessed valuation continue to increase. According to the final property tax certification from the Counties, staff projects that property tax revenues from this category are approximately \$4.3 million in 2021 which represents an increase of \$233,000 or 6% compared to 2020.

Development-related Revenues:

Development-related revenues (use taxes, permits and related fees) make up approximately 17% of the total General Fund revenues in 2021. Historically, development-related revenues are the General Fund's most volatile revenues as one would expect in a town growing as fast as Erie. This is illustrated in the below chart.



The key driver to this revenue stream is the number of residential permits issued and anticipated commercial development. In 2021, staff is projecting 450 single-family/townhome permits and 150 multi-family permits from the construction of the Nine Mile Apartments, a moderate increase from the 430 single-family and zero multi-family permits projected for 2020. Total development-related revenue is projected to increase 40% to \$5.8 million in 2021, compared to \$4.2 million in 2020 based on a recent Nine Mile Apartments permits calculation.

Even at these relatively high levels of construction, they are well below the peak of 909 single-family permits issued in 2004. This contrasts to only 103 permits issued in 2009. Over the above timeframe, development-related revenues have ranged from a low of 8% of total General Fund revenues to a high of 64%, averaging 17% over the last 10 years. Development revenue in 2020 declined \$2.1 million or 33% compared to 2019, primarily as a result of the pandemic, forcing delays in several planned capital projects. The 2021 budget reflects \$5.8 million in development-related revenue, \$456,000 or 7%, below the peak revenue year of 2019.

At \$5.8 million, development-related revenues still represent a significant portion of the General Fund revenues. While the volatile nature of these revenues makes it challenging to forecast and any significant decline in building activity would have million-dollar impact to the General Fund, these revenues should not be treated as an end in itself, but only a means to an end. The end goal would be to provide the Town with more diversified and stable General Fund revenue sources such as property and sales tax at build-out.

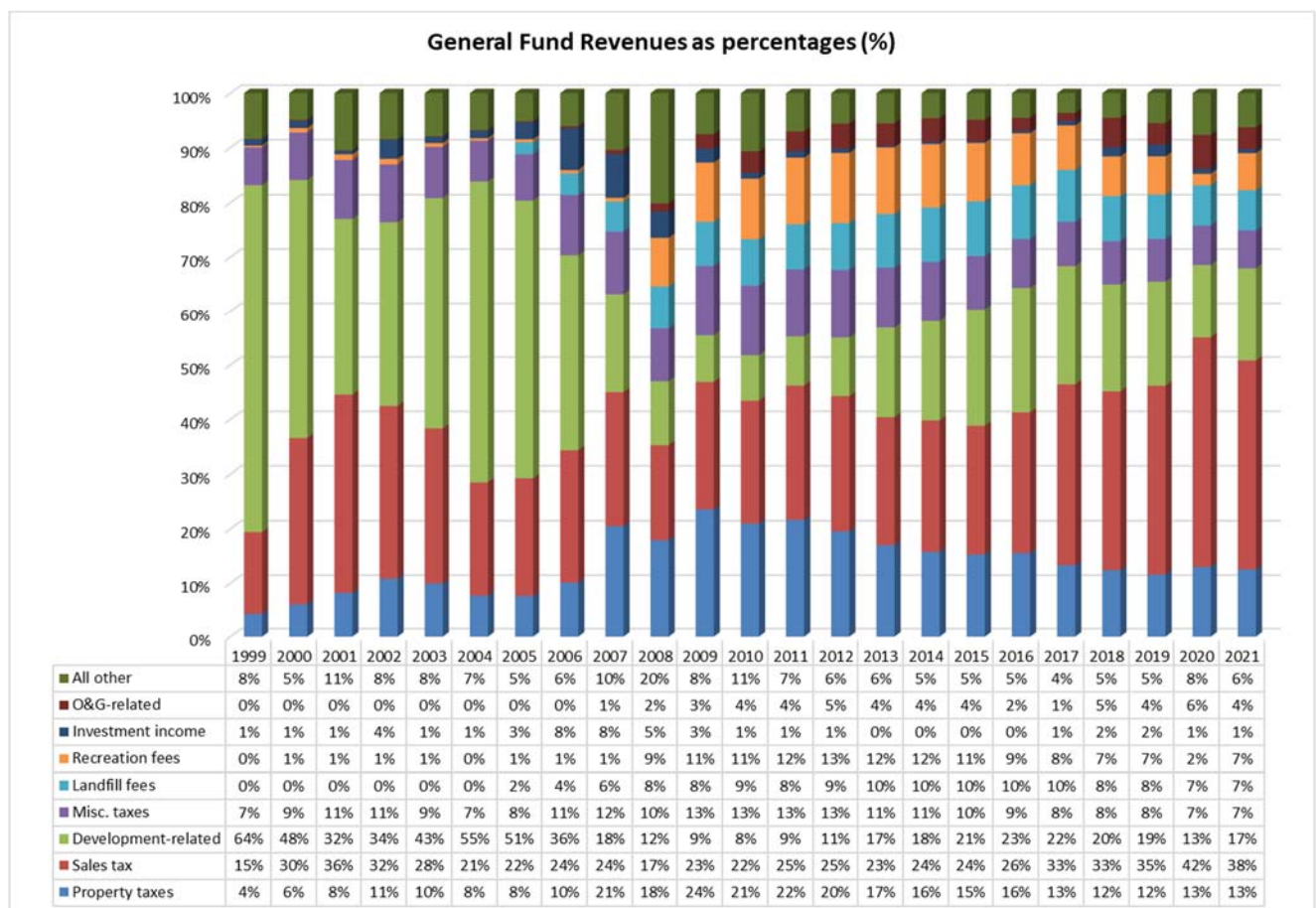
Oil & Gas (O&G) Revenues:

A second source of volatile revenue are revenues related to oil and gas activities. These include property taxes from oil and gas activities, severance taxes, Federal Mineral Lease, crossing fees and royalties. At 4% of General fund revenues it is a relatively small piece, but that represents a decrease of \$512,000 or 27%, to \$1.4 million compared to \$1.9 million projected in 2020.

O&G property tax revenues which make up 68% of this revenue group is the primary cause of the decline in revenues in 2021. Of the projected \$1.4 million O&G related revenues in 2021, approximately \$950,000 is from property tax. This represents a \$333,000 or 26% decrease compared to 2020 due to normal decline in production from wells that began producing in 2018. The below chart provides more details on Oil & gas related revenues over the years.



The below chart puts into perspective the volatility of General Fund revenues sources as it expresses these revenues as a percentage of total revenues before transfers. The trend in the below chart shows that the Town is on its way to have a more diversified and stable mix of revenues, even though we are not quite where we want to be.



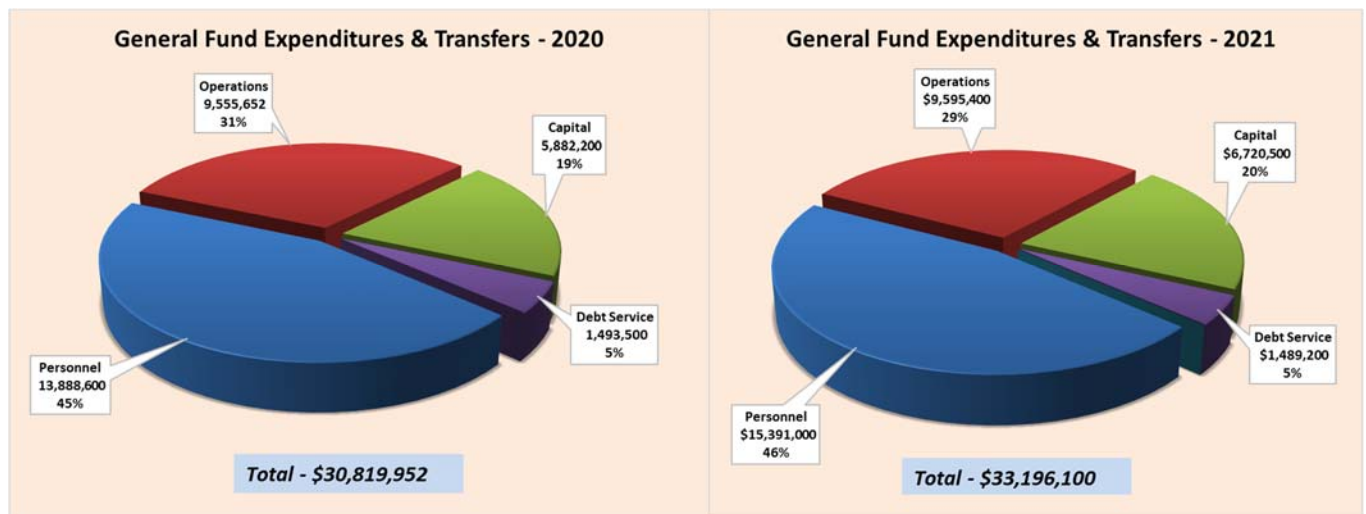
A resurgence in the COVID infection rate that results in additional business shutdowns would require modifications to these revenue projections. Staff will closely monitor the national and local economy in coming months, making changes to revenue assumptions and expenditures as appropriate.

Transfers to Other Funds:

The only planned interfund transfer is a \$300,000 transfer from the Trails and Natural Areas Fund to the General Fund to support trail and open space maintenance. There is no transfer from the General Fund to the Fleet and Equipment Acquisition Fund budgeted, although a transfer of at least \$250,000 will be required in 2022 to provide funding for current and requested lease commitments.

Expenditures & Transfers to Other Funds:

Total expenditures for 2021 are projected to increase by \$2.4 million from \$30.8 million in 2020 to \$33.2 million, primarily due to restoring staffing to its pre-COVID levels and catch-up of capital projects deferred in 2020 due to the pandemic. The following chart indicates the relative components of General Fund expenditures and transfers to other funds for 2021 as compared to 2020:



The following table provides a comparison of these components over the last three years:

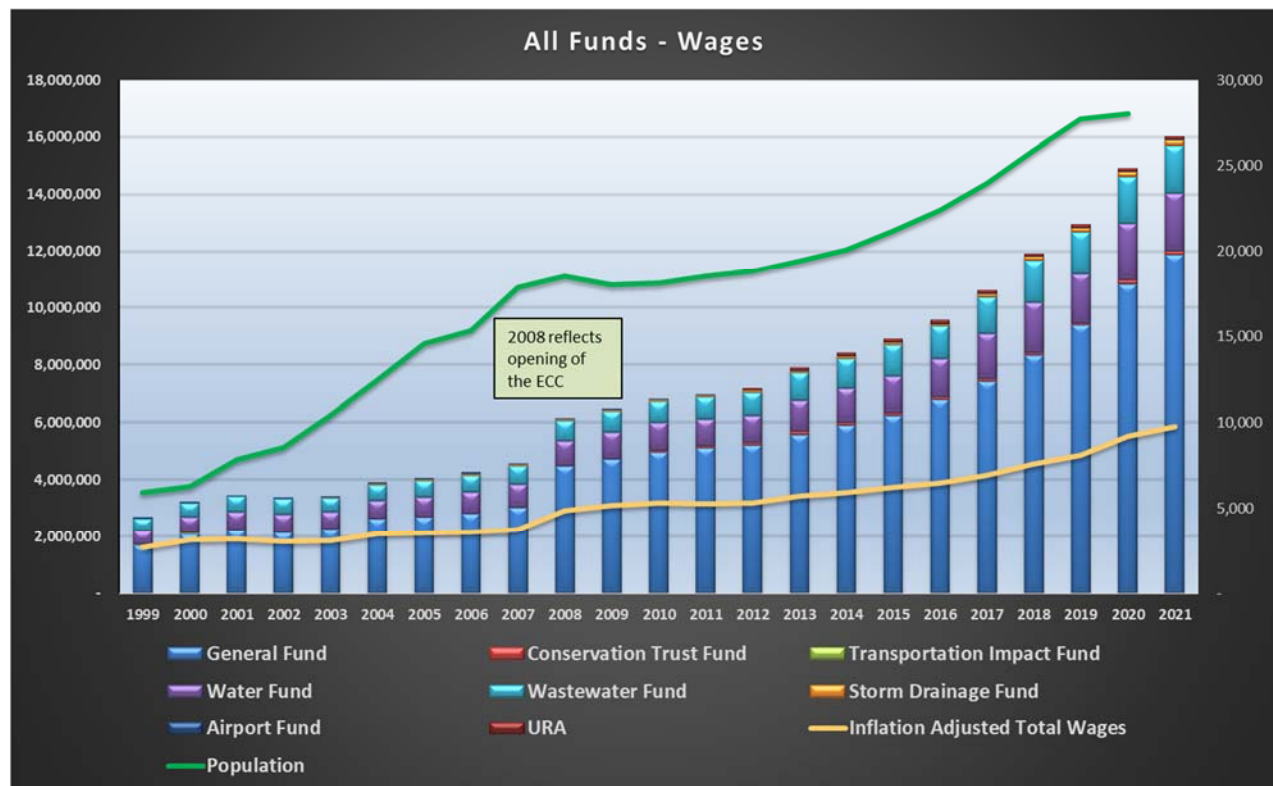
General Fund Expenditures & Transfers - 2018-2021						
	Actual 2018	Actual 2019	Budget 2020	Budget 2021	\$ Change 2020 - 2021	% Change 2020 - 2021
Personnel	\$ 10,819,842	\$ 12,366,350	\$ 13,888,600	\$ 15,391,000	\$ 1,502,400	11%
Operations	7,148,517	8,921,432	9,555,652	9,595,400	39,748	0%
Capital	10,251,890	3,231,881	5,882,200	6,720,500	838,300	14%
Debt service	1,891,063	1,495,947	1,493,500	1,489,200	(4,300)	0%
Total expenditures	30,111,312	26,015,610	30,819,952	33,196,100	2,376,148	8%
Transfers to other funds	-	4,265,000	-	-	-	nm
Total expenditures & transfers to other funds	\$ 30,111,312	\$ 30,280,610	\$ 30,819,952	\$ 33,196,100	\$ 2,376,148	8%

Personnel Expenditures:

Across all funds, personnel expense is projected to be \$20.8 million, an increase of \$1.6 million, or 8%. Wages have grown from \$6.1 million in 2008 (when the community center opened) to \$16.0 million in 2021, a compounded rate of approximately 7.7%.

The Board has approved the addition of 31 positions between 2018-2020 (Public Safety – 16, Parks & Recreation – 6, Planning & Development Services – 3, Public Works – 2, and 1 position in each of Town Administration, Human Resources, Information Technology and Economic Development. These additions were necessary to support the explosive growth in both population and development activity in recent years.

Adjusted for inflation, this increase is approximately in line with the growth in the Town's population as shown in the below chart.



Personnel expense represents 46% of 2021 General Fund expenditures. As indicated in the table above, General Fund personnel expenditures are projected to be \$15.4 million for 2021, an increase of \$1.5 million, or 11% compared to 2020. Significant changes to the General Fund Personnel Expenditures are as follows:

- \$334,000 increase for 4 new position requests which is further discussed in the subsequent section.

- \$488,000 increase across various departments due to market adjustments (PD only) and merit increases for those who earn them. Due to the COVID pandemic, the proposed 2021 Budget does not include general increases to offset the cost of inflation as has been done for all employees in the past years, except for 4% market adjustments for Police officers and sergeants and merit increases for those who earn them. The cost of the Police 4% market increase and police step increase combined is approximately \$359,000 to the General Fund, and the total projected cost of the merit increases for other (non-PD) employees earning them would be \$206,000, consisting of \$129,000 in the General Fund, and \$77,000 in the other funds (Water, Wastewater, Sewer, Airport, URA, CTF).
- \$627,000 increase across various departments due to restoring staffing to its pre-COVID levels.
- The remaining increase of approximately \$51,000 comes from annual increases in benefits such as dental, vision, retirement expenses, offset with cost savings resulted from the new insurance contract with Cigna.

The 2021 Proposed Budget includes an additional 4 positions requests, as follows:

- Town Administration – Two positions are requested. The first is a Communications and Community Engagement Director. One of the 2020 Board of Trustee's priorities is to have an "Engaged and Diverse Community". With the growth of the Town and the community input/engagement our Trustees desire, it is necessary to add an additional staff person to the Communication and Marketing Division. By adding a director this position will provide the experience and expertise necessary to effectively grow the division and increase the current level of communication. The fully-burdened cost for this position is approximately \$141,000 to the General Fund.

The second requested position is that of an Administrative Specialist. This position would be responsible for general administrative duties of the Town Clerk's office, day-to-day records management in the Laserfiche system and providing administrative support/training/organization for the Town's appointed advisory boards. The Town Clerk's Office has operated at a staffing level of 2 for many years, while the Town has continued to grow. With this growth, the management of Town records has become an overwhelming task for this small division and additional support is needed to ensure compliance with Colorado Municipal Records Retention Requirements. Additionally, in 2020 the Board of Trustees has requested a minimum of two new advisory boards in addition to the current six boards. As a result, additional staff is necessary to adequately recruit, train and support all the advisory boards. The fully-burdened cost for this position is approximately \$62,000 to the General Fund.

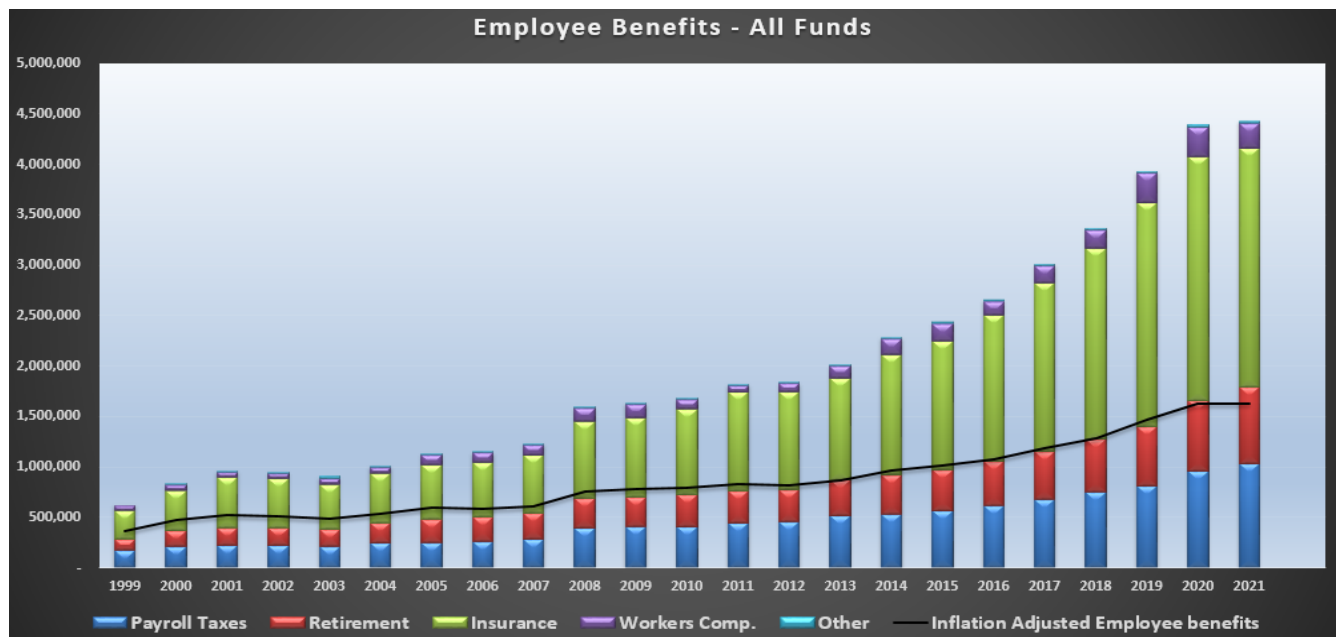
- Planning & Development – A new Civil Engineer position is requested. This position will have a focus on traffic and transportation engineering. Town staff currently utilizes Public Works Operations & Maintenance staff, capital project consultants, and

development review consultants to provide traffic/transportation planning and engineer comments for the Town. With the Town continuously growing and with the increased amount of transportation capital projects, new developments, and specific concerns from residents coming in regularly, the Town would greatly benefit by having an additional staff member with this specific expertise to assist with project reviews, traffic calming and safety concerns, pavement management, and long-range project planning. This position would not preclude the Town from seeking outside consultation or engineering services if considered appropriate, but it gives staff the in-house expertise to make comprehensive decisions for the Town based on internal or external recommendations. The fully-burdened cost for this position is approximately \$80,000 to the General Fund.

- Parks & Recreation – One new position is requested – a Horticultural Technician. Several years ago the Parks Division had a dedicated Horticulturalist on staff. This knowledgeable individual was promoted to a new position and the Horticulturalist position was never back-filled. Under the direction of the Town Forester, this position will perform the planting and transplanting of woody plants including site preparation, installation, backfilling, staking, pruning, watering, and mulching; prepares and maintains annual and perennial landscape beds; waters and fertilizes new and established plant material; diagnoses and treats insect and disease problems; applies herbicides and pesticides in accordance with prescribed guidelines; performs vegetation related consultation services to Town residents; and assists the Forestry Technician with forestry operations. The fully-burdened cost for this position is approximately \$50,000 to the General Fund.

A schedule summarizing the financial impact by fund and department resulting from the addition of these positions is included as part of this packet.

The other major component of personnel expense is benefits. The benefit rate is estimated to be at 28.5% of wages for 2021. The compounded growth rate since 2008 is approximately 8.2%, a bit higher than the 7.7% growth rate in wages. This disparity is due to the more rapid increase in healthcare costs. Adjusted for inflation, the trend is consistent with the trend in wages presented in the previous section. Following is a graph showing trends in employee benefits since 1999:



Operating Expenditures:

The General Fund Operating expenditures increase by approximately \$40,000, or 0.4%, compared to 2020. Significant changes are as follows:

- A new request of \$400,000 for the Comprehensive Plan Update.
- \$323,000 increase in Public Works operating expenditures (excluding COVID-related expenditures in 2020), with the largest increases related to street maintenance.
- \$191,000 increase in Police Dispatching Services provided by Boulder County. The previous annual amount of around \$100,000 per year was established 5 years ago. The increase is due to growth in Erie's population and the number of 911 calls.
- \$105,000 increase in Reimbursed Engineering Services. This increase primarily represents a change in the accounting of these expenditures reimbursed by developers. A portion of these amounts were charged to other funds in 2020. These expenditures are fully offset by revenues.
- \$122,000 increase in Recreation Program Operations Expenses as activities curtailed in 2020 due to the pandemic are projected to return to more normal levels in 2021.
- Increase of \$55,000 in Town Administrator's Budget for Home Rule related expenditures.
- Increase of \$53,000 in the Legislation budget for the new Diversity, Equity and Inclusion Advisory Board related expenditures.

Partially offsetting the above items were the following:

- COVID-related expenses in 2020 - \$1.2 million across numerous line items, with the largest being business assistance of \$640,000. These expenditures are expected to be funded with CARES Act funds.
- Economic Development Consulting fees - \$219,000 decrease due to completion of various projects (e.g., Town Center).

Capital Expenditures:

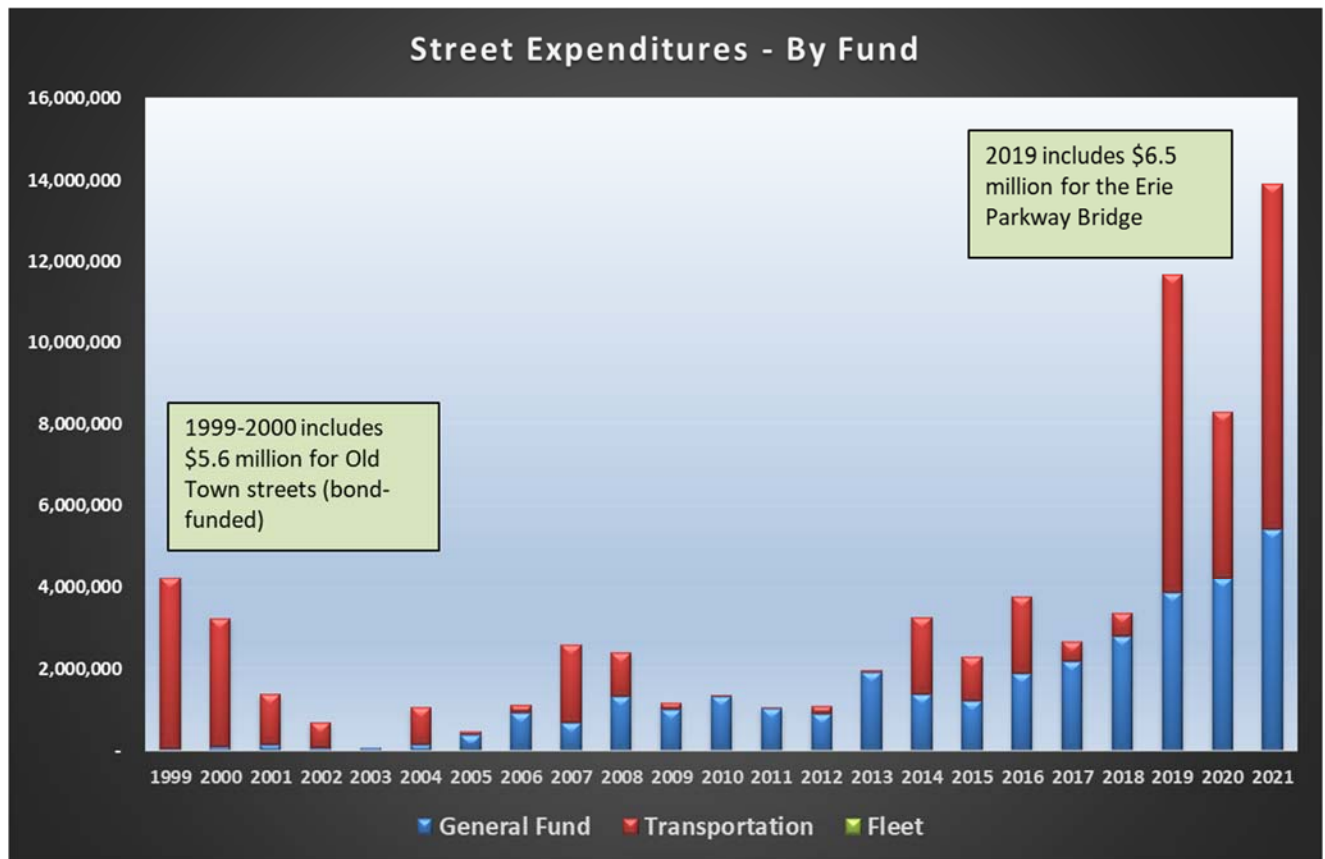
General Fund Capital expenditures requests of \$6.7 million reflect an increase of \$838,000 or 14%, compared to 2020, primarily due to the catch-up of capital projects deferred in 2020 due to the pandemic. A detailed list of capital requests is included as part of this packet, but major request/changes are as follows:

- \$4.5 million in street-related capital projects which account for 67% of total General Fund capital expenditures. This is an increase of approximately \$1 million compared to 2020. See also the discussion below.
- Parks & Recreation requests - \$903,000, reflecting a \$40,000 increase from 2020. Major 2021 projects include Longs Peak Park irrigation upgrades (\$276,000) and playground equipment replacements (\$135,000).

Maintenance of Town streets is a priority of the Board, staff and of Erie's residents. Town expenditures on street-related activities are provided by three funds – the General Fund, the Transportation Impact Fund, and the Fleet & Equipment Acquisition Fund.

The General Fund's focus is primarily on existing streets, while the Transportation Impact Fund is on growth-related projects. The Fleet fund is used as a financing vehicle for acquisition of heavy equipment and other vehicles used in the maintenance of streets (among other areas). The graph below presents expenditures by these three funds, with the blue portion of the vertical bars reflecting the General Fund portion.

Expenditures (both operating and capital) to maintain existing streets have increased significantly over the last 5 years – from \$1.9 million in 2016 to \$5.4 million in 2021. This is a \$1.2 million increase compared to 2020. Staff will continue to look for funding sources to expand street maintenance activities, and has also undertaken a project to address long-term funding needs and possible solutions related to streets.



Conclusion

As a result of the foregoing, the General Fund is projected to end the year 2021 with a “spendable fund balance” of approximately \$26.3 million, compared to \$25.2 million projected at the end of 2020. This “spendable fund balance” represents 105% of total personnel & operating expenditures (excludes capital and debt service expenditures) at the end of 2021, compared to 108% in 2020. Detailed calculation of the General Fund Reserve Ratio is included in the Budget schedules of this packet.

The 2021 projected General fund balance exceeds both the minimum reserve of 25% of Operating expenditures required by the Municipal Code and the additional Stabilization Reserve Account of \$7.5 million which was passed via resolution 10-40 in 2010. This is also a very strong level of fund balance relative to the Town’s peers. However, due to the volatility of some of the Town’s revenue streams as discussed above, special care should be given to decisions committing a significant portion of the Town’s fund balance until a more stable revenue base is in place.

Enterprise Funds:

Enterprise Funds - 2021 Budget					
	Water	Wastewater	Storm Drainage	Airport	Total
Revenues - tap fees & related	\$ 14,476,900	\$ 4,232,000	\$ -	\$ -	\$ 18,708,900
Revenues - user fees	10,918,000	6,053,000	1,668,000	5,500	18,644,500
Revenues - other (inc.'s debt proceeds & transfers in)	640,500	247,800	82,000	229,000	1,199,300
Revenues - total	26,035,400	10,532,800	1,750,000	234,500	38,552,700
Expenditures - personnel (A)	2,638,200	2,144,200	246,500	8,700	5,037,600
Expenditures - operations (B)	3,715,800	1,417,900	222,500	38,000	5,394,200
Expenditures - capital	23,105,600	5,522,000	815,900	193,700	29,637,200
Expenditures - debt service	5,283,300	1,333,500	42,000	-	6,658,800
Expenditures - total	34,742,900	10,417,600	1,326,900	240,400	46,727,800
Revenues over/(under) expenditures	(8,707,500)	115,200	423,100	(5,900)	(8,175,100)
Working capital - beginning (projected)	39,391,931	4,006,395	2,020,261	124,981	45,543,568
Working capital - ending (C)	\$ 30,684,431	\$ 4,121,595	\$ 2,443,361	\$ 119,081	\$ 37,368,468
Total Non-Capital/Non-Debt Exp.'s - (A) + (B) = (D)	6,354,000	3,562,100	469,000	46,700	10,431,800
Working Capital % of Reserve Target (C/D)	483%	116%	521%	255%	358%

Enterprise funds for the Town consist of the water, wastewater, storm drainage operating and airport funds. The wastewater and storm drainage funds are budgeted to have surpluses in 2021. The water fund is expected to have a deficit, the result of planned capital projects. It is not unusual for these funds to have expenditures exceed revenues in some years as accumulated funds are expended on capital projects. The airport fund is projected to have a small deficit.

Revenues in the water and wastewater funds arise from two primary sources – development-related fees/contributions (primarily from permits) and monthly charges for system users. Revenues from development-related activities primarily reflect the permit assumptions described in the “General Fund” section above. The primary revenue source for the storm drainage fund is monthly customer charges. Staff recently presented the results of a utility rate study for the purpose of establishing rates/fees for the period 2021-2025. The study recommended no overall increase in the revenues from the utilities’ customers, but did recommend net increases in permit-related fees. The 2021 budget reflects these proposed changes.

As can be seen from the table above, the \$29.6 million or 63% of the total expenditures in the enterprise funds are capital in nature in 2021. Capital projects in excess of \$1 million budgeted in 2021 include the following:

- Zone 3 Storage Tank - \$8.5 million (Water – includes site acquisition and preparation)
- Zone 2 Transmission Main (Summerfield, I-25 area) - \$5.3 million (Water)
- North Water Reclamation Facility expansion (completion) - \$5.0 million (Wastewater)

- Water Supply Well Project and related Treatment Plant - \$4.0 million (Water)
- Northern Integrated Supply Project (NISP) - \$2.4 million (Water)

A more detailed list of capital projects is included as a part of this packet. All 2021 capital projects will be cash-funded.

The Town has been a participant in the Windy Gap Firming Project (WGFP) since the early 2000's. This project will effectively increase the Town's water supply and its reliability as currently this water source is not available in all years due to lack of storage capacity on the Western Slope. This project will be constructed by the Northern Colorado Water Conservation District (the "District") on behalf of the project participants. Construction is currently expected to begin in 2021. The Town's share of this almost \$600 million project is approximately \$39 million (6.67% of the total). The District will also issue the debt to finance this project as a pooled financing with other project participants.

Since the District will be the issuer of the debt and construct the project, the Town's financials will not report the debt or construction costs. Instead, project participants' shares of future debt service will be charged to them as an annual assessment, reported in operating expenditures. In 2021 the Town's estimated share of debt service is \$906,000. In future years the debt service will increase to \$2.6 million, with most of the debt being repaid over a 20-year period. Due to significant declines in long-term funding rates, the anticipated borrowing cost is approximately 2.13%.

Capital Funds:

Capital Funds - 2021 Budget								
	Transportation	Public Facilities	Parks	Tree	Storm Drainage	Fleet & Equip. Acquisition	Total	
Revenues	\$ 6,498,200	\$ 1,387,700	\$ 3,506,400	\$ 187,000	\$ 990,400	\$ 717,400	\$ 13,287,100	
Expenditures <i>(including transfers out)</i>	8,480,000	-	7,234,500	264,300	-	1,048,300	17,027,100	
Revenues over/(under) expenditures	(1,981,800)	1,387,700	(3,728,100)	(77,300)	990,400	(330,900)	(3,740,000)	
Fund balance - beginning (projected)	9,173,461	4,767,155	9,524,139	721,688	4,235,533	383,300	28,805,276	
Fund balance - ending	\$ 7,191,661	\$ 6,154,855	\$ 5,796,039	\$ 644,388	\$ 5,225,933	\$ 52,400	\$ 25,065,276	

The Town's capital funds include the parks improvement, public facilities, storm drainage, transportation, and tree impact funds and a fleet and equipment acquisition fund. Revenues in the impact funds consist almost entirely of development-related impact fees and fees-in-lieu. Funding of the fleet fund is through transfers from the General Fund.

Residential impact fees were increased in January 2017 pursuant to a fee study, the first increase since 2002. Commercial impact fees were increased effective 1/1/18 to the amounts reflected in the fee study. Both residential and commercial fees increase annually based on an appropriate construction cost index. The Town will be undertaking an impact fee update study in late 2020. Revenue assumptions for impact fees are based on the permit numbers as discussed in the "General Fund" section above and an estimated inflationary increase.

By definition, essentially all the expenditures in these funds are capital in nature. Following are requested projects of \$500,000 or more:

- Erie Community Park Phase II - \$7.2 million (Parks Fund)
- Intersection, Signals and Related Costs at State Highway 7 and 119th - \$2.6 million (Transportation)
- North Roundabout on County Line Road – Town Center - \$2.6 million (Transportation)
- Widening of County Line Road between Telleen and Cheesman - \$2.6 million (Transportation)
- Widening of East Side of County Road 5 adjacent to Colliers Hill - \$500,000 (Transportation)

From a review of the table on the previous page you will note there are no expenditures in the Public Facilities or Storm Drainage funds. The Public Facilities funds are essentially restricted for a future expansion and renovation of Town Hall and expansion of the Public Safety building.

Storm drainage capital projects are all expended through the Storm Drainage Operating Fund (see “Enterprise Funds” above). The Storm Drainage Impact Fund’s share of these project costs are funded with a transfer from this fund to the operating fund. In 2021 there are no growth-related capital projects planned in the Storm Drainage Operating Fund, although there are major projects planned in future years.

The Fleet and Equipment Acquisition Fund was created at the end of 2019 with initial funding of \$1,250,000 through a transfer from the General Fund. A recommended practice for municipalities and other governmental entities is to utilize a fund for the purchase of new and replacement vehicles and heavy equipment, along with an ongoing funding plan. For years the Town has struggled to set aside adequate and consistent resources to fund such items. With expansion of the leasing program with Enterprise (discussed further below) and this initial transfer from the General Fund, the Town was able to fund all requested 2020 additions and replacements and will be able to do so in 2021 as well. A funding policy to ensure the Town’s fleet of vehicles and heavy equipment is maintained at an appropriate level to meet service demands will be completed in 2021. No additional funds are being requested from the General Fund at this time.

In 2021 Town staff plans to further expand its participation in the Enterprise leasing program that was begun in 2019. In 2020, the Town is adding 16 vehicles to the current 3 leased vehicles, with an effective financing rate of a little over 3%. In 2021 staff is requesting an additional 11 vehicles. All the requests are for a combination of scheduled replacements, new staff, or increased workloads (e.g., lane miles, new parks, etc.). A separate schedule summarizing the additions is included as an attachment to this memorandum.

Special Revenue Funds:

Special Revenue Funds - 2021 Budget				
	Trails & Natural Areas	Conservation Trust	Cemetery	Total
Revenues	\$ 2,074,000	\$ 230,000	\$ 28,000	\$ 2,332,000
Expenditures	981,000	296,400	-	1,277,400
Revenues over/(under) expenditures	1,093,000	(66,400)	28,000	1,054,600
Fund balance - beginning (projected)	850,140	578,289	254,823	1,683,252
Fund balance - ending	\$ 1,943,140	\$ 511,889	\$ 282,823	\$ 2,737,852

Included in special revenue funds are the trails and natural areas fund, the conservation trust fund, and the cemetery fund. Revenues in the trails and natural areas fund, which accounts for the bulk of this category of funds, consists primarily of property taxes, arising from a dedicated 4 mill levy. These revenues are projected to decrease approximately \$53,000, or 3%, to \$2 million in 2021 from \$2.1 million in 2020 due to a decrease in property taxes arising from oil and gas as discussed above in the General Fund section. Only one major capital project is currently budgeted in the trails fund, a \$550,000 trail connector project.

Fund Accounting:

A key requirement of governmental accounting is to determine and demonstrate compliance with finance-related legal and contractual provisions. To accomplish these goals, governments use fund accounting. A fund is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

For example, the Town has established the Trails and Natural Areas Fund to record receipts of dedicated property taxes for trails and natural areas, open space fees-in-lieu received from developers and investment earnings on unspent funds, among other revenue sources. Expenditures by this fund are for approved purposes such as the purchase of open space, construction of trails, and maintenance of trails and natural areas.

The Town has the following funds, grouped by type of fund:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in one of the following funds.

Special Revenue Funds - Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Trails and Natural Areas Fund: Accounts for property tax revenues and other restricted revenues used to acquire and construct trails; to acquire and develop natural areas for public use; and for maintenance of trails and natural areas.

Conservation Trust Fund: Accounts for revenues received from the Colorado State Lottery proceeds through the State's Conservation Trust Fund. It is used to acquire, develop, and maintain new conservation sites; and for capital improvements or maintenance for recreational purposes on any public site.

Cemetery Fund: Accounts for revenues received from plot purchases at the municipal cemetery. Money is used for perpetual care expenditures at the cemetery.

Impact Fee Funds – Impact fee funds (more accurately referred to as “capital project funds” from a formal accounting standpoint) are primarily used to account for the acquisition and construction of major capital facilities other than those paid for by the general fund, or the enterprise funds (see below).

Parks Improvement Impact Fund: Accounts for impact fee revenues, fees-in-lieu and reimbursements from developers and grants used to construct and acquire parks and related improvements.

Public Facilities Impact Fund: Accounts for impact fee revenues and grants used to construct and acquire public facilities.

Storm Drainage Impact Fund: Accounts for impact fee revenues used to acquire and construct the storm drainage system. See also "Storm Drainage Operating Fund" below.

Transportation Impact Fund: Accounts for impact fee revenues, fees-in-lieu and reimbursements from developers and grants used to construct and acquire transportation system enhancements.

Tree Impact Fund: Accounts for impact fee revenues used to acquire and plant trees in public locations, and to issue certificates for tree purchases to homeowners of newly constructed homes.

Enterprise Funds - Enterprise funds are used for the Town's ongoing activities which are similar to those found in the private sector. These funds are generally expected to be self-supporting. Among other restrictions, no more than 10% of their revenues can come from state or local governments (including the Town) to support their activities.

Water Fund: Accounts for the acquisition, treatment, and distribution of the Town's water supply. Includes all water-related revenues (tap fees, water resource fees and user fees), along with associated personnel, operating, capital and debt service expenditures.

Wastewater Fund: Accounts for the collection and treatment of wastewater in the Town's wastewater system. Includes all wastewater-related revenues (tap fees and user fees), along with associated personnel, operating, capital and debt service expenditures.

Storm Drainage Operating Fund: Accounts for charges received from system users, used to construct and maintain the storm drainage system. Includes all storm drainage-related revenues (user fees), along with associated personnel, operating, capital and debt service expenditures. Also includes transfers of impact fees from the Storm Drainage Impact Fund to help construct growth-related capital projects.

Airport Fund: Accounts for airport fees received from the airport management company and airport users, as well as proceeds from federal and state aviation grants (the primary source of revenues for this fund). These revenues are used primarily for airport capital projects.

Internal Service Funds – In 2019 the Town created its first internal service fund – the Fleet and Equipment Acquisition Fund ("Fleet Fund"). Internal service funds are funds that primarily provide services to other parts of the government. The Fleet Fund will be used for

the purchase of new and replacement vehicles and heavy equipment, along with an ongoing funding plan to provide for future acquisitions as needed.

Fund Balance/Working Capital – Two other key terms to understand are *fund balance* and *working capital* (in the case of proprietary funds). You will see these terms throughout budget reports (and the monthly board report). These amounts represent the accumulated revenues in excess of expenditures in each fund that are available for appropriation. (Note: Different terms and definitions are used in the audited financial statements, which in some cases will result in different amounts being reported in the audited financial statements from those presented in budget reports.)