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| **SUBJECT/AGENDA TITLE:**  2023 Budget Discussion |

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| **EXECUTIVE SUMMARY:**  The Proposed 2023 Budget presentation will focus on the categories of total budget summary by fund, revenue projections, General Fund budget summary, Public Safety budget summary, and Human Resources impacts. This communication includes a brief overview of each topic and has been consecutively numbered. This information will be available on the City’s website with the 2023 proposed budget documents should we need to refer back to any information from this communication as we continue to move through the weekly 2023 budget presentations.  <https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/2023-budget-documents> |

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| **COUNCIL OPTIONS:**  Click or tap here to enter text. |

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| **RECOMMENDED OPTIONS:** |

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| **FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:** |

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| **BACKGROUND AND ISSUE ANALYSIS:**  Citizens wishing to view the 2023 Proposed Budget, the 2023-2027 Proposed Capital Improvement Program or the 2023 Proposed Pay Plan can access these documents on the City’s website at the following location:  <https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/2023-budget-documents>  **TOTAL BUDGET SUMMARY BY FUND**  The 2023 Proposed Budget totals $414.25 million. This is a $22.48 million increase from the 2023 Adopted Budget of $391.77 million. ***Attachment D and E*** are summaries of the 2023 Proposed Budget by Fund vs the 2022 Adopted Budget. ***Attachment D*** identifies the contribution to or use of fund balance for each individual fund in the proposed budget. In ***Attachment E*** we have separated operating expenses from CIP expenses to make it easier to see where the increases/decreases by fund is coming from. Highlights from this attachment include:   * There are 44 individual funds proposed to be budgeted for 2023. * Funds with large increases in expenditures include the Fleet Fund ($7.20 million); Electric & Broadband Fund ($7.11 million); General Fund ($6.84 million); Public Safety Fund ($2.19 million); Water Fund ($1.80 million); Golf Fund ($1.63 million); Storm Drainage Fund ($1.62 million); and the Sanitation Fund ($1.13 million). * Funds with large decreases in expenditures include the Public Improvement Fund ($2.83 million); Sewer Fund ($1.91 million); Park Improvement Fund ($1.69 million); Conservation Trust Fund ($1.32 million) and the Transportation Community Investment Fee Fund ($1.25 million). * CIP projects decreased from $78.92 million in 2022 to $63.99 million in 2023. * Major decreases in CIP projects in individual funds include the Electric & Broadband Fund ($4.23 million); Public Improvement Fund ($2.95 million); Water Fund ($2.81 million); Sewer Fund ($2.79 million); Park Improvement Fund ($1.69 million); Conservation Trust Fund ($1.35 million); and the Transportation Community Investment Fee Fund ($1.25 million). * Major increases in CIP projects in individual funds include the Golf Fund ($1.34 million) and the Storm Drainage Fund ($1.18 million.   **REVENUE PROJECTIONS**  Funding for a number of individual funds in the proposed budget is driven by three key revenue sources: Sales & Use tax; Property tax; and Building Permits. The following are projections for each of those for 2023:  ***Sales and Use Tax***  Sales Tax Use Tax Combined  Performance thru June 2022 9.2% 44.7% 14.3%  Projections to end 2022 6.3% 12.5% 7.28% Projections for 2023 3.99% 2.1% 3.69%  ***Property Tax***  In June of 2021 the State Legislature passed SB21-293 which reduced the assessment rate for some commercial property and most residential property in assessment years 2022 and 2023. Staff projected the impact to be a reduction of about $460,000 in budget years 2023 and 2024. From the preliminary assessed valuations it appears that the impact in 2023 is closer to $524,000.  Property tax assessment timing captures market adjustments every other year with typically only new construction being captured in non-reassessment years. For assessment year 2022 (tax year 2023) it is a non-reassessment year and thus for the proposed 2023 budget there is a reduction of $230,114 of overall property tax revenue in the General Fund. Last year, given the amount of tax revenue growth projected for 2022, and knowing that 2023 was not a reassessment year from a revenue perspective, and knowing there would be impacts from SB21-293, $2,327,345 of the new property tax was treated as one time revenue in 2022 so that it can be available to be used as new ongoing revenue in 2023. Since preliminary assessed valuation information is not received from the counties until late August, our projections are based on informal feedback from the Boulder County Assessor’s Office. The August assessed valuation data decreases the property tax in the proposed budget by $186,130.  ***Building Permits***  Dwelling units Single Family Multi Family Townhome/Condo Combined  2022 Adopted Budget 142 627 78 847  Projections for 2022 99 342 120 561  Performance thru July 2022 44 28 140 212  Projections for 2023 75 625 100 800  **GENERAL FUND BUDGET SUMMARY**  ***Ongoing Revenue and Expenses***  The ongoing General Fund revenue and expense in the 2022 adopted budget was $93,477,221. The proposed budget for 2023 includes total ongoing revenues in the General Fund of $104,414,555, an increase of $10,937,334 over 2022.  Increases in revenue total $11,967,854 and decreases in other sources of revenue total $1,030,520. A more detailed breakdown of the change in revenues is included in ***Attachment F***. The line item detail can be found on pages 81 through 85 of the proposed budget document. Major increases in ongoing revenue include the following:   * $5,590,109 of sales and use tax * $2,097,231 of property tax * $1,619,973 of administrative transfers * $729,737 from the electric franchise * $407,389 from oil and gas lease royalties * $362,903 in recreation revenues * $290,000 from the transfer from the Special Marijuana Tax Fund * $214,482 from the Longmont Housing Authority * $200,000 from the natural gas franchise * $144,163 from non-grant local revenue   The major decreases in ongoing revenue include the following:   * $316,936 of building permits * $215,000 of court fines * 214,819 of plan check fees   The 2023 proposed budget includes new ongoing expenses of $10,975,859 but decreases in other ongoing expenses of $38,525 result in a net increase of $10,937,334 in ongoing expenses. A breakdown of the changes in ongoing expenses is also included in ***Attachment F*** with ***Attachment G*** showing the detail for the non-pay related ongoing additions. The $38,525 of reductions in ongoing expenditures is comprised of one thing:   * $38,525 of reductions workers comp insurance   The $10,975,859 of ongoing increases is due to the following:   * $4,743,853 for pay and related benefit increases * $1,464,715 for funding 13.125 new FTE * $214,482 for Longmont Housing Authority reimbursed positions * $25,940 for the city’s contribution to FPPA pension plans * $33,995 in FPPA death & disability expense * $1,942,451 of ongoing level 1 increases which are those expenses that we really have no control over such as contracts or utilities * $1,108,625 of ongoing level 2 increases * $306,100 of ongoing expenses associated with one time funded items * $171,527 for Human Service Agency funding * $301,183 for fleet lease increases * $ 472,113 for the Smucker’s personal property tax rebate * $178,375 in liability insurance * $12,500 in cable trust funding   ***General Fund Reserves***  The General Fund reserve policy includes the following three reserve targets. First is the statutorily required TABOR reserve equal to 3% of “fiscal year spending” as defined in the Colorado Constitution. Second is an Emergency Reserve at 8% of General Fund operating expenditures. Third is a Stabilization Reserve at from 3% to 8% of General Fund operating expenditures.  In 2022, those Reserve Policy targets equate to the following:  TABOR reserve 5.57% $5,210,103  Emergency reserve 8.0% $7,478,178  Stabilization reserve at 3% $2,804,317  Stabilization reserve at 8% $7,478,178    Currently in 2022, the General Fund Reserves are funded as follows:  TABOR reserve 5.57% $5,210,103  Emergency reserve 8.0% $7,487,168  Stabilization reserve at 4.15% $3,875,623    With the amount of General Fund operating expenditures in the proposed 2023 budget the 2023 Reserve Policy targets would equate to the following:  TABOR reserve 4.99% $5,210,103  Emergency reserve 8.0% $8,353,164  Stabilization reserve at 3% $3,132,437  Stabilization reserve at 8% $8,353,164  The proposed 2023 budget includes an increase to the General Fund reserve of $2,500,000. Pending the annual adjustment to the TABOR reserve next April, the funding of the General Fund Reserves in 2023 would be as follows:  TABOR reserve 4.99% $5,210,103  Emergency reserve 8.0% $8,353,164  Stabilization reserve at 5.27% $5,500,636  ***Use of General Fund Fund Balance***  The General Fund summary above discusses changes in ongoing revenues and expenses. The General Fund proposed budget is also made up of one time revenues and expenses. A good deal of those one time revenues come from the General Fund fund balance. Essentially, this is made up of monies accumulated from revenue exceeding budgeted projections and expenses being below budgeted projections. Operations from 2021 left about $10.2 million in the General Fund fund balance with much of it coming from expenses, after carryover and encumbrances, being below budget. The expenditure savings are from across the General Fund as budgets were managed tightly in 2021 while some one time expenses were still pending and were carried over into 2022. Revenue performance was strong in some areas though lacking in others but very strong sales and use tax performance exceeded the budget by over $5 million in the General Fund. Another source for one time funding was almost $2.5 million of CVRF funding reimbursing Covid related expenses from the 2020 General Fund. Part of this fund balance was projected in the 2022 budget process and thus was already earmarked for use in 2022 with just over $6 million used for one time expenses and another $1.6 million used to increase the General Fund reserves. Staff also conservatively projects 2022 operations to add another $3.56 million to the General Fund fund balance. Changes in designations of fund balance for things like prepaid expenses, contract commitments, and amounts being held for specific purposes like oil & gas efforts also impact the amount of fund balance available. Finally, one time revenues of transfers from other funds offset the cost of some one time expenses.  All of the above contributing factors combine to make fund balance available for one time purposes and thus the proposed budget includes recommendations for the following uses:  One time expenses $4,985,486  Increase emergency reserve $2,500,000  There is approximately $261,854 of fund balance remaining but there are pay plan corrections that still need to be identified and costed and added to the proposed budget. Additionally the reduction in property tax estimates from the preliminary certifications as well as any of the final certification may require the use of fund balance to offset their impacts on the final budget. Staff will bring the detail of these corrections and the funding of them to the City Council on the 27th of September.  **PUBLIC SAFETY FUND BUDGET SUMMARY**  The Public Safety tax was originally approved at a rate of 0.325% in November of 2006. In November of 2017 it was increased to 0.58%.  With the 2022 level of sales and use tax we were able to fund 103.38 FTE in the 2022 budget including 54 FTE in Police including the SROs that were added per the agreement with the St Vrain Valley School District, 17 FTE in Fire, 12 FTE in Community Health and Resiliency, 4 in Public Safety Support Services, 13 FTE in Communications; 1 Legal Advisor in the City Attorney office, 2 FTE in Community Services, and .38 FTE for Graffiti Removal.  There are 8.0 additional FTE being added in the Public Safety Fund in the proposed 2023 budget bringing the total FTE to 111.38 for 2023. Our ability to add further FTE from this fund in the future will be driven by growth in the sales and use tax revenue collections.  Our strategy is to be conservative in projecting sale and use tax growth so that we have less, if any, future need to make budget adjustments downward.  As with the General Fund, the approach to the Public Safety Fund has been to balance ongoing revenues with ongoing expenses for this fund. The Public Safety Fund proforma has been updated with 2023 budget amounts and is included as ***Attachment H***. The fund balance for the Public Safety Fund was $10.15 million at the end of 2021 this includes  $3.28 million that was then carried over into 2022 to cover one time expenses that were budgeted in 2021 and still needed for the purpose for which they were budgeted.   It does not include the 8% emergency reserve of $1,238,169.  We project this fund to finish at about $7.88 million by the end of 2022.  Extending the pro forma through 2032 indicates that estimated ongoing revenue should be enough to cover the estimated ongoing expense of this fund. Pending actual annual expenditure outcomes, there may be limited dollars available for one time expense each year though the fund balance is strong and maybe used as a potential source of one time expenses.  **HUMAN RESOURCES IMPACTS**  Our staff is the lifeblood of this organization. Employee compensation comprises 74.5% of ongoing expenses in the General Fund 2023 budget and a substantial portion of expenses in other funds. Employees come with a wide variety of specialties and skills, and are essential to the provision of services for our residents.  ***Changes in the Employment Landscape***  The COVID-19 pandemic and subsequent market shifts have created an unstable labor market. This significant shift in the labor market has increased employee resignations throughout the world, making the competition for qualified employees significantly more difficult. Under these conditions, the City has experienced a 16.48% turnover rate in the most recent 12 months (September 2021 through August 2022). This rate is significantly higher than previous years. For comparison, turnover in 2019 prior to COVID was 10.9%.  In addition to increased turnover, the City has had challenges in recruiting highly-qualified candidates for position openings. Hard to fill positions have remained open for longer periods of time, and these vacancies place a strain on staff members who we are also trying to retain. Not only do we have a higher number of open positions, we are now facing competition from smaller jurisdictions who have typically had salaries much lower than cities at a similar size to Longmont. In many cases, we have seen a direct recruitment from other entities for our staff members. Some recent examples:   1. In Public Safety, competing jurisdictions have offered hiring bonuses as well as take-home vehicles 2. In Engineering, a smaller local jurisdiction offered hiring bonuses and pay that significantly exceeded the prevailing rate of pay in the industry 3. In several areas, smaller jurisdictions moved their salaries significantly above industry pay in order to recruit specialty positions such as Communications and Information Technology.   This portion of the presentation will review efforts that have been made to date in order to attract and retain a strong workforce. In particular, we will highlight efforts in two key areas:   1. Recruitment and Hiring 2. “Workforce of the Future” and Retention initiatives   ***Recruitment and Hiring***  Human Resources staff have had to make drastic changes to work towards smooth and successful recruitment and hiring. Some of the changes that have been recently made include:   * Partnering with Start2Home to provide home-buying assistance to current and prospective employees * Enhancing contract services for recruitment, including a “job slot” system with LinkedIn and a “responsive” system with the Denver Post that sends investment to job boards based on their performance in generating candidates. * Using additional online systems for recruitment, such as Circa (Diversity Jobs) and Purple Handshake * Updating the application process to allow for only resume and cover letter attachment (rather than a full application needed) as well as specialized applications for unique positions * Changing the compensation of our part-time non-benefitted staff to a minimum of $15.50 per hour * Consistent presence in area job fairs as well as “hands on” partnership with area colleges and diverse organizations. * Additional use of the “open until filled” status to interview qualified applicants immediately * Streamlining the pre-employment testing process when possible * Actively recruiting lateral public safety hires from across the country * Active recruitment of P-TECH alumni and early graduates * Working towards sponsoring a P-TECH class at Longmont High School, providing internships for high school students and building a source of future employees locally * Active recruitment in partnership with Workforce Boulder County * Active recruitment in Partnership with the State of Colorado office of Disability Services * Attending community events in addition to job fairs to recruit locally   Additional efforts that are in process to be completed in 2022:   * Partnership with Office of Equity and creation of training for employees to become “ambassadors” in recruiting throughout the organization * Partnership with Communications Division in order to enhance branding and highlight non-traditional benefits, including creation of a short benefits video for job candidates   Budget requests related to recruitment and hiring include:   * Level 1 in Human Resource’s budget   + Drug Screens and Physical Abilities Tests $35,000   + Pre-Employment/Volunteer Background Screening $13,500   + Pre-Employment testing $900   + Job Posting $1,000   + Retirement Gift Cards $3,000 * Level 1 in Public Safety’s budget   + Recruiting Dues and Subscriptions $3,700   + Riley Promotion Assessments $6,000 * Level 2 in Human Resource’s budget   + Recruiting $3,737   + Human Resources Coordinator (FTE) * Level 2 in Public Safety’s budget   + Job fair lists $2,000   + Recruiting materials $2,500   + Recruiting and job fair travel $10,000   Together with our Compensation and Benefits Study and a Citywide emphasis on workplace culture, efforts in regard to recruitment and retention will assist the City in ensuring that we are able to maintain a strong workforce and continue the important duties that are necessary for all aspects of our City operations.  ***Workplace of the Future Retention Actions***  During the COVID-19 pandemic, the work world changes substantially. Whether employees needed to work from home due to building closure, create flexible schedules to limit in person contact or find new ways to serve customers online, adjustment and innovation were needed to continue City services. City Council gave direction to staff, after a presentation from Joanne Zeas, Chief Human Resources Officer around things they would like to see as part of our workplace of the future. This feedback/status included:   * Ensuring Competitive Pay/Premium due to higher cost of living (see above) * Aggressive Retention and Recruitment Policies (see above) * Childcare for Employee Families – pilot program included in proposed 2023 budget * Internship Program – included in the 2023 proposed budget * Flexibility – implemented policy and employee agreements * Sabbaticals – can offer unpaid sabbaticals now, need to research more on this topic * Ensuring the staff wants the things we are offering – see Workforce of the Future work below * Ensure that current staff reap the same benefits as those we are recruiting – including existing staff in any changes for new hires   As the pandemic began to change direction and we started re-opening facilities, we convened a Workplace of the Future taskforce to explore what had worked during 2020, and how we should address this changing workplace into the future. In June of 2021, after surveys, interviews and lots of conversation, the task force shared their recommendations with the Leadership Team and organization. Below is a summary of actions recommended and their status.   * Flexibility - Flexibility was the overarching theme throughout the discussions. Whether that means permanent work from home situations, hybrid schedules or flexible schedules for in person work, this was most important to employees. Flexible workplace policy and agreements – each supervisor was asked to meet with each of their employees to create a work agreement based on a new policy written by the task force. Included were core working hours, flexible schedules and hybrid/remote work options. Agreements were contingent on customer service needs first. * Training – City Manager Dominguez held a series of training classes for supervisors to help them understand the changing work world, the expectations around flexibility conversations and a brainstorming amongst supervisors on best practices throughout the organization. In addition, staff have been provided training in Microsoft Teams and all of the O365 tools the City has invested in. An online training center was created so that employees could watch hundreds of training sessions as they had time to do so, as well as find recordings of the Citywide Team meetings and ways to connect to others using the same technology. * Work Environment inclusion in job descriptions - as part of 2022 job description updates, supervisors included how much schedule flexibility this position is afforded, if the position work from home, and whether there was an expectation that staff report in person during inclement weather. HR is finalizing those job descriptions now. * Workplace safety – In order to provide a safe workplace where people can work in their best way to get the job done, employees asked to continue cleaning protocols, encourage people stay home when they are not feeling well and allow employees to work at home in inclement weather, if appropriate. The team recommended considering providing a benefit, such as comp time, for employees that cannot work remotely during weather events. While cleanliness continues to be a top concern, it became clear that a greater level of supervision was needed and the 2023 proposed budget includes a custodial supervisor. The team also wrote and administrative regulation that recently passed, granting a day of vacation to staff who must report in-person during a weather emergency that closes other public facilities. As part of this work, we also realized that our On Call/Callback policies are out of date and pay less than other communities. This has been changed and is part of the 2023 proposed budget. * Workspaces of the Future – The team identified the need for additional modular work spaces that are multi-purpose and fully equipped with needed technology, appropriate technology in conference rooms to encourage hybrid meetings and laptops for people working from home. Civic Center, Development Services Center and Service Center each have identified “co-working” space and we are outfitting those with appropriate technology. In addition, the 2022 budget included funding for additional laptops and conference room cameras, most of which are in place today. Staff also implemented e-signature software to allow for signatures on contracts remotely. * Communication and involvement – during 2020, the City Manager created a weekly Citywide meeting that employees could join remotely to hear the latest information. The team recommended we keep these meetings, which we now offer twice a month, in addition to a regular email update on organizational changes and other items of importance. Hybrid Council meetings and updated guidelines in our Community Involvement practices to include remote meetings were also recommended and are in process. The Equity Team is also starting departmental planning efforts and providing training available in real time and on the employee training center. The team discussed the need for cross-department opportunities to connect and this aligns with the City Manager’s introduction of the Centers of Excellence concept, where issues that need to be tackled do so in an accountable, cross-functional manner. * Rethink outstanding customer service - our customers have changed dramatically. Some customers want or need more self-service options online, while others still want or need in-person or phone interactions, (due to lack of technology resource access, training, and/or they need to/want to talk to someone about their specific situation). Some of our services in a virtual environment helped customers (e.g. curbside book checkout) and others were harder to replicate online, (e.g., recreation classes). Staff took the time to see where our customers are now, evaluated our service delivery, and reconfigured it to meet the needs of our customers (equitable customer service). These improvements included implementing a pay-by-phone option in Utility Billing and NextLight, pay online option as a guest in Utility Billing, an audit of the website to ensure compliance with ADA and planning for a new website design and Customer Relationship System, first budgeted in 2022. Discussion about single call centers to create ease of access are also just beginning.   We have made significant changes to the way we do business in the City of Longmont, and will continue to strive to provide excellent customer service and be an employer of choice. |
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| **ATTACHMENTS:**  Attachment D – 2023 Proposed Budget vs 2022 Adopted Budget by Fund  Attachment E – 2023 Proposed Budget vs 2022 Adopted Budget with CIP  Attachment F – General Fund Changes in Ongoing  Attachment G – General Fund Non-Pay Related Ongoing Additions  Attachment H – Public Safety Fund Proforma |