

2017 Budget Message

December 5, 2016

Pursuant to 29-1-103(e) C.R.S., as amended, the following budget message has been prepared and included as a part of the adopted 2017 budget for the Town of Lyons, Colorado.

Services Provided

The Town of Lyons provides the customary municipal services to its residents and businesses. These services include: water, sanitary sewer and electric utilities; street maintenance; law enforcement; park facilities; recreational and cultural activities; public improvements; building inspections; business and occupation licensing; land use planning; municipal court services; and general administrative services. A major part of the 2017 Budget is utilizing the Town of Lyons Long Term Recovery Action Plan (LRAP). The Town will use the goals and priorities set forth in the LRAP to guide the 2017 budget as well as future budgets.

Budgetary Basis

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending is controlled. A line item budget method is used. The governmental fund types utilize the modified accrual basis.

The proprietary fund types utilize the accrual basis of accounting. The annual budget basis of the proprietary funds includes capital expenditures and current debt service principal and interest, and includes depreciation, amortization, and adjustments for accrued compensated absences. Revenue and expenditure projections for the various funds are based on historical trends, various economic and inflation forecasts, and known changes in operations, legislation, and rate changes.

Budget Highlights

- On September 12th, 2013, the Town of Lyons was devastated by a flash flood that lasted for days. The initial damage to all Town infra-structure was estimated to be \$47 – \$50 million. 2016 continued to be a year of recovery from the flood. Overall revenue increased in 2016 due to a substantial increase in Sales tax (34.5% over budget) due to the normal sales tax being increased from 3% to 3.5% along with the upward trend in recreational marijuana sales which is taxed an additional 3.5%. Property tax revenue will increase in 2017 by \$7,102 (1.4% increase) based on the final property valuation. Parks and Recreation revenues were up due to increase in

Sales and Use tax as noted above in this paragraph. However this increase was offset by the fact the parks are still being repaired and will not be back to completely restored until 2018. In 2016, Fund Balance was only needed in the Sanitation Fund due to the new debt payments for the completed waste water treatment plant, only partially covered by a slight base rate increase. Sanitation fund balance will again be needed in 2017 for debt. Most expenditures were for flood recovery and thus expense budgets were not fully utilized. Cash flow is an ongoing issue regarding FEMA, State and other grant reimbursement timing for flood repair costs and the Town's Public Assistance match of 2.5%. Other funding sources have been applied for and awarded, such as the FEMA Community Assistance Loan for operations, as well as additional State funding, grants, etc. If draws are made on the CDAL loan, the Town will plan to repay in 2017. The full amount of the loan as well as repayment is budgeted in 2017 and allocated across the funds.

- On November 4th, 2014 the voters of Lyons approved three recreational marijuana facilities. Additionally, the voters of Lyons approved an additional 3.5% sales tax on recreational marijuana. The Town will also receive 15% of 10% (1.5%) of the State sales tax on recreational marijuana. In November of 2015, the Town approved an additional 0.5% Sales tax increase effective January 1, 2016, and an Excise tax in 2015 of 10% on commercial growers of marijuana. As of November 30, 2016 there is one commercial grow business operating.
- For the 2017 General Fund Budget, the law enforcement services contract with the Boulder County Sheriff's Office has been reduced by \$101,000 removing a 40 hour per week dedicated deputy. The law enforcement Extra Duty budget is increased \$33,000 for traffic and patrol if utilized. In 2014, the Sheriff's Office had trouble filling extra duty spots which led to the dedicated deputy position.
- Given the economic conditions the Town is currently experiencing, the budget for 2017 was prepared with a focus on controlling and reducing normal operating expenses wherever possible to help with cash flow and to build a fund to cover any claw-back from audits of FEMA/State grants. The Town is reserving \$200k per year for contingencies from the claw-back. Overall, some expenses were held at previous years' levels. Salaries are budgeted for a 4% increase in 2017 with possible additional quarterly bonuses. An additional two full time employees (communications and administrative assistant) were added to the General Fund. Other changes in 2017 expenses to be noted: this is the last year for the Civic Plus payment of \$10k – allocated across funds; budgeted \$15k for audio and furniture for the BOT room; in Health, Welfare, and Community department budgeted \$12k for senior programming, meals on wheels, and other needs; there are no leases in 2017. The Lyons Urban Renewal Authority (LURA) will continue to be funded by the Town until it becomes self sustaining. The LURA will receive approximately \$15,400 from the General Fund to cover attorney's fees and other professional services. The LURA is expected to bring in \$9,600 of revenue from the updated valuation, which will supplement the Town funds. A Grants Fund (19) was created in 2013 and flood costs and reimbursements are tracked there separated from normal accounts. The Town's FEMA PA share (match – 2.5%) will be charged back to the appropriate fund based on the individual FEMA project when all flood projects have been completed – estimated 2019. An additional Grant Fund (21) was created in 2014 to handle the influx of many grants such as the Community Development Block Grant Disaster Recovery (CDBG-DR) from which the Town will receive millions of

dollars in funding for PA match assistance, planning and resiliency, property acquisition, etc. These grant funds were needed to account for and track the numerous grants and funding sources post -flood. Projects completed in 2016 are: CDOT main street and intersection light; Johnson Park completed and put in use; and the St Vrain river was improved from Lavern Johnson Park to Black Bear Hole. Because of the Johnson Park coming on-line, revenues and expenses will increase because of year-round RV parking/camping along with park hosts and additional costs for seasonal workers/custodial. With other projects being completed there will be additional costs for maintenance for the Main Streetscape, confluence area; CSOs for parking; and capital improvement for security cameras, ice rink, and sound equipment for the parks.

- The governmental funds include the General Fund, Parks & Recreation and Cultural Fund, Conservation Trust and the Grant Funds. The Streets Department, a part of the General Fund, had to replace some streets in 2016 due to the need to replace/repair water and sanitation/sewer lines due to flood damage. The cost of such was charged initially to the Grant-Flood Fund and eventually the appropriate Town match will be charged back to the Water and Sanitation Funds. There will be Capital Improvement Projects (CIP) charged to the Enterprise funds (Electric \$100K for new meters unless funded by a grant, \$79,500 to the Water Fund for miscellaneous projects, \$621,000 to the Sanitation Fund for final payment on the new wastewater treatment plant (\$558K) and miscellaneous projects (\$63K) in 2017. All other CIP will be part of the flood reconstruction funded by FEMA, State, and other grants.
- Sales tax revenues are forecast to increase by 3% over the 2016 budgeted revenue in 2017. Projected 2016 Sales taxes are a 34.5% increase over 2015 actual taxes due to a .5% tax increase in the General Fund and the impact of recreational marijuana sales. Use tax is a volatile resource based primarily on building permit activity. 2017 Use tax is projected to be comparable to the actual 2014 revenues. Local developers are forecasting seven housing starts in 2017.
- Administrative allocations and allocated costs were closely scrutinized in the 2012 and 2013. A new process was implemented in 2014 based on the historical percentage of share. The General Fund is funded for all allocated expenditures and those expenditures will be off-set by Transfer-Ins from the other funds. Such costs are those that common to all funds with no particular focus on any one fund. Those costs that do have a direct link to a particular fund are expensed to that fund. Budgeted Allocated Costs are increased in 2017 by \$87,675 mainly due to increased attorney and auditing fees.
- The 2013 flood impacted the Electric infrastructure severely. Lines, poles and equipment were lost or damaged. The repair and replacement process has been both temporary and permanent. The Town's wholesale purchase of power from MEAN and WAPA increased slightly in 2016 as well as some other MEAN indirect increases. A refund of approximately \$28,000 from MEAN was received in November of 2016 due to their unexpected financial gains. The Town increased its usage rate effective February 1, 2016, to customers by eliminating the winter rate and charging one rate for the entire year. This will kept this Enterprise fund operating in the black in 2016 and helped build up fund balance (reserves). The Electric CIP projects planned for 2016 to begin replacing out-dated electric meters in the Town is delayed until 2017. The Town has budgeted \$100,000 in 2017 for this project. The

Town is trying to get a grant of \$300K to pay for the entire project. An electric rate study is being conducted in 2016 along with water and wastewater rate studies.

- The combined Water/Sanitation Fund started construction of a new sewer treatment plant in 2014 with Honeywell overseeing the project. Estimated cost was \$6.2 million, but due to the delay and subsequent cost increases and compliance with the American Iron and Steel Act, the final cost was \$6.99 million. The Town received a State Energy/Impact Mineral grant in the amount of \$1 million to help offset the costs, only able to utilize \$904,000 before its expiration. A majority of the cost was financed by a combination of two loans, one of which is \$2 million at 0% for 20 years and the other a \$3 million 2.5% twenty year loan. The remaining amount is funded by CIRSA insurance payments and a grant from CDBG-DR, which is tied to the final Honeywell payment expected to be made in 2017. Loan payments commenced in 2015. The current plant ran parallel while the new plant was brought online. The Honeywell Performance contract, based on reduced operating costs, started in August of 2017. The plant is currently still operating higher than promised and the 2017 budget reflects the increased operating costs as well as a performance guarantee payment from Honeywell. The impact to ratepayers was a base rate increase of \$6 per month. This base rate increase started in 2016 and helped offset the new debt. The Town decided to infuse Capital from Fund Balance from the Water/Sewer Fund to cover part of the loan payments and thus lower the rate increase to Town customers. Overall savings due to the new highly efficient plant will reduce the Town's operating cost hopefully at some point in 2017.
- After more than three years since the 2013 Flood, the Town is continuing to rebuild at a pace dictated by a slow FEMA/State reimbursement process. Cash Flow is a concern. The Town had previously received \$6.5 million advance from the State but the slow reimbursement process has caused the Town to request an additional \$3 million dollar advance. As a requirement for this additional advance the State asked for a cash flow spread sheet from the Town. This process has caused the Town to prioritize the flood recovery projects based upon anticipated advances along with reimbursements. The Town tripled its employee base in 2015 to manage the increased workload from grants, projects, and finance. The mission of the Town is to rebuild better and stronger with an emphasis on the community's input on the LRAP priorities and goals.
- In determining and certifying the mill levy, the most restrictive guideline as set forth in Article X, Section 20 (TABOR) of the Colorado Constitution is used. The property tax revenue limit is \$597,821 in 2017. In order to restrict revenue at or below this amount, a temporary property tax mill levy credit of 3.826 mills will be applied to the 2016 mill levy of 19.522 mills. The certified Town of Lyons mill levy will then be 15.696 mills.

This budget message and the attached documents are respectfully submitted for final adoption on December 5, 2016.

Tony Cavalier, Finance Director