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| **MEETING DATE: September 26, 2023 ITEM NUMBER: 12.{{item.number}}**  **SECOND READING: {{customfields.ResoOrdNumber}}**  **TYPE OF ITEM: General Business  PRESENTED BY: Harold Dominguez, City Manager's Office, Harold.Dominguez@longmontcolorado.gov Jim Golden, Finance Administration, Jim.Golden@longmontcolorado.gov Teresa Molloy, Budget, Teresa.Molloy@longmontcolorado.gov Other City Staff** |

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| **SUBJECT/AGENDA TITLE:**  2024 Budget Presentation and First Public Hearing |

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| **EXECUTIVE SUMMARY:**  The Proposed 2024 Budget presentation will focus on the categories of pay corrections, financial policies, property tax, and the first public hearing on the 2024 proposed budget and the 2024-2028 proposed capital improvement program. This information is consecutively numbered and will be available on the City’s website with the 2024 proposed budget documents should we need to refer back to any information from this communication as we continue to move through the weekly 2024 budget presentations.  Link to all the budget documents:  [2024 Budget Documents](https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/budget-process/2024-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 2024 Proposed Budget, the 2024-2028 Proposed Capital Improvement Program, or the 2024 Proposed Pay Plan can access these documents on the City’s website at the following location: [2024 Budget Documents](https://www.longmontcolorado.gov/departments/departments-e-m/finance/budget-office/budget-process/2024-budget-documents)  **PAY CORRECTIONS**  Since the proposed budget was presented to Council on August 29 Human Resources has identified several corrections that needed to be made to the 2024 Proposed Pay Plan. Some corrections were typos that did not impact the market rates that were used to prepare the 2024 budget, however there are other corrections that did have an impact on the 2024 budget. The 2024 Proposed Pay Plan on the City’s website at the above link has been replaced with a new version that includes these corrections.  There are 8 pay plan titles (13 unique positions) for which the 2024 budget will need to be revised. These positions are Facilities Manager, Technical Services Manager, Meter Shop Supervisor, NextLight Technical Services Representative, Assistant City Manager Utilities & Public Works, Director of Electrical Services, Director of Electric Engineering, and Fire Protection Engineer. These changes are needed due to revised benchmarks, compression with subordinates, and error corrections.  There is also one position for which a job audit was performed that indicated the position needed to be moved from an Administrative Assistant to an Executive Assistant that should have been included in the proposed budget but was inadvertently left out. Finally, the budget will need to be updated to include the bonus for the LDDA Executive Director that was also left out of the original proposed version.  In total the proposed budget will need to be increased by $138,200 across 12 different funds. The amounts by fund are as follows:  General Fund $ 38,575  Electric and Broadband Fund 81,153  Water Fund 2,718  Sewer Fund 1,674  Storm Drainage Fund 1,674  Sanitation Fund 830  Street Fund 2,732  Public Safety Fund 3,051  Downtown Parking Fund 579  GID Fund 290  DDA A&E Fund 869  DDA Operating Fund 4,055  Total Pay Corrections Needed $138,200  The General Fund change will require ongoing revenue to cover it so the interest income will be increased by an equal amount.  **FINANCIAL POLICIES**  As part of the 2024 budget process staff has reviewed and updated the City’s current financial policies. All changes to the financial policies will be adopted by resolution (scheduled for October 24) and will become effective on January 1, 2024. The complete policies can be found in ***Attachment Q*** and reflect the proposed changes by using strikeouts for phrases to be removed and bold blue letters for new words or phrases to be added. Various policies include the comment **[TO BE UPDATED AFTER THE 2023 BUDGET IS COMPLETED]**. After staff receives final direction on the 2024 Operating budget from Council these policies will be revised to include 2024 Budget figures.  Several of the proposed changes recommended by staff are minor updates or clarification of information which do not change the intent of the policy and are not listed in this communication. If Council has questions on any changes, staff will be available to discuss them during the presentation. New policies, changes that go beyond updates or basic clarification, and policies to be removed are highlighted below.  ***New Policies***  One new financial policy is being proposed for 2024, Attainable Housing. With the creation of the Attainable Housing Fund as part of the 2023 Budget, this policy essentially mirrors the Affordable Housing policy, including the statement that up to 20% of all revenues may be used to cover administrative costs of the fund.  **Attainable Housing**  **In order to provide a secure funding source for attainable housing in Longmont, funding from the General Fund will be transferred to the Attainable Housing Fund.  Starting in 2024, up to 20% of all revenues deposited into the Attainable Housing Fund may be accessed to cover administrative costs for managing the Attainable Housing Fund and other leveraged funding sources for the purpose of attainable housing. The City will accept cash, land and property donations on behalf of attainable housing with all donations transferred to the Attainable Housing Fund or in the case of property/land held in perpetuity for attainable housing purposes unless determined by Council for a higher and better use.**  ***The City currently follows this policy. For 2024* a total of $600,000 of ongoing funding and $400,000 of one time will be transferred from the General Fund.**  ***Updated Policies***  Staff is proposing the following changes that are more than basic clarifications. These updates will change the intent and/or implementation of the policy:  In 2020 and 2022 an interfund loan was approved between the Fleet Fund and the Harvest Junction East Fund to provide funding for the improvements that the City committed to in the Costco development agreement.  The proposal was to repay the loan by using 1% of the 2% non-earmarked sales tax generated by the development.  Those specifics regarding the repayment were not included with the interfund loan resolution.  Staff is proposing to insert them into the existing financial policy that addresses the allocation of the 2% non-earmarked sales and use tax between the General Fund and the Public Improvement Fund.  ~~Sales and Use Tax Allocation between the General Fund and the Public Improvement Fund~~ **Allocation of the 2% Non-earmarked Sales and Use Tax**  The City Council will analyze the split between the General Fund and the Public Improvement Fund annually and set it in response to the operating and capital needs of the City. The current allocation of the 2.0 cents of sales and use tax revenue will be budgeted as 85% to the General Fund and 15% to the Public Improvement Fund. **Additionally, 1.0 cent of the 2.0 cent non-earmarked sales & use tax generated from the Harvest Junction East development will be transferred from the General Fund and the Public Improvement Fund to the Harvest Junction East Fund to repay the loan from the Fleet Fund to the Harvest Junction East Fund.**  Because of the volatility of use tax revenue, in periods of economic decline, the allocation of revenues in the budget will be as much of the sales tax as possible to the General Fund and as much of the use tax as possible to the Public Improvement Fund while still maintaining the 85% and 15% allocation of budgeted revenues respectively. Actual revenues received will be credited between the two funds in accordance with their respective budgeted shares of the **non-earmarked** sales and use tax as stated in the following implementation policy.  *~~In the 2023 Budget the allocation of the 2.0 cents of sales and use tax revenue will be 85% of the sales tax and 85% of the use tax to the General Fund and 15% of the sales tax and 15% of the use tax to the Public Improvement Fund~~.* ***[TO BE UPDATED AFTER THE 2024 BUDGET IS COMPLETE]***  Since the General Fund Oil and Gas Reserve has now been established staff is proposing to strike the following statement from this policy as it is no longer needed.  **Oil and Gas Revenue**  Royalty proceeds received by the City from City owned oil and gas mineral rights and leases will be deposited into the fund or funds that own the mineral rights. The revenues will be used first to defray all costs related to air quality, water quality, and soil monitoring, or other site investigations necessary to ensure public safety. Non-property specific costs, or City costs related to plugged and abandoned oil and gas facilities located on private property, are properly paid from the General Fund. ~~In the event that oil and gas revenues received in the General Fund are not sufficient to cover these costs, revenue will be transferred from other City funds to the General Fund to cover the required expenditures in proportion to the amount of oil and gas revenue received in any one fund in the prior year~~. All non-royalty revenues associated with costs of operating or maintaining specific sites will be deposited into the fund or funds that own those sites. A reserve of five years of estimated costs has beenestablished in the General Fund.  *The City currently follows this policy.*  The following policy updates will further clarify the procurement thresholds to match what was recently updated in code.  **Procurement Thresholds**  The City will use methods of procurement for City goods, services, and construction in compliance with thresholds as defined in the Purchasing Code (LMC 4.12). The thresholds include (1) micro, for which vendor selection is at the discretion of the end user, (2) small, for which vendor selection requires ~~solicitation of a minimum of three~~ **an adequate number of** documented quotations, and (3) formal, for which vendor selection requires a formal/sealed competitive solicitation of bids or proposals. The dollar amount for each threshold is included in the Financial Policies for annual review and adjustment as appropriate.  Standard procurement thresholds:  Micro: up to **and including** $10,000  Small: up to **and including** $250,000  Formal: over $250,000  Procurements valued between $10,000 and $250,000 require solicitation of ~~a minimum of three~~ competitive, documented quotes conforming to the requirements of LMC 4.12, using a sourcing and evaluation method which must be approved by central professional procurement staff prior to issuance of an award.  *The City ~~will amend LMC 4.12 in 2023 to (1) remove references to specific dollar amounts attributed to each threshold and (2) update terminology to differentiate between micro and small purchases~~* ***currently follows this policy****.*  Staff is proposing the following changes to the Human Service Agency Funding policy in anticipation of the possible passage of the ballot initiatives that will be on the ballot in November.  **Human Service Agency Funding**  In order to provide a stable funding source to independent human service agencies, which provide needed programs to Longmont residents and/or to fund Council-directed initiatives that address system changes to improve human service outcomes, 3.0% of the General Fund's budgeted tax revenues (to include **the general operating** property tax **mill levy**, sales and use tax, cigarette tax, and all franchises) revenues will be allocated for this purpose.  *~~The 2023 Operating Budget includes $2,468,850 for contracts for service with human service agencies, which meets the 3% requirement.~~* ***[TO BE UPDATED AFTER THE 2024 BUDGET IS COMPLETE]***  The following changes are being proposed to add clarity that this policy only applies to regular full time employees and not temporary employees, as well as further clarify the types of contracts that are exempt from this requirement.  **Living Wage Requirement**  The City supports a living wage for employees of suppliers under contract with the City. In October 2020 a clause was added to every procurement contract with a service component requiring the contractor to pay a living wage to **regular** full time employees working under the contract. Non-profit organizations, state or federal mandated or funded programs, goods and supplies contracts, **construction contracts, contracts not sourcing local labor,** loans or grants awarded by the City, and cooperative contracts awarded by other agencies and utilized by the City are exempt from this requirement.  *The City currently follows this policy.*  As previously discussed with Council, the Affordable Housing policy is being updated to indicate that up to 20% of all revenues may be used to cover administrative costs.  **Affordable Housing**  In order to provide a secure funding source for affordable housing in Longmont, all revenues from payments made by developers in the form of “fees-in-lieu” of providing affordable housing under the Inclusionary Housing program as well as loan payments are deposited into the A**ffordable** H**ousing** Fund.  The $1 million from the General Fund and ½ of the marijuana tax collected will be transferred to the Affordable Housing Fund.  In addition, the City will strive to transfer from the General Fund enough funding annually to cover the administrative costs associated with managing the affordable housing programs.  Starting in 202**~~2~~4**, up to **~~10~~20**% of all revenues deposited into the Affordable Housing Fund may be accessed to cover administrative costs for managing the Affordable Housing Fund as well as any CDBG or HOME administrative costs not covered by those grants (in excess of their administrative caps). The City will accept cash, land and property donations on behalf of affordable housing with all donations transferred to the A**ffordable** H**ousing** Fund or in the case of property/land held in perpetuity for affordable housing purposes unless determined by Council for a higher and better use.  *The City currently follows this policy.*  ***Policies to be Removed***  The Raw Water Storage Reserve Fund was recently closed so this policy is no longer needed.  ~~Raw Water Storage Reserve Fund~~  ~~The Raw Water Storage Reserve Fund was initially funded from proceeds from the sale of the high mountain dams. These funds will be used to develop the City's winter water supply as part of the City's water system.~~  *~~The City currently follows this policy~~.*  **PROPERTY TAX**  ***Background***  As City Council is already aware, tax year 2023 is a reassessment year in which the final assessed values will determine the level of property tax in the 2024 budget.  In May of this year the County Assessors released preliminary values that indicated an increase of 35.4% for 2023 values.  The values were to represent value as of June 30th, 2022, which may have been a peak period of time for the housing market on the Colorado Front Range.  The State legislature passed Senate Bill 23-303 to put on the November ballot Proposition HH that would reduce property taxes and voter-approved revenue change.  Initial reports referred to the potential for the proposition to reduce the potential growth in residential values by up to 50%.  If even accurate, that was a statewide estimate.  Individual entities will each have their own impacts based on the mix and values of the properties within the entity.  The Assessor Offices throughout the State received a great many appeals in response to the preliminary values.  The Boulder County Assessor’s office informed staff that around 75% of the appeals have been denied but those can be further appealed to the County Board of Equalization.  ***Legislative Factors***  During the 2021 legislative session, the Colorado legislature passed SB21-293, intending to temporarily cut property taxes in an attempt to address anticipated increases in property taxes due to the 2020 repeal of the Gallagher Amendment.  Because Proposition 120 did not pass in November of 2021, the tax rate reductions from SB21-293 would have expired after tax year 2023.  So in 2022, the Colorado legislature passed SB22-238, which further reduced property taxes for tax year 2023 and extended additional reductions into tax year 2024.  On the last day of the 2023 legislative session the Colorado legislature passed SB21-293 which again is trying to address property tax spikes looming on the horizon.  In summary, SB23-303 will:   * Reduce assessed valuations for many classes of real property, including certain new subclasses of property, * Extend these reductions for the next ten years, * Allow the state to backfill the lost revenues to local governments by increasing the cap on tax revenues the state may retain (by reducing TABOR refunds to taxpayers),and * Allocate up to $20m in funds toward rental assistance   Before this bill can be enacted into law, portions of it must go to the voters in Proposition HH in November.  If HH fails, then the property tax reductions and local government backfill set forth in SB23-303 will be repealed and will not go into effect.  Until the passage of SB21-293, the property tax assessment rates in Colorado were 29% for commercial/industrial and 7.15% for residential.  Both of the legislation referenced above changed assessment rates to a much more detailed level.  Staff will not try to explain in detail the impacts of the legislation but we are including ***Attachment R*** and ***Attachment S***, one of which provides more detail on the impacts of the legislations, the other that identifies the differing assessment rates under the legislations.  ***Property Tax Revenue Estimates***  On August 28th staff received a preliminary assessed valuation that results in a property tax revenue increase of 35.4%.  Due to the timing this information was not a consideration in the building of the proposed budget.  Nevertheless, the May projection of a 35.4% increase was considered.  The May estimates would have resulted in a $8.39 million increase in 2024 property tax revenue over the 2023 assessed levels.  In building the proposed budget, staff utilized $3.5 million of new property tax revenue for ongoing expenses.  This was a rough projection based on the limited information on the impacts of HH and the expectation that at least 25% of the appeals were granted.  The proposed budget also includes $3.5 million more of new property tax revenue for one time expenses.  Staff considered about $3.0 million of this amount to be dependent on the outcome of Proposition HH and resolution of the remaining appeals.  Whatever amount of new 2024 property tax in excess of $3.5 million that there ultimately is could then be available to be used as new ongoing revenue in 2025.  Under Senate Bill 23-303, there was a requirement that County Treasurers were required to provide to the State Property Tax Administrator by September 15th certain property tax data for each taxing jurisdiction within the county.  The required data includes:   * Total property tax revenue reduction estimate for 2023   + Reductions from SB22-238   + Combination or reductions from SB22-238 and SB23-303 * Increase in assessed value estimate from 2022 property tax year   + Reductions from SB22-238   + Combination or reductions from SB22-238 and SB23-303   Staff received copies of this information on September 20th and 21st.  While the data we received in late August from Weld County had already considered the impacts of SB22-238, the data that we received then from Boulder County had not.  The combined data in late August indicated a potential increase in property tax revenue, before the impact of appeals and Proposition HH, of up to $8.3 million.  But the most recent information received now indicates a potential increase in property tax revenue, before the impact of appeals and Proposition HH, of up to $6.3 million.  Thus the impact of SB22-238 on Longmont, from Boulder County property alone, was a decline of $2 million of property tax revenue.  Further, the information received this week also indicates that if Proposition HH were to pass, the reductions would result in a potential increase of $5.2 million in property tax revenue over the 2023 assessed levels.  Thus the impact of HH on Longmont is a decline of $1.1 million of property tax revenue.  Again, we have included new property tax revenue in the 2024 proposed budget of $7 million.  Ongoing expenses of $3.5 million and one-time expenses of $3.5 million, with $3 million of the one-time expenses undesignated.  Considering the new information staff is recommending a reduction of at least $700,000 to that amount.  This would set the new revenue at the level of revenue the City might receive if Proposition HH were to fail.  We might also consider increasing that by $300,000 for potential appeals as well as that number is not included in any of these projections.  ***Deadlines***  If SB23-303 (Prop HH) passes in the November election, deadlines for final certification and mill levies will change for 2023 as follows:  Current Deadline               New Deadline  Final Certification                                          December 10th     December 29, 2023  Mill Levies to Assessor                                  December 15th       January 5, 2024  Certification of Mill Levies                           December 22nd      January 12th, 2024  While the final certification deadline is currently December 10th, it is typical for the data to be received after the third week of November.  Ultimately, the final assessed valuation amounts will be determined by a number of factors including the outcome of the vote on Proposition HH and the appeals to the CBE.  The earliest we will find out the final assessed valuations would be November 21st but if Proposition HH were to pass then that could be delayed until December 29th.  ***Process***  Under section 9.6 of the City Charter the City Council must fix the mill levy, “not later than November 1 of each year, or such other date required by law.”  In keeping with this charter requirement, and as part of the 2024 budget process, we will be bringing the mill levy ordinance to fix the current 13.42 mills to council for first reading on October 10 and second reading on October 24.  If the proposed ballot questions were to pass, the only mill levies that would be imposed for collection in 2024 are the 2.78 mills for the Dry Creek recreation facility and 1 mill for the library.  With the election being after the Charter deadline, staff is proposing to include these two levies within the ordinance that levies the 13.42 mills so that City Council is conditionally authorizing the addition of the respective mill levies to the base 13.42 mills should the voters pass either or both of the ballot questions.  It would read something like “if either of these two ballot questions pass, council adopts a mill levy of 13.42 mills plus 1.0 mills if ballot # 3C passes, and 2.78 mills if ballot #3E passes”.  We have run this solution past our bond counsel who is in support of it.  The ordinance will also delegate the final determination of the mill levy to the CFO as the estimates of property tax for the ballot questions were conservative and final assessed valuation data will likely result in a lower mill levy to produce the revenue identified for the debt service on the Certificates of Participation.  In the near term, staff will try to find out from the Boulder County Assessor’s office how much the potential property tax revenue will diminish based on the outstanding appeals.  If Proposition HH fails, then there would be up to $2.3 million (less appeals) budgeted and available for one-time expenses in 2024.  The City Council could give direction on that use in November.  If Proposition HH passes, that amount would only be up $1.2 million (less appeals).  In that event, because of the revised deadlines in the assessed valuation certification process, the use of monies could not be considered until January.  **2024 BUDGET CHANGES**  An overview of all changes since the 2024 budget was first presented on August 29 will be included in the information for the October 3 budget discussion.  Should any of the City’s ballot questions pass in November staff will need to amend the 2024 budget prior to the city charter and state deadline of December 15.  **PUBLIC HEARING**  The Municipal Charter of the City of Longmont requires that the City Council hold a public hearing on the proposed operating budget for the next fiscal year on or before October 1 and advertise the hearing five days prior to the meeting date. The City has historically also included in this public hearing the proposed Capital Improvement Program (CIP).  This is the evening of the first public hearing on the proposed budget and CIP. The second public hearing is scheduled for October 3. Both public hearings will be advertised in the *Times Call*.  Staff recommends that you hold one public hearing and take citizen comment on both of these topics, since CIP budgets are included in the Proposed 2024 Operating Budget. |
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| **ATTACHMENTS:**  Attachment Q – 2024 Proposed Financial Policies  Attachment R – Major Property Tax Relief Passed by the Colorado Legislature, Now It’s Up to the Voters  Attachment S – Colorado Statewide Property Tax Assessment Rates for Tax Years 2022-2025 |