



2023-2024 Summary Budget Message

Dear Mayor and City Council,

On behalf of the City of Fountain, following is the balanced budget for the 2023-2024 Fiscal Year. This budget has been prepared using budgetary practices and techniques recommended by the Governmental Accounting Standards Board (GASB).

Within the framework and policies established by the GASB and the City of Fountain, this budget has been prepared after analyzing and evaluating detailed requests from each of the City departments. The intent of this budget document is to provide a clear picture of the financial condition of the City and the planning needed to properly manage our financial resources for the coming year. As usual, sincere appreciation should be expressed to the staff and department heads for the amount of work and effort expended in this process under tremendous time pressures.

As in years past, the staff is committed to providing services in a more efficient manner than ever before, and continues to provide the foundation for improvement in the future.

The City utilizes a two year budget cycle wherein only the first year is approved by Council prior to the beginning of the year. The second year is used as a future guide and corresponds with each department's two year plans. The second year is reviewed again by City Council in the summer and fall of the next year and not approved until certain adjustments are eventually made, at the suggestion of staff and/or Council. Based on this practice, the Fiscal Year 2023 budget included in this document has been approved by Council. The Fiscal Year 2024 budget included in this document remains at the proposed stage until the next annual budget cycle.

TOTAL BUDGET

The overall approved City Budget for Fiscal Year 2023 is \$83,115,715 and the proposed City Budget for 2024 is \$82,218,758. The total approved General Fund budget for the City of Fountain amounts to \$30,483,643 for Fiscal Year 2023 and the proposed budget for 2024 is \$30,194,933.

At the end of 2022, the total Unrestricted Fund Balance (including the 3% TABOR requirement) is projected to be approximately \$8,000,000 in the General Fund. In reality, that figure will likely be higher due to the fact that City Departments typically spend less than their budgeted appropriations, however, that is what is projected at this time. When applied against the total operating budget for the General Fund, it ends up equaling 24.2%, or approximately \$1,387,000 more than the City's 20% Financial Policies goal.

Through the 2023 budget process, we anticipated having additional funds in the General Fund of approximately \$381,000 on top of the \$1,387,000, for a total of \$1,768,000. However, due to an anticipated decrease in General Fund spending, the actual excess over the 20% goal is expected to approximate \$2.2 million at the end of 2023. These amounts are after a recommended salary and benefits merit increase of 7% as well as \$250,000 set-aside for a potential future recreational pool. City Council supported those and other recommendations, which are detailed below. Upon review of the 2023 proposed budget, City Council may request that additional dollars be allocated to other Council priorities.

FINANCIAL ENVIRONMENT AND CONDITION

The Financial environment and condition of Fountain during 2022 was volatile, while feeling the initial effects of the economic impacts of inflation worldwide and their trickle-down effects to the State of Colorado and the El Paso County Region. Fortunately the City experienced relatively stable revenue growth, due in large part to a strong economy in the El-Paso county area. Finally, Fountain's largest retailers, which are those that experienced the greatest degree of sales during the height of the pandemic (Lowe's, Wal-Mart, and Sam's Club) continued to provide stability for our sales tax revenue. That being said, we have taken a cautious approach to the development of the 2023-2024 budget and have worked to new departmental initiatives and capital costs to a minimum.

The budget has been developed using conservative but realistic housing and growth figures based on the large number of developments and developable acreage that is currently working its way through Community Development.

SIGNIFICANT BUDGETARY ISSUES

There are multiple significant budgetary issues that were addressed through this 2023-2024 budget proposal. This portion of the budget message highlights those particular funding requests (new personnel, programs, projects, or policy issues) which have a significant impact on the City of Fountain's budget.

Organization-Wide Issues

Following are some specific issues that impact our budget organization-wide:

- Salaries & Benefits. In the past, the City Council has indicated a desire to ensure that the City is able to provide salary increases within the budget. Consequently, the budget included a *recommended* 7% merit pool, with an associated cost of \$966,000 to the General Fund that was approved by City Council. While this still will not surpass inflationary pressures, it does go a long way to helping to ensure that staff salaries will not fall further behind the market.
- Although there continue to be increases to health insurance plans nationwide, the City started self-insuring for health insurance several years ago and has been able to keep increases to our medical costs to a minimum. For the 2023 budget year, there are no premium increases and claims are anticipated to increase by a little over \$700,000. The projected fund balance at the beginning of the year of over \$3 million will be more than enough to absorb these increased claims costs if they are realized. There is no projected increase for 2024.
- Ballot Measure 2B, a property tax increase for Public Safety, has not been added to the budget.
- Inflation. Inflation has been extremely volatile, ranging upwards of 9% and – at the time of this budget document – is hovering around 8.7%. The increase in inflation and other worldwide events, such as the war in Ukraine, will continue to have an impact on the costs of materials and supplies, capital projects, and equipment.

General Fund

Over recent years, we have continued to provide a basic General Fund budget that meets the service level needs of the community in a very efficient, cost-effective way. That focus continues with the 2023-24 budget. Following are some of larger needs that are included in the budget.

- Elimination of Franchise fee to Water Fund for 2023 and 2024. Due to the desire to stabilize the Water Fund, the budget includes a temporary freeze on the franchise fee transfer from the Water Fund to the General Fund. This eliminates approximately \$595,000 annually in revenue to the General Fund and, conversely, expenditures from the Water Fund.
- Addition of \$200,000 to contract for ROW Mowing.
- Fleet: Beginning in 2023, the Fleet department was transferred from the Electric Fund into the General Fund.

- OEM/Risk Management: Beginning in 2023, the OEM budget was combined with the Neighborhood Services budget.
- Capital. Total approved capital for the General Fund is \$904,305 for 2023 and \$754,715 is proposed for 2024.
 - 2023 capital needs are:
 - Fire – Bunk room remodels for station 1 and 3 - \$50,000
 - Fire - Radio replacements - \$35,715
 - Fleet – Alignment machine accessories - \$23,000
 - IT – Fingerprint scanners and media room A/V systems at PD -\$47,000
 - IT – Data center upgrades -\$99,990
 - PD – Patrol vehicles. \$93,000
 - PD – Two way radios and replacement drones -\$39,000
 - Streets – Tandem dump truck/snowplow -\$252,000
 - Streets – Wood chipper -\$45,000
 - Streets – Back –up battery for street light -\$39,600
 - Public Works – CDBG ADA accessibility improvements -\$120,000
 - Parks – Bobcat trencher attachment - \$10,000
 - Parks –Aga Park splash pad pump house improvements -\$50,000
 - Parks – \$31,300 from Conservation Trust funds for the Cheyenne Ridge park
 - 2024 capital needs are:
 - FD – Continuation of radio replacement plan -\$35,715
 - FD – ITS Fire Extinguisher Trainer -\$19,000
 - IT – PD and Fire MDT replacements -\$101,000
 - PD – 2-way radios \$27,000
 - PD – Police vehicles \$225,000
 - Parks – Aga park splash pad pumphouse repairs and replacements -\$165,000
 - Streets – Asphalt compactor -\$62,000
 - Public Works – ADA accessibility improvements - \$120,000
- Personnel. There were no new personnel requests for either the 2023 or 2024 budget years, however, both years do include the Assistant City Attorney and Recreation Assistant positions that were approved by City Council in September 2022, as well as a reallocation of the Economic Development Director, moving that position’s salary to be allocated 80% to the General Fund and 20% to Water & Electric Utilities.

Water Fund

The theme for the 2023/2024 Water Fund budget is stabilization. Recent capital investment in the water system has caused the net position of the Water Fund to increase while causing the cash position to decline, creating an interfund payable to the Electric Fund. Cash is needed to pay for the daily operations and maintenance of the water system, to pay for capital improvements needed to keep the water system operating reliably at an appropriate level and to pay the debt obligations of the utility. Continued dependence upon the Electric Fund is no longer viable. The ultimate goal is to eliminate the interfund payable and build a reserve in the Water Fund. To do so, costs must be closely managed and reduced in areas where cost reductions will not result in an adverse impact to the water system, the allocation of the general government support costs must be reviewed and reallocated in an equitable manner and ultimately, rates will have to be reviewed to ensure that the rate structure is meeting the revenue requirements of the utility.

- Total Budget. The proposed Water Fund budget is approximately \$11,125,000 for 2023 and \$10,367,000 for 2024. The proposed budget expenses do not include the principal portion of the debt payments.
- Personnel. There are no new positions in either 2023 or 2024. The proposed budget for 2023 includes a 7% increase in salaries.

- Debt Payments. Principal and interest are approximately \$3.27M in 2023 and \$3.32M in 2024.
- Source of Supply. Combined all sources are approximately \$2.73M in 2023 and \$2.87M in 2024.
- Payment to the General Fund: As mentioned above, the payment to the General Fund in lieu of franchise fee is proposed to be waived in 2023 and 2024.
- Non-restricted Capital: The proposed non-restricted capital expenditures total \$1,044,640 for 2023 and \$103,500 for 2024.
 - 2023 proposed non-restricted capital expenditures are:
 - Aga Park restoration (restore areas of the park disturbed by construction of the new treatment facility) - \$70,000
 - Participation in the Widefield Aquifer Recharge Association - \$25,000
 - Various minor system component replacements - \$46,000
 - Meter replacements (includes water AMI system) - \$625,000
 - Repairs for Venetucci wells (City's portion = 10%) - \$12,500
 - SCADA System Upgrades - \$28,000
 - Water rights (various costs associated with acquisition and conversion) - \$25,000
 - Leak detection equipment - \$30,000
 - Transceivers for water meter reading - \$12,000
 - Water conservation tools (Xeriscape demo gardens, etc.) - \$20,000
 - Technology systems upgrades and hardware replacement - \$151,140
 - 2024 proposed non-restricted capital expenditures are:
 - Participation in the Widefield Aquifer Recharge Association - \$25,000
 - Various minor system component replacements - \$46,000
 - Repairs for Venetucci wells (City's portion = 10%) - \$12,500
 - Conservation tools (Xeriscape demo gardens, etc.) - \$20,000

Electric Fund

The theme for the 2023/2024 Electric Fund budget is also stabilization. Recent capital investment in the electric system has caused the net position of the Electric Fund to increase while causing the cash position to decline, significantly diminishing the cash balance in the Electric Fund. Cash is needed to pay for the daily operations and maintenance of the electric system, to pay for capital improvements needed to keep the electric system operating reliably at an appropriate level and to pay the debt obligations of the utility. The recent declining trend in the Electric Fund cash balance is not sustainable. The ultimate goal is to reverse the declining trend and build a reserve in the Electric Fund. To do so, costs must be closely managed and reduced in areas where cost reductions will not result in an adverse impact to the electric system, the allocation of the general government support costs must be reviewed and reallocated in an equitable manner and ultimately, rates will have to be reviewed to ensure that the rate structure is meeting the revenue requirements of the utility.

- Total Budget. The proposed Electric Fund budget is approximately \$30,966,000 for 2023 and \$31,534,000 for 2024. The proposed budget expenses do not include the principal portion of the debt payments.
- Personnel. There are no new positions in either 2023 or 2024. The proposed budget for 2023 includes a 7% increase in salaries.
- Debt Payments: Principal and interest are approximately \$937k in both 2023 and 2024.
- Source of Supply: Combined all sources are approximately \$17.8M in 2023 and \$18.5M in 2024. If Guzman does not terminate their purchase power agreement with the City, the source of supply costs will be reduced by approximately \$1.6M in 2023 and \$1.98M in 2024.
- Payment to the General Fund: The proposed payment to the General Fund in lieu of franchise fee is 5% of the Electric Fund operating revenue for both 2023 and 2024.
- Non-restricted Capital. The proposed non-restricted capital expenditures total \$1,160,850 for 2023 and \$1,026,000 for 2024.

- 2023 proposed non-restricted capital expenditures are:
 - Power factor testing for substations - \$26,000
 - Concrete pads for UOC outdoor storage - \$70,000
 - System improvements - \$750,000
 - Vehicle replacement and radio replacements - \$35,500
 - Technology systems upgrades and hardware replacement - \$279,350
- 2024 proposed non-restricted capital expenditures are:
 - Power factor testing for substations - \$20,000
 - Transmission right-of-way acquisition (Riverbend substation) - \$150,000
 - System improvement - \$750,000
 - Wire trailer and radio replacements -\$46,000
 - Technology systems upgrades and hardware replacement - \$60,000

BUDGET POLICIES

This budget document has been prepared pursuant to Section 9.6 of the Fountain City Charter and has been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The budget has also been prepared to comply with all applicable State of Colorado statutes and regulations.

The City utilizes fund accounting to account for the different functions and activities of the City. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The City further identifies divisions of each fund as departments. A department is an administrative division of the City that has management responsibility for an operation, or a group of related operations, within a functional area. Examples of departments within the General Fund would include the Police Department, the Fire Department, City Clerk, Public Works, etc. Departments are then divided further into personnel, non-personnel and capital outlay categories. The objects appear in the budget as "line items".

The City uses the modified accrual method of accounting as the budgetary basis for governmental funds, which include the General Fund, Special Revenue Funds, Debt Service, Capital Project Funds, and Permanent Funds. Under this method, revenues are recognized in the period they become measurable and available to finance expenditures of the period and expenditures are recorded when incurred with the exception of principal and interest on long term debt, which are recorded when due. The basis of budgeting is identical to the basis of accounting used the audited fund financial statements.

The City uses the accrual method of accounting as the budgetary basis for proprietary funds, which include Enterprise Funds and Internal Service Funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The following are exceptions from the budgetary basis to the audited fund financial statements:

- Capital outlay is budgeted as an expenditure in the year purchased
- Depreciation is not budgeted
- Proceeds from the issuance of debt are considered to be revenues, not an increase in liabilities
- Salaries and benefits are budgeted as an expenditure; however, for the electric fund, the portion of the salaries and benefits related to new construction for the electric system is capitalized in the audited financial statements.

The City uses the accrual method of accounting as the budgetary basis for fiduciary funds. The budgetary basis is identical to method used in the audited financial statements.

In 2023, the City adjusted the capital threshold definition from \$5,000 and a one-year useful life to \$10,000 and a two-year useful life.

CONCLUSION

As indicated above, the budget for 2023-2024 is accomplishes many of the Council's strategic objectives, while being cautiously optimistic towards how inflation and the impending recession may impact our revenues. It also makes some slight adjustments to assist with the stabilization of the utility funds. As a reminder, this is a two year budget. City Council has approved the 2023 numbers included in this budget document. The 2024 numbers that are proposed will be once again reviewed by City Council later in 2023. Historically, City Council requests changes to those numbers prior to their appropriation.

Thank you to the City's Department Heads, who manage their limited resources on a day-to-day basis with the City's residents in mind. Thanks also to those employees who make these decisions every day -- their commitment to making the most of each taxpayer dollar is the key to a successful budget. And finally, thank you to the City Council for their efforts and focus on providing a Strategic Plan that has helped provide focus to departments and for their diligent review of the budgetary needs of the organization.

Sincerely,



Scott Trainor
City Manager