

# **Citizens' Budget Advisory Committee Report**

**Littleton City Council  
July 10, 2007**

**Ad Hoc Committee appointed by the Mayor:**

**Rick Acres  
Karl Berry  
Mary McGlone  
Mark Michel  
Bill Snyder**

# **Report of the Citizens' Budget Advisory Committee to the Littleton City Council July 10, 2007**

## **Background**

The Citizens' Budget Advisory Committee has served as an ad-hoc committee appointed by the mayor to examine issues surrounding the Taxpayer Bill of Rights (TABOR). The committee met on a bi-weekly, and sometimes weekly, basis from February through June. This report details our recommendations and summarizes our process of deliberation.

The committee was composed of Rick Acres, Karl Berry, Mary McGlone, Mark Michel, and Bill Snyder. Many members have prior experience dealing with budgets and planning from other organizations, including Littleton Public Schools, the Bemis Library, Arapahoe County, and private industry. From our initial discussions, it became clear that we brought differing predispositions regarding TABOR to the table. Some members of the committee were generally in favor of eliminating revenue and spending restrictions on a permanent basis, while others prefer to do so only on a temporary basis for specific purposes. As such, we believe that the committee represents a cross-section of the views of the Littleton community as a whole, and the results of our research were not pre-ordained.

The members of the committee did agree on some background conclusions: a) That Littleton provides a high level of government services without imposing a high tax burden. Moreover, residents of the City are in general satisfied with the level of services that they receive; b) The City is very well managed and is in strong financial condition. We commend the staff and Council for making this happen.

## **Research**

The committee both reviewed data and sought information from various individuals. In particular, we reviewed the budget, the Comprehensive Annual Financial Report, 2007 revenue and TABOR excess projections, and the special projects fund. Additionally, we met with city staff who could provide a greater level of expertise on various subjects we were interested in, particularly Jim Woods (City Manager), Charlie Bloston (Public Services Director), Tiffany Hooten (Accounting Manager), Chris Gibbons (Business and Industry Affairs Director), Larry Berkowitz (City Attorney), and Ken Price (Information Services Director). We found the city staff to be knowledgeable and quite helpful in our research. We also met with Amy Conklin, Doug Clark, Bruce Stahlman, and Mayor Jim Taylor to gain their perspectives. Tony Gallagher, a citizen who is an officer in the Littleton Police Citizen's Academy Alumni Association provided us a memo in support of police facilities. We discussed a variety of topics that came to bear on the issue, including future revenue projections, capital spending plans, ongoing budget needs, the Water Fund, prospects for business growth, among others.

## **2006 TABOR Revenue Surplus**

The Finance Department has determined that there was a TABOR revenue surplus of \$1.1 million, subject to final audit.

## Recommendations

Based on the results of our research, we were asked to make recommendations surrounding four questions. Two of these were related: **Should the City ask to keep excess TABOR funds, and if so, for how long and for what purposes?** The committee came to the following conclusions:

a) Approximately \$500,000 of the \$1.1 million excess in 2006 is attributed to open space funds received from the Arapahoe County Open Space Tax. This tax was approved by the voters for expenditure only on open space and it was exempted from TABOR requirements at the county level. However, the City is not exempt from TABOR requirements related to these open space funds. The committee unanimously agreed that the City should seek permanent removal of revenue caps for such open space funds, thus excluding these funds from the City's overall TABOR calculation.

We came to this conclusion for three reasons. First, this reflects the intent of the voters. Voters approved this tax when it was on the ballot in 2003. Secondly, if this money is refunded to taxpayers, it would have to come from reductions in other city expenditures or reserves, as the monies received from the County for open space can only be used for open space. We believe making such cuts in city services or using reserves would be unwise. Finally, residents of the City have consistently supported open space acquisition.

b) For 2006, this still leaves a surplus of approximately \$600,000. We believe that regardless of philosophical considerations, the City would only have a chance of passing a TABOR referendum that was for a very limited time span of 2 or 3 years. However, 2007 projections indicate that the City will likely be well under the TABOR limit next year. The recent defeat of Wal\*Mart makes a surplus in 2008 less likely. As such, it appears that a short-term lifting of the TABOR revenue cap would in actual practice only have an impact for one year. With this background, a majority of the committee concluded that the remaining 2006 excess should be refunded.

Our conclusion is based on multiple factors. First, a practical consideration: Based on the election results of the recent grocery tax repeal, the police building, referendum 2A from 2006, and now Wal\*Mart, the committee believes that the prospects for a successful ballot issue at this time would be questionable at best. Further, we perceive a level of distrust in the community regarding recent Council decisions pertaining to taxation and finance. Second, although committee members disagree on the value of TABOR revenue caps in general, we do agree that temporarily suspending TABOR elections and refunding some excess revenue may serve to improve community relations. Strong confidence within the community will be essential when the City needs to go to the voters for a future ballot issue. Third, there did not appear to be a compelling project identified to dedicate this money toward. There was a larger than expected budget draw with street maintenance resulting from the costly winter of 2006-2007, but the committee believes that existing fund balances will cover this overage. Finally, seeking to remove all TABOR revenue limits for 2006 could jeopardize approval of the committee's open-space recommendation.

**The third question the committee was asked to address is the method of refunding the excess.**

Our discussions focused on finding a method of refund that met the criteria of being equitable, practical, cost-effective, legal, and timely. We discussed this issue extensively, with two options meriting the most consideration:

a) A sales-tax holiday. We envision that such a holiday would work as follows: The City designates a day or period of time in which the City's portion of the sales tax is dedicated as a TABOR refund. The City sales tax on any purchase made during this time are eligible for a refund from the City. A customer of a Littleton business would go online or call a specified phone number and get a reference number for the amount of the eligible purchase. Once the total TABOR refund amount is reached, reference numbers will no longer be issued. The customer will then mail in a copy of the receipts/bills of sale to the City, along with mailing information for the refund. The City will process this information, verify large dollar refunds for legitimacy, and mail the checks.

This approach for a sales-tax holiday allows the City and its merchants to promote it and increase sales as a result. It also ensures that the City actually refunds the amount that it is required to under TABOR. Finally, it does not burden merchants by repeatedly changing tax rates for short time periods.

b) A temporary mill levy reduction. A refund via property tax reduction is very straightforward, as the City simply adjusts its 2007 mill levy downward for this one year.

Other refunding methods the committee considered included: refunding building permit and use tax revenue, refunding to every adult person residing in the city limits, refunding to every registered Littleton voter, and a reduction of sewer utility bills. For a variety of reasons, these methodologies fell short of our criteria.

We concluded that a temporary mill levy reduction best meets the stated criteria for the amount the City will need to refund for 2006.

The sales tax holiday had a philosophical appeal because that is the source of most of the City's tax revenue, but we ultimately concluded that the administrative and development costs combined with a short implementation timeline made it unfeasible. Such costs would have to be taken from the general fund, as opposed to being deducted from the refund amount. Also of concern is the fact that approximately 50% of the refund could go to non-residents. Finally, the bulk of the refund would go to those making large purchases like automobiles, which may be viewed as inequitable.

A temporary mill levy reduction is practical, costing essentially nothing to implement, and goes to people and businesses in Littleton. Residents do not need to mail receipts and cash checks to get their refund. On the other hand, as commercial property tax rates are higher than residential, the largest refunds would go to large businesses such as Xcel or Qwest. This, along with the fact that renters would not receive a refund, again could be viewed as inequitable.

On balance, we came to agreement that a temporary mill levy reduction best satisfied our criteria to refund the remaining estimated \$600,000 in TABOR excess revenues for 2006. Should the City need to refund a larger amount in the future, however, other options should be considered.

**The final question we were asked to address is whether there are long-range revenue projections that would allow for repayment of bonds, solving police space problems, and covering ongoing city expenses.** The committee came to the following conclusions:

a) The question of whether the City can use the water fund money for other purposes will likely be resolved legally within the next year or so, making it imprudent to spend, commit, or allocate the water fund money at the present time. However, should court rulings indicate that we can use this money for purposes other than water projects, the committee agrees that the City should use it for such things as capital projects as opposed to supporting ongoing costs. Additionally, resolution of the water fund issue will clarify whether future TABOR elections will be required and remove it as an issue in future elections.

b) Some of the people we met with expressed concern that certain city expenses, such as health insurance and road construction costs, are unavoidably increasing faster than the rate of inflation. The cost to provide the same level of services that the City currently does may be higher in the future. This issue should be monitored closely for total costs, because some costs may be decreasing while others are increasing. Reliance on TABOR surpluses for ongoing expenses is imprudent because such revenues are inconsistent. If at some future date TABOR caps are removed, these funds should continue to be used for capital projects.

c) Ultimately, we could not make a determination on the question of whether projected revenues will be sufficient to cover expected costs, as the City does not have true long-range revenue forecasts. We were ultimately not able to determine answers to such questions as: What would have to happen to produce consistent TABOR excesses in the future? What would be the result if major new retail projects do not come on line over the next 10 years? A study of past revenues versus retail space and other factors would be most useful in addressing this question. The City needs forecasts based on this type of detailed analysis as opposed to simply projecting past trends into the future. Furthermore, additional planning of long-term capital needs should be done. We were able to review a medium-term capital projects plan that would fit within the current budget, but we believe there should be additional planning, particularly detailing future projects that are necessary as well as those that are considered desirable.

d) The committee in its deliberations was concerned that reserves be sufficient to maintain city services in the event of a major economic downturn. We recommend that the Council clarify what reserves can be used to cover operational expenses in this case and what amount of reserve is sufficient for this need. The Comprehensive Annual Financial Report indicates overall fund balances, but we believe that the City should have a more detailed policy and explanation on what reserves are required, how they can be used, who may authorize their use, and how they are to be replenished.

## **Concluding Recommendations**

It became clear to us in the course of our deliberations that the City could benefit from better communication with citizens on financial issues—both in providing information and seeking input. For example, other governmental entities often begin voter education efforts over a year before an issue is placed on the ballot. More effective ways to promote what the City does well should also be explored. The City should seek to provide financial transparency to citizens, such that the public can trust statements made by the City.

The City should also explore professional polling, voter surveys, and focus groups to better gauge the concerns and priorities of the citizenry. Finally, we believe that the Council should consider creating a permanent citizens' budget advisory committee with the authority to examine a broader range of issues. Such a committee would provide the Council and the City with additional perspective on financial issues, and it would create a larger base of understanding around the complexity of municipal finances and budgets.

In closing, we thank the mayor and Council for the opportunity to serve on this committee. It is our hope that these recommendations will provide value from the citizens' perspective in how to address some of the issues facing the City. We also thank Jim Woods and Tiffany Hooten for sharing two evenings per month with us and helping to steer us through the budget.