CITY OF COLORADO SPRINGS

JOHN W. SUTHERS

MAYOR

To the Honorable President Bennett, President Pro-tem Gaebler and City Councilors:

I am pleased to transmit to you the 2016 Annual Budget for the City of Colorado Springs, my first annual budget as the City's 41st Mayor. In my campaign for Mayor, I identified three priorities that I would pursue if elected and those priorities are reflected in this 2016 Budget.

First, it is my priority to **improve the political climate** in the city. Since I was sworn into office, I have worked to restore a collaborative relationship between the Mayor and the City Council and between Colorado Springs and other governmental entities in the Pikes Peak region. This budget is a product of a more collaborative relationship – my staff and I briefed the City Council on the 2016 Budget Outlook, presented preliminary funding decisions to and sought input from the City Council Budget Committee and aligned the budget with both the City Council's and the Mayor's Strategic Plans.

Second, it is my priority to begin to **invest in the city's critical public infrastructure**, particularly roads and storm water systems. Infrastructure investment is not only necessary for public health, safety and welfare but also for our future economic development.

Unfortunately, today, on a per-capita inflation-adjusted basis, the city's General Fund is less than it was in the year 2000. In 2000 we spent $422 per resident. Today we spend $336 per resident. This reflects good stewardship of taxpayer dollars, but maintenance of and investment in the City's streets and roads is one essential City service that suffered disproportionately. When revenues plunged during the Great Recession, it was easier for the City to stop maintaining roads and storm water systems, than it was to lay-off police officers and firefighters. To make matters worse, over this period of time the cost of public works projects, including road construction and maintenance, far outstripped inflation. As a result, the state of our roads and storm water infrastructure is poor. Over 60% of our roads are beyond the normal ten-year resurfacing cycle and

are in a state of rapid deterioration: 53% of our roads need an overlay, and 8% of our roads need to be reconstructed. A recent national study indicates that Colorado Springs has the 26th worst roads in America and that the average driver in Colorado Springs pays $723 per year because of the poor condition of the roads, far above the national average.

The City Council and I have heard our citizens loud and clear. In every poll or survey we conducted, and every town hall we attended, the citizens told us they want to fix the roads. In response, I recommended and the City Council agreed to refer an issue to the November 3rd ballot asking Colorado Springs voters to approve a temporary 0.62% sales tax increase for five years. That tax increase would raise approximately $50 million per year or $250 million over five years and would be used only for road maintenance and repair and no new City employees would be hired. While we would likely need to spend that amount for 10 years to get our roads to where they need to be, the five year sunset will allow the voters to assess our progress and decide whether to extend the tax.

With the referral of the sales tax ballot issue, we committed to maintain General Fund spending on street and road maintenance at the average of the annual spending from 2012-2014. This 2016 Budget honors that commitment. In addition, for 2016 the City will continue to spend its PPRTA maintenance funding allocation on PPRTA approved street and road maintenance, repair and operations and will continue to spend other designated transportation funding (HUTF, Road & Bridge mill levy) in accordance with State statutes.

This 2016 Budget also includes a funding plan, developed in conjunction with City Council, to address the City's storm water infrastructure. Understanding that plan requires some historical background. As recently as the late 1960s, our neighbor to the south, Pueblo, was larger than Colorado Springs. Since then Colorado Springs has grown to be about four times the size of Pueblo and that means considerably more impervious surfaces contributing to storm water flow into Fountain Creek, with impacts on Pueblo. Mindful of this reality and in response to specific flooding incidents, in 2005/2006 the Colorado Springs Mayor and City Council set up a Stormwater Enterprise. Each property owner was assessed a fee based on their impervious surface and approximately $15 million per year was raised to be applied to storm water mitigation projects. However, in 2009 the voters of Colorado Springs expressed their displeasure with the stormwater fee and in 2010 the City Council voted 5 to 4 to defund the Stormwater Enterprise.

While Pikes Peak area voters declined to pass a storm water proposal in November 2014, this is a complex problem that is not going away and needs to be addressed. I

emphasize that this is a public safety issue for the citizens of Colorado Springs as well as those of Pueblo. The Council and I propose to essentially reconstruct the Stormwater Enterprise fund and commit to funding $19 million per year over 10 years on storm water maintenance activities and projects ($16 million from the City and $3 million from Colorado Springs Utilities). This 2016 Budget includes the City's $16 million commitment. Again I applaud the City Council for helping to find a solution.

Finally, I promised to **aggressively promote new job creation**. While the City will maintain a small Office of Economic Development to ensure the City is focused on improving business climate and to assist business owners with negotiating City land use, permitting and licensing requirements, this budget includes funding for the Regional Business Alliance (RBA) – the community partner primarily responsible for business recruitment and retention and the Small Business Development Center (SBDC) – an important community partner that assists with small business development and growth.

I am optimistic about the prospects of major local employers expanding in the near future and our capability to attract new companies to the region. Based on conversations with large national companies with a presence in Colorado Springs, I am confident we will report on several significant expansions in the next year or two. To reward and encourage business expansion and relocation, I am committed to implementing a Business Personal Property Tax (BPPT) Tax Credit program – making the City's business tax environment more competitive and equitable across industries. This 2016 Budget incorporates the first phase of a two-year phase-in of a BPPT Tax Credit – equal to one-half the amount due for 2016.

This 2016 Budget also reflects the ongoing strategic plan to improve the business climate at the Colorado Springs Airport (COS). Beginning in 2013, the Airport implemented a number of strategic initiatives which has since reduced operating costs, significantly lowered Airport debt, while increasing non-airline revenues. These efforts have resulted in the reduction of Airline rates and charges at COS by nearly 50% since 2013. Along with its new marketing and air service incentive programs, the Airport is now better positioned to attract new and expanded commercial air service. A significant component of the Airport's strategic plan was the creation of the Airport's Commercial Aeronautical Zone (CAZ) – which has been hugely successful in a very short period of time – seeing the expansion of existing Airport tenants while attracting new companies and new high-paying jobs to Colorado Springs such as Sierra Nevada and Sierra Completions.

While improving the political climate, investing in the City's critical public infrastructure and aggressively promote new job creation were my initial priorities when I took office, other important strategic and operational goals are reflected in the following funding decisions included in this 2016 Budget:

- $814,000 increased funding from the City's General Fund to Mountain Metro Transit – increasing funding from $4.3 million to $5.1 million, to bring the City closer to the $5.7 million maintenance of effort commitment made in 2004 when the PPRTA was created.
- $400,000 from the General Fund for architectural and engineering plans for a new Sand Creek Police Substation to replace the current station which will allow the Colorado Springs Police Department (CSPD) to more effectively provide essential public safety services to the southeast part of the City.
- $840,000 in funding through General Fund and grant funds to implement a Body Worn Camera Program at the CSPD, which will improve transparency and accountability in contacts between CSPD and the public.
- $250,000 from the General Fund, each year for two years, to fund the first Comprehensive Plan for the city in 15 years – a plan that will be relevant to today's economic markets, and land use planning principles which will reflect the City's vision to become a more progressive, mixed-use, revitalized and multi-modal community.

The 2016 Budget also includes funding for unavoidable increases for healthcare costs, workers' compensation costs, and contract costs. The 2016 General Fund Budget is $268.1 million, $9.4 million or 3.6% more than the 2015 Budget. The increase is largely possible due to a projected increase in sales and use tax revenue of $9.5 million or 6.4% over the 2015 Budget (and $4.4 million or 2.9% over the current 2015 end-of-year estimate). The 2016 General Fund Budget also includes a $1.35 million one-time draw from fund balance. This one-time budgeted draw is to fund one-time transfers of fund balance to two internal service funds that currently have negative fund balances and to bridge the funding gap for the additional storm water projects. For 2017, this funding gap will be closed as the final debt service payment of $2.8 million on the Springs Community Improvement Program (SCIP) bonds will be made in 2016. While this draw is necessary to balance the budget and fund our highest priorities, many of which are time-sensitive, it is my goal to rebuild the General Fund unrestricted fund balance systematically and as quickly as possible. The Government Finance Officers Association (GFOA) specifically recommended that the City of Colorado Springs have an unrestricted fund balance target of 25% of the following year's expenditure budget. I

have set a realistic goal of restoring the fund balance to 20%. This would position the City to better withstand the next recession without having to cut core services. Fortunately, during 2015, we expect to increase the fund balance as revenue is currently projected to exceed budget and departments are working hard to realize expenditure savings. If the current forecast is realized, we expect the unrestricted fund balance could be between 16% and 17%.

In light of our need to fund storm water there were a number of other important needs, both one-time and on-going, that we could not fund and had to defer including employee wage increases, staffing requests (many to maintain current services levels and/or to mitigate risks) and other important capital projects. I recognize those needs and will work to address them in future budgets.

The 2016 Budget document that follows provides citizens an overview of the City's resources and costs of providing core municipal services. The document also provides very specific line-item expenditure details so citizens can see the City's specific spending plans. We acknowledge that we are accountable to the citizens and will provide the highest level of financial transparency. I would like to specifically thank all City department directors, their staff and the Budget Office – a great City team that worked collaboratively to develop the 2016 Budget and produce the 2016 Budget document before you.

It is my honor to be the Mayor of this great City and I look forward to the coming year where we will work together toward our enduring challenge - to create a society that matches our scenery. Let us embrace the challenge.

Very Respectfully,

John W. Suthers
Mayor

This page left blank intentionally.