

AGENDA ITEM SUMMARY

WORK SESSION DATE: September 7, 2010

AGENDA ITEM TITLE: Meeting with Financial Advisory Board, (FAB) on the 2011 Economic Assumptions

STAFF RESPONSIBLE: John Redmond and Tom Oken

ISSUE STATEMENT: This is the second meeting this year of the BOCC and FAB to confirm the economic assumptions for use in preparing the 2011 budget and 5-year financial plan. Today's meeting is to review and confirm our assumptions prior to the final budget presentation in October.

BACKGROUND: In prior years, this meeting was held in August. This year, in an effort to achieve greater accuracy in setting future levels of spending, we met in April, prior to the creation and release of the budget instructions for 2011.

The following indicators and fees were reviewed:

- Denver - Boulder CPI-U and US CPI-U: for these two measures of inflation the FAB agreed to go with the average projection of the professional economists.
- Investment Earnings Rate: All years have been changed. Our projection starts with a rate of 1.3% for 2010, decreases slightly to 1.12% for 2011, increases to 1.75% in 2012, increases to 2.5% by 2013, increases to 3.25 in 2014, and increases to 4.0% in 2015.
- Property Tax: No changes have been made.
- Sales Tax / Retail Sales: No changes have been made to staff's original forecast of a 1.2% increase annually for the next five years. The five-year future forecast for the local economy might best be described as continuing to hesitantly bump along at this lower level of economic activity with an average annual increase of only 1.2%. The forecast for 2010 has been reduced to 0% from 1.2%
- Motor Vehicle Tax: Adjusted downward for 2010 by -\$40,687 and by -\$92,000 in 2011 to better match 2009 actuals.
- Community Development Fees: In April, we increased the fees for 2011-2013 by \$141,973 each year. Due to slowing revenues, we have removed these increases and have changed the 2013 increase from 32% to 12%. Following with 2014 being increased from 0% to 12% and 2014 being increased from 0% to 15% in 2015.
- Road Impact Fees: Adjusted slightly upward by \$25,000 in 2010, \$50,000 in 2014, and \$100,000 in 2015.

- **USFS Revenues:** USFS revenues have been net of a 5% payment to schools in the past. Recent legislation has raised the schools' percentage to 25%. The impact of the 20% correction is approximately a reduction of \$79,000 per year for all years going forward.
- **Grant Revenues:** Due to the uncertainty of Social Services mitigation from the State, we have reduced revenues for the years 2011-2014 by a total of \$275,000.

FAB members considered many factors in making their projections, and noted that making projections continues to be difficult because of the uncertainty over the future extent of economic recovery.

LINK TO STRATEGIC PLAN: Fiscal Sustainability

KEY DISCUSSION ITEMS:

- Discuss the economic assumptions with FAB members and staff

BUDGETARY IMPACT: A 1% change in the following economic assumptions results in the indicated change in revenue:

Denver - Boulder CPI-U and US CPI-U: 1% change = \$61,000 in general fund property tax

Interest Earnings Rate: 1% change = \$275,000 in general fund investment income

Sales Tax: 1% change = \$60,000 in general fund sales tax

RECOMMENDED BOCC ACTION:

Confirm the assumptions as the basis for the 2011 budget and 5-year financial plan.

ATTACHMENTS:

Economic Assumptions – September 7, 2010 for 2011 Budget & 5-yr Plan

Economic Assumptions - 9/7/10 for 2011 Budget & 5-yr Plan

	Actual 2009	2010	2011	2012	2013	2014	2015
1. Denver - Boulder CPI-U (average for period)	-0.7%						
<i>used to forecast property tax revenue (approximately 23% of general fund revenue)</i>							
Office of State Planning & Budgeting	-0.7%	1.5%	2.1%	2.5%	2.5%		
State Legislative Council	-0.6%	1.6%	2.1%	2.3%			
Average		1.6%	2.1%	2.4%			
Our forecast		1.6%	2.1%	2.4%	2.5%	2.5%	2.5%
<i>Prior forecast April 27, 2010</i>		1.7%	2.1%	2.4%	2.5%	2.5%	2.5%
2. US CPI-U (average for period)	-0.3%						
<i>used to forecast property tax revenue & out-year misc. revenue & expense increases</i>							
Livingston Survey by Philadelphia Federal Reserve Bank		1.8%	1.7%	2.3%	2.3%	2.3%	2.3%
Congressional Budget Office		2.4%	1.3%	1.2%	1.1%	1.3%	
Office of State Planning & Budgeting		2.5%	1.7%	2.1%	2.5%		
State Legislative Council		2.0%	2.2%	2.5%			
Average		2.2%	1.7%	2.0%	2.0%	1.8%	2.3%
Our forecast		1.8%	1.7%	2.0%	2.0%	2.0%	2.3%
<i>Prior forecast April 27, 2010</i>		2.3%	1.7%	2.1%	2.0%	1.9%	2.4%
3. Property tax							
New construction / growth			1.3%	1.0%	1.0%	1.0%	2.6%
Inflation = lesser of prior year Denver-Boulder or US CPI-U			1.6%	1.7%	2.0%	2.0%	2.0%
Total			2.9%	2.7%	3.0%	3.0%	4.6%
Our forecast			2.90%	2.70%	3.0%	3.0%	4.4%
4. Investment earnings rate forecast	1.8%						
<i>used to forecast investment income (approx. 5% of general fund revenue)</i>							
<u>91-day Treasury Bill rate forecast</u>							
Office of State Planning & Budgeting		0.2%	1.5%	3.5%	5.5%		
Congressional Budget Office		0.2%	0.7%	1.9%	3.0%	3.9%	4.0%
Livingston Survey by Philadelphia Federal Reserve Bank		0.3%	1.6%				
Average		0.2%	1.3%	2.7%	4.3%	3.9%	4.0%
Our forecast		1.3%	1.12%	1.75%	2.5%	3.3%	4.0%
<i>Prior forecast April 27, 2010</i>		1.3%	2.3%	3.8%	5.0%	4.9%	5.0%
5. Sales Tax / Retail Sales							
<u>U.S.</u>							
Livingston Survey by Philadelphia Federal Reserve Bank		7.0%	5.3%				
<u>State</u>	-5.5%						
Office of State Planning & Budgeting		3.6%	5.4%	6.9%			
State Legislative Council		5.1%	3.5%	5.1%			
Average		5.2%	4.7%	6.0%			
Aspen	Thru June	1.0%					
Snowmass Village	Thru June	-1.0%					
Pitkin County Sales Tax	-17.0%	-0.6%					
<i>(approximately 30% of general fund revenue)</i>							
Our averaged forecast	-17.0%	0.00%	1.20%	1.20%	1.20%	1.20%	1.20%
Based on this specific year by year forecast		0.00%	1.20%	1.20%	1.20%	1.20%	1.20%
<i>Prior forecast April 27, 2010</i>	-17.0%	1.2%	2.0%	0.0%	2.0%	2.0%	0.0%
							2011-15 compound average
							1.2%
6. Community Development Fees							
Our forecast	9.2%	0.0%	5.0%	5.0%	12.0%	12.0%	15.0%
<i>Prior forecast April 27, 2010</i>			5.0%	5.0%	32.0%	0.0%	0.0%