

City of Cripple Creek 2009 Budget Outlook

(This document was written in July 2008 for the City Council to review in conjunction with the 2009 Baseline Budget Document.)

Summary:

I am providing the City Council with an outlook for the 2009 budget and the current baseline figures two and a half months ahead of the normally scheduled time, because I believe the City faces a number of financial challenges in 2009 and beyond. These challenges have been created by a number of different factors. The smoking ban and general slowdown in the economy, coupled with higher fuel prices have combined to have a significant negative effect on the local gaming industry, which is down 10% through June, based on top level sales “coin-in”. As I have stated earlier communications, this is an unprecedented contraction for the gaming industry. Prior to 2008, the worst year the industry faced was 2007, when coin-in was down 1.8% for the year. It will be very important to see what coin-in and adjusted gross proceeds (AGP) numbers are for July and August, which are typically the City’s busiest months. It is my hope that we will see the coin-in number at less than negative 10% for the entire year. However, even a drop in sales of ten percent or less might force some operators to reduce their number of devices on the floor or may cause an operator to close.

If coin-in and AGP continue to show this type of negative growth, the City’s annual distribution of the gaming taxes collected, which go into the General Fund and Historic Preservation Fund in September, will be negatively impacted. The Colorado Division of Gaming runs on a July – June fiscal year.

In addition, the local industry is having to adjust and assimilate almost 700 additional devices with the opening of the Wildwood casino in June of this year. As I have mentioned before, the City’s prior experience with a large increase in the number of devices is that it sets off an industry consolidation, as marginal operators are eliminated. The smoking ban, economic slowdown and new casino opening may all substantially impact the number of devices in town over the remaining portion of 2008 and into 2009. It may not be feasible for the industry to sustain the level of devices at 5,170 with the different factors currently occurring. The difficulty in developing the budget for 2009 is projecting when the casinos might lower their number of devices on the floor or if one or more may cease operation, due to overall economic conditions.

The City also faces a number of challenges on the expense side of the equation. Increased spending in certain departments, combined with increases in overall expenses in some categories, continue to put pressure on the fund balances of the City’s five funds. Because each fund faces its own set of unique challenges, these issues will be discussed in more detail in the individual fund profiles.

The City would certainly see a very positive impact if the ballot initiative to increase games, hours and stakes passes in November. This baseline budget does not contemplate the initiative passing. If it does, the 2009 Budget will be reworked in November. Recall that the ballot language does not have the changes going into effect until July 2009. Therefore, we will not have the benefit of the initiative passing for the entire year.

Business cycles fluctuate on a regular basis. Certainly, the City finds itself facing a negative cycle at the moment. However, because we have retained adequate fund balances in the past, the City will be able to weather this down turn and keep providing excellent service in our core functions.

Organization Wide Issues:

The following issues impact the overall operation and funds of the City:

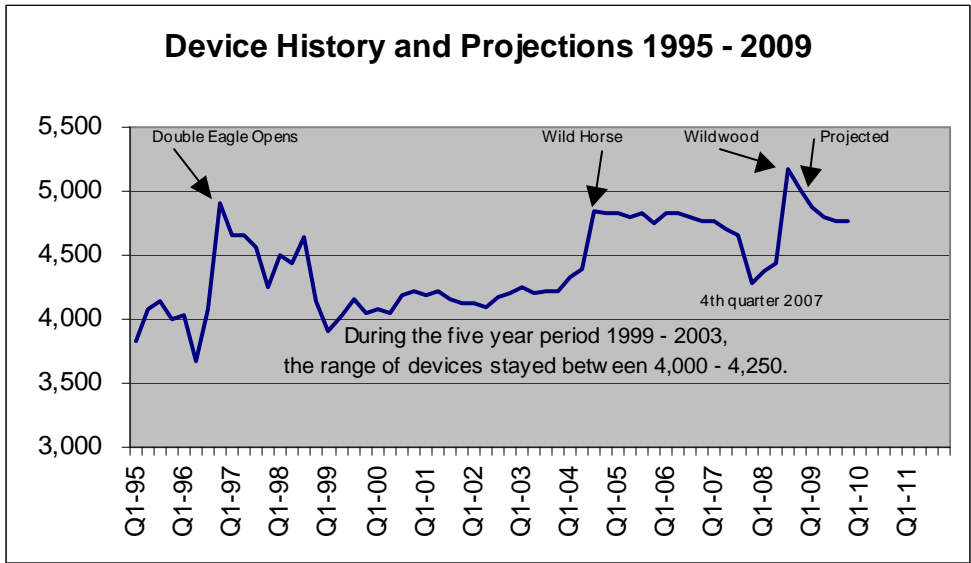
Revenue Projections:

The number of devices for the third quarter of 2008 is 5,170. The following are my current projections, by quarter, for the remainder of 2008 and 2009. These projections will be revised when we get the fourth quarter 2008 actual number in, which will be known by October 11th.

	Projected					
	Q3-08	Q4-08	Q1-09	Q2-09	Q3-09	Q4-09
No. Devices	5,170	5,020	4,870	4,795	4,770	4,770
Number Change		-150	-150	-75	-25	0
Percent Change		-2.9%	-3.0%	-1.5%	-0.5%	0.0%

As you can see, I am currently factoring in a reduction of 400 devices, or 7.7% of the current third quarter figure, over the next four quarters. Based on past experience when a large number of devices are added to the market at one time, a consolidation has occurred, as the industry absorbs the added machines, per device coin-in/AGP go down and some weaker operators are eliminated. Please refer to the chart below, which outlines past industry consolidations. The difficulty is trying to project a). if this is the course that will happen and b). in what quarter might we experience a loss of machines. In the current scenario, the device reductions are incurred primarily in the two upcoming quarters and then ease off as economic conditions improve in the third and fourth quarters of 2009. I have taken this approach, as I have found it is better to be conservative and underestimate the number of devices and find yourself with extra revenue, than it is to over project the number of devices and find yourself in a situation of less revenue and having to look at cutting department budgets during the course of the year. Even if the projections were off by 150 devices in a given quarter, the overall financial impact would

be an additional \$45,000 for that quarter (150 * \$300) for the City. I would be pleased to discuss device projections scenarios with the City Council.



The device fee projection outlined above would generate the following revenue stream for 2009:

**City of Cripple Creek
2009 Device Fee Revenue Projection**

	Q1-09	Q2-09	Q3-09	Q4-09	Total
Number of Devices	4,870	4,795	4,770	4,770	
Number Change	(150)	(75)	(25)	0	
Percent Change	-3.0%	-1.5%	-0.5%	0.0%	
Number of Casinos	17	17	17	17	
First 50 Devices	50	50	50	50	
No. of 1st 50 Devices	850	850	850	850	
Device fee 1st 50	\$50	\$100	\$225	\$225	
Revenue from 1st 50 Devices	42,500	85,000	191,250	191,250	510,000
No. Devices > 50	4,020	3,945	3,920	3,920	
Device Fee > 50	\$300	\$300	\$300	\$300	
Revenue from devices > 50	1,206,000	1,183,500	1,176,000	1,176,000	4,741,500
Total device fee rev. by quarter	1,248,500	1,268,500	1,367,250	1,367,250	5,251,500
General Fund by Quarter 60%	749,100	761,100	820,350	820,350	3,150,900
Enterprise Fund by Quarter 40%	499,400	507,400	546,900	546,900	2,100,600
Economic Develop. by Quarter 0%	0	0	0	0	0
	1,248,500	1,268,500	1,367,250	1,367,250	5,251,500

Note that the above table does not factor in a closing of a casino, when calculating the first 50 device revenues, since the change in the first 50 device fees is negligible. Also note that the projected revenues are based on the current device fee structure remaining unchanged and does not account for an increase in devices or device fees, which may occur if the November ballot initiative to increase games, hours, limits passes.

Services Provided:

As the Council begins the 2009 budget process and makes decisions on how to allocate the City's funds, it is important to remember that the City has core service departments that are its primary objective of operating, those departments that support the core services, and other service departments, which are certainly worthwhile, but not a required function of municipal government. Traditionally, the City has been divided into the following functional categories:

Core Services:

City Clerks Office
Police
Communications
Fire
Building/Planning
Public Works and Water/Waste Water Treatment

Support Services:

Administration
Custodial
Finance
Human Resources
Information Technology

Optional Services:

Transportation
Wild Fire Program
Parks and Recreation
Marketing/Events
Butte Theater
Economic Development
Medical Plaza
Historic Preservation

Increasing Costs:

Each year, the City is faced with increasing costs. Many of the increases are related to personnel costs, which may account for more than 80% of operating costs in some departments. Wages, health care, other benefits, etc. rise each year, but play an important part in the City's ability to attract and retain good employees. The City does not produce a product, but provides services, and it is our City employees that are key to providing the best service possible to our residents and visitors. The baseline budget includes a potential 12% increase in health insurance costs and 10% increase for property/casualty insurance. I am hopeful that the renewals will come in below these projections. Decisions from the City Council on how much to spend on some of the optional service departments also greatly impact the amount of funds available for the core and support departments.

One item that the City Council needs to make a decision on is if a salary survey will be completed in 2009. The last salary survey was completed and implemented in July of 2005. The City had been on a cycle of completing a salary survey every three years, which would have called for one to be completed in 2008. However, because of a great deal of uncertainties in the City's revenue stream caused by the coming smoking ban, economic slowdown, and new casino opening, a salary survey was not included in the 2008 budget. It is difficult to project the cost of a salary survey. Much of the cost depends on what other organizations the City selects to compare itself with, if the survey is completed internally or if an independent consultant is hired to complete the work. The City Council needs to recognize that the results and most likely increased expense in wages are reoccurring costs and will be felt year after year, once they are put in place. Again, depending on how the salary survey is conducted, I would project the following ranges:

	<u>Low</u>	<u>High</u>
General Fund	\$60K	\$188K
Enterprise Fund	\$20K	\$50K
Historic Preservation Fund	\$10K	\$25K

These figures include the impact of the salary survey not just on wages, but on related expenses, such as social security, Medicare, retirement, disability, workers compensation, etc. Therefore, the total impact on the organization could range from \$90K - \$263K. The current base line budget includes the following amounts: General Fund = \$150K, Enterprise Fund = \$35K, Historic Preservation Fund = \$15K. Note that the Economic Development Fund has been omitted, since that position has not been filled. Also, the Medical Plaza Fund is not included, since the salaries for those employees have been set in the employment contract with Dr. Wever and his staff. The City Council will need to decide if they want to pursue a salary survey.

It may be necessary in some funds during the 2009 budget process to adopt a policy that if a dollar in expenses is added somewhere another dollar must be removed to have a net effect of zero on the bottom line. This would be done to keep the fund balances at a sufficient level to insure future operations of the fund in the years to come.

I have met with all of the department managers and have discussed the current baseline 2009 budget with them. They have been provided with print outs of their departments and have been allowed to comment and change some figures. The department managers are currently scheduled to develop their areas goals/objectives, review their baseline budgets, and submit any Additional Funding Requests (AFRs) during the period of August 25th through September 8th. The first version of the budget document is available on October 15th and the budget is scheduled to be adopted on December 3rd.

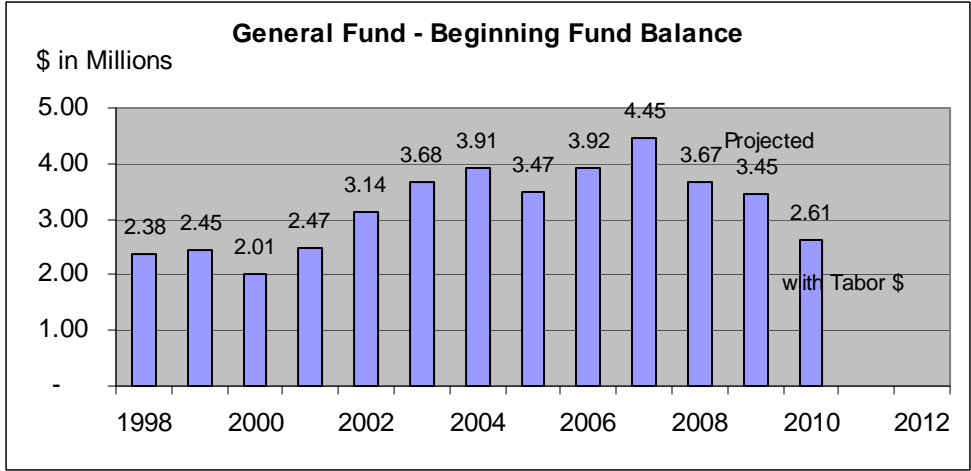
General Fund:

The General Fund houses most of the City's core services and support departments. This fund is coming under increasing pressure to keep its fund balance above the \$2 million threshold. This could become an issue in the 2009 – 2011 time frame. The \$2 million dollar fund balance threshold has been agreed to by past City Councils and the independent auditors. It represents approximately 25% of the proposed 2009 expenditures for the General Fund and is to keep the City solvent over the long term should there be a major change or disruption to the City's primary revenue source – the gaming industry. Both projected revenues and expenses impact the fund balance.

Several items have occurred over the past several years, which have reduced the General Fund's balance. Some of the major items have been:

- In 2005, the General Fund loaned the Enterprise Fund \$670,000, so that the Enterprise Fund could purchase water rights. The loan is being paid back at a rate of \$100,000 per year, beginning in 2006. As of 12/31/08 the Enterprise Fund still owes the General Fund \$370,000.
- In 2007, the General Fund gave the Medical Plaza Fund \$550,000 to help with the construction and start up of the medical building. This could be converted to a loan. However, at this time it does not look like the Medical Plaza fund would be in a position to repay that loan for quite a few years to come.
- Increased spending in certain areas, most notably Marketing/Events, Butte Theater and the Parks and Recreation feasibility study. In addition, overall increases in costs have certainly had an impact. Note that the \$150K Master Plan expense is being covered by a transfer from the Economic Development Fund.

The following chart outlines the General Fund’s beginning fund balance history and projects the future, based on the current baseline budget.



The above chart is based on the following:

Estimated General Fund Balance - 2009

Beginning Balance 3,450,000 *Estimate*

Revenue:

General Government	6,282,010
Departments	752,050
Total Revenue	7,034,060

Expenses:

Total Expenses	8,104,009
-----------------------	------------------

Excess/(Deficit) (1,069,949)

Ending Balance 2,380,051

Add Back Tabor Dollars 228,000

Projected EFB with Tabor 2,608,051

Note that the General Fund is deficit spending (revenues minus expenses) more than \$1 million dollars. Also note that to reach the \$2.6 million ending fund balance, the Tabor 3% set aside of operating expense has been added back in, since it will not be spent, but must be budgeted for. Please note that based on current revenue and expense projections, the General Fund will not be able to continue deficit spending. The most likely scenario is that expenses will have to be cut significantly in 2010 and beyond to retain a \$2 million fund balance minimum. We will certainly hope for the success of the ballot initiative in November.

Personnel:

The baseline budget only includes one personnel change for 2009. That is taking a person that is working part time in the Marketing/Events Department and making them full-time. Currently, this individual also works part-time in Historic Preservation – Heritage Center and that position would be eliminated.

Capital Equipment/Projects:

I have discussed capital purchase needs with the General Fund department managers for 2009 and there are no major outlays/needs. A \$60,000 line item has been set aside for departments to request from during the Additional Funding Request program.

The following discusses some of the departments that are or may have a significant impact on the General Fund budget.

Parks and Recreation:

The plan the project team has been working on for the new parks and recreation facility calls for it to be built in 2009. It is my understanding that Green Play hopes to have the initial Needs Assessment survey responses to the City Council some time in September and that the next phase with the more detailed Facility Feasibility Study/Business Plan would be completed in December 2008. These two study components will cost between \$90 - \$100K. Unfortunately, at this point there is not sufficient information to come up with an accurate projection of what the proposed facility may cost and this will certainly be driven by what features are to be included. In discussing initial wants and probably square foot size, the Green Play consultants said our facility might be close to the proposed facility in Fruita Colorado, which is 46,000 square feet and would cost between \$10.5 and \$12 million. I am hopeful that the City will be able to develop a lower cost alternative, as it would be very difficult for the General Fund to repay that size debt obligation. In addition, the proposed new facility would certainly carry an increased operating expense. Current plans would be to redirect 5% of the device fees collected, which used to go into the Economic Development Fund, but were moved to the Enterprise Fund in 2008, back to the General Fund to offset the increased operating costs. It is projected that the 5% of device fees would generate in excess of \$250,000 per year. Because there is no good data to use at the moment, no COP financing dollars, sale of

City owned land or building expense are included in the baseline budget at this time. These figures will have to be added at a later date.

Butte Theater:

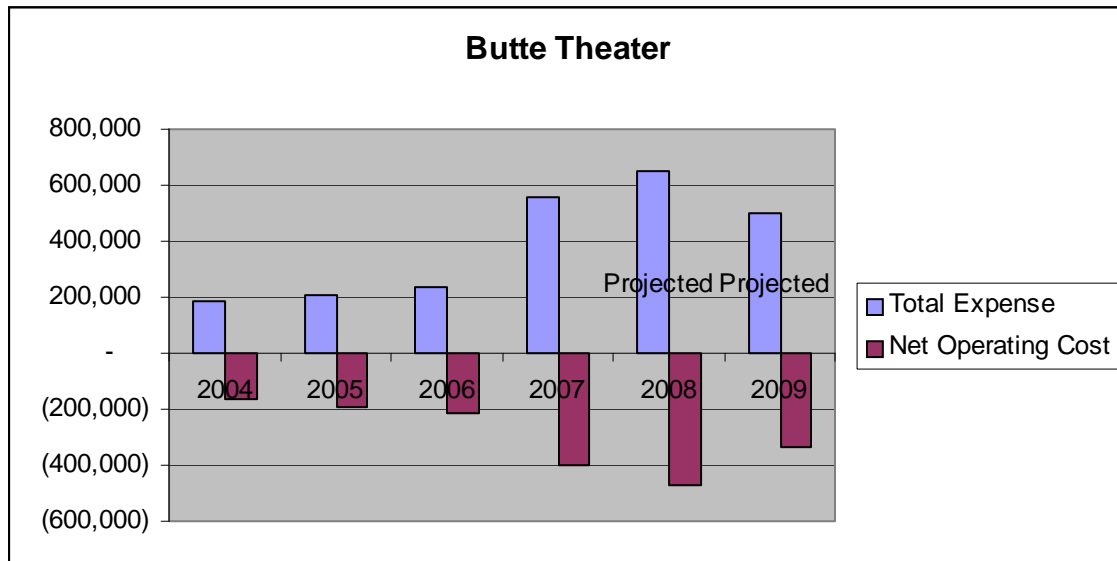
In March of 2007, the City entered into a three year contract (2007, 2008, & 2009) with the Thin Air Theater Company (TATC) to stage productions at the City’s Butte Theater. At that time, the City Council recognized that the actual revenues from the productions would probably not exceed costs, but felt that a business model used at other theaters, which relied heavily on grants and sponsorships could make the venture break even after several years. Unfortunately, no grant dollars have yet been received, although several grants are being worked on at the time of the writing of this report. In addition, no sponsorship dollars have been raised since the City became the backing financial entity for the productions. With no grants or sponsorship dollars, the Butte has had an increase net operating cost (revenues – expenses). The following table highlights several years worth of results.

Butte Theater

	2004	2005	2006	Projected 2007	Projected 2008	Projected 2009
Total Revenue	23,229	19,342	17,331	156,740	180,547	169,500
Total Expense	188,944	209,243	232,561	555,075	650,464	502,132
Net Operating Cost	(165,715)	(189,901)	(215,230)	(398,335)	(469,917)	(332,632)
Dollar Change Expenses		20,299	23,318	322,514	95,389	(148,332)
Percent Change Expenses		10.7%	11.1%	138.7%	17.2%	-22.8%
Dollar Change Net Op. Cost		24,186	25,329	183,105	71,582	(137,285)
Percent Change Net Op. Cost		14.6%	13.3%	85.1%	18.0%	-29.2%

Notes: 2007 and 2008 include marketing expenses out of Department 01-39

The following graph shows the trend for total expenses and net operating cost.



In 2007, the summer and fall productions benefited greatly from an additional \$41,000 being spent on advertising, primarily television, which was originally slated to be spent advertising the Pikes Peak Heritage Center. Lack of these additional advertising dollars may explain part of the declining sales in 2008. In fact, I believe sales figures for the Melodrama may come in under my current projection, but I will not have that data until early August.

To reduce expenses for 2009, the baseline budget has eliminated the two spring shows, which saves not only on production cost, but actor housing, which has had a significant increase this year. TATC may propose something different for spring.

The Star Building and parking lot leases have been eliminated from the baseline budget model. The removal of the Star also greatly reduced utilities, etc. The above changes allow the City to reduce the net operating loss for 2009 by 29%. The City will certainly need to continue to work with Thin Air Theater Company to close the gap on revenue vs. expenses for the various productions.

Marketing/Events:

The City has continued to increase its spending on marketing and events. In the five-year period from 2004 through projected 2008 year-end, spending (net operating cost) has increased by \$451,665, or 62%. Looking at it another way, the General Fund will take in a little over \$3.1 million in device fees in 2008 and spend an estimated \$1.2 million, or 38%, on marketing and events. Funds for core service departments have been redirected, as well as fund balance dollars used, to be able to accomplish this increase in spending.

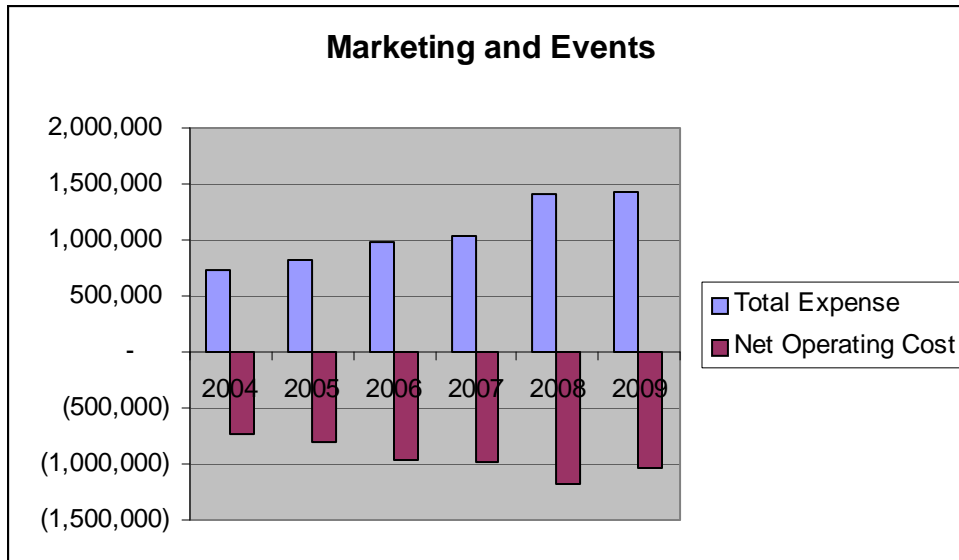
The following table outlines the spending over the past several years.

Marketing/Events

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Projected 2008</u>	<u>Projected 2009</u>
Total Revenue	15,545	12,788	20,907	43,480	237,340	381,100
Total Expense	741,022	821,493	978,881	1,032,491	1,414,482	1,423,050
Net Operating Cost	(725,477)	(808,705)	(957,974)	(989,011)	(1,177,142)	(1,041,950)
Dollar Change Expenses		80,471	157,388	53,610	381,991	8,568
Percent Change Expenses		10.9%	19.2%	5.5%	37.0%	0.6%
Dollar Change Net Op. Cost		83,228	149,269	31,037	188,131	(135,192)
Percent Change Net Op. Cost		11.5%	18.5%	3.2%	19.0%	-11.5%

Notes: 2008 and 2009 include projected revenue and expense for the joint advertising campaign.

The following chart shows the recent trends.



In the current version of the 2009 baseline marketing budget, the \$40K for the Butte Theater advertising has been moved into department 43 Butte Theater. This allows for all of the costs associated with theater productions to be in one location. Also, additional salary funds have been budgeted to move a current part-time position to a full-time position. In 2009, the department would be staffed with three full-time employees, one part-time year round employee and several part-time seasonal (summer) employees for events. It may be difficult for the General Fund to continue spending over a million

dollars a year on the Marketing and Events Departments and adequately fund core services and retain an adequate fund balance, without a significant increase in revenues.

Mid-Year 2008 Status:

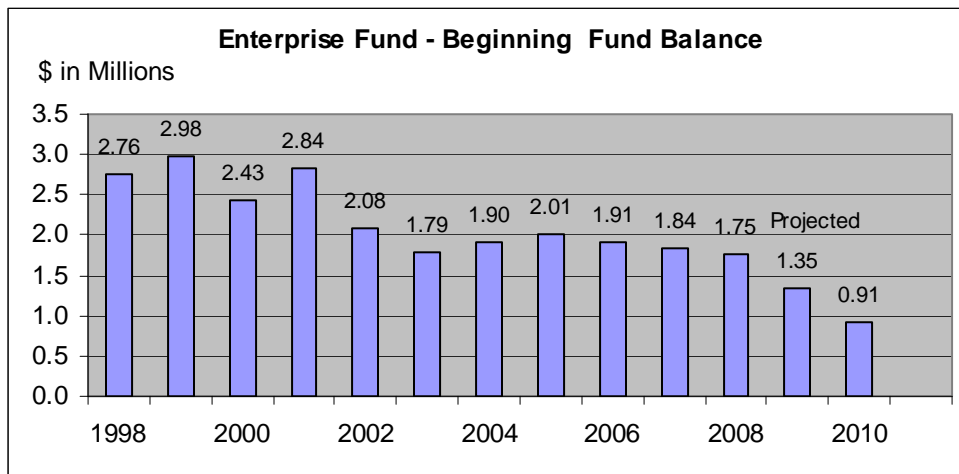
As of the end of June, we would normally expect to see 50% of revenues and expenses incurred. The General Fund has received 32% of its budgeted revenue through June. Most of the deficit is because the fund has not received its annual distribution of the gaming tax revenues, budgeted at a little over \$2 million for 2008, which occurs in late August.

On the expense side, 39% of the budget has been spent. The only department that is over the 50% expected threshold is the Fire Department at 51%. This is primarily caused by the large lease payment for the new ladder truck being made in the first half of the year.

Because the City is acting as the “fiscal agent” for the Joint Advertising Program, having the casinos contribute revenue to the program through the City, as well as the related expenses, there is a possibility that this may push the General Fund’s expenditures past the statutorily adopted spending limit. If this does occur, the City will need to adopt a supplemental budget for the General Fund in 2008, which would happen in the late November time frame.

Enterprise Fund:

The following chart outlines the Enterprise Fund’s beginning fund balance history and projects the future, based on the current baseline budget.



The above chart is based on the following:

Estimated Enterprise Fund Balance - 2009

Beginning Balance	1,350,000 <i>Estimate</i>
Revenue:	2,770,300
Expenses:	
Public Works Operating (02-10)	1,170,149
Public Works Capital (02-12)	1,225,264
Waste Water Treatment (02-30)	700,362
Water Treatment	113,550
<hr/>	
Total Expenses	3,209,325
Excess/(Deficit)	(439,025)
Ending Balance	910,975

The Enterprise Fund has sufficient funds to operate in 2009. However, the ending fund balance drops below the \$1 million threshold, which the City has tried to maintain. I believe that not all of the 09 budgeted dollars will be spent and we will be able to have an ending fund balance of over \$1 million.

One of the biggest changes for the Enterprise Fund in 2009 will be going live with the new water meters and rates. Rate models will be developed and approved by the City Council later in 2008. Depending on how the new rate structure is set, the City could receive additional revenues in 2009 from water/sewer. These rates have not been changed in over a decade and the commercial rates are particularly low, in my opinion.

The five percent of devices fees, which used to go into Economic Development, but were moved to the Enterprise Fund for 2008 will continue to go into the fund for 2009. However, these dollars will most likely be redirected in 2010 to the General Fund to help offset the additional operating costs if the proposed new parks and recreation facility is constructed.

Public Works:

Public works is comprised of two areas: 02-10 Operations and 02-20 Capital Equipment/Projects. The operations budget is projected to increase by \$110K, or 10.4%, with \$35K of that being the set aside for the salary survey. Capital Equipment/Projects is projected to decrease by \$184K or 13.1%. A portion of this reduction is the removal of

\$70K for water rights, which Attorney Jim Felt feels will be completed in 2008. However, if this transaction is not completed in 08 it will be added into 09.

Personnel:

No additional personnel are programmed in the baseline budget.

Capital Equipment/Projects:

Public works has purchased several large pieces of equipment over the past several years, which have significantly upgraded their fleet. They have received two loaders, a dump truck/plow, and an excavator. In 2009, Chip has requested \$70K for two new pickups, which would replace two early 1980 trucks. He has also requested \$9K for tools, \$15K for a 20 ton trailer, and \$43K for survey equipment.

Currently, \$658K has been set aside for infrastructure projects. This represents a decrease of \$467K, or 42% over 2008's budget. Unfortunately, the reduced fund balance is impacting the amount of funds available for infrastructure projects. However, if the 2009 beginning fund balance can be projected to come in higher, additional funds could be added to 09's infrastructure projects.

Water/Waste Water Treatments:

Water/Waste Water Treatment is comprised of two areas: 02-30 Waste Water Treatment and 02-50 Water Treatment. The Waste Water Treatment budget is projected to decrease by \$22K, or 3%, bulk of the reduction coming from not having to complete \$140K worth of sludge hauling in 2009. Water Treatment is projected to increase by \$2,550 or 2.3%.

Personnel:

No additional personnel are programmed in the baseline budget.

Capital Equipment/Projects:

Waste Water Treatment has \$120K set aside for its additional capacity program in 2009. This was programmed for 2008, but it was found not to be needed this year.

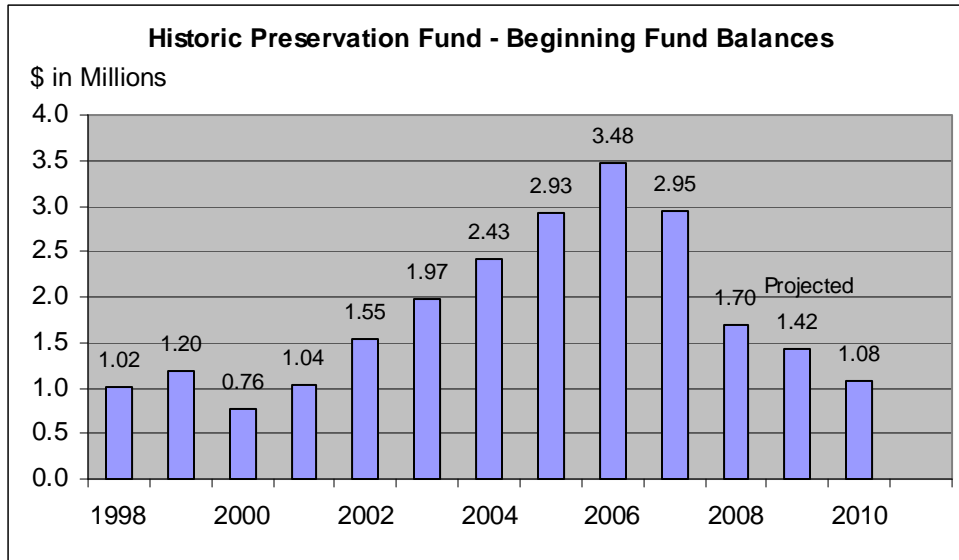
Mid-Year 2008 Status:

As of the end of June, we would normally expect to see 50% of revenues and expenses incurred. The Enterprise Fund has received 48% of its budgeted revenue through June.

On the expense side, 27% of the budget has been spent. The Enterprise Fund incurs most of its expenses in the summer months, when capital projects are completed.

Historic Preservation Fund:

The following chart outlines the Historic Preservation Fund's beginning fund balance history and projects the future, based on the current baseline budget.



The chart on the prior page is based on the following:

Estimated Historic Preservation Fund Balance - 2009

Beginning Balance	1,421,216	<i>Estimate</i>
Revenue:		
Historic Preservation 08-30	1,046,750	
Outlaws & Lawmen Museum 08-50	9,750	
Heritage Center Project 08-40	0	
Heritage Center Operations 08-60	6,000	
Total Revenue:	1,062,500	
Expenses:		
Historic Preservation 08-30	868,479	
Outlaws & Lawmen Museum 08-50	110,417	
Heritage Center Project 08-40	0	
Heritage Center Operations 08-60	324,403	
Train Car 08-80	101,714	
Total Expenses	1,405,013	
 Excess/(Deficit)	 (342,513)	
 Ending Balance	 1,078,703	

The Historic Preservation Fund is unique among City funds in that it receives virtually all of its revenue one time a year with the annual distribution of the gaming tax in late August. Therefore, the H.P. fund needs to have a sufficient beginning fund balance to cash flow all of its operations for 8 – 9 months until the gaming tax check comes in. In the past, a \$1 million beginning fund balance was sufficient to cash flow operations. However, with the addition of the Pikes Peak Heritage Center, Outlaws and Lawmen Jail Museum and reopening of the Rail Car Information Center, a higher beginning fund balance will be required for 2009 and beyond.

There are two other factors, which may dramatically effect the HP fund in 2009. They are:

- 1). The annual gaming tax distribution to the HP Fund, which is based on the City's overall AGP market share, will be directly impacted by the decline in the gaming

industry in 2008 and projected into 2009. The current baseline budget projects a decline in the tax distribution of 9.3% for 2008 and a decline of 5% for 2009. This results in well over \$100,000 in less revenue for the H.P. Fund.

- 2). Because of the very public abuses of H.P. dollars by the City of Black Hawk, the Colorado Bureau of Investigations (CBI) is going to recommend that the allocation of gaming tax dollars to the three gaming communities be reduced. Although CBI was very impressed with the City of Cripple Creek's Historic Preservation programs and is going to recommend the other two gaming towns use our policies and procedures in their programs, they also shared with us the intent to limit the dollars going to Black Hawk. Unfortunately, the City of Cripple Creek will be negatively impacted by Black Hawk's on going abuses. At this time, we have no idea what type of reduction in revenue the City might face if the legislation is passed or when it might go into effect.

The Historic Preservation Fund balance is under a great deal of financial pressure for a number of reasons:

- Pikes Peak Heritage Center construction costs, which were significantly higher than expected.
- Completion of the Outlaws and Lawmen Jail Museum project.
- Reopening of the Rail Car Information Center.
- New ongoing operating costs of the three facilities listed above.
- Loss of gaming tax revenue caused by the decline in the gaming industry.
- Potential loss of gaming tax revenue because of state legislative action.

You can see in the table on the prior page that the H.P. fund is deficit spending 342,513 in the current baseline budget – i.e. expenses are greater than revenues. This gap needs to be closed and preferably needs to be positive, where we are adding dollars to the H.P. fund balance. Some possible options for reducing costs the City Council can consider are:

- Closing the Rail Car Information Center, as it duplicates work being done at the Pikes Peak Heritage Center. This was the original plan.
- Have the Rail Car Information Center open May 15th – September 15th, and staff it with one seasonal \$10-\$12 per hour type individual.
- Reduce the Heritage Centers operations to five days a week, instead of the current seven, during the off-season: October - April.

- Reduce the number of days the Outlaws and Lawmen Museum is open during the off-season: October – April.
- Review some of the planned expenditures in the central Historic Preservation Budget (08-30).

The current baseline budget calls for the following expense increases/decreases from the projected 2008 actuals:

- 08-30 Central Historic Preservation Department: an increase of \$117,416, or 15.6%. This is primarily due to \$100K being set aside for a possible rail project.
- 08-40 Heritage Center Project: no dollars budgeted.
- 08-60 Heritage Center Operations: an \$81,000 reduction, or 20%. This is primarily due to staffing changes.
- 08-50 Outlaws and Lawmen Museum: a \$29,111 reduction, or 21%. This is primarily due to construction/displays being completed.
- 08-80 Train Car Information Center: a \$50,907 increase, or 100%. This is primarily due going from a six month operation in 2008 to year round in 2009.

Personnel:

One part-time year round positions are being transferred from the Heritage Center Operations budget to the Marketing/Events budget in the General Fund. This accounts for a reduction in over \$20,000. This is being done so that the individual can market the entire City and not just Heritage Center.

Capital Equipment/Projects:

No large capital equipment needs have been identified. For projects, please review the 08-30 line item budget for details.

Mid-Year 2008 Status:

As of the end of June, we would normally expect to see 50% of revenues and expenses incurred. The following outlines the status of each H.P. department:

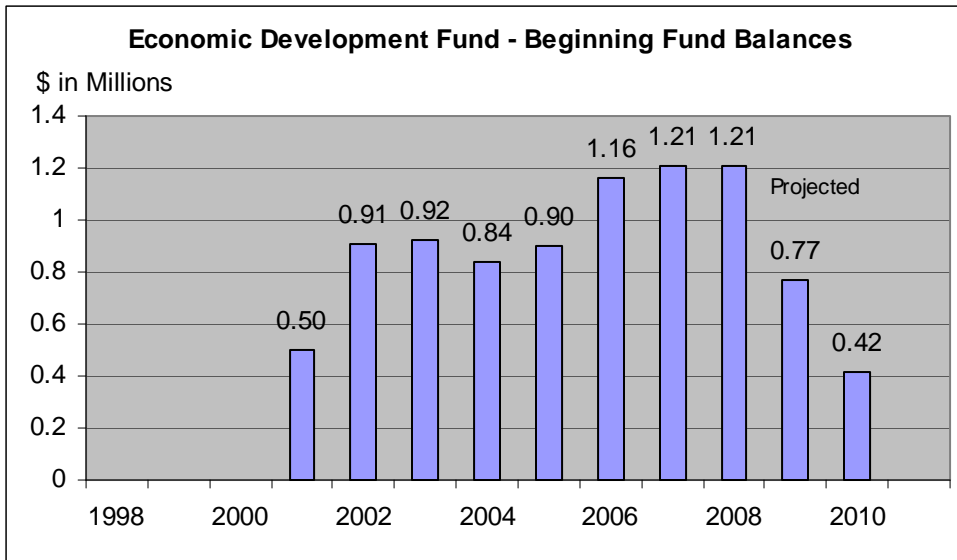
- Central Historic Preservation (08-30): Only 2% of revenues have been collected and 17% of expenses incurred. It is hoped that a number of the large budgeted items will not be utilized in 2008, helping to boost the fund balance. This scenario is already incorporated in the baseline budget.

- Heritage Center Project (08-40): No revenue received and only 2% of expenses incurred.
- Outlaws and Lawmen Jail Museum (08-50): 12% of revenues received and 37% of expenses incurred.
- Heritage Center Operations (08-60): 39% of revenues received and 35% of expenses incurred.
- Rail Car Information Center (08-80): No funds were budgeted for this operation in 2008. Budget dollars will be transferred from the Heritage Center Operations to cover this expense later in the year.

At this time, any dollars that can be saved in the Historic Preservation departments will help with the beginning fund balance for 2009.

Economic Development Fund:

The following chart outlines the Economic Development Fund’s beginning fund balance history and projects the future, based on the current baseline budget.



The above chart is based on the following:

Estimated Economic Development Fund Balance - 2009

Beginning Balance	765,525 <i>Estimate</i>
Revenue:	31,475
Expenses:	381,481
Excess/(Deficit)	(350,006)
Ending Balance	415,519

The Economic Development Fund has become the “go to” fund to provide dollars for other City projects. This is significantly reducing the fund balance. The following outlines the major transfers from the Economic Fund to other City Funds and their projects:

Pikes Peak Heritage Center Project (Historic Preservation Fund)

2005	=	\$15,000
2006	=	\$200,000
2007	=	\$100,000
2008	=	\$0
<hr/>		
Total	=	\$315,000

Medical Plaza Project (Medical Plaza Fund)

2006	=	\$150,000
2007	=	\$200,000
2008	=	\$200,000
<hr/>		
Total	=	\$550,000

In addition, in 2008 the Economic Fund has had to loan the Medical Plaza Fund \$125,000 to meet the cash flow needs of the Medical Plaza Fund, since expenses have been higher than anticipated (mold remediation/building fixes) and revenues slower to come in.

Master Plan (General Fund):

2008 = \$150,000

In total, approximately \$1,140,000 has been given or loaned to other funds. This has had a significant impact the on the Economic Development Fund's balance and will impair it for future years.

In addition, in 2008, the City Council redirected the 5% of devices fees coming into the Economic Development Fund to the Enterprise Fund. The Economic Fund currently has very little revenue coming in. Only \$31,475 is planned in revenue for 2009 and this may be optimistic.

Personnel:

The Economic Development Director's position is currently not filled. The City Council will need to decide if and when they want to fill this position. The current baseline budget assumes someone in place in January 2009.

Capital Equipment/Projects:

There are no major capital equipment needs in the Economic Development Fund. Major projects or transfers planned for 2009 are:

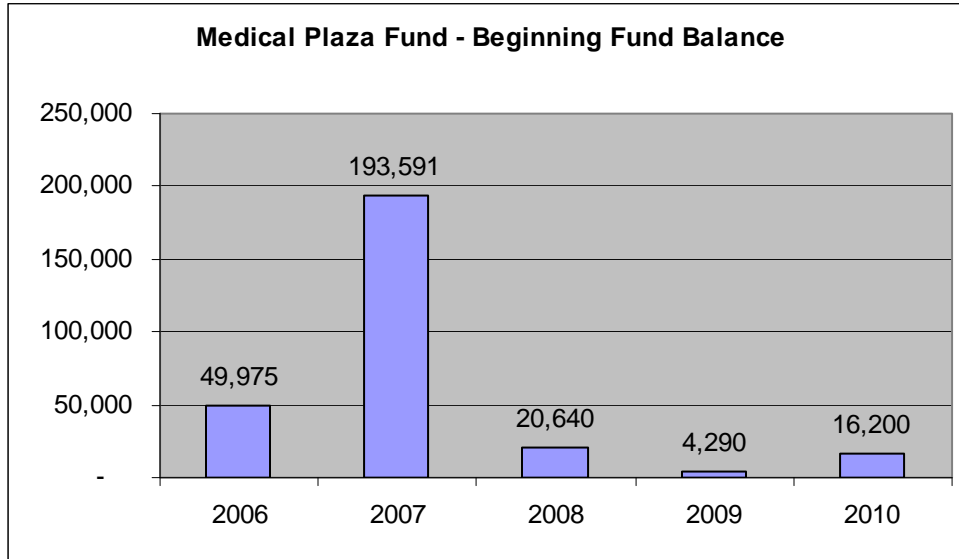
- \$100,000 available for the revolving loan fund, in case the City Council wants to reinstate this program.
- \$150,000 transfer to the Medical Plaza Fund to make it cash flow in 2009.
- \$50,000 for Bennett Avenue Upgrades.

Mid-Year 2008 Status:

Thirty three percent of the expected revenues have been received, which is low primarily because of the drop in interest rates for the investment funds. Thirty five percent of the expenditures have been incurred. It is hoped that the Economic Development Fund will not have to make further loans to the Medical Plaza Fund in 2008.

Medical Plaza Fund:

The following chart outlines the Medical Plaza Fund’s beginning fund balance history and projects the future, based on the current baseline budget.



The above chart is based on the following:

Medical Plaza Fund Balance - 2009

Beginning Balance	4,290 <i>Estimate</i>
Revenue:	439,950
Expenses:	428,040
Excess/(Deficit)	11,910
Ending Balance	16,200

The Medical Plaza project and operation has primarily been funded by a \$500,000 grant from the Governor’s Rural Health Care Initiative, \$550,000 transfer from the General

Fund and \$675,000 from the Economic Development Fund, of which \$125,000 is considered a loan. The construction and equipping of the building has cost approximately \$1.5 million, as of June 2008.

**Medical Plaza Draw #2 Calculations
As of 6/5/08**

Section	2007	2008	Total Project
Site Work	125,536	1,394	126,930
Utilities	37,219	7,909	45,128
Landscaping	-	-	-
Sub total	162,755	9,303	172,058
Architect/Eng.	29,749	50	29,799
Building Construction	943,030	91,567	1,034,597
Computers	825	14,510	15,335
Phone	6,235	6,049	12,284
Equipment	14,344	90,444	104,788
Sub total	21,404	111,003	132,407
Other/Overages	80,569	42,505	123,074
Total Expenditures	1,237,507	254,428	1,491,935

Total project expense including capital and operating are \$1.84 million as of 7/22/08.

The Medical Plaza opened for business in mid-February, after several construction related delays. Patients seen at Dr. Wever's clinic continue to increase each month, reaching 368 in June at the clinic, nursing home and hospital.

The Medical Plaza Fund is under a great deal of financial pressure for a number of reasons:

- Construction issues with the general contract, GoForth Construction, Inc. led to a mold issue in the crawl space below the building. The City has spent approximately \$130,000 in mold remediation expenses. The City's attorney, as well as an independent construction expert, are evaluating the cause of the defect

and it is hoped that the City will be able to recover the \$130,000 through the general contractor's bonding company. This potential windfall has not been factored into the 2009 baseline budget.

- Additional construction costs related to the mold issue and other problems with the building.
- Construction related delays in opening the Medical Clinic, which caused lost revenue.
- Billing issues and slower than expected payments from Medicare and Medicaid.
- Favorable leases with several tenants will result in rent and common area maintenance charges not being paid until 2009/2010.

The 2009 baseline budget projects revenues increasing by \$117,350, or 68%, excluding transfers from the Economic Development Fund. Without the projected \$150K transfer from Economic Development in 2009, the Medical Plaza Fund would have a net operating loss of \$138K. Expenses are projected to decrease by 230,303, or 35% from the projected year-end estimate for 2008.

Mid-Year 2008 Status:

As of the end of June, we would normally expect to see 50% of revenues and expenses incurred. The Medical Plaza Fund has received 58% of its budgeted revenue through June. However, most of the 58% is accounted for from the transfer of \$200,000 from the Economic Development Fund.

On the expense side, 74% of the budget has been spent. As outlined above, higher than expected construction costs, mold remediation, etc. early in 2008 have pushed the expense up significantly. Also mentioned above is the fact that the Economic Development Fund has had to loan the Medical Plaza Fund \$125,000, in addition to the \$200,000 transfer (gift) made earlier this year. The Medical Plaza Fund is having a significant cash flow problem caused by higher than expected expenses and slower/lower than expected revenue collection. I hope that the fund does not have to borrow additional dollars for the remainder of the year. However, it is very likely that a supplemental budget will have to be completed for this fund in November, because it will exceed its adopted expense budget.

Conclusion:

The City Council is scheduled to hold a work session on Wednesday, August 6th from 4 PM – 5 PM to discuss the Council's goals and objectives for 2009. Additional work sessions on the 2009 budget may be required prior to the first official publication

date of October 15th. I believe it is important for the Council to have the above information to assist you in the formation of your goals and objectives, based on the financial challenges/constraints the City is facing. I hope that this document provides a useful tool in your decision-making.