FINANCIAL TREND MONITORING SYSTEM

PARKER
COLORADO

AN EVALUATION OF FINANCIAL TRENDS
2011 – 2015

Prepared by

The Finance Department

TOWN OF PARKER
AN EVALUATION OF FINANCIAL TRENDS
2011 - 2015

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SUMMARY

As part of the annual budget review and process, the Town has prepared an historic evaluation of the financial condition of the Town. This evaluation organizes the numerous factors that affect the Town's financial condition into identifiable trends that can be monitored. Analysis of positive and negative trends allows the Town to make informed plans and recommendations.

Methodology:

Financial condition is defined as the ability of the Town to fund the services required both now and in the future. Services are costs essential to maintaining the quality desired and required for the health, safety and general welfare of the citizens. The Town uses the Financial Trend Monitoring System developed specifically for local governments by the International City/County Management Association (ICMA) as the foundation for this analysis.

This analysis is developed around seven major factors, each having measurable financial condition indicators:

Factors

- Revenues
- Expenditures
- Operating Position
- Debt Indicators
- Unfunded Liabilities
- Capital Plant
- Local Economic and Demographic Characteristics

For each factor, the quantifiable indicators of the level of solvency are identified, graphed and the trend analyzed. To assist in understanding the detailed information, the definitions included in the introductory section should be reviewed.

Analysis:

In 2015, the national, state, and many local economies showed significant improvement from the impacts of the recession that ended in July of 2009. Unemployment and the housing markets showed marked improvements at the state and local level. Countywide the economy continued to expand and continues to experience a more rapid pace of employment than Metro Denver. On the national level, the numbers have been mixed and stock market volatility is still a factor. The impacts of the current economy on the Town were not as pronounced in 2009 as in the rest of the State. In fact, the Town weathered the recession fairly well and saw increase to reserves throughout recession and continues to do well. In general, both revenues and expenditures increased in 2015. The increase in expenditures is primarily due to funding for maintenance of the Town's roadway infrastructure and for replacement of aging or outdated equipment as well as for major capital projects. In most other areas, departments maintained expenditures in line with 2014 levels. In general trends remained positive in 2015, with some anticipated exceptions. These areas still require monitoring, but none are a major cause of concern and the trend is expected to reverse in the near future.

Over the years, the Town's revenues have been buffered by its diverse sales and use tax base. New commercial and industrial construction and a strong housing market provide for a strong property tax base. On the expense side, increasing operational costs, upward pressures on wages and benefits have the most significant impacts to the Town's budget.

The following provides additional analysis and summary of some of the specific trend areas for the Town:

■ Revenues

Certain revenues continued to remain strong through 2015, with sales taxes increasing 7.6% and use taxes increasing 62% compared to 2014. For 2016, year-to-date sales tax revenues are up 9.7% compared to 2015. For the future, new construction has made additional retail locations available within the Town. Pro-active marketing efforts continue to highlight the Town and generate interest in Parker. In addition, good use of economic incentives has helped bring new businesses to Parker.

■ Expenditures

Expenditures have been increasing over the past several years as growth occurs within the Town and on the perimeters of the Town's boundaries, service needs increase, and outside pressures on costs climb. Both salaries and benefits continue to experience upward pressure in order for the Town to recruit and retain quality employees. Health care and the related cost of insurance are expected to increase annually, but plan design changes have been utilized to keep increases manageable.

Given the slow to moderate economic recovery, the Town must continue to address expenditures to keep them in line with the anticipated revenues and find more sustainable adjustments to expenditures going forward.

■ Operating Position

The health of the Town's operating position in the General Fund is reflected in the indicators. The Fund consistently shows an operating surplus, with any deficits planned and budgeted for. Fund balances and liquidity ratios continue to be at the high end of acceptable levels.

■ Debt Indicators

In 2009, Certificates of Participation were issued to finance the construction of a new Police Station and the PACE center. Annual debt service is payable from all general revenues of the Town, although no particular revenues of the Town are pledged to the payments, the Town expects the majority of the funds available to pay the debt service will be derived from revenues received from a 2.5% sales tax currently levied by the Town. In 2014, Certificates of Participation were issued to finance the construction of a new Public Works Facility and the expansion of the Recreation Center.

In 2015, the Town issued a Sales and Use Tax Revenue Refunding Note, the proceeds were used to refund the Town's 2006 Sales and Use Tax Revenue Bonds used for the acquisition and construction of a Fieldhouse and related improvements. This issue consists of a bank loan in the original amount of $9,880,000 due annually on May 1 in various amounts through May 1, 2025.

■ Unfunded Liabilities

The Town contributes to the Statewide Defined Benefit Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Fire and Police Pension Association (FPPA) for all sworn police officers of the Town. Contribution requirements of plan members and the Town are established by statute. The contribution rate for plan members is 8% of covered salary and for the Town is 8% of covered salary. At this time the Town is not aware of any unfunded liability as it relates to the Town of Parker.

■ Capital Equipment

Expenditures in Public Safety and Public Works over the past several years have made significant progress in maintaining, replacing and upgrading infrastructure, buildings and equipment. Fleet, Information Technologies, Streets, and Stormwater Utilities all have standard maintenance and replacement schedules. Larger projects are laid out in the 10-Year Capital Improvement Plan.

■ Local Economic and Demographic Characteristics

Parker continues to enjoy a fairly strong local housing market with expected population growth moving forward. The demand for new single family permits slowed during the height of the recession, but 2015 saw continued increases. Unemployment had been dropping since 2003, but increased from 3% in 2008 to 7.5% at the end of 2011 and has decreased to 3.3% at the end of 2015. Other indicators show that the economy is expanding in many key areas and is showing signs of continued improvement in certain retail sectors.

INTRODUCTION

This report provides analytical information on the Town of Parker. It is prepared in accordance with the Financial Trend Monitoring System (FTMS) developed by the International City/County Management Association (ICMA). Generally accepted government accounting standards were followed for the data presented in this report.

The FTMS was developed by the ICMA with assistance from representatives of more than 30 state and local jurisdictions. The FTMS identifies and organizes factors that affect financial condition so they can be evaluated. Data is collected from the Town's annual financial reports, budgets, local population and other demographic information. The FTMS provides for consistent reporting and display of the information to permit the analysis of historical trends.

The system incorporates the major financial indicators used by national bond-rating organizations to evaluate the Town's credit-worthiness. The FTMS identifies more than 25 measures or indicators of financial condition. Tracking the indicators over a number of years offers a way to quantify and evaluate a government's financial condition and identify strengths and potential problem areas. The indicators can be used as early warning signs when certain trends are apparent.

FINANCIAL CONDITION

Sound financial condition encompasses four measures of solvency: cash, budgetary, long-term and service-level.

- Cash solvency is the ability of a government to generate sufficient cash over a 30 to 90 day period to pay its bills.
- Budgetary solvency is the ability to generate enough revenues during the budget year to meet expenditures and not incur deficits.
- Long-term solvency is the ability to pay not only the costs of doing business in the current year, but also those that will come due in future years (i.e., accrued employee leave, pension costs).
- Service-level solvency is the ability to provide service at the level and quality desired by citizens and required for the health, safety and welfare of the community.

The solvency or sound financial condition of the government depends on the organization's ability to balance the demands for service with its available financial resources.

Monitoring financial condition allows managers to identify existing and emerging financial problems and develop solutions in a timely manner. Effective monitoring can also provide additional information for the annual budget process, give Town Council a wider context for decision-making and establish a starting point for setting financial policies. The FTMS is just one tool to accomplish financial monitoring.

HOW TO USE THIS REPORT

The report is divided into seven sections, one for each major financial condition factor:

Revenues
Expenditures
Operating Position
Debt Indicators
Unfunded Liabilities
Capital Plant
Local Economic and Demographic Characteristics

Each section contains quantifiable indicators that are used to analyze the factor. The format of the analysis of each indicator is as follows:

Formula for computing the indicator
Yearly graphic and chart representations of the indicator's trend
Indicator warning trends
General description of how the indicator is used to measure financial condition
Commentary on the Town of Parker indicators
Analysis of the indicator trends for the Town of Parker

METHODOLOGY

The objective of the review is to evaluate the financial condition of the Town of Parker for the past five years. The analysis is based on the Town's Comprehensive Annual Financial Report (CAFR), revenue and expenditure reporting, statistical/demographic data, payroll records and other subsidiary records. The Public Works Department provided capital plant measurements, and the Economic Development Department provided input on demographic and socio-economic data.

When required for analysis, indicators were expressed in constant dollars based upon the Denver-Boulder Consumer Price Index for All Urban Consumers.

The FTMS excludes Enterprise and Internal Service Funds from its definition of operating revenues and expenditures, as well as revenues dedicated to specific types of capital improvements. The following funds are excluded, except when otherwise stated: Stormwater, Fleet, Information Technology, and Facilities.

DEFINITIONS

The terminology defined below is used consistently throughout this document. Reviewing definitions prior to analysis will make the report easier to understand.

REVENUES

■ **General Fund Revenues**

The General Fund is used to account for most of the government's activities, including Police, Administration, Public Works, Streets, Municipal Court and Parks. General Fund revenues are those which are collected for unspecified uses including, but not limited to, two and half cents of the three cent sales/use tax, property taxes, lodging tax and permit fees.

■ **Net Operating Revenues**

Included are general fund revenues from property and sales taxes, franchise fees, administrative service fees and other user fees (not including recreation fund and stormwater enterprise fund fees which are looked at individually by fund). Also included are various intergovernmental revenues.

■ **Intergovernmental Revenue**

Subset of net operating revenues. Includes County and State collected shared revenues as well as grant monies received from other governmental agencies.

■ **Restricted Operating Revenues**

Includes general fund grant monies and funds set aside for specific capital projects.

■ **Elastic Tax Revenues**

Includes general fund sales tax and lodging tax.

■ **One-Time Revenues**

Includes all grants, and certain General Fund revenues over a base amount (building permits/fees, audit assessments, interest and miscellaneous revenue).

EXPENDITURES

■ **Net Operating Expenditures**

Includes salaries and wages, fringe benefits, operating costs, and machinery and equipment purchased by the General Fund.

■ **Fringe Benefit Expenditures**

Includes General Fund vacation/sick accruals, insurance, disability and education expenditures.

■ **Capital Equipment Outlay**

- Includes machinery and equipment purchased for the general government operations, primarily with General Fund dollars.

- **OPERATING POSITION**

  - **General Fund Operating Surplus (Deficit)**

- General Fund gross revenues less expenditures including transfers to/from other funds.

  - **Enterprise Operations Income and Loss**

- Enterprise funds for the Town include the Stormwater Utility Fund. Income includes charges for services and user fees. Depreciation is included as an expense since costs of replacement should be accounted for in user charges and fees.

- **DEBT LEVELS**

  - **Current Liabilities**

- Includes General Fund accounts payable and accrued liabilities for amounts to be paid within the current calendar year.

  - **Net Direct Debt Service**

- Includes principal and interest payments on the sales and use tax revenue bonds.

TREND EVALUATION: REVENUES

SUMMARY

Revenues determine the capacity of the Town to provide services. Important issues to consider in revenue analysis are growth, flexibility, elasticity, dependability, diversity and administration. Under ideal conditions, revenues would be growing at a rate equal to or greater than the combined effects of inflation and expenditures. Revenues would be sufficiently flexible (free from spending restrictions) to allow adjustments to changing conditions. Revenues would be balanced between elastic and inelastic in relation to inflation and the economic base; that is, some would grow with inflation and the economic base and others would remain relatively constant. Revenue sources would be diversified--not overly dependent on residential, commercial, industrial land uses, or on external funding sources such as federal grants or discretionary State aid. User fees would be regularly evaluated to cover cost increases.

Analyzing revenue structure will help to identify the following types of problems:

- Deterioration of the revenue base
- Practices or policies that may adversely affect revenue yields
- Lack of cost controls, or poor revenue-estimating practices
- Inefficiency in the collection and administration of revenues
- Over dependence on obsolete or intergovernmental revenue sources
- User fees that are not covering the cost of services
- Changes in the tax burden on various segments of the population

INDICATORS

- Revenues Per Capita
- Property Tax Revenues
- Intergovernmental Revenues
- Elastic Tax Revenues
- One-Time Revenues
- Restricted Operating Revenues
- Revenue Surplus (Shortfalls)

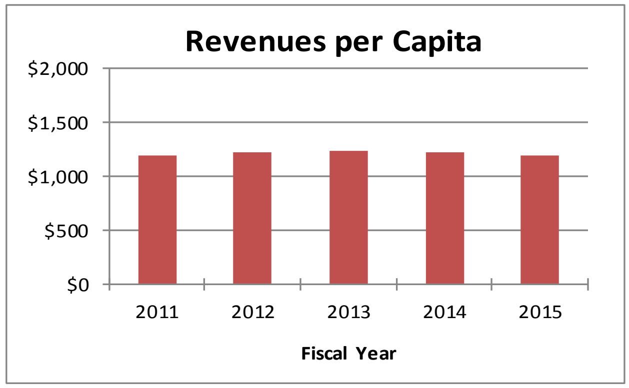
Revenues per Capita

Warning Trend:

Decreasing Net Operating Revenues per Capita (constant dollars)

Formula:

$$\frac{\text{Net Operating Revenues (constant dollars)}}{\text{Population}}$$



Fiscal year:	2011	2012	2013	2014	2015
Net Operating Revenues *	54,400,130	58,526,977	61,519,761	63,761,658	66,103,682
Consumer Price Index	220.3	224.6	230.8	237.2	240.0
Net Operating Revenues (constant dollars)	**54,400,000**	**57,412,000**	**58,720,000**	**59,216,000**	**60,677,000**
Population	45,758	46,919	47,823	48,789	50,677
Net Operating Revenues per Capita (constant dollars)	**1,189**	**1,224**	**1,228**	**1,214**	**1,197**

* Operating revenues : general fund revenues, including carryover cash, plus operating transfers from other funds.

Description:

Examining per capita revenues shows changes in revenues relative to changes in population size and rate of inflation. As population increases, it might be expected that revenues and the need for services would increase proportionately and therefore that the level of per capita revenues would remain at least constant in real terms. If per capita revenues are decreasing, the government may be unable to maintain existing service levels unless it finds new revenue sources or increases productivity. This reasoning assumes that the cost of services is directly related to population size.

Commentary:

Operating revenues consist of amounts received in the General Fund from property taxes, sales tax, lodging tax, franchise and excise taxes, fines & forfeitures, deficit reduction fees, license & permit fees, state-shared revenue, county-shared revenue, interest and unexpended cash (carryover cash) brought forward from the prior year. They are used for on-going Town services such as fire, police, public works, streets, parks, planning and central administration. The Town also transfers a significant amount of General Fund Revenues to the PACE Fund. Revenues from enterprise operations such as stormwater utility are excluded.

Decreasing operating revenues per capita may reduce a government's ability to maintain existing service levels. Therefore, decreases are a warning trend for this indicator.

Analysis:

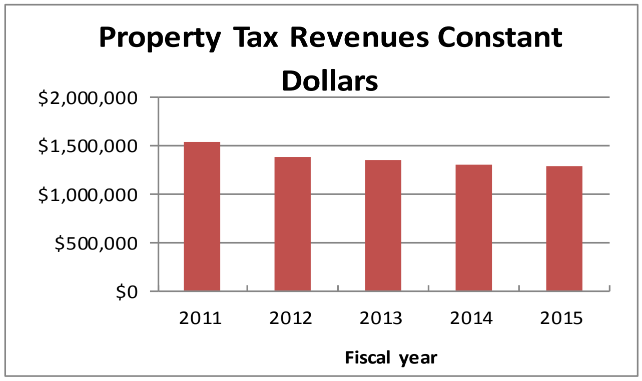
Net Operating Revenues increased in 2015 for a fourth consecutive year after a slight dip in 2011. While revenue increased in the majority of categories, sales tax showed the most significant increases in 2015. Carryover cash increased 7.16% in 2015 following a decrease of 1% in 2014. The increase was anticipated due to several projects that were unfinished at the end of 2015 and will be re-appropriated in 2016.

The population estimates are updated annually. New construction in 2015 resulted in an increase in the population estimate of 3.87%.

The increase in the 2015 CPI is a good indicator that the economy is continuing to recover from recession.

For 2016, Net Operating Revenues are anticipated to increase over 2015 levels. Looking at 2016 and beyond, the prospect of additional retail development in the Cottonwood area and along Parker Road at Lincoln Aveneu and the rebound of the housing market should help the trend stay positive.

Property Tax Revenues



Warning Trend:

Decline in Property Tax Revenues
(constant dollars)

Formula:

$$\frac{\text{Property Tax Revenues}}{\text{(constant dollars)}}$$

Fiscal year:	2011	2012	2013	2014	2015
Property Tax Revenues	1,540,517	1,426,923	1,429,635	1,452,169	1,448,822
Consumer Price Index	212.4	220.3	224.6	237.2	240.0
Property Tax Revenues (constant dollars)	**1,541,000**	**1,376,000**	**1,352,000**	**1,300,000**	**1,282,000**

Description:

Property Tax Revenues should be considered separately from other revenues, because most local governments rely heavily on them. A decline or a diminished growth rate in property taxes can have a number of causes. First, it may reflect an overall decline in property values resulting from the aging of buildings; a decline in local economic health; or a decline in total number of households, which can depress the housing market. Second, it may result from unwilling default on property taxes by property owners. Third, it may result from inefficient assessment or appraisal. Finally, a decline can be caused by deliberate default by property owners, who realize that delinquency penalties are less than short-run interest rates and that nonpayment is therefore an economical way to borrow money.

Commentary:

Property taxes are paid on the assessed values of real, personal and utility property. Town property taxes are generated by a mill levy which supports on-going General Fund services and transfers to Capital Programs. The mill levy has remained constant since 1998.

The Colorado Constitution via the Taxpayer Bill of Rights amendment (TABOR) does not allow a mill levy increase without an affirmative vote of the electorate in Parker. Parker taxpayers have paid $0.2602 per $1,000 of assessed value each year since 1998.

Property Taxes account for approximately 4% of General Fund revenues and 3% of the total Town revenues.

Decreasing Property Tax Revenues (when expressed in constant dollars) constitute a warning trend.

Analysis:

The health of the local housing market is indicated by the assessed valuations and related property tax revenues over the last few years. Demand for residential property in Parker is still high and residential construction has picked up over the last two years which will help improve this trend.

The slight decline in constant dollar revenues in odd numbered years is due to the biennial reassessment of property by Douglas County. Typically as the County reassesses properties, the revenues show large gains in even numbered years, however due to the recession and collapse of the housing market over the last few years, this has not been the case. This cause-and-effect relationship should return to normal as the economy continues to improve and housing values recover. The County Assessor indicates a double digit increase in assessed valuations for 2015 which will move the trend positive in 2016.

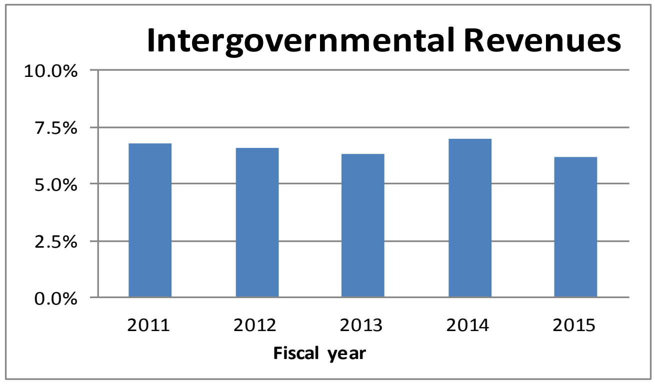
Intergovernmental Revenues

Warning Trend:

Increasing amount of Intergovernmental Operating Revenues as a percentage of Net Operating Revenues

Formula:

$$\frac{\text{Intergovernmental Operating Revenues}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Intergovernmental Operating Revenues	3,680,597	3,834,058	3,865,266	4,452,717	4,203,091
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Intergovernmental Operating Revenues as a percentage of Net Operating Revenues	**6.8%**	**6.6%**	**6.3%**	**7.0%**	**6.2%**

Description:

Intergovernmental Revenues (revenues received from another governmental entity) are important, but an overdependence on such revenues can be harmful. Federal and state governments have struggled with their own budgetary problems in the last decade, which has lead to their frequent withdrawal or reduction of payments to local governments, serving as one of their cutback measures. Local governments with budgets largely supported by intergovernmental revenues have been particularly harmed during this period, but almost all local governments have been impacted. The reduction of intergovernmental funds leaves the municipal government with the dilemma of cutting programs or funding them from general fund revenues.

Nevertheless, a municipality might want to maximize its use of Intergovernmental Revenues, consistent with its service priorities and financial condition. For example, a local government might want to rely on Intergovernmental Revenues to finance a federal or state mandated service or a one-time capital project. The primary concern in analyzing intergovernmental revenues is to know and monitor the local government's vulnerability to reductions of such revenues, and determine whether the local government is controlling its use of the external revenue, or whether these revenues are controlling local policies.

Commentary:

Increasing Intergovernmental Revenue to support general Town services signals an overdependence on such revenue. If there is a risk that these revenues could be withdrawn, the Town would be forced to find additional revenue or to cut services to reduce costs. Therefore, an increasing percentage can be viewed as a warning.

Analysis:

Revenues come from County shared taxes as well as State and Federal grants. The tax revenues received for Cigarette Tax and County Road and Bridge Tax are projected to decline slightly, while Highway Users Tax and Motor Vehicle Registrations are projected to increase slightly, so generally these revenues will balance each other and be a stable revenue source in the future. In 2010, the Town received the Build America Bonds (BAB's) credit from the Federal government for issuing taxable certificates of participation in 2009. The 2013 and 2014 sequestration by the Federal government resulted in a decrease of 8% across the board in Federal expenditures which resulted in a decrease of $71,425 in the Build America Bonds (BAB's) credit the Town receives. The increase in the trend in 2014 is the result of a one-time grant from the 911 Authority for communications equipment.

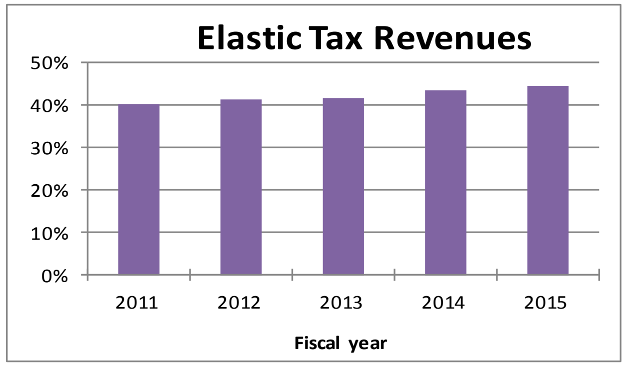
Elastic Tax Revenues

Warning Trend:

Decreasing amount of Elastic Tax Revenues as a percentage of Net Operating Revenues

Formula:

$$\frac{\text{Elastic Tax Revenues}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Elastic Tax Revenues	21,832,266	24,052,034	25,681,732	27,656,921	30,119,283
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Elastic Operating Revenues as a percentage of Net Operating Revenues	**40.1%**	**41.1%**	**41.7%**	**43.4%**	**44.4%**

Description:

The yields of Elastic Tax Revenues are highly responsive to changes in economic base and inflation. As the economic base expands or inflation goes up, elastic revenues will generally rise proportionally, and vice versa. A good example is sales tax revenue, which increases during good economic periods through increased retail business and declines during poor times, even though the tax rate remains the same. Yields from inelastic revenue sources, such as license fees or user charges, are relatively unresponsive to changes in economic conditions and require that government officials change fees or charges to create a change in revenue. The yields from these revenues usually lag behind economic growth and inflation because local legislative bodies are reluctant to increase them each year. If properties are not frequently reassessed, property tax revenues can also be inelastic, especially during periods of economic growth.

A balance between elastic and inelastic revenues mitigates the effects of economic growth or decline. During inflation, it is desirable to have a high percentage of elastic revenues because inflation pushes up revenue yield, keeping pace with the higher prices the government must pay. If the percentage of elastic revenues declines during inflation, the government becomes more vulnerable because inflation pushes up the price of services but not the yields of new revenues. The reverse is also true (i.e., a low percentage of elastic revenues is desirable in times of deflation), but significant deflation has seldom occurred in recent years.

During a recession, a high percentage of inelastic revenues is an advantage. This insulates the tax base to some degree from the reduced yield it can receive during a recession.

Commentary:

Elastic Tax Revenues are highly responsive to economic changes. The Town's General Fund revenues that are classified as elastic are sales tax and lodging tax. A balance between elastic and inelastic revenues mitigates the effects of economic growth and decline.

Declining elastic revenues are considered a warning trend because they may place a government in jeopardy during periods of high inflation or rapid economic growth. However, overdependence on Elastic Sales Tax Revenues can reduce resources during economic downturns.

Analysis:

Historically, the Town has enjoyed increasing sales tax revenues as a result of a strong local economy. While the Town recognized increases in sales tax revenues during the recession, the improvement to the economy has resulted in more significant year-over-year increases in sales tax in the last three years.

Parker's sales tax base has a large component of inelastic remitters included in the utilities (including telecommunications) and grocery sectors. The percentage of sales tax paid for electricity, gas, phone service and food purchases are considered necessities and a stable tax component. Over 21% of the Town's sales tax revenues come from utilities, grocery, and telecommunications.

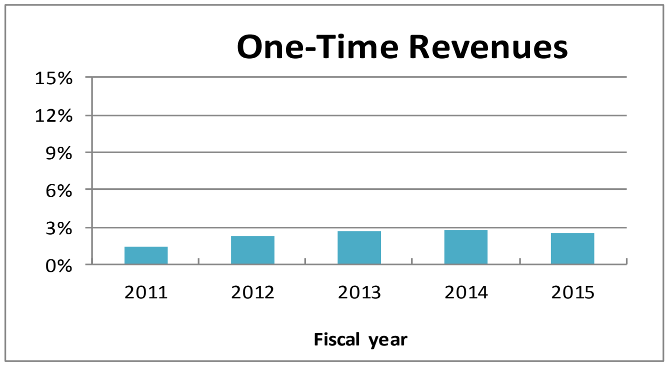
One-Time Revenues

Warning Trend:

Increasing use of One-Time Operating Revenues as a percentage of Net Operating Revenues

Formula:

$$\frac{\text{One-Time Operating Revenues}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
One-Time Operating Revenues	757,291	1,315,322	1,631,036	1,770,618	1,710,181
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
One-Time Operating Revenues as a percentage of Net Operating Revenues	**1.4%**	**2.2%**	**2.7%**	**2.8%**	**2.5%**

Description:

A One-Time Revenue is one that cannot reasonably be expected to continue, such as a single-purpose federal grant, an interfund transfer, or use of a reserve. Also included as One-Time Revenues are use taxes derived from unusual new construction projects or upgrades of existing facilities. Continual use of One-Time Revenues to balance the annual budget can indicate that the revenue base is not strong enough to support current service levels. It can also mean that the government is incurring operating deficits and would have little room to maneuver if there were a downturn in revenues (such as occurs during a regional or national recession or because of the sudden expenditures occasioned by a natural disaster). Use of One-Time Revenues increases the probability that the government will have to make large cutbacks if such revenues cease to be available, which may occur when the Federal Government reduces a major grant program or when reserves are depleted.

Commentary:

One-Time Revenues are resources that cannot reasonably be expected to continue beyond a single year. These revenues include interfund transfers and loans, grants, use of reserves and surpluses, and sales of property.

Continued use of one-time revenues to balance the budget indicates current service level costs exceed ordinary revenue. Therefore, increases constitute a warning trend.

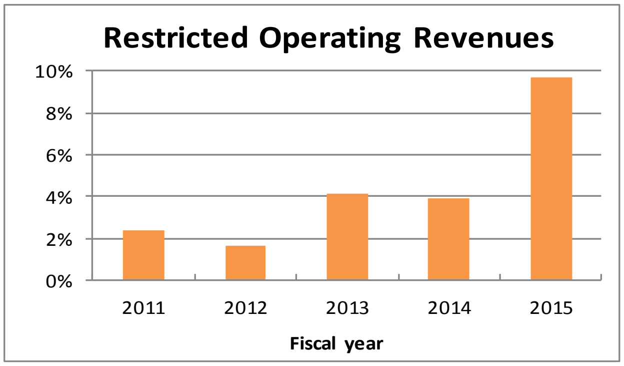
Analysis:

Changes in the dollar amount of one time revenues is driven by the timing of grants, new commercial construction, investment interest debt issuance and sales tax audit revenues.

These increases are also reflected in the total Net Operating Revenues and carryover cash. The decrease in the percentage in 2011 shows some decrease in grant revenue, but still at an acceptable level.

Overall, the Town's reliance on one-time revenues continues to be minimal and reliance on grant revenue is utilized for special projects and capital and is not used to offset operating revenues.

Restricted Operating Revenues



Warning Trend:

Increasing amount of Restricted Operating Revenues as a percentage of Net Operating Revenues

Formula:

$$\frac{\text{Restricted Operating Revenues}}{\text{Net Operating Revenues}}$$

Fiscal year:	2011	2012	2013	2014	2015
Restricted Operating Revenues	1,291,930	957,085	2,538,926	2,491,887	6,552,195
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Restricted Operating Revenues as a percentage of Net Operating Revenues	**2.4%**	**1.6%**	**4.1%**	**3.9%**	**9.7%**

Description:

A Restricted Operating Revenue is legally earmarked for a specific use, as may be required by state law, bond covenants, or grant requirements. For example, many states require that gas tax revenues be used only for street maintenance or construction. Also included in Restricted Operating Revenues are General Fund transfers to other funds, including the Cultural Fund and the Public Improvement Fund. While these General Fund transfers are discretionary, the dollars are earmarked for specific purposes and are not budgeted as available for general expenditures.

From one perspective, it would seem that many of these restrictions, especially those relating to outside funding, should not affect a local government's financial health. The government has the option of not accepting the revenue and of not providing the service. This option, however, is not always easy to exercise; governments develop economic and political dependencies on these revenues and on the programs they support. Moreover, many governments finance their own essential services with intergovernmental revenues, making it harder to cut them out.

Commentary:

These revenues are reserved for specific purposes including certain grants, donations, lease proceeds and capital program transfers.

As the percentage of Restricted Operating Revenues increases, the Town loses its ability to respond to changing conditions and citizen needs and demands. Increases in the use of restricted revenues may indicate an overdependence on external revenues and signal a future inability to maintain service levels. The warning trend for this indicator is an increasing percentage.

Analysis:

Fluctuations in Restricted Operating Revenue will depend primarily on amounts transferred to other funds and on grant revenues received. Restricted Operating Revenues include Police and other grant revenues and transfers to the Cultural Fund and Public Improvements Fund.

In 2011, the General Fund transferred $600,000 to Cultural Fund and $387,000 to the Capital Renewal and Replacement Reserve Fund. In 2012, the General Fund transferred $600,000 to the Cultural fund. In 2013, the General Fund transferred $925,000 to the Cultural Fund and $1,250,000 to the Public Improvement Fund. In 2014, the General Fund transferred $1,050,000 to the Cultural Fund, $315,000 to the Public Improvement Fund and $209,600 to the Debt Service Fund. In 2015, the General Fund transferred $1,500,000 to the Cultural Fund, $3,500,000 to the Parks and Recreation Fund, $191,370 to the Public Improvement Fund and $755,940 to the Debt Service Fund.

The amount of restricted operating revenues is within acceptable limits.

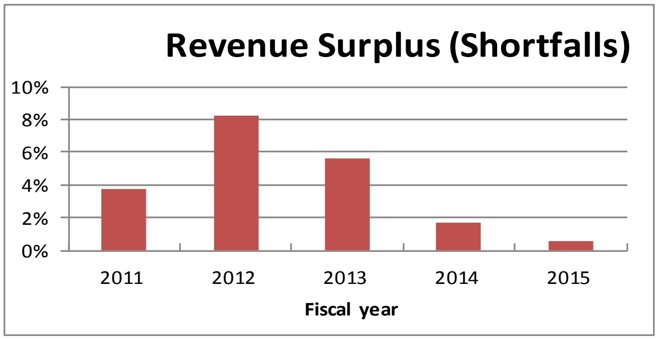
Revenue Surplus (Shortfalls)

Warning Trend:

Increase in revenue shortfalls as a percentage of actual Net Operating Revenues

Formula:

$$\frac{\text{Revenue Surplus (Shortfall)}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Revenue Surplus (Shortfall)	2,029,438	4,804,900	3,461,848	1,095,374	348,710
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Revenue Surplus (Shortfall) as a percentage of Net Operating Revenues	**3.7%**	**8.2%**	**5.6%**	**1.7%**	**0.5%**

Description:

This indicator examines the differences between revenue estimates and revenues actually received during the fiscal year. Major discrepancies that continue year after year can indicate a declining economy, inefficient collection procedures, or inaccurate estimating techniques. Discrepancies may also indicate that high revenue estimates are being made to accommodate political pressures. If revenue shortfalls are increasing in frequency or size, a detailed analysis should be made to pinpoint the source.

Commentary:

This indicator reflects the difference between revenues estimated in the Final Adopted Budget and revenues actually received. Major shortfalls can indicate inaccurate estimating techniques, sharp fluctuations in the economy or inefficient revenue collection.

Revenue shortfalls may result in mid-year cuts of services, spending of reserve funds, or increased use of short-term borrowing. Large or frequent shortfalls constitute a warning trend and indicate a need to be more conservative in revenue projections during the budget process.

Analysis:

The Town's budgeting process combines historical revenue trends with current and anticipated economic conditions. Budget amounts are compared to actual throughout the year and adjustments made through supplemental appropriations. Surplus or shortfalls within +/- 4% are considered reasonable.

The Town has shown a surplus each of the last five years. The amount of the each surplus indicates conservative, yet reasonable budgeting.

2011: The surplus is primarily a result of increased deficit reduction fees and sales tax revenue.
2012: The surplus primarily a result of an improved economy and significant increases in sales tax revenue and deficit reduction fees.
2013: The surplus primarily a result of an improved economy and significant increases in sales tax revenue and deficit reduction fees.
2014: The surplus primarily a result of an improved economy and significant increases in sales tax revenue.
2015: The surplus primarily a result of an improved economy and significant increases in sales tax revenue.

TREND EVALUATION: EXPENDITURES

SUMMARY

Expenditures are a rough measure of the Town's service output. Generally, the more the Town spends in constant dollars, the more services it is providing. However, this formula does not take into account how effective the services are or how efficiently they are delivered. To determine whether the Town of Parker is living within its revenues, the first issue to consider is expenditure growth rate.

Because the Town is *required* to have a balanced budget, it would seem unlikely that expenditure growth would exceed revenue growth. Nevertheless, the annual budget can be balanced in a number of subtle ways that will create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways are to borrow, use reserves, use bond proceeds for operations, or siphon small amounts from intergovernmental grants. Other ways are to defer capital maintenance or to defer funding of a future liability such as a pension plan. In each of these cases, the annual budget remains balanced, but the long-run budget develops a deficit. Although long-run deficits can be funded through windfalls such as state grants or revenue surges created by inflation, allowing such deficits to develop is risky.

A second issue to consider is expenditure flexibility. Expenditure flexibility is a measure of the freedom to adjust service levels to changing conditions and considers the level of mandatory or fixed costs. An increase in mandatory costs such as debt service, matching requirements and pension benefits renders the Town less able to adjust to change.

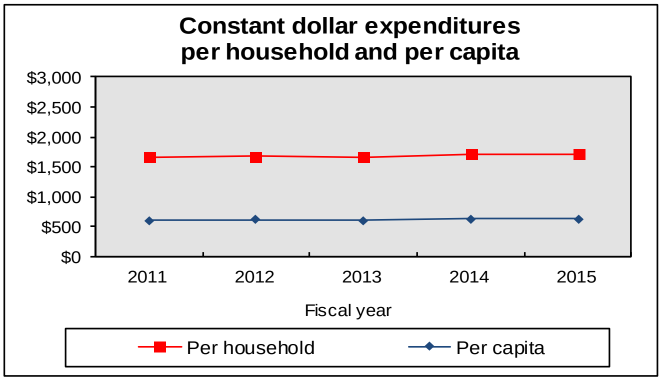
Analyzing the Town's expenditure profile will help to identify the following types of problems:

- Excessive growth of expenditures as compared to revenue growth or community wealth
- An undesirable increase in fixed costs
- Ineffective budgetary controls
- A decline in personnel productivity
- Excessive growth in programs that create future expenditure liabilities

INDICATORS

- Expenditures Per Capita
- Employees Per 1,000 Citizens
- Employee Benefits

Expenditures per Capita



Warning Trend:

Increasing Net Operating Expenditures per Capita (constant dollars)

Formula:

$$\frac{\text{Net Operating Expenditures (constant dollars)}}{\text{Population}}$$

Fiscal year:	2011	2012	2013	2014	2015
Net Operating Expenditures	27,909,685	29,332,361	30,364,003	32,881,722	35,064,433
Consumer Price Index	220.3	224.6	230.8	237.2	240.0
Constant dollar expenditures	27,910,000	28,773,000	28,982,000	30,537,000	32,186,000
Estimated population	45,758	46,919	47,823	48,789	50,677
Estimated households	16,731	17,133	17,451	17,798	18,758
Per capita expenditures (constant dollars)	**610**	**613**	**606**	**626**	**635**
Per household expenditures (constant dollars)	**1,668**	**1,679**	**1,661**	**1,716**	**1,716**

Description:

Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the community's ability to pay, especially if spending is increasing faster than the residents' collective personal income. From a different perspective, if the increase in spending is greater than can be accounted for by inflation or the addition of new services, it may indicate declining productivity--that is, that the government is spending more real dollars to support the same level of services.

Commentary:

Operating expenditures include personnel costs, materials and services and capital equipment costs in the General Fund. Operating expenditures do not include transfers to other funds. Increasing expenditures per capita can indicate that service costs are exceeding the community's ability to pay. Also, increases not caused by new services many indicate declining productivity.

Analysis:

The Town continues its moderate growth with residential and commercial development, and additional parks and open space. With these additions have come increased service needs from Police, Parks, and Public Works. Salaries generally increase an average of 2% - 4% per year. Utilities and other operating expenditures have also seen increases.

Included in expenditures are economic incentive payments from the new developments and annexations. Economic Incentive payments were more than offset by revenues generated.

With the Town's efforts to keep expenditures in check along with modest increases in population and number of households, the trends are stable over the 5-year period.

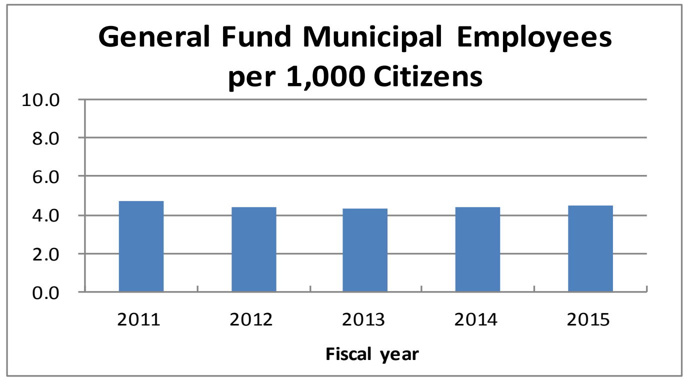
Employees per 1,000 Citizens

Warning Trend:

Increasing number of municipal employees per capita

Formula:

$$\frac{\text{Number of municipal employees}}{\text{Population}}$$



Fiscal year:	2011	2012	2013	2014	2015
Number of general fund full-time municipal employees *	216	208	205	213	227
Population	45,758	46,919	47,823	48,789	50,667
Number of City employees per 1,000 citizens	**4.7**	**4.4**	**4.3**	**4.4**	**4.5**

** Budgeted employees*

Description:

Because personnel costs are a major portion of a local government's operating budget, plotting changes in the number of employees per capita is a good way to measure changes in expenditures. An increase in employees per capita might indicate that expenditures are rising faster than revenues, the government is becoming more labor intensive or personnel productivity is declining.

Commentary:

This measure is based on the number of full-time employees in the General Fund. It excludes employees of enterprise operations like stormwater and internal service functions like fleet management and facilities.

An increasing number of employees is a warning trend, which may indicate more labor intensive work or declining productivity. An increasing number of employees could also indicate a new service or a higher level of existing service.

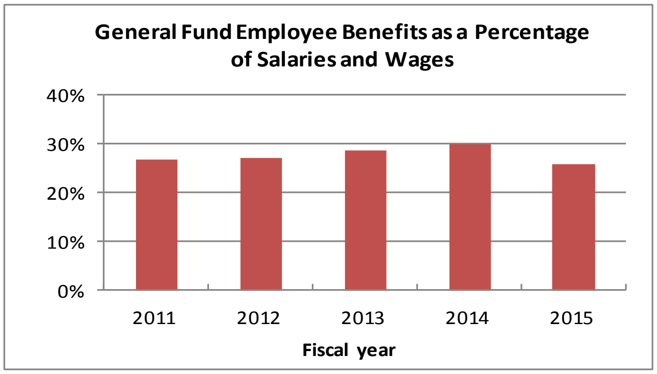
Analysis:

Employees Per Capita has remained relatively stable during the 5-year period. The Town has experienced moderate growth over the past five years in terms of population, commercial/residential construction, and recreation areas.

The decrease from 2011 to 2012 was due to the Town's “right-sizing” that eliminated several positions that were not needed.

In 2013, the IT Department was moved from the General Fund to the IT Internal Service Fund, three police officers, one building inspector and two positions in economic development were added for a net decrease of three positions. In 2014, five positions in the Police Department, one in human resources, one in economic development and one in parks were added. In 2015, seven positions in the Police Department, one in finance, two in public works, two in building, one in town administration and one in community were added.

Employee Benefits



Warning Trend:

Increasing fringe benefit expenditures as a percentage of salaries and wages

Formula:

$$\frac{\text{Fringe benefit expenditures}}{\text{Salaries and wages}}$$

Fiscal year:	2011	2012	2013	2014	2015
General Fund employee benefit expenditures	3,345,540	3,514,410	3,914,115	4,086,942	3,792,164
Total salaries and wages	12,446,931	12,925,817	13,688,501	13,664,317	14,567,028
Employee benefits as a percentage of total salaries and wages	**26.9%**	**27.2%**	**28.6%**	**29.9%**	**26.0%**

Description:

The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, deferred compensation, automobile allowances, disability insurance, educational and incentive pay. Benefits represent a significant share of operating costs, often amounting to more than 30% of employee compensation. Some benefits, such as health and life insurance, require immediate cash outlays; some, such as pension benefits or accumulated vacation pay, can be deferred for ten to twenty years; others, such as accumulated holiday and sick leave, may require either payment for the opportunity cost of not having the work done or payment to additional employees to handle the work. Because the funding and recording of fringe benefits is a complex process, these costs can escalate unnoticed, straining the government's finances.

Commentary:

Employee benefits include the cost of health insurance, worker's compensation, retirement, unemployment insurance, long-term disability, life insurance and the employer portion of social security. Paid holidays, vacation and sick pay are not included. This analysis includes employees in the General Fund. It does not include employees from enterprise operations such as stormwater or internal service functions such as fleet management or facilities.

Increasing employee benefits as a percent of salaries is a warning trend.

Analysis:

Expenditure dollars for Employee Benefits have continued to increase each year as a result of additional staffing and higher benefit costs. The cost of retirement benefits increases with the cost of salaries.

Salaries have increased each year as a result of the tight labor market over the past few years, as well as longevity and performance of the Town's employees. However, with the current economic conditions and higher unemployment, the rate of increase is expected to keep pace with the economy but not to experience the pressure of the past several years. In 2015, a salary increase of 4% was budgeted for all general employees and a step increase was budgeted for sworn police officers. In addition, an increase of 10% was budgeted for health insurance.

Benefit costs and plan options are carefully monitored by Human Resources. Health insurance costs are split between employees and the Town. The Front Range average for governmental entities for benefits is about 35%, including holidays, sick, and vacation pay.

TREND EVALUATION: OPERATING POSITION

SUMMARY

The term ***operating position*** refers to the Town's ability to (1) balance its budget on a current basis, (2) maintain reserves for emergencies and (3) have sufficient liquidity to pay its bills on time.

Operating position in the General Fund includes interest earnings and expenditures, and transfers to/from other funds. For enterprise funds, interest and transfers are not included in operating revenues and expenses.

BALANCING THE CURRENT BUDGET

During a typical year, the Town generates either an operating surplus or an operating deficit. An operating surplus develops when current revenues exceed current expenditures, and an operating deficit happens when the reverse occurs. Only in rare instances do revenues and expenditures balance exactly. An operating surplus or deficit may be created intentionally by a policy decision, or unintentionally because of the difficulty of precisely predicting revenues and expenditures, or trends in the underlying local and national economies. Usually, unassigned (f.k.a. unreserved) fund balances pay for deficits while surpluses are used to increase the fund balance. By Colorado statute, the Town must always ensure that its total expenditures and reserves equal its total resources.

RESERVES

The accumulation of operating surpluses builds reserves, which provide a financial cushion against events such as the loss of a revenue source, an economic downturn, unanticipated expenditures required by natural disasters, insurance loss and the like; unexpected large-scale capital expenditures, or other nonrecurring expenses; or an uneven cash flow.

Reserves are budgeted in a contingency account at the Town to ensure they are always fully discussed as part of the annual budget process.

The Town’s objective is to establish the proper level for the fund balance in the General Fund, provide a budget target, maintain year-to-year consistency, avoid wide fluctuations in budget strategy and provide resources for maximum service levels, while keeping the Town in a strong financial position.

The Town’s reserve policy sets the minimum fund balance to maintain in the General Fund at 17% of annual operating expenditures. The target during each budget process and at the end of each fiscal year is to keep the fund balance above the minimum requirement. This amount covers approximately two months’ expenditures; an additional 3% emergency reserve is required under Colorado’s TABOR Amendment.

LIQUIDITY

Liquidity refers to the flow of cash in and out of the treasury. The Town receives some revenues such as property taxes, in large installments at infrequent intervals during the first half of the year. If revenues are received before they need to be spent, the result is a positive liquidity/cash flow position. Excess liquidity or "cash reserves" are a valuable cushion against unexpected financial pressures.

An analysis of operating position can help to identify the following situations:

- A pattern of continuing operating deficits
- A decline in reserves
- Ineffective revenue forecasting techniques
- Ineffective budgetary controls

INDICATORS

- Operating Revenues Over/(Under) Expenditures
- Fund Balances
- Liquidity
- Stormwater Utility Operations Income and Losses
- Recreation Income and Losses
- Cultural Income and Losses

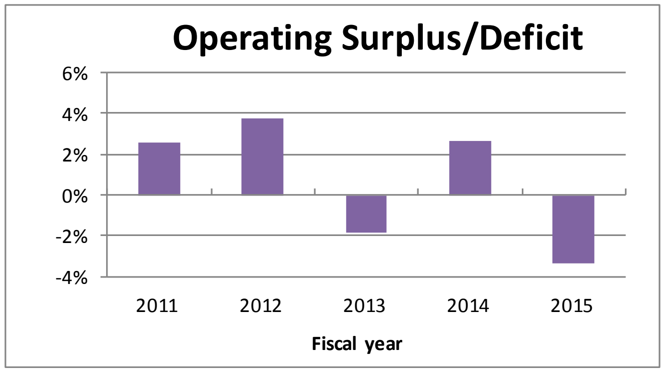
Operating Revenues Over (Under) Expenditures

Warning Trend:

Increasing General Fund Operating Deficits as a percentage of Net Operating Revenues

Formula:

General Fund Operating Surplus/Deficit
―――――――――――――――――
Net Operating Revenues



Fiscal year:	2011	2012	2013	2014	2015
General Fund Operating (Deficit)/Surplus*	1,421,796	2,212,829	(1,113,078)	1,688,000	(2,271,368)
Net Operating Revenues	54,400,130	58,637,483	61,519,761	63,761,658	67,797,696
General Fund Operating (Deficit)/Surplus as a percentage of Net Operating Revenues	**2.6%**	**3.8%**	**-1.8%**	**2.6%**	**-3.4%**

*****_Encumbrances not included_

Description:

An operating deficit occurs when current expenditures exceed current revenues. This may not mean that the budget will be out of balance ("budget deficit"), because reserves ("fund balances") from prior years can be used to cover the difference. It does mean, however, that during the current year, the government is spending more than it is receiving. This may be caused by an emergency (such as a natural catastrophe) requiring a large immediate expenditure or the spending pattern may be part of a policy to use accumulated surplus fund balances. An operating deficit in any one year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead. Budgetary analysis does not always reveal operating deficits because they can be temporarily financed by short-term loans or by accounting transactions that, for example, inappropriately accrue future revenues or transfer surplus fund balances from other funds. An analyst looking for operating deficits should consider each fund separately, so that a surplus in one fund cannot hide a deficit in another. Analyzing funds separately also helps to pinpoint emerging problems. Although such transactions can provide necessary opportunities to meet current needs and can serve as a positive source of financing, they should be scrutinized and used on a short term/temporary basis only.

Commentary:

This indicator shows the difference between the revenues and expenditures of the General Fund. Unlike the Federal government, Colorado municipalities are prohibited by Local Budget Law from spending more money than they have. However, when a Town spends more than it collects in a year, the deficit can be covered by cash reserves, transfers from other funds or from other sources. An operating deficit may occur as a result of lower revenues or higher costs than were budgeted. An operating deficit may also result when Town Council intentionally spends accumulated surplus funds.

Frequent and increasing operating deficits may indicate that revenues are not supporting current expenditures. The following occurrences are warning trends:

- Two consecutive years of operating deficits;
- A current operating fund deficit greater than that of the previous year;
- An operating deficit in two or more of the last five years;
- An abnormally large deficit - more than 5 to 10 percent of net operating revenues in any one year.

Analysis:

The trend is positive, with surpluses in three of the last five years, the surpluses in 2011, 2012, and 2014 are a result of overall operations.

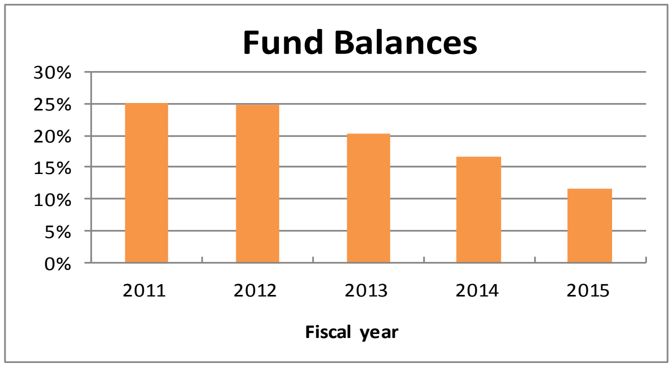
The deficit in 2013 is due to the decision by Town Council to purchase $2 million worth of land across from Town Hall and partner with the Library District for a new library and park plaza that will begin construction in 2015.

The deficit in 2015 is due to the transfer to the Parks and Recreation Fund for the recreation center expansion.

Fund Balances
(General Fund)

Warning Trend:
Declining unreserved Fund Balances as a percentage of Net Operating Revenues

Formula:
$$\frac{\text{Unassigned Fund Balances}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Unassigned Fund Balances	13,677,803	14,554,422	12,496,031	10,685,656	7,881,300
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Unassigned Fund Balances as a percentage of Net Operating Revenues	**25.1%**	**24.9%**	**20.3%**	**16.8%**	**11.6%**

Description:
Positive fund balances can also be thought of as reserves, although the "fund balance" entry on a local government's annual report is not always synonymous with "available for appropriation." The report may show reservations on the fund balances, such as "Assigned for Prior Year's Encumbrances" or the TABOR required "Restricted Emergency Reserve".

The size of a local government's fund balances can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow. In states that allow it, jurisdictions usually try to operate each year at a small surplus to maintain positive fund balances and thus maintain adequate reserves.

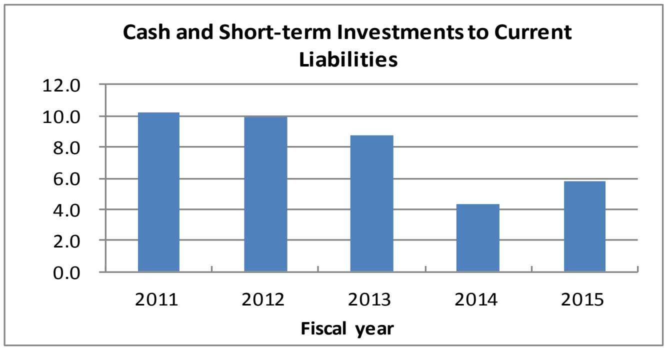
Nonspecific or general reserves are usually carried on the books as an unassigned fund balance in the general operating fund. Sometimes special reserves are maintained in a separate fund. For example, reserves for replacing equipment such as computers or vehicles may be kept in the fund balance of an internal service fund (i.e., a fund used to charge operating departments for the use of equipment). Reserves can also be appropriated as a budget item in some form of contingency account. Regardless of the way in which reserves are recorded, an unplanned decline in fund balances may mean that the government will be unable to meet a future need.

Commentary:
The Town's Policy regarding Fund Balance is to maintain a level for the Fund Balance in the General Fund which provides a budget target, maintains year to year consistency, avoids wide fluctuations in budget strategy, and provides resources for maximum service levels to keep the Town in a strong financial position.

Analysis:
For 2011, with good financial management, the percentage increased from the previous year despite difficult economic conditions. For subsequent years, the Town intentionally utilized reserves for one-time Townwide projects.

The percentage of Unreserved Fund Balance remains well above the Town’s policy requirement and at a very healthy level.

Liquidity



Warning Trend:

Decreasing amount of Cash and Short-term Investments as a percentage of Current Liabilities

Formula:

$$\frac{\text{Cash and Short-term Investments}}{\text{Current Liabilities}}$$

Fiscal year:	2011	2012	2013	2014	2015
Cash and Short-term Investments	17,346,906	18,195,345	15,508,719	21,470,413	17,229,414
Current Liabilities *	1,697,895	1,836,198	1,778,808	4,965,700	2,973,800
Cash and short-term investments ratio to current liabilities	**10.2**	**9.9**	**8.7**	**4.3**	**5.8**

** Includes amounts in escrow for development fees.*

Description:

A good measure of a local government's short-run financial condition is its cash position. Cash position, which includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, determines a government's ability to pay its short-term obligations. This is also known as liquidity, and the immediate effect of insufficient liquidity is insolvency--the inability to pay bills. Low or declining liquidity can indicate that a government has overextended itself in the long run. A cash shortage may be the first sign.

Commercial entities use a standard ratio of liquidity called the "quick ratio"; cash, short-term investments and accounts receivable divided by current liabilities (short-term debt, current portion of long-term debt, accounts payable, accrued and other current liabilities). If this ratio is less than one to one (or less than 100%), the commercial entity is considered to be facing liquidity problems. However, most of a commercial entity's accounts receivable is collected within thirty days; a municipality's receivables are usually not collected that quickly. Accordingly, the ratio of cash and short-term investments to current liabilities is a better measure of a municipality's liquidity.

Comparing cash and short-term investments to current liabilities is also referred to as *current account analysis*. In this terminology, an excess of liabilities over cash and short-term investments (a ratio of less than one to one) would be referred to as a *current account deficit* and the reverse (a ratio of greater than one to one) would be a *current account surplus*.

Commentary:

Liquidity is an indicator of the Town's ability to pay its short-term obligations. Liquidity is the ratio of cash and short-term investments to current liabilities. A low ratio may result in cash-flow problems for the Town and require greater use of short-term borrowing to cover expenses. The credit rating industry considers a liquidity ratio of less than 1:1 cash to current liabilities to be a negative factor, although a single year at this level is not considered serious.

Decreasing liquidity is a warning trend.

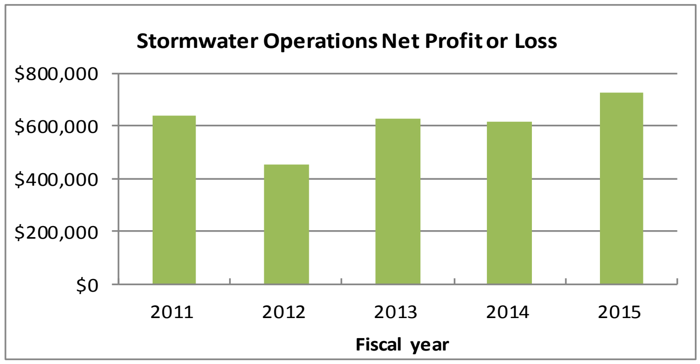
Analysis:

The trend is appears negative, but it is anticipated as the Town utilizes funds for one-time projects. The decrease in 2013 was primarily due to the purchase of land for a future project. The decline in 2014 is due to large developer deposits associated with construction deposits that will be released when the developer's obligations have been met.

Stormwater Operations - Income and Losses

Warning Trend:
Recurring enterprise losses (deficits)

Formula:
Enterprise profits or losses



Fiscal year:	2011	2012	2013	2014	2015
Stormwater Operating Results (Net Profit or Loss)	807,956	622,419	764,476	751,743	891,347
excluding depreciation					
Net profit or loss*	**638,799**	**455,586**	**628,076**	**613,283**	**725,991**

**Net profit or loss is after depreciation expense and before interest or transfers*

Description:

Enterprise losses are a special and highly visible type of operating deficit because enterprise fund programs are expected to function as if they were commercially operated private entities, rather than governmental "not for profit" entities. This means that the costs (expenses, including depreciation) of providing goods and services to the public are to be recovered through user charges. In addition, enterprise operations usually need to issue revenue bonds to finance capital improvement projects, and the interest rates and covenants associated with the issuance of such bonds can be significantly affected by the operating position of the enterprise.

Enterprise fund programs common to local government are water, gas, electric utilities, swimming pools, golf courses, airports, parking garages and transit systems. In times of financial strain, a local government can raise taxes to increase support for a general fund program. However, enterprises are typically subject to the laws of supply and demand. Managers of such programs who raise user fees or rates may find that revenues actually decrease because customers limit their use of the service.

Commentary:

The Town operates one enterprise, the stormwater utility. Like private businesses, this entity charges customers for services to cover costs of operations. Net income or loss is the difference between the revenues and costs of providing these services. Income is used to retire debt, fund capital construction, and to maintain an adequate level of working capital.

Recurrent enterprise losses represent a warning trend.

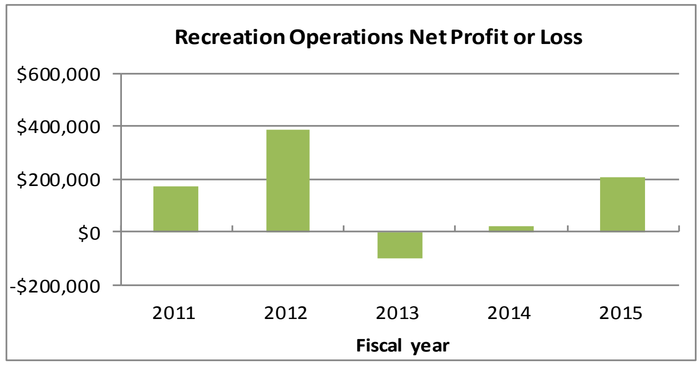
Analysis:

Over the five year period the Stormwater Fund has shown a net profit from operations each year.

Recreation Operations - Income and Losses

Warning Trend:
Recurring losses (deficits)

Formula:
Enterprise profits or losses



Fiscal year:	2011	2012	2013	2014	2015
Operating Revenue	3,765,882	4,132,752	4,271,722	4,457,106	4,401,055
Expenditures	4,554,047	4,926,022	5,361,349	5,508,161	6,054,697
Operating profit or loss	**(788,165)**	**(793,270)**	**(1,089,626)**	**(1,051,055)**	**(1,653,642)**
Net profit or loss including interest and transfers	**173,293**	**386,902**	**(98,518)**	**20,394**	**207,315**
Operating Revenue as a percentage of Expenditures	**82.7%**	**83.9%**	**79.7%**	**80.9%**	**72.7%**

Description:
An operating deficit occurs when current expenditures exceed current revenues. This may not mean that the budget will be out of balance ("budget deficit"), because reserves ("fund balances") from prior years can be used to cover the difference. It does mean, however, that during the current year, the government is spending more than it is receiving. This may be caused by an emergency (such as a natural catastrophe) requiring a large immediate expenditure or the spending pattern may be part of a policy to use accumulated surplus fund balances. An operating deficit in any one year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead. Budgetary analysis does not always reveal operating deficits because they can be temporarily financed by short-term loans or by accounting transactions that, for example, inappropriately accrue future revenues or transfer surplus fund balances from other funds. An analyst looking for operating deficits should consider each fund separately, so that a surplus in one fund cannot hide a deficit in another. Analyzing funds separately also helps to pinpoint emerging problems. Although such transactions can provide necessary opportunities to meet current needs and can serve as a positive source of financing, they should be scrutinized and used on a short term/temporary basis only.

Commentary:
This indicator shows the difference between the revenues and expenditures of the Recreation Fund. Unlike the Federal government, Colorado municipalities are prohibited by Local Budget Law from spending more money than they have. However, when a Town spends more than it collects in a year, the deficit can be covered by cash reserves, transfers from other funds or from other sources. An operating deficit may occur as a result of lower revenues or higher costs than were budgeted. An operating deficit may also result when Town Council intentionally spends accumulated surplus funds.

Frequent and increasing operating deficits may indicate that revenues are not supporting current expenditures. The following occurrences are warning trends:

- Two consecutive years of operating deficits;
- A current operating fund deficit greater than that of the previous year;
- An operating deficit in two or more of the last five years;
- An abnormally large deficit - more than 5 to 10 percent of net operating revenues in any one year.

Analysis:
The Recreation Fund is not self-sustaining and will always require an operating transfer from the Parks and Recreation Fund to balance the budget. The goal of the Town is for the recreation fund to recover 80% of their annual operating costs through user charges. With this in mind, the trend is considered positive, with operating revenues covering 80% expenditures in four of the last five years.

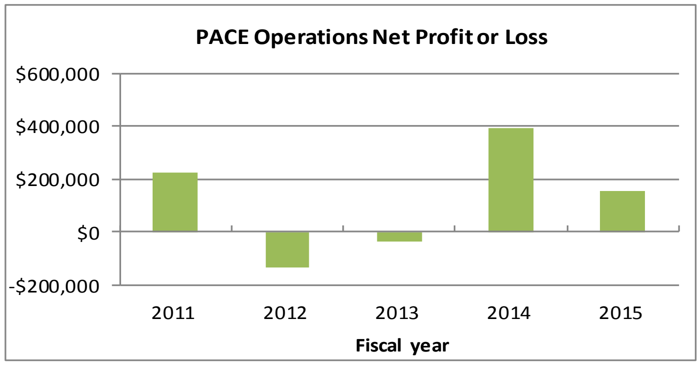
Cultural Operations - Income and Losses

Warning Trend:

Recurring losses (deficits)

Formula:

Enterprise profits or losses



Fiscal year:	2011	2012	2013	2014	2015
Operating Revenue	550,201	1,112,329	1,527,100	1,931,946	2,548,749
Expenditures	925,844	1,846,842	2,611,929	3,252,888	4,144,168
Operating profit or loss	**(375,643)**	**(734,513)**	**(1,084,829)**	**(1,320,942)**	**(1,595,418)**
Net profit or loss including interest and transfers	**224,357**	**(132,578)**	**(35,340)**	**390,524**	**158,434**
Operating Revenue as a percentage of Expenditures	**59.4%**	**60.2%**	**58.5%**	**59.4%**	**61.5%**

Description:

An operating deficit occurs when current expenditures exceed current revenues. This may not mean that the budget will be out of balance ("budget deficit"), because reserves ("fund balances") from prior years can be used to cover the difference. It does mean, however, that during the current year, the government is spending more than it is receiving. This may be caused by an emergency (such as a natural catastrophe) requiring a large immediate expenditure or the spending pattern may be part of a policy to use accumulated surplus fund balances. An operating deficit in any one year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead. Budgetary analysis does not always reveal operating deficits because they can be temporarily financed by short-term loans or by accounting transactions that, for example, inappropriately accrue future revenues or transfer surplus fund balances from other funds. An analyst looking for operating deficits should consider each fund separately, so that a surplus in one fund cannot hide a deficit in another. Analyzing funds separately also helps to pinpoint emerging problems. Although such transactions can provide necessary opportunities to meet current needs and can serve as a positive source of financing, they should be scrutinized and used on a short term/temporary basis only.

Commentary:

This indicator shows the difference between the revenues and expenditures of the Cultural Fund. Unlike the Federal government, Colorado municipalities are prohibited by Local Budget Law from spending more money than they have. However, when a Town spends more than it collects in a year, the deficit can be covered by cash reserves, transfers from other funds or from other sources. An operating deficit may occur as a result of lower revenues or higher costs than were budgeted. An operating deficit may also result when Town Council intentionally spends accumulated surplus funds.

Frequent and increasing operating deficits may indicate that revenues are not supporting current expenditures. The following occurrences are warning trends:

- Two consecutive years of operating deficits;
- A current operating fund deficit greater than that of the previous year;
- An operating deficit in two or more of the last five years;
- An abnormally large deficit - more than 5 to 10 percent of net operating revenues in any one year.

Analysis:

The PACE Center opened in October 2011 and the first full year of operations was 2012. The Cultural Fund is not self-sustaining at this point and it is anticipated that an operating transfer from the General Fund will be required to balance the budget. The ultimate goal of the Town is for the Cultural fund to become self-sustaining, but for the near future the goal is recover 60% to 75% of their annual operating costs through user charges. With this in mind, the trend is considered positive, with operating revenues covering 60% expenditures for the first five years of operations.

TREND EVALUATION: DEBT INDICATORS

SUMMARY

Debt is an effective way to finance capital improvements and to balance out short-term revenue flows, but its misuse can cause serious financial problems. Even a temporary inability to repay debt can damage the Town's credit rating, possibly increasing its rate for future borrowing.

The most common forms of long-term debt are general obligation, special assessment and revenue bonds. Even when these types of debt are used exclusively for capital projects, the Town needs to ensure that its outstanding debt does not exceed its ability to repay as measured by the wealth of the community. Another way to evaluate ability to repay is to consider the amount of principal and interest, or debt service that the Town is obligated to repay each year. Also to be considered are overlapping debt and other jurisdiction debts against which the Town has pledged its full faith and credit. Under the most favorable circumstances, the Town's debt is proportional in size and rate of growth to its tax base, does not extend past the useful life of the facilities that it finances, is not used to balance the operating budget, does not require repayment schedules that put excessive burdens on operating expenditures; and is not too high as to jeopardize its credit rating.

An examination of the Town's debt structure can reveal the following:

- Inadequacies in cash management procedures or expenditure controls
- Increasing reliance on long-term debt
- Decreasing expenditure flexibility (due to increased fixed costs in the form of debt service)
- Use of short-term debt to finance current operations
- Existence of sudden large increases or decreases in future debt service
- Amount of additional debt that the community can absorb

INDICATORS

- Current Liabilities
- Combined Long-Term (Overlapping) Debt
- Debt Service

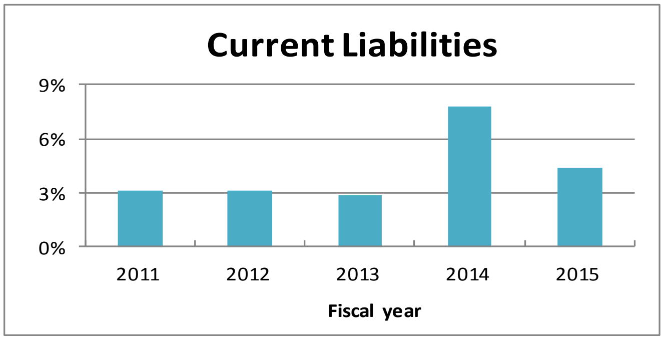
Current Liabilities

Warning Trend:

Increasing Current Liabilities at the end of the year as a percentage of Net Operating Revenues

Formula:

$$\frac{\text{Current Liabilities}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Current Liabilities *	1,697,895	1,836,198	1,778,808	4,965,700	2,973,800
Net Operating Revenues	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Current Liabilities as a percentage of Net Operating Revenues	**3.1%**	**3.1%**	**2.9%**	**7.8%**	**4.4%**

** Includes amounts in escrow for development fees.*

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Description:

Current liabilities are defined as the sum of all liabilities due at the end of the fiscal year, including short-term debt, current portion of long-term debt, all accounts payable, accrued liabilities and other current liabilities.

A major component of current liabilities may be short-term debt in the form of tax or bond anticipation notes. Although short-term borrowing is an accepted way to deal with uneven cash flow, an increasing amount of short-term debt outstanding at the end of successive years can indicate liquidity problems, deficit spending or both. Current Liabilities do not include interfund loans between funds.

Commentary:

Current liabilities are those amounts which the General Fund owes and expects to pay within one year. This indicator shows Town payments due at year end as a percentage of operating revenues. These liabilities are comprised of accounts payable, payroll taxes, employee benefits payable and obligations to perform a service in the near future.

Increasing current liabilities may indicate cash shortages and, therefore, is a warning trend.

Analysis:

The trend is favorable over the five-year period, as the percentage has declined from 2011 and has remained stable over the past four years. The addition of Certificates of Participation in 2014 caused the increase in 2014.

The addition of new long term debt will cause current liabilities to increase due to the increase in the annual debt service obligations. The Town should remain cognizant of this and monitor this trend closely when new debt is issued in the future.

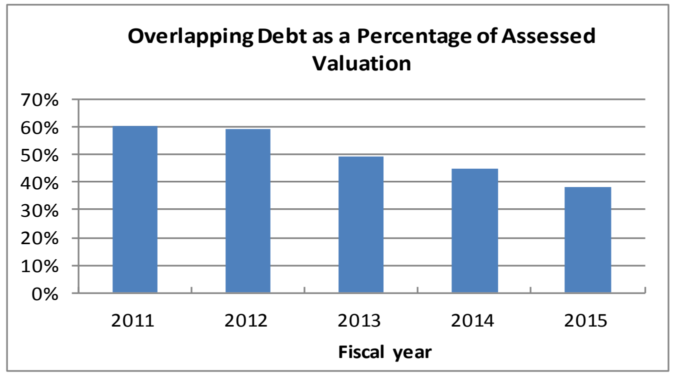
Combined Long-term (Overlapping) Debt

Warning Trend:

Increasing Long-term Overlapping Bonded Debt as a percentage of Assessed Valuation

Formula:

$$\frac{\text{Long-term Direct and Overlapping G.O. Debt}}{\text{Assessed Valuation}}$$



Fiscal year:	2011	2012	2013	2014	2015
Long-term Direct and Overlapping G.O. Debt	334,197,610	332,843,220	273,580,956	256,133,080	252,670,664
Assessed Valuation	556,939,889	561,018,741	556,939,889	574,439,359	662,798,384
Long-term Overlapping Debt as a percentage of Assessed Valuation	**60.0%**	**59.3%**	**49.1%**	**44.6%**	**38.1%**

Description:

Overlapping debt is the net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community. Examples of other jurisdictions are school, metropolitan and utility districts. The level of overlapping debt is only that debt applicable to the property shared by the two jurisdictions.

The overlapping debt indicator measures the ability of the community's tax base to repay the debt obligations issued by all of its governmental and quasi-governmental jurisdictions. Like long-term debt of the government itself, overlapping debt can be measured in terms of assessed valuation or another tax base or repayment source.

Both special-purpose and overlapping debt need to be considered in assessing total indebtedness. First, although the probability that your community would have to repay the debt may be slim, the potential is real. Second, during depressed economic times, your government may be affected by the same adverse conditions that might cause an overlapping agency to default, which would render the burden of assuming additional debt even more severe.

Commentary:

Combined long-term debt represents the portion of debt which is dependent on property taxes for payment. It is a measure of the community's ability to pay the combination of the Town's long-term debt with the bonded debt of jurisdictions overlapping the Town.

The warning signals are as follows:

- Combined debt exceeding 10 percent of assessed valuation;
- An increase of 20 percent over the previous year in combined debt as a percentage of market valuation;
- Combined debt as a percentage of market valuation increasing 50 percent over four years;
- Combined debt exceeding 90 percent of the amount authorized by state law.

Analysis:

The Town’s Long-term Overlapping Debt as a percentage of Assessed Valuation appears to be high, but the Town of Parker has numerous metropolitan districts and several special districts that account for 65% of the G.O. debt issued for capital construction of infrastructure. The percentage of Douglas County School District debt applicable to the Town accounts for 19% of Long-Term Direct Debt and the remaining 16% is direct debt of the Town of Parker.

The Town's does not have any outstanding G.O. debt at this time, but the voters did give the Town authorization to issue $12,500,000 of G.O. debt in 2001 for the acquisition and preservation of open space and parkland. The Town currently has no plans to issue the debt.

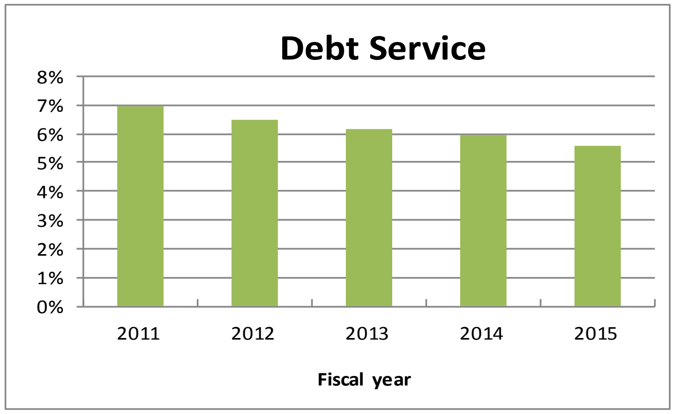
Debt Service - General Fund

Warning Trend:

Increasing Net Direct Debt Service as a Percentage of General Revenue

Formula:

$$\frac{\text{General Fund Net Direct Debt Service}}{\text{Net Operating Revenues}}$$



Fiscal year:	2011	2012	2013	2014	2015
Net Direct Debt Service	3,784,923	3,784,573	3,784,502	3,781,410	3,767,750
Net Operating Revenues *	54,400,130	58,526,977	61,519,761	63,761,658	67,797,696
Net Direct Debt Service as a percentage of Net Operating Revenues	**7.0%**	**6.5%**	**6.2%**	**5.9%**	**5.6%**

* Operating revenues : general fund revenues, including carryover cash, plus operating transfers from other funds.

Description:

Debt service is defined here as the amount of principal and interest that a local government must pay each year on net direct bonded long-term debt plus the interest it must pay on direct short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. Debt service can be a major part of a government's fixed costs, and its increase may indicate excessive debt and fiscal strain.

Commentary:

In 2009, the Town issued $44,250,000 in Certificates of Participation (COP's) to finance the costs of constructing and equipping a new police station, as well as an arts, cultural and events center. Payments are due semi-annually in varying amounts through October 15, 2035.

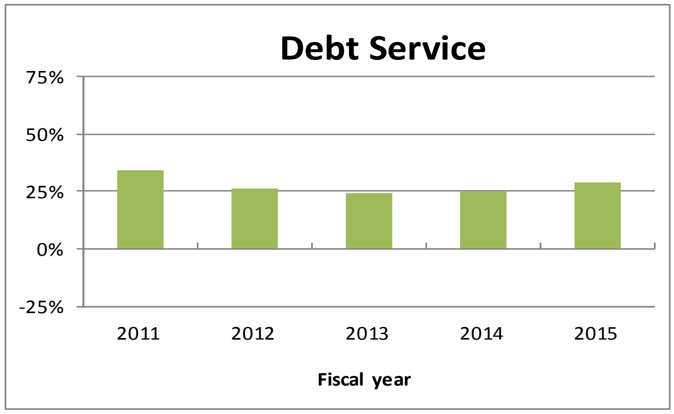
In 2014, the Town issued $19,520,000 in Certificates of Participation to finance the costs of constructing and equipping a new public works facility, as well as the recreation center expansion. $13,000,000 was for the new public works facility and $6,520,000 was for the recreation center expansion. Payments are due semi-annually in varying amounts through October 15, 2034.

Analysis:

The Net Direct Debt Service as a percentage of Net Operating Revenues is relatively small and is not a warning signal. The trend is positive as the percentage has decreased over the last five years.

The addition of any new long term debt that will be paid from the General Fund will cause the percentage to increase. The Town should remain cognizant of this and monitor this trend closely to ensure there isn't a decrease in expenditure flexibility (due to increased fixed costs in the form of debt service) when new debt is issued in the future.

Debt Service - Parks and Recreation Fund



Warning Trend:

Increasing Net Direct Debt Service as a Percentage of 0.5 cent Sales/Use Tax

Formula:

$$\frac{\text{Parks and Recreation Fund Net Direct Debt Service}}{\text{Sales/Use Tax Two and One Half Cent Capital Revenue}}$$

Fiscal year:	2011	2012	2013	2014	2015
Net Direct Debt Service	1,482,275	1,244,300	1,239,019	1,361,316	1,709,536
Sales/Use Tax 1/2 Cent Recreation Revenue	4,347,687	4,790,577	5,114,756	5,502,274	5,991,926
Net Direct Debt Service as a percentage of Pledged Revenue	**34.1%**	**26.0%**	**24.2%**	**24.7%**	**28.5%**

Description:

Debt service is defined here as the amount of principal and interest that a local government must pay each year on net direct bonded long-term debt plus the interest it must pay on direct short-term debt. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. Debt service can be a major part of a government's fixed costs, and its increase may indicate excessive debt and fiscal strain.

Commentary:

Debt service represents the annual payment of principal and interest on long-term debt

In 2014, the Town issued $19,520,000 in Certificates of Participation to finance the costs of constructing and equipping a new public works facility, as well as the recreation center expansion. $13,000,000 was for the new public works facility and $6,520,000 was for the recreation center expansion. Payments are due semi-annually in varying amounts through October 15, 2034.

In 2015, the Town issued a Sales and Use Tax Revenue Refunding Note, the proceeds were used to refund the Town’s 2006 Sales and Use Tax Revenue Bonds used for the acquisition and construction of a Fieldhouse and related improvements. This issue consists of a bank loan in the original amount of $9,880,000 due annually on May 1 in various amounts through May 1, 2025.

This indicator measures debt service on the bonds to the sales & use tax revenue stream which supports it rather than the pledged stream.

Analysis:

The trend is positive, showing a decrease in percentage of net direct debt service as a percentage of pledged revenue in four of the last five years.

The addition of any new long term debt that will be paid from the Parks and Recreation Fund will cause the percentage to increase. The Town should remain cognizant of this and monitor this trend closely to ensure there isn’t a decrease in expenditure flexibility (due to increased fixed costs in the form of debt service) when new debt is issued in the future.

TREND EVALUATION: UNFUNDED LIABILITIES

SUMMARY

An unfunded liability is one that has been incurred during past/current year(s), but does not have to be paid until a future year and for which reserves have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time they can have a substantial effect on the Town's financial condition.

One type of unfunded liability has been considered in this report; the employee leave (compensated absences) liability. The liability can have a significant potential to affect the Town's financial condition because (1) it does not show up in the primary financial statements in a way that makes its impact easy to assess and (2) it accumulate gradually over time. Employee leave liabilities may go unnoticed until they have created severe problems.

An analysis of the Town's unfunded liabilities can answer the following questions:

- Is the amount of unused vacation, sick and compensatory leave time per employee increasing?

- Are policies for the payment of unused leave realistic compared to the Town's ability to pay?

INDICATORS

- Accumulated Employee Leave

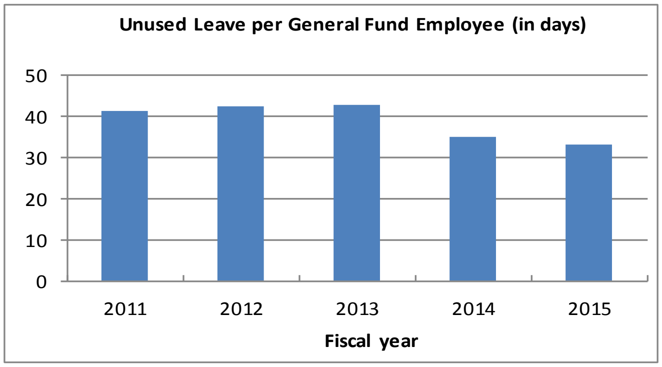
Accumulated Employee Leave

Warning Trend:

Increasing number of unused vacation and sick leave days per employee

Formula:

$$\frac{\text{Total days of unused vacation and sick leave}}{\text{Number of employees}}$$



Fiscal year:	2011	2012	2013	2014	2015
Total days of unused vacation and sick leave	8,525	8,463	8,746	7,452	7,554
Number of general fund employees*	207	199	205	213	227
Days of unused leave per general fund municipal employee	**41.2**	**42.5**	**42.7**	**35.0**	**33.3**

** Budgeted full-time employees*

Description:

Local governments usually allow their employees to accumulate some portion of unused vacation and sick leave to be paid at termination or retirement. Although leave benefits initially represent only the opportunity cost of not having work performed, these benefits become a real cost when employees are actually paid for their accumulated leave, either during their employment or at termination or retirement.

Commentary:

Accumulated employee leave is the value of unused vacation, sick and compensatory time accrued by General Fund Town employees. For employees who retire or leave the employment of the Town, the unused leave represents an actual cost. For employees who remain on the payroll and use their leave, it poses no additional costs to the Town, except in loss of services while they are absent.

Increasing accumulated leave indicates growing unfunded liabilities and is considered a warning trend.

Analysis:

Vacation time accrues anywhere from 6.67 to 14.67 hours per month depending on years of service. Sick leave accrues at 8 hours per month.

The Town caps vacation and sick time accruals at one hundred sixty (160) hours and eight hundred ninety-six (896) hours respectively. Any vacation leave in excess of one hundred sixty (160) hours will be removed from the employee's leave balance if not used by an employee by the last pay period or partial pay period of the calendar year. Any accrual of sick leave in excess of eight hundred ninety-six (896) hours will be converted to cash on a three-to-one basis; three (3) hours sick leave for one (1) hour cash compensation, at the employee's regular rate of pay at the end of the year. This limits the liability the Town incurs and provides an incentive for employees to use leave time as needed.

The trend has improved over the last two years and is relatively stable and within acceptable levels.

TREND EVALUATION: CAPITAL PLANT

SUMMARY

Most of the Town's wealth is invested in its physical assets or capital plant (i.e. streets, buildings, stormwater utility networks and equipment). If these assets are not properly maintained or are allowed to become obsolete, the following often results: (1) decreased usefulness of the assets, (2) increased cost of maintenance and replacement, and (3) decreased attractiveness of the community as a place to live or do business.

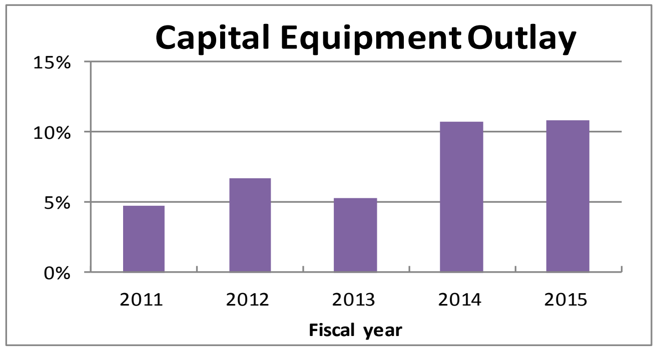
The Town is committed to both the maintenance and upkeep of its capital assets. However, during the recent recession, the Town made some deferrals of needed capital plant expenditures. As part of its budget process beginning in 2012, the Town has committed more resources to the capital program budget to both maintaining curbs, gutters and sidewalks, and to reduce catch-up from improvements deferred in prior periods. Some of the problems associated with continued deferred maintenance are the following:

- Reduction in residential and business property values.
- Loss of efficiency that, for example, can result from an obsolete truck that spends more time in the garage than on the street.
- Increased costs of bringing a facility up to acceptable standards (retrofitting); i.e., if resurfacing a street has been delayed for too long so that the street now has to be completely reconstructed.
- Potential for a large future financial obligation to complete a backlog of maintenance work and necessary equipment purchase replacement.
- Transference of the true cost of receiving current services to future taxpayers.

INDICATORS

- Capital Equipment Outlay
- Depreciation – General Government and Business Type Activities
- Infrastructure Replacement

Capital Equipment Outlay



Warning Trend:

Three or more years decline in capital outlay from operating and internal service funds as a percentage of net operating expenditures.

Formula:

$$\frac{\text{Capital outlay from operating and internal service funds}}{\text{Net Operating Expenditures}}$$

Fiscal year:	2011	2012	2013	2014	2015
Total Capital Equipment Outlay	1,316,767	1,965,083	1,608,870	3,505,027	3,773,568
Net Operating Expenditures	27,909,685	29,332,361	30,364,003	32,881,722	35,064,433
Capital Outlay as a percentage of Operating Expenditures	**4.7%**	**6.7%**	**5.3%**	**10.7%**	**10.8%**

Description:

Expenditures for operating equipment--such as vehicles and computers--drawn from the operating budget are usually referred to as "capital outlay." Capital outlay items normally include equipment that will last longer than one year and have an initial cost above a significant minimum amount, such as $5,000. Capital outlay does not include capital budget expenditures for construction of infrastructure such as streets, buildings or bridges. The purpose of capital outlay in the operating budget is to replace worn equipment or add new equipment. The ratio of capital outlay to net operating expenditures is a rough indicator of whether the stock of equipment is being adequately replaced. Over a number of years, the relationship between capital outlay and operating expenditures is likely to remain about the same. If this ratio declines in the short run (one to three years), it may mean that the local government's needs are temporarily satisfied, since most equipment lasts more than one year. A decline persisting over three or more years can indicate that capital outlay needs are being deferred, which can result in the use of inefficient or obsolete equipment.

Commentary:

This category does not measure expenditures for major capital programs such as drainage, new street projects and facility construction.

The warning trend is declining capital expenditures, which may indicate the use of inefficient or obsolete equipment.

Analysis:

With the Town's capital expenditure threshold at $5,000, a large portion of office and computer equipment is not considered capital. A percentage of capital outlay between 5 - 7% appears to be appropriate.

The increase in 2012 was the result of the replacement of aging equipment that had been deferred in prior years.

The increases in 2014 and 2015 are the result of vehicle additions to fleet related to new position within the organization and the replacement of aging equipment and increased fleet replacement.

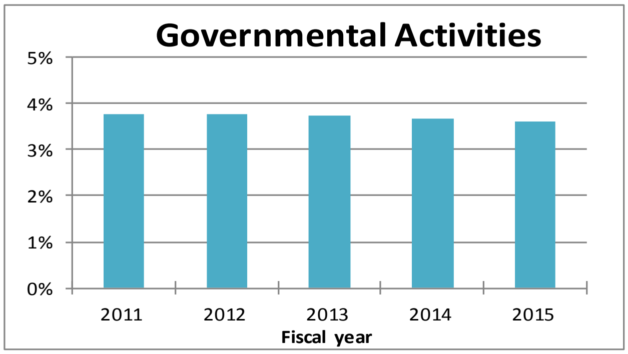
Depreciation - Governmental and Business Type Activities

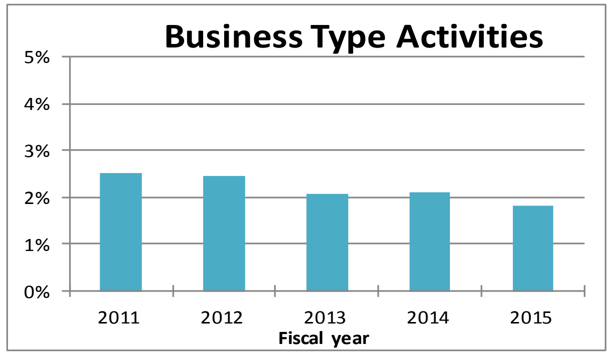
Warning Trend:

Decreasing Depreciation Expense as a Percentage of Depreciable Capital Assets (at cost) for Governmental and Business Type Activities

Formula:

$$\frac{\text{Depreciation Expense}}{\text{Cost of Capital Assets}}$$





Fiscal year:	2011	2012	2013	2014	2015
Depreciation Expense for Governmental Activities	15,310,267	15,469,741	15,364,469	15,537,959	16,165,711
Cost of Depreciable Capital Assets Governmental Activities	405,021,826	409,231,981	411,979,603	423,905,374	449,353,222
Depreciation Expense as a Percentage of total Fixed Assets	**3.8%**	**3.8%**	**3.7%**	**3.7%**	**3.6%**
Depreciation Expense for Business Type Activities	169,157	166,833	136,400	138,460	165,356
Cost of Depreciable Capital Assets Business Type Activities	6,761,599	6,790,049	6,572,478	6,588,001	9,122,292
Depreciation Expense as a percentage of total Fixed Assets	**2.5%**	**2.5%**	**2.1%**	**2.1%**	**1.8%**

Description:

Depreciation is the mechanism by which the cost of a fixed asset is amortized over its estimated useful life. Depreciation is usually recorded only in enterprise and internal service funds. Total depreciation cost is generally a stable proportion of the cost of fixed assets, because older assets that have been fully depreciated are often removed from service and replaced by newer assets.

If depreciation costs are declining as a proportion of fixed asset costs, the assets on hand are probably being used beyond their estimated useful life. This can result in the inefficiencies and higher costs discussed under Capital Equipment Outlay and Infrastructure Replacement. If the ratio is declining because obsolete assets are not being replaced, it can indicate that the enterprise or internal service funds lack the resources to remain solvent. However, it could be that the estimated useful life of an asset or assets was initially underestimated or that the scale of operations has been reduced; either instance could also produce a decline in the ratio of expenses to cost of assets.

Commentary:

This indicator provides information about assets in the stormwater, fleet management and computer operations. Depreciation allocates the cost of a fixed asset over its useful life. Total depreciation cost is generally a stable proportion of the cost of fixed assets, because older assets that have been fully depreciated are removed from service and replaced with newer assets.

Analysis:

The Town has an ongoing commitment to purchase and replace machinery and equipment as needed. The capitalization threshold is currently $5,000. Large investments in capital assets in a given year can cause the percentage to decline. In 2011, the Stormwater utility added infrastructure causing Business Type Activities percentage to drop. Governmental Type Activities has remained stable over the last five years.

Overall, the percentages over the five year period have remained fairly stable.

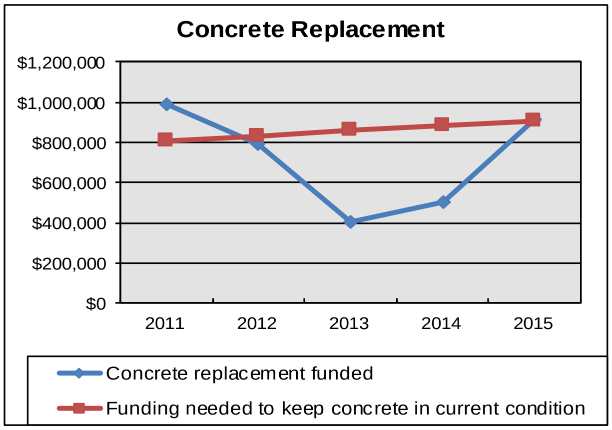
Infrastructure Replacement

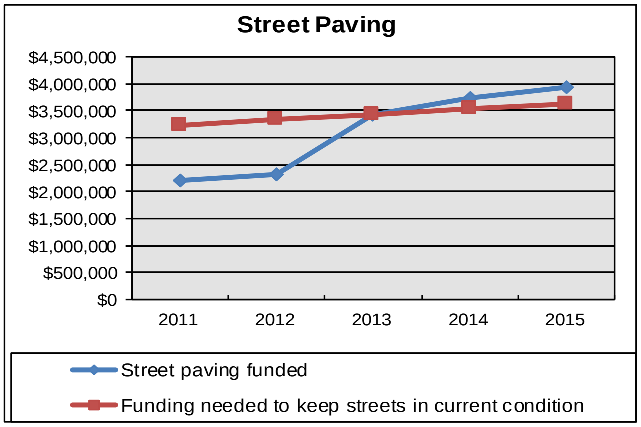
Warning Trend:

Recurring capital funded less than capital required

Formula:

$$\frac{\text{Capital funded}}{\text{Capital required}}$$





Fiscal year:	2011	2012	2013	2014	2015
Street paving funded	2,206,001	2,314,335	3,416,915	3,735,733	3,930,611
Funding needed to keep streets in current condition	3,240,080	3,337,520	3,435,076	3,535,483	3,638,825
Paving funded as a percentage of capital required	68.1%	69.3%	99.5%	105.7%	108.0%
Concrete replacement funded	989,252	790,602	407,754	505,160	913,631
Funding needed to keep concrete in current condition	810,020	834,380	858,769	883,871	909,706
Concrete replacement funded as a percentage of capital required	122.1%	94.8%	47.5%	57.2%	100.4%

Description:

Enduring assets, such as streets, municipal buildings and bridges, are built at tremendous cost, and their decline can have far-reaching effects on business activity, property value and operating expenditures. Deferring maintenance of such assets can also create significant unfunded liability.

In general, maintenance expenditures should remain relatively stable (in constant dollars), relative to the amount and nature of the assets. A declining ratio between maintenance expenditures and size of asset stock may be a sign that the government's assets are deteriorating. If the trend persists, deterioration will push up maintenance expenditures.

Commentary:

Infrastructure includes streets, storm sewers, manholes, traffic lights, curb, gutter and sidewalk (concrete). The Town of Parker's Public Works Department (PW) has an excellent infrastructure management program. Public Works assesses the condition of the Town's largest infrastructure investments (streets, concrete and stormwater utility) on an annual basis. By projecting the total life of these assets with their replacement cost in today's dollars, the Town derives the annual dollar amount needed to invest in the Town's infrastructure to maintain its current condition.

Any year in which actual funding of infrastructure replacement was less than the funding needed produces a negative indicator.

Analysis:

The average funding for Infrastructure Replacement for the past five years is 85.8%. Street paving is funded through Highway Users Tax revenues and supplemented by General Fund revenues. Concrete replacement is funded through the Use Tax in the Public Improvement Fund and balanced against other capital requirements. Storm sewer is funded through the Stormwater Utility Fund.

Annual replacement percentages can vary based on the availability of contractors and materials, and is weather dependent. Unspent budgets are carried over to the following year to help ensure the infrastructure replacement program continues to be adequately funded.

While the Town is committed to maintaining its infrastructure and replacing old, worn out, and outdated plant and equipment as needed, the amount of street paving needed continues to outpace the amount of street paving funded. This requires public works to prioritize projects based on need and available funding.

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TREND EVALUATION: LOCAL ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

SUMMARY

Community needs and resource indicators encompass economic and demographic characteristics, such as population, income, property value, employment and business activity. Local Economic and Demographic Characteristics is a category in which tax base and economic and demographic characteristics are treated as different sides of the same coin. On one side, tax base determines a community's wealth and its ability to generate revenue (that is, level of personal, commercial and industrial income). On the other side are economic and demographic characteristics that affect community demands, like public safety, capital improvements and social services.

Changes in community needs and resources are interrelated in a continuous, cumulative cycle of cause and effect. For example, a decrease in population lowers the demand for housing and causes a corresponding decline in the market value of homes. This in turn reduces property tax revenue. Initial population decline also has a negative effect on retail sales and income, causing Town revenues to drop even further. Expenditures for fixed costs that are impervious to declines in population and business activity cannot always be balanced to the revenue loss with a proportionate reduction in expenditures. In fact, the Town may be forced to raise taxes to make up for lost revenue, placing a greater burden on the remaining population. As economic conditions decline and taxes rise, the community becomes a less attractive place to live and the population may further decline.

An examination of local economic and demographic characteristics can identify the following situations:

- A decline in the tax base as measured by population, property value, employment or business activity;

- A need to shift public service priorities due to a change in the age or income of residents, or the type of density of physical development; and/or

- A need to reassess public policies if, for example, the jurisdiction has lost business to surrounding communities, and/or national/regional economic conditions have changed.

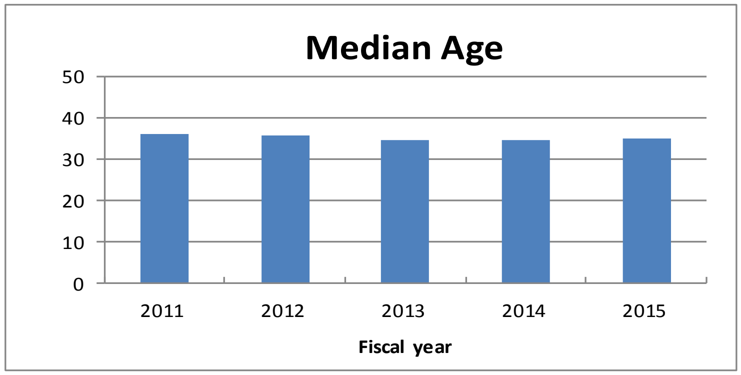
INDICATORS

- Median Age
- Property Value
- Employment Base
- Business Activity
- Population

Median Age

Warning Trend:
Increasing median age of population

Formula:
Median age of population



Fiscal year:	2011	2012	2013	2014	2015
Median Age	36.10	35.80	34.40	34.70	34.90

Description:
As is the case with changes in population size, the relationship between the population's median age and other economic and demographic factors is not clear. However, evidence does indicate that an aging population and an increase in the number of senior citizens can hurt both the revenue and expenditure profiles of a local government.

Revenues can be affected for two reasons: first, the income of senior citizens is often in the form of social security and pension payments, which might not change at the same rate as the general economy, and senior citizens often have full or partial exemption from property taxes and user charges; second, older persons may spend less money than younger persons.

Meanwhile, as the proportion of senior citizens increases, expenditure rates for government services may increase because senior citizens often require specialized programs, especially in the areas of health, welfare and transportation.

As younger age groups leave a community or decrease as a percentage of population, business activity can decrease in greater proportion, especially if most of the people leaving are between the age of twenty-five and forty; people in this age group usually spend more of their income than any other age group. In addition, if this age group leaves, the community loses a significant portion of its labor force, which can further damage the local economy. However, if the increase in median age is caused by a drop in the number of families with young children, this can have a favorable effect on expenditures because it reduces needs for schools, recreation, and related programs.

Commentary:
An aging population can affect the type of services the Town provides and the amount of resources with which the Town has to address the service need.

An increasing trend is a warning signal.

Analysis:
Nationally the trend has been and continues to be an aging population. The trend is not unexpected as the baby boomers advance with no offsetting increase in births. Along with this trend is the fact that many retiring baby boomers have the greatest share of disposable income.

Parker continues to have a healthy population mix with young adults and families. While the trend had been an aging population, updated census data showed a slight decrease in the median age which is favorable for the Town.

The median age information was provided by the Town’s Economic Development Department

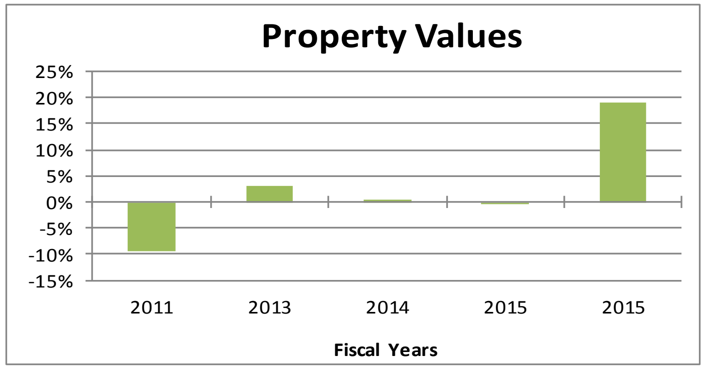
Property Value

Warning Trend:

Declining growth or drop in the market value of residential, commercial, or industrial property (constant dollars)

Formula:

$$\frac{\text{Change in property value (constant dollars)}}{\text{Property value in prior year (constant dollars)}}$$



Fiscal year:	2011	2013	2014	2015	2015
Market value of property	4,707,781,891	4,775,374,576	4,932,712,386	5,060,763,970	6,098,738,980
Consumer Price Index	220.3	224.6	230.8	237.2	240.0
Property value (constant dollars)	4,539,207,000	4,684,362,000	4,708,251,000	4,699,939,000	5,598,062,000
Property value in prior year (constant dollars)	5,013,965,000	4,539,207,000	4,684,362,000	4,708,251,000	4,699,939,000
Percent change in property value (constant dollars)	**-9.5%**	**3.2%**	**0.5%**	**-0.2%**	**19.1%**

Description:

Changes in property value are important because most local governments depend on property taxes for a substantial portion of their revenues. This is especially true in a community with a stable or fixed tax rate; the higher the aggregate property value, the higher the revenues. Communities in the midst of population and economic growth are likely to experience short-run, per unit increases in property value. This is because in the short-run, the housing supply is fixed and the increase in demand created by growth forces prices up. Declining areas are more likely to see a decrease in the market value of properties. The effect of declining property value on governmental revenues depends on the government's reliance on property taxes; the extent to which the decline will ripple through the community's economy affecting other revenues such as sales tax, is more difficult to determine. All economic and demographic factors are closely related; a decline in property value will most likely not be a cause, but a symptom of other underlying problems.

Commentary:

Assessor's market value of taxable real, personal and utility property in the Town of Parker is expressed in constant dollars to determine if it is changing in an overall positive or negative direction.

A decreasing trend is seen as a warning signal.

Property tax accounts for 3% of the Town's total revenue.

Analysis:

Property values are reassessed every other year (odd year) resulting in spikes in the indicator as assessments catch up with the market. The recession and the crash of the housing market that began at the end of 2007 significantly impacted property values with the worst of it being in 2011.

The slight increase in 2013 is an indication that the economy is finally out of the recession and the improving property values are due to a combination of rising residential housing prices, commercial and residential development, and annexations. The projection is that this trend will continue and be more favorable in the future due to the double digit increases for the 2015 reassessment by the County Assessor.

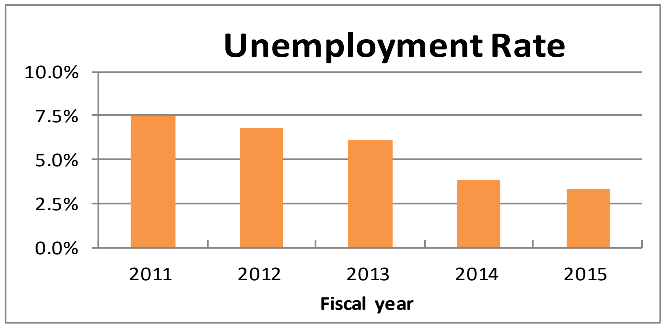
Employment Base

Warning Trend:

Increasing rate of local unemployment or a decline in the number of jobs within the community

Formula:

Local unemployment rate and/or the number of jobs within the community



Fiscal year:	2011	2012	2013	2014	2015
Unemployment rate	7.5%	6.8%	6.1%	3.8%	3.3%

Description:

The unemployment rate and the number of jobs within the community are considered together because they are closely related; for the purpose of this discussion, they will be referred to as the employment base. Employment base is related directly to business activity and personal income. Changes in the unemployment rate are related to changes in personal income; and thus a measure of, and an influence on, the community's ability to support its business sector.[1]

If the employment base is growing, is sufficiently diverse to provide a cushion against short-run economic fluctuations or a downturn in one sector, and it provides sufficient income to support the local business community, then it will have a positive influence on the local government's financial condition. A decline in the employment base--as measured by unemployment rate or number of available jobs--can be an early sign that overall economic activity is declining and that government revenues may be declining as well.

Commentary:

The unemployment rate is the number of unemployed persons as a percent of all persons working or seeking work. A decline in unemployment may signal a strong employment base. An increase would signal a warning.

Analysis:

The national recession began in late 2007 and ended in July 2009 causing increases in unemployment beginning in 2008 that has carried into 2011. The economy has been improving and unemployment rates have declined since 2011 and are back to pre-recession levels.

[1] The unemployment rate reflects the employment status of citizens who live within a community's geographic boundaries, regardless of whether their jobs are within or outside the community.

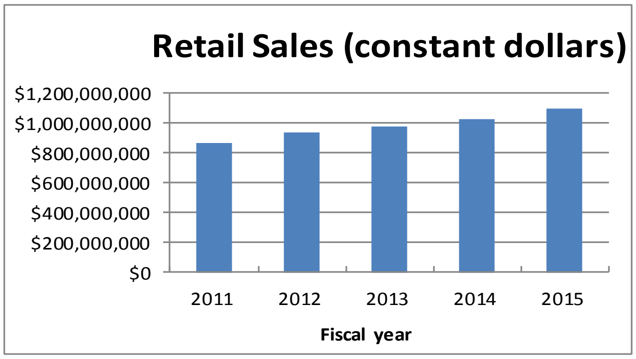
Business Activity

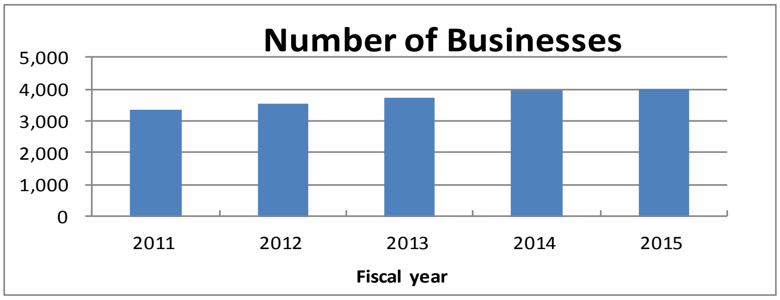
Warning Trend:

Decline in business activity as measured by retail sales, number of business units, gross business receipts, (constant dollars where appropriate)

Formula:

Retail Sales constant dollars





Fiscal year:	2011	2012	2013	2014	2015
Retail Sales	869,273,511	958,115,409	1,023,027,568	1,100,423,178	1,198,385,218
Consumer Price Index	220.3	224.6	230.8	237.2	240.0
Retail Sales (constant dollars)	**869,274,000**	**939,772,000**	**976,528,000**	**1,022,020,000**	**1,100,064,000**
Number of Retail Businesses	**3,361**	**3,514**	**3,718**	**3,949**	**3,993**

Description:

The level of business activity affects a local government's financial condition in two ways. First, it directly affects any revenue yields that are a product of business activity, such as those from sales or gross receipt taxes. Second, it has indirect influences; a change in business activity affects demographic and economic areas such as personal income, property value and the employment base. Changes in business activity also tend to have cumulative effects. For example, a decline in business activity can harm a community's employment base, income and property value, which can in turn create further decline in business activity.

Commentary:

For both indicators, an increasing trend is a positive indicator. A decrease signals a downward trend in the economy which will adversely affect Town revenues.

Analysis:

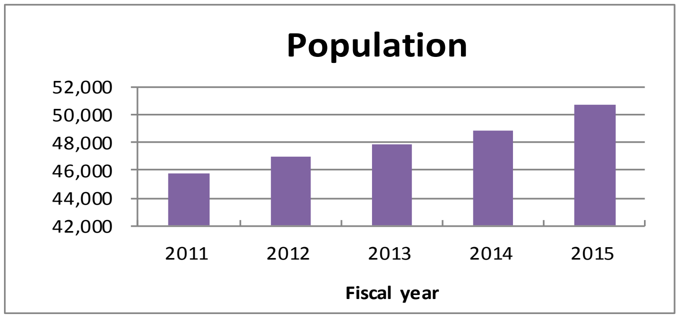
In general, through 2015, retail sales have increased at a pace greater than inflation. The recession that significantly impacted the nation was not a major factor for retail sales in the Town. This was mostly result of the timing of the new Costco opening in August of 2008.

The number of businesses can fluctuate as businesses close and new businesses open (including home based businesses). Commercial development over the last several years has provided additional locations for new businesses to locate in the Town.

Population

Warning Trend:
Rapid change in population size

Formula:
Population



Fiscal year:	2011	2012	2013	2014	2015
Population	45,758	46,919	47,823	48,789	50,677

Description:
The exact relationship between population change and other economic and demographic factors is uncertain. However, population change can directly affect governmental revenues. For example, some taxes are collected on a per capita basis, and many intergovernmental revenues and grants are distributed according to population; a sudden increase in population can create immediate pressures for new capital outlay and higher levels of service. In the case of annexations, where the capital infrastructure is already in place, there may still be a need to expand operating programs.

A decline in population would at first glance, appear to relieve the pressure for expenditures, because the population requiring services is smaller, but in practice, a local government faced with population decline is rarely able to make reductions in expenditures that are proportional to population loss. First, many costs, such as debt service, pensions and governmental mandates, are fixed and cannot be reduced in the short-run. Second, if the out-migration is composed of middle and upper-income households, then those remaining in the community are likely to be the poor and aged who depend the most on government services. In addition, the interrelationship of population levels, and other economic and demographic factors tends to give population decline a negative cumulative effect on revenues; the greater the decline, the more adverse the effects on employment, income, housing and business activity.

Commentary:
The population of the Town of Parker is determined by the U. S. Census count made every 10 years and estimates during non-Census years prepared by the Town of Parker economic development department.

Rapid change is the warning trend for this indicator, because abrupt increases or decreases in population can increase service costs or reduce Town revenue bases.

Analysis:
The Denver Metro Area continues to see a net population influx.

The Town's annual population changes continue to be minimal and fairly stable. The economic downturn has impacted the housing market over the last couple years as housing starts are well below the Town's ten year average.

Planning for future needs and the continued growth of the population are addressed annually in the Budget and in the 10-Year Capital Improvement Plan.