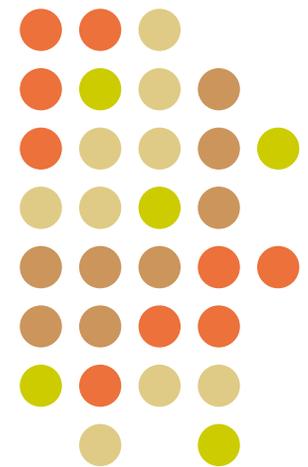
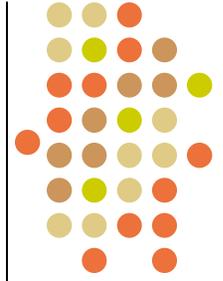


Expenditure Analysis: Underlying Assumptions

February 28, 2007
Blue Ribbon Commission



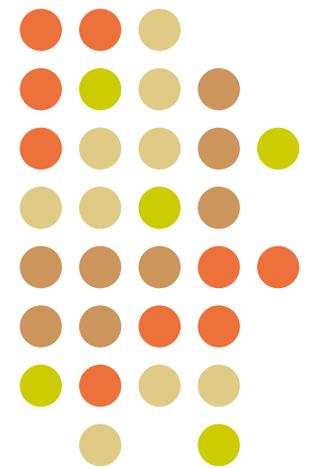


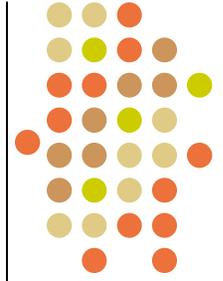
Assumptions Related to

- Growth
- Inflation factors
 - General inflation
 - Personnel costs - salaries
 - Personnel costs – non-salary related benefits
 - Utilities
 - Motor fuel
 - Non-residential structures
 - Fleet
 - Information processing
 - Transportation infrastructure (const. and maint.)



Growth Assumptions

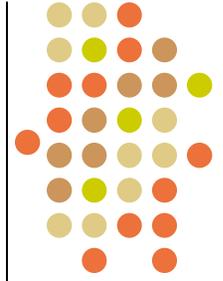




Growth Methodology

- Establish, by department and/or fund, the portion of each budget that varies with growth
- Apply the variable amount to population and/or job growth
- For more discrete impacts, build in assumptions of timing
- Smooth the population and job growth over the forecast horizon



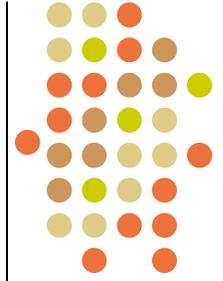


Issues for Committee

- With respect to timing
 - Would the committee support 2 phase-in dates for non-linear impacts (new parking garage, fire stations)?
 - Proposal of phase-in of 2014, 2022
 - Other proposal?
- For impacts that are incremental
 - Does committee support smooth phase-in over the 24 yrs?
 - Consistent with the methodology in the revenue forecast
- Demographic shifts and their impact on expenditures?
 - Age
 - Income



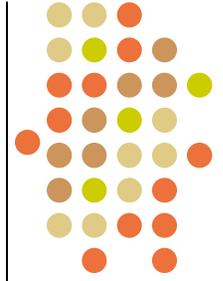
Departments for which Growth Increment is Zero



- All central administrative departments
 - Finance
 - Human Resources
 - Information Technology
 - CMO
 - CAO
 - City Council



Funds for which Growth Increment is Zero

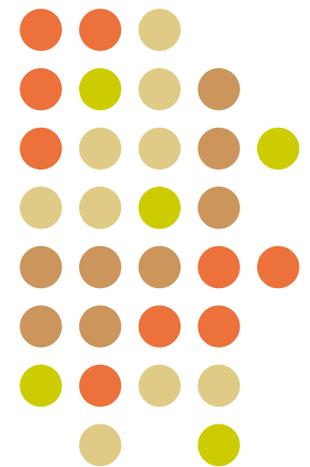


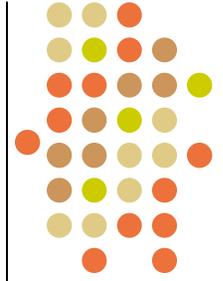
- Planning and Development Services
 - Assumption that incremental costs covered by incremental fee revenue
- .25 Cent Sales Tax
 - 1995 ballot commitments met by 2015



Proposed Growth Methodologies

Funds and Departments for
which Growth Increment is not
Zero

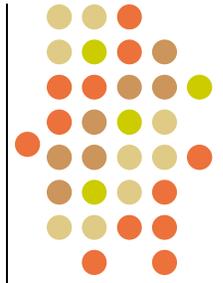




General Fund: Fire

- Unlike almost any other function, geography matters for impacts to fire service
- Proposed growth in South Boulder, Southeast Boulder, Gunbarrel, North Boulder and East Boulder may be absorbed with current infrastructure and staffing
- Real impact is in Central Boulder and Crossroads
 - Central Station and Station 3

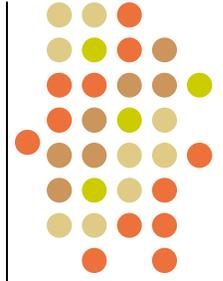




General Fund: Fire

- Growth results in need for new or expanded Stn 3
- Same conclusion as Transit Village Analysis
- Growth assumption will be same as for transit Village Analysis
 - Cost of relocating Station 3 and staffing with additional company and ladder truck
 - Fire apparatus – one-time + replacement
 - On going operating
 - Timing?
- Demographics



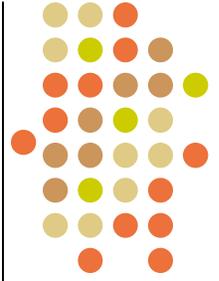


General Fund: Police

- Use same assumptions as Transit Village Analysis
- Cost associated with maintaining 1.7 officers per 1000 population
- Spread cost evenly over the planning horizon for population and job growth



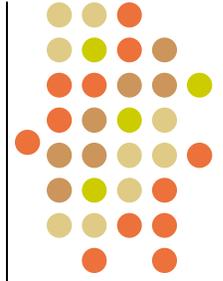
General Fund: Municipal Court



- Methodology
 - Identify portion of the budget that is variable with population
 - Direct costs associated with caseloads
 - Not administrative overhead in Courts
 - Establish per capita variable costs
 - Smooth over the population and job growth for the planning horizon



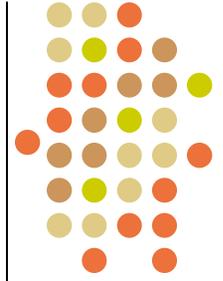
General Fund: Housing and Human Services



- Methodology
 - Identify portion of budget that is variable with population
 - Direct costs associated with providing community services
 - Exclude growth for administrative functions
 - Establish per capita variable costs
 - Smooth over the population growth for the planning horizon
 - Demographics?



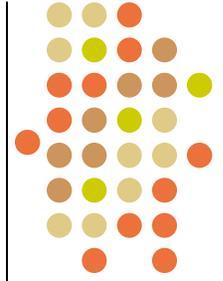
General Fund: Parks (and Recreation)



- Sufficient capital budget in other P & R funds to accommodate growth-related infrastructure
- Methodology
 - Include variable costs associated with increased usage related to General Fund parks
 - Establish per capita park maintenance costs
 - Assume 12% increase in park usage due to popn growth
 - 50% of growth absorbed within current budget and staffing levels
 - Budget adjusted on a per capita basis for remaining impact



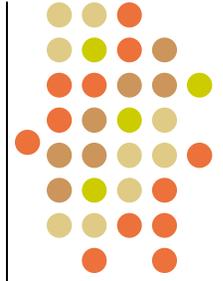
Funding shortfall after the .25 Cent expires in 2015



Library Fund

- Methodology
 - Identify portion of budget that is variable with population
 - Identify direct costs associated with providing services
 - Exclude administrative overhead costs
 - Establish per capita variable costs
 - Smooth over the population growth for the planning horizon
- Issue for Committee: How do we plan for evolution of library services in light of changing technology?



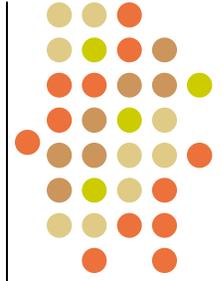


Open Space Fund

- Sufficient capital budget to achieve current land acquisition goals
- Methodology
 - Include variable costs associated with increased usage of Open Space lands and trails
 - Establish per capita costs for Open Space operations & maintenance
 - Assume 12% increase in Open Space usage due to popn growth
 - Assume no efficiency savings due to impact of increased usage from non-residents
 - Include per capita budget adjustment for popn growth smoothed over the planning horizon
 - Exclude administrative overhead costs

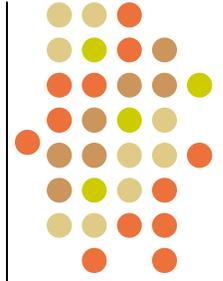


CAGID Fund



- Methodology
 - Proposed expansion tied to job growth in Central Boulder
 - Assumes garage parking spots ratio continues at 1 spot for every 10.4 jobs
 - Analysis supports adding a new parking structure by 2030
- Timing?
- Assumes no other growth-related impacts

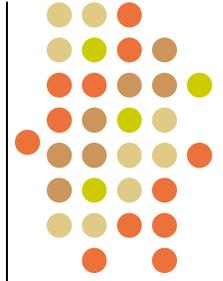




Recreation Activity Fund

- Methodology
 - Excludes development of new recreation facilities
 - Identify portion of the budget that is variable with population and job growth
 - Current ratio is 85% resident and 15% job
 - Includes direct costs associated with operations and maintenance
 - Excludes administrative overhead costs



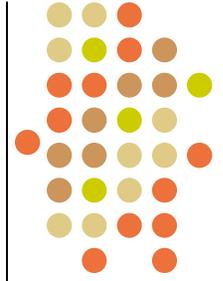


Transportation Fund

- Methodology
 - Identify portion of the budget that is variable with population and job growth
 - Include adjustment for direct costs associated with operations and maintenance
 - Exclude administrative overhead costs
 - Establish per capita and job variable costs
 - Smooth over the population and job growth for the planning horizon



Transportation Level of Service



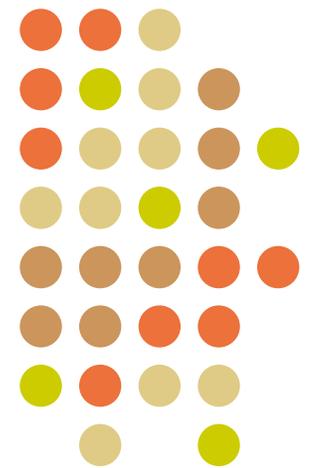
- What does level of service mean?
 - Does it mean the same physical system
 - Transfer of burden to citizens

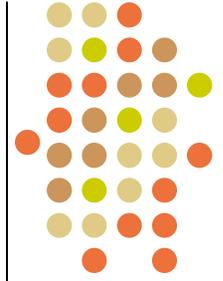
OR...

- Does it mean maintaining today's travel times?



Inflation Assumptions



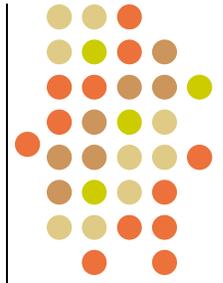


Issues: Inflation Factors

- Trend forecasts for many sectors lag DBG CPI forecast
- In many sectors, history is opposite
- Proposed alternatives:
 - Use published forecast
 - Apply historical relationship to CPI forecast
 - Defer to expertise of staff, others?
- Issue for tonight: Selection of appropriate methodologies/series

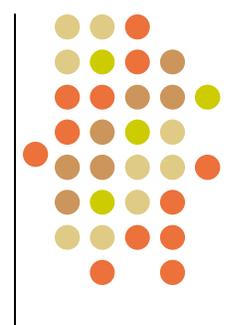


Recommendation: General Inflation

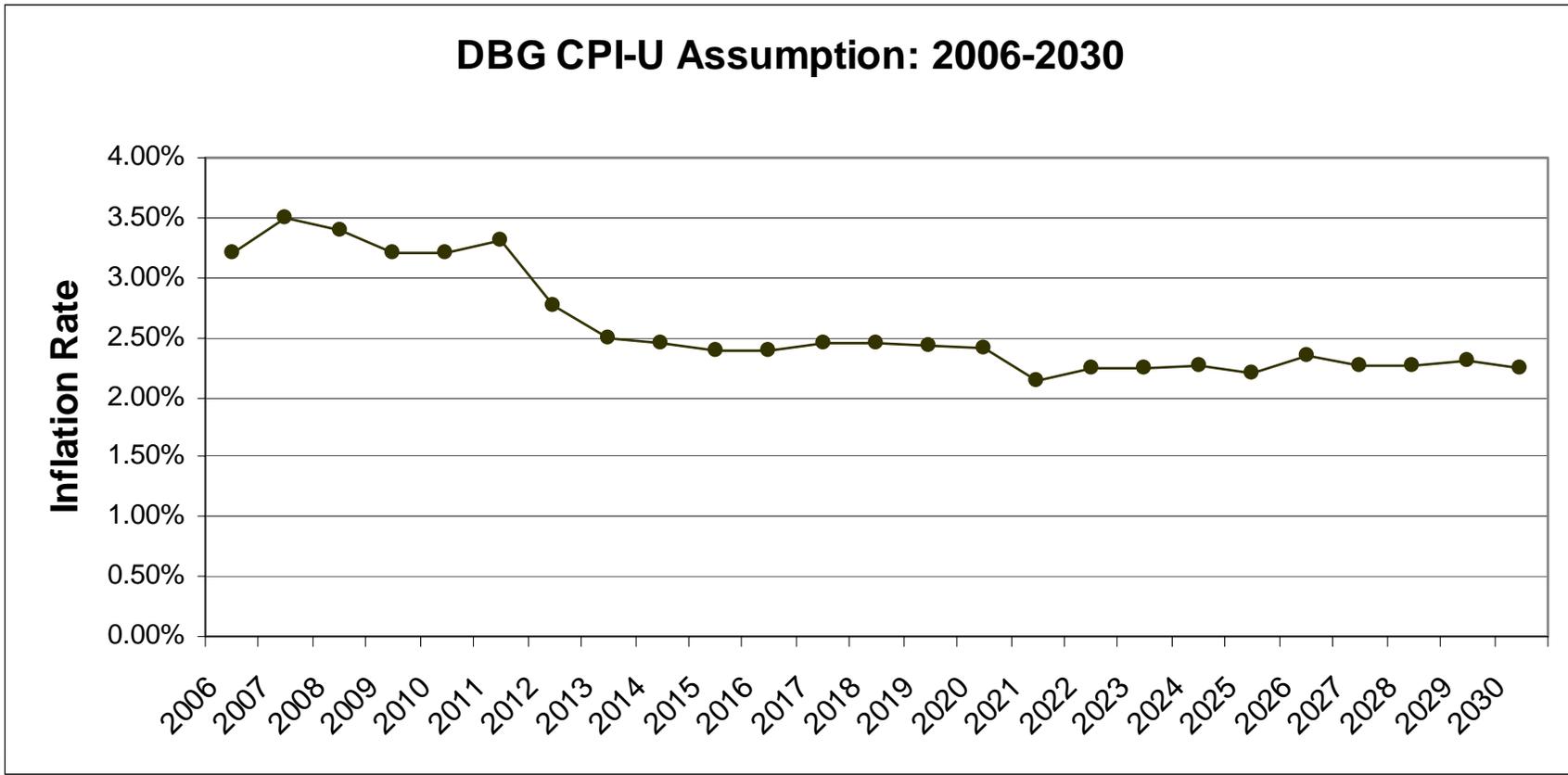


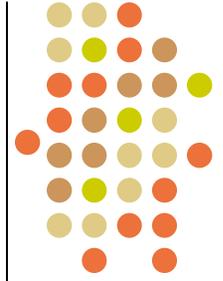
- Measured by Denver-Boulder-Greeley CPI-U
- Legislative Council staff forecast through 2011
- CBEF forecast for 2012-2030
- Consistent with revenue analysis assumptions
- Issue: Using the regional forecast has DBG CPI higher than the national forecast





Inflation Assumption



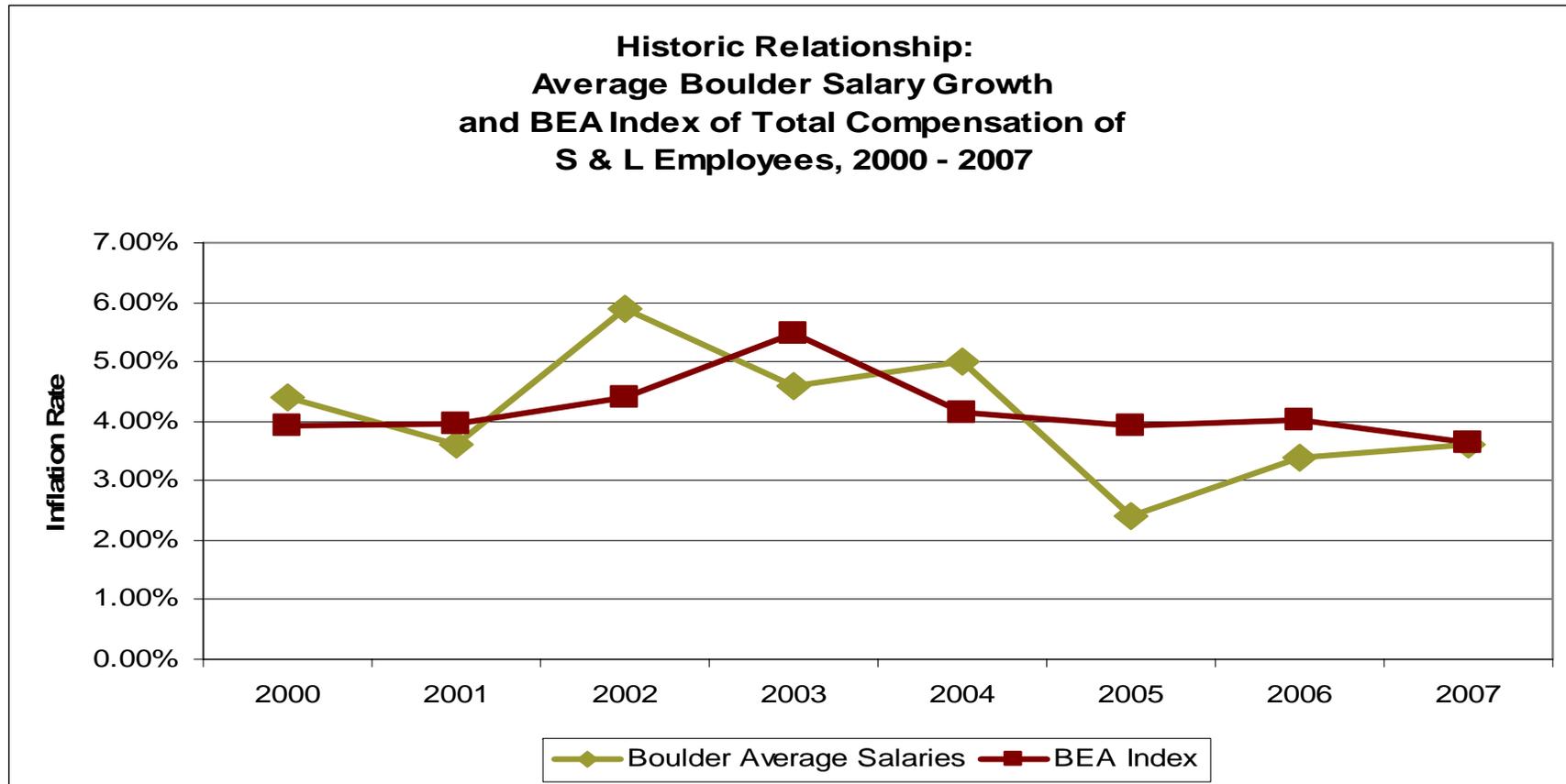
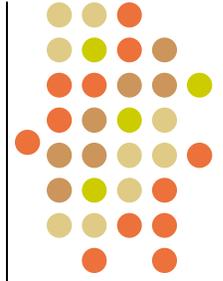


Personnel Costs - Salaries

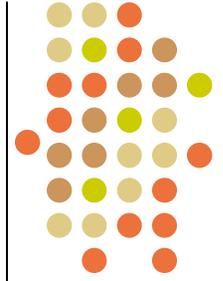
- Historically, Boulder salary inflation fairly consistent with national index for total compensation
 - CAAGR Boulder – 4.1%
 - CAAGR BEA – 4.18%
- Assumption - this will continue
 - Bargaining units
 - Compensation policy
 - Competition in labor pool



Personnel Cost Inflation: Boulder vs. National Index



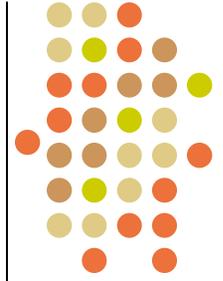
Personnel - Salary Costs: Option # 1



- Defer to the expertise of City of Boulder Human Resources Department
 - Grow salaries and salary based benefits at either
 - 4.0% or
 - 4.25%
- When this is combined with the following assumption for non-salary based benefits, total comp in Boulder will be slightly higher than national forecasts

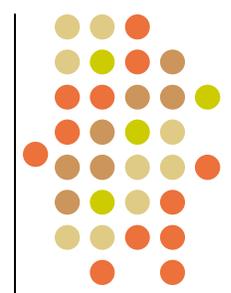


Personnel – Salary Costs: Option # 2

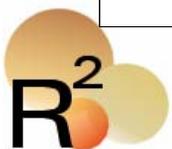
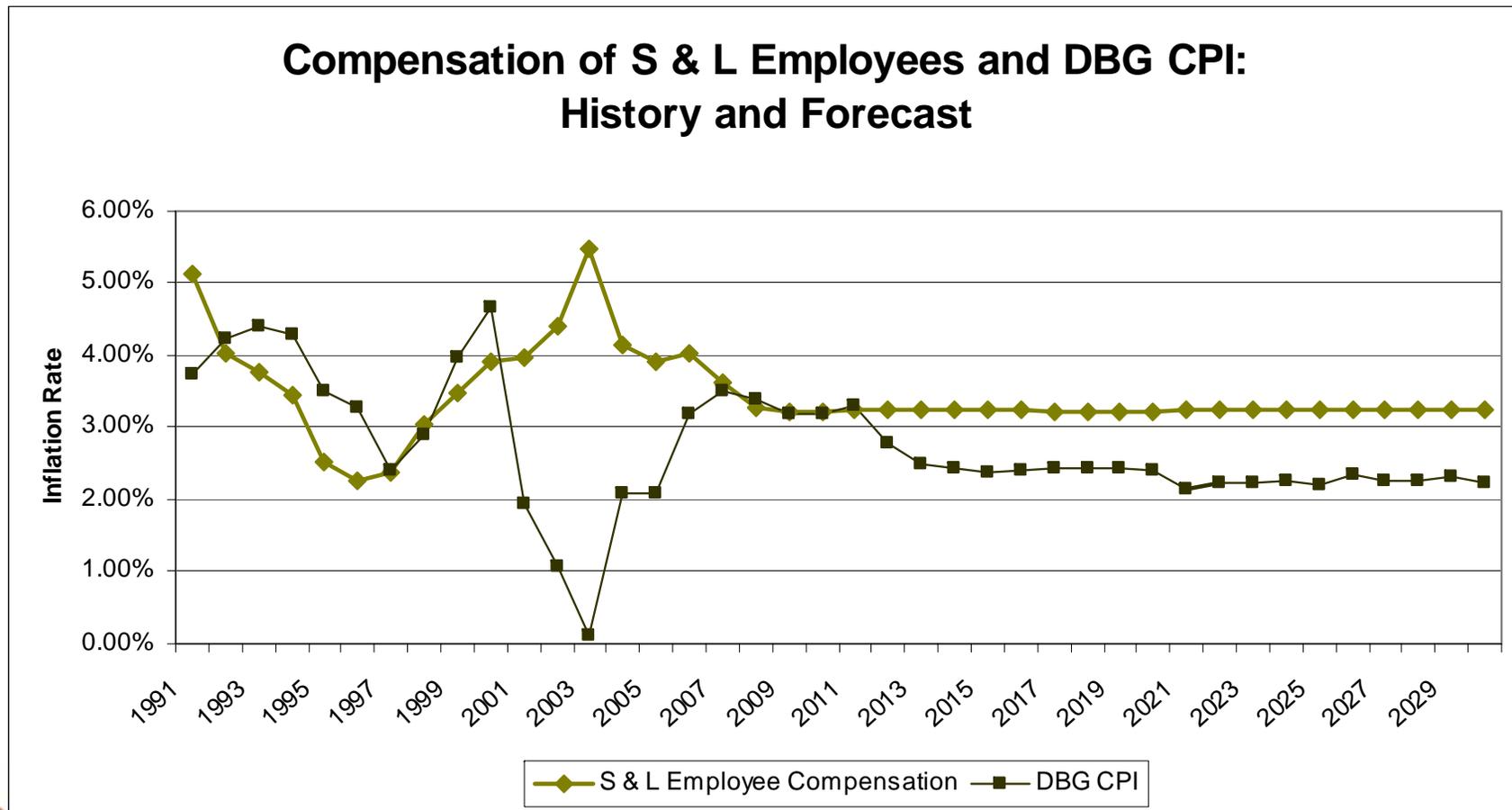


- Economy.com forecast for compensation of state and local government employees
 - Historical series from BEA
 - Total compensation index, not salaries only
- Yields compound average annual growth rate of 3.25%

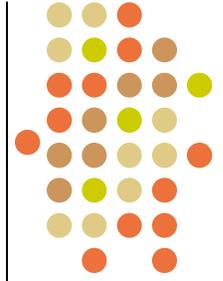




Option # 2



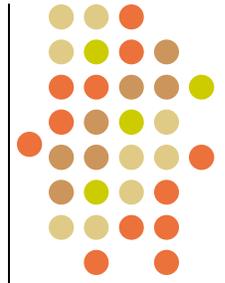
Personnel – Salary Costs: Option 3



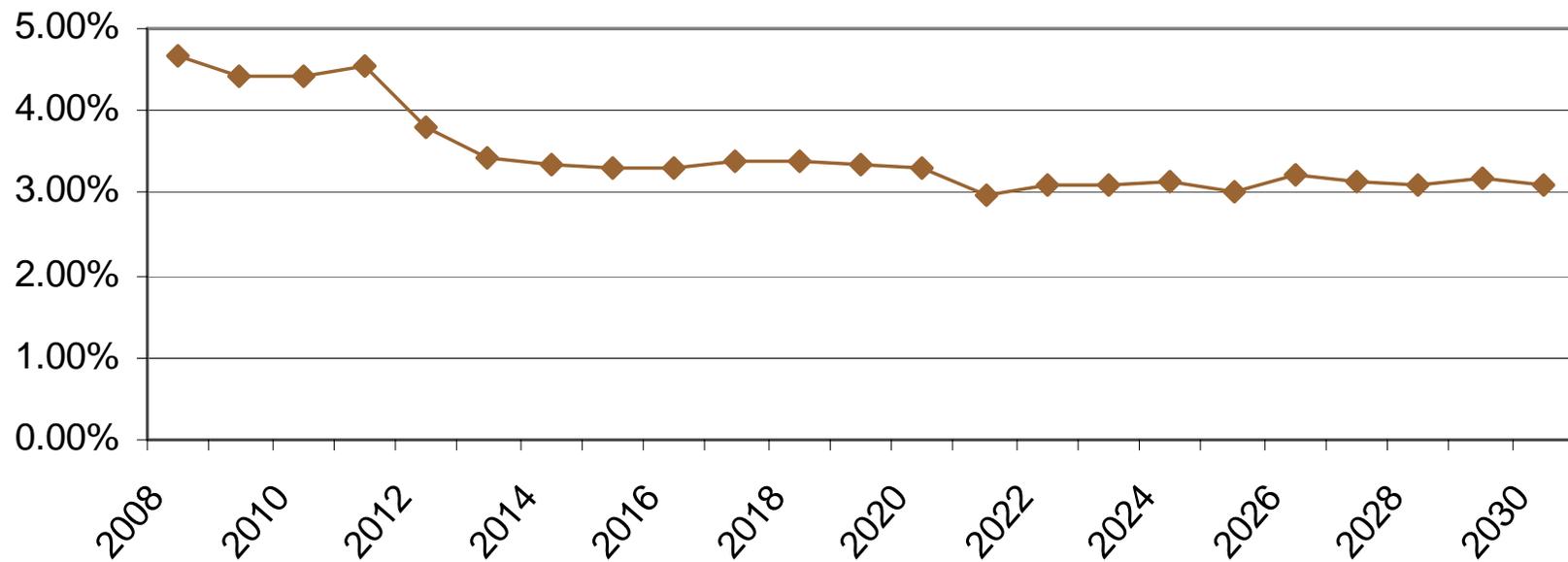
- Apply the historical relationship between CPI and S & L Compensation index to CPI forecast
 - Maintains historical relationship
 - Historical index is total compensation
- Yields increases greater than Economy.com forecast until 2020, then rate of increase falls below Economy.com forecast



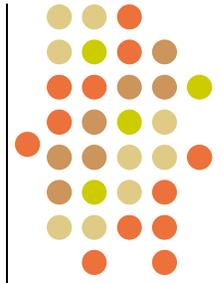
Option 3



**Salary Forecast: Application of Historical Weight
Between CPI and S & L Compensation**



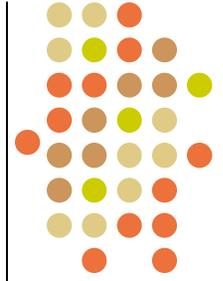
Personnel Costs: Non Salary Related Benefits...



- ...means Health Care
- Recent history: 10-12% annual growth
- Unrealistic to grow at historical rate
 - 12% annual growth to 2030 increase costs 15x
- National 2030 forecasts too low?
 - Chained detail forecast just under 3%
 - CPI Medical forecast just under 4%



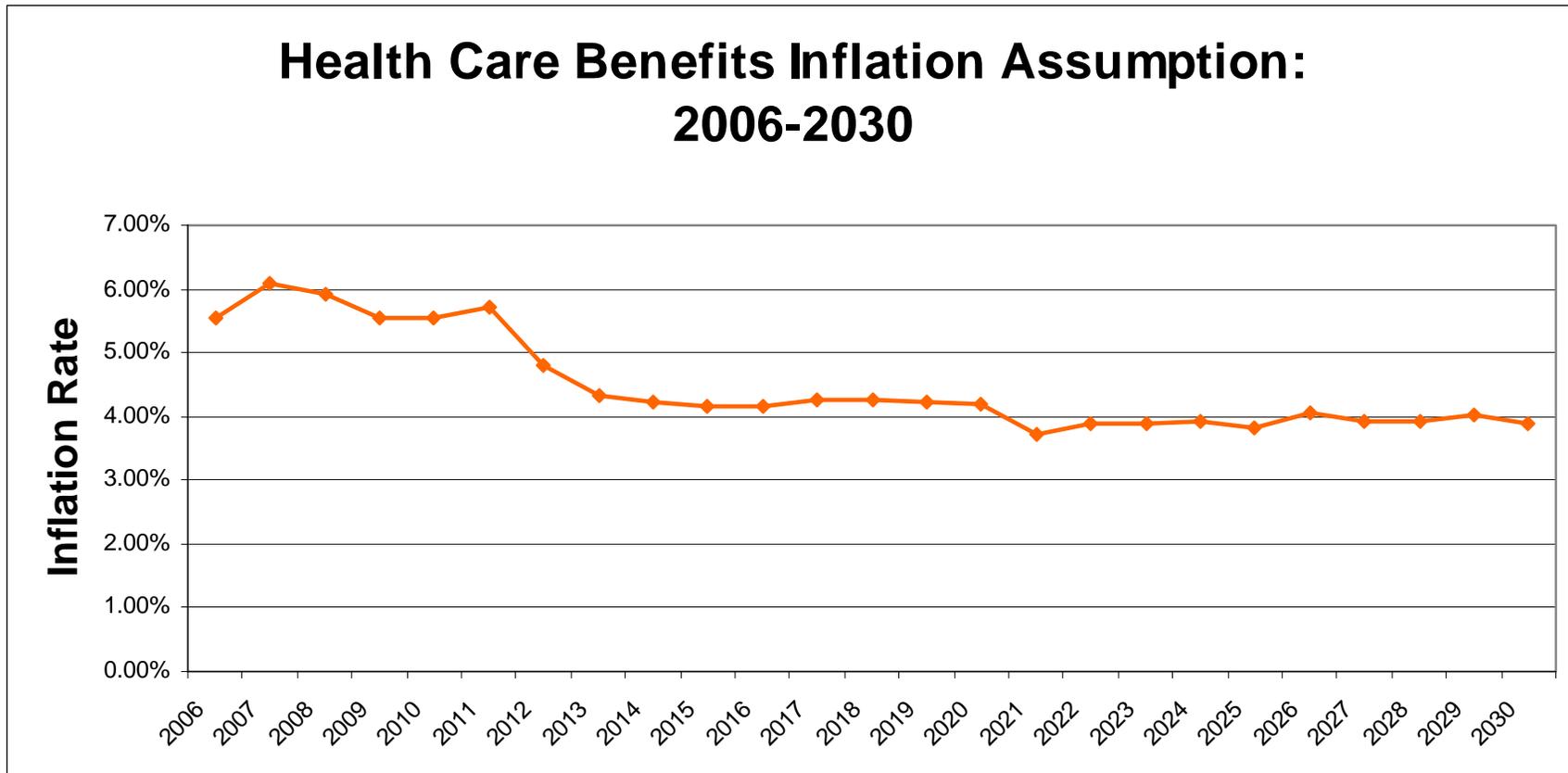
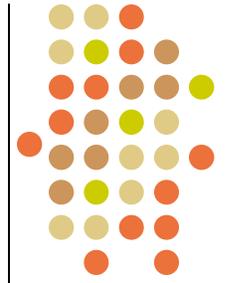
Health Benefits Inflation: Option # 1



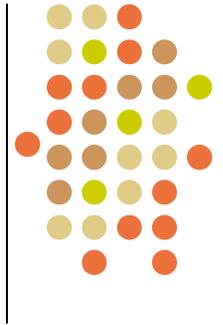
- Apply historical weight DBG CPI-U to national indices to DBG CPI-U forecast
- Medical inflation historically 1.74x the DBG CPI-U
- Yields rates ranging from 6.07% to 3.72%
 - Dampens into out years
- Slightly higher than Economy.com and GI for wage and salary supplements



Non-Salary Based Benefits Option # 1



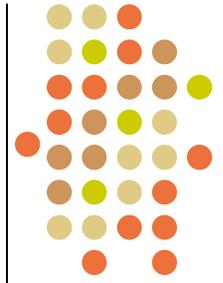
Non-Salary Based Benefits: Option # 2



- Based on combination of recent past...
 - 2007 and 2008 – 10%
 - 2009 – 8%
 - 2010 – 7%
 - 2011 – 6%
- ...and reversion to the Global Insight private sector health insurance forecasts
 - 2012 to 2015 – 4.87%
 - 2016 to 2025 – 4.82%
 - 2026 to 2030 – 4.54%



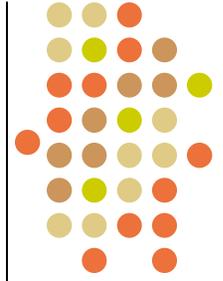
Non-Salary Based Benefits: Option # 3



- Global Insight private sector health insurance forecasts without adjustment for near term
 - Budgetary realities
 - Recent past is not always best predictor of future
- Rates of increase would be
 - 2008 to 2015 – 4.87%
 - 2016 to 2025 – 4.82%
 - 2026 to 2030 – 4.54%

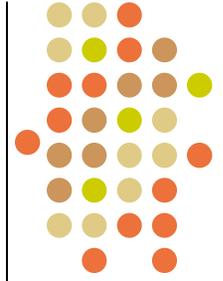


Specific Non-Personnel Inflation Factors



- Some line items assumed to grow at rate other than CPI
 - Utilities
 - Motor Fuel
 - Non-Residential Structures
 - Fleet
 - Information Processing
 - Transportation Construction
- Proposed Methodology: Grow at historic relationship (1990-2005) to CPI for Denver-Boulder-Greeley
 - Exception - Information Processing

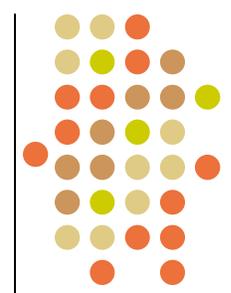




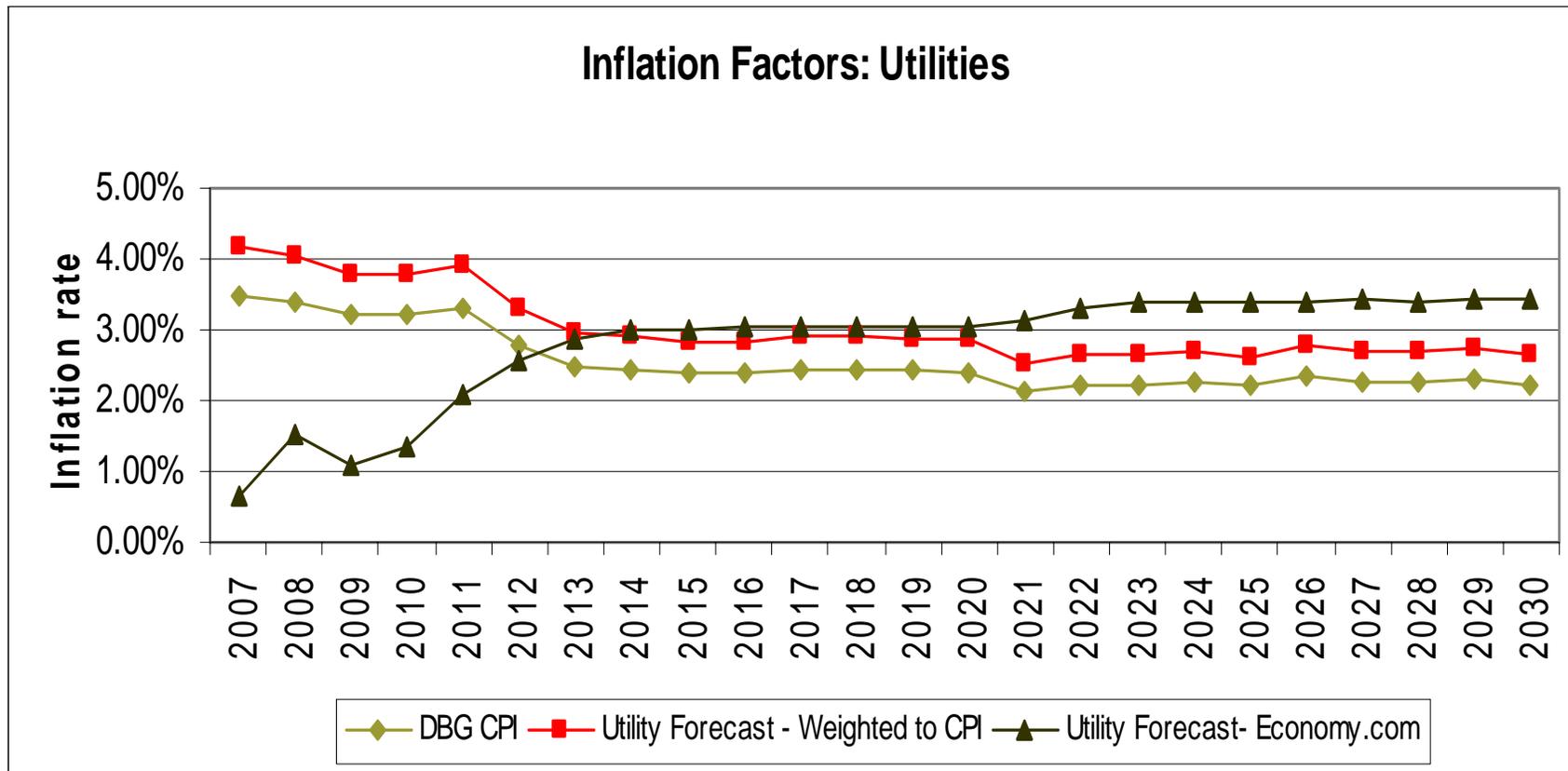
Utilities

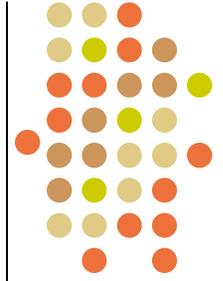
- National forecast lower than weighted to CPI forecast until 2013, reverses thereafter
- Issue: Will utilities continue to follow pattern relative to CPI or will other economic conditions change relationship?





Utilities: Alternative Forecasts



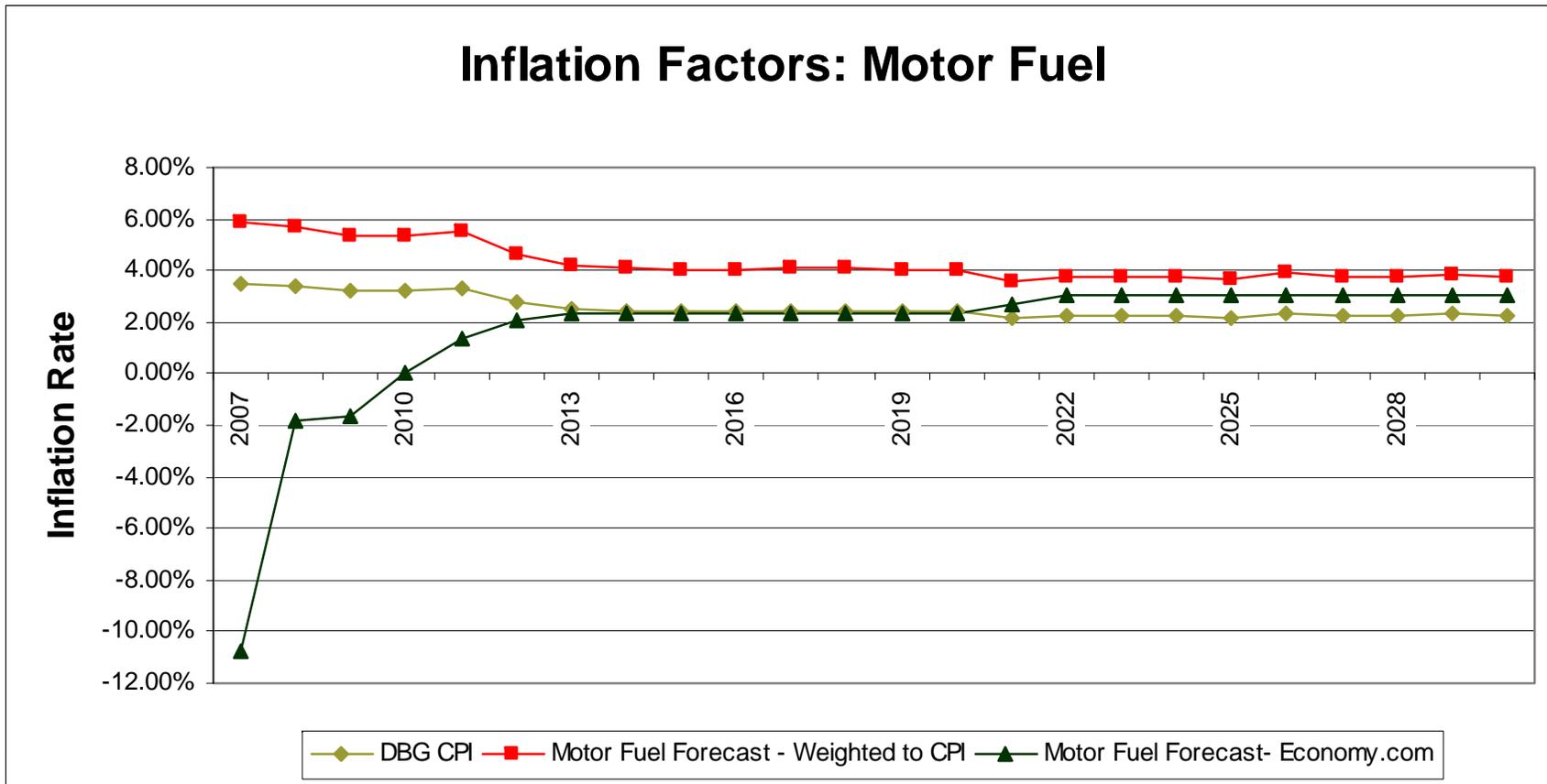
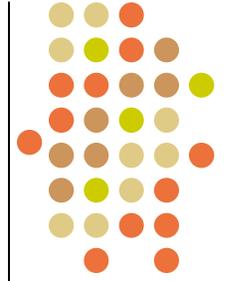


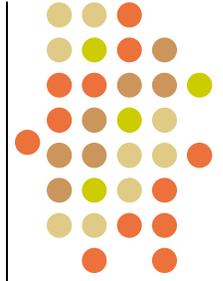
Motor Fuel

- National forecast consistently lower than forecast relating motor fuel to historic relationship to CPI
- Economy.com has low forecast for WTI relative to other oil price forecasts



Motor Fuel: Alternative Forecasts



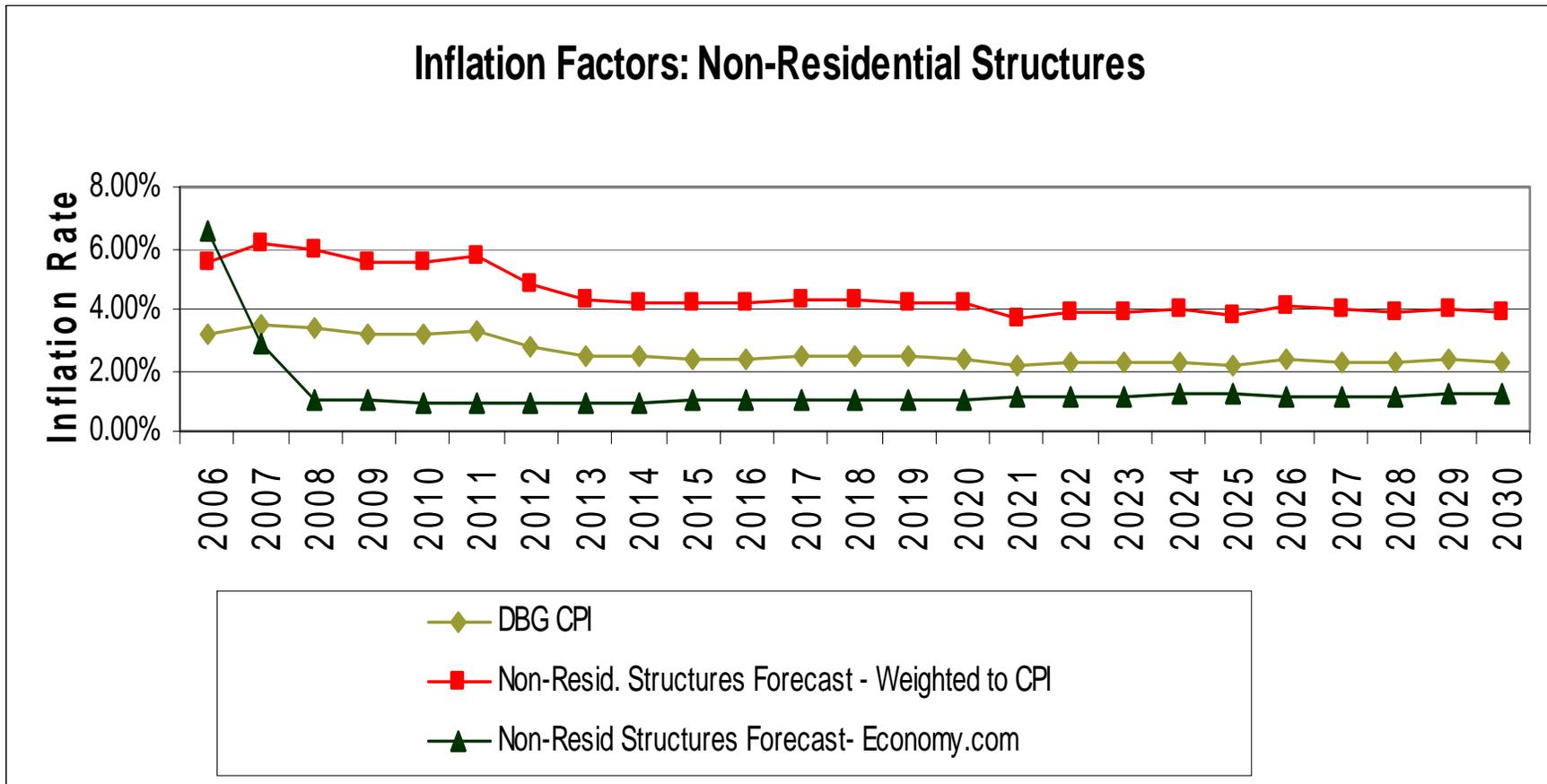
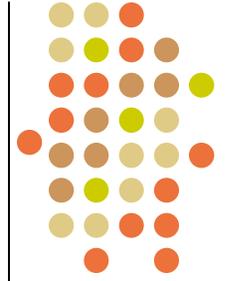


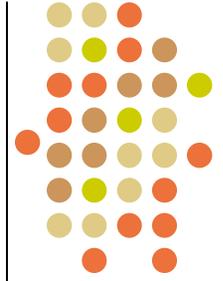
Non-Residential Structures

- Historically, rate greater than CPI
- National forecast is the opposite
- Issue: Will historic relationship hold or will economic changes dictate otherwise?



Non-Residential Structures: Alternative Forecasts



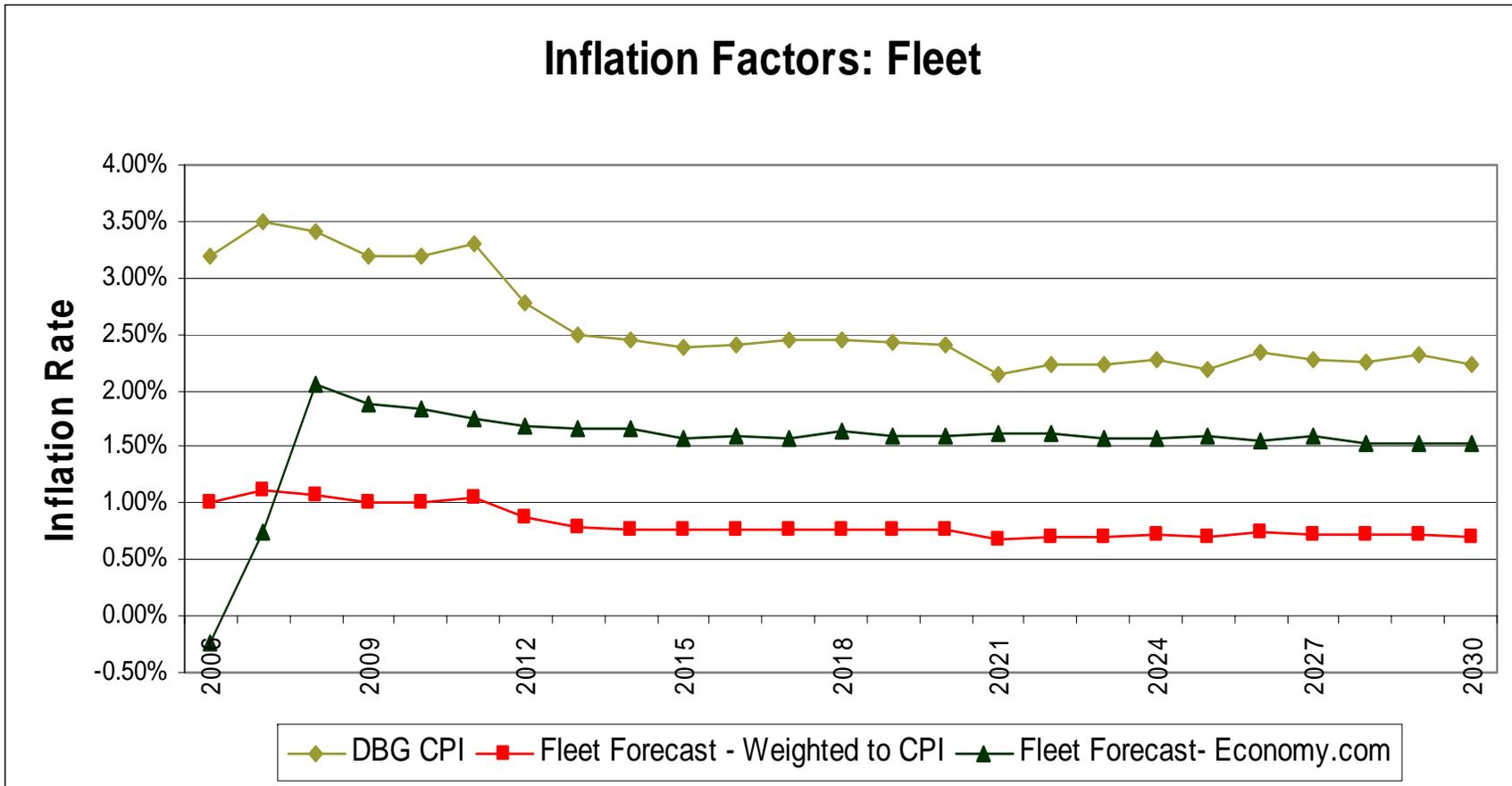
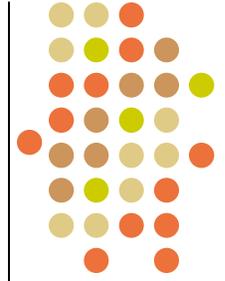


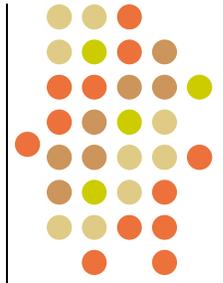
Fleet

- Historically (1990-2005), inflation on new vehicles lower than CPI
- Economy.com forecast still lower than CPI, but not to same extent as historical experience
- Issue: To what extent will future fleet inflation lag overall inflation?



Fleet: Alternative Forecasts

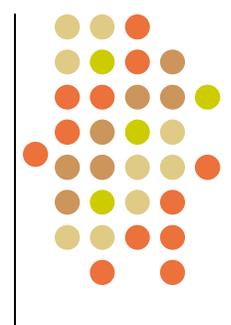




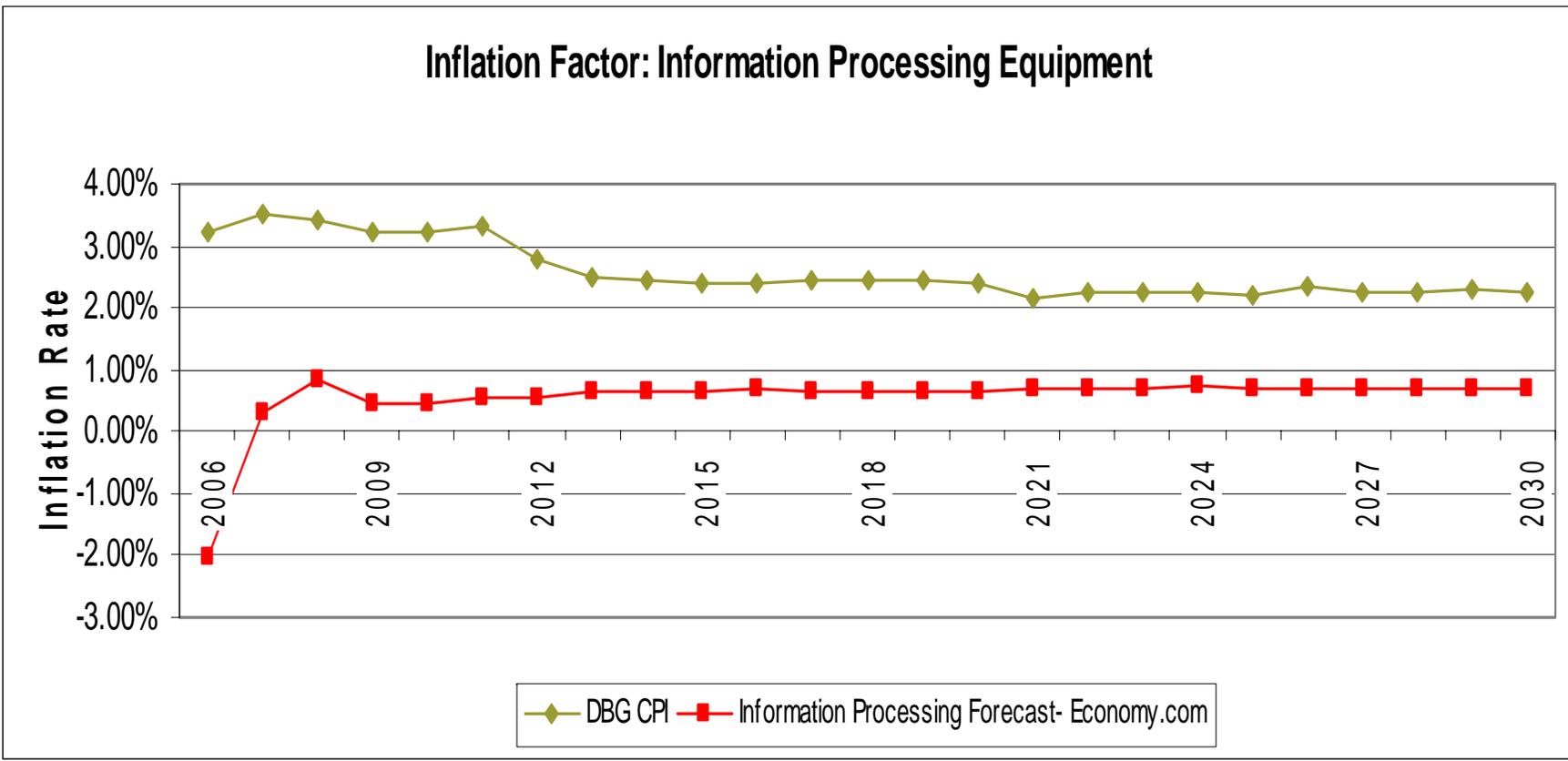
Information Processing

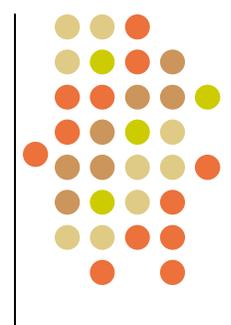
- Information Processing
 - Tremendous influence from technological change
 - Index declining historically
 - Economy.com forecast halts price decline and shows slight inflation over forecast horizon
- Issue: Would group be comfortable using Economy.com forecast?



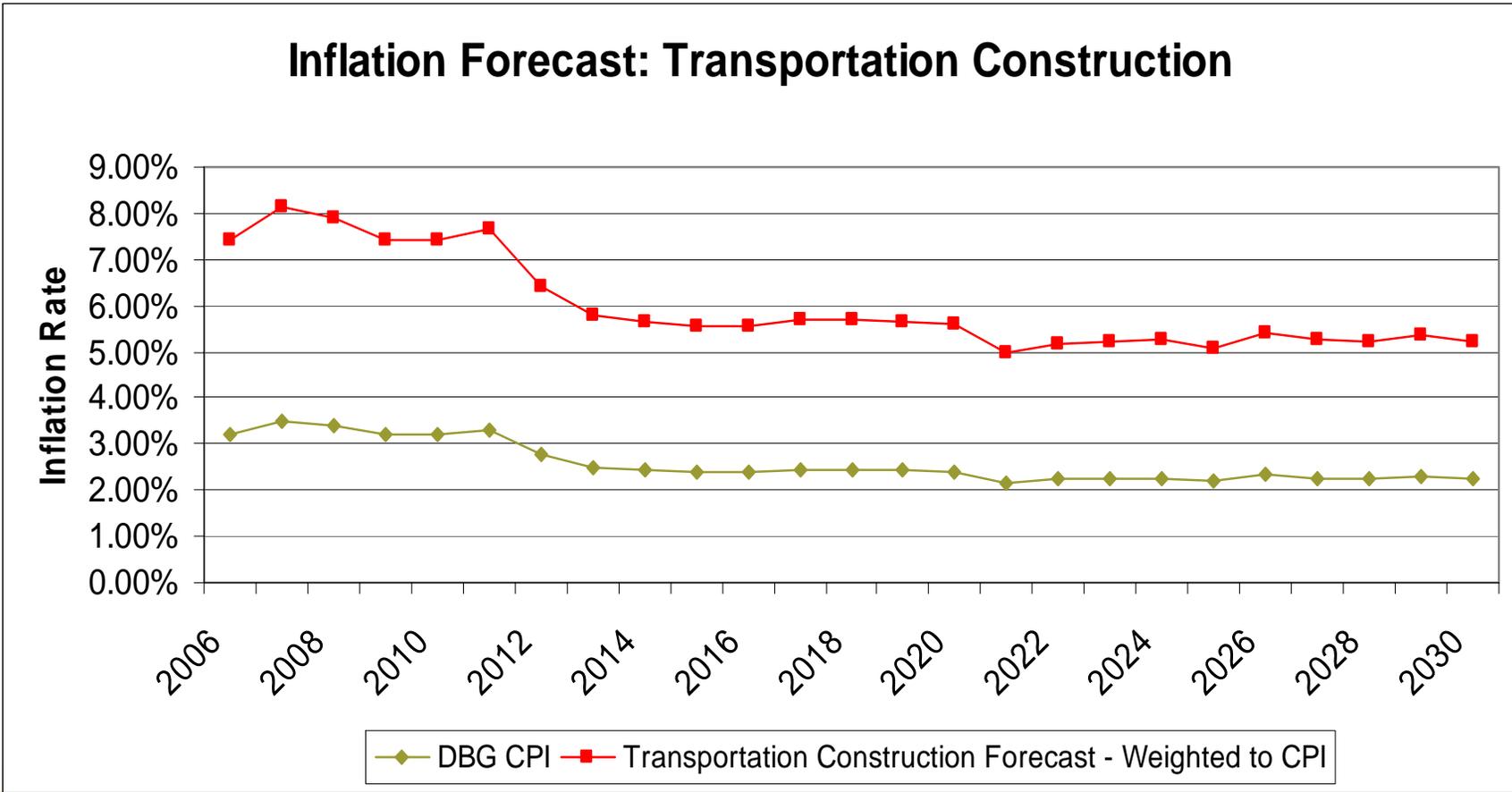


Information Processing





Transportation Construction



Underlying Series: Construction Cost Index Report, CDOT