CITY OF LOVELAND
ECONOMIC DEVELOPMENT OFFICE
Civic Center • 500 East Third • Loveland, Colorado 80537
(970) 962-2304 • FAX (970) 962-2900 • TDD (970) 962-2620

AGENDA ITEM: 1
MEETING DATE: 3/27/2012
TO: City Council
FROM: Betsey Hale, Economic Development Director
PRESENTER: Betsey Hale, Economic Development Director
Andrea Tucker, Economic Research Specialist

TITLE: 2008 and 2009 Incentive Performance Report

RECOMMENDED CITY COUNCIL ACTION: Discussion item only no action required

DESCRIPTION: The City Council will discuss a report on the economic performance of the 2008 and 2009 business assistance agreements

BUDGET IMPACT:
☐ Positive
☐ Negative
☒ Neutral or negligible: This is a report on the outcomes of the incentives to date.

SUMMARY: This report presents the economic impact of the 2008 and 2009 Incentive Agreements and looks at the quantitative impact of companies who received City of Loveland incentives. The data presented in this report comes from the Larimer County Assessor's Office, the State of Colorado Department of Labor, and the City of Loveland sales tax department. In some cases information has come from the company, supporting the public information.

Only verifiable and directly measurable values were used in this analysis of the data. As such, any indirect impact from employees was not included. When considering an incentive agreement, an economic impact model is used to determine an indirect impact from employees; this model is used by Dr. Martin Shields, CSU Regional Economist, when he runs the impact analysis for the City. It is not possible to track the actual impact of employees; therefore that impact is not included in this study. Additionally, Dr. Shields' economic impact assessment includes a 5 year impact analysis; this report includes only the 2-3 years of actual impact depending on when the incentive agreement was made.

REVIEWED BY CITY MANAGER: William D. Cahill

LIST OF ATTACHMENTS: The Economic Impact of the 2008 and 2009 Incentive Agreements

Overview of the Economic Impact of the 2008 and 2009 Incentive Agreements

Introduction

The Economic Impact of the 2008 and 2009 Incentive Agreements looks at the quantitative impact companies who received City of Loveland incentives. The data presented in this report comes from the Larimer County Assessor's Office, the State of Colorado Department of Labor, the City of Loveland sales tax department and in some cases from the company itself.

According to the Larimer County Assessor's office, the real value of a property is reappraised every two years on odd-years. The latest benchmark for reappraisal is June 30, 2010, so pinpoint values were based on the market June 30, 2010. The State of Colorado dictates that the assessment rate on nonresidential property is fixed at 29%. The data in this report uses 2011 data which included the updated market data giving us the most current look at the state of property values in Larimer County.

Only verifiable and directly measurable values were used in this analysis of the data. As such, any indirect impact from employees was not included. When considering an incentive agreement, an economic impact model is used to determine an indirect impact from employees; this model is used by Dr. Martin Shields, CSU Regional Economist, when he runs the impact analysis for the City. It is not possible to track the actual impact of employees; therefore that impact is not included in this study. Additionally, Dr. Shields' economic impact assessment includes a 5 year impact analysis; this report includes only the 2-3 years of actual impact depending on when the incentive agreement was made.

Using GIS to Map Incentive Agreement Locations

By mapping out the location of incentive recipients, as seen in slide 2 of the appendix, it is clear that companies who have received incentives are spread across Loveland. Companies that successfully met their incentive agreement requirements are labeled in green on the map; companies that were not able to meet their incentive agreement requirements are labeled in red. Two companies failed to meet the requirements of their incentive agreement. Colorado vNet received their incentive prior to the adoption of the current incentive policy and Lightning Hybrids is working with the City of Loveland to renegotiate their agreement. Overall, 81.8% of companies successfully met their incentive agreement requirements.

NAME	ADDRESS	CITY	ST	ZIP
Met Incentive Agreement Requirements				
ENSIGN POWER SYSTEMS INC	2175 CITRINE COURT	LOVELAND	CO	80537
KL&A INC	421 E 4TH ST	LOVELAND	CO	80537
JAX INC	950 E EISENHOWER BLVD	LOVELAND	CO	80537
BLUE RIBBON AUTO BODY	401 S LINCOLN	LOVELAND	CO	80537
CROP PRODUCTION SERV INC	3005 ROKCY MOUNTAIN AVE	LOVELAND	CO	80538
AGRIUM ADVANCED TECHNOLOGIES US	2915 ROCKY MOUNTAIN AVE	LOVELAND	CO	80538
ROADNARROWS LLC	308 E 5TH ST	LOVELAND	CO	80537
CONCURRENT ANALYTICAL INC (NANOPARTZ)	192 BARBERRY PLACE	LOVELAND	CO	80537
ORTHOPAEDIC CENTER OF THE ROCKIES	3470 EAST 15TH STREET	LOVELAND	CO	80538
Did Not Meet Incentive Agreement Requirements				
TOTALSOURCE III INC/ COLORADO VNET	619 14TH ST SW	LOVELAND	CO	80537
LIGHTNING HYBIRDS INC	451 N RAILROAD AVE STE 101	LOVELAND	CO	80537

Incentives Provided

The City of Loveland provided $2,208,953.12 in incentives in 2008 and 2009; this is illustrated on slide 3 of the appendix. The majority of incentives were in the form of cash, $1,828,569.55. There were also incentives given in the form of fee waivers/backfill at $24,240.11, and fee deferrals at $353,143.46. Incentive performance requirements, not reflected, include job retention or creation (Colorado vNet, Agrium Advanced Technology, Lightning Hybrids), building construction or leasing (Ensign Power Systems, KL&A Engineering, Crop Production Services, RoadNarrows, Concurrent Analytical/Nanopartz) and sales tax generation (Jax, Blue Ribbon Autobody).

Incentive Breakdown by Type

Company Name	Cash	Waiver/Backfill	Deferral	Total Incentive
Colorado vNet	$900,000.00			$900,000.00
Ensign Power Systems	$17,950.25	$27,240.11		$45,190.36
KL&A Engineering	$50,000.00			$50,000.00
JAX	$288,619.30			$288,619.30
Blue Ribbon Auto Body	$35,000.00		$10,000.00	$45,000.00
Crop Production Services	$300,000.00			$300,000.00
Agrium Advanced Technology	$142,000.00			$142,000.00
Orthopaedic Center of the Rockies			$343,143.46	$343,143.46
Lightning Hybrids	$50,000.00			$50,000.00
RoadNarrows, LLC	$18,000.00			$18,000.00
Concurrent Analytical (Nanopartz)	$27,000.00			$27,000.00
Total	$1,828,569.55	$27,240.11	353143.46	$2,208,953.12

Jobs Impact

The number of jobs maintained by the incentive recipients was tracked; this data is represented on Slide 4 of the appendix. This data shows the change in employment for each company from the time of the incentive agreement to the end of 2010. Most incentive recipients maintained or added jobs over the 2-3 years since receiving their incentive. It is worth mentioning that this time period is right after the official start of the recession when employment figures nation-wide took serious downturns. Incentive recipients added a total of 419 full-time jobs to the City of Loveland. This figure was calculated using the data provided by the company at the time of the incentive agreement compared to the 2010 State of Colorado Census of Employment and Wages (the 2010 CEW is the most recent information available) and/or employment figures provided by the companies as part of their incentive agreement. This is a great benefit to Loveland which cannot be directly measured.

Jobs Impact

Company Name	Jobs at Agreement	Jobs 2010	Change in Jobs from Incentive to 2010
Colorado vNet	78	25.917	-52.1
Lightning Hybrids	17	13	-4.0
KL&A Engineering	17	13	-4.0
Blue Ribbon Auto Body	14	14.083	0.1
RoadNarrows, LLC	4	5.667	1.7
Concurrent Analytical (Nanopartz)	2	4.917	2.9
Ensign Power Systems	17	21.083	4.1
Orthopaedic Center of the Rockies	20	50	30.0
JAX	40	90.33	50.3
Agrium Advanced Technology	0	90	90.0
Crop Production Services	0	300	300.0
Total Job Change by 2010	209	627.997	419.0

Property Tax Change

In many cases, the incentive recipient improved the property they occupy. The improvement of the property was tracked by determining the net change in property tax collection for the City of Loveland; this is represented in slide 5 of the appendix. This data shows only the amount collected by the City of Loveland, not the total property tax collection for the property. The property tax change was calculated by comparing 2005 (or the oldest data available) property tax assessment from the Larimer County

Assessor's Office to the 2011 property tax assessment. All but one of the incentive recipients saw their property tax, and thus the inferred assessed value of their property, increase. This property tax information does not include any personal property information. Taxes paid on machinery or other goods maintained by the company are not included in this comparison. In total, the property tax paid to the City of Loveland increased $87,385.21 over the last 3 years. It should also be noted that Larimer County and the School District benefit most from improvements to real property value, as shown on slides 6 and 7 of the appendix.

Loveland Property Tax Change

Company Name	2005 Loveland	2011 Loveland	Loveland Change
Blue Ribbon Auto Body	$4,299.11	$3,106.36	-$1,192.75
RoadNarrows, LLC	$430.00	$624.05	$194.05
Concurrent Analytical (Nanopartz)	$2,385.26	$2,579.41	$194.15
KL&A Engineering	$1,456.29	$2,134.49	$678.20
Lightning Hybrids	$804.33	$2,010.83	$1,206.50
Colorado vNet	$14,145.16	$16,086.65	$1,941.49
Ensign Power Systems	$748.86	$2,773.56	$2,024.70
JAX	$13,492.89	$18,444.17	$4,951.28
Orthopaedic Center of the Rockies	$420.43	$17,750.78	$17,330.35
Agrium Advanced Technology	$859.23	$20,058.39	$19,199.16
Crop Production Services	$745.32	$41,603.40	$40,858.08
Total			$87,385.21

Larimer County Property Tax Change

Company Name	2005 County	2011 County	Change County
Blue Ribbon Auto Body	$23,402.07	$7,298.91	-$16,103.16
Concurrent Analytical (Nanopartz)	$5,621.73	$6,060.70	$438.97
RoadNarrows, LLC	$1,013.44	$1,466.30	$452.86
KL&A Engineering	$2,680.12	$5,015.30	$2,335.18
Lightning Hybrids	$1,895.70	$4,724.74	$2,829.04
Colorado vNet	$33,338.14	$37,797.90	$4,459.76
Ensign Power Systems	$1,764.96	$6,516.88	$4,751.92
JAX	$31,594.87	$43,337.25	$11,742.38
Orthopaedic Center of the Rockies	$984.48	$41,708.03	$40,723.55
Agrium Advanced Technology *	$2,013.67	$47,130.08	$45,116.41
Crop Production Services *	$1,748.36	$97,753.20	$96,004.84
Total			$192,751.75

* Property tax subject to URA

School District Property Tax Change			
Company Name	2005 School	2011 School	Change School
Blue Ribbon Auto Body	$18,092.78	$13,742.28	-$17,133.79
RoadNarrows, LLC	$1,337.11	$2,760.73	$1,423.62
Concurrent Analytical (Nanopartz)	$7,417.16	$11,411.00	$3,993.84
KL&A Engineering	$3,536.09	$9,442.74	$5,906.65
Lightning Hybrids	$2,501.13	$8,895.67	$6,394.54
Ensign Power Systems	$2,328.64	$12,269.90	$9,941.26
Colorado vNet	$43,985.46	$71,165.42	$27,179.96
JAX	$45,577.30	$81,594.84	$36,017.54
Orthopaedic Center of the Rockies	$1,420.17	$78,527.36	$77,107.19
Agrium Advanced Technology *	$2,932.02	$88,735.92	$85,803.90
Crop Production Services *	$2,507.40	$184,048.50	$181,541.10
Total			$418,175.81

* Property tax subject to URA

Actual Sales Tax Revenue

Only two of the incentive recipients collect sales tax. As slide 8 of the appendix shows, The City of Loveland collected a total of $694,934.95 in sales tax since 2008 when the companies received their incentive agreements. The data presented includes only the net revenue to the City of Loveland. Jax received a rebate of 1/3 of the sales tax collected over a 36 month period. Blue Ribbon Autobody received a sales tax credit to be applied against a cash and fee waiver incentive of $45,000. They needed to retain their base year sales tax of $80,000 and then achieve an increase of up to $45,000 beyond their base over a 48 month period. The net sales tax credited to them so far is $37,696.35. They have until 2013 to reach the full $45,000 and seem on track to do so.

Sales Tax Revenue	
Company Name	Actual Sales Tax Revenue
Blue Ribbon Autobody	$117,696.35
Jax	$577,238.60
Total Sales Tax	$694,934.95

Total Revenue to the City of Loveland

The total revenue to the City of Loveland is the sum of the City of Loveland property tax change (the total difference between 2005 and 2011) and the sales tax collected by the City of Loveland when applicable. The total revenue is shown on slide 9 of the appendix, but the information used in this slide

is represented on separate slides of this presentation; slide 5 and slide 8 respectively. In total, the City of Loveland has collected $782,320.16 in direct revenue from incentive recipients from new property tax and new sales tax.

Revenue to City of Loveland	
Company Name	Total Revenue to City of Loveland
RoadNarrows, LLC	$194.05
Concurrent Analytical (Nanopartz)	$194.15
KL&A Engineering	$678.20
Lightning Hybrids	$1,206.50
Colorado vNet	$1,941.49
Ensign Power Systems	$2,024.70
Orthopaedic Center of the Rockies	$17,330.35
Agrium Advanced Technology	$19,199.16
Crop Production Services	$40,858.08
Blue Ribbon Auto Body	$116,503.60
JAX	$582,189.88
Total	$782,320.16

Return on Investment

The Return on Investment, represented on slide 8 of the appendix, indicates how much of the initial incentive amount the City of Loveland has recovered since the incentive was awarded. This figure was calculated by taking the Total Revenue to the City of Loveland (using the change in property tax and any applicable sales tax collected) and dividing it by the total incentive amount.

This figure does not include any revenue impact from jobs created, so the actual benefit to the City of Loveland is much greater than the ROI would indicate. The initial economic impact analysis completed by CSU does include an impact from jobs and a 5-year impact timeline. As it is not possible to measure the actual direct impact of jobs created from incentive recipients, that information is not included in the ROI. Additionally, there is only 2 to 3 years of data available upon which to determine the actual impact, so this analysis does not extend as far as the original economic impact analysis of 5 years.

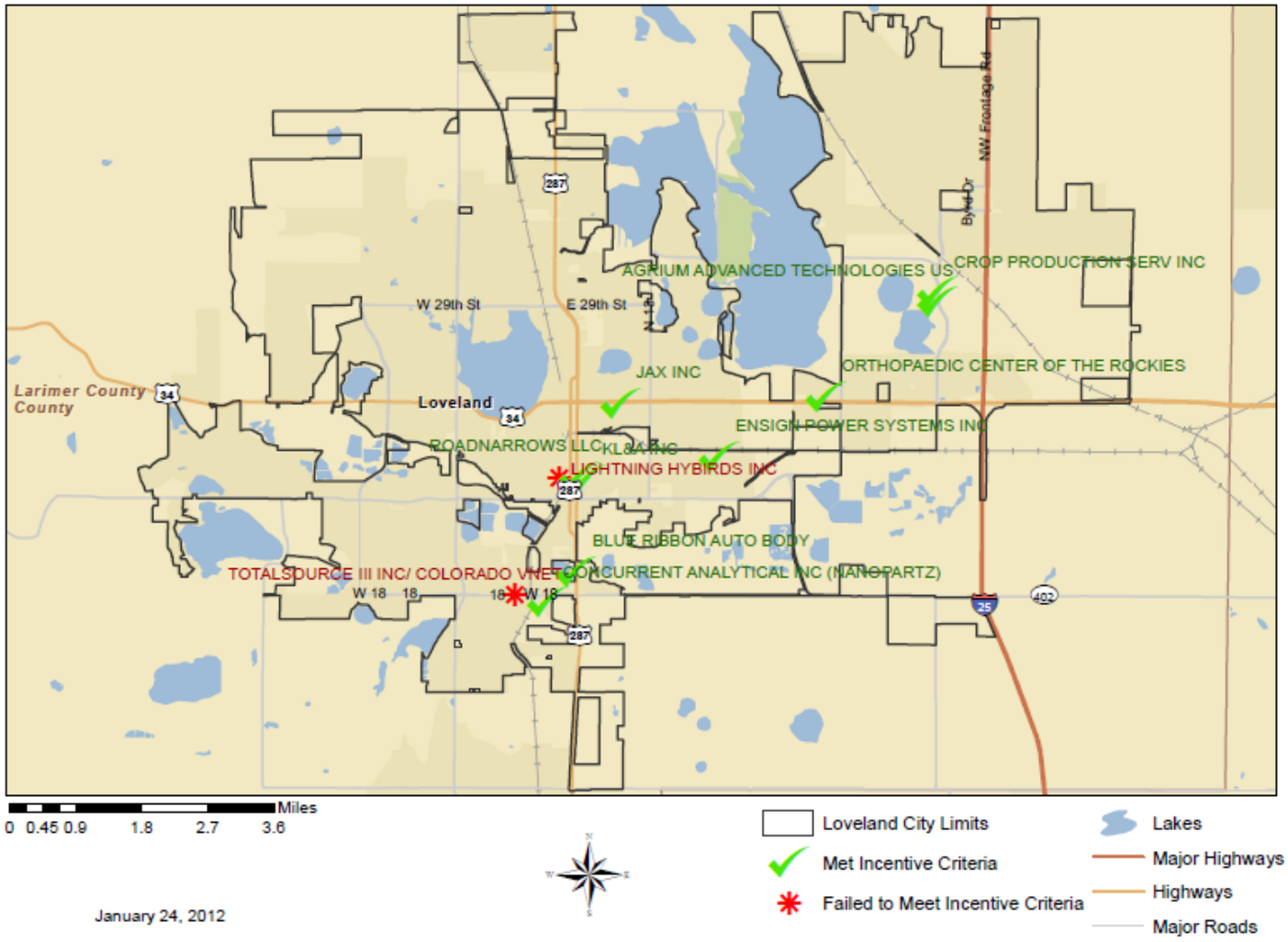
Return on Investment	
Company	ROI Since Incentive
Colorado Vnet	0.22%
RoadNarrows, LLC	1.08%
KL&A Engineering	1.36%
Lightning Hybrids	2.41%
Ensign Power Systems	4.48%
Orthopaedic Center of the Rockies	5.05%
Agrium Advanced Technology	13.52%
Crop Production Services	13.62%
Concurrent Analyticals (Nanopartz)	28.66%
Jax	201.72%
Blue Ribbon Auto Body	258.90%
Total 2008+2009	35.76%

Appendix

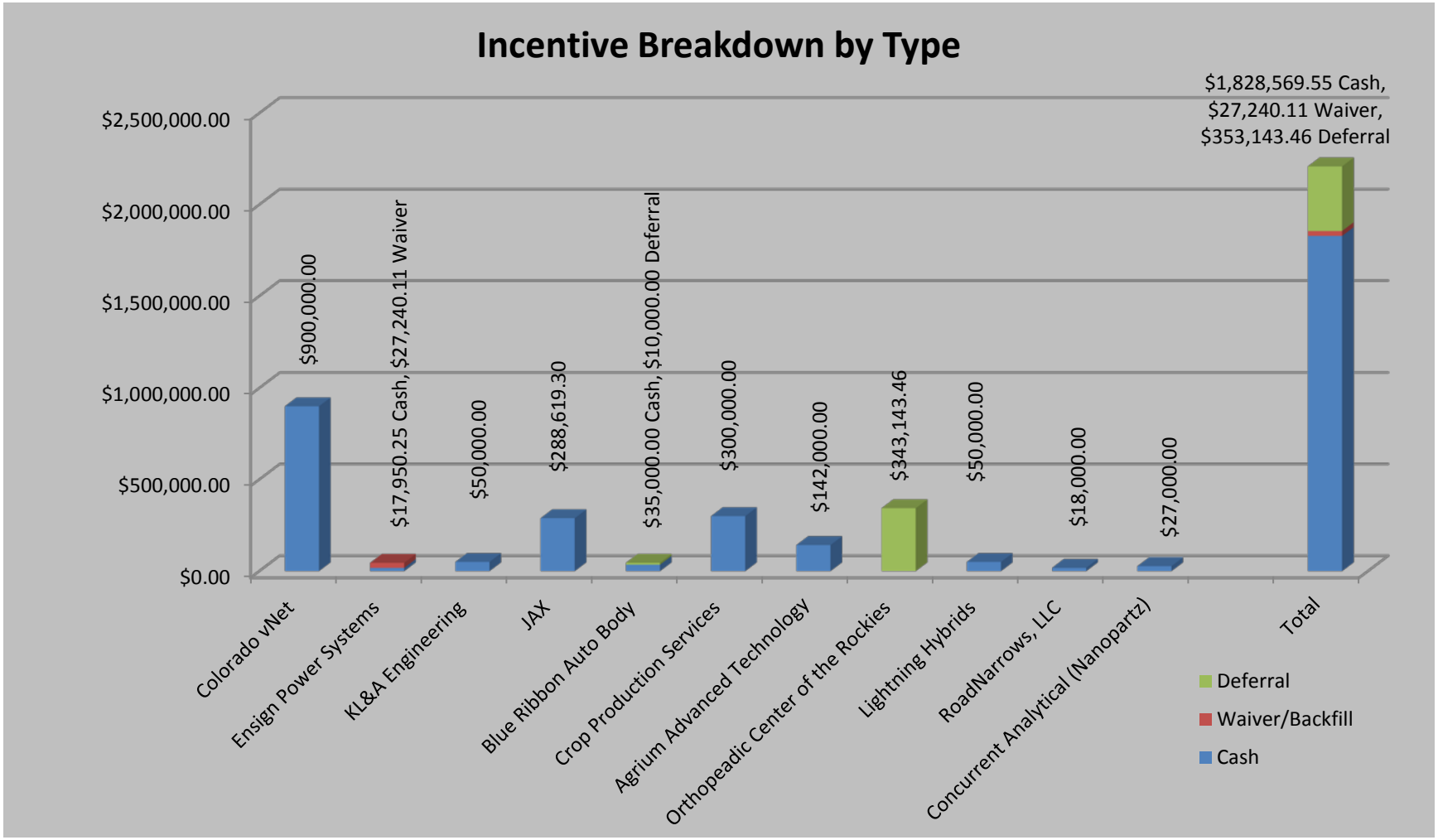
Economic Impact of 2008 and 2009 Incentives

2008 and 2009 Economic Development Incentives

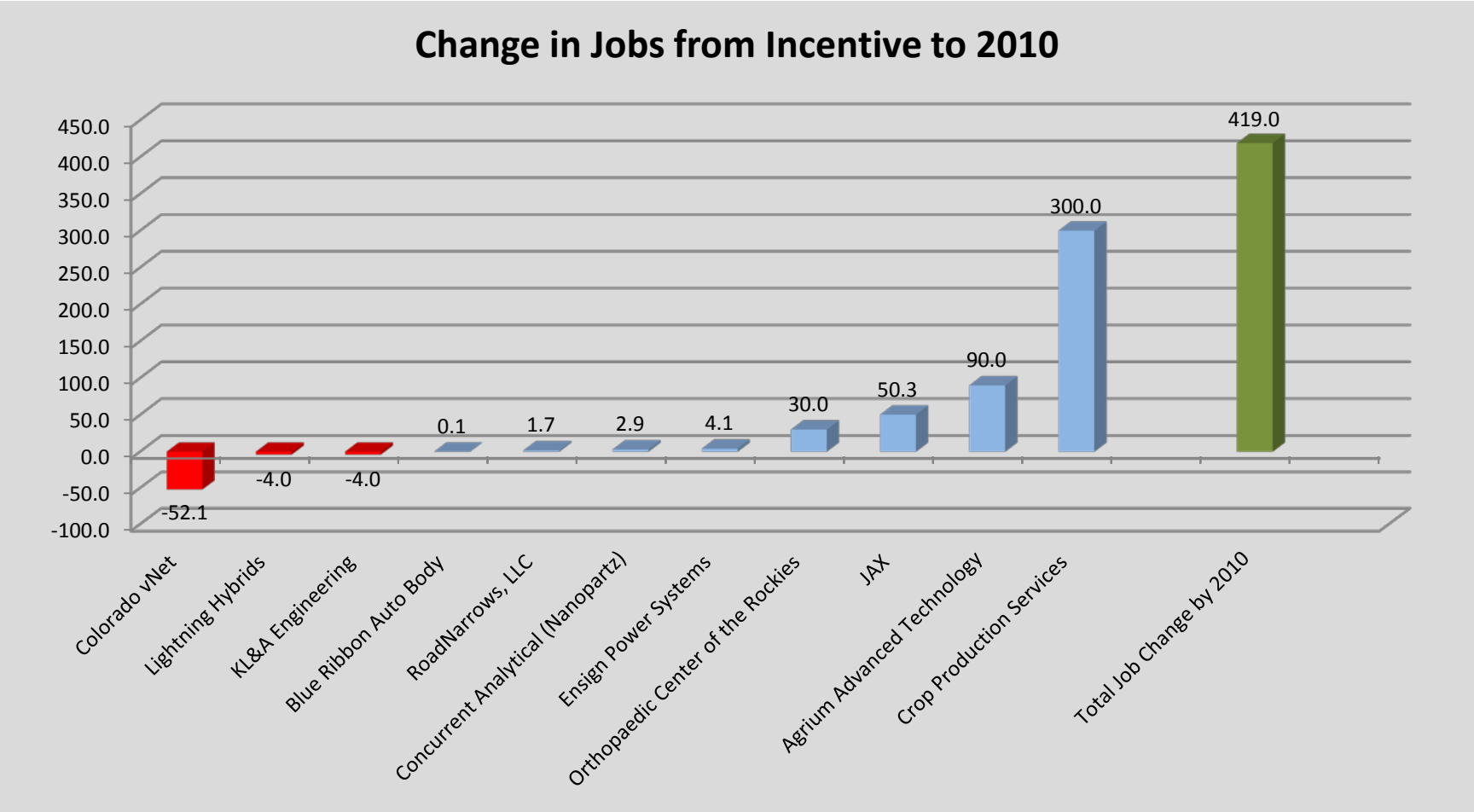
Location of Incentive Recipients



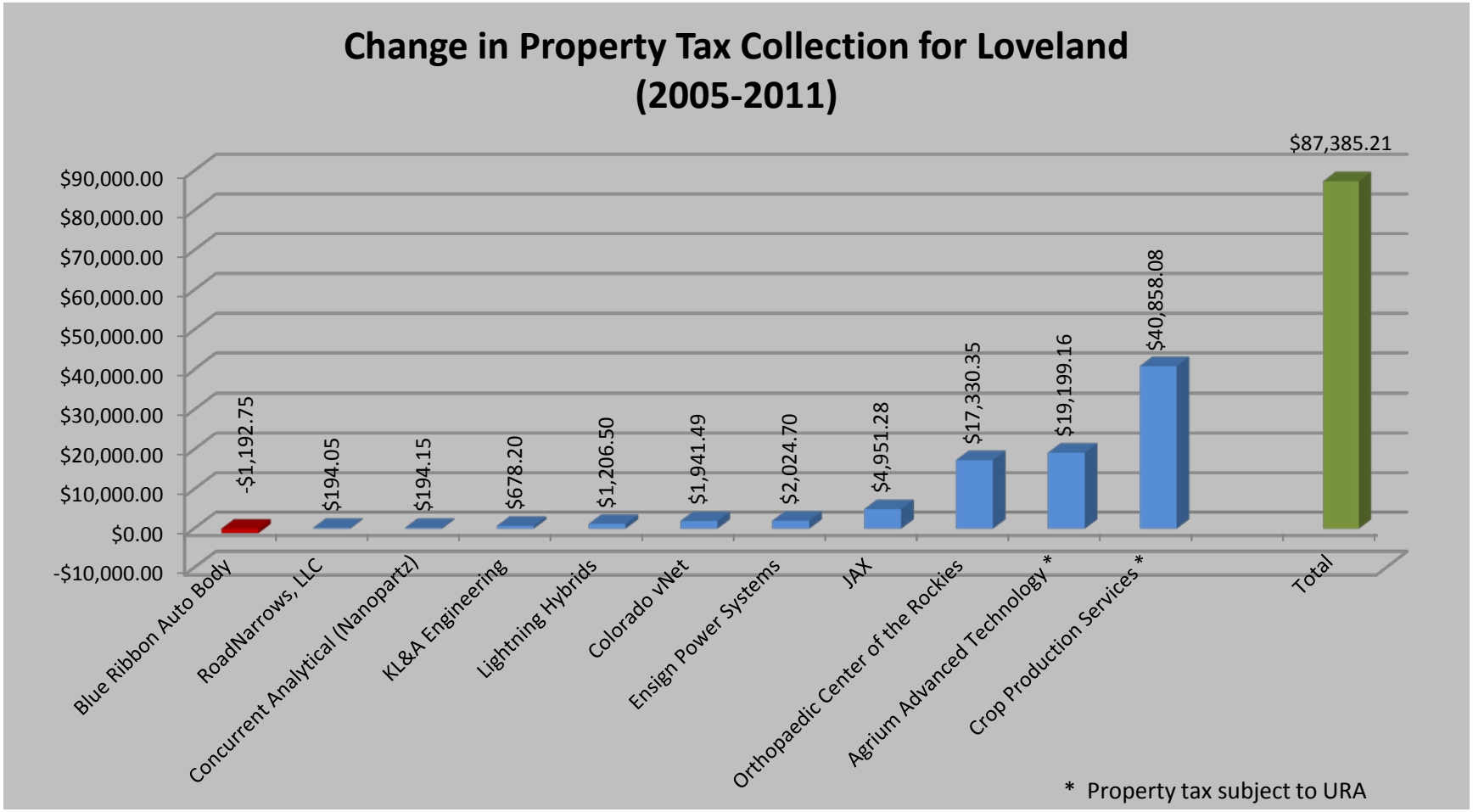
Incentive


Incentive Breakdown by Type
$2,500,000.00
$2,000,000.00
$1,500,000.00
$1,000,000.00
$500,000.00
$0.00
$900,000.00
$17,950.25 Cash, $27,240.11 Waiver
$50,000.00
$288,619.30
$35,000.00 Cash, $10,000.00 Deferral
$300,000.00
$142,000.00
$343,143.46
$50,000.00
$18,000.00
$27,000.00
$1,828,569.55 Cash, $27,240.11 Waiver, $353,143.46 Deferral
Colorado vNet
Ensign Power Systems
KL&A Engineering
JAX
Blue Ribbon Auto Body
Crop Production Services
Agrium Advanced Technology
Orthopeadic Center of the Rockies
Lightning Hybrids
RoadNarrows, LLC
Concurrent Analytical (Nanopartz)
Total
Deferral
Waiver/Backfill
Cash

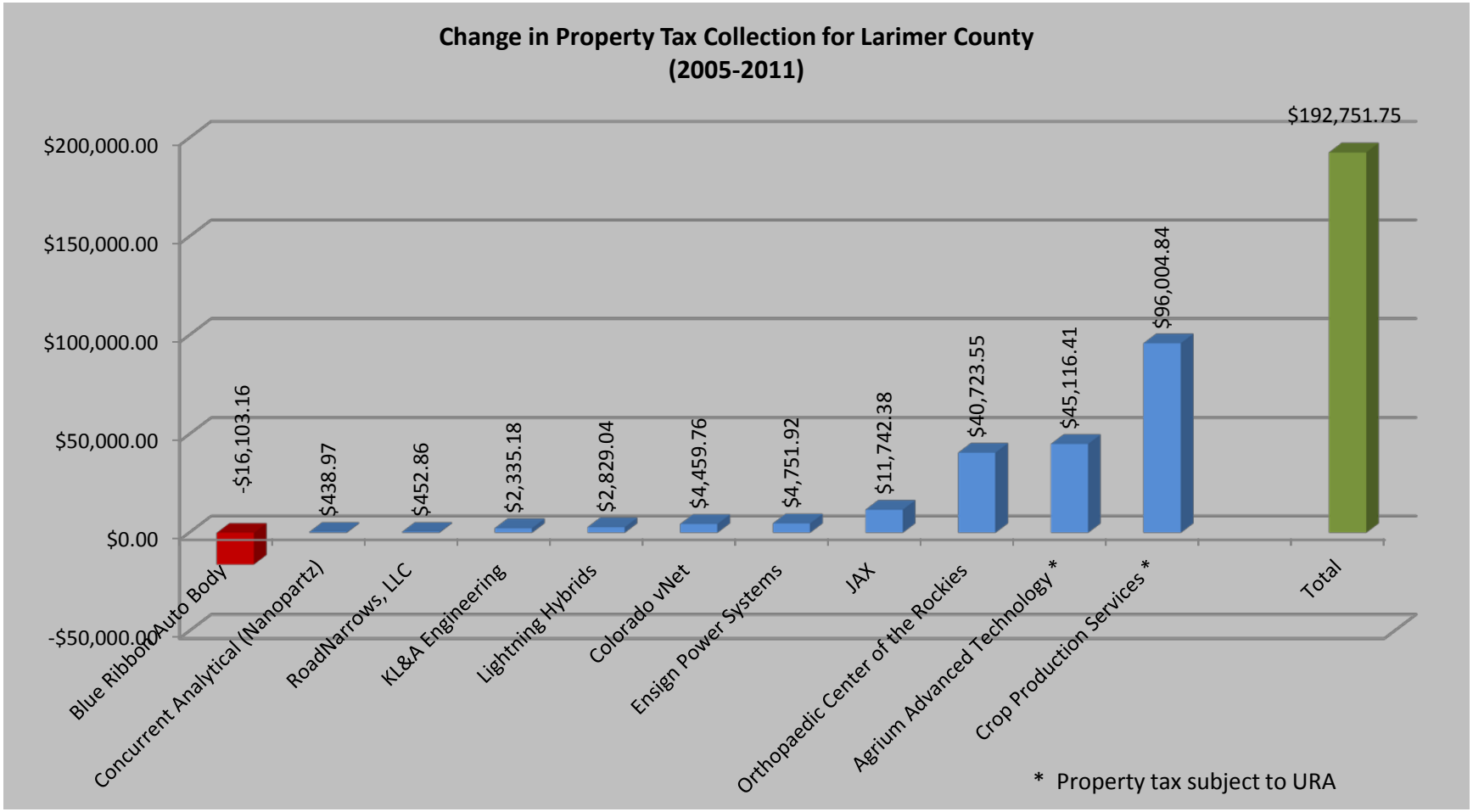
Jobs Impact


Change in Jobs from Incentive to 2010
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
-50.0
-100.0
-52.1
-4.0
-4.0
0.1
1.7
2.9
4.1
30.0
50.3
90.0
300.0
419.0
Colorado vNet
Lightning Hybrids
KL&A Engineering
Blue Ribbon Auto Body
RoadNarrows, LLC
Concurrent Analytical (Nanopartz)
Ensign Power Systems
Orthopaedic Center of the Rockies
JAX
Agrium Advanced Technology
Crop Production Services
Total Job Change by 2010

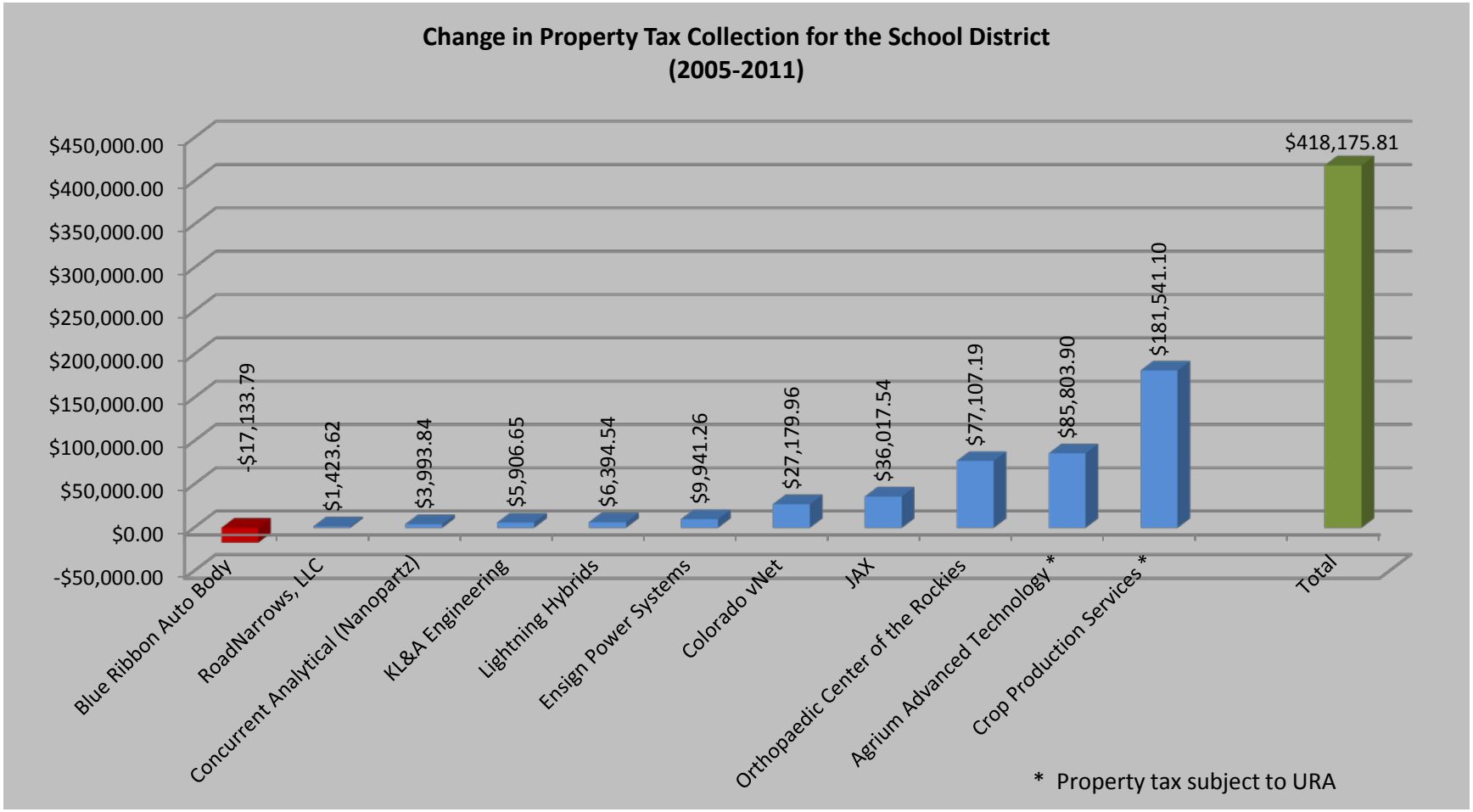
Loveland Property Tax Impact



County Property Tax Impact

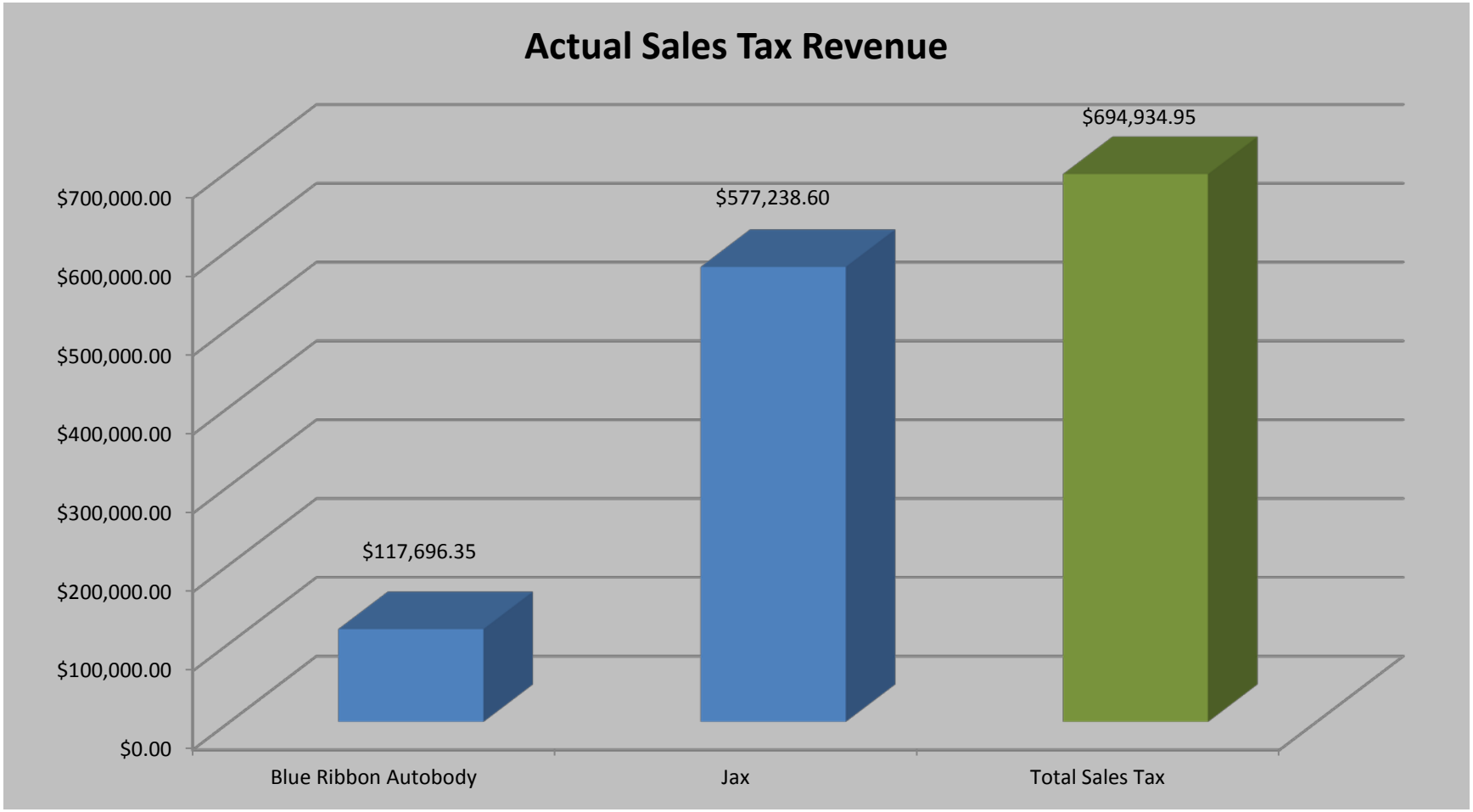


School District Property Tax Impact



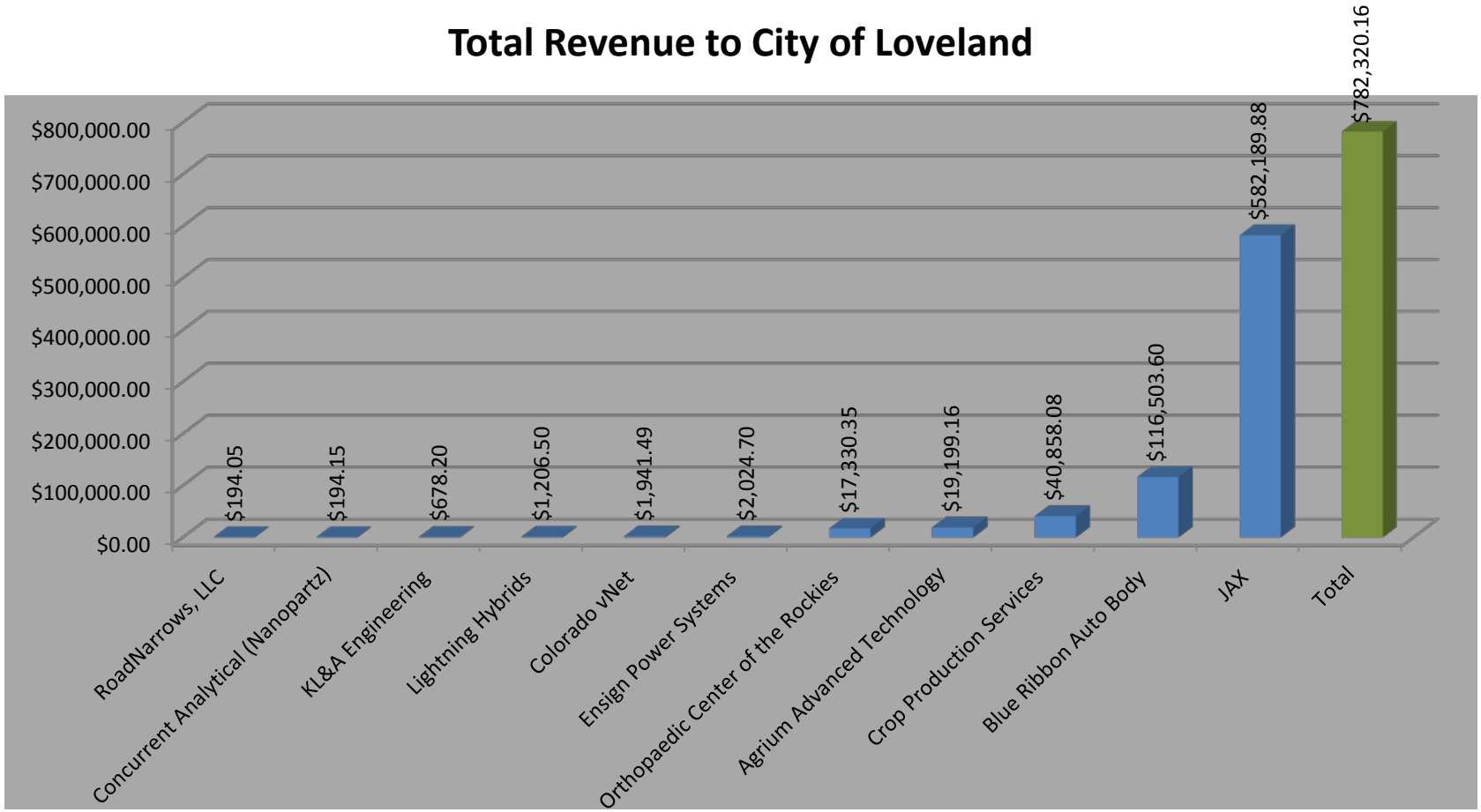
Actual Sales Tax Revenues

Net Profit Collected since Incentive



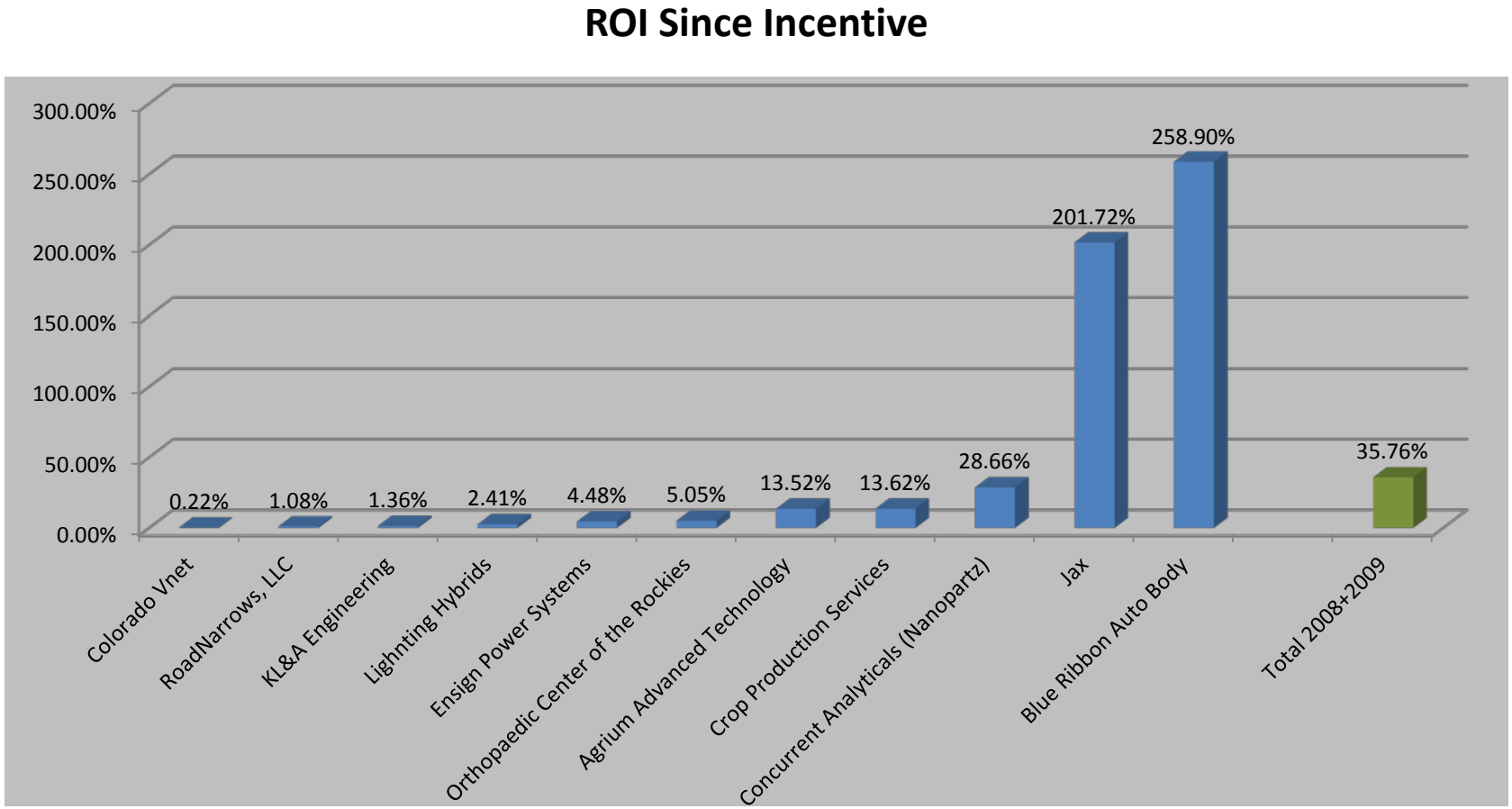
Total Revenue to City of Loveland

(Total Revenue from Change in Loveland Property Tax and Sales Tax)



Return on Investment

(Based on the Change in Loveland Property Tax Revenue & Loveland Sales Tax Revenue)



CITY OF LOVELAND
CITY MANAGER'S OFFICE
Civic Center • 500 East Third • Loveland, Colorado 80537
(970) 962-2303 • FAX (970) 962-2900 • TDD (970) 962-2620

AGENDA ITEM: **2**
MEETING DATE: 3/27/2012
TO: City Council
FROM: Alan Krcmarik, Executive Fiscal Advisor
PRESENTER: Alan Krcmarik

TITLE: Capital Expansion Fees 101 Foundation for Growth

RECOMMENDED CITY COUNCIL ACTION: Discussion item only, no action required

DESCRIPTION:
Presentation and discussion of the history of capital expansion fees in the City of Loveland. The history begins in the early 1980s. The basic logic and methods of determining fees will be reviewed.

BUDGET IMPACT:
☐ Positive
☐ Negative
☒ Neutral or negligible

Since their inception the Capital Expansion Fees have provided funding for numerous capital projects. At this meeting, no action is being requested. The information being presented is intended to provide a foundation for future discussion.

SUMMARY:
The presentation and discussion will focus on the City's existing Capital Expansion Fees, the reasons for their existence, the steps in calculating the fees, and tracing how they have changed over the years. The City Code provides for annual inflationary adjustments and a review every five years. The information to be presented is intended as history and background as the beginning of the five-year review. Over the next few months, the fees will be updated according to these established processes. Alternative approaches will also be considered. Additional meetings with Council and the public are expected to occur in the upcoming months.

REVIEWED BY CITY MANAGER: William D. Cahill

LIST OF ATTACHMENTS:
Capital Expansion Fees 101 | A History and Review of Methods
Capital Expansion Fee Power Point Presentation

City of Loveland

CAPITAL EXPANSION FEES 101

A HISTORY AND REVIEW OF METHODS

Alan Krcmarik, Executive Fiscal Advisor

March 16, 2012

Page intentionally left blank

CAPITAL EXPANSION FEES 101 Foundation for Growth

1984 Original Cost of Services Study and Initial Fees

The Loveland City Council, through the adoption of Resolution R-171-81, provided direction for the Service Cost Recovery System project. The project was undertaken as a result of concern whether the general fund could continue to provide for service demands attributable to projected new development. During the period from 1970 and 1983:

- Population in the City more than doubled, from 16,220 to 32,700, an annual increase of over five percent annually. The most rapid growth was occurred from 1972 to 1979.
- Inflation, measured by the Consumer Price Index (Urban Consumers in the Denver region) nearly tripled.
- Interest rates, measured by the real returns on long-term government bonds (a proxy for cost of funds and mortgage rates) also doubled during this period.
- The City's geographic size was also increasing in response to the high levels of growth being experienced.
- Changes in levels of service also occurred in the period. Services to senior and handicapped citizens were added. Also, recreation programs for all citizens were greatly expanded during the period.
- The study further noted that, as a small city, Loveland experienced many "diseconomies of scale." It actually cost more per capita to provide additional services. One example cited was "police protection services becoming more expensive as a community grows and experiences increasing law enforcement difficulties."
- These growth factors led to a 450% increase in the City's general fund budget. Revenue over the period came close, but did not quite keep up with expenditures. The City had a backlog of capital needs.

A ballot measure for a tax increase for the purpose of building a package of capital projects to support provision of services was developed. The increase was not approved by the voters. In fact, it was strongly rejected. This led the Council to look for other alternatives to fund much needed capital projects. The problem was perceived to be very urgent. The citizens' quality of life depended on a viable solution.

The City of Loveland's Planning Department provided staff support for the original Service Cost Recovery Study in 1982. The City team was assisted by the consulting firm of Brown, Bortz & Coddington (BBC). This firm is recognized as an expert in the municipal finance field and has implemented impact fees in over one hundred locations across the United States. BBC has updated the City's governmental impact fee (referred to as Capital Expansion Fees or "CEFs") in 1994, 1997, and 1998. City staff presented several policy options for changing the CEFs in 2004, but this were not pursued by Council. Since 2005, the responsibility for updating the City of Loveland Capital Expansion Fees has been assigned to the Executive Fiscal Officer.

"In the summary of the study, the authors stated, "The Loveland Cost Recovery System is an innovative approach to community service and facility planning which ensures the future ability of the city to adequately

provide services for its residents." (1984 Report page xii) After implementation of the system, the City of Loveland received an Award for Innovation from the American Planning Association. The APA found the system to be an outstanding method by which to mitigate the costs of growth.

"The system ensures that development fees are calculated so that the cost of providing services is borne by those using municipal service and facilities in proportion to the extent and nature of their usage… Fees do not reflect any policy regarding the promotion or discouragement of particular development types, but rather reflect the appropriate charge for development to ensure that the capital costs are correctly attributed to the growth responsible for increased service requirements." (1984 Report page ix).

"The City Council adopted several general guidelines to direct the development of a Service Cost Recovery System:

- New development should pay its costs for general fund services as well as utility services.
- Service levels required for new development should not exceed nor be less than service levels already provided to the existing community.
- Funds collected from new development should benefit new development.
- Timing of fees should relate to the timing of demands for service.
- The general fund and utility fund should be consistent in their program and ability to serve new development.
- Development toward a balanced community is supported as a long-term solution to fiscal problems through cooperation with the Loveland Chamber of Commerce for industrial and commercial development." (page vi)

Review of Current Policies

Planning staff and the consulting firm reviewed the City's existing development fees and compared them to selected communities in the Colorado Front Range. The City's fee levels were "generally comparable with other communities. . . The then- current [1984] fee levels were comparable with other communities and relatively easy to administer, the fees were not explicitly designed to cover the actual or full cost of growth. The 1984 study's stated purpose was to ensure that growth does pay its own way. Development fees were to be calculated to reflect actual growth-related costs so that when a new development "buys-in" to the Loveland infrastructure, it will not subsidize nor be subsidized by existing residents." (Page ix.) Procedures were to be clearly understandable and inexpensive for both the city and developers to apply.

Conceptual System

The Advisory Committee (designated by Council) approved the conceptual system for the fees. The system was designed to be a simple, accountable process to ensure adequate funding of necessary capital improvements for the expansion of services. The Advisory Committee considered but rejected impact fees based on detailed geographic and development types. The Committee decided that such specificity could be economically efficient and might encourage desirable growth, but such a system would be quite complicated and costly to maintain.

The 1984 Report recommended a city-wide approach based on the policies and objectives of a comprehensive capital improvement program. The city updates the capital plan in the annual budget process. Specific fees are also founded in master plans. Accurate tracking of the collected fees was important. A new Capital

Expansion Fee fund was created, with individual accounting for each type of fee. Expenditures from the fund were to be made on the basis of city-wide priorities.

The Committee agreed that the system should differentiate relative cost responsibilities of different types of development. For some services, and their corresponding necessary capital improvements, virtually all beneficiaries could be residential customers. For example, while commercial customers could use the city library, the vast majority of customers are from residential land uses. Therefore, the associated capital expansion fee was attributed 100% to residential land use categories measured by number of dwelling units.

Calculation Methodology

The calculation process is relatively straightforward and is summarized in the following table:

CEF Calculation Process
Total Capital Costs **Less: Replacement and Betterment Costs**
= Capital Expansion Costs **Plus or Minus: Value of Excess/Under Capacity**
= Expansion Related Costs **Less: External or Debt Funding Sources**
= Net Expansion-Related Costs **Multiply by: Proportion of Sector (land use) Benefits**
= Residential, Commercial, Industrial, Institutional Sector Costs **Allocated to: Number of Households or Square Feet or Acres**
= Capital Expansion Fees by Units or Square Feet or Acres

Each of the CEFs, including streets, used this basic approach in the original study. Streets transitioned to a traffic generation-based method in 2001. In the next two pages, an example from the 1984 report is presented on the General Government CEF.

General Government Capital Expansion Fee:

Current conditions and historic trends. The activities classified as general government in this study include the City Council, City Manager, City Attorney, Personnel, Administration and Accounting, City Clerk, Data Processing, Municipal Planning, Building Inspection, Engineering Services, Municipal Court and miscellaneous non-departmental expenditures. With the exception of data processing, City Council and certain miscellaneous activities, the major resources required of these departments are for staff and office space.

Future needs and cost recovery. The only major capital expenditure associated with general government services to meet growth-related needs will be additional office and warehouse space. This need can be expected to grow in proportion to development (measured by dwelling units or additional square feet of development.

Standards. Current standards for local government office space are listed in Table 14 of the Report reproduced below. There is a current ratio of 1,270 square feet of office space per 1,000 population in Loveland. This reflects a current estimate of 41,650 square feet of general government office space for the 1983 population of 32,700.

Facility	General Government Gross Office Space (sq. ft.)
Municipal Building (less Police & Fire)	8,050
Municipal Annex	7,000
Parks & Recreation Administration	3,100
Community Building (remainder)	8,900
City Shops & Warehouse	2,200
Data Processing Center	2,500
Senior Center	2,600
Washington School	7,300
Total	41,650

In addition, the city shops, warehouse and additional storage areas include an estimated 43,825 square feet of warehouse space. This results in a current standard of 1,340 square feet of warehouse space per 1,000 population.

Capital Expansion Fee. Total replacement costs for general government space was estimated according to $80 per square foot for general facilities and a lower cost of $40 per square foot for the city shops and warehouse. This resulted in a total cost of $5,085,000 for replacement of general government capital building investment ($4.4 million for office and $1.8 million for warehouse). Because general government service benefits all development types, cost responsibilities were allocated according to the relative value percentage of each development type currently within Loveland. This allocation was then factored by the number of units or square footage currently served to derive appropriate CEF fees:

Development Type	Estimated Percentage of Total Value	Share of Space Replacement	Units, Acres, or Sq. Ft. or acres Currently Served	Capital Expansion Fee	per
Residential	69 %	$3,508,600	12,945	$ 271.00	Household unit
Commercial	11	559,400	2,936,000	0.19	Square foot
Industrial	8	406,800	201	2,024	Acre
Institutional	12	610,200	3,006,000	0.20	Square foot
Total	100%	$ 5,085,000			

Using the same basic process of inventory of capital and allocation based on land use, similar calculations were completed for Parks & Recreation, Fire Protection, Law Enforcement, Library, Museum, and Streets to produce the following summary table.

SUMMARY OF CAPITAL EXPANSION FEE CALCULATIONS 1984

Service	Residential (Per Unit)	Commercial (Per Sq. Ft.)	Institutional (Per Sq. Ft.)	Industrial (Per Acre)
Parks & Recreation	$ 736	$ 0.00	$ 0.00	$ 0
Fire Protection	98	0.07	0.07	746
Law Enforcement	24	0.02	0.02	179
Library	121	0.00	0.00	0
Museum	58	0.00	0.00	0
General Government	271	0.19	0.20	2,024
Streets	229	0.65	0.59	1,601
Total	$ 1,537	$ 0.93	$ 0.88	$ 4,550

Service Standards

The 1984 Report developed service standard for each general fund function to define what portion of capital expansion needs are directly met by new development. Each individual service and corresponding fee has a specific service standard or level of service. Here are two examples. For Parks, the service standard was a number of acres of land per 1,000 population. For the Fire Department, the service standard was a response time. Through analysis

of these service standards, the Planning staff and the consultants worked backwards to determine the amount of capital infrastructure that was needed to meet the service standard. Using current replacement costs, a value was assigned to the infrastructure.

Council Action: In 1984, Council adopted the first set of Capital Expansion Fees for the City of Loveland. Despite the recommendation from the Report to update fees for inflation, no inflationary adjustments were made for several years after the original study. The first revision to the fees occurred in 1994.

1994 Update

In September, 1993, the city contracted with BBC Research and Consulting to complete an update of Loveland's fiscal impact system. The stated goals of the 1994 updating process are similar to the current (2012) effort. The goals are:

- Re-examine the calculation process employed in the original study, replicate data sources if possible and recalculate fees based on more current service standards and costs.
- Develop new valuation ratios for different types of land uses (e.g. residential, commercial, etc.) and recalculate the attribution of service demands by type of land use.
- Identify methodological, legal or policy issues in the Loveland Cost Recovery System in light of a decade of new experience and experimentation by other communities.
- Determine specific new fees for the seven categories of capital expenditures included in the original cost recovery system.

The 1994 update was explicitly limited to an updating process using previously determined methods and assumed continuation of the basic policies underlings Loveland's Cost Recovery System.

The consultants made several changes to the system. First, the institutional category of land use was eliminated. This category included hospitals, schools, churches, libraries and other public buildings. In practical application, this land use classification proved difficult to define, challenging to enforce, and had been rarely employed. In the 1994 update, the institutional category was consolidated with industrial uses as a means of simplifying the CEF process.

The 1994 study also recognized that non-residential development often "contributes more to city operating revenues that they use in services,' and therefore, "that is desirable to continue to encourage commercial development." This objective of supporting city operating revenues is balanced by a second objective of ensuring CEF equity, and by the over-reaching goal of requiring all land uses to pay a fair share of growth related costs. No significant methodological changes were suggested from the original system. The proposed changes were to simplify the process and to reflect changing infrastructure costs within the city.

The proportion of residential property increased over the ten year period since the 1984 Report. This increase led to a higher percentage of total cost allocated to residential and less for other land use types. The consultant's 1994 report recommended the following fees for Loveland's capital expansion fees.

SUMMARY OF CAPITAL EXPANSION FEE CALCULATIONS 1994

Function	Residential ($/Unit)	Commercial ($/Sq. Ft.)	Industrial ($/Sq. Ft.)
Fire	$ 174	$ 0.21	$ 0.19
Police	92	0.12	0.10
Library	144	0.00	0.00
Museum	129	0.00	0.00
General Government	334	0.40	0.37
Parks and Recreation	1,351	0.00	0.00
Streets *	1,643	1.75	1.75
Total CEF Average	**$ 3,867**	**$ 2.48**	**$ 2.41**

* Suggested fee for single family low density units; residential CEFs (the range was $934/unit for high density to $1,643/unit for low density) depend on type of unit. Industrial and commercial fees vary widely depending on type of use and traffic generation. CEFs will range from roughly $0.60 - $2.60 per square foot.
Note: Industrial switched from a per acre unit cost to a per square foot unit cost in this study.

The Parks and Recreation fee shows in the table as one combined fee. The analysis in the report broke out the total fee into specific fees for Parks, Recreation, and Trails. Accounting for separate fees was in place.

Council adopted the recommended fees in mid-1994 with the new fees going into effect on September 1, 1994. With the exception of the street fees, the adopted fees follow the table. Actual street fees were slightly lower for low density residential development and slightly higher for high density development. These adjustments were based on traffic generation (vehicle trips) estimates. The 1994 update and Council's adoption included an inflationary adjustment. Adjustments for inflation were made for 1995, 1996, 1997, and 1998.

1997 – 1998 Adjustment Recognizing Fully Burdened Cost of Infrastructure

The analysis concluded in 1994 was limited to an updating process using the previously determined methods and assumed a continuation the basic policies underlying the Cost Recovery System. After 1994, new court decisions and the experiences of other municipalities in Colorado and elsewhere supported a slightly modified CEF calculation methodology. The new approach allows local governments to include the full cost of their infrastructure investment in their fee calculations (specifically, land acquisition, building design, fixtures, furniture, and equipment ("FFE"), and bricks and mortar construction costs versus simply bricks and mortar under the old approach.

The city contracted with BBC to update the Fire and Emergency Rescue CEF based on this new "fully-costed" approach. That study was completed in May of 1997. The consultant's recommendation to Council was adopted and on August 18, 1997, the City increased the residential fee for Fire from $195 to $373 and fees for commercial and industrial uses were increased proportionately.

In February, 1998, the City again retained BBC to extend the new methodology to the other five (non-fire) CEF categories: police, library, museum and cultural facilities, general government, and parks and recreation facilities.

The consultants advised

"The resulting updated CEFs … in this report better reflect Loveland's investment in its infrastructure. It is recognized, however, that the City may choose not to adopt fees as high as the maximum defensible amounts set forth in this report. Moreover, the City may decide to further reduce fees for certain "fiscally beneficial" land use categories or for individual projects which generate more public sector revenue than service provision costs. A similar adjustment could be made to promote affordable housing in Loveland, or other land uses which are consistent with good public policy . . . such modifications to the updated CEFs developed in this report are acceptable as long as the City maintains the integrity of the system by "reimbursing itself for capital" via transfers from the General Fund to the various CEF holding accounts." (1998 Report: Section 1-3)

The consultants also provided a formal definition of capital expansion fees, commonly known as impact fees or system development fees, from the International City Management Association:

'monies collected formally through a set schedule, or formula, spelled out in a local ordinance. Impact fees are levied only against new development projects as a condition of permit approval to support infrastructure needed to serve the proposed development. They are calculated to cover a proportionate share of the capital cost for that infrastructure."

BBC continued to refine the CEF rationale in the 1998 report:

"In other words, capital expansion fees are charges levied against new development with the intention of recovering the public infrastructure expansion costs associated with serving new development. . . . The primary purpose of a capital expansion fee system is to ensure that the cost of providing infrastructure is paid for by new development and not by the existing community. Community growth and new development is not the only factor causing the need for continued public capital investment. As a rule, long-term community capital costs involve three elements:

1. **Repair and replacement** of facilities (i.e. standard periodic investment in existing facilities such as rebuilding a road or replacing worn out equipment),
2. **Betterment of current facilities** or implementation of new services requiring new facilities (i.e. development of a new recreation center designed to meet needs of all citizens new and old), and
3. **Expansion of facility to accommodate new development** (i.e. construction of a new park to meet needs of a growing community).

Only the last category defines costs associated with the provision of infrastructure for new development, and thus only these capital expansion costs can be attributed to a new development."

Based on values from the Larimer County Assessor, the 1998 report showed that Loveland continued to become more residential. Of the three category of Land Use, Residential reached 81.3% of total estimated market valuation. Commercial was at 15.2% and the Industrial use had decreased to 3.5%. Using these allocations and the new "fully-costed" approach, the fees were recommended to be revised as follow:

SUMMARY OF CAPITAL EXPANSION FEE CALCULATIONS 1998

Function	Residential ($/Unit)	Commercial ($/Sq. Ft.)	Industrial ($/Sq. Ft.
Fire	$ 377	$ 0.38	$ 0.33
Police	222	0.20	0.10
Library	477	0.00	0.00
Museum and Cultural Facilities	354	0.00	0.00
General Government	741	0.68	0.32
Parks, Recreation, & Trails	2,325	0.00	0.00
Streets	1,699	2.52	1.26
Total CEF	**$ 6,195**	**$ 3.78**	**$ 2.01**

Although the council made the "fully-costed" adjustment for the Fire and Rescue CEF in 1997, the City Council did not make the increases to the other fees upon completion of the 1998 study. Based on historical accounting records, moderate adjustments were made to the other fees. The Council acted in early 1999 (effective date for update set for April 1, 1999) to set the fees as below:

CAPITAL EXPANSION FEE ADOPTED 1999

Function	Residential ($/Unit)	Commercial ($/Sq. Ft.)	Industrial ($/Sq. Ft.)
Fire	$ 388	$ 0.38	$ 0.33
Police	131	0.20	0.10
Library	415	0.00	0.00
Museum and Cultural Facilities	215	0.00	0.00
General Government	467	0.68	0.32
Parks, Recreation, & Trails	2,325	0.00	0.00
Streets	1,749	2.52	1.26
Total CEF	**$ 5,690**	**$ 3.78**	**$ 2.01**

2002 Update

For the 2002 update, the City did not contract with BBC for consulting support. Pursuant to the requirements of Section 16.38.020E of the Loveland Municipal Code, the City staff reviewed the capital expansion fees and City Council adopted the fees on November 5, 2002. The fees were made retroactive to July 15, 2002. The schedule below shows the adopted fee levels.

Category	Residential Fee per dwelling unit	Commercial Fee per square foot	Industrial Fee per square foot
Fire	$ 517	$ 0.34	$ 0.12
Police	358	0.23	0.09
Library	517	0.00	0.00
Museum	370	0.00	0.00
General Government	686	0.45	0.16
Parks	2,135	0.00	0.00
Recreation	971	0.00	0.00
Trails	145	0.00	0.00
Open Lands	327	0.00	0.00
Streets * (Single Family Unit Rate is in the table.)	2,962	Trips generation basis	Trips generation basis
Total CEF *	**$ 8,988**	**$ 1.02**	**$ 0.37**

* The Streets CEF is blank for commercial and industrial categories and the total line for CEFs does not include the Streets CEF because a very elaborate Streets Fee Schedule, based on trip generation, had been developed.

The Recreation, Trails, and Open Lands fees were clearly delineated for the first time in this fee schedule.

2004 Possible Policy Changes and Council Direction

In May of 2004, City staff conducted a study session presentation and discussion with Council regarding Capital Expansion Fees. The following three reasons were cited as the reason for the discussion.

- The economic development climate in Northern Colorado is very competitive, and major "regional" accounts negotiate with multiple communities before choosing a final location.
- For some categories of infrastructure (e.g., Fire, Police), the City's eventual build-out needs can now be more accurately projected.
- The current CEF system has a multiplicity of fee categories, some of which may overlap, thus potentially complicating fee administration.

City staff presented eight options for Council consideration. Each is summarized briefly below:

1. **Current CEF Methodology Adopted at Less than the "Fully Burdened" Amount**

   Loveland's current CEF methodology accounts for the "fully burdened" fee. It is within City Council's authority to adopt less than this maximum amount.

   Advantages. Could be used strategically to incent certain types of land use where Loveland faces the stiffest economic development competition.

   Disadvantages. As with the excise tax, could "under-collect" for growth-related infrastructure thus requiring subsidy from City General Fund or other source. Though in some cases (Fire) the maximum amount is not needed.

   Implementation. Minimal; City Council resolution acknowledging "fully burdened" fee and establishing a rationale for adopting something less.

2. **Shift to Capital Improvement Plan (CIP) Approach for Certain Fees**

   Loveland currently uses the CIP (forward-looking) methodology for its Street CEF. The City can forecast the "build-out" for certain other types of infrastructure (e.g., Fire, Police) that CIPs could be used in these fee categories as well.

   Advantages. More accurately reflects Loveland's growth-related infrastructure needs; could reduce Fire and Police CEF.

   Disadvantages. Calculations for future land development becomes less precise as longer time horizons are used; requires more staff to generate reports.

   Implementation. Moderate; update methodology for chosen fee categories, and reflect in the proposed fee schedule for 2005.

3. **Combine Other Fee Categories**

   Compared to most other local governments in Colorado, Loveland calculates, assesses and accounts for its CEF revenue in a very specific manner. For example, Loveland maintains separate charges for the recreation center, parks, trails and open land rather than a master "Parks & Recreation" fee. Similarly, the City's current library, museum and general government CEF could be combined into a "Public Facilities" fee. Police and fire CEF could be merged into a "Public Safety" fee.

   Advantages. Increases ease of administration for City staff; allows more flexibility in maintaining service standards through comparable and "substitutable" infrastructure. This method will work better with CIP -- This is a better cash flow system.

   Disadvantages. Removes "dedicated" CEF accounts for certain departments.

   Implementation. Moderate; update methodology and reflect in the proposed fee schedule for 2005.

4. **Allow Phased Payment of CEF**

   It is traditional for impact fees in other Colorado communities to be paid in one lump sum at the time of building permit. Loveland collects its CEF when a Certificate of Occupancy is issued. However, the City could "break from tradition" and allow installment payments after project build-out is complete to be guaranteed by a payment bond or some other form of collateral from the developer.

Advantages. Gives developers more flexibility regarding potential cash flow concerns in their *pro forma*.

Disadvantages. Increases administrative burden on City staff to monitor and collect multiple payments; possible difficulty in collecting amount owed; loss of potential interest earning on CEF fund balance versus lump sum payment. The timing of when the money has to be spent on infrastructure could also propose an issue if it has not been collected from the developer yet.

Implementation. Significant; research payment bond guarantees, update administrative procedures and notify development community.

5. **Expand CEF Rebate or Waiver Program for Economic Development**

Regardless of which (if any) of the preceding options the Council chooses, Loveland could still address any potential "competitiveness" concerns by budgeting more revenue for CEF rebates or waivers to desirable projects. These could include unique retail sales tax generators that served an unfilled market niche, high income employment generators and very high value residential units.

Advantages. Increases economic development competitiveness; reserves flexibility for Council policy decisions.

Disadvantages. Requires off-setting revenue from sales tax, use tax, property tax or other source to maintain the integrity of the CEF calculations.

Implementation. Minimal; Council budget policy decision.

6. **Re-evaluate Trip Generation Allocation in Street CEF**

Loveland's street CEF is currently calculated based on trip generation data from the Institute of Transportation Engineers (ITE) Trip Generation manual, 5th Edition. Using this data requires certain assumptions allocating trips between residential units and commercial square feet. It is possible to re-evaluate these assumptions using the ITE Trip Generation manual, 6th Edition, and reasonably allocate more trips to residential versus commercial land uses.

Advantages. Could reallocate Loveland's growth-related infrastructure needs; could reduce Street CEF for retail, office and industrial land uses to promote economic development.

Disadvantages. Could increase Street CEF for residential uses.

Implementation. Moderate; update methodology and reflect in the proposed fee schedule for 2005.

7. **Combine Street CEF Categories for Commercial Land Uses**

Loveland's Street CEF is currently subdivided into 22 categories of retail, office and industrial uses. This high degree of specificity is intended to properly charge land uses with different trip generation characteristics, and prevent "cross-subsidization" between commercial land uses. It is possible to still embrace these goals with fewer specific land use categories.

Advantages. Increases ease of administration for City staff; reduces disputes with developers challenging their assignment to a particular category; reduces Street CEF for the highest trip generators (I.e., those with drive-through operations).

Disadvantages. Could increase fees for commercial land uses with the lowest trip generation; could "under-collect" for growth-related infrastructure thus requiring subsidy from City General Fund or other source.

Implementation. Moderate; update methodology and reflect in the proposed fee schedule for 2005.

8. **Excise Tax**

Some communities in Colorado (e.g., Boulder, Parker) have replaced their impact fee systems with voter-approved excise taxes on new development that minimize costs to commercial development.

Advantages. Could be used strategically to advantage types of land uses for which Loveland faces the most economic development competition (e.g., regional retail, high income corporate office etc.).

Disadvantages. Could increase cost-burden on residential development; could "under-collect" for growth-related infrastructure thus requiring subsidy from City General Fund or other source.

Implementation. Significant; requires voter approval; translate current or updated CEF schedule into tax rate for ballot measure.

Based on the discussion and general preferences expressed by the Council at this study session, it was decided by the City management team to continue the CEF system without implementing any of the modifications discussed at the study session.

2007 Update

Like the 2002 fee update, the 2007 review was conducted primarily by City staff will limited review by the BBC consulting group. Staff followed the detailed cost allocation model from prior studies and derived fee recommendations. This review was conducted based on data from 2006 and early 2007. These years were "boom" years in the construction industry and all measures of construction material costs were very high. The study indicated increases for some fees that exceeded 30% since the 2002 study. The City Manager recommended adjustment and phasing of the calculated fees over a two-year period. The Council adopted this approach to keep the fees lower than the study indicated were appropriate. In essence, the City was deciding by policy not to charge the fees at their fully-costed levels. Council adopted the fees and they were implemented on May 1, 2007. The CEFs for single family residences, commercial and industrial projects are shown below:

Category	Residential Fee per dwelling unit	Commercial Fee per square foot	Industrial Fee per square foot
Fire	$ 641	$ 0.27	$ 0.03
Police	833	0.35	0.04
Library	593	0.00	0.00
Museum & Cultural Services	478	0.00	0.00
General Government	686	0.38	0.05
Parks	2,918	0.00	0.00
Recreation	1,462	0.00	0.00
Trails	463	0.00	0.00
Open Lands	736	0.00	0.00
Streets * (Single Family Unit Rate is in the table.)	2,043	Trip generation basis	Trip generation basis
Total CEF *	**$ 10,853**	**$ 1.00**	**$ 0.12**

Streets fee not included in Commercial and Industrial totals.

2009 Temporary Decrease of Multifamily Fees

In 2009, the City was approached by a developer requesting a temporary roll-back of the CEFs for multi-family housing. Without such a reduction, the project would not be viable. The City reviewed the request and decided to make a reduction in the CEFs. The reduction applied to all permits for multi-family projects from mid-2009 to the end of 2010. The reduction amounted to approximately $5,830 per multi-family unit. Two very large projects, one 303 units and the other 252 units were permitted during the period. Five six-plex and two eight-plex multi-family projects were also permitted during this time frame. The total amount of fee reductions was $3.5 million.

2010 and 2011 Temporary Suspension and Review of Inflationary Adjustments

The Loveland Municipal Code provides for an inflationary adjustment to the fees. The inflation index is the Engineering News Record Construction Cost Index for the Denver Region ("CCI"). When the CCI decreased in the fall of 2009, the CEFs were lowered by the corresponding amount. In the fall of 2010, the CCI increased by 8.6%. Council discussed, debated, and eventually decided not to impose the inflationary increase for 2011. Council also requested that staff conduct and education and public comment process. After the process was completed, the Council voted to increase the fees for the CCI change and this increase was implemented on July 1, 2011. When staff presented the CCI increase in the fall of 2001 for fees to be collected in 2012, Council voted to suspend the increase.

SUMMARY/GOING FORWARD

The following items constitute a summary of the information presented in this document and the next steps going for the CEF update.

Summary

- In response to high levels of growth and intense fiscal pressures, the City decided to research new methods to pay for the cost of service expansion. The City was an "early adopter" of comprehensive impact fees for governmental services. Over time, the CEF system has been refined and expanded. In difficult economic times, the City has made adjustments to fee levels.
- The CEFs have played a vital role in providing funding support for a myriad of capital improvements that support City services, specifically streets, law enforcement, fire protection, general government, parks, recreation, trails, open lands, library, and museum and cultural services.
- The City of Loveland has a high quality of life because of the capital improvements and equipment that have been built and acquired with the proceeds from the CEFs. This high quality of life is good for existing residents and is also a major consideration for companies looking to relocate their business.
- The CEF funding method has allowed the City to keep its tax levies, both property and sales tax, lower than other full service Colorado communities. It has also limited the number of special financing districts in the community.
- The CEF funding method has assisted the City in its efforts to pay for capital improvements on the pay-as-you-go basis. While this may delay the construction of projects until new growth coming to the community makes its proportionate contribution, the technique has allowed the City to avoid issuance of debt or the raising of taxes or a combination of the two.
- The principal of having growth pay for growth has been followed and the legal guidelines of benefit and proportionality have been followed.
- Issues with keeping up with construction costs are still a major concern. In recent years the CCI has been increasing much faster than revenue growth. If the CEFs do not keep up with the inflationary trend, the City will need to find funds elsewhere or delay planned projects further in to the future. This will have an impact on the current residents in terms of quality of life and will also make the City a less desirable place to live.

Going Forward

- The next update to the CEF methodology is underway. Information from Larimer County and the state is being gathered. An estimate of the value of city capital projects and equipment is being collected. Departments are reviewing their master plans and the Budget Office is updating the Capital Improvement Plan and Program for the 2013 budget.
- Staff has collected comments from the public education process conducted last year and will be sharing the updated information with the public prior to returning to a Council study session.
- The CEF update study will show Loveland's needs and investments, plus how this compares to meeting our community needs. The study will also review how our rate structure and level of service compares with similar communities in Colorado.

5 Year Review and Update of Capital Expansion Fees

City of Loveland

Capital Expansion Fees:

- Fire Protection
- Law Enforcement
- Streets
- General Government
- Library
- Museum and Cultural Services
- Parks
- Recreation (1994)
- Trails (1994)
- Open Lands (2001)

City of Loveland Financial Habits

- ABC: Always Be Conservative
- It is okay to save for the future
- Prefer pay as you go financing over debt financing
- Try to keep tax rates low
  - Mill levy at 9.564 since the early 1990s
  - Sales & Use Tax rate at 3% since the late 1980s
- Growth should pay its way - since 1984
- Make strategic economic development investments
- Loveland has been fiscally responsible and successful

Local Economic and Revenue base trends

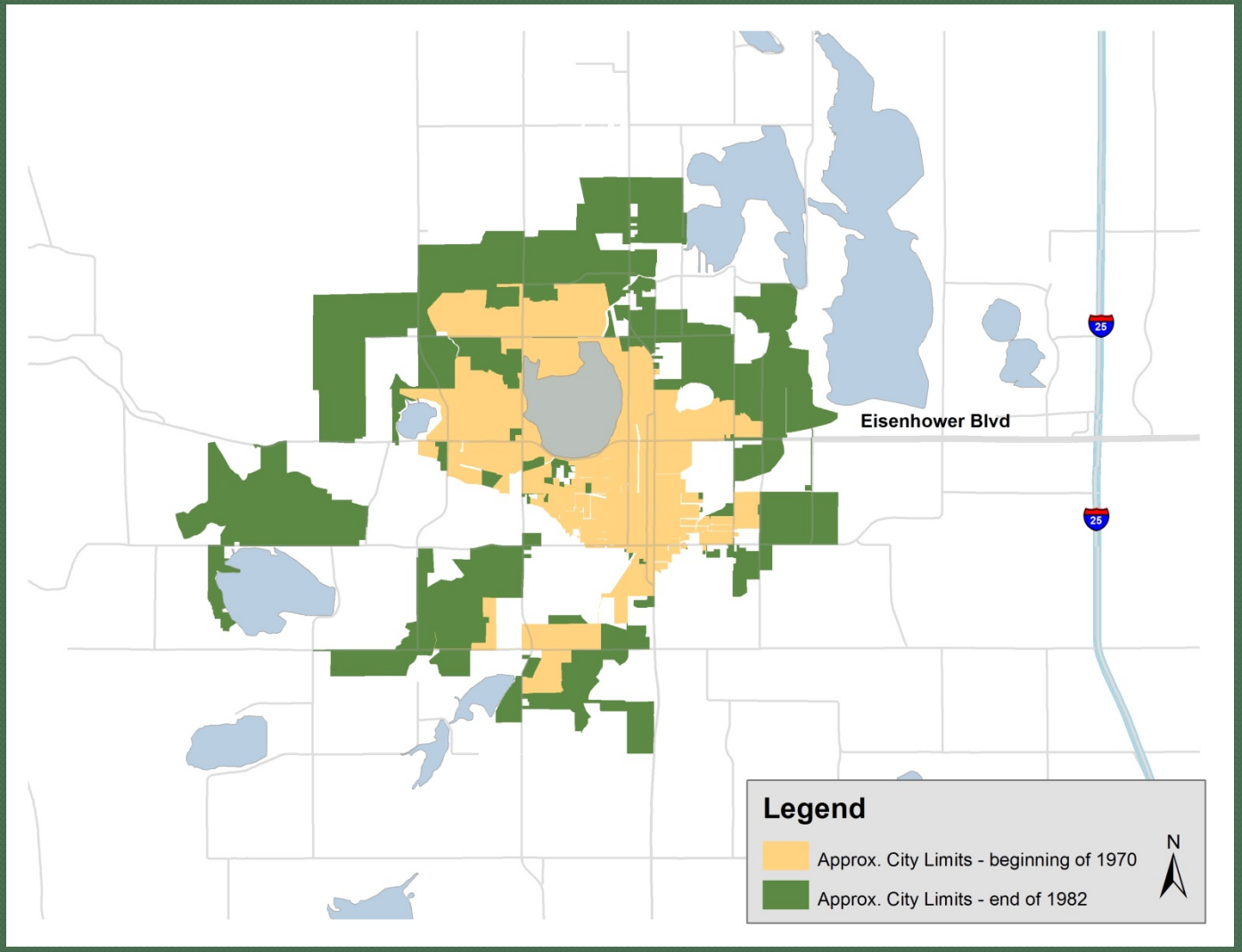
- 1970s: Rapid growth, nearly double in size
- 1980s: Slower, but still rapid growth
- 1990s Rapid growth
- 2000s Centerra opens in 2005
- 2007-2010 Great recession
- 2011 Recovery begins ???
- Outlook slooooow return to prior conditions

Demographics show reasons for hope in 2015 - 2016

City's Economic and Fiscal Base

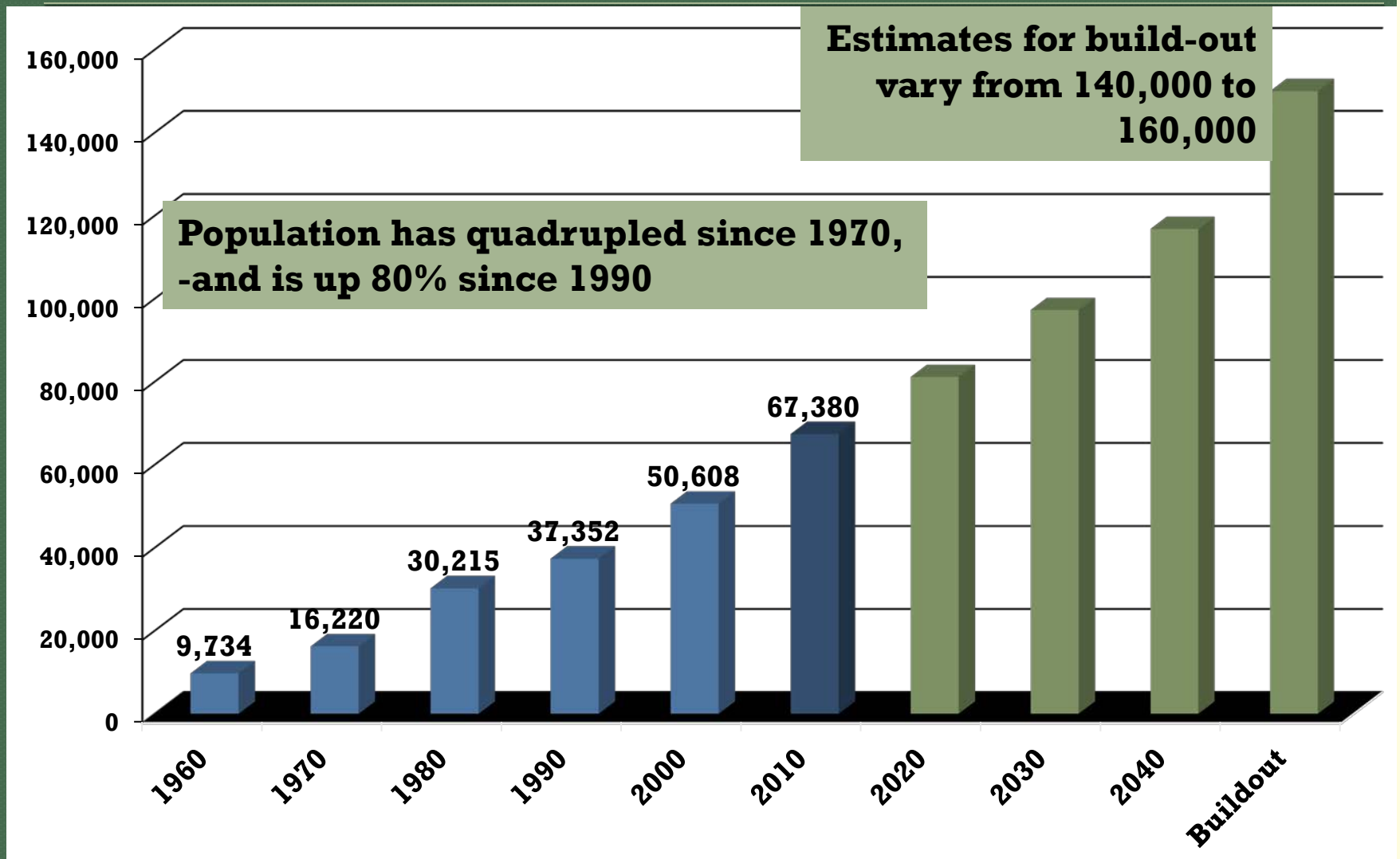
- While the City was growing rapidly in the 1960s and 1970s, retail locations were shifting away. Industry was growing strong.
- 1980s: Not enough revenue to keep up with growth, quality of life was declining; services stressed; voters turned down a tax increase
- 1990s: Some tax base expansion, but Loveland sales were still behind other locations
- 2000s: New retail added to the base
- 2005-2008 major expansion at Centerra helped to level the sales tax per capita
- The impacts of the recession have been felt across the region

City grew from less than 5 square miles in 1970 to over 10 by 1982



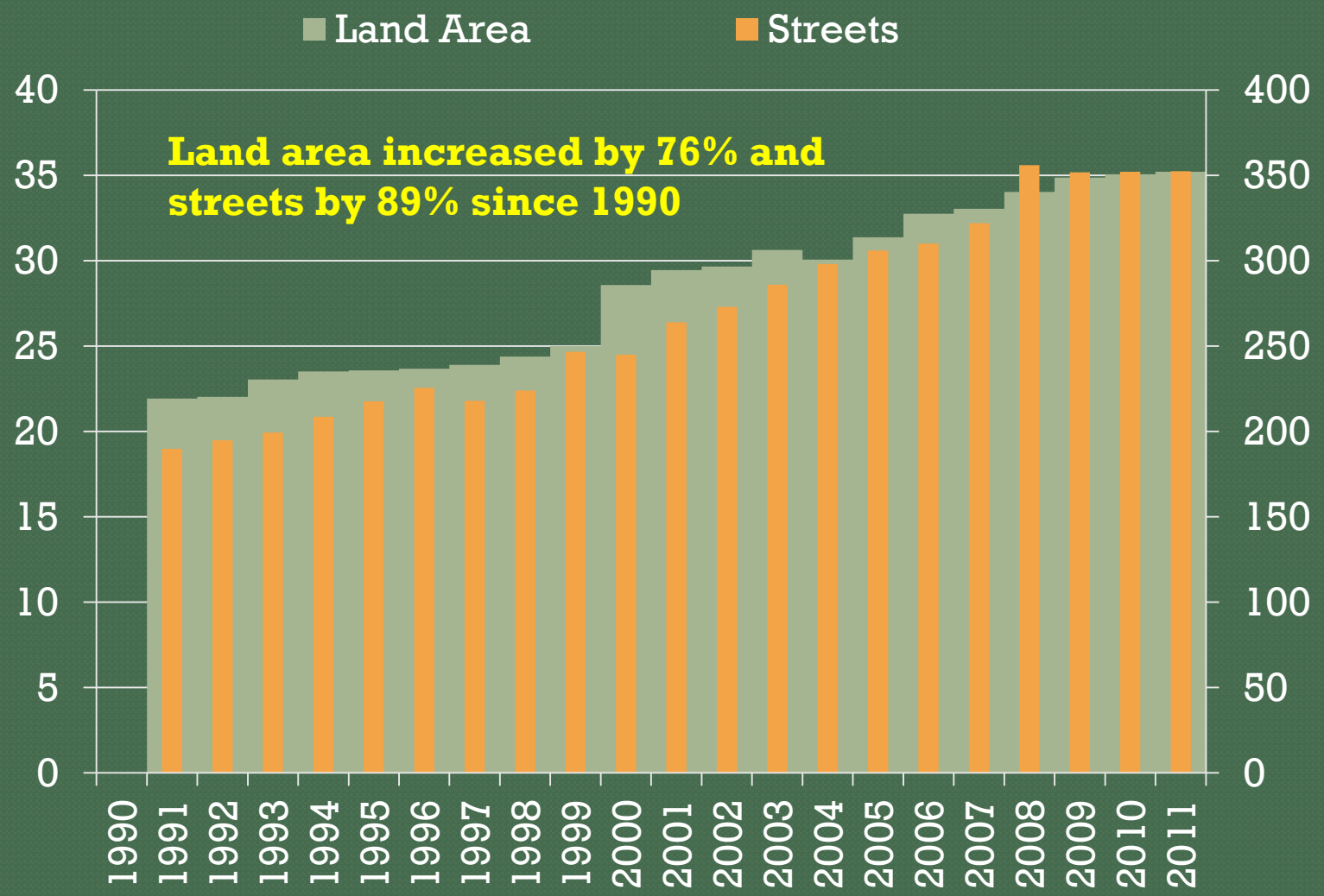
City of Loveland Population

1960 to 2010 and Projection to Build-out



City of Loveland

Street miles and area



How Loveland covered costs of Capital Expansion

- Pre-1984 — Capital paid through taxes
- 1984 fee Study — Fees implemented
- 1994 — Inflation adjustment set
  Recreation and Trails added
- 1997 / 1998 — Related equipment added
- 2001 — Open lands added
- 2007 — Update for land use changes and new capital
- 2009 update — Review and comparison
  Decrease in building costs, so fees reduced. Temporary waiver for multi-family
- 2010 — Inflation adjustment not made
- Here and now — 5-year update
- Are more adjustments necessary?

Council Direction to the Study the 1984 Service Cost Recovery System

- New development should pay its costs for general fund services as well as utility services.
- Service levels required for new development should not exceed nor be less than service levels already provided to the existing community.
- Funds collected from new development should benefit new development.
- Timing of fees should relate to the time of demands for service.
- The general fund and utility fund should be consistent in their program and ability to serve new development.
- Development toward a balanced community is supported as a long-term solution to fiscal problems through cooperation with the Chamber of Commerce for industrial and commercial development.

Service Cost Recovery System Study (the 1984 study) led to

A System of Capital Expansion Fees for

- Parks & Recreation
- Fire Protection
- Law Enforcement
- Library
- Museum
- General Government
- Streets

Report from the Sub-Committee of Economic Vitality Committee 1997

- The assignment to the Sub-Committee

  Evaluate "growth pays its own way" policies to ensure fair and adequate funding for growth-related impacts on infrastructure, social concerns and the environment.

City of Loveland

Conclusions and Recommendations

- The City of Loveland needs to charge service and system cost recovery fees.
- The City needs to determine the true costs of growth.
- Decisions about these fees should be fair to everyone.
- Fees should cover capital costs to maintain current levels of service including improvements necessary to accommodate growth. Betterment or on-going expenses such as salaries, and operations and maintenance should not be covered by these fees.

City of Loveland

- The formula for the service and system cost recovery fees should include the money that has already been collected to pay for future expansion as well as the replacement value of what we already have.
- If fees are waived, the money must be replaced from another source.
- Fees for each of the areas need to be (*kept separate and carefully accounted for.)* accounted for separately.

City of Loveland

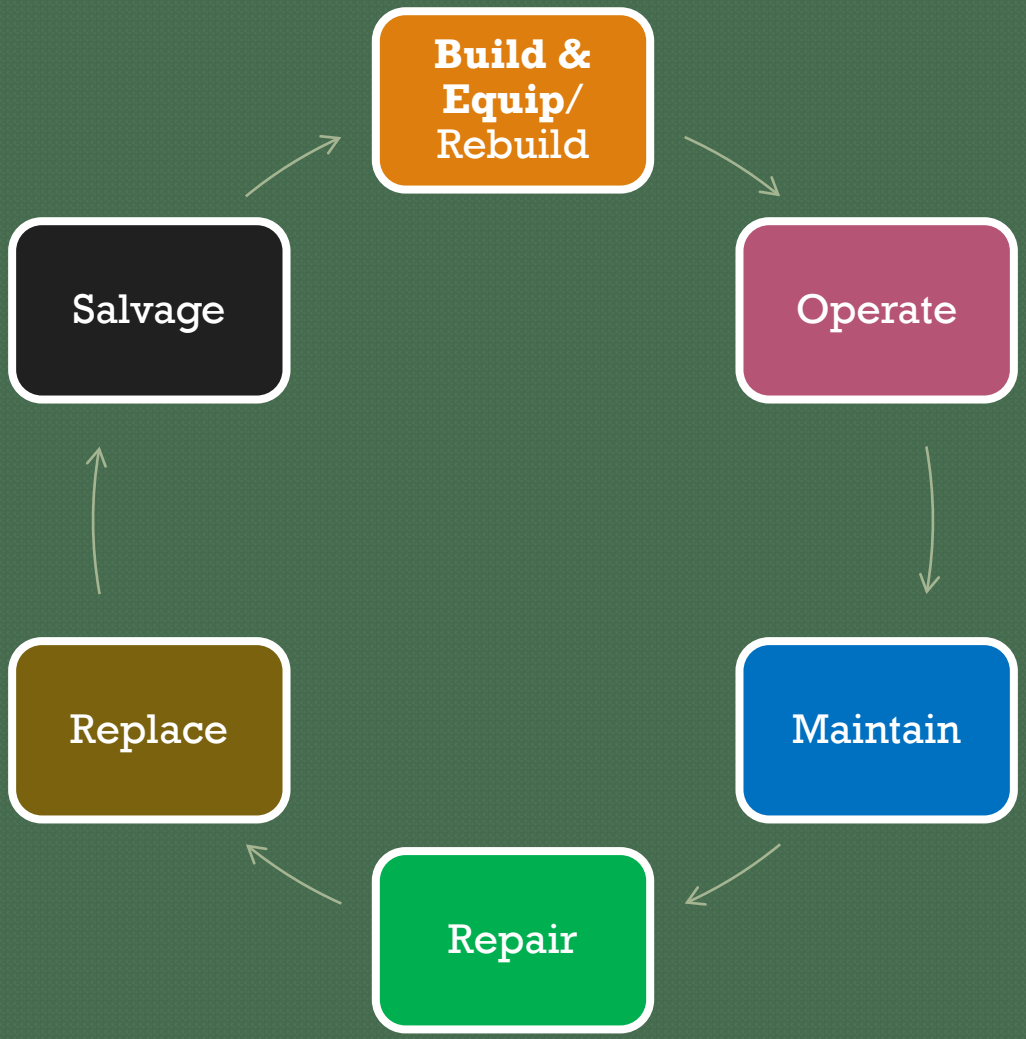
- Keep the fees up to date.
- Keep the fee structure simple.
- The "cost of growth funds" collected can be spent anywhere within the greater Loveland area.
- Prepare a handout for the general public: The City needs to put together information for the general public that clearly explains the purpose and logistics of the fees.

Examples of Projects built/being built/ to be built with Capital Expansion Fees

Fire & Rescue:	Fire Stations and equipment, New east station, new engine for North West coverage
Law Enforcement:	Police & Courts Building, Vehicles for new officers, future space and equip.
General Government:	Work order system, Library & Museum expansions, Service center III
Library:	Past expansion, current expansion
Museum:	Buy land for expansion, expansion
Parks:	Kroh, Sports, Fairgrounds, Mehaffey
Recreation:	1st Chilson expansion, Current Chilson Expansion Youth Sports Equipment, future rec center
Trails:	Recreation Trail, Boyd Lake area, N-287 Underpass, more trail and underpasses
Open Lands:	Agilent property, future areas in planning
Streets:	Traffic Signals @ Denver & 34,Street Widening@ 1st & Railroad, Roundabouts on Rocky Mountain Sidewalks on N. Duffield and N. Taft, Madison Ave. ITS Upgrade, State 402 & St. Louis, Boyd Lake Ave. Many future projects, Street rehab,

City of Loveland

Steps in the Capital Project Life Cycle



Where do CEFs fit in the life cycle cost system

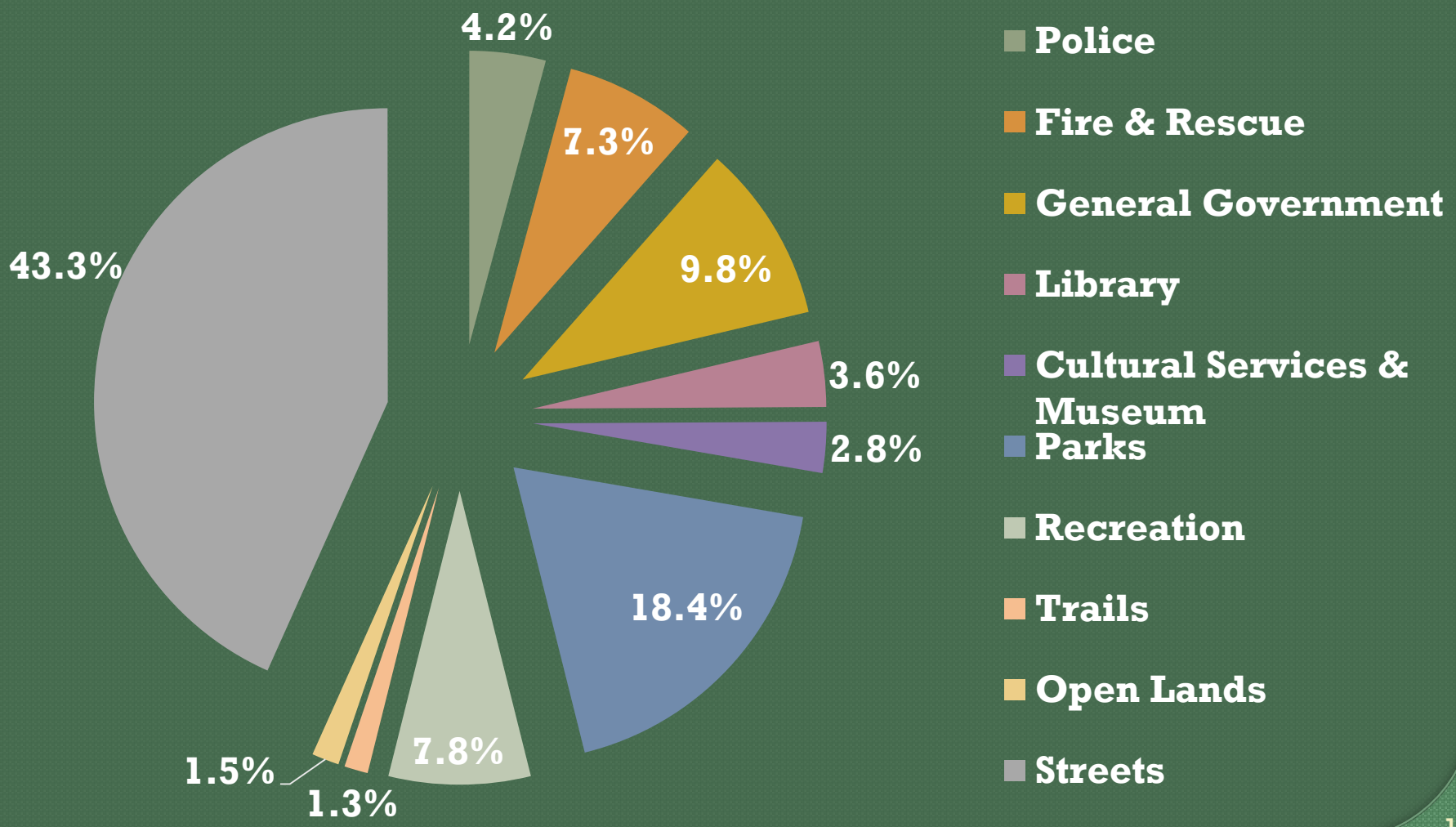
		Impact Fees	Taxes	User Fees
Build	Capital Costs	Yes	Yes	Yes
Operate	Operating Costs	No	Yes	Yes
Maintain				
Repair				
Replace				
Salvage				
Rebuild	Capital Costs	No	Yes	Yes

1980s solution: Objectives of the Fee System

- Growth must pay its proportionate share.
  - Fees will accurately reflect actual growth-related costs.
  - Once new development "buys in" to existing infrastructure, ongoing operating charges will be similar to existing development.
  - Only costs directly associated with the provision of city services will be reflected in development (CEF) fees
- System must be practical
- City has used and modified this system to 2010

Share of CEFs Collected

Since 1984 total = $111.4 million



Basic Methods

- Based on Trips and a Capital Improvement Plan
  - Used for Streets (2030 Plan-now being updated)
  - Land uses indicate trips

- "Buy-in" based on current service level and value of investment
  - Used for other nine fees
  - Have master plans and levels of service, but not to the same specificity as streets
  - As we get closer to build-out, plans will become more specific

City of Loveland

Steps in the CEF Update Process

- Determine Land Use Distribution
- Determine Value of Buildings, Equipment, and other capital
- Allocate by land use category
  - Most fees only apply to residential uses
  - Law, Fire, Streets, and General Government apply to Commercial and Industrial
- For Residential share, allocate by units
- For Commercial and Industrial, allocate by square feet
- Fees change over time based on land use changes

Equity Issues – Fairness and who pays for what

- More than half of the housing units in the City have been built under the CEF system. For 27+ years it has been the City's standard
- CEFs have added to quality of life and promoted growth. CEFs are funding support for the Capital Improvement Plan.
- Horizontal Equity / Vertical Equity
- Intergenerational Equity – Should the next generation of growth pay less than the prior generation?

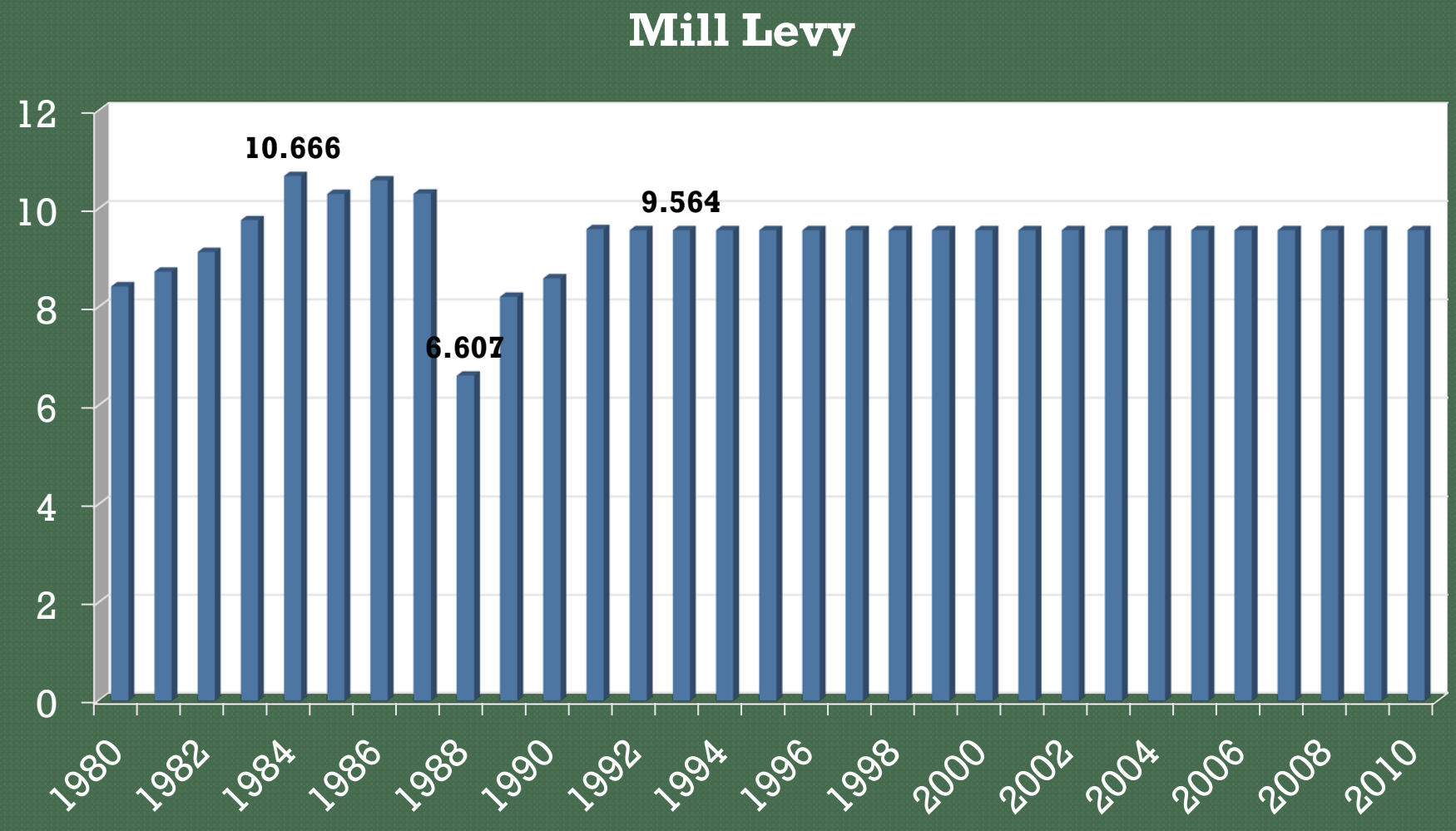
Municipal Code Provides for an Annual Inflation Adjustment

- 16.38.110.A. The capital expansion fees shall be adjusted annually, effective January 1 of each year. The adjustment shall be equal to the percentage change in the Construction Cost Index for the Denver area as set forth in the preceding year's September issue of the Engineering News-Record published by McGraw Hill Companies.

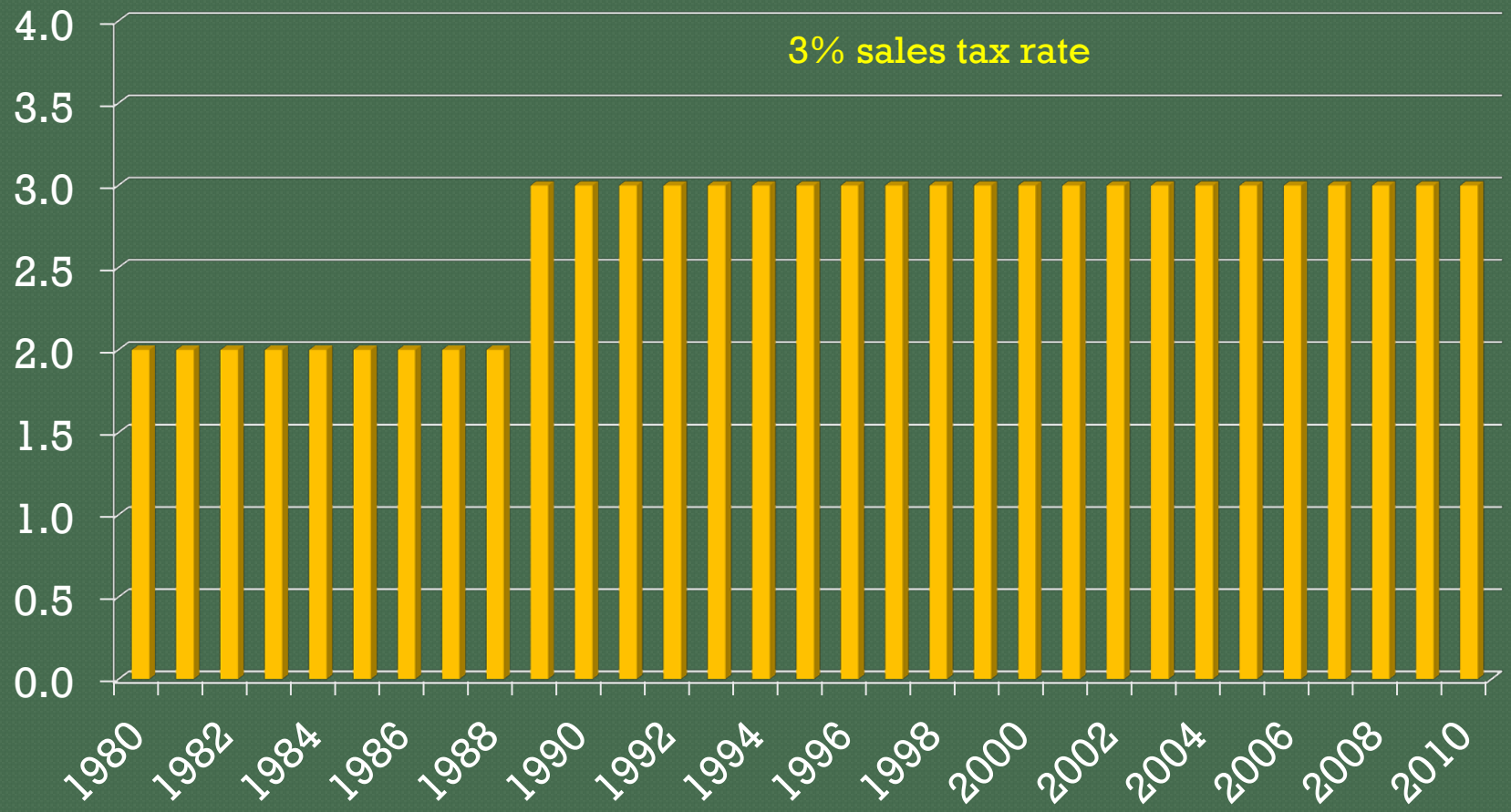
  This information shows an 8.62% in 2010, a 7.79% increase in 2011 following a 2.63% decrease for 2009. Because of the temporary delays in the fees, the inflation adjustment since 2008 has been 1.42%.

- The inflation factor for Streets is based on the most current preceding eight quarters' average annual percentage change in the construction costs as determined by the Colorado Department of Transportation Construction Cost Index.

City of Loveland Mill Levy on Property



City of Loveland Sales Tax Rate



City of Loveland

Other Cities

Fort Collins

Loveland Windsor Greeley

Longmont

Boulder Brighton

Broomfield

Westminster Thornton

Northglenn

Commerce City

What about taxes in other cities in the region

	Sales Tax Rate	Mill Levy
Fort Collins	3.85%*	9.797*
Greeley	3.46%	11.274*
Longmont	3.275%	13.420
Windsor	3.2%	12.030
Loveland	3.0%	9.564

- Fort Collins vote to increase sales and use tax by 0.85% in November, 2010.
- Fort Collins, Greeley, and Windsor also have an additional mill levy for their respective library districts.
- Loveland does not have a use tax on equipment

Quick Comparison of Total Mill Levies

- Johnstown 157.094 mills 104% higher
- Berthoud 94.619 mills 23% higher
- Windsor 131.489 mills 71% higher

- Loveland 76.662 mills

Cities a little further away just the sales tax

	Sales Tax Rate
Boulder	3.41%*
Brighton	3.75%
Broomfield	4.15% (includes county)
Northglenn	4.00%
Commerce City	3.50%
Thornton	3.75%
Westminster	3.85%

Study on Waiver of Fees

- The next four slides are from a study of fee reductions, fee waivers, and fee deferrals. The study was done by an accounting firm that works will impact fees. It was presented at the 2008 Impact Fee Roundtable annual conference.

City of Loveland

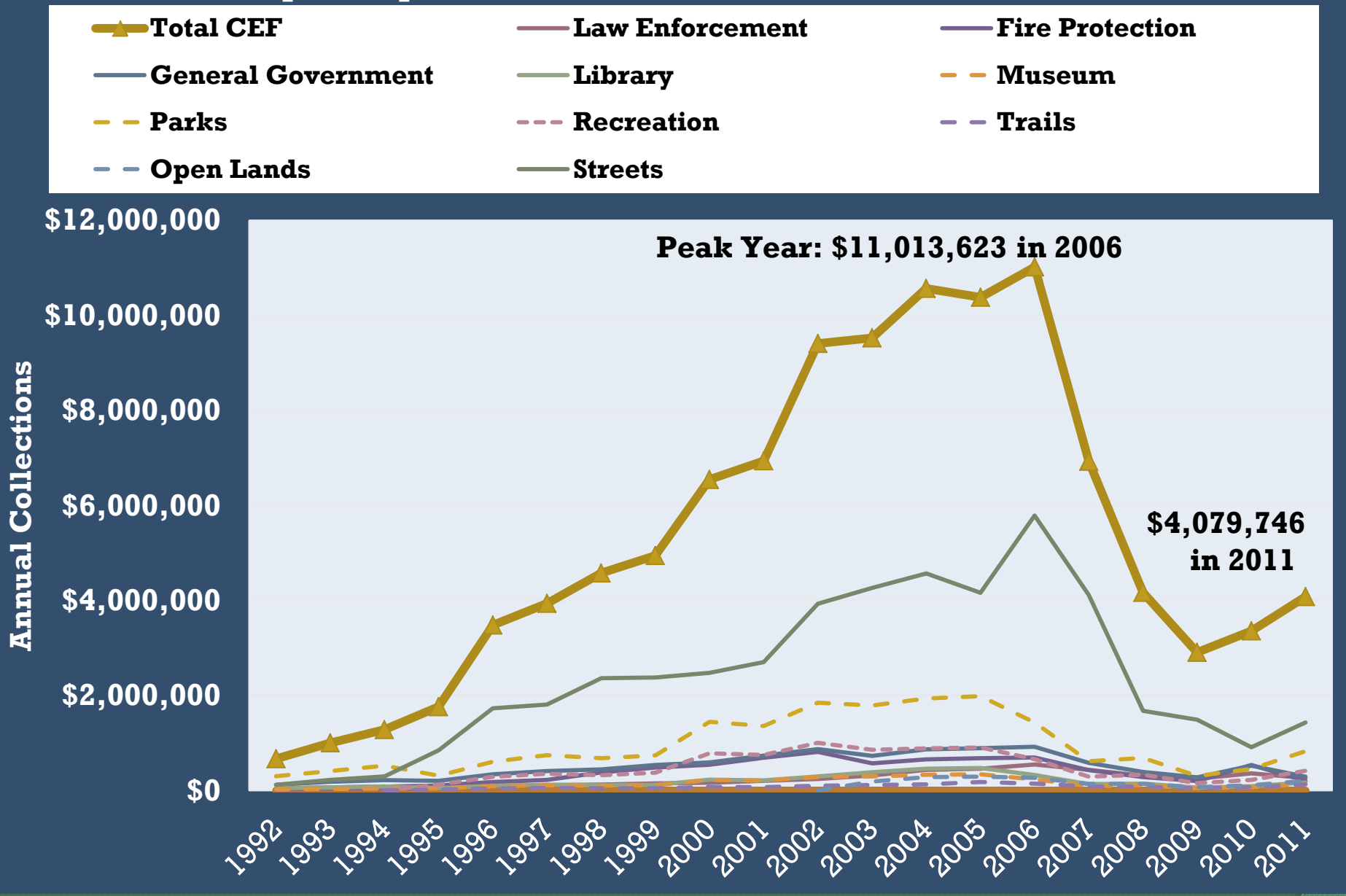
The Construction Industry

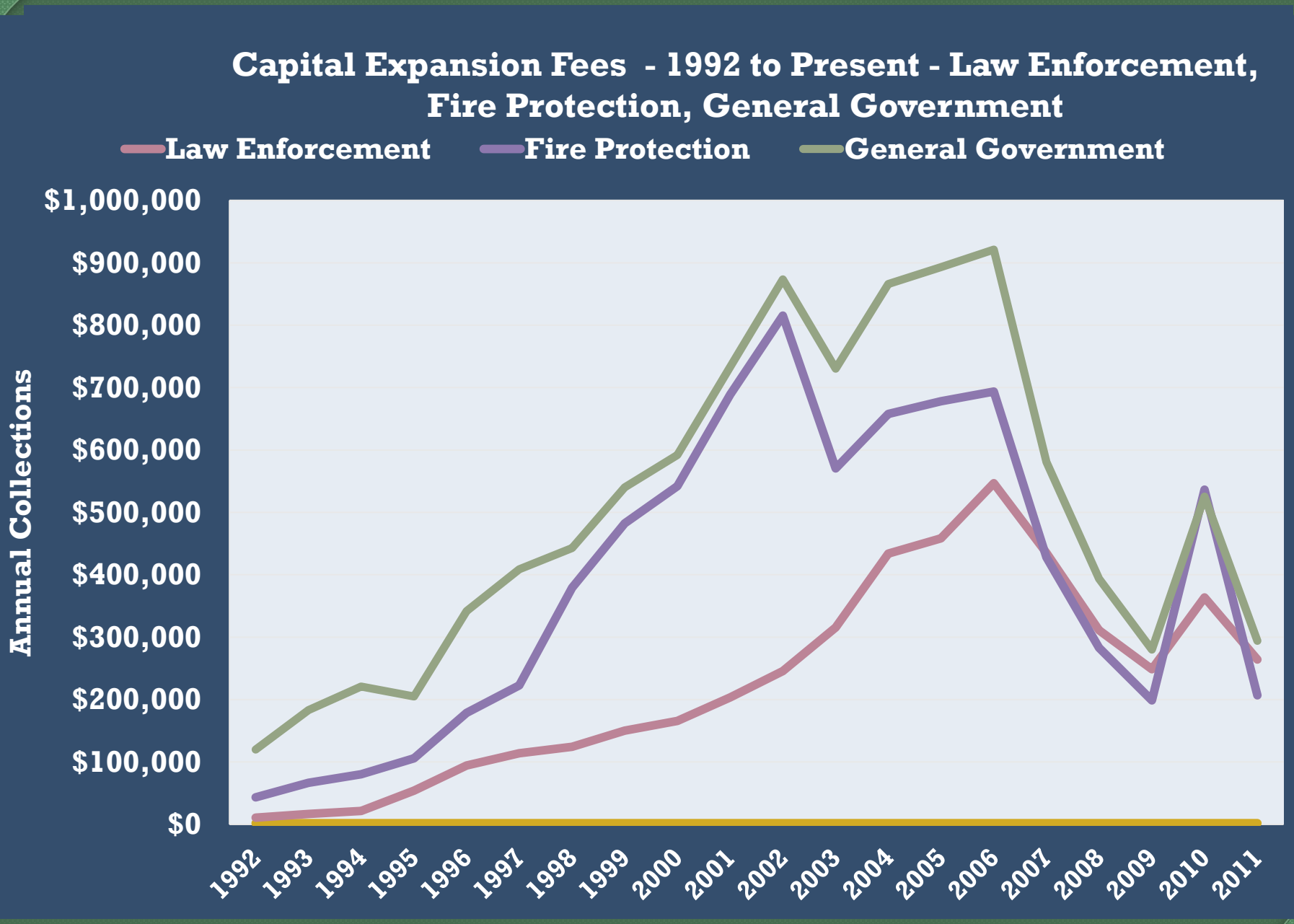
- Many causes to the recession, mostly too much stimulus of housing and financing
- Graphs of meter sets, building permits
  - All the same, development now far below average,
- The outlook for the immediate future
  - The recovery will likely take years
  - Financial stress on the immediate horizon
- The outlook for the next 20 years
  - Demographics should improve by 2015-16

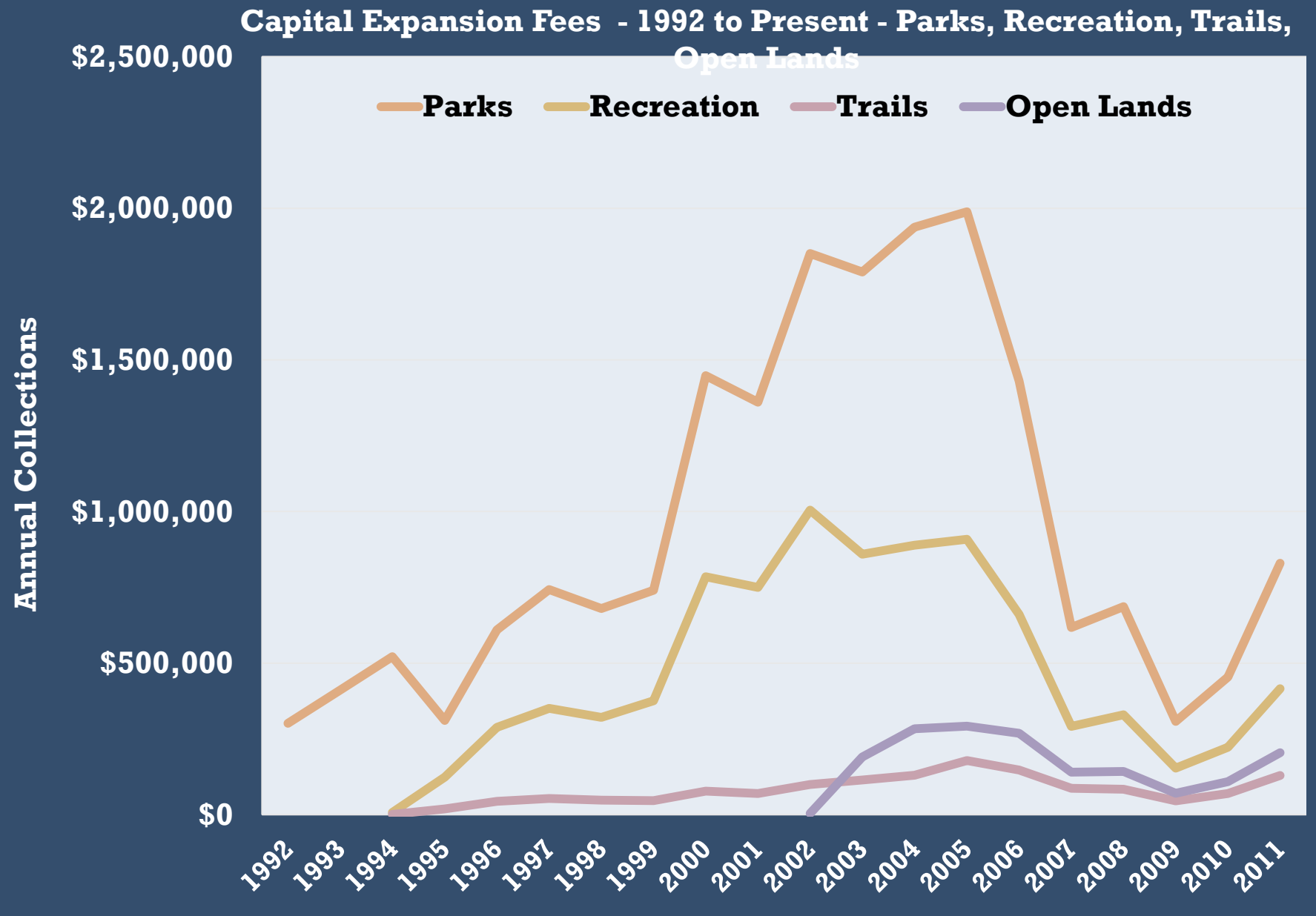
How much revenue

- Graph showing collections
  - Graphs showing how the fees have changed
- The adopted budget for 2012 includes the Capital Improvement Plan for 2012 to 2021 – it assumes future projects will be financed with CEFs

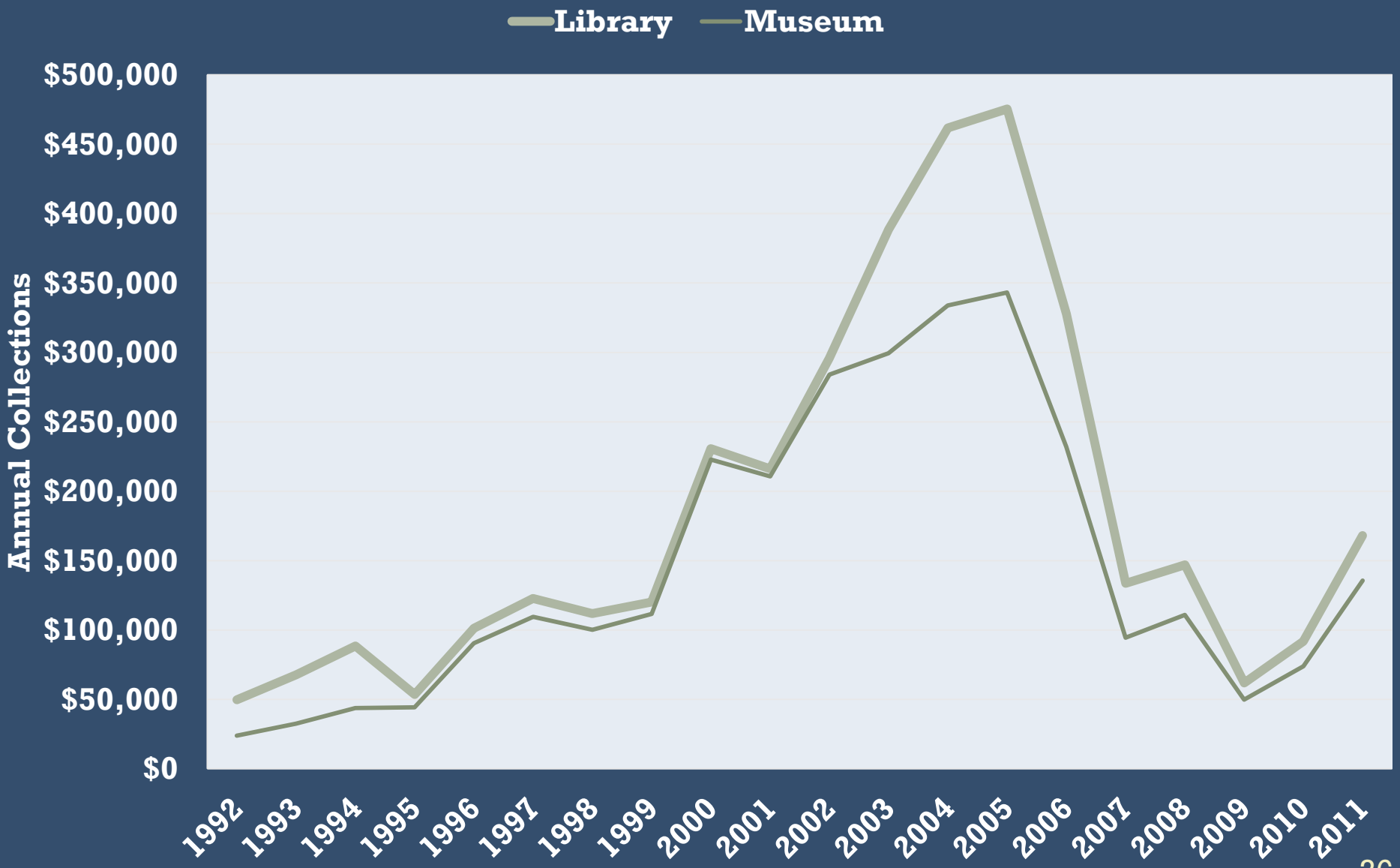
Capital Expansion Fees - 1992 to Present



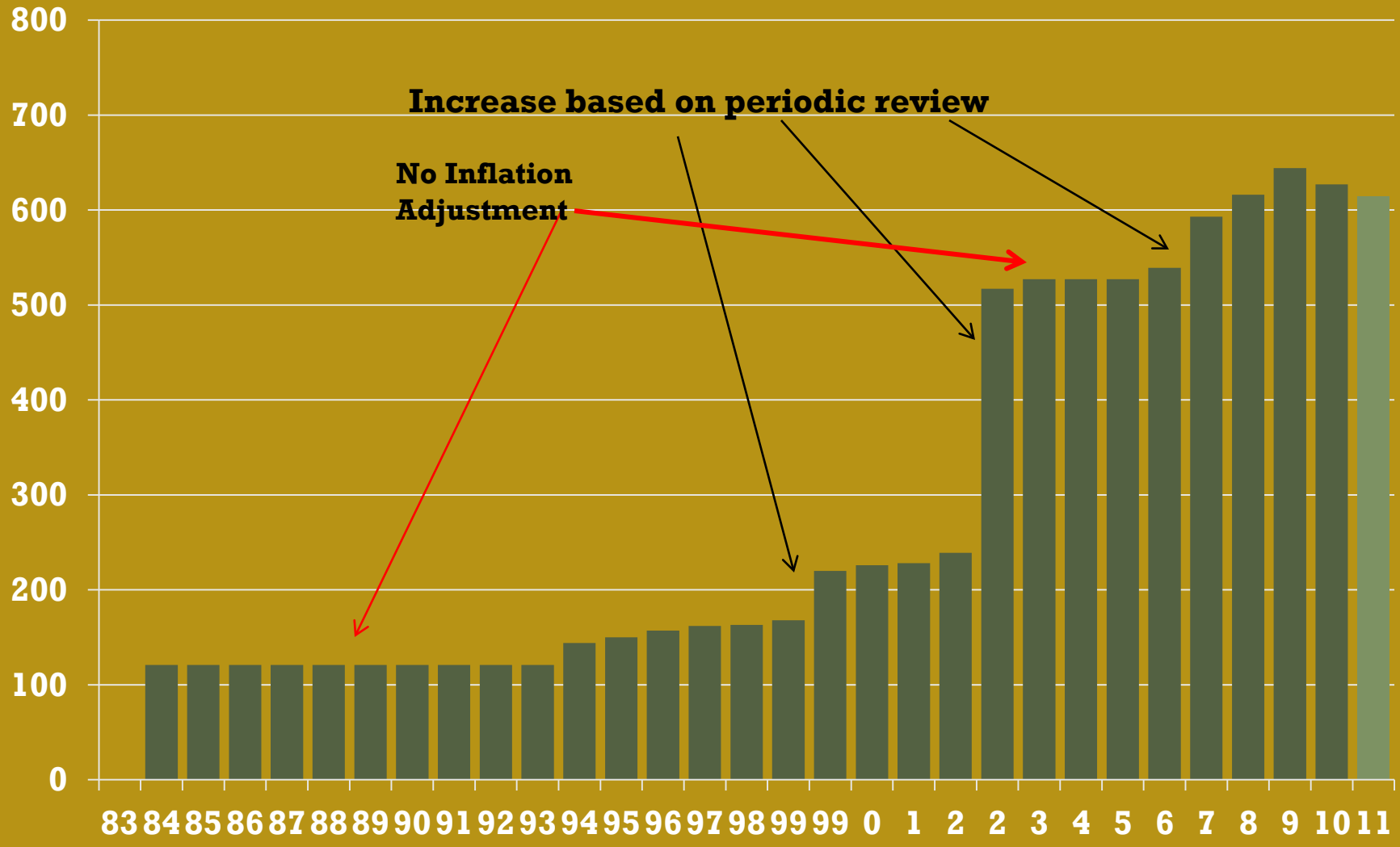

Capital Expansion Fees - 1992 to Present - Law Enforcement, Fire Protection, General Government
Law Enforcement
Fire Protection
General Government
Annual Collections
$1,000,000
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011


Capital Expansion Fees - 1992 to Present - Parks, Recreation, Trails, Open Lands
Parks
Recreation
Trails
Open Lands
Annual Collections
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011

Capital Expansion Fee Collections - 1992 to Present
Library and Museum



Library: Changes in Fee Level since 1984
2011 level based on inflationary adjustment



Summary of Findings (staff) in the fall of 2010

- The City's final build-out has moved further out into the future as growth rates have slowed dramatically.
  - About half-way to estimated build-out.
  - Too soon to begin the transition to maintenance only.
- Fees or replacement revenue sources are needed to keep this community a high quality place to live. Unless other sources of funding are identified, stay the course on fees.

Need to find the right balance

FEE ADEQUACY

- CEFs are an important part of Loveland's capital improvements and future plans. They have helped address how to keep up with growth demands.
- Should the fees continue on the course they are on?

COMPETITIVE CONSIDERATIONS

- Are the fees appropriate given what surrounding communities charge? If not, to what degree should they be revised?
- Should Loveland's fees be based on levels of service in other communities?

City of Loveland

Looking Ahead

- The CEFs are performing as originally designed and updated over the years.
- As required by the Code, the 5-year update will be completed. Results of the update will be presented and reviewed with stakeholders.
- Recommendations will be brought to Council in the July/August timeframe.

Questions and Discussion