CITY OF LOVELAND
FINANCE DEPARTMENT
Civic Center • 500 East Third • Loveland, Colorado 80537
(970) 962-2695 • FAX (970) 962-2900 • TDD (970) 962-2620

AGENDA ITEM:	**1**
MEETING DATE:	5/8/2012
TO:	City Council
FROM:	Bonnie Steele, Finance Department
PRESENTER:	Bonnie Steele, Acting Finance Director John Hartman, Budget Officer

TITLE:
Budget Background for 2013 Budget Assumptions

RECOMMENDED CITY COUNCIL ACTION:
This is an informational item only

DESCRIPTION:
The study session will provide background information to provide context for the 2013 Budget and discuss basic assumptions that will be used to develop the budget.

BUDGET IMPACT:
☐ Positive
☐ Negative
☒ Neutral or negligible
Information only to begin the 2013 Budget development process

SUMMARY:
Staff will provide historical information over the last five years on actual revenue and expenditures, staffing, and major capital programs over that time frame, to provide context for the assumptions that will be used to develop the 2013 budget.

Following the history will be a review of the Ten Year Financial Plan followed by the building blocks that are recommended to be used to begin the development of the 2013 budget.

REVIEWED BY CITY MANAGER: William D Cahill

LIST OF ATTACHMENTS:
1. Staff Report
2. Presentation Slides

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TO: City Council

THROUGH: Bill Cahill, City Manager

FROM: Bonnie Steele, Acting Finance Director
John Hartman, Budget Officer

DATE: May 8, 2012

RE: Staff Report on Budget Background for 2013 Budget Assumptions

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This is an informational item as the City moves into the 2013 Budget season. Through this report, Council and the public will have an understanding of the trends of the past five years which includes a detailed description of the major categories of the City's financials. This report outlines the actual revenues, expenditures, fund balances and staffing for Governmental and Enterprise funds. Looking forward into 2013, the Council and the public will receive budget assumptions starting with revenues and expenses in the Financial Master Plan and ending with the 2013 budget guidance.

TRENDS OF THE PAST 5 YEARS

Overview

The City had a peak year in 2007 as there was a constant trend in growth with buildings and new businesses as well as increased sales and use tax revenues; the City was showing a great prospective future. This growth continued through the majority of 2008 until revenues declined during the last quarter. Sales Tax revenue decreased and Building Use Tax revenue dropped significantly. As the economy was weakening, the City took action by reducing operating expenses to match the declining revenues. Capital project expenses rose as the City took advantage of the lower construction rates at that time, and drew upon reserves that had been developed for the purposes of capital projects. The City workforce was reduced in response to the decline in revenues.

2010 was a challenging year due to the lagging effects of the downturn. There were several positions eliminated, salary freezes, reduction on street maintenance capital improvements, as well as several other reductions. In 2011 and looking forward for 2012, revenues are recovering and thus far are steady.

2007

2007 is generally regarded as the "peak year" for City revenues. The City experienced an increase in Sales and Use Tax revenues by 11.82% from the previous year when the retail tax base expanded with the opening of the Wal-Mart Super Center and Kohls. Additionally, the Marketplace at Centerra completed its first full year of business in 2007 which contributed to a large portion of the rise in sales tax revenues. There was a

significant slowdown in residential development while commercial/industrial development was favorable.
During 2007, there were several major projects that were either completed or started, including:

- Construction of Fairgrounds Park
- $6.9 million in street construction projects and street rehab
- Water Treatment Plant Improvements
- Wastewater Treatment Plant Improvements

2008

During the last quarter of 2008, major indicators, such as sales and use tax and the number of building permits issued, were demonstrating that the economy was beginning to turn down. Sales tax returns during the last quarter of 2008 were a clear indicator of the lack of consumer confidence as the nation was entering into a recession. During 2008, General Fund revenues increased by 1% in comparison to 2007.

For the majority of 2008, however, there were several major projects completed or in progress:

- 48 acre regional park (Fairgrounds Park) opened in September 2008
- $7.9 million in street construction projects and street rehab completed
- $1.3 million in City economic incentives issued
- $6.6 million Wastewater Treatment Plant Improvements nearing completion by the end of 2008
- Two new bus routes added
- Single Stream recycling pilot program was completed

2009

Sales tax revenue declined to 2007 levels and construction (particularly residential) was nearly non-existent. In addition to the economy, mild spring and summer weather for 2009 with unusual long periods of snowfall staying on the ground, resulted in decreased revenues for the water and golf funds. Decreased revenues for golf have continued through 2011.

The City reduced expenditures to align with the declining revenues through several measures such as:

- reduction in employee merit-based salary increases,
- supplemental requests were frozen,
- most equipment replacement was frozen,
- vacant positions were only authorized for hire if mission critical.

The City did have some major initiatives in 2009:

- Investment in the community with the 61% discount on fees for multi-family housing and owner-occupied residential improvement fee waivers; and
- With the American Recovery and Reinvestment Act (federal stimulus money), the City was awarded $8.3 million primarily related to transportation (Crossroads Boulevard and I-25 interchange, US 34 and Wilson Avenue intersection improvements).

2010

With the past two years of the recession, there were several budget strategies put into place to reduce expenditures during 2010. Along with the decrease of 4.2% in full-time benefited employees, the following strategies were implemented in 2010 to reduce the General Fund budget by 8%:

- Employee raises (except Police Officer Step and Grade raises) were excluded resulting in a $1.2 million savings;
- Four furlough days for most employees for a $297,000 savings;
- $1.4 million deferred replacement of vehicle and equipment replacements;
- $3.0 million elimination of operations and maintenance costs, including 34 positions; and
- $600,000 reduction in street maintenance capital improvements.

2010 saw some improvement with sales and use tax, and there were other encouraging indicators of improvement with the local economy. Sales tax revenue moved into a positive direction with a 3.6% increase when compared to 2009. There were two apartment complexes that pulled building permits in 2010. These permits received the 61% Capital Expansion Fee credit as approved by Council in 2009. Along with the 61% credit, the fee waivers for owner-occupied home improvements were also ongoing, resulting in an increase of building permit transactions by 28%.

Both 2009 and 2010 were the “MMD” years with up to 21 medical marijuana dispensaries in operation. A 2009 local election resulted in the voters denying continuance of the operation and dispensaries closed in March of 2011. Just over $83,000 was generated in 2010 from these dispensaries. Also approved by vote in 2009 was the 3% lodging tax that began in January 2010.

Lastly, there were several major initiatives that were either completed or on-going in 2010, such as:

- Federal Stimulus Projects: Crossroads Boulevard and I-25 interchange, US 34 and Wilson Intersections, Larimer County Road 17 rehabilitation, traffic operations center software, two transit buses and fixed route electronic fare boxes;
- US 34 and Madison Continuous-Flow Intersection improvement project was completed; and

- Chilson Recreation Center expansion, a $7 million project, began.

2011

With the continuation of the economic downturn, in June 2011 Council approved the Financial Sustainability Plan to insure operating revenues continue to meet or exceed operating expenses for the foreseeable future. Sales and use tax performance were above the 2007 levels in nominal amounts by 6%, but when adjusted with inflation, the sales tax performance is still lagging behind 2007 levels. Building incentives for the 61% CEF and owner-occupied fee waivers were not in place in 2011 but activity did slightly increase.

Several major projects were underway in 2011:

- The expansion of the Chilson Recreation Center was completed;
- Library expansion, which included a $400,000 energy efficiency grant and $2 million from private fund raisers;
- Rialto Theater Center, a public/private partnership for the renovation of the Rialto and attached building into one building downtown; and
- Agilent facility was purchased and resold to a developer for the project known as the Rocky Mountain Center for Innovation and Technology.

5-Year Trends in the Numbers

City-Wide Operating Revenues

Year	Governmental Funds	Enterprise Funds	Total	% of Change
2007	80,751,300	66,442,000	147,193,300	n/a
2008	82,394,649	68,373,381	150,768,030	2.4%
2009	81,111,107	67,609,045	148,720,152	-1.4%
2010	86,822,235	71,832,213	158,654,448	6.3%
2011	91,295,554	80,688,052	171,983,606	7.8%
			% 2011 compared to 2007	14.4%

City-Wide Operating Expenditures

Year	Governmental Funds	Enterprise Funds	Total	% of Change
2007	77,451,200	59,666,700	137,117,900	n/a
2008	84,835,301	62,231,693	147,066,994	6.8%
2009	83,413,438	68,413,687	151,827,125	3.1%
2010	94,358,019	71,597,955	165,955,974	8.5%
2011	94,624,739	73,938,286	168,563,025	1.5%
			% 2011 compared to 2007	**18.7%**

City-Wide Operating Revenues & Expenditures

Year	Revenues	Expenditures
2007	147,193,300	137,117,900
2008	150,768,030	147,066,994
2009	148,720,152	151,827,125
2010	158,654,448	165,955,974
2011	171,983,606	168,563,025
	14%	**19%**

% 2011 compared to 2007

Sales Tax Revenue

Year	Total	% of Change
2007	29,657,357	n/a
2008	30,542,421	2.98%
2009	29,113,370	-4.68%
2010	30,201,133	3.74%
2011	32,129,139	6.38%
% 2011 compared to 2007		**8.3%**

Building Use Tax Revenue

Year	Total	% of Change
2007	3,500,159	n/a
2008	1,263,892	-63.9%
2009	1,096,346	-13.3%
2010	1,644,305	50.0%
2011	967,086	-41.2%
% 2011 compared to 2007		**-72.4%**

City's Net Assets

Year	Governmental Funds	Enterprise Funds	Total	% of Change	Cash & Investments	Capital Assets
2007	361,111,300	397,383,500	758,494,800	n/a	162,694,500	586,675,200
2008	373,560,991	412,250,265	785,811,256	3.6%	160,880,439	613,071,691
2009	384,000,503	436,683,250	820,683,753	4.4%	163,509,244	640,687,073
2010	392,867,044	442,675,805	835,542,849	1.8%	142,974,390	655,115,267
2011	405,153,449	452,624,078	857,777,527	2.7%	151,716,613	669,804,380
			% 2011 compared to 2007	**13.1%**	**-6.7%**	**14.2%**

Total Assets - Enterprise Funds

Year	Total	% of Change	Cash & Investments	Capital Assets
2007	397,383,500	n/a	55,952,200	322,337,400
2008	412,250,265	3.7%	54,261,767	336,520,080
2009	436,683,250	5.9%	54,796,112	358,552,505
2010	442,675,805	1.4%	36,642,371	358,869,413
2011	452,624,078	2.2%	41,202,185	366,826,282
	% 2011 compared to 2007	**13.9%**	**-26.4%**	**13.8%**

Fund Balance Total - Governmental Funds*

Year	Total	% of Change
2007	90,467,743	n/a
2008	93,216,460	3.0%
2009	93,435,931	0.2%
2010	87,645,258	-6.2%
2011	90,557,955	3.3%
	% 2011 compared to 2007	0.10%

** Includes General Fund, CEF, LURA, Capital Projects, & Other*

General Fund Balance

Year	Total	% of Change
2007*	20,009,172	n/a
2008	22,834,211	14.1%
2009	23,024,922	0.8%
2010	23,882,840	3.7%
2011	26,762,912	12.1%
	% 2011 compared to 2007	33.8%

**2007 includes prior-period adjustments.*

City-Wide FTEs (Benefited Employees)

Year	Total	% of Change
2007	716	n/a
2008	713	-0.4%
2009	718	0.7%
2010	689	-4.0%
2011	689	0.0%
	% 2011 compared to 2007	-3.8%

General Fund FTEs (Benefited Employees)

Year	Total	% of Change
2007	485	n/a
2008	488	0.6%
2009	487	-0.2%
2010	470	-3.5%
2011	472	0.4%
	% 2011 compared to 2007	-2.7%

BUDGET ASSUMPTIONS GOING FORWARD

Overview

As we move into the 2013 budget cycle, staff will discuss with Council the basic assumptions, or building blocks, we are recommending to begin the process with. We will begin with a look at the assumptions in the Financial Master Plan, covering the next ten-year period and then move into the specific assumptions for the 2013 budget. Assumptions for both the financial plan and 2013 will be refined as additional data on the economy and policy direction is received.

The Financial Master Plan provides a forecast of the financial condition for the City's General Fund over the next ten years. The biggest general assumption contained within this forecast is that it is a status quo plan. Revenue/tax policy remains the same, and no major new retail establishments are included, nor significant commercial/industrial growth that would increase the property tax base.

On the expense side, there are no new services and no additional staffing to match population growth or service miles. Nor are any specific service reductions included. Additions are made for the operating impacts for new capital facilities. In essence, the 10-Year Plan projects the future on the basis of unchanged policies.

Financial Master Plan

Revenue Assumptions

- Property Tax : 2014 is the next re-assessment year. As a result we do not anticipate any significant change in the tax rolls. For 2013 we are projecting property tax collections to be flat compared to 2012, growing 4% with the reassessment in 2014, then increasing to the historic average growth rate of 5.8% in the re-assessment of 2016 and remaining at the rate through the remainder of the plan.

- Sales Tax is projected to grow 4% in 2013 and 5% through the remainder of the Plan. This is slightly lower than historic growth rates. However, the Plan does not include an assumption for growth in retail business during the time frame. Nearly all the current retail establishments are reaching the mature stage that brings a flattening growth pattern related closer to inflation and increases in population. There continue to be indicators that the national economy is fragile and while impacts on local economy typically lag changes in the national economy, a downturn will be felt leading to the conservative projection.

- Auto Use Tax is flat at $2 million throughout the Plan. Historically, this has been a very stable revenue source averaging $2 million in collection annually. Actual collections have only varied by $200,000-$300,000 on either side of $2 million since 2000.

- Building Use Tax – There are indications that the building sector has reached the bottom of the activity curve and is now slowing beginning to grow. Actual collections in 2011 were still at levels not seen since the early 1990's. Building permit collections have been slowly increasing since 2009. As a result we are forecasting 2% growth over 2012 in 2013, increasing to 4% growth by 2016 and to stay at 4% for the remainder of the plan.

Expense Assumptions

- Base or "Core" budget expenses increase by 3.5% annually. The increase is to account for merit compensation increases, potential health insurance increases and inflation in major expense items such as fuel.

- Projected operating costs for capital projects in the current Capital Program are included in the year the project comes on line.

- There are no increases included for additional staffing relating to population or service area growth.

- Fire Authority - The 10-Year Plan includes the operating impacts of expanding Fire Station 6 and building the new Fire Station 2, which are part of the "Model One" basic services plan. The Authority has plans for service expansion that include additional staffing to meet the goal of three staff on an engine. Including these in total will change the Plan.

There is no assumption that program expansion or new programs will be implemented during the planning time-frame.

Reserves

All reserve policies and mandates are met throughout the Plan. Regarding the TABOR Revenue Reserve, the language of the ballot amendments provides for a broad scope of services the City is allowed to keep and spend the revenues over the TABOR revenue limit. Previous Council direction has been to use this reserve for the General Fund component in funding the 2030 Transportation Plan. That direction is continues to be incorporated in this edition of the Plan. Policy choices could change the use of this reserve and the Plan would be adjusted accordingly.

Financial Sustainability

With the current assumptions in the Plan, revenue available for operations and capital costs associated with the General Fund exceed expenses in all but one year. In 2016 there is a minor deficit of $720,000 that can be managed through on-going adjustments to the Plan through time. The key assumption in this forecast for the near term is the Financial Sustainability Strategy will continue to be implemented. However, the margin is relatively small for 2013-2015, indicating there is little room for increased staffing due to workload or service expansion. A positive "surplus" begins to appear in 2017 and grows significantly through 2022.

Policy choices on service delivery and expansions in staffing will impact this scenario, and may result in revenue deficits in the near term.

2013 Budget Guidance

Major Revenue Assumptions

- Property Tax collections will be flat compared to 2012 collections at $7.4 million.
- Sales Tax collections will grow 4% over the 2012 forecast to about $34.1 million.
- Building Use Tax collections will increase 2% from 2012 to just over $1 million.
- Rate increases in all utilities are being evaluated to meet costs of services, capital program needs, and in the case of the Power Enterprise, potential wholesale rate increases from the Platte River Power Authority.

Expense Assumptions

- The merit pool will be set at 3.5% of current salaries, consistent with the assumptions in the Financial Plan.
- No change in City contributions to health premiums is anticipated.
- No inflation will be added to the core operating budgets. Specific items with a major impact, such as fuel costs, will be addressed on a case-by-case basis.
- The Departments will be given General Fund subsidy targets. The submitted budget expenses must be within the target or identify new revenue for amounts over the target.

Budget Background For 2013 Budget Assumptions

City of Loveland

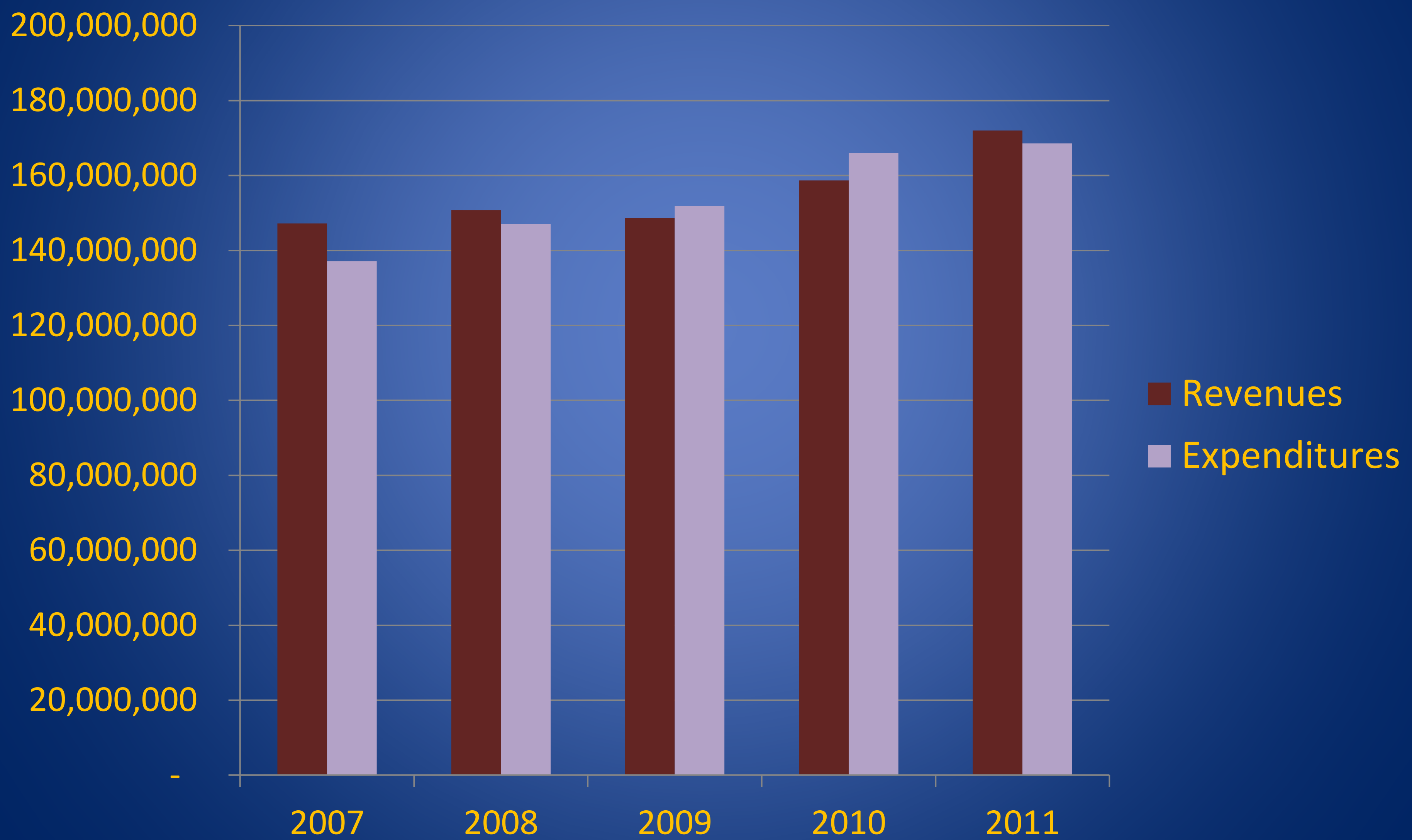
City Council Study Session
May 8, 2012

Presented by:
Bonnie Steele, Acting Finance Director
John Hartman, Budget Officer

City Wide Revenues

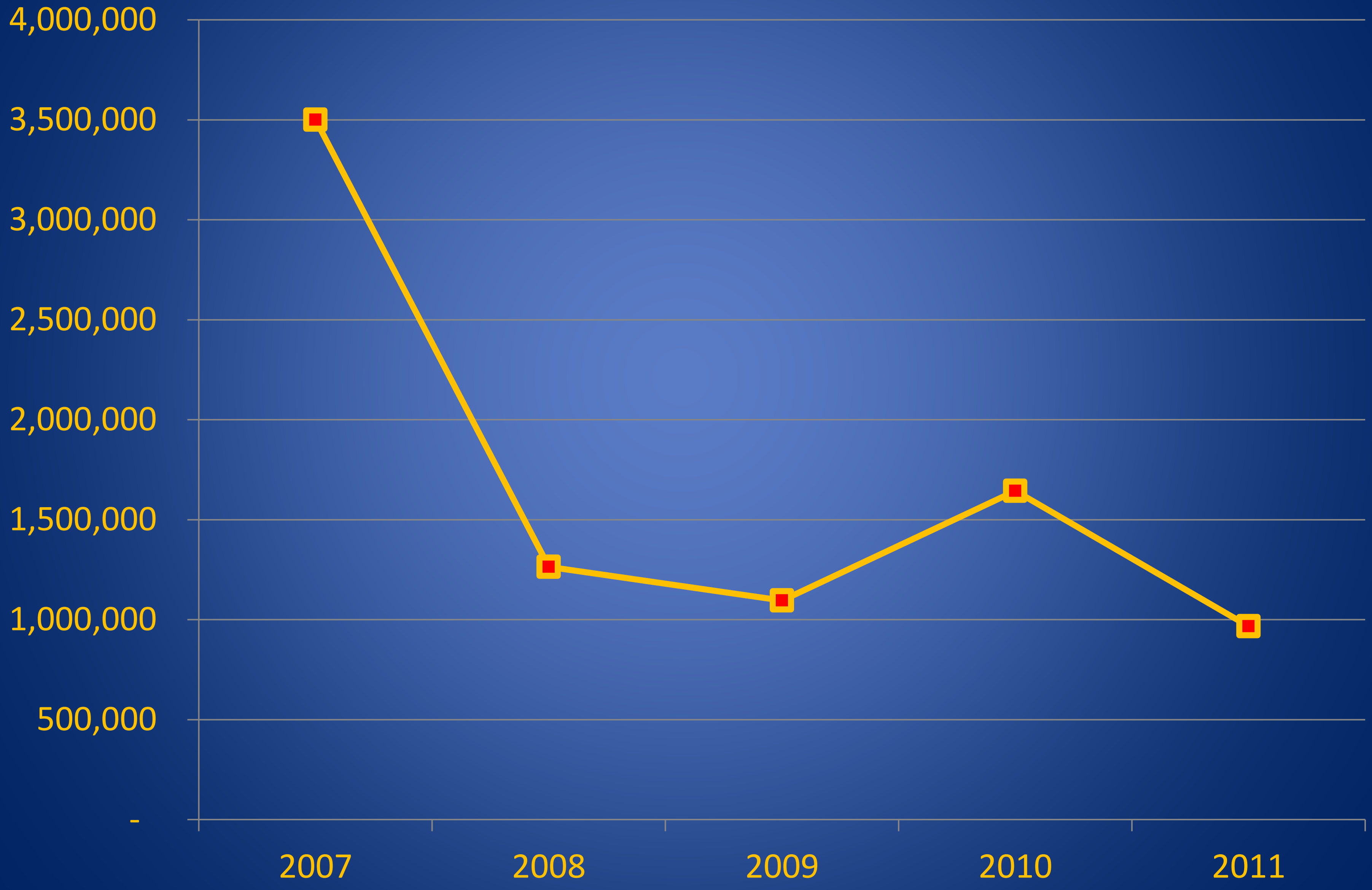
City Wide Expenditures

Operating Revenues & Expenditures

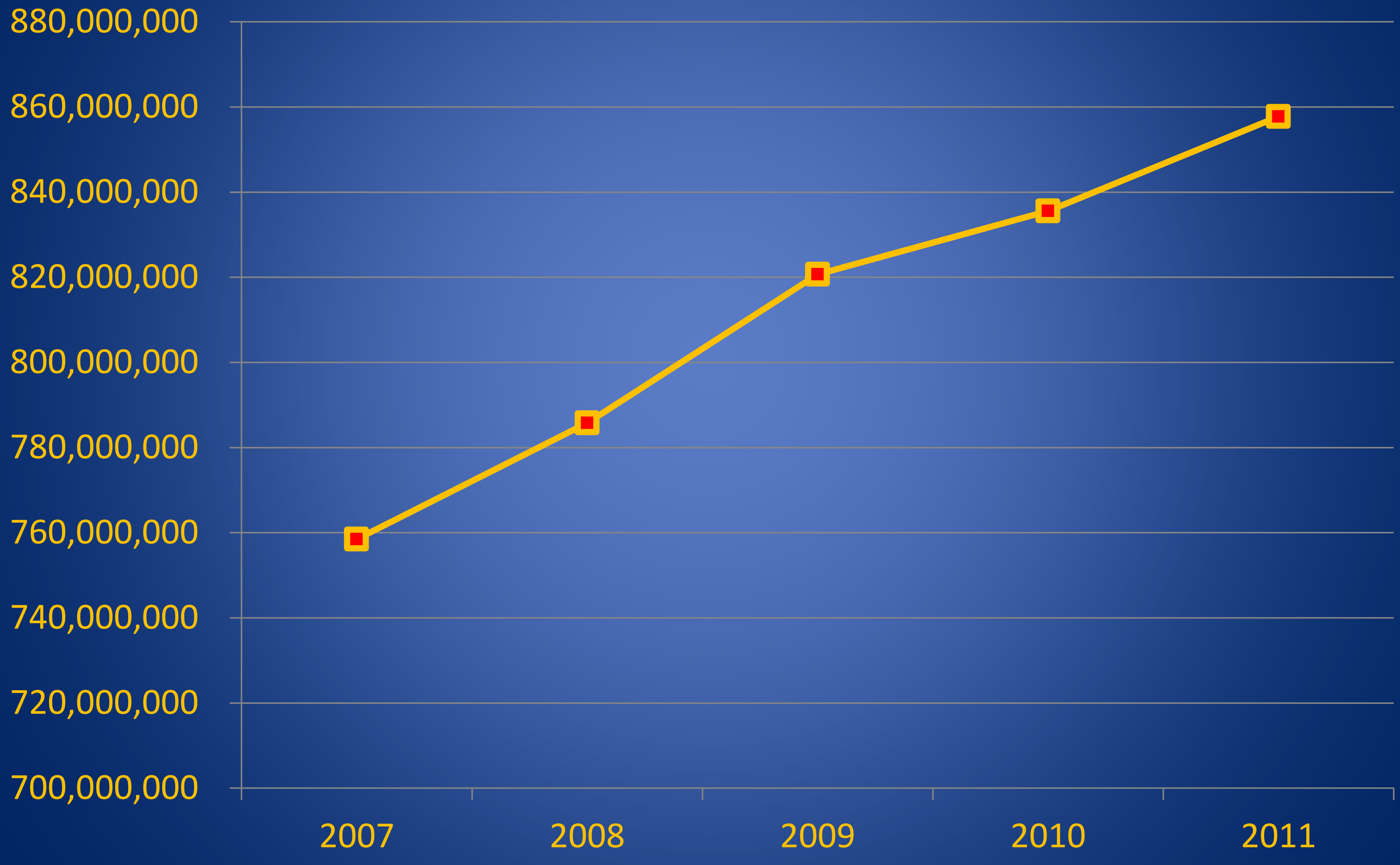


Sales Tax Revenue

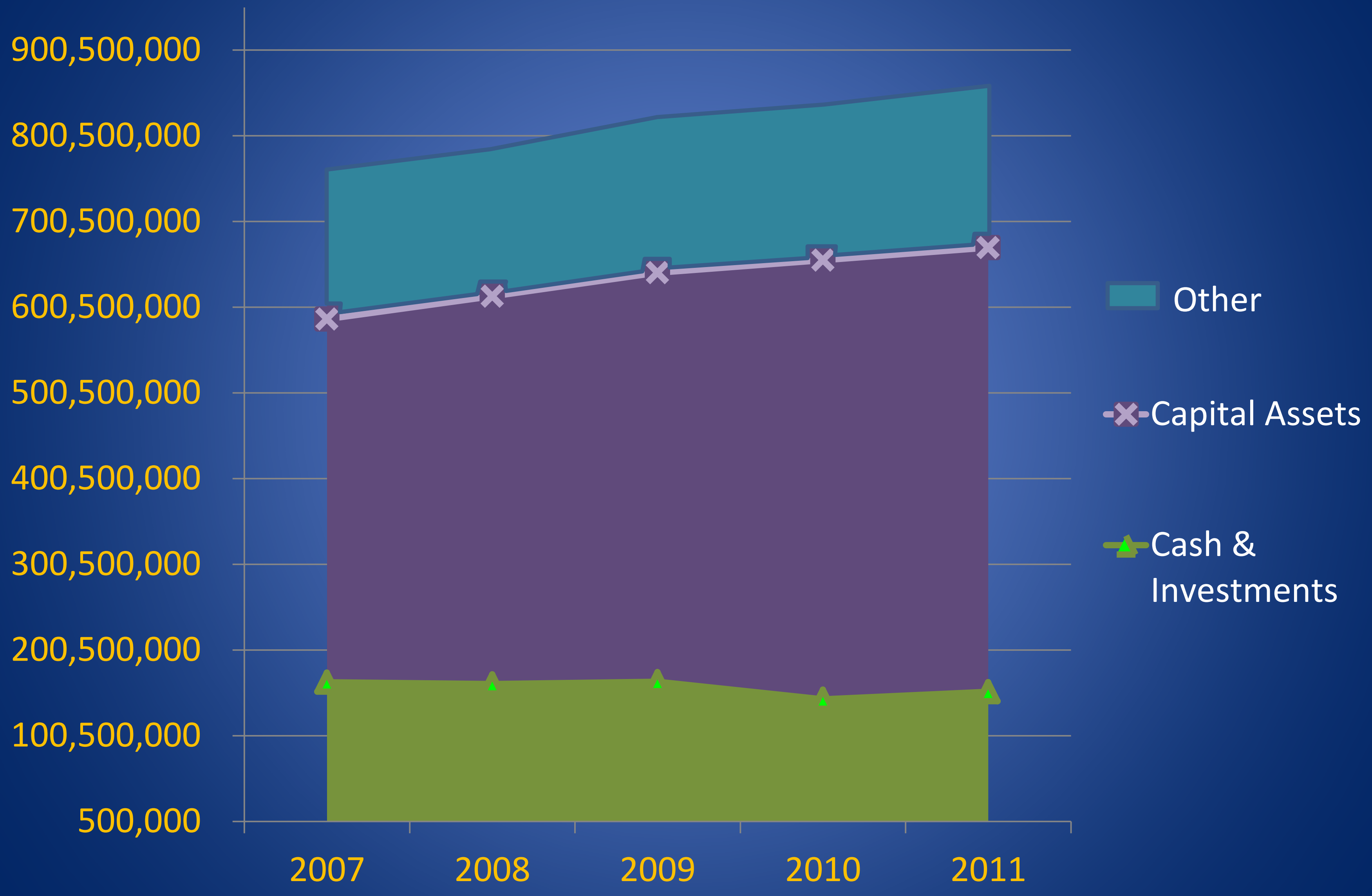
Building Use Tax Revenue



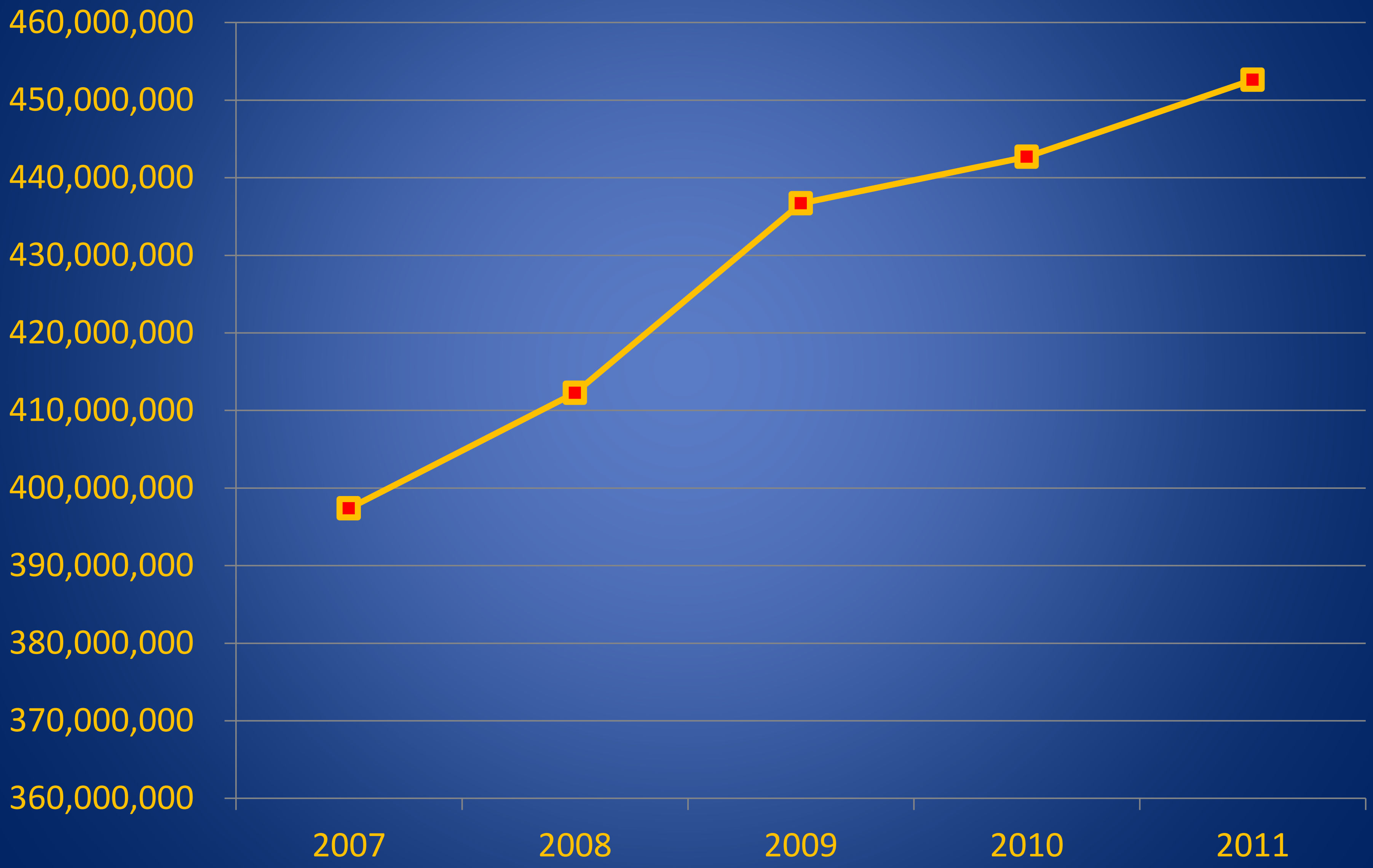
City's Net Assets



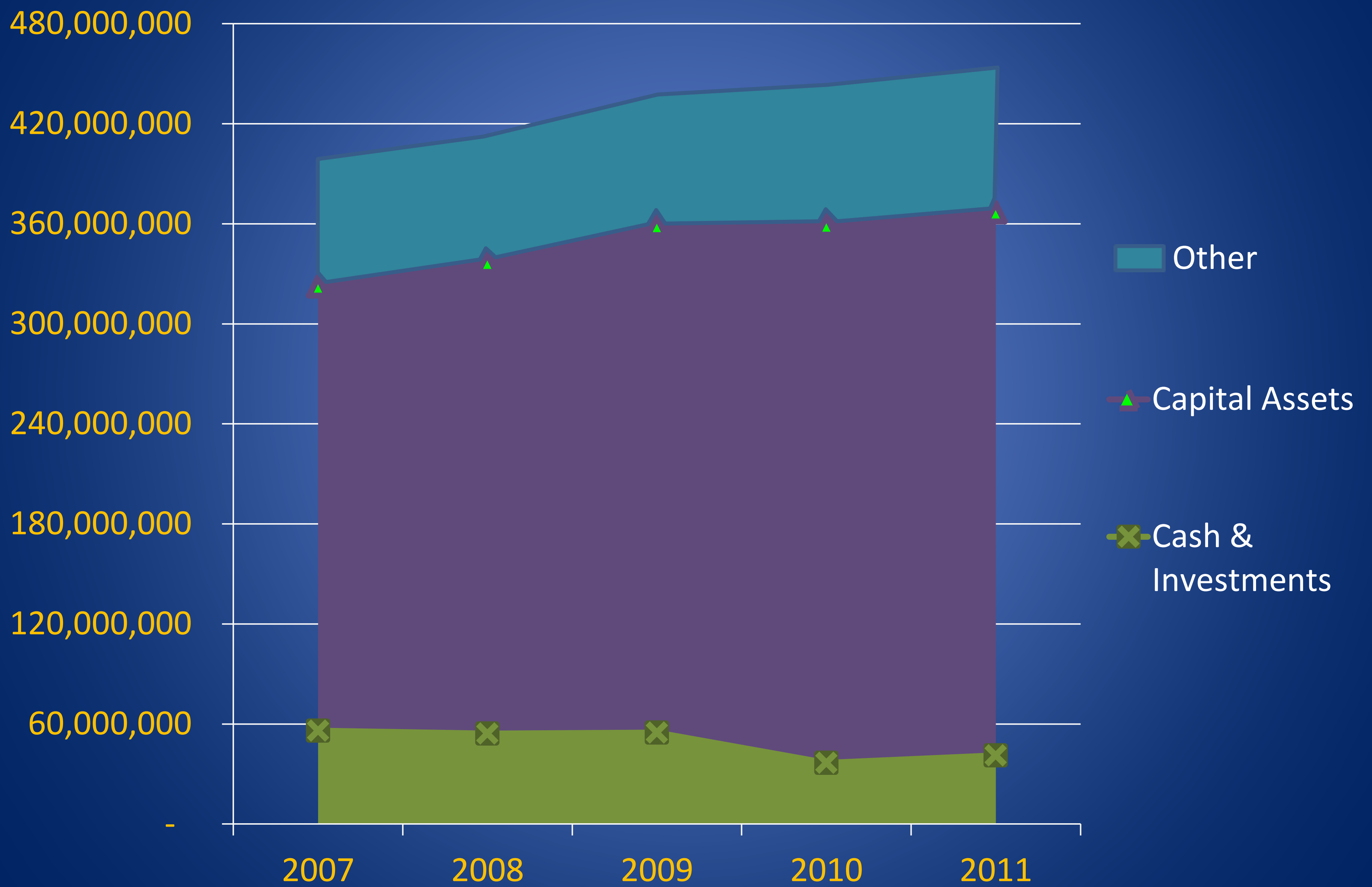
City’s Net Assets



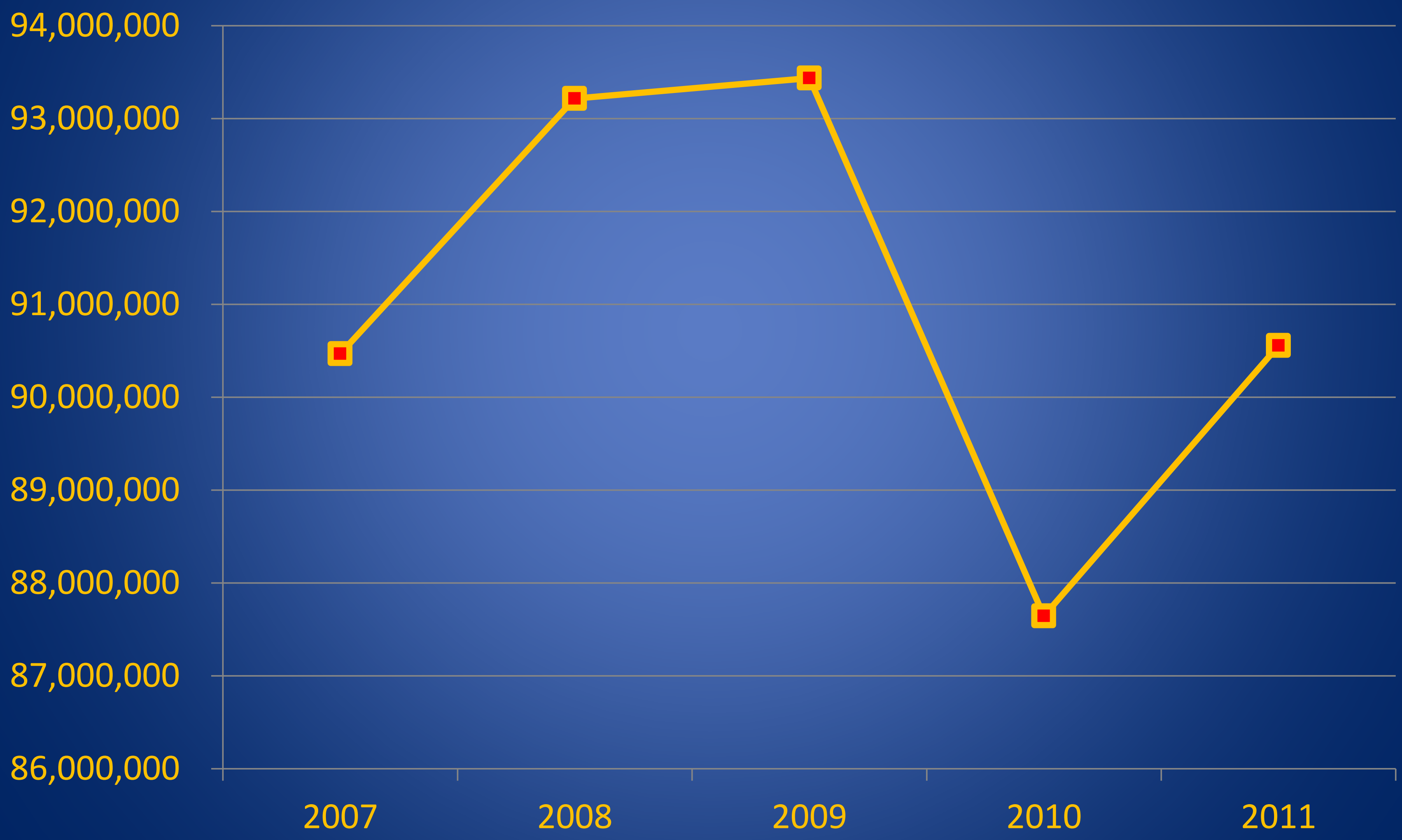
Net Assets - Enterprise Funds



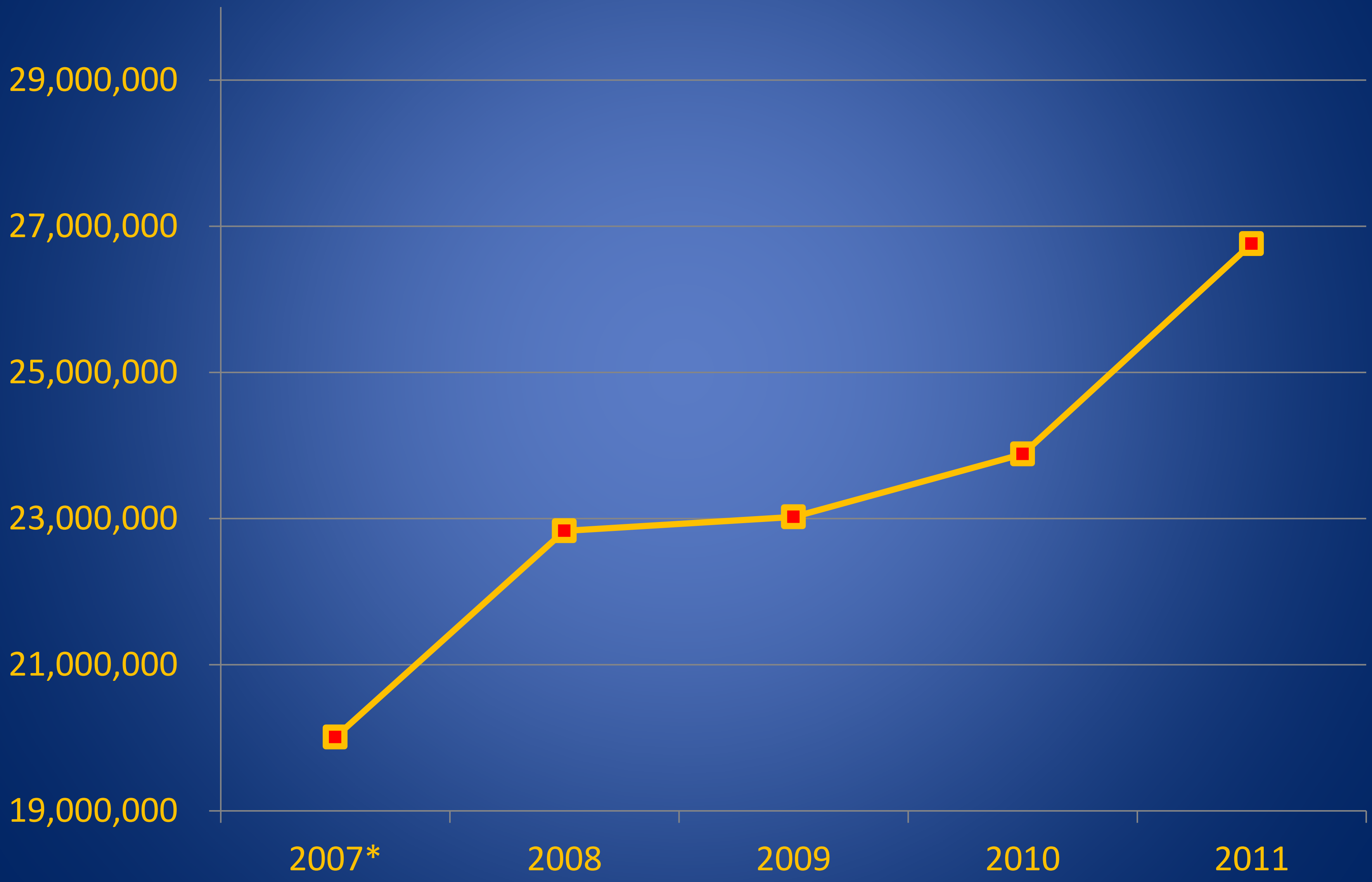
Net Assets - Enterprise Funds



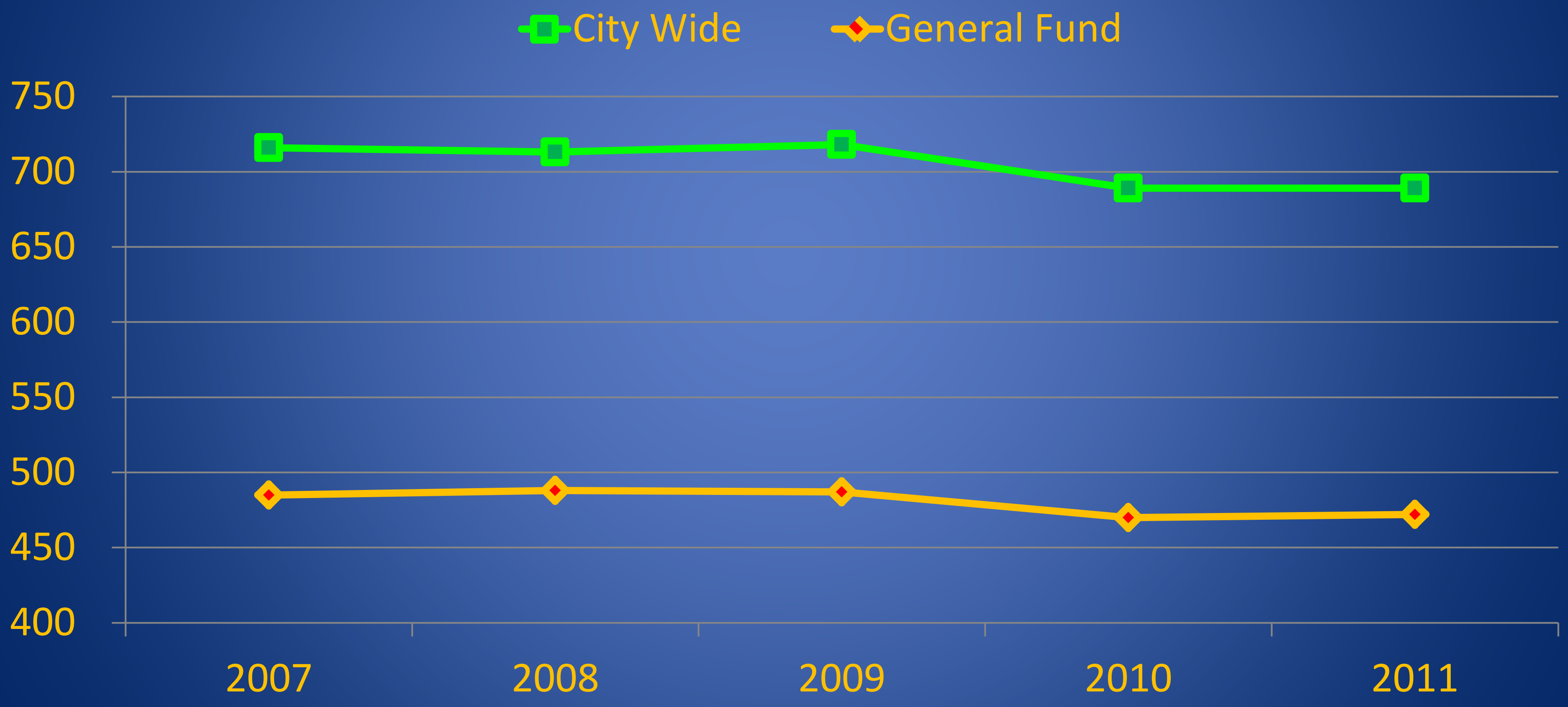
Governmental Funds
Total Fund Balance



General Fund Balance



Citywide FTE's Benefited Employees



Service Changes

Additions

- Title 18 Committee
- Homeless Task Force
- Loveland Honors Event
- Code Enforcement – shift
- Board and Commission Summit
- Legacy addressing - not new
- Loveland Sports Park
- Fairgrounds Park
- Mariana Butte GC Clubhouse
- Chilson Expansion
- Police Lab Tech to Reg'l Crime Lab
- Downtown Parking Enforcement to Police
- New Prescription Drug Take Back Days
- New Cyber Crimes Unit
- Added 2 middle school SRO's
- Added new traffic signals and monitoring technology
- New FLEX transit route
- New downtown transit service loop
- Added snowplows to trash trucks
- Increased tree maintenance through contractor
- All trash truck collection automated
- New recycling drop-offs added
- New CAD office planning
- New airport security programs
- Increased fire staff 2 to 3, several companies (not all)
- Added new servers and software
- Added iPads
- Added video conferencing
- Added video surveillance
- Restored Customer Relations division in Water & Power
- Rialto Theater Center
- Library
- Health clinic
- Pawnshop licensing
- Visitor Center
- Lodging tax
- Economic Development Department
- Retiree health benefit
- LDT
- CMC
- OCSD

Subtractions

- W Eisenhower Corridor Plan
- Animal Control Contract
- Police: combined training & personnel
- Cut transportation field inspections 20%
- Cut alley maintenance
- Cut fleet size 5%
- Ended school fleet contract
- Cut community fire prevention 70%
- Cut a film festival
- Cut a noon concert series
- Cut teen Easter Egg Hunt
- Reduced Lagoon concerts
- Earlier Museum closings
- Reduced events
- Deferred maintenance on water, power, wastewater
- Deferred maintenance on buildings and facilities
- Ended tuition reimbursement for employees
- Cut prosecutor
- Reduced street maintenance
- Reduction in benefits
- Communications & Technologies Commission

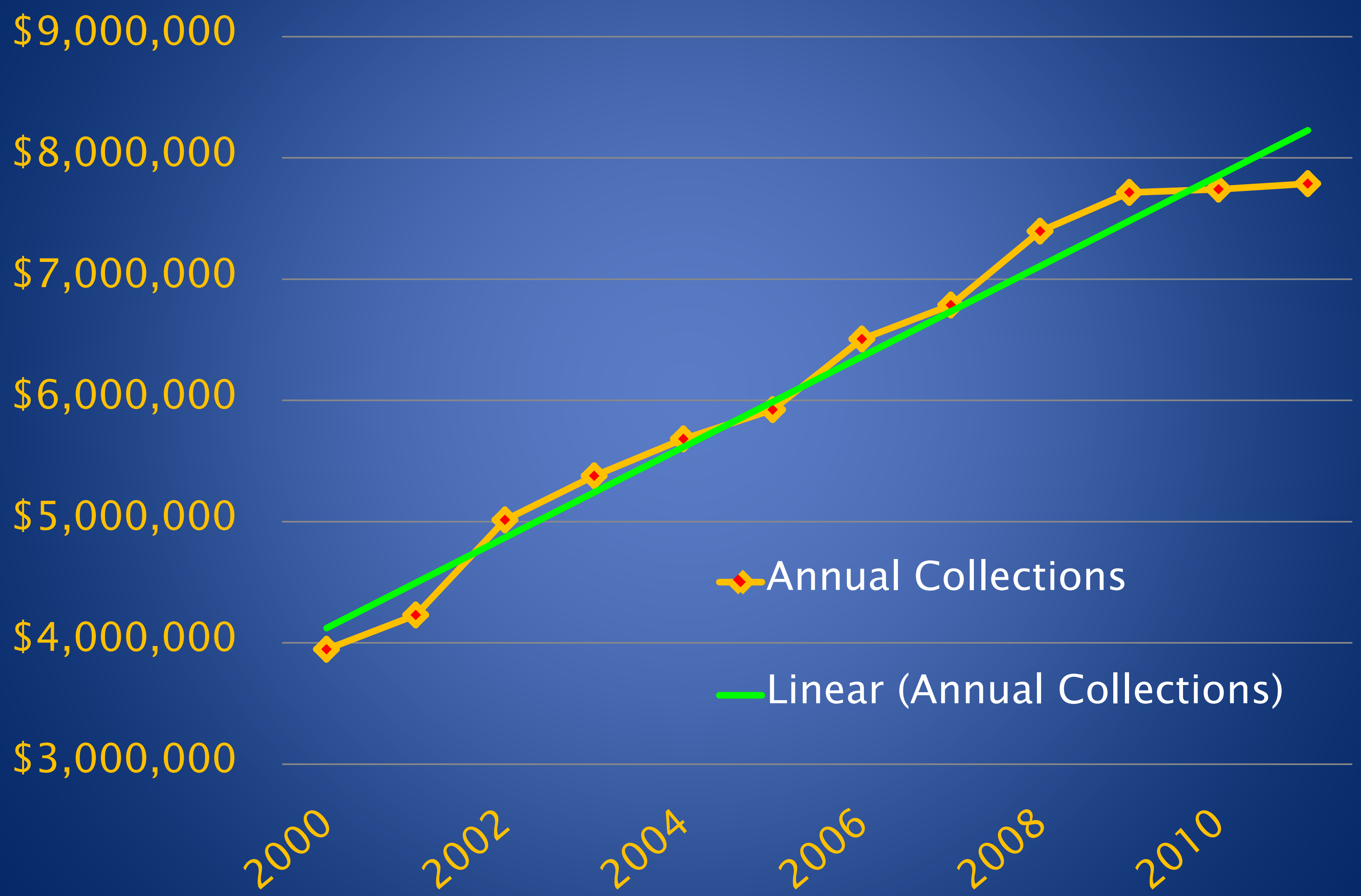
Budget Assumptions

2013 Budget Development

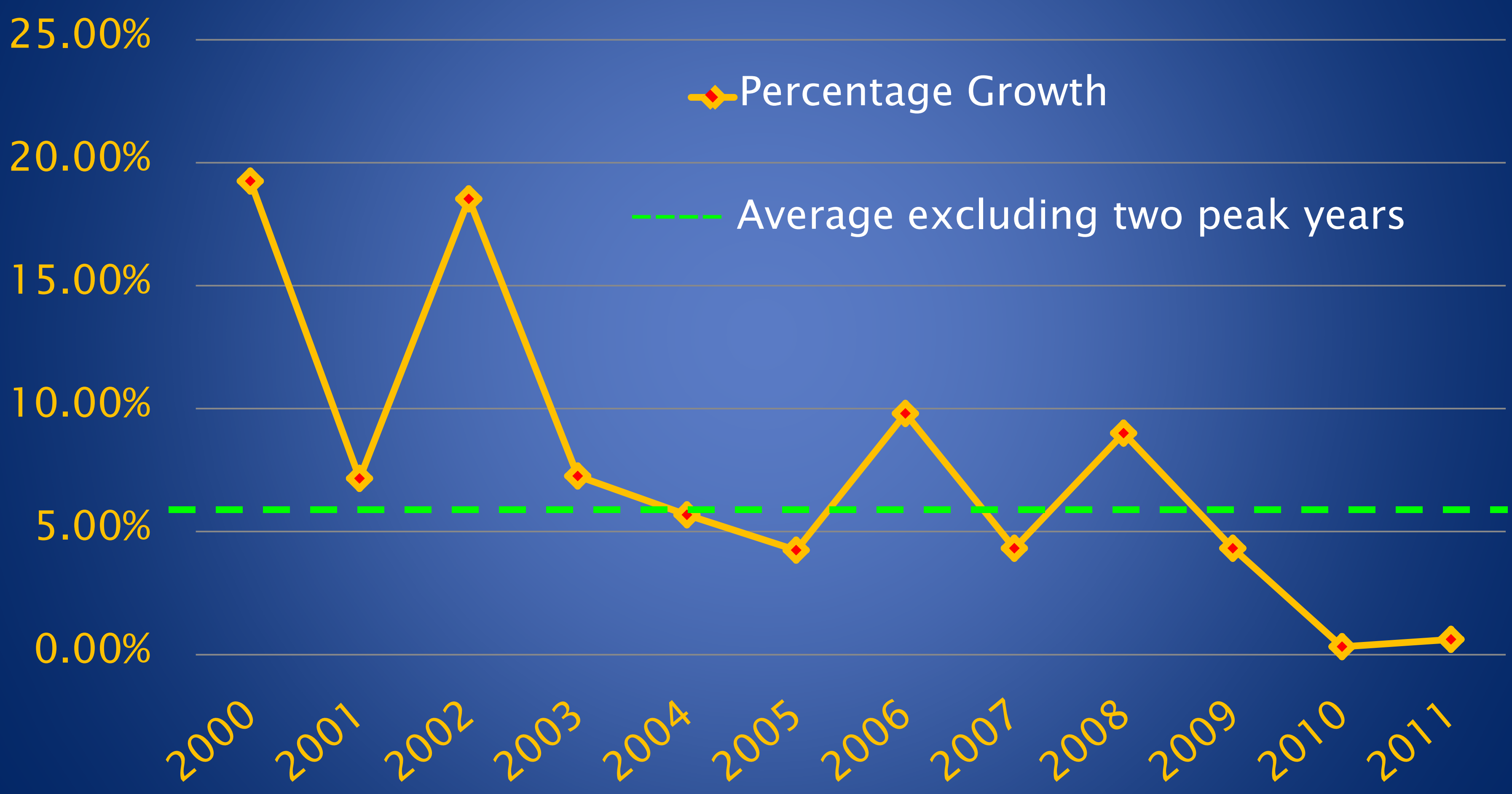
Ten-Year Plan
Revenue Assumptions

- Return to average Property Tax revenue growth of 5.8% by 2015;
- Return to average Sales Tax growth of 5% by 2014;
- Continued slow recovery in Building Use Tax, with 2.0% in 2013growing to 4% by 2016 and remaining there in the out-years.

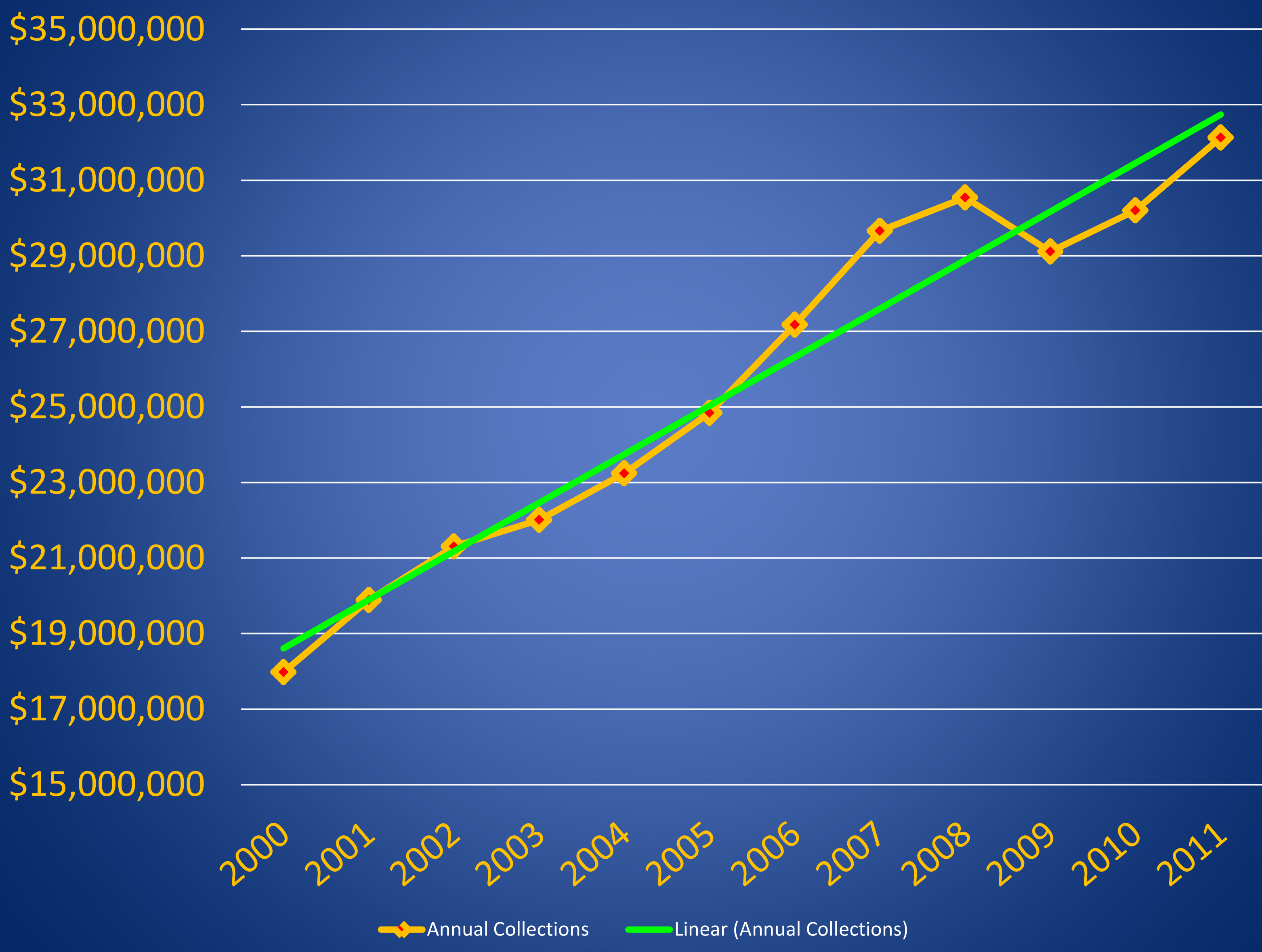
Property Tax Annual Collections



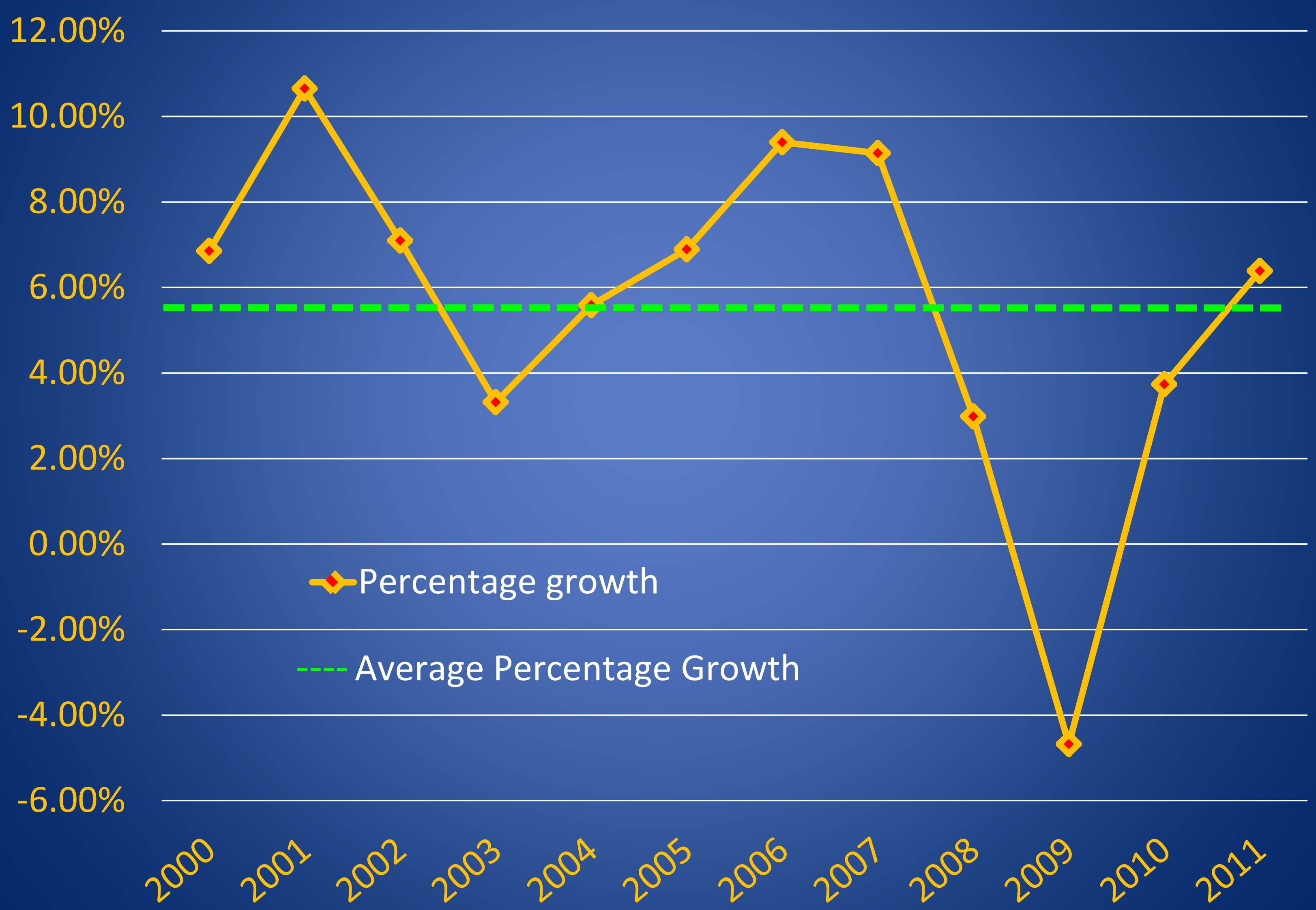
Property Tax Collections Annual Percentage Growth



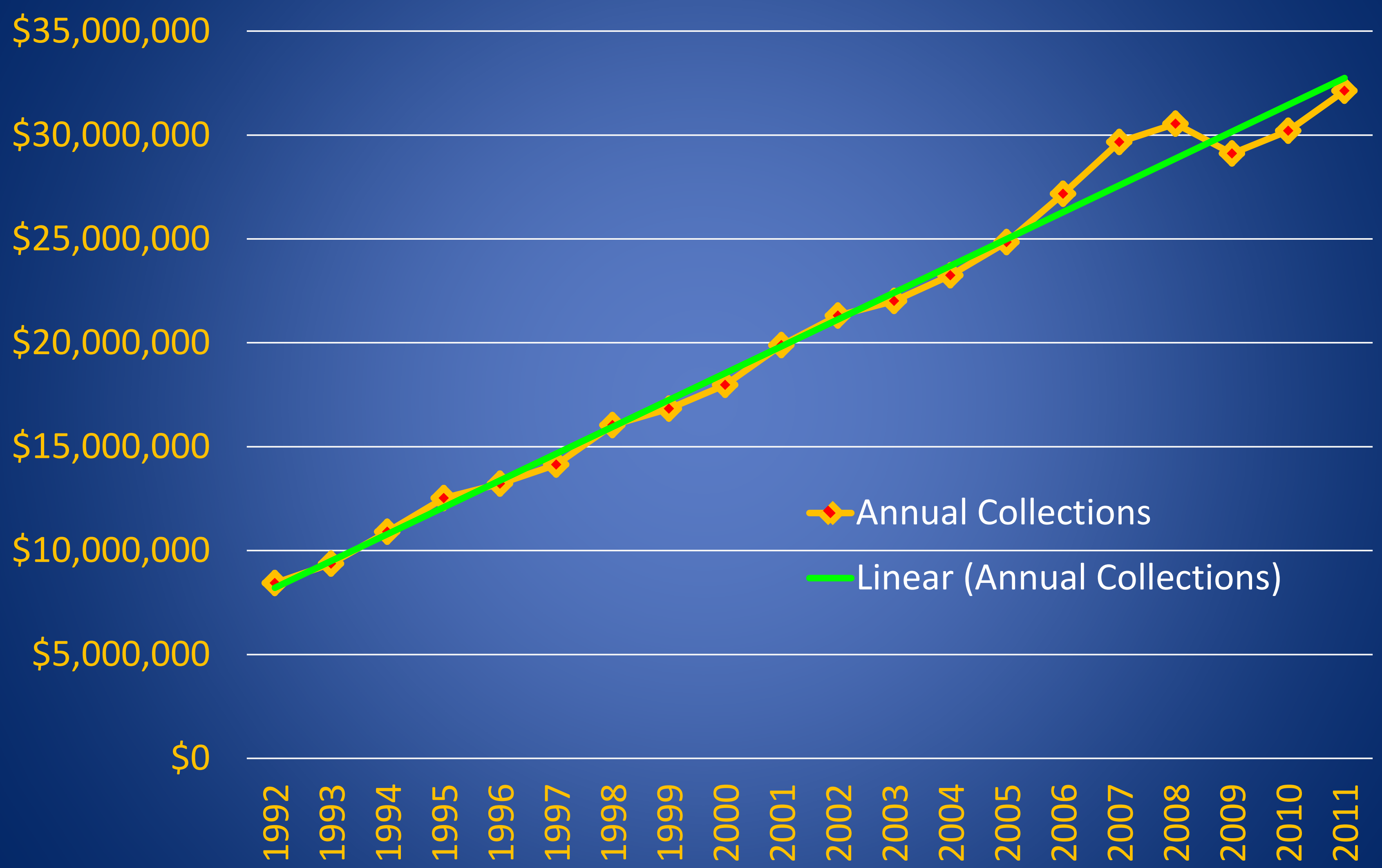
Sales Tax Annual Collections



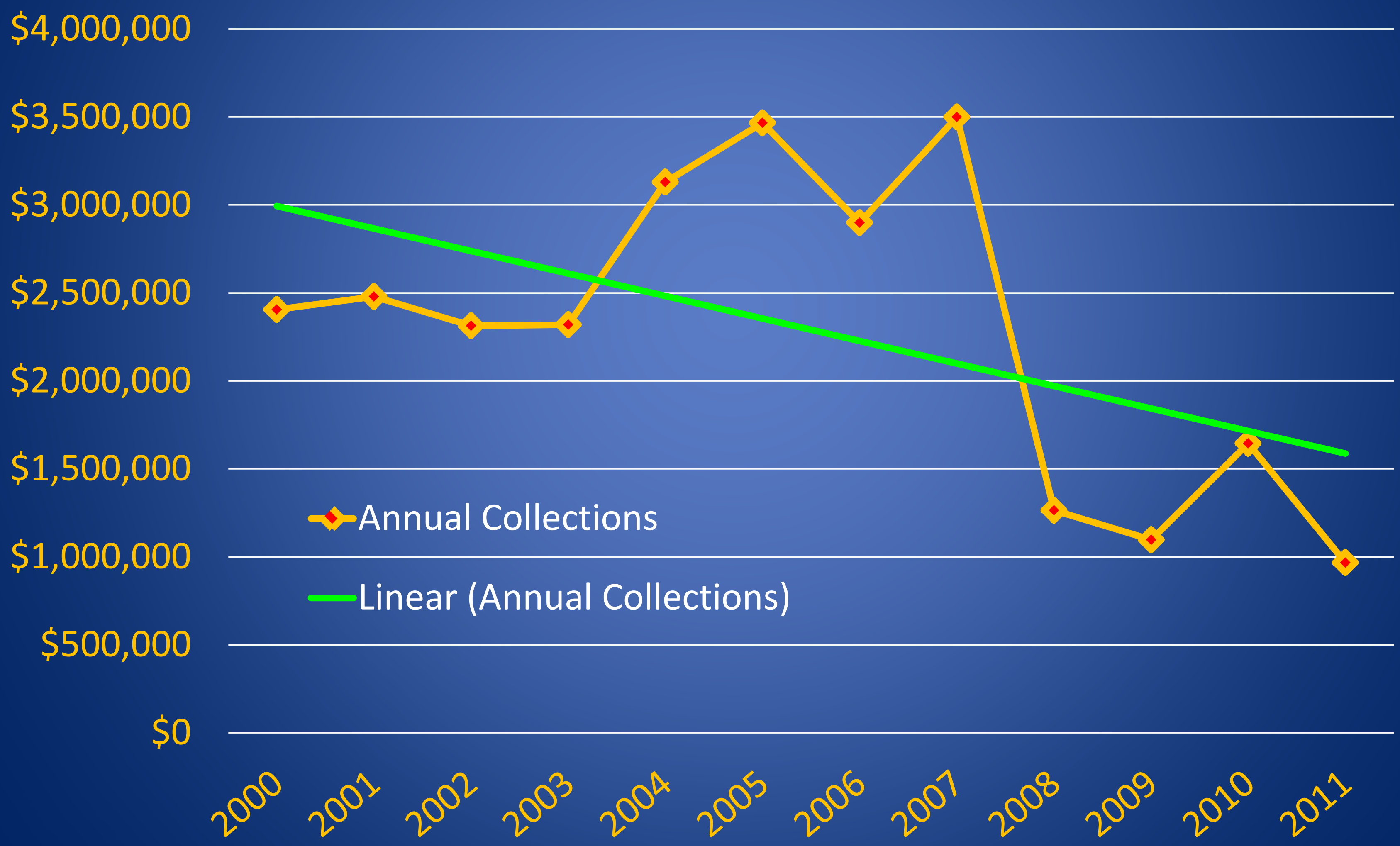
Sales Tax Annual Percentage Growth



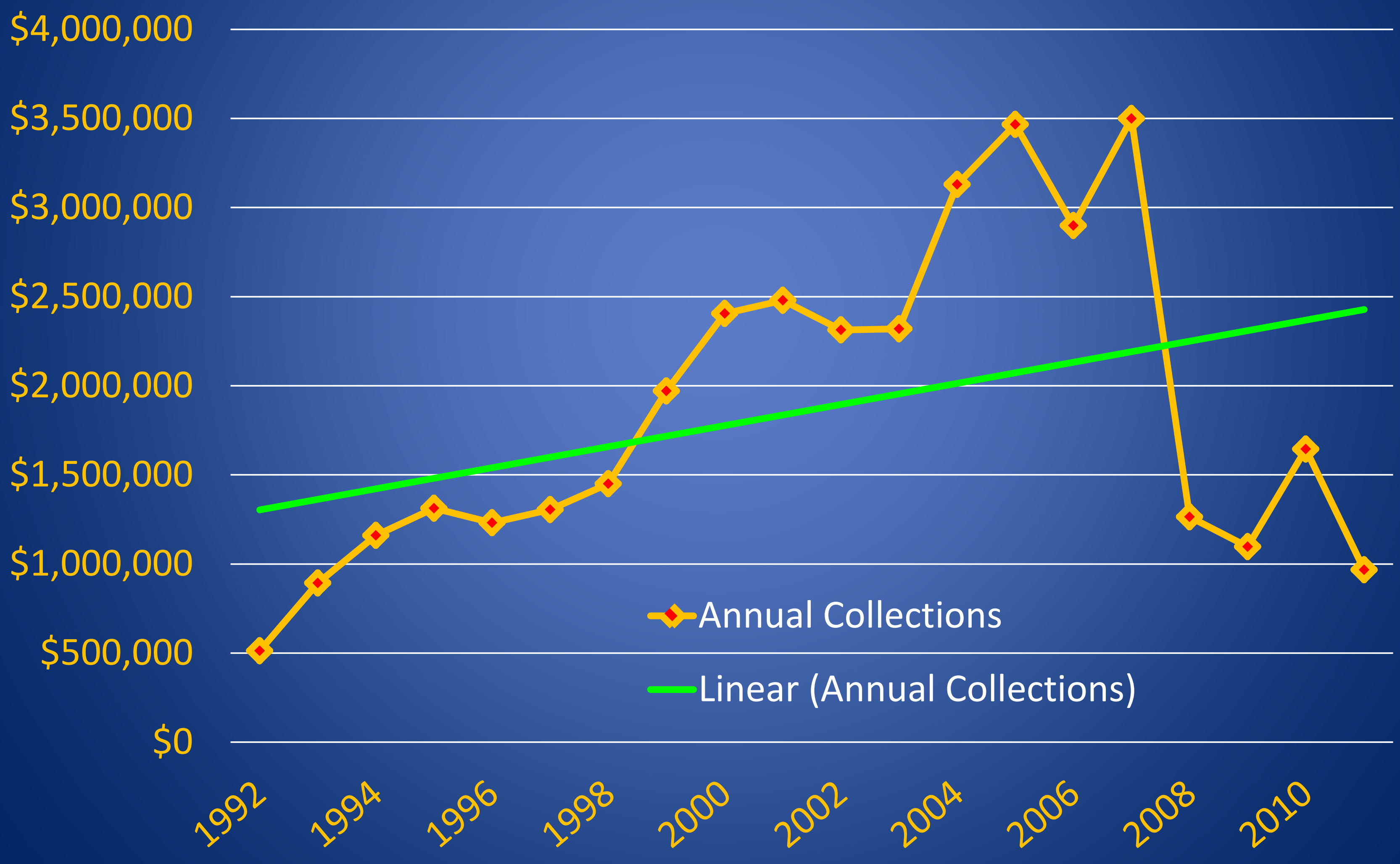
Sales Tax Annual Collections



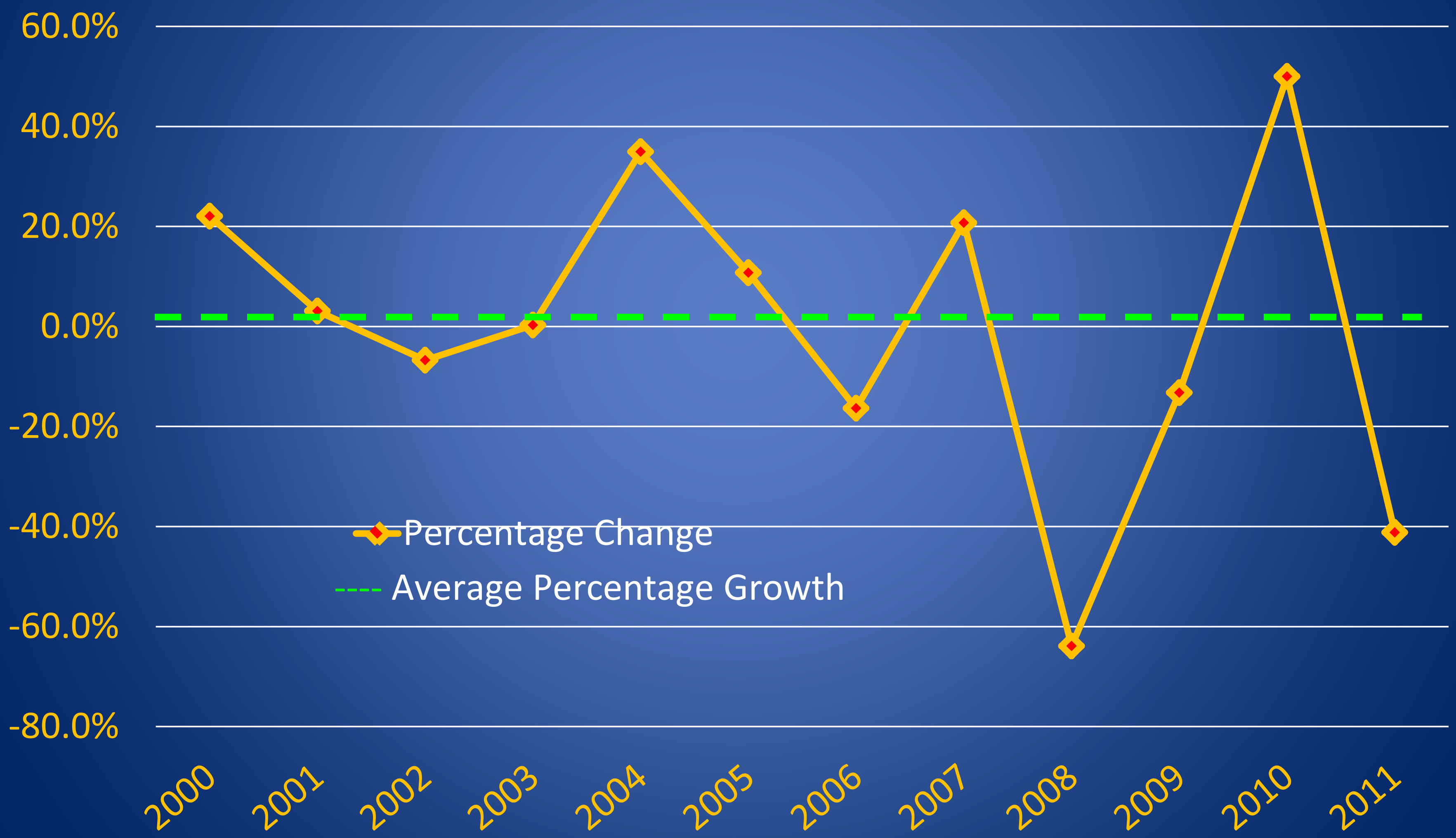
Building Use Tax Annual Collections 10 Year View



Building Use Tax Annual Collections
20 Year View



Building Use Tax Annual Percentage Change



Ten-Year Plan Expense Assumptions

- Status Quo Plan

a. Average expense growth at 3.5%;

b. Additions to expenses for operating impacts from the Capital Program are the only program expansions included;

c. No increases in staffing for population or service area growth included;

d. All debt obligations are paid as agreed.

Ten-Year Plan Reserve Assumptions

- Reserves

1. Per ordinance Council Reserve contribution calculated at 2.5% of taxes below TABOR limit for all years;

2. Revenues remain below the TABOR Revenue for all but 2 years;

3. Continues past policy of allocating available TABOR Revenue Reserve to cover General Fund portion of the Transportation Program.

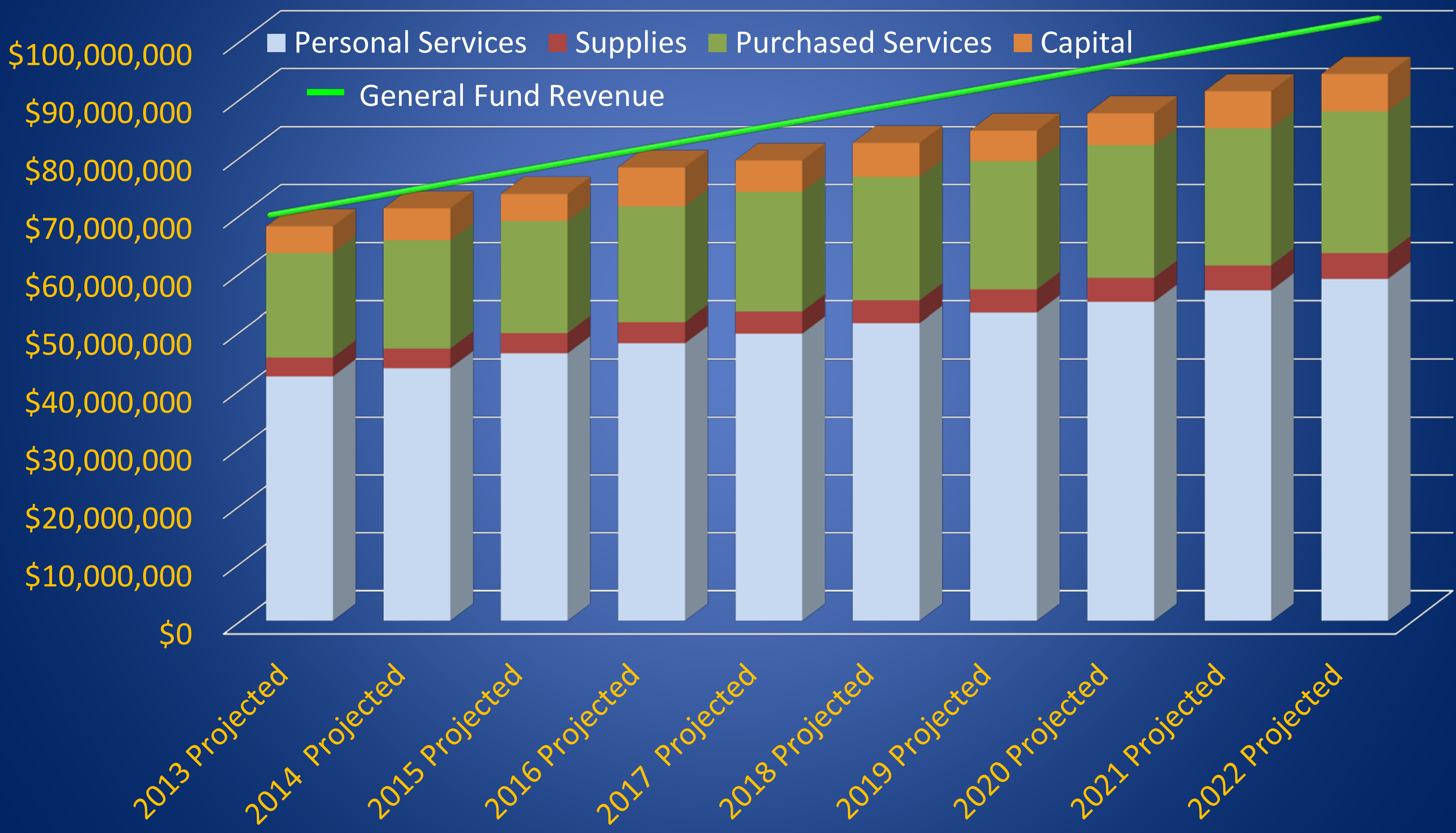
4. Meets the Fund balance policy of 15% of operating expense in all years and remains positive in the bottom line.

Ten Year Plan Results

- Assumes the Financial Sustainability Strategy implementation will continue;
- Assumes part of the Fire Authority strategy; but not all;
- All years revenue compared to expense is positive except one.
- Ongoing adjustments will mitigate the negative amount in that year.

Ten Year Outlook

General Fund Revenue and Expense Projection



2013 Budget Assumptions

- Revenues

1. Property Tax growth remains flat to 2012;
2. Sales Tax growth at 4% over current 2012 forecasts;
3. Building Use Tax growth of 2.0% over 2012;
4. Interest at 1.2% of projected beginning balance;

2013 Budget Assumptions Continued

- Expenses

1. Merit Pool set at 3.5% of current salaries;
2. No change in City contribution to health premiums;
3. No inflation added to Core budgets – will adjust specific items such as fuel depending on current information.
4. Departments will be given General Fund subsidy targets that completed budget expenses must be within or new revenue must be identified to cover the expense to meet the target.

2013 Budget Assumptions Continued

- Enterprise Funds

1. Operation expense to follow similar guidelines.

2. All utilities will be evaluating potential rate increases, to meet cost of service, capital needs, and in the case of Power, potential wholesale rate increases.

Questions and Discussion