

AGENDA
LOVELAND CITY COUNCIL BUDGET MEETING
FRIDAY, MARCH 27, 2015
CITY COUNCIL CHAMBERS
500 EAST THIRD STREET
LOVELAND, COLORADO

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12:00 p.m. - 5:00 p.m. Budget Meeting - City Council Chambers

BUDGET MEETING AGENDA

1. **FINANCE** (presenter: Brent Worthington)
GOVERNMENTAL BUDGETING AND FINANCE
Staff will provide a presentation on budget development, including trends and forecasting, practices, and budget control.

ADJOURN

**CITY OF LOVELAND**
FINANCE DEPARTMENT

Civic Center • 500 East Third • Loveland, Colorado 80537
(970) 962-2318 • FAX (970) 962-2918 • TDD (970) 962-2620

AGENDA ITEM: 1
MEETING DATE: 3/27/2015
TO: City Council
FROM: Brent Worthington, Finance Director
PRESENTER: Brent Worthington, Finance Director

TITLE:
Governmental Budgeting and Finance

SUMMARY:

Staff will provide a presentation on budget development, including trends and forecasting, practices, and budget control.

BACKGROUND:

At the January 24, 2015 Council Planning Session, members of City Council requested an in depth description of various aspects of the budget and the budget process. This presentation will cover budget process, economic trends and budget assumptions, compensation approach and practices, budget and finance practices, internal service funds, and how to read the budget document. Council will then have an opportunity to discuss the focus and direction for the 2016 budget.

REVIEWED BY CITY MANAGER:

LIST OF ATTACHMENTS:

1. Staff Report
2. Budget Calendar
3. Fund Table
4. Presentation



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FINANCE DEPARTMENT

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To: City Council
From: Brent Worthington, Finance Director
 Marc Kahn, Budget Manager
Date: March 27, 2015
Re: City of Loveland Budget

This Staff Report provides information pertaining to Loveland's budget process. The report covers the following:

- Introduction and budget development
- Economic trends and budget assumptions
- Legal requirements
- Terms and definitions
- Budget and finance practices
- Budget control

INTRODUCTION AND BUDGET PROCESS

Budget – A financial plan of estimated expenditures and the means of financing them for a stated period of time. Upon approval by the City Council, the budget appropriation ordinance is the legal basis for expenditures in the budget year.

BUDGET DEVELOPMENT

City Council is heavily involved in the development of the City's annual budget. For 2015, the scheduled Council budget calendar includes:

March 27:	Study Session- Overview of Budget and Finance
April 14:	Study Session- 2016 Budget Orientation
June 9:	Study Session- 2016-2025 Capital Program
July 1:	Regular Meeting- Resolution approving 2016-2025 Capital Program
August 11:	Study Session -2016 Budget Development
August 28:	Recommended 2016 Budget distributed to Council
September 9:	Study Session: 2016 Recommended Budget
October 6:	Regular Meeting- Public Hearing and 2016 Budget, first reading
October 20:	Regular Meeting: 2016 Budget, second reading

[The full Budget Calendar is included in an attachment to this Staff Report]

The first step in budget development is creating the core budget. The core is comprised of routine departmental operating expenses. These expenses are carried over from year to year, unless there is evidence that an adjustment is needed (expenses are no longer incurred, or costs are known to be trending upward or downward). This budget development practice eliminates a “use it or lose it” mentality, which refers to the philosophy that there are no rewards for spending money wisely; if you don't use it, not only do you lose it for the current fiscal year, your future budget will be decreased as well. Use of the core budget ensures departments will not be penalized for exercising fiscal responsibility.

Next, the Capital Plan is developed, and is brought to Council for approval via Resolution. If Council approves, the Capital Program will be included in the final budget ordinance.

After reviewing the Core Budget, Departments develop a list of additional budget needs (“supplementals”). These can be for one-time expenses, new operating expenses, or new staff positions. During July and August, The City Manager holds budget conferences with each department, during which he reviews and discusses each supplemental and makes final decisions for inclusion in the budget.

When all supplementals are determined, the Finance Department finalizes the draft of the budget, which then goes to Council.

ECONOMIC TRENDS AND BUDGET ASSUMPTIONS

A vital element in developing the budget is the ability to predict, consistently and as accurately as possible, economic trends at the national, state, and local levels; maintaining an awareness of regional factors that are likely to affect the City’s budget (population growth, changes in the retail sector in neighboring communities, oil and gas development, transportation issues, etc.); and, of course, looking at all expansion, growth and development initiatives within the City of Loveland.

Analysis of the City’s revenue trends will help Council make informed decisions regarding our business strategy. The Finance Department determines key variables and calculates business ratios that measure how the City is performing. A steady increase from year to year is a positive trend and guides planning for future strategies. A decreasing trend indicates Council may have to make key decision on future strategy changes. Analyzing these revenue trends lets Council compare the current fiscal year to the revenue from past years, providing an indication of how the City is performing.

LEGAL REQUIREMENTS

Article 11 of the Loveland City Charter (last amended November 6, 2007) sets forth the general framework of the annual budget process. It establishes the default date for Departmental budget submissions (on or before August 1); the default date for budget submission to City Council (on or before the first Tuesday of October); the public hearing; and the deadline for approving the budget (the date for certification of property taxes to the County, which is currently December 15).

The Charter also sets forth the requirement for a specific Capital Projects budget, to cover (at minimum) the budget year plus four additional years.

There are certain budget control requirements defined and required by Charter, including: contracts may not be executed unless there is an appropriation; monthly reports showing comparisons of actual revenues and expenditures to the budget; and all budget appropriations lapse at 12/31

State law stipulates that, if Council does not adopt the budget on or before December 15, the previous year's budget will apply.

The Taxpayer's Bill of Rights (TABOR) restricts the City's ability to retain excess revenues, enter into multi-year financial obligations, and raise taxes.

Loveland has been allowed to retain excess revenue through two TABOR elections: November 1, 2001 (which applied to fiscal years 2003 through 2012); and November 1, 2011 (which applies to fiscal years 2013 through 2024).

These funds are restricted to spending for Police and Fire, street construction and maintenance, and parks construction and maintenance.

BUDGET TERMS AND DEFINITIONS

Administrative Allocation – Internal charges assessed by City agencies that provide services directly to other City agencies. These charges are intended to provide a fuller picture of the cost of providing City services. Allocations include charges for financial services, administration, facilities services, ground keeping, etc.

Cost Recovery- the extent to which Departments/Divisions/Programs generate revenues that offset (in whole or in part) their cost of operations. An example is the Rialto Complex: revenues are generated through ticket sales, fees, and facility rentals. The overall operating costs are greater than this revenue; the difference is covered by the general fund subsidy.

Appropriation – A legal authorization made by the City Council to make expenditures and incur obligations for specific purposes. The Adopted Budget is the City’s comprehensive appropriation; Supplemental Appropriations are used to amend the Adopted Budget

Fund – Accounting entity with a self-balancing set of accounts, which is segregated from other funds, to carry on specific activities or attain certain objectives.

Capital Program – An annually updated plan of capital expenditures for public facilities, infrastructure and major fixed assets with estimated costs, sources of funding and timing of projects over a five-year period

Operating Budget – The portion of the budget that pertains to daily operations providing basic governmental services. The operating budget contains appropriations for such expenditures as personnel services, supplies and materials.

Reserve – Funds set aside in the current and past years for the purpose of paying for capital needs, providing for obligations and liabilities, and meeting emergency needs.

Fund Balance – the difference between assets and liabilities in a governmental fund. While mostly cash, fund balance may include certain non-spendable assets. Unassigned fund balance is available for appropriation by Council.

Variance- describes a difference between budget estimates and actual financial results. Variance analysis is applied to both revenues and expenditures. When actual revenue is greater than budgeted revenue, or actual expenditures are less than budgeted, the variance is characterized as positive; the reverse situations are characterized as negative variances.

The monthly Financial Report to Council (the “Snapshot”) reports budget variances citywide and in the General Fund. The Snapshot also provides explanations of significant variances from month to month.

Rollover- Projects are budgeted, in total, in the year they commence (or are scheduled to commence); commonly, these projects are finished in a subsequent year. Since all appropriations lapse at 12/31, it is necessary to re-appropriate, or **rollover**, in the following year. Rollover has no net impact on fund balance.

FUND ACCOUNTING

A fund revenues, expenses, assets, and liabilities grouped together to carry out certain activities. Each fund is tracked independently. Different fund types have different accounting rules. Separation into Funds makes it easier to track large, separate activities

Fund accounting is required by Generally Accepted Accounting Procedures (GAAP); accounting guidelines are primarily developed by the Governmental Accounting Standards Board (GASB).

Enterprise Funds: Operations are primarily or exclusively funded by fees and charges. Enterprise Funds are intended to be self-sufficient; dependence on transfers from Governmental Funds indicates an imbalance between fees/charges and expenses (both operating and capital), which should be addressed and solved.

Under TABOR, transfers from other funds are restricted to no more than 10% of total funding; failure to comply means the enterprise fund can no longer issue revenue debt

Fiduciary Funds: Assets that are held in trustee or agency capacity. Loveland has two types of Fiduciary funds, Pension Paid and Volunteer Fire) and Agency (Special Improvement District #1)

Governmental Funds: “Everything Else”. Government funds are used for operations that don’t qualify as Enterprise or Fiduciary Funds. The General Fund is the City’s basic operating fund. Loveland has 27 Special Revenue Funds, which are funded by specific revenue sources, used for specific purpose. There is one Capital Projects Fund, and one Permanent Fund (for the cemetery).

FUND BALANCE

Fund Balance is the difference between assets and liabilities in a given fund. GASB defines five different fund balance types:

- Non-spendable. This includes inventories
- Restricted – amounts that can be spent only for the specific purposes stipulated by constitution (TABOR, for instance) or State law
- Committed- amounts that can be used only for the specific purposes determined by a formal action of City Council
- Assigned – amounts to be used for specific purposes identified by management
- Unassigned – applies to the general fund; includes all amounts not otherwise restricted, committed, or assigned

In the City’s budget, Restricted Fund Balance includes the TABOR Emergency Reserve, and funds for Open Space Acquisition; Committed Fund Balance includes Excess TABOR funds, and the Council Capital Reserve; Assigned Fund Balance includes funds for purchasing library books, and equipment replacement.

Return to Fund of Origin

When cash comes back into the City, for any of various reasons (unspent appropriation, project completion, interest earned, liquidation of assets, etc.), the money goes back to the fund of origin. This is required by Generally Accepted Accounting Principles, and by the City Charter (to the extent that the Charter prohibits interfund transfers without specific Council authorization).

APPROPRIATIONS

The Annual Budget adopted by Council constitutes the total annual appropriation for the City. The adopted budget is comprehensive; it defines the appropriation for all line items in all Divisions, Departments, and Funds. The City may not spend more than the total appropriation. All appropriations lapse on December 31.

From time to time throughout the year, Council is asked to approve Supplemental Appropriation Ordinances. These Supplemental Appropriations may be brought forward for various reasons:

Re-appropriate (**rollover**) budget for projects that cross the fiscal year

Recognize the receipt of unanticipated revenue and authorize spending for a particular purpose

New priorities or initiatives that arise after the budget is adopted. The Supplemental Appropriation Ordinance specifies the details of the appropriation (justification of need, source of funds, specific use of funds, and any and all impacts of the appropriation) are included in the Council packet, along with a staff report and all relevant backup documentation.

Typically, the funding source for these supplemental appropriations is Unassigned Fund Balance; when this is the case, there is no impact on other projects or operations, since Unassigned Fund Balance is, by definition, a financial resource available for appropriation by Council.

Occasionally, a Supplemental Appropriation may be brought to Council that includes funding to be transferred from one City Fund to another. This process is required by the City Charter; no budget may be transferred between funds without Council approval.

All appropriations lapse at December 31. All unspent appropriations become part of Fund Balance, available for appropriation.

It is essential to note that no money may be spent without the knowledge and authorization of Council.

Rollover

All appropriations lapse at December 31. Capital projects may not be completed within the year they are budgeted. When a project continues over the year end, it becomes necessary to re-appropriate (**rollover**) the prior year appropriation.

Early in the new year, a rollover ordinance is brought to Council. This ordinance includes Primarily projects that began but weren't completed in a prior year, or projects that were expected to begin in a prior year but were delayed. Some operating budget may be rolled over;

examples would include a consulting project that crosses into the new year, or equipment that was ordered, but not available for shipment until the next year.

Rollover doesn't change long term fund balance.

BUDGET CONTROL

Throughout the year, the Finance Department closely monitors Departmental budget variances. Actual spending and budget amounts will never be the same. The Finance Department examines variances to determine the significance and cause of the variance.

If actual expenditures exceed budget, budget transfers are made from other areas within the department. If there aren't sufficient appropriations in other areas of the departmental budget, a Supplemental Appropriation may be considered.

If expenditures are less than budget, unspent amounts will become part of the ending fund balance.

Incentives and Community Investment

From time to time, investment opportunities arise within the City; in exchange for a one-time expenditure, the City could secure an asset, or fund or subsidize a project, that would generate a significant ongoing revenue stream or provide significant benefit to the community.

The annual budget contains an appropriation for economic incentives. There are other sources of funding for different types of one-time investments, such as the Council Reserve Fund or unassigned fund balance.

Priority Based Budgeting

In 2014, the City of Loveland contracted with the Center for Priority Based Budgeting to develop the Priority Based Budget model. Through a lengthy process, involving City Council, the Management Team, City Staff, the Citizen's Finance Advisory Commission, and other Boards and Commissions, the final product is a listing of programs, with associated costs, ranked in order of priority determined by teams of Loveland staff members.

These program are divided into quartiles, ranked one through four. Quartile one contains the highest ranked programs (based on perceived value, mandate, and community need); programs in quartiles two, three, and four are ranked progressively lower.

Priority Based Budgeting considerations were inserted in the 2015 Budget development process through discussion between staff and the City Manager during the budget conferences.

As we progress through Fiscal Year 2015, and enter into the development of the 2016 Budget, the following PBB initiatives are under way:

- Several programs were identified and reported to Council at the 2015 Budget presentation (October 7, 2014). Staff is analyzing these programs, and will report findings and recommendations to Council as the analysis is completed
- The Citizen’s Financial Advisory Commission has formed a subcommittee to examine the program list and identify programs that they believe warrant further examination. Staff is assisting by providing research and clarification of programs; the subcommittee will report any findings and recommendations to Council through the CFAC Chair
- A team of graduates of the LEAD Loveland program is being formed, with the same mission as the CFAC subcommittee; however, this team will be examining the program list from the perspective of organizational insiders. The team will report findings and recommendations to Council through the City Manager

Administrative Allocations

Cost allocation is used for budget control and financial reporting purposes, in order to spread costs among departments or inventory items. Cost allocation is also used in the calculation of cost recovery at the department or subsidiary level, which in turn may be used as the basis for the funding of additional activities. The City of Loveland allocates the following departments:

City Manager	Public Grounds
City Clerk	Meter Reading
Finance	Dispatch
Information Technology	City Attorney
Utilities	

The Finance Department continues to refine the basis upon which costs are allocated, using such allocation bases as square footage, headcount, cost of assets employed, or (as in the example) the number of personal computers. The goal of the cost allocation method is to spread the cost in the most equitable fashion.

The intent of the allocation process is to determine the true cost of each department so that fees and/or services can be calculated correctly to capture all costs to the extent possible.

Changes expected in the 2016 Budget document

We are not expecting any significant changes to the 2016 budget document. Our document is reviewed by the Government Finance Officers Association (GFOA) each year for consideration

of the Distinguished Budget Presentation Award. The GFOA best guide the development of the city's budget document.

Complete Budget Calendar, 2016 Budget Development

February	Develop Administrative Cost allocations including IT and Legal and develop the salary forecast.
February 2, 2015	Send out roll over request to all departments.
March 2, 2015	Rollover requests due to Budget Office review with Finance Director and City Manager.
March	Update capital spreadsheets with projected ending balances and revenue projections.
April 1, 2015	2016-2025 Capital forms out.
April 7, 2015	First reading on Rollover Ordinance (material due to Agenda Mgt. March 23rd)
April 20, 2015	2016-2025 Capital forms due to Budget
April	Core budget development (salary forecast, risk allocation, vehicle maintenance, UB allocation,)
April 21, 2015	Second reading on Rollover Ordinance.
Week ending April 27	Core out to departments with budget instructions, training sessions
April 28, 2015	Study session on 2016 Budget Guidance (Packet due to Agenda Mgt. 4-16-15)
May 4, 2015	M-Team priority setting for 2016-2026 Capital Projects (All Funds)
Week of May 4	Department budget training sessions begin.
May 8, 2015	Capital meeting with City Manager on completion of draft Capital Program
May 29, 2015	Draft Capital Program completed
June 9, 2015	Study Session on 2016-2025 Capital Program
June 12, 2015	Department budgets due to Budget Office
July 1, 2015	Agenda Item - Resolution approving the 2016-2025 Capital Program
July 8 -July 17, 2015	City Manager budget conferences
August 1-21, 2015	2016 Recommended Budget Book production
Aug 3 - Aug 7, 2015	City Manager final budget decision meetings
August 11, 2015	Study Session on 2016 Budget Development
August 28, 2015	2016 Recommended Budget distributed to Council
September 1, 2015	Resolution to set public hearing date for 2016 budget to Council (packet to Agenda Mgt. by Aug 21)
September 9, 2015	Study session on 2016 Recommended Budget (Packet to Agenda Mgt. Aug 28)
September 10, 2015	Citizen Finance Advisory Commission review of 2016 Recommended Budget
September 22, 2015	Ad and notice of public hearing published
October 6, 2015	Public hearing and first reading on 2016 Adopted Budget (packet to agenda Mgt. 9-17)
October 20, 2015	Second reading on 2016 Adopted Budget
November	Delivery of 2016 Adopted Budget books

Description	Code	Segment	Fund Type
General Fund	100	Fund	Governmental
City of Loveland Transit	105	Fund	Governmental
Economic Incentives	106	Fund	Governmental
Downtown Infrastructure	107	Fund	Governmental
Rural Fire/School Fleet Chrgs	111	Fund	Governmental
Capital Fund	120	Fund	Governmental
Perpetual Care	140	Fund	Governmental
Parks & Rec Improvement	200	Fund	Governmental
Conservation Trust	201	Fund	Governmental
Larimer County Open Space	202	Fund	Governmental
Affordable Housing	203	Fund	Governmental
Community Development Block Grant (CDBG)	204	Fund	Governmental
Art in Public Places	205	Fund	Governmental
Lodging	206	Fund	Governmental
Police Seizures & Forfeitures	207	Fund	Governmental
Fed.Drug Enforcement Equitable Sharing NOT USED	208	Fund	Governmental
Loveland Fire Authority (SEE 604)	209	Fund	Governmental
PEG Fee	210	Fund	Governmental
Transportation	211	Fund	Governmental
Parks Capital Expansion Fee	260	Fund	Governmental
Recreation Capital Expansion Fee	261	Fund	Governmental
Trails Capital Expansion Fee	262	Fund	Governmental
Open Lands Capital Expansion Fee	263	Fund	Governmental
Fire Protection Capital Expansion Fee	264	Fund	Governmental
Law Enforcement Capital Expansion Fee	265	Fund	Governmental
Library Capital Expansion Fee	266	Fund	Governmental
Museum Capital Expansion Fee	267	Fund	Governmental
General Government Capital Expansion Fee	268	Fund	Governmental
Streets Capital Expansion Fee	269	Fund	Governmental
Fiber Network	280	Fund	Governmental
Water Fund	300	Fund	Proprietary
Water SIF Fund	301	Fund	Proprietary
Raw Water Fund	302	Fund	Proprietary
Water Debt Service Fund	303	Fund	Proprietary
Water Bond Debt 2015	304	Fund	Proprietary
Wastewater fund	315	Fund	Proprietary
Wastewater SIF Fund	316	Fund	Proprietary
Wastewater Debt Service Fund	317	Fund	Proprietary
Power fund	330	Fund	Proprietary
Power PIF	331	Fund	Proprietary
Power Contra Expense Fund	332	Fund	Proprietary
Stormwater fund	345	Fund	Proprietary
Stormwater SIF Fund	346	Fund	Proprietary
Refuse	360	Fund	Proprietary
Golf fund	375	Fund	Proprietary
Airport	600	Fund	Proprietary
Fleet Replacement	500	Fund	Proprietary
Fleet Management	501	Fund	Proprietary
Risk & Insurance	502	Fund	Proprietary
Employee Benefits	503	Fund	Proprietary
Loveland/Larimer Building Authority	601	Fund	Governmental

General Improvement District #1	602	Fund	Governmental
Loveland Urban Renewal (LURA)	603	Fund	Governmental
Loveland Fire & Rescue Authority	604	Fund	Governmental
Paid Fire Pension	700	Fund	Fiduciary
Volunteer Fire Pension	701	Fund	Fiduciary
Special Improvement #1 (SID)	702	Fund	Fiduciary

Special Revenue
Special Revenue
Special Revenue
Trust & Agency
Trust & Agency
Trust & Agency

City of Loveland Budget Overview



Budget Calendar

- January 24: Council Planning Session
- March 27: Study Session- Overview of Budget and Finance
- April 14: Study Session- 2016 Budget Orientation
- June 9: Study Session- 2016-2025 Capital Program
- July 1: Regular Meeting- Resolution approving 2016-2025 Capital Program
- August 11: Study Session: Budget Development
- August 28: Recommended 2016 Budget distributed to Council
- September 9: Study Session: 2016 Recommended Budget
- October 6: Regular Meeting- Public Hearing and 2016 Budget, first reading
- October 20: Regular Meeting: 2016 Budget, second reading

Budget Development

- Council Planning Session
 - Provides management with Policy Direction
- Staff Develops Core Expense budget
- Staff Develops Revenue Forecast
- Determination of Reserve Needs
- Develop Budget instructions to Departments based on available revenue

Budget Development

- Staff presents Capital Plan to Council
 - Council approves by Resolution

- Departments submit Supplemental Requests
 - New, ongoing or one-time expenditures
 - Reviewed with City Manager at Budget Conferences
 - City Manager approves some (not all); inserted in Budget

Budget Development

- Staff presents to Council- Study Session
 - Also presented to CFAC

- Brought to Council for First Reading
 - Includes Public Hearing

- Comes back for Second Reading and final approval

Budget Assumptions

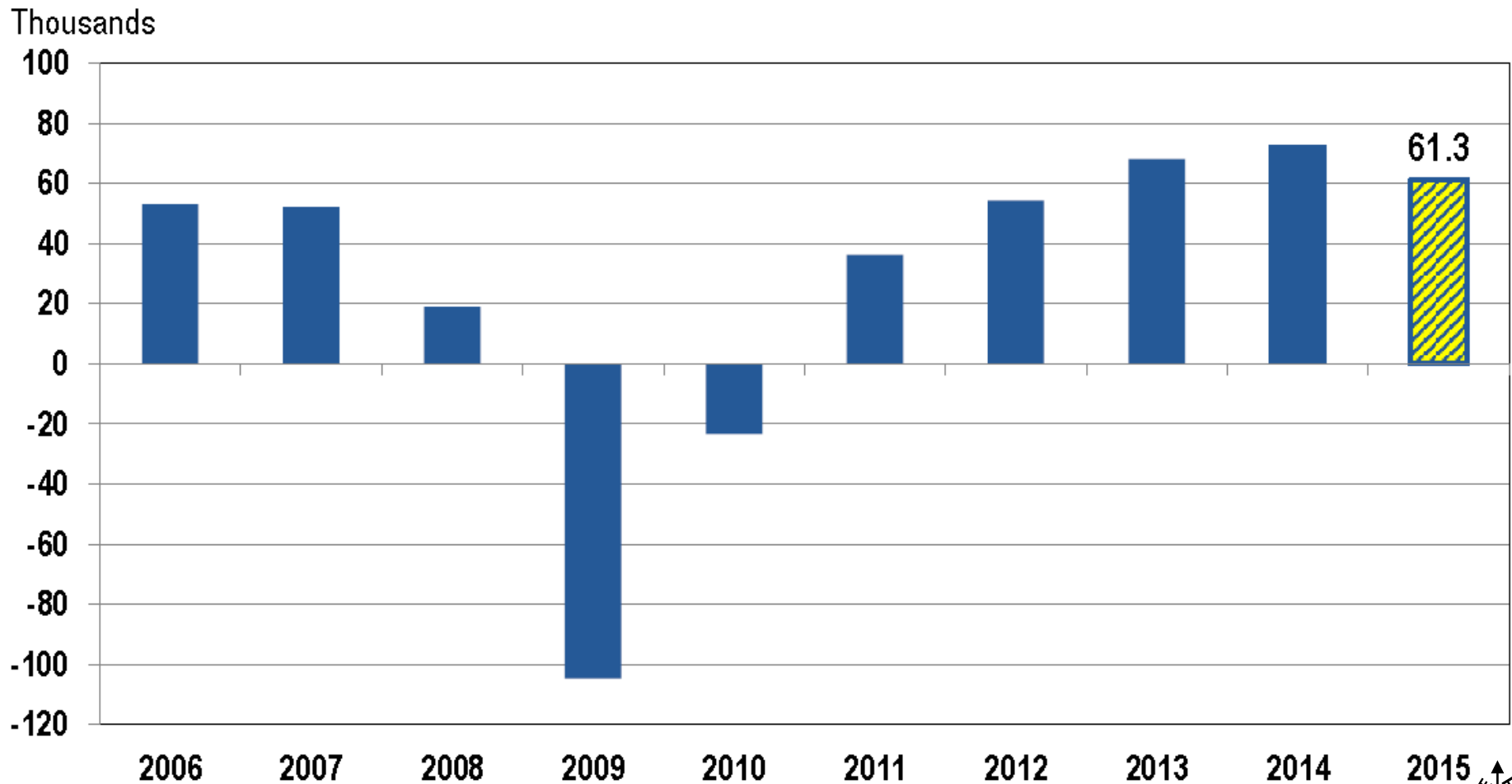


Budget Assumptions

- Economic analysis
 - Consistently monitor National, State, and Regional economy
- Regional analysis
 - Retail expansions in neighboring communities
 - Population growth patterns
- Loveland analysis
 - Short term, medium term, and long range planning

Colorado Employment Growth

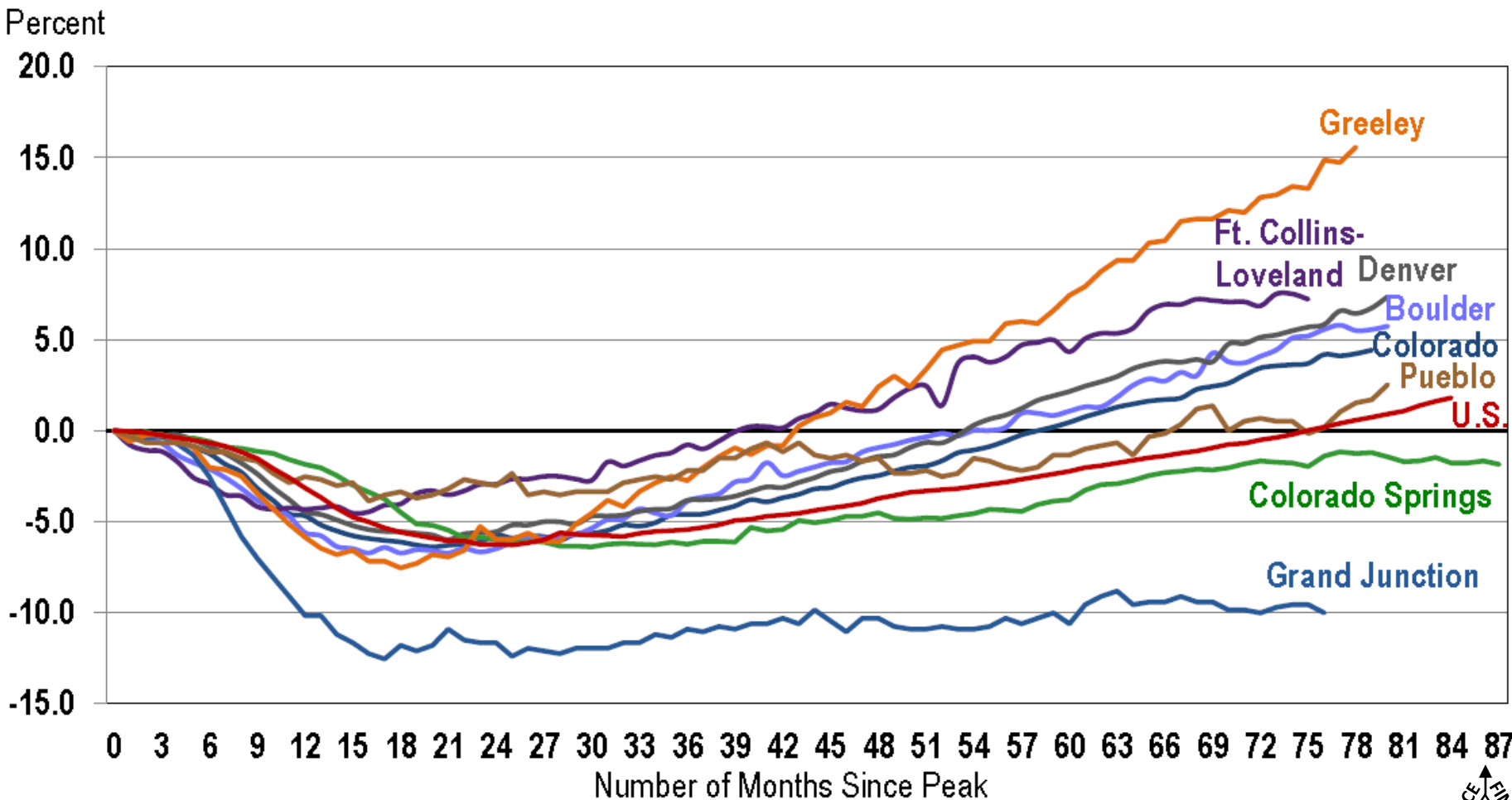
Jobs Added



Sources: Colorado Department of Labor and Employment, BEOF Committee Members.

Business Research Division • Leeds School of Business • University of Colorado

Employment Recovery National, State, and Local



Source: Bureau of Labor Statistics, CES, Seasonally Adjusted.

Business Research Division • Leeds School of Business • University of Colorado

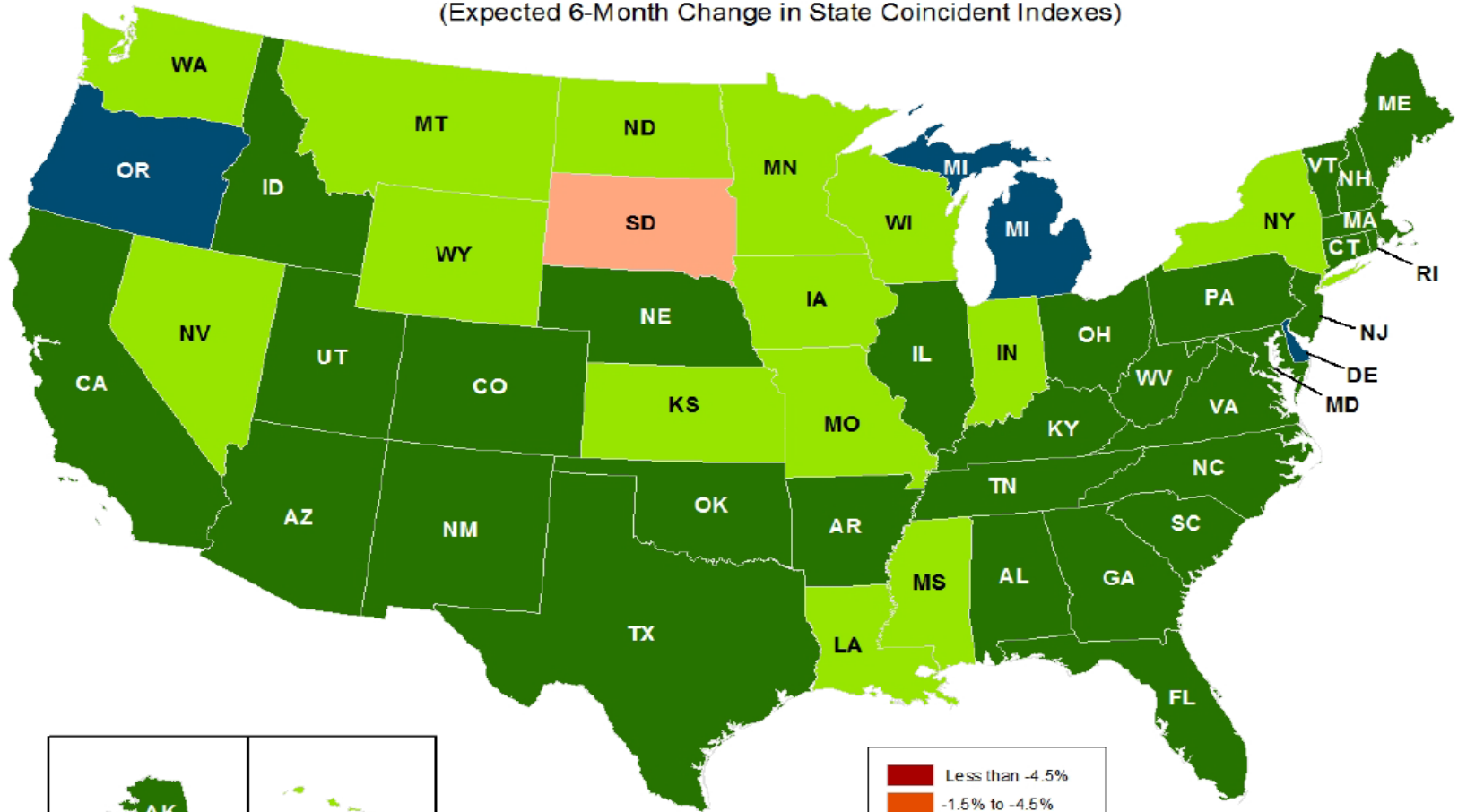


Data from the Federal Reserve Bank of Philadelphia shows leading indicators for Colorado still strong

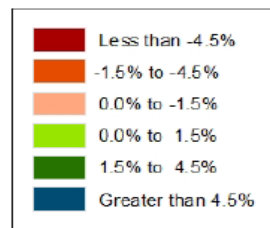
Posted February 2, 2015 on the Federal Reserve Bank of Philadelphia website.

December 2014 State Leading Indexes

(Expected 6-Month Change in State Coincident Indexes)



Source: Federal Reserve Bank of Philadelphia



Summary: Very strong indicators in Loveland, Colorado and the U.S. Many Headwinds still plague global and US economies – Oil prices a wild card

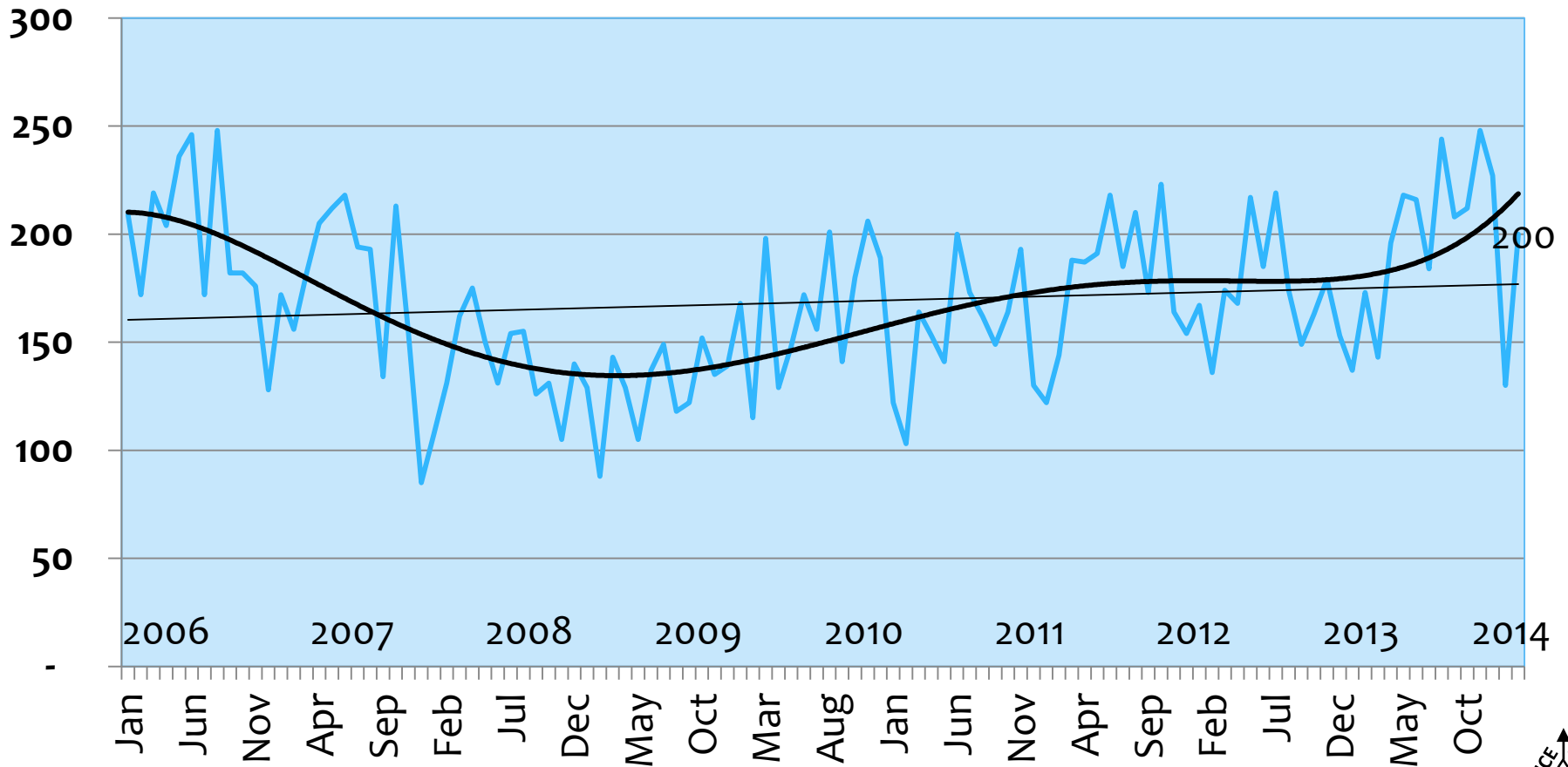
On one handthe positives

- * City sales & use tax revenues finished 2014 way ahead of 2013 and budget estimates. Building Use tax very strong the last few months.
- * State and local jobs and unemployment levels improving
- * Colorado and local housing sector still showing improvement, but sensitive to interest rates.
- * Overall trend of State and local foreclosures way, way down; much lower than before the recession.
- * U.S. consumers getting some relief from lower gasoline prices. Economic data reinforcing the view of an accelerating economy.

On the othermany risks remain ahead

- * January sales tax not as strong as previous months.
- * Global growth continues to disappoint. The International Monetary Fund reduced its global GDP forecasts again.
- * Concerns over geopolitics are still concerning. Russia controls natural gas supplies for many Eurozone countries.
- * Middle East remains in turmoil. Europe shocked by terrorism.
- * Disparity in interest rates of recovery on a global level. U.S. and advanced economies' policies hurting emerging economies. Europe interest rates at 200 year lows. 10 year treasury reached a new record low this week.

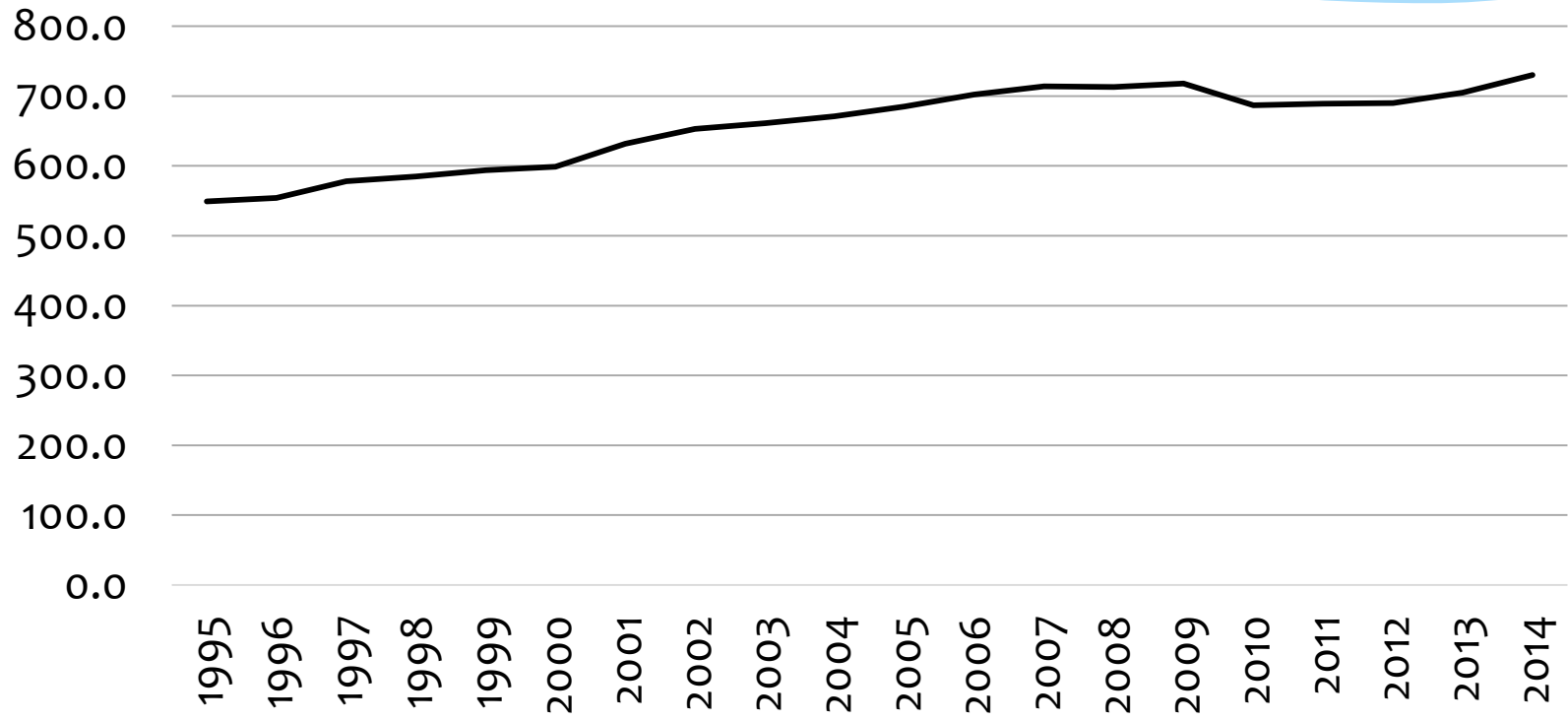
Loveland Building Permits since January 2006



Budget Assumptions

- Revenue Estimates: General Fund
 - Taxes
 - Health of Loveland economy
 - New retail projects
 - Potential competition
 - Other General Fund revenue sources
- Revenue Estimates: Enterprise Funds
 - Rate studies
 - Impact fees

Growth in FTEs

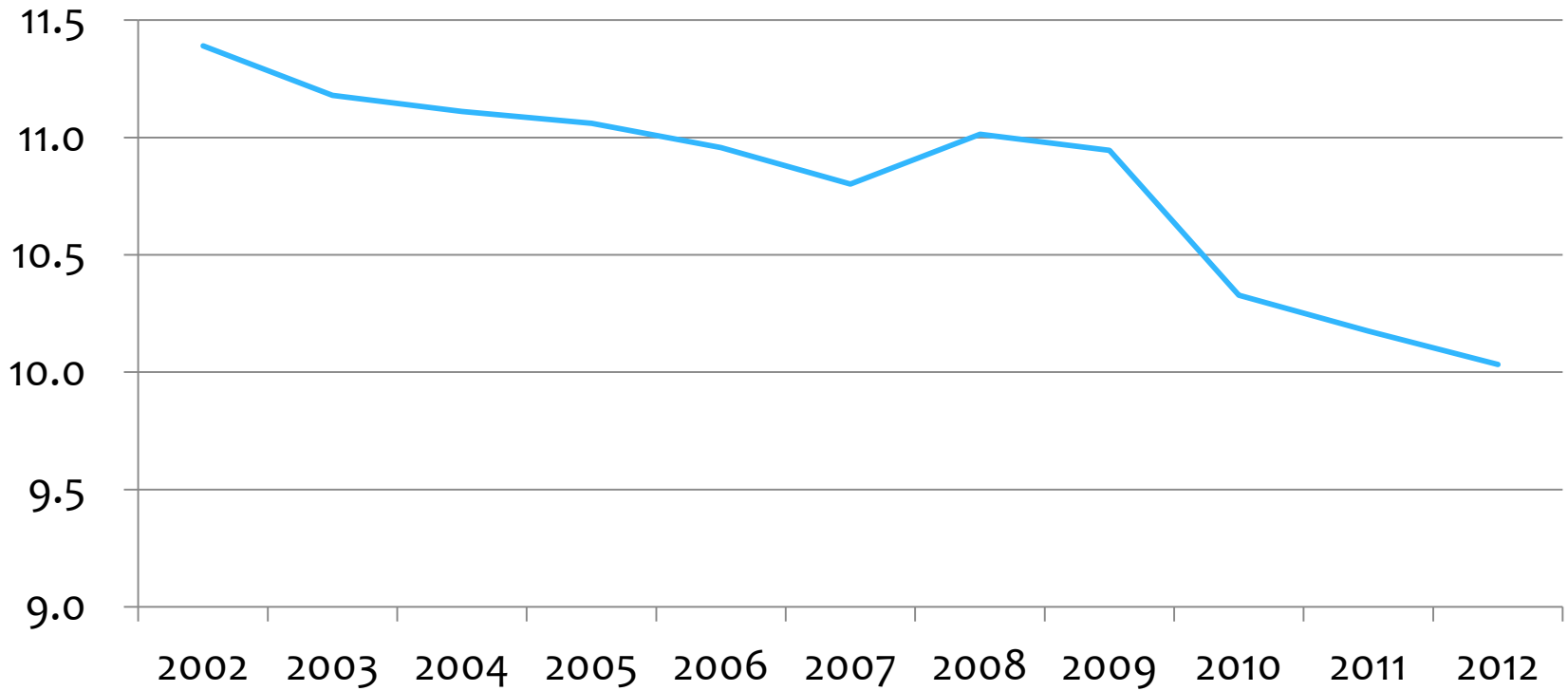


Net Increase: 33%



Growth in FTEs

FTE per 1000 Pop



Budget Assumptions

Segments	Actual and Estimated City Revenue					Trend Analysis			
	2012 YTD Rev	2013 YTD Rev	2014 YTD Rev	2015 Est Rev	2016 Est Rev	12 vs 13	13 vs 14	14 vs 15	15 vs 16
[CLASS] Taxes :	61,811,750	64,483,790	69,206,024	70,322,340	72,994,264	4.3%	7.3%	1.6%	3.8%
[CLASS] Licenses & Permits :	2,013,353	1,951,145	3,073,135	2,582,660	3,467,054	-3.1%	57.5%	-16.0%	34.2%
[CLASS] Fines And Penalties :	956,357	871,879	966,619	970,000	974,296	-8.8%	10.9%	0.3%	0.4%
[CLASS] Intergovern :	19,974,038	20,198,380	23,941,784	34,370,480	34,986,710	1.1%	18.5%	43.6%	1.8%
[CLASS] Charges For Services :	101,081,482	112,474,914	119,497,723	128,525,790	128,483,922	11.3%	6.2%	7.6%	0.0%
[CLASS] Interest Income :	2,324,257	(1,663,824)	3,805,167	1,759,080	1,975,000	-171.6%	100.0%	-53.8%	12.3%
[CLASS] Miscellaneous :	10,127,477	13,869,772	14,181,719	10,648,860	12,835,000	37.0%	2.2%	-24.9%	20.5%
[CLASS] Transfers In :	11,673,069	14,662,383	25,398,610	17,445,280	20,751,000	25.6%	73.2%	-31.3%	18.9%
[CLASS] Gain/Loss On Assets :	454,470	485,480	358,267	315,000	320,701	6.8%	-26.2%	-12.1%	1.8%
[CLASS] Contributed Assets :	716,610	3,070,562	1,384,731	1,200,000	2,100,000	328.5%	-54.9%	-13.3%	75.0%
[CLASS] Aid To Construction :	374,602	969,638	685,794	1,220,000	1,160,060	158.8%	-29.3%	77.9%	-4.9%
[CLASS] Raw Water Development Fees :	322,504	362,029	605,792	335,000	450,500	12.3%	67.3%	-44.7%	34.5%
[CLASS] Cash In Lieu :	117,187	1,217,652	46,200	250,000	243,935	939.1%	-96.2%	441.1%	-2.4%
[CLASS] Operating Revenues :	912,384	843,742	821,838	807,780	789,430	-7.5%	-2.6%	-1.7%	-2.3%
[CLASS] Non-Operating Revenues :	150,375	7,399	4,100	7,000	5,158	-95.1%	-44.6%	70.7%	-26.3%
[CLASS] Capital Contributions :	976,036	2,941,287	190,022	550,000	478,302	201.4%	-93.5%	189.4%	-13.0%
[CLASS] Fees :	9,813,561	9,702,005	13,429,803	11,057,500	13,308,190	-1.1%	38.4%	-17.7%	20.4%
Grand Total :	223,799,512	246,448,232	277,597,327	282,366,770	295,323,523	10.1%	12.6%	1.7%	4.6%

Budget Assumptions

PRELIMINARY

- Sales Tax: 4.0% (adjusted for sales tax on food for home consumption)
- Use Tax: 4.0%
- Expense Growth: Zero, except in specified areas brought forward in Departmental budget requests
- Merit Pool: 3.5%

Budget

A financial plan of estimated expenditures and the means of financing them for a stated period of time. Upon approval by the City Council, the budget appropriation ordinance is the legal basis for expenditures in the budget year.

Budget Overview

- The budget allows City Council to allocate resources to programs and services
- The budget provides assurance that budgeted expenditures will be covered by projected revenues
- Budgeted revenues and expenditures are estimates

Budget Overview

- The budget is amended frequently
 - 35 Supplemental Appropriations in 2014 (net of Rollover)
 - \$66,802,840
- Not just a one year planning document
 - Capital Program
 - Financial Master Plan

Legal Requirements

City Charter – Article 11 (amended November 6, 2007)

- Established the deadline for Departmental budgets
- Establishes the deadline for submission to Council
- Establishes the deadline for adoption by Council
- Requires a Capital Budget
- Provides for Budget Control
- Stipulates that appropriations lapse at 12/31

Legal Requirements

State Statute

- Requires the adoption of a budget
- Sets the deadline for adopting budget (December 15)
- Provides for operations when the governing body fails to adopt
- Provides for ability to change the budget during year

TABOR

- City can retain excess revenues due to voter approval
 - Excess revenue is restricted to specific uses
- City may not enter into multi-year financial obligations without voter approval
 - General Obligation debt
 - Contracts/Leases
 - Non-Appropriation Clause is standard
- Enterprise Funds may issue debt secured by operating revenues
- City may not raise taxes or enact new taxes without voter approval

TABOR Reserves

- TABOR Emergency Reserve
 - 3% of expenditures
- TABOR Election: November 6, 2001
 - Allowed retention of excess revenues, 1/1/03 - 12/31/12
 - Balance projected to last through 2020
- TABOR Election: November 1, 2011
 - Allowed retention of excess revenues, 1/1/13 – 12/31/24
- Restricted to Police and Fire, street construction and maintenance, and parks construction and maintenance

Budget Terms

Administrative Allocation – Internal charges assessed by City agencies that provide services directly to other City agencies.

Cost Recovery- the extent to which Departments/ Divisions/Programs generate revenues that offset (in whole or in part) their cost of operations. An example is the Rialto Complex: revenues are generated through ticket sales, fees, and facility rentals. The overall operating costs are greater than this revenue; the difference is covered by the general fund subsidy.

Budget Terms

Appropriation – A legal authorization made by the City Council to make expenditures and incur obligations for specific purposes. The Adopted Budget is the City’s comprehensive appropriation; Supplemental Appropriations are used to amend the Adopted Budget

Fund – Accounting entity with a self-balancing set of accounts, which is segregated from other funds, to carry on specific activities or attain certain objectives.

Budget Terms

Capital Program – An annually updated plan of capital expenditures for public facilities, infrastructure and major fixed assets, valued at \$250,000 or more, with estimated costs, sources of funding and timing of projects over a five–year period

Operating Budget – The portion of the budget that pertains to daily operations providing basic governmental services. The operating budget contains appropriations for such expenditures as personnel services, supplies and materials.

Budget Terms

Reserve – Funds set aside in the current and past years for the purpose of paying for capital needs, providing for obligations and liabilities, and meeting emergency needs.

Fund Balance - the difference between assets and liabilities in a governmental fund.

Budget Terms

Variance- Describes a difference between budget estimates and actual financial results. Variance analysis is applied to both revenues and expenditures.

Rollover- Projects are budgeted, in total, in the year they commence (or are scheduled to commence); commonly, these projects are finished in a subsequent year. Because all appropriations lapse at 12/31, it is necessary to re-appropriate, or **rollover**, in the following year. Rollover has no net impact on fund balance.

Fund Accounting



Fund Accounting

- What is a fund
 - Revenues, Expenses, Assets, and Liabilities grouped together to carry out certain activities
 - “Pots” of Money
 - Tracked independently

- Benefit of Fund Accounting
 - Different Fund types have different accounting rules
 - Separation into Funds makes it easier to track large, separate activities

Fund Accounting

- Required by GAAP, refined by GASB
- Recognizes fundamental differences between Governmental and Private Sector
 - Private sector, generally “single entity”, uses profits as basis of accounting
 - Government Enterprise Funds are somewhat similar
 - General Government Funds are not

Fund Composition

City Funds: 57 Total

- 5 General Government
- 1 Capital
- 1 Permanent
- 27 Special Revenue
- 16 Enterprise
- 4 Internal Service
- 3 Fiduciary

City of Loveland Fund Illustration

100	105	106	107	111	120
140	200	201	202	203	204
205	206	207	208	209	210
211	260	261	262	263	264
265	266	267	268	269	280
300	301	302	303	304	315
316	317	330	331	332	345
346	360	375	600	500	501
502	503	601	602	603	604
700	701	702			

	Governmental
	Capital
	Permanent
	Special Revenue
	Enterprise
	Internal Service
	Fiduciary

57 Total Funds



Enterprise Fund

- Operations are primarily or exclusively funded by fees and charges
- Enterprise Funds are intended to be self-sufficient
 - Dependence on transfers from Governmental Funds indicates imbalance in fees/charges and operating expenses
 - Enterprise Fund revenues should be managed so they are adequate to also fund capital expansion
- Under TABOR, transfers from other funds are restricted to no more than 10% of total funding
 - Failure to comply means the enterprise fund can no longer issue revenue debt

Fiduciary Fund

- Assets that are held in trustee or agency capacity
- Pension
 - Paid Fire Pension
 - Volunteer Fire Pension
- Agency
 - Special Improvement District #1

Governmental Funds: Everything Else

- General Fund
 - The City's basic operating fund
 - Captures revenues from various sources; not just taxes
 - Not totally discretionary
- Special Revenue Funds
 - Specific revenue source
 - Used for specific purpose
- Capital Projects Fund
- Permanent Fund
 - Cemetery

Compensation Philosophy & Methodology



Philosophy

- * Support organization's mission, goals and objectives
- * Competitive
- * Market-based
- * Fiscally responsible

Methodology

- * Market survey resources
 - * Audited and validated surveys
 - * Public and Private Sector data if applicable
 - * Actual rates of pay to develop “market value”
- * Job matching
 - * Determine appropriate market match with salary survey
 - * Ensure valid sample size
- * Pay ranges
 - * Establish levels/ranges through external equity & internal equity analysis
 - * Minimum and maximum of range correlate to the midpoint/market value

Annual Compensation Process

- * Market data analysis
 - * Annually review survey data and recommend adjustments to midpoint/market rates for grades and/or step plan when necessary
 - * Market pay adjustments only if employee falls below minimum of range
- * Job matching
 - * On-going position reviews when job descriptions are updated
 - * Annual review and confirmation of one-third of the City's positions/job matches
- * Adoption of the Pay Plan
 - * Annually City Council adopts the Pay Plan which includes our Philosophy, Holiday Schedule and the following Pay Plans: Exempt, Non-Exempt and Part Time Plans, as well as the Police Department Step Plan.

Fund Balance



Fund Balance

- Fund Balance Types (per GASB 54)
 - Non-spendable
 - Restricted: by Federal or State law or Constitution
 - Committed: by Ordinance, to a specific purpose
 - Assigned: balance set-aside by management for a specific purpose
 - Unassigned: balance in a fund, may be used for any purpose

2015 General Fund Balance

Beginning Balance:	<u>21,420,000</u>
Non-Spendable:	20,000
Restricted:	1,900,000
Committed:	12,000,000
Assigned:	1,500,000
Unassigned:	6,000,000

Fund Balance

- City Reserve Policy (per Ordinance)
 - Reserve at least 15% of operating fund expenditures.
 - Not true of all funds
 - Purpose: to reserve resources to provide a bridge for funding services in deteriorating economic environment

- Committed fund balance includes Council Reserve
 - Established by ordinance
 - 2.5% of tax revenue

Return to Fund of Origin

- When cash comes back to the City, it always returns to the Fund of Origin
 - Unspent Appropriation
 - Project Completion
 - Liquidation of Assets
- Required by GAAP
 - Funds are self-contained accounting units
- Required by Charter
 - 11-6(d) No Interfund Transfers without Council approval

Expenses by Fund and Department

Gross Budget	General Fund	Internal Service Funds	Enterprise Funds	Special Revenue Funds	Total City Budget	Other Entity Funds	Total All Funds
Expense By Department							
Legislative	153,590	-	-	-	153,590	-	153,590
Executive/Legal	2,067,420	-	-	-	2,067,420	-	2,067,420
Clerk & Court Admin.	1,079,650	-	-	-	1,079,650	-	1,079,650
Cultural Services	2,025,270	-	-	351,040	2,376,310	-	2,376,310
Development Services	4,064,170	-	-	301,780	4,365,950	-	4,365,950
Economic Development	1,191,400	-	-	875,200	2,066,600	-	2,066,600
Finance	4,888,570	-	-	-	4,888,570	11,800,650	16,689,220
Fire & Rescue	-	-	-	606,240	606,240	11,896,420	12,502,660
Human Resources	1,269,810	14,984,330	-	-	16,254,140	-	16,254,140
Info. Technology	4,053,040	-	-	-	4,053,040	-	4,053,040
Library	3,201,750	-	-	190,000	3,391,750	-	3,391,750
Parks & Recreation	10,562,430	-	3,831,820	7,229,190	21,623,880	14,820	21,638,700
Police	19,591,890	-	-	1,136,500	20,728,390	-	20,728,390
Public Works	5,228,480	6,011,870	11,450,670	16,166,330	38,857,350	2,371,410	41,228,760
Water & Power	-	-	92,379,880	-	92,379,880	-	92,379,880
Non-Departmental	10,165,270	-	-	-	10,165,270	-	10,165,270
Admin. Overhead	(6,391,070)	-	-	-	(6,391,070)	-	(6,391,070)
Transfers	10,826,810	-	1,736,470	2,682,000	15,245,280	-	15,245,280
Total Expenses	\$73,978,480	\$20,996,200	\$109,398,840	\$29,538,720	\$233,912,240	\$26,083,300	\$259,995,540
Ending Balance	\$30,240,750	\$12,153,890	\$73,934,600	\$38,655,250	\$154,984,490	\$2,316,270	\$157,300,760

Source: Page 4-2, 2015 Budget

Fleet



APPROPRIATION



Appropriation

Council Controls the Budget

- Every dollar spent has been authorized and appropriated by Council
 - Ensures total transparency and accountability
- Every change to the budget (Supplemental Appropriation) is fully explained
 - Staff Report
 - Ordinance
 - Complete backup documentation

Appropriation

Council Controls the Budget

- The City is unlikely to spend the total appropriation
 - Conservative budgeting
 - Generally, actual revenues exceed forecast
 - Actual expenditures are rarely greater than budget
 - Surplus is captured in fund balance

Reasons for Supplemental Appropriations

- Re-appropriation: prior Projects or initiatives (Rollover)
 - Necessary for projects that cross the fiscal year

- Unanticipated Revenue
 - Grants or other revenue not anticipated needs to be appropriated to give staff authority to spend

Reasons for Supplemental Appropriations

- New Priorities or Initiatives that arise mid-year
 - There may be assigned fund balance available
 - Unanticipated projects may be deemed higher priority than budgeted projects; existing budget may be re-appropriated
- Unassigned fund balance may be available as funding source
 - Such appropriations do not compromise or interfere with the City's ability to carry out other projects or operations
 - Unassigned fund balance is, by definition, a financial resource available for appropriation at the discretion of City Council

Which Fund to Use?

- First: most restricted allowable fund
- Then: next most restricted allowable fund
 - Step down as appropriate
- Finally: most general
 - Value of the General Fund- Flexibility

Budget Rollover

- Appropriations lapse at December 31; projects may not
- When a project continues over the year end, it becomes necessary to re-appropriate (rollover) the prior year appropriation
- Rollover is important for continuity and contractor confidence
 - Contractors trust the City to continue funding into the new year
 - Absent this trust, the City would have difficulty contracting; higher risk would also result in higher cost

Budget Rollover

- Early in new year, Rollover Ordinance is brought to Council, which includes
 - Projects that began but weren't completed in prior year
 - Projects that were expected to begin in prior year but were delayed
 - Some operating budget MAY be rolled over

- Rollover doesn't change long term fund balance

Budget Rollover- Example 1

Two year Budget

Capital Project included in Year One

Ending fund balance in Year One and Year Two = \$5 million

Budget Rollover- Example 1

Year 1

Beginning Fund Balance	5,000,000
Revenue	100,000,000
Operating Expense	75,000,000
Capital Project	<u>25,000,000</u>
Ending Fund Balance	5,000,000

Year 2

Beginning Fund Balance	5,000,000
Revenue	100,000,000
Operating Expense	<u>100,000,000</u>
Ending Fund Balance	5,000,000

Budget Rollover- Example 2

Due to unforeseen and uncontrollable events, the Capital Project can't be built until Year Two.

Ending Fund Balance in Year One is \$30,000,000 (\$5,000,000 + \$25,000,000)

In Year Two, Staff brings a Rollover Ordinance to Council, asking to re-appropriate \$25,000,000. The capital project is built.

Ending Fund Balance in Year Two is \$5,000,000

Budget Rollover- Example 2

Year 1

Beginning Fund Balance	5,000,000
Revenue	100,000,000
Operating Expense	<u>75,000,000</u>
Ending Fund Balance	30,000,000

Year 2

Beginning Fund Balance	30,000,000
Revenue	100,000,000
Operating Expense	100,000,000
Capital Project	<u>25,000,000</u>
Ending Fund Balance	5,000,000

Reading the Budget



Budget Control



Budget Control

- Budget Control includes closely monitoring Departmental budget variances
- If actual expenditures exceed budget
 - Budget transfers from other areas within the department
 - Supplemental Appropriation may be considered
- If expenditures are less than budget
 - Unspent amounts become part of ending fund balance

Evaluating the Budget

- Actual Spending and Budget amounts will never be the same
 - Is the variation significant?
 - What is the cause of the variation?
- Budget Surplus goes into Fund Balance
- Budget is re-drafted and re-examined each year

Budget Oversight

What should Council look for in approving a Budget:

- Is there appropriate funding to meet service delivery requirements and major policy initiatives?
- For Operating Funds – Does on-going (annually recurring) revenue equal or exceed on-going operating expense?
- Are reserves/fund balances declining? Is this a planned spend down or a revenue issue?
- Projection Assumptions: developed by staff based on data and professional judgment – do they seem reasonable?

Focus and Direction

