

**AGENDA**  
**LOVELAND CITY COUNCIL STUDY SESSION**  
**TUESDAY, APRIL 14, 2015**  
**CITY COUNCIL CHAMBERS**  
**500 EAST THIRD STREET**  
**LOVELAND, COLORADO**

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**STUDY SESSION 6:30 P.M. - STUDY SESSION AGENDA**

1. **COMMUNITY PARTNERSHIP** (presenter: Alison Hade; 60 min)  
**AFFORDABLE HOUSING POLICY**  
This is an informational presentation and discussion of the City's current policy around affordable housing investments for both single-family and multi-family housing projects.
  
2. **FINANCE** (presenter: Marc Kahn, 60 min)  
**BUDGETING ORIENTATION**  
Staff will present a preliminary review of the 2016 budget development process, including staff recommendations regarding the possible phased elimination of the 3% sales tax on food for home consumption; and a look ahead at possible direction for 2017 and 2018.

**ADJOURN**



**COMMUNITY PARTNERSHIP OFFICE**

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**AGENDA ITEM:** 1  
**MEETING DATE:** 4/14/2015  
**TO:** City Council  
**FROM:** Greg George, Development Services Director  
**PRESENTER:** Alison Hade, Community Partnership Office

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**TITLE:**  
Affordable Housing Policy

**RECOMMENDED CITY COUNCIL ACTION:**  
Provide City Staff direction to create an annual budget line item for Affordable Housing.

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**SUMMARY:**  
This is an informational presentation and discussion of the City's current policy around affordable housing investments for both single-family and multi-family housing projects.

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**BACKGROUND:**  
Over the last 12 months, City Council waived development fees for single-family and multi-family projects totaling almost \$3.2 million and backfilled \$532,099. A request was made by city council to discuss the City's policy around affordable housing. The materials presented include information about the need for affordable housing, fee waivers and other forms of City funding granted for projects, and the number of housing units that have resulted from the funding. The presentation will include discussion around whether or not a budget should be designated for affordable housing activities.

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**REVIEWED BY CITY MANAGER:**

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**LIST OF ATTACHMENTS:**

- 1. Staff Memo
- 2. Presentation

## MEMORANDUM

**TO:** City Council

**FROM:** Alison Hade, Community Partnership Office

**DATE:** April 14, 2015

**RE:** Affordable Housing Policy

Funding for affordable housing has primarily included fee waivers, fee reductions, Community Development Block Grants (CDBG), and other amounts awarded by City Council. The affordable housing policy, adopted into Code in 1999, has encouraged all sectors of the development and building community to participate, with a cafeteria style incentive program to reduce the cost of infrastructure for rental and single family units. As a result, the City is in the position of dependence on the development community to bring affordable projects, rather than the City actively involved in the development and construction of affordable housing. Although the policy was put in place in 1999, it was not until 2006 that the City began to have any significant activity.

Following this policy has resulted in a loss of potential revenue, but has also limited cash outlays from the City. The cash outlays that have occurred have been primarily to backfill impact fees waived in the Water, Wastewater, Power and Storm Water Enterprises (Utility Fees) with General Fund resources for waivers given to Habitat for Humanity and most recently to the Loveland Housing Authority. For most other developments the utility fees are specifically excluded from the waiver.

The chart below lists projects and when waivers were booked to the financial system starting in 2006, which is when data can most easily be retrieved.

<b>Affordable Housing Fees Waived or Reduced</b>											
Project	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Year to date	Total
Giuliano	-	412,474	323,390	191,819	166,345	131,698	206,747	-	416,768	208,460	2,057,701
Habitat for Humanity	-	127,742	69,970	127,667	202,227	151,462	192,201	187,911	165,760	208,417	1,433,357
Harvest Point	-	150,041	-	-	-	-	-	-	-	-	150,041
Koldeway	-	-	-	11,974	66,626	-	-	-	-	-	78,600
Mirasol I	589,747	23,602	13,863	-	-	-	-	15,953	-	-	643,165
Mirasol II	-	-	-	-	-	-	331,953	699,401	-	-	1,031,354
Pedcor	-	-	-	-	-	-	-	-	1,512,860	-	1,512,860
The Edge	-	-	-	-	-	-	-	-	-	1,247,170	1,247,170
<b>Total fees waived</b>	<b>589,747</b>	<b>713,859</b>	<b>407,223</b>	<b>331,460</b>	<b>435,198</b>	<b>283,160</b>	<b>730,901</b>	<b>903,265</b>	<b>2,095,388</b>	<b>1,664,047</b>	<b>8,154,248</b>
Fees Backfilled	-	57,333	-	40,361	83,637	58,160	66,090	65,000	57,853	467,099	895,533
<b>Net Revenue Lost</b>	<b>589,747</b>	<b>656,526</b>	<b>407,223</b>	<b>291,099</b>	<b>351,561</b>	<b>225,000</b>	<b>664,811</b>	<b>838,265</b>	<b>2,037,535</b>	<b>1,196,948</b>	<b>7,258,715</b>

Notes: **Habitat for Humanity** (2015) is an estimated amount. All other years are actuals. **The Edge** project (2015) shows amount waived and backfilled, and the number of multi-family units that will result. The **Pedcor** project has only completed 18 units to date. The amounts shown are for the full build-out of the project.

The impact of the loss of revenue should not be minimized in considering the City's investment in affordable housing. This is revenue that, if collected, could have been used for other City operations or capital projects. The investment due to lost revenue from fees totals more than \$8.1 million as shown on the table above, averaging \$815,424 per year starting in 2006 (Habitat for Humanity has been building affordable housing in Loveland since 1995, but fee waivers can only be verified as accurate starting in 2006). To place this average annual investment in context, it is similar to the cost of the Municipal Court function, or the cost of the Adult Services Division of the Library, or the cost of sports field maintenance in the Parks & Recreation Department. It is slightly less than the cost of the Records Section or the Traffic Enforcement Section that reside in the Police Department.

Since 2006, the City has invested in 701 affordable housing units (both single family and multi-family), including 60 assisted living units. The table below includes fees waived or reduced as shown above, and other City investments, such as Community Development Block Grant funding or other General Funds granted. Including all sources of funding, the average investment the City has made is \$14,033 per unit.

#### Affordable Housing Cost per Unit

Project	Units	Total Fees Waived	Other Funding	CDBG	Investment/Unit
Art Space	30		549,750		18,325
Giuliano	27	2,057,701			76,211
Habitat for Humanity	70	1,433,357		370,963	25,776
Harvest Point	80	150,041			1,876
Koldeway	4	78,600			19,650
Lincoln Hotel	15	-	220,000	203,579	28,239
Mirasol I SF	12	158,944			13,245
Mirasol I MF	49	484,221		223,681	14,447
Mirasol II	120	1,031,354		115,000	9,553
Pedcor	224	1,512,860			6,754
The Edge	70	1,247,170			17,817
<b>Total</b>	<b>701</b>	<b>8,154,248</b>	<b>769,750</b>	<b>913,223</b>	<b>14,033</b>

Note: The Giuliano First Subdivision will result a minimum of 71 affordable SF homes, of which 27 have currently been built.

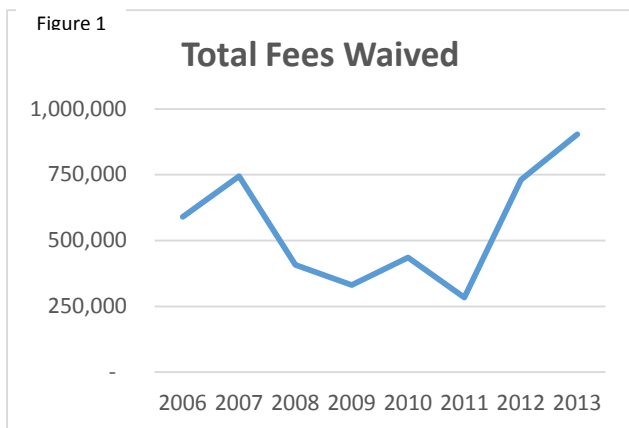
Of the 701 units, 113 are single family with an average investment of \$36,279 per unit. Multi-family units total 588 with an average investment of \$9,758 per unit. The apartments have a significantly lower cost per unit, at about 30% of the cost for a single family unit.

#### Affordable Housing Cost per Unit

	Units	Total Fees Waived	Other Funding	CDBG	Per Unit
Single Family	113	3,728,602	0	370,963	36,279
Multi Family	588	4,425,646	769,750	542,260	9,758

## Conclusion

Under the current policy, the City has relied on private or non-profit organizations to provide housing, with an incentive package that reduces building and development fee costs. While the policy has reduced the amount of revenue that could have been received from a project for planning, building and impact fees, it has also ensured that the City does not become a housing developer by directly financing and or constructing the entire affordable housing project. The policy also avoids the cost that would be necessary to manage the projects if the City was a direct provider.



Budgeting for affordable housing is difficult under the current policy because of the difficulty of projecting when the affordable units within a development will be constructed, as shown in Figure 1. The graph is shown just through 2013 to avoid the data skew that occurs by showing the total build-out of the Pedcor project that has just begun. Multi-family projects are extremely variable as to when projects will be brought to the City.

The history shows that an average of \$815,424 of lost revenue occurs each year. This is skewed high due to showing the total build-out of the Pedcor and Loveland Housing Authority projects. Using 2006-2013 the average is closer to \$503,025. It may be prudent in budgeting for the General Fund to carry a reserve of this amount. This will ensure not all of the available resources in any year are budgeted for other on-going expenses and will provide a source should the revenue projections in a given year fall short to fund on-going operations that otherwise may have to be reduced so that expenses match to actual revenue received. A method would be an accounting exercise to transfer this amount to a housing fund on an annual basis. The funds could then be transferred back to the General Fund and impact fee funds as the waivers occur, if effect provided a backfill for the lost revenue. While there would be no real impact to the annual budgets, this may provide more transparency into the actual investment of the City in affordable housing.

This study does not answer the question of what is a reasonable cost per unit the City should plan for affordable housing provision, but provides a look at what has occurred over the past ten years. It also does not address the adequacy of the current policy to providing for the affordable housing need, which would need compared to a current needs assessment to evaluate if the policy is proving for an adequate number of units.

**AFFORDABLE HOUSING GAP:**

Income	# of Households	Can afford	Owned Units	Rented Units	Total Units	Gap	AMI ***
\$10,000 or less	1,380	up to \$250	64	442	506	-874	`14%
\$10,000 to \$14,999	1,451	\$375	223	371	594	-857	`21%
\$15,000 to \$24,999	3,508	\$625	472	2,441	2,913	-595	`35%
\$25,000 to \$34,999	3,736	\$875	1,362	2,915	4,277	541	`50%
\$35,000 to \$49,999	3,986	\$1,250	6,119	3,651	9,770	5,784	`71%
\$50,000 to \$74,999	5,841	\$1,875	3,083	1,013 **	4,096	-1,745	`107%
> \$75,000	9,301	2,500 or more	1,656 *				
	29,203		12,979	10,833	22,156	-7,047	

\* Source: US Census - combines all owned units with a mortgage of \$2,000 a month or greater.

\*\* Combines all rental units paying \$1,500 a month or greater.

\*\*\* Assumes average household size of 2.4 people. 80% AMI for 3 person household is \$56,050.

Source: American Fact Finder, DP03 2011-2013, DP04 2011-2013

28% of households paying a mortgage pay more than 30% of their income on housing. 53% of renter households also pay more than 30%.

The Loveland Housing Authority (The Edge) and Habitat for Humanity projects will provide units at the 30%, 40%, 50% and 60% AMI level. The Pedcor project will provide housing at the 60% AMI level.

**CURRENT POLICY INCENTIVES:**

**Affordable housing designation (16.43.035).**

- The city council shall review applications and make the final determination to approve, approve with conditions, or deny such applications by resolution.

**Use tax credit (16.43.100).**

- An applicant may receive a sum equal to the building materials use tax.

**Exemption from capital expansion fees (16.38.080)**

- City Council may grant an exemption from all or part of the capital expansion fees.

1. If granted for rental housing, the exemption shall be as follows:

Percentage of area median income to be served	Minimum percentage of units in development set aside as affordable housing	Percentage of fees waived for affordable housing only
30%	10%	100%
40%	15%	90%
50%	20%	80%
60%	40%	70%

2. If granted for “for-sale” housing, the exemption shall be as follows:

Percentage of area median income to be served	Minimum percentage of units in development set aside as affordable housing	Percentage of fees waived for affordable housing only
40%	5%	90%
50%	10%	80%
60%	15%	70%
70%	20%	60%
75%	25%	25%
80%	30%	15%

**Capital expansion fee waiver (16.38.085).**

- Capital expansion fees, water rights requirements and fees, and any other fees ... shall be calculated as of the date on which the city council adopts a resolution designating the housing development as affordable. The development fees shall be valid for five years thereafter.

# **AFFORDABLE HOUSING POLICY**

Report to the Loveland City Council

April 14, 2015





# DISCUSSION

- History of affordable housing policy.
- City investment in affordable housing.
- Accomplishments from current policy.
- Policy direction.

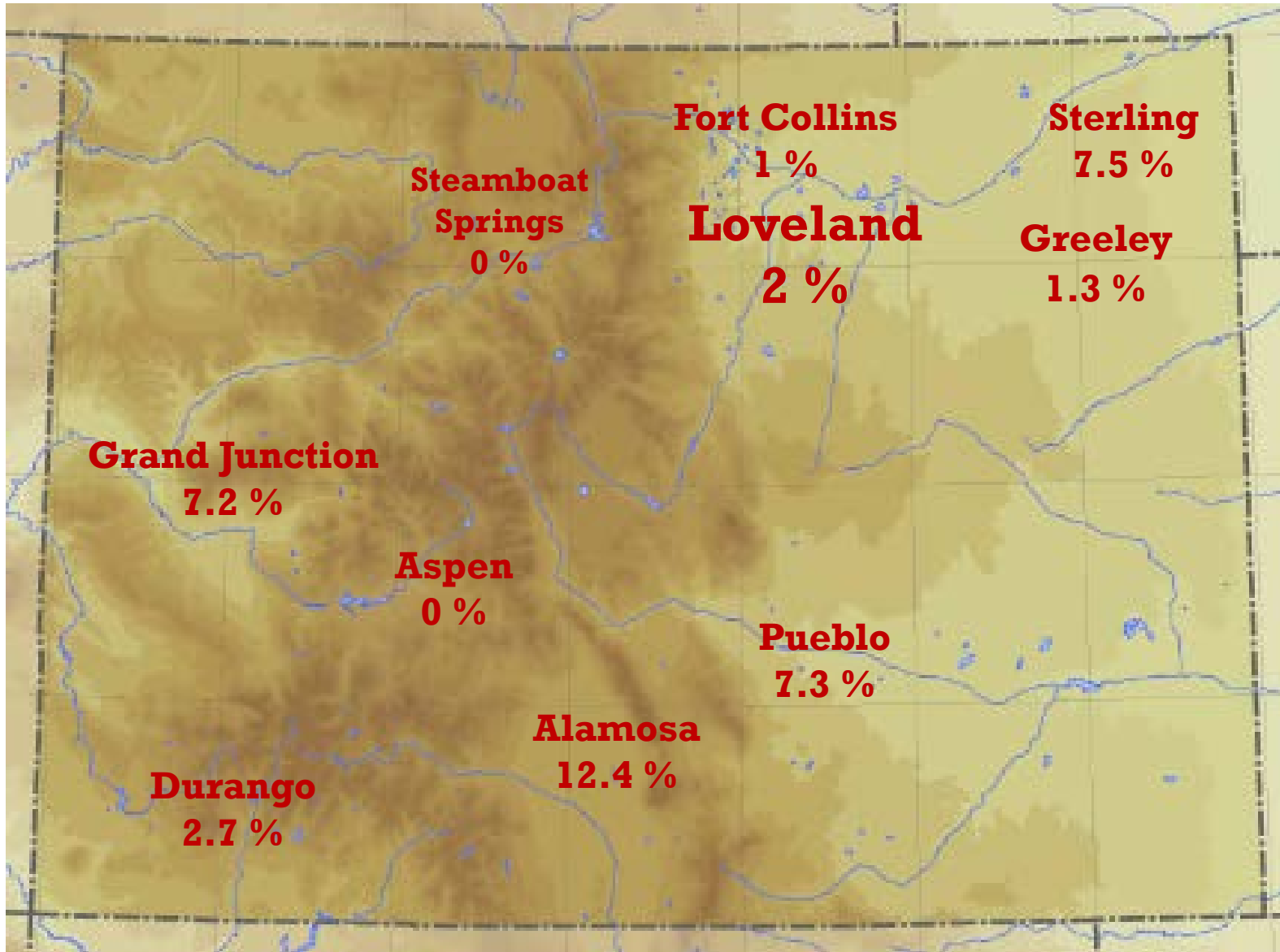


# A BRIEF HISTORY

- 1971 – Loveland Housing Authority formed.
- 1994 – Adopted an **Affordable Housing Policy**.
- 1999 – Affordable housing **deed restricted**.
- 2000 – CEF's and water **locked in** as of application date.
- 2002 – **Use tax credit** added as an **incentive**.
- 2009 – Code amended to make **fee waivers predictable**.
- 2011 – Five-year rolling lock. **Participation of City Council** in designation process.



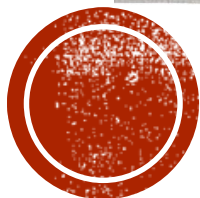
# MULTI-FAMILY VACANCY RATE BY CITY<sup>11</sup>



# AFFORDABLE HOUSING GAP

This Week in History

10 YEARS AGO



- A consultant said Loveland needed 5,400 more housing units by 2010 to meet the needs of low-income residents.

Sunday  
February 8, 2015

LOVELAND • COLORADO

REPORTER-HERALD

## The goal:

## Decent, quality housing that costs:

- no more than 30% of a household's gross monthly income
- for rent/mortgage and utility payments

# WORK FORCE HOUSING DRIVES ECONOMIC GROWTH



- Reduces cost of child care
- Reduces school turnover
- Reduces commuting
- Reduces stress

## **Location Matters!**

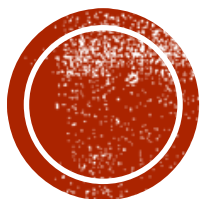
**The Development of Affordable Housing Can Help Attract Both New Employers and a Skilled Workforce**



## National Association of Homebuilders: Housing Affordability

68% of Loveland households can afford a median priced home, which is \$273,410.

By comparison, 63% of U.S. households can afford a median priced home and in San Francisco, only 11% of households can.



	Owner	Renter
Loveland	62%	38%
United States	64%	36%

# OCCUPIED HOUSING

# HOW MUCH HAS THE CITY INVESTED?

## Since 2006 (Ten Years):

Fee waivers	\$8,154,248
Other incentives	<u>\$769,750</u>
<b>TOTAL</b>	<b>\$8,923,998 *</b>

Total annually for 10 years: \$892,400

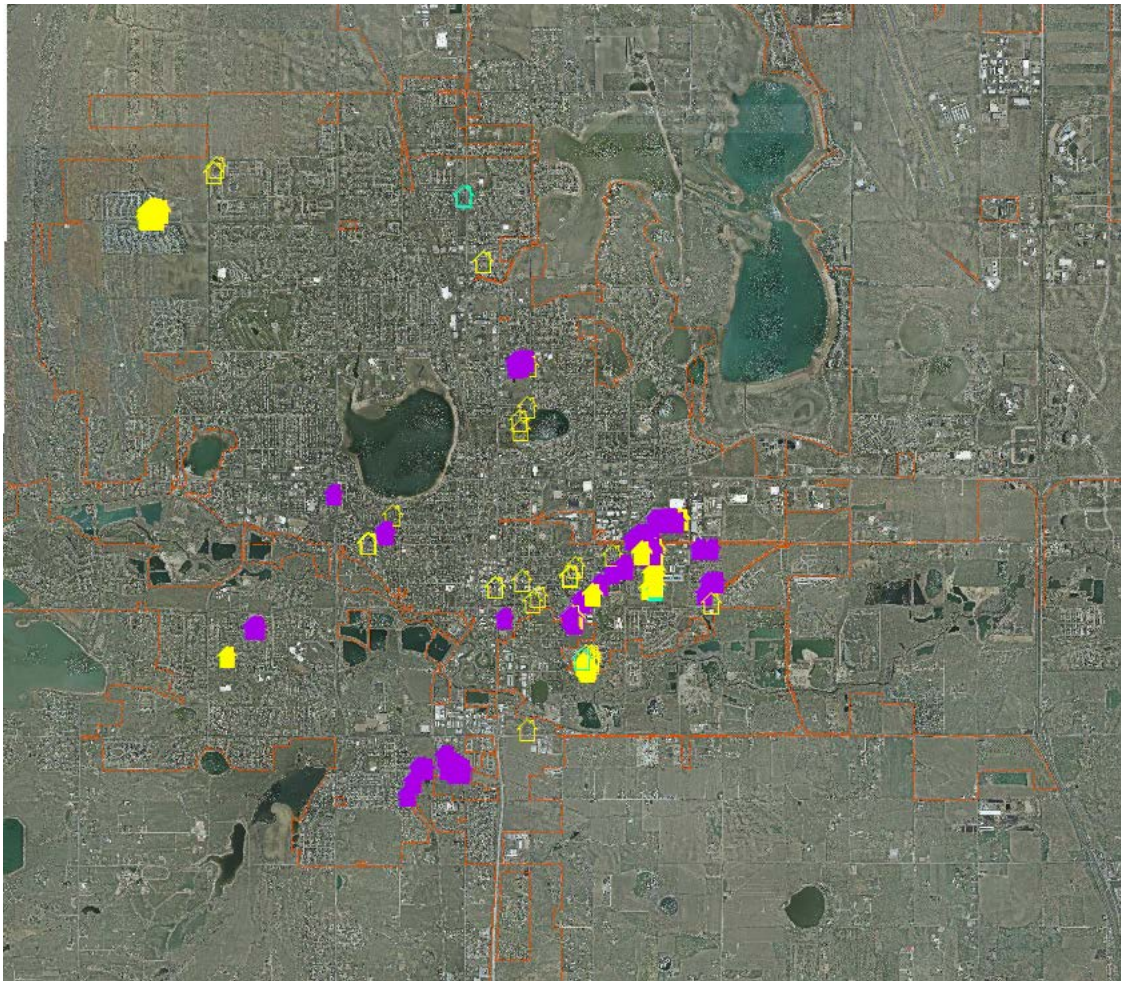
Average cash annually: 76,975

Average waiver (foregone income) annually: 815,424

\* Does not include CDBG



# WHAT HAVE WE ACCOMPLISHED?



-  **Rental- Affordable**
-  **Owner Occupied- Affordable**
-  **Rental**
-  **Owner Occupied**
-  **Habitat For Humanity- Rental**
-  **Habitat- Owner Occupied**

## City of Loveland Investment:

Single-Family = 113   Multi-Family = 588





# CURRENT CITY APPROACH

- Fee waivers encourage new housing
- No specific program or emphasis on rehabilitation of existing housing
- Some rehab accomplished through CDBG



# EXAMPLES FROM OTHER CITIES

- **PUBLIC FINANCING:** (Longmont, December 2014): Longmont Housing Development Corp. loan of \$800K to buy land for 60-90 affordable housing units.
- **COMMERCIAL LINKAGE:** (Boulder/February 2015): Affordable housing fee for non-residential development.
- **SALES TAX** (Fort Collins, April 2015): 1/4-cent tax will bring about \$400K annually for affordable housing.



# POLICY QUESTIONS

How much affordable housing should the City encourage, and what type?

Should the City budget annually for affordable housing?

- How much for cash participation?
- How much for fee waivers (foregone revenue)?
- What form should the budget take?

(Possible fund with annual deposits and accumulation)

Should the City consider programs addressing housing rehabilitation?



# QUESTIONS AND DISCUSSION



**CITY OF LOVELAND**  
FINANCE DEPARTMENT

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(970) 962-2318 • FAX (970) 962-2918 • TDD (970) 962-2620

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**AGENDA ITEM:** 2  
**MEETING DATE:** 4/14/2015  
**TO:** City Council  
**FROM:** Brent Worthington, Finance Director  
**PRESENTER:** Marc Kahn, Budget Manager

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**TITLE:**  
Budgeting Orientation

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**SUMMARY:**

Staff will present a preliminary review of the 2016 budget development process, including staff recommendations regarding the possible phased elimination of the 3% sales tax on food for home consumption; and a look ahead at possible direction for 2017 and 2018.

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**BACKGROUND:**

As part of the budget development process, staff keeps Council apprised of budget development issues at various stages. Due to the possible phased elimination of the sales tax on food for home consumption, staff has expanded this update to include analysis of the financial and budgetary implications of the possible revenue reductions in 2016, 2017, and 2018. The presentation includes staff recommendations for 2016 budget adjustments, along with additional options; options for incorporating the City's Priority Based Budgeting model in the budget development process; a review of the TABOR Excess Reserve Fund balances; and a look ahead to 2017 and 2018. Council will then have an opportunity to discuss the focus and direction for the 2016 Budget.

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**REVIEWED BY ACTING CITY MANAGER:**

**LIST OF ATTACHMENTS:**

1. PowerPoint Presentation Slides
2. Priority Based Budgeting Program Spreadsheet
3. A Strategy for Financial Sustainability (June 7, 2011)

# City of Loveland Budget Overview

# Principles

- We will budget for providing the best level of services possible on a continuing basis.
- Our budgeting practices will continue to be fiscally conservative.
- We will maintain the City as an employer of choice, so that we continue to attract and retain high-quality employees.

# Budget Reduction Targets

- Remainder of Fiscal Year 2015 – target of \$339,000 in revenue reduction.
- Fiscal Year 2016 – target of \$2,450,000 in revenue reduction.
- Fiscal Year 2017 - target of \$4,694,000 in revenue reduction.
- Fiscal Year 2018 – target of \$6,700,000 in revenue reduction.



# Fiscal Year 2015

- Absorb the reductions in sales tax on food revenue of 1% for the months of November and December within the current framework of the budget. This is equivalent to approximately 339,000.

# Fiscal Year 2016

- 1% reduction, January - October: \$1,750,000
- 2% reduction, November-December: \$ 700,000
- Total: \$2,450,000

# Permanent vs Transitional Reductions

## ➤ Permanent

- Eliminate Council Reserve
- Department Reduction of 1%
- General Fund Austerity

## ➤ Transitional

- Use of TABOR Reserve
- General Fund Balance
- Reduction of Core

# FY 2016 Recommendation

\$1,324,000	Elimination of Council Reserve
\$ 248,000	Use TABOR Reserve
\$ 578,000	Department reduction of 1%
\$ 100,000	General Fund austerity – line item analysis
<u>\$ 200,000</u>	Reduction of core
\$2,450,000	Total Reduction

# Other Reduction Options

- Use more of the TABOR reserve
- Use a portion of General Fund Balance
- Further analysis of Priority Based Budgeting

# Priority Based Budgeting

- CFAC subcommittee on PBB
  - Segregate the PBB model by quartile
  - Sort each quartile by monetary amount
  - Beginning with quartile 4
  - Review programs that are essential to City operations
  - Review programs that need further analysis
  - Identify programs that have the potential to be eliminated
  - Make final determination

# Priority Based Budgeting

- LEAD Loveland Staff
  - Review all General Fund Programs
  - Identify programs that are essential to City operations
  - Review programs that need further analysis
  - Identify programs that have the potential to be combined or eliminated
  - Make final determination

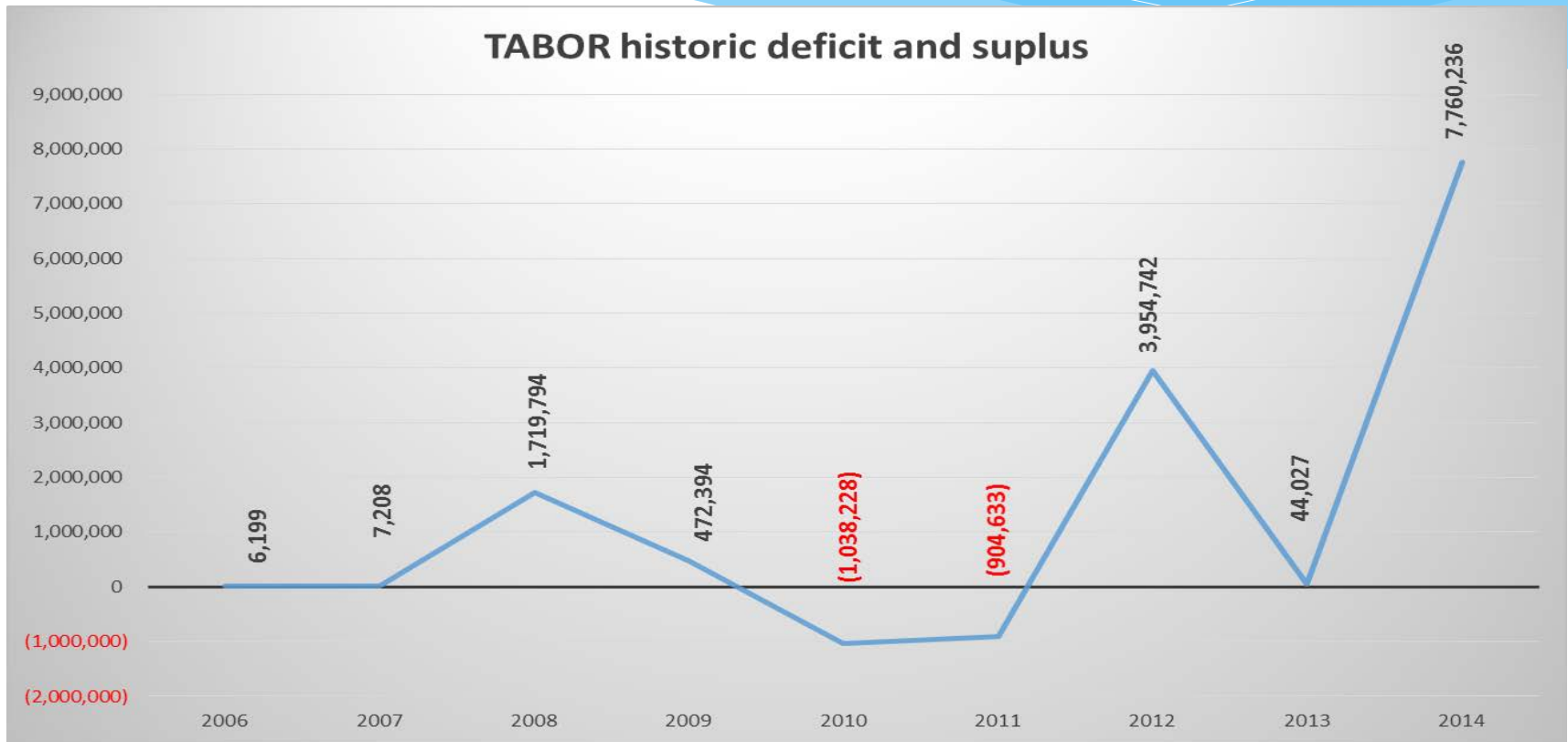
# Priority Based Budgeting

## ➤ Alternate Methodology

- Examine General Fund Programs
  - Low Mandate
  - Low Cost Recovery
- Determine programs that are essential to City operations
- Review programs that need further analysis
- Identify programs that have the potential to be eliminated
- Make final determination



# Reserve for Excess TABOR Balance History



# Reserve for Excess TABOR Restrictions

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

# Reserve for Excess TABOR Balances

- At the end of 2014 – the Reserve for Excess TABOR balance was:
  - \$ 6,819,912 TABOR election 11/6/01
  - \$7,804,263 TABOR election 11/1/11
  - \$14,624,175 Total Reserve for Excess TABOR

<b>Fund Summary Schedule</b>			
2015 budget			
<b>Expenses by Department</b>	<b>General Fund</b>	<b>General Fund Subsidy</b>	<b>General Fund 1% Reduction</b>
Legislative	153,590	153,590	1,536
Executive/Legal	2,067,420	1,083,860	10,839
Clerk & Court Admin	1,079,650	880,620	8,806
Cultural Services	2,025,270	1,270,770	12,708
Development Services	4,064,170	1,768,700	17,687
Economic Development	1,191,400	1,167,000	11,670
Finance	4,888,570	1,336,550	13,366
Fire & Rescue	-		
Human Resources	1,269,810	315,830	3,158
Info. Technology	4,053,040	949,430	9,494
Library	3,201,750	3,061,970	30,620
Parks & Recreation	10,562,430	6,999,110	69,991
Police	19,591,890	18,413,920	184,139
Public Works	5,228,480	1,687,020	16,870
Water & Power	-		
Non-Departmental	10,165,270		
Airport		177,500	
Fire		9,568,750	95,688
Admin. Overhead	(6,391,070)		
Council Reserve		1,317,267	
Transfers	10,826,810		
Capital		1,777,580	17,776
Economic Incentives		450,000	4,500
Recreation CEF		669,160	
Fire CEF		289,790	
Transit		1,152,380	11,524
Transportation		5,672,900	56,729
Water and Power		750,000	
Public Works		65,000	650
<b>Total Expenses</b>	<b>73,978,480</b>	<b>60,978,697</b>	<b>577,750</b>

# Fiscal Year 2017 and 2018

- Continue recommendations from 2016
- Beginning in November 2015 analyze revenue growth to see how much of the reduction is being absorbed with growth.
- Look at priority based budget and analyze any potential cost savings in all quartiles.
- Look at other analytics.
- Savings from food sales tax and utility rebates.
- Selective Attrition
- Look at the Strategy for Financial Sustainability

# Revenue Analysis

## Revenue Projection

Fiscal Year 2011-2014: Actual

Fiscal Year 2015-2019: Projected

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales Tax	26,948,567	29,139,752	31,272,201	33,460,657	35,888,680	36,965,000	38,258,000	39,788,000	41,379,000
Food Tax	5,300,000	5,400,000	5,600,000	5,900,000	6,100,000	5,961,000	3,771,000	1,735,900	
Reduction: Food Sales Tax					(339,000)	(2,318,000)	(2,095,000)	(1,735,900)	
Total Sales Tax	32,248,567	34,539,752	36,872,201	39,360,657	41,649,680	40,608,000	39,934,000	39,788,000	41,379,000
Sales Tax Revenue Change		2,291,185	2,332,449	2,488,456	2,289,023	(1,041,680)	(674,000)	(146,000)	1,591,000
Percent Change		6.6%	6.3%	6.3%	5.5%	-2.6%	-1.7%	-0.4%	3.8%
Change in Food Sales Tax		100,000	200,000	300,000	200,000	(139,000)	(2,190,000)	(2,035,100)	(1,735,900)
Percent Change		1.9%	3.6%	5.1%	3.3%	-2.3%	-58.1%	-117.2%	-100.0%

## Priority Based Budget- For Council Discussion Study Session, April 14, 2015

The programs listed below are General Fund programs. They are filtered based on Mandate and Cost Recovery. The first group shows programs with the lowest Mandate and Cost Recovery; the second group lists programs with slightly greater, but still low, Mandate and Cost Recovery. The programs come from each Quartile.

<u>Department</u>	<u>Program Name</u>	<u>Quartile</u>	<u>FTEs</u>	<u>Personnel Costs</u>	<u>Other Costs</u>	<u>Total Costs</u>
<b>Mandate</b>	<b>0</b>					
<b>Cost Recovery</b>	<b>0</b>					
Library	Adult Programming: Literary and culture	2	0.34	\$ 21,094	\$ 12,581	\$ 33,675
Library	Readers Advisory	2	0.30	\$ 19,476	\$ 12,581	\$ 32,057
Library	Teen Arts/Culture Programs	2	0.18	\$ 9,790	\$ 12,631	\$ 22,422
Library	Teen Technology Programs	2	0.11	\$ 6,161	\$ 12,631	\$ 18,793
Cultural Services	Outreach Trunk Rental	3	0.03	\$ 2,374	\$ -	\$ 2,374
Cultural Services	Lone Tree Schoolhouse Rental Program	3	0.03	\$ 2,374	\$ -	\$ 2,374
Cultural Services	Classroom Outreach	3	0.03	\$ 2,374	\$ 100	\$ 2,474
Cultural Services	Special Event- Lone Tree School Ice Cream Social	3	0.04	\$ 2,731	\$ 200	\$ 2,931
Cultural Services	Special Event- Cherry Pie Celebration	3	0.13	\$ 9,441	\$ -	\$ 9,441
Cultural Services	Special Event- Halloween Family Fun Festival	3	0.10	\$ 6,710	\$ 2,000	\$ 8,710
Cultural Services	Special Event- Community Tree Lighting	3	0.06	\$ 4,374	\$ 1,000	\$ 5,374
Cultural Services	Cultural Programs- Special/Other	3	0.17	\$ 11,617	\$ 300	\$ 11,917
Cultural Services	Museum Class/Program Registration	3	0.25	\$ 15,378	\$ 200	\$ 15,578
Cultural Services	Second Grade History Days	3	0.14	\$ 11,139	\$ 1,000	\$ 12,139
Cultural Services	ArtSteps- Community Art Project	3	0.03	\$ 2,374	\$ 200	\$ 2,574
Cultural Services	ArtSteps- Thompson School District Art Show	3	0.07	\$ 5,105	\$ 200	\$ 5,305
Cultural Services	History Exhibit Publications	3	0.10	\$ 9,857	\$ -	\$ 9,857
Cultural Services	Interpretive Exhibit Component Development	3	0.25	\$ 18,126	\$ 3,000	\$ 21,126
Cultural Services	Museum Marketing & Promotion	3	0.41	\$ 33,158	\$ 26,900	\$ 60,058
Human Resources	Employee Appreciation & Recognition	3	0.22	\$ 17,135	\$ 7,999	\$ 25,134
Parks and Recreation	Lake Loveland Swim Beach	3	0.24	\$ 43,821	\$ 2,840	\$ 46,661
Police	Business/Home Security Program	3	0.12	\$ 18,106	\$ 3,881	\$ 21,987
Public Works	Community Relations	3	0.09	\$ 17,525	\$ 3,152	\$ 20,677
Cultural Services	Grant Management	4	0.10	\$ 10,053	\$ -	\$ 10,053

Cultural Services	Donor Solicitation	4	0.13	\$	15,557	\$	-	\$	15,557
Cultural Services	Vendor Solicitation	4	0.03	\$	2,374	\$	-	\$	2,374
Cultural Services	Shared Alliance for Youth Membership	4	0.03	\$	2,374	\$	-	\$	2,374
Development Services	Annual Board & Commissions Summit Event	4	0.08	\$	6,658	\$	13,860	\$	20,518
Development Services	Loveland Honors Awards	4	0.06	\$	4,151	\$	13,836	\$	17,988
Development Services	Nonprofit Information Distribution	4	0.06	\$	2,799	\$	13,836	\$	16,635
Human Resources	Snow Squad Program	4	0.04	\$	2,641	\$	1,454	\$	4,095
Police	Explorer Post	4	0.69	\$	75,793	\$	22,315	\$	98,108
Police	Volunteer Management	4	0.04	\$	4,864	\$	1,294	\$	6,158

**Mandate 1**  
**Cost Recovery 1**

Finance	Ten-Year General Fund Financial Planning	1	0.17	\$	17,961	\$	36,653	\$	54,614
Information Technology	Database Application Development and Support	1	0.10	\$	9,924	\$	3,506	\$	13,430
Information Technology	Financial System Management and Support	1	0.60	\$	64,889	\$	62,860	\$	127,748
Information Technology	GIS Analysis and Mapping Service	1	0.40	\$	40,599	\$	23,831	\$	64,430
Information Technology	GIS Application Development and Support	1	0.80	\$	86,101	\$	40,100	\$	126,200
Information Technology	GIS Data and Basemap Maintenance	1	0.80	\$	73,295	\$	40,368	\$	113,663
Information Technology	GIS Database Management	1	0.40	\$	44,867	\$	18,319	\$	63,186
Information Technology	GIS Support - Computer Aided Dispatch	1	0.00	\$	-	\$	12,806	\$	12,806
Information Technology	Municipal Court System Management and Support	1	0.30	\$	29,771	\$	25,969	\$	55,739
Information Technology	Police Business System Support	1	0.20	\$	19,847	\$	5,512	\$	25,360
Information Technology	Public Safety Time Management System Support	1	0.20	\$	19,847	\$	5,512	\$	25,360
Information Technology	Backup Administration	1	0.21	\$	19,491	\$	9,981	\$	29,473
Information Technology	File/Print Administration	1	0.45	\$	42,205	\$	21,389	\$	63,594
Information Technology	WAN Administration	1	0.29	\$	28,781	\$	13,711	\$	42,492
Information Technology	Server Hardware Maintenance and Support	1	0.20	\$	19,439	\$	9,506	\$	28,945
Information Technology	Software Licensing and Maintenance	1	0.40	\$	35,684	\$	148,866	\$	184,550
Cultural Services	High Profile Art Exhibitions	2	0.23	\$	21,245	\$	22,500	\$	43,745
Cultural Services	Art Exhibitions - Local, Regional, National and International Artists	2	0.26	\$	23,619	\$	8,100	\$	31,719
Cultural Services	Exhibit Research and Development	2	0.42	\$	30,789	\$	6,500	\$	37,289
Cultural Services	Community Event Venue	2	2.13	\$	164,482	\$	198,756	\$	363,238
Information Technology	Database and Reporting Services Management and Support	2	0.70	\$	69,465	\$	20,043	\$	89,509
Information Technology	Document Archival System Management and Support	2	0.20	\$	20,738	\$	5,512	\$	26,251
Information Technology	Fire Business System Support	2	0.30	\$	29,771	\$	8,269	\$	38,039
Information Technology	Fleet Management System Management and Support	2	0.10	\$	10,815	\$	2,756	\$	13,571



Information Technology	Human Resources Business System Support	2	0.30	\$	31,553	\$	54,591	\$	86,144
Information Technology	Service Request / Work Orders Management and Support	2	0.80	\$	78,198	\$	60,406	\$	138,604
Information Technology	Utility Billing (CIS) System Management and Support	2	0.95	\$	96,347	\$	72,506	\$	168,854
Information Technology	Custom Application Server Support	2	0.42	\$	40,515	\$	19,963	\$	60,478
Information Technology	Database Server Support	2	0.37	\$	35,656	\$	17,586	\$	53,242
Information Technology	Disaster Recovery/CoOP Planning	2	0.41	\$	41,883	\$	19,488	\$	61,370
Information Technology	Email/Calendaring Administration	2	0.15	\$	14,579	\$	7,130	\$	21,709
Information Technology	Help Desk	2	0.42	\$	33,090	\$	19,963	\$	53,053
Information Technology	Portable Device/Specialized Device Support	2	0.33	\$	29,010	\$	15,612	\$	44,622
Information Technology	Public Safety Application Support	2	0.36	\$	33,188	\$	17,111	\$	50,300
Information Technology	Public Safety Mobile Application Support	2	0.31	\$	29,095	\$	15,210	\$	44,305
Information Technology	Public Safety Mobile Hardware Support	2	0.36	\$	32,991	\$	164,641	\$	197,632
Information Technology	Remote Access Administration	2	0.10	\$	9,720	\$	4,753	\$	14,473
Information Technology	Server Administration	2	0.30	\$	29,159	\$	14,259	\$	43,418
Information Technology	Technology System Purchasing and Inventory	2	0.59	\$	51,314	\$	28,372	\$	79,686
Information Technology	Computer Replacement Management	2	0.64	\$	54,274	\$	219,347	\$	273,621
Information Technology	Desktop Hardware Support	2	0.65	\$	54,479	\$	30,895	\$	85,374
Library	Interlibrary Loan	2	0.97	\$	60,261	\$	15,631	\$	75,892
Library	iExplore Technology Lab	2	0.19	\$	10,749	\$	34,961	\$	45,711
Cultural Services	Collections Outreach	3	0.06	\$	4,748	\$	-	\$	4,748
Cultural Services	Cultural Services Online/Digital Marketing	3	0.15	\$	10,036	\$	1,200	\$	11,236
Cultural Services	Cultural Event Creation and Support	3	0.27	\$	26,993	\$	3,000	\$	29,993
Cultural Services	Sponsored Performances and Events.	3	0.53	\$	46,603	\$	31,626	\$	78,229
Cultural Services	Box Office Ticketing Services.	3	1.50	\$	72,297	\$	14,815	\$	87,112
Cultural Services	Arts and Education Programs.	3	0.12	\$	7,045	\$	14,815	\$	21,860
Development Services	Customer Service - Current Planning Division	3	1.62	\$	123,389	\$	15,691	\$	139,079
Development Services	Development Review Coordination	3	0.19	\$	16,817	\$	13,985	\$	30,802
Information Technology	Development Review Business System Management and Support	3	1.10	\$	109,160	\$	126,061	\$	235,220
Information Technology	COTS Application Support	3	0.49	\$	39,375	\$	23,290	\$	62,665
Information Technology	Network Administration (LAN/Wireless)	3	0.51	\$	48,650	\$	23,290	\$	71,940
Information Technology	Network Project Management	3	0.45	\$	47,087	\$	21,572	\$	68,658
Information Technology	SharePoint/Extranet Administration	3	0.20	\$	19,439	\$	9,506	\$	28,945
Information Technology	Storage Administration	3	0.15	\$	14,579	\$	7,130	\$	21,709
Information Technology	Telecom Support Services (phones and voice mail)	3	0.70	\$	57,614	\$	14,701	\$	72,315
Library	Volunteer Coordination	3	0.29	\$	17,631	\$	12,681	\$	30,313
Library	iCreate Technology Lab	3	0.16	\$	8,898	\$	19,981	\$	28,880
Library	Reading Promotions	3	0.40	\$	24,478	\$	13,081	\$	37,559
Library	Acquisitions	3	0.69	\$	41,810	\$	16,581	\$	58,391

Public Works	Mail Services	3	1.10	\$	68,630	\$	14,000	\$	82,630
Finance	Miscellaneous Accounts Receivable	4	0.46	\$	31,415	\$	36,653	\$	68,068
Information Technology	End User Training	4	0.23	\$	23,543	\$	10,786	\$	34,329
Library	LTI Reference and Customer Service	4	1.54	\$	86,658	\$	12,581	\$	99,240
Public Works	Facilities Events/Rentals Management	4	1.60	\$	91,782	\$	67,080	\$	158,862
Public Works	Energy Management/Sustainability	4	0.53	\$	48,223	\$	-	\$	48,223
Public Works	Sustainability Planning and Oversight	1	0.00	\$	651	\$	70	\$	721
				\$	3,194,742	\$	2,277,923	\$	5,472,666

# **A Strategy for Financial Sustainability**



**June 7, 2011**

# Financial Sustainability

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1. City Vision Statement, Mission Statement and City Council Goals
2. Process Detail
3. Results of City Council Survey
4. Summary of the Results of Public Input

Detail survey results are available upon request by contacting  
Renee Wheeler, [wheelr@ci.loveland.co.us](mailto:wheelr@ci.loveland.co.us); 970-962-2704

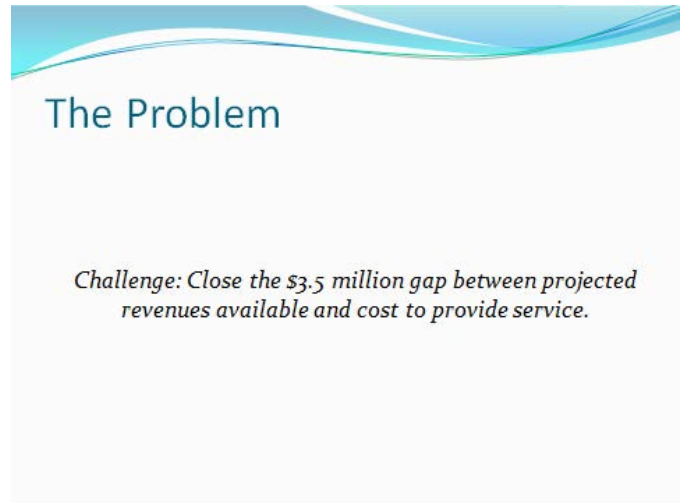
## Introduction and Purpose

The City of Loveland is growing and has been financially healthy. The City's tradition of conservative fiscal management has placed it in a position that other local governments might envy. The City Council has placed a high degree of importance on creating a plan for maintaining the strong financial position of the City of Loveland in a sustainable manner for the future of the community.

However, the General Fund Financial Master plan indicated that reserves in excess of the policies and practices would be consumed by 2013. It became clear that based on the current information available for projections the projected annual revenues will not be sufficient to cover the projected annual expenditures, sometimes referred to as a structural deficit.

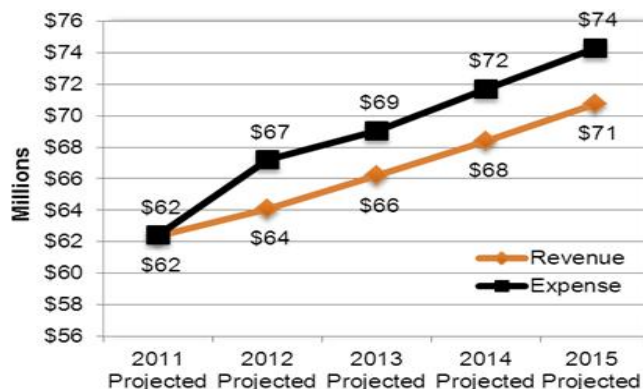
A more intensive focus on long term strategies for balancing the budget within the ten year planning horizon has been initiated. The City engaged in a process for bringing together practical, actionable ideas to meet the challenge. This long term focus is the basis for labeling it the "Financial Sustainability Process".

This Sustainability Strategy is based on the City's Financial Master Plan as a baseline. The Master Plan contains projections of operating and maintenance (O &M) costs, including new O & M costs brought on as a result of new capital projects. So it is a "holistic" look, incorporating existing operations as well as additions due to growth of City facilities. However, the Master Plan – and this Sustainability Strategy – do not include completely new initiatives which have not been approved. In particular, the potential new Fire Authority, including the ramp-up of City Fire staffing to new service levels, is not included. However, the increase in Fire staffing projected for Station 2 is included in this analysis, because it is already incorporated into the Financial Master Plan.



## The Financial Challenge

The City’s General Fund budget for 2012-2020 is projected to have a gap between revenues and expenditures that on the average is \$3.5 million annually. The “gap” between resources and expenditures that has been identified is roughly 5%. While 5% is significant because of the reductions that have occurred in recent years, it is certainly not a crisis. The financial master plan expenditure estimates (as shown to the right) do include the operations and maintenance impact of capital projects in the capital improvements plan.



The plan also includes employee base pay increases, restoring street maintenance and equipment replacement. It is expected that service reductions would need to be implemented if the recommendations were all on the expenditure side. The strategic evaluation of a variety of recommendations (revenue, expenditures and reserves) is preferable to annual reductions approach to ensure that permanent and thoughtful recommendations are implemented. Using this approach, the City positions itself to be in the best position to take full advantages of the opportunities that arise over the next ten years.

**The Financial Sustainability Process**

The Financial Sustainability Process was designed and approved by City Council at the December 14, 2010 study session. There were several phases of the process that were being implemented simultaneously to allow for all the parties involved to have at least two and preferably three opportunities to consider the information before making decisions at any stage. The process itself was dynamic in response to feedback collected during the implementation.



**Data Collection**

Once the problem was defined, a process was developed to create strategies. Many stakeholder groups were involved in the process. Three public forums were hosted by the Citizens’ Finance Advisory Commission and two separate on-line surveys were made available that focused on budget balancing strategies. This combined effort resulted in survey completion by 492 respondents. The City Council also completed a survey early in the process.

Employees were actively engaged in strategy development as well. 165 ideas were submitted through an internal employee survey and a representative group of employees evaluated those ideas to submit

the most viable strategies. The executive management team was assigned a variety of topics to study in more depth; and those groups brought recommendations forward. Nearly all the executive management team meetings over the period of February to May 2011 have been dedicated to vetting potential strategies. Over the last six months a comprehensive process has been undertaken to develop the reasonable and actionable recommendations for sustainability.

### **Principles for Financial Sustainability**

City Council, boards and commissions, citizens, and employees at all levels of the organization have been involved in development of recommendations for City Council consideration guided by the following principles approved by City Council February 22, 2011:

1. Provide the highest quality of public service which is sustainable on a long-term basis.
2. Set reasonable expectations for delivering quality, customer-centered services in a fair, equitable, efficient and cost-effective manner.
3. Advance services and programs that promote safety, quality of life and business growth.
4. Balance the services to be delivered with the resources available, both in terms of people and money.
5. Promote a fiscally conservative approach to achieve financial sustainability, maintaining flexibility to respond to opportunities and challenges.
6. Maintain the City as an employer of choice, able to attract and retain high-quality employees.

### **Priorities and Summary of Public Participation**

The City Council participated in a questionnaire and study session discussion of priorities for city services and evaluation of various measures. Complete results are found in Appendix 3. Key results:

- The City should proceed with a TABOR ballot measure (de-Brucing) in November, 2011. It should be time-limited, and limited to the same purposes as in the previous measure.
- There was no strong inclination to pursue other tax measures at this time.
- Priorities for General Fund expenditures are as follows:
  - Fire and Rescue
  - Police
  - Streets Maintenance
  - Transportation Planning/Engineering
  - Traffic Management
  - Building Review and Inspections
  - Development Review
  - Library
  - Transit
  - Downtown Planning
  - Land Use Code Review and Update
  - Code Enforcement
  - Economic Development (Cash Incentives/Fee Waivers)
  - Parks and Recreation
  - Museum
  - Public Information

- Rialto
- Non-Profit Grants
- Historic Preservation Grants and Planning Support

Public participation, as reflected in public meetings as well as on-line surveys, yielded the following results:

- Citizens believe that a balanced approach is appropriate, using both cost reduction and revenue increases in roughly equal proportions.
- Citizens think that certain City activities should generate more of their own revenues. In particular, increased fees are seen as appropriate for development services, cultural service facilities, and other City facilities.
- Citizens also favor submitting a TABOR ballot measure (de-Brucing) to the voters, incorporating a sunset provision, with restrictions on the use of revenue similar to the existing Loveland restrictions.
- Citizens think that targeted reductions are more appropriate than across the board reductions.

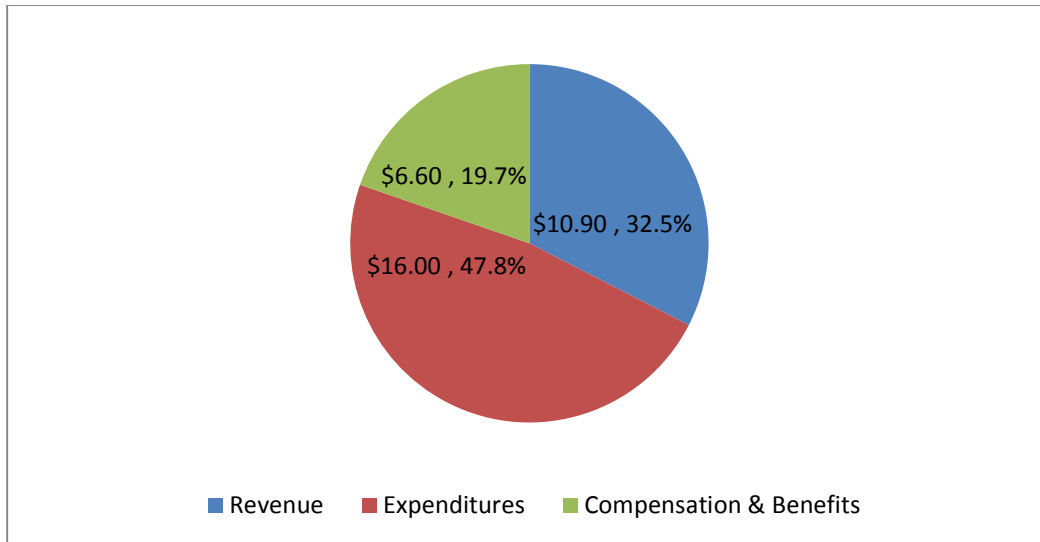
### **The Sustainability Strategy**

Strategic recommendations were developed pursuant to the principles adopted by City Council, and reflecting the policy views and priorities expressed by the City Council and the public.

The resulting strategy is balanced between expenditure reductions and revenue increases, as both the Council and the public indicated desirable. The recommended actions consists of 81% cost reductions and 19% in revenues benefiting the General Fund for 2012.

The strategy is also phased in over a number of years. Over time savings in early actions allow phased-in reductions in cost over the time period. Cumulative saving from recommended actions will mount over the decade to \$33.5 million. The graph below, stated in millions of dollars, demonstrates the composition of the recommendations for the ten year period.





Each of the changes is felt to be durable, so that it is not simply a one-time cut which will need to be reversed later.

**Recommendations**

The recommended recommendations include both expenditure reductions and revenue enhancements. Table 1 lists the recommended actions. First- year reductions are:

- \$285,200 - Employee generated operational efficiency options.
- \$903,750 - Employee benefit and administration cost reductions.
- \$76,450 - Fleet management strategy, including elimination of underutilized equipment and “pooling” the use of remaining equipment. This also generates savings through the elimination of future year replacement costs.
- \$33,270 - Fleet reduction: sale of units targeted for elimination from the fleet (one-time savings)
- \$ 30,000 - Reduction of City Council budget
- \$510,000 - Line item budget reduction in all General Fund departments
- \$150,000 - Voluntary Severance Program
- \$134,000 - Strategic Attrition
- \$651,600 - Payment In Lieu of Taxes increase of 1% on utility enterprise funds only
- \$343,900 - Minor fee increases in several departments

\$3,118,170 of the \$3,116,443 target for 2012 has been identified, leaving \$1,727 that could be applied to future year imbalances. These recommendations are highlighted below in greater detail.

***Employee Savings and Efficiency Options***

There were about 165 ideas submitted by City employees. After sorting for feasibility and value, an employee task force recommends thirteen actionable options that are expected to generate \$285,200 in value. These options are related to reducing costs for the way the City currently

conducts business. The suggestions are related to limiting take home vehicles, eliminating vehicle allowances, eliminating supplies, budget FICA taxes more specifically to account for pretax elections for medical and dependent care, finding corporate sponsors for public events like 4<sup>th</sup> of July, charge fees for museum exhibits/shows, and publishing ordinances by title only (which would require an election).

### ***Employee Compensation and Benefits Review***

The City's employee compensation and benefits were compared to market (both public and private) in an attempt to identify any components of the salaries and benefits provided that might be out of alignment. The total savings in this category of options is estimated to be \$903,750.

Principle number 6 above is followed in evaluating employee compensation and benefits. In general, compensation changes are tested against general market trends. Pay reductions are not recommended. However, there are minor areas of benefits which can be adjusted without the City suffering a disadvantage compared to the market.

The benefit review only revealed a couple of benefits that exceeded the market, (1) life insurance and (2) the management of sick leave hours. The City currently offers 2 times the annual salary for life insurance, where the market is reflecting a benefit of 1.5 times the annual salary. If the benefit is decreased to align with the market the difference in the premium would save the City \$23,000. The City's sick leave accumulation and payout policies also differ from the general market and an adjustment may yield savings, particularly when aligned with potential changes in short-term and long-term disability coverage of up to \$235,077.

Finally, the financial master plan expects that salaries will increase on the average by 3.5%. Decreasing the amount of the base raise can create savings throughout the plan, but prolonged periods of holding employee compensation down can damage the City's ability to retain and recruit high-quality employees (therefore violating principle #6 above). It is therefore important to keep pace with market in being able to compensate employees.

The recommendation therefore steps up the rate of employee pay as the economy improves, and as the job market improves. In 2009 and 2010, there were no employee raises. In 2011, the City has been able to make a one-time merit pay distribution (which did not change permanent pay ranges). The recommended action is to return to a permanent pay range increase in 2012 of 2%, and then return to pay range increases averaging 3.5% in 2013.

### ***Fleet Management Strategy***

The Vehicle Maintenance staff conducted a study of vehicle utilization to identify the bottom 10% of underused vehicles and equipment. Using utilization standards for municipal government fleets from both the National Association of Fleet Administrators and the American Public Works Association, a significant number of vehicles or equipment were identified for elimination from the fleet.

The City can reduce costs of managing the operations and maintenance costs of the fleet by \$76,450 and the future replacement costs of the fleet. The significant number of vehicles or equipment identified by the study would be sold for an estimated one time savings of \$33,270 in 2012.

### ***Reduce City Council Budget***

The City Council budget will be reduced by \$30,000 following Council comments at the April 22, 2011 study session. This would be achieved by reducing the amount of travel supported by the City and reducing meeting expenditures. Both of these represent permanent changes in the operation of the City Council, not simply one-time reductions.

### ***Line Item Budget Reduction in Other General Fund Departments***

Other City departments receiving General Fund revenues have reduced their budgeted levels by approximately \$510,000. These reductions have been made proportionally to the amount of General Fund support received by each department, with attention to avoiding impacts to critical services. In most cases, this involves a more austere approach to expenses, or improvements in organizational efficiency. The \$510,000 in reductions will be made in 2012, creating a new budget “baseline” or “core” level of expenditure, and is then projected forward through the 10-year financial planning period.

### ***Voluntary Severance Program***

A voluntary severance program is recommended to be offered in the fall of 2011. This reduces the City’s overall personnel cost by offering a one-time payout to those interested in retirement or other separation, and maintaining positions as open or in some cases under-filling to create net savings. Only positions which produce net savings will be approved. The service impacts of any vacant positions will also be carefully considered in accepting applications.

### ***Strategic Attrition Program***

A program of “strategic attrition” will be used to reduce the overall size of the City workforce. It will reduce the overall personnel by eliminating selected positions as they become vacant producing continued savings. Existing General Fund positions vacated will eliminate about \$134,000. Maintaining this approach will create an estimated \$50,000 in added reduction each fiscal year.

As attrition is employed to reduce total expenditures, it will be carefully managed to minimize the impacts on key programs. Not every vacated position will be left vacant. In addition, each vacancy will be viewed as an opportunity to re-organize the way in which the City does business.

It is important to recognize that this approach will be taken regardless of the level of the position. Whether in executive or middle management, supervisor or line staff, each position vacancy will result in similar analysis.

### ***Minor Fee Increases***

There are a variety of fee increases that have been submitted for consideration that would generate approximately \$343,900. The risk associated with the estimates is that they would assume that the participation would not be impacted by the fee increases. The following is a brief listing of those that are being considered.

- \$47,000 - Minor fees for services provided Culture (Museum donation solicitation and Rialto rental fee increase), and facilities rental increase (for Pulliam, Library Gertrude Scott Room, Civic Center Plaza).
- \$30,000 - Public Works Rights of Way Permit and Inspection fee increases.
- \$14,000 – Development Services application fee increases will be phased in over a multi-year period, being sensitive to the balance between better cost recovery for services provided and the impact on development and building activity. Current Planning currently recovers about 8% of its costs from user fees. Transportation Development Review (TDR) has no charges or fee revenue at all. Direction from the public input to date indicates that this should be significantly higher.
- \$168,900 - Increase cost recovery for the street maintenance fee charged monthly on the utility bills from 50% to 60%
- \$12,000 - Municipal violation ticket surcharge increase from \$10 to \$25.
- \$10,000 - Increase in fees for public safety coverage during special events. The fees currently charged by Police and Fire (averaging \$40.00 per hour) do not recover costs of service.
- \$62,000 - A new \$20 fee on sales tax license renewals. Most cities are already charging a renewal fee annually.

### ***Payment in Lieu of Taxes (PILT)***

All Enterprise Funds currently pay the General Fund a 6% PILT on gross revenues (with some consideration with specific revenue line item exclusions) in all but the Golf Enterprise Fund, which pays 3% of gross revenues. The recommendation is to increase the PILT by 1% to 7% in all utility enterprise funds, excluding Golf.

While this payment to the General Fund has been called a PILT, City Charter Section 13-2(c) provides that the City’s utilities can be required by the Council to pay the General Fund “a reasonable return on the City’s investment in utility properties and capital investments” and the equivalent of what the City would obtain “from a franchise fee or utility occupation tax” imposed on its utilities. Therefore, the use of the term PILT to describe the current 6% charge to the utilities more accurately should be called a franchise fee.

Charging an additional 1% to the Enterprise Funds, except the Golf Enterprise Fund, provides the City a reasonable return of its investment. *It is imperative to understand that even a 1% increase will likely be passed through directly to utility enterprise fund customers over future years.* It is possible that even with a rate increase; the revenue would be equitably generated by the community in a manner that may be more acceptable than a mill levy increase. Nearly all funds are considering a 2012 rate increase for various business reasons, (i.e., wholesale power rate increases), so it is likely that most funds will still see a 2012 rate increase. Collecting this return on investments from the utilities in addition to the current PILT or franchise fee would make Loveland the highest in the neighboring communities with the exception of the 8% PILT that Longmont charges its electric utility.

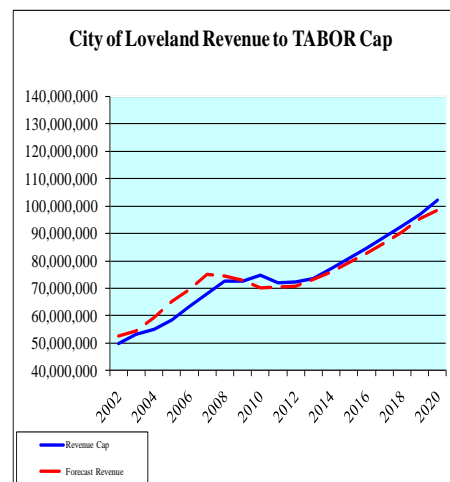
While the recommendation is to increase the fee by 1% to generate 651,600, increasing the rate by 2% would generate \$1,303,239. The increase would need to be considered at the household impact level. If the average residential bill is \$47, then a 1% increase monthly would be 47 cents a month and a 2% increase would be 94 cents a month.

**Longer Term Measures**

There are other sustainability strategies that staff proposes for consideration as the City progresses annually through the update of the financial master plan.

***TABOR Ballot Measure***

Previous City Council discussion and the results of public participation during the course of the Sustainability Strategy work, indicate that a measure should be placed on the November 2011 election ballot to allow the City to keep and spend revenues over the TABOR cap. Preliminary indications are that the ballot measure should be similar to Loveland’s last TABOR measure approved by the voters in the range of services to be funded, and the “sunset” measure.



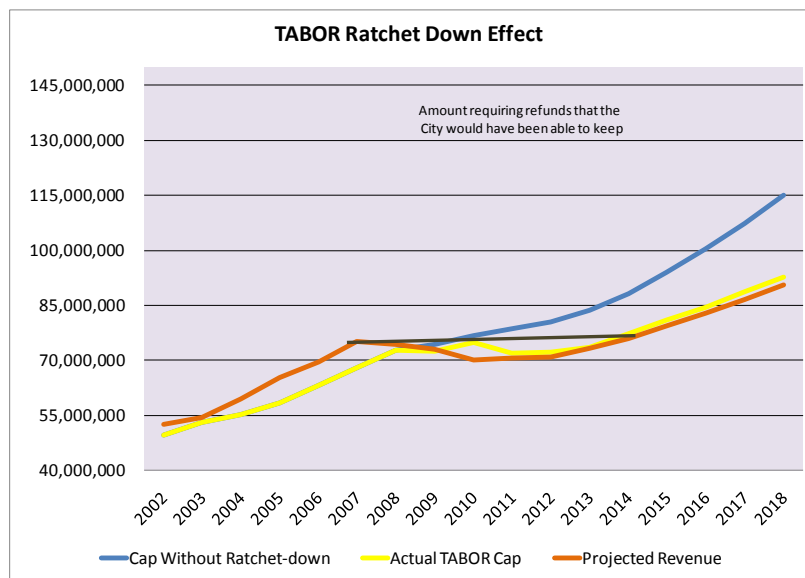
Beginning in 2010, the City will be beneath the TABOR cap and may remain underneath the cap throughout the Financial Plan horizon. While the actual amount varies from year to year, on average the City will be approximately \$1.7 million below each year, or, on average, 2% below

the revenue limit. It is important to note that the City will only be under the cap by 1%-2% during 2011-2015 and is on average under by 2% for the remainder of the ten –year period to 2020. It will only take minor fluctuations in revenue collections or the two factors that inflate the cap for the City to once again be over the revenue limitation.

	2011	2012	2013	2014	2015
Projected Revenue under cap	1,373,048	1,511,258	308,466	1,310,427	1,688,837

The revenue limitation is allowed to increased based on two factors; the Consumer Price Index for the Denver-Boulder-Greeley area and “local growth”, which is calculation to determine the percentage of new construction property value to existing property values. For the years 2009 and 2010 we have experienced significantly lower inflation than past history, and due the recession, the local growth factor is exceptionally low.

The greater concern to the City at this point is the other requirement of TABOR; commonly known as the “ratchet –down effect”. Within the Amendment there is the requirement that if an entity has revenue below the allowed limit; the actual revenue becomes the new limit from which the inflation and local growth adjustments are applied to. Since the ten-year forecast currently has the City under the limit each year, the revenue limit allowed by the Amendment is reduced each year.



**Mehaffey Park Operating Costs Absorption into Existing Budget**

Mehaffey Park has been projected in the Financial Master Plan to come on line for operations in 2013, increasing operating costs by \$249,400 annually and continuing through the time horizon of the Plan. However, analysis performed in this Strategy has identified reductions and efficiencies that can be made in the existing Parks and Recreation Department budget, sufficient to pay these costs without increasing the baseline Parks budget. This creates savings equal to the cost increases that had been previously projected.

**Boards and Commissions**

A working group of staff reviewed City boards and commissions for possible streamlining and reductions. These bodies are important avenues for public participation in city affairs, and make significant recommendations to the City council. However, two particular recommendations are made:

1. Eliminate the Communications Technology Commission as a standing body. This group achieved their ad-hoc mission in assisting with the cable franchise agreement, but has met infrequently and irregularly since. Members should be thanked for their service and the Commission retired. This would require specific City Council action.
2. Change the informal expectation for City Council liaison attendance to quarterly, or as deemed appropriate for the individual body, rather than every meeting.

### ***Administrative Changes in Budgeting***

Two administrative changes in budgeting will be made in the future, which do not require City Council approval but may create significant cost savings incrementally over the time period of the financial plan:

1. **Change in Annual Budget Preparation Process:** Currently, department preparing their budgets receive several items directly from Finance or Risk Management. These include personnel costs, insurance costs, and other items. The primary budget constraint issued to departments is the “core” total expenditure level for the department, based on continuation of status quo services and spending levels, adjusted for any previous year unusual items. This “core” expense level is the primary limitation upon departmental budgets.

In 2012 and the future, departments will also be issued a revenue constraint, based upon expected General Fund receipts. This “General Fund support constraint” will provide each department with a target of how much in General Fund support the department will receive. Departments also “earn” revenues through cost recovery fees and charges, which department estimate subject to Finance Department review, and departments will retain the ability to earn more revenues. Departments will be constrained by the more restrictive of the “core expenditure” level or the “General Fund support” revenue level.

2. **Increased refinement of cost accounting:** Currently, enterprises are charged for their use of City administrative support services, and all departments are charged a share of a few expenses, such as insurance. However, the City’s costs of central administrative services (such as legal, executive, finance, and human resources) are not currently distributed to departments. It is therefore difficult to pinpoint precisely the true costs or service provision, and departments are not responsible for their consumption of central administrative costs. Over the next several years, the City will refine its cost accounting structure to more accurately assign costs to the appropriate centers.

### ***Increased Oversight of Equipment Replacement***

The City's equipment replacement budget is developed by departments, which take primary responsibility for this function. Equipment replacement is calculated prior to the development of the operating budgets. Replacement schedules will be reviewed more closely, and revenue-constrained to a percentage of operations and/or the available use tax revenues.

### ***Electronic Billing***

The Utility Billing Division has been working on a software conversion that would allow for electronic billing to eliminate the cost of paper and postage. The conversion should be complete within a year or two. The newsletter enclosed with the bill is already under consideration for electronic posting.

### ***Electronic City Council Agendas***

A pilot program for three council members to begin receiving city council agendas electronically has been initiated. The group will select the software and hardware that is deemed most beneficial and will receive the agendas electronically for a number of months to evaluate the operational feasibility and cost benefit of full implementation.

### ***Target Building Use Tax Revenues for Capital and Equipment***

Building Use Tax revenues from new construction are essentially "one-time" revenues from construction projects, and are volatile depending on the pace of development. Use of these revenues for operations makes operational revenue less predictable. These revenues will be targeted increasingly for capital and equipment, rather than operations.

### ***Cultural Services Facilities: Increased Self-Sufficiency***

The Rialto Theater and the Museum currently generate part of their costs through fees and rentals. Potential exists to increase the amount of cost recovery. Cost recovery targets of 60% for the Rialto in five years (and 70% in eight years) and 15% for the Museum in five years (and 30% in eight years) are realistic.

### ***Increased Airport Self-Sufficiency***

The airport is co-owned with Fort Collins and receives about \$85,000 annually in General Fund support from each City. Developing self-sufficiency (reducing General Fund support) will need to be coordinated between the two cities as a multi-year effort, but has already been envisioned



in the Airport's business plan as a goal. The Airport's business is expected to grow substantially so the General Fund subsidy may be reduced over time.

***Evaluate Potential for New Revenue focused on New Growth***

The City already charges Capital Expansion Fees (CEFs) to new development, so that new development pays for capital improvements which are necessitated by growth in the community. In general, the City has relied on CEFs to assure that "growth pays for itself". However, CEFs are limited to paying for capital improvements, which then must be operated and maintained. There is currently no method to charge new development for these increased operations and maintenance costs.

In order to balance funding for new capital projects with revenue to operate and maintain new capital investments, the City will research and evaluate possible methods for new development to contribute to ongoing operations and maintenance. The options will be reported to the City Council for consideration.

***Evaluate the Potential for a Library District***

Conduct a study and public participation to determine the feasibility of a library district to encompass Loveland and the surrounding areas. This work will be complete for City Council review in 2013.

***Consider an Infrastructure Use Tax***

The City currently receives use tax on new construction of buildings (homes, businesses, and others). However, Loveland does not currently apply use tax to the construction of new public improvements. While some public improvements are constructed by the City or its enterprises, most are built through private activity in the form of new subdivisions or other development. It is proposed that the City review and evaluate the possibility of use tax on infrastructure as a potential revenue source, and return the concept to the City Council for consideration.

These strategies will meet the principles established by the City Council and will demonstrate careful scrutiny of resources and cost recovery. They will demonstrate the sustainable approach to evaluating the delivery of service within scarce resources projected to be available over the next ten years.

**Overview of Projected Results**

Taken together, these measures address the projected structural deficit which was forecast in the City's long-range financial plan.

Table 2 shows the ten –year financial projection, adjusted for the corrective measures contained in the Financial Sustainability Strategy. The forecast for each year shows the net results, eliminating the previous structural deficit.

**Follow-Up and Implementation**

Implementation of the strategy requires administrative actions by City management, but also requires several actions by the City Council.

In general, cost reductions can be made administratively and will commence upon City Council approval of the Strategy. Revenue measures, which focus upon increases in fees and charges, generally require City Council action and will be brought to the City Council for consideration and action during the period of the 2012 budget process.

The long-term actions identified will be brought to the City Council as individual proposals over a multi-year period.

**Schedule**

June 2011	City Council to Adopt Strategy
June/July 2011	Begin 2012 Budget Development Administrative actions to carry out cost reduction measures
September 2011	Study Session to review the City Manager’s 2012 Recommended Budget
October 2011	Adopt 2012 Budget and Fees and Charges Resolutions

**Appendix 1: City Vision Statement, Mission Statement and City Council Goals**

**Community Vision**

# Loveland

**A vibrant community**  
*—surrounded by natural beauty—*  
**where you belong**

VISION



## **Loveland is a community:**

- That is characterized by **welcoming neighborhoods** and a sense of **individual belonging**;
- That embraces the **heritage** and **natural beauty** of the region and values its strategic location;
- That is **well planned** and **environmentally sensitive**, where all citizens are *safe and secure* and have **equal access** to services and amenities, including **plentiful recreational and cultural activities**;
- With an **integrated system of technology, utility and transportation networks** that support a **vital economy** and coordinates with regional plans;
- That is continuously developing **partnership** of citizens, business and educational communities, with a **stable and diverse economic base**;
- That offers **ample employment and business opportunities** to all;
- That encourages **active public involvement** and is responsive to the needs of its citizens.

**Organization Mission Statement**

*The mission of Loveland city government is to deliver cost efficient, high quality services to all citizens of the City of Loveland through dedicated public employees and progressive and innovative leadership.*

**City Council Goals as Established at the 2011 City Council Advance**

**Goal 1, Public Safety: Continue public safety as the key priority of the City.**

- 1.1 Regional Crime Lab
- 1.2 Consolidation of City & Rural District for Fire/Rescue Services
- 1.3 Public Safety Infrastructure

**Goal 2, Economic Vitality: Build and strengthen Loveland’s economic vitality.**

- 2.1 Economic Development Strategy
- 2.2 Downtown Catalyst Projects
- 2.3 Redevelopment of the Agilent Campus, including public engagement
- 2.4 Rialto Bridge
- 2.5 Airport Growth and Capital Projects
- 2.6 Targets of Opportunity
- 2.7 Regionalism and Annexation Agreement with Johnstown
- 2.8 Artspace Project
- 2.9 Pulliam Building
- 2.10 “Black Boxes” (significant vacant buildings)

**Goal 3, Financial Responsibility: Maintain Loveland’s healthy financial position.**

- 3.1 Financial Sustainability Strategy
- 3.2 “De-Brucing” Election
- 3.3 Analyze and Reduce Reliance on Intergovernmental Revenue
- 3.4 Capital Expansion Fees (CEFs)

**Goal 4, Infrastructure Quality: Maintain and develop Loveland’s infrastructure.**

- 4.1 Street Maintenance Funding
- 4.2 Water Shares, Supply and Infrastructure
- 4.3 Electric Power Infrastructure

**Goal 5, Quality of Life: Preserve and enhance Loveland’s quality of life.**

- 5.1 Public policy concerning poverty and homelessness
- 5.2 Environmental Sustainability Plan
- 5.3 Comprehensive Plan Update
- 5.4 Visual Arts Commission: Selection Process for Public Art

## 5.5 Transportation Plan

**Appendix 2: Process Detail**

## Problem Definition (Dec 2010 – Mar 2011)

- Analysis
- Presentations
  - Management Team
  - City Council
  - CFAC
  - Employees
- Articles in local newspapers
- First Session of Public Forum-televised and rebroadcast
- Article in the City newsletter in March for information and recognition of citizen participation
- Channel 16 show broadcast in April

## Process Development (Nov – Dec 2010)

- Set a Work Plan Internally
- Present the Plan for City Council Approval, December 14, 2010
- Present plan to Citizen Finance Advisory Commission (CFAC)
  - In concept Nov 2010
  - Detail Jan 2011

## Data Collection (Jan 2011- Mar 2011)

- Departmental Service Inventory Lists
- Employee Working Teams developed reports and reported to management team
  - Revenue Enhancement/Minor Revenues
  - Payment in Lieu of Taxes Paid by Enterprise Funds
  - Red Light Cameras
  - Compensation and Benefits
  - Fleet Management
  - Boards and Commissions
- Employee Ideas for Savings, evaluated by an employee committee
- Public Forms hosted by CFAC – 52 participants
- Service Priorities and Ideas Budget Balancing Strategies—reported to Council by CFAC 3/22 Study Session
- Department 20% reductions scenarios from ballot measure response last quarter of 2010
- On-line Survey 168 people completed the survey
  - Leadership Loveland
  - Chamber Board and Legislative Group

- School District Accountability Groups for Loveland Schools
- League of Women's Voters
- March 23 – Mar 29: make on-line survey available on the home page of the City website and included:
  - Parks & Rec Subscriber List
  - Library Subscriber List (story time)
- CFAC Presentation of Forum and On-line Results Presented to City Council March 22, 2011
- Council requested broader availability of On-Line Survey
  - Distributed the link to survey to all Boards and Commission members
  - Search for other groups that might share email distribution lists; press release and general promotion
  - Same survey reopened on the website April 1 - April 30 – 2XX people completed the survey

#### Principles and Strategies (Jan 2011 – Mar 2011)

- Value Words Affinity Exercise with City Council (1/25/11)
- Staff developed draft set of principles
- City Council revised and set of 6 principles at 2/22/11 study session
- City Council Priorities Survey
- Began synthesizing ideas deemed valuable

#### Recommendation Development (Mar 2011 – May 2011)

- City Council study session on ideas 4/12
- Draft strategies to CFAC 4/27
- CFAC recommendation development 5/11
- Council to consider strategies on 5/24 and action on those strategies 6/7