



# FISCAL CONTINGENCY PLAN

A FRAMEWORK TO RESPOND TO  
FISCAL STRESS TO PROMOTE  
BUDGET RESILIENCY



City of Loveland

City Council

November 6, 2018

# TABLE OF CONTENTS

PLAN PURPOSE.....	PAGE 2
PLAN COMPONENTS.....	PAGE 2
TIMEFRAME.....	PAGE 3
HOLISTIC APPROACH.....	PAGE 3
KEY ASSUMPTIONS.....	PAGE 4
ECONOMIC INDICATORS.....	PAGE 4
REVENUE TRIGGERS.....	PAGE 10
REVENUE EVALUATIVE CRITERIA.....	PAGE 10
REVENUE VULNERABILITY SCORING.....	PAGE 11
REVENUE ACTIONABLE TIMEFRAME .....	PAGE 12
EXPENSE TRIGGERS.....	PAGE 13
EXPENSE EVALUATIVE CRITERIA.....	PAGE 14
EXPENSE VULNERABILITY SCORING.....	PAGE 14
EXPENSE ACTIONABLE TIMEFRAME .....	PAGE 14
BUDGET BALANCING ALTERNATIVES.....	PAGE 16
BUDGET BALANCING RATING CRITERIA.....	PAGE 17
FISCAL CONDITIONS: TIME AND SEVERITY.....	PAGE 18
FISCAL CONDITIONS EXPLAINED.....	PAGE 18
BUDGET BALANCING DECISION MATRIX.....	PAGE 20
BALANCING ALTERNATIVES - IMPACTED FUNDS.....	PAGE 21
BUDGET BALANCING ALTERNATIVES DEFINITIONS.....	PAGE 22
IMPLEMENTATION.....	PAGE 27

# PLAN PURPOSE

In January of 2018, the Loveland City Council was presented information at the annual City Council Retreat regarding the likelihood and timing of the country's next economic recession. With the understanding that fiscal stress can lead to hurried decision-making, City Council tasked staff to develop an organized approach to use in response to an event of fiscal stress. The terminology for this framework has since evolved, but the central focus remains the same: develop a structured approach and response framework to use when an event of fiscal stress impacts Loveland.

The intent of this plan is to allow for a thoughtful and clear approach to managing fiscal stress. The value of developing this plan in advance is to reduce the need for ad-hoc decision making during a period of financial strain. This plan provides for a reasonable and thoughtful approach to the decision making needed to balance the City's budget. Making decisions under duress can lead to unintended consequences and a shortsighted approach; this plan provides steps to safeguard against that.

## PLAN COMPONENTS

While the directive and end-goal from City Council is clear, this plan must include several components to make it useful and practical. This plan begins by outlining leading economic indicators that can be used to help detect an impending recession. Next, this plan identifies triggers of fiscal stress for Loveland. Identifying triggers helps staff know when the City is encountering fiscal stress and when to respond. While triggers will be examined from both the revenue and expense side, this plan does emphasize revenue triggers more, as revenue is less within the City's direct control. For example, the City has little control over consumer spending, which drives sales tax collections; however, the City has far more control over whether we build infrastructure, hire staff, or incur other expenses.

This plan evaluates all City revenue, but will largely concentrate on the City's most significant revenue streams. Each revenue stream has been evaluated based on a standard set of criteria that focuses on influencing factors. Each revenue stream is scored on the established criteria, based on a rating scale of 1-3 points. The higher the total score for each revenue stream, the greater the vulnerability, and the importance to the City.

## TIMEFRAME

Since the early 1900's, history has demonstrated that economic expansions and contractions follow a relatively predictable pattern. In general, expansion and contraction cycles fall into two distinct categories: pre-1940's and post-1940's. For the purpose of this plan, the economic cycles observed after the 1940's will be used to make baseline assumptions. Since the mid-1940's, economic contractions typically last about 11-months, with economic expansions occurring for about 58-months. Beginning in 2007, the United States experienced the longest contraction (18-months) since the Great Depression in 1929. Based on the historical data on expansions and contractions, this plan will utilize a timeframe of 24-months. This timeframe recognizes that recessions historically last less than two-years, but the ability to rebound and return to pre-shock conditions is not instantaneous.

The City of Loveland reports-out on revenue and expense data through the Monthly Financial Snapshot. While this data is reviewed frequently and published monthly, it is not recommended that plan triggers be based upon a monthly timeframe. Instead, this plan proposes that triggers be evaluated on a quarterly basis. Depending on the revenue stream or expense category, some triggers will not be acted on for two to three (2-3) fiscal quarters. The timeliness of each trigger was evaluated during the rating criteria of each influential factor and is identified on page seven (7) of this plan.

## HOLISTIC APPROACH

Both revenue and expense triggers will be evaluated against the holistic performance of the City. For example, if sales tax revenue fails to meet projections after one-quarter, before any action is taken, a review of all other revenue streams will commence. As a result, budget balancing options will not be pursued unless the entire fiscal position of the City is under duress, not just one revenue stream. Additionally, if personnel expenses are exceeding the allocated budget after one-quarter, other expense categories will be evaluated to determine if exceeding the budget in this area should actually trigger a response. Both revenue and expense triggers have an affiliated timeframe and in essence that timeframe identifies when revenue and expense performance triggers the pursuit of budget balancing alternatives.

## KEY ASSUMPTIONS

There are several key assumptions of this plan that underpin the proposed balancing alternatives. One of the key assumptions is that this plan is largely based on fiscal stress to the General Fund. The reasoning for that approach is that the City's General Fund supports a large majority of the services provided to the public, which include public safety, parks and recreation, library services, cultural activities, street maintenance and repair, development review, administrative and legal services, capital projects, and so forth. Over seventy-percent of the funding for these services is supported through tax revenue (property, sales, and use taxes), which can have a multitude of influencing factors that result in a high degree of vulnerability.

Another key assumption of this plan is that the City is already being optimally managed, which maximizes efficiencies and cost-savings. Consequently, this plan will not propose budget balancing alternatives that are normally pursued through the effective and efficient management of a local government. For example, pursuing cost savings through technology innovations; leveraging partnerships to achieve efficiencies, or applying for state and federal grants to defray expenses are some examples of alternatives that will not be proposed within this plan, as they are considered fundamental practices of a well-managed municipality. Conversely, this plan will largely focus on increasing revenue, or freezing and delaying existing expenses.

## ECONOMIC INDICATORS

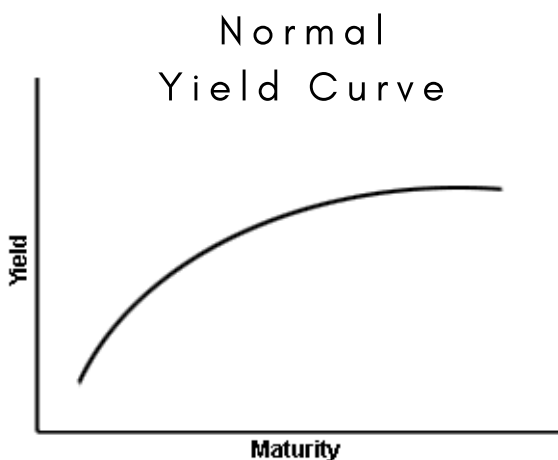
Economists have long pointed to a multitude of signals in the United States economy that indicate an impending recession. While the success rate in predicting recession cycles is not infallible, there are some indicators that have proven to be sound predictors of the economy. Since there are a variety of key indicators that could be utilized, this Plan will focus on the most reliable, time-tested signs of an economic recession. The following leading economic triggers are external to the control of the City of Loveland, but have generally proven to be the most reliable based on historical performance.

## SLOPE OF THE YIELD CURVE

When the government or corporations want to generate capital to finance their operations, they can issue fixed-income securities. Fixed-income securities are a debt instrument that pay investors dividends at certain timeframes throughout the life of the debt, in addition to the return of the principal investment at maturity.

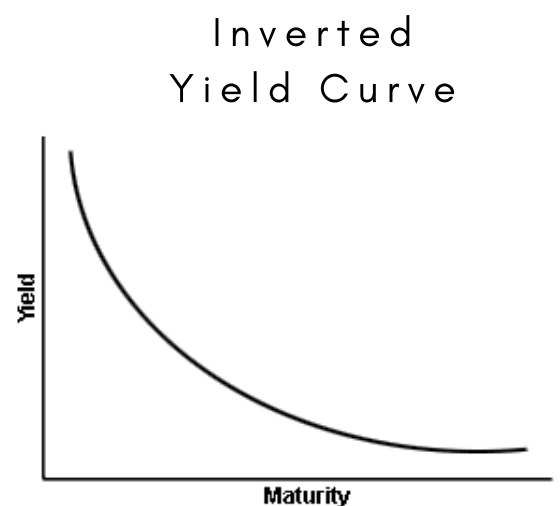
Consequently, if you purchase Government-issued bonds that have a 10-year maturity cycle, you will receive interest payments over the 10-year period and then a full return on your initial investment at maturity.

When the U.S. Treasury issues fixed-income securities (government bonds) to finance operations, the yield curve is used to measure the relationship between the short and long-term interest rates of these securities. In most instances, short-term interest rates are lower than long-term interest rates, so the yield curve slopes upward, as depicted in the image below.



An upward sloping yield curve reflects higher earnings for long-term investments, and thus, is referred to as a 'normal yield curve'. Essentially, a normal yield curve implies that you would earn more money over the life of your investment, the longer you hold the investment. Conversely, when the gap between short-term interest rates and long-term interest rates narrows that is when the yield curve begins to flatten.

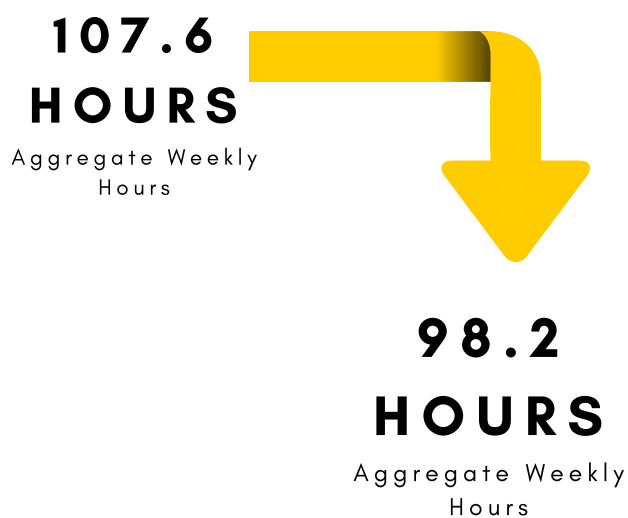
A flattened yield curve is usually a precursor to an inverted yield curve, which has historically been a precursor of a recession. An inverted yield curve results when short-term interest rates outpace long-term interest rates. Economists view that activity as a poor outlook for long-term investments and predict that the yields for long-term investments will continue to fall. An inverted yield curve has preceded every recession since 1956, and thus, is being recommended as a leading economic trigger to assess Loveland's fiscal condition.



## THE LABOR MARKET

Job growth, wages, and unemployment are all major factors of the labor market. As job growth continues, the unemployment rate falls, which further tightens the labor market. In May of 2018, jobs had grown by 223,000 and the unemployment rate had fallen to 3.8%, which is the lowest it had been in 18-years. Leading indicators of the labor market also include aggregate weekly hours and claims for unemployment insurance, which are also used to help anticipate an impending recession.

Aggregate weekly hours measures the total hours worked by all employed during the course of a year. In response to a slowing economy, employers will shorten the length or their workweek and/or reduce their total headcount to offset decreasing profits. In the months preceding a recession, the aggregate weekly hours will decline, reflecting a contraction in the labor market. During the 2008 recession, aggregate weekly hours fell from a peak of 107.6 hours to 98.2 hours. In previous recessions, the margin has been much tighter, with the aggregate weekly hours decreasing by 2-3 hours over the life of the recession.



Initial claims for unemployment insurance measures the number of jobless claims filed in an effort to receive benefits. The claims number reflects the strength of the labor market and thus, offers insight on the general health of the economy. Typically, initial claims tend to rise prior to the economy entering a recession, and conversely, decline as the economy begins to rebound.

While the claims report is produced weekly, the data can be skewed by influencing factors that do not represent true trends, so it is recommended this data be reviewed on a four (4) week basis. Leading into the 2001 recession, claims went from a low of 266,750 and peaked at a high of 489,250; and from a low of 313,250 and a high of 659,250 during the 2008 recession. For the month of September, 2018, weekly initial claims averaged 206,875. Not since August of 2014, have four (4) consecutive weeks of initial claims averaged over 300,000, demonstrating how unsustainably tight the labor market has become in the last four (4) years.



In the U.S. economy, there is a 'natural rate of unemployment' that exists throughout every economic cycle. The natural unemployment rate is the lowest rate of unemployment an economy will reach; even when the economy is running at full strength, this type of unemployment still exists. Factors that contribute to the natural unemployment rate include frictional unemployment, structural unemployment, and surplus unemployment. In September, 2018, the Federal Open Market Committee estimated that the natural rate of unemployment should exist between 4.0% - 4.6%, so when unemployment falls below this range, the labor market becomes unusually tight and is signaling a recession is on the horizon. It is best to think of the labor market as an engine: when unemployment falls below the natural unemployment rate, the economic engine is overheating. As unemployment falls below the natural rate, wage and price inflation occurs. This sharp increase in wages and the cost for goods and services causes the Federal Reserve to respond by raising interest rates, which is the next proposed economic trigger in the Fiscal Contingency Plan.

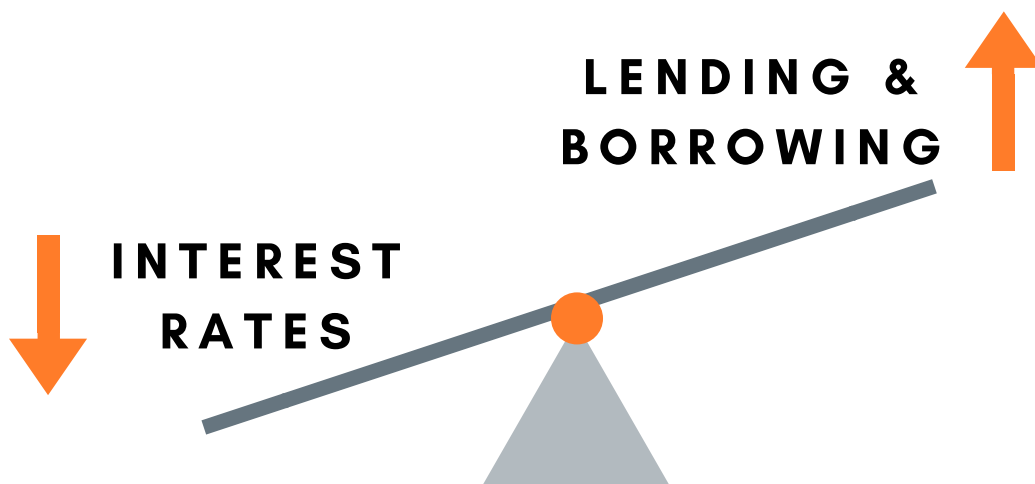
## **INTEREST RATES**

The Federal Reserve has long impacted the acceleration or deceleration of an economic recession by exerting their influence over interest rates. The Federal Reserve largely manipulates interest rates by adjusting the federal funds rate. The Federal Reserve requires financial institutions, like banks, to retain a specific percentage of monies in reserve each business day to protect a customer's ability to access their funds and to stave off bank failures. The federal funds rate is the interest rate used by banks when they lend monies to each other on an overnight basis to meet reserve minimums.

The Federal Reserve most commonly influences the federal funds rate by buying or selling government securities to increase or decrease the volume of money circulating. When there is too little money circulating, demand outpaces supply and causes a shortage of goods, creating a sharp increase in prices and inflation results. In an effort to lower inflation, spur borrowing, and increase economic expansion, the Federal Reserve can print money. The term printing money really implies increasing the credit to its member banks, which is accomplished by lowering the federal funds rate. If banks can pay less interest to the Fed or borrowing banks, they have more funding to lend to customers, and thus lower the interest rates for future borrowing.



Taking cues from the labor market and the rate of inflation (about 2% annually is considered healthy), the Federal Reserve will increase the federal funds rate to help 'cool' the labor market. This is usually done in an effort to strike a better balance for growth and stymie inflation, but this often results in accelerating the recession. When a recession occurs, the Federal Reserve will often lower the federal funds rate to reduce reserve requirements, which increases available funds and encourages borrowing and spending for mortgages, vehicles, businesses, education, and so forth. The extraordinary risks presented by the Great Recession of 2008-09, led the Federal Reserve to move rates to zero (0) from December 2008 to December 2015, which was unprecedented in the history of rate adjustments.



## **GROSS DOMESTIC PRODUCT - MANUFACTURING, INVENTORY, AND RETAIL SALES**

Real Gross Domestic Product (GDP) is a measurement of economic output that considers the impacts of inflation and deflation. Real GDP is measuring the dollar value of all final sales of goods and services produced by the United States and includes four main components: personal consumption, business investment, government spending, and net exports. Economists prefer to use Real Gross Domestic Product as an indicator of a recession opposed to Nominal Gross Domestic Product, since nominal GDP does not adjust for inflation and could indicate price increases from the base year, opposed to pure growth. Specifically with real GDP, the Fiscal Contingency Plan recommends analyzing manufacturing activity, inventory levels, and retail sales trends to determine if an economic expansion or contraction is occurring.

Increases in manufacturing indicate a greater demand for consumer goods and thus a robust economy; however, positive growth also needs to be present for both inventory levels and retail sales. If manufacturing activity is increasing, but that positive growth is not reflected in inventory levels, it could mean that the goods are sitting in wholesale without reaching end-users (consumers). In an effort to generate more profits, companies will increase their inventories when they anticipate growing demand. Increased inventory levels can indicate that the demand for goods is expected to increase, or that current demand is lacking, which is why it is important to also evaluate retail sales. If inventory levels are high, but retail sales are not mirroring those levels or trending up, demand is likely lacking, signifying that demand is exceeding capacity and that the economy is slowing.

Performance in manufacturing, inventory, and retail sales sectors can be gleaned from the Manufacturing and Trade Inventories and Sales Report, produced by the U.S. Census Bureau on a monthly basis. This report provides the values of trades, business sales, and product inventories for manufacturers, retailers, and wholesalers. Understanding the dollar value of merchandise sold helps economists understand trends in consumer spending, specifically if growth is robust or stalled. Seeing how personal consumption comprised 70%, or \$12.56 trillion, of total U.S. GDP in 2017, retail sales makes for a useful economic indicator. Additionally, this report provides data on the inventories-to-sales (I/S) ratio, which helps convey how long the existing inventory supply will be maintained if sales continue at their current levels. The inventories-to-sales ratio ranges on a scale from one to two (1-2) and is informative as rising inventories to sales implies that inventory is building and sales are slowing, usually suggesting an economic slowdown and potential recession. This report includes information by the Wholesale Trade Report, Retail Sales Report, and Manufacturers' Shipments, Inventories, and Orders Survey, which are all produced by the U.S. Census Bureau and have more timely releases, but are not as comprehensive or accurate as the Manufacturing and Trade Inventories and Sales Report.

## **ECONOMIC INDICATORS CONCLUSION**

After a comprehensive review of economic indicators, the Fiscal Contingency Plan recommends utilizing the following measures as recession indicators: the flattening and ultimate inversion of the yield curve, decreases in aggregate weekly hours, increases in initial claims, unemployment rates below the natural unemployment rate, increases in the federal funds rate, and changes in GDP as it relates to manufacturing activity, inventories, and retail sales.

# REVENUE TRIGGERS

The City’s revenue is comprised of 12 major categories: Property Tax; Sales Tax; Use Tax; Other Taxes; Charges for Services; Licenses & Permits; Intergovernmental; Fines & Penalties; Payment in Lieu of Taxes; Interest; Transfers In; and Miscellaneous. Each revenue stream has been evaluated and rated based on the following criteria: portion of the City revenue budget it comprises, the impact natural events has on the revenue stream, relative predictability, how strongly it is correlated to a recession, seasonality, and volatility. The definition of each criteria can be found in Table A below:

**TABLE A: REVENUE EVALUATIVE CRITERIA**

Criteria	Revenue Criteria Definition	Rating Scale
Portion of City Budget	The amount the revenue stream comprises of all General Fund revenue	1= <\$1.0 MM; 2 = \$1.0 MM - \$10.0 MM; 3 = >\$10.0 MM
Natural Event	An adverse event that causes great damage or loss of life	1 (least impacted) to 3 (most impacted)
Predictability	Ease and accuracy of forecasting the revenue stream	1 (most predictable) to 3 (least predictable)
Recession Correlation	Correlated to an economic contraction (as an indicator or a resulting impact)	1 (least related) to 3 (most related)
Seasonality	Any predictable change or pattern that recurs over a one-year period	1 (least seasonal) to 3 (most seasonal)
Volatility	The likelihood of rapid and unpredictable change in the revenue stream	1 (least volatile) to 3 (most volatile)

The resulting scores for each revenue stream are listed below in Table B. The higher the Total Vulnerability Score, the greater the impact of that revenue stream on the City’s budget. A higher score was used as a guide to determine which revenue streams should function as a trigger for pursuing budget balancing alternatives. For example, Interest Income is difficult for staff to predict and is strongly tied to a recession; however, it comprises less than \$1.0 million of the City’s total adopted revenue budget for 2018, which is almost \$102.9 MM, consequently, it is not a recommended revenue trigger. After evaluating the resulting scores of each revenue stream, staff recommends using a Total Vulnerability Score of ten (10) or greater, with a resulting score of two (2) or greater in the Portion of City Budget category as the break-point in determining high priority revenues. In essence, staff recommends focusing on revenue streams that are the most vulnerable and comprise a more significant portion of the City’s revenue budget. Those resulting revenue streams are highlighted in Table B below.

**TABLE B: REVENUE VULNERABILITY SCORING**

Revenue Stream	Portion of City Budget	Natural Event	Predictability	Recession Related	Seasonality	Volatility	Total Vulnerability Score
Use Tax	2	2	1.5	3	3	3	14.5
Sales Tax	3	2	2	3	1.5	2	13.5
Property Tax	3	2	1	2	3	1	12
Intergovt.	1	3	2	2	1	3	12
Licenses & Permits	2	1	2	3	1.5	1.5	11
Charges for Services	2	1.5	1	2	3	1	10.5
Interest	1	1	3	3	1	1	10
Other Taxes	2	1	2	1	1	1	8
Fines & Penalties	1	1	1	2	2	1	8
Misc.	1	1.5	2	1	1.5	1	8
PILT	2	1	1	1	1	1	7
Transfers In	1	1	1	1	1	1	6

\*\* Rows highlighted in the table above indicate recommended revenue triggers.

After narrowing down which revenue streams to concentrate on, another exercise was undertaken to determine when poor performance becomes a trigger for action. Due to the seasonality of some revenue streams, receiving a certain portion of revenue at particular increments throughout the year, may or may not be a cause for concern. For example, based on historical data, we know that Property Tax is largely dispersed in two major increments each year: once from January – March, and again from May-June. If the City did not receive a large portion of the planned Property Tax revenue from January – March of the applicable year that would indicate that something is askew with that revenue stream and that staff needs to further investigate and potentially pursue mitigation efforts.

Additionally, Sales Tax revenue encompasses such a large portion of all General Fund revenue (54% of 2018 Adopted), a dip in performance in Quarter 1 could potentially be a trigger to pursue alternatives, depending on overall City revenue and expense performance. Based on that logic, each recommended revenue stream was assessed to determine when performance becomes cause for action. The recommended actionable

timeframe is detailed in Table C below. If a revenue stream fails to meet projections within the timeframe denoted below that indicates to staff that a holistic review of City revenue and expenses is needed to determine if budget balancing alternatives should be pursued.

**TABLE C: REVENUE TRIGGERS - ACTIONABLE TIMEFRAME**

Revenue Stream	Total Vulnerability Score	Actionable Timeframe	Revenue Achieved by Timeframe
Use Tax	14.5	Quarter 2	47%
Sales Tax	13.5	Quarter 1	25%
Property Tax	12	Quarter 1	33%
Licenses & Permits	11	Quarter 2	48%
Charges for Services	10.5	Quarter 2	50%

As noted in the table above, each revenue stream has an actionable timeframe associated with it that was determined after a historical review of monthly actuals. In addition to reviewing the timeframe in which the revenue is collected, the amount of revenue collected was also analyzed. The amount of revenue that should be collected in the applicable timeframe is indicated in the ‘Revenue Achieved by Timeframe’ column in the above table. Additional analysis was completed around the City’s largest revenue stream, Sales Tax, and the proposed percentages listed in Table C were further confirmed after reviewing seven-years of Sales Tax data.

**REVENUE CONCLUSION**

All General Fund revenue was carefully evaluated to determine which streams are the most vulnerable, and thus, the greatest risk to the City. Two major evaluative processes were undertaken to identify which of the twelve General Fund revenue streams require the City’s greatest attention. Those efforts narrowed the revenue triggers to five streams (Use, Sales, Property, Licenses and Permits, and Charges for Services).



These five streams were further analyzed to determine when we collect the most substantial portion of each revenue stream and thus, when the City Council would be notified of a revenue trigger, if projections underperformed.

# EXPENSE TRIGGERS

The City of Loveland seeks to provide the highest quality services to its residents while leveraging the right amount of resources. Through the delivery of these services, the outflow of monies for personnel, programs, and services is largely within the City's control. While there are variables associated with each service that impact delivery costs, the City has a far greater ability to control those variables and the resulting outcome. City expenditures can be altered to generate immediate cost-savings, and as a result, the expense triggers in times of fiscal stress are much less complex and time sensitive than revenue triggers.

For the purpose of this plan, expense triggers have been identified across three categories: Departmental, Non-Departmental, and Capital Projects. Departmental expenses reflect each General Funded department in the City and their corresponding expenses (personnel, supplies, purchased services, equipment, land, etc.). Non-Departmental expenses account for the City's contributions to outside agencies, like the Loveland Fire Rescue Authority, the Northern Colorado Regional Airport, and the Loveland Downtown Partnership. The Non-Departmental budget also includes transfers, economic incentives, and the affordable housing allocation.

**DEPARTMENTAL**

**NON-  
DEPARTMENTAL**

**CAPITAL  
PROJECTS**

Most of the large expenses budgeted within Non-Departmental are known in advance and are solidified with some type of agreement with the outside agency. Capital Project expenses include all the Traditionally Funded (General Fund) capital projects budgeted for the upcoming year. Per the City's financial policies, a capital project is related to major capital construction and improvements, have significant costs, and a multi-year useful life.

Mirroring the evaluative process used for General Fund revenue, expenses were subjected to the same procedures and carefully evaluated. Additionally, each expense stream was assessed and scored, with the total score indicating overall importance and vulnerability. The criteria and scoring results are displayed in the Tables D and E below:

**TABLE D: EXPENSE EVALUATIVE CRITERIA**

Criteria	Expense Criteria Definition	Rating Scale
Portion of City Budget	The amount the expense category comprises of all General Fund expenditures	1= <\$10.0 MM; 2 = \$10.0 MM - \$25.0 MM; 3 = >\$25.0 MM
Natural Event	An adverse event that causes great damage or loss of life	1 (least impacted) to 3 (most impacted)
Predictability	Ease and accuracy of forecasting the expense stream	1 (most predictable) to 3 (least predictable)
Recession Correlation	Correlated to an economic contraction (as an indicator or a resulting impact)	1 (least related) to 3 (most related)
Seasonality	Any predictable change or pattern that recurs over a one-year period	1 (least seasonal) to 3 (most seasonal)
Volatility	The likelihood of rapid and unpredictable change in the expense stream	1 (least volatile) to 3 (most volatile)

**TABLE E: EXPENSE VULNERABILITY SCORING**

Expenses	Portion of City Budget	Natural Event	Predictability	Recession Related	Seasonality	Volatility	Total Vulnerability Score
Departmental	3	2	2	1	2	2	12
Capital Projects	1	2	2	2	1.5	2	10.5
Non-Departmental	2	1	1	1	1	1	7

\*\* Rows highlighted in the table above indicate recommended expense triggers.

After reviewing departmental expense data from 2015-2017, there are some clear and visible patterns in expenditures. Departmental spending occurs in a relatively regular manner, with approximately 23% - 25% of expenses occurring each quarter. Staffing is typically 80% of the average municipality’s budget and is the main driver behind the annual expense consistency in departmental budgets. Since staff are compensated in a predictable manner (bi-weekly), a majority of departmental expenses are consistent each fiscal quarter. Departmental budgets encompass a significant portion of the total General Fund budget and are relatively predictable, as a result, departmental expenditures are being recommended as an expense trigger in the manner, outlined by Table F below.

**TABLE F: EXPENSE TRIGGERS - ACTIONABLE TIMEFRAME**

Expense Stream	Total Vulnerability Score	Actionable Timeframe	Expenditures by Timeframe
Departmental	12	Quarter 1	25%



## EXPENSE TRIGGERS CONTINUED...

Capital projects are an important component of the City's expense budget and regardless of the funding source, certain trends can be observed throughout. Capital project spending can be reasonably influenced by a variety of unforeseen factors, like natural disasters and economic conditions (e.g. recent increases in steel prices), which make it a fairly volatile expense stream. Additionally, environmental conditions of project sites and unknown complications (e.g. environmental site remediation) can drive up the costs, making it difficult for staff to predict total expenses; however, General Funded capital projects are a relatively minor segment of the entire General Fund budget. As an example, for the 2019 proposed budget, the General Funded Capital projects total approximately \$8.4 MM of the total \$102.0 MM budget. During a review of General Fund capital project expenses from 2015-2017, there was no identifiable pattern in expense spending. Capital project spending in the first quarter ranged from 13% to 20% and in the second and third quarter, from 22% - 31%. Due to the small portion of the total General Fund budget capital projects comprise and the variability in spending, capital project expenditures are not recommended as an expense trigger.

The Non-Departmental budget includes funding for community events, sponsorship's, and other city-wide expenses impacting multiple departments, like the Employee Appreciation Event or the Boards and Commissions Summit. The Non-Departmental fund also includes contributions to outside agencies and transfers for transit and transportation operating subsidies as well as approved decision packages, which in combination comprise almost 68% of the total Non-Departmental budget for 2018. Contributions to outside agencies and transfers are entirely within the City's control and typically follow a known disbursement schedule. For example, in 2018, the City will remit \$100,000 to the Loveland Downtown Partnership five (5) times throughout the year; those payment dates and increments are known during budget adoption. Consequently, these expenses are fairly easy for staff to predict, are not related to a recession or a natural event, present no seasonality, and almost no volatility. Additionally, allocations for the Economic Incentives Fund and the Community Housing Development Fund are located within Non-Departmental and these contribution amounts occur regularly and mostly consistent each year. As a result, the Non-Departmental expense stream is not very vulnerable, which is why these expenditures are not being recommended as an expense trigger.

# BUDGET BALANCING ALTERNATIVES



In response to events of fiscal stress that may place the City's budget out of balance, the City Council has two primary options: increase revenue or reduce expenses. As it pertains to revenue, there are certain streams that are more within the City's direct control, meaning the City can increase fees and charges with the approval of City Council. Those revenue streams are largely included within the Charges for Services and Licenses and Permits revenue category. Charges for Services include charges for access to services provided by the City, which include athletic field rentals, performances at the Rialto, use of the Chilson Center, and other programs. Licensing and Permit revenue is derived from the issuance of licenses and permits that can include construction permits, business licenses, liquor licenses, special event permits, and so forth. These two revenue streams contain charges and fees that are approved by City Council and are within the City's control. Unfortunately, the revenue from Charges for Services and Licensing and Permits combined only account for 7% - 9% of the City's General Fund revenue for the last four (4) budget years. Any increases in these categories have been market-driven or based in cost recovery, so raising charges and fees in this area will only offer certain levels of relief.

The City's largest revenue streams are Sales Tax and Property Tax, which in combination, have totaled almost 60% of all General Fund revenue for the last four (4) budget years. If the City Council was interested in balancing the City's budget by increasing revenue, increases to the mill levy and sales tax require voter authorization. While an increase through voter approval is achievable, any voter issue requires a minimum lead time of 190-days before making it to the ballot, which diminishes the effectiveness of this alternative. Considering that economic recessions since the 1940's have lasted an average of 11-months, a 6-month process to achieve budget relief does not provide the right timeline for the City to be responsive and should only be pursued if conditions worsen or lengthen. As a result of this process, budget balancing options with long lead times or processes that are outside of the City's direct control are lower on the recommended matrix.

Most of the budget balancing alternatives suggested in the matrix are focused around reducing expenditures. Expenditures are the focal point of the balancing efforts due to City's autonomy over them and their general elasticity; expenditures can be cut as quickly as they can be added back.

## BUDGET BALANCING RATING CRITERIA

The budget balancing alternatives presented in the matrix were all evaluated using a standard set of criteria. The numbers listed for each criteria indicate what staff believes can most likely be achieved and how that alternative will be approached during implementation. For example, if a zero (0) is listed in the 'Impacts Residents' category, it is assumed that the proposed alternative presents little to no impact to residents and that during implementation, staff will seek to minimize impacts to residents to the greatest degree possible. If staff finds during implementation that the selected option results in impacts not initially projected, staff will seek further direction from City Council. The following criteria definitions were used to evaluate each balancing alternative:

Impacts Residents	The alternative is expected to negatively impact welfare, safety, or affordability for more than 50% of Loveland residents;	(0) indicates no/low impact - (1) indicates a discernible impact
Impacts Personnel	The alternative is expected to produce a direct impact to Loveland employees, or personnel funded by City contributions, which results in an a negative impact to their workload, professional development, benefits, or annual compensation	(0) indicates no/low impact - (1) indicates a discernible impact
Impacts Outside Agencies	The alternative is expected to cause the City to default on existing commitments to outside agencies or partners, impacting the agency's ability to perform as agreed upon	(0) indicates no/low impact - (1) indicates a discernible impact
Impacts Internal Operations	The alternative is expected to generate a direct negative impact to the internal functioning and day-to-day management of the City over a sustained period of time (more than 6-months)	(0) indicates no/low impact - (1) indicates a discernible impact
Impacts Service Levels	The alternative is expected to result in a significant reduction in current services or service levels the City provides to the community	(0) indicates no/low impact - (1) indicates a discernible impact
Implementation Time	The ability to quickly and rapidly deploy the proposed alternative	(0) indicates a rapid deployment (less than 6-months) - (1) indicates longer deployment (greater than 6-months)

## FISCAL CONDITIONS: TIME & SEVERITY

The budget balancing alternatives presented in the matrix all have an associated fiscal condition: Mild, Moderate, or Severe. For the purposes of this Plan, Mild fiscal conditions last approximately 0-9 consecutive months; moderate fiscal conditions last approximately 9-15 consecutive months; and severe fiscal conditions last approximately 15-24 consecutive months. The reason these timeframes are listed in consecutive months is to mirror how economic contractions function. An economic recession is identified by two (2) consecutive quarters of negative growth, or decline in Gross Domestic Product. An economic depression is far more severe than a recession and usually lasts for several years. Severe economic conditions and the corresponding alternatives outlined within this Plan extend beyond the typical timeframe of recessions and present the greatest impact to the community and Loveland employees. This Plan should not be used to navigate a economic depression, rather an entirely new approach would need to be developed if that situation were to arise.

The timeframe of each fiscal condition provides a general response framework, which in no fashion limits the ability of City Council to select a more intensive alternative from a different fiscal condition category. For example, if the City was experiencing Mild Fiscal Stress and the City Council wanted to pursue a more intense alternative from the Moderate category, opposed to pursuing multiple alternatives from the Mild category, Council could certainly proceed in that manner. The intent of this plan is to provide a framework for decision-making, not a codified requirement. The Severe budget balancing alternatives underpin the philosophy that the harshest impacts to employees and the public are delayed and pursued as late as possible in the process.

**TABLE G: FISCAL CONDITIONS EXPLAINED**

Fiscal Condition	Length of Time	% of GF Budget	Total Score
<b>Mild</b>	0 - 9 Months	1.0 - 2.0 %	0 - 1
<b>Moderate</b>	9 - 15 Months	2.1 - 3.9 %	2
<b>Severe</b>	15 - 24 Months	4.0+ %	3 - 4

## FISCAL CONDITIONS: TIME & SEVERITY CONTINUED...

The evaluative criteria outlined on page 12 was used to produce a total score for each listed alternative and the total scores were categorized as such: Mild (0-1), Moderate (2), Severe (3-4). Mild alternatives present the least impact to the categories listed, with severe presenting the greatest impact. The alternatives in the table are organized by the total score, which correlates to the assigned condition (mild, moderate, severe). As it pertains to expenditures, the alternatives presented are centered around delaying, freezing, or reducing expenses. 'Elimination' is not being proposed for any alternative, since the intent of this plan is not to correct a structural imbalance within the budget, but rather a temporary imbalance. Elimination should only be pursued in response to these events, if that program, service, offering, etc. is truly no longer needed, or desired.

# \$ 3.5 MM

SHORTFALL IN 2011



.In Table G: Fiscal Conditions Explained, the percentage of the General Fund budget each condition comprises is listed. These percentages were generated using forecasting methods and historical data from economic conditions the City experienced in 2011. The conditions experienced in 2011 resulted in a projected \$3.5 million shortfall. During that time, the projected shortfall translated to about 5.5% of the General Fund budget.

.In response to those conditions, a variety of balancing options were presented, which include alternatives this Plan considers 'severe'. Using that information, staff determined that a 4.0+ % shortfall of the current General Fund budget would be representative of the conditions being experienced in 2011.

This Fiscal Contingency Plan does not outline specific dollar amounts for each balancing alternative, due the variability in the annual budgeting process. Additionally, the financial impact for some of the alternatives proposed will vary depending on when it is implemented. For example, it is almost impossible to forecast the financial impact of a hiring freeze that has yet to occur. The financial impact of a hiring freeze can only be forecast when implementation is imminent, as it involves keeping current vacancies unfilled to accrue cost savings. Additionally, the projected shortfall or gap the City is trying to bridge will not be known until the City is in that position, requiring staff to recalculate the estimated impact with current-year dollars.

**TABLE H: BUDGET BALANCING DECISION MATRIX**

Length of Time	Fiscal Condition	Balancing Alternative	Revenue Generating or Expense Reduction	Impacts Residents	Impacts Personnel	Impacts Outside Agencies	Impacts Internal Operations	Impacts Service Levels	Implementation Time	Total
0 - 9 Months	MILD	De-appropriate from Current Capital Projects	Expense Reduction	0	0	0	0	0	0	0
	MILD	Freeze or Reduce the 1% for Art in Public Places Program	Expense Reduction	0	0	0	0	0	0	0
	MILD	Interfund Loan	Revenue Generating	0	0	0	0	0	0	0
	MILD	Sale of Assets	Revenue Generating	0	0	0	0	0	0	0
	MILD	Temporary Increase in PILT Requirements	Revenue Generating	0	0	0	0	0	0	0
	MILD	Transfer from Fund Balances in Excess of Reserve Requirement	Revenue Generating	0	0	0	0	0	0	0
	MILD	Access Fund Balance Reserves Below the Minimum	Revenue Generating	0	0	0	1	0	0	1
	MILD	Add New Charges for Services	Revenue Generating	1	0	0	0	0	0	1
	MILD	Capital Asset Purchasing Restrictions	Expense Reduction	0	0	0	1	0	0	1
	MILD	Delay or Reduce Merit Compensation	Expense Reduction	0	1	0	0	0	0	1
	MILD	Delay or Reduce the Maintenance of Assets	Expense Reduction	0	0	0	1	0	0	1
	MILD	Departmental Budget Reductions - Department Specific	Expense Reduction	0	0	0	1	0	0	1
	MILD	Freeze Knowledge Transfer Program	Expense Reduction	0	1	0	0	0	0	1
	MILD	Freeze One-Time Bonuses	Expense Reduction	0	1	0	0	0	0	1
	MILD	Freeze or Reduce Current-Year Decision Packages	Expense Reduction	0	0	0	1	0	0	1
	MILD	Freeze or Reduce Fee Waivers	Revenue Generating	0	0	1	0	0	0	1
	MILD	Freeze or Reduce Fund Balance Contributions	Expense Reduction	0	0	0	0	0	1	1
	MILD	Freeze or Reduce Professional Memberships	Expense Reduction	0	1	0	0	0	0	1
	MILD	Freeze or Reduce Travel and Training	Expense Reduction	0	1	0	0	0	0	1
	MILD	Freeze or Reduce Voluntary Fund Contributions	Expense Reduction	0	0	1	0	0	0	1
MILD	Freeze Position Reclassifications	Expense Reduction	0	1	0	0	0	0	1	
MILD	Increase Charges for Services	Revenue Generating	1	0	0	0	0	0	1	
MILD	Increase Leasing/Rental of City Assets	Revenue Generating	0	0	0	1	0	0	1	
MILD	Inflationary Increases for Capital Expansion Fees	Revenue Generating	0	0	0	0	0	0	1	
MILD	Purchasing Restrictions	Expense Reduction	0	0	0	1	0	0	1	
9-15 Months	MODERATE	Departmental Budget Reductions - Across the Board	Expense Reduction	0	0	0	1	1	0	2
	MODERATE	Excess Medical Leave Payouts	Expense Reduction	0	1	0	0	0	1	2
	MODERATE	Freeze or Reduce Current-Year Capital Projects	Expense Reduction	0	0	0	1	1	0	2
	MODERATE	Freeze or Reduce Food and Utility Sales Tax Rebate Program	Expense Reduction	0	0	1	0	1	0	2
	MODERATE	Freeze or Reduce Phone Service	Expense Reduction	0	1	0	1	0	0	2
	MODERATE	Freeze or Reduce Sponsorship of Events	Expense Reduction	1	0	1	0	0	0	2
	MODERATE	Furlough Day	Expense Reduction	0	1	0	1	0	0	2
	MODERATE	Hiring Freeze	Expense Reduction	0	1	0	1	0	0	2
	MODERATE	Increase Mill Levy	Revenue Generating	1	0	0	0	0	1	2
	MODERATE	Increase Other Taxes	Revenue Generating	1	0	0	0	0	1	2
	MODERATE	Increase Sales Tax	Revenue Generating	1	0	0	0	0	1	2
	MODERATE	Increase Use Tax	Revenue Generating	1	0	0	0	0	1	2
	MODERATE	Outsource City Services	Expense Reduction	1	0	0	1	0	0	2
	MODERATE	Pursue GO Debt for Capital Project Financing	Revenue Generating	1	0	0	0	0	1	2
	MODERATE	Reduce Overtime Work	Expense Reduction	0	1	0	1	0	0	2
MODERATE	Voluntary Severance Program	Expense Reduction	0	1	0	1	0	0	2	
15-24 Months	SEVERE	Reduce Availability of City Facilities	Expense Reduction	1	0	0	1	1	0	3
	SEVERE	Reduction in Force (RIF)	Expense Reduction	0	1	0	1	1	0	3
	SEVERE	Substituting Volunteers for City Employees	Expense Reduction	0	1	0	1	0	1	3
	SEVERE	Freeze or Reduce City Provided Programs	Expense Reduction	1	1	0	1	1	0	4
	SEVERE	Freeze or Reduce City Provided Services	Expense Reduction	1	1	0	1	1	0	4
	SEVERE	Freeze or Reduce Contributions to Outside Agencies	Expense Reduction	0	1	1	0	1	1	4



## BALANCING ALTERNATIVES - IMPACTED FUNDS

The table below illustrates how the proposed balancing alternatives will be approached in regard to their projected impact. While this plan is focused on re-balancing the General Fund, some of the alternatives proposed are expected to generate impacts to other funds. Those alternatives and the corresponding impacts are detailed below:

Fiscal Condition	Balancing Alternative	Impacts General Fund or All Funds
MILD	De-appropriate from Current Capital Projects	General Fund
MILD	Freeze or Reduce the 1% for Art in Public Places Program	General Fund
MILD	Interfund Loan	All Funds
MILD	Sale of Assets	General Fund
MILD	Temporary Increase in PILT Requirements	All Funds
MILD	Transfer from Fund Balances in Excess of Reserve Requirement	All Funds
MILD	Access Fund Balance Reserves Below the Minimum	General Fund
MILD	Add New Charges for Services	General Fund
MILD	Capital Asset Purchasing Restrictions	General Fund
MILD	Delay or Reduce Merit Compensation	All Funds
MILD	Delay or Reduce the Maintenance of Assets	General Fund
MILD	Departmental Budget Reductions - Department Specific	General Fund
MILD	Knowledge Transfer Program	All Funds
MILD	Freeze One-Time Bonuses	All Funds
MILD	Freeze or Reduce Current-Year Decision Packages	General Fund
MILD	Freeze or Reduce Fee Waivers	All Funds
MILD	Freeze or Reduce Fund Balance Contributions	General Fund
MILD	Freeze or Reduce Professional Memberships	All Funds
MILD	Freeze or Reduce Travel and Training	All Funds
MILD	Freeze or Reduce Voluntary Fund Contributions	General Fund
MILD	Freeze Position Reclassifications	All Funds
MILD	Increase Charges for Services	General Fund
MILD	Increase Leasing/Rental of City Assets	General Fund
MILD	Inflationary Increases for Capital Expansion Fees	All Funds
MILD	Purchasing Restrictions	General Fund
MODERATE	Departmental Budget Reductions - Across the Board	General Fund
MODERATE	Excess Medical Leave Payouts	All Funds
MODERATE	Freeze or Reduce Current-Year Capital Projects	General Fund
MODERATE	Freeze or Reduce Food and Utility Sales Tax Rebate Program	General Fund
MODERATE	Freeze or Reduce Phone Service	All Funds
MODERATE	Freeze or Reduce Sponsorship of Events	All Funds
MODERATE	Furlough Day	All Funds
MODERATE	Hiring Freeze	All Funds
MODERATE	Increase Mill Levy	General Fund
MODERATE	Increase Other Taxes	General Fund
MODERATE	Increase Sales Tax	General Fund
MODERATE	Increase Use Tax	General Fund
MODERATE	Outsource City Services	General Fund
MODERATE	Pursue GO Debt for Capital Project Financing	General Fund
MODERATE	Reduce Overtime Work	General Fund
MODERATE	Voluntary Severance Program	All Funds
SEVERE	Reduce Availability of City Facilities	General Fund
SEVERE	Reduction in Force (RIF)	All Funds
SEVERE	Substituting Volunteers for City Employees	All Funds
SEVERE	Freeze or Reduce City Provided Programs	General Fund
SEVERE	Freeze or Reduce City Provided Services	General Fund
SEVERE	Freeze or Reduce Contributions to Outside Agencies	General Fund



## BUDGET BALANCING ALTERNATIVES - DEFINED

The following text provides a definition for each balancing alternative presented in Table H on page 20:

**De-appropriate from Current Capital Projects** – evaluating capital projects that are planned or underway for the current budget year and determining what funding can be de-appropriated and reallocated where needed. The evaluation considers the overall priority and criticality of the project while assessing project timing, progress, partner agencies, deferred maintenance, and grant monies to achieve potential savings.

**Freeze or Reduce the 1% for Art in Public Places Program** – one-percent (1%) of the cost of all City construction projects exceeding \$50,000, is deposited into the Art in Public Places fund for the acquisition, maintenance, and repair of art in the community; this action would freeze, or reduce those contributions by amount specified by City Council.

**Interfund Loan** – a loan from a solvent fund with reserves above the requirement, per the Fund Balance and Reserve Policy, to a fund with expenses in excess of available resources. Interfund loans invoke annual interest rates comparable to market rates at the time the loan is executed. Timeframes for repayment of an interfund loan shall not exceed 10 years.

**Sale of Assets** – identify City assets that if sold, could potentially generate General Fund revenue that would be of significant value to the City. Assets may include City-owned land, buildings, rolling stock, technology, and so forth.

**Temporary Increase in the Payment in Lieu of Taxes (PILT) Requirements** – invoke a temporary increase in the PILT for a specified period of time to generate General Fund revenue. Before this alternative is executed, the PILT increase would be benchmarked against other communities and evaluated to determine if it would generate subsequent rate increases for the impacted Enterprise Funds.

**Transfer from Fund Balances in Excess of Reserve Requirement** – transfer funding in excess of the required reserve amounts, per the City Fund Balance and Reserve Policy for one-time capital expenses.

**Access Fund Balance Reserves Below the Minimum** – accessing fund balance reserves that would temporarily place the reserve amount below the required threshold, in accordance with the City's Fund Balance and Reserve Policy.

**Add New Charges for Services** – enacting new charges or fees for services provided by the City. For example, creating a new business license and charging a fee for the use of that required license. Fees and charges are typically brought to City Council for their approval during the annual budget process; however, any new charges could be brought forward via a Fee Resolution at any time.

**Capital Asset Purchasing Restrictions** – evaluate departmental spending on capital assets and place prohibitions on asset replacement or acquisitions. This option requires coordination with Fleet, Public Works, and the Information Technology department to maximize the useful life of assets outside of the recommended replacement cycles.

**Delay or Reduce Merit Compensation** – this option proposes to delay or reduce the merit pool budget for City of Loveland employees until a pre-determined timeframe, or by a specific amount in the subsequent budget year; this option would apply to all employees, across all funds.

## **BUDGET BALANCING ALTERNATIVES - DEFINED**

Delay or Reduce the Maintenance of Assets – involves reviewing all city-owned assets that require maintenance and evaluating what can be reasonably delayed or reduced to produce a cost savings without compromising the health, safety, or welfare of the public, or the integrity of the asset.

Departmental Budget Reductions – Department Specific – departmental budgets are analyzed based on size, historical variance, programs supported, staff supported, etc. and selected to produce reductions. This alternative requires the Department Director to make reduction recommendations to the City Manager that will drive the least impact to service levels and staff. The City Manager may identify a target reduction amount for each department.

Knowledge Transfer Program – impacts the City's Knowledge Transfer Program, where an employee resigns from an eligible position by transferring work skillsets and specific job knowledge to a successor employee before the resigning employee's resignation date. This alternative can be escalated by freezing or limiting applicability, or reducing the associated monetary benefit for the exiting employee; benefits range from two (2) to six (6) weeks of pay depending on the employees years of service.

Freeze One-Time Bonuses – one time monetary bonuses for City of Loveland employees are frozen; this option would apply to all employees, across all funds.

Freeze or Reduce Current-Year Decision Packages – all decision packages that were approved for the current budget year are evaluated to determine if they can be delayed to produce a cost savings.

Freeze or Reduce Fee Waivers – waivers for permit fees and capital expansion fees (CEF) incurred for development projects can be frozen or capped to generate revenue for the General Fund and CEF funds.

Freeze or Reduce Fund Balance Contributions – annual contributions are made to funds with a required reserve amount per the City's Fund Balance and Reserve Policy, like the Fleet Replacement Fund, Risk and Insurance Fund, Internal Services Fund, and Employee Benefits Fund. This alternative proposes freezing contributions to that particular fund for a specified period of time.

Freeze or Eliminate Professional Memberships – all professional memberships will be frozen or eliminated, and refunds pursued unless required for City employment; this option would apply to all employees, across all funds.

Freeze or Reduce Travel and Training – will prohibit all staff travel and training events that are out-of-state. This alternative can be escalated to prohibit travel and training, unless required to maintain certifications relevant for employment by the City. This option would apply to all employees, across all funds.

Freeze or Reduce Voluntary Fund Contributions – the General Fund makes annual, voluntary contributions to a variety of funds. Current examples of these funds include the Community Housing Development Fund, the Economic Incentives Fund, and the City Council Special Projects Fund. This alternative only applies to funds that do not have a required minimum fund balance, per the City's Fund Balance and Reserve Policy. This alternative allows for escalation in that voluntary annual contributions can be reduced by a specified amount and that it can only be applied to specific funds.

## BUDGET BALANCING ALTERNATIVES - DEFINED

Freeze Position Reclassifications – reclassifications with corresponding monetary increases for employees are frozen; this option would apply to all employees, across all funds. In the past two-years, an average of 10 reclassifications resulting in upward movement in the pay-plan have been approved annually.

Increase Charges for Services – includes fees for access and use of City services and amenities. This applies to external charges like city field rentals, cultural services events, licenses and permits as well as internal charges like employee health benefits. Fees and charges are typically brought to City Council for their approval during the annual budget process and any increases are typically market driven or cost recovery based; however, any new charges could be brought forward via a Fee Resolution at any time.

Increase Leasing/Rental of City Assets – evaluate city assets best suited for leasing (aside from the existing) by outside agencies and develop and advertise leasing opportunities. This option can apply to all General Fund city assets including rolling stock (vehicles and equipment), City buildings and facilities, and technology devices.

Inflationary Increases for Capital Expansion Fees (CEF)– increase capital expansion fees by the annual inflationary amount, per the Engineering News-Record annual publication (authorized in the Loveland Municipal Code). Increasing CEFs would generate more funding for capital projects and reduce the General Fund burden for these improvements.

Purchasing Restrictions – evaluate departmental expenses and place prohibitions on ‘non-essential spending’. For example, purchases on stand-up desks can be frozen, or meal service for Board and Commission meetings/City Council meetings can be eliminated.

Departmental Budget Reductions – Across the Board – all departments would be responsible for providing a budget reduction. This alternative requires the Department Director to make reduction recommendations to the City Manager that will drive the least impact to service levels and staff. The reduction amount may vary between departments, but will apply to all.

Excess Medical Leave Payouts – City employees that have accrued more than the maximum medical leave allowed for their position (240 hours for regular full-time) are paid out, up to half of their excess accrual. This alternative would freeze, reduce, or alter medical leave payouts and would apply to all employees, across all funds. The payouts occur in January/February of each year, so implementation would need to consider that timeframe.

Freeze or Reduce Current-Year Capital Projects - all capital projects that were approved for the current budget year are evaluated to determine if they can be delayed for an identifiable period of time, or reduced in scope to produce a cost savings.

Freeze or Reduce Food and Utility Sales Tax Rebate Programs – the Food and Utility Sales Tax Rebate programs are an annual offering by the City to residents that meet income and residency requirements. This alternative proposes to freeze the rebate programs, or reduce them in scope by capping the amount of the total rebate issued.

## BUDGET BALANCING ALTERNATIVES - DEFINED

Freeze or Reduce Phone Service – any employee with both a City mobile phone and a desk phone would eliminate one of the phone lines in an effort to produce a cost savings; this alternative applies to all employees, across all funds.

Freeze or Reduce Sponsorship of Events – identifying city-sponsored events where a monetary commitment is made in support of the event, and freezing or reducing the monetary support for such event. Examples of possible events could include the Fourth of July Fireworks Event or the Annual Employee Appreciation Event.

Furlough Day – temporary unpaid leave of all benefitted employees for one-business day to produce a cost savings. A management plan to minimize the impact of the furlough day would be developed before implementation.

Hiring Freeze – a freeze on all vacant positions (current and future), unless the position is public safety related, or would generate a noticeable decrease in service levels. This alternative can be escalated by increasing its applicability to all vacant and future vacated positions, regardless of position type.

Increase Mill Levy – the mill levy is the assessed property tax rate used by the City and other jurisdictions to measure applicable taxes. This alternative would explore the possibility of increasing the City's mill levy, which requires voter approval.

Increase Other Taxes – in Loveland, the 'Other Taxes' revenue category includes the Specific Ownership Tax, Cigarette Tax, Gas Franchise Tax, Cable Television Tax, and the Telephone Occupational Tax. All of the taxes within this category are outside of the City's direct control, meaning the rates are set by the State, or they require referendum to approve an increase; however, there may be additional potential for increased collections surrounding the Telephone Occupational Tax and the Cigarette Tax.

Increase Sales Tax – the City currently levies a 3.0% Sales Tax on all transactions for tangible personal property; any increase of the City's Sales Tax requires voter approval. This alternative would explore a potential increase the City's current sales tax rate.

Increase Use Tax – the City currently levies a 3.0% Use Tax on building materials and motor vehicles. The Motor Vehicle Use Tax is set by the County and can only be increased by a County referendum. The City Council sets the rate for construction and building materials and increases to those rates require voter approval. This alternative would involve analyzing and potentially increasing the Building Materials Use Tax only.

Outsource City Services – evaluate all City services provided and identify which ones are best suited for outsourcing. This alternative requires staff to present a cost-benefit analysis on the outsourcing of the service to City Council for further direction; this alternative may include a reduction in staffing.

Pursue GO Debt for Capital Project Financing – pursue General Obligation (GO) debt for the financing of capital projects opposed to the pay-as-you-go method, or the Certificate of Participation method the City has traditionally utilized. GO debt typically offers lower interest rates, but does require voter approval and a corresponding mill levy increase to support the issuance of new debt.

## BUDGET BALANCING ALTERNATIVES- DEFINED

Reduce Overtime Work – a reduction in work hours and services so as not to exceed the FLSA and City of Loveland policies for normal work hours per employee. Acknowledging that there will be welfare and safety events (e.g. down power line, water main break, snow removal, etc.) that will occur requiring overtime work, this alternative will seek to minimize and reduce overtime work to the greatest extent possible.

Voluntary Severance Program – provides an incentive to employees in eligible positions to voluntarily separate from employment and/or reduce their hours to create a cost savings; this alternative would apply to all positions, across all funds. The incentive provided to employees is calculated based on years of service, with compensation ranging from 10-weeks to 20-weeks of pay, and may include medical and dental benefits. The Voluntary Severance Program was last pursued in 2011 and applied to almost 20-employees.

Reduce Availability of City Facilities – reductions in the availability of City facilities in hours and/or days to produce cost savings. A reduction in the availability of City facilities is expected to result in a corresponding reduction in staff hours.

Reduction in Force (RIF) – per City Administrative Regulation AR-00003, a RIF can reduce the annual hours of full time benefitted and part time benefitted positions to produce cost savings. The reduction of positions and work-hours will be evaluated on an individual basis. This alternative would apply to all positions, across all funds, but has the option to be modified by placing specifications on the type of positions eligible for reductions (e.g.: public safety, seasonal, etc.).

Substituting Volunteers for City Employees – identifying which (if any) positions the City has that would be suited for volunteer work and designating it as such, eliminating that position as ‘paid’. Requires staff to identify if other benefits should be offered to the Volunteer positions in-lieu of monetary compensation; this alternative applies to all positions, across all funds.

Freeze or Reduce City Provided Programs – staff will identify programs that could be frozen or reduced in their current capacity (frequency, breadth, level of funding, etc.), to produce a cost savings. City programs can be offered for free or at-cost, thus, the impacted programs that are recovering costs will result in a corresponding revenue decrease as well.

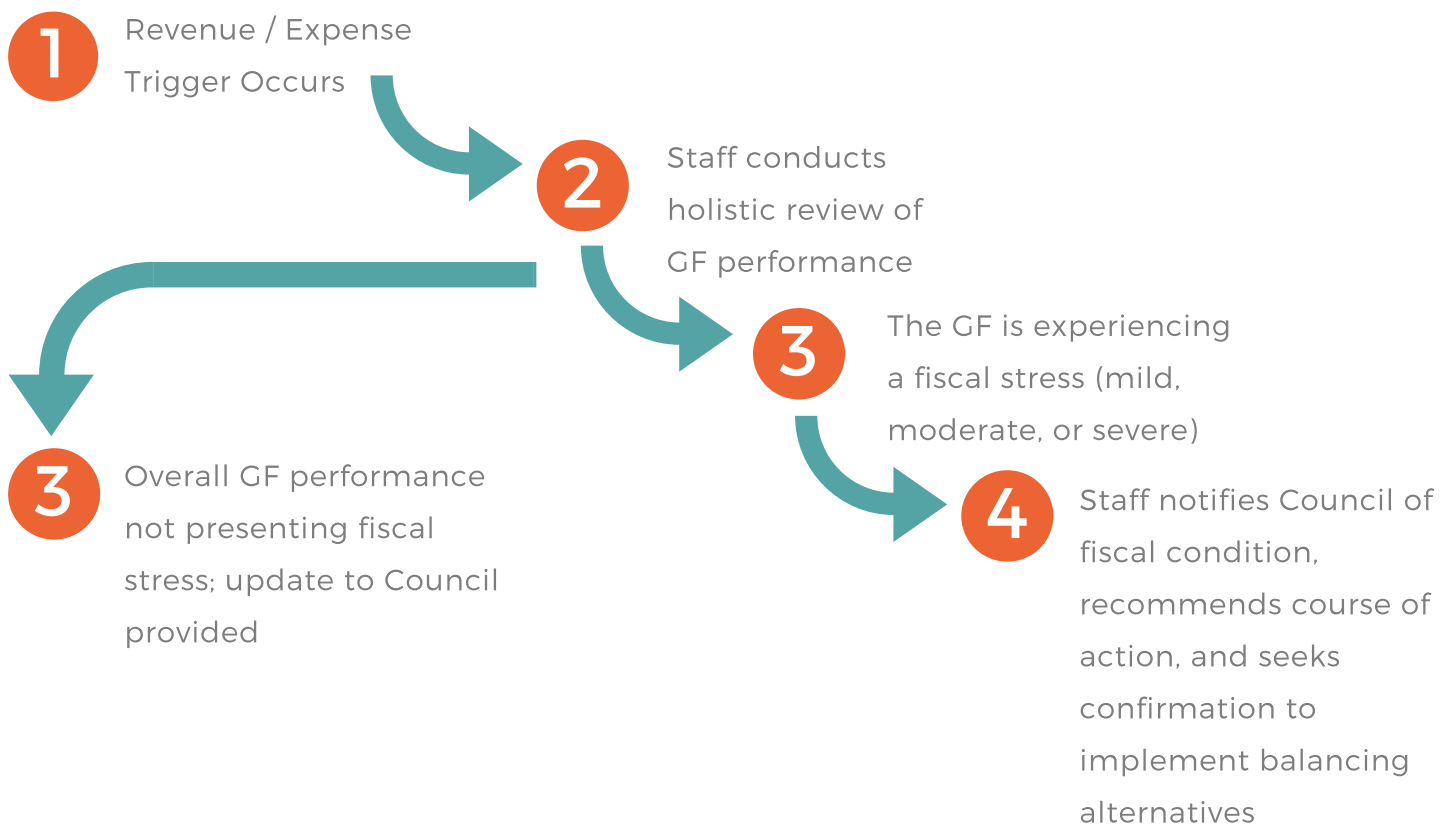
Freeze or Reduce City Provided Services – identifying services that could be frozen or reduced in their current capacity (frequency, breadth, level of funding, etc.), to produce a cost savings. This alternative requires that existing service levels be known and established in order to determine what the reduced service level would be.

Freeze or Reduce Contributions to Outside Agencies – evaluate all City contributions to agencies external to City to determine if contribution amounts can be frozen or reduced. The evaluation considers the impacts to the agency, service delivery, impacted staff, and legally binding terms.

# IMPLEMENTATION

The Fiscal Contingency Plan outlines a broad and high-level approach to decision making during times of fiscal stress. A broad array of leading economic indicators were evaluated to determine which indicators have most accurately foreshadowed a recession. General Fund revenue and expenses were evaluated and weighed amongst a standard set of criteria to assess the importance and overall vulnerability of each and to identify which streams should serve as triggers. Following the identification of fiscal triggers, a comprehensive list of potential budget balancing alternatives was compiled. Each alternative was assessed based on a set of criteria that evaluate the impacts to residents, employees, outside agencies, internal operations, and so forth. The assessments produced a total impact score, which determined whether the alternative was appropriate for a mild, moderate, or severe fiscal condition. The fiscal conditions (mild, moderate, and severe) are associated with a portion of the total General Fund budget and an explanation of each balancing alternative and its presumed applicability is detailed in the 'Budget Balancing Alternatives - Defined' and 'Budget Balancing Alternatives - Impacted Funds',

In regards to implementing the process outlined within this Plan, the following process is proposed:



This Plan is intended to serve as a guide to help City Council and Management right-size the approach and response depending upon the fiscal conditions experienced. This Plan is intentionally broad and non-specific in certain areas to perpetuate its timeliness and relevancy with each adopted budget. The Fiscal Contingency Plan is not intended to be binding more so it should serve as a thoughtful tool to help navigate the critical thinking paths needed to re-balance the City's General Fund budget.