



**This section shows:**

**the City's total proposed budget summary, in both gross and net forms;**

**a discussion of the major revenues and expenses;**

**major factors that will impact both revenues and expenses; and,**

**a debt service summary.**

# Total City Budget

The 2013 budget is balanced in accordance with the City Charter, which requires appropriations to be within available resources or show surplus. This budget is in compliance with the provisions of Colorado's TABOR restrictions, and existing service levels are maintained.

The total City budget as shown below is the combined budgets of all parts of the organization except for the Fiduciary Funds and the Other Entities. The table below shows the gross City budget, as well as the net City budget, which excludes transfers, and represents projected actual expenditures.

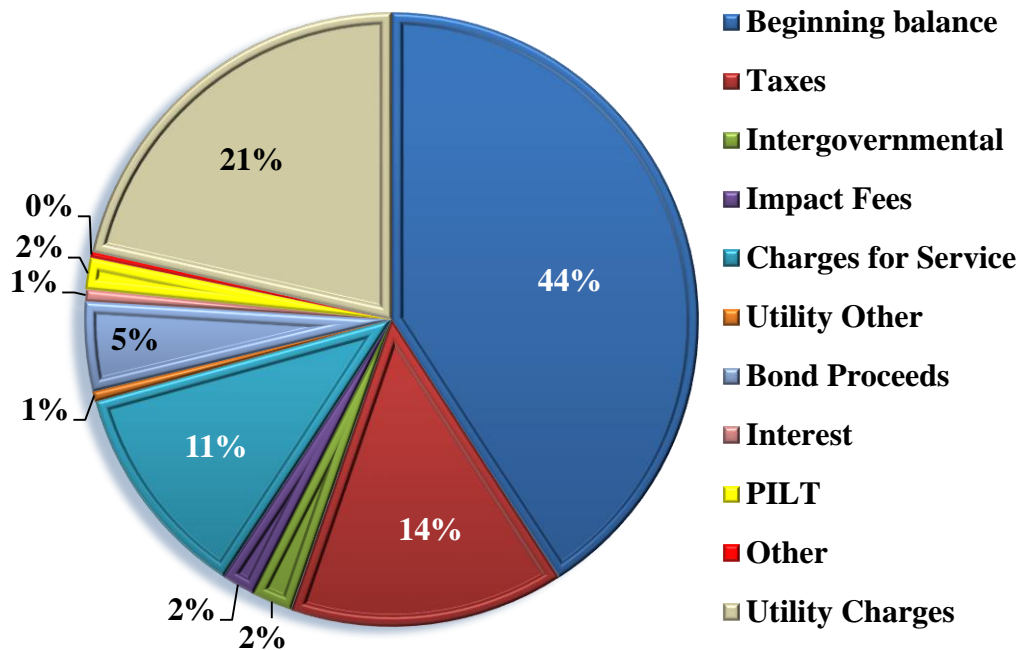
## Total Budget

	'11 Actual	'12 Adopted Budget	'12 Revised Budget as of June	'13 Budget	'13 Budget / '12 Adopted Change
<b>REVENUE</b>					
<b>Beginning Balance</b>	<b>\$175,637,508</b>	<b>\$133,753,730</b>	<b>\$179,291,060</b>	<b>\$139,656,620</b>	
Taxes	46,701,584	46,331,520	46,331,520	49,287,600	6.4%
Intergovernmental	14,832,316	7,984,250	10,450,360	7,237,520	(9.4%)
Impact Fees	9,618,719	6,537,950	6,537,950	7,419,140	13.5%
Charges for Service	33,809,865	33,764,870	33,764,870	43,428,740	28.6%
Interest	5,169,850	2,605,910	2,605,910	2,659,140	2.0%
Other	8,776,092	751,350	1,943,170	1,222,710	62.7%
Utility Charges	64,885,597	65,899,790	65,899,790	74,085,980	12.4%
Utility Other	2,209,405	2,005,180	2,005,180	1,929,920	(3.8%)
Payment in Lieu of Taxes	4,258,945	5,041,470	5,041,470	5,639,810	11.9%
Bond Proceeds	-	-	-	16,000,000	100.0%
Less Administrative Charges	-	-	-	(3,284,550)	100.0%
<b>Total Net Revenue</b>	<b>\$190,262,373</b>	<b>\$170,922,290</b>	<b>\$174,580,220</b>	<b>\$205,626,010</b>	<b>20.3%</b>
Transfers	21,747,295	\$19,610,190	25,982,520	16,914,840	(13.7%)
<b>Total Revenue</b>	<b>\$212,009,668</b>	<b>\$192,532,480</b>	<b>\$200,562,740</b>	<b>\$222,540,850</b>	<b>15.6%</b>
<b>Total Resources</b>	<b>\$387,647,176</b>	<b>\$324,286,210</b>	<b>\$379,853,800</b>	<b>\$362,197,470</b>	
<b>EXPENSE</b>					
General Fund (net Expense)	63,080,978	62,391,870	66,957,970	65,192,070	4.5%
Enterprise Funds	92,362,539	81,314,580	105,021,010	104,567,740	28.6%
Internal Service Funds	15,939,645	17,439,420	17,608,860	18,725,610	7.4%
Special Revenue Funds	36,972,962	39,235,130	50,609,340	35,281,760	(10.1%)
<b>Total Expense</b>	<b>\$208,356,124</b>	<b>\$200,381,000</b>	<b>\$240,197,180</b>	<b>\$223,767,280</b>	<b>11.7%</b>
Less Transfers	21,747,295	19,610,190	25,982,520	16,914,840	(13.7%)
<b>Total Net Expense</b>	<b>\$186,608,829</b>	<b>\$180,770,810</b>	<b>\$214,214,660</b>	<b>\$206,852,440</b>	<b>14.4%</b>
<b>Ending Balance</b>	<b>\$179,291,052</b>	<b>\$123,905,210</b>	<b>\$139,656,620</b>	<b>\$138,430,190</b>	

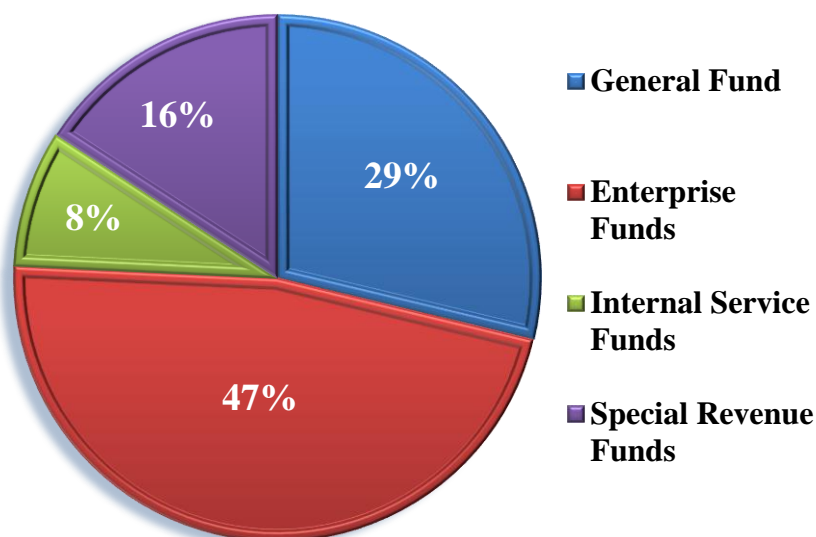
# 2013 Fund Information

The funding sources for the Total City Budget are shown in the graph to the right. Fund balance, while not a “true” revenue, is a source of funding for appropriation. The majority of the fund balance resides in Capital Funds and Enterprise Funds. The City uses a “pay as you go” philosophy for capital expenses, so impact fees and other revenues are saved until there is sufficient funding for the capital projects. Utility charges for Water, Wastewater, Stormwater and Power fees are the next major source of revenue. The Enterprise Funds are not subsidized by tax revenue and operate entirely on fees based on usage. Taxes are 16% of the Total Budget revenue stream and used primarily for General Fund agency services.

**Total Source of Funds**



**Total Uses of Funds**

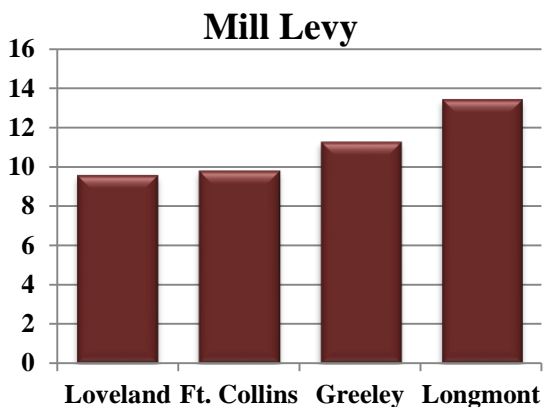


The distribution of expenses by fund type is shown at the left. Enterprise Funds make up 43% of the Total Budget and are not funded by tax revenues. General Fund expenses are the next largest use of funds. The General Fund is where most services funded by tax dollars reside. The Special Revenue Funds are primarily capital in nature and are the third biggest use of funding.

# Revenue Overview

## Property Tax

Loveland must comply with the TABOR limitation on property tax revenue (inflation plus local growth). In 1998, voters approved an allowance for the City to keep and spend all revenue over the TABOR limit for the years 1998–2002 for street construction and youth services. In 2001, voters approved an allowance for the City to keep and spend all revenue from 2003–2012 for police, fire, street construction and maintenance, and parks construction and maintenance. In the November 2012 election, voters approved an allowance for the City to continue to keep and spend all revenue from 2013–2024.



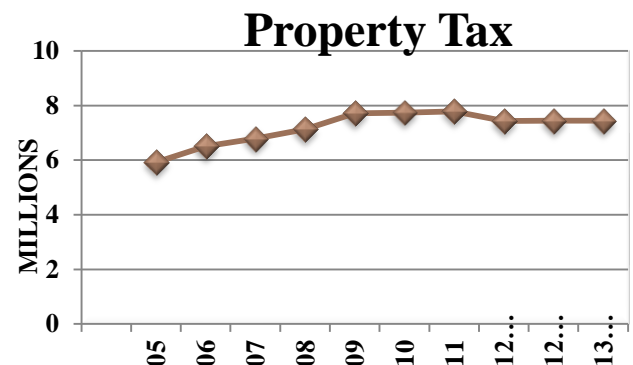
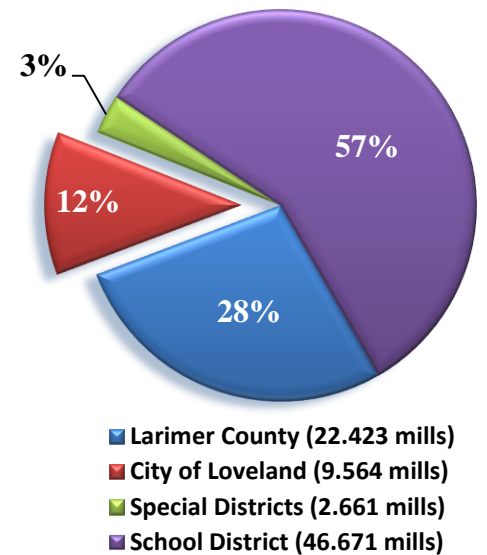
levies in northern Colorado. On average, the City collects 97.5% of the total value. In 2013, the tax is projected to generate \$7.4 million.

An amendment to the Colorado State Constitution requires that a constant relationship between residential and business property tax revenues be maintained on a statewide basis. Commercial and industrial properties are assessed at 29.0% and residential properties at 7.9% of their market value. The result is for properties of equal value, a business pays over three times as much property tax as a residence.

Property Tax Levy (General Fund)			
	Mill Levy	Valuation	Net Tax Revenue
2010	9.564	833,943,779	7,775,080
2011	9.564	796,673,174	7,816,320
2012	9.564	797,090,487	7,470,900
(98% of Total - County Collection fee is 2%)			

with Tax Increment revenues (TIF). Increased property values and the associated tax revenue from new growth stays within the URA. For the 2011 assessment, 10.9% of the City's total assessed value is included in the TIF

## Property Tax Distribution



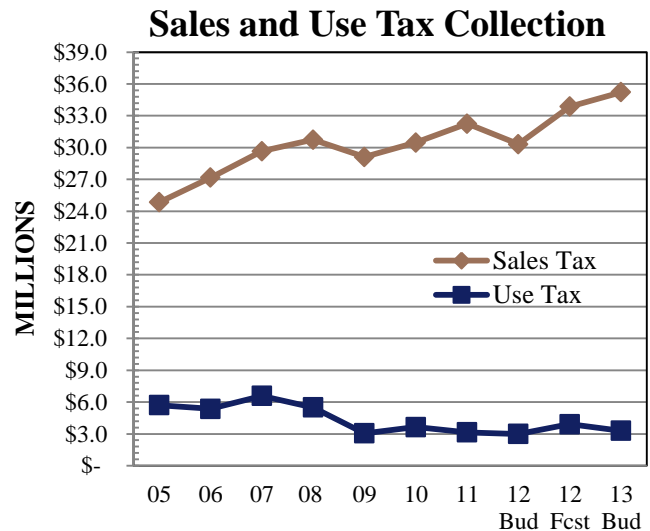
A number of special districts also overlap portions of the City's boundaries and affect some properties. Loveland's City government sets only the City mill levy and has no control over mill levies set by other entities. The City of Loveland receives less than 12.0% of a homeowner's property tax dollars as shown in the pie chart.

Beginning in 2007, the City's property tax revenue has begun to grow at slower rate, due to the creation of three Urban Renewal Authority (URA) project areas. The URA is funded

revenues for the URA. Since 2009, property tax revenue has flattened due to the recession and lower property values. In 2013 revenue is expected to remain at 2012 levels.

### Sales & Use Tax

Sales tax is the largest revenue source in the taxes category. Beginning on January 1, 1998, the City began collecting its sales tax in-house instead of using the services provided by the State of Colorado. Loveland's current city sales tax rate is 3.0%. Through July 2012, sales tax collections were 6.0% higher than one year ago. The 2013 sales tax collections are projected to increase by 7.2% from the 2012 adopted budgeted revenue, but only 4.0% from the 2012 forecast amount, due to forecast 4.0% growth. The conservative projection is based on the current economy, where the housing market continues to drag on the amount of discretionary income available, and concerns about increased competition for retail dollars from the surrounding area are growing.



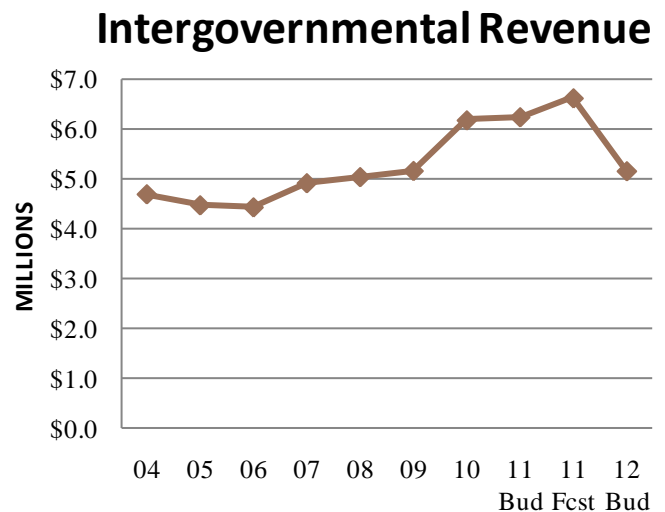
Use tax is also 3.0%, but only applies to building materials and motor vehicles. Use tax collections on building materials are projected to increase by \$300,000 from the 2012 Budget, as the construction industry begins to rebound. Collections on motor vehicles are projected to be flat compared to the 2012 Budget, as sales appear to be heading back toward historic average levels after a significantly higher than average year in 2012.

### Other Taxes

- **Liquor Occupational Tax** – The projection is based on the number of businesses that sell liquor in the City; the revenues are very consistent from year to year.
- **Specific Ownership Tax** – A tax paid by owners of motor vehicles in lieu of personal property tax. For 2013, the revenues are projected to be flat compared to the 2012 Budget.
- **Cigarette Tax** – A tax levied on the wholesaling of cigarettes. This source of revenues varies to a small degree from year to year.
- **Gas Franchise Tax** – A tax levied on the Public Service Company in granting the company the privilege to construct, purchase and operate within the City. The current tax levy is 3.0% of gross gas revenue.
- **Cable Television Franchise Tax** – A franchise fee levied on cable service providers to operate within the City. The current fee is 5.0% of the company's annual gross revenue.
- **Telephone Occupation Tax** – A tax levied on telephone service providers that operate within the City. The levy is adjusted annually based on changes in the Consumer Price Index (CPI).

### Intergovernmental

Intergovernmental revenues are revenue received from other governmental units. The City does not have control over these revenues. The two largest sources are State Highway revenue sharing and Federal Transit Authority (FTA) operating grants. These are important sources to the City since the State highway revenue sharing funds 40% of the Street Rehabilitation program and 36% of the operational costs for street maintenance, traffic signal maintenance and street engineering costs and FTA grants fund 50% of the Transit system's operating budget. In the Special revenue funds the City receives funding from a county



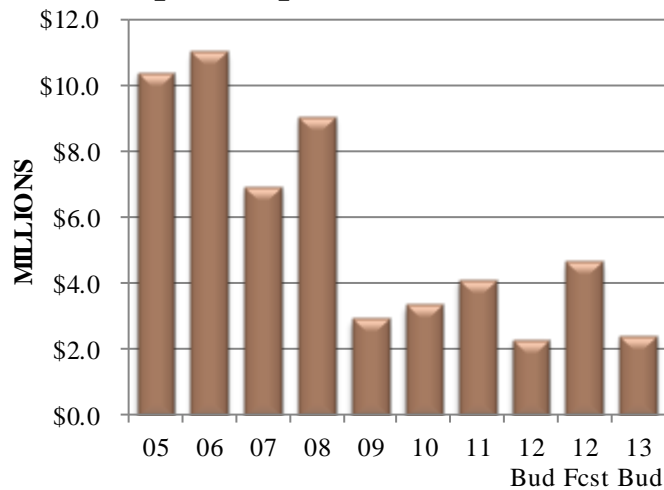
sales tax for the purchase and maintenance of Open Lands and funding from Colorado lottery proceeds, used to fund the construction and maintenance of the recreation trails. The County Open Space tax will sunset in 2018.

For 2013, intergovernmental revenues are down over 6.6% from the 2012 adopted budget due to a decrease in projected FTA operating grants.

### Impact Fees

Capital Expansion Fees (CEFs) are imposed on every additional residential dwelling unit, square foot of retail, office, and institutional construction, as well as every acre of industrial development. These fees are intended to cover growth-related capital costs. The City also imposes System Impact Fees (SIFs) on customers who increase utility demands that require future facilities expansion, such as new water lines, additional treatment plant capacity, or a new substation. Because impact fees are paid at the time the Certificate of Occupancy is issued, there is a delayed effect on impact fee revenue collection. Revenue growth is forecast to decrease in the 2013 budget, due to the reduction in the construction sector of the economy as a result of the recession, especially in the commercial construction area.

**Capital Expansion Fees Collections**



### Charges for Service

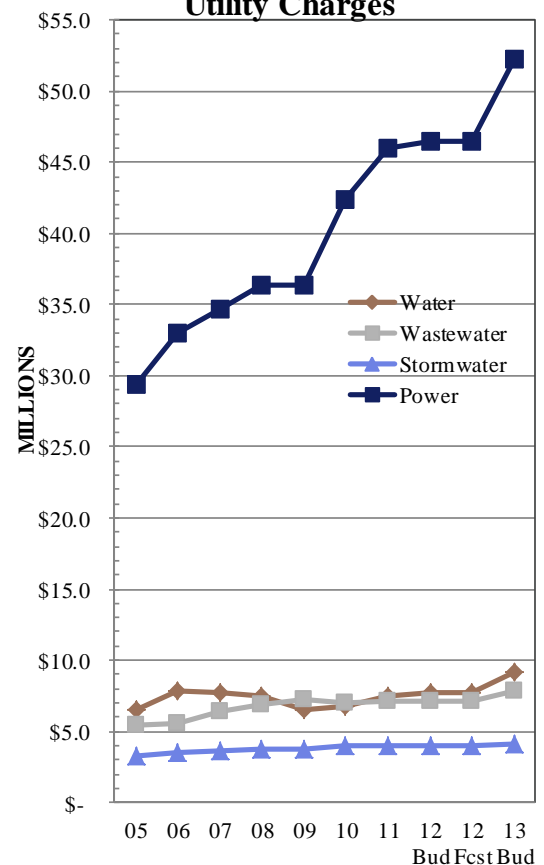
This category includes charges to citizens to access services provided by the City and internal service charges, which are costs paid by one department to another for services rendered. Examples of these are charges for vehicle maintenance and from the Employee Benefit Fund for employee health care. One of the major sources of this revenue from citizens is fees for the use of the Hatfield Chilson Recreation Center. By charging for service, a substantial part of the cost of operating programs and facilities is borne by those who use them. There are modest fee increases for most Parks and Recreation fees. Other sources of this revenue include golf fees, solid waste fees, and the street maintenance fee. While golf fee revenues are dependent on weather for available playtime, solid waste fees and the transportation fee are more directly tied to population and commercial growth.

### Utility Charges

These are revenues generated from the provision of basic utility services. The City provides four utility services: water, power, stormwater and wastewater.

- Water Utility Charges** –The 2006 revenue increase was due to a 1% annual fee increase that was approved in 2006 as part of a 30-year annual program to fund the construction of a new reservoir. The utility is proposing a 14% increase, with 1% as part of the program for the new

**Utility Charges**



reservoir and 13% for treatment plant and distribution improvements.

- **Power Utility Charges** – Due to increased wholesale costs, a 4.4% average retail rate increase was included in the 2006 budget. A 5.3% increase was approved for the 2010 Budget to pass through wholesale cost increases from the Platte River Power Authority. In 2011, a 4.9% rate increase was approved to pass through wholesale cost increases, and an additional 0.7% approved fund half the cost of new energy conservation programs. In 2013 the utility is proposing a 4.13% rate increase to pass through wholesale costs.
- **Stormwater Utility Charges** – The stormwater revenues have been stable and no rate increases are proposed.
- **Wastewater Utility Charges** –To meet future operational needs and Capital Program requirements, an 8.0% increase was included in the 2006 Budget as the first of a three-year program, completed in 2008. For 2013 a 9.9% rate increase is included for infrastructure improvements.

### **Utility Other**

These are revenues generated from sources other than regular utility charges. Some of the examples are Wheeling Power Fees, wholesale water sales and sale of water meters. These revenues are projected based on historical averages.

### **Interest**

The cash balances in all funds are invested in interest-bearing investments of maturities appropriate to the projected cash requirements of the funds. In 2013, the projected interest rate is 1.2%.

### **Payment in Lieu of Taxes**

The largest revenue source is the Payment-In-Lieu-of-Taxes (PILT), which is charged to all Enterprise Funds based on a percentage of revenue received. As part of the 2012 Financial Sustainability effort in the General Fund, PILT for all enterprises other than the Golf Enterprise were increased 1% to a total of 7% of revenue. The Golf percentage remains at 3%.

### **Other**

These are miscellaneous revenues that do not belong to any of the above revenue categories. This includes revenues such as donations, proceeds on the sale of assets, and rents are included here.

### **Transfers**

Transfers occur between funds to pay for administrative services provided by other departments and to combine funds received from different revenue sources within one fund to budget for a capital project. Most transfers occur between capital funds so that the full cost of a project is shown in one fund only.

### **Fund Balance**

The beginning fund balance, while not a true “revenue”, is a major source of funding for the 2013 Budget. Fund balance is created from monies saved in previous years for specific capital projects or operating contingencies, and revenue received above the amounts appropriated for expenditure. Fund balance will decrease in the 2013 Budget compared to the 2012 Budget due to the use of impact fee reserves and enterprise funds for the City’s Capital Program. The fund balance will continue to decline over the next five years as major capital projects, which are included in the Capital Program, are completed. See the Capital Program Section for details on the 5–Year Program.

The 2012 Revised Budget includes capital projects, which were budgeted in prior years but not completed before 2011 and assumes these, as well as new 2012 projects, will be completed by year end. After the year ends, a supplemental budget will be presented to City Council to re-appropriate the ending balances of capital projects remaining incomplete.

# Expenditure Overview

## Total Expenses

The City divides expenditures into account groups to describe how it is spending its funds. The account groups are Personnel Services, Supplies, Purchased Services, Debt Service, Transfers, and Capital. The Personnel Services group includes all salaries, the City's contribution towards FICA and retirement accounts, the City's share of insurance benefits, workers' compensation costs, and other costs related to compensation and benefit packages. The Supplies group includes all office supplies, parts and materials necessary to provide the services funded in the budget. The Purchased Services group includes all services provided to the City by outside sources or internal service funds. The Debt Service group includes principal and interest costs associated with any approved debt issues. The Transfers group is for any transfer between City funds. The Capital group is for the purchase of items that cost more than \$5,000 and have a useful life of more than one year and all infrastructure and vertical construction projects.

The percentage for each account group is shown above for the City's total budget of \$223.8 million.

## Total Expenses (Excluding Transfers)

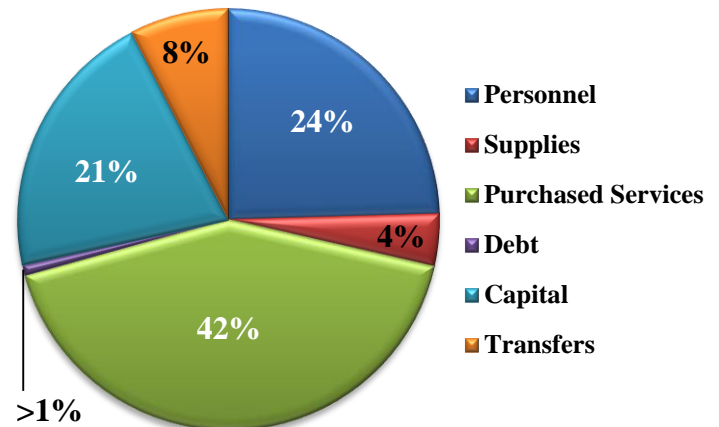
For the Total City Budget, the net budget is a more accurate indicator of actual City spending. The net budget does not include transfers between funds. This is necessary since using transfers double counts some revenues and expenses two or three times.

Of the Total Net City Budget of \$206.9 million, the percentage attributed to each account group is as shown.

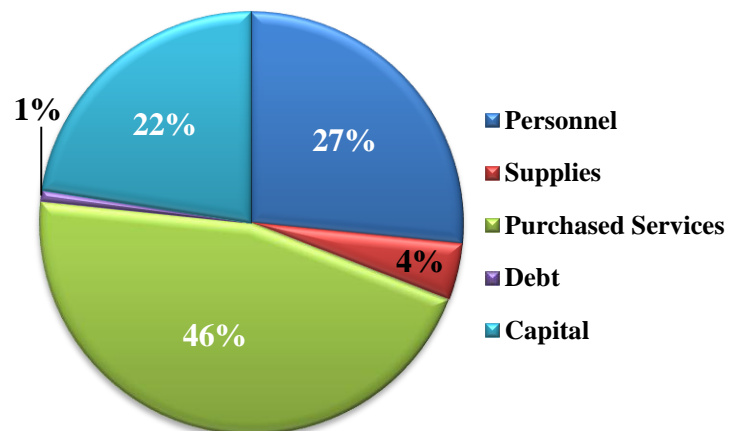
## Total Expenses (Excluding Transfers & Purchased Power)

The Purchased Services percentage in the first chart, for analyzing operating costs controlled by the City, is high. The total Purchased Services cost includes the cost of purchased power of approximately \$38.9 million. This is the cost of electricity that is purchased from the Platte River Power Authority (PRPA) and then distributed and resold to the customers of the Power Utility. With purchased power excluded from the net City budget, the percentages attributed to each account group are as shown.

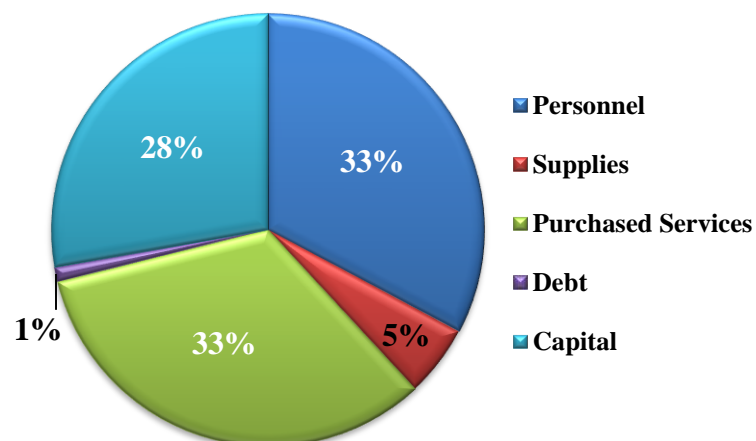
**Total Expenses**



**Total Expenses (Excluding Transfers)**



**Total Expenses (Excluding Transfers & Purchased Power)**



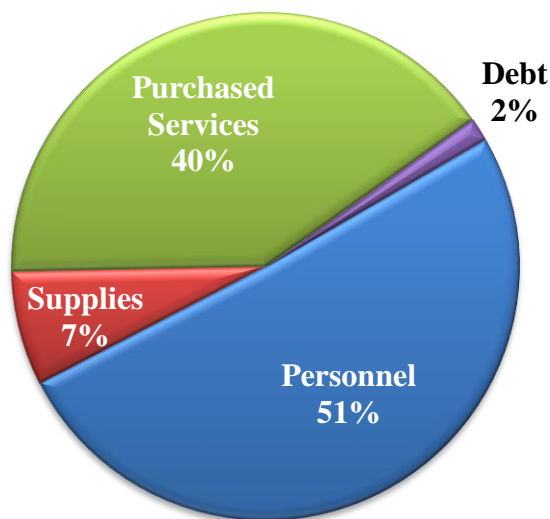
## Operating Expenses

Operating costs make up 59% of the City's net budget and require on-going resources to fund these costs. The total operating costs are shown in the following chart. A discussion of each of the operating expense groups follows.

Personnel costs were a significantly higher percentage of the operating expense in prior years. With the formation of the Loveland Fire Rescue Authority, the City now pays a contribution to the Authority that is comprised of a percentage of the total Authority costs, including the salaries and benefits for personnel. This change shifts approximately \$7.5 million in costs from the personnel services category to the purchased services category.

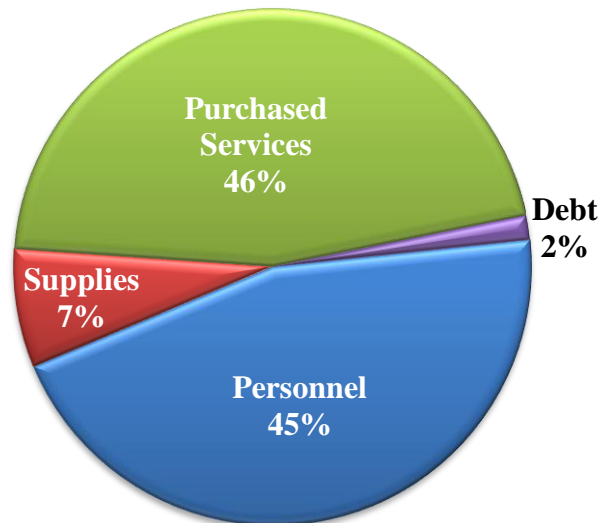
If the Fire Authority personnel costs are taken into account the chart for operating expense is as below:

### Operating Expenses (Including Fire Authority)



constraints. The pay plan is based upon comparing City of Loveland salaries to other public and private employer salaries in the northern Colorado area, using data from the Mountain States Employers Council Northern Colorado Survey and Colorado Municipal League General and Executive Survey. Positions are grouped into pay levels based upon comparative factors of skill, effort, and responsibility. Each pay level has a pay range. The midpoint of each pay range is the average of all salaries paid in other organizations included in salary surveys completed each year. However, an employee's salary is not automatically raised to reflect range movement. The change in an employee's salary is determined by a merit evaluation of their work performance. As a guideline, employees

## Operating Expenses



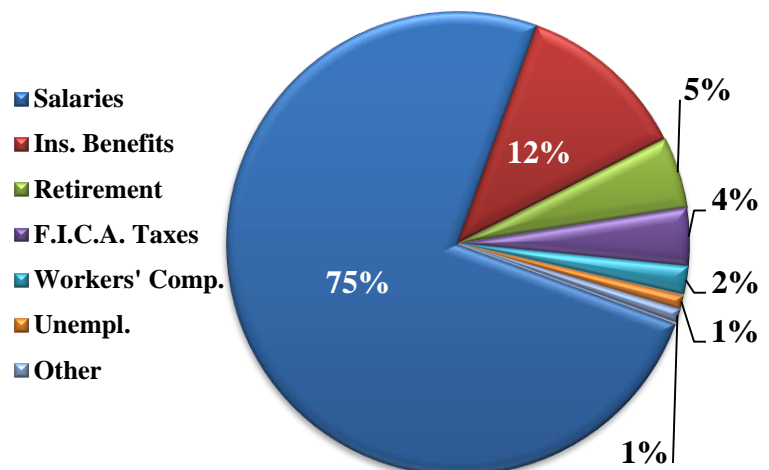
## Personnel Services

As can be seen in the chart to left, Personnel Services are the largest expense for City operations. The City offers a comprehensive compensation package that includes salary, retirement contributions, and insurance benefits. Of these costs, salary is the largest component, at 75% of the total personnel services costs. Insurance benefit costs are 12% of the personnel service costs.

### Salaries

The City's pay system can be described as a market-based pay plan with budgetary

## Personnel Services



who are consistently meeting job standards would be paid a salary within the market level of performance. In 2013, 3.5% of salaries for merit costs were included. This results in a budgeted total of \$42.9 million for salaries of benefited employees and \$3.2 million for non-benefited (temporary and seasonal) employees.

### **Retirement**

For general employees the City offers a pension plan based on the 401(a) provisions. The City contributes to an employee's plan on a graduated scale based on length of service. After six months of employment, the City contributes 5% of the employee's monthly base salary. This percentage is capped at 9% beginning with 21 years of service. The employee is required to contribute 3% of their base salary. An employee, after three years of service, will be vested in the City contribution. The City has separate pension plans for certified Fire employees and Police officers. In both plans, the City contributes 11% of the base monthly salary. In the Fire plan, the employee is required to contribute 9% and Police officers are required to contribute 7%. Fire employees vest in the City contribution after six years of service, and Police officers after five years of service. Employees are also offered a 457 Deferred Compensation Plan, to which they may contribute.

### **Insurance Benefits**

The City has self-insured medical coverage with two medical plan options, an Open Access Plan (OAP), which is a form of a Preferred Provider Organization (PPO), and a Health Reimbursement Account (HRA) Plan. All employees working 20 hours or more per week are eligible for medical benefits. Full-time employees receive full coverage and part-time employees receive coverage pro-rated depending on the number of hours worked. The City will continue to contribute 80% of the cost for health care coverage and 60% of the cost of dental benefits to employees. Other benefit costs to the City include coverage for stop-loss insurance that places a cap on claims costs to the City, short-term and long-term disability, life insurance, and wellness costs.

### **Workers' Compensation**

Workers' compensation premium costs and claims are managed by the Risk Management Division, and budgeted in the Risk and Insurance Internal Service Fund. Workers' compensation costs are then charged to each department based on the department's claims history and forecast liability costs. Based on projected claims costs, the total cost for the City is anticipated to increase 31% from 2012 due to increased premium costs.

### **Supplies**

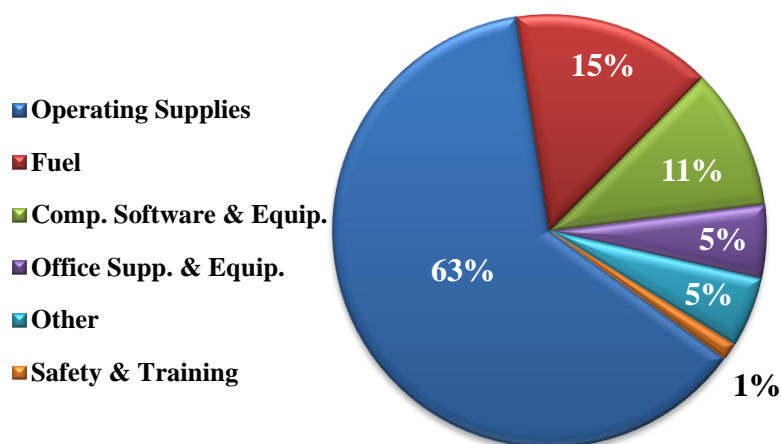
Supplies are 7% of the operating budget. Operating Supplies such as parts, tools, equipment, paint, and street materials are 68% of this cost. Fuel is 14% of the total cost, Computer Software & Equipment is 9%, Office Supplies & Equipment are 4%, with the remainder in Safety & Training, and other miscellaneous supplies.

The Public Works Department has been working with the user departments to develop policies and operational efficiencies to reduce fuel usage, such as reducing idle times on the job, eliminating or reducing cold-start warm-up time, and changes to operation procedures to reduce the number of miles driven.

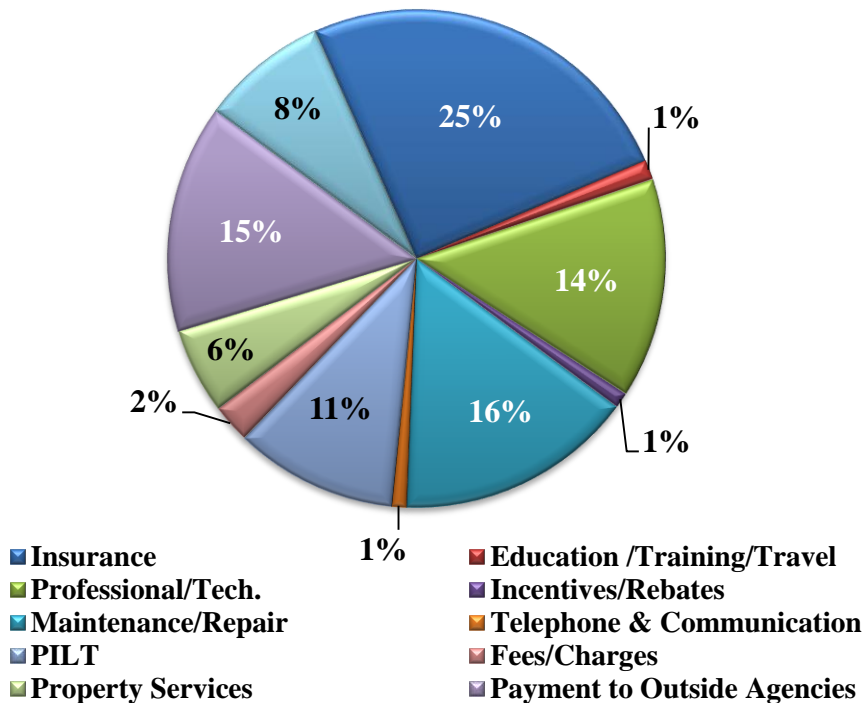
### **Purchased Services**

This account group is for services provided by sources outside the City and internal services focused on operations support, such as insurance and vehicle acquisition and maintenance. Payment in Lieu of Taxes made by enterprises to the General Fund is also a part of this account group. Purchased services account for 44% of the operating budget.

**Supplies**



## Purchased Services



The two largest categories within this account group are Insurance and Maintenance/Repair, which combine for 39% of total purchased services. Insurance covers both purchasing of insurance from outside providers and the City's own self-insurance funds. Professional/Technical Services include payments for custodial services, engineering services, attorney services, and other contractual services. Payments to outside agencies, at 14% of purchased services include the City's contribution to the Loveland/Larimer Building Authority and the newly-formed Loveland Fire and Rescue Authority. Other components of this account group are the fees and charges, property services Payment in Lieu of Taxes (PILT) from the enterprise funds, payments for utilities, telephone and communication services.

## Debt Service

This account group is for repayment on all bonded debt or any lease–purchase agreements and is 1% of the operating budget.

In the Water Enterprise, the City's payment for the revenue bond debt to pay the raw water bonds for the Windy Gap Project is budgeted. These bonds are not City debt, but a debt of the Northern Colorado Water Conservancy District. The City incurred a liability for a share of the debt payments. If the enterprise were to not make the payments, the District could impose a mill levy on City residents to retire the debt. A reserve has been established in the full amount of the liability to defease this obligation. In 2013, \$16,000,000 in bonded debt is recommended to fund the replacement of aging infrastructure.

Not included in the operating budget discussion, but included in the debt category for the Other Entity Funds, are debt payments through the Special Improvement District #1 (SID), and the Loveland Urban Renewal Authority (LURA).

The payments in the SID are for bonded debt to fund infrastructure improvements within the District. Funding for the District is from special assessments on property in the District. The City is the sponsoring agency for the District, but does not have any legal obligation towards this debt.

The payments in the LURA are for bonded debt incurred by the Metropolitan Improvement District, created on the east side of the City, to fund public improvements and regional improvements within the District. LURA funds, from tax increment financing will partially fund these projects based on the agreement with the Metropolitan District.

# Debt Service & Financial Obligations

Payments on all of the City of Loveland's long-term obligations are included in debt service. This includes revenue bonds and lease purchase agreements. Also included are the City's obligations for debt issued by other entities for the Windy Gap project.

Currently, the City's revenue bonds are rated as follows: *Moody's Investors Service, A1: Standard and Poor's, A+.*

The City also has a number of lease-purchase agreements for equipment or facilities. Payments are made as part of operating budgets. Because of our financial planning practices and because the amounts are small, they do not adversely affect other parts of the operating budgets.

## Legal Debt Limit

The City of Loveland is a home rule city. The Colorado Revised Statutes provides that general obligation indebtedness for all purposes shall not at any time exceed 3% of actual value, as determined by the County Assessor, of the taxable property in the City. The exception is debt that may be incurred in supplying water. The City's debt is within the legal debt limit as demonstrated by the table.

2012 Actual Value	\$6,820,204,741
Debt Limit: 3% of Actual Value	\$204,606,142
Bonded Debt Applicable To Limit	\$0

## Bond Issues

### Bond Balances

Revenue Bonds:	Balance	— Payments Due —		Maturity Date
	12/31/11	2012	2013	
Raw Water <sup>(1)</sup>	826,266	826,236	826,930	2017
Golf Course <sup>(2)</sup>	246,450			2010
<b>Bond Total</b>	<b>\$1,072,716</b>	<b>\$826,236</b>	<b>\$826,930</b>	

Notes:

<sup>(1)</sup>The Municipal Subdistrict of the Northern Colorado Water Conservancy Dist. holds the debt for the Windy Gap project. Loveland's responsible for 1/12 of the payments & has established a reserve to fund them.

<sup>(2)</sup>The City of Loveland refunded the original Golf Course COPs with revenue bonds on Sept. 15, 1998.

Lease Purchases:	— Payments Due —			Total Max Payment Liability <sup>(1)</sup>	Maturity Date
	2011	2012	2013		
Golf GPS System	71,460	35,730	--	107,190	2012
<b>Total</b>	<b>\$71,460</b>	<b>\$35,730</b>	<b>--</b>	<b>\$107,190</b>	
Note: (1) This is the total payment liability from 2010 to the end of the payments					