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**CITY OF LOVELAND**  
CITY MANAGER'S OFFICE

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## Budget Message from the City Manager

To the Honorable Mayor and Members of the City Council:

The budget for 2014 is respectfully submitted for your consideration, in accordance with the City's home rule charter. This budget outlines revenues and expenses for 2014. The budget continues the City's upward trend since the recession of 2008-2011. We are now moving into a period of strengthening programs and services, albeit at a prudent rate.

### Budget Overview

The total City Budget for January 1 to December 31, 2014 is an increase from 2013. Revenues have continued to grow since the low of 2009. Over the past 18 months, revenues have grown more than expected or budgeted, indicating a healthier financial picture.

This budget strengthens services in key priority areas. We will continue to exercise caution about increasing service levels and expenses, particularly increases in continuing operational expenses. We are adding regular staff in high-priority areas, but the number of General Fund staff additions is less than last year in 2013. We are also using accumulated reserves in some funds to pay for high priority one-time projects.

### Total City Budget (Net of Internal Transfers, in 1000's)

	2011 Budget	2012 Budget	2013 Budget	2014 Budget
Operations	137,577	142,175	160,552	166,369
Percent Change	7.3 %	3.3 %	12.9 %	3.6%
Capital	40,699	36,758	46,320	57,004
Percent Change	-1.2 %	-9.7 %	26.0 %	23.1%
Total Net Budget	178,276	178,933	206,872	223,373
Percent Change	5.2 %	0.4 %	15.6 %	8.0%

The General fund balance has grown over the last several years. Due to the use of fund balance to fund several large one-time projects in the Council's high priority areas, the net result is draw down the General Fund ending balance by about \$1.2 million at the end of 2014.

### General Fund Budget (Net of Administrative Overhead)

	<u>2011 Budget</u>	<u>2012 Budget</u>	<u>2013 Net Budget*</u>	<u>2014 Net Budget*</u>
General Fund Budget	59,711,650	62,391,870	65,192,070	77,171,380
		4.5 %	4.5 %	18.4%
Ending Balance	21,570,950	25,107,410	27,943,680	26,719,340

The General Fund net budget factors out the Administrative charges that occur between General Fund Departments, and represents actual spending.

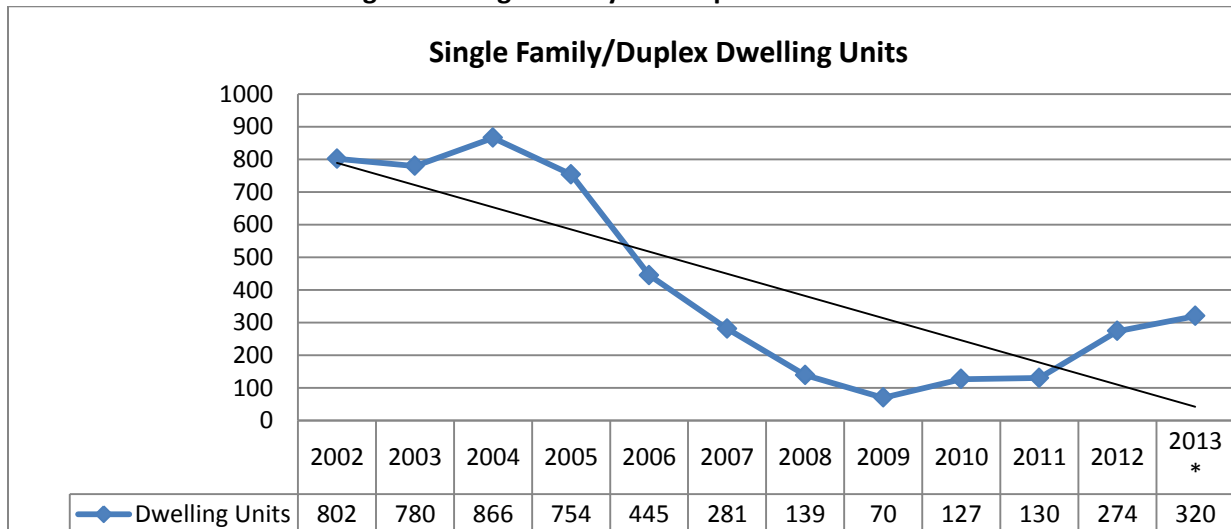
### Economic Climate and the Revenue Picture

The northern Colorado regional economic picture continues to improve.

Loveland's unemployment rate at 6.3% remains below both the national and Colorado average, and dropped 1.4% from the rate in July of 2012. Job creation in Loveland is recovering with 800 more people employed than in July of 2012 (Larimer County Workforce Center July Employment Report), and continued growth in jobs is expected. Retail sales and use tax revenues for 2013 are exceeding 2012, and we are above 2007 collections, our previous peak, in both nominal and real dollar terms. However, building use taxes (driven by construction activity) remain very low compared to pre-recession annual collections.

The growth forecast for Loveland is a foundational element of building the budget. Our expectations are for continued growth of construction in the single family home market (Figure 1), complemented by very slight growth in commercial and industrial construction, and flatness in multi-family construction. This not only drives use tax revenues, but provides a general backdrop for projection of other economic activity.

**Figure 1: Single Family and Duplex Construction Trends**

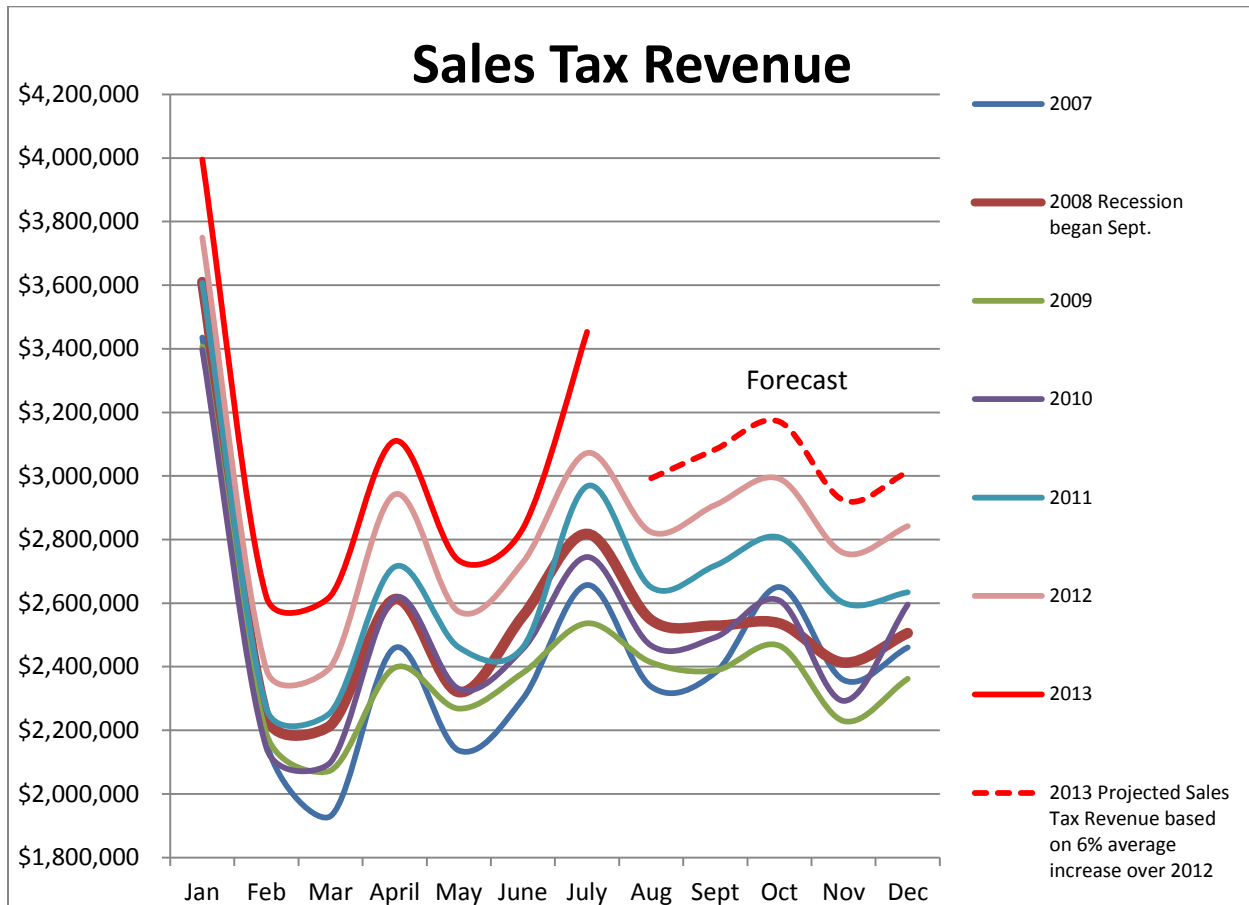


\* Number of dwelling units for 2013 is a projection based on the issuance of permits for 195 units as of July 31, 2013.

The forecasts are prepared by Development Services and are based on projection of trends, as well as projects “in the pipeline”.

The other significant trend to watch is sales tax revenues, since these revenues account for 73% of General Fund taxes. Figure 2 shows net taxable sales since 2005. Loveland’s net taxable sales in 2012 showed a very encouraging increase above the prior year, and the trend has continued in 2013.

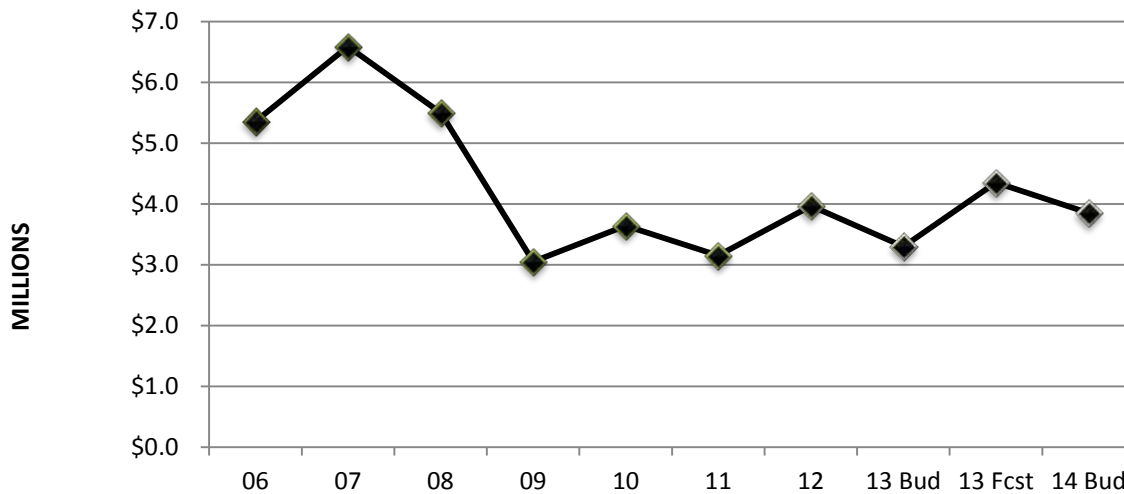
**Figure 2: Trends in Loveland Net Taxable Sales**



Property taxes, which account for 15% of General Fund taxes, are projected to increase by 4% due to new property on the tax roll and a small increase in base property valuations.

Use taxes (4% of General Fund taxes), which are traditionally volatile, are projected to decline from the 2013 forecast. Auto use tax collections have been at historic highs as pent-up demand from the recession has resulted in a significant increase in the number of vehicle purchases. We anticipate this source to return to “normal” level in 2014. The volatility of this revenue source has led to an approach for budgeting these revenues which is described in “Changes” below.

**Figure 3: Loveland Use Taxes**



### **Achieving City Goals and Priorities**

This budget reflects the continuing City Council’s priorities of Public Safety, Economic Vitality, and Infrastructure. Deliberate efforts have been made in this budget to target increased revenues to these key priority areas. This includes decisions in both operations and capital projects.

**Public Safety:** Public safety has been a key focus area for Council policymaking in 2012 and 2013, with the results being embodied in this 2014 Budget. Among the most notable investments and changes:

- 6 new firefighter positions due to the expected completion of Fire Station 2
- 4 new Police positions are added
- Fire Station 2 will be completed
- A new ladder truck will be purchased and added for Fire
- A new Police Records Management System (RMS) is funded
- The Police Training Facility has been placed into the Capital Plan, and initial planning has begun
- The Police Staffing Study is complete, and is already guiding personnel additions in the 2014 Budget

By their nature, public safety departments are labor-intensive, with most expenses for staffing and a lesser emphasis on capital. The additional public safety positions added in both Fire and Police are guided by long term strategies on how to appropriately staff these departments.

The additional Fire positions carry out the “Model 1” long-range staffing plan being followed by the Loveland Fire Rescue Authority. Because Fire had been underfunded in prior years – and because there is now a deliberate staffing Strategy – Fire has been the fastest-growing City service, with significant additions in both 2013 and 2014. During 2013, 6 firefighters were added, and a fire lieutenant in the prevention division was added by mid-year action following the successful passage of the Rural Fire District mill levy election. 2013 marked the first year of full staffing of 3-person companies for the Fire service, bringing Loveland into line with commonly-accepted standards throughout the nation.

Now that this level has been reached, and with additions being made in 2014, Fire Department staffing is expected to plateau for the next few years.

The Police positions being added are likewise guided by strategic thinking about the future of the Police service. The Police Department has now completed its strategic plan for the next 10 years. In general, that plan shows some growth in police staff, with increased reliance on “civilian” positions to take work load off of sworn officers and allow sworn officers to focus on higher-priority activities. The Plan also envisions better use of technology in law enforcement.

The additions for 2014 carry out this vision, with one of the civilian positions added in order to relieve patrol officers of certain calls. In addition, funding is added for transcription services to relieve report-writing burdens in Patrol. The replacement of the Police’s aging Records Management System (RMS) is a major technology project being funded (\$3,000,000) for a critical department need.

**Economic Vitality:** The City’s Economic Development Department, first formed in 2012, continues to develop ways to enhance Loveland’s economic vitality. The Department’s Technology Acceleration Program, begun in early 2012 and continued in a new phase in 2013, will be extended.

The key program change in economic development is the ending of the Office of Creative Sector Development (OCSD) as a distinct program, together with the dissolution of the Creative Sector Advisory Commission. The OCSD had significant program accomplishments, but did not become financially self-supporting as originally planned. The end of 2013 marks the end of the initial 3-year commitment, and the program will end.

However, most of Loveland’s economic base – and its economic future – continues to be in the creative and technology sectors. Therefore, the staff position associated with OCSD will be moved into the Business Development unit of the Economic Development Department. This does not result in any net employee increase.

There is likewise no net financial impact compared to 2011-13. The OCSD was originally funded at \$100,000 annually by reducing the General Fund transfer to the Economic Incentive Fund from \$350,000 annually to \$250,000. The proposed 2014 Budget continues the Incentive Fund level at \$250,000 annually from the General Fund, with the \$100,000 General Fund contribution made into the Economic Development Department.

The Incentive Fund currently has a significant balance, which is judged adequate to the anticipated needs. This Fund’s balance was increased considerably by the \$500,000 settlement received and restored to the Fund from the Colorado vNet settlement in 2013.

The Department’s only staffing addition is the increase of .5 FTE for administrative support for the Community Marketing Commission in visitor services. This requested increase came directly from the Commission members. It will be funded by Lodging Tax revenues.

**Infrastructure:** Highlights for 2014 include:

- 6 new positions in water, wastewater and power utilities (all enterprise-funded)
- The commencement of a significant capital program in the water enterprise, based on funding provided by two debt issuances authorized by the Council in 2013
- Increased capital investment in the wastewater enterprise
- The construction of the Service Center Phase 3 project
- A special one-time commitment of \$1 million in General Fund balance to address street conditions in Loveland, and an additional one-time commitment of about \$200,000 to address pedestrian-bicycle connectivity

The six new positions are all in enterprises, not the General Fund. Two of the “new” positions are really conversions of previous temporary positions which have been used to make sure that the workload needs are long-term before committing to regular city employment.

The City Council made critical decisions in 2013 in the water and wastewater programs, increasing rates to provide the foundation for more intensive capital programs in both of these utilities. The Council followed with authorization of \$10 million in external financing and \$6 million in an internal loan for the water enterprise capital program. This capital program, which includes other funds in addition, will increase the capacity of the City’s water treatment plant and replace aging water distribution lines.

Street maintenance has also been a key Council priority. A one-time commitment of \$1 million in General Fund balance to address street conditions in Loveland is being included in the 2014 budget. Such a commitment is possible because of the City’s healthy General Fund balance, and this funding will address the preventive maintenance needs of street miles added in the 2001-2007 building boom. These streets are now aging to the point that initial maintenance is needed. This one-time funding will reduce maintenance expenses later.

We are also making a one-time commitment of about \$200,000 to address pedestrian-bicycle connectivity. The Council adopted the new Bicycle-Pedestrian Plan in 2013, and that Plan identified priority needs for connectivity. However, there is no dedicated funding source to address them. This represents an initial effort to address the needs identified in that Plan, although it is not a long-term commitment.

### **The Final Budget in Detail**

The City’s budget falls into two major categories: operations and capital. In operations, most services and departments are maintained at current levels, with minor increases in some areas. Deliberately planned increases are slated for safety departments and infrastructure-related activities.

#### ***Operations***

Total operational expenses for the City will be approximately \$166,369,190, compared to \$160,532,120 for 2013. General Fund expenses net of the allocated costs for 2014 are \$77,071,380, compared to \$65,192,070 for 2013.

Departments submit “core” budgets (based on previous year’s baseline expenditures with adjustments for the recommended compensation policy and less one-time expenditures), and also may request “supplemental” budgets for new items. Departments were restrained in supplemental requests this year with the largest increases coming from planned operational expenses related to capital projects and the Police staffing plan.

The recovery of revenues has allowed some expansion compared to 2013, adding some resources in key areas. Of particular note:

- The expansion of Human Service grants funding by \$50,000, following City Council discussion of the needs for this funding. This will strengthen the City’s funding for human services provided by nonprofit organizations in the community.
- Funding of \$50,000 has been added to the Facilities Management Division for security improvements through City buildings.
- Funding for FLEX bus service has increased by \$150,000 due to reduction in federal funding. We anticipate that the City of Fort Collins will be making the same level of commitment.

- In Cultural Services, a \$70,000 allowance has been provided for contracted fund-raising. This is not a City employee, and is a one-year contract to allow for evaluation of effectiveness. The reasoning: this department essentially has three sources of revenue: user charges and fees (tickets, etc.); contributions and donations; and General Fund support. This is added in order to strengthen the contributions and donations portion of revenues to provide increased cost recovery.
- Funding has been included in Development Services in the amount of \$250,000 for the required Comprehensive Plan update to be completed in 2014. This will be contracted out, not provided by City employees.

### ***Staffing Levels***

Staffing levels are increased to mirror key priority areas. In the General Fund, new positions include:

- 6.0 FTE for the Fire Authority for firefighters for Station 2
- 4.0 FTE in Police for one patrol officer, one detective, one dispatcher, and one report taker
- 1.0 FTE in Public Works for facilities staffing of the new Service Center Phase 3 project

The total additions to the General Fund are 11 FTEs. Of these, 7 were already expected in the 10-Year Financial Master Plan. The four Police positions represent an addition over the baseline Master Plan projection.

In other funds, the new positions are:

- .5 FTE in Economic Development for Community Marketing Commission support, from lodging tax revenues. This is requested directly by the Commission (not staff-initiated). This Commission has substantial authority in the area of lodging tax, granted by the voter-approved ballot measure, and so this addition is recommended.
- Six positions in Water and Power funds:
  - Water Engineering Special projects manager
  - Electrical Engineer
  - Technical Services Treatment Control Technician
  - Locator Construction Inspector (replaces a previous temporary)
  - Water Treatment Plant Maintenance Worker (replaces a previous temporary)
  - Administrative Technician

The two positions converted from temporary status represent fairly minor expense. Others are driven by substantial new capital investment and by increasing workload.

### ***Capital Program***

Capital projects 2014 are budgeted at \$50.3 million. This represents a significant increase from the 2013 level of \$46.3, due to an increased effort in the Water and Power Enterprise Funds to address the replacement of aging infrastructure, increases to the Street Rehabilitation Program and funding for Police records systems.

#### Key projects in 2014:

- A new Smeal ladder truck will be added in Fire. This is an investment of nearly \$1.5 million.
- The Police Records Management System will be replaced. This is a technology investment of \$3 million.
- The City will switch over to a new telephone system infrastructure, Voice over Internet Protocol (VOIP). The new switching is budgeted at \$750,000.
- New Barnes softball field lighting is budgeted at \$610,000.
- The one-time addition of \$1 million for street rehabilitation to address maintenance needs on major arterials and new streets that came into the City system during the strong 2005-2007 growth period and are now needing maintenance.
- The one-time allocation of \$1million for flood assistance programs.

The newly-adopted Water capital project program will begin with design work on the expansion of the water treatment plant, and initial work on major water line replacements.

The following are key projects carried forward from 2013, with completion expected in 2014:

- Mehaffey Park
- Fire Station 2 relocation
- Service Center Phase 3

Other large capital project expenses in the 2014 Budget are “allowance” amounts for projects which are customarily budgeted annually, with locations varying year-to-year. For example, open lands acquisition is based on an expected expense level, without identification particular properties for acquisition, the Transportation Program has several projects included based on the 2030 Transportation Plan, and the Street Rehabilitation Program funds the resurfacing of streets throughout the City.

#### **Changes in Budget Presentation and Development**

This Budget has some differences in budget presentation from previous years. Key changes:

- There are accounting and organizational changes between the Municipal Court and the City Clerk’s Office. Court Administrative staff has been moved into the City Clerk’s Department as a division of the City Clerk, removing them from the budget of the Court. There is no net change in personnel or the cost for court administration.
- Two new funds have been created. The first is the Economic Development Fund. The City has committed \$250,000 annually for economic development incentives and partnerships, appropriating the funding within the Economic Development Department in the General Fund. Moving forward the commitment will be transferred to the Economic Development Fund. There are no recommended expenses within the fund included in the Recommended Budget. Staff will bring opportunities on a case by case basis for Council to approve and funding will be appropriated with a supplemental budget ordinance. The second is the Downtown Development Fund. Council has annually appropriated \$1 million from the Council Capital Reserve for potential projects. The commitment will transferred to the Downtown Fund to be held, and projects brought to Council as the opportunity for a project arises for appropriation in the fund through a supplemental budget ordinance.

- **Improved Cost Accounting:** In 2014, we have completed the cost allocation process which was begun in the 2013 Budget. Costs of central administrative services and “internal services” have been allocated to client departments. The two additional departments added into this system in 2014 and Information Technology and the City Attorney’s office, which had not previously been included. This better reflects the full costs of providing the different City services budgeted within the General Fund. There are difficulties in comparing some budgetary lines for earlier years to the same items for 2014 due to the reorganization of Court Administration costs. A special section has been added in the Appendix to better allow these comparisons.
- Due to the volatility of Building Use Tax collections staff only uses this revenue source to cover one-time expenses. In the General Fund equipment replacement costs total \$1.965 million. Equipment replacement occurs annually but is for one-time purchases. The Building Use revenue projection is \$1.495 million, which covers 76% of this expense.

Next year, there will be important changes in budgeting process for the 2015 Budget. Although the form of the Budget document will look similar to this year’s, the process for developing the Budget will incorporate “Priority-Based Budgeting” (PBB). The City Council has received information about this at the April Study Session on budget and directed that staff move forward with PBB. This will involve starting the process earlier to set forth a few key elements in the late fall and winter, and the Council’s annual goal-setting meeting in January 2014 will likely incorporate significant elements related to the 2015 Budget.

### **Conclusion**

I would like to specially thank those in the Finance Department who were involved in the preparation of this budget. Special thanks are due to John Hartman, Budget Officer; Adam Dorritie, Budget Analyst, Chloe Romero, Business Services Coordinator, and Brent Worthington, Finance Director.

The City is in a strong financial position. Steps taken toward financial sustainability in 2011 re-established a new course for the City’s projected financial future, so that the City has been placed on a path of self-sufficiency.

The conservative fiscal management which has been Loveland’s hallmark continues to pay dividends in the form of service stability. This allows us to respond to opportunities, and continue to pursue the enhancing the quality of life in Loveland.

# *Distinguished Budget Presentation Award*

The Government Finance Officers Association (GFOA) of the United States and Canada presented an award of Distinguished Presentation to the City of Loveland, Colorado for its annual budget for the fiscal year beginning January 1, 2013.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communication device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



# Budget Guide

This section is a guide and summary of the information contained in each section of the budget document. There are seven main sections: **Introduction**, **Budget Overview**, **Financial Master Plan**, **Fund Summaries**, **Department Summaries**, **Appendix** and **Capital Program**.

As the previous **Table of Contents** demonstrates, this book divides budget information into different sections, each with its own series of page numbers.

The **Introduction** provides background information on the City of Loveland and the environment in which the budget decisions take place. It includes demographic information, financial policies, and the budget calendar and process.

This section provides general information about the City. It includes:

- a City organizational chart;
- a list of the City officials;
- demographic and economic information;
- a summary of the budget process;
- the underlying policies and rules that guide and shape the budget; and,
- a brief description of each fund type.

The **Budget Overview** is the Executive Summary of the budget, followed by supplemental information about the City of Loveland, its organization finances, and budget. The Budget Overview provides analysis of revenues of and expenditures on a total budget basis, highlighting significant trends affecting the revenues and expenditures of the City.

The City's total proposed budget and summaries of each fund type are presented in this section. It shows a summary of the City's total proposed budget in both gross and net form, discusses the major revenues and expenses, describes major factors that will impact both revenues and expenses, and provides a debt service summary.

The **Financial Master Plan** chapter discusses the planning processes used to drive the budget, provides a 10-year outlook for the General Fund, and forecasts revenues and expenditures for the General Fund for the next five years, with discussion on the forecast assumptions and projected impacts.

**Fund Summaries** provide summaries of the four major accounting fund groups as well as complete fund summaries with ending balances for each City Fund. Formerly, this section included a list of full-time equivalent positions by department/division and the impact of Amendment 1 (TABOR) restrictions on the City's budget. These items are now noted in the Appendix with other supplementary information.

**Department Summaries** provide historical cost information by department and division. Revenues that are attributed to a department are also presented. Included in this section are concise explanations of changes that have occurred from the 2011 Adopted Budget. "**Changes compared to the prior year**" are increases or decreases to the base budget due to operational changes or other known factors. "**Core Changes**" represent the increase or decrease due to the pay plan, inflation factors, or transfers between categories (i.e. from supplies to purchased services). *Please note that all variances are comparisons between the Recommended Budget and the prior year's Adopted Budget.* "**Supplements**" are increases from the prior year's Adopted Budget which are required to maintain existing service levels (noted as workload), provide new services (noted as improvement), or as required by state or federal law (noted as mandated). "**Financial Sustainability Reductions**" are reductions

made during the Financial Sustainability process to ensure revenue is available and exceeds operating costs. The strategies for these reductions were approved by the City Council at the beginning of the budget process. The City of Loveland Budget provides City residents and the City Council with a funding plan for the year. The Department Summaries Section is organized by function (e.g. Development Services) which mirrors the City's departmental organization chart and is further separated by divisions, which represent discrete activities within a department.

Included with the cost information is the department's mission statement, descriptions of the program objectives for the coming year, along with measures which show the effectiveness or "outcome" of the programs.

The Other section within the Department Summaries is for General Fund costs that cannot be associated with a specific department and separate governmental entities or special districts that are not a part of City operations but are budgeted for and accounted for by the City.

References are made in the Department Summaries to the **Capital Program**, which is included in the last section of this document. Appropriations in the Capital Program, with the exception of General Fund agencies, are included within a department's budget.

The **Appendix** contains a glossary of specialized words used within this document with their definitions, and a collection of supplementary material used throughout this document.

This section also includes:

- a table of planned inter-fund transfers;
- a schedule of supplemental budgets adopted by Council during 2013;
- oversizing agreements;
- schedules for inter-fund loans;
- explanations of full-time equivalent positions by department/division;
- the impact of Amendment 1 (TABOR) restrictions on the City's budget.

The **Capital Program** shows planned capital improvements with a cost of \$250,000 or more from all funding sources over the next 10-year period. All projects to be funded in 2014 are included the 2014 Adopted Budget. The future years are approved by the City Council in concept only. The Capital Program is updated annually based on Council priorities and goals.

For the answer to questions regarding the budget or for additional information, please call the Budget Division at (970) 962-2329.