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## **Budget Message from the City Manager**

To the Honorable Mayor and Members of the City Council:

The budget for 2015 is respectfully submitted for your consideration, in accordance with the City's home rule charter. This budget outlines revenues and expenses for 2015. The budget continues the City's upward trend since the recession of 2008-2011. We continue a period of strengthening programs and services, while valuing prudence and keeping in mind that economic recoveries do not go on indefinitely.

The perspective underlying this budget is that 2015 will continue to be economically healthy for Loveland. Recent local economic trends remain strong, and there are no local economic disturbances on the horizon. However, by 2016 or 2017, it seems likely that Loveland will encounter stiffer regional retail competition from newer centers in Fort Collins and Longmont, which may limit sales and use tax growth somewhat going forward from that time.

Nationally and internationally, there are also some signs that future years may bring some slowing, which would have effects on us. The U.S. economy has now been expanding since 2010, and economic booms do not last forever. Most importantly, international economic slowing would decrease energy demand, and it is energy which has fueled much of Colorado's recent economic prosperity. Traditionally, energy has been a boom-bust cycle, and there's no fundamental reason to think that energy is immune from downturn if the international economy slows.

In sum, 2015 looks good, but we have to be cautious about possible slowing by 2016 or 2017.

### **The Budget in a Nutshell**

The total 2015 City Budget expenditures will drop from 2014 due to a reduced capital program and one-time costs included in the 2014 operations budget. Revenues have continued to grow since the low of 2009.

This budget strengthens services in key priority areas. We are still cautious about increasing service levels and expenses, particularly increases in continuing operational expenses. This budget adds regular staff in high-priority areas, but limits growth in the rest of the City organization.

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

	2012 Budget	2013 Budget	2014 Budget	2015 Budget
Operations	142,175	160,522	166,369	168,949
Percent Change	3.3%	12.9%	3.6%	1.6%
Capital	36,758	46,320	57,004	49,505
Percent Change	-9.7%	26.0%	23.1%	-13.2%
Total Net Budget	178,333	206,872	223,373	218,454
Percent Change	0.4%	15.6%	8.0%	-2.2%

General Fund expenditures are declining in 2015 from 2014 levels by 4.4%. This is primarily because we have no major one-time expenses in 2015 for capital or equipment purchases.

**General Fund Adopted Budget (Net of Administrative Overhead)**

	2011 <u>Budget</u>	2012 <u>Budget</u>	2013 Net <u>Budget*</u>	2014 Net <u>Budget*</u>	2015 Net <u>Budget*</u>
General Fund Budget	63,617,600	63,617,600	65,192,070	77,171,380	73,805,130
Ending Balance	21,559,650	25,027,190	27,937,030	26,719,340	29,267,050

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

All fund balances, including the General Fund balance, have grown over the last several years. However, several factors will combine to limit or reduce fund balances in the next few years:

- the continuing cash flow impacts of recovery from the 2013 Flood
- the funding of several one-time high priority Council projects
- the use of General Fund balance to support projects in the Water Fund
- the projected use of fund balances for planned capital projects

**Fund Balances, Recent History and Projected (in 1000's)**

	2011 Yr. End <u>Actual</u>	2012 Yr. End <u>Actual</u>	2013 Yr. End <u>Actual</u>	2014 Yr. End <u>Budget</u>	2015 Yr. End <u>Budget</u>	2016 Yr. End <u>Proj.</u>	2017 Yr. End <u>Proj.</u>	2018 Yr. End <u>Proj.</u>
General Fund Balance	31,284	33,786	38,862	25,994	29,267	25,774	26,355	34,535
All Other Fund Balances	148,007	163,563	160,883	109,464	127,776	114,510	96,238	91,974
Total, All Fund Balances	179,291	197,349	199,745	135,458	157,043	140,284	122,593	126,509

The coming decline in fund balances was first projected in the City's 2013 Forecast document, which showed the impacts of major capital projects like Chimney Hollow Reservoir. Funds for this single project have been saved for many years; the accumulated cash (over \$23 million) will be spent as planned, driving down the City's fund balances. Other less expensive capital projects will have the same effect.

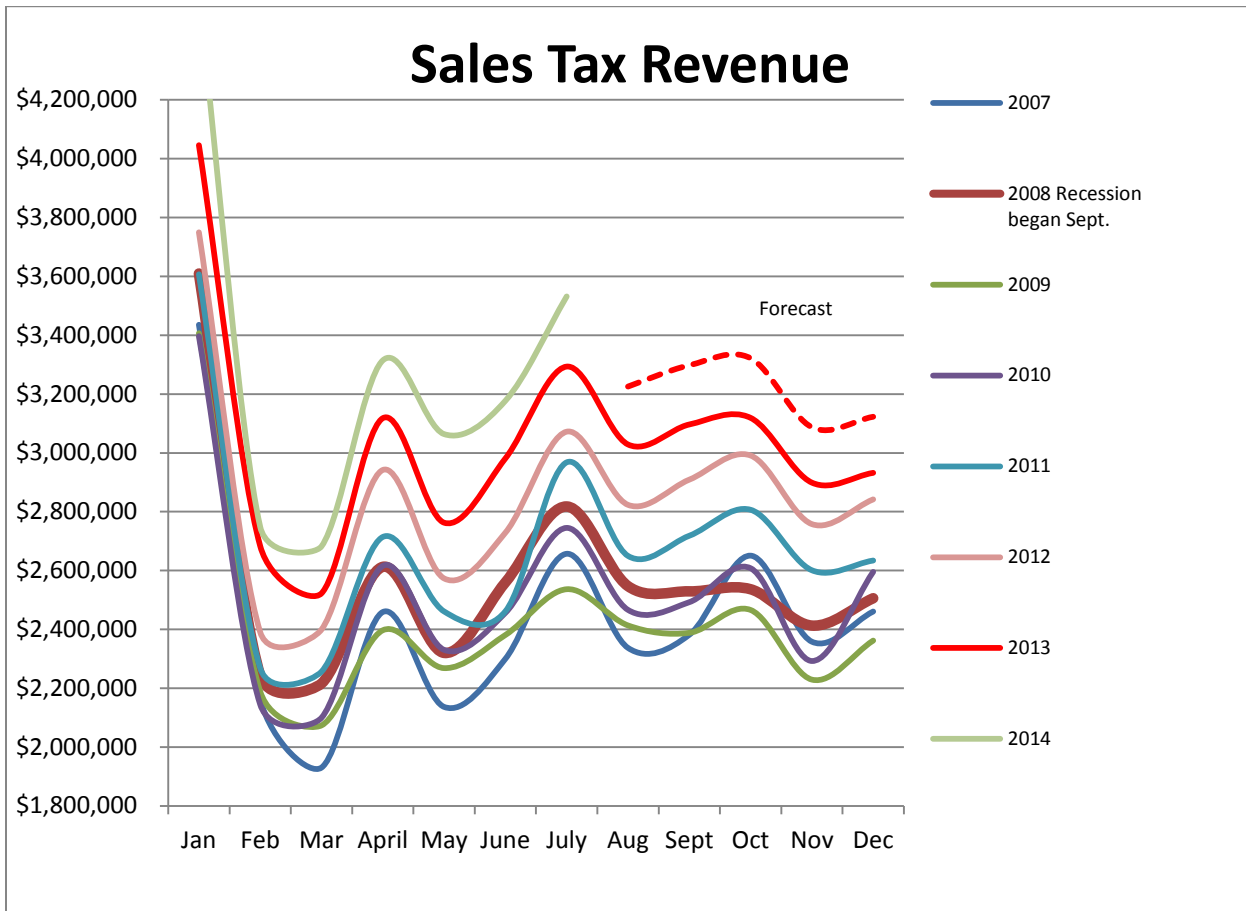
### **More Perspective: Economic Climate and the Revenue Picture**

The northern Colorado state economic picture continues to be positive.

Loveland's unemployment rate (4.8%) remains below both the national and Colorado average, and dropped 1.3% from the rate in July of 2013. Job creation in Loveland is recovering with 1,280 more people employed than in July of 2013 (Larimer County Workforce Center July Employment Report), and continued growth in jobs is expected. Retail sales and use tax revenues have now exceeded 2007 collections, our previous peak, in both nominal and real dollar terms, so we have stopped comparing our revenue situation to the prior 2007 peak. However, building use taxes (driven by construction activity) remain low compared to pre-recession annual collections.

The significant Loveland trend to watch is sales tax revenues, since these revenues account for 73% of General Fund taxes. Figure 1 shows net taxable sales since 2007. Loveland's net taxable sales in 2013 showed a very encouraging increase above the prior year, and the trend has continued in 2014.

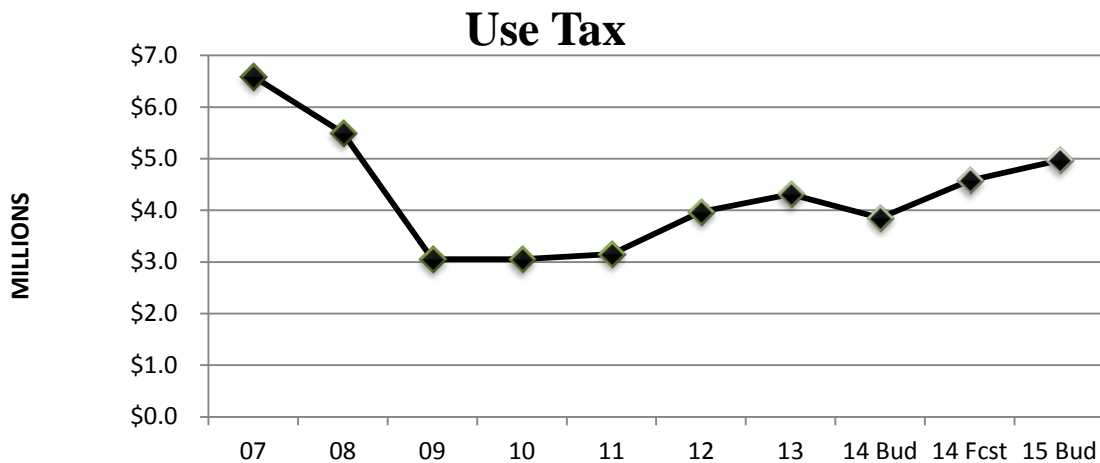
Figure 1: Trends in Loveland Net Taxable Sales



Use taxes (9% of General Fund taxes), which are traditionally volatile, are projected to increase from the 2014 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, and building use tax will grow based on the development projections.

Our larger perspective on sales and use tax revenues: we've been growing generally at about 6-7% annually over the past three to four years. We think that will continue to 2015-2016, and then we are projecting slower growth at 5.5% through the next five years, and declining to 5.0% by the end of the ten year period. That's the basis of the Ten-Year Financial Plan.

Figure 2: Loveland Use Taxes



Property taxes, which account for 13% of General Fund taxes, are projected to stay relatively flat due to only .9% growth in valuations based on the preliminary certified valuations from the property assessor.

### 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 2013 and 2014, with the results being embodied in this 2015 Budget. Among the most notable investments for 2015:

- 5 new Police positions are added based on the Tier 2 level of the Police Staffing Plan
- 1 new position in Information Technology is dedicated to Police and is part of the Police Staffing Strategy
- The Police Training Facility continues in the Capital Plan, with design work being conducted in 2015
- Two positions are added in Fire

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. 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 previously made, Fire Department staffing is expected to plateau for the next few years until the addition of the next Fire Station (Station 10).

The Police positions being added are likewise guided by strategic thinking about the future of the Police service. The Police Department's strategic plan for the next 10 years shows 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 Police staffing plan is built in "Tiers", with each Tier to be accomplished based on City revenue growth. The 2015 additions are slightly more than "Tier 2".

**Infrastructure:** Highlights for 2014 include:

- 8.5 new positions in water, wastewater and power utilities. All of these are enterprise-funded.
- The continuation of a significant capital program in the water enterprise, based on funding provided by debt issuances authorized by the Council in 2013 and 2014.

The 8.5 new positions are all in enterprises, not the General Fund. But 1.25 of the "new" positions are really conversions of previous temporary positions and 1.0 FTE is an accounting shift from another budget unit, so the net gain in people is really 6.25 FTE.

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 debt for the water enterprise capital program. This capital program will increase the capacity of the City's water treatment plant and replace aging water distribution lines.

**Economic Vitality:** This includes efforts for two departments: Economic Development, and Development Services.

The Economic Development Department will not add any staff. However, significant new efforts are being made in the area of downtown revitalization and tourism development. The Budget and the 10-Year Financial Plan show a commitment to \$500,000 annually for a new downtown organization, which includes both operational and project costs. The City Council's high priorities for 2014 included the creation of a robust and durable downtown organization, and its creation is expected by the end of 2014, to be augmented by the proposed creation of a Downtown Development Authority in 2015. This new private-public partnership will be supported by its own revenues streams over time, but the City will commit funding over a decade to launch the effort.

An application for State of Colorado Regional Tourism Act (RTA) funding will be the uniting catalyst for significant new tourism development in the Loveland area. The effort will be funded by \$175,000 for the initial RTA application, and will likely lead to substantial staff effort in tourism development projects.

In Development Services, 2015 is the implementation year for a new development permit center, which has also been a high Council priority. The Center is envisioned to improve the quality and speed of development permitting in Loveland, and is expected to be online in the fourth quarter of 2015 following moves of other departments and building remodeling. The "hub" of the Center includes Current Planning, which has been short-staffed, so 2.5 FTE are being added to address this shortfall.

### **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, infrastructure-related activities, and Development Services.

## Operations

Total operational expenses for the City will be approximately \$168.949 million, compared to \$166.369 million for 2014. General Fund expenses net of the allocated costs for 2015 are \$73,805,130, compared to \$77,171,380 for 2014.

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.

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

	<u>Fire:</u>
1.0	Training Firefighter
1.0	Administrative Support Specialist
	<u>Police:</u>
1.0	Police Officer
1.0	Records Specialist
1.0	Community Service Officer
1.0	Victim-Witness Coordinator
1.0	Detective
	<u>Information Technology</u>
1.0	Computer Support Technician (dedicated to Police)
	<u>Development Services</u>
1.0	Planner II
1.0	Planning Technician
.5	Office Support Specialist
	<u>Library</u>
1.0	Librarian II (Children’s Services and Teenseen)
	<u>Parks and Recreation</u>
.5	Recreation Coordinator (Chilson, fee-supported)
	<u>Public Works</u>
1.0	Traffic Technician (replaces .75 FTE seasonal)

The total additions to the General Fund are 13.5 FTEs. Eight are in safety-related positions, and 2.5 are meant to address staffing shortfalls in development review functions.

In other funds, the new positions are 8.5 FTE in Water and Power funds, which are all enterprise supported.

.5	Utility Accounting Technician (convert from temporary)
1.0	Office Support Specialist (transferred from Finance, no net addition)
1.0	Civil Engineer
1.0	Journey Water Systems Operator
1.0	GIS Specialist (replaces a .75 FTE temporary)
1.0	Field Engineer
2.0	Pre-Apprentice Line workers
1.0	Public Works Construction Inspector



## **Capital Program**

Capital projects 2015 are budgeted at \$49.505 million. This represents a decrease from the 2014 level of \$57.004 million. Three key large-scale capital projects are drawing to a close (Service Center Phase 3, Mehaffey Park, and Fire Station 2). The 2015 Budget takes a bit of a “breather” from large capital projects.

Key projects in 2015:

- \$2.4 million for projects placing power lines underground
- \$2.4 million for new street construction and widening
- \$1.9 million for water line replacements
- \$1.6 million in power system improvements
- \$1.6 million for the design of a digester to be added at the Wastewater Treatment Plant
- \$1.2 million to begin refurbishment of the digesters at the Wastewater Treatment Plant
- \$1.0 million to begin the design of the new Police Training Facility
- \$1.0 million for the initial design of the Windy Gap Firing Project

Other large capital project expenses in the 2015 Budget are “allowance” amounts for projects which are customarily budgeted annually, with locations varying year-to-year. For example, open lands acquisition (\$4.6 million) is based on an expected expense level, without identification of particular properties for acquisition. The Street Rehabilitation Program (\$4.5 million) funds the resurfacing of streets throughout the City.

## **Special Topics for Discussion**

Three topics deserve special discussion: the impacts of the 2013 Flood; and the advent of Priority-Based Budgeting; and fees, rates, and charges.

**The 2013 Flood** affected the City severely, causing great damage to City-owned facilities (parks, natural areas, roads, water and sewer infrastructure, and the fire training facility). The cost of restoring the City’s facilities is expected to range between \$27 million and \$30 million. Most of these costs will be recouped through FEMA reimbursement, insurance coverage, or other grants. In the end, we expect that net City expenses after these payments may be \$3 million to \$5 million.

While the City can absorb these net costs because of its healthy fund balances, the slowness of the FEMA reimbursement process has caused temporary cash flow issues. The “slow pay” problem is not the fault of FEMA itself, but rather the slow and tedious review process used by the State of Colorado in making payments. The first big symptom of this problem came in July 2015, when the Council authorized borrowing by the Water Fund to meet its needs – with \$8 million of that borrowing directly caused by the State’s slowness in payment. There have been steps taken by the State to remedy their reimbursement system, but these steps to date are insufficient.

If the problem continues at this scale, then by early 2015 the City will experience more cash flow shortfalls in some funds. We will continue to monitor this, and press the State to improve.

**Priority-Based Budgeting (PBB)** has provided us a valuable tool to look at programs within the City, and use information to make changes. For the first time, we have looked at the City’s expenses on a program basis (rather than by “line-item”), and we know what programs cost and what their results are. PBB is not a simple one-time fix to make radical changes at one time. But its results will provide the basis for changing the way resources are distributed. These results will be used continually throughout 2015 by management, and by the

Citizens Finance Advisory Committee, to make changes mid-year as well as to recommend changes in the 2016 Budget.

**Fees, rates, and charges** are vital to the City's financial health. The majority of City revenues come from customers who pay for service, as opposed to being generated by taxes. For 2015, \$137.5 million of revenue is generated from various fees, rates and charges; only \$58.3 million comes from taxes.

The fees are set in two annual resolutions adopted by the Council at the time of Budget adoption. One resolution covers the water and power utilities; the other is "everything else". Of particular note this year: the water and power resolution sets fees in accordance with the Council's earlier adoption of long-term rate schedules in the water and wastewater utilities. The "everything else" resolution includes many adjustments, but I particularly note the street maintenance fee, which generates funding for keeping our streets in good condition. It's been increased by 5.8%, which translates to \$1.97 per month for the average home, up from the prior \$1.87.

Capital Expansion Fees (CEFs) are likewise set in the resolution, but this is essentially a placeholder. The current work to completely revamp CEFs is not yet complete, so the Council will review completely new CEFs by early 2015.

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

Recent years have seen significant changes in budget presentation. For 2015, no presentation or accounting changes are made, permitting easier comparison with past years.

### **Conclusion**

The City continues in a strong financial position, owing to the continuing leadership of the City Council and the diligence of staff in assuring sound financial practices.

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

I especially want to thank John Hartman for his many years of service in serving as Budget Officer. This is John's last Budget and his service will be missed.

# 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, 2014.

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 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 2014 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 2014;
- 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 2015 are included the 2015 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.