City of Loveland, Colorado

Loveland Urban Renewal Authority

2008 URA Status Report

Board of Directors*

Loveland City Council:

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Vice Chair..**Dave Clark,** Mayor Pro Tem, Ward 2

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Daryle Klassen, Ward 1
Carol Johnson, Ward 2
Glenn Rousey, Ward 3
Walt Skowron, Ward 3
Kent Solt, Ward 3
Larry Heckel, Ward 4

Secretary of the Authority ....**Don Williams,** City Manager

Legal Counsel..**John Duval**, City Attorney

* at the end of 2007

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Release date: July 25, 2008

Intent

This document is intended to serve several purposes and audiences. The **General Background** is provided to inform the reader of the uses for urban renewal authorities and how the authorities operate.

The **Executive Summary** provides background information about URAs and a very brief overview of the project areas within the City of Loveland. This section is directed to the general public and anyone needing the most basic information about authorities.

Section 1 presents specific information about the three project areas in the City. Including maps, information about the size, and basic objectives of the areas.

Section 2 includes the internal auditor report with explanation of the scope, objective, and methodology behind the audit.

Section 3 highlights the performance of the areas in terms of the economic, financial, and legal processes that the Loveland Urban Renewal Authority should be using to accomplish its missions. This section will be updated periodically to provide up-to-date information to City Council, the community, and other entities most interested in knowing if the project areas are performing up to expectations.

Section 4 provides financial and accounting reports. While this section is not reviewed by the independent auditor, the financial statements will be based on generally accepted accounting principles and will be consistent with annual audit information.

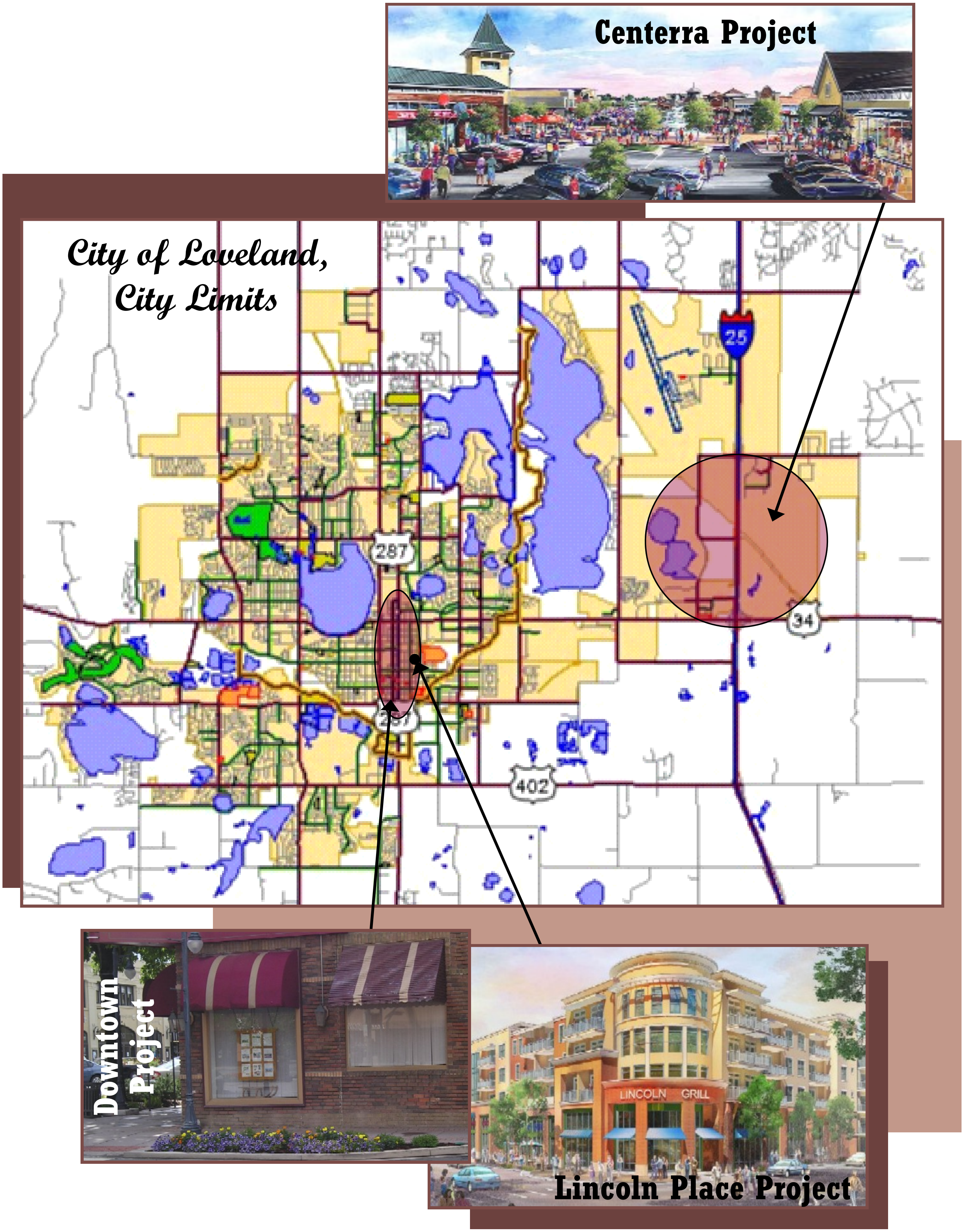
General Background

The Loveland Urban Renewal Authority (LURA) was established by the City Council in July 2002. LURA is responsible for coordinating urban revitalization activities throughout the community and is charged with eliminating and preventing blighted areas. Downtown Loveland was the original focus of the LURA and the location of its first project area. Since that first project area was set up in 2002, LURA has added two additional project areas – one at the City's eastern boundary and a second in the downtown area.

LURA carries out its mandate by fostering public-private partnerships and joint-venture developments. LURA has a unique array of revitalization tools at its disposal, and works in collaboration with elected officials, city administrators, private developers and financing sources, as well as the community.

Financing of LURA projects will be primarily funded through tax increment financing. This financing mechanism allows the project to retain the additional property and municipal sales taxes generated within the project borders for a period of 25 years. When project improvements are both public and private, only the public portion may be funded by the tax increment financing.

The map on the opposing page displays the project areas and their general locations within the city limits of Loveland.


Centerra Project
City of Loveland,
City Limits
25
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LINCOLN GRILL
Lincoln Place Project

Executive Summary

General Overview

In response to deteriorating economic conditions in urban areas in many of its cities, the Colorado State Legislature authorized the formation of Urban Renewal Authorities (URA) in 1958. Authorities or "URAs" may use strategic tools for site acquisitions, infrastructure improvements, tax increment financing, and direct financial investment. Over the years, URAs have evolved to rely more on public-private partnerships and investments to meet the basic public policy objectives.

Generally, the primary goal of a URA is to stimulate economic benefits to communities, residents, businesses, and local governments. Using the tools authorized in the Colorado 1958 enabling legislation (and subsequent amendments), Authorities play a crucial role in assembling sites, preserving historic buildings and open space, upgrading public improvements, removing impaired properties, eliminating blight, mitigating environmental hazards, and bolstering tax revenues. In recent years, private developers have played an increasingly important role. Working with URAs and local governments, developers bring private sector resources, market insights, and innovative designs to create solutions to areas ready for redevelopment.

Short History of the Loveland Urban Renewal Authority (LURA)

Through the adoption of Resolution No. R-44-2002, the Loveland City Council established the LURA. According to the State legislation, the boundaries of the Authority are the same as the boundaries of the municipality. Within the municipal boundaries there may be one or more urban renewal areas and within areas there may be one or more projects. By taking this approach, the Council provided for the greatest amount of flexibility to address problems described in the Urban Renewal Act that may exist or come to exist within the City's corporate limits.

Governance

Under the Colorado statutes, the governance of an authority can be provided by either an appointed citizen commission or by the City Council acting itself as the governing board of the authority. Upon adoption of the first renewal plan in 2002, the City Council decided to provide the governance role for the urban renewal program.

Currently, the administration of the three adopted plans requires the commitment of existing City staff members in the City Manager's Office, City Attorney's Office, Development Services and Finance Department. The 2002 Plan authorized the City's Long Range Planning Division to coordinate Authority activities to implement the Plan. The City Attorney supplies required legal services. In terms of financial oversight, the LURA is a component unit of the City. The City's Finance Department tracks all revenues and expenditures and reviews the financial transactions that support the financial reporting. The Authority may also retain the service of consultants to assist in the operation of the plans.

Since the Council established the Authority, the Board has approved three project areas:

- Downtown Urban Renewal Area;
- US 34/Crossroads Corridor Renewal Area, more commonly referred to as the Centerra Urban Renewal Area; and
- Block 41 – Finley's Addition Urban Renewal Area, more commonly known as the Lincoln Place Urban Renewal Area.

Organization of the Report

Section 1 of this report provides more information about each of the renewal areas. The Downtown project area was created in 2002. The overall goal was to provide funding to revitalize the downtown area. Since that time, the revenue in the project area has actually declined from its base year. Centerra was created in 2004 and Lincoln Place was approved in 2005.

Section 2 of this report provides a copy of the internal auditor's report and findings for compliance with the Master Financing Agreement.

Section 3 of the report reviews the performance of each of the project areas. When renewal area projects were adopted, the Board (Council) and the community set expectations for each of them. The Finance Department staff has listed the expectations and the projected resources that will be necessary to accomplish the goals. Revenues from property tax increment, sales tax increment and public improvement fees are detailed in this section. The other focus of Section 3 is to verify that the project areas have fulfilled their obligations to follow City ordinances and State laws in constructing and developing these projects.

Based on staff's review of the performance expectations for the projects, all are following the legal and procedural requirements.

Life-to-date financial performance of the three project areas is varied. For the Downtown project area, the growth in assessed value and resultant tax increment has been far less than estimates provided at the time when the project was initiated. Both property tax and sales tax collections have declined in recent years.

In contrast, the Centerra project is doing very well—sales tax collections in 2005, 2006 and 2007 exceeded original projects and are ahead of schedule for 2008. The Lincoln Place project is complete with the residential component almost fully leased. Two retail operations are open and one other retail operation is under construction and is expected to open soon. Council agreed to allow the parking structure to become private. This also reduced the tax increment flowing to the Lincoln Place project.

Section 4 of this report provides more formal financial reports for each of the project areas. These reports are in the traditional accounting and auditing format for the community to review project area activities. The last full year for which information is available is 2007. The next update of this report will have 2008 year-end information.

The Roles & Responsibilities of General Urban Renewal Authorities

- Ensure economic competitiveness for blighted areas;
- Remove obstacles to private investment; and
- Promote public improvements and other benefits.

Economic Benefits

Underutilized areas represent investment opportunities in local communities. In many cases, redevelopment costs can lead to financial obstacles too extensive for private developers to solve alone. The financial components of an urban renewal authority can support partnerships between private interests and public entities. These key relationships can facilitate investment agreements, serving the public interest and meeting the return on investment objectives of private companies.

Benefits from urban redevelopment can be categorized in many different ways. Below, the benefits are assigned to the type of entity receiving such benefits.

Benefits for Individuals

- Projects in urban renewal areas create new jobs and earnings;
- Supply new locations for enterprising businesses;
- Often provides new housing opportunities, including low- and moderate income housing, and housing to meet specific employee needs; and
- Projects may also provide relocation assistance for residents and businesses.

Community

- By providing employment, commercial, and living areas, urban renewal can improve an area's attractiveness and desirability;
- Upgrading infrastructure through redevelopment financing can offer economies of scale, thereby reducing the unit costs within a project;
- Redeveloped areas can reduce criminal activity, remove environmental hazards, and improve working and living conditions in the surrounding area;
- Support and promote historic preservation efforts in the older parts of the community; and
- Enhance and sustain economic strength through more local investment and retention of local spending power.

Local Government

- Formation of new buildings and businesses results in additional economic and consumer activity. The property and sales tax bases should improve;
- Can help a local government compete for sales tax receipts by reducing leakage to other communities;
- Stronger revenue base should allow the local government to increase or enhance services to its residents; and
- Can reduce costs of government services by using "in-fill" locations. Fiscal studies show rehabilitation or in-fill projects cost $20,000 to $25,000 less to serve per home than new subdivisions.

State Government

- As municipalities become financially stronger, the burden on state government is lightened;

- Through sales tax base growth, the State shares in stronger revenue flows;
- Supports growth management strategies fostered by the Department of Local Affairs, the Governor's Office, the Office of Economic Development, and the Colorado Housing and Finance Authority;
- Helps to provide more diverse locations for business and housing; and
- Can support and coordinate local economic development efforts, supplementing State efforts and resources.

Summary

Since 1958, when the enabling legislation was adopted, URAs have provided measurable benefits to neighborhoods, communities, residents, businesses, and state and local government. Authorities have played crucial roles in assembling sites, preserving historic areas, renovating streets and utilities, eliminating blight, mitigating environmental problems, increasing tax revenues, and providing long-term financial tools. Developers and investors have been induced to participate in the improvement of local business areas. While some authorities and projects have been unsuccessful, when carefully and thoughtfully managed, URAs are a very beneficial strategy for economic growth. The remainder of this report focuses on how the City is using the URA financing tool.

Section 1: The Plans & Projects

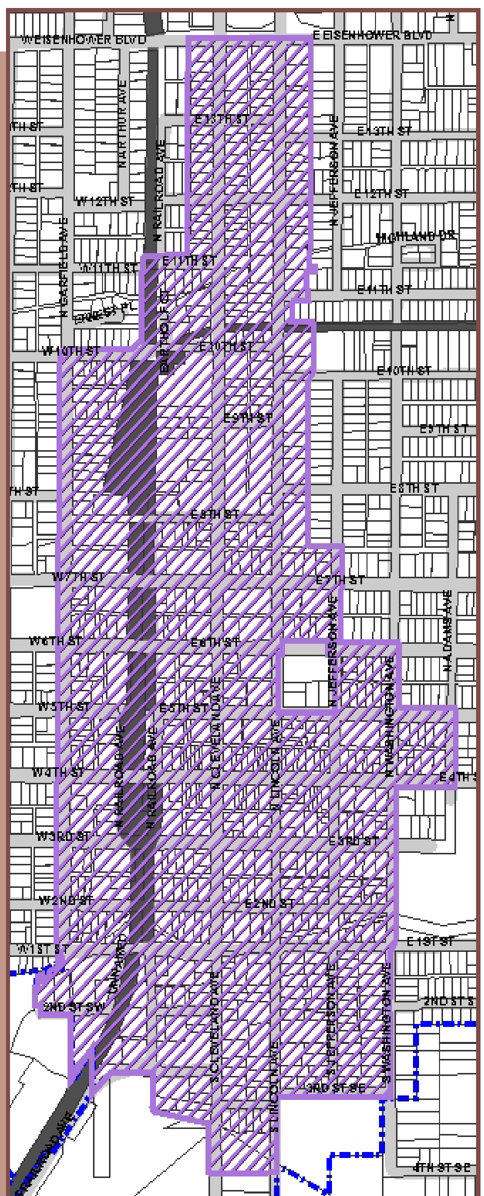
Downtown Loveland Urban Renewal Plan
(the Downtown Project)

In 2002, downtown Loveland was the first project area approved. Revenue from the tax increment of both property taxes and sales taxes will be retained by LURA to fund revitalization improvements within this project area. The Downtown Project totals 230 acres.

Goals & Objectives

The urban renewal effort is to serve as a redevelopment catalyst for the downtown by:

- eliminating and preventing conditions of blight which constitute an economic and social liability to the community;
- preventing the physical and economic deterioration of the Urban Renewal Area;
- attracting capital investment in the downtown area, and to assist in the retention and expansion of existing businesses, thus strengthening the City's economic base;
- creating a stable tax base; and
- facilitating the development of mixed use projects in the downtown area.



The Plan identifies three types of redevelopment opportunities: catalyst projects, historic rehabilitation projects, and capital infrastructure enhancement projects. Within the catalyst category, the former Walgreen's block and the Loveland Feed & Grain site are two specific examples. However, with the approval of the Lincoln Place Project, the Walgreen's block was transferred out of the Downtown Project to create a separate Lincoln Place URA area. The historic rehabilitation projects included the Lincoln Hotel and the McKee Community Health Center properties. Capital enhancements include the resurface of US Highway 287, sidewalk-curb-gutter reconstruction and downtown alley reconstruction.

Eminent Domain

Within the project area, the Authority may acquire property for the following reasons:

- to eliminate or reverse conditions of blight;
- to carry out one or more objectives of the Plan;
- to assemble property for redevelopment by private enterprise;
- for needed public improvements; and

- to any lawful purpose authorized by the Urban Renewal Plan, subject to the provisions of the Urban Renewal Law, or any other applicable law.

Acquisition of property by eminent domain is not authorized unless the City Council approves, by majority vote, the use of eminent domain by the Authority. Prior to the vote, the procedure requires mailing or delivering a notice to the owner of property to be acquired of the time, date and place of the City Council meeting at which the acquisitions will be considered. The notice shall be mailed or delivered at least 10 days prior to the date of such meeting.

Facade Program

LURA has authorized a Downtown Façade Improvement Grant Program to assist in improving the condition and appearance of downtown buildings. The program would provide financial support, in the form of a grant to property owners for façade improvements that increase the assessed value of an existing property. The grant is intended to:

- promote improvements to structures in the LURA and eliminate and prevent conditions that cause blight;
- preserve the unique character of downtown's historic buildings by providing leverage to private investment and historic preservation monies; and
- encourage aesthetic improvements to façades of non-historic buildings by providing leverage to private investment monies.

The program provides matching funds to be used for the rehabilitation and renovation of existing building façades that are visible from either the public right-of-way or publicly owned property. Under the program the LURA will provide a grant equal to 10% of the total project.

The program is ready for applications. Through an appropriation by the Loveland City Council of $155,000, it will be possible to support several projects.

Based on discussions with downtown business owners, there are several that would like to participate in the programs. Within approximately five years of the completion of the redevelopment of a building, it is projected that the tax increment from the projects would, in effect, repay the LURA through property tax increment on the redeveloped projects.

Size

The Downtown Project area contains 230 acres of land.

Project Term

October 1, 2002 through September 30, 2027. The base year for determining tax increment runs from October 1, 2001 to September 30, 2002.

Financing & Economic Impacts

According to the approved plan, both property tax increment and sales tax increment revenue will accrue to the project. Cash flow projections completed to support the creation of the Downtown Project forecasted a tax increment of $37 million. The estimated property tax increment was $5 million and the sales tax increment projection was $32 million. The table on page 13 displays the fluctuations of assessed property for the Downtown Project since inception.

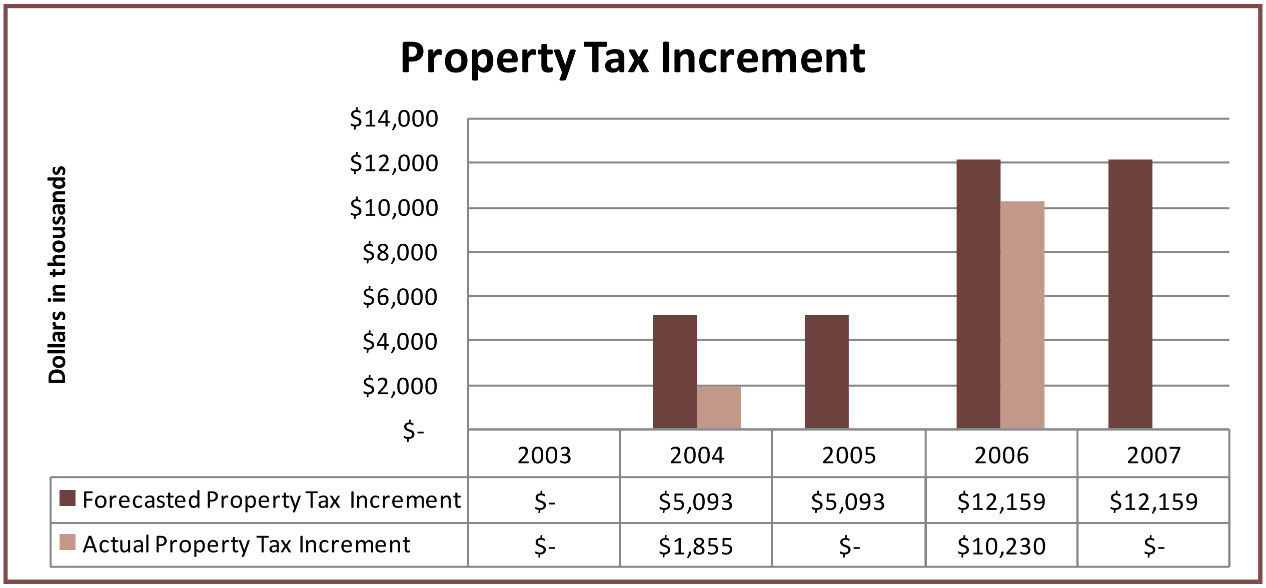
In 2004, LURA received its first property tax increment revenue. With a total assessment value of $24.7 million, $23,060 was due to assessment increments that provide tax increment revenue. In 2004, $1,855 was received by LURA for property taxes. For 2007 the assessed valuation declined by $404,590. Therefore, no property tax increment is anticipated for 2007.

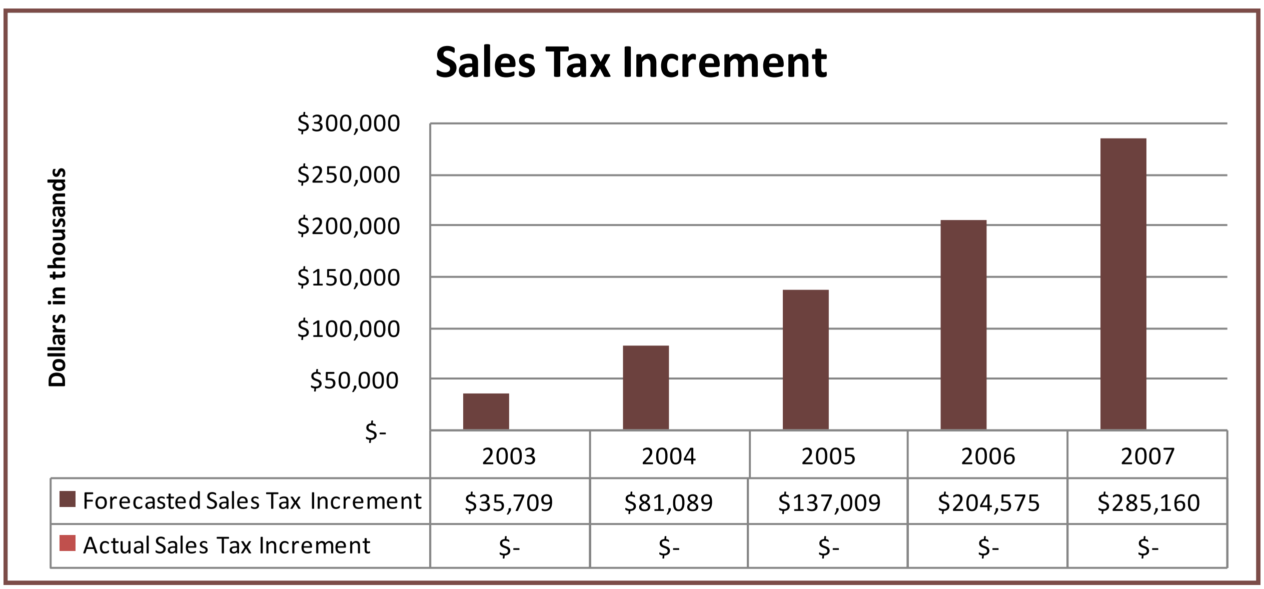
The Downtown Project Area has not yet generated any sales tax increment due to declining sales tax revenue within the project area. At the time LURA was established, annual sales tax within the project area was $1,280,250. All sales tax revenue above this base amount will go to LURA. Due to business closures and relocations and competition for retail sales from other parts of the City, sales tax revenue declined since 2002 and is not projected to exceed the base year in the foreseeable future.

The following charts compare actual collections to the original revenue forecasts made for the Downtown Area Project.

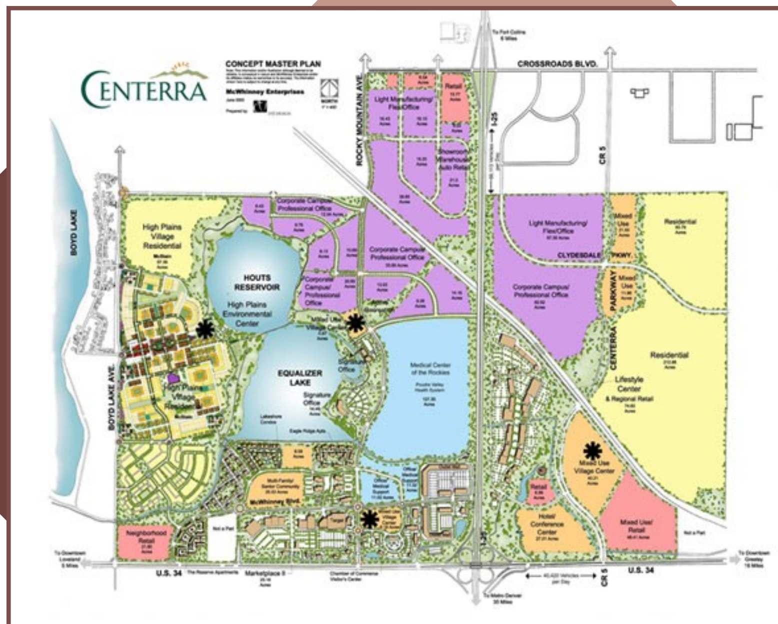
Assessed Property Value & Property Tax Increment *(Source: Larimer County Assessor)*

Project Year Ending	Assessed Property Value Base	Assessed Property Value Increment	Property Tax Increment
Sept. 30, 2002	$ 22,397,280	$ -	$ -
Sept. 30, 2003	$ 22,397,280	$ -	$ -
Sept. 30, 2004	$ 24,743,710	$ 23,060	$ 1,855
Sept. 30, 2005	$ 24,720,710	$ -	$ -
Sept. 30, 2006	$ 26,116,950	$ 127,810	$ 10,230
Sept. 30, 2007	$ 25,712,360	$ -	$ -





Centerra Project
(US 34/Crossroads Corridor Renewal Project)



In January 2004, the LURA approved the second URA. The US 34/Crossroads Corridor Renewal Plan approves property tax increment financing for partial funding of specific public improvements within the Centerra development area and regional improvements adjacent to Centerra. The tax increment will remain in effect for 25 years or until the financing obligations are paid in full - whichever occurs first. The first property tax increment receipts were received in 2006.

Public improvements within the renewal area include:

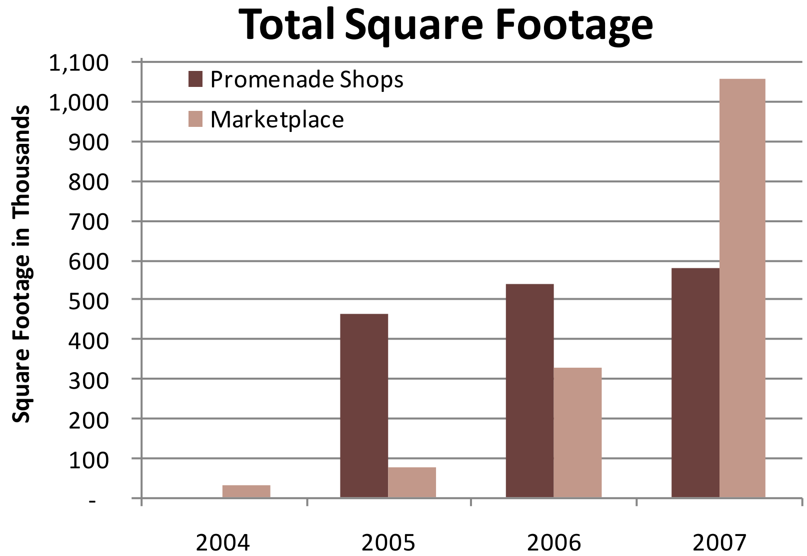
- Roadway and utility infrastructure;
- Railroad crossings; and
- Irrigation ditch relocations; and
- Natural area, open space and public recreational improvements.

Regional public improvements identified:

- I-25 and Crossroads Boulevard interchange improvements;
- Interim I-25 and US 34 interchange improvements;
- County Road 5 and US 34 grade separation structure;
- County Road 3E and US 34 grade separation structure;
- Final I-25 and US 34 interchange improvements; and
- Centerra Parkway / Crossroads extension

The developer obtained the first issuance of bonds and completed the open air lifestyle center called *The Promenade Shops at Centerra*. This regional 680,000 square foot retail center is on the northeast corner of I-25 and US 34. The Promenade Shops at Centerra opened on schedule in late October 2005. In addition to the Promenade Shops, *The Marketplace at Centerra* opened on the northeast corner of I-25 and US 34 in 2004. Both the Promenade Shops and Marketplace have seen exceptional growth over the years. By December 2007, 76 businesses totaling 578,503 square feet were open in the Promenade Shops. Across I-25 to the west, the Marketplace had 45 retailers with 1,059,735 square feet. This chart indicates the constant growth trend in square footage.

Goals & Objectives



- Attract capital investment in the LURA and assist in strengthening the City's sales tax base;
- Address conditions that exist in the area that impair or arrest the sound growth of the municipality and aggravate traffic problems;
- Implement the City Master Plan, other related City plans, and originally the Loveland 2020 Transportation Plan, which has been amended in 2007 becoming the 2030 Transportation Plan attributing the improvements funded by the district to the developer.
- Promote a mixed-use development pattern to serve the community and region, including a balanced mix of employment, retail, and service businesses;
- Contribute to the economic stability of the City;
- Improve pedestrian and vehicular circulation and safety;
- Minimize pedestrian and vehicular conflicts; and
- Encourage new development that is compatible in scale and design with the existing character of the LURA.

Eminent Domain

Acquisition of property by eminent domain is not authorized unless the City Council approves, by majority vote, the use of eminent domain by the Authority after mailing or delivering a notice to the owner of such property of the date and time at which such acquisition will be considered.

Size

The legal description of the property within the US 34/ Crossroads Corridor Renewal Plan estimates the total area to be 1,319 acres, more or less.

Project Term

January 2004 to January 2029.

Redeveloped Use—New Uses

The Centerra project includes several uses: retail shops, motorplex, business park, trails and recreation, and residential. McWhinney, the lead development company on the project, plans to make it the epicenter of northern Colorado. The area is a focal point for a population of over 500,000 today and expected to double within the next 20 years. It is strategically located on I-25 and US 34, two major transportation links in the region. Transportation infrastructure supports growth. The region that will be served by the Centerra Project has above-average personal income when compared to the state, and Colorado ranks eighth in the nation overall. Finally, the region has a highly educated workforce. Colorado ranks fifth in the nation for the percentage of residents with a college education. Northern Colorado is home to five colleges and universities.

Financing

The financing plan for the Centerra project is one of the most ambitious urban renewal plans attempted in Colorado. The project pro forma calls for over $600 million of public and private investments in the area.

There are three major components to the financing plan that will generate revenue for the project.

1. The property tax increment from the LURA is projected to yield $326 million over the 25 year life of the project. Most of the tax increment will come from tax levies by the Thompson School District and Larimer County. According to the financing plan, only $10 million will be from the City's mill levy.
2. The sales tax increment from the project is not pledged to pay for debt service or public improvements. Instead of dedicating a sales tax increment, the City granted a credit against the collection of 1.25% of its sales tax (in effect lowering the rate from 3.00% to 1.75%) for businesses within the Centerra project. In place of the remainder retail sales rate, a 1.25% public improvement fee (PIF) on all retail sales is generated. The PIF is expected to generate $123 million over the 25 year life of the project.
3. In additional to the urban renewal financing tool, the developers of the Centerra project have formed metropolitan districts to provide certain public service improvements to the area. Metropolitan districts are quasi-governmental entities that can impose a property tax. The commercial areas within the area will have an additional mill levy of at least 35 mills. The mill levy is intended to cover projected capital, operating and maintenance costs within the boundaries. The commercial mill levies are projected to raise $173 million for repayment on bonds used to fund improvements.

The financing plan includes a private retail sales fee of 1% on all retail sales made in the project. Over the life of the project, the retail sales fee is expected to raise $97 million.

Economic Impacts

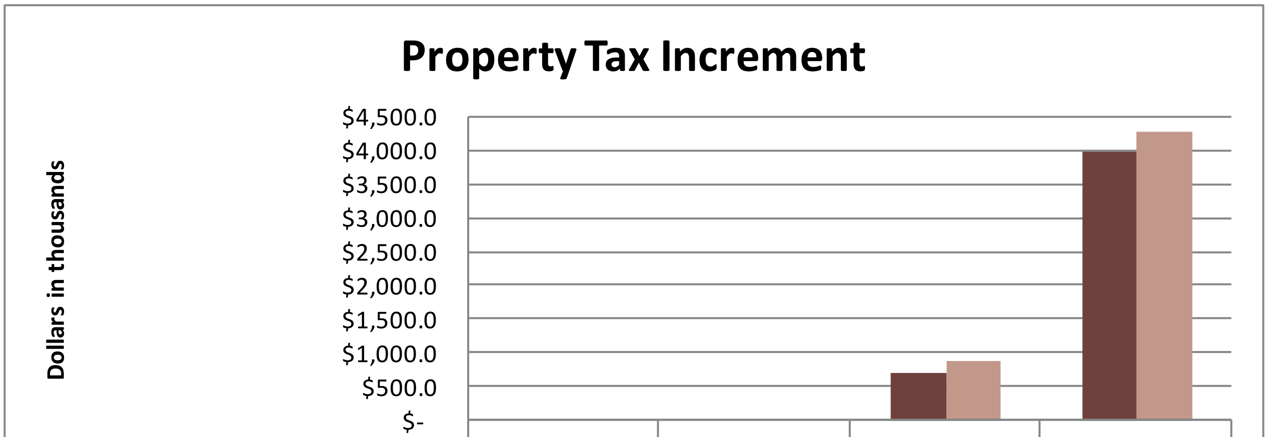
The Centerra project provides a wide variety of opportunities for employment centers.

Seventy percent of the available land will be used for employment. It is estimated that this project will create 18,000 jobs excluding retail. The lifestyle center itself plans to create 1,750 to 2,000 jobs.

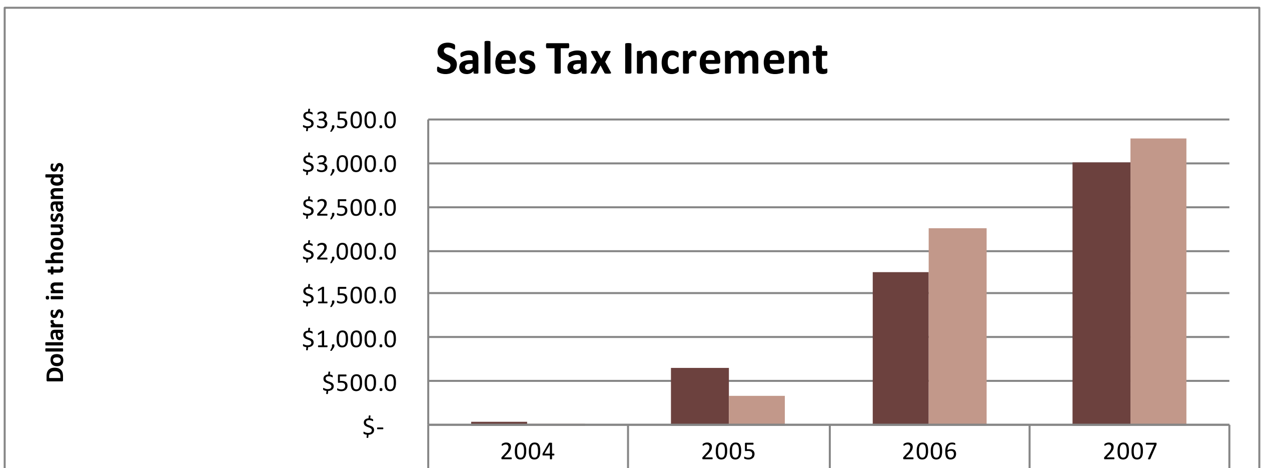
Assessed Property Value & Property Tax Increment

The Larimer County Assessor's Office valued the property within the

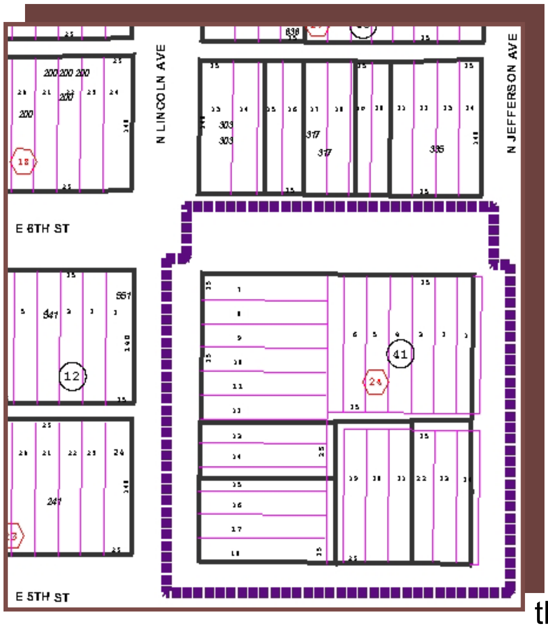
District at approximately $369,700 in the base year which was primarily the value of the land on which the project is being developed. For tax increment to be received in 2007, the valuation base is $38,948,290. This should generate about $4.4 million in tax increment. The most recent valuation (December 2007) indicates that the property is now valued at $71,172,490, 55% higher than 2006. Based on the valuation, the urban renewal project will see a substantial revenue increase in the forthcoming years. The Promenade Shops at Centerra opened in October 2005 and while 2004 sales taxes lagged expectations, the retail component has been on track with increasing projections for 2005 and beyond. The below charts illustrate actual revenues received for both the property and sales tax increments with the revised forecasted increment.



	2004	2005	2006	2007
Forecasted Property Tax Increment	$-	$-	$707.0	$3,964.8
Actual Property Tax Increment	$-	$-	$888.5	$4,273.8



	2004	2005	2006	2007
Forecasted Sales Tax Increment	$56.7	$648.1	$1,746.7	$3,010.3
Actual Sales Tax Increment	$12.6	$333.4	$2,249.1	$3,265.6



Lincoln Place Project, Adopted as Block 41 (Finley's Addition)

The most recent project area established is in downtown Loveland. Lincoln Place is a one square block area that was originally included in the Urban Renewal Area for Downtown. Lincoln Place provides residential apartments, retail shopping and private parking on what is locally known as the "Walgreen's" block. This project was approved in April 2005, and substantially completed by the end of 2006. The leasing office opened December 22, 2006. The developer requested modifications to the project scope and the LURA Board approved the changes. The new agreement eliminated the public parking structure from the project, substantially reducing the financing plan. The agreement calls for the developer to receive property tax increment for certain public improvements to be capped at $917,456. The repayment period is limited to eight years.

Goals & Objectives

- Eliminate and prevent conditions of blight which constitute economic and social liabilities to the community;
- Prevent further physical and economic deterioration of the Plan Area;
- Attract capital investment in the Loveland downtown, and to assist in the retention and expansion of existing businesses, thus strengthening the City's economic base;
- Create a stable tax base;
- Facilitate the development of mixed use projects in the Loveland downtown area; and
- Become a catalyst for further investment in the downtown area.

Eminent Domain

The Authority is not authorized to use the power of eminent domain to acquire property.

Size

One downtown Loveland city block bounded by Lincoln Avenue on the West, 6th Street on the North, Jefferson Avenue on the East and 5th Avenue on the South. Total land area in the project is approximately 2.15 acres.

Project Term

April 1, 2005 through September 30, 2027.

Redeveloped Use—New Uses

As contemplated, the project includes 22,000 square feet of specialty retail and restaurant businesses in addition to approximately 200 multi-family residences. The east side of the structure contains a 290-space private parking structure.

Financing

According to the currently approved Master Financing Agreement for the project, only the property tax increment will accrue to the project and be used to pay debt service. The original *pro forma* for the project anticipated approximately $5.4 million of property tax increment between now and 2027.

In February of 2007, Resolution R-15-2007 authorized the dissolution of the Lincoln Place Metropolitan District therefore eliminating the previously contemplated 25 mills.

Economic Impacts

The Lincoln Place project is a catalyst project. The revitalization of this downtown city block is predicted to encourage more retail shopping experiences in downtown. Additional residential units and retail developments are predicted to emerge.

Assessed Property Value & Property Tax Increment

For property tax increment proposes, the base year assessed value was set at $166,750 in 2005.

Approximately $76,000 of property tax increment is anticipated in 2008. *Source—Larimer County Assessor's Office records*

Section 2: Internal Auditor's Report

Transmittal Letter

July 1, 2008

Mr. Don Williams, City Manager
City of Loveland
Loveland, CO

Dear Mr. Williams:

Attached is the Internal Audit Division's report on the contract compliance audit of the Urban Renewal Authority including Centerra Metropolitan District No. 1, with regards to the financing agreements between the City of Loveland. The audit period was for January 1, 2007 to December 31, 2007. The purpose of this annual audit is to determine whether the metropolitan districts complied with the administrative conditions regarding expenses, contracts, revenue collections, and reporting as required in the financing agreements.

We found no instances of non-compliance. If you have any questions, please contact me at 970-962-2313.

Sincerely,

Bonnie J. Steele
Bonnie J. Steele, MBA
Internal Auditor, Internal Audit Division

Auditor's Report

July 1, 2008

INTERNAL AUDITOR'S REPORT

We have completed a contract compliance audit of the Master Financing Agreement between the City of Loveland and Centerra Metropolitan District No. 1. The objective of this audit was to determine if the Metropolitan District properly complied with the terms of the financing agreement.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounting records relating to the financing agreement are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the activity of the Districts.

Our conclusion from the audit was Centerra Metropolitan District No. 1 complied with the Financing Agreement.

We extend our appreciation to all personnel who assisted and cooperated with us during the audit.

Bonnie J. Steele
Bonnie J. Steele, MBA
Internal Auditor, Internal Audit Division

LOVELAND URBAN RENEWAL AUTHORITY
BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY
FOR THE PERIOD OF JANUARY THROUGH DECEMBER, 2007

Background

The Loveland Urban Renewal Authority (LURA) was established by the City Council in July 2002. LURA is responsible for conducting urban revitalization activities in designated project areas and is charged with rehabilitating blighted areas. The LURA has three project areas to date: Downtown Loveland, US 34/Crossroads Corridor and Block 41-Finley's Addition.

The Downtown Loveland project does not have an active agreement which stipulates conditions required for financing.

The Centerra Metropolitan District No. 1 was established to manage funds associated with US 34/ Crossroads Corridor. The purpose of the District is to acquire and construct local and regional improvements that qualify as metropolitan district improvements. These improvements will be financed through bonds and developer advances. The City of Loveland agreed to a sales tax collection credit (PIF) of 1.25% to the developer at Centerra, so long as the District Mill Levy is greater than 35 mills. The 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC). The City also granted certain credits and deferrals for development fees. According to the Financing Agreement, the Developer received a credit of $423,600 for Water System Impact Fee and $7,374,800 for Street Capital Expansion Fee.

The Lincoln Place Metropolitan District established for the project Block 41-Finley's Addition on April 26, 2005. The district was dissolved on February 20, 2007. Compliance review did not occur due to the dissolution of the district.

During the time period under audit, the Downtown Loveland project did not incur activities that require compliance according to the Master Financing Agreements.

Scope

Our audit of the Centerra Metropolitan District No 1 was for the period January 1, 2007 to December 31, 2007. The scope of our audit was limited to determining compliance with the contracts between the City and Centerra Metropolitan District No. 1.

Objective

The objective of our audit was to determine if Centerra Metropolitan District No. 1 complied with the administrative requirement for revenue collections, distribution of funds, contract negotiations, payment of appropriate taxes and fees, and adequate accounting records and reports in accordance with the financing agreements.

Methodology

To meet the audit objective the following evidence gathering and analytical approaches were used including, but not limited to:

- Interviews with City and District staff
- Traced contracts through awarding process
- Traced projects through notification process
- Vouched disbursements to appropriate documentation
- Review of financial statements

Section 3: Expectations & Performance

The Downtown Project

The Downtown Project does not have an active financing agreement. As of December 31, 2007, the project has collected a small amount of tax increment financing which is held in a cash account. No expenditures have occurred during the time of review.

Lincoln Place Project

Early in 2007, the developer of the project requested major modifications to the agreement with the City and the Urban Renewal Authority. Council and the URA Board authorized the changes and allowed the developer to dissolve the metro district associated with the project.

Centerra Project (As of December 31, 2007)

Performance Requirements	Performance Results
A Public Improvement Fee of 1.25% of sales is collected to the developer at Centerra, so long as the 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC).	√ For 2007 PIF collections were approximately $2,352,672 per the City of Loveland Finance Department. The mill levy remained at 35 mills per the Larimer County Assessor.
PIF shall be distributed as follows: a. Administrative expenses. b. District debt. c. Debt service district reserve. d. Constructor and/or Development Fees for expenses that qualify as local and / or regional improvements. e. SID Debt incurred after 2003. f. Centerra Public Improvement Collection Corporation (PIC) Reserve Fund, not to exceed $1 million. g. Remaining funds disbursed to the Service District.	√ (a) For 2007, $40,000 of administrative expenses were paid from PIF funds. √ (b) Payments on District debt began in 2007; total payments for 2007 was $3,457,996 √ (c) District reserved $4.1 million from bond proceeds. √ (d-f) At this time the PIC has not spent, nor required to spend funds for construction or development fees on regional improvements, SID Debt or PIC reserve. One regional improvement has been completed and two regional improvements have been designed. √ (g) The District disbursed funds in 2007 to the Service District in the amount of $454,250 of which $414,250 was transferred back to the District. The difference, $40,000, was administrative expenses at the PIC level.
Construction contracts after January 20, 2004, shall comply with the procurement policy, except the general contractor. This includes but is not limited to: • Invitation for bids published 14 days prior to bid date and published in 4 local newspapers; • Bids are open to the public; • Awarded contract shall be notified within a reasonable promptness by written notice; • Contract shall be awarded to the *lowest responsible bidder*; and • The bids are properly prepared with applicable information.	√ During 2007, District funds were limited, therefore the Developer issued one Local Improvement contract in which the District will acquire in 2008. The audit revealed that the contract requirements complied with the terms of the Master Financing Agreement. No exceptions were noted.

All development fees and use tax not specifically deferred or credited will be paid by the contractor.	√ Based on records provided by the Accounting Division, the use tax and fees liabilities are current. On going use tax audits are conducted by City auditors on retail businesses in the Centerra project.
Construction request for payment must include: • Itemized statement of costs and expenses; • Signed certificate from President affirming statement is correct; and • Documentation of reimbursable expenses.	√ A random sample of 45 accounts payable checks revealed no material exceptions. Each transaction tested had an itemized statement of costs and expenses, the construction requests were signed by the President or representative of the company to state the request was accurate and correct. Reimbursable expenses were documented in detail.
Contractors must maintain proper books and account for costs, expenses, development fees, and be available for inspection for the next 7 years.	√ A random sample of 5 projects (50% of the total population) was reviewed. Each project included accurate records of costs and expenses. There were no development fees with these 5 projects. These project files contained all the necessary information and no exceptions were noted.
Annual audit shall be performed and a copy provided to the City within 30 days after the annual audit is accepted by the District board.	√ The audit report as been issued with an unqualified opinion and was received by the City in July 2008.
Regional improvements must be approved by the City Manager, required to be constructed by CDOT, the IGA, or the City as a precondition of construction.	√ Centerra Parkway North was extended from the Union Pacific Railroad to Crossroads. The District did not fund this project because available funds (subject to the limit) had been used. The I-25/34 ($776,067) and Crossroads ($503,161) projects were paid from metro district funds.
Annually on June 30th, after the First District Debt and Second District Debt payments are made, the payment for the Regional Allocation is made to the LURA.	√ The first Regional Allocation is expected to be funded in the year 2013 per the project's finance plan, once the supplemental debt reserve is funded to $18 million by net annual revenues; to date the debt reserve has not been funded.
The District shall submit an annual report to the City no later than March 1st of each year of existence.	√ The annual report for the district was received by the City in June 30, 2008.

Section 4: Financial Statements

Financial Statements Overview

The LURA is considered for accounting purposes to be a component unit of the City of Loveland financial statements and Comprehensive Annual Financial Report (CAFR). The last complete year for financial reporting purposes is 2007 and the statements below reflect that fiscal year.

For the 2007 fiscal year, the Finance Department expects that the required annual reports from the metropolitan districts will be completed by the statutory deadline of June 30, 2008. The Finance Department anticipates that this report will be updated by August of each year and forwarded to the City Council in its role as the Board of Directors for the LURA. As each of the projects mature, it is expected that there will be considerably more information to include in the financial statements.

Combined Financial Statement for All Project Areas

Loveland Urban Renewal Authority

Balance Sheet
December 31, 2007

	Project Areas			
	Downtown	Centerra	Lincoln Place	Total
ASSETS				
Cash and Investments	-	630,587	7,758	638,345
Taxes Receivable	-	5,367,049	-	5,367,049
Due From Other Funds	155,000	-	-	155,000
	155,000	5,997,636	7,758	6,160,394
LIABILITIES				
Accrued Expenses	-	513,811	-	513,811
Deferred Revenue	-	5,367,049	-	5,367,049
	-	5,880,860	-	5,880,860
FUND BALANCE				
Unreserved	155,000	116,775	7,758	279,533
TOTAL LIABILITIES AND FUND BALANCE	$ 155,000	$ 5,997,636	$ 7,758	$ 6,160,394

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Loveland Urban Renewal Authority (LURA) was created in 2002 by the City of Loveland (the "City") pursuant to the Urban Renewal Law of the State of Colorado. LURA was created for the development, redevelopment and rehabilitation of identified blighted areas within the City. The Loveland City Council serves are the governing board of LURA.

Since 2002, the City Council has established three urban renewal areas. Downtown Loveland was the original focus of LURA and the location of its first project area. Since that first project

Loveland Urban Renewal Authority

Statement of Revenues, Expenditures And Changes in Fund Balance
Year Ended December 31, 2007

	Project Areas			
	Downtown	Centerra	Lincoln Place	Total
REVENUES				
Property Tax Increment	$ -	$ 4,273,786	$ 7,758	$ 4,281,543
Intergovernmental	155,000	-	-	155,000
Investment Income	-	34,741	-	34,741
TOTAL REVENUES	155,000	4,308,527	7,758	4,471,284
EXPENDITURES				
TIF Distributions	-	3,834,540	-	3,834,540
R2J Override	-	423,924	-	423,924
	-	4,258,464	-	4,258,464
EXCESS OF REVENUES OVER EXPENDITURES	155,000	50,063	7,758	212,820
FUND BALANCES				
Beginning	11,584	55,128	-	66,712
Ending	$ 166,584	$ 105,191	$ 7,758	$ 279,532

The accompanying notes are an integral part of the financial statements.

area in 2002, LURA has added two additional project areas – one at the City's eastern boundary (U.S. 34/Crossroads Boulevard Corridor, aka Centerra) and a second downtown area (Lincoln Place). The 25-year urban renewal plans intend to enhance, redevelop and revitalize these areas.

The accounting policies of LURA conform to generally accepted accounting principles as applicable to governments. However, to date, LURA has had minimal financial transactions. Therefore, some of the financial statements and related data normally included in a governmental financial report are not meaningful at this time. The following is a summary of the more significant policies.

Reporting Entity
In accordance with governmental accounting standards, LURA has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. LURA is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if the Authority officials appoint a voting majority of the organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on LURA. LURA may also be financially accountable for organizations that are fiscally dependent upon it.

Based on the application of the above criteria, LURA does not include additional organizations in its reporting entity. For financial reporting purposes, LURA is a component unit of the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, LURA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. Expenditures generally are recorded when a liability is incurred.

Cash and Investments
LURA's cash and investments are pooled with those of the City. Investments are recorded at fair value. Because the investments are part of a pool, the underlying securities cannot be determined.

Incremental Taxes
As allowed by State statute, LURA will receives revenue from incremental sales and property taxes that are collected from the designated geographical areas as defined in the urban renewal plans for the Downtown and Lincoln Place project areas and incremental property taxes from the designated geographical area as defined in the Centerra project area. Incremental sales taxes represent the increase in municipal sales taxes collected within the same area for each twelve-month period beginning on the date the urban renewal plan is approved. Property tax revenue is earned from the geographical areas based upon the increase in assessed valuation of taxable property within the area. Sales taxes are collected by the City and remitted to LURA.

Property Taxes
Property taxes attach as an enforceable lien on property on January 1 are levied on November 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. Property taxes will be collected by the Larimer County Treasurer and remitted to LURA on a monthly basis.

Note 2: Commitments and Contingencies

Economic Development Agreements
Once tax increment revenues become available for the Centerra and Lincoln Place project areas, LURA has agreed to remit the related revenues to organizations formed to construct improvements within the projects areas. Incremental property taxes generated from the Centerra area will be remitted to the Centerra Metropolitan District No 1. Incremental property taxes within the Lincoln Place project area will be remitted to the developer.

Tabor Amendment
In November, 1992, Colorado voters passed Article X, Section 20 to the State Constitution, known as the Tabor Amendment, which limits government tax powers and imposes spending limits. LURA is not subject to the Tabor Amendment. See: Marian L. Olson v. City of Golden, et. al. 53 P.3d 747 (Co App.), certiorari denied.

Information provided by:

City of Loveland, Finance Department
Bonnie Steele, Internal Auditor
Dawn Wirth, Business Services Coordinator

A vibrant community...
Surrounded by natural beauty
Where you belong.

CITY OF LOVELAND, COLORADO

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City of Loveland