City of Loveland

2006 Financial Master Plan

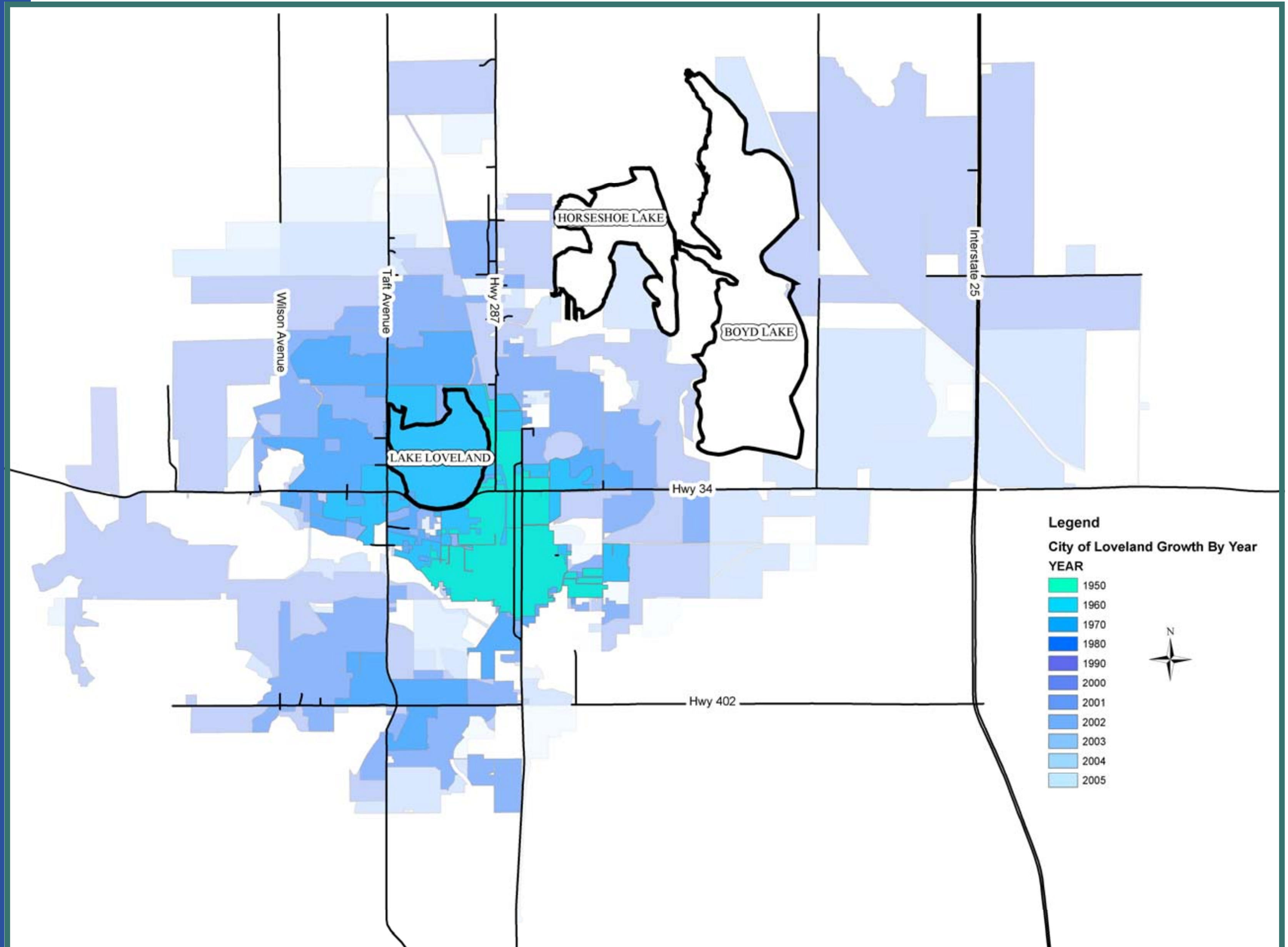
Demographic Trivia

There are approximately ***2,000 new residents*** moving to Loveland every year.

The City limits encompasses over ***30 square miles***.

Average single family home in Loveland costs ***$249,000***.

City of Loveland's Annual Growth by Annexation



Loveland's current population ≈ 61,871

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Recommendations & Executive Summary

From the Desk of the Director

The Finance Department is pleased to present the first edition of Loveland's "Financial Master Plan" (FMP). The Plan cycles through a period of 16 years; moving from a historical account of the last 5 years of financial activity up through the current year, then a detailed forecast of the ensuing budget year plus the 2nd through the 5th year, and finally ending with a "bullet-point" discussion of the outlying 6th through the 10th year. The Plan is a follow-up to the issues I highlighted in the Finance department "White Paper" which was presented to Council and discussed at the January 2005 retreat.

The Plan is as follow-up to the "White Paper" presented to Council at the January 2005 retreat.

Each year staff puts a great deal of time into the preparation of the annual budget, which is then presented to Council for review and approval. The financial posture of the "base" budget, as-well-as specific elements in the revenue and expense categories are evaluated by Council along with the recommended requests for supplemental funding for "new" operating and capital costs. It is common practice for the total of all supplemental requests to far exceed the availability of funds each year, so management must sort the list and align the supplements with Council's priorities for service provision and then integrate them into the proposed budget for the ensuing year. The "initial" cost of a supplement is routinely discussed in the context of a "single" year as the proposed budget continues through the annual appropriation process. The following year the prior year supplements are incorporated into the now "enhanced" base and the process starts over again with a new list of requests for budget supplements.

Cost of a supplement is discussed in context of a "single" year.

In the early 80's, prior Councils had the insight to develop policies that were used to measure the impact of growth on our community's infrastructure. Accordingly they adopted a schedule of "impact" fees to be assessed on new development that would off-set the financial encumbrance of growth as it pertained to system capacity and infrastructure. The philosophy of asking "Growth to Pay its Own Way" in terms of setting aside the funding it requires to build infrastructure to assure that adequate facilities will always be in place to guarantee system capacities has worked very well. The other side of the equation is the annual operating revenue that the City must produce to operate and maintain the additional infrastructure, and to maintain services at an opportune level as the population increases. Over the last 12 to 15 years Loveland has had the good fortune, again due to the insight or our Council(s), to have experienced a strong local economy with balanced growth in all sectors. Our revenue growth has been very strong since the early 90's, however the impacts of the Taxpayer's Bill of Rights (TABOR) which was adopted by the voters in 1993 does have an impact on our ability to "fully" utilize the additional revenue. In 3 separate elections, the voters have been very supportive of the City's ability to be a good steward of the additional revenue and they have allowed us to retain and utilize these funds for specific purposes. Traditionally, the use of the TABOR reserves has been for "one-time" expenditures and we have not come to rely on these funds for "on-going" operating costs.

Last 12—15 years, Loveland has had good fortune...

Compared to other Colorado communities Loveland is presently in a very unique financial position. Beginning in 2006, we will experience dramatic growth in our tax revenues for the ensuing 5 years as we commence to prosper from investments in economic development opportunities that were made in previous years. As-good-as this news seems to be, it will also present some financial planning challenges as we move forward. A substantial portion of the new revenue must be set aside in the TABOR reserve which has restricted uses; and 5% of all tax revenue under the "TABOR cap" has to be set aside in a Capital Reserve. The City is faced with the challenge of adding staff and equipment to provide service to the new areas of the city which generate the additional revenue, but does not have the ability to utilize all of new revenue to do this. The current 10 year TABOR exemption has a fairly broad cross-section of allowed uses, so the funding source for certain existing operating expenses can be reallocated to the TABOR reserve which makes revenues under the TABOR cap available for other uses. This strategy was utilized in the preparation of the proposed 2006 budget to accommodate approximately $1 million dollars in supplemental operating requests for the ensuing year, and $0.6 million in capital requests. The caution in this strategy is to not become overly reliant on TABOR funds for operating costs in future years because our ability to retain the additional revenues could again be changed by the community. As applied to the 2006 budget proposal, the Financial Master Plan shows that the reliance on TABOR reserves for operating dollars is programmed to decline over a 3 year period, providing however that new operating supplements do not exceed $1 million per year over that period of time.

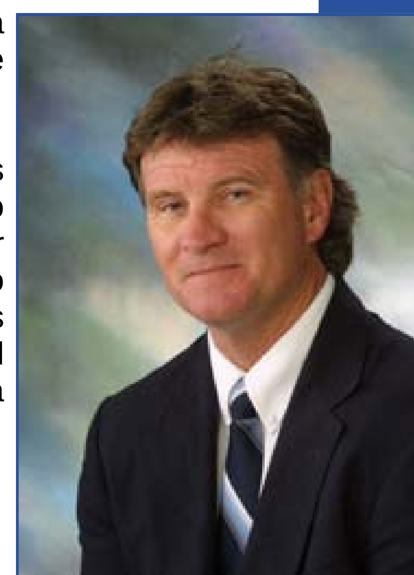
The City is faced with the challenge of adding staff and equipment to provide service to the new areas of the City.

These new areas will generate new revenue but the City does not have the ability to utilize all of the new revenue.

As discussed in the previous paragraph the long-range plan shows substantial growth in our resources over the next few years and it is imperative that we formulate a solid financial plan for the future. The financial impacts of annual supplements should be evaluated over a period of time, rather than just on a single year; and current year commitments should be examined to see if their approval would have a negative impact on a different element of the budget in a future year with a higher priority due to the multiplier affect. Deciphering the difference between growth related costs and service enhancements are very important and this again ties back to the performance indicators and the future cost of providing the desired level of service in any one area. Identifying the costs of the revisions (along with some of the original costs) in the Comprehensive Master Plan and of the implementation of those revisions in the individual departmental master plans is very important, as-is incorporating the potential impacts of growth if it should become imbalanced between residential and non-residential development. Going forward the Financial Master Plan should function as a planning tool and become the litmus test for decisions relevant to the delivery of service and investment in infrastructure, rather than simply as a "guide" to scan the horizon.

The Financial Master Plan shows substantial growth in resources over the next few years; and it is imperative that the City formulate a solid financial plan for the future.

The new Financial Master Plan is the result of the extraordinary efforts of many members of the Finance Department who have worked very hard in gathering the information to assemble this document; and they have done this in addition to keeping up with their regular duties. Our goal is to update the document on a semi-annual basis and to continually look for ways to improve it by openly welcoming the comments and suggestions of city staff, Council, and the community. We hope you enjoy reading the information and that you find the data practical and useful, and that you will be able to utilize it as a resource for making decisions on an on-going basis. Thank you.



Mike Hart
Deputy City Manager/Finance Director

The FMP is organized into: an Executive Summary, seven specific sections, and a glossary of terms that are used in this document, annual budget, and in other financial reports. Below, we provide a brief summary of each section.

Introduction and Overview

This section introduces the financial planning process and the purpose of this document. There are five basic recurring steps in the master planning cycle:

1) Measure where we are now,
2) Monitor results of our efforts,
3) Implement solutions,
4) Develop the plan and identify solutions, and
5) Assess risk and opportunity.

A growing city is similar to a growing household, so we have used this analogy to highlight the financial impacts of growth on our community.

The overview touches lightly on capital expense considerations how we developed the plan.

The plan covers sixteen years: five of historical costs, the current year, the next five years forecast, and five additional outlying years at a summary level.

Since the City is a service organization, it provides most services through its employees. Personnel costs are a significant part of our budget and are somewhat fixed in relation to the provision of adequate levels of service for the community.

Finally, we discuss the relationship between capital projects and operating expenses. The addition of new infrastructure and equipment, as well as the planned replacement of existing assets is also impacted by the growth of the community.

City's Snapshot

The Snapshot focuses on current financial data, primarily from 2004 and 2005, and highlights the success of recent investments in economic development.

The City of Loveland is fortunate in that it has had strong economic conditions in recent years. Our population is growing and becoming more diverse and we have experienced an increase in family's with children, as well as an above average increase in retirees.

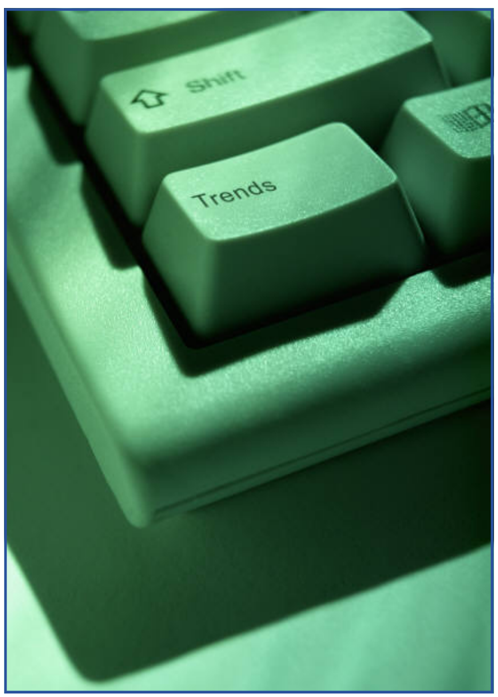
A stronger retail base is not only keeping more of our citizens retail dollars in Loveland, but it is attracting retail dollars from other communities. In essence, growth is generating the additional operating revenue needed to provide services to a growing community.

Despite our recent success, we need to remember that competition for sales tax in strong in the region and across the state. Other cities are also forced to compete for market share in Northern Colorado, and Fort Collins, Greeley, Windsor, Longmont, and Johnstown will try to emulate Loveland's success.

Policies and Direction

This section briefly summarizes the financial policies of the City and explains how they help guide the financial decision making process. We also discuss the importance of Economic Development because a strong economy helps fund the services that the community desires.

Services are provided through the City's Departments. Most departments have developed master plans as guides to address future service delivery expectations. Within these plans, the Departments have identified projects that will be needed to maintain "adequate community facilities." They also identify prospective funding methods and techniques, but do not guarantee future City funding support. Commitments for funding come primarily through the annual budget process and approval of capital project which may span several years. The Departmental plans are very important, but they must be coordinated through the budget process. This Financial Master Plan is intended to augment the budget process, providing greater vision into the future.



Direction from Council also comes from the annual retreat usually held in the early part of each fiscal year.

Five-Year Trends - History

The last five years for Loveland shows strong growth in most categories. Population has grown by over 20% and total spending is up by over 50%. In many Departments, the City is catching up to demands from prior years.

From the 2000 actual results to the 2005 revised budget, General Fund revenues show a growth rate of 45%. During this period, the population in Loveland grew by about 20% and inflation accounts for another 10%. The remaining increase in revenues corresponds to real growth in property values and the retail sales base and the adoption of the streets maintenance fee. On the expenditure side, the major factors were the enhanced service levels for street maintenance, a top priority for the Council, and the opening of two new fire stations needed to serve our growing community. The new Police and Courts facility, a joint project with Larimer County, also came on line in this five-year time-frame.

Council directed that Transportation improvements would be a top priority and they have been.

Within the past five years, two new fire stations have come on line, supporting the need to provide fire prevention and protection to our growing community.

The new Police and Courts building, shared with Larimer County, also came on line in this time-frame.

In addition to adding staff and facilities to maintain existing service levels, our Community's interest and desires are becoming more diverse and enhanced levels of service are being added. For example, 20 years ago, parks planners would focus on ball fields. Today, they have added open space, bike trail networks, and skateboard parks to their list of responsibilities. As our population grows, our residents desire more forms of entertainment.

Five-Year Projections – 2006 Budget plus 2007-2010

This section of the Plan is the critical piece. Council will be making decisions about the levels of funding for 2006 in the next few weeks. This section also provides a look at the next four years. The outlook is based on the ten-year budget requests made by Departments earlier this year for General Fund spending. The Departmental requests far outstrip the projections of available resources.

Operating expenses over the next five years are projected to increase very conservatively between 5-7% per year. These projections provide for the operating cost of new infrastructure. A total of $1.5 million in expenses in built into the next five years for operating cost associated with the Youth Sports Complex, Chilson Recreation Center Expansion, Service Center, Mehaffey Park, and Kroh Park Expansion.

Approximately $22 million in TABOR reserves are projected to be used for street construction, operations of parks and street maintenance, the purchase of new fire and street equipment, and the addition of public safety employees over the next five years. The Council reserve currently has no expenditures projected for the following five years, only accumulation of funds.

Five-Year Capital Plan – 2006 to 2010

In the 2006 recommended budget, total City capital project expenditures are programmed to be $44.4 million These expenditures include $13.5 million in the General Fund, $13.1 million in the Special Revenue funds, and $17.8 million in the enterprise funds. When transfers are excluded to avoid double-counting, the net capital expenditures total $35.6

million. This is still a significant level of investment in our community.
Over the five-year period of 2006-2010, the total capital expenditures are projected to be $216.7 million with $24.4 million of transfers for net expenditures of $192.3 million. Approximately $108 million will be in Enterprise Funds: Water, Wastewater, Power, Storm Water, and Golf.

Over the five-year period, capital project expenditures from the Capital Expansion Fee revenues account for the largest share of total expenditures - $61.5 million. General Fund capital expenditures are next at $47.3 million, followed by the Water, Power, and Wastewater utilities at $36.4 million, $35.7 million, and $21.2 million respectively.

This is what is projected, in terms of investments in capital projects, to meet the needs of our growing community. Along with the cost of the projects, the City will plan for increased operating and maintenance costs.

Additional Out Years – 2011 to 2015

As part of the 2006 budget process, the departments provided the Budget Division with 10-year forecasts for spending through 2015. Over $30 million in today's dollars in new programs or projects and 142 new employees needing General Fund revenue sources were included in the requests. Many of these funding requests are included in the 2006 to 2015 Financial Master Plan, but many of them remain unfunded at the current time.

These are also some major elements of the planning process that are not identified in the Financial Master Plan at the current time and are costs that will be in addition to the program. Some examples are: the cost of implementing the revisions to the Comprehensive Master Plan; the Facilities Master Plan, the public transportation program (COLT); revitalization of the Old Fairgrounds; or a number of other community issues that have not been discussed in detail as of yet.

The chart to the left is a past, present, and future look at revenues, expenses, and reserves for the City of Loveland.

Consistent growth is property tax, with variations corresponding with the assessment cycle.

Finance Master Plan General Fund Revenue & Expenses	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Forecast
Note - all numbers in $1,000's						
Beginning Fund Balance	$9,975	$9,496	$10,929	$13,222	$15,998	15,581
REVENUES						
Property Tax	3,947	4,230	5,014	5,377	5,683	5,898
Sales and Use Taxes	22,344	24,448	25,882	26,836	28,668	31,464
Interfund Transfers	2,239	2,246	2,427	2,649	2,888	3,094
Other Revenue	10,058	12,332	11,773	11,842	14,532	15,516
TOTAL REVENUE	38,588	43,257	45,096	46,704	51,770	55,972
EXPENSES						
Legislative	69	77	93	95	86	104
Executive & Legal	1,084	1,090	1,111	1,244	1,402	2,600
Cultural Services	755	832	901	935	968	1,064
Development Services	2,461	2,161	2,590	2,360	2,940	1,889
Finance	109	279	343	355	374	517
Fire & Rescue	3,857	4,297	4,673	5,072	5,771	6,432
Parks & Recreation	4,254	4,760	5,042	5,167	5,338	5,920
Police	9,025	9,634	10,631	10,863	11,590	12,557
Public Works	4,228	5,818	6,145	6,458	6,989	7,724
Non-Departmental	6,384	9,509	8,041	8,103	8,414	9,174
Other	-	-	152	292	128	1,734
TOTAL APPROPRIATIONS	32,225	38,457	39,722	40,943	43,999	49,715
NET OPERATING REVENUE (LOSS)	6,363	4,800	5,374	5,762	7,771	6,257
TOTAL CAPITAL EXPENDITURES	6,843	3,366	3,082	2,986	8,188	8,041
NET CHANGE IN FUND BALANCE	-480	1,434	2,292	2,776	-417	-1,784
RESERVES						
Tabor Reserves	5,973	4,019	5,229	4,170	4,678	5,164
Council Capital Reserves	1,110	2,238	3,774	5,433	4,061	3,833
Other Reserves	1,228	1,138	1,693	2,031	1,800	1,950
Unreserved:						
Designated for Economic Uncertainty	1,184	2,595	2,526	2,802	3,106	2,850
Remaining Unreserved Balance	-	939	-	1,563	1,935	-
ENDING FUND BALANCE	9,496	10,929	13,222	15,998	15,581	13,797

2006 Projected	2007 Projected	2008 Projected	2009 Projected	2010 Projected	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected
13,797	16,715	21,035	26,475	31,824	37,785	43,544	49,240	54,707	60,187
6,252	6,615	7,514	7,950	9,031	9,555	10,855	11,484	13,046	13,803
34,021	37,374	39,918	41,909	44,516	46,911	49,147	51,552	53,781	55,295
3,327	3,437	3,564	3,692	3,807	3,938	4,061	4,188	4,331	4,461
15,348	16,064	16,956	17,386	18,055	18,628	19,251	19,909	20,561	21,260
58,948	63,489	67,953	70,936	75,409	79,033	83,313	87,133	91,719	94,819
119	128	129	129	129	129	129	129	129	129
2,330	2,435	2,545	2,659	2,779	2,904	3,035	3,171	3,314	3,463
1,055	1,103	1,152	1,204	1,258	1,315	1,374	1,436	1,500	1,568
2,142	2,238	2,339	2,444	2,554	2,669	2,789	2,915	3,046	3,183
712	744	777	812	849	887	927	968	1,012	1,058
7,141	7,462	7,798	8,149	8,516	8,899	9,299	9,718	10,155	10,612
6,526	6,820	7,127	7,447	7,782	8,133	8,499	8,881	9,281	9,698
13,190	13,784	14,404	15,052	15,729	16,437	17,177	17,950	18,757	19,602
7,889	8,244	8,615	9,003	9,408	9,831	10,274	10,736	11,219	11,724
9,513	9,941	10,388	10,855	11,344	11,854	12,388	12,945	13,528	14,137
550	1,649	2,395	3,487	4,628	5,821	7,067	8,369	9,730	11,152
51,166	54,547	57,669	61,242	64,977	68,879	72,957	77,218	81,672	86,325
7,782	8,942	10,284	9,694	10,432	10,154	10,356	9,915	10,047	8,494
4,864	4,622	4,844	4,345	4,471	4,395	4,660	4,448	4,567	4,632
2,918	4,320	5,440	5,349	5,961	5,758	5,696	5,467	5,480	3,862
5,618	7,449	10,125	13,094	16,109	18,057	19,362	20,822	21,457	22,655
5,517	7,392	9,393	11,573	13,931	16,485	19,245	22,223	25,433	28,728
2,021	2,132	2,232	2,324	2,441	2,556	2,684	2,807	2,945	3,085
3,537	3,809	4,077	4,256	4,525	4,742	4,999	5,228	5,503	5,689
21	253	647	577	780	1,703	2,950	3,625	4,849	3,892
16,715	21,035	26,475	31,824	37,785	43,544	49,240	54,707	60,187	64,049

Sales tax compound growth rate to be 6.1% from 2004 to 2015.

Cautious spending plan results in additions to fund balance each year.

Ending fund balance grows from 30% of operating revenue in 2004 to 67.5% in 2015.

Who is the audience for *Loveland's Financial Master Plan*?

*The Plan is designed to **guide** future decisions.*

Loveland's Financial Master Plan is a strategic planning document for the future of the City and the community it serves. The City of Loveland has prepared this report as a tool to provide Council and the public with the insight to address issues impacting the City's financial condition. It has been developed with the assistance of the various City Departments and provides a working document to assist in the resolution of issues facing the City.

What is in the Plan and What is the Purpose?

- ☑ Provides history;
- ☑ Provides current economic, demographic and financial information;
- ☑ Provides comparisons and trends in the City's total financial process;
- ☑ Provides a look at expected capital projects that will be needed to support the services that the City provides now and new services that may be added in the future;
- ☑ Identifies aspects about the future: risks, strengths, weaknesses, threats, opportunities, future projects that we know will happen and those that we can make happen;
- ☑ Gives us an idea about how and what we do know will affect or constrain our future;
- ☑ It is more than tactical decision making – It is strategic;
- ☑ As the master plan for land use shapes the look and feel of the community, the financial plan helps us understand how we will invest and make trade offs.

The City departments develop master plans reaching out 10 to 20 years.

Departmental Utilization of Long Range Planning

Departments develop long-range master plans to identify the infrastructure and staffing supplements that will be necessary to maintain "adequate community facilities" for the public. Additionally, the departments monitor the community's desire for enhanced levels of service in particular areas and consider the implications of expanding or adding services. In some cases, the Departments also regulate specific fees and charges that are necessary to recover all or part of the cost to provide a specific service.

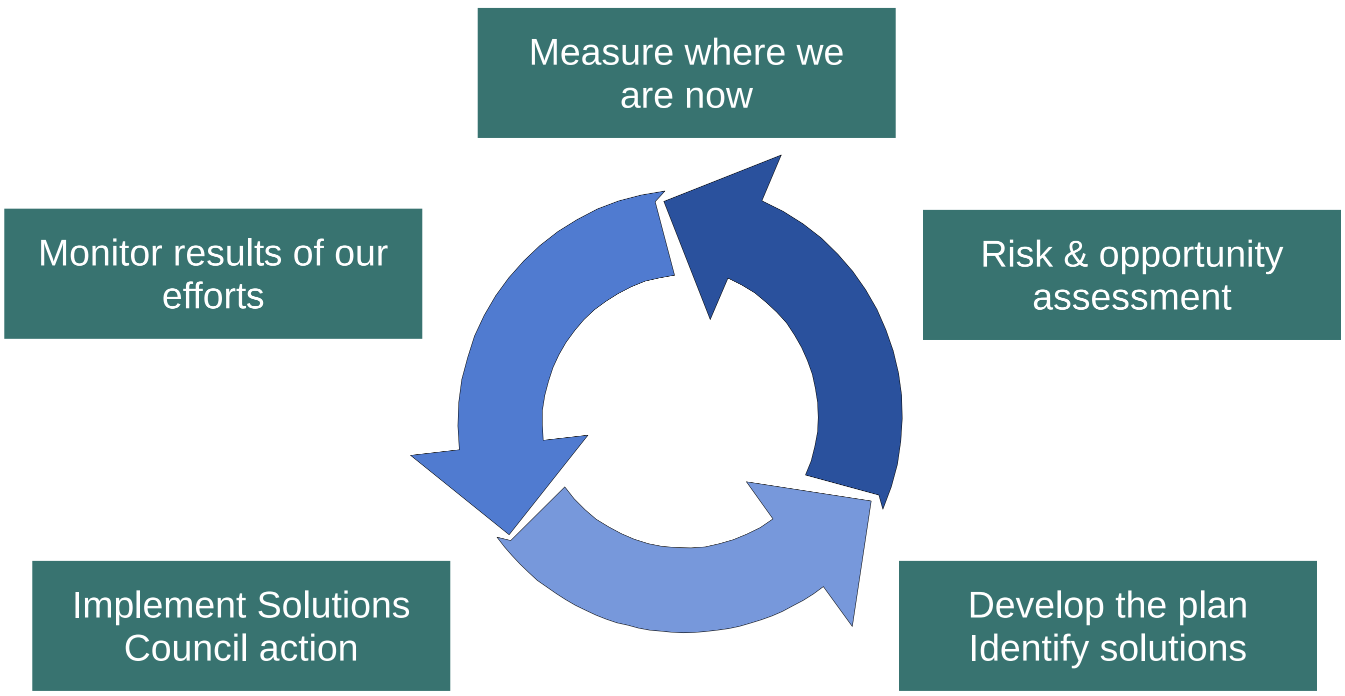
Master planning our infrastructure needs at the department level typically has a horizon of 10 to 20 years; it is reviewed annually and then officially updated every 5 to 10 years. New infrastructure typically increases the annual operating costs of the City; so each year when the departments submit their revised 10-year requests for supplemental funding to add capital and operating costs, these requests are merged by year and an attempt should be made to prioritize them. The Financial Master Plan merges the requests of all General Fund departments into one comprehensive document to measure the direct impact on our financial resources to compensate for the cost of a growing community.

Generally, because the enterprise funds are all “stand-alone” government business activities, they generate individual long-range financial plans that are financially independent of other City funds. A host of elements that are beyond our control, such as weather and government regulation can dramatically influence the revenue and expense cycles in any given year, or for an indefinite number of years. Industry trends and “regional bench-marking” can also impact the ability of an enterprise fund to maintain stable rates, fees, and charges over an extended period of time.

Steps in the Financial Master Planning Cycle

The Financial Master Plan is part of a “continual process” that supports analysis, aids discussion, and generates information for decision making.

A Continuous and Recurring Process



This chart reflects the continuous and recurring process necessary for the financial master planning cycle.

The City Compared to a Household

In casual discussions about City spending and services, some people have compared the City to a household with a growing family. When differences in size and complexity are taken into account, it is probably not a bad analogy. To make the comparison more meaningful, imagine the primary wage earner's employment is in an economy dependent occupation, such as construction or sales. The City's primary revenue sources, sales tax, property tax, fees and permits, are subject to fluctuations in the economy and changes in the political environment.

SHORT-TERM ADJUSTMENTS TO TIME-LIMITED INCOME CHANGES

Family or Individual	City of Loveland
An employee that has been laid off and has good prospects for re-employment, applies for unemployment insurance and postpones a planned purchase of a new car.	The City may delay planned hiring of new employees, freeze other positions, and delay maintenance and repairs, or delay large scale capital projects.
A first-time home buyer becomes a do-it-yourself expert to save on repair and maintenance costs until spendable income catches up to monthly housing expenses.	The City could attempt to reduce outsourcing and use of consultants until the economic cycle returns to better times.

Population growth (just like additions to a family) is always accompanied by increased demand for the amount and type of services. This translates directly into increases in the City's operating expenses and overtime in the demand for capital projects to support such services. From our fiscal impact model, we know that a growing population does not automatically mean new revenue in a proportionate amount. Along with more people, the City needs new jobs to provide income for more people and more retail to capture the revenue from the additional income. The overall goal is to have a vibrant economic climate that provides sufficient revenues to meet the demands for City services.

Loveland's revenue sources fluctuate with the economy, but costs continue to inflate with the population. Therefore, the City engages in financial planning that considers changes in its revenues and spending to avoid dramatic reductions in the provision of basic services or the postponement or delay of needed capital projects.

Similar to families, a city has to manage costs and growth.

Like a growing family, the City must consider how it will be able to meet the community's essential needs if income or expenses were to change significantly. The financial strategies that will work best for each situation depend on a variety of situation factors. The following examples illustrate and compare short and long term strategies that a family and the City might select to ensure financial stability.

As a sword can cut both ways, growth in the population and the economy can create both problems and solutions. Without a growing population and economic base, Loveland would not have the financial resources needed to continue improving and expanding the services and amenities its residents enjoy. However, rapid and sustained growth also places a great amount of stress on existing resources and residents to maintain current levels of services, repair and replace existing infrastructure as it ages, and to set aside money for future "growth related" needs.

The City employs many financing strategies and mechanisms to fairly apportion the cost of growth among various sectors of the community and current and future residents. These strategies, including impact fees, lease and long term borrowing, special districts, help the City provide major capital projects on a timely basis. In the financial planning process, the City department staff always uses conservative estimates for population, financial resources, and cost of funds. This helps to ensure that the revenues needed to operate a facility or support a service will be there when the project is competed and the services are needed.

STRATEGIES FOR LONG-TERM INCOME STABILIZATION	
Family or Individual	**City of Loveland**
A construction worker sets aside a portion of the paycheck in a savings account when jobs are plentiful to augment income in the leaner months when the construction cycle slows.	The City establishes reserve policies for each of its funds, money which can be drawn upon when a slow economy might reduce operating revenue.
An individual contributes regularly to a pension plan to help maintain the current standard of living after retirement.	The City may set up trust funds, such as the Perpetual Care fund to provide a source of income for future operating costs, realizing that there will not be much current year revenue.

Revenue Constraints & Operating Revenue Considerations

Our City's ability to generate revenue or create new revenue sources is limited by the State Constitution, the City Charter, Council policy, social and economic conditions, and public sentiment. Article X, Section 20 (the Taxpayer's Bill of Rights or TABOR) limits any changes in tax rates or the issuance of City bonds without an election. Revenue from special funds, such as the state Highway Users Tax, water, wastewater, and electric user fees, capital expansion or impact fees, and other development related fees may only be used for legally specified purposes. This means, most of the City's operating costs are paid for from General Fund revenues. Almost 45% of Loveland's General Fund revenues come from sales taxes and 11% comes from the property tax. Many City Departments must rely exclusively on General Fund revenues to cover their operating costs, and most departments receive at least some financial support from the General Fund.

PERMANENT CHANGES TO ACHIEVE STRUCTURAL BALANCE BETWEEN INCOME & EXPENSES	
Family or Individual	**City of Loveland**
New parents decide to permanently downsize their lifestyles so one parent can stay home with the children and they can start a college fund.	The City could decide to reduce the scope or availability of services in order to save money to be used for other purposes.
A person on fixed income, a pension, moves to a smaller home with lower payments and selects a monthly utility payment plan to eliminate seasonal fluctuations in utility costs.	The City may be able to lower service expectations, shed some services, or become more efficient in the provision of services to lower costs.
A parent decides to go to night school to enhance skills and employability with the plan to get a better, higher income job.	The City could develop strategies for additional funding to support new or enhanced levels of service.

The state constitution spending limit impacts City budget decisions.

Local sales taxes and fees based on construction activity are highly volatile and difficult to predict because they are very sensitive to changes in national, regional, and local economic conditions. When the state and local economies are healthy, local taxes and state-shared revenues normally rise. When the economy enters the downward phase of the cycle, these revenues are at risk to decline. Furthermore, as seen in recent years, the Colorado General Assembly has had to make many difficult financial decisions to balance the state budget. Often, revenue distributions to cities and towns are on the cut list. Since the inception of TABOR, state and local investment in capital projects has been severely curtailed. To respond to pressing capital and operating budget needs, the Governor and the Assembly have proposed ballot questions for the statewide voters to consider this fall.

Demand for essential city services, capital improvements, and infrastructure maintenance and expansion steadily increases as a direct result of population growth and the normal aging city facilities. Less volatile revenue sources, such as the property tax, are subject to external factors. For example, the total revenue generated from property taxes is dependent on the county assessment process and the growth limits of TABOR and another State Constitutional provision known as the Gallagher Amendment.

The Gallagher Amendment restricts the property tax growth by ensuring the assessed valuation of the residential property is in proportion with the commercial property assessment. Currently, assessed valuation is 7.96% of the fair market value of residential property. With these conditions placed on the property tax valuation process, any increase in the mill levy will put a heavier-weighted burden on the commercial residents.

Growth Paying Its Own Way

The City has a long term policy that growth should pay a fair share of its impacts.

The City of Loveland has invested much effort in trying to foresee future demands for service and creating methods to ensure future residents will be able to receive the same level of services and benefits that current residents enjoy.

The City of Loveland has experienced sustained growth for several decades. In response to the growth experienced in the 1970s, the City instituted several funding mechanisms that are based on the principal that Growth should pay its fair share of the impacts that it causes. In the utilities, the City implemented system improvement fees (SIFs) and plant investment fees (PIFs). In the 1980s, the concept of impact fees was extended to governmental services through the adoption of the capital expansion fees (CEFs). Each of these fees is based on the theory that new additions to the community should cover a share of the cost of the capital improvements necessary to serve them. The rationale for the fees is more thoroughly explained in the 1997 resolutions adopted by the Council based on the work of the Economic Vitality Committee. Key aspects of the fee programs are fairness and administrative simplicity. The fees are based on the policy that fees are not intended to enhance service levels but just maintain the current level of service as additional growth occurs.

Capital Expenses Considerations

The City has a long-range capital improvement program that provides for the replacement of exhausted infrastructure, and for the addition of new infrastructure to firm-up the capacity in our systems so that we maintain adequate levels of service for our citizens. The cost to operate and maintain this infrastructure is then programmed into the Financial Master Plan to assure that all systems function appropriately.

City services rely on capital investments. As capital investments are made, operating costs also rise.

Funding for the replacement or enhancement of existing infrastructure is generated by routine operating revenues such as taxes and fees. Funding for infrastructure that adds additional capacity to our systems to guarantee adequate levels of service for a growing community comes from the development community; they are assessed on new construction through special up-front charges called “impact fees.” As the community grows and new properties are added to the base, we generate new operating revenue from taxes which then theoretically funds the incremental increase in operating costs for the new infrastructure.

Developing Loveland’s Financial Master Plan

The Financial Plan is balanced…

In some cases, long-range financial models are developed in desperation as the effects of a faltering economy begin to take a toll on a community’s ability to sustain adequate levels of municipal service delivery. In Loveland’s case, we are fortunate that our Council, and previous Councils, have had the foresight to invest in the future of Loveland and design a plan for growth that maintains a balance between the cost of service delivery and the provision for new revenues that sustain the cost of growth.

However, our financial success is not without challenges, and planning for the future is imperative. Fortunately, our citizens have granted us multiple exemptions from the provisional restrictions of TABOR that allow us, with certain restrictions, to retain revenues in excess of the mandated “revenue caps”. If a future initiative by the citizens were to withdraw this exemption, or reduce our current sales tax rate, it could have a very dramatic impact on our resources if we had become dependent on the TABOR funds to off-set annual operating costs.

Past and recent decisions are intended to protect Loveland’s financial future.

Recent economic development agreements are projected to produce sharp increases in our Sales and Use tax receipts over the next few years. Even though this is extremely good news for Loveland, it causes our revenue mix to become more unbalanced and overly reliant on current economic conditions. If our fixed on-going operating costs are ramped up annually to match a revenue stream that is solely dependent on tax generated by retail sales, then opportunities for economic elasticity are non-existent and our reserves should be increased accordingly to compensate for revenue short-falls in economic slow-downs.

The Financial Model

In the *Financial Master Plan*, the model covers a 16 year period: five years of audited financial history, the current budget year, the recommended budget for the ensuing year, four additional years of financial detail, and five out lying years for a “big picture” perspective. The last five years of audited financial operations forms the historical base for present budget forecasting and capital project planning. The ensuing budget year, 2006, is currently be presented by staff, to Council for final action on November 3. The proposed budget includes a significant amount of new spending, or additions to the core budget. The years 2007 to 2010 are based on consistent and conservative revenue projections and a constrained amount of supplemental funding of services. Approximately $1 million of new core budget spending is included in the out years. Departmental requests were many millions of dollars higher than the revenue projections can support and these unfunded requests will move forward further into the future.

Beyond 2010, the Finance Department has provided a less specific look at major financial demands in the years 2011 through 2015. The focus is on projects and services that are the largest and in the most demand.

The model can be used to analyze the potential impact of specific supplemental requests and our ability to fund these request in the future. Simulations can be done using optimistic revenue growth assumptions, or to factor in the effects of another economic recession. On the spending side, the model can be used to evaluate the relative benefits and shortcomings of various short and longer term financial strategies being considered for inclusion in the Plan. The model can take into consideration that revenues are not always related to demand for services or costs of such services. One of the key underlying assumptions of Loveland’s Financial Master Plan is that although the rate of growth may vary significantly from one year to the next, over a five to ten year period Loveland’s population and demand for services will increase unless major external factors intervene.

Staffing Levels

The City’s a service organization and services are provided by its employees.

The City is in the business of providing services, and in this role we rely on our employees to provide the highest possible level of service. Among its peers, the City of Loveland has one of the lowest ratios of staff to population (11.07 Full-time Equivalent Employees “FTE’ per 1,000). Personnel-related costs account for 73% of the General Fund operating expenses. Adjusting staffing levels is not usually an effective method of dealing with short-term budget deficits because a reduction in the work force requires lead time to implement and may adversely affect the ability to maintain service and quality levels. However, downsizing, when combined with other strategies, can be a very effective method of dealing with prolonged economic slowdowns.

During the recent recession of the early 2000s, the City effectively responded by selectively managing its staffing levels by eliminating some vacant positions, delaying the filling of others, and instituting a new position hiring freeze.

New programs or expansions that would require new employees were delayed and workloads were streamlined and redistributed. This conservative approach to personnel growth policies has contributed significantly to the City's strong financial performance and long-range financial stability. Staff size has increased modestly in recent years - placing the City in a strong strategic position to cope with future economic stress without having to relay on reduction of City staffing levels.

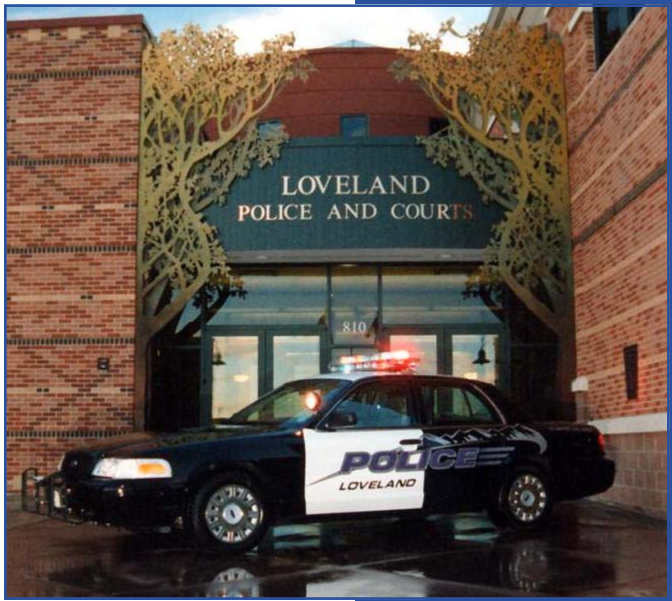
Investment in capital means corresponds with increases in operating costs.

Health Care Costs

The most difficult problem that the City faces in the operating budget is the escalating costs of employee health insurance. The cost of health care claims has risen an average of 16.7% per year over the last five years. This is a substantial burden on the General Fund and other funds of the City. The City Council adopted a mid-year budget supplement of approximately $1.1 million in July 2005 in response to rising claims costs. In the recommended budget, the City Manager and staff have included a significant change to the funding of health care costs with employees picking up 20% of the costs of claims which is a significantly higher portion then in previous years.

Relationship to the Capital Improvement Plan (CIP)

As part of each year's annual budget, the Finance Department updates the five year outlook for capital improvements. Most large capital construction projects permanently add to the City's ongoing operating costs. Such costs include wages and benefits, maintenance, repair, utilities and other costs. For example, the operating budget of the new Police/Courts facility, which opened in 2002, was carefully considered prior to the initiation of the project. In this case, it was determined that the operating budget would have to increase by $331,480. The same thorough analysis is applied to other projects. The Financial Master Plan requires a similar analysis of long-term financial projections of the use of impact fees and debt service if using long-term financial obligations for projects.



As in the analysis and formulation of the budget and financial plan, capital project planning efforts utilize conservative population and revenue growth projections. Major capital projects can be planned, scheduled, financed and constructed in ways that will not drain needed resources from the annual operating budget or require increased in the major tax sources of revenues. A short summary of capital projects is included in the Five-Year Capital Plan Section of this report and is covered more in depth in the annual budget for 2006.

A number of years ago the City dedicated a portion of the annual sales tax revenue to the 10-Year CIP, but this practice has been replaced with the current long-range financial planning process and by the Council's Capital Reserve program. As a footnote, the financial impacts of the Facilities Master Plan are not incorporated into this financial plan.

City's Snapshot

This section provides a look at the City's financial performance through the end of June or August, 2005. By the time the 2006 budget is presented for final adoption, the Council will have information through the third quarter – September 2005.

Population of the City of Loveland is 61,871.

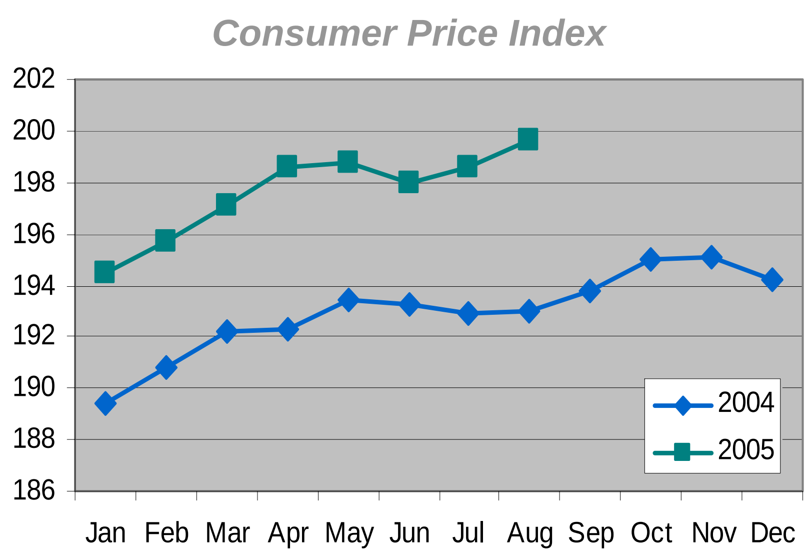
The Unemployment Rate for the City as of July 2005 is 1.4% lower than the State and 1.2% below the nation.

POPULATION & EMPLOYMENT

With a current population estimated at 61,871, Loveland continues to grow at a healthy level. The local unemployment rate of 3.8% as of July, 2005 is below that of the rest of Colorado (5.2%) and the overall national rate of 5.0%. During the last year, the City's unemployment rate has remained constant at 3.8%. Both the state and national unemployment rates have improved during the last year. Colorado's unemployment rate has dropped from 5.5% to 5.2% and the national rate has dropped from 5.5% to 5.0%. However, employment has grown 1% from 30,333 in July, 2004 to 30,632 currently. The state's number of employed increased by 0.7% or 16,400 during the same time period.

EMPLOYMENT		
Number Employed	July '04	July'05
Colorado	2,386,000	2,402,400
Loveland	30,333	30,632
Number Unemployed	July '04	July'05
Colorado	138,100	133,000
Loveland	1,214	1,216
Unemployment Rate	July '04	July'05
U S	5.5%	5.0%
Colorado	5.5%	5.2%
Loveland	3.8%	3.8%

CONSUMER PRICE INDEX

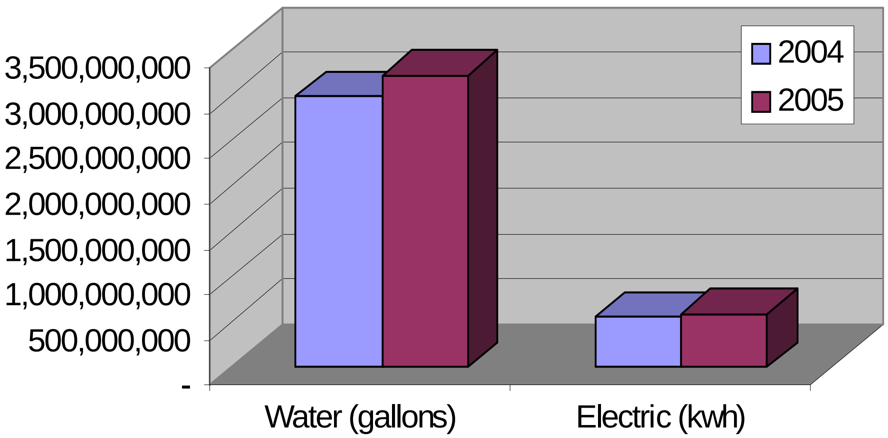


The City of Loveland uses the Denver-Boulder-Greeley CPI for analysis of inflation in the area and the annual TABOR calculation. The CPI is used to measure the inflation on costs of City services and value of retail sales that generate sales and use tax.

In 2004, the CPI increased 1% during the year. The CPI increase in the first half of 2005 by 2%. Currently, the CPI is at 189.2 for the Denver-Boulder-Greeley area for the end of the first half of 2005. The increases in the index has remained very steady over the last year. The effects of Hurricane Katrina are not calculated in this formula, yet the impacts may have an effect on the national CPI that will flow to many of the regional/metropolitan indexes.

UTILITY CONSUMPTION

Utility Usage for Water and Electric



The City offers utility services to its residence: water, electric, sewer, and trash collection. These services have also seen an increase due to the impact of the population growth. This increase causes capital besides operating issues. This trend is an indicator of future needs the City will need to provide for services as well as the current demands residents have on services the City provides.

Water usage in 2005 has been forecasted to increase over 2004 by 229,965,858 gallons, a 7.7% increase. Likewise, electric usage has been projected to increase 26,085,638 kilowatts from 2004, a 4.6% increase. With the population increase and the additional retail facilities due to open in 2005, utility demands will likely continue to increase.

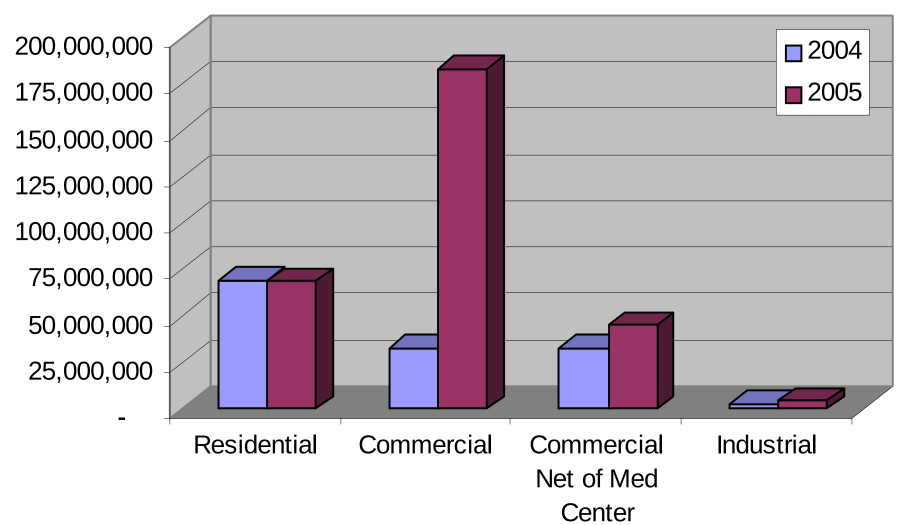
Loveland utility costs are among the lowest in the State.

REAL ESTATE & CONSTRUCTION

2005 will be a record year for the value of building permits issued by the City. Construction of the Medical Center of the Rockies is a significant factor in this year's increase. While the overall number of permits for new construction of residential, commercial and industrial buildings is down 2.7% from 488 for the first six months of 2004 to 475 through June, 2005, the value of those permits is up 145%. Even without the amount attributable to the medical center, the increase in value would be 12.7%.

All of this increase in permit value is due to commercial and industrial activity. Again ignoring the medical center, the value of commercial permits is up $12,492,158 (38.4%) and the value of industrial permits is up $1,374,880 (49.1%).

City Permit Activity—New Construction



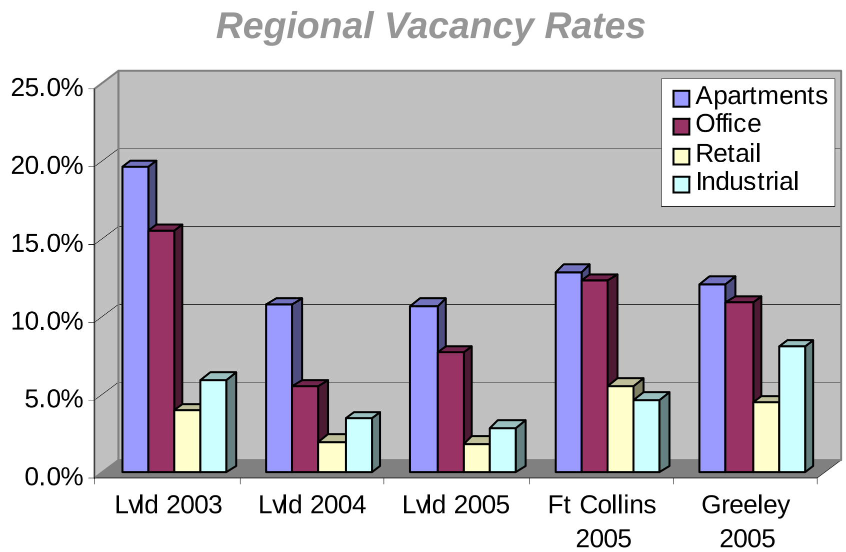
Commercial Permit valuation is up $12.5 million from 2004.

The value of industrial permits is up $1.4 million.

The value of residential permits is down $514,000 from 2004.

REAL ESTATE & CONSTRUCTION (Continued)

*Vacancy rates have fallen **8.3%** over the last two years. Loveland's rate is below neighboring cities.*



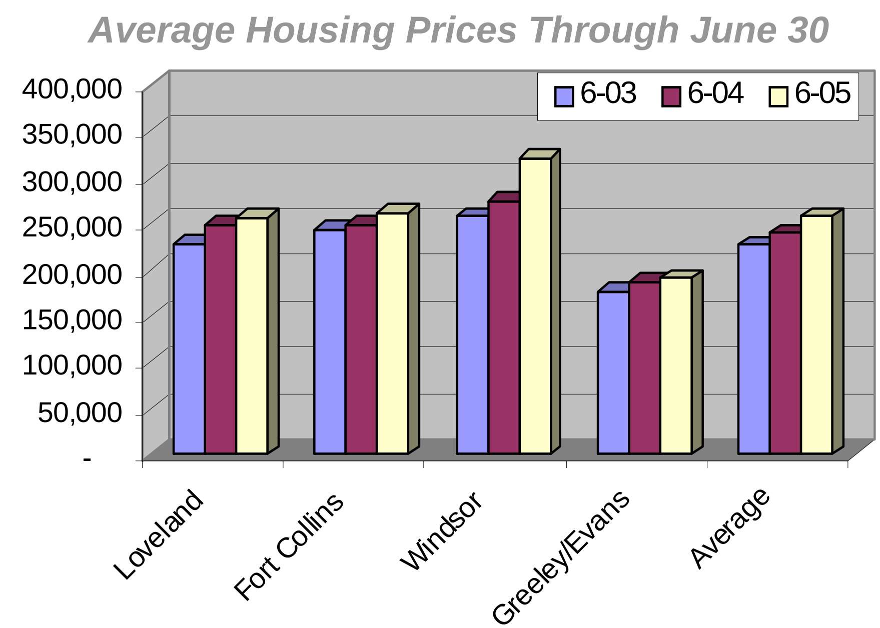
While the value and number of residential permits is down, the average value per permit continues to increase. The number of permits is down 4.3%, from 465 in 2004 to 445 in 2005, but the value of those permits is only down 0.7%. The average permit value has increased 3.7% from $149,443 for the first six months of 2004 to $155,004 this year.

In addition to new construction, the City issues many permits for other building projects such as alterations/additions and tenant finish work. The value for all permits issued through June of 2005 was $272,901,819. This was a $130,577,891 (91.7%) increase from the first half of 2004. The total number of permits thus far in 2005 was 1,410 compared to 998 in 2004 – a 41.3% increase. The $273 million total for the first half of 2005 is more than $30 million higher than any other full year in the City's history.

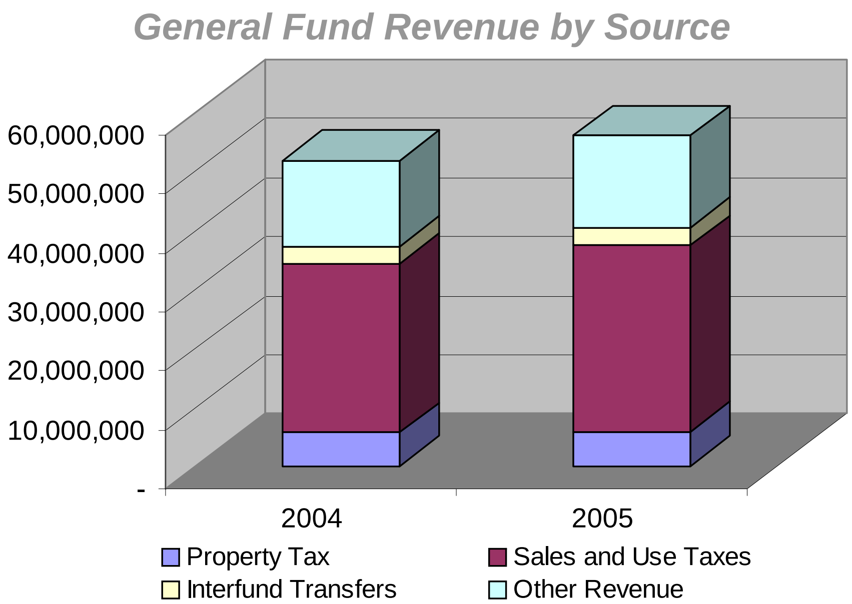
Vacancy rates although higher than desirable for some categories have improved in the last two years and are lower than our surrounding cities. In 2003, due to new apartment complexes coming online, the City's vacancy rate for apartments was over 19%. Since that time it has fallen to 10.7% and is below that of Fort Collins at 12.9% and Greeley at 12.1%.

*The first six-month 2005 average single-family home price was **$256,920** for Loveland. This is a <u>2.9%</u> increase over the first six-month average in 2004 for single-family homes.*

Housing prices continue to increase in Loveland and the surrounding area. However, with the exception of Windsor, the increase is slowing. For the first six months, the average single-family home sales price was $256,920 in 2005 compared to $249,738, a 2.9% increase. The average price for the area was $258,082 for the first half of this year. Windsor has the highest average cost and the largest increase due to the activity within the Water Valley development.



TOTAL GENERAL FUND REVENUES



Revenues for the City consist of numerous sources such as property, sales, use, and other tax, charges for services, payment in lieu of tax, and intergovernmental revenues. Sales and use tax comprise the majority of revenue for the General fund in 2004 and 2005, 56%. This percentage is comparable to surrounding cities; Greeley and Fort Collins maintain sales and use tax comprises 60% of their general fund revenues, while Longmont calculates 43% of general fund revenues. The remaining revenue sources stay comparable between both years; other revenue had minor increases in 2005 due to a rise in charges for services occurring in the year.

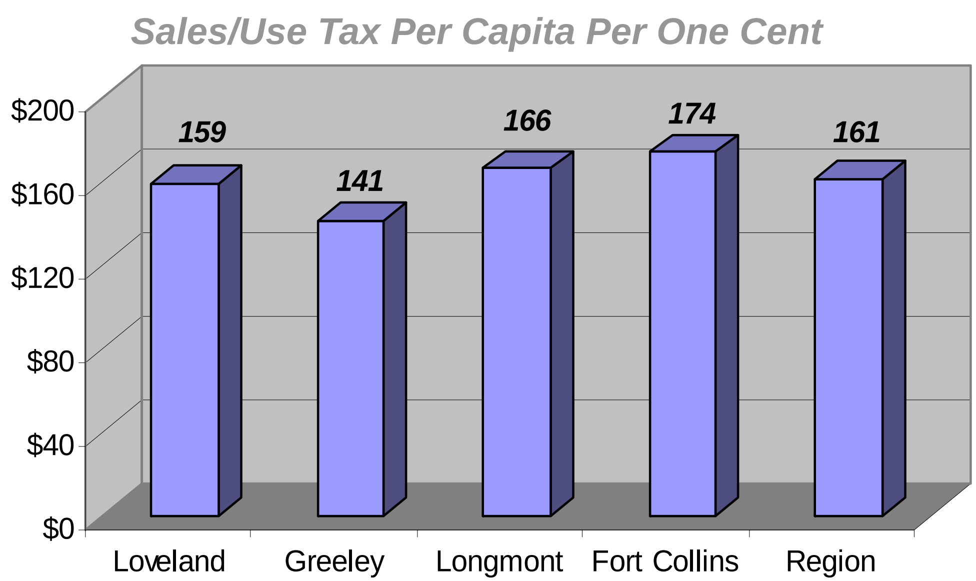
*General fund revenue is projected to increased from 2004 to 2005 by **8%**.*

*Sales tax comprise **56%** of total general fund revenue, comparable to surrounding cities.*

SALES & USE TAXES

As noted above sales and use tax comprise a majority of revenue sources in the general fund. This tax is comprised of the local sales tax of 3% on retail purchases and 3% of building materials and auto sales, known as use tax.

The growth in retail businesses in Loveland has resulted in per capita revenue rising to close to the average for the region. The average regional amount of sales tax generated for each one cent of sales tax was $161 for 2004. Loveland at $159 is very close to this average. Considering the fact that both Greeley and Fort Collins include college population, the information suggests that Loveland continues to draw new "out-of-town" shoppers.



*Sales and use tax is projected to increase from 2004 to 2005 by **9.8%**.*

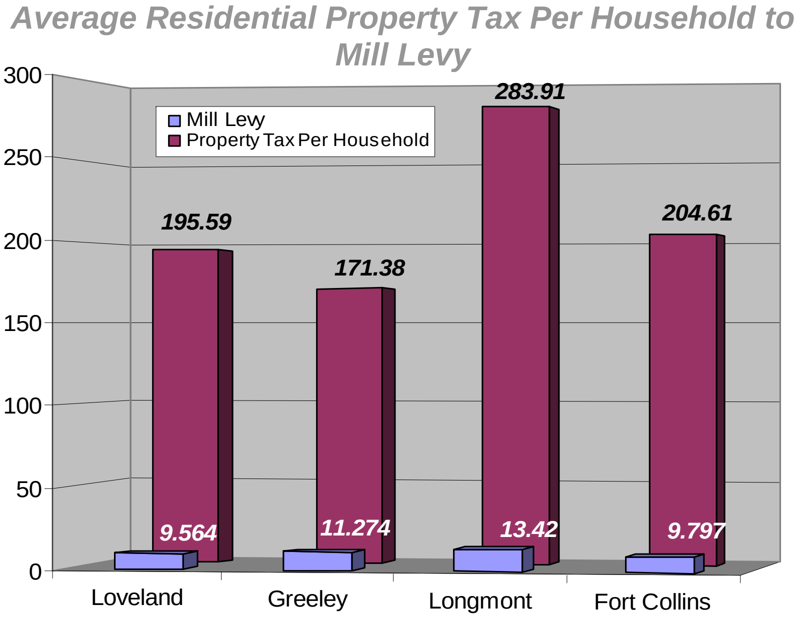
Loveland's sales/use tax per cent per capita is $159 comparable to the regional average of $161 for 2004.

*Property taxes account for **10.5%** of the General Fund revenues. The mill levy for the City is 9.564 since 1992.*

*Residential tax collections represents **58.67%** of total property tax collections in 2004.*

*General government per capita expenditures for Loveland was **$985** for 2004. The average per capita expenditure for the cities used in the comparison was **$1,012.***

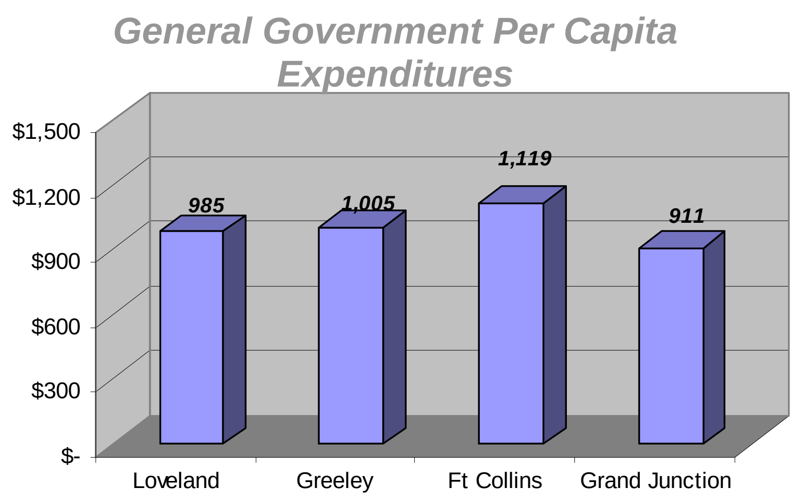
PROPERTY TAXES



Property tax for the City accounts for 10.5% of the total general fund revenues. This the is the third largest source of tax revenue the City collects. As discussed earlier in this text, limitation on the amount of taxes available to collect is restricted by the Gallagher Amendment. The mill levy for Loveland is 9.564 mills on every $1,000 of assessed valuation. Loveland has one of the lower mill levies in the region, but as noted in the chart, collects on average more than Greeley and comparable to Fort Collins, while maintaining the lower levy. Loveland's mill levy has not been increased since 1994, and because of the Gallagher Amendment, the average residential payment to the City has only increased about $50 in the last 12 years.

GENERAL GOVERNMENT EXPENDITURES

General government expenditures include those activities and services provided by a government whether or not those items are reported within the General Fund or in other funds. Comparing Loveland with other Colorado cities by looking at only the General Fund can be misleading because of the uniqueness of each government's fund structure. For example, Loveland maintains a separate fund for the Library whereas other city's may include the Library within the General Fund. Conversely, all of the Loveland's sales and use taxes are included in our General Fund. Other cities have dedicated portions of their taxes that are reported in separate funds. Therefore, using total general government expenditures can provide more meaningful comparisons. Items included in general government expenditures for Loveland include the General Fund activity plus capital projects, use of Lottery proceeds and Open Space revenue, federal grant activity, maintenance of the Police/Courts building and Library operations. Loveland's total in 2004 for all of these activities were $59.2 million or $985 per capita. Not all cities report general government expenditures in addition to General Fund expenditures. However, for cities that do report this information, Loveland's per capita amount is comparable.

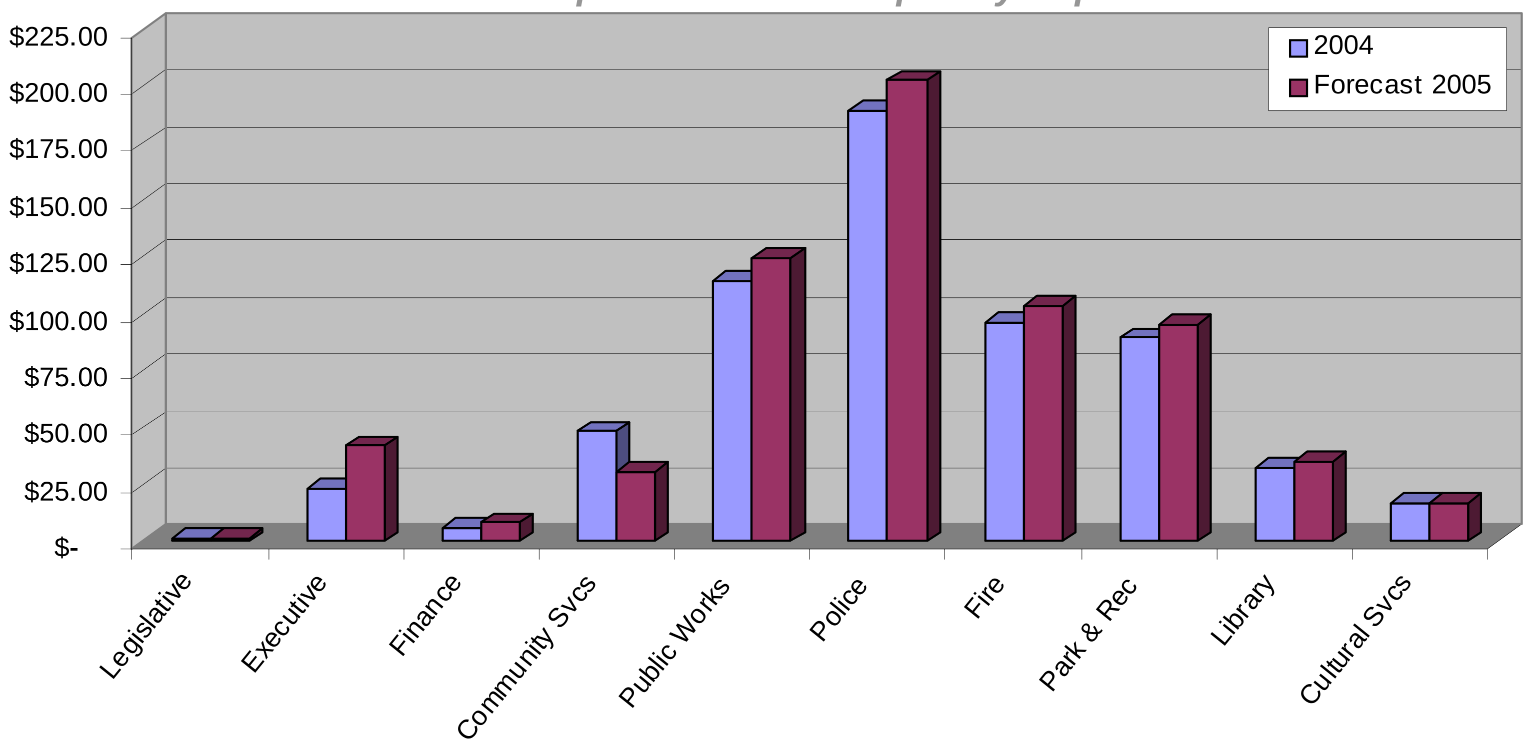


GENERAL FUND EXPENDITURES

General Fund operating expenditures for the City for 2004 were at $44 million while in 2005, it is forecasted to reach $50 million, a 14% increase. This increase is due to City growth and approved changes in the levels of service. The chart below gives an indication of cost per resident in Loveland by department. These per capita costs give a monetary value of services the City provides. As shown in the chart, most departments increased in per capita costs from 2004 to 2005 with the exceptions of Legislative, Community Service, and Cultural Services.

The Executive Department's increase was a reorganization of divisions. The Strategic Planning and Human Services divisions moved from Community Services to Executive, therefore justifying the increase in Executive and decrease in Community Services. Public Works department increases in expenditures are due to workload increases, therefore, adding additional FTEs and purchased services, while adding FTEs in improve services in the GIS division and administration divisions. The Police department increase was due to normal operating cost, no additional FTEs were approved in 2005, yet personal services expenses did increase significantly. Increases in the Fire department, were again due to operating cost increase from the prior year. Supplementary purchase services were approved for additional training, yet the majority of increase in expenses relates to personal service increases. The Library, like Police and Fire, reflect an increase due to personal service during the year.

General Fund Expenditures Per Capita by Department



General fund expenditures are projected to increase in 2005 by $6 million.

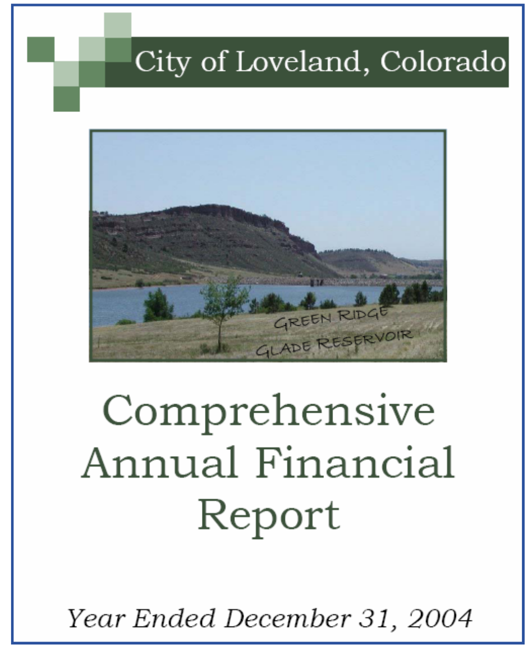
*The 2004 per capita cost of general fund expenditures was **$619.97**. In 2005, these costs are projected to increase $42.29 to **$662.26**.*

As noted numerous times within this report, the majority of increase in costs are due to personal service costs escalating.

Policies & Direction

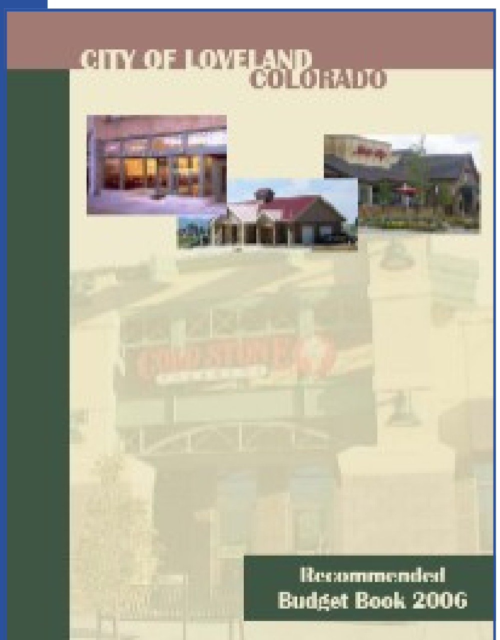
Introduction to Policies & Direction

Financial policies of the City of Loveland are derived from numerous sources. The Finance Department relies on the City Charter, the Municipal Code, Resolutions adopted by Council, City-wide administrative policies; which includes employment, benefits, compensation, health and safety issues. Along with these policies the finance department follows the State of Colorado statues regarding budgeting, investing, and annual financial reporting. Each year, the City is awarded the Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report (CAFR) and Budget Book by the Government Finance Officers Association. These certificates are awarded to municipalities that achieve the highest standards in government accounting and financial reporting. The City has received this award for 20 years for the Budget Book and 24 years for the CAFR.



Financial Policies of the City are also detailed in the annual budget book.

The City's financial reporting guidance includes: Governmental Advisory Standards Board, Government Finance Officers Association, the City Charter, and Colorado State Statutes .



Budget Policy

The Budget Policy states an annual budget will be submitted to Council and publicly approved. The final budget will usually be presented at an October or November Council meeting. Per State Law and City Charter, the budget must be balanced or show a revenue surplus.

No City department shall expend or contract to expend money in excess of the amounts appropriated annually by the City Council. The current year operating expenses shall be paid with current year revenues and or available fund balances. Each fund must maintain a positive cash balance at year end. Appropriations lapse at year-end. Unspent appropriations may be re-appropriated in the following budget.

The City is required to submit to Council, data showing the relation between the estimated and actual revenues and expenditures to date. An updated operating projection for the budget year plus nine years and a capital improvement plan projection for the budget year plus four years will also be submitted to Council.

Revenue Management Policy

The Revenue Management Policy the City has adopted includes the ability to impose taxes, fees, and rates that are not prohibited for home rule municipalities by the Colorado Constitution. This includes annually

reviewing new sources of revenue to fund operating and capital costs.
The City will annually review costs of activities supported by taxes, rates, user fees, plant investment fees and capital expansion fees, these charges shall be sufficient to provide good service to customers, pay all bonded indebtedness, required refunds, and cost of operations, maintenance, additions, extensions, betterments, and improvements.

Reserve Management Policies

The Reserve for Economic Uncertainty is maintained at 6% of General Fund revenue in the General Fund Unrestricted Balance.

Reserves and specific revenue sources have been established for growth-related improvements. These impact fees include Capital Expansion Fees (CEF's), System Improvement fees (SIF's), Plant Investment fees (PIF's) and raw water fees. Separate accounts are maintained for each fee. All unspent balances are reserved for the purpose of the fee.

A reserve for capital projects was established by Council. This Council Capital Reserve is funded by 5% of the total tax revenue below the TABOR cap and can only be spent on projects specifically approved by Council. In addition, the City follows a pay-as-you-go philosophy in funding capital projects. Under this policy, debt is avoided whenever possible and funds are accumulated for capital projects and the projects undertaken only when funds are available.

A constitutional amendment known as TABOR (Taxpayer Bill of Rights) requires emergency reserves be maintained equal to 3% of expenditures. TABOR also requires revenue received above legal limits, as defined by the amendment, be refunded unless voter approval is obtained to retain and use this revenue. Loveland voters have allowed the city to retain excess TABOR revenue and use for specified purposes. The current exemption expires on December 31, 2012. A reserve has been established for the unspent excess TABOR revenue.

Transfers from the Enterprises

Based on services rendered by the General Fund and Internal Service Funds, charges are made to the Enterprise Funds (Golf, Storm Water, Power, Water, Solid Waste, and Wastewater). The General Fund also receives payments from the Enterprises that are proportional to what these City businesses would pay if they were privately owned. The term for the payments is payments in lieu of taxes (PILTs). The payments are based on revenue received by the enterprise. The rate is 3% for the Golf enterprise and 6% for the other enterprises.

The City is currently updating its Purchasing and Travel Policy.

The Finance Department Staff reviews policies annually.

Investment Management Policy

The Investment Policy states funds are deposited into financial institutions which are insured by the Federal Deposit Insurance Corporation or fully collateralized by the public deposit protection act or other state statue. These funds shall be pooled from all legally permitted funds for investment purposes. The City shall maximize the investment rate of return while adhering to lawful investment options, as stated by Colorado State Statue. The City provides quarterly investment reports to Council.

The Economic Development Director position has been vacant for several months, but a search to final a qualified replacement is currently being conducted.

Accounting, Auditing, and Reporting Policies

Accounting records and reports will be done in accordance with Governmental Accounting Standards, Generally Accepted Accounting Standards, and the Government Finance Officers Association. The Accounting Department shall provide information regarding cash position on a monthly basis. The Council will also receive monthly reports summarizing financial activity delineated by funds. Each quarter the Council will receive reports regarding the status of major capital projects, investment performance, and performance measurement reports on the actual achievement towards performance indicators. A Comprehensive Annual Financial Report shall be publicly issued each year. The City shall perform an audit at least annually by a certified public accountant selected by the Council. The Accounting Department will comply with all required reporting requirements related to bond issuance terms.

Loveland was ranked 8th in the 100 Best Art Towns in America.

Economic Development Plan

The economic development approach used by the City of Loveland has four distinct characteristics: Attraction, Creation, Retention and Expansion, and Laying a Strong Foundation. Each attribute targets existing and new businesses.

The American Association of Retired Person Magazine described Loveland as number 1 of the 15 Best Places to Reinvent Your Life.

Attraction uses the City's strengths to select businesses that are compatible with the City's vision of the future and needs. This is done by establishing a target industry, identify retail opportunities, model to identify community impacts, research job and housing balance, create finance mechanisms for community investment, such as the Loveland Urban Renewal Authority, and realize success with business attractions.

Creation focuses on the theory that jobs are not created by a business but by an entrepreneur with an idea. This theory allows the City to provide small business management support by leveraging micro loan funding. This funding gives small business owners who do not qualify for conventional financing a tool to create or expand businesses. These funds are contributions from local banks and the City originally funded the loan guarantee pool. The Loveland Center for Business Development administers these loans. A dynamic characteristic within Loveland is the art community. This plan reviews the impact the arts have on the community and how to optimize this resource.

Retention and expansion of current business within Loveland is another key focus in the economic development of the City. Retention looks at keeping businesses that are located in Loveland rather than attracting new companies to reduce cost. Expansion of established businesses already located in Loveland will keep primary jobs and dollars in the City. This is done by building long-term relationships between the business owner and City, creating redevelopment strategies for downtown, and collaborating within the downtown business segment.

Laying a strong foundation within the community to promote the qualities that lead businesses to want to relocate to Loveland or expand their existing business. This is done by numerous projects and campaigns conducted by the City. The Leadership 2010 Marketing Initiative campaign addresses marketing, retention, and attraction issues. This theory leads to foster business/community support and partnerships, enhance accessibility to government services, and market the community to existing and potential businesses in order to retain and attract industries.

In Loveland, provision of services are organized into Departments.

Master Plans

Master Plans within the City are used as a tool to plan for the future and to develop long-term and short-term strategies for providing infrastructure and services to meet the needs of the citizens.

The Airport is finalizing its Master Plan, which had not been updated since 1993. The emphasis of the Master Plan Update is on the physical development of airport property to meet aviation demands; however, other factors will be given consideration such as environmental issues related to the Airport's environs (surrounding land uses, natural features, and man-made infrastructure).

The Comprehensive Land Use Plan is currently being updated.

The Parks and Recreation department is planning to update its Master Plan in late 2006. This update of the Parks and Recreation Master Plan is anticipated in conjunction with the update of the City's Comprehensive Land Use Plan. The Master Plan update will allow for policy review, new services and facilities, as well as an opportunity to re-forecast projections and service costs to meet current and revised standards.

The Business Development department released in May 2005 the Economic Development Progress Report. This report described the building blocks of the City's economic development plan.

The Community and Strategic Development department issues the City's Comprehensive Land Use Plan. This plan is anticipated to be updated in late 2006. The Loveland Land Use Plan shall be for the purpose of guiding and accomplishing a coordinated, adjusted, and harmonious development of the city and its environs which will, in accordance with present and future needs, best promote health, safety, order, convenience, prosperity, and general welfare. As a guideline, the Land Use Plan is not a zoning document. Property may be zoned, or rezoned, by ordinance of the City Council.

In 2000, the Public Works department issued the 2020 Transportation Plan and they are currently in the process of updating this plan. The primary purpose of the Transportation Plan is to provide a thorough yet easily understandable document that guides transportation decision making toward a future desirable to the community of Loveland. The last major transportation plan was completed in 1982 and underwent a minor revision in 1994. The new Transportation Plan looks at all modes of transportation—bike, pedestrian, transit, and automobile—and creates a long-term plan for improving Loveland's transportation systems.

Each Department prepares its own master plan for services to be provided.

The Water and Power department is currently working on a Raw Water Master Plan, which is in the draft stage. This plan discusses the water demands and the availability to supply these demands to the Loveland residents.

The Information Technology department issued a 2004 Report on Accomplishments, which takes a look at the 2004 year and summarizes its accomplishments. It also emphasizes the impact the department has on the community and services it provides.

The Finance department has recently drafted this Master Plan. This plan includes short term and long term discussion of the financial condition of the City.

The Adequate Community Facilities Program is used to establish a program to ensure that community facilities needed to support new development meet or exceed the adopted level of service standards established by the city; to ensure that no development approval issued which cause a reduction in the levels of service for any community facilities below the adopted level of service established by the city.

The Fire Master Plan adopted in 1995 which provides recommendations for level of service, stations, equipment staffing, communications, fire protection facilities and firefighter training. The ACF plan for fire and emergency rescue service is based on this adopted functional plan. The Master Plan provides for a five minute response time for the nearest engine company. This five minute response time is considered equivalent to placing all developed areas of the City within 1 and ½ miles travel distance of a fire station.

The Police Department has implemented a department-wide philosophy of community-oriented policing, partnering with the neighborhoods in solving problems. The Department prepared a five year plan for police protection. This defined the desired level of service to 2 officers for every 1,000 population. The department is currently in the process of updating their plan.

Annual Retreat

Each year, the City Council, City Manager, and department heads meet for two days for an annual retreat. Here, the group discusses policy issues and goals for the future. The idea of the retreat is to provide direction for staff to proceed into the following years. Council and staff also review the previous years goals and accomplishments.

The Youth Sports Complex is nearing completion.

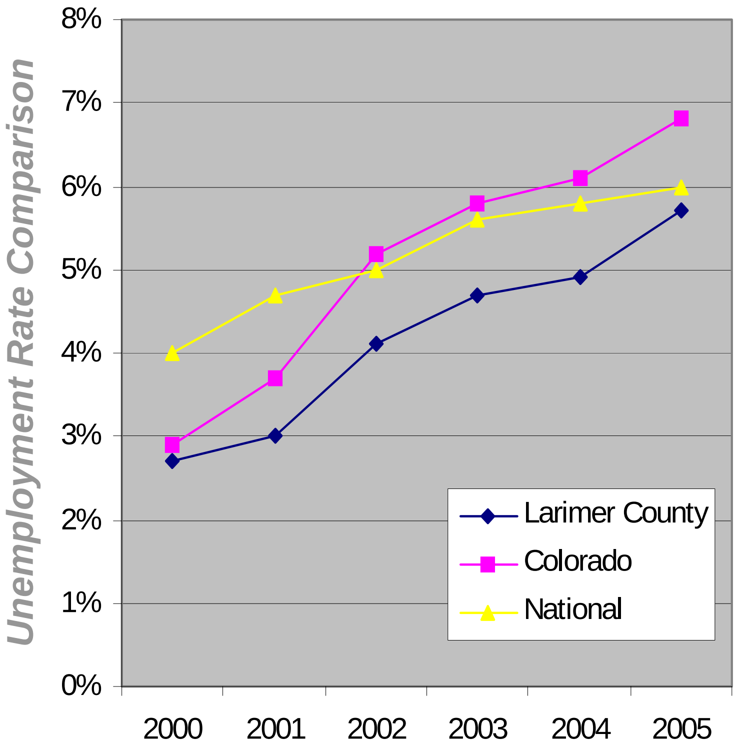
Five- Year Trends

The five-year history of the City shows a strong financial position. Current year operating costs were continuously paid with current year revenues. The City was also able to fund the TABOR reserve and Council Reserve, while funding $11.9 million in capital projects. The City showed excellent economic growth during these years.

General fund net revenue during the past six years has increased 40.61%. In 2001, the City saw the biggest percentage increase in revenues, 13.97%.

General fund net appropriations also saw an increase over the past six years of 44.5%. The largest percentage increase was in 2002 of 12.7%.

Finance Master Plan General Fund Revenue & Expenses	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Forecast
Note - all numbers in $1,000's						
Beginning Fund Balance	$9,975	$9,496	$10,929	$13,222	$15,998	15,581
REVENUES						
Property Tax	3,947	4,230	5,014	5,377	5,683	5,898
Sales and Use Taxes	22,344	24,448	25,882	26,836	28,668	31,464
Interfund Transfers	2,239	2,246	2,427	2,649	2,888	3,094
Other Revenue	10,058	12,332	11,773	11,842	14,532	15,516
TOTAL REVENUE	38,588	43,257	45,096	46,704	51,770	55,972
EXPENSES						
Legislative	69	77	93	95	86	104
Executive & Legal	1,084	1,090	1,111	1,244	1,402	2,600
Cultural Services	755	832	901	935	968	1,064
Development Services	2,461	2,161	2,590	2,360	2,940	1,889
Finance	109	279	343	355	374	517
Fire & Rescue	3,857	4,297	4,673	5,072	5,771	6,432
Parks & Recreation	4,254	4,760	5,042	5,167	5,338	5,920
Police	9,025	9,634	10,631	10,863	11,590	12,557
Public Works	4,228	5,818	6,145	6,458	6,989	7,724
Non-Departmental	6,384	9,509	8,041	8,103	8,414	9,174
Other	-	-	152	292	128	1,734
TOTAL APPROPRIATIONS	32,225	38,457	39,722	40,943	43,999	49,715
NET OPERATING REVENUE (LOSS)	6,363	4,800	5,374	5,762	7,771	6,257
TOTAL CAPITAL EXPENDITURES	6,843	3,366	3,082	2,986	8,188	8,041
NET CHANGE IN FUND BALANCE	-480	1,434	2,292	2,776	-417	-1,784
RESERVES						
Tabor Reserves	5,973	4,019	5,229	4,170	4,678	5,164
Council Capital Reserves	1,110	2,238	3,774	5,433	4,061	3,833
Other Reserves	1,228	1,138	1,693	2,031	1,800	1,950
Unreserved:						
Designated for Economic Uncertainty	1,184	2,595	2,526	2,802	3,106	2,850
Remaining Unreserved Balance	-	939	-	1,563	1,935	-
ENDING FUND BALANCE	9,496	10,929	13,222	15,998	15,581	13,797



Economic Conditions

Population & Unemployment

In 1950 the City of Loveland was home to 6,773 residents. Now, the City has grown to over 60,000 residents. From 2000 to 2005, Loveland has seen an increase in population of 11,263 residents. The growth in the last six years accounts for 88% of the growth seen in the entire 1990s.

The unemployment rates of Larimer have mirrored the trend of the national and state rates. Larimer County began the decade with unemployment rates below 3%. In 2003, the rate peaked at 5.7% and has seen a declined to 4.1% by 2004. The rates have stayed below the national and states rates during this time frame.

Consumer Price Index Changes

Changes in prices effects the cost of City services and the value of retail sales that generates sales and use taxes. One of the most direct effect of changes in the CPI is the amount of revenue the city is allowed to collect and spend without restriction under the TABOR amendment. Changes in inflation are determined by changes in the Denver/Boulder CPI. This index can be above the national index depending on how the local economy is doing compared to the national economy. Since 2000, the Denver/Boulder CPI has been above the national index in three years and below it in the two most recent years. For 2004, the Denver/Boulder CPI was virtually unchanged, rising only 0.1% from 2003. This was largely due to the impact of housing in the Denver area on the index. This lower than expected increase added $400,000 to the City's excess TABOR revenue in 2004.

The national inflation rate of inflation rose 15.85% from 2000 to 2005, while the Denver-Boulder-Greeley index rose about 10% during this time frame. Housing costs, including rent and maintenance costs, impact these increases significantly, comprising approximately 42% of the CPI index. Inflation, as measured by the CPI, shows the region has maintained below inflation at the national level, helping stimulate more growth and economic development.

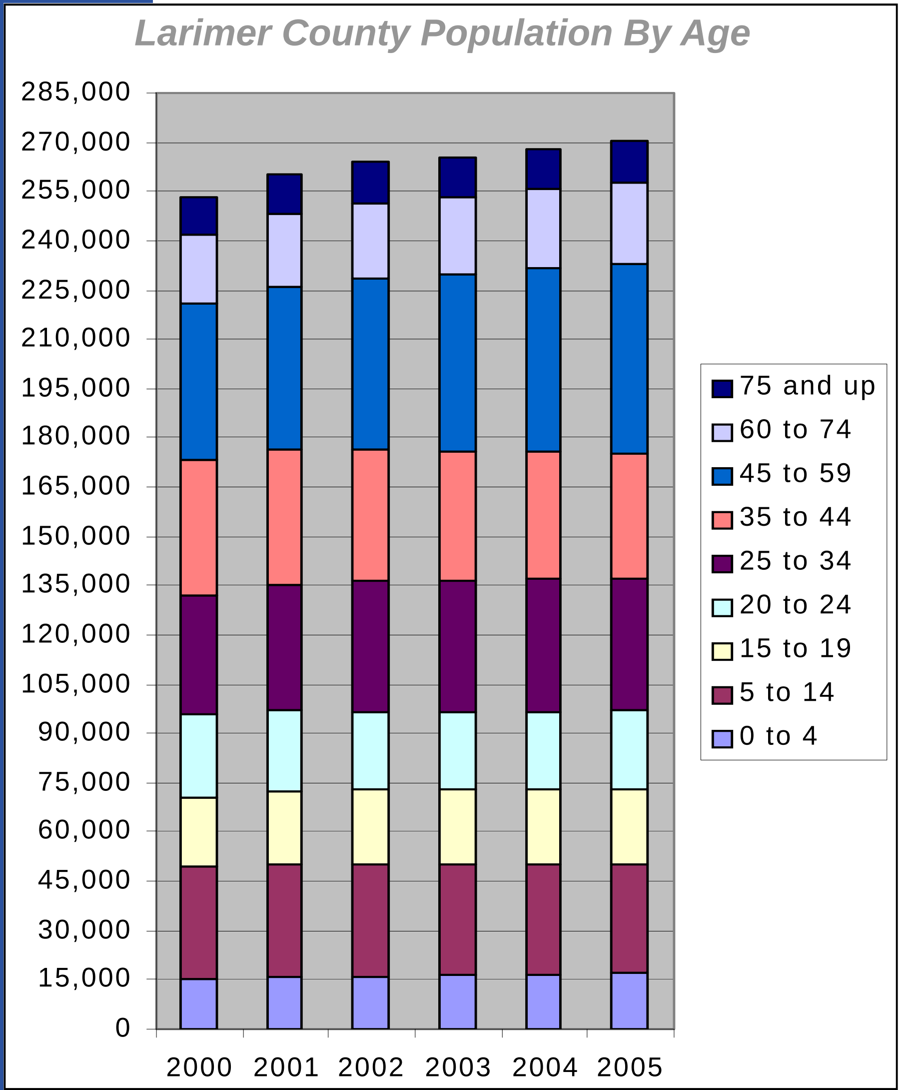
Demographics

As discussed earlier, the population of Loveland has changed significantly since 2000. With a 22% increase in population within six years, the demographic make up of residents has also changed. The majority of

The 2005 working cash balance is forecast to end at $2,548,000 where it began the decade at $5,048,000 decreasing $2,500,000 within 5 years.

The TABOR reserve was utilized more significantly in 2005. Costs of $6,708,000 were taken from TABOR to fund street construction, equipment replacement, and operations.

residents residing in Larimer County are between the ages of 24 to 54. Yet, there has been a decrease of 26% in population between the ages of 5-14, 20-24, 35-44, which reveals families are moving away from Larimer County and younger residents are not staying to begin their careers. The most significant increase in population since 2000 is within the age range of 45 to 64, increasing 24% over the last five years. One assumption that can be made when comparing these figures to the 1990 and 2000 censuses is that residents whom moved to Larimer County in 1990 when they were within the 35-44 age group stayed in Larimer County, while the residents in their twenties and earlier thirties tend to leave within the fifteen years of analysis.



The median income for Larimer County over the last six years increased 18% to $69,200. Though this increase is substantial, the gain is offset by many factors. The cost of housing has gone up 33% over the last six years. Therefore, the cost associated with living in the region has increased more than earnings that can give rise to an increase in personal debt that may have adverse effects on the local economy. This theory is being realized in the trends of foreclosure and bankruptcy filings. The foreclosure rates of Larimer County has increase 142% between 2000 and 2004. The personal bankruptcy rate between 2001 and 2004 increased an outstanding 854% from .61% to 5.82%.

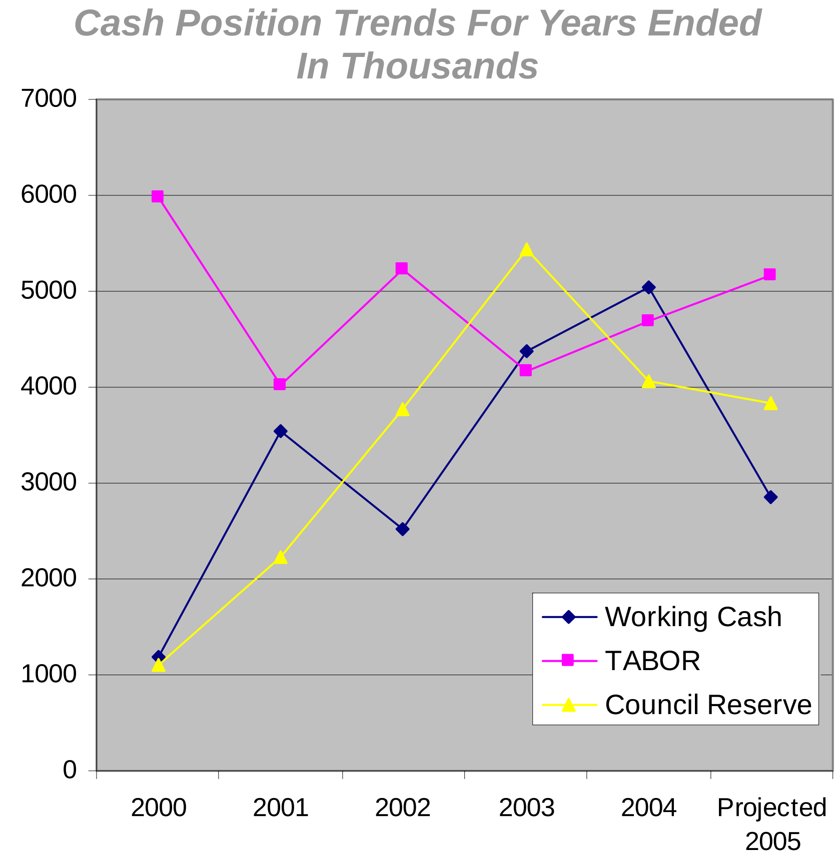
Cash Reserves

Over the past five years, the City of Loveland has seen steady financial growth. Overall, cash funds have increased by 58% over the last five years. The TABOR reserve has increased by 26% since 2000, leaving a net effect of $4.6 million at the end of 2004. Since the inception of the Council reserve in 2000, $16 million has been expended and $4 million remains in this account at December 31, 2004. The major change in the cash position of the City within the last five years is in the restricted cash funds. On January 1, 2000, the City had $3.7 million in restricted funds, 42%. By the end of 2004, the City accumulated $8.7 million in restricted funds.

The City has three cash accounts: working cash for operations, TABOR reserve used primarily for street construction and youth services, and the Council Reserve for appropriation guided by Council decisions.

The Council reserve was established by ordinance. The reserve was originally established to set aside 10% of tax revenue underneath the TABOR cap, but in 2005 this was reduced to 5%. This reserve was established to use on appropriations specifically approved by Council. Over the five years, this reserve has accumulated

$14.5 million in funds, with appropriations of $10.5 million allocated to the debt of the Police/Court Building. The future spending of this reserve is unknown and for the following years the funds will accumulate without projecting appropriations.

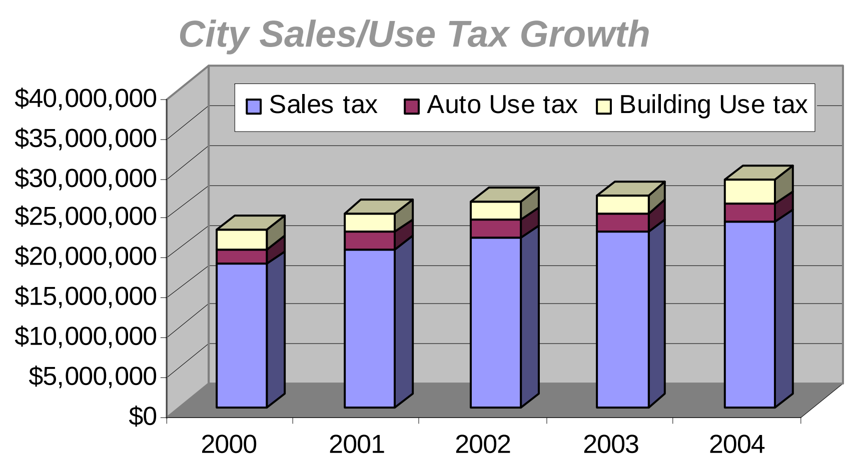


Revenue

Revenue growth has been a significant factor in the cash position of the City. Over the prior five years the City realized a 34% increase in revenue. Property, Sales, and Use Tax accounts for the largest portion of total revenue and attribute 21% of the increase in General Fund revenue. One element to the increase is population; there was a 19% growth rate from 2000 to 2004. Another facet is the strong real estate market the region has seen. The average price of homes in the area increased 33% over the past six years. Along with these factors, the economic development of Loveland has seen significant changes, giving way to additional revenue streams. Over the past two years, over 25 new businesses have opened in Loveland, excluding the shops due to open at the Centerra Life Style Center in October, 2005, which accounts for approximately an additional 70 shops. Without many significant rate changes to taxes, user fees, and other charges, Loveland's revenue increase is mostly attributable to retail growth in the area.

Sales & Use Taxes

Sales and use taxes are the most significant revenue source for the City's general operations. Overall since 2000, these taxes have increased on average of 6.4%. Sales taxes and auto use tax tends to increase more consistently than use tax on building materials. This is due to the cyclical nature of building activity. Since 2000, the annual increases in sales and auto taxes combined has increased from 3.3% in 2003 to 10.3% in 2000. By comparison, building material use tax experienced a decrease in 2002 of 6.7%



The two reserve accounts are restricted accounts.

The City's working cash availability has decreased 21% since 2000.

*General Fund revenue growth has increased **34%** since 2000. Sales & Use Tax has increased **29%** since 2000.*

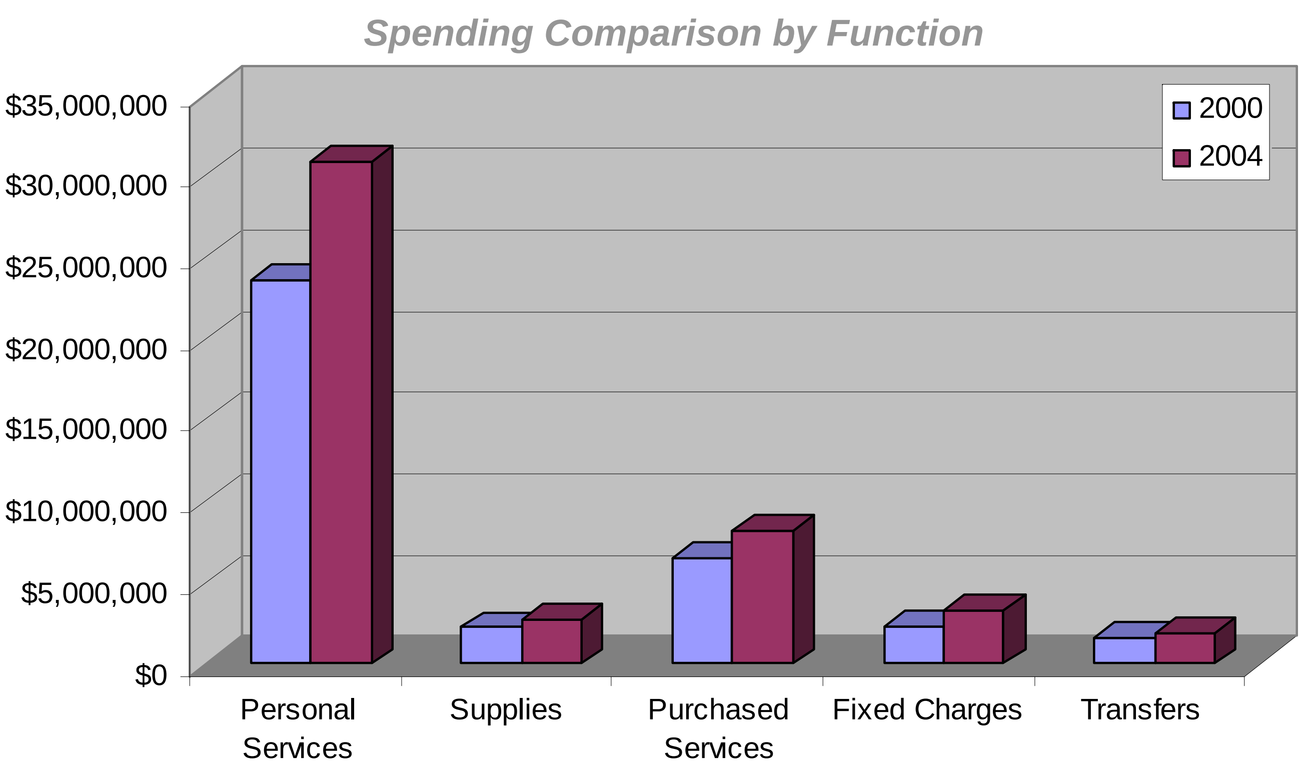
but in 2004 had an increase of 35% from the previous year. As Loveland has gained new retail businesses the growth in sales tax revenue has risen faster than the population growth. Since 2000, the sales tax revenue has increased 29% with only a 19% increase in population. This result is attributable to more opportunity for Loveland residents to shop in the city and the transition to becoming a regional retail center.

*Since 2000, the City has experienced **steady and strong** growth.*

General Fund Expenses

General Fund operating expenses increased from 2000 to 2004, by 37%. Personal services contribute to a significant portion of this increase. Associated with the City population growth and service demands, the staffing levels within the City have also seen an increase. Between 2000 and 2004, 72.6 FTE's have been hired, 42.6 in the General Fund. Employee costs for the General Fund's 351.26 FTEs have increase significantly averaging 23.5% increase over the last five years. Health care cost increased 122% since 2000 for the entire city. This increase with additional hiring of employees accounts for the majority of the increase in operating expenditures.

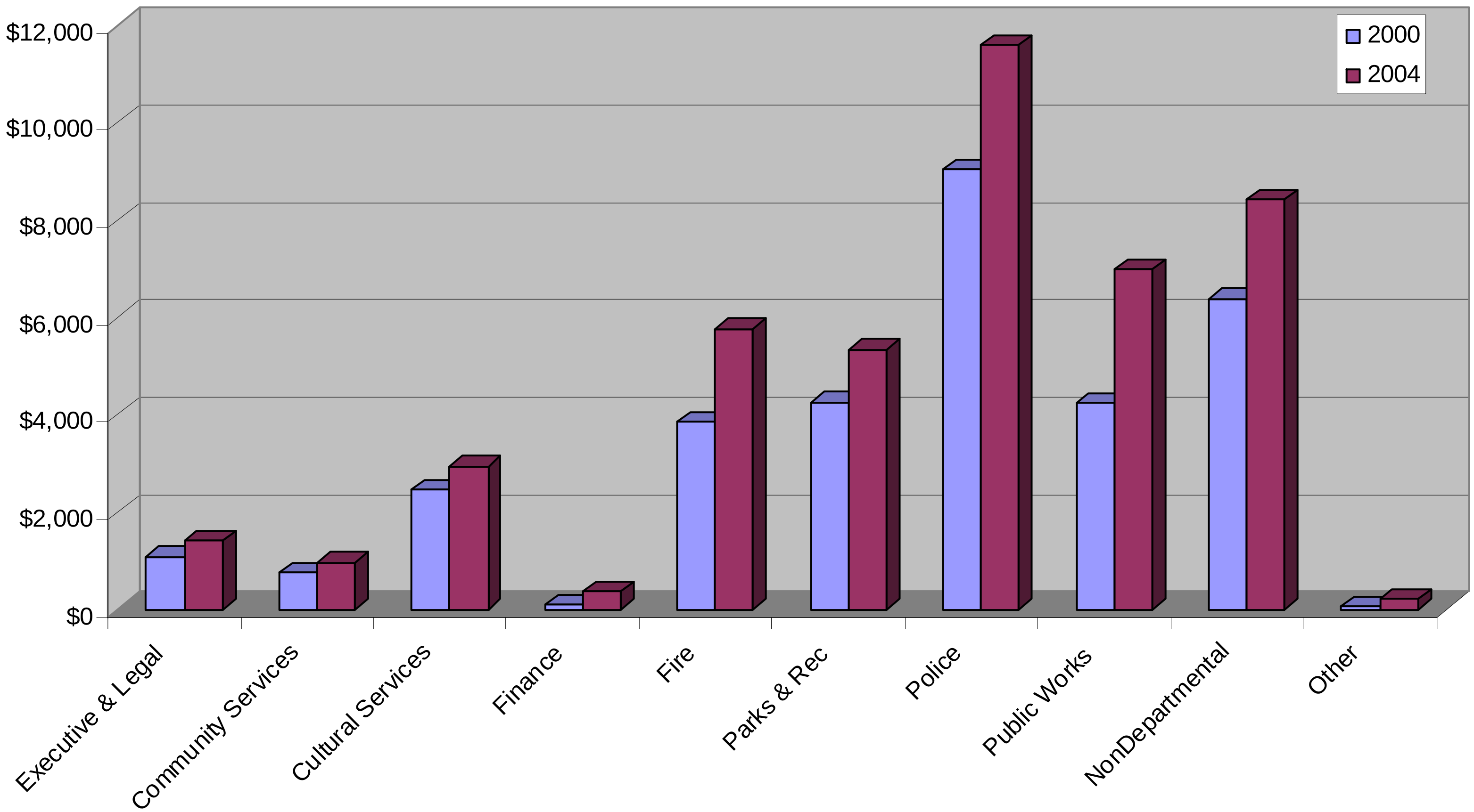
The increase in operating expenditures for the City of Loveland can be summarized by four major economic factors. The inflation rate increased 10% over the last five years, causing prices the City paid for operations to increase. Secondly, the increase in population of 19% in five years, caused the City to expand its staffing levels to provide quality services to its existing and new customers. Next, health care costs across the nation have seen massive increases—Loveland is not an exception. Costs rose 122% from 2000 to 2005. Lastly, the expansion of the City services as a whole to meet growing demand caused two new fire stations into operations, 10 new police officers to patrol new neighborhoods, and the development and maintenance of 61 new miles of road since 2000.



Capital expenditures reflect the expansion the City has experienced. In 2000, $5.3 million was spent on capital expenditures, while $3.8 million was spent in 2004. These projects were in part funded with TABOR reserves. In 2004, 75% of the projects were funded with these reserves. Major projects constructed between 2000 and 2004 were: Fire Station 6, Youth Sports Complex, Police/Courts Building, and approximately $19 million in street construction.

The chart below details the departments before the 2005 internal restructuring of departments compared from 2000 to 2004. Fire and police not only expanded on their FTE's but added operating cost of new facilities. Parks and Public Works increases in spending within the last five years can also be attributed to new facilities and costs for ongoing maintenance of existing infrastructure.

General Fund Operating Spending—Then and Now



Public safety and transportation have led the growth in spending.

Five-Year Projections

The 2006-2010 period of the Plan shows continued growth and careful additions to the General Fund operating budget.

Finance Master Plan General Fund Revenue & Expenses	2006 Projected	2007 Projected	2008 Projected	2009 Projected	2010 Projected
Note - all numbers in $1,000's					
Beginning Fund Balance	13,797	16,715	21,035	26,475	31,824
REVENUES					
Property Tax	6,252	6,615	7,514	7,950	9,031
Sales and Use Taxes	34,021	37,374	39,918	41,909	44,516
Interfund Transfers	3,327	3,437	3,564	3,692	3,807
Other Revenue	15,348	16,064	16,956	17,386	18,055
TOTAL REVENUE	58,948	63,489	67,953	70,936	75,409
EXPENSES					
Legislative	119	128	129	129	129
Executive & Legal	2,330	2,435	2,545	2,659	2,779
Cultural Services	1,055	1,103	1,152	1,204	1,258
Development Services	2,142	2,238	2,339	2,444	2,554
Finance	712	744	777	812	849
Fire & Rescue	7,141	7,462	7,798	8,149	8,516
Parks & Recreation	6,526	6,820	7,127	7,447	7,782
Police	13,190	13,784	14,404	15,052	15,729
Public Works	7,889	8,244	8,615	9,003	9,408
Non-Departmental	9,513	9,941	10,388	10,855	11,344
Other	550	1,649	2,395	3,487	4,628
TOTAL APPROPRIATIONS	51,166	54,547	57,669	61,242	64,977
NET OPERATING REVENUE (LOSS)	7,782	8,942	10,284	9,694	10,432
TOTAL CAPITAL EXPENDITURES	4,864	4,622	4,844	4,345	4,471
NET CHANGE IN FUND BALANCE	2,918	4,320	5,440	5,349	5,961
RESERVES					
Tabor Reserves	5,618	7,449	10,125	13,094	16,109
Council Capital Reserves	5,517	7,392	9,393	11,573	13,931
Other Reserves	2,021	2,132	2,232	2,324	2,441
Unreserved:					
Designated for Economic Uncertainty	3,537	3,809	4,077	4,256	4,525
Remaining Unreserved Balance	21	253	647	577	780
ENDING FUND BALANCE	16,715	21,035	26,475	31,824	37,785

For this section of the Plan, it is again important to note that supplemental costs that are included in this Plan do not represent the total requests that were turned in by the departments. Finance worked briefly with the City Manager's office early in the budget process in an attempt to prioritize the requests and fund what was possible with the available resources, however, the City Manager has not had ample time or information to work with this data and formulate a recommended plan. For illustrative purposes, we have included a supplement packet of data with this document that contains a completed list of supplement items as requested by the departments.

The City is in the final steps of adopting the 2006 Budget, so this portion of the Plan is becoming a reality. The remaining four years, 2007 to 2010, are the most critical piece of the Financial Master Plan. The revenue figures included in this time-frame are conservative and intended to cover the projected increases in the base budget. They also provide some room for additional services to be included.

The crux of the matter is what services should be increased in this time-frame. The Finance Department has made a few basic assumptions about spending in this period.

The assumptions are based on ten-year planning projections made by the Departments in early 2005. The Departments made requests that totaled over $30 million for the years 2006 to 2010 that would add over 140 new positions to the General Fund. Similar to the annual budget process, the revenues expected in this time-frame are not sufficient to meet all of the Departmental requests.

The Budget Office sorted the Departmental requests into two basic categories: those required due to growth and enhancements to City services.

The five-year projections as shown in this plan focus on the Departmental requests that serve growth. The key additions are noted below. Staff recognizes its role to be that of an advisor and not a decision maker. The final decisions for any plan and the allocation of resources remain a Council responsibility. The main benefit to this financial planning process will be the sharing of information and discussion about future priorities. If Council can agree on a direction for future financial decisions, the upcoming budget processes and the provision of services should be improved.

Highlights for the Next Five Years

Included in the Plan for **2006-2010** are the following:

- ☑ Open the Youth Sports Complex;
- ☑ Meet replacement needs for all heavy equipment and fire apparatus;
- ☑ Fund building maintenance projects at $500,000 in each year;
- ☑ Fund the streets construction program at $2 million in all years;
- ☑ Open Fire Station 10 (2009);
- ☑ Adds 5 IT support positions;
- ☑ Adds 5.8 positions in Finance;
- ☑ Open a 40,000 sq. ft. expansion to the Recreation Center (2008);
- ☑ Open Mehaffey Park (2009);
- ☑ Funds a major renovation of the Winona Pool Bathhouse (2006); and
- ☑ Adds 10 sworn police officers and 4 civilian positions in the Police Department.

Balanced Budget Requirement

The City operates under a balanced budget requirement. Spending in any given year can not exceed current year revenue and money held in reserves.

Strong national and state economies should support Loveland.

In addition, the City has prudently set reserve policies to offset downturns in the economic cycle.

Why?

The Economic Environment in Which We Exist

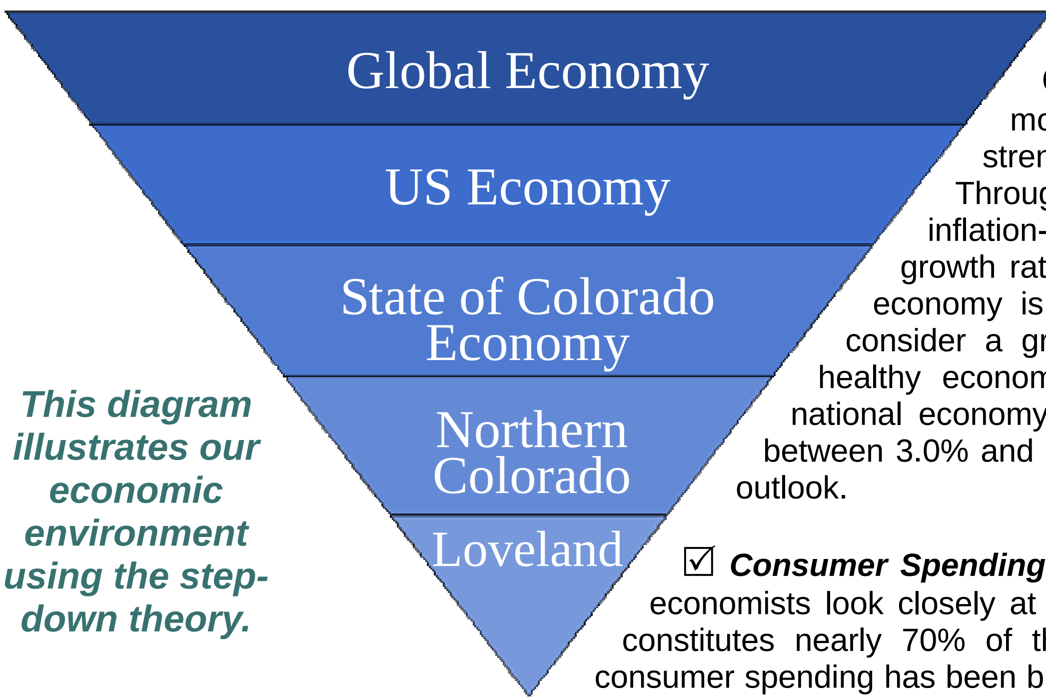
Now, more than ever before, the City of Loveland competes in a global economy. High technology and other manufacturing companies in our region compete with companies located in Europe, Asia, and South America. This fact means Loveland can and will be affected by global economic shifts. More immediately, the City is affected by regional competition within the State of Colorado, the economy of the State and the economic conditions prevalent at the national level. In economic theory, this relationship is referred to as the “step-down” theory.

Over the years, Loveland’s local economy has been stronger than the state.

Loveland continued to grow during the state’s downturn between 2001-2003.

National and State Forecasts

On a regular basis, the State Office of State Planning and Budgeting releases information about the outlook for the national economy and that of the State. In the section immediately below, a summary of the June 20, 2005, report is provided. On September 20, 2005, the Office will release the third quarter report and Finance Department staff will update the outlook. Information about four economic indicators are discussed briefly.



This diagram illustrates our economic environment using the step-down theory.

National Economy

Gross domestic product is the most widely used measure of the strength of the national economy. Through the first quarter of 2005, the inflation-adjusted GDP increased 3.5%. The growth rate in 2004 was 4.4%, so the national economy is slowing somewhat, but economists consider a growth rate at or about 3% to be a healthy economy. Over the next five years, the national economy is expected to continue to grow at between 3.0% and 3.5%. Overall this is a stable growth outlook.

☑ ***Consumer Spending.*** Within the total GDP measurement, economists look closely at consumer spending as this category constitutes nearly 70% of the total GDP. In the recent past, consumer spending has been buoyed by tax cuts and borrowing from home equity. Retail sales at the national level are expected to slow because these two sources of income are dissipating. Rising interest rates will also dampen demand, especially for large ticket items like homes, cars, and major appliances. Consumer spending grew at 3.8% in 2005 and the annual estimate for 2005 is 3.7%.

☑ ***Business investment*** grew a very healthy 10.3% in 2004 and is expected to average 6.9% in 2005. Again, tax act changes are affecting this economic statistic. A 2003 change allows small businesses to expense capital investments more quickly than before. This stimulated the higher growth rate in 2004 at the expense of 2005. Business investment is being supported by replacement demand and investment in new technology. Future growth will need strong profitability, healthy cash flows, and more tax incentives. Rising interest rates will also dampen spending in this sector.

☑ ***Government spending*** grew at a 1.9% rate in 2004. It is expect to drop to 1.2% in 2005 and bounce back to 2.0% in 2006. The war in Iraq, homeland security, entitlement programs, and health care costs are the major drivers in the increase in national government spending. State and local government spending are forecast to increase by 0.5% in 2005 and 2.2% in 2006. Most states and local governments are recovering from the prior years' slowdowns.

The major risk to the national economy is another recession.

Inflationary pressures are forecast to moderate at the national level. Consumer prices rose 2.7% in 2004 and are expected to rise 2.5% in 2005 and 2.5% in 2006. When the second quarter report was released the consensus of the economists was that energy prices would moderate. They have not and it is expected that the third quarter view of inflation will be revised upwards. Energy price are the key risk to the forecast. Two other components of inflation are cost of shelter and medical costs. Nationwide, shelter is expected to rise 2.5% in 2005 and medical costs will be up 4.6%.

Interest Rates are forecast to rise slightly over the remaining months of 2005 and through 2006. The forecast calls for an average interest rate of 4.7% on the 10-year Treasury Bond in 2005 rising to 5.8% in 2006. Economists expect that this rate will be maintained through the forecast period. The federal funds rate, the rate on short-term money is targeted at 4.5%. The Federal Reserve hopes this rate will support a sustainable growth economy.

Employment at the national level is expected to continue to growth in the 1.8% range through 2005 and 2006 before dropping to a 1.0% growth rate in 2007. Construction is expected to stay strong but manufacturing employment levels will likely decline over the next five years. Unemployment rates are forecast to average 5.3% and 5.1% in 2005 and 2006, respectively. As the labor market strengthens, idle workers will be drawn back into the labor force, offsetting the number of currently unemployed workers. Through the forecast period the unemployment rate is not expected to reach lower than 4.9%.

The Colorado recovery is finally starting to kick in.

Risks to the National Forecast

The threat of global terrorism poses a significant downside risk, limiting consumer and business confidence. Energy prices and their failure to moderate in the near future will disrupt the recovery. The imbalance in trade (the U.S. buying more foreign goods than selling American products abroad) might further undermine the value of the dollar. Finally, household debt burdens and defaults are high and the prospect of decreasing house prices in overpriced markets increases household credit quality. Weakened credit quality could curtail households' ability to spend. Representing nearly 70% of the GDP, this factor alone could weaken economic growth.

The Colorado economy is closely linked to the national economy. A national recession would be hard on Colorado.

Colorado's Economic Outlook

Employment. After lagging the recovery experience nationally, Colorado's economy is finally showing some strength. In 2004, Colorado employment rose 1.3% – an increase of about 28,000 jobs. Through the first half of 2005, employment rose 2.4%, among the top ten states in terms of employment growth. The outlook for 2006 is even stronger – 3.0%. During the forecast period the unemployment rate should fall from the 5.1% mid-year mark to about 4.4%.

Inflation in the Centennial State rose a mere 0.1% in 2004. The falling cost of renting properties in the State precipitated this result. For 2005 and 2006, the cost of shelter is expected to stabilize and costs in the energy and medical sectors should lift the consumer price index for Colorado to 2.0% in 2005 and 2.2% in 2006.

Wages and Income. Growth in Colorado per capita income continues to outpace the national average. In 2004, personal income grew 5.6%. In 2005, the forecast calls for a growth rate of 6.0% increasing to 7.0% in 2006 and beyond.

Population and Migration. In 2004, net in-migration to Colorado totaled 15,400 people and the growth rate for the state was 1.2%. For 2005 and 2006, the rates of growth are estimated to be 1.2% and 1.3%.

Construction Activity. Residential housing permits rose 15.6% in 2004. The value of non-residential permits (excluding non-building projects like roads) increased by 26.3%. Housing permits are expected to fall by 6.5% in 2005 and another 0.8% in 2006 before recovering in 2007. Non-residential permit values are expected to drop by 18.2% in 2005 and increase by 1.9% in 2006.

Retail Trade sales in Colorado rose 6.2% in 2004, with most of the growth occurring in the last six months of 2004. For 2005, sales are forecast to grow by 6.0% and by 5.5% in 2006. Colorado consumers appear to satiated as they took advantage of low interest rates and tax rebates to make purchases earlier than would have occurred without them.

Risk to the Colorado Economic Forecast

The Colorado economy is closely tied to the national economy. Should the national economy falter, the State would follow the trends very closely. The nascent recovery in the State could slip back into recession.

What does this Mean for the City of Loveland

In today's state and regional economies, no community is isolated from the effects of national and state events. Looking back at the last 15 years, Loveland has outperformed the economic statistics of the State of Colorado and we expect that we will continue to outperform the state. Local economic performance will be stronger if the state continues its rebound from the multi-year recession and the cuts that the state budget sustained between 2001-2003.

Loveland is gaining market share and with the advent of the Centerra development at Interstate 25 and U.S. Highway 34, our market share will be given an additional boost. Loveland shoppers will have, within their own community, many of the retail opportunities that used to be available only in the surrounding communities. Loveland will also attract shoppers from the northern Colorado region. People that used to travel to Broomfield, Greeley, or Fort Collins will now be stopping and shopping in Loveland.

Retail expansion in Loveland is cause for an ***optimistic*** *outlook.*

Depending on the success of the new retail in Centerra and the surrounding developments, Loveland sales taxes could grow significantly. For purposes of the 2006 Budget and the Financial Master Plan, conservative estimates have been used.

It is also imperative to consider the opposite possibility. Should the national and state economies falter and slip back into recession, there could be a dampening effect on the Loveland economy. Retail sales depend both on the availability of disposable income from new and better jobs and availability of new retail space to capture the additional income. A recession could mean that the sales projections at Centerra and other Loveland locations may not meet the forecasts and the City may have difficult decisions to make. Expectations are optimistic, but not overly optimistic. However, the impacts of a downtown could be somewhat considered by the fact that a large portion of the new revenue is going into the TABOR reserves.

2006-2010 projections are cautiously optimistic as there are no guarantees in the highly competitive retail markets.

Five-Year Forecast

The Five-Year Forecast provides the framework within which the City Council develops its annual and long-term goals and objectives and the leadership team prepares its annual budget. The Budget Department updates the projections each year to adjust for changes in national and local economic conditions and trends, changes in Council priorities and policies and other variables that might affect the city's ability to provide needed services.

Shifts in many outside sources impact how the City operates. Larimer County recently had a change in County Assessors, which has changed the valuation process of properties within the City of Loveland. This process, outside the City's scope, has caused a projected increase of 6% in the 2006 property tax revenue, when typically the past has seen increases of 13.6%. The delay from Congress to pass the Transportation Bill has caused the City to budget for expenditures that in the past had federal revenues to offset. For 2006, these expenditures are being budgeted for by local sources, because it is still unknown the amount of funds the City will receive. For 2006, the Lifestyle Center will be fully operational; the City does not have any historical figures for projecting accurate revenues from the sales associated with the Center. Therefore, the 2006 budget relies on projections from the Developers, which may have significant variances from the actual figures.

Forecasting is a valuable tool to assist in making informed decisions to ensure the city's future vitality and economic stability. The Budget department goes through extensive analysis of past and present conditions to arise to the most accurate projections. The figures are reviewed quarterly for the current budget and annually for years outside of the budget year.

Employee Salary Adjustments

The projections are programmed to include pay range adjustments for city employees. In accordance with city policy, the pay range adjustment is derived within a market-based pay plan. The plan uses market pay established through an independent survey as the mid-point; the salary range for each level is set at 12.5-20% above and below the mid-point.

For the 2006 budget, salaries are projected to increase 3.5% on average. This increase is merit based and realizes the pay range adjustment will fluctuate.

*Health care costs are projected to increase **20%**, yet historical trends can not be relied on because of the increasing volatility in the prior five years.*

Anticipated Spending Changes

Health Care

Benefits offered by the City to employees who work at least 20 hours per week include medical, dental, disability, and life insurance. Over the past five years, health care cost has seen a drastic increase, increasing higher than the national average. These costs have changed policy direction from Council. Employees are now required to fund 20% of the benefit costs.

To project the costs of health care for the next five years is quite difficult to do. For example the previous five year increases have ranged from 10.64 to 37.7%. There are numerous factors relating to the increase in health care cost, an increase in FTEs, a total of 77.9 since 2000, the age of the population of employees in the City, and the overall increase in health care services.

For 2006, the City is projecting a 20% increase in health care claims. This projection is down from the 2004 actual increase of 37.7%. Cost projecting after 2006 is difficult to determine. If costs continue to rise the City needs to look at different options to reduce these costs that could change the structure of the program. The City is looking at the long-term initiatives such as plan design, wellness programs, cost sharing arrangements, and competitive position in employment markets.

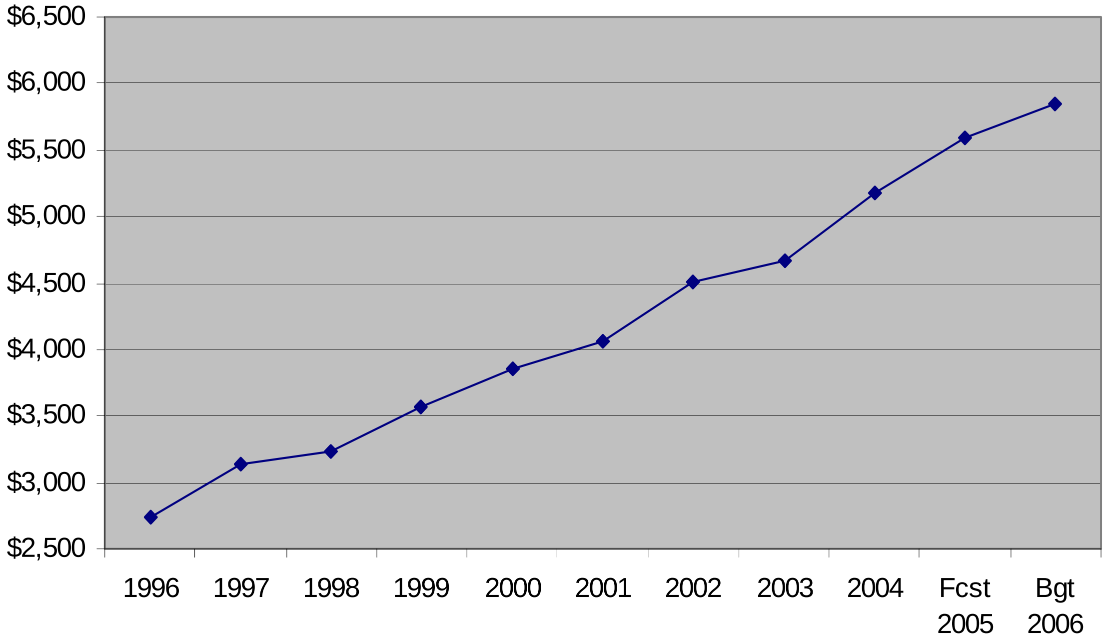
2006 Employee Supplements

For the 2006 budget a proposed supplement of 15.4 additional General Fund employees was recommended to Council. These supplements are not one-time costs, but ongoing with increases yearly. It is projected that personal services will increase 4.5% each year, this includes salary, personal insurance, and retirement. The following numbers are costs associated with these additional supplements for the next five years:

	Annual	Cumulative
FY 2006 -	$1,209,570	$1,209,570
FY 2007 -	$1,264,001	$2,473,571
FY 2008 -	$1,320,881	$3,794,452
FY 2009 -	$1,380,321	$5,174,773
FY 2010 -	$1,442,435	$6,617,208

The impact of new employees to the City will have an ongoing effect to the organization. As seen above within five years of employment the City will have invested $6.6 million into these employees. Four of these employees will be hired at the new Youth Sports Complex that will generate additional revenue into the City, the remaining employees will are funded from established tax sources.

General Fund Revenue History
Dollars in Ten-Thousands



Expected Changes to Expenditures

The identification of issues and concerns that will affect the overall cost of providing high quality level of services that our citizens have come to expect is a critical part of the projection process.

The maintenance of existing

Additions to the base budget have a strong effect over time—that's why we look at cumulative costs.

With all the growth in recent years, the Transportation system has severe "catching –up" it do.

infrastructure will continue to challenge our ability to sustain and improve existing levels of service in future years. As discussed in the 2020 Transportation Plan, maintenance for the next 20 years, as of 2000, will cost $160 million, on average $8 million per year in 2000 dollars. The revenue to pay for these cost include auto use tax, State Road and Bridge Fund, State Highway User Tax Funds, Motor Vehicle Fees, Transportation Fee, and a portion from the General Fund.

Capital expansion fees for streets are being studied for revisions.

Since year end 2004, maintenance and operations expenditures for the Street department equate to 26% of planned costs, $42,392,686. Over the last five years, the average cost is $8,478,537, slightly above projections in the Transportation Plan. Growth related factors are one reason of the increase in spending. The 2001, 2002, and 2003 years that exceeded the average planned expenditure, were the years where population growth reached above average rates.

For 2006, the budgeted expenditures for the street maintenance are $6.7 million, within the planned range. This is expected to increase for the next five years by 4.5%.

Street capital expansion is a vital service to the community growth. The City of Loveland has established Capital Expansion Fees for new street construction. Over the next five years, $32.3 million is programmed for construction and renovation of the City streets. Besides CEFs, the General Fund will contribute TABOR Reserves. For 2006 and the next four years, the contribution from the General Fund will be $2 million for street construction.

The City of Loveland Transportation (COLT) is a public transportation program ran in the Public Works Department. This program operates three paratransit buses, one mid-size bus and one low-floor heavy-duty transit bus to provide quality, low-cost transportation to Loveland residents.

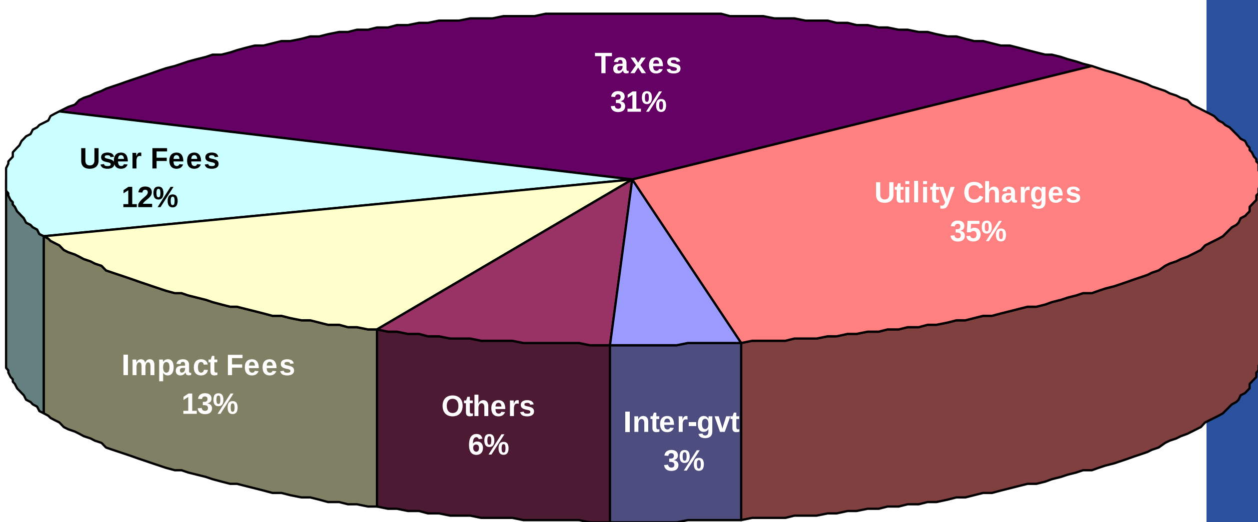
The COLT program is heavily reliant on federal grants, in 2004, 90% of total revenue was from federal grants to operate. In 2005, these funds dropped dramatically, but operations were operating at full capacity. A deficit of $330,000 is forecast to occur in 2005. For 2006, expenditures are increasing less than 1% while zero federal funds are projected. Services will remain the same, and the program will continue with or without federal funds. Therefore, the supplement from the General Fund in future years is projected to increase.

General Fund Revenue Forecast

Over the past decade there has been constant growth in the General Fund (GF) revenues. Revenues are projected to grow through the year 2015, yet not to the extent of the prior 10 years. Over the past 10 years revenue growth has been sporadic, for example the growth in 1998 was 3.08% but in 1999 the growth increased 10.65%, the highest increase until the 2002 year when revenue grew 11.02%. The year 2004 was another great year for revenue growth increasing by 10.86%, while in only two of the ten years the smallest growth rate was still a healthy 3%.

The projections from 2006 to 2015 are reviewed and analyzed by individual revenue sources, the increase in total GF revenue are ranging from a 3.3% to 7.54% increase in total GF revenue. These projections are using conservative growth ratios and do not predict double digit growth that was seen in three of the prior 10 years. The major source of GF revenues includes Sales, Use, and Property Taxes, Permits and User Fees, Intergovernmental, and Interfund Transfers. Below is a brief discussion regarding these major components of revenue.

Where The New Money Comes From



City Sales and Use Tax

City sales tax is the largest revenue source in the tax category. Loveland's current city sales tax rate is 3%. In 2005, the sales tax forecast is $819,980 above the 2005 budgeted sales tax projection. Sales tax has been a stable revenue source for the City ranging from 46% to 48% of total GF revenue since 2001. For the 2006 budget, this tax accounts for 48% of the total GF revenue source. The 2006 sales tax forecast includes one full year of operations at the new Lifestyle Center, which accounts for 6% of total sales tax collections. The 2006 budgeted sales tax base and following four years, excluding the Lifestyle Center, are projected using a growth rate of 5%. The sales tax projections for the Lifestyle Center and Centerra developments are based on sales per square foot shown in the Master Financing Agreement between the City and the developer.

Total Amount
$127,728,948

Utility Charges
$44,022,640

Taxes
$38,663,786

Impact Fees
$17,682,292

User Fees
$15,631,236

Inter-gvt
$5,969,890

Others
$5,759,104

Use tax is imposed on building materials and motor vehicles at a rate of 3%. Use tax is collected once a building permit is issued and based on the estimated cost of building materials. The 2006 budgeted use tax revenue is 10% of total GF budget revenue.

In 2004, the use tax revenue increased from the prior year by $601.566 or 12%, attributable to commercial construction. Yet, the 2005 projected use tax revenue is projected to increase only $358,248 or 6.6%, primarily due to a lower rate of increases in residential construction and building valuations. For the 2006 budgeted projection, the increase rate of use tax revenue will be 3%, again primarily due to modest residential construction and building valuations growth.

Assessed Valuation differs from fair market value by a factor of 12 for residential property. For commercial property, its about 3.5.

Overall, the use and sales tax is an essential revenue stream for the general government accounting for 55% of 2004 actual revenues and 58% of the 2006 budgeted revenues.

Property Tax

The City has maintained a mill levy of 9.564 since 1992. One mill represents $1 tax for every $1,000 of assessed property value. The mill is multiplied by the assessed valuation of a property to calculate the property tax. The assessed valuation is the actual value of the property based upon sales of comparable properties within the local real estate market. Reassessment of property occurs every two years.

Property Tax accounts for the second largest source of revenue to the General Fund. For 2006, collections are budgeted for $6.3 million or 11% of total General Fund revenues, an increase of 6% over 2005 projected collections. During 2004, collections were $5.7 million, an increase of 5.7%. Projections for property tax increase is dependent on the year of assessment. For reassessment years the growth is estimated to be 13.6%, while the odd year growth is projected at 5.8%.

Overall, taxes account for 72.8% of 2006 General Fund budgeted revenues. These revenue projections are based upon growth of the city, the components of this growth, the state-wide economic conditions, and now with the booming retail industry an understanding of the regional economic conditions.

Fees and Charges

These revenues cover a variety of charges and fees for city services such as building permits, plan reviews, liquor and contractor license, court fines and penalties, cemetery services, user fees to the recreation/senior center, and several other fees. In the past 5 years, these revenues generate approximately 10-12% of the General Fund revenues. These revenues are approximately 12% of the 2006 budgeted revenues for the

General Fund. The 2006 budgeted revenues are projected to decline from the 2005 forecasted numbers. The decline is specifically within the licenses and permits, primarily from the decrease in permits issued for the Lifestyle Center. The projection assumes the residential growth is remaining constant. The Development Services Department internally projected 2006 revenues lower than revenues in the Budget document. This difference was reviewed and the approach to realize approximately $650,000 in additional revenue was based on historical trends. There is an increase projected in user fees which are accounted for by the new Youth Sports Complex and the increase rates at the Chilson Center.

Intergovernmental Revenues

These revenues are received from federal, state and county sources. The largest item is the Highway Users Tax Fund, which is derived from gasoline taxes. Distributions are made to cities based on the number of registered vehicles and number of miles of maintained streets. Other sources include: road and bridge taxes from Larimer County for road and bridge construction, maintenance and administration; ambulance dispatch service revenues from the Thompson Valley Hospital District; fire dispatch services for the Town of Berthoud; the State Highway maintenance Contract and Traffic Signal Maintenance Contract budgeted according to the stated amount of the contracts; and federal grants for mass transportation.

The outlook for federal and state support calls for less intergovernmental revenue.

During 2004, the City saw an increase of $1.4 million of funds or 31% increase. This increase was attributable to a Federal Transportation Administration operating grant that was carried over from 2003. In 2005, the forecast remains constant to the 2004 collections, but the 2006 budgeted revenues are down $861,960 or 19% decrease. This decrease is due the philosophy used by the Finance Department. The City will not project operating grants that have not been appropriated at the federal level. For example, the FTA has not appropriated funds to the City for the bus operations; therefore the 2006 budget includes no federal funds for this program.

It is projected by 2015 these revenues will get back to 2004 levels.

Much of these funds are determined outside of the City's control and based upon federal and state availability. Therefore the Finance Department maintains when revenue is known and easily predictable the revenue will be included in the budget. The operation expenditures for these programs will continuously be budgeted for but there are times when the revenue will not appear in the budget. The Accounting Department will recognize the revenue but the budget will not be revised.

Interfund Transfers

Transfers occur between funds to pay for services provided by other departments. The General Fund receives Payments In Lieu of Taxes (PILT) which are charges to all enterprise funds based on a percentage of revenue received, or to combine funds received from different revenue sources within one fund to budget for a capital project.

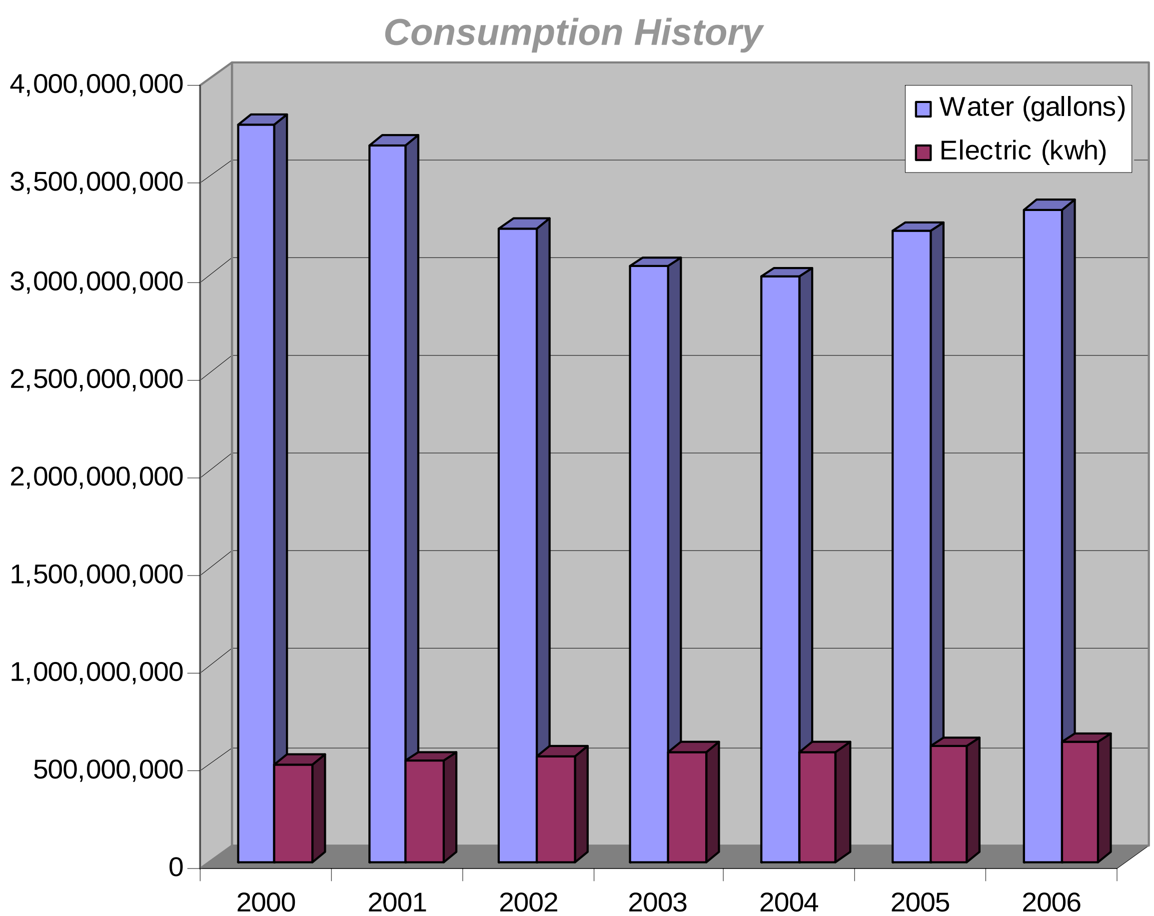
For the 2006 budget, these revenues will account for 5.6% of the budgeted General Fund revenues. During the past 5 years, these revenues were increasing between 7 and 9%, but the 2007 projection increase is only 3.3%. These projections were derived from the Enterprise Funds 10-year plans, which have taken the conservative approach to revenue projections with no rate increase, only calculating growth increases.

Other Revenue

This category includes interest income, miscellaneous revenues, and transportation fees. These revenues account for 3% of the budgeted 2006 revenues. The Transportation Fees are the major source in this category making up 60% of these revenues. The Transportation Fees are imposed to each residential and commercial customer to fund the Street Rehabilitation Program.

Water consumption shows a recovery from the severe drought of 2003 and 2004.

Electric consumption shows steady but moderate growth.



Utilities

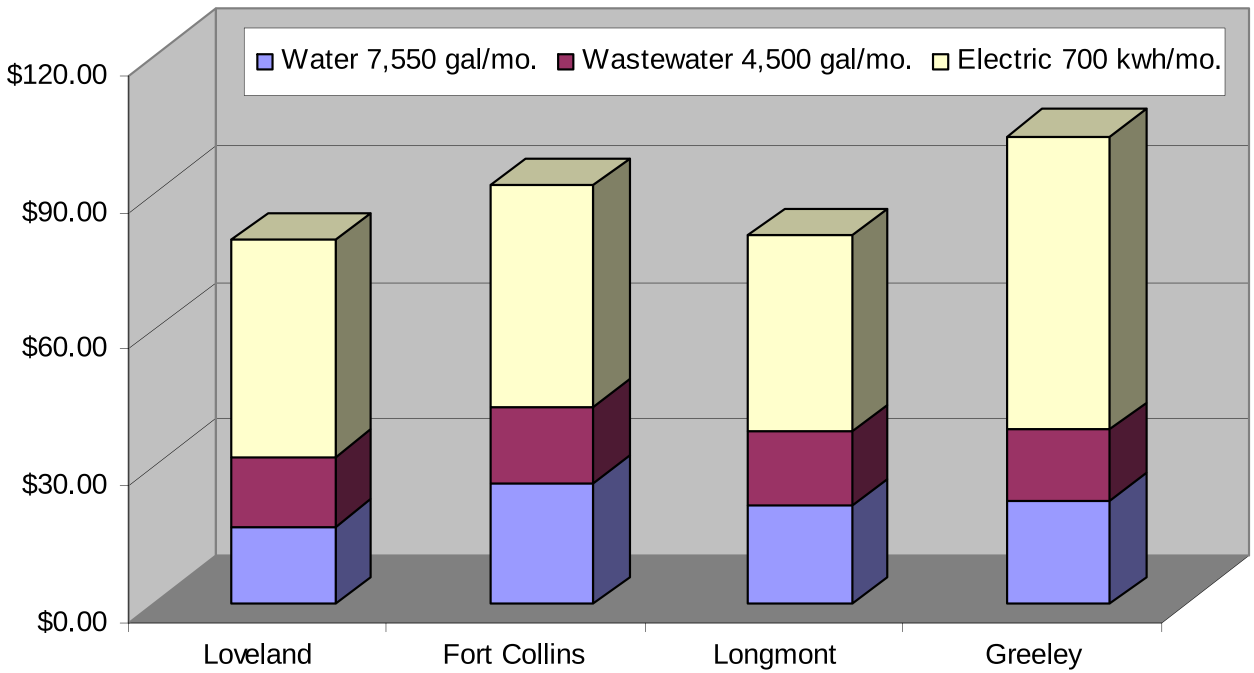
For the Enterprise Funds, the 10 year financial plans are an indispensable tool in each entity's decision-making process. Any proposed new programs or capital projects must be plugged into the 10 year plans to see the impact they have on the bottom line. The primary focus in the 10 year plans is on two lines – Ending Working Cash Balance (the unrestricted cash balance which is used for operations and maintenance expenses and non-growth related capital projects) and Ending System Impact Fee Balance (the balance of funds available only for growth-driven capital projects). Those two lines will provide indicators as to a given fund's strength or weakness in the long term.

It is always a priority to provide our customers with reliable service at the lowest possible cost. Therefore, in assembling the 10 year plans, many iterations take place involving cutting of costs and delaying of capital projects in an attempt to keep the Working Cash and System Impact Fee balances positive as far into the future as possible. There is considerable investment in capital projects, and, more recently, significant new regulatory requirements that put a heavy demand on the fund balances. After all of the cost cutting and project delaying that is possible, if the 10 year plan shows either the Working Cash Balance or the System Impact Fee balance turning negative within a three year period of the current year, that is an indicator of the need to explore raising rates or fees.

Compared to its neighbors, Loveland utilities fare well.

Based on total utilities costs, Loveland is the lowest.

Typical Single Family Residential Monthly Bill—Based on 2005 Rates



Five-Year Capital Plan

The City of Loveland's five–year Capital Improvement Plan is the financial plan for the City to maintain existing facilities and infrastructure and meet the needs for new facilities and infrastructure, which are funded through taxes, impact fees, or other special revenues. Projects have been prioritized using the Council's major goals for the City, by need and by operating impacts to the General Fund. Projects have been funded in the plan to minimize operating impacts in any one year, so that operating expenditures will keep pace with revenue growth allowed under TABOR. Most of the funding for the plan is from dedicated resources, not General Fund resources, as shown in the graph below.

All projects included in the first year of the Capital Plan are funded in the 2006 Recommended Budget. Projects included in the "out–years" (2007–2010) will be approved by Council in concept only. The Plan will be updated annually to address specific needs as they arise, or as Council goals and policies change.

There are far more capital needs than the City has resources to fund. Growth within the City has strained both the street system and the parks system to maintain levels of service to which the community has become accustomed.

The City has developed a 20-Year Transportation Plan to widen existing and construct new streets necessary to keep traffic movement at "Level C". The Transportation Plan is funded with CEF revenue and $2 million of General Fund revenues in each year of the Plan. For 2006, the General Fund portion is funded by using the TABOR revenue reserves.

Total Budget
<u>$35,663,700</u>

Enterprise Funds
$17,791,080

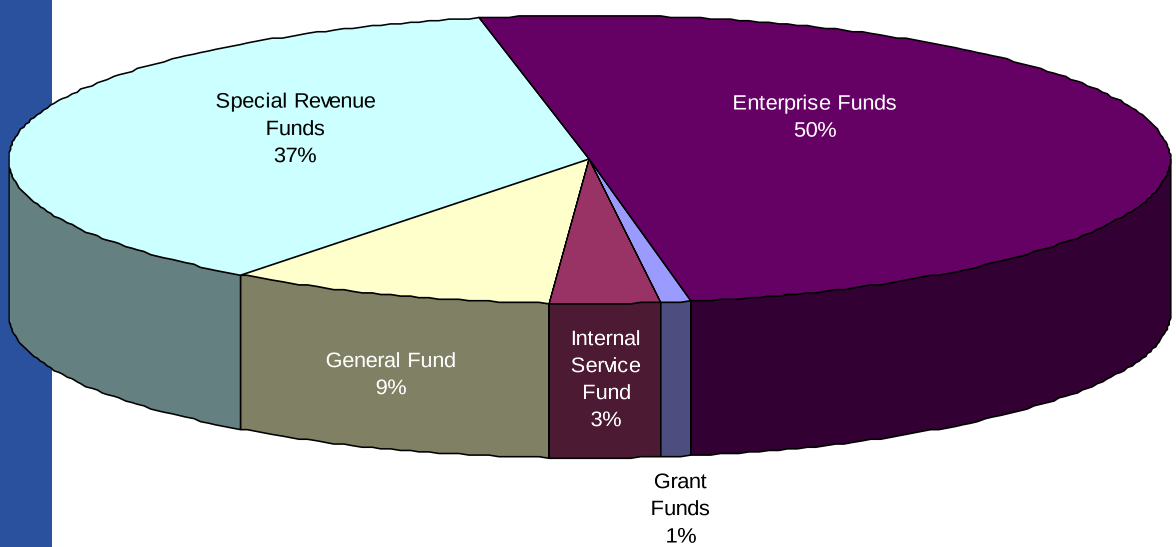
Special Revenue Funds
$13,077,740

General Fund
$3,221,500

Internal Service Fund
$1,273,380

Grant Funds
$300,000

2006 Capital Budget Funding= $35,663,700



CIP Project Overview

The majority of the Capital Plan resides in the Enterprise Funds and the Capital Expansion Fee (CEF) fund. The CEF fund is where all impact fees with the exception of Plant Investment Fees (PIF) and System Impact Fees (SIF) are budgeted. The PIFs and SIFs are included within the Utility Enterprise funds capital programs. The following is a summary of the major projects included in the Capital Improvement Plan.

Building Projects

Facility Maintenance Projects – In 2003, the City began an accelerated facility maintenance program. Many of the City facilities are now over 10 years in age, and will require an increased maintenance effort. This will include roof replacements, upgrades or replacement of heating and cooling systems, carpet replacement, and general repair. The City will put over $2.7 million towards this effort over the five-year period. The funding source is General Fund revenues.

Service Center Addition – Phase III of the addition to the Service Center Complex will house the Streets, Solid Waste, Traffic Engineering, Street Project Engineering and the Storm Water divisions, along with the equipment associated with these operations. The project is projected to cost $6.7 million to complete, and is projected to open in 2009. The funding source is General Government impact fees, Storm Water and Solid Waste Enterprise revenues.

Recreation Center Expansion – In 2008, the expansion of the Recreation Center will provide additional court and exercise space. The total cost is projected to be $9.6 million. The funding source is Recreation impact fees.

Picture of construction of the bike trail underpass at US Highway 34

Park Projects

Mehaffey Park – Development of the new 60-acre community park in the northwest side of town, with play facilities and athletic fields. The total projected cost is $6.1 million and the facility is planned to open in 2009. The funding source is Park impact fees.

Water Rights and Parkland Acquisition – $4.5 million is allocated over the five-year period to increase the amount of water in the Park's portfolio and to acquire additional parkland. The funding source is Park impact fees.

Open Land Acquisition – Over $10.5 million is programmed over the next five years for the purchase of additional open space around the City. The funding sources are the Open Space impact fees and the County Open Space Sales tax.

Trail Construction – $1.9 million is programmed over the next five years for construction of the bike/hike trail that will circle the City upon completion. The funding sources are Colorado Lottery funds and Trail impact fees.

Golf Course Improvements – Course improvements at two of the three golf courses are programmed at $630,500 over the five-year period, with $202,000 at the Olde Course, $428,500 at the Cattail Creek Course. The funding source is Golf Enterprise revenues.

Youth Sports Complex – In 2006, $1.3 million is added to complete the funding for the project, with $500,000 from Parks and Recreation CEFs and $800,000 from the Park Improvement Fund. The Centennial Park phase of the project is completed and opened in 2005. The Youth Sport Park phase is near completion and anticipated to open for the 2006 season. The Barnes Park phase will begin with the 2006 funding.

Infrastructure Projects

Street Construction – $32.3 million is programmed over the next five years for construction and renovation of the City streets. The funding sources are the Streets CEFs and General Fund revenues.

__Storm Water System Improvements__ – $6.4 million is programmed over the five-year period for storm water improvements. The funding source is Storm Water Enterprise revenues.

__Storm Water Quality__ – $250,000 is programmed over the five-year period for the new storm water quality program to meet increasing storm water quality regulations. The funding source is Storm Water Enterprise revenues.

__Storm Water Oversizing__ – $2.5 million is programmed to reimburse development for oversizing the storm drainage system in new developments. The funding source is Storm Water impact fees.

Picture of Water Treatment Plant Improvements

__Water Delivery Projects__ – $12.2 million in various water delivery projects, including main extensions and oversizing, is programmed over the five-year period. The funding source is Water Enterprise revenues and impact fees.

__Water Treatment Plant Improvements__ – The 2006 cost is $2.37 million, with a total of $4.27 million of projected costs over the next five-year period. Both operating revenues and SIF fees fund the projects. This is an annual program to keep the treatment plant current with demand technology improvements and EPA/State mandated compliance with water quality regulations.

__Wastewater Main Improvements__ – $7.4 million is programmed for wastewater main improvements. The funding source is Wastewater Enterprise revenues and impact fees.

__Wastewater Treatment Plant Improvements__ – This is an ongoing program resulting from new EPA mandates for water quality and anticipated growth. Costs for 2006 are $1.8 million, with a total of $7.9 million of projected costs over the next five-year period. Both operating revenues and SIF fees fund the projects.

__Power Distribution Projects__ – $35.7 million is programmed over the five-year period for various power distribution projects. The funding source is Power Enterprise revenues and impact fees.

Operating Impacts

For most of the capital plan, particularly in the Enterprise Funds, the operating impacts are incremental due to additional miles of trails, water lines or power lines. For these projects, and for the Facility Maintenance

Public Work Projects	2006	2007	2008	2009	2010
Service Center	-	-	-	125,000	-
Hatfield Chilson Rec. Ctr. Expansion	-	-	215,000	-	-
Youth Sports Complex	384,000	-	252,000	-	-
Mehaffey Park	-	-	-	420,000	-
Kroh Park Expansion	-	-	-	-	100,000
Total	**$384,000**	**-**	**$467,000**	**$545,000**	**$100,000**

projects, the operating expenses may go down since they are replacing old lines or equipment, increasing the reliability, and decreasing annual maintenance required. Due to the replacement schedule budget savings in total may not be achieved due to the aging of infrastructure not being replaced and experiencing increased maintenance costs.

When a new capital project is planned, the City estimates the operating impacts to the General Fund due to additional staffing and maintenance. The estimated cost is the first full year of operation. The table below shows the estimated impacts of five projects. In each of the ensuing years, the project will have slightly higher operating costs.

For example, the Youth Sports Complex opens in 2006 with an expected annual operating cost of $384,000. This base amount, plus any inflationary amounts, will also occur in 2007 through 2010. In 2008, additional programming at the Complex will increase the annual operating costs by $252,000. This amount will be added to the $384,000 from 2006 and any inflationary adjustments to give a total operating costs in the neighborhood of $650,000 annually by 2008. Over the next five year period, the operating costs for the Youth Sports Complex will be about $2.7 million. This example clearly demonstrates the connection between adding capital projects and operating costs.

Pictures of current construction of the Youth Sports Complex.

Using the same type of analysis, the other four projects in the table would add about $1.8 million of operating expense in the 2006-2010 period.

Additional Out Years

The further out the projections, the more tenuous they become.

As assumptions change from year to year based on actual experience, there is a possibility for large changes in the additional out years.

Finance Master Plan **General Fund Revenue & Expenses**	**2011 Projected**	**2012 Projected**	**2013 Projected**	**2014 Projected**	**2015 Projected**
Note - all numbers in $1,000's					
Beginning Fund Balance	37,785	43,544	49,240	54,707	60,187
REVENUES					
Property Tax	9,555	10,855	11,484	13,046	13,803
Sales and Use Taxes	46,911	49,147	51,552	53,781	55,295
Interfund Transfers	3,938	4,061	4,188	4,331	4,461
Other Revenue	18,628	19,251	19,909	20,561	21,260
TOTAL REVENUE	79,033	83,313	87,133	91,719	94,819
EXPENSES					
Legislative	129	129	129	129	129
Executive & Legal	2,904	3,035	3,171	3,314	3,463
Cultural Services	1,315	1,374	1,436	1,500	1,568
Development Services	2,669	2,789	2,915	3,046	3,183
Finance	887	927	968	1,012	1,058
Fire & Rescue	8,899	9,299	9,718	10,155	10,612
Parks & Recreation	8,133	8,499	8,881	9,281	9,698
Police	16,437	17,177	17,950	18,757	19,602
Public Works	9,831	10,274	10,736	11,219	11,724
Non-Departmental	11,854	12,388	12,945	13,528	14,137
Other	5,821	7,067	8,369	9,730	11,152
TOTAL APPROPRIATIONS	68,879	72,957	77,218	81,672	86,325
NET OPERATING REVENUE (LOSS)	10,154	10,356	9,915	10,047	8,494
TOTAL CAPITAL EXPENDITURES	4,395	4,660	4,448	4,567	4,632
NET CHANGE IN FUND BALANCE	5,758	5,696	5,467	5,480	3,862
RESERVES					
Tabor Reserves	18,057	19,362	20,822	21,457	22,655
Council Capital Reserves	16,485	19,245	22,223	25,433	28,728
Other Reserves	2,556	2,684	2,807	2,945	3,085
Unreserved:					
Designated for Economic Uncertainty	4,742	4,999	5,228	5,503	5,689
Remaining Unreserved Balance	1,703	2,950	3,625	4,849	3,892
ENDING FUND BALANCE	43,544	49,240	54,707	60,187	64,049

In the ten-year financial planning process done in the spring of this year, the General Fund departments requested over $30 million in new programs or projects and 142 new full time equivalents (FTEs) using General Fund revenue sources. Many of these projects require capital funding from Capital Expansion Fees (CEFs) to build the project and General Fund resources to operate the facility after it is completed. Examples include new fire stations or new parks. There are not enough resources forecasted in the plan, to fund these request under the current policy constraints.

To attempt to balance the Plan, the Finance Department divided the requests by those that are required due to growth and those that are enhancements to City services. The requests that are in response to growth total $15.3 million. Placing the requests that are growth related into the year they were requested caused the plan to become unbalanced because a majority of the projects were requested in the first two or three years of the plan. By spreading the requests throughout the ten years, the Plan comes closer to being in balance. The 6% reserve policy was not met in any one year, but was within acceptable limits over time.

The planned increases in **2011-2015** include:
- ☑ Open Fire Station 11 (2013);
- ☑ Open Phase II of the Loveland Youth Sports Complex (2013);
- ☑ Adds 3 IT support positions;
- ☑ Add 2 Finance positions;
- ☑ Adds 7 sworn Police officers and 1 civilian position in the Police Department;
- ☑ Meets heavy equipment and fire apparatus replacement needs;
- ☑ Funds building maintenance projects at requested levels; and
- ☑ Funds streets construction program at $2 million per year.

Since this work was completed, the final CPI calculation for 2004 TABOR amounts have been finalized, and the CPI assumptions for the early years in the plan have been reduced. The impact is significant funding that had been projected to be outside the TABOR restrictions are now within the TABOR reserve. To continue to fund all of the items will require use of TABOR revenue for some of these additions, or some of the projects will need to move to the unfunded list.

Department	Amount
Parks & Recreation	$5,857,000
Public Works	$3,053,210
Police	$2,811,240
Fire & Rescue	$2,688,300
Library	$539,000
Executive & Legal	$300,360
Human Resources	$245,000
Development Services	$199,850
Cultural Services	$33,000
Total	**$15,726,960**

Department	FTEs
Executive & Legal	2.3
Cultural Services	2.8
Development Services	1.0
Finance	0
Fire & Rescue	21.2
Human Resources	0
Information Technology	0
Library	5.0
Parks & Recreation	2.0
Police	25.0
Public Works	8.3
Total	**67.6**

For the 10-year planning exercise, unfunded requests from departments included 67.6 full time equivalent positions. The total of the unfunded requests was over $15.7 million. The tables to the right show the unfunded FTE requests and the unfunded funding requests.

Once again, the theme of the public safety and transportation come to the fore. The unfunded requests also display the City's desire to meet projected parks and recreation demands of the community.

Program highlights include:
- ☑ An increased public relations effort to communicate with the citizens;
- ☑ Increased staffing for existing fire stations;
- ☑ Increasing the number of police officers per capita;
- ☑ Increasing the number of hours the library is open and increasing the services provided;
- ☑ Partial development and operating of the old Fairgrounds property, opening another new regional park; and
- ☑ Increased road construction engineering and inspection staffing.

With each ensuing budget, the departmental requests are likely to change. The tables and charts will change as different funding packages are recommended. The bottom line is that in the additional out years of the financial master plan are clearly not set in stone.

For the "Additional Out Years", Finance had to make several assumptions. The result comes close to meeting the reserve policy.

Glossary

The following terms are defined specifically for use in this Financial Master Plan.

Amendment One (TABOR)

An amendment to the Colorado State Constitution that limits revenues and expenditures to the inflation rate, measured by the Denver–Boulder Consumer Price Index, Urban Area (CPI–U), and growth (defined as new construction) of the jurisdiction in the prior year. All new or increased taxes must be voted on by the public. Also, it establishes mandatory emergency reserves.

Appropriation

A legal authorization made by the City Council to make expenditures and incur obligations for specific purposes.

Appropriation Ordinance

An ordinance by means of which appropriations are given legal effect. It is the method by which the expenditure side of the annual budget is enacted into law by the City Council.

Assessed Valuation

A valuation set upon real estate or other property by the county assessor to establish a basis for levying taxes. It is equal to 7.96% of market value for residential property and 29% for commercial and industrial property.

Bond

A form of borrowing money for major capital projects, such as buildings and streets. The city obligates itself to repay the principal at a stated rate of interest over a stated period of time.

Capital Outlay

An item that costs $2,500 or more and is expected to last one year or longer. Examples include vehicles, carpet and equipment.

Capital Expansion Fee (CEF)

An assessment on new development to contribute to providing new infrastructure necessitated by population growth.

Capital Improvements

Expenditures related to the acquisition, expansion or rehabilitation of an element of the city's physical structure, sometimes referred to as infrastructure. Examples include buildings, streets, bridges, parks and utility systems.

Capital Improvement Plan

An annually updated plan of capital expenditures for public improvements, infrastructure and major fixed assets over a five–year period.

Capital Project

Expenditure for equipment, machinery, facilities, or infrastructure that will provide long–term service or other public benefits.

Carryover

Amount of money remaining at the end of the preceding year available for appropriation in the current budget year through an ordinance commonly called the rollover ordinance.

CDBG

Community Development Block Grant.

CFAC

Citizens' Finance Advisory Commission.

CEF

Capital Expansion Fee (see definition above).

Comprehensive Master Plan (CMP)

The Comprehensive Master Plan is adopted by Council as the long range, comprehensive development policy of the City of Loveland.

Contractual Services

Expenses that are usually incurred by entering into a formal agreement or contract with another party. Expenses included in this category can include insurance, repairs or professional services.

Debt Service

Annual principal and interest due on long–term debt such as loans, notes and bonds incurred by the City.

Depreciation

The accrued financial expiration in the service life of fixed assets because of wear and tear, deterioration, action of physical elements, inadequacy or obsolescence.

Encumbrance

Obligations in the form of purchase orders or contracts which are chargeable to an appropriation and for which a part of the appropriation is reserved. Obligations cease to be encumbrances when paid or when the actual liability is set up.

Enterprise Fund

Funds that are self–supporting through user fees. Examples include water, golf, solid waste and power. By the TABOR amendment these funds can not have more than 10% of their budget subsidized by general government revenues.

Expenditure

Payment for goods or services, including operating expenses that require the current or future use of net current assets, debt and capital outlays. Note that an encumbrance is not an expenditure, but reserves funds to be expended.

Fiscal Year

The twelve–month period to which the operating budget applies. This is January 1 to December 31 for the City of Loveland.

Fixed Assets

Assets of long–term character that are intended to continue to be held or used, such as land, buildings, machinery and other equipment.

FTE

Full–time equivalent. The hourly equivalent of a full–time employee. An FTE can be made up of either one full–time employee or two or more part–time employees whose total hours equal 40 per week.

Fund

Accounting entity with a self–balancing set of accounts, which is segregated from other funds, to carry on specific activities or attain certain objectives.

Fund Balance

On–hand available cash balances which are realized in prior fiscal years less current liabilities and are available for designation as a funding source for a future budget year.

General Fund

A central fund into which most of the City's tax and unrestricted revenues are budgeted to support basic municipal services, public safety and administrative activities of the City; financed mainly by sales tax and property tax.

GIS

Geographic Information System. GIS is a specialized information system for capturing, storing, querying, analyzing, and displaying geographic data. Geographic data describes both the location and the characteristics of features or objects on the earth's surface. That ability makes GIS more than just maps; they are smart maps that can do everything from environmental analysis to site location for a new video store.

Home Rule

A limited grant of discretion from the State of Colorado to Loveland, concerning either the organization of functions or the raising of revenue. Loveland became a home rule city in May of 1996.

Intergovernmental Revenue

Amounts of money received from federal, state and other governmental bodies.

Internal Services Fund

Activities which provide support services to other City departments. Example: Accounting.

Intra–City Charges

Items counted both as revenue and expense in two separate funds, which the revenue is received only once from an outside source. It usually occurs because one fund provides a service to another fund.

Lease–Purchase Agreement

Financial arrangement which permits the City to pay for the use of equipment or machinery over a period of time through a lease and to purchase it at the end of that time.

Mill Levy

Rate by which assessed valuation is multiplied to determine property tax. A mill is 1/10 of one cent or $1.00 of tax for each $1,000 of assessed valuation.

Net City Budget

Total City operating and capital budget net of transfers among funds, and internal service charges. This amount represents a close approximation of projected spending.

Operating Budget

The portion of the budget that pertains to daily operations providing basic governmental services. The operating budget contains appropriations for such expenditures as personal services, supplies and materials.

Paratransit Service

Door to door transportation services for people who due to health or disability can not use fixed route transportation services.

PIF

Plant Investment Fee. (See definition below.)

PILT

Payment in lieu of tax. An estimate of the amount of taxes that would be chargeable to a utility if owned privately.

Personal Services

Salaries, wages, benefits and other related costs of employees.

Plant Investment Fee (PIF)

Fees assessed to new development that will finance the construction of the infrastructure to assure that adequate capacity is in the system to serve growth in the Power utility. This fee is similar in nature to a Capital Expansion Fee.

Projection

Estimation of future revenues and expenditures based on past trends, current economic conditions and financial forecasts.

Property Tax

Annual charge to owners of real property, based on assessed valuation and the mill levy.

Reserve

Funds set aside in the current and past years for the purpose of paying for capital needs, providing for obligations and liabilities, and meeting emergency needs.

Reserve Fund Balance

The portion of a fund's balance that is legally restricted for a specific purpose and is, therefore, not available for general appropriation.

Resources

Total amounts available for appropriation, consisting of estimated beginning funds on hand plus anticipated revenues.

Revenues

Funds that the government receives as income such as tax payments, user fees, charges, special assessments, fines, grants and interest income to support the services provided.

Risk Management

As organized attempt to protect a government's assets against accidental loss in the most economical manner, and programs to minimize worker injury and supervisory actions to limit City liability.

RSF

Retail Sales Fee. A fee collected by the merchant for developer or sub-unit of government such as a Metropolitan District to fund the cost of infrastructure and other approved expenses.

Self-Insurance

Establishment of a sum of money sufficient to pay anticipated claims. Used as a planning process to control costs and coverage in lieu of paying premiums to insurance companies.

SIF

System Impact Fee. (See definition below.)

Services Rendered

Charges made to a fund for support services provided by another fund.

Special Assessment

A compulsory levy made against certain properties to defray part or all of the cost of a specific improvement or service deemed to primarily benefit those properties.

Special Improvement Districts (SID)

A district composed of property owners who have agreed to join together to complete and pay for the cost of public improvements.

Special Revenue Funds

A fund used to account for the proceeds of specific revenues that are legally restricted to be spent for specific purposes. Example: Capital Expansion Fees.

Supplemental Requests

Programs and services that departments would like or have added (in priority order) over their target budget, or if revenue is received is greater that anticipated.

System Impact Fee (SIF)

Impact fees on new development that contribute to financing utility facilities to meet the needs of increased population. Applies to the Water, Wastewater and Storm Water utilities.

TABOR (Tax Payers' Bill of Rights)

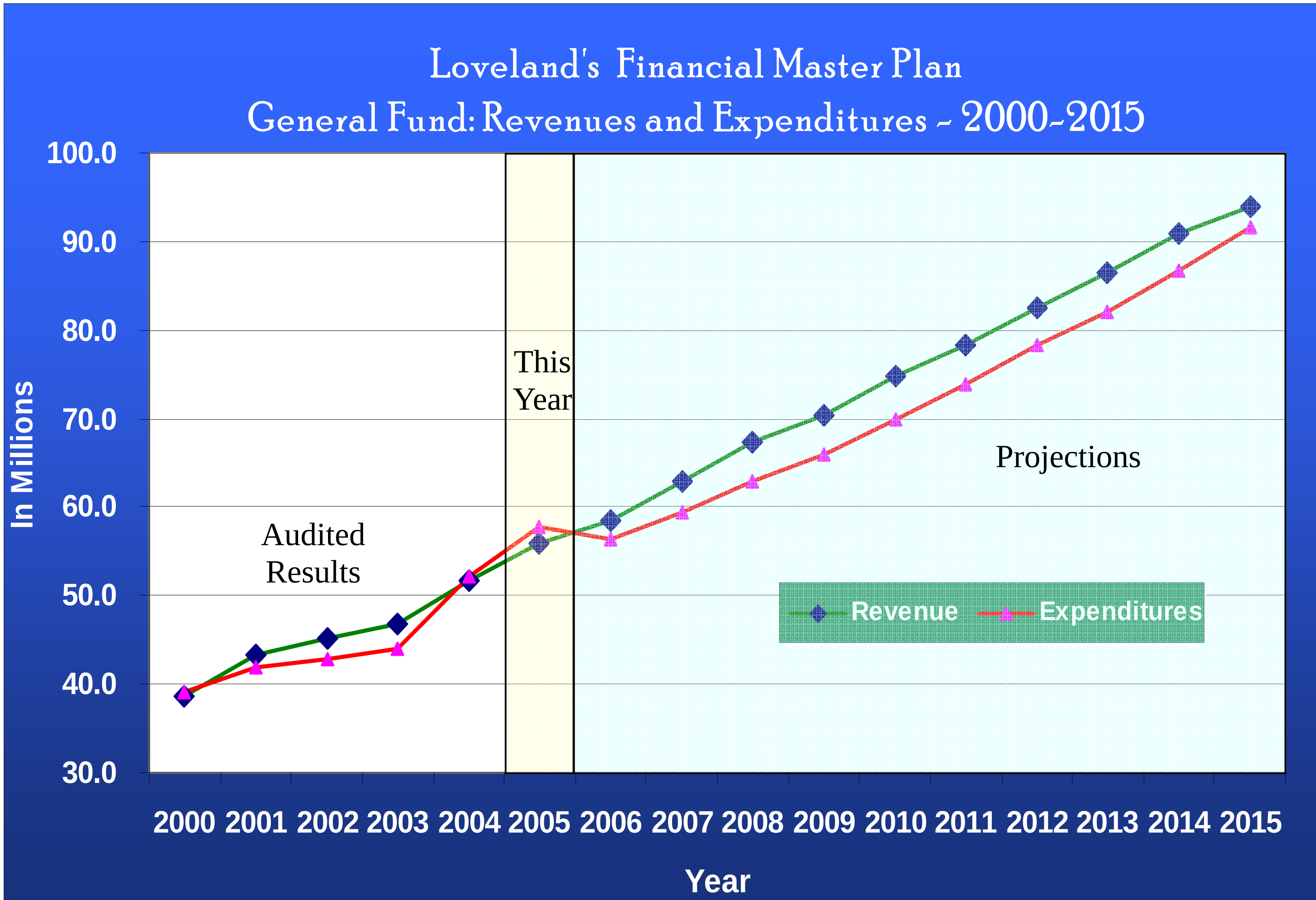
Refers to an amendment to State constitution which put in place several restrictions to state and local government. The most significant limits are the requirement for all tax rate increases to be by a vote of approval, and creating revenue limits a government must abide by, refunding all revenue over the limit unless given voter approval otherwise.

Transfers

Amounts distributed from one fund to finance activities in another fund. Transfers are shown as an expenditure in the originating fund and a revenue in the receiving fund.

Unreserved Fund Balance

The portion of a fund's balance that is not restricted for a specific purpose and is available for general appropriation.



The Recap

- Strong economy and careful budget decisions has led to growing fund balance from 2001 to 2004.
- In 2005, the City plans to draw down the General Fund reserves.
- For the 2006 Budget and out years, the above chart shows revenues exceed spending, resulting in a growing fund balance in the restricted funds: ie, TABOR and Council Reserves.

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