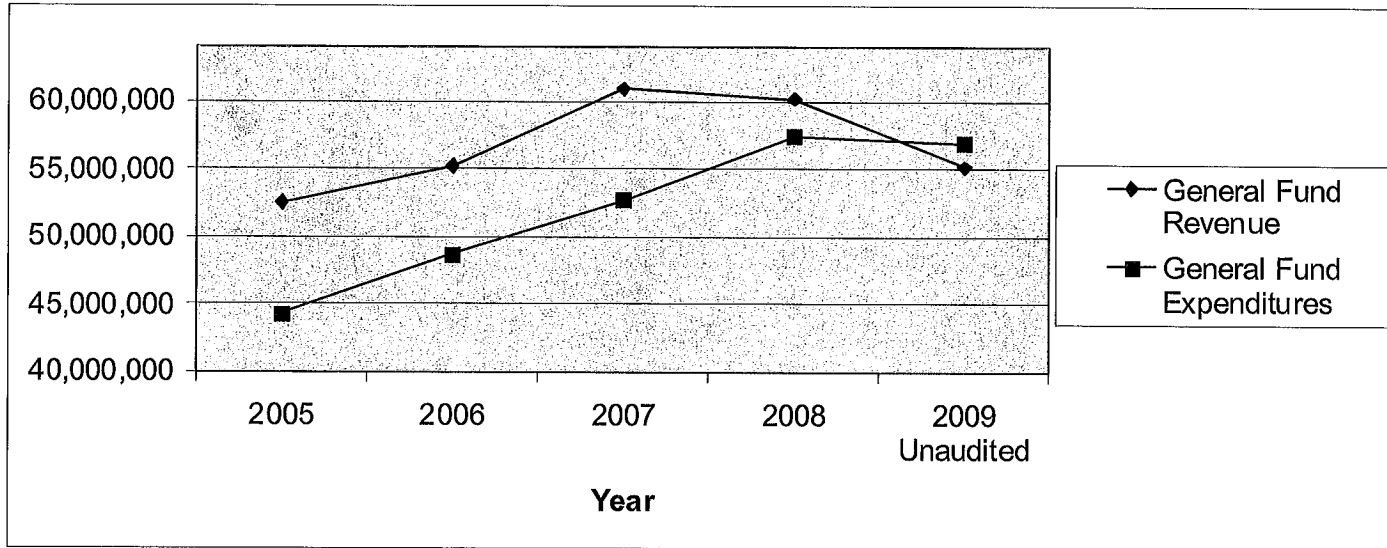


CITY OF LOVELAND

Financial Checkup

INDICATOR # 1: REVENUE & EXPENDITURE TREND ANALYSIS (R & E)

The R & E provides an overview analysis of total General Fund revenues and expenditures in order to determine if there are any trends that the City may need to consider to ensure on-going fiscal sustainability.



	2005	2006	2007	2008	2009 Unaudited
General Fund Revenue	52,505,700	55,186,300	60,892,000	60,184,780	55,121,364
General Fund Expenditures	44,320,600	48,722,600	52,696,900	57,456,473	56,940,970

Rev. % increase (decrease) from Prior Year	7.2%	5.1%	10.3%	-1.2%	-8.4%
Exp. % increase (decrease) from Prior Year	6.2%	9.9%	8.2%	9.0%	-0.9%

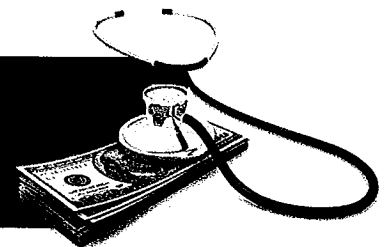
Findings:

From 2005 through 2007 revenues outpaced expenditures by 12-15% of total revenue. In 2008 the overall revenue decreased from 2007 by -1.2% while expenditures actually increased by 9% from the previous year. This trend continued into 2009 driving general fund revenue below general fund expenditures. This indicates a disproportionate relationship in revenues and expenditures in 2009 requiring use of the City's fund balance in 2009. If this trend were to continue the fund balance will decline as it is needed to finance current year expenditures.

Recommendations:

It has been widely noted along the front range that a quick turnaround of the economy is not expected. In fact, we may experience additional slowing before we see things turn in a positive direction. The City has taken corrective action in the 2010 budget to stop the trend that occurred in 2008 and 2009 by reducing budgeted expenditures. The City has also responsibly budgeted a significant reduction in revenues as well. We would recommend that the City analyze their revenues quarterly to determine if adjustments to the 2010 forecast need to be made. These adjustments could be in the form of re-forecasting revenues positively or negatively with the goal being not to dig into fund balance more than projected in 2010. The City should prepare a contingency plan of additional mid-year cuts if revenues are significantly below the forecast and also create a priority listing of what reductions would be reinstated should the economy turn around faster than expected. For instance, merit adjustments would be one example of a priority reinstatement since retaining high performing employees can help with the overall efficiency of the City in future years.

PRELIMINARY DRAFT – SUBJECT TO REVISION

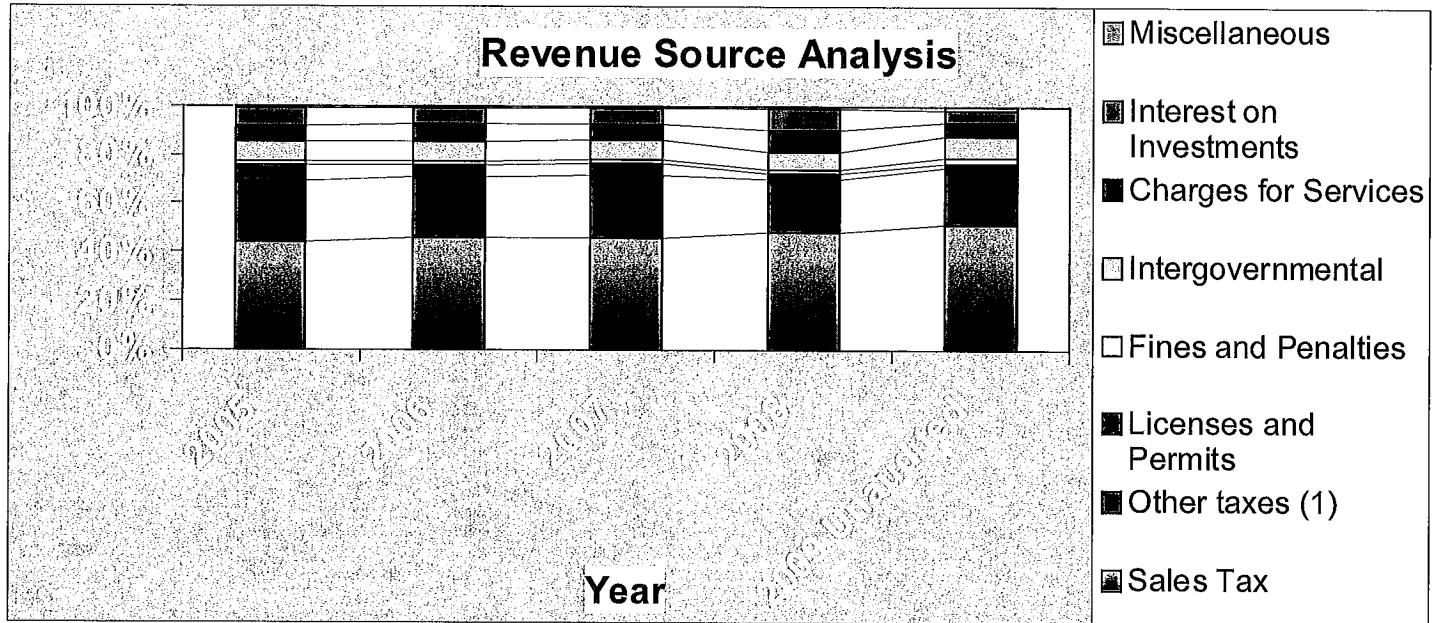


CITY OF LOVELAND

Financial Checkup

INDICATOR # 2: REVENUE SOURCE ANALYSIS (RSA)

The RSA provides an analysis of General Fund revenue sources to determine if there are emerging trends and/or changes in revenue sources that the City should consider.



General Fund Revenues	2005		2006		2007		2008		2009 Unaudited	
Sales Tax	\$24,840,430	47.3%	\$26,986,490	48.9%	\$29,230,714	48.0%	\$30,778,178	51.1%	\$29,113,370	52.8%
Other taxes (1)	13,975,470	26.6%	14,376,110	26.1%	16,361,986	26.9%	14,022,363	23.3%	13,496,361	24.5%
Licenses and Permits	3,743,000	7.1%	3,033,900	5.5%	2,909,600	4.8%	1,538,909	2.6%	1,248,207	2.3%
Fines and Penalties	841,000	1.6%	978,300	1.8%	1,038,400	1.7%	1,013,197	1.7%	1,068,511	1.9%
Intergovernmental	4,495,200	8.6%	4,513,900	8.2%	4,937,400	8.1%	5,058,180	8.4%	5,182,380	9.4%
Charges for Services	3,777,800	7.2%	4,095,800	7.4%	4,202,400	6.9%	5,546,069	9.2%	3,037,200	5.5%
Interest on Investments	188,200	0.4%	696,400	1.3%	1,509,600	2.5%	1,452,883	2.4%	1,022,037	1.9%
Miscellaneous	644,600	1.2%	505,400	0.9%	701,900	1.2%	775,001	1.3%	953,298	1.7%
Total	\$52,505,700	100%	\$55,186,300	100%	\$60,892,000	100%	\$60,184,780	100%	\$55,121,364	100%

Findings:

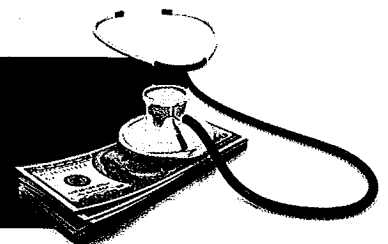
The Revenue Analysis shows a consistent dependency on Taxes, Charges for Services, and Intergovernmental revenues throughout the 5 years presented. There has been a 5% overall decrease in reliance on licenses and permits between 2005 and 2009; which is indicative of a decrease in the pace of building and development in the overall marketplace. The percentage of Charges for Services as it relates to revenues as a whole expanded 2% between 2005 and 2008 but dropped off by nearly 4% in 2009. Interest on investments, while initially low in 2005 at 0.4% of total revenue, this category rose to 2.4% by 2008, but dropped between 2008 and 2009. This drop is likely due to the overall decrease in interest rates in the marketplace.

Recommendations:

The City should review the source of revenues and determine what factors are within their control and develop strategies that will continue to drive revenues. Licenses and Permits are tied to economic development and in the current market, a solid strategy that fosters growth is necessary. The City's economic development policy is currently offering incentive packages to lure new businesses. We would recommend the City review the policy to determine if additional incentives can be added or eligibility requirements be altered to respond to the ever changing economy. This is important in order to meet the needs of your residents and also attract new residents, which will in turn, increase sales tax revenues. Incentives and eligibility requirements can be strategic in the sense they can reward businesses that try to make the City a better place, for instance, by being a "green" business certain incentives will apply. Whatever the approach, it is necessary to frequently review the existing economic development policy to ensure a balance exists between attracting a desirable business and making sure the potential business fits into the City's vision for development.

(1) Taxes includes Use tax, property and other taxes

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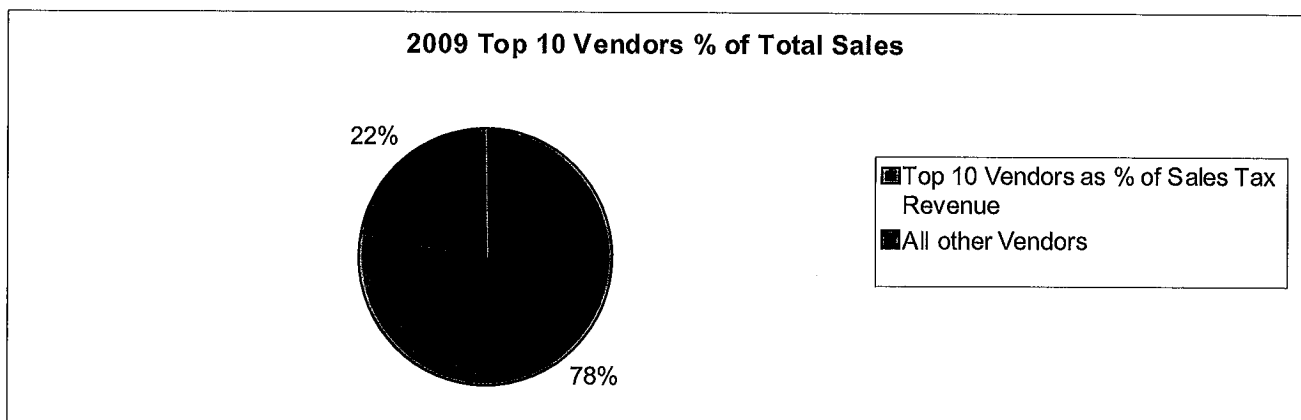
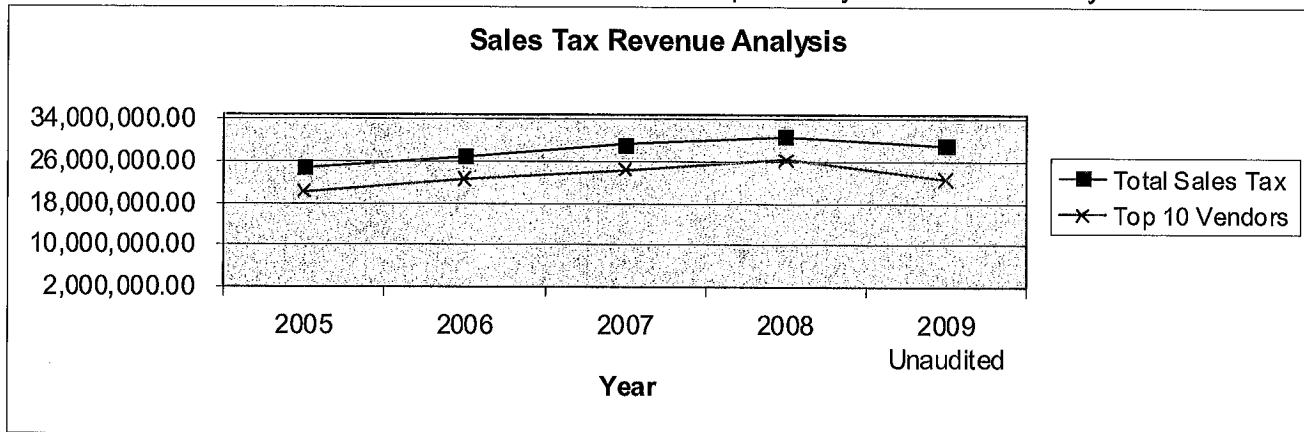


CITY OF LOVELAND

Financial Checkup

INDICATOR #3: SALES TAX REVENUE ANALYSIS (STRA)

The STRA provides an overview of total sales tax revenue as well as sales tax revenue collected by the City's top ten vendors to ascertain if there are trends and/or revenue dependency issues that the City should consider.



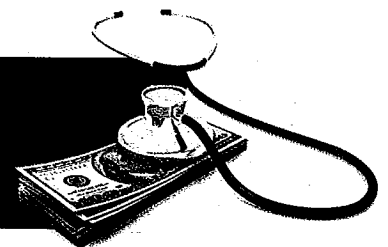
Findings:

As indicated in the RSA (Indicator #2), sales tax revenue makes up approximately 50% of General fund revenues. Further, the City has shown a consistent reliance on their top ten vendors from 2005 to 2009. The total sales tax revenue generated from the top 10 vendors is significant relative to their total revenues at 78% in 2009 and is enough to indicate a significant amount of risk if any of these vendors were to leave the City.

Recommendations:

Sales tax is the most vital source of revenue to the City and the most susceptible to changes in the economy. In addition, the baby boomer population is entering retirement age and it is expected that their spending habits will become conservative. This will have a long-term affect on sales tax revenue and will impact the volume of sales of the top 10 vendors. The City should use its existing geographical revenue codes to determine where (geographically) the sales tax revenue is being generated from in order to understand where people are spending financial resources. This analysis should be reviewed to determine if the activity is in line with where the City needs people to go (i.e. the current economic development plan) and if there is a capital infrastructure replacement plan in place that will keep the prime sales tax generating areas, including the top 10 vendors, in optimal condition. Also, the City should make every effort to collect sales tax revenue which would include consistently performing sales tax audits and also investigating the potential lost revenue via online sales.

PRELIMINARY DRAFT – SUBJECT TO REVISION

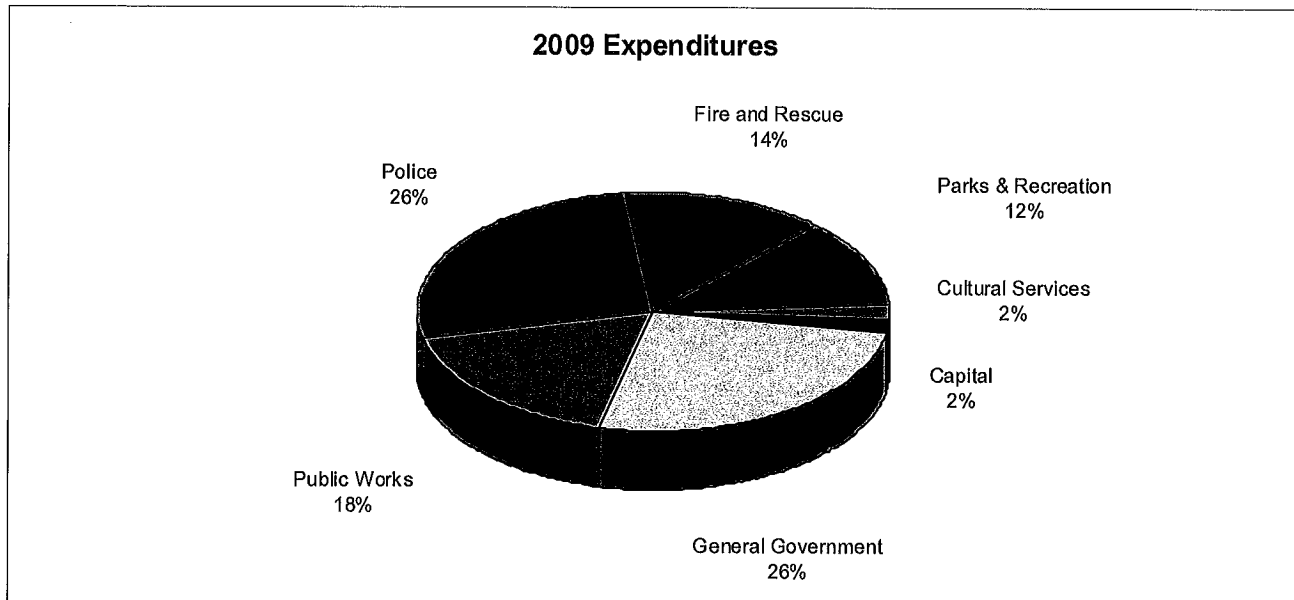


CITY OF LOVELAND

Financial Checkup

INDICATOR #4: EXPENDITURE ANALYSIS (EA)

The EA provides an analysis of total General Fund spending by function to determine if there are emerging trends and/or patterns that the City should consider in order to focus on cost-control strategies.



General Fund Expenditures	2005		2006		2007		2008		2009 Unaudited	
General Government	\$10,967,800	24.75%	\$12,007,500	24.64%	\$13,023,400	24.71%	\$16,039,245	27.92%	\$14,750,517	25.90%
Public Works	7,037,100	15.88%	8,503,000	17.45%	9,502,100	18.03%	9,672,384	16.83%	10,069,487	17.68%
Police	12,278,800	27.70%	12,873,600	26.42%	13,749,400	26.09%	14,682,388	25.55%	15,159,369	26.62%
Fire and Rescue	6,326,100	14.27%	7,043,100	14.46%	7,333,800	13.92%	7,728,646	13.45%	7,908,166	13.89%
Parks & Recreation	5,790,300	13.06%	6,110,100	12.54%	6,354,100	12.06%	6,867,413	11.95%	6,774,940	11.90%
Cultural Services	1,067,200	2.41%	1,090,500	2.24%	1,122,300	2.13%	1,158,616	2.02%	1,248,068	2.19%
Capital	748,700	1.69%	990,200	2.03%	1,507,200	2.86%	1,252,638	2.18%	975,280	1.71%
Debt Service	104,600	0.24%	104,600	0.21%	104,600	0.20%	55,143	0.10%	55,143	0.10%
Total	\$44,320,600	100%	\$48,722,600	100%	\$52,696,900	100%	\$57,456,473	100%	\$56,940,970	100%

% Increase
from Prior Year:

6.2%	9.9%	8.2%	9.0%	-0.9%
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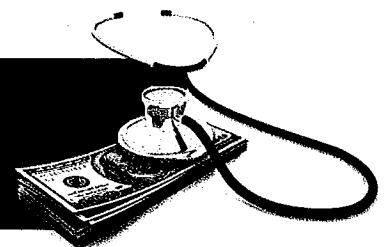
Findings:

The EA shows that City's total annual expenditures have increased on an average of 7% from the previous year for each of the past five years. This increase is outpacing inflation by more than 4% each year. Furthermore, the City's revenues are not increasing at a similar rate. The City did contract spending in 2009 to help offset this trend.

Recommendations:

The City should research and analyze why total expenditures have increased annually at an average of 7% each year since 2004 and what specific costs are driving the increases. Due to the fact that total expenditures are outpacing increases in total revenues, the City should determine what cost saving measures that have been implemented should remain in place. As recommended by the GFOA, the City has compiled long-term (5 to 10 years) projections of its revenues and expenditures to forecast what spending level the City can sustain. The existing procedures that cause the forecast to be updated should be reviewed to determine if the updates occur frequently enough and what significant events should cause adjustments to the forecast. Also, these projections can also be utilized to determine how the implementation of the City's post employment benefits will impact future expenditures. Furthermore, the projections can incorporate the review of the capital replacement plan to understand if the forecasted revenue level can support the existing capital replacement plan.

PRELIMINARY DRAFT – SUBJECT TO REVISION

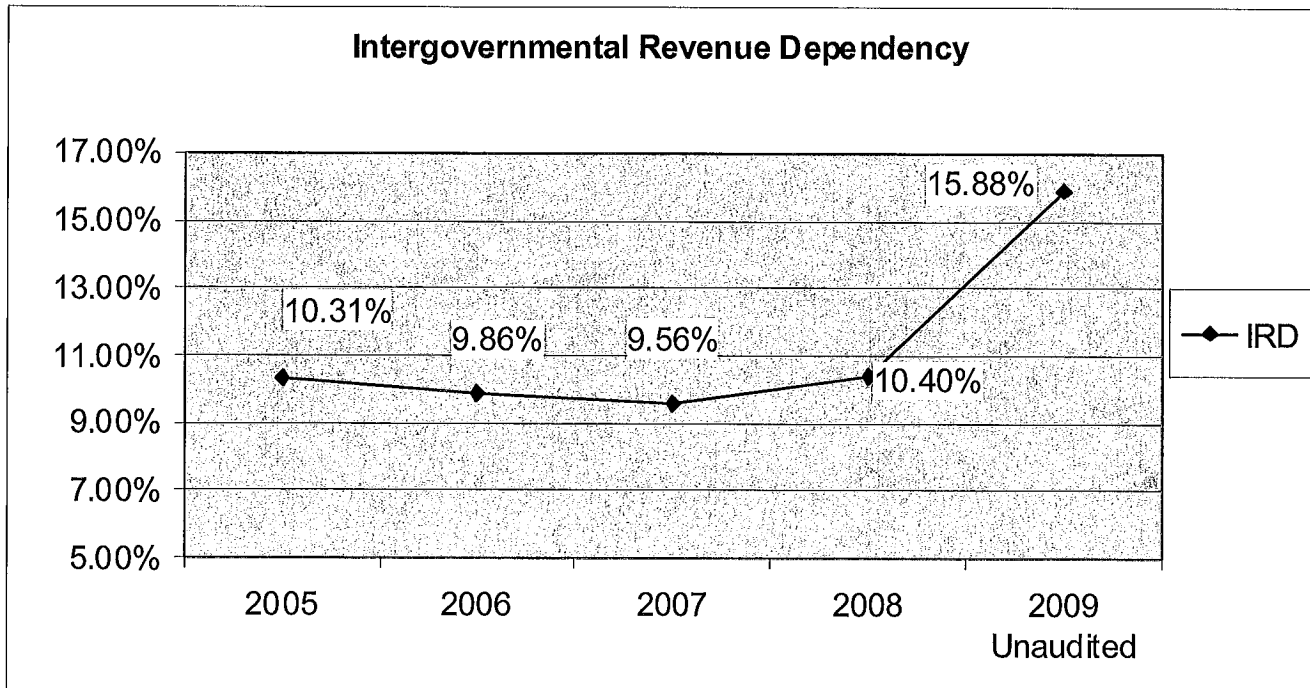


CITY OF LOVELAND

Financial Checkup

INDICATOR # 5: INTERGOVERNMENTAL REVENUE DEPENDENCY (IRD)

The IRD provides percentage trend information reflecting the City's reliance on revenues received from other governmental entities. Percentage increases over time may indicate a greater risk assumed by the City due to increased dependence on external revenues.



Findings:

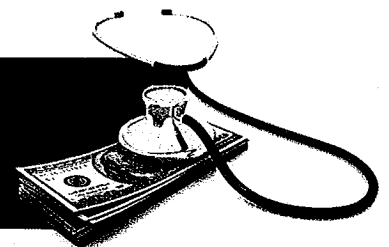
The IRD shows a steady Intergovernmental dependency between 2005 and 2008, with an increase in dependency in 2009.

Recommendations:

As an external governmental revenue source the City should expect to see a decline in the availability of intergovernmental revenues as the Federal and State governments struggle with their own budgets. The City should determine if intergovernmental revenues are relied upon to fund essential services, and if so, come up with a contingency plan in case the revenues are significantly reduced or discontinued. Further, if the revenues are authorized by ongoing agreements, do the agreements suggest that revenues will continue, and at what level? Understanding how the current economic conditions can affect the intergovernmental revenues available to the City in the upcoming years will help the City budget so that essential services are not interrupted.

Also, this November's election will include ballot issues that may have a significant impact on the revenues available to the State, which will in turn affect the revenues of many entities across the State, including the City. The City should analyze this potential impact and quantify it in terms of the impact on the 2011 budget. It may be beneficial for the City to develop two budget scenarios in order to react quickly once the election is over.

PRELIMINARY DRAFT – SUBJECT TO REVISION

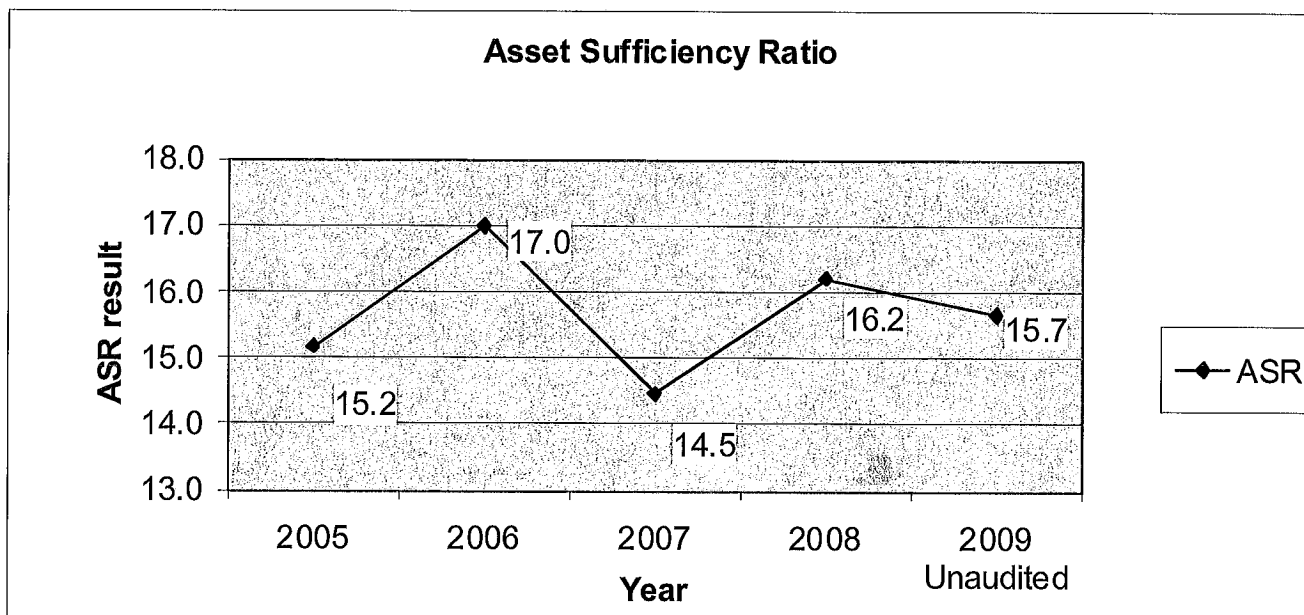


CITY OF LOVELAND

Financial Checkup

INDICATOR # 6: ASSET SUFFICIENCY RATIO (ASR)

The ASR identifies whether the City's total cash and investments are adequate to cover its current obligations or amounts owed. Percentage decreases over time may indicate the City has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.



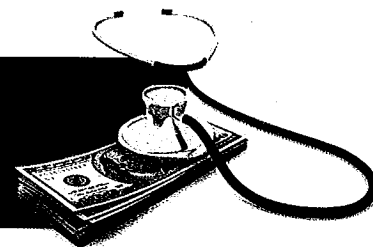
Findings:

The Asset Sufficiency Ratio suggests that the City has maintained a steady level of cash and investments over the past 5 years in relation to its current obligations. The city's ratio of 14-17 is very strong and indicates that the City is more than capable in meeting its current liabilities.

Recommendations:

There is sufficient cash to cover obligations of the City at a given time. The City should review its investment policy and current investment strategy to analyze whether or not the surplus cash is being invested in a manner that maximizes investment earnings while preserving the initial investment when necessary. The current, low interest rates make it challenging to have a substantial return on short-term investments (that is necessary for liquidity purposes) so it is important that the City explore all options, including long-term investments, allowable under State statutes and under their existing investment policy. By challenging their investment portfolio manager or internal decision maker, the City can take measures to maximize investment earnings.

PRELIMINARY DRAFT – SUBJECT TO REVISION

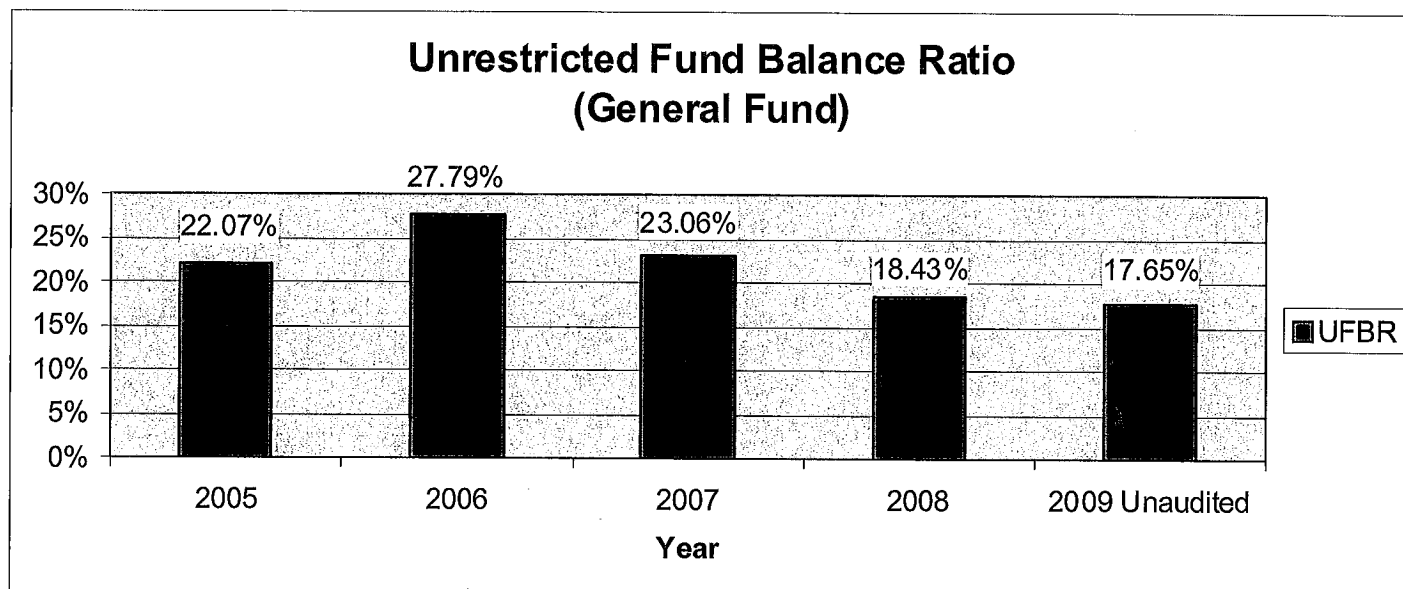


CITY OF LOVELAND

Financial Checkup

INDICATOR # 7: UNRESTRICTED FUND BALANCE RATIO (UFBR)

This UFBR demonstrates the City's ability to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. The Government Finance Officers Association recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted fund balance in their General Fund of no less than 5% to 15% of regular General Fund operating revenues or General Fund operating expenditures. Percentage decreases over time may indicate the City's inability to handle unforeseen risks (e.g., downturn in economy).



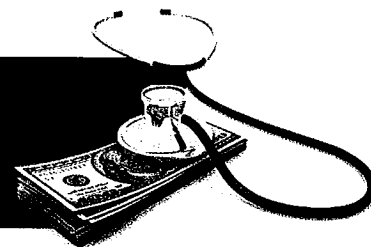
Findings:

The City has maintained an UFBR above the GFOA recommended 5% - 15% range over the last five years and that indicates the City is very healthy. However, the above analysis reveals that the City's UFBR has been declining over the last three years and if revenues and expenditures would continue at the current level, the City would fall in the 5% to 15% range over the next three years and fall below 5% in the fourth year (2013).

Recommendations:

As indicated in the R&E (Indicator #1), the City's total expenditures outpaced its revenues in 2009 and if that were to continue and require the use of fund balance, there is the possibility that the City's UFBR could decline to a level where their ability to financially combat unforeseen event could be weakened. As the City is well aware, increases in costs, often fixed costs, can often outpace revenue growth, especially during a downturn in the economy. At the same time, many governments are experiencing skyrocketing increases in personnel and benefit costs. By thoroughly understanding expenditure components and trends, the City will be able to more readily employ cost saving measures and strategies to ensure that expenditure levels are not outpacing revenues, which in turn will assist the City in avoiding to have to rely on utilizing its unrestricted fund balance. To help with long range planning the City should incorporate their fund balance goal of 15% into their long-term (5 to 10 years) projections of revenues and expenditures in order to balance spending levels accordingly.

PRELIMINARY DRAFT – SUBJECT TO REVISION

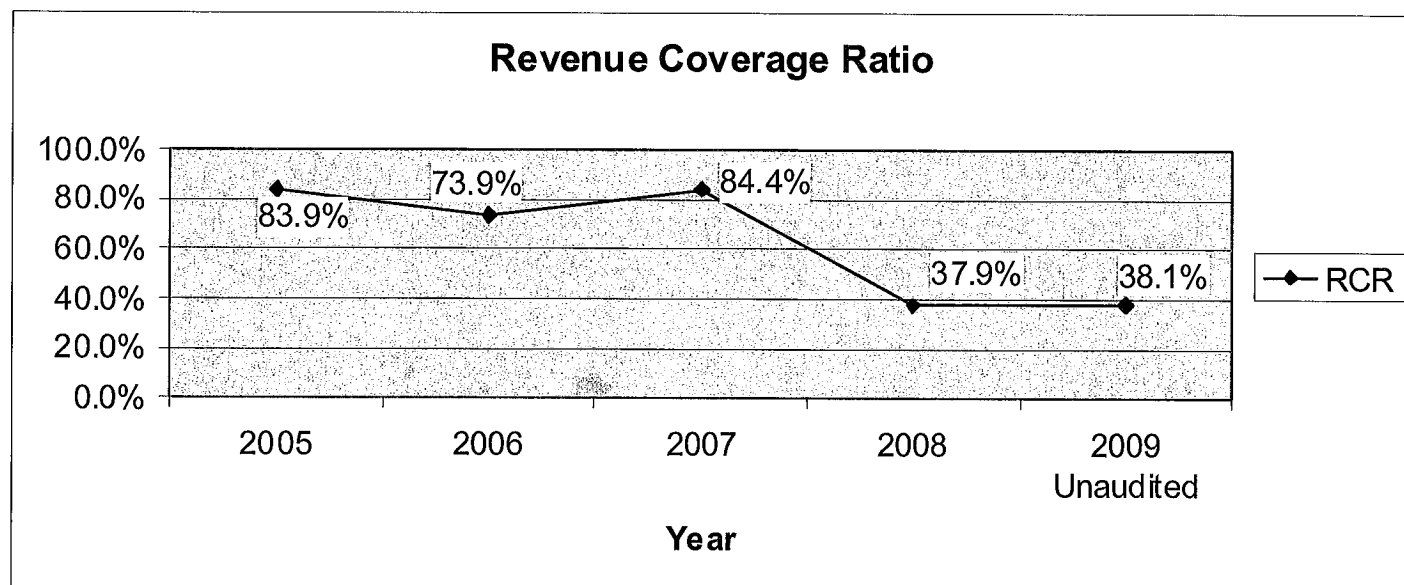


CITY OF LOVELAND

Financial Checkup

INDICATOR # 8: REVENUE COVERAGE RATIO (RCR) (Governmental Activities)

The RCR demonstrates the City's abilities to cover governmental activities' expenses with related program revenues and its reliance on general revenues to subsidize certain function/program expenses. As coverage declines, the burden on general revenues to support these services increases. Since the typical municipal accounting system does not employ cost-accounting techniques, it is easy for inflation and/or other factors to erode revenue coverage without being noticed.



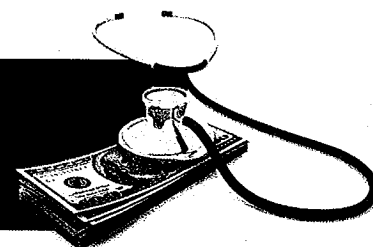
Findings:

The RCR reveals the City's ability to generate sufficient revenue to cover its governmental activities has declined significantly over the last two years. This indicates that the City is subsidizing functions with non program revenues more than it has in the past.

Recommendations:

In reviewing the City's statement of activities, it appears that there has been a significant decrease in Capital Grants and Contribution revenue in 2008 and 2009 and that is what is causing the drop in RCR. This would indicate that funding for projects has slowed down or revenues received in one year were used to cover expenses in subsequent years. The City should review its economic development plan to understand what projects are coming up and what source of revenue will be used to fund the specific projects. The use of non-program revenues would not be a long-term solution as these revenues are necessary to fund the general cost of government (i.e. non-revenue generating functions). Also, it may be beneficial for the City to staff a grant management position, full-time or part-time, to head the grant efforts for the City. Applying, administering and reporting for grants can be time consuming and the current staffing levels may not provide sufficient time availability for employees to take on these tasks.

PRELIMINARY DRAFT – SUBJECT TO REVISION

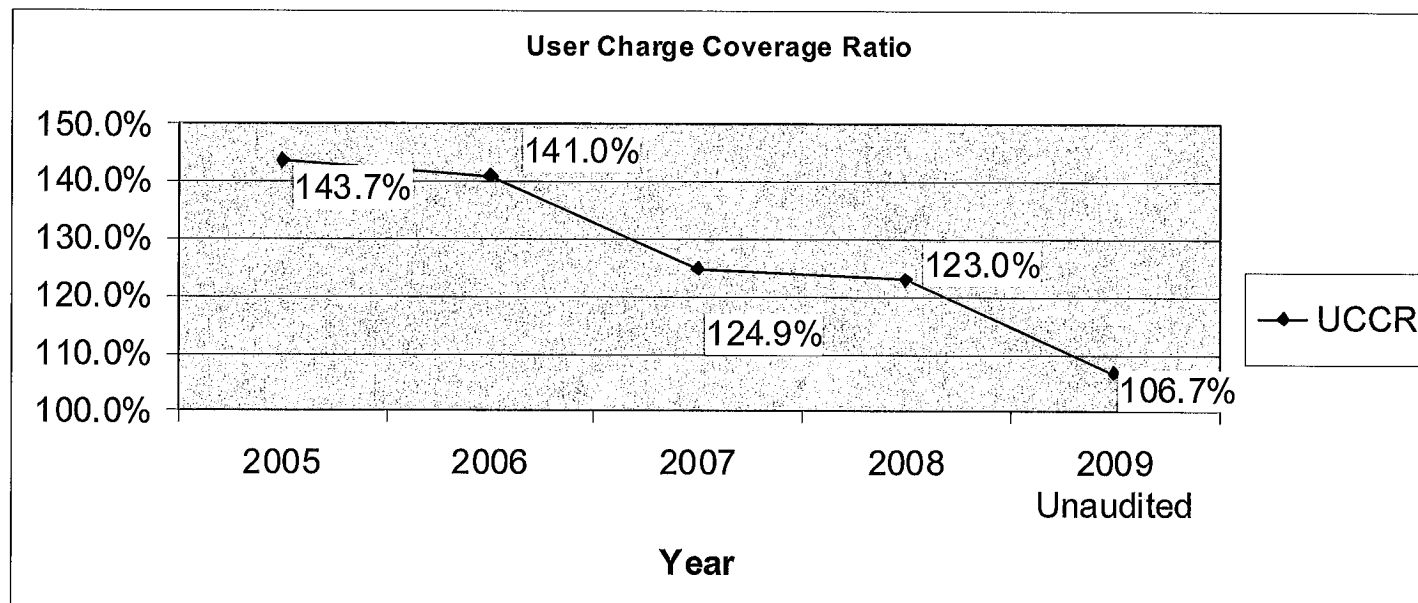


CITY OF LOVELAND

Financial Checkup

INDICATOR # 9: USER CHARGE COVERAGE RATIO (UCCR) (Proprietary Funds)

The UCCR demonstrates the City's abilities to cover business-type activities' expenses with related program revenues and its reliance on general revenues to subsidize certain function/program expenses. As user charge coverage declines, the burden on general revenues to support these services increases. Since many municipal accounting systems do not employ cost-accounting techniques, it is easy for inflation and/or other factors to erode user charge coverage without being readily detected.



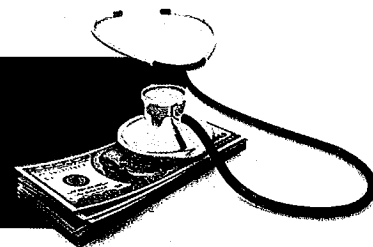
Findings:

The UCCR has declined steadily over the past 5 years. This declining trend is generally a negative indicator, as it shows that the City has increasing reliance on general fund revenues to subsidize business type activities. However, the UCCR for the City is above 100% in all of the past 5 years. Therefore, this ratio shows that Loveland is receiving greater revenues from user fees than it costs to run the related programs.

Recommendations:

The City should analyze the underlying reasons as to why the UCCR is declining. Answering questions such as "Is there a decrease in the need for services? A decrease in the quality of the services provided? Is there decreased demand due to an increase in charges or fees?" Fees should be analyzed on an annual basis and set at a rate that will provide the coverage necessary to allow operations to occur at the optimal level and provide necessary additions to capital replacement reserves. The City should also estimate what infrastructure assets will be dedicated to the City from the surrounding developments that will require additional maintenance efforts and future capital replacement.

PRELIMINARY DRAFT – SUBJECT TO REVISION

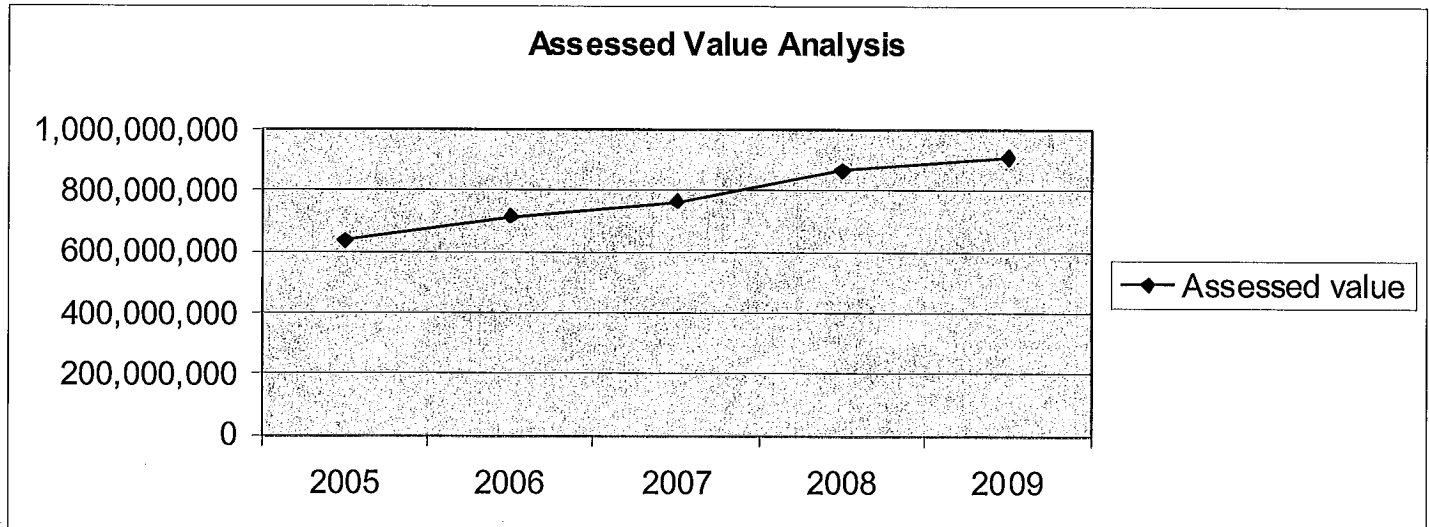


CITY OF LOVELAND

Financial Checkup

INDICATOR # 10: ASSESSED VALUE ANALYSIS (AVA)

The AVA indicates trends in the City's property values. A decline in property values will result in less revenues collected by the City (i.e., both property taxes as well as other revenue sources that are computed as a percentage of assessed value). Whether or not a government relies heavily on property tax revenues, property value provides a useful sign of the health of the local economy.



AV breakdown	2005	2006	2007	2008	2009
Vacant	43,301,970	57,526,680	52,259,410	62,452,680	63,994,500
Residential	333,857,020	366,658,490	388,863,790	407,226,420	416,635,840
Commercial	199,907,780	237,702,750	272,113,900	344,169,960	374,946,190
Industrial	46,245,710	40,849,580	38,806,040	36,307,630	40,453,260
Agricultural	239,580	209,070	205,940	288,800	278,930
Natural Resources	3,390	3,390	3,370	3,840	3,790
Oil and Gas	6,507	31,636	29,711	32,934	6,877
State Assessed	11,039,330	11,742,570	11,662,060	14,085,430	13,979,980
Total AV	634,601,287	714,724,166	763,944,221	864,567,694	910,299,367

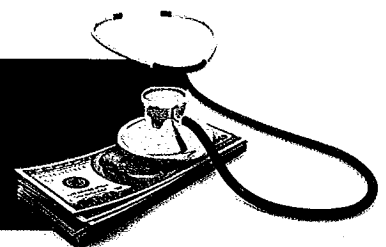
Findings:

The AVA indicator is strong as the assessed value has increased by an average of 9% each year over the past 5 years. However, between 2008 and 2009 the AV increased by 5% which was a decrease of 8% when compared to the 13% increase between 2008 and 2007. The City should continue to monitor this indicator as 2011 (collection year 2012) is a reassessment year and due to current market trends there may be risk of declining AV.

Recommendations:

The City has a very positive trend in assessed value (AV) over the last five years and should gain an understanding of how they expect the AV to perform over the next 5 to 10 years. This will take into account the planned development (i.e. new growth) in the City and what additional property tax revenue this will generate. This will allow the City to analyze if the current mill levy will produce the tax revenue (as allowed by TABOR) necessary to support operations in the future.

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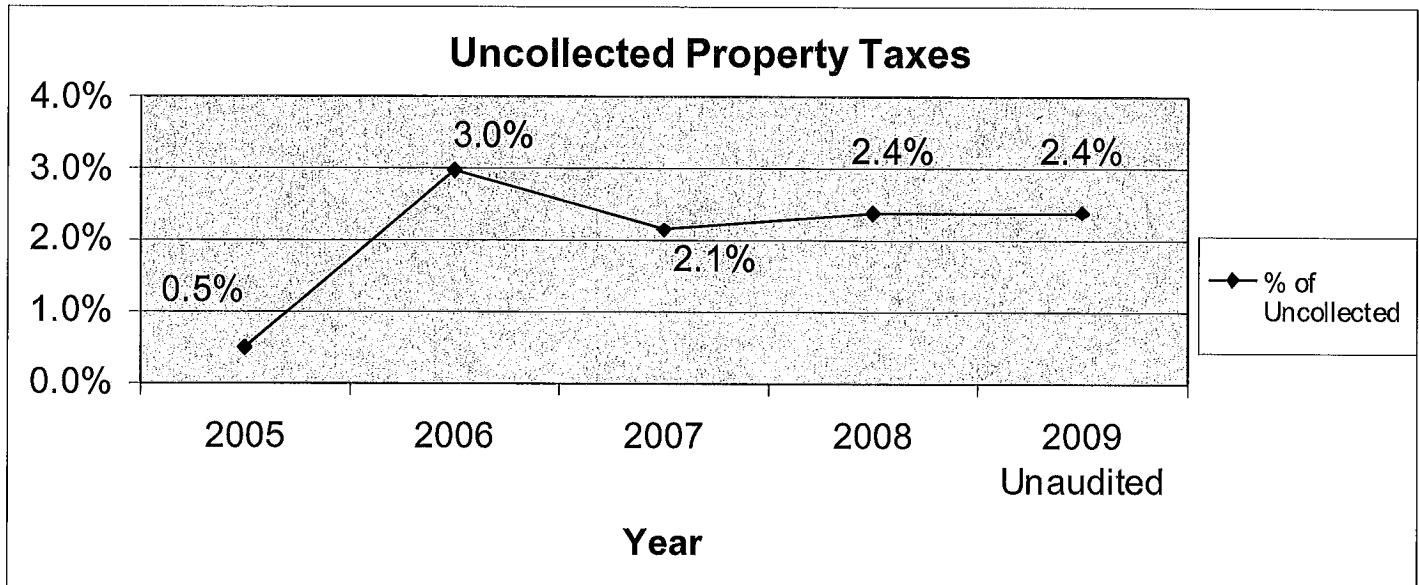


CITY OF LOVELAND

Financial Checkup

INDICATOR #11: UNCOLLECTED PROPERTY TAXES RATIO (UPTR)

The UPTR illustrates the percentage trend of uncollected property taxes. Percentage increases over time may indicate overall decline in the City's economic health. Additionally, as uncollected property taxes rise, the City's liquidity is decreased, resulting in less cash on hand to pay current obligations and/or in the City's opportunity to invest.



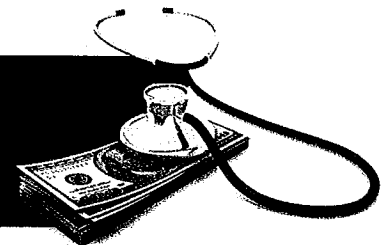
Findings:

The Uncollected Property Taxes percentage over the last five years has been within a range that indicates strong economic health. Credit rating firms assume that local governments normally will be unable to collect from 2% to 3% of its property taxes.

Recommendations:

An uncollected percentage of 5%-8% is the range that would be considered negative due to the potential instability in the property tax base. The City should continue to monitor the uncollected property taxes percentage on an annual basis as it is a strong factor in determining the credit worthiness of a governmental entity. It will also be important to monitor the rise in foreclosures and how this will affect the homeowner's ability to pay taxes on a timely basis.

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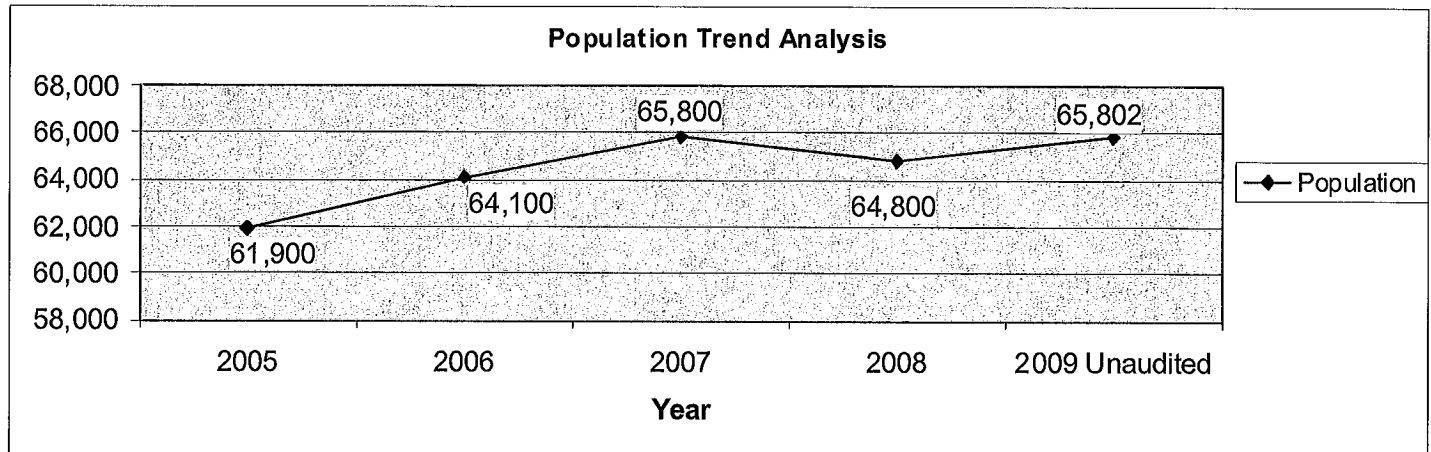


CITY OF LOVELAND

Financial Checkup

INDICATOR # 12: POPULATION TREND ANALYSIS (PTA)

The PTA analyzes the City's population trends to identify possible financial impacts on the City. Although the specific relationship between population changes and other economic and demographic factors is not usually certain, population changes can directly impact certain revenues (e.g., some revenues are collected on a per capita basis and many intergovernmental revenues and grants are distributed according to population). Sudden increases in population may result in immediate pressures for new capital outlay and/or higher levels of service. On the other hand, decreases in population can have adverse effects on employment, housing, and business activity.



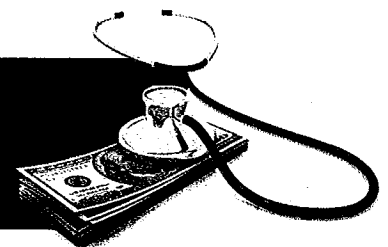
Findings:

The City has experienced an average population growth of 2% over the last 5 years. This should not put any excess strain on Loveland and should allow them to increase the amount of capital outlay on a steady basis to meet the additional needs of their residents. This should provide the City with increased tax revenue to combat the rising prices of goods and services resulting from inflation. However, it should be noted that the increase in expenditures over the past 5 years has hovered around 9%. Therefore, the disproportionate increase in expenditures vs. population growth should be watched closely to ensure that these expenditures can be supported by the population base revenues within the City.

Recommendations:

This positive metric shows a healthy community. As indicated in the findings, Loveland's challenge will be to more closely match the expenditure trend line with the population growth. Additionally, Loveland may wish to track more specific population data, such as age, race, and geography of the population increase as these factors may affect municipal service needs and financial planning efforts. Further, this analysis will help the City understand the buying power of its residents.

PRELIMINARY DRAFT – SUBJECT TO REVISION

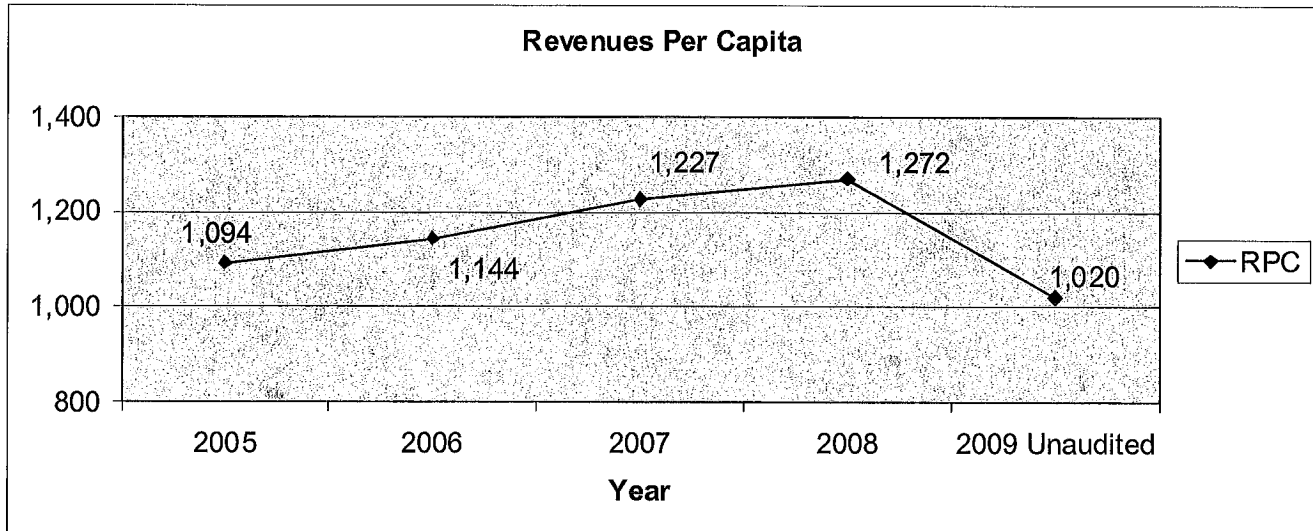


CITY OF LOVELAND

Financial Checkup

INDICATOR # 13: REVENUES PER CAPITA (RPC)

The RPC displays the relationship between the City's revenues and its population. Decreasing results indicate that the City may not be able to maintain existing service levels with current revenue sources.



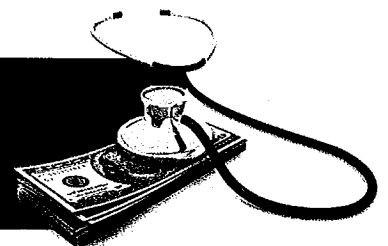
Findings:

The city's RPC shows positive results from 2005 to 2008. In 2009 there is a drop in the RPC which is expected as population growth has remained steady over the last five years and revenues dropped significantly in 2009.

Recommendations:

The decrease in 2009 illustrates how the drop in revenues affects the available dollars the City has to spend on essential services per person. In these tough economic times the City should look for ways to raise revenues so it does not limit the level of services it provides. Some suggestions are as follows: revising revenue collection procedures; investing a great portion of idle cash; increasing charges for use of facilities, equipment, or personnel; increasing service charges, fines and penalties, license and permit fees; selling surplus property or equipment.

PRELIMINARY DRAFT – SUBJECT TO REVISION

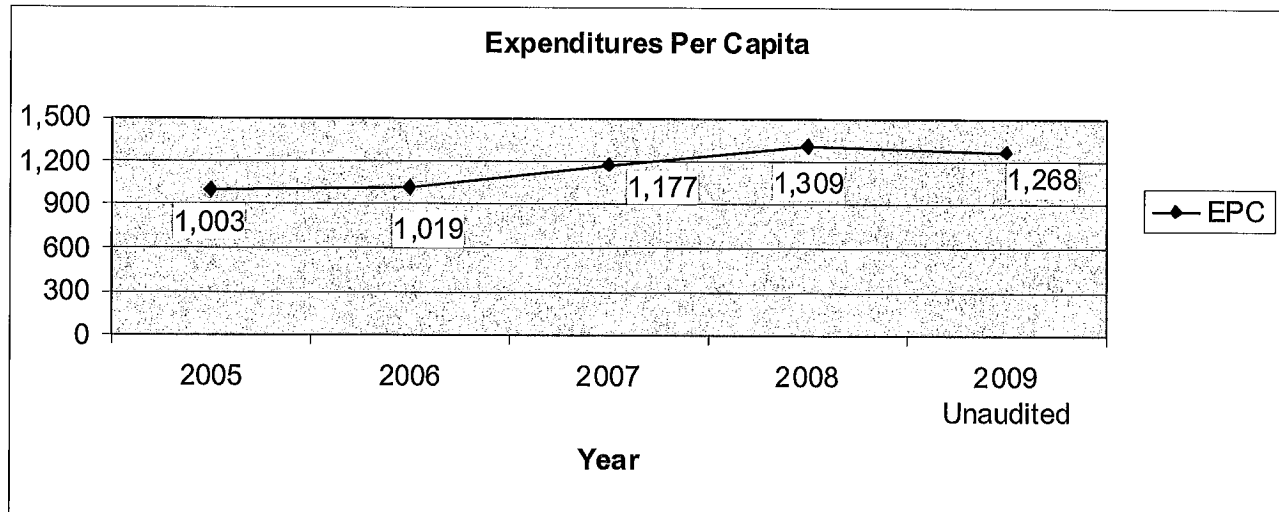


CITY OF LOVELAND

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INDICATOR # 14: EXPENDITURES PER CAPITA (EPC)

The EPC shows the relationship between the City's population and expenditures. Increasing results may indicate that the cost of providing services is exceeding the City's ability to maintain services at current levels.



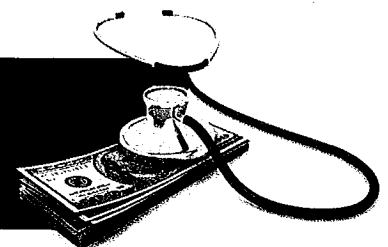
Findings:

The EPC indicates that the City is incurring more expenditures as the population grows between 2005 and 2007. This trend is normal, as the City has to provide more services to meet the needs of the growing population. The height of the EPC was reached in 2008 and adjusted downward in 2009 as the City responded to the decrease in population that occurred in 2008.

Recommendations:

Our recommendation is to continue to monitor the EPC against both of the previous metrics, population and revenues per capita. The EPC rose for the first three years at a level where the RPC exceeded expenditures per capita. Specifically, per capita revenues exceeded per capita expenditures by the following: 2005, \$91; 2006, \$125; 2007, \$50. In 2008, expenditures per capita exceeded revenues per capita by \$37. In 2009, the EPC did decrease but were still \$238 above the RPC for 2009. The City has demonstrated conservative financial policies and management by making expenditure cuts in its 2010 budget to help correct the trend that has occurred the last two years. The City should continue to monitor spending levels and work to have an RPC that is greater than the corresponding year's EPC.

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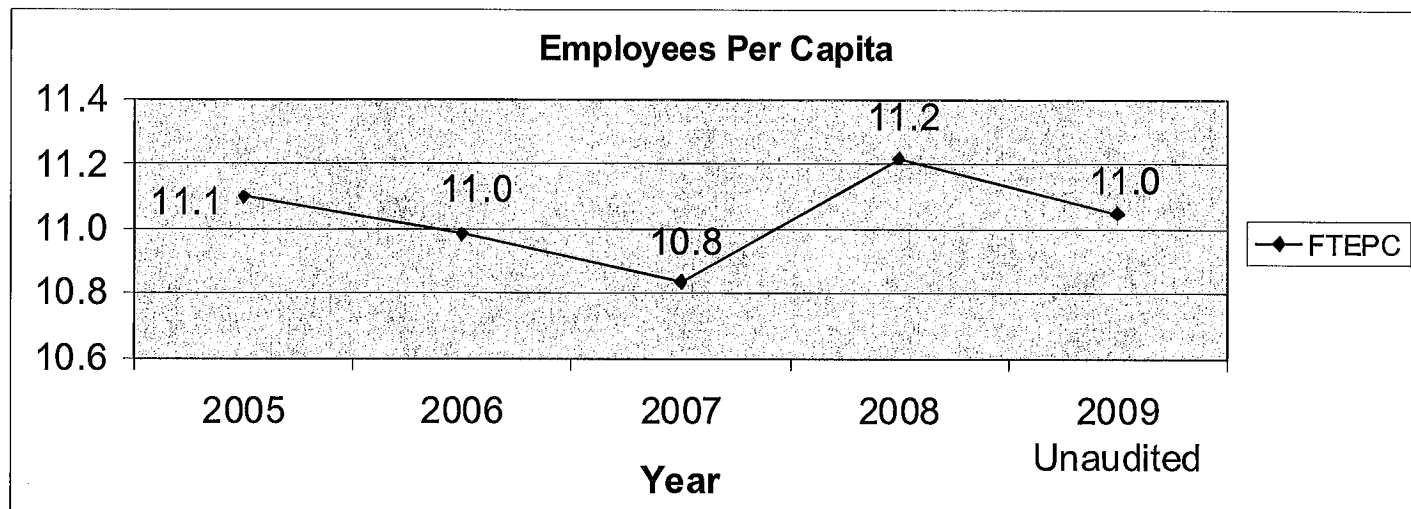


CITY OF LOVELAND

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INDICATOR # 15: FULL-TIME EQUIVALENT EMPLOYEES PER CAPITA (FTEPC) (PER 1,000 POPULATION)

The FTEPC illustrates the relationship between the City's total number of employees compared to the City's total population. Due to the fact that personnel costs are typically a major portion of a government's operating budget, analyzing changes in the number of employees per capita is a good way to measure changes in expenditures. Increases in employees per capita may indicate that expenditures are rising faster than revenues, that the government is becoming more labor intensive, or that personnel productivity is declining.



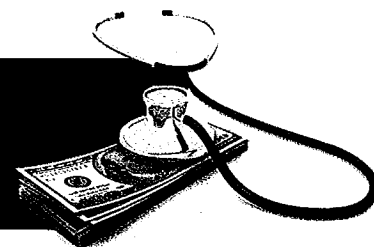
Findings:

The City's response to population growth (as shown in Indicator #12) and revenues gains, followed by its response to the 2008 economic downturn, has allowed the City to maintain a steady employment level.

Recommendations:

Maintain the course! This indicator should be watched closely in 2010 to ensure that it does not fluctuate drastically as the City makes decisions in dealing with the economic downturn. This indicator will help evaluate the efficiency of human capital and to help identify areas of opportunity for streamlined processes in the City. Further, this overall snapshot could be broken down further by (1) examining changes in employment patterns by department or service area, and (2) examining decreases in employment to see whether contracting out has substituted private-sector workers for government employees.

PRELIMINARY DRAFT – SUBJECT TO REVISION

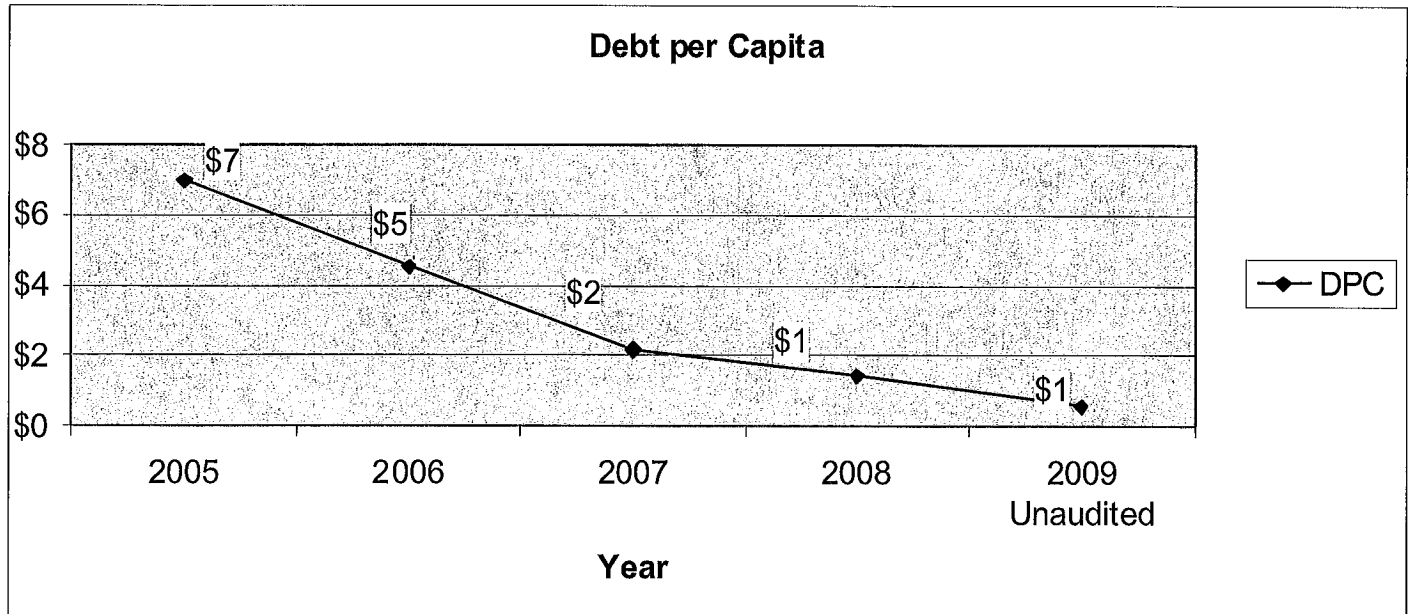


CITY OF LOVELAND

Financial Checkup

INDICATOR # 16: DEBT PER CAPITA (DPC)

The DPC measures the City's current long-term debt amount allocated by resident. Increasing results over time may indicate that the City has a decreasing level of flexibility in how resources are apportioned or a decreasing ability to pay its long-term debt.



Findings:

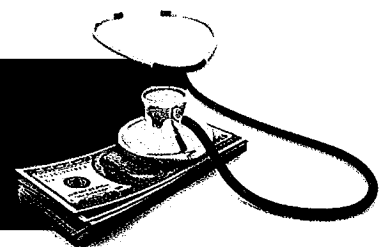
The DPC has decreased from 2005 to 2009. The City has no bond indebtedness related to its governmental activities. The debt reflected in this ratio represents lease agreements and is very insignificant when allocated to each resident in the City.

Recommendations:

The City should be commended for its debt management practice as it is quite notable to have no bond indebtedness and such a minimal amount of lease obligations. This gives the City flexibility to possibly issue bonds and finance projects in the future if the City finds that it doesn't want to pay cash for projects in order to preserve fund balance.

The City's Oversizing Agreements have not been included as a part of this analysis. The Oversizing Agreements typically do not have a set payment plan as they have a specific revenue source (impact fees) that will be generated at the time of development and used to offset the Oversizing Agreement obligations.

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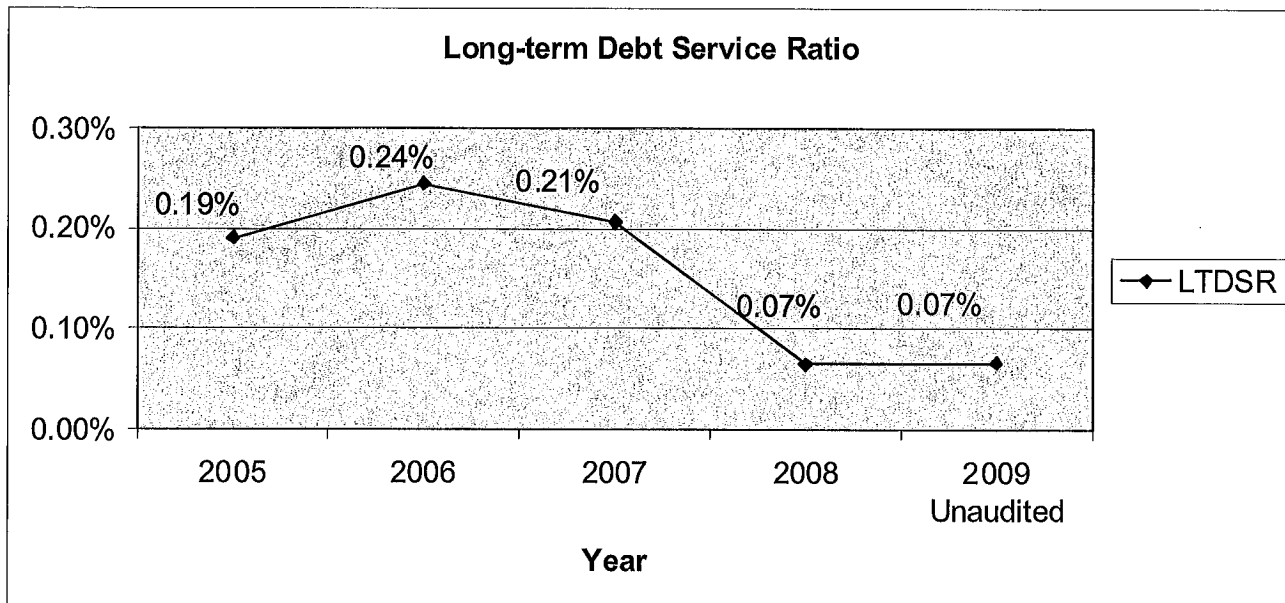


CITY OF LOVELAND

Financial Checkup

INDICATOR # 17: LONG-TERM DEBT SERVICE RATIO (LTDSR)

The LTDSR measures the City's flexibility to respond to economic changes by comparing debt service expenditures as a percentage of total expenditures. Percentages increasing over time may indicate declining flexibility the City has to respond to economic downturns.



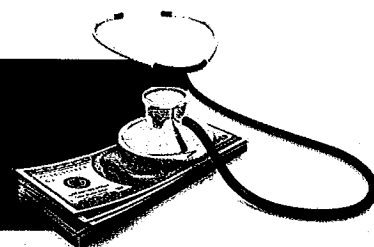
Findings:

As mentioned in the DPC findings, the City's debt position is strong. The LTDSR further supports this as the percent of debt service payments to total governmental fund expenditures is very low and declining.

Recommendations:

Loveland's debt management should make it the envy of many Colorado municipalities!

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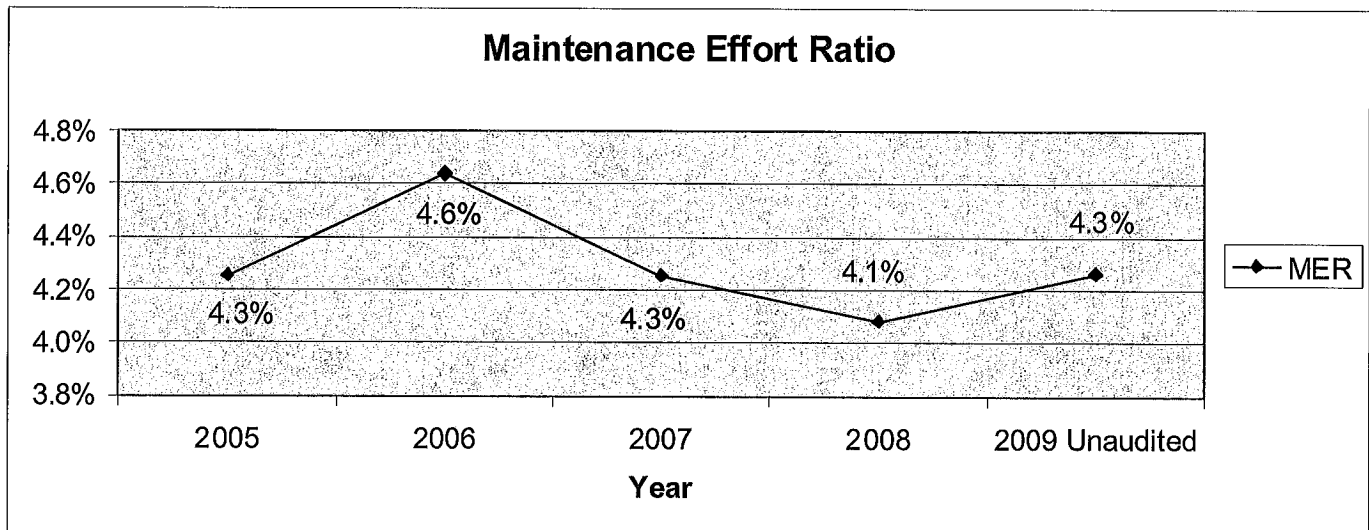


CITY OF LOVELAND

Financial Checkup

INDICATOR # 18: MAINTENANCE EFFORT RATIO (MER)

The MER indicates whether capital assets are being maintained at a sufficient level to insure their useful life. Capital assets are constructed at significant cost and their decline can have far-reaching effects on business activity, property value, and future operating expenditures. Deferring maintenance of these assets can also create significant unfunded liability. Generally, maintenance expenditures should remain relatively consistent relative to the amount and nature of the assets. Declining ratios between maintenance expenditures and capital assets may be a sign that a government's assets are deteriorating. Trends persisting over time will cause deteriorated capital assets to increase future maintenance expenditures.



Findings:

The MER has maintained a level of 4.1% to 4.6% over the last five years. Overall, net capital assets have increased by approximately 43% over the past 5 years. The consistent level of this ratio shows that the city has kept pace with maintenance spending in relation to its asset additions over the years. Therefore the city appears to be sufficiently maintaining its assets.

Recommendations:

This will be a metric to watch closely over the next several years as Loveland may move in its maturation cycle from a period of growth (for population, revenues, expenditures) to a period of stagnation or contraction. When this happens, it is common for leaders and management to decrease its MER commitment ratio, and postponing maintenance needs. The City should also estimate what infrastructure assets will be dedicated to the City from the surrounding developments that will require additional maintenance efforts and future capital replacement.

PRELIMINARY DRAFT – SUBJECT TO REVISION

