

Loveland Urban Renewal Authority

2017 Audit Report



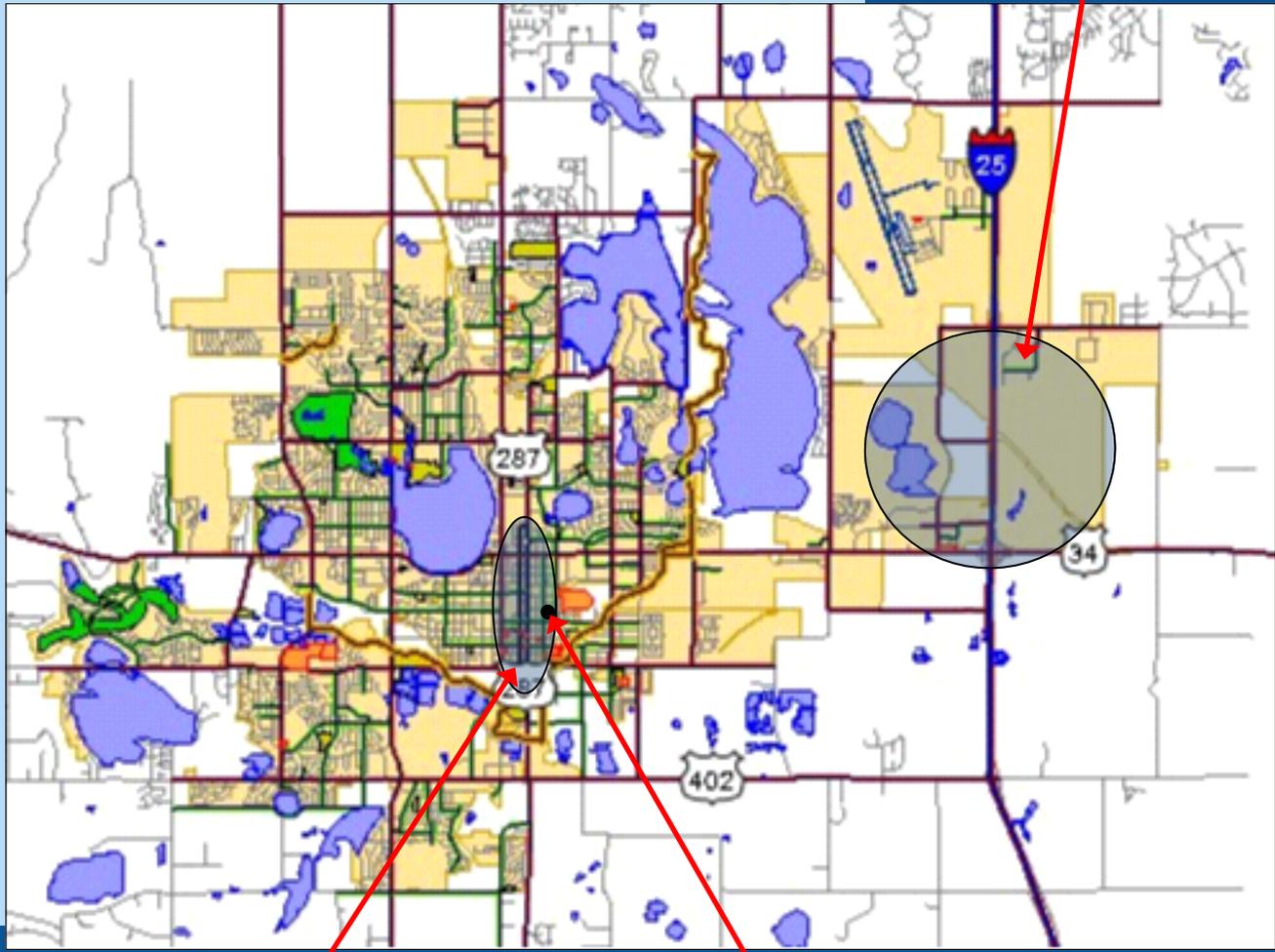
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Loveland Urban Renewal Map



City of Loveland, City Limits



Downtown Project



Lincoln Place

Transmittal Letter

September 25, 2018

Mr. Steve Adams, City Manager
City of Loveland
Loveland, CO

Dear Mr. Adams:

In the following pages of this report is the Finance Department's assertion on the contract compliance audit of the Urban Renewal Authority (including Centerra Metropolitan District No. 1), with regards to the financing agreements between the Metropolitan Districts and the City of Loveland. The audit period was for January 1, 2017 to December 31, 2017.

The purpose of this annual audit is to determine whether the Metropolitan District complied with the administrative conditions regarding expenses, contracts, revenue collections, and reporting as required in the financing agreements.

At the conclusion of the audit, we found no instances of non-compliance. If you have any questions, please contact me at 970-962-2311.

Sincerely,

Jeff Miller

Senior Accountant
City of Loveland

Background, Scope, Objective & Methodology

Background

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

In January 2013, Council approved modification to the Block 41-Finley's Addition Urban Renewal Plan and Plan area to include 541 N. Lincoln Avenue (formerly the Home State Bank building) and other properties. This would permit LURA to retain incremental tax revenue from sales taxes in addition to property taxes, in order to assist with the financing of the Brinkman/North Catalyst project (541 N. Lincoln Avenue). Block 41-Finley's Addition Urban Renewal Plan is now referred to as the Expanded Finley's Addition Plan Area.



In addition, the City and LURA approved a minor modification to remove the Project Site (541 N. Lincoln and other specified properties) from the Downtown Plan Area.

The Downtown Loveland project does not have an active agreement which stipulates conditions required for financing. During the time period under audit, the Downtown Loveland project did not incur activities that require compliance according to the Master Financing Agreements.

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

The Centerra Metropolitan District No. 1 was established to manage funds associated with US 34/Crossroads Corridor. The purpose of the District is to acquire and construct local and regional improvements that qualify as metropolitan district improvements.

Background, Scope...continued...

These improvements will be financed through bonds and developer advances. The City of Loveland agreed to a sales tax collection credit (PIF) of 1.25% to the developer at Centerra, so long as the District Mill Levy is greater than the minimum of 35 mills. The 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC). The City also granted certain credits and deferrals for development fees. According to the Financing Agreement, the Developer received a credit of \$423,600 for Water System Impact Fee and \$7,374,800 for Street Capital Expansion Fee.

Scope

Our audit of the Centerra Metropolitan District No 1 was for the period January 1, 2017 to December 31, 2017. The scope of our audit was limited to determining compliance with the contracts between the City and Centerra Metropolitan District No. 1.

Objective

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

Methodology

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

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



Compliance Report

Downtown Project

The Downtown Project does not have an active financing agreement. As of December 31, 2017, the project has collected a small amount of tax increment financing which is held in a cash account. The sales tax base within the project area is \$1,280,250; which was the annual sales tax at the time LURA was established. During the time of review, \$12,500 was spent.

Lincoln Place Project

Council and the URA Board authorized the developer to dissolve the metro district associated with the project in February, 2007. Lincoln Place was sold to Wolff Loveland Apartment LLC in 2010.

Longbow Industries, LLC

On December 14, 2017 LURA entered into an Economic Incentive and Performance Agreement with Longbow Industries, LLC. The agreement provides for the sale of the Larimer County Building (located at 205 East 6th St.) and the lease of the parking lot (located at 100 East 6th St.) to Longbow Industries, LLC.

Centerra Project

Performance Requirements

A Public Improvement Fee of 1.25% of sales is collected to the developer at Centerra, so long as the 1.25% PIF is collected by the Public Improvement Collection Corporation (PIC).

PIF shall be distributed as follows:

- a. Administrative expenses.
- b. District debt.
- c. Debt service district reserve.
- d. Constructor and/or development fees for expenses that qualify as local and /or regional improvements.
- e. SID Debt incurred after 2003.
- f. Centerra Public Improvement Collection Corporation (PIC) Reserve Fund, not to exceed \$1 million.
- g. Remaining funds disbursed to the Service District.

All development fees and use tax not specifically deferred or credited will be paid by the contractor.

Construction contracts after January 20, 2004, shall comply with the procurement

(As of December 31, 2017)

Performance Results

- √ For 2017, PIF collections were \$3,173,352 per the City of Loveland Finance Department. The mill levy remained at 42.6 mills per the Larimer County Assessor.
- √ (a) For 2017, there were \$62,198 of administrative expenses paid from PIF funds.
- √ (b) Payments on District debt during 2017 total \$10,597,191.
- √ (c) District reserved \$17,173,516 in fund balance which is restricted for debt service repayments.
- √ (d&e) In 2017, the PIC has spent \$1,947,257 on Constructor Reimbursements.
- √ (f&g) The District did not disburse funds in 2017 to the Service District. In accordance with the MFA, which specifies that "the PIC may retain such amount, not to exceed \$1,000,000 as may be Reasonably determined by the PIC Board", the PIC reserve did not exceed \$1 million. In addition to the review of this transaction, the audit included a review of PIC expenses. A random sample of 8 disbursements were audited, noting no exceptions.
- √ Use tax and fees are audited by the City of Loveland Revenue Division. All use tax audits are current on occupied retail businesses within the Centerra project area.

Compliance Report continued...

policy, except the general contractor. This includes but is not limited to:

- Invitation for bids published 14 days prior to bid date and published in 4 local newspapers;
- Bids are open to the public;
- Contract shall be awarded to the *lowest responsible bidder*; and,
- The bids are properly prepared with applicable information.

Construction request for payment must include:

- Itemized statement of costs and expenses;
- Signed certificate from President affirming statement is correct; and,
- Documentation of reimbursable expenses.

Contractors must maintain proper books and account for costs, expenses, development fees, and be available for inspection for the next seven years.

Annual audit shall be performed and a copy provided to the City within 30 days after the annual audit is accepted by the District board.

Regional improvements must be approved by the City Manager, required to be constructed by CDOT, the IGA, or the City as a precondition of construction.

Annually on June 30th, after the First District Debt and Second District Debt payments are made, the payment for the Regional Allocation is made to the LURA.

The District shall submit an annual report to the City no later than March 1st of each year of existence.

√ During 2017, the District had three projects that required a bidding process that was over the statutory minimum.

√ A random sample of 15 accounts payable checks revealed no material exceptions. Each transaction tested had an itemized statement of costs and expenses. Reimbursable expenses were documented in detail.

√ During the audit, the contractor affirmed that all contract files are current.

√ The audit report has been issued with an unqualified opinion and was received by the City on July 31, 2018.

√ Loveland City Council approved the seventh amendment to the Centerra MFA and intergovernmental agreement on January 5, 2016 for constructing a public parking structure on Parcel 206 to serve the general public. There was also clarification regarding Parcel 505 parking improvements that the parking improvements must be available to the public at large.

√ The project's initial finance plan anticipated the first Regional Allocation to be funded in the year 2013, once the supplemental debt reserve is funded to \$18 million by net annual revenues; to date, the second district debt and debt reserve have not been funded and no updated estimates have been performed.

√ The annual report for the district was received by the City on March 27, 2018.

Financial Statements

Financial Statements Overview

The Loveland Urban Renewal Authority Fund (LURA Fund) is considered for accounting purposes to be a component unit of the City. The last complete year for financial reporting purposes is 2017, and the statements below reflect that fiscal year. The Finance Department anticipates that this report will be updated by September of each year and forwarded to the City Council in its role as the Board of Directors for the LURA.

Loveland Urban Renewal Authority
Statement of Revenues, Expenditures and Changes in Fund Balance
As of: December 31, 2017

	PROJECT AREAS				Total
	Centerra	School	Downtown	Expanded Finley	
REVENUES					
Taxes	\$ 12,617,726	\$ 944,661	\$ 43,240	\$ 228,758	13,834,385
Interest on Investments	220	6,989	1,083	19,857	28,149
Miscellaneous					-
TOTAL REVENUES	12,617,946	951,650	44,323	248,615	13,862,535
EXPENDITURES					
Services	50,000	1,060,180	12,500	28,134	1,150,814
School District Fund	944,662				944,662
Capital Outlay				33,113	33,113
Debt Service				66,938	66,938
Distribution on Tax Increment Financing	11,620,833				11,620,833
TOTAL EXPENDITURES	12,615,495	1,060,180	12,500	128,185	13,816,360
Excess of Revenues over Expenditures	2,451	(108,530)	31,823	120,430	46,174
Fund Balance--Beginning	18,953	322,701	67,497	563,572	972,723
Fund Balance--Ending	\$ 21,404	\$ 214,171	\$ 99,320	\$ 684,002	\$ 1,018,897

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

Financial Statements continued...

Balance Sheet
As of: December 31, 2017

	PROJECT AREAS					Total
	Centerra	School	Downtown	Expanded Finley		
ASSETS						
Equity in Pooled						
Cash and Investments	\$ 19,119	\$ 213,580	\$ 99,046	\$ 1,634,300	\$ 1,966,045	
Accrued Interest	53	591	274	4,519	\$ 5,437	
Miscellaneous Receivable				1,157,045	\$ 1,157,045	
Taxes Receivable	13,892,964		29,991	323,593	\$ 14,246,548	
TOTAL ASSETS	13,912,136	214,171	129,311	3,119,457	17,375,075	
LIABILITIES						
Accounts Payable				54,817	54,817	
Interfund Loan Payable				2,057,045	2,057,045	
Deferred Revenue	13,890,732		29,991	323,593	14,244,316	
TOTAL LIABILITIES	13,890,732	-	29,991	2,435,455	16,356,178	
FUND BALANCE						
Unreserved	21,404	214,171	99,320	684,002	1,018,897	
TOTAL LIABILITIES AND FUND BALANCE	\$13,912,136	\$ 214,171	\$ 129,311	\$ 3,119,457	\$17,375,075	

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

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

Since 2002, the City Council has established three urban renewal areas. Downtown Loveland was the original focus of LURA and the location of its first project area. Since that first project area in 2002, LURA has added two additional project areas – one at the City's eastern boundary (U.S. 34/ Crossroads Boulevard Corridor, aka Centerra) and a second downtown area (Lincoln Place, aka Expanded Block 41-Finley Addition). The 25-year urban renewal plans intend to enhance, redevelop and revitalize these areas.

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

Reporting Entity

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Property taxes and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period.

Notes...continued...

Expenditures are generally recorded when a liability is incurred.

Cash and Investments

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

Incremental Taxes

As allowed by State statute, LURA will receive revenue from incremental sales and property taxes that are collected from the designated geographical areas as defined in the urban renewal plans for the Downtown and Block 41-Finley Addition project areas and incremental property taxes from the designated geographical area as defined in the Centerra project area. Incremental sales taxes represent the increase in municipal sales taxes collected within the same area for each 12-month period beginning on the date the urban renewal plan is approved. Property tax revenue is earned from the geographical areas based upon the increase in assessed valuation of taxable property within the area. Sales taxes are collected by the City and remitted to LURA.

Property Taxes

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

Note 2: Commitments and Contingencies

Economic Development Agreements

Once tax increment revenues became available for the Centerra and Lincoln Place project areas, LURA agreed to remit the related revenues to organizations formed to construct improvements within the projects areas. Incremental property taxes generated from the Centerra area will be remitted to the Centerra Metropolitan District No 1. Incremental property taxes within the Block 41-Finley Addition project area will be remitted to the developer and the agreement was fully paid in 2014.

The Centerra School Fund (School Fund), established by the Master Financing Agreement, denotes that LURA collects the school increment on behalf of the School District and the increment is deposited into a School Fund. Distributions from the School Fund are made by LURA upon written request with approval by the Centerra Metropolitan District and LURA. The sole purpose of the reimbursement is for costs, expenses and/or indebtedness incurred for the construction of schools within the URA boundaries. The reimbursement is not for the purpose of paying school administrative or instructional expenses. There were two reimbursements in 2017 for a total of \$934,655.15.

TABOR Amendment

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

Report Completed By:

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