

**CITY OF LOVELAND**
CITY MANAGER'S OFFICE

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AGENDA ITEM: 11
MEETING DATE: 6/7/2011
TO: City Council
FROM: City Manager
PRESENTER: Bill Cahill / Renee Wheeler

TITLE:

A Resolution adopting a Strategy for Financial Sustainability Dated June 7, 2011

DESCRIPTION:

This is an administrative action to approve recommendations for financial sustainability over the next ten years based on a process approved by City Council that incorporated feedback from citizens, City Council, Boards and Commissions, and employees. The \$33.5 million recommendations over ten years include both revenue enhancements and expenditure reductions and include no new taxes.

BUDGET IMPACT:

Yes No

SUMMARY:

Recommendations to close annual average \$3.5 million gap between projected revenue and expenditures are presented in the attached report. This report provides information on the process, the recommendations, and the impact of the recommendations on the ten year financial projections for the General Fund. The detail documentation for the public feedback was included as appendices with the study session materials for May 24, 2011 but was not reproduced for this report to reduce the cost of packet production. Please contact Renee Wheeler (contact information below) to request copies. There was general consensus at the May 24, 2011 study session to bring the Financial Sustainability Plan to the June 7, 2011 City Council meeting for official action.

Renee Wheeler, Assistant City Manager/Finance Director,
wheelr@ci.loveland.co.us, 970-962-2704

LIST OF ATTACHMENTS:

Resolution with Exhibits for the Strategy for Financial Sustainability and the table demonstrating the projected Ten Year Impact

RECOMMENDED CITY COUNCIL ACTION:

Approve a Resolution adopting a Strategy for Financial Sustainability dated June 7, 2011.

REVIEWED BY CITY MANAGER:

RESOLUTION #R-39-2011**A RESOLUTION ADOPTING A STRATEGY FOR FINANCIAL SUSTAINABILITY DATED JUNE 7, 2011**

WHEREAS, based on structural economic changes and current information available, it has become clear that the City's projected annual general fund revenues will not be sufficient to cover its projected annual general fund expenditures, sometimes referred to as a "structural deficit" in the coming years; and

WHEREAS, it is projected that this structural deficit in the City's general fund budget will average approximately \$3.5M annually over the period from 2012 through 2020, this structural deficit; and

WHEREAS, beginning in December, 2010, the City has engaged in a dynamic process, including stakeholder and citizen input, to define guiding principles, collect data, evaluate, and recommend to City Council potential actions and measures to address this anticipated structural deficit known as the Financial Sustainability Process; and

WHEREAS, the Financial Sustainability Process resulted in the "Strategy for Financial Sustainability" dated June 7, 2011 attached hereto and incorporated herein by this reference (the "Strategy") and the Recommendations and Long Term Measures set forth therein, which include revenue enhancements and expenditure reductions, but no new taxes; and

WHEREAS, the Council desires to approve the Strategy and direct the City Manager and City Staff to proceed with steps to implement the Recommendations and further evaluate Long Term Measures identified therein beginning with the 2012 budget year.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LOVELAND, COLORADO:

Section 1. That the "Strategy for Financial Sustainability" dated June 7, 2011 attached hereto and incorporated herein by this reference is hereby approved.

Section 2. That the City Manager and City Staff are directed to proceed with steps to implement the Recommendations and further evaluate Long Term Measures identified in the Strategy beginning with the 2012 budget year and to include presentation of action items to Council for approval as may be necessary or appropriate as implementation proceeds.

Section 3. That this Resolution shall be effective as of the date of its adoption.

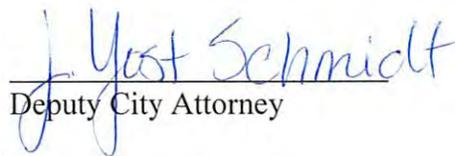
ADOPTED this 7th day of June, 2011.

Cecil A. Gutierrez, Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:



Deputy City Attorney

EXHIBIT A

A Strategy for Financial Sustainability



June 7, 2011

Financial Sustainability

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The Financial Sustainability Process

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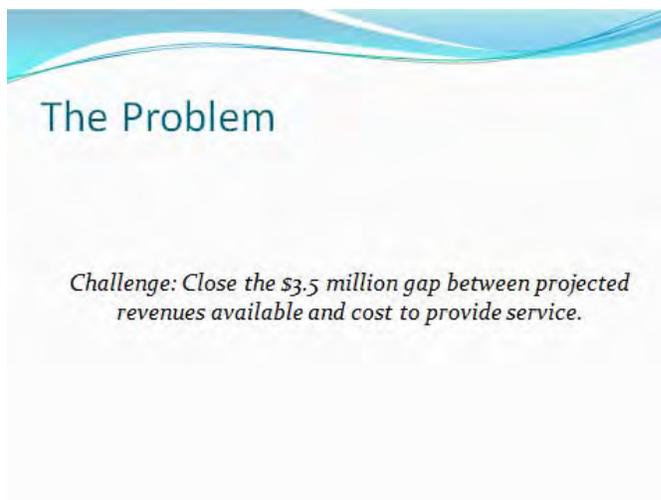
1. City Vision Statement, Mission Statement and City Council Goals
2. Process Detail

Table 1: Recommendations

Table 2: Status of Ten Year General Fund Financial Master Plan

Introduction and Purpose

The City of Loveland is growing and has been financially healthy. The City’s tradition of conservative fiscal management has placed it in a position that other local governments might envy. The City Council has placed a high degree of importance on creating a plan for maintaining the strong financial position of the City of Loveland in a sustainable manner for the future of the community.



However, the General Fund Financial Master plan indicated that reserves in excess of the policies and practices would be consumed by 2013. It became clear that based on the current information available for projections the projected annual revenues will not be sufficient to cover the projected annual expenditures, sometimes referred to as a structural deficit.

A more intensive focus on long term strategies for balancing the budget within the ten year planning horizon has been initiated. The City engaged in a process for bringing together practical, actionable ideas to meet the challenge. This long term focus is the basis for labeling it the “Financial Sustainability Process”.

This Sustainability Strategy is based on the City’s Financial Master Plan as a baseline. The Master Plan contains projections of operating and maintenance (O &M) costs, including new O & M costs brought on as a result of new capital projects. So it is a “holistic” look, incorporating existing operations as well as additions due to growth of City facilities. However, the Master Plan – and this Sustainability Strategy – do not include completely new initiatives which have not been approved. In particular, the potential new Fire Authority, including the ramp-up of City Fire staffing to new service levels, is not included. However, the increase in Fire staffing projected for Station 2 is included in this analysis, because it is already incorporated into the Financial Master Plan.

The Financial Challenge

The City’s General Fund budget for 2012-2020 is projected to have a gap between revenues and expenditures that on the average is \$3.5 million annually. The “gap” between resources and expenditures that has been identified is roughly 5%. While 5% is significant because of the reductions that have occurred in recent years, it is certainly not a crisis. The financial master plan expenditure estimates (as shown to the right) do



include the operations and maintenance impact of capital projects in the capital improvements plan.

The plan also includes employee base pay increases, restoring street maintenance and equipment replacement. It is expected that service reductions would need to be implemented if the recommendations were all on the expenditure side. The strategic evaluation of a variety of recommendations (revenue, expenditures and reserves) is preferable to annual reductions approach to ensure that permanent and thoughtful recommendations are implemented. Using this approach, the City positions itself to be in the best position to take full advantages of the opportunities that arise over the next ten years.

The Financial Sustainability Process

The Financial Sustainability Process was designed and approved by City Council at the December 14, 2010 study session. There were several phases of the process that were being implemented simultaneously to allow for all the parties involved to have at least two and preferably three opportunities to consider the information before making decisions at any stage. The process itself was dynamic in response to feedback collected during the implementation.

	Dec	Jan	Feb	Mar	Apr	May
Problem Definition & Process Development	X					
Data Collection	X	X	X	X		
Principles		X				
Priorities		X	X			
Strategy Development				X	X	X
Strategy Approval						X

Data Collection

Once the problem was defined, a process was developed to create strategies. Many stakeholder groups were involved in the process. Three public forums were hosted by the Citizens’ Finance Advisory Commission and two separate on-line surveys were made available that focused on budget balancing strategies. This combined effort resulted in survey completion by 492 respondents. The City Council also completed a survey early in the process.

Employees were actively engaged in strategy development as well. 165 ideas were submitted through an internal employee survey and a representative group of employees evaluated those ideas to submit the most viable strategies. The executive management team was assigned a variety of topics to study in more depth; and those groups brought recommendations forward. Nearly all the executive management team meetings over the period of February to May 2011 have been dedicated to vetting potential strategies. Over the last six months a comprehensive process has been undertaken to develop the reasonable and actionable recommendations for sustainability.

Principles for Financial Sustainability

City Council, boards and commissions, citizens, and employees at all levels of the organization have been involved in development of recommendations for City Council consideration guided by the following principles approved by City Council February 22, 2011:

1. Provide the highest quality of public service which is sustainable on a long-term basis.
2. Set reasonable expectations for delivering quality, customer-centered services in a fair, equitable, efficient and cost-effective manner.
3. Advance services and programs that promote safety, quality of life and business growth.
4. Balance the services to be delivered with the resources available, both in terms of people and money.
5. Promote a fiscally conservative approach to achieve financial sustainability, maintaining flexibility to respond to opportunities and challenges.
6. Maintain the City as an employer of choice, able to attract and retain high-quality employees.

Priorities and Summary of Public Participation

The City Council participated in a questionnaire and study session discussion of priorities for city services and evaluation of various measures. Complete results are found in Appendix 3. Key results:

- The City should proceed with a TABOR ballot measure (de-Brucing) in November, 2011. It should be time-limited, and limited to the same purposes as in the previous measure.
- There was no strong inclination to pursue other tax measures at this time.
- Priorities for General Fund expenditures are as follows:
 - Fire and Rescue
 - Police
 - Streets Maintenance
 - Transportation Planning/Engineering
 - Traffic Management
 - Building Review and Inspections
 - Development Review
 - Library
 - Transit
 - Downtown Planning
 - Land Use Code Review and Update
 - Code Enforcement
 - Economic Development (Cash Incentives/Fee Waivers)
 - Parks and Recreation
 - Museum
 - Public Information
 - Rialto
 - Non-Profit Grants
 - Historic Preservation Grants and Planning Support

Public participation, as reflected in public meetings as well as on-line surveys, yielded the following results:

- Citizens believe that a balanced approach is appropriate, using both cost reduction and revenue increases in roughly equal proportions.
- Citizens think that certain City activities should generate more of their own revenues. In particular, increased fees are seen as appropriate for development services, cultural service facilities, and other City facilities.

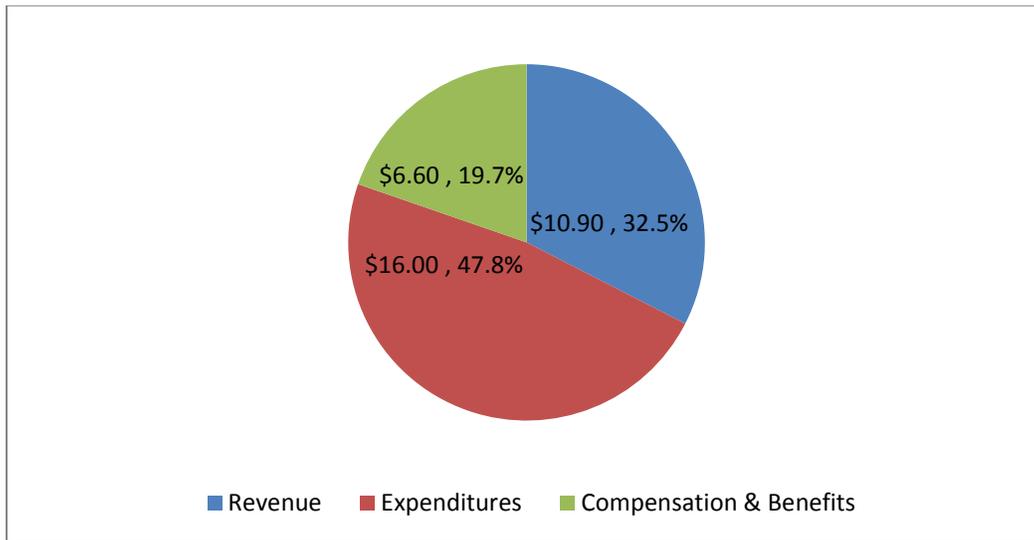
- Citizens also favor submitting a TABOR ballot measure (de-Brucing) to the voters, incorporating a sunset provision, with restrictions on the use of revenue similar to the existing Loveland restrictions.
- Citizens think that targeted reductions are more appropriate than across the board reductions.

The Sustainability Strategy

Strategic recommendations were developed pursuant to the principles adopted by City Council, and reflecting the policy views and priorities expressed by the City Council and the public.

The resulting strategy is balanced between expenditure reductions and revenue increases, as both the Council and the public indicated desirable. The recommended actions consists of 81% cost reductions and 19% in revenues benefiting the General Fund for 2012.

The strategy is also phased in over a number of years. Over time savings in early actions allow phased-in reductions in cost over the time period. Cumulative saving from recommended actions will mount over the decade to \$33.5 million. The graph below, stated in millions of dollars, demonstrates the composition of the recommendations for the ten year period.



Each of the changes is felt to be durable, so that it is not simply a one-time cut which will need to be reversed later.

Recommendations

The recommended recommendations include both expenditure reductions and revenue enhancements. Table 1 lists the recommended actions. First- year reductions are:

- \$285,200 - Employee generated operational efficiency options.
- \$903,750 - Employee benefit and administration cost reductions.

- \$76,450 - Fleet management strategy, including elimination of underutilized equipment and “pooling” the use of remaining equipment. This also generates savings through the elimination of future year replacement costs.
- \$33,270 - Fleet reduction: sale of units targeted for elimination from the fleet (one-time savings)
- \$ 30,000 - Reduction of City Council budget
- \$510,000 - Line item budget reduction in all General Fund departments
- \$150,000 - Voluntary Severance Program
- \$134,000 - Strategic Attrition
- \$651,600 - Payment In Lieu of Taxes increase of 1% on utility enterprise funds only
- \$343,900 - Minor fee increases in several departments

\$3,118,170 of the \$3,116,443 target for 2012 has been identified, leaving \$1,727 that could be applied to future year imbalances. These recommendations are highlighted below in greater detail.

Employee Savings and Efficiency Options

There were about 165 ideas submitted by City employees. After sorting for feasibility and value, an employee task force recommends thirteen actionable options that are expected to generate \$285,200 in value. These options are related to reducing costs for the way the City currently conducts business. The suggestions are related to limiting take home vehicles, eliminating vehicle allowances, eliminating supplies, budget FICA taxes more specifically to account for pretax elections for medical and dependent care, finding corporate sponsors for public events like 4th of July, charge fees for museum exhibits/shows, and publishing ordinances by title only (which would require an election).

Employee Compensation and Benefits Review

The City’s employee compensation and benefits were compared to market (both public and private) in an attempt to identify any components of the salaries and benefits provided that might be out of alignment. The total savings in this category of options is estimated to be \$903,750.

Principle number 6 above is followed in evaluating employee compensation and benefits. In general, compensation changes are tested against general market trends. Pay reductions are not recommended. However, there are minor areas of benefits which can be adjusted without the City suffering a disadvantage compared to the market.

The benefit review only revealed a couple of benefits that exceeded the market, (1) life insurance and (2) the management of sick leave hours. The City currently offers 2 times the annual salary for life insurance, where the market is reflecting a benefit of 1.5 times the annual salary. If the benefit is decreased to align with the market the difference in the premium would save the City \$23,000. The City’s sick leave accumulation and payout policies also differ from the general market and an adjustment may yield savings, particularly when aligned with potential changes in short-term and long-term disability coverage of up to \$235,077.

Finally, the financial master plan expects that salaries will increase on the average by 3.5%. Decreasing the amount of the base raise can create savings throughout the plan, but prolonged periods of holding employee compensation down can damage the City's ability to retain and recruit high-quality employees (therefore violating principle #6 above). It is therefore important to keep pace with market in being able to compensate employees.

The recommendation therefore steps up the rate of employee pay as the economy improves, and as the job market improves. In 2009 and 2010, there were no employee raises. In 2011, the City has been able to make a one-time merit pay distribution (which did not change permanent pay ranges). The recommended action is to return to a permanent pay range increase in 2012 of 2%, and then return to pay range increases averaging 3.5% in 2013.

Fleet Management Strategy

The Vehicle Maintenance staff conducted a study of vehicle utilization to identify the bottom 10% of underused vehicles and equipment. Using utilization standards for municipal government fleets from both the National Association of Fleet Administrators and the American Public Works Association, a significant number of vehicles or equipment were identified for elimination from the fleet.

The City can reduce costs of managing the operations and maintenance costs of the fleet by \$76,450 and the future replacement costs of the fleet. The significant number of vehicles or equipment identified by the study would be sold for an estimated one time savings of \$33,270 in 2012.

Reduce City Council Budget

The City Council budget will be reduced by \$30,000 following Council comments at the April 22, 2011 study session. This would be achieved by reducing the amount of travel supported by the City and reducing meeting expenditures. Both of these represent permanent changes in the operation of the City Council, not simply one-time reductions.

Line Item Budget Reduction in Other General Fund Departments

Other City departments receiving General Fund revenues have reduced their budgeted levels by approximately \$510,000. These reductions have been made proportionally to the amount of General Fund support received by each department, with attention to avoiding impacts to critical services. In most cases, this involves a more austere approach to expenses, or improvements in organizational efficiency. The \$510,000 in reductions will be made in 2012, creating a new budget "baseline" or "core" level of expenditure, and is then projected forward through the 10-year financial planning period.

Voluntary Severance Program

A voluntary severance program is recommended to be offered in the fall of 2011. This reduces the City's overall personnel cost by offering a one-time payout to those interested in retirement or other separation, and maintaining positions as open or in some cases under-filling to create net savings. Only positions which produce net savings will be approved. The service impacts of any vacant positions will also be carefully considered in accepting applications.

Strategic Attrition Program

A program of "strategic attrition" will be used to reduce the overall size of the City workforce. It will reduce the overall personnel by eliminating selected positions as they become vacant producing continued savings. Existing General Fund positions vacated will eliminate about \$134,000. Maintaining this approach will create an estimated \$50,000 in added reduction each fiscal year.

As attrition is employed to reduce total expenditures, it will be carefully managed to minimize the impacts on key programs. Not every vacated position will be left vacant. In addition, each vacancy will be viewed as an opportunity to re-organize the way in which the City does business. It is important to recognize that this approach will be taken regardless of the level of the position. Whether in executive or middle management, supervisor or line staff, each position vacancy will result in similar analysis.

Minor Fee Increases

There are a variety of fee increases that have been submitted for consideration that would generate approximately \$343,900. The risk associated with the estimates is that they would assume that the participation would not be impacted by the fee increases. The following is a brief listing of those that are being considered.

- \$47,000 - Minor fees for services provided Culture (Museum donation solicitation and Rialto rental fee increase), and facilities rental increase (for Pulliam, Library Gertrude Scott Room, Civic Center Plaza).
- \$30,000 - Public Works Rights of Way Permit and Inspection fee increases.
- \$14,000 – Development Services application fee increases will be phased in over a multi-year period, being sensitive to the balance between better cost recovery for services provided and the impact on development and building activity. Current Planning currently recovers about 8% of its costs from user fees. Transportation Development Review (TDR) has no charges or fee revenue at all. Direction from the public input to date indicates that this should be significantly higher.
- \$168,900 - Increase cost recovery for the street maintenance fee charged monthly on the utility bills from 50% to 60%

- \$12,000 - Municipal violation ticket surcharge increase from \$10 to \$25.
- \$10,000 - Increase in fees for public safety coverage during special events. The fees currently charged by Police and Fire (averaging \$40.00 per hour) do not recover costs of service.
- \$62,000 - A new \$20 fee on sales tax license renewals. Most cities are already charging a renewal fee annually.

Payment in Lieu of Taxes (PILT)

All Enterprise Funds currently pay the General Fund a 6% PILT on gross revenues (with some consideration with specific revenue line item exclusions) in all but the Golf Enterprise Fund, which pays 3% of gross revenues. The recommendation is to increase the PILT by 1% to 7% in all utility enterprise funds, excluding Golf.

While this payment to the General Fund has been called a PILT, City Charter Section 13-2(c) provides that the City's utilities can be required by the Council to pay the General Fund "a reasonable return on the City's investment in utility properties and capital investments" and the equivalent of what the City would obtain "from a franchise fee or utility occupation tax" imposed on its utilities. Therefore, the use of the term PILT to describe the current 6% charge to the utilities more accurately should be called a franchise fee.

Charging an additional 1% to the Enterprise Funds, except the Golf Enterprise Fund, provides the City a reasonable return of its investment. *It is imperative to understand that even a 1% increase will likely be passed through directly to utility enterprise fund customers over future years.* It is possible that even with a rate increase; the revenue would be equitably generated by the community in a manner that may be more acceptable than a mill levy increase. Nearly all funds are considering a 2012 rate increase for various business reasons, (i.e., wholesale power rate increases), so it is likely that most funds will still see a 2012 rate increase. Collecting this return on investments from the utilities in addition to the current PILT or franchise fee would make Loveland the highest in the neighboring communities with the exception of the 8% PILT that Longmont charges its electric utility.

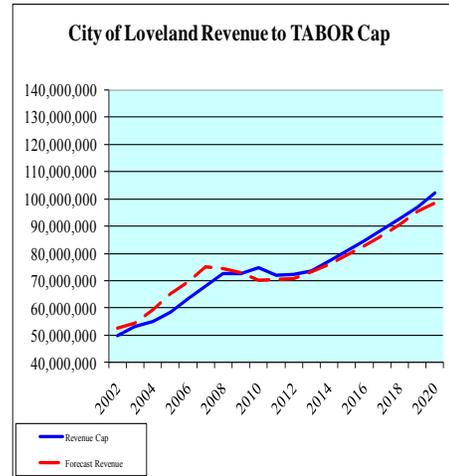
While the recommendation is to increase the fee by 1% to generate 651,600, increasing the rate by 2% would generate \$1,303,239. The increase would need to be considered at the household impact level. If the average residential bill is \$47, then a 1% increase monthly would be 47 cents a month and a 2% increase would be 94 cents a month.

Longer Term Measures

There are other sustainability strategies that staff proposes for consideration as the City progresses annually through the update of the financial master plan.

TABOR Ballot Measure

Previous City Council discussion and the results of public participation during the course of the Sustainability Strategy work, indicate that a measure should be placed on the November 2011 election ballot to allow the City to keep and spend revenues over the TABOR cap. Preliminary indications are that the ballot measure should be similar to Loveland’s last TABOR measure approved by the voters in the range of services to be funded, and the “sunset” measure.

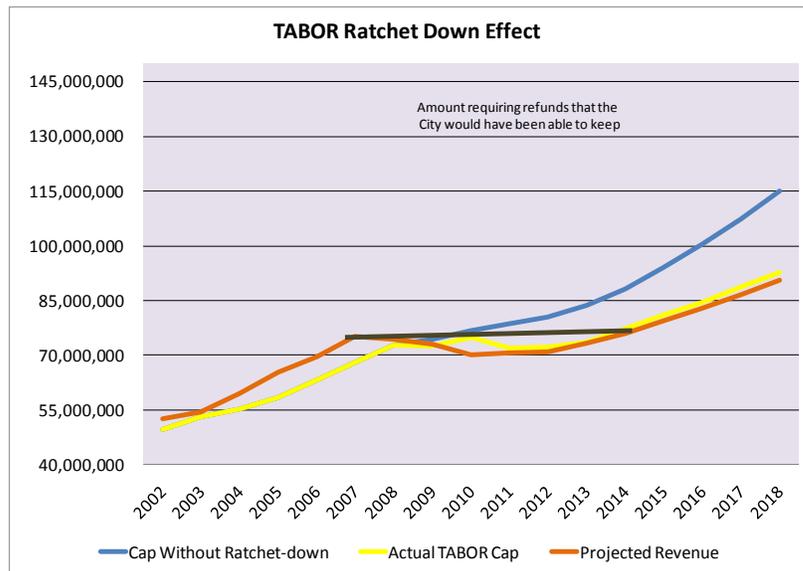


Beginning in 2010, the City will be beneath the TABOR cap and may remain underneath the cap throughout the Financial Plan horizon. While the actual amount varies from year to year, on average the City will be approximately \$1.7 million below each year, or, on average, 2% below the revenue limit. It is important to note that the City will only be under the cap by 1%-2% during 2011-2015 and is on average under by 2% for the remainder of the ten –year period to 2020. It will only take minor fluctuations in revenue collections or the two factors that inflate the cap for the City to once again be over the revenue limitation.

	2011	2012	2013	2014	2015
Projected Revenue under cap	1,373,048	1,511,258	308,466	1,310,427	1,688,837

The revenue limitation is allowed to increased based on two factors; the Consumer Price Index for the Denver-Boulder-Greeley area and “local growth”, which is calculation to determine the percentage of new construction property value to existing property values. For the years 2009 and 2010 we have experienced significantly lower inflation than past history, and due the recession, the local growth factor is exceptionally low.

The greater concern to the City at this point is the other requirement of TABOR; commonly known as the “ratchet –down effect”. Within the Amendment there is the requirement that if an entity has revenue below the allowed limit; the actual revenue becomes the new limit from which the inflation



and local growth adjustments are applied to. Since the ten-year forecast currently has the City under the limit each year, the revenue limit allowed by the Amendment is reduced each year.

Mehaffey Park Operating Costs Absorption into Existing Budget

Mehaffey Park has been projected in the Financial Master Plan to come on line for operations in 2013, increasing operating costs by \$249,400 annually and continuing through the time horizon of the Plan. However, analysis performed in this Strategy has identified reductions and efficiencies that can be made in the existing Parks and Recreation Department budget, sufficient to pay these costs without increasing the baseline Parks budget. This creates savings equal to the cost increases that had been previously projected.

Boards and Commissions

A working group of staff reviewed City boards and commissions for possible streamlining and reductions. These bodies are important avenues for public participation in city affairs, and make significant recommendations to the City council. However, two particular recommendations are made:

1. Eliminate the Communications Technology Commission as a standing body. This group achieved their ad-hoc mission in assisting with the cable franchise agreement, but has met infrequently and irregularly since. Members should be thanked for their service and the Commission retired. This would require specific City Council action.
2. Change the informal expectation for City Council liaison attendance to quarterly, or as deemed appropriate for the individual body, rather than every meeting.

Administrative Changes in Budgeting

Two administrative changes in budgeting will be made in the future, which do not require City Council approval but may create significant cost savings incrementally over the time period of the financial plan:

1. Change in Annual Budget Preparation Process: Currently, department preparing their budgets receive several items directly from Finance or Risk Management. These include personnel costs, insurance costs, and other items. The primary budget constraint issued to departments is the “core” total expenditure level for the department, based on continuation of status quo services and spending levels, adjusted for any previous year unusual items. This “core” expense level is the primary limitation upon departmental budgets.

In 2012 and the future, departments will also be issued a revenue constraint, based upon expected General Fund receipts. This “General Fund support constraint” will provide each department with a target of how much in General Fund support the department will receive. Departments also “earn” revenues through cost recovery fees and charges, which department estimate subject to Finance Department review, and departments will retain

the ability to earn more revenues. Departments will be constrained by the more restrictive of the “core expenditure” level or the “General Fund support” revenue level.

2. Increased refinement of cost accounting: Currently, enterprises are charged for their use of City administrative support services, and all departments are charged a share of a few expenses, such as insurance. However, the City’s costs of central administrative services (such as legal, executive, finance, and human resources) are not currently distributed to departments. It is therefore difficult to pinpoint precisely the true costs or service provision, and departments are not responsible for their consumption of central administrative costs. Over the next several years, the City will refine its cost accounting structure to more accurately assign costs to the appropriate centers.

Increased Oversight of Equipment Replacement

The City’s equipment replacement budget is developed by departments, which take primary responsibility for this function. Equipment replacement is calculated prior to the development of the operating budgets. Replacement schedules will be reviewed more closely, and revenue-constrained to a percentage of operations and/or the available use tax revenues.

Electronic Billing

The Utility Billing Division has been working on a software conversion that would allow for electronic billing to eliminate the cost of paper and postage. The conversion should be complete within a year or two. The newsletter enclosed with the bill is already under consideration for electronic posting.

Electronic City Council Agendas

A pilot program for three council members to begin receiving city council agendas electronically has been initiated. The group will select the software and hardware that is deemed most beneficial and will receive the agendas electronically for a number of months to evaluate the operational feasibility and cost benefit of full implementation.

Target Building Use Tax Revenues for Capital and Equipment

Building Use Tax revenues from new construction are essentially “one-time” revenues from construction projects, and are volatile depending on the pace of development. Use of these revenues for operations makes operational revenue less predictable. These revenues will be targeted increasingly for capital and equipment, rather than operations.

Cultural Services Facilities: Increased Self-Sufficiency

The Rialto Theater and the Museum currently generate part of their costs through fees and rentals. Potential exists to increase the amount of cost recovery. Cost recovery targets of 60% for the Rialto in five years (and 70% in eight years) and 15% for the Museum in five years (and 30% in eight years) are realistic.

Increased Airport Self-Sufficiency

The airport is co-owned with Fort Collins and receives about \$85,000 annually in General Fund support from each City. Developing self-sufficiency (reducing General Fund support) will need to be coordinated between the two cities as a multi-year effort, but has already been envisioned in the Airport's business plan as a goal. The Airport's business is expected to grow substantially so the General Fund subsidy may be reduced over time.

Evaluate Potential for New Revenue focused on New Growth

The City already charges Capital Expansion Fees (CEFs) to new development, so that new development pays for capital improvements which are necessitated by growth in the community. In general, the City has relied on CEFs to assure that "growth pays for itself". However, CEFs are limited to paying for capital improvements, which then must be operated and maintained. There is currently no method to charge new development for these increased operations and maintenance costs.

In order to balance funding for new capital projects with revenue to operate and maintain new capital investments, the City will research and evaluate possible methods for new development to contribute to ongoing operations and maintenance. The options will be reported to the City Council for consideration.

Evaluate the Potential for a Library District

Conduct a study and public participation to determine the feasibility of a library district to encompass Loveland and the surrounding areas. This work will be complete for City Council review in 2013.

Consider an Infrastructure Use Tax

The City currently receives use tax on new construction of buildings (homes, businesses, and others). However, Loveland does not currently apply use tax to the construction of new public improvements. While some public improvements are constructed by the City or its enterprises, most are built through private activity in the form of new subdivisions or other development. It is proposed that the City review and evaluate the possibility of use tax on infrastructure as a potential revenue source, and return the concept to the City Council for consideration.

These strategies will meet the principles established by the City Council and will demonstrate careful scrutiny of resources and cost recovery. They will demonstrate the sustainable approach to evaluating the delivery of service within scarce resources projected to be available over the next ten years.

Overview of Projected Results

Taken together, these measures address the projected structural deficit which was forecast in the City’s long-range financial plan.

Table 2 shows the ten –year financial projection, adjusted for the corrective measures contained in the Financial Sustainability Strategy. The forecast for each year shows the net results, eliminating the previous structural deficit.

Follow-Up and Implementation

Implementation of the strategy requires administrative actions by City management, but also requires several actions by the City Council.

In general, cost reductions can be made administratively and will commence upon City Council approval of the Strategy. Revenue measures, which focus upon increases in fees and charges, generally require City Council action and will be brought to the City Council for consideration and action during the period of the 2012 budget process.

The long-term actions identified will be brought to the City Council as individual proposals over a multi-year period.

Schedule

June 2011	City Council to Adopt Strategy
June/July 2011	Begin 2012 Budget Development Administrative actions to carry out cost reduction measures
September 2011	Study Session to review the City Manager’s 2012 Recommended Budget
October 2011	Adopt 2012 Budget and Fees and Charges Resolutions

Appendix 1: City Vision Statement, Mission Statement and City Council Goals

Community Vision

Loveland

A vibrant community
—surrounded by natural beauty—
where you belong

VISION



Loveland is a community:

- That is characterized by **welcoming neighborhoods** and a sense of **individual belonging**;
- That embraces the **heritage** and **natural beauty** of the region and values its strategic location;
- That is **well planned** and **environmentally sensitive**, where all citizens are *safe and secure* and have **equal access** to services and amenities, including **plentiful recreational and cultural activities**;
- With an **integrated system of technology, utility and transportation networks** that support a **vital economy** and coordinates with regional plans;
- That is continuously developing **partnership** of citizens, business and educational communities, with a **stable and diverse economic base**;
- That offers **ample employment and business opportunities** to all;
- That encourages **active public involvement** and is responsive to the needs of its citizens.

Organization Mission Statement

The mission of Loveland city government is to deliver cost efficient, high quality services to all citizens of the City of Loveland through dedicated public employees and progressive and innovative leadership.

City Council Goals as Established at the 2011 City Council Advance

Goal 1, Public Safety: Continue public safety as the key priority of the City.

- 1.1 Regional Crime Lab
- 1.2 Consolidation of City & Rural District for Fire/Rescue Services
- 1.3 Public Safety Infrastructure

Goal 2, Economic Vitality: Build and strengthen Loveland's economic vitality.

- 2.1 Economic Development Strategy
- 2.2 Downtown Catalyst Projects
- 2.3 Redevelopment of the Agilent Campus, including public engagement
- 2.4 Rialto Bridge
- 2.5 Airport Growth and Capital Projects
- 2.6 Targets of Opportunity
- 2.7 Regionalism and Annexation Agreement with Johnstown
- 2.8 Artspace Project
- 2.9 Pulliam Building
- 2.10 "Black Boxes" (significant vacant buildings)

Goal 3, Financial Responsibility: Maintain Loveland's healthy financial position.

- 3.1 Financial Sustainability Strategy
- 3.2 "De-Brucing" Election
- 3.3 Analyze and Reduce Reliance on Intergovernmental Revenue
- 3.4 Capital Expansion Fees (CEFs)

Goal 4, Infrastructure Quality: Maintain and develop Loveland's infrastructure.

- 4.1 Street Maintenance Funding
- 4.2 Water Shares, Supply and Infrastructure
- 4.3 Electric Power Infrastructure

Goal 5, Quality of Life: Preserve and enhance Loveland's quality of life.

- 5.1 Public policy concerning poverty and homelessness
- 5.2 Environmental Sustainability Plan
- 5.3 Comprehensive Plan Update
- 5.4 Visual Arts Commission: Selection Process for Public Art
- 5.5 Transportation Plan

Appendix 2: Process Detail

Problem Definition (Dec 2010 – Mar 2011)

- Analysis
- Presentations
 - Management Team
 - City Council
 - CFAC
 - Employees
- Articles in local newspapers
- First Session of Public Forum-televised and rebroadcast
- Article in the City newsletter in March for information and recognition of citizen participation
- Channel 16 show broadcast in April

Process Development (Nov – Dec 2010)

- Set a Work Plan Internally
- Present the Plan for City Council Approval, December 14, 2010
- Present plan to Citizen Finance Advisory Commission (CFAC)
 - In concept Nov 2010
 - Detail Jan 2011

Data Collection (Jan 2011- Mar 2011)

- Departmental Service Inventory Lists
- Employee Working Teams developed reports and reported to management team
 - Revenue Enhancement/Minor Revenues
 - Payment in Lieu of Taxes Paid by Enterprise Funds
 - Red Light Cameras
 - Compensation and Benefits
 - Fleet Management
 - Boards and Commissions
- Employee Ideas for Savings, evaluated by an employee committee
- Public Forms hosted by CFAC – 52 participants
- Service Priorities and Ideas Budget Balancing Strategies—reported to Council by CFAC 3/22 Study Session
- Department 20% reductions scenarios from ballot measure response last quarter of 2010
- On-line Survey 168 people completed the survey
 - Leadership Loveland
 - Chamber Board and Legislative Group
 - School District Accountability Groups for Loveland Schools

- League of Women’s Voters
- March 23 – Mar 29: make on-line survey available on the home page of the City website and included:
 - Parks & Rec Subscriber List
 - Library Subscriber List (story time)
- CFAC Presentation of Forum and On-line Results Presented to City Council March 22, 2011
- Council requested broader availability of On-Line Survey
 - Distributed the link to survey to all Boards and Commission members
 - Search for other groups that might share email distribution lists; press release and general promotion
 - Same survey reopened on the website April 1 - April 30 – 2XX people completed the survey

Principles and Strategies (Jan 2011 – Mar 2011)

- Value Words Affinity Exercise with City Council (1/25/11)
- Staff developed draft set of principles
- City Council revised and set of 6 principles at 2/22/11 study session
- City Council Priorities Survey
- Began synthesizing ideas deemed valuable

Recommendation Development (Mar 2011 – May 2011)

- City Council study session on ideas 4/12
- Draft strategies to CFAC 4/27
- CFAC recommendation development 5/11
- Council to consider strategies on 5/24 and action on those strategies 6/7

Table 1. Recommended Solutions

General Fund Cost Reductions

Item	Year 1 Value	Value Over 10 Years
Floor mats, rags, rugs: change rugs less frequently; evaluate purchase versus service	\$10,000	103,685
Car allowances, review if positions come open over the ten year period	4,200	91,200
Evaluate the cost effectiveness of the City's "take home vehicle" policy	21,000	217,738
Eliminate food for staff functions, trainings	25,000	259,212
Budget FICA taking into consideration pretax deductions	30,000	311,055
Refine the equipment replacement list	150,000	828,877
Refine the sick hours policy and disabilities plans	235,000	2,095,884
Reduction in Employee Assistance Plan Administration Fees	11,000	114,053
Life Insurance Coverage Change	23,000	238,475
Employee merit based raises at 2% on the base salaries	634,750	4,168,479
Fleet Replacement and Maintenance: pooling of vehicles and equipment	109,720	801,721
City Council Budget Reduction	30,000	311,055
Voluntary Severance Program	150,000	1,555,274
Strategic Attrition	134,000	2,826,564
Line Item Reductions in all General Fund Departments	510,000	5,287,933
Airport Self Sufficiency	0	455,810
Electronic Newsletters	0	161,851
Rialto cost recovery targets of 60% in 5 years and 70% in eight years	0	88,875
Museum cost recovery targets of 15% in 5 years and 30% in eight years	0	398,713
Mehaffey Park operations costs to be absorbed within existing operating budget	0	2,257,491
Total	\$2,077,670	\$22,573,945

Table 1. Recommended Solutions

General Fund Revenue Increases

Item	Year 1 Value	Value Over 10 Years
Find corporate sponsors for the 4th of July celebration/fireworks	\$35,000	\$362,897
Culture fee changes (exhibits, donations, Rialto rentals)	37,000	380,897
ROW Work Permits: New fees for Test Bores, Potholing, Vacuum Excavations, & Horizontal Boring	10,000	101,591
Street and Storm Water Inspections: Double fees to cover cost of \$50k inspector position	20,000	207,370
Development Application Fees: Phased in an increase of fees and set fees for applications that currently do not have fees	14,000	292,698
Street Maintenance Fee Increase: Increase cost recovery from 50% to 60%	168,900	1,716,084
Facilities Rental Fees: Current flat rate approach for Library Gertrude Scott Room, Foote Lagoon/Plaza, Pulliam Community Room, and Pulliam Meeting Rooms 1 & 2 will continue. Rates will be increased by 2.3 times in 2012 to meet revenue goal. A cost recovery target of 70% over three years is planned to generate \$35,000 in 2013 and ultimately \$44,000 annually in 2014. Discounts around 50% for local non-profits have also been built into rate structure. Current rental structure recovers approximately 14% of operating costs or \$8,500 annually.	20,000	392,148
Ticket Surcharge increase from \$10 to \$25	12,000	121,909
Sales Tax License Renewal: Currently no charge to process license renewals. Recommend charging \$20	62,000	642,847
PILT: Increase the payment in lieu of taxes to all utility enterprises from 6% of revenue to 7%	651,600	6,619,848
Special Event Rate to be evaluated for Fire and Police personnel	10,000	101,591
Total	\$1,040,500	\$10,939,880

Table 2. Status of Ten Year General Fund Financial Master Plan

Plan Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	Ten Year Total
Target Reduction	\$3,116,443	\$2,865,803	\$3,308,413	\$3,544,273	\$5,073,913	\$2,831,413	\$3,799,093	\$3,446,903	\$3,280,584	\$31,266,838
Recommendations:										
Employee Recommendations	285,200	214,785	226,355	237,984	245,879	254,051	262,509	271,263	280,323	2,278,349
Revenues	995,500	1,048,463	1,098,003	1,131,621	1,166,273	1,201,991	1,238,809	1,276,760	1,315,879	10,473,298
Fleet	109,720	76,450	79,126	81,895	84,761	87,728	90,799	93,977	97,266	801,721
Compensation and Benefits	903,750	935,458	951,445	569,271	589,197	593,162	661,254	702,707	710,647	6,616,891
City Council Budget Reduction	30,000	31,050	32,137	33,262	34,426	35,631	36,878	38,168	39,504	311,055
Voluntary Severance Program	150,000	155,250	160,684	166,308	172,128	178,153	184,388	190,842	197,521	1,555,274
Strategic Attrition	134,000	188,690	245,294	303,879	364,515	377,273	390,478	404,145	418,290	2,826,564
Budget Line Item Reductions	510,000	527,850	546,325	565,446	585,237	605,720	626,920	648,862	671,573	5,287,933
Airport Self Sufficiency					85,000	87,975	91,054	94,241	97,539	455,810
Electronic Billing/Newsletters			20,805	21,533	22,287	23,067	23,874	24,710	25,575	161,851
Rialto Cost Recovery					16,573	17,154	17,754	18,375	19,018	88,875
Museum					69,939	72,386	74,920	89,173	92,295	398,713
Mehaffey Park Opr Costs Absorbed		249,400	258,129	267,164	276,514	286,192	296,209	306,576	317,306	2,257,491
Total Budget Recommendations	\$3,118,170	\$3,427,396	\$3,618,302	\$3,378,362	\$3,712,730	\$3,820,483	\$3,995,845	4,159,799	\$4,282,736	\$33,513,825
Amount (Over)/Under Target	-\$1,727	-\$561,593	-\$309,889	\$165,911	\$1,361,183	-\$989,070	-\$196,752	-\$712,896	-\$1,002,152	-\$2,246,987