



**CITY OF LOVELAND**

**BUDGET DIVISION**

Civic Center • 500 East Third • Loveland, Colorado 80537  
(970) 962-2695 • FAX (970) 962-2900 • TDD (970) 962-2620

**TO:** Don Williams, City Manager

**FROM:** Renee Wheeler, Assistant City Manager/Finance Director  
John Hartman, Budget Officer

**DATE:** December 16, 2008

**RE:** Backup Material for City Council Retreat

Staff has prepared a forecast of revenues and expenses to the end of the 2008 fiscal year for the General Fund, three scenarios of the Financial Plan for 2009 ranging from as budgeted in the 2009 Adopted Budget to a decline in sales and use tax of five percent, and a revised Capital Program that matches projects with the projected revenues. These have been prepared to facilitate a discussion on operating options, and capital program priorities. Specifically included are:

1. 2008 General Fund Year End Forecast.
2. Staff memo describing the variances between the Year End Forecast and the 2008 Budget.
3. Financial Master Plan as shown in the 2009 Adopted Budget.
4. Financial Master Plan – Scenario 1 Sales and use taxes the same as in 2008.
5. Financial Master Plan – Scenario 2 Sales and use taxes 5% below 2008.
6. List of Operating additions included in the Financial Plans related to the Capital Program.
7. 2009-2018 Capital Program revised in consideration of reduced revenues.
8. Memo describing changes to the Capital Plan from the 2009 Adopted Capital Plan.

2008 revenues are projected to exceed the budgeted amount by nearly \$500,000 and expenses are projected to be nearly \$2.3 million below budget, strengthening the City's financial condition going into 2009. Forecasting 2009 sales and use tax revenue is difficult at this time because of a large number of unknown variables. Staff has prepared three scenarios of potential outcomes.

**BASE SCENARIO**

The first scenario is the best case example. It is the with the 2009 Budget intact. It differs from the Adopted Budget Financial Plan in the following areas:

1. The beginning fund balance for 2009 is adjusted upward to match the 2008 projections.
2. Sales and Use taxes projected to be received from the Grand Station project are based on the current business plan, but have been moved out one year due to the economy. Depending on how the economy recovers, this project may be delayed even further than currently shown.

3. Interest revenue is slightly higher due to higher beginning balances. The interest rate assumption remains the same as in the Adopted Plan.
4. Unrestricted balances are higher due to the higher beginning balance.

All other revenues and all expenses are unchanged.

#### **SCENARIO 1 – SALES AND USE TAX REVENUE FLAT**

The second scenario is different from the Adopted Financial Plan as follows:

1. The beginning fund balance for 2009 is adjusted upward to match the 2008 projections.
2. Sales and Use tax revenues will be the same as projected for 2008.
3. Sales and Use taxes projected to be received from the Grand Station project are based on the current business plan, but have been moved out one year due to the economy. Depending on how the economy recovers, this project may be delayed even further than currently shown.
4. Interest revenue is slightly higher in 2009 due to higher beginning balances, and is lower in the remaining years due to lower beginning balances as a result of lower revenue collections. The interest rate assumption remains the same as in the Adopted Plan.
5. Unrestricted balances are lower due to the lower revenue collections.
6. The Council Reserve contribution and ending balances are lower due to lower tax revenue collections.

All other revenues and all expenses are unchanged.

#### **SCENARIO 2- SALES AND USE TAX REVENUE 5% LOWER**

The third scenario is the worst case. It assumes sales and use tax will decline 5% from the 2008 projected revenue. The differences from the Adopted Financial Plan are as follows:

1. The beginning fund balance for 2009 is adjusted upward to match the 2008 projections.
2. Sales and Use tax are calculated to be 5% lower than the 2008 projection.
3. Sales and Use taxes projected to be received from the Grand Station project are based on the current business plan, but have been moved out one year due to the economy. Depending on how the economy recovers, this project may be delayed even further than currently shown.
4. Interest revenue is slightly higher in 2009 due to higher beginning balances, and is lower in the remaining years due to lower beginning balances as a result of lower revenue collections. The interest rate assumption remains the same as in the Adopted Plan.
5. Unrestricted balances are lower due to the lower revenue collections.
6. The Council Reserve contribution and ending balances are lower due to lower tax revenue collections.

All other revenues and all expenses are unchanged.

## ANALYSIS

In all three scenarios there is projected to be a slow recovery of sales and use taxes, forecast at a 2.5% increase in 2010 and growing to a 4% increase by 2013.

As would be expected, the City's financial condition rapidly deteriorates under the worst case scenario presented. However, all three models indicate there is sufficient funding for the 2009 Budget with unrestricted reserves being strong enough to backstop the budget if the sales tax declines more than 5% in 2009. The City begins to face a structural imbalance in 2010, where General Fund expenditures began to exceed revenues, and the imbalance continues throughout the plan. The extent of the imbalance indicates that the elimination of some services within the different departments will be required to correct the imbalance and/or currently scheduled capital projects with significant operating impacts be delayed.

Staff has taken a conservative approach going into the 2009 Budget. It was built using a conservative bias and since adoption the following policies have been approved by the City Manager:

- 1% of the merit pool has been retained;
- Supplements approved in the budget have been put on hold and will only be released on a must-need basis;
- The filling of vacancies and/or new positions will be approved on a must-need basis.

Because of the actions taken on the expenditure side of the budget and since all three models indicate there is sufficient revenue and reserves to fund the 2009 Budget, Staff does not recommend modifying the 2009 appropriations at this time. If conditions significantly worsen it may be necessary for Council to consider service reductions to include in the 2010 Budget. We propose a study session in late spring to begin the 2010 Budget process for Council to provide direction to Staff on service priorities and potential services to be eliminated. We believe this will provide a process to develop the best decision making and result in the best possible outcome for the citizens in difficult financial times.

Staff has also prepared a revised Capital Program in consideration of reduced revenue streams. The most significant change is moving the design and construction of the Service Center Expansion to 2016 and 2017. This was necessary to enable the use of General Government Capital Expansion Fees to keep the Library and Museum expansions in their original timeframes. The Library Project is still dependent on \$2 million in private funds being available in 2010. The Museum Project, under the current scope, will require over \$9.6 million in financing, and \$2.5 million in General Government CEF revenue. Cultural Services CEF revenues are forecast to only have the capacity to service one-third of the debt repayment. The remaining two-thirds of the debt service are currently programmed to be covered pledging General Government CEF revenue. As a general philosophy, service areas with their own impact fee have been

required to fund their projects within their own revenue stream. While it is not the first, the Library Project, and particularly the Museum Project, represent a significant change in this philosophy as currently programmed.

Another major impact is the Transportation would be reduced by nearly one-third over the ten-years in the Program based on the revenue assumptions included. While the General Fund commitment of \$2 million per year on average dedicated to the Transportation Program, the projected CEF revenue is significantly lower than in the Adopted Plan.

For more detail on the Capital plan, please refer to the memo titled Capital Program Issues that is included in the packet material.