

LOVELAND BUSINESS ROUNDTABLE

WHERE QUALITY OF LIFE AND PUBLIC POLICY INTERSECT



Loveland's City Budget: 2024 and Beyond

Policy White Paper

January 2024

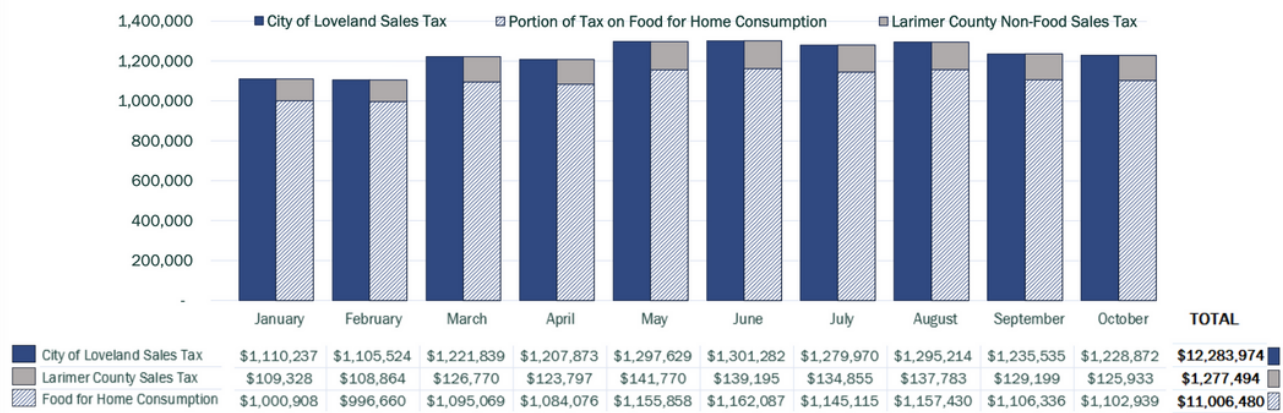
Introduction

One of the primary missions of the City of Loveland’s Finance Department is to manage and track the city’s annual budget. As we learned in the 2023 municipal election, Loveland voters have the ability to alter the city budget through ballot initiatives regarding city sales tax. Ballot Question 300 created a new sales tax exemption for “food for home consumption.” Some people were concerned that voters wouldn’t understand the measure’s impact on Loveland’s level of service. Others argued that opponents were overreacting and that other parts of the budget would be able to backfill lost sales tax revenue.

After the measure’s passage, the mayor requested that the Finance Department delay major budget decisions until the release of the January 2024 sales tax report. In the meantime, Loveland CFO Brian Waldes shared data at a recent council meeting that revealed the amount of revenue yielded from sales of grocery food in the first 10 months of 2023. According to the data, the City of Loveland can expect an average loss of \$1.1 million in revenue every month from now on. For this reason, Loveland Business Roundtable has chosen to focus on the city budget for this month’s white paper. We hope to shed light on the critical functions of the General Fund and illustrate the everyday balancing act of revenue and expenses that makes our city run.

2023 FOOD FOR HOME CONSUMPTION

ACTUAL SALES TAX REVENUE FROM GROCERY RETAILERS THROUGH OCTOBER



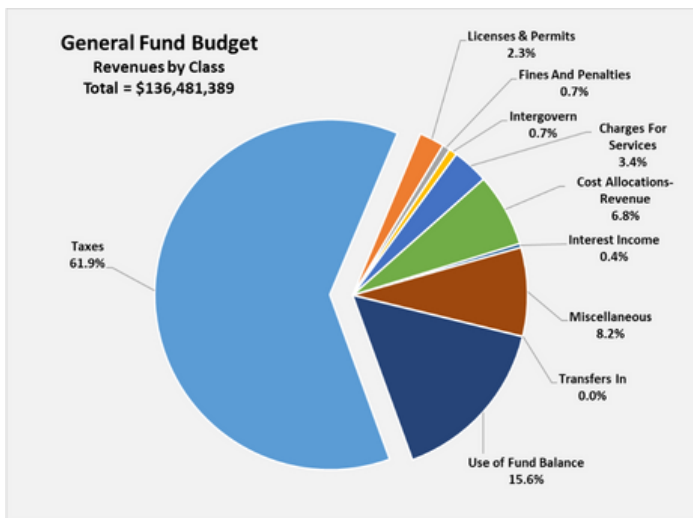
\$11,006,480 / 10 mo. = \$1.1M per month



Key definitions

General Fund:

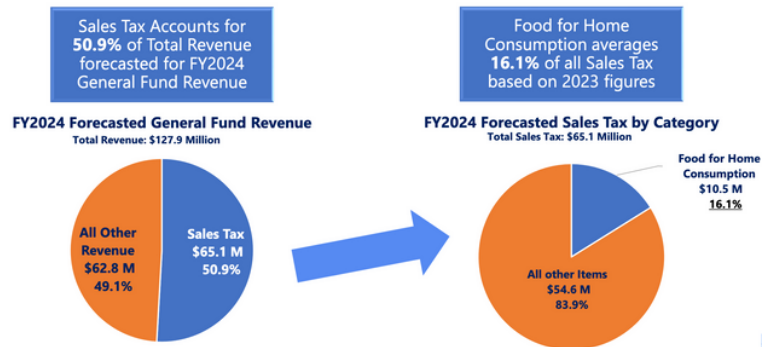
The primary operating fund of a government. The General Fund accounts for all activity, unless required to be accounted for in other funds. City services such as street maintenance, community services, police, fire, and other general government activities are funded by revenue in the General Fund. About 50% of Loveland’s General Fund comes from sales tax revenue. (The remaining half comes from Use Tax, Other Taxes, Licenses and Permits, Fines and Penalties, and other miscellaneous revenue.) The General Fund is also the source of compensation for city personnel who work in General Services departments.



SALES TAX

ALL FIGURES - FY2024 FORECASTS

Sales Tax is the **largest single source of revenue** in the General Fund: **\$65.1 Million** FY2024 Forecast



Over half of the revenue in the General Fund comes from city sales tax revenue. Of that sales tax revenue, just over 16% came from “food for home consumption” in 2023. This means that the removal of food for home consumption from the tax base results in an eight percent shortfall in the general fund. (Source: City of Loveland)

Key definitions

Dedicated Funds:

The other “pillar” of the Loveland municipal budget is Dedicated Funds, which is totally separate from and independent of the “General Government Services” side. Dedicated Funds include Enterprise Funds (including Solid Waste, Pulse, and Golf); these entities operate and self-sustain similar to businesses.



Contingency Reserve:

The City of Loveland keeps a 15% Fiscal Contingency Reserve in the General Fund. The Fiscal Contingency Reserve is the city’s “in case of emergency” fund; for example, in December 2020, City Council appropriated \$750,000 to assist struggling local businesses who were in danger of closing because of COVID shutdowns. The contingency reserve currently holds about \$18 million.

What are the challenges of cutting General Fund expenses?

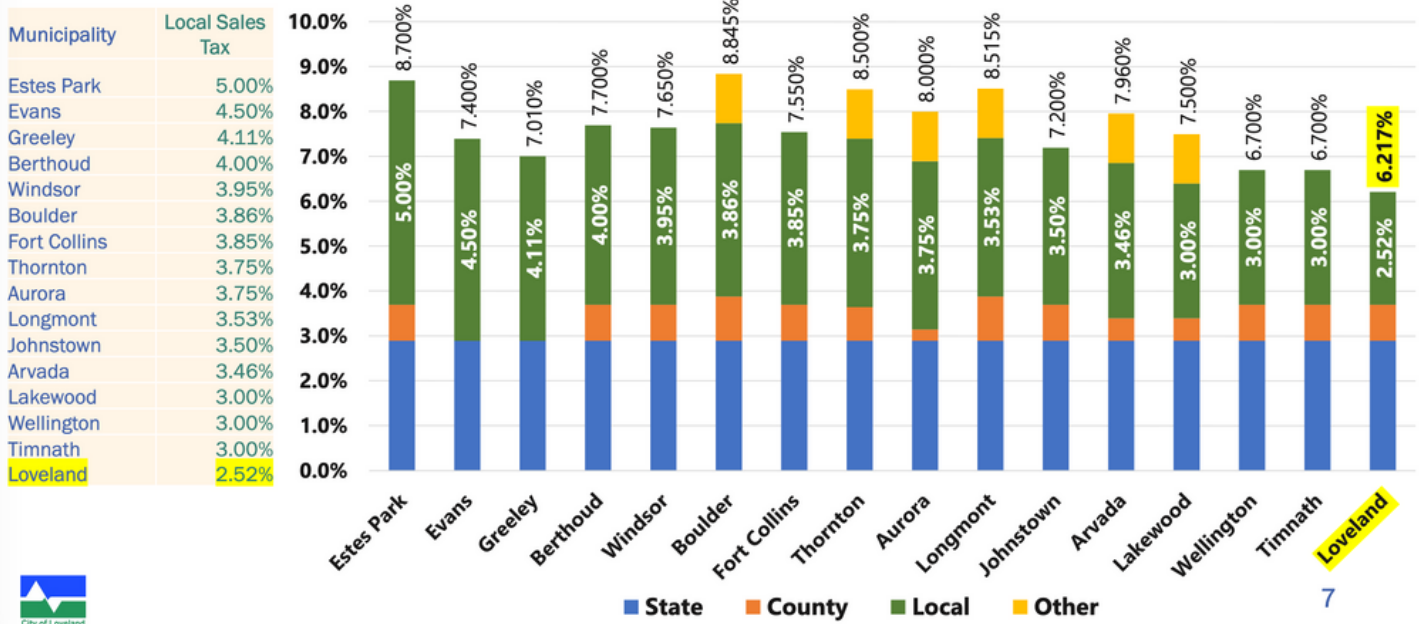
The lowest effective sales tax rate:

Prior to the passage of Ballot Question 300, Loveland already held the distinction of the lowest sales tax rate in northern Colorado, at 3.0%. (Our tax rate ties with that of two small towns, Wellington and Timnath.) Despite working with a sales tax rate that had not increased since 1984, Loveland’s Finance Department managed to do “a lot with a little,” providing full-service amenities with a lower tax rate than that of comparable cities in our area. The removal of grocery food from the tax base has brought our effective sales tax rate down to 2.52%. At this level of taxation, the city cannot sustain full-service spending. Cuts must be made in order to balance the lack of revenue.

EFFECTIVE SALES TAX RATE W/O FOOD TAX

NEIGHBOR COMPARISON

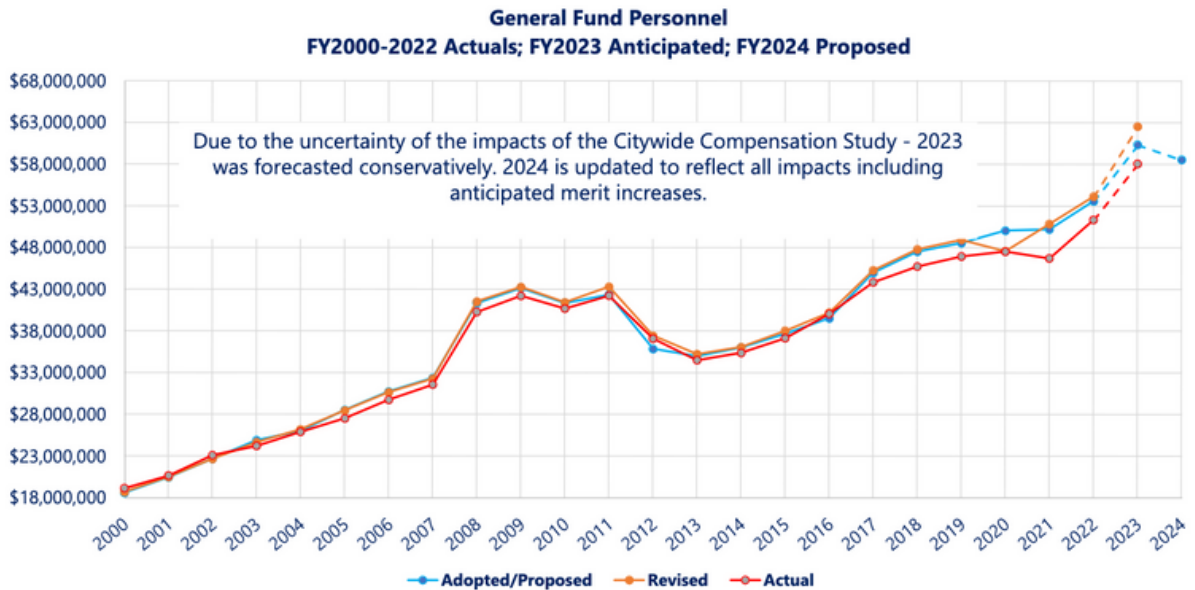
Municipal Tax Rates



What are the challenges of cutting General Fund expenses?

“People are the largest expense”: The City of Loveland employs more than 2700 people across its departments, so a great deal of general fund revenue pays salaries. The fact that much of the General Fund budget goes to employee compensation means that layoffs are difficult to avoid with cuts of this scale. Layoffs are undesirable for obvious reasons. In addition to the individual hardships created by job losses, ripple effects include secondary economic effects in the local economy, lower morale for remaining employees, and a challenging environment in which to attract new talent.

PEOPLE ARE THE LARGEST EXPENSE GENERAL FUND PERSONNEL



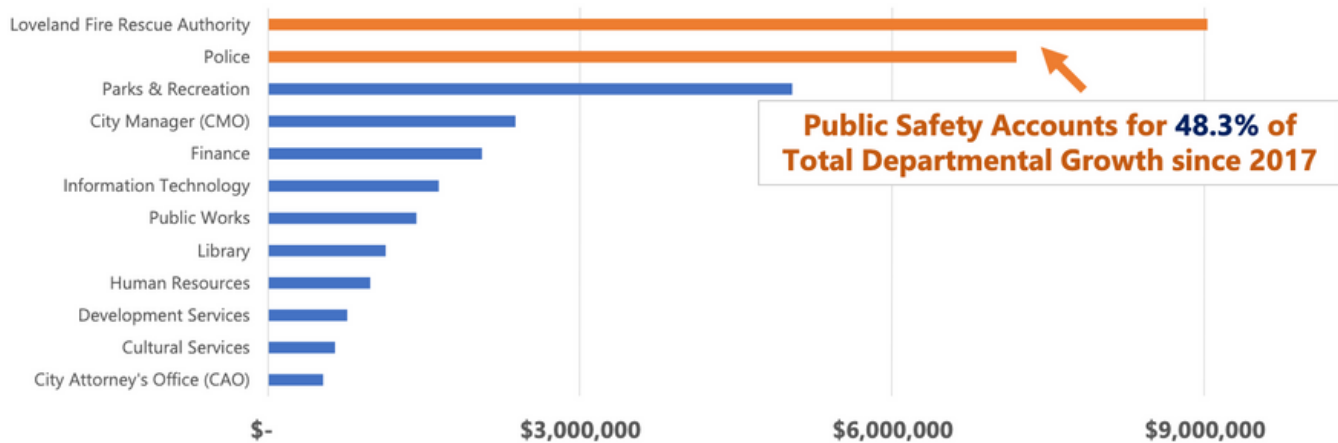
What are the challenges of cutting General Fund expenses?

The growth of the Public Safety budget: On the departmental level, the most “expensive” and fast-growing category of General Fund spending is public safety: fire and police services. In fact, Public Safety accounts for 48.3% of total departmental growth since 2017. So when a percentage of sales tax revenue is removed, the City faces the challenge of cutting spending that is dominated by the public safety categories of police and fire services. Cuts to other departments can only go so far.

GROWTH IN DOLLARS BY DEPARTMENT

GENERAL FUND

**General Fund Departmental Expense Growth
FY2017-2022 (5 years) Actuals; FY2023-2024 (2 years) Forecasted
(Combined 7 year Growth)**



Public Safety Accounts for 48.3% of Total Departmental Growth since 2017



Note: Non-Departmental Expenses including transfers are excluded from the data above.

The Contingency Reserve Question

Why not use funds from the contingency reserve to make up for 2024 budget shortfalls?

The city maintains a contingency reserve fund that is equal to 15% of the most recent year's General Fund expenditures. Loveland's Fiscal Contingency Plan provides a framework for conditions in which borrowing from this fund would be appropriate. These conditions include unfavorable economic indicators, one-time emergency expenses, and other extraordinary but temporary needs. "This Plan should not be used to navigate an economic depression," according to the document; "rather an entirely new approach would need to be developed if that situation were to arise."

Pending the realization of sales tax projections for 2024 and beyond, our situation may be likened to a local economic depression. What makes our current situation different from an economic recession or other crisis is that the repeal of the food tax creates a permanent reduction of revenue, not a temporary dip caused by temporary conditions. The change in the tax code means that the shortfall in 2024 will be repeated in 2025, 2026, and every year thereafter. So drawing money from the contingency reserve fund in 2024 will only delay the "entirely new approach" for another year - while spending reserve funds that will be difficult to replenish.



Final Thoughts from Loveland Business Roundtable

The voters chose to change the tax code, so the city is now tasked with honoring the will of the voters. But we should not underestimate the task at hand. If the actual shortfall matches the projections of the Finance Office, structural change in the form of budget cuts and fee increases will be the only way out of this “permanent recession,” unless and until voters approve a new structural change (for example, an increase of the local sales tax rate).

Understanding of Loveland’s new budget math will be crucial for long-term solutions. In the leadup to the 2023 election, there was no citizen/council consensus on the impact of Ballot Question 300 on the city budget. With this white paper, Loveland Business Roundtable has endeavored to share a few critical pieces of information:

- The city budget is divided into two primary pillars that do not interact with one another - Dedicated Funds and General Government Services Funds. The two pillars cannot borrow from one another.
- Sales tax revenue constitutes more than half of the General Fund. About 16% of pre-2024 sales tax revenue came from the sale of food for home consumption. So we’re facing negative impact of 8 percent (roughly \$10.5 million) in the General Fund.
- Cutting from the General Fund budget at this level is difficult because the budget is dominated by employee compensation and public safety commitments.
- The City was already operating on a lean budget prior to 2024.

Although the writing has been on the wall, detailed discussions of reductions have been delayed by Council until after the first month of local sales tax returns is available. At that time, the city will chart the “new normal” of a dramatically reduced budget.