MEMORANDUM

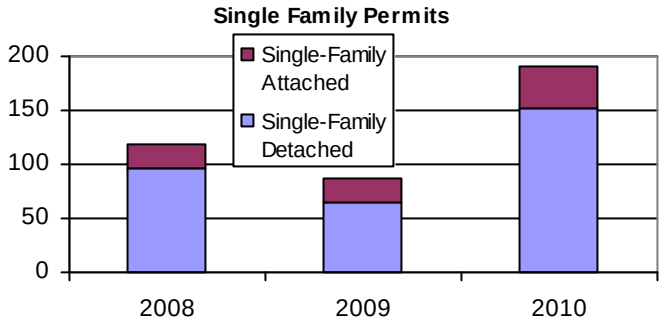
DATE: March 16, 2011

TO: Craig Kocian, City Manager
Bill Ray, Deputy City Manager

FROM: Victoria Runkle, Director of Finance

SUBJECT: 2010 Year-End Report

The City's overall economic condition continued to be healthy in 2010. While it was a small growth, our sales taxes did grow 0.57 percent over 2009 collections. As importantly, we began to see an increase in our building activity. In 2010, we issued 190 permits for new single family homes – both attached and detached. As the graph illustrates, this was over double those issued in 2009.



This trend is a very positive one, and we believe will continue in 2011.

In the other general governmental types of Funds – areas that are supported by money generated in the General Fund – primarily the Arvada Center and the Parks Fund – we saw a mixture of success. People continue to be very selective about the use of their discretionary dollars. In the sales tax area we see an increase in the revenue generated from restaurants. However, the Arvada Center's ticket sales for plays were 9.7percent lower in 2010 than in 2009. Thus, while the general types of revenues showed growth, this one area was significantly lower, and required the General Fund to dedicate over $705,000 more in cash support than the original budget of $1.2 million.

The Park Fund received approximately $900,000 in one-time revenue from Open Space. This amount was budgeted as a transfer to meet capital improvement needs. We also have a great relationship now with the Apex District and the reimbursement for the costs of field maintenance is also generating nearly $900,000 annually for the Park Fund.

In all Funds, the savings on a budgetary basis were generated primarily from personnel costs. Over the past year, due to the unknown economic conditions, departments left positions vacant. This saved a significant amount of money in every Fund. However, given the reductions made in 2010 and 2011, positions will be filled due to simply having fewer staff.

The housing growth helped not only our building permit and building use revenue; it also increased our water tap fees. We expected a much slower growth rate and had planned to collect only $700,000 in tap fees. We collected $1.8 million. This was very good as it helped offset the decrease in rate revenue in the Water Fund. We collected $1.7 million less in rate revenue than we expected. The Finance Department no longer believes we are in a "drought

shadow," rather what is occurring is our residents have substantially changed their water use habits. This will be a longer term discussion.

This report is somewhat longer than in the past as we have provided information on every major Fund in the City. We wanted to make certain a solid analysis was provided, illustrating that we still maintain healthy reserves to meet any future crisis, while also ensuring that we are meeting the basic and growth needs of our community. We will quickly review the major Funds on Monday evening, but please feel free to call with any additional questions.

GENERAL GOVERNMENTAL

GENERAL FUND – Including the Debt Service Fund

Overview
There are many important issues in reviewing the 2010 financials:
- The Council made a commitment to the city's infrastructure.
- Even in a challenging economy, the City's revenues sustained – and we began to see a small growth in sales tax revenue and building activity; and
- We continued to have staff attrition, saving significant money in our budgeted expenditures.

The following table provides the financial information in a snapshot.

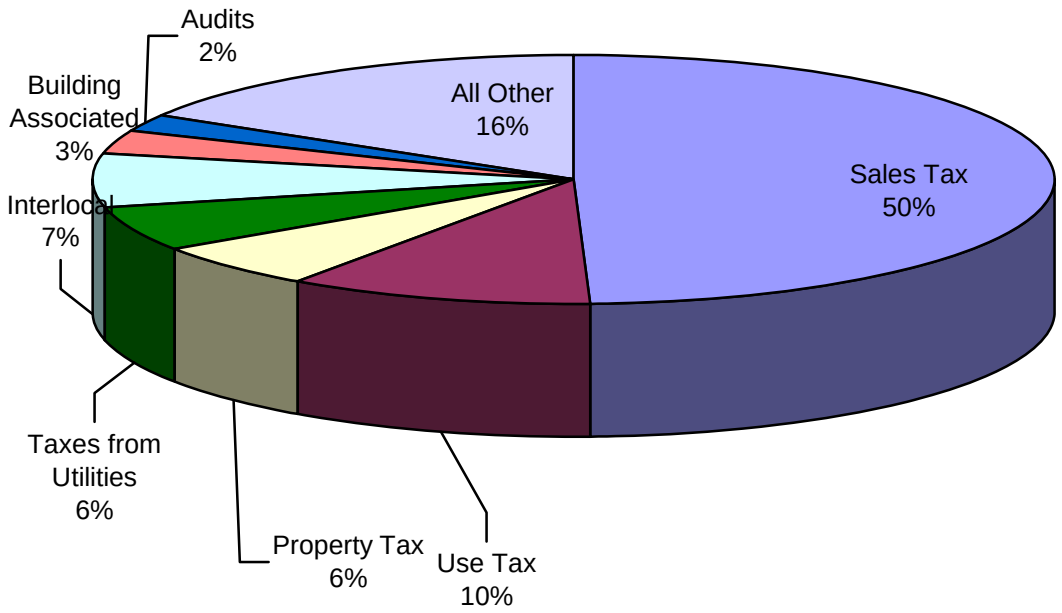
	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$ 33,106,100	$ 33,106,100	$ 21,683,392
Revenues	$ 68,369,582	$ 70,520,627	$ 68,498,149
Expenditures			
Ongoing	$ 69,444,043	$ 64,573,335	$ 69,321,355
One Time			
Loan to AURA	$ 2,750,000	$ 2,745,000	
To CIP	$ 13,625,000	$ 14,625,000	
JPPHA	$ 2,600,000	$ -	
Carry Forwards			
JPPHA			$ 2,600,000
Other (2)			$ 797,928
Reserve for 2012 AEDA Payment			$ 500,000
Total Expenditures	$ 88,419,043	$ 81,943,335	$ 73,219,283
Cash Balance	$ 13,056,639	$ 21,683,392	$ 16,962,258
19% Fund Balance Goal			$ 12,375,766
Cash above Fund Balance Goal			$ 4,586,492

We ended 2010 with over $21.6 million in cash balances. If the 2011 economy performs as well as we predict, we will have available cash balances above our 19% goal by more than $4.5 million.

Revenue Highlights
Overall, our revenues were 3.1 percent above our estimate. While this is great, one major revenue source – federal grants – comprises 33% of this total. We did not have a budget for the sustainability grant. This brought in $720,993 of "revenue" for the associated expenditures. There are still monies available in this grant for 2011.

Thus, if we remove that one – time source of revenue, our revenues were 2.0 percent higher than our budgeted expectations. This is still a fairly good increase, given the overall economy. We now drill down into some of the larger revenue sources.

SOURCES OF GENERAL FUND REVENUE

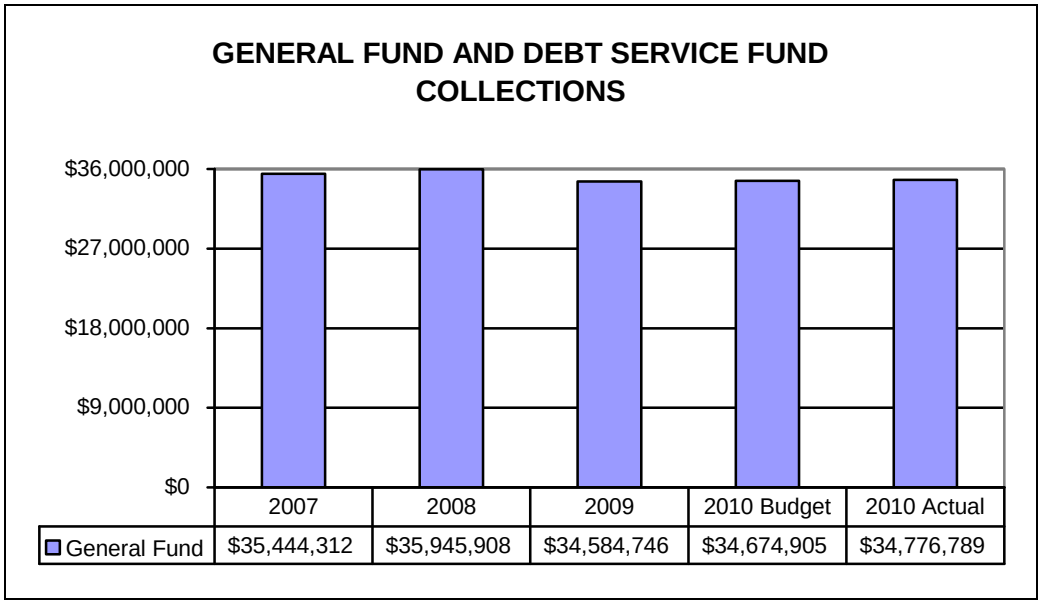


This graph illustrates the sources of all of our general governmental revenues. The following provides some further description of the detail.

Sales Tax

This source of revenue comprises approximately 50 percent of our total available revenue. It provides nearly 54 percent of the needs of our ongoing expenditures. We spend a significant amount of time analyzing our sales taxes each month.

Overall our sales tax receipts were 0.57% higher in 2010 than in 2009.

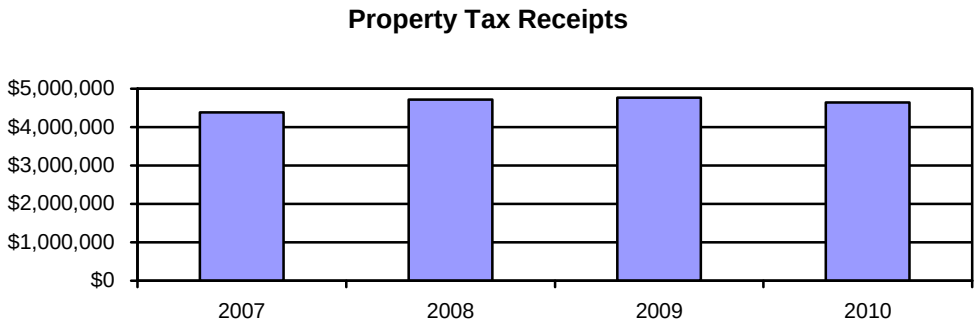


	2007	2008	2009	2010 Budget	2010 Actual
General Fund	$35,444,312	$35,945,908	$34,584,746	$34,674,905	$34,776,789

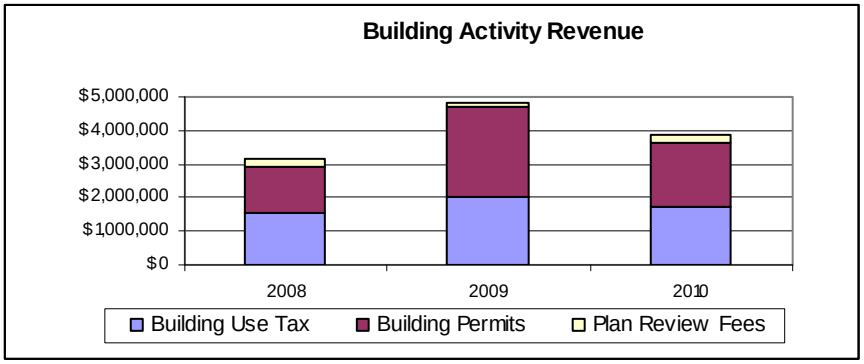
This data comes from our sales tax system and includes the sales tax revenue generated for the Police Tax Increment Funds.

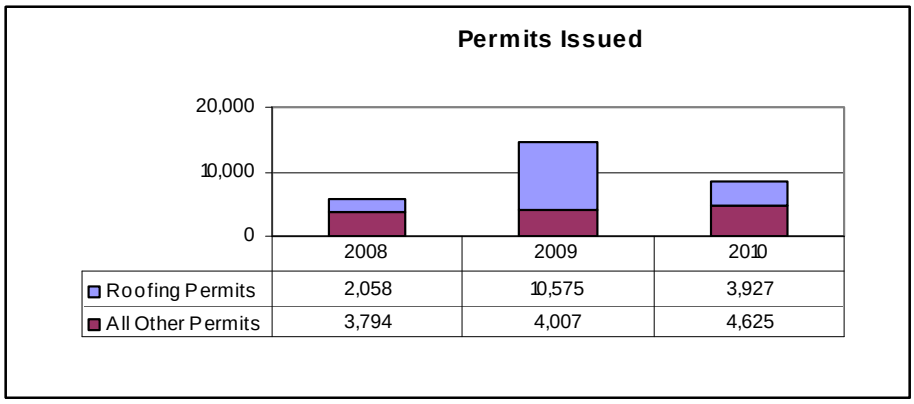
Property Tax
For the City, this revenue source comprises only 6.5 percent of our total revenue base. It is nonetheless an important revenue source as it indicates the health of our City. Maintaining property values and adding new building to our base is important for the long-term vitality of a city.

We actually had expectations that our property tax receipts would fall more than they did. Our budget was $4.6 million. We collected $4.637 million. However, between 2009 and 2010, our property tax receipts did decrease by 2.78%.



Building Activity
Revenue-related construction constitutes about 3% of total City revenues, comprised of use tax, building permit fees, and plan review fees. The July 2009 storm hastened a substantial increase in overall activity, which spilled over into 2010. While building revenues were down 20% in 2010, again due to roof replacements, they were still up 22% over 2008.



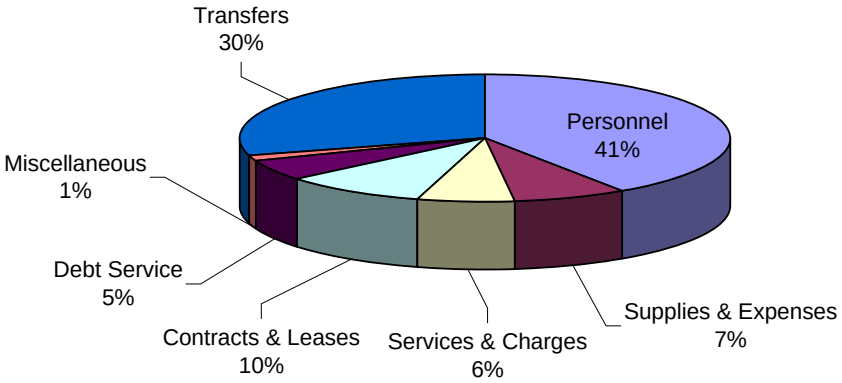


	2008	2009	2010
Roofing Permits	2,058	10,575	3,927
All Other Permits	3,794	4,007	4,625

Expenditure Highlights

Personnel costs comprise 41 percent of our total General Fund expenditures. This past year the "Transfers" category comprised a larger percentage than usual because we allocated over $14 million to the Capital Improvements Fund in 2010. This is normally only in the 4.6 percent range.

General Fund Expenditures



Salary and Benefit Savings

	2010			2011
PERSONNEL	Budget	Actual	Savings/Deficit	Budget
Salaries & Wages	$26,401,793	$25,477,977	$923,816	$26,179,759
Overtime	$828,375	$555,770	$272,605	$851,610
Group Insurance	$4,063,050	$3,481,502	$581,548	$3,995,599
Retirement	$3,021,419	$3,027,072	-$5,653	$3,004,953
Medicare	$300,471	$292,870	$7,601	$299,338
Other	$695,936	$595,260	$100,676	$789,984
TOTAL	**$35,311,044**	**$33,430,451**	**$1,880,593**	**$35,121,243**

Clearly, we had substantial savings in personnel this year. We often have a significant amount of savings in this category as it usually requires, at least, 90 days to hire a position. In some departments, like the Police Department, the requirements are far more intensive and the hiring process can require a significant amount of time. The Police Department comprised over 57 percent of these savings in the General Fund.

Fuel

	2010			2011	
FUEL	Budget	Actual	Savings	Budget	*Approximately 6,568 barrels of oil were required to fulfill the fuel needs of the General Fund in 2010.*
CMO	$1,236	$540	$696	$417	
Finance (Purch)	$1,030	$569	$461	$884	
PD	$308,777	$223,069	$85,708	$279,414	
PW	$240,087	$149,306	$90,781	$205,993	
Comm. Dev.	$20,183	$14,672	$5,511	$17,317	
IT (Gen. Svcs)	$680	$320	$360	$583	
TOTAL	**$571,993**	**$388,477**	**$183,516**	**$504,608**	

We are closely examining fuel costs. As illustrated, we believed fuel costs would be significantly higher in 2010 than occurred. Even with the nearly 12% cut in its fuel budget for 2011, the General Fund can absorb up to a $.69 per gallon average price increase in fuel for the year.

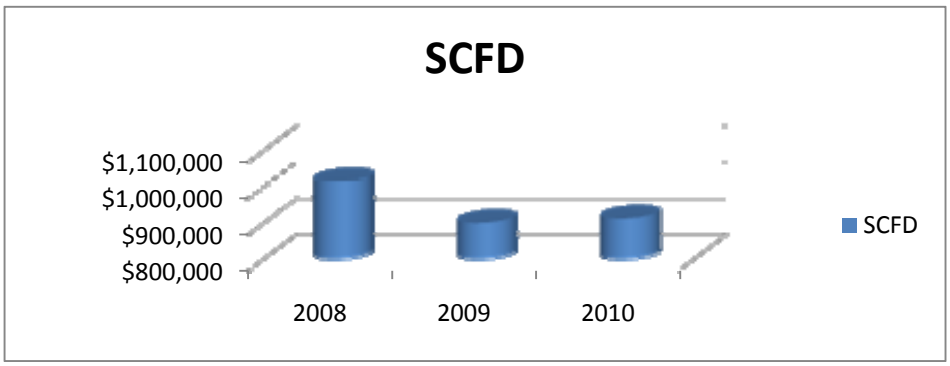
ARVADA CENTER

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$ 303,969	$ 303,969	$ 242,307
Revenues			
Generated	6,060,913	4,868,951	6,200,006
SCFD	986,872	913,361	925,662
City Cash Transfer Original	1,208,601	1,208,601	1,182,643
City Cash Transfer Additional	705,000	705,000	0
City In-Kind Transfer	2,026,288	2,026,288	1,967,270
Total Revenues	$ 10,987,674	$ 9,722,201	$10,275,581
Expenditures			
Ongoing	8,240,803	7,757,575	8,308,311
In-kind	2,026,288	2,026,288	1,967,270
Total Expenditures	10,267,091	9,783,863	10,275,581
Income/(Loss)	$ 720,583	(61,662)	0
Cash Balance	$1,024,552	$ 242,307	$ 242,307
Goal (11% of Expenditures)	1,129,380	1,076,225	1,130,314
Excess/(Deficit)	($ 104,828)	($ 833,918)	($ 888,007)

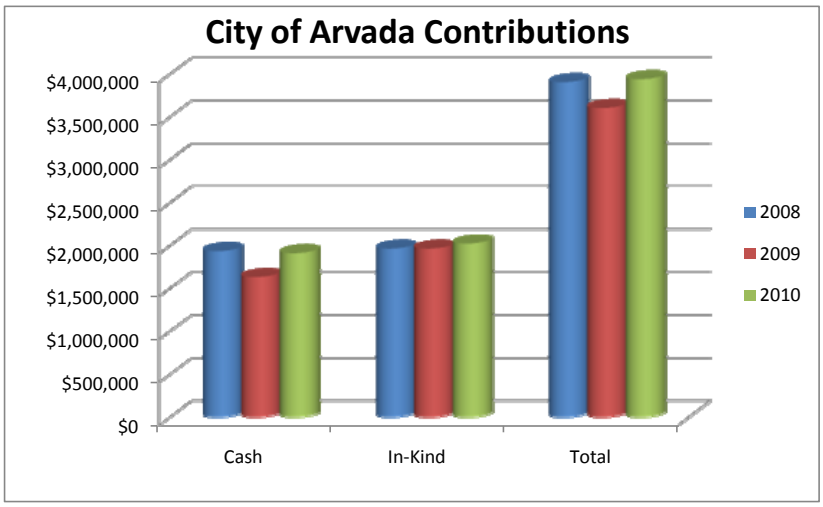
As the economy continued to be stuck in neutral in 2010, many businesses struggled to maintain market share, and the Arvada Center was no different. Ticket sales are one of the main sources of revenue for the Center and even though the Center continues to put on acclaimed productions, they received 9 Henry Awards in 2010 after receiving 12 awards the previous year, and ticket sales revenue was down 9.7% compared to 2009.
To try and help reduce the costs related to producing and directing events, the Center did hire a production company, NIPP, to come in and produce some events in the outside amphitheater. This was a successful venture, increasing attendance numbers and generating some revenue. This venture will continue in 2011.

The City of Arvada and SCFD continued their support of the Arvada Center.

SCFD grant contributions were up 1.3% in 2010 compared to 2009 after being down 11.3% from 2008. The estimated growth for 2011 is a little over 1.3%.



The City of Arvada contributed $1,913,601 in cash support in 2010. This was an increase of $302,000 or 18.4% over 2009.



The Center has been working on re-organizing their work force for the past couple of years. This has included adding a COO position and eliminating the Center Shop Coordinator and History Museum Curator. Many other positions have been held open to make sure there will still be a need for these positions as the Center evolves. A few of these positions include Development Manager, Gallery/Museum Manager and Associate Performing Arts Manager.

PARKS FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$2,508,619	$2,508,619	$3,171,186
Revenues			
Generated	214,743	218,616	203,016
Open Space	2,934,290	4,001,617	3,140,636
APEX Reimbursement	803,168	917,718	827,263
City Cash Transfer	3,109,960	3,109,960	2,840,273
Total Revenues	7,062,161	8,247,911	7,011,188
Expenditures			
Ongoing	7,862,775	7,585,344	6,833,358
Total Expenditures	7,862,775	7,585,344	6,833,358
Income/(Loss)	(800,614)	662,567	177,830
Cash Balance	1,708,005	3,171,186	3,349,016
Goal (11% of Expenditures)	864,905	834,388	751,669
Excess/(Deficit)	$ 843,100	$2,336,798	$2,597,347

Parks Maintenance operations continue to grow at a steady pace. The pace has remained on course with what was demonstrated with a 10-year growth report presented in 2009 that reflected total acreage for Arvada Parks had doubled during the previous 10-year period. Over the past three years this pace continues with the addition of the facilities listed below bringing the current total to 203 locations maintained.

Neighborhood Parks

o Double E Ranch Park	o Saddle Brook Park
o Sunrise Ridge Park – Phase II	o Skyline Park
o Maple Leaf	o Spring Mesa
o Grandview Grade Separation (Grandview Park)	

Additions to Existing Facilities

o Stenger Restrooms	o Long Lake Ranch Synthetic Fields
o Indiana Service Center Landscaping	o Arvada Food Bank – now maintenance
o 58th/Kipling Intersection	o Robby Ferrufino trail and landscaped drainage basin

Trails	Medians
o Inter Urban Trail	o 64th McIntyre
o Ward Road Underpass	o Ralston Valley Round-A-Bout
o Van Bibber Trail Corridor	

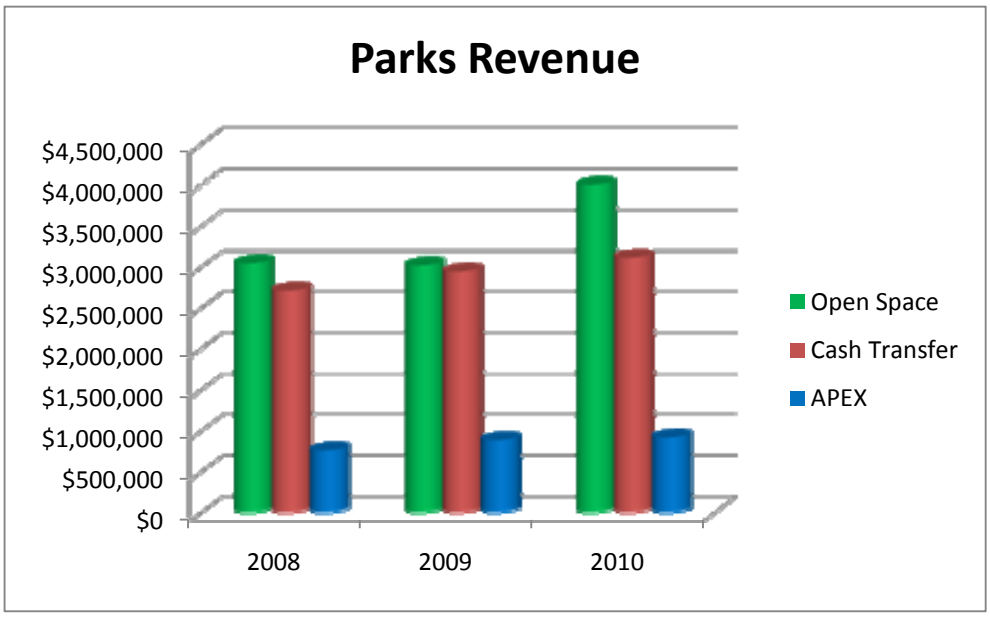
Included in the maintained properties are 23 public facilities, 76 neighborhood parks, 10 sports facilities, 34 landscaped median and right-a-way sections, and 4 water tanks.

The irrigating of landscaping for a significant portion of properties maintained involves the use of the Motorola Computerized Irrigation System. Currently there are 144 controller units used at 100 sites. The Motorola Centralized Computer operated system is used to communicate with radio-controlled units out in the field. The units enable the monitoring of actual gallons of water used and flow variations such as system failures, create work order repair reports daily, and significantly reduce labor necessary to daily manage each independent site.

With additional growth comes the need to expand snow removal duties. Currently, parks staff perform snow removal at 258 routes. The most common theme over the past few years related to snow removal is the increasing request for very detailed removal which exceeds simple man-hour and equipment capabilities. Reasoning for these requests points to an influx in customers and citizens not familiar with the winter climate that Colorado's region can bring and subsequent issues related to cold temperatures and snowfall.

The relationship with Apex Recreation and Park District remains very strong in all areas of maintenance operations. Communications and support among both agencies has been consistent, enabling the ability to provide quality parks, trails and sports facilities for the customers to use. In reality, field operations are seamless and remain transparent among both agencies in the work environment.

A number of existing facility renovation projects have been completed over the past three years. The projects include resurfacing of all tennis and basketball courts (Tennis Center not included per IGA with Apex), and installation of new playgrounds at Danny Kendrick East Park, Memorial Park, Little Dry Creek Park, Quaker Acres Park, Rainbow Park, and Tennyson Knolls Park. In addition, North Club Crest Park has a new post tension tennis court facility, a park renovation was completed at Creekside Park, and a new irrigation system was installed at Far Horizons Park.



There are three main revenue sources for Parks – Jefferson County Open Space, City of Arvada General Fund and APEX reimbursement. Each revenue source saw growth in 2010 versus 2009. Open Space increased 32.5%. This was due to a one-time payment of $882,167. If you remove this payment, Open Space revenues still were up 3.3% over 2009. The cash transfer from the City of Arvada General Fund was up 5.65% in 2010. This increase was to provide funding for 2 additional Parks employees to try and help maintain the additional Parks inventory. The APEX reimbursement was up 3.75% in 2010. This is representative of the increased number of ball fields and the costs related that the City of Arvada is maintaining on behalf of APEX – specifically, Long Lake Ranch, among others.

SPECIAL REVENUE FUNDS

Special Revenue Funds account for revenues that are to be used for specific purposes. The following funds are considered special revenue funds:

- Tax Increment Funds
- Community Development
- Housing

TAX INCREMENT FUNDS

Overview

There are two tax increment funds which account for the voter-approved sales tax increases to fund expanded police services. The first fund accounts for the .21 cent sales tax for police services and the second accounts for the .25 cent sales tax. Sources in the tax increment fund include sales tax, general use tax, auto use tax, building use and interest income. Since the tax increment is in addition to the City's 3% sales tax, the revenue trends in the tax increment fund will closely follow those in the general fund.

.21 TAX INCREMENT FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$5,451,000	$5,451,000	$5,937,019
Revenues			
Sales Tax	2,426,160	2,434,337	2,462,552
Use Taxes	399,879	502,317	403,720
Other	110,000	472,939	100,000
Total Revenues	2,936,039	3,409,593	2,966,272
Expenditures			
Ongoing	3,044,462	2,923,574	3,123,371
Total Expenditures	3,044,462	2,923,574	3,123,371
Cash Balance	5,342,577	5,937,019	5,779,920
FB Goal 11% of Expenditures	334,891	321,593	343,571
Excess/(Deficit)	$5,007,686	$5,615,426	$5,436,349

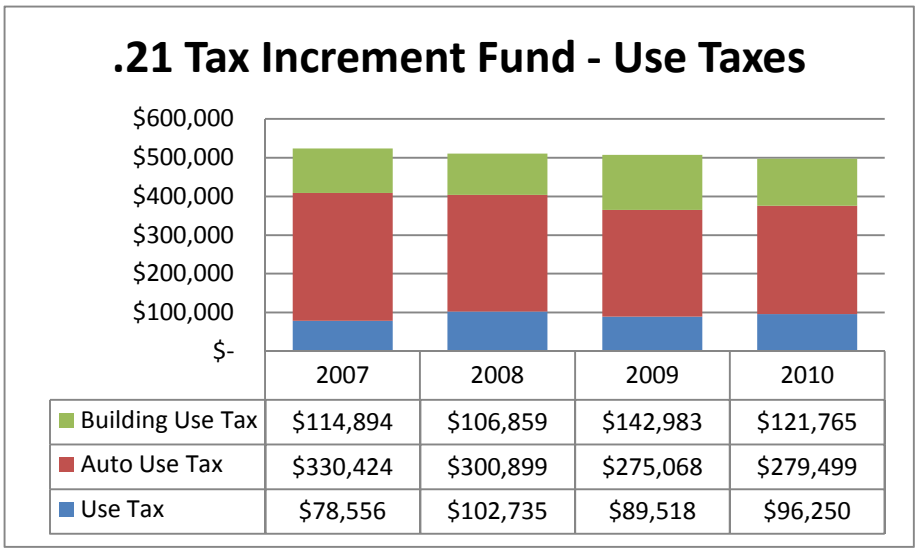
Revenue Highlights

Sales Tax

Sales tax in 2010 increased .56% over 2009. Budgeted sales tax for 2010 anticipates a 1.5% over 2011.

Use Taxes

The chart below shows the breakdown of use taxes. Both general use tax and auto use tax were up slightly from 2009. Although auto use tax is up slightly from 2009, it is still down considerably from the early years in 2000 and will probably not reach those levels in the near future. General use tax seems to have stabilized over the past four years. Building use tax is following the same trend in the general fund and was down from 2009 as the roofing permits slowed in 2010.



Other Revenues
Other revenues include interest earnings, audit revenue, grants and reimbursements. Interest earnings and audit revenue represent $75,000 and $67,541, respectively, of the total. Reimbursements from Lakewood, Jefferson County and the Emergency Communication Authority for a variety of programs totaled $186,000. Interest earnings and audit revenues are the only revenues that are considered recurring revenues.

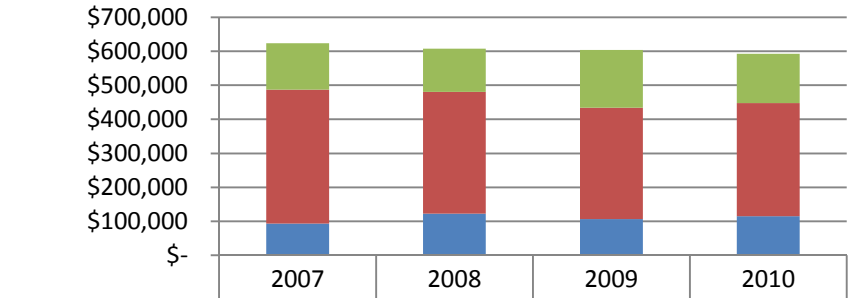
Expenditure Highlights
Actual expenditures came in $120,888 under budget. Salaries and benefits represent 77% of the expenditures in this fund and there were minimal vacancy savings in this fund in 2010. The majority of the savings came from line item savings such as supplies and expenses, training, clothing allowance and professional services. There are no significant changes expected in 2011.

.25 TAX INCREMENT FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$4,970,000	$4,970,000	$5,561,311
Revenues			
Sales Tax	2,888,797	2,898,084	2,932,129
Auto Use	509,203	598,297	516,072
Other	115,000	149,674	125,000
Total Revenues	3,513,000	3,646,055	3,573,201
Expenditures			
Ongoing	3,295,019	3,054,744	3,455,925
Total Expenditures	3,295,019	3,054,744	3,455,925
Cash Balance	5,187,981	5,561,311	5,678,587
FB Goal 11% of Expenditures	362,452	336,022	380,152
Excess/(Deficit)	$4,825,529	$5,225,289	$5,298,435

Revenue Highlights
Sales Tax
Sales tax in 2010 increased .56% over 2009. Budgeted sales tax for 2010 anticipates a 1.5% over 2011.

Use Taxes
The chart below shows the detail for use taxes. Both general use tax and auto use tax were up slightly from 2009. General use tax seems to have stabilized over the past four years. Building use tax is following the same trend in the general fund and was down from 2009 as the roofing permits slowed in 2010.



	2007	2008	2009	2010
Building Use Tax	$136,780	$127,268	$170,281	$145,264
Auto Use Tax	$393,360	$358,217	$327,465	$332,733
Use Tax	$93,702	$122,304	$106,569	$114,583

Other Revenues
Other revenues include interest earnings and audit revenue. Interest earnings are $69,269 and audit revenue is $80,405 of the total.

Expenditure Highlights
Actual expenditures came in $240,275 under budget. Salaries and benefits represent 93% of the expenditures in this fund and there was about $100,000 in vacancy savings in this fund in 2010. The remaining savings came from line item savings such as supplies and expenses, training, clothing allowance and professional services. There are no significant changes expected in 2011.

COMMUNITY DEVELOPMENT FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$7,518,518	$7,518,518	$7,128,009
Revenues			
Recovered	127,650	136,911	150,895
Grants	1,238,000	1,279,811	618,000
City Cash Transfer	45,000	45,000	45,000
Total Revenues	1,410,650	1,461,722	813,895
Expenditures			
Ongoing	448,075	395,722	324,637
Essential Home Repair	839,897	270,310	375,000
Loans	140,000	415,000	125,000
CIP	600,000	771,199	108,000
Total Expenditures	2,027,972	1,852,231	932,637
Income/(Loss)	(617,322)	(390,509)	(118,742)
Cash Balance	6,901,196	7,128,009	7,009,267
Goal (11% of Expenditures + Reserves)	5,818,814	5,808,482	5,707,327
Excess/(Deficit)	$1,082,382	$1,319,527	$1,301,940

The Community Development Fund continues to try and maximize its Federal Awards each year. In 2010, they were able to get permission to fund a large portion, $771,199, of the Creekside Park project. This was a unique use of the CDBG funds. Also in 2010, we gave out 3 new loans, one each to Mile High Community Loan Fund, Jefferson County Housing and Colorado Homeless Families. These loans were funded out of the monies received from the Apple Creek Repayment, over $5,000,000. The CDBG group will be working on a plan for further use of these funds. Some possibilities include additional loans, grants and funding for multi and single family affordable housing. The essential home repair program continues to help families in Arvada. Last year, 20 homes received some sort of help

HOUSING FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$ 334,717	$ 334,717	$ 429,737
Revenues			
Recovered	23,227	21,542	23,924
Grants	4,649,150	3,761,524	3,900,000
Cash Transfer	193,000	38,122	26,000
Total Revenues	4,865,377	3,821,188	3,949,924
Expenditures			
Ongoing	428,109	373,563	374,319
Rents	4,357,529	3,316,296	3,480,000
Transfers	27,028	36,309	27,839
Total Expenditures	4,812,666	3,726,168	3,882,158
Income/(Loss)	52,711	95,020	67,766
Cash Balance	387,428	429,737	497,503
Goal (11% of Expenditures)	529,393	409,878	427,037
Excess/(Deficit)	($141,966)	$ 19,858	$ 70,465

The Housing Department helps over 500 families with rent subsidies on a monthly basis. There is a large need in our community as is evident by the 1,036 families on the waiting list. During the last open enrollment period, we gave out 2,600 applications with 1,600 of them returned. With the uncertainty in the economy and the high unemployment rates, this need is not going to go away any time soon. As the Federal Government continues to increase its grant funding, the regulations and reporting surrounding these programs and other federal programs has increased. The Housing Fund is going to partially pay for a Grants Accountant hired in 2011 to help with these requirements.

CAPITAL IMPROVEMENT FUND

The Capital Improvement Fund is where the City keeps track of capital projects for streets, traffic, parks, and the Arvada Center.

CAPITAL IMPROVEMENT FUND

	2010 Budget	2010 Actual
Beginning FB	$27,729,480	$27,729,480
Revenues		
Transfers in	18,515,000	20,340,144
Interest	-	418,585
Other	-	4,777,692
Total Revenues	18,515,000	25,536,421
Expenditures		
Project expenditures	15,889,061	9,979,867
Ending Fund Balance	30,355,419	43,286,034
Anticipated Grant Revenue		2,200,000
Reserved for projects:		
Traffic		12,894,998
Streets		4,471,811
Administration		16,214,075
Parks		9,290,011
Arvada Center		543,013
Total Reserved		43,413,908
Cash Reserve		$2,072,126

Revenue Highlights
This Fund receives revenues from a portion of the 60% of one cent of our base sales tax. In 2010, the Council also appropriated over $14,000,000 from General Fund cash balance to the CIP for special projects ranging from the Garrison Street project, dedicated monies to improve Wadsworth Boulevard and ensuring we set aside money to improve the play areas near the new K-8 school.

Other revenues include park development fees of approximately $2.8 million, grant revenue of $1million and open space revenue of $880K. We are also expecting to receive about $2.2 million in grant revenues in 2011 for projects that are currently underway.

Interest earnings generated about $418,000 in 2010.

Expenditure Highlights
Expenditures in 2010 were just under $10 million. This was substantially less than 2010 revenues. However, as stated above, we are reserving a portion of the fund balance for projects that will be completed in the next several years. Some of the projects that we completed in 2010 include:

- Kipling Street Bridge replacement
- W 86th and 88th Connection
- 86th Parkway Bike Lane (grant funded)
- 74th Avenues Bike Lane
- W 64th at Simms Hazard Elimination

- Skyline Estates Park
- Completion of Blunn Trail
- Tennis Court renovations for 28 of the City's 38 tennis courts
- Arvada Channel trail
- Little Dry Creek Playground
- Memorial Park Playground
- Creekside Park (grant funded)

As shown above, the ending 2010 CIP fund balance is over $43 million. Some of the projects scheduled to begin in 2011 include:

- Olde Wadsworth Street Reconstruction (grant funded)
- Ralston Road at Garrison Hazard Elimination (grant funded)
- W 72nd Bike Lane Kipling to Simms (grant funded)
- Ralston complex
- Arvada K-8
- Gibbs West (O'Kane) skate park (grant funded)
- Forest Springs Park
- Spring Mesa Park
- Oak Park Irrigation
- Club Crest Playground
- Saddlebrook Park
- Volunteer Firefighters Park
- Sunrise Park
- Fitzmorris Park Irrigation

In addition, there are funds set aside for Wadsworth Boulevard, East Park and South Central Park.

ENTERPRISE FUNDS

Enterprise funds account for activities that generate a fee that makes the entity self supporting. The five enterprise funds in the City are:

- Water Fund
- Wastewater Fund
- Stormwater Fund
- Golf Fund
- Hospitality Fund

WATER FUND

The Water Fund accounts for all activities with the scope of the water utility operations including administration, operations, capital water projects, financing and related debt service and billing and collection.

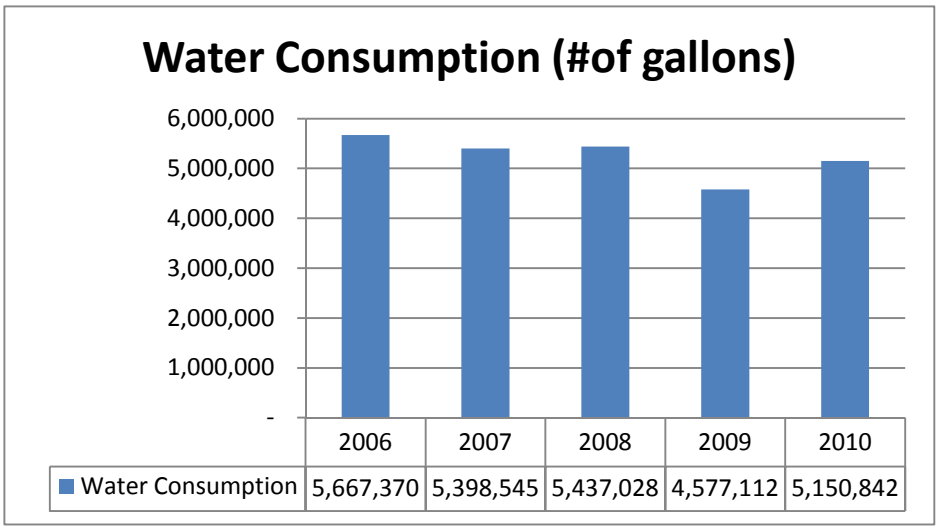
As the table below illustrates, the operating revenues of water charges and interest were significantly lower than we budgeted. The tap fees are dedicated to capital – that is infrastructure improvements and major maintenance – and generated more than we expected. Because of the tap fees, we used only approximately $230,000 of fund balance. Under normal circumstances, this would not be considered a significant issue, however, as stated, the tap fees are to be used toward capital and placed in the long-term fund balance to meet requirements of our obligations of future water purchases.

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$61,722,000	$61,722,000	$59,925,798
Revenues			
Water Charges	18,553,243	16,842,802	17,528,801
Tap Fees	699,468	1,810,128	3,014,343
Interest	1,953,728	962,821	716,060
Other	761,124	967,293	775,568
Total Revenues	21,967,563	20,583,044	22,034,772
Expenditures			
Ongoing	18,875,002	18,188,700	18,877,346
Debt Service	2,262,100	2,247,287	2,264,600
Capital	2,210,135	1,943,259	2,153,730
Total Expenditures	23,347,237	22,379,246	23,295,676
Cash Balance	60,342,326	59,925,798	58,667,894
25% of Op Exp & Debt Service	6,980,850	6,794,462	6,983,936
Excess	$53,361,476	$53,131,336	$51,683,958

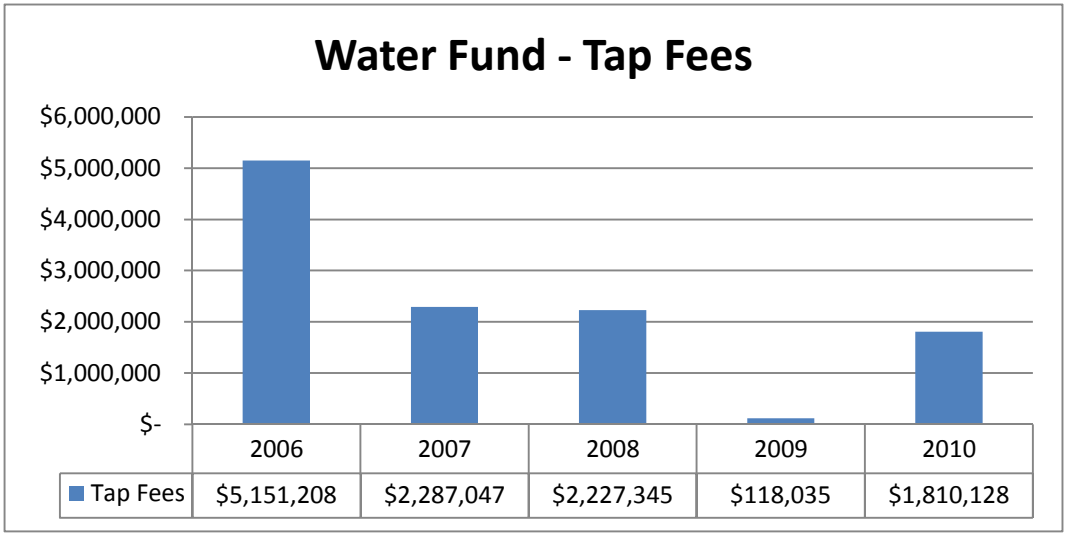
Revenue Highlights

Water Usage

The graph below shows water consumption from 2006 – 2010. Water consumption in 2010 increased from 2009 levels. However, 2009 levels were lower because of the wet summer. The longer term issue is that we are seeing an overall decrease in water consumption which will affect revenues and the fund's ability to cover ongoing expenditures.



Tap Fees
The chart below shows tap fees for the prior five years. We are beginning to see a slow recovery of tap fees. Tap fees brought in about $1.8 million in 2010. Whisper Creek is the area that accounted for the increase in tap fees. We expect that tap fees will continue in this area in 2011. In addition, the Boyd Pond area could generate a small amount of tap fees.



Expenditure Highlights
Ongoing expenditures are about $18 million. The largest outlay in ongoing expenditures is the water we purchase from Denver Water which continues to increase at a faster rate than our revenues. Debt service is about $2.2 million and is a fixed expenditure until the bonds are paid off in 2020. Capital expenditures are at a relatively low level in 2010 and 2011, but will rise dramatically in 2013-2015 as the Moffat project nears.

Bonds
When the water fund refinanced the bonds in 2009, we were not required to fund a reserve fund which is usually equal to 10% of the outstanding bonds. In lieu of the reserve, we were required to maintain a debt service coverage level of 300% of debt service. The debt service coverage level was 112% and 212% in 2009 and 2010, respectively. Since the water fund fell below the required debt service coverage, the fund is now required to reserve 10% of the outstanding bonds (about $1.8 million). This will show up on the 2010 financial statements, but more importantly, the water fund will not be able to spend this reserve amount until the bonds are retired.

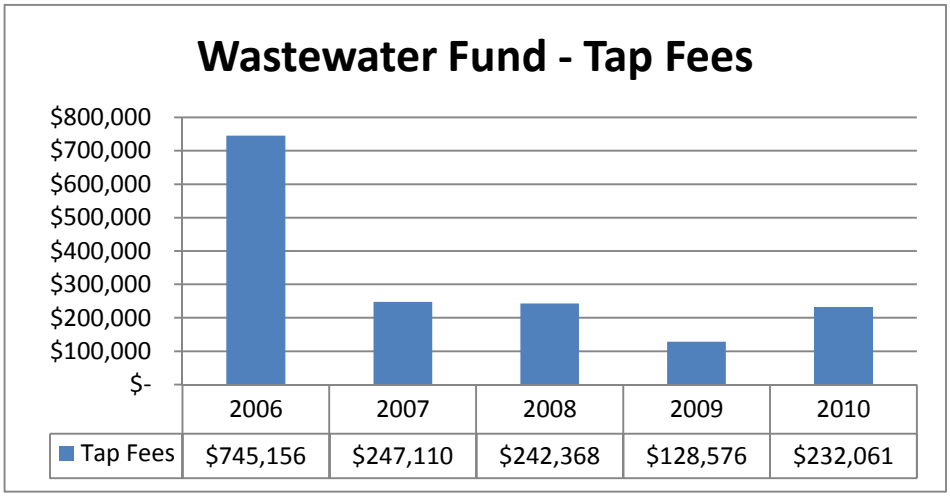
WASTEWATER FUND

The wastewater fund accounts for all activities necessary in the collection, transmission and disposal of sewage and wastewater.

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$9,636,000	$9,636,000	$10,221,245
Revenues			
Sewer Charge	10,007,565	9,863,604	10,574,398
Tap Fees	217,280	232,061	227,378
Other	465,295	189,037	159,293
Total Revenues	10,690,140	10,284,702	10,961,069
Expenditures			
Ongoing	10,343,768	9,699,457	10,706,825
Capital	206,000	-	283,250
Total Expenditures	10,549,768	9,699,457	10,990,075
Cash Balance	9,776,372	10,221,245	10,192,239
25% Op Exp	2,585,942	2,424,864	2,676,706
Excess	$7,190,430	$7,796,381	$7,515,533

Revenue Highlights
Wastewater revenues increased just slightly from 2009 ($9.7 million to $9.8 million) and are finally at levels that cover ongoing expenditures. This is due to rate increases of 18%, 7.05%, 7% and 5.06%, in 2007 – 2010, respectively. As in the Water fund, as we see consumers use less water, the wastewater base amount will decrease which will also result in reduced revenues. This will also be a long-term issue that this fund will need to address.

Tap Fees
This graph shows tap fees from 2006 – 2010. Similar to the Water fund, the tap fees in this fund increased because of Whisper Creek.



Expenditure Highlights
Ongoing expenditures of $9.7million are about $600K less than budgeted expenditures of $10.3 million. About $400K of the savings is from the main replacement program as we received favorable bids in 2010. Payments to Metro Wastewater represent about 56% of the ongoing expenditures and will impact the budget in the future as Metro's rate increases outpace the

increases in wastewater rates. There were no capital expenditures in 2010 and very little planned for the future.

STORMWATER FUND

The Stormwater fund accounts for all activities necessary to maintain a stormwater management plan.

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	$11,647,000	$11,647,000	$10,893,022
Revenues			
Stormwater Fee	3,054,088	3,142,509	3,069,027
Other	292,520	225,135	96,059
Total Revenues	3,346,608	3,367,644	3,165,086
Expenditures			
Ongoing	1,100,865	1,035,072	1,114,320
Debt Service	933,483	933,483	933,588
Capital	4,429,000	2,153,067	6,969,000
Total Expenditures	6,463,348	4,121,622	9,016,908
Cash Balance	8,530,260	10,893,022	5,041,200
25% Op Exp & Debt Service	1,208,699	1,192,251	1,212,168
Excess	$7,321,561	$9,700,771	$3,829,032

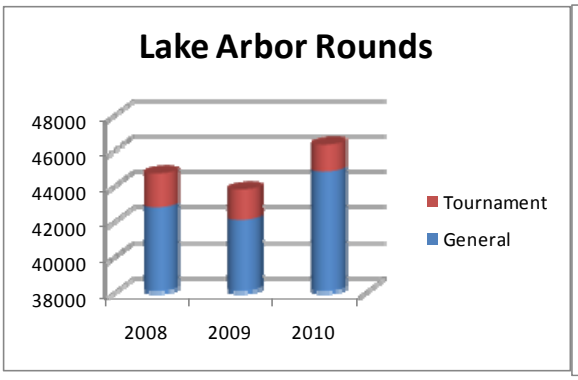
Revenue Highlights
The stormwater fee and interest earnings are the two sources of revenue in this fund. Since the stormwater fee is based on impervious area, this revenue remains stable at just over $3 million. Interest earnings in 2010 are down from 2009 due to declining interest rates. Interest revenue for 2010 will most likely be reduced as the fund balance in this fund is reduced from the Garrison Street Bridge project.

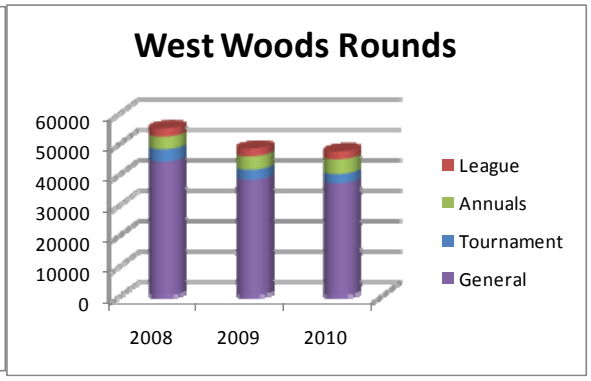
Expenditure Highlights
Ongoing expenditures in the stormwater fund are just over $1 million each year. Annual debt service payments of approximately $933K are made each year which reflect about 2/3 of the total debt service payment on the 2005 COPs which were issued for stormwater and Arvada Center capital projects. The Garrison Street Bridge capital project will expend over $9 million of the stormwater fund balance in 2011 and 2012.

GOLF FUND

	2010 Budget	2010 Actual	2011 Budget
Beginning FB	($ 189,000)	($ 189,000)	($ 139,631)
Revenues			
Golf	2,985,630	2,739,183	2,520,316
Restaurant	1,195,023	1,152,719	1,058,235
City Cash Transfer	153,922	153,922	213,082
Total Revenues	4,334,575	4,045,824	3,791,633
Expenditures			
Golf	2,270,280	2,069,836	1,963,568
Food	1,073,267	998,458	934,809
Operations	925,447	876,443	789,013
Capital	58,924	51,718	100,000
Total Expenditures	4,327,918	3,996,455	3,787,390
Income/(Loss)	6,657	49,369	4,243
Cash Balance	($ 182,343)	($ 139,631)	($ 135,388)

The Golf industry has had a difficult operating environment since 2008. Consumer golf-related spending and rounds have been decreasing since 2008. West Woods and Lake Arbor have tried many different ways to increase rounds. In the fall of 2010, they decided to lower fees drastically. This seemed to work as rounds increased the second half of the golf season. Overall, rounds are still down at West Woods 1.8% compared to 2009 but are up at Lake Arbor 5.4%. The men's and women's club memberships have remained steady through the recession as the diehards are still playing golf.

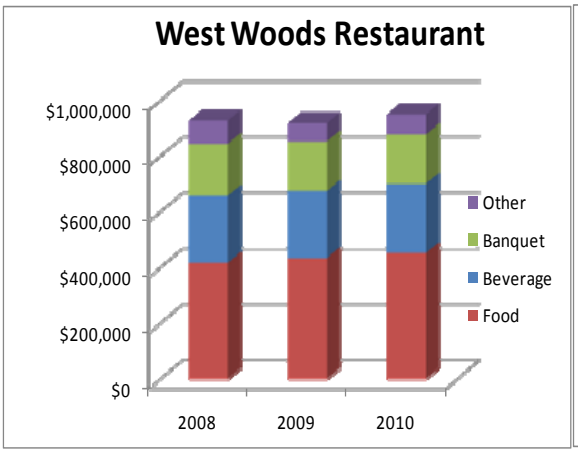


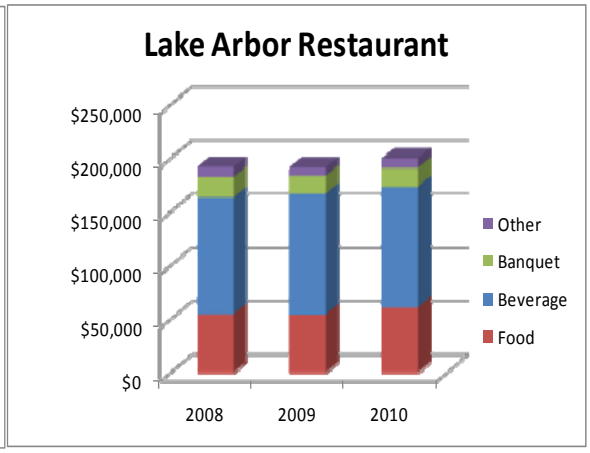


Due to the decreasing rounds at West Woods, many cuts have been made. Temporary wages have been reduced in the pro shop from $92,000 in 2008 to $72,000 in 2010. This means more shifts for the full-time employees and even needing the head golf pros to wash carts and pick the range. The maintenance side and the restaurant have also given up one full-time employee starting in 2011. We will see what effects this will have over time.

Lake Arbor and West Woods restaurants have also been affected by the recession but have been able to scratch out some slight increases over the past couple of years. Lake Arbor sales were up 4.3% in 2010 compared to 2009. This was due to increased beverage and concession sales. They are more closely tied to the golfers as they to not have a very robust walk-up business and also do very few catered events.

West Woods restaurant sales were up 3.4% in 2010 compared to 2009. This was due to increased food sales in the restaurant. They are developing a pretty good walk-up business that helps to keep the place busy. As rounds increase, their beverage and concession sales will come back.

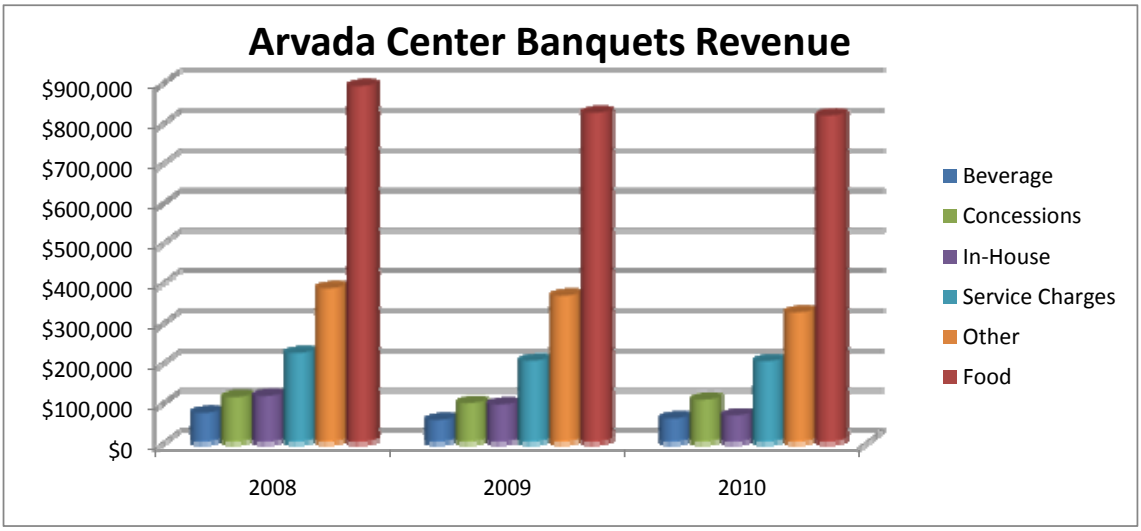




HOSPITALITY FUND

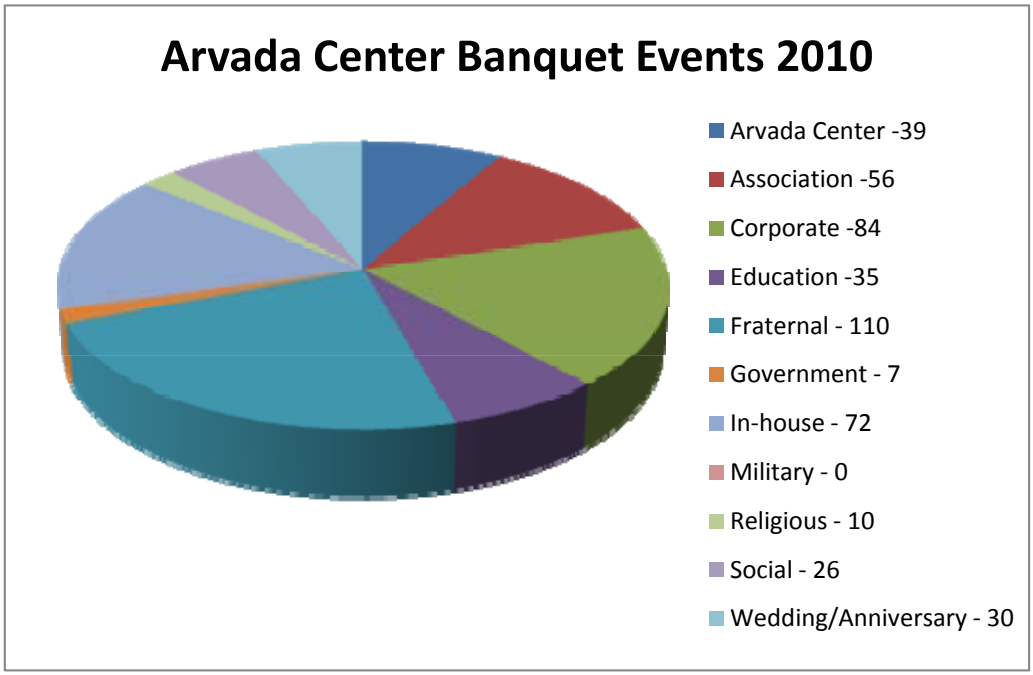
	2010 Budget	2010 Actual	2011 Budget
Beginning FB	936,000	936,000	928,835
Revenues			
Banquets	1,591,851	1,400,521	1,484,306
Concessions	131,603	153,054	145,923
Miscellaneous	16,444	6,433	6,120
City Cash Transfer	0	26,774	0
Total Revenues	1,739,898	1,586,782	1,636,349
Expenditures			
Overhead	395,339	376,031	376,542
Operations	1,269,962	1,169,506	1,209,587
Capital	0	7,410	102,910
Transfer to General Fund	121,000	41,000	125,000
Total Expenditures	1,786,301	1,593,947	1,814,039
Income/(Loss)	(46,403)	(7,165)	(177,690)
Cash Balance	889,597	928,835	751,145
Goal (25% of Operating Expenditures)	196,493	175,334	199,544
Excess/(Deficit)	693,104	753,501	551,601

The Hospitality fund has experienced declining revenues for the past 5 years. The challenge with the economy and companies going out of business has definitely shown up in the number of banquets and their size. Year-over-year revenues were down over $153,000 or 3.8%.



Banquets have a veteran and experienced staff which operates on defined margins. These margins are monitored monthly and changes are made immediately if they get out of line. This has enabled banquets to minimize their losses. They were able to cut expenditures $192,000 compared to 2009 or just over 2%. A large percentage of this cut came from a reduction in the transfer to the General Fund, $80,000. These funds will be used in the upcoming budget cycle to replace some much needed equipment.

Staff tracks 12 target areas and have seen growth in 3, no change in 2 and losses in 7. Their hope is to continue to stay afloat and be positioned properly when the economy returns.

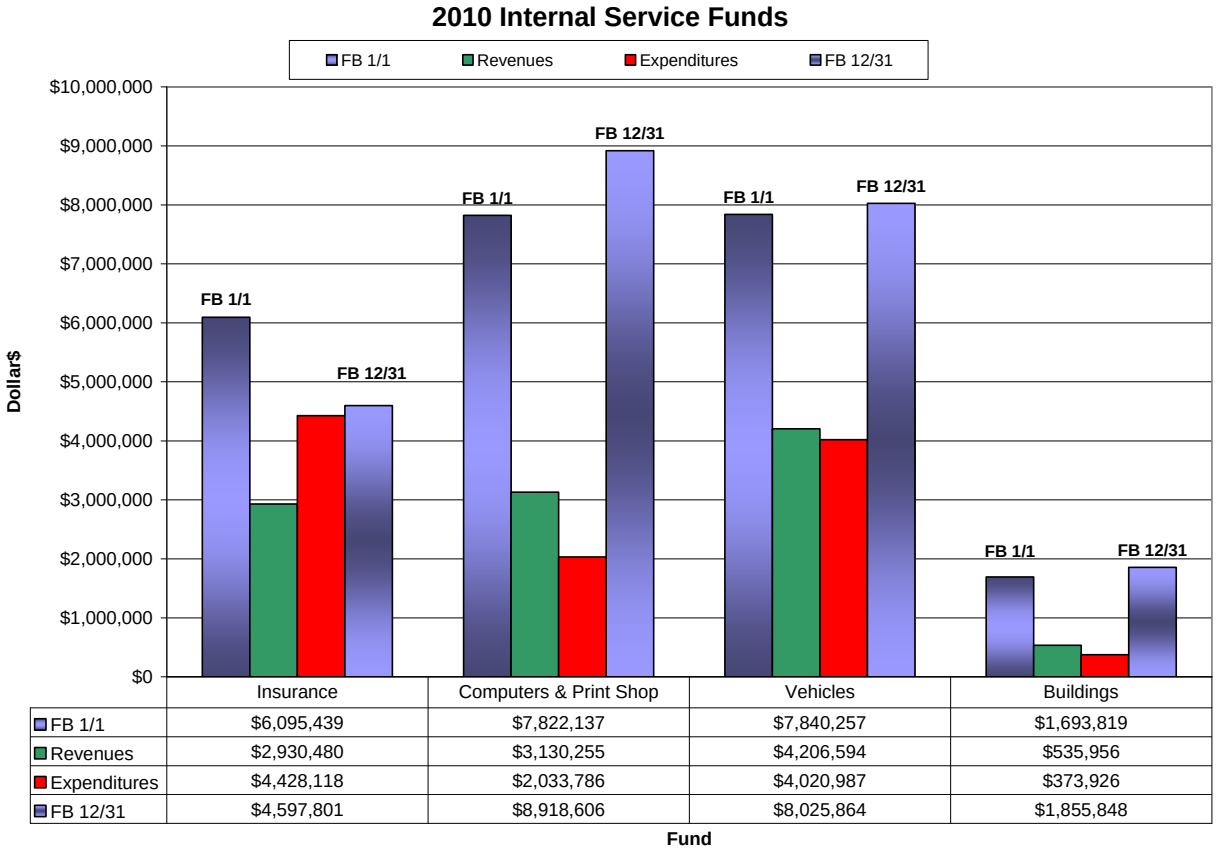


INTERNAL SERVICE FUNDS

We have four Internal Service Funds. The following table provides the beginning fund balances, revenues, and expenditures for each of the four. These Funds charge for goods and services to each division that uses them. The Funds then pay for all associated costs of things like purchasing insurance, vehicle purchases and maintenance, computer purchases and maintenance and buildings maintenance.

As illustrated, we have healthy cash reserves in each of the Funds. If we ever were faced with a significant crisis, we could tap into these reserves to meet emergency needs. However, in all cases, the reserves are closely related to future needs. These needs must be annually evaluated. The best example is currently we are setting aside monies for the replacement of our financial system. Currently, our philosophy is to maintain and upgrade our system. A very important discussion we have each year, and will again for the 2013 – 2014 biennium, is the charges made for future replacement. We lowered those charges in 2011 and 2012.

This same conversation occurs about the life of computers and vehicles.



	Insurance	Computers & Print Shop	Vehicles	Buildings
FB 1/1	$6,095,439	$7,822,137	$7,840,257	$1,693,819
Revenues	$2,930,480	$3,130,255	$4,206,594	$535,956
Expenditures	$4,428,118	$2,033,786	$4,020,987	$373,926
FB 12/31	$4,597,801	$8,918,606	$8,025,864	$1,855,848

INSURANCE FUND

The Insurance Fund, administered by the Risk Management Division of Finance, provides the means by which the City self-insures against loss. It is funded with contributions by all City divisions based on their levels and types of exposure. The Fund is also used for programs for loss prevention**, the protection of City personnel and the preservation of City property and assets.**

Revenue Highlights
The Insurance Fund receives six types of contributions from City divisions: Workers' Compensation, Risk Management Services, as well as Property, General Liability, Auto Liability,

and Auto Physical insurances. The levels of contributions are reallocated each year based on various exposure and actuarial factors.

Expenditure Highlights
We had nearly two vacant positions throughout 2010. One is undergoing concentrated analysis about its long-term need. The other position, the Safety Officer, has been difficult to hire. We had one person in the position for a short period of time in 2010.

The large expenditure was a transfer of available cash to the Capital Improvements Fund to help meet the one-time capital needs of our city.

TECHNOLOGY – COMPUTERS AND PRINT SHOP

Overview
The Computers Fund provides resources for both the ongoing maintenance and replacement of the City's computers, network hardware, and other electronic infrastructure. It is funded with contributions by all City divisions based on their levels of use of information technology. The Print Shop Fund provides ongoing capital support for the City's printing needs.

Revenue Highlights
On July 12, 2010, Council appropriated $600,000 for a transfer to the Computer Replacement Fund to provide matching monies for a future communications system replacement.

Expenditure Highlights
A number of projects are planned for 2011, including Office Suite software replacement, police information systems upgrade, desktop virtualization, network infrastructure upgrades, and email system replacement.

VEHICLES –MAINTENANCE AND REPLACEMENT

Overview
The Vehicles Fund provides resources for the maintenance of City vehicles and heavy equipment, as well as their replacement when various factors demand their retirement. It is funded with contributions by all City divisions based on their vehicle inventory and use.

Revenue Highlights
This Fund charges each department an annual "rental" or lease charge for each vehicle owned. This lease rate is based upon the expected life of the vehicle. The Fund also charges a maintenance fee for each vehicle based upon type and historical costs.

Expenditure Highlights
On January 3, 2011, Council approved heavy vehicle purchases in the amount of $1,325,359.

BUILDINGS

Overview
The Buildings Fund provides resources for maintaining major portions of facility infrastructure as replacement becomes necessary. The primary types of infrastructure are HVAC equipment, parking lots, roofs, and carpet. It is funded with contributions by all City divisions based on their facility occupancy.

Substantial expenditures are being planned for 2011, including the replacement of the roofs of the Arvada Center and Indiana Shops.

INVESTMENT REPORT

Investment Portfolio Objectives

Pursuant to the City's investment policy, the primary objectives of the City's investment activities, in priority order, are safety, liquidity, and yield. Consistent with this policy, the portfolio of securities are invested in US Treasuries, US Agency debt, local government investment pools (LGIP's), commercial paper, and corporate debt subject to rating and concentration limits. The City's investment portfolio is managed to provide sufficient liquidity to meet all reasonably anticipated operating cash needs without selling securities prior to maturity.

Investment Portfolio Performance

For 2010, the portfolio managed a yield of 1.378% following annualized yields of 1.475% in the first quarter, 1.475% for the second quarter, and 1.309% for the third quarter of 2010. The benchmark yield for the City's portfolio, as established in the investment policy, is a weighted benchmark of allowable securities. For the year, the weighted benchmark return was .59%, constructed using the average of 2010 monthly returns. The City's portfolio yield continued to decline in all quarters from its previous rolling four quarters, as evidenced by the considerable reduction in investment income and unfavorable reinvestment environment. The table below shows a year-over-year comparison with several key portfolio metrics:

	DECEMBER 2009	DECEMBER 2010	DIFFERENCE
YTD Return	**1.778**	**1.387**	**-39 basis points**
YTD Benchmark Return	**1.01**	**.59**	**-42 basis points**
Interest Booked YTD	**3.986m**	**2.401m**	**-1.585m**

Examples of contributors to these performance results are provided below:

1. Fed leaves rates at very low levels:

2008 saw some of the most aggressive cuts by the Fed in recent history, sending rates down by 400 basis points (bps) by the end of the year. Throughout 2010, the discount rate had remained steady at .25% in hopes that lower rates would stimulate economic growth. This, of course, did not happen. Arvada, like many other municipalities, took a defensive posture in 2010, hoping to temporarily park monies into short-term instruments until rates recovered and offered better yield. Subsequently, the Fed did not act in 2010, instead holding rates very low, which in turn significantly reduced the yield to the portfolio.

At this time, the Fed sees no real reason to raise the key borrowing rate. Raising the rate is typically used as a "tightening" tool by the Fed, meaning a way to slow growth and avoid inflation. Although economic numbers indicate that we may have reached a bottom in the marketplace, there is no glaring indicator that the financial markets cannot absorb the demand moving forward in the near future. Therefore, the Federal Reserve will keep rates unchanged until the dynamics in our economy significantly change.

2. Securities were called, but at a diminished rate.

For 2010, 19 securities totaling $77 million were called, representing 74% of all securities that rolled out of the portfolio in 2010. This is an increase from comparable months in 2009, which totaled 16 securities worth $65.69 million. The increase in called securities is due to a few reasons. Securities purchased in earlier years saw "lockout periods" expire. This could reflect the reinvestment risk in the market, indicating that very few attractive sectors are available for purchase. Although the Fed has not adjusted the key borrowing rate in 2010, there is a continuing consensus among the financial markets that a "flight to safety" strategy is still in play. The resulting outcome is increased reinvestment risk of securities being called.

3. Money market yields putting a drag on interest income.

As indicated by the table below, the past year has seen a drop in money market yields, ranging from .28% in December 2009 to .19% in December 2010. This signifies a loss of more than 32% of income interest today compared with one year ago.

AVERAGE YIELD	DEC '09	MAR '10	JUN '10	SEP '10	DEC '10
1Year Treasury	.45%	.42%	.35%	.29%	.27%
CSAFE LGIP	.18%	.08%	.13%	.19%	.18%
Colotrust LGIP	.28%	.19%	.23%	.22%	.19%
Colotrust difference from Dec '09	N/A	-32.15%	-17.86%	-21.43%	-32.15%

*Average yields on 1yr Treasuries calculated by using mean of first and last days of each noted month

** LGIP rates taken per statement as of last day of noted month

Investment Environment

2010 has proven to be a challenge regarding the City's investment portfolio. The effects of Fed rate cuts in 2008 continued to be realized in 2010, reducing interest income as well as providing fodder for issuers to call bonds away from the portfolio. As a general theme, many investors continued to hold onto the "flight to quality" strategy, in which bond markets experienced continual, if not increased, support from investors. Although certain parts of the curve experienced an increase in yields, investors were very careful to avoid being overexposed to duration. The City of Arvada has placed funds in these sectors, focusing on the 2 and 3 year parts of the curve. In order to limit the exposure to extension in the portfolio, we primarily instituted a buy program that included call optionality. By purchasing "cushion calls" and "step coupons" that had a high probability of being called, we were able to garner a better than average coupon before the lockout expired, followed by an immediate call that limited reinvestment risk. Another note worth mentioning is the decrease of yields in the money market funds. As the balances decreased in 2010, the yields were also trending lower, paying less interest income. For example, in December 2009, Colotrust yields were at .28%. At the end of 2010, this yield decreased to .19%, or a 32.15% decrease.

One indirect benefit to the Arvada portfolio has been the capital appreciation that has been attained in this time, even though this is considered as "paper gains" and having no profound affect on the yield we use to benchmark. 2009 was a better year for capital appreciation, garnering $1,063,419. 2010 was down by $590,270, but still a net positive of $473,149.

Corporate credit ratings are sill not coming back. The City is permitted to purchase "AA" or better ratings, with our preference to purchase "AAA" credit ratings as they provide a "cushion" in the event of a downgrade. When "AA" rated investments can be found, they are sold at large premiums making investment for the City prohibitive.

Portfolio Changes – 2010

The City's portfolio has increased $3.7 million from December, 2009 to December, 2010. LGIP balances were reduced by $10 million due to the decrease in yield of over 32% from 2009 to 2010. These funds were invested in securities with a "lock-out" period to enhance yield. Changes in the portfolio from December 2009 to December 2010 are shown in the chart below:

SECURITY SECTOR	DECEMBER 31, 2009 BALANCE	% OF PORTFOLIO	DECEMBER 31, 2010 BALANCE	% OF PORTFOLIO	% OF CHANGE
Cash	$16,032,457.09	7.76%	$17,084,994.27	8.13%	+6.57%
Certificate of Deposit	9,000,000.00	4.36%	9,097,316.63	4.33%	+1.09%
Corporate	35,000,000.00	16.95%	27,000,000.00	12.84%	-22.86%
LGIP	72,439,910.87	35.08%	62,042,876.51	29.51%	-14.36%

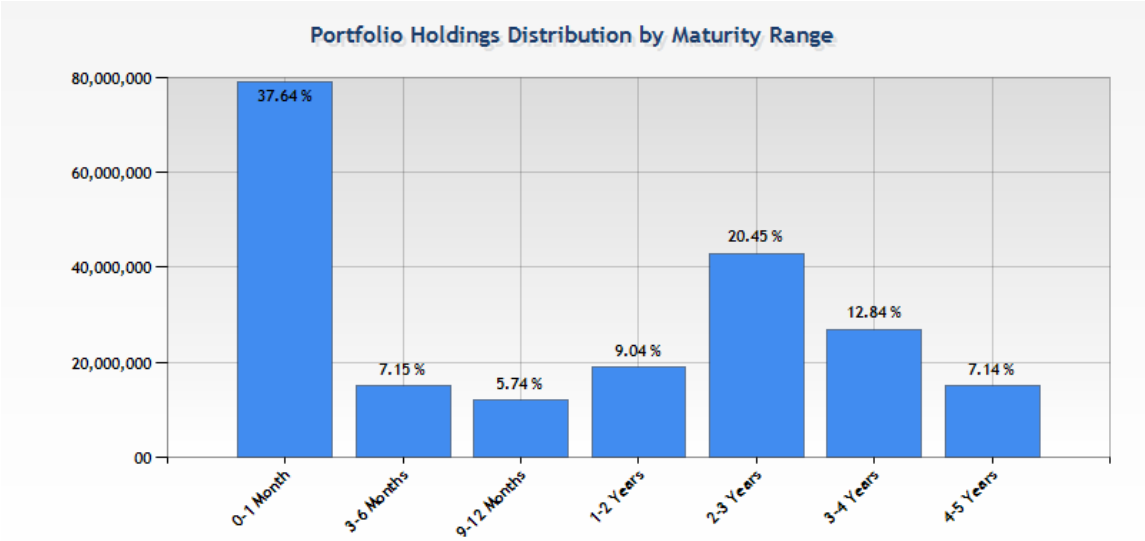
US Agency	67,000,000.00	32.45%	88,000,000.00	41.86%	+31.35%
US Treasury	7,000,000.00	3.39%	7,000,000.00	3.33%	0.00%
Total	**$206,472,367.96**		**$210,225,187.41**		**+1.79%**

US Agency investments increased 31.35% in 2010. This is due to low US Treasury yields and corporate bonds with credit rating of AA or better are sold at large premiums, making it prohibitive for the City to purchase. Agencies investments offer callable lock-out periods to enhance yield. The chart below shows the changes in US Agency investments from 2009 to 2010.

AGENCY	DECEMBER 31, 2009 BALANCE	DECEMBER 31, 2010 BALANCE	AMOUNT OF CHANGE
FFCB*	$27,000,000	$23,000,000	-$4,000,000
FHLB**	6,000,000	32,000,000	+26,000,000
FHLMC***	8,000,000	18,000,000	+10,000,000
FNMA****	26,000,000	15,000,000	-11,000,000

* Federal Farm Credit Bank
** Federal Home Loan Bank
*** Freddy Mac
**** Fannie Mae

During 2010, we focused our investments in the 2 to 3 year maturity range to eliminate overexposure to duration and anticipation that rates will start to increase in twelve to eighteen months. The December 31, 2010 portfolio maturity breakdown is shown in the graph below:



<u>Investment Management Focus – 2011</u>
2010 continued to be a struggle for the capital markets. We will continue to monitor the 4 items of focus we have highlighted below.

1. *Diversification of maturities-* Focus in the next year will be to move money away from the LGIP's as much as possible to reduce balances and capture better interest income. Recent focus has been on the two to three year maturity range. We will focus on the "blended" strategy, which calls for emphasis in short-term positions as well as long-term positions (5 years in the City's case), but also staggering maturities in between to smooth the income stream. Our rationale for this strategy is as follows:

A. We want to be able to capitalize on investment opportunities if/when yields begin to recover.

B. Keep duration extension limited should the yield curve flatten (shorter duration means we get our cash flows back sooner).
C. Have ample cash should City operations experience unexpected needs.
D. Take advantage of better coupons in longer maturity buckets.

Currently, we have ample cash to invest, resulting from longer maturity securities being called. As of December 31, 2010, the City held a total of $79.1 mm in LGIP and bank funds.

2. *Agency spreads are tighter, but callables will get better yield-* Call provisions are primarily used by issuers to refinance debt at cheaper levels. Since the Fed, however, cannot institute a large cut (max is 25bps from .25% to 0%) in the near future, our focus is to buy callable securities, with a "lock-out" period, that will enhance investment income.

3. *Treasuries continue to produce meager yields-* Treasuries are directly impacted by the FOMC's actions. During 2008, the Fed Funds rate had been cut by 400 bps, reflecting a reduction in yield of comparable Treasuries by a significant amount. From December 2009 through December 2010, the 2-year and 5-year Treasuries have seen a decrease in yields of 120 bps and 70 bps respectively. This has persuaded the City to move some funds to two-year to three-year maturity securities with a callable "lock-out" period. The City would effectively be "losing out" on interest income if we continue to keep the same balance in LGIP funds. Since the Fed has indicated a postponement of rate hikes, we feel that LGIP rates will continue to stay low as well.

4. *LGIP yields still very low-* Our LGIP balances decreased in 2010 from $72,439,910 to $62,042,877. A notable increase has been in the US Agency security portion of the portfolio in the amount of $21 million. This increase has resulted from 1) bonds being called during the year, and 2) the desire to purchase securities with a callable "lock-out" period to enhance yield. We will continue to look for callable investments with a "lock-out" period to reduce LGIP balances and enhance yield.

Approved for forwarding to city council

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Craig G. Kocian, City Manager