

CITY OF ARVADA



THIRD QUARTER 2011 FINANCIAL REPORT

July – September, 2011

Introduction

The revenues and expenditures of the City are accounted for in a variety of funds. Funds are similar to separate checking accounts. Specific types of revenues and expenditures are budgeted and managed in different funds. However, each fund has the same types of expenditures: salaries, benefits, supplies, training, professional services, capital, etc. This allows us to analyze both how each fund is meeting expectations and to conduct in-depth scrutiny of the spending in different categories.

The following report presents highlighted information at the fund level. In most cases, the revenues and expenditures of any specific fund must be used for the purposes of that fund. Funds must pay for services from others but, as an example, police officers cannot be paid from water fees.

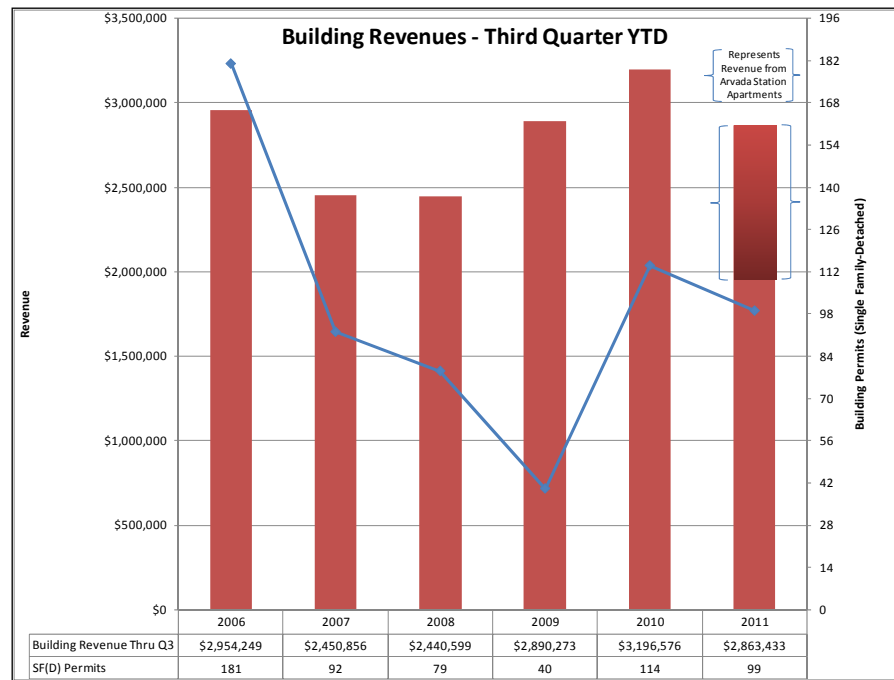
General Fund

GENERAL FUND – Including Debt Service

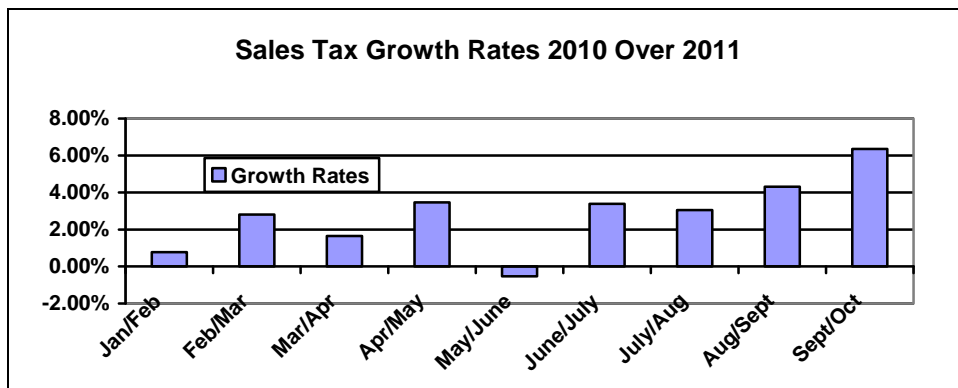
	Sept, 2010	2010 Actual	Sept, 2011	2011 Budget
Revenues	\$46,497,546	\$70,520,627	\$46,182,861	\$68,498,149
Expenditures	\$43,965,999	\$64,273,335	\$40,949,071	\$72,719,283

Revenue Highlights

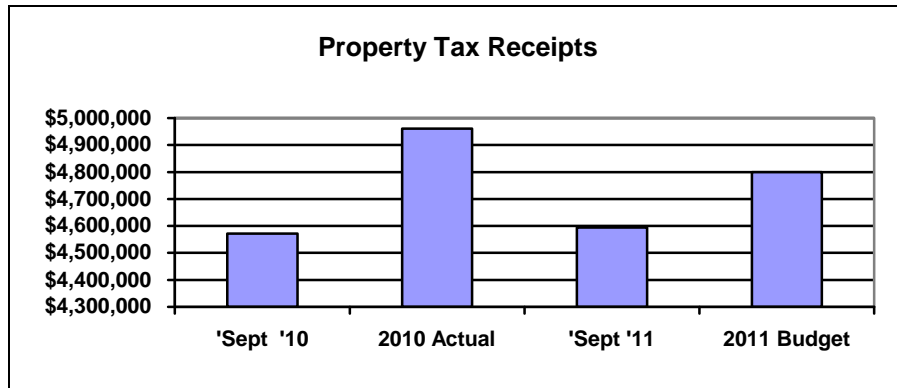
The revenue picture continues to become somewhat more positive with each passing month. The building activity is one of our closely watched revenues due to the fact that it says quite a bit about the overall economy. The graph here illustrates that we continue to experience small increases in the building permits, including single family housing. However, multi-family housing permits and use tax, especially associated with the commuter rail location, have ensured that we will now attain our budgeted revenues in these categories.



Sales tax growth is also increasing each month. As the following graph illustrates we have had growth in our sales tax receipts eight of the nine months of collections. We now believe we will actually generate our expected sales tax revenue of \$35.788 million for the General Fund and the debt service requirements paid from sales tax receipts.



The only areas of concern on the revenue side are property tax and interest earnings. We will make our estimated budget estimate in property tax earnings.



As the Investment information at the end of this report illustrates, our average earnings are 1.06% on our principal. While this is very weak, one must remember the city’s primary objective in our investments is safety. Thus, we never expect to have interest earnings meet our operating needs.

Expenditure Highlights

As we have mentioned on numerous occasions throughout the year, we will, again, have significant savings in our salary and benefits category. We continue to have a number of police positions vacant. Our salary savings to the end of the year is now estimated to be, no less than, \$1.8 million in the General Fund. This, combined with known savings in fuel and utilities, will ensure we end the year over two million less than our anticipated budget of \$72.7 million. We have addressed this in the 2012 Budget by budgeting for a “salary vacancy savings” of over \$500,000. This will help us “close the loop” of these savings. Nonetheless, we know we will always have savings.

Summary

We will meet our revenue projections for 2011 at the bottom line. We know some revenues will not meet projections, but others, such as Auto Use Tax, will exceed our projections. The real difference in the budget will be from savings on the expenditure element of the budget. As always, departments continue to be conservative and closely monitor their budgets. Vacancies occur as we must ensure we are hiring the “right” people, and this requires time. Salary and benefit savings positively accumulate in any given year.

Arvada Center

ARVADA CENTER Ending SEPTEMBER 2011						
TOTAL SUMMARY						
	YTD 2010 SEPTEMBER	YTD 2011 SEPTEMBER	2011 Budget	YTD Increase Decrease	% Increase Decrease	
Revenues						
Generated	\$ 3,412,705	\$ 4,149,565	\$ 6,306,833	\$ 736,860	21.59%	
SCFD	\$ 680,527	\$ 706,943	\$ 818,835	\$ 26,416	3.88%	
City Cash Transfer	\$ 906,451	\$ 886,982	\$ 1,182,643	\$ (19,469)	-2.15%	
City Service Transfer	\$ -	\$ -	\$ 1,967,270			
Total Revenues	\$ 4,999,683	\$ 5,743,490	\$ 10,275,581	\$ 743,807	14.88%	
Expenditures						
Payroll & Benefits	\$ 2,738,727	\$ 2,880,442	\$ 4,146,204	\$ 141,715	5.17%	
Ongoing	\$ 2,472,562	\$ 2,943,187	\$ 3,694,714	\$ 470,625	19.03%	
Internal Services	\$ 341,027	\$ 350,980	\$ 467,393	\$ 9,953	2.92%	
City Service Transfer	\$ -	\$ -	\$ 1,967,270			
Total Expenditures	\$ 5,552,316	\$ 6,174,609	\$ 10,275,581	\$ 622,293	11.21%	
Income/(Loss)	\$ (552,633)	\$ (431,119)	\$ -	\$ 121,514	-21.99%	

Generated revenues have increased about \$736,000 from the prior year. However, they are estimated to be about \$625,000 less than the 2011 budget. Performing Arts, Development and Education are the areas that will not meet budget. Gallery revenues are about \$68,000 more than the 2011 budget. The City cash transfer will increase \$425,000 in 2011 as approved by council.

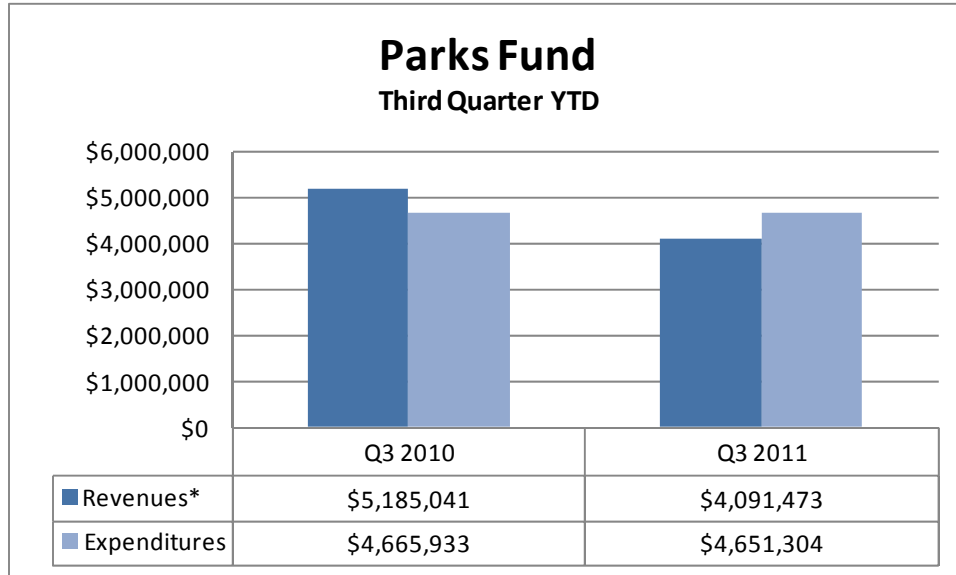
Expenditures have increased \$622,000 over the same period last year, as payroll and ongoing expenditures are related to the productions. Total expenditures for 2011 are estimated to be about \$41,000 below the 2011 budget.



Parks Fund

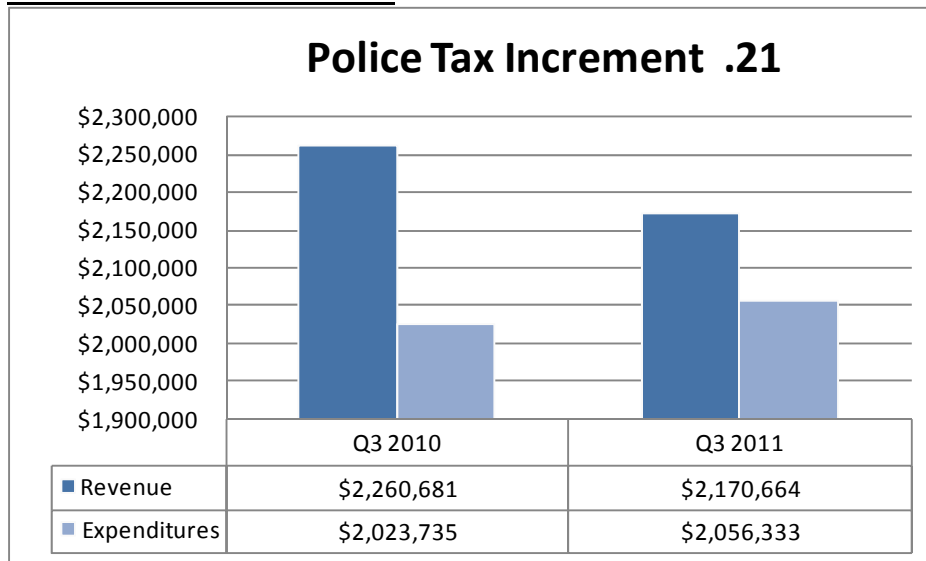
Figures for the first three quarters of 2011 continue to reflect a reduction in the transfer from the General Fund as a combined result of health care savings, no salary range adjustments, and a decrease in the Risk Management & Vehicle Replacement contributions.

*Revenue for 2010 includes \$882,167.28 in one-time Jefferson County Open Space money received as the consequence of a Jefferson County audit, all of which was transferred to the CIP Fund for expenses related to the construction of the K-8 Neighborhood Park.



Special Revenue Funds

.21 Police Tax Increment Fund



A voter-approved .21% increase in the rate of Sales and Use Tax took effect in 1994, referred to as Police Tax Increment .21. This additional tax would help expand Police services in Police neighborhood patrols, emergency response, non-emergency citizen service, gang crime, senior citizen victimization, juvenile crime, sexual exploitation of children,

animal control, and support functions including necessary program training and equipment.

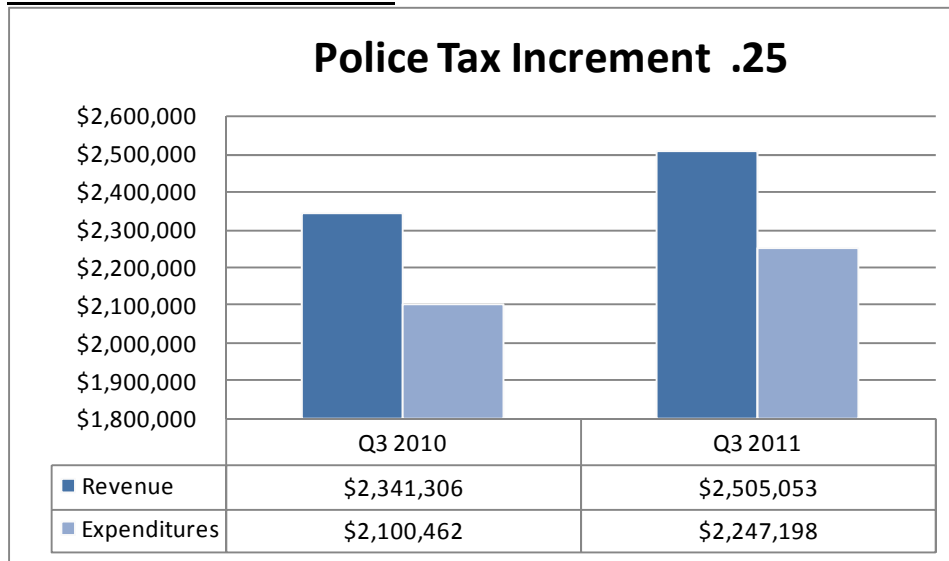
Sales, Auto Use and Building Use Tax revenue increased from third quarter 2010 by \$57,070. Recovered Costs (one-time miscellaneous reimbursements from outside agencies) in 2010 of approximately \$273,696, compared to third quarter 2011 of approximately \$124,864, resulted in a revenue decline of \$148,832.

Expenditures increased \$31,598 from third quarter 2011 to 2010 due to the following:

- Following a continued practice, vacant positions in Fund 21 are transferred from the General Fund. Timing issues or possible variations on steps between the two positions resulted in an increase of \$16,312 in salaries and benefits.
- As of the end of third quarter 2011 there are a total of 16 vacancies in the Police Department. As a result of covering vacant positions, overtime usage increased by \$16,785.
- From third quarter 2010 to third quarter 2011 there was an increase in training of \$41,215. In order to strategically establish objectives and expend training dollars more effectively, a new Administration Sergeant will be utilized to oversee training needs for all Officers.
- Computer Maintenance decreased by \$42,069 from third quarter 2011 to 2010 due to a reallocation of IT rates along with the reorganization of administrative support personnel.

Special Revenue Funds

.25 Police Tax Increment Fund



Police Tax Increment .25 became effective 1/1/06 after an additional .25% Sales and Use Tax was approved by voters. The purpose of this additional tax was to expand the Police Department to respond to the changing nature of crime including identity theft; more violent crime; illegal drug use; increased city population and

resulting traffic; prevent cuts to school resource officers; ensure rapid emergency to response times and to register and monitor sex offenders.

To support this, an addition of at least 23 sworn police officers, 3 sergeants and at least 7 civilian support positions in the areas of Communications, Animal Management and Technical Systems was approved.

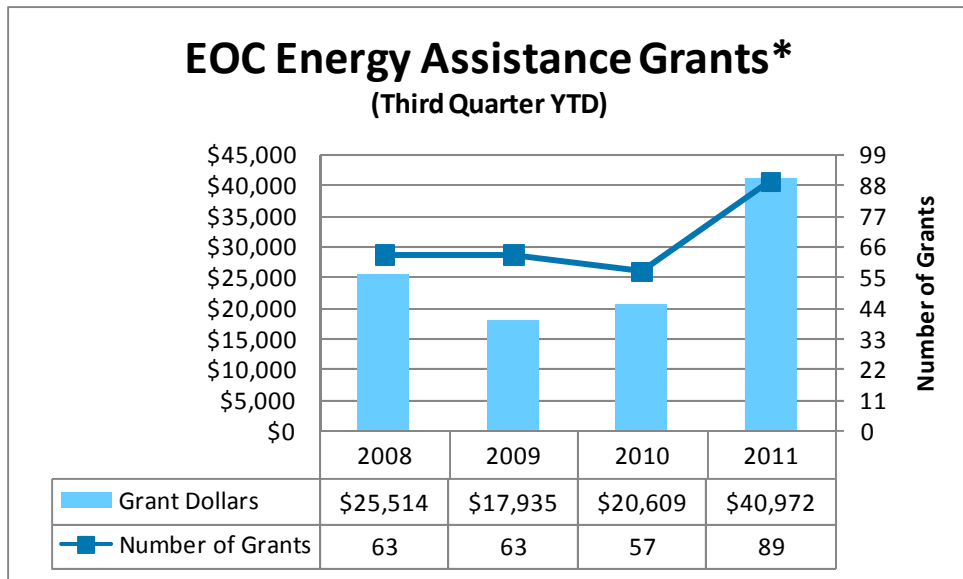
Third quarter 2011 revenues have increased approximately \$154,469 from third quarter 2010 due to an increase in Sales Tax, Auto Use Tax, General Use and Building Use Tax revenue.

Expenditures increased \$146,736 from third quarter 2011 to 2010 due to the following:

- Following a continued practice, vacant positions in Fund 22 are transferred from the General Fund. Timing issues or possible variations on steps between the two positions resulted in an increase of \$4,690 in salaries and benefits.
- As of the end of third quarter 2011 there are a total of 16 vacancies in the Police Department. As a result of covering vacant positions, overtime usage increased by \$64,601.
- In 2011, a fleet alignment between Fund 22 and the General Fund resulted in an increase in fuel costs in the amount of \$25,647.
- From third quarter 2010 to third quarter 2011 there was an increase in training of \$8,954. In order to strategically establish objectives and expend training dollars more effectively, a new Administration Sergeant will be utilized to oversee training needs for all Officers.

Community Development Fund and Housing Fund

Community Development	Q3 2010	Q3 2011	Difference
Revenues			
Community Development	\$1,093,964	\$512,782	-\$581,182
Arvada Housing Authority	\$2,865,275	\$2,802,891	-\$62,384
Total Revenues	\$3,959,238	\$3,315,673	-\$643,565
Expenditures			
Community Development	\$1,612,303	\$454,020	-\$1,158,283
Arvada Housing Authority	\$3,042,626	\$3,090,642	\$48,016
Total Expenditures	\$4,654,929	\$3,544,662	-\$1,110,267

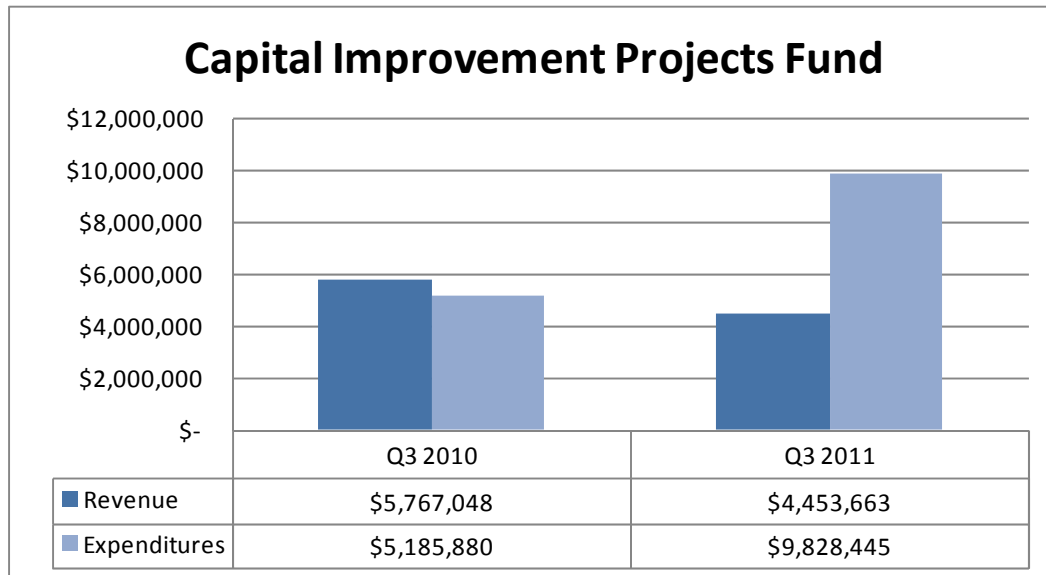


*January through September; the City receives money directly from Energy Outreach Colorado (EOC), a nonprofit corporation, and distributes it to low income residents in Arvada as assistance with costs related to energy.



Capital Improvement Fund

Revenues in the CIP Fund are down from 2010 primarily because there was a transfer of \$1,700,000 and \$2,000,000 from the Vehicle Replacement and Insurance Fund, respectively, in 2010. Transfers from the Parks Fund (park development fees), Lands Dedicated Fund and Conservation Trust Fund are up in 2011 by about \$2,483,000 due to the various parks projects that are underway in 2011.



Through September 2011, the largest CIP expenditures relate to the payment to CDOT for \$3.8M for the Wadsworth Grandview Grade Separation project. Expenditures have also been made for the Skate Park (\$1.2M), East Park (\$1M) and South Central Park (\$900K).

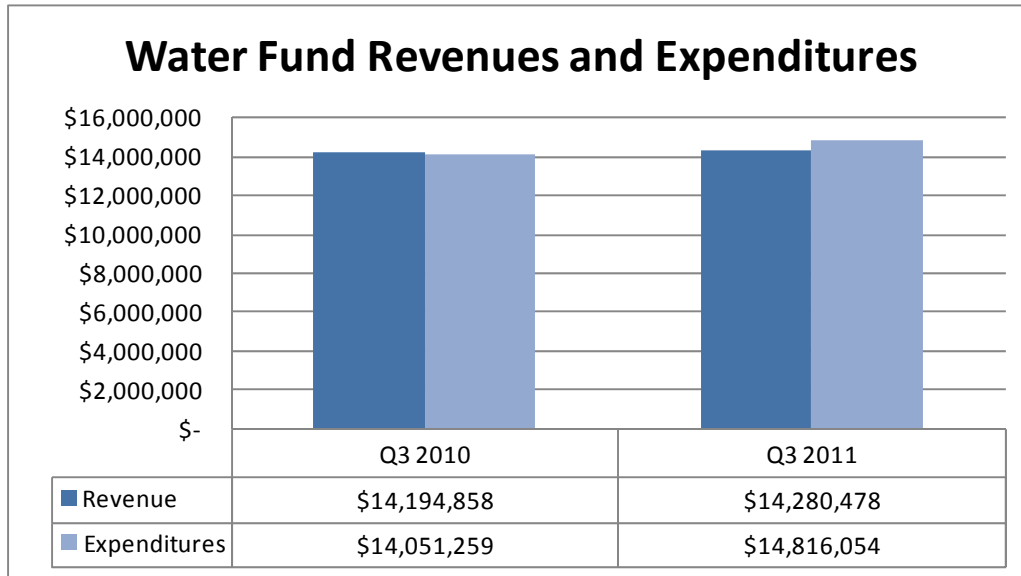
The CIP fund balance is currently reserved for the following projects:

Wadsworth Corridor	\$9,300,000
Garrison Street Park	\$5,147,000
Olde Town Station	\$608,000
CIP Park projects	\$10,605,000
CIP Traffic projects	\$8,523,000
CIP Street projects	\$8,202,000
CIP Arvada Center projects	\$308,000
Park Tap fees	\$174,000
Park Development fees	\$544,000
Excess fund balance, identified to spend	\$2,072,000
Total	\$45,483,000



Enterprise Funds – Water Fund

Total revenues for 2011 are slightly above 2010 revenues.



Tap fee revenue in 2011 is \$556,000 more than 2010. However, \$538,000 of the increase is due to water taps installed at Skyline, Saddlebrook, Spring Mesa and Whisper Creek parks. Therefore, if we exclude the tap fees from parks, tap fees are almost exactly the same as 2010.

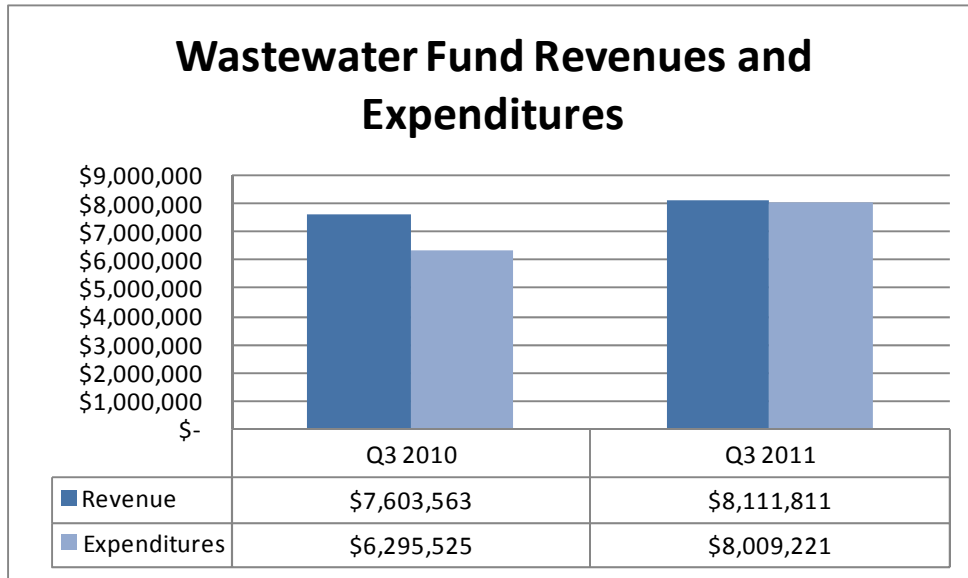
Water revenue is down from 2010 by about \$464,000 due to reduced consumption. Consumption in the third quarter 2011 was 1,878,179 compared to 2,101,654 in 2010. Year-to-date consumption in 2011 is 3,386,517 compared to 3,573,218 in 2010.

Total expenditures through September are about \$764,000 more than 2010.

Raw water charges are about \$200,000, or 8%, more than in 2010. Water main replacement expenditures are about \$700,000 more in 2011 than in 2010. Although water main replacement expenditures are budgeted at about \$3.5 million in each year, the expenditures in 2011 occurred earlier than in 2010.

Enterprise Funds – Wastewater Fund

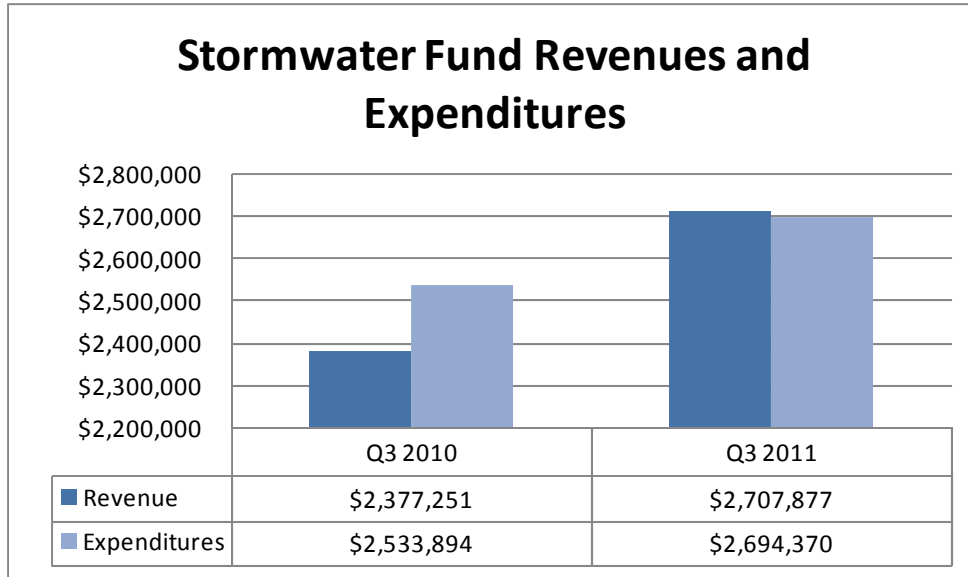
Wastewater revenues are about \$458,000 more in 2011 due to rate increases.



Expenditures in 2011 are about \$1.7M higher than in 2010. Of this increase, \$318,000 is due to payments to Metro Wastewater that are estimated to be about \$400,000 higher than in 2010. \$1.4M of the increase is due to the timing of the sewer main replacement program. Work on the replacement project started earlier in 2011 than in 2010. However, estimated project costs are about \$1.8 million in 2010 and 2011.

Enterprise Funds – Stormwater Fund

Revenues for 2011 are slightly more than 2010 revenues because of a grant that was received in September 2011 for \$200,000.



The increase in expenditures is due to capital expenditures for the Garrison Street bridge project that will be constructed in 2011/2012.

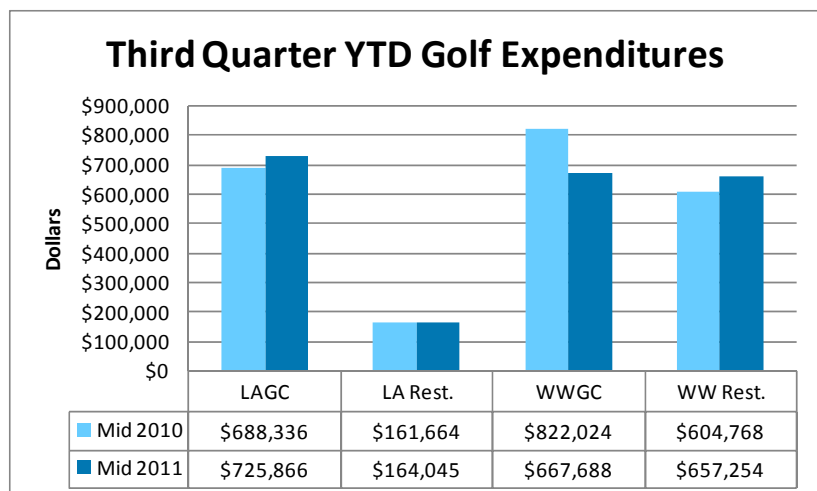
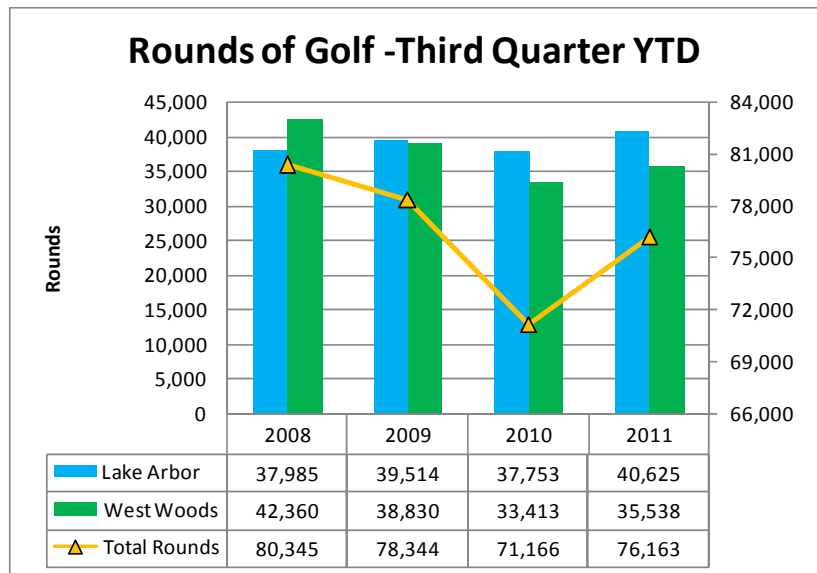
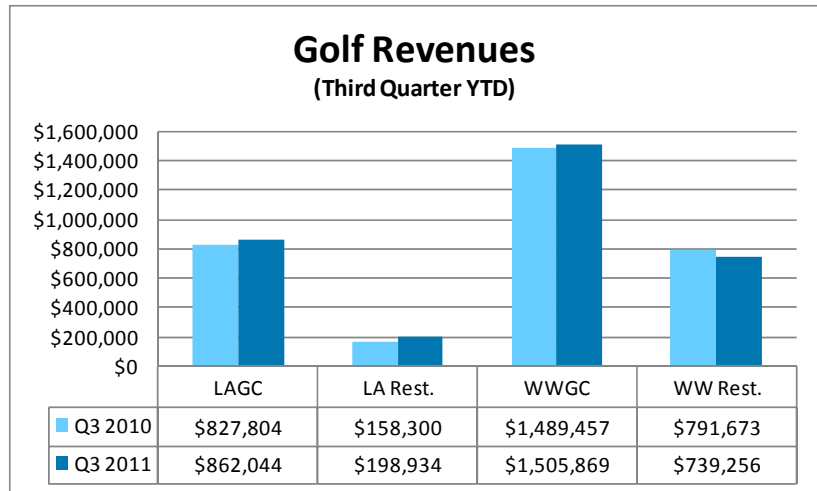
Unit Drainage Fund

The Unit Drainage Fund represents funds collected from developers for particular basin projects before the stormwater fee was implemented. Reserved funds represent unit drainage fees that were collected for a specific area. The unreserved funds represent interest earnings on the fund balance for the past 10 years. In 2012, we will use \$1,000,000 of the fund balance for the City's share of the IGA with Wheat Ridge and Urban Drainage and Flood Control District to build the Ridge Road Tributary in anticipation of the Gold Line. \$759,637 of the fund balance will be transferred to the Stormwater Fund as reimbursement to the Stormwater Fund for drainage projects that are complete and have benefited specific basins where the unit drainage fee was collected. The remaining fund balance represents funds that are designated to be spent in future years for specific basin areas.

	Reserved	Unreserved	
Description	Fund Balance	Fund Balance	Total
Drainage Fund Balance	\$976,130	\$980,811	\$1,956,942
Ridge Road Tributary	-\$418,831	-\$581,169	-\$1,000,000
Transfer to Stormwater	-\$359,995	-\$399,642	-\$759,637
Remaining Fund Balance	\$197,305	\$0	\$197,305

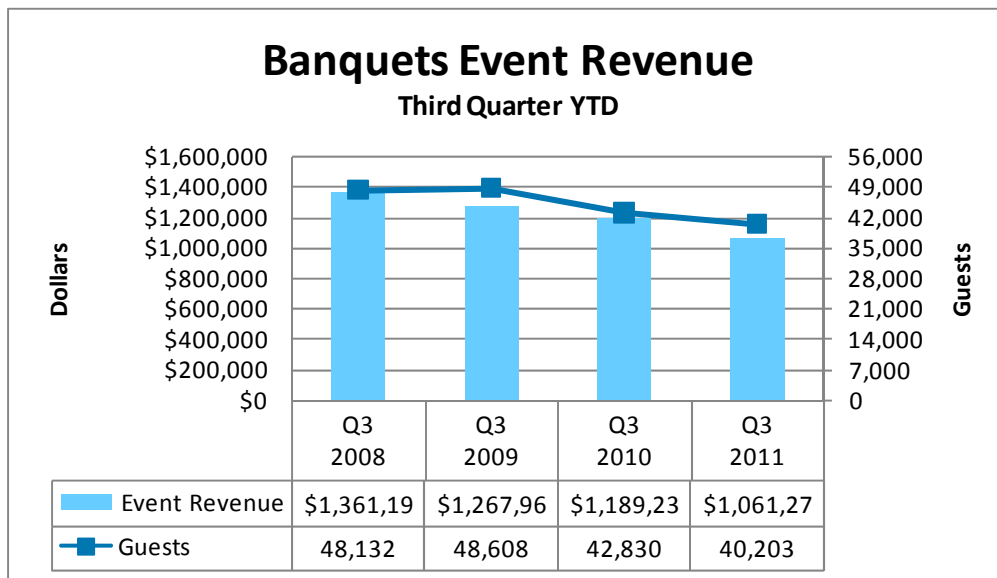
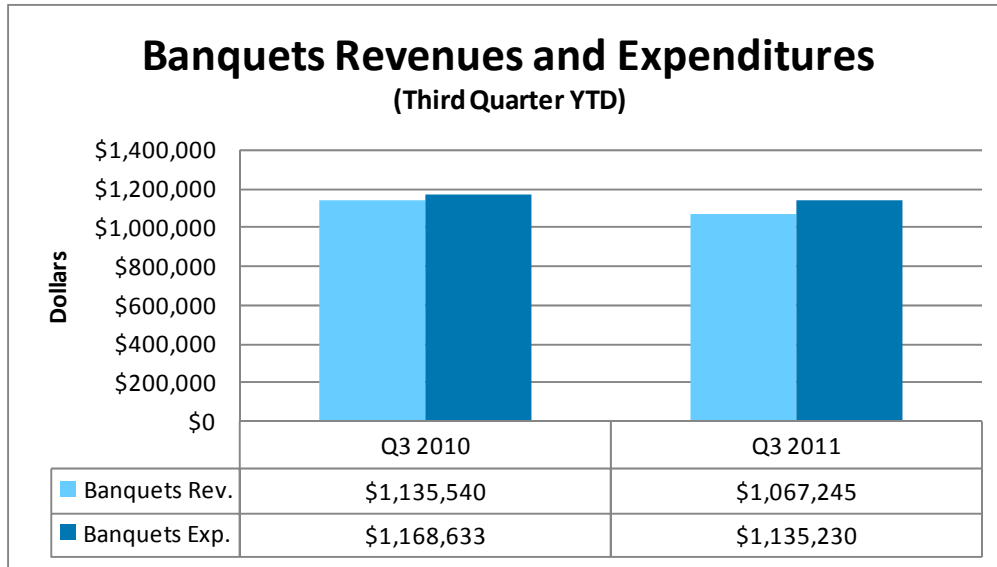
Golf Fund

Both courses continued to see year-over-year increases in rounds, with Lake Arbor up 7.6% and West Woods up 6.4%. In addition, in terms of rounds played, Lake Arbor continues to lead West Woods. As for the Fund as a whole, revenues are up over 2% and expenditures are down nearly 2%.

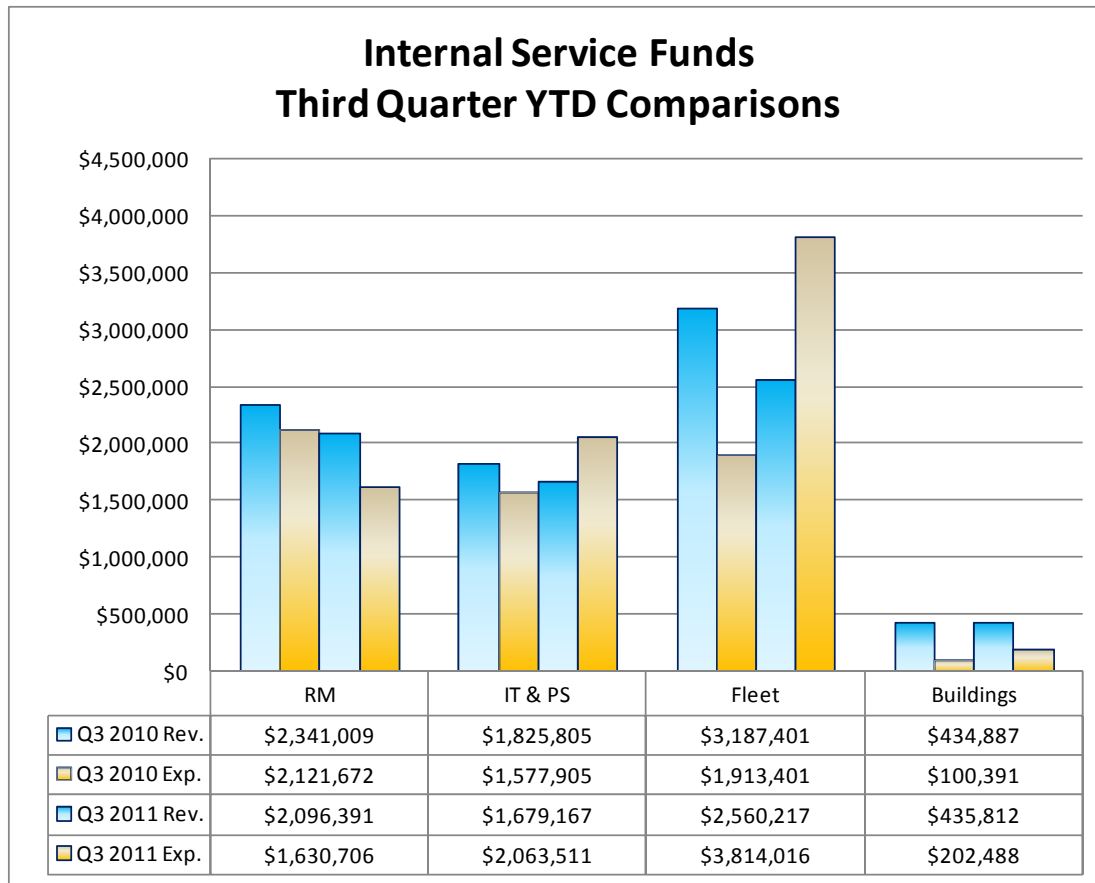


Hospitality Fund

Year over year, Banquets event attendance has slipped 6.1%, while revenue is down 10.8%. Of note, the golf courses' share of total guests is up from 14.7% to 15.6%, but share of revenue is down from 17.5% to 16.4%.



Internal Service Funds



Insurance Fund	Q3 2010	Q3 2011	Difference
Revenues			
Transfers	\$2,052,707	\$2,005,535	-\$47,172
Other	\$288,302	\$90,855	-\$197,447
Total Revenues	\$2,341,009	\$2,096,391	-\$244,619
Expenditures			
RM Admin.*	\$1,716,012	\$1,229,950	-\$486,062
Risk Mgmt	\$405,660	\$400,756	-\$4,904
Total Expenditures	\$2,121,672	\$1,630,706	-\$490,965

*Excludes \$2,000,000 transfer to Capital Projects made in January 2010

**Total premiums for 2011 decreased by \$944 under 2010 premiums.

Through three quarters, Risk Management (RM) has closed 224 claims for a total of \$453,510, implemented a new RM Information System, and begun the selection process for a new workers' comp third-party administrator (TPA) to replace Pinnacol, which no longer provides such administrative services. For the fourth quarter, RM is preparing to transfer workers' comp adjustment activities to the new TPA and additional claims payouts up to \$470,000.

Internal Service Funds

Info Technology/ Print Shop	Q3 2010	Q3 2011	Difference
Revenues			
Maintenance	\$766,077	\$719,250	-\$46,827
Replacement	\$839,331	\$724,143	-\$115,188
Print Shop	\$220,397	\$235,774	\$15,377
Total Revenues	\$1,825,805	\$1,679,167	-\$146,639
Expenditures			
Maintenance	\$966,329	\$392,197	-\$574,131
Replacement	\$396,089	\$1,475,766	\$1,079,677
Print Shop	\$215,488	\$195,547	-\$19,940
Total Expenditures	\$1,577,905	\$2,063,511	\$485,606
<p>Through three quarters, the Computers Fund has, among other things, completed network hardware and software replacement, increased server redundancy, and completed a replacement of the Sales Tax system. For the fourth quarter, 2010 Microsoft Office Suite upgrades, phone system hardware replacement, and air conditioning replacement for the computer room are planned.</p>			

Vehicles	Q3 2010	Q3 2011	Difference
Revenues			
Maintenance	\$1,594,125	\$1,573,640	-\$20,485
Replacement	\$1,593,275	\$986,576	-\$606,699
Total Revenues	\$3,187,401	\$2,560,217	-\$627,184
Expenditures			
Maintenance*	\$1,512,709	\$1,520,982	\$8,273
Replacement**	\$400,691	\$2,293,034	\$1,892,343
Total Expenditures	\$1,913,401	\$3,814,016	\$1,900,616
<p>*Excludes \$1,700,000 transfer to Capital Projects made in March 2010</p> <p>**Council approved \$1,325,359 in heavy vehicle purchases on January 3.</p>			
<p>Through three quarters, the Vehicles Fund has purchased four vehicles and 18 pieces of equipment. The purchases of another 17 vehicles will be completed in the fourth quarter, for a total of nearly \$3.4 million in replacement expenditures.</p>			

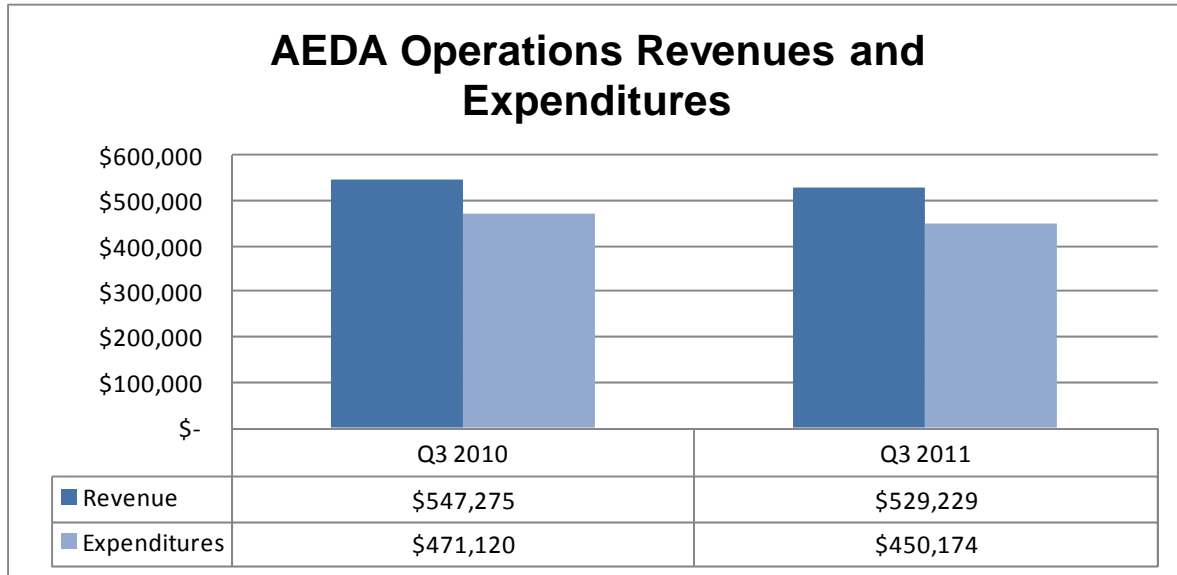
Internal Service Funds

Buildings	Q3 2010	Q3 2011	Difference
Revenues			
Transfers	\$305,513	\$305,513	\$0
Other	\$129,374	\$130,299	\$925
Total Revenues	\$434,887	\$435,812	\$925
Expenditures			
Maintenance	\$18,981	\$120,345	\$101,364
Capital Lease	\$81,410	\$82,143	\$733
Total Expenditures	\$100,391	\$202,488	\$102,097
<p>Through three quarters, the Buildings Fund completed HVAC replacements at City Hall, the Arvada Center, Central Stores, and West Woods, as well as pavement work at City Hall and the Arvada Center. Further preventative pavement work at City Hall and the Arvada Center will be completed in the fourth quarter, as well as roof replacements at the Arvada Center and Indiana Shops facility totaling over \$457,000.</p>			

AEDA Operations and Expenditures

Revenue in the AEDA Operations fund consists of a transfer from the General Fund.

Expenditures in 2011 are slightly lower than expenditures from 2010 due to lower salary costs. Actual expenditures are about 64% of budget.



Revenues in 2011 reflect \$500,000 of the \$1,500,000 transfer from the City of Arvada for the AEDA loan program.

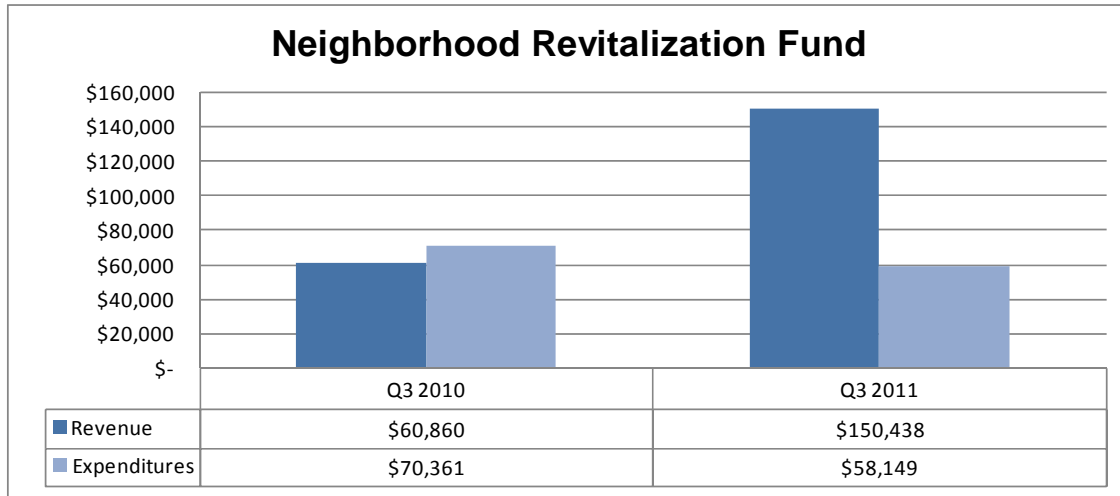
Expenditures in 2011 reflect loans to A.L. Davis Building, Arbor Village Shopping Center and contributions to the Arvada Business Directory and the Colorado Enterprise Fund for the Arvada Micro Loan Program.

AEDA Loan Program	Q3 2011
Beginning Cash Balance	\$ 655,691
Revenue	\$ 568,211
Expenditures	\$ (425,000)
Reserved for Revolving Loan Fund	\$ (200,000)
Reserved for Tenant Finish Fund	\$ (100,000)
Reserved for Small Business Grants	\$ (101,863)
Commitments	\$ (151,863)
Ending Cash Balance	\$ 245,176

Neighborhood Revitalization Fund

HISTORY

This fund was created in 2008 to help with active code enforcement and to clean up large code violation projects. The two main revenues sources are transfers from the General Ledger and repayment of liens from current or future property owners.



2011 Revenues are up over 2010 due to a transfer from the General Fund. This transfer was approved by council as part of the 2011-2012 budget process and will go towards increased neighborhood programs.

2011 Expenditures are down compared to 2010. The number of cleanups is comparable but there were some very large and expensive cleanups in the summer of 2010.

Investment Report

City of Arvada Investment Report Third Quarter 2011

Investment Portfolio Performance

For the period of January through September, 2011, the portfolio provides a yield of 1.060% following an annual yield of 1.146% for the year ending December 31, 2010. The benchmark yield for the City's portfolio, as established in the investment policy, is a weighted benchmark of allowable securities. For the first three quarters of 2011, the weighted benchmark return was .60%, constructed using the average of 2011 monthly returns. The table below shows a year-over-year comparison for the first three quarters of 2010 and 2011.

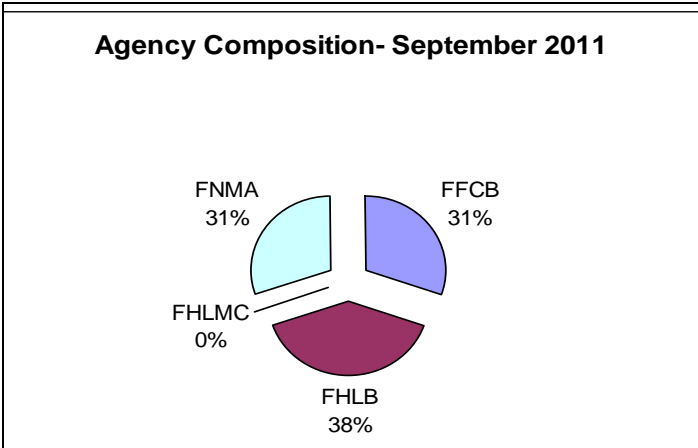
	SEPTEMBER 2010	SEPTEMBER 2011	DIFFERENCE
YTD Return	1.309	1.060	-25 basis points
YTD Benchmark Return	.61	.60	-1 basis points
Interest Booked YTD (All Funds)	\$1,844,199	\$1,763,450	-\$80,749

Portfolio Changes- 2011

The City's portfolio has increased \$5.549 million from December, 2010 to September, 2011. Changes in the portfolio from December 2010 to September, 2011 are shown in the chart below:

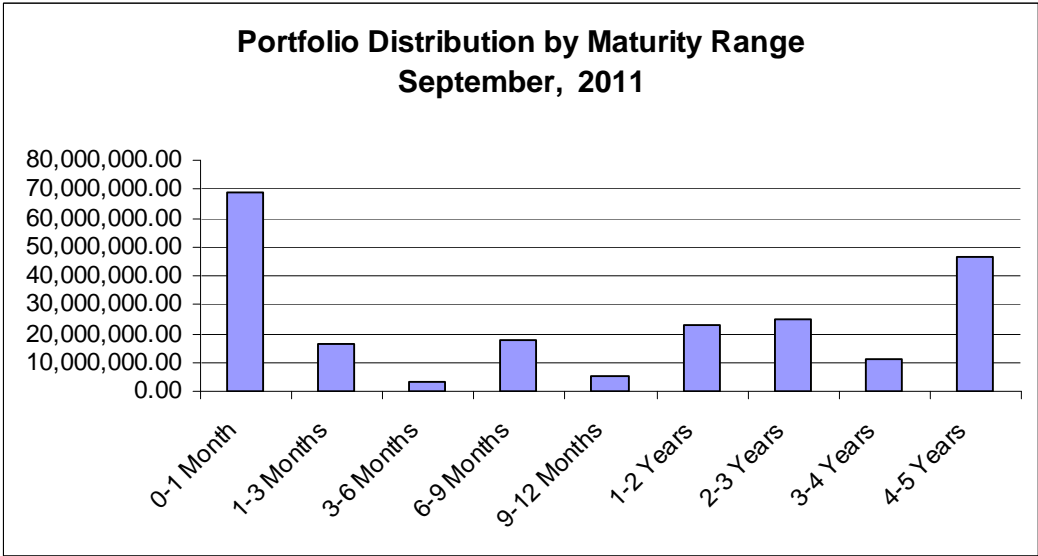
SECURITY SECTOR	JANUARY 1, 2011 BALANCE	% OF PORTFOLIO	SEPT 30, 2011 BALANCE	% OF PORTFOLIO	% OF CHANGE
High Yield Savings	\$17,084,994.27	8.13%	\$17,124,816.95	7.94%	+ .24%
Certificate of Deposit	9,097,316.63	4.33%	19,153,169.04	8.88%	+1.11%
Corporate	27,000,000.00	12.84%	26,000,000.00	12.05%	-3.71%
LGIP	62,042,876.51	29.51%	51,600,796.33	23.91%	-16.83%
US Agency	88,000,000.00	41.86%	94,895,000.00	43.97%	+7.84%
US Treasury	7,000,000.00	3.33%	7,000,000.00	3.25%	0.00%
Total	\$210,225,187.41		\$215,773,782.32		

US Agencies currently comprise 43.97% or \$94,895,000 of the portfolio, the agency composition as of September, 2011 is shown in the graph below:



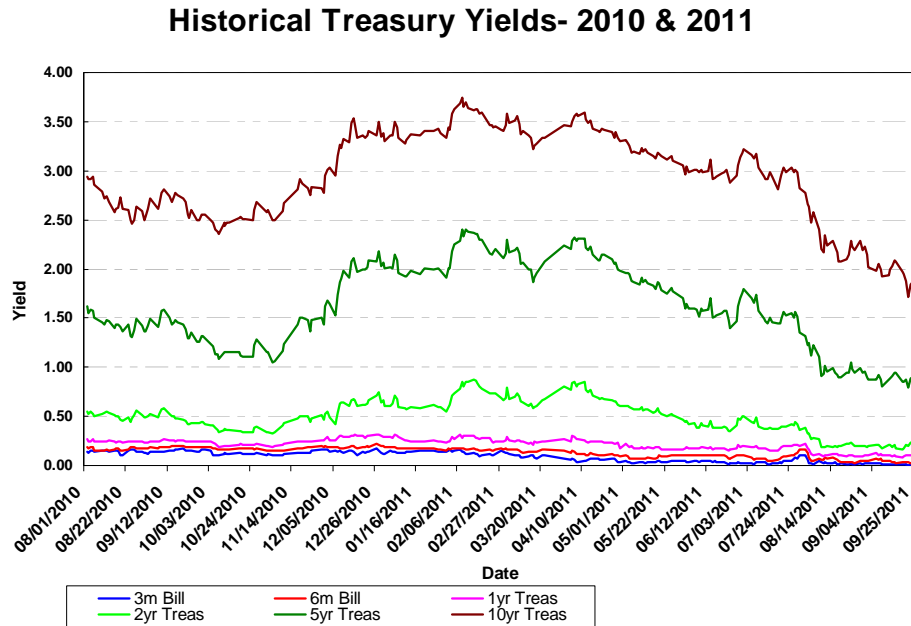
(FNMA= Fannie Mae, FFCB = Federal Farm Credit Bank, FHLMC= Freddie Mac, FHLB= Federal Home Loan Bank)

As of September 30, 2011, 51.87% of the City’s portfolio has a maturity range of one year or less which includes investments in Local Government Investment Pools, High Yield Savings accounts and Certificates of Deposit and some Corporate Bonds that will mature within the next year. Approximately 21% of the City’s investment portfolio is invested in the four to five year maturity range. These investments include both fixed rate and step up coupons with call lock-out periods ranging from three months to one year. Investing in these instruments allows the City a little higher yield (1.35 % to 2.09%) with a call lock period to reduce reinvestment risk during the period of no-call. Step up coupons are investments that yield a fixed rate and then periodically the yield increases throughout the life of the bond. These types of investments reduce the risk of holding very low yielding investments when interest rates increase. The maturity distribution as of September 30, 2011 is shown in the graph below:



Current Investment Environment

Treasury yields have decreased between 13bps to 63bps from September, 2010 to September, 2011 as shown in the graph below:



On August 5 Standard and Poor's (S&P) downgraded U.S. Government debt from "AAA" to "AA+". August 9 the Federal Open Market Committee (FOMC) announced that federal funds rates will remain between 0 and .25% through mid 2013. September 21 FOMC announces "Operation Twist" which extended the average maturity of the Federal portfolio. \$400 billion of treasuries in the 6 to 30 year maturity range will be purchased and the same amount of treasuries will be sold with a maturity range of 3 years and under by June, 2012, this will flatten the treasury curve on the longer end. Maturing mortgage debt will be reinvested in Agency Mortgage Backed Securities to support the mortgage market. These factors lead the decrease of treasury yields in August and September as shown in the chart above. How does this affect the City? During August and September the City's portfolio endured \$55 Million investment calls. These investment calls have been reinvested with lower yielding investments. We attempt to reinvest in investments that have a call lock out period of six months or more due to the current investment environment, which allows us to lock a yield and reduce reinvestment risk. The Local Government Investment Pools (LGIP) funds are yielding 8 bps. We have reduced balances in these accounts, however due to liquidity and safety, a balance is maintained in these pools. Our investment policy allows investment in Corporate Bonds with a credit rating of "AA" or better, there have been several recent Corporate rating down grades making it difficult to find Corporate Bonds that fit our investment policy.

This low rate environment is expected for the next few years and like other municipalities we will ride out the storm while investing in instruments that are safe and meet our liquidity needs.

The current investment policy was adopted in 2007, we are currently reviewing the policy for possible changes to reflect the current investment environment. Currently investments in Certificates of Deposit are permitted for a period not to exceed one year and are looking at increasing this period to allow the city to gain yield in this investment instrument. Investment in money market funds is permitted, however this is limited to 10% of the portfolio, we are looking at increasing this percentage which will provide the City more flexibility in the use of money market funds that may yield more than the Local Government Pools.