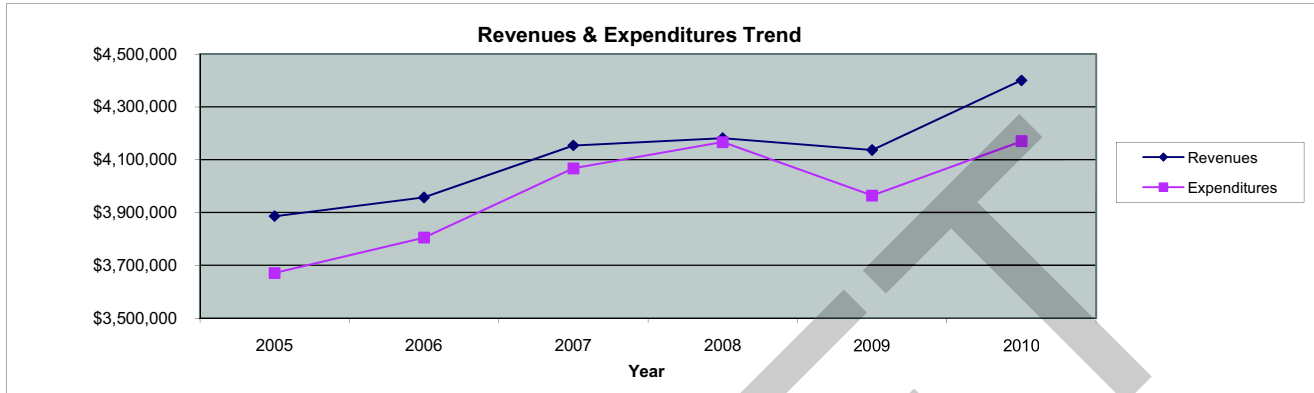


## City of Manitou Springs Financial Checkup

### INDICATOR #1: REVENUES & EXPENDITURES TREND ANALYSIS (R & E)

The R & E trend analysis provides an overview of total General Fund revenues and expenditures in order to determine if there are any trends that the City may need to consider to ensure on-going fiscal sustainability.



	2005	2006	2007	2008	2009	2010
<b>General Fund Revenues</b>	3,885,782	3,956,748	4,154,003	4,181,511	4,136,657	4,400,674
<b>General Fund Expenditures</b>	3,670,773	3,804,586	4,067,242	4,166,366	3,963,750	4,169,584
<b>Rev. % Increase (Decrease) from Prior Year</b>	3.6%	1.8%	5.0%	0.7%	-1.1%	6.4%
<b>Exp. % Increase (Decrease) from Prior Year</b>	3.4%	3.6%	6.9%	2.4%	-4.9%	5.2%

#### Findings:

The City's total General Fund revenues increased from 2005 to 2008, with the highest percent increase in 2007 at 5.0%. General Fund revenues declined in 2009 by 1.1%. The City's General Fund expenditures also increased from 2005 to 2008, with the highest percent increase in 2007 at 6.9%. General Fund expenditures decreased 4.9% in 2009. Considering the current economic environment, it is not unusual that General Fund revenues decreased in 2009. The City was able to decrease General Fund expenditures at a higher rate than the decrease in revenues. It should be noted, though, that from 2006 to 2008, the increase in General Fund expenditures outpaced the annual percentage increase in General Fund revenues. Note that operating transfers are not included in this analysis.

#### Recommendations:

It has been widely noted that the economic recovery will not happen quickly. In fact, we may experience additional downturns before we see things turnaround in a positive direction. The City has managed to react and control expenditures as a result of the economic slow down, which is illustrated by the decrease in expenditures of 4.9% from 2008 to 2009. We recommend that the City continually (i.e. monthly) analyze revenues and expenditures to determine if adjustments to forecasts need to be made.

The City may also want to consider preparing long-term (e.g. 5 year) projections of General Fund cash inflows and outflows to determine the City's operating capacity for future years, in an effort to effectively manage expenditures amidst the slow economy. Such long-term projections will provide the City with a tool to recognize long-term issues that may require a strategic approach (e.g. should increases in sales tax or ad valorem property tax rates be considered) and action in the near future to secure long-term sustainability.

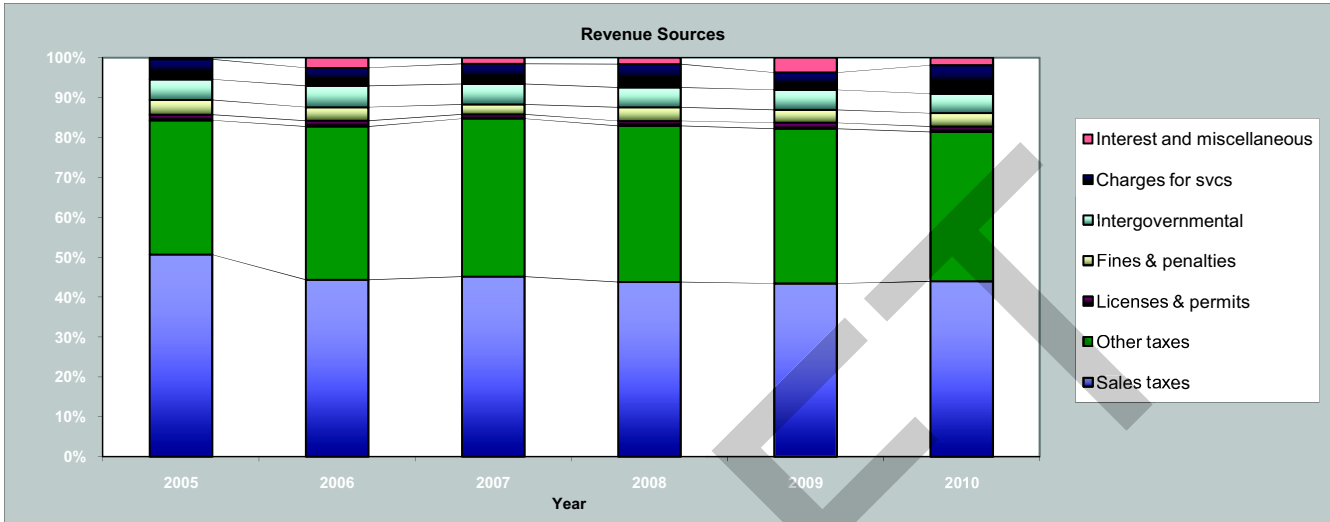
#### 2010 Update:

General Fund revenues increased 6.4% in 2010, which outpaced the 5.2% increase in corresponding expenditures. This is a positive turnaround compared to 2009.

## City of Manitou Springs Financial Checkup

### INDICATOR #2: REVENUE SOURCES ANALYSIS (RSA)

The RSA provides an analysis of General Fund revenue sources to determine if there are emerging trends and/or changes in revenue sources that the City should consider.



General Fund Revenues:	2005		2006		2007		2008		2009		2010	
Sales and use taxes	\$1,968,487	50.7%	\$1,755,571	44.4%	\$1,876,303	45.2%	\$1,831,458	43.8%	\$1,796,420	43.4%	\$1,935,018	44.0%
Other taxes (1)	1,307,686	33.7%	1,518,520	38.4%	1,643,874	39.6%	1,635,994	39.1%	1,603,225	38.8%	1,647,136	37.4%
Licenses and permits	55,049	1.4%	58,300	1.5%	44,380	1.1%	51,705	1.2%	62,992	1.5%	60,519	1.4%
Fines and forfeitures	143,654	3.7%	133,922	3.4%	102,641	2.5%	143,427	3.4%	132,878	3.2%	146,386	3.3%
Intergovernmental	200,939	5.2%	212,038	5.4%	213,924	5.1%	206,534	4.9%	208,126	5.0%	214,680	4.9%
Charges for services	194,359	5.0%	178,285	4.5%	209,824	5.1%	246,550	5.9%	179,838	4.3%	314,634	7.1%
Interest and miscellaneous	15,608	0.4%	100,112	2.5%	63,057	1.5%	65,843	1.6%	153,178	3.7%	82,301	1.9%
Total	\$3,885,782	100%	\$3,956,748	100%	\$4,154,003	100%	\$4,181,511	100%	\$4,136,657	100%	\$4,400,674	100%

(1) Other taxes include property taxes, specific ownership taxes, franchise and other taxes

#### Findings:

The City's General Fund revenues are primarily from tax revenues (83.4% on average for the last five years). Other sources of General Fund revenues include: (i) intergovernmental revenue (5.1% on average), (ii) charges for services (5.0% on average), (iii) fines and forfeitures (3.2% on average), (iv) licenses and permits (1.3% on average), and (v) interest and miscellaneous income. The City's total General Fund tax revenues have remained fairly consistent over the past five years, ranging between \$3.2 million and \$3.5 million. The City's intergovernmental revenues have remained consistent as well, indicating that the City's dependence on external revenues did not grow as related to general government operations. Total revenues increased on average by 2.5% from 2006 to 2008 and decreased by 1.1% in 2009. Considering the economic environment over the past five years, the City's General Fund revenues have been trending as expected.

#### Recommendations:

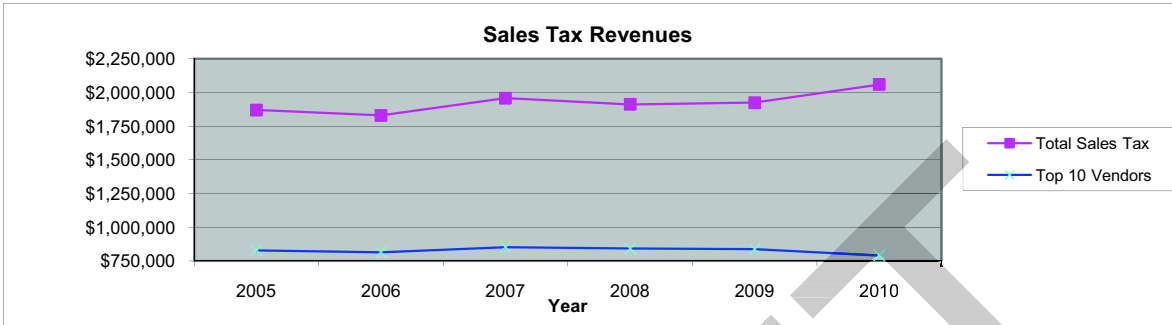
The City should review each source of revenue and determine what factors are within their control, so it can develop strategies that will continue to drive revenues. As illustrated above, the City's primary source of revenue is generated from taxes, and more specifically from sales tax. We encourage the City to actively and regularly review sales tax remittances to ensure that all sales tax revenues are being calculated correctly and remitted by retailers. Also, monitoring collections and comparing to historical trends will assist in identifying possible collection issues which could impact the timing of cash flows for the General Fund.

#### 2010 Update:

The composition of the City's General Fund revenues in 2010 is consistent with the previous five-year averages.

## City of Manitou Springs Financial Checkup INDICATOR #3: SALES TAX REVENUES ANALYSIS (STRA)

The STRA provides an overview of total sales tax revenues as well as sales tax revenues collected by the City's top ten vendors to ascertain if there are trends and/or revenue dependency issues that the City should consider.



### Findings:

As highlighted in Indicator #2 - RSA, the City relies heavily on sales tax revenue (e.g., sales taxes represented 43% of total General Fund revenues in 2009). The above STRA analysis shows that the City's dependency on top ten vendors for sales tax revenues has been consistent over the last five years - 44% of total sales tax revenue on average and 43% in 2009.

### Recommendations:

As noted in Indicator #2 - sales taxes are the City's main source of General Fund revenues, and one of the most susceptible to changes in the economy. With the economy entering into a "new normal" where it is expected that sales tax revenues will continue to decline over the long-term (e.g., the baby boomer population is expected to reduce their previous spending levels and also spend more on services vs. goods), it will be very important for the City to thoroughly understand how these factors may impact long-term sales tax revenue projections. Furthermore, we recommend that the City performs a regular analysis of sales tax remittances to identify discrepancies and, if needed, coordinate a compliance review with the State to recoup revenues and to ensure that the City is receiving all sales tax revenues it is entitled to receive. Since there is a heavy reliance on the sales tax revenue generated by the City's top ten vendors, it is critical for the City to assist these top ten vendors to maintain the revenue stream (e.g. ensuring that capital infrastructure needs by these businesses are installed, replaced, and maintained). In addition to control and review processes that may already be in place within the City's Finance Department, the City may want to consider regularly scheduled audits of certain vendors to uncover and identify any abnormalities, recoup possible shortfalls in tax remittances, and encourage an environment of compliance among all vendors in the City. Also, the City may consider offering incentives, such as sales tax share back and/or waiver of use tax/building fees, to new businesses to promote growth moving forward.

Since there is a heavy reliance on the sales tax revenue generated by the City's top ten vendors, it is critical for the City to consider what measures and/or continued actions should be taken to ensure that its top ten vendors continue to conduct business and experience on-going retail success. Periodic meetings with these businesses (e.g., expressing appreciation that they are located in the City) and ensuring that capital infrastructure replacement plans are given attention/priority that will keep the primary sales tax generating areas in optimal condition are two areas that the City may want to consider.

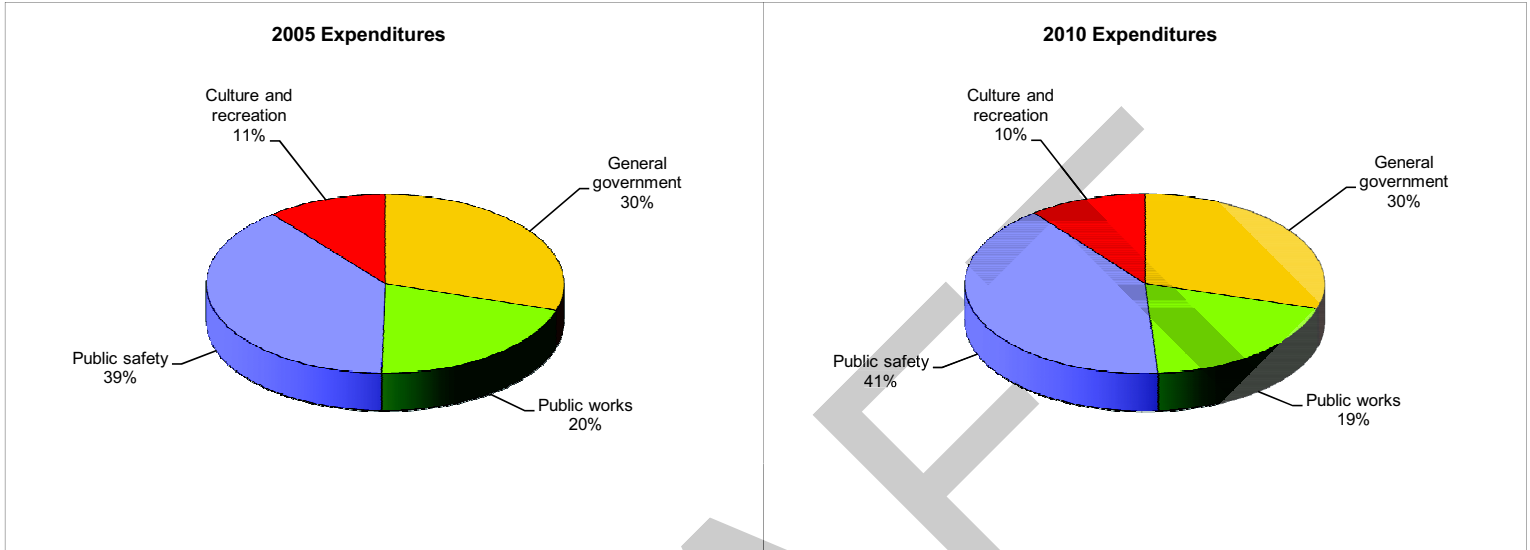
### 2010 Update:

The City's reliance on the top 10 vendors was 38% in 2010, compared to 43% in 2009. Although the reliance decreased, total sales tax revenues increased 7%, which is a positive sign for the City in this down economy.

## City of Manitou Springs Financial Checkup

### INDICATOR #4: EXPENDITURES ANALYSIS (EA)

The EA provides an analysis of total General Fund spending by function to determine if there are emerging trends and/or patterns that the City should consider in order to focus on cost-control strategies.



#### General Fund Expenditures:

	2005		2006		2007		2008		2009		2010	
General government	\$1,093,623	29.8%	\$1,203,666	31.6%	\$1,218,577	30.0%	\$1,302,003	31.3%	\$1,182,790	29.8%	\$1,230,415	29.5%
Public works	752,836	20.5%	796,193	20.9%	785,454	19.3%	791,855	19.0%	730,210	18.4%	806,087	19.3%
Public safety	1,427,767	38.9%	1,413,350	37.1%	1,633,023	40.2%	1,620,711	38.9%	1,596,283	40.3%	1,694,147	40.6%
Culture and recreation	396,547	10.8%	391,377	10.3%	430,188	10.6%	451,797	10.8%	454,467	11.5%	438,935	10.5%
<b>Total</b>	<b>\$3,670,773</b>	<b>100%</b>	<b>\$3,804,586</b>	<b>100%</b>	<b>\$4,067,242</b>	<b>100%</b>	<b>\$4,166,366</b>	<b>100%</b>	<b>\$3,963,750</b>	<b>100%</b>	<b>\$4,169,584</b>	<b>100%</b>

#### Findings:

From 2005 through 2009, the City's General Fund expenditures were comprised, on average, of the following functions: (i) 30% on general government (administration, community services, economic development, municipal court, etc.), (ii) 20% on public works (highways and streets), (iii) 39% on public safety (police and fire), and (iv) 11% on culture and recreation (parks and library).

#### Recommendations:

The City should strategically analyze its current expenditure practices (by function) within the General Fund to determine what the priorities are for both the short- and long-term. Taking this analysis and measuring it against current spending levels will enable the City to establish and identify whether certain spending levels should be decreased within specific categories or whether more funds should be directed towards other areas. Strategic budget planning, along with the guidance of long-term projections, will more readily equip the City to determine what cost containments and/or reserves may be necessary to meet its long-term goals and achieve fiscal sustainability.

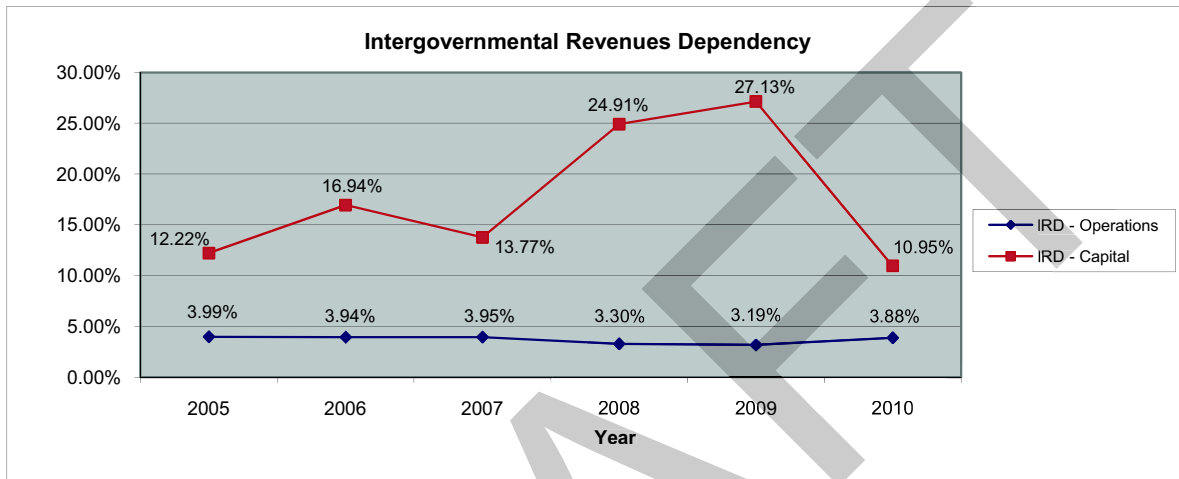
#### 2010 Update:

The composition of the City's General Fund expenditures in 2010 is consistent with the previous five-year averages.

# City of Manitou Springs Financial Checkup

## INDICATOR #5: INTERGOVERNMENTAL REVENUES DEPENDENCY (IRD) (Governmental Funds)

The IRD provides percentage trend information reflecting the City's reliance on revenues received from other governmental entities (i.e., grants). Percentage increases over time may indicate a greater risk assumed by the City due to increased dependence on external revenues.



### Findings:

The City received various grants and contributions from 2005 to 2009 (i.e. Federal Transportation Enhancement Grant from the Colorado Department of Transportation and Pikes Peak Rural Transportation Authority, Grants for the Manitou Avenue Revitalization Project, Community Development Block Grant for an economic study of an underutilized region of the City, FEMA grants for a fire protection robot). Since 2005, the IRD-Capital has nearly doubled as a result of receiving these grants and contributions. The Manitou Avenue Revitalization Project, a multi-phased project spanning from 2004 to 2010, has played a major role in this growth. The City applied for and received grants to assist with the expansive project, covering streetscape improvement and pedestrian enhancement of the City's downtown business district. The City should be commended for the grants it has been awarded over this period, yet should be cautious on single-purpose revenue sources.

If comparing this information with the findings from Indicator #2 (RSA), it corroborates the fact that the majority of this growing dependence is related to capital projects. The City's dependence on external revenues did not show significant growth in the General Fund for 2005 to 2009. Therefore, the City is not increasing its dependence on external revenues to cover day-to-day operations. This is evidenced by the steady IRD-Operations of 3.19-3.99% for the period presented above.

### Recommendations:

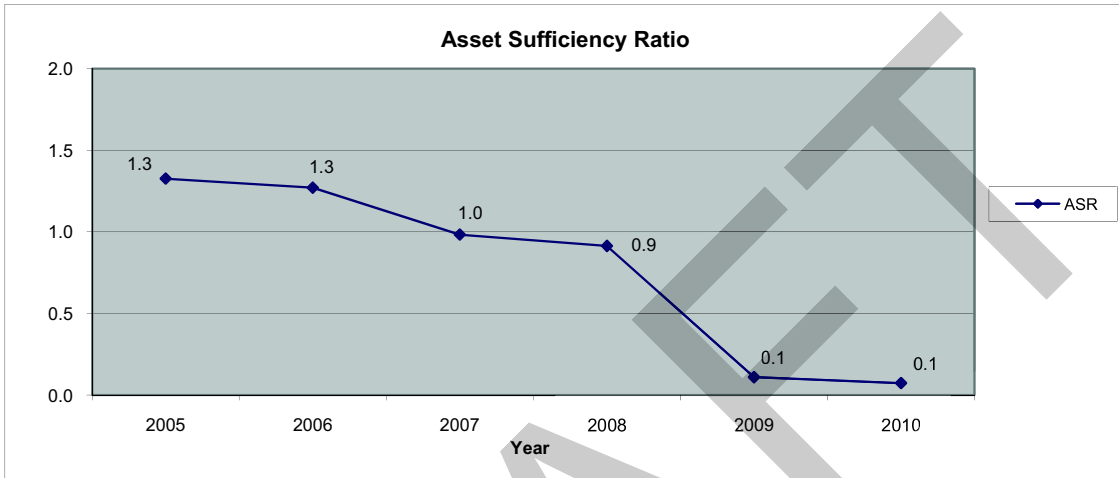
The City should continue to apply for grants and in fact, seek out additional sources of grants that may be available to them. As the City is well aware, grants are offered on a selective basis and contingent upon the financial position of the governmental entity offering them. We recommend that the City, without reducing its current efforts in obtaining grants, incorporate into its long-term projections the level of grant funding needed to support future capital projects and prepare a contingency plan should the funds not be available.

### 2010 Update:

The City's IRD-Operations in 2010 remained steady and fell within the range of the previous five years; thus, not increasing its dependence on external revenues. The City's IRD-Capital dropped to 10.95%, which is relatively consistent with years 2005-2007.

**City of Manitou Springs**  
**Financial Checkup**  
**INDICATOR #6: ASSET SUFFICIENCY RATIO (ASR)**  
**(General Fund only)**

The ASR identifies whether the City's total unrestricted cash and investments are adequate to cover its current obligations or amounts owed. Percentage decreases over time may indicate that the City has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.



**Findings:**

From 2005 to 2009, the City has experienced a steady decline in ASR. This trend, which was below 1.0 in 2008 and 2009, indicates that the City may not have enough cash on hand to fulfill its current obligations at a given time. For example, at year end in 2009, the City had \$0.10 cash available for every \$1.00 payable. Note that the above ASRs only represent the General Fund, and that the impacts of grants received are not captured in this analysis.

**Recommendations:**

Because of the steady decline portrayed above, we recommend the City prepare monthly cash flows for the next 12 to 24 months to understand the timing of cash flows and corresponding cash needs. Understanding what has contributed to this downward trend is essential to determine how to maintain sufficient cash to fund current obligations, as well as accumulate excess cash to be readily available to fund projects. Further, once the City has established a sufficient cash balance, the City may want to consider carrying its excess cash in the Colotrust account or other similar investment instruments to maximize investment earnings. A policy goal that states "at least X% of all idle cash will be continuously invested" may help the City regularly evaluate its investment position, without compromising liquidity needs.

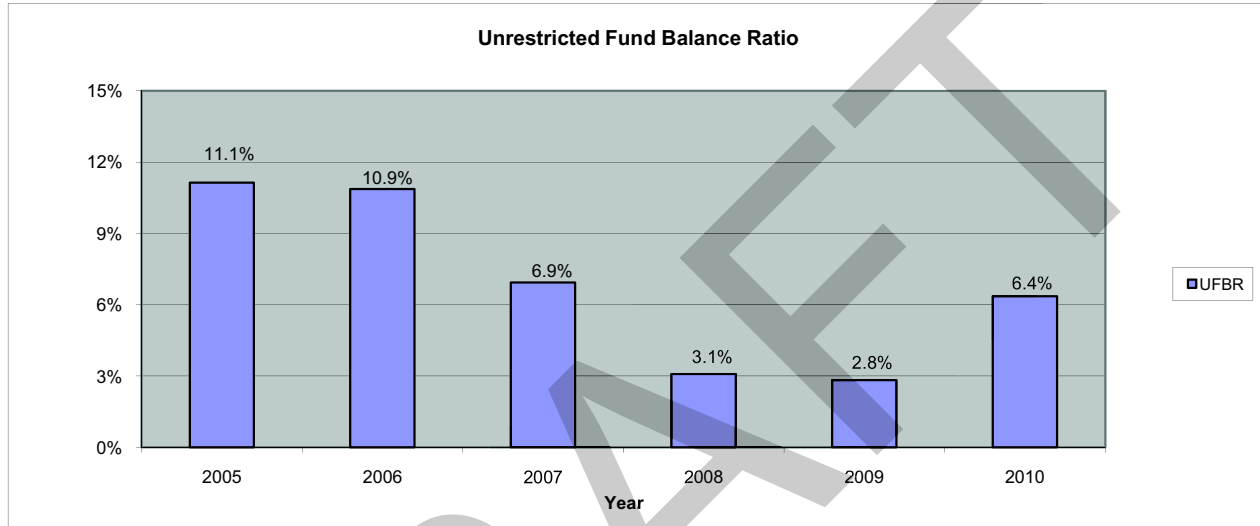
**2010 Update:**

The City is in a similar position as it was at the end of 2009, where the City had approximately \$0.10 unrestricted cash available for every \$1.00 payable. This further verifies the importance of considering the recommendations noted above.

## City of Manitou Springs Financial Checkup

### INDICATOR #7: UNRESTRICTED FUND BALANCE RATIO (UFBR)

The UFBR demonstrates the City's ability to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. The Government Finance Officers Association recommends, at a minimum, that general-purpose governments, regardless of size, maintain an unrestricted fund balance in their General Fund of no less than 2 months or 17% of regular General Fund operating revenues or General Fund operating expenditures. Percentage decreases over time may indicate the City's inability to handle unforeseen risks (e.g., downturn in economy).



#### Findings:

The City's UFBR steadily decreased from 2005 to 2009. In none of these years did the city maintain the recommended 17% of General Fund operating revenues or expenditures. A lower UFBR demonstrates a government's inability to face current and future financial emergencies. For example, in 2009 the City's UFBR dropped to 2.8%, indicating that the City only had enough unrestricted funds on hand to cover the next 10 days of operations in the General Fund.

#### Recommendations:

This declining trend may indicate that the City may not have the necessary resources to sustain prolonged economic downturns or unforeseen events. The City should focus on rebuilding its unrestricted fund balance as it is an essential component of becoming a fiscally-solvent entity. A short-term and long-term approach is necessary. For instance, the short-term addresses the immediate near future (i.e. subsequent year's budget process), and we recommend the City work towards accumulating additional unrestricted fund balance as part of its budget initiative. The long-term approach would include developing a strategic plan that will result in the accumulation of unrestricted fund balance by incorporating strategic long-term projections.

We recommend the City establish an unrestricted fund balance policy, which will set minimum and maximum levels of accumulated unrestricted fund balance and will help guide the City throughout the budgeting process. As part of the policy, the City may establish guidelines for building unrestricted fund balance, appropriate uses of unrestricted fund balance, and in future years, establish additional reserves should the maximum unrestricted fund balance level be exceeded. It should be recognized that many local governments are adopting policies that are consistent with GFAO's recommendation noted above.

#### 2010 Update:

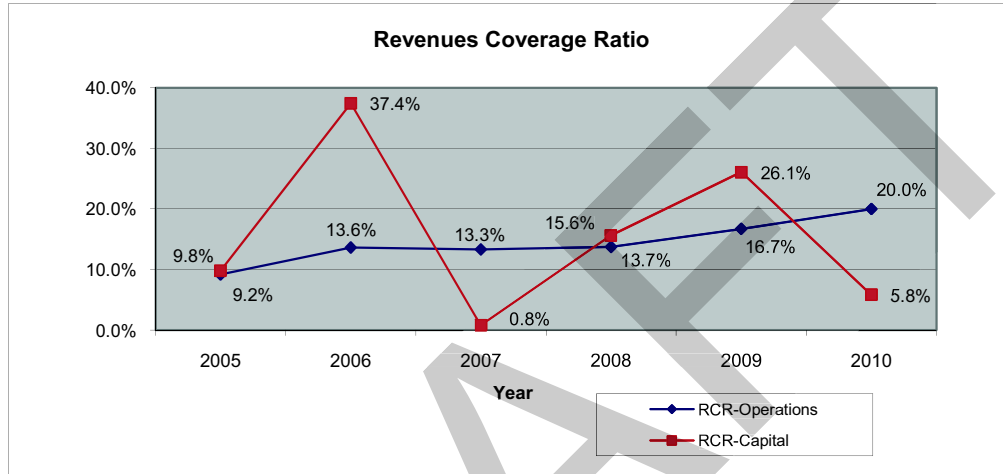
The City's UFBR increased from 2009 to 2010. This is a positive step towards accumulating an unrestricted fund balance to a level at which the City is comfortable maintaining to manage unforeseen risks.

# City of Manitou Springs Financial Checkup

## INDICATOR #8: REVENUES COVERAGE RATIO (RCR)

(Governmental Activities)

The RCR demonstrates the City's abilities to cover governmental activities' expenses with related program revenues and its reliance on general revenues to subsidize certain function/program expenses. As coverage declines, the burden on general revenues to support these services increases. Since the typical municipal accounting system does not employ cost-accounting techniques, it is easy for inflation and/or other factors to erode revenue coverage without being noticed.



### Findings:

The City's RCR-Capital for the last five years shows a peak of 37% in 2006, then a sharp decline in 2007 followed by an increase in both 2008 and 2009. These fluctuations to RCR-Capital are primarily the result of grants received by the City. For instance, RCR-Capital increases/decreases based on the amount of grants received. RCR-Operations, on the other hand, maintained steady from 2005 to 2009, with an overall increase of 7.5%. It should be acknowledged that a majority of the City's governmental activities expenses will be offset by general revenues (i.e. sales and use taxes, property taxes, other taxes, and investment income) versus related program revenues (i.e. charges for services).

### Recommendations:

The City should periodically undertake a study of all of its charges for services in order to determine whether increases for these charges for services are necessary. Factoring such things as future capital improvements/replacement will help the City determine whether the charges are sufficient to fund operations and support future projects. The City may want to establish a benchmark or desired level of coverage in order to have the right balance between program revenues offsetting costs and general revenues offsetting costs. This will be important as the City deals with fluctuating revenues associated with receiving grants and will allow the City to better monitor accumulation of additional funds in an effort to build an unrestricted fund balance and/or essential reserves.

### 2010 Update:

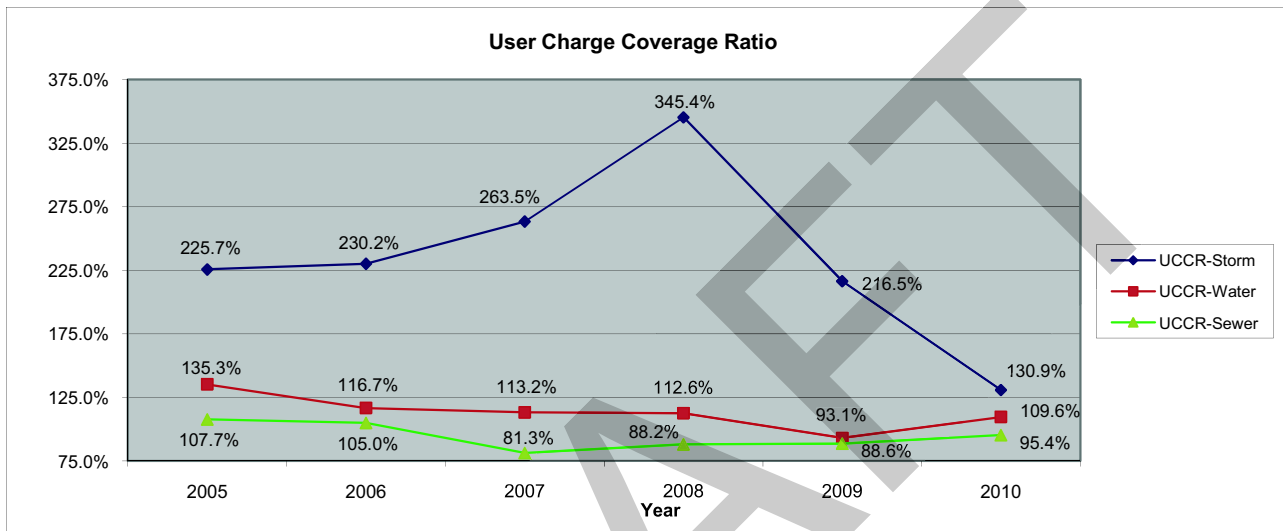
The City's RCR-Operations increased to 20.0% in 2010, which is in line with the previous five-year trend. The City's RCR-Capital decreased in 2010, which is consistent with the decrease in grants received compared to 2009.



## City of Manitou Springs Financial Checkup

### INDICATOR #9: USER CHARGE COVERAGE RATIO (UCCR) (Proprietary Funds)

The UCCR demonstrates the City's abilities to cover business-type activities' expenses with related program revenues and its reliance on general revenues to subsidize certain function/program expenses. As user charge coverage declines, the burden on general revenues to support these services increases. Since many municipal accounting systems do not employ cost-accounting techniques, it is easy for inflation and/or other factors to erode user charge coverage without being readily detected.



#### Findings:

A UCCR greater than 100% indicates that the City collected sufficient fees to cover costs associated with providing water, sewer and storm drainage services. From 2005 to 2009, the UCCR-Water steadily decreased, falling below 100% to 93.1% in 2009. Similarly, the UCCR-Sewer decreased and has been below 100% since 2007. UCCR-Storm Drainage continually experienced revenues over double the cost of expenses, which consistently indicates that the associated user fees are sufficient to fund the related operating costs. While there seems to be a downward trend overall in the City's UCCR over the past five years, the City has collected capital grants and contributions not included in this analysis. The City recorded a total of \$675,061 in capital grants and contributions in 2006, \$294,665 in 2007, \$30,165 in 2008 and \$1,004,397 in 2009.

#### Recommendations:

As the City's capital assets related to utility services (i.e. storm drainage, water, and sewer) continue to depreciate and age, it will be imperative for the City to analyze its capital replacement needs to determine what future funding capacity will be needed in order to construct and replace infrastructure. In this regard, the City should be commended for its efforts on receiving capital grants and contributions as noted above. In the event future grants are not received to offset capital replacement costs, a long-term analysis will be able to determine what cash may be available (based on unspent, cumulative user charges) and better assist the City in determining whether increases to users' rates should be imposed in the upcoming years in order to accumulate a certain amount of capital replacement reserves.

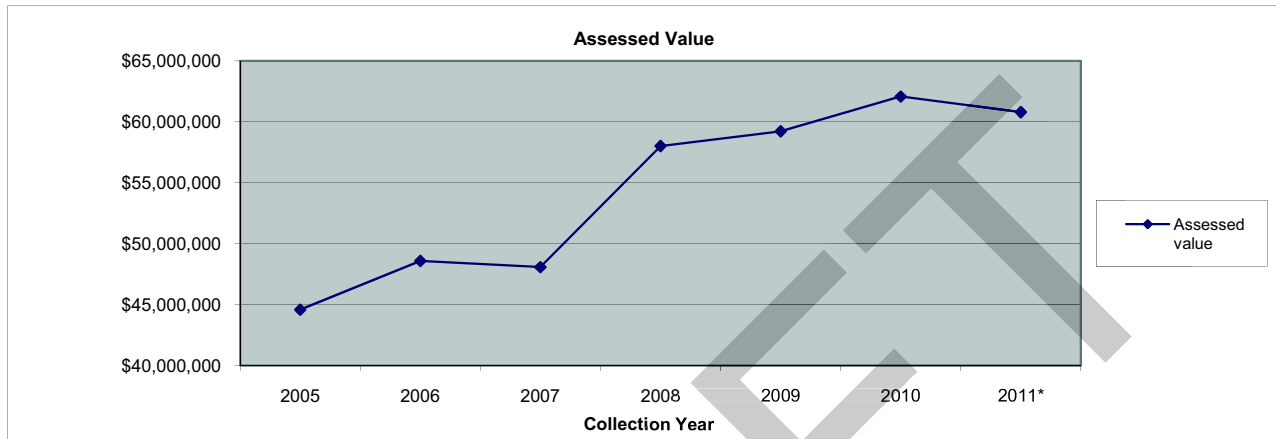
#### 2010 Update:

UCCR-Water and UCCR-Sewer increased to 109.6% and 95.4%, respectively, in 2010. These ratios are relatively consistent with the previous years presented. UCCR-Storm decreased from 216.5% to 130.9%. This was the second straight year for a significant decrease, and although a UCCR of 130.9% is favorable, this volatility should be evaluated in detail.

## City of Manitou Springs Financial Checkup

### INDICATOR #10: ASSESSED VALUE ANALYSIS (AVA)

The AVA indicates trends in the City's property values. A decline in property values will result in less revenues collected by the City (i.e., both property taxes as well as other revenue sources that are computed as a percentage of assessed value). Whether or not a government relies heavily on property tax revenues, property value provides a useful sign of the health of the local economy.



	2005	2006	2007	2008	2009	2010	2011*
Residential	27,703,470	30,677,290	30,290,560	36,969,930	38,280,870	40,372,440	39,506,790
Commercial	11,988,620	12,287,150	12,492,530	14,454,520	14,508,610	15,102,050	15,058,860
Vacant Land	1,859,850	2,535,920	2,356,710	3,081,020	2,841,870	2,788,900	2,469,890
State Assessed	2,860,930	2,833,510	2,698,600	3,241,620	3,334,590	3,546,840	3,524,320
Agricultural	28,210	7,280	12,100	7,410	7,410	6,670	6,680
Industrial	140,970	239,490	219,760	262,050	251,230	251,130	227,570
<b>Total AV</b>	<b>44,582,050</b>	<b>48,580,640</b>	<b>48,070,260</b>	<b>58,016,550</b>	<b>59,224,580</b>	<b>62,068,030</b>	<b>60,794,110</b>

\* 2011 figures are based on the May 2011 preliminary assessed valuation

#### Findings:

Overall, the City's AVA increased \$16.2m (or 36%) from 2005 to 2011. It should be noted, however, that the AV is projected to decrease from 2010 to 2011 based on the preliminary assessed valuation released in May 2011. The anticipated decrease is \$1.2m (or 2%).

#### Recommendations:

The City should continue to monitor this indicator due to the current market trends, as there may be additional risk of declining assessed values. The City depends on property tax revenues (approximately 18% of total General Fund revenues from 2005 to 2009) to help cover the City's on-going operational costs. It is necessary for the City to plan for a potential decrease in assessed value and corresponding tax revenues generated from an unchanged mill levy. The City should analyze the impact of such reduction on its ability to provide the same level of services to its residents.

In addition to the short-term impact of changes in assessed value as discussed above, the City should incorporate these assumptions into its long-term projections to illustrate the potential extended impacts of such changes in assessed value. Finally, the City may also want to consider performing a lot-by-lot analysis to ensure all properties are included in the City's tax base. This analysis may help the City in its efforts to collect all revenues it is entitled to receive.

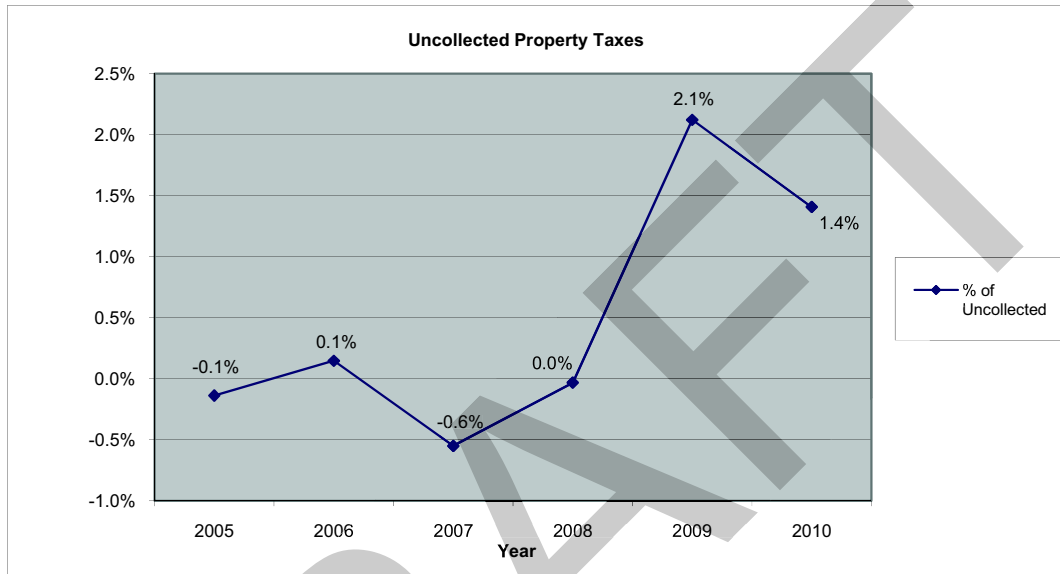
#### 2010 Update:

The August 2011 preliminary assessed valuation has been released, and it states the City's total AV is \$60,632,140, which is a marginal decrease from the May 2011 preliminary figure presented above.

## City of Manitou Springs Financial Checkup

### INDICATOR #11: UNCOLLECTED PROPERTY TAXES RATIO (UPTR)

The UPTR illustrates the percentage trend of uncollected property taxes. Percentage increases over time may indicate overall decline in the City's economic health. Additionally, as uncollected property taxes rise, the City's liquidity is decreased, resulting in less cash on hand to pay current obligations and/or in the City's opportunity to invest.



#### Findings:

The City's UPTR was minimal from 2005 to 2008, which reflects the City's success in being able to collect nearly all of the property taxes it levies. The UPTR increased in 2009 to 2.1%.

#### Recommendations:

Credit rating firms assume that local governments normally will be unable to collect from 2-3% of its property taxes, which is the range that the UPTR increased to in 2009. The City should continue to monitor the UPTR on an annual basis to ensure the percentage does not continue to increase, as an uncollected percentage of greater than 5% could have a negative impact on the City's credit worthiness.

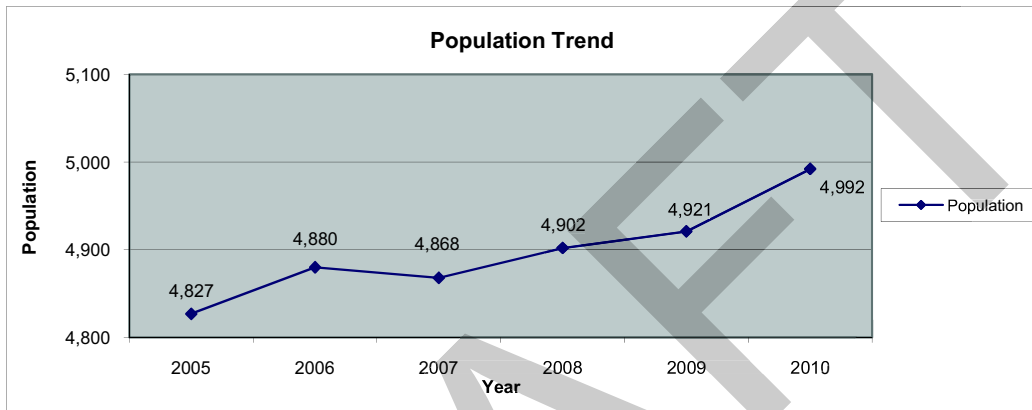
#### 2010 Update:

The City's UPTR decreased to 1.4% in 2010, which still falls within an acceptable range.

## City of Manitou Springs Financial Checkup

### INDICATOR #12: POPULATION TREND ANALYSIS (PTA)

The PTA analyzes the City's population trends to identify possible financial impacts on the City. Although the specific relationship between population changes and other economic and demographic factors is not usually certain, population changes can directly impact certain revenues (e.g., some revenues are collected on a per capita basis and many intergovernmental revenues and grants are distributed according to population). Sudden increases in population may result in immediate pressures for new capital outlay and/or higher levels of service. On the other hand, decreases in population can have adverse effects on employment, housing, and business activity.



#### Findings:

The City has experienced a nominal increase in population from 2005 to 2009 (approximately 2% overall).

#### Recommendations:

As the City anticipates the population to continue to increase, the challenge for the City will be to determine what increases in service levels and additional services may be necessary to serve the growing population, and therefore, the revenues necessary to provided these services. The City should incorporate population growth estimates into its long-term projections in order to understand revenue levels available in future years to serve the population.

#### 2010 Update:

The City's population continued to increase in 2010, up 1.4% from 2009.

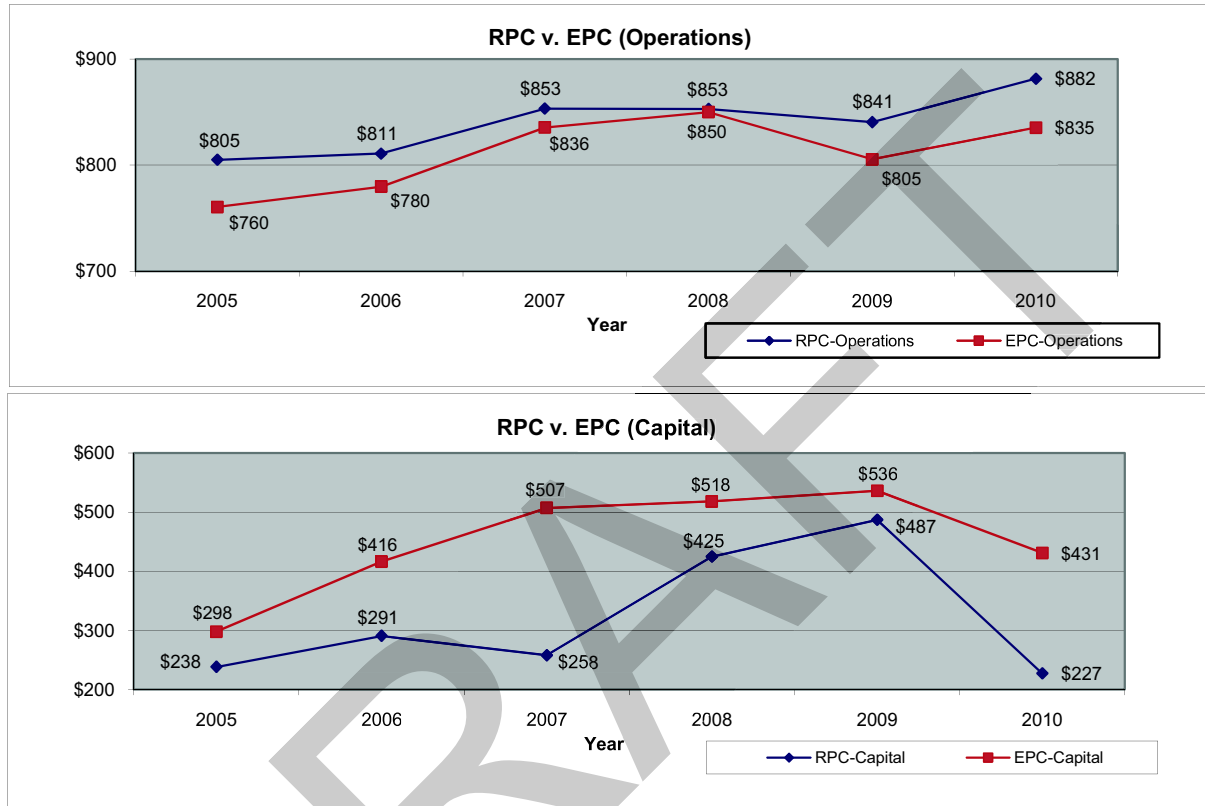
## City of Manitou Springs Financial Check-up

### INDICATOR #13: REVENUES PER CAPITA (RPC)

The RPC displays the relationship between the City's revenues and its population. Decreasing results indicate that the City may not be able to maintain existing service levels with current revenue sources.

### INDICATOR #14: EXPENDITURES PER CAPITA (EPC)

The EPC shows the relationship between the City's population and expenditures. Increasing results may indicate that the cost of providing services is exceeding the City's ability to maintain services at current levels.



#### Findings:

The comparison of RPC v. EPC for operations (top graph) is consistent with the results displayed in Indicator #1, and it shows that the City has consistently received revenues in excess of operational expenditures. Conversely, the comparison of RPC v. EPC for capital and other specified projects (bottom graph) displays that the City has consistently not received sufficient revenues to fund the related and specified projects. Further analysis would be required to specifically identify what projects are not being fully funded. During the period presented above, operating transfers were needed to supplement the shortfall of funds for these capital and other projects; thus contributing to the decreasing unrestricted fund balance (as shown in Indicator #7).

#### Recommendations:

The RPC provides a relationship between population and revenues to illustrate the amount available to provide essential services on a per person basis. The City should analyze its future population growth projections and long-term revenue projections to determine what RPC level is anticipated for future years. The projected RPC can help the City determine if future revenues are at a level that will be sufficient to provide the funds necessary to continue to provide essential services.

The EPC should be analyzed in connection with the services provided to residents; therefore, if the EPC can be lowered without reducing the level of services provided to residents, the City will achieve savings credited to efficiency and strategic adjustments. Further, another goal of the City would be to have an RPC that is greater than the EPC. In each of the last five years, the total EPC has exceeded total RPC. Reversing this trend will assist the City in accomplishing such goals as building the General Fund's unrestricted fund balance.

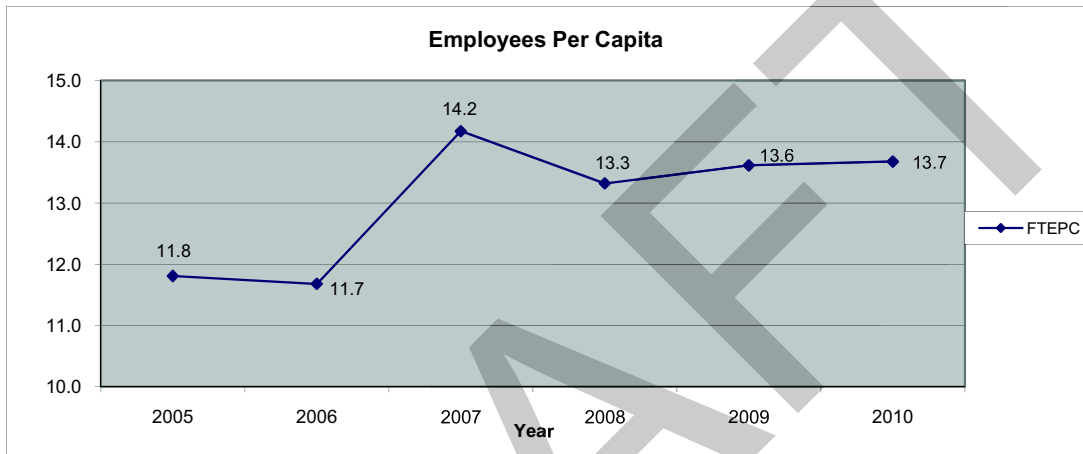
#### 2010 Update:

The relationship of RPC v. EPC for operations in 2010 is similar to the previous year, with each metric experiencing increases consistent with the General Fund revenues and expenditures increases noted in Indicator #1. EPC (Capital) decreased in 2010 to \$431. At the same time, RPC (Capital) decreased at a greater rate down to \$227. Therefore, consistent with prior years, operating transfers were needed in 2010 to supplement the shortfall of funds for capital projects.

## City of Manitou Springs Financial Checkup

### INDICATOR #15: FULL-TIME EQUIVALENT EMPLOYEES PER CAPITA (FTEPC) (PER 1,000 POPULATION)

The FTEPC illustrates the relationship between the City's total number of employees compared to the City's total population. Due to the fact that personnel costs are typically a major portion of a government's operating budget, analyzing changes in the number of employees per capita is a good way to measure changes in expenditures. Increases in employees per capita may indicate that expenditures are rising faster than revenues, that the government is becoming more labor intensive, or that personnel productivity is declining.



#### Findings:

The City's FTEPC has steadily increased over the period presented, with a notable increase and peak in 2007.

#### Recommendations:

This indicator should be monitored closely moving forward to ensure that the City does not experience drastic fluctuations while making decisions to deal with personnel levels. This indicator will help evaluate the efficiency of human capital and identify areas of opportunity for streamlined processes in the City; however, it should be noted that further analysis, such as reviewing competitive wages, should be supplemented with this metric. Also, this overall snapshot could be broken down by (1) examining changes in employment patterns by department or service area, and (2) examining decreases in employment to see whether contracting services may be a viable and practical alternative.

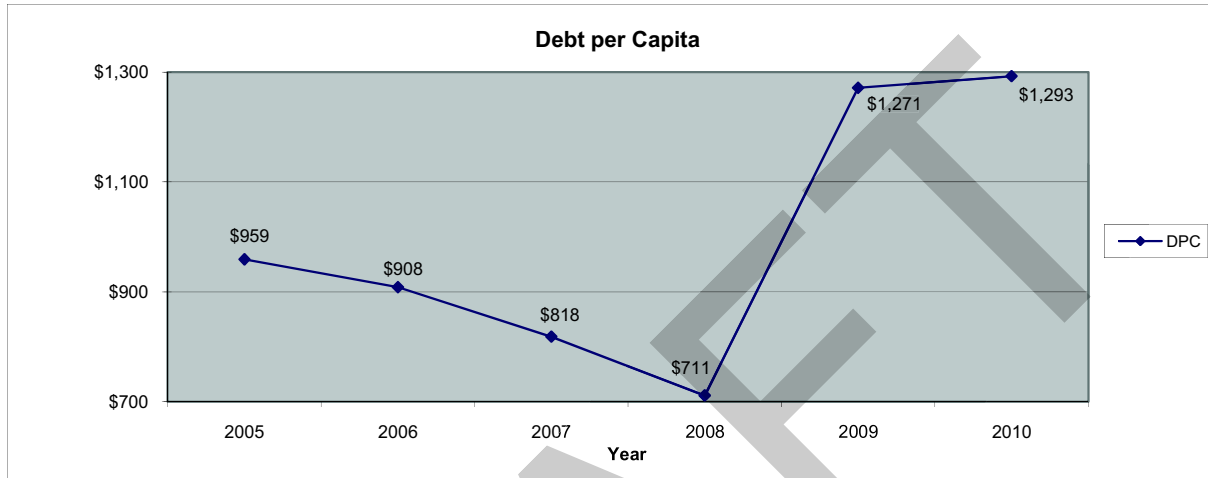
#### 2010 Update:

The City's FTEPC in 2010 is consistent with prior year.

## City of Manitou Springs Financial Checkup

### INDICATOR #16: DEBT PER CAPITA (DPC)

The DPC measures the City's outstanding long-term debt amount allocated by resident. Increasing results over time may indicate that the City has a decreasing level of flexibility in how resources are apportioned or a decreasing ability to pay its long-term debt.



#### Findings:

From 2005 to 2008, the City experienced a steady decline in DPC. The decreasing trend in DPC is primarily attributed to debt service payments made during those years. In 2009, the City's DPC grew by over 1.5 times to \$1,271 per person, mainly due to the Colorado Water Resources and Power Development Authority 2009 water and sewer loans totaling approximately \$3.1m. These loans are related to the American Recovery and Reinvestment Act of 2009 and are non-interest bearing. The City also entered into a loan agreement with the Conservation Trust in the amount of \$108,000 to finance the acquisition of open space property.

#### Recommendations:

The City has managed to fund its capital infrastructure projects without entering into a substantial amount of debt financing arrangements in the last five years, which is commendable. Without factoring in the 2009 water and sewer loans (which are non-interest bearing) and other financing associated with business-type activities, the City has steadily reduced its DPC related to governmental activities. The City should annually update and use the DPC indicator as a tool to measure its ability to issue additional, long-term indebtedness in the future, keeping in mind that increases in this indicator may contribute to the City's decreasing flexibility in how resources are allocated. With this in mind, the City may want to explore whether or not to establish a policy as to what DPC the City is willing to accept in order to preserve a certain level of spending flexibility.

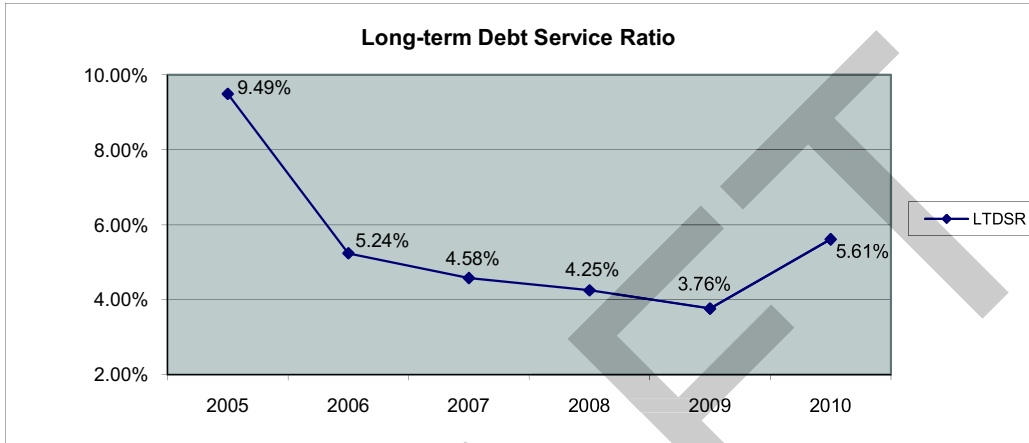
#### 2010 Update:

The City's DPC is consistent with prior year.

## City of Manitou Springs Financial Checkup

### INDICATOR #17: LONG-TERM DEBT SERVICE RATIO (LTDSR)

The LTDSR measures the City's flexibility to respond to economic changes by comparing debt service expenditures as a percentage of total expenditures. Percentages increasing over time may indicate declining flexibility the City has to respond to economic downturns.



#### Findings:

The City's LTDSR has significantly dropped over the past five years from 9.49% to 3.76%. This trend indicates that the City has been successful in lowering its long-term borrowing expenditures as a percentage of total City expenditures.

#### Recommendations:

The City has done well in that debt service expenditures have steadily declined in comparison to total governmental fund expenditures, which is a favorable trend. This provides the City with flexibility as it plans for future projects that may benefit from long-term financing. Identifying key projects with a capital replacement plan will assist the City with long-term planning efforts.

Additionally, we recommend the City adopt a debt management policy. A debt policy will guide the City should it decide to use long-term debt financing in the future to fund certain projects. The policy may include setting limits and outlining specific targets, such as what percentage of expenditures can be utilized for debt service payments on an annual basis. It should be noted that industry standards consider a LTDSR of less than 10% as acceptable and greater than 20% as concerning.

#### 2010 Update:

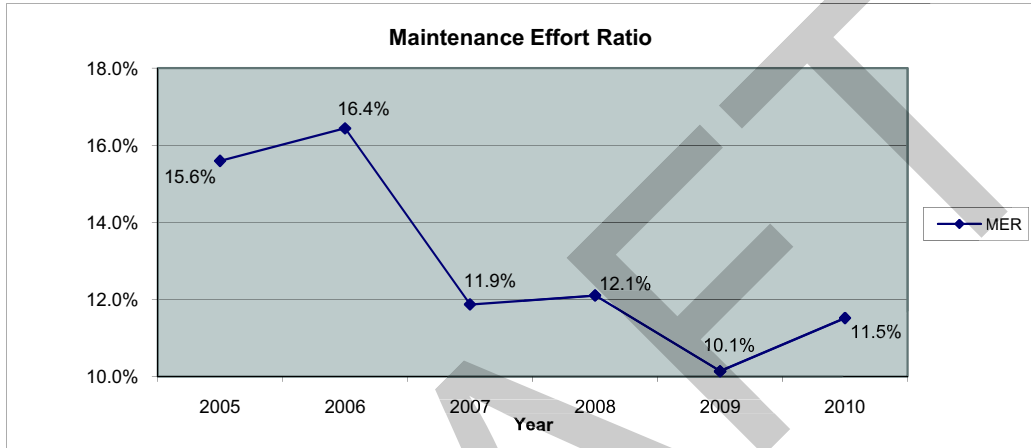
The City's LTDSR increased in 2010 to 5.61%; this was primarily the result of debt service payments commencing on the 2009 water loans.



## City of Manitou Springs Financial Checkup

### INDICATOR #18: MAINTENANCE EFFORT RATIO (MER)

The MER indicates whether capital assets are being maintained at a sufficient level to insure their useful life. Capital assets are constructed at significant cost and their decline can have far-reaching effects on business activity, property value, and future operating expenditures. Deferring maintenance of these assets can also create significant unfunded liability. Generally, maintenance expenditures should remain largely consistent relative to the amount and nature of the assets. Declining ratios between maintenance expenditures and capital assets may be a sign that a government's assets are deteriorating. Trends persisting over time will cause deteriorated capital assets to increase future maintenance expenditures.



#### Findings:

The City's MER shows a 4.5% decline from 2006 to 2007 and another 2% decline from 2008 to 2009. The City's five-year average MER equals 11.22%. It should be noted that the City was very involved in expansive projects over this five year period that contributed significantly to the City's depreciable capital assets, which increased \$2.4m (approximately 50%) from 2005 to 2009. This explains part of the declining trend.

#### Recommendations:

This indicator demonstrates (as a percentage) the amount of maintenance dollars that the City spends on an annual basis on its infrastructure assets (i.e. parks, streets, etc.). As expenditures are prioritized and decisions are made regarding allocation of available revenues, it is important for the City to earmark funds for the continued and consistent maintenance of its infrastructure assets. We recommend that the City, as part of its budgeting process and/or long-term financing projections, evaluate both maintenance and replacement needs of all of its current capital assets and anticipated new capital assets, and develop a plan that incorporates (1) projected timeline of maintenance and/or replacement work, and (2) funding requirements.

#### 2010 Update:

The City's MER of 11.5% in 2010 is consistent with the previous three years presented.