

December 20, 2019

Board of County Commissioners
Larimer County Residents

SUBJECT: Adopted 2019 Revised and 2020 Larimer County Budgets

Dear Larimer County Commissioners and Residents:

As specified in policy adopted by the Board of County Commissioners, it is the responsibility of the County Manager to prepare a budget for presentation to the Board, based on the Board's expressed priorities and direction. The 2019 Revised and 2020 Adopted Larimer County budgets were both prepared in compliance with state statute, generally accepted budgeting principles, funding agency requirements, and the budget priorities and direction of the Board of County Commissioners.

Larimer County government includes multiple divisions and departments under the ten elected county officials established by the Colorado constitution. Each of the departments provides a collection of services to residents, property owners and visitors. The vast majority of county services are provided without regard to municipal boundaries: city residents receive the same level of service as those living in unincorporated areas. The County's net operating budget is organized into five service categories that describe the type of services delivered. Some service categories include contributions from multiple elected offices. The service categories are:

- Public Safety
- Human and Economic Health
- Community Planning, Infrastructure, and Resources
- Public Records and Information
- Support Services

In addition, the County budgets annually for capital improvement projects that provide enduring value to the citizens of Larimer County. Generally, these projects exceed \$50,000 in cost and are expected to last for five years or more. Some examples of capital expenditures include construction projects for buildings or roads, major maintenance or rehabilitation of existing assets, real property acquisition, vehicle and equipment purchases for the County's fleet, or replacements of software operating systems. The capital improvement projects reflected in the annual budget are derived from a comprehensive five-year plan.

Again this year, the County has separated recovery costs from the 2013 flood from operational budgets. This aids comparison of the cost of government over time. 2018 was expected to be the last annual budget with substantial flood recovery costs but due to delays in project approvals by the Federal Emergency Management Agency (FEMA) substantial costs have been incurred in 2019, continuing into 2020.





In addition, the budget includes a group of Non-Operational Governmental Accounts that are necessary to track various financial activities of County government such as transfers between funds, reserve funds for self-insurance needs, and taxes collected and distributed to other entities.

2020 Budget Process and Guidelines

The County's budgeting process begins in the spring each year. The Commissioners receive information about the internal strengths and weaknesses and the external opportunities and threats (SWOT) related to each of the service categories listed on the previous page. Themes emerge from this analysis that the Commissioners use to inform their budgeting decisions and strategies for the coming year. Throughout the year the Commissioners review performance measures for the five service categories. The measures illustrate trends in the outcomes resulting from County services which inform the Commissioners decisions for setting budgeting guidelines.

Future revenue and expense projections for the operating budget were generated using different sets of assumptions. These studies included modest increases in expenses to keep up with cost-of-living growth and various scenarios for changes in revenues through 2024. The models were used by the Commissioners to establish budget guidelines for 2020. The guidelines included a 1% increase in non-labor operational expenses above 2019 levels to offset increasing costs. The Commissioners strive to keep staff wages at or near levels benchmarked against market conditions to manage turn-over and attract and retain high quality staff members. For 2020, wages for non-deputized staff were budgeted to increase by up to 5.0% as a combination of salary range adjustments (2%) and merit increases (3%). Sheriff deputy compensation uses a step-plan that is adopted to be adjusted in 2020 in response to market conditions for law enforcement personnel.

All elected offices and departments submitted budget proposals according to the guidelines provided by the Commissioners. Identified needs beyond the established guidelines are addressed through service proposals. This mechanism allows the Commissioners to direct additional revenue into specific programs and projects in response to community needs and priorities. The service proposals are divided into three categories: Capacity Expansions, Strategic Plan Goals, and Service Expansions. The budgeted amounts shown in the adopted 2019 budget and described in this letter are a combination of basic services funded within the guidelines set by the Commissioners, and selected service proposals funded in 2020.

The County maintains a comprehensive 5-year Capital Improvement Plan reviewed by the Commissioners annually. Capital improvements are items that will benefit the County for five years or more and generally exceed a cost of \$50,000. The process to prepare this plan includes submittals of needs from all departments and offices, vetting by teams for each of the service categories, a review by the County's Strategic Leadership Committee, and finally consideration by the County Commissioners.

Highlights of the 2020 Adopted Budget – Revenues

Projected Property Tax Growth: The primary source of revenue for the County's General Fund is property tax. Most of the property tax collected by the County is distributed to other entities, most notably school districts. Portions of property tax also go to municipalities and various special districts. The County's share is approximately 25% of the total property tax collected. Colorado property tax law requires County Assessors to conduct countywide reappraisals of property every two years in odd-numbered years. Property taxes based on these updated assessed values are collected in the following year. Because of this reoccurring two-year cycle, the total assessed value of property changes more significantly year over year in even-numbered years, such as 2020. The County's property tax proceeds



in 2020 are estimated to increase 15% above 2019 collections. Three factors contributing to this substantial increase are raising property values, significant amount of new construction, and increased oil and gas activity in the county.

The County's operating mill levy has been 21.571 mills since 1992. It is divided between General Fund, Road and Bridge, Human Services, and Health and Environment. An additional 0.75 mills are collected and transmitted by the County to Foothills Gateway which provides services to persons with developmental disabilities. To offset some of the impact of rising property values reflected in the last reappraisal, a property tax credit totaling \$3.5 million is budgeted in 2020. The mill levy will be adjusted temporarily to distribute the credit among all Larimer County property owners and will be taken from the portion of the mill levy that would otherwise be credited to the county General Fund.

Projected Sales Tax Growth: There is not a sales tax in Larimer County that contributes directly to the County General Fund. Instead, the County collects three small dedicated sales taxes that fund specific services. A 0.15% (1½¢ on \$10) sales tax supports operations at the County jail. This tax currently generates enough revenue annually to cover approximately 35% of the jail's operational expenses.

A quarter cent (0.25%, 2½¢ on \$10) sales tax currently funds open space and is shared with municipalities. The County retains 50% of the sales tax collected and shares the other 50% with the eight municipalizes in the county.

There is also a 0.15% (1½¢ on \$10) sales tax that funds construction and operation of the county's fairgrounds facility, The Ranch. The County is completing an implementation strategy for the Ranch Master Plan to specify the new facilities to be built, the improvements to existing facilities needed and include a plan for sustainable revenue generated at the complex to fund operations.

Sales tax collections exceeded the amounts predicted in the adopted budget during 2019 and are budgeted slightly below the Revised 2019 level in 2020 based on the County's conservative approach to budgeting these revenues. Sales tax revenue generated will be invested in each of the departments/offices receiving the funds for the purposes specified in the voter approval.

Grants from State and Federal Programs: Funding from State and Federal sources that support Human Services, Workforce Center, Health and Environment, and Criminal Justice services have fluctuated, but generally have not increased at the same pace as demand for services and costs.

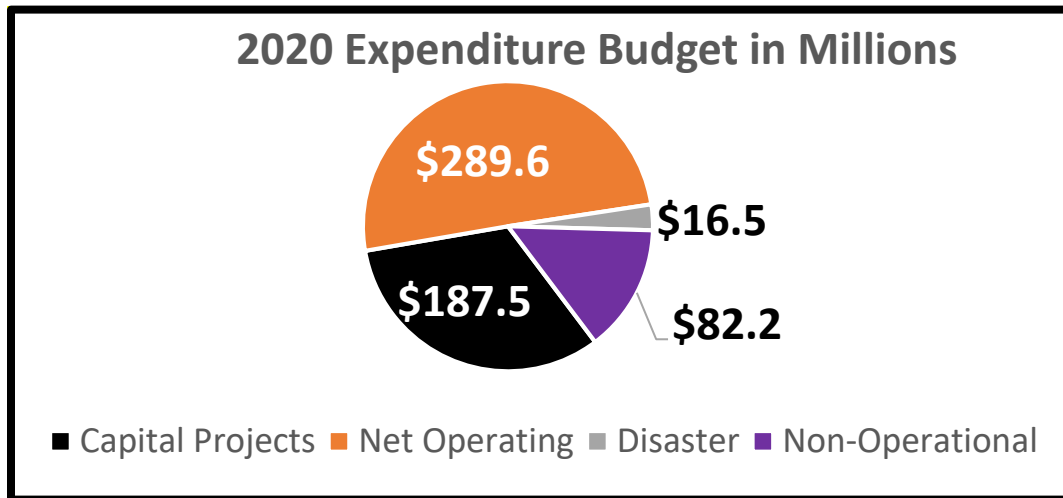
The County is projecting a substantial reduction in TANF funding that will reduce the amount of funding available for the Human Services Department to partner with the Workforce Center. Through this partnership, the Workforce Center helps aid recipients seek employment. These services will continue in 2020, but staffing to provide the job coaching assistance and other support will be scaled back.

Fees and Charges for Services: Some County services derive significant financial support from fees and charges for services. Examples include the Parks Department, Solid Waste, Building Permits and Inspections, Motor Vehicle, Recording, Treasurer, and some components of the criminal justice system. These fees can be hard to predict but represent an important source of revenue for County services. Many of the fees are set by state statute. Fees at the County's landfill are set by the Commissioners. Fees collected are used exclusively for Solid Waste purposes which include household hazardous waste disposal, the operation of transfer stations in communities distant from the landfill, and recycling services. In addition, these fees will be the source of funding for future solid waste needs in the community as the current landfill reaches the end of its capacity in approximately 6 to 8 years.

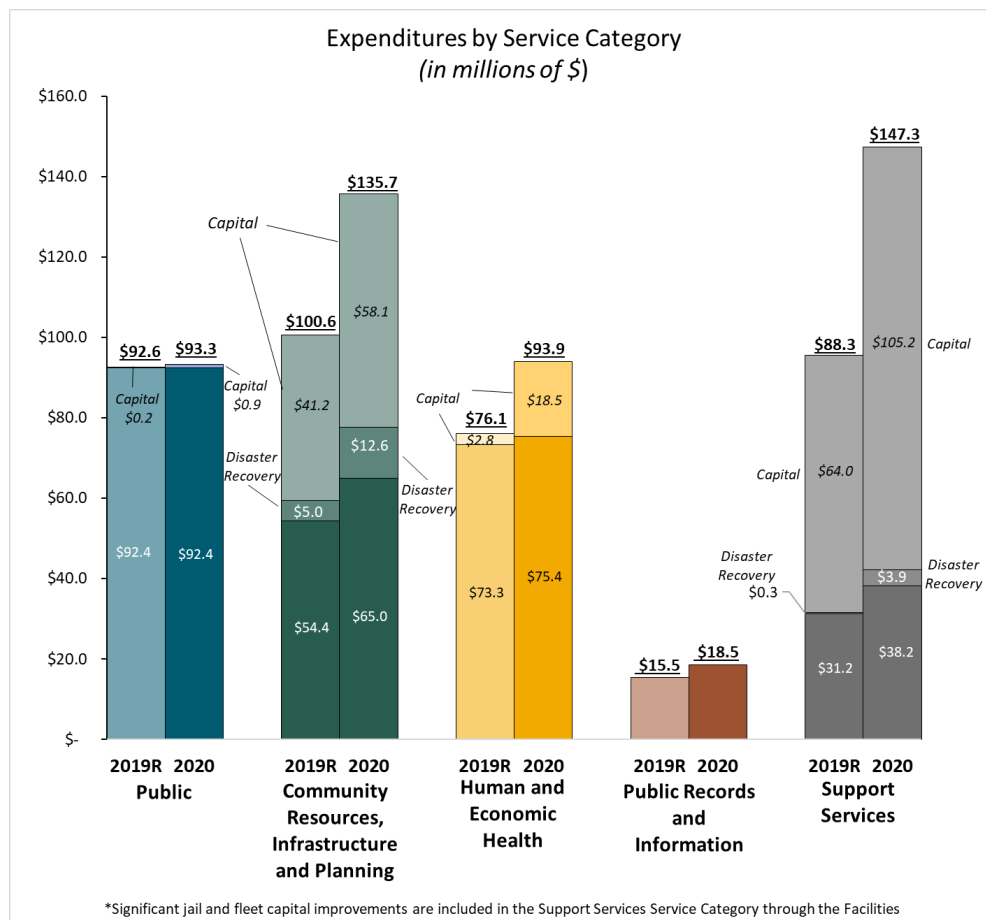


Highlights of the Adopted 2020 Budget – Expenses

Expenses in the Adopted 2020 budget are divided into operating expenses, capital improvement plan items and disaster recovery costs. The chart below depicts the Adopted 2020 budgeted expenses for each of these types:



The chart below depicts all expenses budgeted for 2020 how they compare with expenses from 2019 for each of the five service categories in the Operating Budget:





Public Safety: The County shoulders significant responsibility for public safety services in our community because of the role delegated to us by the State Constitution and statutes. The Sheriff's Office provides patrol services in unincorporated rural areas. The County also provides the following services to all residents of Larimer County whether they live in rural areas or within a city or town: operation of the community's jail; funding for the Coroner's office; an extensive array of alternative sentencing and community corrections programs; pre-trial services; emergency management functions; and primary funding for the District Attorney's office for Judicial District 8.

In 2019, after extensive study and community dialogue, the Commissioners voted to appropriate funds to improve the existing jail. Built in 1983 to then-current standards, the jail has experienced significant over-crowding and no longer meets the community's needs. Certificates of Participation will fund an improvement project to build new support function areas such as a kitchen, medical treatment area, booking area, and meeting rooms for inmates and their legal counsel. In addition, approximately 250 new beds will be constructed to modern standards, allowing appropriate grouping of inmates to better suit their needs. Moving portions of the population into these new housing units, will improve safety and living conditions within the jail. The first payments on the Certificates of Participation will be made in 2020 and are expected to total approximately \$6 million.

In 2020, as the jail is under construction, hiring to staff the facility will begin. Each group of deputies will be recruited, trained and assigned on-the-job in the existing jail to fully ready them for service. Because of the number of new jail deputies to be hired in the next two years, additional civilian staff and resources will be added provide administrative support for functions such as recruitment, on-boarding and payroll. The total expense of these operational costs is budgeted at \$2 million in 2020. These costs are forecast to rise to \$7.2 million when the improved jail is fully operational in 2024.

The Adopted 2020 budget also includes additional funding for enhancements to the Sheriff's deputy step plan compensation program. As the demand for law enforcement officers increases, the availability of high quality staff members is strained. To keep up with these challenging market conditions and provide fair compensation for Larimer County's officers, the step plan is being modified to simplify movement through the steps and increase compensation levels within the steps. This change will increase overall compensation within the department in 2020 by \$518,000.

The District Attorney's staffing needs are increasing with the rising rate of serious crimes. Video evidence for crimes committed in the Judicial District must be managed by the District Attorney's office. The volume of this evidence now exceeds a terabyte of data per month and is expected to grow in 2020. Because of the growth in the number of District Court cases, a new District Judge has been assigned by the State to Judicial District 8. In 2020, the District Attorney's office add staff to meet these needs.

Community Planning, Infrastructure and Resources: In this service category, significant work is still ongoing related to recovery from the 2013 flood. There are multiple funding sources from the federal level, most of which are administered through the State. These multiple layers of regulatory control and the complex nature of the criteria for funding are being addressed on the remaining projects to enable construction in 2020 on several large projects that had originally been planned for construction in 2018. County Road 47 and County Road 44H will be built or rebuilt in 2020. These projects total \$12.6 million, of which the County expects to be reimbursed approximately 87.5% from a combination of Federal Emergency Management Agency (FEMA) and state sources. County owned bridges connecting mountain neighborhoods across the Big Thompson River to Highway 34 were completed in 2019. Approvals for federal and state reimbursements toward the cost of construction are still pending. The reimbursements



for all flood recovery projects may not be timely enough to satisfy cash flow needs in the Road and Bridge fund. The County will be watching this situation closely throughout 2020 and making appropriate revenue transfers. In addition, staffing needs in Road and Bridge and engineering remain high because of the increase in historic workload attributed to flood recovery and implementation of the projects approved in the comprehensive Capital Improvement Plan.

The Solid Waste Department adopted 2020 budget includes expenses related to beginning work on new facilities to serve the needs of Larimer County in the coming decades. A multi-jurisdictional effort was completed to define solid waste strategies and identify needed facilities. A Policy Council was formed in 2019 to assist with this effort. In 2020, work will include design and construction on facilities to include a centralized solid waste transfer facility, a composting facility and a new land fill site.

Community Development completed work on the Comprehensive Plan in 2019 and began work on updates to the County's Land Use Code to implement the plan. In addition, the Community Development staff is working on updating or developing IGAs with multiple jurisdictions including Estes Park and Timnath. This work will continue in 2020, creating needs for additional dedicated staff. Larimer County will add electrical inspections to our Building Permit and Inspection services in 2020, taking over this responsibility from the State. Three new staff members will be hired to perform this work which will be funded through fees paid as part of the building permit process.

Human and Economic Health: Human and Economic Health Services are very dependent on programs and funding established by the federal and state governments. The County's work in this category addresses the needs of our community related to human services, public health, workforce development, economic development and behavioral health. The expenditures reflected in the budget include both the cost of administering these programs and some of the direct benefits to clients covered by the federal and state grant programs. It is particularly challenging to budget expenditures in this service category because most of the work is dependent on allocations made to the programs on fiscal calendars for the federal and state government that do not align with the County's calendar year. The adopted 2020 budget was built on the best information currently available, but changes may occur during the year.

The County continues to provide high quality services in food assistance, adult protection, child protection, childcare assistance, and Medicaid administration, and was recognized in 2019 by the State for our performance. Similarly, our Economic and Workforce Development Department is a national leader in the successful implementation of programs providing training, internships, and job search assistance and is a valued member of the multi-agency team addressing economic development needs throughout the county in a collaborative, coordinated fashion.

In November 2018, the voters approved funding mental health and substance abuse treatment throughout our community with a quarter cent (2½¢ on \$10) sales tax. The 2020 budget for these services includes continued work on distributing funds to service providers throughout the community to strengthen their service to residents. Work to design and construct a centrally located, mental health facility will continue with plans of opening for services to the community in spring of 2022.

Public Records and Information: The 2020 adopted budget in this service category is increased from 2019 in large part because of the cost of major elections. In 2019, the State passed a bill substantially increasing requirements for elections across the state. This law changed election practices and increased the number of required voting centers and ballot drop-boxes. Because 2020 will be a presidential

election year and the number of registered voters is growing, November 2020 is likely to be the largest election ever held in Larimer County.

On July 1, 2020, the Treasurer's office will take over the duties of the Public Trustee. Previously, a separate state-appointed official, the Public Trustee role will become the responsibility of the elected Treasurer. The Treasurer's budget for 2020, and in the future, will include this function.

The Public Affairs Department oversees a community survey in even-numbered years such as 2020. The budget for this department includes those expenses in 2020.

Two regular positions are added to the Assessor's office to deal with an increasing number of parcels that must be appraised every two years, improve data modeling, and to eliminate a substantial backlog of data that is critical to the appraisal process.

Support Services: One of the County's most pressing needs is timely expansion and replacement of facilities that serve our community. As the population grows, so does the demand for services and the need for facilities to accommodate expanded programs. The Facilities Master Plan completed in 2018 documents \$584 million in County facilities needs in the next 20 years. Some of this work is budgeted to occur in 2020 including continued work on fleet facilities and improvements to address severe overcrowding and conditions at the jail. In total this work is budgeted at \$80 million for these projects in 2020.

The 2020 adopted budget includes increased funding for information technology to keep up with the ever-increasing challenge of electronic security, and staffing to enhance the County's capabilities for sharing, analyzing, and leveraging data for decision making in multiple departments and offices.

Issues Impacting Future County Budgets

According to the analysis the County completed regarding internal strengths and weaknesses and external opportunities and threats, there are some key issues that will be critical in upcoming County budgets. These are summarized below.

Population Growth and Changing Demographic in the Community: The largest driver of the need for County services is simply growth of the community. The state demographer's office is projecting growth rates in Larimer County of between 1.5% and 1.9% annually between now and 2030, which yields a projected population of nearly 430,000 by 2030. Some of the impacts of growth that the County will need to address in future budgets are obvious: transportation needs, facilities obsolescence, and growing crime. These are compounded by the challenges of an aging demographic and rising housing and health care costs, and the availability and cost of childcare services. Since the County administers the bulk of government programs serving vulnerable populations and criminal justice offenders, the demand for our services and the associated staffing and facilities required is expected to rise sharply in the coming decade. The County's 2019-23 Strategic Plan includes objectives to address many of these needs. The 2020 budget includes resources to begin tackling many of them. Future budgets will need to provide additional resources to continue implementing solutions for these challenges.

County facility shortcomings have already been identified as an acute need and are compounded by population growth. Our buildings that house Cooperative Extension, Health and Environment and a portion of Human Services were built in 1978 and 1985. The Justice Center, housing Judicial District 8 must soon be expanded. The facilities master plan completed in 2018 gave the Commissioners the



information they need to plan for the future, but much will remain to be done even with the substantial commitment to facilities reflected in the 2020 budget.

Revenue Source Stability: The primary source of discretionary revenue for the County is property tax. In 2017, the state was forced to reduce the residential assessment rate because of the disproportionate increase in residential property actual values compared to all other types of property. This adjustment was caused by legal requirements to comply with the Gallagher Amendment which sets up a maximum ratio of 45% for residential property tax receipts compared to total property tax receipts. The ratio is tested and achieved at a statewide level. Because Larimer County's property values are concentrated in residential properties, these adjustments limit property tax growth in our community. It is not known when the next adjustment will be made in residential assessment rates or if legislation at the state level will be considered to change Gallagher as it currently exists.

Critical programs in Human and Economic Health are funded primarily through state and federal grants. At this time it is not known if funding for these programs will drop, continue at the current level, or keep pace with the growing demand for services we anticipate. Demographic shifts in our community are steadily driving increases in the demand for services.

Continued Financial Health: The County currently enjoys a AAA credit rating, a characteristic of only 2% of counties in the nation. This rating is based on many factors but two important ones are the County's relatively low debt burden and the relatively high reserves available. Moving forward with the next generation of improvements at The Ranch, implementing the Solid Waste Master Plan for the region, and addressing multiple facility needs must be managed carefully to maintain the favorable credit rating currently assigned to the County.

Conclusion

The 2019 Revised and 2020 Adopted budgets comply with County policy and Colorado statutory requirements.

Sincerely,

A handwritten signature in black ink that reads "Linda Hoffmann". The signature is written in a cursive style.

Linda Hoffmann
County Manager