

December 15, 2021

Board of County Commissioners
Larimer County Residents

SUBJECT: 2021 Revised and 2022 Adopted 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 2021 Revised and 2022 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 departments and divisions 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 disaster response and recovery costs from operational budgets. This aids comparison of the cost of government over time. Disaster costs reflected in the 2021 Revised and 2022 Adopted budgets include those associated with the COVID-19 pandemic, wildfires including Cameron Peak and Mullen, and the 2013 flood.





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.

2022 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 2030. The models were used by the Commissioners to establish budget guidelines for 2022.

Like all counties in Colorado, Larimer County's primary source of discretionary revenue is property tax. Colorado voters repealed the Gallagher Amendment in November 2020 which had locked the assessment rate for all non-residential property at 29% for decades. Gallagher established a ratio between residential property tax receipts and property tax receipts from all other types of property at 45:55 respectively. With Gallagher lifted, the 2022 budget assumes that legislation passed by the State during the 2021 session will be carried out as written and Initiative 27 that will appear on the state-wide ballot in 2021 will fail. If either of these assumptions prove false, property tax receipts in Larimer County will be impacted in future years.

The guidelines set by the Commissioners for the 2022 budget included modest 1% increases in non-labor operational expenses above 2021 levels for most department/elected office budgets. 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. The data available for this analysis this year was impacted by fluctuations in economic conditions caused by the virus. Moreover, data available for similar jobs from statewide sources generally showed pay ranges that are lower than pay ranges in our immediate area. These differences are driving turn-over rates in our organization, particularly among Sheriff's Deputies. For 2022, the step-plan for law enforcement deputies will be significantly revised, raising entry wage rates, and moving deputies more quickly through the steps to increased top pay earnings. Wages for all staff except Sheriff's deputies were budgeted to increase by 2.0% as a salary range adjustment with the first pay period in January. Annual merit increases averaging 2.0% will be available to eligible staff on their hiring anniversary dates.

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 2022 budget and described in this letter are a combination of basic services funded within the guidelines set by the Commissioners, and selected service proposals to be funded in 2022.



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 2021 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. More modest increases in property tax revenue occur in odd-numbered years and are largely attributable to new construction within the community.

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.

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 four 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 32% 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.

A separate quarter cent (0.25%, 2½¢ on \$10) sales tax currently funds behavioral health services countywide. A portion of the funds generated by the county are distributed to service providers throughout the community to address mental health and substance use disorder needs. The County is also completing planning and design of a behavioral health facility to fill current gaps in the behavioral health care system in our community. This facility is projected to open in mid-2023.

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 upgrades to the supporting infrastructure for the complex. Projects are anticipated to be delivered through a combination of county sponsored projects and projects accomplished as public/private partnerships.

Sales tax collections in 2021 were substantially higher than projected in the adopted budget. This source of revenue is adjusted upward in the Revised 2021 budget. The 2022 Adopted Budget includes a slight reduction in sales tax collections due to the County's conservative revenue budget practices.



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 substantially increased due to one-time funding made available for COVID-19 response and recovery efforts.

The County received more than \$34 million in Fiscal Recovery Funding (FRF) as part of the American Rescue Plan Act (ARPA) in 2021. We anticipate receiving a second allocation in 2022 of more than \$34 million. The County is seeking public input on how these funds will be allocated. Therefore, minimal expenses from the FRF are budgeted in 2022 but it is anticipated the budget will be amended during 2022 as projects are prioritized. In addition, Human Services, Workforce Center, and Public Health are all getting allocations from other segments of ARPA. These revenue streams and associated expenditures are reflected in both the 2021 Revised and 2022 Budgets.

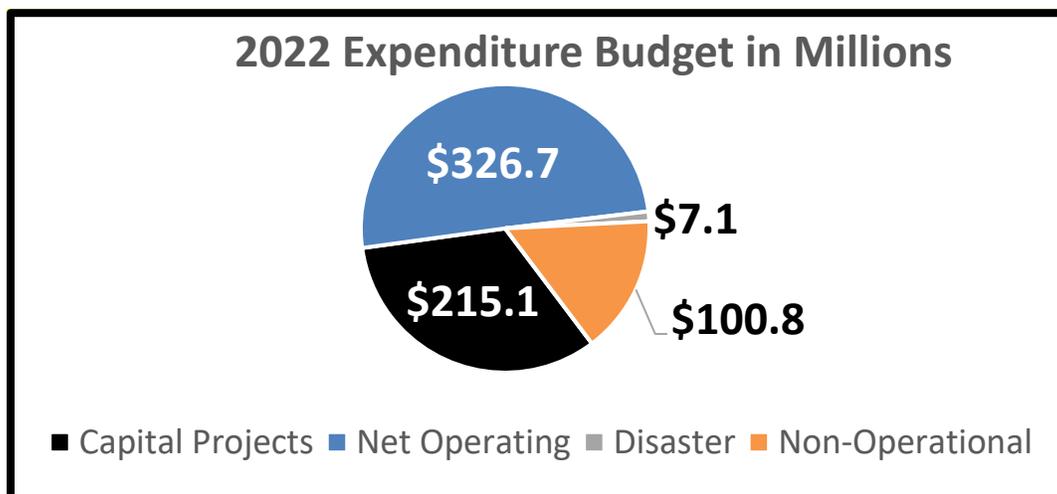
Fees and Charges for Services: Some County services derive significant financial support from fees and charges for services. Examples include the Parks Department, Solid Waste, Building Permits and Inspections, Motor Vehicle, Recording, Treasurer, and some components of the criminal justice system. These 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 3 to 5 years.

COVID-19 changed behavior of our residents in 2020 and 2021 in ways that led to higher fee collections in Solid Waste and Natural Resources. The 2022 budget anticipates that these higher use fee levels will continue in 2022.

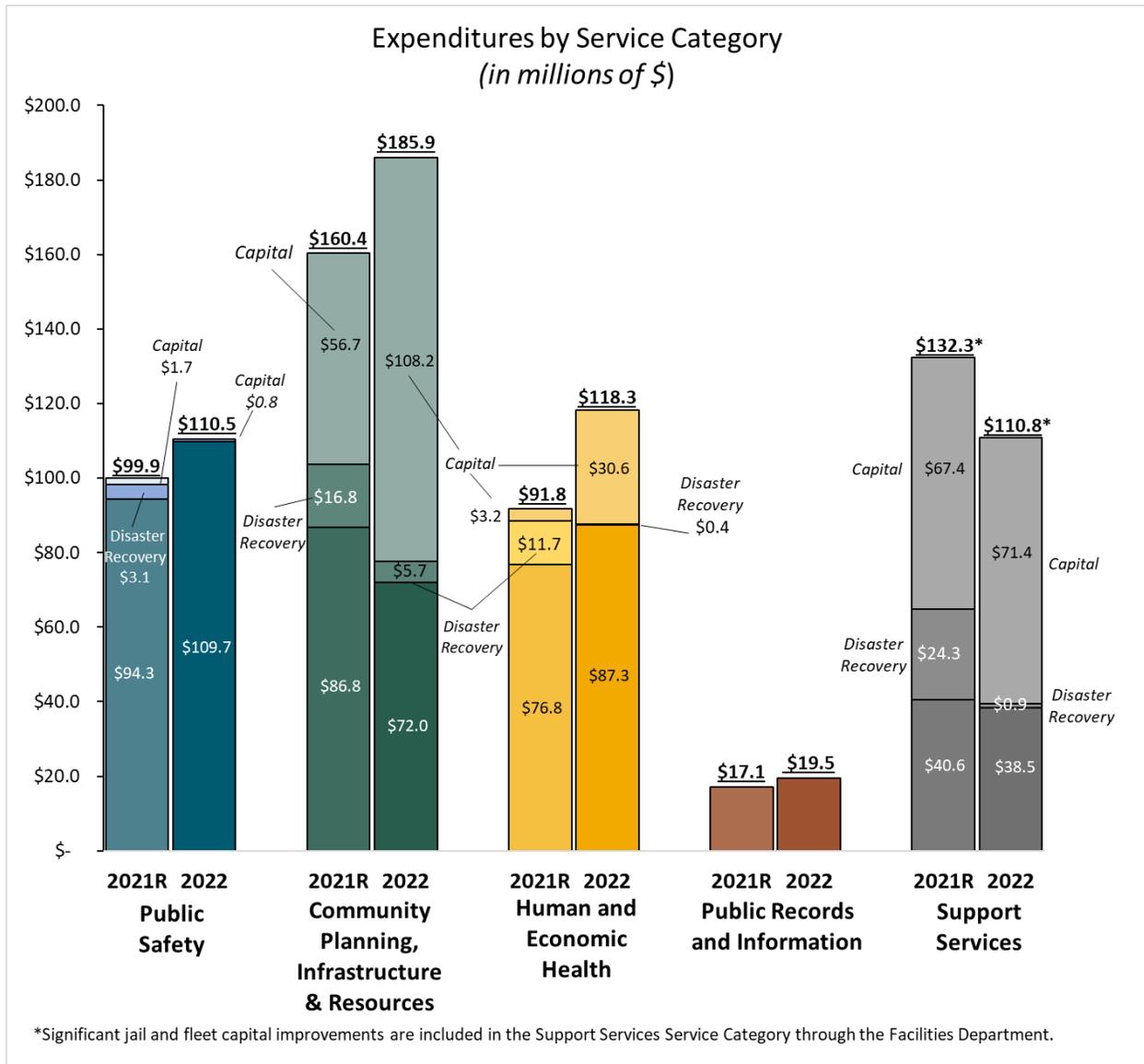
Highlights of the Adopted 2022 Budget – Expenses

Expenses in the Adopted 2022 budget are divided into operating expenses, capital improvement plan items and disaster recovery costs. The chart below depicts the Adopted 2022 budgeted expenses for each of these types:





The following chart depicts all expenses budgeted for 2022 and how they compare with expenses from 2021 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.

Under Colorado law, the Sheriff has responsibility for wildfire. Larimer County suffered one of the worst wildfires in state history in 2020, the Cameron Peak Fire. During 2021, response and recovery costs for the fire and resulting flash flooding drove up expenditures in Public Safety and in Community Planning, Infrastructure, and Resources.



The Adopted 2022 budget includes funding for continuing construction to improve the outdated jail facility, projected to open in phases beginning in 2022. The project includes replacement of many support functions at the facility such as the kitchen, medical service areas, and the laundry. A modern housing unit with 165 beds will be constructed to allow for more appropriately grouping inmates according to their needs.

The 2021 budget included beginning a project to expand the County's alternative sentencing and community corrections programs. These programs yield better outcomes for offenders and protect public safety as alternatives to traditional correction and incarceration in either the County jail or the Colorado Department of Corrections prison facilities. The planned project will build a new wing onto the existing Alternative Sentencing building to serve female offenders. Bed space in Community Corrections now used for females can then expand capacity for males. Larimer County's programs are some of the most successful in the state in terms of offender completion rates and reduced recidivism. The expanded facility is expected to open late in 2022.

The Colorado legislature passed several new laws in 2021 that significantly impact the cost of services in the Public Health service area.

Community Planning, Infrastructure and Resources: In this service category, significant work is ongoing in the Solid Waste Department to develop new facilities and increase diversion rates from landfilling. A replacement landfill is in the design and permitting process because the existing landfill is nearing capacity. In 2022, this work will continue to evolve.

Work in 2022 at The Ranch will continue to implement the Master Plan for a new phase of development funded by the extension of the dedicated sales tax. The timing of some planned facilities has been altered by the pandemic which limits large gatherings and may influence the level of interest by private parties in some facilities, such as a hotel and exhibition space. The County intends to use available funds to proceed with county-sponsored projects concurrently with soliciting proposals for public/private partnership opportunities.

Federal approval for funding of the last few infrastructure projects associated with recovery from the 2013 flood has been given by the Federal Emergency Management Agency. These approvals will allow construction that had originally been planned for in 2018 to proceed. County Road 47 and County Road 44H will be built or rebuilt in 2022. Some work done on these roadways during 2021 was damaged by flash flooding.

Staffing needs in Road and Bridge will be addressed by converting a group of temporary positions to regular year-round positions. It is very challenging to find qualified workers and very few are willing to accept seasonal employment. Converting these jobs to year-round employment opportunities will have the added benefit of having more snow plow drivers available during winter months. This will shorten the shift length for individual drivers, lengthen the hours per day plows can run, and create a safer operating schedule. An additional Road and Bridge worker position will be added to the Laramie River region of the county which is very rural and remote. Having three workers in that area will improve safety for our employees and service to the community.

Engineering staffing needs will be addressed in 2022 by adding a development application review engineer, an engineer specializing in stormwater quality, and a new position associated with an enhanced asset management system for our roadway system.



Community Development continues to work on a series of updates to the County's Land Use Code. Updated sections in 2021 included our sign code and our regulations associated with oil and gas facilities. Work will continue on the effort to finalize detailed sections of the Code in 2022. The Building Division is in the process of considering updates and local modifications to the current version of the Uniform International Building Code.

Natural Resources continues to emphasize partnerships and grant opportunities to fund acquisitions and enhancements. In 2021, visitations at our facilities were at record high levels. In 2022, the Department will continue to make incremental improvements in our facilities and practices to address growing demands for service by our community.

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 2022 budget is built on the best information currently available, but changes may occur during the coming year particularly as funding associated with COVID-19 impacts are allocated by the state and federal governments.

The County continues to provide high quality services in food assistance, adult protection, child protection, childcare assistance, and Medicaid administration. Our Economic and Workforce Development Department is deeply involved with regional partners in economic recovery and business support programs to mitigate the impacts of COVID-19 disruptions.

Construction on the new Larimer County Behavioral Health facility will occur throughout 2022. The cost of the project has substantially grown due to escalated construction costs, delays caused by outside parties, and changes in planned cost sharing arrangements that will not occur.

Public Records and Information: The 2022 budget changes significantly only due to the election cycle, which will include elections for U.S. Representative, U.S. Senator, Colorado Governor, and other statewide offices, which will result in an expenditure increase of approximately \$1.3 million in the Office of the Clerk and Recorder. In the Public Affairs Department, an additional staff position was added in 2021 to enhance resident outreach and engagement, especially with diverse populations. This increased staffing level will continue in 2022.

There are not major changes in the elected offices of the Clerk and Recorder (other than costs related to the election cycle), the Treasurer and Public Trustee, and the Assessor.

Support Services: COVID-19 forced the County to adapt our service delivery processes to greatly expand the use of electronic and other touch-free means. We have also emphasized remote work options for our staff. All of these techniques have proved to be beneficial and widely embraced by the community and our employees. The trend of expanding and enhancing these innovative practices will continue in 2022.



The Finance Department will add positions in 2022 in purchasing and sales tax administration to respond to increased demand for these functions. The influx of federal and state grant funding carries with it complex requirements for procurement that cannot be accomplished without additional staff. A new position in sales tax administration will allow additional auditing and verification work to be done to ensure sales tax is fairly and uniformly collected.

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 2022 budget includes resources to begin tackling many of them. Future budgets will need to provide additional resources to continue implementing solutions for these challenges.

The county is dedicated to service the whole of our community – including populations that have historically been less engaged in County government. In 2022 a newly formed Advisory Board for Equity, Diversity and Inclusion will help guide our work in this regard. An internal committee of employees for Inclusion has also been formed and will expand their efforts in 2022 and beyond.

Climate Smart Program: During 2021, the County created a position for a Climate Smart Program Manager. In the coming years, the County will develop and implement a Climate Smart Program that includes strategies internal to our organization and externally out to the community. Both internally and externally, the program will likely include techniques and projects that will help mitigate against climate change and adapt our systems to the effects of climate change.

For the 2022 budget, a \$12 million set-aside of reserves will be moved into a contingency fund for future disasters and potentially for climate smart projects. The set-aside was originally identified in 2020 and intended to be used for one or more community support needs such as post-secondary education, housing affordability or childcare assistance. This would have caused the money to be spent in these investments in 2021 or 2022. Instead, the funding will be moved into a reserve contingency fund as part of the 2022 budget.

Revenue Source Stability: The primary source of discretionary revenue for the County is property tax. In 2021 the state legislature acted to change assessment rates for multiple categories of property. The 2021 November ballot will ask voters state-wide whether or not they wish to make additional changes in property assessment rates. All of these changes will have different, but potentially significant, impacts on the most important source of discretionary funding for the County.



Critical programs in Human and Economic Health are funded primarily through state and federal grants. The funding for COVID recovery is concentrated in this area. This funding is currently generally required to be obligated by the end of 2024 and expended by the end of 2025. It is not known how programs initiated with this funding source would be continued. Moreover, the Federal government continues to consider additional funding for human and physical infrastructure. If these programs become available, the County will pursue funding to address our community's needs.

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 2021 Revised and 2022 Adopted budgets comply with County policy and Colorado statutory requirements.

Sincerely,

A handwritten signature in cursive script that reads "Linda Hoffmann".

Linda Hoffmann
County Manager