

October 15, 2018

Board of County Commissioners
Larimer County Residents

SUBJECT: Proposed 2018 Revised and 2019 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 proposed budget for presentation to the Board, based on the Board's expressed priorities and direction. The 2018 Revised and 2019 Proposed 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 will be incurred in 2019.





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.

2019 Budget Process and Guidelines

The County's budgeting process begins in the summer 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 2022. The models were used by the Commissioners to establish budget guidelines for 2019. The guidelines included no increases in non-labor operational expenses, holding them flat at 2017 levels. 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 2019, wages were budgeted to increase by up to 5.0% for employees, which results in an overall increase of 3.5% in the budget.

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 proposed 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 to be funded in 2019.

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 2019 Proposed 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 less significantly year over year in odd-numbered years, such as 2019. The County's property tax proceeds in 2019 are estimated to increase 3% above 2018 collections.



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 the developmentally disabled.

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 37% 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. Beginning in 2019, the County will retain 50% of the sales tax collected.

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 which will 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 2018 and are budgeted slightly below the Revised 2018 level in 2019 based on the County's conservative approach to budgeting these revenues. These projections are also considered to be conservative because they do not account for any additional sales tax revenue that may accrue from the 2018 Supreme Court decision authorizing state and local sales tax collections on internet sales. 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 have not increased at the same pace as demand for services and costs.

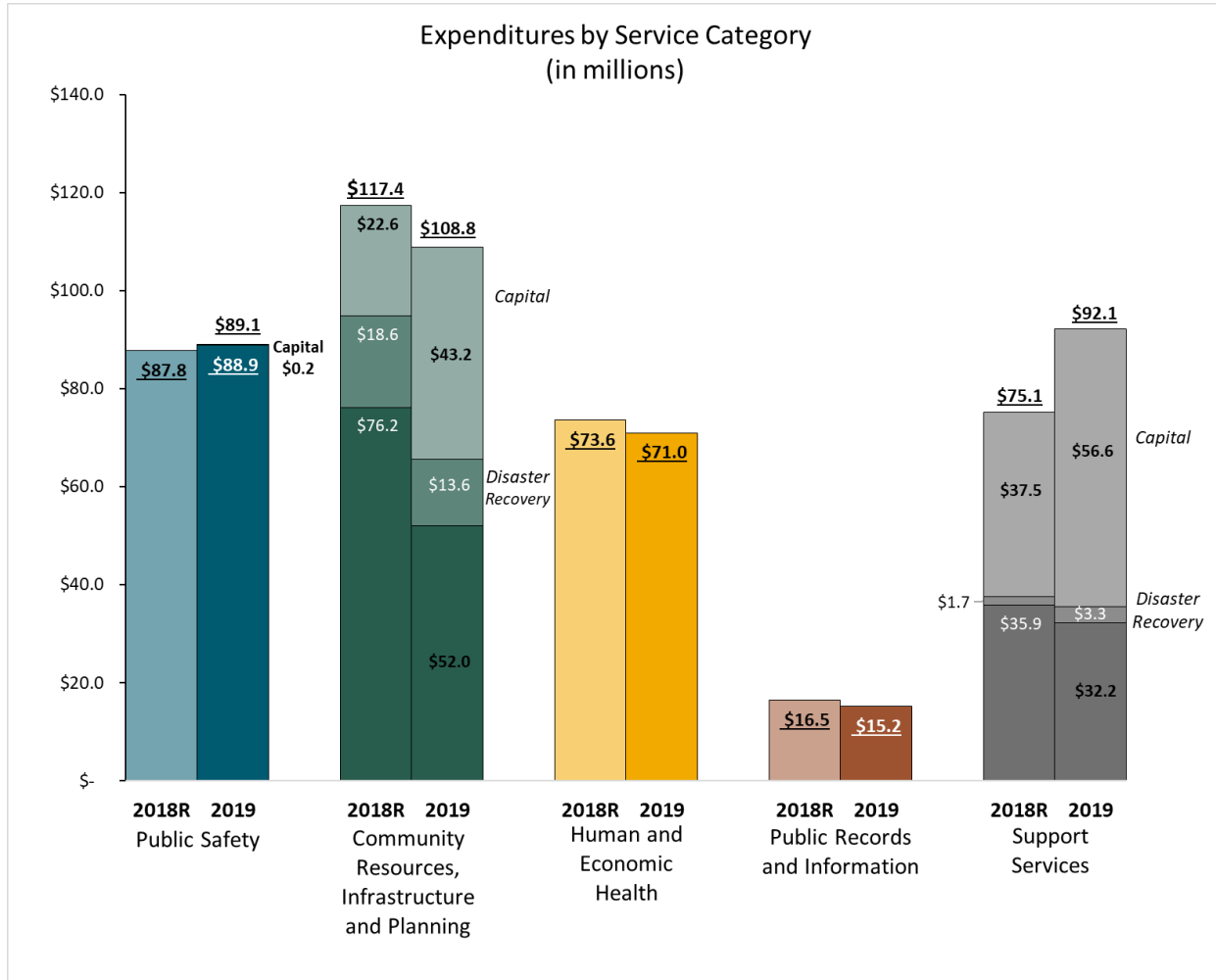
The County receives reimbursements for the offenders active in the state judicial system who are supervised through our Community Corrections program. This revenue is the primary funding source for Community Corrections. Larimer County has one of the few Community Corrections programs in the State that is managed directly by the County rather than through a contracted vendor. Our program produces a success rate of 69.23% for offenders compared to a statewide average of 47.36%. However, the state is not increasing per diem reimbursement rates sufficiently to cover rising operational costs. The allocation increase passed by the state legislature in the last session was only 1.4%.

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 7 to 9 years.



Highlights of the Proposed 2019 Budget – Expenses

Expenses in the Proposed 2019 budget are divided into operating expenses, capital improvement plan items and disaster recovery costs. The chart below shows how expenses are divided between those needs and how they compare with expenses from 2018 for each of the service categories.



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. Unfortunately, a prominent concern that was identified again in the County’s strengths, weaknesses, opportunities and threats analysis was the fact that felony crime continues to rise in our community and it may be related to the growth of substance abuse and mental health problems faced by our citizens. These factors are having a profound impact on the County’s costs related to public safety services.



Specific expenses reflected in the Proposed 2019 budget include additional funding for an Americans with Disabilities Act (ADA) compliance liaison, a Sergeant in the Criminal Impact Unit, and increased funding for an enhanced retirement plan for sworn officers to aid with recruitment and retention of staff.

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 has reached approximately a terabyte of data per month. In 2019, the District Attorney's office will seek grant funding for additional staff.

Community Resources, Infrastructure and Planning: 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 2019 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 2019. These projects total \$12 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 will be 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 2019 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 proposed 2019 budget includes expenses related to the continuation of the planning process underway with partner agencies and the community regarding future strategies for solid waste. Since the existing landfill will reach capacity in approximately 7 to 9 years, the feasibility of various options is being studied now in preparation for timely decisions to be made.

Community Development will be completing work on the Comprehensive Plan early in 2019 and beginning work on updates to the County's Land Use Code to implement the plan. To efficiently accomplish this long-range planning work, the Planning Division devoted one Principle Planner to this effort and has formed a current planning team, headed by a Principle Planner, for application processing. Due to the volume of work in the Building Division, one Lead Plans Examiner has been added.

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 proposed 2019 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, child care assistance, and Medicaid administration, and was recognized in 2018 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.

The November 2018 ballot includes a question to voters about funding mental health and substance abuse treatment throughout our community with a quarter cent (2½¢ on \$10) sales tax. If that measure is approved, the budget considered for adoption by the Commissioners in December will show the new revenue and expenditures to begin providing services to those in need through partnerships with existing providers and new services to fill the gaps in available care in our community. Design will also begin on a centrally located facility from which to coordinate care and treatment for all communities in the County.

Public Records and Information: The 2019 proposed budget in this service category is somewhat reduced from 2018. Election costs in 2019 are lower but because 2019 will be a reappraisal year, additional expenses may be incurred to process protests and appeals for property taxes. The County is continuing our efforts to effectively engage community members in cost-effective ways using our Public Affairs budget.

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 \$582 million in County facilities needs in the next 20 years. Some of this work is budgeted to occur in 2019 including work on fleet facilities at our main shop and in remote parts of the County, finishing the Coroner's office and morgue, an expansion of the Loveland Police and Courts building, and continued work to address severe overcrowding at the jail. In total this work is budgeted at \$32.2 million for these projects in 2019. A defined plan for addressing the remaining need for expanded facilities in the next decade will be adopted in 2019.

The 2019 proposed budget includes increased funding for information technology to keep up with the ever-increasing challenge of electronic security, and staffing to address electronic connectivity needs for remote facilities and communities.

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 child care 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.

County facility shortcomings have already been identified as an acute need and are compounded by population growth. Our fleet shop facilities range in age from 28 to 64 years; parts of the jail are over 30 years old with the newest wing constructed in 1999. 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 2019 budget.

Revenue Source Stability: The primary source of discretionary revenue for the County is property tax. Last year 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. The Colorado Department of Local Affairs Division of Property Taxation is already cautioning that another similar adjustment will likely be necessary under the Gallagher amendment in the reappraisal cycle in 2019. Because Larimer County's property values are concentrated in residential properties, these adjustments limit property tax growth. Multiple ideas are being discussed around the state to address the impacts on counties and special districts of Gallagher but it is not yet known if adjustments will be made or how they will impact Larimer County.

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.

County Strategic Plan: The Commissioners will adopt new five-year Strategic Plan Goals and Objectives before the end of 2018. The County will seek the opportunity to engage with the community to achieve these goals and further strengthen the Larimer County community and organization.

Conclusion

The 2018 Revised and 2019 Proposed budgets comply with County policy and Colorado statutory requirements.

Sincerely,

A handwritten signature in black ink that reads "Linda Hoffmann".

Linda Hoffmann
County Manager