

December 14, 2022

Board of County Commissioners
Larimer County Residents

SUBJECT: 2022 Revised and 2023 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 2022 Revised and 2023 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 residents 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 2022 Revised and 2023 Adopted budgets are primarily related to recovery from the COVID-19 pandemic, and include costs related to wildfires and the 2013 floods.





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.

2023 Budget Process and Guidelines

The County's budgeting process is a year-round, deliberative effort. 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. The County follows economic developments and trends that may have an impact on the budget whether immediate, short, or long-term. 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. The County relies on a wide variety of "what-if" scenarios so that it can respond quickly to changing economic conditions. The models were used by the Commissioners to establish budget guidelines for 2023. Like all counties in Colorado, Larimer County's primary source of discretionary revenue is property tax. The 2023 budget assumes that legislation passed by the State during the 2022 session will be carried out and that no further changes will be made to property assessment rates. For future years, the County is assuming assessed valuations will increase for the 2024 budget but is planning for lower-end estimates of growth due to the possibility of further legislative changes to assessment rates and is planning for the potential of a recession that could result in a negative impact on valuations in 2026.

Responding to inflationary pressures, the guidelines set by the Commissioners for the 2023 budget included 5% increases in non-labor operational expenses above 2022 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. Inflation is having an impact on these assumptions as well and as a result, wages for all staff except Sheriff's deputies, who saw a significant revision to their step plan in 2022, were budgeted to increase by 2.5% as a salary range adjustment with the first pay period in January. Annual merit increases averaging 5.0% 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 four categories: Capacity Expansions, Strategic Plan Goals, Service Expansions, and Others. The budgeted amounts shown in the 2023 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 2023. Due to ongoing economic uncertainty, the 2023 budget limits the number of new positions and programs to a prudent level that should be sustainable in the event of a recession.

The County maintains a comprehensive 5-year Capital Improvement Plan reviewed by the Commissioners annually. 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 2023 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, or changes in oil and gas markets. The 2023 Adopted Budget is based on the initial certification of values from the Office of the Assessor, which shows a 2.3% increase in taxable values.

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 one-third of the jail's operating 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 municipalities 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 construction 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 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 2022 are trending substantially higher than projected in the adopted budget. This source of revenue is adjusted upward in the 2022 Revised Budget. Projected year-end receipts are budgeted to increase by 3% in 2023, which remains a conservative estimate and should allow for a decline from current trends should there be a recession.



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.

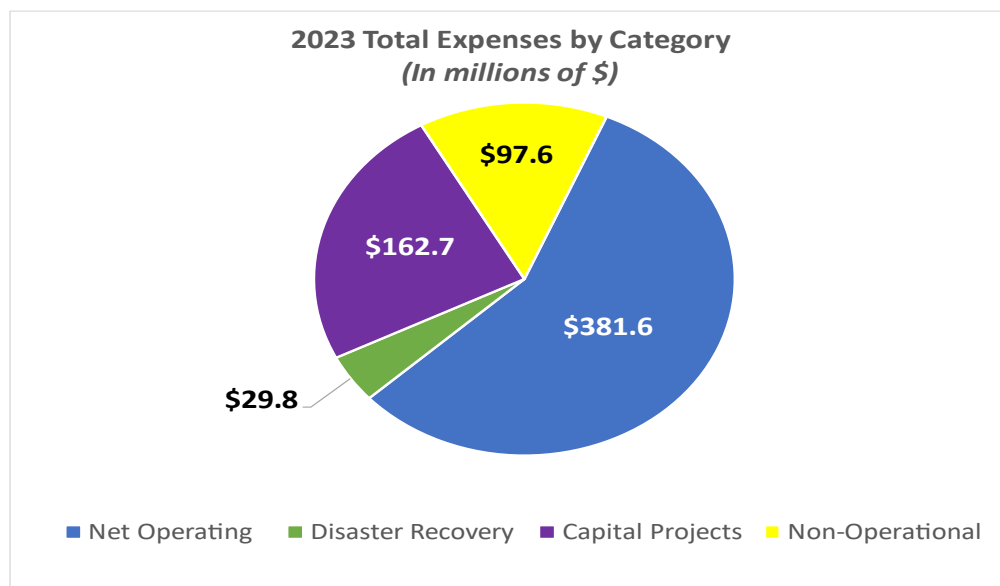
The County received more than \$69 million in State and Local Fiscal Recovery Funding (SLFRF) as part of the American Rescue Plan Act (ARPA) in 2022. The County engaged in a robust public outreach effort to determine how best to use these funds to achieve transformational improvement in the lives of community members adversely impacted by the pandemic and resulting economic uncertainty. Approximately \$33 million in expenses from the SLFRF are budgeted in 2023, including more than \$13 million to expand access to high-quality broadband and \$9.5 million intended to leverage many millions more in FRF funds from the State of Colorado for collaborative, regional, transformational projects in the areas of behavioral health, childcare, affordable housing, services for those experiencing homelessness, and other critical areas.

Fees and Charges for Services: Some County services derive significant financial support from fees and charges for services. Examples include Parks and Open Space, 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. Due primarily to higher interest rates, the 2022 Revised and 2023 Adopted Budgets include significant reductions in revenues related to the real estate market.

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.

Highlights of the Adopted 2023 Budget – Expenses

Expenses in the Adopted 2023 budget are divided into operating expenses, capital improvement plan items and disaster recovery costs. The chart below depicts the Adopted 2023 budgeted expenses for each of these types:





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 the Eighth Judicial District.

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, and continued to experience related emergency events, such as flash flooding, impacting expenditures in 2022. The 2023 budget includes significant resources to mitigate the damage of future fires, including a new program to help homeowners in forested areas make their properties less susceptible to wildfire damage.

The Adopted 2023 budget includes funding to complete construction to improve the outdated jail facility, projected to open in phases beginning in 2023. 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 appropriate grouping of inmates according to their needs. Costs for inmate medical care are rising significantly; expenditures reflected in the 2023 budget include additional these expenses.

The 2022 budget included expenses to begin expanding 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 project currently underway 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 male offenders. Larimer County's programs are some of the most successful in the state in terms of offender completion rates and reduced recidivism. The 2023 budget includes final facility expansion construction costs and additional staffing for the expanded programs.

The Office of the District Attorney will be receiving resources to improve administrative management of the office and oversight of complex cases, as well as a position that can provide important community outreach services.

The Colorado legislature passed several new laws in 2021 and 2022 that significantly impact the cost of services in the Public Safety service category, requiring additional resources for liability insurance and staff to manage and store data generated by body-worn cameras.

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 2023, this work will continue to evolve.

Work in 2023 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 was altered by the pandemic but has since been renewed. The County intends to use available funds to proceed with

county-sponsored projects concurrently with soliciting proposals for public/private partnership opportunities.

Staffing needs in Road and Bridge, Engineering and Community Development are largely unchanged from the 2022 Adopted Budget levels, which should be sufficient to maintain quality service delivery, though some areas continue to face challenges in finding qualified employees.

Natural Resources continues to emphasize partnerships and grant opportunities to fund acquisitions and enhancements. In 2023, the department will continue to make incremental improvements in both 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 2023 budget is built on the best information currently available, but changes may occur during the coming year as economic conditions become clearer.

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, business support, and workforce development programs to mitigate the impacts of COVID-19 disruptions.

Construction on phase one of the new Larimer County Behavioral Health facility is on schedule to be completed and open for operations in the 4th quarter in 2023. The Behavioral Health Department is currently engaged in contracting for operating the facility and staffing-up by the contracted provider will occur throughout 2023. The County has allocated \$10 million in FRF funding, in hopes of leveraging additional State FRF funds, to begin construction of phase 2 of the facility that will provide services primarily to juveniles.

Public Records and Information: The 2023 budget changes significantly due to the election cycle, which will presumably not include elections for statewide offices, in the Office of the Clerk and Recorder. In the Public Affairs Department, an additional staff position will be added in 2023 to enhance the County's ability to keep pace with legislative changes at the State and Federal levels.

There are no major changes in the elected offices of the Clerk and Recorder (other than reductions in revenues related to real estate transactions, and lower costs related to the election cycle), the Treasurer and Public Trustee, and the Assessor.

Support Services: The Human Resources department is receiving additional staff to deal with increased workloads and other duties that may be necessary due to changes to State law that enable county employees to collectively bargain.

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.



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 2023.

The Finance Department will add resources to prevent fraud, threats of which have become more common for local governments in recent years.

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 2023 budget addresses many of these issues, such as a new program to help the County become more data-driven, resources to address climate change, and efficiency gains using a single system for credit card payments to the County.

The County is dedicated to serving the whole of our community – including populations that have historically been less engaged in County government. In 2023 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 2023 and beyond.

Climate Smart and Future Ready: During 2022, the County created a position for a Climate Smart Program Manager and retained a consulting firm to assist with a collaborative process to develop a community plan. In the coming years, the County will develop and implement a Climate Smart and Future Ready 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.

The 2022 budget created a \$12 million set-aside of reserves to respond to future disasters and potentially for climate smart projects. The 2022 Revised Budget utilizes nearly \$1 million of these funds for costs incurred by the Office of the Sheriff to fight more than 50 wildfires that have occurred during the year.

Revenue Source Stability: The primary source of discretionary revenue for the County is property tax. In 2022 the state legislature acted to change assessment rates for multiple categories of property. There are no ballot initiatives to make further changes in 2022, but due to the likely significant increase in property values at the next reassessment, combined with a possible recession during the year, the 2023 budget and forecast for future years includes a conservative estimate of future property tax revenue growth. Likewise, sales tax revenues have grown significantly during the last two years, but the 2023



budget and longer-term forecasts include the possibility of slowing growth or declines that would come with a potential recession.

Critical programs in Human and Economic Health are funded primarily through state and federal grants. The County similarly makes conservative assumptions about the availability of these funds.

Continued Financial Health: The County currently enjoys a AAA credit rating, a characteristic of less than 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. The 2023 Adopted Budget strives to maintain these conditions. 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 2022 Revised and 2023 Adopted budgets comply with County policy and Colorado statutory requirements.

Sincerely,

Lorenda Volker
County Manager