

October 13, 2017

Board of County Commissioners
Citizens of Larimer County

SUBJECT: Proposed 2017 Revised and 2018 Larimer County Budgets

Dear Larimer County Commissioners and Citizens:

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 2017 Revised and 2018 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 citizens. 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 Resources, Infrastructure, and Planning
- 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 called separated recovery costs from the 2013 flood separate from operational budgets. This aids comparison of the cost of government over time. 2018 is expected to be the last annual budget with substantial flood recovery costs.





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.

2018 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.

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 2021. The models were used by the Commissioners to establish budget guidelines for 2018. The guidelines included no increases in non-labor operational expenses, holding them flat at 2017 levels. Because the County still is slightly behind in its goal to pay the market average for wages, raises were budgeted to increase by up to 5.0%. The Commissioners try to keep staff salaries at or near levels benchmarked against market conditions to manage turn-over and attract and retain high quality staff members.

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 2018 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 2018.

The County developed a comprehensive 5-year Capital Improvement Plan for consideration by the Commissioners in time for inclusion in the 2018 budget. 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 included 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 2018 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 more significantly year over year in even-numbered years, such as 2018.



Generally speaking, the reappraisal found the actual value of properties in Larimer County to be significantly increased over levels determined in 2015. The same finding was true across the state. As a result of the Gallagher amendment, this increase in actual value, which was concentrated in residential properties, prompted a reduction in the residential assessment rate from 7.96% to 7.2%. Taking into account this adjustment, the total assessed value of all property in Larimer County increased by approximately 12% in 2017 compared to 2016.

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. To ease the impact on taxpayers of the increased assessed value of property determined in the 2017 reappraisal, the proposed 2018 budget includes a temporary property tax credit totaling \$2.5 million which will be accomplished by a temporary reduction in the mill levy contributing to the County's 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 was extended by the voters in 2014 to support operations at the County jail. This tax currently generates enough revenue annually to cover approximately 34% of the jail's operational expenses.

A quarter cent (0.25%, 2½¢ on \$10) sales tax currently funds open space and was set to expire at the end of 2018. A portion of the revenue from this tax is shared with municipalities. A question to extend this tax was on the November 2014 ballot and was passed by the voters.

There is also currently a 0.15% (1½¢ on \$10) sales tax that funds construction and operation of the county's fairgrounds facility, The Ranch. It expires at the end of 2019 which will necessitate either identifying an alternate source of revenue to support the service and facility, or changes in the operation of the facilities. The Commissioners have placed a question to the voters on the November 2017 ballot seeking to extend this tax to continue operations and help fund the improvements and facility enhancements envisioned in the recently updated Ranch Master Plan.

Sales tax collections exceeded the amounts predicted in the adopted budget during 2017 and are projected to grow in 2018 above the level predicted in the revised 2017 budget by an additional 1.0% (not including the sales tax dedicated to the construction of the Larimer Humane Society, which is set to expire in 2017). The additional 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. For example, the allocation the County receives to provide funding for child care for low income workers has been reduced, forcing a change in the County's eligibility criteria for the assistance in 2016, and increases in the number of families waiting to receive services in 2017. These restrictions will continue in 2018.

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

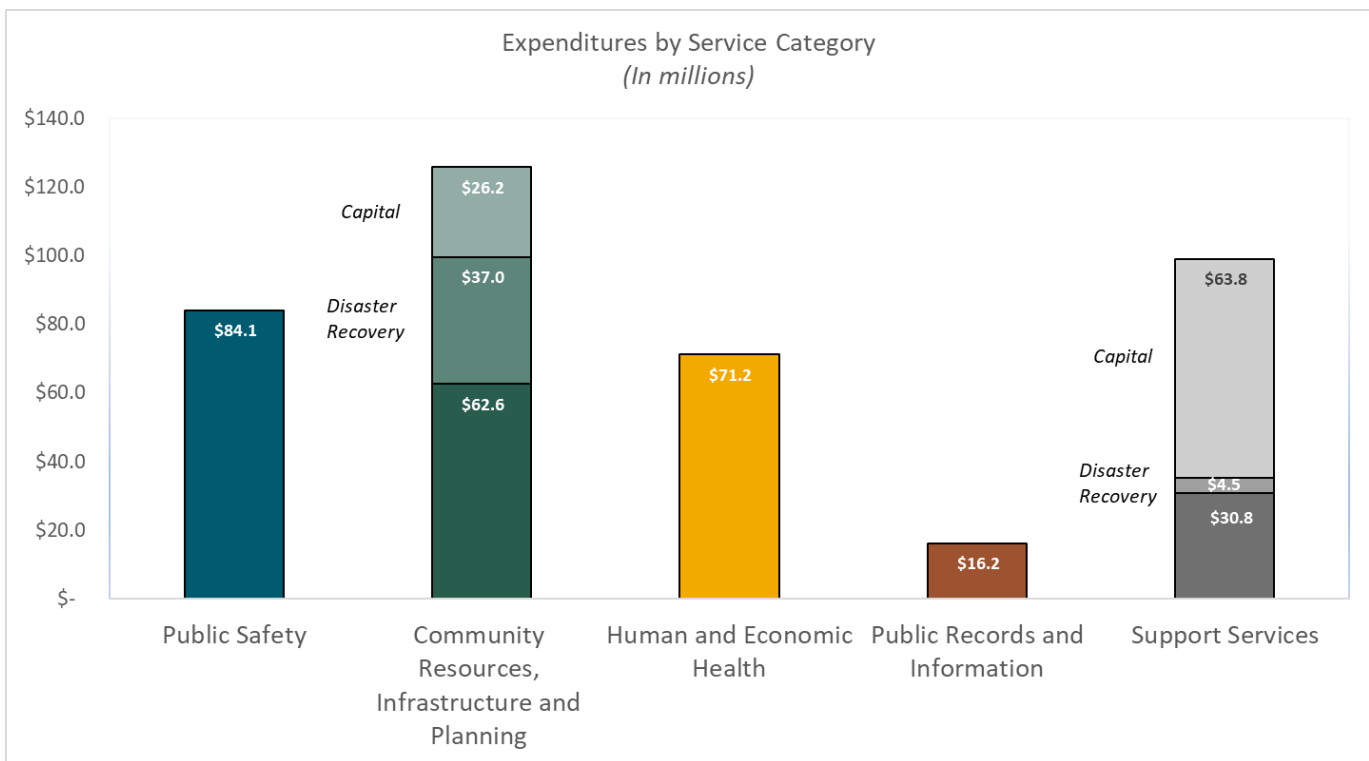


produces a success rate of 69.23% for offenders compared to a statewide average of 47.36%. However, the state is not increasing per diem reimbursement rates sufficiently to cover rising operational costs. The allocation increase passed by the state legislature in the last session was only 1.4%.

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 8-10 years.

Highlights of the Proposed 2018 Budget – Expenses

Expenses in the Proposed 2018 budget are divided into operating expenses, capital improvement plan items and disaster recovery costs. This summary combines those expense types into a single description of proposed expenditures in 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 in the County's strengths, weaknesses, opportunities and threats analysis was the fact that violent crime is rising 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 2018 budget include additional funding for jail operations caused by the increased average daily population at the facility. The Sheriff's office is also experiencing work load increases in patrol, investigations, and jail bookings. The proposed 2018 budget addresses these needs through additional patrol deputies anticipated in the 2017 budget to be added at the beginning of 2018, and additional civilian positions in bookings (3) and forensic science technicians (2). Community Corrections programs are also growing and the associated costs are outpacing the modest increase in state support set statutorily. This situation requires General Fund support to maintain service levels in 2018 and beyond.

The District Attorney's staffing needs are increasing with the rising rate of serious crimes. The proposed 2018 budget includes two new deputy district attorney positions to address the need.

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 2018 on several large projects. Six local bridges that connect State Highway 34 to local access roads, a bridge on County Road 15 near Berthoud, County Road 47 and County Road 44H will be built or rebuilt in 2018. These projects total \$34.6 million, of which the County expects to be reimbursed approximately 87.5% from a combination of Federal Emergency Management Agency (FEMA) and state sources. The reimbursements 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 2018 and making appropriate revenue transfers. In addition, staffing needs in Road and Bridge and engineering are elevated 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 2018 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 8-10 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 a Resiliency Plan and Comprehensive Plan for the mountainous portion of the County in 2017. A similar process will occur in 2018 for the Front Range portion of unincorporated Larimer County. In 2018 the full cost of the building department will be funded through building permit fees in order to make allocated General Fund revenues available for needed staffing to support the growing workload in planning and code compliance. Community Development will be sharing a staff member with Engineering to improve enforcement of floodplain management regulations beginning in 2018.

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 2018 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, often ranking near the top of all counties in Colorado for our performance. Similarly, our Workforce Center is a national leader in the successful implementation of programs providing training, internships, and job search assistance. The newly formed Economic Development department at the County is a valued member of the multi-agency team addressing economic development needs throughout the county in a collaborative, coordinated fashion. In 2018 the County will continue to work on understanding and addressing the community's needs regarding mental health and substance abuse. Expenses in this service category also include the County's continuing efforts related to broadband needs and potential service delivery in rural areas.

Public Records and Information: The 2018 proposed budget in this service category is not significantly changed from 2017. 2018 will be a gubernatorial election and the costs associated with that work is budgeted. Some of this increase is offset because 2017 was a reappraisal year, which will not reoccur in 2018 saving some expense. The County is continuing our efforts to effectively engage community members which is reflected in slightly increased expenses in 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 2018 budget includes expenses related to facility needs including completion of the administrative building in Loveland, replacement of the Buckhorn communications tower and potentially work on fleet facilities in remote parts of the County, a new Coroner's office and morgue, an expansion of the Loveland Police and Courts building, and initial work to address severe overcrowding at the jail. The 2018 budget also includes expenses associated with increasing security for county employees and customers.

In 2018 the County will complete an updated Facilities Master Plan. This document will allow the Commissioners to set forth a financing plan to address the significant needs the plan will quantify.

The 2018 proposed budget includes increased funding for information technology to keep up with the rising cost of licensing and service agreements for software systems critical to many County services. In addition, to gain efficiency many service delivery processes are being redesigned and converted from paper-based systems to electronic content management systems. Expenses associated with this evolution are budgeted in 2018.

During 2017, the County conducted a comprehensive review of our facilities, programs and practices to ensure compliance with the American Disabilities Act (ADA). In 2018, the County will add an ADA Coordinator position in our Risk Department to oversee the implementation of the recommendations from the study over the coming 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. 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 already been identified as an acute need 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 being completed in 2018 will give the Commissioners the information they need to plan for the future.

Revenue Source Stability: The primary source of discretionary revenue for the County is property tax. This 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 may be necessary under the Gallagher amendment in the next reappraisal cycle in 2019. Because Larimer County's property values are concentrated in residential properties, these adjustments limit property tax growth.

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.

The County does not rely on sales tax as a primary funding source. However, it is critical to the services that are funded in this manner. These services are Natural Resources, fairgrounds and events center which is commonly known as The Ranch, and jail operations. Many national models show that the growth rate of sales tax is slowing due to consumer shifts to on-line purchases and demographic changes. The current fairgrounds and events center sales tax is set to expire at the end 2019. If the extension question on the November 2017 ballot does not pass, current operations at The Ranch would need to be significantly modified or other sources of funding identified. The sales tax devoted to jail operations covers a decreasing percentage of operational costs as sales tax growth fails to keep pace with escalating jail expenses.

County Strategic Plan: The Commissioners adopted a Strategic Plan with seven goals in 2013 for a five-year cycle, culminating in 2018. With help from many partners throughout the community, almost all the objectives under the plan have become operational. The seven goal areas are: Safety and Well-Being, Economic Development, All-Hazards Emergency Management, Collaborate, Operations, and



Customer Service. In 2018, the County has the opportunity to again engage with the community to identify new goals, develop new objectives and further strengthen the Larimer County community and organization.

Conclusion

The 2017 Revised and 2018 Proposed budgets comply with County policy and Colorado statutory requirements.

Sincerely,

A handwritten signature in black ink that reads "Linda Hoffmann". The signature is fluid and cursive.

Linda Hoffmann
County Manager