



ARAPAHOE COUNTY
COLORADO'S FIRST

Department of Finance

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Director

DATE: June 21, 2016

TO: Elected Officials and Department Directors

FROM: Executive Budget Committee

SUBJECT: 2017 BUDGET DEVELOPMENT PROCESS

The 2017 budget development process will begin in July and the Board of County Commissioners (BOCC) and Executive Budget Committee (EBC) have discussed the elements that should be included in this year's budget process in order to facilitate the adoption of an operating budget that is structurally balanced, works to preserve the long-term financial sustainability of the County, and that also is in keeping with the County's goals and objectives as set forth in Align Arapahoe. Prior to drafting this memorandum the EBC and BOCC received briefings on the forecast for revenues and expenditures for the upcoming budget year. In response, the following has been drafted containing guidance on the submission of elected office and department budget requests for fiscal year 2017.

2017 Outlook

During the development of the 2016 budget, the County's most significant source of revenue, property tax, indicated an increase due to the increased valuations during the 2015 reassessment. Overall taxable value grew 19%, but the County is limited by the Taxpayer's Bill of Rights (TABOR) and that permits growth at the estimated rate of inflation plus the growth in new construction. The growth in property tax was about 3.3% which translated into about \$4 million in increased property tax revenue. This growth in property taxes along with growth in other revenue allowed the County to provide funding for salary and benefit increases as well as other needs for departments and elected offices with a less than \$200,000 surplus in the General Fund operating budget.

Unfortunately, lower energy prices resulted in a lower inflation rate than was estimated with the result that the County collected more than TABOR permits and will need to refund some of the property tax revenue as well as calculate the 2017 property tax growth from a lower base amount than anticipated. With the over collection of about \$1.2 million in property tax revenue due to a 1.0% lower inflation rate, last year's budget would not have been balanced and not all of these expenditures would have been possible.

The projections for 2017 still show growth across a wide range of revenue sources. Property taxes are expected to grow at 2.9%, but will start from a base amount that is \$1.2 million less than last year which will dampen the growth. Revenue growth appears to be continuing in several other key areas based on

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collection trends through 2015 and the first quarter of 2016. Motor vehicle and construction related fee, permit, and charges for services revenue continues to show growth. Sales and use tax for preserving open space continue to growth with consumer spending. Increases in interest rates from the Federal Reserve will have a positive impact on revenues derived from the earnings on investments albeit not significantly. Projections from the 1st Quarter Budget Review this past May indicate General Fund revenues of \$169 million for 2017, which is about \$2 million greater than the total revenue adopted in the 2016 budget of \$167 million. Projected expenditures for 2017 including forecasted increases for salaries and benefits could result in a deficit of about \$3 million that would have to be addressed prior to adopting the budget in December. Growth across other special revenue funds will vary with the trends in those specific revenue streams.

BOCC and EBC Guidance for 2017

The general guidance from the BOCC and EBC is a request that departments and elected offices continue to submit budgets that are well planned, streamlined, efficient, focus on needs not wants, and provide justifications for changes in the current level of services and/or funding. Furthermore, the BOCC and EBC are also requesting that departments and elected offices continue to look for new ways to maximize efficiencies and evaluate opportunities to reduce operating expenses to facilitate balancing the operating budget. An example of this type of efficiency effort is the current business process improvement program the County is undertaking. The BOCC and EBC also want to stress that they value County employees and will continue to evaluate how total compensation recommendations for employee salaries and benefits can be accommodated in the 2017 budget.

Baseline Budget

The 2017 baseline budget will be set at the approved baseline budget for 2016 plus any items that are ongoing from adopted 2016 budget packages or supplemental requests that have been adopted by the BOCC since the last budget development process began. The baseline budget is to budget for the current level of services or programs provided by the County. As in prior years, departments and elected offices will be able to move funds within the baseline limit for controllable accounts that best maintains the current level of service provided. For any change (increase or decrease) to the current level of service, elected offices and departments should submit budget package requests. Please review the baseline budget for your department or elected office and contact the Budget Division in Finance if you have any questions about the information.

Payroll and Administrative Budget Items

The Budget Division will continue to budget for items within an elected office or department baseline budget that apply to employee salaries and benefits, internal charges, and inter-fund operating transfers. It is important for departments and elected offices to review this information during the budget submission period and verify the data to ensure there have been no errors or omissions in the baseline staffing for the 2017 budget process.

Currently, the Human Resources Department is reviewing compensation and benefits data and will provide the BOCC and EBC with options and recommendations regarding these areas of the budget in the coming weeks. For 2017, any adjustments to salaries, both merit and market, will be made following the budget submission period has ended once refined revenue estimates and compensation and benefit data are available to the BOCC. Specifically regarding health insurance, we will include realistic estimates of

increases for budgeting purposes, approximately 10%, awaiting recommendations from Human Resources and decisions by the BOCC.

For planning purposes, reductions for vacancy savings will remain the same as those applied during the 2016 budget process at 2.0% for all departments and elected offices and an additional 1.5% for elected offices and departments over 50 FTE. These reductions will be input by the Budget Division prior to the close of the budget submission period but may be adjusted by the Executive Budget Committee or Board of County Commissioners later in the budget process as available funds permit.

Budget Package Requests

Budget packages are required for any addition, expansion, or reduction of the current level of services provided by the County and for the input of capital projects or fixed assets. The Executive Budget Committee has been tasked with the responsibility of reviewing all departmental and elected office budget package requests in the preparation of the recommended budget. The EBC will review these requests similar to the process over the past few budget years in examining the detailed justifications provided by the department and elected office regarding the need for the budget package and how the request fits in with the overall goals and objectives of the County.

Inclusion of a direct linkage between budget package requests and the department's goals, objectives, and those of the core programs and functions will be required for the 2017 budget process. The Board of County Commissioners and the Executive Budget Committee will be looking for this link within the detailed justifications for any changes in the levels of service or budget package requests as they begin to integrate the progress made through the Align Arapahoe process and department budgets. For elected offices, a link between budget package requests and the performance of their statutory responsibilities will be a suitable comparison to the information departments are required to submit.

It is the preference of the Executive Budget Committee that budget packages proposed for new or increased staffing, programs, or services should be accompanied by additional revenue or reductions to the existing operating budget to fund the request. As stated earlier, there should be a continued focus on finding efficiencies and innovative ways to maintain the current level of services within current revenues for 2017.

As in prior years, there will be special considerations made for package requests for special revenue funds or programs that are entirely funded by non-County revenues such as by State or Federal grants. Routine packages for administrative items such as debt service or scheduled equipment or asset replacements will also be considered differently than packages for changes in service levels or other ongoing operating expenses.

The Budget Division will be happy to assist with any questions regarding what items should be considered as a budget package and how they should be submitted. For 2017, the policy of the Executive Budget Committee not considering budget packages under \$6,000 will be continued and those packages should not be entered unless there is a compelling reason to do so. More specific guidance on how these items should be entered will be presented to key departmental/elected office budget staff during budget entry training later in June.

Capital Improvement Program Requests

Requests for capital improvement projects will continue to follow the process implemented by the Capital Improvement Program (CIP) Committee in 2015. The CIP Committee has revised the way in which the 5-year capital improvement program master plan is developed and sent out communications to departments and elected offices about the changes that were occurring and how and when projects should be submitted. Starting in 2016, the CIP program shifted to a biennial budget approach where the 5-Year master plan will only be updated every other year, in lieu of the previous process that updated the CIP master plan annually. During the off year of the new CIP process, capital budget requests will be limited to the projects identified for consideration as part of the second year of the approved 5-Year Master Plan. The CIP Committee will only consider new projects for recommendation to the BOCC in the off year that were not identified in the approved master plan if they and were not known when the current master plan was developed and meet the following criteria; (1) required to address new life safety or public health issues; (2) required to address legal or legislated mandates; or (3) address critical program needs.

Since 2017 is the off-year of the current approved CIP master plan, the budget department will not be issuing instructions for submitting Capital Project Requests. If your department or elected office feels they need to submit a 2017 Capital Budget Request that meets the above criteria for new off-year projects, please submit a brief description of the project and justification to Richard Hawes, Facilities & Fleet Management Director/CIP Committee Chair by July 8, 2016. The CIP Committee will review your request and let you know if it can be considered as a new project for 2017.

As part of the 2018 budget process a new master plan and 5-Year forecast will be developed for the period 2018 – 2022. Departments and Elected Offices will be receiving information later this year that will provide preliminary information to help prepare for the master plan update that will be part of the 2018 budget development process.

Submission of 2017 Budget Requests

The submission of 2017 budget requests by departments and elected offices will be through the newly developed Budget Development System (BDS). Representatives from elected offices and departments will be trained on the new system during June and, while it is a completely new system, the entry of budgetary requests and information will be similar to what has been done in the past. The new Budget Development System will offer users a much improved and easier user interface for entering, viewing, and reporting on their budget requests. Users will be able to see what elements of the budget have been completed and submit them to the Budget Division for review, eliminating the need for budget checklists or signatures to confirm budget submission. Improvements and enhancements to the system will continue through 2016 and will introduce many more features for users by the spring of 2017 for the 2018 budget process.

Calendar for 2017 Budget Process

June 13-16	Budget training for departmental/office budget contacts
July 1	Budget system open for budget entry
August 5	Budget system closes for budget entry/submissions due
Mid-August	Preliminary Executive Budget Committee review of budget requests begin
Sept. 7-9	Executive Budget Committee meetings with elected offices/departments

Late Sept. Executive Budget Committee review of budget requests end
Oct. 11 2017 Recommended Budget presented to Board of County Commissioners
Oct. 18 Executive Budget Committee presents 2017 recommendations to BOCC
Oct. 25 Public hearing on 2017 Recommended Budget
Dec. 13 Adoption of 2017 Budget at public hearing

The Executive Budget Committee would like to thank elected offices and departments in advance for their cooperation in helping to improve the County's budget process and financial condition over the last few years and look forward to working together on the 2017 budget.

Thank you.

Cc: Board of County Commissioners
Key Elected Office/Department Budget Contacts