



Dear Chairman Poschman and Members of the Board:

As required by Colorado Budget Law, C.R.S. 29-1-103(1)(e), I am submitting this 2020 proposed budget and five year plan for your consideration. Staff has generated the accompanying budget documents to support the Board in its decision-making and final adoption of a budget and five year plan for all County funds on December 10th (first reading December 5th). The budget has been prepared in compliance with State Statute, Generally Accepted Accounting Principles, and the County's Home Rule Charter. Staff has strived to focus on investing in services and infrastructure that will produce results citizens need and want by aligning appropriations with the strategic plan (see attachment 1) and changing economic conditions.

The Board's budget policy calls for the adoption of a balanced five-year plan for the County's General Fund. Additionally, it has been the County's practice to adopt balanced five year plans for all special revenue and enterprise funds outside the General Fund (e.g. Airport, Library, Landfill, Open Space and Trails, Translator, etc.). Revenue projections for the proposed 2020 budget and five year plans were developed in partnership with the County's Financial Advisory Board. Appropriation recommendations were developed based on information submitted by departments, Board established priorities and the County Strategic Plan. The County's Budget Director, Finance Director, Deputy County Managers, and County Manager worked with departments to make appropriation recommendations that will be further discussed in the remainder of this memo and at budget meetings scheduled in October and November.

The proposed 2020 budget for all funds is \$141,766,833 which is a 4.2% decrease from 2019; revenues for all funds are projected to increase by 3%. Overall the reduction in spending is primarily due to fewer capital projects in the 2020 budget than the 2019 budget. The proposed General Fund budget is \$32,160,217, which is an 8.9% increase from 2019; General Fund revenues are also projected to increase by 8.9%. The proposed 2020 budget and five year plan continues to invest in renewal and modernization efforts, build capacity to address service demands, and minimize organizational risk. There are significant projects and expenditures proposed in the Solid Waste Center, Road and Bridge, and Transit Sales and Use Tax funds, among others, which account for the proposed use of fund balance in 2020. Additionally, the 2020 budget and five year plan anticipates that there will be an economic correction within five years and maintains healthy operating surpluses and fund balance reserves should economic conditions change.

The proposed 2020 budget and five year plan was developed considering broader national and local economic conditions. Pitkin County's economy, along with the national and state economies, has experienced sustained growth in the ten years since the end of the Great Recession; we are currently in longest sustained period of economic growth on record. On average, national growth cycles last five years before a correction. While numerous factors must be considered, staff is anticipating that a national and local economic correction will occur within the planning timeframe of the 2020 budget and five year plan. It is difficult to predict

precise timing for an economic correction. It is possible that the current period of growth will continue for longer than past growth periods because it is one of the weakest overall recoveries on record. Slow growth has kept inflation and interest rate increases in check, holding off conditions that would typically result in an economic correction. The proposed budget and five year plan deals with uncertainty about the timing of an economic correction by structuring the budget with operating surpluses and by using fund balance for capital projects that can be deferred in the event of a significant economic downturn. Staff will continue to closely monitor economic conditions locally, nationally, and internationally for correction, and take appropriate steps to manage expenditures to maintain the short and long-term financial health of the County.

Finance staff has estimated fund balances to be carried over into 2020 and the County's citizen Financial Advisory Board has worked with staff to create realistic estimates of future revenue changes (see revenue projections section). Revenue and fund balance projections for the 2020 budget and five year plan are a conservative reflection of the strength we have seen in the local economy since the end of the Great Recession.

Appropriation Highlights:

Overall the 2020 budget has been conservative addressing funding requests, to maintain healthy fund balances. Appropriation recommendations for the 2020 budget and five year plan were created from department budget profiles that include: a narrative discussion of the department's overall budget request; factors that will impact the department's budget for the 2020 budget year and five year plan; and indicators/measures of department success. The budget profiles provide a broad context for a department's budget request and provide a good overall discussion of the outcomes departments are pursuing. The budget profiles will be provided for your consideration at Core Focus budget meetings. In making appropriation decisions staff uses the County Strategic Plan as a roadmap. Highlights of proposed appropriations included in the 2020 budget and five year plan include:

Strategic Plan Core Focus Area: Flourishing Natural and Built Environment

- *Conserved natural resources and environment:* The 2020 budget proposes using \$6,950,000 million of fund balance and current revenues in the Solid Waste Center fund to construct an operations facility and purchase a wood grinder. The operations facility will enable expansion of recycling and construction and demolition (C&D) diversion programs. Likewise the grinder will improve the efficiency of composting operations and provide capacity for the landfill to implement C&D diversion programs currently under consideration by the Board. The five year plan anticipates adding solar to the operations facility in 2021. Pending Board approval of C&D rules, a Construction and Demolition Manager will be added to the Solid Waste Center budget.
- *Conserved natural resources and environment:* The Healthy Rivers and Streams fund proposed budget includes use of \$1,390,000 in fund balance and current revenues to complete the Basalt White Water Park. This facility protects stream flows and water quality in the Roaring Fork River by allowing the County to call water to that portion of the river via a Recreational In-Channel Diversion (RICD) created for this purpose.
- *Conserved natural resources and environment:* The five year Capital Plan includes design and installation of solar panels at the River Park Center (123 Emma Road) in Basalt, and an investigation into solar applications for the Jail, Courthouse and Admin/Sheriff campus. Another project is a \$300,000 grant, with \$100,000 County match, to explore the feasibility

of a micro grid, with solar, battery storage and Ectogrid to significantly reduce reliance on fossil fuels at the Airport, Public Works facility, RFTA facility, and Brush Creek Park and Ride, while also improving the resiliency of the power grid for these facilities.

- *Conserved natural resources and environment and well planned and livable built environment:* The General Fund budget includes the addition of one FTE to support Long Range Planning and Climate Action Plan oversight. If approved the FTE will be housed in Community Development, but will support all departments in implementing the County's Climate Action Plan. Additionally there are two seasonal positions recommended in Community Development, a Special Events Permit Technician and a Plans Examiner/Inspector (3 year term limit).
- *Ease of mobility via safe and efficient transportation systems and responsibly maintained and enhanced county assets:* The proposed 2020 Road and Bridge fund includes \$3.4 million for road maintenance projects, and just over \$12 million for road maintenance in the course of the five-year plan (average of \$2.4 million a year). However, the long term outlook will require the County to either slow the pace of these investments or identify new revenue opportunities to make our current investment levels sustainable. It is also worth noting that current funding levels for road maintenance do not include funding for new capital projects to improve road safety or address capacity issues. The 2020 budget continues funding for RFTA and the EOTC through the Transit Sales and Use Tax fund, budgeted at \$23.4 million in 2020.

Strategic Plan Core Focus Area: Livable and Supportive Community:

- *A sense of personal and community safety:* The proposed 2020 Budget includes the addition of 5.2 FTE in the Sheriff's Department, and significant additions in contracted services for Courthouse security screening and Jail medical services:
 - The proposed 2020 budget includes two deputies dedicated to the Airport and paid from the Airport fund and two deputies dedicated to general patrol duties and paid from the General Fund. We are anticipating decreases in overtime expenses with the addition of the General Fund positions; however, as in any year, a major incident may require us to revisit the Sheriff's overtime budget.
 - The addition of one Jail deputy in the General Fund. The average daily population in the Jail has grown, as has the complexity of individuals in that population. Currently, adequate coverage requires significant overtime expenditures. We have reduced Jail overtime in anticipation of this position being approved.
 - Addition of 0.2 FTE to the Dispatch Operation Admin/Dispatcher (from 4 to 5 days per week). 911 Dispatch calls continue to grow in both volume and complexity. This will move a 0.8 FTE to a full FTE, which is an efficient way to improve capacity given fixed benefit costs.
 - \$318,846 increase for contracted services. The 2020 proposed budget includes an additional \$188,846 for Jail medical services (\$338,846 total). The Jail population is growing in both volume and complexity. The County is required to provide Jail medical services, and these services represent a significant risk if not delivered properly. The volume and complexity of our Jail population has outgrown our current nursing services, requiring a more robust service contract.

- \$130,000 to contract for security screeners at the Courthouse. The remodel of the old Courthouse will modernize security to current standards for the Ninth Judicial District. The Sheriff's Office has determined that contracted screeners are a more efficient use of funds versus dedicating deputies for security screening duties.
- *A sense of personal and community safety and self-sufficient individuals:* The proposed 2020 budget includes \$1.9 million in expenditures from the Healthy Community fund to support community non-profits, and includes \$2 million from the Public Health fund to support public health initiatives. The proposed 2020 budget includes two new FTE's in the Public Health fund pending passage of the County tobacco tax in November, including one Public Health Promotion Analyst, and a Public Health Operations Manager. The Operations Manager will oversee contracting, data analysis, compliance and policy for programmatic work, including substance and tobacco use, mental health, access to integrated care, and all mandated public health services. The Health Promotion Analyst will help manage expanding programs in public health promotion, mental health, substance abuse, and access to healthcare. The Human Services fund maintains services with just over \$3.7 million in proposed expenditures, including increasing the Senior Services Assistant Cook from 2 to 3 days a week (an additional 0.225 FTE).
- *Access to recreation, education, arts and culture:* The Library Board has proposed the addition of two Library Assistants (2 FTE's) to improve coverage of the children's library and better serve the public in accessing library resources.
- *Diverse and livable housing options:* \$450,000 is budgeted for planning and infrastructure improvements at Philips mobile home park and \$350,000 for a potential housing acquisition. Support for the Aspen Pitkin County Housing Authority (APCHA) is proposed to be \$404,700, an increase of 2%. APCHA's long-range plan includes another 2% increase in 2021, but increases of 20% or more in future years. These increases are on top of a 24% increase in the 2019 budget. There will need to be more discussion about future APCHA funding, and opportunities for APCHA to develop its own revenue sources. Continued 20% increases are not sustainable in the County's General Fund.

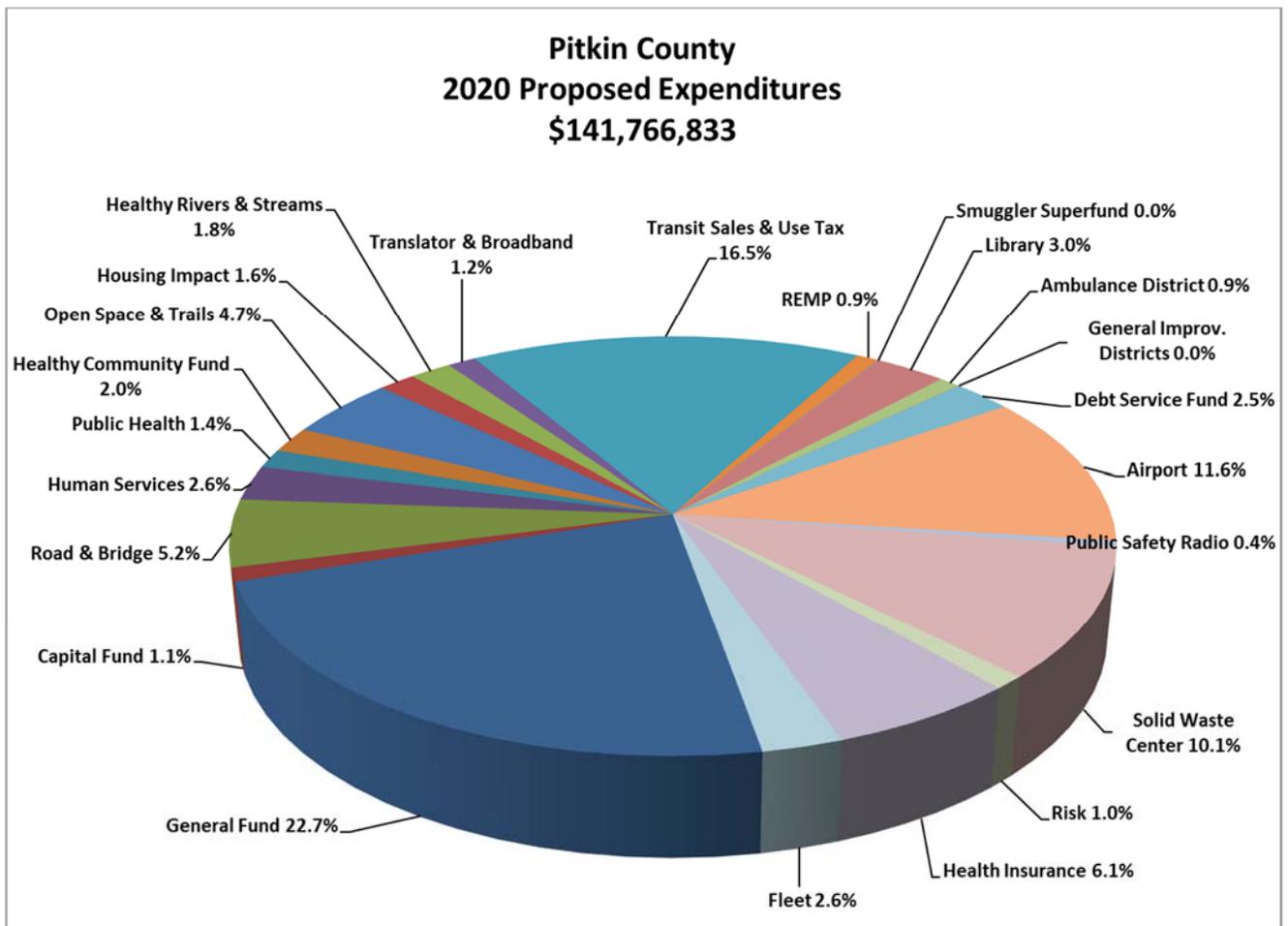
Strategic Plan Core Focus Area: Prosperous Economy

- *Sustainable economy and employment:* The Airport's 2020 budget and five year plan includes appropriations to design and engineer airport improvements pursuant to recommendations made by the Airport Vision Committee and directed by the Board of Commissioners. The Airport budget also includes appropriations to maintain high safety standards with increased commercial volumes. As previously mentioned, the Airport proposes funding two Sheriff Deputies who will be stationed at the Airport.
- *Sustainable economy and employment:* The Translator fund has appropriations for the Ruedi site build and to continue with deployment of fixed wireless services from the County's 4GB microwave middle mile network.
- *Affordable and quality health care options:* The 2020 proposed budget and five year plan includes funding for the Valley Health Alliance (VHA) to ensure affordable quality healthcare options are available for large and small employers in the County. The 2020 budget also continues funding for the Mountain Family Health Center clinic in Basalt to serve people with quality primary care, dental care and mental health services regardless of ability to pay. Increases in uninsured patients in our region may lead to increased funding needs for this

service, the County will receive an updated pro-forma in November, and staff will update budget projections for 2020 accordingly.

- *High performing county leaders, teams and employees:* To maintain the County's competitiveness to recruit and retain employees, the proposed 2020 budget includes the following changes for employee pay and benefits: a 3% wage adjustment, a 1.5% pool for merit bonuses, a 0.5% pool for 'hot spot' market adjustments, and a new 1% match for employee retirement (14% total County contribution). Finally, health insurance benefits will remain largely unchanged from 2019. County costs are proposed to increase by 3.5% and employee dependent contributions are projected to increase 2.5%.
- *Responsible and accountable stewardship of County assets:* There are three positions recommended in special revenue funds that will enhance stewardship of County assets: a Mechanic in the Fleet fund; a Risk Manager in the Risk fund; and a seasonal maintenance crew position in Open Space and Trails. The General Fund includes a one-year extension of the term-limited Finance Specialist position through 2021.

For all funds the proposed 2020 budget is as follows, and is further detailed on attachment 2:



Revenue Projections:

With input from the County’s Financial Advisory Board, staff developed revenue assumptions which take a conservative approach, despite the good economic progress made in the last ten years. We continue to work diligently to accurately forecast revenues in our five-year plan. Following are some key revenue assumptions used to develop this proposed budget:

	2019	2020	2021	2022	2023	2024
Property Tax						
- Prior Year Inflation	1.75%	2.1%	2.1%	2.1%	2.1%	2.1%
- Growth	<u>1.30%</u>	<u>1.2%</u>	<u>1.4%</u>	<u>1.1%</u>	<u>1.1%</u>	<u>1.1%</u>
Total	3.05%	3.3%	3.5%	3.2%	3.2%	3.2%
Sales Tax	15%	-2.0%	3.25%	3.25%	3.25%	3.25%
Investment Income Rate	1.5%	1.5%	1.75%	1.75%	1.75%	1.75%
Community Development Fees	4.5%	-11.7%	3.25%	3.25%	3.25%	3.25%

The County’s share of a 2% sales tax (less than one cent per dollar) is allocated between the General Fund, Capital Fund, and Road & Bridge Fund. Although allocations may shift year to year depending on the amount of Capital and Road projects, 2020 remains the same as 2019.

	General Fund	Capital Fund	R&B Fund
2019 Budget	56%	12%	32%
2020 Budget	56%	12%	32%

With these assumptions, revenues in the General Fund are projected to increase by 8.9% from 2019 to 2020, with no additional taxes.

Highlights for key revenue assumptions follow:

- *Community Development Fees:* In 2020 Community Development revenues are projected to decrease by 11.7% from 2019. This is based upon the expected development projects currently being reviewed. The remaining years of the plan (2021-2024) project a slow growth of 3.25% as recommended by the Financial Advisory Board.
- *Property Tax:* Is limited to prior year inflation plus growth. During the period of significant growth in property values, Pitkin County complied with the revenue restrictions of the Taxpayers Bill of Rights (TABOR) by giving temporary mill levy reductions, reducing the effective General Fund mill levy from the base of 3.077 mills to its lowest rate of 1.491 mills in 2009. If property values decrease, the County’s temporary mill levy reductions will be incrementally eliminated until the base levy of 3.077 mills is reached. Staff estimates that assessed values would have to decrease by 51% from their high in 2010 before the General Fund would reach its base levy of 3.077 mills and property tax revenues decrease.

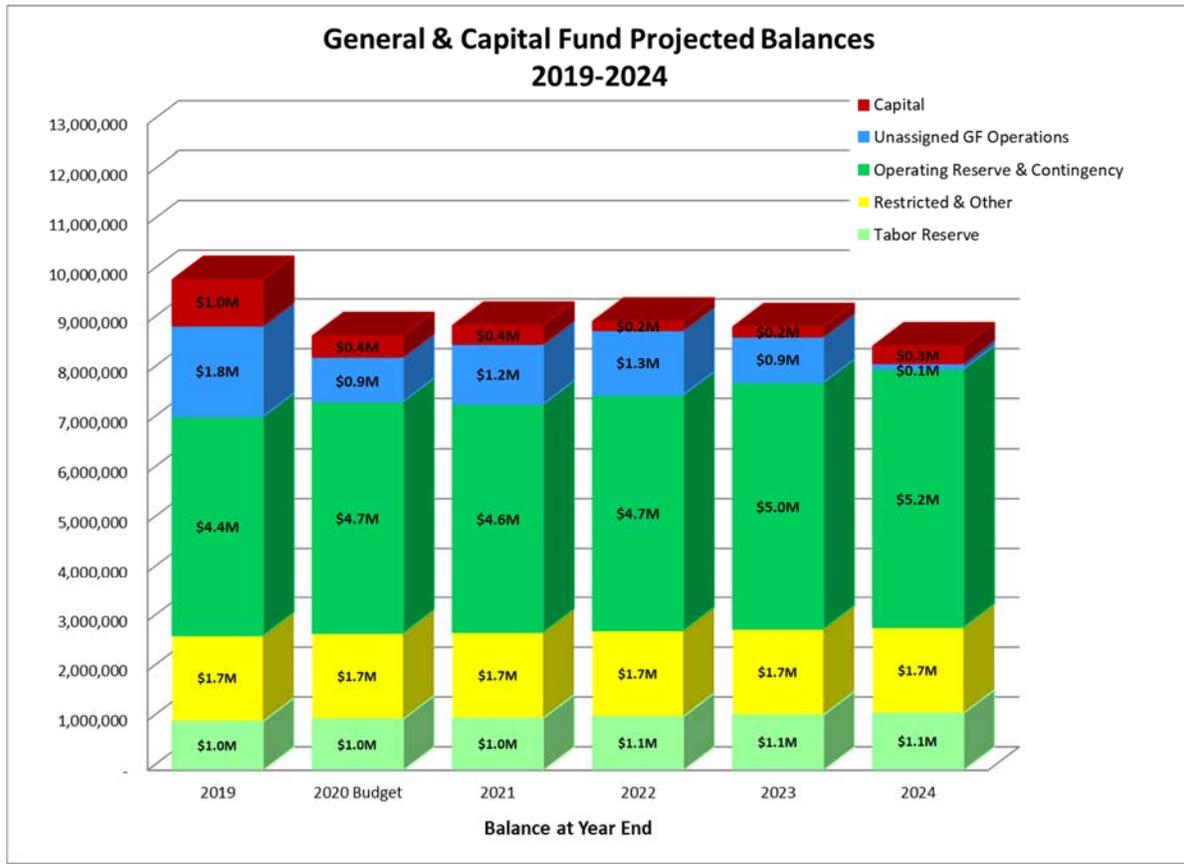
- *Sales Tax*: 2019 sales tax collections have increased significantly due to changes in State tax collection laws and are projected to finish the year 15% over 2018. The projections in the 2020 budget and five year plan reflect the recommendations of the Financial Advisory Board. A 2% decrease in 2020 reflects recessionary concerns, whereas the remainder of the five year plan reflects a conservative average of 3.25% growth in sales tax collections. Sales tax is one of the County's most elastic revenue sources, responding quickly to economic ups and downs.
- *Investment Income*: In 2019 the County transferred management of its investments to a professional investment advisor and updated its Investment Policy. Investment income projections are based upon their recommendations and the new policy. Ordinarily an increase in return would be expected as a result of these changes; however, the current and forecast low interest rate environment leads us to project modest returns throughout the five year plan.
- *Payment in Lieu of Taxes (PILT)*: PILT funds are anticipated to remain "fully funded" for 2020 and subsequent years. This revenue does have risk associated with it, due to the possibility of future federal appropriation reductions. However, recent history leads staff to believe that PILT will continue to be fully funded in the near term. The budget carries adequate operating surplus to make adjustments if and when PILT is decreased.

Finally, there are ballot questions on the November 2019 ballot which could impact County revenues and expenditures. The County is asking voters to approve a tobacco tax which would generate additional revenue up to \$700,000. The revenue would be used for tobacco cessation and other Public Health programs. The ballot measure passed with 79% of the vote.

Fund Balance:

While addressing major community needs in the 2020 budget and five year plan, the County's fiscal health is projected to remain strong. Projected fund balance for all funds at the end of 2020 is \$58,844,903 equal to 48% of operating expenditures. General Fund balance is projected to end 2020 at \$8,303,286 or 26% of operating expenditures. The proposed budget recommends use of fund balance, mostly in special revenue funds for major projects (see attachment 2). In the event that economic conditions change, or the Board wishes to generate additional fund balances, capital projects can be delayed or stopped to create accumulation rather than use of fund balance.

Over time, staff anticipates that the County will have to stop revenue transfers and use of fund balance from the General Fund to other funds to support capital if we are going to keep operations balanced with revenues beyond the five year plan currently under review. The County's ten year Capital Plan and Road and Bridge Plan both show deficits without continued fund balance transfers or increased sales tax allocations. In order to maintain capital investments into the future, the County will need to examine revenues or slow future capital projects. The County's Financial Advisory Board is reviewing the County's revenue structure and will bring recommendations to the Board during the first quarter of 2020. These recommendations can be incorporated, as appropriate, into the County's long-term budget planning. As previously discussed, the Board could quickly generate surpluses by re-prioritizing capital investments in the 2020 budget and five year plan.



Details of the proposed 2020 budget and five year plan are included in the attached materials.

- Pitkin County Strategic Plan
- Fund Balance Overview – All Funds
- Pitkin County 2020 Proposed Expenditures Pie Chart
- General Fund 2020 Budget and Five Year Plan
- General Fund 2020 Proposed Expenditures Pie Chart
- Capital Fund 2020 Budget and Five Year Plan
- General and Capital Funds Five Year Fund Balance Chart
- Pitkin County Full-Time Equivalent History

Staff looks forward to the opportunity to further discuss our budget recommendations in meetings scheduled in October and November. Bottom line, the proposed budget is a responsible plan, with balanced operational spending, use of fund balance for capital investments, and retention of healthy reserves to deal with the unexpected.

Conclusion

On behalf of the employees of Pitkin County, I want to thank the Board of County Commissioners as you evaluate and provide direction for the 2020 budget and five year plan. Again, I am pleased to present a balanced budget and five-year plan for your consideration. We must continue to be diligent in our work and responsive to the changes in our local economy and national policies that may change our revenue projections and budget plans.

In closing, I want to acknowledge the tremendous work by the staff of Pitkin County and our citizen Financial Advisory Board. Employees, Supervisors, and Department Heads work continuously to evaluate and adjust operations and create room to restructure and realign our budget to best serve our community. I am humbled and proud to work with such dedicated public servants and citizens.

I respectfully submit this budget for your consideration. It is a responsible plan that will ensure the long term health of our organization and wellbeing of our community. I look forward to your deliberations, questions and recommendations regarding this budget proposal. We have scheduled the following between now and final adoption on December 10th to discuss the proposed budget in more detail:

- Oct. 15th – Presentation of the 2020 Proposed Budget - High Level Budget Overview
- Oct. 22nd – Core Focus Area (Livable & Supportive Community)
- Nov. 7th – Core Focus Area (Flourishing Natural & Built Environment)
- Nov. 12th – District Attorney and Healthy Community Fund
- Nov. 19th – Core Focus Area (Prosperous Economy) and Ambulance District
- Dec. 10th – Final adoption and mill levy certification (December 5th first reading)

Sincerely,



Jon Peacock
County Manager