



ARAPAHOE COUNTY
COLORADO'S FIRST

Department of Finance

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TODD WEAVER
Director

DATE: June 19, 2020

TO: Elected Officials and Department Directors

FROM: Executive Budget Committee

SUBJECT: **2021 BUDGET DEVELOPMENT PROCESS**

The ongoing COVID-19 pandemic and the economic impacts of business closures and other public health measures has changed the trends in revenue collections and will change the 2021 budget development process. The Board of County Commissioners (BOCC) and Executive Budget Committee (EBC) have met and discussed the upcoming 2021 budget development process and have developed the following guidance for your elected office/department's budget submissions. The following guidance is issued 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 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 2021 that will occur between July 1st and August 5th.

2021 Budget Outlook

Overall, the budget outlook for 2021 is projected to be much more challenging than last year as revenue growth projections have flattened out due to the impacts of the current economic downturn. A brief overview of the County's preliminary projections for 2021 revenue indicates that the growth in property tax will continue to show growth, but at a slower rate than the previous couple of years. This year is not a reappraisal year, nor is it expected that the Residential Assessment Rate (RAR) will change in 2020. The impacts of the current downturn are likely to be shown in the 2021 reappraisal along with a potentially lower RAR due to the Gallagher Amendment. Property tax is, by far, the largest single source of revenue for county operations and growth in this revenue is guided by the provisions of the Taxpayer's Bill of Rights (TABOR), which allows growth at the rate of new construction plus metro-area inflation. For 2021, projections for new construction of about 1.0-1.2% and inflation of about 1.5-2.0% for a total growth of between 2.5% and 3.2%. The inflation rate has dropped since earlier projections as a result of COVID economic impact. Revenue is projected to be \$144.5 million for the 2021 budget; up about \$4.5 million from 2020 adopted budget.

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There are some revenue sources that is anticipated to be negatively impacted. For example, sales & use tax and revenues tied to new vehicle sales. It is estimated that there will be a 15% decline in sales and use tax for 2020, but hopeful that it might rebound for 2021. Interest earnings are anticipated to hold steady for 2020 based on the timing of the investments but interest rates are again at historical lows. Other revenue, such as land recording fees, are doing well as people are refinancing their homes. There is uncertainty surrounding State and Federal funding as some have shown signs of decreasing while others have remained the same. The overall trajectory of the economy right now is uncertain and revenue estimates and projections are difficult to determine without more concrete indicators of improvement.

Projections from the 1st Quarter Budget Review this past May indicate General Fund revenues of \$199.6 million for 2020, which is about \$1.5 million less than the total revenue adopted in the 2020 budget of \$201 million. This projection incorporates the current trends in revenue collections as well as the estimated property tax revenue growth. Current projections for 2021 revenue in the General Fund are \$205 million. An increase of \$4.0 million above the 2020 adopted budget consisting primarily of property tax growth. Projected expenditures for 2021, which include estimates of increases for salaries and benefits based on prior-year trends but not any potential budget packages or other increases, totaled \$206 million, up from an operating budget total of \$199 million in 2020. This 2020 figure is lower than the adopted budget of just under \$210 million due to one-time uses of fund balance which also will likely occur in 2021 to fund items like capital improvement projects. The projections show a General Fund budget that is roughly \$1.2 million out of balance before considering any proposed budget packages or one-time uses such as equipment purchases or capital projects. With the current economic climate, it is almost a certainty that increases in market salaries and wages will moderate due to the dramatic increase in unemployment and job losses as a result of the COVID-19 economic downturn.

Projections for other major operating funds such as the Road & Bridge Fund and Law Enforcement Authority Fund also show that there will be challenges in balancing budgets for 2021 without making budgetary adjustments or drawing down fund balance.

BOCC and EBC Guidance for 2021

The overall guidance from the BOCC and EBC requests that departments and elected offices continue to:

- Submit budgets that are well planned, streamlined, efficient, focus on needs not wants, and reflect the County's Align Arapahoe goals and objectives in pursuit of a structurally balanced budget.
- Provide justifications for changes in the current level of services and/or funding.
- Look for new ways to maximize efficiencies and evaluate opportunities to reduce operating expenses to facilitate balancing the operating budget.
- Take a close look and evaluate programs and services and find areas where, if possible, reductions can be made and include those reductions as part of their budget. Specific focus should be given to changes in the service delivery model due to the pandemic to see if lessons learned, business process changes, or savings captured can yield permanent efficiencies or budget reductions in specific areas.

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- Review your department/elected office baseline with an eye toward what kind of changes or reprioritizing of budget line items can be made related to the new and different business processes used during the pandemic response.

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 2021 budget.

Specific Budget Guidance Items for the 2021 Budget Development Process

For 2021, the Board of County Commissioners and Executive Budget Committee have several items of specific guidance for elected offices and departments. These topics were discussed during the meetings on the 2021 budget development process and are as follows:

Voluntary Reductions: The BOCC and Executive Budget Committee are requesting, and expect, that departments and elected offices evaluate programs and services and find areas where reductions can be made to limit growth in operating expenses and submit reductions as part of their 2021 budget. While no specific targets for reductions have been provided for departments and elected offices, any reductions submitted will assist in developing a structurally balanced budget and effectively maximizing the financial sustainability of the County.

Budget Package Request Changes: There are several changes in the guidance related to budget package requests for 2021. These are:

- A change from a preference to a requirement that budget packages proposed for new or increased staffing, programs, or services should be accompanied by additional revenue generated by the proposed activity or reductions to the existing operating budget to fund the request.
- No budget packages under \$25,000.

Lessons Learned from COVID-19: The BOCC and Executive Budget Committee are requesting that departments and elected offices evaluate lessons learned from pandemic response. Especially toward new or improved business processes and any anticipated, or actual, savings from such changes. The E-Team is engaged in a similar look at the lessons learned from the pandemic, but the Executive Budget Committee and Board of County Commissioners would also like to hear from the individual departments and elected offices on their specific findings. The Budget Division will provide more information later in the budget development process on how the EBC would like such information submitted and/or discussed in meetings with departments and offices in September.

Baseline Budget

The 2021 baseline budget will be set at the approved baseline budget for 2020 plus any items that are ongoing from adopted 2020 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

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budget for your department or elected office and contact the Budget Division in Finance if you have any questions about the information.

For 2021, the Board of County Commissioners would like departments and elected offices to consider the budget amounts included within their baseline in relation to your operations during the pandemic. For example, is there a way to reallocate your baseline to address growing costs in one area by reducing the baseline in a different line item that is not as much of a priority based upon new ways of doing business?

Payroll and Administrative Budget Items

The budgets for employee salaries and benefits, internal charges, and inter-fund operating transfers will continue to be budgeted within an elected office or department baseline budget by the Budget Division where applicable. 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 2021 budget process as staffing data is prone to changes throughout the year.

The Human Resources Department will review compensation and benefit data and will provide the BOCC and EBC with options and recommendations regarding these areas of the budget in the coming weeks. For 2021, any recommended adjustments to salaries, both merit and market, will be made after the budget submission period has ended. It will be after refined revenue estimates and compensation and benefit data are available to the BOCC. For health insurance premiums, the Budget Development System allows us to project potential increases in health insurance rates as budget packages as the information becomes available during the budget development process. During budget development, generic estimates for both salary and benefit increases will be provided for purposes of budget entry.

For the upcoming budget year, vacancy savings reductions will be 2.0% for all departments and elected offices and an additional 1.50% for elected offices and departments over 50 FTE. These are the same rates that were in effect for the 2020 budget and will be input by the Budget Division prior to the close of the budget submission period.

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 continue to be required for the 2021 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.

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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.

The Executive Budget Committee and the BOCC are requiring that budget packages proposed for new or increased staffing, programs, or services need to be accompanied by additional revenue generated by that activity 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. With a changed economic and budgetary outlook, the philosophy regarding adding operating expenses to the budget has changed as well. Departments and elected offices should consider if the request to add ongoing operating expenses is more important than other current expenses and consider making such a reduction to fund the request.

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.

For 2021, the Executive Budget Committee has increased the minimum amount of a budget package for consideration at \$25,000. Budget packages for less than this amount should not be entered unless there is a compelling reason to do so. If you have questions on this limitation, please reach out to the Budget Division and they can provide assistance.

More specific guidance on how these items should be entered will be presented to key departmental/elected office budget staff during budget entry training in June. Please contact the Budget Division with any questions regarding what items should be considered as a budget package and how they should be submitted, and they will be happy to assist.

Capital Improvement Program Requests

Requests for capital improvement projects will continue to follow the process implemented by the Capital Improvement Program (CIP) Committee. The capital improvement program 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 (odd numbered years) of the 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 or those that meet specific criteria and were not foreseen during the development of the 5-Year Master Plan.

With the bi-annual CIP Process, the 2021 Budget is an update year. The CIP Committee will only consider new projects that meet the criteria listed below:

1. The project was NOT known when the current master plan was developed
2. Is required to address new life safety or public health issues
3. Is required to address legal and legislated mandates
4. Will address critical program needs

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The CIP Committee will be tasked to refocus and reduce the 2021 project list to ensure that the plan is in line with the County's priorities. The Committee will also evaluate the impact of the economy on the projects, including any partnerships with other government agencies that may have significantly reduced revenue sources that are required to continue or complete projects.

Any department/elected office with potential projects need to email Dick Hawes, Facilities and Fleet Management Director, about the project no later than July 10th, 2020.

Deadline for the Submission of 2021 Budget Requests

The submission of 2021 budget requests by departments and elected offices will be through the Budget Development System (BDS) and will be **due by close of business Wednesday, August 5th**. The technical aspects regarding the entry of budgetary requests and information will be similar to what has been done in prior budget development processes. That said, the Budget Division is providing training throughout this month and in July for representatives from elected offices and departments on the use of the system.

Department and elected office meetings to review the 2021 budget requests will be held September 9th – 11th and information on specific scheduling will be available later in the budget process.

Important Dates for 2020 Budget Process

June 23-26	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. 9-11	Executive Budget Committee meetings with elected offices/departments
Late Sept.	Executive Budget Committee review of budget requests end
Oct. 13	2021 Recommended Budget presented to Board of County Commissioners
Oct. 20	Executive Budget Committee presents 2021 recommendations to BOCC
Oct. 27	Public hearing on 2021 Recommended Budget
Nov. 17	Final review of 2021 Budget and 3 rd Quarter Budget Review
Dec. 8	Adoption of 2021 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 2021 budget.

Thank you.

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

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