



ARAPAHOE COUNTY
COLORADO'S FIRST

Department of Finance

5334 South Prince Street
Littleton, Colorado 80120-1136
Phone: 303-795-4620
Fax: 303-738-7929
www.arapahoegov.com
finance@arapahoegov.com

JANET J. KENNEDY, CPA
Director

DATE: June 17, 2019

TO: Elected Officials and Department Directors

FROM: Executive Budget Committee

SUBJECT: 2020 BUDGET DEVELOPMENT PROCESS

The Board of County Commissioners (BOCC) and Executive Budget Committee (EBC) have met and discussed the upcoming 2020 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 2020 that will occur between July 1st and August 2nd.

2020 Budget Outlook

The overall budget outlook for the upcoming budget development process is continuing the trend that we have seen over the past few budget cycles. The County is experiencing growth in the property tax base as well as in specific revenue areas such as development related fees and charges as well as in some other areas such as an increase interest earnings and tax collection fees. On the expenditure side, a healthy job market has pushed unemployment lower and therefore upward pressure on salary and benefits costs will continue along with increased costs for supplies, materials, and equipment.

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 2020, this local growth rate is projected at 3.8%, resulting in about \$4.0 million in additional property tax revenue. This is about 1.0% less than the local growth rate used in the 2019 budget. A slowdown in economic growth and a drop-in energy prices reduced the inflation rate by the end of the year. The drop in estimated inflation combined with the need to refund a small amount of 2019 collections, due to using a higher estimate of inflation, results in lower revenue growth than in 2019's budget process. Each 1.0% change in the local growth rate results in a \$1.3 million change in property tax growth. On a more optimistic note, the change in the residential

MISSION

Enhancing your quality of life through exceptional delivery of services and efficient use of public funds.

assessment rate is considerably less than what was being projected a year ago, only decreasing from 7.20% to 7.15% for 2019 values used for 2020 collections.

Projections from the 1st Quarter Budget Review this past May indicate General Fund revenues of \$197 million for 2020, which is about \$6 million greater than the total revenue adopted in the 2020 budget of \$190 million. This projection incorporates the current trends in revenue collections as well as the estimated property tax revenue growth. Projected expenditures for 2020, which include estimates of increases for salaries and benefits based on prior-year trends but not any potential budget packages or other increases, totaled \$197 million, up from an operating budget total of \$189 million in 2019. This 2019 figure is lower than the adopted budget of over \$196 million due to one-time uses of fund balance which also will likely occur in 2020 to fund items like capital improvement projects. The projections show a General Fund budget that is roughly balanced before considering any proposed budget packages or one-time uses such as equipment purchases or capital projects.

Projections for other major operating funds such as the Road & Bridge Fund and Law Enforcement Authority Fund also show that there will be some challenges in balancing budgets for 2019 without continuing to draw down fund balance. It is important to note that the 2020 budget projections also do not include any funding for any of the items identified and discussed at the Leadership Workshop in February.

BOCC and EBC Guidance for 2020

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.
- Departments and elected offices should be mindful of the current fiscal situation of the County and the need to address some of the long-term needs when preparing you budget submissions.
- Look for new ways to maximize efficiencies and evaluate opportunities to reduce operating expenses through methods such as business process improvement to facilitate balancing the operating budget.
- Provide justifications for changes in the current level of services and/or funding that tie to Align Arapahoe goals and objectives or statutory responsibilities.
- Take a close look and evaluate their programs and services and find areas where reductions can be made and include those reductions as part of their budget submission.
- Emphasize careful budget planning and forecasting in order to reduce the amount of budget supplemental requests that are submitted during the fiscal year and limiting such mid-year requests to those cases where the circumstances cannot reasonably be foreseen.

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 2020 budget.

Specific Budget Guidance Items for the 2020 Budget Development Process

For 2020, 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 2020 budget development process and are as follows:

Voluntary Reductions: The BOCC and Executive Budget Committee are continuing to request and expect that departments and elected offices take a close look at and evaluate their programs and services and find areas where reductions can be made and submit reductions as part of their 2020 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.

Additional Budget Information: The BOCC and Executive Budget Committee would like to build off of the information provided on efficiencies and related cost savings or cost avoidance provided with last year's budget submissions. For 2020, elected offices and departments should provide updates to the information provided last year to include similar items completed in the current year as well anticipated future efforts. The questions to be answered are listed below and should be addressed and submitted with their budget requests in the provided format to the Budget Division by August 2nd.

1. Please provide examples of operational efficiencies or business process improvements fully implemented by your elected office or department over the past year and provide an estimate of costs that were reduced or avoided as a result.
2. Please describe any current or planned business process improvement or operational efficiency efforts to include an estimate of costs savings or avoidance.

The Budget Division will provide the necessary forms and format for these responses once the budget development process begins.

Baseline Budget

The 2020 baseline budget will be set at the approved baseline budget for 2019 plus any items that are ongoing from adopted 2019 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 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 2020 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 2020, any recommended 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. For health insurance premiums, the Budget Development System allows us to project potential increases in health insurance rates as budget packages as they become 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 2020 budget process, reductions for vacancy savings have been modified slightly from last year's budget process due to the tight job market and increased unspent budget in salaries and benefits. 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 prior to 2018 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 2019 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.

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 2020, the Executive Budget Committee has maintained the minimum amount of a budget package for consideration at \$7,500. Budget packages for less than this amount 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. 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 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 or those that meet specific criteria and were not foreseen during the development of the 5-Year Master Plan.

As part of the 2020 budget process, a new Capital Improvement Program Master Plan and 5-Year forecast will be developed for the period 2020 – 2024. Departments and Elected Offices received information in May that provided preliminary information to help prepare and submit project requests for the master plan update that will be part of the 2020 budget development process. Requests for capital improvement projects for 2020-2024 were to be submitted to the Budget Division by June 3rd. If for any reason, you have a capital improvement project that was not submitted by June 3rd, please contact the Budget Division as soon as possible and we will work to get that included.

Deadline for the Submission of 2020 Budget Requests

The submission of 2020 budget requests by departments and elected offices will be through the Budget Development System (BDS) and will be **due by close of business Friday, August 2nd**. 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 2020 budget requests will be held September 4th – 6th and information on specific scheduling will be available later in the budget process.

Important Dates for 2020 Budget Process

June 13-27	Budget training for departmental/office budget contacts
July 1	Budget system open for budget entry
August 2	Budget system closes for budget entry/submissions due
Mid-August	Preliminary Executive Budget Committee review of budget requests begin
Sept. 4-6	Executive Budget Committee meetings with elected offices/departments
Late Sept.	Executive Budget Committee review of budget requests end
Oct. 8	2020 Recommended Budget presented to Board of County Commissioners
Oct. 15	Executive Budget Committee presents 2020 recommendations to BOCC
Oct. 22	Public hearing on 2020 Recommended Budget
Nov. 19	Final review of 2020 Budget and 3 rd Quarter Budget Review
Dec. 10	Adoption of 2020 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 2020 budget.

Thank you.

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