

COUNTY FINANCE: BUDGETING IN HARD TIMES

In 1999, the Jefferson County League of Women Voters last studied the financing of county government in a unit called *"Moving Jefferson County into the 21st Century."* At that time "unprecedented residential and commercial growth, widespread demands for preservation of open space, and protests against increased taxes" were the challenges facing the commissioners. Twelve years later the picture is very different. The 2011 budget is cut -7% from last year, and commissioners are planning for anticipated losses in revenues in the next two years because of decreased property assessments. No new capital improvement projects will be funded unless related to safety or a catastrophe. Obviously, the economic climate has become stormy.

PURPOSE

To examine how county government services are financed and how the services are prioritized in the budget process. The study should look at revenue sources, expenditures, budget policies, state laws that affect the county budget, and changes anticipated in the future.

BUDGETING PROCESS

The county commissioners established vision, values and goals which are used in budgeting.

VISION

To enhance the quality of life for our citizens

VALUES

- To be open and transparent
- To be fiscally responsible
- To provide excellent customer service
- To communicate effectively

GOALS

- Provide safe communities
- Promote economic opportunities
- Maintain and enhance all modes of transportation
- Foster predictable growth and development
- Encourage maximum self-sufficiency for all of our citizens

Prioritization

In 2007, the county developed a budgetary prioritization plan to assess programs and measure how well they meet the goals. The programs are valued relative to one another with scoring criteria which shows their overall value to the citizens. Departments that do not offer programs to the public but serve the county internally have a different grading system than departments with public service programs. This budget was the first that used prioritization to make expenditure cuts (-\$750,000) from the general fund.

Citizen Budget Review Panel

In February 2007, the county commissioners established the Citizens Budget Review Panel to provide an independent review and analysis of county finances from the citizen perspective. The 12-member panel, selected by the commissioners, reviewed the county's entire financial situation, met with numerous personnel, and analyzed programs, services, expenditures and revenue sources. They came up with nearly two dozen one-time and on-going general fund savings and recommended that no tax or mill levy increases be implemented at that time.

The commissioners reconvened the panel in 2009 hoping for fresh ideas on how to handle more than \$277 million in construction, equipment and maintenance costs through 2013. Some of their recommendations were to establish a Major Building Capital Reserve Account in the general fund; to budget in 2010 for a courtroom remodeling, data center relocation, detention and correction facilities expansion, and consolidation of county facilities; and to reject a tax increase for any capital construction projects.

The Citizen Budget Review Panel was not asked to help in the 2011 budget process; it will be up to the county commissioners whether the panel will reconvene.

Citizen Participation

All meetings for the nine-month budgeting process are open to the public. In November, a public hearing on the proposed budget is held and citizens can question the document. The budget is accepted by the commissioners in early December. Meeting dates and times are published in local papers.

STATE LAWS

A look at county budgeting requires an understanding of the state legislation that controls county revenue and expenditures sources. These controls include the **TABOR and Gallagher amendments**, as well as **statutory ceilings** on revenue and spending increases.

TABOR passed as an initiative in 1992 restricting the amount of revenue that counties could keep. The formula includes last year's base + the year's inflation rate + the percent of increased population in the county. Referendum C was passed by the voters in 2004 lifting TABOR restrictions for five years and eliminated permanently the ratchet* effect, but Referendum C affected only state revenues, not county revenue. Unless a county is "debruced", (named for the sponsor Douglas Bruce) counties must abide by the TABOR restrictions and are subject to the ratchet* effect. Jefferson county has not debruced.

*The ratchet effect is caused when there is a downturn in the economy and the amount of money that the government might have collected is less than what it actually collects. This lowers the base for the following year even if the economy turns around and revenues come up.

The **Gallagher amendment**, named for former Senator Dennis Gallagher, was designed to keep residential property taxes down. This amendment divides the state's total property tax between residential (at 45%) and commercial (at 55%). Because the commercial rate is fixed at 29% of value, the residential rate fluctuates. In 1982 when enacted, the residential rate was 21%; now it is at 7.96%. Mill levies were floated up or down to stabilize tax revenue. TABOR again "fixed" mill levy rates; if a county lowered its mill levy without adding the word "temporary" to its rate announcement, then it would take a vote of the people to raise the levy. Fortunately, Jefferson County Commissioners have the ability to lower or restore the official mill rate without a vote of the people, allowing the mill levy to work as designed. However, they may not go above the official levy without the vote of the people. The Gallagher amendment, originally statutory and amendable by the legislature, became fixed (constitutional) when TABOR was enacted.

A 5.5% **statutory restriction** on the amount of revenue a county could retain had also been enacted before TABOR. It, too, became fixed when TABOR was passed. The basic rule is that the TABOR formula or the 5.5% restriction is in effect, whichever is lower.

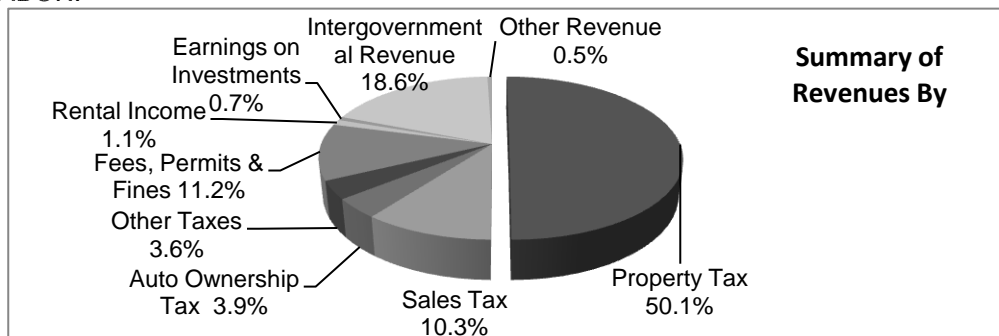
TABOR requires a 3% reserve, but the county commissioners have required a 10% reserve based on our general fund. In 2009 the county had \$8.2 million above the TABOR requirement. Jefferson County also has a contingency fund. This contingency fund of \$2.6 million may be spent without disturbing the required 10% reserve.

The **Gallagher amendment** has pitted counties and cities against each other in order to capture businesses for their tax base. This has sometimes caused some peculiar annexations. For the same amount of space, a county can obtain much more revenue by developing a shopping mall, gathering a 29% property tax from these businesses, than the 7.96 % they would be getting from residents of a new housing development.

2011 BUDGET

Jefferson County runs on a calendar year beginning January 1, but the state runs on a fiscal year which starts on July 1, and that makes budgeting difficult. Assessments are made every other year; 2011 will be a non-assessment year.

The county administrator’s recommended combined operating and capital expenditure budget for 2011 is set at \$382.8 million, a \$30 million (-7.1%) decrease from 2010. Revenues for 2011 are estimated to be at \$364.1 million, a decrease of - 4.2% over the estimated revenues received in 2010. The county intends to balance the budget by dipping into an unrestricted fund balance in the amount of \$18.7 million. This withdrawal of reserve funds does not impact any restriction on the county’s working capital reserve policy of keeping a 10% reserve because it is larger than the 3% required in TABOR.



REVENUE - These estimates include \$182.3 million from property taxes, a -1.1% decrease over prior year. Fees for services, fines, and permits are anticipated to be \$40.9 million, up 2.5%. This revenue largely comes from construction activity – fees for building permits, inspections, traffic impact fees, and recording fees. Estimated sales tax revenue, is \$37.6 million, a decrease of -1.8%; estimated auto ownership tax revenue is at \$14.3 million, an increase of 2%. Highway user taxes are to increase by \$13 million (2.2%), due to vehicle registration late fees.

The budget department estimates that an upswing in the economy will not happen until 2014. Counties lag behind cities in the collection of revenue because cities function primarily on sales tax and counties function primarily on real estate taxes. It is estimated that the county will experience a decrease in revenues in 2011 and 2012 as a result of the 2010 reassessment. In addition, there will be a decrease in commercial evaluation, estimated to be -5% to -7.5%.

The most significant source of revenue for the county is generated from property tax based on the estimated value of parcels of land. The calculation follows.

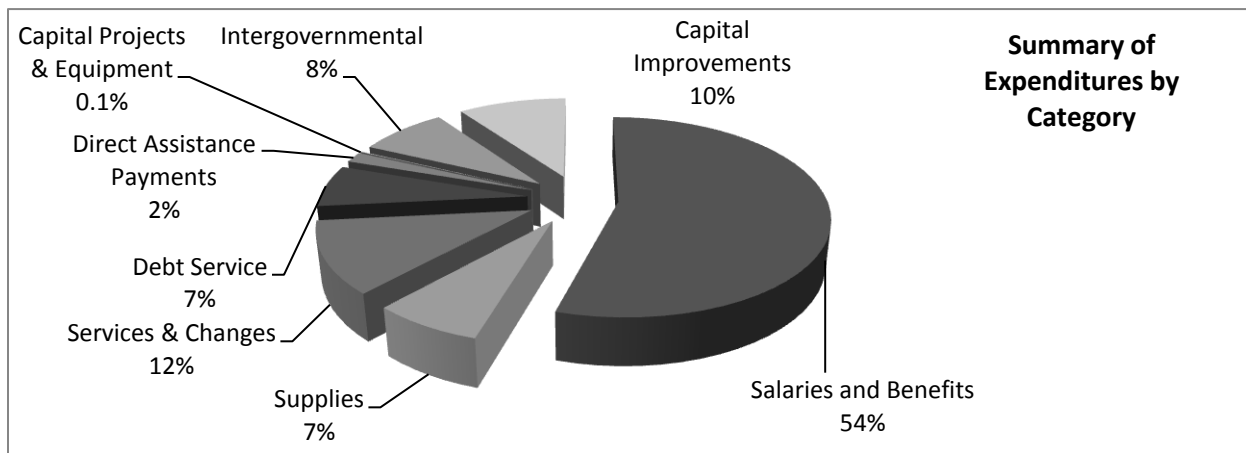
Mill Levy

\$100,000 house	X	7.96%	= \$7960
Market Value	X	Residential Assessment Rate	= Assessed Value
(Set by assessor)		(Set by legislature)	

\$7960	X	24.346 (.024346)	= \$193.79
Assessed Value	X	Mill Levy	= County Property Tax

Currently the mill levy is set at 24.346 mills, a temporary rate. This is 1.632, or nearly \$12 million under the ceiling.

Intergovernmental revenues are projected to bring \$67.7 million to the county in 2011, down \$10.1 million (-13 %) from 2010. The Human Services department has realized a large portion of that decrease due to the loss of one-time federal incentive and Temporary Aid to Needy Families (TANF) funding received by the county in 2010. These funds were used in the Social Services, Community Development and Workforce Development funds to support many of its programs in Human Services which were experiencing double-digit growth in their demands for services over previous years.



EXPENDITURES

Salaries and benefits are \$209 million, or 54.6 % of expenditures, a -.2 % decrease. A wage freeze was in effect for 2010 and will continue in 2011, and no merit increases will be given. No lay-offs or furloughs are planned. The cost of employee health benefits will continue to rise, \$2.6 million, and employees have been “issued a mild warning that the county may not be able to continue to pick up the increase in the cost of their medical benefits.” Some departments have given up vacant positions; however, these savings have been offset by increased benefits costs. Four FTE’s (full time equivalents) will be added for the year 2011 – three in the public trustee’s office and one in the sheriff’s department.

Supplies and service charges are expected to be \$72.3 million, a decrease of \$11.6 million, -13.9% over 2010. Again the TANF and stimulus funding has disappeared, resulting in a 32% decrease in direct assistance payments from \$9.4 million to 6.4 million. (Last year it had received a 17.7% increase.) Also general-assistance funds, mostly from local taxes, have dried up. This decrease has caused the county to fund only mandated services such as indigent burials and greatly reduce non-mandated services such as rent or utility assistance.

Debt service for 2010 was \$23.4 million, an increase of \$6.9 million, a 42.4% increase over 2009. According to Tina Caputo, Budget Director, with borrowing rates so low, the county decided that it was a good time to take on debt for future projects. In 2010 the last payment of the \$7 million debt for the Jefferson County Administration and Court facility (aka Taj Mahal) was made. The initial loan in 1993 was for \$66.9 million. This building was a much discussed county expense with cost overruns, high end décor, and all done without a vote of the taxpayers. The total cost amounted to \$102 million, according to the Jefferson County Government Center. Additionally, the county paid off an Open Space debt which decreased debt obligations in 2011 by \$2.6 million.

The new debt is associated with certificates of participation payments initiated in 2009 to be used for the new community correction facility, a detention renovation, expanded classroom needs, a data center relocation, and various multi-purpose government hubs throughout the county. To create these satellite services centers the county has recently bought 13.66 acres in Lakewood on Colfax at the old Target store, land in Wheat Ridge at 44th & Wadsworth, and a building at Kipling & C-470.

The **Capital improvement** plan for 2011 is \$32.8 million, down -17.5% from last year’s appropriation. It addresses projects related to infrastructure and facility improvements, technology enhancements, and equipment and fleet acquisitions. This includes \$17.1 million for roads and bridges, \$8 million for Open Space and \$5.3 for airport improvements.

A LOOK AT THREE DEPARTMENTS

This committee has chosen to focus on three departments – **Public Health, Human Services and the Jefferson County Library** to see how this year's cuts will affect them.

Public Health funding was decreased in 2010 over the previous year because of the one-time federal money given in 2009 to combat the H1N1 virus. In the future, there will also be a decrease in tobacco money coming into the state and the per capita state block grant will be cut. Because of these revenue reductions, Public Health cut the Heartwise program that helps low income women with early cardio screening. (It will return in 2011 due to a deal worked out with the state.) Two cuts in 2011 will be the substance abuse program and the Partywise program (education for pregnant teens re: fetal alcohol syndrome). Two other programs have been withheld from implementation in 2011– a teen pregnancy prevention program and an injury prevention program for the elderly. It is predicted that allocations to public health from the general fund will continue to decrease. Trained public health nurses are still in high demand, but the Jefferson County Public Health system cannot match the increasing salaries offered by other public and private entities. The department has a turnover rate of about 28% a year due primarily to wage stagnation.

Human Services total budget for 2011 is \$73 million, approximately -\$16 million less than 2009. In that year there was a one-time funding boost in TANF as well as stimulus money that kicked in. This money is no longer available. Human Services at one time had an unrestricted reserve that they had set aside from their own budget allocation, but in 2000 the county commissioners directed them to spend down their reserve. Now no funds are left to fill in. Human Services does, however, have a \$5 million restricted reserve, but this reserve can only be used to fund new programs. The Catch 22 is that because there are no funds to sustain staff employment after an initial launch of a program, these funds remain untouched now in the time of need. Human Services is concerned about the turnover of its staff. Because wages in this county are below some surrounding counties, Human Services sees itself as the training ground for professionals as it loses personnel to Arapahoe and other counties. As with other departments, there is a wage freeze.

Library: In 1986 the people of Jefferson County voted what they thought was a dedicated mill levy to the library of 3.5 mills, but because the library was still connected to the county, the commissioners could reduce their millage. The Jefferson County Library tried to separate itself from county control in 2007, but the county commissioners did not permit it to do so. This year the mill levy given to the library is down -0.275. County Administrator, Ralph Schell, wants the library board to spend \$600,000 from its fund reserve, but the library trustees rejected this proposal, fearing even greater budget challenges in the future; two years of raiding this fund would totally exhaust the reserve. Instead they have chosen to shut the libraries on Mondays, eliminating 14 full-time positions and 22,650 temporary staff hours. As of the writing of this report, petitions have been carried to place a measure on the November ballot that would create a separate library system, not controlled by the county commissioners. Upon receipt of the petitions, the commissioners passed a resolution opting out the entire county from the proposed library district.

CONCLUSION

Clearly, county government services will face budgetary challenges in these stormy economic times.

This topic was researched in response to a membership request for a study on Financing County Government at the 2010 Annual Meeting. It is recommended by the committee to extend this study another year to formulate a position on Financing County Government.

LWV Jeffco County Finance Committee; Chair- Gari Westkott, Karen Knutson, Joanne Norte and Marcia Schafer.