Date: November 26, 2013

To: Jefferson County Board of Commissioners

It is a pleasure to present the ***2014 Adopted Operating and Capital Improvement Budget*** for Jefferson County, Colorado. The ***2014 Adopted Budget*** represents the County's overall financial plan for the upcoming fiscal year beginning January 1, 2014 and serves as a guide for allocating available resources based on the stated objectives and goals of the Jefferson County Board of Commissioners. This budget has been prepared in accordance with all applicable Colorado State Statutes, Generally Accepted Accounting Principles and the County's own budgetary and financial policies.

This message will provide an overview of the economic forecast assumptions used, a brief description of the major issues and projects surrounding this upcoming year's budget, and the overall financial condition of the organization. Moreover, this document reflects Jefferson County's continued focus on achieving the desired outcomes stated in its strategic vision, values and goals:

Vision

- Providing quality services for residents and businesses to thrive

Values

- Honesty and integrity
- Fiscal responsibility and accountability
- Quality workforce
- Excellence in customer service
- Open and effective communications
- Collaborative environment

Board of County Commissioner Goals

- Promote economic vitality
  - Create and implement a Comprehensive Economic Development Plan
  - Support job development
  - Streamline regulations
  - Partner with businesses and organizations
- Provide safe communities
  - Support crime prevention and law enforcement
  - Enhance public health, safety and environment
  - Protect children, seniors and persons with disabilities from abuse and neglect
- Recruit and retain a quality and engaged workforce
- Maintain and enhance all modes of transportation
- Demonstrate wise use and stewardship of our natural resources
- Cultivate self-sufficiency for all our residents through education, information and involvement

- Enhance the efficiency of internal and external delivery of services
- Foster responsible land use and development
    - Balance competing private property rights
    - Operate with long-term master planning

The primary objective is to ensure that the County, through sound fiscal planning, will achieve a desired level of financial stability in these uncertain economic conditions.

Economic Assumptions

While the economy is showing signs of improvement, Jefferson County is dependent upon Property Tax Revenues which have yet to rebound from the economic downturn. Property values are assessed every two years so the County is delayed in seeing the impact from economic recovery. Jefferson County has experienced many of the same economic constraints as the rest of the Denver-metropolitan area. Since 2011, the County has seen a reduction of 6.1%, or $11.2 million, in property tax revenues. Due to early fiscal planning, gained efficiencies and preservation of General Funds, Jefferson County has created an environment where significant service level reductions have not been necessary up to this point. This is a major area of focus considering that Property Taxes account for approximately half of Jefferson County's overall revenue. The County is at a crossroads where revenue streams can no longer sustain the same service levels its citizens expect. The increase in demands, especially for programs in our Human Services Department, is far outpacing our anticipated revenues in 2014.

Recent Budget History

Revenues have been slowing down for the County over the last few years. Starting in 2007, the County has been forced to look for greater efficiencies and to reduce budgets. In 2007, budget staff, department heads and elected officials began looking intently at projected revenue streams versus expenditure trends. Concerns were raised over out-year projections to the County's fund balance reserves. Between 2007 and 2013, budget cuts, efficiencies and funding reallocations have been implemented to assist in curbing financial instability while maintaining service levels to citizens. However, maintaining services levels with less revenue and increased need has created longer term impacts. Projects and process improvements were delayed. Also, much needed maintenance was deferred creating a buildup of maintenance costs. Additionally, funding for salary merit increases for employees have not been approved since 2009 creating higher attrition rates, efficiency and morale issues.

<u>Expenditure Reductions</u>

In 2007, target budgets were aligned around revenue projections rather than expenditure trends. Internal Service Funds were created to identify the true costs of services. In 2008, reductions were made to employee retirement benefits and vacant positions were not budgeted reducing the operating budget by $4.5 million. In 2009, reductions were made to the Five Year Capital Plan and departments were asked to absorb any increases within their existing target budgets. In 2010, the Sheriff's Office was asked to cut their Major Maintenance and Repair budget along with their Fleet Replacement and Computer Replacement programs - all by 20%. For the 2011 Adopted Budget, several departments took significant budget cuts as part of the Prioritization Budget Process. Included in these cuts were 5-7% reductions to internal service groups including IT Services, Facilities and Fleet totaling over $1.3 million. All General Funded groups were also required to take cuts totaling $750,000. Also that same year, all departments were asked to cut their travel and training budgets by 10%. For the 2012 Adopted Budget, The Board of County Commissioners decided to offset the decrease in Property Tax Revenues for two years with fund balance in order to maintain service levels to Jefferson County citizens. To help streamline budgets, 51.5 vacant Full Time Equivalent (FTE) positions were eliminated. In this same year, the County underwent a Zero Based Budgeting Process with Human Services and the Library. As a result, the Library made significant budget reductions. For 2013, the Sheriff's Office reduced their ongoing operational budget by $500,000. Road & Bridge reduced their ongoing operational budget by $1.0 million. Human Services reallocated their budget to match their funding streams resulting in a funding cut to Non-Profit organizations, and deferred necessary maintenance and IT replacements.

Efficiencies

Since 2007, the County has reorganized departments by consolidating positions and streamlining the organizational structure. Based on an energy efficiency audit, the County has completed a project saving thousands of dollars in utility payments. The Library has implemented a new service model and transitioned to automated book sorting in order to reduce staffing budgets. The Clerk & Recorder has lobbied the State Legislature for a transition to all mail balloting to decrease the costs of each election and reduce the need for expensive voting equipment. IT Services has moved to more web-based software and other innovative solutions to increase efficiencies and decrease costs. Annually, Fleet Services has analyzed usage of county vehicles to maintain and reduce capital costs and maintenance. The County has combined operations into multi-functional facilities in an effort to reduce facility and utility costs.

Strategic Financial Directives

The Board of County Commissioners has requested that the condition of the projected fund balances be examined in order to achieve future sustainability. This was done by starting the budget process early in the year and looking forward to year 2018. Property Tax is the most significant source of revenue to fund services to citizens. The Assessor has estimated that overall 2014 property tax revenues will slightly increase over 2013 estimated revenues. Therefore, the Board of County Commissioners has instructed the Budget Office to use this projection in building the 2014 budget.

The following guidance was established at the beginning of the budget process by the Board of County Commissioners to help set the framework for the 2014 Adopted Budget:

- Operational budgets are to remain flat excluding salaries and benefits
- All salary & benefits and direct & indirect costs will be calculated by the Budget Office and funding will be allocated to the appropriate line-items
- Merit increases of 3% for employees
- The County and its employees equally share the anticipated increase in costs associated with health benefits
- Business cases will be considered, but recommendations are limited due to limited revenue forecasts
- New capital projects will be considered, but recommendations are limited due to limited revenue forecasts

These recommendations are based off a need to provide an acceptable level of service to citizens. Managers across the County are finding it increasingly difficult to recruit and retain valuable employees. Jefferson County employees have not seen a merit increases in salary since 2009. In 2012, an allowance was set aside in each department's budget for ongoing, one-time or equipment needs. Some of this was used in an attempt to retain employees; however, the County is still struggling to offer competitive wages in the current market. Since 2007, the employee's cost of insurance and other benefits have continued to increase while salaries have not kept pace. In addition, a major concern to the County is the rapid rise in employee turnover. In 2012, 10.5% of employees left the organization; and in 2013, this number is trending higher - compared to 2009 when employee turnover averaged around 7.1%. Specific areas of concern are the County Attorney, Human Services, IT Services, Public Health and the Sheriff's Office. Lack of salary increases have made it difficult for the County to remain competitive in the marketplace with hiring and retaining qualified employees.

In order to continue being fiscally responsible, the County must maintain its physical assets and infrastructure. To maintain investments in County buildings, Facilities has requested funding for major maintenance needs county-wide. Budget constraints have caused delays in performing essential maintenance, which has resulted in damage to County assets and higher repair costs.

In order to maintain current levels of service, the County needs to fund a reasonable replacement plan for county vehicles, heavy equipment and technology. The lifecycle for these programs has been extended to maximize funding. When departments defer technology replacement, it results in declining employee productivity and higher costs to maintain aging and obsolete systems.

Budget Overview

The total ***2014 Adopted Budget*** for Jefferson County is $481.2 million. This represents a **2.8% increase** over the ***2013 Adopted Budget***. The total adopted budget includes an operating expenditure budget of $350.5 million which is a 1.7% increase over 2013. It also includes a capital expenditure budget of $43.4 million that increased by 13.2% over the previous budget. Also included in the Adopted Budget is **$87.3 million** in appropriations for interdepartmental and interfund transfers that allows for monies to be moved between funds segregated for accounting purposes, but does not represent an actual cash outflow from the County.

Revenues

Forecasted revenues for the 2014 fiscal year are estimated to be **$373.8 million**, excluding interfund transfers of $87.4 million. This represents an increase of 3.3% when compared to the $362.0 million in revenues projected to be received in 2013. To balance the budget, the County anticipates the net use of available and unrestricted fund balance in the amount of $20.0 million. This use of fund balance does not impact any restrictions or designations of fund balance related to bond covenants, grant requirements or the County's 10% working capital reserve policy. Generally, the philosophy has been that fund balance represents a one-time funding source to be appropriated only to pay for one-time or cyclical operating costs, the purchase or replacement of equipment, and projects requested in the County's Five-Year Capital Improvement Plan. However, due to increased demand for social services, underfunded and unfunded mandates, and decreased grant funding, the County is utilizing fund balance in order to supplement these programs.

Property Taxes represent the largest single source of revenue for Jefferson County. Estimated collections will be approximately $185.2 million in 2014. This represents an increase of approximately 7.4% over the prior fiscal year estimated revenue. Property valuations are re-assessed on a bi-annual basis, with the current reassessment occurring in 2013 for the 2014 fiscal year. This assessment is anticipated to grow just over 1.0% in 2014. The Property Tax revenue includes the restoration of some of the temporary mill levy reduction discussed below in the Mill Levy section.

The ***2014 Adopted Budget*** projects that revenues from other tax sources will slightly increase in 2014. The County anticipates $41.7 million from **Sales Tax** collections, an increase of 6.0% over 2013. These revenues are generated from a dedicated 0.5% county-wide sales tax for the preservation of open space, as well as 0.5% sales tax revenue for infrastructure improvements assessed only in the southeast portion of the County. Revenue from **Highway User (Fuel) Tax** is projected to decrease by 0.2% to $13.3 million. This dedicated funding source is used to provide for roadway maintenance. In comparison with 2013 projections, **Auto Ownership Tax** for 2014 is estimated at $13.1 million, 2.5% higher than the previous year budget.

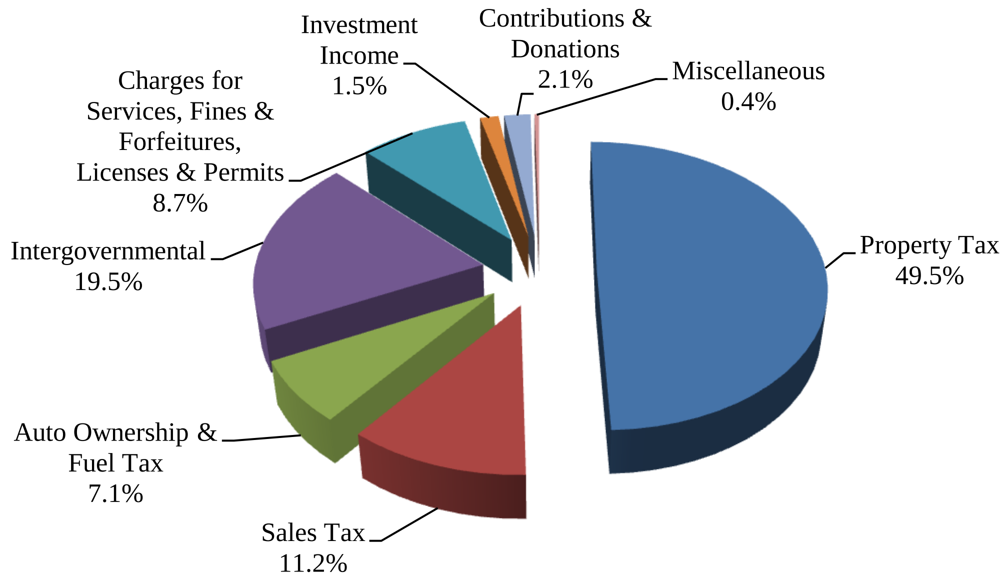
Intergovernmental Revenues are anticipated to decrease by $1.1 million or 1.5% over 2013. These revenues are received through state and federal grants mostly for Human Services programs as well as Airport capital projects. The decline in 2014 is the result of reduced state funding for Social Services programs.

Revenues from **Charges for Services, Fines & Forfeitures and Licenses & Permits** are expected to generate $32.5 million in 2014, up $1.9 million or 6.1% from 2013. Fees for services in the aggregate are expected to increase by approximately $1.4 million when comparing 2014 with the prior fiscal year's budgeted estimates. Much of this increase is for anticipated increases in demand for services in the Clerk & Recorder's Office as well as the Building Safety Division.

Investment Income (which includes rental income) is conservatively forecasted at $5.5 million, down $0.5 million or 9.1% from 2013. Because of their volatility, especially under current market conditions, these sources of funding are used for one-time expenditures that can be delayed or avoided in the event that estimates are not achieved in the current fiscal year. **Miscellaneous Revenue** is forecasted at $1.3 million, a decrease of $3.7 million because the prior year budget included sales of County facilities that are not anticipated in 2014. This revenue source can change year over year depending on if there are any plans to sell off properties which gain one-time revenue to the County.

The graph that follows provides a summary of all County revenue sources by category that is being projected as part of the ***2014 Adopted Budget.*** These projections are estimations based on current information and may be impacted during the 2014 fiscal year by external factors such as inflation, consumer confidence, interest rates, and changes in the housing market or commercial growth. These factors could impact revenue collections either positively or negatively throughout the year. Staff will continue to monitor these factors, update revenue projections as warranted, and keep the Board of County Commissioners apprised of any changes that might require the County to adjust budget appropriations accordingly.

Graph 1: 2014 Summary of Revenues by Category



Revenues	2011 Actual	2012 Actual	2013 Adopted	2014 Adopted	Variance 2013 to 2014	% Inc / (Dec)
Taxes & Special Assessments						
Property Tax	$ 183,625,222	$ 174,038,664	$ 172,448,326	$ 185,216,941	$ 12,768,615	7.4%
Sales Tax	38,653,769	40,499,997	39,366,592	41,729,046	2,362,454	6.0%
Fuel Tax	13,232,236	13,372,281	13,350,000	13,325,000	(25,000)	-0.2%
Auto Ownership Tax	12,099,031	12,638,619	12,789,785	13,109,530	319,745	2.5%
Subtotal	**247,610,258**	**240,549,561**	**237,954,703**	**253,380,517**	**15,425,814**	**6.5%**
Licenses & Permits	4,134,012	5,487,083	3,509,165	4,154,910	645,745	18.4%
Intergovernmental	66,461,258	66,431,509	74,291,565	73,181,737	(1,109,828)	-1.5%
Charges for Services	28,392,193	30,606,765	25,481,201	26,844,780	1,363,579	5.4%
Fines & Forfeitures	2,043,250	1,718,060	1,645,100	1,518,000	(127,100)	-7.7%
Investment Income	7,516,756	5,748,999	6,062,601	5,512,287	(550,314)	-9.1%
Contributions & Donations	8,580,980	7,412,742	8,026,320	7,877,500	(148,820)	-1.9%
Miscellaneous	2,476,564	(12,262,334)	5,011,484	1,333,694	(3,677,790)	-73.4%
Proceeds from Debt	-	12,750,000	-	-	-	
Subtotal	**119,605,013**	**117,892,824**	**124,027,436**	**120,422,908**	**(3,604,528)**	**-2.9%**
Subtotal	**$367,215,271**	**$358,442,385**	**$361,982,139**	**$373,803,425**	**$ 11,821,286**	**3.3%**
Intra-County Transactions	99,514,856	108,778,058	85,403,778	87,412,799	2,009,021	2.4%
Subtotal	**$466,730,127**	**$467,220,443**	**$447,385,917**	**$461,216,224**	**$ 13,830,307**	**3.1%**
Use of Fund Balance	21,868,119	28,063,522	20,924,690	20,032,118	(892,572)	-4.3%
Total Revenues & Transfers	**$488,598,246**	**$495,283,965**	**$468,310,607**	**$481,248,342**	**$ 12,937,735**	**2.8%**

County Mill Levy

The ***2014 Adopted Budget*** recommends a restoration of 1.5 mills of the temporary mill levy reduction, from -1.632 mills to -0.132 mills. This will allow the County to continue a temporary mill levy reduction of -0.132 mills from the citizen authorized maximum mill levy of 25.978 mills (*see Table 1 below*). The adjustment to the Mill Levy will realize approximately $10.4

million in revenue to the County to address multiple County needs. The temporary mill levy adjustment of -0.132 mills represents an overall tax reduction of approximately $916,000 when compared with revenues that would have been generated from assessing the official mill levy.

Table 1. 2014 Adopted Mill Levy by Fund

County Funds	Official Mill Levy	Temporary Adjustment	2014 Adopted Mill Levy
General Fund	14.576	2.923	17.499
Developmentally Disabled Fund	1.000	0.000	1.000
Road & Bridge Fund	3.280	-1.880	1.400
Social Services Fund	1.710	-0.245	1.465
Capital Expenditure Fund	1.912	-0.855	1.057
Library Fund	3.500	-0.075	3.425
Mill Levy Total	**25.978**	**-0.132**	**25.846**

Expenditures

The ***2014 Adopted Budget*** for Jefferson County reflects total expenditures for operations and one-time capital needs of $393.9 million. This is comprised of an operating budget of $350.5 million, an increase of 1.7% over the ***2013 Adopted Budget***. The capital improvements budget is $43.4 million, an increase of 13.2% over 2013. The highlights of the capital portion of the ***2014 Adopted Budget*** will be discussed in a subsequent section of this message.

The largest expenditure category for the County, representing 55.1% of total expenditures before transfers, continues to be **Salaries and Benefits**. This category amounts to $216.9 million for the 2014 fiscal year, up 3.0% over 2013. There has been an increase in grant funded positions in 2013 to maintain service levels and implement requirements in the Healthcare Reform Act. There is also a 3.0% increase incorporated in this category to address merit, salary compression, retention, recruitment and market pay issues. It is not intended to be an across-the-board salary increase. The County will share with employees 50.0% of the increased cost of medical insurance premiums.

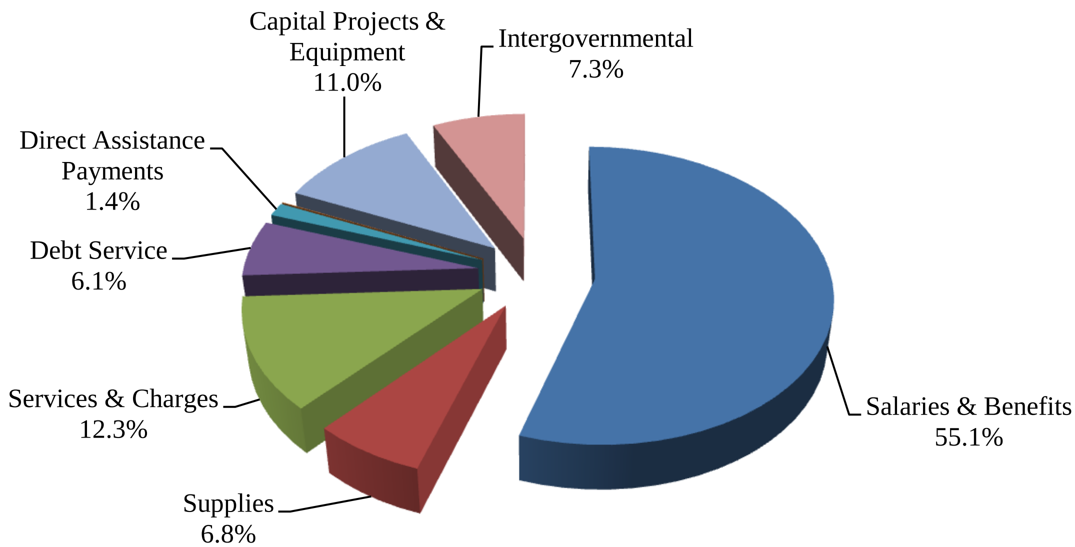
Expenditures for **Supplies and Services & Charges** are expected to be $75.4 million for 2014, an increase of $5.5 million over 2013. This increase is due to one-time funding needed for the mid-term election and reallocation of 2013 budgets in the Social Services Fund. Human Services provides approximately $5.6 million in **Direct Assistance Payments** directly to Jefferson County citizens. This is a decrease of approximately $1.3 million over 2013 and is attributable to a reduction in State funding which would decrease support to impoverished families and citizens. **Debt Service** has decreased by $1.2 million over 2013's Adopted Budget due to refinancing of bonds as well as paying off previous debt.

Intergovernmental expenditures decreased $3.4 million or 10.7% over the 2013's Adopted Budget. These are payments to other entities outside of the County. An example would be proportionate payments to cities from property tax revenue received as well as organizations like non-profits that provide services to the citizens of the County.

Interdepartmental expenditures increased $1.9 million over 2013. This is due in part to the transfer needed to the Social Services Fund in order provide additional funding to offset the decrease in grant funding. Although support to families and citizens is decreasing, levels of service will continue based on public demands.

The graph below illustrates the detailed allocation by category of all expenditures included in this adopted budget.

Graph 2: 2014 Summary of Expenditures by Category



	2011 Actual	2012 Actual	2013 Adopted	2014 Adopted	Variance from 2013 to 2014	% Inc / (Dec)
Salaries & Benefits						
Salaries	$ 157,957,178	$ 162,207,656	$ 161,631,359	$ 166,483,612	$ 4,852,253	3.0%
Benefits	45,968,512	47,149,120	48,967,647	50,450,868	1,483,221	3.0%
Subtotal	**203,925,690**	**209,356,776**	**210,599,006**	**216,934,480**	**6,335,474**	**3.0%**
Supplies	23,880,816	24,294,331	25,776,613	26,795,196	1,018,583	4.0%
Services & Charges	49,968,239	52,745,235	44,077,471	48,594,827	4,517,356	10.2%
Debt Service	28,961,509	41,293,453	25,192,531	23,961,931	(1,230,600)	-4.9%
Direct Assistance Payments	6,370,557	7,725,660	6,959,302	5,613,386	(1,345,916)	-19.3%
Intergovernmental	30,525,247	36,157,758	31,788,222	28,402,107	(3,386,115)	-10.7%
Operating Capital	4,656,611	652,193	123,000	169,500	46,500	37.8%
Subtotal	**144,362,979**	**162,868,630**	**133,917,139**	**133,536,947**	**(380,192)**	**-0.3%**
Subtotal Operating	**348,288,669**	**372,225,406**	**344,516,145**	**350,471,427**	**5,955,282**	**1.7%**
Capital Projects & Equipment	48,054,918	21,368,336	38,390,684	43,448,826	5,058,142	13.2%
Subtotal	**396,343,587**	**393,593,742**	**382,906,829**	**393,920,253**	**11,013,424**	**2.9%**
Interdepartmental	92,254,659	101,690,223	85,403,778	87,328,089	1,924,311	2.3%
Total Expenditures	**$488,598,246**	**$495,283,965**	**$468,310,607**	**$481,248,342**	**$ 12,937,735**	**2.8%**

Personnel

This budget includes a personnel authorization of **2,933.29** Full Time Equivalents (FTE) for the 2014 fiscal year. This represents a net increase of 40.05 FTE in the total number of authorized FTE for 2014 when compared with the number of positions adopted in 2013. Over 30 of the positions are for Human Services, with many of them being offset by grant funds. The **Adopted Budget** includes the addition of 3.0 FTE's. The Sheriff's Office is recommended to increase by 2.0 FTE's for their Dispatch unit to reduce citizen-generated call response times. The Airport is recommended to increase by 1.0 FTE for a Fleet Supervisor to be funded from Airport fees.

Five-Year Capital Improvement Plan (CIP)

The ***2014 Five-Year Capital Improvement Plan***, strives to realistically address the necessary capital needs of the County while being aware of the limited resources available. Included in the ***2014 Adopted Budget*** are appropriations totaling $43.4 million for various capital projects related to infrastructure improvements, facility maintenance, technology enhancements, and fleet acquisitions and replacements. The anticipated expenditure for CIP projects is *13.2% ($5.1 million)* higher than what was recommended for funding in 2013. It includes $13.1 million for Airport projects to be primarily funded by grant revenue.

Infrastructure improvement projects annually account for the largest portion of the County's capital investments. The ***2014 Adopted Budget*** includes various improvements related to roadways and bridges *($12.9 million*) and Open Space *($6.1 million*). Significant projects include:

- *$12.9 million for overlay at the Airport*
- *$5.9 million to improve Quincy Avenue from Kipling to Wadsworth*
- *$3.2 million for the Clear Creek Canyon Trail*
- *$3.0 million for Fleet Vehicle Replacement*
- *$2.2 million for anticipated Open Space land acquisitions*
- *$1.6 million for safety related projects associated with FASTER funding*
- *$1.3 million for scheduled fleet replacement in the Sheriff's Office*
- *$1.2 million for replacement of the chillers on the Courts and Admin Building*
- *$1.1 million for IT Services network capacity and data backup upgrades*
- *$1.0 million for the Library Five-Year Capital Plan*
- *$1.0 million for Facilities for Major Maintenance and Repairs*
- *$1.0 million for South Golden Road from Quaker to Moss*

Looking Forward

The County Commissioners have directed that future budgets still need significant adjustments in order to realign revenues and expenditures. Steps will be taken in preparation for the 2015 Budget to continue to identify efficiencies and budget savings. Staff will be working on recommendations for long-term financial planning to address future County needs with limited financial resources, including establishing a policy regarding fund balance reserves and long-term spending plans.

Acknowledgements

Finally, I would like to express my sincere appreciation to our dedicated group of current elected officials, department heads, division directors, and members of our budget staff for their cooperative team approach and valuable leadership in the development of this budget. Through the efforts of all of these individuals, we have developed an effective budget process that provides a strategic financial framework that helps us make difficult resource allocation decisions. I am pleased to present this ***2014 Adopted Budget*** as our County's financial plan for the 2014 fiscal year. I believe this budget reflects our commitment to addressing fiscal sustainability, as well as our resolve to continue our focus on the implementation and achievement of the goals set forth by the Board of County Commissioners.

Respectfully,

Ralph Schell
County Administrator