

2010-2014 BUDGET PLAN

The main purpose of county government is to be able to continue providing essential public safety, health and welfare services, and a county transportation system. The national and international economies are struggling under unprecedented uncertainties and challenges. With indicators of housing market performance dropping to depths that haven't been seen in years, volatile energy and commodity prices, and slow economic growth, many local governments are feeling financial pressures. Fortunately, Weld County is weathering this storm better than many other local governments thanks to our past prudent and conservative financial management. Over the years Weld County has taken a number of steps to restrict spending and safeguard taxpayer dollars. However, despite these sound fiscal practices Weld County will not escape some of the consequences of the economic downturn and economic turmoil around it.

As Weld County policy makers and managers face the next three to four years, it will take extra efforts on everyone's part to deliver conservative and balanced budgets in fiscal years 2010-2014. Based upon some reasonable projections of future assessed values and demand for services, it will be essential to develop budgets that tighten county government's belt, focus on critical services, and reflect the needs of the citizens of Weld County. While weathering these economic times over the next few years, the budget must continue to deliver essential services and make strategic investments in human capital management and the county's infrastructure so that our county is well-positioned for a strong economic rebound when the downturn becomes an upturn.

The main issue facing Weld County is the impact that the drop in housing prices and the volatility of the price and production of oil and gas will have on Weld County's assessed value, which generates property taxes to support nearly 40% of the county's budget. Residential property is approximately 20% of the total assessed value and oil and gas production is 49%, for a total between the two classes of property of 65% of the total county assessed valuation. With a reappraisal year in 2009 for the 2010 budget, it is anticipated that residential property in Weld County could drop as much as 15-30% with an average impact of over a 9% reduction. This drop should be more than offset by the rise in oil and gas assessed value in the same year. The problem comes in configuring the 2011 budget, because with the drop in oil and gas prices in 2009 the oil and gas assessed value may well drop back to 2007 levels. In doing a reasonable forecast of assessed values due to the drop in housing values and volatility of oil and gas values the structural and cyclical problem of the property tax revenues for the next three years must be dealt with as one budgetary issue, and not be left to deal with in the individual years, or a major problem will be created for 2011 and 2012. Hopefully, by 2013 the assessed values will begin to stabilize.

The assessed value situation is a combination of a structural and cyclical budget problem. Based upon an assessed value forecast for 2009, residential property is dropping due to the housing market's bubble bursting which will result in a projected 9% drop in average housing prices in Weld County. Then, as the cycle corrects itself, the values should be stable or slightly recovered for the 2011 reappraisal year which will positively impact the 2012 budget. However, one must be cautioned that commercial property values most likely will drop with the 2011 reappraisal. Hopefully, after 2013 residential property values and new construction will return to more historic stable and predictable levels.

The assessed value for oil and gas that is 49% of the county's assessed value in 2010 is extremely volatile. Oil and gas is a more challenging class of property assessment to predict. Based upon the high energy prices in 2009, the oil and gas assessed value for the 2010 budget up over 68% with oil prices averaging nearly \$98 a barrel for 2008 versus \$66 a barrel in 2007 or a 48% increase in price, plus the added productions. Natural gas was up as well and productivity may be up since new pipelines came online in 2008 versus 2007 when pipelines were shutdown. As we look forward to 2009 and 2010 the oil and gas assessed value could fall back to 2007 levels. However, falling prices have caused many oil companies to limit their investments in new exploration projects, which could result in another supply shock after the economy picks up. The global financial crisis has dramatically reduced the availability of speculative financing. Since this type of financing is essential to the energy industry, both locally and globally, there has been a reduction in the amount of energy development -- not a reduction in production, but rather a reduction in the future growth of production. In addition, the global decline in economic demand has reduced the demand for Colorado energy products, which has resulted in a decline in the price of existing and continuing Colorado production of natural gas, oil, and coal -- the big mineral in Colorado this decade is natural gas. The current and continuing decline in natural gas prices is incorporated in this forecast, as well as a multi-year pause in the growth of the quantity of gas production and a slowdown in development activity (rigs and permits). Longer term price projections anticipate continuation of price cycles with natural gas markets. As most of Colorado's natural gas must be transported to distant markets, Colorado natural gas producers face the additional constraint of pipeline "take-out" capacity. While pipelines are currently near capacity, new pipeline capacity expansion projects are in limbo -- this again is due to dependency on speculative financing. Therefore, Colorado natural gas production quantity is now projected to be relatively flat for a number of years until these pipeline expansion projects can be re-financed, built, and brought on line in 2012 and beyond. The net budgetary effect is that Weld County may not be able to count on the continued growth in oil and gas assessed values that have allowed the mill levy to drop from 22.038 to 16.804 or 5.234 mills in recent years.

Given all this information the assessed value could support the revenue from property taxes in 2010 at 16.804 mills, being up over \$20 million from 2009, although in 2011 the assessed value may drop to levels that at 16.804 mills may be less than 2009. In 2012 the assessed value at 16.804 mills may be only \$2.2 million over the 2009 property tax amount. There are three solutions to this budgetary problem:

1. Under the Weld County Home Rule Charter, the Board can raise an additional 5% in property tax revenue over the preceding year, even if the mill levy has to be increased. TABOR restricts raising the mill levy without voter approval, but Weld County has "banked" or taken a tax credit each of the years the TABOR limitation exceeded the Weld County Home Rule Charter limitation to the point of having a tax credit of 5.234 mills; therefore, the Board could increase the mill levy to 22.038 mills without voter approval. The "banking" of the tax credit was done in anticipation of the volatility of oil and gas assessed values, which is the situation we find ourselves in now. The public policy and political issue is, do you raise the mill levy in hard economic times?

2. Due to the drop in housing values and volatility of oil and gas values, the structural and cyclical problem of the property tax revenues for the next three years must be dealt with as one budgetary issue and not left to be dealt with in the individual years, or a major problem will be created for 2011 and 2012. Hopefully, the assessed values will begin to stabilize in 2013. Therefore, a strategic and tactical approach to deal with the budget challenges facing Weld County must be developed with the goal of stabilizing the financial condition of the county during this economic downturn, while still providing essential services to the citizens without a mill levy increase.
3. A combination of the above two options is a third option, and may have to be considered if the Commissioners and management do not want to make Draconian cuts in the expenditure side of the budget.

Option one is the easier of the options to manage and allows business as usual for the county in most cases. However, in a financial down turn, it is not just government that feels financial pressure. Citizens cannot afford new or increased taxes, while certain services like public safety or health and human services become ever more costly. Further, certain segments of the population may be particularly vulnerable and even less able to bear tax increases or service cuts than others. A budget and management strategy must be developed with full knowledge of how the proposed course of action will affect the citizenry. Not only is this important for short-term political support, but it is necessary for building trust with citizens, which is crucial for ongoing financial sustainability. A consideration that must not be overlooked, however, is that in 2010-2011 the average residential property taxpayer in Weld County will most likely experience an average 9% reduction in his or her property tax bill due to the drop in housing prices and the reappraisal.

Option two is a much bigger challenge and more difficult to implement for policy makers and managers. This approach would mean that, with a projected 2.5% inflation rate over the next three-year period, county expenditures would need to be reduced more than 7% over the next three years and, at the end of three years (2012), the property tax base would be less than three percent higher than 2009. This could create financial stress on the county and would not position the county to be well prepared to deal with growth in times of economic recovery beyond 2012.

Challenging fiscal times test the strength of an organization's backbone, but they also provide an opportunity to review and strengthen policies, enhance the analytical knowledge of the organization, and inspire fresh perspectives. It is an opportunity for departmental-level reviews and analysis. It is a time to align strategies and programs to maximize the positive impacts on services to the county's residents and find innovative ways to reduce costs and leverage resources. A major challenge or crisis can provide impetus to innovate and make changes that would be near impossible in better times. As someone once said, "A crisis is a terrible thing to waste."

The challenge of option two is also an opportunity to involve employees in helping examining what is best for the operations of the county by getting their input and ideas. While the purpose of government is to serve the citizens, the most effective and efficient organizations recognize the value of employees in providing that service. During tough economic times, employees, just like all other citizens and residents, are facing increased costs and potential financial issues of their own in the downturn. A strong human capital management strategy and program is essential to retaining good employees when changes are taking place in the workplace. And, remember when the economy turns around, the county will want to be in a position to recruit and retain the best employees possible to deal with the new challenges of growth and economic expansion.

Prioritizing services is essential in the dealing with the budgetary challenge. Services cannot be provided as they always have. There is probably some "fat" that can be trimmed from the existing service mix, but more likely, Weld County will have to do more with less, do less of, or simply stop providing some services to concentrate on a more limited number of high priority programs.

To accomplish a review of programs and a priority process, it is proposed that from February-May, 2009, all county programs undergo a review by management and the Commissioners. Together with the review, a re-examination of core values, core strategic goals, and how each department and office tie their individual goals into the overall county mission and strategic goals to best serve the citizens of Weld County should be completed.

It is recommended that the review of all county departments and the priority process be completed in early 2009 in anticipation of the 2010 budget. Through this process the Commissioners and managers can ascertain what the service and program consequences are, and whether the county approaches the next three budget years with the goal of no mill levy increase versus an alternative approach such as the 2010-2013 Assessed Valuation Analysis, which allows a 4.9% mill levy increase in 2011, thus allowing an average 2.5% property tax revenue growth equal to inflation over the next three years. It would also position the county to be prepared to deal with growth in times of economic recovery beyond 2012. Note, however, if oil and gas prices return to higher levels than 2007 in 2009-2010, a mill levy increase may not be necessary to accomplish an average property tax revenue growth equal to inflation over the next three years.

As stated above, it is recommended that all county programs undergo a detailed examination by management and the Commissioners in the next three months to better understand the needs and value of programs and a priority process that identifies what the county should be doing. This process may identify programs that need to be added, eliminated, restructured, or left unchanged. Together with the review, a re-examination can be accomplished of Weld County's mission statement, core values, core strategic goals, and how each department and office tie their individual goals into the overall county mission and strategic goals to best serve the citizens of Weld County.

The process should start with an all-day session on January 29, 2009, with the Commissioners, elected officials, and department heads doing a re-examination of Weld County's mission statement, core values, and core strategic goals. Beginning in February, it recommended that the major portion of a day per week be set aside by the Commissioners and Finance and Administrative staff, to meet with individual department heads and elected officials to review the departments and offices programs and priorities. Determinations will be made about what changes in programs should be made in the respective areas. Then, as departments or offices prepare their 2010 budget, they can tie their individual goals and budget requests into the overall county mission and strategic goals.

The process that is recommended in developing Weld County's Strategic Plan, and program priorities for resource allocation through the budget process are:

- **Our Vision:** *What is our best possible future?*
- **Our Mission:** *Why are we in business?*
- **Guiding Principles/Core Values:** *How do we do business? What are our values?*
- **Countywide Trends**
- **Priority Strategic Themes:** *For example health, human services, economic development, public safety, transportation, land use, etc.*
- **Strategic Area Missions:** *Strategic areas of service delivery.*
- **Strategic Area Trends**
- **Departmental Goals:** *Where do we want to be?*
- **Strategies:** *How do we get there?*
- **Objectives:** *How do we know we arrived?*
- **Implementation:** *Getting there.*
- **Performance Monitoring and Outcomes?** *Did we get there?*
- **Feedback:** *Do we need new strategies?*

Based upon the results from the above process, the budget development will allow for resource allocation that focuses on programs, priorities, goals, and performance measures consistent with the strategic plan and priorities as directed by the Commissioners.

For the departmental reviews, department heads and elected officials should be prepared to identify the programs they operate, costs of the programs, goals and objectives of the programs, to prioritize the various programs they have within the department, need or value of the programs, changes in the programs that the department may suggest, how the program may be changed to operate more efficiently, consequences of eliminating the program or reducing it, identify whether the program is mandated, and ways to maximize revenue generation from the program. A schedule will be developed to allow managers time to prepare for the reviews.

Although this process will take time and effort, it continues Weld County's long time tradition of Weld County's elected officials, managers, and employees demonstrating a commitment to meet or exceed the community's highest priority expectations of service at the lowest possible costs to the citizens.