



October 12, 2010

Board of County Commissioners
530 East Main Street, 3rd Floor
Aspen, Colorado 81611

RE: 2011 Budget Recommendations

Dear Chairman Newman and Members of the Board:

As required by Colorado Budget Law, C.R.S. 29-1-103(1)(e), I am submitting this budget letter and budget, with recommendations for adoption, to the Board of County Commissioners. Staff has generated the accompanying budget documents to support the Board in its decision-making.

BACKGROUND

The Board's budget policy calls for the adoption of a balanced five-year plan for the County's General Fund in order for us to plan and maintain fiscal sustainability. The 'General Fund' includes the general fund, road & bridge and social services funds.

I am very pleased to present a balanced five-year budget plan for the General Fund. Given our current economic times, we have continued to redefine our budget levels throughout the organization. This effort will be explained further in this letter and during your budget presentation. During ongoing discussions with the Board and the County's Financial Advisory Board, staff remained sensitive to the uncertainty of our future economy. We continue to work diligently to accurately forecast revenues in our five-year plan. Staff is bringing forward a plan to strategically reduce our operational expenditures and provide for a sound fund balance.

2010 BUDGET STATUS

During the adoption of the 2010 budget, staff made the following commitments to the Board:

- Continue to closely monitor our economic condition
- Continue to provide quarterly reports
- Continue to evaluate operations to find savings and efficiencies
- If revenues including sales tax exceed projections, merit increases will be reinstated at a prorated level to the increase
- If revenues fall behind projections, expenditure reductions will result

The economy has stabilized in 2010, and we have met our financial projections in the aggregate so that significant expenditure adjustments have not been needed. Unfortunately the economic recovery has not exceeded our expectations so no wage increases were granted this year. The Board has received quarterly budget status reports throughout 2010 that estimate our year-end financial position. Although the initial 2010 budget anticipated the use of \$302,901 of undesignated fund balance (i.e., a bottom line deficit), the second quarter report reduced that to \$273,249. Further improvement is expected in the third quarter report.

2011 BUDGETING PROCESS

Throughout the winter and early spring of 2010, the Budget Subcommittee, comprised of members of the Leadership Team and the Management Team, worked diligently to refine the process for the 2011 budget. We continued to consult other jurisdictions across the State and worked to ensure a thorough and informative process. The Subcommittee conducted an extensive workflow analysis and redefined the annual budget steps and processes used by managers throughout the organization to develop their operating budgets. This effort included the provision of more timely financial information to managers as well as advancing of the budget calendar to ensure full review and analysis. Cost center budgets were provided in advance in order for managers to adequately plan their budgets. In addition, managers were asked to complete a departmental efficiency analysis and then meet with their Section Leader for a comprehensive budget review and recommendations to achieve a targeted 5% reduction in net operating expenditures from the 2010 level per Section.

REVENUE ASSUMPTIONS

The County's Financial Advisory Board (FAB) met quarterly with the Leadership Team to discuss current economic conditions and revenue projections. The Commissioners met with the FAB in April and September to update economic assumptions for the 2011 budget and five-year plan. These assumptions are identified in the following table and result in an overall General Fund revenue increase for 2011 of approximately \$400,000 or 1.9% from the original 2010 budget.

	2011	2012	2013	2014	2015
Property Tax					
-prior year inflation	1.6%	1.7%	2.0%	2.0%	2.0%
- growth	<u>1.3%</u>	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>	<u>2.6%</u>
	2.9%	2.7%	3.0%	3.0%	4.6%
Sales Tax	1.2%	1.2%	1.2%	1.2%	1.2%
Investment Income Rate	1.12%	1.75%	2.50%	3.25%	4.00%
Community Development Fees	5%	5%	12%	12%	15%

RECOMMENDATIONS

The Leadership Team has reviewed the targeted 5% reduction in each Section and the buy-up requests, and they recommend the following adjustments.

- Overall operational reductions of \$884,000, equal to 4.3% of the 2010 operating budget (which excludes capital expenditures). These reductions do not require any staff layoffs; however, three unfilled positions are eliminated.
- Non-mandatory travel, training and memberships remain at 2010 levels
- Furniture purchases remain suspended for 2011
- Capital replacement schedules remain at a reduced level for 2011
- No wage increases in 2011, but 1% annual employee merit increases included beginning in 2012 through the remainder of the five year plan
- Benefit Committee's proposed health plan changes were approved to limit cost increases to 7% for 2011 from the original projection of a 12-15% increase. Out-year increases in health insurance are 12% for 2012, 11% for 2013, 9% for 2014, and 8% for 2015, accommodating implementation of a wellness initiative.
- Buy-ups for bus passes and Fitness/Wellness benefit reinstated in five-year plan
- Buy-up for CGTV video programming
- Buy-up for Health and Human Services grants management seasonal support position for two years, 2011-2012
- Buy-ups for Board meeting internet streaming and Eden advanced budget module funded from existing technology-pool budget

Including these recommendations in the proposed 2011 General Fund budget results in a projected surplus of approximately \$746,000. The overall five-year plan surplus is projected at approximately \$114,000, resulting from fluctuations in replacement schedules and capital purchases over the term of the plan. While maintaining a conservative financial plan, the financial resources achieved through expenditure reductions provided the flexibility for buy-up requests to be included.

These recommendations will be reviewed and discussed in more detail at today's meeting. Copies of all buy-up requests are included in your budget binder.

AMENDMENTS 60 & 61 AND PROPOSITION 101

The Board requested a worst case budget scenario assuming that all three of these ballot measures pass at the November 2nd election. The total revenue reduction to the General Fund at full implementation could be in excess of \$2 million or approximately 9% of the proposed 2011 budget. The Leadership Team has determined that a revenue reduction of this magnitude would require commensurate reductions in services and staffing across all sections of the General Fund. Depending on which, if any, of the proposals are approved, the Leadership Team will bring recommendations to the Board for discussion and approval in November.

FUTURE COMMITMENTS

Staff is pleased to present a strategic and comprehensive budget to you today. Given the uncertainty of our economic future, it is critically important to continue to monitor our financial activity and provide quarterly reports to the Board. As information becomes available, I am recommending that consideration be reserved for future adjustments. These adjustments should be made proportionately to any financial changes that we experience.

Although the County's current financial position remains solid with a contingency fund of \$4 million and undesignated fund balance projected to be nearly \$4.6 million at the end of 2011, our road system is vastly underfunded, and this issue should be addressed through the updating of the County's strategic plan which is anticipated to begin in 2011. In addition, the Healthy Community Fund will be expiring in 2012. It is important for the Board and staff to work collaboratively to build a financial plan to address these important issues.

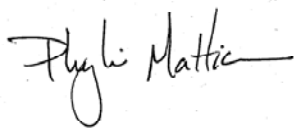
CONCLUSION

On behalf of the employees of Pitkin County, I want to thank and acknowledge the Board of County Commissioners as you engage in these discussions. Again, I am pleased to present a balanced 2011 budget and five-year plan for the General Fund without the use of surplus funds. We must continue to be diligent in our work and responsive to the changing economic environment.

In closing, I want to acknowledge the tremendous work by the staff of Pitkin County. Employees, Supervisors, Department Managers and Section Leaders worked continuously to evaluate and adjust our operations. Change is often challenging and difficult and I want to acknowledge the extensive time spent by the Budget Subcommittee and the Leadership Team to redefine our budget process, analyze volumes of information and provide these recommendations to you today. They remain dedicated public servants, and it is a privilege to work with the employees of this organization.

I respectfully ask the Board to adopt the 2011 General Fund budget as presented. Thank you for your consideration.

Sincerely,



Phylis Mattice
Interim County Manager

cc: Leadership Team
Management Team