

RIO BLANCO COUNTY

2008 BUDGET

Prepared by the Finance Department

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Rio Blanco County, Colorado

2008 Adopted Budget

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DATE: December 10, 2007
 TO: The County Commissioners and Citizens of Rio Blanco County
 FROM: Diane K. Sorensen, CPA, Budget/Finance Director
 SUBJECT: **2008 Budget Message**

I am pleased to submit herewith the 2008 budget that is in balance and in conformance with Colorado law. The budget is in compliance with state statutes, generally accepted accounting principles, and in compliance with the priorities and direction of the Rio Blanco County Board of Commissioners.

The following pages are an overview of the 2008 budget and an overview of the process and issues that drove the development of the 2008 budget including a discussion of economic factors, trends in revenues and expenditures.

The purpose of this budget is to provide the county with a fiscally responsible plan. The formal budget development process and the use of a budget helps to ensure that the county's financial strength and integrity continue to be maintained and enhanced. The budget also supports continuous customer service efforts to foster efficiency, cost effectiveness, accountability, and excellence in the provision of services to the citizens of Rio Blanco County.

Financial Projections

A major concern during the development of the budget is the amount of fund balance that will be available by the end of 2008 and in future budget years. Rio Blanco County has maintained a reasonable fund balance in all funds since 2004. Total operating fund balances at the end of 2007 are expected to be approximately \$14.6 million. At the end of 2008, fund balances are expected to decrease \$625,715 to \$13.9 million. The General Fund fund balance is expected to increase 17% in 2008. The largest decrease in fund balances are expected in the Road & Bridge Fund, Weed & Pest Control Fund, and Use Tax Fund, -54%, -26%, and -14% respectively .

The county's overall appropriations budget for 2008 is approximately \$32.2 million. This compares with an amended budget of \$27.6 million for 2007. Table I summarizes the appropriations for the functions of the county.

Expenditures by Function	Actual 2004	Actual 2005	Actual 2006	Budget 2007	Adopted 2008
General Government	\$ 3,592,510	\$ 4,215,468	\$ 5,534,220	\$ 12,022,206	\$ 10,724,684
Judicial and Public Safety	1,602,222	1,887,616	2,145,477	2,758,498	3,872,360
Public Health and Welfare	1,705,595	1,676,080	1,764,671	1,495,573	2,177,528
Recreation and Culture	320,880	363,382	434,665	407,476	782,385
Public Works	4,668,257	5,282,849	8,878,716	10,619,545	13,024,338
Intergovernmental	482,046	246,035	581,783	312,070	1,669,196
TOTAL EXPENDITURES	\$ 12,371,510	\$ 13,671,430	\$ 19,339,532	\$ 27,615,368	\$ 32,250,491

The majority of the increases in budgeted expenditure for programs in 2008 are to cover increasing costs for increased demands on level of service.

Reserves

The county makes two designations of fund balance of operating funds annually. One is a required emergency reserve of 3% of fiscal year spending, and the other is a working capital reserve to provide cash flow for operating funds throughout the fiscal year. These designations are held and have been included in the budget. The 2008 budget provides for a working capital reserve calculated at three months' expenditures, or \$3.9 million, and an emergency reserve of 3%, or approximately \$425,737. Overall fund balances are projected to exceed all reserve requirements and place the county in a healthy financial position.

Significant Issues Addressed in the 2008 Budget

The following are several of the significant issues addressed in the development of the 2008 budget.

- Financial planning of capital facilities is needed to support growth. The demand for basic county services has been gradually increasing over the past five years, and significant increases relating to anticipated oil and gas industry development are forecast. Anticipated growth indicates new employees will be needed by the county to maintain existing service levels. Within the next five years, population is expected to grow by 19%. Additionally, 16,503 new wells are anticipated to be drilled in the county. Along with homes and workplaces, all of the new residents, businesses, and industry operations will require extensive services from Rio Blanco County. In responding to these issues the county has developed and adopted a Capital Improvement Fund.
- In a conscious effort to improve financial management of scarce resources and efficient use of public funds, the county developed and adopted a Central Services Internal Service Fund at the end of 2007, which is reflected in the 2008 budget.
- Use tax revenue is predicted to decrease 60% in 2008. This is the result of some large taxpayers who have shown a serious resistance to the payment of county use tax on construction and building materials. In the past, Rio Blanco County has depended on this revenue for many programs and services. At the end of 2006, the county became involved in litigation with two major oil and gas companies regarding the collection of use tax on some building and construction projects. As of April 2007, one of the cases had gone to trial and the state court had decided in favor of the company. The county is appealing this decision. At this time the county cannot estimate the financial consequences of this litigation or when the disputes will be resolved. If efforts to defeat the county use tax are effective, the county will be forced to give up some activities or to develop some new sources of revenue.
- In 2006 the county decided to discontinue the self-insurance for employee medical, dental, and life insurance. The fund had experienced heavy claims for the past five years. During recent years, it has been necessary to transfer money directly to this fund in order to cover equity deficits. The Self-Funded Insurance Fund will be dissolved in 2007 after all outstanding claims are paid. As of Jan. 1, 2007 a contract was negotiated with Colorado Employees Benefit Trust (CEBT), a fully funded health insurance, to provide medical, dental, and life insurance to the employees of Rio Blanco county.

Economic Factors

Property taxes have increased 26% from \$5 million to \$6.4 million. The major cause for the increase is due to the increase in assessed valuation of the oil and gas industry in the county. The economic climate not only impacts the numbers for 2008 but also for years beyond, as the growth in oil and gas industry continues to impact the county. Financial forecast indicates that revenues will continue to increase but at a slower pace than costs. This financial reality means that the county must continue to prioritize how scarce resources are allocated and continue the county's quest for efficiencies.

Information released at the 2007 Annual Demography Meeting, Rio Blanco county was listed as the 10th fastest growing county in the state from 2005-2006. This trend is expected to continue. The demand for services will continue to increase due to growth in the county. The budget must balance the needs of a fast growing county with a disproportionate increase in revenues in order to maintain the current level of services. The growth has resulted in an overcrowded jail population and need for additional infrastructure, among other things. The county's need for additional space is fast becoming a major concern. Most of the county's building are in dire need of repair, and the county is predicted to outgrow its existing space in the near future.

Trends in Revenues and Expenditures

A major factor in the development of the 2008 budget was a consideration of the trends in county revenues and expenditures. Since 2004 many of the county's major revenue sources have shown a growth trend higher than the previous year. Total revenues are predicted to grow 12% from 2007. The most significant changes in revenues are as follows:

Intergovernmental/Contributions: Revenue from grants and contributions, mineral leasing, PILT, and severance tax are predicted to increase 21% over 2007. This revenue source is 26% of the county's total revenue and is the largest source of revenues expected in 2008. The increase in grants and contributions are directly related to the increased oil and gas production in the county resulting in significant increased demand on facilities and services.

Property Tax: Assessed value continues to grow with net assessed value increasing by approximately 26%. The base mill levy will remain at 9.05 mills. Property tax represents 21% of the county's total revenue and is the second largest source of revenues for the county, behind Intergovernmental/Contributions.

Fee, Fines & Forfeits: Is the county's 3rd largest revenue source. The revenue is predicted to increase 18% in 2008, and represents 15% of the county's total revenues. The increase in revenue is directly related to the increased activities in the county.

Sales Tax: Rio Blanco County has experienced a sales tax growth trend of 12% since 2004. Sales tax revenues increased 14% in 2007 over 2006. Due to the unstableness of sales tax, revenues are conservatively budgeted. Sales tax represents 10% of the county's total revenues.

Highway User's Tax: Represents 8% of the county's total revenue. No increase is expected currently over 2007.

Use Tax: Use tax is budgeted to decrease by 60% in 2008 due to the litigation with two major oil and gas companies regarding the collection of use tax on some building and construction projects.

Licenses & Permit Revenues: Licenses and permits are expected to increase 104% over 2007. This is due to the increase in oil and gas development in the county. Permits are at an all time high even though they still only represent 2% of the county's total revenue.

Inflationary pressures in salaries, benefits, and costs have driven the growth in expenditures. Salaries and benefits have increased 30% in 2007 over 2006 and 13% in 2008 over 2007. The increased energy exploration activity has had a significant impact on Rio Blanco County's labor force. Recruiting and retention of qualified employees is becoming increasingly difficult in the county. Apart from the growth in personnel costs, inflation costs of energy and fuel has also impacted the county expenditures. Increases in interfund charges are expected to be 29% over 2007. These interfund charges include charges for the Fleet Management Internal Service Fund. Fuel costs are expected to increase approximately 20% in 2008. Capital outlay and major repairs are expecting to increase over 100% in 2008 and is 34% of all expenditures budgeted in 2008. This increase is due largely to the increase on demand for services.

Basis of Accounting

Basis of accounting refers to the specific time at which revenues and expenditures are recognized in the accounts and reported in the financial statements. The method of accounting utilized depends on the purpose for which the fund has been established. Proprietary funds (Fairfield Fund, Solid Waste Landfill Fund, Weed & Pest Fund, and Fleet Management Fund) utilize the accrual basis of accounting, while all other county funds utilize the modified accrual basis.

Under the modified accrual basis of accounting, expenditures are recorded when a liability is incurred. Revenues are recognized when they are received in cash or become both measurable and available during the year. Revenues collected by another governmental unit are considered measurable and are recognized at that time.

Proprietary funds follow the accrual basis of accounting, whereby revenue is recognized in the year in which it is earned. Expenses are recorded when liabilities are incurred. In the proprietary funds, depreciation is recorded as an operating expense.

Budgetary Basis of Accounting

The main difference between the basis of accounting used for accounting purposes and the basis of accounting for budgeting purposes is that the budgets for the Proprietary funds (Fairfield Fund, Solid Waste Landfill Fund, Weed & Pest Fund, and Fleet Management Fund) are prepared on a cash basis.

Under the cash basis, capital expenditures are recorded as expenditures. Depreciation and amortization costs are not budgeted since these costs are non-cash transactions. The budget for all other funds is prepared on a modified accrual basis.

State law requires budgets for the county's governmental and proprietary fund types. Budgets for governmental types are adopted on a basis consistent with Generally Accepted Accounting Principles. Budgets for proprietary fund types are adopted on a Non-GAAP basis using the same measurement focus of governmental funds.

Budget Process and Purpose

The budget is a formal expression of public policy on the county's plan of financial activity. It allocates finite resources in the pursuit of goals, within the constraints of those resources.

The process starts with establishing broad goals to guide government decision making for the plan of operation and level of services. This year the Commissioners have listed the following goals:

- Land use resolution.
- ADA compliance construction on courthouse.
- Justice facility sight selection and property acquisition.
- Retention and recruitment of qualified personnel.

The budget is a form of control having the force of law. The legally adopted budget provides both authorizations of and limitations to spend money. The county plans to demonstrate accountability from both the authorization and the limitation perspectives.

Approved this day December 10, 2007



Kenneth C. Parsons
Chairman



Forrest F. Nelson



Joe Collins

PROFILE OF RIO BLANCO COUNTY

Located in Northwestern Colorado on what many refer to as the Northwest Plateau, Rio Blanco County comprises approximately 3,226 square miles, ranked 6th in the state of Colorado, with approximately 2,064,791 acres. Public lands (Forest Service and BLM) account for 75% of the county and private deeded lands (approximately 500,000 acres) make up the remainder.

For such a vast county in terms of square miles and acres of land, Rio Blanco County is sparsely populated. In 2005, the county's population was estimated to be 6,073 (approximately 1.88 persons/sq mile) with growth projected to be 7,575 by the year 2020. Of the 6,073 people living in the county, 2,273 live in Meeker, 2,068 live in Rangely, and the remaining 1,732 live in the unincorporated parts of the county.

From its founding in the mid eighteen hundreds, the county has relied heavily upon agricultural activities, farming and ranching, to support its economy. Since the early nineteen hundreds, recreational activities (primarily hunting and fishing) have played an important part in the county's economy. For many years, Rio Blanco County has been known to be home to the state's largest mule deer and elk herds. The Flattops Wilderness elk herd is one of the largest elk herds in the United States.

In the mid nineteen hundreds, Rio Blanco County's economy was positively impacted by the discovery of oil near the Town of Rangely. For several years, the revenues from this oil field contributed significantly to the county's economy. Then in the early 1980's, the oil shale boom in the Piceance Creek Basin and nearby Roan Plateau contributed once again to Rio Blanco County's economy-- only to end with a significant bust just a few short years later.

In the late 1990's, Rio Blanco County once again felt the impact of yet another energy boom. This time it was natural gas. The exploration of natural gas, from drilling wells to building transportation lines to getting the raw gas to gas plants for processing, has set off yet another boom cycle to the county's economy.

In recent years, energy development has become the major driver of the county's economy. In 2006, for property tax assessment purposes, the top 10 valued companies were directly related to energy development comprising 80% of the county's total assessed value.

The remaining 20% is derived as follows:

Agricultural	1%
Industry	5%
Commercial	3%
Residential	4%
Vacant Land	1%
Public Utilities	6%

The total assessed value in 2006 was in excess of \$575 million. In 2007, it is estimated to be in excess of \$700 million-- an increase of approximately 22%.

Distribution of county revenues in 2006 was as follows:

County	25%
School Districts	32%
Towns (Meeker and Rangely)	1%
Special Districts	42%

In 2007, cumulative drilled oil and gas wells in Rio Blanco County numbered approximately 2,500 wells. By 2022, the projected number of oil and gas wells is projected to be 17,500. One can only imagine what impact these projected new wells will have on the county's assessed value, the economy, and infrastructure.

What impact has this energy exploration activity had on the local job market? In 2005, an estimated 4,164 jobs were available. The unemployment rate was estimated to be in the 4% range. From 2001 to 2004, the growth rate in estimated jobs available was in the 2% to 3% range. However, from 2004 to 2005, the job growth rate was estimated to be in the 7% range. All indications are this job growth rate carried through 2006 and into 2007. Thus far in 2007, the unemployment rate is estimated to be approximately 1.5%

In 2005, the population per household in Rio Blanco County was estimated to be 2.49 persons. Of the 2,977 housing units available within the county, some 2,342 were occupied. With the significant increase in energy development within the county in 2006 and 2007, the vacancy rate (available housing) has been reduced significantly. The lack of affordable and attainable housing within the county has contributed to potential residents of the county seeking housing in neighboring counties/communities and commuting to their jobs in Rio Blanco County.

What about residential housing sales? The average price of a residential home in Rangely increased from \$73,560 in 2002 to \$133,586 in 2007; an increase of approximately 81%. In Meeker, the average sales price of a residential home increased from \$115,350 in 2002 to \$190,011 in 2007-- an increase of nearly 65%. The boom of the energy development is being felt within the housing market including both sales and rentals.

Even though the increase in permanent residents in Rio Blanco County has not increased proportionally with the available jobs and demand for workers within the county, the impact on the county's infrastructure has been significant. Prior to 2006, both of the county's school districts were experiencing a 'decline' in enrollment. Since 2006, both districts have been experiencing an 'increase' in enrollment; a positive indicator that families are moving into the county. The county's two hospitals have also experienced an increase in patient visits over the past couple of years. For example, the Meeker Family Clinic is experiencing nearly a 13% increase in patient visits; 2006 to 2007. Likewise, the emergency room patient visits in 2007 are up some 20% over 2006.

Emergency dispatched services in the county's sheriff's office have increased over 9% from 2006. The county detention center is routinely over crowded as a result of this increase in law enforcement activity.

Daily commuting of workers and hauling of heavy truck loads of materials and equipment to energy development sites, etc. are having a negative impact on the county roads and state

highways. Considering the physical size of Rio Blanco County (3,226 sq miles), there are only 3 major state highways within the county-- state highways 13, 64, and 134. The county owns and maintains some 920 miles of road. 173 miles are paved with the remainder being unpaved; gravel, dirt, etc. County Road 5 (the main county road to service the Piceance Creek Basin), where the majority of the natural gas energy development is taking place, has experienced an increase of over 160% in vehicle traffic from 2003 to 2005. In 2005, nearly ½ of the total increase was heavy truck traffic. A study done in 2007 estimates a capital expenditure of \$181 million is needed over the next 15 years for county road improvements.

This latest energy exploration impact has been so significant on the Rio Blanco County infrastructure that a group of local citizens representing several of the major entities within the county (county government, towns, school districts, hospitals, special districts) are working together to define and develop a “Community Needs Planning” process.

The next several years promise to be extremely challenging for everyone remotely connected to Rio Blanco County. Working together, we’ll be able to form effective partnerships to meet these challenges head-on and achieve successful results which will benefit the entire county.