



## AGENDA ITEM SUMMARY

(Must be submitted NLT 3PM Wednesday for next week agenda)

**Department: Finance**

**WORK SESSION**  Meeting Date:

**REGULAR AGENDA**  Meeting Date: **09/6/2022**

**Required originals approved and attached?**   
**Will be provided on:**

### Item summary:

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Call for Hearing | <input type="checkbox"/> Contract/Agreement/MOU - Contract # |   |
| <input type="checkbox"/> Resolution       | <input type="checkbox"/> Proclamation                        | <input checked="" type="checkbox"/> Budget Item |
| <input type="checkbox"/> Draft Ordinance  | <input type="checkbox"/> Final Ordinance                     | <input type="checkbox"/> Other Monthly Review   |

Documents exempt from public disclosure attached:

### EXECUTIVE SUMMARY:

As required by the Clallam County Charter, attached for review and discussion is the 2023 Preliminary Budget for Clallam County. The submission of this preliminary budget is the first step in the budget adoption process, with the following key dates to follow:

- Tuesday, September 6<sup>th</sup>—10:30AM Public Meeting to be held in the BOCC Board Room to Present 2023 Preliminary Budget
- Wednesday, September 14<sup>th</sup>—11AM Port Angeles Public Meeting to Present 2022 Preliminary Budget—Red Lion Hotel in Port Angeles;
- Sept 14-23<sup>rd</sup>--The Administrator, CFO and the Budget Director to meet with each department;
- Monday, September 26<sup>th</sup>—5 Year Capital Plan along with Proposed 2023 Capital Budget to be presented at BOCC work session for consideration and discussion;
- Tuesday, September 27<sup>th</sup>— 11:30 am Sequim Public Meeting to Present 2023 Preliminary Budget—Sunland Golf Club Sequim;
- Wednesday, September 28<sup>th</sup>— 12:00 pm Forks Public Meeting to Present 2023 Preliminary Budget—Blakeslee's Bar & Grill, Forks;
- Monday, October 10<sup>h</sup>—CFO and the Administrator submit the Recommended Budget to the BOCC;
- October 12<sup>th</sup>-28<sup>th</sup>—BOCC, Administrator, CFO and Budget Director to meet with each department;
- Monday, November 14<sup>th</sup>—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- Tuesday, November 29<sup>th</sup>—Clallam County Property Tax Levy Certification
- Monday, December 5<sup>th</sup>—Special Taxing Districts Property Tax Levy Certification;
- Tuesday, December 6<sup>th</sup>--Public Hearings at 10:30am and 6pm in the Board Room to adopt final budget by resolution.

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State Economic and Revenue Forecast Council's economic forecast report which generally predicts low-single digit growth in 2023. However, given that economic conditions are still evolving, the sales tax revenue budget for 2023 will continue to be revisited multiple times during the 2023 budget process to reflect any changes in expectations for next year.

From an expenditure standpoint, there are certain additional costs not yet incorporated into this preliminary budget which will be incorporated in later versions of the 2023 budget pending further discussion with the departments and/or the BOCC, including:

- **Capital outlays and related transfers** needed to fund such capital outlays from the General Fund, REET Funds, Opportunity Fund, and other sources, pending completion of the update of our 2023 Five-Year Capital Plan;
- **Additional services costs related to our Jail Medical function** resulting from a recent amended agreement with Wellpath (additional costs of approximately \$162k to be added);
- **Additional American Rescue Plan Act funding allocations** made this year that may carryover to next year or reduce the remaining ARPA funding available in 2023;
- **One-time and Recurring Department Requests Over the Base Preliminary Budget** (see included schedule);
- **Finalization of the General Fund's 2023 indirect cost allocation plan;** and
- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2023 Preliminary Budget projects a beginning General Fund Balance of approximately \$13.711 million, Revenues totaling \$50.105 million, Expenditures (including Transfers Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Flood Control and other funds) of \$52.477 million, resulting in a budgeted use Reserves of (\$2.372) million, and leaving an ending General Fund Balance of \$11.339 million, representing an ending reserve level of 22% of total operating expenditures. However, as discussed later, when one adjusts for the historical underspend to our personnel and benefits budgets of \$1.9 million-\$2.1 million, it is likely the preliminary budget deficit for 2023 (excluding COVID-related revenues/expenditures) is closer to (\$428k), as compared to 2022's projected deficit of (\$2,018k), which would leave an ending fund balance of \$13,383k for 2023, or a reserve of 26% of expenditures.

Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

In this preliminary roll up of the 2023 budget, General Fund Revenues (excluding COVID-related reimbursements) are projected to total \$50,005k, representing a \$3,350k or 7.2% increase over 2022 projected revenue expected, and a \$3,493k or 7.5% increase over the 2022 originally adopted budget. When you further exclude Transfers In revenue (which consist mainly of cash flow neutral

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transfers from the Lower Dungeness and Dungeness Off-Channel Reservoir projects), General Fund Revenues are projected to increase \$2,020k or 4.7% from 2022 projected revenues.

In projecting revenues for 2023, certain revenue streams impacted by the economic and operational disruptions created by the COVID pandemic are projected to rebound from 2022, including:

- Miscellaneous Revenue is projected to grow by \$1.67 million due primarily to significant growth in investment interest income as the County is able to reinvest its investment portfolio in much higher yielding US Treasuries and other fixed income securities that are yielding in excess of 2.5%-3.5% next year (as compared to sub 0.5% yields earned during much of 2022) due to the aggressive interest rate actions taken by the Federal Reserve to raise rates in an effort to curb inflationary pressures in the US economy;
- Fines & Penalties are also expected to rebound from 2022 levels as courts continue to return to normal operations post-pandemic and as case back logs clear (however these assumptions are under review given other factors that are contributing to the 34% projected drop in infraction revenues for 2022); and
- Goods & Services are projected to increase by 5.4% due to contractual CPI-tied increases in certain of interlocal criminal justice agreements, improvement expected in the Jail bed revenues earned under the County's agreement with the State Department of Corrections (albeit still \$150k lower than pre-pandemic levels) as lower State prisoner populations during the COVID pandemic begin to subside, and increases in HHS Administration and Environmental Health services provided under Foundational Public Health funding provided by State.

Growth of certain of our revenue streams tied to retail sales activity are assumed to continue the trend seen for most of 2022 where a moderation to low single digit growth (2.5-3%) took place after the 1<sup>st</sup> quarter of 2022, leading to a more modest 6.1% growth being projected for full year 2022 sales taxes as compared to the 21%+ growth seen in 2021. For 2023, sales taxes are budgeted to grow at 3% based on this trend continuing. While we are not currently projecting a recession in 2023 in a traditional sense as employment levels remain strong, we do believe inflationary pressures will carry over to 2023 albeit at lower levels from those witnessed in 2022 which, along with higher consumer borrowing costs, will hold discretionary taxable sales activity to low single digit growth next year. Other revenue streams tied to real estate, particularly REET 1 and REET 2, are expected to decrease by approximately 30% from historically high levels seen in 2022 due to the rapid slowing of the real estate market taking place due to the rapid rise in mortgage rates.

## **TAX REVENUES**

Representing almost 50% of General Fund total revenues, Tax revenues are projected to increase \$622k or 2.57% in 2023. Property taxes are projected to increase \$227k or 1.99% as we assumed the County takes its allowed for 1% annual levy growth limit, as adjusted for new construction assumed captured, as allowed for under statute. It should be noted that new construction estimates used in 2023 levy calculations are very preliminary and are currently 9.7% below 2021 new construction estimates. Sales-driven taxes (local retail, juvenile correction sales and use taxes and local criminal/public safety taxes) are projected to increase a combined \$371k or 3%, which again reflects our assumption that sales taxes will grow at a more moderate rate as compared to the +6%

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growth seen in 2022. Timber excise tax is also projected to increase 5% from 2022 projections based on trend.

## **LICENSES & PERMITS**

Licenses & Permits are currently projected to decrease -\$48k or -4.5% from 2022 projections mainly due to an assumed decline in building permit revenues of -5%.

## **INTERGOVERNMENTAL REVENUES**

Overall, Intergovernmental Revenues--consisting of federal and state grants and intergovernmental tax and excise payments received by the County--is budgeted to decrease -\$891k or -12.4% in 2023 mainly due to a \$1,243k drop in intergovernmental tax revenues driven by the \$1.386 million one-time distribution of ARPA Section 605 Local Assistance and Tribal Consistency funds expected to be received from the US Treasury in 2022, as partially offset by 3-6% increases in other intergovernmental tax revenues including PILT, Criminal Justice, and PUD Privilege taxes. Intergovernmental grant revenues are projected to increase \$352k or 13.6% mainly due to higher grant revenues budgeted for DCD Environmental Quality (+\$320k relating to fish barrier-related grant increases), Juvenile Services (+\$92k), and increases in other areas.

## **CHARGES FOR GOODS & SERVICES**

Charges for Goods & Services are projected to increase \$425k or 5.4% in 2023 driven partly by partial recovery of certain COVID-impacted revenue streams, most notably the Sheriff Jail revenues derived from the provision of excess jail bed space to the State Department of Corrections which were negatively impacted during 2022 due to reduced COVID-related jail capacity restrictions that resulted in reduced DOC jail occupancy and need for County jail beds (a \$150k improvement is assumed in 2023, but revenue remains \$150k-\$250k below pre-COVID levels). The remainder of the increase is largely due to increases in interfund services provided to the HHS Foundational Public Health fund and other non-General Fund HHS funds by HHS Environmental Health (\$78k) and HHS Administration (\$130k).

## **FINES & PENALTIES**

Fines & Penalties are budgeted to increase \$235k or 36% over 2022, reflecting an expectation by both district courts of a rebound of infraction revenue from 2022 levels as courts continue to return to normal operations post-pandemic and as case backlogs continue to clear. A review of these assumptions is currently underway given other factors beyond COVID-related impacts on court operations that appear to be contributing to the 34%+ decline in infraction revenues collected by our district courts thus far in 2022.

## **MISCELLANEOUS REVENUE**

Miscellaneous Revenue, consisting mainly of interest income and parks camping fees, is projected to increase \$1,666k or +99.5%, driven mainly by a \$1,421k increase in budgeted interest income driven by the sharp increase in interest rates available for US Treasury bills and notes that should allow the County to reinvest its investment portfolio in higher yielding fixed income investments following the collapse of the 2-year CD and LGIP investment pool interest rates beginning in 2020 and continuing

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through much of 2022. These yield gains are largely due to the aggressive interest rate increase measures taken by the Federal Reserve beginning in early 2022 to combat the 8-9% inflation experienced in the US economy, Partially offsetting this continued increase in investment interest income are lower interest earned on delinquent taxes (-\$75k or -18%) due to RCW changes made in 2021 impacting the amount of interest counties may collect, and lower expected revenues earned from sales of unclaimed property (-\$72k). Parks and fair revenues are expected to grow above 2022 projected levels, reflecting fee increases that were originally budgeted to occur in 2022 that were deferred until 2023.

## **OTHER FINANCING SOURCES (TIMBER SALES)**

Other Financing Sources, consisting mainly of timber revenues to the General Fund, are budgeted to decrease \$69k or -9.8% based on an August preliminary DNR timber harvest sales projection received for 2023.

## **TRANSFERS IN**

Transfers In for the General Fund are preliminarily projected to total \$4.64 million in 2023, consisting of \$3.6 million from the Lower Dungeness Floodplain Restoration project, \$750k related to the Dungeness Off-Channel Reservoir project and \$250k related to the Clallam Bay Sekiu Sewer restoration project. This represents an increase of +\$1,330k over 2022, primarily due to higher grant reimbursements expected under the Lower Dungeness floodplain project, as offset by a \$370k in transfers received from HHS 2022 relating to the return of General Fund support provided for the Serenity House bathroom remodel project. These Transfers In are fully offset by a corresponding change in Transfers Out relating to the Lower Dungeness, Off-Channel Reservoir, and Clallam Bay Sekiu sewer projects, making these cash flow neutral events for the General Fund.

Please note that the amounts projected for the Lower Dungeness floodplain project will likely change once revised cost projections for this project are received from the project consultant following the finalization of 2022 change order costs of Phase 2 work currently underway.

## **EXPENDITURE BUDGET HIGHLIGHTS**

Turning to expenditures for the General Fund, our preliminary expenditure budget, excluding COVID-related costs) currently stands at \$52,477k, an increase of \$3,804k or 7.8% from our 2022 projected expenditures, and an increase of \$795k or 1.5% over the adopted 2022 budget.

## **SALARIES, WAGES & BENEFITS**

The largest driver of the increase over 2022 projected expenditures is in Payroll and Benefits costs. Representing approximately 69% of our total expenditure budget, Payroll and Benefits are up \$2,689k or 11.6% and \$1,149k or 12.5%, respectively, to the 2022 forecast, mainly due to the fact that the budget assumes all budgeted staff positions are filled for the entire year as required under current policy, which clearly was not the case in 2022 where due to retirements, voluntary terminations, delays in filling positions during the year, the County had more open positions during 2022. This resulted in a projected budget underspend in payroll and benefits in 2022 of approximately \$2.25 million. Based on 3-year and 5-year historical average payroll/benefits budget underspend of \$2.12 million and \$1.88 million, respectively, we anticipate a similar level of personnel

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the 2023 Preliminary Budget pending completion of the 5 Year Capital Plan update which will be incorporated in the Administrator Recommended Budget. A \$130k decrease in transfers to HHS Operations based on budgeted needs is also reflected. Partially offsetting these decreases are Transfers Out increase of \$875k for working capital transfers to be made to the Lower Dungeness floodplain project, however as noted previously, this preliminary transfer estimate will likely change pending receipt of updated project cost projects for 2022-2023 from the project's outside consulting firm. Transfers for the Dungeness Off Channel Reservoir and Clallam Bay/Seki Sewer consist of working capital advances projected for these funds to support the funds' ongoing grant-funded capital projects, and will be reimbursed to the General Fund as grant reimbursements for these projects are received.

Transfers Out from the General Fund included in the 2023 Preliminary budget include the following:

• Lower Dungeness Floodplain	\$3,625,000
• Dungeness Off-Channel Reservoir	750,000
• HHS Operations	400,000
• PW--Clallam Bay/Seki Sewer	250,000
• Local Crime Victim Comp	67,000
• Veterans Relief	60,000
• PW--Flood Control	50,862
• Law Library	23,723
• Employee Healthcare	19,000
• PW--Solid Waste	6,500
• HHS Chemical Dependency/Mental Health	6,211

**TOTAL TRANSFERS OUT—2023** **\$5,258,296**

NOTE REGARDING VETERANS RELIEF TRANSFER--It should be noted that the Transfer to the Veterans Relief fund (which is new for 2023) is being driven by increases in Veteran's Relief fund expenditure increases over the last several years of 17.6% in 2020, 23.8% in 2021, and 23% projected for 2022, resulting in decreases in fund reserves of (\$75k) in 2019, (\$25k) in 2020, (\$47k) in 2021, and (\$55k) in 2022. As a result, in order to support the level of 2023 spending budgeted for this fund (which is budgeted to decrease 8.8% from 2022 spending levels), the Veteran's Relief fund will require a transfer of \$60k from the General Fund, or alternatively will require an increase in the property tax fixed levy rate apportioned to the Veteran's Relief Fund from the .01125 current rate to .01582, which will result in a decrease in property tax revenue flowing to the General Fund.

NOTE REGARDING LOCAL CRIME VICTIM COMPENSATION FUND TRANSFER—In 2022, a debatable emergency was approved by the BOCC raising transfer funding provided to this fund from \$17,000 to \$67,000 to support this fund which had experienced a significant decline in one of the fund's primary sources of funding--Clerk's Office revenue—due to a reduction in payment of fines during the COVID pandemic and due to other RCW changes in how fines may be assessed. The 2023 budget reflects similar level of funding support needed. It should be noted that the Prosecuting Attorney's Office is requesting additional funding to hire an additional Victim Witness Coordinator in 2023, which if approved would raise the amount of transfer funding needed for this fund by approximately \$101k in 2023.

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## CONCLUSION/TAKE-AWAYS

Based on this preliminary revenue and expenditure budget, the budget reflects utilizing (\$2,372k) of General Fund reserves to fully fund the 2023 budget. However, as discussed previously and as outlined in the attached "Breakdown of Preliminary Budget Deficit", based on historical average underspend to our personnel and benefits budgets of \$1.9 million-\$2.1 million, it is likely the preliminary budget deficit for 2023 (excluding COVID-related revenues/expenditures) is closer to (\$428k), as compared to 2022's projected deficit of (\$2,018k), which would leave an ending fund balance of \$13,383k for 2023, or a reserve of 26% of expenditures.

Please also note that there are several outstanding issues that have yet to be factored into the General Fund budget in its current preliminary state that to the extent approved will likely increase the amount of reserves needed to fund, including:

- Capital requests--pending finalization of what capital outlay expenditures the Board approves to be funded through the General Fund in 2023, this will need to be layered into the General Fund budget as well as those other capital reserve funds to be utilized. We expect to have the 5 Year Capital Draft Plan presented to the BOCC by the end of September and have incorporate a preliminary list of 2023 capital outlays into the Administrator Recommended Budget.
- Department Requests for 2023—as outlined in the attached "2023 Department Requests Over the Base Budget", **a total of \$1,598,072 of additional General Fund spending requests have been submitted, of which \$613,066 are one-time requests and \$985,006 are ongoing funding requests.** Some of the larger requests include:
  - Sheriff Operations—requesting \$395,810 of ongoing spending to support the addition of 2 additional FTE patrol deputy positions and PoliceOne Academy training and inventory software. Also requesting \$132,054 of one-time requests for providing 4 months overlap staffing to allow transition and training of a new Chief Civil Deputy, ballistic vests and rifle plate replacements, 10 MDTs to replace/upgrade existing patrol vehicle equipment, and other IT equipment requests.
  - Prosecuting Attorney—requesting \$163,500 of ongoing spending to support hiring of 1 additional FTE Deputy Civil Prosecuting Attorney, and additional funding needed for higher expert witness and witness fees. Also requesting \$21,250 of one-time spending for Iphone replacement equipment and office furniture for additional staff.
  - Superior Court—requesting \$66,150 in ongoing funding for a new part-time Court Facilitator FTE and additional Guardian at Litem costs. Also has requested \$10,000 of one-time spending to purchase JAVS switchers for audio visual equipment in the courtroom.
  - Auditor—requesting \$50,000 of recurring additional spending relating to funding needed for elections printing and binding costs for voter pamphlets which Washington state is no longer paying for, and one-time requests of \$2,200 for conferencing equipment.

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This is the preliminary rolled up budget for 2023. No budgetary impact until the final adopted budget is approved in December 2022.

**Recommended action:** (Does the Board need to act? If so, what is the department's recommendation?)

**County Official signature & print name:**  Mark Lane \_\_\_\_\_

**Name of Employee/Stakeholder attending meeting:** \_\_\_\_\_ Mark Lane \_\_\_\_\_

**Relevant Departments:** \_\_\_\_\_ Finance, BOCC \_\_\_\_\_

**Date submitted:**

August 31, 2022

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