



## AGENDA ITEM SUMMARY

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

**Department: Finance**

**WORK SESSION**  **Meeting Date: 10/09/2023**

**REGULAR AGENDA**  **Meeting Date:**

**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 2024 Administrator Recommended Budget for Clallam County. The submission of this recommended budget is the next step in the budget adoption process, with the following key dates to follow:

- Monday, October 9<sup>h</sup>—CFO and the Administrator submit the Recommended Budget to the BOCC;
- Wednesday, October 11<sup>th</sup>—11:30AM Port Angeles Public Meeting to Present 2024 Recommended Budget—Red Lion Hotel in Port Angeles;
- Tuesday, October 24<sup>th</sup>— 11:30 am Sequim Public Meeting to Present 2024 Recommended Budget—Sunland Golf Club Sequim;
- October 9<sup>th</sup>-20<sup>th</sup>—BOCC, Administrator, CFO, Deputy CFO and Budget Director to meet with each department;
- Monday, November 13<sup>th</sup>—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- Tuesday, November 28<sup>th</sup>—Clallam County Property Tax Levy Certification
- Monday, December 4<sup>th</sup>—Special Taxing Districts Property Tax Levy Certification;
- Tuesday, December 5<sup>th</sup>--Public Hearings at 10:30am and 5pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 12<sup>th</sup>—Possible extension of hearing for the Board to adopt the final budget by resolution (if needed)

The following materials have been provided to accompany this summary:

- 2024 Recommended Budget Summary—All Funds;

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- General Fund 4 Year Comparison of 2024 Recommended Budget to Projected/Actual Results for 2023-2020;
- General Fund 4 Year Comparison of 2024 Recommended Budget to Adopted Budgets for 2023-2020;
- General Fund Bridge Analysis of Changes Between 2024 Preliminary Budget and Recommended Budget (a summary of what changed between the prior version of the budget and this version);
- General Fund Breakdown Analysis of the Change in Operating Surplus/Deficit between the 2024 Recommended Budget Deficit and 2023 Forecasted Surplus/(Deficit);
- 2024 Recommended Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2024 Budget Salary Worksheet Breakdown by Department/Fund;
- 2024 Budgeted Staffing Schedule 10 Year History;
- 2024 Department Requests Over Base Preliminary Budget, including those recommended for approval that are included in the Recommended Budget;
- 2024 Recommended Capital Outlay Budget—by Fund;
- 2024 Recommended Capital Outlay Budget--By Key Strategic Capital Project;
- 2024 Recommended Capital Requests Excluded from 2024 Budget; and
- Estimated Sales Tax Impact—WSDOT Infrastructure Projects 2020-2027

It is important to note that this Recommended budget represents each departments' preliminary budget submissions as adjusted based on the outcomes of budget review meetings conducted in September between the County Administrator and Finance Department with each of the departments, in which revenue and expenditure assumptions, department requests for additional budget funding, and capital needs were discussed, evaluated for reasonableness, with changes then incorporated as needed and subject to current budgetary constraints. As noted in prior budget discussions, all departments have budgeted that all budgeted positions are assumed filled in accordance with how policy currently requires us to budget, which, as previously discussed, has not historically mirrored the County's actual payroll spending trends where the County has underspent its personnel budgets in the General Fund between \$2.2 million and \$2.5 million each year due to open positions, turnover and retirements (further discussion below).

This budget also reflects estimates for 2024 revenue which are partly dependent on the current revenue forecast assumptions for the remainder of 2023, as well as other variables, including:

- GDP growth and inflationary growth expectations based on most recent Washington state economic forecasts,
- Local economic conditions,

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- Large road infrastructure projects currently underway in our County which are expected to materially impact the County's sales & use tax projections in from 2023 thru 2027;
- The expected level of new construction to be captured for purposes of setting 2024 levy amounts for property tax purposes;
- Further changes in long term and short term interest rates as the Federal Reserve continues to combat inflation; and
- Other revenue guidance available thru MRSC, the DNR, and other sources.

Taxes, Intergovernmental taxes (including PILT, Timber excise tax, Leasehold Excise tax, PUD Privilege Tax, etc.), Real Estate Excise taxes (REET), and Timber revenues--representing approximately 61% of the General Fund revenue budget and 43% of the overall County revenue budget of the 2024 Recommended budget—are based on projections developed by the Finance Department based on the evaluation of such variables and available guidance. Departmental assumptions for other revenue streams reflected in this recommended budget were discussed and evaluated for reasonableness during the Administrator and CFO discussions with each department in September, with any changes based on those discussions reflected in the Administrator Recommended Budget.

While we are not currently projecting a recession in 2024 in a traditional sense as employment levels remain strong and given the number of national banks (Goldman Sachs, others) and economists (including those of WA State Economic Forecast Council) who have reduced their likelihood of recession in 2024, we do believe higher consumer and commercial borrowing costs will carry over into 2024 as interest rates remain elevated to combat inflationary pressures with the likelihood of any easing on interest rates in 2024 reduced based on recent remarks by the Federal Reserve. We believe these higher borrowing rates will hold discretionary taxable sales activity to very low single digit growth next year.

Accordingly, for the 2024 Preliminary Budget, a sales tax growth assumption of 4.07% was used in preparing the 2024 revenue budgets for our various sales-based taxes of the County, and reflects two primary components:

- (1) An assumed **minimal economic growth rate of 1%** in overall taxable retail sales activity projected for Washington State by the WA Economic Forecast Council for 2024 in its June 2023 updated forecast, which presumes further economic cooling in 2024 (short of a recession) as taxable retail sales growth slows from the 5% growth rate projected for 2023, and
- (2) The factoring in of **an additional 3.07% estimated incremental sales tax growth impact for the multiple large WSDOT road infrastructure projects occurring in the County in 2024**, including multiple US 101 fish barrier removal projects, the Elwha Bridge Replacement, and other Clallam WSDOT road construction projects with an annual estimated cost 153% higher than seen in recent years. See the attached analysis for a list of these WSDOT projects, their estimated cost, and their estimated sales/use tax impact by year based on each project's duration. These projects in total are expected to generate between \$600k-\$750k of local sales & use tax revenue for the County's General Fund in 2024 and 2025, as compared to the estimated \$230k-\$300k generated from similar projects since 2020. Given these estimates are derived from limited information available for each of these projects on WSDOT's websites, these sales tax projections for WSDOT's

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projected have been reduced by 20% to allow for project timing differences, payment delays, and unequal distribution of project costs over the duration of the project that may affect the accuracy of our year-to-year projections.

Other non-General Fund revenue streams tied to real estate, particularly REET 1 and REET 2, are expected to decrease a further 11% in 2024 after declining an estimated 29% in 2023 due to the slowing of the real estate market caused by rapidly rising mortgage rates.

Given that economic conditions are still evolving as we enter the final quarter of 2023 as is the economic impact of many of these WSDOT projects, the sales tax revenue budget for 2024 will continue to be revisited during the 2024 budget process to reflect any changes in expectations.

## **OVERVIEW OF CHANGES MADE BETWEEN PRELIMINARY BUDGET AND RECOMMENDED BUDGET**

Several changes have been made to the 2024 Preliminary Budget in arriving at the 2024 Recommended Budget. While outlined in more detail in the attached schedule called "Bridge Analysis Between Preliminary Budget & Recommended Budget", these changes at a high level include:

- **REVENUE CHANGES—increased \$1,077k**, mostly due to:
  - GOODS & SERVICES increasing \$402k mainly due to added funding being provided by the HHS Foundational Public Health to support HHS-Administration (+\$227k) and HHS Environmental Health (\$35k), and additional Hargrove funds from the HHS Chemical Dependency/Mental Health funds to Sheriff Jail Medical (+\$140k) to support hiring of an additional mental health professional in the jail. Also reflects higher Sheriff-Ops services revenues (\$53k, including increase in Jamestown policing contract revenues (\$38k) and OPSCAN Radio Tech services (\$15k)), a \$30k increase in Fair gate receipt and carnival proceed revenues based on '23 fair performance, higher Auditor election services revenue (\$45k of additional Presidential primary revenues expected), and increases in other areas. These increases were offset by a \$90k decrease in Sheriff-Jail Department of Corrections jail bed revenue based on revised jail bed usage expectations, a decrease in HHS Environmental Health On Site Program Fees (\$34k) to better reflect historical trend, and reduced Auditor legal filing fee revenues (\$20k) to reflect lower volume trends observed;
  - INTERGOVERNMENTAL REVENUES increasing \$182k due to additional grant revenue identified in certain departments where recurring grant sources were budgeted for one-half of the year rather than for a full year, including Juvenile Services (+\$65k HHS HCA CPWI), Sheriff Emergency Services (+\$78k for expected renewals of Homeland Security and State emergency management grants), and Sheriff Ops (+\$23k for additional Sex Offender Verification Program grant funding), and in other areas (\$16k);
  - MISCELLANEOUS REVENUE increasing \$138k mainly due to a \$53k increase in Parks & Facilities (driven principally by \$49k in higher camping fees for Dungeness and Salt Creek based on expected CPI-tied rate increases and trending camping revenues generated in '23), and \$51k in higher fair revenues related to fair concessions and

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rodeo and logging show purse sponsorships, and higher Treasurer non-investment interest income based on historic trend (\$35k);

- TAXES increasing \$111k mainly due to raising Sept-Dec 2023 projected Sales & Use tax revenues to reflect a 6.25% year-over-year expected growth rate to better reflect trend (2024 growth rates were left unchanged from the Preliminary budget);
- TRANSFERS IN increasing \$254k due mainly to the budgeted return of \$250k of working capital funding previously provided by the General Fund to the Clallam Bay Sekiu Sewer fund during its DOE grant/loan-funded sewer infrastructure improvement project which is expected to be completed by the end of 2024.

- **EXPENDITURE CHANGES—increased \$1,963k**, primarily driven by:

- TRANSFERS OUT increased \$1,096k due to the incorporation of capital outlay funding transfers for the IT Capital Projects Fund (\$590k) and the Parks & Facilities Capital Projects Fund (\$419k) to support the 2024 capital spending plan outlined in the updated 5 Year Capital Plan (see the attached “2024 Recommended Capital Outlay Budget—by Fund” schedule for outline of the capital outlays supported by these transfers. Also driving the increase in transfers out are (1) \$70k to the Public Works—Solid Waste fund needed to support the recommencement of required monitoring of the former Lake Creek landfill site; (2) \$14k to the Carlsborg Sewer needed to help support an increase in Sequim pipe charges related to a planned City of Sequim infrastructure project to replace the sewer line connecting Carlsborg to the City’s sewer system.
- DEPARTMENT REQUESTS recommended for inclusion in the 2024 Recommended Budget of approximately \$558k of the \$1,640k of requests received were added to the Recommended Budget, as outlined in the attached schedule “2024 Department Requests Over Base Recommended Budget”
- CAPITAL OUTLAYS of \$708k were incorporated into the Recommended Budget to reflect the 2024 General Fund capital plan as presented in the updated 5-year capital plan (as covered in more detail in the 2024 Capital Overview contained later in this document and as outlined in the attached “2024 Recommended Capital Outlay Budget—by Fund”.
- Other significant expenditures changes included the elimination of unused Extra Help across multiple departments (-\$191k), an increase in General Fund shared services indirects charged to other funds (-\$232k), the addition of the Axon Body Camera contract cost to the Sheriff Ops budget (+\$50k), reduction of one-time NODC funding from the higher level funded in 2023 (-\$25k), addition of sponsorship-funded Fair rodeo and logging show purse costs (\$40k), Juvenile Services addition of grant-fund costs due to the budgeting of a grant for a full year rather than half year (\$118k), Sheriff Emergency services grant-fund costs resulting from the budgeting of two grants for a full year rather than partial year (\$51k), and net other expenditure decreases totaling (\$248k) reflecting multiple budget reductions identified across multiple departments during recent department budget meetings.

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From an expenditure standpoint, there are certain additional costs not yet fully incorporated into this recommended budget which will be included in later versions of the 2024 budget pending further discussion with the departments and/or the BOCC, including:

- **Workers' Compensation fund rate increases** will likely be needed based on an analysis of the County's workers compensation L&I rates assessed and significant increases in claims cost and L&I in recent years. To continue the effort to stabilize reserve levels in the Worker's Compensation fund, a worker's compensation rate increase will need to be incorporated into each personnel budget, which is expected will add approximately \$150k of increased benefits costs to the General Fund (this change will be reflected in the next draft of the budget);
- **ER&R Rate Adjustments** are expected to be needed to bring ER&R vehicle and equipment rental rates better in-line with the anticipated future replacement cost of the existing fleet of vehicles and equipment at the County given inflationary impacts in recent years, with an estimated impact to the General Fund of \$380k (this change will be reflected in the next draft of the budget);
- **Additional American Rescue Plan Act funding allocations** made this year that may carryover to next year or reduce the remaining ARPA funding available in 2024;
- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget as this year's budget process continues.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2024 Recommended Budget projects a beginning General Fund Balance of approximately \$13.296 million, Revenues totaling \$50.150 million, Expenditures (including Transfers Out to Parks & Facilities Capital Projects, IT Capital Projects, HHS, Flood Control and other funds detailed later in this document and Capital Outlays) of \$54.091 million, resulting in a budgeted use Reserves of (\$3.941) million, and leaving an ending General Fund Balance of \$9.355 million, representing an ending reserve level of 17% of total expenditures. However, as discussed later, when one adjusts for the historical underspend to our personnel and benefits budgets of \$2.2 million-\$2.5 million, it is likely the recommended budget deficit for 2024 is closer to a (\$1,587k), as compared to 2023's projected surplus of \$1,648k, which would leave an ending fund balance of \$11.709 million for 2024, or a reserve of 23% of total expenditures.

Below are the revenue and expenditure highlights behind these results:

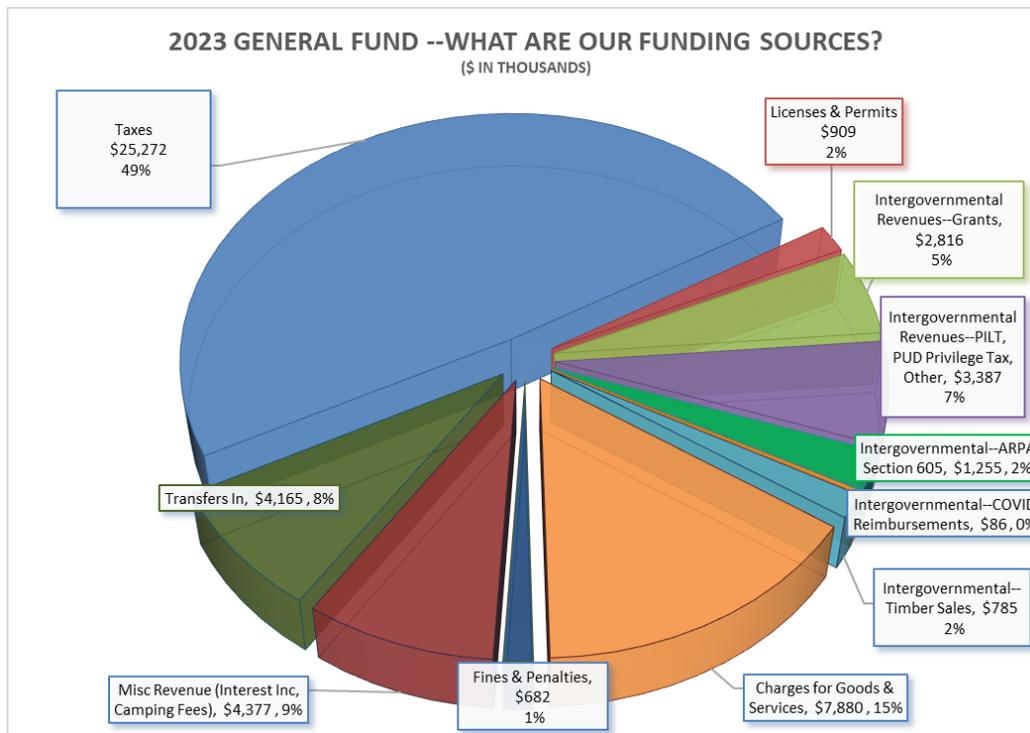
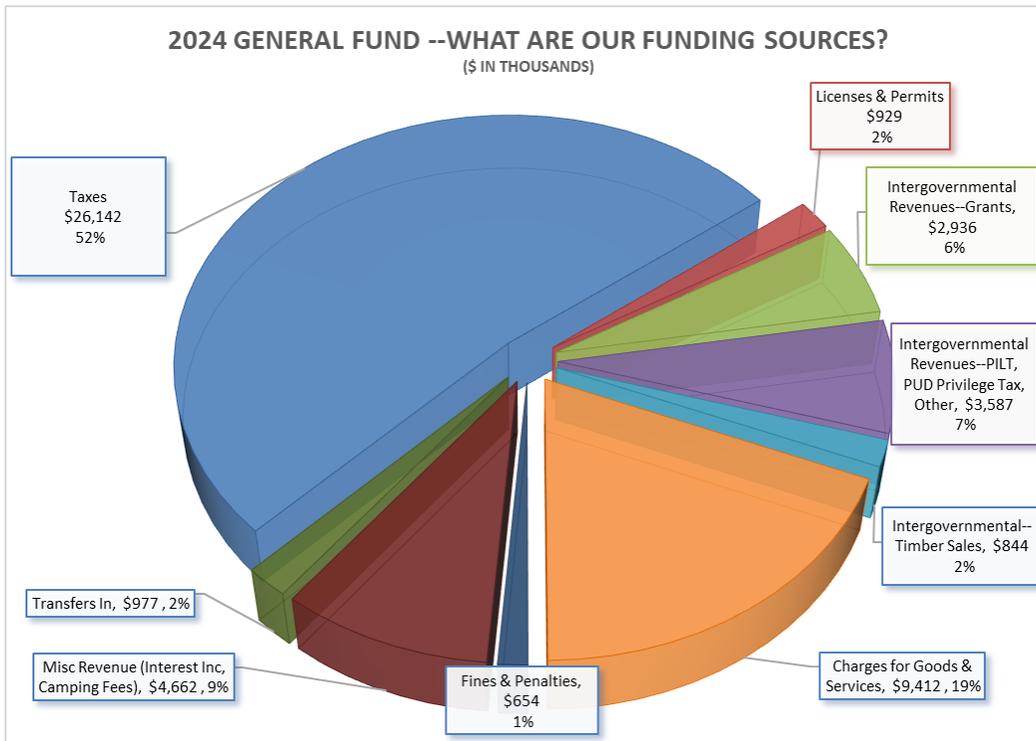
## **REVENUE BUDGET HIGHLIGHTS**

In this roll up of the 2024 budget, General Fund Revenues from Operations (which exclude COVID and ARPA Section 605 non-recurring intergovernmental revenues and Transfers In) are projected to total \$49,172k, representing a \$3,059k or +6.6% increase over 2023 projected revenue expected, and a \$3,505k or 7.7% increase over the 2023 originally adopted budget. General Fund non-recurring revenues—consisting of COVID (FEMA) and ARPA 605 Intergovernmental revenues—are projected to total \$0 in 2024, a decrease of \$1,341k from the prior year. Transfers In revenues, consisting mainly of the return of working capital previously provided by the General Fund to other

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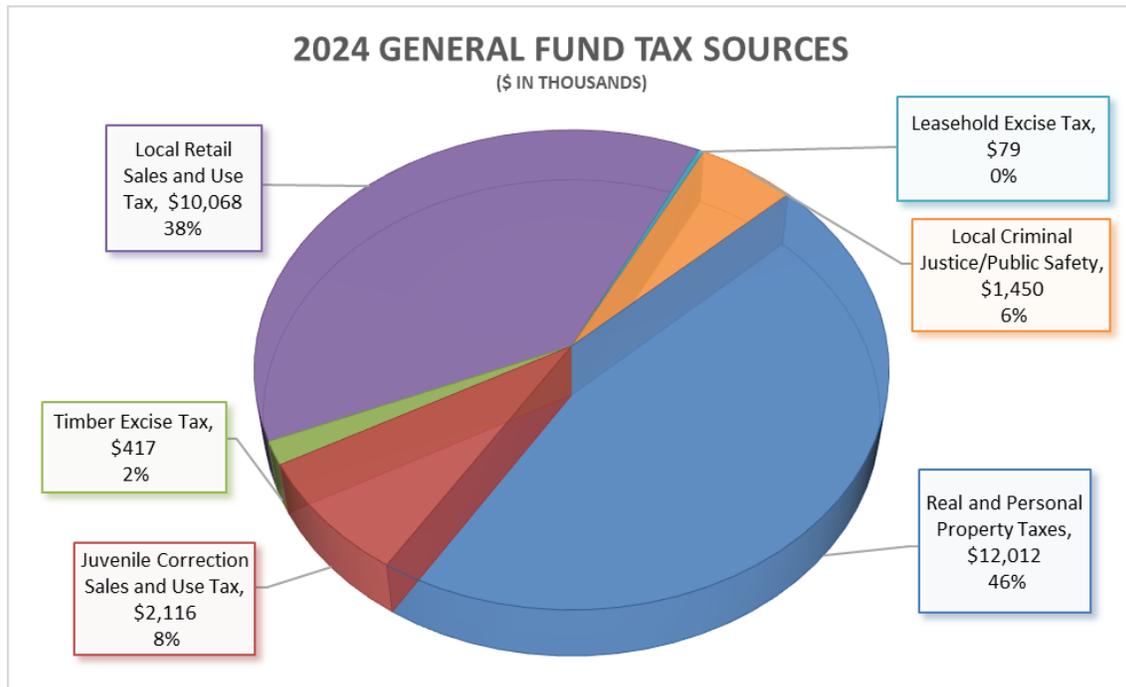
grant-funded projects, is budgeted to total \$977k, representing a decrease of \$3,188k or -76.5% from 2023 projected revenue. Total Revenue, including COVID/ARPA 605 revenues and Transfers In, overall is budgeted to total \$50,150k, a decrease of \$1,469k or -2.9%. The General Fund's primary sources of revenue in 2024 in comparison to 2023 consist of the following:



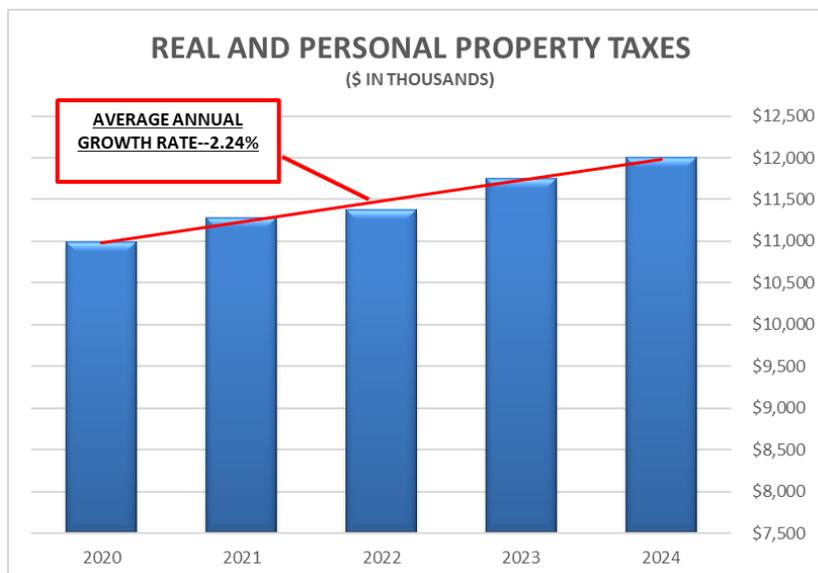
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## TAX REVENUES

Representing 52% of General Fund total revenues, Tax revenues are projected to increase \$870k or 3.44% in 2024. Below is a breakdown of the County's various major tax revenues by source:

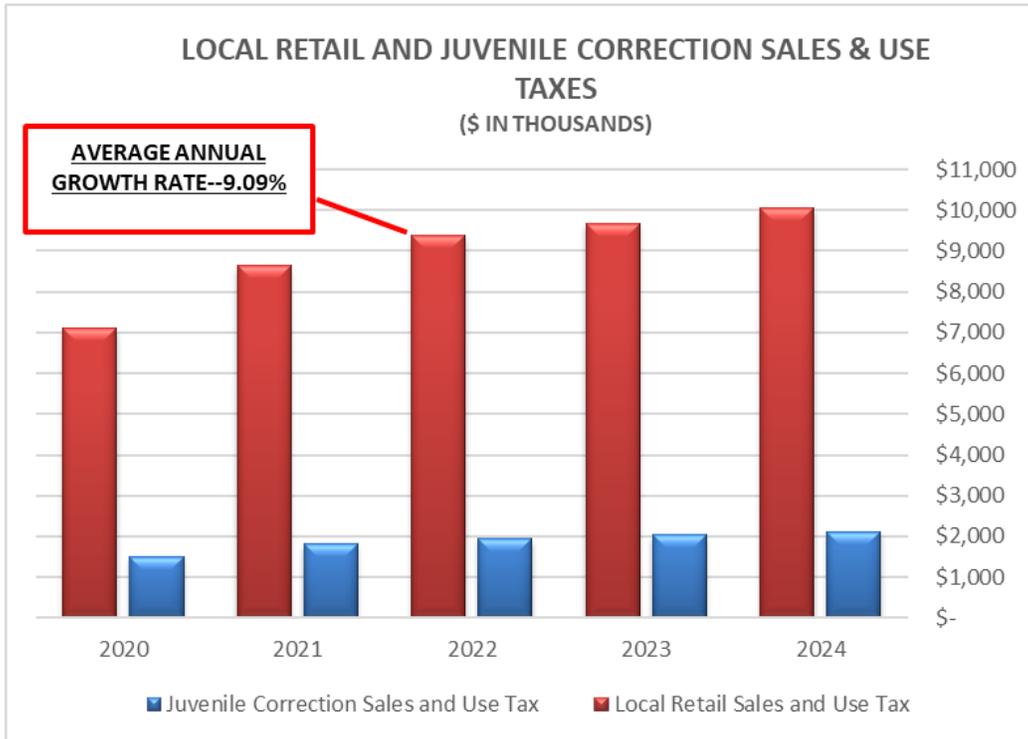


**Property taxes**, representing 46% of total tax revenue and 24% of total General Fund revenue, are projected to increase \$257k or 2.2% as we assumed the County takes its allowed for 1% annual levy growth limit, as adjusted for new construction assumed captured, as allowed for under statute. It should be noted that new construction estimates used in 2024 levy calculations reflect updated estimates received from the Assessor's Office and are currently projected to be between \$160 million and \$170 million. Property taxes have trended as follows over the past 4 years:



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**Sales-driven taxes** including local retail sales & use tax and juvenile correction sales and use taxes—representing 46% of total tax revenue and 24.3% of total General Fund revenue-- are projected to increase a combined \$472k or 4.1%, which again reflects our assumption that sales taxes will grow at a combined growth rate of 4.1%, which is comprised of the 1% minimal overall growth in taxable sales forecasted for 2024 by the WA State Economic Forecast Council plus an additional 3.1% growth factor tied to the multiple WSDOT road infrastructure projects occurring in 2024 through 2025. Sales taxes have trended as follows over the past 4 years:



Local criminal justice and public safety taxes are projected to increase 6.2% in 2024 based on MRSC published guidance. Timber excise & leasehold excise taxes are projected to increase 12.5% from 2023 projections based on a two-year trailing trend.

**LICENSES & PERMITS**

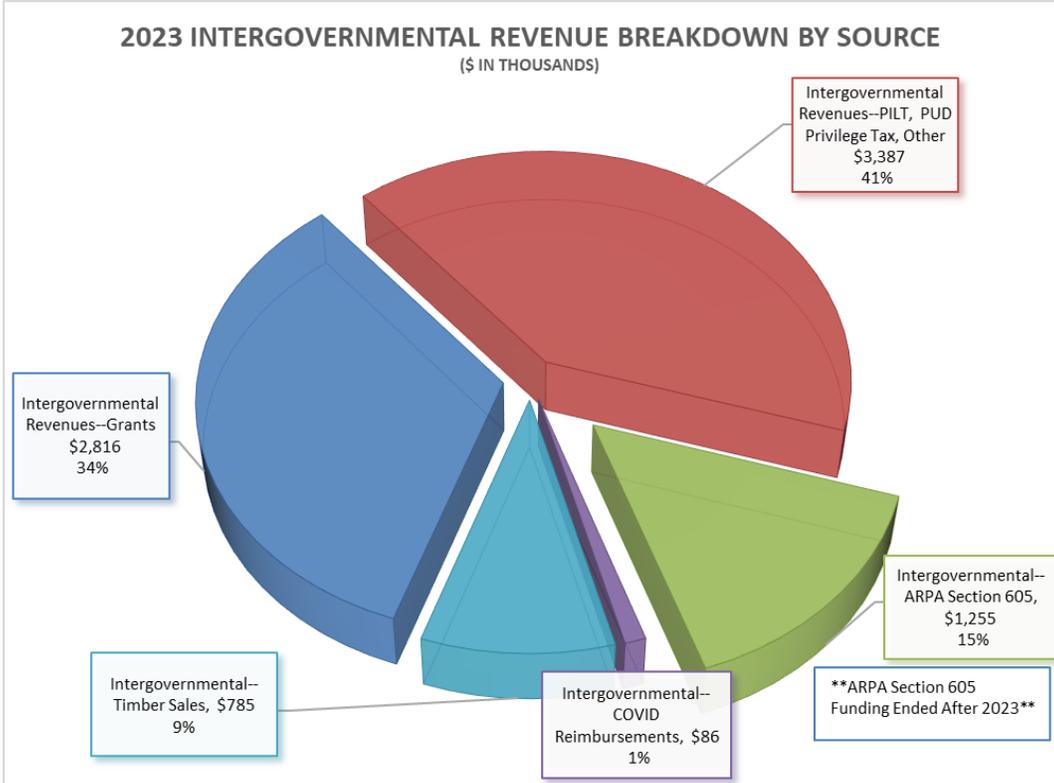
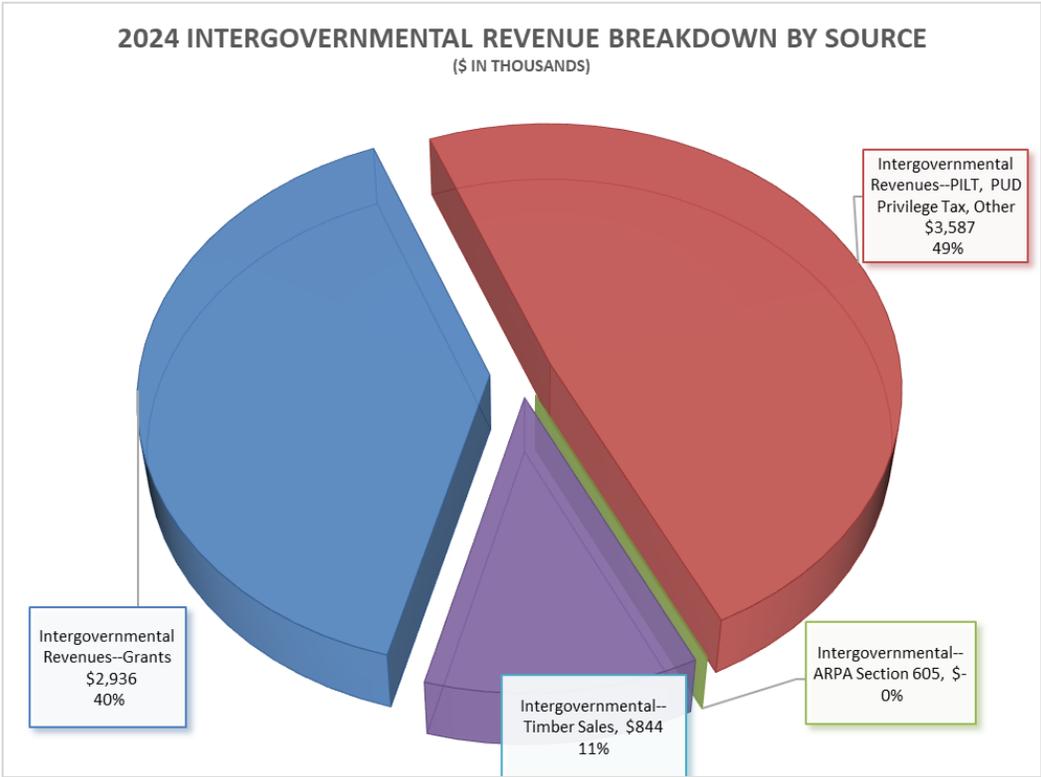
Licenses & Permits are currently projected to increase \$20k or 2.2% from 2023 projections mainly due to an assumed slight improvement of building permit revenues, land use permit fees, and other fees over 2023 projected trend.

**INTERGOVERNMENTAL REVENUES**

Overall, Intergovernmental Revenues--consisting of federal and state grants, intergovernmental tax and excise payments received by the County, and now DNR timber sales --is budgeted to total \$7,367k, representing 14.7% of total General Fund revenue budget and reflecting a decrease of \$962k or -11.6% in 2024.

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To understand the reason for the year-over-year decrease in total Intergovernmental Revenue, below is a side by side comparison of the sources of intergovernmental revenues for 2024 and 2023.



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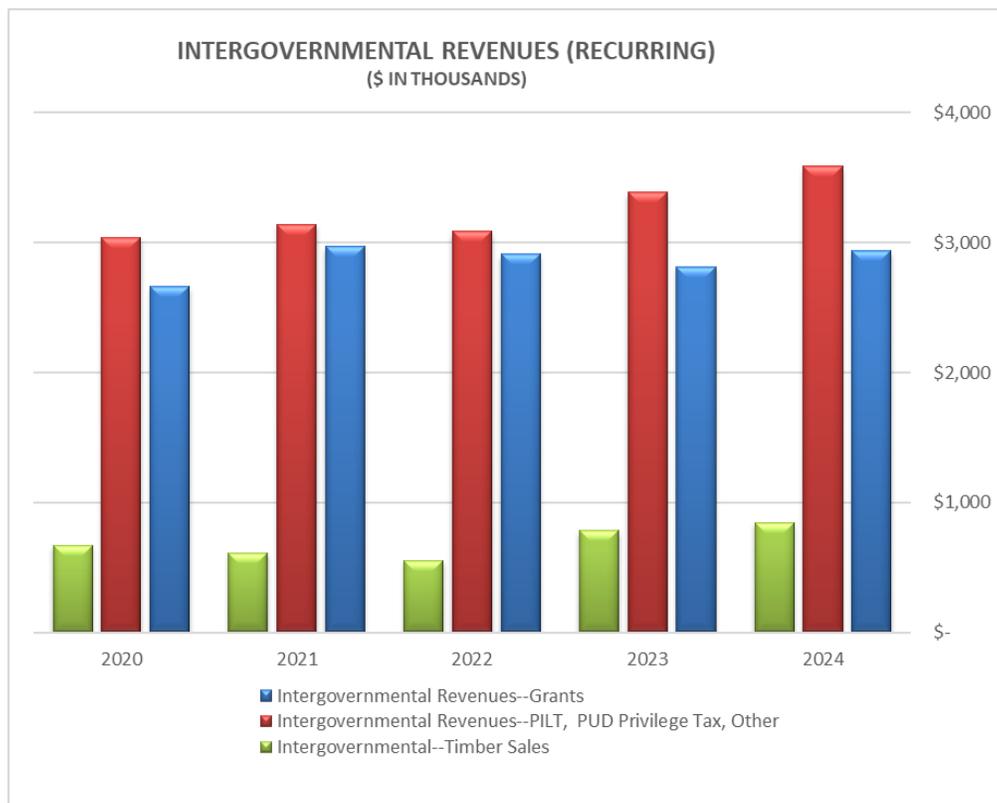
As outlined above, the principal driver of the decrease in overall intergovernmental revenue in 2024 is the sunset of the ARPA Section 605 Local Assistance and Tribal Consistency funding, the final payment of which was received in August 2023 totaling \$1.255 million.

Intergovernmental grant revenues (excluding ARPA Section 605 and COVID/FEMA funds) are budgeted to increase \$120k or 4.3% driven principally by grant gains in Juveniles Services (up \$271k in CJS, Becca, HHS HCA CPWI, Secure Crisis Residential Center & Special Sex Offender Disposition grants), Sheriff Ops (up \$23k due to higher Sex Offender Verification Program), Superior Court (+\$16k for AOC Interpreter grant), and gains in other areas, as offset by declines in DCD Environmental Quality (down \$211k due to lack of DOC/RCO McDonald Creek Fish Passage grant in '24 of \$406k, as offset by gains in NOPL, Marine Resources, & NOAA Olympic Oyster restoration grants).

Intergovernmental tax revenues including PILT, Criminal Justice, PUD Privilege taxes, Liquor and Marijuana excise taxes, and other taxes are projected to increase \$199k or 5.9%, reflecting increases of 3.5%-6.4% based on MRSC published guidance and historical trend.

Intergovernmental timber sales revenue (consisting of DNR timber sales) is projected to increase \$59k or 7.5% based on an initial 2024 estimate derived from March DNR 2023 timber harvest report. This estimate will be further adjusted pending receipt of an updated Q2 2023 forecast from DNR.

Below is a summary of how each our recurring sources of Intergovernmental Revenue have performed over the past 4 years:



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## **CHARGES FOR GOODS & SERVICES**

Charges for Goods & Services are projected to increase \$1,532k or 19.5% in 2024 driven by a number of factors, including the ability to leverage additional County funding sources to support General Fund services (i.e. increased usage of HHS Foundational Public Health and Hargrove funds to support General Fund-funded departments including HHS Environmental Health, HHS Administration, Sheriff-Jail Medical, and our courts' various therapeutic courts), assumed recovery of certain services revenue streams impacted during COVID or by ongoing staffing shortages existing in certain departments that provide services, or other factors, as outlined below:

- Higher Department of Corrections' utilization of the Sheriff Jail's excess beds with (+\$20k improvement budgeted over forecasted 2023, but still budgeted at one-third of pre-COVID levels);
- Jail staffing levels rebounding to enable resumption of Chain Gang services to the Roads department (+\$200k over forecasted 2023—predicated on Jail staffing levels improving over that seen in 2023 which resulted in Chain Gang services being drastically reduced);
- Increased Sheriff Ops services fees of +\$115k due to higher law enforcement services (\$61k), higher Jamestown contract policing (\$38k), and higher OPSCAN Radio Tech services;
- Increased interfund services provided to the HHS Foundational Public Health and other non-General Fund HHS funds by General-Fund-supported HHS Environmental Health (\$117k) & HHS Administration (\$346k);
- CPI-tied increases under certain interagency criminal justice services agreements (\$56k);
- Higher DCD commercial and residential plan check revenues (+\$53k over 2023 projected);
- Higher HHS Environmental Health On-Site fees (+\$84k over 2023 projected);
- Higher elections services revenue tied to the 2024 Presidential primary (+\$126k);
- Increased Hargrove funding provided to District Court 1's mental health court (\$167k), Jail Medical (\$185k mainly to support additional 1 FTE mental health professional added to support increased inmate mental health demands in jail), Superior Court's family and drug therapeutic courts (\$40k); and
- Increases in other areas.

## **FINES & PENALTIES**

Fines & Penalties are budgeted to decrease \$28k or -4.1% over 2023, reflecting a continued decline in delinquency penalties on property taxes, as offset by minimal growth of infraction revenues by both district courts.

## **MISCELLANEOUS REVENUE**

Miscellaneous Revenue is projected to total \$4.662 million in 2024, and consists mainly of interest income (totaling \$3.0 million in 2024), parks camping fees (totaling \$884k in 2024), Environmental Health operating assessments (\$290k), and fairground rental and concession fees (\$219k).

Miscellaneous revenue is budgeted to increase \$285k or 6.5% in 2024, mainly due to modestly higher interest income due to continued gains in investment interest rates during the 2<sup>nd</sup> half of 2023 enabling the Treasurer to continue to reinvest near-term maturing investments at modestly higher rates, with the assumption that rate increases by the Federal Reserve will slow after 2023 as the economy and inflationary pressures cool, as well as due to \$85k in higher unclaimed property

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revenues. These increases will be partly offset by \$25k or 7% decline in interest on delinquent property taxes due to RCW changes made in 2021 impacting the amount of interest counties may collect. Campground revenues are currently projected to increase \$49k over 2023 based on historical trend growth and the impact of CPI-applied increases to campground rates currently in review. Environmental Health operating assessments are projected to increase \$14.4k or 5.2%. County fair revenues related to rodeo/logging show purse sponsorships and concessions are budgeted to increase \$51k based on 2023 Fair results and plans to continue expanding event sponsorships.

## **TRANSFERS IN**

Transfers In for the General Fund--consisting primarily of the return to the General Fund of previously provided working capital funds by the General Fund to various grant-funded projects-- are budgeted to total \$977k in 2024, consisting of:

- \$683k from the Lower Dungeness Floodplain Restoration project representing the remaining amount owed to the General Fund of advances made to this grant-funded project;
- \$250k from the Clallam Bay Sekiu Sewer fund for working capital previously provided it for the Dept of Ecology grant/loan-funded sewer improvement project which is expected to be complete by the end of 2024;
- \$40k recurring transfer to the Sheriff-Jail department from the Trial Courts Improvement fund; and
- \$4k transfer from Public Works for the employee wellness benefit program which is being transitioned to the General Fund's HR department for 2024.

This represents a \$3.188 million decrease from 2023 when \$4 million of the \$4.683 million of working capital funding provided by the General Fund for the Lower Dungeness Floodplain project was reimbursed to the General Fund as the project's major construction phases concluded, with the remainder to be returned to the General Fund upon completion of the project's remaining work in 2024. The remainder of the decrease is due to the \$125k of working capital funding being returned in 2023 to the General Fund following completion of the grant-funded purchase of the new Sheriff vessel purchased in the Boating Safety fund.

## **INTERGOVERNMENTAL—COVID REIMBURSEMENTS**

Consisting of COVID-19 pandemic grant funding received under the CARES Act and under a FEMA grant, this revenue stream ended in 2023 with the final reimbursements being received from FEMA for COVID response costs incurred totaling \$86k. No COVID grant revenue is budgeted in the General Fund for 2024.

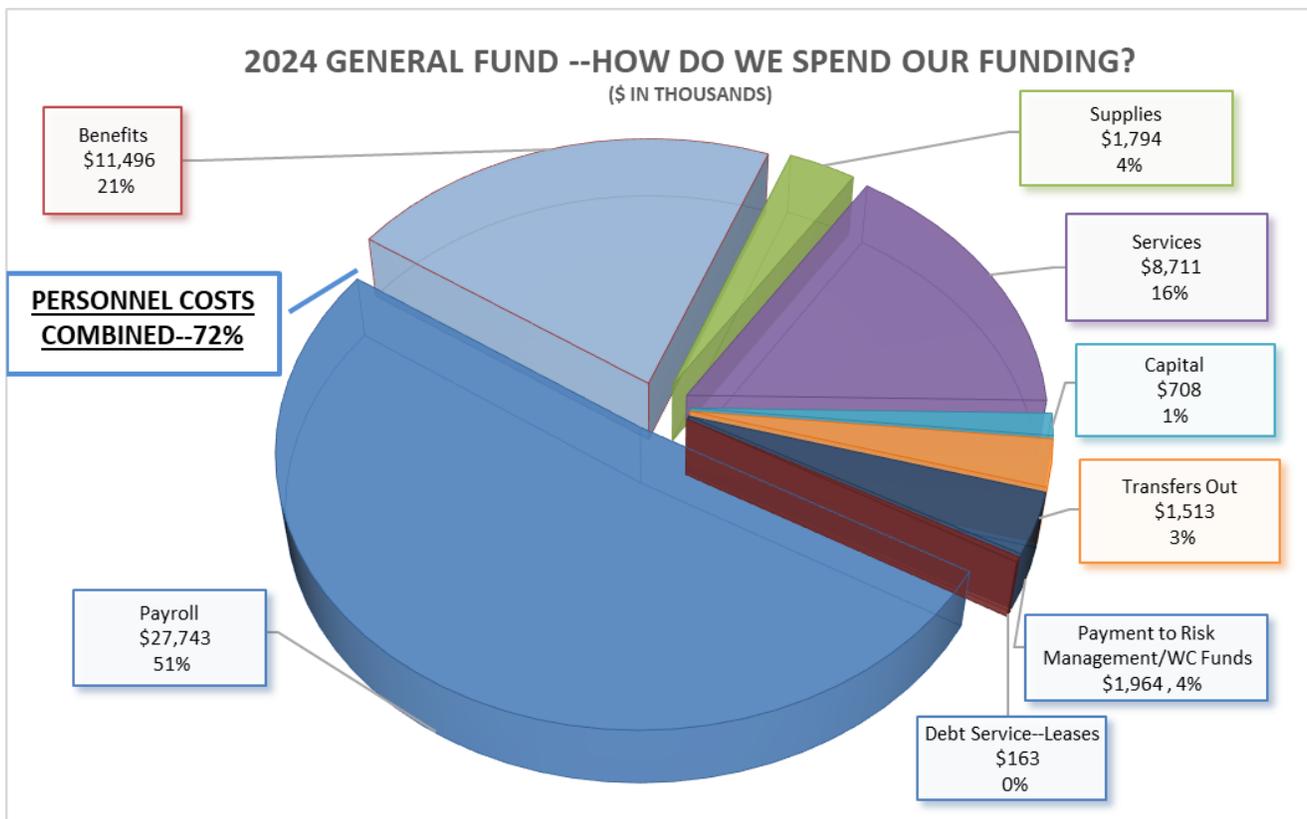
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## **EXPENDITURE BUDGET HIGHLIGHTS**

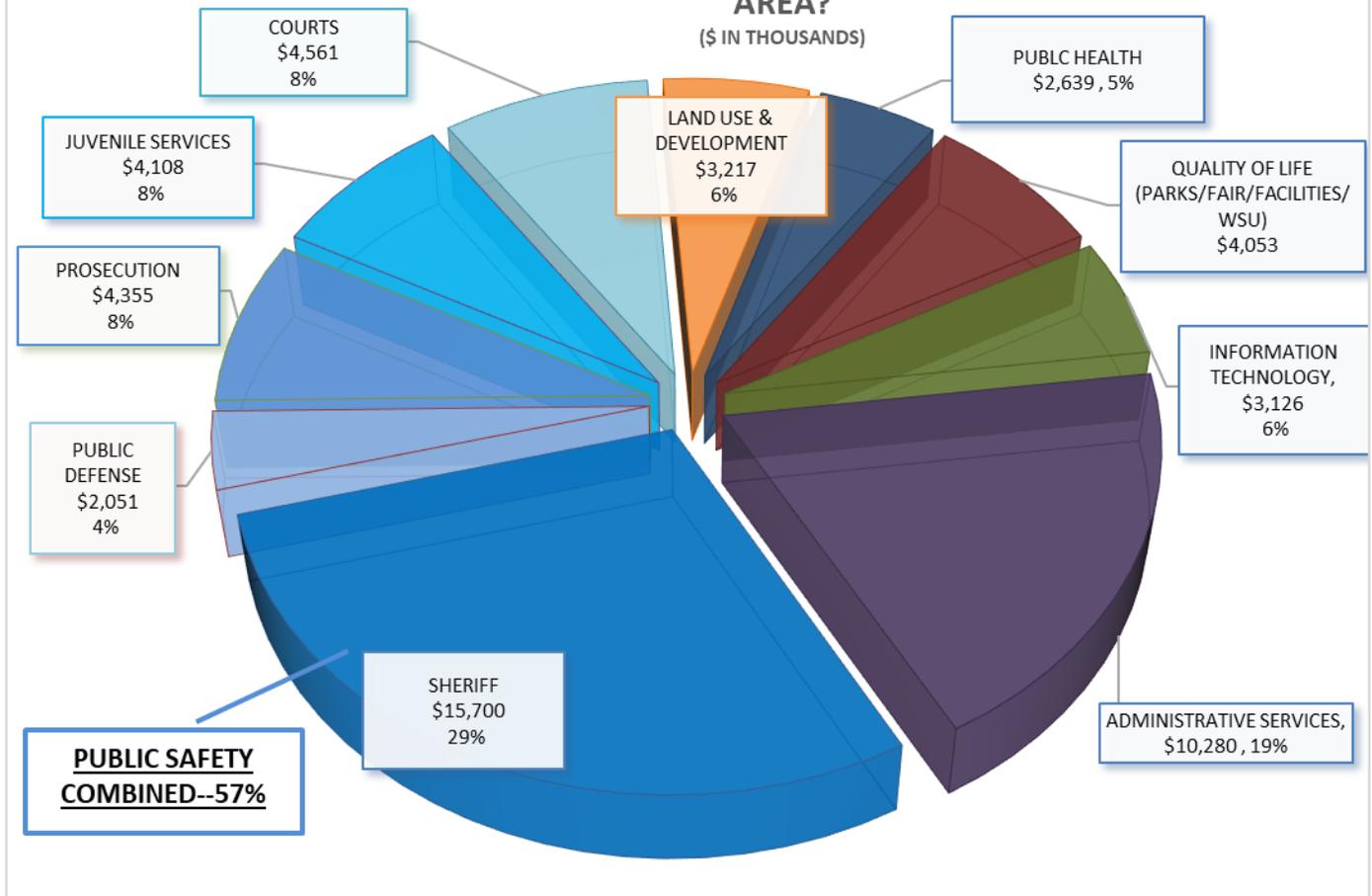
Turning to expenditures, our General Fund Operating Expenditure budget, excluding COVID-related costs and Transfers Out, currently stands at \$52,578k, an increase of \$5,881k or 12.6% from our 2023 projected expenditures, and an increase of \$2,656k or 5.3% over the adopted 2023 budget. Transfers Out—consisting primarily of capital outlay funding provided to the Parks & Facilities Capital Projects and IT Capital Projects fund, working capital funding provided to grant-funded projects that generally are expected to be returned to the General Fund after the project concludes and all grant reimbursements have been received, and transfers provided as a subsidy to certain non-General Fund funds that require supplemental funding to operate (i.e. Veteran’s Relief, Local Crime Victim Witness fund, etc)—are budgeted to total \$1,513k in 2024, a decrease of \$1,761k or 54% from 2023 projected. After including Transfers Out, Total Expenditures are budgeted to total \$54,091, an increase of \$4,120 or 8.2% over 2023 projected costs.

Below is a breakdown of how the General Fund spends its funds both by type of expenditure and by area:



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## 2024 GENERAL FUND --HOW DO WE SPEND OUR FUNDING BY MAJOR AREA?



### SALARIES, WAGES & BENEFITS

The largest driver of the budgeted expenditure increase over 2023 projected expenditures is in Payroll and Benefits costs. Representing approximately 72% of our total expenditure budget, Payroll and Benefits are up \$3,033k or 12.3% and \$1,535k or 15.4%, respectively, to the 2023 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 2023 and prior years where due to retirements, voluntary terminations, and other delays in filling positions during the year, the County continued this trend of having more open positions during 2023. This resulted in a projected budget underspend in payroll and benefits in 2023 of approximately \$2.5 million. Based on analysis of its 3-year and 5-year historical average payroll/benefits budget underspend, the County has underspent its Payroll budget between 7.1% to 7.7%, equal to between \$2.24 million and \$2.54 million of budget underspend. While not reflected in the current 2024 recommended budget due to policy, we anticipate a similar level of personnel budget underspend is likely to occur in 2024. **If you adjust our 2024 personnel cost budget for this anticipated historic underspend equal to approximately \$2.354 million based on the 2024 payroll budget, our combined personnel costs in reality are expected to increase \$2.214 million or 6.4% in 2024 as compared to projected 2023 costs.**

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This 6.4% increase in overall payroll/benefits costs is largely being driven by collective bargaining-related COLAs of 2.5% in January 2024, pay step increases, pay adjustments due to position salary studies and position reclassifications completed and approved in 2023, a \$150k increase in budgeted leave payout costs assumed for 2024, the addition of 6.11 FTEs (outlined below), a \$50-per-month increase in County-paid health premium increases for most collective bargaining units, and incremental increases in longevity-based medical premium pay as provided for in the collective bargaining agreements renewed in July 2022 and July 2023, as partially offset by savings due to turnover in certain positions that occurred in 2023.

It is important to note that the Recommended budget does not yet factor in the expected increase in workers' compensation rates discussed earlier, which again could result in an approximate increase in benefit costs of \$150k. This will be reflected in the Draft version of the budget.

### **Changes in Budgeted FTEs**

As outlined in the attached "Budgeted Staff Schedule History", the 2024 Recommended Budget assumes a full staffing level for the General Fund of 340.74 FTEs, which reflects 6.11 more FTEs in 2024 as compared to the 2023 budget, based on the following changes:

- BOCC Operations (+.52 FTE due to the decoupling of the County Administrator position from the HR Director position),
- DCD-Administration (+3.6 FTEs, reflecting transfer of 2.6 Code Enforcement FTEs budgeted in the Sheriff's 2023 budget plus hiring of 1.0 additional Code Enforcement FTE in '23);
- DCD-Long Range Planning (+.06 FTE to reflect the Principal Planner position transition from 37.5 hour work weeks to 40 hour work weeks);
- Human Resources (+0.7 FTE reflecting the decoupling of the HR Director position from the prior County Administrator position, and transition of the payroll fiscal specialist position from part-time to full-time);
- HHS-Administration (+0.2 FTE—due to transition of Deputy Director position to full-time);
- Sheriff Operations (-.64 FTE, reflecting the transition of 2.6 Code Enforcement FTEs to DCD, as offset by 2 FTE additions including the Body Camera Records Specialist and Accountant positions);
- Sheriff Jail (-0.5 FTE due to elimination of one part-time Admin Specialist position following realignment of command administrative support);
- Sheriff Jail Medical (+1.0 FTE due to the proposed addition of 1 additional Mental Health Professional in the Jail Medical staff to support the marked increase in the proportion of inmates exhibiting mental health issues which will be fully funded through Hargrove funding provided from the HHS Chemical Dependency/Mental Health fund);
- Prosecuting Attorney—Coroner (+1.0 FTE Deputy Coroner/Death Investigator);
- Superior Court (+0.5 FTE due to transitioning Family/Juvenile Case Management Coordinator position from part-time to full-time in 2023); and
- District Court (-0.3 FTE due to one probation officer moving from full-time to part-time);

### **SUPPLIES**

Supplies are projected to increase \$297k or 19.8% from 2023 as projected. This increase is principally the budgeting in 2024 of mandatory/recurring non-capital IT PC replacement, Arctic Wolf

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and Microsoft VDA software license and other datacenter and network equipment costs in IT's operating budget (\$172k) rather than in the IT Capital Projects fund as previously budgeted. The remainder of the increase is due to the inclusion of department requested increases in supplies recommended for inclusion in the budget (see attached "2024 Department Requests Over Base Preliminary Budget"), as well as trending supplies underspend to budget projected in 2023, and increases in other areas.

## **SERVICES**

Services in 2024 are projected to increase \$685k or 8.5% over 2023 projected services costs, and increase \$75k compared to the 2023 original budget. This increase is mainly due to the following:

- Software maintenance and support contract costs increases across multiple areas (DCD-- Energov, Assessor PACs, Sheriff Body Cameras and Jail systems, others);
- Higher election services costs in the Auditor's Office in 2024 due to the Presidential Primary (+\$107k);
- Higher grant-funded professional services costs in DC1 for the mental health court (\$88k);
- Higher Sheriff contracted services costs in Animal Control (\$27k due to Humane Society contract renewal) and Jail Medical (\$42k increase in Wellpath contract);
- Higher contracted Indigent Defense costs of \$68k;
- Approximately \$248k of Department Requests recommended for approval (see attached "2024 Department Requests Over Base Preliminary Budget"); and
- Other increases due to 2023 projected underspend to budget within Services in multiple areas.

These increases are partly offset by a \$360k decrease in DCD--Environmental Quality Salmon Recovery services tied to a fish barrier removal grant budgeted in 2023.

## **PAYMENT TO RISK MANAGEMENT/WORKERS COMP FUNDS**

The General Fund's share of Risk Management/Workers Compensation funds operating costs is budgeted to total \$1,964k, representing an increase of \$322k or 19.6% increase over 2023. This increase is being driven mainly by an expected 21%+ rise in WAC risk pool costs in 2024 over 2023 due to rising liability and property insurance costs being seen state-wide. 2023 property and liability insurances costs are also expected to exceed the 2023 budget by \$261k or 18% due to similar rising insurance premium costs charged by insurance carriers.

## **DEBT SERVICE COSTS**

Debt service costs, consisting solely of certain office, land, and equipment leases with a lease term greater than one year, are budgeted to total \$163k, representing an increase of \$32k over 2022. As noted above, due to a change in accounting for certain of the County's leases that are 1 year or more in duration, lease rental costs must be accounted for as debt service costs rather than as a Services cost in prior years. This change affects multiple departments with office, land and other qualifying leases, with the most notable being the Juvenile Services land lease with Port of PA, as well as District Court II's office space lease with the City of Forks, Prosecuting Attorney—Child Support office space lease, and Sheriff--Operations Enhanced 911.

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## TRANSFERS OUT

Transfers Out are budgeted to total \$1,513k, a \$1,761k or -53.8% decrease from projected 2023. This decrease is mainly due to decreases in Transfer to Parks & Facilities Capital Projects fund (\$776k lower; primarily due to the a \$1 million transfer designated for the JPSF project to be funded in 2023) and lower transfer to the Clallam Bay Sekiu Sewer fund (\$140k) due to higher budgeted utility revenues reducing the level of subsidy needed. Also due to lower working capital transfer funding to the Dungeness Reservoir project reflected in 2024 (\$800k of working capital funding from the General Fund is projected to be provided in 2023 which should cover this Fund's working capital needs in 2024). Also due to a \$170k decrease in transfers to the Boating Safety fund due to the 2023 planned purchase of a grant-funded replacement Sheriff's vessel. These decreases were partially offset by a \$63k increase in transfer to the Public Works-Solid Waste Fund needed to fund the recommencement of monitoring for the closed Lake Creek landfill in 2024 and slightly higher IT Capital projects transfer (\$38k) needed to fund the initial costs of migrating the County's financial systems to a new financial application.

Transfers Out from the General Fund included in the 2024 Recommended Budget include the following:

• Capital Projects—Parks & Facilities	\$419,000	(\$776k lower from prior year)
• Capital Projects—IT	590,000	(\$38k higher from prior year)
• PW—Solid Waste	70,000	(\$63k higher than prior year)
• HHS Operations	125,000	(same as prior year)
• Local Crime Victim Comp	67,000	(\$15k lower than prior year)
• Veterans Relief	123,000	(\$17k higher than prior year)
• PW--Flood Control	74,000	(\$2k higher than prior year)
• PW—Carlsborg Sewer	14,000	(\$14k higher than prior year)
• Law Library	15,000	(same as prior year)
• Employee Healthcare	--	(\$19k lower than prior year)
• HHS Chemical Dependency/Mental Health	6,000	(same as prior year)
• Sheriff Honor Guard	10,000	(\$10k higher than prior year)

**TOTAL TRANSFERS OUT—2024** **\$1,513,000**

## 2024 CAPITAL PLAN INCLUDED IN THE 2024 RECOMMENDED BUDGET

In conjunction with presentation of the updated 5 Year Capital Plan to the BOCC at the October 2, 2023 work session, attached is the breakdown of capital outlay requests included as part of the 2024 Administrator Recommended Budget, as well as those requests that we propose be deferred at this point. These materials include the following:

- **2024 Recommended Capital Outlay Budget--By Fund--** which lists all proposed capital requests sorted by department and fund. Also included at the bottom of this schedule is a Capital Funding Sources and Uses Summary that outlines which fund we propose be used to finance the proposed capital outlays, and the budgeted beginning and ending fund balance and projected revenue and other non-capital expenditures of each respective source fund for 2024;

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- **2024 Recommended Capital Outlay Budget--By Key Strategic Capital Project--** includes a summary of the proposed capital spending for 2024 by key strategic initiative/grouping category created for the capital planning process;
- **2024 Proposed Capital Requests Excluded from 2024 Budget--** reflects those lower priority capital requests which we recommend be deferred based on current funding limits and level of priority.
- **CAPITAL REQUESTS--** we are proposing a total of **\$27,488,464** of capital outlays for the 2024 budget and deferring \$567,285 of requests identified in the current draft of the 2024 capital plan. Of this amount, **the General Fund capital outlays are budgeted to total \$708k** (including \$695k reflected as part of the updated 5-Year Capital Plan presented to the BOCC on October 2, 2023, plus \$13k of miscellaneous capital recommended for inclusion in the budget in the attached "2024 Department Requests" schedule that were not accounted for in the 5 Year Capital Plan). In addition, as outlined below, **the General Fund is also budgeted to provide capital outlay transfers totaling \$1,009k, including to the Parks & Facilities Capital Projects fund (\$419k) and the IT Capital Projects fund (\$590k).**

The recommended capital outlays are proposed to be funded through the following sources (source: "Proposed Capital Requests to Include in 2024 Budget" attachment):

- **Parks & Facilities Capital Projects Fund**--\$641k total, made up of \$121k for PFF Unanticipated Projects, \$150k to fund a Building Facility Security and Safety Architectural/Engineering Design plan, \$140k to replace Failed Dock Piles at Lake Pleasant, \$200k for an Office Space Reconfiguration/ Expansion placeholder to cover needs in the Auditor's Office, DCD, & Superior Court and others, \$10k for the cleaning & polishing of the Courthouse's Generator Diesel Fuel Tank, a 3-year project to update & install cuff ports in the jail cell doors, and more); the capital outlays from this fund will require a Transfer from the General Fund of \$419k.
- **IT Capital Projects Fund**--\$650k total, made up of a placeholder of \$375k for the migration from EDEN to an enterprise accounting system, a continued project to replace or install door badge controls & cameras of \$90k, \$50k to bring WiFi to the County Fairgrounds, \$25k for expansion of the electrical/network closet outside of the BOCC office, an ongoing request to upgrade wireless network equipment of \$10k, \$29k request for Microsoft InTune deployment services request that is being carried over from 2023, and an ongoing copier replacement plan request of \$55k; the capital outlays from this fund will require a Transfer from the General Fund of \$590k.
- **REET 1**--\$2,110k (consisting of \$1,710k of capital items including the Juvenile Services membrane roof replacements for \$725k (which is for the current Juvie & WSU Extension (old Juvie) buildings), continued replacement of the Courthouse VAV HVAC air system boxes of \$500k, \$325k for the replacement of an HVAC chiller at Juvie, a Dungeness Rec Area conduit installation project of \$200k for work to be done in conjunction with the Roads project for the relocation of the road away from the bluffs, \$200k for the roof replacement of the Fairgrounds Art Barn (\$120k of which is a previously approved rollover project from 2023), as well as \$160k of other smaller ongoing requests (courthouse

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flooring, parks trails & roads maintenance, jail locks replacement, and Historic Courthouse exterior preventative & restorative services).

- **REET 2**—While currently there are no 2024 capital projects budgeted within the REET 2 fund, there are transfers out budgeted of \$1,159k, including \$1,100k to Roads to fund 2024 road projects which includes the carryover \$400k ask approved for in 2022 to help fund the rebuild of Towne Road on the new Lower Dungeness Levy, and \$58,630 transfer to Carlsborg Water Mitigation fund for the projected remaining costs relating to the Van Lan deep water well and Clallam County PUD water right.
- **EOC Relocation**--\$1,267k consisting of the projected Phase 2b Detailed Design costs currently slated to be wrapped up by the end of 2024. At this point in time, construction work is not expected to begin until 2025 and last through 2026. This phase will be paid through a combination of \$1 million in funding committed each by the County and the City of Port Angeles/PENCOM in 2023 and up to \$0.8 million in grant funding under the WA Department of Commerce \$1.7 million grant appropriation from 2021-2023.
- **General Fund**--\$695k consisting primarily of:
  - \$433k of Sheriff Operations/Jail/Emergency Services items (\$342k of which is for vehicle ER&R replacement and vehicle equipment for the scheduled replacement of 5 patrol vehicles, \$7k for interview room recording system improvements, \$6k for the purchase of an infrared-capable camera, with remainder for portable radio replacements;
  - Information Technology request of \$35k carrying forward from 2023 for a domain replacement project that will not be able to be completed during 2023;
  - Prosecuting Attorney request of \$100k for a 4WD Coroner Equipped Vehicle, which will enable the County to capture significant coroner services savings; and
  - Parks & Facilities carryover request of \$127k for a John Deere Tractor with Loader & Finish Mower that, while ordered for 2023, due to supply chain delays, is not estimated to be delivered until January 2024.

As noted earlier, Transfers from General Fund will be needed for Parks Facilities and Fair Capital Fund (\$419k) and the IT Capital Projects fund (\$590k) to fully fund the 2024 capital projects in these funds, which are noted in the 2024 Administrator Recommended Budget;

- **Other Funds Capital Outlays**
  - **Roads**--\$4.232 million, including \$477k for ER&R vehicle/equipment costs, \$70k allocated for unplanned office or other small equipment purchase, \$2,615k of planned Right of Way and other Roads-based projects, and \$1.1 million of projects covered through REET transfers;
  - **OPSCAN**--\$175k for radio network equipment replacement;
  - **Dungeness Off Channel Reservoir**--\$3.050 million for the next phase of Dungeness Off Channel Reservoir Project (to be 100% grant funded through grants rec'd to date, with the exception of an approximately \$800k design grant funding gap that will need to be covered by other sources);

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- Broadband Infrastructure--\$7.835 million (includes \$1.771k Transfer from ARPA for grant matching funds) for initial engineering/design, permitting, project management, materials, and right of way ascertainment;
- Carlsborg Water Mitigation--\$81k for additional contractual services;
- Clallam Bay Sekiu--\$4,531k (includes \$3.576 million DOE grant/loan funded collection system rebuild project, \$940k to replace two of five pump stations (Opportunity Fund transfer funded), and \$15k for confined space retrieval system equipment);
- Carlsborg Sewer--\$350k for the previously approved Gupster Road Pressure Sewer Line extension project (Opportunity Fund funded); and
- ER&R--\$1,872k, consisting of vehicle and equipment replacements for Roads of \$934k and \$648.7k for General Fund, \$110k for FuelMaster Live software upgrade, and \$180k for general site maintenance to replace failing gutters on all ER&R buildings

In summarizing the total recommended capital spend by the key strategic initiative or summary categories incorporated into the 2024 Administrator Recommended Budget, below outlines the capital spending by key initiative/grouping:

- **Broadband Expansion**--\$7,835,000
  - **Courthouse Space Assessment & Re-alignment**--\$225,000
  - **Courthouse/Juvenile Services Building Security**--\$90,000
  - **Deep Water Well/Water Mitigation**--\$3,130,630
  - **EOC Relocation**--\$1,266,667
  - **ER&R Funded Capital Outlays**--\$2,582,079
  - **IT Infrastructure Initiatives**, including:
    - **Applications**--\$404,100
    - **Network**--\$60,000
  - **Juvie Master Plan**--\$1,050,000
  - **Mandatory/Recurring/Regular Replacement**--\$160,309
  - **Non-Recurring Capital Outlay Funded Fully Through Grants/Dedicated Funds (No General Fund/REET Funding Needed)**--\$175,000
  - **Other Non-Recurring Capital Outlay**--\$3,076,000
  - **Previously Approved Carry Over Capital Outlays**--\$1,817,679
  - **Road Projects Supported Thru REET**--\$1,100,000
  - **Sewer System Repair/Replacement Initiatives**--\$4,516,000
- **TOTAL**--\$27,488,464
  - **Total Grant/Loan Funded**--\$15,727,915
  - **Total County (excluding General Fund) Funded**--\$9,506,868
  - **Total General Fund Funded**--\$2,253,681

## **CONCLUSION/ BUDGET TAKE-AWAYS**

Based on this revenue and expenditure recommended budget, the budget reflects utilizing (\$3,941k) of General Fund reserves to fully fund the 2024 budget based on County policy which requires us to budget assuming all personnel positions are fully staffed for the entire year. However, as discussed previously and as outlined in the attached "Breakdown of Recommended Budget Deficit", based on historical average underspend to our personnel and benefits budgets of \$2.24 million to \$2.54 million, **the General Fund's 2024 Recommended Budget as adjusted would produce a projected**

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**deficit for 2024 of (\$1,587k),** as compared to 2023’s projected operating surplus of \$1,648k, which would leave **an ending fund balance of \$11,709k for 2024, or a reserve of 23% of expenditures.**

**RISK FACTORS TO CONSIDER:**

**REVENUES GROWING AT A SLOWER PACE TO EXPENDITURES**

When one excludes non-recurring revenue including COVID and ARPA 605 intergovernmental revenues as well as the Transfers In/Out of the General Fund that are largely capital project related or for the provision of short-term working capital funding for large, grant-funded capital projects, and focuses solely on the recurring revenue and expenditures from operations of the General Fund, it is important to note that revenues from operations are growing at a rate lower than expenditures from operations as highlighted below:

	<b><u>Average Annual Growth Rate</u></b> <b><u>(2024-2020)</u></b>
<b>Revenue from Operations</b>	<b>+6.0%</b>
<b>Expenditures from Operations (less anticipated Personnel cost underspend)</b>	<b>+7.37%</b>

Contributing factors to this dynamic include:

- Our single largest revenue source—property taxes—is limited to 1% annual growth plus new construction.
- While other tax sources such as sales & use tax help mitigate the minimal growth limits placed on property taxes, overall taxes are still growing at an average rate of 5.76% from 2020-2024 which is well below expenditure growth rates of 7.4%.
- Continued erosion of several significant revenue streams due to WA state legislative actions and court rulings over the past few years has negatively affected the fines, penalties, interest and other legal fees the County is able to enforce collection on, leading to a 4-year average annual decline of -7.1% in Fines & Penalties revenue.
- Representing 75% of our General Fund operating expenditures, personnel costs have grown at a rate of 6.14%, which while marginally higher than revenue growth, are increasingly being affected by a highly competitive labor market and rising labor costs which have made recruitment more difficult and costly.
- While recent gains in growing the investment interest the County earns on its reserves due to the significant rise in interest rates by the Federal Reserve over the past two years have been a boost to the County’s revenue growth, it is unclear how long this will be sustained long-term once inflationary pressures subside and interest rates soften.
- Rapid cost increases in multiple areas over the last few years are placing considerable strain on the General Fund and other County funds, including:

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- WA State Risk Pool insurance costs (20%+ annual increases in insurance premiums becoming the norm, potentially leading to a point in the near future where some counties can simply no longer afford to participate in the pool or secure insurance on their own at an acceptable cost);
- Worker's Compensation costs;
- Jail Medical costs for an increasing proportion of inmates with significant mental health, chemical dependency and chronic health issues; and
- Inflationary cost increases are significantly impacting everything from our cost to replace fleet vehicles and equipment, capital project costs, facilities maintenance, utilities, and supplies, software maintenance costs, fuel costs, etc.

## **LIQUIDITY IMPACT OF MULTI-YEAR GRANT-FUNDED PROJECTS**

2024 will see the County continuing to be engaged in a number of multi-year, multi-million dollar projects which are fully or partially funded by grants and other state/federal resources, including:

- Lower Dungeness Floodplain--\$16.9 million project (Phase 2 construction scheduled for completion in 2022, with remain work involving Towne Road Replacement slated for completion in 2023);
- EOC Relocation/Joint Public Safety--\$20 million project (with approximately \$10.45 million of grants secured)
- Dungeness Reservoir--\$48.25 million project (\$14.75 million of grant funding secured)
- Joyce Broadband Expansion Project--\$22.4 million (fully grant funded with match covered by \$1.77 million committed from ARPA)

As most of these projects are funded through reimbursement grants, the projects have or will require varying levels of working capital funding support from the General Fund at various stages of the project to enable the projects to pay for project design and construction costs in advance of receiving grant funding reimbursements for such costs (with the exception of the Broadband project which will rely on committed ARPA funds for working capital). Once grant reimbursements begin to be received, those grant reimbursement funds then become a perpetual funding source for future project costs until the project is completed. Upon the project's completion and receipt of all remaining grant reimbursements, the fund that provided the initial working capital funding can then be fully repaid for all funds advanced (assuming the project is 100% grant funded).

As certain granting agencies have limited their grant reimbursement request windows to quarterly rather than monthly (which has affected reimbursements for Dungeness Off Channel Reservoir and Clallam Bay Sekiu Sewer) or have experienced grant reimbursement processing delays due to staffing shortages relating to the pandemic, this has the potential to place greater demand for working capital liquidity from our various reserves, including the General Fund. To mitigate these liquidity pressures, departments have been requested to closely coordinate and communicate with their granting agencies to ensure timely grant reimbursement submission and payment turnarounds, as well as to request as applicable a shortening of grant reimbursement windows to no less frequently than

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monthly. In 2023, we generally saw good evidence that this strategy is working as grant reimbursements have been timely submitted and reimbursed.

While we believe these projects have sufficient liquidity between grant funding awarded and the working capital provided already or available in the budget to fund their planned expenditures in 2024, continuing liquidity risks exist as it relates to unexpected delays, inflationary and supply chain cost increases creating funding gaps, incurrence of unexpected costs that may not be covered under the terms of the grant source, scope or design changes, etc that will require regular monitoring.

**Budgetary impact:** (Is there a monetary impact? If so, are funds for this already allocated or is a budget change necessary? If this is a contract and a budget change is necessary, the budget change form must be submitted with the item at work session and for the regular agenda) **If a budget action is required, has it been submitted and a copy attached?**

This is the Recommended version of the rolled up budget for 2024. No budgetary impact until the final adopted budget is approved in December 2023.

**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, Todd Mielke, Rebecca Turner, Debi Cook \_\_\_\_\_

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

**Date submitted:**

October 4, 2023

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