



AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION Meeting Date: 11/18/2024

REGULAR AGENDA Meeting Date:

Required originals approved and attached?
Will be provided on:

Item summary:

- Call for Hearing
- Resolution
- Draft Ordinance
- Contract/Agreement/MOU - Contract #
- Proclamation
- Final Ordinance
- Budget Item
- 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 2025 Draft Budget including the proposed 2025 Capital Budget for Clallam County. The submission of this Draft budget is the next step in the budget adoption process, with the following key dates to follow:

- Monday, November 18th—presentation of the Draft Budget to the BOCC;
- Tuesday, November 26th—Clallam County Property Tax Levy Certification;
- Monday, December 2nd —Special Taxing Districts Property Tax Levy Certification;
- Tuesday, December 3rd --Public Hearings at 10:30am and 5pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 10th—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:

- 2025 Draft Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2025 Draft Budget to Projected/Actual Results for 2024-2021;
- General Fund 4 Year Comparison of 2025 Draft Budget to Adopted Budgets for 2024-2021;
- General Fund Breakdown Analysis of the Change in Operating Surplus/(Deficit) between the 2025 Draft Budget Surplus/(Deficit) and 2024 Forecasted Surplus/(Deficit);

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Agenda Item Summary Draft Budget 2025
Revised: 3-04-2019



- General Fund Bridge Analysis of Changes Between the 2025 Administrator Recommended Budget and Draft Budget (a summary of what changed between the prior version of the budget and this version);
- 2025 Budget Salary Worksheet Breakdown by Department/Fund;
- 2025 Budgeted Staffing Schedule 10 Year History;
- 2025 Department Requests Over Base Budget;
- 2025 Draft Capital Outlay Budget—by Fund;
- 2025 Draft Capital Outlay Budget—by Key Strategic Capital Project;
- 2025 Deferred Capital Outlay Requests budget—by Fund;
- 2025 Budgeted Transfers; and
- 2025 Draft Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;

It is important to note that this Draft budget represents each departments' recommended budget submissions as adjusted based on the outcomes of budget review meetings conducted in September and October between the Board of County Commissioners, 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 based on Commissioner input and subject to current budgetary constraints.

Due to the \$4.2 million shortfall existing between revenues and expenditures reflected in the County's initial 2025 Recommended Budget, **each General Fund department and General Fund-supported fund was requested to submit a proposed list of expenditure and revenue changes equal to a 7% overall reduction in their operating expenditure budget.** These proposed changes were reviewed in detail with each department, the impact of such changes was discussed, and were incorporated into the Administrator Recommended Budget presented. As detailed in a prior presentation, the total estimated amount of budget adjustments submitted by departments totaled approximately \$3.486 million, representing 80% of the 7% cut requested. In addition, the prior version of the budget included placeholder cost reductions totaling approximately \$598k for those departments that did not initially fully identify their 7% request reduction, which when added to the \$3.486 million of reductions identified, brought the total reduction to approximately \$4.084 million currently reflected in the 2025 budget.

The Draft Budget reflects the impact of further discussions held with departments in October with County Commissioners to close this remaining funding gap, resulting in further refinement and finalization of identified revenue and expenditure changes needed to close the \$4.2 million funding shortfall. As a result of these efforts, **this Draft Budget reflects elimination of this funding shortfall, with the budget now reflecting an operating surplus of \$1.043 million. However, after factoring in costs not yet reflected in the budget of \$1.33 million, the**

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budget reflects an operating deficit of (\$0.287) million based on a fully staffed budget. As discussed further below, after further factoring in of expected personnel cost underspend \$1.198 million (which presumes a 3% underspend), the Draft Budget reflects an operating surplus of \$0.911 million.

As noted in prior budget discussions and per County policy, all budgeted positions are assumed filled for the entire year, which has not historically mirrored the County's actual payroll spending trends where the County has underspent its personnel budgets in the General Fund between \$2.5 million and \$2.9 million each year due to open positions, turnover and retirements. With the planned elimination of certain budgeted positions as part of the cost reduction efforts which historically have been part of the source of this historic payroll underspend, the level of expected payroll underspend for 2025 is projected to be lower at \$1.2 million, or 3%, of total budgeted payroll costs (see further discussion below).

KEY REVENUE/ECONOMIC ASSUMPTIONS

This third version of our 2025 budget reflects updated estimates for 2025 revenue which are partly dependent on the current revenue forecast assumptions for 2024, as well as many additional variables, including

- GDP growth and inflationary growth expectations based on most recent Washington state economic forecasts,
- Local economic conditions, including the level of impact of several local business closures or phasing down of operations including the McKinley mill closure, certain timber operators reducing operations, and the recent closure of a number of national retail outlets;
- Large road infrastructure projects currently underway in our County which are expected to materially impact the County's sales & use tax projections from 2024 thru 2030;
- The expected level of new construction to be captured for purposes of setting 2025 levy amounts for property tax purposes;
- Further changes in long term and short term interest rates as the Federal Reserve policy transitions from being centered on inflation reduction to economic stabilization as labor markets begin showing signs of softening by implementing its first interest rate since March 2020 in September; and
- Other revenue guidance available thru MRSC, the Department of Natural Resources ("DNR"), and other sources.

Taxes, Intergovernmental taxes (including PILT, Timber excise tax, Leasehold Excise tax, Public Utility District ("PUD") Privilege Tax, etc.), Real Estate Excise taxes (REET), and Timber revenues--representing approximately 59% of the General Fund revenue budget and 42% of the overall County revenue budget of the 2025 Draft 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 Draft budget were discussed and evaluated for reasonableness during the budget discussions with each department in September, with any changes made and reflected in the Draft Budget.

The Draft Budget revenue assumptions overall do not assume a recession in 2025 which is consistent with most national banks (Goldman Sachs, others) and economists (including those of WA State Economic Forecast Council) who continue to place the likelihood of recession in 2025 below 25%. However, we do believe recent local events (including the McKinley closure, Interfor furloughs, Rite

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Aid/Big Lots retail closures, etc) may create employment headwinds that will impact certain of our sales-driven revenues next year. We expect that the full effect of this will be somewhat offset by the anticipated lowering of consumer pressure as the Federal Reserve began reducing interest rates in September as inflation subsides and signs of employment softening take hold. As interest rates drop and with vehicle inventories approaching pre-pandemic levels, a resurgence in “big ticket” purchases (real estate, vehicles, recreational vehicles, etc) over that seen during 2024 could occur as consumer borrowing costs begin to drop. In its September report, the WA State Economic Forecast Council is forecasting a 5.2% increase in nominal personal income growth in 2025.

Local tourism on the Olympic Peninsula remains high with over 5 million visitors expected in 2024, which is serving to bolster the County’s various sales and lodging taxes. Finally, WSDOT fish barrier and other major road construction projects are slated to continue for the next several years, with the addition of a \$102 million fish barrier removal WSDOT project (US 101/SR116) beginning in March 2025 through June 2028 that will serve to more than replace the construction sales tax dollars lost from the wrap up of the Elwha River Bridge project in 2024.

Taking these issues into consideration, for the 2025 Draft Budget, a sales tax growth assumption of **4%** was used in preparing the 2025 Draft revenue budgets for our various sales-based taxes of the County, and reflects two primary components:

- (1) An assumed **minimal economic growth rate of 2.5-3%** based on a 3.8% projected increase in taxable retail sales activity projected for Washington State by the WA Economic Forecast Council for 2025 in its last forecast, and
- (2) The factoring in of **an additional 1-1.5% estimated incremental sales tax growth impact for the multiple large WSDOT road infrastructure projects occurring in the County in 2025**, including multiple US 101 fish barrier removal projects, wrap-up of the Elwha Bridge Replacement, and other Clallam WSDOT road construction projects with an annual estimated cost 153% higher than seen in recent years. These projects in total are expected to generate between \$700k-\$800k of local sales & use tax revenue for the County’s General Fund in both 2024 and 2025, as compared to the estimated \$230k-\$300k generated from similar projects since 2020. While the timing and amount of sales taxes collected related to these projects has been inconsistent in 2024 due likely to the ebbs and flows of the projects and timing of when tax remittances are made, our overall assumptions thus far in 2024 related to the sales tax impact of these projects appear to be valid, and that reliance on this methodology does appear to provide a fair approximation of their overall impact to our sales tax revenues as we look to 2025.

Given that economic conditions are still evolving in the 2nd half of 2024 as is the economic impact of many of these WSDOT projects, the sales tax revenue budget for 2025 has continued to be revisited during the 2025 budget process to reflect any changes in expectations for next year.

Other non-General Fund revenue streams tied to real estate, particularly REET 1 and REET 2, are expected to rebound 8-9% in 2025 based on WA State Economic Forecast guidance after declining an estimated (9%) in 2024 and (28%) in 2023 due to the slowing of the real estate market caused by rapidly rising mortgage rates.

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ADDITIONAL COSTS NOT YET INCORPORATED INTO THE DRAFT BUDGET

From an expenditure standpoint, there are certain additional costs not yet fully incorporated into this Draft budget which will be included if possible in later versions of the 2025 budget pending further discussion with the departments and/or the BOCC or other actions being taken, including:

- **Additional Payroll/Benefit costs resulting from conclusion of labor negotiations with our interest arbitration, limited commission and Teamsters bargaining units** that are not yet fully reflected in the Draft Budget pending finalization of negotiations;
 - **Costs relating to the separation of the Coroner function from the Prosecuting Attorney's Office**—as recently discussed, a state Attorney General opinion issued will likely require the County to create and appoint a separate Coroner official in 2025;
 - **In preparation for the County's upcoming renewals of two interlocal criminal justice agreements that expire at the end of 2025, consultant costs are expected to be incurred in 2025** to determine proper apportionment of costs under these agreements;
 - **Additional project support costs related to the County's migration of its financial systems to a new software solution.**
- **TOTAL ESTIMATED NET COST OF ITEMS NOT YET INCLUDED IN THE BUDGET--\$1.33 MILLION**

In addition to these costs, the County's staff and departments continue to focus on exploring other revenue enhancement and cost savings measures, including:

- **The Sheriff's Office and Juvenile Services continue to evaluate options in how best to utilize the new HCA Medicaid Reentry grant** in supporting their operations beyond what is currently reflected in their current budgets;
- **Other revenue enhancement and cost savings initiatives** continue to be explored and implemented, including:
 - **Department of Community Development permitting and plan check rate schedule increases**—based on comparison of County fee schedule rates to those of its peer group and given that many of these fees and rates have not been adjusted for several years and are well below our peers, the Director of Community Development intends to propose a rate schedule increase to the Commissioners in the coming weeks to better reflect comparable county rates and to better cover costs of the County's Department of Community Development's building permit, planning and administrative functions (the impact of this planned rate increase, which totals approximately \$310k, is reflected in the 2025 Draft Budget);
 - **Sewer fund user rates**—as the County's sewer funds continue to rely on varying levels of subsidy from the General Fund, Opportunity Fund, and REET funds to fully fund their operational and maintenance costs, Public Works staff is continuing to

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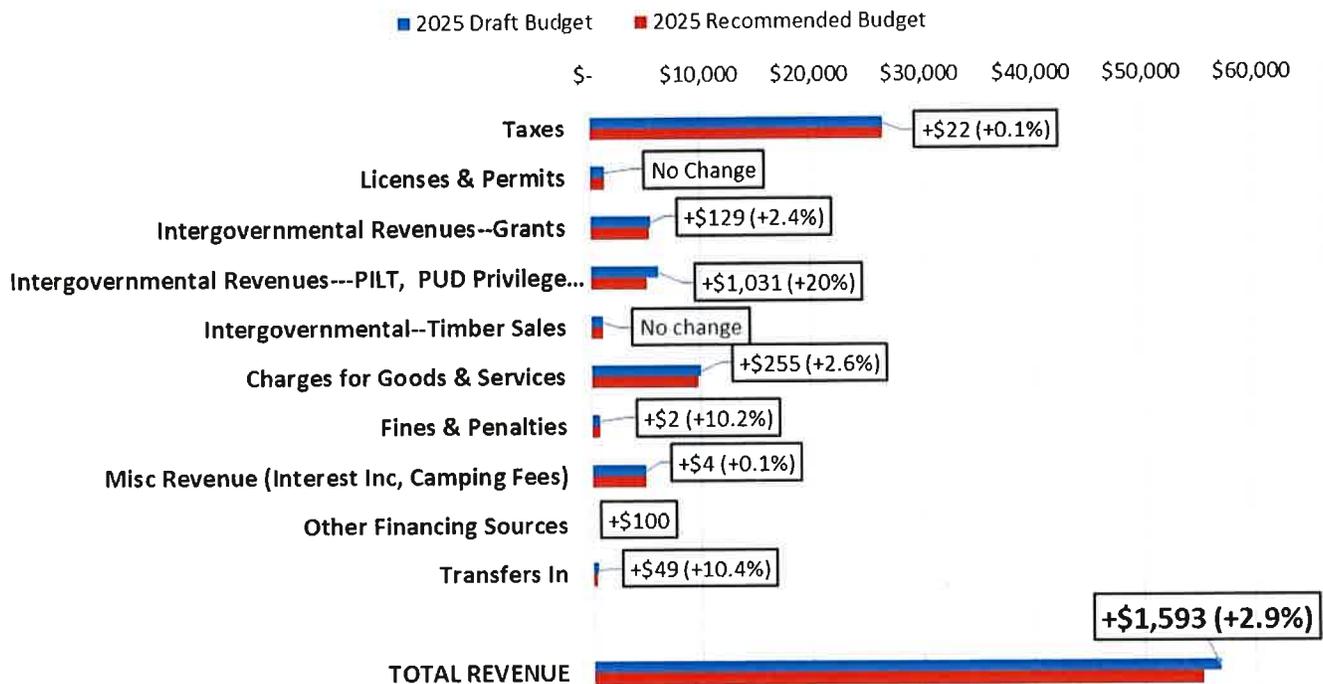
review user rates to ensure rates are appropriate in light of rising costs of operating and maintaining these sewer systems.

- **New or Extended Grants**—the County continues to receive updates from departments as existing grants are extended or new grants are received, and will incorporate those into the budget as Finance is made aware until the final budget is adopted, including:
 - DCD Environmental Quality--McDonald Creek Fish Passage grant extended to 2025 (\$302k) and an additional grant awarded for this project of \$400k.

OVERVIEW OF REVENUE AND EXPENDITURES CHANGES MADE BETWEEN RECOMMENDED BUDGET AND DRAFT BUDGET

Several changes have been made to the 2025 Recommended Budget in arriving at the 2025 Draft Budget. While outlined in more detail in the attached schedule called "Bridge Analysis Between Recommended Budget & Draft Budget", below are high level comparisons of revenue and expenditure changes that have occurred between the Recommended Budget and the Draft Budget:

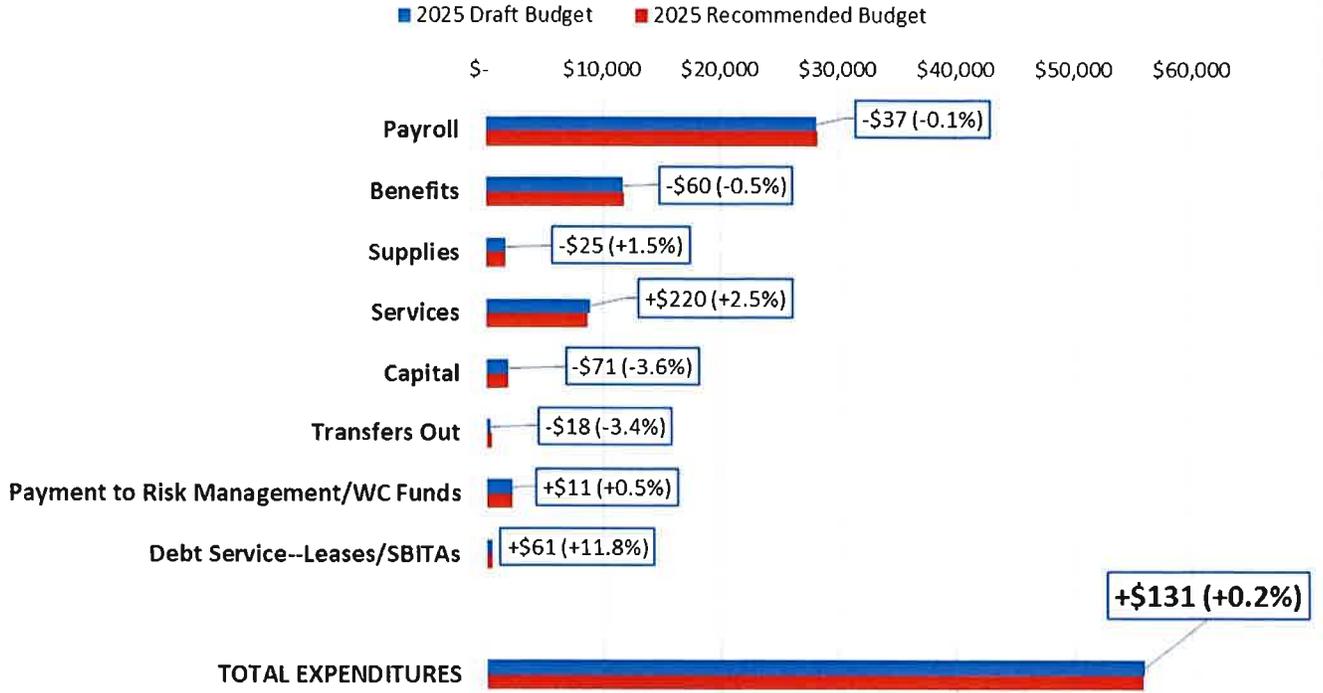
REVENUE CHANGES--2025 DRAFT BUDGET VS ADMIN RECOMMENDED BUDGET
(\$ IN THOUSANDS)



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**EXPENDITURE CHANGES--2025 DRAFT BUDGET VS ADMIN
RECOMMENDED BUDGET
(\$ IN THOUSANDS)**



As discussed earlier, the primary changes made to the Administrator Recommended Budget to arrive at the Draft Budget include:

- The firming up of the 7% cost reduction effort undertaken by the County’s General Fund departments and General Fund supported funds, including identifying the additional budgetary changes in revenues and/or expenditures needed to achieve to the extent possible placeholder cost savings reflected in the Administrator Recommended Budget for those departments that were not able to fully identify their 7% reduction;
- \$1.16 million of additional Intergovernmental Revenues from several initiatives, including the HCA Medicaid Reentry grant and Medicaid reimbursements within the Sheriff Jail/Jail Medical and Juvenile Services (with \$1 million of HCA Medicaid grant funding added to the 2025 Juvenile Services’ Draft budget reflecting revised expected timing of receiving this grant), and the addition of other new grants secured in 2024 that will carry over to 2025 (Facilities Energy Audit grant, etc), as offset by reductions made in certain carry over grants (Community Development’s Growth Management and Climate Planning grants);
- A \$255k increase in revenues from Charges for Goods & Services, reflecting higher Auditor election services revenues, higher Hargrove funding support provided to Superior Court and Prosecuting Attorney for therapeutic court support, and other trend or contractual increases identified across multiple areas;

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- A \$100k increase in Other Financing Sources revenue relating to surplus land sale revenues expected in 2025;
- Expenditure increases of \$131k reflecting the net effect of revisions made to proposed cost reductions identified as part of the 7% reduction exercise, department requests, and capital requests proposed to be included in the budget based on Commissioner feedback, inclusion of grant-funded expenditures for new grants added, and the addition of building security services costs to support the County's transition to a single-point entry facility; and
- Other revenue and expenditure identified based on trending or discussions held with departments and the Board of Commissioners in October.

The net result of these changes resulted in the addition of \$1.593 million of revenue and a modest expenditure increase of \$0.131 million, or a net improvement of \$1.462 million in the General Fund's bottom-line from the Recommended Budget presented in October to where the General Fund is as of today—resulting in the General Fund's budgeted bottom line for 2025 transitioning from a deficit of (\$0.418) million to a surplus of \$1,043k (before incorporation of costs not yet reflected in the budget and expected payroll underspend as discussed below).

GENERAL FUND BUDGET OVERVIEW

At a high level, the 2025 Draft Budget projects a beginning General Fund Balance of approximately \$13.4 million, Revenues totaling \$56.947 million, Expenditures (including Transfers Out to other funds) of \$55.904 million, resulting in a budgeted increase in Reserves of \$1.043 million, and leaving an ending General Fund Balance of \$14.447 million, representing an ending reserve level of 26% of total operating expenditures. However, as discussed later, when one adjusts for underspend to our personnel and benefits budgets of \$1.2 million as offset by approximately \$1.33 million of net additional costs not yet incorporated into the 2025 Budget, it is expected the Draft budget surplus for 2025 is closer to \$0.911 million, as compared to 2024's projected deficit of (\$44k), which would leave an ending fund balance of \$14.315 million for 2025, or a reserve of 26% of expenditures.

Below are the revenue and expenditure highlights behind these results:

REVENUE BUDGET HIGHLIGHTS

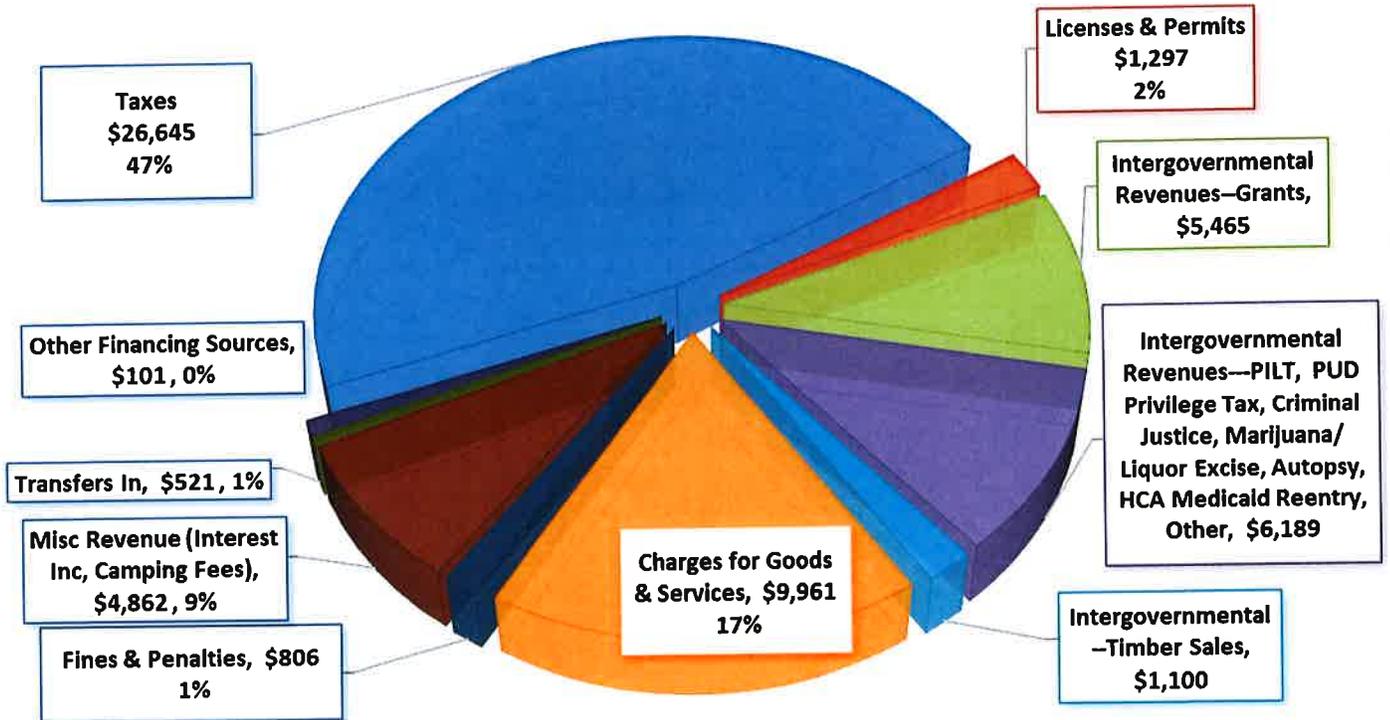
General Fund Revenues from Operations (which exclude Transfers In) are projected to total \$56.4 million, representing a \$3,604k or +6.8% increase over 2024 projected revenue expected, and a \$5,838k or 11.5% increase over the 2024 originally adopted budget. Transfers In revenues, consisting mainly of the return of working capital previously provided by the General Fund to other grant-funded projects and the non-recurring transfer of ARPA interest income to the General Fund, is budgeted to total \$521k, representing a decrease of \$584k from 2024 projected revenue. Total Revenue, including Transfers In, overall is budgeted to total \$56,947k, an increase of \$3,020k or 5.6%.

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The General Fund's primary sources of revenue in 2025 consist of the following:

2025 GENERAL FUND --WHAT ARE OUR FUNDING SOURCES?
(\$ IN THOUSANDS)



TAX REVENUES

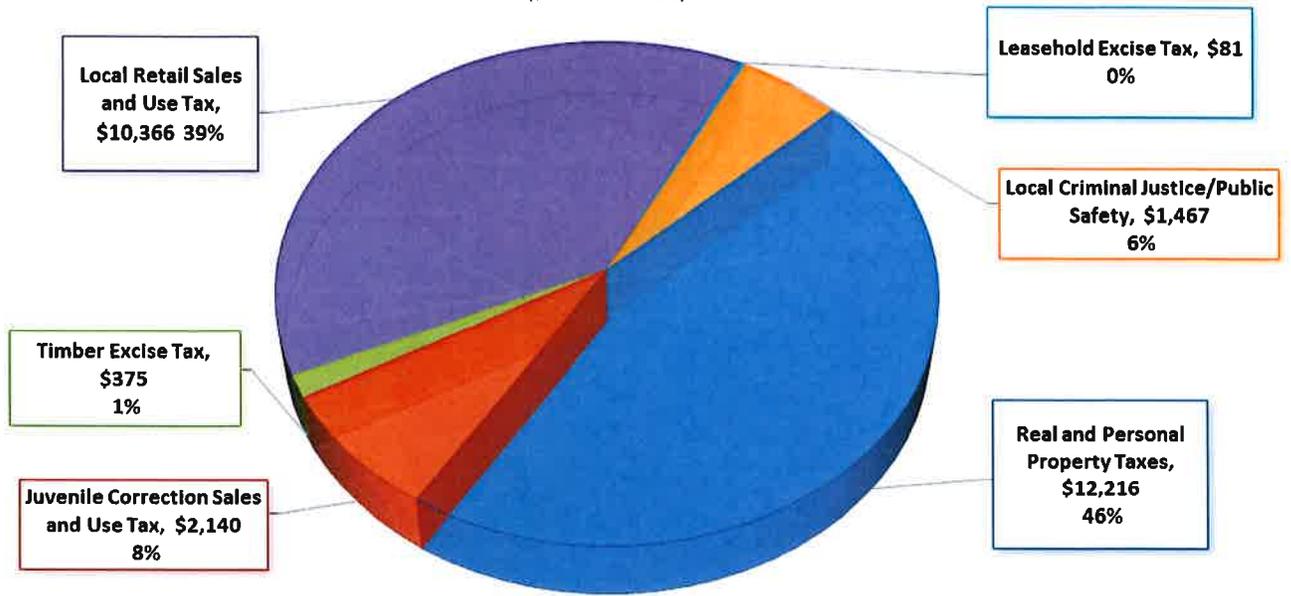
Representing 47% of General Fund total revenues, Tax revenues are projected to total \$26.645 million, an increase of \$851k or 3.3% in 2025. Below is a breakdown of the County's various major tax revenues by source:

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2025 GENERAL FUND TAX SOURCES

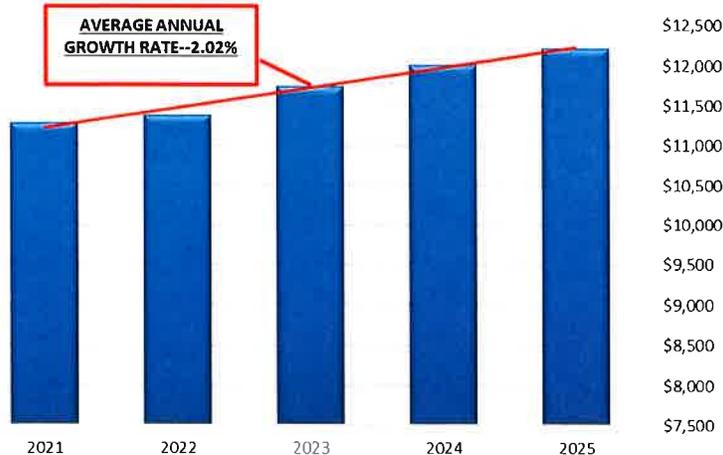
(\$ IN THOUSANDS)



Property taxes, representing 46% of total tax revenue and 21.5% of total General Fund revenue, are projected to total \$12.216 million, an increase of \$207k or 1.72% as we assumed the County takes its allowed for 1% annual levy growth limit, as adjusted for new construction and refunds captured by the Assessor’s Office, as allowed for under statute. Property taxes have trended as follows over the past 4 years:

REAL AND PERSONAL PROPERTY TAXES

(\$ IN THOUSANDS)



Sales-driven taxes including local retail sales & use tax and juvenile correction sales and use taxes—representing 47% of total tax revenue and 22% of total General Fund revenue-- are projected to total \$12.506 million, a combined increase of \$482k or 4%, which again reflects our assumption that sales taxes will grow at a combined growth rate of 4%, which is comprised of the 2.5-3% minimal overall growth in taxable sales forecasted for 2025 by the WA State Economic Forecast

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Council plus an additional 1-1.5% 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 total \$1.467 million, an increase of 6.3% in 2025 based on MRSC published guidance. Timber excise & leasehold excise taxes are projected to total \$456k, an increase of \$75k from 2024 projections based on a two-year trailing trend.

LICENSES & PERMITS

Licenses & Permits are currently projected to total \$1,297k, an increase of +\$263k or +25.4% from 2024 projections mainly due to a proposed increase in Community Development’s building permit, plan check, and land use permit fees to bring them more inline with our peer counties and to better support the costs of these functions. This increase is partially offset by lower franchise revenues generated by the Astound cable franchise agreement in comparison to 2024 due to a change in frequency of billing cycle and the expected continued erosion of revenues under this agreement.

INTERGOVERNMENTAL REVENUES

Overall, Intergovernmental Revenues--consisting of federal and state grants, intergovernmental tax and excise payments received by the County, and DNR timber sales --is budgeted to total \$12,754k, representing 22.4% of total General Fund revenue budget and reflecting an increase of \$1,665k or +15% in 2025.

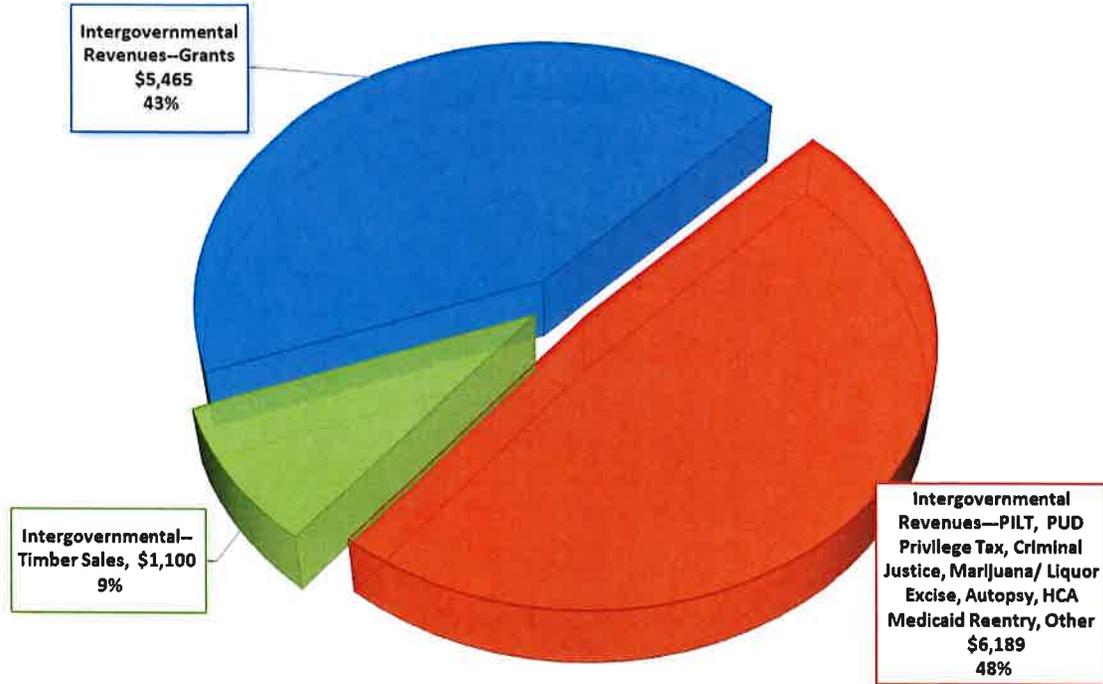
Below is a side by side comparison of the sources of intergovernmental revenues for 2025 and 2024.

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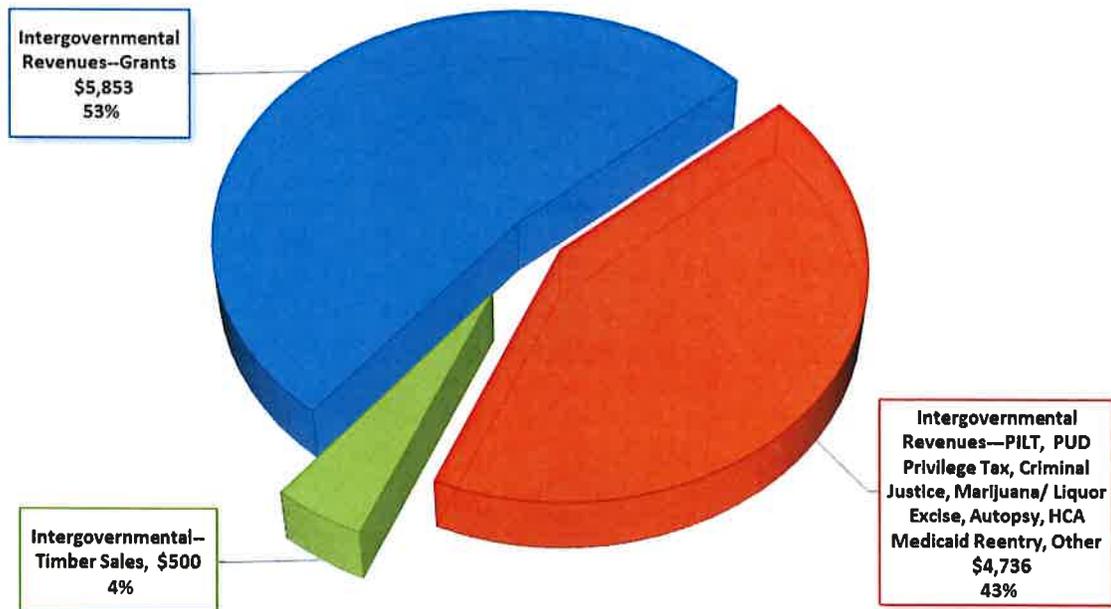
2025 INTERGOVERNMENTAL REVENUE BREAKDOWN BY SOURCE

(\$ IN THOUSANDS)



2024 INTERGOVERNMENTAL REVENUE BREAKDOWN BY SOURCE

(\$ IN THOUSANDS)



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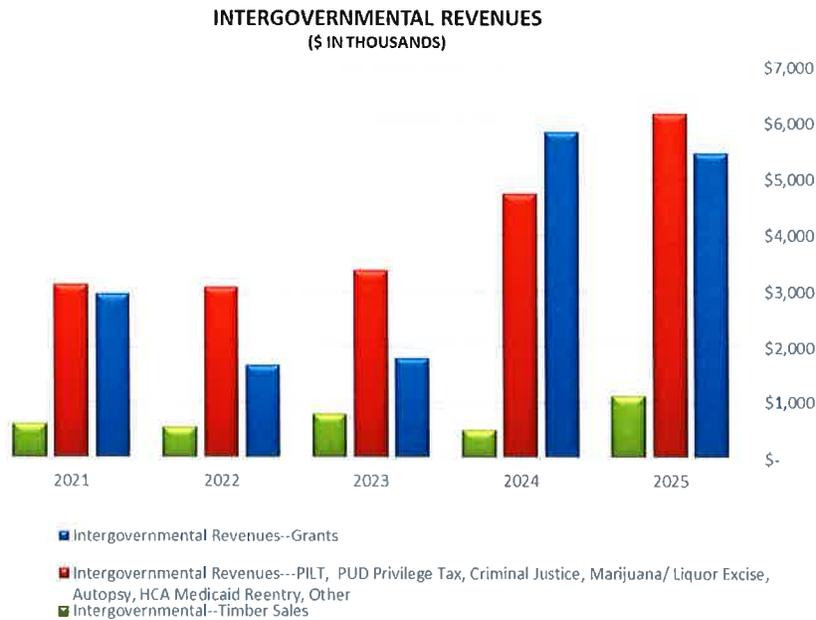
Intergovernmental grant revenues are budgeted to total \$5.465 million, a decrease of -\$388k or -6.6% driven principally by grant losses in:

- Sheriff Ops (down \$389k due to the WASPC Mental Health Field Response grant received in '24 that is partially carrying over into 2025);
- Auditors (down \$44k due to Election Security grant received in '24);
- DCD Environmental Quality (down \$814k due to lower GMA, various fish barrier, and NOPE grants in '24); and
- Superior Court (down \$28k in AOC Interpreter and other grants).
- These decreases are partly offset by grant gains in BOCC NonDepartmental (+ \$238k for Facilities Energy audit grant & \$250k for the CBDG Center for Inclusive Entrepreneurship grant), Recompete (up \$67k), District Court 1 (up \$171k due to AOC Therapeutic and Veterans Court grant funding), Coroner (up \$40k), and Fair (up \$31k), and
- Gains in other areas.

Intergovernmental tax revenues including PILT, Criminal Justice, PUD Privilege taxes, Liquor and Marijuana excise taxes, the new HCA Medicaid Reentry Demonstration funding, and other taxes are projected to total \$6.189 million, an increase of \$1,453k or 30.7%, which is primarily due to a \$1,400k increase in Juvenile Services due to the HCA Medicaid Reentry federal program funding awarded in 2024.

Intergovernmental Timber Sales revenue (consisting of DNR timber sales) is projected to total \$1.1 million in 2025, an increase of \$600k or 120% based on an initial 2025 estimate derived from June DNR 2024 timber harvest report which saw several planned harvests being delayed in 2024 that are expected to occur in 2025. This estimate will be further adjusted pending receipt of an updated Q3 2024 forecast from DNR.

Below is a summary of how each our recurring sources of Intergovernmental Revenue (excluding ARPA Section 605 and COVID funds) have performed over the past 4 years:



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CHARGES FOR GOODS & SERVICES

Charges for Goods & Services are budgeted to total \$9.961 million in 2025, an increase \$741k or 8% in 2025 driven by the following:

- \$385k of Medicaid Reimbursement revenue the Sheriff Jail Medical will be able to begin billing in the 2nd half of 2025 under the HCA Medicaid Reentry program,
- Health & Human Services--Environmental Health (+\$213k principally due to rate increases implemented in the 2nd half of '24),
- Sheriff Jail (+\$134k related to assumed resumption of CREW work along county roads with presumption that staffing levels will stabilize),
- Auditor's election services (+\$143k),
- Community Development--Building (+\$44k in building plan check revenues),
- CPI-tied increases under certain interagency criminal justice services agreements (\$58k), and
- Increases in other areas.

These increases are partly offset by declines in:

- Juveniles Services (down -\$173k mainly in reduced need for Hargrove funds due to the HCA Medicaid Reentry program and lower SBHO Title 19 revenue),
- District Court 1 (down -\$244k as lower Hargrove funding is needed to fund the mental health court due to the AOC Therapeutic Court grant received),
- Parks and Facilities (down -\$67k due to discontinuance of charging capital project management fees and the sale of firewood).

FINES & PENALTIES

Fines & Penalties are budgeted to total \$806k, a decrease -\$47k or -5.6% over 2024, primarily due to lower fines & penalty revenue budgeted in the Treasurer's Office (down \$29k) and by District Court 2 (down \$18k) based on 2024 trend.

MISCELLANEOUS REVENUE

Miscellaneous Revenue is projected to total \$4.862 million in 2025 and consists mainly of interest income (totaling \$3.1 million in 2025), parks camping fees (totaling \$991k in 2025), Environmental Health operating assessments (\$290k), and fairground rental, concession fees and event sponsorships (\$225k). Miscellaneous revenue is budgeted to remain relatively flat in 2025, mainly due to higher interest on delinquent taxes based on trending, as offset by modestly lower investment interest income in 2025 as the Federal Reserve began lowering interest rates in September the effect of which is somewhat mitigated given the significant progress made in investing more of the County's investments into longer term maturity investments. Average investment yields are budgeted to drop to 4.1% in 2025 as compared to the average yield being earned in 2024 of 4.45%, with the LGIP investment pool yield projected to drop from 5.389% currently to 4.448% in 2025. Campground and fair revenues are expected to remain relatively flat following fee increases implemented in 2024. Environmental Health operating assessments are also projected to be flat in 2025.

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OTHER FINANCING SOURCES

Consisting of proceeds from sale of County-held property, this is expected to total \$100k in 2025 relating to the anticipated sale of identified surplus land.

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 \$521k in 2025, consisting of:

- \$378k from the Clallam Bay Sekiu Sewer Fund relating to working capital advances provided to this fund during the Department of Ecology grant/loan-funded storm water infrastructure project that is slated to be completed in late 2024;
- \$96k from the transfer of all interest income earned to-date on American Rescue Plan Act funds from the ARPA fund to the General Fund as interest earnings on ARPA funds are not subject to ARPA usage guidelines;
- \$2.5k from the Solid Waste Fund;
- \$40k recurring transfer to the District Court 1 department from the Trial Courts Improvement fund; and
- \$4k transfer from Public Works for the employee wellness benefit program included as part of the General Fund's HR department budget.

This represents a \$0.584 million decrease from 2024, which is primarily due to the remaining \$683k of the \$4.683 million of working capital funding provided by the General Fund for the Lower Dungeness Floodplain project being budgeted to be reimbursed to the General Fund as the project's major construction phases concludes (NOTE--as spill-over of remaining project costs to 2025 is budgeted, this remaining transfer currently is not reflected in the budget pending further review).

EXPENDITURE BUDGET HIGHLIGHTS

Turning to expenditures, our General Fund Operating Expenditure budget, excluding Transfers Out, currently stands at \$55,406k, an increase of \$2,929k or 5.6% from our 2024 projected expenditures, and an increase of \$2,072k or 3.9% over the adopted 2024 budget. Transfers Out—consisting 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. Carlsborg Sewer Fund, Veteran's Relief, Local Crime Victim Witness fund, Solid Waste Fund, etc)—are budgeted to total \$498k in 2025, a decrease of -\$996k or -67% from 2024 projected. After including Transfers Out, Total Expenditures are budgeted to total \$55,904k, an increase of \$1,933k or 3.6% over 2024 projected costs.

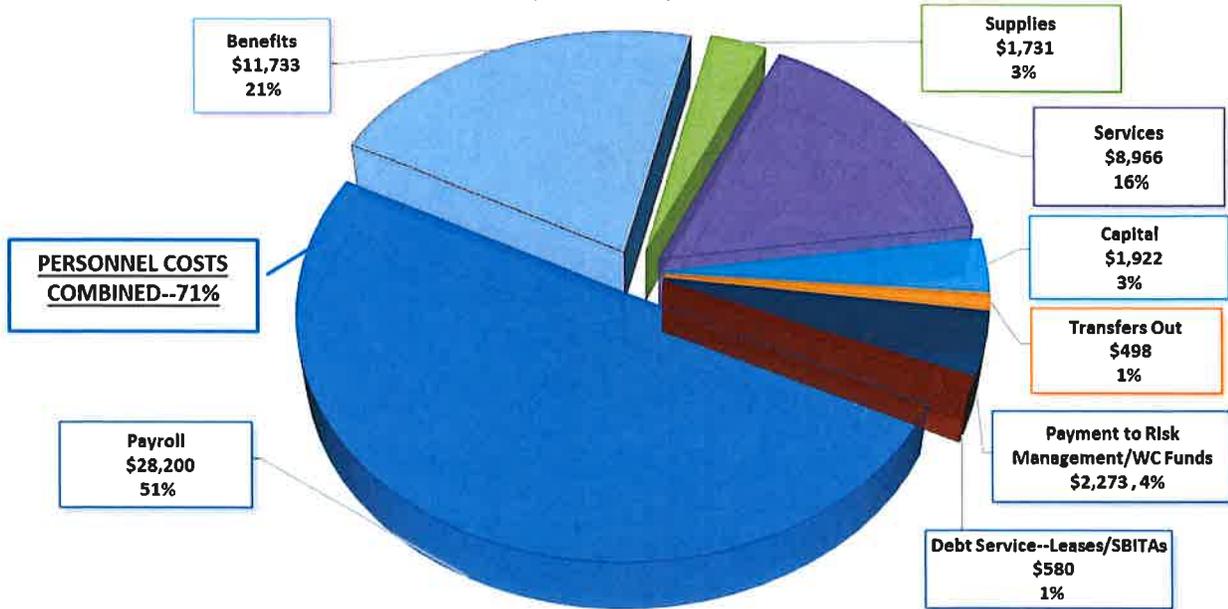
Below is a breakdown of how the General Fund spends its funds by type of expenditure and by area:

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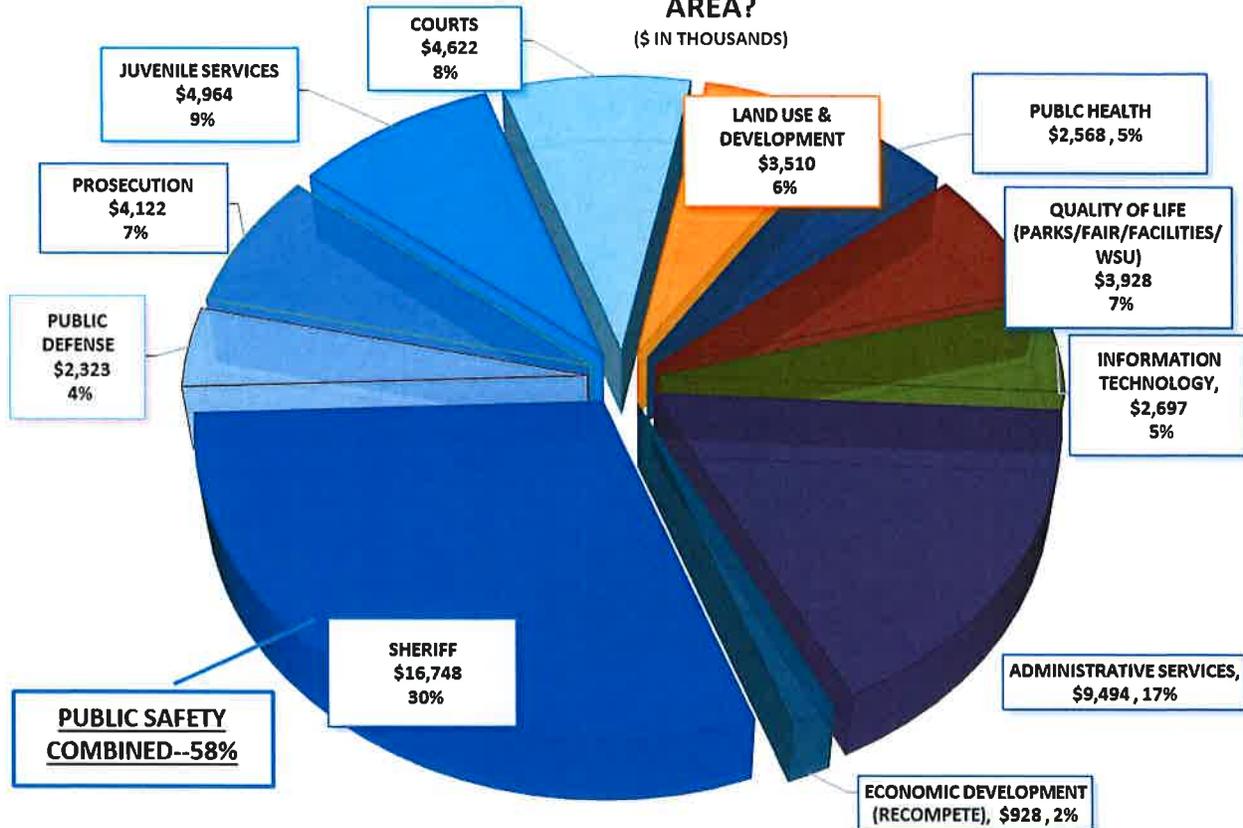
2025 GENERAL FUND --HOW DO WE SPEND OUR FUNDING?

(\$ IN THOUSANDS)



2025 GENERAL FUND --HOW DO WE SPEND OUR FUNDING BY MAJOR AREA?

(\$ IN THOUSANDS)



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SALARIES, WAGES & BENEFITS

The largest driver of the budgeted expenditure increase over 2024 projected expenditures is in Payroll and Benefits costs. Representing approximately 71% of our total expenditure budget, Payroll and Benefits are budgeted to total \$39,933k, with Payroll up \$1,752k or 6.6% and Benefits up \$1,123k or 10.6%, respectively, to the 2024 forecast. These increases are partly 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 2024 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 2024. This is expected to result in a projected budget underspend in payroll and benefits in 2024 of approximately \$1.75 million or 4.5% (which is lower than historical averages due to the unbudgeted in-sourcing of Jail nursing staff following termination of the Wellpath contract). Based on analysis of its 3-year and 5-year historical average payroll/benefits budget underspend, the County has underspent its Payroll budget between 6.7% to 8.3%, equal to between \$2.5 million and \$2.8 million of budget underspend. While not reflected in the current 2025 Draft budget due to policy, we anticipate a level of personnel budget underspend lower than that expected in 2024 to occur in 2025 as a result of the elimination of several open positions as part of the 7% reduction exercise, or approximately \$1.2 million or 3%. **If you adjust our 2025 personnel cost budget for this anticipated underspend equal to approximately \$1.198 million based on the 2025 payroll budget, our combined personnel costs in reality are expected to increase \$1.677 million or 4.5% in 2025 as compared to projected 2024 costs.**

This 4.5% increase in overall payroll/benefits costs is largely being driven by collective bargaining-related COLAs of 3% in July 2024 and 1.5% in January 2025 and 1.5% in July 2025, pay step increases, pay adjustments, a \$50-per-month increase in County-paid health premium increases for each collective bargaining unit, a modest increase in DRS retirement contribution and unemployment rates, and a \$67k increase in budgeted leave payout costs assumed for 2025 due to higher retirement-related payouts expected, as partially offset by the budgeted net reduction of (2.83) FTEs from the 2024 Adopted Budget (after factoring in position savings totaling 11.2 FTEs identified during the 7% cost reduction effort), and position cost savings related to certain retirements that occurred in 2024.

As noted earlier, it is important to note that the Draft budget does not yet fully factor in (1) Compensation changes related to our interest arbitration, limited commission and Teamsters bargaining units which are in various stages of negotiation; and (2) the potential addition of a Coroner appointed position due to a recent legal opinion impacting our County's ability to continue utilizing the Prosecuting Attorney also as the County's coroner. The impact of these once known will be reflected in a later version of our budget.

Changes in Budgeted FTEs

As outlined in the attached "Budgeted Staff Schedule History", the 2025 Draft Budget assumes a full staffing level for the General Fund of **332.59 FTEs, which reflects -2.83 fewer FTEs in 2025 as compared to the 2024 budget and -11.2 fewer FTEs than reflected in the County's Preliminary 2025 Budget as a result of the 7% cost reduction exercise undertaken by the County's General Fund departments and General Fund-supported funds.** The change in FTEs from the 2024 Budget to the 2025 Budget is based on the following changes by department:

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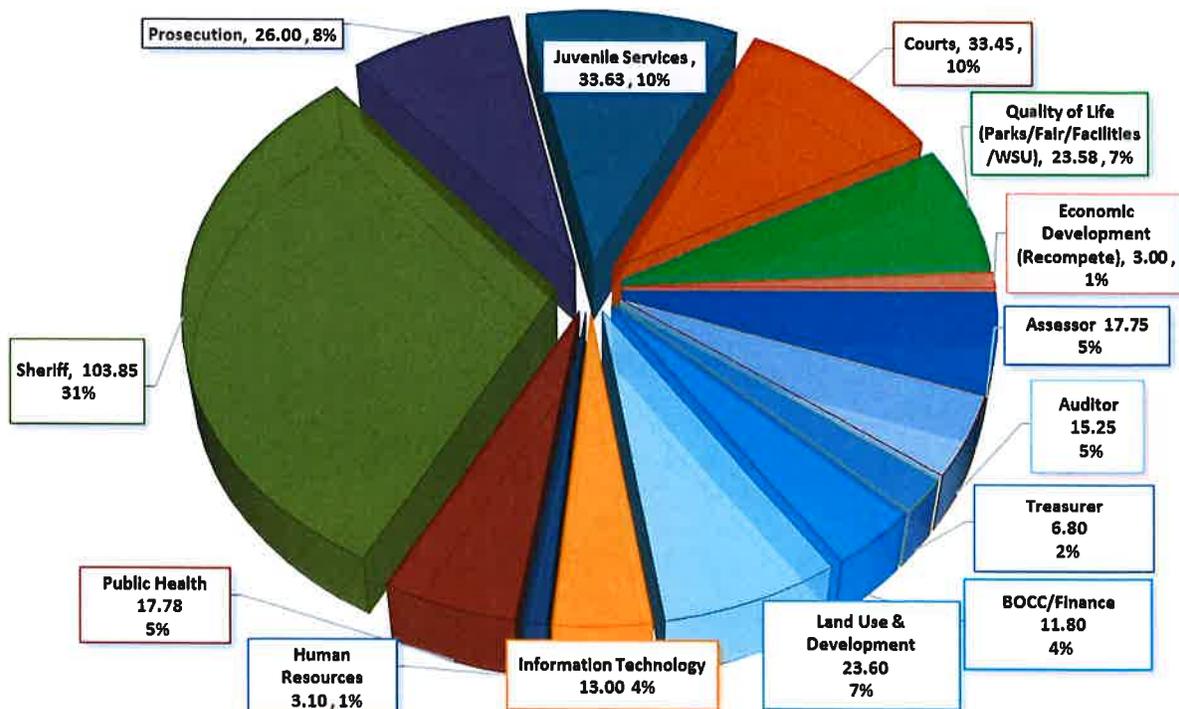
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- Assessor (-.75 FTE)
- Treasurer (+.4 FTE)
- BOCC Operations—(-.1 FTE)
- BOCC Board of Equalization—(-.1 FTE)
- BOCC—Recompete—(+3.0 FTE grant funded positions to support Recompete program)
- NonDepartmental (Finance)—(+1.5 FTE due to transition of payroll from HR to Finance)
- Community Development—(-2.5 FTE)
- HHS Administration—(-1.8 FTE)
- HHS Environmental Health—(+1.00)
- IT (-1.75 FTE)
- Human Resources (-2.3 FTE due mainly to shift of 2.0 FTE payroll staff to Finance)
- Sheriff Operations (-.5 FTE)
- Sheriff Jail Medical (+4.6 FTE due to nursing moving in-house & HCA Grant Project Coordinator)
- Prosecuting Attorney—Operations (-1.0 FTE)
- Prosecuting Attorney-Child Support (-.63 FTE)
- Juvenile Services (-1.9 FTE)
- District Court 1 (+1.0 FTE)
- WSU Extension (-1.0 FTE due to transitioning of noxious weeds staff from WSU Extension to Noxious Weeds fund in 2025)

Below is a breakdown of General Fund FTE Staff by Major Area:

**2025 GENERAL FUND --STAFF FTE COUNT BY MAJOR AREA--
TOTAL BUDGETED FTES -- 332.59****

****REFLECTS A 2.83 FTE DECREASE OVER 2024 BUDGET, A REDUCTION OF 3.25 FTES FROM ADMIN RECOMMEND BUDGET, AND A REDUCTION OF 11.2 FTES FROM PRELIMINARY BUDGET**



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SUPPLIES

Supplies are budgeted to total \$1.731 million, an increase of \$97k or 6% from 2024 as projected. This increase is mainly reflective of \$37k of department requests (principally related to IT equipment requests by various departments, additional Axon body camera equipment for Sheriff, and Parks/Facilities supplies increases), \$62k in higher Recompete grant-funded supplies and marketing materials, higher Adobe licensing costs, as well as due to 2024 budget trend savings reflected in the 2024 projections and increases in other areas. These increases are partially offset by decreases realized from the allocation of Energov permitting software license costs across departments/funds based on groups supported by the software (including the Roads department) rather than solely in the Community Development department, and cost reductions identified as part of the 7% cost reduction effort.

SERVICES

Services in 2025 are projected to total \$8.966 million, a decrease of -\$2,307k or -20.5% over 2024 projected services costs, and a decrease of -\$1,284k compared to the 2024 original budget. This decrease is mainly due to the following:

- The 7% cost reduction exercise undertaken to close the funding gap between revenues and expenditures projected for 2025, with approximately (-\$1.25) million of net reductions identified by multiple departments.
- Sheriff Operations--WASPC Mental Field Response grant-funded services costs not budgeted in '25 (-\$408k),
- Reduced grant-funded services costs tied to the overall 6.6% decrease in grant revenue over multiple areas from 2024 to 2025 (including DCD Environmental Quality's GMA and Climate Change grants, Auditor's elections security, Superior Court, and others)
- Recompete--(-\$171k),
- Jail nursing outsourcing services ending in Q1 '24 with the termination of the Wellpath contract (-\$104k), and
- The transitioning of noxious weed and certain master gardener costs from WSU Extension to the Noxious Weed fund beginning in 2025,
- The reclassification of certain multi-year software licensing costs (including MS Office 365, Axon body camera software license, and others) from Services costs to Debt Service due to a recent accounting rule change (-\$321k),
- Increase in the indirects allocated from the General Fund to Other Funds over the 2024 adopted budget (-\$153k).
- These decreases are partially offset by department requests recommended for approval totaling \$235k (as outlined in the "2025 Department Requests Over Base Draft Budget" attached schedule) and contractual increases in various areas.

PAYMENT TO RISK MANAGEMENT/WORKERS COMP FUNDS

The General Fund's share of Risk Management/Workers Compensation funds operating costs is budgeted to total \$2,273k, representing an increase of \$310k or 15.8% over 2024. This increase is being driven mainly by an expected 20%+ rise in WAC risk pool costs in 2025 over 2024 due to rising liability and property insurance costs being seen state-wide, continuing a multi-year trend.

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DEBT SERVICE COSTS

Debt service costs consists of (1) certain office, land, and equipment leases with a lease term greater than one year, and (2) certain multi-year software licensing and online subscription costs now required to be treated as debt following a recent accounting rule change. These costs are budgeted to total \$580k, representing an increase of \$418k over 2024. This increase is mainly due to a recent change in accounting for certain of the County's software license and online subscription services contracts that are 1 year or more years in duration that must be accounted for as debt service costs rather than as a Services or Supplies costs as in prior years. This change affects multiple departments with multi-year software license agreements, with the most notable being IT (MS Office 365, ESRI GIS), Prosecuting Attorney (Axon Evidence.com, Westlaw), Sheriff (Axon body cameras), and Auditor's Office (Agilis ballot sorter). The increase is also due to a \$67k ongoing IT department request recommended for approval for the additional cost of upgrading to the E5 version of Microsoft Office 365 to provide data governance and E-Discovery functionality critical to the County's public records function.

TRANSFERS OUT

Transfers Out consists of funding provided by the General Fund to fund (1) Capital projects in the Parks & Facilities, IT Capital Projects, and certain other capital project funds; (2) Working capital needs of capital projects that rely principally on reimbursement grants for funding; and (3) those County Funds whose own sources of funding are inadequate to fully cover their operating costs. Transfers Out are budgeted to total \$498k in 2025, a -\$996k or -66.7% decrease from projected 2024. This decrease is mainly due to decreases in Transfers to:

- Parks & Facilities Capital Projects fund (-\$295k lower due to only previously approved, mandatory recurring capital projects and very limited new requests being reflected in the Draft budget, as reduced by cost reductions identified as part of the 7% cost reduction effort);
- IT Capital Projects (-\$484k lower due to funding provided in 2024 largely for the planned EDEN accounting system migration which is expected to begin in 2025 and cost reductions identified as part of the 7% cost reduction effort);
- Health & Human Services—Operations (-\$125k lower due to this funds reserve levels reaching a point where General Fund support is no longer needed);
- Solid Waste (-\$70k lower due to lower than expected costs for ongoing monitoring of the former Lake Creek landfill site);
- PA Local Crime Victim (-\$24k due to higher state funding being provided (+\$28k) and a -.2 FTE reduction);
- Veterans Relief (-\$55k lower due to lower ER&R vehicle rental costs, and other identified expenditure reductions);
- Carlsborg Sewer (-\$27k);
- Flood Control (-\$6k);
- Law Library (-\$17k); and
- Sheriff Honor Guard (-\$5k)
- These decreases were partially offset by increases in Transfers to: (1) REET 1 (+\$107k) for providing Juvenile Services sales tax support to partially fund the Juvenile Services HVAC Chiller capital projected budgeted in REET1 in 2025; and (2) Treasurer Land Assessment (+\$5k)

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Transfers Out from the General Fund included in the 2025 Draft Budget include the following:

• Capital Projects—Parks & Facilities	\$ 116,673
• Capital Projects—IT	--
• Local Crime Victim Comp	43,146
• Veterans Relief	67,500
• Public Works--Flood Control	68,432
• Public Works—Carlsborg Sewer	69,054
• HHS Chemical Dependency/Mental Health	6,135
• Treasurer Land Assessment	15,000
• Sheriff Honor Guard	5,000
• REET 1	107,000

TOTAL TRANSFERS OUT—2025 **\$ 497,940**

DEPARTMENT REQUESTS

As outlined in further detail in the attached "2025 Department Requests Over Base Budget", departments submitted total additional funding requests from the General Fund totaling **\$1,659,613, of which only \$508,040 were incorporated into the 2025 Draft Budget based on Commissioner feedback.** Of the amount included in the budget, \$417,518 requires ongoing funding and the remaining \$90,522 represent one-time requests.

DRAFT 2025 CAPITAL PLAN

Attached is the breakdown of capital outlay requests as part of the 2025 Draft Budget, as well as those requests that we propose be deferred at this point. These materials include the following:

- **2025 Draft 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 2025;
- **2025 Draft Capital Outlay Budget--By Key Strategic Capital Project--** includes a summary of the proposed capital spending for 2025 by key strategic initiative/grouping category created for the capital planning process; and
- **2025 Draft Capital Requests Excluded from 2025 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 \$37,651,716 of capital outlays for the 2025 budget and deferring \$1,296,889 of requests identified in the current draft of the 2025 capital plan. The recommended capital outlays are proposed to be funded through the following sources:

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- Parks & Facilities Capital Projects Fund--\$303,245 total, made up of \$80k for PFF Unanticipated Projects, \$115k to fund Phase I of the Courthouse Single Point Entry Construction, \$60,245 carryover funding for Clallam Bay Bridge Beach Ramp project, \$30k to replace the Fairgrounds Maintenance Building Roof, \$10k for an Equipment Cover for Dungeness Recreation Area, & \$8k for capital repairs on the Fairgrounds Septic Pumps; the capital outlays from this fund will require a Transfer from the General Fund of \$116,673k.
- IT Capital Projects Fund--\$325,000 total, made up of a placeholder of \$275k for the migration from EDEN to an enterprise accounting system, and \$50k Unanticipated Projects; the capital outlays from this fund will not require a Transfer from the General Fund, and will use Fund Balance to cover these costs.
- REET 1--\$741,158 total, made up of \$601,158 for the replacement of an HVAC Chiller at Juvie, \$50k for capital repair of the Courthouse VAV HVAC air system boxes, \$35k for ongoing Jail Lock Repair & Replacement, as well as \$40k of other smaller ongoing requests (parks trails & roads maintenance and Historic Courthouse exterior preventative & restorative services). The HVAC Chiller at Juvie will be partially funded by a transfer of Juvie sales taxes from the General Fund to the REET 1 fund of \$107,000 in 2025.
- REET 2—While currently there are no 2025 capital projects budgeted within the REET 2 fund, there is a transfer out budgeted of \$700,000, which is to Roads to fund 2025 eligible road work.
- EOC Relocation--\$7,100,000 consisting of the projected Phase 2b Detailed Design costs, Site Work & Pre-Construction costs, as well as Project Management. This work will be paid for through a combination of \$1 million in funding committed each by the County and the City of Port Angeles/PENCOM in 2023, and \$5,615,800 of grant revenue.
- General Fund--\$1,922,167 consisting primarily of
 - \$380,100 of Sheriff Operations items, with \$200,808 of which for vehicle ER&R replacement and vehicle equipment for the scheduled replacement of 4 patrol vehicles, \$60,751 for an Axon Taser Replacement Plan, \$60,000 for the purchase of 10 Mobile Data Terminals (MDT's), \$20,541 for a digital storage/sharing capacity project for case files, with remainder of \$38,000 for portable radio replacements;
 - \$500,000 of Sheriff Jail Medical Information Technology Capital purchases of goods & services in support of the Health Care Authority's Medicaid Reentry Initiative (covered by HCA grant);
 - \$11,067 of Sheriff Emergency Services purchases of ballistic rated helmets (grant-funded);
 - \$1,000,000 of Juvenile Services Information Technology Capital purchases of goods & services in support of the Health Care Authority's Medicaid Reentry Initiative (covered by HCA grant); and
 - \$31,000 Superior Court request for Courthouse Security Equipment in support of the Courthouse Single Point Entry project (covered by AOC Rural Security grant).

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As noted earlier, Transfers from General Fund will be needed for Parks Facilities and Fair Capital Fund (\$116,673) to fully fund the 2025 capital projects in these funds, which are noted in the 2025 Draft Budget;

- Other Funds Capital Outlays
 - Roads--\$12,753,031, including \$20,645 for ER&R vehicle/equipment costs, \$10,888,760 of planned Right of Way and other Roads-based projects, and \$700,000 of these projects covered through REET transfers;
 - OPNET--\$460k for an Armored Tactical Vehicle;
 - OPSCAN--\$170k for radio network equipment replacement;
 - Operation Stonegarden--\$45,000 for a grant-funded drone;
 - Noxious Weeds--\$38,000 for ER&R vehicle cost for a Ford Maverick;
 - ARPA--\$650,000 (\$647k for an Information Technology Capital Nutanix project, and \$12k for the remainder of the Streamkeepers Database conversion project from 2024);
 - Dungeness Off Channel Reservoir--\$1,571,027 for the next phase of Dungeness Off Channel Reservoir Project (to be 100% grant funded through grants rec'd to date and Fund Balance);
 - Parks Capital Repair & Improvement--\$90,000 for pay kiosks with internet to be installed at Salt Creek & Dungeness Recreation Area campgrounds to allow first-come, first-serve campers to pay by credit card;
 - Broadband Infrastructure--\$10,000,000 of project costs (includes \$361,115 Transfer from ARPA for grant matching funds);
 - Clallam Bay Sekiu Sewer--\$940,358, which consists of \$996,974 for the ongoing Pump Station replacement project (\$910,000 of which is funded by an already-approved Opportunity Fund award, as well as other grant funding), \$278,000 carryover billing for the I&I project from 2024, and \$20,000 for a new Connex Box to be purchased & installed;
 - Carlsborg Sewer Capital Fund--\$115,500 of City of Sequim capital charges attributable to this system; and
 - ER&R--\$957,240, consisting of \$777,240 total of vehicle and equipment replacements, with \$520,000 for Roads, \$37,000 for Noxious Weeds, and \$220,240 for General Fund (with \$450,333 in capital contributions from the various funds), \$60k for the polishing of fuel tanks, and \$120k the carryover project of replacing failing gutters on all ER&R buildings.

In summarizing the total recommended capital spend by the key strategic initiative or summary categories we grouped our 2025-2029 capital plans according to the 2025 Administrator Recommended Budget outlines the following spending by key initiative/grouping:

- **Broadband Expansion**--\$10,000,000
- **Courthouse/Juvenile Services Building Security**--\$31,000
- **Deep Water Well/Water Mitigation**--\$1,571,027
- **EOC Relocation**--\$7,100,000
- **ER&R Funded Capital Outlays**--\$941,048
- **IT Infrastructure Initiatives**, including:
 - **Applications**--\$1,775,000
 - **Virtualization**--\$647,000
- **Jail Master Plan**--\$15,000

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- **Juvie Master Plan--\$601,158**
 - **Mandatory/Recurring/Regular Replacement--\$434,292**
 - **Non-Recurring Capital Outlay Fully Through Grants/Dedicated Funds (No General Fund/REET Funding Needed)--\$75,000**
 - **Other Non-Recurring Capital Outlay--\$11,562,827**
 - **Previously Approved Carry Over Capital Outlays--\$807,890**
 - **Road Projects Supported Thru REET--\$700,000**
 - **Sewer System Repair/Replacement Initiatives--\$1,390,474**
- **TOTAL--\$37,651,716**
 - **Total Grant/Loan Funded--\$31,596,815**
 - **Total County (excluding General Fund) Funded--\$5,657,227**
 - **Total General Fund Funded--\$397,674**

Based on feedback received during this discussion and as we move through the 2025 budgeting process, we will adjust the 2025 budget accordingly as well as update the 2025-2029 5 Year Capital Plan.

GENERAL FUND RESERVES

Based on this Draft budget, the budget reflects adding \$1.043 million to the General Fund reserves based on County policy which requires us to budget assuming all personnel positions are fully staffed for the entire year, representing an improvement of \$1.461 million over the Recommended Budget draft and a \$5.230 million improvement over the Preliminary Budget draft, which is largely due to the 7% cost reduction effort, the incorporation of the HCA Medicaid Reentry funding, and other revenue and expenditure changes made. As discussed previously and as outlined in the attached "Breakdown of Draft Budget Surplus (Deficit)", based on expected underspend to our personnel and benefits budgets of \$1.198 million as offset by \$1.330 million additional costs not yet reflected in this version of budget, **the General Fund's 2025 Draft Budget as adjusted would produce a projected surplus for 2025 of \$911k, as compared to 2024's projected operating deficit of -\$44k, which would leave an ending fund balance of \$14,315k for 2025, or a reserve of 26% of expenditures.**

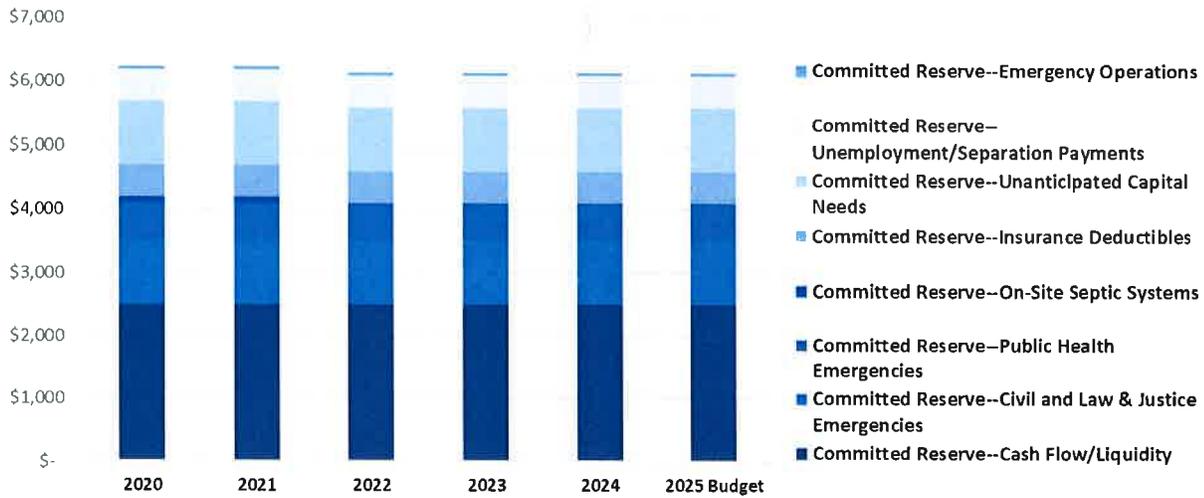
In evaluating the impact of this budget on reserves and the adequacy of our General Fund reserves, it is important to understand what committed budgetary reserves have been historically established via budget adoption. Historically these committed budgetary reserves have totaled between \$6.15 million and \$6.25 million, and are broken down as follows:

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GENERAL FUND RESERVES -- COMMITTED BUDGETARY RESERVES BY TYPE

2020-2025
(\$ IN THOUSANDS)



The County's General Fund also contains certain restricted reserves (meaning the monies are limited to varying degrees on what they can be spent on), including:

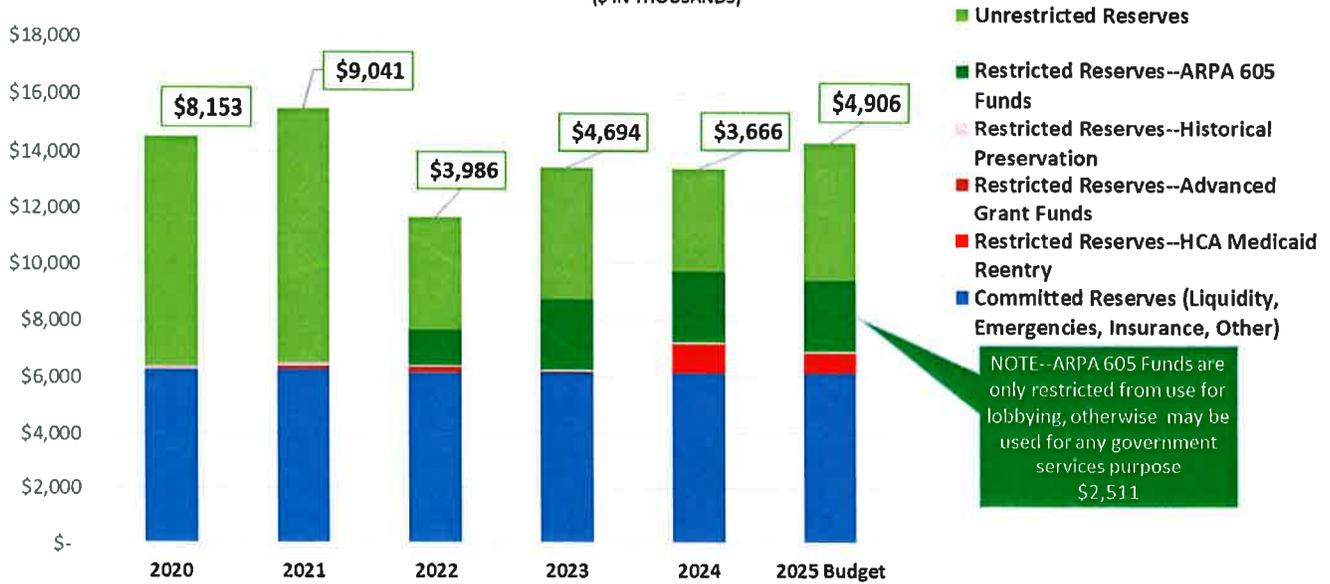
- ARPA 605 funds (received \$2.5 million in 2022/2023 that may be used for any government services purpose other than lobbying—however requires an adopted resolution indicating its use);
- HCA Medicaid Reentry funding (Jail & Juvenile Services—new for 2024/2025);
- Other advances received from grants (mostly COVID-related that were all fully spent by 2023); and
- Historical Preservation funds

After layering in these restricted reserves along with our committed budgetary reserves outlined above, the historical breakdown of the General Fund's total reserves, including its level of unrestricted reserves, from 2020 to 2025 is as follows:

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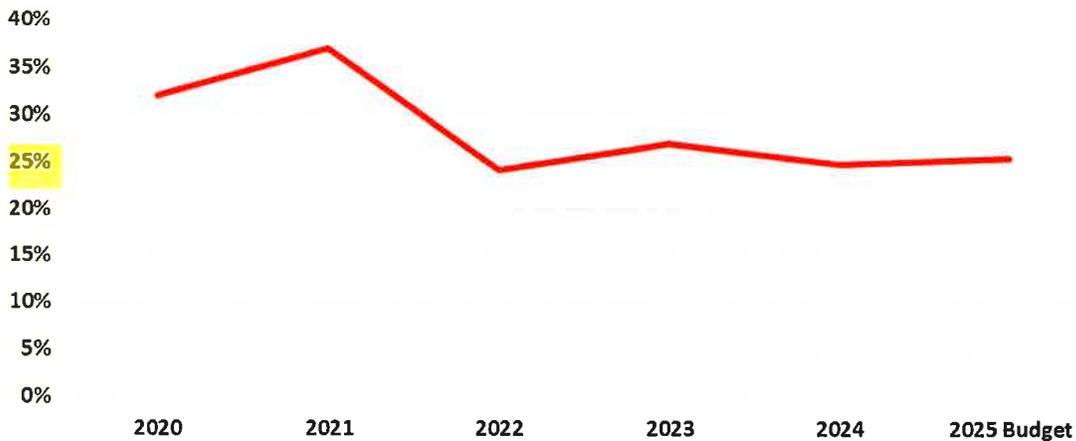
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GENERAL FUND RESERVES TREND -- BY TYPE
2020-2025
(\$ IN THOUSANDS)



The General Fund Reserves shown as a % of Total Expenditures from 2020 to 2025 is provided below:

GENERAL FUND RESERVES AS A % OF TOTAL EXPENDITURES
2020-2025
(\$ IN THOUSANDS)



These charts serve to highlight the decline both in unrestricted reserves and overall reserves that has occurred historically in the General Fund, and the impact the current 2025 Draft Budget as currently forecasted would have on reserves. These historical declines in reserves have been driven by several factors including:

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Revised: 3-04-2019

- Operating revenues growing at a rate less than operating expenditures (as outlined more in the next section);
- Transfers to various non-General Fund funds requiring subsidized support for their operations (including Clallam Bay Sekiu Sewer, Carlsborg Sewer, Solid Waste, Flood Control, Bullman Beach, Veteran’s Relief, Health & Human Services Operations, Local Crime Victim Compensation fund, Law Library, and Treasurer-Land Assessment funds);
- Working capital and local match transfers made by the General Fund to support various reimbursement grant-funded projects (including Lower Dungeness Floodplain, Dungeness Off Channel Reservoir, and the Joint Public Safety Facility); and
- Capital project outlays undertaken by Parks, Fair & Facilities and IT through their respective capital project funds.

While considerable progress has been made in identifying revenue and cost reduction opportunities that serve to significantly reduce the operating deficit forecasted for 2025 between the Recommended Budget and the Draft Budget, a significant portion of this progress reflects the use of new HCA Medicaid Reentry funding awarded to the County to help fund eligible existing Sheriff Jail Medical and Juvenile Services operating costs, and that will be mostly utilized in 2025, 2026 and 2027. While the County will be able to bill Medicaid for eligible costs within our Jail Medical and Juvenile Services departments on a going forward basis beginning in mid-2025 (representing an annualized new revenue stream of approximately \$770k), it is unclear whether such billing will be able to offset the exhaustion of these one-time HCA monies. As a result, County management will continue to be focused on identifying and proposing additional revenue and cost adjustment opportunities to maintain a sustainable and adequate level of reserves as we move into 2025.

RECAP OF THE 7% REDUCTION EXERCISE AND WHERE WE STAND IN BALANCING THE 2025 GENERAL FUND BUDGET

As previously covered, due to the \$4.2 million shortfall existing between revenues and expenditures reflected in the 2025 Recommended Budget, **each department was requested to submit a proposed list of expenditure and revenue changes equal to a 7% overall reduction in their operating expenditure budget.** These proposed changes were reviewed in detail with each department, the impact of such changes was discussed, and are incorporated into the Draft Budget presented.

Of the 18 departments requested to participate in this exercise, 9 were able to identify all of the requested reduction requested, leaving 9 that were not initially. As part of the discussions held in October between the departments, Commissioners, County Administrator, and Finance Department, considerable progress was made in working with these departments in identifying additional revenue and expenditure reductions necessary to close the \$4.2 million funding gap. Below is a recap of these results:

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RECAP OF PROGRESS MADE TOWARD A BALANCED BUDGET

Operating Deficit—Preliminary Budget (\$4,187,000)

Revenue & Expenditures Changes Made Between Preliminary Budget

And Recommended Budget:

7% exercise	\$ 4,084,000
Property Tax levy true-up reduction	(\$148,000)
Department Requests	(\$370,000)
Added Capital Requests	(\$173,000)
Other Changes	\$376,000
Total Revenue/Expenditure Net Changes Made—Prelim vs Admin	<u>\$ 3,769,000</u>

Operating Deficit—Administrator Recommended Budget (\$ 418,000)

Revenue & Expenditures Changes Made Between Recommended Budget

And Draft Budget:

Tax Revenue--Property Tax levy true-up for final 2024 refunds	\$22,000
Intergovernmental Revenue—HCA Medicaid Reentry (Juvie)	\$1,000,000
Intergovernmental Revenue—net other new grants added	160,000
Charges for Goods & Services—Auditor elections svcs, Hargrove	255,000
Other Revenue Gains—Fines & Penalties, Misc, Transfers In	156,000
Payroll & Benefits cuts (3.25 FTE reduction, revised L&I)	97,000
Services & Supplies increase (Recompete, HCA, other grant costs, single point security services (\$180k), 7% reductions, Department Request changes from BOCC feedback, other	(245,000)
Capital Requests decreases (CCSO, District Court 1)	71,000
Transfers Out decrease (Carlsborg Sewer, Law Library, REET1)	18,000
Payment to Risk Management/Workers Comp Funds increase	(11,000)
Debt Service—Leases/SBITAs (CCSO Axon body camera reclass)	<u>(61,000)</u>

Total Revenue/Expenditure Net Changes Made—Admin vs Draft \$ 1,461,000

Operating Surplus—Draft Budget \$ 1,043,000

Estimated Additional Costs Not Yet Reflected in Current Budget, including:

- Collective Bargaining labor costs for CBAs still in negotiations;
- Separation of the Coroner function from Prosecuting Attorney's Office;
- Consultant for Criminal Justice Cost Study for Upcoming Interlocals Renewals;
- Additional financial systems migration support;

Total Estimated Additional Costs Not Yet Reflected (\$1,330,000)

Operating Deficit—Before Factoring in Payroll Underspend (\$287,000)

Estimated Payroll Underspend (3% underspend assumed) \$ 1,198,000

Operating Surplus, After Factoring in Payroll Underspend \$ 911,000

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ONGOING 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:

	<u>Average Annual Growth Rate</u> <u>(2025-2021)</u>
Revenue from Operations	+7.7%
Expenditures from Operations (less anticipated Personnel Cost Underspend and plus Additional Costs Not Yet Reflected in Budget)	+9.4%

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 3.5% from 2021-2025 which is well below expenditure growth rates of 10%**. Significant uncertainty also exists surrounding a potential cliff in sales taxes revenues once the significant WSDOT fish barrier road construction projects are completed in the next few years and the local economic impact of recent business closures/furloughs on sales taxes is felt.
- **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 -4.9% in Fines & Penalties revenue.
- **State actions taken during the COVID pandemic continue to have an echo effect on certain of the County’s inter-agency revenues**, most notably the marked decrease in excess jail bed utilization by the WA State Department of Corrections (“DOC”) where due to reduced State inmate levels County jail bed revenues earned from DOC declined from an average of \$612k per year pre-COVID to \$160k projected in 2025, a 74% decline.
- **The State continues to underfund indigent public defense costs, and with new reduced public defense caseloads limits proposed by the WA State BAR Association taking effect beginning 2025-2027 if approved by the State**

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Supreme Court, the funding shortfall for indigent defense could become a crisis if the State does not act. While the County is budgeted to incur \$2.2 million in Public Defense costs in 2025, the State has only historically contributed \$70k-\$74k per year towards these costs since 2018. Indigent defense costs have increased 9.3% per year since 2018. If these proposed reduced caseload limits are enacted, this could potentially increase our County's indigent defense costs 2.5 to 3 times, which without funding from the State to offset this increase would create a funding crisis for our County and many others.

- **Representing 71% of our General Fund operating expenditures, personnel costs have grown at a rate of 6.5% per year since 2021 (before factoring in outstanding CBAs still in negotiations)** and are increasingly being affected by a highly competitive labor market and rising labor costs which have made recruitment more difficult and costly.
- While significant 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 three years have been a boost to the County's revenue growth and significant steps have been taken to lock-in higher rates in the investment of County funds into longer-term securities, it is unclear how long this will be sustained long-term as interest rates begin to soften this year and into 2025.
- **Rapid cost increases in multiple areas over the last few years are placing considerable strain on the General Fund and other County funds**, including:
 - WA State Risk Pool insurance costs are continuing a multi-year trend of increasing 20%+ annually and appear to 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;
 - Rising Worker's Compensation costs due to higher claims costs and higher L&I rates assessed;
 - Jail Medical costs are projected to increase 9% per year from 2020 to 2025, as a result of healthcare staffing shortages and an increasing proportion of inmates with significant mental health, chemical dependency and chronic health issues that require medical treatment—while the new HCA Medicaid Reentry funding will help us cover more of these costs, there still will likely be a funding gap given the expected level of Medicaid reimbursement rates;
 - Rising Litigation costs continue to pose significant challenges, with additional costs seen in the areas tax assessment, worker's compensation claims, and arbitration; and
 - Inflationary cost increases continue to significantly impact everything from our cost to replace fleet vehicles and equipment, capital project costs, facilities

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maintenance, utilities, and supplies, software licensing and maintenance costs, fuel costs, etc.

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 Draft rolled up budget for 2025. No budgetary impact until the final adopted budget is approved in December 2024.

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: _____ Todd Mielke, Mark Lane, Rebecca Turner, Eleanor Hill _____

Relevant Departments: _____ Finance, BOCC _____

Date submitted:

November 13, 2024

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Agenda Item Summary Draft Budget 2025
Revised: 3-04-2019