



AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION **Meeting Date:** **10/6/2025**

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 2026 Administrator Recommended Budget for Clallam County. The submission of this Administrator Recommended budget is the next major step in the budget adoption process, with the following key dates to follow:

- Monday, October 6th —presentation of the Administrator Recommended Budget to the BOCC along with the Proposed 2026 Capital Budget for consideration and discussion;
- October 8th-24th —BOCC, Administrator, CFO, Deputy CFO and Budget Coordinator to meet with each department;
- Tuesday, October 14th—Port Angeles Budget Town Hall Public Meeting to Present 2026 Administrator Recommended Budget—BOCC Board Room 5pm-7pm;
- Wednesday, October 22nd — Sequim Budget Town Hall Public Meeting to Present 2026 Administrator Recommended Budget—Guy Cole Event Center 5pm-7pm;
- Wednesday, October 29th—Forks Budget Town Hall Public Meeting to Present 2026 Administrator Recommended Budget—Forks City Hall Council Chamber 5pm-7pm;
- Monday, November 10th—5 Year Capital Plan to be presented at BOCC work session for consideration and discussion;
- Monday, November 17th—presentation of the Proposed Final Budget to the BOCC;
- Tuesday, November 25th—Clallam County Property Tax Levy Certification;
- Monday, December 1st —Special Taxing Districts Property Tax Levy Certification;
- Tuesday, December 2nd --Public Hearings at 10:30am and 5pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 9th—Possible extension of hearing for the Board to adopt the final budget by resolution (if needed)

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
 ** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019



The following materials have been provided to accompany this summary:

- 2026 Administrator Recommended Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2026 Administrator Recommended Budget to Projected/Actual Results for 2025-2022;
- General Fund 4 Year Comparison of 2026 Administrator Recommended Budget to Adopted Budgets for 2025-2022;
- General Fund Breakdown Analysis of the Change in Operating Surplus/Deficit between the 2025 Administrator Recommended Budget Deficit and 2024 Forecasted Surplus/(Deficit);
- General Fund Bridge Analysis of Changes Between the 2025 Preliminary Budget and Recommended Budget (a summary of what changed between the prior version of the budget and this version);
- 2026 Budget Salary Worksheet Breakdown by Department/Fund;
- 2026 Budgeted Staffing Schedule 10 Year History;
- 2026 Department Requests Over Base Budget;
- 2026 Administrator Recommended Capital Outlay Budget—by Fund; and
- 2026 Administrator Recommended Budgeted Transfers Between Funds
- 2026 Administrator Recommended Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;

It is important to note that this Administrator Recommended budget represents each departments' initial 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 into the Administrator Recommended budget as needed and subject to current budgetary constraints.

As noted in prior budget discussions and per County Policy, all budgeted positions are assumed filled for the entire budget year, 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 \$2.76 million and \$3.2 million each year due to open positions, turnover and retirements (further discussion below).

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

KEY REVENUE/ECONOMIC ASSUMPTIONS

This second version of our 2026 budget also reflects updated estimates for 2026 revenue which are partly dependent on the current revenue forecast assumptions for 2025, as well as many additional variables, including

- GDP growth and inflationary growth expectations based on most recent Washington state economic forecasts,
- Local economic conditions;
- Large road infrastructure projects currently underway in our County which are expected to materially impact the County's sales & use tax projections in from 2025 thru 2030;
- The expected level of new construction to be captured for purposes of setting 2026 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; 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.), and Timber revenues--representing approximately 57% of the General Fund 2026 revenue 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 Administrator Recommended budget were discussed and evaluated for reasonableness during the budget discussions with each department in September, with any changes made and reflected in the Administrator Recommended Budget.

While the Administrator Recommended Budget revenue assumptions overall do not assume a recession in 2026 which is consistent with most national banks (Goldman Sachs, JP Morgan, and others) and economists (including those of WA State Economic Forecast Council), it does reflect prevailing expectations among economists who predict economic growth to slow as the impacts and uncertainty surrounding tariff and fiscal policy, and continued pressure felt by consumers due to high interest rates continue to restrain home sales, big ticket purchases, etc. From a local perspective, although unemployment in the County remains at a relatively low 4.4% currently, we do believe local events such as last year's McKinley closure, the increasing timber industry impacts felt from delayed timber harvests due to DNR administrative pauses and litigation, and other local economy growth challenges will continue to create employment headwinds that will impact certain of our sales-driven revenues this year and next year. While some relief may be seen as the Federal Reserve recently resumed reducing interest rates as inflation subsides and signs of employment and economic indicators softening emerge, we do not expect that this will result in significant economic activity gains for our County.

In its June report, the WA State Economic Forecast Council is forecasting a 5.0% increase in nominal personal income growth in 2026, which is slightly below what was seen in 2024 (6.1%) and 2025 (5.2%). Despite a rough early spring season, local tourism on the Olympic Peninsula has held up despite tariff policy impacts on tourism from Canada, supporting 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, although the impact of these projects has been sporadic in the County's sales tax collections until recently when during the summer we saw sales tax growth of 7.5%, 10% and 9% for the months of July, August and September which are likely due partly to the

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

timing of work being performed relating to these road projects. As a result of these recent gains, we believe 2025 sales tax will now grow between 3.7% and 4.3%.

Taking these issues into consideration, for the 2026 Administrator Recommended Budget, a sales tax growth assumption of **2.5%** was used in preparing the 2026 Administrator Recommended revenue budgets for our various sales-based taxes of the County, which is below the 3.7% projected growth for 2025. We believe this lower level of growth assumption is warranted given the uneven growth seen thus far in 2025, uncertainty surrounding tariff impacts on inflation, and given the lowered expectations of economic growth for Washington State as forecast by the WA State Economic Forecast Council. While recent sales tax changes enacted in the last State biennium budget that will lead to sales taxes being collected for certain previously exempt activities (including IT services, temporary staffing, security services, advertising, and others) beginning on October 1, 2025, we do not believe based on the County's employer make-up that this will result in significantly higher sales tax for the County.

Given that economic conditions are still evolving as we enter the final quarter of 2025 as is the ongoing economic impact of these WSDOT projects or the sales tax changes taking effect October 1st, the sales tax revenue budget for 2026 will continue to be revisited during the 2026 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 remain flat in 2026 based on WA State Economic Forecast guidance which calls for low single digit growth in 2026.

ADDITIONAL COSTS & COST REDUCTIONS NOT YET INCORPORATED INTO THE ADMINISTRATOR RECOMMENDED BUDGET

From an expenditure standpoint, there are certain additional costs not yet fully incorporated into this Administrator Recommended budget which may be included in later versions of the 2026 budget pending further discussion with the departments and the BOCC in October budget meetings to be held, ratification of outstanding labor agreements, or based on election outcomes in November, including:

- **Additional Payroll/Benefit costs resulting from conclusion of labor negotiations with our interest arbitration and limited commission bargaining units** that are not yet fully reflected in the Administrator Recommended Budget pending finalization of negotiations (a high level placeholder as reduced for the recent ratification of the Sheriff Patrol labor agreement and other changes in estimates is included in the budget for purposes of estimating ending reserves);
- **Addition of a County Coroner position**, pending outcome of Charter Review efforts to address this issue in the upcoming election (a high level placeholder is included in the budget for purposes of estimating ending reserves);
- **Reallocation of American Rescue Plan Act funds to fund Personnel Costs of General Fund**—due to recent developments affecting one of its prior ARPA contractual awards, \$200,000 of previously committed ARPA funding are expected to be re-obligated and used to fund personnel costs of the General Fund for the 2026 budget in accordance with US Treasury

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

guidelines (this reallocation of costs is reflected in the County's ARPA special revenue fund, and a high level placeholder is included in the General Fund budget for purposes of estimating ending reserves pending identification of which department/s personnel costs will be offset by these reallocated ARPA funds);

- **Finalization of the General Fund's 2026 indirect cost allocation plan** pending completion of the update/true-up of this plan which will be incorporated into the Draft Budget;
- **Inclusion of Any New Tax Revenues**, including the proposed General Fund Levy Lid Lift to appear on the November ballot, or the new .1% Criminal Justice Sales Tax approved under HB2015 in the last State legislative session.
- **Other potential revenue enhancement and cost savings initiatives** to be discussed and pursued.
- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget.
 - **TOTAL ESTIMATED NET COST OF PLACEHOLDER ITEMS NOT YET INCLUDED IN THE BUDGET--\$0.661 MILLION**
 - - **This reflects a \$1 million reduction in Placeholder Costs from the Preliminary Budget following ratification of the Sheriff Patrol Deputy labor agreement and incorporation of the cost impact into the Sheriff operating budget, reduction of our cost estimates for remaining open labor contracts, inclusion of the \$200k ARPA reallocation of funding to support personnel costs of the General Fund, and other costs)**

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

Several changes have been made to the 2026 Preliminary Budget in arriving at the 2026 Administrator Recommended Budget. While outlined in more detail in the attached schedule called "Bridge Analysis Between Preliminary Budget & Administrator Recommended Budget", below are high level comparisons of revenue and expenditure changes that have occurred between the Preliminary Budget and the Administrator Recommended Budget:

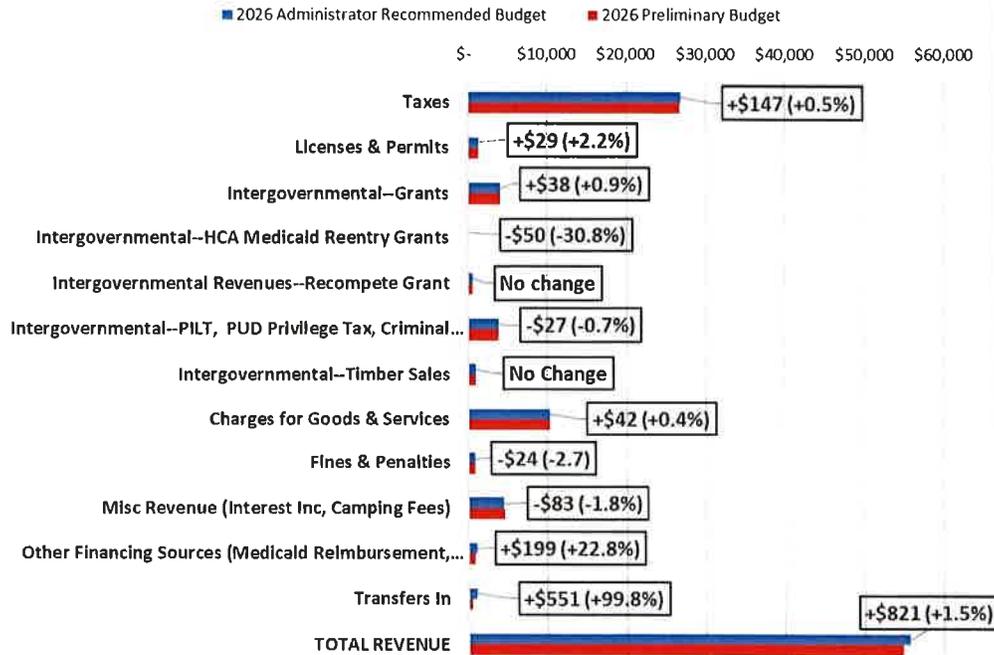
* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

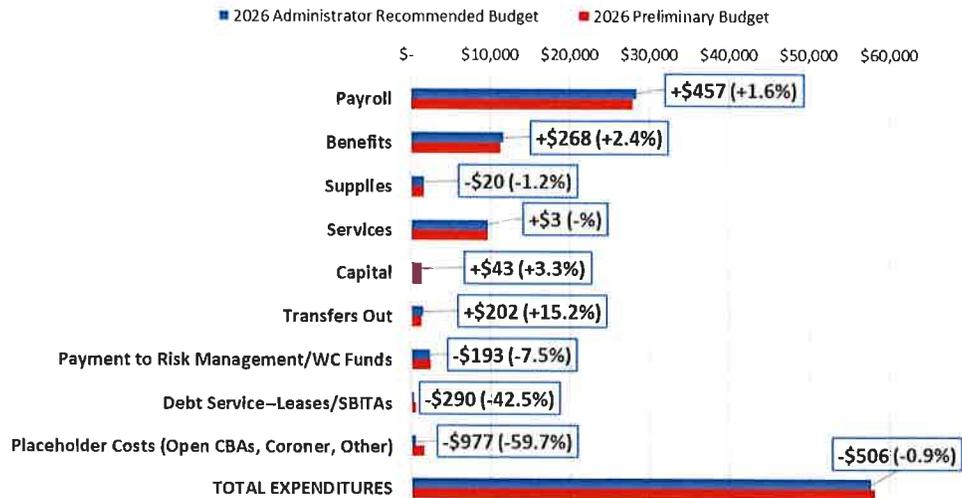
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

**REVENUE CHANGES--2026 ADMIN RECOMMENDED BUDGET VS
PRELIMINARY BUDGET
(\$ IN THOUSANDS)**



**EXPENDITURE CHANGES--2026 ADMIN RECOMMENDED BUDGET VS
PRELIMINARY BUDGET
(INCLUDING PLACEHOLDER COSTS/PAYROLL UNDERSPEND)
(\$ IN THOUSANDS)**



Revenue Change Highlights:

- **Taxes**--\$147k increase primarily in sales-driven taxes due to higher than expected 2025 growth in the summer months following the preparation of initial tax revenue estimates;

* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

- **Other Financing Sources**—\$200k increase in sales proceeds estimated from the anticipated sale of surplus property held by the County; and
- **Transfers In**—reflects a \$551k increase due to the return of \$531k of previously provided construction-related working capital from the Dungeness Off Channel Reservoir capital project fund as the main construction phase of this project is likely delayed until 2027/2028 at the earliest pending securing sufficient grant funding to complete the project. Also reflects the return of \$18k of funding from the Carlsborg Water Mitigation fund.

Expenditure Change Highlights:

- **Payroll**--\$457k increase primarily related to incorporation of the Sheriff Patrol Deputy labor contract into the budget (which was previously included as a placeholder in the Preliminary budget), as partially offset by reductions made related to open positions being filled at a lower step than originally budget in several departments, personnel realignments made in the Clinical Services and other areas, and other grant-related reductions;
- **Benefits**—\$268k increase is primarily due to addition of \$189k of additional LEOFF 1 retiree disability payments to reflect higher costs incurred in 2025 that are expected to continue, as well as incorporation of the Sheriff Patrol Deputy labor contract into the budget (was previously included as a placeholder in the Preliminary budget);
- **Supplies**—dropped \$20k due to \$46k in net cost reductions identified during the September department budget discussions, as offset by department requests added to the budget totaling \$26k (see "Department Requests Over Base Budget" for more detail);
- **Services**—while only changing +\$3k between budget versions, over \$705k in net service costs reductions were identified during the September department budget discussions, with \$388k coming from Community Development due to lower grant-funded professional services, \$153k in lower ER&R vehicle rental costs across multiple departments, and \$164k in other net cost reductions identified in other areas. These reductions were offset by \$509k of department requests to support essential services related to \$294k in additional one-time indigent defense and prosecution costs expected related to two upcoming murder trial/retrials and ongoing higher conflict attorney costs, \$50k in higher legal costs related to labor negotiations, higher coroner autopsy costs (\$70k), and other requests in IT, Hearing Examiner, Superior Court and Parks, Fair and Facilities (see "Department Requests Over Base Budget" for more detail). Also reflected is the shifting of \$193k of IT Microsoft Office licensing costs from Debt Service costs to Services following this software license transitioning to a one-year license in 2025;
- **Transfers Out**—\$202k increase due to the need to provide Health and Human Services Operations fund an additional \$100k of working capital due to the working capital impact of moving opioid settlement funds out the HHS Ops budget and into a separate Opioid settlement fund; \$35k to the Prosecuting Attorney Victim Witness Compensation fund to support additional costs expected during the Bauer retrial, \$26k to the IT Capital Projects fund to support additional capital requests added to the budget; and \$70k to the Parks and

* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Facilities Capital Projects fund for additional capital requests added to the budget. These increases were offset by lowered transfers of \$28.5k to the Carlsborg Sewer fund;

- **Payment to the Risk Management/Workers Comp Funds**--\$193k reduction reflects a proposed one-time lowering of the Risk Management pool allocation to both the General Fund and Public Works to better align Risk Management reserves with its operating needs;
- **Debt Service**—Leases/Subscription Based IT Agreements (SBITA)—lower by \$290k due to Microsoft Office 365 license moving to Services as discussed previously; and
- **Placeholder Costs**—consisting of estimated costs related to open labor contracts still under negotiations, the addition of a County Coroner position, and certain IT costs that were identified as mistakenly reduced, as reduced by the application of \$200k of de-obligated ARPA funds towards General Fund personnel costs in 2026, these placeholder costs dropped from \$1.638 million in the Preliminary Budget to \$0.661 million, a decrease of \$0.977 million. This decrease was due to the incorporation into the Sheriff's budget of the cost impact of our recently ratified Patrol Deputy collective bargaining agreement, along with a reduction made in the estimated cost of our remaining open labor contracts from previous estimates.

The net result of these changes resulted in the addition of \$0.821 million of revenue and expenditure reductions of \$0.506 million, or a net improvement of \$1.327 million in the General Fund's bottom-line from the Preliminary Budget presented in September—going from an operating deficit (including estimated payroll underspend) of (\$3.258) million to a deficit of (\$1.931) million.

GENERAL FUND BUDGET OVERVIEW

At a high level, the 2026 Administrator Recommended Budget projects a beginning General Fund Balance of approximately \$15.989 million, Revenues totaling \$55.7 million, Expenditures (including Transfers Out to other funds) of \$58.2 million, resulting in a budgeted use Reserves of (\$2.507) million, and leaving an ending General Fund Balance of \$13.482 million, representing an ending reserve level of 23% of total operating expenditures. However, as discussed later, when one adjusts for underspend to our personnel and benefits budgets of \$1.236 million, it is expected the Administrator Recommended budget deficit for 2026 is closer to (\$1.271) million, as compared to 2025's projected surplus of \$4.0 million, which would leave an ending fund balance of \$14.7 million for 2026, or a reserve of 25.8% of expenditures. After adjusting for certain placeholder amounts related to open labor contracts, addition of a new coroner position, and other adjustments that we currently estimate in total will equal approximately \$0.661 million, we estimate an Administrator Recommended budget deficit for 2026 of (\$1.931) million and an ending fund balance of \$12.821 million (assuming no payroll underspend) and \$14.057 million (when factoring in estimated payroll underspend), representing reserve levels of 22% and 24%, respectively. This represents an overall improvement in ending reserves of \$1.438 million from our Preliminary Budget (after factoring in payroll underspend and placeholder costs), driven by the \$1.327 million improvement in the General Fund's bottom-line for 2026 noted above along with \$112k in higher 2025 estimated ending reserves than originally projected.

Below are the revenue and expenditure highlights behind these results:

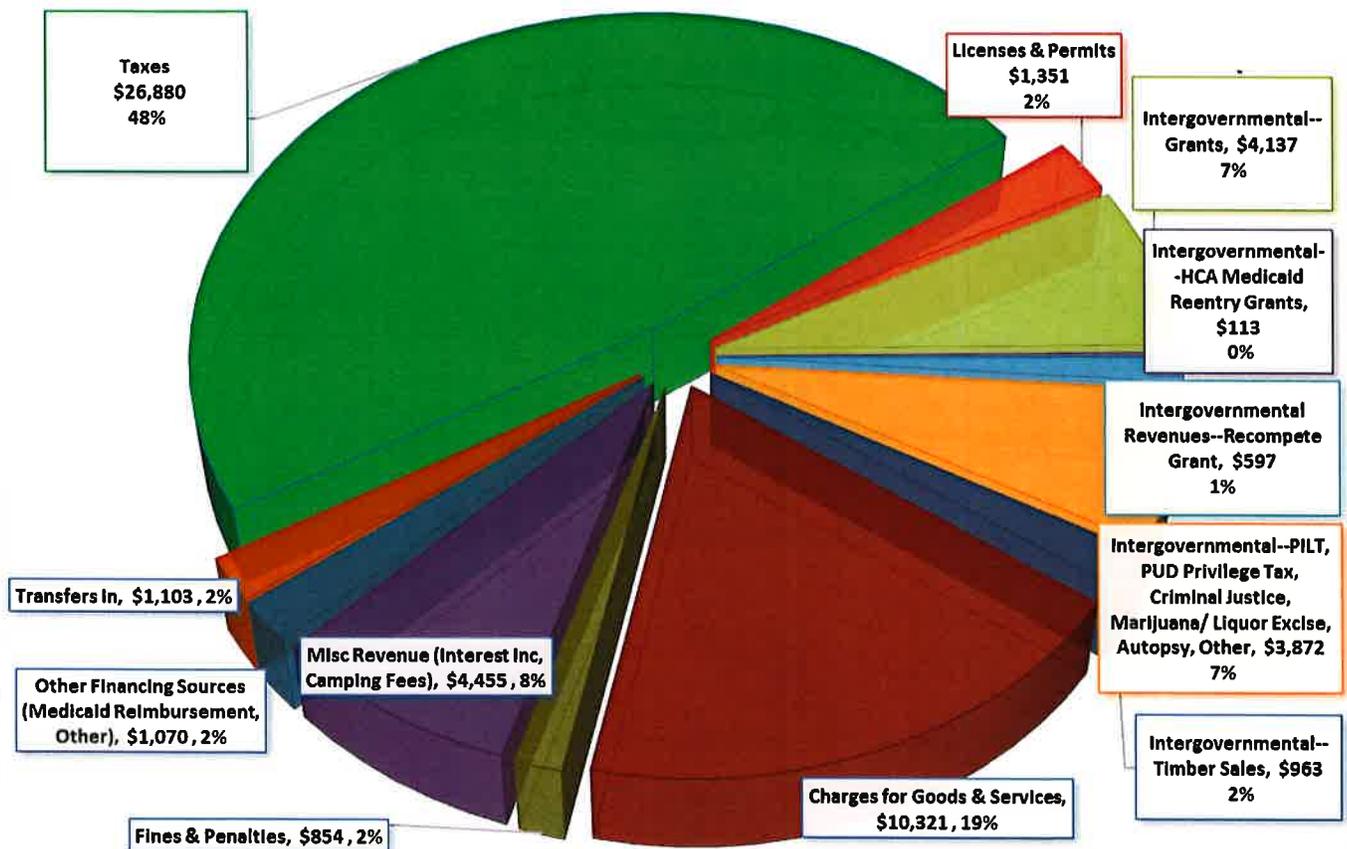
* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

REVENUE BUDGET HIGHLIGHTS

General Fund Revenues from Operations (which exclude Transfers In) are projected to total \$54.6 million, representing a -\$3,580k or -6.15% decrease over 2025 projected revenue expected, and a -\$2,454k or -3.9% decrease over the 2025 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 \$1,103k, representing an increase of +\$270k from 2025 projected revenue. Total Revenue, including Transfers In, overall is budgeted to total \$55,715k, a decrease of -\$3,310k or -5.6%. As will be discussed in more detail below, these decreases are largely due to -\$5.770 million decrease in Intergovernmental Grant Revenues, including decreases of \$3.89 million from the HCA Medicaid Reentry grant and -\$630k from the Recompete grant from 2025 to 2026, as offset by revenue growth in Taxes, Intergovernmental Taxes, Charges for Goods & Services, and Medicaid Reimbursement revenues.

The General Fund’s primary sources of revenue in 2026 consist of the following:

2026 GENERAL FUND --WHAT ARE OUR FUNDING SOURCES?
(\$ IN THOUSANDS)

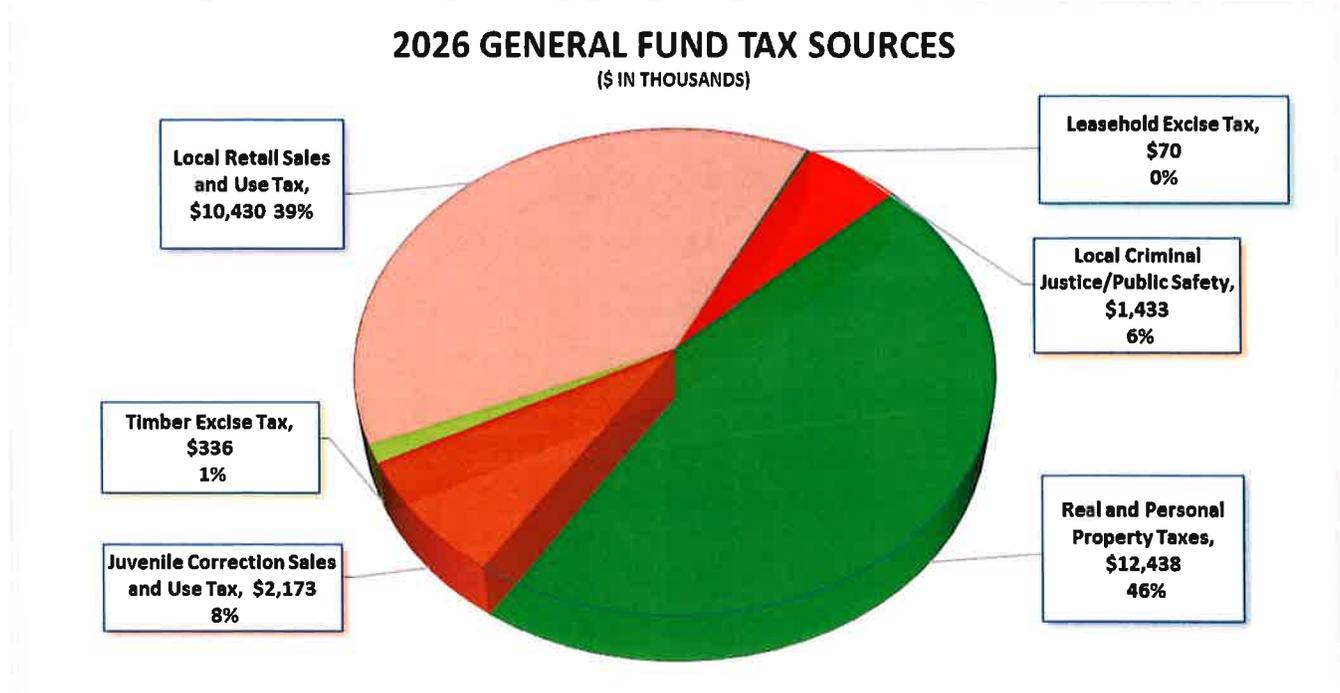


* Work Session Meeting - Submit 1 single sided/not stapled copy

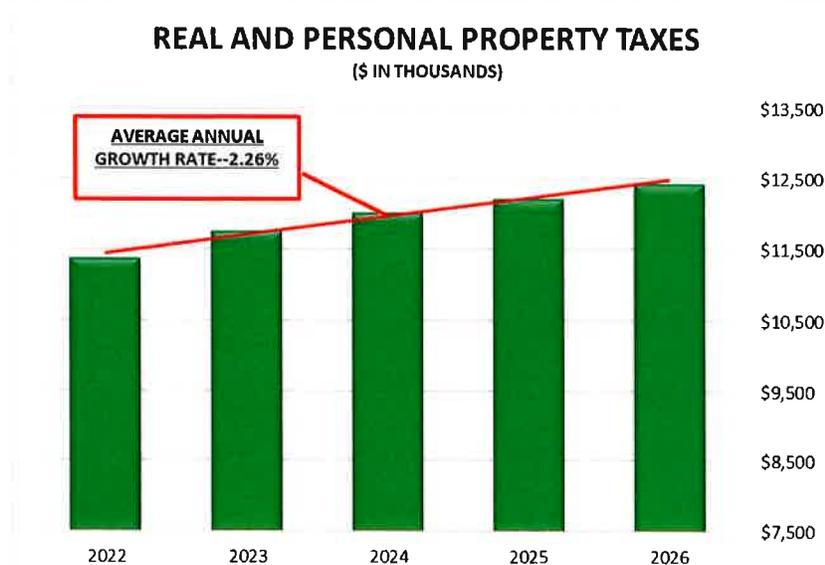
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

TAX REVENUES

Representing 48% of General Fund total revenues, Tax revenues are projected to total \$26.880 million, an increase of \$558k or 2.1% in 2026. Below is a breakdown of the County's various major tax revenues by source:



Property taxes, representing 46% of total tax revenue and 22.3% of total General Fund revenue, are projected to total \$12.438 million, an increase of \$222k or 1.81% 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. Property taxes have trended as follows over the past 4 years:

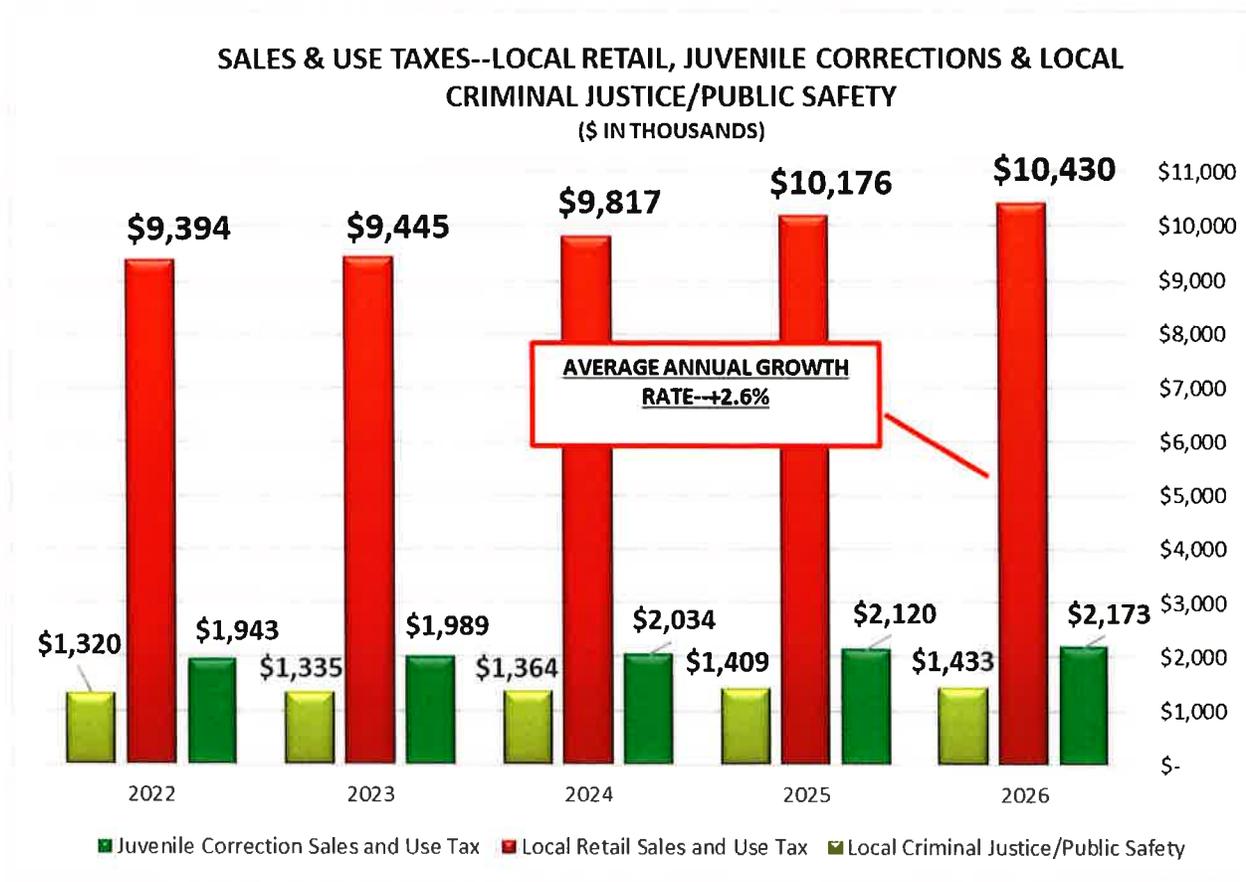


* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Sales-driven taxes including local retail sales & use tax and juvenile correction sales and use taxes—representing 47% of total tax revenue and 23% of total General Fund revenue-- are projected to total \$12.603 million, a combined increase of \$307k or 2.5%, which again reflects our assumption that sales taxes will grow at a combined growth rate of 2.5% based on our updated 2025 forecast. This is consistent with 2.6% minimal overall growth in taxable sales forecasted for 2025 by the WA State Economic Forecast Council. While WA State Economic Forecast estimates a 6.8% increase in 2026 taxable retail sales activity, this is largely due to the elimination of sales tax exemptions status of several services that are now subject to sales tax, primarily relating to provision of IT services, sales of custom software, certain advertising services, temporary staffing, security services, and others. Given our County’s business make-up, we believe the elimination of these sales tax exemptions will largely benefit tech-heavy regions of the State such as the I-5 corridor and will not have a large effect on our County’s sales taxes.

Local Retail, Juvenile Corrections & Local Criminal Justice/Public Safety Sales taxes have trended as follows over the past 4 years:



Local criminal justice and public safety taxes are projected to total \$1.433 million, an increase of 1.7% in 2026 based on MRSC published guidance. Timber excise & leasehold excise taxes are projected to total \$336k, reflecting a minimal 1% increase over 2025 projections based on a two-year trailing trend.

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
 ** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

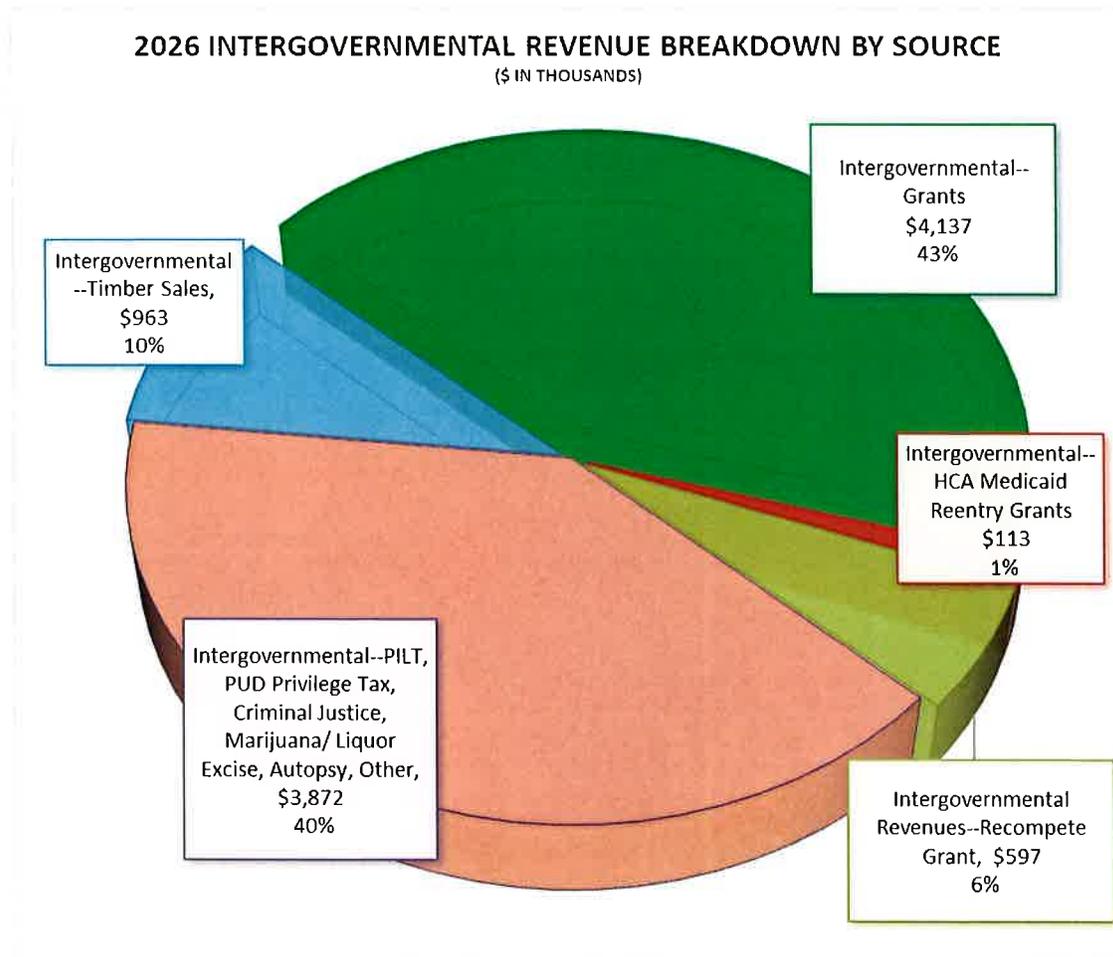
LICENSES & PERMITS

Licenses & Permits are currently projected to total \$1,351k, an increase of +\$54k or +4.1% from 2025 projections mainly due to a planned 2.7% CPI rate increase in Community Development's building permit and land use permit fees, and higher other fees in other areas over 2025 projected trend, as offset by a -3% decrease in franchise revenues mainly related to the Astound cable franchise agreement which generated higher revenue in 2025 due to a change in frequency of billing cycle as well as 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 --are budgeted to total \$9,682k, representing 17% of total General Fund revenue budget and reflecting a decrease of -\$5,498k or -36% in 2026.

Below is a side by side comparison of the sources of intergovernmental revenues for 2026 and 2025.

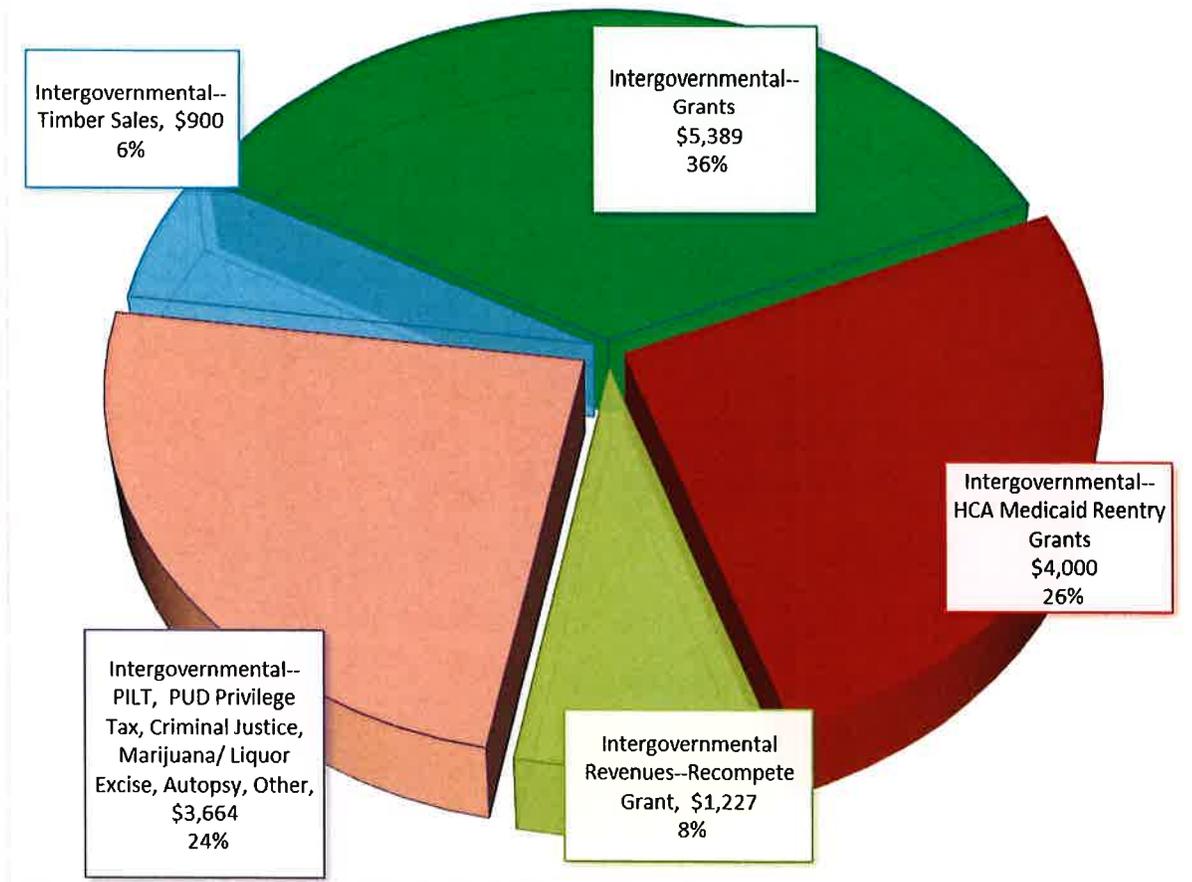


* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

2025 INTERGOVERNMENTAL REVENUE BREAKDOWN BY SOURCE

(\$ IN THOUSANDS)



Intergovernmental grant revenues, excluding HCA Medicaid Reentry, are budgeted to total \$4.137 million, a decrease of -\$1,252k or -23% from 2025 driven principally by grant losses in:

- Sheriff Emergency Services (down -\$238k due to higher Community Wildfire Defense and Homeland Security Preparedness grants in '25);
- Community Development—Environmental Quality (down \$382k due to lower Growth Management Act, Climate Planning, and Lower Elwha Migration Zone grants);
- Juvenile Services (down -\$261k, primarily due to a \$123k cut in State funding of Becca, \$36k lower Special Sex Offender Disposition due to lower case counts, and lower HHS HCA funding);
- Superior Court (down \$55k in AOC Rural Security grant);
- District Court (down \$184k in AOC Therapeutic Court and Veterans Court grant funding); and
- Decreases in Health & Human Services Environmental Health (-\$27k), Indigent Defense (-\$13k), and in other areas.
- These decreases are partly offset by grant gains in Sheriff Ops (up \$553k mainly due to WASPC Mental Health Field Response grant increase), and gains in other areas.

* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

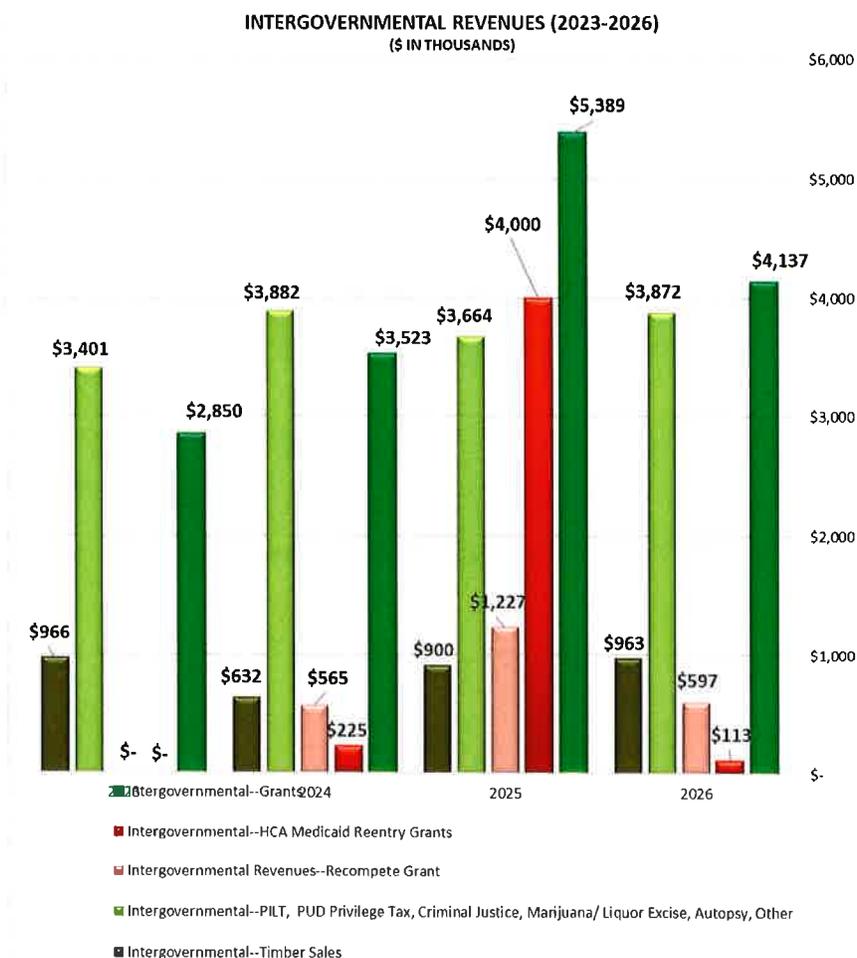
Intergovernmental Grants Revenues from the Recompete Program are budgeted to total \$597k in 2026, a decrease of \$630k as this project transitioned from strategy development and standup to ongoing support and monitoring.

Intergovernmental Grant Revenues from HCA Medicaid Reentry are budgeted to total \$113k in 2026, a \$3.9 million decrease from 2025 due to the prefunding of this grant received in 2025.

Intergovernmental tax revenues including PILT, Criminal Justice, PUD Privilege taxes, Liquor and Marijuana excise taxes, and other taxes are projected to total \$3.9 million, an increase of \$208k or 5.7%, which is primarily due to a \$76k or 8% increase in Criminal Justice, and 2.5-3% increases in PILT, PUD Privilege Tax, and other increases.

Intergovernmental timber sales revenue (consisting of DNR timber sales) is projected to total \$963k in 2026, an increase of \$63k or 7% based on an initial 2026 estimate derived from June DNR 2025 timber harvest report. This estimate will be further adjusted pending receipt of an updated 2026 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:



* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

CHARGES FOR GOODS & SERVICES

Charges for Goods & Services are budgeted to total \$10.32 million in 2026, an increase of \$764k or 8% in 2026 driven by the following:

- Treasurer (+\$166k principally due to assumed increase in Criminal Justice Interlocals with Sequim & Port Angeles),
- Sheriff Operations (+\$70k primarily due to higher OPSCAN Radio Tech Services charges, as offset by \$20k in lower Stonegarden law enforcement services funding)
- Sheriff Jail (+\$639k related to assumed increase in Criminal Justice Interlocals with Sequim & Port Angeles, and assumed resumption of CREW work along county roads with presumption that staffing levels will stabilize, as offset by reduced revenue under other governmental agency contracts based on trend),
- Sheriff—Clinical Services (+\$239k increase due to higher Mental Health Services Hargrove support (+\$158k) and assumed increase in Criminal Justice Interlocals with Sequim & Port Angeles allocated to Jail Clinical Services;
- Indigent Defense-- (+\$120k due to assumed increase in Criminal Justice Interlocals with Sequim & Port Angeles allocated to indigent defense);
- District Court 1—(+\$85k due to \$108k increase in Hargrove funding received for Mental Health Court, as offset by a \$24k decrease in Probation revenues);
- Community Development--+\$13k in building plan check revenues due to a planned 2.7% CPI increase; and
- Increases in other areas.

These increases are partly offset by declines in:

- Auditors (down -\$150k primarily due to lower Election Services revenue than 2025)
- Community Development—Environmental Quality (down \$184k due to Hazard Mitigation Plan interlocal agreements entered into with Forks, Port Angeles & Sequim in 2025)
- IT (down \$51k due to discontinuance of IT additional support services provided to Roads); and
- Superior Court (down \$45k due to discontinuance of CHSW Parents for Parents program and lower trending drug courts fees, as offset by \$30k in additional Hargrove funds provided for a Superior Court Judge and Court Commissioner's time spent in support of the therapeutic courts).

FINES & PENALTIES

Fines & Penalties are budgeted to total \$854k, a decrease -\$73k or -8% over 2025, primarily due to lower fines & delinquent tax penalty revenue budgeted by District Court 1 and Treasurer in comparison to 2025 trend.

MISCELLANEOUS REVENUE

Miscellaneous Revenue is projected to total \$4.455 million in 2026, and consists mainly of interest income (totaling \$2.76 million in 2026), parks camping fees (totaling \$944k in 2026), Environmental Health operating assessments (\$290k), and fairground rental, concession fees and event sponsorships

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

(\$202k). Miscellaneous revenue is budgeted to decline -\$256k or -5.4% in 2026, mainly due to lower investment interest income in 2026 as the Federal Reserve has recently resumed reducing interest rates in September that is expected to continue later this year and next year. Campground and fair revenues are expected to remain relatively flat to slightly down (-\$20k) to our 2025 forecast following fee increases implemented in 2025. Fair revenues from vehicle storage rentals and other building/grounds rental fees are projected to drop \$21k to reflect reduced capacity as certain fairground buildings are undergoing maintenance. Environmental Health operating assessments are also projected to be flat in 2026.

OTHER FINANCING SOURCES

Other Financing Source revenue is budgeted to total \$1,070k in 2026, an increase of \$872k. Consisting primarily of Medicaid reimbursement revenue billable by the County's Clinical Shared Services group supporting the healthcare needs of adult and juvenile offenders in the County's carceral facilities under the HCA Medicaid Reentry grant program, this new revenue stream is expected to commence late in the 4th quarter of 2025, and in 2026 is estimated to total \$870k assuming a full year of Medicaid billing is achieved. The 2026 budget also reflects the sale of \$200k of surplus county property held.

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 \$1.103 million in 2026, consisting of:

- \$500k from the transfer of temporary working capital provided by the General Fund to the Joyce Broadband Infrastructure Capital project which is expected to conclude in the 4th quarter of 2026;
- \$531k from the transfer of previously provided construction-related working capital from the Dungeness Off Channel Reservoir capital project fund as the main construction phase of this project is likely delayed until 2027/2028 at the earliest pending securing sufficient grant funding to complete the project;
- \$18k of funding from the Carlsborg Water Mitigation fund as the fund has no foreseeable costs;
- \$10k from the transfer of all interest income earned to-date on American Rescue Plan Act funds from the ARPA fund to the General Fund (vs. \$96k in 2025);
- \$40k recurring transfer to District Court 1 from the Trial Courts Improvement fund; and
- \$2k transfer from Public Works for the employee wellness benefit program which is being transitioned to the General Fund's HR department for 2025.

This represents a \$270k increase from 2025, which is primarily due to the remaining \$311k of the remaining working capital funding provided by the General Fund for the Lower Dungeness Floodplain project in 2025 and \$378k return of working capital from the Clallam Bay Sekiu Sewer fund following completion of the first phase of the stormwater sewer upgrade project in 2025.

EXPENDITURE BUDGET HIGHLIGHTS

Turning to expenditures, our General Fund Operating Expenditure budget, excluding Transfers Out, currently stands at \$56,694k, an increase of \$2,722k or 5% from our 2025 projected expenditures,

* Work Session Meeting - Submit 1 single sided/not stapled copy

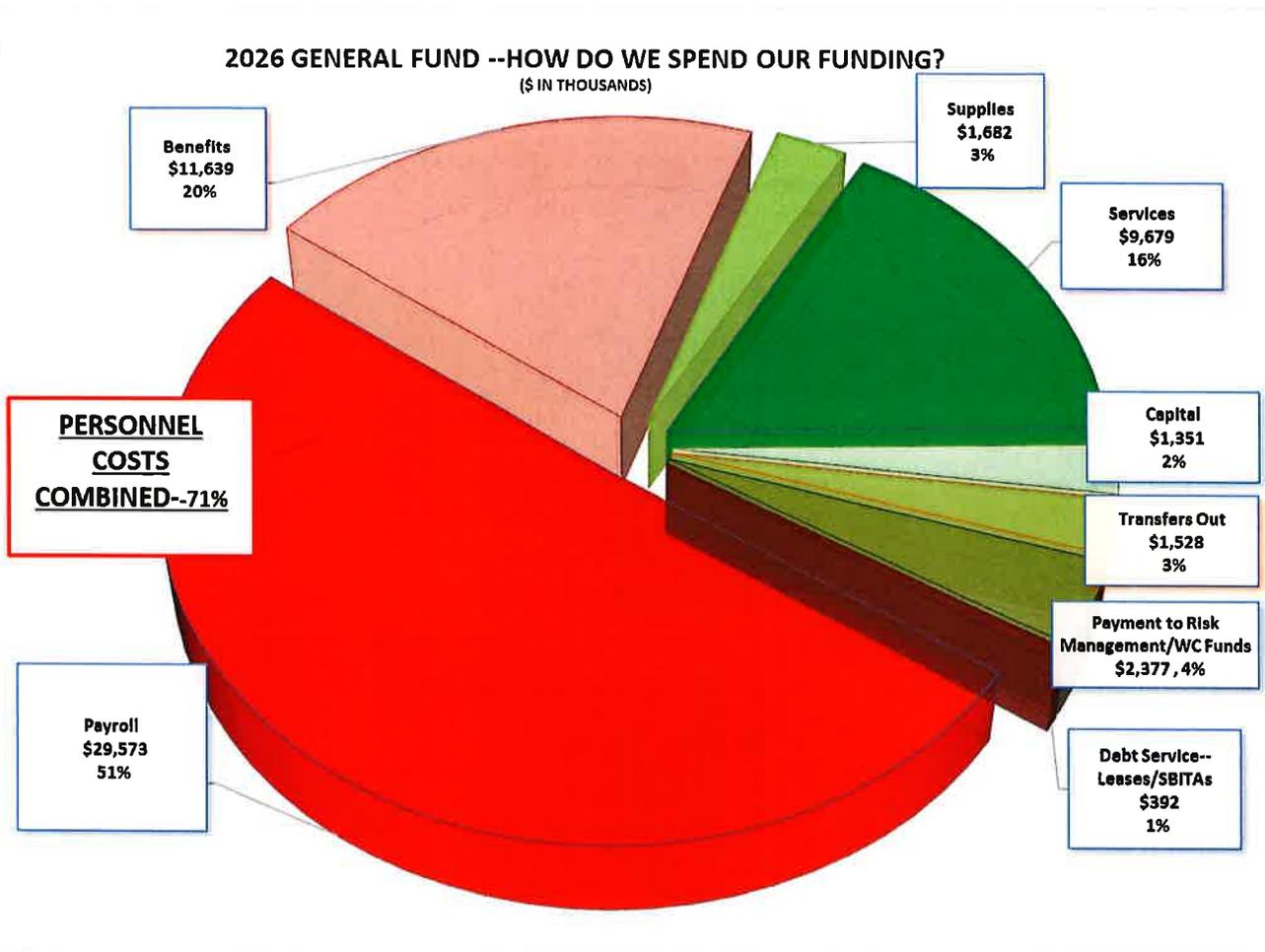
Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

and an increase of \$603k or +1% over the adopted 2025 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 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. Health & Human Services Operations, Veteran’s Relief, Local Crime Victim Witness fund, Solid Waste Fund, Flood Control, Carlsborg Sewer, etc)—are budgeted to total \$1,528k in 2026, an increase of +\$501k from 2025 projected. After including Transfers Out, Total Expenditures are budgeted to total \$58,222k, an increase of \$3,223k or 5.9% over 2025 projected costs.

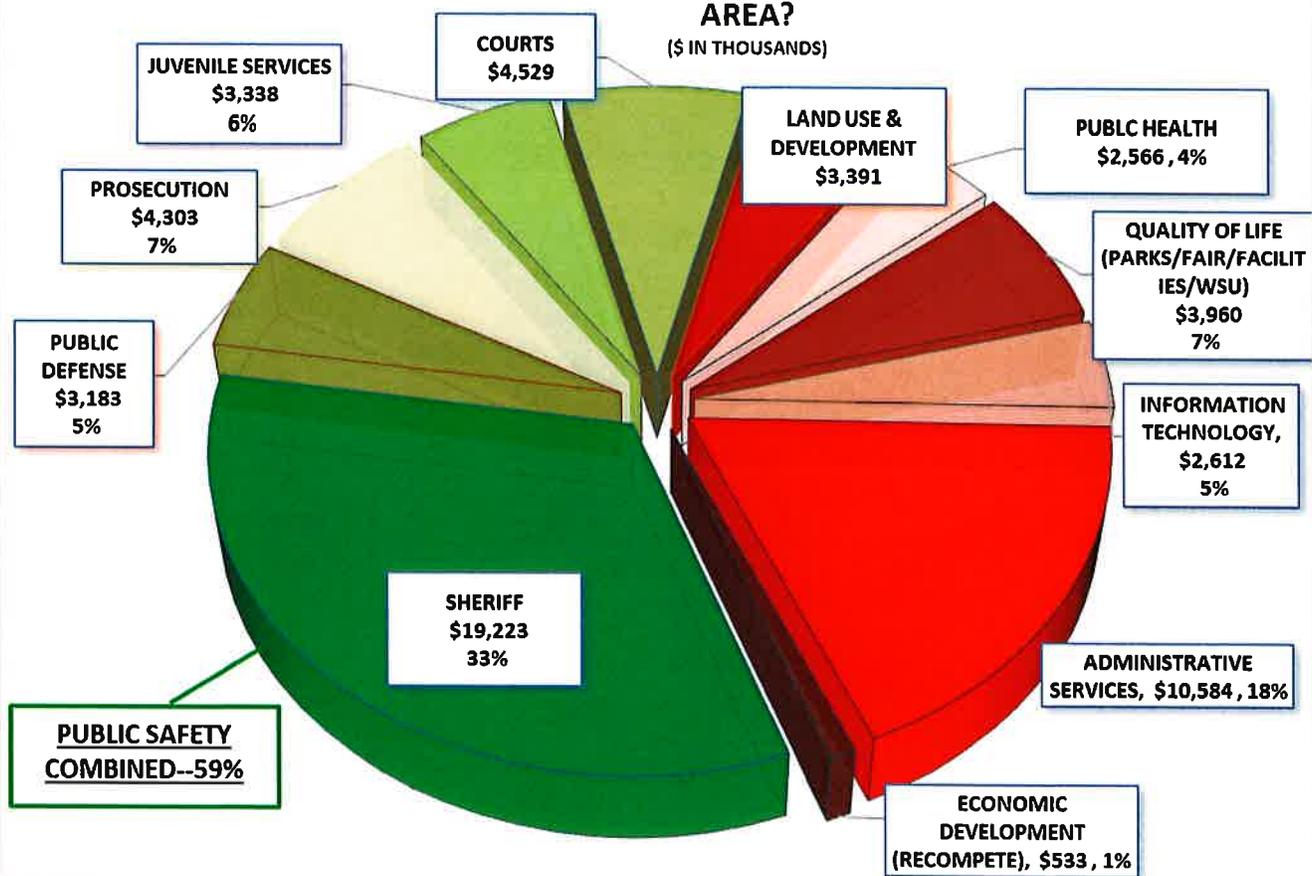
Below is a breakdown of how the General Fund spends its funds by type of expenditure and by area:



* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

2026 GENERAL FUND --HOW DO WE SPEND OUR FUNDING BY MAJOR AREA?



SALARIES, WAGES & BENEFITS

The largest driver of the budgeted expenditure increase over 2025 projected expenditures is in Payroll and Benefits costs. Representing approximately 71% of our total expenditure budget, Payroll and Benefits are budgeted to total \$41,213k, with Payroll up \$2,970k or 11.2% and Benefits up \$897k or 8.4%, respectively, to the 2025 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 was not the case in 2025 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 2025. This, together with a delay in ratifying one of our labor agreements included in the 2025 budget, is expected to result in a projected budget underspend in payroll and benefits in 2025 of approximately \$2.5 million or 6%. Based on analysis of its 3-year and 5-year historical average payroll/benefits budget underspend, the County has underspent its Payroll budget between 7.8% to 8.4%, equal to between \$2.7 million and \$3.2 million of budget underspend. While not reflected in the current 2026 Administrator Recommended budget due to policy, we anticipate a level of personnel budget underspend closer to that originally expected in 2025 to occur in 2026, or approximately \$1.236 million or 3%, based on an assumed lower position vacancy rate following conclusion of labor contract negotiations. **If you adjust our 2026 personnel cost budget for this anticipated underspend equal to approximately \$1.236 million based on the 2026**

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

payroll budget, our combined personnel costs in reality are expected to increase \$2.631 million or 7% in 2026 as compared to projected 2025 costs.

This 7% increase in overall payroll/benefits costs is largely being driven by collective bargaining-related COLAs of 1.5% in January 2026 and 1.5% in July 2026, full year impact of 2025 COLAs provided under labor contracts ratified in the 2nd half of 2025, pay step increases, pay adjustments, and a \$50-per-month increase in County-paid health premium increases for each collective bargaining unit. These increases were partially offset by savings from DRS pension contribution rate decreases that took effect in July 2025, resulting in pension rate decreases ranging from 25% to 38%, leading to a \$698k decrease in budgeted DRS contribution costs paid by the County when comparing the 2026 budget to the 2025 adopted budget. Position cost savings related to certain retirements that occurred in 2025 are also reflected. Partially offsetting these savings is the addition of \$189k in funding to support rising costs of the LEOFF 1 retiree medical costs.

It is important to note that the Administrator Recommended budget now reflects the effects of the recent ratification of one of our interest arbitration bargaining units that took effect in September 2025, but it does not yet factor in (1) Compensation changes related to our remaining interest arbitration and limited commission bargaining units which are in various stages of negotiation; (2) the outcome of the potential creation of a County Coroner position that is currently being considered in the County's Charter Review process; and (3) \$200,000 of previously committed ARPA funding that are expected to be re-obligated and used to fund personnel costs of the General Fund for the 2026 budget pending identification of the department/s to apply these funds. While high level placeholders have been updated from previous estimates for the remaining interest arbitration bargaining units and incorporated for purposes of estimating ending 2026 General Fund reserves, the impact of these once known will be fully incorporated in a later version of our budget. **After further adjusting for these certain placeholder costs related to open labor agreements and other personnel costs, overall salaries and benefit costs for 2026 are expected to total \$40.555 million, representing an increase of \$3.2 million or 8.6% over 2025.**

Changes in Budgeted FTEs

As outlined in the attached "Budgeted Staff Schedule History", the 2026 Administrator Recommended Budget assumes a full staffing level for the General Fund of 332.99 FTEs, which reflects -.43 fewer FTEs than the 2026 Preliminary Budget and -0.1 fewer FTEs in 2026 as compared to the 2025 budget based on the following changes:

- Assessor (-.5 FTE)
- NonDepartmental (Finance)—(-2.0 FTE due to transition of payroll Finance back to HR)
- Community Development – Administration (+1.0 FTE)
- Human Resources (+1.93 FTE due to shift of payroll staff from Finance)
- Sheriff Clinical Services (+5.4 FTEs due to creation of this shared services group to support healthcare needs within our adult and juvenile carceral facilities, which reflects 1.0 FTE added for the new Clinical Services Director position, 4.83 FTEs transitioned from Juvenile Services to Clinical Services in 2025, the addition of 1.0 FTE Record Specialist position, and realignment of nursing staff resulting in a -1.43 FTE reduction);
- Juvenile Services (-5.43 FTEs due to transition of positions to the new Sheriff Clinical Services department and elimination of a Fiscal Specialist position);
- Clerk (-.5 FTE)

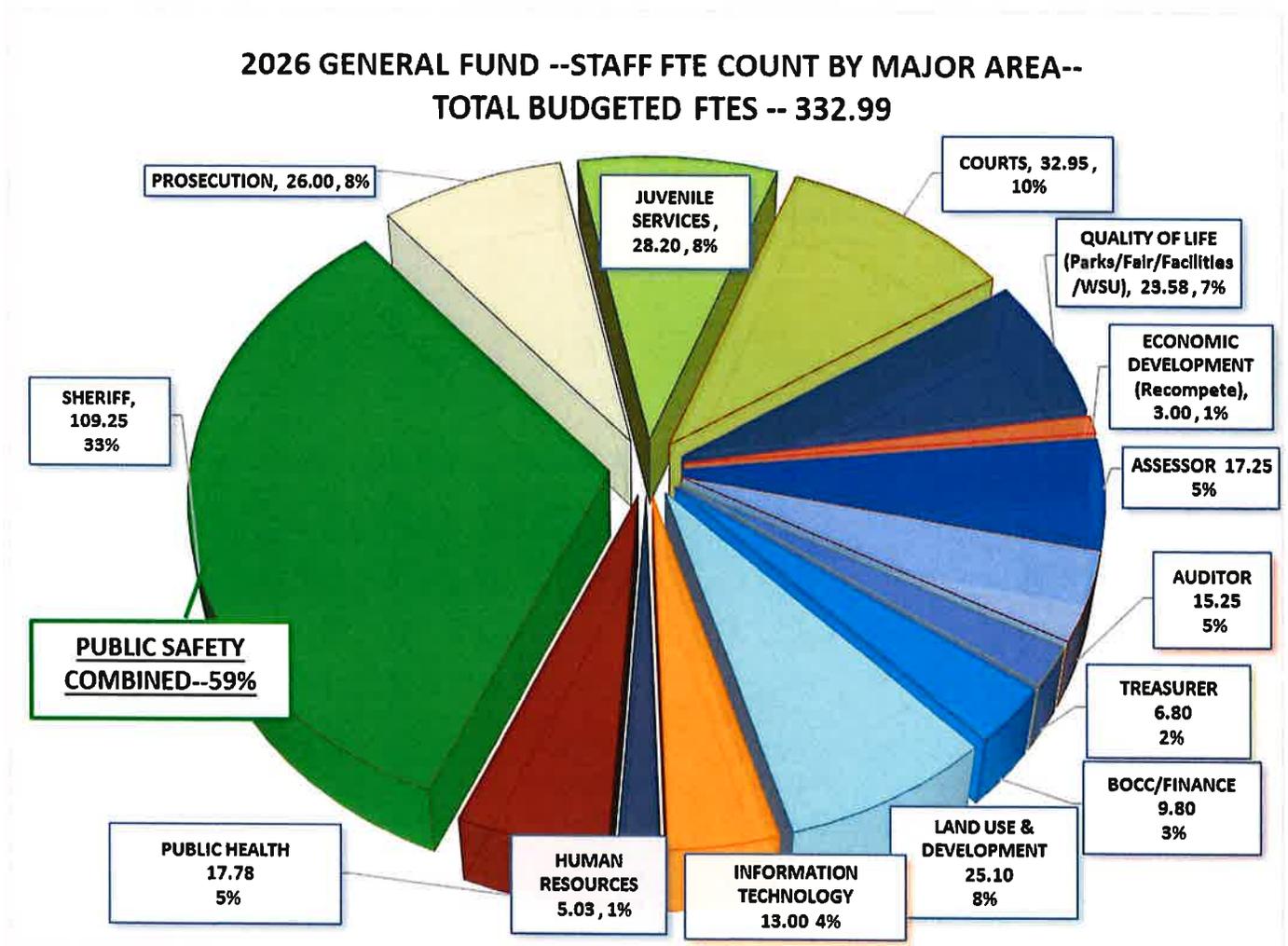
* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

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



SUPPLIES

Supplies are budgeted to total \$1.682 million, an increase of \$90k or 5.7% from 2025 as projected. This increase is mainly reflective of 2025 budget trend savings reflected in the 2025 projection increases in Clinical Services and other areas, the addition of \$24k of department requests, as offset by \$46k of supplies cost reductions identified during review of departments' Preliminary Budgets.

SERVICES

Services in 2026 are projected to total \$9.679 million, a decrease of -\$1,257k or -11.5% over 2025 projected services costs, and an increase of +\$85k compared to the 2025 original budget. This decrease is mainly due to the following:

- NonDepartmental—(decrease of -\$671k due to elimination of criminal justice study costs (\$90k), Center for Inclusive Entrepreneurship CDBG grant costs (\$250k), Clallam Conservation District and North Olympic Library support (\$61k), and Energy Audit

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
 ** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

professional services (\$238k) incurred in '25), as offset by \$25k in higher postage and building security costs.

- Community Development—Environmental Quality (-\$648k in lower grant-funded professional services costs tied to the Growth Management Act, Climate Planning, Lower Elwha Migration and other grants)
- Recompete--(-\$529k in lower grant-funded professional services and Clallam EDC costs),
- Sheriff Jail—(-\$64k related to building security and lower vehicle rental costs)
- Sheriff Emergency Services—(-\$116k due to lower grant-funded Wildfire Mitigation Plan professional services)
- Sheriff Clinical Services—(-\$60k in lower computer system maintenance and other costs);
- GIS (-\$54k),
- Health & Human Services—Environmental Health (-\$93k due to lower grant-related professional services and vehicle rental costs);
- Coroner—(-\$20k in lower in transport and storage costs due to delay in full utilization of coroner vehicle in '25, as offset by higher coroner autopsy services costs); and
- Superior Court – (-\$81k in lower costs related to discontinuance of Parents for Parents program and one-time IT technology costs in '25); and
- Decrease in other areas.
- These decreases are partially offset by contractual and grant-related increases in various areas, including:
 - Information Technology (+\$209k, of which \$193k relates to the reclassification of Microsoft Office 365 license costs from debt service costs to Services due to the software license transitioning to a one-year license, with the remainder due to a department request for \$30k of consulting professional services)
 - Sheriff Operations (+\$574k, of which \$575k relates to higher WASPC Mental Field Response grant-funded services costs, \$43k in higher Enhanced 911 central dispatch services fees from Pencom), as offset by -\$104k decrease in ER&R vehicle rental costs from the 2025 budget; and
 - Indigent Defense (+\$338k over 2025 projected costs, due to additional one-time expert services and adult felony costs of \$200k anticipated for the two murder trial/retrials in 2026, \$84k increase in conflict attorney and juvenile truancy costs, and anticipated increases under the Clallam Public Defender contract).

PAYMENT TO RISK MANAGEMENT/WORKERS COMP FUNDS

The General Fund's share of Risk Management/Workers Compensation funds operating costs is budgeted to total \$2,377k, representing an increase of \$104k or 4.6% increase over 2025. This increase is being driven mainly by an expected 20%+ rise in WAC risk pool costs in 2026 over 2025 due to rising liability and property insurance costs being seen state-wide, continuing a multi-year trend, as offset by a one-time realignment of Risk Management reserve levels resulting in a reduction of \$192.5k in costs allocated to the General Fund. We expect to have better visibility on what these WAC risk pool cost increases will be later this year, and will adjust our budget accordingly if needed.

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

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

to total \$392k, representing a decrease of \$191k or -33% over 2025. This decrease is mainly due to the re-classification of the IT Microsoft Office 365 license of \$275k from debt service to services costs as the software license transitioned from being a multi-year license to a single year license. This decrease was offset by the addition of Taser service contracts for the Sheriff's Office and Juvenile Services in 2025, and additional rent costs tied to additional storage space leased by the Sheriff's Office in 2025, and contractual increases.

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 \$1,528k in 2026, a +\$501k increase from projected 2025. This increase is mainly due to increases in Transfers to:

- Health & Human Services—Operations (+\$600k higher in 2026 due to this fund's reserves, consisting mainly of opioid settlement funds, needing to be transitioned to a new Opioid Settlement fund to be established in 2026 to insure such funds are appropriately used for eligible activities, leaving this fund with inadequate reserves to operate. This fund is heavily reliant on grant funding from various sources, many of which limit the amount of indirect costs allocated to the fund that are eligible for reimbursement under these grants. Because the amount of indirects charged to this fund by the General Fund often exceed the amount these grants will cover, this creates a situation where this fund under its current cost structure will require General Fund subsidy support to cover that portion of indirect costs not covered by the grants levels as well as working capital support under its grant reimbursement funding structure (based on recent discussions, other measures will also be taken regarding timing of receipt of budgeted funding from County Hargrove and Opioid Settlement funds will be enacted in 2026 to provide additional working capital flexibility);
- Broadband Infrastructure Capital Project-- +\$204k in temporary working capital to be provided by the General Fund to the Joyce Broadband project which is expected to conclude in the 4th quarter of 2026, at which time this funding along with working capital to be provided in 2025 will be returned to the General Fund after all grant reimbursements are received; and
- Solid Waste-- +\$45k in subsidy funding needed to support ongoing monitoring costs of the former Lake Creek landfill site and other unfunded costs;
- Parks & Facilities Capital Projects Fund (+\$13k higher reflecting previously approved and mandatory recurring capital projects, the addition of \$75k of additional capital requests (see capital plan discussion that follows for more detail), and the park master plan project being funded in 2025);
- IT Capital Projects Fund (+\$33k higher due to addition of \$26k of capital outlays for completion of the BOCC network room and UPS/Battery Replacement costs); and
- Local Crime Victim Compensation fund (+\$35k higher due to additional victim and witness support requested for the upcoming murder trial/retrials in 2026).
- Offset by Transfer decreases in:
 - Carlsorg Sewer fund (-\$46k lower)

Transfers Out from the General Fund included in the 2026 Administrator Recommended Budget include the following:

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

Septic Pumps; the capital outlays from this fund will require a Transfer from the General Fund of \$279,243.

- IT Capital Projects Fund--\$111,000 total, made up of a placeholder of \$35k for the migration from EDEN to an enterprise accounting system, \$20k for APC UPS and battery backup replacements, \$6k for a wiring bridge in the BOCC network closet, and \$50k in Unanticipated Projects; the capital outlays from this fund will require a Transfer from the General Fund of \$32,784.
- REET 1--\$3,299,001 total, made up of \$918,000 for the replacement of an Air-Water Heat Pump for Hot Water Generation (energy audit item, partially grant funded), \$586,000 for Replacing Light Fixtures at the Courthouse & Juvenile Services to LED (energy audit item, partially grant funded), \$1.0 million for Juvenile Services Control Room Board & Controls replacement, \$200k for Courthouse TRANE Control Improvements and Upgrades, \$265k for Dungeness Trails Parking Lots & Perimeter Barricades, \$60k for Dungeness Trails Road & Parking Lot Signage, \$125k for Clallam Bay Sheriff Detachment work, \$50k for capital repair of the Courthouse VAV HVAC air system boxes, \$35k for ongoing Jail Lock Repair & Replacement, \$20k for Floor Covering, as well as \$40k of other smaller ongoing requests (parks trails & roads maintenance and Historic Courthouse exterior preventative & restorative services).
- REET 2—While currently there are no 2026 capital projects budgeted within the REET 2 fund, there are transfers out budgeted of \$3.7 million, including \$700k to Roads to fund 2026 road projects/maintenance, and \$3.0 million to the Joint Public Safety Facility fund.
- EOC Relocation--\$17,191,669 consisting of the projected Site Work, Pre-Construction, and Construction costs, as well as Project Management. This work will be paid for through a combination of funding committed each by the County and the City of Port Angeles/PENCOM in 2023 & 2024, and grant revenue secured for the project.
- General Fund--\$1,351,087 consisting primarily of
 - \$5,000 of Health & Human Services – Administration for a Drinking Water Filtration Station at the 3rd St building on the 1st floor,
 - \$309,487 of Sheriff Operations items (\$208,487 of which is for vehicle ER&R replacement and vehicle equipment for the scheduled replacement of 4 patrol vehicles, \$63,000 for the purchase of 10 Mobile Data Terminals (MDT's), with remainder of \$38,000 for portable radio replacements;
 - \$991,600 of Sheriff Clinical Services Information Technology Capital purchases of goods & services in support of the Health Care Authority's Medicaid Reentry Initiative (covered by HCA grant); and
 - \$45,000 Superior Court items (\$21k for installing bullet proof panels in Courtrooms 2 & 3 Judicial Benches and Clerk Desks, and \$24k for JAVS PolyCom Video Conference Replacements).

As noted earlier, Transfers from General Fund will be needed for Parks Facilities and Fair Capital Fund (\$279,243) and for IT Capital Projects fund (\$32,784) to fully fund the 2026

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

capital projects in these funds, which are noted in the 2026 Administrator Recommended Budget;

- Other Funds Capital Outlays
 - Roads--\$10,857,166, including \$454,363 for ER&R vehicle/equipment costs, \$9,702,803 of planned Right of Way and other Roads-based projects, and \$700,000 of these projects covered through REET transfers;
 - OPSCAN--\$175,000 for radio network equipment replacement;
 - Dungeness Off Channel Reservoir--\$3,452,782 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--\$80,000 electrical conduit and dry water line to be installed at Dungeness Recreation Area to prepare for future utility site expansion;
 - Broadband Infrastructure--\$5,500,000 of final project costs;
 - Solid Waste--\$133,785 for updating the County Solid Waste Management Plan (partially funded by a Transfer from General Fund of \$45,000, and other grant funding);
 - Clallam Bay Sekiu Capital--\$11,355,145, which consists of \$10,030,145 for the next phase of the Stormwater Repair & Replacement project (grant and loan-funded), and \$1,325,000 for the ongoing Pump Station replacement project funded by an already-approved Opportunity Fund award;
 - Carlsborg Sewer Capital--\$85,711 of City of Sequim capital charges attributable to this system; and
 - ER&R--\$1,228,800, consisting of \$1,198,800 total of vehicle and equipment replacements, with \$972,000 for Roads, and \$226,800 for General Fund (with \$544,738 in capital contributions coming from the various funds), and \$30k for 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 2026-2030 capital plans according to the 2026 Administrator Recommended Budget outlines the following spending by key initiative/grouping:

- **Broadband Expansion**--\$5,500,000
- **Courthouse Space Assessment and Realignment**--\$50,000
- **Courthouse/Juvenile Services Building Security**--\$21,000
- **Deep Water Well/Water Mitigation**--\$3,452,782
- **EOC Relocation**--\$17,191,669
- **ER&R Funded Capital Outlays**--\$1,041,163
- **IT Infrastructure Initiatives**, including:
 - **Applications**--\$35,000
 - **Virtualization**--\$6,000
- **Juvie Master Plan**--\$800,000
- **Mandatory/Recurring/Regular Replacement**--\$2,432,272
- **Other Non-Recurring Capital Outlay**--\$10,546,804
- **Previously Approved Carry Over Capital Outlays**--\$2,098,600
- **Road Projects Supported Thru REET**--\$700,000
- **Sewer System Repair/Replacement Initiatives**--\$11,440,856

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

- **TOTAL--\$55,316,146**
- **Total Grant/Loan Funded--\$46,673,790**
- **Total County (excluding General Fund) Funded--\$7,564,093**
- **Total General Fund Funded--\$1,078,263**

Based on feedback received during this discussion and as we move through the 2026 budgeting process, we will adjust the 2026 budget accordingly as well as update the 2026-2030 5 Year Capital Plan.

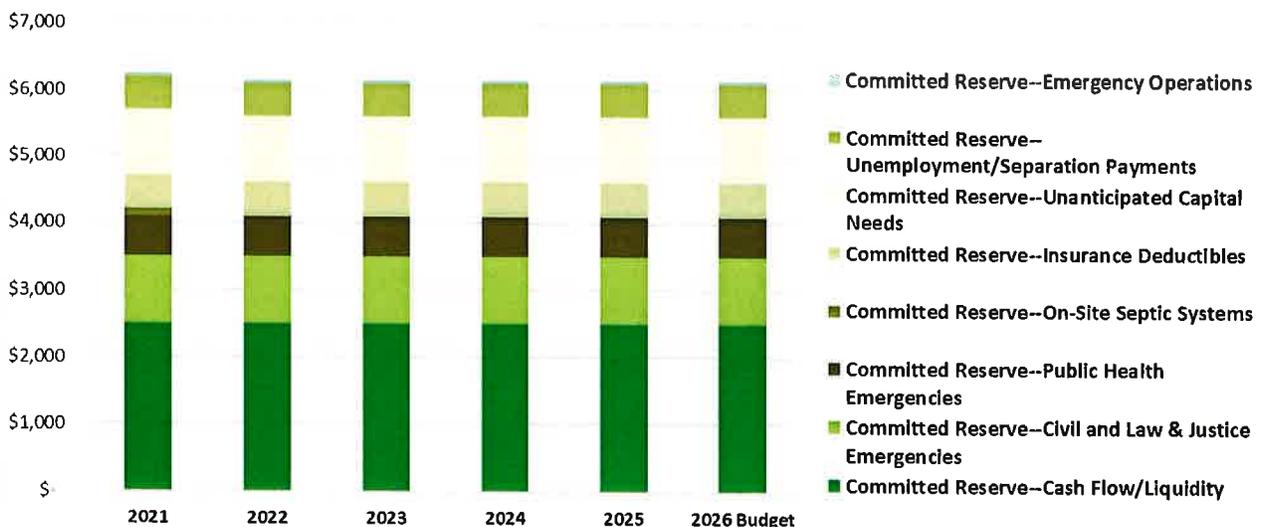
GENERAL FUND RESERVES

Based on this revenue and expenditure included in this version of our budget, the budget reflects utilizing (\$2,507k) of General Fund reserves to fully fund the 2026 budget based on County policy which requires us to budget assuming all personnel positions are fully staffed for the entire year. However, based on expected underspend to our personnel and benefits budgets of \$1.236 million and \$661k in estimated placeholder costs related to open labor contracts, the new coroner position, and other costs, and the utilization of \$200k of ARPA funds to fund General Fund personnel costs, **the General Fund's 2026 Administrator Recommended Budget as adjusted would produce a projected deficit for 2026 of (\$1,931k)**, as compared to 2025's projected operating surplus of \$4,026k, which would leave **an ending fund balance of \$14,057k for 2026, or a reserve of 24% of expenditures**. This represents an ending reserve balance that is \$1.557 million above the \$12.5 million minimum reserve target level established by the Commissioners earlier in the budget process.

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:

GENERAL FUND RESERVES -- COMMITTED BUDGETARY RESERVES BY TYPE

2021-2026
(\$ IN THOUSANDS)



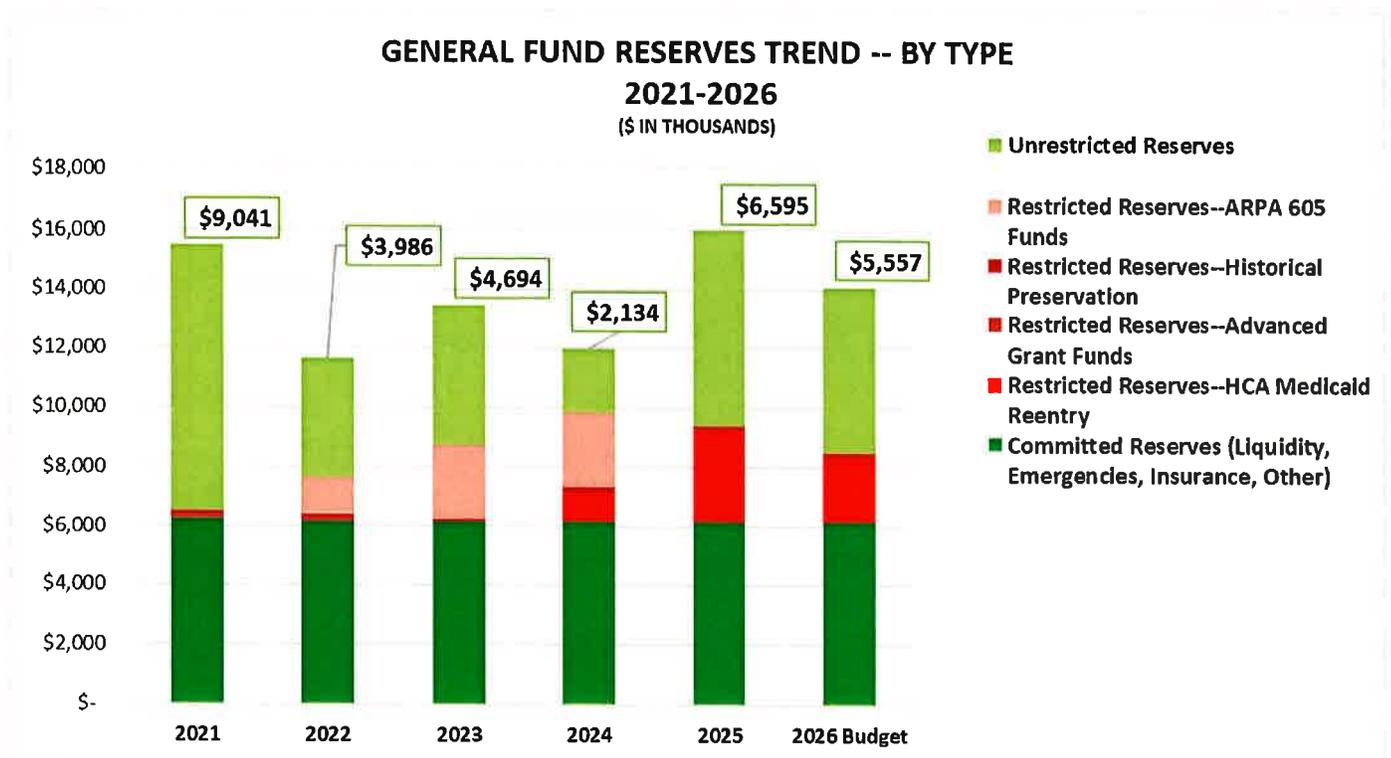
* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

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 could be used for any government services purpose other than lobbying—this funding was fully utilized in 2025 following adoption of a resolution);
- HCA Medicaid Reentry funding (Clinical Services—new for 2024-2026);
- Other advances received from grants (mostly COVID-related that were all fully spent by 2023); and
- Historical Preservation funds

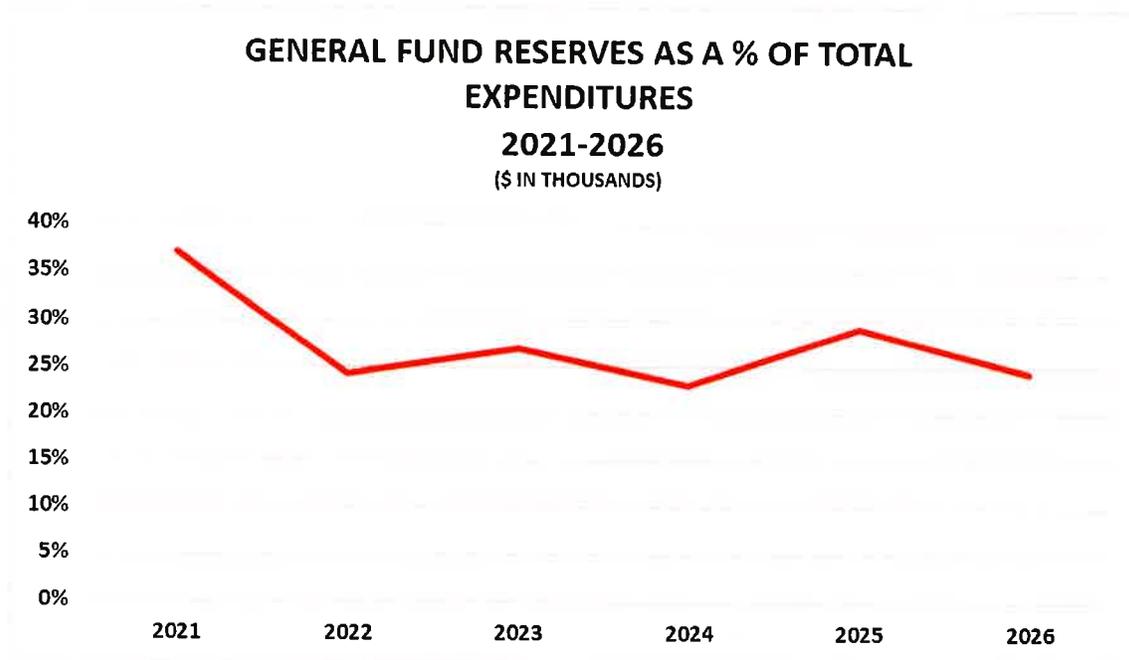
After layering in these restricted reserves along with our committed budgetary reserves outlined above, the historical breakdown of the General Fund's total reserves, including its level of unrestricted reserves, from 2021 to 2026 is as follows:



* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

The General Fund Reserves shown as a % of Total Expenditures from 2021 to 2026 is provided below:



These charts serve to highlight the changes seen both in unrestricted reserves and overall reserves that has occurred historically in the General Fund, and the impact the current 2026 Administrator Recommended Budget as currently forecasted would have. These historical changes in reserves have been driven by several factors including:

- Operating revenues growing at a rate less than operating expenditures;
- Influx of Large Grant Advances, including the \$2.5 million of ARPA 605 funds received in 2022 & 2023 (which were utilized in 2025), and the \$4.225 million related to the HCA Medicaid Reentry grants received in calendar years 2024 and 2025 which will be used to support capacity building and IT and facility infrastructure improvements to our adult and juvenile carceral facilities in 2025, 2026 and 2027;
- 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, Broadband, and the Joint Public Safety Facility); and
- Capital project outlays undertaken by Parks, Fair & Facilities and IT through their respective capital project funds.

* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

As we move forward in the 2026 budget process, County management has been working on identifying various revenue enhancement and cost reduction initiatives that would further reduce the budgeted operating deficit to maintain a sustainable and adequate level of reserves.

RECAP OF PROGRESS MADE TOWARD A BALANCED BUDGET FOR 2026

As previously covered, due to the (\$3.258) million shortfall existing between revenues and expenditures reflected in the 2025 Preliminary Budget (after including estimated payroll underspend and placeholder costs), **the County Administrator and Finance Department developed a list of expenditure and revenue changes based on discussions held with each department in September to identify potential revenue and expenditure changes to address this shortfall.** 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.

In addition to those adjustments identified during the September meetings with the departments, the Administrator and Finance Department met and discussed other potential revenue and expenditure adjustments to further close the gap while enabling the addition of certain limited department operating expenditure and capital requests deemed critical to County operations or that had identified funding sources. Below is a recap of those efforts:

Operating Deficit—Preliminary Budget (including Payroll Underspend of \$1,214,000 & Placeholder Costs of (\$1,638,000)) **(\$3,258,000)**

Revenue & Expenditures Changes Made Between Preliminary Budget
And Administrator Recommended Budget:

Revenue Net Gains:

<u>One-Time</u> (Dungeness Reservoir & Carlsborg Water Mitigation Transfers In (+\$549k); Sale of Surplus Property (+\$200k)	\$ 749,000
<u>Recurring</u> (Sales Tax forecast adjustment (+\$112k); Auditor Election Services/Voter Fees (+\$60k); DCD Permit & Plan Check fees (+\$42k); net of other net decreases	\$ 47,000
TOTAL REVENUE GAINS IDENTIFIED	\$ 796,000

Expenditure Net Reductions:

<u>One-Time</u> (ARPA funds re-obligated to Personnel Costs Placeholder (\$200k), Risk Management Allocation Reduction (\$193k)	\$ 393,000
<u>Recurring</u> (DCD Grant-Funded Professional Svcs (\$388k); Open Labor Contract Placeholder True Up net of Cost of Ratified CBA (\$235k); ER&R Vehicle Rental Reductions (\$153k); Redundant Software/Systems costs (\$106k); Clallam Conservation District/North Olympic Library support (\$61k); Sheriff Central Dispatch (\$27k); Other Decreases	\$ 1,173,000

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
 ** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

TOTAL EXPENDITURE CUTS IDENTIFIED	\$ 1,566,000
TOTAL REDUCTIONS IDENTIFIED PRIOR TO ADDITION OF DEPARTMENT & CAPITAL REQUESTS	\$ 2,362,000
<u>Department Requests</u>	
One-Time	(\$408,000)
Recurring	(\$507,000)
TOTAL DEPARTMENT REQUESTS ADDED	(\$915,000)
<u>Capital Requests/Capital Transfers Added</u>	<u>(\$120,000)</u>
Total Revenue/Expenditure Net Changes Made—Prelim vs Admin	<u>\$ 1,327,000</u>
Operating Deficit—Administrator Recommended Budget (including Payroll Underspend of \$1,236,000 and Placeholder Costs of (\$661,000))	<u>(\$ 1,931,000)</u>
Projected 2026 Ending Reserves	\$ 14,057,000
% of Total Expenditures (including Payroll Underspend/Placeholders)	24.4%
Minimum 2026 Ending Reserves Target Set by BOCC	\$ 12,500,000
Over/(Under) Minimum Reserves Target	\$ 1,557,000

UNDERSTANDING THE ONGOING BUDGET DEFICIT AND POTENTIAL OPTIONS FOR GETTING TO A SUSTAINABLE BALANCED BUDGET

While the Administrator Budget as presented reflects significant progress made in shrinking the initial (\$3.258) million budget deficit of the Preliminary Budget while also incorporating certain identified critical department and capital additional requests of \$1.035 million to arrive at the (\$1.931) million operating deficit reflected in the Administrator Recommended budget, it is noteworthy that a number of these changes made, as well as certain other revenues and costs included in our 2026 budget, are one-time in nature. While these one-time adjustments were helpful in addressing the 2026 budget deficit identified and providing a means to fund certain critical operating and capital requests of our departments while also enabling us to stay well above the minimum ending reserves level established by the Commissioners, such adjustments will not be available to address future budget shortfalls. As a result, it is important to understand what the General Fund’s estimated ongoing operating deficit is excluding these one-time adjustments.

The significant one-time revenues and costs included in the 2026 budget include:

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019

One Time Revenue Additions and Cost Reductions Made:

• Dungeness Off Channel Reservoir & Carlsborg Water Mitigation Transfers	\$ 549,000
• Sales of Surplus Property	\$ 200,000
• ARPA Funds Re-Obligated to fund Personnel Costs	\$ 200,000
• Risk Management Allocation Reduction	\$ 193,000

Total One-Time Revenue Additions/Cost Reductions Made **\$1,142,000**

One-Time Department Requests & Additional Capital Requests:

• Department Requests	(\$408,000)
• Capital Requests	(\$120,000)

Total One-Time Department Requests & Capital Requests **(\$528,000)**

Other One-Time Revenues & Costs Included in the 2026 Budget:

• Sheriff Clinical Services—HCA Capital Expenditures (funded with grant monies advanced in 2024/2025)	(\$992,000)
• Health & Human Services—Operations—Transfer from General Fund for working capital needed following removal of opioid settlement funds	(\$500,000)
• Net Transfer In from Public Works—Broadband project for Working Capital provided in 2025	\$296,000

Total One-Time Net Costs Included in the 2026 Budget **(\$1,196,000)**

TOTAL ONE-TIME NET REVENUES/COSTS INCLUDED IN 2026 BUDGET **\$ 582,000**

The Estimated 2026 Ongoing Operating Deficit as calculated to exclude the one-time revenue and costs and adjustments listed above is as follows:

GENERAL FUND—ADJUSTED 2026 OPERATING DEFICIT **(\$1,931,000)**

Less: One-time Revenue/Costs Adjustments Made **(\$1,142,000)**

Plus: One-Time Department Requests & Capital Requests **\$ 528,000**

Plus: One-Time Net Costs Included in 2026 Budget **\$1,196,000**

GENERAL FUND—ONGOING OPERATING DEFICIT **(\$1,349,000)**

The Administrator Recommended budget as currently presented results in an ending reserve level that exceeds the \$12.5 million minimum reserve level target set by the Commissioners by \$1.557 million and is close to meeting the 25% target reserve level the County strives to maintain. While this budget represents an "allowable budget" under County Policy in that the shortfall between revenues and expenditures can be sufficiently covered through usage of \$1.931 million of available General Fund Reserves as allowed under policy, it does not represent a "balanced budget" where ongoing expenditures align with ongoing revenues. In the event the Commissioners wish to consider taking further actions to address the (\$1.349) million ongoing deficit calculated above and move closer toward a "balanced budget" in light of future financial challenges facing the County as discussed in our 3 year financial forecast discussions earlier this year that will not be fully addressed long-term by

* Work Session Meeting - Submit 1 single sided/not stapled copy

Agenda Item Summary Admin Recommend Budget 2026--Final

** Regular Meeting - Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

Revised: 3-04-2019

the proposed levy lift ballot initiative, County staff have identified a number of options that could potentially be pursued. Given that 71% of the County's operating expenditure budget lies in its personnel costs, several of these options would likely involve headcount reductions to a varying extent. The options identified are as follows:

- OPTION 1—Adopt this “Allowable Budget” for 2026, representing the Administrator Recommended budget as presented herein which currently does not require FTE reductions; this option would require further cost reduction actions being taken in future years;
- OPTION 2—Adoption of the budget under Option 1 as modified to consider implementation of the new 1/10th percent criminal justice sale tax by July 2026 along with a reduction of 2 FTEs;
- OPTION 3—Adoption of the budget under Option 1 with planned utilization of all HCA Reentry grant funds in 2026 (leading to an approximate deficit reduction of approximately \$0.5 million in 2026 but leading to a potential shortfall of a similar amount in 2027);
- OPTION 4—Adoption of the budget under Option 1 but remove assumption of payroll underspend to balance budget in favor of capturing payroll underspend as it occurs for the following year's capital outlays; this option would require an estimated 10 FTE headcount reduction;
- OPTION 5—Adoption of a “Balanced Budget” from an ongoing perspective, requiring an approximate 11 FTE headcount reduction, along with inclusion of one-time budget adjustments previously identified;
- OTHER OPTIONS—Adoption of a “Balanced Budget” utilizing cost reductions achieved through a combination of FTE reductions, negotiated compensation and benefit reductions, and/or elimination of funding for outside organizations and State programs that are not fully reimbursed.

BUDGET OUTSTANDING ISSUES

Please also note that there are several outstanding issues that have yet to be fully factored into the General Fund budget that could impact the revenue and expenditure assumptions in the budget, including:

- Open Labor Contracts--as noted previously, while a high level placeholder is reflected in the Administrator Recommended Budget presented, the formal integration of additional Payroll/Benefit costs resulting from conclusion of labor negotiations with our remaining interest arbitration and limited commission bargaining units into the budget will occur as contracts are ratified, so long as ratification occurs prior to the adoption of the budget.
- Coroner Position— as noted previously, a high level placeholder for the estimated costs of a new Coroner position is reflected in the Administrator Recommended Budget presented, and is expected will be formally integrated into the Coroner budget prior to adoption of the 2026 budget.
- Other Key Contract Negotiations—the County is in various stages of negotiations for several key contract renewals, including the criminal justice interlocal agreements with the cities of Port Angeles and Sequim, the Clallam Public Defender indigent defense services contract, and others. While placeholder assumptions have been incorporated into the Administrator Recommended budget for these contracts, the final outcome of these negotiations is currently unknown.

* Work Session Meeting - Submit 1 single sided/not stapled copy

** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies)

- True-Up of General Fund Indirects—due to turnover in the Auditor’s accounting staff, this true up has been delayed. The effect of this true-up is expected to be incorporated into the budget prior to its adoption.
- Approval of Staff Recommendation of Repurposing ARPA Funds—County staff will be bringing forward for Commissioner approval an agreement termination notice and resolution authorizing the de-obligation of \$200,000 in previously committed ARPA funds under a contract to be terminated and re-designating use of such funds to offset certain General Fund department personnel costs in 2026. This is expected to occur prior to presentation of the Proposed Budget. While the anticipated impact of this change is reflected in the County’s ARPA fund, it has not yet been formally incorporated into the departmental budgets where these ARPA funds will be applied against in the General Fund budget.
- Future of Sheriff Jail CREW Function—based on recent discussions with Public Works management, it appears unlikely the Roads fund will be able to continue financial support for the CREW roads crew work coordinated by the Sheriff Jail department beginning in 2026. Due to the increasing difficulty of having sufficient Jail staff to coordinate CREW work details and the shrinking pool of suitable inmates that can safely participate on CREW details, the removal of CREW revenues and staffing costs currently budgeted in the Sheriff Jail will be discussed.
- Updated DNR Timber Revenues—staff recently received DNR timber harvests forecasts for 2026 and is currently reviewing the data and determine what adjustments to our budgeted timber revenues will need to be incorporated in the General Fund, Roads fund and several other County funds.

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 Administrator Recommended budget for 2026. No budgetary impact until the final adopted budget is approved in December 2025.

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:

October 2, 2025

* Work Session Meeting - Submit 1 single sided/not stapled copy Agenda Item Summary Admin Recommend Budget 2026--Final
 ** Regular Meeting – Submit 1 single sided/not stapled copy and originals (1 or 3 copies) Revised: 3-04-2019