



# AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION  Meeting Date: 10/10/2022

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 2023 Recommended Budget for Clallam County. The submission of this Recommended budget is the first step in the budget adoption process, with the following key dates to follow:

- Monday, October 10<sup>h</sup>—CFO and the Administrator submit the Recommended Budget to the BOCC;
- October 12<sup>th</sup>-28<sup>th</sup>—BOCC, Administrator, CFO and Budget Director to meet with each department;
- Monday, October 24<sup>th</sup>—5 Year Capital Plan along with Proposed 2023 Capital Budget to be presented at BOCC work session for consideration and discussion;
- Monday, November 14<sup>th</sup>—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- Tuesday, November 29<sup>th</sup>—Clallam County Property Tax Levy Certification
- Monday, December 5<sup>th</sup>—Special Taxing Districts Property Tax Levy Certification;
- Tuesday, December 6<sup>th</sup>--Public Hearings at 10:30am and 6pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 13<sup>th</sup>—Possible extension of hearing for the Board to adopt the final budget by resolution (if needed)

The following materials have been provided to accompany this summary:

- 2023 Recommended Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2023 Recommended Budget to Projected/Actual Results for 2022-2019;

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- General Fund 4 Year Comparison of 2023 Recommended Budget to Adopted Budgets for 2022-2019;
- General Fund Bridge Analysis of Changes Between 2023 Preliminary Budget and Recommended Budget;
- General Fund Breakdown Analysis of the Change in Operating Surplus/Deficit between the 2023 Recommended Budget and 2022 Forecasted;
- 2023 Recommended Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2023 Budget Salary Worksheet Breakdown by Department/Fund;
- 2023 Department Requests Over Base Preliminary Budget; and
- 2023 Proposed Capital Outlay Budget by Fund

As noted in prior budget discussions, all departments have budgeted that all budgeted positions are assumed filled for the entire year in accordance with how policy currently requires us to budget, which, as has previously been discussed, not historically mirrored the County's actual payroll spending trends where the County has underspent its personnel budgets in the General Fund between \$1.9 million and \$2.1 million each year due to open positions, turnover and retirements (further discussion below).

This budget reflects estimates for 2023 revenue which are partly dependent on the current revenue forecast assumptions for 2022, as well as many additional variables including:

- GDP growth and inflationary growth expectations based on most recent state economic forecasts,
- Local economic conditions,
- Continuance of supply of chain disruptions,
- Changes in long term and short term interest rates as the Federal Reserve continues its interest rate increase strategy to reduce inflation, and
- Other revenue guidance available thru MRSC and other sources, etc).

Taxes, Intergovernmental taxes (including PILT, Timber excise tax, Leasehold Excise tax, PUD Privilege Tax, etc), Real Estate Excise taxes (REET), and Timber revenues reflected in the 2023 Recommended budget are based on projections developed based on the evaluation of such variables and available guidance. Departmental assumptions for other revenue streams reflected in this Recommended budget were discussed and evaluated for reasonableness during the Administrator and CFO discussions with each department in September, and reflect some changes based on those discussions that will be covered below.

Sales tax growth assumptions used in the 2023 Recommended budget remain relatively unchanged from the Preliminary Budget and still assume a 3% assumed growth for 2023 which is in line with projected 2023 retail sales and state GDP growth projected for the state by the Washington State

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Economic and Revenue Forecast Council's economic forecast report which generally predicts low-single digit growth in 2023. 2022 sales tax growth remains relatively in line with our projections at 2.5-3%. However, given that economic conditions are still evolving and the growing concern for a potential recession in 2023, the sales tax revenue budget for 2023 will continue to be revisited during the 2023 budget process to reflect any changes in expectations for next year.

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

Several changes have been made to the 2023 Preliminary Budget in arriving at the 2023 Recommended Budget. While outlined in more detail in the attached schedule called "Bridge Analysis Between Preliminary Budget & Recommended Budget", these changes at a high level include:

- **REVENUE CHANGES—increased \$2,811k**, mostly due to:
  - TRANSFERS IN increasing \$2,108k mainly due to \$1.1 million increase in funding being returned to the General Fund from the grant-funded Lower Dungeness Floodplain project (now projected to total \$4.683 million) as the heavy construction phase of this project substantially concludes at the end of 2022, with the overall project concluding in 2023 with the completion of the Towne Road relocation. Also reflects a \$900k increase in transfers in from the Dungeness Off Channel Reservoir (now totaling \$1.65 million) based on revised project cash flow needs and expected grant reimbursements in 2022 and 2023;
  - INTERGOVERNMENTAL REVENUES increasing \$1,208k due to the addition of \$1,255k of funding under the Local Assistance and Tribal Consistent Program (Section 605 of the American Rescue Plan Act ("ARPA")) based on formal award notification received from the US Treasury in late September; as offset by
  - MISCELLANEOUS REVENUE decreasing (\$462k) mainly due to revision of the initial estimate for investment interest income provided by the Treasurer's office;
  - FINES & PENALTIES decreasing (\$113k) due mainly to reductions to infraction revenues projected by District Court 1 and District Court 2 to better reflect the downward trends noted during much of 2022.
- **EXPENDITURE CHANGES—decreased (\$303k)**, primarily driven by:
  - TRANSFERS OUT reduced \$1,753k due to a \$3.625 million reduction in transfers out for the Lower Dungeness Floodplain as no General Fund support will be needed for this project based on revised cash flow projections for this project. This decrease was partly offset by a \$1.7 million increase in transfer funding needed from the Dungeness Off Channel Reservoir based on the revised cash flow needs of this project in 2023, which includes \$2.2 million in land acquisition costs and approximately \$3 million in remaining design costs and conveyance construction beginning in the 2<sup>nd</sup> half of 2023, which while grant-funded, will require upfront working capital funding from the General Fund until grant reimbursements are later received. This overall drop in Transfer Out was partly offset by:

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- Department Requests recommended for inclusion in the 2023 Recommended Budget of approximately \$933k were added, as outlined in the attached schedule “2023 Department Requests Over Base Recommended Budget”
- Other significant expenditures changes included increases in the General Fund’s share of risk management insurance pool coverages (up \$373k or 26.5% from the original budget) based on insurance renewal quotes guidance received from the Washington State risk pool, and the addition of \$110k of Norpoint building security services under the BOCC NonDepartmental budget. Partly offsetting these increases was a \$75k reduction made to Blake Decision LFO refunds in the Clerk’s budget based on the planned transition of Blake LFO processing to the state AOC by July 2023, and the assumed elimination of the 1% hazard pay related to the COVID public health emergency that is expected to expire at the end of October (approx. impact \$53k).
- Transition of Code Enforcement from Community Development to Sheriff’s Department—reflecting the realignment of code enforcement functions from DCD to Sheriff, all budgeted staff (2 FTE) and other operating costs were transitioned to the Sheriff Operations budget, and 1 FTE Code Enforcement Sergeant position was added (added cost of \$114k).

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

- **Capital outlays and related transfers**—while a preliminary draft capital outlay plan 2023 has been included with the 2023 Recommended Budget materials and the impact has been layered in at a high level for purposes of calculating an Adjusted Projected Net Operating Surplus/Deficit for 2023, it has not been fully integrated into the Recommended Budget pending the outcome of discussions of the County’s update 5 Year Capital Plan covering 2023-2027 which we plan to present to the BOCC on at the Monday, October 24<sup>th</sup> work session (with a continued work session as needed immediately following the joint BOCC/Port of PA meeting scheduled at 11am that same day).
- **Additional American Rescue Plan Act funding allocations** that are made this year that may carryover to next year or reduce the remaining ARPA funding available in 2023;
- **County-paid Benefit Cost Increases Related to Health Insurance and anticipated changes to the Worker’s Compensation rates** will be incorporated in the Proposed Budget once more information becomes available;
- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2023 Recommended Budget projects a beginning General Fund Balance of approximately \$11.157 million (vs \$13.711 million in the Preliminary Budget, a \$2.55 million drop

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which is reflective of changes in transfer funding relating to the Lower Dungeness Floodplain and Dungeness Off Channel Reservoir projects). Revenues are projected to total \$52.916 million, Expenditures (including Transfers Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Veteran's Relief, Sheriff's VRF Boating Program, Clallam Bay Sekiu Sewer, Flood Control and other funds) are projected at \$52.174 million, resulting in a budgeted increase in Reserves of \$742k, and leaving an ending General Fund Balance of \$11.899 million, representing an ending reserve level of 23% of total operating expenditures. However, as discussed later, when one adjusts for the historical underspend to our personnel and benefits budgets of \$1.9 million-\$2.1 million, and layers in \$815k of preliminary capital outlays and \$2.3 million of capital project-related transfers per a draft capital plan, it is likely the Recommended budget deficit for 2023 (excluding COVID-related revenues/expenditures) is closer to (\$407k), as compared to 2022's projected deficit of (\$4,478k), which would leave an ending fund balance of \$10,850k for 2023, or a reserve of 20% of expenditures.

Below are the revenue and expenditure highlights behind these results:

### **REVENUE BUDGET HIGHLIGHTS**

In this Recommended roll up of the 2023 budget, General Fund Revenues (excluding COVID-related reimbursements) are projected to total \$52,816k, representing a \$8,388k or 18.9% increase over 2022 projected revenue expected, and a \$6,004k or 12.8% increase over the 2022 originally adopted budget. When you further exclude Transfers In revenue (which consist mainly of working capital-related transfers from the Lower Dungeness and Dungeness Off-Channel Reservoir projects), General Fund Revenues are projected to increase \$2,300k or 5.3% from 2022 projected revenues.

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

- Miscellaneous Revenue is projected to grow by \$1.11 million due primarily to significant growth in investment interest income as the County is able to reinvest its investment portfolio in much higher yielding US Treasuries and other fixed income securities that are yielding in excess of 2.5%-3.5% next year (as compared to sub 0.5% yields earned during much of 2022) due to the aggressive interest rate actions taken by the Federal Reserve to raise rates in an effort to curb inflationary pressures in the US economy, and also due to planned camping fee increases at the County's parks;
- Fines & Penalties are also expected to rebound somewhat (\$98k) from 2022 levels as courts continue to return to normal operations post-pandemic and as case back logs clear, but still down over 22% from their peak in 2019 due to the impact that court rulings and recent RCW changes affecting the County's ability to assess and collect certain types of fines and penalties; and
- Goods & Services are projected to increase by 6.3% due to contractual CPI-tied increases in certain of interlocal criminal justice agreements, improvement expected in the Jail bed revenues earned under the County's agreement with the State Department of Corrections (albeit still \$150k lower than pre-pandemic levels) as lower State prisoner populations during the COVID pandemic begin to subside, and increases in HHS Administration and

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Environmental Health services provided under Foundational Public Health funding provided by Washington State.

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

## **TAX REVENUES**

Representing almost 50% of General Fund total revenues, Tax revenues are projected to increase \$619k or 2.56% in 2023. Property taxes are projected to increase \$227k or 1.99% as we assumed the County takes its allowed for 1% annual levy growth limit, as adjusted for new construction assumed captured, as allowed for under statute. It should be noted that new construction estimates used in our preliminary 2023 levy calculations are conservative and may have some upside pending receipt of final new construction numbers from the County Assessor. Sales-driven taxes (local retail, juvenile correction sales and use taxes and local criminal/public safety taxes) are projected to increase a combined \$357k or 2.9%, which again reflects our assumption that sales taxes will grow at a more moderate rate as compared to the +6% growth seen in 2022. Timber excise tax is also projected to increase 5% from 2022 projections based on trend.

## **LICENSES & PERMITS**

Licenses & Permits are currently projected to decrease -\$27k or -2.6% from 2022 projections mainly due to an assumed decline in building permit revenues following multiple years of strong permit activity and as interest rate hikes by the Federal Reserve continue to cool housing starts.

## **INTERGOVERNMENTAL REVENUES**

Overall, Intergovernmental Revenues--consisting of federal and state grants and intergovernmental tax and excise payments received by the County--is budgeted to remain essentially flat in 2023. Intergovernmental Tax Revenues are projected to grow \$138k or 3% due to 3-6% increases projected certain intergovernmental tax revenues including PILT, Criminal Justice, and PUD Privilege taxes. Based on recently announced awards relating to ARPA Section 605 Local Assistance and Tribal Consistency funds to be distributed by the US Treasury, the County learned it would be receiving \$1.255 million of these funds both in 2022 and in 2023. As these funds may be spent in a manner consistent with other general revenues received by the County (with the exception of supporting lobbying activities), these funds are budgeted as part of the General Fund in 2023.

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Intergovernmental grant revenues are projected to decrease \$139k or (4.6%), due to lower grants in DCD Long Range Planning, HHS Environmental Health, HHS Admin, Sheriff Ops & Emergency Services, Superior Court, and other areas, as partly offset by higher grant revenues budgeted for DCD Environmental Quality (+\$428k relating mainly to fish barrier-related grant increases), Juvenile Services, PA-Child Support, and increases in other areas.

## **CHARGES FOR GOODS & SERVICES**

Charges for Goods & Services are projected to increase \$496k or 6.3% in 2023 driven partly by partial recovery of certain COVID-impacted revenue streams, most notably the Sheriff Jail revenues derived from the provision of excess jail bed space to the State Department of Corrections which were negatively impacted during 2022 due to reduced COVID-related jail capacity restrictions that resulted in reduced DOC jail occupancy and need for County jail beds (a \$150k improvement is assumed in 2023, but revenue remains \$150k-\$250k below pre-COVID levels). The remainder of the increase is largely due to increases in interfund services provided to the HHS Foundational Public Health fund and other non-General Fund HHS funds by HHS Environmental Health (\$78k) and HHS Administration (\$130k), increased County Fair gate and carnival proceeds (\$46k), \$60k in higher Auditor election services revenues, as offset by an \$85k decrease in filing fees in the Auditor's Office due to lower real estate filing volume trends.

## **FINES & PENALTIES**

Fines & Penalties are budgeted to increase \$98k or 14.6% over 2022, reflecting an expectation by both district courts of a stabilizing and slight improvement in infraction revenue from 2022 levels as courts continue to return to normal operations post-pandemic and as case backlogs continue to clear. However, Fines & Penalties are budgeted at level that is still 22% below their peak in 2021 driven by court decisions and RCW changes affecting the County's ability to assess and collect fines and penalties across multiple functions.

## **MISCELLANEOUS REVENUE**

Miscellaneous Revenue, consisting mainly of interest income and parks camping fees, is projected to increase \$1,105k or +62.3%, driven mainly by a \$979k increase in budgeted interest income driven by the sharp increase in interest rates available for US Treasury bills and notes that should allow the County to reinvest its investment portfolio in higher yielding fixed income investments following the collapse of the 2-year CD and LGIP investment pool interest rates beginning in 2020 and continuing through much of 2022. These yield gains are largely due to the aggressive interest rate increase measures taken by the Federal Reserve beginning in early 2022 to combat the 8-9% inflation experienced in the US economy, Partially offsetting this continued increase in investment interest income are lower interest earned on delinquent taxes (-\$75k or -18%) due to RCW changes made in 2021 impacting the amount of interest counties may collect, and lower expected revenues earned from sales of unclaimed property (-\$72k). Parks and fair revenues are expected to grow above 2022 projected levels, reflecting fee increases that were originally budgeted to occur in 2022 that were deferred until 2023. Also contributing to the increase is the new HHS Environmental Health operating assessment of \$13 per septic-utilizing parcel approved in 2022 (\$276k).

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

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

## **TRANSFERS IN**

Transfers In for the General Fund are projected to total \$6.748 million in 2023, consisting of:

- \$4,683k from the Lower Dungeness Floodplain Restoration project as this project concludes in 2023,
- \$1,650k related to the Dungeness Off-Channel Reservoir project (relating to grant reimbursement of land acquisition costs that will be incurred in 2023);
- \$125k related to the Sheriff VRP Boating Fund's grant-fund acquisition of new boat that will require bridge funding from the General Fund that will be returned to the General Fund when grant proceeds are received; and
- \$250k related to the Clallam Bay Sekiu Sewer restoration project.

This represents an increase of +\$6,088k in total Transfers In over 2022, primarily due to higher grant reimbursements expected under the Lower Dungeness floodplain project and Dungeness Off Channel Reservoir, as offset by a \$370k in transfers received from HHS 2022 relating to the return of General Fund support provided for the Serenity House bathroom remodel project.

## **EXPENDITURE BUDGET HIGHLIGHTS**

Turning to expenditures for the General Fund, our Recommended expenditure budget, excluding COVID-related costs) currently stands at \$52,174k, an increase of \$3,174k or 6.5% from our 2022 projected expenditures, and an increase of \$470k or 1% over the adopted 2022 budget.

## **SALARIES, WAGES & BENEFITS**

The largest driver of the increase over 2022 projected expenditures is in Payroll and Benefits costs. Representing approximately 70% of our total expenditure budget, Payroll and Benefits are up \$3,144k or 13.7% and \$1,209k or 13.1%, respectively, to the 2022 forecast, mainly due to the fact that the budget assumes all budgeted staff positions are filled for the entire year as required under current policy, which clearly was not the case in 2022 where due to retirements, voluntary terminations, delays in filling positions during the year, the County had more open positions during 2022. This resulted in a projected budget underspend in payroll and benefits in 2022 of approximately \$2.25 million. Based on 3-year and 5-year historical average payroll/benefits budget underspend of \$2.12 million and \$1.88 million, respectively, we anticipate a similar level of personnel budget underspend, while not reflected in the current 2023 Recommended budget due to policy, is nevertheless achievable in 2023. **If you adjust our 2023 personnel cost budget for this \$2.065 million average budget underspend, our combined personnel costs in reality are expected to increase \$2.016 million or 6.3% in 2023 as compared to 2022.**

This 6.3% increase in overall payroll/benefits costs is largely being driven by the full year impact of collective bargaining-related COLAs of 2.5% in January 2023, adjustments made to the pay scales

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and the addition of COVID hazard pay affecting our prosecuting attorney collective bargaining unit beginning in July 2022, a \$50-per-month increase in County-paid health premium increases for most collective bargaining units, the addition of longevity-based medical premium pay as provided for in the collective bargaining agreements renewed in July 2022 and July 2023, and new FTES added as outlined in the attached "2023 Department Requests Over Base Budget" and below.

As compared to the 2022 adopted budget, Payroll is budgeted to increase 6%, while Benefits are budgeted to increase 4.5%. We have budgeted 8.6 more FTEs in 2023 as compared to the 2022 budget, with additions in BOCC Operations (+.5 FTE), GIS (+1.0 FTE), Human Resources (+1.8 FTE), HHS-Environmental Health (+1.0 FTE), Sheriff Operations (+4.85 FTE, due 2 new deputy positions requested and transition of code enforcement with assumed hiring of a code enforcement sergeant), Sheriff Emergency Services (+.50 FTE), Prosecuting Attorney Operations (+1.0 FTE, relates to additional Civil DPA position requested), and Juvenile Services (+1.0 FTE) as offset by reductions in DCD (-2.6 FTE—primarily due to shifting code enforcement to Sheriff), IT (-.25 FTE), and HHS Admin (-.20 FTE).

### **NOTE REGARDING HEALTH INSURANCE AND WORKERS COMPENSATION BENEFIT**

**COSTS**--It is important to note that the Recommended budget does not yet factor in health insurance benefit rate increases, which will not be known until late October and will be reflected in the Proposed Budget. Also, based on an analysis of the County's workers compensation L&I rates assessed (which have not been adjusted since 2018) and significant increases in claims cost and L&I in recent years, the Finance Department has determined that a worker's compensation rate increase will be needed to stabilize reserve levels in the Worker's Compensation fund, which will add an estimated \$300k of increased benefits costs to the General Fund. These changes will be reflected in the Proposed Budget.

### **SUPPLIES**

Supplies are projected to increase \$92k or 6.7% from 2022 projected spending levels mainly due to several IT SRF departmental requests being incorporated into the 2023 budget as outlined in the Department Requests schedule.

### **SERVICES**

Services in 2023 are projected to increase \$1,386k or 18.9% over 2022 projected non-COVID services, and increase \$1,106k or 14.5% compared to the 2022 original budget. These increases are mainly due to the following:

- A \$304k increase in DCD—Environmental Quality Salmon Recovery services relating to additional grant funding received for fish barrier projects;
- Higher IT infrastructure-related network router, software renewal, ESRI maintenance, and a full year of Microsoft Office 365 services costs (\$94k);
- A \$133k increase in HHS Environmental Health On-Site Services and Drinking Water services costs funded through the new On-site Septic Assessment Fee of \$13 per parcel (with a septic system) approved in 2022 and funding available from the HHS Foundational Public Health fund;
- An estimated \$120k or 7.5% increase in indigent defense services costs;

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- \$265k of recommended 2023 Department Requests reflected in the 2023 Recommended Budget (see attached schedule), including:
  - Auditor (+\$50k --relating to County's assumption of printing & binding costs for Voter Pamphlets that was previously paid by the State but will be recaptured in higher election services revenues);
  - DCD Environmental Health (\$22k mainly relating to developing of a monitoring strategy for the Lower Dungeness);
  - GIS (\$31k relating to ESRI costs);
  - HR (\$45k for expanded job posting advertising),
  - Sheriff (\$19k),
  - Prosecuting Attorney (\$22k--mainly relating to higher witness and expert witness costs);
  - Parks Fair & Facilities (\$63k--relating mainly to higher repairs & maintenance costs of facilities, parks and fairgrounds, and increased fair entertainment and advertising costs to drive more out-of-county visitorship), and
  - Superior Court (\$8k relating to guardian at litem services costs),and
- 2022 projected budget underspend in Services in multiple other areas.

## TRANSFERS OUT

Transfers Out are budgeted to total \$3.505 million, a \$2,663k or -43.2% decrease from 2022. This decrease is Primarily due to a \$3.4 million decrease in Transfers Out to the Lower Dungeness Floodplain project as the bulk of Phase 2 construction work concludes by the end of 2022 and no further General Fund working capital funding will be needed to complete remaining work in 2023. Also contributing to his decrease is \$1.369 million decrease in PFF and IT Capital Projects funds pending completion of our 2023 5 Year Capital Plan, a \$130k decrease in transfers to HHS and \$9k decrease in transfer to the Law Library. These decreases are partly offset by an \$2,046k increase in working capital transfers out made to the grant-funded Dungeness Reservoir to fund the estimated \$2.2 million acquisition cost of the build site assumed in Q1 2023, the continuance of design work, and commencing of conveyance-related construction work in the 2nd half of 2023 (note that \$1.65 million of these funds are budgeted to be returned to the General Fund once grant reimbursements for the land acquisition are received). Additionally higher transfers related to the Sheriff's Department's VRF Boating Program acquisition of a grant-funded replacement vessel of \$125k, the Veteran's Relief program (+\$60k), and PW-Flood Control (+\$24k) are driving the remainder of the offsetting increase.

Transfers for the Dungeness Off Channel Reservoir, Clallam Bay/Seki Sewer, and VRF Boating Program consist of working capital advances projected for these funds to support the funds' ongoing grant-funded capital projects and capital outlays, and will be reimbursed to the General Fund as grant reimbursements for these projects are received.

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

• Dungeness Off-Channel Reservoir	\$2,450,000
• HHS Operations	400,000
• PW--Clallam Bay/Seki Sewer	250,000

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- All remaining eligible COVID-related expenditures in 2023 are budgeted to be funded out of the NonDepartmental—American Rescue Plan Act fund or other HHS special revenue funds that have COVID-specific grant funding for 2023.

## **CONCLUSION/TAKE-AWAYS**

Based on this Recommended revenue and expenditure budget, the budget reflects adding \$742k of General Fund reserves to fully fund the 2023 budget. However, as discussed previously and as outlined in the attached "Breakdown of Recommended Budget Deficit", based on historical average underspend to our personnel and benefits budgets of \$1.9 million-\$2.1 million, it is likely the Recommended budget deficit for 2023 after layering in \$815k of proposed capital outlays and \$2.299 million of capital-related transfers from the General Fund (as outlined below), the General Fund's 2023 Recommended Budget as adjusted would produce a projected deficit of (\$307k), as compared to 2022's projected deficit of (\$4,372k), which would leave an ending fund balance of \$10,850k for 2023, or a reserve of 22% of expenditures.

2023 will see the County engaged in a number of multi-year, multi-million dollar projects which are fully or partially funded by grants and other state/federal resources, including:

- Lower Dungeness Floodplain--\$16.9 million project (Phase 2 construction scheduled for completion in 2022, with remain work involving Towne Road Replacement slated for completion in 2023);
- EOC Relocation--\$7.2 million project (\$3.588 million grant funded)
- Dungeness Reservoir--\$38.6 million project
- Joyce Broadband Expansion Project--\$22.4 million (fully grant funded with match covered by \$1.786 million committed from ARPA)

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

Based on current project cash projections, it is expected that the General Fund will be fully reimbursed for the \$4.67 million of working capital transfers provided to-date to the Lower Dungeness Floodplain project in 2023.

## **2023 DRAFT CAPITAL OUTLAYS**

- **CAPITAL REQUESTS**—consistent with the draft 5 Year Capital Plan and 2023 Proposed Capital Budget that will be presented to the BOCC at work session October 24, 2022, we are proposing a total \$26,183,089 of capital outlays for the 2023 budget, and deferring \$1,050,738 of requests identified in the 2023 capital plan. The recommended capital outlays

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are proposed to be funded through the following sources (source: "Proposed Capital Requests to Include in 2023 Budget" attachment):

- **Parks & Facilities Capital Projects Fund**--\$4,113,000 (consisting of the first half of the EOC construction phase (\$3.54 million), of which \$.588 million is funded through a Dept of Commerce Grant approved as part of the 2021-23 biennium that must be accepted by 6/30/2023 to guarantee the funds are available and \$3 million earmarked in the 2023 Federal appropriations budget, along with a transfer of \$1 million from the General Fund to fund initial working capital needs of the project which was budgeted in 2022 but deferred due to delays in the project); also included are \$118k for PFF Unanticipated Projects, \$70k to fund a Building Facility Security and Safety Study, \$100k to replace Failed Dock piles at Lake Pleasant and Camp David Jr, \$250k for an Office Space Reconfiguration/Expansion placeholder to cover needs in the Auditor's Office, Finance, WSU and others, and \$35k for Fairgrounds shower upgrades); the capital outlays from this fund will require a Transfer from the General Fund of \$1.282 million.
- **IT Capital Projects Fund**--\$644,120 (mainly relating to Cisco license renewal and switch replacements (\$257k), network device replacement (\$67k), recurring PC Replacement (\$90k), Tyler Permit Planning system remaining costs (\$30k), Wireless network upgrade and expansion (\$100k), Microsoft InTune Deployment (\$29k), UPS DR Site and phone system upgrades (\$19k), scheduled copier replacements (\$43k), and server hardware replacement (\$10k); the capital outlays from this fund will require a Transfer from the General Fund of \$556k.
- **REET 1**--\$2,260,000 (consisting of \$1,610,000 of capital outlays, with major items including the Juvenile Facilities Roof Membrane Replacement (\$725k), Restoration of the Old Juvie Building to Office Space (\$300k), the continued replacement of the Courthouse VAV HVAC air system boxes (\$150k), Replacement of the Art Barn Roof at the fairgrounds (\$120k), a Fairgrounds Site and Security Lighting and Power Project (\$100k carry over project, which would be 50% grant funded); Costs to Design and Engineer New Jail Medical Offices and Exam Room (\$75k), and other carryover or recurring projects (\$140k). Also to be funded through REET are \$650k of transfers to the Carlsborg Deep Water Well (\$150k) and Clallam Bay Sekiu Sewer fund (\$500k) to fund a 5 year project to replace each of the systems five pump stations (\$470k) and replace the drive bearings for the systems' remaining four biological contactors (also a carry over project--\$80k);
- **REET 2**--\$1,425,000 (including \$1,100k to Roads to fund 2023 road projects which includes the carryover of an additional \$400k ask approved in the 2022 budget to help fund the rebuild of Towne Road on the new Lower Dungeness Levy in 2023, remaining installation costs of 3 electric car charging stations at the Courthouse (\$25k), and \$300k of carryover Courthouse irrigation/planter/sidewalk replacements (the cost of which is \$75k higher than originally approved due to supply chain and cost increases);
- **General Fund**--\$815,250 (consisting primarily of:
  - \$427k of Sheriff Operations/ Jail/ Animal Control / Emergency Services items (\$207k of which is for vehicle equipment for the scheduled replacement of 4 patrol vehicles, 1 animal control vehicle, and 1 emergency management response RV vehicle for the

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west end, and \$130k for acquisition of two additional patrol vehicles for two additional patrol deputies requested), with remainder for portable radio replacements, Jail PIPE hardware, camera, and book room upgrades, and ARES Program Equipment).

- HHS Environmental Health (\$90k to re-equip 30 year old testing lab equipment),
- Superior Court (Clerk bench remodel \$11k),
- District Court 1 (\$10k requested for lobby display), and
- Parks and Facilities (\$277k requested to purchase 2 UTVs, 2 Tractors with loader/mower attachments, and replace an RV bunkhouse to more efficiently support maintenance needs at two parks and the fairgrounds.

As noted earlier, Transfers from General Fund will be needed for the Parks & Facilities Capital fund (\$1,000k), IT Capital Projects fund (\$556k), PW-Solid Waste (\$38k), and Clallam Bay Sekiu Sewer Fund (\$397k needed to support additional wastewater treatment operator FTE and to subsidize this fund to fully cover its operating costs) to fully fund the 2023 capital projects in these funds. These transfers of \$1,991k will be included in the 2023 Proposed Budget;

- **Other Funds Capital Outlays**

- Boating Safety--\$157k of grant-funded costs to acquire a replacement marine vessel
- VRF Boating Fund--\$29k for replacement marine vessel costs not covered under grant
- OPSCAN--\$177k for radio network equipment replacement
- Auditor Document Preservation--\$300k for Recorded Document Imaging Project approved in 2022
- Carlsborg Sewer--\$490k (including \$250k for the previously approved Gupster project (shift to Opportunity Fund from REET funded), and \$240k for the Savannah/Village Lane extension (Opportunity Fund funded)
- Clallam Bay Sekiu--\$2,556k (includes \$2.0 million DOE grant funded collection system rebuild project, \$470k to replace second of five pump stations (REET 1 transfer funded), and \$80k to replace all bearings on remaining four biological contactors (REET 1 transfer funded) and \$6k for Spectrometer testing equipment;
- ER&R--\$1,917k, consisting of vehicle and equipment replacements for Roads of \$1.480 million and \$257k for General Fund, and \$180k for general site maintenance to replace failing gutters on all ER&R buildings;
- ARPA--\$250k for Bipolar Ionization Air Purification System for County facilities to reduce airborne illness risks (BOCC approved usage of ARPA funds); and
- Dungeness Off Channel Reservoir--\$5.173 million for land acquisition (\$2.2 million), design work, and conveyance construction phase work of Dungeness Off Channel Reservoir Project (100% grant funded through grants rec'd to date).
- Broadband Project--\$6.317 million for initial engineering/design, permitting, project management, materials, and right of way ascertainment.

In summarizing the total recommended capital spend by the key strategic initiative or summary categories we grouped our 2023-2027 capital plans according to, the 2023 Recommended budget proposes the following spending by key initiative/grouping:

- **EOC Relocation**--\$3,540,000

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- **Courthouse Facility Aging Infrastructure Initiatives**--\$570,000 (consisting of \$150k for VAV Air System Box replacements, \$300k to restore Old Juvie Building for use as office space, Fairgrounds Art Barn Roof Replacement);
- **Juvie Master Plan**--\$725,000 (roof membrane replacement)
- **Disaster Recovery/Business Continuity**--\$12,000
- **IT Infrastructure Initiatives**, --\$263,000
- **Sewer System Repair/Replacement Initiatives**--\$2,550,000 (relating to Clallam Bay/Sekiu collection overflow project which will be 100% funded through Ecology grant/loan (\$2.0 million), pump station replacement (\$470k), and biological contactor bearing replacement (\$80k))
- **Deep Water Well/Water Mitigation**--\$5,323,000 (\$150k Carlsborg Water Mitigation, \$5.173 million Dungeness Off Channel Reservoir (100% grant funded)
- **Other Non-Recurring Capital Outlay**—\$589,000 (cost to design/engineer new Jail medical space \$75k, Fairgrounds shower upgrade (\$35k), 2 new patrol vehicles for added deputies (\$130k), Jail PIPE hardware, camera, and booking area improvements (\$26k), Sheriff EMS response vehicle replacement (\$30k), DC1 Lobby Display (\$10k), Parks & Facilities UTV, Tractor Additions (\$277k), Clallam Bay Sekiu Sewer Spectrometer (\$6k)
- **Broadband Expansion**--\$6,317,274
- **Mandatory/Recurring/Regular Replacement**--\$310,680
- **Previously Approved Carry Over Capital Outlays**—\$2,263,690
- **Road Projects Supported Thru REET**—\$1,100,000
- **Non-Recurring Capital Fully Funded through Grants/Dedicated Funds (No General Fund/REET Funding Needed)**—\$452,445
- **ER&R Funded Capital Outlays**--\$1,917,000
- **ARPA Funded Capital Outlays**--\$250,000 (building HVAC air purification system).

▪ **TOTAL--\$26,183,089**

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

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

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

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

**Name of Employee/Stakeholder attending meeting:** \_\_\_\_\_ Mark Lane, Rebecca Turner, Rich Sill, Debi Cook \_\_\_\_\_

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

**Date submitted:**

October 5, 2022

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