



- Tuesday, December 10<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:

- 2025 Preliminary Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2025 Preliminary Budget to Projected/Actual Results for 2024-2021;
- General Fund 4 Year Comparison of 2025 Preliminary Budget to Adopted Budgets for 2024-2021;
- General Fund Breakdown Analysis of the Change in Operating Surplus/Deficit between the 2025 Preliminary Budget Deficit and 2024 Forecasted Surplus/(Deficit);
- 2025 Preliminary Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2025 Budget Salary Worksheet Breakdown by Department/Fund;
- 2025 Budgeted Staffing Schedule 10 Year History;
- 2025 Department Requests Over Base Preliminary Budget;
- 2025 Preliminary Capital Outlay Budget—by Fund;
- 2025 New Capital Outlay Requests budget—by Fund; and

It is important to note that this preliminary budget represents each departments' preliminary budget submissions and reflect their base budgets with all budgeted positions assumed filled in accordance with how policy currently requires us to budget, which, as previously discussed, has not historically mirrored the County's actual payroll spending trends where the County has underspent its personnel budgets in the General Fund between \$2.5 million and \$2.9 million each year due to open positions, turnover and retirements (further discussion below).

This initial budget also reflects preliminary estimates for 2025 revenue which are partly dependent on the current revenue forecast assumptions for 2024, as well as many additional variables, including

- GDP growth and inflationary growth expectations based on most recent Washington state economic forecasts,
- Local economic conditions, including the level of impact of several local business closures or phasing down of operations including the McKinley mill closure, certain timber operators reducing operations, and the recent closure of a number of national retail outlets;
- Large road infrastructure projects currently underway in our County which are expected to materially impact the County's sales & use tax projections in from 2024 thru 2030;
- The expected level of new construction to be captured for purposes of setting 2025 levy amounts for property tax purposes;

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- 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.), Real Estate Excise taxes (REET), and Timber revenues--representing approximately 56% of the General Fund revenue budget and 42% of the overall County revenue budget of the 2025 Preliminary 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 preliminary budget will be discussed and evaluated for reasonableness during the budget discussions with each department in September, with any changes to be made and reflected in the Administrator Recommended Budget to be submitted to the BOCC in October.

The Preliminary Budget revenue assumptions overall do not assume a recession in 2025 which is consistent with most national banks (Goldman Sachs, others) and economists (including those of WA State Economic Forecast Council) who continue to place the likelihood of recession in 2025 below 25%. However, we do believe recent events locally (McKinley closure, Interfor furloughs, Rite Aid/Big Lots retail closures, etc) may create employment headwinds that will impact certain of our sales-driven revenues next year. We expect that the full effect of this will be somewhat offset by the anticipated lowering of consumer pressure as the Federal Reserve begins reducing interest rates beginning this September as inflation subsides and signs of employment softening take hold. As interest rates drop and with vehicle inventories approaching pre-pandemic levels, a resurgence in “big ticket” purchases (real estate, vehicles, recreational vehicles, etc) over that seen during 2024 could occur as consumer borrowing costs begin to drop. In its June report, the WA State Economic Forecast Council is forecasting a 5.5% increase in nominal personal income growth in 2025. Local tourism on the Olympic Peninsula remains high with over 5 million visitors expected in 2024, which is serving to bolster the County’s various sales and lodging taxes. Finally, WSDOT fish barrier and other major road construction projects are slated to continue for the next several years, with the addition of a \$102 million fish barrier removal WSDOT project (US 101/SR116) beginning in March 2025 through June 2028 that will serve to more than replace the construction sales tax dollars lost from the wrap up of the Elwha River Bridge project in 2024.

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

- (1) An assumed **minimal economic growth rate of 2.5-3%** based on a 3.8% projected increase in taxable retail sales activity projected for Washington State by the WA Economic Forecast Council for 2025 in its last forecast, and
- (2) The factoring in of **an additional 1-1.5% estimated incremental sales tax growth impact for the multiple large WSDOT road infrastructure projects occurring in the County in 2025**, including multiple US 101 fish barrier removal projects, wrap-up of the Elwha Bridge Replacement, and other Clallam WSDOT road construction projects with an annual estimated cost 153% higher than seen in recent years. These projects in total are expected to generate between \$700k-\$800k of local sales & use tax revenue for the

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County's General Fund in both 2024 and 2025, as compared to the estimated \$230k-\$300k generated from similar projects since 2020. While the timing and amount of sales taxes collected related to these projects has been inconsistent in 2024 due likely to the ebbs and flows of the projects and timing of when tax remittances are made, our overall assumptions thus far in 2024 related to the sales tax impact of these projects appear to be valid, and that reliance on this methodology does appear to provide a fair approximation of their overall impact to our sales tax revenues as we look to 2025.

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

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

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

- **Additional Payroll/Benefit costs resulting from conclusion of labor negotiations with our interest arbitration and limited commission bargaining units** that is not yet fully reflected in the Preliminary Budget pending finalization of negotiations
- **Additional Capital outlays and related transfers needed to fund such capital outlays from the General Fund, REET Funds, Opportunity Fund, and other sources**—while the Preliminary Budget does include those capital outlays and related transfers needed for mandatory, recurring, and carry over capital projects previously approved in last year's 5 Year Capital Plan update and budget, it does not include any new capital project requests. A list of these capital outlays that are currently excluded from the budget pending further review/discussion are provided in this budget packet;
- **One-time and Recurring Department Requests Over the Base Preliminary Budget** (see included schedule);
- **Finalization of the General Fund's 2025 indirect cost allocation plan** pending completion of the update/true-up of this plan which will be incorporated into the Recommended Budget—based on a preliminary estimate we expect a net increase of approximately \$90k-\$100k in General Fund costs allocated to other funds (thereby reducing the General Fund's net operating expenditures by the same amount);
- **Other revenue enhancement and cost savings initiatives** currently being explored by all General Fund and General Fund supported departments.
- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget.

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## **GENERAL FUND BUDGET OVERVIEW**

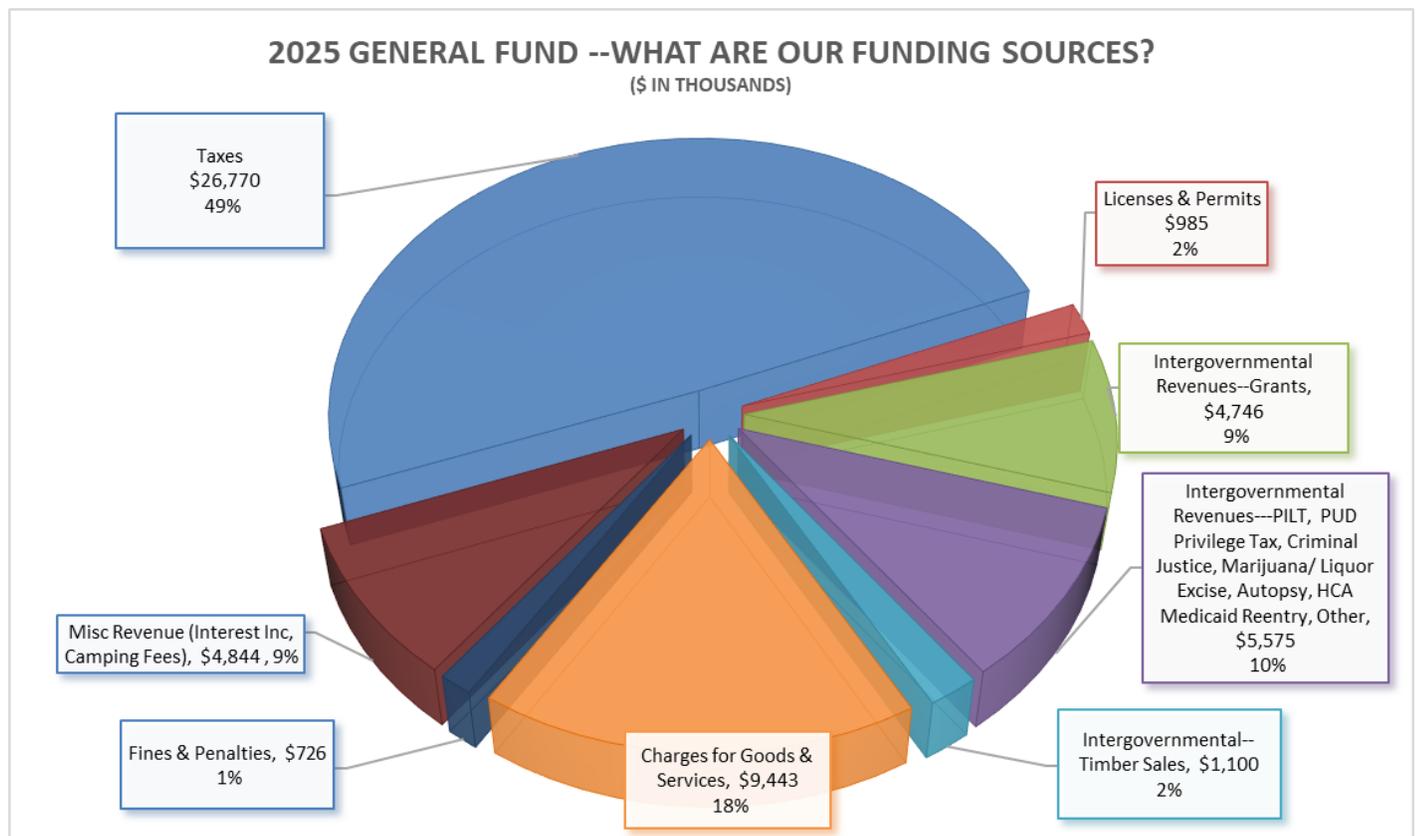
At a high level, the 2025 Preliminary Budget projects a beginning General Fund Balance of approximately \$13.4 million, Revenues totaling \$54.3 million, Expenditures (including Transfers Out to other funds) of \$58.5 million, resulting in a budgeted use Reserves of (\$4.187) million, and leaving an ending General Fund Balance of \$9.218 million, representing an ending reserve level of 16% of total operating expenditures. However, as discussed later, when one adjusts for underspend to our personnel and benefits budgets of \$1.6 million, it is expected the preliminary budget deficit for 2025 is closer to (\$2.554) million, as compared to 2024's projected deficit of (\$44k), which would leave an ending fund balance of \$10.85 million for 2025, or a reserve of 19% of expenditures.

Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

General Fund Revenues from Operations (which exclude Transfers In) are projected to total \$54.2 million, representing a \$1,369k or +2.6% increase over 2024 projected revenue expected, and a \$3,603k or 7.1% increase over the 2024 originally adopted budget. Transfers In revenues, consisting mainly of the return of working capital previously provided by the General Fund to other grant-funded projects and the non-recurring transfer of ARPA interest income to the General Fund, is budgeted to total \$94k, representing a decrease of \$1,011k from 2024 projected revenue. Total Revenue, including Transfers In, overall is budgeted to total \$54,285k, an increase of \$358k or 0.7%.

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

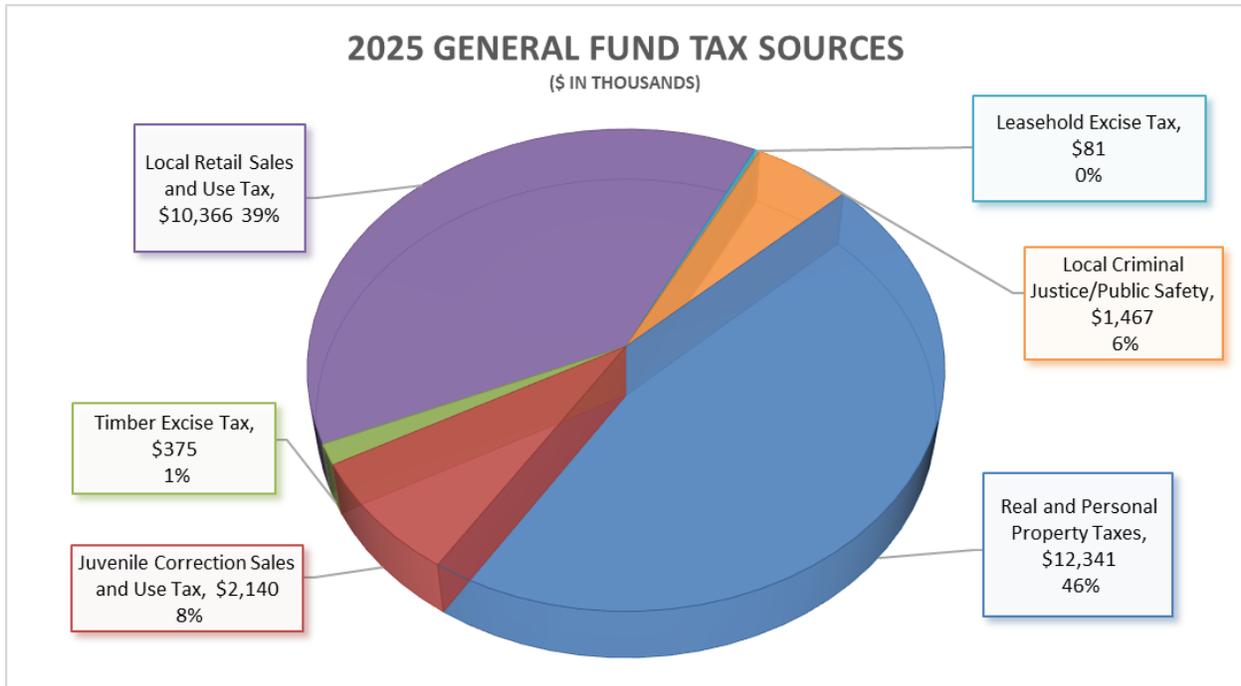


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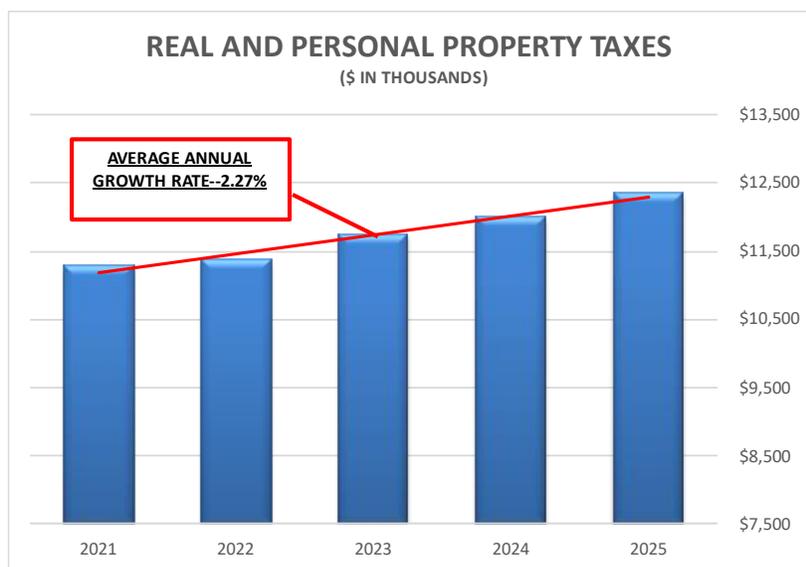
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## TAX REVENUES

Representing 49% of General Fund total revenues, Tax revenues are projected to total \$26.770 million, an increase of \$976k or 3.78% in 2025. Below is a breakdown of the County's various major tax revenues by source:



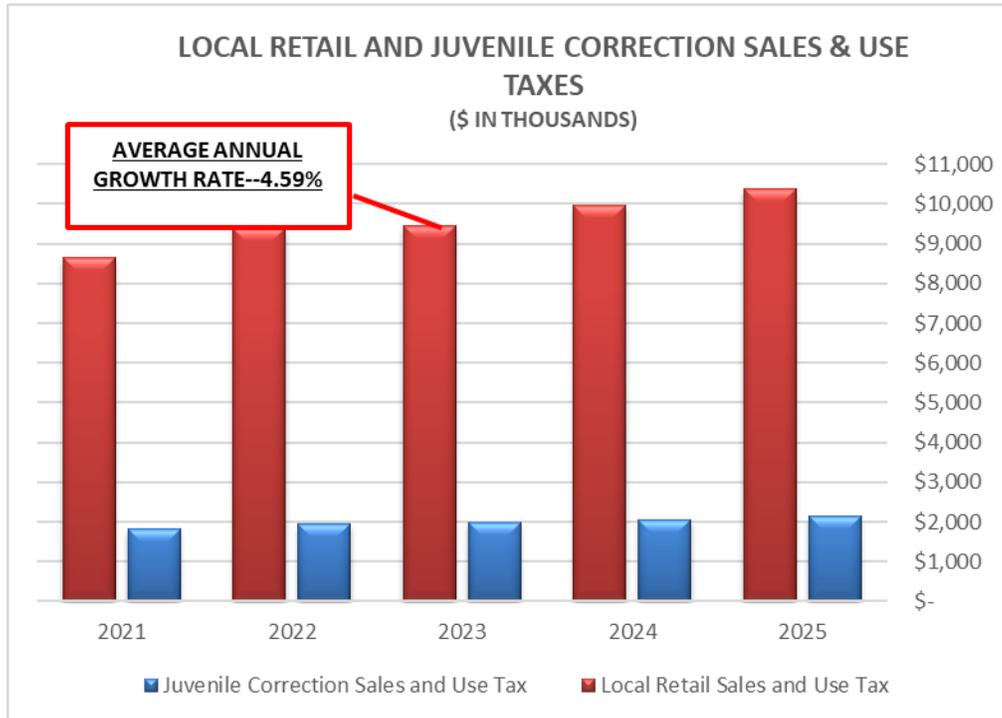
**Property taxes**, representing 46% of total tax revenue and 22.7% of total General Fund revenue, are projected to total \$12.341 million, an increase of \$332k or 2.76% as we assumed the County takes its allowed for 1% annual levy growth limit, as adjusted for new construction assumed captured, as allowed for under statute. It should be noted that new construction estimates to be used in 2025 levy calculations are very preliminary. Property taxes have trended as follows over the past 4 years:



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**Sales-driven taxes** including local retail sales & use tax and juvenile correction sales and use taxes—representing 47% of total tax revenue and 23% of total General Fund revenue-- are projected to total \$12.506 million, a combined increase of \$482k or 4%, which again reflects our assumption that sales taxes will grow at a combined growth rate of 4%, which is comprised of the 2.5-3% minimal overall growth in taxable sales forecasted for 2025 by the WA State Economic Forecast Council plus an additional 1-1.5% growth factor tied to the multiple WSDOT road infrastructure projects occurring in 2024 through 2025. Sales taxes have trended as follows over the past 4 years:



Local criminal justice and public safety taxes are projected to total \$1.467 million, an increase of 6.3% in 2025 based on MRSC published guidance. Timber excise & leasehold excise taxes are projected to total \$375k, an increase of \$71k from 2024 projections based on a two-year trailing trend.

### LICENSES & PERMITS

Licenses & Permits are currently projected to total \$985k, a decrease of -\$49k or -4.7% from 2024 projections mainly due to higher franchise revenues generated by the Astound cable franchise agreement in 2024 due to a change in frequency of billing cycle and the expected continued erosion of revenues under this agreement. This is partly offset by an assumed 9.8% improvement of building permit revenues, land use permit fees, and other fees over 2024 projected trend.

### INTERGOVERNMENTAL REVENUES

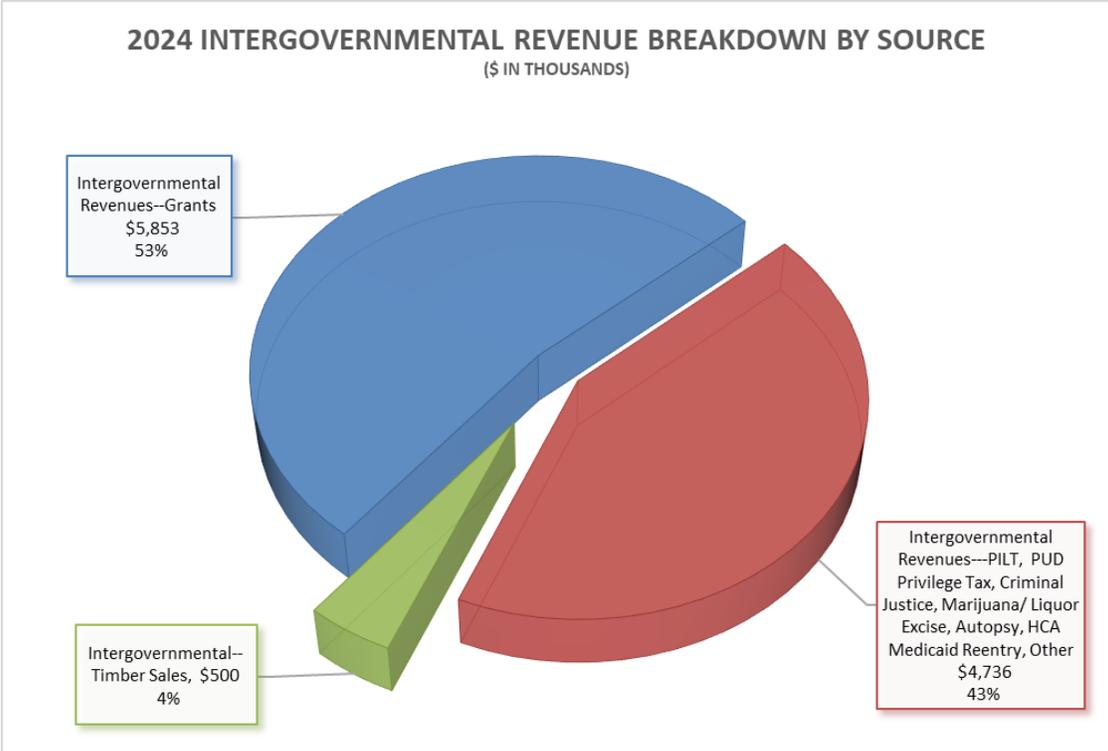
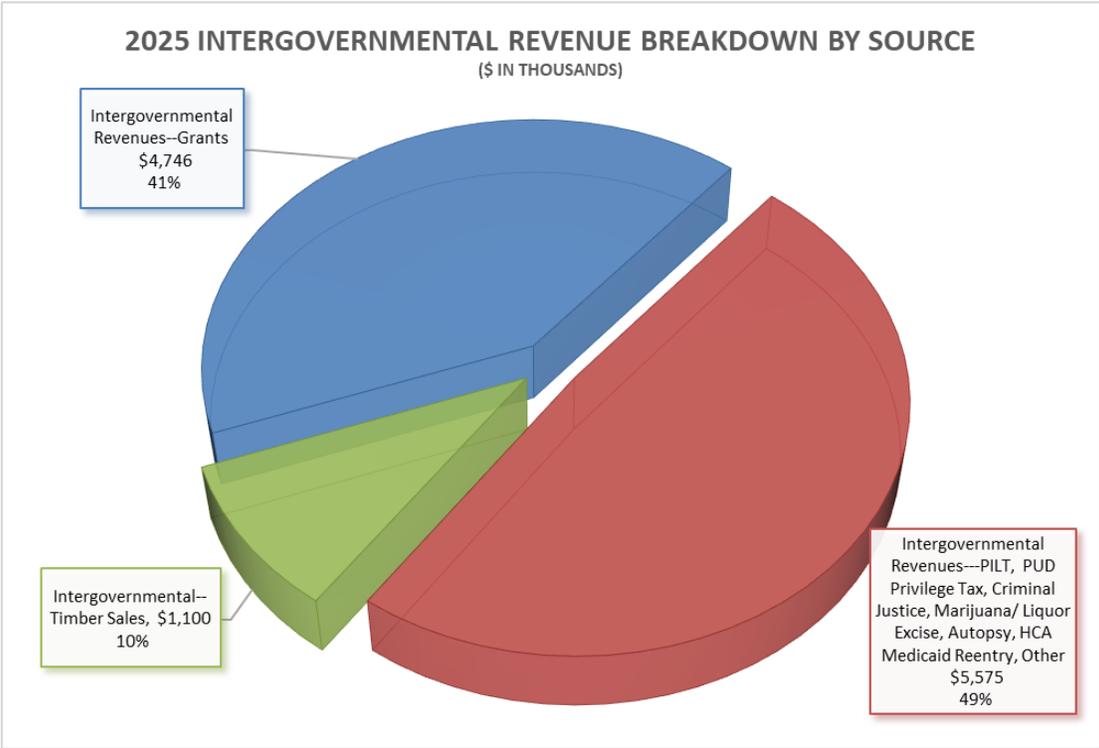
Overall, Intergovernmental Revenues--consisting of federal and state grants, intergovernmental tax and excise payments received by the County, and DNR timber sales --is budgeted to total \$11,421k,

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representing 21% of total General Fund revenue budget and reflecting an increase of \$332k or +3% in 2025.

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



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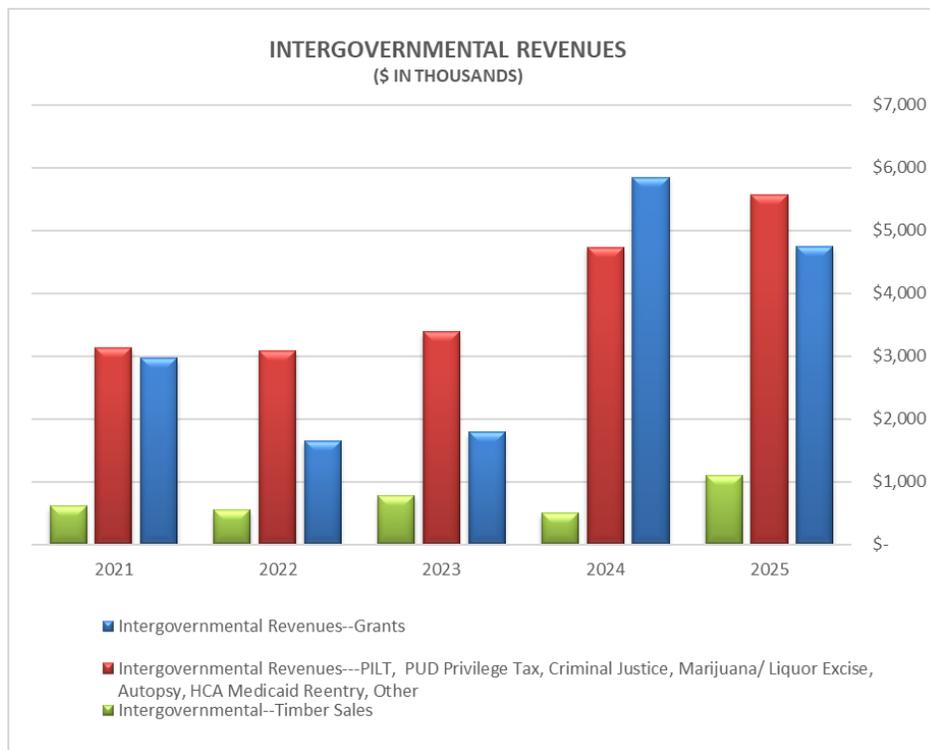
Intergovernmental grant revenues are budgeted to total \$4.746 million, a decrease of -\$1,107k or -19% driven principally by grant losses in:

- Sheriff Ops (down \$628k due to the WASPC Mental Health Field Response grant in '24);
- Auditors (down \$44k due to Election Security grant received in '24);
- Recompete (down \$84k);
- DCD Environmental Quality (down \$637k due to lower GMA, various fish barrier, and NOBLE grants in '24); and
- Superior Court (down \$87k in AOC Rural Security grant).
- These decreases are partly offset by grant gains in Juvenile Services (up \$206k in CJS, Becca, Secure Crisis Residential Center & Special Sex Offender Disposition grants); and gains in other areas.

Intergovernmental tax revenues including PILT, Criminal Justice, PUD Privilege taxes, Liquor and Marijuana excise taxes, HCA Medicaid Reentry Demonstration funding, and other taxes are projected to total \$5.575 million, an increase of \$839k or 17.7%, which is primarily due to a \$900k increase in Juvenile Services due to the HCA Medicaid Reentry federal program funding awarded in 2024.

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

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



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## **CHARGES FOR GOODS & SERVICES**

Charges for Goods & Services are budgeted to total \$9.443 million in 2025, an increase \$223k or 2.4% in 2025 driven by the following:

- HHS Environmental Health (+\$213k principally due to rate increases implemented in the 2nd half of '24),
- Sheriff Jail (+\$134k related to assumed resumption of CREW work along county roads with presumption that staffing levels will stabilize),
- DCD Building (+\$44k in building plan check revenues),
- CPI-tied increases under certain interagency criminal justice services agreements (\$58k), and
- Increases in other areas.

These increases are partly offset by declines in:

- Sheriff Ops (down -\$34k in Stonegarden funding),
- Juveniles Services (down -\$64k),
- District Court 1 (down \$149k due to lower Hargrove funding needed to fund the mental health court due to an AOC grant received,
- Parks and Facilities (down -\$44k due to discontinuance of charging capital project management fees to the general fund-funded Parks and Facilities Capital Projects fund).

## **FINES & PENALTIES**

Fines & Penalties are budgeted to total \$726k, a decrease -\$127k or -14.9% over 2024, primarily due to lower fines & penalty revenue budgeted by District Court 1 and 2 in comparison to 2024 trend.

## **MISCELLANEOUS REVENUE**

Miscellaneous Revenue is projected to total \$4.844 million in 2025, and consists mainly of interest income (totaling \$3.1 million in 2025), parks camping fees (totaling \$991k in 2025), Environmental Health operating assessments (\$290k), and fairground rental, concession fees and event sponsorships (\$225k). Miscellaneous revenue is budgeted to remain relatively flat in 2025, mainly due to higher interest on delinquent taxes based on trending, as offset by modestly lower investment interest income in 2025 as the Federal Reserve is expected to begin lowering interest rates later this year. Campground and fair revenues are expected to remain relatively flat following fee increases implemented in 2024. Environmental Health operating assessments are also projected to be flat in 2025.

## **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 \$94k in 2025, consisting of:

- \$50k from the transfer of all interest income earned to-date on American Rescue Plan Act funds from the ARPA fund to the General Fund as interest earnings on ARPA funds are not subject to ARPA usage guidelines;

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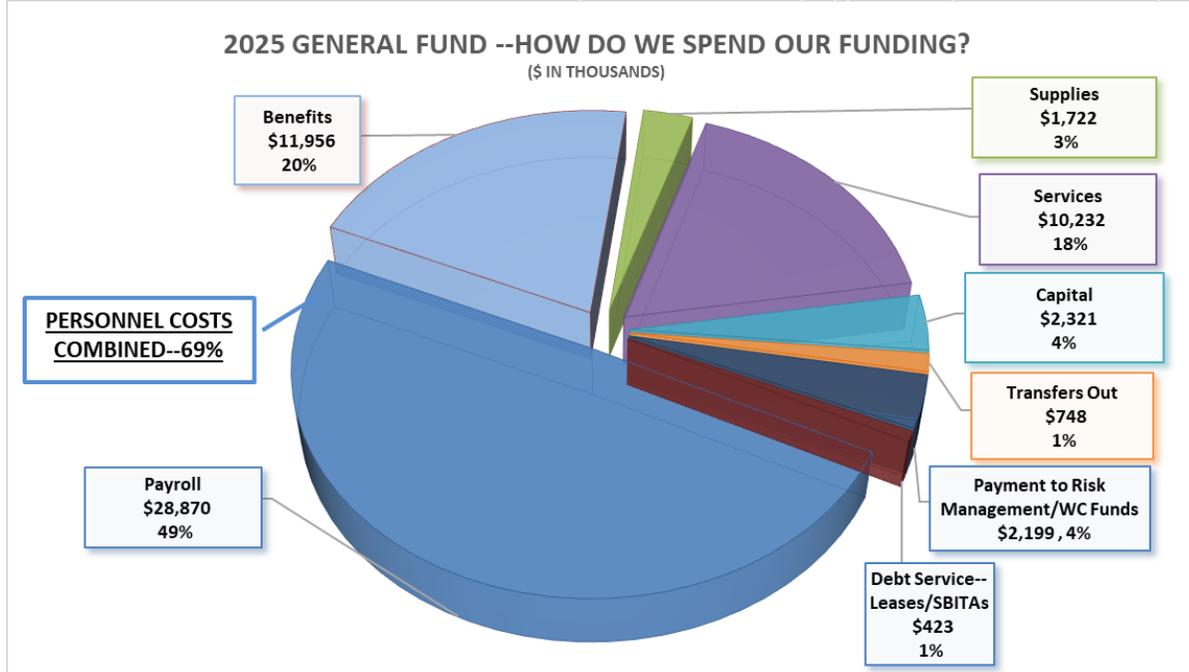
- \$40k recurring transfer to the Sheriff-Jail department from the Trial Courts Improvement fund; and
- \$4k transfer from Public Works for the employee wellness benefit program which is being transitioned to the General Fund’s HR department for 2024.

This represents a \$1.011 million decrease from 2024, which is primarily due to the remaining \$683k of the \$4.683 million of working capital funding provided by the General Fund for the Lower Dungeness Floodplain project being budgeted to be reimbursed to the General Fund as the project’s major construction phases concludes (NOTE--as spill-over of remaining project costs to 2025 is budgeted, part of this remaining transfer may be deferred to 2025—pending further review). The remainder of the decrease is due to a \$578k transfer to the General Fund of total interest earned in the ARPA 603 fund, and a \$250k transfer from Clallam Bay Sekiu Sewer for prior working capital funding provided by the General Fund during its stormwater sewer improvement project.

**EXPENDITURE BUDGET HIGHLIGHTS**

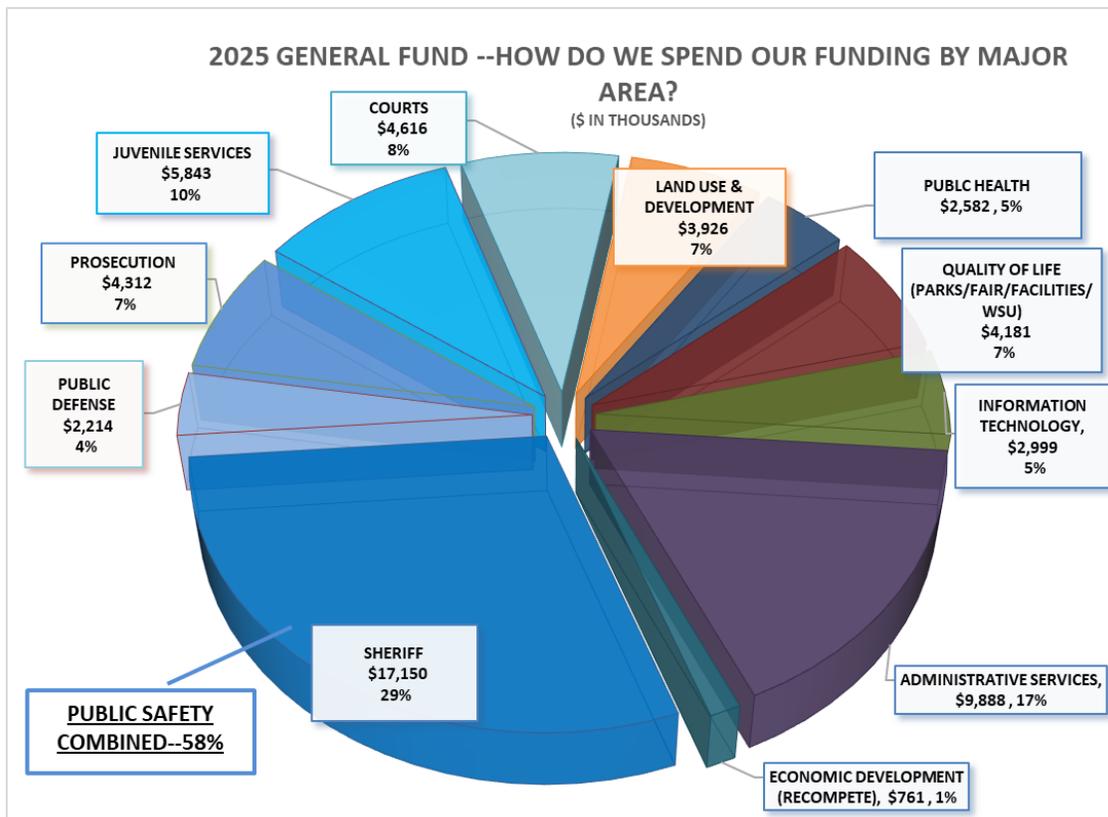
Turning to expenditures, our General Fund Operating Expenditure budget, excluding Transfers Out, currently stands at \$57,724k, an increase of \$5,247k or 10% from our 2024 projected expenditures, and an increase of \$4,390k or 8.2% over the adopted 2024 budget. Transfers Out—consisting primarily of capital outlay funding provided to the Parks & Facilities Capital Projects and IT Capital Projects fund, working capital funding provided to grant-funded projects that generally are expected to be returned to the General Fund after the project concludes and all grant reimbursements have been received, and transfers provided as a subsidy to certain non-General Fund funds that require supplemental funding to operate (i.e. Veteran’s Relief, Local Crime Victim Witness fund, Solid Waste Fund, etc)—are budgeted to total \$748k in 2025, a decrease of -\$746k or -50% from 2024 projected. After including Transfers Out, Total Expenditures are budgeted to total \$58,472k, an increase of \$4,501k or 8.3% over 2024 projected costs.

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



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## SALARIES, WAGES & BENEFITS

The largest driver of the budgeted expenditure increase over 2024 projected expenditures is in Payroll and Benefits costs. Representing approximately 69% of our total expenditure budget, Payroll and Benefits are budgeted to total \$40,826k, with Payroll up \$2,422k or 9.2% and Benefits up \$1,346k or 12.7%, respectively, to the 2024 forecast. These increases are partly due to the fact that the budget assumes all budgeted staff positions are filled for the entire year as required under current policy, which clearly was not the case in 2024 and prior years where due to retirements, voluntary terminations, and other delays in filling positions during the year, the County continued this trend of having more open positions during 2024. This is expected to result in a projected budget underspend in payroll and benefits in 2024 of approximately \$1.75 million or 4.5%. Based on analysis of its 3-year and 5-year historical average payroll/benefits budget underspend, the County has underspent its Payroll budget between 6.7% to 8.3%, equal to between \$2.5 million and \$2.8 million of budget underspend. While not reflected in the current 2025 preliminary budget due to policy, we anticipate a level of personnel budget underspend closer to that expected in 2024 to occur in 2025, or approximately \$1.6 million or 4%. **If you adjust our 2025 personnel cost budget for this anticipated underspend equal to approximately \$1.633 million based on the 2025 payroll budget, our combined personnel costs in reality are expected to increase \$2.135 million or 5.8% in 2025 as compared to projected 2024 costs.**

This 5.8% increase in overall payroll/benefits costs is largely being driven by collective bargaining-related COLAs of 3% in July 2025 and 1.5% in January 2025 and 1.5% in July 2025, pay step increases, pay adjustments, the addition of 8 FTEs from the 2024 adopted budget (including 3 in the

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Recompete grant-funded program, 4 in Sheriff Jail Medical due to bringing nursing services in-house following the end of the Wellpath agreement, and 1 in District Court 1), a \$50-per-month increase in County-paid health premium increases for each collective bargaining unit, and a modest increase in DRS retirement contribution rates. These increases were partially offset by savings from a \$130k decrease in budgeted leave payout costs assumed for 2025 due to higher retirement-related payouts incurred in 2024, and position cost savings related to certain retirements that occurred in 2024.

It is important to note that the preliminary budget does not yet factor in (1) Compensation changes related to our interest arbitration and limited commission bargaining units which are in various stages of negotiation; and (2) health insurance benefit rate increases, which will not be known until October. The impact of these once known will be reflected in a later version of our budget.

### **Changes in Budgeted FTEs**

As outlined in the attached "Budgeted Staff Schedule History", the 2025 Preliminary Budget assumes a full staffing level for the General Fund of 343.79 FTEs, which reflects 8.37 more FTEs in 2025 as compared to the 2024 budget, based on the following changes:

- Assessor (+.25 FTE)
- Auditor (+.25 FTE)
- Treasurer (+.4 FTE)
- BOCC—Recompete—(+3.0 FTE grant funded positions to support Recompete program)
- NonDepartmental (Finance)—(+2.0 FTE due to transition of payroll from HR to Finance)
- IT (-1.0 FTE)
- Human Resources (-2.0 FTE due to shift of payroll staff to Finance)
- Sheriff Operations (+.5 FTE)
- Sheriff Jail (+.6 FTE)
- Sheriff Jail Medical (+4.0 FTE due to bringing nursing in-house from Wellpath)
- Prosecuting Attorney-Child Support (-.63 FTE)
- District Court 1 (+1.0 FTE)

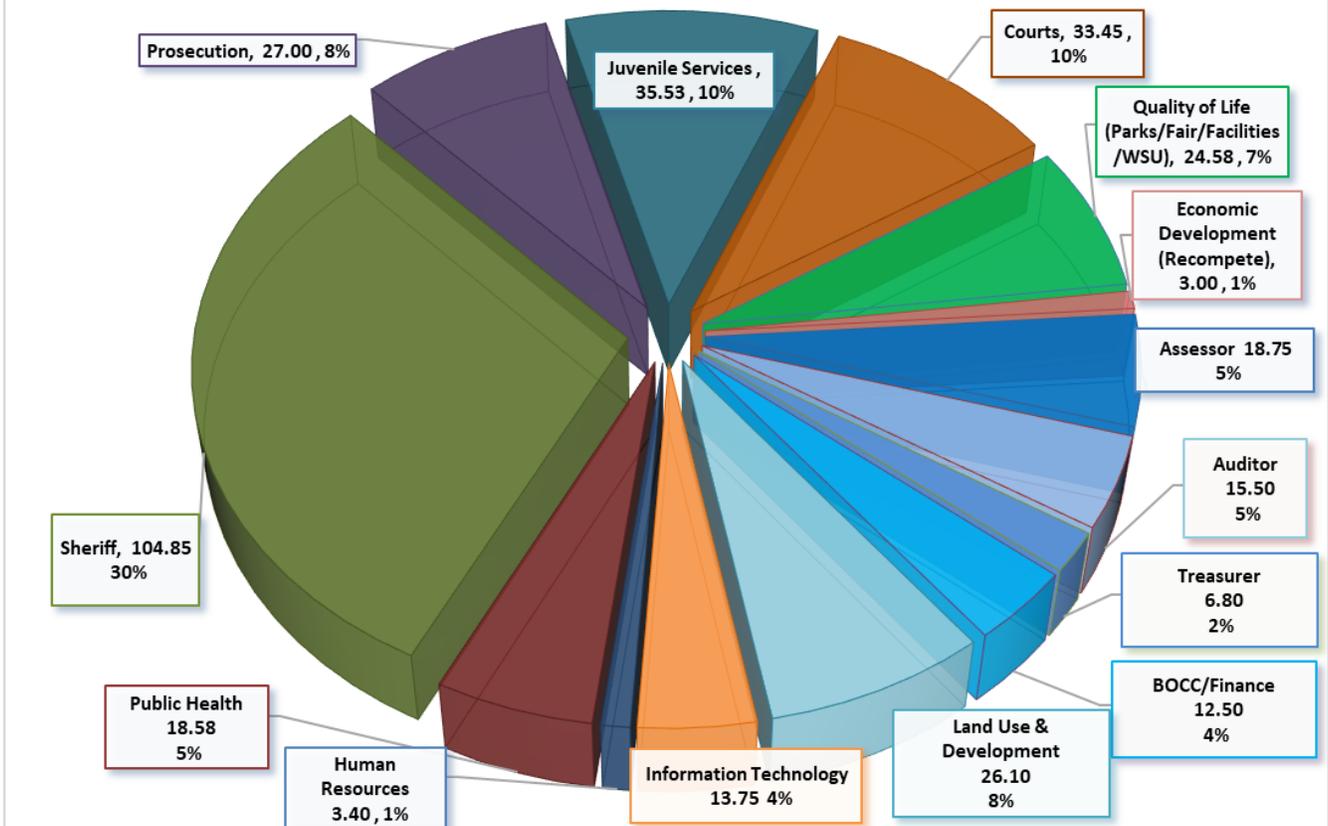
Below is a breakdown of General Fund FTE Staff by Major Area:

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**2025 GENERAL FUND --STAFF FTE COUNT BY MAJOR AREA--  
TOTAL BUDGETED FTES -- 343.79**



**SUPPLIES**

Supplies are budgeted to total \$1.722 million, an increase of \$88k or 5.4% from 2024 as projected. This increase is mainly reflective of 2024 budget trend savings reflected in the 2024 projection as well as increases in Recompete (\$12k) and other areas.

**SERVICES**

Services in 2025 are projected to total \$10.232 million, a decrease of -\$1,041k or -9.2% over 2024 projected services costs, and decrease of -\$42k compared to the 2024 original budget. This decrease is mainly due to the following:

- Sheriff Operations--WASPC Mental Field Response grant-funded services costs not budgeted in '25 (-\$630k),
- Recompete--(-\$338k),
- Elimination of outsourced building and elections security personnel service costs assuming the jail is sufficiently staffed in '25 to resume building security coverage (-\$218k),
- Jail nursing services outsourcing ending in Q1 '24 with the termination of the Wellpath contract (-\$104k), and

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- The reclassification of certain multi-year software licensing costs from Services costs to Debt Service due to a recent accounting rule change (including MS Office 365, Axon body camera software license, and others).
- These decreases are partially offset by contractual increases in various areas.

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

The General Fund’s share of Risk Management/Workers Compensation funds operating costs is budgeted to total \$2,199k, representing an increase of \$236k or 12% increase over 2024. This increase is being driven mainly by an expected 20%+ rise in WAC risk pool costs in 2025 over 2024 due to rising liability and property insurance costs being seen state-wide, continuing a multi-year trend.

## **DEBT SERVICE COSTS**

Debt service costs consists of (1) certain office, land, and equipment leases with a lease term greater than one year, and (2) certain multi-year software licensing and online subscription costs now required to be treated as debt following a recent accounting rule change. These costs are budgeted to total \$423k, representing an increase of \$261k over 2024. This increase is mainly due to a recent change in accounting for certain of the County's software license and online subscription services contracts that are 1 year or more years in duration that must be accounted for as debt service costs rather than as a Services or Supplies costs as in prior years. This change affects multiple departments with multi-year software license agreements, with the most notable being IT (MS Office 365, ESRI GIS), Prosecuting Attorney (Axon Evidence.com, Westlaw), Sheriff (Axon body cameras), and Auditor’s Office (Agilis ballot sorter).

## **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 \$748k in 2025, a -\$946k or -50% decrease from projected 2024. This decrease is mainly due to decreases in Transfers to:

- Parks & Facilities Capital Projects fund (-\$111k lower due to only previously approved and mandatory recurring capital projects being reflected in the preliminary budget);
- IT Capital Projects (-\$421k lower due to funding provided in 2024 for the planned EDEN accounting system migration);
- Health & Human Services—Operations (-\$125k lower due to this funds reserve levels reaching a point where General Fund support is no longer needed); and
- Solid Waste (-\$70k lower due to lower than expected costs for ongoing monitoring of former Lake Creek landfill site)

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

• Capital Projects—Parks & Facilities	\$300,000
• Capital Projects—IT	63,000
• Local Crime Victim Comp	16,000

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- Veterans Relief 125,000
- Public Works--Flood Control 89,000
- Public Works—Carlsborg Sewer 116,000
- Law Library 17,000
- HHS Chemical Dependency/Mental Health 6,000
- Treasurer Land Assessment 6,000
- Sheriff Honor Guard 10,000

**TOTAL TRANSFERS OUT—2025 \$ 748,000**

**PRELIMINARY DRAFT--2025 CAPITAL PLAN**

Attached for review is the County’s Preliminary 2025 Capital Plan, comprised of requests in the ‘Previously Approved Carryover projects’ and ‘Mandatory/Recurring/Regular Replacement’ Key Strategic Capital Project Initiative Categories. These requests are based on the 5 Year Capital Plan previously discussed with the BOCC last year and total \$2,320,500, which have been included in the the 2025 Preliminary Budget.

In addition, a 2025 Capital Plan list of department requests that are new for 2025 is included in this budget packet, which will be discussed during upcoming department budget meetings. The Capital Plan requests have been updated and prioritized by the various departments earlier this year based on changing needs and reprioritizing of requests.

<b>2025 General Fund Requests—Previously Approved/Mandatory/Recurring</b>	<b>\$2,320,500</b>
<b>2025 General Fund New Capital Requests</b>	<b>\$938,889</b>
<b>2025 Other Fund Requests—excluding General Fund</b>	<b>\$43,750,757</b>
<b>Total 2025 Capital Requests</b>	<b>\$47,010,146</b>

**HOW THE PRELIMINARY CAPITAL PLAN IS ORGANIZED**

- **2025 Proposed Preliminary Capital Outlay Budget--By Fund**
  - **Previously Approved Carry Over Capital Outlays--** this represents the 2024 capital projects approved by the BOCC as part of the 2024 budget that were not completed in 2024 that will be carried forward and completed in 2025, or represent multi-year projects that will continue into 2025.
    - **Total General Fund Requests: \$2,282,500**
    - **Total Other Fund Requests—excluding General Fund \$32,294,733**
  - **Mandatory/Recurring/Regular Replacement--**at the request of the BOCC, this category includes capital requests relating to departments’ ongoing, recurring operating needs, scheduled regular replacement of assets (Copier replacements for example), and needed significant capital improvement/maintenance that can no longer be deferred, or other items that are of a mandatory nature. While still important to not

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lose sight of these “mandatory/recurring” items as their costs are generally funded through general fund and REET-supported funds and thus reduce the amount of funding available for the other key strategic initiatives, their grouping allows for better isolation and focus on the more strategic capital needs of the county.

- **Total General Fund Requests: \$38,000**
- **Total Other Fund Requests—excluding General Fund \$330,000**

- **2025 New Request Capital Outlay Budget--by Fund**

- At this preliminary draft stage of the budget process, this includes those items within the 2025 Capital Plan requests that have not been approved in prior years and are not mandatory/recurring/replacement type items, and so are currently not included in the 2025 capital outlays in the 5 Year plan pending further discussion of underlying issues and funding priorities relating to the requests during the upcoming budget meetings.

- **Total General Fund Requests \$ 938,889**
- **Total Other Fund Requests—excluding General Fund \$11,126,024**

Based on feedback received during these upcoming discussions, as we move through the 2025 budgeting process, we will adjust the 2025 capital budget accordingly as well as update the 2025-2029 5 Year Capital Plan. We already have had meetings with, and will continue to coordinate with, various departments on collaborative project requests needing more than one department to plan and/or implement many of these capital requests, including but not limited to Parks/Fair/Facilities, Information Technology, Equipment Rental & Revolving, etc.

### **GENERAL FUND RESERVES**

Based on this revenue and expenditure preliminary budget, the budget reflects utilizing (\$4,187k) of General Fund reserves to fully fund the 2025 budget based on County policy which requires us to budget assuming all personnel positions are fully staffed for the entire year. However, as discussed previously and as outlined in the attached “Breakdown of Proposed Final Budget Deficit”, based on expected underspend to our personnel and benefits budgets of \$1.633 million, **the General Fund’s 2025 Preliminary Budget as adjusted would produce a projected deficit for 2025 of (\$2,554k)**, as compared to 2024’s projected operating deficit of -\$44k, which would leave an **ending fund balance of \$10,851k for 2025, or a reserve of 19% of expenditures.**

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

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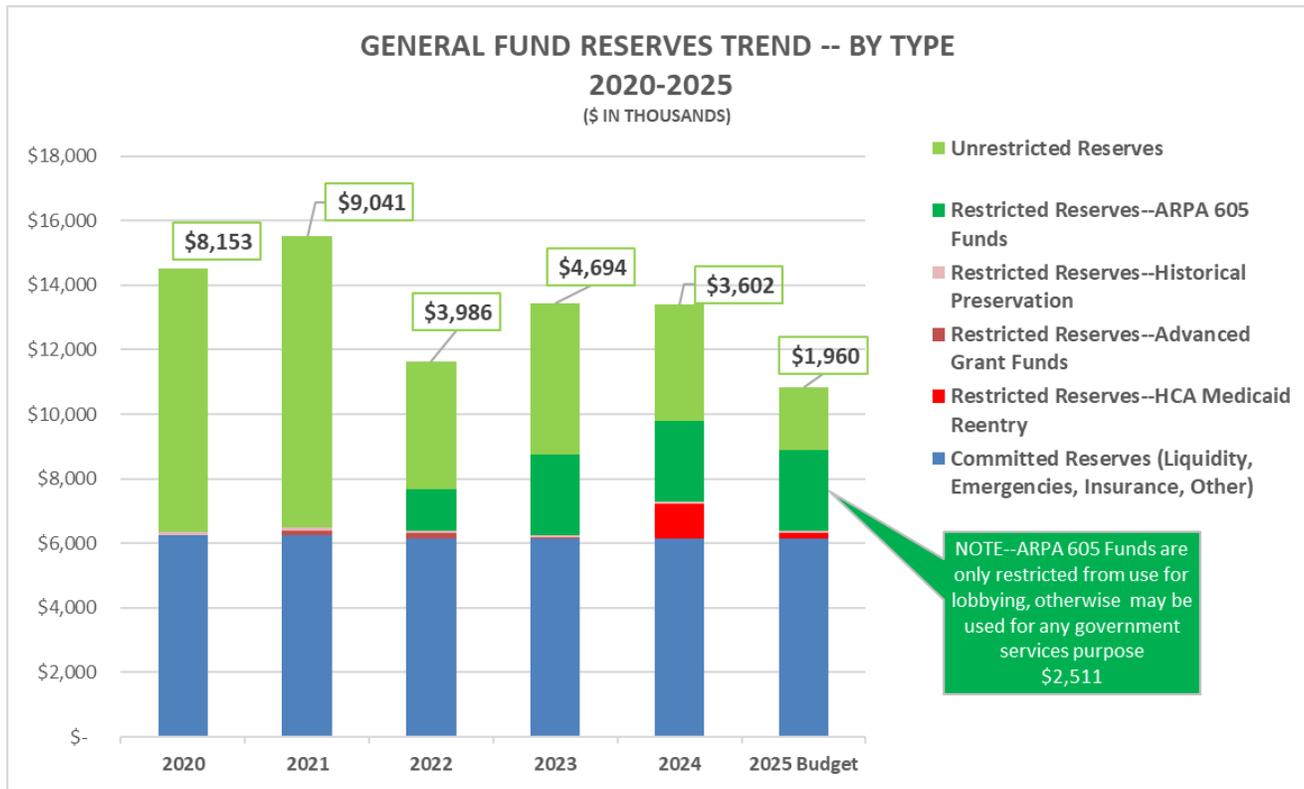
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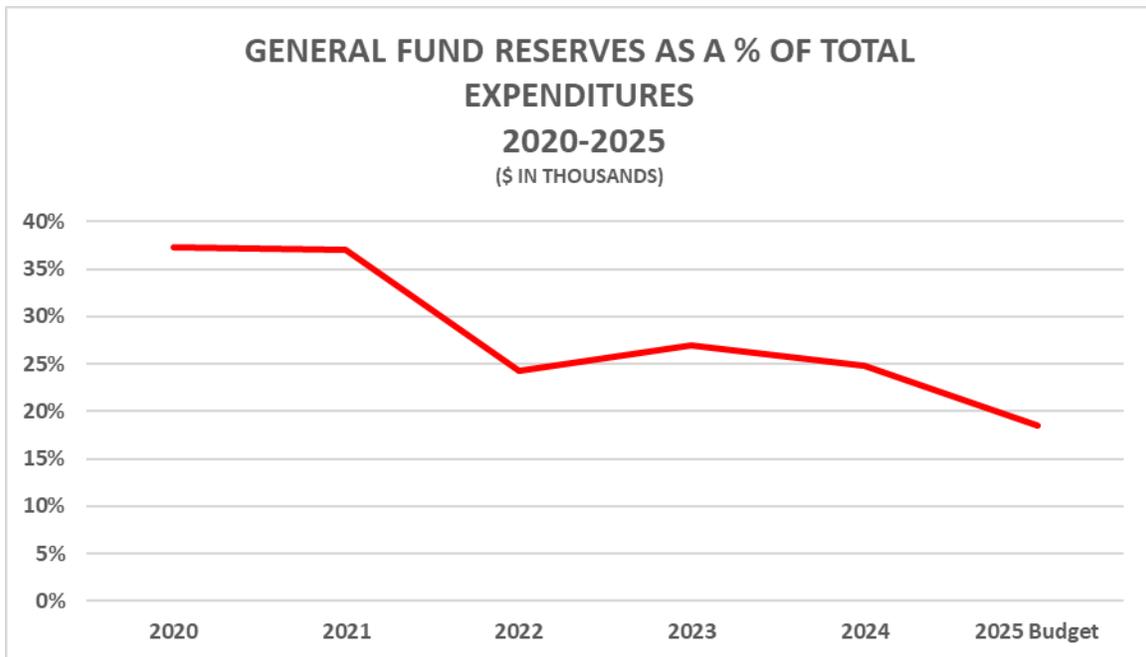
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The General Fund Reserves shown as a % of Total Expenditures from 2020 to 2025 is provided below:



These charts serve to highlight the decline both in unrestricted reserves and overall reserves that has occurred historically in the General Fund, and the impact the current 2025 Preliminary Budget as

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currently forecasted would have. These historical declines in reserves have been driven by several factors including:

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

As we move forward in the 2025 budget process, County management will be focused on identifying and proposing revenue and cost adjustments that will help reduce the budgeted operating deficit to maintain a sustainable and adequate level of reserves.

## **BUDGET TAKE-AWAYS**

Please also note that there are several outstanding issues that have yet to be factored into the General Fund budget in its current preliminary state that to the extent approved would increase the amount of reserves needed to fund (absent incorporation of additional revenue and cost savings measures identified during our budget process), including:

- Inclusion of Additional Capital Requests--pending finalization of what capital outlay expenditures the Board approves to be funded through the General Fund in 2025, this will need to be layered into the General Fund budget as well as those other capital reserve funds to be utilized. We expect to have the 2025 portion of 5 Year Capital Draft Plan presented to the BOCC in October and have incorporated a preliminary list of any additional 2025 capital outlays into the Administrator Recommended Budget.
- Additional Payroll/Benefit costs resulting from conclusion of labor negotiations with our interest arbitration and limited commission bargaining units.
- Department Requests for 2025—as outlined in the attached "2025 Department Requests Over the Base Budget", **a total of \$1,665,309 of additional General Fund spending requests have been submitted, of which \$371,802 are one-time requests and \$1,283,507 are ongoing funding requests.** These requests include:
  - IT—requesting \$377,900 of ongoing spending and \$14,000 of one-time spending to migrate to a higher level license of Microsoft Office 365 that includes the Governance Module and centralized E-Discovery functionality needed to support public records

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requests (\$97k recurring), renewal of a 5-year subscription for Nutanix virtual environment software (\$239k), IT Service Platforms license increases related to the County's virtual environment (\$42k), and upgrading of PC virtual machines (\$10k).

- GIS—requesting \$76.5k in ongoing funding and \$3,000 of one-time funding, principally to continue funding the ESRI Advantage Plus software as a service approved in the 2024 budget (\$48.5k), renewal of the 3 year ESRI service contract (\$21k), ESRI consulting (\$7.5k), as well as additional travel training.
- Assessor—requesting \$40k of ongoing funding related to the Cyclomedia property 3D mapping service, and iPad equipment (\$3.7k).
- Treasurer—requesting \$17k of recurring funding relating to expected postage increases, and \$6k in one-time extra help to enable bringing back a retiring senior accountant staff member for training, year-end balancing, and audit support.
- BOCC—requesting \$39k of one-time funding for installation of webcam owl equipment in briefing room and a new wireless microphone system for the BOCC board room.
- Community Development--Administration—requesting \$21.5k of ongoing funding to support reclassification of administrative staff (\$13.5k) and cost of adding Code Enforcement officers to Sheriff radio system (\$8k), and \$6.5k one-time funding for purchasing a higher resolution camera and a canopy for requested code enforcement fleet vehicle.
- Community Development—Environmental Quality—requesting \$87k ongoing funding to support staff position personnel costs previously covered under grants, and increased funding for Streamkeepers and monitoring costs related to the Lower Dungeness Floodplain.
- Community Development—Permit Center—requesting \$12k of one-time funding for cross-training for a retiring building official.
- Health and Human Services—Environmental Health—requesting \$110k to fund restoring an on-site septic specialist position deferred in 2024 and to acquire software supporting online payments from food service establishments.
- Sheriff's Office—requesting \$44k of ongoing funding and \$32k of one-time funding for additional body camera, Tyler Civil Serve software, officer wellness gym camera equipment, Forks prisoner boarding costs, additional Jail overtime, Jail booking work stations and fingerprinting equipment, and Jail nurse training.
- Prosecuting Attorney—requesting \$41k of ongoing funding to support legal staff promotions/reclassifications and professional dues.
- Prosecuting Attorney—Coroner—recurring funding of \$133k request to increase funding for coroner services (\$50k), the addition of a third deputy coroner death

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investigator (\$71k), and for ER&R vehicle costs related to the coroner vehicle purchased in 2024 (\$12k).

- Juvenile Services—requesting \$110k of recurring funds for the reinstatement of a deferred Probation Office I position and 16 cell phones for staff, and \$70k in one-time requests for taser replacement, restraint safety equipment, uniforms, and a database conversion project.
- Superior Court—requesting \$135k of recurring funds for indigent defense expert services and evaluations, and \$67k on one-time funding for judicial college training, audio visual equipment for court rooms and conference rooms, and a court calendar software replacement project.
- District Court—requesting \$72k of ongoing funding for establishing a Veterans Court, and \$5k of one-time costs for various IT workstation equipment.
- Parks & Facilities—requesting \$38k of recurring funding and \$3k of one-time costs to support rising supplies, merchant account fees, waste disposal, and for establishing StarLink service at Camp David Jr.
- Fair—requesting \$25k of ongoing funding for increases in custodial contract services, logging show and rodeo costs, and utilities increases.
- WSU Extension--\$57k of recurring funding to support a full time administrative specialist, COLAs for staff paid under the County/WSU MOA, cell phone, dues, travel and subscription costs.

### **ADDITIONAL ACTIONS TO REDUCE PROJECTED 2025 DEFICIT**

Given the County's projected General Fund reserve levels are projected to drop below 20% and has essentially no long-term debt service commitments outside of office/land leases and certain multi-year software license obligations heading into 2025, additional actions are being taken to further reduce the funding deficit projected for 2025, including:

- **Community Development Fee and Rate Schedule Review**—Following actions taken in 2023 and 2024 in reviewing and revising its user fee and rate schedules in certain areas to better reflect market rates and changes in underlying costs (most notably within Parks and Fair and Environmental Quality), the Office of Community Development has undertaken a review of their current fee and rate schedules for the services provided relative to those charged by our County's peers. In many instances, these fees and rates have not been adjusted for several years and are well below our peers. Based on an analysis prepared by Community Development, we estimate the potential revenue impact of these efforts could produce an additional \$350k-\$400k of additional permit and plan check revenue beyond what is currently reflected in the County's Preliminary Budget. It is anticipated that these proposed rate increases will be brought to the BOCC for consideration within the next 60 days and incorporated into the Administrator Recommended budget if approved.

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- **Other cost savings and revenue enhancement initiatives (including how the County can more strategically utilize non-General Fund revenues and new revenue sources to fund certain costs)** are currently being explored by all General Fund and General Fund supported departments, and will be discussed at length in upcoming department budget meetings in September for potentially inclusion in the Administrator Recommended budget.

**RISK FACTORS TO CONSIDER:**

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

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

	<b><u>Average Annual Growth Rate (2025-2021)</u></b>
<b>Revenue from Operations</b>	<b>+6.7%</b>
<b>Expenditures from Operations (less anticipated Personnel cost underspend)</b>	<b>+10%</b>

Contributing factors to this dynamic include:

- **Our single largest revenue source—property taxes—is limited to 1% annual growth** plus new construction.
- While other tax sources such as sales & use tax help mitigate the minimal growth limits placed on property taxes, **overall taxes are still growing at an average rate of 3.5% from 2021-2025 which is well below expenditure growth rates of 10%.**
- **Continued erosion of several significant revenue streams due to WA state legislative actions and court rulings over the past few years** has negatively affected the fines, penalties, interest and other legal fees the County is able to enforce collection on, leading to a 4-year average annual decline of -7.3% in Fines & Penalties revenue.
- **State actions taken during the COVID pandemic continue to have an echo effect on certain of the County’s inter-agency revenues**, most notably the marked decrease in excess jail bed utilization by the WA State Department of Corrections (“DOC”) where due to reduced State inmate levels County jail bed revenues earned from DOC declined from an average of \$612k per year pre-COVID to \$160k projected in 2025, a 74% decline.
- **The State continues to underfund indigent public defense costs, and with new reduced public defense caseloads limits proposed by the WA State BAR**

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**Association taking effect beginning 2025-2027 if approved the State Supreme Court, the funding shortfall for indigent defense could become a crisis if the State does not act.** While the County is budgeted to incur \$2.2 million in Public Defense costs in 2025, the State has only historically contributed \$70k-\$74k per year towards these costs since 2018. Indigent defense costs have increased 9.3% per year since 2018. If these proposed reduced caseload limits are enacted, this could potentially increase our County's indigent defense costs 2.5 to 3 times, which without funding from the State to offset this increase would create a funding crisis for our County and many others.

- **Representing 69% of our General Fund operating expenditures, personnel costs have grown at a rate of 6.8% since 2021** and are increasingly being affected by a highly competitive labor market and rising labor costs which have made recruitment more difficult and costly.
- While significant gains in growing the investment interest the County earns on its reserves due to the significant rise in interest rates by the Federal Reserve over the past three years have been a boost to the County's revenue growth and significant steps have been taken to lock-in higher rates in the investment of County funds into longer-term securities, it is unclear how long this will be sustained long-term as interest rates begin to soften later this year and into 2025.
- **Rapid cost increases in multiple areas over the last few years are placing considerable strain on the General Fund and other County funds**, including:
  - WA State Risk Pool insurance costs are continuing a multi-year trend of increasing 20%+ annually and appear to becoming the norm, potentially leading to a point in the near future where some counties can simply no longer afford to participate in the pool or secure insurance on their own at an acceptable cost;
  - Rising Worker's Compensation costs due to higher claims costs and L&I rates assessed;
  - Jail Medical costs are projected to increase 9% per year from 2020 to 2025, as a result of healthcare staffing shortages and an increasing proportion of inmates with significant mental health, chemical dependency and chronic health issues that require medical treatment; and
  - Inflationary cost increases continue to significantly impact everything from our cost to replace fleet vehicles and equipment, capital project costs, facilities maintenance, utilities, and supplies, software licensing and maintenance costs, fuel costs, etc.

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

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

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

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

**Name of Employee/Stakeholder attending meeting:** \_\_\_\_\_Mark Lane, Rebecca Turner, Eleanor Hill\_\_\_\_\_

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

**Date submitted:**

August 28, 2024

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