



## AGENDA ITEM SUMMARY

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

**Department: Finance**

**WORK SESSION**     **Meeting Date:**

**REGULAR AGENDA**  **Meeting Date:**    **12/3/2019**

**Required originals approved and attached?**   
**Will be provided on:**

**Item summary:**

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Call for Hearing | <input type="checkbox"/> Contract/Agreement/MOU - Contract # |   |
| <input type="checkbox"/> Resolution       | <input type="checkbox"/> Proclamation                        | <input checked="" type="checkbox"/> Budget Item |
| <input type="checkbox"/> Draft Ordinance  | <input type="checkbox"/> Final Ordinance                     | <input type="checkbox"/> Other Monthly Review   |

Documents exempt from public disclosure attached:

**EXECUTIVE SUMMARY:**

As required by the Clallam County Charter, attached is the 2020 Proposed Final Budget for Clallam County for the required public hearings to be held on December 3, 2019 at 10:30am and 6pm in the Board Room. Following hearing of testimony and questions from the public and staff, the Commissioners will then proceed in moving forward with adoption of the Proposed Budget that evening, or if a hearing extension is needed to allow further changes to be made, no later than Tuesday, December 10<sup>th</sup>.

The following materials have been provided to accompany this summary:

- 2020 Proposed Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2020 Proposed Budget to Projected/Actual Results for 2019-2017;
- General Fund 4 Year Comparison of 2020 Proposed Budget to Adopted Budgets for 2019-2017;
- A Summary Breakdown of the 2020 Proposed Budget General Fund Operating Deficit, which summarizes the key components, assumptions and one-time and ongoing department requests driving the operating deficit budgeted for the General Fund in 2020, as well as provides context around certain areas of the budget (namely personnel costs) where our actual spending has historically trailed the budget and what potential impact those areas may have in our projected General Fund Operating Deficit in 2020 relative to what our Proposed Budget reflects;

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- 2020 Draft Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2020 Draft Budget Salary Worksheet Breakdown by Department/Fund;
- 2020 Department Requests Over Base Preliminary Budget, marked to show which items are included the budget and which have been deferred; and
- A list of Budgeted Transfers between the General Fund and other County Funds.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2020 Draft Budget projects a beginning General Fund Balance of approximately \$14.69 million, Revenues totaling \$42.863 million, Expenditures (including Transfers Out to Capital Projects and other funds) of \$45.934 million, resulting in a use Reserves of (\$3.072) million, and leaving an ending General Fund Balance of \$11.62 million, representing a healthy reserve level of 25% of total operating expenditures. Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

General Fund Revenues are projected to total \$42,863k, representing a \$2,643k or 6.57% increase over 2019 projected revenue expected, and a 3.4% increase over the 2019 originally adopted budget. Revenue projections for 2020 reflect a deceleration of the strong economic activity seen thus far in 2019, albeit not a recession, with these assumptions based upon the continued economic uncertainty surrounding global trade, the potential recessionary signals sent by the inverted yield curve developments seen earlier this year, volatility in the equity markets, and the slow-down in real estate activity-driven REET collections in 2019 relative to prior year.

Tax revenues are projected to increase \$331k or 1.62%. Property taxes are projected to increase \$234k or 2.17% as we assumed the County took its allowed for 1% annual levy growth limit, as adjusted for new construction, allowed for under statute. The remainder of tax revenue growth came principally from sales-driven taxes (including local retail and juvenile correction sales and use taxes) which were assumed to grow at a more modest 1% growth rate in contrast to the 7.5% year-over-year growth rate seen thus far this year.

The other principal driver in revenue growth in 2020 relates to a \$1,631k increase in Transfers In to the General Fund, relating mainly to the carry-over of the Lower Dungeness Project which was largely delayed in 2019 due to permitting delays, as well as the addition of the Dungeness Reservoir project which is expected to commence in the second half of 2020. This increase in Transfers In for both Lower Dungeness and Dungeness Reservoir are fully offset by corresponding increases in Transfers Out to these funds, making these cash flow neutral events for the General Fund.

Intergovernmental grant revenues are projected to decrease \$78k mainly due to lower grants in juvenile services (CASA mainly) and other areas, as partly offset by \$130k in growth from PILT, PUD Privilege Tax, Criminal Justice, Marijuana and Liquor-related excise taxes. Charges for Goods & Services are projected to grow \$595k or 6.54%, which is being driven largely by a \$371k increase in cost allocations charged by the General Fund to other funds for their share of shared service and

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other overhead costs based on the new cost allocation methodology adopted in the 4<sup>th</sup> quarter of this year, a \$178k increase in election services revenue, \$203k in additional Jail revenue projected from Dept of Corrections and the 24/7 Sobriety program, and increases in other areas, as offset by the impact of the \$300k drop in Roads Payment for Traffic Policing from \$800k to \$500k in 2020. Timber revenues to the General Fund are budgeted flat to 2019's adopted budget at \$600,000 based on a 2020 DNR timber forecast received in August totaling \$4.7 million, which is relatively flat with 2019 projections.

**EXPENDITURE BUDGET HIGHLIGHTS**

Turning to expenditures for the General Fund, our Proposed Expenditure budget totals \$45,934k, an increase of \$6,918k or 17.73% from our 2019 projected expenditures, and an increase of \$3,387k or 8% over the original 2019 budget. Excluding Transfers Out, total expenditures are up \$3,913k or 10.2% to the 2019 forecast.

The largest driver of the increase over 2019 projected total expenditures is in Transfers Out, with the Proposed Budget reflecting the following increases:

- Transfer to Lower Dungeness Fund \$1,120k
- Transfer to Dungeness Reservoir \$250k
- Transfer to the Parks/Facilities Capital Projects Fund \$800k
- Transfer to the IT Capital Projects Fund \$500k
- Transfer to HHS Operations Funds \$400k

As mentioned earlier, a bulk of the Lower Dungeness work spilled over into 2020 and the preliminary work on the Dungeness Reservoir is expected to commence in 2020, resulting in a combined \$1,370k increase in Transfers Out needed from the General Fund. Again these transfers are cash flow neutral to the General Fund given the corresponding increases of Transfer In revenue for both of these projects and the fact both projects are 100% grant funded).

Turning to the Capital Projects Transfers, since 2007, neither the Parks/Facilities nor IT capital project funds has received funding from the General Fund, and as a result both funds are projected to be fully depleted next year absent a capital infusion. Using the approximate combined \$3.0 million of General Fund surpluses generated or expected to be generated in 2018 and 2019 as a funding source, the Proposed Budget assumes \$1.3 million (or approx. 43%) of the combined 2018/2019 General Fund Surplus is transferred to these capital projects funds to finance the following carryover and recommended high priority capital projects:

- **Parks/Facilities Capital Projects**—Salt Creek Bluff Stabilization (\$300k), HVAC Replacement for the 3<sup>rd</sup> St Building (\$340k), EOC Relocation Initial Planning Costs (\$250k), and Unanticipated Projects (\$85k);
- **IT Capital Projects**—Stage 1 of the IT Infrastructure Initiative to Replace/Upgrade the County's Virtual Environment (\$250k), carryover projects related to network backup and network device replacement (\$120k), mandatory/recurring costs for scheduled PC and MS Office replacements, and other projects.

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Finally, the \$400k Transfer Out to HHS Operations reflects the additional funding support needed by this fund following the implementation of the County's new cost allocation plan for its shared service functions in 2019, which resulted in a significant true up increase in indirect costs allocable to this fund and a resulting decrease in fund balance in 2019.

Payroll and benefits costs, representing approximately 73% of our total expenditure budget (excluding transfers), are budgeted to increase 8.7% and 10.6%, respectively, over the 2019 forecast, and increase 5.2% and 3.2%, respectively, compared to the 2019 adopted budget. The increase in comparison to our 2019 forecast was mainly due to the fact that the budget, as required under current policy, assumes all budgeted staff positions for each department are filled for the entire year, which was not the case in 2019, or for several years prior, due to retirements, voluntary terminations and delays/difficulties in filling positions during the year, leaving more open positions (or "dark time") for the County during much of the year. As a result, actual Payroll and Benefit costs on average have come in between \$1.2 to \$1.4 million below the General Fund compensation budget over the last 5 years.

Also contributing to the year-over-year increase in payroll/benefits is the impact of the elected official raises adopted via resolution in 2018 that continue to phase-in, the full year impact of step raises and 1% COLAs adopted in mid-2019, and 1% COLAs again assumed in both January and July 2020. We have budgeted 7.07 more FTEs in 2020 as compared to the 2019 budget, with staff additions in Assessor (+1 FTE), Non Departmental (+1.5 FTE), Sheriff Ops (+2 FTE), Sheriff Jail (+.5 FTE), Jail Medical (+0.5 FTE), HHS Environmental Health (+1.5 FTE), DCD (+.44 FTE), Parks/Facilities (+1.5 FTE) and WSU (+1.0 FTE), as offset by reductions in Auditor (-.75 FTE), BOCC Ops (-.5 FTE), and Juvenile Services (-1.6 FTE). No compensation/benefits impact resulting from the renewal of our collective bargaining agreement in 2020 has been factored in the Proposed Budget.

Services are slated to grow \$709k or 7.7% in 2020 over the 2019 budget. This is largely due to approximately \$327k of additional department requests from the Prosecuting Attorney and Superior Court to cover the additional costs expected from the two multiple-homicides that occurred in late 2018 and 2019 that will be tried in 2020. Other services cost increases include additional election-related costs for the 2020 presidential election, \$135k in higher Risk Management costs assessed to the General Fund, and increases in several other areas. Supplies are budgeted to increase \$104k or 8.2% over the 2019 budget, largely due to a \$55k department request from the Assessor for a software upgrade relating to the Harris PACs system, \$35k requested by the Prosecuting Attorney's office for purchase of additional licenses for their Legal Files case management system, as well as a number of smaller department requests included in the budget (see the included "2020 Department Requests Over Base Budget—Proposed Budget" for further details).

## **CAPITAL OUTLAYS AND DEPARTMENT REQUESTS**

- Capital requests—in total, we have prepared a budget that reflects total capital funding outlays, excluding the Roads, Lower Dungeness and Dungeness Reservoir Funds, of \$5.693 million for 2020. The \$5.693 million is budgeted to be funded as follows:
  - General Fund--\$280k;
  - Parks & Facilities Capital Projects Fund--\$975k;
  - IT Capital Projects – \$536k;
  - REET 1--\$720k;

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- REET 2--\$1,391k (including \$700k transfer to Roads for various road improvement projects and \$100k to Carlsborg Water Mitigation for completion of the deep water well project);
  - Clallam Bay/Sekiu Sewer--\$1,267k (funded via loan/grant for the sewer rebuild project & \$221k in unspent carry over from 2019);
  - Carlsborg Sewer-- \$301k (including \$242k of unspent carry over from 2019 for the Gupster sewer extension project);
  - Other Sheriff Funds (OPScan/Stonegarden)--\$185k; and
  - Auditor Document Preservation--\$38k
- Department Requests for 2020—as outlined in the attached schedule “2020 Department Requests Over the Base Budget—Proposed Budget”, a total of \$927,534 of the \$1,749,631 of additional General Fund spending requests are included in the Proposed Budget, with the remaining \$822,097 deferred. Of the spending requests included in the budget, \$489,845 were one-time requests (of which \$327k related to criminal prosecution/defense costs for the multiple homicide cases) and \$437,689 were ongoing requests. Of the Other Non-General Fund requests of \$199,543, a total of \$195,543 is included in the Proposed Budget for 2020.

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

Recognizing that the 2020 budget operating deficit of (\$3,072k) is a considerably larger deficit than proposed in the past, it is important to keep in mind the following (this is also outlined in the attached “Breakdown of Proposed Budget Deficit” schedule):

- As noted earlier, \$1.3 million of this usage of reserves relates to the funding of Parks/Facilities and IT capital project funds that have not received any funding from the General Fund since 2007 and are to the point of being fully depleted. The proposed contributions to these funds can be fully funded using less than one-half of the projected 2019/2018 operating surpluses generated within the General Fund, leaving in excess of \$11.6 million of general fund reserves at the end of 2020, which represents a still healthy level of reserves for the general fund.
- Another significant component of this larger budgeted operating deficit is the approx. \$327k of additional criminal justice costs projected by our Prosecuting Attorney and Superior Court relating to the multiple-homicide cases that will be tried next year. Given the difficult nature of projecting such costs at this early stage in these cases, the budget reflects a baseline estimate that will have to be closely monitored once better visibility exists surrounding these cases, and may require our revisiting the budget for these items as 2020 unfolds. While there may be an opportunity to recover some of these costs from the State upon conclusion of these cases in 2021 or possibly incur less costs depending on how the cases develop, it is unclear how much, if any, reimbursement will be received or cost savings realized, and thus no provision is made for either contingency in the proposed budget.
- As noted earlier, the General Fund over the past 5 years has under-spent its payroll/benefits budget on average between \$1.2 million and \$1.4 million largely due to retirements, voluntary turnover, and delays in filling open positions which, because our current policy requires that we budget all departments as being fully staffed for the entire year, are not factored into the proposed budget. If this trend continues in 2020, our projected general fund operating deficit would be expected to total (\$1.872) million. Excluding the budgeted capital project

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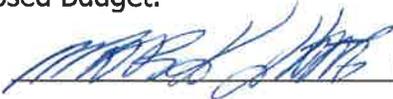
contribution transfers of \$1.3 million which in reality represent a usage of prior year operating surpluses, the adjusted projected general fund operating deficit would total (\$572k), or in other words a deficit only (\$245k) greater than the amount of additional funding requested for the multiple homicide cases. Taking into consideration the \$163k of other one-time, non-recurring department requests included in the 2020 Proposed Budget, the projected operating deficit from an ongoing, recurring perspective would total (\$81k).

**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 rolled up proposed budget for 2020 submitted for public hearing and final adoption.

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

Hold the scheduled public hearings on December 3<sup>rd</sup>, 2019, field questions from the public and staff in attendance, determine if any further changes are needed to the budget as submitted, and move forward with final adoption of the 2020 Proposed Budget.

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

**Name of Employee/Stakeholder attending meeting:** \_\_\_\_\_ Mark Lane \_\_\_\_\_

**Relevant Departments:** \_\_\_\_\_ County Administrator, Budget Director, Board of Commissioners,  
Finance Department \_\_\_\_\_

**Date submitted:**

November 26, 2019

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