



## AGENDA ITEM SUMMARY

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

Department: Finance

### WORK SESSION

Meeting Date: 10/14/2019

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 for review and discussion is the 2020 Administrator Recommended Budget for Clallam County. Following submission of this recommended budget, the budget process will proceed as follows:

- October 17<sup>th</sup>-25<sup>th</sup>—BOCC, Administrator, CFO and Budget Director to meet with each department;
- October 28<sup>th</sup>—Working Session to Review Resolutions for General Purpose and Road Fund Property Tax Levies for 2020
- November 18<sup>th</sup>—Revised Draft Budget to BOCC Work Session
- November 26<sup>th</sup>—Hearing and Adoption of Property Tax Levy Resolutions
- Tuesday, December 3<sup>rd</sup>—Final Public Hearing at 10:30am and 6pm in the Board Room to adopt final budget by resolution.
- 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:

- 2020 Administrator Recommended Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2020 Recommended Budget to Projected/Actual Results for 2019-2017;
- General Fund 4 Year Comparison of 2020 Recommended Budget to Adopted Budgets for 2019-2017;

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Agenda Item Summary Recommended Budget 2020

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Revised: 3-04-2019

- A Bridge Analysis summarizing the major revenue and expenditure changes made to the 2020 budget from the Preliminary Budget submitted in September to the attached 2020 Recommended Budget;
- A Summary Breakdown of the 2020 Recommended Budget General Fund Operating Deficit, which summarizes the key components/assumptions 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 would have in our projected General Fund Operating Deficit in 2020;
- 2020 Recommended Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2020 Budget Salary Worksheet Breakdown by Department/Fund; and
- 2020 Department Requests Over Base Preliminary Budget, marked to show which items the Administrator/CFO Recommend for Approval and which items are recommended for deferral.

## **EXECUTIVE SUMMARY**

At a high level, the 2020 Recommended Budget projects a beginning General Fund Balance of approximately \$14.5 million, Revenues totaling \$43.020 million, Expenditures (including Transfers Out to Capital Projects and other funds) of \$45.96 million, resulting in a use Reserves of \$2.941 million, and leaving an ending General Fund Balance of \$11.55 million. Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

In this preliminary roll up of the 2020 budget, General Fund Revenues are projected to total \$43,019,611, representing a \$2,064k or 5.04% increase over 2019 projected revenue expected (based on projections last updated in October), and a 3.7% increase over the 2019 originally adopted budget. As shared with you in our Preliminary Budget submission, in projecting revenues for 2020, given the increasing economic uncertainty centering around trade, the potential recessionary signals sent by the inverted yield curve developments seen earlier this year, a return of volatility in the equity markets, and the slow-down in real estate activity-driven REET collections in 2019, we assumed a deceleration of the strong economic activity seen thus far in 2019, albeit we did not assume a recession next year.

Tax revenues are projected to increase \$285k or 1.4%. Property taxes are projected to increase \$188k or 1.74% 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 (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 8.4% year-over-year growth rate seen thus far this year.

The other principal driver in revenue growth in 2020 relates to a \$920k increase in Transfers In to the General Fund, relating specifically to the spill-over of the Lower Dungeness Project which was largely

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delayed in 2019 due to permitting delays. This increase in Transfers In is fully offset by a corresponding increase in Transfers Out to the Lower Dungeness Fund, making this a cash flow neutral event for the General Fund. Intergovernmental grant revenues are projected to decrease \$145k 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 \$650k or 7.26%, which is being driven largely by a \$272k increase in indirects charged by the General Fund to other funds for their share of shared service costs due to the new indirects cost allocation methodology that we expect to put in place by the end of this year, \$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 in 2017-2019 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 updated projections received.

**EXPENDITURE BUDGET HIGHLIGHTS**

Turning to expenditures for the General Fund, our Recommended Expenditure budget totals \$45,960,639, an increase of \$6,014k or 15.05% from our 2019 projected expenditures, and an increase of \$3,413k or 8% over the original 2019 budget. When you exclude Transfers Out (which include the impact of the Lower Dungeness-related increase in Transfers Out of \$935k, proposed Capital Project funding Transfers Out of \$1.3 million and a \$400k Transfer to HHS as discussed below), total expenditures are up \$3,379k or 8.7% to the 2019 forecast.

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

- Transfer to Lower Dungeness Fund \$935k
- Transfer to the Parks/Facilities Capital Projects Fund \$800k
- Transfer to the IT Capital Projects Fund \$500k
- Transfer to HHS Operations Funds \$400k

As earlier mentioned, a bulk of the Lower Dungeness work spilled over into 2020 due to permitting delays in 2019, resulting in a \$935k increase in Transfers Out needed from the General Fund (again this is budget neutral given the corresponding amount of Transfer In revenue back to the General Fund as grant reimbursements are rec'd).

Turning to the Capital Projects Transfers, since 2007, no funding transfers from the General Fund have been made to either the Parks/Facilities or IT capital project funds, and as a result both funds are projected to be fully depleted next year and unable to fund previously approved carryover projects next year absent a capital infusion. The General Fund realized an operating surplus of approximately \$1.8 million, and is projected to have an operating surplus in 2019 of at least \$1 million. Using these surpluses as a funding source, it is our recommendation that \$1.3 million (or approx. 46% of the combined 2018/2019 General Fund Surplus) be set aside and transferred to these funds in order to fund carryover and recommended high priority capital projects, including:

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- **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), Unanticipated Projects (\$85k) and Hazard Tree Removal (\$35k);
- **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), and mandatory/recurring costs for scheduled PC and MS Office replacements.

In addition to the increase in Transfer Out expenditures, payroll and benefits costs, representing approximately 73% of our total expenditure budget (excluding transfers), are budgeted to increase 7.8% and 8.6%, respectively, to the 2019 forecast, and increase 4.7% and 1.6%, respectively, compared to the 2019 adopted budget. The increase in comparison to budget 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 the significant level of 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. When retirement-related open positions are later filled, these positions are often filled at salary rates lower than budgeted. As a result, actual Payroll and Benefit costs on average have come in approximately \$1.4 million below the General Fund compensation budget for the last 3 years, and \$1.2 million below budget in 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 as newly elected or re-electeds new pay rates kick-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 4.78 more FTEs in 2020 as compared to the 2019 budget, with additions in Assessor (+1 FTE), Non Departmental (+1.5 FTE, mainly due to shifting of CFO from Auditor budget to Non Departmental and 50% of the new Senior Accountant position), Sheriff Ops (+2 FTE), Sheriff Jail (+.5 FTE), Jail Medical (+0.5 FTE), HHS Environmental Health (+1.5 FTE), Parks/Facilities (+1.5 FTE) and WSU (+.5 FTE), as offset by reductions in Auditor (-.75 FTE), DCD Permit Center (-1 FTE) and Juvenile Services (-2.6 FTE). It is important to note that the Recommended budget does not factor in health insurance benefit rate increases, which will not be known until mid-October but we believe will be of minimal impact. Also not factored into the budget is any compensation/benefits impact resulting from the renewal of our collective bargaining agreement in 2020.

Services (including Intergovernmental which were previously reported separately until 2019 when they were combined into Services) are slated to grow \$718k or 7.8% in 2020 over the 2019 budget. This is largely due to approximately \$477k 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. These costs include professional service fees, consultative agency payments, and travel costs expected for experts, witnesses, and outside agencies (FBI/ATF) engaged on both the prosecutorial and defense sides. Supplies are budgeted to increase \$106k or 8.4%, largely due to a \$55k department ask from the Assessor for a software upgrade relating to their 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

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number of smaller department asks recommended for inclusion in the budget (see the included "2020 Department Requests Over Base Budget—Administrator Recommended Budget").

Capital Outlays from the General Fund are budgeted to total \$288k, a decrease of \$157k. The 2020 Budget includes \$158k for vehicle equipment to be installed on 5 replacement Sheriff vehicles, \$61k for ballistic vest/taser/AEDs and other policing/search & rescue equipment for the Sheriff's Office, Jail and DART Program, \$36k for the remaining implementation costs of the Tyler Executime Scheduling Software, and in other areas.

## **CONCLUSION/TAKE-AWAYS**

Based on this 2020 Recommended revenue and expenditure budget, we are budgeting to use (\$2.941k) of general fund reserves to fully fund the 2020 budget. While this is a considerably larger operating deficit than proposed in the past, it is important to point out the following (this is also outlined in the "Breakdown of Proposed Budget Deficit" schedule):

- \$1.3 million of this usage of reserves relates to the funding of 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 \$11.5 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. \$477k of additional costs projected by our Prosecuting Attorney and Superior Court relating to the multiple-homicide cases that will be tried next year. 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.
- 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 adopted budget. If this trend continues in 2020, our projected general fund operating deficit would total (\$1.741) million. Excluding the budgeted capital contribution transfers of \$1.3 million which arguably is a usage of prior year operating surpluses, the adjusted general fund operating deficit would total (\$441k), or in other words a deficit almost equal to the amount of additional funding requested for the multiple homicide cases.

## **OTHER AREAS FOR FURTHER DISCUSSION**

- Capital requests—while we are scheduled to have a follow up discussion on capital planning on October 21<sup>st</sup> during which we can do a deeper dive into proposed projects recommended for 2020, for purposes of our Recommended Budget, we have included a preliminary list of recommended capital projects in the 2020 Recommended Budget. In total, we have recommended for approval a total \$5.198 million in capital spending for 2020, and deferring

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approx. \$1.548 million of capital planning requests originally requested in 2020. The \$5.198 million is budgeted to be funded as follows:

- General Fund--\$288k
  - Parks & Facilities Capital Projects Fund--\$1,010k
  - IT Capital Projects – \$536k
  - REET 1--\$720k
  - REET 2--\$1,350k
  - Clallam Bay/Seki Sewer--\$1,046k (funded via loan/grant for sewer project)
  - Carlsborg Sewer-- \$63k
  - Other Sheriff Funds (OPScan/Stonegarden)--\$185k
- Department "asks" for 2020—as outlined in the attached "2020 Department Requests Over the Base Budget—Administrator Recommended Budget", a total of \$924,542 of the \$1,745,331 of additional General Fund spending requests are included in the Recommended Budget, with the remaining \$820,789 recommended for deferral. Of the Other Non-General Fund requests of \$199,543, we have recommended approval of \$195,543.
  - Historic Preservation—with the identification of over \$135k of unspent historic preservation funds earlier this year within the General Fund, further guidance/direction is stilled needed from the Board as to how much we would like earmark within the General Fund 2020 budget for historic preservation related projects, whether those be for eligible internal or external needs.

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

This is the Administrator Recommended rolled up budget for 2020. No budgetary impact until the final adopted budget is approved in December 2019.

**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\_\_\_\_\_

**Relevant Departments:** \_\_\_\_\_

**Date submitted:**

October 9, 2019

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