



AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION Meeting Date: 10/12/2020

REGULAR AGENDA Meeting Date:

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 2021 Recommended Budget for Clallam County. Following submission of this Recommended budget, the budget process will proceed as follows:

- October 14th-29th—BOCC, Administrator, CFO and Budget Director to meet with each department;
- Monday, October 28th—Work Session to Review Resolutions for General Purpose, Road Fund and Conservation Futures Property Tax Levies for 2021;
- Tuesday, November 17th—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- Tuesday, November 24th—Hearing and Adoption of Property Tax Levy Resolutions;
- Tuesday, December 1st—Public Hearings at 10:30am and 6pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 8th—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:

- 2021 Recommended Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2021 Recommended Budget to Projected/Actual Results for 2020-2018;
- General Fund 4 Year Comparison of 2021 Recommended Budget to Adopted Budgets for 2020-2018;

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- General Fund Bridge Analysis Between the 2021 Preliminary Budget and Recommended Budget (provides summary of changes made between preliminary budget and recommended budget);
- General Fund Breakdown Analysis of Recommended Budget Deficit (outlines the major components making up the budgeted deficit next year, and provides a projection of the 2021 deficit after adjusting the 2021 budget for historically consistent payroll underspend and other factors);
- 2021 Recommended Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2021 Budget Salary Worksheet Breakdown by Department/Fund;
- 2021 Department Requests Over Base Recommended Budget, as marked to show which items we recommend for approval and which items are recommended for deferral;
- 2021 Budgeted Transfers between Funds; and
- 2021 Proposed Capital Outlay Budget included in the Recommended Budget.

As noted in prior budget discussions, all departments have budgeted that all positions are assumed filled for the entire year in accordance with how policy currently requires us to budget, which, as has previously been 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 \$1.4 million and \$1.7 million each year due to open positions, turnover and retirements (further discussion below). The effect of this leads to the Recommended Budget reflecting an operating deficit that is between \$1.4 to \$1.7 million higher than our expectations for the year.

The Recommended Budget also reflects updated estimates for 2021 revenue, with certain revenue streams being highly dependent on the economic impact of the continuing COVID public health emergency (mainly sales taxes, interest income). Sales tax assumptions used in the 2021 Recommended budget continue to be re-visited as we progress through 2020 and gain more visibility as to how our economy is performing during the COVID emergency, albeit this visibility is still hindered due to the mixed signals created we believe by the amount of stimulus injected into the local economy until recently in the form of stimulus checks and higher federal unemployment benefits (which expired at the end of July). These revenue budget assumptions still remain highly speculative given the limited data trends available and are based on our latest projections updated at the end of September reflecting actual sales tax results through July (collected in September). As the 4th quarter of 2020 unfolds and we see how our economic-driven revenue streams perform to our projections given certain federal stimulus has now expired, our COVID-dependent revenue projections will likely be revised. Another important factor yet to be determined is the amount, form and permitted usages of additional federal stimulus aid made available to our County and our residents/businesses impacted by the COVID emergency, which now appears will be delayed until after the 2020 Presidential Election.

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GENERAL FUND BUDGET OVERVIEW

At a high level, the 2021 Recommended Budget projects a beginning General Fund Balance of approximately \$13.151 million, Revenues totaling \$41.872 million, Expenditures (including Transfers Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Flood Control and other funds) of \$44.985 million, resulting in a use Reserves of (\$3.113) million, and leaving an ending General Fund Balance of \$10.038 million, representing an ending reserve level of 22.3% of total operating expenditures. Below are the revenue and expenditure highlights behind these results:

REVENUE BUDGET HIGHLIGHTS

General Fund Revenues are projected to total \$41,872k, representing a \$1,122k or 2.75% increase over 2020 projected revenue expected (excluding CARES/FEMA reimbursements), and a \$991k or 2.3% decrease over the 2020 originally adopted budget. When you further exclude Transfers In revenue (which consist mainly of cash flow neutral transfers from the Lower Dungeness and Dungeness Off-Channel Reservoir projects), General Fund Revenues are projected to marginally increase \$72k from 2020 projected revenues (excluding CARES/FEMA reimbursements). In projecting revenues for 2021, while certain revenue streams that were significantly impacted by the COVID public health emergency in 2020 are expected to recover fully in 2021 (including revenues generated by the resumption of the County Fair and reopening of County campgrounds that were cancelled or closed during part of 2020), certain of our tax revenue streams tied to retail sales activity are assumed to face considerable challenges particularly in the first half of 2021 due to the lingering economic impact of COVID and uncertainties surrounding continued federal economic stimulus and the pace of unemployment and small business recovery next year in our County. While some improvement is expected in the 2nd half of 2021 in the economy, we have assumed only 1-2% sales tax growth in the latter part of 2021.

Tax revenues are projected to only marginally increase \$38k or 0.19%. Property taxes are projected to increase \$220k or 2% as we assumed the County took its 1% maximum annual levy growth limit, as adjusted for new construction assumed captured, as allowed for under statute. It should be noted that local government's levy growth limit allowed is equal to the lesser of 1% or the inflation limit factor (or implicit price deflator or "IPD"), which for 2021 equals .602%, unless that local government adopts a "substantial need resolution" requesting the levy limit be raised up to the 1% maximum allowed. Due to the negative operating deficit projected for the General Fund and Roads funds in 2021, the Recommended Budget assumes the adoption of a substantial need resolution to allow the County to take the 1% maximum levy growth limit allowed. The difference in Property Tax Revenue between the 1% maximum limit and the .602% IPD is approximately \$45k. Sales-driven taxes (local retail and juvenile correction sales and use taxes) are projected to decline a combined \$374k or (2.76%), which reflects an assumed year-over-year retail sales drop of -7.5% in January through March, 2.6% growth in April-June, a drop of -6.4% in July-September, and 1.7% growth in October-December. The remainder of the decrease in sales tax is due to a change in how we account for our UGA sales tax sharing agreement with City of PA (change has no net impact on cash flow). Timber excise tax is also projected to increase \$217k from 2020 projections.

Licenses & Permits are projected to increase \$46k or 4.6% from 2020 projections based on assumed strong building activity in the County continuing in 2021. Intergovernmental grant revenues are projected to decrease \$397k mainly due to lower grant revenue in the Auditor's office related to the

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\$369k of CARES election grants received in 2020 in support of elections during the COVID pandemic, as partly offset by \$258k in growth in Intergovernmental tax revenues from PILT, PUD Privilege Tax, Criminal Justice, Marijuana and Liquor related excise taxes.

Charges for Goods & Services are projected to increase in 2021 by \$103k or 1.08% driven mainly by increases in DOL State revenues, increased revenues from the resumption of the County Fair in 2021, higher Juvenile Services revenue from its PASD behavioral health contract and higher MCO revenues, and increases in other areas, as partly offset by a decrease in Auditor Election Services revenue due to 2020 being a Presidential primary year and 2019 elections revenue spilling over into 2020. Fines & Penalties are budgeted to increase 4% over 2020, mainly due to recovery from the lower fines and infraction revenues assessed during the height of the COVID Stay-Home-Stay-Safe order in 2020.

Miscellaneous Revenue, consisting mainly of interest income and parks camping fees, is projected to decrease (\$56k) or (2.66%), reflecting a \$496k drop in budgeted interest income from projected 2020 (and a \$716k or 60% drop from the 2020 budget) driven by the collapse of 2-year CD and the LGIP investment pool interest rates due to the aggressive economic stimulus measures taken by the Federal Reserve at the onset of the COVID emergency in 2020, coupled with much of the County's 2-year CD investment portfolio maturing in 2020 and 2021 and being reinvested at substantially lower rates. Interest rates are assumed to not begin to recover to pre-COVID levels until 2022 at the earliest. This decrease in interest income is mostly offset by increased campground and facility usage fees reflecting the resumption of campgrounds being opened the entire year in 2021 as compared to the COVID-related closures in April-early July 2020, and the return of the County Fair in 2021.

Other Financing Sources, consisting mainly of timber revenues to the General Fund, are budgeted to increase \$23k or 3.84% based on an August Recommended DNR timber harvest sales projection for 2021.

Transfers In to the General Fund are projected to total \$1.84 million in 2021, consisting of \$1.5 million from the Lower Dungeness Floodplain Restoration project and \$300k related to the Dungeness Off-Channel Reservoir project. This represents an increase of \$1.05 million over 2020, relating specifically to the spill-over of the Lower Dungeness Project's construction phase which was delayed in 2020 due to Army Corp of Engineers permitting delays. These increases in Transfers In is fully offset by a corresponding increase in Transfers Out to the Lower Dungeness and Off Channel Reservoir Funds, making this a cash flow neutral event for the General Fund.

EXPENDITURE BUDGET HIGHLIGHTS

Turning to expenditures for the General Fund, our Recommended expenditure budget currently stands at \$44,985k, an increase of \$2,045k or 4.76% from our 2020 projected expenditures (excluding COVID-related costs), and a decrease of (\$950k) or -2.1% over the adopted 2020 budget. The largest driver of the increase over 2020 projected is in Payroll and Benefits costs. Representing approximately 70% of our total expenditure budget, Payroll and Benefits are up \$1,732k or 8.33% and \$727k or 8.61%, respectively, to the 2020 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 2020 where due to retirements, voluntary terminations, delays in filling positions during the year, and the hiring freeze put in place beginning in March 2020 for non-public safety positions, the County had more open positions during much of 2020, resulting in a projected budget underspend in payroll and benefits in 2020 of approximately \$1.7 million. Based on

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3-year and 5-year historical average payroll/benefits budget underspend of \$1.68 million and \$1.43 million, respectively, we anticipate a similar level of personnel budget underspend, while not reflected in the current 2021 Recommended budget due to policy, is nevertheless achievable in 2021.

Also contributing to the increase in payroll and benefit costs in 2021 is the full year impact of collective bargaining-related COLAs of 1% implemented in July 2020 and in January 2021, and also one assumed in July 2021, additional law enforcement incentive and hazard pay resulting from the collective bargaining efforts, and an approximate \$325k annualized increase in benefits costs relating to the increase in County-paid share of health care costs provided under the collective bargaining agreements completed in July 2020. As compared to the 2020 adopted budget, Payroll is budgeted to increase 3.1%, while Benefits are budgeted to increase 0.9%. We have budgeted -0.5 less FTEs in 2021 as compared to the 2020 budget, with additions in Auditor (+1 FTE), BOCC Operations (+.28 FTE), DCD Environmental Quality (+.25 FTE), as offset by reductions in Juvenile Services (-.4 FTE), WSU Extension (-.5 FTE) and marginal decreases in other areas. While the Recommended budget does not specifically factor in health insurance benefit rate increases at the time it was finalized, we just learned that plan costs are increasing only marginally between 1.5%-1.6%, which should have only minimal impact on the overall benefits budget.

Supplies are projected to increase \$93k or 8% compared to 2020 non-COVID projected supplies costs, but decrease (9.4%) compared to the 2020 adopted budget. This increase is mainly due to 2020 projected underspend to budget and diversion of supplies budget costs to COVID-related purposes in 2020. Services are projected to increase \$85k or 1% to 2020 projected non-COVID services, but decrease \$501k or -5.8% compared to the 2020 original budget, again mainly due to 2020 projected budget underspend, the 2020 budget reflecting \$327k of additional Superior Court and Prosecuting Attorney expert witness, indigent defense and other services relating to the multi-homicide cases of late 2018/early 2019 that were originally expected to be tried in 2020 prior to COVID (in 2021 those costs are budgeted at \$251k), a \$60k decrease in grant-funded DCD Long Range Planning professional services, and a change in how UGA revenue sharing with the City of PA is accounted for in the Treasurer's office.

Capital outlays for the General Fund is budgeted to total \$85k in 2021, a decrease of \$700k from 2020 projected and \$195k lower than 2020 adopted budget. This decrease reflects spill-over of 2019 capital outlays into 2020, additional IT costs incurred relating to the County's remote access needs during the COVID emergency, and the planned deferral of all schedule vehicle and copier replacements for 2021 in the General Fund as a cost savings measure for 2021. 2021 capital budgeted include ballistic vest replacements and DART program equipment for law enforcement personnel, RCW mandated ballot boxes for tribal locations, and DC1 courtroom presentation equipment. See the attached "2021 Proposed Capital Outlay Budget included in the Recommended Budget" for further details.

Transfers Out are budgeted to total \$2.587 million, a \$96k or 3.85% increase from 2020, driven by the \$1 million increase in Transfers Out related to the Lower Dungeness Floodplain project expected to enter the construction phase in 2021 and the \$50k increase in Transfers to the Off Channel Dungeness Reservoir project (both offset by corresponding increases in Transfers Out), a \$145k increase in HHS Operation transfers to fund the 2 additional COVID support staff added in 2020 that are expected to continue in 2021 (was funded with CARES funding in 2020), a \$98k increase in the Flood Control transfer due to the transition of the County's hydrogeologist to Flood Control in mid 2020, a \$92k transfer to the Parks/Facilities Capital Projects fund, and a \$20k Transfer to the Law

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Library to help fund its higher indirect costs charged under the County's cost allocation methodology adopted at the end of 2019. These increases were mostly offset by decreases of \$1.3 million in Parks, Facilities and IT capital project transfers funded by the General Fund in 2020.

CONCLUSION/TAKE-AWAYS

Based on this Recommended revenue and expenditure budget, we are budgeting to utilize (\$3,113k) of General Fund reserves to fully fund the 2021 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 \$1.4 million-\$1.7 million, it is likely the Recommended budget deficit for 2021 is closer to (\$1.7) million, which is an improvement from the (\$2.36) million projected operating deficit for 2020 (excluding CAREs/COVID), and would leave an ending fund balance of \$11,468k for 2021, or a reserve of 25.5% of expenditures which we believe is an acceptable and still healthy level of reserves considering the challenges faced in 2020 and 2021.

When evaluating the projected operating deficit, it is also important to note the Recommended Budget reflects \$251k of additional one-time costs included in our Prosecuting Attorney and Superior Court budgets (of the \$426k in total requested) relating to the multiple-homicide cases that will be tried beginning in late 2020 and through much of 2021. As was the case in the 2020 budget, these costs are difficult to project with a high level of certainty, and as a result we have included a preliminary amount equal to 59% of the amount requested, recognizing that as these cases come to trial and costs begin to be incurred, additional funding may need to be allotted. While there may be an opportunity to recover some of these costs from the state upon conclusion of these cases, it is unclear how much, if any, or when reimbursement will be received.

OTHER AREAS FOR FURTHER DISCUSSION

- **CAPITAL REQUESTS**—consistent with the 5 Year Capital Plan and 2021 Proposed Capital Budget presented to the BOCC on October 5th, 2020, we are proposing a total \$6,816,757 of capital outlays for the 2021 budget, and deferring \$1,013,907 of requests identified in the 2021 capital plan. The recommended capital outlays are proposed to be funded through the following sources (source: "Proposed Capital Requests to Include in 2021 Budget" attachment):
 - Parks & Facilities Capital Projects Fund--\$401,000 (consisting of EOC design phase completion);
 - IT Capital Projects Fund--\$677,000 (mainly relating CDW infrastructure project remaining costs);
 - REET 1--\$1,423,353 (consisting of \$1,130,000 of capital outlays and \$293k of transfers to the Carlsborg Deep Water Well (\$250k) and Carlsborg Sewer fund to subsidize this fund to fully cover its maintenance costs (\$43k))
 - REET 2--\$1,530,000 (consisting of \$890k of capital outlays (\$700k to Roads and \$190k of carryover Courthouse irrigation/planter/sidewalk replacements), plus \$640k of transfers to the IT Capital Projects Fund (\$537k) to fund completion of remaining CDW infrastructure project costs slated in 2021 and Clallam Bay Sekiu Sewer fund to subsidize this fund to fully cover its operating costs (\$103k));
 - General Fund--\$314,961 (consisting of \$84k of capital outlays already reflected in General Fund Recommended Budget and a transfer of \$179k to the Parks & Facilities Capital

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Projects fund and \$75k to the IT Capital Projects Fund to fund its 2021 capital needs based on revised projected spending/ending fund balances for these funds in 2020 (these transfers of \$254k will be included in the 2020 Proposed Budget);

- Other Funds (OPSCAN, Operation Stonegarden, Carlsborg, Clallam Bay Sekiu and ER&R--\$3,383,957 (of which \$2.277 million to be funded through grants/loans/dedicated funds, with \$2.015 million relating to the Clallam Bay/Sekiu sewer replacement grant/loan through Ecology).

In summarizing the total recommended capital spend by the key strategic initiative or summary categories we grouped our 2021-2025 capital plans according to, the 2021 Administrator recommended budget proposes the following spending by key initiative/grouping:

- **EOC Relocation**--\$300,000
- **Courthouse/Juvenile Services Building Security**--\$15,000
- **Jail Master Plan**--\$45,000
- **Juvie Master Plan**--\$16,000
- **Courthouse Facility Aging Infrastructure Initiatives**--\$950,000 (consisting of \$650k Jail Control Panel replacement which is a critical safety need as board is at high risk of failing, and \$300k for VAV Air System Box replacements);
- **IT Infrastructure Initiatives**, including:
 - **Network**--\$411,500
 - **Applications**--\$125,500
- **Sewer System Repair/Replacement Initiatives**--\$2,015,000 (relating entirely to Clallam Bay/Sekiu project which will be 100% funded through Ecology grant/loan)
- **Deep Water Well/Water Mitigation**--\$250,000
- **Other Non-Recurring Capital Outlay**—\$24,000
- **Mandatory/Recurring/Regular Replacement**--\$418,927
- **Previously Approved Carry Over Capital Outlays**—\$268,800
- **Road Projects Supported Thru REET**—\$700,000
- **Non-Recurring Capital Fully Funded through Grants/Dedicated Funds (No General Fund/REET Funding Needed)**—\$283,305
- **ER&R Funded Capital Outlays**--\$993,725.

▪ **TOTAL--\$6,816,757**

- Department Requests for 2021—as outlined in the attached “2021 Department Requests Over the Base Budget—Administrator Recommended Budget”, a total of \$427,725 of the \$748,643 of additional General Fund spending requests are included in the Recommended Budget, with the remaining \$320,918 recommended for deferral. Of the Other Non-General Fund requests of \$255,958, we have recommended approval of \$185,650.
- Cost Savings Measures—as summarized in the attached “Bridge Analysis Between Preliminary Budget & Recommended Budget”, approximately \$820k of cost reductions were identified between the time the Preliminary Budget was prepared and the Recommended Budget that were incorporated into our budget, including:
 - ER&R Holiday--\$191k;
 - Juvenile Services Reorganization of Behavioral Health function--\$161k;

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- o DCD Grant-related reductions--\$224k
- o Other Misc Cost Savings Identified During Departmental Budget Reviews--\$244k

As noted in our preliminary budget presentation, in addition to submitting a base budget for 2021, each department was requested to submit an alternative budget reflecting an approximate 10% costs savings from their base budget. These plans were reviewed and discussed in meetings with each of the departments. In those situations where the operational impact of the reduction was deemed minimal, certain of these reductions were captured in the Recommended Budget, while others were deferred or set aside based on their assessed feasibility or impact to operations. In addition to the ER&R holiday which essentially suspends all ER&R vehicle depreciation charges back to the General Fund, we assumed no scheduled vehicle replacements would be budgeted in 2021, further reducing our 2021 capital requests by approximately \$191k between the Sheriff's Department and Parks/Facilities. Based on conversations with IT and requesting departments, we also identified approximately \$100k of IT SRF requests that could be deferred (see "2021 Department Requests Over Base Budget"). Finally, we identified approximately \$95k of Assessor/Treasurer PACs systems maintenance costs that could be shifted to the Treasurer—REET Electronic Technology fund from the General Fund for 2021.

While we believe based on the projected ending reserves for the General Fund at the end of 2021 that further cost reductions to this Recommended Budget are not critical at this point unless economic conditions worsen considerably from our expectations or significant additional COVID related costs continue into 2021 for which there is no federal or state assistance to fund (as an example, the HHS isolation shelter), possible options for additional cost savings or revenue enhancement measures could be considered, including possible extension of the current hiring freeze with some modifications (estimated monthly savings of \$84k to General Fund), possible leveraging of existing judicial resources to cover the DC2 judge vacancy on an interim basis (potential savings of \$100k-\$125k), potential opportunities to expand Park's Fair revenues through rate adjustments and expansion of off-season events held at the fairgrounds, and other options we've identified during our department budget review meetings or based on plans other counties have put in place.

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 2021. No budgetary impact until the final adopted budget is approved in December 2020.

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 7, 2020

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