



# AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION  Meeting Date:

REGULAR AGENDA  Meeting Date: 09/7/2021

Required originals approved and attached?   
Will be provided on:

### Item summary:

- Call for Hearing
- Resolution
- Draft Ordinance
- Contract/Agreement/MOU - Contract #
- Proclamation
- Final Ordinance
- Budget Item
- Other Monthly Review

Documents exempt from public disclosure attached:

### EXECUTIVE SUMMARY:

As required by the Clallam County Charter, attached for review and discussion is the 2022 Preliminary Budget for Clallam County. The submission of this preliminary budget is the first step in the budget adoption process, with the following key dates to follow:

- Thursday, September 9<sup>th</sup>—1PM Public Meeting to be held in the BOCC Board Room to Present 2022 Preliminary Budget—(this is in replacement of the cancelled PA Chamber of Commerce event on 9/7)
- Sept 15-24<sup>th</sup>—The Administrator, CFO and the Budget Director to meet with each department;
- Monday, September 21<sup>st</sup>—5 Year Capital Plan along with Proposed 2022 Capital Budget to be presented at BOCC work session for consideration and discussion;
- Wednesday, September 29<sup>th</sup>— 12pm Forks Public Meeting to Present 2022 Preliminary Budget—Forks Chamber of Commerce;
- Monday, October 11<sup>th</sup>—CFO and the Administrator submit the Recommended Budget to the BOCC;
- October 13<sup>th</sup>-29<sup>th</sup>—BOCC, Administrator, CFO and Budget Director to meet with each department;
- Tuesday, October 26<sup>th</sup>— 11:45am Sequim Public Meeting to Present 2022 Recommended Budget—Sequim Chamber of Commerce;
- Monday, November 15<sup>th</sup>—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- Tuesday, December 7<sup>th</sup>—Property Tax Levy Certification; Public Hearings at 10:30am and 6pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 14<sup>th</sup>—Possible extension of hearing for the Board to adopt the final budget by resolution (if needed)

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The following materials have been provided to accompany this summary:

- 2022 Preliminary Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2022 Preliminary Budget to Projected/Actual Results for 2021-2019;
- General Fund 4 Year Comparison of 2022 Preliminary Budget to Adopted Budgets for 2021-2019;
- General Fund Breakdown Analysis of the Change in Operating Surplus/Deficit between the 2022 Preliminary Budget Deficit and 2021 Forecasted Surplus;
- 2022 Preliminary Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2022 Budget Salary Worksheet Breakdown by Department/Fund; and
- 2022 Department Requests Over Base Preliminary Budget.

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 has previously been discussed, not historically mirrored the County's actual payroll spending trends where the County has underspent its personnel budgets in the General Fund between \$1.6 million and \$1.9 million each year due to open positions, turnover and retirements (further discussion below). This initial budget also reflects preliminary estimates for 2022 revenue which are partly dependent on the current revenue forecast assumptions for 2021, as well as many additional variables (any resurgent economic disruptions due to the COVID emergency, GDP growth and inflationary growth expectations based on most recent state economic forecasts, local economic conditions, continuance of supply of chain disruptions, changes in long term and short term interest rates, and other revenue guidance available thru MRSC and other sources, etc). Sales tax assumptions used in the 2022 preliminary budget have been tempered considerably from the 16%+ growth forecasted in 2021, but at a 5% assumed growth appear achievable given the current economic outlook, inflationary expectations, and are consistent with projected 2022 retail sales and state GDP growth projected for the state in their last economic forecast report. However, as our sales tax forecast for the remainder of 2021 may prove to be overly conservative, the sales tax revenue budget for 2022 will likely need to be revisited multiple times during the 2022 budget process.

Finally, there are certain costs not yet incorporated into this preliminary budget pending further discussion with the departments and/or the BOCC, including:

- Capital outlays;
- One-time and Recurring Department Requests Over the Base Preliminary Budget;
- Finalization of the General Fund's 2022 indirect cost allocation plan;
- Conclusion of the two remaining collective bargaining agreement renewals (PD & CO Sergeants); and

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- Other initiatives or changes in support funding the BOCC would like to incorporate into the budget.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2022 Preliminary Budget projects a beginning General Fund Balance of approximately \$15.953 million, Revenues totaling \$43.733 million, Expenditures (including Transfers Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Flood Control and other funds) of \$45.591 million, resulting in a budgeted use Reserves of (\$1.858) million, and leaving an ending General Fund Balance of \$14.096 million, representing an ending reserve level of 31% of total operating expenditures. Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

In this preliminary roll up of the 2022 budget, General Fund Revenues (excluding COVID-related reimbursements) are projected to total \$43,633k, representing a \$392k or 0.9% increase over 2021 projected revenue expected, and a \$2,610k or 6.3% increase over the 2021 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 increase \$692k or 1.7% from 2021 projected revenues.

In projecting revenues for 2022, while there are certain revenue streams that were significantly impacted by the COVID public health emergency in 2021 that are expected to recover fully in 2022 (the most notable being revenues generated by the assumed resumption of the County Fair in 2022), certain of our revenue streams tied to retail sales activity are assumed to return to a more moderate level of growth (5%) as compared to the 16%+ growth projected currently in 2021, which was driven by a number of factors, including:

- A robust economic recovery as COVID vaccinations became widely available which allowed many businesses to more broadly return to a fully reopened status,
- Considerable Federal stimulus that was injected into the economy,
- Pent up retail demand coupled with supply chain disruptions driving higher retail sales along with inflationary pressures in many sectors,
- The housing market experiencing significant increases in home value and sales activity in an ultra-low interest rate environment, and
- A rapid snap back of employment levels in the County as job openings exploded.

While we see this economic recovery continuing into 2022, we do not believe it will be at the levels witnessed in 2021. Other revenue streams, particularly interest income, licensing and permits, and fines & penalties, are expected to decline in 2022 due to the impact of COVID on the interest rate environment that is expected to continue through 2022, a slowdown in building permit revenues from the 30%+ growth levels seen in 2021, and recent changes in RCW that will impact the County's ability to assess certain penalties and fines.

## **TAX REVENUES**

Tax revenues are projected to increase \$961k or 4.23%. Property taxes are projected to increase \$310k or 2.75% as we assumed the County takes its allowed for 1% annual levy growth limit, as

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adjusted for new construction assumed captured, as allowed for under statute. Sales-driven taxes (local retail, juvenile correction sales and use taxes and local criminal/public safety taxes) are projected to increase a combined \$498k or 5%, which again reflects our assumption that sales taxes grow at a more moderate rate as compared to the 20-30% growth seen in 2021. Timber excise tax is also projected to increase \$91k or 32% from 2021 projections based on a true-up adjustment assessed the County by the Department of Revenue in 2021 due to an error discovered in prior years' timber excise tax remittances.

## **LICENSES & PERMITS**

Licenses & Permits are currently projected to decrease \$175k or -14.9% from 2021 projections mainly due to an assumed decline in building permit revenues from the 30%+ growth since in 2021 that was being driven by high demand for permits prior to new building code requirements taking effect in mid-2021 as well as the robust building activity occurring in 2021.

## **INTERGOVERNMENTAL REVENUES**

Intergovernmental grant revenues are projected to decrease \$595k mainly due to a \$299k one-time state appropriate grant received in 2021 in support of law enforcement costs, and decreased grant revenues budgeted for HHS Environmental Quality, Juvenile Services, Superior Court and decreases in other areas, as offset by 3.3% growth in Intergovernmental tax revenues from PILT, PUD Privilege Tax, Criminal Justice, Marijuana and Liquor related excise taxes.

## **CHARGES FOR GOODS & SERVICES**

Charges for Goods & Services are projected to increase \$689k or 9% in 2022 driven mainly due to recovery of certain COVID-impacted revenue streams, including Sheriff Jail revenues derived from the provision of excess jail bed space to the State Department of Corrections which were negatively impacted during 2021 due to COVID jail capacity restrictions (approx. \$300k), the resumption of the County Fair (+\$205k), and the commencement of a Mental Health Court within District Court 1 which will be funded through Hargrove funds paid to the General Fund by the HHS Chemical Dependency/Mental Health fund (+\$200k).

## **FINES & PENALTIES**

Fines & Penalties are budgeted to decrease -\$134k or -13.8% over 2021, mainly due to a reduction in property tax penalties and certain indigent fines due to recent changes in RCW that restrict the County's ability to assess such fines.

## **MISCELLANEOUS REVENUE**

Miscellaneous Revenue, consisting mainly of interest income and parks camping fees, is projected to decrease \$260k or -12.8%, driven mainly by a \$383k drop in budgeted interest income driven by the collapse of 2-year CD and the LGIP investment pool interest rates in 2020 and continuing into 2021 due to the aggressive economic stimulus measures taken by the Federal Reserve at the onset of the COVID emergency in 2021, coupled with the remainder of the County's 2-year CD investment portfolio maturing in 2021 and 2022 and being reinvested at substantially lower interest rates. Interest rates are assumed to not begin to meaningfully recover until 2023. Partially offsetting this

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continued decline in interest income are higher expected revenues earned from sales of unclaimed property and approximately \$91k in higher revenue from the resumption of the County Fair in 2022.

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

Other Financing Sources, consisting mainly of timber revenues to the General Fund, are budgeted to increase \$220k or 42% based on an August preliminary DNR timber harvest sales projection received for 2022, with the year-over-year increase being driven by the rise in timber prices for timber sales auctions that occurred in 2021 that will be harvested in 2022-2023, as well as spill over 2021 budgeted timber revenues to 2022 due to DNR delays in harvesting certain areas in 2021 due to road building and weather-related delays.

## **TRANSFERS IN**

Transfers In to the General Fund are projected to total \$1.84 million in 2022, consisting of \$1.5 million from the Lower Dungeness Floodplain Restoration project and \$300k related to the Dungeness Off-Channel Reservoir project. This represents a decrease of -\$300k over 2021, relating specifically to the Transfer In budgeted in 2021 related to the General Fund's provision of \$300k in bridge funding to HHS in support of the Serenity House bathroom remodel project required for Serenity House to open its expanded shelter space for which Serenity House may or may not receive grant funding to fund. These Transfers In are fully offset by a corresponding changes in Transfers Out relating to the Lower Dungeness, Off-Channel Reservoir, and Serenity House HHS project, making these cash flow neutral events for the General Fund.

## **EXPENDITURE BUDGET HIGHLIGHTS**

Turning to expenditures for the General Fund, our preliminary expenditure budget, excluding COVID-related costs) currently stands at \$45,591k, an increase of \$3,676k or 8.77% from our 2021 projected expenditures, and an increase of \$941k or 2.1% over the adopted 2021 budget.

## **SALARIES, WAGES & BENEFITS**

The largest driver of the increase over 2021 projected expenditures is in Payroll and Benefits costs. Representing approximately 73% of our total expenditure budget, Payroll and Benefits are up \$2,271k or 10.63% and \$943k or 10.76%, respectively, to the 2021 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 2021 where due to retirements, voluntary terminations, delays in filling positions during the year, and the partial hiring freeze put in place beginning in March 2020 that continued through the first of quarter of 2021, the County had more open positions during 2021. This resulted in a projected budget underspend in payroll and benefits in 2021 of approximately \$1.95 million. Based on 3-year and 5-year historical average payroll/benefits budget underspend of \$1.88 million and \$1.67 million, respectively, we anticipate a similar level of personnel budget underspend, while not reflected in the current 2022 preliminary budget due to policy, is nevertheless achievable in 2022. If you adjust our 2022 personnel cost budget for this average \$1.67 million average budget underspend, our combined personnel costs in reality are expected to increase \$1.54 million or 5.1% in 2022 as compared to 2021.

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This 5.1% increase in overall payroll/benefits costs is largely being driven by the full year impact of collective bargaining-related COLAs of 1% implemented in July 2021 and 2.5% in January 2022, the addition of accreditation pay and implementation of a 9-step restructured pay scale affecting our law enforcement and correction officer collective bargaining units, a \$50-per-month increase in County-paid health premium increases for most collective bargaining units, and the addition of longevity-based medical premium pay beginning in January 2022 as provided for in the collective bargain agreements renewed in July 2021. These increases were partially offset by an approximate \$500k annualized decrease in DRS pension benefit costs paid by the County as a result of substantial decreases in employer-paid contribution rates assessed to the County by DRS beginning in July 2021 for multiple pension plans based on stronger than expected pension plan performance.

As compared to the 2021 adopted budget, Payroll is budgeted to increase 4.9%, while Benefits are budgeted to increase 1.7%. We have budgeted 3.82 more FTEs in 2022 as compared to the 2021 budget, with additions in BOCC Operations (+.45 FTE), DCD Environmental Quality (+.25 FTE), DCD Permit Center (+1.0 FTE), DCD Long Range Planning (+.37 FTE), HHS Admin (+1.4 FTE), and Sheriff Operations (+1.54 FTE), as offset by reductions in HHS Environmental Health (-.4 FTE) and DCD Admin (-.86 FTE). It is important to note that the preliminary budget does not factor in health insurance benefit rate increases, which will not be known until October and will be reflected in the Administrator Recommended Budget.

## **SUPPLIES**

Supplies are projected to increase \$73k or 6.25% compared to 2021 non-COVID projected supplies costs, but decrease marginally compared to the 2021 adopted budget. This increase is mainly due to 2021 projected underspend to budget and diversion of supplies budget costs to COVID-related purposes in 2021.

## **SERVICES**

Services in 2022 are projected to increase \$861k or 13.86% over 2021 projected non-COVID services, and increase \$545k or 8.3% compared to the 2021 original budget. These increases are mainly due to the following:

- Ending of the ER&R holiday for vehicle replacements implemented in 2021 as a precautionary cost savings measure (driving approx. \$244k of the increase mainly in Sheriff Ops and Parks/Facilities);
- Creation and operation of a Mental Health Court in District Court 1 (budget currently reflects a \$200k placeholder in Services pending finalization of a personnel budget for this function);
- Resumption of Assessor PACs software maintenance costs being funded by the General Fund rather than the Treasurer REET Technology fund (\$67k);
- A \$57k increase in DCD—Environmental Quality Salmon Recover services;
- Higher IT infrastructure-related network monitoring services costs (\$34k) resulting from the County's IT infrastructure refresh project of 2020/2021; and
- 2021 projected budget underspend in Services in multiple other areas, the most notable being lower Superior Court and Prosecuting Attorney expert witness, indigent defense and other services incurred in 2021 relating to the multi-homicide cases of late 2018/early 2019 that were slated to be tried in 2021, with all but one case pleading out resulting in substantial savings to the 2021 services budget.

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## TRANSFERS OUT

Transfers Out are budgeted to total \$2.68 million, a \$402k or -13% decrease from 2021. This decrease is mainly due to the Transfer Out incurred in 2021 related to the General Fund's provision of \$300k of bridge funding to HHS in support of the Serenity House bathroom remodel project required for Serenity House to open its expanded shelter space and to facilitate the County's shutdown of isolation shelter operated since April 2020. Also driving the decrease is a lack of Parks/Facilities and IT Capital Projects transfers being reflected in the 2022 Preliminary Budget pending completion of the 5 Year Capital Plan update which will be incorporated in the Administrator Recommended Budget. Partially offsetting these decrease are Transfers Out of \$113k to Clallam Bay/Sekiu sewer to address a negative fund balance shortfall in this fund (this will likely be transitioned to a REET Capital Fund pending completion of the 5 Year Capital Plan update) and a \$38k increase in Transfer to the Flood Control fund relating to staff and other costs budgeted in support of the Dungeness Off-Channel Reservoir.

Transfers Out from the General Fund included in the 2022 Preliminary budget include the following:

• Lower Dungeness Floodplain	\$1,500,000
• Dungeness Off-Channel Reservoir	300,000
• HHS Operations	556,600
• PW--Clallam Bay/Sekiu Sewer	113,000
• PW--Flood Control	145,877
• Local Crime Victim Comp	17,000
• Employee Healthcare	19,000
• Law Library	20,000
• PW--Solid Waste	4,000
• HHS Chemical Dependency/Mental Health	5,887

**TOTAL TRANSFERS OUT—2022** **\$2,681,364**

## CONCLUSION/TAKE-AWAYS

Based on this preliminary revenue and expenditure budget, the budget reflects utilizing (\$1,858k) of General Fund reserves to fully fund the 2022 budget. However, as discussed previously and as outlined in the attached "Breakdown of Preliminary Budget Deficit", based on historical average underspend to our personnel and benefits budgets of \$1.6 million-\$1.9 million, it is likely the preliminary budget deficit for 2022 is closer to (\$191k), as compared to 2021's projected surplus of \$1,326k (excluding COVID-related revenues/expenditures), which would leave an ending fund balance of \$15,763k for 2022, or a reserve of 36% of expenditures.

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 will likely increase the amount of reserves needed to fund, including:

- Capital requests--pending finalization of what capital outlay expenditures the Board approves to be funded through the General Fund in 2022, 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 5 Year Capital Draft Plan presented to the BOCC by the 3<sup>rd</sup> week of September and have

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incorporate a preliminary list of 2022 capital outlays in the Administrator Recommended Budget.

- Department Requests for 2022—as outlined in the attached “2022 Department Requests Over the Base Budget”, a total of \$1,413,064 of additional General Fund spending requests have been submitted, of which \$159,377 are one-time requests and \$1,253,687 are ongoing funding requests. Some of the larger requests include:
  - HHS Operations—requesting \$440,620 of recurring additional spending to fund the addition of 5 FTE staff, including a Public Health Nurse II, two COVID-19 Contract Tracer Positions (2 year positions), a Suicide Prevention Coordinator, and a Public Health/Social Worker. Given HHS Operations limited funding sources, these requests have initially been requested to be funded through transfer by the General Fund (although approximately \$174k of this request appears eligible to be funded through the County’s American Rescue Plan Act special revenue fund).
  - Superior Court—requesting \$250,210 of ongoing spending to support additional adult felony, civil contempt, and guardian at litem costs increases, salary increases of Pro Tem Court Commissioners and Bailiffs, the addition of 1 FTE Administrative Specialist and a .5 FTE part time Court Facilitator position. Also requesting \$31,700 of one-time spending for Signature Pad Solutions, audio/visual equipment, and office furniture for additional staff.
  - Prosecuting Attorney Coroner—requesting \$249,250 of recurring additional spending relating to the staffing of 1 full-time and 3 part-time Deputy Coroner/Death Investigators, death investigator certification costs, and additional outside coroner services costs in response to recent legislation affecting how County coroner functions will soon have to be performed.
  - Information Technology—requesting \$56,720 of ongoing spending related to increasing interconnectivity capabilities in support of remote workforce, county departments, other agencies and the public, and additional staff training relating to new technologies and security challenges;
  - Human Resources—requesting \$47,100 of ongoing funding related to extra help to provide back-up for key payroll/benefits staff, purchase additional NeoGov onboarding functionality, fund professional affiliation subscriptions, and increased job opening advertising.
  - Sheriff—requesting \$55,000 of one-time spending to acquire ten MDTS for patrol vehicles, and \$1,500 of ongoing spending to support administrative and travel costs of newly transferred staff.
  - Prosecuting Attorney Operations—requesting \$38,000 of ongoing spending for additional professional development training, cell phone expanded needs, and additional case file storage, and \$6,100 of one-time costs to upgrade audio/visual equipment in its conference room.

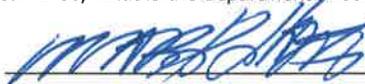
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This is the preliminary rolled up budget for 2022. No budgetary impact until the final adopted budget is approved in December 2021.

**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:**

September 1, 2021

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