# AGENDA ITEM SUMMARY

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

**Department: Finance**

**WORK SESSION** ☒ **Meeting Date:**

**REGULAR AGENDA** ☒ **Meeting Date: 11/18/2019**

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

**Item summary:**

☐ Call for Hearing ☐ Contract/Agreement/MOU - Contract #

☐ Resolution ☐ Proclamation ☒ Budget Item

☐ Draft Ordinance ☐ Final Ordinance ☐ 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 Proposed Draft Budget for Clallam County. Following submission of this draft budget, the budget process will proceed as follows:

- November 26th—Submission of Proposed Final Budget and Hearing and Adoption of Property Tax Levy Resolutions
- Tuesday, December 3rd—Final Public Hearing at 10:30am and 6pm in the Board Room to adopt final budget by resolution.
- Tuesday, December 10th—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 Draft Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2020 Draft Budget to Projected/Actual Results for 2019-2017;
- General Fund 4 Year Comparison of 2020 Draft Budget to Adopted Budgets for 2019-2017;
- A Bridge Analysis summarizing the major revenue and expenditure changes made to the 2020 budget from the Recommended Budget submitted in October to the attached 2020 Draft Budget;

- A Summary Breakdown of the 2020 Draft 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 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 based on BOCC feedback are included for approval and which items are being deferred; and

- Notice of Public Hearing for Adoption of the 2020 Clallam County Budget

## 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. 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 $42,862,897, representing a $2,643k or 6.57% increase over 2019 projected revenue expected (based on projections last updated in November), and a 3.4% increase over the 2019 originally adopted budget. As shared with you in our Recommended 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 $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 (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 spill-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 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 this a cash flow neutral event 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 indirects charged by the General Fund to other funds for their share of shared service and other overhead costs due to the new cost allocation methodology that will be 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 $45,934,423, 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. When you exclude Transfers Out (which include the impact of the Lower Dungeness and Dungeness Reservoir-related increase in Transfers Out of $1,370k, proposed Capital Project funding Transfers Out of $1.3 million and a $400k Transfer to HHS as discussed below), total expenditures are up $3,913k or 10.2% to the 2019 forecast.

The largest driver of the increase over 2019 projected expenditures is in Transfers Out, with the Draft Budget proposing 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 earlier mentioned, a bulk of the Lower Dungeness work spilled over into 2020 due to permitting delays in 2019, and the preliminary work on the Dungeness is expected to commence in 2020, resulting in a $1,120k 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 for both of these projects).

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. 43% 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:

- **Parks/Facilities Capital Projects**—Salt Creek Bluff Stabilization ($300k), HVAC Replacement for the 3rd 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), and mandatory/recurring costs for scheduled PC and MS Office replacements.

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 increase in indirect costs allocable to this fund and a resulting decrease in fund balance in 2019. It is important to note that the amount of the budgeted Transfer support of this fund for 2020 is mostly offset by the amount of indirects allocated to it by the General Fund, making this relatively budget neutral to the General Fund.

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 8.7% and 10.6%, respectively, to the 2019 forecast, and increase 5.2% and 3.2%, 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 7.07 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), 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). It is important to note that no compensation/benefits impact resulting from the renewal of our collective bargaining agreement in 2020 has been factored in the Draft Budget.

Services (including Intergovernmental which were previously reported separately until 2019 when they were combined into 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. 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. 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 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 number of smaller department asks recommended for inclusion in the budget (see the included "2020 Department Requests Over Base Budget—Draft Budget").

Capital Outlays from the General Fund are budgeted to total $280k, a decrease of $165k. The 2020 Budget includes $133k 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.

## SUMMARY OF CHANGES—RECOMMENDED BUDGET TO BUDGET DRAFT

Based on this 2020 Draft revenue and expenditure budget, we are budgeting to use ($3,072k) of general fund reserves to fully fund the 2020 budget, as compared to ($2,941k) reflected in the 2020 Recommended Budget, an increase of ($130k). This increase in usage of reserves is reflective of adjustments made to revenue and expenses as outlined in detail in the attached "Bridge Analysis between Draft Budget and Recommended Budget", with the primary components including:

- **Charges for Goods & Services Revenue—increased $93k** primarily due to additional overhead charges identified for service charged between Superior Court, Juvenile Services and Jail Medical to Chemical Dependency/Mental Health identified in conjunction with the new cost allocation plan design and implementation;

- **Transfers In—reduced $250k**, consisting of a $500k reduction in Lower Dungeness transfers needed, as offset by an $250k increase in Transfer In from the Dungeness Reservoir which was not reflected in the Recommended budget. These amounts are fully offset by corresponding net changes in Transfers Out, resulting in no net funding impact;

- **Expenditures --decreased $26k** in the following areas:

    - Transfers Out to Lower Dungeness—lowered ($500k)
    - Transfers Out to Dungeness Reservoir—increased $250k
    - Non Departmental--Risk Management Charge to General Fund—increased $135k
    - Non Departmental—decreased ($39k), due to savings from shifting of EDC/SBDC/Clallam Conservation District support to Opportunity Fund, offset by a $35k increase in Historic Preservation and $20k in higher SAO audit fees;
    - BOCC Ops—decreased ($94k) mainly due to elimination of additional Administrator budgeted salary and redistribution of Administrator costs 50% to BOCC, 50% HR;
    - Human Resources—increased $30k due to re-distribution of Administrator salary from Risk Management;
    - DCD Environmental Health—increased $48k due to transfer of Streamkeepers from Roads;
    - DCD Admin/Permit Ctr/Long Range Planning—increased $73k due to final salary/benefits adjustments related to the recent staff reorganization;

- Sheriff Ops/Jail/Emergency Services—decreased ($17k) due to compensation savings based on latest staff updates;
- Other Increases--$50k relating mainly to medical benefit increases across multiple departments

- **Expenditures Relating to Department Asks --increased $22k;** based on BOCC feedback received, changes included the following:

  - Juvenile Services-- +$76k for addition of 1 CASA Volunteer Coordinator
  - WSU-- +$47k for PT Program Coordinator and cell phones for staff
  - District Court II-- +$8k for 2nd courtroom camera control system software
  - Parks & Facilities/Fair-- +$14k for additional seasonal help professional services, cell phones for staff; as offset by
  - Prosecuting Attorney—decreased $102k, reflecting a $150k reduction to $350k ask for multi-homicide professional services (to be handled as a debatable emergency as needed once more visibility exists regarding these cases), as offset by $48k increase for John Troberg extra help request.
  - DCD—decreased $20k, consisting of $10k landfill and $10k professional services clean up reductions.

- **Capital Outlay Changes --increased $16k** in the following areas:

  - Parks & Facilities—shifting of $35k hazard tree removal from Capital Projects to Parks & Facilities' operating budget and the addition of $6k for ER&R utility tractor backhoe and light truck costs that were mistakenly omitted in the Recommended Budget;
  - Sheriff Operations—reduce ER&R contribution for equipment for 5 vehicle replacements by ($25k).

**CAPITAL OUTLAYS AND DEPARTMENT ASKS**

- Capital requests—based on results of our continued Capital Planning discussion held on October 21st, we have incorporated all feedback received in the Draft 2020 budget. In total, we have prepared a budget that reflects a total $5.614 million in capital spending for 2020. The $5.614 million is budgeted to be funded as follows:
  - General Fund--$280k
  - Parks & Facilities Capital Projects Fund--$975k
  - IT Capital Projects – $536k
  - REET 1--$720k
  - REET 2--$1,350k (including $700k transfer to Roads)
  - Clallam Bay/Sekiu Sewer--$1,267k (funded via loan/grant for sewer project & $221k in unspent carry over from 2019)
  - Carlsborg Sewer-- $301k (including $242k unspent carry over from 2019)
  - Other Sheriff Funds (OPScan/Stonegarden)--$185k

- Department "asks" for 2020—as outlined in the attached "2020 Department Requests Over the Base Budget—Draft Budget", a total of $927,534 of the $1,749,631 of additional General Fund spending requests are included in the Draft Budget, with the remaining $822,097 deferred. Of

the Other Non-General Fund requests of $199,543, a total of $195,543 is included in the Draft Budget for 2020.

## CONCLUSION/TAKE-AWAYS

As commented on in our Recommended Budget agenda summary presented in October, while the 2020 budget operating deficit of ($3,072k) is a considerably larger operating deficit than proposed in the past, it is important to keep in mind 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 $11.6 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 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 adopted budget. If this trend continues in 2020, our projected general fund operating deficit would total ($1.872) 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 ($572k), or in other words a deficit only $245k greater than the amount of additional funding requested for the multiple homicide cases.

## NOTICE OF PUBLIC HEARING

Proposed 2020 Clallam County Budget will be accepted in the Commissioners Meeting Room 160 at the Clallam County Courthouse, 223 East 4th Street, Port Angeles, on December 3, 2019 at 10:30 a.m. and 6 p.m. All interested citizens are invited to attend.

Approve the attached notice of public hearing.

**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 draft budget for 2020. No budgetary impact until the final adopted budget is approved/adopted on December 3, 2019.

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

Approval of the notice of public hearing for the proposed 2020 Clallam County Budget on December 3, 2019 at 10:30 a.m. and 6 p.m.

**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 13, 2019