



AGENDA ITEM SUMMARY

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

Department: Finance

WORK SESSION **Meeting Date:**

REGULAR AGENDA **Meeting Date:** **09/8/2020**

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 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:

- Sept 14-25th—The Administrator, CFO and the Budget Director to meet with each department;
- Monday, September 21st—Continued Work Session at 1:30pm to be held online to serve as one of two public meetings to present the 2021 Preliminary Budget.
- Monday, September 21st—5 Year Capital Plan along with Proposed 2021 Capital Budget to be presented at BOCC work session for consideration and discussion;
- Monday, September 28th— Continued Work Session at 1:30pm to be held online to serve as the second of two public meetings to present the 2021 Preliminary Budget;
- Monday, October 12th—CFO and the Administrator submit the Recommended Budget to the BOCC;
- October 14th-29th—BOCC, Administrator, CFO and Budget Director to meet with each department;
- Tuesday, November 17th—CFO and the Administrator to submit the Proposed Final Budget to the BOCC;
- 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 Preliminary Budget Summary—All Funds;

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- General Fund 4 Year Comparison of 2021 Preliminary Budget to Projected/Actual Results for 2020-2018;
- General Fund 4 Year Comparison of 2021 Preliminary Budget to Adopted Budgets for 2020-2018;
- General Fund Breakdown Analysis of Preliminary Budget Deficit;
- 2021 Preliminary Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;
- 2021 Budget Salary Worksheet Breakdown by Department/Fund; and
- 2021 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 \$1.4 million and \$1.7 million each year due to open positions, turnover and retirements (further discussion below) . This initial budget also reflects preliminary 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 preliminary budget remain highly speculative given the limited data trends and visibility currently available and are based on our latest projections prepared in mid-August 2020. As we gain a better understanding of the financial impact of COVID on our economic-driven revenue streams as 2020 unfolds, as well as gain further visibility of 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, our COVID-dependent revenue projections will undoubtedly change.

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;
- Transfers to certain funds that are currently reflecting a negative fund balance based on the preliminary budgets submitted; and
- The impact of potential cost savings strategies as proposed by our departments, as well as other actions that are currently be evaluated (i.e. continuation of the current hiring freeze for a period of time in 2021, suspension of ER&R equipment lease charges and deferment of vehicle fleet replacements in 2021, and other measures).

GENERAL FUND BUDGET OVERVIEW

At a high level, the 2021 Preliminary Budget projects a beginning General Fund Balance of approximately \$12.978 million, Revenues totaling \$41.509 million, Expenditures (including Transfers

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Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Flood Control and other funds) of \$45.011 million, resulting in a use Reserves of (\$3.501) million, and leaving an ending General Fund Balance of \$9.476 million, representing an ending reserve level of 21% of total operating expenditures. Below are the revenue and expenditure highlights behind these results:

REVENUE BUDGET HIGHLIGHTS

In this preliminary roll up of the 2021 budget, General Fund Revenues are projected to total \$41,509k, representing a \$932k or 2.3% increase over 2020 projected revenue expected (excluding CARES/FEMA reimbursements), and a \$1,354k or 3.2% 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 decrease \$68k from 2020 projected revenues. 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 decrease (\$48k) or (0.24%). Property taxes are projected to increase \$152k or 1.39% as we assumed the County took its allowed for 1% annual levy growth limit, as adjusted for limited new construction assumed captured, as allowed for under statute. Sales-driven taxes (local retail and juvenile correction sales and use taxes) are projected to decline a combined \$416k or 4.6%, of which approximately 3% is due to assumed year-over-year retail sales drop of -8.3% in January through March, 2.6% growth in April-June, a drop of -6.6% 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 \$146k or 14.55% from 2020 projections based on assumed strong building activity in the County continuing in 2021, and also due to the negative effect of COVID stay-home orders had in March-April of 2020. Intergovernmental grant revenues are projected to decrease \$367k mainly due to lower grant revenue in the Auditor's office related to the \$369k of CARES election grants received in 2020 in support of elections during the COVID pandemic, as partly offset by \$198k 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 show a small decrease in 2021 of -\$102k or -1.07% driven mainly by a decrease in Auditor Election Services revenue due to 2020 being a Presidential primary year and 2019 elections revenue spilling over into 2020, and a \$90k decline in Juvenile Services SBHO Title 19 revenue, as partly offset by increased revenues from the resumption of the County Fair in 2021, and increases in other areas. Fines & Penalties are budgeted to increase 3%

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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 grow only \$35k or 1.69%, 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. These gains are almost entirely offset by 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.

Other Financing Sources, consisting mainly of timber revenues to the General Fund, are budgeted to increase \$23k or 3.82% based on an August preliminary DNR timber harvest sales projection for 2021.

Transfers In to the General Fund are projected to total \$1.75 million in 2021, consisting of \$1.5 million from the Lower Dungeness Floodplain Restoration project and \$250k related to the Dungeness Off-Channel Reservoir project. This represents an increase of \$1 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. 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.

EXPENDITURE BUDGET HIGHLIGHTS

Turning to expenditures for the General Fund, our preliminary expenditure budget currently stands at \$45,011k, an increase of \$2,071k or 4.8% from our 2020 projected expenditures (excluding COVID-related costs), and a decrease of \$923k or -2% over the adopted 2020 budget. The largest driver of the increase over 2020 projected is in Payroll and Benefits costs. Representing approximately 71% of our total expenditure budget, Payroll and Benefits are up \$1,773k or 8.53% and \$790k or 9.36%, 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 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 preliminary 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, and the 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

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to increase 3.3%, while Benefits are budgeted to increase 1.6%. We have budgeted 1.47 more FTEs in 2021 as compared to the 2020 budget, with additions in Auditor (+1 FTE), Juvenile Services (+1.2 FTE), as offset by reductions in DCD Long Range Planning (-.75 FTE) and WSU Extension (-.5 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 are projected to increase \$92k or 8% compared to 2020 non-COVID projected supplies costs, but decrease 9.6% 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 \$240k or 3% to 2020 projected non-COVID services, but decrease \$334k or -3.4% 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, a \$124k increase in grant-funded DCD Long Range Planning—Natural Resources services, and a change in how UGA revenue sharing with the City of PA is accounted for in the Treasurer's office.

Transfers Out are budgeted to total \$2.43 million, a \$57k or -2.3% decrease from 2020, driven by the \$1.3 million in Parks, Facilities and IT capital project transfers funded by the General Fund in 2020, as partly offset by the \$1 million increase in Transfers Out related to the Lower Dungeness Floodplain project expected to enter the construction phase in 2021, and 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).

CONCLUSION/TAKE-AWAYS

Based on this preliminary revenue and expenditure budget, we are budgeting to utilize \$3,501k of General Fund reserves to fully fund the 2021 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 \$1.4 million-\$1.7 million, it is likely the preliminary budget deficit for 2021 is closer to (\$2.1) million, which is a slight improvement from the (\$2.36) million projected operating deficit for 2020 (excluding CAREs/COVID), which would leave an ending fund balance of \$10,907k for 2021, or a reserve of 25% 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 2021, this will need to be layered into the General Fund budget as well as those other capital reserve funds to be utilized. Based on a to-be-presented draft 5 year capital plan updated in August, we currently have a preliminary 2021 capital plan of approximately \$434k to be funded by the General Fund.
- Department Requests for 2021—as outlined in the attached "2021 Department Requests Over the Base Budget", a total of \$820,293 of additional General Fund spending requests have been

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submitted, of which \$651,475 are one-time requests and \$168,818 are ongoing funding requests. Some of the larger requests include:

- Prosecuting Attorney Ops—requesting \$355,500 of additional spending, including \$350,000 for expenses related to the multiple homicide cases being prosecuted;
 - Information Technology—requesting \$155,500 of ongoing spending relating to a new help-desk ticketing/tracking system, web development services to enable in-house website management, high speed voice/data communications for remote business operations, and off-site threat monitoring services as part of the new infrastructure implementation;
 - Superior Court—requesting \$77,110 of mostly one-time spending related to additional Indigent Defense adult felony, expert services and evaluations costs expected relating to the multiple homicide cases;
 - Clallam Bay Sekiu Sewer Funding Support—requesting a one-time \$103,000 of subsidy from the general fund in 2021 to fully fund its operating budget for 2021 until the planned rate restructuring to be implemented puts the sewer fund in a better position to be self-supporting moving forward (this rate restructuring was originally expected to be done in April 2020 but was delayed due to COVID; a draft of the plan is nearing completion); and
 - Law Library—one time request of \$57k to refund this fund for indirects charged under the County's new cost allocation plan implemented at the end of 2019.
- Funds Budgeted with Funding Gaps—in addition to the Clallam Bay Sekiu Sewer funding request noted above, two funds are currently budgeted to have funding shortfalls based on the 2021 preliminary budget, including the Public Works—Solid Waste fund (\$3.8k shortfall) and Public Works—Carlsborg Sewer (\$18k shortfall).
 - Potential Cost Savings Measures—as mentioned earlier, this preliminary budget represents in large part each department's base budget assuming all open positions are filled, with revenues adjusted based on current expectations for 2021, and does not reflect any additional cost savings measures to be taken. 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 will be reviewed and discussed in upcoming meetings with the departments, together with other potential cost savings measures currently being explored, including implementing a 1 year ER&R holiday (annual vehicle/equipment rental costs charged to the General Fund were budgeted at \$683k in 2020), deferring scheduled fleet vehicle replacements in 2021 (potential \$100k cost savings), extension of the current hiring freeze for non-public safety positions into 2021 (estimated monthly savings of \$125k), and other measures. Based on review of the viability of these options, the Administrator Recommended Budget will include a list of these potential cost savings measures for BOCC consideration.

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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 preliminary 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:

September 2, 2020

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