



## AGENDA ITEM SUMMARY

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

**Department: Finance**

**WORK SESSION**     **Meeting Date:**

**REGULAR AGENDA**    **Meeting Date:**                    **11/24/2020**

**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"/> Proposed Final 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 is the 2021 Proposed Final Budget for Clallam County for the required public hearings to be held on Tuesday, December 1, 2020 at 10:30am and 6pm online and via telephone. Following hearing of testimony and questions from the public and staff, the Commissioners will then proceed in moving forward with adoption of the Proposed Budget that evening, or if a hearing extension is needed to allow further changes to be made, no later than Tuesday, December 8<sup>th</sup>.

The following materials have been provided to accompany this summary:

- 2021 Proposed Final Budget Summary—All Funds;
- General Fund 4 Year Comparison of 2021 Proposed Final Budget to Projected/Actual Results for 2020-2018;
- General Fund 4 Year Comparison of 2021 Proposed Final Budget to Adopted Budgets for 2020-2018;
- General Fund Breakdown Analysis of Proposed Final 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 Proposed Final Budget General Fund Revenue, Expenditure and Staffing Charts by Type and by Program;

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- 2021 Budget Salary Worksheet Breakdown by Department/Fund;
- 2021 Department Requests Over Base Proposed Final Budget, as marked to show which items we recommend for approval and which items will be deferred;
- 2021 Budgeted Transfers between Funds; and
- 2021 Proposed Capital Outlay Budget included in the Proposed Final Budget.

The Proposed Final Budget 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). Based on continued stronger than expected sales tax results observed in the 2<sup>nd</sup> half of 2020 through October 2020, we have revised our projections for the remainder of 2020 and the 1<sup>st</sup> quarter of the 2021 Proposed Final to reflect the better than expected performance of these revenue streams, however still leaving some downside protection in the budget for possible impact of a COVID resurgence during the winter months of 2020-2021 and as a result of the recent Governor proclamations issued in mid-November which implement a variety of roll-back restrictions on many businesses and the public to combat a recent surge in COVID cases.

A continued unknown is the amount and timing of future federal stimulus that will be injected into the local economy in support of local government and County residents/businesses impacted by the COVID emergency. At this point, no CARES funding or similar federal/state assistance relating to COVID is reflected in the 2021 Proposed Final Budget, aside from spill-over of expected AOC CARES reimbursement for the JAVS project that will likely be completed in the 1<sup>st</sup> quarter of 2021.

## **GENERAL FUND BUDGET OVERVIEW**

At a high level, the 2021 Proposed Final Budget projects a beginning General Fund Balance of approximately \$13.879 million, Revenues totaling \$41.123 million (including CARES revenue of \$529k), Expenditures (including Transfers Out to the Lower Dungeness and Dungeness Off-Channel Reservoir Capital Projects, HHS, Flood Control and other funds) of \$44.650 million (including \$685k of COVID-related capital and transfer costs to HHS), resulting in a use Reserves of (\$3.527) million, and leaving an ending General Fund Balance of \$10.353 million, representing an ending reserve level of 23% of total operating expenditures. Below are the revenue and expenditure highlights behind these results:

## **REVENUE BUDGET HIGHLIGHTS**

General Fund Revenues, excluding CARES/FEMA reimbursements, are projected to total \$40,594k, representing a \$1,006k or 2.54% increase over 2020 projected revenue expected, and a \$2,269k or 5.3% decrease over the 2020 originally adopted budget (NOTE: the decrease to the 2020 adopted budget is largely driven by a \$2.1 million recharacterization of indirects charged by the general fund from revenue to negative expenditure due to a change in accounting treatment). 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 \$44k from 2020 projected revenues (excluding CARES/FEMA reimbursements).

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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 some lingering challenges particularly in the first quarter of 2021 due to the continued economic impact of COVID and uncertainties surrounding future federal economic stimulus and the pace of unemployment and small business recovery next year in our County as a possible COVID resurgence risk arises nationwide. While some improvement is expected in the 2<sup>nd</sup> 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 increase \$257k or 1.25%. Property taxes are projected to increase \$305k or 2.78% as it is assumed the County takes its 1% maximum annual levy growth limit through the planned adoption of a "substantial need" levy resolution, as adjusted for new construction which has been revised upward from our last budget based on higher than expected new construction being captured. Sales-driven taxes (local retail and juvenile correction sales and use taxes) are projected to decline a combined \$268k or (2.8%), which reflects an assumed year-over-year retail sales drop of -3% in January through March, 4.1% growth in April-June, a drop of -6.4% in July-September, and 1.6% 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 \$56k or 5.65% from 2020 projections based on assumed strong building activity in the County continuing in 2021. Intergovernmental grant revenues (excluding CARES/FEMA revenues) are projected to decrease \$526k 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 \$257k in growth in Intergovernmental tax revenues from PILT, PUD Privilege Tax, Criminal Justice, Marijuana and Liquor related excise taxes. Intergovernmental CARES reimbursement revenue of \$529k is budgeted to be received in 2021 relating to the AOC CARES fund reimbursement of the Superior Court JAVS Courtroom IT project which is expected to be completed in the 1<sup>st</sup> quarter of 2021.

Charges for Goods & Services are projected to marginally increase in 2021 by \$53k or 0.69% 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 mostly 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 remain relatively flat to 2020.

Miscellaneous Revenue, consisting mainly of interest income and parks camping fees, is projected to decrease (\$144k) or (6.6%), 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.

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Other Financing Sources, consisting mainly of timber revenues to the General Fund, are budgeted to decrease \$25k or 3.83% based on an August Proposed Final DNR timber harvest sales projection for 2021 and slightly higher than expected timber sales revenues collected in 2020.

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 are 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 Proposed Final expenditure budget (excluding COVID-related costs) currently stands at \$43,965k, an increase of \$3,191k or 7.83% from our 2020 projected expenditures, and a decrease of (\$1,969k) or -4.3% over the adopted 2020 budget (NOTE: the decrease to the 2020 adopted budget is largely driven by a \$2.1 million recharacterization of indirects charged by the general fund from revenue to negative expenditure due to a change in accounting treatment). COVID-related costs are budgeted to total \$685k in 2021, consisting of \$595k of transfers to HHS to fund \$450k of costs relating to operating the isolation shelter through May 2021 and \$145k to fund two additional COVID-dedicated HHS staff added in 2020, and \$90k of COVID-related Capital Outlays relating to the installation costs of the JAVS Courtroom IT project scheduled to be completed in January/February 2021.

The largest driver of the increase in non-COVID expenditures in 2021 over 2020 projected is in Payroll and Benefits costs. Representing approximately 72% of our total expenditure budget, Payroll and Benefits are up \$1,680k or 8% and \$1,048k or 12%, 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 in 2020, and while not reflected in the current 2021 Proposed Final budget due to policy, is nevertheless likely to also occur 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, 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, and increased DRS employer contribution rates. As compared to the 2020 adopted budget, Payroll is budgeted to increase 3.1%, while Benefits are budgeted to increase 4.7%. 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),

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as offset by reductions in Juvenile Services (-.4 FTE), WSU Extension (-.5 FTE) and marginal decreases in other areas.

Supplies are projected to increase \$117k or 10% compared to 2020 non-COVID projected supplies costs, but decrease (9.3%) 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 \$234k or 3.7% to 2020 projected non-COVID services, but decrease \$2,134k or -25% 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), the 2020 adopted budget reflecting indirect charges as revenue rather than as negative services expenditure as required to be accounted for (\$2,089k of variance to 2020 adopted budget), 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 \$95k in 2021 (excluding COVID-related capital), a decrease of \$477k from 2020 projected and \$185k 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 (with the exception of 1 Sheriff patrol vehicle to be replaced). 2021 capital budgeted include ballistic vest replacements and DART program equipment for law enforcement personnel, RCW mandated ballot boxes for tribal locations, and \$20k in equipment to outfit a replacement Sheriff patrol vehicle. COVID-related capital is budgeted to total \$90k in 2021 consisting of the installation labor relating to the JAVS Courtroom IT project to be completed in early 2021. See the attached "2021 Proposed Capital Outlay Budget included in the Proposed Final Budget" for further details.

Transfers Out (excluding COVID-related) are budgeted to total \$2.783 million, a \$292k or 11.7% 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 \$98k increase in the Flood Control transfer due to the transition of the County's hydrogeologist to Flood Control in mid-2020, and a \$20k Transfer to the Law 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 totaling \$867k in Parks, Facilities and IT capital project transfers funded by the General Fund from 2020 to 2021. COVID-related Transfers are budgeted to total \$595k in 2021, consisting of \$450k to fund HHS' Operations for costs to operate the COVID isolation shelter through May 2021, and a \$145k Transfer to HHS Operations 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 Proposed Final revenue and expenditure budget, we are budgeting to utilize (\$3,527k) of General Fund reserves to fully fund the 2021 budget. However, as discussed previously and as outlined in the attached "Breakdown of Proposed Final Budget Deficit", based on historical average

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underspend to our personnel and benefits budgets of \$1.4 million-\$1.7 million, it is projected the Proposed Final budget deficit for 2021 will total approximately (\$1.844) million, as compared to the (\$1.363) million projected operating deficit for 2020, and would leave an ending fund balance of \$12,036k for 2021, or a reserve of 27% of expenditures which we believe is an acceptable and still healthy level of reserves considering the COVID-related challenges faced in 2020 and expected in 2021.

When evaluating the projected operating deficit, it is also important to note the Proposed Final 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.

It is also noteworthy that approximately (\$156k) of the projected deficit for 2021 is COVID-related, reflecting \$685k of COVID-related costs (HHS transfers of \$595k and \$90k of JAVS capital costs) net of \$529k of AOC CARES reimbursement revenue.

Adjusting for the one-time multiple homicide costs and COVID-related net costs, the General Fund projected operating deficit from an ongoing basis drops to approximately (\$908k) for 2021.

## **CAPITAL AND DEPARTMENT REQUESTS**

- **CAPITAL REQUESTS**—consistent with the 5 Year Capital Plan and 2021 Proposed Capital Budget presented to the BOCC on October 5<sup>th</sup>, 2020, we are proposing a total \$8,545,575 of capital outlays for the 2021 budget, and deferring \$913,907 of requests identified in the 2021 capital plan.
- The Proposed Final 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--\$451,000 (consisting mainly of \$350k for EOC design phase completion);
  - IT Capital Projects Fund--\$677,000 (mainly relating CDW infrastructure project remaining costs);
  - REET 1--\$1,513,353 (consisting of \$1,220,000 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--\$602,812 (consisting of \$171k of capital outlays already reflected in General Fund Proposed Final Budget and a transfer of \$357k 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;

- Other Funds (OPSCAN--\$220k, Operation Stonegarden--\$42k, Carlsborg Sewer--\$405k, Clallam Bay Sekiu--\$3,139k, Auditor Document Preservation--\$21k, and ER&R--\$1,036k— for a total of \$4,862,775 (of which \$3.400 million to be funded through grants/loans/dedicated funds, with \$3.139 million relating to the Clallam Bay/Sekiu sewer replacement grant/loan through Ecology).

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

- **EOC Relocation**--\$350,000
  - **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**--\$3,138,818 (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**—\$427,000 (includes \$313k Carlsborg Gupster/Savannah extensions, \$90k JAVS Courtroom IT project)
  - **Mandatory/Recurring/Regular Replacement**--\$448,927
  - **Previously Approved Carry Over Capital Outlays**—\$348,800
  - **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**--\$1,035,725.
- **TOTAL--\$8,545,575**
- Department Requests for 2021—as outlined in the attached “2021 Department Requests Over the Base Budget—Proposed Final Budget”, a total of \$437,725 of the \$748,643 of additional General Fund spending requests are included in the Proposed Final Budget, with the remaining \$310,918 Proposed Final for deferral. Of the Other Non-General Fund requests of \$255,958, we have recommended approval of \$185,650.

In closing, based on the adjusted projected 2021 ending fund reserve of the General Fund of \$12.0 million, equal to 27% of budgeted expenditures, we believe the General Fund will remain on solid financial footing at the end of 2021 despite the operational and financial challenges that the COVID-19 public health emergency has presented to our County in 2020 and 2021. Given this, we do not believe further cost reductions to the 2021 Budget are needed, prefaced of course on economic conditions not worsening considerably from our expectations or significant additional COVID related

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costs needing to be funded in 2021 beyond what is currently budgeted for which no federal or state assistance is available to fund.

**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 Proposed Final rolled up budget for 2021. No budgetary impact until the final adopted budget is approved in December 2020.

**Proposed Final 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:**

November 18, 2020

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