



Budget Department

351 NW North Street
Chehalis WA 98532

TO: Board of County Commissioners (BOCC)

FROM: Erik Martin, County Manager

DATE: October 6, 2020

SUBJECT: 2021 Preliminary Budget

Pursuant to RCW 36.40.050 using alternate budget dates set by the BOCC, the preliminary budget shall be submitted to the BOCC on or before the first Tuesday in October of each year. The board shall thereupon consider the same in detail, making any revisions or additions it deems advisable.

The following are estimated year-end totals for 2020 and preliminary budgets for 2021 as projected and submitted by County Elected Officials and Department Directors.

The total Preliminary Budget for **ALL Funds** (including operating transfers) is anticipated revenue of **\$113,735,617** and expenditures of **\$119,968,277**, a -5.8% decrease in overall expenditures from the 2020 adopted budget of \$127,315,242.

GENERAL FUND BUDGET OVERVIEW

The 2021 preliminary budget for the General Fund projects a beginning fund balance of approximately \$11 million, revenues projected at \$38.2 million and expenditures of \$41.7 million (including operating transfers out). At this time there is a projected need to use \$3.5 million of previously received revenue to balance the 2021 preliminary budget as submitted, leaving an estimated ending fund balance of \$7.5 million (18% of the proposed 2021 general fund expenditure budget) However, unanticipated revenue as well as unexpended funds due to cost savings and vacant positions likely will change that use of fund balance. Savings from vacant positions and retirements alone have averaged \$500,000 to \$1.2 million, per year over the last four years.

The **2021 Preliminary Expenditure Budget** for the General Fund as submitted is **\$41,769,027**. This total includes operating transfers out to other Funds of \$2.2 million. The 2021 Preliminary budget is an approximate 1.5% increase in expenditures over the 2020 adopted budget of \$41,141,955.

Preliminary 2021 General Fund revenues are projected at **\$38,251,706**. This is less than a -1% decrease as compared to the 2020 adopted budget, the economic impacts of the COVID-19 pandemic continue to be evaluated. The preliminary revenue for sales and use tax is projected conservatively and will be updated if positive trends continue through October. There is also uncertainty around reauthorization of full Payment in Lieu of Taxes (PILT) funding and timber revenue from the Department of Natural Resources (DNR) for managed lands within the county. DNR projections for next year will be received at the end of October and December.

REVENUE ASSUMPTIONS

For the General Fund, the anticipated revenue projection for 2021 is based off an assumption of a -6% decrease in sales and use tax from 2019 actuals. This is a conservative assumption as sales and use tax received through July of this year is trending in a positive direction. As economic conditions continue to be evaluated and as stimulus funds are negotiated, the projections will be updated when new information is received. Timber revenue for 2020 year-end is anticipated to exceed current budgeted estimates. However, for 2021, the estimates kept the anticipated revenue at a conservative level due to the unpredictability of DNR timber harvest contracts. Court fines, fees, charges for services and revenue from Jail contracts for inmate housing are projected to be significantly lower for year-end and next year. These decreases are a direct result of the COVID-19 pandemic.

No local government may increase its property tax levy more than 1% in any given year. The county is limited to the **lesser of 1% or the rate of inflation** per RCW 84.55. An exception to this is found in RCW 84.55.0101, which states that if inflation falls below 1%, the county may adopt a resolution of "substantial need" allowing an increase to the levy (or bank the excess capacity) up to the full 1%. As of August 27, 2020, the rate of inflation on the implicit price deflator (IPD) for personal consumption expenditures over the past 12 months is 0.60152%. The BOCC will need to make a decision on the 2021 levy and declare substantial need at the Hearing on December 7th if current projected revenues in the preliminary budget are to be met as the preliminary budget has been prepared with a proposed 1% levy increase. The 2020 estimate also includes anticipated new construction revenue as provided by the County Assessor which is not subject to a 1% increase cap.

OTHER FUNDS

The 2021 preliminary expenditure budget for all other funds is **\$78,199,250**. This is a **decrease of -9.3%** over the 2020 adopted budget of \$86,173,287. The decrease is largely due to changes in Road construction capital projects and completion of the capital improvement project at the South Lewis County Airport in 2020.

For Other Funds, which includes Special Revenue, Debt Service, Capital Acquisition and Capital Maintenance, Enterprise (Airports and Utilities) and Internal Service Funds, the 2021 preliminary anticipated revenue is **\$75,483,911**. This is a **-7.2% decrease** over the 2020 adopted budget of \$81,330,391. As mentioned above, capital improvement projects completed in 2020 make up the majority of the changes.

BUDGET INCREASE REQUESTS

The Board of County Commissioners set budget limitations for the 2021 preliminary budget cycle. Department Heads and Elected Officials have submitted budget increases of approximately \$1.0 million above the submitted 2021 preliminary budget. Meetings in October with the BOCC and Citizens Budget Committee will allow elected officials and department directors an opportunity to discuss their requests. Decisions on budget increases are scheduled to be deliberated by the board in November after all budget meetings have concluded.

As mentioned in the budget call letter sent in August, the primary objective of the County's budget process is to strike a balance between maintaining the fiscal health of the County and continuing to provide affordable and effective programs and services to our many customers. The elected officials and department directors do their best to meet these goals when preparing the preliminary budget for the coming year. This year, the preliminary budget preparation has been challenging due to the unknowns surrounding the economic impact of COVID-19 and the shutdown orders. The BOCC will continue to be provided with the most up-to-date information to make necessary adjustments to the budget in order to maintain the fiscal health of the County.

GENERAL FUND – FUND BALANCE

The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. Higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations.

The 2020 year-end estimate for the General Fund shows an approximate use of fund balance of -\$481,615, the original adopted budget for 2020 showed an estimated use of fund balance of -\$2,644,017. The positive change from the adopted to estimate year-end is due to unanticipated revenue including PILT for federal lands within Lewis County and timber proceeds from DNR managed lands. The unused expenditure appropriation anticipated for vacancies, retirements and turnover in positions makes up \$1.2 million of the estimated change from adopted to year-end projected.

As mentioned in the General Fund budget overview, the 2021 preliminary budget for the General Fund projects a beginning fund balance of approximately \$11 million and projected use of -\$3.5 million to balance the 2021 preliminary budget as submitted. This results in an estimated ending fund balance (reserves) of approximately \$7.5 million (18% of the 2021 general fund expenditure budget). However, as noted above, personnel savings and unanticipated revenue will likely reduce the projected use of fund balance.

Please direct any questions you may have to Becky Butler or me, and we look forward to successful completion of the 2021 budget process over the next two months.

