




## Board of County Commissioners

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**TO:** Elected Officials and Department Directors  
**FROM:** County Manager Erik Martin   
**DATE:** August 12, 2019  
**SUBJECT:** 2020 Budget Call Letter

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In accordance with the requirements set forth in RCW 36.40, this memorandum is the official notice for all elected offices and departments of Lewis County to prepare and submit their budget requests for 2020 **no later than September 9<sup>th</sup>** of this year. This is a change from previous years when preliminary budgets were due in August. This change allows offices and departments more time to prepare a preliminary budget, more year-to-date information to refine estimates of 2019 year end revenues and expenditures as well as time to acclimate to a new budget entry process in the Munis financial system.

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 Lewis County's many customers. The Board of County Commissioners (BOCC) relies upon each elected official and department head to do their best to meet these goals when preparing a preliminary budget for the coming year. Thank you for your commitment and service to the citizens of Lewis County. We look forward to working with you to complete a successful budget process for 2020.

### Expenditure Limitations

All General Fund offices and departments will receive an expenditure limitation. If your office or department believes additional resources are required in order to meet the needs of your customers, a budget limitation increase form will be provided. With this form, please submit a written explanation of the need and how it can be addressed with the requested resources. Also, please provide any historical information and analysis of alternative solutions including why this request is the best solution in terms of efficiencies and quality of service. For new programs or projects, include the beginning and ending times and all expected outcomes.

*Erik Martin*  
County Manager

*Edna J. Fund*  
First District

*Bobby Jackson*  
Second District

*Gary Stamper*  
Third District

*Rieva Lester*  
Clerk of the Board

Please be prepared to discuss all requests for additional resources during your budget meeting with the BOCC. Budget meetings are tentatively scheduled for three Thursday's in mid-October and we will be coordinating with you on those dates soon. **Once all budget meetings are completed, all requests for increases will be considered as the BOCC weighs those requests against the overall budget forecast.**

### **Ongoing Review of Resources**

After your Preliminary Budget figures are received in September, third-quarter revenues will be reviewed and final property tax levy information will be calculated with updated estimates for new construction and state assessed utilities. At this point, there may be a need to impose further budget reductions beyond the initial expenditure limitation. Any further reductions will be analyzed thoroughly. The BOCC will focus on a short-term budget solution as well as taking a hard look at any long-term structural deficit. The budget priority will be meeting legal obligations, including state mandates and debt service requirements.

### **General Fund Revenue (2018 vs 2019)**

For 2018, the County General Fund received unexpected one-time revenues as the result of full Payment in Lieu of Taxes (PILT) funding as well as increased timber revenue from the Department of Natural Resources (DNR) for managed county forest lands. These one-time revenues were set aside for future technology projects. Other unanticipated revenue in 2018 included sales and use tax (increasing 8% - 10% annually since 2014). At the end of 2018, the BOCC authorized adding back key positions identified to be priority positions based on the community need, increased revenue in areas of permitting and inspections as well as addressing public safety concerns. These additions were added with the stipulation that year-end numbers would be reviewed and a final decision would be made at that point. Ultimately, 2018 year-end fund balance was positive and the increased revenue was used to offset the cost of adding back these positions.

For 2019, as of the end of June, sales tax was up 13% over 2018, DNR timber revenue is anticipated to exceed that received in FY 2018 (although history has shown these early projections can change drastically before year-end). In June 2019, the County received a reduced amount of \$515K for PILT. These Federal payments to local governments help offset losses in property taxes due to non-taxable Federal lands within their boundaries. We will continue to monitor all revenues and work with the Treasurer's Office to make the best possible projections as the year goes on. Any changes to revenues, either real or forecast, will be reported to the BOCC for future decision-making.

### **Future Outlook**

Over the last few years, Lewis County has seen positive momentum in many areas, including home sales, new construction, sales and use tax, timber sales, and new business creation. Despite these positive changes, Lewis County, along with other counties in Washington State and across the Nation, continues to experience budgetary challenges.

Impacts of unfunded mandates levied by the State and Federal Governments will continue to be at the forefront during budget discussions. Examples include the requirement to contribute to State retirement programs (PERS, PSERS and LEOFF II), inmate medical care, indigent defense costs, employee health insurance, election costs, as well as LEOFF I long-term medical care and other medical costs for retired LEOFF I members. In addition, options for increasing revenue are limited for counties including the 1% capped increase on property tax per state law.

For these reasons, the concern of using reserves and the structural budget deficit remain. We, as county leaders, will need to look at new strategies for balancing the budget as costs continue to increase in many areas over which the county has little or no control while options to increase revenue are limited.



We will also continue to watch market factors that may indicate shifts in the economy and will make adjustments if needed. For additional information on economic indicators, refer to the most recent report from the Washington State Economic and Revenue Forecast Council at <https://erfc.wa.gov/>.

### **Partnerships**

The Washington State Association of Counties and National Association of Counties will continue to advocate on counties' behalf at the State and Federal levels. We ask the other Elected Officials, Department Directors of Lewis County, as well as your individual professional organizations, to participate alongside the Commissioners in this continued effort to increase state and federal payments and shared revenue. This revenue is needed to offset the increased costs of unfunded and underfunded mandates. We invite you to join the conversation during the 5<sup>th</sup> annual Legislative Roundtable on October 4, 2019 from 9:00 a.m. to 12:00 a.m. in the Commissioners' hearing room located in the historic courthouse to discuss local issues with our State Senators and Representatives from the 19<sup>th</sup> and 20<sup>th</sup> districts..

### **Strategic Planning**

After several years without an adopted strategic plan, Lewis County will be undertaking a strategic planning effort concurrent with this year's budget process. It will be imperative that all departments and offices participate in the upcoming strategic planning effort. This is an opportunity for all leaders in Lewis County Government to provide perspective on what we believe is best for our community. We must work together as leaders of this County to engage the citizens and employees, and work toward a common goal while providing the best service to our citizens and customers. Setting short-term and long-term budget priorities and goals will guide Lewis County leadership through financial difficulties and financial growth. For more information on how you can get involved, please contact me or Becky Butler.

### **Closing**

As we head into the planning and development of the 2020 budget we ask, as you are working on your preliminary budget, you focus on the following:

- Evaluating programs and services for efficiencies
- Identifying new and better ways to provide the best value for our customers
- Continue to look for grant funding opportunities
- Planning for future retirements with succession planning and identifying our future leaders

Our mission as we move forward will be to continue to preserve and enhance the quality of life in Lewis County through leadership, service, education and administration. I look forward to working with all of the Elected Officials, Department Directors and employees of Lewis County as I continue to learn about the vast array of services that each office and department is responsible for providing. I continue to be thoroughly impressed with the level of knowledge and the service all of our employees deliver on a daily basis. The employees of Lewis County are our biggest asset and without their extreme dedication to public service, we will not be successful in our mission.

My goal is to be of service to you and help you to more successfully meet your goals. Let me know how I can help you! You may contact me at Ext. 2697, via email at [erik.martin@lewiscountywa.gov](mailto:erik.martin@lewiscountywa.gov) or on my cell, 360-556-9093, at any time to discuss any ideas, questions, or concerns you may have.

THANK YOU FOR YOUR SERVICE TO LEWIS COUNTY

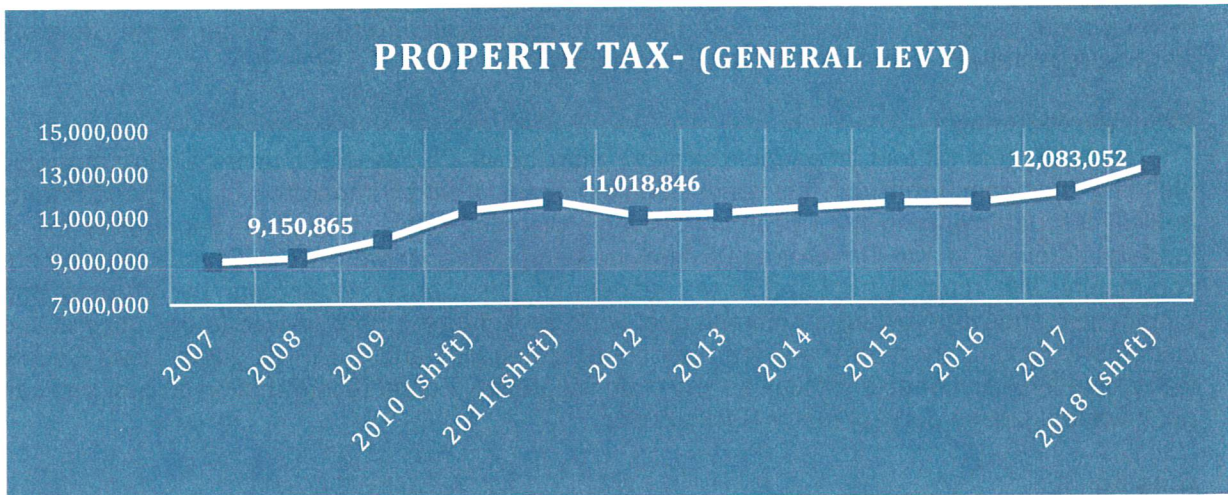


## Supplemental Information

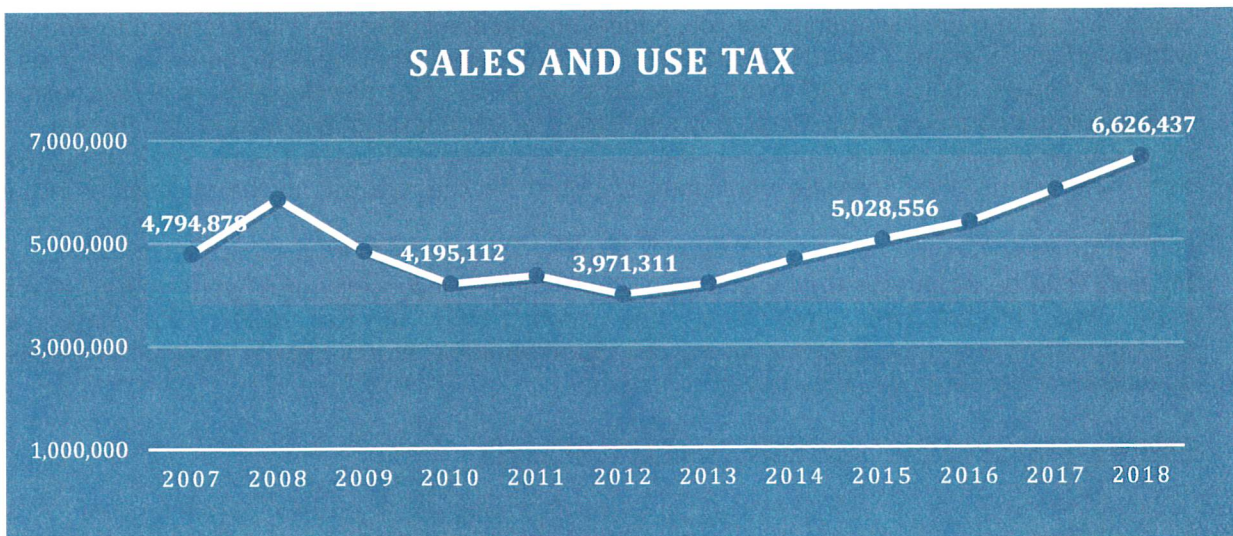
The following information provides revenue charts and revenue history, as well as direction on the expenditure limitation and budget process. Additional budget instructions for budget entry in Munis, additional forms a timeline are included in the budget instructions document.

### Major General Fund Revenues

- **Property Tax** - 1% cap established by Initiative 747 – The increases in 2010 and 2011 were due to a levy shift from the Road Fund to the General Fund. The 2018 budget reflects an \$800K levy shift as well. The Assessor has indicated there will be an increase in new construction for 2020, that long with changes in State Assessed Utilities will be updated later in the budget process as provided by the County Assessor.

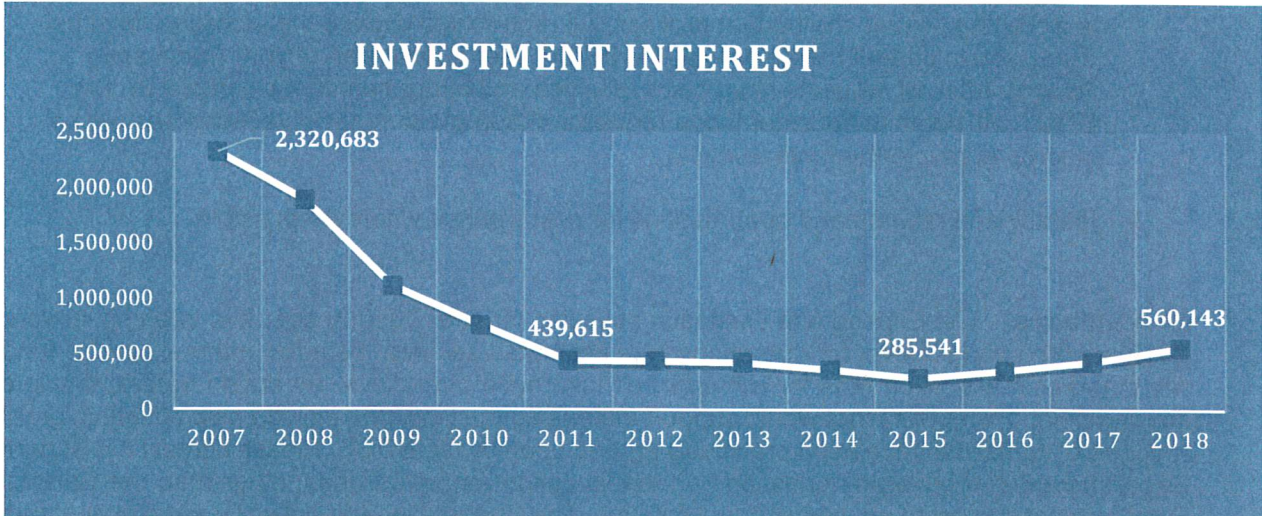


- **Sales and Use Tax** – In 2018 the sales and use tax was up 10% from 2017. An increase in capital construction projects as well as the The Marketplace Fairness Act, together with the Wayfair decision, have resulted in increased sales tax revenue. However, the Washington State Department of Revenue has not identified a clear method for determining the true impact of the Wayfair decision on local governments.

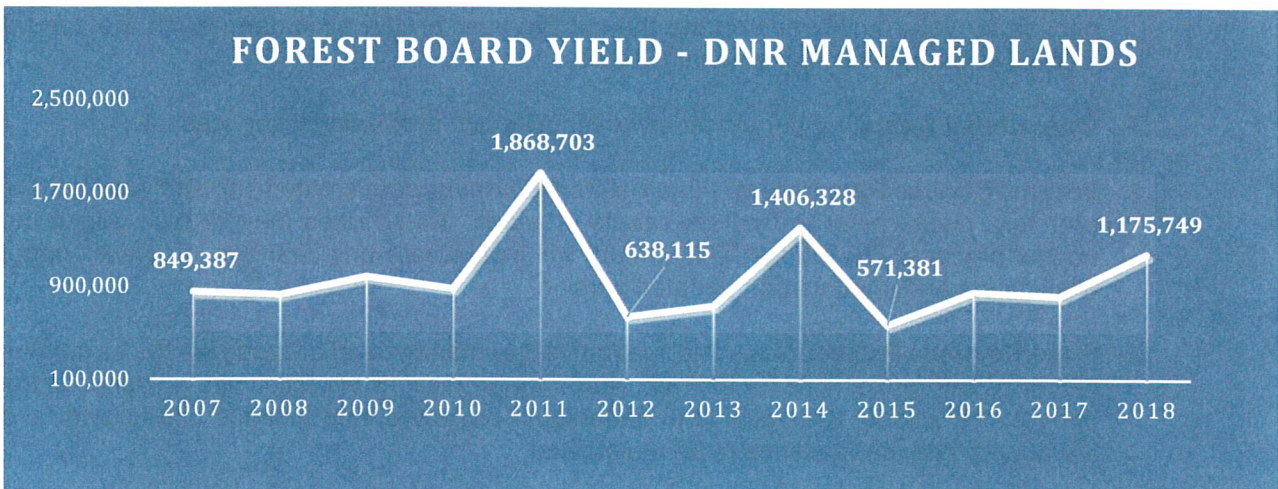




- **Investment Interest** – A sharp decline in investment interest since 2008 is due to lower rates during the recession. Although interest rates have increased slightly in the last few years, we are nowhere near pre-recession levels. Based on the Treasurer’s estimate for 2020, there is a concern the rates may drop between late 2019 and early 2020.



- **Forest Board Yield** – As one of the most volatile revenues in the General Fund, Forest Board Yield has seen sharp increases and decreases over the past several years. Early projections for 2019 indicate a potential increase over 2018. **The long-term conservation strategy for the Marbled Murrelet (a small seabird from the North Pacific that nests in old-growth forests) may have a negative impact on future revenue.**





**We ask each Office and Department to do the following:**

- Review revenue closely (especially grants and contracts) and notify the Budget Department of any possible changes.
- Budget within your Expenditure Limitation - Please remember the Expenditure Limitation is a starting point in the budget process. All requests to exceed the limitation must be discussed in budget meetings with the BOCC after submission of your Preliminary Budget. After all requests have been received and budget meetings completed, the BOCC will begin to consider those requests. If approved, respective increases will be incorporated into the Final Budget.
- Identify and recommend opportunities for cost savings wherever possible.

**Expenditures** – The Expenditure Limitation specified for your 2020 Budget has been set at your 2019 adopted budget level for operations *plus* estimated salaries, benefits, internal service fund rates and cost allocation fees for HR and Self-Insurance operations. As stated before, this is a starting point. Exceptions that would support increasing the limitation include new offsetting grant revenue or items that have been previously agreed upon by the BOCC. Please contact the Budget Department if you have any questions on the limitation amount. Funds, other than the General Fund, are not subject to an expenditure limitation. The Budget Department will work with directors and managers of funds that receive an operating transfer from the General Fund to help reduce transfers.

- **Salaries** - The 2020 salary worksheets reflect step increases for each employee, if applicable, and approved cost of living increases. Changes that may occur through future union negotiations will be addressed as they are approved.
- **Health Care Benefits** – Employer contribution amounts are based on actual plan costs chosen by your employees during the current year and in accordance with the current Collective Bargaining Agreements (CBAs).
- **Operational Costs** – Operational items (small tools, professional services, etc.)
- **Internal Service Rate Review** - Internal Service Rates were created and analyzed in June and July, please refer to the rate sheets provided. These rates may change during the budget process. The Budget Department will incorporate any changes into your budget worksheets and send you an updated version.
- **Fund/Revenue Projections** – It is imperative that managers of all funds conduct a serious review of fund projections for the next year. The projections will follow the guidance in the budget instructions. Our goal is to understand projected fund balance use, growth and the appropriate fund balance to be maintained.
- **Year-End Projections** – While it is understood that completing the anticipated year-end projection is difficult at mid-year, it is important in the decision-making process for the Board of County Commissioners. Decisions are based on the data returned by Offices and Departments. If year-end data is not as accurate as possible, Offices and Departments may suffer the loss of programs needlessly. Therefore, it is critical that this data be addressed and submitted. It is understood that things may change, and true year-end figures are not available until the following year, but Offices and Departments can help by identifying what they believe is going to happen for the remainder of the year.

Expenditure amounts exceeding your limitation must be presented to the BOCC as a request. Approval/disapproval decisions will not be made until conclusion of all Preliminary Budget meetings with the BOCC. Do not include staff additions or program expansions in your Preliminary Budget. These are both considered budget increase requests and should be listed below your limitation amount on the form provided.

Contact Becky Butler at Ext. 1198 if you would like a cost analysis done, or need assistance with budget entry in Munis.

**All budget forms are to be returned to the Budget Department and budget entry in Munis will need to be completed by Monday, September 9<sup>th</sup>.**