



## Budget Department

351 NW North Street  
Chehalis WA 98532

**TO:** Board of County Commissioners (BOCC)

**FROM:** County Manager Ryan Barrett and Budget Administrator Becky Butler

**DATE:** October 3, 2023

**SUBJECT:** 2024 Preliminary Budget

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Pursuant to RCW 36.40.050 using alternate budget dates set by the Board of County Commissioners (BOCC), the 2024 Preliminary Budget is hereby submitted to the BOCC this first Tuesday in October 2023. The board shall now consider the budget in detail, making any revisions or additions it deems advisable.

The Call Letter for the Preliminary Budget was distributed on August 14<sup>th</sup> to all elected and department directors and included direction for General Fund offices and departments to hold operations at the 2022 level and no increase for operating transfers to other funds. Offices and departments were asked to perform a critical review of anticipated revenues, identify new revenue options to support new and existing programs, evaluate new ways to provide services, including new technology that would enhance services for our residents and create more efficient processes and continue to look for grant funding opportunities.

The following are the Preliminary Budget totals for 2024 as projected and submitted by County elected officials and department directors.

### 2024 PRELIMINARY COUNTY BUDGET

The total 2024 Preliminary Budget for **ALL Funds** (including operating transfers) is anticipated revenue of **\$172.2 million** and expenditures of **\$200.1 million**, a decrease of 1% in overall expenditures from the 2023 adjusted budget. The difference in revenues and expenditures is primarily due to projects funded through the American Rescue Plan funds, where revenue was received in prior years, and project costs will be expended through the end of 2026 (\$10.7 million) along with Transportation projects (\$7.7 million) and other County capital projects including the County campus and Jail improvements (\$2.4 Million). The General Fund accounts for \$4.9 million of the difference due to increased operational costs and revenue leveling off.

### 2024 GENERAL FUND PRELIMINARY BUDGET OVERVIEW

Over the past few years, our County has been struggling with a growing structural deficit. This deficit has arisen due to a combination of factors, including increased demand for essential services, rising personnel costs, and limited revenue growth. Despite prudent fiscal management and cost-containment efforts, our recurring expenses are outpacing our recurring revenues.

**General Fund revenues** are projected at \$45.2 million, less than a 1% increase compared to the 2023 adjusted budget. Although investment interest income is at an all-time high, sales and use tax is projected to level off over 2023 collections, and we continue to see a decline in fines and fees due to legislative changes.

**General Fund expenditures** are projected at \$50.2 million (including operating transfers out), a 1.63% increase over the 2023 adjusted budget. The BOCC restricted preliminary budgets in the General Fund to 2022 actuals for operating costs (supplies, professional services, travel, etc.). Salaries and benefits increased by approximately 5% and include all budgeted positions assumed filled. Interfund rates increased by 14%, and operations decreased by 16.6%. Most of the offices and departments in the General Fund submitted requests to consider increasing the budget for these operating costs, some of which are mandated.

### REVENUE ASSUMPTIONS

For the General Fund, sales and use tax trended upward over the last few years but has leveled off. The anticipated revenue projection for 2024 is based on an assumption of an approximate 4% decrease in sales and use tax from the 2023 budget, which included a 5% increase over the 2022 actual distributions. Investment interest income is projected to increase 54% over the 2023 budget due to rising interest rates and the investment of the American Rescue Plan Act distribution of State and Local Fiscal Recovery Funds (ARPA) received in advance. Court fines and fees continue to decrease and are a direct result of enacted legislation that has reduced or eliminated certain fines and fees associated with criminal and civil court proceedings, including changes in penalties for various offenses and reductions in fees related to court processes. Restitution laws have also been implemented to ensure that restitution payments are based on an individual's ability to pay, which may result in lower restitution amounts collected by the County.

The 2024 property tax revenue estimate includes a 1% increase but does not include anticipated new construction; the County Assessor will provide this for the final budget. As it relates to the 1% cap under state law, no local government may increase its property tax levy more than 1% each year, and the County is limited to the **lesser of 1% or the rate of inflation** (RCW 84.55.005 - .010). 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 September 25, 2023, the IPD is 3.67%, down from 6.457% in 2022. The BOCC will consider final decisions on the 2024 property tax levies for the General and Road Funds at the Hearing on December 4th.

We will continue to evaluate economic conditions and incorporate new federal funding into the budget as grants from the American Rescue Plan Act of 2021 continue to become available.

### OTHER FUNDS

For Other Funds, which include Special Revenue, Debt Service, Capital Acquisition and Capital Maintenance, Enterprise (Airports and Utilities), and Internal Service Funds, the 2024 Preliminary Budget anticipated revenue is **\$126.9 million**, a 3.7% decrease over the 2023 adjusted budget of \$131.7 million.

The 2024 preliminary **expenditure budget** for other various funds is \$149.9 million, a decrease of approximately 1.8% over the 2023 adjusted budget of \$152.7 million. The change is mainly due to the



abovementioned capital projects, including the County campus projects, ARPA infrastructure projects, and the Winlock Broadband fiber grant through the Washington State Broadband Office.

### **REAL ESTATE EXCISE TAX (REET)**

The County relies on Real Estate Excise Tax (REET I and II) revenue to support capital projects and pay a portion of debt service payments on bonds for capital projects. A slower housing market has meant an accelerated decline in real estate excise taxes projected for year-end 2023 and 2024. The 2024 budget reflects a decrease in REET I and II of 52%. We will work with the capital department, Auditor, and Treasurer to ensure the REET balance is sufficient to cover the County's ongoing liabilities.

### **RECOMMENDED FUND BALANCE LEVELS**

The General Fund budget, as submitted, proposes to use \$4.9 million to balance the 2024 Budget, leaving an estimated ending fund balance below the recommendation and best practice outlined by the Government Finance Officers Association (GFOA). For Lewis County, a fund balance equivalent to at least two months' worth of operating expenditures or 16.67% of annual operating expenditures is approximately \$7.9 million. Although savings from vacant positions in 2023 and 2024 will likely change the outcome, the structural budget deficit will remain a significant challenge. A structural deficit occurs when recurring expenditures consistently exceed recurring revenues, leading to an unsustainable financial situation.

An adequate fund balances provide a cushion against unforeseen economic downturns, natural disasters, or unexpected emergencies, allowing the County to continue providing essential services without disruption, and ensuring that we have sufficient cash flow to meet our financial obligations, including payroll, vendor payments, and debt service payments, even during periods of revenue fluctuations.

### **BUDGET INCREASE REQUESTS**

Department Heads and Elected Officials have submitted budget increase requests of an additional \$2.7 million above the 2024 preliminary budget; \$2.3 million of this total would impact the General Fund. Meetings in October with the BOCC and the Citizens Budget Committee will allow Elected Officials and Department Directors an opportunity to discuss their requests. After all budget meetings are concluded, the BOCC will decide on these requests and other necessary budget adjustments.

### **BUDGET IMPACTS AND OPTIONS**

With the General Fund's projected use of \$2.5 million in fund balance for year-end 2023 and \$4.9 million for 2024, exploring various options to ensure financial stability while providing essential services to the community is critical. This will include a thorough review of all County expenditures, identifying areas where cost reductions can be made without compromising essential services, and looking for opportunities to streamline operations, improve efficiency, and reduce unnecessary expenses. Implementing spending freezes or restrictions on non-essential expenditures may be necessary, including personnel reductions, furloughs, or hiring freezes.

Using reserve funds and one-time revenue to bridge budget gaps temporarily is an option, but will require a clear plan for replenishing these reserves. Maintaining a healthy reserve balance to provide a financial safety net for unexpected events is critical.

Funding for the County through ARPA in the amount of \$15.6 million and the distribution of another \$3 million through the Local and Tribal Consistency Funds (LATCF) has been allocated to over 20 County projects, including community projects for the Cities of Napavine and Vader, along with the Roxy and Fox Theatres. Both allocations of ARPA and LATCF are direct, flexible aid counties can use for general governmental

purposes within the limitations of the U.S. Treasury final rule. Funds that have been allocated to projects but are not under contract can be reallocated to support operations.

Lewis County is not alone when facing budgetary challenges in the next year; neighboring counties have already begun implementing 32-hour work weeks, Road levy shifts, and other options to reduce costs and increase revenue to their General Fund.

It's important to note that budget reductions should be approached thoughtfully and strategically to minimize negative impacts on the community, and County employees. We will continue to provide the BOCC with the most up-to-date information to make necessary adjustments to the budget to maintain the County's fiscal health.

## **NEXT STEPS**

- **October 11, 16<sup>th</sup>, and 18<sup>th</sup>** - All-day budget meetings with County Officials, BOCC, and the Citizens Budget Committee.
- **November 7th, 2023** - Budget working session for final 2024 budget decisions.
- **November 21st, 2023** – Public meeting on the 2024 budget at 5:30 p.m. in the BOCC Hearing room.
- **December 4th, 2023** - Relating to RCW 36.40.070 and .071, on the first Monday in December of each year, the BOCC shall meet at the time and place designated in the notice for a public meeting at which any taxpayer may appear, be heard for or against, or ask questions concerning any part of the budget. The hearing may be continued from day to day until concluded but not to exceed a total of five days.

No action is required of the BOCC today.

General Fund Office/Department Name	2024 Expenditures	2024 Projected Revenue	2024 Projected Use of Fund Balance
0010-001 Board of County Commissioners	1,206,004	612,000	
0010-002 Auditor	1,686,211	885,284	
0010-003 Elections	549,517	282,000	
0010-004 Assessor	2,449,232	15,200	
0010-005 Human Resources	594,220	332,756	
0010-006 Treasurer	1,045,545	37,105,504	
0010-007 County Clerk	1,521,114	440,300	
0010-008 Superior Court	2,013,844	112,691	
0010-009 District Court	2,301,511	1,258,310	
0010-010 Prosecutor	4,158,347	535,296	
0010-012 Self-Insurance Administration	400,710	250,431	
0010-013 Central Services Admin	36,646	-	
0010-014 Indigent Defense	1,949,510	226,100	
0010-015 County Administration	715,394	25,000	
0010-016 Court Security	141,820	-	
0010-017 Blake Reimbursements	-	-	
0010-020 Civil Service	29,505	350	
0010-021 Sheriff	10,753,132	1,802,269	
0010-022 Jail	9,980,767	561,525	
0010-023 Juvenile Court	4,393,269	608,423	
0010-051 Air Pollution	25,942	250	
0010-052 Animal Shelter	491,750	90,300	
0010-053 Boundary Review Board	710	-	
0010-054 Senior Services Contribution	100,000	5	
0010-060 Coroner	798,333	122,880	
0010-070 WSU Extension	221,690	17,000	
0010-080 Board of Equalization	19,043	-	
0010-081 Disability Board	-	-	
0010-082 State Examiner	95,323	-	
0010-083 WACO and WSAC	30,204	-	
0010-900 Debt Service - General Fund	451,619	-	
0010-901 Operating Transfers Out	2,054,963	-	
<b>Total General Fund</b>	<b>50,215,875</b>	<b>45,283,874</b>	<b>(4,932,001)</b>



Office/Department Name	2024 Expenditures	2024 Projected Revenue	2024 Projected Use of Fund Balance
1010 - Emergency Management	539,336	403,298	(136,038)
1030 Veterans	327,161	336,240	9,079
1040 Social Services	2,644,932	3,149,403	504,471
1050 Law Library	44,348	39,000	(5,348)
1060 Southwest Washington Fair	1,233,794	1,250,971	17,177
1070 E911 Communications	3,596,296	3,328,689	(267,607)
1080 Treasurer's O&M	164,911	78,000	(86,911)
1090 Drug Control	25,000	25,000	-
1100 Mental Health Tax (CD-MH-TC)	2,944,986	2,280,000	(664,986)
1120 Noxious Weed Control	449,833	421,500	(28,333)
1130 Self-Insurance Reserve	-	3,000	3,000
1160 Parks and Recreation	1,269,540	1,390,400	120,860
1170 Roads	46,933,797	39,226,536	(7,707,261)
1210 Community Development	2,710,992	2,448,355	(262,637)
1220 Chehalis River Basin Flood Control Authority	150,212	154,796	4,584
1250 Flood Control Zone Dist.	142,000	142,000	-
1260 Cowlitz River Basin Subzone	101,133	101,133	-
1280 Paths and Trails	155,000	13,000	(142,000)
1300 Distressed Counties	1,000,000	2,210,000	1,210,000
1320 E-REET Technology	-	22,000	22,000
1370 Crime Victim / Witness	166,961	150,000	(16,961)
1380 Dispute Resolution	13,800	15,300	1,500
1400 Comm Development Block Grant	1,100,000	1,100,000	-
1410 COVID-19 Response (Public Health & Social Services)	554,620	818,646	264,026
1420 American Rescue Plan Act	10,735,355	-	(10,735,355)
1450 Dispute Resolution Center	13,800	15,800	2,000
1470 Dispute Resolution Court Facilitator	9,620	9,620	-
1500 Grand Award - Sheriff	41,923	22,500	(19,423)
1520 Animal Shelter Donations (Bldg. Fund)	152,138	25,500	(126,638)
1580 Election Reserve	24,000	21,000	(3,000)
1590 Auditor's O&M	100,627	142,000	41,373
1600 Criminal Drug Invest.	100,000	10,100	(89,900)
1610 PAO Drug Enforcement	-	-	-
1900 Public Health	3,634,240	3,589,957	(44,283)
1910 Foundation of Public Health	1,311,252	1,401,000	89,748
1980 Tourism Promotion	830,499	1,014,000	183,501
2120 Debt Service	732,050	732,050	-
2150 Debt Service	459,585	459,586	1
2200 Debt Service	442,000	442,000	-

2210 Debt Service	318,600	318,300	(300)
2230 Debt Service	377,559	380,350	2,791
3010 Capital Maintenance	550,555	504,500	(46,055)
3100 Capital Facilities Plan	1,559,218	2,177,250	618,032
3110 REET I	1,201,500	900,000	(301,500)
3120 REET II	1,770,766	1,000,000	(770,766)
3200 Juvenile Justice Capital Construction	-	-	-
3250 General Gov Capital Constuction	786,994	-	(786,994)
3300 E911 Communications Bldg and Equipment	376,420	126,420	(250,000)
3350 Technology Replacement	400,000	-	(400,000)
3400 Broadband Infrastructure	20,524,000	20,524,000	-
3450 Jail Capital Improvement	467,500	-	(467,500)
4010 Solid Waste	3,601,196	3,799,878	198,682
4050 Packwood Airport	255,731	255,734	3
4070 South County Airport	1,045,931	1,030,986	(14,945)
4100 Middlefork	462,042	455,250	(6,792)
4150 Solid Waste Disposal District	8,959,727	8,786,800	(172,927)
4200 Vader Water-Utility	3,142,224	2,933,200	(209,024)
5010 ER&R	7,792,032	6,285,022	(1,507,010)
5060 Pits and Quarries	400,000	400,000	-
5070 Facilities	4,263,755	4,268,136	4,381
5100 County Ins Workers Comp	652,880	247,606	(405,274)
5120 Risk Mgmt General Liability	2,262,013	1,910,686	(351,327)
5140 Unemployment	75,000	15,000	(60,000)
5160 LEOFF Long Term	150,000	100,000	(50,000)
5200 Radio Services	481,212	360,471	(120,741)
5400 Information Technology	3,196,051	3,224,024	27,973
<b>Total Other Funds</b>	<b>149,928,647</b>	<b>126,995,993</b>	<b>(22,932,654)</b>

