



## Budget Department

351 NW North Street  
Chehalis WA 98532

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

**FROM:** County Manager Ryan Barrett and Budget/Risk Director Becky Butler

**DATE:** September 30, 2024

**SUBJECT:** 2025 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 2025 preliminary budget is hereby submitted to the BOCC on September 24<sup>th</sup>, 2024. 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 July 23, 2024, to all elected and department directors. The call letter directed General Fund offices and departments to limit their expenditure budget to a 0% increase over the 2024 budget for salaries, benefits, and operations, except for any adjustments in the 2025 preliminary interfund rate allocations.

The following are the preliminary budget totals for 2025 as projected and submitted by County elected officials and department directors.

### **2025 PRELIMINARY COUNTY BUDGET**

The total 2025 preliminary budget for **ALL Funds** (including operating transfers) is anticipated revenue of **\$179.6 million** and expenditures of **\$196.5 million**, a decrease of 7.8% in overall expenditures from the 2024 adjusted budget. The difference in revenues and expenditures is primarily due to projects funded through the American Rescue Plan Act funds (ARPA), where revenue was received in prior years. Project costs will be expended through the end of 2026, along with transportation and other capital projects, including the county campus, emergency communications, and Jail improvements.

### **2025 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 with cuts made in 2023 and 2024, our recurring expenses exceed our recurring revenues and fund balance will be used to balance the budget. Lewis County is not unique in this, as numerous other counties and cities face

similar challenges. The projected rise in public defense costs related to the anticipated Supreme Court ruling on caseload standards and increased employee costs due to collective bargaining agreements settled through 2025 will significantly impact our budget and service levels.

**General Fund revenues** are projected at **\$46.6 million**, a 2.30% decrease compared to the 2024 adjusted budget, largely due to the \$1.5 million one-time transfer from Local and Tribal Consistency Funds (LATCF) and State and Local Fiscal Recovery Funds (SLFRF). Although investment interest income remains high, sales and use tax collections have leveled off compared to the 2023 collections.

**General Fund expenditures** are projected at **\$49.9 million** (including operating transfers out), a 1.5% decrease over the 2024 adjusted budget. The BOCC restricted preliminary budgets in the General Fund to a 0% increase over the 2024 budget for salaries, benefits, and operations, with an exception for any adjustments in the 2025 preliminary interfund rate allocations. By holding to the 2024 salaries and benefits, the offices and departments were asked to absorb the cost of living increases (COLA), annual step increases for all employees, and any increase in contract and professional services for 2025. It is important to note this budget does not yet include any increase related to the proposed caseload standards that may go into effect early next year.

All General Fund offices and departments submitted a budget reduction form outlining the proposed reductions and what steps were taken to meet the preliminary budget limitation. All elected and department directors will have a budget meeting with the BOCC and County Manager to review the proposed cuts and their impacts on services and employees if the Board includes the reductions in their 2025 final budget.

## **REVENUE ASSUMPTIONS**

For the General Fund, sales and use tax has leveled off in 2024 compared to 2023 collections and had already decreased in 2023 by \$279K from \$10.5 million in 2022 to \$10.2 million and is flat for 2024 compared to year-to-date August of 2023, increasing only by .66%. The anticipated revenue projection for 2025 is based on an assumption of an approximate 2% decrease in sales and use tax from the 2024 budget. Investment interest income is projected to stay flat over the 2024 budget due to anticipated rate cuts and decreasing investment funds associated with the project expenditures tied to the ARPA-SLFRF distribution; this distribution of funds was received in advance and allowed the County to retain the investment interest.

The 2025 property tax revenue estimate includes an estimated 1% increase for new construction but not the 1% increase allowed per statute or the available banked capacity; the County Assessor will provide more detailed estimates for the final budget in early to mid-November. 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 26, 2024, the IPD was 2.57%, down from 3.67% in 2023. The BOCC will consider final decisions on the 2025 property tax levies for the General and Road Funds at the Hearing on December 2nd.

## **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 2025 preliminary budget anticipated revenue is **\$133 million**, a 2.2% decrease over the 2024 adjusted budget of **\$135.9 million**.

The 2025 preliminary expenditure budget for other various funds is **\$146.6 million**, a decrease of approximately 9.7% over the 2024 adjusted budget of **\$162.4 million**. The change is mainly due to the completion of capital projects, including the county campus projects, the progress of ARPA-SLFRF infrastructure projects, and the Winlock Broadband project funded through the Washington State Broadband Office. The Road budget increased by \$10.8 million for projects tied to the Transportation Improvement Plan (TIP). Project expenditures and revenue will be adjusted before the final budget is adopted as new information is received and the TIP is finalized and adopted.

## **RECOMMENDED FUND BALANCE LEVELS**

The General Fund budget, as submitted, proposes to use \$3.3 million to balance the 2025 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 is approximately \$8 million (not including transfers). Although savings from vacant positions in 2024 and 2025 will likely change the outcome, the structural budget deficit will remain a significant concern, and additional reductions will be needed if revenue continues to decrease. A structural deficit occurs when recurring expenditures consistently exceed recurring revenues, leading to an unsustainable financial situation.

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 REDUCTIONS SUBMITTED**

Department Heads and Elected Officials have submitted budget reduction proposals to meet the limitations given by the BOCC. If included in the final budget, these reductions would freeze an estimated 14 positions in addition to the eight positions already eliminated through restructuring departments under the BOCC.

Meetings in October with the BOCC and the Citizens Budget Committee will allow Elected Officials and Department Directors an opportunity to discuss these impacts. After all budget meetings are concluded, the BOCC will make final decisions on the proposals and other necessary budget adjustments.

## **BUDGET IMPACTS AND OPTIONS**

With the General Fund's projected use of fund balance for 2024 and 2025 coupled with the use of fund balance in 2023, exploring various options to ensure financial stability in the coming years is critical. This will include a thorough review of all county expenditures identifying areas where further reductions can be made without compromising mandated services or negatively impacting revenue. Implementing spending freezes or restrictions on non-essential expenditures, including additional personnel reductions, furloughs, or hiring freezes, may be necessary, as well as implementing available revenue options.

Funding for the County through ARPA 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-SLFRF and LATCF are direct, flexible aid to counties, and up to \$10 million of the ARPA-SLFRF allocation can be used for general governmental purposes within the limitations of the U.S. Treasury final rule. Using one-time revenue to bridge budget gaps temporarily is an option but should not be used to support ongoing operations.

As stated in the call letter, we are not alone in considering budget reductions; numerous other counties and cities face similar challenges. Some counties have already begun implementing 32-hour work weeks, Road levy shifts, reductions in force, and other options to reduce costs and increase revenue to their General Fund.

The budget reduction forms should be reviewed thoroughly by the BOCC to understand the impact of the reductions submitted to meet the limitation, as some of the reductions submitted could result in decreased revenue as elected offices are forced to prioritize mandated services. As additional information is available, 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. Maintaining a healthy reserve balance in the General Fund is critical to providing a financial safety net for unexpected events.

#### **NEXT STEPS**

- **September 30, October 2, and 9** - All-day budget meetings with County Officials, BOCC, and the Citizens Budget Committee.
- **October and November** - Budget working session for final 2025 budget decisions.
- **November 13, 2024** – Public meeting on the 2025 budget at 5:30 p.m. in the BOCC Hearing room.
- **December 2, 2024** - 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 five days.

No action is required of the BOCC today.