



MEMORANDUM

TO: Whatcom County Council
THROUGH: Satpal Sidhu, County Executive
FROM: Aly Pennucci, Deputy Executive
CC: Kayla Schott-Bresler, Deputy Executive
Brad Bennett, Finance Manager
Randy Rydel, Finance Director
RE: 2025-2026 Executive's Recommended Budget - Overview
DATE: October 18, 2024

On Friday, October 18, 2024, Executive Sidhu transmitted his recommended [2025-2026 Biennial Budget](#).

This memo: (1) describes high-level changes included in the 2025-2026 Recommend Biennial Budget; and (2) outlines a suggested process for any Council proposed changes. More details about the recommended budget will be provided during the department presentations scheduled for November 29 and 30th.

Introduction

The Executive's proposed budget maintains current service levels for the community; invests in County departments that have historically been under resourced; reduces deficit spending; and moves towards stabilizing the County's financial trajectory.

This budget transmittal is the beginning of a longer-term effort to stabilize the County's finances. We will partner with Council in 2025 through a budget prioritization exercise and develop further budget changes during the Mid Biennial Review to ensure financial stability and resilience over the long term.

Our immediate task has been to maintain critical services for the community while addressing the structural budget deficit, with a focus on the GF and the Road Fund. This means reducing reliance on fund balances for ongoing expenses.

County policy requires that the GF maintains an ending fund balance of at least 15% of the previous year's revenues. Historically the County has maintained a 20 to 25% fund balance. The absolute dollar figure of the fund balance increases as the previous year's revenues increase.

The budget proposal puts the County's GF barely in the black (with about a \$500,000 surplus) at the end of 2026 and achieves the goal of significantly reducing or eliminating deficit spending by the end of the biennium. We are projecting to end 2026 with a fund balance of 22% of the projected previous year's revenues (about \$28.6M).¹ This level of fund balance would support less than four months of personnel costs, or about two months of operations overall.

This is progress; but the work is not over to stabilize. There are several pending liabilities that will impact County costs in 2025 or 2026 that are not yet accounted for, including increased costs for jail health services, public defense, environmental cleanup, and open labor contracts in 2026.

2025-2026 Proposed Budget – Countywide Summary

Recommend Revenue Changes

The 2025-2026 Recommended Budget includes \$351,141,477 of revenue for 2025 and \$318,089,707 million of revenues in 2026 across all funds and departments; this includes use of the banked capacity the County has available in both the General Property Tax levy and in the Road Fund levy, and applies the annual one percent increase to all County levies except the Children's Initiative.² In 2025 across all funds this represents about a 4% decrease compared to the 2024 Amended Budget and an additional decrease of 9% between 2025 and 2026. In the General Fund, revenues are projected to increase about 2% in 2025 compared to the 2024 Amended Budget and increase an additional 1% between 2025 and 2026. Deficit spending from the GF in 2025 will be reduced to about \$1.3 million; if banked capacity was not included, that would increase to about \$5.2 million in 2025.

Recommend Changes to Expenses and FTE numbers

The 2025-2026 Recommended Budget includes \$380 million of expenses in 2025 and \$318 million in 2026 across all funds and departments. This represents about a \$48 million decrease in budgeted expenses (about 11%) in 2025 compared to the 2024 Amended Budget. The decrease in part is due to some large capital projects that are budgeted one-time in 2024 that are not in the 2025 budget (e.g., budgeted expenses for replacement of the Lake Samish Bridge replacement).

In the General Fund, budgeted expenses are proposed to increase by about 3% in 2025 compared to the 2024 Amended Budget. The increase is driven primarily by costs increases in County personnel costs, Tort claims, Administrative Services costs, Building Maintenance Fees, Equipment Rental & Revolving Fund costs, Technology Rental & Replacement costs, and addressing areas of under-resourcing. These cost drivers impact most County funds, however,

¹ Note that these numbers do not precisely match those in the budget book posted; the budget book numbers do not account for \$3M of interest earning revenue that impacts the fund balance numbers for the GF. That budget book will be corrected later in the process.

²The 1% increase to the EMS levy was inadvertently left out of the Recommend Budget Book as transmitted on 10/18; the Executive will bring a correction forward to that revenue estimate and will include the 1% increase in the legislation that will be transmitted for introduction on November 6 regarding changes to the County tax levies.

with the removal of one-time expenses like the bridge replacement described above those increases are masked.

Personnel costs comprise about 45 percent of the County budget across all funds. The Executive’s proposed 2025-2026 budget adds 16 FTE and removes 1 FTE as follows:

| Department | Position | # FTE |
|---------------------|-----------------------------------|--------------|
| Council | Legislative Policy Analyst | 1 |
| County Clerk | Senior Deputy (Conflict Attorney) | 1 |
| Non Dept-ME | Medical Examiner Staff | 2 |
| Planning & Dev Srvs | Contingent Position | 1 |
| Superior Ct | Court Services Manager | 1 |
| PW- Nat Resources | Nat Res Specialist I -Nox Weed | 1 |
| Health | Solid Waste Disposal of Toxics | 3 |
| Health | Public Health Nurse | -1 |
| Treasurer | Investment Officer | 1 |
| AS – Facilities | Maintenance Tech | 1 |
| AS – Facilities | Custodian | 1 |
| AS – Finance | Budget Analyst | 1 |
| AS – Finance | Accountant II | 1 |
| AS – HR | HR Rep III | 1 |
| TOTAL | | 15 |

Technical Adjustments and Corrections

Putting the budget together this cycle was challenging – both from a mechanical and substantive standpoint. We are addressing significant increases in the cost of providing County services and we face an increasingly complex revenue landscape. We also have a number of County initiatives launching simultaneously with the budget development process³.

This has resulted in some information or issues being identified late in the process that will likely require changes after the recommended budget is transmitted, primarily outside of the General Fund. For instance, in the behavioral health fund, we do not budget grant revenues that are not yet received or have a new contract for, but our budget process does not have good mechanisms to account for how this may offset expenses. This complicates our ability to evaluate the stability of the fund. We are continuing to review these types of issues and will bring forward adjustments as needed.

³ This includes but is not limited to: upgrading the County’s financial system (the Enterprise Resource Planning Software Implementation project), the Comprehensive Plan update; bringing the Medical Examiner in house and hiring a new ME; establishing the Water Adjudication process; work to begin implementing the Justice Project, and other major capital projects.

It is not uncommon for the Executive to present corrections post-transmittal. We will update the Council at the November 6th meetings on recommended changes.

Conclusion

The recommend budget is combined with a commitment to undertake ongoing long-term financial planning for all funds, introducing fiscal note requirements to inform policy decisions, and a plan to conduct a budget prioritization exercise in 2025 to identify efficiencies and ongoing spending reductions, or new revenue options, to further stabilize the County's finances. We intend to update the Council on that work throughout 2025 and bring additional budget changes during the Mid Biennial Review next fall.

Recommended Process for Potential Council Initiated Budget Changes

Following transmittal of the recommended budget the Council will have four to six weeks to review and understand the recommended budget, consider any changes, and adopt a balanced budget.

With that in mind, we request your initial round of feedback by noon on November 1st. This allows the Executive and Finance staff to provide some analysis on individual proposals and how the package of changes would impact the recommended budget (e.g., how it impacts balancing). We strive for budget adoption on November 19th but recognize the budget approval often extends into December. More important to us than the timeline is to ensure that there is an opportunity to discuss the potential impacts of any Council proposed changes in advance of making final decisions. The Executive team is available to provide analytical and technical support to the Council through their deliberations.