



Justice Project Finances Update: Risk Mitigation

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Outline

- 1 Revenue Risks and Mitigation
- 2 Interest Volatility Risks and Mitigation
- 3 Updated Financing Scenario
- 4 Next Steps

Purpose: provide context for budget decisions considering the totality of project risks



Revenue Risk (Short Term)

- Sales tax revenue has been the largest contributor to County revenue growth over the long term (~5% growth)
- However, it is prone to significant fluctuations not only from year to year but over more extended periods as well.
- During the worst 5-year period (2007-2011), sales tax collections declined by an average of 1% per year
- A repeat of that scenario over the next five years would result in a the cumulative deviation from the projections used in updated financing scenario of \$3.6 million (roughly \$700,000/year on average)



Revenue Risk (Short Term) - Mitigations

- Mitigation S1: Revenue Stabilization Account (RSA) funded by investment earnings (~\$2 million) plus any higher than expected collections
- Mitigation S2: Fixed City Contributions – updated ILA should specify the annual contribution of each party in dollar amounts based on an agreed revenue assumption for future years



Revenue Risk (Long Term)

- Under proposed ILA framework, the County would assume responsibility for all debt payments from 2035 on.
- If long-term revenue growth stagnates, County revenues from this source could be insufficient.
- Analysis of 10-year moving averages show a “worst case” scenario of an average growth rate of 1.8%, second worst – 2.75%.



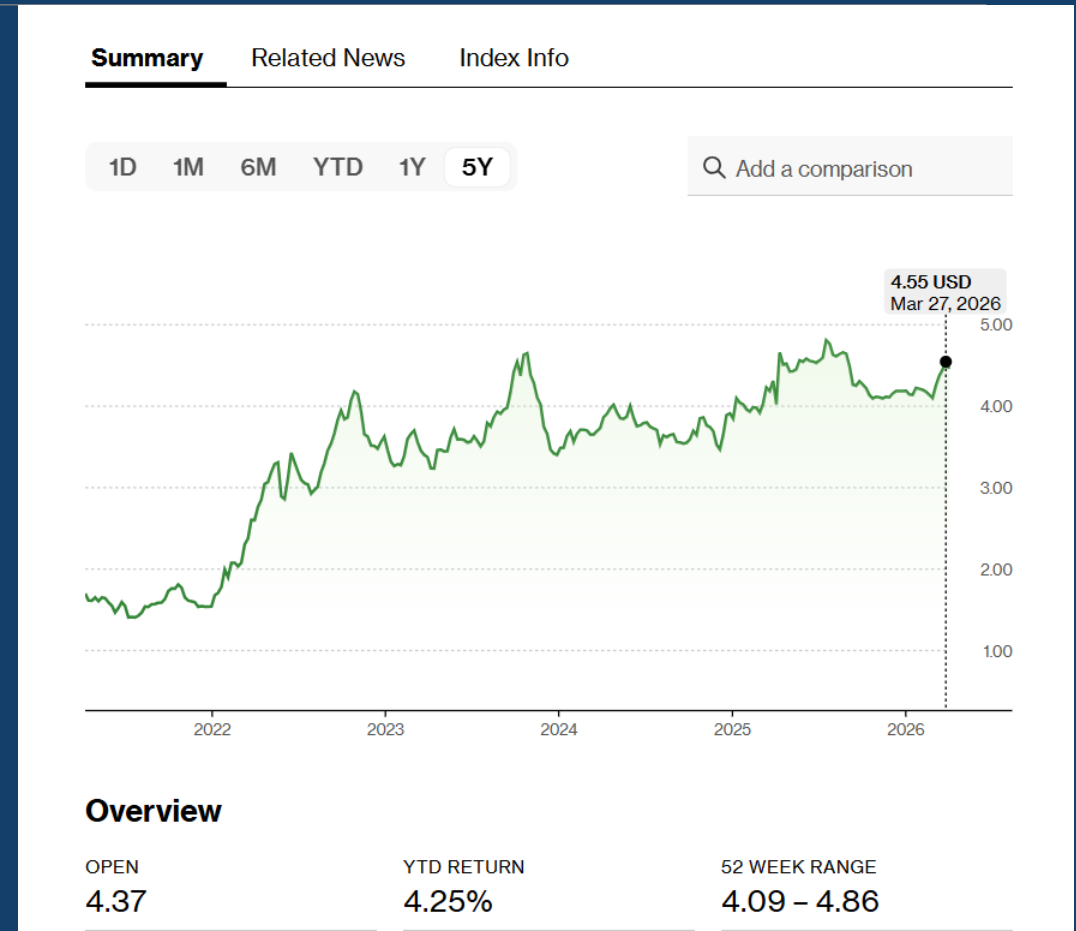
Revenue Risk (Long Term) - Mitigations

- Mitigation S3: Conservative Growth Assumptions – The updated scenario assumes 1.5% growth in 2026 and 2027 and 3% growth thereafter, which averages 2.7% over the period, or the same as the second worst 10-year average of the past two decades
- Mitigation S4: 2035 Cushion – In the updated scenario, in 2035 the County's revenue from this source would exceed its debt service obligation by approximately 5%, or \$540,000. Average growth of 2.2% would be required to cover debt service obligation – a very conservative projection



Interest Risk

- The municipal bond market has seen significant fluctuations in recent years
- AAA municipal bonds have swung by 77 basis points (more than three-quarters of a percentage point) over the past year
- A swing of that magnitude could impact the debt service costs by approximately 10%



Interest Risk - Mitigations

- Mitigation S5: Contingency in Interest Assumptions – PFM’s scenario includes a cushion of +0.5% on top of current market rates, and staff recommend retaining this contingency in our assumptions.
- Mitigation S6: Two Bond Placements – borrow in two tranches to reduce risks associated with temporary economic shocks and market volatility.
- Mitigation S7: Maintain Project Flexibility – incorporate contingencies that would allow for an adjustment in project scope if interest rates at time of borrowing differ from assumptions. This flexibility would apply to both scope reductions and expansions.



Updated Financing Scenario

- PFM's updated financing scenario was provided at the April 2 FFAB meeting
- Key assumptions:
 - Modest sales tax growth (1.5% in 2026 and 2027), average of 2.7% over 10 years
 - Interest rate – 4.9%, includes 0.5% cushion on AA muni rate as of March 25, 2026
 - Cities contribute 75% of projected revenues through the end of 2034
 - Delays 50/50 services split to 2040s
- Scenario generates \$214 million for the construction of the behavioral care center and jail.



Next Steps

- Staff recommend that updated scenario be used as basis for setting an initial budget cap.
- There will be an opportunity to revisit budget cap after the true cost of borrowing becomes clear in spring 2027. Stabilization of debt market conditions at that time would provide more flexibility.
- The Executive's Office will monitor sales tax trends and debt market conditions and update the FFAB and Council with any information that would favor reconsideration of the budget cap.

