

**WHATCOM COUNTY
EXECUTIVE'S OFFICE**

County Courthouse
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Satpal Singh Sidhu
County Executive

Memorandum

To: Whatcom County Council
Finance and Facility Advisory Board

Through: Satpal Sidhu, County Executive

From: Jed Holmes, Public Affairs and Strategy Manager

CC: Steve Oliver, Whatcom County Treasurer
Donnell "Tank" Tanksley, Sheriff
Kayla Schott-Bresler, Deputy Executive
Randy Rydel, Finance Director

Date: April 9, 2026

RE: Justice Project Finance Risks and Mitigation Strategies

Purpose

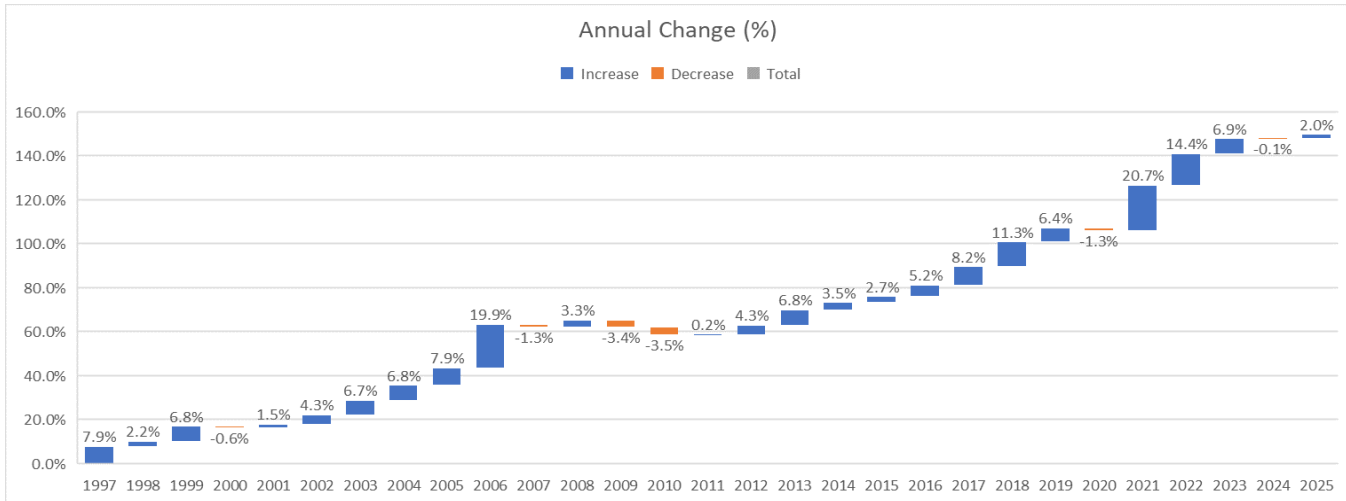
The purpose of this memo is to provide context for PFM's updated financing scenario and offer recommendations on risk mitigation strategies. This information is intended to assist decisionmakers in their contemplation of budget decisions considering the totality of project risks.

Based on analysis of the updated scenario and the proposed mitigation measures, the staff's recommendation is that the scenario be used as the basis for setting an initial budget cap, with the expectation that there will be an opportunity to revisit this after the true cost of borrowing becomes clear in spring 2027.

The Executive's Office will be watching sales tax trends and borrowing projections closely, bringing forward to the FFAB and Council any information that would favor reconsideration of the budget cap. The PFM scenario, based on market conditions on March 26, 2026, shows \$214 million available for the capital construction needs for the new jail and behavioral care center.

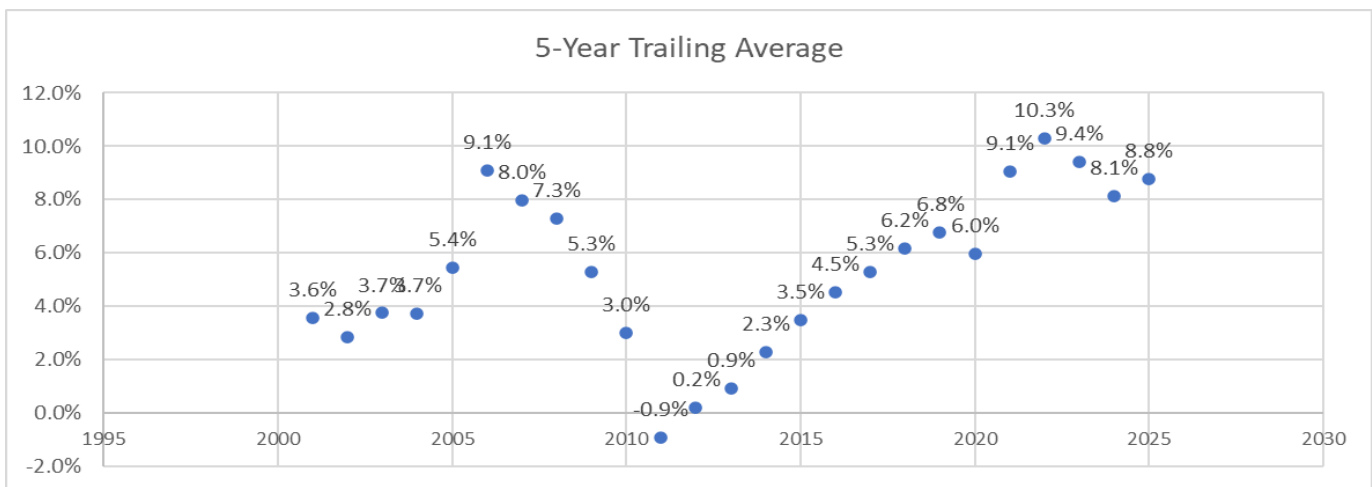
Revenue Risks

Whatcom County’s sales tax revenues have shown significant growth over the past 30 years, with a compound annual growth rate (CAGR) of approximately 5%. However, as the graph below illustrates, there is significant variance in growth rates not only from year to year but over more extended periods as well, which creates risks across different time horizons.



Short-term revenue risks

To the extent that the County’s financial assumptions foresee sales tax revenue growth over time, it is important to evaluate the risk of undercollection. Sales tax receipts from 1996 to 2025 can be evaluated as moving averages.



Here we can see the impact of the Great Recession, as average annual growth for the 5-year period from 2007 to 2011 dipped to -1% before recovering. This low point can be used as a benchmark for stress testing the resiliency of the proposed financial model.

If revenue growth was -1% for the next five years (2026 through 2030), the cumulative deviation from the projections used in updated financing scenario would total \$3.6 million (roughly \$700,000/year on average), a risk that the County would want to partially mitigate for.

Mitigation S1: Revenue Stabilization Account

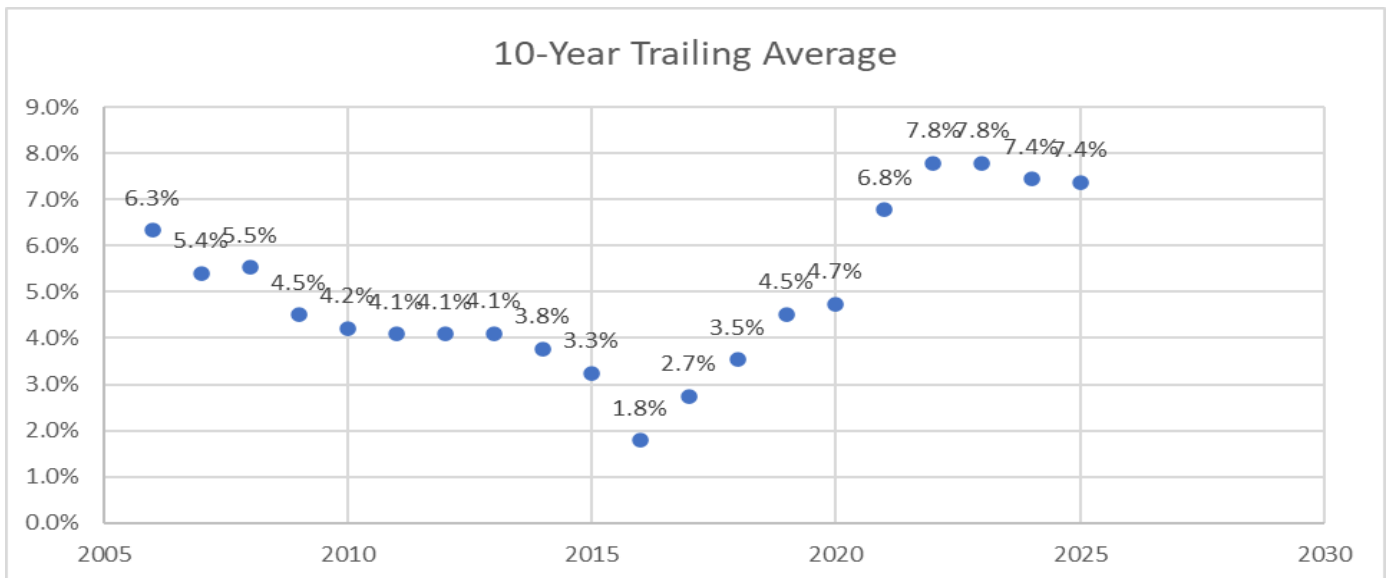
To shield the County from a similar revenue decline associated with a cyclical economic downturn or other economic shocks, we would suggest the creation of Revenue Stabilization Account (RSA) to cover any difference between the County’s anticipated and actual collections. The RSA could be funded, at least in part, by the fund’s investment income. Conservative estimates suggest that from 2024 to 2028 the fund will accumulate more than \$2 million from investment earnings. The County could also shift revenues collected in excess of the projected amounts to the RSA to cover potential future shortfalls.

Mitigation S2: Fixed City Contributions

The updated Interlocal Agreement should specify the annual contribution of each party in dollar amounts based on an agreed revenue assumption for future years. This would effectively isolate the County from risks associated with the cities’ contributions, which account for one-third of this risk through 2034.

Long-Term Revenue Risk

Under this conceptual framework, the County will assume responsibility for all debt payments from 2035 on. There is a risk that, if long-term revenue growth stagnates, County revenues from this source will be insufficient. We looked at 10-year moving averages to evaluate the risks across a full decade.



Again we see a dip associated with the Great Recession, resulting in an average growth rate of 1.8% from 2006 to 2016, the lowest for the periods analyzed. The second lowest is 2.75%.

Mitigation S3: Conservative Growth Assumptions

The most conservative approach would be to use the lowest 10-year moving average of the last 20 years. Using the next lowest would still be very conservative but also increase risk. The updated scenario assumes 1.5% growth in 2026 and 2027 and 3% growth thereafter, which averages 2.7% over the period.

Mitigation S4: 2035 Cushion

In the updated scenario, even with the conservative growth projections, in 2035 the County’s revenue from this source would exceed its debt service obligation by approximately 5%, or \$540,000. In other words, achieving the 2035 debt service amount would only require growth to average 2.2%, rather than the 2.7% average used in the assumptions.

Interest Rate Volatility Risk

The municipal bond market has seen significant fluctuations in recent years. For example, AAA municipal bonds have swung by more than three-quarters of a percentage point over the past year (see Bloomberg BVAL Muni Benchmark 30Y performance to the right). A swing of that magnitude could impact the bond costs by approximately 10%.

Mitigation S5: Include Contingency in Interest Assumptions

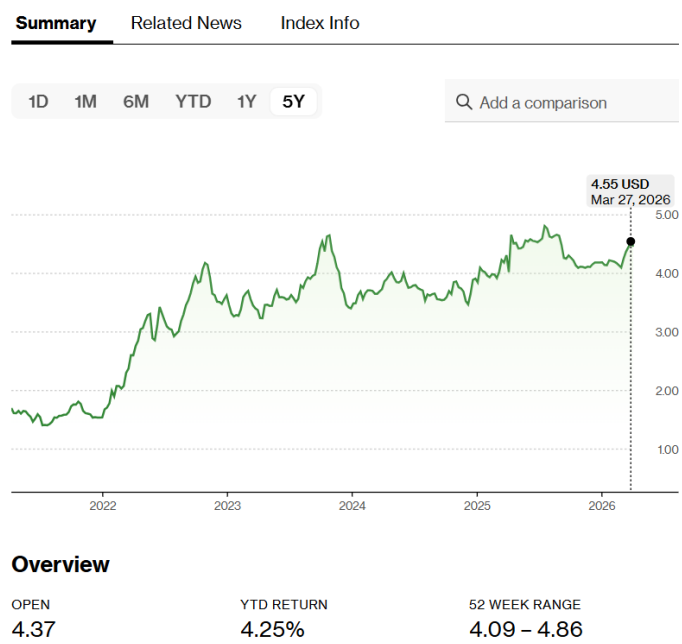
PFM’s scenario includes a cushion of +0.5% on top of current market rates, and staff recommend retaining this contingency in our assumptions.

Mitigation S6: Two Bond Placements

Staff recommend the County 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.



Conclusion

The updated financing scenario is conservative in its assumptions and, if used in conjunction with the mitigation measures described above, presents a budget cap—\$214 million—that we believe to be low risk based on historical trends and current market conditions.

By this time next year, the interest contingency will be resolved, at least in part, and we will have the benefit of another year's worth of revenue collected, providing an opportunity to revisit the project budget based on the information we have then. For example, if the interest rate cushion is not utilized (i.e., interest rates do not rise by 0.5%), approximately \$10 million could potentially be available for the project. The Guaranteed Maximum Price (GMP) will need to be agreed with the design-builder in fall of 2027.

Finally, please note that the financial assumptions and mitigation measures described above need to be agreed upon with the cities. Those negotiations would be the next step for the administration after receiving direction from the County Council to proceed with this budget cap.

Please address any questions to Jed Holmes, Public Affairs and Strategy Manager (jholmes@co.whatcom.wa.us).