

**WHATCOM COUNTY
EXECUTIVE'S OFFICE**

County Courthouse
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Satpal Singh Sidhu
County Executive

Memorandum

To: Whatcom County Council
Through: Satpal Sidhu, County Executive
From: Jed Holmes, Public Affairs Manager
CC: Kayla Schott-Bresler, Deputy Executive
Randy Rydel, Finance Director
Donnell "Tank" Tanksley, Sheriff
Steve Oliver, Treasurer
Finance and Facility Advisory Board
Date: March 9, 2026
RE: Limitations on funds available for capital construction

Background. On February 24, the Council was provided with a Justice Project updated that described planning scenarios for the jail and behavioral care center. Four jail scenarios were discussed, with the lowest costing approximately \$170 million and the highest exceeding \$300 million. Each of the scenarios envisioned a bed count of 480 as a common denominator for comparison purposes.

The next steps to move this process forward are:

- 1) reaching consensus on a budget ceiling for the jail and behavioral care center; and
- 2) prioritization of spending within that cap to determine level of service.

The purpose of this memo is to review the agreed financial framework that emerge following the approval of the ballot proposition and to communicate both the flexibility and the constraints on funds available for capital construction, providing some sideboards for our discussions around establishing a budget ceiling.

Existing Agreement. In the months following the approval of Proposition 2023-04 – Public Health, Safety, and Justice Sales and Use Tax, the County Executive's Office began engaging with the cities of Whatcom County to record and codify an agreement on use of the revenues from this tax. This interlocal agreement (Contract No. 202404018) was developed through a collaborative effort of the County Executive's Office, City of Bellingham and City of Lynden, which represented the perspective of the small cities of Whatcom County. County Council provided its final approval on May 7, 2024, and by July 2, 2024, all city majors and the County Executive had signed the agreement.

The financial framework of the agreement was based on joint County-city contributions to the capital construction fund for the jail and behavioral care center for an initial period (4-6 years), with the County contributing 100% of this dedicated sales tax and the cities contributing 75%. The agreement contemplates revisiting the length of city contributions in 2026 if the “total capital cost” is determined to be greater than what was initially envisioned (\$155 million).

New financial circumstances. Two factors have undercut the assumptions made during the initial planning process:

1. High inflation has significantly escalated construction costs
2. Weak economic activity has negatively impacted sales tax receipts and projected future revenues

Limitations of revenue stream. The Executive’s Office, in conversation with the Finance Division and Treasurer’s Office, has worked to test potential budget limits given the current conditions. In particular, we examined the two levers that can be used to increase the amount of money available from this revenue source for capital construction:

1. Increasing the County’s long-term borrowing for the project
2. Extension of the joint County/city contribution framework

For comparison purposes, the following scenarios were considered.

Baseline Scenario 2030

- Long-term debt service is capped at \$6.6 million (benchmark in interlocal)
- City contributions end in 2030 (\$22 million total)

Resulting funds available for capital construction: approximately \$165 million

Max Debt Scenario 2030

- Long-term debt service is capped at \$8.7 million¹
- City contributions end in 2030 (\$22 million total)

Resulting funds available for capital construction: approximately \$200 million

Max Debt Scenario 2035

- Long-term debt service is capped at \$10 million²
- City contributions end in 2035 (\$45 million total)

Resulting funds available for capital construction: approximately \$224 million

It is important to note that the maximum debt scenarios present risks, particularly as the time horizon is pushed further out. These risks have been mitigated in part through conservative

¹ Dedicates 100% of anticipated County revenue from this source in 2030 to debt service

² Dedicates 100% of anticipated County revenue from this source in 2035 to debt service

underlying assumptions – the anticipated interest rate and revenue growth projections.³ The maximum scenarios are intended to demonstrate upper limits as opposed to recommended options. At the same time, debt-related risks should be weighed against risks associated with compromising on the new facility’s quality and/or capacity.

Additionally, we want to be transparent about the impact of any scenario that maximizes allocation of funds to capital construction expenses for the jail and behavioral care center. Both levers – extended city contributions and increased borrowing – would leave less money for community-based behavioral care programs. When projected over the first 15 years (2024-2039), the scenarios are estimated to generate the following revenue totals for the community-based services.

15-Year Totals for Community-Based Services (2024-2039):

- Baseline Scenario 2030 – \$87 million
- Max Debt Scenario 2030 – \$61 million
- Max Debt Scenario 2035 – \$36 million

Next Steps. The County Executive’s Office has been in conversation with the leadership of the City of Bellingham and the Small Cities Caucus with a view to update the existing interlocal. Given the evolving financial situation and difficult decisions ahead, the Executive’s Office will need guidance from the Council on the project’s budget. While that budget decision is not expected immediately, it is a critical next step for moving forward in our engagement with our funding partners.

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

³ Sales tax growth is estimated at 1.5% in 2026 and 2027, and 3% for 2028-2035. True interest cost at time of borrowing is estimated at 4%.