

# 2025-2026 Biennial Budget Discussion

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COMMITTEE OF THE WHOLE

SEPTEMBER 24, 2024



# General Fund (GF) Structural Deficit

The County faces a structural budget imbalance where annual revenues are not keeping pace with annual expenses, requiring reliance on fund balance to support ongoing operations

## Projected Annual Operating Deficit\* 2025-2026 Biennium

	2025	2026	Average
Base Budget Submittals	-7.4 M	-14.0 M	-10.7 M
With ASRs** + 2026 Risk Reserve	-9.8 M	-16.7 M	-13.2 M

*Note: Based on best available info as 9/24; as Finance refines technical details these numbers may change.*

*\*Projected Annual Operating Surplus (Deficit) = Annual Revenues – Annual Expenses*

*If the result is a negative number, there is a structural budget deficit; if positive, fund is structurally balanced.*

*\*\*Most ASRs submitted are cost maintenance requests or resources necessary to support current service levels (i.e., ASRs to support Administrative Services, Assessor’s Office, Treasurer’s Office).*



# Addressing the Deficit

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To address the issue, GF expenses must be reduced, revenues increased, or a combination of both

*Other considerations as you weigh the options:*

- County minimum fund balance policy: 15% of the previous year's General Fund revenues
- At least since 2019, the County has maintained a 20-25% balance
- A stable fund balance is important as the County prepares to issue debt to finance major capital facilities and to provide a buffer for emergent needs
- In previous budget cycle, the County assumed a 5% lapse to balance and meet the 15% requirement
- Under current conditions, if no new resources are provided, department budgets will be too tight to assume a lapse



# Work done to date or underway

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- Implemented a 2024 hiring freeze and revisiting large new contract requests not yet executed, delaying spending where possible
- GF budget limits for 2025-26 reduced by \$10M (compared to the 2024 Amended GF Budget) and departments directed to prepare budget proposals assuming no new resources
  - Example: The GF support for the Health Department was reduced by ~\$1M annually for the 2025-26 biennium*
- Developing a budget prioritization process for 2025 that will include:
  - Reviewing all County expenses to identify efficiencies and spending reduction options
  - Consider alternative revenues to support GF expenses; seek additional external funding and opportunities to redirect GF expenses to other restricted funds
  - Prioritize allocation of funds based on community needs and County priorities



# Options to balance the GF

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1. Continuity of Services
2. Reduce Level of Services (LOS)

*Assumptions applied to both options:*

- Use 1% annual property tax increase on current expense levy (\$336k)
- Use one-time Local Assistance and Tribal Consistency (\$2.7 million)



# Options 1

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## 1. Continuity of Services

- Focus on maintaining current LOS, provide time to identify ongoing efficiencies, service reductions that have the least impact on the community, alternative funding sources or new revenues
- Use banked capacity (reducing the ongoing deficit by \$3.9 million)
- 5% lapse assumption in 2025, complete budget prioritization exercise to identify ongoing cuts or new resources for 2026 and beyond = ~\$10 M

### *Projected Outcome:*

- Maintain a fund balance of 20-25% of prior year revenue growing modestly year-over-year; establishing stability to support debt issuance for major capital projects
- Moving towards structurally balanced budget for the 2027-2028 biennium

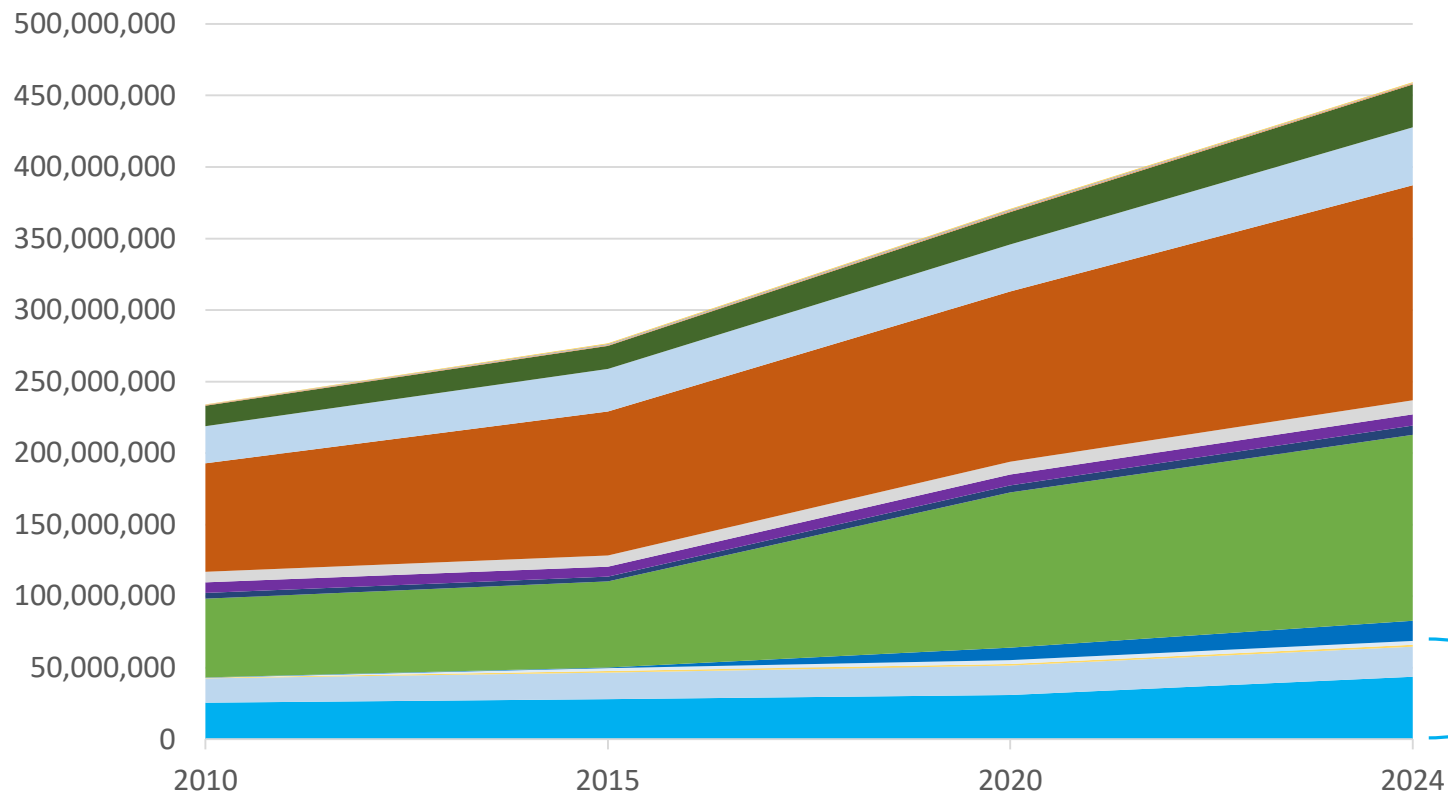


# Option 1: Impact of \$3.9M Banked Capacity

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## Banked capacity helps:

- Maintain increased investments in Law and Justice departments added or made permanent in the 2023-24 Biennium or Mid Biennium Budgets, including positions added to the Sheriff's Office, Prosecuting Attorney's Office, Public Defender's Office, Conflict Counsel...
- Support investments to address under resourcing in Administrative Services and requests for additional resources from the Assessor, Auditor, Treasurer, Clerk, and Superior Court
- Provides resources to support new Medical Examiner's Office
- Maintains base budgets and provides modest cost-of-living adjustments for non-departmental investments such as: Food Bank, Domestic Violence Commission, and Senior Centers (through the Parks budget)



In 2024, property tax revenues that support **County provided services** make up 14.1% of total taxes paid.

In 2010, 18.2% of property tax revenues\* supported these County services.

During the same period, the State's portion increased from 23.5% to 28.3%

*\*Property tax revenues that support direct County services in this calculation include the following levies: Current Expense, Mental Health, Election Reserve, Dev. Disabilities, Veteran's Relief, Children's Initiative, County Road District*



# Option 1 – Banked capacity (Impact of GF and Road Fund)



If the full GF banked capacity is used, the impact from adding that capacity to a homeowner with an assessed value of \$700k is ~\$45 annually for GF; \$92 from the Road Fund RF (\$137 total).

How do Whatcom County’s property tax compare:

	<b>Whatcom County (pop 238k)</b>	<b>Skagit County (pop 133k)</b>
<b>General</b>	43,740,134 (includes HCF)	30,150,959
<b>EMS</b>	13,394,873	9,680,453
<b>Con. Futures</b>	1,394,326	1,021,199
<b>Road</b>	20,958,400	18,866,212
<b>Flood</b>	6,466,488	-
<b>Total</b>	85,954,221	59,718,823
<b>Total Per capita</b>	Current \$361 With GF banked capacity: \$378 With GF and Road BC: \$417	\$449



# Option 2

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## 2. Reduce Level of Services (LOS)

- Focus on spending reductions - no new spending, any necessary ASR must be accommodated through service reductions
- Cut expenses by \$8M in '25 and '26\*, reducing LOS
- ~3-6M\* in other service reductions to accommodate mandatory cost increase within remaining base budgets

### *Projected Outcome:*

- Fund balance at end of 2026 15-18% of prior year revenue, declining year-over-year
- GF continues to project structural imbalance into the next biennium, relying on fund balance to support ongoing operations annually

*\*Cuts could be offset in the short-term if the Council chose to reallocate funds in the Community Priorities for GF expenses*



# Option 2: Impact of a 3-5% reduction

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## Examples of what we heard:

- Decreased capacity for Prosecutor's Office to prosecute cases, and ability to provide services and collaborate with other agencies, include victim advocacy and diversion programs, and services aimed at crime prevention and rehabilitation or reducing recidivism
- In the Sheriff's office impacts include:
  - Staff reductions in the Corrections Bureau that would strain the remaining staff, increasing workloads, potentially leading to safety risks, decreased morale, and higher staff turnover
  - In patrol, reduced resources for the training and equipment needed to effectively, efficiently, and safely perform law enforcement duties
- Inability to complete or meet statutory required services by the Assessor, Auditor, District, PDS' new permit timeline requirements....
- Risks Medical Examiner's accreditation
- Reduced staffing and hours open to the public in the Treasurer's office, that could reduce tax revenues from delayed or deferred revenue collections



# Option Comparison

	Option 1	Option 2
<b>Pros</b>		
Limited tax increase (~\$4/year for homeowner w/\$700k AV)		X
Maintains current LOS	X	
Moves County towards structurally balanced budget	X	
Stabilizes fund balance (exceed policy, positive impact on debt issuance; reserves for future liabilities)	X	
<b>Cons</b>		
Increase taxes (~\$48/year from the GF for 1% + banked capacity)	X	
Reduces LOS		X
Ongoing projected reliance on fund balance		X



# Next Steps

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- Update Council on Executive's proposal on October 8
- Finalize Proposed 2025-2026 Biennial Budget and transmit to Council week of October 14

# Questions?

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