



MEMORANDUM

TO: Whatcom County Council, Elected Officials, and Department Heads

FROM: Satpal Sidhu, County Executive

RE: 2025-2026 Budget Outlook, Priorities, and Schedule

DATE: May 29, 2024

The County is moving forward with our 2025-2026 biennial budget process to propose a financially sustainable budget to the County Council for adoption later this year. Over the last several years, we have made substantial investments in child care, housing and homeless services, criminal justice and crisis response, flood response and recovery, the Racial Equity Commission, and building acquisitions. Today, County employees are working hard to deliver on those community commitments and investments, and I want to recognize those incredible efforts and acknowledge the dedication and personal sacrifice that have made this progress possible.

The County has used the unprecedented infusion of state and federal funds to deal with a years-long pandemic, devastating floods, and fentanyl and behavioral health crises. This has allowed us to stay ahead of increasing fiscal demands and maintain healthy fund balances. However, significant expansion in criminal justice staffing during the 2023-2024 biennial budget process and 2024 mid-biennium adjustments have put the County in the difficult position, as deficit spending begins to erode our General Fund balance. With increased services demands and large pending capital projects ahead of us, we must be resolute in ensuring fiscal prudence as we approach this next biennium.

Current Financial Outlook:

We project a General Fund balance of \$28.5M to begin the next biennium. We are required to maintain a minimum fund balance of 15% of the previous year's General Fund revenues, which currently equates to approximately \$20M (Maintaining a Minimum General Fund Balance – AD123100Z).

There have been substantial increases in both staffing levels and wages over this past biennium. Staff expansion has been driven by evolving community expectations and Council priorities, while wage increases were necessary to recruit and retain well-qualified candidates after an extended period of high vacancy rates. These important investments to maintain a competitive workforce and an appropriate workload will need to be sustained going forward.

The mid-biennium budget adjustments, oriented largely toward expansion of criminal justice staffing, have led us into significant deficit spending. The adjusted 2024 budget has \$119,305,007 in budgeted



revenues and \$134,802,388 in budgeted expenditures, resulting in \$15,497,381 in expenditures over anticipated revenues. While actual expenditures will come in lower and our current fund balance is healthy, that balance will quickly diminish without strict fiscal discipline and responsible stewardship in our approach to the biennium budget process.

Our County population is growing and so is the demand for expansion of social services like youth housing, shelters, overdose response, and basic needs, including food. We are seeing increased community requests for dedicated County spending to address urgent needs facing citizens in our community. The needs have been growing more pronounced over the past decade. The County should to look to our dedicated revenue sources (Behavioral Health Fund, Homeless Housing Fund, Healthy Children's Fund, etc.) to continue our ongoing efforts to address these social service needs of our community.

We are in a time of economic uncertainty. American Rescue Plan Act (ARPA) funds will no longer be available to fill financial gaps in our criminal justice system, homeless services, affordable housing projects, food distribution system, etc., and we do not anticipate new federal investments for local governments. The Federal Reserve has maintained high interest rates, driving up the cost of borrowing. Consumers are buying fewer houses and other big-ticket items, and Whatcom County has observed stagnant sales tax revenues through the first quarter of 2024.

The County must also maintain a healthy and stable fund balance to support the County's position for anticipated bond financing for large capital projects, including the new Public Health, Safety, and Justice facility and the Northwest Annex redevelopment project. This will be critical to achieve strong bond ratings, which can provide significant interest savings over the long term.

Budget Priorities:

I regularly hear from staff, elected officials, contractors, and stakeholders the need to expand capacity in our Administrative Services departments (Finance, HR, IT, Facilities), so they can keep pace with the growing needs and priorities of County departments. For context, we have experienced significant growth in County programs, including a 28% increase in staffing. Accordingly, departments should plan for a significant increase in their Administrative Services allocations across all operating funds. Additionally, we should expect to see significant increases in facilities maintenance fees, as well as ER&R and tort.

I want to emphasize the importance of using the General Fund on the core services which the County is mandated to provide. We must consider the financial impact of criminal justice positions (Superior Court, District Court, Sheriff, Public Defender, and Prosecuting Attorney's Office) added over the last few years and plan for these costs into the next biennium. There is \$2.7 million in available Local Assistance and Tribal Consistency Fund (LATCF) to alleviate pressure, but this is only a short-term solution. We are



deeply concerned about the impacts of proposed new rules for Public Defender caseload standards, which may require offsets in other areas of County spending to accommodate.

Implementation of the Justice Project will be largely achieved through dedicated revenue from the new Public Safety, Health, and Justice Tax. We must successfully deliver on our commitments to the public, which will see a long-term payoff in increased public safety, reduced criminal justice costs, and an increase in health and wellbeing for justice involved individuals and their families.

Guidance for Departments:

We are aware that departments have pressing needs to advance their current initiatives and undertake new ones to improve efficiency. During the biennial budget process, we ask departments not to propose any new programs or services out of the General Fund. We encourage departments to look closely at base budgets and identify opportunities to reprioritize resources to achieve their goals. The Executive's Office and Finance Team remain supportive and available to assist departments through this process.

The next biennium presents an opportunity to focus on securing advancements already made, sustaining core services, and supporting our employees, who are working so hard to accomplish those efforts. Continued investment in existing programs will ensure their stable foundation for decades to come.