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"Serving all of Canyon County in an efficient, accurate and friendly manner"

8/5/2024

RE: Fiscal Year 2025 Canyon County Budget

Honorable Commissioners,

The budgetary responsibility of the county commissioners is a significant statutory delegation that you collectively bear on behalf of the citizens who voted you into office. The county provides many statutorily-mandated services and must do so on a combination of property tax revenues, state-shared revenues, fees, grants, and other miscellaneous sources of revenues. The budget must contemplate all of the moving pieces of often fluctuating revenues and ever-increasing demands for services, as well as taking care of the existing county employees who provide services for the public. As we approach Fiscal Year 2025 (10/1/24 - 9/30/25), I wish to highlight some significant factors affecting the budget.

Annual Comprehensive Financial Report

The ACFR is completed in the year following the close of a fiscal year, so there is always a bit of a lag in looking back at significant narrative from such reports. The most recent ACFR, completed this year, summarized in part the county's financial net position (as a result from the prior fiscal year) as follows (p. 13):

> ***Canyon County's total net position decreased by $20,858,243 during fiscal year 2023.*** Total revenue decreased $12,091,374 compared to the prior fiscal year due to property tax relief provided to Canyon County property taxpayers by a $14 million reduction in the amount of property tax levied. Total expenses increased $16,664,665 from last year due to increased personnel spending, increased spending on minor equipment, increased service contract costs and an increase in the County's contribution to Southwest District Health.

It's worth noting that while the county was able to rebound in FY24 on property tax revenues that were discounted in FY23, the county approved significant increases in its ongoing obligations that exceeded the one-time reduction. We haven't completed the current fiscal year,

County's Recent Salary History

As noted in the ACFR, the county increased its budget simultaneously with the decreased revenue. The county followed up FY23 with additional increased in FY24. The chart below will highlight the salaries and benefits increases over the prior four years:

	Salaries	Benefits	Sal + Ben Exp	YoY $	YoY %
2018	$ 42,581,502.16	$ 19,884,194.48	$ 62,465,696.64	$ 1,444,604.05	2.37%
2019	$ 45,335,966.59	$ 20,447,347.65	$ 65,783,314.24	$ 3,317,617.60	5.31%
2020	$ 47,440,473.95	$ 21,162,723.22	$ 68,603,197.17	$ 2,819,882.93	4.29%
2021	$ 47,473,837.95	$ 21,316,028.58	$ 68,789,866.53	$ 186,669.36	0.27%
2022	$ 53,741,801.38	$ 22,356,143.54	$ 76,097,944.92	$ 7,308,078.39	10.62%
2023	$ 61,573,569.59	$ 24,594,844.53	$ 86,168,414.12	$ 10,070,469.20	13.23%
2024	$ 66,052,341.44	$ 25,713,896.38	$ 91,766,237.82	$ 5,597,823.70	6.50%
2025	$ 63,146,486.00	$ 24,561,577.00	$ 87,708,062.98	$ (4,058,174.84)	-4.42%
2025 w 2% COLA			$ 89,158,062.98	$ (2,608,174.84)	-2.84%

In FY22-FY24, the county added nearly $23M to its budget in salaries and benefits. This is excluding increases in the operational and capital budget.

Revenue Highlights

Property Taxes

For FY22, the county levied a total of $53,684,567. For FY23, the county reduced its levy to $40M to provide one-time relief by burning fund balance. For FY24, the county levied $56,364,662. For FY25, the anticipated max levy is $58,864,985 with the use of 1% forgone, which amounts to $591,748. Without forgone, the county may levy up to $58,273,237.

The potential year-over-year increase for FY25 over FY24 would be $2,500,323 with the use of forgone. It's important to note that $2,167,496 was the added increment from new construction, which is the increase to the budget paid for by new construction as opposed to a net increase over the pre-existing tax base. This is with the newer formula applied to new construction that didn't exist prior to HB389; otherwise, the increment added from new construction would have been closer to $2.5M, just about the same amount the property tax levy could go up year-over-year, resulting in a net neutral impact on taxes for each parcel if valuation remained static. As you can see, the average owner-occupied residence in Canyon County will see a slight decrease in next year's taxes (as based on estimated levy rate and tax charge, excluding homeowner tax credits):

RESIDENTIAL: OWNER OCCUPIED							
	2023			2024			
	PARCEL COUNT	AVERAGE TAX VALUE	TAX CHARGE**	PARCEL COUNT	AVERAGE TAX VALUE	TAX CHARGE* w/ Forgone**	TAX CHARGE* w/o Forgone**
CITY OF CALDWELL	14,025	229,673	$370.87	14,591	234,955	$366.02	$362.34
CITY OF NAMPA	24,485	249,046	$402.15	25,349	257,898	$401.76	$397.72
OTHER CITIES	3,993	271,727	$438.78	4,231	280,932	$437.64	$433.24
RURAL (Excl Cities)	15,205	440,896	$711.95	16,045	452,593	$705.06	$697.97
COUNTY TOTAL	57,708	296,456	$478.71	60,216	305,835	$476.44	$471.65

Forgone would essentially capture the full increment value of new construction based on the previous formula that added new construction at its full value. If the county chooses not to use forgone, the average taxpayer would see a slight decrease of around $4-7 for the year. Even with forgone, as noted in the chart above, most homeowners would see a slight decrease year-over-year in taxes, mostly owing to market conditions as well as the fact that 3% of the taxes levied for FY24 was a one-time forgone use for capital that didn't roll over to this year's base.

State-Shared Sales Tax Revenue

As for state-shared revenues from our sales tax distribution share, here are the actuals from the prior four years:

SALES TAX REVENUE			
Year	Total	DIFF	YoY%
2014	$ 8,125,628.00	NA	NA
2015	$ 8,850,149.00	$ 724,521.00	8.92%
2016	$ 9,577,621.00	$ 727,472.00	8.22%
2017	$ 10,236,018.00	$ 658,397.00	6.87%
2018	$ 11,199,750.00	$ 963,732.00	9.42%
2019	$ 12,018,098.00	$ 818,348.00	7.31%
2020	$ 13,039,211.00	$ 1,021,113.00	8.50%
2021	$ 16,013,224.00	$ 2,974,013.00	22.81%
2022	$ 18,105,050.00	$ 2,091,826.00	13.06%
2023	$ 18,629,212.00	$ 524,162.00	2.90%

State-shared revenues were steadily increasing at a healthy clip until FY23, when revenues increased at the smallest year-over-year percentage over the prior decade. As such, the FY24 budget reflected a conservative projection of $18.325M, which is looking accurate year-to-date so far with one quarter left for distribution. For context, the county budgeted $19,914,000 for FY23 and was consequently $1,284,788 below budgeted revenue. This is what partly compounded the county's net loss in value as less was levied in property taxes and the county received over $1.25M less than budgeted in state-shared revenues. We're on pace to potentially exceed FY23 by several hundred thousand dollars. Even so, this year-over-year increase would reflect back-to-back years of slim growth. Most projections for next year are conservative and flat. I'm recommending we budget flat for next year. We will know after the first couple quarters whether we might realize more or less revenue than projected. ***I strongly suggest that any new positions authorized in this budget be held till after the first or second quarter after more accurate estimates of state-shared revenue, which is a significant revenue source.***

Historically, the county benefited greatly with increased annual revenues in excess of $6M in the three years following FY19, growing from about $12M to $18M in FY22. Increased revenues were helping fund budgetary increases while keeping the property tax levy relatively flat. The county's fund balance was growing so much that a decision was made to reduce the property tax levy for FY23, providing one-time savings in a reduced levy. This reduced levy was not a new baseline to fund the county's obligations. As noted in the ACFR, the county reduced its net assets by over $20M in that one fiscal year by increasing budgetary obligations while also reducing property tax revenues. The county expended savings to meet its budgetary obligations for FY23. FY23 is also the year when state-shared revenues flattened and came in below the county's projected revenues. In the prior seven years, this revenue averaged more than 10% in annual increases.

The county realized $100,898,698.00 in total revenues for FY23 while expending $119,667,242.00 of a $135,334,899.90 budget. That's a difference of -$18,768,544.00 in revenues over expenses. Even if the county levied $15M additional in property taxes, it would still have fallen short of meeting the actual expenditures for that year. As seen in the salaries and benefits chart, the county added over $10M in additional payroll obligations in FY23 after adding over $7.3M the previous year. Even if the county levied a higher amount for FY23, the county still would have experienced a loss in overall fund balance, a caution that the county was now expending more money than generated in taxes and other revenues. This is obviously not a sustainable budgetary environment.

The combination of increasing payroll budgets, plus flattening state-shared revenue, coincided with a one-time reduction in the collection of property tax revenue, which collectively and significantly affected the county's financial standing heading into FY24. The county chose to adopt a FY24 budget that still relied significantly on fund balance, though not to the same extent of FY23. For FY24, the county also maxed its full levy amount, which included the use of forgone taxes at its maximum amount. Part of this amount levied in FY24 was one-time forgone capacity for capital projects, which does not carry over in the base levy for this year. The commitments of FY22, FY23, and FY24 still exceed the increase of revenues over this same period.

Even with the county levying its maximum amount for FY24, if it had frozen the budgetary obligations, the budgeted revenues would not cover the budgeted expenses. The county added nearly $6M in FY24 payroll obligations, lower than the annual increases in FY23 and FY22, but still compounding the county's ongoing liabilities by a total of nearly $23M. This has created a financial climate of continued dependency on savings to fund on-going commitments. We're still trying to pay for increased obligations added to the budget in previous years.

We're approaching a challenging budget year as inflation continues to affect cost of goods and PERSI adjustments increase payroll contributions for employee and employer. Insurance continues to increase as the industry is playing catch up on replacement costs for capital assets. In addition to these current challenges, the county is also trying to catch up in funding ongoing obligations made in FY22, FY23, and FY24.

Historical Implications

Please note that for FY21, FY22, and FY23, the county chose not to collect its full increment of new construction or the allowable 3% annual increase in property taxes. In just those three years, the county chose not to add over $9M to its ongoing annual taxing capacity, some of which would have been significant new construction increment. Moreover, the county chose not to reserve or retain nearly $7.4M in taxing capacity for future consideration. These years followed a season of the county's recent budget history when the county added over $6M in accumulated forgone taxing capacity over FY17, FY18, and FY19. The county used forgone three years in a row. After using forgone for three years in a row, the county then chose to not add the full new construction increment to its budget and to forever disclaim its consideration in the future. Additionally, the rules governing use of forgone, or previously unused taxing capacity, are now constrained to an 1% increase for ongoing use and up to 3% for one-time capital use.

For perspective, the county's potential full levy amount, if it had taken its full levying capacity each year, would be around $84M. For FY25, the anticipated max levy is $58,864,985 with the use of 1% forgone. This results in about a $25M annual reduction in the levying capacity of the county. This results in a property tax reduction of hundreds of dollars for the average home each and every single year because of accumulated restraint over the county's history. In sum, a historical analysis will indicate that there are times when the county is facing pressures to meet its statutory commitments and consequently increases its property tax revenues, and there are many times when the county has found ways to maintain its delegated responsibilities without taxing at its max capacity. After recently not adding new construction at its full value and disclaiming future consideration of recapturing that increment through the use of forgone, the county has now had to deal with the added pressures of growth in its ability to maintain services.

Budgetary Goals

One of my primary goals in this upcoming budget is to decrease the county's reliance on fund balance as a revenue source to balance the operational budget. Capital acquisition or expenditures are different than on-going operational costs associated with payroll and supplies in providing services. My hope into the future is a stable, effectively balanced budget where the county spends what it generates in revenue for its normal operations. Any potential future increases in fund balance should be carefully considered for deferred maintenance, funding significant capital projects, insurance, and helping make solvent the health trust. An effectively balanced budget could be estimated where fund balance is not funding more than 10% the projected deficit relative to expenditures. The county has historically spent around 90% of its budget, so for purposes of an illustration at a micro level, a $100 budget would likely result in about $90 of expenses, based on our historical averages. If we expected $100 of revenues apart from the use of fund balance, we would likely end the year by saving $10 into fund balance. If we show $90 in other revenues and balance the budget by using $10 from savings, we would likely end the year neither using nor adding to fund balance as we would actually spend $90 and not have to fund the full $100.

The county's current fund balance can sufficiently cover a modest deficit for FY25 as a way of funding services. Using fund balance is a sometimes-appropriate temporary course of action. My hope is to ease into a balanced budget in FY26. We can't rely on fund balance to fund operations to the extent we have over the prior two years and will next year. Aside from enterprise funds, ARPA, pest, and gopher, the current expense budget as reflecting considerations from the workshops of requested budgets is around $120M. Revenues are around $104M (depending on the use of forgone or not). $16M from respective fund balances would have to cover the difference. If applying a 90% factor to expenses, it's more likely that the county would actually expend around $108M, requiring the use of around $4M to fund the deficit from fund balance. My ultimate goal is to get back to an effectively balanced budget for operations. ***When subtracting major capital items in the budget, including real estate acquisition, the final purchase price for jail pod 6, and parks capital that rolls over from this year, we're close to an effectively balanced budget for normal***

operations. I'd label these as non-ordinary or "extraordinary" capital. This concept is often used synonymously with "nonrecurring" items that aren't part of normal, ongoing budgetary expenses. It's also important not to gain false relief from extraordinary/nonrecurring items rolling off one year as there may be others lines up for the next year and subsequent years. In order to more accurately predict the county's financial solvency, we need to take inventory of all future extraordinary/nonrecurring items and schedule them out as future liabilities. If one of these major capital projects roll off, it may seem prudent to reallocate such budget capacity to payroll, but there are limited tools in funding major capital needs, so we must view fund balance as somewhat obligated when we know there are future liabilities. So long as normal revenues are funding normal expenses, we will remain stable. Fund balance will have to be used to create budget capacity for years when major items need to be funded. I look forward to creating a fund balance policy that will make important distinctions to more accurately anticipate future liabilities as a deferred obligation. Some items that loom on the horizon: Aumenteum software update, potential supplement of fund balance for ARPA projects, mass computer replacement for court clerks, health trust solvency, claims against the Tort Fund, and more.

Depending on state shared revenues and other budgeted revenues, you may need to consider mid-year adjustments. I'm hoping to establish boundaries and information that will assist you as commissioners in determining the budgetary details for the upcoming fiscal year. The attached scenarios include varying degrees of a COLA, new positions, and the implications of using forgone or not. My office stands ready to assist as you deliberate my presented budget scenarios and work towards a tentative budget for publication and public input. Thank you for your service and thoughtful deliberation as you weigh the collective needs within the county in service to the citizens of Canyon County.

In Humble Service,

Rick Hogaboam

Rick Hogaboam, MPA
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