

Memo:

To: Seth Crawford, County Judge
Brian Barney, County Commissioner
Jerry Brummer, County Commissioner

From: Andy Parks

Via: Seth Crawford, County Judge

Date: June 29, 2022

RE: Cost of Living Adjustment (COLA) – July 1, 2022

County employees are scheduled for a COLA effective July 1, 2022; two percent (2.0%) for non-represented and Road Department bargaining unit employees and three percent (3.0%) for Sheriff bargaining unit employees. The County Court has indicated a desire to provide employees an additional COLA adjustment effective July 1, 2022, to help employees offset the impacts of inflation. Prior to deciding on whether to approve an additional COLA the Court has requested additional information on the impacts of the additional COLA beyond fiscal year 2023.

As we have discussed previously, the funds/operations that are most sensitive to COLA adjustments are the property tax supported funds. Therefore, the analysis and forecasting has been limited to the following property tax supported funds:

- General
- Sheriff
- Health Services
- Library
- Veterans

To assist with preparation of the five-year financial forecasts and analysis, department directors and their staff provided information related to their respective operations including anticipated staffing requests by position and fiscal year, capital items and any significant one-time or continuing expense items. Additionally, assumptions related to various types of revenue, labor cost elements, inflation, and other metrics were identified and used in the analysis and forecasts.

As has been discussed on several occasions and as you have observed, forecasting revenue and expenditures, even for short periods of time, e.g., periods of less than one year, can be challenging with material variation in outcomes. Mid-range (3-5 years) financial projections are more challenging as additional assumptions are used, one or more of those assumptions may

prove incorrect, anticipated actions may change, and other unforeseen events may occur among other factors.

Additional variation and volatility of activity also results during periods of accelerating and high inflation, Fed interest rate increases not seen in forty years, labor market uncertainty, surging fuel and food prices, rapidly increasing mortgage rates, etc. These rapid changes add additional uncertainty and result in a much broader range of potential outcomes with the level of confidence in any given outcome materially reduced. Therefore, the financial forecasts included in this memo are subject to the volatility and risks noted and as such the results that may occur in the future may be materially different than the forecast results.

Given the uncertainty and risks as noted, it is even more important during periods of increased uncertainty to perform financial analysis and projections to help inform decisions.

With respect to the assumptions for the five-year forecasts, there are several key elements that are known:

- The number of approved and filled positions
- Historical spending
- Historical revenue
- Current inflation information
- Current labor agreements and other agreements, e.g., subscriptions, insurance, leases
- Adopted budget based on good information and documented plan of activity
- Present employee turnover is significant (approximately 20%)
- Monthly operating results, as they are posted

Additionally, County leadership has communicated to the Court that recruiting and retention efforts have been and continue to be negatively impacted by the County's present pay ranges (low relative to peers) and certain elements of the benefit package. County leadership has also indicated by a nearly 3-1 ratio that recruiting and retaining existing authorized positions is preferred to adding staff and experiencing continuing turnover due to lower pay/benefits.

To help address this issue, thus far in 2022, the County Court has made the following decisions related to the County's wage and benefit package:

- In January 2022, increased the COLA for all non-represented and Road Department employees 2%, rather than the historical 1.0%, retroactive to July 1, 2021, with an additional adjustment July 1, 2022 (2.0% increase July 1, 2022)
- In January 2022, increased the 401k contributions to 8% March 1, 2022, with additional 2% increases January 1, 2023, and January 1, 2024, to a total of 12%
- In May 2022, reduced the waiting period for health insurance coverage by one-month
- Provided staff the authority to use hiring incentives to recruit the most challenging positions to fill
- Provided a one-time retention payment of \$1,200 plus 4.0% of earned regular salary during fiscal year 2022 for all County regular full- and part-time employees (including those in bargaining units)

- Adopted a fiscal year 2022 budget with an understanding that an additional COLA on July 1, 2022, is desired by the Court.

Analysis and Forecast Assumptions

Assumptions	Forecasts				
	2023	2024	2025	2026	2027
Property and motel taxes	5.5%	5.5%	5.5%	5.5%	5.5%
Federal revenue	2.5%	2.5%	2.5%	2.5%	2.5%
State revenue	2.5%	2.5%	2.5%	2.5%	2.5%
Local revenue	2.5%	2.5%	2.5%	2.5%	2.5%
Charges for services		5.0%	3.0%	2.0%	2.0%
Donations	110.0%	10.0%	10.0%	10.0%	10.0%
Earnings rate (60% of CPI)	1.5%	3.0%	1.8%	1.2%	1.2%
CPI	8.0%	5.0%	3.0%	2.0%	2.0%
Growth rate	2.5%	2.5%	2.5%	2.5%	2.5%
Efficiency - reduction of growth rate due to efficiency gains		50.0%	50.0%	50.0%	50.0%
Health insurance - double rate of inflation beginning FY 2024	0.0%	10.0%	6.0%	4.0%	4.0%
Health insurance - average additional percentage impact to personnel costs - increase above CPI		2.86%	1.72%	1.14%	1.14%
COLA - salaries (baseline - CPI target rate)	2.0%	2.0%	2.0%	2.0%	2.0%
COLA - salaries (Sheriff's Office - bargaining through FY 2025 CPI target thereafter)	3.0%	3.0%	3.0%	2.0%	2.0%
COLA - additional	3.0%	0.0%	0.0%	0.0%	0.0%
COLA - additional - Sheriff's Office	2.0%	0.0%	0.0%	0.0%	0.0%
Steps - approximate impact due to movement in salary ranges		1.5%	1.5%	1.5%	1.5%
401k - additional	2.0%	2.0%	0.0%	0.0%	0.0%
401k - additional SO		0.4%	0.0%	0.0%	0.0%
PERS					
Revenue - FY 2023 of budget	101.0%	101.0%	101.0%	101.0%	101.0%
Spending - FY 2023 of budget - all except Sheriff's Office	96.5%	96.5%	96.5%	96.5%	96.5%
Spending - FY 2023 of budget - Sheriff's Office	92.0%	92.0%	92.0%	92.0%	92.0%

Additional information

The forecasts presented below do not include the addition of any requested staffing other than those approved and included in fiscal year 2023 staffing. A total of 25 FTEs are included in department requests for fiscal years 2024-2027. Present staffing per 1,000 population is 9.06 FTEs. The addition of 25 FTEs during fiscal year 2024-2027, given the growth assumption noted above of 2.5%, results in an FTE per 1,000 population of 9.06.

The estimated cost of each employee is approximately \$100,000. Therefore, for rough estimation purposes, an additional \$2.5 million annually is needed to fund these positions as of fiscal year 2027.

The forecasts exclude one-time funding from federal legislation during federal fiscal years 2022 and 2023. This is funding aimed at counties with forest dollars for education and roads. The amount of the funding, currently, is unknown. Anticipated timing of the first payment is by September 30, 2022. Also excluded is potential additional federal funding resulting from the creation of a road district. Preliminary information indicates this stream of revenue may be approximately \$900,000 per year beginning in fiscal year 2024.

The forecasts also exclude the impacts of additional occupancy costs of the new Justice Center beginning approximately fiscal year 2025. The base estimated annual cost is \$75,000, not including staffing for security.

Below are summary findings for a COLA of 5.0% (3% additional non-represented and Road employees and 2% Sheriff’s Office bargaining unit) and 6.0% (4% additional non-represented and Road employees and 3% Sheriff’s Office bargaining unit). The Courts goal is to have the total COLA for all employees the same.

Summary of Findings – 5% COLA (3%-2% additional COLA)

Financial Forecasts Aggregation
 Property Tax Supported Funds
 Fiscal Years 2023 - 2027

	Forecasts							
	2023 ADOPTED	Additional COLA	2023 Amended	2023	2024	2025	2026	2027
Total revenue	31,006,600	-	31,006,600	31,589,200	29,133,000	30,044,000	31,083,000	32,242,000
Total expenditures	32,163,200	390,200	32,552,400	30,970,700	30,609,000	30,824,000	32,030,000	33,329,000
Total revenue over (under) expenditures	(1,156,600)	(390,200)	(1,545,800)	618,500	(1,476,000)	(780,000)	(947,000)	(1,087,000)
Total beginning fund balance	12,482,200	-	12,482,200	12,734,200	13,352,700	11,876,700	11,096,700	10,149,700
Total ending fund balance	11,325,600	(390,200)	10,936,400	13,352,700	11,876,700	11,096,700	10,149,700	9,062,700
Meets fund balance policy								
General Fund	Y		Y	Y	Y	Y	Y	Y
Sheriff's Office Fund	N		N	N	N	N	N	N
Health Services Fund	Y		Y	Y	Y	Y	Y	Y
Veterans Services Fund	Y		Y	Y	Y	Y	Y	Y
Library Fund	Y		Y	Y	Y	Y	Y	Y

Summary of Findings – 6% COLA (4%-3% additional COLA)

Financial Forecasts Aggregation
Property Tax Supported Funds
Fiscal Years 2023 - 2027

	Forecasts							
	2023 ADOPTED	Additional COLA	2023 Amended	2023	2024	2025	2026	2027
Total revenue	31,006,600	-	31,006,600	31,589,200	29,156,000	30,071,000	31,113,000	32,271,000
Total expenditures	32,163,200	552,900	32,715,100	31,123,700	30,773,000	30,998,000	32,217,000	33,523,000
Total revenue over (under) expenditures	(1,156,600)	(552,900)	(1,708,500)	465,500	(1,617,000)	(927,000)	(1,104,000)	(1,252,000)
Total beginning fund balance	12,482,200	-	12,482,200	12,734,200	13,199,700	11,582,700	10,655,700	9,551,700
Total ending fund balance	11,325,600	(552,900)	10,773,700	13,199,700	11,582,700	10,655,700	9,551,700	8,299,700
Meets fund balance policy								
General Fund	Y		Y	Y	Y	Y	Y	Y
Sheriff's Office Fund	N		N	N	N	N	N	N
Health Services Fund	Y		Y	Y	Y	Y	Y	Y
Veterans Services Fund	Y		Y	Y	Y	Y	Y	N
Library Fund	Y		Y	Y	Y	Y	Y	Y

Discussion

Each percent (1.0%) COLA July 1, 2022, results in an estimated additional annual cost of \$165,000 in fiscal year 2027, and during the five-year period costs an additional \$763,000. A five-percent COLA is projected to result in estimated annual expenditures exceeding revenue in fiscal year 2027 is \$1,087,000, with a six-percent COLA estimate of expenditures exceeding revenue by \$1,252,000.

In either scenario, the Sheriff's Office Fund ending fund balance does not meet a fiscal policy similar to that of the General Fund, i.e., four months net working capital. The fund balance during this period remains consistent, with limited reduction. The Veterans Fund ending fund balance does not meet fiscal policy requirements in fiscal year 2027. A plan to increase fund balance to policy requirements for each fund will be submitted within the next ninety days.

As noted above, each percent costs approximately \$165,000/year. Each new position costs an estimated \$100,000/year. An additional COLA of 3% costs approximately \$500,000, or the equivalent of 5 FTEs. In other words, without an additional COLA, five additional positions could be added and result in a similar five-year outcome as the forecasts shown.

Utilizing the assumptions noted above the County's ability to add additional employees during the next several years appears to be contingent upon securing additional revenue from sources such as the creation of a road district and or other sources and or reducing operating costs. The

ability to make progress on the County's wage/benefit package for existing employees has similar contingencies.

Previous financial projections for property taxes from the data centers beginning with fiscal year 2028 show available revenue – net of funds used to replace PILOT from the data centers and payment of projected debt service as follows:

2028	\$1.0 million
2029	\$2.5 million
2030	\$2.3 million
2031	\$2.0 million
2032	\$1.6 million
5-year average	\$1.9 million

The data center property tax forecasts, together with the five-year aggregated forecasts above, if reasonably accurate, suggest the County, as of the end of fiscal year 2027 will have additional revenue to offset forecast revenue shortfalls with a COLA July 1, 2022, of five or six percent (5.0%-6.0%), with additional revenue to address some, but not all, of the personnel requests noted previously. It is not until fiscal year 2036, when the data centers completely come onto the tax rolls (forecast of \$12.7 million available) when forecast revenue from existing sources exceed the costs of current operations with requested additional staffing (through fiscal year 2027 and anticipated hiring fiscal year 2028-2036).

Summary

The above information was reviewed and discussed with the County's department heads collectively and individually with the Sheriff's Office team, the District Attorney, Health Services Director and Library Director. The department heads are unanimous in their support of a six percent COLA July 1, 2022.

Note that the County Compensation Committee, which recommends the amount of compensation to the County Budget Committee, recommended a COLA of four percent (4.0%) for elected officials (plus other adjustments to stipends, etc.)

Requested Action

A motion to approve a COLA of 6% for all County salary ranges effective July 1, 2022.

Alternatives

- A lesser percentage COLA
- Retaining the existing agreed to COLAs (3.0%)

Additional Comments

- After action by the Court, staff will communicate with each bargaining unit regarding the additional COLA.
- We will offer to meet with any department to address staff questions.
- The July 31, 2022, paycheck will be the date employees will receive the adjusted pay rate.