To: Iron County Board of Supervisors
From: Kurt Wolff, District 15
Date: February 27, 2024
Re: 2024 Budget Feedback #2

As discussed at last month's meeting, the County Board has a problem to solve. Cash in the general fund declined $1.3 million in 2023 and, based on the budget that was prepared and passed, would decline another $2.4 million in 2024 without carbon credit revenue or board action. The general fund begins the year with $3 million of cash on hand. There is a deep structural budget deficit to fix regardless of whether the County receives carbon credit revenue in 2024 or 2025.

In the straw poll vote taken earlier this month, nine out of ten board members voted *not* to rely on carbon credit revenue to plug the budget deficit. One board member voted for 50% reliance on carbon credit revenue. Four board members chose not to participate in the straw poll vote. As a point of observation, there is a disconnect when 90% of those responding, vote not to rely on carbon revenue to balance a budget in the straw poll vote, yet three months prior the Board overwhelmingly passed a budget using $2.4 million of carbon credit revenue to balance. We have a broken budget process that needs fixing. One could make a strong case that our very form of governance needs to change. But that is for another day. For now let's say that the Board's thought process with respect to carbon credit revenue has evolved. At this time, carbon credit revenue should not be used to plug a budget deficit. Before moving on, is there any disagreement from the Board on that statement?

The Finance Committee at its February meeting voted to reopen the 2024 budget with the aim of reducing reliance on carbon credit revenue and slowing/stopping the decline of cash. The Finance Committee appointed me Lead Coordinator to gather and present options, prepare financial forecasts and frame future resolutions for Board or Committee vote. After we complete discussion on this agenda topic, the County Board should pass a resolution to affirm the Finance Committee's resolutions.

Phase I

To address the task at hand, I envision a two phase process. In Phase I, the department heads and I meet to tally ideas that reduce 2024 budget gap. The discussions are centered on educating me about the mission and statutorily required aspects of the department while looking at the 2024 budget to possibly postpone capital improvements, identify budget oversights, extract cost savings and ensure all revenue sources have been identified. Already I have had several good conversations. Most everyone is taking the budget problem seriously and I am hopeful all departments will participate to some degree in solving the task at hand.

But I am not going to downplay the magnitude of the problem. The task ahead is formidable. We just need to solve it. To break down the problem we need to come up with 100 - $25,000 ideas or $2.5 million. Some ideas might be worth ($25,000) and some ideas might be worth ($100,000). Some ideas will be easy to implement like fixing a budget reconciliation item. Some ideas will be difficult and unpleasant to implement. But the primary job of an elected Board is to balance the needs of the taxpayer, county employees and services provided. Difficult decisions lie ahead.

Perhaps the 2024 budget gap gets reduced by 40% through the Phase I process though at this point it is still unknown. The plan is to present a summary of the Phase I findings at the March Board meeting and vote on the first phase of budget changes. What follows are some items that are not department head specific for the Board and Finance Committee to consider for next month.

- The 2024 budget for the Board has $40,000 for capital improvements (vehicle purchase) and $40,000 for operating expenses.
    - If the $40,000 vehicle purchase has not been delivered or ordered this line item should be postponed to a future year. Preserving cash in 2024 is paramount. Not sure who knows the status of this item.
    - Reduce Board salaries and meeting per diem effective April 1 for the balance of 2024 or until the budget deficit issue is resolved. While somewhat symbolic, past decisions of the Board and its leadership have brought us to this point. On principal alone, I believe the Board should share in the solution**.** The per diem reduction should not apply those community members serving on committees.
- The County should make changes to how it invests idle cash to maximize interest income.
- Determine if there are other tax deed sale opportunities. The tax deed sale approved last month netted the County $50,000 that was not budgeted. A piece of good news.
- The County currently maintains four funds – general fund, human services, debt service and highway. The County should add a fifth fund for capital improvements that will allow the County to identify, plan and manage future capital purchases.
- Commit to eliminating future audit findings. A few months back, the auditor's in person report to the finance committee noted that overall the 2022 audit was 'solid'. In the overall context, the footnotes, numbers and supplementary information included in the audit as a whole comprise a 'solid' final report. After some work, CLA was able to prepare and issue an audit report with an unqualified opinion. The County had a solid cash position at December 31, 2022 of $6.2 million (representing about 35% of the County budget). The primary bank account reconciled. There were no unauthorized transactions identified.

  At the same time, the audit report included findings that require attention. The auditor's report on internal control over financial reporting (page 55) identified significant and material deficiencies. The report issued on compliance with major and state grant programs (page 58) disclosed instances of non-compliance that should be given attention. Findings 2022-01 through 2022-05 are summarized beginning on page 72 of the audit.

    - **Material deficiency**. Requires the auditors to test 40% of all transactions the following audit year (compared to the normal 20%). More audit testing means higher audit costs. Material journal entries and the internal control deficiencies related to financial reporting means the financial statements provided during the year cannot always be relied on to be materially accurate.
    - **Non Compliance with Government Programs**. The County may not be following proper protocol for use of ARPA dollars. This potentially sets up a recapture scenario in a future federal audit.
        - As an aside, who at the County is responsible for ARPA reporting back to the Feds?
        - The Clerk's office should provide a full accounting of how ARPA dollars were spent over the past four years for review that at the next meeting.
    - Addressing the audit findings should focus on the general fund balance sheet, proper recording of year end payables/receivables and reducing the number of audit journal entries. As an aside, there is a lot of duplication and inefficiencies in the accounts payable process. Some of this is brought about by limitations of the Workforce accounting system. Perhaps that is a project to look at later this year.

Phase II

If the budget gap is reduced by 40% in the first phase, that still leaves a $1.4 million shortfall. Plugging the remaining budget gap will likely get solved through a combination of the following: 1) Taxpayers via levy increases (though for 2024 this is not an option); 2) Modifications to the County workforce structure, and 3) Reduction in County services provided. We are not the federal government and cannot print money to solve our problem. Tonight we need to begin looking forward to Phase II and grapple with some important concepts and reach consensus over the next couple of months.

- What is the appropriate level of working capital? At 25% of an $18 million operating budget, $4.5 million cash on hand would be needed.
    - 2024 is *a critical year* because the further we allow cash to decline; the more difficult it will be replenish cash back to a stabilized level.
    - How far are we willing to go to plug the 2024 budget deficit and what will the cash balance look like at year end?
- What level of wage increases will the Board approve for 2025?
- What services provided by the County get adjusted? What contractual arrangements are in place that permit or limit making these changes?
- How and when is the Saxon Harbor loan repaid?
- What is the targeted 2025 levy increase? The results of the recent straw poll vote did not provide a definitive Board position. Four voted for less than 5%; one 5% to 10%; four 10% to 20%; and one 20% to 40%.
    - If the Board went the referendum route, what would a levy resolution look like? What is the likelihood of a referendum passing? Who writes the one or two page memo selling the levy increase to the public?

The goal is to finalize Phase II by the June board meeting. This would include an overall framework for the 2025 budget including timelines such as requiring all departments to provide capital improvement spending. The time frame is compact, but without immediate decisive action, 2024 will be lost and cash further depleted to unacceptably low levels making the solutions that much more difficult and unpleasant.
