To: Iron County Board of Supervisors
From: Kurt Wolff, District 15
Date: January 30, 2024
Re: 2024 Budget Feedback

A few months ago I was given the green light to dig into County finances and thought it would be a good time to report back some observations. As you know I was one of two County Supervisors who voted 'no' for the 2024 budget that was passed in November. I voted 'no' for three reasons: 1) concern the County is over relying on carbon credits to balance its operating budget; 2) the lack of opportunity for Board members to provide input during the budget process especially to establish overall goals and priorities; and, 3) the absence of even a simple reconciliation or justification for the $850,000 increase to the budget deficit that was plugged with carbon credit revenue.

It seems there are a number of areas needing full Board attention in the coming months. Tonight I want to focus on two items: 1) the declining trajectory of the general fund's cash account; and 2) the degree to which the County should rely on carbon credits to balance the budget going forward.

As most of you know, the monthly Treasurer's report does not capture all cash held by the County on a consolidated basis. Highway, CDBG, Forestry and Clerk of Courts maintain separate bank accounts. The Treasurer's report captures the remaining dollars in the General Fund. Consider what was reported by the Treasurer's office over the past four years:

December 2020 – $4.9 million
December 2021 – $4.3 million
December 2022 – $4.3 million
December 2023 – $2.96 million
December 2024 – ????

In 2023, General Fund cash decreased from $4.3 million to $2.96 million. As a Board, we should not be surprised cash declined given that $1.5 million of carbon credit revenue was needed to balance the 2023 budget and those revenues did not materialize. The alarming piece is that *IF* the County does not make any changes and *IF* carbon credit revenue is not realized again in 2024 (granted that is two big IFs), the general fund balance would decline to unacceptably low levels. The structural budget deficit is $2.4 million. Do the math – general fund cash begins with $2.96 million and potentially decreases further by $2.4 million if carbon credit revenue is not received.

The question for the Board is: how much should the County rely on Carbon Credit revenue to balance the budget? When I first heard of carbon credits, there was a sense of joyful exuberance as I began running the numbers and dreaming of the possibilities. But as I learned more about the program and read the background materials Forestry provided, my exuberance faded. There is risk.

Carbon Credits are sold in a voluntary market. It is a market where buyers of the credits can choose to opt out at any time. It is a market subject to price fluctuations and subject also to political and regulatory risk. It is a market where nothing tangible changes hands – buyers of the credits pay sellers of credits large dollars to sign up for a 40 year commitment to, in the case of Iron County, supposedly do nothing more than doing exactly what you are doing right now. At times this seems too good to be true.

Now you might be surprised to hear me say that despite my reservations, I am cautiously optimistic Iron County will receive carbon revenues in 2024. I just wouldn't bet the farm that it will happen. All businesses take calculated risks. Using carbon credits to plug the entire budget deficit is a bit like betting the farm because the downside risk if carbon credit revenues do not materialize is catastrophic – in Iron County's case the general fund is likely depleted in twenty-two months. Whether or not the County receives carbon credit revenue in 2024, the Board should work to address the underlying structural budget deficit.

So, as a Board, what should we do?

- Each Board member should develop an understanding of the risks associated with receiving carbon credit revenue and as a group the Board should reach a consensus on the degree to which carbon credit revenue should be relied on to plug future budget deficits. Should that number be 100%? 75%? 50%? 25%? 0%?
- Consider adopting a defensive posture to slow the burn on cash until at least two cycles of carbon credit revenues are received.
- Reopen the 2024 budget and identify areas to reduce the carbon credit revenue plug - perhaps that initial target is in the $850k range.
- Establish a new Capital Fund to track non-recurring capital purchases outside each department's operating budget.
- Develop contingency plans on what the County might do if carbon credit revenues are not received by April 1 and what those plans might look like if carbon credit revenues still are not received by August 1 or December 1.
- Begin to establish overall targets for the 2025 budget.
- Prepare a working plan of how the first two cycles of carbon credit revenues will be utilized. Most likely the first $8 million received will plug budget deficits, replenish general fund cash and repay the Saxon Harbor loan.
- Understand that any carbon credit revenues received in 2024 will not solve the structural budget deficit. While we look for ways to shrink the budget deficit, be cognizant of the impact those decisions have on the levy.

If some of this sounds like doomsday, it likely is to the extent the Board does not act and carbon credit revenues are not received. I fully expect the full Board will move to take appropriate actions. If the County receives carbon credit revenue in 2024, it will buy some time and temporarily mitigate the worst case scenario. But the entire County Board should understand where the ship we are sailing is currently headed and decide whether we need to change course. The ship that is Iron County finances will not turn quickly nor will it turn easily, but I contend it must turn.

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