



Kitsap County
Department of Administrative Services

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Amber D'Amato
Director

MEMORANDUM

TO: All Elected Officials and Department Heads
FROM: Amber D'Amato, Administrative Services Director
SUBJECT: Notice to File 2012 Annual Budget
DATE: July 11, 2011

In accordance with the requirements set forth in the Revised Code of Washington, this memorandum is the official notice for all departments and elected offices of Kitsap County to prepare and submit their budget requests for 2012.

Kitsap County has experienced significant economic and revenue impacts over the last several years created by the mixture of the voter-imposed 1% property tax revenue limit, the drastic drop in retail sales tax receipts, and reduced state funding and grants. Between the pinch of the recession and the property tax limitation, the County's 2011 general fund budget is approximately 7% or \$6 million less than actual 2008 expenditures. Many departments have experienced nearly paralyzing cuts in staff and operating dollars resulting in reduced levels of service for the public.

While economists are cautiously optimistic about a recovery being on the horizon, Kitsap County continues to experience reductions in several major revenue categories. Many State grants and programs are being eliminated, forcing more tough decisions to be made at the local level. Retail sales tax seems to be slowly recovering; however, actual receipts are several million dollars less than pre-recession levels. Our Real Estate Excise Tax fund is in danger of dipping into critical reserves to fund obligated debt payments, leaving no revenue for any new projects. New construction has dwindled significantly, meaning that property tax revenue is holding close to the 1% growth level allowed for existing parcels with minimal supplements from new parcels being added to the tax roll.

Combining these new revenue realities with expenditure growth, which in many cases is out of the scope of control of Kitsap County, results in a structural imbalance. While we prepare for 2012, the forecasted combined growth in sales and property tax equals approximately \$650,000. If no changes to the status quo are made, Kitsap County needs at least \$740,000 in additional funds to support the obligations for staff-related expenses created by step increases, longevity payments, and medical insurance increases under collectively bargained agreements. Washington State announced that a double-digit percentage increase is required for the County's participation in the Public Employees Retirement System. The PERS

increase of 28% over 2011 levels adds \$700,000 to general fund costs. While fuel consumption is declining due to operational reductions in all departments, the cost per gallon increase is driving a budget estimate for 2012 that is \$324,000 higher than this year.

In addition to these revenue challenges, Kitsap County faces potential losses in sales tax revenue related to annexations and incorporations. This has led Kitsap County to prioritize rural and regional responsibilities, which will affect the way budgets are analyzed and adopted now and in the future. Loss of revenues related to annexations and incorporations will result in reductions to corresponding County services. Further annexation of the Bethel corridor by the City of Port Orchard may reduce sales tax revenue by approximately \$580,000 in 2012. Should the Silverdale incorporation movement succeed the potential for sales tax revenue loss in 2013 and beyond is estimated at between \$7 and \$8 million.

The Budget Office staff has been working with all departments and offices to compile a preliminary 2012 picture for anticipated revenues and expenditures. Projecting out for additional years contemplates the impacts of annexations, incorporations and various other assumptions over time. Initial estimates place general fund revenues at \$79,118,236 and expenditures at \$82,556,566 for 2012. **This is a deficit of \$3,438,331.** The following table summarizes the preliminary revenue projections with assumptions detailed below:

Revenues	2010 Actual Revenues	2011 Adopted Budget	2012 Forecast	% Change (2011 to 2012)
Property Tax	\$ 27,875,683	\$ 27,497,378	\$ 27,972,352	1.7%
Sales Tax	\$ 17,612,641	\$ 17,424,780	\$ 17,599,028	1.0%
Other Taxes	\$ 6,400,734	\$ 6,844,885	\$ 6,585,340	-3.8%
Penalties & Interest – Delinquent Prop. Taxes	\$ 3,274,229	\$ 2,079,344	\$ 2,079,344	0.0%
Licenses & Permits	\$ 193,043	\$ 200,900	\$ 188,050	-6.4%
Intergovernmental	\$ 10,082,163	\$ 10,307,709	\$ 8,970,126	-12.9%
Charges for Service	\$ 10,118,140	\$ 8,386,198	\$ 8,308,543	-0.9%
Fines & Forfeitures	\$ 2,043,138	\$ 2,742,417	\$ 2,911,744	6.2%
Misc. & Transfers	\$ 5,524,398	\$ 5,182,689	\$ 5,082,925	-1.9%
Annexations/ Incorporations			(\$ 579,216)	N/A
Total General Fund	\$ 83,124,169	\$ 80,666,300	\$ 79,118,236	-1.9%

General Fund 2012 Revenue Assumptions:

Revenues are projected at \$79,118,236 or 1.9% less than the 2011 Budget.

- Property Taxes - \$475,000 increase over 2011 Budget
 - 1% Growth + \$200,000 in new construction collections
 - Delinquency rate projected to be flat
- Interest Earnings – \$8,000 increase (or 1.1%) from 2011 levels
 - 2009 actual receipts were \$1 Million more than 2012 projection
- Sales Taxes
 - Retail Sales Tax - 1% growth for 2012
 - Jail/Juvenile Sales Tax – no growth for 2012
- Annexations/Incorporations – estimated loss in 2012 of \$579,000 in sales tax revenue related to the projected finalization of the Bethel corridor annexation
- Intergovernmental
 - Grants and interlocal funds down 13% - projected loss of \$1.3 Million

Below are expenditure projections for 2012:

Expenditures	2010 Actual Expenditures	2011 Adopted Budget	2012 Forecast	% Change (2011 to 2012)
Salaries & Benefits	\$ 55,046,918	\$ 54,272,881	\$ 55,365,420	2.0%
Supplies	\$ 2,363,266	\$ 2,411,485	\$ 2,411,485	0.0%
Services	\$ 10,412,686	\$ 10,443,448	\$ 10,519,267	0.7%
Intergovernmental	\$ 1,950,063	\$ 1,994,871	\$ 1,994,871	0.0%
Capital Outlay	\$ 228,603	\$ 561,229	\$ 561,229	0.0%
Internal Service Fund Charges	\$ 7,195,433	\$ 6,474,894	\$ 8,100,549	25.1%
Other Uses	\$ 2,988,232	\$ 3,338,618	\$ 3,603,745	7.9%
Total General Fund	\$ 80,185,201	\$ 79,497,426	\$ 82,556,566	3.8%

General Fund 2012 Expenditure Assumptions:

Expenditures are projected at \$82,556,566 or 3.8% more than the 2011 Budget.

- Salaries & Benefits - \$1,092,539 increase
 - 1.2% increase in regular salaries (based on dept. submissions)
 - 3% estimated increase in overtime costs
 - Continued step increases and longevity per labor contracts
 - Assumes County covers first 5% of medical premium increases
 - 28% increase to County contribution to PERS

- Supplies and Services – 0% growth for 2012, except for utility costs (forecasting 5% increase in this category only)
- Internal Service Fund Charges – Overall Increase of 25.1%
 - Risk Management – Decrease of \$47,766
 - Information Services – Increase of \$154,703
 - Equipment Rental & Revolving Fund – Increase of \$1,442,172
- Other Uses – Increase for 2012 driven by setting aside an additional \$200K for future debt service for the balance of the Bremerton Harborside financial obligation

Other critical assumptions:

- General Fund personnel costs are calculated at 97%. Departments and offices will not be held accountable individually for meeting the budgeted 3% attrition savings for 2012. Budget staff will monitor attrition rates throughout the year at a departmental level and provide monthly status reports. Should the general fund fall short of the 3% savings target, Commissioners understand, per the June 29th meeting, that departments and offices will work as a team to find a solution to fill the gap without the use of general fund reserves. Additionally, each department/office will cover any costs related to the separation of an employee within their existing budget.

Early in the budget proceedings, departments and offices will, in cooperation with the DAS, come up with a consistent and fair process to ensure future accountability.

- Salary and benefit projections include:
 - No general wage or cost of living adjustment
 - Maintain longevity and step increases pursuant to our current Personnel Manual and collective bargaining agreement provisions; these are preloaded into your electronic worksheets
 - Pending finalization from collective bargaining, the current calculations assume that the County will absorb the first 5% of medical benefit premium increases
 - Employees who are reduced in FTE level below 1.0 will have their employer benefit contributions and leave accruals reduced by a proportionate amount
 - “Benefit Bucket” composite rates per FTE have been recalculated - new rates (\$10,920 for “most county” and \$15,882 for Deputies) are loaded into worksheets
 - If you are projecting reductions in FTEs, you must absorb the costs of unemployment – estimated to be \$14,820 per employee for 2012. Additionally, each office/department needs to absorb the costs associated with annual leave and holiday leave pay out for each planned FTE reduction
 - GAO will be funded only to absorb unanticipated costs for unemployment in 2012

- Preliminary budgets have been established for the internal service funds and are pre-loaded. A comprehensive indirect cost allocation plan is being constructed with assistance from a consultant, and the results of that plan will be incorporated into your worksheets by Budget Office staff upon final approval.

The 2012 budget submittal and review process is similar to 2011. Budget submittals will be presented by program on electronic forms provided from the Budget Office. The Elected Officials have agreed that all budget submittals will be reviewed by program, in a performance budget format, detailing program cost, performance measures, how they achieve the County's strategic goals, service level, the program's performance trends over several years, and a priority ranking for each program. The Budget staff will work with each office/department to ensure information is in a format readily understood by the public. The "Program Budget Request" form will be provided for your use as a Word fill-in form rather than an Excel form as it was in 2011. Please remember that this form is to be completed fully and limited to one page (front and back). Any additional information you wish to provide may be attached separately.

The budget process will continue to be accessible, transparent and adaptable to change as our revenue and expenditure assumptions are finalized. Budget decisions will be guided by the following policies:

1. **All funds must present a balanced budget.** We will live within our means; expenditures must match revenues without the use of fund balance. Certain funds established with grant dollars or with budgeted capital expenses funded through reserves may be an exception (e.g., Emergency Management's COPS grant); budget staff will work with each office/department to identify exceptions.
2. **One-time revenues will not be used to fund ongoing expenditures.** For example, the property tax payments delinquent in 2010 and received in subsequent years will be treated as one-time only revenues and not used for operations.
3. **Departments and offices will submit program budget requests to meet critical objectives.** No new programs or initiatives will be considered, and it is recommended that every effort be made to consolidate, streamline, reduce, eliminate or otherwise restructure existing programs to cut costs. The general fund is facing a deficit of approximately \$3.5 million which must be addressed to adopt a balanced budget for 2012.
4. **Every department and office will present their programs to a "Budget Review Committee"** which consists of the three County Commissioners, citizen representatives appointed from each of the commissioner districts, and representatives from organized labor. Each member will evaluate programs using a rating system developed by Budget staff and the Board.

5. **The Budget staff will consolidate committee ratings and feedback from the review process.** This process will enable the Board, in partnership with each elected official, to ensure that the adopted budget supports prioritized, results-producing programs and critical service needs of Kitsap County residents. It also respects each office's ability to manage operations and trusts that a thoughtful and proactive budget will result.
6. **All budget worksheets and forms will be made available electronically.** Line item worksheets must be completed and submitted to Budget staff by **August 8, 2011**. "Program Budget Request" narrative forms with priority ranking and any desired supplemental information must be completed and submitted to Budget staff by **August 18, 2011**.

Your budget analyst will be available to assist you with the preparation of your program budget. "Budget Review Committee" meetings will commence in early September to review submittals during open public meetings. We will regularly report our progress towards a fair, balanced, and responsive budget to the public and employees and look forward to a 2012 budget process which exemplifies the spirit of teamwork across Kitsap County government.