

**Interim Report to  
Kitsap County  
Board of County Commissioners**

**May 4, 2009**

**By the**  
Kitsap County Citizens Budget Committee

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## Preface

Kitsap County Resolution 050-2008 of 10 March 2008 established the Kitsap County Citizens Budget Committee. The Committee started meeting in May 2008 and followed an aggressive work plan. The Committee wishes to thank Kitsap County Administrator Nancy Buonanno Grennan, Budget Analyst Stephanie Pinard and Administrative Assistant Deanna Erstad for their assistance.

The Kitsap County Citizens Budget Committee Mission is to review all Kitsap County programs and services and make recommendations to the Board of Commissioners on what types of services to be provided in the future. The Citizens Budget Committee will advise the Board of Commissioners regarding budget priorities, efficiencies and improvements, overall assessment of County services and actions to be taken in regards to expenditures and revenues.

The Committee has completed an initial review of Kitsap County Departments and Elected Offices. In the following pages, we provide our interim recommendations and insights about the Kitsap County budget. These are not intended to limit the discussion, but instead to get it going.

The budget cycle will begin to consume everyone's time later this year, so we would like to discuss the long-term trends before the cycle begins.

The Committee received presentations from the following Departments:

- Administrative Services, Ben Holland
- ER&R, Randy Casteel
- Risk Management, Mark Abernathy
- Information Services, Bud Harris
- District Court, Maury Baker
- Juvenile, Ned Delmore
- Superior Court, Frank Maiocco
- Sheriff, Steve Boyer
- Jail, Dennis Bonneville
- Clerk, Dave Peterson
- Coroner, Greg Sandstrom
- Assessor, Jim Avery
- Treasurer, Barbara Stephenson
- Prosecutor, Russell Hauge
- Auditor, Walt Washington
- WSU extension, Arno Bergstrom
- Central Communications, Richard Kirton
- Department of Emergency Services, Phyllis Mann
- Public Works, Randy Casteel
- Parks & Recreation, Chip Faver
- Personnel and Human Services, Bert Furuta
- Department of Community Development, Larry Keaton

- Board of County Commissioners, Nancy Buonanno Grennan
- Administrative Services, Shawn Gabriel
- Contracts and Purchasing, R'Lene Orr

## **Introduction**

Holding spending to a sustainable rate of growth will require identifying the factors contributing to spending increases in each part of county government, changing engrained habits, changing rules that cause each factor to increase and finding ways to be more efficient.

Spending has increased for years at a much faster rate than inflation and population. From 1992 to 2001, spending increased at an annual average rate of 8 percent. The average rate of inflation was 3.2%, and population growth was at an average of 1.45% a year.

Expenditures were curtailed because of the 2001 recession, but once revenues began growing again, expenditures rose by more than 9% in 2004 and more than 7% in both 2005 and 2006.

The budget was to increase more than 7% in 2007, but the first indications of the current recession caused another curtailment of expenditure growth during that year.

When property tax revenues could be increased by 8.5% a year, as they were from 1992 to 2001, and when the sales tax rate could be raised, as it was in 1993 and 1999, this long-term growth in expenditures might have seemed sustainable and normal—but it is neither.

## **Recommendations**

### **1. Consolidate Support Functions**

Some common support functions (budget, payroll, purchasing, personnel and human services, information services) have been consolidated and are centrally managed. Further consolidation of shared support functions might prove beneficial and cost effective. Two such functions are contract administration and transportation management.

#### **a. Contract Administration**

(1) Consolidation of pre- and post-award contract administration responsibilities could result in a smaller cadre of contract administration specialists, more consistent and cost-effective contract oversight, more skilled price negotiations, fewer and larger “bundled” contracts for similar products (e.g., maintenance and repair services), and more consistent treatment of contractors. The rationale that the receiving organization or subject matter expert is the most capable contract administrator is not necessarily true. Receiving departments could and should retain technical oversight.

(2) Under current county policies and procedures authority to develop, negotiate, award and manage contracts is held by all departments.

(3) Bidding and awarding of contracts in excess of \$3500 is the responsibility of the purchasing office. In 2007 Kitsap County awarded 544 contracts of which 45 were competitively bid.

(4) All pre- and post-award actions, including preparation of contracts, negotiations, oversight and enforcement, certification of progress payments, negotiation of change orders and claims, and final acceptance is the responsibility of the receiving department.

b. **Management of Transportation and Equipment Assets**

(1) The Equipment Services Division (ESD) should be authorized to implement more stringent management controls over county transportation assets.

(2) ESD is the county's vehicle and equipment manager and "rental agent." It operates an \$11.9 million revolving fund. Revenues collected from "customers" are used to operate, maintain and replace the fleet—about 547 pieces of equipment. Approximately \$2.4 million (20%) of its revenue comes from the general fund.

(3) Although this function is centralized, ESD appears to exercise little control of how effectively and efficiently the county's transportation assets are managed. The response when the committee asked about existing management systems was that the county has a "generic" fleet management system which lacks the capability to produce meaningful management reports.

(4) At a minimum, transportation management should include inventory management, efficient vehicle and equipment utilization, fuel management, maintenance and repair costs, and replacement criteria and standards.

(5) In addition, the following specific recommendations are submitted.

(a) ESD should establish and operate a centralized motor pool for administrative use vehicles.

(b) The Sheriff and ESD should jointly develop a service life extension program to increase the average replacement mileage for patrol cruisers.

(c) ESD should develop and monitor annual mileage or utilization targets for all administrative use vehicles.

(d) ESD should develop and implement a plan to reduce the county's vehicle and equipment inventory by 10% over the next three years.

2. **Identify Kitsap County Department Core Functions**

Kitsap County Departments need to identify mandatory core functions vs. discretionary functions. Core functions could then be reviewed, approved and consolidated. This would lead to elimination of duplicative functions among Kitsap County Departments resulting in cost savings. Kitsap County could utilize these core functions as a baseline to determine future budget cuts while maintaining the core services for the citizens of Kitsap County.

### **3. Improve Management Practices in Public Works**

Implementing better management practices could increase cost-effectiveness in Public Works.

- a. Public Works does not utilize metrics in making operating and business decisions. Kitsap County 's Department of Administrative Services Risk Management Division effectively utilizes business metrics in daily operations and should be utilized as benchmark for proper implementation of metrics within Public Works.
- b. Public Works relies on rate increases to cover expenses rather than effective use of cost cutting initiatives.
- c. While Public Works funding is generally separate from the county's General Fund, the source of all local revenue is the local taxpayer; so making Public Works more efficient is just as important as searching for greater efficiency in General Fund programs.
- d. Diverting revenue from the property tax levy for the Road Fund to the General Fund is possible, but only if Public Works is as efficient as it can be in using the remaining road fund levy revenue for roads.

### **4. Emphasize Budget Trend Information in Briefing Commissioners**

If the county commissioners are to hold long-term spending growth to a sustainable rate, they must be provided adequate information so that they can in each case, in the time available, recognize what would occur if the proposal at hand were approved.

- a. For the benefit of the commissioners (and interested members of the public), standard briefing materials related to spending decisions should state the fiscal effect in terms of budget growth and sustainability.
- b. Four budget segments, Veterans Relief, Mental Health, Developmental Disabilities and Central Communications (CENCOM), would be good candidates for a case-study approach to evaluating staff processes. They grew in the past 9 years faster than the rest of the budget, so if customary procedures make it practical to control spending (or at least recognize how big an increase is occurring), surely it would have occurred in these instances.
- c. Veterans Relief fund revenue grew at an annual average rate of 9.8 percent from 1999 to 2008—a rate of increase sustained only by reducing the growth of the part of the “current expense” levy that is available for general county purposes.
- d. Property tax revenues for the Mental Health fund and the Developmental Disabilities fund grew at a rate of 11.2 percent a year—again reducing the property tax revenue that would otherwise be available for general county purposes.
- e. Revenue from the county's current expense levy that remained for general county purposes grew at an annual average rate of 4.4 percent from 1999 to 2008—much less

than the portions of this levy for the Veterans Relief, Mental Health, and Developmental Disabilities funds.

f. In 2009, the revenue available for the county's general purposes would be about \$440,000 greater if each part of the current expense levy had increased at the same rate since 1999. Such a shift of local funding should be a decision made by the county commissioners after being fully briefed on their options and the effects of each alternative.

g. Were the commissioners told—

(1) That this diversion of revenue from general county purposes was occurring?

(2) Of any authority to hold the levy increases for these three funds to the same rate of growth as that of the entire "current expense" levy?

(3) That the Veterans Relief fund, for example, had built up a reserve that was triple the expected annual expenditures—far above the amount that allowed the levy for this fund to be reduced and the levy capacity to be used for general purposes?

(4) That while they were seeking ways to cut spending for general county purposes in 2007, there was an effort to find ways to "spend down" the million-dollar reserve in the Veterans Relief fund?

h. The fourth budget segment for which past briefings should be examined is the Central Communications program.

i. An additional sales tax for CENCOM's operating costs was approved by voters in 2003 to relieve the burden on local property taxes paid to the county, cities, and fire districts. Instead of a significant reduction in the burden on existing general fund revenues, this new tax appears to have funded a substantial spending increase. In 2003, operating expenditures for CENCOM were about \$3.5 million. They were budgeted at about \$6 million in 2008.

j. CENCOM offered in its responses to this committee's questions the explanation that the new tax is intended to be a supplement to existing revenues, not a replacement—but the question is whether CENCOM's expenditures should rise so quickly that they absorb all the new revenue and continue to be a significant burden on the previously existing general fund revenues.

k. Were the commissioners adequately briefed as these expenditures grew so fast that there could be no significant relief of the burden on revenues needed for other county purposes?

## **5. Revise List of Unfunded Mandates**

Unfunded mandates need to be reviewed to assess their validity, demonstrate the basis for the asserted costs of each, and determine the appropriate course of action.

a. Perhaps the list's principal purpose is to inform state legislators about the effects of their actions and the need for funding, so the list must do more than make assertions without providing sufficient supporting information.

b. The current list emphasizes the cost of indigent defense without acknowledging the increased revenues for general county purposes and for law and justice that have been authorized since the 1960s, when the courts mandated indigent defense costs. All the county's sales tax revenues come from taxes authorized and imposed after the beginning of the judicially mandated responsibility for providing indigent defense services. Calling this an unfunded mandate decades after its beginning and long after new revenue sources have been provided to fund it and other functions may cause the validity of the entire list to be doubted.

c. The list should "show your work" in calculating the added costs. For example, the mandated confinement in driving under the influence (DUI) and driving while license suspended (DWLS) cases may cause an incremental increase in costs which can be identified; but the list provides no hint of the method by which the asserted cost was calculated.

d. No "unfunded mandate" should be on the list unless the date of its beginning and the correct source(s) of the mandate are stated. Indigent defense appears on the current list with a citation only to RCW chapter 13.34—the "Juvenile Court Act in Cases Relating to Dependency of a Child and the Termination of a Parent and Child Relationship" enacted in 1977. <http://apps.leg.wa.gov/RCW/default.aspx?cite=13.34.010> No inception dates for any of the claimed unfunded mandates are included.

## **6. Reassess Policies Resulting in Forgone Revenue**

Budget trends make it necessary to reassess the county's policies affecting revenue owed to the county and revenue forgone by the county. Two areas (and perhaps others) deserve attention.

a. Impact Fees. Efforts to collect unpaid construction impact fees should be emphasized.

b. Parks and Recreation Fees. The Parks and Recreation Department should adjust fees annually to offset cost increases, and should eliminate or reduce the extent to which particular groups and individuals use facilities for free or at reduced rates.

## **7. Avoid Costs of Operating Parks and Recreation Facilities**

At least temporarily during this recession, and perhaps over the long term, consider closing Parks and Recreation assets for which operating costs substantially exceed user-fee revenues. Candidate facilities might include Givens Community Center, Silverdale Community Center and Kingston Community Center.

## **8. Contingency Plans**

The committee urges the county to prepare contingency plans which would accommodate a further 5%, 10% and 15% reduction in projected revenue for 2009. The County's current 2009 budget appears optimistic in that it is based on "level funding" or revenues slightly more than 2008. It is already apparent that actually revenues are falling short of projections. In this way the county would be in a position to act rather than react to future shortfalls.

## **9. Boards and Committees**

County Commissioners should conduct a review of all volunteer organizations within the county to validate their continuing usefulness, and eliminate those which have served their purpose or are no longer necessary. Currently there are 31 Volunteer Committees, Boards, Councils, Commissions and Advisory Groups that utilize Kitsap County resources.

## **10. Don't Guarantee Debts of Another Entity**

Kitsap County financially guaranteed debt for projects undertaken by the Kitsap County Consolidated Housing Authority (KCCHA), peaking at \$58 million, through a contingent loan agreement. It appears today that KCCHA is unable to support the majority of these debts, and it will now fall to the County to repay.

<b>Project</b>	<b>Original or Authorized Amount</b>	<b>Balance 9/8/2008</b>	<b>Funds Held By Trustee</b>	<b>Adjusted Balance</b>
Poulsbo Community Center	1,020,000	600,000	(80,409)	519,591
Key Bank Line of Credit (Harborside)	3,000,000	3,000,000		3,000,000
Bremerton Government Center	16,975,000	16,535,000	(1,606,533)	14,928,467
Bank of America Line of Credit (The Poplars)	5,400,000	5,088,839		5,088,839
Harborside Line of Credit	5,400,000	1,958,705		1,958,705
Bremerton Government Center	2,325,000	2,280,000		2,280,000
Bank of America Line of Credit (Harborside)	22,200,000	22,200,000	(1,805,174)	20,394,826
<b>TOTALS</b>	<b>\$56,320,000</b>	<b>\$51,662,544</b>	<b>-\$3,492,116</b>	<b>\$48,170,428</b>

a. Kitsap County Commissioners should establish a policy not to support such projects because the financial exposure is too great to the citizens of Kitsap County.

b. Kitsap County should begin budgeting for the KCCHA debt repayment, and bring these amounts into the budget with full disclosure as soon as possible. Of the county's \$328 million annual budget, \$90 million is discretionary (general fund); meaning more than half of our annual discretionary budget is now in jeopardy—and with no reserves set aside and no budget for debt repayment, clearly a risk we cannot afford.

c. Kitsap County and City of Bremerton should be engaged in the repayment of these debts.

(1) The majority of this debt is owed on two properties within Bremerton's city limits—*The Norm Dicks Government Center* and *Harborside Condominiums*. The \$25.4 Million debt that is owed on the *Harborside* luxury waterfront condominiums comes due in 2009. Approximately half of the units remain unsold; at current valuations, even if all remaining units sell, it is estimated the project will lose more than \$16 million.

(2) There are questions as to why the county guaranteed the debt for projects within the Bremerton city limits—a city which has its own housing authority, no interlocal agreement with KCCHA, and therefore, little or no exposure to the losses incurred by the county and other incorporated cities on its behalf.

d. County Commissioners should appoint Housing Authority Commissioners, rather than serving themselves.

(1) Under RCW 35.82.300, the County Commissioners may serve on the board of a joint housing authority like KCCHA. In contrast, under RCW 35.82.040 no county commissioner may serve on the board of a county housing authority that is not a joint housing authority.

(2) We believe a real separation of the roles of Housing Authority Commissioner and County Commissioner would increase the likelihood that both boards would focus their attention on the fiscal soundness of their respective entities before making a decision.

#### **11. Use Contract Providers for Solid Waste and Recycling**

A cost analysis should be done to determine whether obtaining services through contracting for the Hansville drop box and Poulsbo recycling facilities is more cost-effective. All other recycling and waste facilities are contracted out. There should be some economies of scale in contracting these two facilities also.

#### **12. Locate County Offices at the County Seat**

Operating at locations other than the county seat, such as the Norm Dicks Government Center, may be more costly than at the county seat. The county should evaluate activities at other locations and close (or not begin operations) which would be less costly if located in Port Orchard.

a. Kitsap County should end its District Court operations in Poulsbo. Kitsap County District Court operates at the county seat and at a satellite location in Poulsbo's city hall. Prior to 2009 the court also operated at a site in Silverdale. The Court Administrator estimates an annual savings of \$140,000 from a closure of the Poulsbo location.

b. Kitsap County should not place a court facility within the new Poulsbo City Hall. The county is considering investing an estimated \$1.1 million (8% of the cost of Poulsbo's new city hall) for a new court facility within the new Poulsbo city hall. Neither a new District Court facility nor the court's operation in Poulsbo appears to be a cost-effective use of county resources.

#### **13. Reduce the Cost of Court Reporting**

a. Kitsap County Superior Court should implement digital audio and/or video recording systems in all courtrooms. Currently, one Superior Court room and one District Court room utilize digital recording. District Court utilizes audio recording for all of its remaining courtrooms. Implementing digital audio and video recording systems in

remaining courtrooms would be more efficient and reduce the number of court reporters needed. The Court and/or Prosecuting Attorneys Office may wish to create a policy identifying the types of cases that require a court record other than audio/video recordings.

b. Kitsap County Superior Court should receive any revenue from the production and sale of court reports/transcripts. It is the responsibility of the Superior Court to create a record of Court proceedings, and that is currently done by Court Reporters who are employees of Kitsap County. The Committee believes the creation of reports/transcripts by Court employees is a work product of their employment and any revenue from that work product should flow to the Court. Currently Superior Court reporters supplement their salaries by selling transcripts of court proceedings. To our knowledge, no other employees are allowed to sell their employment work product and retain the proceeds themselves.

## **Conclusion**

The Citizens Budget Committee would like to thank the Board of County Commissioners for the opportunity to review Kitsap County's Budget. A great deal of the Committee's time over the past year has been devoted to learning and understanding the county's complex budget to an extent that we could formulate and discuss our recommendations in a reasonably logical way. This learning process is ongoing. Our efforts to focus on long-term recommendations were further complicated by the departments' focus on the immediacy of the 2008 execution and 2009 budget cycles. Our hope is these recommendations will assist you with budget decisions in the future.

The Committee looks forward to meeting with you in the near future to discuss these recommendations. The Committee welcomes your comments and feedback.

Approved By:  
Kitsap County Citizens Budget Committee on May 4, 2009