



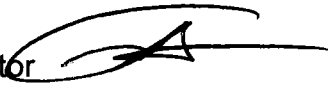
**Department of Administrative Services
Kitsap County**

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Shawn A. Gabriel, Director

MEMORANDUM

To: Kitsap County Board of Commissioners
Kitsap County Elected Officials and Department Directors
County Employees
Kitsap County Citizens
Members of the Press

From: Shawn A. Gabriel, Director 

Date: November 13, 2009

Subject: 2010 Kitsap County Preliminary Budget

Introduction:

We are pleased to present Kitsap County's 2010 preliminary budget for the year ending December 31, 2010. The preliminary budget represents a collaborative effort by the Board of County Commissioners, Elected Officials, and all County Staff, to produce a responsible plan that balances our priorities with the resources available.

There is no doubt that 2009 has been a difficult year for our citizens, local economy and county government, due to the nation's unprecedented recession that has impacted every aspect of our community. We implemented drastic measures to meet the budgetary challenges, from reductions in staffing levels to the use of reserves, to produce a 2009 County Budget that we believed would weather current economic conditions. Unfortunately, this was not the case. Due to the continuing downward trend in revenue during the first half of the fiscal year, there was a need to further reduce the County's budget through a mid-year budget amendment.

Although it appears that the economy is no longer contracting, and that we may no longer be in a recession, there is no indication that it is growing at adequate levels to sustain county operations without further reducing expenditures or the General Fund Balance. The County's 2010 Preliminary budget is \$315.9 million, down \$11.6 million or 3.5%, from the 2009 budget. The General Fund's budget is \$82.7 million, down \$5.7 million or 6.5%, from the 2009 Adopted budget. The significant decrease in the 2010 Preliminary budget is a strong indication that we are acutely aware that the country is still in an economic recession/recovery and we cannot contemplate a "business as usual" attitude.

Although the 2010 budget year may present some challenges, it is important that we continue to show due diligence as we operate under tight fiscal constraints. County staff should be commended for their hard work, sacrifices, dedication and fortitude in continuing to offer the quality services that County residents demand.

Overview of the 2010 Preliminary Budget:

In accordance with nationally recognized rules of governmental accounting and budgeting, the County is financially organized into separate fiscal and accounting entities known as funds. All of these funds fall into one of six categories as follows:

- 1) **General Fund** – Finances the ordinary operations of the county not specifically provided for in any other fund.
- 2) **Special Revenue Funds** – Used to account for specific revenue sources that are legally restricted for expenditures for specific purposes.
- 3) **Debt Service Funds** – Accounts for the accumulation of resources for and the payment of general long-term debt.
- 4) **Capital Project Funds** – Finances the acquisition or construction of major capital facilities.
- 5) **Enterprise Funds** – Operations that are financed and operated in a manner similar to private businesses.
- 6) **Internal Service Funds** – Finances goods or services provided by a department to other departments or agencies within the county.

All of the funds in the 2010 Preliminary budget have been balanced. Attachment (1) summarizes the 2010 Preliminary budget by fund (expenditures only). In the General Fund we funded all positions at 97% of their full pay. This decade-old practice began at a time when the fund could expect and budget for at least a 3% savings in salary and benefits, due to resignations and the time it takes to recruit new employees. We have cautioned that these savings are unlikely to be realized and departments and offices made additional reductions to ensure their expenditures remain within their budgeted levels.

The 2010 Preliminary Budget includes 99 funds broken down as follows:

<u># of Funds</u>	<u>Type of Fund</u>	<u>Proposed Expenditures</u>	<u>% of Total</u>
1	General Fund	\$ 82,748,308	26%
59	Special Revenue Funds	125,108,299	40%
13	Debt Service Funds	11,123,455	4%
7	Capital Project Funds	6,398,299	2%
16	Enterprise Funds	72,286,806	23%
3	Internal Service Funds	18,230,786	6%
Totals	99	\$ 315,895,953	100%

We will begin our discussion with the county's largest fund, the General Fund, and then follow on with discussions of other major funds.

General Fund:

We adopted a 2009 budget that implemented drastic reductions in our workforce and instituted a hiring freeze for the first quarter of the fiscal year. These measures, along with the use of reserves, balanced our general fund budget within projections. However, as the economic recession continued through the first half of the year, the County experienced a precipitous drop in retail sales tax revenue and fees related to new construction and permit-related activity. Sales tax receipts were further negatively impacted by the annexations of the Bethel corridor and McCormick Woods development. As a result, 2009 budgeted revenues were amended, mid-year, to reflect a projected \$3 million shortfall and expenses were cut to offset the revenue decrease where possible.

We expect to begin 2010 confronted with similar financial challenges. As such, the Board of County Commissioners requested that departments and offices reduce their 2010 budgets by approximately 10% from 2009 levels. To meet this request, departments and offices made cuts in all areas, including further reductions to staffing levels through elimination of positions and reduction of employee work hours to a maximum of 36 hours, down from 40 hours, per week.

Noted below are examples of significant revenue and expenditure impacts to the 2010 Preliminary Budget:

Revenue Impacts:

- Reduction in investment interest
- Loss of federal and state grants
- Reduction in Jail/Juvenile Sales Tax revenue

- To offset the loss of revenue, the preliminary budget relies on greater diversions from other tax funds, specifically:
 - Veteran's Relief Fund
 - For 2010, the Board of County Commissioners has approved setting the levy rate for the Veteran's Relief Fund to zero. This action was recommended by the Citizens Budget Committee and will allow the County to divert approximately \$300,000 for critical General Fund operations – the diverted funds are sufficient to fund three Sheriff Deputies.
 - The current Fund Balance of the Veteran's Relief Fund, projected to be approximately \$1.0 million at the end of 2009, is more than sufficient to fund operations at current levels for the next two years.

The levy rate change is a one-time-only action and the 2009 levy rate will be restored commencing with the 2011 budget.

- Mental Health Fund
 - The Board of County Commissioners has approved the transfer of \$250,000 from the Mental Health Fund to support mental health related services within the County Jail. Pursuant to RCW 71.20.110, the funds will be used to pay contract costs for a mental health services provider.
 - This is a one-time-only action and we do not anticipate that funds will be diverted in 2011.

- County Road Tax
 - The County is authorized to divert funds from the County Road Fund to the General Fund to pay for traffic enforcement operations, which are approximately \$3.4 million annually. The Road Fund has traditionally provided funding for a portion of these costs, approximately \$1.4 million each year. In 2010, an additional \$300,000 (for a total of \$1.7 million) will be diverted to fund more of the County's costs for traffic enforcement operations.

Expenditure Impacts:

- Reduction in staffing levels -- eliminated 17 positions and reduced work hours for virtually all general government staff by between 10% and 20%
- Reduction in professional services by bringing a small segment of indigent defense in-house, generating savings of over \$400,000
- Reduction in Outside Agency funding, generating savings of over \$230,000
- Reduction in the court services and hours of operation in the North End District Court
- Closure of Administration & Public Works Buildings throughout 2010 one day per week
- Closure of several County Parks for 2010

General Fund Programs:

The table below shows budgets and percentages of total budget for General Fund programs:

LAW AND JUSTICE	\$ 58,688,713	71%
ADMIN & GENERAL GOVERNMENT	16,655,276	20%
COMMUNITY SERVICES	5,589,315	7%
HEALTH & HUMAN SERVICES	<u>1,815,004</u>	<u>2%</u>
 Total General Fund Program Budget	 \$ 82,748,308	 100%

Estimating Revenues:

Taxes are the General Fund's primary source of revenue and represent approximately 66% of all revenues. The largest single tax is property tax. Forecasting property tax revenue is relatively simple because it is limited to one percent growth plus an amount for new construction added to the tax assessment roles. Total property taxes are estimated at \$28.3 million including new construction.

Our second largest revenue source is sales tax. For the 2010 budget, the estimate is based on 2009 projected sales tax revenue -- we are not projecting an increase in 2010. Sales taxes for 2009 (projected) and 2010 (budgeted) show a decrease of \$2.7 million from the 2009 Adopted Budget. Total sales taxes (including the 0.1% criminal justice sales tax) are budgeted at approximately \$17.5 million.

All other revenues are submitted by various departments and offices. Department and office staff are subject matter experts for their respective areas and are in the best position to determine the budgeted revenue numbers for their programs.

Expenditure Estimates:

Throughout the funds, we have estimated expenditures based on programs those expenses support. Where personnel costs are involved, we are very meticulous with our projections. All personnel costs are estimated using personnel currently filling the position or, in the case of a vacancy, we use the grade and step that the hiring department expects to use when hiring a new employee to fill that position.

The Department of Community Development:

The Department of Community Development is a Special Revenue Fund that relies on permit/land use application fees, the General Fund, Public Work's Road Fund, Surface and Storm Water Management funds, and grants for its revenue sources. While the department has obtained additional grant funds, managed its costs to remain within the constraint of other governmental funding sources, it is the fee/land use application fees that has suffered by 35% loss in revenue. The construction market's plummeting in 2009 is reflective in the loss of fee based revenues in the Department of Community Development. As a result, the Department conducted a second reduction in force by reducing management and employee hours to 32 hours a week. Coupled with the previous year's reductions, the department has seen a 42% reduction in staff since 2008 while permit activity fell by 20%. As a result, fee-based plan review times and waits for inspections have increased despite efficiency emplaced during the year. In 2010, the department is seeking an increase of permit and land use application fees to cover a projected shortfall of \$535,000. When the department was made a Special Revenue Fund in 2008, fees were not increased for full cost recovery per the fee policies because insufficient data existed to support significant fee increases. In 2009,

the Department's processes had solid data as to operational costs, hours expended on permit/land use application types that justify fee increases. The alternative to a fee increase is staff reductions in fee based positions which will result in a further decline in services delivered to our users.

The Road and Road Construction Funds:

The Public Works Road Division is responsible for building, operating and maintaining Kitsap County's transportation infrastructure. Functions include:

- Road Construction
 - Engineering and surveying
 - Right of way acquisition
 - Construction management
- Road Maintenance
- Traffic Operations
- Transportation Planning

Property tax is the Road Fund's primary source of revenue. Forecasting property tax revenue is relatively simple because it is limited to one percent growth plus an amount for new construction added to the tax assessment roles. Property taxes in the Road Fund will be approximately \$23.0 million. We believe that the Road Fund will be challenged in the future to meet the needs of Kitsap County because it has limited revenues and the costs of personnel and construction material (especially petroleum based products like asphalt) are increasing so rapidly. Total 2010 revenues in the Road Fund are estimated to be \$24.05 million.

The Road Construction Fund includes the 31 road projects listed in our approved Transportation Improvement Plan (TIP). The largest of these projects is the Southworth Drive (\$1.55 million for 2010), Lake Flora Road (\$1.23 million) and Cliffside Road (\$1.4 million). Total road construction projects add up to \$7.66 million. The Road Construction fund receives its revenues from the State's Motor Vehicle Fuel Tax, Road Impact Fee Funds, and Federal and State grants.

The Real Estate Excise Tax Fund:

We use the Real Estate Excise Tax (REET) Fund to leverage funding for most of our projects outside of the Road Fund. The revenue source for the fund is the real estate excise tax. This is a 1.78% tax on transfers and sales of property. Kitsap County receives 0.50% or less than one third of this tax. There have been many real estate sales over the past few years but beginning in 2008, the County has experienced a dramatic drop in activity so we are cautious about projections for this fund.

In 2010, we expect to receive about \$2.6 million in real estate excise tax, a decrease of \$1.9 million from 2009's initial budget, and \$3.9 million in other related revenue, such as proceeds from property sales, rents, transfers, and cost reimbursement for a property purchased in a prior year. The total 2010 budget for the REET Fund is \$6.5 million. Expenditures in the REET Fund are primarily for debt service on bonds issued to support our capital facilities plan. Debt service transfers in 2010 will be \$11 million.

Central Communications (CENCOM):

CENCOM is the single consolidated Public Safety Answering Point (PSAP) providing 911-call answering and public safety dispatch countywide. Following are the main services provided:

- Answer all incoming 911 emergency telephone calls countywide.
- Provide public safety dispatch for all law enforcement, fire service and emergency medical response.
- Maintain the countywide Enhanced 911 telephone system for wire line and wireless 911 calls.
- Maintain the countywide emergency services radio network.
- Coordinate standard dispatch policy and procedures for 13 separate public safety jurisdictions.

Central Communications will receive 0.1% of sales taxes estimated to be \$3.33 million for 2010. The agency will also receive about \$1.47 million from cities and fire/EMS districts for dispatching. CENCOM will receive \$714,585 from the County General Fund for the county's share of emergency dispatches.

Enterprise Funds (Waste Water, Solid Waste, and Surface and Stormwater Management Programs):

Solid Waste:

The Solid Waste Division of Public Works is responsible for developing and implementing the County's Comprehensive Solid Waste Management Plan in compliance with RCW Chapter 70.95.020 and Chapter 70.015.007. The following are the main services provided:

- Oversee and administer the solid waste disposal system including the operation of the Olympic View Transfer Station (OVTS)
- Provide rural solid waste and recycling services at the drop box facilities located throughout Kitsap County
- Establish and monitor the service level for curbside recycling programs in unincorporated Kitsap County
- Provide household hazardous waste collection and the Small Quantity Generator (SQG) Collection Program at the Moderate Risk Waste (MRW) Collection Facility
- Monitor County-owned closed landfills

- Provide programs about waste reduction, recycling, composting, litter, and pollution prevention to public and private school students and Kitsap County businesses and residents through school/adult/community education programs
- Coordinate litter and illegal dumping cleanup and prevention efforts through the Clean Kitsap Program

The preliminary budget for Solid Waste operations is \$4.67 million with the bulk of revenues coming from user fees. The Solid Waste Division also operates or contracts for the operations of various transfer stations throughout Kitsap County. The budget for these operations is \$12.17 million with the revenues coming from fees for these services. The total budget for Solid Waste is \$16.84 million.

Wastewater (Sewer) Operations:

The Wastewater Division of the Public Works Department provides sanitary sewer service for various unincorporated areas of Kitsap County. The following are the main services provided:

- Secondary treatment of domestic and commercial sewage to insure that the resulting discharge into Puget Sound meets all current State and Federal water quality requirements.
- Operation, maintenance, and inspection of wastewater collection and transmission facilities.
- Design review and inspection of developer financed sanitary sewer extensions.
- Manage a capital facilities program to provide necessary repair, replacement and upgrades to the County's sewer infrastructure.

The Wastewater operations budget for 2010 is \$13.02 million and revenues come primarily from user charges for these services. Revenues for Sewer Construction come primarily from the Sewer Improvement and Sewer Repair and Replacement funds. The Sewer Construction budget for 2010 is \$24.01 million.

Surface and Stormwater Management Program:

The Surface and Stormwater Management Program (SSWM) is responsible for implementing the County's flood reduction and non-point pollution control program.

The following are the main services provided:

- Inspection, operation and maintenance of stormwater control facilities.
- Planning, design and construction of projects that:
 - Reduce flooding
 - Reduce non-point pollution
 - Improve fish passage
- Pollutant source identification and control
- Surface Water resource related public outreach, involvement and education.

The operations budget for the Surface and Stormwater Management Program is \$6.19 million with most of its revenue coming from user fees for services. The budget for the SSWM Construction program is \$3.30 million.

