



# KITSAP COUNTY BOARD OF COMMISSIONERS

*Efficient, accessible and effective county services*

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County Administrator

## MEMORANDUM

**TO:** All County Employees

**FROM:** Board of County Commissioners

**SUBJECT:** 2011 Adopted Final Budget

**DATE:** February 22, 2011

As many of you will recall, the extensive process to create the 2011 Annual budget officially began on July 12, 2010 with distribution of the budget call letter. This document instructed departments and offices to prepare their 2011 funding requests for each program knowing Kitsap County faced continued economic challenges. The County's general fund was headed for reductions of nearly 7% in the face of declining revenues. While costs rose, the economy continued to fall and we were all challenged with how to balance between scarce resources and public service demands.

As we enter 2011, we are without enough resources to maintain the status quo and we cannot afford the service levels our citizens have come to expect. Since 2008, we have unfunded and eliminated approximately 150 positions, and reduced the hours for an additional 183. Critical overhead and regional services such as the Assessor, Treasurer, Auditor, and Personnel have been reduced to virtually unsustainable levels.

Many factors contribute to our declining revenues. Fewer sales tax dollars are coming in than for previous years and forecasts show no growth in this revenue stream for 2011. The 1% cap on property taxes presents an even bigger long-term challenge, adding a mere \$280,000 to the general fund this year. This amount does not even cover routine cost increases for which we have virtually no control, including for fuels, utilities, and the negotiated employee costs of step increases, longevity payments, and medical premiums. ***This means that every budget cycle from now on will require cuts*** because our on-going revenue growth can never keep up with our growth for on-going expenses. Further, these revenue and expenditure slope issues do not take into account future losses of revenue through recent annexations and those that are on the horizon through 2015.

In addition to making painful cuts to develop a balanced 2011 budget, we were tasked with beginning to rebuild and maintain critical reserve balances that were drastically depleted between 2005 and 2007. Adequate reserve balances are crucial to the financial health of the County for several reasons. The Government Finance Officers Association recommends a minimum of 2 months' worth of operating expenses as a reserve level. If applied to our County General Fund, this would require setting aside approximately \$13 million and we are woefully short of this level even after adoption of the 2011 budget.

Reserves must be available to protect Kitsap County in the event of emergencies or during a natural disaster, and to cover any other critical and unanticipated needs. Additionally, with the

property taxes received in lump sums twice per year and yet operational expenses that are due monthly, cash reserves are needed to meet the expenditure demands during the months leading up to the property tax influx. Because the reserves have been so low, we were required to borrow money from another fund simply to meet the cash needs of payroll. These "loans" were needed once in 2008, twice in 2009 and twice in 2010 at an interest cost of nearly \$50,000. By adding to reserves with the 2011 final budget in an amount just over \$1 million, we hope to put the days of borrowing to make payroll behind us. Kitsap County remains, however, drastically below the recommended level of reserves. We are still tallying the 2010 year-end financial figures; however the audited fund balance at the end of 2009 was \$5.57 million – less than half the recommended level.

Staff members from the Auditor's Office and the Office of Strategic Financial Planning have been working to finalize actual revenues and expenditures as 2010 came to a close. There are still a number of outstanding issues to be reconciled, yet projections are likely to reflect how the final numbers will look. While it is good news that we brought in more than we spent, there are several realities which are not so good.

We are projecting to fall short of total revenues by approximately \$200,000. This is especially disheartening when considering that approximately \$1.2 Million of the total revenues received came from penalties and interest on delinquent property taxes. This one-time revenue source can be credited to the Treasurer's Office having conducted two foreclosure sales in 2010, which is not typical and cannot be counted on in future years. Property taxes, interest earnings on our cash investments, licensing and recording fees, traffic infractions and felony fines all came in significantly under amounts anticipated for 2010. In addition, although sales tax receipts were slightly higher than anticipated (by approximately \$190,000), the 2010 amount received was still \$670,000 less than in 2009.

The driving factor for finishing 2010 in the positive is that every department and office spent less than their budget allocation. Approximately \$1 Million in savings can be attributed to the under-spending of discretionary funds. This signifies a collaborative effort on the part of each of you to be mindful of your needs and considerate of the financial challenges that Kitsap County has faced over the last several years. Through a mid-year budget adjustment, the County saved \$500,000 in public defense costs, and an additional \$260,000 by the end of the year, due to the efforts of the County Clerk to create and run an in-house program with added efficiencies. The Sheriff's Office, through astute management, saved \$160,000 in overtime costs and \$100,000 in uniform costs. Through staffing efficiencies, District Court was able to save a little more than \$200,000. Because of these one-time efficiencies and significant efforts, 2010 will come to a close with approximately \$2.6 Million in funds which can be added to reserves.

While previous Boards authorized expenditure levels more than was earned for a number of years, this Board has committed to end that practice and live within the County's means. That requires us to authorize the use of one-time funding for one-time expenses only, rather than for on-going costs such as additional staffing. We are also committed to never again guarantee the debt of another agency unless it can be proven beyond any doubt that doing so will only benefit Kitsap County's long-term financial outlook -- and even then with collateral to protect the County's short-term finances.

With the possibility of a number of annexations and incorporations on the horizon, we must closely examine our services in terms of funding source. This means that programs will need to be identified as “regional” or “local” in nature. Regional services consist of those provided county-wide regardless of city boundaries; and local services are those which a city would assume if an annexation or incorporation were to occur. The bulk of the “local” services we provide are in the law enforcement and justice areas, so we need to prepare a plan for how to make the transition when the time comes, and downsize or transfer staff to the cities in order to address the revenue shortfalls which will result. While law enforcement and justice have been spared cuts at the same level as the rest, the County’s future is in providing regional and rural services and our financial decisions going forward must reflect that direction.

The economic outlook for 2012 is less favorable than for 2011, so we have a challenging year ahead. We look forward to working together with you to keep Kitsap County operating in a financially efficient manner. As always, we are available to answer any questions you may have and welcome feedback regarding next year’s budget process. Our goal is to continue forward with the process set in place this year, making improvements based on suggestions received.

**The following tables provide an overview of the General Fund in detail, including some historical comparisons:**

<b>General Fund Revenues</b>	<b>2000 Actuals</b>	<b>2007 Actuals</b>	<b>2010 Projections</b>	<b>2011 Final Budget</b>
Property Tax	\$20,529,978	\$25,532,225	\$27,875,683	\$27,497,378
Retail Sales Tax	\$14,232,869	\$21,717,145	\$17,612,641	\$17,424,780
Other Taxes	\$ 7,208,055	\$ 8,385,693	\$ 8,737,241	\$ 8,924,229
Licenses & Permits	\$ 197,021	\$ 207,413	\$ 230,900	\$ 200,900
Intergovernmental	\$ 6,858,641	\$ 9,391,455	\$ 9,811,918	\$10,307,709
Charges for Svcs	\$ 6,137,196	\$ 8,706,218	\$ 9,973,571	\$ 8,386,198
Fines & Infractions	\$ 1,649,412	\$ 2,676,289	\$ 2,496,490	\$ 2,742,417
Misc/Other Sources	\$ 3,702,595	\$ 7,011,489	\$ 5,957,318	\$ 5,182,689
<b>Total</b>	<b>\$60,515,767</b>	<b>\$83,627,927</b>	<b>\$82,627,577</b>	<b>\$80,666,300</b>

<b>General Fund Expenditures</b>	<b>2000 Actuals</b>	<b>2007 Actuals</b>	<b>2010 Projections</b>	<b>2011 Final Budget</b>
Sheriff & Jail	\$15,645,721	\$29,342,159	\$29,543,057	\$ 29,642,032
Courts & Prosecutor	\$19,170,000	\$27,268,210	\$25,387,476	\$ 25,602,136
General Administration*	\$16,430,291	\$18,032,556	\$18,205,023	\$ 17,904,055
Coroner	\$ 665,957	\$ 918,531	\$ 918,325	\$ 877,984
Facilities Maintenance**	\$ 1,261,234	\$ 854,931	\$ 1,649,860	\$ 1,767,476
Parks & Recreation	\$ 3,323,892	\$ 5,149,327	\$ 3,384,750	\$ 3,340,704
WSU Extension	\$ 254,054	\$ 310,405	\$ 227,984	\$ 363,038
<b>Total General Fund Expenditures</b>	<b>\$56,751,149</b>	<b>\$81,876,119</b>	<b>\$79,316,475</b>	<b>\$ 79,497,425</b>

**Amount Added to Reserves:**

**\$ 1,168,875**

\*General Administration = BOCC, Assessor, Auditor, Treasurer, OSFP, GA&O, Personnel & Human Services

\*\*Facilities Maintenance was merged with Parks & Recreation in 2002 and then separated again midway through 2007, resulting in a skewed accounting of costs between the two departments for that year.

Note: Community Development has been removed from historical actual to normalize comparison, as revenues/expenditures were moved out of the general fund and into a special revenue fund in 2008.