KitsapCounty

DEPARTMENT OF ADMINISTRATIVE SERVICES

MEMORANDUM

TO: All Elected Officials and Department Heads
FROM: Amber Dunwiddie, Administrative Services Director
SUBJECT: Notice to File 2027 Annual Budget
DATE: July 13, 2026

In accordance with RCW 36.40.010, this memorandum officially begins the Kitsap County budget process and provides the parameters for submitting departmental requests. For several years, we have discussed the cost of County services and the growth of revenues available to support them.

In the 2026 budget, Kitsap County reduced expenses and eliminated 22 positions in a significant collaborative effort across County government to address a complex financial problem. We recognize how difficult this process has been and sincerely appreciate the time, thoughtful analysis, and cooperation of all employing officials and their staff. The willingness of departments and offices to work together and make difficult decisions was critical to addressing the immediate budget challenge. While those efforts made meaningful progress, they did not eliminate the structural imbalance that remains in our financial forecast.

Over the last ten years, property tax revenue, one of the County's primary General Fund revenue sources, has grown approximately 21 percent. During the same period, General Fund expenditures increased 46 percent. The General Fund's greatest expense continues to be people, with more than 70 percent of expenditures consisting of salaries and benefits. This is important because, even though the County reduced positions in the 2026 budget, salaries and benefits are estimated to increase by more than $7 million in 2027. Budget planning efforts over the last 18 months had to adjust quickly to recognize higher-than-expected local Consumer Price Index (CPI), a measure of inflation that affects wages in the County's negotiated labor contracts, along with quickly escalating medical claims related to employee benefits. These changes in May 2026 doubled the 2027 deficit, compared to January 2026 estimates. These increased personnel costs and inflationary adjustments for contract services, utilities, and fuel contribute to a projected $9.4 million structural gap between ongoing revenues and expenditures. Sales tax, the County's largest revenue source, helped to close the structural gap over the last ten years, but growth has flattened recently. Investment interest earnings are forecasted to decline, offsetting any increases in property and sales tax revenues, and contributing to the projected General Fund deficit.

The following pages present the details of the updated General Fund forecast, including impacts to fund balance and assumptions for the various categories of revenues and expenditures. Information on current revenue and expenditure performance is also available using the County's budget dashboard on our website. Below is a summary of the next three years of projected revenues, expenditures and changes in fund balance based on information available today. These projections will continue to change as we review continuous forecasts and work with all employing officials to analyze our financial status.

Preliminary 3-Year Projections for the General Fund					
	Actuals	Budget	Forecast		
Revenue Source	2025	2026	2027	2028	2029
Property Tax	$40.3 M	$40.9 M	$41.6 M	$42.4 M	$43.2 M
Sales Tax	$46.6 M	$48.7 M	$50.1 M	$51.6 M	$53.6 M
Other Taxes	$2.6 M	$2.3 M	$2.3 M	$2.3 M	$2.3 M
Licenses & Permits	$0.1 M	$0.1 M	$0.1 M	$0.1 M	$0.1 M
Intergovernmental	$14.7 M	$14.9 M	$14.8 M	$15.1 M	$15.4 M
Charges for Service	$8.9 M	$9.0 M	$9.2 M	$9.4 M	$9.6 M
Fines & Forfeits	$1.6 M	$1.5 M	$1.5 M	$1.5 M	$1.5 M
Miscellaneous	$25.9 M	$21.2 M	$19.0 M	$16.9 M	$15.5 M
Total Revenues	**$140.8 M**	**$138.6 M**	**$138.6 M**	**$139.3 M**	**$141.1 M**
Expenditures					
Salaries & Benefits	$94.2 M	$95.9 M	$103.4 M	$107.4 M	$111.6 M
Supplies	$3.3 M	$3.3 M	$3.3 M	$3.3 M	$3.3 M
Services	$16.8 M	$18.2 M	$20.0 M	$21.4 M	$22.8 M
Miscellaneous	$8.3 M	$4.5 M	$4.5 M	$4.6 M	$4.4 M
Interfund Payments	$15.8 M	$16.1 M	$16.8 M	$17.5 M	$18.2 M
Total Expenditures	**$138.4 M**	**$138.0 M**	**$148.0 M**	**$154.2 M**	**$160.4 M**
Variance	$2.4 M	$0.7 M	**-$9.4 M**	**-$14.9 M**	**-$19.3 M**
Reserves	$39.2 M	$39.9 M	$30.5 M	$15.6 M	**-$3.6 M**

2027 Major Revenue Assumptions:

- Property Taxes – 2% increase estimated above 2026 forecast (1% allowable increase per state law + an additional estimated 1% increase due to new construction)
- Sales Tax – 3% increase estimated above 2026 forecast
- Interest Earnings – 18% decrease estimated below the 2026 forecast

2027 Expenditure Assumptions:

- Salaries & Benefits
  - Salary Scale Adjustment – 4% or Seattle-area CPI; whichever is lowest
  - Medical Benefits – 32% increase per position contribution to the Employer Benefits Fund

    - Other increases estimated for Workers Compensation and Washington State Paid-Family Medical Leave
- Supplies and Services – The forecast includes some known increases for specific contractual and required services. Requests for increases in departmental supplies and services accounts will be evaluated individually. Cumulative increases in these accounts will be measured against budget targets.
- Interfund Charges – Internal Service Funds have individual budget targets. The Budget Office can estimate rate impacts for special revenue fund planning purposes.

Fund Specific Direction:

- **General Fund**:
    - For all budget scenarios, the Board plans to freeze elected officials' salaries in 2027. They encourage increased fees to improve revenue projections. Finally, they request intra-County collaboration toward regionalization of juvenile detention services.
    - For the 2027 Budget, the Board of County Commissioners ask that employing officials submit two budgets for all programs in the General Fund:
        - **Budget A** assumes implementation of HB 2015, which is contingent upon the Sheriff's Office submission of policies to the Criminal Justice Training Commission.
            - This would increase the local sales and use tax rate by one-tenth of one percent and generate an estimated $7.5 Million in new revenues. If all $7.5 million is received in 2027, then $1.3 million of the 2027 revenue would be saved for a year to help preserve public safety services in the 2028 budget. $5.2 million of the new revenue would go toward preservation of public safety service levels in 2027.
            - Departments and Offices are asked to solve for $1.2 Million in budget targets. These targets can be met by cuts or confirmed new revenue if qualified by the County Budget Manager.
                - A modest $1 million in cuts is requested across-the-board for efficiency purposes and to show the public that the County continues to seek efficiencies and "tighten its belt."
                - Another $200,000 in cuts are specifically given to Superior Court and District Court to encourage efficiencies in their Therapeutic Court programs.
            - The Board will not support proposals from Departments or Offices that reduce public-facing services, operating hours, or close functions or buildings. If the community begins to pay additional taxes in 2027 to

        support the County, the Board believes its service levels should not be reduced concurrent with that change.
    - In support of County functions' continued creativity and frugality in the face of ongoing budget challenges, the Board plans to spend $2 Million in reserves to offset the deficit.
  - **Budget B** spreads much larger budget targets across departments, as it assumes that HB2015 will not be implemented and no new revenue will come to the County in the 2027 budget. The Board would also use $2 Million in reserves to reduce the gap in this scenario, which leaves $7.4 million in targets for cuts or new revenue across all County functions. In this scenario, the Board is open to proposals from employing officials that reduce public services or operating hours or close buildings, as those may be needed to meet targets at these levels.
- **County Road Fund**: The County Road Fund has a forecasted deficit of more than $6 Million. To address this, the Department of Public Works will submit a balanced budget in which expenses match anticipated revenues. Expenditures shall be reduced in a balanced way to ensure maximum value is provided to County taxpayers in 2027 for the funds available. No large uses of one-time funds will be used to offset the ongoing deficit; any changes in revenues or expenditures should be ones that PW Roads can continue into future years. Further, Public Works will submit a six-year forecast to show ongoing impact of the 2027 proposed cuts on their financial sustainability in future years. The Department of Administrative Services will be taking a more active role in the budget preparation of the County Road Fund to ensure data and Board decision-making is done similarly to the Board's other funds.
- **Internal Services Funds**: The County has six internal service funds (County Elections, Equipment Revolving and Rental, Information Services, Capital Facilities, Employee Benefits, and Self-Insurance). This direction applies to all internal service funds except County Elections.
  - Internal Service Funds will submit 2027 budget proposals that meet or exceed targets identified in Attachment A – "2027 Budget Targets".
  - Strategies offered to meet targets must be sustainable; as the County's funding challenges will not be fixed immediately, it is clear that the need to control or reduce costs will continue into future years. One-time or one-year cost controls are discouraged, as they can't be repeated and will go away quickly. Instead, fund managers are encouraged to renegotiate contracts,

consider alternative service delivery, or propose ways of shrinking services sustainably, safely, and with a minimum of risk.
    - A complete report-out on ongoing efficiencies, cost control measures including long-term projects or alternative service delivery exploration to reduce costs, and other completed management actions discussed in recent Board briefings will be included in budget presentations.
    - The Board prioritizes the creation of strong, valid, and sustainable long-term cost reduction strategies from ER&R and Employee Benefits in 2027.
- **<u>Capital Facilities Plans</u>**: The Board annually approves seven Capital Facilities Plans which may share centralized capital funding sources. To ensure thoughtful use of these capital funds, the Boards asks Public Works and Parks to prioritize projects and create plans that don't exceed authorized use of Real Estate Excise Tax (REET) revenues and fund balances.
- **<u>Other</u>**: Attachment A provides for individual target amounts for departments and funds. Those not listed in the attachment will adhere to the guiding principles described in the "Budget Review Process" below.

Departments are encouraged to carefully review all programs and expenditures and follow the guiding principles of the Budget Policy when developing their requests. New General Fund staffing or program requests are not permitted unless, in addition to meeting separate budget targets, they are accompanied by supporting ongoing revenue, an equal budget reduction, or a reorganization that creates a measurable efficiency.

For reference, the Board's 2027 priorities for its Departments are in Attachment B.

<u>Budget Review Process</u>

Line item detail will be entered directly into Workday Adaptive Planning. Instructions and training can be provided for department staff by your assigned budget analyst. Budget presentation forms will be created after budget entry is complete and will be organized electronically by department and/or fund. Your budget analyst will prepare portions of the forms with historical information, current year-to-date performance and the 2027 planning period.

Budget presentations will be conducted in a hybrid Zoom and in-person format and are currently planned for September 21st – September 23rd. Departmental budget materials will be posted on the County website and made available to the public. Departments should plan to brief the Budget Review Committee with a short overview of program functions and then a focused discussion on budget detail. Departments should also be prepared to clearly explain the public impact of meeting budget targets.

The budget process will continue to be accessible, transparent, and adaptable to change as our revenue and expenditure assumptions are finalized. The following principles will guide the Board's budget deliberations and decisions:

1. **All funds should present a balanced and sustainable budget**. We must live within our means. Ongoing expenditures should be supported by ongoing revenues without the use of fund balance.
2. **One-time revenue will not be used to fund ongoing expenditures**. Fund balance, temporary grants and unusually high interest earnings may help address one-time needs but may not be used to support the cost of permanent staffing or programs.
3. **Departments and offices will submit budget requests that meet their assigned fiscal target**. Each elected official and department head is in the best position to understand their programs and operations. Departments and offices should consider service priorities, legal requirements, community impacts and performance when determining how to meet their target.
4. **New programs, staffing, or initiatives will be limited**. Requests should not be submitted unless they are supported by ongoing revenue, an equal expenditure reduction, a legal requirement, or a proposal that consolidates, streamlines, reduces, or otherwise restructures existing programs to create measurable savings or efficiencies.
5. **Departments should identify service impacts**, the number of positions involved, if applicable, the residents or customers impacted, and/or the expected change in service level such as availability or response time.
6. **Every department and office will present its programs to the Budget Review Committee**. The committee will review budget requests, financial information, and service impacts. Committee members will evaluate programs and provide feedback to the Board of Commissioners.
7. **Budget staff will consolidate committee feedback and updated financial information for the Board**. This process enables the Commissioners, in partnership with other elected officials, to ensure the adopted budget supports prioritized and critical service needs of Kitsap County residents. It also respects the ability of each employing official to manage its operations and recommend how best to provide services within available resources.
8. **Budget information will be made available electronically and to the public**. Line item entry must be completed by 8/10/2026. Budget presentation content will be published prior to 9/14/2026. Departmental budget materials and public budget meetings will continue to be made available through the County's budget webpage.

Your budget analyst is available to assist with preparation of your 2027 budget and to help communicate your department's needs, financial information, and service impacts to the Commissioners and Budget Review Committee. Our goal is to support departments while continuing to improve a budget process that is transparent to the public and useful to County decision makers. Please visit the DAS SharePoint site for updated meeting schedules, documents, and other information related to the 2027 budget process.

2027 Budget Targets

General Fund			*Yes HB 2015* Option A		*No HB 2015* Option B
Department	**2026 Budget**	**2027 Credit Achieved Already**	**2027 Targets**	**2028 Credit**	**2027 Targets**
Human Services	$ 929,346	$ (14,348)	$ -	$ (7,613)	$ 37,177
Emergency Management	$ 1,289,726	$ -	$ 10,612		$ 71,505
District Court	$ 5,072,913	$ -	$ 41,742		$ 281,252
Human Resources	$ 2,321,441	$ -	$ 19,102		$ 128,705
Sheriff	$ 61,129,637	$ -	$ 502,994		$ 3,389,146
County Commissioners	$ 2,670,330	$ (37,609)		$ (18,256)	$ 110,439
Treasurer	$ 1,561,234	$ (65,506)		$ (54,191)	$ 21,052
Parks	$ 6,709,595	$ -	$ 55,209		$ 371,993
Public Defense	$ 5,926,957	$ (253)	$ 48,482		$ 328,350
Assessor	$ 3,457,531	$ -	$ 28,450		$ 191,692
Medical Examiner	$ 1,941,044	$ (249)	$ 15,689		$ 107,367
Auditor	$ 2,680,106	$ (44,374)		$ (24,950)	$ 104,216
Community Development	$ 3,009,429	$ (9,838)	$ 13,594		$ 157,011
Superior Court	$ 4,824,181	$ -	$ 39,695		$ 267,462
Clerk	$ 4,802,749	$ (55,925)		$ (21,117)	$ 210,349
Administrative Services	$ 1,033,876	$ (24,350)		$ (16,858)	$ 32,970
Prosecutor	$ 12,431,482	$ (9,739)	$ 91,233		$ 679,487
Juvenile	$ 9,210,040	$ -	$ 75,783		$ 510,623
GA&O	$ 6,977,966	$ -	$ 57,417		$ 386,872
	$ 137,979,583	**$ (262,190)**	**$ 1,000,000**		**$ 7,387,667**
Total General Fund Expenditure Budget			**$ 146,989,281**		**$ 140,601,615**

Option A:
* Supported by revenues
* Some department budgets will increase
* Separate Treatment Court target $200K
* $2M in reserves
* Freeze Elected Official salaries
* No closures/furloughs that affect public operating hours

Option B:
* Some department budgets will increase from 2026
* $2M in reserves
* Freeze Elected Official salaries

2027 Budget Targets

Other Funds			
Department	**2026 Budget**	**2027 Targets**	**Estimated 2027 Budget**
County Roads	$ 37,992,617	$ 6,000,000	$ 33,112,011
Risk Management	$ 8,150,209	$ 211,905	$ 9,458,760
Facilities Maintenance	$ 3,901,754	$ 101,446	$ 4,307,184
Information Services	$ 12,014,128	$ 450,000	$ 12,507,019
Benefits Fund	$ 30,074,437	$ 781,935	$ 37,547,705
Equipment Rental & Revolving	$ 16,244,900	$ 422,367	$ 15,738,905

Christine Rolfes
DISTRICT 1

Oran Root
DISTRICT 2

Katherine T. Walters
DISTRICT 3

KitsapCounty

BOARD OF COMMISSIONERS 2027 PRIORITIES

Administrative Services:
- 2028 budget
- Budget advisory group
- Budget policies
- Jail medical
- Revenue preparations
- Regional juvenile services

Commissioners Office:
- Legislative advocacy
- Ridgetop
- County website and WCAG 2.1 compliance support
- Community Advisory Councils
- Five-member Board of Commissioners research
- Puget Sound Naval Shipyard and Shipyard Infrastructure Optimization Program

Community Development:
- KCC housing code updates
- Sign code
- Rural Lands Analysis continuation/report
- MFTE
- Site specific amendments for isolated UGA parcels
- Enetai (monitor)
- Beaver management practices (tentative)

Emergency Management:
- Special event permitting
- Hansville Community Resilience Hub
- Comprehensive Emergency Management Plan (CEMP) revision
- COOP buildout & drills

Human Resources:
- Training consolidation
- Employee and community engagement

Human Services:
- Opioid settlement funding plan
- Bremerton's Salvation Army shelter replacement (monitor)
- Kitsap Recovery Center
- Aging & Long-Term Care relocation

Information Services:
- County website
- Cost controls/rates
- Software consolidation
- Cyber security
- GenAI Policy Initiative (Governance & Phase 2)
- WCAG 2.1 compliance
- Givens relocation

Parks:
- Port Gamble Heritage Park Framework update
- Sports field and sports court capacity capital projects
  - North Kitsap sports courts
  - Gordon Park
  - South Kitsap Regional Park
- KPFD application for Fairgrounds Master Plan
- Functional Parks Foundation
- Sustainable operations/funding
- Parks stewardship program
- Rolling Hills Golf Course next steps

Public Works:
- County campus space planning
- Courthouse Phase 0/1
- Real estate mapping
  - Suquamish reservation
  - North Kitsap road ends
- Givens sale and relocations
- Traffic safety and prioritized options for traffic slowing measures
- Road standards in UGAs and LAMIRDs
- Roads budget
- Silverdale infrastructure projects (Roads)
- Gorst corridor and PEL study
- CKTP construction project