



**Date:** January 24, 2017

**To:** Kitsap Regional Library Board of Trustees

**From:** Bob Goldstein, Chief Financial Officer

**Re:** 2017 Operating and Capital Budgets

## Summary

The 2017 combined operating and capital budget increases 2% over the 2016 Adopted Amended Budget. The budget maintains KRL's current service level, though facility and information technology maintenance and repair received a significant boost. Of the combined budgets, the operating budget increases 4%. The capital budget decreases 26.7% due to a reduction in grant-funded projects.

Revenue growth is constrained by a state law restricting the district's general increase in property taxes collected to 1% of the previous year's revenue total. Total revenue growth is expected to increase 0.8% from 2016, as the property tax increase is partially offset by a reduction in grant funding.

For budget details, please see Attachment 1.

### Kitsap Regional Library 2017 Combined Operating and Capital Budget

	2016 Adopted	2017 Adopted	% Difference	\$ Difference
<b>Expenditures</b>	\$11,926,696	\$12,165,440	2.0%	\$238,774
<b>Revenue</b>	12,105,905	12,206,856	0.8%	\$100,951
<b>Difference</b>	179,209	41,416		
<b>Carry-Forward Balance from prior year</b>	73,119	223,054		
<b>Transfer to Reserves</b>	250,000	250,000		
<b>Transfer from Reserves</b>	0	0		
<b>Adjusted Year-End Balance*</b>	2,328	14,470		

\*Year-End Balance remains in the General Fund

## Major Assumptions

*Salaries:* The budget provides funding for employee step increases. Step increases are 2% and generally are triggered on the employee's hiring anniversary date and upon satisfactory completion of a performance evaluation. Of the approximately 200 staff, 13% will be or are at the top step in their range and cannot get a step increase in 2017. In addition, five supervisors received salaries increases to bring their compensation and working conditions under compliance with proposed federal regulations regarding overtime.

*COLA:* The budget does not include a cost-of-living adjustment (COLA).

*Benefits:* The budget continues the package of benefits offered through the Association of Washington Cities (AWC) Employee Benefit Trust. The base health care budget increased 5.4%, even though the plan cost increased 10%. The actual budget was lower because fewer employees are on the plan than in 2016.

The employee share of health care premium costs continues at the same level as last year at \$12.50 per pay period, though a few employees on the Group Health plan may pay a little less.

Premiums for the dental and vision insurance remain the same as last year.

*Pensions:* KRL employees working a minimum of half-time (defined for the purposes of pension at 0.4 FTE and above) are automatically eligible to join the Washington Public Employees Retirement System (PERS). In 2017, the budget for the employer-paid portion of PERS increases 8.7%. The pension budget is set according to guidance provided by the state actuary. Required employer and employee contributions are determined by the State Legislature. It is important to note that the next revision to the pension rate will likely be effective on July 1, 2017. The budget projects a 10% increase in the employer-paid portion of PERS on July 1.

*Revenue:* Projected overall revenue in the 2017 budget increases 0.8% compared to the 2016 budget.

The projected 2017 property tax revenue is \$11,060,182 compared to \$10,753,318 in the 2016 Adopted Budget, an increase of 2.9%. The increase is due to the 1% rise allowed in property tax revenue by state law, from property taxes on the value of new construction, minus refunds and other adjustments.

The revenue forecast anticipates a 6.2% decrease in revenue for fines and fees.

Revenue from grant-funded projects is down 21.3%, largely because 2016 revenue was inflated by grant funds to pay final costs for the construction of the new Kingston branch. The 2017 budget includes spending and revenue from programs supported by the Kitsap Regional Library Foundation (KRLF), the third year of a four-year grant from the Institute of Museum and Library Services (IMLS) and from donations to the Silverdale Branch project. The budget does not include construction spending and anticipated off-setting revenue from Silverdale Branch project. However, the budget does include \$250,000 reimbursement for property acquisition, the third of three payments. In addition, the budget includes reimbursements from pre-construction planning, costs that were incurred from previous years.

## Year-End Balances and Budget Reserves

KRL expects to finish the 2016 fiscal year with a positive adjusted balance of \$223,055. A significant portion of this balance was from deferred capital projects that have been shifted into 2017.

KRL financial policies state that the Library maintains reserves in a range of between 10% and 15% of the operating budget. In the 2017 Budget, the current reserve ratio is 9.6%. However, KRL is expected to achieve an 11.8% reserve ratio when the third and final \$250,000 repayment for the Silverdale property is received.

## Cash Flow

Cash flows are anticipated to be sufficient to meet library needs throughout the year, providing that reimbursement for grant projects are received on a timely basis.

## Changes in Division Budgets

All division budgets reflect step increases to eligible staff and changes in benefit rates.

*Public Service (Branch Budgets):* This budget increases by 1.9%. The budget provides increases to branches to pay for additional staff training.

*Support Services:* This budget increases by 1.9%, reflecting increases in spending for computer system maintenance.

*Administration:* The budget increases by 15.6%. The increase attributed to one-time costs for paying for the levy election and associated costs, the transfer of the digital branch manager position from IT to public relations, sufficient budget to pay for the transition to a new Chief Financial Officer, and budget to fund a new assistant director position for the foundation.

*Facilities:* The budget increases by 9.4%. The increase is due to the additions to the custodial staff to handle increased cleaning and maintenance responsibilities for branches KRL does not own, as well for increases in repairs and maintenance for facilities.

*Capital Budget:* This budget declines by 26.7%. The budget declines primarily because the Kingston Branch project was completed and paid for in 2016. However, the core capital budget is increased from \$325,000 to \$573,000 to pay for high priority projects, as well as projects that were deferred from 2016. The budget pays for the replacement of new computer servers, as well as some of the costs of remodeling the Bainbridge Branch. The budget does not include potential capital costs for the construction of the Silverdale project.

*Collections Budget:* The budget decreases by 3.1%, as one-time costs in 2016 to boost the collection for the new Kingston Branch was removed from the 2017 budget. However, the base budget was increased by \$12,000.

*Training and Conferences:* The budget increases 15.3% as one-time costs for additional training are included.

## Budget Risks

Budget risk is managed to the extent management controls expenditures to budgeted levels. Certain expenditures such as fuel, utilities and critical materials are not directly controllable. These are a relatively small proportion of the budget and an unexpected rise in these costs should not significantly impact the budget during the fiscal year.

## Tax Rate

The library's property tax rate is set according to state law. For 2017, the estimated rate for property owners is estimated at 35.1 cents per \$1,000 of assessed valuation. The rate declined by about 3 cents from last year. An owner of a hypothetical residential property assessed at \$250,000 would pay \$87.75 in property taxes for KRL operations in 2017.