

2016 BUDGET KEY POINTS **Updated November 24, 2015**

REVENUES

1. **Total 2016 Budget: \$11,438,985**

2. **Revenues:**
 - A. Overall, 2016 revenues are \$265,445 more than 2015. This exceeds the \$188,708 increase in revenues we projected in November.

 - B. The 2016 Budget requires the use of \$414,051 in cash reserves to balance the 2016 budget compared with the \$467,151 estimate we provided in November and the \$415,639 in reserves budgeted in 2015. This includes designated program funds (programs with “banked” revenues in excess of expenditures) and undesignated cash. This estimate does not take into account any compensation adjustments to be negotiated with the District’s union for 2016.

 - C. The budget currently assumes a 5% increase in general public health funding from municipal jurisdictions and a 2% increase from the County. The actual increases in County and City funding are less than these projected percentages however, because the increases are partially offset by decreases in requested contributions for the District’s Norm Dick Government Center mortgage.

3. **Other Revenue Assumptions:**
 - A. **Fees:** Fee increases in the Food and Living Environment Program are projected for 2016. The District strives to recover costs for fee-related activities in the Environmental Health Division, pursuant to the Board’s Budget Policy.

 - B. **Clinic Billings:** It is possible that clinic fee collections and insurance reimbursements will increase in 2016 as a result of the Affordable Care Act (ACA) and the District’s use of a medical coder to improve billing effectiveness and increase the timeliness of payments. We will closely evaluate the results of these changes in 2016. At this point, we have not yet budgeted any related increases in these revenues for 2016.

- C. **Olympic Community of Health:** The Health District is anticipating additional currently unbudgeted revenue (and expenditures) in 2016 from the Washington State Health Care Authority for the District's backbone support of the Olympic Community of Health and its health reform work.

EXPENDITURES

1. **Expenditures:**

Expenditures are up \$263,857 over budgeted expenses for 2015 which exceeds the \$240,222 increase we projected in November due to new grant-funded purchases. The increases are explained below.

2. **Key Expenditure Changes:**

- A. **Wages:** The District is currently in negotiations on a new 2016-2018 collective bargaining agreement. Wage adjustments are anticipated in the 2016 budget but are not yet budgeted because they have not yet been negotiated with the union. Negotiated wage adjustments will require the District to request approval of a budget amendment in early 2016 so the District does not exceed Board-approved appropriations.
- B. **Staffing Increases (\$182,000 approximately):** Staffing increased from 94.8 FTEs in the 2015 budget to 97.9 FTEs in the 2016 budget. These staffing increases were either necessary in 2015, or in 2016, to accomplish new grant and contract work with accompanying increases in revenue, to accomplish Kitsap Community Health Priorities and District strategic priorities, and increase the effectiveness of our Human Resources program. These increases in 2015 and 2016 include:
- Filling a funded open 1.0 FTE Assistant Director of Environmental Health position in 2015.
 - Filling an unfunded open 1.0 FTE Human Resources Assistant position in 2015.
 - Hiring a new funded 1.0 FTE GIS mapping position in 2016 in the Environmental Health Division to meet specific grant deliverables.
- C. **Public Employee Retirement System (\$66,900 approximately):** The State PERS system is increasing retirement system costs for employers and employees in July 2015, resulting in an increase to the District starting in 2016.

BALANCING THE BUDGET

1. **Budget Deficit.** The Health District's current projected 2016 budget deficit equals \$414,051. This deficit projection has dropped from the \$748,196 estimate at the time the District made its 2016 budget presentation to the Kitsap County Budget Committee on September 21, 2015, from the \$653,639 estimate at the time the Finance and Operations Committee met on October 21, 2015, and from the \$467,153 estimate we provided to the Board on November 3, 2015. The current deficit estimate does not take into account 2016 wage adjustments. The deficit will increase if 2016 wage increases are negotiated with the District's union. Potential, but still not confirmed, new revenues will decrease the deficit. The final 2016 Budget is balanced through the use of reserves.
2. **Budgeted Reserves.** The final 2016 Budget currently includes the use of \$302,430 in undesignated reserves and \$111,621 in designated program reserves to balance the budget.
3. **2016 Beginning Reserve Estimate:** The current estimate of beginning cash and investments (reserves) in 2016 is \$2.7 million. This amount is higher than the District's minimum cash and investment goal of \$1.9 million, which equals two months of budgeted operating expenses. This minimum reserve goal will increase slightly if wage adjustments are made in 2016. The District's operating reserve is established in the Board's Budget Policy. Spending *budgeted* cash reserves in 2016 (\$414,051) will reduce total District cash and investments to approximately \$2.3 million at the end of 2016. Banked reserves will increase with the acquisition of unbudgeted new revenues including potential new funding for the Olympic Community of Health backbone support work. The amount of *available* reserves at the end of 2016 will still exceed the minimum reserve goal at that time, but may be exhausted in 2017 under current budget scenarios, especially those including wage adjustments in 2016.

Continued reliance on reserve spending beyond 2016 is not sustainable under current revenue and expenditure projections unless other structural changes are made to the District's programs to create more financial stability. Any negotiated wage adjustments put additional pressure on financial stability, but are not the primary deficit driver. If wage adjustments are removed from the equation, the need to address the larger structural budget problem still remains an issue. If revenues remain static and costs continue to rise, the District will need to again evaluate and prioritize programs in 2017 using the District's Budget Priority Matrix process in consultation with the Board.

MEMO

To: Kitsap Public Health Board
From: Scott Daniels, Administrator
Date: December 28, 2015
Re: 2016 Budget Amendment

At the January 5, 2016, Kitsap Public Health Board (KPHB) meeting, we will propose approval of Resolution 2016-05, amending the Health District’s 2016 Budget (resolution and amended budget attached). The purpose of the amendment is to incorporate 1) wage adjustments for the District’s represented (union) negotiated after the 2016 Budget was adopted on December 1, 2015, 2) wage adjustments for unrepresented staff, 3) expected new revenues and associated expenditures, and 4) other budgetary housekeeping changes. At the meeting, I’ll provide an overview of the budget changes, including changes to total estimated 2016 revenues, expenditures, and cash and investment reserves.

As amended, the 2016 Budget now equals **\$11,987,474**, an increase of \$548,489 over the previously adopted 2016 Budget of \$11,438,985. Action from the Board is required at the Board’s January 5th meeting on Resolution 2016-05, approving the Amended 2016 Health District Budget. Here is a summary of the changes:

REVENUES

1. **Revenues Changes:**

Revenue Description	Increase (Decrease)
Olympic Community of Health Year 2 HCA Contract	\$388,000
Food Fees	82,110
Medicaid Match	4,135
PHEPR Program Funding	(1,754)
Reserves: Unrestricted Fund Use	70,043
Reserves: Designated Fund Use	5,955
TOTAL	\$548,489

2. **Other Unbudgeted Revenues:** The District is tracking other currently unconfirmed and unbudgeted 2016 revenues, including potential increased funding for the Nurse Family Partnership Program and potential increased clinic fee collections and insurance reimbursements. The latter is aided by increased health insurance coverage for our population as a result of the Affordable Care Act (ACA) and the District’s use of a medical coder to improve billing effectiveness and increase the timeliness of payments. We will closely evaluate the results of these changes in 2016.

EXPENDITURES

1. **Expenditure Changes:**

Expenditure Description	Increase
Personnel	
2% Salary Increase, All Staff Excluding Clerical Unit	\$143,761
Additional Clerical Unit Salary Increase	37,908
On-Call Nurse Pay	5,580
Increased Bi-Lingual Pay	3,432
New Olympic Community of Health Director ¹ - 3/1/16	120,214
New Olympic Community of Health Project Coordinator ¹ - 3/1/16	83,863
New Epidemiologist ²	90,330
Other Staffing Adjustments	8,475
Payroll Tax Adjustment	685
Subtotal	\$494,248
Non-Personnel	
Professional Services ¹	39,080
Supplies ¹	8,000
Travel ¹	4,000
Miscellaneous ¹	2,120
Communications ¹	1,041
Subtotal	\$54,241
TOTAL	\$548,489

¹ Funded through Olympic Community of Health Year 2 HCA Contract.

² Funded 50% through Olympic Community of Health Year 2 HCA Contract and as the result of additional new program revenue received through a 1/10th of 1% sales tax contract with Kitsap County.

RESERVES

1. **Budget Deficit.** The Health District's current projected 2016 budget deficit (expenditures over revenues) equals \$490,049. The deficit projection has fluctuated over the budget preparation cycle as follows:

Date	2016 Budget Presented At	Deficit Projection ¹
9/21/15	Kitsap County Budget Committee Meeting	\$748,196
10/21/15	October 2015 KPHB Finance Committee Meeting	\$653,639
11/3/15	November 2015 KPHB (Meeting 2016 Budget Initial Presentation)	\$467,153
12/1/15	December 2015 KPHB Meeting (2016 Budget Adopted)	\$414,051
1/5/16	January 2016 KPHB Meeting (2016 Budget Amendment Requested)	\$490,049

¹ In the table above, only the Amended 2016 Budget includes 2016 salary and benefit increases for represented and unrepresented staff. Represented staff wage adjustments in 2016 are part of a new three-year collective bargaining agreement negotiated with the District's union. The District provides identical wage adjustments for unrepresented staff.

2. **Budgeted Reserves.** The Amended 2016 Budget is balanced using \$372,473 in unrestricted and undesignated reserves and \$117,576 in designated program reserves.
3. **Reserve Spending in Future Years:** As we have stated previously, we project that the amount of *available* reserves at the end of 2016 will exceed the minimum reserve goal of two months of operating expenditures as established by the Board, but may dip below the minimum goal in 2017 under current budget scenarios. Continued reliance on reserve spending beyond 2016 is not sustainable under current revenue and expenditure projections unless other structural changes are made to the District's programs to create more financial stability. This will be a topic of a Board study session to be scheduled in Spring 2016.