



King County

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The Honorable Dow Constantine
Chair, King County Council
Room 1200
COURTHOUSE

Dear Councilmember Constantine:

I am pleased to transmit my proposed budget for 2010. The budget totals \$4.8 billion overall and \$621 million for the General Fund. This is a budget of great challenge and transition. It comes at a time when we are facing

- changes in executive leadership
- the loss of county revenue as a result of the most severe economic turmoil since the Great Depression
- the threat of flood and pandemic flu; and
- continued long-term structural funding challenges resulting from a revenue base that is not allowed, under current state law, to grow at a pace sufficient to maintain costs of existing county services.

Amidst all of this, my proposed budget is balanced and prudent. It lays the foundation for a transformation of county government in light of current and future revenue challenges and in recognition of the need to be prepared to face the uncertainties that lie ahead of us. It is based on fiscal responsibility and preserves important emergency reserve funds.

As you embark on your deliberations, I urge you to continue the council's long tradition of fiscal restraint in adopting a final budget. If you choose to restore funding in one place, I encourage you to identify commensurate programmatic reductions somewhere else. In light of the challenges we face, we must preserve the county's ability to provide emergency response, continue to perform mandated county functions, and maintain our AAA credit rating into 2010 and beyond.

A Budget of Transition and Challenge

This budget reflects a transition not only in executive leadership but also to an uncertain future. We face instability in our revenues due to the economy, the potential for reductions in state funding as the state legislature continues to respond to its own budget deficits, and the potential imposition of new revenue restrictions as voters decide this fall on yet another initiative that, if approved, would further limit revenue resources of governments throughout the state. We face uncertain events such as the pandemic outbreak of the H1N1 influenza virus and flooding in the Green River Valley as a result of damage to the abutment of the federally-owned Howard Hanson dam. This is a budget of transition. It preserves our emergency reserves and was prudently constructed to ensure the county is prepared in the face of these very real and challenging scenarios.

Heading into 2010, the county is forecasting a General Fund deficit of \$56.4 million on a budget of \$621 million. General Fund revenues are down by \$18.3 million from the 2009 Adopted Budget. For the second year in a row, total General Fund expenditures are less than the previous year. The 2009 Adopted Budget was \$14.1 million less than 2008. The 2010 Executive Proposed Budget is \$26.3 million less than 2009 – and \$40.4 million less than 2008.

The budget projections for 2011 and beyond are no more encouraging. A \$54.2 million deficit is anticipated for 2011, followed by another \$88.2 million deficit for 2012. Without new revenue tools, King County cannot close the coming budget gaps **without a radical dismantling of the criminal justice system, public health, and other basic county services**. We must prepare for these challenges now by showing maximum restraint in adopting this budget.

Balancing the 2010 Budget

When I was appointed by the council as the County Executive, I created a document I called “9 for 9 in 2009.” The purpose of this document was to identify for the region what I believed were my tasks to achieve during my short time in office. The first and most important of those nine said simply: “Transmit a balanced budget using state tools while preserving our AAA credit rating.” Despite the fact that we face a significant 2010 projected deficit, my proposed budget seeks to achieve these goals.

In preparing this balanced budget, I set clear priorities and aligned budget decisions with these priorities. The priorities include the preservation of funding for core mandatory services over discretionary services and preservation of direct services over administrative overhead costs. Rather than implementing “across the board” reductions, my budget eliminates funding for programs that do not align with the guidelines above.

Preserving Public Safety

Most importantly, this budget prioritizes public safety. Through the elimination of funding for discretionary functions and through the use of supplantation, my proposed budget spares the Prosecutor’s Office, the Superior and District Courts, Public Defense, and the Sheriff from

significant programmatic reductions. Some reductions are assumed in the Jail and Jail Health budgets, but only as a result of decreases in jail population and administrative and technology efficiencies. Collectively, Criminal Justice system budgets are reduced by less than 1% the 2009 Adopted Budget. Given the magnitude of the General Fund deficit, these are relatively minor reductions. However, as criminal justice functions require a greater portion of the overall General Fund and as the county continues to face deep budget deficits in the coming years, deep cuts to criminal justice next year and beyond are unavoidable without new county revenue sources.

Protecting the Health of Our Community

My proposed budget also maintains the critical programs and services that keep our citizens healthy. I shielded Public Health from reductions wherever possible. Faced with the prospect of closing clinics in 2010, Public Health has entered into a partnership with a community health provider, Health Point, whereby Health Point will lease Public Health's Northshore facility and move its operations, including the provision of primary care services, into the building. Public Health will rent back a portion of the space at a lower operating cost to continue delivery office-based Maternity Support Services and Women, Infant and Children services at the site.

Public Health is also consolidating services in order to create efficiencies and reduce costs. The Alder Square Clinic will close and some of the family planning services that had been provided at this site will move to the Birch Creek Clinic. Meanwhile, Public Health is looking to close the Kent Teen Clinic and is looking to a new site to consolidate services in the south end.

Preserving support for criminal justice and public health programs comes at a price. My budget enacts deep reductions to virtually all other General Fund-dependent functions. My proposed budget is balanced based on the following actions:

- reductions to administrative and overhead functions
- eliminating funding for discretionary services, such as parks, human services, and animal care and control
- utilizing revenues from the Mental Illness and Drug Dependency (MIDD) fund to restore some human services funding and to avoid reductions to criminal justice agencies
- capturing savings from the upcoming annexation of the southern portion of the North Highline annexation area into the City of Burien in order to reduce the persistent urban subsidy
- reducing the growth rate of health care costs by shifting more benefit costs to employees and their dependents while preserving our innovative health care reform programs, and
- identifying operational shutdown savings.

Administrative and Overhead Savings

My budget assumes \$11.4 million in expenditure reductions and revenue increases for administrative and overhead functions, including \$4.1 million in net reductions to the General Fund. These changes underscore my commitment to seeking administrative efficiencies prior to the elimination of discretionary services and in order to preserve funding for mandatory and direct services to the residents of King County.

My budget assumes deep reductions totaling \$1.9 million, or 13.6 percent from the status quo budget projections, to the General Fund supported county executive offices, including the County Executive; the Office of the Executive; the Office of Management and Budget; and the Office of Strategic Planning and Performance Management. The Office of Information Resource Management, which is an internal service fund, is reduced by 10 percent. These reductions will result in the elimination of 11 FTEs and 5 term-limited temporary positions. In addition, the Executive Fellow program will be eliminated.

My proposed budget is also balanced assuming 10 percent reductions to all legislative branch agencies that are roughly commensurate with the reductions taken in the executive offices. If the council concurs with this proposal, this will generate \$2.2 million in savings.

I must be clear. Cuts of this magnitude to the council and executive will have an impact. They will reduce our ability to oversee and hold accountable the vast and complex government that is King County. Nevertheless, I believe these cuts demonstrate leadership by example – we cannot ask direct service agencies to make reductions year after year if we are not willing to make similar sacrifices. Through creativity and collaboration I am confident these reductions can be managed.

Additionally, central service agencies that provide services to other county agencies under cost recovery models have identified efficiencies and reductions that will result in charges to General Fund agencies that are less than originally anticipated for 2010. For example, charges to law, safety and justice agencies are reduced by \$3.6 million. The reconfiguring of the employee training program currently provided by the Human Resources Division (HRD) is an example of a reduction in central service agencies that will result in lower charges for services to county agencies. Under this proposal, HRD will eliminate the Training and Organizational Development program and create a pared-down semi-annual supervisory education program in its place. This change lowers HRD's costs by \$690,442.

Eliminating Funding for Discretionary Services

As I mentioned previously, my proposed budget prioritizes mandated services above discretionary services. Faced with severely limited resources, I was left with few options but to eliminate General Fund support for discretionary services, including urban unincorporated parks, animal care and control, and human services. These are painful, but necessary steps in order to preserve funding for mandates services. Where possible, my budget seeks options for

mitigating the impact of the lost General Fund support for these important discretionary programs.

Urban Unincorporated Parks: Mothballing 39 urban, unincorporated local parks (including two outdoor pools) allows me to capture 2 years worth of reserves and apply \$4.6 million in savings to the 2010 budget. I am making every effort to continue working with community partners to develop viable options for transferring these important assets. To demonstrate this commitment, my budget allocates \$500,000 in one-time money in a reserve to facilitate the transfer of these parks to external entities. In addition, I have directed the Parks and Recreation Division to keep open for two months the six park facilities that are located in the southern portion of the North Highline annexation area pending its formal annexation into the City of Burien in March 2010.

Animal Care and Control: My proposed budget only funds King County Animal Care and Control (KCACC) for six months in 2010 and also eliminates the \$1.5 million General Fund subsidy historically provided to offset the shortfall from animal licensing fees in unincorporated King County and its contracting cities. The combination of the financial challenges in the General Fund and the fact that Animal Care and Control is not self-sustaining means that King County is no longer able to continue providing animal care and control services as it has in the past. Animal Care and Control's operational challenges are also exacerbated by the potential flooding of the Green River Valley that may result from the issues related to the Howard Hanson Dam. The animal shelter is located in the flood plain and has been deemed a total loss in the event of a flood. To mitigate the budget shortfall and the risk posed by the Green River flood emergency, King County Animal Care and Control is partnering with its contract cities and community organizations to transition to an alternate, fiscally sustainable business model by June 2010. Reinforcing this commitment, my budget allocates \$3 million in one-time money in a reserve to facilitate the transition of these functions.

Human Services: My budget also eliminates the General Fund transfer to human services, resulting in \$11.4 million in savings. This leaves the Department of Community and Human Services (DCHS) with \$385.7 million (excluding the Office of the Public Defender) in non-General Funds to support human services in 2010.

The \$11.4 million in General Funds, which represents less than 3 percent of DCHS funding, was formerly allocated to support mental health and substance abuse programs, as well as a wide variety of programs in the Children and Family Services (CFS) fund. Demonstrating my commitment to these important human services programs, alternate funding sources have been identified to partially mitigate the loss of these General Fund dollars. Virtually all of the funding previously provided to mental health and substance abuse programs, totaling close to \$4.9 million, will receive supplanted funds from the Mental Illness and Drug Dependency fund. In addition, all remaining non-General Fund dollars in the CFS fund are being allocated to DCHS – previously some money was allocated to Public Health. The combination of MIDD dollars and the dedication of the non-General Fund portion of CFS funds to DCHS means that the net impact of the General Fund reductions to DCHS have been held to \$3.7 million.

As a result of these reallocations, DCHS will be able to continue providing critical mental health and chemical dependency services and sustain a number of important human services activities, including housing programs, community services contracts, and work training initiatives.

MIDD Supplantation

The Mental Illness and Drug Dependency (MIDD) sales tax is central to my strategy for balancing the 2010 General Fund budget and preserving critical human services and criminal justice programs. The original state legislation that enabled the county to collect a one-tenth of a cent sales tax for MIDD restricted these funds for *only* new or enhanced mental illness and drug dependency programs and services. However, in 2009, the State Legislature amended the legislation to allow counties to use up to 50 percent of MIDD revenues in 2010 to fund existing mental health and chemical dependency services and therapeutic courts. The 50 percent supplantation level will decline by 10 percent annually until it reaches zero in 2015. This is a short term solution to an ongoing problem and as the ability to supplant ramps down, the county will again have to make difficult decisions about what programs remain.

In order to maintain the integrity of the MIDD Plan, I am recommending that only 30 percent of MIDD funds be supplanted in 2010. Legislation also restricts supplanted sales tax revenue to support therapeutic court programs, mental health programs, or chemical dependency programs. The General Fund supported programs that qualify for MIDD funds total \$12.6 million, close to 30 percent supplantation. Because there are no additional programs in the General Fund that would qualify for MIDD funding under state law, supplanting up to 50 percent to relieve additional pressure on the General Fund in 2010 is virtually impossible. Finally, by supplanting only 30 percent of MIDD revenues in 2010- 2012, the 2010 Executive Proposed Budget establishes a three year strategy to sustain these core existing services and will ease the impact when MIDD supplantation ramps down over time.

The MIDD program for 2010 reflects base programmatic deferrals of \$8.6 million and requires the drawdown of \$21.2 million in fund balance over three years, \$9.7 million of which is used in 2010. Programmatic deferral decisions were designed, to the greatest extent possible, to sustain the intent of the adopted MIDD program plan. While reducing funding for MIDD strategies is difficult, this funding tool allows core substance abuse and chemical dependency treatment programs in King County to continue, despite the elimination of General Fund support. MIDD funds will be used to support \$4.9 million formerly General Fund supported human services programs and an additional \$7.7 million in criminal justice programs.

Annexations

King County is the local service provider for urban unincorporated areas of King County. The cost to the General Fund in 2010 of providing these local services exceeds revenues generated by these areas by \$15.8 million, thereby requiring the diversion of regional revenues to support these local services. As a mechanism for addressing the underlying structural nature of the