



King County

2009 BUDGET

Executive Summary

KING COUNTY, WASHINGTON

INSIDE THIS SUMMARY REPORT

Budget Overview	2
Structural Problem	5
2003-05: Closed the Gap	9
2006-08: Investing in Critical Services	11
2009 Deficit Components	12
Balancing in 2009: The Lifeboat Strategy	14
Out-Year Forecasts	20
Legislative Solutions	23
Other County Funds	24



BUDGET OVERVIEW

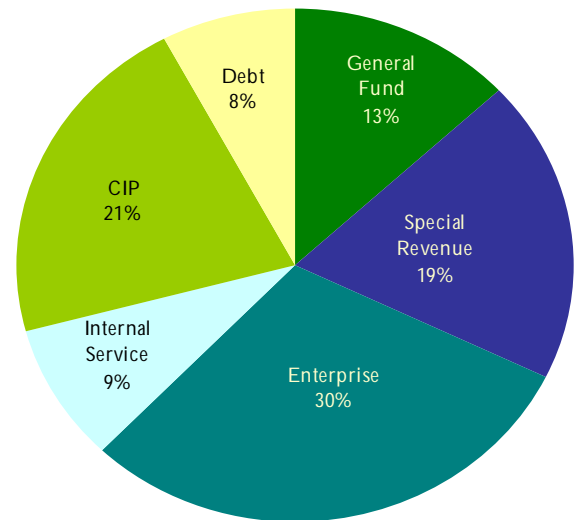
TOTAL 2009 PROPOSED BUDGET (\$4.9 BILLION)

As provided in the state constitution, counties are the agents of the state on the local level, providing many services on behalf of the state. The state authorizes counties to raise taxes and fees to provide these services.

King County is the second largest provider of government services in Washington, with a 2009 proposed budget of approximately \$4.9 billion. With this budget, the county provides a broad range of regional services such as public transportation, elections, detention, law enforcement, courts, road construction and maintenance, social services, public health, and wastewater treatment to more than 1.8 million residents.

In addition to these regional services, King County also provides local services to approximately 341,000 residents that live in unincorporated areas, of which about 200,000 are in urban unincorporated areas. These local services include code enforcement, sheriff, senior, children and family services.

The General Fund represents only about 13% of King County's total



budget, and is the source of funds that supports the county's criminal justice functions; general government functions, such as elections; and contributions to public health and human services.

Non-General Funds, which include enterprise funds (e.g. Wastewater Treatment); Special Revenue Funds (e.g. Roads); and Internal Service Funds (e.g. payroll services) make up the remaining 87% of the King County budget. By state law non-General Funds may not be used to support General Fund activities.

"Solving this budget crisis must be a collaborative process... it must be bi-partisan, and must place the public health and safety of our residents above politics."

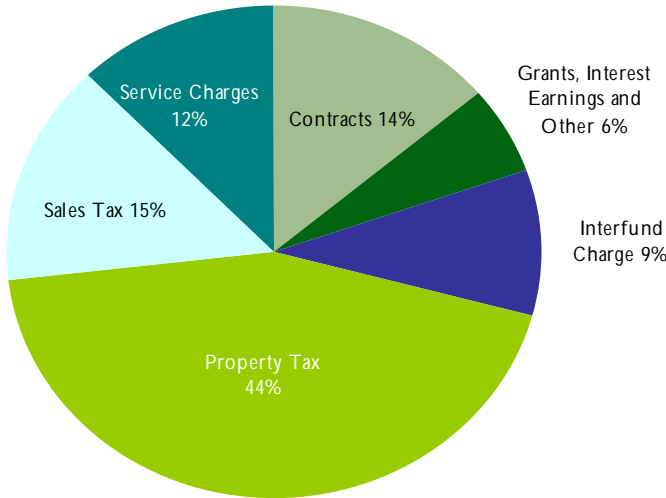
Executive Sims,
June 5, 2008 budget deficit press conference.

Budget (in millions)	2008 Adopted	2009 Proposed	+/-
General Fund	\$658.7	\$644.1	-\$14.6
Special Revenue	\$818.8	\$932.8	\$114.0
Enterprise	\$1410.4	\$1461.4	\$51.0
Internal Service	\$411.2	\$430.5	\$19.4
Capital Improvement	\$1040.6	\$1049.8	\$9.1
Debt Service	\$368.3	\$375.0	\$6.7
Total	\$4708.4	\$4893.6	\$185.6

2009 PROJECTED GENERAL FUND REVENUES

In 2009, General Fund revenues are projected to be \$639 million, which are driven by two primary sources: the property tax, which equals roughly 44 percent of General Fund revenues; and the sales tax, which makes up about 15 percent of General Fund revenues. The ability to grow these revenues is limited

by state law, as explained on pages 5-7. The other 41 percent of the county's revenues come from contracts, fees for service, and interest earnings.



2009 by the Numbers:

\$93.4 million

2009 Projected General Fund Deficit

\$38.2 million

Efficiencies, on-going reductions and revenue increases

\$21 million

Programs in jeopardy without a state solution

\$13.1 million

Salary Savings

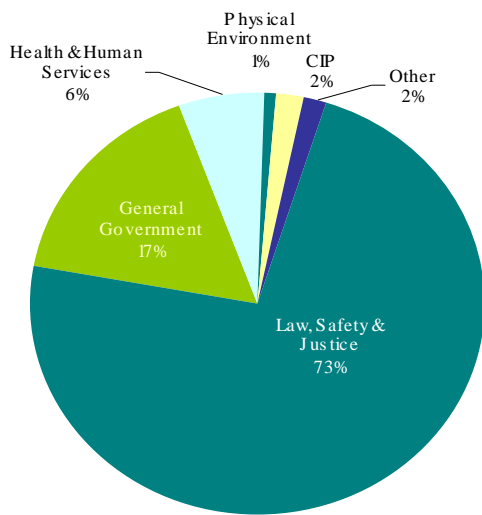
\$5.7 million

Overhead Savings

\$15.4 million

Use of reserves and other changes

2009 PROJECTED GENERAL FUND EXPENDITURES



King County's largest General Fund expenditure is for law, safety and justice programs. This includes the sheriff, district and superior courts, the prosecutor and public defender, and adult and juvenile detention (jails). Expenditures on these programs now make up 73% of the General Fund, up from 71% in 2008, underscoring the Executive's commitment to law, safety and justice even in times of severe fiscal distress.

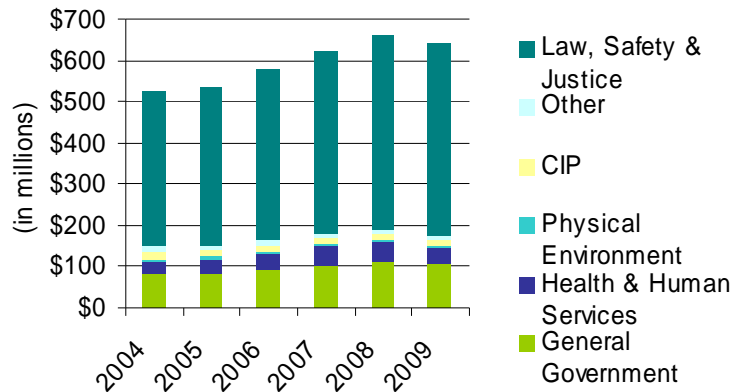
The second largest allocation is for general government operations, including elections and government administration. Finally, the General Fund contribution to

health and human services programs is \$40.2 million, which represents 6 percent of 2009 General Fund expenditures.

HISTORICAL GENERAL FUND EXPENDITURES

The 2009 Executive Proposed Budget for the General Fund is \$644 million, approximately \$15 million less than the 2008 adopted budget. This marks the first time since 2003 that the General Fund budget is less than the previous year. All major program areas will

see decreased funding in 2009: physical environment - down 27 percent; health and human services - down 18 percent; general government - down 3.4 percent; law, safety and justice - down 0.7 percent. Reflecting the Executive's commitment to protecting the safety of the community, the law, safety and justice program is seeing the smallest decrease in funding of all program areas.

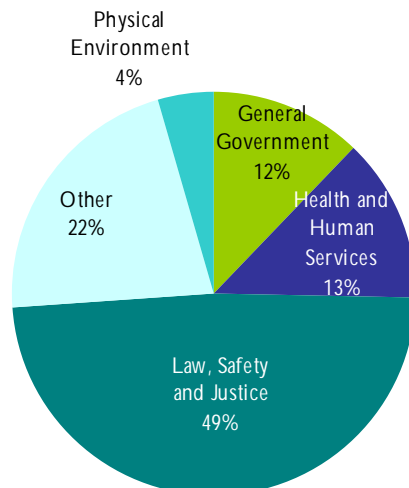


Budget (in millions)	2004	2005	2006	2007	2008	2009	08-09 Change
General Government	81.1	84.8	90.2	102.9	110.5	106.7	(3.8)
Health & Human Services	28.8	34.0	41.4	45.5	48.9	40.2	(8.7)
Physical Environment	5.7	5.8	6.1	7.0	6.3	4.6	(1.7)
CIP	20.8	17.3	14.0	15.9	12.1	12.9	0.8
Other	14.3	10.2	11.8	9.7	10.4	11.5	1.2
Law, Safety & Justice	374.5	384.7	414.1	441.1	470.6	467.3	(3.3)

TOTAL¹ 525.3 536.8 577.7 622.1 658.7 643.2 -15.5

¹ Totals may not match with individual tables due to rounding. Does not include Inmate Welfare Fund

2009 GENERAL FUND REDUCTIONS BY PROGRAM AREA



Despite making up 73 percent of the General Fund budget, law, safety and justice programs are taking only 49 percent of total the reductions (or new revenues) required to close the \$93.4 million General Fund deficit. Conversely, health and human services programs are taking 13 percent of the reductions despite representing only 6 percent of the total general fund budget. The Executive remains staunchly committed to providing adequate funding to these programs, which serve the most vulnerable residents of King County. However, the financial crisis and legal requirements leave little choice but to reduce funding for this important program area. For details on how the Executive plans to address funding for health and human services programs, and others provided by King County, please refer to pages 21-24.

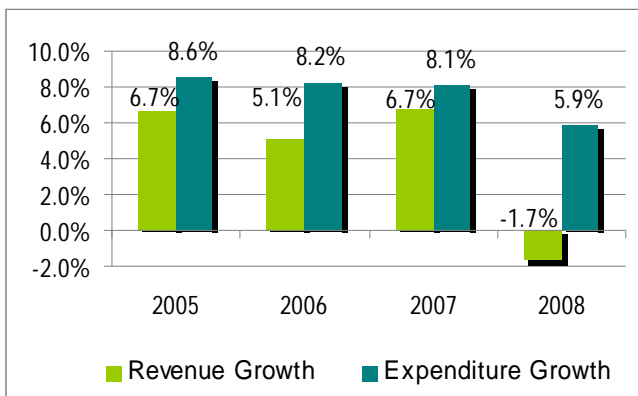


STRUCTURAL PROBLEM

King County's \$93.4 million deficit is primarily the result of an on-going structural imbalance in the growth rate of revenues and expenditures. The deteriorating economy further compounds this imbalance.

The county's two main revenue sources, as established by state law, are the sales tax and the property tax. Property tax revenue growth is limited to 1% growth per year plus new construction, which in King County has averaged approximately 2%. While county property tax revenues have therefore grown on average by 3%, the costs of the programs the property tax supports have grown at much higher rates over the last four years (see below for details).

The sales tax revenue situation is even bleaker because in tight economic times, people spend more of their money on essentials such as food and fuel, neither of which are subject to the sales tax. In 2008 King County, along with other counties,



has experienced a drop not only in *revenue growth* from sales taxes, but also a drop in *actual revenue dollars*. This is the first time this has happened since 2003.

Since 2003, total revenue growth has averaged 4.2 percent, while expenditure growth has averaged 7.7 percent—which is unsustainable.

*“The revenue base for counties has become more and more **restricted and inflexible over the last decade**, significantly contributing to fiscal distress and **jeopardizing access** to basic public health and human services, public safety and criminal and civil justice services provided by counties as “agents of the state.”*

Eric Johnson, Executive Director of the Washington State Association of Counties (WSAC).

NOT JUST A KING COUNTY PROBLEM

Recognizing that all counties are facing fiscal challenges, in 2007 the Washington State Legislature commissioned a report on *County Governance and Fiscal Health*. The Department of Community, Trade and Economic Development (CTED) found that **“all counties, charter and non-charter, are fiscally distressed**. It is a matter of degree.” The report provided nine recommendations for governance, efficiency and effectiveness, and fiscal health and called upon the State to provide counties with greater flexibility and more effective revenue tools. A full copy of the report can be found at: <http://www.cted.wa.gov/site/1044/default.aspx>

County fiscal distress is evident in 2009 county budgets across the State:

- **Pierce County** Executive John Ladenburg proposes cutting 70.8 staff positions and using a \$3.4 million fund balance to balance its 2009 budget.

OTHER GOVERNMENTS CONTINUED

- **Snohomish County** Executive Aaron Reardon proposes cutting 70.6 staff positions, a 4.5% reduction in county-wide FTEs.
- **Thurston County** faces a budget deficit of over \$4 million of an approximately \$78 million budget, and has asked all departments to make a 5% cut and to absorb inflationary costs.
- **Clallam County** is facing a \$1.5 million deficit in its \$32 million General Fund.

And it is not just counties that are suffering. According to the Center on Budget Policies and Priorities, "Three months into their fiscal year, the budgets of at least 15 states have opened new gaps. Fourteen of the 15 states are among the 29 that already cut spending, used reserves, or raised revenues in order to adopt a balanced budget at the start of the current fiscal year.. Now, their budgets have fallen out of balance again, raising the likelihood of reduced public services or higher taxes and fees." California has even sought a \$7 billion Federal Government loan to meet salary obligations in response to frozen credit markets.

"The County has an antiquated revenue structure, strictly defined by state law and recent voter initiatives, which has not kept pace with evolving service responsibilities."

BATF Executive Summary,
June 25, 2003

COUNTIES LACK DIVERSE REVENUE SOURCES: ONLY TWO AVAILABLE

	Property Tax	Sales Tax	Utility Tax	B&O Tax	Other (ie: Sin tax,)
State	x	x	x	x	x
City	x	x	x	x	
County	x	x			

While the State of Washington and cities have four or more major revenue sources to support basic services, the State only allows counties to collect two major revenues – property tax and sales tax. This lack of diverse revenue sources means that counties are more vulnerable to fluctuations in a single source, such as the sales tax as seen in 2009 (see page 12). Furthermore, the growth of the county's largest revenue, the property tax is capped by state law (see next page). Without an adequate, stable revenue base, the county does not have the financial tools necessary to respond and adapt to natural economic cycles.

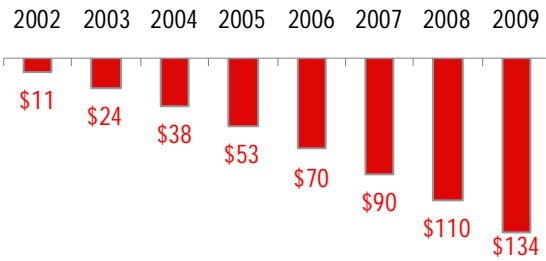
	Seattle GF*	King County GF*
Property Tax	\$207.3	\$282.2
Sales Tax	\$174.1	\$93.3
Utility Tax*	\$150.0	\$ —
B&O Tax*	\$167.7	\$ —
TOTAL	\$699.3	\$379.1

This table demonstrates the importance of having a broader set of revenue sources than simply the property tax and sales tax. The utility tax and B&O tax make up 45% of the City of Seattle's tax base.

* City of Seattle and King County Executive 2009 proposed budgets.

EFFECT OF 1% CAP ON PROPERTY TAX

Difference between 6% and 1% growth on allowable General Fund levy since 2002 (\$ millions)

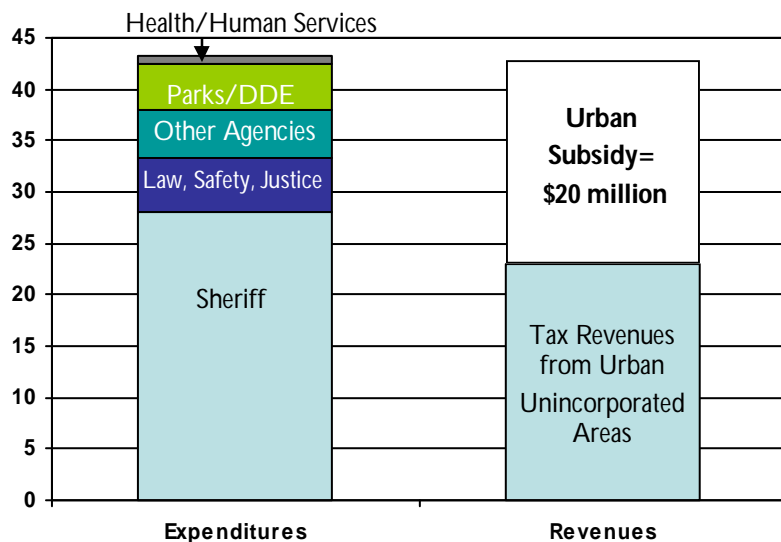


In recognition of the will of the people, who passed Initiative 747, the Washington legislature capped property tax growth to 1% per year, plus new construction. This has limited the growth rate of counties' primary revenue source to a level that is less than inflation. If the property tax had been allowed to grow at 6% plus new construction since 2001, King County

would have had \$134 million more in property tax authority in 2009. Alternatively, if property tax had been allowed to grow at the rate of inflation over this period, King County would have an additional \$35 million in property tax authority.

URBAN SUBSIDY

King County provides city-level services to approximately 200,000 people living in urban unincorporated areas, making it the equivalent of the second-largest city in the county and the fourth-largest city in the state. These areas fall within the urban growth boundary, but have never been incorporated or annexed to an adjacent city as is intended under the State's Growth Management Act. These areas do not generate sufficient local revenues to cover the county's cost of providing these local services through the county's General Fund. Each year, King County subsidizes these services with revenues generated across the county.



Revenues and Expenditures for the urban unincorporated areas (in millions)

In order to close the gap between urban unincorporated revenues and expenditures, often referred to as the "urban subsidy", the county must expend a corresponding amount of its regional revenues to maintain basic local services. The urban subsidy was roughly \$20 million in 2008, and covered vital services, over 75% of which are for public safety programs.

"Rising joblessness and falling consumer spending are generating less income and sales tax revenues than states expected when they wrote their budgets. At the same time, the need for public services in areas like health care, education, human services, and public safety is as strong as ever. In fact, need rises as residents lose jobs and income and become more reliant on public services."

Center on Budget Policies and Priorities
Oct. 7, 2008

STATUS QUO BUDGET

This chart depicts the three-year status quo financial plan balances transmitted with each budget since 1998. It reflects the difference between projected available revenue and the cost of maintaining current services in millions of dollars.

There are four significant turning points in the county's General Fund budget over the last twelve years, the circumstances of which are explained below.

1998: In acknowledgement of Referendum 47, which imposed new restrictions on taxing districts if they chose to raise property taxes above inflation (up to 106%), King County proactively worked to keep property tax growth below the 106% cap. Thanks to prudent financial management, King County built a 1998 budget assuming a property tax growth rate of 5.5%, followed by 4.5% for 1999, 3.5% for 2000, and 1.5% for 2001. Developing balanced budgets to adhere to these reduced property tax growth rates required belt-tightening not previously experienced by the county.

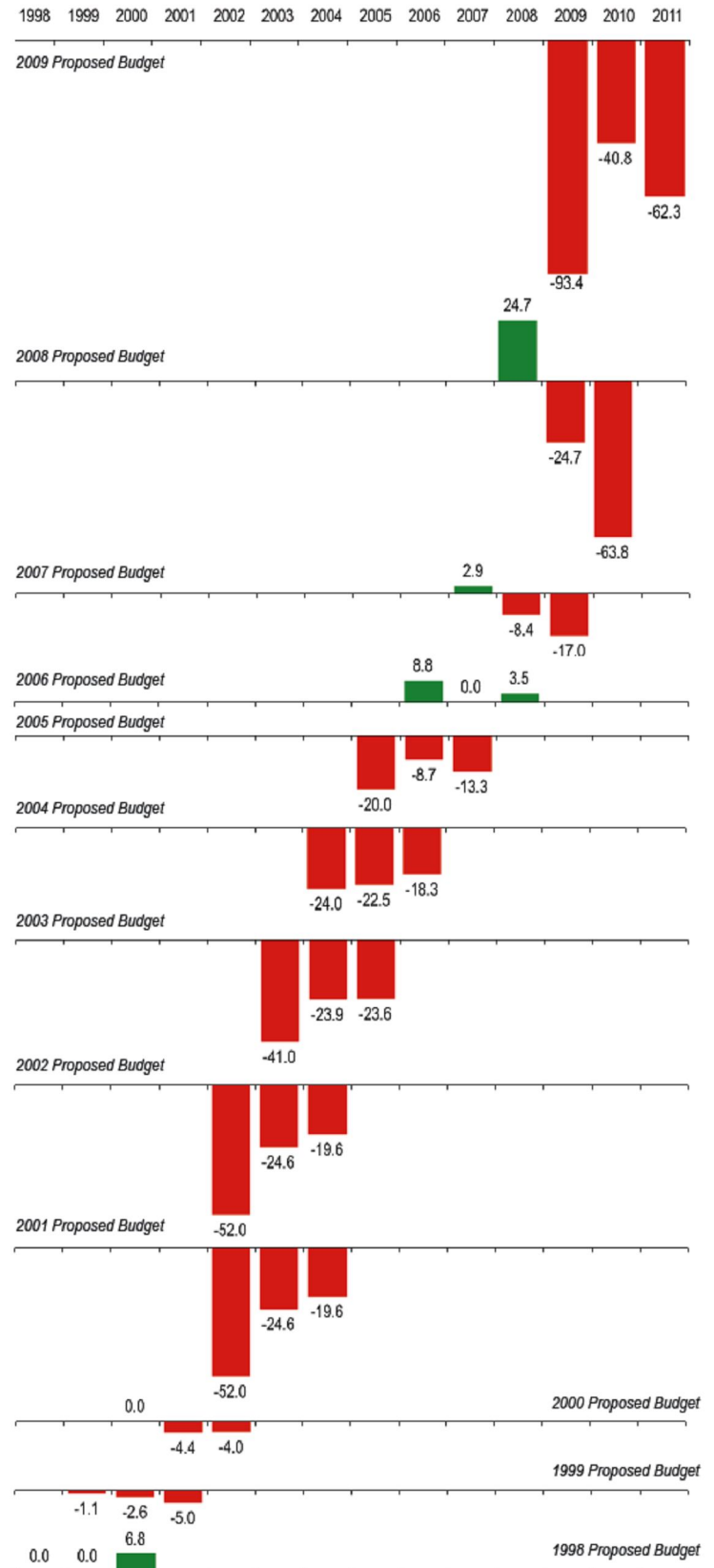
2002: Initiative 747 (I-747) capped property tax growth at 1%, plus new construction, marking the official beginning of the structural imbalance in the financial foundations of counties in the State of Washington, and the beginning of significant structural deficits for King County. I-747 was later over-turned by the Washington State Supreme Court as unconstitutional. However, the State Legislature enacted the one percent limit in late 2007.

2006: Through proactive financial management between 2002-2005, the county established substantial reserves. Coupled with a robust national economy, the reserves were sufficient to sustain programs for several years despite the continued underlying structural imbalance in the growth rate of revenues and expenditures.

2009: With reserves depleted and economic turmoil plaguing the nation, diminishing sales tax receipts and interest earnings, and upward pressure on inflation, structural deficits have returned. Current projections indicate deficits of \$40.8 million for 2010 and \$62.3 million in 2011.

Status Quo Budget Deficit/Surplus

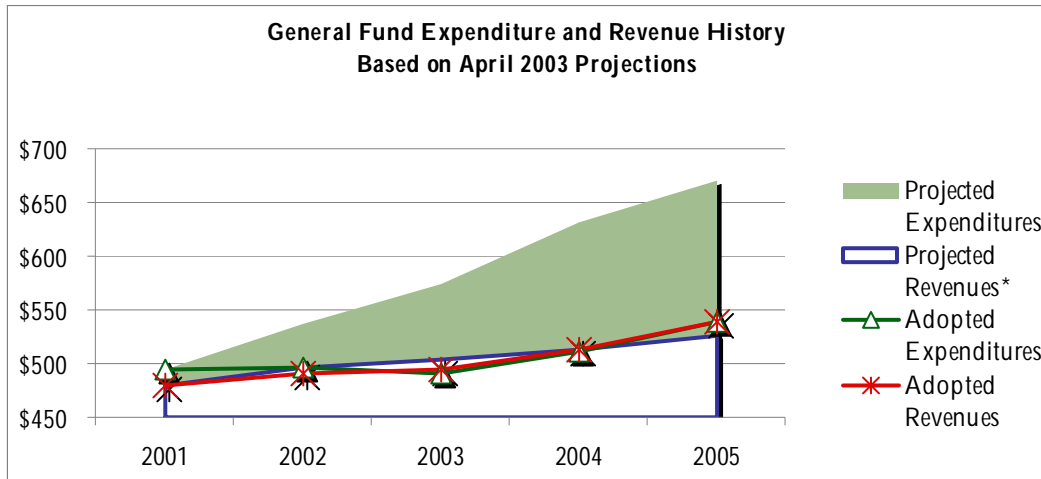
Current Expense Subfund, Reductions Required to Balance Financial Plan



2002-05: CLOSED THE GAP



PAST REDUCTIONS: 2002-2005



*2002 Projected Revenues includes \$5.4m in 2001 fund balance carried forward

In 2002, the county began to feel the effects of the structural problem. By 2005, King County identified \$137 million in expenditure reductions and enhanced revenues to close the deficit. In addition, by year-end 2005, King County was able to establish General Fund reserves totaling \$115.1 million, including a \$15 million sales tax reserve fund, a \$6.9 million outyear deficit reduction reserve, and a \$4.0 million energy/inflation reserve. King County also maintained an ending undesignated fund balance of 6 percent of General Fund revenues.

Standard and Poor's
AAA rating
recognizes *"the county's exceptional financial management through the spectrum of economic climates."*

Standard and Poor's,
Thursday October 13,
2005

EARNED AAA BOND RATING

As a result of King County's financial management efforts, in 2005, King County was awarded a AAA bond rating by three top rating agencies. In 2005, Moody's acknowledged King County's "King County has maintained its strong financial position despite significant challenges," and noted that the county's "strong financial management ensures continued financial strength."

A bond credit rating assesses the credit worthiness of an institution's debt issues, and is analogous to credit ratings for individuals. Credit ratings are provided by Moody's Standard & Poor's and Fitch, and are used by potential investors of debt securities, such as bonds. AAA is the highest rating possible, and allows King County to access more favorable interest rates, lowering the cost of borrowing money for the county. This means the county spends less money on interest payments, and more money on services.

BUDGET ADVISORY TASKFORCE

In response to this pending fiscal crisis, in 2002 the county convened the Budget Advisory Taskforce (BATF), a group of external experts to examine the county General Fund and in June 2003 provided recommendations as to how to bring expenditures in line with revenues. The BATF concluded that the chronic deficits projected for the foreseeable were structural in nature. It also concluded that the county should not eliminate any general service area completely as each is a vital service to the community. Based on these conclusions, the taskforce recommended that the county take the following steps to address its fiscal challenges:

- Continue providing services in all general areas. This requires creating a long-term funding plan for important discretionary services such as parks and human services, and seeking full-cost recovery on discretionary contract services such as police and detention services.
- Find operational efficiencies including consolidating administrative functions and investing in a central technology system.
- Aggressively promote the annexations of urban unincorporated areas

The taskforce also recommended that the county approach the state about providing counties with the following revenue authorities:

- Ability to raise a utility tax in unincorporated areas;
- Greater flexibility in fee-setting;
- More direct fiscal support for critical law, safety and justice functions.

"Together we made the tough and timely choices... We re-structured the bureaucracy, streamlined the operations of government without cutting core services. We identified savings – some 137 million dollars over four years. And above all, we did not borrow against our future."

Executive Sims,
October 2005

KING COUNTY RESPONSE

Between 2002 and 2005, the county successfully closed the \$137 million gap by:

Efficiencies and Structural Changes:

- Consolidated Executive departments from fourteen to seven, saving administrative overhead costs;
- Developed a parks business plan, which led to the approval of a property tax levy and private sector investment in parks, which resulted in \$17 million in annual savings to the General Fund;
- Eliminated the Office of Cultural Resources, and created 4Culture, a Public Development Authority, resulting in \$1.1 million in annual saving to the General Fund.

Reduced Expenditures and Identified New Revenues:

- Instituted annual rent payments for the Cedar Hills Landfill, generating over \$7 million in annual revenues to the General Fund;
- Realized \$40.9 million in reductions and new revenues for the county's criminal justice system;
- Reduced General Fund contributions to Health and Human Services programs by \$12.2 million;
- Lowered benefits costs by \$8.4 million through renegotiated benefits packages;
- Achieved \$5.6 million in retirement savings through lower state PERS retirement rates in 2002 – 2004.

2006-08: INVESTING IN CRITICAL SERVICES



The period of 2006 – 2008 offered King County a brief respite from annual budget deficits. However, the structural challenges remained, as evidenced by the fact that expenditures were projected to exceed revenues in every annual adopted budget during this period. In addition, \$115.1 million in reserves that had been built up by the end of 2005 were steadily depleted to sustain services in the face of this structural imbalance. By 2008, a \$24.7 million deficit was projected for 2009. The Executive, anticipating this deficit, established an ‘out-year deficit reserve’ with one-time money in the 2008 budget to help soften the blow of the projected 2009 deficit.

These respite years afforded King County with a bit more flexibility to invest in direct services provided to the citizens of King County (see below). Actual revenues were 2.7 percent and 3.72 percent higher than anticipated in the adopted annual budgets of 2006 and 2007, respectively, which provided a bit of added flexibility. Actual expenditures in these two years were also higher than anticipated in the annual budgets – 1.38% higher for 2006 and 1.93% higher for 2007.

But, again, the structural imbalance loomed in the fact that revenue growth from year-to-year has not kept pace with pressures on expenditure growth. By 2008, a \$24.7 million deficit for 2009 was projected as the rate of growth for expenditures continued to exceed revenues and reserves were drastically reduced.

Budget (in millions)	2006 Adopted	2007 Adopted	2008 Adopted
Revenues	\$577.4	\$610.2	\$658.3
Expenditures	\$(580.3)	\$(624.0)	\$(661.7)
Reserves	\$(79.1)	\$(59.5)	\$(51.9)
Out-Year Deficit Reserves ¹			\$(24.7)

¹ The out-year deficit reserve was established and adopted in the 2008 budget to mitigate an anticipated \$24.7 million deficit for 2009.

“The most fundamental duty for any government is to care for the health and welfare of its people.”

-Executive Sims, 2006 Budget Speech

EXPENDITURE DRIVERS 2006-08

During the deficit-respite years of 2006 – 2008, General Fund expenditures increased by \$81 million. Drivers of these expenditure increases included:

- Salary costs increased by \$28.8 million, \$12.5 resulting from Cost of Living Adjustments (COLA)
- Benefit costs increased by \$26 million
- The General Fund contribution to the ailing Public Health Fund increased by \$12.7 million, or 70%
- Law, Safety and Justice expenditures increased by \$56.6 million

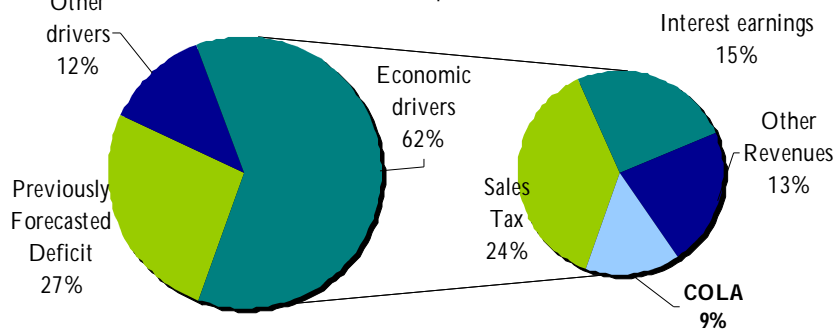
By 2008, the Executive anticipated and the Council adopted a financial plan that showed a \$24.7 million deficit for 2009. As part of the 2008 proposed budget, the Executive designated – and the Council later adopted – a one-time \$24.7 million out-year deficit reserve to help soften the anticipated blow of the structural deficit in 2009.



2009 DEFICIT COMPONENTS

Turbulent global economic conditions have significantly exacerbated King County's structural financial crisis. As 2008 unfolded, King County's forecasted \$24.7 million deficit grew to \$93.4 million. The largest driver of this increase, accounting for nearly \$58 million, is the deteriorating national economy. The additional \$11 million is driven by increases in costs for things such as labor settlements.

Drivers of the 2009 \$93.4 million deficit



Economic Drivers of the 2009 Deficit

\$22.4 million
Decline in sales tax revenue

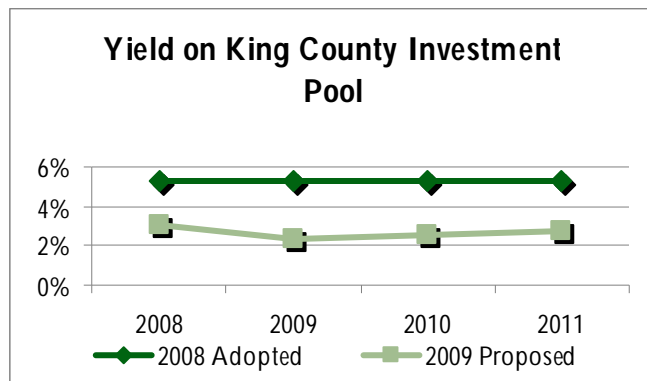
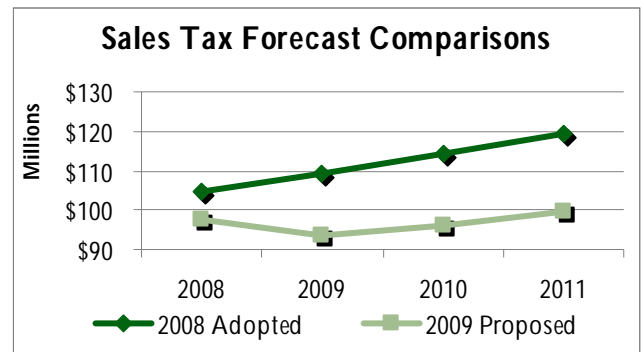
\$14.0 million
Decline in interest earnings

\$12.1 million
Decline in other revenues

\$8.7 million
Increase in COLA

ECONOMIC TRENDS: VOLATILITY

King County is estimating an annual drop in sales tax receipts in 2008, for the first time since 2003. This results in actual sales tax revenues below collections for the previous year (2007). The 2009 proposed budget assumes a \$14.9 million decline in sales tax revenues.



Current economic volatility is also causing a decrease in interest earnings from King County's investment pool. On September 18, 2008, a three-month treasury yielded only 0.23 percent, a seventy-year low, as investors flock toward secure investments. In 2009, the decline in interest earnings is forecasted to be \$9.2 million.

ECONOMIC TRENDS CONTINUED

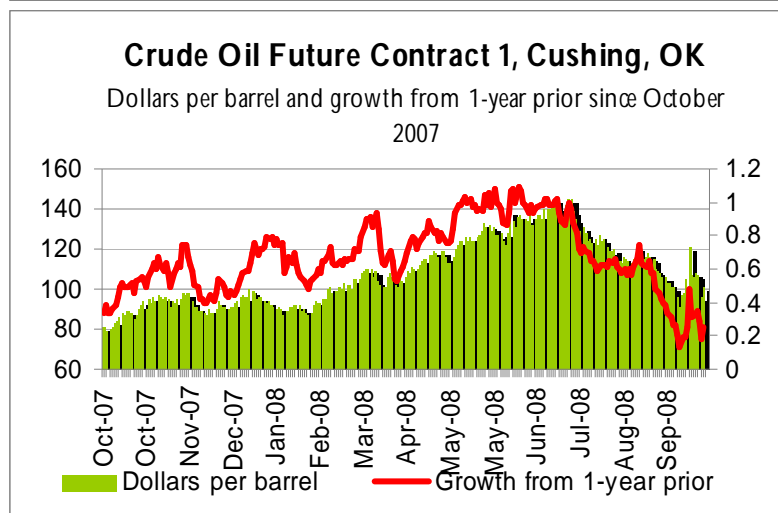
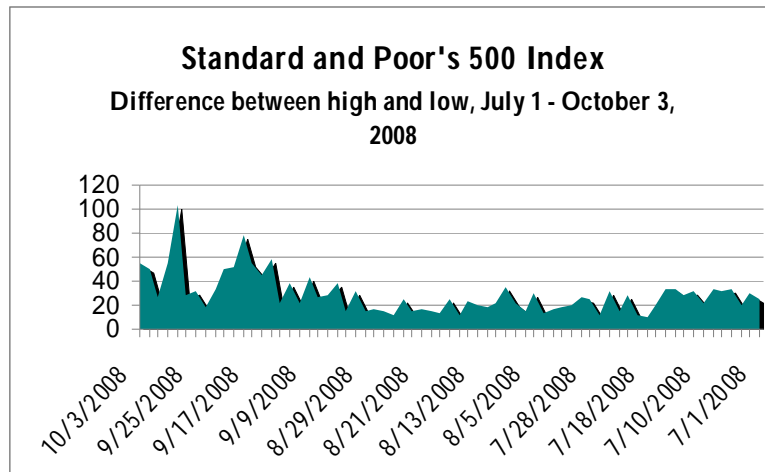
Record inflation rates are another significant contributor to the \$58 million increase in the county's General Fund deficit. Inflation rates, as measured by the Consumer Price Index (CPI-W), increased at rates not seen in twenty-five years during the summer of 2008,

driven largely by unprecedented and record-setting increases in the price of oil. King County, as provided in its labor contracts, gives annual cost of living adjustments (COLA) to employees, based on the September-to-September CPI-W. The 2009 proposed budget assumes a 2009 COLA rate of 5.5 percent, up from 2.5 percent as assumed in the 2008 adopted budget. This increase in COLA is responsible for an \$8.7 million increase in the 2009 General Fund deficit. For details on King County's response to this

COLA rate, please see page 16.

Volatility is also seen in other parts of the economy, underscoring the uncertain climate in which the 2009 proposed budget was developed. Equity price volatility has exploded in recent months. Standard and Poor's 500 Index dropped 8.5 percent on September 29, 2008 to close down 103 points, its second largest single-day decline ever. Also on this day, the Dow Jones Industrial Average (Dow) fell 777 points, the largest one-day drop in its 112-year history. By October 10, 2008, the Dow fell to its lowest level in five years and was down 39.4 percent one-year to the day of reaching its all time high. The next day, the Dow closed the week with its worst weekly performance ever.

Finally, a struggle to balance tight worldwide oil supplies with uncertain global demand has caused unprecedented swings in energy prices. On September 22, 2008, a surge in the price of crude oil of \$16 per barrel was the largest in history on the New York Mercantile Exchange.



"We are again in uncertain economic times. The credit crunch is rippling through the national housing market. We cannot --- and must not --- think we are immune."

Executive Sims,
2008 budget speech



BALANCING IN 2009

To close the \$93.4 million 2009 deficit, King County has gone through the same belt-tightening and prioritization exercises as it has in recent deficit years. The process has identified \$38.2 million in permanent reductions and assumes an additional \$5.7 million in General Fund savings for overhead efficiencies, and \$13.1 million in labor costs. The 2009 proposed budget is also balanced assuming \$10.5 million of 'lifeboat' savings (see page 17) and the use of \$10.5 million of the out-year deficit reserve. The remaining \$15.4 million deficit is closed making a variety of other technical changes and through the use of reserves.

For 2009, across all county funds, approximately 390 FTEs will be eliminated. Most reductions will be concentrated in the General Fund. Of the 390 positions, approximately, 240 FTEs are currently filled positions, leaving approximately 150 FTEs as vacant. Approximately 255 of the 390 FTEs slated for elimination would become effective January 1, 2009. The remaining 135 FTEs are tied to the county's lifeboat strategy (as described on page 17) and would not be eliminated until July 1, 2009. While not widespread, some of these reductions may be offset, on an aggregate basis, by FTEs added elsewhere in the budget. These are all conservative estimates of the number of eliminated FTEs, as some departments – primarily those headed by separately elected officials – have yet to identify how they will operationalize the reductions they are required to make to balance the 2009 proposed budget.

Cumulative Changes to Address Projected 2009 Deficit Based on Final Projected 2009 Deficit	Impact on Deficit	
	Increase to Deficit	Decrease to Deficit
Final Projected 2009 Deficit - As of October 13, 2008	93.4	
On-Going Permanent Changes to Close Deficit		
Administrative Service Reductions		20.5
Direct Service Reductions		16.9
Technology Cost Savings		0.8
TOTAL		38.2
Lifeboat Changes		
Lifeboat Program Cuts July-December 2009		10.5
Executive Labor Strategy		
Executive Labor Strategy		13.1
Other Adjustments		
Program Changes, Revenue Backed, and Technical Adjustments		0.3
Other Central Rate Adjustments		5.7
Technical Adjustments and Changes to Reserves		
Change in underexpenditure calculation	1.6	
Release of Reserve for UGA parks support		2.3
Out-Year Deficit Reserve		
Use of Out-year Deficit Reserve to fund lifeboat programs Jan – June		10.5
Release of Out-Year Deficit Reserve for 2008 Deficit		6.4
Release of Out-Year Deficit Reserve to address declines in revenues		7.8
Additional release of reserves; net adjusted rounding errors		0.2
Subtotals	95.0	95.0
Net Projected 2009 Deficit - As of October 13, 2008*		0.0

* May including rounding discrepancies

\$38 MILLION IN PERMANENT REDUCTIONS

Through innovation and planning, King County agencies successfully identified \$38.2 million in permanent program reductions and efficiencies that will have minimal impact on services to the community. These reductions are described in detail in the *2009 Executive Proposed Budget* document. For illustrative purposes, below is a small sample of the kinds of permanent budget reductions identified in the 2009 proposed budget.

Elections: The Elections Division will realize \$205,000 in savings through efficiencies in mail sorting and ballot tracking with newly purchased equipment.

Public Health: Public Health – Seattle & King County will save ~ \$200,000 by consolidating and expanding family planning services at its Kent Family Planning Clinic. Family planning service previously provided at the Renton Public Health Center will be discontinued, and those clients will now be seen at the Kent facility.

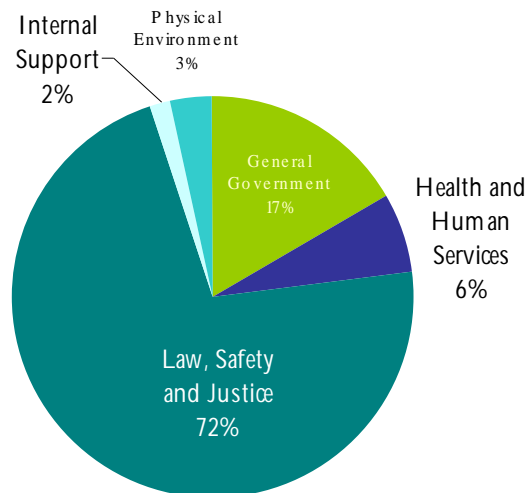
Department of Adult and Juvenile Detention (DAJD): DAJD will generate \$3.4 million in net new General Fund revenue by entering into a contract with the Washington State Department of Corrections (DOC) to house 225 additional inmates. This contract also allows DAJD to retain 24 corrections officer positions.

Prosecuting Attorney's Office: The King County Prosecuting Attorney, exercising his prosecutorial discretion, has revised the Filing and Disposition Standards (FADS) to increase the threshold for certain felonies. Under the revised FADS, effective as of October 6, 2008:

- Property crimes with a loss of value under \$1,000 will remain with the cities to be filed as misdemeanors (approximately 1,250 total cases per year)
- Property crimes with a loss of value between \$1,001 and \$5,000 will be filed in King County District Court as expedited gross misdemeanors (approximately 800 total cases per year)
- Drug possession cases where the amount is for personal use will be filed in King County District Court as expedited gross misdemeanors (approximately 2,100 total cases per year)

The revised FADS will result in significant savings in the Office of the Public Defender (OPD) as a result of the difference between the cost of a felony credit and a misdemeanor credit. District Court's decision to handle the expedited gross misdemeanor cases on consolidated calendars enables defense agencies to staff them on a calendar basis, leading to an additional savings. In total, the changes will result in \$3.8 million in savings to the county for public defense costs.

Efficiencies, On-Going Reductions, and Revenue Increases by Program Area



CLOSING THE GAP THROUGH SALARY SAVINGS

In the face of severe fiscal challenges, the 2009 Executive Proposed Budget includes savings assumptions tied to salary costs. A vast majority of county labor contracts provide annual Cost of Living Allowances (COLA) for employees based on 90 percent of the September-to-September CPI-W, with a floor of 2 percent and a ceiling of 6 percent. The COLA for 2009 is forecast to be 5.5 percent. Many county labor contracts also provide for an annual merit step increase of 2.4 percent.

Traditionally, non-represented employees receive annual COLA and merit increases based on the same guidelines as defined in most labor contracts. However, recognizing the 2009 budget challenges, the 2009 Executive Proposed Budget caps COLA increases at 3 percent for non-represented employees in 2009 and does not provide funding for merit increases for non-represented employees. Together these changes save \$5.1 million in the General Fund and \$5.2 million in other county funds.

For the county's represented workforce, the County Executive is engaged in talks with county labor union representatives about various strategies to help close the 2009 General Fund deficit. The County Executive has set a financial target for savings from represented employees relying on the same methodology used to determine the target savings for non-represented employees. This will generate \$8 million in General Fund savings and \$7.2 million in savings to other county funds in 2009.

REDUCING OVERHEAD COSTS

Several of the General Government agencies are internal service funds (ISFs) that recover the costs of their operations by charging other county funds for services provided. Reflecting the County Executive's commitment to efficient government and making administrative reductions before direct service reductions, ISF agencies have proposed efficiencies and reductions resulting in charges to General Fund (GF) agencies that are \$5.7 million less than originally anticipated for 2009. Charges to all Law, Safety and Justice agencies are reduced by \$4.2 million.

These ISF agency reductions come from increased collaboration between ISF and client agencies to understand and control service cost drivers; the realignment of existing budget resources to meet current business needs; and prudent use of rate stabilization reserves and funds to mitigate rate increases.

One good example of these reductions is Safety and Workers Compensation. In an effort to reduce workers compensation costs, a successful 'return-to-work' program was negotiated in collaboration with management and labor, which identifies light-duty assignments when appropriate for eligible employees, reducing workers compensation costs and providing King County agencies with resources to address workload demands.

LIFEBOAT STRATEGY

Given the magnitude of the General Fund financial challenges resulting from the structural imbalance between the growth rate of revenues and expenditures, combined with the consequences of the most severe economic downturn in recent history, the General Fund faces a \$93.4 million deficit for 2009. Because of the structural nature of the imbalance, additional General Fund deficits of \$40.8 million and \$62.3 million are projected for 2010 and 2011 respectively. Given the severity of the financial challenges it faces, King County cannot continue to sustain existing programs and services that are vital to the citizens of King County. The 2009 Executive Proposed Budget identifies and prioritizes reductions in services that will have minimal impact on services provided to citizens. These efforts have resulted in the identification of \$38.2 million in permanent, on-going efficiencies and program reductions. Additionally, \$5.7 million in reductions are attributable to cost savings from internal service fund and overhead charges. Savings in labor costs provide another \$13.1 million towards closing the deficit.

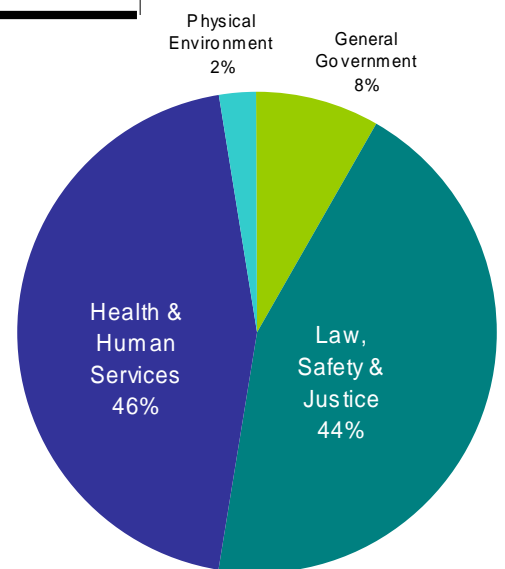
After making these reductions, little remains in the way of additional opportunities for efficiencies or program reductions that have minimal impacts on the services the county delivers to the community. So, the county is left with little choice but to recommend for reduction or elimination programs that directly impact the health, safety and well-being of King County residents.

In recognition of the fact that King County must make every effort to preserve these programs that provide valuable services to our citizens, the 2009 budget places \$10.5 million of programs in a 'lifeboat' for six months. For the first six months of 2009, these programs will be supported using one-time funding that was set-aside in the 2008 adopted budget in the 'out-year deficit' reserve. This strategy will allow the county to work with the Washington State Legislature during the 2009 legislative session to craft a solution that would provide King County – and all other counties across the state who are suffering from the same structural imbalance – with the flexibility and revenue options required to sustain these basic and important services over the long term. Funding for these programs expires on June 30, 2009 unless King County secures sufficient flexibility and revenue tools from the state legislature to sustain them.

LIFEBOAT PROGRAMS BY SECTOR

While law, safety and justice programs comprise 73 percent of General Fund expenditures, this program area only makes up 44 percent of the proposed lifeboat reductions. This is an acknowledgement of the importance of these services to the community and the fact that county operates under a number of legal mandates to sustain law, safety and justice programs.

Health and human services programs comprise a larger share of the lifeboat – 46 percent – because these programs do not carry the same legal requirements as do the law, safety and justice programs. It is also an acknowledgement that these programs are supported on a much greater basis with non-General Fund resources. Nonetheless, the General Fund contribution plays a critical role in sustaining programs to the most vulnerable King County residents, making a solution from the state to the county's structural financial crisis essential.



PROGRAMS IN THE "LIFEBOAT"

	Expenditures
GENERAL GOVERNMENT	
Assessments	
AS03A Target Reduction Contra	(375,000)
Assessments Sum	(375,000)
General Fund Transfer to Facilities Management*	
DS01A Closure of Winter Homeless Shelter	(23,699)
General Fund Transfer to Facilities Management* Sum	(23,699)
Internal Support	
AS97A FMD Custodial Service Level Reduction	(117,120)
AS98A FMD - Reduce HVAC and Lighting to 10 hours per day	(116,250)
AS99A Elimination of Supported Crew	(204,951)
Internal Support Sum	(438,321)
Office of Strategic Planning and Performance Measurement	
AS06A Reduce Contributions to Economic Development Programs	(33,438)
Office of Strategic Planning and Performance Measurement Sum	(33,438)
GENERAL GOVERNMENT Sum	(870,458)
HEALTH & HUMAN SERVICES	
General Fund Transfer to Community Services*	
AS01A Co-Occurring Disorders Program	(245,135)
AS02A Eliminate "Recovery" Consulting and Training	(105,717)
AS04A Housing Voucher Program	(184,622)
AS07A Special Program Project/Program Manager II	(39,922)
AS19A Substance Abuse	(89,400)
AS20A Contracts - Substance Abuse	(45,469)
DS01A Community Services Division Program Service Reductions	(1,557,536)
DS02A Digital Bridge Technology Academy	(179,557)
General Fund Transfer to Community Services* Sum	(2,447,358)
General Fund Transfer to Emergency Medical Services*	
DS24A Emergency Medical Services Transfer from General Fund	(133,083)
General Fund Transfer to Emergency Medical Services* Sum	(133,083)
General Fund Transfer to Medical Examiner*	
AS14A Medical Examiner	(156,887)
General Fund Transfer to Medical Examiner* Sum	(156,887)
General Fund Transfer to Public Health*	
AS16A Close White Center Family Planning (FP) Clinic	(155,894)
AS17A Tuberculosis (TB) Program	(77,354)
AS18A Zoonotics	(71,484)
AS19A Reduce Communicable Disease Investigations	(37,813)
AS20A South King County Site Consolidation	(44,443)
AS22A Close Child Care Health Program	(146,055)
AS23A Dental Sealant	(47,077)
DS02A Northshore Closure	(474,342)
DS05A Childcare Health	(231,754)
DS06A Immunizations	(57,144)
DS11A Children and Family Commission	(206,986)
DS23A Community Partnerships Program	(24,055)
DS07A Sexually Transmitted Diseases (STD) Program	(56,499)
DS13A Chronic Disease and Injury Prevention	(12,428)
DS15A Family Planning - North and Columbia	(106,086)
DS16A Public Health Lab	(108,023)
DS20A Children With Special Healthcare Needs	(119,971)
DS23A Community Partnership Program	(7,571)
DS29A Drinking Water Program	(29,264)
General Fund Transfer to Public Health* Sum	(2,014,243)
HEALTH & HUMAN SERVICES Sum	(4,751,571)

		Expenditures
LAW, SAFETY, AND JUSTICE		
Adult and Juvenile Detention		
AS21A	Remove Community Corrections Asst. Div. Director & Admin. Specialist	(97,278)
AS23A	Remove Juvenile Division Chief	(57,101)
DS20A	Eliminate Community Center for Alternative Programs	(256,632)
DS21A	Eliminate Helping Hands Program	(74,191)
DS22A	Close MRJC Intake/Transfer/Release to Street Bookings	(254,604)
DS24A	Eliminate The Learning Center	(115,642)
Adult and Juvenile Detention Sum		(855,448)
District Court		
AS14A	Lifeboat Contra	(628,877)
DS01A	Mental Health Court Contra**	(24,534)
District Court Sum		(653,411)
General Fund Transfer to Office of Public Defender Becca Grant*		
DS01A	Office of the Public Defender Becca Grant***	90,000
General Fund Transfer to Office of Public Defender Becca Grant* Sum		90,000
Jail Health Services		
DS06A	Close Maleng Regional Justice Center (MRJC) Street Booking	(17,806)
Jail Health Services Sum		(17,806)
Judicial Administration		
AS18A	Lifeboat Contra**	(165,417)
AS19A	Eliminate Domestic Violence (DV) Prevention Program	(115,000)
DS01A	Adult Drug Diversion Court	(84,526)
Judicial Administration Sum		(364,943)
Security Screeners		
DS01A	Closure of the 4th Avenue Entrance to the King County Courthouse	(85,044)
Security Screeners Sum		(85,044)
Sheriff		
AS23A	Lifeboat Contra**	(2,268,893)
Sheriff Sum		(2,268,893)
Superior Court		
AS18A	Lifeboat Contra**	(382,659)
AS20A	Eliminate 1.0 Unified Family Court Program Manager	(46,603)
AS21A	Eliminate 1.75 FTE Social Workers	(63,232)
Superior Court Sum		(492,494)
LAW, SAFETY, AND JUSTICE Sum		(4,648,039)
PHYSICAL ENVIRONMENT		
General Fund Transfer to Parks and Recreation*		
DS04A	Parks General Fund Cuts - Evergreen Pool Closure	(92,472)
General Fund Transfer to Parks and Recreation* Sum		(92,472)
General Fund Transfer to Surface Water*		
DS06A	Surface Water - Agriculture Program Reduction	(120,863)
DS07A	Surface Water - Forestry Program Reduction	(43,568)
General Fund Transfer to Surface Water* Sum		(164,431)
PHYSICAL ENVIRONMENT Sum		(256,903)
Total		(10,526,971)

*General Fund Transfers may include additional non-General Fund reductions that accompany these programs.

** A 'contra' is placeholder for reduction amounts or other budget changes. In the case of the lifeboat contras, these represent reduction amounts required to balance the financial plan. How these reductions are taken from an operational perspective is left to the authority of the recipient agency. In these instances, all affected agencies are headed up by separately elected officials.

*** This amount addresses six-months of the state funding shortfall for Becca defense costs.

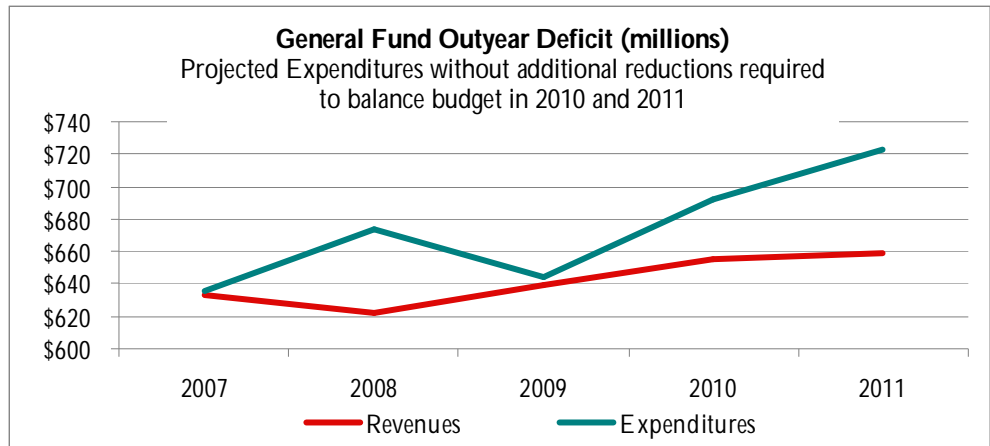
Note: Lifeboat reductions represent the elimination of funding for six months of 2009 and would take effect on July 1, 2009 if a funding solution is not provided to King County by the State Legislature. The annualized amount in 2010 would be approximately double the \$10.5M.



OUT-YEAR FORECASTS

King County

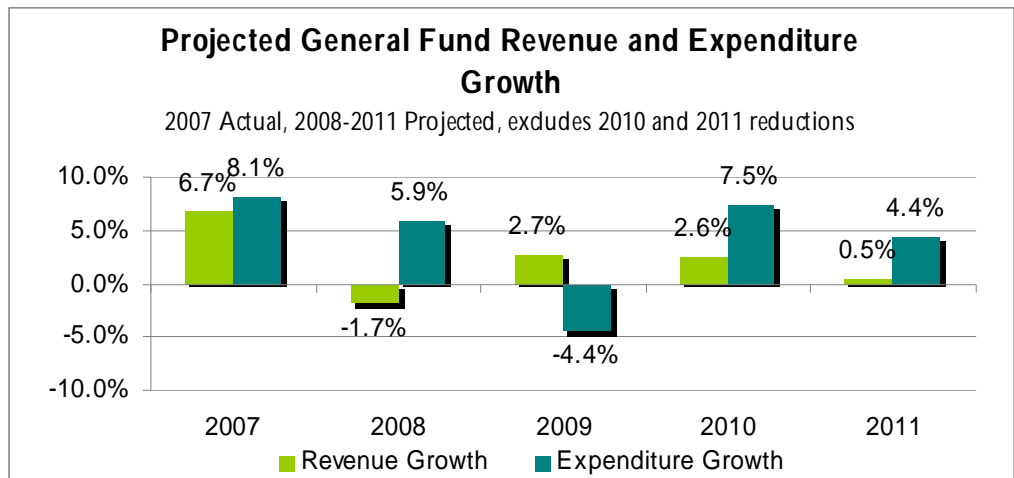
Without a solution to the county's structural financial challenges, King County also faces deficits of \$40.8 million in 2010 and \$62.3 million in 2011. These challenges persist in the foreseeable future because expenditures are projected to continue to grow at faster rates than revenues.



"The market turmoil we are experiencing today poses great risk to U.S. taxpayers. When the financial system doesn't work as it should, Americans' personal savings, and the ability of consumers and businesses to finance spending, investment and job creation are threatened."

Henry Paulson, Secretary of the Treasury, Senate Hearings Speech, September 23, 2008

Current forecasts indicate that expenditures will increase by 7.5 percent in 2010 and 4.4 percent in 2011, while revenues will only grow by 2.6 percent in 2010 and 0.5 percent in 2011. While the 2009 Executive Proposed Budget makes tremendous strides in solving the immediate deficit problem, it by no means addresses the underpinnings of the problem – that county revenues by law cannot grow at rates required to sustain current service. To solve the underlying problem, King County – and all other Washington State counties – need assistance from the State Legislature in the form of enhanced revenue and other tools.



To close these deficits in 2010 and 2011, King County will be required to identify additional program reductions on top of those already identified for 2009, including the lifeboat reductions.

COSTS TO SUSTAIN CURRENT SERVICES

King County cannot sustain current programs without additional revenue tools. Sustaining 2009 service levels after permanent cuts are made, would cost \$66.7 million in 2010. The two major components of this are \$23.2 million to sustain programs in the lifeboat, and \$40.8 million to compensate for the additional projected 2010 deficit. In addition, the out-year financial plan is balanced over the next three years assuming that General Fund support for urban unincorporated parks comes from the former Annexations Incentives Reserve, which will be exhausted by the end of 2011. Sustaining parks without this temporary reserve would require an additional \$2.7 million.

If tools are not secured to sustain these programs, the results of these reductions will be devastating to all parts of the King County community – from those who rely on the Department of Public Health as their healthcare provider of last resort, to those who rely on the Sheriff’s Office to ensure the safety of their communities and to the King County court system to adjudicate cases. Finally, funding for urban unincorporated parks would be in jeopardy starting in 2012. The following charts depict how these reductions could play out for a select group of King County programs.

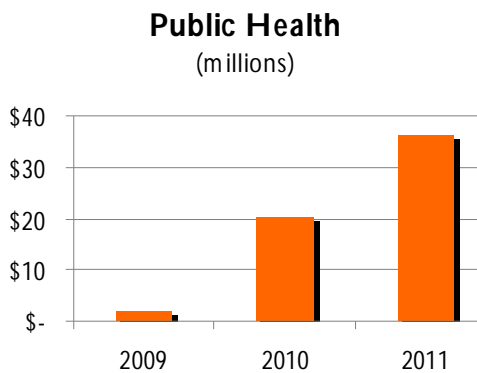
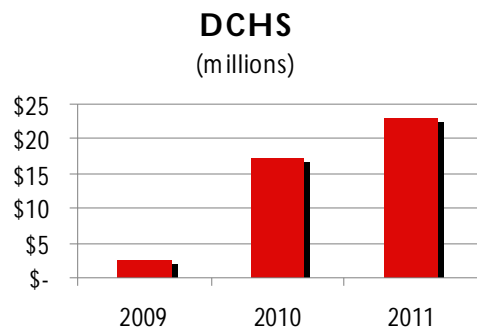
Cost to Sustain Services

Programs (millions)	2010	2011
Lifeboat	\$23.2	\$24.7
Parks	\$2.7	\$2.7
Additional Deficit	\$40.8	\$62.3
TOTAL Need to Sustain Programs	\$66.7	\$89.7

Department of Community and Human Services (DCHS): DCHS has \$2.4 million worth of programs (six-month cost) in the lifeboat. The cost to sustain these programs in 2010 grows to \$4.8 million, plus inflation. In addition, the 2010 projected deficit would require reducing by half, the remaining General Fund contribution to DCHS. In total, DCHS could experience a \$17.3 million reduction in 2010 and \$23.1 million in 2011, **after which time General Fund support for DCHS would be eliminated.**

Public Health: Public Health has \$2.3 million worth of programs (six-month cost) in the lifeboat. The cost to sustain these programs in 2010 grows to \$4.6 million, plus inflation. In addition, the 2010 projected deficit would require a reducing by half, of the remaining General Fund contribution to Public Health. In total, Public Health could experience a \$20.4 million reduction in 2010, and \$35.9 million in 2011, **after which time General Fund support for Public Health would be eliminated.**

Future reductions required without structural solution



Call to Action

\$10.5 million
Additional revenue need to sustain lifeboat after July 1, 2009

\$66.7 million
Additional Revenue needed to sustain 2009 service levels in 2010

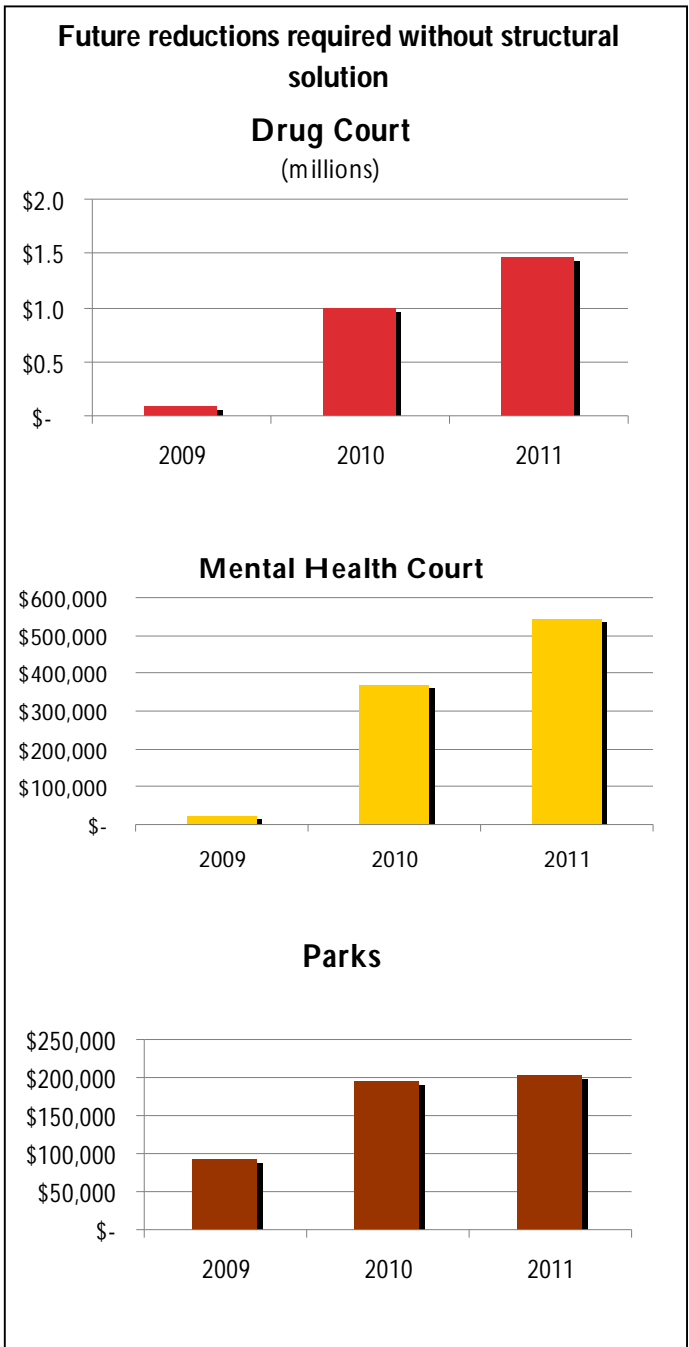
\$89.7 million
Additional Revenue needed to sustain 2009 service levels in 2011

SUSTAINABILITY CONTINUED

Drug Court and Mental Health Court: The lifeboat strategy assumes that Drug Court and Mental Health Courts would stop accepting new offenders beginning July 1, 2009. The 2009 proposed budget assumes a gradual ramping down of these programs through the end of 2010 as offenders who enrolled in the program prior to June 30, 2009 graduate from the programs (generally around 18 months). In order to sustain King County's successful Drug and Mental Health Courts, King County would need \$1.4 million in 2010 and \$2.0 million in 2011.

In 2007, the King County Council approved the Mental Illness and Drug Dependency (MIDD) fund to support new programs. The first \$20 million MIDD funds were allocated in October 2008 to vital new programs in our community. However, as the law is currently written, these funds cannot be used to sustain existing Drug and Mental Health Courts because the courts are existing services and the MIDD fund can only fund new programs. Therefore, these courts, which tie together many of the programs funded by the MIDD fund, are currently sitting in the lifeboat. This spring, King County will ask the State Legislature for small changes in non-supplantation language that would allow the MIDD fund to sustain these courts.

Parks: The General Fund has traditionally provided support for the maintenance and operations of approximately 40 parks located within urban unincorporated King County. For 2009, in order to balance the General Fund budget, funding for these parks facilities would be shifted to the former annexations incentives reserve. This reserve is only sufficient to sustain these parks for three years. King County will continue to pursue annexations, with the intention of transferring these assets to the annexing cities. If after three years, these areas are not annexed and if King County does not have additional revenue tools, King County would be left with no choice but to mothball these facilities.



In order to avoid these dire consequences, King County needs revenue options and other tools sufficient to close the \$66.7 million gap for 2010. These solutions also need to be sufficient to sustain the out-year inflationary pressure on expenditures that is estimated in the 5 percent to 6 percent range, based on historical patterns. The potential menu of options for addressing the underlying structural challenges facing King County, as well as its sister counties throughout the state, are outlined on the next page



LEGISLATIVE SOLUTIONS

King County must seek a structural solution to the county's budget challenges in 2009 in order to 1) preserve the programs in the lifeboat, and 2) ensure stable funding for future years. This structural solution will be sought in partnership with the Washington State Association of Counties at the state level, through an omnibus bill in the 2009 legislative session including, but not limited to, solutions from the following menu of options:

Flexibility in use of Current Funds:

King County will seek limited changes in authorizing legislation for a number of funds, that will allow the use of:

- REET not only for capital projects, but also for maintenance and operations;
- Roads property levy for local sheriff services and parks in addition to road maintenance; and
- Mental Illness and Drug Dependency (MIDD) to support existing Drug and Mental Health Court that are facing cuts despite a healthy fund to start new programs.

These changes should be minimal in order to preserve the intent of the original authoring legislation.

Policy Changes:

- **Elections:** reducing the number of elections in the winter and spring from 4 to 2, which could save King County as much as \$1 million per year.
- **Annexations:** State changes to mandate annexations, which could end the urban subsidy, saving King County's General Fund \$21 million in 2009
- **Local flexibility in establishing fees:** Provide counties the authority to set and raise licensing fees and court filing fees that are currently set by the state but collected by counties for county actions and programs.

New Revenue Options for Public Health and Public Safety:

- **Dedicated Public Health revenue:** King County supports new, statewide dedicated public health funding to replace the MVET that was removed in 1999 by citizen initiative.
- **Modification to the one percent limit on property tax:** King County supports indexing the property tax cap to some measure of inflation.
- **New Regional Revenue for Criminal Justice and/or Public Health:** Counties are evaluating a variety of potential dedicated, clearly defined regional taxes, primarily sales tax or utility taxes that would be levied county-wide, including in cities, to pay for regional services such as criminal justice or public health.
- **Local Option Utility Tax:** If annexations do not occur, counties need the same revenue tools as cities to provide urban level service to residents in unincorporated King County. A local option utility tax for only unincorporated King County would provide equity with cities and give King County a tool to pay for local services.



OTHER COUNTY FUNDS

The county General Fund is not the only fund experiencing financial hardship. Other county funds are facing their own challenges, driven by many of the same factors as the General Fund. These funds include:

- Public Health
- Surface Water Management
- Transit
- Roads
- I-NET
- Real Estate Excise Tax (REET)

King County is providing the same proactive management of these funds as it is for the General Fund.

"It is our task to ensure that succeeding generations will enjoy the same opportunities, and be inspired by the same dream. We owe them nothing less."

-Executive Sims, State of the County, May 2006

PUBLIC HEALTH

Public Health has a persistent structural gap between the rising cost of providing services and a flat or shrinking revenue base. A majority of funding for Public Health comes from federal and state sources, which have not kept up with the pace of medical care inflation.

Until now, the King County General Fund played an important role in closing this gap, increasing the General Fund contribution to Public Health by 70%, or \$12.7 million, between 2005 and 2008. However, the structural problems impacting the General Fund mean that this level of funding cannot be sustained, and the General Fund contribution to Public Health in 2009 and beyond will be reduced. King County recognizes that this has a ripple effect on all parts of the Public Health operation as General Fund dollars are used to leverage non-General Fund revenue sources. In order to sustain the county's general fund contribution to public health, King County requires help from the State Legislature and without such a solution, General Fund support to Public Health will be entirely eliminated by the end of 2011.

However, in addition to solving the General Fund structural imbalance, Public Health requires its own long-term funding solution. Some suggestions include a bottled water, or increased sin tax dedicated to public health.

The Public Health budget for 2009 is \$192 million, including \$27.5 million from the General Fund. This assumes reductions totaling \$13.9 million, \$3 million which represents reduced funding from the General Fund.

SURFACE WATER MANAGEMENT (SWM)

King County Water and Land Resources Division (WLRD) improves water quality and protects the environment by administering the surface water drainage utility for unincorporated King County, regional flood control programs and facilities, a variety of stewardship programs to protect watersheds, rural and resource lands. Revenue from the SWM fee has declined as areas within unincorporated King County are annexed, and will continue to decrease as additional areas are annexed. WLRD anticipates collecting \$442,000 less revenue from the SWM fee in 2009 compared to the 2008 adopted budget .

To address this deficit, WLRD will refocus and streamline operations to concentrate on services directly relating to stormwater and build an effective capital program to support these critical services. In 2009, WLRD will transfer approximately 27% of SWM fee revenue to their capital improvement program (CIP), up from 25.5% in 2008. WLRD will reduce or eliminate less effective and non-regional programs and those that are not required for compliance with National Pollutant Discharge Elimination System (NPDES)permits. In the 2009 proposed budget, WLRD's cost to comply with the NPDES has increased by over a half a million dollars related to new requirements. In addition to stormwater-related work, some key rural services will be retained in 2009. Forest stewardship classes will still be offered to small forest lot owners. The 2009 Executive Proposed Budget continues to provide funding for Farmland Preservation, as well as staffing for the Agriculture and Rural Forest Commissions, although at reduced levels.

TRANSIT DIVISION

Transit is in the second year of the biennial budget pilot. A mid-biennial review recognizes that a number of key assumptions have changed since Transit's 2008/2009 biennial budget was adopted last fall, resulting in a \$83 million deficit for the biennium, despite increased fare revenue from record breaking increases in ridership. This deficit is driven by:

- Reduced sales tax collections due to the slumping economy : \$64 million less than forecasted.
- Increased fuel prices: \$31 million in additional costs for the period.
- Inflationary pressures on costs: \$15 million of additional expenditures for the biennium.

The Executive is submitting a short-term proposal that will preserve existing service levels through 2010, and maintain the Transit Now implementation schedule through 2010. To meet these goals the following actions are being proposed in the 2008/2009 mid-biennial supplemental budget:

- Increase in fares by 50 cents in 2009,
- Increase other revenue including additional advertising, and
- Reduce the Transit operating budget by \$2 million with no impact to services provided.

The cancellation or reduction of planned capital projects and a review of options for the sale of property not needed for Transit Operations will also be required to meet the current financial crisis.

ROADS

The Roads fund provides resources to design, build, operate and maintain roads, bridges and pathways in unincorporated King County. Like the General Fund, the Roads Fund faces a structural imbalance between the revenue growth rate and the expenditures growth rate. The 2009 Roads fund deficit is driven by:

- Rising gas prices, which have caused a decline in fuel sales, resulting in a decline in gas tax revenues for 2009;
- Annexations. Unlike the General Fund, which would see a reduced need for services once annexations occur, the Roads Fund actually loses more revenues from annexations than it has the potential to save for services to those areas.

In addition, expenditures have increased as a result of higher inflation rates for labor, services, and supplies, and also new regulatory requirements. In 2009, new requirements from the National Pollutant Discharge Elimination System (NPDES) permits will result in approximately \$450,000 of additional expenditures, including increased lab costs for stormwater monitoring and equipment purchases. Federal Highway Administration requirements for street signs will result in approximately \$50,000 additional expenditures annually from 2009 to 2011. Furthermore, emergency response to winter storms in 2006 and 2007 has deferred safety and preservation projects that will begin in 2009.

The Roads Services Division is proposing various short-term strategies to mitigate financial shortfalls, including the continued sale of surplus properties. Three properties will be sold in 2009 for an expected total of \$9.36 million. The 2009 Executive Proposed Budget also includes a proposal for a \$2.5 million contingency for potential grants awarded for emergency storm response.

I - NET

The King County Institutional Network (I-Net) is a fiber optic communications network that is used by over 200 public and non-profit agencies within King County including internal county agencies. Users include the Seattle School District, and cities in rural and suburban areas such as Woodinville and Duvall. The purpose of I-Net is to provide affordable high speed connection capacity for these agencies. In recent years I-Net has experienced financial problems because revenue projections from I-Net customers and Public Education and Government (PEG) fees paid by cable subscribers have been lower than projected. In 2008 the Office of Information Resource Management conducted a comprehensive review of options related to I-Net operations, including termination of the function. The conclusion of the analysis and recommendation is that I-Net operations continue with prudent adjustments. The recommendations include:

- Seek higher PEG fee levels in cable refranchising negotiations.
- Expand enhanced I-Net services offerings.
- Implement a new business and operations and maintenance plan that ensures that I-Net is efficient and customer-service oriented.

REET

King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the county. REET #1 revenue may be used for capital improvements benefiting unincorporated residents, and has traditionally been used to fund the planning, acquisition, repair and development of park facilities. The use of REET #2 revenue is limited by Ordinance 10455 to funding park planning, repair and construction rather than acquisitions. Reflecting unprecedented low interest rates and a high degree of real estate speculation, real estate sales have been remarkably high in previous years. Tax collections have also been boosted in recent years by three unusually large timber tract transactions. Recent collections have dramatically fallen, as forecasted. Year-to-date 2008 collections are down 46 percent from 2007 levels. Reflecting the slowdown in construction and tightening of mortgage credit standards, this downward trend is expected to continue in the coming year, with 2008 revenue totaling 45 percent less than 2007 revenue. A further decline of 3.8 percent is forecast for 2009. Both of the REET taxes (REET #1 and REET #2) are forecast at just over \$4.9 million in 2009.

The Parks Division Capital Improvement Program (CIP) is primarily supported by REET revenues. To respond to the decline in revenue collections in 2008, the Parks Division has taken the following steps to minimize the impact to existing projects:

- Cancelled or cut-back existing projects by over \$1 million in 2008 with minimal impact on program.
- Re-evaluated the schedules of ongoing projects for potential savings or delays where possible.

In developing the 2009 Executive Proposed Budget, Parks has initiated or will begin the following:

- Refining its project prioritization methods to ensure the highest priority projects are funded that meet the key policy directions for the Parks Division.
- Work to transfer non-regional urban parks assets within the urban growth area to cities as annexations occur, and where possible, prior to annexation.
- Will encourage and pursue partnerships that increase recreational activities in our parks system without incurring additional costs.
- The county's local parks and recreation role will be limited to only rural areas where there is no existing or anticipated alternative service provider.