



**King County**

Finance and Business  
Operations Division



# PAFR

**POPULAR ANNUAL FINANCIAL REPORT**

January 1 - December 31, 2015 King County, Washington



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ELECTED OFFICIALS (at time of publication)		
Office		Officials
<b>Executive</b>		
		Dow Constantine
Council Vice Chair	District 1	Rod Dembowski
Councilmember	District 2	Larry Gossett
Councilmember	District 3	Kathy Lambert
Councilmember	District 4	Jeanne Kohl-Welles
Councilmember	District 5	Dave Upthegrove
Councilmember	District 6	Claudia Balducci
Councilmember	District 7	Pete von Reichbauer
Council Chair	District 8	Joe McDermott
Council Vice Chair	District 9	Reagan Dunn
<b>Prosecuting Attorney</b>		
		Dan Satterberg
<b>Assessor</b>		
		John Wilson
<b>Elections Director</b>		
		Julie Wise
<b>Sheriff</b>		
		John Urquhart
<b>Presiding Judge - Superior Court</b>		
		Susan Craighead
<b>Chief Presiding Judge - District Court</b>		
		Donna Tucker

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### Find the CAFR and PAFR online at:

<http://www.kingcounty.gov/depts/finance-business-operations/financial-management-services/CAFR>

**Cover design:** Wendy Gable Collins

**Cover photo:** Marymoor Park Community Garden, Eli Brownell

June 28, 2016

## To the Citizens of King County,

It is our pleasure to present to you King County's Popular Annual Financial Report (PAFR) for 2015. The data in this report was based on our Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2015.

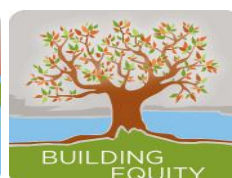
The PAFR was prepared to provide readers an easy to understand summary of our financial activities. The information included in this report contains an overview of the County's economy, financial position and key financial information concerning the County's operations, capital assets, debt and investments. It is important to note that the financial data in this report excludes discrete component unit and fiduciary fund information, and does not provide all of the necessary financial statements and note disclosures required by General Accepted Accounting Principles (GAAP).

Last year the 2014 PAFR was recognized for outstanding achievement by the Government Finance Officers Association (GFOA). It was the fifth consecutive year that the County has received the award since it started issuing the report in 2010. We hope you enjoy this report and we encourage readers to send questions, comments or suggestions about the PAFR. We also invite you to access our audited CAFR for more detailed information on the County's finances. Both reports are available online at the King County website listed on page one of this report along with contact information.



Ken Guy  
Finance Director, King County  
Finance and Business Operations Division

Cheryl Lee, CPA  
Chief Accountant, King County  
Financial Management Section



### Our Mission

King County government provides fiscally responsible, quality-driven local and regional services for healthy, safe, and vibrant communities.

## WHAT IS THE PAFR?

The King County Popular Annual Financial Report (PAFR) provides an overview of the County's financial condition and a brief analysis of where revenues come from and how the money is spent. Included in this report are some trends in the local economy and major initiatives of the County. While the PAFR is not audited, the information used for this report is based on the audited 2015 CAFR. The CAFR provides a more detailed and complete financial presentation prepared according to generally accepted accounting principles.

The PAFR is presented in an easy-to-follow question and answer format. In this report, the County's operations are broadly classified into two basic types according to how they are funded:

1) Governmental activities are operations and services that are funded for the most part by taxes, intergovernmental revenues or grants, and public benefit programs.

2) Business-type activities are operations that are typically designed and organized to recover costs from customers (e.g. disposal fees, bus fares, sewer rates).

All these activities have been combined at the total King County level in this PAFR. The basic reports that are presented in this PAFR are: a statement of net position, a statement of activities, and a schedule of capital assets. Through these reports users can assess the County's overall financial condition and its operational accountabilities.

Both the 2015 CAFR and PAFR are available online at King County's website:

<http://www.kingcounty.gov/depts/finance-business-operations/financial-management-services/CAFR>

## TELL US ABOUT KING COUNTY.

King County ranks number one in population in the state of Washington and is the financial, economic, and industrial center of the Pacific Northwest region. Located between the sparkling blue waters of Puget Sound and the snowcapped Cascade Mountains, the County consists of 2,307 square miles, ranking 11th in geographical size among 39 counties of the state of Washington. King County is nearly twice as large as the average county in the United States. With over two million people, it also ranks as the 13th most populous county in the nation. The County contains 39 incorporated cities accounting for 87 percent of its population.

In 2015, the County's economy continued to prosper led by steadily declining employment rates now only 4.3 percent. Two of the most prominent local employers, Boeing and Microsoft, retain strong demand for their products and homegrown online-retailer Amazon has continued its hiring of new employees. Assessed valuations and new residential construction are expected to continue to increase in 2016.

The four main initiatives of the County Executive are: creating the best-run government, building equity and opportunity, confronting climate change, and expanding regional transit. Best run government means embracing continuous improvement, instituting best management practices, encouraging front-line employees to innovate, and striving for second-to-none customer service. The County continued to use the Lean process improvement methodology in 2015. Significant results have been obtained in many agencies, including a reduction in parts inventory in Metro Transit that saved several million dollars. Another effort has been cooperation between the Finance and Business Operations Division (FBOD) and the Wastewater Treatment Division to streamline the procurement process.

## WHAT HAS THE COUNTY DONE LATELY?

In 2015, King County:

- Implemented the Executive's **Best Starts for Kids** initiative, the nation's most comprehensive approach to childhood development.
- Launched ORCA LIFT, the nation's leading reduced-fare transit pass for low-income bus riders, to help **confront the region's growing inequity**.
- Signed into law one of **the most ambitious climate action plans in the United States**. It provides a roadmap for the region to reduce carbon pollution, increase transit, protect open spaces, improve recycling options, and prepare for climate changes impacts.
- Became one of about a dozen governments across the country to offer up to 12 weeks of **paid parental leave**.
- Piloted **the same energy-tracking system** Microsoft uses to reduce energy consumption and carbon emissions at many of its buildings.



## WHAT IS EQUITY AND SOCIAL JUSTICE?

It is the principle of "fair and just" - opportunities for all people and communities - and is incorporated into all of our work at King County. We recognize that our economy and quality of life depends on the ability of everyone to contribute. We are working to remove barriers that limit the ability of some to fulfill their potential.

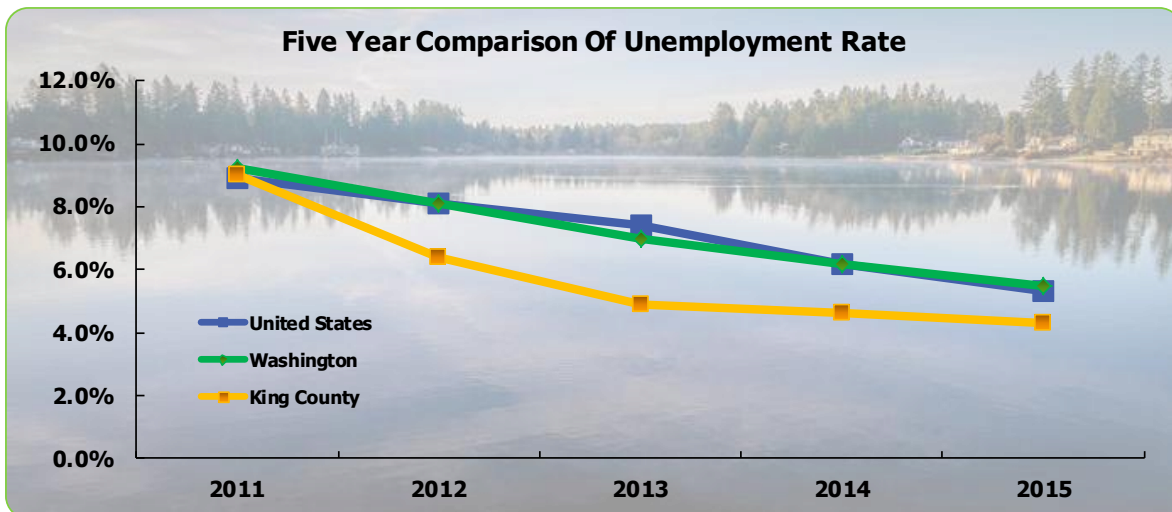
The Equity and Social Justice ordinance establishes definitions and identifies the specific approaches necessary to implement and achieve the "fair and just" principle that is embedded as a core element of the goals, objectives and strategies of the countywide strategic plan.

Examples of our work in action include:

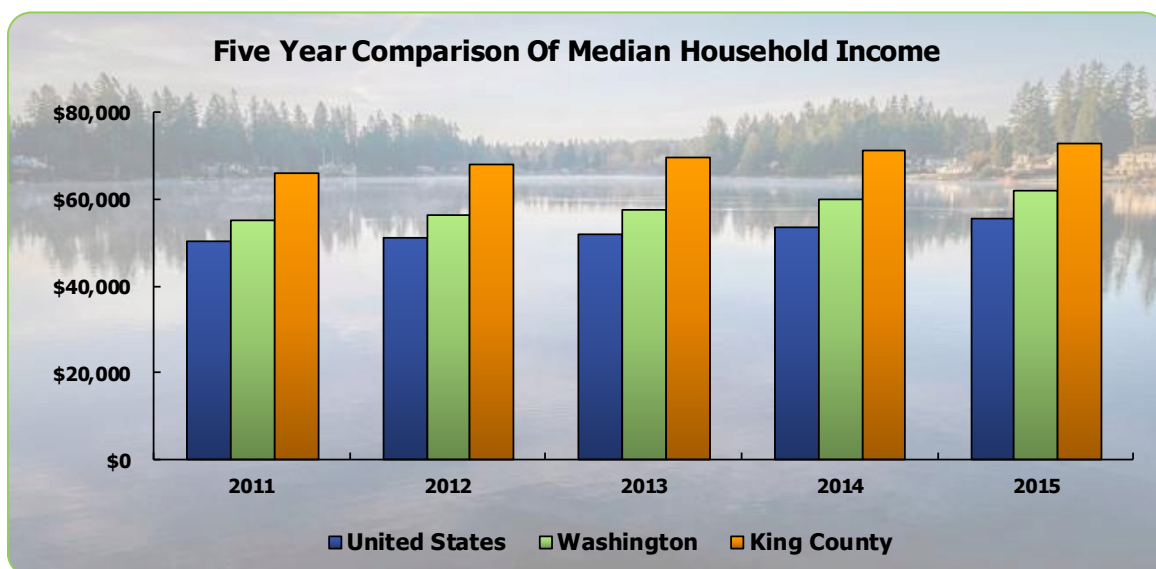
- **BEST STARTS MATTER** - Universal access to developmental screenings for very young children; increased access to mental-health screenings for middle school-age youth; nurse home visitations for first-time mothers, from pregnancy through a child's first two years and flexible funding for families to prevent homelessness.
- **BUILDING EQUITABLE COMMUNITIES Where Needs Are Greatest** - Launched as a partnership between the Seattle Foundation and King County in March 2014, Communities of Opportunity is now a broad partnership with community organizations with the ambitious goal of creating greater health, social, economic and racial equity in King County.
- **ROOTING OUT RACIAL DISPROPORTIONALITY In Juvenile Detention** - Capping the number of detention beds; cutting the use of detention for probation violators; adding funding in mentoring and job-training programs for youth and restorative justice sessions are led by mediators.
- **CREATING A DIVERSE AND INCLUSIVE WORKFORCE** - Employees work in three key areas to enhance racial diversity across our workforce: recruitment, development and promotional opportunities. It gives our current employees opportunities to try on different roles and grow, supports employees as they step into leadership roles, and helps us continue to attract talented candidates from different backgrounds and industries.

## WHAT WERE THE ECONOMIC CONDITIONS?

Economic factors have a direct impact on the County's revenues and the demand for its services. County revenue sources are sensitive to the performance of both regional and local economies, particularly on income, employment, market valuation, investment and inflation; which directly influence property tax assessments, retail sales, and real estate transactions. King County's economy is growing due to improvements in the global and national economic outlook and because of the unique composition of businesses in the region, which attract many new job seekers. As a result, it has one of the fastest growing metropolitan areas in the country. The County unemployment rate in 2015 was 4.3 percent which was less than the 5.5 percent unemployment rate for Washington State.

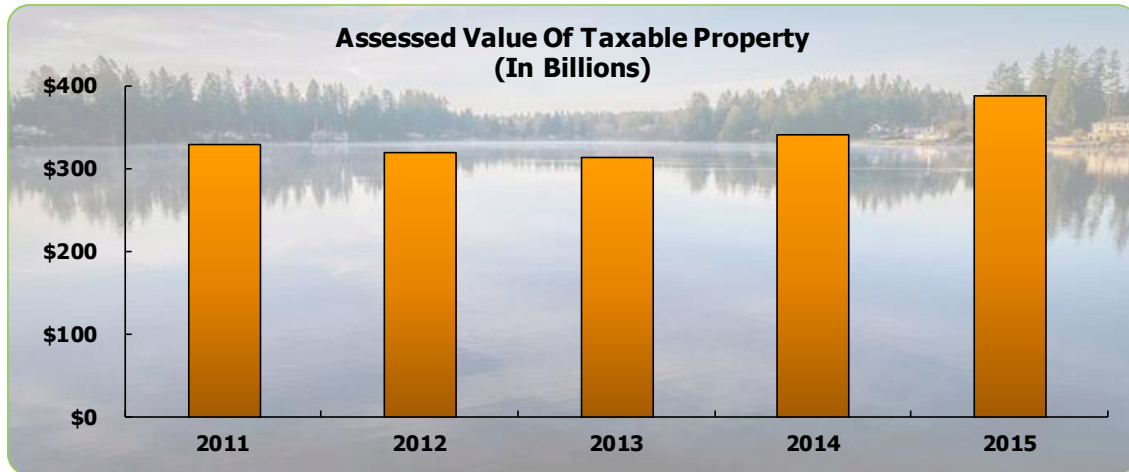


In addition to having a low unemployment rate, King County also has the highest median household income in the State and stronger than those experienced nationally. Median household income is the income of the "middle" household. When the household income distribution is arranged in order from lowest to highest, half of all incomes are below and half are above the median.





Real estate prices climbed throughout 2015. Total assessed valuation grew by 13.9 percent in 2015 reaching \$388 billion. Commercial construction in selected downtown areas should continue to flourish in 2016 as several major projects either break ground or continue their construction phase.



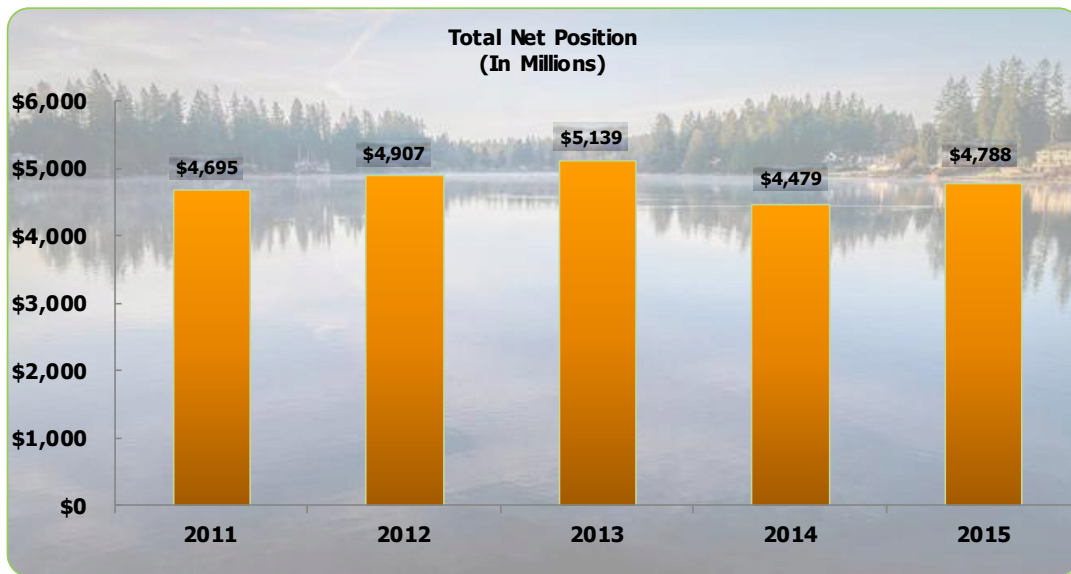
## WHAT WAS THE COUNTY'S FINANCIAL POSITION?

The County's government-wide assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of December 31, 2014 and 2015 are depicted below:

Statement of Net Position (In Millions)						
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Assets</b>						
Cash and cash equivalents	\$ 1,061	\$ 1,042	\$ 1,505	\$ 1,282	\$ 2,566	\$ 2,324
Capital assets	3,017	3,024	5,817	5,763	8,834	8,787
Other assets	209	117	462	447	671	564
Total Assets	4,287	4,183	7,784	7,492	12,071	11,675
<b>Deferred Outflows of Resources</b>						
Refunding and pensions	91	23	226	107	317	130
<b>Liabilities</b>						
Bonds payable	846	936	3,949	3,827	4,795	4,763
Other liabilities	1,129	1,067	1,488	1,462	2,617	2,529
Total Liabilities	1,975	2,003	5,437	5,289	7,412	7,292
<b>Deferred Inflows of Resources</b>						
Rate stabilization and pensions	87	-	101	34	188	34
<b>Net Position</b>						
Net investment in capital assets	2,131	2,204	1,650	1,616	3,781	3,820
Restricted	383	576	244	217	627	793
Unrestricted	(198)	(577)	578	443	380	(134)
Total Net Position	\$ 2,316	\$ 2,203	\$ 2,472	\$ 2,276	\$ 4,788	\$ 4,479

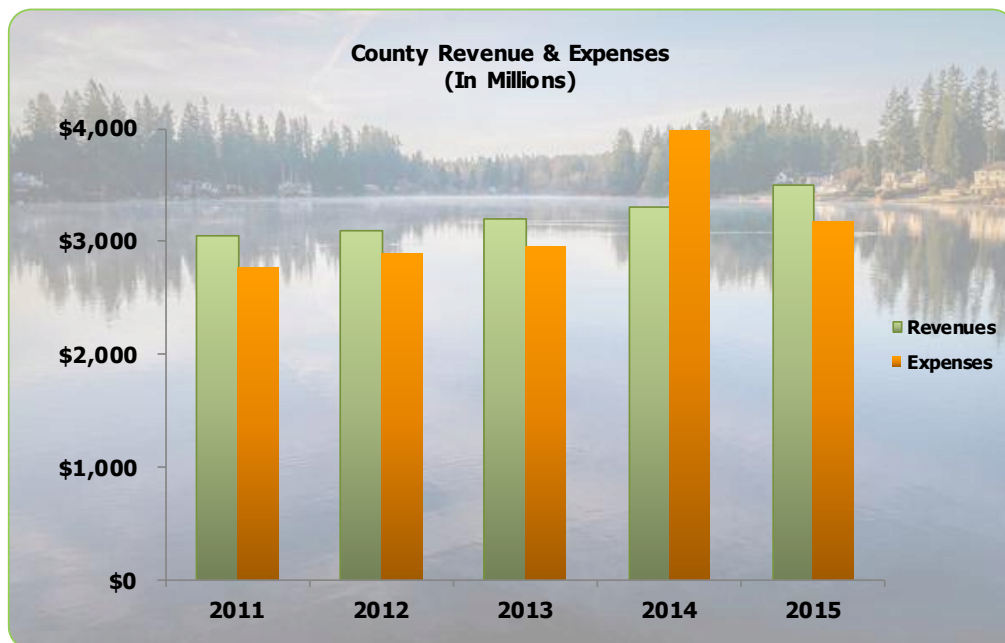
Prior year figures have been restated.

Net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) may serve as an indicator of a government's financial condition over time. Net investment in capital assets makes up the biggest portion of net position. This amount is associated with the County's equity in its capital assets. Because capital assets are acquired to provide services over several periods or indefinitely, this portion is not available for future spending. Although this portion of net position is calculated net of related debt, the resources needed to pay down the debt must come from other more liquid resources. A smaller portion of net position represents net position that is legally restricted as to use by law or contract, such as bond proceeds for capital construction, resources reserved for debt service, or funds mandated for specific programs. The remaining portion of net position is unrestricted, representing resources that are available for services. The chart below shows King County primary government's total net position at the end of the last five fiscal years.



## WHAT WERE THE RESULTS OF OPERATIONS?

The following is a comparison of County revenues and expenses for the last five years:





The overall financial results of the County's government-wide operations are presented in the following condensed statement of activities, which shows the total expenses incurred, how much was paid from program revenues raised or collected from customers, and the portion funded by taxes and other general revenues.

Changes in Net Position (In Millions)					
	Governmental Activities		Business-type Activities		Total
	2015	2014	2015	2014	2015 2014
<b>Revenues</b>					
Program revenues:					
Charges for services	\$ 760	\$ 692	\$ 888	\$ 872	\$ 1,649 \$ 1,564
Operating grants and contributions	173	182	31	38	204 220
Capital grants and contributions	18	30	92	40	110 70
General revenues:					
Property taxes	703	681	28	26	730 707
Retail sales and use taxes	203	188	527	480	730 668
Other taxes	70	67	-	-	70 67
Unrestricted interest earnings	8	8	6	9	14 17
Total Revenues	1,935	1,848	1,572	1,465	3,507 3,313
<b>Expenses</b>					
General government	251	216	-	-	251 216
Law, safety and justice	667	867	-	-	667 867
Physical environment	111	163	-	-	111 163
Transportation program	84	113	-	-	84 113
Economic environment	102	119	-	-	102 119
Mental and physical health	509	607	-	-	509 607
Culture and recreation	51	65	-	-	51 65
Interest and other debt service	34	36	-	-	34 36
Public transit systems	-	-	778	1,021	778 1,021
Solid waste disposal	-	-	114	150	114 150
Waste water treatment	-	-	449	572	449 572
Other enterprises activity	-	-	35	51	35 51
Total Expenses	1,809	2,186	1,376	1,794	3,185 3,980
Increase (decrease) in net position before transfers and special items	126	(338)	196	(329)	322 (667)
Special items	(13)	7	-	-	(13) 7
Transfers	-	(1)	-	1	- -
Increase (decrease) in net position	113	(332)	196	(328)	309 (660)
Net position, beginning of year	2,203	2,535	2,276	2,604	4,479 5,139
Net position, end of year	\$ 2,316	\$ 2,203	\$ 2,472	\$ 2,276	\$ 4,788 \$ 4,479

Prior year figures have been restated.

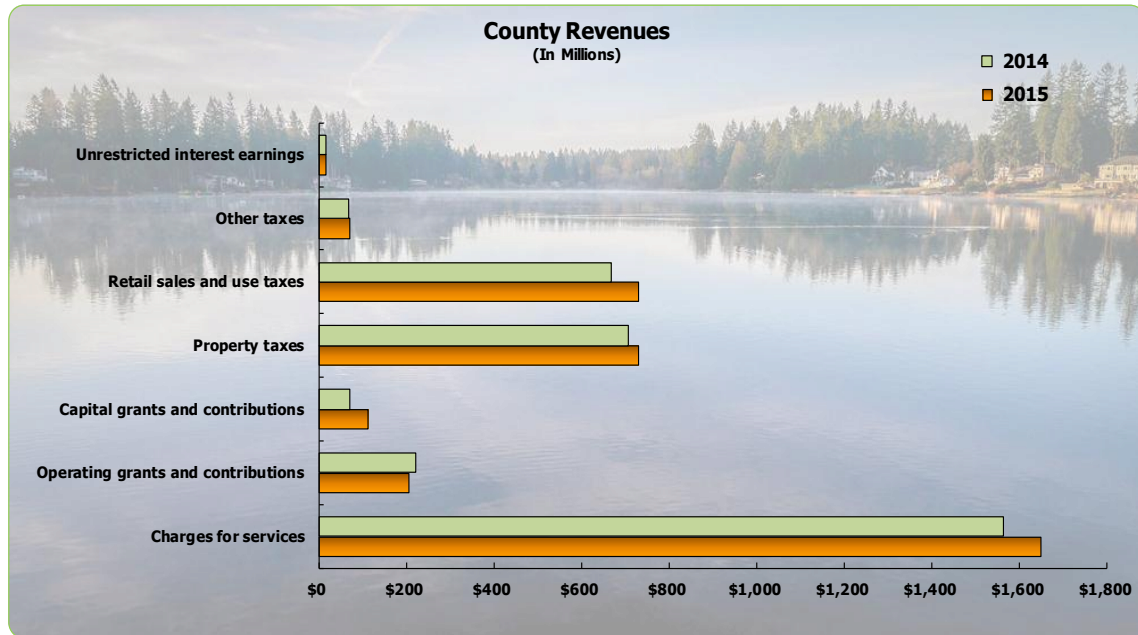
The \$309 million increase in the County's total net position in 2015 resulted from revenues exceeding related expenses and reflects the ability of the County to meet principal and interest payments on borrowing and other obligations as they come due. Approximately 56 percent of the County's total revenues came from program revenues such as charges for goods and services, operating and capital grants, and contributions (including state and federal assistance); and 44 percent came from general revenues (mostly property taxes and retail sales and use taxes).

King County provides some services regionally and others exclusively to unincorporated areas. Some are available to cities on a contractual basis. The table to the right gives a list of the major services provided by the County.

LIST OF SERVICES	
GOVERNMENTAL ACTIVITIES BY FUNCTION	
General government	Executive and council functions, elections, assessments, records and licensing
Law, safety and justice	Superior Court, District Court, criminal detention, E911 emergency, sheriff protection, public defense, misdemeanor prosecution, law enforcement
Physical environment	Natural resources management, flood control, surface water management, river improvement, animal control
Transportation program	Roads and bridges maintenance
Economic environment	Building permits, zoning, housing and community development, veterans' relief, youth employment programs
Mental and physical health	Public health clinics and programs, mental health program, environmental health,
BUSINESS-TYPE ACTIVITIES	Wastewater treatment, public transit systems, landfill and solid waste disposal, airport, institutional network, radio communications and ferry

## WHERE DID THE MONEY COME FROM?

Revenues are classified by source. Charges for services, at 47 percent, provided the largest amount of revenue in 2014 and 2015, with general property taxes and sales tax revenues coming in next.



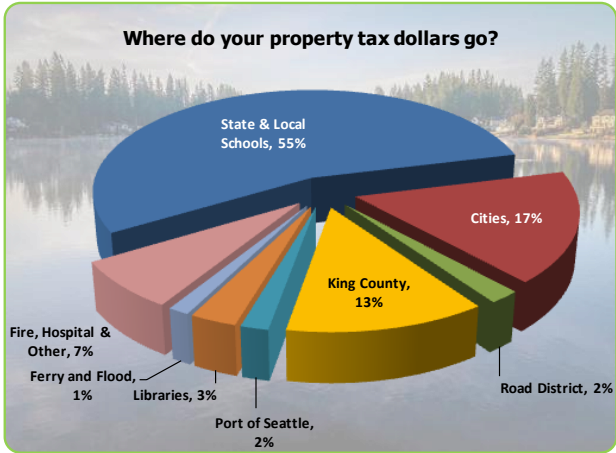
The chart below displays the five-year trend of program revenues (user charges) compared to general revenues. In 2015, both general revenues and program revenues increased by 6 percent from the prior year.





# WHERE DID THE MONEY GO?

There are 165 local taxing districts in King County. Only 13 cents of every property tax dollar supports the King County General Fund. The other 87 cents is divided between the State, cities and other local jurisdictions.



A large part of each property tax dollar goes to pay off construction bonds for school buildings and other public projects. Depending on where a taxpayer lives, the specific taxes levied in an area, and local real

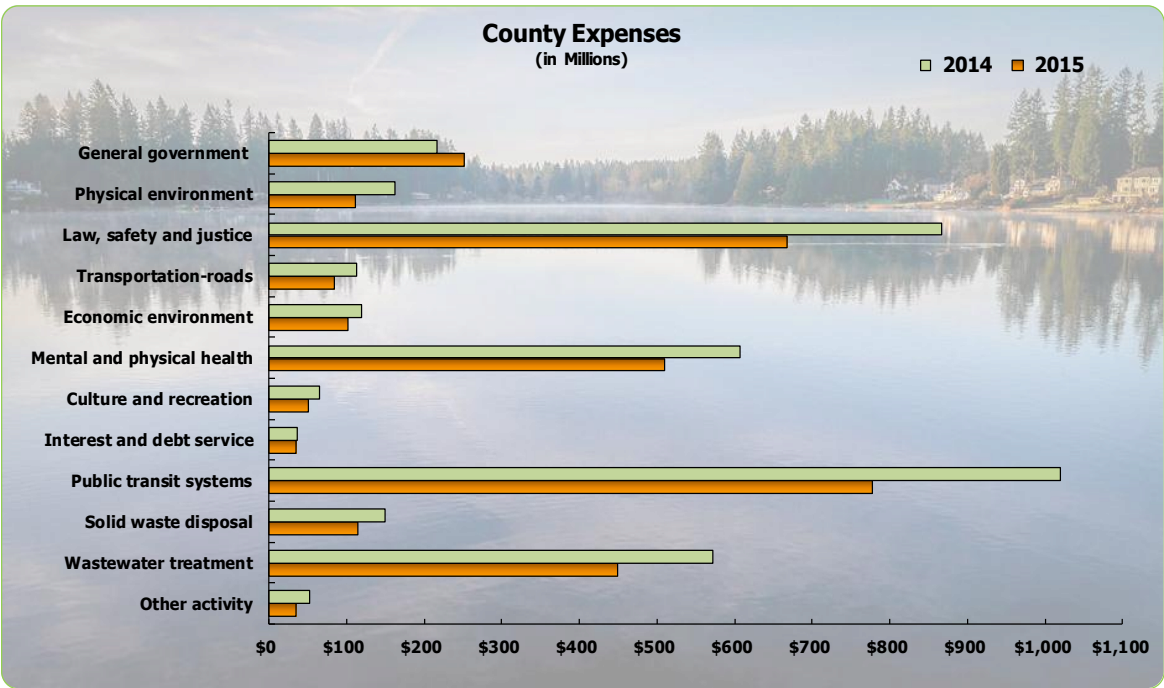
estate values, it's possible that property taxes can increase, even if the appraised value of a home decreases. That's because about half of property tax is determined by levies that are voter-approved for such services as schools, parks, water districts, emergency medical service and fire/rescue, among others.

Property taxes tend to be quite stable since the amount of revenue received is based on the previous year's levy amount plus one percent, and the property tax on the value of new construction. Retail sales taxes, on the other hand, are more volatile because they are dependent on the level of retail sales which tend to reflect the business cycle.



Duck Bay near Foster Island

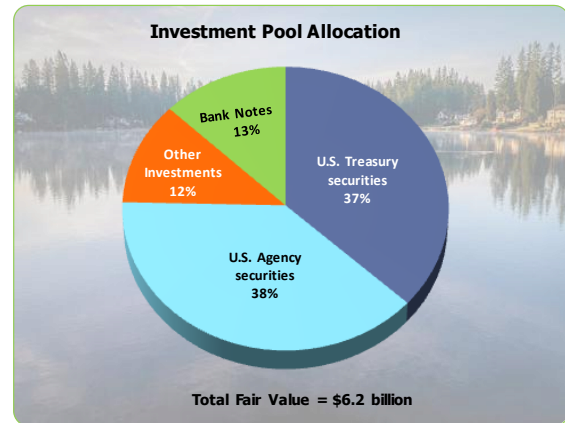
The largest County expenses were for Public Transit Systems followed by Law, Safety and Justice, Mental and Physical Health, and Wastewater Treatment.



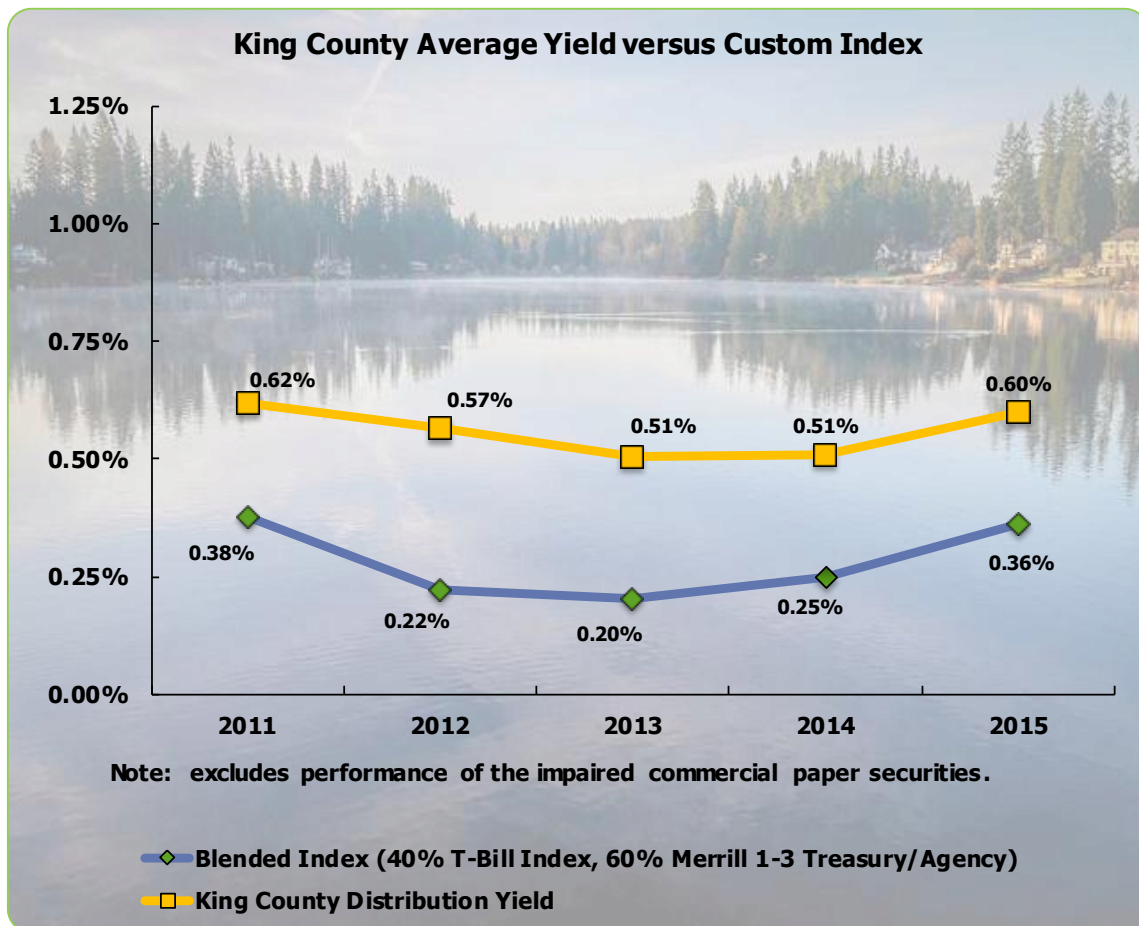
## WHAT INVESTMENTS DOES THE COUNTY OWN?

The County's investment objectives in order of priority are safety, liquidity and yield. An investment policy guides decisions on sector allocations, credit quality, and maturity distributions.

For investment purposes and to manage liquidity, the County pools the cash balances of all its funds and other legally separate local governments in an investment pool. The King County Investment Pool (the Pool) is one of the largest in the state of Washington with a fair value of \$6.2 billion, as of December 31, 2015. The Pool is managed by the King County Treasury Operations Section and overseen by the Executive Finance Committee (EFC). The EFC sets policies and procedures for the effective management and control of the Pool's activities. The Pool is not registered with the Securities and Exchange Commission (SEC).



It is County policy to invest all County funds in the Pool. At year-end, the Pool held 75 percent of investments in U.S. Treasury and Agency securities. With a conservative investment strategy, the County's return has exceeded the return of its performance benchmark as displayed below:





## WHAT CAPITAL ASSETS DOES THE COUNTY OWN?

The County owns capital assets to provide vital services and promote a good quality of life for its citizens. The County's capital assets range from the industrial-scale plants built for wastewater treatment and waste disposal, to the public infrastructure network of roads and bridges, and to the conservation-oriented acquisitions of open space land and land rights. The County's investment in capital assets at December 31, 2015 amounted to \$8.8 billion increased by 0.5 percent from 2014. Business-type capital assets typically generate the revenues that allow County enterprises to recover their operating and capital costs. Governmental capital assets, on the other hand, tend to be non-revenue generating and therefore are preserved or maintained using general revenues.

**Schedule of Capital Assets**  
**December 31, 2015**  
**(In Millions)**

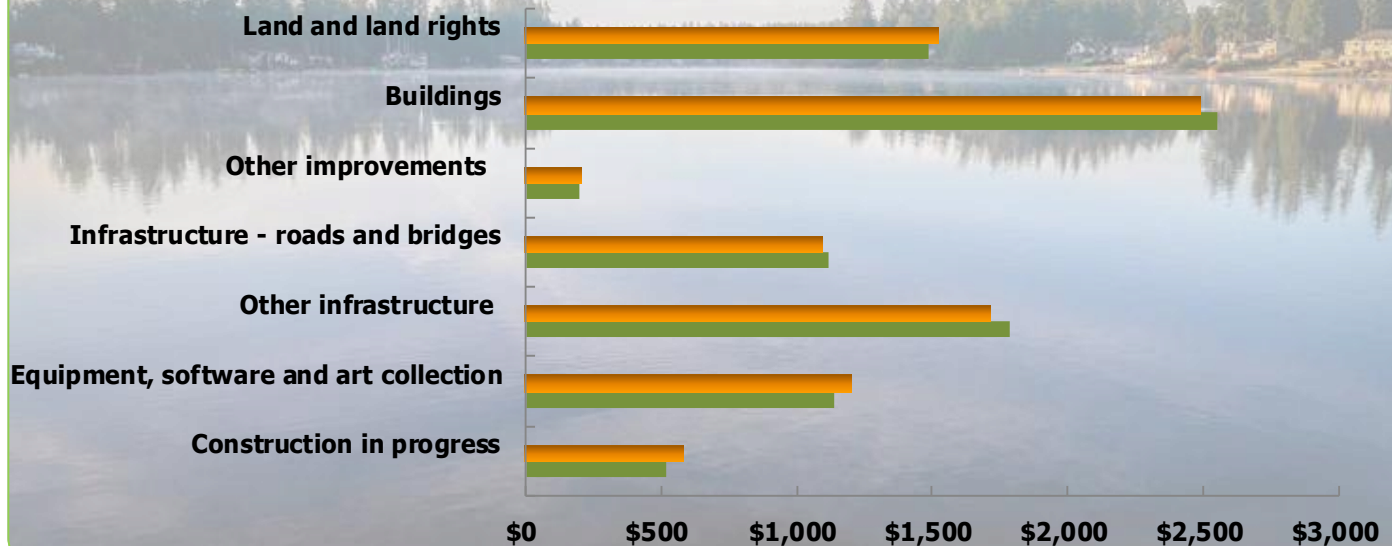
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land and land rights	\$ 1,029	\$ 993	\$ 498	\$ 491	\$ 1,527	\$ 1,484
Buildings*	592	619	1,899	1,935	2,491	2,554
Leasehold improvements*	14	15	1	1	15	16
Improvements other than buildings*	44	46	148	136	192	182
Infrastructure - roads and bridges	1,100	1,114	-	-	1,100	1,114
Other infrastructure*	14	11	1,707	1,776	1,721	1,787
Equipment, software and art collection*	101	111	1,101	1,024	1,202	1,135
Construction in progress	123	119	463	400	586	519
<b>Total</b>	<b>\$ 3,017</b>	<b>\$ 3,028</b>	<b>\$ 5,817</b>	<b>\$ 5,763</b>	<b>\$ 8,834</b>	<b>\$ 8,791</b>

\* Net of depreciation/amortization

Prior year figure has been restated.

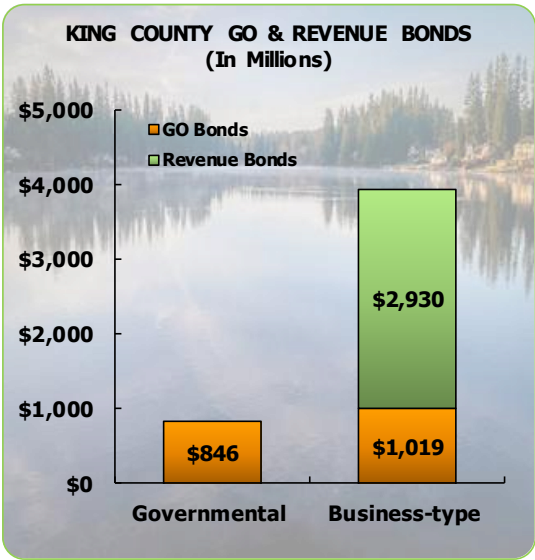
**Capital Assets**  
**Net of Accumulated Depreciation**  
**(In Millions)**

■ 2015  
■ 2014



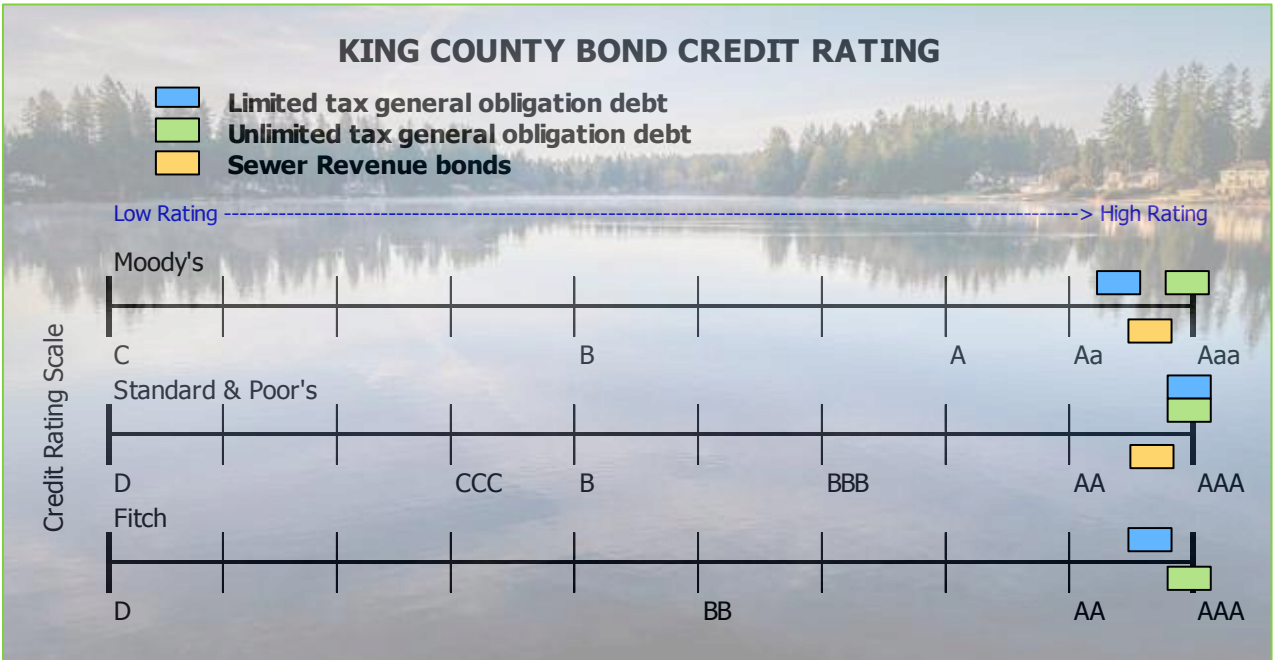
# WHAT DID THE COUNTY OWE?

At the end of 2015 the County had a total of \$4.8 billion in bonds and notes outstanding. This amount is comprised of \$1.9 billion in general obligation (GO) bonds and \$2.9 billion in revenue bonds. GO bonds are backed by the full faith, credit, and taxing power of the government while revenue bonds are secured by specific revenue sources, such as sewer fees and lease payments. The County uses revenue bonds to finance the major portion of its wastewater treatment facilities. GO bonds include unlimited tax (UTGO) debt and limited tax (LTGO) debt. UTGO requires an approving vote of the people. LTGO can be issued by resolution of the County Council up to 1.5 percent of the assessed value of taxable property within the County for general county purposes and 0.75 percent for metropolitan functions.



Space Needle and Downtown Seattle

All of the County’s bond issuances consistently receive exceptional ratings from the leading industry credit rating agencies. Because of these ratings, the County can borrow at favorable interest rates. Depending on the size of the borrowing, a lower interest rate can result in substantial savings for the County. Current bond ratings for the County as of the date of this report are shown below:





## GOVERNMENTAL ACCOUNTING TERMS:

**Accrual basis of accounting** is the method of accounting that recognizes the financial effect of transactions, events when they are incurred rather than at the time when cash is received or disbursed.

**Assets** are resources with present service capacity that the County controls. For example, cash from taxes paid by citizens is an asset that can be put to use to provide public safety.

**Capital assets** are tangible or intangible nonfinancial assets that have an initial useful life of more than one year and are used in providing services for the County and its residents.

**Change in net position** represents the increase or decrease in net position over the previous year.

**Current assets** include cash or near cash items that can be used to liquidate liabilities due within a year.

**Deferred inflows of resources** is an acquisition of net position (inflow of resources during the year) by the County that is applicable to a future reporting period.

**Deferred outflows of resources** is a consumption of net position by the County (outflow of resources during the year) that is applicable to a future reporting period.

**Fund balance** denotes the difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources in governmental funds balance sheets.

**Government-wide reporting** provides an aggregate view of the County's financial activities by consolidating both the governmental and business-type activities using the accrual basis of accounting.

**Liabilities** are present obligations of the County to

sacrifice resources that it has little or no discretion to avoid, such as, the amounts the County owes to suppliers and creditors.

**Long-term liabilities** include items such as bonds, loans, compensated absences, pension liabilities and other County obligations, typically due beyond the current reporting period.

**Modified accrual basis of accounting** is the method of accounting used in governmental funds where revenues are not recognized until they are both measurable and available. Expenditures are recognized in the period when the liability is liquidated rather than incurred.

**Net investment in capital assets** is the portion of net position that represents the County's equity interest in its capital assets (capital assets less the amount of debt used to acquire them).

**Net position** is the residual of all other financial statement elements in accrual basis statement of net position: the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

**Restricted net position** is the portion of net position subject to external restrictions (e.g. state law, bond covenants, etc.).

**Statement of activities** reports both governmental and business-type activities using the accrual basis of accounting showing the County's total expenses and the extent of funding from program revenues and general revenues.

**Unrestricted net position** is the portion of net position not tied to capital assets or subject to legal restrictions, hence, available to be programmed for services.



King County Sheriff Officers



Juanita Village in Kirkland



Recycling

# KING COUNTY AT A GLANCE



## ABOUT KING COUNTY

Miles of Paved Roads	1,418
Bridges	181
Building Permits Issued	1,309
Number of Parks	220
Acres of Parks	172,281
Number of Buses	1,472
Annual Bus Trips	130,648,000
Wastewater Trtmt Plants	5

## DEMOGRAPHICS

	2015	2014
Population	2,117,125	2,079,967
- 65 years & over	258,289	247,516
Births	26,063	24,988
Deaths	13,795	13,784
Public school enrollment	287,145	278,409
Private school enrollment	41,199	41,047
Median household Income	\$73,035	\$71,500
Unemployment	4.3%	4.6%

LAND AREA: 2,307 square miles

## 2015 FINANCIAL DATA

(in millions)

Assessed Valuation	\$388,119
Property Taxes Levied	\$726
General Fund Expenditures	\$756

## 2015 PRINCIPAL PROPERTY TAXPAYERS

Microsoft
Boeing
Puget Sound Energy
Alaska Airlines
BRE Properties
Union Square LLC

## 2015 EMPLOYERS BY INDUSTRY

Trade, Transportation & Utilities	19%
Professional & Business	16%
Government	13%
Education	13%
Leisure & Hospitality	10%
Manufacturing	8%
Information	7%
Financial Activities	5%
Construction	5%
Other	4%

13th most populous county in the U.S.



King County Courthouse & Administration Building