



2009

# POPULAR ANNUAL FINANCIAL REPORT



KING COUNTY, WASHINGTON

12/31/2009

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Cover photo: "Cougar Mountain Snow" courtesy of King County Parks

# COUNTY ADMINISTRATION



### Metropolitan King County Council

Back row: Jan Drago, Reagan Dunn, Pete von Reichbauer, Kathy Lambert. Front row: Larry Gossett, Jane Hague, Bob Ferguson, Julia Patterson, Larry Phillips



### County Executive Dow Constantine

### ELECTED OFFICIALS

(at time of publication)

Office		Officials	Contact No.
Council Chair	District 1	Bob Ferguson	(206) 296-1001
Councilmember	District 2	Larry Gossett	(206) 296-1002
Councilmember	District 3	Kathy Lambert	(206) 296-1003
Councilmember	District 4	Larry Phillips	(206) 296-1004
Councilmember	District 5	Julia Patterson	(206) 296-1005
Council Vice-Chair	District 6	Jane Hague	(206) 296-1006
Councilmember	District 7	Pete von Reichbauer	(206) 296-1007
Councilmember	District 8	Jan Drago	(206) 296-1008
Councilmember	District 9	Reagan Dunn	(206) 296-1009
<b>Executive</b>		Dow Constantine	(206) 263-9600
<b>Prosecuting Attorney</b>		Dan Satterberg	(206) 296-9067
<b>Assessor</b>		Lloyd Hara	(206) 296-5193
<b>Elections</b>		Sherril Huff	(206) 296-1540
<b>Sheriff</b>		Sue Rahr	(206) 296-4155
<b>Judicial</b>	Presiding Judge King County Superior Court	Bruce Hilyer	(206) 296-9096
	Chief Presiding Judge King County District Court	Barbara Linde	(206) 296-3595

King County operates under a Home Rule Charter adopted by a vote of its citizens in 1968. The Charter is the County's constitution—the foundation for the County's governance structure. It provides for an executive-council form of government. The County Executive is the elected chief operating officer with the nine-member Metropolitan King County Council as the law-making body. An independent judiciary is represented by the Superior Court and District Court.

Councilmembers are elected to four-year terms and serve on a full-time basis. The Council sets policies, enacts laws, and adopts budgets. The Executive, who is elected to a period of four years, proposes the budget, appoints department directors, prepares financial reports, and signs legal documents on behalf of the County. Other elected officials are the Prosecuting Attorney, Assessor, Sheriff, Director of Elections, and Superior Court and District Court judges.



## King County

Finance and Business Operations Division  
Department of Executive Services  
Chinook Building  
401 Fifth Avenue, Rm. 300  
Seattle, WA 98104 – 2333

December 23, 2010

To the Citizens of King County:

It is our pleasure to present to you the 2009 King County Popular Annual Financial Report (PAFR). This report aims to provide readers with a bird's eye view of the County's financial activities during 2009. Unlike the comprehensive annual financial report (CAFR), the PAFR presents highly summarized financial data and other information in a less structured format. The PAFR is unaudited although the financial data in the report represents summary information from the audited 2009 CAFR. Both the 2009 PAFR and 2009 CAFR are available online at <http://www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx>.

Economic conditions in the King County region went from bad to worse during 2009 as unemployment went over 8 percent, home values continued to fall, and the commercial real estate sector deteriorated. The downturn cut further into the County's ability to grow its revenues which were already constrained by the taxing limits relative to the growth in service costs. Sales and use tax revenues declined overall while property tax revenues grew slower than expected. Impacts on tax-supported funds were profound, particularly in the General Fund, which closed a \$93-million deficit in the 2009 budget. Cumulative downward adjustments to the General Fund budget from 2009 to 2011 (as proposed) have been \$52 million. Weak demand in business services in other funds resulted in lower than expected fee-based revenues in 2009 although eligible programs were boosted by federal stimulus assistance. Investment earnings of the County's investment pool came at the low end as positions were concentrated in safer but lower yielding US federal and agency securities. Capital programs funded by general taxes were especially affected while critical projects were kept on track through debt financing backed by the County's excellent credit rating.

While overall growth in the economy remained sluggish in 2010, employment is expected to rebound in the middle of 2011 as business investment gradually picks-up fueled by a more sustained economic recovery. In early 2010, King County Executive, Dow Constantine, also launched his blueprint for reforming county government in conjunction with a new five-year strategic plan. The County Council unanimously approved legislation in July 2010 adopting the strategic plan which will be a key tool in the county's efforts to reform county government by focusing on customer service, partnerships and ways to bring down the cost of government.

We encourage readers to send questions, comments and suggestions about the PAFR so that we can improve on future issues. Contact information is given in page one of this report.

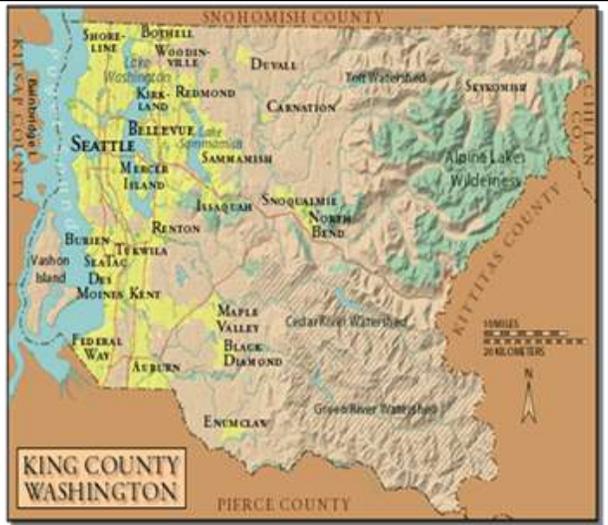
Thank you for your interest in King County.

Ken Guy  
Finance and Business Operations

Pete Anthony, CPA  
Financial Management Services

# KING COUNTY AT A GLANCE

<u>Area</u>	<u>Sq. mi.</u>	<u>Sq. km.</u>	
Total land area	2,134	5,527	
Unincorporated	1,734	4,491	
County urban growth area	460	1,191	
Unincorporated urban	60	155	
<u>Population</u>		<u>Population Distribution 2009</u>	
2009	1,909,300	Incorporated	1,566,120
2000	1,737,034	Unincorporated	343,180
1990	1,507,319		
1980	1,269,898		
<u>2009 Demographics</u>		<u>County</u>	<u>State</u>
Population 65 yrs & up	198,807	809,375	25
Public School enrollment	253,779	1,029,284	25
Private School enrollment	40,569	85,051	48
Median Household income	\$62,810	\$60,010	
Unemployment rate	8.10 %	8.9 %	
<u>Population Change (2009-2000)</u>			<u>% of State</u>
Estimated births		209,317	
Estimated deaths		104,035	
Net Migration		66,971	
<u>Principal employers by major industry</u>			<u>%</u>
Trade, transportation and utilities			18.3
Professional and business services			15.4
Government			14.5
Educational and health services			11.9
Leisure and hospitality			9.3
Manufacturing			8.9
Information			6.9
Financial Activities			6.1
Construction			4.9
<u>Principal taxpayers</u>			
The Boeing Company			
Microsoft Corporation			
Puget Sound Energy/Gas/Electric			
Archon Group, LP			
Qwest Corporation, Inc.			
T-Mobile			
<u>Major educational institution</u>			
University of Washington			
(largest in northwestern U.S.)			
<u>Total assessed valuation</u>		<u>Total property tax levy</u>	
2009	\$386,889,728	2009	\$607,030,000
2008	340,995,440	2008	586,695,000
2007	298,755,199	2007	500,184,000
2006	270,571,111	2006	470,172,000
2005	248,911,783	2005	447,808,000
2004	235,834,254	2004	435,239,000
2003	224,994,599	2003	395,228,000



The King County incorporated area comprises 39 cities, the most populous of which are Seattle and Bellevue. King County is the largest metropolitan county in Washington in terms of population, number of cities and employment. It ranks 11<sup>th</sup> in area among the State's 39 counties. It is the 14<sup>th</sup> most populous county in the United States.

## ABOUT THE PAFR

The Popular Annual Financial Report (PAFR) is designed to supplement the Comprehensive Annual Financial Report (CAFR) with a simpler and more user-friendly report to assist those who need a less detailed overview of the County’s financial activities. The 2009 PAFR includes unaudited, condensed government-wide financial statements for the primary government which were derived from the audited 2009 CAFR. The primary government is composed of the County’s governmental funds (general, special revenue, capital projects, and debt service) and business-type funds (enterprise and internal service), plus certain organizations that are closely related to the County (a flood control and ferry district, and four property management corporations). Discretely presented component units which are reported in the CAFR are excluded.

In government-wide statements, the County’s activities are classified into two main classes – governmental activities which are generally tax-supported, public benefit programs and business-type activities which generally recover costs through user charges. From these statements, users can assess the County’s overall financial condition and its operational accountability (e.g., were current year’s revenues sufficient to fund current year services; and, did financial conditions improve or worsen after this year’s results). The reports are limited, however, in demonstrating fiscal accountability and stewardship which is better assessed using fund-level data. Readers who wish to see fund-level and budgetary-type information should refer to the 2009 CAFR.

While PAFR is a “popular” report, the use of certain financial accounting terminology cannot be completely avoided without risking ambiguity. Certain elements of government-wide financial statements are defined below.

<b>Financial Terms and Concepts</b>	
<p><b>Government-wide financial statements</b> provide an aggregate view of the entire County’s financial activities by incorporating all of its governmental and business-type activities. Traditional governmental funds statements are converted to full accrual (by including long-term debt and capital assets) to be consistent with business-type activities.</p> <p><b>Governmental activities</b> include programs that are principally supported by taxes and inter-governmental revenues (public safety, court services, roads maintenance, parks, public health, etc.).</p> <p><b>Business-type activities</b> are those where all or a significant portion of costs of services are intended to be recovered through user fees and charges (wastewater treatment, transit services, landfills, etc.).</p> <p><b>Statement of Net Assets</b> is a report of the County’s assets and liabilities with the difference reported as “net assets”. (Similar to a “balance sheet” or “statement of position”).</p> <p><b>Schedule of Changes in Net Assets</b> shows how much the County took in as revenues and how much it spent on programs; with the bottom line showing the change in net assets during the year.</p> <p><b>Assets</b> are resources that the County controls and can use at the present time to provide services.</p>	<p><b>Current assets</b> include cash or near cash items that can be used to liquidate liabilities due within a year.</p> <p><b>Capital assets</b> are tangible or intangible nonfinancial assets that have a useful life of more than one year and are used in providing services.</p> <p><b>Liabilities</b> are present obligations of the County or what it owes to creditors, vendors, other governments, etc.</p> <p><b>Current liabilities</b> are liabilities due within one-year.</p> <p><b>Net assets (Assets - Liabilities)</b> represent the County’s equity interest in the assets it employs in providing services to its citizens. This notion of equity is a residual concept and does not necessarily imply resources available for current spending.</p> <p><b>Invested in capital assets net of related debt</b> is the portion of net assets that represent the County’s equity interest in its capital assets (capital assets less the amount of debt principal used to acquire them).</p> <p><b>Restricted net assets</b> is the portion of net assets subject to external restrictions (state legislations, bond covenants, etc).</p> <p><b>Unrestricted net assets</b> is the portion of net assets not tied to capital assets or subject to legal restrictions, hence, can be programmed for services.</p>

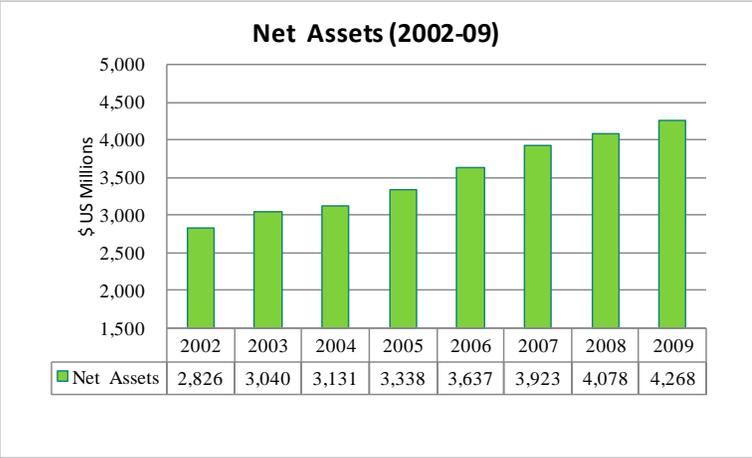
# FINANCIAL CONDITION

The County’s government-wide statement of net assets for the primary government as of December 31, 2009 and December 31, 2008 are given below (in millions).

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	2009	2008	2009	2008	2009	2008
<b>Assets</b>						
Current and other assets	\$ 1,004	\$ 1,012	\$ 1,174	\$ 924	\$ 2,178	\$ 1,936
Capital assets	2,647	2,539	4,869	4,468	7,516	7,007
<b>Total Assets</b>	<b>3,651</b>	<b>3,551</b>	<b>6,043</b>	<b>5,392</b>	<b>9,694</b>	<b>8,943</b>
<b>Liabilities</b>						
Long-term liabilities	1,406	1,444	3,472	2,937	4,878	4,381
Other liabilities	195	182	353	303	548	485
<b>Total Liabilities</b>	<b>1,601</b>	<b>1,626</b>	<b>3,825</b>	<b>3,240</b>	<b>5,426</b>	<b>4,866</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	1,851	1,806	1,603	1,698	3,454	3,504
Restricted	475	454	650	565	1,125	1,019
Unrestricted	(276)	(335)	(35)	(111)	(311)	(446)
<b>Total net assets</b>	<b>\$ 2,050</b>	<b>\$ 1,925</b>	<b>\$ 2,218</b>	<b>\$ 2,152</b>	<b>\$ 4,268</b>	<b>\$ 4,077</b>

Summarized from 2009 King County CAFR - Basic Statements: Statement of Net Assets

Net assets (Assets - Liabilities) may serve over time as a gauge of a government’s financial condition. The County’s net assets amounted to \$4.3 billion at the end of 2009. Over the past 8 years, net assets have increased by an average of 6 percent per year (4.7 percent for 2009). In both governmental and business-type activities, net assets invested in capital assets net of related debt makes up the biggest portion of net assets. This amount is associated with the County’s equity in its capital assets. Because capital assets are used to provide services, this portion is not available for future spending or for debt service. Although the measure is calculated net of related debt, the resources needed to service the debt must come from other sources. A smaller portion of net assets represents net assets that are legally restricted as to use, such as bond proceeds for capital construction, resources reserved for debt service, or funds mandated to be spent for specific programs.



The deficit in unrestricted net assets is a result of the recognition of long-term liabilities for which supporting revenues are not yet available for accrual; or for which capital assets have already been retired while the related debt is still outstanding. Over time this deficit is reduced as long-term liabilities are funded through dedicated revenues and eventually paid-off.

## OPERATING RESULTS

Overall financial results of the County's service operations are reflected in the following schedule of changes in net assets for the years ended 2009 and 2008 (in millions).

	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	2009	2008	2009	2008	2009	2008
<b>Revenues</b>						
Program revenues	\$ 854	\$ 806	\$ 761	\$ 697	\$ 1,615	\$ 1,503
General revenues	878	885	390	456	1,268	1,341
<b>Total revenues</b>	<b>1,732</b>	<b>1,691</b>	<b>1,151</b>	<b>1,153</b>	<b>2,883</b>	<b>2,844</b>
<b>Expenses</b>						
Governmental programs	1,555	1,517	-	-	1,555	1,517
Interest & other debt service	53	51	-	-	104	51
Business-type programs	-	-	1,084	1,058	1,084	1,058
<b>Total expenses</b>	<b>1,608</b>	<b>1,568</b>	<b>1,084</b>	<b>1,058</b>	<b>2,743</b>	<b>2,626</b>
<b>Increase in net assets</b>	<b>124</b>	<b>123</b>	<b>67</b>	<b>95</b>	<b>191</b>	<b>218</b>
Transfers	1	3	(1)	(3)	-	-
Net assets, beginning of year	1,925	1,799	2,152	2,060	4,077	3,859
<b>Net assets, end of year</b>	<b>\$ 2,050</b>	<b>\$ 1,925</b>	<b>\$ 2,218</b>	<b>\$ 2,152</b>	<b>\$ 4,268</b>	<b>\$ 4,077</b>

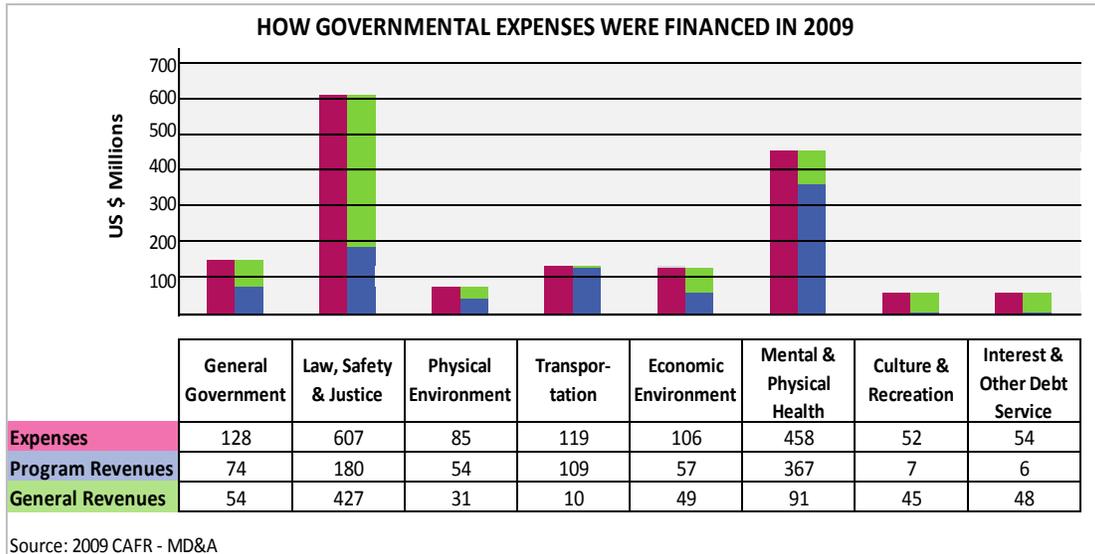
Summarized from 2009 King County CAFR - Basic Statements: Statement of Activities

The increase in the County's total net assets in 2009 resulted from revenues exceeding related expenses and reflects the ability of the County to meet debt service requirements and other obligations as they come due. Approximately 44 percent of the County's total revenues came from general sources (mostly property taxes and retail sales and use taxes); and 46 percent were from program revenues such as charges for goods and services, operating and capital grants, and contributions (including state and federal assistance). Total tax revenues were down 5 percent from 2008 due to weak sales tax performance. The County's expenses cover a wide range of services; the largest of which were for law, safety and justice and mental and physical health (under governmental activities); and, public transportation and wastewater treatment (under business-type activities).

**Governmental activities** accounted for 65 percent of the total growth in net assets of the County. Program revenues for governmental activities total \$854 million with \$572 million coming from users or customers who directly benefited from the programs and \$282 from other governments and organizations that subsidized certain programs through grants and contributions. The cost of all governmental activities was \$1.6 billion. The County paid the \$754 million remaining "public benefit" portion of governmental activities from property taxes, retail sales and use taxes, and other general revenues. Costs increased by only 2.6 percent over 2008 due to reductions in program services.

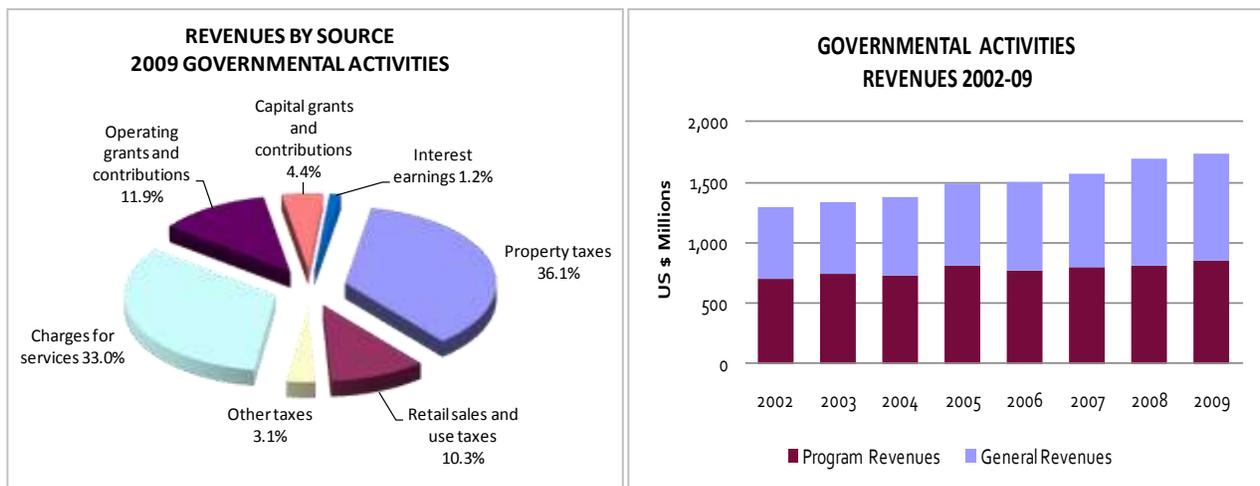
The following bar chart shows the County's governmental expenses by general program classification, the extent of funding from program revenues, and the gap funded from general revenues. Law, safety and justice required the greatest usage of general government revenues. The primary revenue sources for mental and physical health are charges for services and operating grants and contributions, which paid for 80 percent of the activities for that function. A \$57.3 million in contribution of infrastructure (paved roads and right-of-ways) from private residential and commercial developers enabled

transportation program revenues to fall short of expenses by only \$10 million. These capital contributions accounted for 46 percent of the 2009 increase in governmental activities net assets.



Governmental functions	Services related to:
General government	<i>legislative and administrative functions of running the government</i>
Law, safety and justice	<i>protection of life and property through the justice system</i>
Physical environment	<i>preservation and enhancement our natural habitat</i>
Transportation	<i>provision of vital infrastructure to foster physical mobility of population and goods</i>
Economic environment	<i>promotion of economic independence for individuals and the community</i>
Mental and physical health	<i>maintenance of healthy citizens through education, prevention and treatment</i>
Culture and recreation	<i>promotion of learning, leisure, and cultural activities</i>

Revenue distribution by source is provided in the pie chart below. Charges for services provided 33 percent and property taxes 36 percent of total governmental activities revenues. The bar chart shows the 9-year trend of governmental revenues. Program revenues were almost flat over the last five years while general revenues were flat over the past three years.



## General Fund - Budget Highlights

Because of the special significance of the General Fund, its budgetary results are summarized in this section. The General Fund (formerly known as Current Expense) accounts for all activities that are not accounted for in other special funds. The 2009 General Fund budget-to-actual comparison is shown on the right. Actual expenditures were below the final budget by \$11 million mainly from underspending in law, safety and justice programs (\$4.9 million) and planned contributions to other funds (\$4.8 million). During the year actual revenues were less than budgeted estimates by \$0.8 million. The overall impact is a net reduction in the General Fund's fund balance of \$9.7 million.

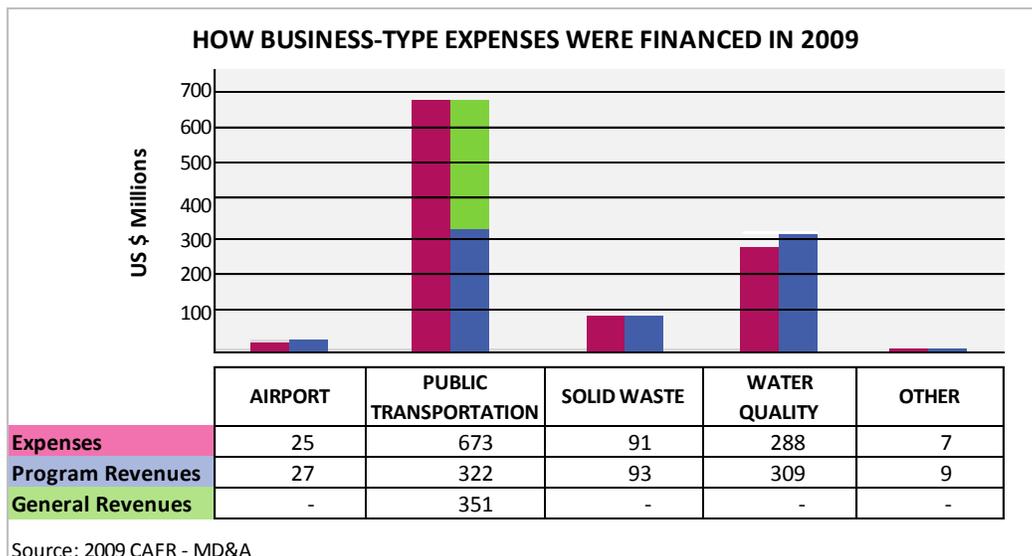
The General Fund will continue to be constrained by the "structural gap" in funding – property taxes are capped at various levels while the cost of providing services continues to escalate. Add to this the unsettled economic conditions one can see the difficult decisions that the County will continue to make going forward to balance the budget and adjust services accordingly.

### General Fund Budget to Actual (in millions)

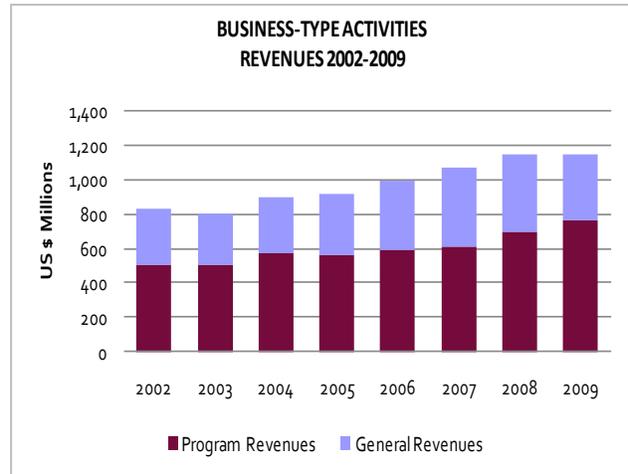
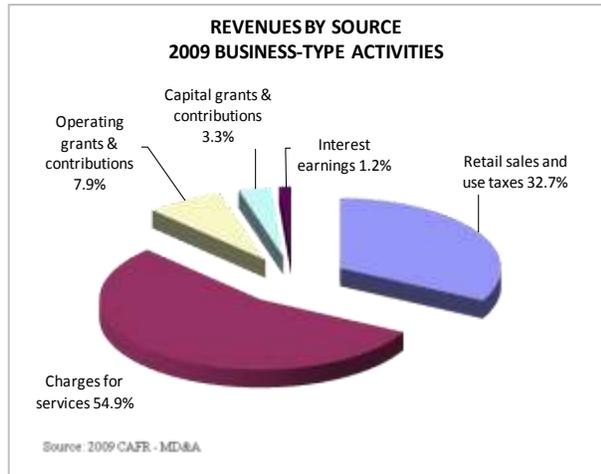
Final budget	\$ 663.7	
Actual Expenditures	<u>652.7</u>	
Favorable variance		\$ 11.0
Estimated revenues	\$ 641.1	
Actual revenue	<u>640.3</u>	
Unfavorable variance		\$ (0.8)
Deficit (budgetary basis)	\$ (12.4)	
Adjust to GAAP	<u>2.7</u>	
Net change in fund balance	<u>\$ (9.7)</u>	

*Source: 2009 King County CAFR, Basic Statements*

**Business-type activities** increased the County's net assets by \$67.0 million in 2009, accounting for 35 percent of the total growth in net assets. Total revenues for business-type activities were \$1.2 billion. The cost of all business-type activities for 2009 was \$1.1 billion. Of that amount 69 percent or \$761.1 million was funded from program revenues, including \$632.5 million in charges for services, \$90.6 million from other governments that subsidized certain programs with operating grants, and \$38 million in capital grants and contributions. The chart below shows the County's business-type expenses and the extent of coverage provided by program revenues (user charges). Public Transportation program operations are subsidized by retail sales and use taxes for which the program received \$377 million in 2009. The net expense subsidized was \$351 million.



Revenue distribution by source for business-type activities is shown below. Direct charges for services accounted for 55 percent of revenues with retail sales and use taxes composing 33 percent. The bar chart that follows shows the nine-year trend in business-type revenues. Program revenues have increased noticeably over the past three years while the share of general revenues has decreased reflecting the weak sales and use tax performance.



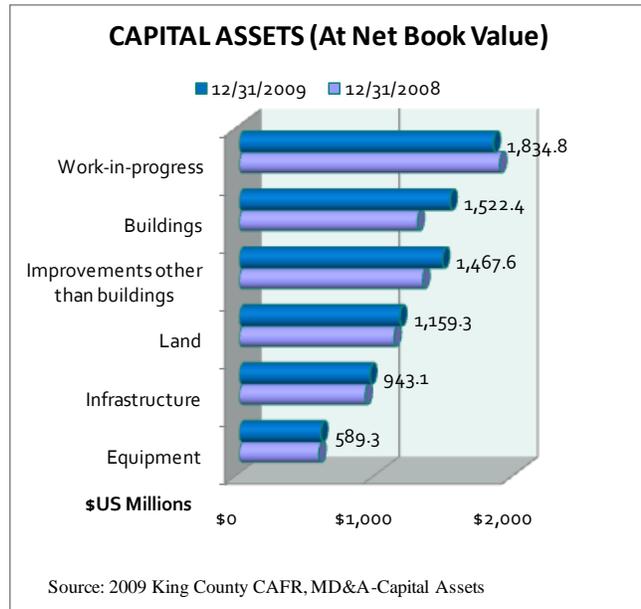
### HOW THE COUNTY COMPARES

INFORMATION	KING, WA	COMPARABLE COUNTIES OUTSIDE WASHINGTON					NEIGHBORING WASHINGTON COUNTIES	
		SANTA CLARA, CA	BROWARD, FL	SACRAMENTO, CA	SUFFOLK, NY	RIVERSIDE, CA	PIERCE, WA	SNOHOMISH, WA
		San Jose	Ft. Lauderdale	Sacramento	Riverhead	Riverside	Tacoma	Everett
County seat	Seattle	San Jose	Ft. Lauderdale	Sacramento	Riverhead	Riverside	Tacoma	Everett
Population (millions)	1.91	1.86	1.76	1.43	1.51	2.11	0.81	0.70
Unemployment rate	8.1%	8.7%	9.8%	11.1%	5.0%	14.0%	9.3%	5.1%
Current assets over current liabilities	3.97	6.84	10.49	1.89	1.97	4.91	4.34	2.12
Liabilities over total assets	0.56	0.49	0.63	0.62	0.92	0.33	0.13	0.35
No. of full-time employees per thousand population	7.3	8.4	7.1	7.7	9.7	7.8	4.2	4.0
Percent of total expenditures covered by total program revenues	60.0%	66.3%	51.1%	59.7%	28.0%	73.6%	58.1%	56.2%
Percent of governmental debt service costs to total governmental expenses	3.5%	1.0%	2.0%	5.2%	1.5%	3.3%	1.1%	3.4%
Program with highest share of governmental expenses	Law, safety & justice; 38%	Public protection; 34%	Sheriff, 46%	Public protection; 28%	Public safety; 37%	Public protection; 41%	Public Safety; 33%	Public Safety; 30%

*This table shows comparative statistics between King County and other counties -- five outside of Washington State selected based on population (1.0 - 2.5 million) and total expenses (\$2.5 - \$3.5 billion); and two within Washington that are located adjacent to King County. Data were obtained from the most current CAFRs of each county and is intended for broad-based comparisons only. While some accounting and reporting standardization have been achieved since the implementation of GASB 34, there are still significant dissimilarities between counties in terms of organization, types of services provided, and sources of revenues.*

# CAPITAL ASSETS

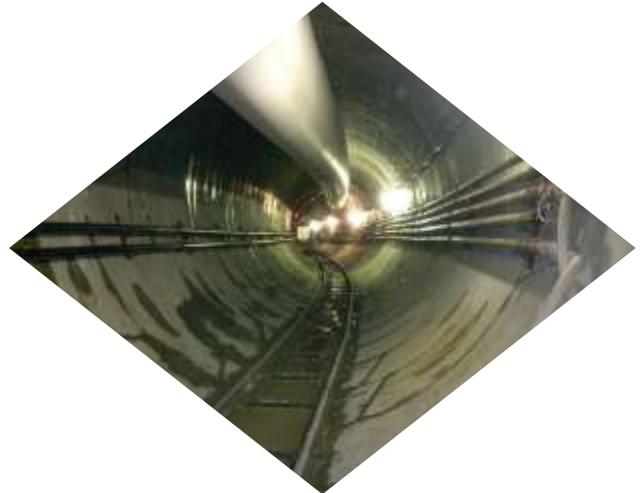
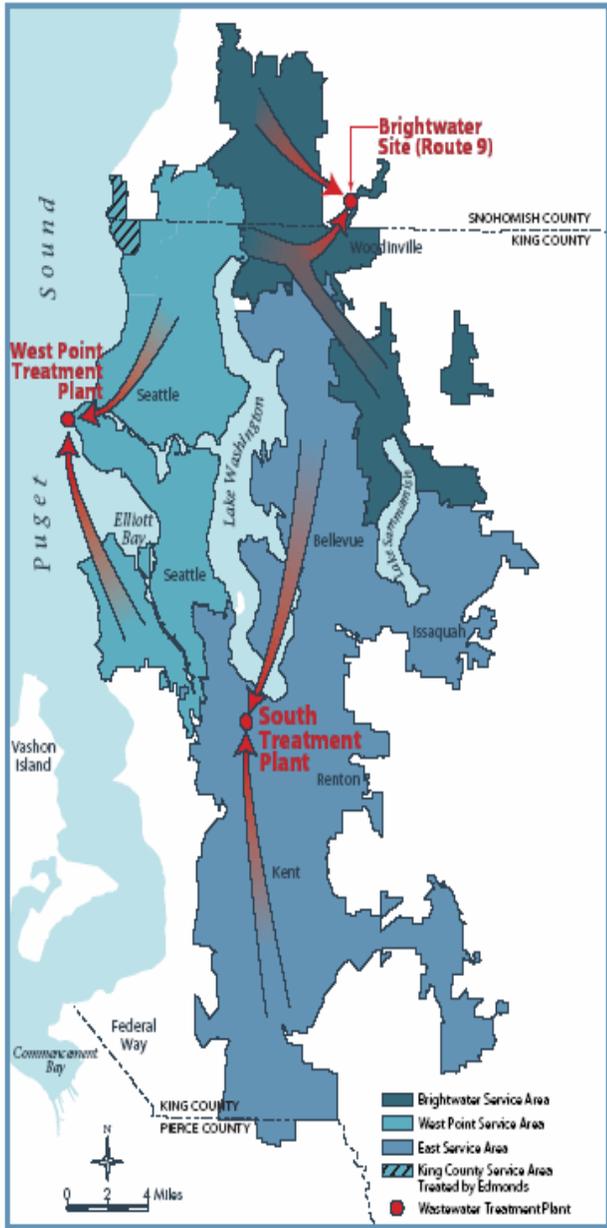
The County invests significantly in capital assets to increase the efficiency in delivering vital services and to promote a good quality of life for its citizens. The County's capital assets range from the industrial scale plants built for wastewater treatment and waste disposal, to the public infrastructure networks 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 Dec. 31, 2009, amounted to \$7.5 billion with 65 percent accounted for by business-type activities. Business-type capital assets typically generate revenues that allow County enterprises to recover its operating and debt costs. Governmental capital assets on the other hand are non-revenue generating and therefore are preserved or maintained from general revenues.



Major work-in-progress during 2009 include: a) the Brightwater treatment system (expected completion in 2011-12) and b) the Accountable Business Transformation Program to replace countywide financial systems (target implementation date of January 1, 2012). Significant improvements were also made to transit centers and park-and-ride facilities of Public Transportation and existing transfer stations in the Solid Waste Enterprise. The Ninth and Jefferson Building, financed through a public-private partnership, was completed in 2009 and is primarily leased to Harborview Medical Center.



# ...the promise of Brightwater



Photos: Courtesy of King County Wastewater Treatment Division.

*...parks, trails, and natural areas*



**Marymoor Connector Trail**



**White Center Heights Park**



**Chinook Bend Natural Area**

Photos: Courtesy of King County Parks.



*....transit options*

Photos from Metro Transit website.

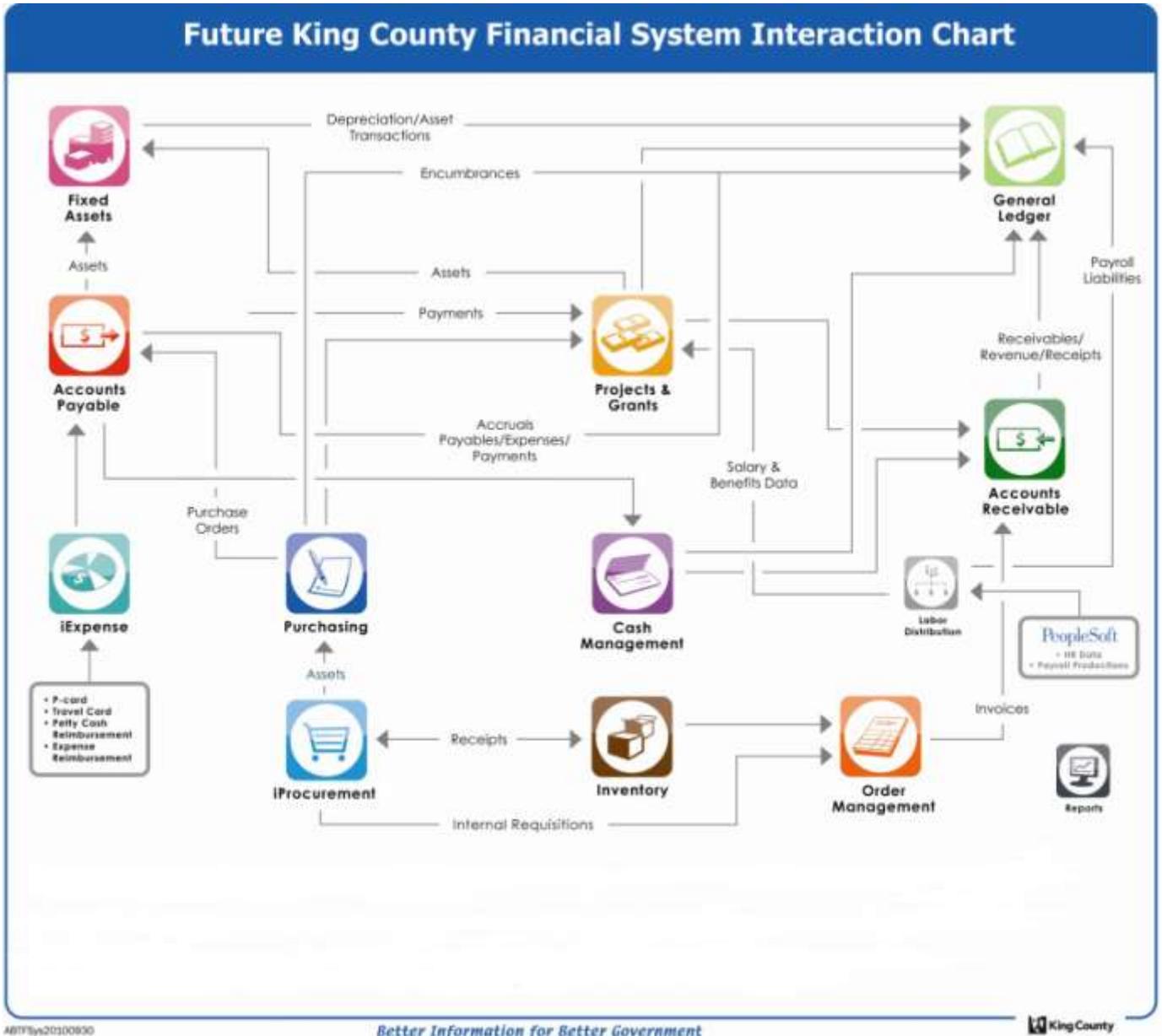


Chart: Courtesy of ABT Program

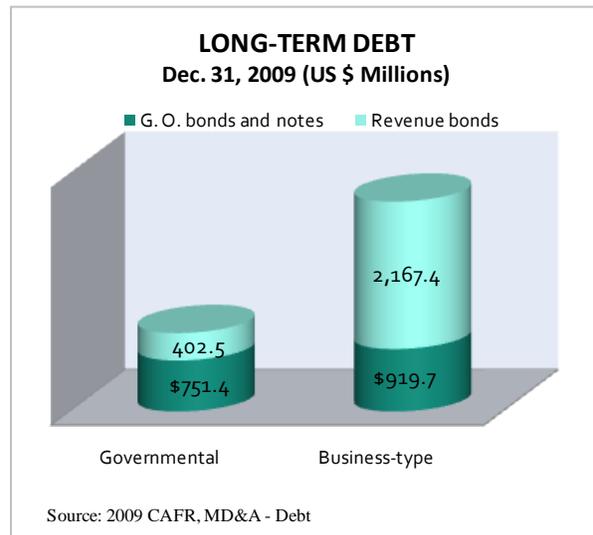
*“The Accountable Business Transformation Program is streamlining, standardizing and integrating business processes with countywide practices and systems. This enhances the county’s ability to provide more effective and efficient services to King County residents”.* – ABT website

*...the promise of ABT*

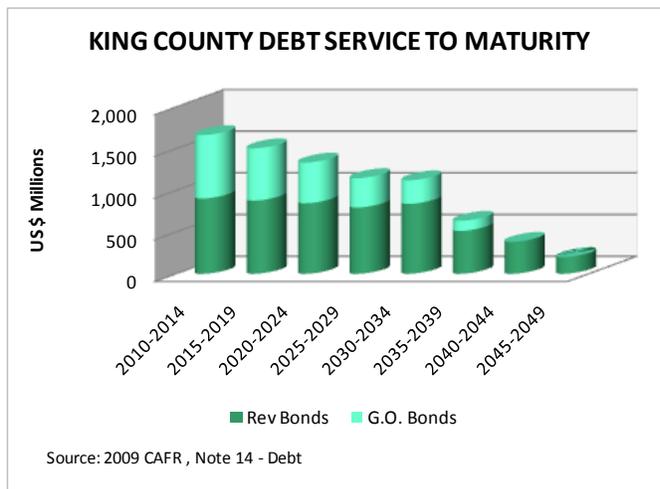
## LONG-TERM DEBT

At the end of 2009 the County had a total of \$4.2 billion in bonds and notes outstanding. This amount comprises \$1.6 billion of general obligation (G.O.) bonds and \$2.6 billion of revenue bonds. G.O. debt is backed by the full faith, credit, and taxing power of the government while revenue bonds are secured by specific revenue sources, e.g. sewer fees, lease payments, etc. The County uses revenue bonds to finance the major portion of its wastewater treatment facilities. These facilities generate the revenue that is in turn used to pay back the debt.

In 2009 the County refinanced older G.O. debt with new bond issues which will result in eventual savings of approximately \$33.5 million in debt service costs because of the lower interest rates.



State statutes limit the amount of General Obligation (G.O.) debt that the County can issue. As of 2009 the County's total G.O. debt is less than 14 percent of the legal debt margin as stipulated for debt used for county purposes and metropolitan functions.



The County's debt issuances, both G.O. and revenue bonds, consistently receive exceptional ratings from the leading industry credit rating agencies. This signifies that County debt has low default risk allowing it to borrow at favorable interest rates.

Debt service requirements (future principal and interest payments) through maturity for all outstanding long-term debt at December 31, 2009 are shown on the left. The chart depicts the amounts that will be needed (shown at five-year intervals) to pay down long-term debt as they come due.

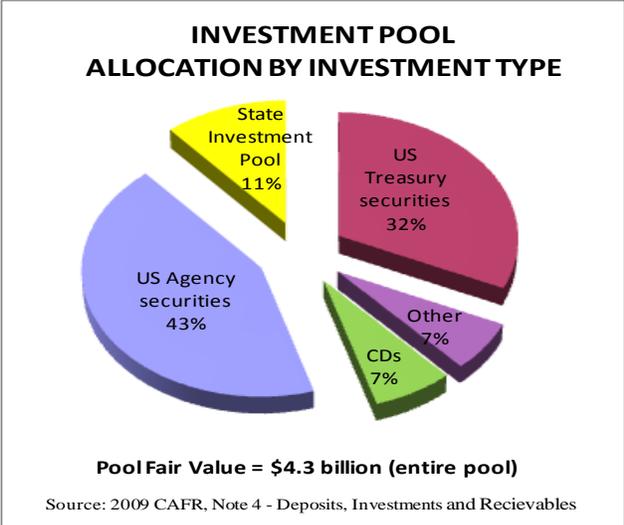
During the first half of 2010, the County completed the sale of \$100 million general obligation bonds to finance sewer system projects. The County also expects to issue an additional \$550 million of new debt by the end of 2010 for various capital programs.

# CASH MANAGEMENT

The County’s bank deposits in Washington State are insured under the Federal Deposit Insurance Corporation (FDIC) up to the maximum standard insurance amount (currently \$250,000 per depositor). The FDIC also allows a special temporary enhanced protection for certain accounts above the standard insurance amount. Additional protection of government deposits is provided by the Public Deposit Protection Commission (PDPC) of the State of Washington (a multiple collateral pool) which has the power to: 1) require public depositories to put up collateral for up to 100 percent of their public deposits, and 2) assess all public depositories a maximum of 10 percent of its total public deposits when a bank fails.

For investment purposes and to manage liquidity, the County pools the cash balances of all County funds and other legally separate local agencies 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 in 2009 of \$4.3 billion (\$1.6 billion for the primary government).

The Pool seeks to obtain a market rate of return while preserving and protecting capital. The current financial environment, however, has led to investment positions concentrated on U.S. agency securities, U.S. treasuries and other safe investments as shown in the chart. The State Investment Pool is an independent pool which also has significant holdings of U.S. agency securities and U.S. treasuries.



The Pool is managed by the Treasury Division and overseen by the Executive Finance Committee (EFC) which consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and the Director of the Finance and Business Operations Division. The EFC sets policies and procedures for the effective management and control of the pool’s activities. The pool is currently subject to quarterly reviews by an independent consultant with respect to policy compliance, sector and issuer allocation, credit quality, and maturity structure. At December 31, 2009, the review indicated that the Pool is of “sound credit quality, well diversified, and appears to provide ample liquidity.”

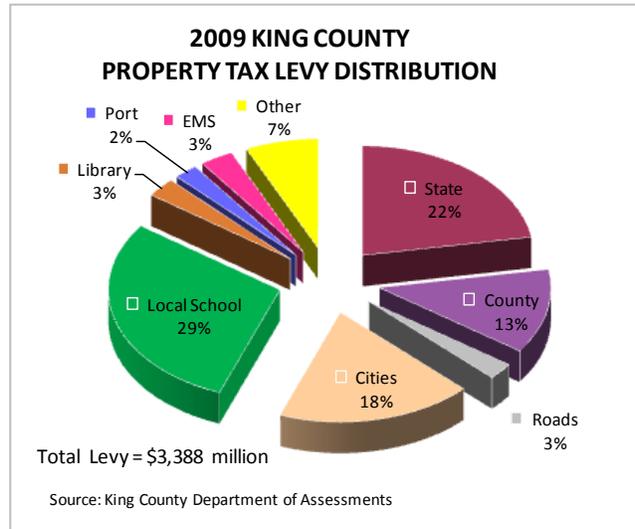
# PROPERTY AND SALES TAXES

## Property Tax

The County is authorized to levy both “regular” property taxes and “excess” property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose “excess” property taxes that are not subject to limitation when authorized by majority popular vote.

The County Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. The allocation of property taxes received in 2009 is shown in the following chart.



**Sales Tax**

Another major source of revenue for the County is sales tax receipts. A sales tax rate of 9.50 percent is assessed in the county under the following allocation:

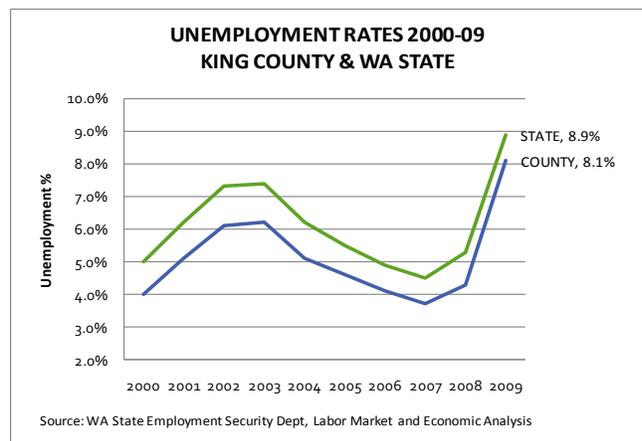
- 6.5 percent is collected by the state;
- 1.0 percent is a local option tax divided between cities and the county;
- 0.9 percent is collected to support Metro Transit;
- 0.9 percent is collected by the Regional Transit Authority (Sound Transit);
- 0.1 percent is collected to support criminal justice programs;
- 0.1 percent is collected to support mental health & chemical dependency programs.

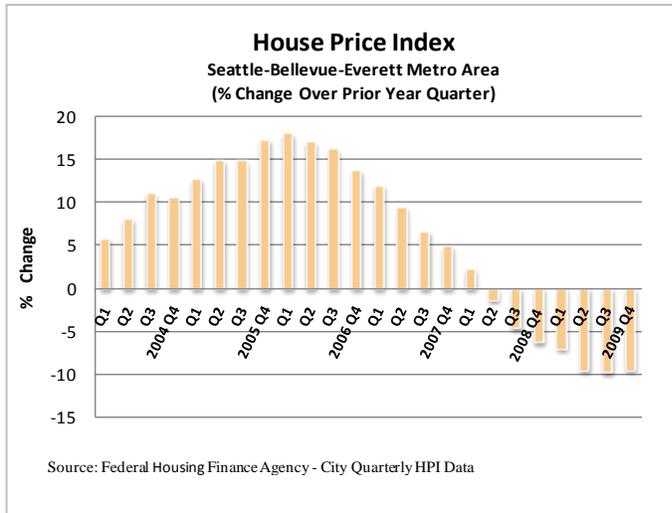
A supplemental sales tax of 0.5 percent tax is imposed on food and beverage sold in restaurants, bars and taverns. Proceeds from this tax are dedicated to funding debt service on county bonds sold to finance the construction costs of Safeco Field.

**ECONOMIC CONDITIONS**

**Current Recession**

The full effects of the current economic recession were not felt in the Puget Sound region until 2009. Unemployment at the end of 2008 was still at 4.1 percent but jumped to 8.1 percent in 2009. Home valuations (chart on next page) were at their lowest in late 2009 through early 2010. It is estimated that 15 percent of homeowners in the Seattle area are “underwater” on their mortgage loans. The drop in home valuations together with a decline in personal income growth contributed to high





rates of foreclosures and bankruptcies. Commercial real estate demand also slowed down as businesses cut back on operations and investment as the recession deepened. Office vacancy rates reached an all-time high of 15 percent in 2009 up from 9 percent in 2008. Although the massive federal stimulus programs seem to have restored the flow of credit to businesses and some confidence back to investors and consumers, the economy appears to be struggling in its recovery as evidenced by the high volatility in the financial markets. The County anticipates anemic growth in the national and regional economy for 2010.

Economic conditions have a direct impact on the County’s revenues and the demand for its services. The County’s main revenue sources are taxes, charges for services, and intergovernmental revenues. The largest single source (one-third) is taxes and consists primarily of property taxes and retail sales and use taxes. Retail sales taxes tend to be volatile as they fluctuate with the local and regional economy. Property taxes tend to be stable as increases are capped at 1 percent plus tax on new construction.

County taxable retail sales continued to be affected by the low consumer confidence and lower per capita incomes. Sales tax collections in the General Fund already down 5 percent in 2008 slipped further by 13 percent in 2009.

The assessed value of taxable property in the County for taxes due in 2010 fell by 12 percent in the 2009 assessment year bucking a seven-year increasing trend. New construction fell 35 percent in 2009 following six years of double digit-growth.

The County’s investment pool earnings were hampered in 2009 as a result of historic low interest rates on federal agency and treasury notes which make up a good portion of the County’s portfolio. The net rate of return was less than 2 percent, down from over 5 percent as early as two years ago. Rates are expected to decrease further as the demand for safety in investments remain high.

Future Outlook

The economic recession continues to take its toll on asset prices, employment, and output. Little growth is expected in 2010 as a result of weak business investment and fragile consumer demand. Any near-term recovery will be sluggish. King County employment is expected to decline further in 2010 although at a slower pace than in 2009. Job growth is anticipated to return in 2011 as businesses gradually increase production after scaling back operations over the past two years. Business growth should spur the commercial real estate market. Home prices appear poised for a modest turnaround in 2011 with the hope that buyers and sellers will venture back into the market once home prices stabilize and lending becomes less tight. General inflation is expected to remain at low levels over the next two years although expectations are that the excess liquidity from the federal stimulus will eventually cause upward price pressures. King County will continue to face the added challenges of volatile energy prices, rising employee and programmatic health care costs, and the need to raise sufficient revenues to support utility, transit system, and general government operations.

# MAJOR INITIATIVES IN 2009

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## 2009 Cost Savings

In 2009 King County faced a \$93.4 million budget deficit in the General Fund (the largest in the County's history). To close the gap the County aggressively sought out noncritical program areas that can be permanently eliminated and those where savings can be realized through increased efficiencies. During this process, \$38.2 million in permanent cost reductions and efficiencies were realized with minimal impact on services. Significant cost reductions were made in the Sherriff's Office (\$5.6 million); Public Health (\$4.2 million); and Prosecuting Attorney (\$3.0 million). An additional \$5.7 million savings in overhead charges to the General Fund was also realized from cost control measures implemented in the County's internal service funds. The County also implemented, in coordination with its labor unions, a ten-day countywide furlough on nonessential positions which saved \$8.7 million in the General Fund. Select programs were also put on "lifeboat" funding (partial and temporary) saving an additional \$10.5 million. An out-year reserve of \$10.5 million in the General Fund was also tapped to shore up the deficit. Finally, \$15.4 million in additional savings was realized using a variety of technical changes and through the use of reserves.

## Emergency Flood Mitigation Actions

The County developed and implemented a plan to limit the likelihood of negative economic impacts and service delivery interruptions in the event of a major flood resulting from failure of the Howard Hanson Dam, the main flood control facility in the Green River valley southeast of King County. To protect and maintain governmental functions that operate in facilities inside the flood zone, the County approved \$27.2 million of budget authority (financed by debt) in 2009. The Wastewater Treatment Division also received \$5.2 million of budget authority to protect the South Regional Treatment Plant facility in Renton. In the meantime, the Flood Control Zone District reprioritized \$8.4 million of flood levy projects to levees in the critical areas of the Howard Hanson Dam flood zone. The County will seek to obtain reimbursement from the federal government for the costs incurred for during 2009-2010 flood season.



Howard Hanson Dam



Green River in SE King County



Crew deploying sandbags

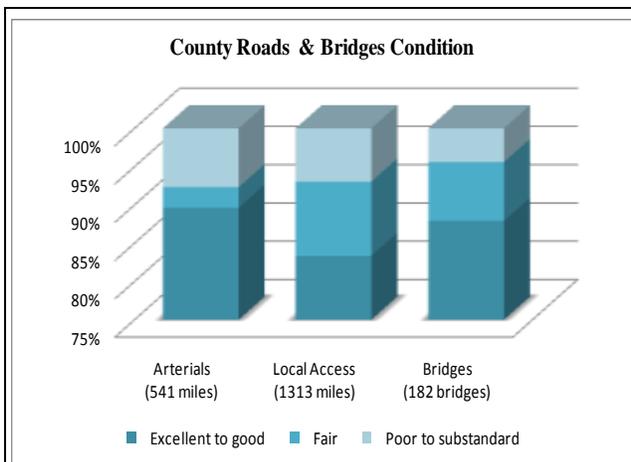
# SERVICE DELIVERY

## Operating Statistics of Major Services

King County provides regional services to all residents of the county including those living in incorporated cities and towns. The menu of regional services includes court systems, public health, correctional facilities, records and elections, public transportation, property tax functions, emergency management, sewage disposal, wastewater treatment, surface water management and flood control, international airport, regional parks, and animal control. In unincorporated communities, the County provides the above plus additional local services such as police protection, land-use regulation, construction permits, roads and local parks.

Following are selected operating statistics trends for major County operations. These do not include comparisons with performance standards. The County does have a program for tracking service efforts and accomplishments - the AIMs HIGH program of the Office of Strategic Planning and Performance Management tracks performance measures and indicators for a broad range of County services. Interested readers are directed to their website (see Appendix) for more information.

<p><b>Transit: Number of Bus/Commuter Van Trips</b></p>	<p>Metro Transit operates bus and vanpool services in the County. The number of bus trips fell 5.5 percent in 2009 coming off a high in 2008. Commuter van trips followed the same pattern. Metro fleet now includes 1,560 buses of different types and 1,088 commuter vans. Declining revenues resulting from the economic downturn has impacted Metro Transit's future expansion plans although elements of the voter-approved Transit Now program are being pushed through. To maintain current service levels, the division secured a tax-neutral levy for 2011, made changes to the fare structure, acquired more energy efficient buses, and improved scheduling.</p>
<p>Wastewater Treatment is constructing the Brightwater Treatment System which, when completed, will add an average of 36 million gallons per day (MGD) to the system with room for future expansion of up to 54 MGD. Treatment plant operations is scheduled to begin in 2011, with the entire system scheduled for completion in 2012. Other projects in the Regional Wastewater Services Plan (through 2030) include conveyance system improvements, control of untreated water outflows, control of clean water infiltration, biosolids recycling, odor control, and reclaimed water reuse.</p>	<p><b>Wastewater Treatment System-wide Daily Flows</b></p>



The Roads Services Division preserves and maintains about 1,854 lane miles of roads and 182 bridges in unincorporated King County. Major capital improvements are systematically identified and prioritized in the six-year Capital Improvement Program. This program is funded primarily through property taxes, grants, and mitigation payments. Funding for roads has gone down over the years due to voter mandates and policy decisions, and was further exacerbated by the economic recession. The County is faced with finding alternative revenue sources to fund preservation and maintenance of the roads and bridges infrastructure.

The Sheriff's Office provides law enforcement services to Unincorporated King County and contract cities (approximate population of 575,000). Funding comes from contracts, grants, and the general fund. The budget shortfall in the general fund resulted in staff cuts, although services to contract cities were kept at the same level. The Sheriff's 5-Year Strategic Plan aims to promote safe and healthy communities, build trust and support within community stakeholders, provide responsible law enforcement, and promote a highly skilled workforce. The capital program includes the centralization of major operations, a more fuel-efficient fleet, and the replacement of the records system.

**SHERIFF'S OFFICE**

	No. of Employees		Police Equipment		
	Commission	Civilian	Vehicles	Boats	Helicopters
2000	684	360	687	7	4
2001	694	372	627	6	3
2002	705	377	636	6	3
2003	730	365	695	8	4
2004	717	366	690	6	5
2005	704	355	651	5	5
2006	734	305	703	8	5
2007	714	312	670	8	6
2008	743	313	662	8	7
2009	729	290	638	8	7

<b>PUBLIC HEALTH</b>		
Service measures	Result	Year
Percent of children with up-to-date information in the vaccine registry	58%	2008
Percent of TB cases completing treatment within one year	92%	2007
Percent of establishments with a food permit	99%	2008
Percent of Medic One patients surviving cardiac arrest	49%	2008
Number of children enrolled in public health insurance programs	4,845	2009

The Dept. of Public Health, in partnership with the City of Seattle, provides regional health services to King County. Policy direction is provided by the Board of Health in coordination with the King County Council. Funding is through contributions from the County and City of Seattle's general funds, state and federal grants, private grants, fees and patient revenues. Slow revenue growth, rising medical cost, cuts in State and County general fund contributions, and a decrease in demand for fee-based services forced budget cuts in 2009-10. An operational master plan outlines added steps to optimize current funding levels.

# APPENDIX

## CONTACT INFORMATION:

### **FINANCE UNITS**

Finance and Business Operations, Department of Executive Services	(206) 263-9258
Financial Management Section	(206) 296-7376
Financial Accounting (CAFR, PAFR)	(206) 296-7318
Accounts Payable	(206) 263-7276
Accounts Receivable and Collections	(206) 296-1492
Accounting Systems Operations/Control	(206) 296-7325
Treasury Operations Section – Investment Pool	(206) 296-7310

### **AGENCIES MENTIONED IN THE PAFR**

Office of Strategic Planning and Performance Management, King County Executive Office	(206) 296-0700
Office of Management and Budget, King County Executive Office	(206) 296-9727
Accountable Business Transformation Program, Department of Executive Services	(206) 296-4045
Metro Transit, Department of Transportation	(206) 553-3060
Wastewater Treatment Division, Department of Natural Resources and Parks	(206) 684-1280
Roads Services, Department of Transportation	(206) 296-6590
Sheriff’s Office	(206) 296-4155
Department of Public Health	(206) 296-4600

### **LINKS TO OTHER REPORTS**

<b>2009 CAFR</b>	<a href="http://www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx">http://www.kingcounty.gov/operations/Finance/FMServices/CAFR.aspx</a>
<b>2001-2008 CAFR</b>	<a href="http://www.kingcounty.gov/operations/Finance/FMServices/CAFRArchive.aspx">http://www.kingcounty.gov/operations/Finance/FMServices/CAFRArchive.aspx</a>
<b>2008 AIMS HIGH</b>	<a href="http://your.kingcounty.gov/aimshigh/index.asp">http://your.kingcounty.gov/aimshigh/index.asp</a>
<b>2010 Annual Budget</b>	<a href="http://www.kingcounty.gov/council/budget/2010_budget.aspx">http://www.kingcounty.gov/council/budget/2010_budget.aspx</a>
<b>2009 Annual Budget</b>	<a href="http://www.kingcounty.gov/council/budget/2009_budget.aspx">http://www.kingcounty.gov/council/budget/2009_budget.aspx</a>
<b>2009 King County Growth Report</b>	<a href="http://www.kingcounty.gov/exec/strategy/PerformMgmt/KCGrowthReport.aspx">http://www.kingcounty.gov/exec/strategy/PerformMgmt/KCGrowthReport.aspx</a>

### **EMERGENCY INFORMATION**

#### **Green River Flooding:**

County website: <http://www.kingcounty.gov/safety/FloodPlan.aspx>

Disaster preparedness guide: <http://www.govlink.org/3days3ways/>

King County Road 24/7 Help Line: (206) 296-8100 or 1-800-KC-ROADS

#### **Pandemic H1N1 Flu:**

Website: <http://www.kingcounty.gov/healthservices/health/preparedness/pandemicflu/swineflu.aspx>

Public Health - Seattle & King County Hotline 1-877-903-KING (5464) TTY Relay: 711.

Local Emergency Management Offices:

Auburn	(253) 876-1925	Renton	(425) 430-7000	Seattle	(206) 233-5076
Kent	(253) 856-4440	Tukwila	(206) 433-0179	King County	(206) 296-3830

#### **General Emergency:**

Emergency assistance	9-1-1	24-hour Crisis Line	461-3222
Community Information Line	2-1-1	or 1-866-4CRISIS	(1-866-427-4747)
Sheriff non-emergency	296-3311		