King County

Metropolitan King County Council

Regional Policy Committee

Staff Report

Agenda Item No.:	7	**Name:**	Beth Mountsier
Briefing No.:	2010-B0042	**Date:**	March 10, 2010

SUBJECT: A briefing and review of regional, local and contract government services in King County.

SUMMARY:
The Regional Policy Committee plans to review, analyze and discuss King County's regional, local and contract services with regard to state and local mandates, as well as funding and governance issues. The committee anticipates this review could lead to discussion of additional regional coordination, efficiencies and prioritization in the future.

To provide background information for the committee prior to a work plan being developed by committee and intergovernmental staff for this effort – committee staff will brief the committee on the highlights of previous reports that were prepared on these issues in 2003 and 2004. Attached to this staff report are the full reports from the King County General Government Budget Advisory Task Force (**Attachment 1**), The Municipal League of King County (**Attachment 2**); and King County Commission on Governance (**Attachment 3**).

At the time, the Executive had assembled analysts, business leaders and former government officials from the private sector for his task force – in large part in response to the fiscal crisis King County encountered beginning in 2002. Subsequently, the Council commissioned a similar but different group to provide a review and recommendations on issues of governance. Both groups review and recommendations went beyond the immediate financial situation and looked at larger issues of mandated and discretionary services, local and regional services, governance and finance, etc. The Municipal League report was also prepared in response to the financial situation at the time – but was prepared independently.

ATTACHMENTS:

1. Report of the King County General Government budget Advisory Task Force to Executive Ron Sims, dated June 25, 2003
2. Shortchanged: King County's Fiscal Crisis, A report by The Municipal League of King County, dated November 17, 2003
3. King County Commission on Governance Final Report and Recommendations, dated March 31 2004

Report of the King County General Government Budget Advisory Task Force To Executive Ron Sims

June 25, 2003

EXECUTIVE SUMMARY

King County faces a fiscal crisis. Absent dramatic changes in the way King County does business, and the availability of new revenues, *every year in the future,* County general government service budgets will be cut and service levels will suffer. As currently structured and funded, King County's general government services are not sustainable.

The funding crisis is the result of several factors:

- The County is responsible for providing an unusual mix of governmental services: mandated regional services are provided to 1.7 million County residents; and mandated local services provided to over 350,000 residents living in rural and urban unincorporated areas.
- In addition to mandated services, the County also has chosen to provide various discretionary services such as parks and human services.
- 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.
- There is a serious misalignment of regional and local revenues and expenditures – to the detriment of regional services – resulting from a combination of policy choices as to how to allocate limited revenues, together with the failure (for a variety of reasons) of many urban areas to annex to cities.
- Salary and benefits costs for County employees are growing faster than revenues, a situation made more problematic by the fact that the County operates under a set of inflexible labor laws and policies.
- The County has a complex, fragmented organizational structure with inefficient internal systems.

In total, general government expenditures are projected to grow at an annual rate of between 5.5 percent and 6.5 percent a year while revenues are projected to grow at a rate of less than two percent per year. The current recession is not a cause of this crisis but it has exacerbated the challenge.

Actions have been taken to address this crisis. In the last two years, over $90 million in cuts have been made to general government services in order to balance the budget. There are no easy budget cuts left. There is no "silver bullet" to resolve the crisis. The situation is urgent. Unless things change, the County will need to reduce services every year, given revenue constraints. Delaying action will make it much more difficult and painful in the future.

The complexity of the budget challenge, and the County organization itself, is such that despite the work of our Task Force over the last eight months, we believe it is neither appropriate nor possible for us to offer line-item budget cut recommendations. Rather, this report reflects our assessment of the current direction of the County, poses several questions for further inquiry, and recommends several policy directions and actions that we believe should guide County leaders in managing the budget crisis in the near and longer-term.

Our report presents our analysis of the current situation and recommendations in four areas: Service Priorities; Administrative and Operational Policies and Efficiencies; Alignment of Services and Revenues; and Revenues. The Task Force makes 39 recommendations in total. Our most important recommendations and conclusions are summarized below.

Service Priorities:

- We identify no general areas where King County should stop providing services. Most services provided are mandated. Others, such as parks or human services are valued public services and have strong constituencies supporting an ongoing County role. Significant savings may be achieved over time from eliminating some specific programs within general services areas or reducing the level of service.

- The County should initiate a regional dialogue to rationalize delivery of specialized police services (such as marine patrol, K-9 teams, and bomb squads). There are currently 80 such units in King County provided by the County and eight cities. We do not recommend any particular governance or delivery outcome, but we believe that significant savings are achievable to the County, cities and the region if less duplicative service delivery can be agreed upon.

- The County must seek full cost recovery on its discretionary contract services – including not only operating and overhead costs, but also capital costs.

- Budget decisions must be consistent with the County's growth management vision. Actions should promote annexation, and reflect a lower level of service in rural areas than in urban areas.

- The County must identify a long-term regional plan for funding of important discretionary programs such as parks and human services.

Administrative and Operational Policies and Efficiencies:

- King County can become more efficient. All levels of County government, and all programs, should be engaged in identifying ways to become more efficient and eliminating duplication. Both for the real impact and symbolic impact, such action can help restore the public's confidence in our government. Significant

effort should be made to build an organizational culture that rewards efficient service delivery.

- Because law safety and justice programs consume over 70 percent of the CX dollars, it is imperative that the County's Criminal Justice Council – composed of separately elected leaders from the courts, sheriff's office, prosecutor's office and other parts of County government – work more pro-actively to identify ways to become more efficient and control costs. We recommend immediately investigating possible savings from consolidating the administrative functions of the district and superior courts

- The County must improve the transparency of its budget, financial and operating policies. Efficiencies often flow from visibility. The budget issues must be more understandable to the public, and more clearly reflect the County's distinct roles as a regional and local service provider.

- The County must simplify, unify and streamline its management practices. Basic management systems of the County are fragmented. There are multiple financial systems and human resources systems. Basic business policies and practices of the government differ widely across the organization. The County should engage all employees in a search for improved productivity.

- The County must place a higher priority on investing in central systems technology. Unifying business practices will be necessary to take full advantage of such investment.

- The County's primary mission is to provide public service, not to provide employment. If public sector employees cannot supply services effectively or, efficiently as private or other governmental service deliverers, then contracting out those services must be considered. For example, "reverse contracting" with cities to provide services in unincorporated areas or rural areas may be a far more efficient means of delivering service within the County's physically scattered areas of local service responsibility.

- Collaboration – with other governments, as well as internally within the County organization – is an important key to securing greater efficiencies. Generally we believe there are efficiencies to be gained by working with other governments in the region – and through streamlining internal processes.

Alignment of Services Expenses and Revenues:

- Currently, local service delivery to unincorporated area residents is being significantly subsidized by regional dollars at an estimated annual rate of $42 million in 2003. This is happening at the expense of regional services. It is a result of the unique mix of services King County is required to provide on a limited set of revenues, but is also the result of annexations and incorporations

over the last 15 years leaving a patchwork of urban service areas behind for the County. King County's own policy decisions, restricting certain general local revenues to limited purposes, also contribute to the problem. We recommend the County launch a major effort of *at most* three years in length to reduce the "urban subsidy" and encourage annexation. This effort should be funded by reprogramming existing local revenues. Cities and unincorporated urban area residents must be engaged as partners in this effort. Service levels in urban unincorporated areas must be reduced beginning in the 2004 budget – and residents must understand further reductions are inevitable. Cities must accelerate their annexation plans, and the County must make some money available to cities as a modest incentive to annex. There is urgency to this proposal: the longer the County remains in the urban service business, the longer the budget crisis will continue. Work must occur now to identify clear targets and policies for reducing local service budgets as annexations occur.

Revenues

- The County revenue structure is inadequate to meet the demands of the County's service obligations. While significant effort can be made to forestall or reduce service cuts by doing business differently, it will not be possible to maintain service levels for a growing population with revenue growth of less than two percent per year. The County must provide better information to the public about its services and its revenue challenge. And, the County must use its limited revenue and fee setting authority to address its challenges – including through full cost recovery in contract services and ensuring fees reflect the cost of service.

- The single most important action the State should take to assist the County would be to authorize it to impose a utility tax in unincorporated urban areas on the same basis as currently imposed by cities. This would be a potent fiscal tool to address local service budget subsidies – and, by creating better tax equity with cities, it would remove a potentially significant barrier to annexation. If annexations do not occur, additional revenue tools may need to be made available to residents of these areas.

- The State should grant greater fiscal autonomy to the County – particularly in setting fees for services.

- The State should also provide more direct fiscal support for critical law, safety and justice functions such as superior and district courts, indigent defense, and aggravated murder cases.

As we conclude our work, we acknowledge the ongoing efforts of several other groups addressing very similar issues. The County's Governance Commission in particular will be reviewing and we hope, building on, our recommendations. The Municipal League is studying King County's future, as is the League of Women Voters. The King County Bar Association has just completed a study on court efficiencies. In some respects, these

multiple efforts are an encouraging sign of growing public recognition that critical services provided by King County are threatened by a serious fiscal crisis. Perhaps with greater understanding, there will be better opportunity to address the crisis. Indeed, we believe all County residents, and all government jurisdictions within King County, have reason to work together to find solutions to this challenge.

Report of the King County General Government Budget Advisory Task Force to County Executive Ron Sims

June 25, 2003

INTRODUCTION

Task Force Mission, Process, and Report

The general government services provided by King County are fundamental to the quality of life in our region. Criminal justice services, including the superior and district courts, prosecutor and public defender's offices, the sheriff's office, jail and detention facilities, ensure the public safety of our communities. Providing public health services and basic human services, as well as the day-to-day functions of public record keeping, issuing licenses, conducting elections, assessing property and providing treasury services are also County responsibilities. These essential functions comprise the basic governing services and structures that we all rely on, and which are often overlooked because they are so much a part of the fabric of our daily lives.

The County's ability to continue to provide these essential government services is in serious jeopardy. Last year, a record $51 million in cuts to general government programs were required in order to balance the County Budget. County Executive Ron Sims indicated that this trend would continue because of the basic limitations of the County's revenue structure. In October 2002, the Executive created the King County General Government Budget Advisory Task Force ("Task Force"), to provide advice on this challenge.

The Task Force is composed of 13 citizens (See **Attachment A**). The Executive recruited these Task Force members in order to secure a broad range of perspectives and experience. Task Force members come from backgrounds in government, business, labor and the non-profit sector.

The mission of the Task Force, as presented by the Executive, is as follows:

> *Examine the County's Current Expense (CX) Fund, programs, policies, processes and budgets, and make recommendations regarding policy and operational changes that may provide appropriate additional cost savings, as well as the need, if any, for additional revenues in support of CX programs.*
>
> *The work of the Task Force will include examination of general government functions and budgets, including but not limited to the courts, sheriff, jail, public health, human services, parks and central government*

functions. The Task Force will also review the 2003 budget process and make recommendations about 2004 budget cuts.

The Task Force had its inaugural meeting in early November 2002. This was followed by a series of tours of many County general government functions in December. The Task Force then met every two weeks from January through June. All meetings were open to the public. Multiple stakeholder panels were held in order that the Task Force could hear not only from the Executive staff, but also directly from others in government and in the region, including mayors and city managers, judges, the King County Sheriff, the King County Prosecutor, the King County Bar Association, unincorporated area council representatives and County Councilmembers – among others.

The Task Force identified three primary tasks for its work:

1. *Identify short-term and long-term direction/priorities for budget cuts.*
2. *Identify short-term and long-term operational and other changes to address CX shortfalls.*
3. *Determine whether there is a structural problem with the County's funding, and if so, are new funding sources required? What type of funding sources?*

This report presents the Task Force's assessment of the critical fiscal problems facing King County general government and a series of short and longer-term recommendations to address those problems. We begin with a general description of the challenge. Then, we in turn address four key substantive areas:

- Service Priorities for King County;
- Administrative and Operational Efficiencies;
- Aligning Services and Revenues; and
- Revenue Options.

In each of these substantive areas, we first present a challenge statement and analysis, then a list of recommendations, including: (1) *County action steps* (short term and long term); (2) *State action steps*; and (3) *Regional dialogue recommendations*.

We have reviewed a tremendous amount of information regarding the various general service budgets, the statutory obligations of the County, the limitations placed on it by state law, the array of revenue authorities granted the County, and the policies and practices governing expenditure of those revenues. The complexity of the budget challenge, and the County organization itself, is such that despite our work over the last eight months, we believe it is neither appropriate nor possible for us to offer line-item budget cut recommendations that will erase the ongoing budget deficits facing King County. Rather, this report reflects our assessment of the current direction of the County, poses several questions for further inquiry, and recommends several policy directions and actions that we believe should guide County leaders in managing the budget crisis in the near and longer-term.

PART I: KING COUNTY GENERAL GOVERNMENT FISCAL CRISIS: PROBLEM STATEMENT

King County's general government operations as currently constituted are not sustainable. Simply stated, the problem is that general revenues are growing at less than two percent per year and general service expenditures are growing at between 5½ to 6½ percent per year. Unless things change, County general fund budget cuts are a permanent, *annually recurring* event. It is important to understand the reasons for this situation, in order to identify solutions. We emphasize at the outset that the solution is not simply a matter of finding new revenue: while ultimately we believe new revenues are required, the County must also address certain basic operations and service delivery decisions.

The County has undertaken major budget cuts in general government services in the last two years – together in excess of $90 million. (See **Attachment B** for a list of the 2001 and 2002 general government budget cuts, by program area). This is the cumulative equivalent of nearly 19 percent of 2003 general government service budgets. General government services are budgeted out of the County's "Current Expense ("CX") Fund," which receives a variety of general revenues sources.[1] The 2003 CX Fund budget is $492 million.[2]

The County budget office estimates that *status quo* Current Expense expenditures will outpace revenue growth by over $20 million each year in 2004 and 2005, with the gap dropping to approximately $15 million in 2006 and each year thereafter.[3] Continued *status quo* service delivery means that the only way to balance the budget each year is to fire more County employees every year and reduce services to the public accordingly: an untenable outcome. We believe that other options must be identified and pursued in order to maintain an adequate level of public services. King County must be first and foremost a deliverer of quality public service.

The causes of the current situation are varied, and defy simple resolution. In our work, we found no "easy wins" or "low hanging fruit" – the County has identified and addressed these. There is no "silver bullet" to resolve the problem. The County has clearly made many difficult decisions in the past two years to deal with a serious budget crisis. But further changes in the way services are provided, and managed, are necessary. Ultimately, however, the County cannot resolve this crisis alone.

This portion of our report reviews some of the basic facts about general County services and revenues. These basic facts are not well understood by the public, but illustrate the sources of the budget crisis. The average County resident probably has little idea which

[1] We use the terms "general fund" and "CX Fund" interchangeably in this report. Technically, the CX Fund is a sub-fund of the "General Fund," constituting over 99 percent of the General Fund budget. Approximately $4 million in dedicated sales tax revenues is also included within the General Fund budget.

[2] The sources of CX Fund dollars, and their application, are summarized in **Tables 2 and 3.**

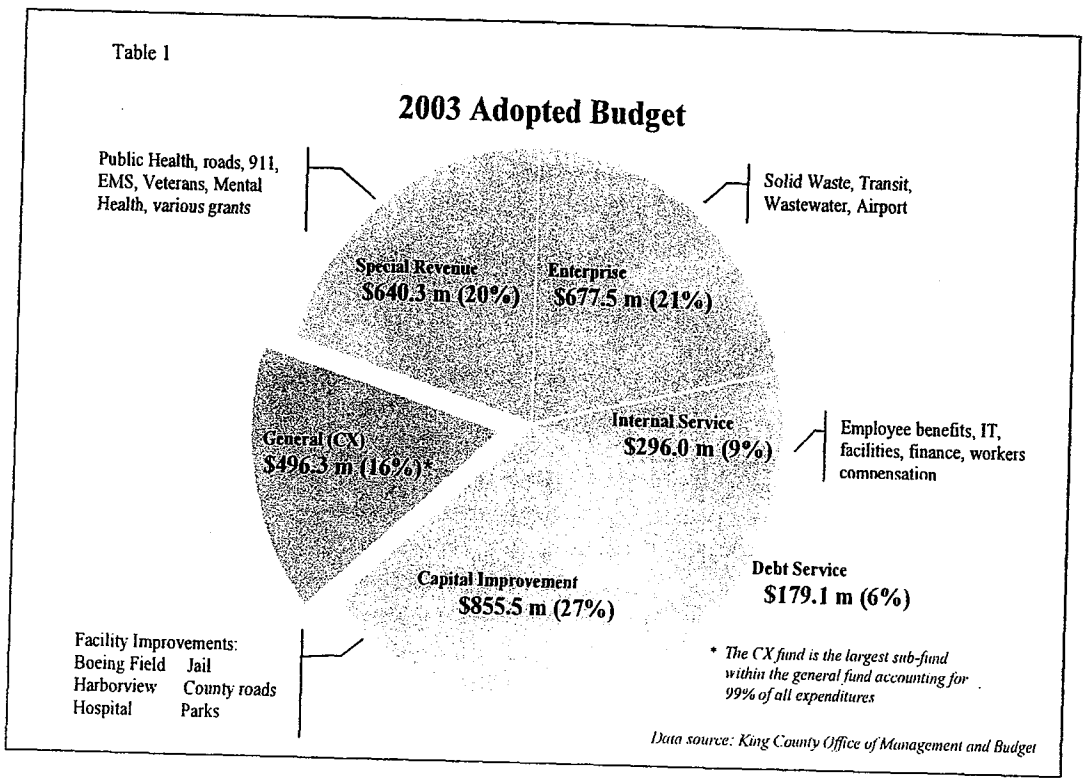
[3] Passage of the May 2003 parks levy will reduce the amount of 2004 budget cuts needed by providing funding directly for regional parks. If approved by Council, the Executive's Solid Waste Initiative would provide additional CX dollars to further reduce the needed 2004 budget cuts.

services are provided by the County, or where the money to support these services comes from. The County is largely invisible to residents. However, both County government and the public must understand the current situation, its root causes, and the implication for our region if nothing is done to change the situation.

Distinguishing the CX Fund from the Rest of the County Budget. It is important to understand that the County's fiscal crisis is within one small (in terms of percentage) but critical part of County budget. As shown in **Table 1**, the total County budget in 2003 is in excess of $3 billion. The County's *general fund budget* – or "*Current Expense*" (CX) Fund budget – is only about 16 percent of the total annual budget. The rest of the County budget is comprised of programs that are entirely fee supported or have dedicated tax revenues – so-called "enterprise funds" such as regional wastewater treatment, solid waste disposal, transit service, and Boeing Field. Additionally, there are capital funds to which revenues have been pledged to pay debt service. These fee and revenue supported services and funds are not in crisis – although they do share some concerns as clients of the internal services that are budgeted out of the CX Fund. Actions taken to reduce the CX budget may, in some cases, have a beneficial "ripple" effect to these dedicated service areas (or, if overhead functions are not flexibly structured such reductions may actually increase central service charges to those agencies).

Table 1

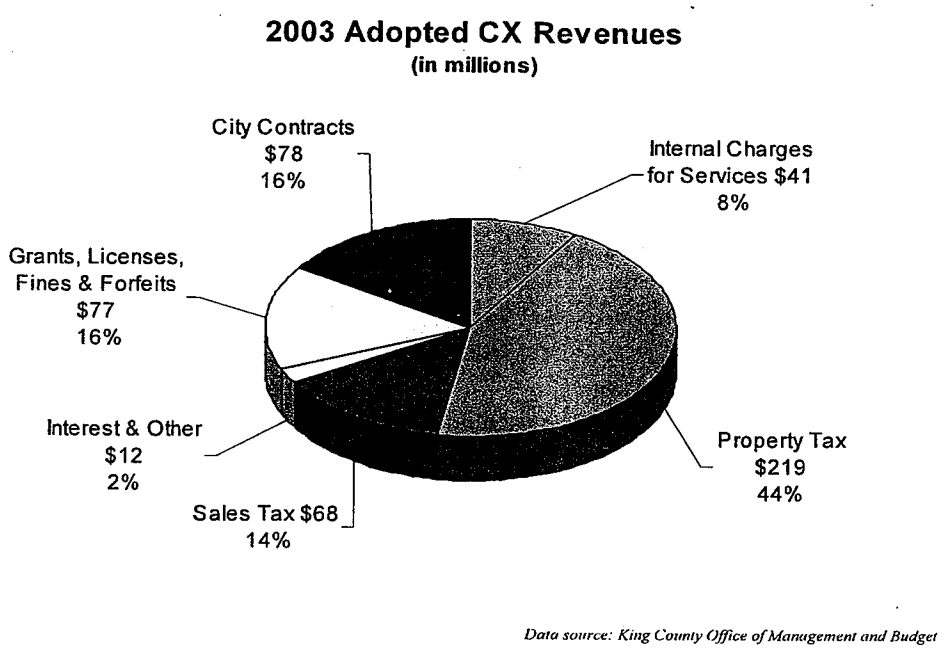
2003 Adopted Budget



The Role of the CX Fund. The CX Fund supports a disparate array of general government services, primarily services mandated by the state, as well as a few

discretionary services such as parks and human services. In addition, the CX Fund supports the basic *internal operations* of King County: the Council, Executive, human resources – general overhead functions. With a few notable exceptions,[4] these general government services are not self-supporting through fees: they require tax support. While utility funds contribute their share to support general overhead, there are clear prohibitions in state law preventing the diversion of utility dollars to pay for non-utility functions. Thus, CX programs such as the courts or parks cannot be supported by sewer fees, garbage disposal charges or bus fares. The CX Fund is supported primarily by: (1) a countywide property tax; (2) the County's share of sales tax, collected both inside cities and in the unincorporated areas; (3) fees for service, such as city sheriff contract payments; and (4) transferred revenues from other enterprise functions of the County in payment for services (typically overhead services) provided by CX agencies. **Tables 2 and 3** detail the sources and application of revenues to the CX Fund.

Table 2

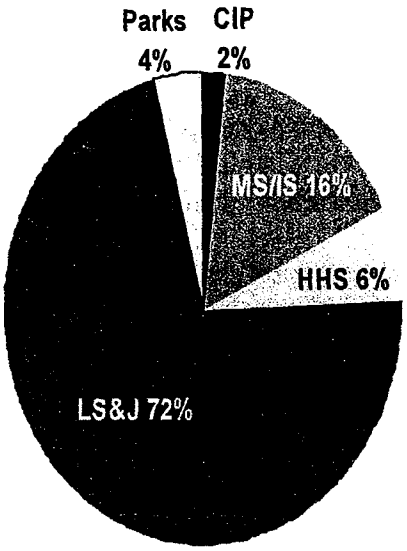


Data source: King County Office of Management and Budget

[4] Treasury services and public records not only cover the cost of operations through fees they generate several million dollars a year that are spun off to support other CX services.

Table 3

2003 CX Fund Expenditures



- Capital Improvement ($9 m)
- Miscellaneous Services/Internal Support ($80 m)
- Health & Human Services ($32 m)
- Law, Safety & Justice ($352 m)
- Parks, Open Space & DDES ($20 m)

Data Source: King County Office of Management and Budget

Miscellaneous Services/Internal Support	
Records, Elections and Licensing	$18 m
Assessors	$16 m
Council	$12 m
Human Resources	$ 6 m
Budget & Finance	$ 6 m
Contingencies	$ 5 m
Executive	$ 3 m
Executive Services	$ 2 m
Property Services	$ 2 m
Business Relations & Econ. Develop.	$ 2 m
Internal Support	$ 2 m
Other *	$ 6 m

* Other includes: Ombudsman, Tax Advisor, Board of Appeals, Boundary Review Board, Cable Communications, Auditor, and Hearing Examiner

Health & Human Services	
Public Health	$14 m
Human Services	$ 8 m
Children & Family Set- Aside	$ 4 m
Mental Health/ Alcoholism	$ 4 m
Housing	$ .5 m
Work Training	$ .6 m
Memberships	$ .5 m

Law, Safety and Justice	
Adult & Juvenile Detention	$103 m
Sheriff	$97 m
Prosecuting Attorney	$41 m
Superior Court	$32 m
Public Defense	$29 m
District Court	$20 m
Judicial Admin	$14 m
Contingencies	$ 7 m
Internal Support	$ 5 m
Courthouse Security	$ 1 m
Inmate Welfare	$ 2 m
Emergency Management	$ 1 m

Parks	
Parks, Pools, King County Fairgrounds, Rec Programs	$16 m
DDES *	$ 3 m
Other	$ .5 m

* DDES provides code enforcement, planning and fire marshal services for unincorporated King County

Root Causes of the Fiscal Crisis. We now turn to a brief examination of what we believe to be the root causes of the current CX budget crisis:

- *Doing two jobs, defined by the state*: The County has a set of expensive, but critical public services that it is required to provide by state law, including both regional and local mandated services.
- *Decisions made to provide discretionary services*: The County has over time chosen to provide many discretionary services.
- *Service Costs – which primarily consist of salaries and benefits, are growing each year.*
- *The County has a limited revenue base, dependent upon capped property taxes.* There are major limitations on County revenue authority imposed by state law and voter initiative.
- *Conflicting constituencies and multiple service obligations have led to misalignment of revenues and expenditures.*
- *A complex, politicized, and fragmented organization suffering from a lack of healthy central systems and challenging corporate culture.*

We address each of these challenges in turn below.

Doing two jobs, defined by the state. King County, like all Washington counties, is a creature of the state.[5] Although operating under a voter-approved charter, King County is required by the state to provide a wide array of public services. Whereas counties were originally envisioned to serve as the general government for an overwhelmingly *rural population*, over time a *dual role* has evolved, particularly in urbanized counties containing many cities. The County today has a *dual role* as the **local government** for unincorporated areas, and as the **regional government** for the County as a whole. King County provides a broad array of regional services to a population of 1.7 million. At the same time, it provides "city" local services to nearly 350,000 residents in the unincorporated areas[6] – a population equivalent of the *second largest city in the state.* Even if all residents in the urban area were to incorporate or annex, the County would still be responsible for providing basic government services to *rural residents* (currently approximately 135,000 in number – equivalent to the second largest city in King County).

The complexity of the County's task is made clear by examining a partial list of regional and local **mandated** service responsibilities:

[5] That is, it was initially created by the state (as opposed to cities, which are created by citizen action).
[6] Unincorporated areas are defined as all areas of King County outside of city boundaries, including both rural and urban areas. See **Attachment C** for a pie chart expressing the current population divisions.

Table 4

Regional Service Mandates

(*) per state law (+) service obligation approved/created by region's voters

*Superior Court
*District Court (certain case types)
*Public Defender (all felony and some misdemeanors)
*Prosecutor (all felony and some misdemeanors)
*Felony Jail
*Treasurer
*Assessor
*Mental Health and Substance Abuse treatment
*Sheriff (some statutory authorities)
*Public Records
*Elections
Public Health
+Sewage treatment
+Transit
+Automatic Fingerprint I.D. system
+Emergency Medical Services Funding

Table 5

Local (Unincorporated Area) Service Mandates

(per state law)

Roads
District Court (misdemeanor offenses)
Sheriff
Fire Inspections
Jail for misdemeanant offenders
Prosecution and public defense of misdemeanant offenders
Surface water management/storm drainage
Building Permits/Zoning/Land-use

King County is like a conglomerate that operates dozens of unrelated businesses. The merger of King County and METRO in the mid-1990s completed this picture, moving two very large fee and dedicated tax supported service structures – wastewater and transit – into the County. As noted above, however, the former METRO services are not the source of the CX Fund's budget problem.

The mandated services provided out of the CX Fund have evolved significantly over time:

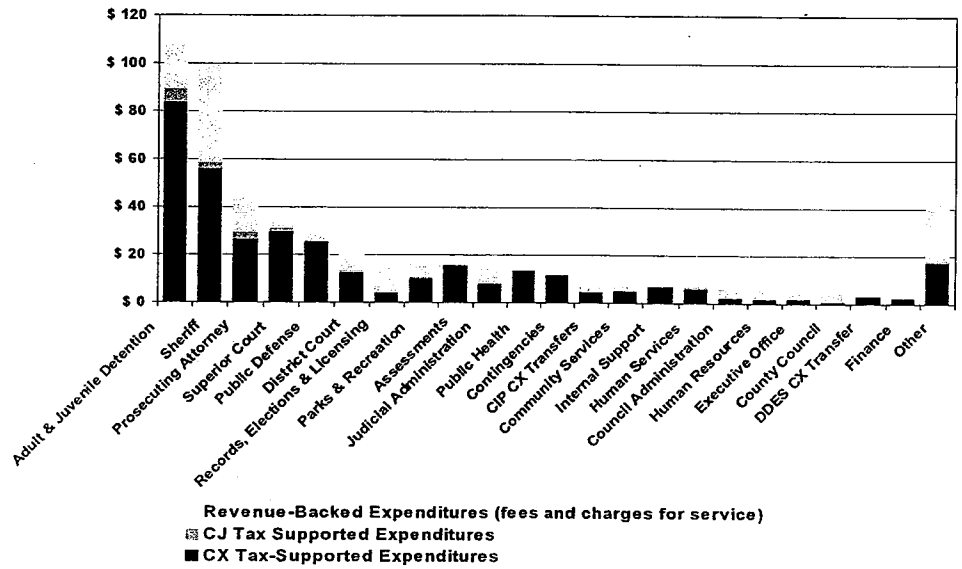
- **Public health** responsibilities today are far more complex than was the case 100 years ago: simply consider the impact of SARS, bio-terrorism and AIDS.
- The requirements of our modern **judicial system** are another example where we see significant evolution in the standards that must be followed, from "*Miranda* rights" to the dozens of foreign languages spoken by defendants for which translators must be daily provided.
- **New crimes** are added to the books yearly by the state legislature, which increases the number of people the County must arrest, try, prosecute, defend, and provide detention. Major crimes pose a particular burden: the combined cost for investigation, prosecution, and defense of the Ridgeway murder trail will exceed $6.5 million in 2003.

- Today, King County Department of Adult and Juvenile Detention spends over $19 million a year in **jail health care** for prisoners, including what is in essence the largest mental health care service program in the state.

Table 6 shows how much of the available CX dollars are consumed by different CX agencies – and the level of fees and criminal justice sales tax dollars supporting such programs. In terms of dollars, **law, safety and justice functions combined consume over 70 percent of the total CX revenue of the County** – a percentage that has grown steadily over time. The state mandates these functions, but provides little in the way of financial support. For example, the state retains nearly 40 percent of revenue generated by district court fines and forfeitures but provides no direct financial support in exchange. The only state support of the superior court is to fund one-half of judicial salaries and all judicial benefits, as well as a portion of juvenile court programs. The number of district court judges is set in state statute – the County cannot alter these based on caseload changes absent consent of the state. Washington state ranks 49th in the nation in providing financial support for the operation of its trial courts.[7] The state provides little direct funding for the operation of the County's jail function, the prosecutor and public defender offices. The County adult detention (jail) function is the largest single consumer of CX dollars – and each new crime put on the books by the state legislature impacts the average daily population of the County jails.

Table 6

2003 CX Funded Services: Fees and Charges for Services, CJ Tax Support, and CX Tax Support



[7] Source: Washington State office of Administration of the Courts, based on U.S. Department of Justice, Bureau of Justice statistics FY 1999 data.

Decisions made to provide discretionary services. Over time, the County has chosen to provide a number of discretionary services, in addition to its mandated services. Some of these services are extremely popular with the public, such as the regional parks and open space system. Human services, children and family services, and animal control are other examples of such discretionary services. As law, safety and justice budgets increase, budgets for discretionary services are being cut. The parks budget was slashed by over 30 percent in the last two years and now is preserved only because of passage this May of a special 4-year levy. The human services budget has been cut by similar percentages in this same period. Perhaps the decisions to enter into these service arenas were made without regard to the County's long-term fiscal capacity; perhaps they were an appropriate response to its mission of public service in an increasingly urbanized environment. Regardless, in a very real sense, the County's ability to continue to provide these services is at stake.

Services Costs – consisting primarily of salaries and benefits – are growing each year. The fact is that CX Fund services are *provided by people.* Salaries and benefits constitute over 70 percent of the expenditure of CX Funds. Per employee salaries have been growing at a rate of *five percent per year* (after considering retirements, new hires, cost of living allowances, and longevity increases). During the past two years elimination of almost 10 percent of the CX workforce reduced the aggregate growth rate in salaries to less than 1 percent per year. However, it will take cuts of similar magnitude each year in the future to keep the growth rate to such level.

County employee benefit costs over the last several years on average have grown at an annual rate of nearly 10 percent – on par with private sector experience across the country. However, for the next several years, this rate is expected to grow at around 15 percent per year (also on par with an expected increase in the national rates).

While labor costs are a major challenge, the County is constrained by both state laws and County policies in tackling these costs. The County currently has 94 different union bargaining units operating under 66 different union contracts. Over two-thirds of CX program employees are unionized, and this percentage has grown steadily over time. State law requires interest arbitration for sheriff employees and jail guards (as well as transit workers, not a part of the CX budget) – sending wage and working condition impasses to binding arbitration. Most significantly, County labor policies discourage contracting out of work. State case law interprets portions of the County Charter as preventing contracting out in certain situations.[8] Union leaders, we are told, much prefer budget cuts be taken through employee reductions – rather than salary or benefit cuts or contracting out of work: this forces the County to cut service levels in order to balance the budget.

It must be acknowledged that the County has achieved significant cost savings in working with its unions. For example, the most recent benefits contract (jointly negotiated with the County by all unions), doubled employee medical co-payments, allowing a one-year reduction in growth of benefits to around 1 percent as compared to

[8] Joint Crafts Council v. King County, 76 Wash. App. 18 (1994).

the roughly 10 percent annual national average in recent years. Also, through agreement with unions, the County has for the last many years used a *national* cost of living allowance index for most employees[9] that is lower than the *regional* Seattle-Everett metropolitan area cost of living index. State data suggests that County *top managerial* salaries lag significantly behind their public and private sector counterparts – an issue that we are told is having negative impact on the County's ability to attract high-level managerial employees.

In aggregate, **the cost of funding *status quo* CX services, after considering the cost of salaries, benefits, and *all other factors* (inflation, growth of service demand, regulatory changes, etc.) is growing at a rate of 5½ to 6½ percent per year.**

The County has a limited revenue base, dependent upon capped property taxes. Although the services performed by the County have evolved over time, its fiscal resources to provide these services have changed little since its creation. The County's revenue tools are defined by state law. This includes two separate general property taxes (one levied countywide, the other in the unincorporated areas – currently dedicated by policy to roads), a share of sales tax (collected at one rate within cities, and a higher rate in unincorporated areas), some dedicated property and sales tax authorities (such as real estate excise tax and a share of a regional criminal justice sales tax). The County also has authority to impose a variety of fees (many of which, such as court and licensing fees, are fixed in amount by state law).

The County's primary revenues sources for providing regional and local services are listed below in **Table 7.**[10] This table illustrates the **County's overwhelming dependence upon property taxes – taxes that have been capped by voter initiative[11] to an annual growth rate of one percent plus new construction.**

The revenue and expenditure gap in general County government is thus in the range of 4 percent to 5 percent a year: this is the amount that must be cut each year from CX budgets. To date, the budget gap has been filled primarily by cuts to internal government functions and discretionary services. Human services and parks – discretionary items – have been hardest hit, but all central internal service budgets (overhead functions) have also been targeted in an effort to preserve regionally mandated services such as public health. The County's budget cutting priorities have been commendable and appropriate to date, but cannot resolve budget problems indefinitely.

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[9] Workers entitled to interest arbitration are not included in this: state law generally provides their salary increases are based on West Coast public sector comparable salaries.

[10] As noted in Table 7, many of these revenues are *not part of the CX fund.* Criminal Justice sales tax revenues are budgeted in a separate fund. Unincorporated area property tax levy is dedicated by policy to the County Road Fund. The Conservation Futures tax is dedicated by state law to acquisition of open space. Real Estate Excise Taxes are dedicated by County policy to fund park and recreation capital projects. Surface water management fees are required by state law to be applied towards storm drainage and similar environmental projects benefiting unincorporated areas.

[11] Initiative I-747, which went into effect January 1, 2001, caps the growth of property taxes without a vote of the people to 101 percent of the previous years' receipts, plus taxes on new construction. A simple majority of the voters can override this limitation.

Regional mandated services can no longer escape significant budget cuts, given current policies and revenues.

Unlike cities, counties cannot impose utility taxes or business and occupation taxes. The heavy reliance on property taxes means that unlike cities, the County's revenue challenge does not resolve itself when the region comes out of recession. Should inflation return, the problem becomes even more intractable. **Collectively, the County's CX Revenues are expected to grow at an aggregate rate of less than two percent per year for the foreseeable future.**

Table 7

Major County General Government Revenue Sources

(* identifies those revenues included in the CX Fund budget)

Revenues collected countywide:

*Countywide property tax (maximum rate: $1.80 per $1,000 assessed value)
*0.15% of sales tax generated in cities
*Countywide special levies (EMS, AFIS)
Conservation Futures tax
Criminal Justice sales tax (regional allocation per state law)

Revenues collected in unincorporated areas only:

Unincorporated area property tax (maximum rate: $2.25 per $1,000 assessed value)
*1% of sales tax generated in unincorporated areas
Real Estate Excise Tax dollars collected in unincorporated areas
*Gambling taxes collected in unincorporated areas
Criminal Justice sales tax (per capital allocation based on unincorporated area population)
Surface Water Management Fees

Conflicting constituencies and multiple service obligations have led to misalignment of revenues and expenditures. The dual regional and local role of the County has led to confusion and conflict over time about what the County should be doing, particularly as more and more residents live in cities and no longer depend on the County for local services. With nearly two hundred local governments in King County, it is difficult if not impossible to generate consensus around public issues at the governmental level, let alone with the public. The Growth Management Act, and subsequently adopted Countywide Planning Policies (CPPs) propose a long-term vision that apparently has substantial support from most of the governments in King County. At its essence, the growth management vision calls for a clear distinction between urban areas and rural areas. King County is to be the provider of regional services and the local government in the rural areas; cities are to be the providers of urban local services. Urban areas should receive urban levels of service, and rural areas should receive lower, rural areas of service.

While the CPPs vision seems simple, in practice, it has proven difficult to achieve. As the region has taken steps towards achieving its vision, the results have been less than optimal for King County. Today we observe a major, but we believe largely resolvable, conflict between the County's regional and local responsibilities.

The primary challenge is in the County's role in *local urban service delivery*. While some full-service cities would prefer the County focus on regional mandates, many other cities rely heavily on the County to provide local services under contract.[12] The County today has substantial resources dedicated to *urban, in-city local service delivery* – although these efforts are largely "revenue-backed" by fees from cities. More significantly, over **210,000 people live in urban areas that are not yet part of cities** – equivalent to the second largest city in the state. Thus, over a dozen years into implementing the Growth Management Act, King County remains heavily involved in delivering *urban services to areas inside and outside of cities*.

Some urban unincorporated areas desperately want to be annexed; others want to be left alone. Some cities are interested in annexing neighboring territories; others are not. Annexation is dependent upon several things, chiefly: (1) cities agreeing to assume the territory; and (2) residents agreeing to be annexed.[13] The County itself has been ambivalent towards the issue of annexation, sometimes finding it difficult to encourage constituents to turn to cities for services. And, special purpose districts – fire districts, water and sewer districts, among others – can pose significant challenges to annexation as it often means for them both loss of service territory and tax base.[14]

The CPPs call for the remaining unincorporated areas to annex or incorporate (with a preference towards annexation) by 2012. Throughout the 1990s there was a wave of annexations and incorporations in King County, as nearly a dozen new cities were formed. Most of the remaining unincorporated urban areas (with notable exception of the Highline/White Center area) have been claimed by cities as part of their future territory – so-called "Potential Annexation Areas" (PAAs). However, the rate of annexation has slowed significantly in the last few years. And, the County has no legal authority to cause the remaining annexations to occur.

Areas annexing or incorporating have included key commercial centers – areas that (together with their surrounding neighborhoods) can be self-sufficient as cities, and can provide urban services with a reasonable tax load. As a result, the County has been left with a patchwork of geographically separated unincorporated urban areas to serve – areas that consist primarily of residential areas and largely excluding commercial centers. *See map of King County at **Attachment D***. These areas typically (although not universally) require tax subsidy in order to provide urban services – indeed, a city would typically subsidize these areas from its commercial center or downtown if these areas were annexed.

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[12] The magnitude of these contract services is significant, and includes areas such as road maintenance, district court, marine patrol, and police services, among others. The sheriff's department reports that over 40 percent of its budget is "revenue backed" from city and other government service contracts.

[13] New state legislation appears to create an opportunity for annexation to now occur in certain "islands" of unincorporated territory simply through agreement between the City and County. This could create a major opportunity to accelerate the pace of remaining annexations.

[14] A recent highly publicized case with statewide implications was the Grant County Fire District No. 5 v. City of Moses Lake, 145 Wn.2d 702 (2002), in which the District challenged the constitutionality of the petition method annexation – and won. The District sued in response to an effort by the City of Moses Lake to annex a portion of the Fire District.

In addition to its responsibilities for urban unincorporated area residents, the County is (and by law will remain) the local government for approximately **135,000 rural residents** – a population equivalent to the second largest city in King County. The CPPs call for the rural area to receive lower, rural levels of service than are found in urban areas and, because development in rural areas is limited, the CPPs recognize that *a regional subsidy* is necessary to support local government services to these areas.

In sum, the regional land use vision proposes that the County to provide subsidized services to rural areas. And, the practical result of GMA in the last 15 years has been to also leave the County with responsibility for a large urban area that generates relatively little sales tax (compared to commercial areas and high density residential areas in cities). Not surprisingly then, many of the County's *local service budgets* are subsidized through *regionally-generated revenues.* As the County Executive outlined in his 2003 Proposed Budget to the Council last Fall, the County proposed to spend nearly $42 million in regionally-generated revenues to provide local services to unincorporated area residents. Of this, $42 million, it is *roughly* estimated that $15 million is attributable to subsidizing the rural area, and the remaining $27 million to subsidizing the urban unincorporated area.[15] Excluding roads, unincorporated area residents are collectively receiving nearly twice the amount of services than their local taxes pay for. To date, County budgets have not tracked the change in this subsidy over time, nor pinpointed its size within various PAAs.[16]

The subsidy means that **regional services and central government functions are being cut in order to fund local services.**

Nearly sixty (60) percent of the County's annual *locally generated unrestricted revenues* come from the *unincorporated area property tax levy* – dedicated as a matter of *policy* since the early 1980s to roads and transportation purposes. This property tax is *legally available for any unincorporated area purpose.* Cities do not spend this high a revenue percentage on roads. Absent new revenues, as long as the unincorporated area levy remains dedicated to roads, the remainder of local services – particularly law safety and justice expenditures (if provided at any semblance of their current levels) – will be subsidized by regional revenues. Absent new revenues, re-allocating the unincorporated area property tax away from roads towards other local services is one of the only means for the County to avoid further cuts to regional services. But re-aligning "road" revenues cannot solve the problem for any length of time without devastating unincorporated area road programs.

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[15] The County's current financial system does not track rural versus urban expenditures – something we recommend addressing in the 2004 budget. The $15 million figure is based on inflating the only recent estimate of the rural subsidy, calculated in 1997 to be approximately $12 million.

[16] For example, it is suspected – but difficult to prove – that local service budgets have not been cut commensurate with annexations and the subsidy has grown on a per capita basis over time, even accounting for inflation.

Ultimately, unless the region fundamentally revisits its growth management plans, the conflict between County's regional and local roles will continue and regional service budgets will suffer – until annexations or incorporations remove urban local service responsibility from the County and/or new revenues are made available to the County to meet these local service obligations. Annexations require city consent and resident support. The County is a necessary player, but does not control annexations. Fortunately, we are seeing unprecedented solidarity from cities as to the need to address the urban subsidy.[17] Because the dollars associated with this revenue/expenditure misalignment are so significant, this is a major area for corrective action.

A complex, politicized, fragmented organization suffering from a lack of healthy central systems and challenging corporate culture. King County is an extremely complex organization in terms of service delivery, governance, organizational structure, and culture. The diversity of County operations manifests itself most obviously in dozens of County offices spread throughout King County: County employees in different programs have little or no interface with one another on a daily basis. County employees work out of offices at Marymoor Park, sewage treatment plants in Magnolia and Renton, airport offices at Boeing Field, several sheriff precincts, County health clinics, courthouses in eight cities, and hundreds of buses, each day. The sense of a single, united government is lacking. There are 93 separately elected officials in King County government, some elected countywide, some by district.[18] The Executive and Council are elected on a partisan basis. The multitude of unions, bargaining units, and restrictive overlay of labor policies further complicates County management as we have noted earlier. Budget pressures have resulted in competition between departments for funding.

Related to these factors, the County does not have a consistent set of business practices, processes, and systems across all departments and programs. This results in missed opportunities for efficiencies. Central governmental systems at King County suffer from a lack of investment, and a lack of standard procedures. There is no unified financial system; no single human resources or payroll system; and no budget to achieve these goals. There is no uniform policy for computer hardware or software purchases. The County still relies on mainframe systems for core functions. With limited exceptions, no programs encourage employees to find efficiencies, or to work across government functions to identify possible savings. Recent initiatives to introduce managing for performance and benchmarking are relatively undeveloped, but their introduction, together with the Wastewater Division productivity initiative and unification initiatives sponsored by the Department of Executive Services, evidence a recognition of the need for change.

Acknowledging success to date – and the difficult path ahead. While we have concerns about the internal business functions and practices, we must also acknowledge that the budget cutting activity undertaken by the Executive and Council in the last two years has been significant. The over $90 million in CX fund cuts and savings accomplished in

[17] See **Attachment F.**

[18] Comprised of 1 county executive, 13 county councilmembers, 1 county assessor, 1county prosecutor, 1 county sheriff, 51 superior court judges, 25 district court judges.

these recent budgets has been painful and has required strong leadership. County government is facing up to its budget challenges. The fact is, however, that the budget cutting "degree of difficulty" increases every year: cuts and changes rejected last year as too painful are among the only options left on the table this year. At this point, we see no remaining easy fixes or "silver bullets." Managing the budget challenge this year and in the future will require many smaller actions, and patience. It will require challenging the way County government has traditionally managed and provided service. It will mean a commitment to sharing the pain in all areas, to finding efficiencies at *all levels of County government*. It means managing for the long-term, rather than the immediate crisis.

PART II: WHAT IS THE COUNTY'S ROLE? SERVICE PRIORITIES, SERVICE LEVELS

The Challenge: Facing a significant annually recurring gap between revenues and expenditures, what should be the County's service priorities? Are there services or programs that the County can no longer provide? For King County, the vast majority of services provided not only have their own constituency, they are mandated by the state. While specific aspects of programs may be eliminated, or provided in a different way, some actions are not tenable, for example, the County cannot stop operating superior court. Yet, the question: "what is the County's role?" has come up repeatedly throughout our deliberations.

Analysis: The County's mission, vision statement and goals provide little guidance in the quest for prioritizing or culling programs.[19] Within the context of considering reductions in previous years' budgets, the County has employed sensible criteria for making budget reductions, which bear repeating:

- Direct services prioritized over administrative functions (unless necessary to assure adequate oversight and control);
- Mandatory services prioritized over discretionary services;
- Regional services prioritized over local services;
- Unincorporated services prioritized over in-city services (e.g., parks);
- Raising fees prioritized over cutting services;
- Full cost recovery for contracts; and
- Limited subsidy of rural areas per GMA/CPPs.

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[19] King County's current adopted *Mission, Vision statement and goals* are:

Mission: Enhance King County's quality of life and support its economic vitality by providing high-quality, cost-effective, valued services to our customers.

Vision: King County – Leading the region in shaping a better tomorrow.

Goals:
1. Promote the health, safety and well being of our communities.
2. Enrich the lives of our residents.
3. Protect the natural environment.
4. Promote transportation solutions.
5. Increase public confidence through cost-effective and customer-focused essential services.

These criteria are appropriate. But, given: the extent of budget cuts to date; the large number of mandated regional and local services that the County provides; citizen and city concern over discretionary service cuts (particularly in parks and human services); limits in state law and the market to further increasing many fees for service; and the fragile condition of basic County central government systems, these criteria will be less helpful in the future. The County must now determine if there are any services that can be completely eliminated, or significantly scaled back.[20] And, new criteria must be developed to guide budget decisions.

Our review suggests the following three general categories of activity in which the County is now engaged: (1) Regional activities around which there seems to be consensus that the County's role is appropriate; (2) Regional activities generating a number of possible questions/alternatives; and (3) Clearly local activities. We acknowledge up front that others will disagree with our categorization – indeed, this is inevitably a somewhat subjective exercise, which accounts for the ongoing disputes as to the appropriate role of the County.

Beginning with the first category, there appears to be consensus, (except as noted parenthetically), that the County is the appropriate **Regional Service Provider** for:

- Sewage treatment (not a direct CX issue. *Note: service area covers only part of County*);
- Transit service (not a direct CX issue. *Subject to discussion of multi-county delivery, consolidation of transportation systems*);
- Superior court (state mandate);
- Public defender (state mandate);
- Prosecutor (state mandate);
- Felony jail (state mandate);
- Treasurer (state mandate);
- Assessor (state mandate);
- Public records (state mandate);
- Elections (state mandate);
- District Court (unique jurisdiction for small claims cases and certain other filings, per sate law);
- Sheriff (regional jurisdiction on some matters defined by state law);
- Public health (state mandate, and some discretionary services; *service level issue);*
- Human services (discretionary*; service level issue; lack of partnership funding from cities is an ongoing issue*);
- Regional parks (*discretionary; service level issue*);
- Funding and oversight of Automatic Fingerprint I.D. system (funded through special periodic property tax levy); and
- Funding and oversight of Emergency Medical Services (funded through special periodic property tax levy).

It appears that **questions exist as to County's appropriate regional role in**:

[20] Part III of this Report looks at the issues of providing services in different ways to gain efficiencies.

- Specialized police services (K-9, Bomb Squads, SWAT teams, helicopters, marine patrol, etc.). Multiple service providers exist in King County. Some cities rely on the Sheriff's Office for specialized police functions that the County makes available to the region; others prefer to provide their own services, or work in sub-regional coalitions that provide these services. It appears that significantly more resources are collectively dedicated to this area countywide than are necessary to meet the needs of the population)[21];
- Animal control (Currently there are several service providers within the County; the County's covers most of the geographical are of the County and is largely self supporting through animal licenses fees.);
- District court (We understand there is a disagreement as to whether the County has the option to provide this service to cities; the question is whether providing the service at full cost can be achieved?);
- Economic development (discretionary);
- Regional transportation (discretionary);
- Medic 1 services (These are provided by the County in south King County, and are provided elsewhere in the County by cities and fire districts. The service is almost completely funded by the EMS levy.); and
- Airport.

We do not here attempt to resolve the differences of opinion about the County's regional service role in the foregoing areas. That is beyond the scope of our work. We would simply note that these are all potential areas for continued regional dialogue.

King County is the **Local Service Provider** in the unincorporated areas for the following services (mandated by state law except as noted with asterisked (*)):

- Unincorporated area roads;
- Courts of limited jurisdiction for misdemeanor crimes arising in unincorporated areas;
- Building permits;
- Fire inspections;
- Local police services;
- Jail for unincorporated area misdemeanor offenders;
- Prosecution and public defense of misdemeanant offenses arising in unincorporated areas;
- Human Services*;
- Parks*; and
- Surface water management/storm drainage.

* Not mandated by state law.

Given the extent of mandated services, and the regional consensus around discretionary services provided by the County, we conclude that major savings are not achievable

[21] See **Attachment E** for excerpt of recent state-funded report summarizing current number of such units funded and staffed across King County by numerous governments.

through "getting out of the business" in major service areas. However, what must be addressed is **means of service delivery and level of service.** We believe significant savings may be achieved by selectively eliminating various programs within service areas, changing the way services are provided, and in some cases reducing service levels.

Generally, limited CX revenues mean that even if annexations enable local service budgets to shrink over time, **regional CX service budgets cannot grow significantly.** Growth and/or service improvements must be accommodated in large part through efficiencies. Absent new revenues, however, the public must anticipate eventual reductions in regional service levels. Specifically, it is not clear that **local service budgets** have been commensurately reduced as annexations have occurred in the last 15 years: this issue must be rigorously managed in the future – or annexations will have the ironic impact of worsening the County's fiscal situation.

Recommendations:

Near-Term/Immediate Actions:

We identify no services that should immediately be eliminated. However, services and programs must be constantly reviewed for effectiveness and efficiency. And, restraint must continue in considering the establishment of any new programs. Specific recommendations include:

1. **Ensure discretionary contract services are full cost recovery.** This must include not only consideration of overhead and operation costs, but capital costs as well.

2. **Make budget decisions consistent with the County's growth management vision** (as encompassed in the Countywide Planning Policies). Budget choices should **promote annexation of urban unincorporated areas,** and reflect a *lower service level* for rural areas than for urban service levels (acknowledging some rural subsidy will be appropriate.)[22]

3. **Continue to use restraint in initiating new services and programs.** These should not be initiated unless they (1) are mandated, or (2) if discretionary, are either demonstrably able to save money over a period of years (not necessarily immediately); financially self-sustaining; or serve a highly compelling public purpose and can be delivered at a sustainable service level without undermining other budget criteria.

[22] We commend the work of the Metropolitan Parks Task Force in laying out a vision for the County's engagement in regional and local park and recreation that is based on, and consistent with, the County's growth management vision.

4. **Consider long-term fiscal impacts of decisions; exercise restraint in expending one-time savings or revenues.** One-time revenues should not be used to support ongoing operations, and, it should be a priority to levelize the rate of ongoing budget cuts (rather than have zero cuts one year and major cuts the next year). Where possible, the County should take actions now that can save money in future years. Commendable examples of steps taken to reduce costs in the long run include restructuring of the juvenile justice operations and renegotiated city jail contract.

5. **Determine the impact of discretionary contract services on overhead.** The clearest opportunities to get out of lines of business are in the area of discretionary contracts, such as road maintenance, sheriff service, and district court. The decision to continue these contracts must be based on sound fiscal policy, rather than popularity. The impact of these contracts on organizational overhead should be examined. Specifically, do such contracts *provide relief* to other County functions by supporting necessary overhead infrastructure – or do these contracts *compel larger system investments, including capital investments* (at the Department or Countywide level) than otherwise is required, thus driving up costs to the organization?

6. **Give basic service functions of government records, elections, property assessment – the necessary resources to operate in a highly reliable manner.**

Longer-Term Actions:

7. **Develop long-term funding plans for human services and parks, clearly delineating regional and local roles.** Providing these services will become harder to justify if other regional mandates are constantly threatened by budget cuts and service reductions – as is the case today. Passage of the parks levy in May bought a temporary respite for parks. Although we are not here recommending the mechanism for doing so, action may be needed to preserve a similar baseline of regional human services funding. While we acknowledge there is some consensus emerging between cities and the County as to the County's regional human services role, we could not reach consensus on whether funding of human services is in fact a regional service or the responsibility of cities. And, despite the parks levy, funding parks operations remains a long-term challenge. The County simply cannot contribute significantly more to human services funding or parks unless new revenue sources become available.

8. **Reduce the jail healthcare budget.** While we lack the expertise to make specific recommendations here, a $19 million a year budget for jail health services – outstripping CX support for either parks or human services – calls out for an examination of potential service reductions.

State Action:

9. **Aggressively oppose additional state unfunded mandates**. This must remain a major effort of the County in its advocacy work at the state level.

Regional Dialogue:

10. **Consolidate and restructure delivery of specialized police functions**: The County should initiate a regional dialogue with cities, the port, and the state to examine this service delivery area. Within King County, there are reportedly 80 different specialty police units provided by at least 8 cities and the County.[23] For example, there are three different marine patrol providers patrolling Lake Washington. There are multiple SWAT, Bomb, and K-9 teams. There is unquestionably excess capacity here. Can the County continue to afford an air patrol? The control issues here are formidable – but the dollars on the table are potentially very significant if a more rationalized service delivery mechanism can be agreed upon.

    We are not proposing necessarily that the cities get out of this business nor that the County do so: we believe duplication means the public is collectively paying much more than necessary for these services which creates the potential for significant savings to King County and other governments. On the one hand, a single service provider may provide the greatest opportunities for efficiencies; on the other hand, absent competition and operational reviews, a single provider may have little incentive to continually seek efficiencies. Perhaps the existing Emergency Medical Service (EMS) model is an appropriate place to begin discussion, in that it has multiple service providers but the total amount of services funded is based on a regional assessment of medic units required to meet agreed upon standards, and operations are regularly assessed for their cost and efficiency.

PART III: ADMINISTRATIVE AND OPERATIONAL POLICIES AND EFFICIENCIES

The Challenge: King County is not as efficient as it could be. Causes include:

- The complexity of the County organization, including the broad diversity of services provided.
- A highly political organizational environment with a multitude of separately elected officials. This can make the internal governmental processes time consuming, duplicative, and unconstructive.

[23] See Attachment E, Excerpts from "Study of Law Enforcement Specialty Services" commissioned by the State and completed in September 2001 by MGT of America, Inc.

- Labor policies discourage contracting services out to other service providers where such alternatives may be more efficient.
- Recurring concern and confusion about overhead costs: the overhead model is complex and little understood by internal or external clients.
- Lack of standardized practices, processes and systems for basic business functions.
- Lack of funding to develop and maintain needed central systems, particularly information technology systems and financial and payroll systems.

Analysis: Significant savings and efficiencies have been found in the last two budgets. But opportunities for greater efficiencies clearly exist. Sound management principles must continue to be reinforced in the government. We note with concern Governing Magazine's February 2002 report card of King County giving weak grades in "Information Technology," "Managing for Results," and "Human Resources." It does not appear to us that the County has an internal culture that generally rewards efficiency or manages for performance. The County's future success requires that it is able to make the case that it is an efficient and effective steward of public tax dollars.

We see two major challenges to the County's operations: the lack of strong central management systems and practices, and the labor environment. These issues have been outlined in Part I of this report. The multiple financial and payroll systems are particularly of concern, as is the disparity of operational practices and procedures. In recognition of the challenge, the Department of Executive Services has or is about to launch a series of "unification projects" that seek to balance the departmental desire for autonomy with the need for standardized rules and procedures – and holding departments accountable for compliance. This is a common practice in the business world, with notably positive results and should be encouraged within the County.

Regarding the labor environment: the County's first job is to provide public service, not to employ people. New ways of providing service must be considered if they are the only ways to maintain service levels within available revenues. This may or may not suggest contracting out of services and programs – depending on the public service objectives and the opportunities to meet those objectives with fewer taxpayer dollars.

Recommendations:

Near Term/Immediate Actions.

1. **Create a stronger culture of efficiency within the organization.** All branches, and all departments, of the County government must consider whether they are themselves efficient, and whether they are supporting efficiencies within the government as a whole. The County should not limit its efforts to addressing efficiencies only within CX agencies. An emerging culture of "haves" and "have-nots" within the County (distinguishing cash-strapped CX agencies from others)

is apparent and not positive for County government as a whole. Being "revenue-backed" is not a reason to ignore the need for efficiencies, particularly in the delivery of local services that are collectively being subsidized. Drawing from the input we received from department directors, we encourage the County to increase accountability at all levels of the organization. Managing for performance, benchmarking, and performance measures: these tools must become part of daily management practice at the County. Incentives should be put in place to help make this cultural change take place: examples such as the **Wastewater productivity initiative** should be replicated elsewhere in County government. Policies that arguably discourage savings – such as the budget office **capturing all under-expenditures – should be eliminated**. Duplicative processes and reporting requirements that waste time and resources should be streamlined. For example, we question the value of including over 140 budget provisos in the 2003 budget: the time required to respond to these provisos is significant, and it is not clear that the benefit of the reports outweighs the diversion of so much managerial time.

2. **Implement additional efficiencies and control costs in the law, safety and justice arena, through pro-active work of the Criminal Justice Council.** With over 70 percent of the CX Fund expenditures, unquestionably, law, safety and justice functions should not be immune from the need to become more efficient. The culture of autonomy within the separately elected areas of government – sheriff, prosecutor, district court, superior court – must be challenged: coordination and transparency are key to efficiency. The Criminal Justice Council must provide leadership to identify efficiencies and ways to control costs. Without their input, cuts will still have to be made – but perhaps in a less than optimal way. The Task Force respects the expertise of these groups to help identify the most appropriate efficiency tools.

   All law safety and justice agencies need to be actively engaged in this effort with the Executive. Are current means of providing services the most efficient and effective? Are specialty courts worth their higher operating costs because of other systemic savings provided? Is service delivery becoming more or less efficient on a per capita or caseload basis? Are service levels growing or declining? Questions such as these should be answered and tracked over time in a consistent manner. Innovations that can streamline operations and save money must be aggressively sought out and implemented. Recent initiatives such as creating a Community Corrections Division with the Department of Adult and Juvenile Detention are important steps, as is the work encompassed in the Juvenile Justice Operational Master Plan and Adult Justice Operational Master Plan. Efforts to reduce the average daily jail population in the County's jails should also continue.

   As an initial step, we strongly encourage an investigation of the potential to save money through **consolidating the administration of district and superior courts**. Ultimately, consolidation of the courts themselves may also be needed to bring additional efficiency to operation (this would require state legislation).

3. **Provide greater transparency in presenting the budget and budget and operating policies.** The County budget should set forth separate *regional service* and *local service* budgets – detailed by type of service and geography. The County should know how much it spends in *each PAA* on local service. This should be a priority in developing the 2004 budget. Clarity is particularly needed for the law, safety and justice budgets managed under direction of separately elected officials: *budget and management information from these departments must be fully accessible to the Executive and Council.* Uniform definitions should be developed and employed across the organization when presenting budget information – particularly in the area of *departmental and division overhead.* Effort should also be made to make the *overhead model more understandable*, as we heard considerable concern and confusion on this subject.

4. **Streamline, simplify and standardize operations, practices and policies.** Departments, separately elected officials, and union leaders must be willing to align operations practices and procedures for the benefit of the entire County organization. It is not possible for the Task Force to quantify the savings possible from these items, but our observations suggest that the savings could be significant, given adequate time and funding to implement these suggestions. Engaging all employees in a search for productivity improvements has had demonstrated effect in the business world, yielding as much as five percent annual savings on an ongoing basis. The Department of Executive Services (DES) initiative to make internal practices more uniform is potentially very important initiative. In addition, there should be an ongoing rigorous and comprehensive effort (again involving personnel at all levels of the organization) to *find internal and external barriers to efficiency* – outdated code provisions and policies – and to remove these barriers where possible.

5. **Invest in central systems**: Technology investment in central systems is lagging and must be addressed. The price tag associated with these investments is significant. The County should make it a priority to direct one-time resources to fund these capital investments. Financial Systems Replacement Program (FSRP) should be a high priority. We also believe the timeline for replacement/acquisition of needed systems can and should be significantly accelerated. To truly realize the benefits of upgraded systems, the County must simultaneously implement greater standardization of basic business practices and procedures. As part of this whole effort, the County should review the experience of the City of San Diego that apparently outsourced much of its Information Technology (IT) function in a manner that preserved individual employee jobs by moving them to private employer.

Longer-Term Actions:

6. **Secure efficiencies through new methods of service delivery: first seek employee ideas and actions; if necessary, contract out services to other**

governments or to the private sector. Contracting out is not universally appropriate or cost effective. In particular, the ability to perform services may not exist in some cases outside government, and in all cases sunk investments and the interests of the public must be considered. The County has achieved significant successes through partnership with labor, and this should continue wherever possible. Employees may have the best ideas about how and where to find efficiencies in County operations – and should be actively engaged in this type of inquiry. In fairness, public employees should be given the opportunity to provide services at a competitive cost to private sector options before alternative service providers are engaged. But ultimately, the goal should be to preserve service levels to the public, not public sector jobs. Some specific ideas that we believe should be pursued include:

a. **Amend the County Charter and labor policies** to expand the ability to contract out to both the public and private sector where it can preserve public service levels.
b. **Pursue "reverse contracting" with cities.** For example, can the City of Bellevue provide equivalent police services as are currently being provided by King County in the neighborhood of Eastgate – but at less cost? Can some cities provide maintenance of neighboring County parks at less cost than the County? The geographically fragmented service area of King County suggests there may well be such opportunities – and the lack of current examples is therefore somewhat surprising. The Task Force encourages the County to actively investigate this idea – *where it can save public dollars.*

7. **Collaborate with other governments.** We would emphasize the importance of maintaining positive dialogue with regional partners – cities, special purpose districts, other counties. King County does not exist in isolation, and we are convinced that the cooperation of other governments will be key to resolving the County's problems in the longer-term. For example, there may be savings achieved through joint purchasing agreements in areas such as fleet or insurance. We suspect there is a great amount of duplication in the delivery of public services as between the nearly 200 units of government within King County. Opportunities for more efficient service delivery through consolidation must continually be sought out.

8. **Aggressively seek cost control of salaries and benefits.** With these items consuming over seventy percent (70 percent) of the CX dollars, these areas must be a central consideration balancing the budget. The County must consider its employee benefits package: the County has yet to adopt innovations in this area that may assist in controlling annual cost increases. Work on this should begin now, even though the current benefits contract will be renegotiated in three years. Data from the state indicates that King County top managerial salaries lag behind both private and public sector comparables. While the County must continue to

be vigilant in controlling costs, this raises an underlying basic competitiveness issue: King County must be able to attract and retain good employees.

9. **Examine options to reduce facilities costs.** The County now rents nearly 300,000 square feet in downtown Seattle in numerous office buildings. Should the County buy some building instead? Or build them on land it owns? Should so many County services be in downtown Seattle, given real estate market, lower cost options elsewhere in County? Would greater efficiencies occur from having County functions physically consolidated? The County should undertake a *comprehensive analysis of office space options.*

10. **Explore detention alternatives.** The County should determine whether it would be less expensive to send its low risk prisoners (who otherwise do not qualify for alternative detention) to Yakima, as many cities have done. We understand that the County could only reduce costs on a marginal basis through such steps, so this may not result in savings (in which case, it should not be pursued).

11. **Revise jail employment structures.** In partnership with unions, the County should investigate whether operating efficiencies at jail could be achieved through broader – and far fewer – employee job descriptions than the current 64 separate job titles currently in place.

State Action:

12. **Advocate for greater flexibility in the labor area.** In particular the County should seek changes to binding arbitration requirements in order to provide greater ability to control costs.

13. **Seek changes in state law that will give cities and county tools to act together to achieve greater efficiency.**

Regional Dialogue:

14. **Sponsor "Best Practices" forums with other governments in the region.** These may be helpful in identifying ways others have addressed common challenges of controlling cost of benefits, managing for performance, benchmarking, contracting out, and similar matters.

PART IV: ALIGNING SERVICE EXPENSES AND REVENUES: ANNEXATION AND THE "URBAN SUBSIDY"

The Challenge: The current allocation of regional dollars to fund local service budgets is significant: over $40 million a year. While some rural service subsidy is necessary and appropriate under growth management principles, the Task Force believes that acting to address the urban area subsidy may be the single most important step the County can take to address its fiscal challenges. If the "urban subsidy" is eliminated, it will *create significant breathing space for regional service budgets* for several years – although it will not eliminate the County's long-term revenue problem.

Analysis: As noted in Part I of this report, the County has a number of *regional service roles* and *local service roles.* The County similarly has revenue sources that are collected regionally, and others that are collected only from unincorporated local service areas. As a *policy matter* there is consensus that, ideally, regionally collected dollars should be spent to support regionally provided services – thereby matching those who pay for, and those who receive, the service. Similarly, as a policy matter, unincorporated area dollars should support local services provided in the unincorporated areas. There is now general consensus between the Executive and cities as to which of the County's revenues are "regional" and which are "local," resulting in the calculation of the subsidy at approximately $42 million this year.[24] Of this $42 million, an estimated $27 million is attributable to local service delivery in the urban unincorporated areas – areas that as a matter of regional policy (as expressed in the CPPs, which were developed in partnership between cities and the County) are to be annexed by cities.

The County cannot force annexations to occur under current law. And, after over a dozen years of growth management, major annexations have not yet occurred. A key barrier for cities to annexing is the cost of providing service in these areas, and infrastructure deficits. Providing incentives to cities in service dollars or capital project funding has helped promote some annexations in the past. Citizen support has also been a critical component of successful annexations.

The County has unsuccessfully sought to close the "subsidy" through new taxing authority. Specifically, an unincorporated urban area utility tax, similar in nature and amount to that currently authorized for cities, would generate an estimated $30 million a year. We endorsed this concept earlier this year in hopes the state legislature would pass authorizing legislation.[25] This single action could eliminate the urban subsidy in the short-term.

We believe the County should no longer maintain current local service levels in urban unincorporated areas at the expense of regional service budgets. Urban unincorporated area residents must understand that their taxes do not support their current level of service and that the region's plans call for them to annex (or if viable,

[24] The key change occurred when the County agreed to classify its sales tax collections from within cities as "regional" in nature. A further refinement has been to split the County's unincorporated area sales tax receipts into two categories: 85 percent of such receipts are considered local, 15 percent are considered regional. When the County previously considered all sales tax receipts to be "local" in nature, this meant there was no subsidy – "local" dollars fully paid for local services.

[25] See **Attachment I** for a copy of our letter to state legislators on this subject.

incorporate). And, if cities are truly committed to having the County provide quality regional government services and ending the "urban subsidy," cities must work to complete the remaining annexations.

The subsidy did not arise overnight, and will not be eliminated overnight. Currently, nearly 70 percent of the subsidy from regional dollars is being applied to fund local law, safety and justice expenditures. At the same time, the County is spending an estimated 60 percent of its local revenues on roads.[26] The major *local revenue sources* – and key policy limitations in their expenditure – are as follows:

- **Unincorporated Area Property Tax** (generally known as the "road levy"). *This revenue source generates over $58 million a year.* It is *legally* available for all general government purposes in the unincorporated area but as a matter of *policy* has been dedicated solely to roads purposes since the 1980s. There is a small penalty for "diversion" to other uses in the loss of some state revenue. Currently, significant road dollars are expended on transportation improvements *within* cities and otherwise classified as "regional" in nature.

- **Real Estate Excise Taxes (REET).** *This tax raises about $13 million a year.* Similar to the unincorporated area levy, this funding source is *legally* available for a broad array of capital purposes in the unincorporated area – but is limited by *County policy* to be spent entirely for parks and recreation purposes.

- **Surface Water Management Fees (SWM).** *SWM fees generate over $18 million a year in total revenue.* These funds can be used to provide local surface water management and drainage projects, as well as projects with related environmental benefit.

Unless the County is willing to make an explicit decision that local services to the urban unincorporated are more important than regional services then the County must actively take steps to reduce the subsidy of the urban unincorporated areas. However, until these areas are annexed, options to address the subsidy are limited.[27] The County can:

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[26] See **Attachment G,** which sets forth the major sources of unincorporated area revenues. Excluding criminal justice sales tax dollars and surface water management fees that cannot legally be spent on transportation, over 60 percent of the remaining local revenues are currently allocated by King County to roads and transportation purposes.

[27] With a remarkable degree of consensus, cities have proposed a set of solutions to this issue (and to the County's CX challenges, generally): **Attachment F** includes letters and a white paper submitted by cities. Included in suburban city recommendations specific to the subsidy are: imposing a moratorium on all building in the UGA, diverting the road fund, promoting annexation, and reducing local service levels. We reject the first solution, and endorse the latter as described herein. Regarding the moratorium, it is probably true that residential development along the urban fringe exacerbates the urban subsidy in some places. The County should consider this fact in its development decisions. Rezoning to allow commercial development in some urban unincorporated areas may be appropriate if it would result in a better balance of expenditures and revenues for the County. Ultimately, a moratorium may not be legal.

- *Re-allocate revenue from all local revenue budgets to pay for more of these urban local services that are being subsidized by regional dollars, most notably, law, safety and justice expenditures.* This would directly reduce the subsidy and increase the amount of regional dollars available for regional services--with corresponding cuts to those local service budgets.
- *Reduce services to match revenue levels*;
- *Continue to subsidize local service budgets*; or
- *Secure new revenue from state.*

Although it will be politically challenging, we believe the County should pursue ***all*** these options – *while also working to promote the annexation of remaining urban unincorporated areas.* We believe it is neither politically feasible, nor fair to urban unincorporated area residents, to simply slash services overnight in order to eliminate the subsidy – particularly so long as cities have not annexed these areas, and so long as the CPPs require that these areas receive an urban level of service. Completely eliminating the subsidy by reallocating other local service budgets may be too devastating to those service areas – but the allocation of over 60 percent of local revenues to roads is no longer supportable in this crisis. The County has unsuccessfully sought new revenue from Olympia to address the subsidy, but we believe that effort must continue. In sum, the County must pursue a variety of options to reduce the subsidy and minimize the conflict between its regional and local service responsibilities.

Recommendations:

Near Term/Immediate Actions:

1. **Initiate a comprehensive strategy to simultaneously encourage annexation *and* reduce the "urban" portion of the local service subsidy.** On a time-limited basis – we propose **three years at the longest** – the County should *re-direct its local revenues to (1) encourage annexation and (2) reduce the subsidy amount.* All local revenues – particularly the unincorporated area property tax levy, Real Estate Excise Taxes, and surface water management fees – should be made available in some degree to support this program. The goal is to focus as much money as feasible – on a time-limited basis – to secure annexation through agreements with cities *and* take immediate steps to reduce the subsidy by (1) reducing service levels and (2) reallocating local dollars to fund more of the local service budgets. At the end of this period, progress must be assessed, and new budget limits established to ensure that the subsidy thereafter does not get worse. This initiative should be launched as part of the 2004 budget.

The County must be unwavering in its commitment to publicly promote annexation. It must be willing to start to immediately reduce services and realign expenditures. In partnership with cities, the County must initiate public dialogue to build grass roots support in PAAs for annexation. Residents must understand that they will see service reductions – and that the only way this can change is if the County imposes new taxes on them or if they annex. Outreach efforts must be tailored to the needs and characteristics of individual communities. The County must be prepared to put substantial dollars on the table for cities (albeit far short of various estimates of 'urban infrastructure deficit') to promote annexation.

This initiative will require significant restructuring of current capital improvement programs and operating budgets for local service programs. It will also mean *halting or scaling back plans to bond these revenues* – since if the effort is successful, the tax base to repay such bonds will be transferred to cities. We believe this re-structuring, while painful, is well worth the end result of aligning County revenues and expenditures, transferring responsibility for expensive service areas, and achieving the regional land-use vision. In practical terms, the reallocation of local revenues can simply mean a delay, rather than cancellation, of projects. Given the magnitude of the budget problem the region must understand the urgency and importance of achieving these remaining annexations.

Three important clarifications to this proposal must be clear:

First, we are not proposing that the County "buy" its way out of the urban unincorporated areas by eliminating infrastructure deficits. There is woefully inadequate funding to do so. Frankly, we do not believe immediate infrastructure upgrades are required in an annexation. Portions of Seattle have been without sidewalks for decades since they were annexed. Eliminating infrastructure deficits using only unincorporated area dollars is not possible in any reasonable time frame, and eliminating infrastructure deficits using regional dollars is not a responsible action given the current pressure on those budgets. And, funding today is much tighter than it has been historically.

Second, Cities cannot fairly insist that the County completely eliminate the subsidy if the urban areas do not in fact annex. Cities would themselves subsidize these areas. Service reductions are inevitable (and appropriate) absent new local revenue streams. But ultimately, if areas remain un-annexed, the cities cannot fairly continue to complain about the subsidy – and some nominal subsidy will, absent new revenue, be necessary to provide urban levels of service.

Third, we are not proposing a "dollar-in dollar-out" approach to serving each individual PAA. Just as cities transfer tax dollars from their commercial areas to support residential neighborhoods, the County needs budget flexibility in directing its local service dollars. A few PAAs may now be net exporters of local service dollars: that may well be appropriate.

2. **Identify the basis and targets for cutting from all local service budgets as annexations occur.** Dollar-for-dollar budget reductions may well be impossible as tax base gradually disappears, leaving potentially even more diffuse geographic service responsibility for the County. However, every effort must be made to reduce local service budgets commensurate with the loss of local revenues. Work must begin immediately to map out the basis on which these cuts will occur.

3. **Quantify the current rural subsidy and rural service levels – and track them over time.** Unless the region wishes to revisit its growth management vision, a rural subsidy is appropriate. But as part of the overall challenge of making the County budget more transparent, the rural subsidy and rural service levels should be quantified and tracked, so that the region can see that rural service levels are provided, and the price tag for doing so. As called for in the CPPs, rural service levels should be demonstrably lower than urban service levels.

Longer Term Actions:

4. **Consider seeking legislation to equalize taxing authorities as between cities and unincorporated areas**. In the long-term, if annexations do not occur, and the County's revenue problems continue, such solutions may be dictated. We recognize that this would take major state legislation, and would probably be a more costly alternative for these areas than annexing to neighboring cities, but we do not think the County should continue to sacrifice regional service levels to fund its local service responsibilities.

State Action:

In addition to new revenues sources (outlined in Part V of this report), the County should:

5. **Advocate for a change in state law that will provide for automatic transfer of local parks and recreation facilities to cities upon annexation.**

6. **Advocate for changes in law that will streamline the annexation process.**

Regional Dialogue:

7. **King County and cities should work in the immediate term to refine the annexation strategy we have outlined**. Even absent consensus, we believe implementation of this strategy should begin in the 2004 budget.

PART V: REVENUES

Challenge: The County revenue structure is inadequate to meet the demands of the County's service obligations. While significant effort can be made to forestall or reduce service cuts by doing business differently, ultimately it will not be possible to maintain service levels for a growing population with revenue growth of less than 2 percent per year.

Analysis: As was noted at the outset of this report, the primary cause of the revenue challenge is the heavy dependence of the County on property tax, and the absence of other viable revenue options. The County must provide local services but has far less revenue authority than cities enjoy. This inequity not only contributes to the regional subsidy of local services, it also creates a potentially significant barrier to annexation – urban unincorporated area residents observe that they will be subject to new types of taxation should they annex. As we have also seen, cities have expressed reluctance to annex because of the poor condition of urban unincorporated area infrastructure, a result of the County's limited revenue authorities.

Even if our proposed strategy to accelerate annexation and reduce the subsidy succeeds, the slow growth of regional revenues – again, heavily dependent on property tax – will continue to be a problem for the County. The city mayors who spoke to us during our deliberations noted the importance to their jurisdictions of having a strong regional government. We concur: all residents have a stake in the County becoming fiscally stable and providing quality regional services.

The lack of state support for courts, indigent defense, and handling of aggravated murder cases is a particularly frustrating aspect of the County's challenge. The legislature's rejection of the unincorporated area utility tax is similarly discouraging. Pressure must be brought to bear on the state to address these issues if the County is to achieve long-term fiscal stability.

Absent additional state shared revenue, or revenue authority, the County has limited options to maintain regional service levels. We would not expect voters to approve general tax increases for the County. Rather, as we have seen in the past – with AFIS, EMS, and more recently, the parks levy – voters prefer to know where their money is going. Cities themselves routinely use special levies to secure program funding. For the County to do so as well is not inappropriate. At the same time, the more the County can convey about its priorities, its vision, its plans for providing all services over a several year period, the more concerns about "piecemeal" funding solutions can be answered.

Recommendations:

Immediate/Near Term:

1. **Provide better public information about the County's roles and revenues.** Lack of public understanding is a barrier to reform in Olympia, and a barrier to moving the annexation agenda. It is critical that the public better understand the implications for basic County services resulting from the current property tax

limitations and annexation patterns. The County public television station could be a useful tool for this purpose. County elected officials need to become educators and advocates for the government: much could be accomplished if the County's 94 elected officials presented a united front.

2. **Include a concise statement of the fiscal vision for the next several years in the annual budget.** Will new taxes be necessary? If so, for what purposes? Are major new initiatives planned? Are major reductions planned? As noted, while the public generally is unlikely to grant generic "county purposes" tax increases, funding solutions will in all likelihood include periodic special purpose levies as there are limited options to otherwise avoid service cuts and secure wanted new programs. Special purpose levies are easier to justify, however, in the context of an overall plan for the government – so the public isn't wondering when the next request for tax dollars is coming.

3. **Secure full cost recovery on all contracts.** This should include not only overhead and operating, but capital costs as well. This recommendation has been earlier stated, but bears repeating. It is illogical to undertake a major effort to annex areas in order to eliminate the subsidy of County local urban unincorporated area services – only to then continue to subsidize cities through contracts.

4. **Impose fee increases where possible to avoid further service cuts.**

5. **Aggressively pursue grant opportunities.**

6. **Develop a long-term funding plan for parks and human services.**

State Action:

The State must act to grant more revenue autonomy to counties, particularly in fee setting.[28] And, again, the State must refrain from enacting more unfunded mandates. Some specific proposals for state legislation follow:

7. **Grant urban counties planning under GMA authority to impose a councilmanic utility tax in urban unincorporated areas,** comparable to existing city authority in scope and amount. This is single most significant step the state could take (without impacting its own budget) to assist the County.

8. **Grant counties authority to raise district and superior court fees.** We would propose full-cost recovery for some civil cases where for example large corporate parties are involved who can easily afford such fees.

[28] SB 5659, Laws of 2003, was signed into law by Governor Locke as we concluded our deliberations. This legislation provides new voter-approved sales tax authority to the County, proceeds of which are to be shared on a 60-40 basis with cities. We have not had an opportunity to discuss how, or whether, the County should use this new authority and we make no recommendations in this regard.

9. **Reduce the state's take from locally generated court fees.** Over 40 percent of the fees generated at District Court now are remitted to the state for other programs: those dollars would make a critical difference in the County's ability to continue District Court programs.

10. **Institute authority to impose Superior Court fees on a "per pleading" basis,** as is done in California and numerous other states.

11. **Increase direct state support for District and Superior Court.** The state's sole current contribution – one half the salaries of Superior Court judges – puts it 49th in the nation in supporting courts, according to the State Administrative Office of the Courts.

12. **Provide some funding support for indigent defense costs.**

13. **Increase legally permissible uses of the Real Estate Excise Tax (REET).** This tax can only be spent for *capital* purposes. As was recommended by the Metropolitan Parks Task Force, some portion of this significant tax source should be available for maintenance purposes – for example to support the operation of capital improvements acquired with REET funds. A further change worth considering would be to allow larger portions of this tax – perhaps all of it to be applied to maintenance purposes in times of an economic downturn.

14. **Continue to fund basic public health.**

15. **Provide state funding for a greater share of the extraordinary aggravated murder costs experienced by counties.** These have reached such a magnitude in King County – even excluding the Ridgeway case – that they threaten the ability to maintain service levels throughout the County's criminal justice system.

16. **Provide direct state funding to counties for defense costs in dependency and termination cases.** It is inequitable for the state to pay for prosecution of these cases at several times the rate that counties are able to pay for defense of these matters.

17. **Allow Counties to set public records and license fees at levels that will more closely approximate the full cost of service.**

Regional Dialogue

18. **Work with other government associations to jointly develop and advocate legislative agendas.** The "Tri-Association" agenda approach in which the cities, counties and public safety lobbying organizations all worked together in the 2003 legislative session is a potentially very powerful new initiative that should be continued. And, given the importance to the business community of a healthy

regional government, we would encourage the County to seek business community support of its legislative agenda where possible.

PART VI: CONCLUSION

King County general government is in a crisis situation. Current service delivery is not sustainable. The challenge before the County – indeed, the region – is daunting. After the few short months of our inquiry into general County government funding and operations, we are sobered by the complexity of the situation, and by the many steps that have *already* been taken to address this challenge.

Despite several years of aggressive budget cuts by the County, unless *continued* steps are taken to trim programs, streamline operations, apply greater management rigor, challenge traditional service delivery mechanisms, shed remaining urban unincorporated areas to cities, and successfully lobby the state for additional revenue tools, a steady decline in the quality of County general government services is unavoidable. Even if the County is able to make major progress in terms of efficiencies, ultimately it cannot achieve long-term financial stability without the assistance of the state and the local governments in this region (particularly those who are stakeholders in annexation).

It is said that democracy has many attributes but efficiency isn't one of them. Yet, we are confident that the County can and will take important steps to improve its effectiveness and efficiency in delivering services. In so doing, citizen confidence in our government will improve. We appreciate the difficulty of the task ahead. We appreciate also the opportunity that the Executive has given us to provide him our assessment and recommendations. A strong regional government, and effective local government for the rural area, is in the interest of the entire region. We would offer as a Task Force to reconvene briefly in 2004 to assess progress on the agenda of work we here propose, and offer as well our continued services in advocacy for the betterment of County government.

SHORTCHANGED: KING COUNTY'S FISCAL CRISIS

A Report by
The Municipal League of King County
November 17, 2003

EXECUTIVE SUMMARY

King County is experiencing a fiscal crisis, which cannot be addressed adequately without a major change in the County's responsibilities and focus. Although there have been deep budget cuts in recent years, revenues available to fund expenses of the County's General Fund continue to be insufficient to support the level of services previously established. To balance the 2003 County budget, over $50 million in cuts to the General Fund budget (approximately 10% of that budget) were required. Additional cuts of $20–$25 million are anticipated for each of the next three years. Major factors contributing to this problem include:

- The largest source of General Fund revenue is from the property tax; which is limited by initiative to a 1% annual growth rate (plus new construction).
- As a result of municipal annexations and incorporations, most of the high-value tax base has been moved from the unincorporated areas of the County into cities.
- Expenses, most notably expenses relating to law and justice and to personnel, have experienced growth rates that have outstripped the growth rate in revenues.
- In addition to providing county-wide government services as an arm of the State, the County also serves as the local service provider for unincorporated areas. In 2003, the County estimated that approximately $42 million of the money spent to provide local government services was supplied by revenues generated by the County in its county-wide government role. Thus, the County as county-wide government is subsidizing local government services.

The Municipal League of King County recommends that the following steps be taken to address King County's fiscal crisis:

1. King County should divest itself of its role as a local service provider–in order to fulfill its role as provider of county services.

2. All land within the urban growth boundary should be incorporated or annexed to the city or cities within each area's sphere of influence though a collaboration between King County, existing cities and citizens. Rural unincorporated communities should be organized into townships or other entities for the purpose of local service delivery, to include local land use decision-making consistent with the Countywide Planning Policies and the Growth Management Act. King County should be more aggressive in encouraging and enabling unincorporated residents to find alternatives to King County for local service provision.

3. King County, along with the other members of the Washington State Association of Counties, should continue to seek, and the Legislature should authorize, additional revenue sources to fund equitably county services.

4. As additional revenue opportunities are explored, the County must also continue to cut costs.

INTRODUCTION

In August 2002, the Municipal League of King County established a committee to examine the future role of King County government. The League's action was precipitated by a concern that King County's revenue base does not adequately accommodate its mandated functions. With a growing number of annexations and incorporations and with the growth of its principal revenue source capped by initiative, King County finds itself with a restricted revenue base, increased mandated expenses, a growing sense of competition with cities for shrinking financial resources, and a growing inability to fund services that King County residents value, expect and need.

The purpose of this report is to identify key issues affecting King County's fiscal health and to make recommendations to improve it. In developing this analysis, the Municipal League's King County Study Committee met over ten months with current and former County elected and appointed officials, budget and finance staff, representatives of special purpose districts, representatives of local government advocacy organizations, and regional civic leaders. As a result of this input, members of the Committee developed a greater appreciation for the complexity, importance and urgency of fiscal reform.

BACKGROUND

The Municipal League's King County Study Committee is one of many efforts over the past twenty years to examine King County's financial and governance predicament. Some of the more significant of these efforts include the following:

- In 1985, the State Legislature created the Local Governance Study Commission to analyze issues confronting local governments. The Commission's report, issued in 1988, recommended, among other things, that local governments within each county enter into comprehensive sets of interlocal agreements to determine which entities would provide which services and that the Legislature undertake to examine and restructure the tax structure for local governments.

- Between 1986 and 1990, the Seattle Chamber of Commerce sponsored a group entitled King County 2000. That group considered several issues, including the proper role for county government. Among other things, it recommended that "County government should be responsible for providing region-wide services" and that "[s]ince local services are best provided by municipalities, high density areas of unincorporated King County should be encouraged to incorporate or annex."

- In 1990, U.S. District Judge William Dwyer determined that the Metro Council violated the constitutional principle of one person-one vote. In response, voters approved a merger of King County and Metro in 1992. The merger took place in 1994. In recognition of its new responsibilities in transit and water quality, the size of the County Council was increased from 9 to 13 members in connection with the merger.

- In 1991, the Municipal League of King County issued a report entitled King County Governance Reform, which called for a governmental restructuring in King County, citing the inability of current governmental structures to deal effectively with regional issues.

- In a 1994 report to the Growth Management Planning Council, the Fiscal Analysis and Economic Development Task Force called for a Regional Financing Plan and a Regional Governance Plan to reform antiquated local governance and revenue structures.

- In 1996, the King County Consolidation Advisory Committee issued a report discussing its consideration of the County's future role in the delivery of regional and local services. The report focused on alcoholism, surface water management, parks and recreation services, and law and justice. It charged the Municipal League and the League of Women Voters with the task of monitoring the County's response to its recommendations.

- In 1997, the Charter Review Commission recommended the separation of regional and local decision-making and creation of a new local government mechanism for unincorporated areas.

- In 1998, pursuant to a project called Regional Finance and Governance, the County and a majority of cities in the County participated in a comprehensive discussion of which entities should provide which services and how services should be paid for. No agreements were reached as a result of this project.

- In 2002, King County established a Commission on Governance and a Budget Advisory Task Force. The Budget Advisory Task Force recently issued its report. The work of the Governance Commission is expected to be completed by March 2004.

THE ROLE OF COUNTY GOVERNMENT

County governments in Washington are, fundamentally, subdivisions and instrumentalities of state government. Washington Constitution Article XI §§ 1, 4, 5; *State ex rel Taylor v. Superior Court*, 2 Wn.2d 575, 579 (1940). The services provided by a county in this capacity, which this report calls "county services," are often taken for granted but are essential to the health and safety

of the county's citizens. These include most components of the law and justice system (e.g., courts, jails, juvenile justice), as well as public health, records and elections.

Cities typically provide local government services, but counties provide these services in unincorporated areas, i.e., areas not within the boundary of a city. In King County, nearly 350,000 of the County's 1.7 million residents live in unincorporated areas. (Over 210,000 of these people live in urban areas that have not been incorporated into or annexed by cities). King County serves as the local government for these citizens in addition to serving as the county government for all citizens. The following tables describe some of the county and local services provided by the County.

Table 1

County Service Mandates

(*) per state law (+) service obligation approved/created by region's voters

* Superior Court	* Public Records
* District Court (certain case types)	* Elections
* Public Defender (all felony and some misdemeanors)	* Public Health
* Prosecutor (all felony and some misdemeanors)	+ Sewage treatment
* Felony Jail	+ Transit
* Treasurer	+ Automatic Fingerprint I.D. system
* Assessor	+ Emergency Medical Services Funding
* Mental Health and Substance Abuse treatment	
* Sheriff (some statutory authorities)	

Table 2

Local (Unincorporated Area) Service Mandates

(per state law)

Roads	Prosecution and public defense of misdemeanant offenders
District Court (misdemeanor offenses)	Surface water management/storm drainage
Sheriff	Building Permits/Zoning/Land Use
Fire Inspections	
Jail for misdemeanant offenders	

Source: Report of the King County General Government Budget Advisory Task Force, June 25, 2003. (It should be noted that solid waste, which is not listed above, is currently the subject of a dispute between the County and other entities.)

FINDINGS

Approximately 16% of King County's overall budget is allocated to the General Fund (also referred to as the Current Expense or CX Fund). The remainder is composed of dedicated funding sources that are required to be spent for designated activities. In order to balance the 2003 budget, over $50 million in cuts to the General Fund budget were required. The shortfall in revenue is expected to continue into the foreseeable future, requiring cuts in the range of $20-25 million in each of the years 2004, 2005 and 2006. The continuing General Fund deficits that the County faces are due to a combination of systemic issues relating to revenue, expenses and the County's dual system of responsibilities.

Revenue

Some 44% of King County's General Fund revenue comes from the property tax, which is limited by initiative to a 1% annual growth rate (plus new construction). Moreover, since 1985, the number of new cities in King County has nearly doubled, from 21 to 39. The new cities have incorporated nearly all of the high-value tax base that was once in unincorporated King County. These two developments have left King County with inadequate revenues to fund public services and infrastructure. Unlike cities, counties do not have the authority to impose other taxes such as a utility tax or a B&O tax. Overall, tax revenues supporting the General Fund will grow at less than 2% per year, absent voter or legislative approval of tax increases exceeding the limit set by Initiative 747.

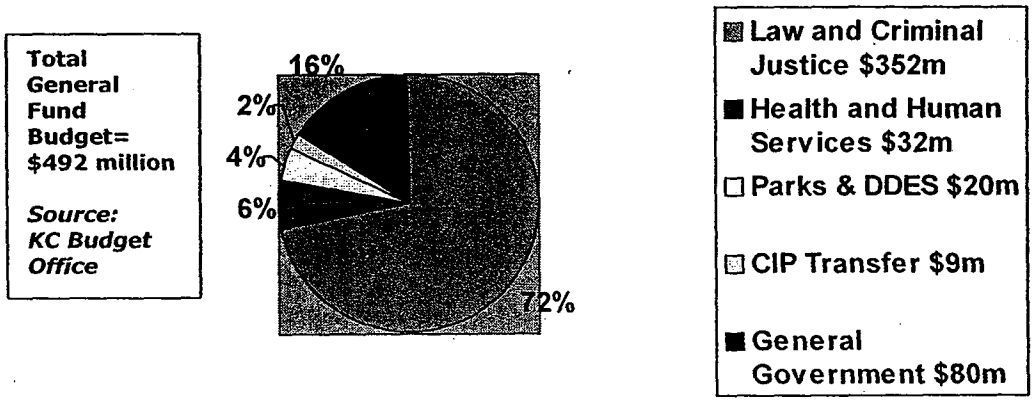
Revenue problems are certainly not unique to King County. Cities, for example, also suffer from the limitation on property taxes. The November 2002 report of the Washington State Tax Structure Study Committee (Gates Commission) concluded there are broad and fundamental inequities in Washington's tax system, and proposed an array of potential changes that could significantly improve the financial position of not only the state, but counties and cities as well. These subjects are outside of the scope of this study, but merit serious consideration.

Expenses

In contrast to the less-than-2% growth rate for General Fund revenues, General Fund expenditures for King County have grown at 5-1/2% to 6-1/2% per year. Salaries and wages (45%) and employee benefits (15%) account for the majority of General Fund expenditures. The growth rate for these expenditures has been driven, in large part, by cost of living increases, by a growth rate for health care and other benefit costs of nearly 10% per year (paralleling national experience in both the public and private sectors), and by the fact that over 25% of the FTE employees in the General Fund are eligible for salary arbitration. The County has moderated the impact of salary and benefit increases by reducing the number of employees in recent years.

More than 70% of the General Fund budget is used for law and justice functions, which are required by state and federal mandates. The percentage of the General Fund budget represented by law and justice has increased steadily over time and is projected to continue to increase. Much of this budget (61%) is controlled by separately elected officials (court, prosecutor, sheriff). The remaining 39%, which is managed by the executive, goes primarily to mandated Adult and Juvenile Detention services. As a result, the ability of the County Executive to exercise effective centralized budget management control in the area of law and justice is significantly hampered.

2003 Adopted King County General Fund Budget



Of course, increasing costs for mandated services affect the provision of non-mandated services. Increasing costs associated with mandated functions eat away at resources that would otherwise be available for non-mandated functions.

Responsibilities

King County's fiscal crisis is related to the dual nature of its responsibilities. King County is both the regional arm of the state (providing jails, public health, transit, waste disposal, and courts countywide) and a local government (providing local services to the roughly 350,000 residents of unincorporated King County). The County as regional government is subsidizing the County's local government function. In 2003, the County estimated that approximately $42 million of the money spent to provide local government services is supplied by revenues generated by the County in its role as county service provider.

Time for Change

In its 1991 report, the Municipal League of King County stated that "restructuring of governance is long overdue in King County." It recommended that local officials involved in the Regional Governance Summit work together to develop a reform proposal capable of gaining wide public support and stated: "If

a model is not forthcoming from the Summit shortly, the League is prepared to recommend a citizen's proposal for restructuring governance in King County."

In the years since the Municipal League's 1991 report, the fiscal health of King County has been undermined by short-sighted tax limitations and an over-reliance on antiquated and unstable revenue sources. In the view of some, inadequate management has also played a role. Efforts of King County officials to obtain authorization for additional sources of revenue, such as utility taxes in unincorporated areas, have, thus far, been unsuccessful, with the exception of authorization for a voted sales tax increase, receipts of which must be shared with the cities.

There has been much discussion about the need for governmental and fiscal reform for King County, but there has been insufficient public recognition and political will to achieve fundamental and necessary change. King County and the cities tend to compete for the same turf, while issues such as a rational framework for regional decision-making tend to be neglected. The people of King County suffer the impacts of a dysfunctional system every day in the form of threatened park closures, reduced social services, and inadequate infrastructure. The long-term effects may come in the form of reduced credit ratings and a downward cycle of degraded infrastructure leading to economic stagnation.

There is no way to escape the dilemma currently faced by King County's General Fund without a structural shift in the County's responsibilities and finances. We proceed to discuss recommendations for implementing such a shift.

RECOMMENDATIONS

The task ahead is daunting and politically charged, but bold and deliberate action is needed to stem King County's spiral of decline. The Municipal League of King County therefore recommends the following:

1. King County should divest itself of its role as a local service provider–in order to fulfill its role as the provider of county services.

Rationale: King County can no longer afford to be both a local service and a county service provider. There are workable alternative mechanisms for local service provision, but none for countywide service provision.

2. All land within the urban growth boundary should be incorporated or annexed to the city or cities within each area's sphere of influence though a collaboration between King County, existing cities and citizens. Rural unincorporated communities should be organized into townships or other entities for the purpose of local service delivery, to include local land use decision-making consistent with the Countywide Planning Policies and the Growth Management Act. King County should be more aggressive in encouraging and enabling unincorporated residents to find alternatives to King County for local service provision.

Rationale: Several groups, including the 1997 Charter Review Commission and the Municipal League of King County, have previously recommended that King County discontinue providing local services and strengthen its role of county service provider. Options for local services in unincorporated areas include townships and special purpose districts. Townships, which are authorized by Article XI § 4 of the State Constitution, and which would have their own taxing authority, were discussed in the Municipal League's 1991 report.

Although some have suggested that the number of special purpose districts in the County contributes to inefficiencies, the Committee has not been persuaded that forced elimination or consolidation of special purpose districts would necessarily lead to cost savings, improved service quality or better democracy. There is some evidence that, through cooperation, contracting and consolidations where circumstances warrant, special purpose districts, townships and municipalities can work together to provide services in an efficient, accountable and flexible manner.

In order to make this significant change, it will be necessary for major public dialogue to take place on the merits of the concept, as well as on what mechanisms could replace King County as local service provider. The Municipal League offers to play a leading role in convening such conversations.

3. King County, along with the other members of the Washington State Association of Counties, should continue to seek, and the Legislature should authorize, additional revenue sources to fund equitably county services.

Rationale: King County cannot continue to operate under conditions of insufficient resources to fund the growing cost of existing services. Counties have more limited access to revenue sources than municipalities, and must rely primarily on property taxes for their General Funds, which are capped by a 1% (plus new construction) limit on property tax increases imposed by Initiative 747. In today's economy, no entity can survive with growth from its primary source of income limited to 1%, no matter how frugal it is in limiting expenses.

The Committee heard discussion of several additional potential sources of revenue. The Association of Washington Cities, Washington Association of County Officials and Washington State Association of Counties endorsed proposed legislation that would authorize counties to impose a utility tax, comparable to the utility tax levied by municipalities, in urban unincorporated portions of counties. Thus far, the Legislature has failed to authorize such a tax. Revenue from an unincorporated-area utility tax would help significantly, though the League is not certain that it would be sufficient to fix the current structural gap between revenue and expenses by itself.

The County's options may also be more flexible than current practice provides with respect to revenue generated by the Unincorporated Area Property Tax. Revenues from this tax are available for any general government

expenditure benefiting the unincorporated area, but the County risks loss of significant state-shared gas tax revenue if revenues are diverted to purposes other than roads. State legislative action removing this limitation would assist the County in responding to the areas of greatest need.

State funding of law and justice expenses is another revenue source that the County should explore with the state legislature. Law and justice expenses make up over 70% of the County's current expense budget. That percentage increases annually. As a subdivision of the State, the County is mandated to provide essential services such as courts. Yet Washington ranks 49th among states in the degree to which state funding contributes to providing this service. While the Committee recognizes that the State also has significant financial challenges, the Committee believes that the State should contribute more to the funding of the court system. Authorization of increased filing fees would also contribute to funding of the law and justice system.

More revenue is needed so that King County can play its essential role as a county service provider, even if the County is relieved of its responsibilities as a local service provider. If responsibility for local services is divested, some of the County's revenue should be allocated instead to townships or other local service delivery mechanisms, rather than the County, to fund the provision of local services.

4. As additional revenue opportunities are explored, the County must also continue to cut costs.

Rationale: The County must address its fiscal problems by attacking both the revenue and expense side of the equation. Thus, the County must continue its efforts to control expenses. The following is a non-exhaustive list of opportunities to examine:

- The County and the cities within the County should explore opportunities to consolidate the functions of King County District Court and the municipal courts.
- The County should explore using technology to more efficiently and more effectively conduct business.
- The County should reduce the annual growth rate of its labor costs to bring them more closely in line with the rate of inflation. The County should fully examine its organizational structures and labor agreements and pursue the changes necessary to achieve this objective. Increasing employees' share of health costs is one option in this regard.
- The County should rely to a greater extent on contracting with municipalities and private entities to provide services when doing so would be more efficient than providing the same services with County personnel and would preserve or enhance service quality.

- The County should engage in more effective oversight of major acquisitions, contracts, and systems.

- The County should continue to seek greater efficiencies in the provision of services. The report of the Budget Advisory Task Force contains a number of suggestions in this regard.

CONCLUSION

All of us – King County, the County's citizens and cities, and the State Legislature – are challenged to grapple with the complex issues that face us. Clearly, "business as usual" will only exacerbate the fiscal crisis that faces King County. It is the hope of the Municipal League of King County that this report will contribute to informed consideration and courageous resolution of this crisis.[1]

[1] As the Recommendations set forth above are implemented, the role of the County will be narrowed and focused. With these changes, it may be appropriate to re-examine the manner in which various County entities operate. Some proposals, such as Initiative 18, which would reduce the size of Council, and a suggestion that the Council be elected on a non-partisan basis, have already been introduced. The Municipal League intends to examine and comment on these and other proposals.

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Dick Ford, Former Executive Director, Port of Seattle

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Patricia Stambor, Seattle League of Women Voters

Steven Wayne, King County Realtors

*Municipal League Board members

King County
Commission on Governance

March 31, 2004

Metropolitan King County Council

The Honorable Larry Phillips, Chair
The Honorable Dow Constantine
The Honorable Carolyn Edmonds
The Honorable Bob Ferguson
The Honorable Larry Gossett
The Honorable David Irons
The Honorable Jane Hague
The Honorable Steve Hammond
The Honorable Kathy Lambert
The Honorable Rob McKenna
The Honorable Julia Patterson
The Honorable Dwight Pelz
The Honorable Pete Von Reichbauer

King County Executive Ron Sims

King County Courthouse
516 Third Avenue
Seattle, WA 98104

RE: King County Commission on Governance
Final Report and Recommendations

Enclosed for your consideration and action is the final report of the King County Commission on Governance. Your charge to us was to reconsider services to be provided by King County, given its fiscal challenges; how services should be provided; funding for services; and the political and governance structure for those services. We appreciated the opportunity to serve in this effort and look forward to providing whatever assistance we can in supporting your efforts to understand and implement our recommendations.

Commission members approached this task from diverse backgrounds and with very different perspectives. Most of our recommendations were adopted unanimously and those that were not unanimous, nearly were. This level of agreement was due, in part, to the education we received during 26 regular meetings and two community forums about the enormity of the governance

challenges that confront the people who live in King County and its cities. In response, it was easy to agree on some of the main ideas and recommendations presented in this report.

We believe it is an institutional imperative for King County government to become a regional and national leader in the pursuit of prevention programs to reduce the criminal justice costs that are overwhelming county government. County officials also must take a leadership role to create the partnership necessary to fulfill the commitments that were made 10 years ago under the Growth Management Act. Further, a stronger connection between residents of unincorporated King County and County government must be forged through a modern township concept. Finally, we believe County government must boost public confidence by improving its internal management and services as called for by the King County Budget Advisory Task Force.

There were two issues that generated significant comment in discussions about County governance. The first is the size of the County Council. We found inadequate grounds at this time to justify action on the size of the Council, and believe that a time will come when the evolution of County government's role merits a reduction in the size of the Council. The second is whether whether county officials should be elected on a partisan or non-partisan basis. We found no compelling evidence that partisanship by itself determines the quality of government services in our region; for Executive and Council offices, partisan labels can be valuable to help the public better understand the philosophies of candidates seeking public office. Although these were pressing issues as we began this effort 10 months ago, their significance faded as we learned more about the governance challenges that face the people of King County. There are much more urgent issues that require public attention.

With the completion of these recommendations, our regular meeting schedule has concluded and our task completed. We are eager to answer any questions you may have about our report, and look forward to the County's action on these recommendations. Thank you for the opportunity to serve the people of King County.

Sincerely,
King County Commission on Governance

Dave Gering
Co-Chair

Steve Goldblatt
Co-Chair

Richard Bonewits

Richard Derham

Mark Endresen

Arun Jhaveri

Sharon Maeda

Jim Montgomery

Bill Ptacek

Kathleen Royer

Steve Williamson

cc: King County Prosecutor Norm Maleng
King County Sheriff Dave Reichert
King County Assessor Scott Noble
King County Superior Court Presiding Judge Richard Eadie
King County District Court Presiding Judge Wesley Saint Clair
King County State Legislators
Co-chairs, Budget Advisory Task Force (BATF)
Co-chairs, Task Force on Regional Human Services

Executive Summary SUMMARY

The Challenge

King County is an exceptionally prosperous community, but King County's $500 million general fund faces a long-term structural revenue gap. County expenditures are growing faster than revenues. At current growth rates, costs for law and justice services threaten to consume all general fund revenues by the year 2009 (jail, court, prosecution, defense services, that make up over 70% of general fund costs). King County's possible responses are likely to be unacceptable to King County residents: preserve all existing programs at the current growth rate (25% increase in taxes); preserve the law and justice system eliminating all other services; protect all programs except law and justice (meaning a 35% cut in law and justice agencies); or impose 15% across-the-board reductions.

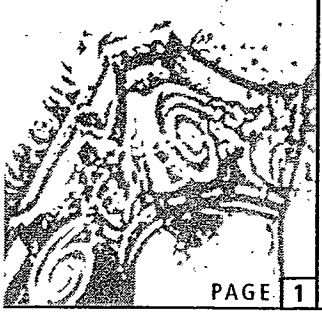
It is evident that small changes to services or the structure of County leadership cannot resolve the problem.

The size of the County Council and whether county officials should be elected on a partisan or non-partisan basis are very small parts of much bigger governance challenges facing our region.

For some, a discussion of "governance" is dominated by issues of the size of the County Council and whether county officials should be elected on a partisan or non-partisan basis. Our research, testimony, correspondence and deliberations convinced us these topics are very small parts of much bigger governance challenges facing our region.

These challenges include: human services, transportation, and other urgent community needs; an assurance that our countywide government isn't devoured by costs and services devoted to criminal justice; the level of political representation for the 300,000 residents of unincorporated areas; our capacity to devote county-wide resources to public priorities; our inability to resolve issues associated with incorporations and annexations. These concerns dwarf the importance of how many people serve on the County Council, or whether they are elected on a partisan basis.

Although there are no "cure-alls" to solve King County's financial problems, our recommendations focus on actions that we believe will help to advance the goal of better governance. We found a need for King County elected officials to exercise their leadership county-wide to pursue the following recommendations.



Services to Be Provided by the County

We do not recommend that the County drop any line of service that it now provides. King County has a mandated and partnership role in many county-wide and local services. County-wide services include law and justice, transit, wastewater, health, mental health, chemical dependency services, and general government services such as elections and assessments. Local service responsibilities in unincorporated areas include, among others: police, parks, community development, roads, and surface water services.

How Services Should Be Provided

The County must change its policy and operations in key areas: intergovernmental relations; law and justice; human services; and management approaches. Our ideas for these changes include:

- **Fundamental Shift in Criminal Justice Policy.**
  It is unacceptable for the County's "growth industry" to be law and justice services. Although some of these costs are identified as mandatory, King County must identify an appropriate and affordable level of service for law and justice services, analyzing drivers of employment and aggressively and proactively constraining inputs to the law and justice system while continuing to protect our citizens from crime. The caseload-driven nature of the system is what drives employment; staffing levels can be affected by reducing recidivism in the law and justice system. Solving the budget problem requires reforming policy, process and funding in all agencies (police, courts, prosecution, defense, and jail); these choices cannot be considered without deep analysis into processes, labor costs, indirect costs and management costs.

Solving the budget problem requires reforming policy, process and funding in all criminal justice agencies; these choices cannot be considered without deep analysis into processes and costs.

- **"Forward Thrust" for Human Development.**
  Pressure on the criminal justice system cannot be decreased without corresponding major investments in targeted human services. A paradigm shift must occur across government, private, and non-profit sectors. Public education about the benefits of providing community treatment, intervention, and supportive services must be emphasized, and corresponding investments made. The severity of public sector funding constraints means significant community-based, private sector investment is needed. We call upon civic, community, foundations and faith-oriented leaders, in communication with County and city political leaders, to initiate a private-sector "Forward Thrust for Human Development" effort to mobilize resources in King County for a ten-year program of preventive and early treatment interventions through non-profit, and including faith-based, organizations. The focus should be funding and community support for services that reduce adult and juvenile crime. This commitment could be in the hundreds of millions of dollars; we do not recommend a dollar

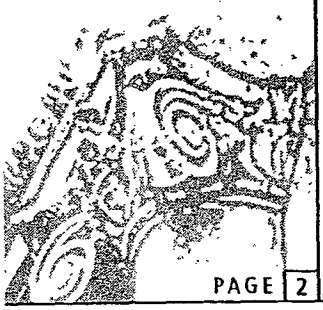


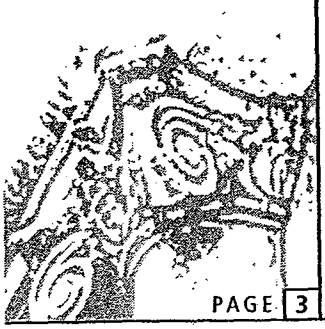
figure for this effort, but entrust this task to leaders and those engaged in the county-wide dialogue to analyze and suggest.

- **Growth Management Act Implementation.**
  Nearly every governance and service issue considered by the Commission was anticipated by the elected officials who adopted the Countywide Planning Policies to implement the Growth Management Act in King County. In 1994, the elected leadership required themselves to address these issues and services. Ten years later, many of these requirements remain unaddressed and unfulfilled. The current system for annexations and incorporations has not addressed remaining urban unincorporated areas. The people who live throughout the County and its cities possess no regional plan, program or prospect for meeting civic needs as fundamental as human services or transportation. King County must take leadership and create the partnership necessary to fulfill the commitments made under the Growth Management Act ten years ago, or seek State clarification of service and funding responsibilities in partnership with the cities. By the end of 2005, King County and other jurisdictions should move toward annexation or incorporation of urban islands with the participation of those communities. For areas outside the urban growth boundary, King County should pursue the creation of modern townships to provide citizens with a local source of decisionmaking for local governance issues.

A host of management approaches should be implemented to unify and streamline County government.

- **More Efficient and Effective County Business.**
  A host of management approaches should be implemented to unify and streamline County government, including: consolidate central services within one agency instead of spread across all branches; expedite information technology strategic planning to solve the financial system problems that have been plaguing the County for years; and make robust, outcome-based performance measurement; Operational Master Planning; and external evaluation of County services a high priority across the whole government. Investigation of labor costs and span of control must be done to provide a timely, definitive assessment of classification and compensation levels between King County and other organizations. Internal reforms should go hand-in-hand with a public education effort about the County's role, services and value it provides.

- **Other highlights of our recommendations include:**
  - **FOCUS** on excellence in the County's leadership and partnership role in the human services system.
  - **MANAGE** jail populations efficiently and effectively through aggressive court calendar management (increased frequency and information); devoting resources to cost-beneficial programs shown to have positive effects on recidivism. Permanently close jail facilities as the jail population



decreases; and expand the use of alternative sanctions and community programs for non-violent offenders. Encourage the release of warrants across court systems with appropriate security.

- **PURSUE COST-SHARING** with the State of Washington for mandatory law and justice system costs, increasing the State's contribution.
- **SEEK** Court reforms, including short-term consolidation of Superior Court and District Court administrative functions, and longer-term exploration of a single trial court and the role of municipal courts.
- **PURSUE OPPORTUNITIES** for reverse-contracting with cities where appropriate.
- **MODIFY** County staffing after annexations and incorporations with changing service demands.
- **PURSUE THE IMPLEMENTATION** of biennial budgeting.

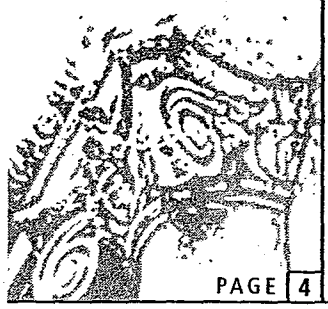
How Services Should Be Funded

The State's legal and structural funding framework allows for few new funding ideas for county governments. The Budget Advisory Task Force (BATF) offered comprehensive and worthwhile recommendations for full cost recovery, state fiscal support for mandated services, and pursuit of grant opportunities. A majority of the Commission believes that the creation of a utility tax in unincorporated areas would distract from the focus on annexation or incorporation of urban unincorporated areas. Broader public understanding could be gained from an extensive County educational effort and creation of a taxpayer's bill of rights. The creation of dedicated funds for services should be avoided, to allow for flexible funding to respond to changing service needs. Future state and federal funding should be granted directly to counties and not "passed through" the state where administrative costs are deducted (similar to Community Development Block Grants that cities and counties receive from the federal government).

Governmental Structural Changes As King County's Service Role Shifts

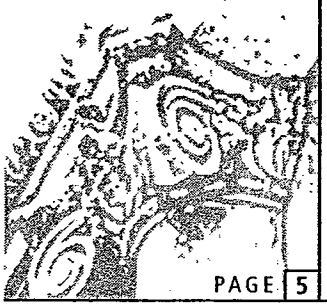
We see King County's future service roles shifting from three service roles (local urban, local rural, and regional) to two: provider of county-wide services and local service provider in the County's rural areas. As the County divests itself of urban service provision, the political structure of the County should be reconsidered, including:

- **CONSOLIDATING** internal service functions for all agencies in a single county-wide office focused on consistent management and cost controls;



- **A FOCUSED** examination by the next Charter Review Commission of the Council-Executive form of government, considering other forms such as appointed County-Manager and Council-Board President with blended legislative-executive powers; and
- **LONGER-TERM,** the Commission recommends that size of the Council be revisited as the annexation or incorporation of urban areas proceeds, reviewing whether Council size should be reduced to a number sufficient to accommodate the revised scope of King County government.

- **Other highlights of governmental structure recommendations include:**
  - **RETAIN** the County Executive, Council, Prosecutor and Assessor positions as elected and partisan offices; and
  - **APPOINTED** Sheriff and elections administration to carry out these relatively specialized and technical functions.



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