



King County

Metropolitan King County Council Budget and Fiscal Management Committee

STAFF REPORT

Agenda Item:	24	Name:	Patrick Hamacher
Proposed No.:	2016-0497	Date:	October 25-27, 2016

SUBJECT

An ordinance that shifts eight county funds from Tier 1 to Tier 2 status, thereby allowing any interest earned on fund balances to accrue to the County General Fund. This would generate \$3,000,000 in revenue for the General Fund during the biennium.

SUMMARY

This ordinance would change funds managed by the following agencies from a Tier 1 fund to a Tier 2 fund:

- KCIT – three different funds
- Facilities Management – two different funds
- Finance
- Risk Management
- Workers Compensation

BACKGROUND

Under County Code all county funds are either known as Tier 1 or Tier 2. A tier one fund means that any fund balance in the fund is invested for its own benefit, meaning the interest accrues back to the fund. Enterprise funds and bond funds almost always have to be Tier 1 funds due to either accounting or tax statutes.

A Tier 2 fund is a fund whereby the interest earnings are *not required* to remain with the fund. In the case of this ordinance, the Executive is proposing to convert 8 Tier 1 funds to become Tier 2 funds. These funds (mentioned above) are governmental funds where all county agencies pay in to receive a service. For example, charges to each fund for Risk Management are used for Risk Management Activities, there is no requirement that interest earned remain with the fund.

ANALYSIS

As part of the strategy to balance the County's General Fund, the Executive has proposed changing eight funds from Tier 1 to Tier 2 funds. The effect of this change

would generate approximately \$3 million in interest earnings for the County General Fund for the 2017-2018 biennium using the current forecast.

This change, if it sets precedent and continues, would be a permanent revenue source for the General Fund that will fluctuate over time based upon the interest rates paid by the investment pool and the balances maintained by the funds.

Because the General Fund would be keeping interest earnings instead of the generating fund, the effect of this change would be slight increases over time in the internal service rates charged to other funds for these internal services.

Council staff and Council Legal Counsel have completed our review and have not identified any issues with this change. This policy choice is proposed by the Executive as part of the overall General Fund balancing.

ATTACHMENTS

1. Proposed Ordinance 2016-0497
2. Fiscal Note

INVITED

1. Dwight Dively, Director, Office of Performance, Strategy and Budget