



King County

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September 23, 2013

The Honorable Larry Gossett
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Gossett:

I am pleased to transmit my proposed budget for 2014 and accompanying legislation. This budget reflects our continued success in reforming King County's finances and continues our work in putting the County on a sustainable path. The budget is largely a status quo budget with some investments and maintains the General Fund's unreserved fund balance at 6.5 percent. The budget is aligned with the King County Strategic Plan and reflects the eight goals we have established to guide "what" we do and "how" we do it.

The 2014 Proposed Budget focuses on funds and agencies with annual budgets for 2013, including the General Fund, Public Health, the Parks Division of the Department of Natural Resources and Parks, and a few internal service agencies. All agencies and funds will move to biennial budgeting for 2015/2016, so the 2014 Proposed Budget represents the last annual budget to be developed by the County. Most funds and agencies have biennial budgets for 2013/2014 that were adopted by Council in November 2012. With few exceptions, no changes to these biennial budgets are proposed at this time.

This budget, which preserves most services and makes limited investments in other areas, reflects the County's success in finding efficiencies and reducing the growth rate in County costs. It is important to recognize that the long term financial outlook of the General Fund has improved over the past five years primarily as a result of reducing the cost growth curve from approximately 5.0 to 3.5 percent annually. Much of this reduction is due to our partnerships with employees and their labor unions. Working together, the County has:

- reduced the growth in employee health care costs;
- reduced energy usage and costs in County buildings;
- improved services and reduced cost through the continued implementation of Lean;
- reduced our facility footprint and reduced costs through space consolidations; and
- reduced costs through the consolidation of information technology systems.

Budget Outlook

The continuing economic recovery has improved the County's budget and financial outlook. This improved outlook provides modest growth in King County tax revenues particularly in sales tax. Property tax collections, which are the largest single source of money for the General Fund and the Roads Fund, are increasing at a much more modest pace than economic growth, due to limitations set in State law.

Despite the County's successes in managing costs, the General Fund faces continued challenges in the future. The Office of Performance, Strategy and Budget (PSB) has developed a 10-year financial model for the General Fund. This model predicts that costs for current services for the 2015/2016 biennium exceed revenue forecasts by about \$36 million, with a further gap of about \$18 million in the subsequent biennium (on a biennial budget of \$1.4 billion).

The projected gaps are mostly due to revenue limitations under State law (most notably the 1.0 percent annual growth cap on property tax revenue). To illustrate the effect of these limitations, the latest Office of Economic and Financial Analysis forecast projects that the combined General Fund property and sales taxes will grow by 2.5 percent between 2013 and 2014. The sum of inflation and population growth is projected to be about 3.1 percent in that time. Thus, even in a period of significant economic growth, the County's core General Fund tax revenues do not keep up.

Another major factor influencing the 2015/2016 gap is the potential need to "buy back" the costs of programs that have been temporarily shifted from the General Fund to the Mental Illness and Drug Dependency Fund for the last several years. Under current State law, these costs will need to be cut or gradually shifted back to the General Fund starting in 2015. The effect of this is about \$14 million in 2015/2016, which is not included in the \$36 million gap described previously.

The state and federal governments face their own financial challenges and in some cases are making choices that adversely affect King County's budget. The 2014 Proposed Budget for Public Health reflects the projected loss of several million dollars of federal Medicaid Administrative Match funding, which has helped to support outreach and disease prevention efforts. The projected loss is covered by Public Health fund balances in the 2014 Proposed Budget, and a small General Fund reserve is proposed in case the federal reductions are worse than assumed. This approach will only work for one year, so unless federal funding is restored, significant program reductions likely will be needed for 2015/2016. Public Health is also facing cuts to other programs due to federal budget sequestration.

The Department of Community and Human Services (DCHS) has a biennial budget, but some units have mid-biennial budget adjustments. Some of these proposals reflect changes in state funding, particularly for mental health services. In most cases, DCHS has sufficient fund balance to continue programs through 2014, but major financial challenges could arise in the next biennium if state policy does not change.

Public Health and DCHS also face uncertainty due to the implementation of the Affordable Care Act. This Act will provide health care benefits for many individuals who are currently uninsured and cannot afford health care. King County serves many of these individuals through Public Health and DCHS programs, so some new revenue is likely to result. Both departments have included conservative estimates of this new revenue in their budgets. The longer-term effects of health care reform on the number of individuals served by County programs and the related financial implications are very difficult to predict.

Finally, both the Transit and Roads divisions of the Department of Transportation face continued service reductions if new revenue sources are not obtained. Efforts to get such revenue were unsuccessful in the 2013 Legislative session. The 2013/2014 Adopted Budgets for these two divisions include service reductions if new revenues are not provided, including a significant cut in bus service beginning in September 2014.

The Transmittal Package

In addition to the 2014 Executive Proposed Budget ordinance, this transmittal package includes the following separate legislative components and reports that are incorporated in the 2014 Executive Proposed Budget transmittal package.

Additional Ordinances

Mid-Biennial Update Ordinance – As part of the mid-biennial review of the 2013/2014 Adopted Biennial Budget, I am transmitting an ordinance that contains mid-biennial adjustments for a few budgets. All agencies with biennial budgets conducted a mid-biennial review process in 2013. This process included updating revenue and expenditure assumptions and determining whether there was significant policy or financial issues that needed to be addressed in the mid-biennial adjustment update. The mid-biennial review resulted in most agencies not needing an adjustment. The fiscal impacts and details of the mid-biennial adjustments I am proposing are incorporated in the 2014 Annual Budget Book which is transmitted with this package.

Property Tax Ordinance - Included in this transmittal package are the property tax ordinances necessary to collect the property tax revenue that supports the proposed budget. PSB staff will be working with Council staff in the coming weeks to ensure final numbers are included in these ordinances once we receive that information from the Assessor.

Parks Levy Fund Ordinance - This ordinance updates Title 4A within the King County Code to reflect the new eligible uses for the recently approved, King County Parks, Trails, and Open Space Replacement Levy. The levy is a six-year, CPI-indexed property tax levy lid lift of 18.77 cents per \$1,000 of assessed value for 2014 through 2019. The eligible uses were originally outlined in Ordinance 17568.

2014 COLA for Non-Represented Employees - This ordinance will authorize a 1.67 percent cost-of-living salary adjustment for regular, temporary and term-limited employees in non-represented County positions. The cost-of-living adjustment is equal to County union

labor agreements for 2014, with a change in the calculation methodology based on the Memorandum of Agreement between King County and labor unions addressing the 2011 budget crisis. It is important that the cost-of-living adjustments for non-represented employees be equal to the adjustments for represented employees to maintain equity of treatment between our represented and non-represented workforce. The proposed ordinance also approves the 2014 King County 10 Step Hourly Squared Schedule, 2014 King County 10 Step Annual/FLSA Exempt Squared Schedule, 2014 King County Standardized Hourly Salary Schedule, and the 2014 King County Standardized Annual/FLSA Exempt Salary Schedule.

Fee Ordinances

Part of being fiscally prudent is to raise fees and charges only when necessary and only when the efficiency of operations cannot be improved to preclude the need for increased fees. While the 2014 budget holds most fees and charges for services steady, certain fees and charges do need to be raised to generate the resources needed to continue to operate County programs. I am also proposing to decrease, eliminate or revise some fees as a result of a decrease in cost or change in policy direction.

Included in the 2014 Executive Proposed Budget are the following ordinances.

Department of Permitting and Environmental Review (DPER) Fee Change – The proposed fee changes for 2014 complete the full transition by DPER from hourly charges to fixed fees. These proposed changes include some fee decreases to reflect lower processing costs for some permit types, and one fee increase to an extremely low-volume fee to correct a previous error. The combination of these changes does not substantively change the total revenue expectations for DPER in 2014.

The replacement of hourly fees with fixed fees improves fee predictability and consistency for customers, and lowers the cost of fee administration for the County by simplifying fee collection and permitting technology requirements. Fee simplification will also facilitate future implementation of e-commerce options. These objectives align with the goals of providing excellent customer service and sound financial stewardship, as described in the King County Strategic Plan.

Department of Public Defense (DPD) Indigence Screening Fee Repeal - In accord with King County Code, DPD charges defendants requesting counsel at public expense a \$25 processing fee. Under code, this fee cannot be waived, and DPD usually issues clients a promissory note that may be sent to collections if the defendant cannot or will not pay. In 2012, the County collected only \$37,275 or 23 percent, of the \$161,425 billed to clients. Legislation accompanying the 2014 Executive Proposed Budget eliminates this fee, improving equity and social justice outcomes and furthering the King County Strategic Plan Justice and Safety Objective 2: Ensure fair and equitable justice systems. This change does not affect the level of service provided to public defense clients.

Real Estate Permit Fees - This proposed ordinance addresses three existing fees: 1) the method by which fees for right-of-way construction permits are calculated, 2) an increase in the fee for special use permits (SUP) to partially compensate custodial agencies for time spent reviewing permit applications, and 3) an increase in inspection fees to monitor activities approved under SUP's. This proposal includes minor edits such as updating the names of divisions and sections of county government. No new fees are proposed in this ordinance.

Medical Examiner's Office (MEO) Cremation and Burial Fee - Cremation and burial reviews are conducted by the MEO prior to issuing cremation and burial permits to funeral homes to assure that manner and cause of all deaths are reviewed by MEO staff. The MEO is proposing a small fee increase from \$50 to \$60 to cover the actual cost of the review. The fees for cremation and burial review have not been increased since their inception, which was 2008 for cremation and 2011 for burial. A cost study, conducted in 2013, found the cost of conducting the review is now \$60 per review. When the fee increase is implemented, King County's fee will still be lower than the average fee charged by other major jurisdictions for the same service.

E-911 Excise Tax - King County imposes a County enhanced 911 excise tax as authorized by RCW 82.14B.030, including on the use of radio access lines. The Washington State Legislature passed Second Engrossed Second Substitute House Bill 1971, which became Chapter 8, Laws of Washington 2013 2nd Special Session, to amend certain statutes related to taxes and other charges on communications services, including RCW 82.14B.030. The amendments to RCW 82.14B.030 restructure the manner in which a county may impose an enhanced 911 excise tax on the use of radio access lines by consumers of prepaid wireless telecommunications service. Most of the prepaid providers are already remitting the wireless tax for their prepaid customers, so this ordinance is not projected to change the 911 tax revenues. The new law will simply distinguish prepaid wireless service from postpaid, and change the point of collection for prepaid to the point of sale. Failure to pass this ordinance will reduce the wireless 911 revenues because we would no longer be authorized to collect the tax for prepaid service. In addition, if King County is not collecting the maximum enhanced 911 taxes authorized by state legislation, the County would no longer be eligible to receive state portion of the enhanced 911 revenue. Both of these decreases in revenue would cause a reduction in 911 services and support to the Public Safety Answering Points.

School Impact Fees - The school impact fee ordinance adopts by reference the 2013 updates of the School District Capital Facilities Plans as a sub-element of the Capital Facilities Element of the King County Comprehensive Plan. The ordinance also amends the King County Code (K.C.C.) to update the school mitigation impact fees assessed by King County on all residential development in the unincorporated areas.

Other Reports

Regional Veterans Initiative (RVI) Report – The budget transmittal includes the Regional Veterans Initiative (RVI) Report and Recommendations, a set of action steps designed to increase the coordination and access to services for King County veterans and their families.

The RVI effort was launched as part of my State of the County address on February 4, 2013, to generate a plan for improving the regional veterans' service system. Throughout the process, the RVI Special Advisors Panel, made up of three distinguished local veterans was instrumental in helping King County gain a better understanding of the current system's gaps and challenges and in developing recommendations for the future. The RVI Report and Recommendations are designed to bring together policymakers, key stakeholders, and veteran community service providers to develop a more coordinated service system with the goal of maximizing veterans' access to and satisfaction with community support and services.

Technology Business Plan - As required by King County Code 2.16.0757, I am submitting the 2014 Proposed Technology Business Plan. This provides the County Council with the appropriate details and context for your review of the proposed budget as it relates to information technology projects.

2014 eCommerce Report - The King County Administrative Policies and Procedures-Accepting Electronic Payments FIN 8-5 (AEP), effective November 7, 2005, includes the following provision: Section 6.5.1 "As part of the annual budget request, the Executive will provide the Council with a list of all agencies offering electronic payment options. For those agencies absorbing fees, either the actual or budgeted costs of transaction fees must be shown, as applicable, for the previous fiscal year, the present budget year and the upcoming budget year." The attached report provides this information.

I certify that funds are available. If you have any questions, please contact Dwight Dively, Director, Office of Performance, Strategy and Budget at 206-263-9727.

Sincerely,



Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
 ATTN: Michael Woywod, Chief of Staff
 Anne Noris, Clerk of the Council
Elected Officials and Department Directors
Carrie S. Cihak, Chief Advisor, Policy and Strategic Initiatives, King County
 Executive Office
Dwight Dively, Director, Office of Performance, Strategy and Budget