



**KING COUNTY**

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

**Signature Report**

**July 29, 2003**

**Motion 11775**

**Proposed No.** 2003-0205.2

**Sponsors** Gossett and Phillips

1           A MOTION approving the executive's strategies to address  
2           declining current expense fund revenues by reducing  
3           internal service fund charges to all county agencies and  
4           requesting information as part of the executive's 2004  
5           proposed budget.

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8           BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

9           WHEREAS, Ordinance 14517 contains a proviso requiring the office of  
10          management and budget to develop by May 1, 2003, a plan to address declining current  
11          expense fund revenues by reducing internal service fund charges to all county agencies,  
12          and

13          WHEREAS, the office of management and budget complied with the budget  
14          proviso by submitting such a plan on May 1, 2003, and

15          WHEREAS, the plan identifies three main strategies for reducing internal service  
16          fund charges, including containing costs, implementing long-term cost saving measures  
17          and efficiencies and establishing fund balance policies for the internal service funds, and

18           WHEREAS, the cost containment strategies include: eliminating noncore  
19 services; providing detailed pricing information for all services; evaluating level of  
20 service and customer needs; and evaluating labor and non-labor overhead costs, and

21           WHEREAS, the long-term cost saving measures and efficiencies include:  
22 obtaining full-cost recovery rates for all customers; avoiding cross-subsidization between  
23 lines of business; ensuring that cost recovery parallels expenditures as closely as possible;  
24 and avoiding rebates and rate spikes, and

25           WHEREAS, the executive's plan contains many promising strategies for reducing  
26 internal service fund charges while enhancing responsiveness to customers, and

27           WHEREAS, the council endorses the strategies in the executive's plan, and

28           WHEREAS, the executive will likely employ many of these strategies in the 2004  
29 proposed budget, and

30           WHEREAS, information about how these strategies were implemented in the  
31 proposed 2004 budget would be very helpful to the council in evaluating the proposed  
32 budget and the effectiveness of the strategies;

33           NOW, THEREFORE, BE IT MOVED by the Council of King County:

34           The executive is hereby requested to provide, as part of the 2004 proposed budget  
35 submission, an inventory and explanation of the strategies that were used to reduce  
36 internal service fund charges, along with data documenting for each internal service fund

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37 the change from the 2004 status quo budget and the impacts on fund balances, charges  
38 and service delivery for the user agencies.

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Motion 11775 was introduced on 5/12/2003 and passed by the Metropolitan King County Council on 7/28/2003, by the following vote:

Yes: 13 - Ms. Sullivan, Ms. Edmonds, Mr. von Reichbauer, Ms. Lambert, Mr. Phillips, Mr. Pelz, Mr. McKenna, Mr. Constantine, Mr. Hammond, Mr. Gossett, Ms. Hague, Mr. Irons and Ms. Patterson  
No: 0  
Excused: 0

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON

  
Cynthia Sullivan, Chair

ATTEST:



Anne Noris, Clerk of the Council

**Attachments**      A. Addressing King County Current Expense Deficit



**King County**  
**Office of Management and Budget**  
 King County Courthouse  
 516 Third Avenue, Room 420  
 Seattle, WA 98104  
 (206) 296-3434

### ADDRESSING KING COUNTY'S CURRENT EXPENSE DEFICIT

This report is the Executive response to provisos in the 2003 Adopted Budget concerning plans to address declining current expense (CX) fund revenues in 2004 and beyond. The report also responds to provisos that ask for the impact of the deficit on the current expense agencies of the Department of Adult and Juvenile Detention (DAJD), the Department of Community and Human Services (DCHS), the Department of Judicial Administration (DJA), and the Office of the Public Defender (OPD), as well as the deficit's impact on the internal service funds.

#### Budget Outlook for 2004 and Beyond

Core County services are at risk for 2004 and beyond as the CX Fund continues to face substantial deficits each year. The Office of Management and Budget's most recent projections have identified a 2004 deficit of \$21 million, another \$21 million in 2005, and \$15 million in 2006. Similar deficits are expected each year thereafter, as the County's revenues fail to keep pace with the normal growth of expenditures. Funding of basic county services will have to be reduced each year to balance to these deficit estimates.

CX Fund Deficit: Expenditures Outpace Revenue Growth

	2003	2004	2005	2006
Revenues	496.5	503.2	511.7	522.9
Expenditures	(491.8)	(523.8)	(532.0)	(537.6)
Additional Reserves*	(4.7)	(0.8)	(0.9)	0.0
Deficit	0.0	(21.4)	(21.2)	(14.7)

\*Additional reserves include increases in fund balance to meet 6% reserve requirement, and one-time expenditure costs.

The Structural Gap Continues for King County

Estimates for the Current Expense fund have been updated with 2003 information to compare the growth of revenue to the growth in the cost of services. It continues to show the structural challenge facing King County government.

Current Expense Structural Gap

	2004	2005	2006
Revenue Growth	1.4%	1.7%	2.4%
Cost of Services Growth	5.7%	5.9%	5.3%
Structural Gap	(4.3%)	(4.2%)	(2.9%)

The largest factor in the cost of services is direct salaries. These salaries make up almost half of the budget and are growing at 5% to 5.5% annually. Benefits are projected to grow at roughly 15% in the outyears. Total salary and benefit costs comprise over 70% of the cost of services. Retirement cost estimates are growing from \$4 million in 2003 to approximately \$12 million in 2006, which is comparable to 1999 costs. The expenditure weighted growth rates being assumed are:

Cost of Services Growth Factors

	2004	2005	2006
Salaries	4.6%	6.1%	5.2%
Benefits	18%	16%	13%
Retirement	60%	38%	25%
Other	2-5%	2-5%	2-5%
Total	5.7%	5.9%	5.3%

CX Reductions Taken in 2002 and 2003

In the past two years, King County has successfully met the challenge of \$41 million and \$52 million dollar deficits. Parks and Human Services have seen reductions of almost 40% of their budgets in two years. General government functions have absorbed reductions of 12-15%. Law, Safety and Justice services and Public Health, which together make up over 70% of the CX budget, have taken reductions of 5-8%; almost one third of those reductions have been in the Department of Adult and Juvenile Detention.

It is illustrative to show the budget reductions from the past two years by program area:

Law, Safety and Justice	\$22.8 m
General Government *	\$ 6.5 m
Parks and DDES	\$13.9 m
Health and Human Services	\$11.5 m
Other	<u>\$38.1 m</u>
	\$92.8 m

*\*Total General Government budget reductions for 2002 and 2003 have exceeded \$15 million. Most are funded through CX overhead formulas where direct CX costs represent about 33% of total costs.*

#### Preliminary 2004 Budget Targets

The total reductions for 2004 are smaller than the past two years but they will be extremely challenging to implement. Every current expense and internal service function must cut deeper into their core services. The reductions will impact all CX, CX transfer and central rate agencies.

Like the last two years, the Executive is embarking upon the development of the 2004 budget early in the year so that there is sufficient time to review budget reduction options. The target reductions for county agencies were delivered to departments in early March.

The target reductions being asked of departments for 2004 are dramatic and will be extremely challenging for every agency. It is incumbent upon all agencies to continue to seek different and more efficient ways of doing business, to challenge the status quo, and to make difficult decisions about what services must be curtailed in the future.

The preliminary budget targets by program area are:

Law, Safety and Justice	\$12.2 m
Health* and Human Services	\$ 2.5 m
Parks and DDES	\$ 3.5 m
General Government**	<u>\$ 2.8 m</u>
Total	\$21.0 m

*\*Public Health Note: State loss of MVET backfill money for Public Health would result in an additional reduction of \$10 m in 2004.*

*\*\* The General Government reduction shows only the CX portion. General Government agencies will need to make reductions totaling over \$7 m to make a \$2.8 m CX reduction.*

## Budget Priorities

The Executive's budget priorities remain unchanged from last year. They are:

- King County is a regional government.
- Public safety and public health remain our highest priorities.
- Human services and parks, while discretionary services as a matter of law, are vitally important to the quality of life.
- Direct services are of higher priority than administrative functions, except where we must maintain appropriate controls to assure public accountability.
- Raising fees is preferable to cutting critical services.
- Contracts for services must seek to recover our full costs.

In the past year, the Executive has pursued a number of initiatives that build upon and reinforce the strategic direction of King County government consistent with these priorities. Examples of this include the major transition in the parks division of the Department of Natural Resources and Parks, renegotiating the contract with cities for our provision of jail services, and the implementation of community corrections initiatives in the Department of Adult and Juvenile Detention.

## Outyear Budget Strategies and Initiatives

The Executive is pursuing a number of initiatives that may mitigate the need for dramatic budget reductions in the coming years.

First, the Executive is seeking authority for an *unincorporated area utility tax* from the State Legislature that will give King County the revenue tools equal to those of any city. Unincorporated King County is, in effect, a city of more than 350,000 residents. The analysis presented in the 2003 Executive Proposed Budget identified a subsidy of unincorporated areas (both rural and urban) of more than \$41 million per year. Excluding Roads, the largest cost of unincorporated area services is Law, Safety and Justice functions--and the greatest part of those costs are attributable to the Sheriff's Department. An unincorporated utility tax can help create greater equity for all citizens of King County and mitigate the need for reductions in critical regional and local services.

Second, the Executive transmitted and the County Council adopted an ordinance to place a proposition for a *parks levy* before the voters this spring. The Metropolitan Parks Task Force was convened last year and given the challenge of saving the County's parks system. Parks absorbed a 35% cut in funding and staffing this year, and has embarked upon dramatic changes; redefining its mission, scope of services, and financing. The task force has recommended the County seek a dedicated property tax levy for parks that will reduce CX support of parks to about \$3 million per year (down from the current level of \$8 million in 2003).

Third, the Executive has put forward a *solid waste competition and efficiencies initiative*. By making a long term commitment to staying in the solid waste business, and substantially reducing our operating costs, the solid waste utility would begin making rent payments of about \$7 million per year to the CX fund for use of the Cedar Hills landfill in 2004. The \$7 million annual revenue stream can be accomplished without raising taxes or increasing rates to residential and commercial customers who generate waste. The Executive is proposing to dedicate these funds to support the health and human services departments.

#### 2004 Budget Risks and Challenges

In the face of a continuing CX budget crisis, the Executive has put forward a number of proposals. One or more of these proposals would have the effect of substantially reducing the 2004 deficit. However, the national and regional economies show no signs of recovery and there remain significant risks that King County's financial situation could deteriorate further. The Executive is proceeding with budget planning for 2004 assuming a \$21 million deficit.

A significant note of caution relates to the need for a state "backfill" for public health funding lost as a result of statewide initiatives repealing certain Motor Vehicle Excise Taxes. At this time, it appears that the Legislature will provide backfill funding. If not, our budget challenge could increase by another \$10 million in 2004 – from \$21 million to \$31 million.

Finally, the Budget Advisory Task Force (BATF) is continuing its review of CX fund activities. The BATF will be making recommendations regarding both operational efficiencies and budget priorities, which the Executive fully expects will result in additional budget initiatives that may refine or enhance our collective efforts to meet the 2004 target. The BATF will issue its final report in June, 2003.

#### Response to Motion 11491 Concerning DAJD, DCHS, DJA and OPD

Motion 11491 asks the Executive to develop budget projections for 2004 through 2006 for these four agencies, including how expenditures will be reduced. It also asked the Executive to identify potential alternative sources of revenue for the law and justice agencies. Finally it asked the Executive to identify how the county will meet its law and justice responsibilities with declining resources.



Shown below is a three-year budget history of Current expense funding for the four departments:

Department	2001 Adopted Budget	2002 Adopted Budget	2003 Adopted Budget
DAJD	\$101.9	\$108.9	\$103.1
DCHS*	\$15.6	\$14.1	\$10.9
DJA	\$12.2	\$13.4	\$14.0
OPD	\$27.7	\$27.4	\$29.4

\*DCHS includes the Community Services Division, and CX transfers for Mental Health, Developmental Disabilities, Substance Abuse, Work Training and the Housing Opportunity Fund.

#### Future Costs and Reductions of These Functions

It is difficult to predict with any precision what the actual future costs of these four functions will be as requested in the Motion 11491. For the sake of this analysis only, it is assumed that these functions grew at the same rate as CX expenditures overall, some high level projections could be made using the growth assumptions for the CX fund explained earlier. The table below compares the normal growth rate with a restricted growth rate necessary to balance to the level of revenue available to the Current expense fund.

#### Normal vs. Restricted CX Growth Rates

Year	Normal Growth Rate	Restricted Growth Rate
2004	5.7%	1.4%
2005	5.9%	1.7%
2006	5.3%	2.4%

The next table shows what the future cost of these functions would be if they were allowed to grow at a normal rate. If an assumption was made that each function would be reduced according to their current share of the CX fund, instead of a normal growth rate, the growth of these departments would be limited. Growth would be restricted to the level that current expense revenues could support. Under this assumption, each function would retain their current percentage of current expense fund support.

If the normal and restricted growth rates were applied to the expenditure totals of these four departments, the following reductions would be seen:

Agency	03 Adopted	04 Projected Based upon 5.7% Normal Growth	04 Projected Based upon 1.4% Limited Growth	Projected 04 \$ reduction due to limited growth rate	05 Projected Based upon 5.9% Normal Growth	05 Projected Based upon 1.7% Limited Growth	Projected 05 \$ reduction due to limited growth rate
DAJD	103.1	109.0	104.6	4.4	110.8	106.4	4.4
DCHS	10.9	11.5	11.1	.4	11.8	11.3	.5
DJA	14.0	14.8	14.2	.6	15.1	14.5	.6
OPD	29.4	31.1	29.8	1.3	31.6	30.4	1.2

Criminal justice agency reductions continued for 2006:

Agency	06 Projected based upon 5.3% Normal Growth	06 Projected based upon 2.4% Limited Growth	Projected 06 \$ reduction due to limited growth rate
DAJD	112.0	109	3.0
DCHS	11.9	11.6	.3
DJA	15.3	14.8	.5
OPD	32.0	31.1	.9

### No Across-the-Board Reductions

The above information is presented for illustrative purposes only. The Executive has not and is not proposing across-the-board percentage reductions in order to balance the budget. The County's budget environment is very dynamic. The Executive, with the separately elected officials (Prosecuting Attorney, Sheriff, Superior and District Courts, and the Assessor) and the County Council must work through the annual budget process to weigh competing demands for limited resources. The budget process involves taking advantage of opportunities to reduce expenditures and increase revenues. Ultimately, the necessary decisions concerning trade-offs will be made, resulting in a proposed Executive budget that is presented to the Council each year.

### Options for Reducing Other Law and Justice Agency Expenditures

The Executive and the Office of Management & Budget are actively involved with all of the criminal justice agencies to find ways to more efficiently provide services. Most notable are the efforts of the CJ Council and CJ Implementation group. These two groups, both of which include the active participation of the Executive and OMB staff, have been instrumental in implementing the community corrections initiatives. These groups continue to meet to identify additional ways to reduce jail population. In addition, we are working directly with DAJD staff to identify non-ADP related efficiencies in its operations. We are currently exploring options for increasing the staff-to-inmate ratio and the implication of the Hammer settlement. We are also working cooperatively with the Auditor's Office and Council staff on the development of a DAJD Operational Master Plan.

The Executive has actively pursued full-cost recovery contracts for criminal justice agencies that provide services to municipalities. Last year, we renegotiated our jail contract to develop a structure that more fully recovers our costs of providing jail services to municipalities. In addition, the new contract includes terms that responsibly and systematically reduce the cities' reliance on the King County jails to house their inmates over the next ten years in order to preserve existing jail space for the anticipated growth in the County jail population. This will delay the County's need to build and operate another costly jail facility, saving the County an estimated \$16.4 to \$24.3 million in annual capital and operating costs.

In addition, the Executive has terminated the contract with the cities for the provision of District Court services. Our analysis shows that we are subsidizing these contracts by approximately \$3 million per year. Given our current fiscal climate, the Executive believes we can no longer afford to provide this kind of subsidy to the cities. We are continuing to work with Council staff to discuss how our analysis was developed and the direction the Executive believes the County needs to move in.

The Executive recommended and the Council adopted in the 2003 Budget to fund the first phase of the LSJ Integration project. By improving the linkages in our technology systems, we better position our criminal justice agencies to more efficiently and effectively perform their responsibilities during these times of fiscal constraint.

### Potential Alternatives Sources of Revenues for Law and Justice Agencies

The Executive is exploring all potential options for increasing revenues for Law and Justice agencies. Most notably, the County has submitted claims to the State for reimbursement of costs incurred by the County to process aggravated murder cases over the past two years. King County did not receive any funding for our 2001 claim but remains hopeful that we may receive some relief for our 2002 claim. King County's 2002 claim totals \$8.4 million for 18 active aggravated murder cases. We continue to also explore other grant opportunities.

### Internal Service Budget Forecasts

An adopted budget proviso asks the Executive to note how it plans to address declining current expense revenues by reducing internal service fund charges to all county agencies. The proviso also asks for internal service agency budget projections for 2004 to 2006. Normal rates of growth were estimated for each of the Internal Service functions represented in this report. The growth rate for each of the funds was developed using the same parameters as were developed for the current expense fund forecast. Aggregate growth rates vary among the various funds because of the unique mix of salaries, benefits and other expenditures for each fund.

Those growth rates are:

Internal Service Function	2004 Normal Growth Rate	2005 Normal Growth Rate	2006 Normal Growth Rate
Finance	5.35%	5.28%	5.03%
Facilities Management	5.31%	5.24%	5.0%
Risk Management	4.97%	4.96%	4.93%
ITS	5.11%	5.06%	4.86%
Motor Pool	3.60%	3.59%	3.55%

When normal growth rates for the Internal Service functions are compared to the restricted growth rates required by limited current expense revenues, the following rate restrictions are seen:

Agency	04 Restricted Growth Rate	04 Normal minus Restricted Rate	05 Restricted Growth Rate	05 Normal minus Restricted Rate	06 Restricted Growth Rate	06 Normal minus Restricted Rate
Finance	1.4%	(3.95%)	1.7%	(3.58%)	2.4%	(2.63%)
Facilities Mangt	1.4%	(3.91%)	1.7%	(3.54%)	2.4%	(2.6%)
Risk Mangt	1.4%	(3.57%)	1.7%	(3.26%)	2.4%	(2.53%)
ITS	1.4%	(3.71%)	1.7%	(3.36%)	2.4%	(2.46%)
Motor Pool	1.4%	(2.02%)	1.7%	(1.89%)	2.4%	(1.15%)

Listed below are the 03 Adopted Budgets for each Internal Service agency and the projected normal growth of each function for 2004-06. When the rates are restricted to the growth levels required to balance the current expense fund, the following levels of reductions are required:

Agency	03 Adopted	04 Projected Based upon Normal Growth	04 Projected Based upon 1.4% Limited Growth	04 \$ reduction due to Limited Growth Rate	05 Projected Based upon Normal Growth	05 Projected Based upon 1.7% Limited Growth	05 \$ reduction due to Limited Growth Rate
Finance	24.9	26.3	25.3	1.0	26.6	25.7	.9
Facilities Managmt	33.5	35.2	33.9	1.3	35.7	34.5	1.2
Risk Managmt	24.1	25.3	24.5	.8	25.7	24.9	.8
ITS – Tech.	22.9	24	23.2	.8	24.4	23.6	.8
Motor Pool	11.8	12.2	11.9	.3	12.4	12.2	.2

Internal Service Agency reductions continued for 2006:

Agency	06 Projected based upon Normal Growth	06 Projected based upon 2.4% Limited Growth	06 \$ reduction due to Limited Growth Rate
Finance	27.0	26.3	.7
Facilities Management	36.2	35.3	.9
Risk Management	26.1	25.5	.6
ITS – Tech. Services	24.8	24.2	.6
Motor Pool	12.6	12.4	.2

No Across the Board Reductions

As stated earlier in this report for CX agencies, the above information is presented for illustrative purposes only. The County Executive has not and is not proposing across-the-board reductions in internal service agencies in order to balance the CX budget. The budget process involves taking advantage of opportunities to reduce expenditures and increase revenues. Ultimately, the necessary decisions concerning trade-offs will be made for the internal service funds as part of the larger Executive proposed budget process that is presented to the Council each year.

Long-Term Savings Measures and Efficiencies in Internal Service Agencies

Internal service fund agencies will develop strategies for achieving a stable and consistent target fund balance over time within the framework outlined below:

- Full-cost recovery reimbursement rates for all customers including non-County.
- Avoid cross-subsidization between lines of business.
- Cost recovery parallels expenditures as closely as possible.
- Avoid the necessity for both rebates and rate spikes.

Cost-containment strategies will be implemented to reflect:

- Elimination of non-core services.
- Detailed pricing information for services provided.
- Evaluation of level of service and customer need.
- Evaluation of labor and non-labor overhead costs.

A policy for establishment of a target fund balance including the following criteria:

- Working capital.
- Price fluctuations affecting both labor and non-labor.
- Equipment replacement.
- Fund-specific reserves as justified by audit or other requirements.

Differing Rates of Growth for CX and Non-CX Internal Service Users

It is also important to note that internal service rates for Non-current expense agencies can be allowed to rise above the limitations required of current expense users. If these non-CX funds are growing in size and therefore demanding a higher level of service, their internal service rates would grow to reflect both growing demand for services as well as their larger percentage of the total cost of King County government.

As seen below, the current expense fund has been decreasing in its percentage of the total cost of County government:

Adopted Budget Year	Current Expense	All King County Appropriations	CX % of Total KC Expenditures
2001	491.6	2,233.1	22%
2002	493.3	2,937.7	17%
2003	488.6	3,144.7	16%

As the current expense fund continues to decline in percentage of total County expenditures, its share of the internal service rates will also decline. In addition, there will need to be a reduction in the level of internal support services to current expense users in order to balance to the revenue available to support CX functions.

How Will the County Meet its Service Responsibilities With Declining Revenues?

King County will be engaged in budget reduction strategies for all current expense agencies for the foreseeable future unless something significant improves the revenue growth projections that support these functions. Many difficult budget trade-offs will need to be made by the County Executive and Council in every budget facing them. It will require the ongoing participation of the separately elected officials of the government. Their assistance is of paramount importance to successfully develop creative and innovative ways of providing service in the face of continuous budget reductions.

The funding mechanisms supporting the general government functions of County government will never keep up with the cost of services as long as there is a continuing gap between the growth of revenues and expenditures.

The annual budget process requires priority setting among many difficult choices. There is a need to remain alert to State legislative and economic changes as they impact the budgetary

future of King County. It is possible that legislative changes may improve the revenue options available to King County. It is also possible that economic changes could improve or make the financial picture even more difficult. For example, any significant growth in inflation will cause the cost of employee salaries to increase and thus add to the deficits facing the government.

### Conclusion

These are extraordinary times facing King County. It is appropriate to acknowledge all the hard work and effort that have gone into the development of the 2002 and 2003 budgets during the past two years. The efforts of the County Council, the separately elected officials, the executive directors, and all County employees have been exemplary in responding to this financial crisis. We have all worked cooperatively to address the financial realities of county government, while striving to maintain important public services. There is no one "big fix" for the challenges facing King County. It will take numerous sizeable changes occurring every year to solve the budget imbalance that faces King County for the foreseeable future.