

VETOED

RC:ja
11/20/84

INTRODUCED BY: GARY GRANT

PROPOSED NO. 84-681

ORDINANCE NO. 7028

AN ORDINANCE relating to the investment of certain county funds, designating certain county funds as eligible to benefit from investments of their surplus monies, establishing a procedure for determining the amounts to be invested for the benefit of each such fund and authorizing the investment of such amounts, confirming the authority and specifying the composition of the executive finance committee, specifying the allocation of investment earnings and providing for an investment service fee, authorizing certain temporary interfund borrowing and interfund investment purchases, providing for regular reports on investments of county funds, authorizing pooling of monies for investment purposes, repealing Resolution 36165 with some exceptions, establishing practices for the investment of monies in newly created county funds, ratifying past investment practices and providing for a transitional period.

PREAMBLE:

It is hereby found and declared to be in the best interest of the county that only certain money in certain county funds be invested pursuant to the first paragraph of RCW 36.29.020 for the benefit of those funds; and the county by this ordinance takes action with respect to certain monies in certain county funds as set forth in section 2, below, to authorize such investment.

It is found and declared to be proper that the determination of the maximum prudent extent to which residual treasury cash in the control of the director of the office of finance is to be invested should be made by the director of the office of finance or his or her designee under the direction of the executive finance committee.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. As used in this ordinance, the following terms shall have the following meanings:

"Director of Finance": The director of the King County office of finance.

"First tier fund": Each county fund listed or described in section 2 of this ordinance.

"Fund manager": That person holding or exercising the powers of the

1 office specified in section 2 or section 11 for each fund, or that person's
 2 designee, which designee must be a county employee subordinate to and in
 3 the same department as the person holding or exercising the powers of the
 4 office specified in section 2 or section 11.

5 "Residual treasury cash": Any cash in the custody or control of the
 6 office of finance as to which no investment directive under the first
 7 paragraph of RCW 36.29.020, as now or hereafter amended, has been received
 8 by the director of finance. Residual treasury cash includes county cash for
 9 which the fund manager has not directed a specific fund investment pursuant
 10 to this ordinance.

11 "Second tier fund": A fund that is not to be invested for its own
 12 benefit under the first paragraph of RCW 36.29.020.

13 SECTION 2. A. First tier funds are as follows:

Fund Number	Fund name	Fund Manager
111	Emergency Telephone - E-911 -	E-911 program manager
115	Road Improvement Guaranty	director of the department of public works
119	Emergency Medical Service	director of the department of public health
127	UA Real Estate Transfer Tax	director of the office of finance
134	Building and Land Development	director of the department of planning and community development
241	Federal Shared Revenue	director of the office of finance
302	Harborview Hospital Construc- tion	director of the department of executive administration
309	Neighborhood Parks and Open Space Acquisition and Development	director of the department of planning and community development
310	West Seattle Bridge Construction	director of the office of finance
316	Parks, Recreation and Open Space	director of the department of planning and community development
317	Surface Water Construction	director of the department of public works
323	Solid Waste Construction - 1981	director of the department of public works
330	River and flood Control Construction	director of the department of public works
331	Building Modernization and Construction	director of the department of administration

	<u>Fund Number</u>	<u>Fund Name</u>	<u>Fund Manager</u>
1			
2	332	Solid Waste Capital	director of the department of public works
3			
4	333	Health Centers Construction	director of the department of public health
5	335	Youth Services Facilities Construction	director of the department of youth services
6			
7	336	Arterial Highway	director of the department of public works
8	337	Park Acquisition and Development	director of the department of planning and community development
9			
10	338	Airport Construction	director of the department of public works
11			
12	345	Cedar Hills Center Construction	director of the department of public health
13	381	Solid Waste Equipment Recovery	director of the department of public works
14			
15	384	Farmland and Open Space Acquisition	director of the department of planning and community development
16			
17	385	Renton Maintenance Facility	director of the department of public works
18	386	County Road Construction	director of the department of public works
19			
20	387	Harborview Med. Construction - 1977	director of the department of executive administration
21	388	Jail Renovation and Construction	director of the department of adult detention
22			
23	391	Landfill Reserve Fund	director of the department of public works
24	404	Solid Waste Operating	director of the department of public works
25			
26	429	Airport-Boeing Field	director of the department of public works
27	447	Waste Water Sewer Operation and Maintenance	director of the department of public works
28			
29	448	Stadium Operations	director of the department of stadium administration
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	<u>Fund Number</u>	<u>Fund Name</u>	<u>Fund Manager</u>
1			
2	542	Safety and Workers' Compensation	director of the department of executive administration
3			
4	552	Insurance	director of the office of finance
5	557	Public Works E.R. and R.	director of the department of public works
6			
7	558	Motor Pool E.R. and R.	director of the department of public works
8	559	Purchasing Stores Revolving	director of the department of executive administration
9			
10	560	Printing/Graphic Arts Services	director of department of executive administration
11	622	Judicial Administration Trust	director of the department of judicial administration
12			
13	674	Refunded Ltd. G.O. Bond Redemption	director of the office of finance
14	675	Refunded Unltd. G.O. Bond Redemption	director of the office of finance
15			
16	676	Housing and Community Development Escrow	director of the department of planning and community development
17			
18	679	H.U.D. Home Improvement Loans	director of the department of planning and community development
19			
20	693	Deferred Compensation Trust	director of the office of finance
21	795	Richmond Beach Sewer (No. 3)	director of the department of public works
22			
23	797	Skyway Sewer (No. 4)	director of the department of public works
24	844	Stadium Limited G.O. Bond Redemption	director of the office of finance
25			
26	890	King County ULID Assessment and Revenue Bond	director of the department of public works
27	3101	Sewer and Drainage 3 Maintenance	director of the department of public works
28			
29	3801	Sewer and Drainage 3 Bond	director of the department of public works
30	4101	Sewer and Drainage 4 Maintenance	director of the department of public works
31			
32	4801	Sewer and Drainage 4 Bond	director of the department of public works
33			

1 B. The following shall also be first tier funds:

2 All funds now or hereafter established by ordinance for capital
3 construction through specific road improvement districts, utility local
4 improvement districts or local improvement districts. The director of the
5 department of public works shall be the fund manager for such funds.

6 C. The following shall also be first tier funds:

7 All county funds that receive original proceeds of borrowings made pursuant
8 to Chapter 216, Washington Laws of 1982 as now existing or hereafter
9 amended, to the extent of the amounts then outstanding for such
10 borrowings for that fund. For purposes of this subsection, the director of
11 the county department or office primarily responsible for expenditures from
12 that fund, or his or her designee, shall be the fund manager.

13 D. The following shall also be first tier funds:

14 Any other fund as the council may hereinafter prescribe by ordinance
15 to be invested for its own benefit. If no designation is made by the
16 council upon creation of the county fund, then the fund shall be treated as
17 provided in section 11 of this ordinance.

18 SECTION 3. A. Second tier funds are as follows except to the extent
19 that all or a portion of any listed fund is a first tier fund by virtue of
20 any other provision of this ordinance:

21	<u>Fund Number</u>	<u>Fund Name</u>
22	010	Current Expense
23	103	County Roads
24	105	River Improvements
25	106	Veterans Relief
26	107	Human Services
27	108	Civil Defense
28	112	Involuntary Treatment
29	113	Retention-Detention Facility

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	<u>Fund Number</u>	<u>Fund Name</u>
1		
2	120	Treasurer's O and M
3	126	Alcoholism Services
4		
5	128	Surface Water Utility
6		
7	180	Public Health Pooling
8	182	Intercounty River Improvement
9	214	General Grant
10	224	Youth Programs
11	225	Head Start H.E.W.
12	243	C.E.T.A. Title VI
13	246	Community Development Block Grant
14	553	Systems Services
15	554	Payroll Revolving
16	555	Accounts Payable Revolving
17	621	Residual Investments
18	623	Cash in Other Banks
19	661	Deceased Effects Trust
20	662	Real Property Title Assurance
21	663	Comptroller Property Tax Refund
22	664	Property Tax Foreclosure Sale Excess
23	666	Real Property Advance Tax Collect
24	667	Fiscal Agent
25	668	Ad Valorem Tax Refund
26	669	Certificate of Redemption LID Assessment
27	670	Undistributed Taxes
28	671	District Court Suspense
29	672	Certificate of Redemption Real Property
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	<u>Fund Number</u>	<u>Fund Name</u>
1		
2	673	Misc. Tax Distribution Trust
3	677	Property Tax Suspense Fund
4	678	King County Fiscal Agent
5	692	Medical Benefit Plan Fund
6	697	Mailroom Property Tax Refund
7	698	Miscellaneous Trust
8	699	Assessment Distribution/Refund
9	840	Limited G.O. Bond Redempt.
10	850	Unlimited G.O. Bond Redempt.
11	851	Stadium G.O. Bond Redempt.

12 B. The County Roads Fund shall be a second tier fund provided that
 13 revenues to support appropriations made in support of capital projects approved
 14 in the County Road Construction Fund and Arterial Highway Fund shall be trans-
 15 ferred from the County Roads Fund to those funds no later than the end of the
 16 fiscal year in which they are first appropriated beginning in fiscal year 1985.

17 Provided further, that in calendar year 1985 the amount of interest
 18 accruing to the Current Expense Fund which is attributable to residual
 19 treasury cash in the County Roads Fund shall not exceed the difference
 20 between the 1984 and the 1985 total real and personal unincorporated area
 21 property tax levy diverted to the Current Expense Fund plus the 1984 and
 22 1985 forest excise and harvest tax amounts diverted from the County Roads
 23 Fund to the Current Expense Fund so that such interest earnings accruing to
 24 the Current Expense Fund shall not exceed the reduction to the diversion
 25 between the years 1984 and 1985 and there is hereby appropriated from the
 26 Current Expense Fund to the County Roads Fund any such excess amounts as
 27 calculated by the director of finance.

28 SECTION 4. For each first tier fund, the maximum amount of funds
 29 available but not required for immediate expenditure which are to be
 30 invested pursuant to the first paragraph of RCW 36.29.020, as now or
 31 hereafter amended, is to be determined by the fund manager prospectively
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1 taking into consideration the need to maintain sufficient cash liquidity in
2 the fund to meet current expenditure requirements. Each fund manager shall
3 make such a determination for each fund no less often than weekly, nor more
4 often than daily, and shall promptly advise the director of finance or his
5 designee, in such manner and subject to such reasonable administrative
6 constraints as the director of finance shall establish, if there are funds
7 to be invested, to invest such amounts from each fund, informing the
8 director of finance of the amount and maximum length of maturity
9 appropriate for each investment, and such amounts are hereby authorized for
10 investment under the first paragraph of RCW 36.29.020, as now or hereafter
11 amended. Such investments shall be made and the lengths of their maturi-
12 ties selected by the director of finance in consultation with the executive
13 finance committee. Consultation with the executive finance committee shall
14 include at a minimum, full disclosure of average invested and residual cash
15 for each county fund. Such investments shall not negate or affect the
16 authority of the director of the office of finance, under the guidance of
17 the executive finance committee, to include the retained cash balance in
18 the fund as part of the residual treasury cash invested under the second
19 paragraph of RCW 36.29.020, as now or hereafter amended, for the benefit of
20 the county Current Expense Fund.

21 SECTION 5. The executive finance committee is hereby confirmed as
22 being the "county finance committee" referred to in RCW 36.29.020 and RCW
23 36.48.070 and shall be composed of the following or their designees:
24 county executive, director of finance, director of the budget office and
25 the chairperson of the county council. The executive finance committee
26 shall be responsible for directing the director of finance in determining
27 the maximum prudent extent to which residual treasury cash shall be
28 invested pursuant to RCW 36.29.020 and this ordinance. Actions of the
29 committee shall be by majority vote except when the chairperson of the
30 council determines such action constitutes a policy determination, as
31 opposed to an administrative determination, which should be referred to the
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1 council. The councilmember or designee serving on the executive finance
2 committee may defer action on the proposal until the county council makes
3 such policy determination.

4 SECTION 6. The investment instruments in which county funds shall be
5 invested shall be selected solely by the director of finance or his or her
6 designee and fully reported to the executive finance committee on a monthly
7 basis at a minimum. Any losses on investments including all investments of
8 the county treasury shall be reported by the director of finance to all
9 members of the executive finance committee immediately upon discovery.
10 Investments shall be chosen from those which are now or may hereafter be
11 legally permitted, with the aim of maximizing return to the county while
12 safeguarding county funds, providing the liquidity needed to meet county
13 obligations in timely fashion, and complying with such other county policy
14 directives as now exist or may be hereafter adopted.

15 SECTION 7. Investment earnings and losses and any penalties for pre-
16 mature liquidation shall be allocated as follows:

17 A. In the case of first tier funds, for those specific fund invest-
18 ments directed by the fund manager, an investment service fee equal to the
19 maximum now or hereafter authorized by state law shall be deposited in the
20 county current expense fund, and the balance of the maturing or liquidated
21 investment, plus earnings if any, shall be deposited in the specific fund
22 out of which the investment originated.

23 As an alternative to premature liquidation of these specific fund
24 investments, the executive finance committee may provide, on appropriate
25 terms and conditions, for temporary interfund borrowing to cover unforeseen
26 cash liquidity needs, and may provide for interfund purchases, at then
27 market value, of investments in order to avoid penalties, provided that,
28 the director of finance shall report to the executive finance committee any
29 temporary interfund borrowing made to avoid liquidation of any investment
30 instrument if such liquidation would have resulted in a loss of principal
31 or interest. Terms and conditions should specify an interest rate and
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1 schedule of repayment.

2 B. For all other county funds, and for residual treasury cash invest-
3 ments attributable to first tier funds, all earnings and losses and any
4 penalties for premature liquidation shall be deducted from or deposited in
5 the county current expense fund and used for general county purposes.

6 SECTION 8. The executive finance committee shall report to the
7 county council quarterly the average residual cash and investment balances
8 of each first tier fund, the amount of investment earnings received by each
9 first tier fund, the specific fund investments outstanding at the end of
10 the quarter for each first tier fund, and the amount retained in that fund
11 at the end of the quarter as part of the residual treasury cash.

12 SECTION 9. At the direction of the executive finance committee with
13 the agreement of the fund manager, the director of finance or his or her
14 designee may pool monies for specific fund investments with other monies
15 directed for specific fund investments by a fund manager under the first
16 paragraph of RCW 36.29.020, as now or hereafter amended, monies in the
17 residual treasury cash and monies directed for investment by other
18 municipal corporations. Interest earnings and any losses shall be
19 apportioned pro rata, after payment of investment service fees to the
20 county current expense fund, to each of the funds participating in the
21 pooled investment.

22 SECTION 10. King County Resolution 36165 is hereby repealed, except
23 that it shall continue to govern the investment of county funds consisting
24 primarily of proceeds from the issuance of bonds or other county
25 obligations authorized (whether or not yet issued) prior to the effective
26 date of this ordinance, and shall take precedence over this ordinance as to
27 such funds in case of irreconcilable conflict.

28 SECTION 11. Whenever a new county fund shall be created, unless it
29 is of a type described in section 2.B. of this ordinance, consideration
30 shall be given to whether it should be a first tier fund, and the county
31 council shall consider the recommendation of the county executive in this
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1 regard within 45 days of receiving such recommendation. Any fund as to
2 which no specific action is or has been taken within 45 days to authorize
3 specific fund investments under the first paragraph of RCW 36.29.020, as
4 now or hereafter amended, shall be a second tier fund.

5 Whenever a new county fund is established with direction that all
6 surplus monies in the fund be invested for the benefit of that fund, or
7 when such direction is given in connection with any county fund, such
8 direction shall be deemed to mean only that monies available but not
9 required for immediate expenditure shall be invested for that fund
10 according to the procedures and limitations contained in this ordinance,
11 and such direction shall not negate or affect the authority of the director
12 of finance, under the guidance of the executive finance committee, to
13 include the retained cash balance in that fund as part of the residual
14 treasury cash invested under the second paragraph of RCW 36.29.020, as now
15 or hereafter amended, for the benefit of the county current expense fund;
16 except that if specific negative reference is made to this ordinance and
17 direction is expressly given that the current expense fund shall not
18 receive any earnings attributable to the fund in question, then and only
19 then shall that particular fund be entitled to its proportionate share of
20 any earnings resulting from residual treasury cash.

21 In case direction shall be given that certain monies in a county fund
22 be invested for the benefit of that fund, and no fund manager be provided
23 for, then the director of the county department or office primarily
24 responsible for expenditures from that fund, or his or her designee, shall
25 be the fund manager.

26 SECTION 12. All prior actions of the executive finance committee and
27 the director of finance or his predecessor taken in connection with
28 investment directives and policies, investment decisions, and the
29 allocation of investment earnings, as they relate to the investment of
30 county funds, are hereby ratified.

31 SECTION 13. The director of finance shall promulgate administrative
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rules pursuant to KCC 2.98 to implement this ordinance. The rules shall be approved by the Executive Finance Committee.

SECTION 14. This ordinance shall take effect January 1, 1985.

SECTION 15. In the event that there are any investments outstanding on the effective date of this ordinance which have been made for the benefit of a county fund (the "originating fund") that will no longer, upon the effectiveness of this ordinance, be entitled to retain investment earnings, then the earnings or loss from the investment shall, upon receipt or maturity, be divided proportionately between the originating fund and the current expense fund according to the number of calendar days such investment was outstanding before and on or after the effective date of this ordinance. In such cases, the current expense fund shall receive, from the originating fund's share of investment earnings, the maximum investment service fee now or hereafter allowed by state law.

INTRODUCED AND READ for the first time this 13th day of November, 1984.

PASSED this 21st day of November, 1984.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Gary Grant
Chairman

ATTEST:

Dorothy M. Owens
Clerk of the Council

APPROVED this 6th day of December, 1984.
VETOED

Ray R. Wells
King County Executive



King County Executive
Randy Revelle

RECEIVED

1984 DEC -6 PM 3:04

CLERK
KING COUNTY COUNCIL

December 6, 1984

The Honorable Gary Grant
Chairman, King County Council
C O U R T H O U S E

RE: Investment of King County Funds, Ordinance 7028

Dear Chairman Grant:

With this letter, I am returning to the King County Council Ordinance 7028, pertaining to the investment of King County funds, which I have vetoed. Also enclosed with this letter are: (1) a proposed ordinance providing direction for the investment of County funds and correcting those provisions of Ordinance 7028 that give rise to my veto; and (2) a proposed ordinance making technical adjustments to the 1985 Budget Ordinance 7027, consistent with my intent in proposing changes in the investment of County funds.

The remainder of this letter sets forth our concerns and the reasons for my veto of Ordinance 7028 and presents the actions we propose to establish alternative policies for the investment of selected County funds, while preserving the expenditure decisions made by the County Council in adopting the 1985 Budget.

Reasons for Vetoing Ordinance 7028

Ordinance 7028, passed by the County Council on November 21, 1984, differs in four important respects from the Executive proposed investment policy ordinance we submitted to the County Council with the 1985 Executive Proposed Budget on October 18, 1984:

(1) **"First Tier" and "Second Tier" Authority**

In addition to directing the investment of certain named Non-Current Expense (Non-CX) County funds to the direct and exclusive benefit of those Non-CX funds (known as "first tier" investment authority), Ordinance 7028 (Section 3) also identifies all funds to be invested as part of the "residual treasury cash" for the benefit of the County's Current Expense (CX) Fund. (Funds invested through the "residual" are known as "second tier" funds.)

The inclusion of Section 3 in the Ordinance may be of value to provide a comprehensive portrayal of investment practices for all County funds; however, a comparable section was not included in our proposed Ordinance because it is legally unnecessary. This is because Washington State law directs that all County funds shall be invested for the benefit of the County's CX Fund unless they are legally required to be invested for their own benefit by reason of:

(a) a vote of the people, (b) a mandate of State law, or (c) local legislative action specifically authorizing investment of named funds under "first tier" authority.

While this difference is not a specific cause of concern in my veto of Ordinance 7028, the difference is noteworthy because both State law and the original Executive Proposed Ordinance reflect the same investment policy presumption, namely that County funds are automatically invested to the benefit of the CX Fund, unless there is specific direction to the contrary under one of the three authorities cited above.

(2) Treatment of BALD, REET, and County Road Construction Funds

Ordinance 7028 designates three Non-CX funds for investment under "first tier" authority, and therefore for the benefit of those individual funds, that our original proposed ordinance contemplated would be invested through the residual, and therefore for the benefit of the CX Fund. These three funds and Council Staff estimates of their 1985 investment interest earnings are: (a) the Unincorporated Area Real Estate Transfer Tax Fund (REET) -- \$554,321; (b) the County Road Construction (CRC) Fund, which is a transfer fund for Roads Capital Improvement Program (CIP) appropriations from the County Roads Fund -- \$5,465; and (3) the Building and Land Development (BALD) Fund -- \$161,272.

The BALD Fund is presently invested, pursuant to provisions of State law in the absence of legal directions to the contrary, for the benefit of the CX Fund. In this instance, therefore, designation of BALD as a "first tier" fund per Ordinance 7028 represents a real reduction in present investment interest earnings capacity for the CX Fund.

Both REET and the CRC Fund have to date been invested for their own benefit, but without the necessary legislative authorization for "first tier" investments. Our original proposed ordinance would have invested these funds as part of the treasurer's residual cash and therefore to the benefit of the CX Fund. Thus, relative to past practice, our policy proposal for investment directions would have resulted in additional investment interest income to the CX Fund.

In our judgment, all three of these funds should be invested for the benefit of the CX Fund, based on the fundamental principle that the elected Executive and County Councilmembers should retain maximum flexibility for their annual resource allocation decisions. The CX Fund provides that maximum discretion for decisions through the annual budget process.

The CRC Fund is really a technical matter, as it serves exclusively as a transfer mechanism for appropriations from the County Roads Fund to capital projects. Our concerns on the County Roads Fund are addressed in items 3 and 4, below. The BALD Fund receives an annual CX contribution, amounting in 1985 to \$1.5 million; the investment of the BALD fund for its own benefit therefore produces earnings for BALD from the investment of CX funds. With regard to REET, the proceeds of the tax are dedicated to capital projects benefitting residents of unincorporated areas. In light of the substantial contribution

we make from the CX Fund annually to capital projects in unincorporated areas (for example, nearly \$2 million in 1985 for Parks Rehabilitation), the dedication of REET interest earnings to the CX Fund in no way violates either the letter or the spirit of restrictions on the use of REET tax revenues.

(3) Road "Diversion" and Interest Earnings

Although Ordinance 7028 names the County Roads Fund as a "second tier" fund (invested for the benefit of the CX Fund), as contemplated in our originally proposed ordinance, the Council's ordinance places two restrictions on this designation that we did not propose. These restrictions greatly limit the future revenue flexibility of the Executive and Councilmembers in determining resource allocation priorities through the annual budget process.

First, for 1985 only, Ordinance 7028 stipulates that the interest earnings from the County Roads Fund transferred to the CX Fund shall not exceed the 1984 to 1985 dollar reduction in the unincorporated area property tax (and associated Forest Excise and Timber Harvest Taxes) revenues devoted to the CX Fund. This provision is designed to ensure that the combined 1985 revenues to the CX Fund from investment of the County Roads Fund and from unincorporated area property taxes are no greater than the 1984 "diversion."

While our 1985 Executive Proposed Budget and CX Financial Forecast were consistent with this intent, our proposed investment ordinance did not contemplate codifying this intent based on revenue estimates. Although the inclusion of this provision in the County Council's ordinance is not sufficient cause for a veto, I want to point out that the ordinance does not guarantee to the CX Fund in 1985 revenues from the combination of Road Fund interest earnings and unincorporated area property taxes equal to the "diversion" in 1984. Rather, it simply caps CX benefits in 1985 at this maximum dollar guideline. Thus, if interest earnings were lower than projected estimates, the Council's ordinance does not provide for an increase in the 1985 "diversion" to ensure total CX revenues from the two sources are equal to the 1984 "diversion."

(4) Transfer of Road Operating Fund Appropriations

The second restriction in Ordinance 7028 on the investment of the County Roads Fund as a "second tier" fund is a requirement that all County Roads Fund appropriations to capital projects be transferred to capital funds no later than the end of the year in which they are first appropriated. This restriction imposes major limitations on the future expected interest income from the Road Fund to the CX Fund for 1986 and beyond, but would have no affect on interest income to CX in 1985.

Beginning at the end of 1985, this provision has the effect of transferring otherwise available investment balances not yet needed for capital expenditures from Roads to capital funds, where the former is invested to the benefit of the CX Fund and the latter are invested to their own benefit. A preliminary estimate of the impact of this restriction shows that it would result in a loss in 1986 of an estimated \$975,000 in investment interest earnings to the CX Fund.

The argument advanced in support of this restriction is that while the funds may not be needed for capital project expenditures at the time of the transfer, if the interest earnings are not available, the projects may have insufficient funds for completion. In fact, however, at the time multi-year capital projects are budgeted, we calculate cost escalations based on the multi-year implementation schedules; the project budgets are then set to reflect estimated cost levels in those future years. Thus, by virtue of our method of budgeting CIP projects, we recognize that costs escalate over time due to construction inflation, and we account for the inflation from the outset.

A second weakness in the argument for this restriction on investment of the Road Fund for the benefit of the CX Fund is that, in fact, it is not present County practice to accumulate undesignated funds in Roads in the event of future project cost increases. Rather, available revenues are estimated annually and fully appropriated to individual projects.

Should the concern that gives rise to this restriction materialize, however, the Executive and the County Council retain the option of transferring CX Funds to the County Roads Fund to address any shortfalls in project funding. With the restriction on second tier investment of the County Roads Fund contained in the Council's ordinance, however, the reverse option is not available, since the interest earnings would accrue to capital funds where discretionary reallocation by the elected officials is restricted.

Finally, if the Council's real concern is to improve accountability for meeting Road CIP implementation schedules, this ordinance is an inappropriate and ineffective vehicle for addressing this operational issue.

There is one primary consideration leading to my decision to veto Ordinance 7028 and to offer an alternative to address those aspects of the Council's ordinance with which we disagree and which affect us in 1985. As a matter of basic policy, maximum flexibility for resource allocation decisions based on changing priorities and needs should be reserved for discretionary decisions by elected officials. In the case of our investment practices, this means that, where possible, earnings from the investment of Non-CX funds should be deposited in the CX Fund, as it is the fund offering the widest discretion to elected officials.

CX resources are available for any legal purpose, whereas uses of Non-CX funds are restricted to the purposes of the fund. Thus, based on our joint determination of priorities, we can contribute CX monies to programs and projects in Non-CX funds, but we do not have the reverse flexibility.

Our alternative ordinances discussed below only address actions which affect the 1985 Budget. I am also concerned, however, that the Council's ordinance seriously limits CX revenue flexibility in 1986 and beyond and hastens the need for new revenue sources, substantial increases in the Roads "diversion", and/or significant cuts in CX programs. Maximum dedication of investment interest earnings to the CX Fund would mitigate future revenue problems to support CX programs, as well as preserve our options for use of CX monies for programs in Non-CX funds.

The Council's own actions in adopting the 1985 Budget suggest that currently the greatest limitation on our resource allocation decisions is in the CX Fund for support of CX programs. To live within the CX revenues the Council projected and meet our minimum CX Fund balance policy, the Council reduced our proposed 1985 CX budget by \$1.6 million, or one percent, while all other County operating funds were reduced by a total of \$560,000, a change of only 0.3 percent from Executive proposed appropriations.

Executive Proposed Alternative

Enclosed with this letter are two proposed ordinances reflecting our recommended alternative actions to Ordinance 7028: (1) an ordinance providing direction for the investment of County funds and altering Sections 2 and 3 of the vetoed ordinance; and (2) an ordinance amending the 1985 Budget Ordinance 7027 to make technical changes. If approved, these two ordinances would address the major concerns affecting us in 1985 that give rise to my veto of Ordinance 7028 and would fully preserve the County Council's 1985 Budget decisions on funding priorities.

In vetoing the investment practices ordinance, we in no way propose to alter the County Council's 1985 decisions on expenditure priorities. Thus, my proposal includes both an alternative to Ordinance 7028 and makes the technical changes in the 1985 Budget Ordinance that are necessary to support the resource allocations for CIP projects and to BALD that the Council adopted. Since my proposed investment ordinance names the REET and BALD funds as "second tier" funds, the interest earnings from which will be assigned to the CX Fund, we must amend the Budget Ordinance to provide a CX transfer in 1985 to BALD and to REET to accord with the expenditure decisions made by the Council.

To address our principal concerns for 1985, the proposed ordinance providing direction for the investment of County funds makes two changes to Ordinance 7028:

- (1) The BALD Fund is designated as a "second tier" fund to be invested for the benefit of the CX Fund; and
- (2) The REET Fund is designated as a "second tier" fund to be invested for the benefit of the CX Fund.

The Council's ordinance endorses our proposed designation of the County Roads Fund as a "second tier" fund to be invested for the benefit of the CX Fund. Our serious concern with the Council's inclusion of the provision for year-end transfers from the Road Fund to capital projects, irrespective of capital expenditure requirements, has no impact in 1985. As a result, I am not addressing this concern in my 1985 alternative proposed ordinance.

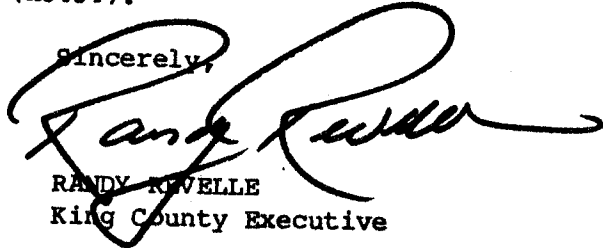
We intend, however, to reassess the impacts of this restriction in the context of preparing the 1986 Executive Proposed Budget. At that time, we will propose appropriate changes in the County's investment practices, consistent with a policy of maximizing the flexibility of the Executive and the County Councilmembers for annual budget decisions.

The Honorable Gary Grant
December 6, 1984
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The ordinances we are proposing honor the County Council's 1985 decisions on priorities for resource allocations, while establishing alternative provisions for the investment of County funds (BALD and REET) for 1985. Thus, the issue joined by the veto of Ordinance 7028 is exclusively one of investment policy. The guiding principle underlying our proposed investment ordinance is that, as elected officials, we should preserve maximum discretion to annually balance the full range of competing needs for public services and facilities as we decide resource allocation priorities. In my judgment, we should not artificially constrain our capacity to exercise this responsibility on behalf of the people we serve.

Thank you for your careful consideration of my veto and alternative proposals. If you have any questions or wish to discuss my proposed ordinances, please contact me, Bob Cowan (x2626), or Shelly Yapp (x3434).

Sincerely,



RANDY REVELLE
King County Executive

RR/SY/RC:ah

Enclosures

cc: King County Councilmembers

ATTN: Cheryle Broom, Program Director

Jerry Peterson, Council Administrator

Cal Hoggard, Council Staff Budget Manager

King County Executive Cabinet