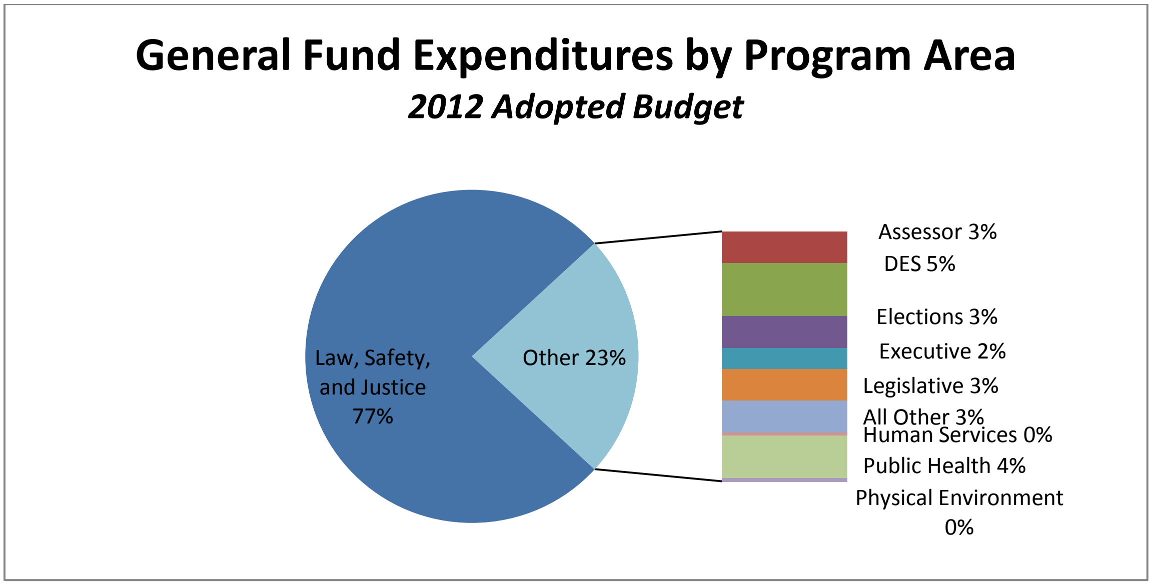
Parks Levy Task Force – Addendum to Revenue Options Discussion

Services Funded by the General Fund



Highlights of Reductions to Address Deficits in the General Fund

- Transition of Parks from the General Fund to voter-approved levies: from $25 million in 2002 to $0 in 2012
- Reduction in spending for human services: from a peak of more than $21 million in 2007 to less than $1 million in 2012; transitioned $15 million to the Veterans and Human Services Levy
- Elimination of General Fund support of the arts: from $2.3 million in 2001 to $0 in 2003 and beyond
- Reductions in public safety: 2011 budget eliminated 71 positions in the Sheriff's Office, 16 deputy prosecutors, and staff and program cuts in Adult and Juvenile Detention and both court systems
- Annual reductions in administrative and overhead functions
- 90% of the County's employees chose to forego their cost-of-living adjustment (COLA) for 2011 resulting in ongoing savings county-wide
- Reductions in health care costs and other employee-driven efficiencies closed projected 2012 deficit of $23 million
- Projected General Fund deficit of ~ $20 million for 2013; in process of trying to identify additional efficiencies to close this gap

Key Differences between City and County Funding Sources:

- Cities can levy a business tax (typically a gross receipts tax, although some cities use employment as the measure of the tax). These taxes, usually labeled as "B&O taxes," have a broader base than sales taxes so tend to be somewhat more stable and exhibit higher long-term growth.
- Cities can levy utility taxes, which also tend to grow over time as utility rates increase.
- Both cities and counties have REET, but because most of the real estate activity is in cities, the County REET in unincorporated areas generates little money. Because of State law restrictions, REET is used only for capital development and maintenance.

Parks Levy Task Force – Addendum to Revenue Options Discussion

Budget Challenges in the Last Decade Impacting the General Fund

During the period between 2002 and 2005, the County addressed a cumulative deficit of $137 million in the General Fund through a variety of service-level reductions, increased revenues, and efficiency measures. One noticeable change was to the King County Parks system, downsizing the Parks department, transferring local and in-city parks to local jurisdictions, and shifting most of the cost of the remaining County parks from the General Fund and on to voter-approved property tax levies, a practice that continues to this day. Other budget reductions included about $12 million in health and human services and complete elimination of General Fund support for the arts. Public safety cuts and revenue increases (such as higher fees) totaled $41 million.

Strong economic growth in the mid-2000's allowed the County to sustain services in most funds, despite significant cost increases, notably for employee health care. However, this growth was based in large part on a housing bubble, which burst in 2008. Countywide assessed property value peaked in 2009 at $387 billion, and is projected by OEFA to fall to a low of $310 billion in 2013. This represents a decline of almost 20%. Similarly, the value of new construction fell from a peak of $8.0 billion in 2009 to a low of $2.4 billion in 2012, a decline of almost 70%. The latest OEFA forecast shows that assessed value won't return to its 2009 peak until 2019.

Sales taxes have also declined significantly as a result of the Great Recession. The countywide sales tax base reached a peak of $49.3 billion in 2007.[1] It hit a low point of $42.3 billion in 2011, a decline of 14%. This produced significant revenue losses for the General Fund, the Mental Illness and Drug Dependency programs, and for Transit.

The financial effects of the Great Recession were first felt in the 2009 budget. As 2008 unfolded, the General Fund's forecasted 2009 deficit of $24.7 million grew to $93.4 million. The largest driver of this deficit increase, accounting for nearly $58 million, was the deteriorating national economy. An additional $11 million was driven by increases in costs for things such as labor contract settlements.

To close the 2009 deficit, the County went through the same belt-tightening and prioritization exercises as it did in the early 2000's. The process identified $38 million in permanent reductions, $6 million in General Fund savings from overhead efficiencies and $13 million from labor costs (much of this was from employee furloughs). The remaining gap was balanced by using reserves and creating a temporary "lifeboat" to continue a few programs for part of the year.

Budget challenges continued in 2010 and 2011, and spread more broadly across the County government as financial problems became more acute for DCHS, Public Health, and DOT due to sales tax declines and losses of state and federal funds. General Fund support for human services fell to less than $1 million per year, down from a peak of more than $21 million in 2007. The last vestige of General Fund support for parks was eliminated. Perhaps the best illustration of the budget challenges posed by the Great Recession is to compare County employment in 2008 and 2012. Overall, the number of County

[1] The sales tax base is used rather than sales tax revenue because revenue amounts are affected by annexations and changes in tax rates.

employees fell from 14,000 FTEs[2] in the 2008 budget to 13,000 in the 2012 budget, a decline of over 7%. These job losses were spread over almost all County departments.

The 2011 General Fund budget included $33 million of additional expenditure cuts after voters turned down a proposal to increase the sales tax rate by 0.1% to protect public safety programs. This included eliminating 71 positions in the Sheriff's Office, 16 deputy prosecutors, and staff and program cuts in Adult and Juvenile Detention and both court systems. There were also extensive cuts in County administrative and support agencies. On average, administrative agency budgets were cut by about 12% from the cost of maintaining current programs, while law, safety and justice agencies were cut by an average of 9.5%.

About 90% of the County's employees helped to avoid even deeper cuts by agreeing to forego their cost-of-living adjustment (COLA) for 2011. This saved about 75 jobs across the government that would otherwise have been eliminated.

When the 2011 budget was adopted, the General Fund had a forecasted deficit of about $23 million for 2012. Executive Dow Constantine had previously announced a goal of achieving 3% annual efficiencies[3] in operating costs, which would bring down the annual growth in County costs from about 6% to a more sustainable 3%. For 2012, the County was able to realize such efficiencies for the General Fund and most other County funds, meaning that the General Fund budget was balanced without significant employment or service reductions. By far the largest contributor to these efficiencies was a significant reduction in the cost growth for employee health care in 2011 and 2012, which was achieved through a combination of employee wellness programs, incentives to use more cost-effective services, and plan design changes.

Budget Challenges Ahead

The constraints underlying the County's principal revenues coupled with the slow economic recovery mean that most County funds will face continued challenges in 2013 and beyond. The General Fund started 2012 with a projected deficit of about $21 million for 2013, which is roughly equivalent to the amount that would be generated by 3% efficiencies. However, inflation has been higher than originally forecast, which will raise wage COLAs and increase costs for fuel and other supplies. Meanwhile, contract revenues have fallen below forecasted levels. PSB is in the middle of the process of developing the 2013 budget, but it is still not clear whether the level of identified efficiencies has equaled 3% for many funds, including the General Fund. It is likely that some amount of General Fund cuts will be needed for 2013. Some other County funds, notably the Roads Fund, face even more significant financial challenges.

[2] "Full-time equivalents," meaning a half-time employee counts as 0.5 FTE.

[3] In this context, an efficiency is defined as a reduction in cost growth without reducing the quantity or quality of service provided. In contrast, a budget cut is a reduction in spending that also reduces the amount or quality of service.