King County

2017-2018

BIENNIAL BUDGET

Executive Proposed

September 2016

Executive Summary

King County, Washington

Dow Constantine
King County Executive

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Executive Summary

Office of the King County Executive
Office of Performance, Strategy and Budget

September 2016

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Dow Constantine
King County Executive

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A Special Thanks to:
The Employees of King County

Inside this Summary Report

King County Overview

King County provides critical local and regional services to 2.1 million residents, with a two-year budget of about $11.3 billion, 14,000 employees, and nearly 60 lines of business. Most of the County's programs are financially healthy and will continue to meet the needs of a growing community. The strong regional economy has boosted revenue for some funds, including Metro Transit, and the County continues to make strategic investments in important programs and services that reflect the values of King County residents. However, structural revenue limitations imposed by the State mean that other funds are under severe financial stress.

King County is the 13th largest county by population in the United States and is the ninth largest in terms of total employment. King County government is unique nationally in the range of services it provides. It is both a regional government, providing services throughout most or all of the county. It is also a local government, providing services in the unincorporated area (outside of cities). Regional services include transit, wastewater treatment, human services, elections, property assessments, public health, regional parks and trails, and the prosecution, defense, and adjudication of felonies. Local services include roads, police protection through the Sheriff's Office, and surface water management. Many other governments contract with King County to provide certain services, including police protection, courts, and jails.

King County uses a biennial (two–year) budget. Budgets are adopted in the fall of even-numbered years and are in effect for the two following calendar years.

County Executive Dow Constantine is proposing a total budget of $11.3 billion for 2017-2018. **Figure 1** shows the major revenue sources that support this budget, which total about $11.7 billion. (Revenues don't exactly match expenditures because reserves are being increased in some funds and because some 2017-2018 revenue will be used to cover appropriations made in prior biennia.)

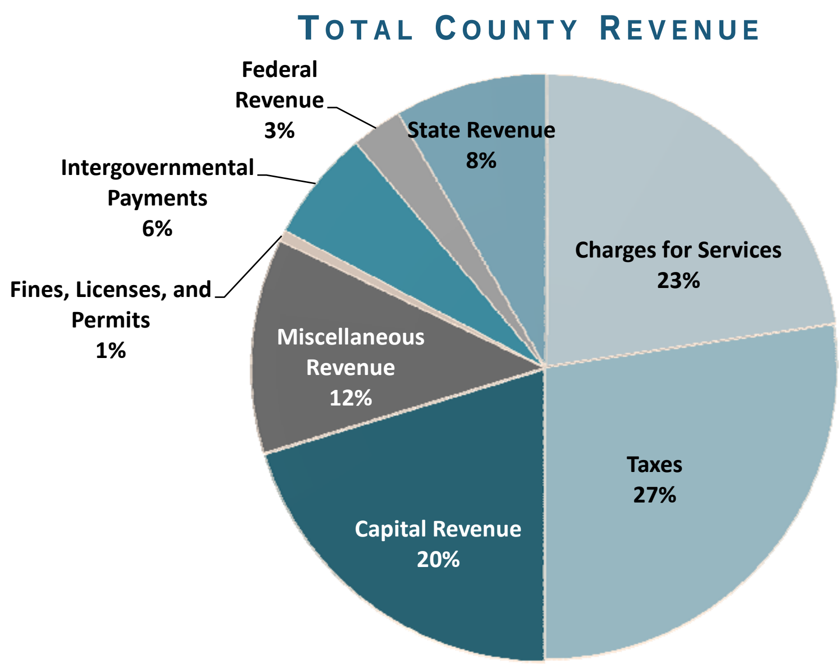


Figure 1

Taxes account for about 27 percent and are concentrated in the General Fund and funds that support transit, roads, behavioral health, and several voter-approved programs such as emergency medical services and parks. User charges represent about 23 percent of total revenue and are mostly related to utilities (wastewater treatment, solid waste, and surface water management) and transit fares. A variety of less significant user charges support a wide range of other County functions.

State funding accounts for 8 percent and federal funding for 3 percent of total revenue. These are concentrated in a few funds, notably Public Health and Behavioral Health.[1] Intergovernmental revenues are about 6 percent of the total and represent payments from other local governments for County services.

[1] Behavioral health refers to a combined program that provides mental health and substance use disorder services. Washington State directed that these previously separate functions be merged as of April 2016.

State law and the King County Charter impose restrictions on the uses of many revenues. For example, revenues collected from solid waste disposal charges must be used for solid waste programs and cannot be diverted to parks or public safety. As a result of these restrictions, King County's finances are organized into about 140 different funds, each with its own revenue sources and expenditures. The only truly flexible source of funds is the General Fund, which is described in more detail in a subsequent section.

TOTAL BUDGET APPROPRIATIONS

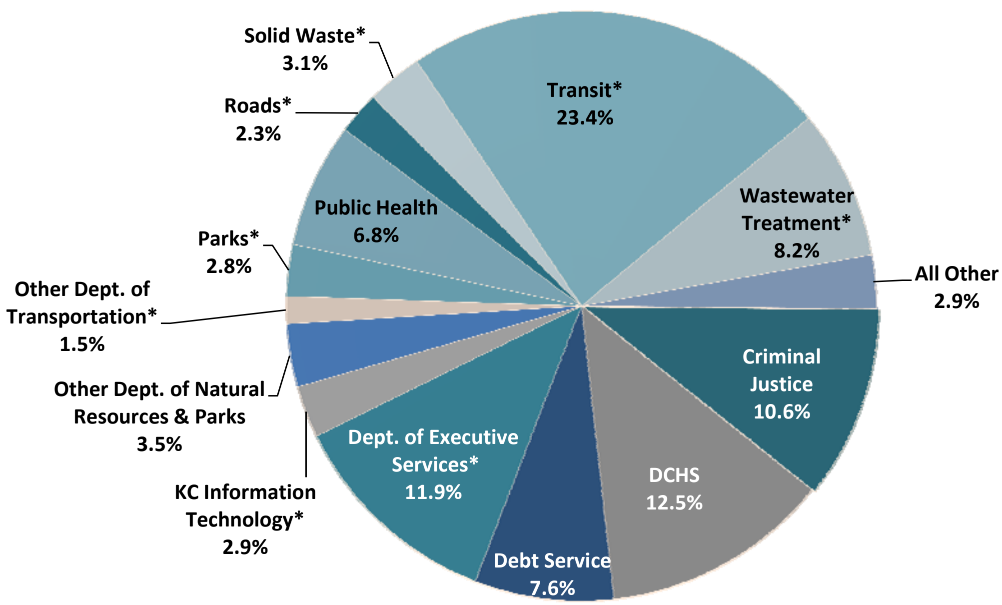


Figure 2

*Combines Capital Improvement Program budgets with Operating budgets. Approximately $2.368 billion in capital.

Figure 2 shows the major categories of the $11.3 billion proposed appropriations. This includes both operating and capital funds. Metro Transit is the single largest function, accounting for 23.4 percent of the budget. The combined programs of the Department of Community and Human Services (DCHS) are the second largest function at 12.5 percent of the total. DCHS has grown substantially in recent years as a result of the behavioral health restructuring at the State, voter approval of the Best Starts for Kids program, and health care reform due to the Affordable Care Act.

The Department of Executive Services (DES) is largely an internal service function providing finance, accounting, human resources, risk management, facilities, and similar services to other County agencies. DES also provides some direct services to residents, such as licensing and animal services. DES accounts for about 11.9 percent of the total budget.

The overall criminal justice system accounts for 10.6 percent of the total budget. This includes the Sheriff's Office, the Prosecuting Attorney's Office, the Department of Adult and Juvenile Detention, the Department of Public Defense, and Superior and District Courts.

Approximately 7.6 percent of the budget is spent on debt service (principal and interest payments on borrowed funds). County debt is concentrated in a few functions, notably wastewater treatment, solid waste, and transit.

The 2017-2018 Proposed Budget reflects important differences among the financial condition of the County's funds. Some funds, such as Wastewater Treatment and Emergency Medical Services, are in good fiscal condition because of dedicated revenues that support these activities. Programs can be expanded and services improved.

A second group of funds are in good financial condition due to the strong local economy. This is particularly reflected in funds that are dependent on sales taxes, which have increased by 55 percent since 2010, or about 7.6 percent per year.[2] This effect is most notable in Transit and in the Mental Illness/Drug Dependency (MIDD) Fund.

King County Budgeted FTEs by Agency

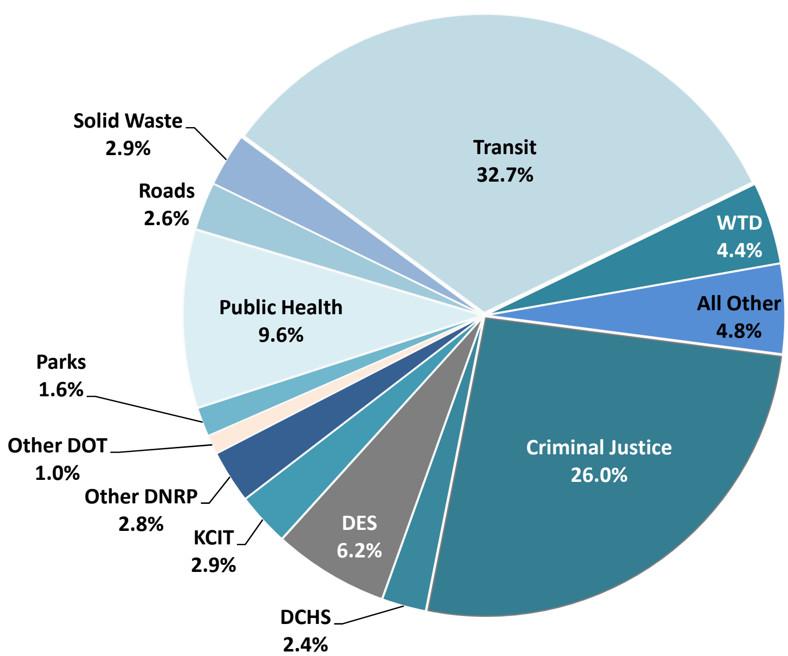


Figure 3

Several other County funds face chronic financial shortfalls, typically due to limitations of State law or declining state and federal funding. This is most notable in the General Fund, Public Health Fund, and Roads Fund, each of which is discussed later in this document.

[2] This figure represents the growth of taxable retail sales in King County. Actual sales taxes received by various funds have grown by differing amounts due to provisions of State law. It is worth noting that the sales tax base declined by 18 percent between 2007 and 2010.

Figure 3 shows how the County's approximately 14,000 employees are deployed.[3] Functions that are largely delivered by people, such as transit, criminal justice, and public health, tend to have the most employees. Functions that are capital-intensive with extensive and complex facilities, such as wastewater treatment (WTD in Figure 3), tend to have relatively few employees. DCHS has relatively few employees relative to its budget because it contracts with other organizations to deliver most of its services.

Budgeted FTEs*
2000-2018

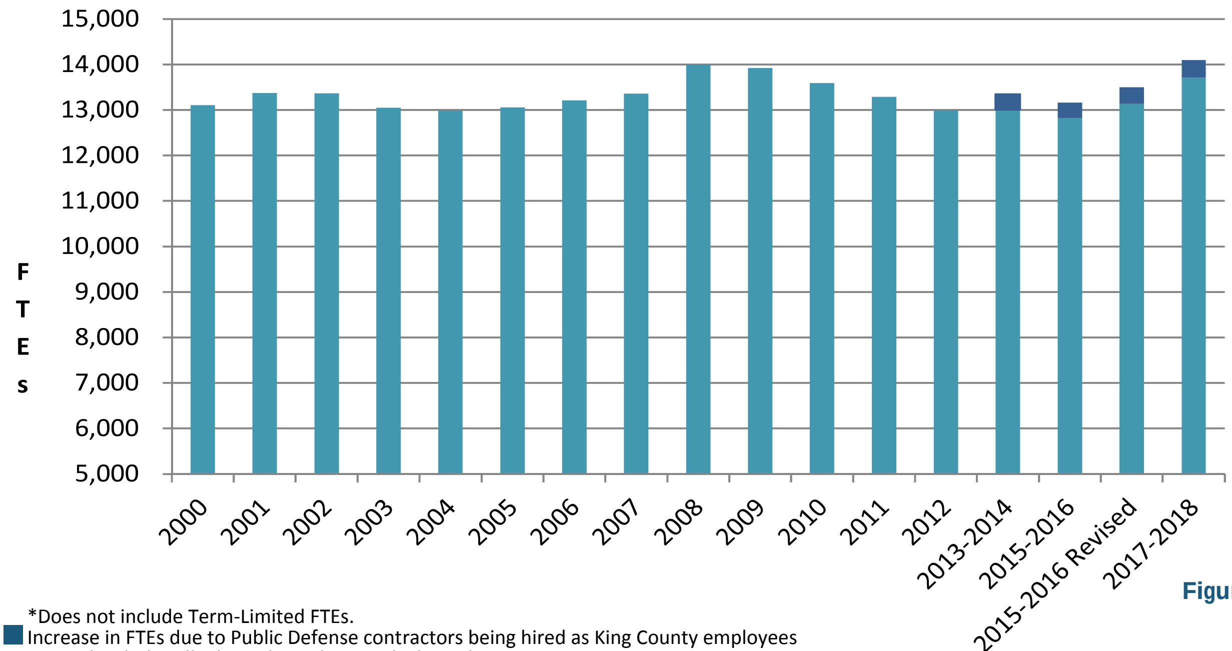


Figure 4

*Does not include Term-Limited FTEs.
Increase in FTEs due to Public Defense contractors being hired as King County employees
Revised includes all adopted supplementals through August 31, 2016

Figure 4 shows how County employment has varied since 2000.[4] Employment peaked in 2008 and then declined by about 1,000 FTE due to the Great Recession and annexations of some areas that reduced demand for County employees (cities took over responsibility for these functions). Starting in 2013, the County converted the public defense function into a County department instead of the previous use of contracted non-profit agencies. This added over 300 employees. Despite growth in recent years, County employment has still not returned to its 2008 peak if the public defense employees are excluded.

[3] Figures 3 and 4 use "Full-Time Equivalent" employees (FTEs). An employee who works half-time is 0.5 FTE. Thus, the County actually has more than 14,000 employees because part-time employees are fractions of an FTE.

[4] Figures are annual prior to 2013. Since then, the County has used biennial budgets.

Executive's Approach

King County

Executive Constantine followed four principles in developing the 2017-2018 Proposed Budget: 1) invest for the long term; 2) continue to strengthen financial management; 3) improve County operations; and 4) focus on employee engagement, which are drawn from the Executive's Best-Run Government initiative. The budget also emphasizes four strategic initiatives outlined in the next section.

Invest for the Long-Term

The 2017-2018 Proposed Budget continues to emphasize long-term planning and investment, in compliance with the King County Strategic Plan. Examples include:

1. The first full biennial budget for Best Starts for Kids (BSK), a voter-approved property tax levy lid lift that started to collect funds in 2016. BSK focuses on investing upstream in the health and development of young children and maintaining that support through young adulthood. BSK also includes funding for Communities of Opportunity, a place-based strategy that works with geographic communities to identify key opportunities for improvements in health, education, nutrition, and similar needs.

2. A Transit budget that reflects the direction of METRO CONNECTS, the agency's new long-range plan. Significant investments are proposed to work towards the 2025 and 2040 outcomes defined by this plan, including expansion of transit bases, new technology, and enhanced infrastructure.

3. An increase in major maintenance for general government buildings. The County has been under-investing in maintenance of these facilities for over a decade due to financial limitations. The 2017-2018 Proposed Budget includes a new approach to facility space charges that builds in a component for major maintenance. The 2017-2018 spending level, while still inadequate, represents a significant increase over prior years.

Continue to Strengthen Financial Management

Executive Constantine, with the support of the County Council, has emphasized improved financial management since taking office. The 2017-2018 Proposed Budget reflects this in at least five ways:

1. The General Obligation (GO) bond rating is further supported. King County has the highest possible ratings for its voter-approved and Councilmanic General Obligation bonds, which ensures low interest rates on County borrowing and saves millions of dollars annually for County taxpayers and ratepayers.[5] The County often uses its GO bond rating to support debt issued by other County agencies, including Wastewater, Solid Waste, and Transit. These agencies pay a credit enhancement fee to the County's General Fund to reflect part of the savings they realize.

   The 2017-2018 Proposed Budget includes two specific actions to support this high bond rating. First, the Executive is proposing to increase the General Fund's unreserved balance from 6.5 percent of revenues to 7.5 percent at the end of 2016 and 8.0 percent by the end of 2018, which is the top of the range established by County policy. This is described in more detail in the General Fund section of this document. Second, the Executive proposes to devote half of the credit enhancement fee to a continued build-up of the General Fund balance in future years.

2. New financial policies for Transit are implemented. The Executive proposed and the County Council approved new financial policies for Metro Transit in 2016. These focus on defining clearer purposes for various reserves, setting target funding levels for each reserve, establishing rules about drawing on and refilling reserves, and defining an updated method for financing bus purchases that involves building fund balances and occasionally using short-term debt in peak purchasing periods. The 2017-2018 Proposed Budget fully funds all the reserves called for in these policies.

3. Reserves are built for the next recession. King County's economy is currently enjoying the best of times so it is prudent to set aside funds in anticipation of the next recession. Transit's new financial policies call for it to have a reserve sufficient to maintain services through a moderate recession similar to that experienced in the Puget Sound area starting in 2001. This reserve is fully funded in the 2017-2018 Proposed Budget in the amount of $281 million A similar approach was taken to the reserve for the Mental Illness and Drug Dependency Fund, which likewise is dependent on the sales tax. This reserve is set at $11.2 million. As noted previously, the Executive is also proposing to increase the General Fund's reserve.

[5] Councilmanic bonds can be issued by a government without voter approval, but unlike voter-approved bonds they do not create a new revenue source for debt service. Thus, debt service on Councilmanic bonds must be paid from existing revenues.

4. Future debt for the Wastewater Treatment Division (WTD) is reduced. In the spring of 2016, Executive Constantine proposed and the County Council adopted new financial policies for WTD. These include higher cash contributions to capital projects and changes in the structure of variable rate debt, the effect of which is to reduce projected borrowing by $582 million by 2030. Less debt will result in lower charges to customers in the long run. These new financial policies are reflected in the 2017-2018 Proposed Budget.

5. Routine quarterly financial monitoring of significant County funds is continued. Starting in mid-2015, the Office of Performance, Strategy and Budget (PSB) began regular quarterly reviews of all major County funds. The process included the development of a standard financial plan and use of consistent accounting practices across all funds. This replaced a variety of different approaches used previously for various funds. This standardized reporting and review has led to early identification of potential problems, identification of excess reserves that could be used to expand programs or reduce charges, and improved communication between PSB and agencies. One result was the ability to settle potential budget issues early in the year, so several agencies had received final budget decisions even before turning in their formal budget proposals.

Improve County Operations

The 2017-2018 Proposed Budget builds on several years of work to improve the performance of County operations. There are at least five examples of this:

1. Continued improvement in risk management. The Office of Risk Management has worked with County agencies to reduce risks and better manage claims and lawsuits. As a result, County agencies are saving $20 million through lower risk management charges in 2017-2018.

2. Continued improvement in Safety and Claims. The Human Resources Division has a section that manages worker's compensation claims for County agencies. This group has worked with agencies to improve workplace safety and with employees to facilitate their prompt return to work. As a result, agencies are saving $15 million through lower safety and claims charges in 2017-2018.

3. Continued replacement of antiquated technology. By 2010, most of the County's critical information technology systems were decades old. In the last six years the County has deployed new central financial management, human resources, and budgeting systems to replace multiple systems that could not be integrated and produced limited information.

The Business Resource Center maintains these systems and the County sets aside funds for upgrades and maintenance as needed.

Other critical systems supporting General Fund activities, especially in the criminal justice system, are often 30 or more years old. Systems for the Prosecuting Attorney's Office and Department of Public Defense have been replaced with modern technology since 2013. New systems for the Superior and District Courts were funded in the 2015-2016 Budget and development is underway. The 2017-2018 Proposed Budget includes funding for a new jail management system and the first steps toward development of a new property tax assessment and collections system. These are the last legacy General Fund systems that need to be replaced.

The County finally transitioned off its mainframe computer in 2016 and was able to save data center costs as a result. The County is nearing the end of a multi-year project to eliminate analog telephone lines, which will generate millions of dollars of annual savings. There are also significant technology investments in Transit, Facilities Management, DCHS, and other agencies.

4. Continued deployment of Lean. The County started to use Lean, a continuous improvement methodology first developed by Toyota, in 2013. Significant process improvements have been made in many agencies, including faster license and permit processing, savings in jail health services, reduced parts inventories, faster billing, and shorter procurement timelines. The County's Lean efforts are evolving from a largely centralized group to broad deployment throughout agencies using their own staff.

5. Continued success in managing employee health care costs. King County has partnered with most of its unions to jointly manage health care costs. Changes in plans, incentives to use effective and efficient providers, and efforts to enhance employee wellness have driven down cost growth in health benefits. For 2017-2018, the County has just completed negotiations with the coalition of unions that require no increase in the County's contribution for health care in 2017, without increases in employee payments. A 4 percent increase in the County's contribution for 2018 is included. The County and unions intend to deploy new cost-effective provider networks starting in 2018 that should generate further savings over time.

Focus on Employee Engagement

Invest in our Workforce to Encourage Stronger Employee Engagement. King County has undertaken considerable efforts to create a workplace culture that allows current employees to develop and thrive, and helps attract and retain dedicated and racially diverse employees. These efforts are having an impact, with the County making Forbes magazine's list of America's 500 Best Employers in 2016.

Continue to measure, monitor, and take action for sustained progress. Through survey tools and focus groups, the County has learned more about employees' experience and has followed up with action plans at all levels of the organization. Employees have been included in problem-solving and are working towards local and enterprise-wide solutions. The 2017-2018 budget continues this effort with agency level strategies to engage all employees, informed by an annual engagement survey.

Expand access to employee training and development. The County has rebuilt its learning and development program. In 2015, classroom and online training was provided for more than 5,000 employees, and two intensive Bridge Academies were conducted for 21 emerging leaders. For 2017-2018, the County will expand leadership training for managers and supervisors to build their capability for coaching and developing employees, fostering continuous improvement, and modeling racially just leadership.

Based on feedback, some employees do not have equitable access to training and development opportunities, often because of their workplace location, resource constraints, or lack of supervisor support. Responses varied based on an employee's race, gender, and place in the organization. Black/African American employees, for example, were more optimistic than white employees about professional opportunities at work, yet they indicated they were less likely to have had an opportunity to learn and grow in the last year.

The proposed budget includes investments that will allow the County to:

- Create career pathways that better support employees' growth and development. Deliverables will include the creation of easy-to-understand career families that clearly show the path to positions and careers of interests.
- Give more employees opportunities to access training and development programs, particularly employees who historically have had limited access to development opportunities, such as those in lower paid, hourly, and shift positions. This includes increasing King County eLearning that increases access to training at less expense and with fewer limitations than classroom training.
- Put in place more development plans with employees, with the minimum goal of all employees earning in the bottom 20% of the salary range having a development plan by 2022.
- Continue mentorship programs and programs to support emerging leaders.

The Budget Advances Four Strategic Initiatives

The 2017-2018 Proposed Budget advances strategic initiatives that work to meet key challenges facing King County:

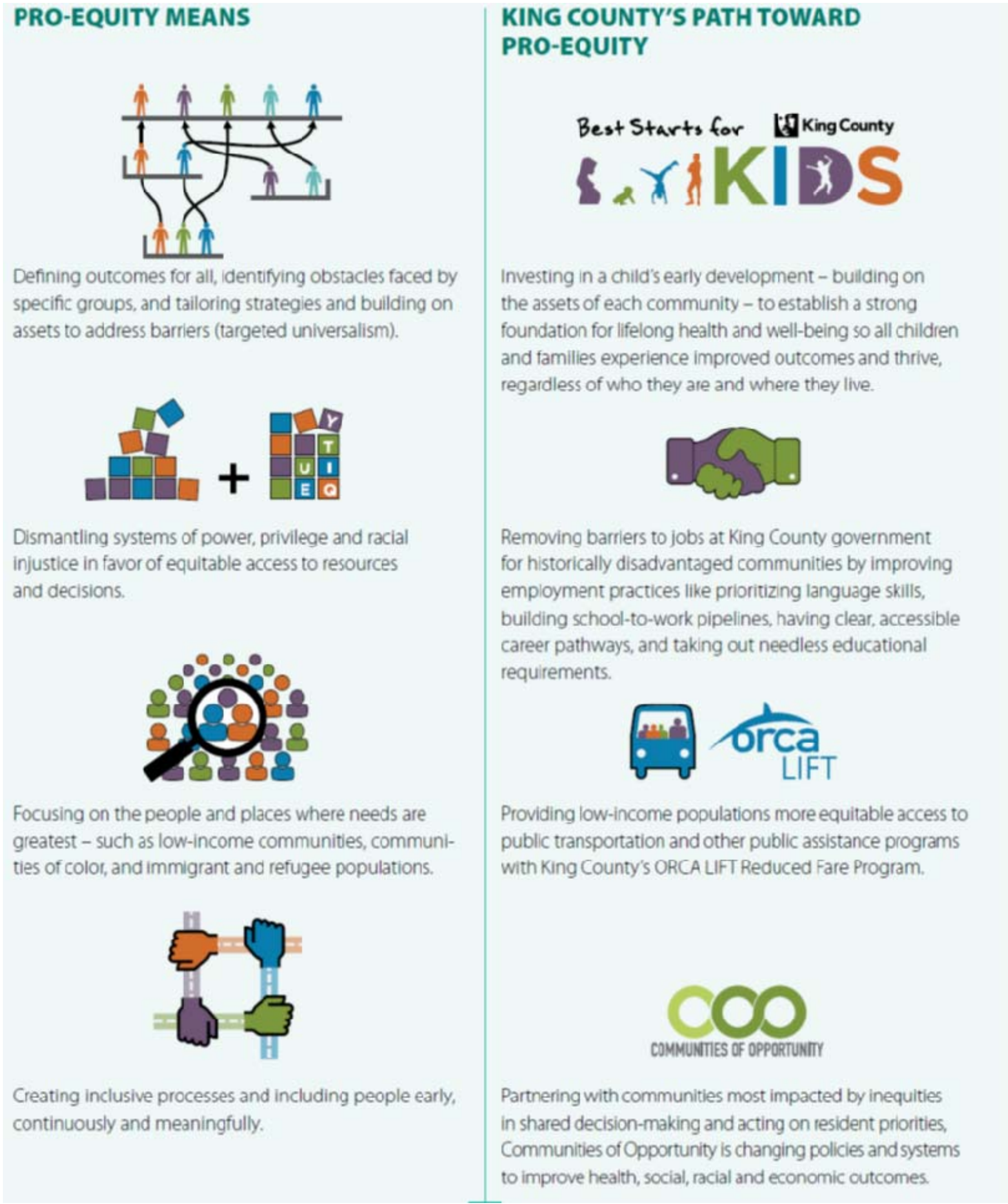
- Equity and Social Justice (ESJ)
- Confronting Climate Change through the Strategic Climate Action Plan (SCAP)
- Regional Mobility
- Best Run Government

Each initiative is discussed below and in more detail in the accompanying policy papers.

1. Enhancing the County's Pro-Equity Policies and Practices

The new King County Equity and Social Justice Strategic Plan (2016-2022) provides a comprehensive roadmap — vision, framework, policy agenda, and internal measures — for advancing the vision of a King County where all people have equitable opportunities to thrive. King County has four main strategies for advancing Equity and Social Justice:

The ESJ Strategic Plan defines a Pro-Equity Policy Agenda aimed at advancing regional change and building on the work and lessons learned to date, while deepening and expanding access to the County's determinants of equity: child and youth development, economic development and jobs, environment and climate, health and human services, housing, information and technology, justice system, and transportation and mobility.



The ESJ Strategic Plan lays out aggressive, measurable actions to achieve a transformed County government by 2022. Agencies are increasingly aligning their overall planning and operations in ways that support ESJ priorities. Departments and agencies will be expected to complete department/ agency-level ESJ Strategic Plan Implementation Action Plans with activities and measures by early 2017. Many of the goals and objectives in the ESJ Strategic Plan can and will be pursued with current levels of resources. The Executive's budget proposes one additional staff person as a central resource to support new activities in the ESJ Strategic Plan, including:

- Implementing the Strategic Plan, including agency action planning, monitoring, and measuring.
- Developing and delivering new ESJ fundamentals training and training specific to each goal area, with the goal of training all King County employees.

- Creating a community liaisons program to support further development and maintenance of community partnerships that serve the most underserved and least represented in County decision-making.
- Building a regional equity collaborative, leading and working with the Regional Equity Network and major partners (e.g., UW, Seattle Foundation, Gates Foundation, Puget Sound ESD, cities) to advance a regional equity agenda, advance major institutional change across sectors, and support/build community capacity for change.

Resourcing the new Immigrant and Refugee Commission. In addition, in the summer of 2016 the Immigrant and Refugee Task Force, created by the County Council and the Executive, finalized its report on how to better integrate the county's newest residents. The Executive is proposing one staff position and a small amount of other resources to support a new Immigrant and Refugee Commission and a regional hub for immigrant and refugee issues. This funding level was the minimum recommended by the Task Force and will allow the County to make important advancements in this area where there is growing need.

Expanding Recreational Opportunities to Underserved Youth. The 2017-2018 Proposed Budget uses rental car sales tax funds to increase recreational opportunities for underserved youth in King County through:

- Recreational Access Grants focused on communities of opportunity that foster youth access to the outdoors and recreation, and support participation in youth sports.
- Parks and Recreation Improvement Grants that have a low-to-no match requirement for permanent recreation amenities installed in King County parks in underserved areas.
- Recreational programs to serve Skyway and East Federal Way, with programming similar to the White Center Teen Program.

Engaging employees and leaders to build an equitable and racially just workplace culture of inclusion, respect, learning, and high performance. Currently, levels of employee engagement vary by race, position, and gender. When employees are highly engaged, they deliver better service to customers. The following illustration highlights findings from research on employee engagement.

The Executive's proposed budget includes resources that will:

- Continue comprehensive strategies to engage all employees, informed by an annual engagement survey.
- Expand leadership training for managers and supervisors to build their capability for coaching and developing employees, fostering continuous improvement, and modeling racially just leadership.
- Improve recruitment and hiring practices to increase racial diversity of employees in the highest salary ranges, with the goal that all new hires and promotions in the highest salary range reflect the region's projected workforce demographics for 2030.
- Provide implicit bias training for all commissioned officers in the King County Sheriff's Office.

2. Confronting Climate Change by Changing County Operations and Improving Regional Mobility

The Council-adopted Strategic Climate Action Plan (SCAP) calls for reducing greenhouse gas emissions across the region by 80 percent by 2050. Climate pollution and climate impacts affect the region regardless of county or city boundaries. To reduce these impacts the County must work at the community scale in partnership with cities, county residents, businesses, and utilities to meet targets for reducing emissions, building community resilience, and preparing for climate change impacts.

To ensure that the county is on track to meet near- and long-term climate change goals and prepare for climate change impacts, the 2017-2018 Proposed Budget will invest in five goal areas for reducing greenhouse gas emissions, climate preparedness, and expanded capacity for community engagement and energy partnerships:

Transportation and Land Use. Metro Transit will expand service by 300,000 hours in 2017-2018, prepare for the addition of new Rapid Ride Lines, and enhance alternative transit service in rural areas; continue investment in hybrid-electric and all battery buses and meet the goal of transitioning to all hybrid-electric and electric buses by the end of 2018, assess and develop infrastructure to support additional deployment of all electric buses; and finance significant investment with partners to purchase land and directly fund transit-oriented affordable housing development around frequent and high capacity transit hubs.

Building and Facilities Energy. The County will self-finance $2.1 million in energy-efficiency retrofits at County facilities through the innovative "Fund to Reduce Energy Demand" (FRED) and extend the program to city partners to promote energy conservation.

Green Buildings. This includes partnering with cities and developers to develop green building codes and support County permit customers in pursuing green building standards that will reduce the carbon footprint of future development.

Consumption and Materials Management. The Solid Waste budget includes proposals to increase customers' recycling options at County transfer stations and significantly increase recycling of construction and demolition waste to move the County towards the 70 percent recycling target set in the SCAP.

Forests and Agriculture. The budget includes $13.7 million for additional land protection, supported by the Conservation Futures Tax and Parks Levy. Anticipated land protection in 2017-2018 includes more than 170 acres of mature conifer forest adjacent to King County's Soaring Eagle Park, several large farms in the Snoqualmie Valley and Enumclaw Plateau agricultural areas, as well as multiple other fee and easement acquisitions across rural King County, including shoreline protection along Vashon and Maury Islands.

Preparing for the Impact of Climate Change. Investments include research to better understand how climate change will impact rainfall, storm patterns, and river flooding to inform emergency preparedness and design of critical infrastructure, integrating climate impacts into the King County Regional Hazard Mitigation Plan, and conducting heat wave emergency response drill.

The Executive's Proposed Budget also includes the centralization of resources to better coordinate the County's work on climate change. This includes establishing a shared Climate Change Cost Center with pooled funding for four staff, consulting, and partnerships to further coordinate climate change work across departments and strengthen external partnerships.

3. Laying the Foundation for Improved Regional Mobility.

The last major expansion of transit facilities took place in the early 1990s, when the downtown bus tunnel and North Operating Base were opened. King County's economy has recovered from the Great Recession – unemployment hovers around five percent and sales tax receipts have exceeded pre-recession levels. The forecasts for the region assume significant population and job growth in the coming years.

The 2017-2018 budget positions Metro Transit to successfully implement the expansion of the transit system that will be needed over the next 25 years.

In August 2016, Metro Transit launched METRO CONNECTS, its long-range plan for a transit system that gives customers more frequent, reliable, and effective service all day, every day. The METRO CONNECTS vision for 2040 calls for Metro Transit to:

- double ridership
- increase bus service by 70 percent
- fully integrate our region's light rail and bus systems

The 2017-2018 Proposed Budget invests in the foundation to achieve the METRO CONNECTS long-term vision by:

Adding over 300,000 hours of bus service over the next two years to relieve overcrowding on 27 routes, improve reliability on 60 routes, and help bring about 20 routes closer to target service levels. These service investments will address overcrowding and reliability, ensure service continuity during and after the completion of major construction activity in Seattle, and add targeted service to routes and corridors using Metro Transit's service guidelines.

Investing in the public's and Metro Transit worker's experience of the transportation system, funding improvements in Metro Transit customer and operator safety, as well as enhancements to customer information and fare payment systems. Investments will provide schedule relief for operator recovery time, add Metro Transit Police staff to ensure safety continues to be Metro's first priority, and equip all Metro buses with cameras by the end of 2018.

Strengthening the foundation of Metro Transit's system by investing in operational infrastructure, including investing in speed and reliability projects, planning for future RapidRide lines, planning for future improvements to and expansion of transit passenger facilities, expanding the capacity of bases, and improving access to transit through investments in non-motorized pathways and park and ride capacity.

Enhancing organizational capacity to hire and train operators, vehicle maintenance crews, and supervisors to ensure there is no compromise to the safe and efficient operation of the overall system with added service. Metro Transit is already challenged to hire enough operators to meet the needs of its existing schedule. The budget provides some resources to address the difficulty in the regional job market in finding qualified candidates.

4. Become the Best Run Government in the United States.

Several activities toward this end have already been discussed, including investing for the long-term, strengthening financial management, improving County operations, and investing for stronger employee engagement.

King County is committed to being the best-run government in the United States – a government that earns public trust through effective stewardship of resources, improved performance, and processes and results that create positive outcomes for all King County residents. During his first term, the County Executive implemented the Reform Agenda and the County began to embrace Lean principles to achieve greater efficiency, provide higher-quality service, and improve the customer experience. Action on the reform agenda has led to substantive improvements in service delivery, increased efficiency, and improved customer experience. While these traditional ways of improving operations are important, they are not sufficient to solve all of today's challenges for the region.

Further advancement towards the best run government requires a strong focus on measureable results; collaboration with communities, customers, and partners; engaged and innovative employees; and continuous improvement of operations. The County is committed to advancing Equity and Social Justice in county government and communities since many in our region, including people of color, low-income residents, and immigrants and refugees, persistently face inequities. The County also needs to operate and deliver services in ways that are equitable, inclusive, and just in order to be more effective in meeting the needs of the community.

King County is in the midst of a strong recovery from the Great Recession. Employment in the county grew by 3.1 percent in 2015 and 3.4 percent in the first quarter of 2016. Of the ten largest counties nationwide measured by employment, King County had the highest employment growth rate and also the highest gain in average weekly wages (5.1 percent). Employment growth is expected to slow but remain positive through at least 2018.

One consequence of the strong regional economy is that many people are moving to King County. According to the Washington Office of Financial Management, the county's population increased by 2.5 percent in the year ending April 1, 2016. This follows annual increases of 1.8 percent for both of the two previous years.

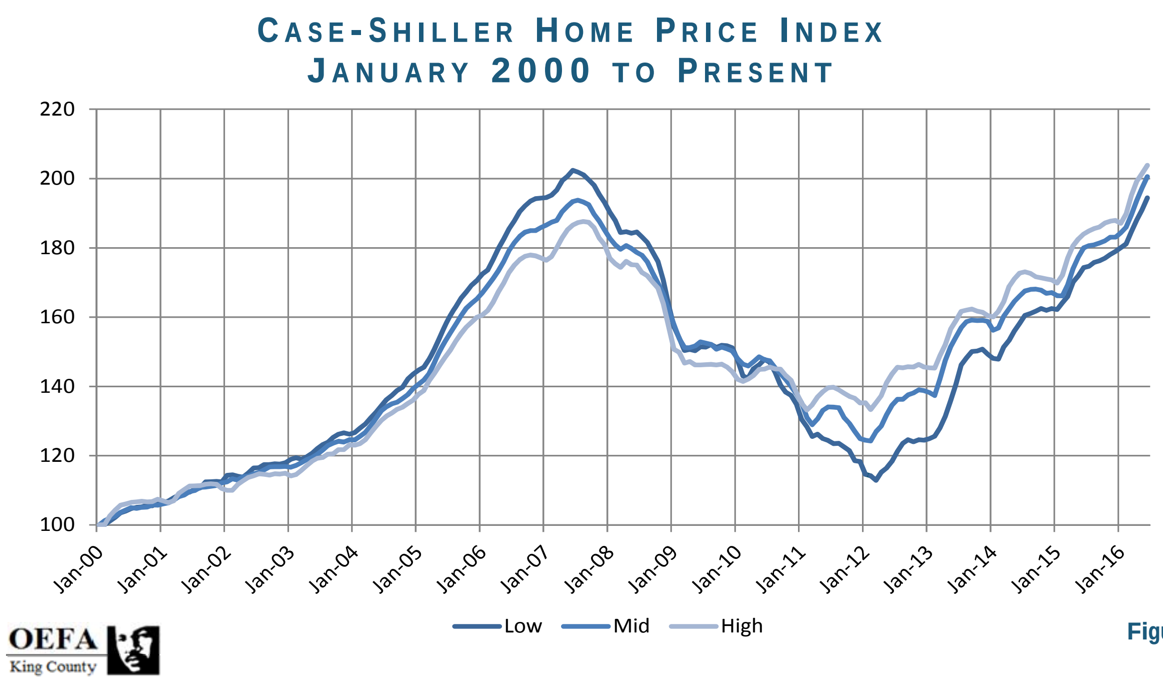


Figure 5

Employment and population growth have led to increases in housing prices. As shown in **Figure 5**, the Case-Shiller index of Seattle area housing prices in April 2016 was up 10.7 percent from the prior year and is now above the previous peak reached in mid-2007. This has led to a significant amount of new construction, especially of apartment buildings. Building permits for single family homes remain well below the peaks reached in the mid-2000s.

Property Taxes

As will be described in more detail in the General Fund section, growth in property tax revenue for governments in Washington is limited to 1 percent per year plus the value of new construction. The strong economy has led to significant increases in new construction. The Office of Economic and Financial Analysis (OEFA)[6] predicts that new construction will be about $6.5 billion for 2017 and $6.6 billion for 2018. While these are large amounts, they are still well below the $8.0 billion experienced in 2009.

Countywide assessed value of property is also expected to grow significantly. OEFA forecasts assessed value to grow from $426.3 billion in 2016 to $461.4 billion in 2017 and $489.1 billion in 2018.

The County's roads levy is the principal source of funding for roads, streets, and bridges in unincorporated King County. As is discussed in a subsequent section, the Roads Fund has far less money than is needed to adequately maintain existing infrastructure. Because the roads levy is at its maximum tax rate, growth in assessed value in the unincorporated area is helpful because the larger tax base adds resources to the Roads Fund. OEFA forecasts the assessed value of the unincorporated area to grow from $36.6 billion in 2016 to $39.0 billion in 2017 and $41.3 billion in 2018.

Sales Taxes

The strong local economy is generating significant growth in sales taxes. Different sales taxes have somewhat different tax bases, but the total countywide tax base provides a representative example of the growth. This base grew by 10.0 percent in 2015 and is projected by OEFA to grow at 9.02 percent for 2016[7]. Further growth is predicted, albeit at slower rates: 5.12 percent for 2017 and 3.12 percent for 2018.

One reason for the rapid growth and projection for slowing growth in the future is the large influence of construction-related sales tax on the total. In June 2016, construction-related activities comprised 21.5 percent of the sales tax base.[8] Construction sales tax revenue was 20.9 percent higher in June 2016 than in the previous June.

[6] Under the County Charter, OEFA is responsible for developing forecasts for major County revenues. The forecasts are adopted by the Forecast Council, which includes the County Executive, two County Councilmembers, and the PSB Director. The Executive and Council are required to use the OEFA forecasts for the budget.

[7] By policy, OEFA forecasts at the 65 percent confidence level. This is an intentionally conservative forecast. A 65 percent confidence level means that actual revenues should equal or exceed the forecast 65 percent of the time.

[8] Unlike most states, both construction materials and labor are subject to the sales tax in Washington. This means construction is a larger part of the sales tax base in Washington than in most other states.

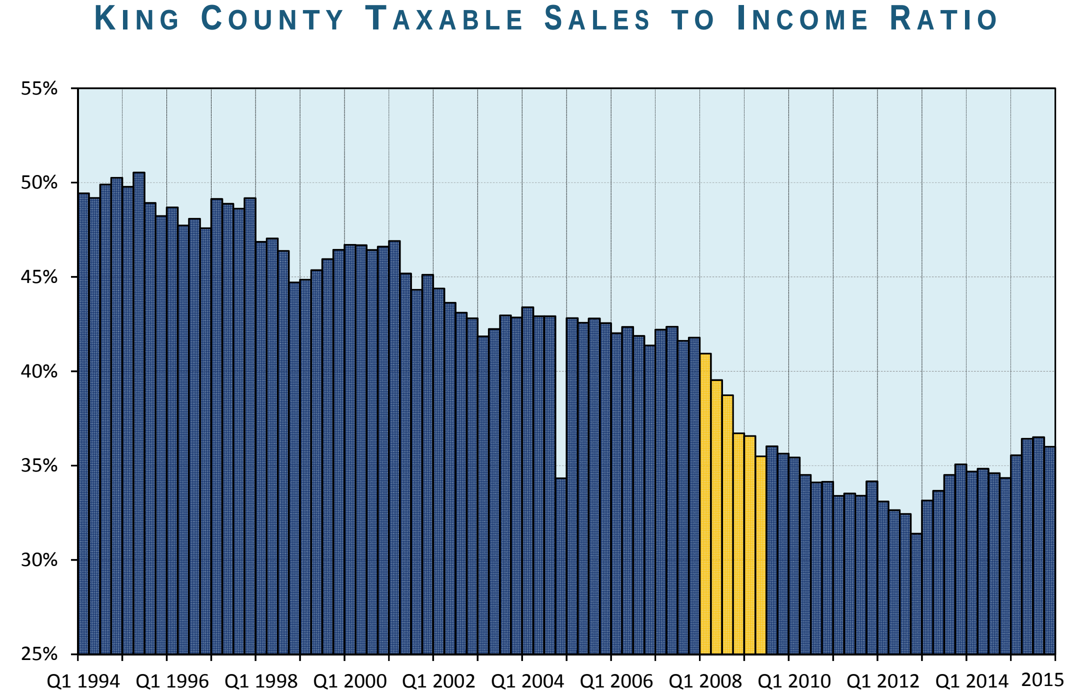


Figure 6

Despite the strong growth, sales taxes are not as productive a revenue tool as they were in the past. **Figure 6** shows the ratio of taxable sales to personal income in King County since 1994. In 1994, approximately half of all personal income received by King County residents was spent on items subject to the sales tax. This percentage declined gradually and plunged during the Great Recession (yellow bars on the chart). There has been little or no recovery since and only about 35 percent of personal income is currently spent on items subject to the sales tax.

There are many underlying reasons for this trend. Some sales have been diverted to online purchases, although Washington's participation in the streamlined sales tax agreement means that most large online sellers collect sales taxes.[9] Changes in income distribution are also a factor. High income individuals spend smaller portions of their income on items subject to the sales tax, so as this group commands more and more of the total income the productivity of the sales tax declines. Changes in buying patterns also have had an effect. For decades, people have gradually shifted away from purchasing goods to purchasing services, and since most services aren't subject to the sales tax the productivity of the tax declines. Finally, King County is home to an increasing number of younger workers. These individuals often have significant student loans to repay, which prevent them from spending as much money on items subject to the sales tax as did previous generations. In addition, they often are choosing lifestyles that have smaller dwelling units and rely on public transportation. This means fewer purchases of vehicles, furniture, appliances, building materials, and lawn and garden supplies, all of which are subject to the sales tax.

[9] The streamlined sales tax agreement is a deal between roughly half of the state and many large online retailers. The retailers agreed to voluntarily collect state and local sales taxes in states that agreed to a standard set of rules about where sales occur and how taxes are levied.

Real Estate Excise Tax

State law allows cities and counties to impose up to a 0.5 percent excise tax on property sales, which is known as the Real Estate Excise Tax (REET). The use of REET is restricted to acquisition, development, and major maintenance of certain types of capital assets, such as parks, roads, and other public facilities.[10]

King County collects REET only in the unincorporated area, so the strong sales of properties in some of the major cities provide no direct benefit to the County. The City of Seattle's REET revenue is approximately five times as much as King County's. Even the City of Bellevue, with roughly half the population of the County's unincorporated area, receives more REET than King County.

The strong real estate market has benefitted REET revenue, which grew from about $6.6 million in 2011 to $14.6 million in 2015 (a single very large property sale boosted 2015 revenue). OEFA forecasts REET to be about $13.0 million in 2016, $13.2 million in 2017, and $13.4 million in 2018.

By County policy, REET is spent only in the unincorporated area. All REET revenue has been focused on parks projects in recent years. For the 2017-2018 Proposed Budget, Executive Constantine is proposing to shift $3 million of REET to the Roads Fund in recognition of the higher REET revenues and to offset a corresponding transfer from the Roads Fund to the General Fund.

[10] There are actually two separate REET authorities, each at a 0.25 percent tax rate. State law has somewhat different restrictions on the allowable use of each tax.

King County

King County's General Fund supports the traditional functions of a county government, most of which are required by State law. The major focus of the General Fund is criminal and civil justice functions. Counties also are responsible for elections administration, property assessments and tax collection, and public health.

King County's General Fund has faced chronic imbalances between revenue and expenditure growth for 15 years due to revenue limitations under state law. At the start of the 2017-2018 budget process, the General Fund faced a gap of $50 million between projected revenues and the cost of continuing current programs. This section explains the causes of this gap and how a balanced General Fund budget was developed for 2017-2018.

General Fund Revenues: The System is Broken

Revenue sources available to county General Funds are restricted by State law. The only significant tax sources are property and sales taxes. Unlike the State or cities, counties are not authorized to impose utility or business taxes. General Fund revenues are projected to be about $1.64 billion for 2017-2018.

Figure 7 shows the breakdown of General Fund revenues. The property tax is by far the largest source at 41 percent. Charges for services, most of which are charges to other County funds for services provided by General Fund agencies, account for 18 percent. Sales taxes represent 17 percent. Intergovernmental receipts, which are payments from other governments that contract to purchase services from King County General Fund agencies, total about 12 percent. This category includes payments from cities and Sound Transit for police services provided by the Sheriff's Office, municipal court services provided by the District Court, and use of County jails. This overall view is somewhat misleading because the services provided to other County agencies and to other governments are self-supporting. These revenues are offset by corresponding expenditures. If these intergovernmental receipts and internal charges for service are removed, the "true" or "net" General Fund revenues are revealed in **Figure 8.**

In this view, the property tax accounts for almost 60 percent of the General Fund's revenue. This is consistent with other Washington counties that don't provide the contracted services that King County does.

GENERAL FUND REVENUES

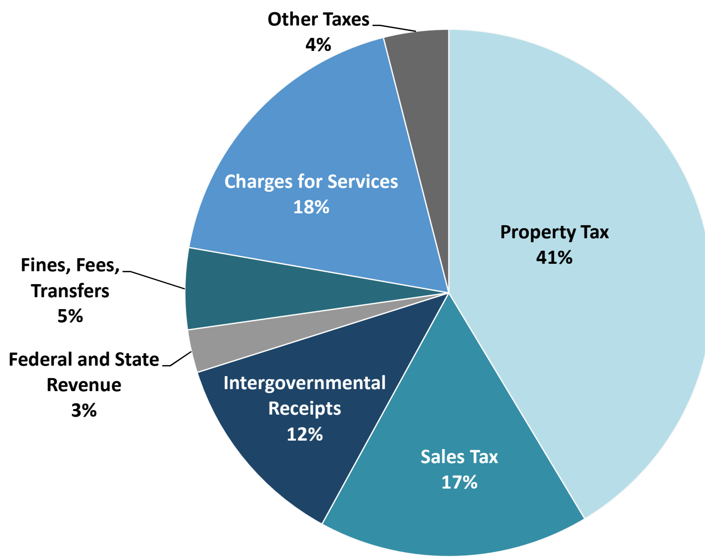


Figure 7

NET GENERAL FUND REVENUES

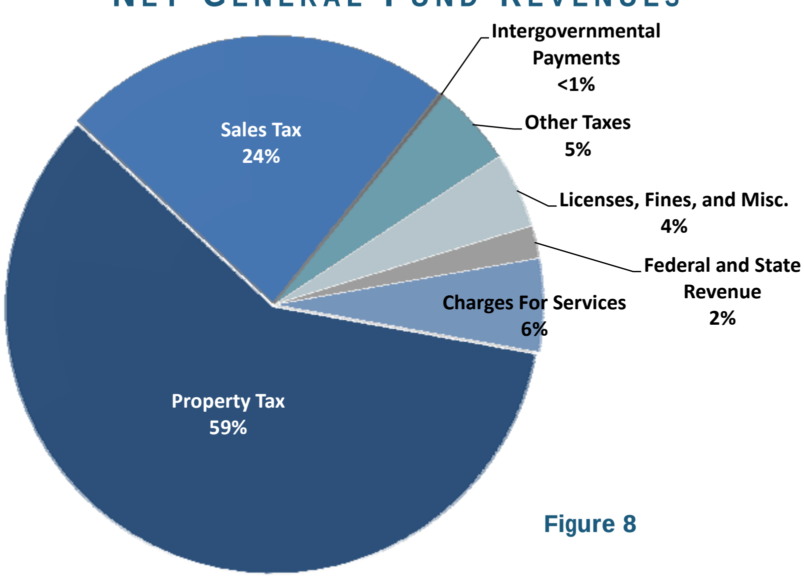


Figure 8

KING COUNTY GENERAL FUND PROPERTY TAX LEVIES (REGULAR)

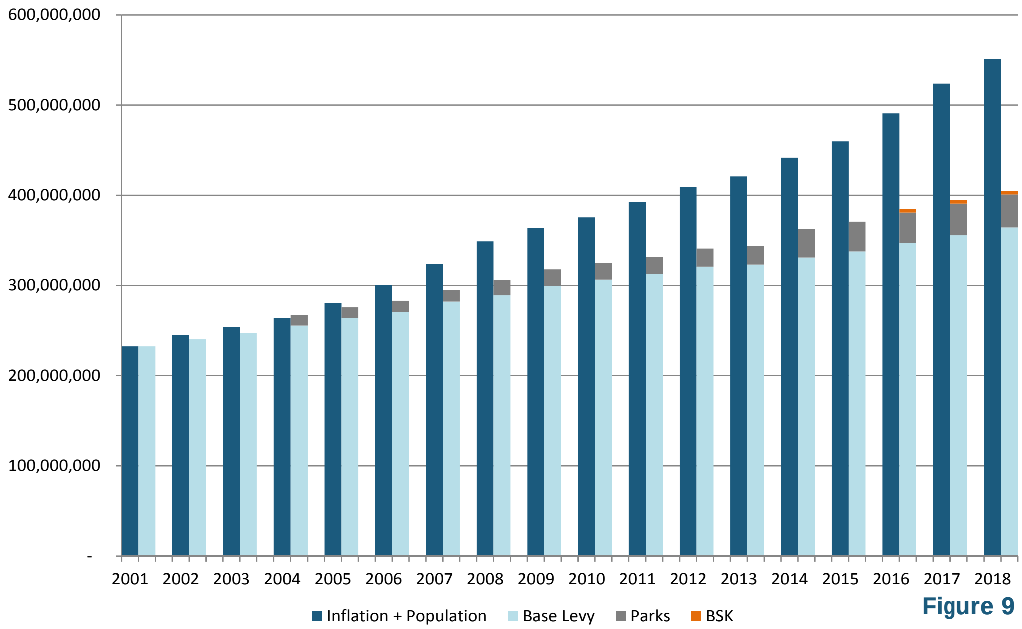


Figure 9

Sales taxes represent another quarter of the revenue. It is worth noting that state and federal direct support to the General Fund is minimal, representing a combined 2 percent of the total.

The heavy dependence on the property tax is the largest source of the General Fund's financial challenges. Since 2001, State law has limited the revenue growth in most property taxes, including county General Funds, to 1 percent per year. In addition, the value of new construction is added to the tax base and represents between about 0.5 percent and 2.0 percent additional growth, depending on economic conditions.

Figure 9 shows the effects of this limit on property tax revenues. Each year's right-hand bar is the actual property tax revenue collected by the County's General Fund. Starting in 2004, General Fund costs for parks were gradually shifted to a voter-approved property tax levy lid lift, so this lid lift is shown as contributing to General Fund revenues.[1] Similarly, some cost growth of existing Public Health programs that are funded from the General Fund is included in the Best Starts for kids (BSK) levy lid lift, and these incremental costs are included in Figure 9. Each year's left-hand bar is how much General Fund property tax revenue would have been collected had this revenue kept up with inflation and population growth. In 2017, the difference between the bars is $130 million. The dependence of King County and other counties on the drastically limited property tax has resulted in chronic financial difficulties for the last 15 years. This situation is commonly referred to as the "structural gap".

King County, unlike most other counties, also is adversely affected by the structure of the sales tax. As noted in the previous section of this document, the sales tax is declining in productivity due to changes in purchasing patterns and other factors. In addition, there are two further sales tax issues affecting King County.

[1] A portion of this levy is used for programs not previously funded through the General Fund, such as acquisition of additional open space and construction of trails. This portion is not included in Figure 9.

SALES TAX IN UNINCORPORATED AREA
(1.0% TAX RATE VERSUS 0.15%)

County	Tax Base in Unincorporated Area
Kitsap	45.1%
Clark	28.6%
Snohomish	21.2%
Pierce	18.2%
Whatcom	17.1%
Yakima	15.1%
Thurston	15.0%
Skagit	14.0%
Benton	13.7%
Spokane	12.6%
King	3.2%

Figure 10

First, the sales tax rate received by a county depends on where a sale occurs. If a sale occurs in the unincorporated area (outside of cities), the county receives the entire 1.0 percent local sales tax. If a sale occurs within a city, the county receives only 0.15 percent and the city receives the remaining 0.85 percent. King County has actively complied with the State Growth Management Act that encourages urban areas (including almost all commercial areas where taxable sales occur) to be brought into cities. As a result, King County receives almost no sales tax at the full 1.0 percent rate. **Figure 10** shows that King County only had 3.2 percent of is taxable retail sales in the unincorporated area in 2015, far lower than any other urban county.

CRIMINAL JUSTICE SALES TAX
KING COUNTY VS. CITIES

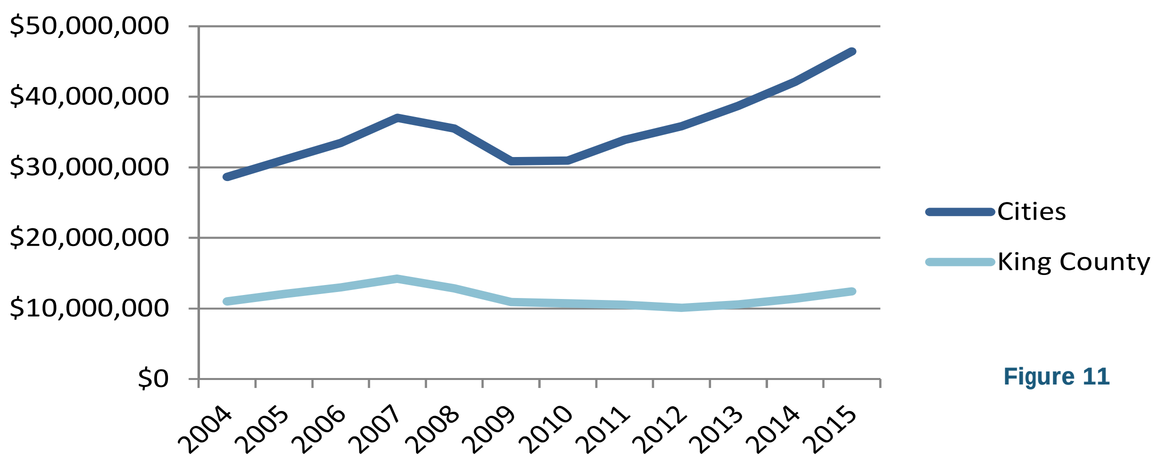


Figure 11

Second, many counties impose a separate 0.1 percent criminal justice sales tax. This tax has been in effect in King County since the early 1990s. Under State law, counties receive 10 percent of the revenue and the remainder is split among cities and the county based on population (for the county, it is the population of the unincorporated area). As the County has implemented the State Growth Management Act, its unincorporated area population has steadily declined. As seen in **Figure 11**, the result is that criminal justice sales tax revenues for King County have been basically constant for more than a decade, while the amount received by cities has increased by 62 percent. This pattern does not correspond to costs in the criminal justice system, where the County bears the financial burden of juvenile justice and the incarceration and adjudication of all felonies, regardless of where they occur.

GENERAL FUND SALES AND PROPERTY TAXES
PER $1,000 OF PERSONAL INCOME

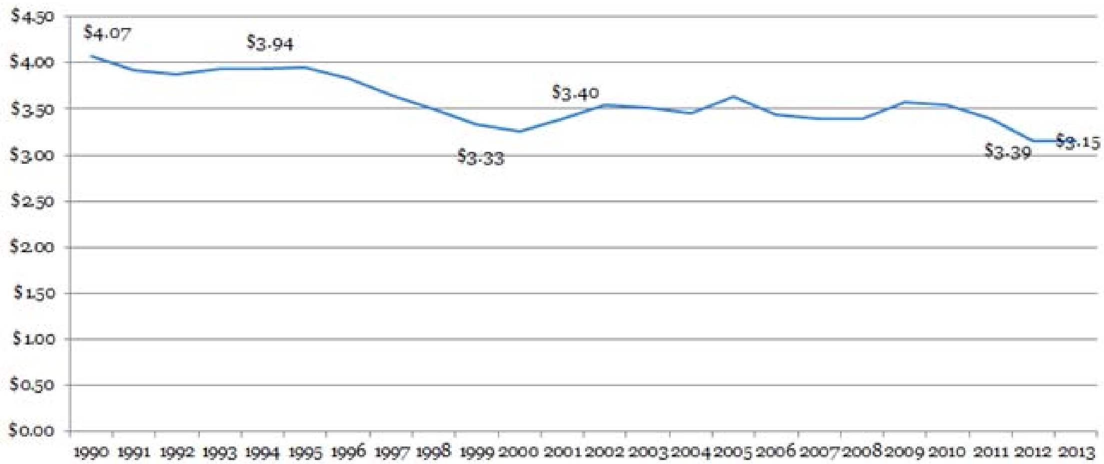


Figure 12

As a result of these limitations due to State law, King County's General Fund revenues have been declining as a share of personal income for over two decades. **Figure 12** shows General Fund sales and property taxes, including the portion of the Parks levy lid lift that supports activities previously covered by the General Fund, as a share of the total personal income of King County residents since 1990. In 1990, $4.07 of every thousand dollars of personal income was paid in taxes to support the County's General Fund. This has varied over time due to economic conditions, but the effects of tax limitations and formulas have created an underlying downward trend. By 2013, only $3.15 of each $1000 of personal income was paid in taxes to the General Fund.

GENERAL FUND TAXES PAID PER CAPITA
ADJUSTED FOR INFLATION

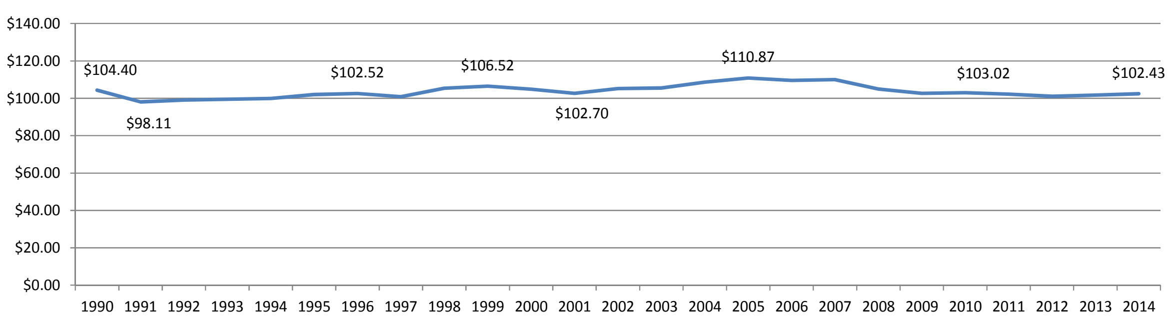


Figure 13

Interestingly, the pattern per capita (with the effects of inflation removed) is somewhat different. In 1990, residents paid an average of $104.40 in taxes to the County's General Fund. This was $102.43 in 2014. The difference in the patterns of **Figures 12** and **13** reflects both income growth and the widening income disparity in King County, as is true throughout the United States. Washington's regressive tax structure means that people pay about the same taxes to the County's General Fund on average, but higher income people pay proportionately much less than in the past.

General Fund Expenditures

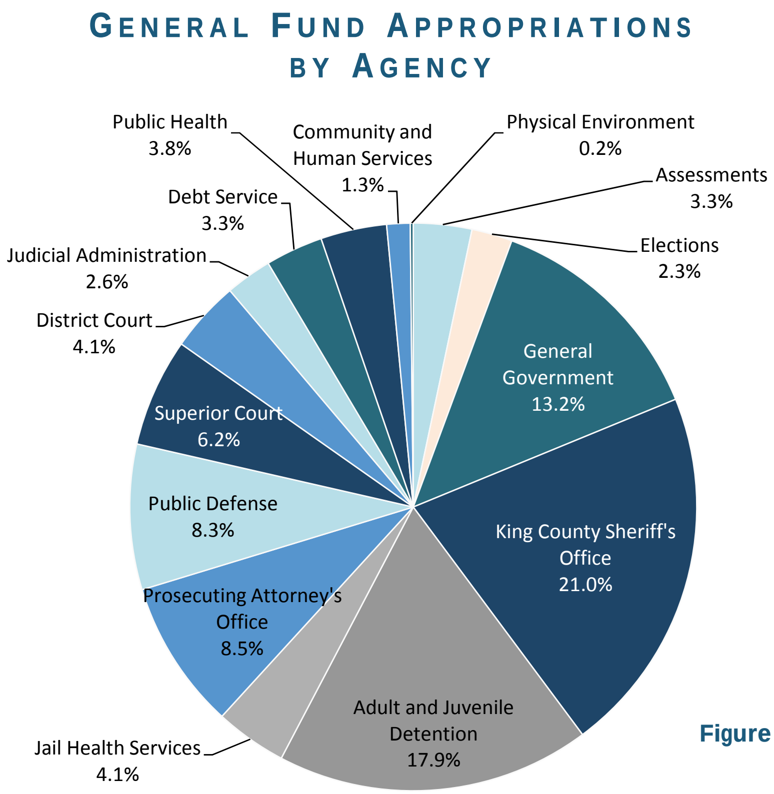


Figure 14

King County's 2017-2018 Proposed Budget includes $1.65 billion in appropriations from the General Fund. **Figure 14** shows this how this is split among agencies.

The King County Sheriff's Office (KCSO) has the single largest General Fund appropriation at 21.0 percent, followed by the Department of Adult and Juvenile Detention (DAJD) at 17.9 percent. DAJD is responsible for the two adult jails: the King County Correctional Facility (KCCF) in Seattle and the Maleng Regional Justice Center (MRJC) in Kent. DAJD also runs the juvenile detention facility in Seattle and operates the Community Corrections Division that provides alternatives to detention for adults.

The other agencies and branches that are part of the justice system are the Prosecuting Attorney's Office (PAO), Department of Public Defense (DPD), Superior Court, District Court, Judicial Administration, and the Jail Health Services Division. When combined with KCSO and DAJD, the criminal justice system accounts for about 73 percent of General Fund appropriations.

As noted previously, a significant portion of General Fund expenditures is supported by revenue from other governments or from other County funds. Removing these expenditures leads to the "true" or "net" General Fund budget, which is shown in **Figure 15**.

Comparing **Figures 14** and **15** shows that the functions supported by the County's own General Fund revenue are significantly different than the total General Fund budget. DAJD is now by far the largest

General Fund appropriation at 21.1 percent. KCSO shrinks to 12.7 percent because much of its budget is supported by contracts with cities and transit agencies. The criminal justice system represents 74 percent of total net General Fund appropriations.

Other functions that shrink as relative proportions of the General Fund budget are Elections and the group of agencies labeled as General Government. Elections receives significant funding from charges to other jurisdictions for election costs and the General Government agencies charge other County funds for a portion of their costs.

NET GENERAL FUND APPROPRIATIONS BY AGENCY

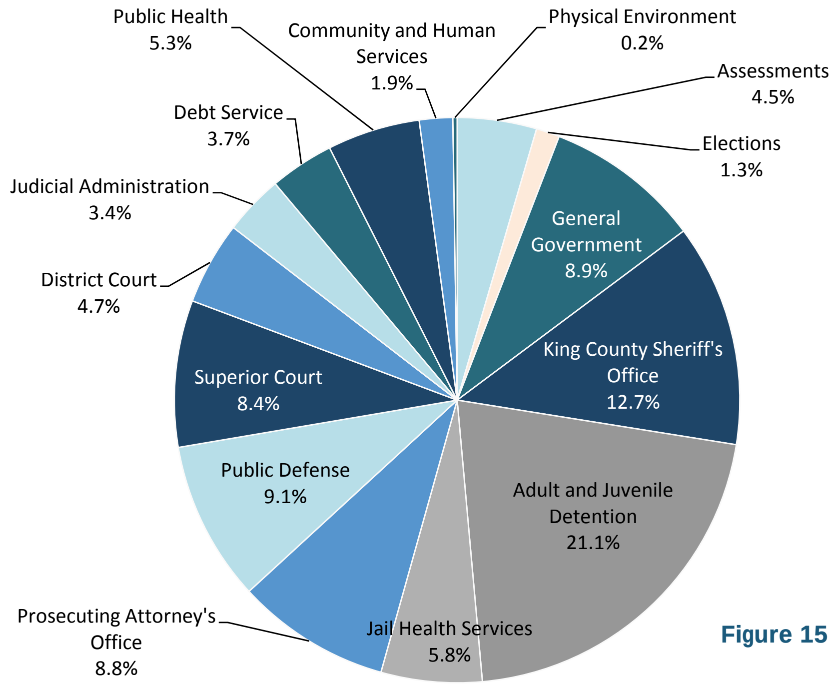


Figure 15

The 2017-2018 Proposed Budget includes some restructuring of specific appropriation units. The Medical Examiner's Office has become a direct General Fund appropriation rather than being included in the funding for Public Health. Several appropriations to support non-General Fund departments used to be combined into categories, such as "Physical Environment General Fund Transfers." These are now shown as transfers to specific departments, such as "Transfer to Permitting and Environmental Review." These changes are intended to improve clarity and transparency.

King County has chosen to structure most of its internal support services, such as information technology, facilities, contracting, and accounting, as separate funds outside of the General Fund. These funds charge other County funds, including the General Fund, for the services they provide. However, there are a few support services, including the County Auditor, the Human Resources Division, and the Office of Performance, Strategy and Budget (PSB), that are budgeted in the General Fund but charge other County funds for their services. This complicates a clear understanding of the General Fund's revenues and expenditures.

Source of the General Fund Gap

After the March 2016 revenue forecast, PSB projected a General Fund budget gap of about $50 million for 2017-2018. This was not a surprise: PSB had projected a 2017-2018 budget gap of $46.3 million when the 2015-2016 budget was adopted. There were three major contributors to this gap:

1. The use of about $35 million of one-time funds to cover added costs in 2015-2016. These costs included more staff for the Department of Public Defense (DPD) to comply with State-imposed caseload standards, salary parity with the Prosecutor's Office for DPD staff as called for in County policy, and higher than expected labor settlements for uniformed personnel in KCSO and DAJD.
2. A State-imposed requirement to shift about $13.3 million of costs from the Mental Illness and Drug Dependency (MIDD) Fund to the General Fund.
3. About $1.7 million in order to maintain the 6.5 percent unreserved fund balance in the General Fund.

The use of reserves to balance the 2015-2016 temporarily postponed the effect of the long-term structural gap, but these reserves were no longer available for the 2017-2018 budget.

Balancing the General Fund

Over the course of the spring and summer, Executive Constantine worked with PSB, departments, and the elected officials heading separate agencies and branches to identify options to balance the General Fund budget. This was even more challenging because there were some unavoidable budget increases that were necessary to meet legal or operational requirements. Furthermore, some functions of County government aren't discretionary and are driven by external demand. For example, DPD must defend every eligible individual and must comply with caseload standards set by the State. Similarly, DAJD is required to house prisoners delivered by police agencies and ordered held by the courts.

The General Fund was balanced through a mix of revenue changes, efficiencies, shifts of costs to other funds, and spending reductions. This is shown in **Figure 16**.

2017/2018 General Fund Balancing Summary		
Starting Gap	$	50,000,000
Forecast Error	$	4,000,000
Changes in Revenue Forecasts	$	(22,200,000)
Fund Balance Target Adjustment	$	6,300,000
Required Cost Increases	$	14,200,000
Policy Driven Revenue Changes	$	(19,800,000)
Reduction in Central Rates from Baseline	$	(6,300,000)
Efficiencies	$	(13,700,000)
Cost Shifts	$	(11,100,000)
New/Expanded Investments	$	7,300,000
Service Reductions	$	(8,700,000)
Balance	**$**	**-**

Figure 16

Figure 16 starts with the projected $50 million gap. The expenditure forecasts inherent in this figure turned out to be about $4.0 million too low, largely due to projections of labor costs. This was more than offset by increases in the revenue forecast by August, which generated an additional $22.2 million. The largest components of this were:

- Increase in the biennial sales tax of $13.6 million.
- Revenues collected by the Records and Licensing Services Division are forecast to be $5.5 million higher than when the base budget was set.
- Additional funding from contracts, including suburban cities and Metro Transit for additional KCSO staff, and from cities (primarily Seattle) for DAJD services.

As discussed previously, the Executive proposes to increase the General Fund's undesignated fund balance to 7.5 percent at the end of 2016 and 8.0 percent at the end of 2018, which costs $6.3 million. This is intended to help preserve the County's highest-possible general obligation bond ratings, which allow debt for General Fund and other purposes (wastewater, transit, open space, solid waste, etc.) to be issued at low interest rates. This, in turn, saves millions of dollars annually for the County's taxpayers and ratepayers. Increasing the General Fund undesignated fund balance also helps to prepare for the next recession.

As seen in **Figure 17**, the General Fund's total fund balance has trended downward in recent years as funds were used to postpone budget cuts. The Executive's 2017-2018 Proposed Budget yields a significant increase in both total fund balance and undesignated fund balance.

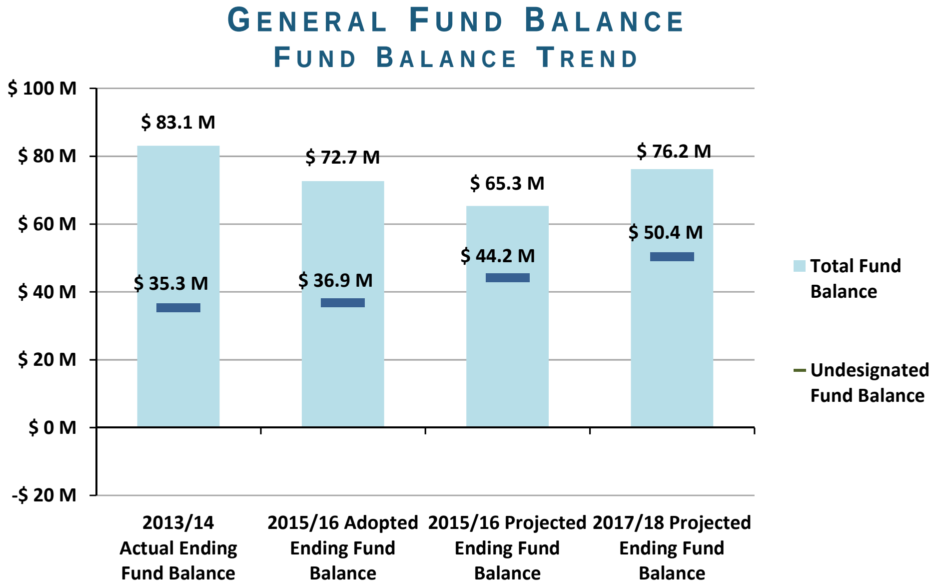


Figure 17

Required cost increases totaled about $14.2 million. The largest items in this group include debt service for King County Courthouse electrical repairs and moving DPD to a new location ($2.2 million), added DAJD staff due to higher jail population and to reduce the use of mandatory overtime ($1.7 million), implementation of a labor agreement to promote some DPD attorneys to senior levels ($1.5 million), and operation of a new KCSO records management system ($0.9 million).

Several revenue policies were changed to help balance the General Fund, with a total effect of $19.8 million. These include raising parking rates in County-owned garages ($4.3 million), transferring interest earnings from some funds to the General Fund as allowed by State law ($3.0 million), increasing the transfer from the Roads Fund to the General Fund based on the 2016 traffic enforcement study ($3.0 million), and allowing the Department of Assessments to apportion its costs to develop the parcel layer in the County's Geographic Information System to other County agencies that use the information ($1.9 million).

Central rates are the charges from County internal service agencies, such as King County Information Technology (KCIT) and the Finance and Business Operations Division (FBOD), to other County funds. These costs to the General Fund were reduced by $6.3 million over the course of the spring and summer. There were a variety of reasons for this, including General Fund agencies reducing their needs for certain services. For example, DAJD was able to reduce its KCIT bill by about $1.0 million by eliminating systems and reducing support where possible.

County agencies continued to search for efficiencies throughout the 2017-2018 budget process. These totaled about $13.7 million for the General Fund. Most were reductions in positions by criminal justice agencies due to workload changes, the use of new technology, or through reorganizations to streamline functions.

The General Fund shifted about $11.1 million costs to other County funds or reduced support to these funds that had been in the 2015-2016 budget. As examples, debt service on the KCIT data center was shifted from the General Fund to KCIT rates and more of the debt service for the acquisition of the Eastside Rail Corridor was shifted to the Conservation Futures Tax levy.

Several important new investments are included in the 2017-2018 Proposed Budget that total about $7.3 million. These include funding to expand employee training, development, and classification ($1.2 million); debt service for the new jail management and property tax collection information technology projects ($0.8 million); anti-bias training for KCSO ($0.6 million); implementation of the Equity and Social Justice Strategic Plan ($0.5 million); and continued full hours at the HIV/STD clinic ($0.5 million).

After making all of these changes, a budget gap of about $8.7 million remained. This was filled through program cuts and service reductions. The most notable of these include:

- Reductions of staffing in the Prosecuting Attorney's Office ($2.0 million). This likely will delay filing and prosecuting cases.
- Closure of DAJD's work release facility and electronic home detention programs as of January 1, 2018 ($1.6 million). The Superior Court, District Court, DAJD, PSB, and other agencies plan to work together starting in the fall to develop a more comprehensive electronic home monitoring program that can be deployed before the existing program is eliminated. There will also be an effort to identify a more cost-effective location for a work release program than the current location in the old jail in the King County Courthouse. Closing work release and eliminating electronic home detention will increase the number of individuals in jail unless alternatives are developed in 2017.
- Elimination of the inmate booking function at the Maleng Regional Justice Center in Kent as of January 1, 2018 ($0.9 million). This facility is valuable for police departments in south King County but it is expensive to operate on a per booking basis. County staff will work with local police agencies in 2017 to see if alternative options can be developed, such as booking at other jails.
- Elimination of the KCSO Air Support Unit as of January 1, 2018 ($1.4 million). This five-person unit operates four helicopters that provide search and rescue services and also can be used for law enforcement. King County's General Fund bears the entire cost of this activity even though the helicopters support activities throughout the region. The program will be restricted to search and rescue in King County only in 2017. Unless additional funds can be obtained, the function will be completely eliminated in 2018. Eliminating the Air Support Unit will inevitably lead to more injuries and deaths in remote areas where a helicopter is a critical rescue tool,

but King County can no longer provide the only helicopters in the region for this function at the sole expense of the General Fund. The Sheriff and County Executive agreed that maintaining the already inadequate staffing for 911 response was a higher priority than optional regional services.

- Elimination of the KCSO Marine Unit as of January 1, 2018 ($0.8 million). This Unit provides police protection and rescue services on Puget Sound, Lake Washington, Lake Sammamish, and various rivers. The function will be eliminated in 2018 unless additional funds are obtained. As with the Air Support Unit, this will inevitably lead to loss of lives. Summer patrols on Lake Sammamish will continue because these are funded by contract cities.
- Closure of the 4th Avenue entrance to the King County Courthouse ($0.7 million). This is the least-used entrance. The courts and the Facilities Management Division will explore ways to direct staff and visitors to the other two entrances, but this closure will inconvenience jurors and staff.

Figure 18 shows trends in General Fund adopted budgets since 2001 (annual budgets in earlier years are combined to form biennia). The effects of the Great Recession meant that General Fund budgets remained almost constant between 2007 and 2012, which required significant budget cuts and reductions in programs and staffing. The apparent increase from 2015-2016 to 2017-2018 is exaggerated because many of the uses of fund balance described previously (such as DPD staffing and labor contracts) were not in the 2015-2016 Adopted Budget. When these mid-biennial additions are included, the growth from 2015-2016 to 2017-2018 is about 5.0 percent. This compares to expected inflation plus population growth in the same period of 7.3 percent. Thus, even in very strong economic conditions the General Fund cannot keep up with inflation and population growth.

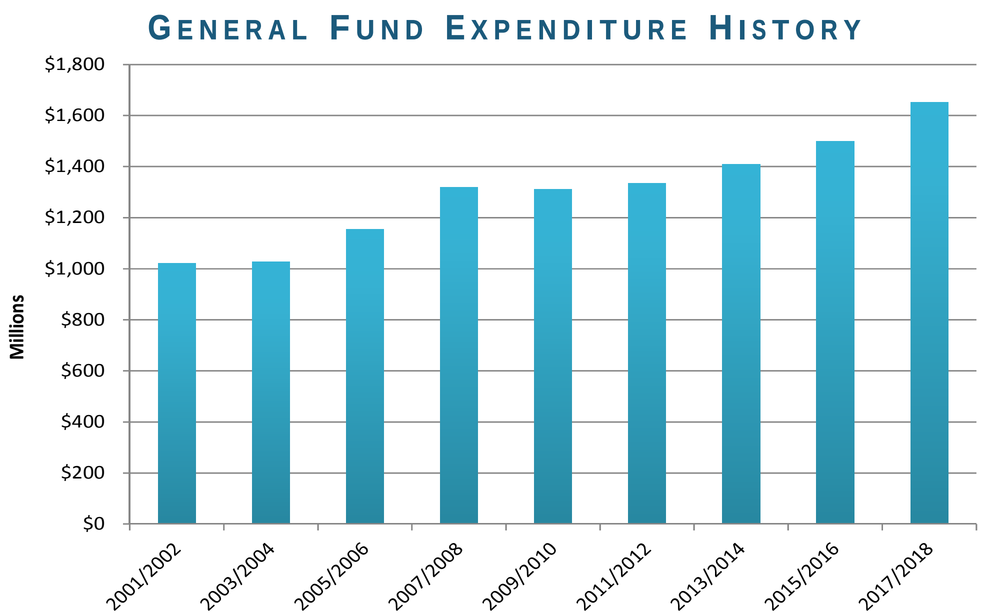


Figure 18

The 2017-2018 Proposed Budget addresses a wide array of policy and financial issues across health and human services, surface water management, permitting, the marine water taxi, homelessness, and affordable housing. The budget does not address long-term funding gaps in Public Health, Emergency Response (E-911) and County Roads. These issues are highlighted below.

Improving the Lives of People with Behavioral Health Disorders

The 2017-2018 Proposed Budget includes services that are supported by the renewal of King County's Mental Illness and Drug Dependency (MIDD) sales tax. The MIDD is a countywide 0.1% sales tax that will generate $134 million of revenue in the biennium to support behavioral health services and therapeutic courts. MIDD supplements funding in the behavioral health system, pays for services and supports that are not eligible for other funding sources, such as Medicaid, and provides access to persons who are under or uninsured or are not eligible for Medicaid and other health insurance. Investments are premised on the idea that when people who are living with or who are at risk of behavioral health conditions use culturally relevant prevention and early intervention, crisis diversion, community reentry, treatment, and recovery services, and have stable housing and income, they will experience wellness and recovery, improve their quality of life, and reduce involvement with crisis, criminal justice, and hospital systems.

The proposed MIDD focuses on:

- Prevention and intervention to ensure people get the help they need to stay healthy and keep problems from escalating;
- Crisis diversion so that people who are in crisis get the help they need to avoid unnecessary hospitalization or incarceration;
- Recovery and reentry so people become healthy and safely reintegrate into the community after crisis; and
- System improvements to strengthen the behavioral health system to become more accessible and deliver on outcomes.

The budget also includes resources for therapeutic courts that offer eligible defendants the opportunity to receive treatment and services in lieu of incarceration and/or services that help families with children in the dependency system reunite.

New or expanded MIDD programs include upstream investments in crisis and diversion services, such as funding for services and programs to keep people out of or returning to jail and the criminal justice system, including upstream prevention and diversion activities. These include initiatives such as:

- Law Enforcement Assisted Diversion (LEAD) that diverts individuals involved in low-level drug-related crimes from the justice system to case management and wraparound services, thereby bypassing presentation and jail.
- Housing Capital and Rental Assistance that creates housing units set aside for people with behavioral health needs who are homeless or being discharged from hospitals, jails/prisons, crisis diversion facilities, or residential treatment.
- Crisis Diversion and Mobile Crisis Services, including expansion of services to South King County.
- Recovery Café that provides a drug- and alcohol-free space and community to anchor participants in sustained recovery and helps them obtain and maintain housing, services, relationships, education, and jobs.
- Young Adult Crisis Facility that houses community-based treatment beds for young people with high behavioral health needs to avert more significant crises.

MIDD 2 invests in a "treatment on demand" system that delivers treatment to people who need it, how they need it, and when they need it so crises can be avoided or shortened. These include initiatives such as:

- Behavioral Health Urgent Care Walk In Clinic Pilot that provides walk-in access to behavioral health services and supports to avert the need for intensive crisis response.
- Next Day Appointments that provide an urgent crisis response follow-up (within 24 hours) for individuals presenting at emergency departments or who received an evaluation from a Designated Mental Health Professional but are found not-eligible for involuntary treatment.
- Peer Bridger and Peer Support that connects people in inpatient psychiatric units or in substance use disorder service settings with peers with lived experience to help people with behavioral health needs transition to the community and link-up with needed services.

MIDD 2 also includes the creation of community-driven grants so that geographically and culturally diverse communities can customize behavioral health services for their unique needs.

Implementing Best Starts for Kids to put every child and youth in King County on a path to lifelong success

The 2017-2018 budget includes $127 million to fund implementation of the Best Starts for Kids (BSK) Levy – the most comprehensive plan in the nation for supporting the health and development of children and youth. Approved by the voters in 2015, BSK is designed to support every child to achieve his or her fullest potential in life, regardless of race, place, or family income. BSK will help King County transition to less expensive, more effective upstream solutions to the costly challenges that can occur later in life, such as homelessness, addiction, chronic depression, school drop-out, poor health, and criminal justice involvement.

Prevention and early intervention are the most effective and least expensive ways to avert these serious health and safety issues. Research indicates that lifelong problems can often be prevented entirely by investing heavily in children before age five, and then sustaining that gain by making strategic investments at critical points in childhood and adolescence up to age 24.

BSK implementation incorporates the County's commitment to ESJ as it works to challenge inequities by focusing on institutional policies, practices, and systems. Juvenile justice is one of the areas where the disparities are most extreme, and too few youth receive appropriate services before a crisis occurs. These are areas where BSK has programs designed to positively affect change, to close the school to prison pipeline, and create pathways to education, employment, and stable futures.

The implementation of BSK allocates:

- Fifty percent of BSK revenues to programs for prenatal to five years of age, when 92 percent of brain development occurs. BSK will invest in promotion, prevention, and early intervention programs for infants and toddlers and services for pregnant women. It will also provide important multi-generational training and supports for parents and care givers to help guide positive development and healthy growth.
- Thirty-five percent will be invested in promotion, prevention, and early intervention programs for children and youth ages 5 through 24.
- Ten percent will be invested in strategies to create safe and healthy communities, such as increasing access to healthy, affordable food and expanding economic opportunities and access to affordable housing.
- Five percent will support evaluation, data collection, and improving the delivery of services and programs for children and youth.

In addition, $19 million is allocated to implement a Youth and Family Homelessness Prevention Initiative. These are the first funds to be expended from the levy and are meant to prevent children and youth from ever experiencing the trauma of homelessness. The homeless prevention project is described more fully in the next section on homelessness.

Addressing Homelessness

In 2015, King County Executive Dow Constantine and Seattle Mayor Ed Murray declared a homelessness state of emergency. Despite having helped more than 40,000 people to exit homelessness and having built more than 6,000 units of homeless housing over the previous ten years, homelessness in King County is unacceptably high.

Looking ahead at the next two years, the region has the opportunity to come together in new and different ways with a coordinated, collaborative and concerted effort, and begin to turn the tide of rising homelessness. Leading the regional effort is All Home, which brings together many partners in funding and implementing initiatives to tackle homelessness. The vision is that homelessness in King County will be rare, brief, and a one-time occurrence.

The 2017-2018 Proposed Budget includes funding to address homelessness across multiple programs. Highlights of new efforts to address homelessness include:

Youth and Family Homelessness Prevention Initiative Funded by the Best Starts for Kids levy, this $19 million initiative is targeted to families with children and youth/young adults. The prevention plan will quickly stabilize people at imminent risk of homelessness.

Redesigning the current homeless shelter system With onsite case management and linkages to housing and community services, homeless shelters can become a pathway out of homelessness. King County is exploring a number of innovative and low-barrier temporary housing models, including modular units and tiny houses, along with shelter models that offer longer operating hours to facilitate case management services and other supports to move people toward housing stability.

Implementing Coordinated Entry for All Providing a clear and consistent way to access housing and services reduces barriers and creates a clear path to housing stability using a standardized assessment tool and a coordinated referral and placement process.

Increasing the Stock of Affordable Housing Through Transit Oriented Development

King County Executive Dow Constantine and the King County Council approved a plan in 2016 to invest $87 million in new transit-oriented development that will create more than 1,000 units of housing connected to schools, shopping, job centers, and transportation hubs. The plan identifies goals, strategies and funding criteria that target investments in specific locations as well as competitive funding awards to encourage nonprofit and partner agencies to build affordable housing across King County.

Renewing the Veterans and Human Services (VHS) Levy

In 2005 and again in 2011, King County voters agreed to a property tax levy lid lift to help local veterans, their families and other individuals and families in need by approving the VHS Levy. In 2015, the Levy served 37,500 people, including 7,550 veterans. The VHS Levy raises about $18 million annually, split evenly between programs and services for veterans and other local residents. VHS Levy goals include: 1) prevent/reduce homelessness; 2) reduce unnecessary criminal justice and emergency medical system involvement; and 3) increase the self-sufficiency of veterans and other vulnerable populations.

The VHS Levy expires on December 31, 2017. Beginning in 2016 and continuing in 2017, the County will have the opportunity to talk with human services providers, veteran services organizations, city leaders, advocates, and other partners to discuss the renewal Levy. The 2017-2018 Proposed Budget only includes expenditures for the 2017 calendar year. If the VHS Levy is placed before the voters and renewed, a supplemental ordinance will be needed to implement the updated plan.

Stable Funding for Public Health but Significant Financial Gap in 2019-2020

The financial position of the Public Health Fund has improved from the 2015-2016 budget. For the 2017-2018 biennium, the department's Public Health Fund is projected to be stable enough to cover expenses and reduce the existing fund deficit by at least one-third. This is primarily due to the passage of Best Starts for Kids, which stabilized many of the Public Health Center services, and implementation of the Hospital Services Agreement with Harborview Medical Center.

However, the Public Health Fund faces a projected operating gap of $10-$12 million in the 2019-2020 biennium. The County is actively participating in statewide planning on Foundational Public Health Services to help identify additional revenue sources for health departments to deliver essential public health services.

Public Health's funding comes from over a hundred different sources, with the largest tied to federal and state funding streams that include reimbursement for patient care. For more than a decade, Public Health has experienced recurring budget crises as federal and state funding has remained flat or decreased relative to inflation and population growth. This problem has created a "structural gap" where each year the gap between the cost of delivering services and the revenues intended to support them grows. The strategies to weather these crises have included reducing vital public health services, shifting some services to unpredictable grant funding, and finding other stop-gap funding to maintain some level of service. Despite these efforts, the underlying drivers of the structural gap remain and the pressure to reduce costs, find efficiencies, and/or increase revenue will continue to return year after year. **Figure 19** illustrates a sharp decline in federal funding of Medicaid Administrative Claiming and flat state support to local public health.

FEDERAL, STATE, AND LOCAL PUBLIC HEALTH FUNDING FLAT OR DECLINING: 2008 - 2016

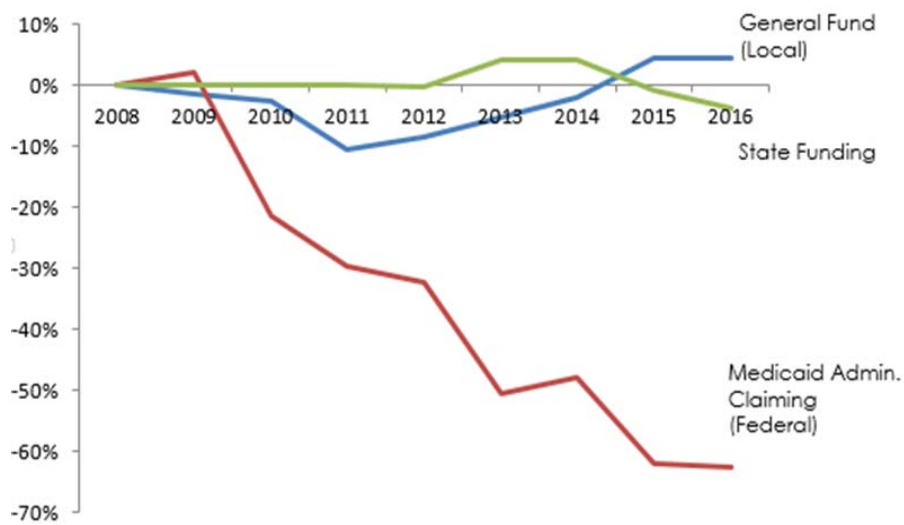


Figure 19

Successive cycles of budget reductions have reduced the department's ability to deliver services. Immunizations, communicable disease control, sexually transmitted disease programs, family planning, tobacco prevention, nutrition and physical activity promotion, the Medical Examiner's Office, as well as health services for teens and families are examples of the programs that have experienced significant reductions.

Public Health is not alone in its funding challenges: all local health jurisdictions around the state have joined together to develop a new framework called Foundational Public Health Services (FPHS). FPHS defines an essential set of public health programs and capabilities that must be available everywhere in order for public health to work anywhere. Foundational programs ensure that public health is monitoring, responding to, and preventing illness and injury, and include services in categories such as Communicable Disease and Chronic Disease Prevention. Foundational "cross cutting" capabilities that are centralized to efficiently serve units across the department include business competencies (payroll, finance, contracts, etc.), community partnerships, policy development, emergency preparedness, communications/public information, and data gathering, analysis, and assessment.

The Washington State Department of Health (DOH) and the Washington Association of Local Public Health Officials have recommended advancing legislation during the 2017 session to align laws and funding with the Foundational Public Health Services plan:

- Statute changes are currently in development, adding the Foundational Public Health Services framework into state law and mandating the implementation of this model to modernize the statewide public health system and increase state funds for foundational programs.
- DOH is working with the Governor's Office and the Office of Financial Management to develop a 2017 funding request that may be included in the Governor's budget.
- The 2017 legislative session will be an important opportunity for Foundational Public Health Services and the critical funding Washington counties like King County need for core programs.

Developing a Sustainable Funding Strategy for the Emergency Response System (E-911)

The E-911 Program administers the 911 telephone system in partnership with twelve regional call centers and is supported by excise taxes on landline, wireless, and Voice over Internet Protocol (VoIP) phone services. The E-911 program is facing significant fiscal and operational challenges over the next several years. While the E-911 fund is sustainable in 2017-2018, the fund is projecting a significant negative fund balance by the end of 2020. This trend is driven in part by declining revenue collection as residents discontinue landlines. If a stable source of funding cannot be identified before the 2019-2020 budget, significant service reductions are expected.

Additionally, the Program is under pressure to modernize the E-911 system. The E-911 system was implemented 30 years ago and designed for wireline phones. Wireless phones have become the most popular communications tool, accounting for over 77 percent of 911 calls in 2015. Text messaging and sending pictures and videos have become common forms of communication. Another new method of placing phone calls, VoIP has increased in the past few years. In addition, new vehicle models in the U.S. are now equipped with telematics with the capability of sending crash data directly to the public safety answering points (PSAPs). Many people in King County are early technology adopters and expect to be able to call and send data in multiple ways when they have an emergency.

The E-911 program office is undergoing a strategic planning process in conjunction with County representatives and regional partners to address the fiscal and technological challenges of the E-911 system. The strategic plan, to be completed in December 2017, will include a 10-year technology investment strategy to modernize the E-911 system and recommendations for securing sustainable funding.

Stable Funding for the County's Water Taxi Service

The Department of Transportation's Marine Division's King County Water Taxi provides high quality and efficient service that moves people safely and quickly, improves the quality of life, and enhances the region's economic competitiveness.

The Water Taxi provides safe, reliable transportation to over 500,000 riders annually on its two routes from West Seattle and Vashon Island to Downtown Seattle. The Water Taxi has experienced a 10 percent ridership increase in 2015 and is trending toward even higher passenger growth in 2016. Every year the Council must renew the property tax levy for funding operations of the Water Taxi. The Water Taxi has not had a sustainable source of funding since 2009, when the Council reduced the levy for marine operations in order to meet the needs for Metro Transit bus service, whose sales tax revenue fell off during the Great Recession. Since that time, the Marine Division has carefully managed its funds and service to Vashon Island and West Seattle by drawing upon its reserves. Those reserves are now exhausted.

The 2017-2018 budget proposes a sustainable property tax rate for the Water Taxi of 1.25 cents per thousand of assessed property value that allows for the continuation of services.

Investing in Customer Service Enhancements for Permitting Customers and Restoring the Financial Health of the Permitting Fund

The Department of Permitting and Environmental Review (DPER)'s largest revenue source is the permit fees that support the permitting line of business. DPER's practice is to raise permitting fees biennially in conjunction with the Proposed Budget. The 2017-2018 Proposed Budget includes a 20 percent increase in permit fees, which is offset by the expiration of a 4.63 percent surcharge for a net increase to customers of 15.37 percent. Collectively, these fee increases will help to restore the health of the Permitting Fund and implement high-profile customer service enhancements such as credit card acceptance and implementing online permitting through the MyBuildingPermit.com (MBP) portal.

About 65 percent of the total increase goes towards bringing revenues and expenditures into balance by covering the increases in DPER's labor costs and the cost of services provided by other King County agencies.

Improving Customer Services through the full implementation of online permitting. DPER has taking several steps to implement online permitting for its customers. This improvement saves customers time from traveling to DPER's office in Snoqualmie to apply and pay for permits and will also allow customers to check on the status of permits and schedule inspections remotely. In the spring of 2016, DPER began offering residential mechanical permits online. As of summer 2016, over 80 percent of these permit applications are now received online. Residential mechanical permits make up a large percentage of DPER's permits by volume. The Proposed Budget includes funding to increase the types of permits that can be applied for online through the implementation of MyBuildingPermit.com (MBP), a regional consortium that allows customers to use a single portal to apply for permits with multiple jurisdictions. The proposed permit fee increase package includes funding to initiate online permitting with MBP in 2017 and for 2018 subscription fees.

Funding significant investments to maintain infrastructure, respond to drainage issues in the rural area, restore and protect aquatic habitat, and comply with clean water requirements

Polluted stormwater runoff harms wildlife and degrades the health of rivers and streams; it is the greatest threat to the long-term health of Puget Sound. Significant investments are needed maintain infrastructure, respond to drainage issues in the rural area, restore and protect aquatic habitat, and comply with clean water requirements. The 2017-2018 Proposed Budget increases the Surface Water Management (SWM) fee approximately fifty percent in 2017-2018, from the current fee of $171.50 per year to $258 per year for a single family residence.

The current single-family residential rate has remained the same since 2014. Commercial property owners pay based on the amount of impervious surface (i.e., hard surfaces such as parking lots, roofs, and driveways) on a parcel. The more impervious surface a property has, the more stormwater runoff it will have during rainstorms and the higher its SWM fee.

The current fee generates $24 million annually. The Proposed Budget includes an additional $6.5 million annually to support efforts to:

Prevent failure of stormwater assets ($3 million). The Stormwater Services program manages about 1,100 stormwater facilities across unincorporated King County, including stormwater ponds, vaults, tanks, and swales that control the quantity and quality of stormwater runoff discharging from developed land. Many of these facilities already have components that are at the end of their expected life. Based on recent experience with component failures, waiting for them to fail and replacing them under emergency conditions costs about 4.5 times more than replacing them before they fail.

To avoid these costs and other damages associated with facility failure, the new SWM fee will provide funding for inspection and maintenance of these assets and preserving (replacing and/or rehabilitating) those that pose the greatest risk to the County if they failed. The majority of this funding will go toward the 72 facilities that pose the greatest risk.

Better Maintain the Drainage System in the Right-of-Way. Recognizing the important role that roads play in the conveyance of stormwater, King County's Water and Land Resources and Road Services divisions (Roads) partnered on an assessment of the County's drainage system in the right-of-way. Since the largest and most costly components of this aging network are the pipe systems and metal culverts and failure of these large assets would cause the greatest impact, the study focused on these assets.

For the next 10 years, the study estimates that the cost to maintain drainage assets in unincorporated King County ranges from $335 million to $500 million, depending on level of service provided. The lowest level of service ($335 million over 10 years) assumes that all failing assets are replaced as they fail. If this level of service is not funded, responses will range from posting warning signs about unsafe roads to road and/or lane closures. The proposed budget includes resources to better maintain the drainage system in the right-of-way.

Support agriculture and rural residents ($1.5 million). King County's Agricultural Drainage Assistance Program (ADAP) helps farmers improve drainage of agricultural lands by providing both technical and financial assistance. About 123 farms in the Agricultural Production District (APD) have requested assistance with cleaning ditches. Based on a recent assessment of farm ditches, close to 98 out of about 248 miles of agricultural ditches—or nearly 40 percent—are in need of cleaning. An increase in the SWM fee will allow over 10,000 linear feet of ditch to be cleaned each year and will also provide resources to:

- Allow Stormwater Services to better respond to threats of flooding in rural areas.
- Help Water and Land Resources to develop and implement an effective beaver management strategy that responds to multiple problems and program needs associated with beavers.

Restore habitat ($1 million). The SWM rate increases funding for habitat restoration. For example the Water and Land Resources Division implements habitat restoration projects to protect and improve aquatic and riparian habitat conditions towards conserving threatened species. It also implements the Watershed Salmon Recovery Plans and works with landowners, including agriculture and forestry landowners, to promote projects that provide habitat restoration while supporting the long-term sustainability of rural working lands. Additional funding is needed to maintain the current rate of development and implementation of habitat restoration projects, including staffing levels needed for project design. In addition the fee will fund:

- the Farm Fish Flood Implementation to resolve long standing conflicts between salmon recovery and agricultural interests in the Snoqualmie River Valley
- a Fish & Habitat Effectiveness Monitoring Project to allow the agency to evaluate where to further invest resources, and assess whether changes should be made to recovery strategies and projects.

Improve performance ($1 million). The Water and Land Resources Division is undertaking projects to better serve residents, improve its information management, and ensure regulatory compliance such as implementing a low-income discount program to help mitigate the impacts of a rate increase for low-income property owners in unincorporated King County and implementing new program to offer small grants to support community projects that improve water quality.

Inadequate Funding for County Roads

King County's 1,500-mile road system is an important asset of the County's built infrastructure. Unfortunately, nearly three decades of annexations, declines in gas tax revenues, and the effects of voter initiatives have led to the chronic underfunding of the local bridge and road system, particularly County roads outside of cities. Current funding for King County roads and bridges is only sufficient to address critical life safety issues and a minor amount of work to preserve some of the existing infrastructure. Improvements necessary to address capacity and mobility issues are currently unfunded.

To manage the existing infrastructure at its optimal life cycle and address certain mobility and capacity needs would require an estimated additional $400 million dollars annually. King County receives about $100 million annually in revenue for the care of County bridges and roads. Without additional resources, it is estimated that aging and associated degradation of assets could result in the closure of about 35 bridges as they become unsafe, and approximately 72 miles of failing roadways could be restricted or closed. About 65 percent of the stormwater system is at risk of failure, and more slides and flooding from clogged and aging drainage structures are expected.

The Road Services Division (Roads) is working to innovate to improve efficiency, but no amount of local government innovation can fix antiquated State funding formulas. In nine of the ten largest Washington counties (excluding King County), an average of 45 percent of people live in the unincorporated area and pay into their county Road funds. In King County, only 12 percent of residents pay for the roads that one million cars drive on every day. Even more dramatically, just 3.2 percent of King County's taxable sales take place in the unincorporated area, versus a 22 percent average in the other eight counties, which illustrates that there is little property tax base in King County's unincorporated area.

A financial consultant recently estimated that it would cost upwards of $400 to $500 million annually for a period of more than ten years to fully address the current backlog of road system needs, embark on an asset management program that produces the lowest life cycle costs, and meet road capacity, mobility, and non-motorized needs. Based upon current forecasts, the division estimates that the average revenue for the next ten years is about $100 million annually. The funding gap is illustrated in **Figure 20**.

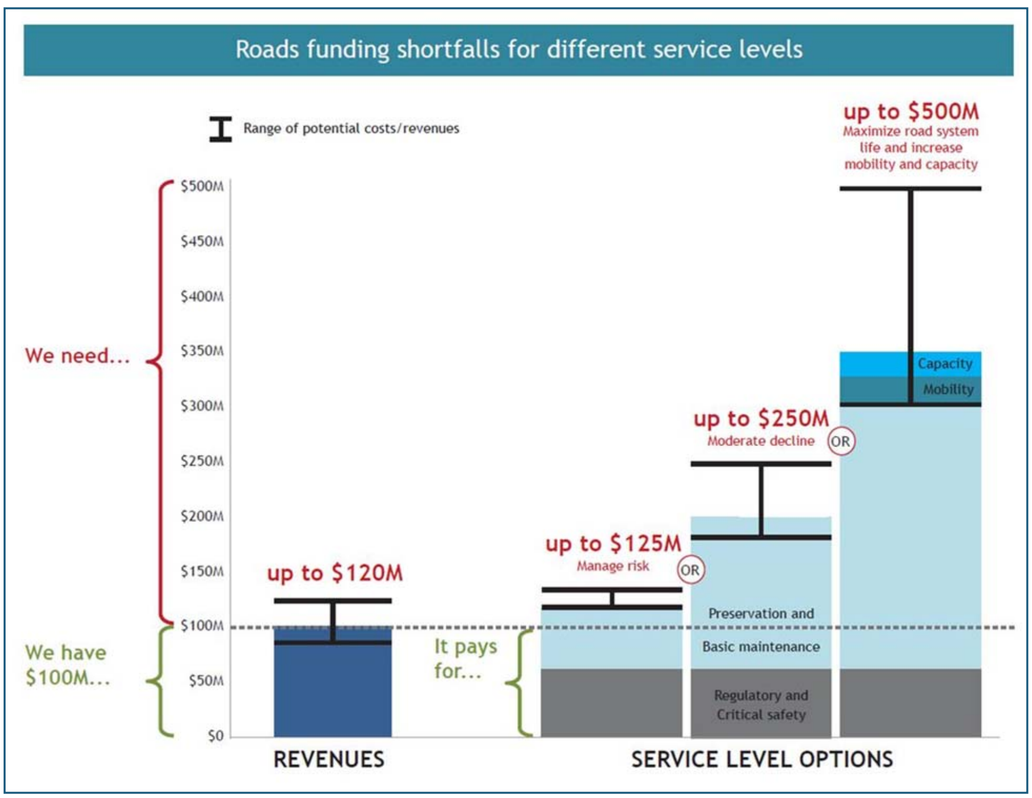


Figure 20

Last fall the Executive convened regional leaders and community members in a Bridges and Roads Task Force to examine the Road Services funding gap and the efficiencies put in place to address the serious funding shortfall. The task force recommendations are highlighted in the adjacent box. The Task Force recognized that the most successful approach to closing the Roads funding gap may require multiple revenue tools and efficiencies, with some additional resources dedicated to the transportation needs of cities. Corrective action by the Washington State Legislature is needed, and the Executive is committed to leading the effort to find a solution.

Key Highlights of Bridges and Roads Task Force Recommendations

- A new county-wide revenue tool is needed that is tied to inflation, sustainable, long-term, provides a benefit to cities and the county, and is not regressive.
- The County should expand outreach to all stakeholders to increase awareness of the problems Roads faces.
- Incorporate county roads that are orphaned, islands of roads within a city or cities, and Potential Annexation Areas within the growth boundaries of cities into those jurisdictions. This may require additional authority from the state legislature and support for recipient cities.

Looking Ahead

King County

The 2017-2018 Proposed Budget continues the County's commitment to provide high quality, cost-effective services to County residents. It supports major policy initiatives to emphasize equity and social justice in County services and internal processes, reduce carbon emissions, enhance mobility throughout the region, engage employees, and continue to improve the processes the County uses to deliver services. The budget is also fiscally responsible and builds reserves for future economic downturns.

The budgets for most County programs appear to be sustainable with existing resources and revenue tools. However, there are at least four major functions that are expected to have significant financial challenges for the 2019-2020 biennium:

- The General Fund faces about a $20 million deficit even if economic growth continues. This is caused by the structural gap between revenue and expenditure growth rates. The County is working with other governments to seek new revenue authority from the 2017 State Legislature to address this issue.
- The Public Health Fund will not be able to continue all current services due to flat or declining state and federal support. The County is working with other public health agencies to build support for the Foundational Public Health Services initiative, which would create ongoing and sustainable revenue for public health.
- The Roads Fund is chronically underfunded due to its revenue structure, with many users of County roads paying nothing to support them. Again, legislative changes will be needed to develop a more comprehensive revenue system. Conversations with King County cities are underway to identify specific ideas that could provide funds for both the County and cities.
- E-911 will exhaust its fund balance at some point in the 2019-2020 biennium. Revenue is flat or declining as residents eliminate landline telephones. There is also demand to deploy new capabilities in response to technology changes, such as the ability to send pictures with an E-911 call or text. Either new revenue will be needed or program funding will need to be restructured.

Economic and demographic projections show that King County's population and economy are expected to grow steadily over time. The 2017-2018 Proposed Budget builds the foundation to support this growth in many areas, including Metro Transit, solid waste collection and recycling services, parks and open space, behavioral health, and information technology. These investments help King County to move towards its goal of being the best run government in the country.