



King County

Dow Constantine

King County Executive

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September 22, 2014

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

Dear Councilmember Phillips:

I am pleased to transmit my proposed budget for the 2015/2016 biennium (the “budget”) and accompanying legislation. This budget continues to make strides towards becoming the best run government through efficiencies, Lean and other innovations and includes investments in important areas, such as, open space, recycling, and reducing our carbon footprint.

The budget also includes a number of tough choices. Resources are simply not sufficient to continue services at the same level in transit, roads, public health and throughout our criminal justice system. People will be impacted and, to the extent possible, we have sought ways to reduce those impacts through creative solutions and partnerships with the community. Overall, the budget reflects the priorities outlined in the King County Strategic Plan, to the extent that resources are available for these purposes.

Despite the difficult situation, the Proposed Budget continues to advance my priorities:

- King County will become the Best Run Government in the country. The County is reducing the cost to deliver services and will continue to find efficiencies to bring cost growth in line with inflation plus population growth.
- Lean methods for continuous improvements are delivering results for King County residents. Lean’s emphasis on improving work processes by relying on the insights of the people doing the work has made for better services, more empowered and productive employees, and increased efficiency, including some financial savings.
- The County is reducing greenhouse gas emissions, which is critical to our children and our future as a society.

- We are committed to improving Equity and Social Justice Outcomes for all residents of King County. The County intentionally integrates the principle of “fair and just” in all it does, from hiring practices, to providing services, to making budget decisions.

It is important to recognize that the long term financial outlook of the General Fund has improved over the past five years primarily as a result of reducing the cost growth curve from over 5.0 percent to 3.3 percent annually. Much of this reduction is due to our partnerships with employees and their labor unions.

Budget Outlook

King County’s economy is improving rapidly and has recovered from the Great Recession of 2008. Preliminary July 2014 data show the County’s unemployment rate to be 4.9 percent, compared with 5.4 percent for the state and 6.2 percent for the nation. While some individuals remain under-employed and while wage growth has been stagnant in several economic sectors, the county is experiencing strong growth in software, technology, retail, construction, and hospitality services. Aerospace, education, business services, and health care sectors also are major components of the regional economy.

A resurgent housing market is fueling growth in property values. The latest forecast from the Office of Economic and Financial Analysis (OEFA) predicts growth in assessed property value to be 11.72 percent between 2014 and 2015. According to the Assessor’s Office, growth in property values is occurring countywide, rather than being restricted to some neighborhoods in Seattle, Bellevue, and nearby cities, which was the case in the last two years. New construction is expected to add about \$4.2 billion to the tax rolls in 2015, well above amounts during the Great Recession but still well below the peak period in the late-2000.

Similarly, the County is experiencing considerable growth in the sales tax base. The latest OEFA forecast is for 5.96 percent growth in 2014 and 4.97 percent growth in 2015. This growth is broad-based, with particular strength in construction, hotels, motor vehicles, and various retail sectors.

Despite this strong economic growth, the revenue for many King County funds is growing only sluggishly. This is largely because of the structure of revenues available to the County under State law, which is mostly based on economic models from the 1930’s including the 1.0 percent annual growth cap on property tax revenue. For the 2015/2016 biennium, property taxes are projected to be 43 percent of the General Fund’s revenue, more than double any other revenue source. Capping property tax revenue growth so far below the rate of inflation and population growth (typically 3.0-3.5 percent per year) has led to continued reductions in County services, despite significant efficiencies achieved in recent years.

King County has worked with employees and unions to reduce health care costs, and deployed Lean and other methods to improve services and save money. Together, we have held the long-term cost growth of providing County services to just 3.3 percent— less than the rate of population growth plus inflation.

At the same time, County General Fund revenues are projected to increase by an average of only 2.5 percent a year. This is the result of the structural limitations on County revenues imposed by State law.

To be clear, the ever-widening gap between the cost of providing County services and the revenue available to pay for them is not the result of out-of-control spending. It is the result of an outdated and profoundly broken tax system that is mathematically incapable of generating the revenue necessary to sustain a prosperous, livable, and humane King County government.

If you have any questions, please contact Dwight Dively, Director, Office of Performance, Strategy and Budget at 206-263-9727.

Sincerely,

A handwritten signature in black ink that reads "Dow Constantine". The signature is fluid and cursive, with the first name "Dow" and last name "Constantine" clearly legible.

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
 ATTN: Carolyn Busch, Interim Chief of Staff
 Anne Noris, Clerk of the Council
Elected Officials and Department Directors
 Carrie S. Cihak, Chief of Policy Development, King County Executive Office
 (KCEO)
Dwight Dively, Director, Office of Performance, Strategy and Budget, KCEO