Long-Term Planning

Objective:

Plan for the long-term sustainability of county services

How is our performance?

The long term sustainability measures attempt to quantify King County's long term financial health. This includes measures of bond ratings, reserves, long term labor liabilities, the performance of the County investment pool, asset and capital project management, and the effectiveness and accuracy of property tax assessments. While these areas do not constitute a fully comprehensive view of long term sustainability, they identify core areas of that are under the control of the County.

- High bond ratings are an indication of the County's financial health. Higher bond ratings reduce the cost of borrowing.
- In most years, King County's Investment Pool earns more than expected compared to the blended index benchmark given its risk exposure (risk measured by duration). The King County Investment Pool's duration has been lower (less risky) than other comparable investments until recently.
- King County's labor liabilities, such as uncollected vacation and sick leave and other post employment benefits, are growing faster than the expenditure benchmark.
- In the 2013 budget process, the County made significant progress in identifying whether funds are appropriately reserved.
- Capital projects over $1.0 million continue to be baselined and over half are in Green status, meaning they are on schedule, under budget, and within scope. Property tax assessments continue to be fairly assessed based on industry standards.
- The percent of total (appealed and unappealed) assessed value upheld has been over 99.6 percent in each of the last five years. Over 96 percent of the assessed value for appealed commercial properties is upheld. Residential appeals are more successful.

High bond ratings allow King County to sell bonds at low interest rates and reflect King County's ability to access credit markets. The bond ratings agencies, Moody's, Standard and Poor, and Fitch, continuously evaluate the County's finances and issue ratings, which allow prospective buyers of County debt to understand the risk associated with the the debt. Higher bond ratings indicate to potential buyers that the County is very likely to pay back the principal that has been borrowed, which results in lower interest rates. The County continues to receive the highest ratings available for debt backed by the General Fund.

The performance of the County investment pool is another measure of financial performance. The County investment pool is not only a source of interest income, it is also the County's savings account. The desire for higher returns needs to be balanced against the risk associated with losing principal balances. Short term deposits in highly rated investments are typically the safest place for County funds; however, that is also where the lowest return will be realized. One year U.S. Treasury Bills and a custom index designed as a benchmark are good measures when comparing the return and direction of the County pool. Since 2008, the County's duration has been shorter than the comparables and the yield has been higher than Treasury Bills and lower than the custom index. In essence, the County is earning more on investments than one would expect given the risk. It is important to note that the duration of the investments has increased in 2012.

Accrued vacation and sick leave liabilities are a long term concern. This is tracked at the fund and countywide level. Total liabilities are growing at a faster rate than revenues or expenditures. King County typically funds these liabilities on a pay as-you-go basis.

The 2013 Adopted Budget is the first of a multi-year effort to standardize reserve and fund balance levels in County financial plans. Setting aside fund balance for known expenditures and to manage risk is one of the tools available for long term financial planning and to absorb economic shocks. Of the 58 operating funds reported in the proposed budget that have implemented the new reserve guidelines, 74 percent will be appropriately reserved or over reserved in 2013.

The implementation of capital projects and maintenance of current assets are key to maintaining the long term infrastructure for the County. Capital projects over $1.0 million are baselined, meaning a specific plan is established at project inception that takes into account budget, schedule and scope. The number of projects that have been baselined has increased in each of the last three quarters. Project status is updated and tracked regularly. If a project is reported as all green, then it is on scope, on schedule, and within budget. Fifty-three percent of capital projects had green status in the second quarter of 2012.

Property taxes represent the single largest source of County revenue and are one of the primary ways the public finances government. Thus, it is important that County taxes are assessed in an equitable way. The fairness of residential assessments is measured by the "Coefficient of Dispersion," which is an industry standard. A low the rate of dispersion indicates that the taxes have been levied in a uniform manner and the tax burden has been spread fairly. The County remains within the recommended range of 5 percent to 15 percent.

Appeal levels can act as a community indicator. The percent of total (appealed and unappealed) assessed value upheld has been over 99.6 percent in each of the last five years. In the same time frame, over 96 percent of the assessed value for appealed commercial properties has been upheld. Residential appeals are more successful from the appealer's perspective. In 2011, there was a higher percentage of successful appeals at 6.6 percent, compared 4.8 percent the year before.

Moving forward

The first step in planning for the long term sustainability of county services is to understand the current financial status of the major county funds. This process began with the implementation of county wide fund balance policies for operating funds. The policies created a common approach to tracking reserves in financial plans and a common language to describe types of reserves. By standardizing the approach to financial plans, it is easier to identify which funds are out of balance in the long run or which funds are under or over reserved. It is also an opportunity for fund managers to clearly articulate their reserve policies and practices if they are different than the adopted policies. While one size does not realistically fit all, the common starting point has begun to enhance our legal advice, financial accounting, real estate management, legislative support, and records management.

understanding of what funds are sustainable in the long run, which is the starting point for how to better plan for sustainability.

In the 2012 and 2013 budgets, the Executive proposed and the Council approved increases to the County's Rainy Day Reserve and the General Fund's undesignated fund balance. These additional contributions to reserves have been appreciated by county rating agencies, which continue to award King County the highest rating possible for new debt issuances.

In addition, trends in a few areas warrant more intense monitoring:

- What impact will the increase in duration have on investment yield changes?
- Sick leave balances are growing faster than vacation balances as a liability. This is likely because a significant portion of the employee population has reached the accrued vacation cap and are now only building sick leave balances. This topic will be studied to better understand the implications for the long term finances of the County, as well as for the Quality Workforce goals. The increase in labor liability will be monitored closely given the potential impact on County funds.
- Work will continue bring all funds into compliance with County financial policies, including reserve levels.

Related Links

King County Investment Pool

Capiltal Improvement Projects

King County Assessor

King County Property Tax Appeals

CAFR Report

Technical Notes

1. Limited General Obligation (LTGO) debt is sold by the County with approval of the County Council and backed by the full faith and credit of the County's General Fund. Unlimited General Obligation (UTGO) debt is approved and backed by revenue authorized by a public vote. Sewer debt is approved by the County Council and is backed by future sewer revenue.
2. Investment benchmark is based on 40% S&P's Local Government Investment Pool Index and 60% of Merrill Lynch's 1 to 3 years treasury index.
3. Labor liabilities are reported by FBOD and include 100% of vacation and sick leave liability and an estimate do Other Post Employment Benefits (OPEB) as reported in the Comprehensive Annual Financial Report (CAFR).
4. Coefficient of Dispersion (COD) measures the variation of individual assessment ratios around the median level of assessment. The lower the rate of dispersion, the more uniform, and fair the spread of the tax burden. The industry standard for Residential COD measured here is 5 to 15%.

Charts and Maps

King County Bond Ratings (September 2012)

	Type of KC Bond Issue		
	UTGO	LTGO	Sewer
Moody's	Aaa*	Aa1**	Aa2
Standard & Poor's	AAA*	AAA*	AA+
Fitch	AAA*	AA+**	Not Rated

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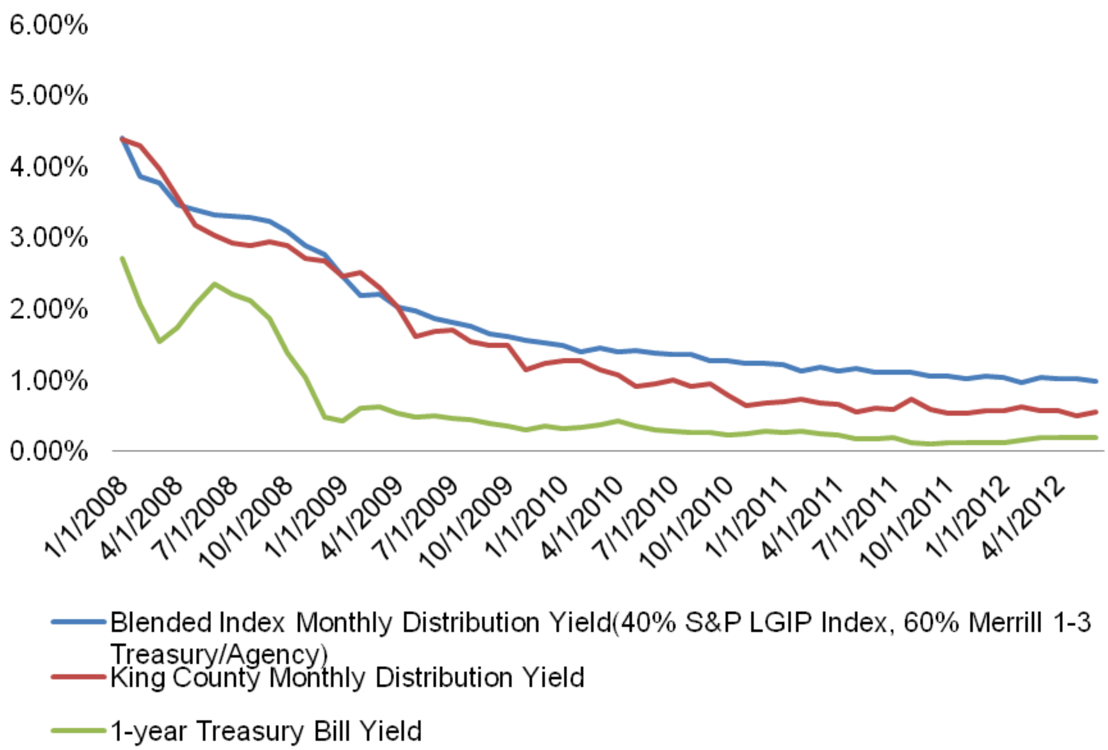
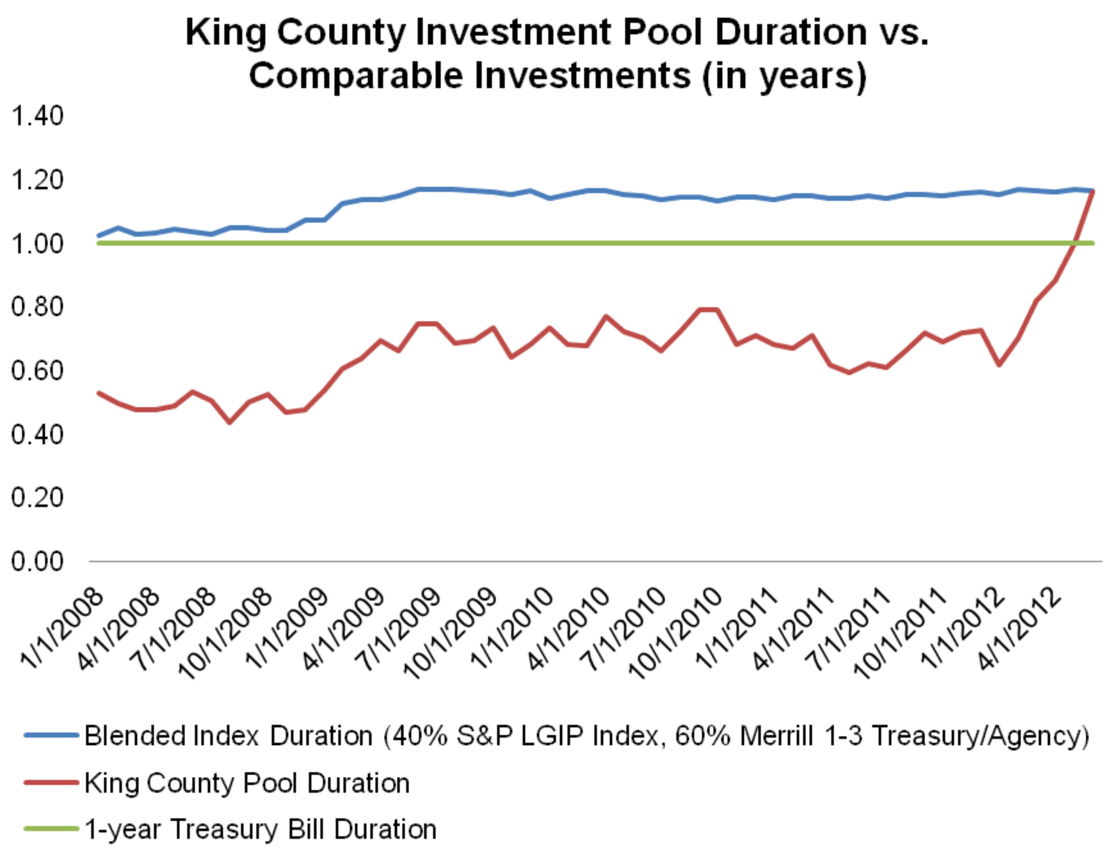
*Denotes highest rating possible

**Denotes highest ratings Moody's and Fitch give for LTGO debt.

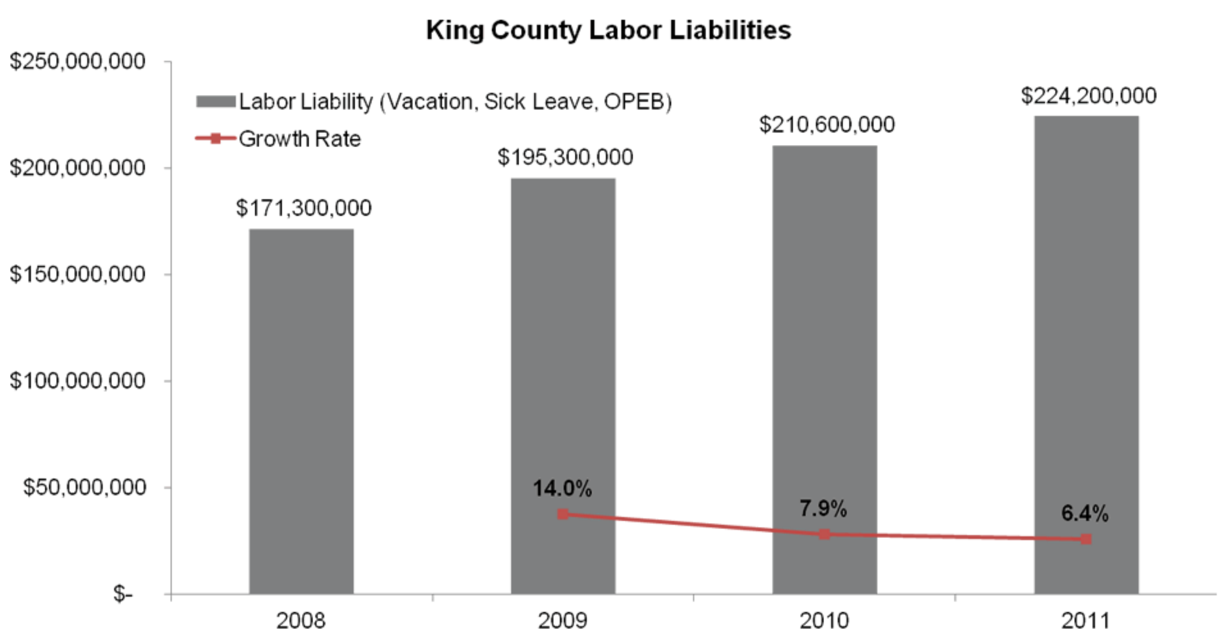
King County Investment Pool Yield vs. Comparable Investments



Data Sources: King County FBOD, US Treasury Department

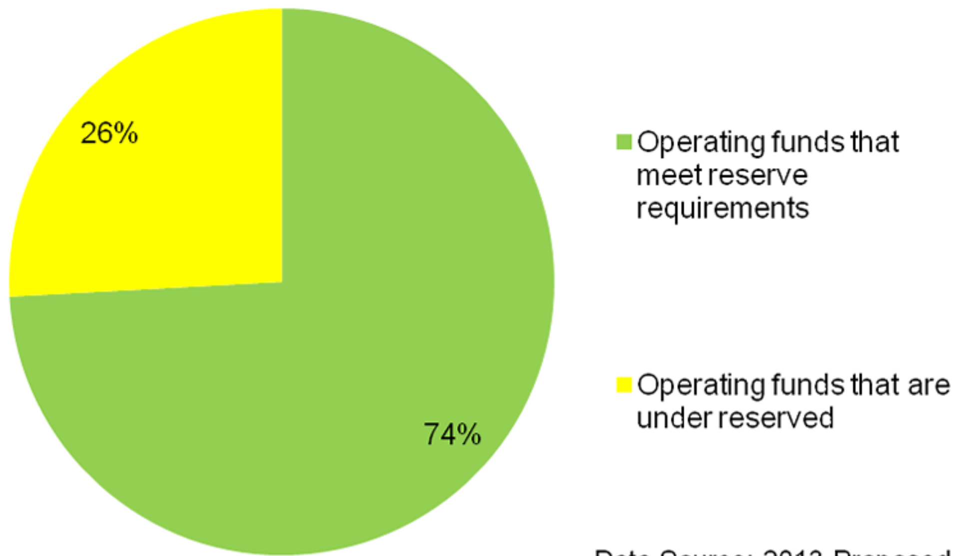


Data Sources: King County FBOD, US Treasury Department



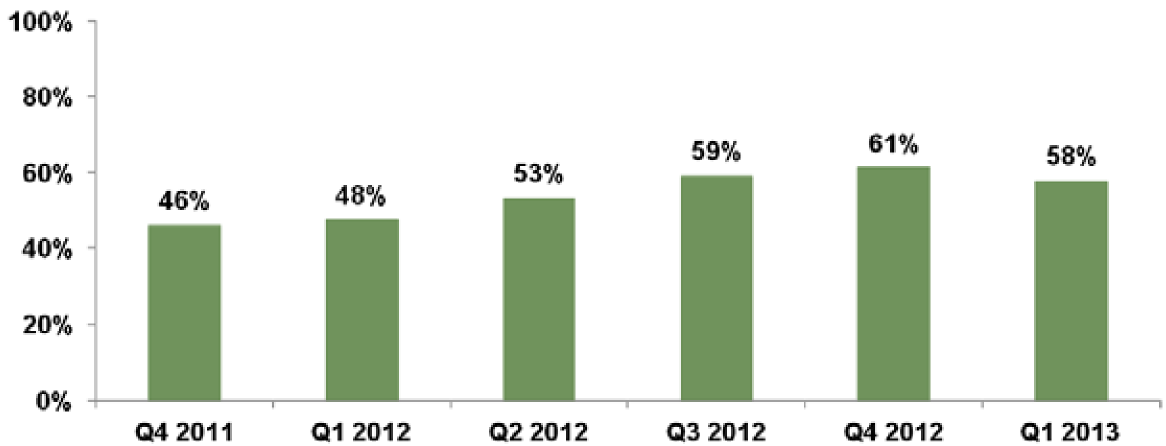
Source: MSA, Peoplesoft, CAFR
Data is provided by King County Finance and Business Operations Division.
Sick leave is reported at 100% of liability.

Percent of Operating Funds Meeting Reserve Guidelines in 2013

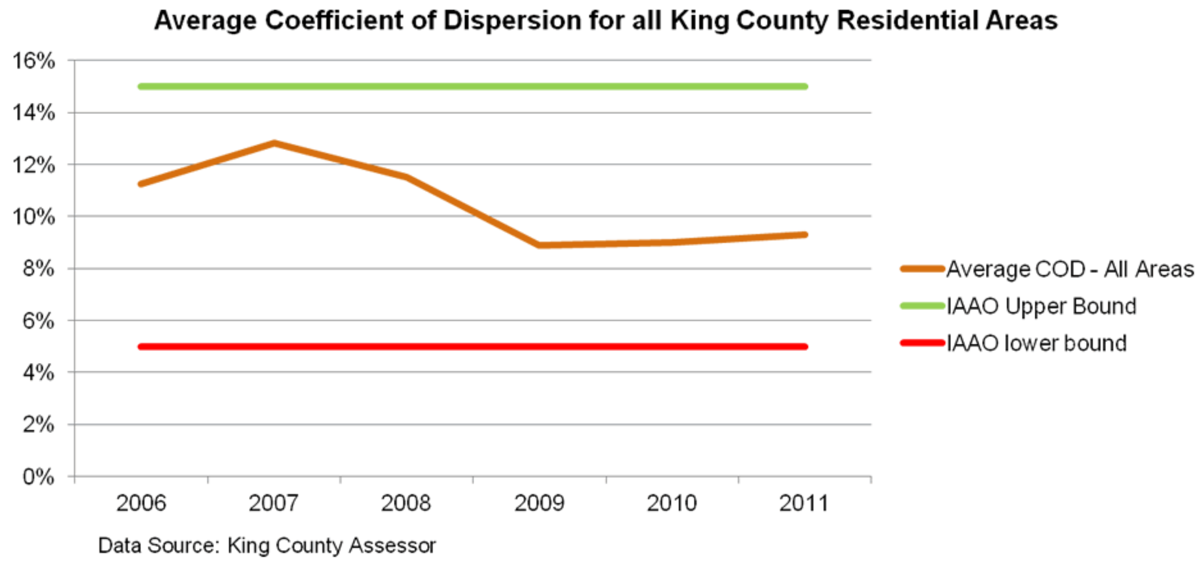


Data Source: 2013 Proposed Budget Book

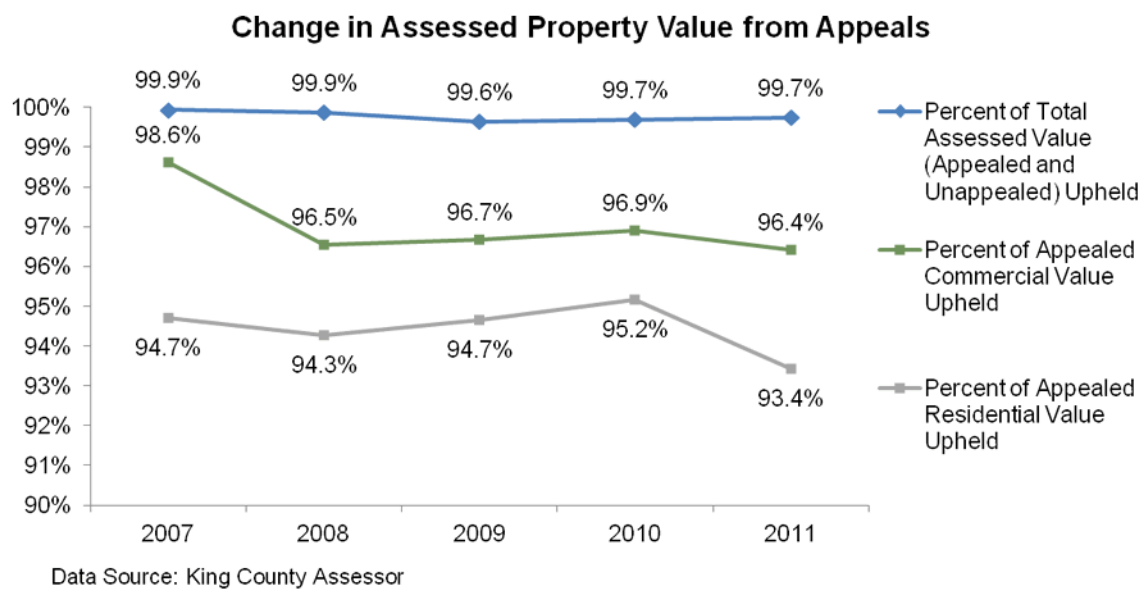
King County Baselined Capital Projects in All-Green Status



Data Source: CIP quarterly reports



Average Coefficient of Dispersion for all King County Residential Areas
16%
14%
12%
10%
8%
6%
4%
2%
0%
2006
2007
2008
2009
2010
2011
Average COD - All Areas
IAAO Upper Bound
IAAO lower bound
Data Source: King County Assessor



Change in Assessed Property Value from Appeals
99.9%
99.9%
99.6%
99.7%
99.7%
98.6%
96.5%
96.7%
96.9%
96.4%
94.7%
94.3%
94.7%
95.2%
93.4%
100%
99%
98%
97%
96%
95%
94%
93%
92%
91%
90%
2007
2008
2009
2010
2011
Percent of Total Assessed Value (Appealed and Unappealed) Upheld
Percent of Appealed Commercial Value Upheld
Percent of Appealed Residential Value Upheld
Data Source: King County Assessor