



## King County

**Ron Sims**

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KING COUNTY COUNCIL

The Honorable Dow Constantine  
Chair, King County Council  
Room 1200  
COURTHOUSE

January 30, 2009

Dear Councilmember Constantine:

Ordinance 16310 adopting the mid-biennial supplemental budget for the Transit Division included unspecified reductions of \$28 million and a proviso that required monthly reporting during the first quarter of 2009. Specifically the proviso #5 reads:

*Of this appropriation, \$2,500,000 shall be used for operating and capital programs in the first quarter of 2009. During that time, the division shall be engaged in structural business and operations planning to address the reduced revenue environment resulting from sales tax revenue declines. In the first quarter of 2009, the transit division shall provide the council with monthly reports on the status of these efforts.*

Attached is the report for January 2009. We appreciate the opportunity to update the King County Council on our efforts to address our financial situation.

Please feel free to contact Kevin Desmond, General Manager, Metro Transit Division, at 206-684-1619, if you have any questions.

Sincerely,

Ron Sims

King County Executive

Enclosure

cc: King County Councilmembers

ATTN: Tom Bristow, Interim Chief of Staff

Saroja Reddy, Policy Staff Director

Anne Noris, Clerk of the Council

Frank Abe, Communications Director

Bob Cowan, Director, Office of Management and Budget

Harold S. Taniguchi, Director, Department of Transportation (DOT)

Kevin Desmond, General Manager, Metro Transit Division, DOT



Transit Division  
Status of Business and Operations Planning Efforts

January 30, 2009

The purpose of this report is to respond to proviso #P5 in Ordinance 16310. This proviso requires the Transit Division to provide monthly reports during the first quarter of 2009 on the status of efforts in "structural and business planning to address reduced revenue environment resulting from sales tax revenue declines."

This report will provide the status of efforts to: implement the adopted 2009 budget; participate in the performance audit being conducted by the King County Auditor's Office; complete the year-end close for 2008; develop new forecasts for sales tax as well as financial plans; and establish the framework for the development of the 2010/2011 budget.

**I. Implementing the 2009 Adopted Budget**

Program changes incorporated in the budget – a number of reductions were approved in the 2008/2009 mid-biennial supplemental. Transit is moving forward with implementing these changes. This includes working with the layoff program for the individuals whose positions were eliminated.

Identification of new reductions – the adopted budget included a contra of \$28 million. We are in the process of identifying changes that will be implemented this year in order to achieve this level of savings. While a majority of the savings is anticipated to come from lower diesel fuel costs, there are other, additional spending cuts that will likely be required. The size and magnitude of the list of these additional changes is currently being finalized as we close out 2008. However, we are presently implementing those that can be achieved without layoffs such as:

- Adding 7 instead of 14 new police officers to Transit Police,
- Reducing engineering and support for special projects,
- Closing Bellevue Base Operations on weekends,
- Reducing supplies,
- Eliminating operator participation on some base committees, and
- Reducing custodial and janitorial support.

Achieving savings – in addition to more reductions being taken, we are continuing efforts implemented in 2008 to control costs. These actions include:

- i. A selective hiring freeze to accrue savings in the 2009 budget, and
- ii. A review of all services, supplies, travel and other discretionary activities prior to funds being committed.

Gaining certainty with fuel costs – two efforts have been underway to help us reach our goal of certainty with respect to fuel prices: Purchasing fuel futures and developing an Energy Price Risk Management Policy and Strategy.

For fuel purchasing, as reported to the council, we began making future fuel purchases in 2008 as prices began to fall after the dramatic rise to \$4.27 per gallon in July. As of 1/20/09 we have 42.4 percent of our fuel under contract for purchase through 2009 and are continuing to purchase for the remaining months of this year and into 2010. The average price under contract is \$2.49 per gallon.

While purchasing future contracts for fuel deliveries is allowing us to achieve some certainty regarding the price we are paying, we are paying more for this certainty than we would if King County implemented its own Energy Price Risk Management program (aka Hedging). Transportation staff has been meeting with representatives from the Prosecuting Attorney Office, Finance (Accounting and Treasury), Executive Finance Committee and Office of Management and Budget (OMB) to develop a policy that will come forward for council approval. Members of council staff have also received preliminary briefings on this program and the progress to date.

Identifying additional capital reductions to offset \$12.8 million contra – the adopted budget included a \$12.8 million contra in the capital program, with Transit directed by the council to identify activities from the 14 projects that would be reduced in lieu of the contra. The deadline for this response is January 30. A set of reductions will be developed and the proposed report identifying these reductions has been forwarded to the council for consideration. As discussed during the budget process, the reductions that have been proposed will further erode our customer service in areas such as passenger signage and amenities, park-and-ride security and reduce our ability to evaluate revised business practices that could result in efficiencies or savings.

Preparing for fare increase effective 2/1/09 – a 25-cent increase to adult fares is scheduled for implementation on 2/1/09. Efforts are currently underway to implement this change.

Finalizing contract rates for Sound Transit Regional Express Service – the changes included in the adopted budget required significant revision to the rates proposed to be charged to Sound Transit in 2009. Work has been underway to revise the rates so that the 2009 forecast can include expected revenue.

## **II. Performance Audit**

The 2008/2009 biennial budget as well as the mid-biennial supplemental included provisos related to completion of a performance audit coordinated by the King County Auditor's Office. A large number of transit staff have been collecting requested information and participating in meetings with the auditors and their consultants as the scope of the audit is defined. This

includes regular meetings with Transit management and the audit team to address any questions or issues that arise.

The majority of the requests for information requested by the audit team have been fulfilled and those that are not current fulfilled are in process. The audit team and Transit staff are working together and no issues currently exist.

A scope of work is anticipated from the auditors in early February with the first results ready to be discussed internally with the auditors in April.

Results from the audit will be incorporated into the 2010/2011 budget process as they become available. The shortened budget deadlines along with the need to complete a biennial budget will make this challenging, but we are planning for how to accomplish this task.

### **III. Finalizing year-end 2008**

The normal year-end process for closing the books for 2008 is currently underway. Until this process is further along, accurate assessments about how we stand for 2009 are not available.

### **IV. Financial Plans, Forecasts, New Revenues**

An updated preliminary sales tax forecast is anticipated to be released by the OMB in February. As a result of continued deterioration in economic conditions it is anticipated that this forecast will show lower revenues. A new financial plan will be constructed when the updated forecast is released. This will become the baseline for the development of the financial forecast, the first step in the 2010/2011 budget development process.

Efforts are underway to work with the Washington State Legislature to secure a new revenue source for Transit.

### **V. Establishing framework for 2010/2011 budget**

While planning for the 2010/2011 budget process is currently underway, the continued uncertainty regarding the economy and its effect on Transit revenues may diminish the effectiveness of a biennial approach for the upcoming budget.