Overview of King County Funds in Distress
September 1, 2009

While the financial challenges in the General Fund and the Public Transportation (Transit) Fund have been widely reported, King County is in a situation where *virtually every county fund is in a state of financial distress to one extent or another* as a result of structural challenges in the growth rate of their revenues as compared to their expenditure obligations and/or the unprecedented downturn in the economy. There has not been a time in recent memory where so many King County funds have experienced this level of financial distress. The Office of Management & Budget (OMB) is closely monitoring the situation with *all* county funds.

A compounding factor is the potential for significant and devastating flooding resulting from structural problems with the Howard Hanson Dam. Work is currently underway to assess what resources are required to mitigate this threat. *Deficit estimates below do not include these costs and many funds will face additional stress, both in the form of increased costs and disrupted revenues, in 2009 and beyond as a result of the potential flooding.*

General Fund

2009 Adopted Budget - $627.5 million
Estimated Deficit - $5 million for 2009; $56.4 million for 2010

Counties in Washington have two main revenue tools to support services in the General Fund, the property tax and the sales tax. Since 2001, property tax growth, which comprises 44 percent of King County General Fund revenues, has been limited to one percent plus a component for new construction. This prevents revenue from keeping pace with inflation. Sales taxes, which comprise of approximately 15 percent of General Fund revenues, have dropped in recent months more than ever before in history. With collections running 15.5 percent below year-ago levels, this revenue stream is in severe distress. Other revenues such as interest earnings and fees related to real estate transactions have also fallen dramatically with the slump in economic activity.

As a result of the structural funding problem facing Washington counties coupled with the dramatic economic recession, the county faces a 2010 deficit of $56.4 million based on current forecasts. This problem remains even after a deficit of over $90 million was solved in 2009. While the county has taken significant steps to reduce costs and improve efficiencies over the past several years, and will do much more in the coming year, the magnitude of these budget deficits will require a dismantling of much of King County government that keeps our community safe and healthy.

Within two years King County will no longer be able to meet its mandates to keep King County residents healthy and safe. For 2010, we are eliminating General Fund support for human services and urban parks, and closing public health clinics. Without new revenue by 2011, we will be required to dramatically reduce funding to the remaining Public Health clinics and staff, and then we would still be faced with draconian cuts mandates services to the Sheriff, the Prosecutor, Public Defense, the Courts and the King County Jail.

PHYSICAL ENVIRONMENT

DEPARTMENT OF DEVELOPMENT AND ENVIRONMENTAL SERVICES (DDES)

2009 ADOPTED BUDGET - $32.7 MILLION
ESTIMATED 2010 DEFICIT - $7.2 MILLION

DDES is funded through revenues from permit fees. The current economic conditions, particularly the decline in development and construction, have dramatically lowered permit volumes and fee revenues. In response to this situation, DDES eliminated 3 positions in 2008; 50 positions in 2009, and additional layoffs are anticipated for 2010. In addition, a substantial fee increase is being considered for 2010. DDES is also planning to eliminate operating contingency dollars and reduce reserves in 2010, 2011 and 2012. Assuming these many adjustments, ending fund balances in 2010 and 2011 will decrease to levels that are less-than-half of 2008 actual levels. Additionally, fee stabilization reserves are eliminated for 2010 and beyond.

PARKS

2009 ADOPTED BUDGET - $27.9 MILLION
ESTIMATED 2010 DEFICIT - $1.4 MILLION

King County regional parks and trails are funded though a property tax levy that grows with inflation. Due to lowered operating levy revenue projections (by an estimated $4 million over the life of the levy), the division will likely not be able to provide full pre-2002 maintenance to levy-funded regional/rural parks, in 2010 and over the remainder of the levy. This runs counter to promises made to King County voters when they approved the Parks levy in 2007. The re-designation of two local parks, Steve Cox Memorial and Juanita Woodlands, to regional status in 2009 places additional burden onto the levy funds. Further, as a result of the financial challenges in the General Fund, funding for the thirty-nine parks located in the Urban Growth Area (UGA) will be eliminated in the 2010 Executive Proposed Budget.

The Parks Division capital project plans have also experienced significant fiscal stress as the tax revenue forecast based on real estate transactions – the Real Estate Excise Tax (REET) – have fallen over 50 percent as a result of the national housing slump. REET revenues reached record levels at $22 million in 2006. King County only expects to collect $6.3 million in REET revenues for 2009 and $6.8 million for 2010. This has resulted in a number of project cancellations and a reduced number of new projects.

SOLID WASTE FUND
2009 ADOPTED BUDGET - $109.4 MILLION
ESTIMATED 2010 DEFICIT - $4.0 MILLION

The Solid Waste Division (SWD) is funded through solid waste disposal fees, which are intended to be reviewed every three years. In 2008, the division increased the rate to $95/ton with the assumption of tonnage exceeding one million tons per year. Near the end of 2007, solid waste tonnage began to decline, as the economy began to falter. Tonnage continues to decline at rates not seen in over 20 years. For most of 2009, Solid Waste has experienced a consistent 8 percent year-to-date decline in tonnage from 2008. However, in the first two weeks of July, tonnage dropped over 10 percent compared to the same period last year, underscoring the continued volatility in economic conditions. Since then the rate of decline has stabilized and Solid Waste continues to project an 8 percent decline in tonnage for 2009 as compared to 2008. These extraordinary rates of decline in tonnage have dramatically impacted Solid Waste revenues. In response to the reduced tonnage, Solid Waste has already reduced part-time staff hours and low priority equipment upgrades. Solid Waste is likely to need to make significant operational reductions in 2009 and 2010. The division is starting a rate study for a likely rate increase for 2011. Any rate increase would need to be approved by the council.

WASTEWATER FUND
2009 ADOPTED BUDGET - $280.8 MILLION
ESTIMATED DEFICIT – $22.5 million deficit projected for 2012, growing to $198 million by 2015. Would require rate increases of 33% to close these gaps

The Wastewater Fund derives most of its revenue from customer charges including use charges on residential and commercial customers and capacity charges on new connections. In the latter half of 2009, as the local economy began to deteriorate, the number of existing residential customer equivalents (RCEs) and new customers fell from the projected assumptions when the two-year wastewater rate was adopted by the County Council in mid-2009. This trend continues into 2010. For 2010 the division estimates that both the number of existing RCEs (residential customer equivalents) and the number of new customers will be lower than in 2009. The decline in the number of existing customers and new customers results in a decrease in anticipated revenues from these sources when compared to prior estimates, and, in the case of the customer use charge, it also results in less revenue generation in 2010 than in 2009.

The Wastewater Fund also faced additional unexpected challenges in 2009 – after the two year rate was adopted – on the expenditure side of the equation. The substantial increase in the price of fuel increased the cost of polymers beyond projections and increased the cost of hauling biosolids. In addition, in the later half of 2009, unprecedented turmoil in the financial markets resulted in Wastewater being shut out of the bond market to support its financing needs for the Brightwater project.

Although the Wastewater Fund financial plan for 2010 balances while maintaining the two-year rate adopted in 2009, the reduction in customer use revenue and capacity charge revenue growth combined with unanticipated expenditure pressures and rising debt service associated with the Brightwater infrastructure require Wastewater to carefully manage expenditures. At the present time, Wastewater forecasts rate increases of 14% in 2011 and 10 percent in 2012. Increases of this magnitude are politically challenging. Therefore Wastewater must explore all options for controlling expenditures now and into the future.

WATER AND LAND RESOURCES DIVISION

Water and Land Resources Division (WLRD) is challenged to match expenditures to revenues without resorting to a rate increase for their various funds. A rate increase would have to be approved by council.

SURFACE WATER MANAGEMENT (SWM)

2009 ADOPTED BUDGET - $22.8 MILLION
ESTIMATED 2010 DEFICIT - $1.0 MILLION

SWM is funded by a parcel fee to residents in unincorporated King County. The SWM fee has been increased only twice since the program began in 1986. When urban incorporated areas annex or incorporate, the fund loses revenue beyond the cost of service in that area. King County is required to provide surface water management services by state and federal law. Stricter state and federal requirements take up increasing portions of the SWM budget year after year. For example, federally mandated requirements for the National Pollutant Discharge Elimination System permit have added $1.3 million in costs since 2008. This diverts funds away from lower priority activities such as popular land-based programs that are not part of the core SWM services.

NOXIOUS WEED PROGRAM

2009 ADOPTED BUDGET - $1.6 MILLION

The Noxious Weed Program is funded by a per parcel fee for all King County residents. The rate was last increased in 2008 with the expectation that revenues will be sufficient to maintain existing program levels through 2012. Since the rate is expected to remain flat through 2012, significant cost increases put this fund at risk for programmatic reductions, requiring careful management of expenditures.

KING COUNTY FLOOD CONTROL ZONE
2009 ADOPTED BUDGET - $45.2 MILLION

King County Flood Control Zone is a contract fund with the Flood Control Zone District, an independent special purpose government. The program is funded through a county-wide property tax assessed at 10 cent per $1,000 of assessed value. This levy was set to complete a specified work program. Over the years, heavy rainstorms have grown in frequency and severity resulting in an increased flooding of local rivers. In response to damages caused by this past winter's flooding, the Flood District Board of Supervisors needed to revisit the 2009 capital budget and the six-year capital improvement plan to prioritize damaged facilities. Increased flooding and need for emergency response (i.e. the potential of historic flooding caused by the faulty Howard Hanson dam) could challenge this fund.

WATER AND LAND RESOURCES SHARED SERVICES
2009 ADOPTED BUDGET - $27.1 MILLION

The Water and Land Resources Shared Services fund is a reimbursable fund for services rendered to King County agencies and local jurisdictions. It is also the home fund for the WLRD administration. Each fund within WLRD contributes to fund the WLRD admin staff such as the Division Director. The primary contributors to the Shared Services fund are the Wastewater Treatment Division (WTD) and the Surface Water Management fund. Financial challenges or reduced workload need in either WTD or SWM negatively impact the WLR Shared Services fund.

PUBLIC TRANSPORTATION FUND (TRANSIT DIVISION)
2008/2009 ADOPTED BUDGET - $1.2 BILLION
ESTIMATED 2010/2011 DEFICIT - $213 MILLION

The Public Transportation Fund is comprised of three sub-funds: operating, capital, and fleet replacement. There are several revenue sources for these sub-funds, but the main revenue source for the operating fund is sales tax, which provided approximately 65 percent of operating revenues in 2008. Projected operating fund sales tax revenues for both 2009 and 2010 are approximately 12 percent less than 2008 actual values. In fact, sales taxes revenues for the operating fund are not expected to return to 2008 levels until at least 2013.

While sales tax operating revenues have declined substantially, 2009 operating expenditures are expected to be approximately 9 percent higher than in 2008. In 2010, even with some reductions in staffing and reductions to planned service additions, operating expenditures are expected to be 10 percent higher than 2008 actual values. The increased expenditures in 2010 are associated with a variety of cost drivers but primarily those resulting from 1) bus service increases related to the voter-approved Transit Now program, revenue backed partnerships, and Alaskan Way Viaduct mitigation and 2) Access ridership increases resulting from State cuts in transportation for the Adult Day Health program.

The combination of reduced revenues and higher costs results in an ending operating fund balance below the target fund balance. In 2010, to mitigate the difference in expenditures and revenues, Transit will transfer $54 million from the capital fund and $30 million from the fleet replacement fund to the operating budget. Similar transfers from the fleet replacement fund are projected through 2013. While transfers from capital to operating have been utilized in prior years, the simultaneous transfer from the fleet replacement fund and the long-term borrowing and stimulus funding needed to maintain the capital fund reserves constitute a reliance on unsustainable funding sources.

ROAD SERVICES DIVISION

2009 ADOPTED BUDGET - $127.2 MILLION
ESTIMATED 2010 DEFICIT - $19.6 MILLION

Road Services Division (RSD) has significant structural financial challenges. The division is funded primarily through the Road levy property tax and a portion of the state-wide gas tax. The Road levy property tax is limited to 1 percent growth each year plus new construction. Due to the economic climate, new construction is down. Also gas tax receipts have been lower than projected recently due to volatile gas prices and the impact on gas tax sales. An increasing percentage of Road fund revenue (over $5 million, including an increase of over $2 million by the Council in the 2009 adopted budget) is diverted each year to the General Fund for traffic enforcement.

As urban areas incorporate, the costs of providing services to the shrinking rural and suburban areas increases as fixed costs, such as major equipment purchases, are distributed over a smaller tax base. RSD staff estimate that the Road Fund has lost about $3 million per year in property taxes lost to annexation. Property tax revenues decreased in 2008 by $5 million due to the several annexations. If all annexations and incorporations proceed as planned, the number of road miles in unincorporated King County for which the Road Services Division is directly responsible is expected to decrease by 38 percent, from 1768.3 miles in 2008 to 1090.4 road miles. Geographically, annexations will progressively shift the majority of the unincorporated system to the eastern and rural part of the county. Areas in eastern King County include numerous stream crossings which require more environmental considerations as well as flooding and snow and ice emergencies. These variables add increased costs pressures on a revenue base that does not grow at a sufficient rate to maintain base services – let alone expanded responsibilities from flooding and snow emergencies.

Furthermore, winter storms have grown in frequency and severity resulting in an increased amount of expenditures on emergency response and storm repair over the years. These pressures decrease RSD's ability to address a growing backlog of deferred maintenance. For a number of years, RSD needed to resort to one-time property sales to balance their financial plan and fill the fund's structural gap. Reliance on these transactions is problematic, especially in these depressed economic times. The Road Fund has had negative year-end balances in nine of the last ten years partially due to delayed property sales: ($1,144,690) in 2006, ($8,584,691) in 2007, and ($16,835,941) in 2008. In the absence of a new, long-term revenue solution, RSD will need to make severe operating and construction reductions. OMB is closely monitoring the situation and the 2010 Executive Proposed Budget will include a plan to bring the Roads fund back into balance – primarily through realistic revenue projections and deep reductions in its capital program.

AIRPORT

2009 ADOPTED BUDGET - $22.2 MILLION
ESTIMATED 2010 DEFICIT - $2.5 MILLION

The King County International Airport (KCIA/Boeing Field) is funded through a variety of fees and lease agreements with Airport tenants. Current revenue projections for 2009 are $1.4 million less than the 2009 Adopted financial plan projected due to delayed lease settlements and decreased revenue from landings and fuel purchases. KCIA attributes the reduced landings and fuel delivery to the general economic decline. This reduced trend is currently projected to last through 2011. As a result, KCIA is reducing the transfer to their Capital Improvement Program (CIP) in 2009 and 2010. This will delay projects and may defer CIP projects beyond the six-year CIP plan.

For several years, KCIA expenditure growth was not tracking with revenue growth. Approximately $2.8 million or 20 percent of the KCIA operating budget is dedicated to the Air Rescue and Firefighting (ARFF) contract with the King County Sheriff's Office. Personnel in the KCIA ARFF Unit are Deputy Sheriffs contracted to perform a mix of duties from aircraft rescue and firefighting to security and law enforcement. The contracted expenditure grew 17.8 percent in the last two years and is projected to increase another 5 percent in 2010. Expenditure growth is almost entirely due to the Sheriff's Office personnel costs. The Airport is obligated to assume these costs based on Federal guidelines.

On top of the expenditure growth, Boeing and non-Boeing tenants have benefited from several lease discounts such as height-restriction and lease condition. In some lease agreements, these discounts have eroded potential revenue streams by 45 percent to 50 percent. In 2006, an aviation consultant, with the assistance of FMD and the Airport's appraiser, determined these discounts to be unfounded. KCIA has attempted to remove these discounts for several years. Boeing finalized a lease settlement in 2008 with all discounts except a large-lot discount removed. Typically non-Boeing tenants use the Boeing lease rate as a baseline for their lease settlements; however, KCIA anticipates non-Boeing leaseholders to enter a collective lease arbitration in mid-to-late 2009. If the non-Boeing tenants settle on a substantially lower lease rate than Boeing's arbitrated rate, KCIA may need to revisit the Boeing rate and revise it downwards. Almost three-fourths of KCIA's revenue comes from lease revenue.

MARINE DIVISION
2009 ADOPTED BUDGET - $8.9 MILLION

The King County Ferry District, an independent special service government entity, which levies a 5.5 cent (per $1,000 assessed value) property tax, contracts with the Marine Division in order to provide ferry-related services. The Marine Division is currently in the process of assuming operation of its two current routes in-house and of beginning further study and implementation of demonstration routes in 2010. Initial per-route costs are high during start-up, considering the need to lease vessels, hire operations and maintenance staff and the current lack of economies of scale. The 2010 budget contemplates reducing the Ferry District Levy to 1.0 cent per $1,000 assessed value and eliminating the demonstration routes.

HEALTH & HUMAN SERVICES

PUBLIC HEALTH FUND
2009 ADOPTED BUDGET - $205.7 MILLION
ESTIMATED 2010 DEFICIT - $9.9 MILLION,
PLUS LOSS OF $2.2 MILLION IN GENERAL FUND SUPPORT

The Public Health fund is supported by a wide variety of sources, including grants from private foundations, county general fund, fees and permits, state grants, federal grants and intergovernmental payments for services provided on behalf of the state or other local governmental agencies (e.g. Medicaid/Medicare). General Fund support for Public Health totals approximately $26 million. Like the General Fund, each Public Health funding source is subject to fluctuations and generally do not grow at rates sufficient to maintain status quo expenditures. Medical inflationary rates (e.g. pharmaceutical medications and clinic supplies) are typically higher than the standard Consumer Price Index changes.

Lower tax revenues at both State and local levels directly impacts the amount of funding received for Public Health. Less local funding from the State, County and City reduces the ability to leverage federal funding. (e.g. Medicaid Match, Ryan White, in-kind and/or local support/investment requirements. In addition, lower reimbursement for Medicaid and Medicare both at the state and federal levels means less revenue for the department.

Public Health is charged with a variety of unfunded mandates. This is particularly the case in the TB programs, STD programs, the Medical Examiners Office, Communicable Disease Programs and the Drinking Water program.

Finally, the lack of flexibility in funding sources inhibits the ability to address outbreaks of disease, emergency responses and emerging public issues.

EMERGENCY MEDICAL SERVICES (EMS)

2009 ADOPTED BUDGET - $68.4 MILLION
ESTIMATED 2010 DEFICIT - $7.6 MILLION

The EMS Levy is supported by property taxes, as approved by county voters. Revenues generated by this levy support 100 percent of Advance Life Support (ALS) services for six providers including King County Medic One (KCM1). Over 80 percent of ALS operational costs are salaries and benefits. KCM1 represents 42 percent of medic units and overall costs.

Basic Life Support (BLS) services are provided by Fire Districts and Fire Departments and are partially funded by the levy. The majority of BLS expenses are also salaries & benefits. Since this funding is a larger percentage of overall budgets for smaller agencies, decreases would be most acutely felt in these smaller districts and departments.

The EMS fund is in distress as a result of decreased assessed valuation on properties in King County. Previous forecasts indicated that the EMS Fund would be able to accommodate a 7 percent decrease in assessed valuation (AV) without requiring changes in the financial plan. However, the latest forecast projects a 14 percent drop in AV in 2010 and no growth in 2011. This results in $24 million less revenue for EMS over the remaining life of the levy as compared to the most recent PSQ budget projection and $15 million less revenue from the original levy assumptions.

Mitigating the impacts of these revenue declines will require close scrutiny of all expenditures. In addition, it may require revisions to financial policies, which requires both Executive and Council action. The approach is to preserve the intention of the Medic One/EMS Strategic Plan. This would require the following prioritization:

- Preserving existing Advanced Life Support (ALS/Paramedics) services
- Maintaining support for Basic Life Support (BLS/FF-EMTs) services
- Continuing essential Regional Support Services such as training, Medical QI and data management
- Continuing Strategic Initiatives as appropriate

Mitigation will also include reassessing potential amount and use of reserves and contingencies.

MENTAL HEALTH FUND

2009 ADOPTED BUDGET - $164.6 MILLION
ESTIMATED 2010 DEFICIT - $3.1 MILLION

The Mental Health Fund is primarily funded through the State of Washington. The state is currently facing the largest budget gap in its history. The state is largely reliant on sales tax for revenue and this is dramatically down. A recent projection from the state indicated a shortfall for 2009-2011 of $9 billion. As the state continues to reduce its contributions to Regional Support Networks (RSN) due to these shortfalls, the fund has come under further duress. In addition to the reduced amounts coming from the state, interest earnings by the fund have decreased significantly as interest rates have fallen from 5 percent in 2007 to 1.7 percent in 2009 and are projected to drop to 1.3 percent in 2010.

As revenue sources have come under greater pressure, the demand for services has remained high as the country continues to go through a lengthy recession. Associated expenses with this high demand are not expected to decrease in the near future. Additionally, as the State continues to grapple with its deficit, King County could see additional reductions in State funding for mental health services.

SUBSTANCE ABUSE FUND

2009 ADOPTED BUDGET - $32.3 MILLION
ESTIMATED 2010 DEFICIT - $2.5 MILLION

The Substance Abuse Fund, like the Mental Health fund, relies primarily on state revenue. The state is currently facing the largest budget gap in its history. The state is largely reliant on sales tax for revenue and this is dramatically down. A recent projection from the state indicated a shortfall for 2009-2011 of $9 billion. The fund expects a state funding cut of $1.1 million, as result of the state biennium budget. Further state budget cuts are expected as the state general fund situation continues to deteriorate. Only the Federal stimulus package – one-time money – prevented huge cuts in the supplemental budget last year. In addition to the reduced amounts coming from the state, interest earnings by the fund have decreased significantly as interest rates have fallen from 5 percent in 2007 to 1.7 percent in 2009 and are projected to drop to 1.3 percent in 2010. As the State continues to grapple with its deficit, King County could see additional reductions in State funding for substance abuse services.

MENTAL ILLNESS AND DRUG DEPENDENCY (MIDD) FUND

2009 ADOPTED BUDGET - $49.7 MILLION
ESTIMATED 2010 DEFICIT - Fund must absorb plans to supplant up to $12.9 million (30%) in the face of losing $14 million in sales tax revenue for 2009 and 2010 combined

The MIDD Fund is primarily funded by a sales tax based levy and interest earnings. Both of these revenue sources are under significant pressure. King County, like the State of Washington, is experiencing dramatic declines in sales tax. A recent comparison of June 2008 to June 2009 sales tax showed a decline of 16.4 percent. This continued a monthly trend of decline that has been the largest seen in history. 2009 collections are projected to be $7 million less than expected when the budget was adopted in November. Interest rates have fallen from a high in 2007 of 5 percent to 3.2 percent in 2008 with a current projection of 1.7 percent and 1.3 percent, respectively for 2009 and 2010. In addition, the Executive intends on redirecting as much as $12.9 million of MIDD funds for 2010 to support programs previously funded through the General Fund. This shift is allowed under revised state law and will cause existing MIDD programs to be displaced.

CHILDREN AND FAMILY SERVICES

2009 ADOPTED BUDGET - $15.7 MILLION

ESTIMATED 2010 DEFICIT – The Executive intends on eliminating nearly $6.8 million in General Fund support for CFS in 2010 (or approximately 55% of the total fund). Additionally, other revenues are down $400,000 million for 2010 from 2009 adopted projections

The Children and Family Services (CFS) Fund is primarily a pass-through entity that receives revenues from a portion of the General Fund transfer to Human Services (over $6.8 million), sales tax, parking garage fees, and a few other minor sources. In the face of unprecedented challenges in the General Fund, the Executive has decided to eliminate virtually all General Fund support for CFS. The fund includes one operating budget – Community Services Operating (CSO) and four other budgets to which it makes transfers – the Work Training Program (WTP), the Housing Opportunity Fund (HOF), DCHS Admin and Public Health.

VETERANS RELIEF FUND

2009 ADOPTED BUDGET - $2.6 MILLION

ESTIMATED 2010 DEFICIT - $115,066

The Veteran's Relief Fund has one primary source of revenue, property tax, which is, supplemented by interest earnings. Both of these revenue sources are under significant pressure. Property tax increases are based upon 1 percent growth plus new construction. New construction projected for 2010-2011 is down approximately 50 percent compared to 2008-2009. This will significantly lower the growth rate in property tax revenues for this fund. In addition to the lower expected growth rate in property tax, amounts coming from interest earnings by the fund will decrease significantly as interest rates have fallen from 5 percent in 2007 to 1.7 percent in 2009 and are projected to drop to 1.3 percent in 2010.

Demand for veterans services, however, is not declining as the recession continues to increase the overall need for human services and veterans continue to return form active duty.

VETERANS AND FAMILY LEVY
2009 ADOPTED BUDGET - $9.2 MILLION
ESTIMATED 2010 DEFICIT - $4.3 million for both the Vets & Human Services Levies

The Veterans and Family Levy Fund has one primary source of revenue, property tax, which is supplemented by interest earnings. Both of these revenue sources are under significant pressure. Property tax increases are based upon 1 percent growth plus new construction. New construction projected for 2010-2011 is down approximately 50 percent compared to 2008-2009. This will significantly lower the growth rate in property tax revenues for this fund. In addition to the lower expected growth rate in property tax, amounts coming from interest earnings by the fund will decrease significantly as interest rates have fallen from 5 percent in 2007 to 1.7 percent in 2009 and are projected to drop to 1.3 percent in 2010.

Demand for these services, however, is not declining as the recession continues to increase the overall need for human services.

HUMAN SERVICES LEVY
2009 ADOPTED BUDGET - $10.4 MILLION
ESTIMATED 2010 DEFICIT - $4.3 million for both the Vets & Human Services Levies

The Human Services Levy fund has one primary source of revenue, property tax, which is, supplemented by interest earnings. Both of these revenue sources are under significant pressure. Property tax increases are based upon 1 percent growth plus new construction. New construction projected for 2010-2011 is down approximately 50 percent compared to 2008-2009. This will significantly lower the growth rate in property tax revenues for this fund. In addition to the lower expected growth rate in property tax, amounts coming from interest earnings by the fund will decrease significantly as interest rates have fallen from 5 percent in 2007 to 1.7 percent in 2009 and are projected to drop to 1.3 percent in 2010.

Demand for these services, however, is not declining as the recession continues to increase the overall need for human services.

FEDERAL HOUSING AND COMMUNITY DEVELOPMENT (FHCD)
2009 ADOPTED BUDGET - $19.2 MILLION

HOUSING OPPORTUNITY FUND (HOF)
2009 ADOPTED BUDGET - $24.5 MILLION

The Federal Housing Development (FHCD)/Housing Opportunity Fund (HOF) is primarily funded through grants. Most of the fund is pass-through dollars to organizations outside of King County. While there are not deficits in these funds, there are caps on the amount of expenditures for both administration and planning, creating pressure to contain costs growth in these programs.

WORK TRAINING AND DISLOCATED WORKERS

2009 ADOPTED BUDGET - $9.3 MILLION
ESTIMATED 2010 DEFICIT - $304,572

The Work Training Program (WTP) and Dislocated Workers Program (DWP) experienced a 12 percent reduction in base federal funding in 2008. For 2009, federal funding continues to decline. While there were mid-year grant increases in 2009 that partially off-set the reductions, those were primarily due to a one-time stimulus grants, and as such they are mostly for specific, time-limited purposes. Additional one-time stimulus funding may be available, but core fiscal year 2010 funding is uncertain. In the past, federal funding for employment and training programs has been counter-cyclical but on a lagging basis. That is, Congress tends to budget more funding for these programs during periods of high unemployment, but there is a lag.

DEVELOPMENTAL DISABILITIES

2009 ADOPTED BUDGET - $29.4 MILLION
ESTIMATED 2010 DEFICIT - $922,900

The Developmental Disabilities Fund is primarily funded through the State of Washington. The state is currently facing the largest budget gap in its history. The state is largely reliant on sales tax for revenue and this is dramatically down. A recent projection from the state indicated a shortfall for 2009-2011 of $9 billion. The Adult Day program funding from the state was especially hard-hit with over $1.7 million less revenue anticipated for 2010 and the Family Support Grant funding was cut entirely by the state.

CRIMINAL JUSTICE

AUTOMATED FINGERPRINT IDENTIFICATION SYSTEM (AFIS)

2009 ADOPTED BUDGET - $16.9 MILLION
ESTIMATED 2010 DEFICIT - Need to contain costs to stay within levy limits; revised levy rate will bring in $7.8 million less revenue over the life of the levy

Due to continued prudent fiscal management, the AFIS fund remains a fairly stable fund. However, pressure to keep tax rates as low as possible for taxpayers requires on-going efforts to keep cost pressures in check. AFIS is subject to the same inflationary pressures as other troubled, funds. While AFIS itself is not nearly as distressed as many other County funds, AFIS employees work side by side with King County Sheriff's Office and

Department of Adult and Juvenile Detention employees, which are funded through the General Fund

INTERNAL SERVICE FUNDS

The following funds provide services primarily to other county agencies and funds. Their primary source of revenue is derived from charging these funds to recover the cost of services provided. All county funds have an obligation to ensure that the county continues to be able to deliver direct services to the public and therefore, all internal service fund charges must reflect the same discipline and constraints that the paying funds are experiencing.

Several of these funds are facing unique cost drivers that are accelerating the growth of expenditures and therefore their charges to other often distressed funds, exacerbating the need for efficiencies and reductions.

EMPLOYEE BENEFITS FUND
2009 ADOPTED BUDGET - $213.7 MILLION

Employee Benefits is engaged in a collaborative effort with labor to control the rate of health care cost growth through the Healthy Incentives[SM] program. A new plan design will be implemented in 2010, increasing the amount of costs shared by employees. Even with the new plan design, the rate of growth of benefits costs at 6% is anticipated to outstrip the rate of county revenue growth for other county funds by several percentage points, necessitating efforts to control all costs.

FACILITIES MANAGEMENT INTERNAL SERVICE FUND
2009 ADOPTED BUDGET - $47.1 MILLION

The major cost drivers for Facilities Management are utilities, building square footage and number of days occupied, and the cost of staffing. Due to proactive management and the labor and service level reductions implemented in 2009 FMD forecasts a low growth for rates in 2010. Although the fund currently maintains a healthy fund balance, long-term costs must be controlled through continued proactive management of all of the cost factors, as it is the distressed funds that must shoulder the burden of these costs.

FINANCE AND BUSINESS OPERATIONS FUND
2009 ADOPTED BUDGET - $31.6 MILLION

The phase-in approach to ABT implementation means that there needs to be resources within Finance and Business Operations Division (FBOD) to support elements of both legacy systems and ABT over the next several years. A significant challenge is related to the cost of the legacy mainframe systems which must continue to be supported while some applications migrate off the mainframe. Although FBOD has been able to manage with constrained revenue growth for the past several years, increasing costs highlight the need for continued focus on efficiencies and const containment.

OIRM - Technology Services Fund
2009 Adopted Budget - $ 29.4 Million

A significant cost driver for the Technology Services fund is the increase in costs related to the 2009 relocation of the data center, about $2.2 million per year. In addition, infrastructure costs/rates are forecast to increase by about 12 percent per year, and operations and maintenance costs by about 5 percent per year. These growth rates outpace the forecast rate of revenue growth for other county funds, pointing to the need to cost containment strategies.

Fleet Services
2009 Adopted Budget - $13.3 Million

Fleet's rental rate model is a full-cost recovery model, dependent on current vehicle replacement costs, overhead costs and operations and maintenance costs, including usage (miles driven) and fuel costs. The major driver of the significant increase in the 2010 Fleet rates is the cost of the fuel consumed in 2008. High 2008 fuel prices will increase 2010 rental rates countywide. Fleet Division's revenues consist almost entirely of vehicle rental charges to county agencies. Given that many of these agencies, such as the Sheriff's Office and Public Health, are in distress, there is pressure to keep fleet rates as low as possible.

Safety and Claims Management Fund
2009 Adopted Budget - $34.5 Million

Safety and Claims Management (SCM) is engaged in a long term effort to build adequate fund balance reserves within an environment of increasing medical and time loss payment costs. Despite SCM's collaborative efforts with labor to establish a proactive return to work program the long-term rates are forecast to grow at 8%, outpacing the rate of revenue growth of other county funds by several percentage points.

Risk Management Fund
2009 Adopted Budget - $26.4 Million

The Office of Risk Management (ORM) manages the county's self insured programs and insurance policy placement. Claims costs and insurance premiums make up more than 70 percent of ORM's expenditures, which are driven by county agencies' insurance premiums based on ten-year loss experience and incurred claims/lawsuit costs. The county's catastrophic loss financing policy also requires that the insurance fund retain enough reserves in the event of a loss that would require reduction in county service levels, or a loss that would exceed $1 million. The 2010 projected rates and claims costs have been mitigated by proactive loss control, positive claims experience for most funds and successful negotiation of contract renewals. The ending fund balance for 2010 is $2 million below the targeted designated reserve level. Rebuilding reserves will require continued emphasis on cost control.

INFORMATION RESOURCE MANAGEMENT FUND

2009 ADOPTED BUDGET - $7.0 MILLION

The major cost drivers for the Office of Information Resource Management (OIRM) fund are the cost of personnel and the costs of other central services charged to OIRM. In 2010 OIRM will mitigate rate increases with a $500,000 one-time rebate of fund balance. This depletes the funds rate stabilization reserve and in the absence of other cost reductions, will necessitate a 12 percent increase in 2011.

OIRM - TELECOMMUNICATION SERVICES FUND

2009 ADOPTED BUDGET - $2.3 MILLION

A key issue for the Telecommunication Services fund is a decision on the long-term strategic platform for telephony service delivery. In 2010 the rate increase is mitigated by a one-time rebate of fund balance. In the absence of rebate or other efficiencies, rates are projected to increase by 19 percent 2011, far outpacing the rate of revenue growth projected for other county funds.

GEOGRAPHIC INFORMATION SERVICES (GIS) FUND

2009 ADOPTED BUDGET - $4.4 MILLION

The GIS Center's cost model accounts for the full cost of operating, maintaining and enhancing automated geographic information systems for its county customers. The GIS Center's revenues consist almost entirely of central rates charged to GF funds and other county agencies; thus, the health of the GIS fund is dependent on the health of other county agencies, including cash-strapped GF agencies, DDES, Transit and Roads. While the GIS Center has expensive technological equipment, the fund's major cost driver is its FTE count.

Other General Government Funds

Institutional Network (I-NET) Fund

2009 Adopted Budget - $1.8 Million

The I-NET fund currently projects a sustainable balance between revenue and expenditures, based on continued expansion of the customer base, re-negotiation of the PEG fees with the cable providers, and an anticipated rate increase in 2010. Although the current projections are positive, there are inherent risks in the each of the elements of the revenue plan and continued vigilant control of labor costs is vital.

E-911

2009 Adopted Budget - $22.0 Million

The challenge for the E-911 fund is balancing the cost of implementing technology upgrades while continuing to provide a revenue stream to the Public Safety Answering Points. The upgrades and the subsequent maintenance costs for the equipment have led to expenditure growth outpacing revenues. The public expectation is that all the various new telecommunications devices, like cell phones, voice over IP, or automatic collision notification systems (ACS), be able to make and transmit E-911 calls. Technology upgrades are essential for allowing E-911 response capability with these new devices. King County will be the first county in the nation to be technologically prepared for the national standard "Next Generation" service, which allows the new technologies to successfully use the 911 system. Fund balance remains adequate to cover the expenditure/revenue imbalance through 2010; however, by 2011 approximately half of the fund's reserves will be depleted. New revenue proposals will be brought to the state legislature in 2010 to rectify the situation. Proposals include a voice over IP tax and an increase in the wire line and wireless tax from $0.50 to $0.70 cents. There is always pressure to contain costs in the context of increases to rates applied to taxpayers.

Recorders Operations & Maintenance Fund

2009 Adopted Budget - $3.3 Million

The primary source of revenue for this special revenue fund is a surcharge on recorded documents. The 2010 fund revenues are projected to decline by 14 percent from 2009 levels as a result of the decline in real estate activity and volume of recorded documents. Fund reserves have been drawn down to complete the Electronic Records Management System project.