

allowing the tax revenue to be used for supplantation for five years beginning in 2010. The changes are as follows:

Section 3. Moneys collected under this section shall be used solely for the purpose of providing for the operation or delivery of ~~((new or expanded))~~ chemical dependency or mental health treatment programs and services and for the operation or delivery of ~~((new or expanded))~~ therapeutic court programs and services. For the purposes of this section, "programs and services" includes, but is not limited to, treatment services, case management, and housing that are a component of a coordinated chemical dependency or mental health treatment program or service.

Section 4. All moneys collected under this section must be used solely for the purpose of providing new or expanded programs and services as provided in this section, except a portion of moneys collected under this section ~~((shall not))~~ may be used to supplant existing funding for these purposes ~~((, provided that))~~ in any county as follows: Up to fifty percent may be used to supplant existing funding in calendar year 2010; up to forty percent may be used to supplant existing funding in calendar year 2011; up to thirty percent may be used to supplant existing funding in calendar year 2012; up to twenty percent may be used to supplant existing funding in calendar year 2013; and up to ten percent may be used to supplant existing funding in calendar year 2014.¹

The effect of the change is that in addition to continuing to fund new and expanded mental health, chemical dependency, and therapeutic court services and programs, MIDD funds may be used to replace (supplant) funds lost to those services and programs. Supplantation is allowed for five years, ending by 2015. Beginning in 2010, up to 50 percent of the MIDD tax collected can be used to supplant other lost funds. There is a ten percent reduction to the amount of funds used each year, ending at 10 percent in year 2014.

The King County Council adopted Ordinance 15949 in 2007 authorizing the MIDD sales tax until January 1, 2017. Subsequent MIDD related ordinances passed by the Council in 2008 adopted the MIDD Oversight, Implementation, and Evaluation Plans and established the MIDD fund. The language of Ordinance 15949, of other MIDD related ordinances, and of the King County Code reflects previous state law prohibiting the use of MIDD funds for supplantation.

Ordinance 16261 that adopted the MIDD Implementation Plan also established a reserve to fund new MIDD strategies not specified in the Implementation Plan. The new strategy reserve was included with the MIDD Implementation Plan in recognition that the needs of the county's residents may change over time and that new and innovative mental health, substance abuse and therapeutic court programs and services are continually being developed and implemented across the country. The new strategy reserve enables the County's policy of maintaining flexibility to respond to the changing needs of the county's population as well as to accommodate new mental health, substance abuse and therapeutic court strategies and programs.

¹ Section 2.3-4, Second Substitute Senate Bill 5433, Washington State 61st Legislature, 2009 Session

In 2010 and beyond, the new strategy reserve is to be funded by using up to half of the MIDD fund's undesignated fund balance. In July, the Council amended the MIDD Implementation Plan, adopting a new strategy process that allows for the review and recommendation of new strategies by the Council two times per year.

ANALYSIS

Supplantation and Revenues: Due to the general fund deficit, it is expected that most general funds previously allocated to human service programs, including mental health, chemical dependency and therapeutic court programs will be eliminated in 2010. Therefore, utilizing MIDD revenues to supplant lost general fund revenue for existing mental health, chemical dependency, and therapeutic court programs will enable those programs to remain functioning for a period of time.

2009 MIDD revenues are currently projected at 13 percent less than the adopted 2009 level and to be about 16 percent less than the previously projected 2010 level². Declining MIDD tax revenue coupled with increasing demands due to supplantation will result in fewer MIDD strategies being fully funded in 2010 than due to supplantation alone.

Utilizing MIDD revenues for purposes other than the 37 adopted MIDD strategies will result in certain MIDD strategies being reduced or delayed.

A detailed briefing on supplantation will be provided to the committee under a separate item number.

Proposed Changes Necessitated by State Law: King County Code and adopted MIDD legislation reflect outdated state law concerning the MIDD; should King County wish to utilize (supplant) MIDD revenues to support mental health, chemical dependency, and/or therapeutic court programs and services that were previously funded by another source (such as the general fund), the County's code and legislation needs to be amended. The sections of proposed ordinance 2009-0507 that revise King County Code and MIDD legislation to reflect state law accomplish that objective.

Proposed Elimination of the New Strategy Reserve: Proposed ordinance 2009-0507 would dissolve the MIDD's new strategy reserve. Eliminating the reserve removes the means to enact the County's policy of providing limited MIDD funding for services or programs outside of the adopted MIDD strategies. The flexibility of the County to respond to changing needs or implement new concepts is also affected by the elimination of the new strategy reserve.

Should the new strategy reserve be eliminated, the revenue currently in the reserve would be absorbed into the MIDD fund's undesignated fund balance. It would be used to offset strategy reductions necessitated by supplantation and reduced projected revenue. The Office of Management and Budget indicates that elimination of this reserve is necessary in order to meet the Executive's supplantation targets.

Potential Amendments: On September 1, 2009 members of the Budget and Financial Management Committee asked staff to develop an amendment that would put new strategy reserve on hold rather than completely eliminating it. Such an option could allow fund balance to be maximized for current strategies or for supplantation, and at the same time preserve the new strategy reserve for use at some point in the future. As of the writing of this staff report, the

² Office of Management and Budget materials, MIDD Oversight Committee, July 23, 2009

amendment is under development. The amendment will be provided to the Regional Policy Committee once it is finalized.

ATTACHMENTS

1. Proposed Motion 2009-0507
2. Transmittal Letter dated August 17, 2009



KING COUNTY

Signature Report

September 3, 2009

Attachment 1

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Ordinance

Proposed No. 2009-0507.1

Sponsors Gossett

1 AN ORDINANCE making technical amendments
2 concerning the use of the additional sales and use tax of
3 one tenth of one percent for the delivery of mental health
4 and chemical dependency services and therapeutic courts
5 to be consistent with Chapter 551, Laws of Washington
6 2009, Section 2; making technical corrections; and
7 amending Ordinance 15955, Section 2, as amended, and
8 K.C.C. 4.08.318, Ordinance 15949, Section 4, as
9 amended, and K.C.C. 4.33.020 and Ordinance 15949,
10 Section 5, as amended, and K.C.C. 4.33.030.

11
12 **BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:**

13 **SECTION 1.** Ordinance 15955, Section 2, as amended, and K.C.C. 4.08.318 are
14 each hereby amended to read as follows:

15 A. There is hereby created the mental illness and drug dependency fund,
16 classified as a special revenue fund, for the purpose of accounting for the proceeds of an
17 additional one-tenth of one percent sales tax imposed by King County for collection
18 beginning in 2008.

Ordinance

19 B.1. In accordance with ~~((the ordinance imposing the mental illness and drug~~
20 ~~dependency tax))~~ K.C.C. chapter 4.33, the proceeds of the sales tax will be placed in one
21 fund designated and shall be used solely for the purpose of providing new or expanded
22 chemical dependency or mental health treatment services and for the operation of new or
23 expanded therapeutic court programs and shall not be used to supplant existing funding
24 for these purposes, except as authorized in RCW 82.14.460(4), as it exists on the
25 effective date of this ordinance.

26 ~~((2.a. In order to reserve funds for new strategies not currently specified in the~~
27 ~~implementation plan, a new strategy reserve is hereby created in the mental illness and~~
28 ~~drug dependency fund. The purpose of this reserve is to fund new strategies and~~
29 ~~programs that meet the county's policy goals established in K.C.C. 4.33.010.~~

30 ~~b. Mental illness and drug dependency programs or strategies that are funded~~
31 ~~from the new strategy reserve shall receive funding from the reserve for two full years.~~
32 ~~No project or strategy funded from the new strategy reserve shall utilize more than~~
33 ~~twenty percent of the total annual new strategy reserve amount. The annual new strategy~~
34 ~~reserve amount is based on the later of either the annual mental illness and drug~~
35 ~~dependency fund financial plan as transmitted by the executive with the proposed annual~~
36 ~~county budget or as amended by ordinance. The two year period for funding new~~
37 ~~strategies from the new strategy reserve shall commence when the ordinance approving~~
38 ~~the new strategy is enacted. During the two year period of funding from the new strategy~~
39 ~~reserve, these programs and strategies shall be reviewed as part of the annual mental~~
40 ~~illness and drug dependency evaluation cycles. After the initial two year period, the new~~
41 ~~strategies and programs shall be subject to expansion, revision or elimination.~~

42 ~~e. The new strategy reserve shall be limited to five million dollars.~~

43 ~~d. The new strategy reserve shall be initially funded:~~

44 ~~(1) in 2008 by:~~

45 ~~(A) allocating one million eight hundred thousand dollars of the mental~~
46 ~~illness and drug dependency fund's revenue stabilization reserve to the new strategy~~
47 ~~reserve; and~~

48 ~~(B) allocating seven hundred thousand dollars of the mental illness and drug~~
49 ~~dependency fund's 2008 revenue; and~~

50 ~~(2) in 2009 by allocating up to two million seven hundred thousand dollars of~~
51 ~~the mental illness and drug dependency fund's 2008 ending undesignated fund balance to~~
52 ~~the new strategy reserve at the end of the 2008 fiscal year.~~

53 ~~e. In 2010 and thereafter, the new strategy reserve will be replenished each~~
54 ~~year by allocating up to one half of the mental illness and drug dependency fund's~~
55 ~~previous ending year's undesignated fund balance less the target fund balance to the~~
56 ~~reserve until the five million dollar limit is reached.))~~

57 C. The department of community and human services shall be the fund manager
58 for the mental illness and drug dependency fund.

59 D. For investment purposes, the mental illness and drug dependency fund shall
60 be considered a first tier fund.

61 SECTION 2. Ordinance 15949, Section 4, as amended, and K.C.C. 4.33.020 are
62 each hereby amended to read as follows:

63 A. For the purpose of providing funding for the operation or delivery of ((new or
64 expanded)) mental health and chemical dependency programs and services, and ((new or

Ordinance

65 expanded)) therapeutic courts programs and services as authorized RCW 82.14.460, as it
66 exists on the effective date of this ordinance, an additional sales and use tax of one-tenth
67 of one percent is hereby levied, fixed and imposed on all taxable events within King
68 County as defined in chapter 82.08, 82.12 or 82.14 RCW, except as provided in
69 subsection B. of this section. For the purposes of this section, "programs and services"
70 includes, but is not limited to, treatment services, case management, and housing that are
71 a component of a coordinated chemical dependency or mental health treatment program
72 or service. The tax shall be imposed upon and collected from those persons from whom
73 sales tax or use tax is collected in accordance with chapter 82.08 or 82.14 RCW, and
74 shall be so collected at the rate of one-tenth of one percent of the selling price, in the case
75 of a sales tax, or value of the article used, in the case of a use tax. This additional sales
76 and use tax shall be in addition to all other existing sales and use taxes currently imposed
77 by the county.

78 B. If, as a result of the imposition of the additional sales and use tax authorized in
79 subsection A. of this section, the county imposes an additional sales and use tax upon
80 sales of lodging in excess of the limits contained in RCW 82.14.410, the sales shall be
81 exempt from the imposition of that additional sales and use tax.

82 SECTION 3. Ordinance 15949, Section 5, as amended, and K.C.C. 4.33.030 are
83 each hereby amended to read as follows:

84 A. The moneys collected under K.C.C. 4.33.020 shall be used solely for the
85 purpose of providing for the operation or delivery of new or expanded chemical
86 dependency or mental health treatment programs and services and for the operation or
87 delivery of new or expanded therapeutic court programs and services, except a portion of

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88 the proceeds may be spent as authorized by RCW 82.14.460(4), as it exists on the
89 effective date of this ordinance, and subsection B. of this section. For the purposes of
90 this section, "programs and services" includes, but is not limited to, treatment services,
91 case management, and housing that are a component of a coordinated chemical
92 dependency or mental health treatment program or service.

93 B. The proceeds of the tax authorized and imposed K.C.C. 4.33.020 may not be
94 used to supplant existing funding for these purposes, ~~((provided that))~~ except as
95 authorized by RCW 82.14.460(4), as it exists on the effective date of this ordinance,
96 though nothing in this section shall be interpreted to prohibit the use of moneys collected
97 under this section for the replacement of lapsed federal funding previously provided for
98 the operation or delivery of services and programs as provided in this section.

99 C. For the purposes of this section, "proceeds" means the moneys raised by the
100

Ordinance

101 additional sales and use tax authorized by this chapter and any interest thereon.

102 SECTION 4. Sections 2 and 3 of this ordinance expire January 1, 2017.

103

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

ATTEST:

APPROVED this ____ day of _____, _____.

Attachments None

August 17, 2009

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

Dear Councilmember Constantine:

Enclosed for the County Council's review and approval is an ordinance making amendments related to the Mental Illness and Drug Dependency (MIDD) sales tax. During the 2009 legislative session, the State Legislature passed SB 5344, which allows counties to supplant up to 50 percent of MIDD revenues in 2010 for existing chemical dependency and mental illness programs. The attached ordinance brings King County code into alignment with state law and enables the county to utilize this tool to balance the 2010 General Fund budget. The authority to supplant MIDD revenues is vital to our ability to balance the 2010 budget and enables us to preserve existing county mental health and chemical dependency programs, many of which are not mandatory, in this difficult budget climate.

As you know, King County's General Fund continues to suffer from the impacts suffers from the one-two punch of the ongoing structural deficit resulting from a mix of revenues that do not keep pace with growth trends on base expenditures and the most severe and lengthy economic downturn since the Great Depression. The combination of these factors leave King County with a \$56.4 million deficit for 2010, which comes on the heels of our work to close an extraordinary \$93 million deficit for 2009. In addition in the early part of this decade, we also closed deficits totaling \$137 million between 2002 and 2005. In our efforts to close these gaps, since 2002 we have identified efficiencies, consolidated departments, identified new funding sources for county services such as parks, and lowered labor costs through renegotiated benefits programs. Yet, our structural challenges remain.

In the face of these challenges, King County – as well as counties throughout the State of Washington – have advocated to the Washington State Legislature for solutions for our underlying structural challenges. While we have not been successful in obtaining all of the tools we need, we did achieve a victory this past legislative session in securing the ability to

The Honorable Dow Constantine
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supplant limited MIDD funds to support existing mental illness and drug dependency to alleviate – on a temporary basis – pressures on the strained General Fund. The ability to supplant using MIDD funds now offers us a critical tool in balancing the 2010 budget.

Together with MIDD funding, the proposed 2010 General Fund budget that I will transmit to the council on September 27, 2009 will also rely on

- deep reductions to overhead, internal services and general government functions;
- the elimination of virtually all discretionary funding in the General Fund for functions such as parks and human services; and
- labor savings similar to the savings achieved through the ten unpaid furlough days in 2009.

The combination of these strategies will allow us to close the \$56.4 million deficit for 2010. The legislation I transmit to you today serves as an important component in setting the foundation for a balanced 2010 budget.

I will announce the details of my plan for MIDD supplantation funds in the 2010 budget in the coming weeks. If you have any questions, please contact Beth Goldberg, Deputy Director, Office of Management and Budget, at 206-263-9727. Thank you for your consideration of this legislation.

Sincerely,

Kurt Triplett
King County Executive

Enclosure

cc: King County Councilmembers
ATTN: Tom Bristow, 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 (OMB)
Beth Gold, Deputy Director, OMB
Jackie MacLean, Director, Department of Community and Human Services