

September 26, 2016

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

Dear Councilmember McDermott:

I am pleased to transmit my proposed budget for the 2017-2018 biennium (the “budget”) and accompanying legislation. This budget continues to advance a number of strategic priorities and important services that reflect the values of King County residents, including investments in Metro Transit; prevention and intervention to ensure people receive behavioral health care quickly and effectively; support for a new Immigrant and Refugee Commission; and expanding recreational opportunities for youth in underserved areas.

The budget also includes a number of difficult choices. King County’s General Fund, which primarily supports criminal justice and public safety, has faced chronic imbalances between revenues and expenditure growth for 15 years due to revenue limitations under state law. Over the last few months, my office has worked with agencies and separately elected officials to balance the General Fund budget through a mix of revenue changes, efficiencies, cost shifts, and spending reductions, including program cuts and service reductions. Most of these reductions will take place in 2018, allowing time to develop creative solutions and partnerships to mitigate reductions, while working with the State Legislature to fix the County’s broken revenue structure.

Despite the difficult situation with the General Fund, the budget makes strides in key areas:

- We are committed to improving Equity and Social Justice outcomes for all residents, and the budget makes strides in realizing the vision of a King County where all people have equitable opportunities to thrive.
- Climate change is one of the paramount environmental and economic challenges for our generation, and the budget makes strategic investments in transit, energy efficiency, green building, and preparing for climate impacts, consistent with the 2015 Strategic Climate Action Plan.

- Investments in Metro Transit will increase service to customers, create a better workplace for transit employees, and build the infrastructure for sustained growth of one of the nation's largest and fastest growing transit systems.
- King County will become the best run government in the country. New investments in employees and technology solutions will improve our operations and ability to deliver the most value for all King County residents.

Budget Outlook

King County is in the midst of a strong recovery from the Great Recession. Of the ten largest counties nationwide measured by employment, King County had the highest employment growth rate and also the highest gain in average weekly wages (5.1 percent). Employment growth is expected to slow but remain positive through at least 2018.

One consequence of the strong regional economy is that many people are moving to King County. According to the Washington Office of Financial Management, the county's population increased by 2.5 percent in the year ending April 1, 2016.

Employment and population growth have led to increases in housing prices. The Case-Shiller index of Seattle-area housing prices in April 2016 was up 10.7 percent from the prior year and is now above the previous peak reached in mid-2007. This has led to a significant amount of new construction.

The strong local economy is also generating significant growth in sales taxes. The total countywide tax base grew by 10.0 percent in 2015 and is projected by OEFA to grow at 9.02 percent for 2016. Further growth is predicted, albeit at slower rates: 5.12 percent for 2017 and 3.12 percent for 2018.

Despite the strong economy, the financial condition of the County's funds varies significantly. Some funds, such as Wastewater Treatment and Emergency Medical Services, are in good fiscal condition because of dedicated revenues that support these activities. Programs can be expanded and services improved.

A second group of funds, which are dependent on sales taxes, are in good financial condition due to the economy. This is most notable in Transit and the Mental Illness/Drug Dependency (MIDD) Fund.

Several other County funds face chronic financial shortfalls, typically due to limitations of State law or declining state and federal funding. State law puts a 1 percent cap (plus new construction) on the revenue increases counties can receive from property taxes, the largest source of revenue for the General Fund. Even as King County has increased efficiencies and reduced cost growth, these limitations mean that revenue can't keep up with inflation and the increase in demand for services as the population grows.

Fixing the County's broken revenue structure has been and continues to be our top legislative priority, and I look forward to partnering with you and other city, county, and public safety officials to replace the 1 percent growth limit with a limit that will allow us to sustain a prosperous, livable and humane King County government.

The Transmittal Package

In addition to the 2017/2018 Executive Proposed Biennial Budget ordinance, this transmittal package includes the following separate legislative components and reports that are incorporated in the 2017/2018 Executive Proposed Budget transmittal package.

Additional Ordinances

Property Tax Ordinance - Included in this transmittal package are the property tax ordinances necessary to collect the 2017 property tax revenue that supports the proposed budget. The 2018 ordinance will be provided as part of the mid-biennium review. The Office of Performance, Strategy, and Budget (PSB) staff will work with Council staff in the coming weeks to ensure final numbers are included in these ordinances once that information is received from the Assessor.

Car Rental Sales Tax - King County imposes a one-percent retail rental car sales and use tax allowed by RCW 82.14.049. The statute allows proceeds of the tax to be used solely for the following purposes: (a) acquiring, constructing, maintaining, or operating public sports stadium facilities; (b) engineering, planning, financial, legal, or professional services incidental to public sports stadium facilities; (c) youth or amateur sport activities or facilities; or (d) debt or refinancing debt issued for the purposes of RCW 82.14.049(1). Under subsection RCW 82.14.049(2), at least seventy-five percent of the tax proceeds must be used to service the debt on the stadium until the debt is fully retired. In 2016, King County fully retired its debt on the Kingdome Stadium. This ordinance would redirect the seventy five percent of rental car sales tax proceeds that were previously used for debt service to be used to provide grants and programs that provide recreation for youth from low and moderate income communities in King County.

Strategic Climate Action Plan – An ordinance amending King County Code title sections 18.25 and 18.50 related to the King County Strategic Climate Action Plan (SCAP), in response to a proviso in the 2015-2016 Biennial Budget Ordinance 17941, Section 104, Proviso P1. The proposed ordinance includes, but is not limited to: (1) amendments to requirements for future updates of the SCAP in K.C.C. chapter 18.25; (2) legislative findings on how the King County Auditor's recommendations have been incorporated into the adopted 2015 SCAP; and (3) changes to SCAP related annual reporting requirements specified under K.C.C. chapter 18.50, to make reporting consistent with the organization of the adopted 2015 SCAP.

Non-Rep 2017 General Wage Increase Ordinance – The ordinance authorizes a two and one quarter percent general wage increase for regular, short-term temporary and term-limited temporary employees in non-represented county positions effective January 1, 2017. The ordinance is submitted pursuant to the provisions of King County Code 3.12.130 and 3.12.140 which require the King County Executive to submit standardized salary schedules and general wage increases.

The proposed ordinance also approves the enclosed 2017 King County 10-Step Hourly Squared Schedule, the 2017 King County 10-Step Annual/FLSA-Exempt Squared Schedule, the 2017 King County Standardized Hourly Salary Schedule, and the 2017 King County Standardized Annual/FLSA-Exempt Salary Schedule.

Fee Ordinances

Department of Permitting and Environmental Review Fees – This ordinance includes a 15.37% fee increase for 2017-2018. The fee increase proposal benefits customers by funding the expansion of on-line permit application and the implementation of credit card acceptance, and rebuilds the Permitting Fund balance in line with King County financial management policies.

Much of the fee increase is required to accommodate cost escalation factors over the past two years and in the coming two years. The department is not requesting additional FTEs for its permitting operation in the next biennium, but seeking to fund its current level of staff and consultants that are needed to handle the increasing volume of residential permit applications. While permit approval timelines have lengthened due to the recent increase in demand for service, the department expects that its current staff, with the continuation of consultants to handle peak demand, can improve service delivery.

The proposed fee increase consists of an across-the-board increase of 20%, reduced by the expiration of the current fee surcharge of 4.63% on January 1, 2017.

King County Information Technology Fee – This ordinance identifies and updates items in K.C.C. 4A.660 that are available for purchase. The updated Code includes current fees charged to external customers such as title companies for accessing King County Assessments and Treasury information stored on the County's server-based platform. The fees cover the County's cost of maintaining customers' access to the system and administering billings. Adoption of this ordinance will further the King County strategic goal of efficient, accountable regional and local government. K.C.C. 4A.660 was originally enacted in 1984 and has been updated only a handful of times since enactment. The majority of items listed in this section of the code are obsolete and no longer available. In addition, the fees associated with these items are not accurate and need to be updated to reflect current costs.

King County Sheriff Civil Fees – This ordinance increases civil process fees to account for inflationary increases for providing services. State law allows counties to raise fees to recoup costs under RCW 36.18.040 (1). The last update took effect January 1, 2011; this change increases these fees by the consumer price index for urban wage earners in the West region since that time (11.1%). The costs of providing civil process services are driven by the cost of labor, supplies, central services and equipment. This affects residents who live or work in unincorporated King County and contract cities with protection orders. Services subject to this fee increase include personal and real property court orders, protection orders, court ordered evictions, family law actions and notice of small claims.

Department of Transportation Marine Division - King County assumed the King County Ferry District (KCFD) on January 1, 2015. Upon adoption of Ordinance 17935, the County assumed the KCFD fare policy for the King County Water Taxi passenger ferry service. The District fare policy was to increase passenger fares every other year for a Regular Adult by fifty cents per one-way fare for each route. This is done on even years and the last fare increase was in 2016. The fare structure is set forth in K.C.C. 4A.700.820. This ordinance proposes to increase passenger ferry fares consistent with fare policy, effective March 1, 2018.

Surface Water Management (SWM) Fee - King County charges property owners within its surface water management service area of unincorporated King County a graduated fee based on six nonresidential rate classes tied to relative amount of impervious surface and one uniform rate class for all residential parcels. The current one hundred seventy-one dollars and fifty cents per residential parcel fee charged by King County is insufficient to meet the projected service and capital costs. Since the fee was set in 2014, the cost of providing services has increased year over year; revenues generated by the current fee are not sufficient to support current programming including stormwater management and habitat restoration project implementation. A number of County-managed stormwater assets are at risk of failure and will require additional investments above and beyond existing resources to maintain. There is a growing demand for agricultural drainage assistance to increase local agriculture productivity. There are currently insufficient resources to adequately address chronic drainage and flooding problems associated with the natural drainage system, including streams, lakes, wetlands and other natural surface waters.

This ordinance will increase the base amount of the surface water management charge from one hundred seventy-one dollars and fifty cents per residential parcel to two hundred fifty-eight dollars per residential parcel in 2017, an eighty-six dollar and fifty cent increase over 2016, and corresponding adjustments in the rates for classes of nonresidential property are needed to provide necessary surface water management services to protect public health and safety.

SWM Public Benefit Rating System Fee - This ordinance increases the Public Benefit Rating System (PBRs) application fee from four hundred and eighty dollars to twelve hundred dollars. This increase will bring the cost of enrollment to be comparable to neighboring counties' Current Use Program, as well as other counties within the State. The

increase is needed to more fully reflect the actual costs of processing applications and to reduce the proportion of processing costs covered by the General Fund.

Medical Examiner Death Authorization Fee – This ordinance increases the King County Medical Examiner’s Office (KCME) burial and cremation review fee from sixty dollars to seventy dollars, effective January 1, 2017. A fee increase is needed to allow the KCME to cover the full cost of its disposition authorization program for the next biennium. King County code requires all deaths be reported to the Medical Examiner’s Office for review prior to burial or cremation to ensure that the KCME takes jurisdiction over appropriate cases before disposition occurs. The fee increase will raise an estimated two hundred seventy thousand dollars of additional revenue over the 2017-2018 biennium.

Parking Fees - This fee ordinance revises King County Code to reflect adjustments to parking fees at County parking facilities and changes to the County’s inventory of parking facilities. These changes affect County employees parking at the Goat Hill Garage, the King County Correctional Facility, the Chinook Building, and beginning in June 2017, King Street Center. Existing parking fees have been unchanged since 2011, and these adjustments bring fees more in line with market rates for parking in downtown garages.

Transit Special Rate Ordinance - This ordinance will temporarily raise the cap on lost revenue from programs and promotions pursuant to section 4A.700.610 of the King County Code. This proposal would raise the current cap by two-hundred thousand dollars per year in the next two years from three hundred and fifty thousand dollars to five hundred and fifty thousand dollars. This will provide Transit with greater ability to test new pricing strategies for improving access to transit and to the customer benefits of One Regional Card for All (ORCA) fare payment for youth, college students, seniors and disabled riders.

Wireless Right-of-Way Use Fee – This ordinance adjusts the annual use fee for wireless telecommunications operating in the County's right-of-way. This fee ordinance was the subject of a proviso response (Motion 14560) in 2015-2016 and has been adjusted to only impact telecommunications antenna on separate support structures. The revenue generated from the fee increase is proposed to support the Line of Business Implementation staff in 2017-2018.

Franchise Fee Recovery Ordinance - Included in this transmittal package is an ordinance necessary to fully recover the costs associated with negotiating and managing franchise agreements from utility companies using King County road right-of-way (ROW) . This ordinance increases the application fee from twenty five hundred dollars to ten thousand dollars. The application fee has not been increased since 2008. The ordinance also:

- Amends KCC 6.27.020 to authorize charging a penalty on utilities which receive an emergency ROW construction permit under KCC 14.44.055 without first receiving a franchise. This penalty could apply until the utility was granted a franchise.
- Expands the cost and expenses that can be reimbursed to the County from Real Estate Services costs, to all County costs, including review and negotiation of the application.

- Authorizes Real Estate Services to seek reimbursement of certain expenses the County incurs administering the utilities' activities after the franchise has been granted.
- Defines fire hydrants, facilities and services as reimbursable County costs.
- Authorizes the Executive to take legal action against utilities that operate without a franchise or in violation of a franchise.
- Authorizes the manager of the Facilities Management Division or the director of the Road Services Division to take code enforcement action for violation of the franchise chapter.

Franchise agreements provide basic legal protection for the County and set the rules, rights and fees associated with using public property for private purposes. Franchise agreements reduce the County's liability associated with franchisees' use of the right-of-way. Currently, 73 franchise agreements have expired or will expire during the 2017-2018 biennium. The administration of franchise agreements has not been sufficiently staffed and the administrative costs of negotiating and managing these agreements are not currently fully recoverable due to limitations in County Code.

Fund Ordinances

Second Tier Fund Code Changes - This ordinance changes multiple internal service funds and capital funds from Tier 1 funds to Tier 2 funds. For Tier 1 funds interest earnings on cash balances accrue directly to the fund. For Tier 2 funds interest earned on cash balances accrue to the General fund. As a result of this code change the interest from these governmental type funds will accrue to the General Fund.

E-911 Fund Creation - This ordinance establishes a new capital fund for the enhanced 911 (E-911) emergency telephone system for the Department of Executive Services. The purpose of the fund is to provide more transparent and efficient budgeting for large, multi-year capital projects. The new E-911 Capital Program supports information technology projects which enhance or sustain the operation of King County's 911 public communications network. This ordinance has no fiscal impact.

Housing Fund Consolidation – This ordinance consolidates two current housing funds (Fund 2460-Federal Housing and Community Development and Fund 2464-Housing Opportunity Fund) for the 2017-2018 budget and beyond. This ordinance supports that consolidation by renaming Fund 2460 as the Housing and Community Development Fund and updating the purpose and use of the establishing ordinance to encompass the combined purposes of the fund after consolidation. This ordinance has no financial impact to the County.

Department of Public Health Administration Fund – This ordinance creates a Public Health Administration Fund to contain department and King County administrative costs and overhead and King County central rates. Administrative costs in this fund are allocated to other funds and programs in the department using a variety of distribution methodologies depending on the basis for the original cost.

Related Legislation

Strategic Plan Objectives – A motion adopting King County Strategic Plan objectives was transmitted concurrently with the budget. This motion includes objectives for each of the seven King County goals that the King County Council adopted through Motion 14317 in March 2015. These objectives were developed collaboratively with department directors, Executive staff, Council staff, elected officials and their designees from the County’s separately elected agencies. The Office of Performance, Strategy and Budget provided support and guidance to the teams in developing objectives that are statements of specific, measureable results that contribute to the achievement of each goal, will inform the development of strategies and actions, and are consistent with Ordinance 17834, which updated our Performance Management and Accountability System (PMAS). The resulting three to five objectives for each of the seven adopted goals are included with the motion.

Other Reports

The Technology Business Plan – Pursuant to K.C.C. 2.16.0757, the 2017-2018 Technology Business Plan provides an overview of new and ongoing Information Technology (IT) projects to be implemented in 2017-2018. These projects are aligned with the King County Strategic Plan and support County departments and agencies in the delivery of services to County residents.

2017 eCommerce Report - The King County Administrative Policies and Procedures- FIN-8-5-1-EP, Accepting Electronic Payments, effective March 3, 2016, includes the following provision:

Section IV.f.1. “As part of the biennium budget request, and the mid-biennium report, the executive will provide the council with a list of all agencies offering electronic payment options. For those agencies absorbing Service Fees, either the actual or budgeted costs of absorbing these fees must be shown, as applicable, for the previous fiscal year, the present budget year and the upcoming budget year (County Code, KCC, 4A.601, Electronic Payments).

It is estimated that this report required 8 staff hours to produce, costing \$600.

The Executive Proposed 2017-2018 Biennial Budget Ordinance and related legislation support the King County Strategic Plan to “exercise sound financial management and build King County’s long-term fiscal strength.”

The Honorable Joe McDermott
September 26, 2016
Page 9

I certify that funds are available. If you have any questions, please contact Dwight Dively, Director, Office of Performance, Strategy and Budget, at 206-263-9687.

Sincerely,

Dow Constantine
King County Executive

Enclosures

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