INTRODUCTION

King County provides local and regional services to 2.2 million residents, with a two-year budget of about $11.6 billion and over 15,000 employees. Most of the County's programs are financially healthy and will continue to meet the needs of a growing and diversifying community. The strong regional economy has boosted revenue for some funds, including Metro Transit, and the County continues to make strategic investments in important programs and services that reflect the values of King County residents. However, structural revenue limitations imposed by the State mean that other funds are under financial stress, despite a booming economy.

King County is the 13th largest county by population in the United States and is the ninth largest in terms of total employment. The county is the home of many famous businesses and organizations, including Amazon, Boeing Commercial Airplanes, the Gates Foundation, Microsoft, Starbucks, and the University of Washington. The county has experienced remarkable growth in the last seven years, which has expanded wealth and economic opportunities but also led to higher housing prices and increasing congestion.

King County government is unique nationally in the range of services it provides. It is both a regional government, providing services throughout most or all of the county, and a local government, providing services in the unincorporated area (outside of cities). Regional services include transit, wastewater treatment, human services, elections, property assessments, solid waste transfer and disposal, public health, regional parks and trails, and the prosecution, defense, and adjudication of felonies. Local services include roads, police protection through the Sheriff's Office, land use regulation and permitting, and surface water management. Many other governments contract with King County to provide certain services, including police protection, courts, jails, public defense, and additional transit service.

King County uses a biennial (two-year) budget. Budgets are adopted in the fall of even-numbered years and are in effect for the two following calendar years.

2019-2020 PROPOSED BUDGET OVERVIEW

County Executive Dow Constantine is proposing a total budget of $11.6 billion for 2019-2020. **Figure 1** shows the major revenue sources that support this budget, which total about $11.6 billion.

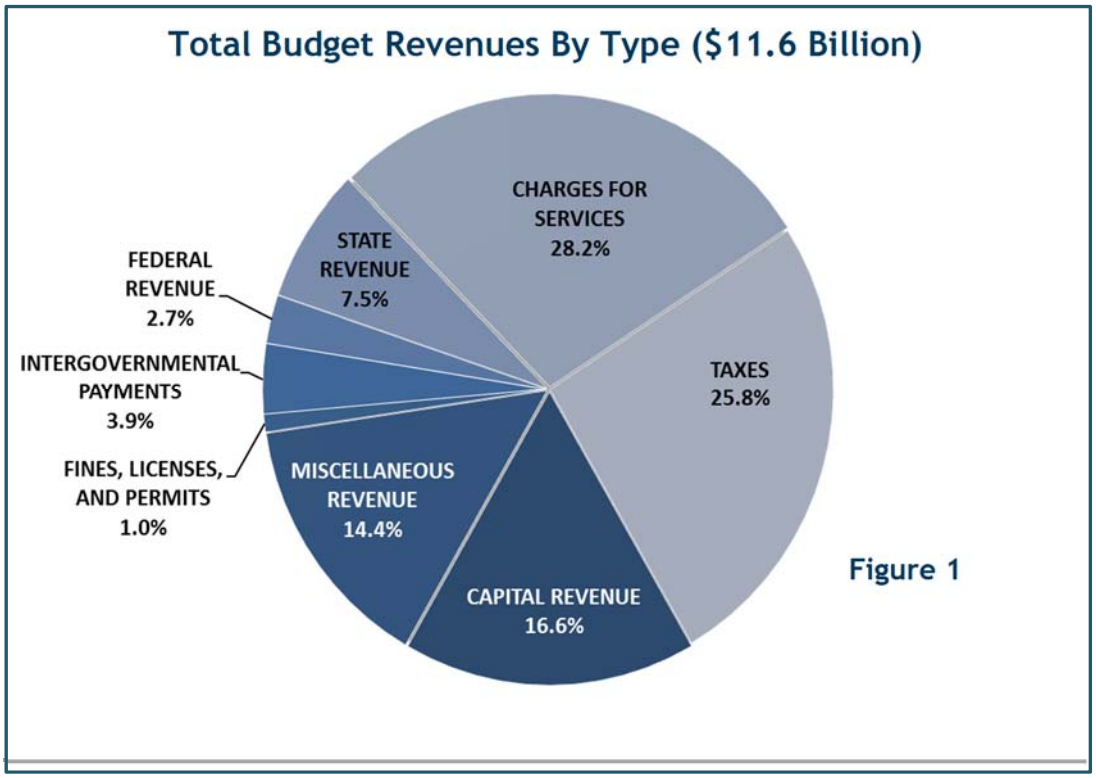


Figure 1

Taxes account for 25.8 percent and are concentrated in the General Fund and funds that support transit, roads, behavioral health, and several voter-approved programs such as emergency medical services, parks, and veterans, seniors, and human services. User charges represent about 28.2 percent of total revenue and are mostly related to utilities (wastewater treatment, solid waste, and surface water management) and transit fares. A variety of less-significant user charges support a wide range of other County functions.

Revenues dedicated to capital projects, including bond proceeds, represent 16.6 percent of total revenue. State funding accounts for 7.5 percent and federal funding for 2.7 percent of total revenue. These are concentrated in a few funds, notably Public Health and Behavioral Health.[1] Intergovernmental revenues are 3.9 percent of the total and represent payments from other local governments for the County to provide services.

[1] Behavioral health refers to a combined program that provides mental health and substance use disorder services. Washington State directed that these previously separate functions be merged as of April 2016.

State law and the King County Charter impose restrictions on the uses of many revenues. For example, revenues collected from solid waste disposal charges must be used for solid waste programs and cannot be diverted to parks or public safety. Due to these restrictions, King County's finances are organized into about 140 different funds, each with its own revenue sources and expenditures. The only truly flexible source of funds is the General Fund, which is described in more detail in a subsequent section.

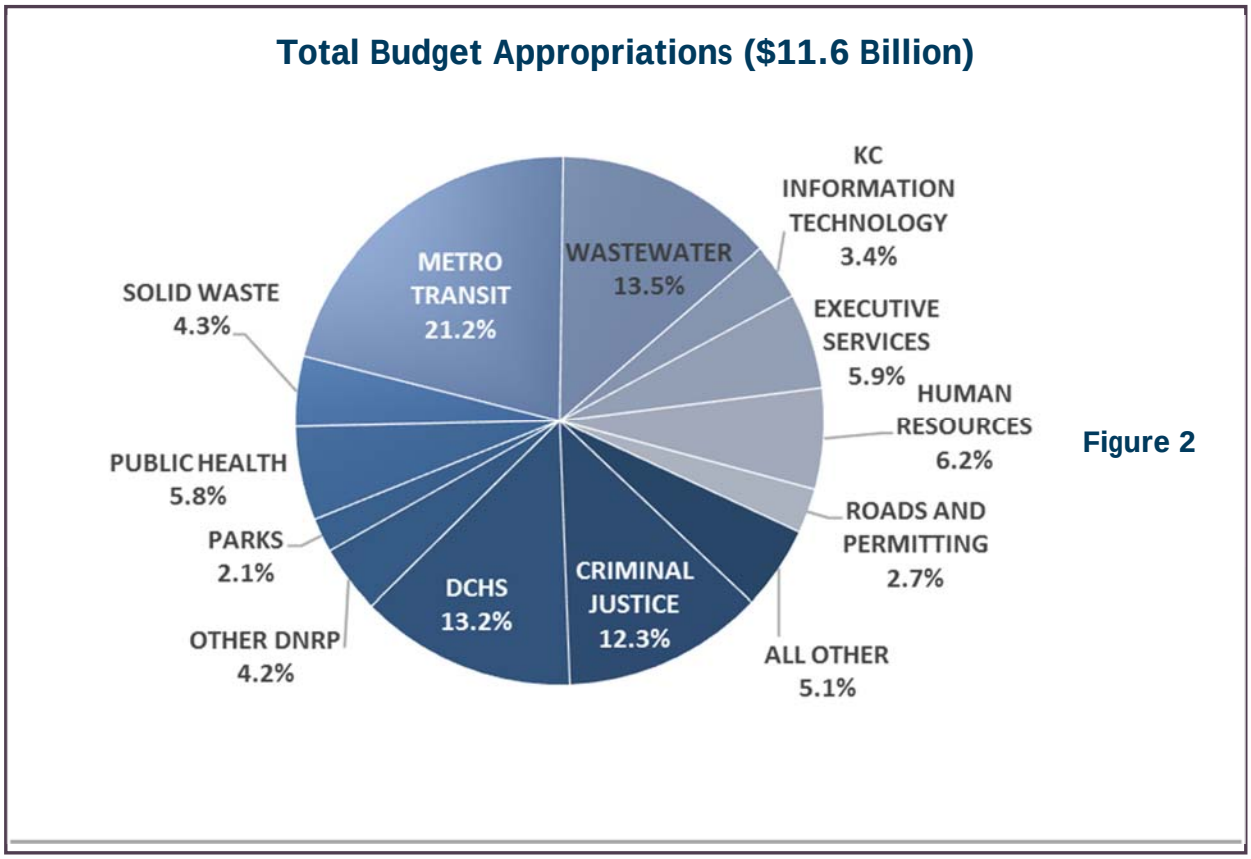


Figure 2

Figure 2 shows the major categories of the $11.6 billion proposed appropriations. This includes both operating and capital funds. Metro Transit is the single largest function, accounting for 21.2 percent of the budget. The Wastewater Treatment Division of the Department of Natural Resources and Parks is second at 13.5 percent, followed by the combined programs of the Department of Community and Human Services (DCHS) at 13.2 percent of the total. DCHS has grown substantially in recent years due to behavioral health restructuring at the State, voter approval of two property tax levy lid lifts (Best Starts for Kids and the Veterans, Seniors, and Human Services levy), and health care reform due to the Affordable Care Act.

The overall criminal justice system accounts for 12.3 percent of the total budget. This includes the Sheriff's Office, the Prosecuting Attorney's Office, the Department of Adult and Juvenile Detention, Jail Health Services, the Department of Public Defense, and Superior and District Courts.

King County has three major internal service agencies that support other departments. The new Human Resources Department represents 6.2 percent of the budget. The Department of Executive Services (DES) is largely an internal service function providing finance, accounting, risk management, facilities, fleets, and similar services to other County agencies. DES also provides some direct services to residents, such as licensing and animal services. For the 2019-2020 budget, DES is adding fleets and the King County International Airport to its functions and is losing the human resources function, which is becoming its own department. DES accounts for about 5.9 percent of the total budget. King County Information Technology (KCIT) is the third internal services agency and is about 3.4 percent of the budget.

The 2019-2020 Proposed Budget includes only one year of revenues and expenditures for the Emergency Medical Services and the Parks property tax levies. Both expire at the end of 2019. It is highly probable that renewals of these levies will be proposed in 2019.

The 2019-2020 Proposed Budget reflects important differences among the financial condition of the County's funds. Some funds, such as Wastewater Treatment, are in good condition because of dedicated revenues that support these activities. Programs can be expanded and services improved.

King County Budgeted FTEs by Agency

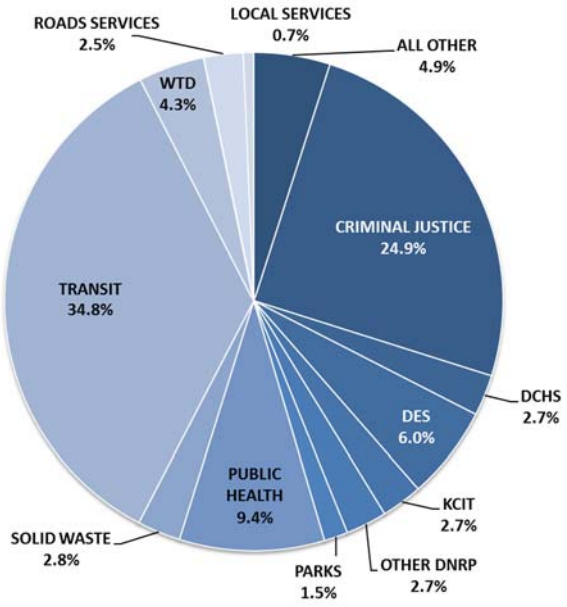


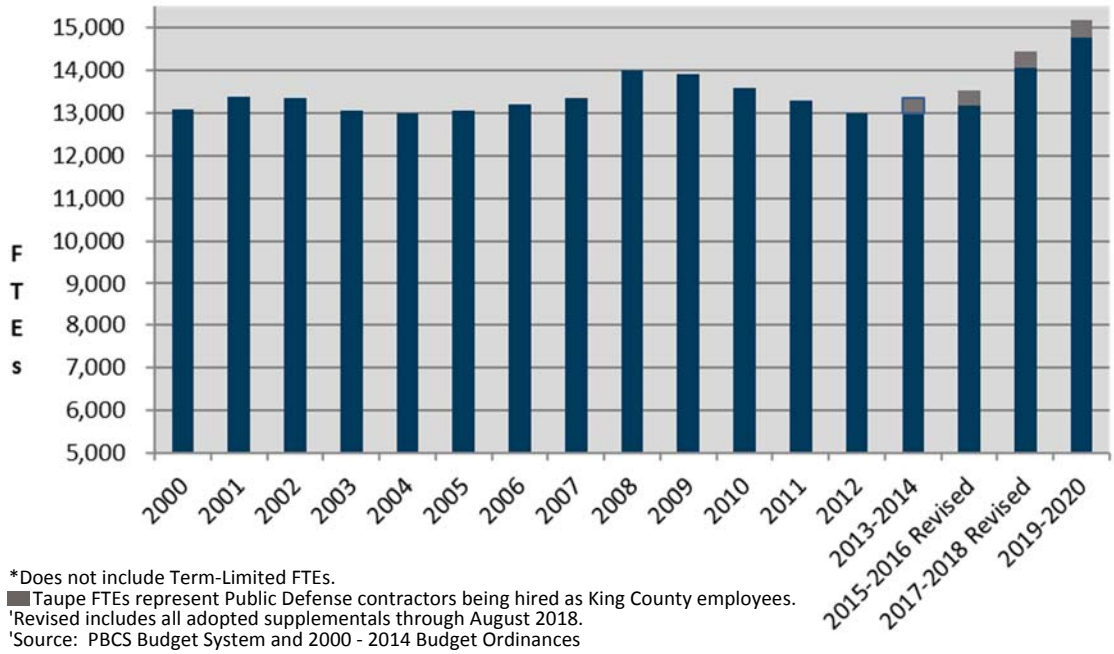
Figure 3

A second group of funds are in good condition due to the strong local economy. This is particularly reflected in funds that are dependent on sales taxes, which increased by 75 percent between 2010 and 2018, or about 7.2 percent per year.[2] This effect is most notable in Transit and in the Mental Illness and Drug Dependency (MIDD) Fund.

[2] This figure represents the growth of taxable retail sales in King County. Actual sales taxes received by various funds have grown by differing amounts due to provisions of State law. It is worth noting that the sales tax base declined by 18 percent between 2007 and 2010.

Several other County funds face chronic financial challenges, typically due to limitations of State law or declining state and federal funding. This is most notable in the General Fund, Public Health Fund, and Roads Fund, each of which is discussed later in this document.

Figure 3 shows how the County's approximately 15,000 employees are deployed.[3] Functions that are largely delivered by people, such as transit, criminal justice, and public health, tend to have the most employees. Functions that are capital-intensive with extensive and complex facilities, such as wastewater treatment (WTD in **Figure 3**), tend to have relatively few employees. DCHS has relatively few employees relative to its budget because it contracts with other organizations to deliver most of its services.



*Does not include Term-Limited FTEs.
Taupe FTEs represent Public Defense contractors being hired as King County employees.
'Revised includes all adopted supplementals through August 2018.
'Source: PBCS Budget System and 2000 - 2014 Budget Ordinances

Figure 4

Figure 4 shows how County employment has varied since 2000.[4] Employment peaked in 2008 and then declined by about 1,000 FTE due to the Great Recession and annexations of some areas that reduced demand for County employees (cities took over responsibility for these functions). Starting in 2013, the County converted the public defense function into a County department instead of the previous use of contracted nonprofit agencies. This added over 300 employees.

[3] Figures 3 and 4 use "Full-Time Equivalent" employees (FTEs). An employee who works half-time is 0.5 FTE. Thus, the County actually has more than 15,000 employees because part-time employees are fractions of an FTE.

[4] Figures are annual prior to 2013. Since then, the County has used biennial budgets.

ECONOMIC AND REVENUE OUTLOOK

King County continues to have one of the strongest economies in the nation. Employment in the county grew by 3.0 percent in 2017 and has grown 3.2 percent so far in 2018. Of the 10 largest counties nationwide measured by employment, King County had the second-highest employment growth rate and the highest growth in average weekly wages (10.1 percent) in the year ending March 31, 2018. Personal income per capita exceeded $80,000 at the end of 2017. Employment growth is expected to slow but remain positive through at least 2020.

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 1.7 percent in the year ending April 1, 2018. The county has added over 250,000 residents since 2010.

Employment and population growth have led to increases in housing prices. As shown in **Figure 5**, the Case-Shiller index of Seattle-area housing prices continues to increase rapidly. Housing prices have doubled in the last six years. Most forecasts show slowing growth in housing prices but no signs of a bubble as occurred about 10 years ago. These high prices have spurred construction of many new units, particularly in urban cores.

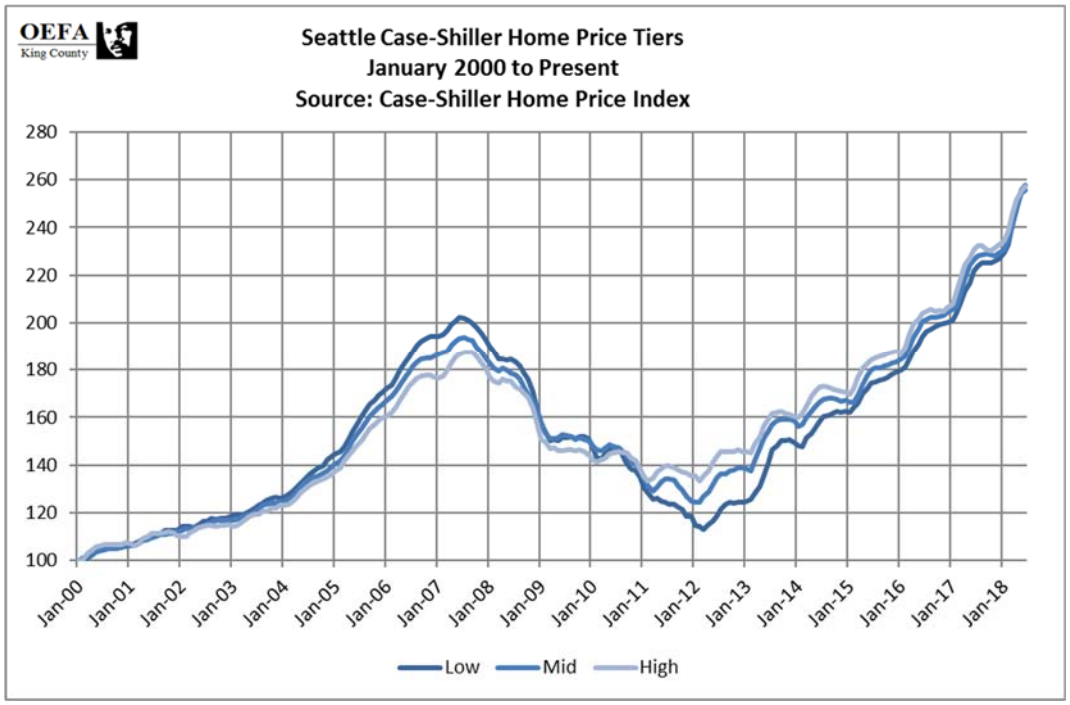


Figure 5

Property Taxes

As will be described in more detail in the General Fund section, growth in property tax revenue for governments in Washington is limited to 1 percent per year plus the value of new construction. The strong economy has led to significant increases in new construction. The Office of Economic and Financial Analysis (OEFA)[5] predicts that new construction will be about $10.7 billion for 2019 and $9.9 billion for 2020. These would be the highest figures ever achieved and would slightly exceed the $9.8 billion that occurred in 2018.

Countywide assessed value of property is also expected to grow significantly. OEFA forecasts assessed value to grow from $534.7 billion in 2018 to $597.8 billion in 2019 and $646.0 billion in 2020. King County has extremely high assessed values per capita compared with most areas in the country.

The County's roads levy is the principal source of funding for roads, streets, and bridges in unincorporated King County. As is discussed in a subsequent section, the Roads Fund has far less money than is needed to adequately maintain existing infrastructure. Recent assessed value growth means that the roads levy is no longer at its maximum tax rate, so revenue growth is constrained by the 1 percent per year limit imposed by the State.

Sales Taxes

The strong local economy is generating significant growth in sales taxes. Different sales taxes have somewhat different tax bases, but the total countywide tax base provides a representative example of the growth. This base grew by 5.8 percent in 2017 and is projected by OEFA to grow at 7.6 percent for 2018.[6] Some of the 2018 growth is due to a change in State law that requires more out-of-state companies to collect Washington sales taxes. Further growth is predicted, albeit at slower rates: 3.4 percent for 2019 and 1.9 percent for 2020. Much of the decline is due to expected slowdowns in construction, which has generated a disproportionate amount of sales tax revenue in the recent boom years[7].

Despite the strong growth, sales taxes are not as productive a revenue tool as they were in the past. **Figure 6** shows the ratio of taxable sales to personal income in King County since 1994. In 1994, approximately half of all personal income received by King County residents was spent on items subject to the sales tax. This percentage declined gradually and plunged during the Great Recession (gray bars on the chart). There has been only a slight recovery since then and the ratio has stabilized at around 36 percent.

There are many underlying reasons for this trend. Some sales have been diverted to online purchases, although Washington's participation in the streamlined sales tax agreement means that most large online sellers collect sales taxes. This effect was further mitigated by the recent State law change affecting out-of-state sellers. Changes in income distribution are also a factor. High-income individuals spend smaller portions of their income on items subject to the sales tax, so as this group commands more and more of the total income the productivity of the sales tax declines. Changes in buying patterns

[5] Under the County Charter, OEFA is responsible for developing forecasts for major County revenues. The forecasts are adopted by the Forecast Council, which includes the County Executive, two County Councilmembers, and the PSB Director. The Executive and Council are required to use the OEFA forecasts for the budget.

[6] By policy, OEFA forecasts at the 65 percent confidence level. This is an intentionally conservative forecast. A 65 percent confidence level means that actual revenues should equal or exceed the forecast 65 percent of the time.

[7] Unlike most states, both construction materials and labor are subject to the sales tax in Washington. This means construction is a larger part of the sales tax base in Washington than in most other states.

also have had an effect. For decades, people have gradually shifted away from purchasing goods to purchasing services, and since most services aren't subject to the sales tax the productivity of the tax declines. Finally, King County is home to an increasing number of younger workers. These individuals often have significant student loans to repay, which prevent them from spending as much money on items subject to the sales tax as did previous generations. In addition, they often are choosing lifestyles that have smaller dwelling units and rely on public transportation. This means fewer purchases of vehicles, furniture, appliances, building materials, and lawn and garden supplies, all of which are subject to the sales tax.

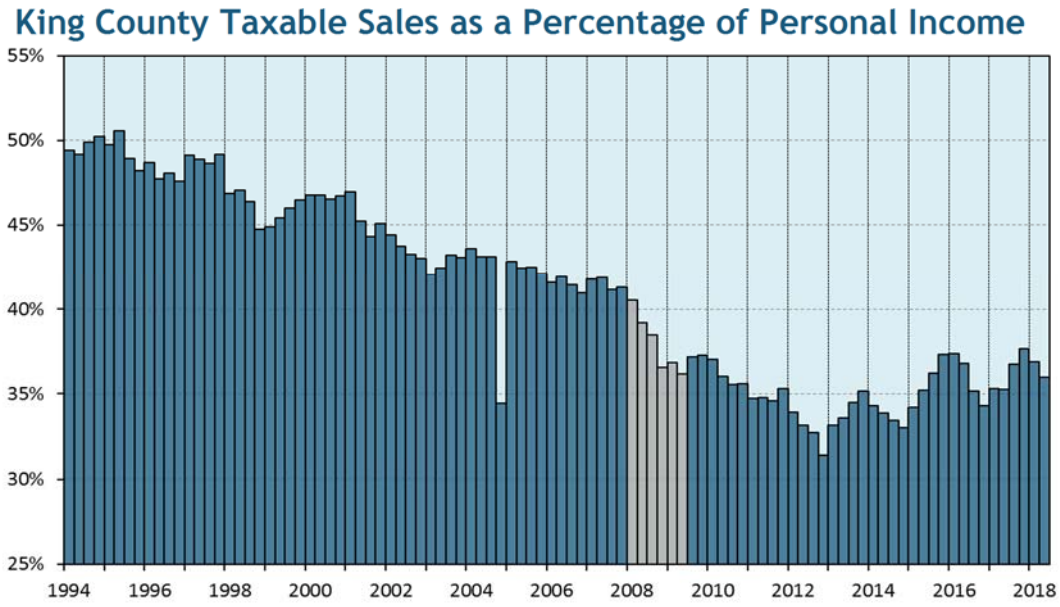


Figure 6

Real Estate Excise Tax

State law allows cities and counties to impose up to a 0.5 percent excise tax on property sales, which is known as the Real Estate Excise Tax (REET). The use of REET is restricted to acquisition, development, and major maintenance of certain types of capital assets, such as parks, roads, and other public facilities.[8]

King County collects REET only in the unincorporated area, so the strong sales of properties in some of the major cities provide no direct benefit to the County. The City of Seattle's REET revenue is approximately five times as much as King County's. Even the City of Bellevue, with roughly half the population of the County's unincorporated area, receives more REET than King County.

The strong real estate market has benefitted REET revenue, which grew from about $6.6 million in 2011 to $15.9 million in 2017. OEFA forecasts REET to be about $16.5 million in 2018, $17.0 million in 2019, and $17.5 million in 2020.

In the 2019-2020 Budget, Executive Constantine is proposing to spend approximately $26.9 million of REET on parks and trails projects, $3.4 million for roads and culverts, and $1.5 million for major maintenance of County buildings. Approximately $2.5 million would be spent to pay debt service on bonds, including new bonds to be issued in 2019 for a portion of the cost of a new central maintenance facility for Parks.

[8] There are two separate REET authorities, each at a 0.25 percent tax rate. State law has somewhat different restrictions on the allowable use of each tax.

EXECUTIVE'S APPROACH AND PRIORITIES

Executive Constantine followed five principles in developing the 2019-2020 Proposed Budget: 1) continue strong financial practices; 2) continue to improve County operations through the Best-Run Government initiative; 3) maintain a long-term focus; 4) continue to make progress on the countywide initiatives of Equity and Social Justice, the Strategic Climate Action Plan, and the human resources strategy known as Investing in You; and 5) focus additional resources on emerging priorities including homelessness, the path to Zero Youth Detention (ZYD), and clean water and healthy habitat.

Continue Strong Financial Practices

Executive Constantine, with the support of the County Council, has emphasized improved financial management since taking office in 2009. The 2019-2020 Proposed Budget reflects this in several ways:

1) The General Obligation (GO) bond rating is further supported. King County has the highest possible ratings for its voter-approved and Councilmanic General Obligation bonds, which ensures low interest rates on County borrowing and saves millions of dollars annually for county taxpayers and ratepayers.[9] The County often uses its GO bond rating to support debt issued by other County agencies, including Wastewater, Solid Waste, and Metro Transit. These agencies pay a credit enhancement fee to the County's General Fund to reflect part of the savings they realize.

   The 2019-2020 Proposed Budget maintains an undesignated balance in the General Fund of 8.0 percent, which is the top of the range established by County policy. In addition, a Rainy Day Fund of $25.3 million is preserved. Half of the credit enhancement fee is used to continue to increase the General Fund balance in future years.

[9] Councilmanic bonds can be issued by a government without voter approval, but unlike voter-approved bonds they do not create a new revenue source for debt service. Thus, debt service on Councilmanic bonds must be paid from existing revenues.

2) Metro Transit's new financial policies are maintained. The Executive proposed and the County Council approved new financial policies for Metro Transit in 2016. These focus on defining clearer purposes for various reserves, setting target funding levels for each reserve, establishing rules about drawing on and refilling reserves, and defining an updated method for financing bus purchases that involves building fund balances and occasionally using short-term debt in peak purchasing periods. The 2019-2020 Proposed Budget fully funds all the reserves called for in these policies.

3) Routine quarterly financial monitoring of significant County funds is continued. Starting in mid-2015, the Office of Performance, Strategy and Budget (PSB) began regular quarterly reviews of all major County funds. The process included the development of a standard financial plan and use of consistent accounting practices across all funds. This replaced a variety of different approaches used previously for various funds. This standardized reporting and review allowed excess balances in some funds to be identified during the 2019-2020 budget process. These balances were used to reduce cost growth or expand services.

Continue to Improve County Operations

Executive Constantine has set the goal for King County to become the best-run government in the nation. The 2019-2020 Proposed Budget includes several steps to further this goal:

1. Three significant reorganizations that were approved in 2018 are reflected in the budget. These are intended to create clearer accountability and improved customer service.

   - Metro Transit has become its own department rather than being a division of the Department of Transportation (DOT). Metro is the County's largest and most widely used function and should be a Cabinet-level agency. The Marine Division of DOT, which provides passenger ferry service, is included in Metro Transit.

   - A new Department of Local Services (DLS) has been created to bring together most services that are used solely by residents of the unincorporated area. The two largest functions are the Road Services Division, formerly part of DOT, and the Permitting Division, formerly its own department. DLS also includes several smaller functions, including a new economic development program. DLS will also coordinate functions provided by other agencies in the unincorporated area and is pioneering a "product catalog" that tracks these services and related performance measures.

   - A new Department of Human Resources (DHR) has been formed, drawn mostly from a former division in DES. In addition, the payroll function and the alternative dispute resolution program are now part of DHR. Department human resources managers, who previously were housed in departments with a matrixed reporting relationship to the central agency, will be moved to DHR as part of the 2019-2020 budget and will be matrixed to their individual departments. This should improve consistency and coordination across the government.

   As a consequence of these changes, two divisions of DOT are moved to DES in the 2019-2020 budget: the Fleet Services Division and the King County International Airport. DOT is abolished.

2. Formal investment monitoring plans will be developed for approximately 50 of the initiatives in the 2019-2020 Proposed Budget. The purpose of these plans is to clearly identify the intended outcomes from the investments and track actual results over the next 18 months. This will provide information

about whether to continue, expand, revise, or discontinue these programs in the 2021-2022 budget.

3. The 2019-2020 Proposed Budget reflects continued deployment of strategies to reduce the growth in costs of County services. Many agencies identified efficiencies as part of the budget process, including reducing vacant positions in areas where service demands have decreased, using technology to improve timeliness and efficiency, and partnering with other agencies to share programs. Starting in the fall of 2018, all departments and major divisions will develop cost per unit measures for at least two of their major services. These will then be monitored quarterly to provide improved information for program management.

4. The 2019-2020 Proposed Budget completes a 12-year effort to replace the County's antiquated major information technology systems. New systems for the Department of Judicial Administration, District Court, and the Behavioral Health Division of DCHS will be deployed in late 2018 or early 2019. The 2019-2020 Proposed Budget includes the final appropriations for a new Jail Management System and for the Property Tax Administration System. The Proposed Budget includes a wide range of technology projects for Metro Transit, some of which update existing systems and some that provide new services to riders.

   Unlike past practice, the County keeps new systems up-to-date. Many are provided as "software as a service" (SaaS), in which the vendor automatically provides updates. For those that are not, including the County's enterprise financial and human resources systems, the Business Resource Center maintains these systems, and the County sets aside funds for upgrades and maintenance as needed.

   King County Information Technology (KCIT) has identified all applications used by County agencies and is working with them to decommission or modernize any that are out of date. This multi-year effort is expected to significantly reduce support costs and allow agency funds to be redirected to services.

5. The County continues to expand the use of Lean, a continuous improvement methodology first developed by Toyota. Significant process improvements have been made in many agencies, including faster license and permit processing, savings in jail health services, reduced parts inventories, faster billing, more efficient hiring, and shorter procurement timelines. The County's Lean efforts are evolving from a largely centralized group to broad deployment throughout agencies using their own staff.

6. The 2019-2020 Proposed Budget reflects continued success in managing employee health care costs. King County has partnered with most of its unions to jointly manage health care costs. Changes in plans, incentives to use effective and efficient providers, and efforts to enhance employee wellness have driven down cost growth in health benefits. For 2019-2020, the County has just completed negotiations with the coalition of unions that require no increase in the County's contribution for health care in either year. This means that the County's per employee contribution for health care has remained constant in three out of the last four years.

7. The County continues to emphasize effective risk management throughout its operations. The Office of Risk Management is working with each County agency to develop a risk profile, which identifies the most significant risks facing each organization and starts the process to mitigate them. Risks are sometimes obvious, such as bus accidents for Metro Transit, but can be much more subtle, such as the loss of critical business knowledge if a key employee retires.

The County's focus on risk management includes financial benefits that are reflected in the 2019-2020 Proposed Budget. The Risk Fund continues to be fully funded on an actuarial basis, which means that sufficient funds have been set aside to cover the costs of any incidents that have already occurred. This contrasts with the "pay as you go" approach used by many governments. In addition, the rate charged for the County's property insurance increased by only 3.5 percent at the July 2018 renewal, despite a large claim for damages that occurred when the West Point Treatment Plant flooded early in 2017. This increase was well below the general market increase, which was high due to the large losses suffered by insurers from hurricanes, earthquakes, and fires in 2017.

Maintain a Long-Term Focus

Many of the County's programs have a long-term, investment-oriented focus. Several are described in other sections of the report as part of the discussions of County priorities. In addition, there are several other examples of a long-term focus:

1. Best Starts for Kids (BSK) is a voter-approved property tax levy lid lift that started to collect funds in 2016. BSK focuses on investing upstream in the health and development of young children and maintaining that support through young adulthood. BSK also includes funding for Communities of Opportunity, a place-based strategy that works with geographic communities to identify key opportunities for improvements in health, education, nutrition, and similar needs. Total BSK spending in the 2019-2020 Proposed Budget is $167.6 million.

2. The Metro Transit budget focuses on building long-term capacity to expand service. The budget is based on METRO CONNECTS, the agency's long-range plan. Metro's ability to add service is constrained by its existing infrastructure. Thus, the 2019-2020 Proposed Budget includes significant investments in expanding bases, building layover facilities, and modernizing technology systems.

3. The Proposed Budget includes funding to complete the Downtown Civic Campus Plan for the County's office facilities, the King County Courthouse, and the King County Correctional Facility. Strict revenue limitations imposed on the County's General Fund by the State have led to under-investment in major maintenance of these buildings for over a decade. Although funding for such maintenance was increased in the 2017-2018 Budget and further increased in the 2019-2020 Proposed Budget, it may make more sense to build some new facilities, potentially in conjunction with private co-developments. The Civic Campus Plan will also look at whether some functions currently located in downtown Seattle would be suited to other parts of the county that have lower facility costs.

Continue to Make Progress on Countywide Initiatives

For the last several budgets, King County has been providing funding for three countywide policy priorities: Equity and Social Justice (ESJ), the Strategic Climate Action Plan (SCAP), and a human resources strategy now known as Investing in You (IIY). The 2019-2020 Proposed Budget expands on previous investments in all three areas.

1. The County's ESJ efforts focus both within the government and in our communities, and are outlined in the King County Equity and Social Justice Strategic Plan. The Proposed Budget adds resources to the central Office of Equity and Social Justice to support improved access for residents who speak different languages and to support implementation of the Strategic Plan. Funds are provided for two new programs. The first is support for organizations that work with African American and Native American/Alaska Native residents of the county, who typically face the greatest discrimination and lag furthest behind in life expectancy, employment, and income.

The second is an internal program to support employees of color with workshops and other programs that help them advance their careers in King County government. In addition, there are a range of other ESJ-related investments in departments, including expanded civil legal aid to support clients of the Department of Public Defense and multiple investments in translation and interpretation.

2. The most recent version of the Strategic Climate Action Plan was adopted by the County Council in 2015. The plan sets goals for carbon emissions by County government and for the county as a whole. County agencies have made significant strides in reaching these goals, including exceeding building energy efficiency goals and beginning to deploy zero-emission electric buses. In the 2017-2018 Budget, a four-person climate team was created that is funded through a "carbon tax" on agencies that produce greenhouse gas emissions.

   The 2019-2020 budget includes further investments in SCAP, such as investments to expand the infrastructure to support electric buses, installation of solar panels at two solid waste transfer stations, and continued use of the Living Building Challenge methodology when new facilities are developed. County agencies will continue to use the Fund to Reduce Energy Demand (FRED) to finance projects that repay the debt from energy savings. An update of SCAP will occur in 2020.

3. Investing in You is a comprehensive human resources strategy that focuses on recruitment, retention, and development of a diverse and highly-qualified workforce. A key component of the strategy is the creation of the Department of Human Resources, which was described earlier in this document. In addition to consolidating the County's critical human resources functions in a single department, the 2019-2020 Proposed Budget adds additional staffing and funding for recruiting, training, and organizational development. The expanded recruiting function will allow the County to coordinate across agencies and expand recruiting in non-traditional areas. Recruiting is increasingly important because of the large wave of retirements of long-time County employees that has begun. An expanded focus on training will address one of the most common requests in the annual employee survey. A centralized organizational development function will give departments an in-house resource and will significantly reduce spending on consultants.

Focus Additional Resources on Emerging Priorities

King County residents and their government face several new or growing challenges, including water quality and habitat preservation, homelessness, and racial disproportionality in the juvenile justice system. The 2019-2020 Proposed Budget makes significant investments in each of these areas.

1. The residents of Puget Sound and the Salish Sea face growing challenges from pollution, habitat loss, and climate change. The Southern Resident orcas now number only 75 and salmon runs continue to decline. King County has a long history of investments in water quality and habitat preservation, but these efforts must be redoubled given the critical situation. The 2019-2020 Proposed Budget includes three new or expanded initiatives to support clean water and healthy habitat.

   - The budget includes $12.5 million to fix culverts under County-owned roads and trails. When completed, approximately 150 miles of historic salmon habitat will be reopened. This is funded in part by a 20 percent increase in the surface water management fee imposed in unincorporated King County.

- $3 million is set aside to assess and implement new alternative water quality investments. These will be identified and developed in cooperation with regulatory agencies, tribes, and interested groups. The current regulatory system tends to focus on certain types of pollution controls and may not include enough emphasis on stormwater runoff that causes critical damage to Puget Sound water quality. Significantly more funds would be available in subsequent budgets.

- Recently approved financial policies allow for increased use of debt supported by the Conservation Futures Tax, a property tax dedicated to this purpose. This is projected to support about $148 million in new habitat acquisition or other preservation in the next five years.

2. As in many other areas, homelessness is a growing problem in King County, with more than 12,000 homeless individuals identified in a count earlier in 2018. The State Legislature approved new State funding and new local funding sources in its most recent session.

   The 2019-2020 Proposed Budget includes a wide range of new or expanded initiatives to address homelessness. Funding is provided for a new shelter to be built with modular units, a site to house 25 individuals in modular micro-dwelling units, and a new shelter in Harborview Hall. Significant new investments are made in expanded behavioral health treatment to address one of the root cause of homelessness. Many existing programs are continued or expanded.

3. King County is a leader in diverting youth from juvenile detention to other alternatives that focus more on treatment and reconciliation rather than punishment. Since 1998, the County has reduced the average daily population in juvenile detention from 190 to 55. However, those remaining in detention are predominately youth of color and all participants in the system agree that more youth could be kept out of detention.

   Executive Constantine has shifted the responsibility for programming in juvenile detention to Public Health – Seattle & King County. Public Health will use a trauma-informed approach to serve youth facing detention. A recently completed Roadmap to Zero Youth Detention identified a series of ideas and initiatives that should be the next steps to reducing detention and disproportionality. Public Health will work with other relevant County and external partners to develop and implement specific proposals.

   The 2019-2020 Proposed Budget includes new staff in Public Health to coordinate the work, $1,000,000 to expand the use of electronic home monitoring for youth by providing support through community organizations, $700,000 for behavioral health services for youth before they get involved in the justice system, $250,000 to help families and youth get to court hearings and avoid warrants, $400,000 to continue the CEDAR diversion program, and $25,000 to continue new training approaches for juvenile detention officers and other staff.

GENERAL FUND

King County's General Fund supports the traditional functions of a county government, most of which are required by State law. The major focus of the General Fund is criminal and civil justice functions. Counties also are responsible for elections administration, property assessments and tax collection, and public health.

King County's General Fund has faced chronic imbalances between revenue and expenditure growth for nearly 20 years due to revenue limitations under state law. At the start of the 2019-2020 budget process, the General Fund faced a gap of about $18 million between projected revenues and the cost of continuing current programs. However, the strong economy and rising interest rates led to significant increases in property taxes, sales taxes, and interest earnings. These revenue increases, coupled with efficiencies identified by many General Fund agencies and higher revenues from services provided to other governments, allowed the General Fund to be balanced with minimal reductions in services. Several important investments are also made in the Proposed Budget. These results occurred despite a Superior Court ruling that invalidated the County Council's decision to charge rent to utilities for the use of the County's right-of-way in unincorporated areas, which eliminated $11 million of expected 2019-2020 revenues. This decision will be appealed.

General Fund Revenues: The System is Broken

Revenue sources available to county General Funds are restricted by State law. The only significant tax sources are property and sales taxes. Unlike the State or cities, counties are not authorized to impose utility or business taxes. General Fund revenues are projected to be about $1.83 billion for 2019-2020.

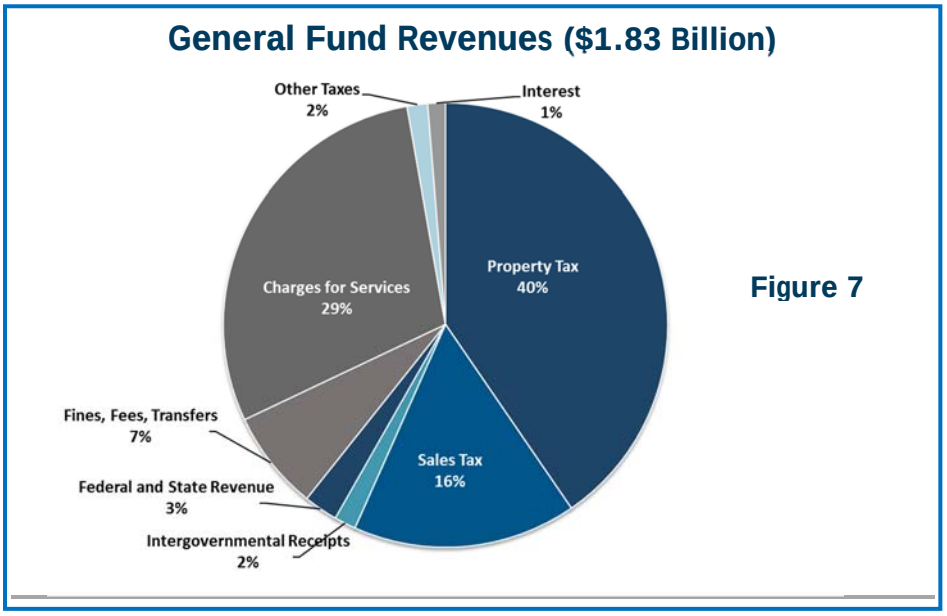


Figure 7

Figure 7 shows the breakdown of projected 2019-2020 General Fund revenues. The property tax is by far the largest source at 40 percent. Sales taxes, including an additional sales tax for criminal justice programs, represent 16 percent. Charges for services, most of which are charges to other County funds for services provided by General Fund agencies or contracts to provide services to other governments, account for 29 percent. This category includes payments from cities and Sound Transit for police services provided by the Sheriff's Office, municipal court services provided by the District Court, indigent defense services provided by the Department of Public Defense (DPD), and use of County jails. All other revenue sources account for only 15 percent of the total.

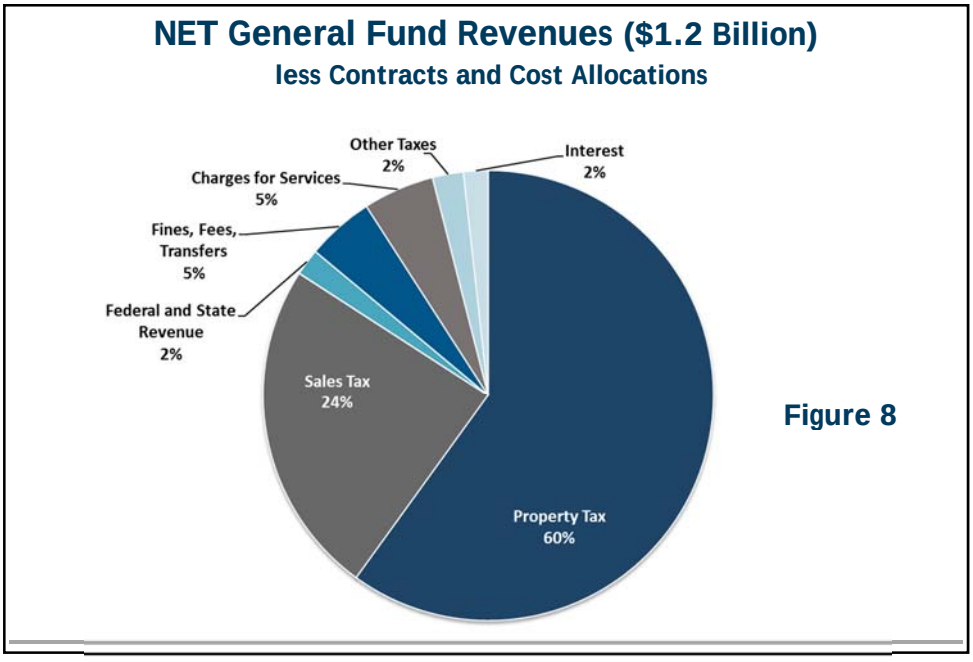


Figure 8

This overall view is somewhat misleading because the services provided to other County agencies and to other governments are self-supporting. These revenues are offset by corresponding expenditures. If these intergovernmental receipts and internal charges for service are removed, the "true" or "net" General Fund revenues are revealed in **Figure 8.**

In this view, the property tax accounts for 60 percent of the General Fund's revenue. This is consistent with other Washington counties that don't provide the contracted services that King County does. Sales taxes represent another 24 percent of the revenue. Thus, over 80 percent of the net General Fund revenue comes from these two sources. It is worth noting that state and federal direct support to the General Fund is minimal, representing a combined 2 percent of the total.

The heavy dependence on the property tax is the largest source of the General Fund's financial challenges. Since 2001, State law has limited the revenue growth in most property taxes, including county General Funds, to 1 percent per year. In addition, the value of new construction is added to the tax base and represents between about 0.5 percent and 2.0 percent additional growth, depending on economic conditions.

Figure 9 shows the effects of this limit on property tax revenues. Each year's right-hand bar is the actual property tax revenue collected by the County's General Fund. Each year's left-hand bar is how much General Fund property tax revenue would have been collected had this revenue kept up with inflation and population growth. In 2019, the difference between the bars is $226 million. A small portion of this difference, approximately $50 million, has been covered by voter-approved property tax levy lid lifts to fund services previously covered by the General Fund. A portion of the Parks Levy is the largest component of this $50 million. The dependence of King County and other counties on the drastically limited property tax has resulted in chronic financial difficulties for the last 18 years. This situation is commonly referred to as the "structural gap."

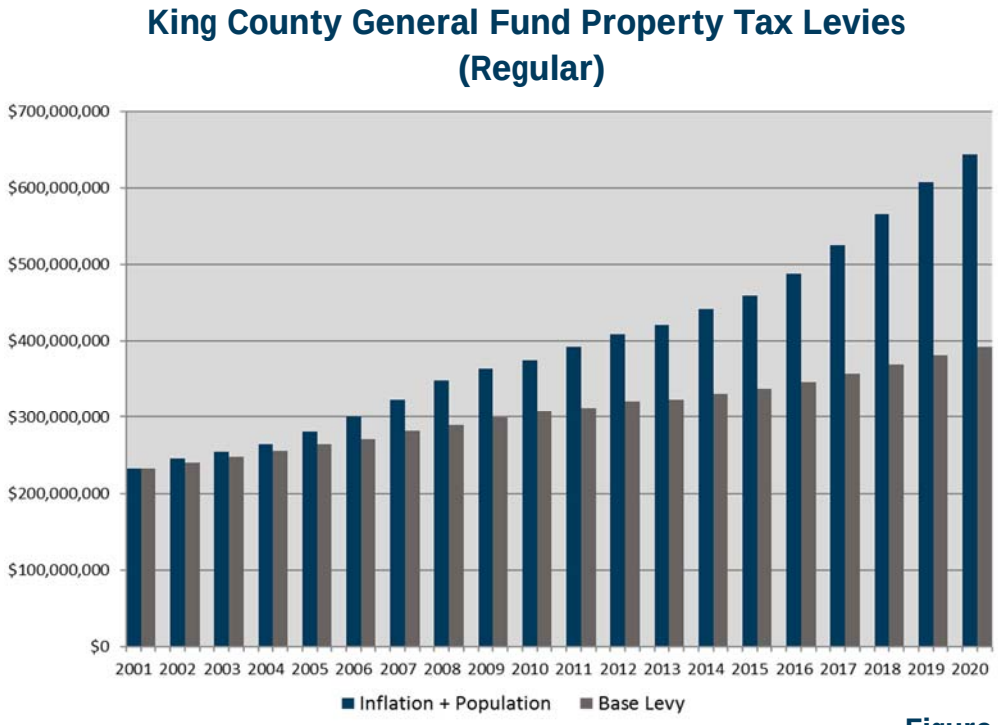


Figure 9

King County, unlike most other counties, also is adversely affected by the structure of the sales tax. As noted in the previous section of this document, the sales tax is declining in productivity due to changes in purchasing patterns and other factors. In addition, there are two further sales tax issues affecting King County.

First, the sales tax rate received by a county depends on where a sale occurs. If a sale occurs in the unincorporated area (outside of cities), the county receives the entire 1.0 percent local sales tax. If a sale occurs within a city, the county receives only 0.15 percent and the city receives the remaining 0.85 percent. King County has actively complied with the State Growth Management Act that encourages urban areas (including almost all commercial areas where taxable sales occur) to be brought into cities. As a result, King County receives almost no sales tax at the full 1.0 percent rate. **Figure 10** shows that King County only had 3.3 percent of its taxable retail sales in the unincorporated area in 2017, far lower than any other urban county.

Second, many counties impose a separate 0.1 percent criminal justice sales tax. This tax has been in effect in King County since the early 1990s. Under State law, counties receive 10 percent of the revenue and the remainder is split among cities and the county based on population (for the county, it is the population of the unincorporated area). As the County has implemented the State Growth Management Act, its unincorporated area population has declined. The County conducted a study in 2017 to identify total criminal justice expenditures by cities and the County and compare them with the distribution of the criminal justice sales tax. As seen in **Figure 11**, King County has about 37 percent of the total expenditures but only receives 20 percent of the revenue. The City of Seattle basically breaks even and all the other cities received far more revenue than their share of criminal justice costs. This outcome is the result of State law that requires the County to bear the financial burden of juvenile justice and the incarceration and adjudication of all felonies, regardless of where they occur.

2017 Unincorporated Area Sales and Use Tax as a Percent of Total

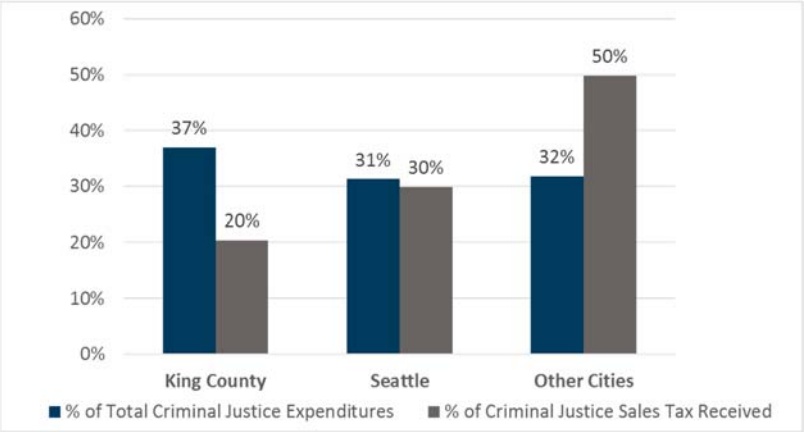
County	Tax Base in Unincorporated Area
Kitsap	44.65%
Clark	29.27%
Snohomish	21.87%
Pierce	18.96%
Whatcom	17.40%
Thurston	15.72%
Yakima	15.22%
Skagit	13.74%
Benton	13.11%
Spokane	13.10%
King	3.29%

source: OEFA

Figure 10

As a result of these limitations due to State law, King County's General Fund revenues have been declining as a share of personal income for over two decades. **Figure 12** shows General Fund sales and property taxes as a share of the total personal income of King County residents since 1990. In 1990, $4.06 of every thousand dollars of personal income was paid in taxes to support the County's General Fund. This has varied over time due to economic conditions, but the effects of tax limitations and formulas have created an underlying downward trend. By 2016, only $2.65 of each $1000 of personal income was paid in taxes to the General Fund.

CJ Sales Tax Revenue % vs Expenditures %



Source: Conway and Associates

Figure 11

Interestingly, as shown in **Figure 13,** the pattern per capita (with the effects of inflation removed) is quite different. In 1990, residents paid an average of $102.95 in taxes to the County's General Fund. This was $101.60 in 2017. This figure has moved within a very narrow range over the last 28 years.

King County General Fund Taxes per $1,000 of Personal Income
(without levy lid lifts)

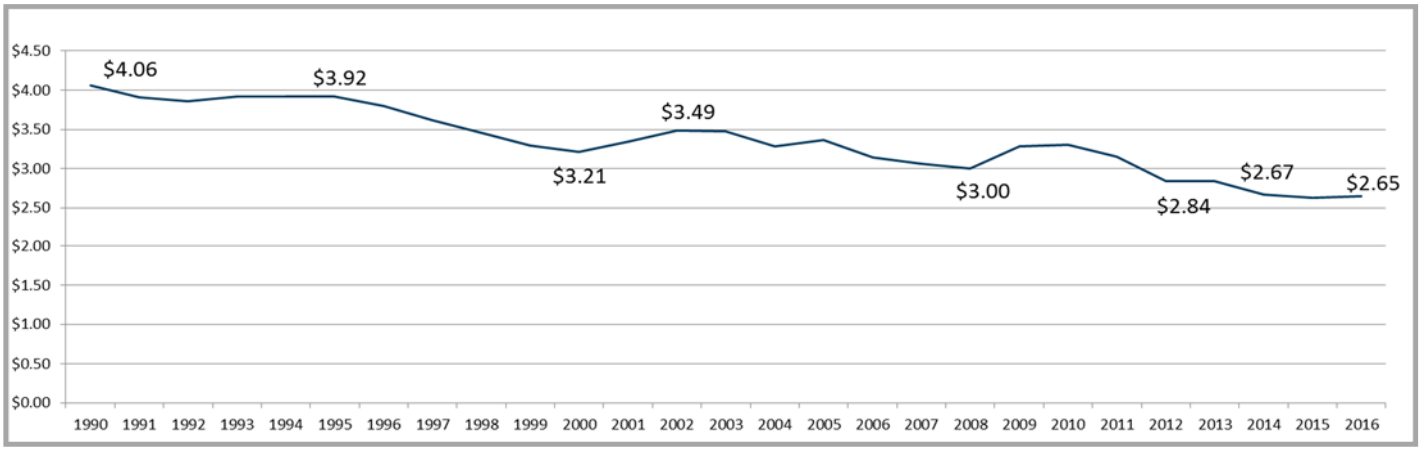


Figure 12

The difference in the patterns of **Figures 12** and **13** reflects both income growth and the widening income disparity in King County, as is true throughout the United States. Washington's regressive tax structure means that people pay about the same taxes to the County's General Fund on average, but higher income people pay proportionately much less than in the past.

General Fund Expenditures

King County's 2019-2020 Proposed Budget includes $1.86 billion in appropriations from the General Fund. **Figure 14** shows this how this is split among agencies.

The King County Sheriff's Office (KCSO) has the single largest General Fund appropriation at 21.6 percent, followed by the Department of Adult and Juvenile Detention (DAJD) at 17.5 percent. DAJD is responsible for the two adult jails: the King County Correctional Facility (KCCF) in Seattle and the Maleng Regional Justice Center (MRJC) in Kent. DAJD also runs the juvenile detention facility in Seattle and operates the Community Corrections Division that provides alternatives to detention for adults.

The other agencies and branches that are part of the justice system are the Prosecuting Attorney's Office (PAO), Department of Public Defense (DPD), Superior Court, District Court, Judicial Administration, and the Jail Health Services Division. When combined with KCSO and DAJD, the criminal justice system accounts for about 72 percent of General Fund appropriations.

Real King County General Fund Taxes per Capita
(without levy lid lifts)

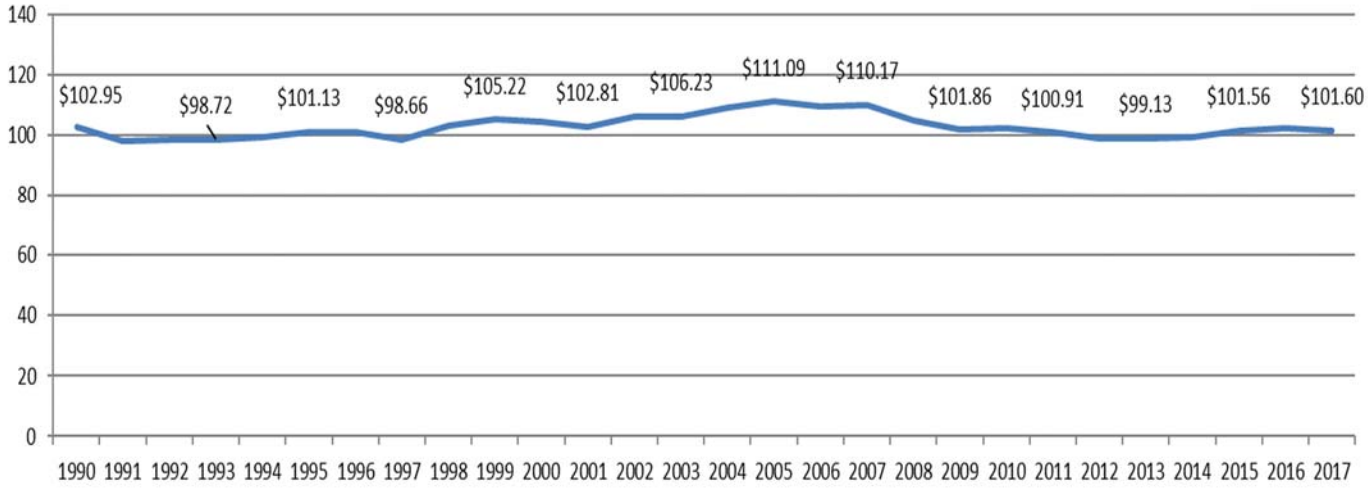


Figure 13

As noted previously, a significant portion of General Fund expenditures is supported by revenue from other governments or from other County funds. Removing these expenditures leads to the "true" or "net" General Fund budget, which is shown in **Figure 15**.

Comparing **Figures 14** and **15** shows that the functions supported by the County's own General Fund revenue are significantly different than the total General Fund budget. DAJD is now by far the largest General Fund appropriation at 21.2 percent. KCSO shrinks to 13.1 percent because much of its budget is

supported by contracts with cities and transit agencies. The criminal justice system represents about 74 percent of total net General Fund appropriations.

Other functions that shrink as relative proportions of the General Fund budget are Elections and the group of agencies labeled as General Government. Elections receives significant funding from charges to other jurisdictions for election costs and the General Government agencies charge other County funds for a portion of their costs.

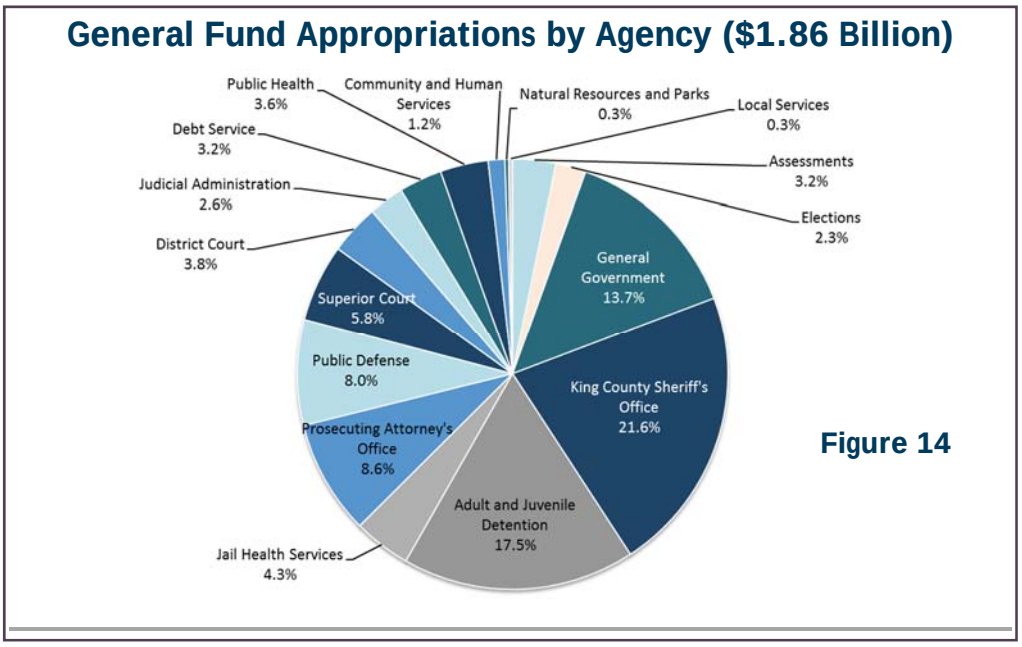


Figure 14

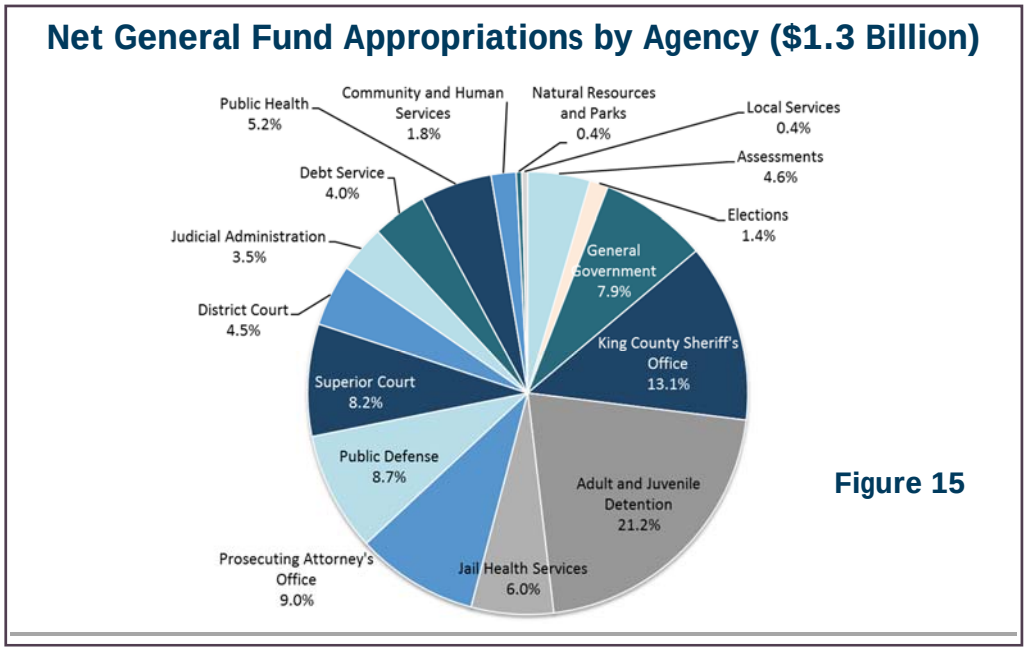


Figure 15

The 2019-2020 Proposed Budget includes some restructuring of specific appropriation units. General Fund support for certain planning and land use code enforcement purposes is now shown as "Transfer to Department of Local Services" since that new department has taken over the permitting and land use functions. The new Department of Human Resources is a General Fund agency and includes some positions previously budgeted in other funds. This creates a slightly exaggerated sense of General Fund growth above the 2017-2018 biennium.

King County has chosen to structure most of its internal support services, such as information technology, facilities, contracting, and accounting, as separate funds outside of the General Fund. These funds charge other County funds, including the General Fund, for the services they provide. However, there are a few support services, including the County Auditor, the Department of Human Resources, and the Office of Performance, Strategy and Budget (PSB), that are budgeted in the General Fund but charge other County funds for their services. This complicates a clear understanding of the General Fund's revenues and expenditures.

Balancing the General Fund

Over the course of the spring and summer, Executive Constantine worked with PSB, departments, and the elected officials heading separate agencies and branches to identify options to balance the General Fund budget. The original projected gap of $18 million was increased to $29 million with the loss of $11 million of expected revenue from right-of-way rental. In addition, about $20 million of new or increased costs were largely unavoidable, including debt service, costs for programs mandated by the State, and increased costs for technology and support.

To offset this, General Fund agencies identified about $18 million of efficiencies or other savings that reduced costs. Charges to the General Fund from other agencies were about $5 million less than had been assumed. The remaining gap was covered by increased revenue, including about $2.5 million each in higher property and sales taxes between the March and August revenue forecasts, $17 million in higher external charges for services generated by County agencies, $9 million more in General Fund charges to other County agencies, and $15 million more in interest earnings. The interest earnings are a combination of higher expected interest rates and significantly higher fund balances.

The increase in revenue was sufficient to balance the budget and provide the ability to add about $23 million of services in critical areas, including:

- $2.7 million to Public Health to expand efforts to reduce juvenile detention as part of the Zero Youth Detention initiative.
- $1.3 million to the Sheriff's Office to expand training for deputies and civilian staff who work with the public.
- $842,000 to the Sheriff's Office to restart a Gang Unit.
- $755,000 to the Department of Human Resources to assist the Sheriff's Office in recruiting. The Sheriff's Office expects to need a large number of new deputies due to expanded contracts, expected retirements, and a focus on recruiting locally rather than hiring transfers from other geographic areas.
- $805,000 to the Medical Examiner's Office to bring staffing up to appropriate levels.
- $4.6 million to the new Department of Human Resources to start or expand key initiatives related to the Investing in You strategy, including training, organizational development,

recruiting, and a workforce equity program. About two-thirds of these costs will be recovered from other County funds.

- $1.0 million to the Office of Equity and Social Justice to support and expand several countywide initiatives.

  $1.1 million split between the Prosecuting Attorney's Office and Department of Public Defense to help qualifying individuals vacate convictions, including those that are no longer crimes, such as marijuana possession.

- $500,000 to the Department of Community and Human Services to provide civil legal aid services for clients of the Department of Public Defense.
- $701,000 to add two positions to the Office of Law Enforcement Oversight.
- $777,000 to the Department of Local Services to allow a subarea plan to be produced each year and to provide appropriate follow-up to existing subarea plans.

As discussed previously, the Executive proposes to maintain the General Fund's undesignated fund balance at 8.0 percent. This is intended to help preserve the County's highest-possible general obligation bond ratings, which allow debt for General Fund and other purposes (wastewater, transit, open space, solid waste, etc.) to be issued at low interest rates. This, in turn, saves millions of dollars annually for the County's taxpayers and ratepayers. Increasing the General Fund undesignated fund balance also helps to prepare for the next recession.

As seen in **Figure 16**, the General Fund's total fund balance has trended upward in recent years due to planned increases in reserves and careful financial management. Total fund balance is projected to be about $115 million at the end of 2018, of which about $55 million is undesignated. The total fund balance is projected to be about $110 million at the end of 2020, but undesignated fund balance will increase to about $59 million. The decline in fund balances after 2020 reflects the structural gap in County funding and assumes fund balances would be drawn down to cover the projected 2021-2022 deficit. This is not likely to be the County's approach to balancing the budget, so the decline in fund balance likely won't occur.

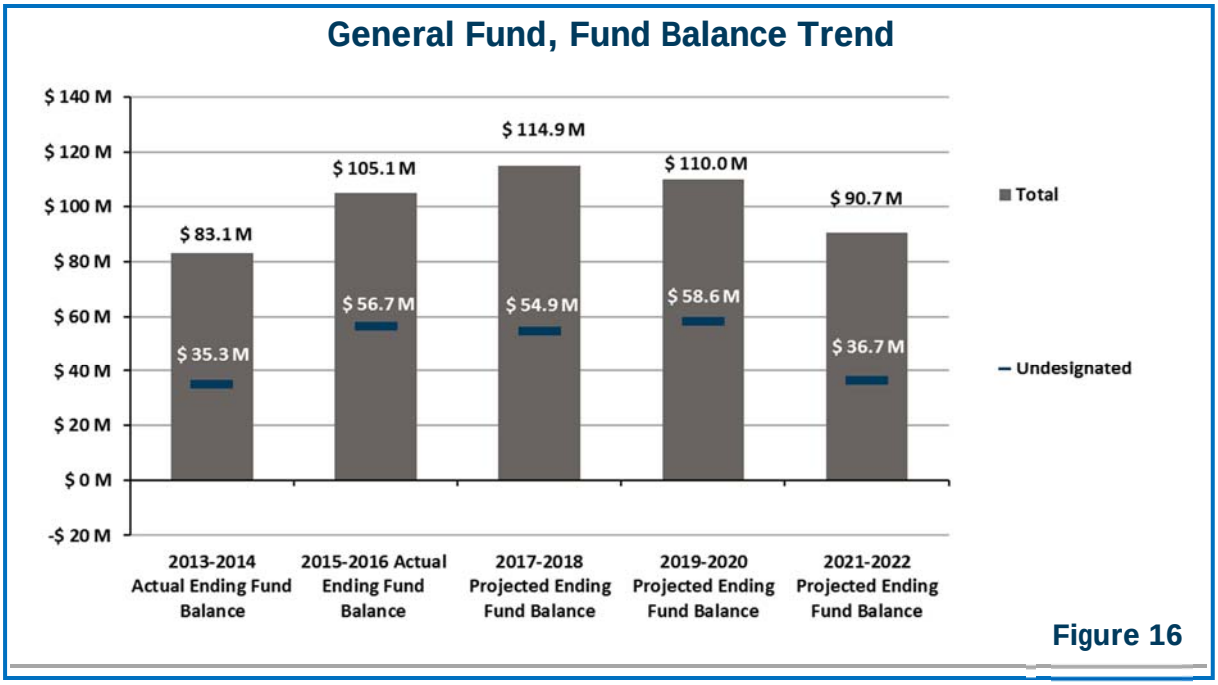


Figure 16

OTHER ISSUES

In addition to the Executive priorities described previously, the 2019-2020 Proposed Budget addresses a wide array of policy and financial issues. Some of the most significant issues are highlighted below.

Metro Transit: Improving Mobility and Investing for the Long Term

The 2019-2020 Proposed Budget for Metro Transit totals $1.89 billion. Metro ridership has been growing rapidly for several years and the ability to expand service is constrained by existing infrastructure, such as the size of bus bases and maintenance facilities. Thus, Metro's 2019-2020 budget has a long-term focus, with significant investments in new and expanded bases, layover facilities, information technology, and systems to support the transition to all-electric buses.

As Metro becomes its own department, it has established four main strategies: 1) make transit easy to use, available, and accessible to all; 2) get things built and build capacity; 3) partner with others; and 4) enable employees to do top-quality work. The 2019-2020 Proposed Budget is based around these strategies.

Metro's budget adds 177,000 service hours over the biennium, mostly funded by partners such as the City of Seattle. This means that fixed-route service will provide 4.1 million hours by 2020. Adding additional service at peak times is not possible until additional base capacity is available. Future service expansions are focused on implementing seven additional RapidRide lines by 2027.

Metro is in the process of soliciting proposals to provide Access paratransit service. The budget assumes improvements in the quality of this service, such as availability and on-time performance.

The Proposed Budget includes a large expansion of Metro's capital program and related staff. Metro significantly cut its capital budget during the Great Recession and recent performance in delivering capital projects has been below expectations. The 2019-2020 Budget includes much more specific capital projects rather than large, multi-project programs. It sets goals of completing at least 80 percent of project milestones during the biennium and achieving Federal Transit Administration State of Good Repair program goals.

Metro's budget also includes significant increases in drivers, maintenance employees, and support staff. It deploys a new organizational structure developed as part of the transition from a division to a department. It includes significant investments in services for employees, including training, apprenticeships, and wellness centers at four bases.

Homelessness: Investing New Funds to Make a Difference

As in many parts of the country, homelessness is a major challenge in King County. The January 2018 Point in Time Count found 12,112 homeless individuals, a 4 percent increase over the previous year. This is despite the success of programs that helped approximately 20,000 people exit from homelessness to stable housing. Executive Constantine, Seattle Mayor Jenny Durkan, and Auburn Mayor Nancy Backus convened "One Table," a group that included the County, cities, businesses, nonprofits, and philanthropies to identify the root causes of homelessness in the region and develop responses. This work is ongoing.

The State and County have generated additional revenue to help respond to the challenge of homelessness. This includes an increase in document recording fees that is expected to generate about $10 million for the biennium, a $3 million biennial increase in the State's Consolidated Homeless Grant, $5 million for affordable housing generated as part of the sale of Convention Place Station, and about $9 million in the biennium from an expansion of the hotel/motel tax. The two latter sources are dedicated to building affordable housing and thus are only indirectly related to homelessness.

The County has a wide range of housing-related programs, ranging from support for shelters to capital funding for permanent affordable housing. The 2019-2020 Proposed Budget for the Housing and Community Development Fund is $246.5 million.

The specific investments to address homelessness are still being defined. In addition to existing County programs and locations, two new facilities will enter service by the spring of 2019. Modular housing units that will house 72 homeless men have been ordered to be sited on a County-owned property on Elliott Avenue in Seattle. The Harborview Hall shelter, funded by the County Council in the 2017-2018 Budget, is nearing completion. Other locations and programs are still under review.

Public Health: Maintaining Programs

Public Health - Seattle & King County provides critical services in a wide range of health-related areas. Functions with their own dedicated revenue sources, such as Emergency Medical Services and Environmental Health, are generally in good financial condition. The core Public Health Fund has faced major financial challenges for the last decade due to declining state and federal funds.

The 2019-2020 Proposed Budget for the Public Health Fund is $418.4 million. Additional state funding granted in the 2017 and 2018 legislative sessions, new grants, and good financial management allowed Public Health to develop a balanced 2019-2020 Proposed Budget that maintains all core services. The Public Health Fund has almost no reserves, however, so its fiscal condition remains precarious.

Public Health provides a range of services at its clinics. In the last few years, demand for some services, notably programs to support mothers and young children, has declined. This may be due to mothers receiving services from their regular health care provider through the Affordable Care Act. Public Health responded to this change by proposing to gradually reduce staffing through attrition. This will maintain all services while reducing costs.

Continued state support for public health funding is essential to the long-term future of Public Health.

Mental Illness and Drug Dependency: New Ideas and New Investments

The Mental Illness and Drug Dependency (MIDD) Fund is supported by a 0.1 percent dedicated sales tax. This is expected to generate $145.7 million for the 2019-2020 biennium. In addition to sustaining existing programs, the Proposed Budget includes significant investments in new and expanded programs.

Some of the One Table recommendations related to homelessness focus on how mental health issues and substance use disorders are often underlying causes of homelessness. The Proposed Budget includes $2.5 million to expand mental health treatment on demand, $1.5 million to expand services at community clinics, $2.0 million for expanded peer respite, and $1.0 million to help individuals leaving County jails connect with community-based behavioral health services.

The Behavioral Health and Recovery Division of DCHS will receive an additional $2.2 million to expand services, including incentive payments to providers.

Two programs led by criminal justice system agencies will be expanded with MIDD funds. The Law Enforcement Assisted Diversion (LEAD) program was started in Seattle in 2011. This program allows police officers to divert low-level offenders to appropriate treatment programs rather than arrest them and send them to jail. An additional $3.2 million of MIDD funding will allow LEAD to gradually be expanded to three more cities by 2020, starting with Burien.

The Community Court was started by District Court in Redmond as part of the 2017-2018 Budget. This court connects certain offenders to services rather than the justice system. The availability of service providers as part of Community Court has had the unexpected benefit of generating walk-in visitors in need of services who are not part of the court process. An additional $740,000 of MIDD funds will allow Community Court expansion to two more cities in the biennium.

The severity of the homelessness and opioid crises led the County Executive to propose drawing down the MIDD revenue stabilization reserve by about 31 percent. This means that the MIDD investments are probably not sustainable in the long run without new funding.

Roads: Short-Term Stability but Long-Term Deficits

The Road Services Division in the Department of Local Services maintains the streets, roads, bridges, traffic signals, and related infrastructure in the unincorporated area. Roads is supported by a property tax collected in that area, plus a share of the state gasoline tax and occasional grants. Because of annexations and incorporations, Roads has been left with an extensive system and a limited revenue base. About half the users of major County roads live in cities or other counties and thus pay nothing to support these facilities. Several studies have confirmed that Roads has less than one-third of the revenue needed to maintain its infrastructure.

The 2019-2020 Proposed Budget for Roads is $216.4 million. Roads will deploy two new programs as part of the budget. First, it will expand its program to replace culverts using funds from the Surface Water Management utility. Older culverts often were designed in ways that block fish passage, so replacing culverts opens upstream waterways for salmon to spawn.

Second, Roads will start a program to replace a limited number of bridges. The federal government has created new standards for testing the capacity of bridges, and dozens of County-owned bridges will not meet the standards and will have to have load limits. In some cases, these limits will preclude use by emergency vehicles, school buses, solid waste trucks, and delivery trucks, necessitating long alternative routes. The 2019-2020 Proposed Budget includes funding to design five replacement bridges in especially critical locations.

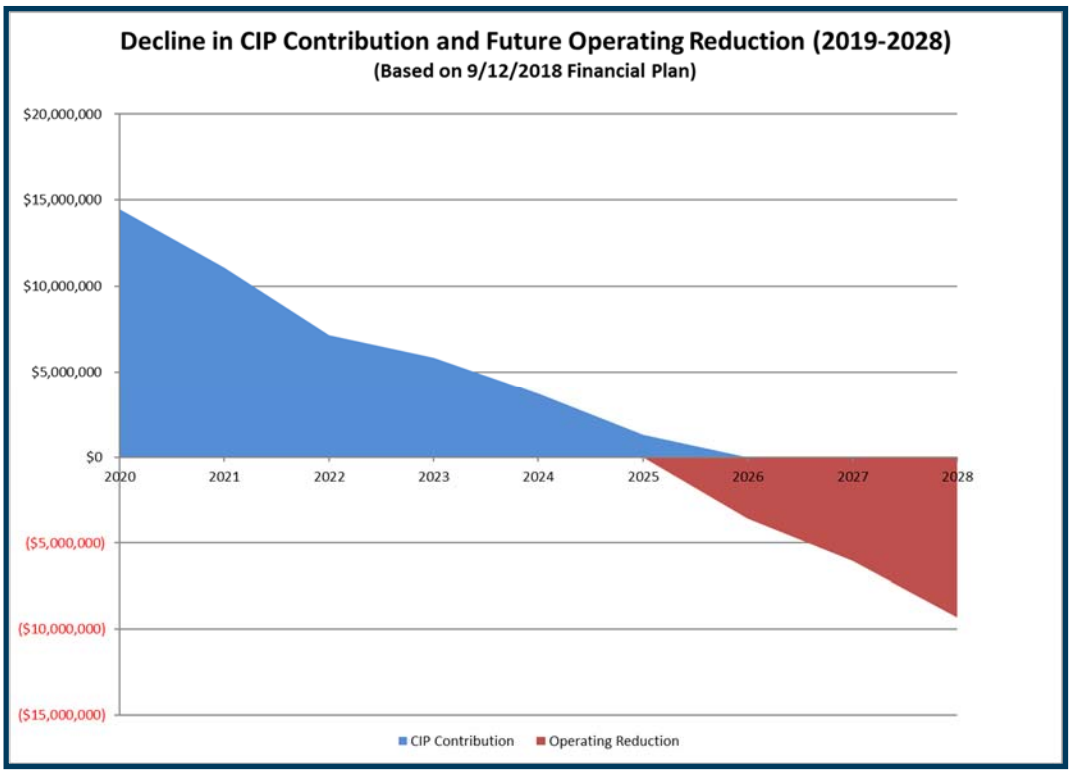


Figure 17

Despite its short-term stability, Roads will face major financial challenges within six years. The 1 percent revenue growth limit on its principal revenue source, the property tax, means that revenues will not keep up with costs. As shown in Figure 17, Roads will have to eliminate its capital program by 2026 unless additional revenue is obtained.

LOOKING AHEAD

The 2019-2020 Proposed Budget continues the County's commitment to provide high quality, cost-effective services to County residents. It supports major policy initiatives to emphasize equity and social justice in County services and internal processes, reduce carbon emissions, enhance mobility throughout the region, engage employees, and continue to improve the processes the County uses to deliver services. The budget is also fiscally responsible and builds reserves for future economic downturns.

The budgets for most County programs appear to be sustainable with existing resources and revenue tools. However, there are at least four major functions that are expected to have significant financial challenges for the 2021-2022 biennium:

- The General Fund faces about a $24 million deficit even if economic growth continues. This is caused by the structural gap between revenue and expenditure growth rates. The County is working with other governments to seek new revenue authority from the State Legislature to address this issue.
- The Public Health Fund will not be able to continue all current services unless state support continues to increase.
- The Roads Fund is chronically underfunded due to its revenue structure, with many users of County roads paying nothing to support them. Again, legislative changes will be needed to develop a more comprehensive revenue system.
- The E-911 program, which answers emergency calls for police, fire, and medical service, is funded by a per telephone line tax. Revenues have not kept up with cost growth so E-911 is gradually drawing down its fund balance. New revenue will be needed within four years or the quality of service will be reduced.

Economic and demographic projections show that King County's population and economy are expected to grow steadily over time. The 2019-2020 Proposed Budget builds the foundation to support this growth in many areas, including Metro Transit, behavioral health, and information technology. These investments help King County to move towards its goal of being the best-run government in the country.