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MEMORANDUM

To: Kirkland City Council

From: Kurt Triplett, City Manager
Marilynne Beard, Assistant City Manager
Tracey Dunlap, Director of Finance and Administration

Date: March 13, 2011

Subject: BUDGET DEVELOPMENT ALTERNATIVES AND PUBLIC INVOLVEMENT

The City Council is seeking ways to enhance the City's budget process through an alternate review model and/or public involvement. This memo provides background on three approaches taken by local governments in King County for improving budget outcomes. Representatives from the agencies that undertook these processes will provide a brief overview of their experience at the Council Retreat. Briefly, the three processes described below include:

- City of Redmond Budget by Priorities
- King County's Budget Advisory Task Force (Blue Ribbon Panel)
- City of Shoreline's Citizen Advisory Committee

Redmond's Budgeting by Priorities

One of the budget process options is a "budgeting for outcomes" or "budgeting by priorities" approach that the City of Redmond applied for the first time in developing its 2009-2010 budget and the City of Bellevue used in developing its 2011-2012 budget. A budgeting for outcomes process generally involves the following steps:

- Identifying all revenue available
- Setting high level priorities
- Allocating all revenues to priorities
- Creating a "requests for results"
- Preparing offers or proposals for all services related to priority results
- Ranking offers and deciding what to "buy"
- Developing the detailed budget based on accepted offers.

Generally, the ranking of offers is done by cross-discipline staff teams that may include citizen representation. Attachment A provides a brief description of the concept, as summarized by the Government Finance Officers Association.

Redmond first applied this process in developing their 2009-2010 budget and further refined the process in developing the 2011-2012 budget. Attachment B contains an overview of Redmond's 2011-2012 process.

In evaluating whether this option meets the City's needs, there are a number of factors to consider:

- The process allows for a much more in-depth evaluation of specific programs and services and how they relate to City-wide priorities.
- Citizen involvement in the process may help with community buy-in to the end results of the budget process (note that Redmond's process included citizens on the teams but Bellevue's did not).
- This process is very resource intensive, particularly the first time through the process. In preparing Redmond's 2009-2010 Budget, the City added about 1.5 FTE's to the budget staff and used 0.5 FTE of in-house IT staff to develop a budget tool for the new process. In addition, a consultant was used to help design and assist with the process (\$60,000). Preparing the "requests for results" requires analysis of all programs by staff in each department at a much more detailed level and in a different format than that used in the current process. Often, cross-departmental teams (sometimes with citizen participants) are used to review information and make recommendations, which can involve numerous meetings over a several month period. The process can also require additional time on the Council's calendar, depending on the level of detail that the Council is interested in reviewing.
- There needs to be adequate time to plan. Redmond included budget for dedicated additional staff resources and hiring consultants in the 2007-2008 budget so that they could prepare the necessary tools in advance of undertaking the 2009-2010 budget development. Similarly, Bellevue began planning for their process during 2009. Both cities have indicated that, in hindsight, they would have started even earlier. The actual budget development stages of both processes began in earnest in January, almost doubling the length of the formal budget process.
- The actual allocation of resources may not change substantially based on the results, although the level of participation may make those results more transparent.

King County Budget Advisory Task Force (Blue Ribbon Panel)

As a second alternative, the City Council could convene a "blue ribbon panel" of local citizens representing a cross-section of disciplines and perspectives and solicit their analysis and recommendations regarding structural changes to the City's budget. This alternative would require Finance staff support and as much as \$50,000 for consultant services to develop and facilitate the process for the citizen panel and to summarize their recommendations.

This concept is modeled after the King County Budget Advisory Task Force that was formed in 2002. The Task Force was composed of 13 citizens with a broad range of perspectives and experience recruited by the King County Executive. The Task Force members come from backgrounds in government, business, labor and the non-profit sector.

The mission of the Task Force was to examine King County's general government functions, budgets and budget processes, including but not limited to the courts, sheriff, jail, public health, human services, parks and central government functions. The Task Force reviewed the 2003 budget process and made recommendations to the Executive about 2004 budget cuts and recommendations regarding policy and operational changes to provide appropriate additional cost savings.

Context

There was a major fiscal crisis in the County general fund. King County needed to cut 10% of general fund in the next year, with ongoing annual large gaps anticipated between growth of revenues and growth of expenditures. There was little public understanding about the fiscal gap or its causes. The County had no strategic plan or adopted budget priorities statement to guide its budget reduction efforts.

Process

After an initial meeting in November, the Task Force toured county facilities, met every two weeks from January through June, and received briefings from County staff including a series of stakeholder panels consisting of lead staff, County elected officials as well as outside agencies and individuals. All meetings were open to the public with an opportunity for public comment.

The process was staffed by the County Budget Director and a special projects manager (Karen Reed), with support from other budget staff and departments. The Initial Report was issued in June of 2003 and contained 39 recommendations. A follow up report was issued in June of 2004 following a reconvening of the Task Force, which met three times to evaluate how successful the County was in implementing recommendations.

Mission (from the Report)

Examine the County's Current Expense (CX) fund, programs, policies, processes and budgets, and make recommendations regarding policy and operational changes that may provide appropriate additional cost savings, as well as the need, if any, for additional revenues in support of CX programs.

3 primary tasks:

1. Identify short-term and long-term direction/priorities for budget cuts.
2. Identify short-term and long-term operational and other changes to address CX shortfalls.
3. Determine whether there is a structural problem with the County's funding. If so, are new funding sources required and what type?

Four substantive focus areas:

- Service priorities
- Administrative and operational efficiencies
- Aligning services and revenues, and
- Revenue options

Benefits

- Most of the short-term County actions called for by the Task Force were implemented within a year.
- Respected citizen stakeholders became strong voices for change in budget priorities and change in state law around revenue structures
- The process educated citizen leaders and the community about government finance and operations

- The process was relatively quick and was only moderately staff intensive
- The staff team leading the effort can focus a Task Force to key issues
- Provides opportunity for focused input from a variety of knowledgeable stakeholders
- Commitment to reconvene and evaluate created incentive for action by government to implement the recommendations

Challenges

- Need to maintain credibility of effort—this can be more difficult if it is led by staff from within the agency
- Doesn't necessarily address operational silos within the government
- Considerable learning curve for typical task force members
- Not a zero-based budget exercise: more of a policy priority or re-balancing exercise
- Resulting recommendations are often politically controversial. Need joint sponsorship by both the executive and legislative branches if recommendations are to be supported and outcomes achieved.

Attachment C includes the full Budget Advisory Task Force Report.

City of Shoreline Citizens Advisory Committee

The City of Shoreline undertook a multi-year process to engage the public in planning for the City's long term financial needs. The process culminated in a 2010 ballot measure for a property tax levy increase that was approved by a 56.5% margin. Following is a synopsis of the timeline and activities for Shoreline's citizen participation process. More specific information is contained in the attachments from the City of Shoreline.

- 2002 bi-annual citizen satisfaction survey
- 2005 community prioritization exercise
- 2006 financial forecast indicates growing gap in resources and cost of sustaining current level of services
- 2008 Shoreline Citizen Advisory Committee (SCAC) convened
- 2009 recommendations from SCAC forwarded to City Council
- 2010 ballot measure to increase taxes to maintain services

The SCAC was chartered by the Shoreline City Council with the following mission:

"Develop a recommendation to the City Council on the long-term strategy to provide community services and the funding mechanisms to provide those services."

The SCAC was to consist of 24 to 28 members that included representatives from stakeholder groups and at-large members of the community that were chosen based on an application process. Based on the City's experience with another group of that size, the City Council appointed 18 members to the SCAC which was thought to be a more manageable number. The proposed membership was developed by the City Manager and confirmed by the City Council (see Attachment D with call for applications and application form). Applicants were asked to commit to one to two meetings per month for one year. In the end, the SCAC met for over

eighteen months and held 20 meetings, 3 community forums and two joint meetings with the City Council.

The first order of business was to educate the SCAC by providing information to them about current City services and finances and to identify unmet community needs. Once this basic information was transmitted by the staff, the SCAC refined the list of services to be maintained, evaluated revenue sources and developed criteria for service reductions if those were needed. The recommendations from the advisory committee to the City Council are summarized below:

1. Sustain the City's commitment to efficiencies
2. Maintain services that preserve the quality of life that Shoreline residents and businesses value
3. Pursue revenue options:
 - a. Transportation Benefit District at \$20 per vehicle
 - b. Property tax levy lid lift ballot measure
4. Guiding principles for service reductions (Attachment E)
5. Expand communication and outreach

The financial strategy recommended by the SCAC and implemented by the City Council included a combination of efficiencies, base budget reductions, increases in fees and the cable utility tax, implementation of a transportation benefit district and the voted levy lid lift. A targeted communication strategy was developed. A focused message was developed and presented by staff at over 35 community meetings. Five service videos were produced that focused on quality of life services. A consistent message, supported by the City Council, was incorporated in all City communication materials. Although the message was consistent, its delivery was tailored to different groups. Key stakeholders were engaged as "quality of life" partners and helped deliver the message. Ultimately, the SCAC became the citizens' campaign group for the levy lid lift.

Summary

The three approaches presented in this memo represent a range of options. As further background for Council's discussion, the City Manager met individually with Council members and asked a series of focused questions about the City's current budget process and outcomes. At the City Council retreat, the City Manager will present a summary of the Council's comments. Following the City Manager's presentation, representatives from Redmond, King County and Shoreline will provide an overview of their process. Finally, the City Council will have the opportunity to discuss changes to Kirkland budget process that address common concerns of the Council.



BEST PRACTICE

Budgeting for Results and Outcomes (2007) (BUDGET)

Background. The National Advisory Council on State and Local Budgeting (NACSLB) has identified four essential principles of effective budgeting. The specific principles include: (1) set broad goals to guide decisions, (2) develop strategies and financial policies, (3) design a budget supportive of strategies and goals and (4) focus on the necessity of continually evaluating a government's success at achieving the goals that it has set for itself (i.e., performance). The Government Finance Officers Association (GFOA) has officially adopted the recommendations of the NACSLB. GFOA also has issued separate recommended practices on strategic planning and performance measurement. All of these documents underscore GFOA's longstanding support of strategic planning and performance measurement as part of the budget process.

Consistent with the NACSLB principles, a growing number of governments use the budgeting for results and outcomes approach. Rather than starting with the prior period's budgeted programs and activities, they begin with available revenues, continue with a consideration of desired results and strategies, and then conclude by deciding what activities and programs can best achieve desired results.

This approach is a marked departure from the incrementalism often characteristic of budgeting. Budgeting for results and outcomes links strategic planning, long-range financial planning, performance measures, budgeting, and evaluation. It also links resources to objectives at the beginning of the budgetary process, so that the primary focus is on outcomes rather than organizational structure.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider budgeting for results and outcomes as a practical way to achieve the NACSLB objective of integrating performance into the budgetary process. GFOA believes that the following steps should help a government in making this successful transition:

- (1) *Determine how much money is available.* The budget should be built on expected revenues. This would include base revenues, any new revenue sources, and the potential use of fund balance.
- (2) *Prioritize results.* The results or outcomes that matter most to citizens should be defined. Elected leaders should determine what programs are most important to their constituents.
- (3) *Allocate resources among high priority results.* The allocations should be made in a fair and objective manner.
- (4) *Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.*
- (5) *Budget available dollars to the most significant programs and activities.* The objective is to maximize the benefit of the available resources.
- (6) *Set measures of annual progress, monitor, and close the feedback loop.* These measures should spell out the expected results and outcomes and how they will be measured.

(7) *Check what actually happened.* This involves using performance measures to compare actual versus budgeted results.

(8) *Communicate performance results.* Internal and external stakeholders should be informed of the results in an understandable format.

Budget professionals may play a number of roles in budgeting for results and outcomes, including the following:

- Facilitating government-wide results and analytic support.
- Providing “reality checks” on budget allocations and expected revenues in the light of adopted financial policies.
- Advising on allocations for administrative support functions, which provide necessary organizational infrastructure for achieving community goals, but do not typically emerge as high priorities on their own.
- Analyzing work product to evaluate the process of budgeting for results and outcome.
- Serving as an advocate for outcomes and the process in general rather than for any particular department.

Budgeting for results and outcomes is not just a one-year exercise, but also a multi-year effort that should improve the budget process.

References

- GFOA Best Practice, “Performance Management: Using Performance Measurement for Decision Making (2002) - Updated Performance Measures,” 1994.
- GFOA Best Practice, “Recommended Budget Practices of the National Advisory Council on State and Local Budgeting (NACSLB),” 1998.
- GFOA Best Practice, “Adoption of Financial Policies,” 2001.
- GFOA Best Practice, “Establishment of Strategic Plans,” 2005.
- GFOA Best Practice, “Managed Competition as a Service Delivery Option,” 2006.

Approved by the GFOA’s Executive Board, March 2, 2007.

BUDGETING BY PRIORITIES PROCESS OVERVIEW

2011-2012 OPERATING BUDGET

CITY OF REDMOND

Why Budgeting by Priorities?

Redmond is a unique city that has attracted significant worldwide businesses such as Microsoft, Nintendo, Honeywell and Medtronic (Physio Control). As a result, the City is the third largest employment center in King County with a business population of approximately 90,000 and a residential population of approximately 51,300.

A process that is:
Transparent

Open

Citizen Priority Based

Approved by Council

Challenged to provide a variety of services to a wide range of customers, the City opted to change its traditional budget methods in 2008. It implemented an innovative approach to budgeting that fulfills the promise Mayor John Marchione made upon his election to office: “a transparent and open budget that is based on priorities developed with citizen input and approved by the Redmond City Council.” Mayor Marchione had five objectives for the Budgeting by Priorities (BP) process:

Objectives of BP

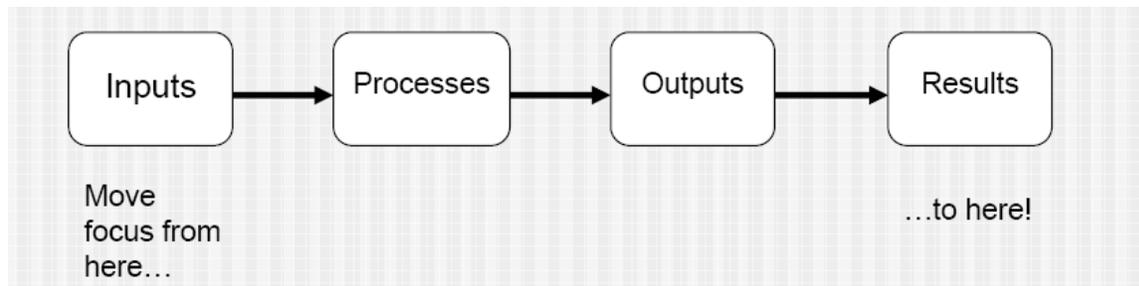
- Align the budget with citizen priorities
- Measure progress towards priorities
- Get the best value for each tax dollar
- Foster continuous learning in the City
- Build regional cooperation

Proven Process

Starts with Citizen Priorities

Different from Traditional Budgets

To move this vision forward, the City selected the BP process. BP was chosen because it focuses budget decisions on citizen priorities. This is in contrast to the traditional method of budgeting which adds a certain percentage to last year’s budget without assessing if the services result in the outcomes citizens expect. The starting point of the BP process is identifying the intended result of city services toward priorities developed through citizen interaction.



Review of the BP process

Review conducted by GFOA

Long-term Time Line Recommended

Council will review and adopt long-term time line in early 2011

Example Suggestions

Improve financial system tools

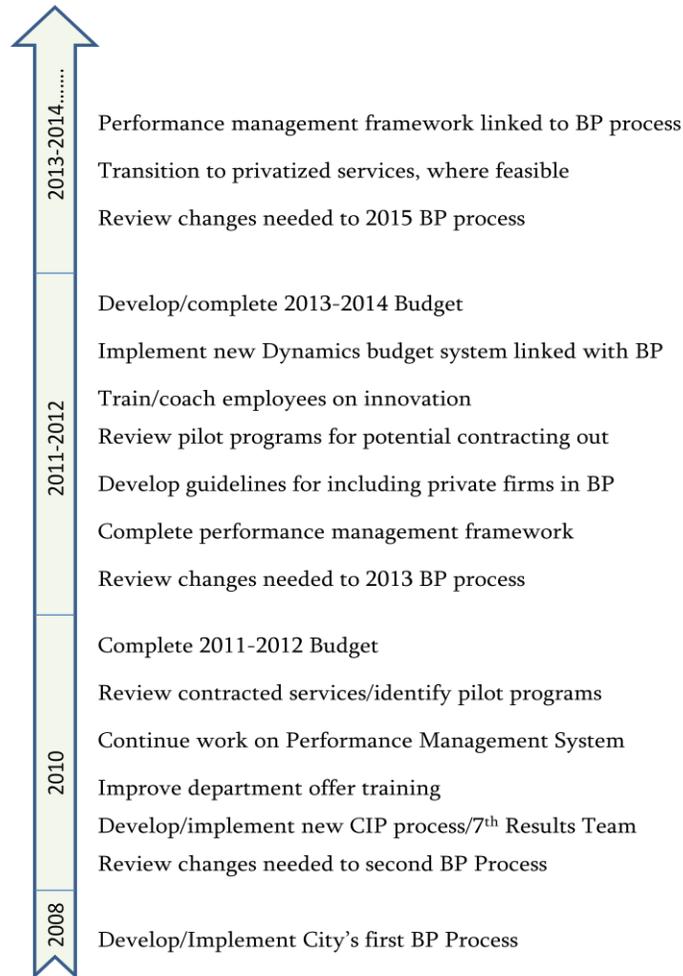
Begin work on outsourcing

Refine performance measures

Early in 2010 the City undertook a thorough review of the 2008 BP process. This review was conducted by the Government Finance Officers Association (GFOA) Research and Consulting Center. While the review affirmed that the 2008 BP process was a significant success, it did offer several suggestions for improvements in the future.

One of the key recommendations of the GFOA’s review was the development of a long-term strategy to continue to build out additional elements of BP over time. The draft timeline below was included as an element of the GFOA report. The City Council concurred with this recommendation and will be working to review and adopt a long-term BP strategy in early 2011. For now, this draft strategy helps the City to consider subsequent elements that will enhance the BP process in the future.

Timeline for Budgeting By Priorities Process



**Redmond's
BP Process**

Community Focus
Groups

6 Priorities were
Identified

Advisory
Committees

BP Project Team

To start the BP process in 2008 an independent firm held four (4) focus groups with Redmond residents to determine citizen priorities. The citizens were chosen at random based on gender, age, and location (east or west of Redmond Way). Following the focus group discussions the City held a community workshop where citizens and business owners were invited to give further input and comment on the focus groups' identified priorities.

Based on all this input, the Council approved the following six (6) priorities on March 4, 2008¹:

- **BUSINESS COMMUNITY**
I want a diverse and vibrant range of businesses and services in Redmond
- **CLEAN & GREEN ENVIRONMENT**
I want to live, learn, work, and play in a clean and green environment
- **COMMUNITY BUILDING**
I want a sense of community and connections with others
- **INFRASTRUCTURE & GROWTH**
I want a well-maintained city whose transportation and other infrastructure keeps pace with growth
- **SAFETY**
I want to be safe where I live, work, and play
- **RESPONSIBLE GOVERNMENT**
I want a city government that is responsible and responsive to its residents and businesses

Once the six priorities were determined, the Mayor created several teams to guide the process:

Project Team – Headed by the Mayor, included executive staff and the Financial Planning Manager to assist the Results Teams and guide the overall process

¹ The focus groups also identified education as a priority. However, because education in Redmond is the responsibility of the Lake Washington School District, the Council chose not to allocate limited resources to a priority over which it had no jurisdiction. Although, educational components are included in several of the six priorities approved by Council.

Results Teams

Results Teams – Six (6) Results Team groups were created and each group is assigned a priority. For the 2010 process, a seventh result team was created. This team focused exclusively on the **Capital Investment Strategy**. See more about this seventh result team later in this section. The teams were made up of five (5) employees from cross-department disciplines and one (1) citizen. The role of the Results Teams was to fashion *Requests for Offers (RFOs)* based on the priority approved by Council. To ensure that citizen input was incorporated into the offers, all the data gathered from the focus groups and community workshops was made available to the Results Teams.

Requests for Offers (RFOs)

REQUESTS FOR OFFERS

Each Results Team designed “Requests for Offers” (RFOs) that related to its specific priority by identifying factors and sub-factors that contributed to that priority and developed purchasing strategies that answered the following questions:

RFO Process

- Where should the city focus its efforts and resources?
- Where can the city have the most impact?
- Where should Redmond influence others?
- Are there generic strategies that apply to all offers?

The Results Teams invited all departments to bid on the offers and respond to specific purchasing strategies with the understanding that the offers would be ranked by the Results Teams upon completion using the factors in the RFOs as criteria.

All City Funds Included

All funds were included in budget offers: General Fund, Capital Improvement Program (CIP), Utilities, and Special Revenue Funds. Therefore all city services received the same level of scrutiny no matter the funding source.

Offer Process

OFFERS

An offer is a proposal by a department in response to an RFO that indicates how the offer will meet the priority, how much it will cost, and how the success of the offer will be measured. An offer is a program or set of programs that helps achieve a priority.

Budget Request
Process

Offers can be for an existing service or program, new programs or activities or improvements/changes to existing programs. Innovation was encouraged in all offers and collaboration between departments was emphasized in the RFOs.

All Budget Requests
are Submitted as
Offers

In the BP process, each department must make an offer to provide a service that relates to results (a priority that is citizen driven). Each offer must describe the following:

Offers to Include
Consistent Data

- What are we doing?
- Why are we doing it?
- How are we doing it?
- Measurements to track performance for each program
- How can the offer be scaled – either up or down

Offers Submitted by
Priority

OFFER SUBMITTALS

Department directors and their budget teams submitted offers based on the priorities that related to their departments. No outside competing offers were accepted in this BP process, but departments were encourage to collaborate where possible to combine services if it was in the best interest of the City. Each offer needed to contain the following information:

Contents of the Offer

- Description of the Offer – Simple, accurate, succinct, and complete
- Performance Measures – Describe short and long term benefits; consequences if not funded, and three measures to gauge the identified outcomes
- Scalability – Scalable, provide logic and evidence to support various funding levels
- Customer Service – Identify who the customer is and how the offer meets customer needs
- Revenue Sources – Identify revenue support

City Staff Used an
“Online” Tool
Designed to Capture
the Needed
Information

DASHBOARD INDICATORS

High Level
Indicators Developed
to Measure Progress
toward Priorities

In conjunction with the performance measures developed for each offer, the Mayor and Council created key indicators to measure the City’s progress toward the priorities. The indicators are high level and are not meant as individualized measures of performance, but rather intended to give elected officials and the community a big picture gauge of how well the City meets the goals of the priorities. After review by the City Council and the Budgeting by Priorities teams, the initial Dashboard Indicators were finalized for each priority.

2010 Dashboard
Indicators for Each
Priority

The performance measures by priority form the “Dashboard”. The initial dashboard measures from the 2008 BP process have been updated by the Results Teams in 2010. However, the Dashboard remains a work in progress.

For 2011 / 2012 budget the Council Public Administration and Finance Committee will work to finalize the City of Redmond Dashboard.

The final dashboard will be used to develop an accountability report to be made available on the City’s web site.

Business Community:

- The number and percentage of businesses by category
- Citizens and employees of businesses within the City of Redmond satisfied with the range of businesses and services available in Redmond
- Number of businesses that have held a City of Redmond business license over seven (7) years

Clean & Green Environment:

- Percentage of neighborhoods with convenient access to parks and trails
- Percentage of streams with a Benthic Index of Biotic Integrity (B-BI) of 35 or better
- Tonnage of garbage per capita that goes to landfill

Safety:

- Crime Index: Number of Part 1 (crimes against persons) and selected property crimes (auto theft, auto prowl, and identity theft)
- The percentage of times the Redmond Police, Fire and Emergency Medical Services meet targets in managing calls for service by providing a safe response with the right people and necessary equipment in the appropriate amount of time
- Number of residents engaged in activities related to public safety

Community Building:

- Level of participation of Redmond residents volunteering within the community
- Percentage of Redmond residents reporting they feel informed about community events, programs, volunteer opportunities and issues
- Percentage of citizens who report they feel a sense of community and connection

Responsible Government:

- Percentage of community responding positively to specific City-provided services
- Percentage of policy benchmarks included in the City’s fiscal policy that are met and significantly contribute to the maintenance of an excellent credit rating
- Number of programs or projects that seek and/or obtain relevant funding contributions from outside sources

**Capital
Investment
Strategy**

2008

Infrastructure & Growth:

- Number of triaged and successfully completed scheduled maintenance tasks, a reduction in unexpected work orders and mitigation of emergency responses in a timely manner
- Ratio of residential-to-employment populations
- Percent completion of 20-year functional plans relative to percent of 20-year growth targets achieved

Capital Investment Strategy

One of the observations from the first BP process in 2008 was that a different approach was necessary for the Capital Improvements Plan (CIP) as contrasted to the operating budget. In 2008 the six Results Teams had CIP offers to review along with the operating budget offers. The operating budget is for a period of two years while the CIP covers a six year period. Also, the source of funds for the CIP is more complex than that for the operating budget. For the 2010 process we made changes with the intent of improving the results for our capital plan.

2010 Changes

In 2010, an additional Results Team was established – the Capital Investment Strategy Results Team. This team was charged with developing additional criteria for the Results Maps for the six priorities (there was not an additional priority but rather just an additional Results Team). If an offer was intended as part of the CIP, it was passed through the priority Results Team to which the offer was submitted along to the Capital Results Team. The Capital Results Team reviewed the offer in the context of:

Additional Criteria
for Capital
Improvement
Offers

- the RFO for the priority under which it was originally submitted
- the additional criteria for the CIP
- Comprehensive Plan
- Vision for support of development in the urban centers
- Additional funding constraints applicable to capital projects

As a result, the Capital Results Team also ranked offers submitted as part of the Budgeting by Priorities process. For an overview of the City's capital investment program, please see the CIP section of this document.

Ranking the Offers

RANKING THE OFFERS

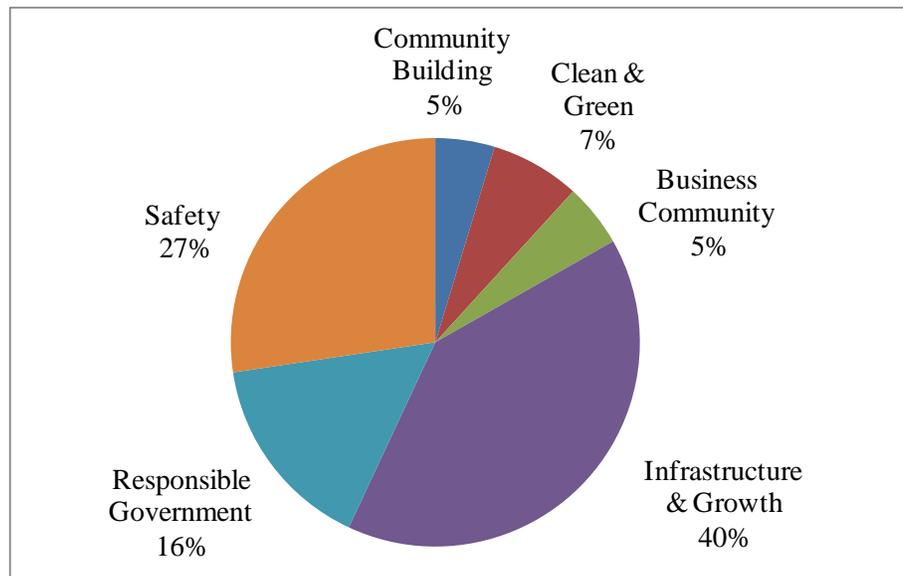
When the offers were first submitted the Results Teams met with the departments to seek clarity on issues and then critiqued and ranked the offers. During the first round of offer ranking, the Results Teams did not have funding allocations, nor were decisions based on mandates. The first round was used to give departments feedback on the content of their offer as well as a sense of where their programs would rank. It also gave the Results Teams some time to learn and understand their role in the process. Departments were then given the opportunity to improve their offers and make adjustments based on advice of the Results Teams. The second and final rankings were carried out with estimated funding allocations and attention was paid to those programs that were legally or contractually mandated.

Recommendation for Funding from Results Team by Priority

Allocations provided by the mayor to the Results Team based on past experience and interest in reducing “Responsible Government” element

Mayor’s Efforts to Develop the Adopted Budget

Recommendation for Funding Operations Results Team by Priority



RECOMMENDED BUDGET – ADOPTED BUDGET

In mid-August 2010, the Mayor received the Results Teams rankings, with suggested funding levels for the various offers. The Mayor met with all the Results Teams for their insights into the process and to understand how they arrived at their conclusions. With this information the Mayor led several conversations with the department directors to fine-tune the offers and allocations.

Department
Directors Team
Involved

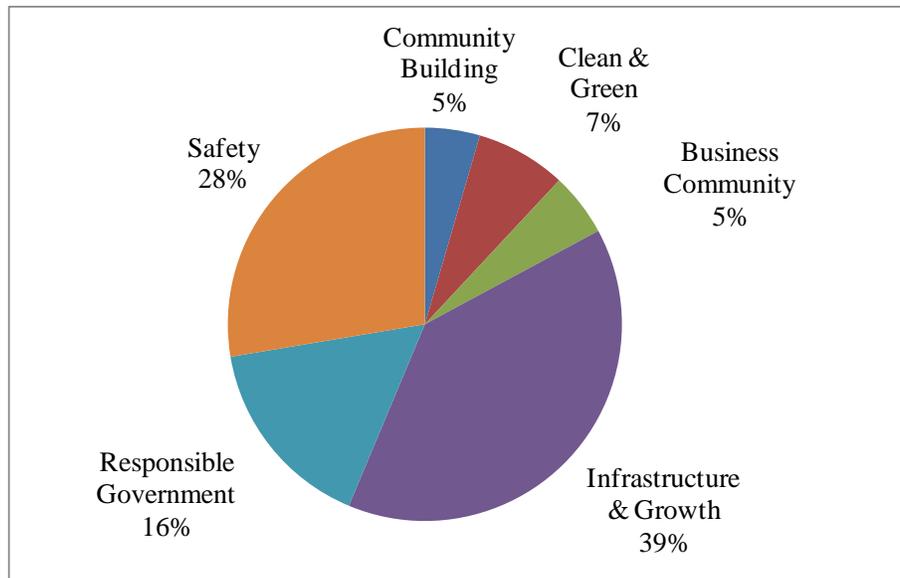
The mayor worked for several weeks with the Directors Team to review the recommendations of the Results Team and make adjustments to address revenue constraints and other needed adjustments.

Final Decisions
Developed

When the final revenue estimates for the 2011-2012 budget became available in September the Mayor finalized the decisions necessary to present Council a budget that is structurally balanced, responds to the priorities recommended by citizens and approved by Council, as well as reflects the recommendations of the Results Teams.

Funding by Priority
in Proposed Budget

Funding of Operations by Priority in the Proposed Budget



SUMMARY

The Mayor's vision for the BP process has resulted in more than just a budget. The inclusion of the community in outlining the priorities and the creation of Results Teams to craft Requests for Offers has expanded the budget process to include many staff, as well as citizens who never had the opportunity to be engaged in their community or its government in this manner. Creating interdepartmental teams with a citizen on each allowed staff to better understand what other departments do, while gaining citizen perspective on how the services are viewed by the public. City staff are included in the budget process to a much larger extent than in the past; those who were not directly involved meet with the Mayor regularly to ask questions and gain information.

Contracted Services and Outsourcing

At the conclusion of the 2008 BP process the City Council asked staff to investigate the benefits of adding an “outsourcing” element to BP. Other jurisdictions using this budget model have found opportunities to improve service delivery value to the community through the contracting out of some services currently provided by the city.

GFOA review

City staff asked that the GFOA include this direction by Council in their review of the BP process (discussed earlier in this section). The GFOA has extensive experience in both BP (which they refer to as Budgeting for Outcomes or BFO) and assisting governments who are considering outsourcing some services. The GFOA had the following observations and recommendations:

Recommendations for success with outsourcing

- Consistent with BFO approach – competitive offers help to improve results, hold down costs
- Outsourcing requires considerable planning to address resources and issues
- Several issues to consider:
 - “Level playing field” (for example, insurance requirements, indemnification, procurement requirements, costs of contract administration and monitoring)
 - Social policies incorporated into purchasing requirements (for example: living wage, working conditions, fair treatment)
 - Intangibles – if it isn’t in the contract it won’t be done; accessibility for changes to service, etc
 - Many services require long-term contracts for savings (due to start-up costs)

Inventory of current outsourcing efforts

With this input from the GFOA report, staff determined to initiate an outsourcing effort by first developing an inventory of those services which include outsourcing today. Such an inventory is listed below. In addition to this inventory, those services where the city “in-sources” (provides services to other local governments) are also included.

In-sourcing

Outsourcing Inventory

The City currently outsources a variety of services as shown on the next page.

In-sourcing

Public Safety

- Marine patrol services
- Jail services
- Fire dispatch services
- Hose and ladder testing
- Park security patrols
- Downtown parking enforcement
- Legal services

Repairs and Maintenance

- Technology hardware and software maintenance, including telephone systems
- Disaster recovery storage
- Landscape and irrigation maintenance
- Arboricultural services (tree removal and pruning around power lines)
- Pest control
- Insurance claims administration

Community Services

- Tourism marketing
- R-Trip commute management system
- Human services
- Public defender
- Hearing Examiner

Employee Services

- Training and organizational development
- Workers' compensation professional services and claims administration
- Actuarial services
- Health management administration

The City also provides services to other jurisdictions, including:

- Police dispatch to the cities of Carnation and Duvall
- Crime analysis for the cities of Bellevue and Kirkland
- Fire apparatus repair and maintenance to the cities of Mercer Island and Bothell
- Fire suppression services to Fire District #34
- King County Advanced Life Support (ALS) services

Next steps

The next steps include identification of pilot projects where the likelihood of success through outsourcing is highest. While not included as an element of this BP process, the City will pursue outsourcing through these pilot projects with the advice and guidance of the GFOA in mind.

Report of the King County General Government Budget Advisory Task Force to County Executive Ron Sims

June 25, 2003

INTRODUCTION

Task Force Mission, Process, and Report

The general government services provided by King County are fundamental to the quality of life in our region. Criminal justice services, including the superior and district courts, prosecutor and public defender's offices, the sheriff's department, jail and detention facilities, ensure the public safety of our communities. Providing public health services and basic human services, as well as the day-to-day functions of public record keeping, issuing licenses, conducting elections, assessing property and providing treasury services are also County responsibilities. These essential functions comprise the basic governing services and structures that we all rely on, and which are often overlooked because they are so much a part of the fabric of our daily lives.

The County's ability to continue to provide these essential government services is in serious jeopardy. Last year, a record \$51 million in cuts to general government programs were required in order to balance the County Budget. County Executive Ron Sims indicated that this trend would continue because of the basic limitations of the County's revenue structure. In October 2002, the Executive created the King County General Government Budget Advisory Task Force ("Task Force"), to provide advice on this challenge.

The Task Force is composed of 13 citizens (See **Attachment A**). The Executive recruited these Task Force members in order to secure a broad range of perspectives and experience. Task Force members come from backgrounds in government, business, labor and the non-profit sector.

The mission of the Task Force, as presented by the Executive, is as follows:

Examine the County's Current Expense (CX) Fund, programs, policies, processes and budgets, and make recommendations regarding policy and operational changes that may provide appropriate additional cost savings, as well as the need, if any, for additional revenues in support of CX programs.

The work of the Task Force will include examination of general government functions and budgets, including but not limited to the courts, sheriff, jail, public health, human services, parks and central government

functions. The Task Force will also review the 2003 budget process and make recommendations about 2004 budget cuts.

The Task Force had its inaugural meeting in early November 2002. This was followed by a series of tours of many County general government functions in December. The Task Force then met every two weeks from January through June. All meetings were open to the public. Multiple stakeholder panels were held in order that the Task Force could hear not only from the Executive staff, but also directly from others in government and in the region, including mayors and city managers, judges, the King County Sheriff, the King County Prosecutor, the King County Bar Association, unincorporated area council representatives and County Councilmembers – among others.

The Task Force identified three primary tasks for its work:

1. *Identify short-term and long-term direction/priorities for budget cuts.*
2. *Identify short-term and long-term operational and other changes to address CX shortfalls.*
3. *Determine whether there is a structural problem with the County's funding, and if so, are new funding sources required? What type of funding sources?*

This report presents the Task Force's assessment of the critical fiscal problems facing King County general government and a series of short and longer-term recommendations to address those problems. We begin with a general description of the challenge. Then, we in turn address four key substantive areas:

- Service Priorities for King County
- Administrative and Operational Efficiencies
- Aligning Services and Revenues
- Revenue Options

In each of these substantive areas, we first present a challenge statement and analysis, then a list of recommendations, including: (1) *County action steps* (short term and long term); (2) *State action steps*; and (3) *Regional dialogue recommendations*.

We have reviewed a tremendous amount of information regarding the various general service budgets, the statutory obligations of the County, the limitations placed on it by state law, the array of revenue authorities granted the County, and the policies and practices governing expenditure of those revenues. The complexity of the budget challenge, and the County organization itself, is such that despite our work over the last eight months, we believe it is neither appropriate nor possible for us to offer line-item budget cut recommendations that will erase the ongoing budget deficits facing King County. Rather, this report reflects our assessment of the current direction of the County, poses several questions for further inquiry, and recommends several policy directions and actions that we believe should guide County leaders in managing the budget crisis in the near and longer-term.

PART I: KING COUNTY GENERAL GOVERNMENT FISCAL CRISIS: PROBLEM STATEMENT

King County's general government operations as currently constituted are not sustainable. Simply stated, the problem is that general revenues are growing at less than 2 percent per year and general service expenditures are growing at between 5½ to 6½ percent per year. Unless things change, County general fund budget cuts are a permanent, annually recurring event. It is important to understand the reasons for this situation, in order to identify solutions. We emphasize at the outset that the solution is not simply a matter of finding new revenue: while ultimately we believe new revenues are required, the County must also address certain basic operations and service delivery decisions.

The County has undertaken major budget cuts in general government services in the last two years – together in excess of \$90 million. (See **Attachment B** for a list of the 2001 and 2002 general government budget cuts, by program area). This is the cumulative equivalent of nearly 19 percent of 2003 general government service budgets. General government services are budgeted out of the County's "Current Expense ("CX") Fund," which receives a variety of general revenues sources.¹ The 2003 CX Fund budget is \$492 million.²

The County budget office estimates that *status quo* Current Expense expenditures will outpace revenue growth by over \$20 million each year in 2004 and 2005, with the gap dropping to approximately \$15 million in 2006 and each year thereafter.³ Continued *status quo* service delivery means that the only way to balance the budget each year is to fire more County employees every year and reduce services to the public accordingly: an untenable outcome. We believe that other options must be identified and pursued in order to maintain an adequate level of public services. King County must be first and foremost a deliverer of quality public service.

The causes of the current situation are varied, and defy simple resolution. In our work, we found no "easy wins" or "low hanging fruit" – the County has identified and addressed these. There is no "silver bullet" to resolve the problem. The County has clearly made many difficult decisions in the past two years to deal with a serious budget crisis. But further changes in the way services are provided, and managed, are necessary. Ultimately, however, the County cannot resolve this crisis alone.

This portion of our report reviews some of the basic facts about general County services and revenues. These basic facts are not well understood by the public, but illustrate the sources of the budget crisis. The average County resident probably has little idea which

¹ We use the terms "general fund" and "CX Fund" interchangeably in this report. Technically, the CX Fund is a sub-fund of the "General Fund," constituting over 99 percent of the General Fund budget. Approximately \$4million in dedicated sales tax revenues is also included within the General Fund budget.

² The sources of CX Fund dollars, and their application, are summarized in **Tables 2 and 3**.

³ Passage of the May 2003 parks levy will reduce the amount of 2004 budget cuts needed by providing funding directly for regional parks. If approved by Council, the Executive's solid waste initiative would provide additional CX dollars to further reduce the needed 2004 budget cuts.

services are provided by the County, or where the money to support these services comes from. The County is largely invisible to residents. However, both County government and the public must understand the current situation, its root causes, and the implication for our region if nothing is done to change the situation.

Distinguishing the CX Fund from the Rest of the County Budget. It is important to understand that the County’s fiscal crisis is within one small (in terms of percentage) but critical part of County budget. As shown in **Table 1**, the total County budget in 2003 is in excess of \$3 billion. The County’s *general fund budget* – or “*Current Expense*” (CX) Fund budget – is only about 16 percent of the total annual budget. The rest of the County budget is comprised of programs that are entirely fee supported or have dedicated tax revenues – so-called “enterprise funds” such as regional wastewater treatment, solid waste disposal, transit service, and Boeing Field. Additionally, there are capital funds to which revenues have been pledged to pay debt service. These fee and revenue supported services and funds are not in crisis – although they do share some concerns as clients of the internal services that are budgeted out of the CX Fund. Actions taken to reduce the CX budget may, in some cases, have a beneficial “ripple” effect to these dedicated service areas (or, if overhead functions are not flexibly structured such reductions may actually increase central service charges to those agencies).

The Role of the CX Fund. The CX Fund supports a disparate array of general government services, primarily services mandated by the state, as well as a few discretionary services such as parks and human services. In addition, the CX Fund supports the basic *internal operations* of King County: the Council, Executive, human resources – general overhead functions. With a few notable exceptions,⁴ these general government services are not self-supporting through fees: they require tax support. While utility funds contribute their share to support general overhead, there are clear prohibitions in state law preventing the diversion of utility dollars to pay for non-utility functions. Thus, CX programs such as the courts or parks cannot be supported by sewer fees, garbage disposal charges or bus fares. The CX Fund is supported primarily by: (1) a countywide property tax; (2) the County’s share of sales tax, collected both inside cities and in the unincorporated areas; (3) fees for service, such as city sheriff contract payments; and (4) transferred revenues from other enterprise functions of the County in payment for services (typically overhead services) provided by CX agencies. **Tables 2 and 3** detail the sources and application of revenues to the CX Fund.

Root Causes of the Fiscal Crisis. We now turn to a brief examination of what we believe to be the root causes of the current CX budget crisis:

- *Doing two jobs, defined by the state:* The County has a set of expensive, but critical public services that it is required to provide by state law, including both regional and local mandated services.
- *Decisions made to provide discretionary services:* The County has over time chosen to provide many discretionary services.

⁴ Treasury services and public records not only cover the cost of operations through fees they generate several million dollars a year that are spun off to support other CX services.

- *Service Costs – which primarily consist of salaries and benefits, are growing each year.*
- *The County has a limited revenue base, dependent upon capped property taxes. There are major limitations on County revenue authority imposed by state law and voter initiative.*
- *Conflicting constituencies and multiple service obligations have led to misalignment of revenues and expenditures.*
- *A complex, politicized, and fragmented organization suffering from a lack of healthy central systems and challenging corporate culture.*

We address each of these challenges in turn below.

Doing two jobs, defined by the state. King County, like all Washington counties, is a creature of the state.⁵ Although operating under a voter-approved charter, King County is required by the state to provide a wide array of public services. Whereas counties were originally envisioned to serve as the general government for an overwhelmingly *rural population*, over time a *dual role* has evolved, particularly in urbanized counties containing many cities. The County today has a *dual role* as the **local government** for unincorporated areas, and as the **regional government** for the County as a whole. King County provides a broad array of regional services to a population of 1.7 million. At the same time, it provides “city” local services to nearly 350,000 residents in the unincorporated areas⁶ —a population equivalent of the *second largest city in the state*. Even if all residents in the urban area were to incorporate or annex, the County would still be responsible for providing basic government services to *rural residents* (currently approximately 135,000 in number – equivalent to the second largest city in King County).

The complexity of the County’s task is made clear by examining a partial list of regional and local **mandated** service responsibilities:

<u>Table 4</u> Regional Service Mandates	
(*) per state law (+) service obligation approved/created by region’s voters	
*Superior Court	*Public Records
*District Court (certain case types)	*Elections
*Public Defender (all felony and some misdemeanors)	Public Health
*Prosecutor (all felony and some misdemeanors)	+Sewage treatment
*Felony Jail	+Transit
*Treasurer	+Automatic Fingerprint I.D. system
*Assessor	+Emergency Medical Services Funding
*Mental Health and Substance Abuse treatment	
*Sheriff (some statutory authorities)	

⁵ That is, it was initially created by the state (as opposed to cities, which are created by citizen action).

⁶ Unincorporated areas are defined as all areas of King County outside of city boundaries, including both rural and urban areas. See **Attachment C** for a pie chart expressing the current population divisions.

<u>Table 5</u> Local (Unincorporated Area) Service Mandates (per state law)	
Roads	Prosecution and public defense
District Court (misdemeanor offenses)	of misdemeanant offenders
Sheriff	Surface water management/storm
Fire Inspections	drainage
Jail for misdemeanant offenders	Building Permits/Zoning/Land-use

King County is like a conglomerate that operates dozens of unrelated businesses. The merger of King County and METRO in the mid-1990s completed this picture, moving two very large fee and dedicated tax supported service structures – wastewater and transit – into the County. As noted above, however, the former METRO services are not the source of the CX Fund’s budget problem.

The mandated services provided out of the CX Fund have evolved significantly over time:

- **Public health** responsibilities today are far more complex than was the case 100 years ago: simply consider the impact of SARS, bio-terrorism and AIDS.
- The requirements of our modern **judicial system** are another example where we see significant evolution in the standards that must be followed, from “*Miranda* rights” to the dozens of foreign languages spoken by defendants for which translators must be daily provided.
- **New crimes** are added to the books yearly by the state legislature, which increases the number of people the County must arrest, try, prosecute, defend, and provide detention. Major crimes pose a particular burden: the combined cost for investigation, prosecution, and defense of the Ridgeway murder trial will exceed \$6.5million in 2003.
- Today, King County Department of Adult and Juvenile Detention spends over \$19 million a year in **jail health care** for prisoners, including what is in essence the largest mental health care service program in the state.

Table 6 shows how much of the available CX dollars are consumed by different CX agencies – and the level of fees and criminal justice sales tax dollars supporting such programs. In terms of dollars, **law, safety and justice functions combined consume over 70 percent of the total CX revenue of the County** – a percentage that has grown steadily over time. The state mandates these functions, but provides little in the way of financial support. For example, the state retains nearly 40 percent of revenue generated by district court fines and forfeitures but provides no direct financial support in exchange. The only state support of the superior court is to fund one-half of judicial salaries and all judicial benefits, as well as a portion of juvenile court programs. The number of district court judges is set in state statute – the County cannot alter these based on caseload changes absent consent of the state. Washington state ranks 49th in the nation in

providing financial support for the operation of its trial courts.⁷ The state provides little direct funding for the operation of the County's jail function, the prosecutor and public defender offices. The County adult detention (jail) function is the largest single consumer of CX dollars – and each new crime put on the books by the state legislature impacts the average daily population of the County jails.

Decisions made to provide discretionary services. Over time, the County has chosen to provide a number of discretionary services, in addition to its mandated services. Some of these services are extremely popular with the public, such as the regional parks and open space system. Human services, children and family services, and animal control are other examples of such discretionary services. As law, safety and justice budgets increase, budgets for discretionary services are being cut. The parks budget was slashed by over 30 percent in the last two years and now is preserved only because of passage this May of a special 4-year levy. The human services budget has been cut by similar percentages in this same period. Perhaps the decisions to enter into these service arenas were made without regard to the County's long-term fiscal capacity; perhaps they were an appropriate response to its mission of public service in an increasingly urbanized environment. Regardless, in a very real sense, the County's ability to continue to provide these services is at stake.

Services Costs – consisting primarily of salaries and benefits – are growing each year. The fact is that CX Fund services are *provided by people*. Salaries and benefits constitute over 70 percent of the expenditure of CX Funds. Per employee salaries have been growing at a rate of *five percent per year* (after considering retirements, new hires, cost of living allowances, and longevity increases). During the past two years elimination of almost 10 percent of the CX workforce reduced the aggregate growth rate in salaries to less than 1 percent per year. However, it will take cuts of similar magnitude each year in the future to keep the growth rate to such level.

County employee benefit costs over the last several years on average have grown at an annual rate of nearly 10 percent – on par with private sector experience across the country. However, for the next several years, this rate is expected to grow at around 15 percent per year (also on par with an expected increase in the national rates).

While labor costs are a major challenge, the County is constrained by both state laws and County policies in tackling these costs. The County currently has 94 different union bargaining units operating under 66 different union contracts. Over two-thirds of CX program employees are unionized, and this percentage has grown steadily over time. State law requires interest arbitration for sheriff employees and jail guards (as well as transit workers, not a part of the CX budget) – sending wage and working condition impasses to binding arbitration. Most significantly, County labor policies discourage contracting out of work. State case law interprets portions of the County Charter as preventing contracting out in certain situations.⁸ Union leaders, we are told, much prefer

⁷ Source: Washington State office of Administration of the Courts, based on U.S. Department of Justice, Bureau of Justice statistics FY 1999 data.

⁸ Joint Crafts Council v. King County, 76 Wash. App. 18 (1994).

budget cuts be taken through employee reductions – rather than salary or benefit cuts or contracting out of work: this forces the County to cut service levels in order to balance the budget.

It must be acknowledged that the County has achieved significant cost savings in working with its unions. For example, the most recent benefits contract (jointly negotiated with the County by all unions), doubled employee medical co-payments, allowing a one-year reduction in growth of benefits to around 1 percent as compared to the roughly 10 percent annual national average in recent years. Also, through agreement with unions, the County has for the last many years used a *national* cost of living allowance index for most employees⁹ that is lower than the *regional* Seattle-Everett metropolitan area cost of living index. State data suggests that County *top managerial* salaries lag significantly behind their public and private sector counterparts – an issue that we are told is having negative impact on the County’s ability to attract high-level managerial employees.

In aggregate, **the cost of funding *status quo* CX services, after considering the cost of salaries, benefits, and all other factors (inflation, growth of service demand, regulatory changes, etc.) is growing at a rate of 5½ to 6½ percent per year.**

The County has a limited revenue base, dependent upon capped property taxes.

Although the services performed by the County have evolved over time, its fiscal resources to provide these services have changed little since its creation. The County’s revenue tools are defined by state law. This includes two separate general property taxes (one levied countywide, the other in the unincorporated areas – currently dedicated by policy to roads), a share of sales tax (collected at one rate within cities, and a higher rate in unincorporated areas), some dedicated property and sales tax authorities (such as real estate excise tax and a share of a regional criminal justice sales tax). The County also has authority to impose a variety of fees (many of which, such as court and licensing fees, are fixed in amount by state law).

The County’s primary revenues sources for providing regional and local services are listed below in **Table 7**.¹⁰ The relative amounts of these revenues are identified in the charts on **Table 8**. This table illustrates the **County’s overwhelming dependence upon property taxes—taxes that have been capped by voter initiative¹¹ to an annual growth rate of 1 percent plus new construction.**

⁹ Workers entitled to interest arbitration are not included in this: state law generally provides their salary increases are based on West Coast public sector comparable salaries.

¹⁰As noted in Table 7, many of these revenues are *not part of the CX fund*. Criminal Justice sales tax revenues are budgeted in a separate fund. Unincorporated area property tax levy is dedicated by policy to the County Road Fund. The Conservation Futures tax is dedicated by state law to acquisition of open space. Real Estate Excise Taxes are dedicated by County policy to fund park and recreation capital projects. Surface water management fees are required by state law to be applied towards storm drainage and similar environmental projects benefiting unincorporated areas.

¹¹ Initiative I-747, which went into effect January 1, 2001, caps the growth of property taxes without a vote of the people to 101% of the previous years’ receipts, plus taxes on new construction. A simple majority of the voters can override this limitation.

The revenue and expenditure gap in general County government is thus in the range of 4 percent to 5 percent a year: this is the amount that must be cut each year from CX budgets. To date, the budget gap has been filled primarily by cuts to internal government functions and discretionary services. Human services and parks – discretionary items – have been hardest hit, but all central internal service budgets (overhead functions) have also been targeted in an effort to preserve regionally mandated services such as public health. The County’s budget cutting priorities have been commendable and appropriate to date, but cannot resolve budget problems indefinitely. Regional mandated services can no longer escape significant budget cuts, given current policies and revenues.

Unlike cities, counties cannot impose utility taxes or business and occupation taxes. The heavy reliance on property taxes means that unlike cities, the County’s revenue challenge does not resolve itself when the region comes out of recession. Should inflation return, the problem becomes even more intractable. **Collectively, the County’s CX Revenues are expected to grow at an aggregate rate of less than 2 percent per year for the foreseeable future.**

<p>Table 7 Major County General Government Revenue Sources (* identifies those revenues included in the CX Fund budget)</p>
<p><u>Revenues collected countywide:</u></p>
<p>*Countywide property tax (maximum rate: \$1.80 per \$1,000 assessed value) *0.15% of sales tax generated in cities *Countywide special levies (EMS, AFIS) Conservation Futures tax Criminal Justice sales tax (regional allocation per state law)</p>
<p><u>Revenues collected in unincorporated areas only:</u></p>
<p>Unincorporated area property tax (maximum rate: \$2.25 per \$1,000 assessed value) *1% of sales tax generated in unincorporated areas Real Estate Excise Tax dollars collected in unincorporated areas *Gambling taxes collected in unincorporated areas Criminal Justice sales tax (per capital allocation based on unincorporated area population) Surface Water Management Fees</p>

Conflicting constituencies and multiple service obligations have led to misalignment of revenues and expenditures. The dual regional and local role of the County has led to confusion and conflict over time about what the County should be doing, particularly as more and more residents live in cities and no longer depend on the County for local services. With nearly two hundred local governments in King County, it is difficult if not impossible to generate consensus around public issues at the governmental level, let alone with the public. The Growth Management Act, and subsequently adopted Countywide Planning Policies (CPPs) propose a long-term vision that apparently has substantial support from most of the governments in King County. At its essence, the growth management vision calls for a clear distinction between urban areas and rural areas. King County is to be the provider of regional services and the local government in

the rural areas; cities are to be the providers of urban local services. Urban areas should receive urban levels of service, and rural areas should receive lower, rural areas of service.

While the CPPs vision seems simple, in practice, it has proven difficult to achieve. As the region has taken steps towards achieving its vision, the results have been less than optimal for King County. Today we observe a major – but we believe largely resolvable – conflict between the County’s regional and local responsibilities.

The primary challenge is in the County’s role in *local urban service delivery*. While some full-service cities would prefer the County focus on regional mandates, many other cities rely heavily on the County to provide local services under contract.¹² The County today has substantial resources dedicated to *urban, in-city local service delivery* – although these efforts are largely “revenue-backed” by fees from cities. More significantly, over **210,000 people live in urban areas that are not yet part of cities** – equivalent to the second largest city in the state. Thus, over a dozen years into implementing the Growth Management Act, King County remains heavily involved in delivering *urban services to areas inside and outside of cities*.

Some urban unincorporated areas desperately want to be annexed; others want to be left alone. Some cities are interested in annexing neighboring territories; others are not. Annexation is dependent upon several things, chiefly: (1) cities agreeing to assume the territory; and (2) residents agreeing to be annexed.¹³ The County itself has been ambivalent towards the issue of annexation, sometimes finding it difficult to encourage constituents to turn to cities for services. And, special purpose districts – fire districts, water and sewer districts, among others – can pose significant challenges to annexation as it often means for them both loss of service territory and tax base.¹⁴

The CPPs call for the remaining unincorporated areas to annex or incorporate (with a preference towards annexation) by 2012. Throughout the 1990s there was a wave of annexations and incorporations in King County, as nearly a dozen new cities were formed. Most of the remaining unincorporated urban areas (with notable exception of the Highline/White Center area) have been claimed by cities as part of their future territory – so-called “Potential Annexation Areas” (PAAs). However, the rate of annexation has slowed significantly in the last few years. And, the County has no legal authority to cause the remaining annexations to occur.

¹² The magnitude of these contract services is significant, and includes areas such as road maintenance, district court, marine patrol, and police services, among others. The sheriff’s department reports that over 40% of its budget is “revenue backed” from city and other government service contracts.

¹³ New state legislation appears to create an opportunity for annexation to now occur in certain “islands” of unincorporated territory simply through agreement between the City and County. This could create a major opportunity to accelerate the pace of remaining annexations.

¹⁴ A recent highly publicized case with statewide implications was the Grant County Fire District No. 5 v. City of Moses Lake, 145 Wn.2d 702 (2002), in which the District challenged the constitutionality of the petition method annexation – and won. The District sued in response to an effort by the City of Moses Lake to annex a portion of the Fire District.

Areas annexing or incorporating have included key commercial centers – areas that (together with their surrounding neighborhoods) can be self-sufficient as cities, and can provide urban services with a reasonable tax load. As a result, the County has been left with a patchwork of geographically separated unincorporated urban areas to serve – areas that consist primarily of residential areas and largely excluding commercial centers. *See map of King County at Attachment D.* These areas typically (although not universally) require tax subsidy in order to provide urban services – indeed, a city would typically subsidize these areas from its commercial center or downtown if these areas were annexed.

In addition to its responsibilities for urban unincorporated area residents, the County is (and by law will remain) the local government for approximately **135,000 rural residents** – a population equivalent to the second largest city in King County. The CPPs call for the rural area to receive lower, rural levels of service than are found in urban areas and, because development in rural areas is limited, the CPPs recognize that *a regional subsidy* is necessary to support local government services to these areas.

In sum, the regional land use vision proposes that the County to provide subsidized services to rural areas. And, the practical result of GMA in the last 15 years has been to also leave the County with responsibility for a large urban area that generates relatively little sales tax (compared to commercial areas and high density residential areas in cities). Not surprisingly then, many of the County’s *local service budgets* are subsidized through *regionally-generated revenues*. As the County Executive outlined in his 2003 Proposed Budget to the Council last Fall, the County proposed to spend nearly \$42 million in regionally-generated revenues to provide local services to unincorporated area residents. Of this, \$42 million, it is *roughly* estimated that \$15 million is attributable to subsidizing the rural area, and the remaining \$27 million to subsidizing the urban unincorporated area.¹⁵ Excluding roads, unincorporated area residents are collectively receiving nearly twice the amount of services than their local taxes pay for. To date, County budgets have not tracked the change in this subsidy over time, nor pinpointed its size within various PAAs.¹⁶

The subsidy means that **regional services and central government functions are being cut in order to fund local services.**

Nearly sixty (60) percent of the County’s annual *locally generated unrestricted revenues* come from the *unincorporated area property tax levy* – dedicated as a matter of *policy* since the early 1980s to roads and transportation purposes. This property tax is *legally available for any unincorporated area purpose*. Cities do not spend this high a revenue percentage on roads. Absent new revenues, as long as the unincorporated area levy

¹⁵ The County’s current financial system does not track rural versus urban expenditures—something we recommend addressing in the 2004 budget. The \$15 million figure is based on inflating the only recent estimate of the rural subsidy, calculated in 1997 to be approximately \$12 million.

¹⁶ For example, it is suspected – but difficult to prove – that local service budgets have not been cut commensurate with annexations and the subsidy has grown on a per capita basis over time, even accounting for inflation.

remains dedicated to roads, the remainder of local services – particularly law safety and justice expenditures (if provided at any semblance of their current levels) – will be subsidized by regional revenues. Absent new revenues, re-allocating the unincorporated area property tax away from roads towards other local services is one of the only means for the County to avoid further cuts to regional services. But re-aligning “road” revenues cannot solve the problem for any length of time without devastating unincorporated area road programs.

Ultimately, unless the region fundamentally revisits its growth management plans, the conflict between County’s regional and local roles will continue and regional service budgets will suffer – until annexations or incorporations remove urban local service responsibility from the County and/or new revenues are made available to County to meet these local service obligations. Annexations require city consent and resident support. The County is a necessary player, but does not control annexations. Fortunately, we are seeing unprecedented solidarity from cities as to the need to address the urban subsidy.¹⁷ Because the dollars associated with this revenue/expenditure misalignment are so significant, this is a major area for corrective action.

A complex, politicized, fragmented organization suffering from a lack of healthy central systems and challenging corporate culture. King County is an extremely complex organization in terms of service delivery, governance, organizational structure, and culture. The diversity of County operations manifests itself most obviously in dozens of County offices spread throughout King County: County employees in different programs have little or no interface with one another on a daily basis. County employees work out of offices at Marymoor Park, sewage treatment plants in Magnolia and Renton, airport offices at Boeing Field, several sheriff precincts, County health clinics, courthouses in eight cities, and hundreds of buses, each day. The sense of a single, united government is lacking. There are 93 separately elected officials in King County government, some elected countywide, some by district.¹⁸ The Executive and Council are elected on a partisan basis. The multitude of unions, bargaining units, and restrictive overlay of labor policies further complicates County management as we have noted earlier. Budget pressures have resulted in competition between departments for funding.

Related to these factors, the County does not have a consistent set of business practices, processes, and systems across all departments and programs. This results in missed opportunities for efficiencies. Central governmental systems at King County suffer from a lack of investment, and a lack of standard procedures. There is no unified financial system; no single human resources or payroll system; and no budget to achieve these goals. There is no uniform policy for computer hardware or software purchases. The County still relies on mainframe systems for core functions. With limited exceptions, no programs encourage employees to find efficiencies, or to work across government functions to identify possible savings. Recent initiatives to introduce managing for performance and benchmarking are relatively undeveloped, but their introduction,

¹⁷ See **Attachment F**.

¹⁸ Comprised of 1 county executive, 13 county councilmembers, 1 county assessor, 1 county prosecutor, 1 county sheriff, 51 superior court judges, 25 district court judges.

together with the Wastewater Division productivity initiative and unification initiatives sponsored by the Department of Executive Services, evidence a recognition of the need for change.

Acknowledging success to date – and the difficult path ahead. While we have concerns about the internal business functions and practices, we must also acknowledge that the budget cutting activity undertaken by the Executive and Council in the last two years has been significant. The over \$90 million in CX fund cuts and savings accomplished in these recent budgets has been painful and has required strong leadership. County government is facing up to its budget challenges. The fact is, however, that the budget cutting “degree of difficulty” increases every year: cuts and changes rejected last year as too painful are among the only options left on the table this year. At this point, we see no remaining easy fixes or “silver bullets.” Managing the budget challenge this year and in the future will require many smaller actions, and patience. It will require challenging the way County government has traditionally managed and provided service. It will mean a commitment to sharing the pain in all areas, to finding efficiencies at *all levels of County government*. It means managing for the long-term, rather than the immediate crisis.

PART II: WHAT IS THE COUNTY’S ROLE? SERVICE PRIORITIES, SERVICE LEVELS

The Challenge: Facing a significant annually recurring gap between revenues and expenditures, what should be the County’s service priorities? Are there services or programs that the County can no longer provide? For King County, the vast majority of services provided not only have their own constituency, they are mandated by the state. While specific aspects of programs may be eliminated, or provided in a different way, some actions are not tenable, for example, the County cannot stop operating superior court. Yet, the question: “what is the County’s role?” has come up repeatedly throughout our deliberations.

Analysis: The County’s mission, vision statement and goals provide little guidance in the quest for prioritizing or culling programs.¹⁹ Within the context of considering reductions in previous years’ budgets, the County has employed sensible criteria for making budget reductions, which bear repeating:

¹⁹ King County’s current adopted *Mission, Vision statement and goals* are:

Mission: Enhance King County’s quality of life and support its economic vitality by providing high-quality, cost-effective, valued services to our customers.

Vision: King County – Leading the region in shaping a better tomorrow.

Goals:

1. Promote the health, safety and well being of our communities.
2. Enrich the lives of our residents
3. Protect the natural environment.
4. Promote transportation solutions.
5. Increase public confidence through cost-effective and customer-focused essential services.

- Direct services prioritized over administrative functions (unless necessary to assure adequate oversight and control);
- Mandatory services prioritized over discretionary services;
- Regional services prioritized over local services;
- Unincorporated services prioritized over in-city services (e.g., parks);
- Raising fees prioritized over cutting services;
- Full cost recovery for contracts; and
- Limited subsidy of rural areas per GMA/CPPs.

These criteria are appropriate. But, given: the extent of budget cuts to date; the large number of mandated regional and local services that the County provides; citizen and city concern over discretionary service cuts (particularly in parks and human services); limits in state law and the market to further increasing many fees for service; and the fragile condition of basic County central government systems, these criteria will be less helpful in the future. The County must now determine if there are any services that can be completely eliminated, or significantly scaled back.²⁰ And, new criteria must be developed to guide budget decisions.

Our review suggests the following three general categories of activity in which the County is now engaged: (1) Regional activities around which there seems to be consensus that the County’s role is appropriate; (2) Regional activities generating a number of possible questions/alternatives; and (3) Clearly local activities. We acknowledge up front that others will disagree with our categorization—indeed, this is inevitably a somewhat subjective exercise, which accounts for the ongoing disputes as to the appropriate role of the County.

Beginning with the first category, there appears to be consensus, (except as noted parenthetically), that the County is the appropriate **Regional Service Provider** for:

- Sewage treatment (not a direct CX issue. *Note: service area covers only part of County*)
- Transit service (not a direct CX issue. *Subject to discussion of multi-county delivery, consolidation of transportation systems*)
- Superior court (state mandate)
- Public defender (state mandate)
- Prosecutor (state mandate)
- Felony jail (state mandate)
- Treasurer (state mandate)
- Assessor (state mandate)
- Public records (state mandate)
- Elections (state mandate)
- District Court (unique jurisdiction for small claims cases and certain other filings, per state law)
- Sheriff (regional jurisdiction on some matters defined by state law)

²⁰ Part III of this Report looks at the issues of providing services in different ways to gain efficiencies.

- Public health (state mandate, and some discretionary services; *service level issue*)
- Human services (discretionary; *service level issue*; *lack of partnership funding from cities is an ongoing issue*)
- Regional parks (*discretionary*; *service level issue*)
- Funding and oversight of Automatic Fingerprint I.D. system (funded through special periodic property tax levy)
- Funding and oversight of Emergency Medical Services (funded through special periodic property tax levy)

It appears that **questions exist as to County’s appropriate regional role in:**

- Specialized police services (K-9, Bomb Squads, SWAT teams, helicopters, marine patrol, etc.) Multiple service providers exist in King County. Some cities rely on the Sheriff’s Department for specialized police functions that the County makes available to the region; others prefer to provide their own services, or work in sub-regional coalitions that provide these services. It appears that significantly more resources are collectively dedicated to this area countywide than are necessary to meet the needs of the population)²¹
- Animal control (Currently there are several service providers within the County; the County’s covers most of the geographical are of the County and is largely self supporting through animal licenses fees.)
- District court (We understand there is a disagreement as to whether the County has the option to provide this service to cities; the question is whether providing the service at full cost can be achieved?)
- Economic development (discretionary)
- Regional transportation (discretionary)
- Medic 1 services (These are provided by the County in south King County, and are provided elsewhere in the County by cities and fire districts. The service is almost completely funded by the EMS levy.)
- Airport

We do not here attempt to resolve the differences of opinion about the County’s regional service role in the foregoing areas. That is beyond the scope of our work. We would simply note that these are all potential areas for continued regional dialogue.

King County is the **Local Service Provider** in the unincorporated areas for the following services (mandated by state law except as noted with asterisked (*)):

- Unincorporated area roads
- Courts of limited jurisdiction for misdemeanor crimes arising in unincorporated areas
- Building permits
- Fire inspections
- Local police services
- Jail for unincorporated area misdemeanor offenders

²¹ See **Attachment E** for excerpt of recent state-funded report summarizing current number of such units funded and staffed across King County by numerous governments.

- Prosecution and public defense of misdemeanor offenses arising in unincorporated areas
- Human Services*
- Parks*
- Surface water management/storm drainage

* Not mandated by state law.

Given the extent of mandated services, and the regional consensus around discretionary services provided by the County, we conclude that major savings are not achievable through “getting out of the business” in major service areas. However, what must be addressed is **means of service delivery and level of service**. We believe significant savings may be achieved by selectively eliminating various programs within service areas, changing the way services are provided, and in some cases reducing service levels.

Generally, limited CX revenues mean that even if annexations enable local service budgets to shrink over time, **regional CX service budgets cannot grow significantly**. Growth and/or service improvements must be accommodated in large part through efficiencies. Absent new revenues, however, the public must anticipate eventual reductions in regional service levels. Specifically, it is not clear that **local service budgets** have been commensurately reduced as annexations have occurred in the last 15 years: this issue must be rigorously managed in the future – or annexations will have the ironic impact of worsening the County’s fiscal situation.

Recommendations:

Near-Term/Immediate Actions:

We identify no services that should immediately be eliminated. However, services and programs must be constantly reviewed for effectiveness and efficiency. And, restraint must continue in considering the establishment of any new programs. Specific recommendations include:

1. **Ensure discretionary contract services are full cost recovery.** This must include not only consideration of overhead and operation costs, but capital costs as well.
2. **Make budget decisions consistent with the County’s growth management vision** (as encompassed in the Countywide Planning Policies). Budget choices should **promote annexation of urban unincorporated areas**, and reflect a *lower service level* for rural areas than for urban service levels (acknowledging some rural subsidy will be appropriate.)²²

²² We commend the work of the Metropolitan Parks Task Force in laying out a vision for the County’s engagement in regional and local park and recreation that is based on, and consistent with, the County’s growth management vision.

3. **Continue to use restraint in initiating new services and programs.** These should not be initiated unless they (1) are mandated, or (2) if discretionary, are either demonstrably able to save money over a period of years (not necessarily immediately); financially self-sustaining; or serve a highly compelling public purpose and can be delivered at a sustainable service level without undermining other budget criteria.
4. **Consider long-term fiscal impacts of decisions; exercise restraint in expending one-time savings or revenues.** One-time revenues should not be used to support ongoing operations, and, it should be a priority to levelize the rate of ongoing budget cuts (rather than have zero cuts one year and major cuts the next year). Where possible, the County should take actions now that can save money in future years. Commendable examples of steps taken to reduce costs in the long run include restructuring of the juvenile justice operations and renegotiated city jail contract.
5. **Determine the impact of discretionary contract services on overhead.** The clearest opportunities to get out of lines of business are in the area of discretionary contracts, such as road maintenance, sheriff service, and district court. The decision to continue these contracts must be based on sound fiscal policy, rather than popularity. The impact of these contracts on organizational overhead should be examined. Specifically, do such contracts *provide relief* to other County functions by supporting necessary overhead infrastructure – or do these contracts *compel larger system investments, including capital investments* (at the Department or Countywide level) than otherwise is required, thus driving up costs to the organization?
6. **Give basic service functions of government records, elections, property assessment – the necessary resources to operate in a highly reliable manner.**

Longer-Term Actions:

7. **Develop long-term funding plans for human services and parks, clearly delineating regional and local roles.** Providing these services will become harder to justify if other regional mandates are constantly threatened by budget cuts and service reductions – as is the case today. Passage of the parks in May levy bought a temporary respite for parks. Although we are not here recommending the mechanism for doing so, action may be needed to preserve a similar baseline of regional human services funding. While we acknowledge there is some consensus emerging between cities and the County as to the County’s regional human services role, we could not reach consensus on whether funding of human services is in fact a regional service or the responsibility of cities. And, despite the parks levy, funding parks operations remains a long-term
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challenge. The County simply cannot contribute significantly more to human services funding or parks unless new revenue sources become available.

8. Reduce the jail healthcare budget. While we lack the expertise to make specific recommendations here, a \$19 million a year budget for jail health services – outstripping CX support for either parks or human services – calls out for an examination of potential service reductions.

State Action:

9. **Aggressively oppose additional state unfunded mandates.** This must remain a major effort of the County in its advocacy work at the state level.

Regional Dialogue:

10. **Consolidate and restructure delivery of specialized police functions:** The County should initiate a regional dialogue with cities, the port, and the state to examine this service delivery area. Within King County, there are reportedly 80 different specialty police units provided by at least 8 cities and the County.²³ For example, there are three different marine patrol providers patrol Lake Washington. There are multiple SWAT, Bomb, and K-9 teams. There is unquestionably excess capacity here. Can the County continue to afford an air patrol? The control issues here are formidable – but the dollars on the table are potentially very significant if a more rationalized service delivery mechanism can be agreed upon.

We are not proposing necessarily that the cities get out of this business nor that the County do so: we believe duplication means the public is collectively paying much more than necessary for these services which creates the potential for significant savings to King County and other governments. On the one hand, a single service provider may provide the greatest opportunities for efficiencies; on the other hand, absent competition and operational reviews, a single provider may have little incentive to continually seek efficiencies. Perhaps the existing Emergency Medical Service (EMS) model is an appropriate place to begin discussion, in that it has multiple service providers but the total amount of services funded is based on a regional assessment of medic units required to meet agreed upon standards, and operations are regularly assessed for their cost and efficiency.

²³ See Attachment E, Excerpts from “Study of Law Enforcement Specialty Services” commissioned by the State and completed in September 2001 by MGT of America, Inc.

PART III: ADMINISTRATIVE AND OPERATIONAL POLICIES AND EFFICIENCIES

The Challenge: King County is not as efficient as it could be. Causes include:

- The complexity of the County organization, including the broad diversity of services provided.
- A highly political organizational environment with a multitude of separately elected officials. This can make the internal governmental processes time consuming, duplicative, and unconstructive.
- Labor policies discourage contracting services out to other service providers where such alternatives may be more efficient.
- Recurring concern and confusion about overhead costs: the overhead model is complex and little understood by internal or external clients.
- Lack of standardized practices, processes and systems for basic business functions.
- Lack of funding to develop and maintain needed central systems, particularly information technology systems and financial and payroll systems.

Analysis: Significant savings and efficiencies have been found in the last two budgets. But opportunities for greater efficiencies clearly exist. Sound management principles must continue to be reinforced in the government. We note with concern Governing Magazine's February 2002 report card of King County giving weak grades in "Information Technology," "Managing for Results," and "Human Resources." It does not appear to us that the County has an internal culture that generally rewards efficiency or manages for performance. The County's future success requires that it is able to make the case that it is an efficient and effective steward of public tax dollars.

We see two major challenges to the County's operations: the lack of strong central management systems and practices, and the labor environment. These issues have been outlined in Part I of this report. The multiple financial and payroll systems are particularly of concern, as is the disparity of operational practices and procedures. In recognition of the challenge, the Department of Executive Services has or is about to launch a series of "unification projects" that seek to balance the departmental desire for autonomy with the need for standardized rules and procedures – and holding departments accountable for compliance. This is a common practice in the business world, with notably positive results and should be encouraged within the County.

Regarding the labor environment: the County's first job is to provide public service, not to employ people. New ways of providing service must be considered if they are the only ways to maintain service levels within available revenues. This may or may not suggest contracting out of services and programs – depending on the public service objectives and the opportunities to meet those objectives with fewer taxpayer dollars.

Recommendations:

Near Term/Immediate Actions.

1. **Create a stronger culture of efficiency within the organization.** All branches, and all departments, of the County government must consider whether they are themselves efficient, and whether they are supporting efficiencies within the government as a whole. The County should not limit its efforts to addressing efficiencies only within CX agencies. An emerging culture of “haves” and “have-nots” within the County (distinguishing cash-strapped CX agencies from others) is apparent and not positive for County government as a whole. Being “revenue-backed” is not a reason to ignore the need for efficiencies, particularly in the delivery of local services that are collectively being subsidized. Drawing from the input we received from department directors, we encourage the County to increase accountability at all levels of the organization. Managing for performance, benchmarking, and performance measures: these tools must become part of daily management practice at the County. Incentives should be put in place to help make this cultural change take place: examples such as the **Wastewater productivity initiative** should be replicated elsewhere in County government. Policies that arguably discourage savings—such as the budget office **capturing all under-expenditures – should be eliminated.** Duplicative processes and reporting requirements that waste time and resources should be streamlined. For example, we question the value of including over 140 budget provisos in the 2003 budget: the time required to respond to these provisos is significant, and it is not clear that the benefit of the reports outweighs the diversion of so much managerial time.
2. **Implement additional efficiencies and control costs in the law, safety and justice arena, through pro-active work of the Criminal Justice Council.** With over 70 percent of the CX Fund expenditures, unquestionably, law, safety and justice functions should not be immune from the need to become more efficient. The culture of autonomy within the separately elected areas of government – sheriff, prosecutor, district court, superior court – must be challenged: coordination and transparency are key to efficiency. The Criminal Justice Council must provide leadership to identify efficiencies and ways to control costs. Without their input, cuts will still have to be made – but perhaps in a less than optimal way. The Task Force respects the expertise of these groups to help identify the most appropriate efficiency tools.

All law safety and justice agencies need to be actively engaged in this effort with the Executive. Are current means of providing services the most efficient and effective? Are specialty courts worth their higher operating costs because of other systemic savings provided? Is service delivery becoming more or less efficient on a per capita or caseload basis? Are service levels growing or declining? Questions such as these should be answered and tracked over time in a consistent manner. Innovations that can streamline operations and save money must be

aggressively sought out and implemented. Recent initiatives such as creating a Community Corrections Division with the Department of Adult and Juvenile Detention are important steps, as is the work encompassed in the Juvenile Justice Operational Master Plan and Adult Justice Operational master plan. Efforts to reduce the average daily jail population in the County's jails should also continue.

As an initial step, we strongly encourage an investigation of the potential to save money through **consolidating the administration of district and superior courts**. Ultimately, consolidation of the courts themselves may also be needed to bring additional efficiency to operation (this would require state legislation).

3. **Provide greater transparency in presenting the budget and budget and operating policies.** The County budget should set forth separate *regional service* and *local service* budgets—detailed by type of service and geography. The County should know how much it spends in *each PAA* on local service. This should be a priority in developing the 2004 budget. Clarity is particularly needed for the law, safety and justice budgets managed under direction of separately elected officials: *budget and management information from these departments must be fully accessible to the Executive and Council*. Uniform definitions should be developed and employed across the organization when presenting budget information—particularly in the area of *departmental and division overhead*. Effort should also be made to make the *overhead model more understandable*, as we heard considerable concern and confusion on this subject.
4. **Streamline, simplify and standardize operations, practices and policies.** Departments, separately elected officials, and union leaders must be willing to align operations practices and procedures for the benefit of the entire County organization. It is not possible for the Task Force to quantify the savings possible from these items, but our observations suggest that the savings could be significant, given adequate time and funding to implement these suggestions. Engaging all employees in a search for productivity improvements has had demonstrated effect in the business world, yielding as much as five percent annual savings on an ongoing basis. The Department of Executive Services (DES) initiative to make internal practices more uniform is potentially very important initiative. In addition, there should be an ongoing rigorous and comprehensive effort (again involving personnel at all levels of the organization) to *find internal and external barriers to efficiency*—outdated code provisions and policies--and to remove these barriers where possible.
5. **Invest in central systems:** Technology investment in central systems is lagging and must be addressed. The price tag associated with these investments is significant. The County should make it a priority to direct one-time resources to fund these capital investments. Financial Systems Replacement (FSRP) should be a high priority. We also believe the timeline for replacement/acquisition of needed systems can and should be significantly accelerated. To truly realize the benefits of upgraded systems, the County must simultaneously implement greater

standardization of basic business practices and procedures. As part of this whole effort, the County should review the experience of the City of San Diego that apparently outsourced much of its Information Technology (IT) function in a manner that preserved individual employee jobs by moving them to private employer.

Longer-Term Actions:

6. **Secure efficiencies through new methods of service delivery: first seek employee ideas and actions; if necessary, contract out services to other governments or to the private sector.** Contracting out is not universally appropriate or cost effective. In particular, the ability to perform services may not exist in some cases outside government, and in all cases sunk investments and the interests of the public must be considered. The County has achieved significant successes through partnership with labor, and this should continue wherever possible. Employees may have the best ideas about how and where to find efficiencies in County operations--and should be actively engaged in this type of inquiry. In fairness, public employees should be given the opportunity to provide services at a competitive cost to private sector options before alternative service providers are engaged. But ultimately, the goal should be to preserve service levels to the public, not public sector jobs. Some specific ideas that we believe should be pursued include:
 - a. **Amend the County Charter and labor policies** to expand the ability to contract out to both the public and private sector where it can preserve public service levels.
 - b. **Pursue “reverse contracting” with cities.** For example, can the City of Bellevue provide equivalent police services as are currently being provided by King County in the neighborhood of Eastgate – but at less cost? Can some cities provide maintenance of neighboring County parks at less cost than the County? The geographically fragmented service area of King County suggests there may well be such opportunities – and the lack of current examples is therefore somewhat surprising. The Task Force encourages the County to actively investigate this idea – *where it can save public dollars.*
7. **Collaborate with other governments.** We would emphasize the importance of maintaining positive dialogue with regional partners – cities, special purpose districts, other counties. King County does not exist in isolation, and we are convinced that the cooperation of other governments will be key to resolving the County’s problems in the longer-term. For example, there may be savings achieved through joint purchasing agreements in areas such as fleet or insurance. We suspect there is a great amount of duplication in the delivery of public services as between the nearly 200 units of government within King County. Opportunities for more efficient service delivery through consolidation must continually be sought out.

8. **Aggressively seek cost control of salaries and benefits.** With these items consuming over seventy percent (70 percent) of the CX dollars, these areas must be a central consideration balancing the budget. The County must consider its employee benefits package: the County has yet to adopt innovations in this area that may assist in controlling annual cost increases. Work on this should begin now, even though the current benefits contract will be renegotiated in 3 years. Data from the state indicates that King County top managerial salaries lag behind both private and public sector comparables. While the County must continue to be vigilant in controlling costs, this raises an underlying basic competitiveness issue: King County must be able to attract and retain good employees.
9. **Examine options to reduce facilities costs.** The County now rents nearly 300,000 square feet in downtown Seattle in numerous office buildings. Should the County buy some building instead? Or build them on land it owns? Should so many County services be in downtown Seattle, given real estate market, lower cost options elsewhere in County? Would greater efficiencies occur from having County functions physically consolidated? The County should undertake a *comprehensive analysis of office space options*.
10. **Explore detention alternatives.** The County should determine whether it would be less expensive to send its low risk prisoners (who otherwise do not qualify for alternative detention) to Yakima, as many cities have done. We understand that the County could only reduce costs on a marginal basis through such steps, so this may not result in savings (in which case, it should not be pursued).
11. **Revise jail employment structures.** In partnership with unions, the County should investigate whether operating efficiencies at jail could be achieved through broader – and far fewer – employee job descriptions than the current 64 separate job titles currently in place.

State Action:

12. **Advocate for greater flexibility in the labor area.** In particular the County should seek changes to binding arbitration requirements in order to provide greater ability to control costs.
13. **Seek changes in state law that will give cities and county tools to act together to achieve greater efficiency.**

Regional Dialogue:

14. **Sponsor “Best Practices” forums with other governments in the region.** These may be helpful in identifying ways others have addressed common challenges of controlling cost of benefits, managing for performance, benchmarking, contracting out, and similar matters.

PART IV: ALIGNING SERVICE EXPENSES AND REVENUES: ANNEXATION AND THE “URBAN SUBSIDY”

The Challenge: The current allocation of regional dollars to fund local service budgets is significant: over \$40 million a year. While some rural service subsidy is necessary and appropriate under growth management principles, the Task Force believes that acting to address the urban area subsidy may be the single most important step the County can take to address its fiscal challenges. If the “urban subsidy” is eliminated, it will *create significant breathing space for regional service budgets* for several years – although it will not eliminate the County’s long-term revenue problem.

Analysis: As noted in Part I of this report, the County has a number of *regional service roles* and *local service roles*. The County similarly has revenue sources that are collected regionally, and others that are collected only from unincorporated local service areas. As a *policy matter* there is consensus that, ideally, regionally collected dollars should be spent to support regionally provided services – thereby matching those who pay for, and those who receive, the service. Similarly, as a policy matter, unincorporated area dollars should support local services provided in the unincorporated areas. There is now general consensus between the Executive and cities as to which of the County’s revenues are “regional” and which are “local,” resulting in the calculation of the subsidy at approximately \$42 million this year.²⁴ Of this \$42 million, an estimated \$27 million is attributable to local service delivery in the urban unincorporated areas – areas that as a matter of regional policy (as expressed in the CPPs, which were developed in partnership between cities and the County) are to be annexed by cities.

The County cannot force annexations to occur under current law. And, after over a dozen years of growth management, major annexations have not yet occurred. A key barrier for cities to annexing is the cost of providing service in these areas, and infrastructure deficits. Providing incentives to cities in service dollars or capital project funding has helped promote some annexations in the past. Citizen support has also been a critical component of successful annexations.

The County has unsuccessfully sought to close the “subsidy” through new taxing authority. Specifically, an unincorporated urban area utility tax, similar in nature and amount to that currently authorized for cities, would generate an estimated \$30 million a year. We endorsed this concept earlier this year in hopes the state legislature would pass authorizing legislation.²⁵ This single action could eliminate the urban subsidy in the short-term.

²⁴ The key change occurred when the County agreed to classify its sales tax collections from within cities as “regional” in nature. A further refinement has been to split the County’s unincorporated area sales tax receipts into two categories: 85 percent of such receipts are considered local, 15 percent are considered regional. When the County previously considered all sales tax receipts to be “local” in nature, this meant there was no subsidy—“local” dollars fully paid for local services.

²⁵ See **Attachment I** for a copy of our letter to state legislators on this subject.

We believe the County should no longer maintain current local service levels in urban unincorporated areas at the expense of regional service budgets. Urban unincorporated area residents must understand that their taxes do not support their current level of service and that the region’s plans call for them to annex (or if viable, incorporate). And, if cities are truly committed to having the County provide quality regional government services and ending the “urban subsidy,” cities must work to complete the remaining annexations.

The subsidy did not arise overnight, and will not be eliminated overnight. Currently, nearly 70 percent of the subsidy from regional dollars is being applied to fund local law, safety and justice expenditures. At the same time, the County is spending an estimated 60 percent of its local revenues on roads.²⁶ The major *local revenue sources* – and key policy limitations in their expenditure – are as follows:

- **Unincorporated Area Property Tax** (generally known as the “road levy”). *This revenue source generates over \$58 million a year. It is legally available for all general government purposes in the unincorporated area but as a matter of policy has been dedicated solely to roads purposes since the 1980s. There is a small penalty for “diversion” to other uses in the loss of some state revenue. Currently, significant road dollars are expended on transportation improvements within cities and otherwise classified as “regional” in nature.*
- **Real Estate Excise Taxes (REET).** *This tax raises about \$13 million a year. Similar to the unincorporated area levy, this funding source is legally available for a broad array of capital purposes in the unincorporated area—but is limited by County policy to be spent entirely for park and recreation purposes.*
- **Surface Water Management Fees (SWM).** *SWM fees generate over \$18 million a year in total revenue. These funds can be used to provide local surface water management and drainage projects, as well as projects with related environmental benefit.*

Unless the County is willing to make an explicit decision that local services to the urban unincorporated are more important than regional services then the County must actively take steps to reduce the subsidy of the urban unincorporated areas. However, until these areas are annexed, options to address the subsidy are limited.²⁷ The County can:

²⁶ See **Attachment G**, which sets forth the major sources of unincorporated area revenues. Excluding criminal justice sales tax dollars and surface water management fees that cannot legally be spent on transportation, over 60% of the remaining local revenues are currently allocated by King County to roads and transportation purposes.

²⁷ With a remarkable degree of consensus, cities have proposed a set of solutions to this issue (and to the County’s CX challenges, generally): **Attachment F** includes letters and a white paper submitted by cities. Included in suburban city recommendations specific to the subsidy are: imposing a moratorium on all building in the UGA, diverting the road fund, promoting annexation, and reducing local service levels. We reject the first solution, and endorse the latter as described herein. Regarding the moratorium, it is probably

- *Re-allocate revenue from all local revenue budgets to pay for more of these urban local services that are being subsidized by regional dollars, most notably, law, safety and justice expenditures.* This would directly reduce the subsidy and increase the amount of regional dollars available for regional services--with corresponding cuts to those local service budgets.
- *Reduce services to match revenue levels;*
- *Continue to subsidize local service budgets; or*
- *Secure new revenue from state.*

Although it will be politically challenging, we believe the County should pursue *all* these options—*while also working to promote the annexation of remaining urban unincorporated areas.* We believe it is neither politically feasible, nor fair to urban unincorporated area residents, to simply slash services overnight in order to eliminate the subsidy—particularly so long as cities have not annexed these areas, and so long as the CPPs require that these areas receive an urban level of service. Completely eliminating the subsidy by reallocating other local service budgets may be too devastating to those service areas--but the allocation of over 60% of local revenues to roads is no longer supportable in this crisis. The County has unsuccessfully sought new revenue from Olympia to address the subsidy, but we believe that effort must continue. In sum, the County must pursue a variety of options to reduce the subsidy and minimize the conflict between its regional and local service responsibilities.

Recommendations:

Near Term/Immediate Actions:

1. **Initiate a comprehensive strategy to simultaneously encourage annexation and reduce the “urban” portion of the local service subsidy.** On a time-limited basis – we propose **three years at the longest** – the County should *re-direct its local revenues to (1) encourage annexation and (2) reduce the subsidy amount.* All local revenues – particularly the unincorporated area property tax levy, Real Estate Excise Taxes, and surface water management fees – should be made available in some degree to support this program. The goal is to focus as much money as feasible – on a time-limited basis – to secure annexation through agreements with cities *and* take immediate steps to reduce the subsidy by (1) reducing service levels and (2) reallocating local dollars to fund more of the local service budgets. At the end of this period, progress must be assessed, and new

true that residential development along the urban fringe exacerbates the urban subsidy in some places. The County should consider this fact in its development decisions. Rezoning to allow commercial development in some urban unincorporated areas may be appropriate if it would result in a better balance of expenditures and revenues for the County. Ultimately, a moratorium may not be legal.

budget limits established to ensure that the subsidy thereafter does not get worse. This initiative should be launched as part of the 2004 budget.

The County must be unwavering in its commitment to publicly promote annexation. It must be willing to start to immediately reduce services and realign expenditures. In partnership with cities, the County must initiate public dialogue to build grass roots support in PAAs for annexation. Residents must understand that they will see service reductions – and that the only way this can change is if the County imposes new taxes on them or if they annex. Outreach efforts must be tailored to the needs and characteristics of individual communities. The County must be prepared to put substantial dollars on the table for cities (albeit far short of various estimates of ‘urban infrastructure deficit’) to promote annexation.

This initiative will require significant restructuring of current capital improvement programs and operating budgets for local service programs. It will also mean *halting or scaling back plans to bond these revenues* – since if the effort is successful, the tax base to repay such bonds will be transferred to cities. We believe this re-structuring, while painful, is well worth the end result of aligning County revenues and expenditures, transferring responsibility for expensive service areas, and achieving the regional land-use vision. In practical terms, the reallocation of local revenues can simply mean a delay, rather than cancellation, of projects. Given the magnitude of the budget problem the region must understand the urgency and importance of achieving these remaining annexations.

Three important clarifications to this proposal must be clear:

First, we are not proposing that the County “buy” its way out of the urban unincorporated areas by eliminating infrastructure deficits. There is woefully inadequate funding to do so. Frankly, we do not believe immediate infrastructure upgrades are required in an annexation. Portions of Seattle have been without sidewalks for decades since they were annexed. Eliminating infrastructure deficits using only unincorporated area dollars is not possible in any reasonable time frame, and eliminating infrastructure deficits using regional dollars is not a responsible action given the current pressure on those budgets. And, funding today is much tighter than it has been historically.

Second, Cities cannot fairly insist that the County completely eliminate the subsidy if the urban areas do not in fact annex. Cities would themselves subsidize these areas. Service reductions are inevitable (and appropriate) absent new local revenue streams. But ultimately, if areas remain un-annexed, the cities cannot fairly continue to complain about the subsidy – and some nominal subsidy will, absent new revenue, be necessary to provide urban levels of service.

Third, we are not proposing a “dollar-in dollar-out” approach to serving each individual PAA. Just as cities transfer tax dollars from their commercial areas to support residential neighborhoods, the County needs budget flexibility in

directing its local service dollars. A few PAAs may now be net exporters of local service dollars: that may well be appropriate.

2. **Identify the basis and targets for cutting from all local service budgets as annexations occur.** Dollar-for-dollar budget reductions may well be impossible as tax base gradually disappears, leaving potentially even more diffuse geographic service responsibility for the County. However, every effort must be made to reduce local service budgets commensurate with the loss of local revenues. Work must begin immediately to map out the basis on which these cuts will occur.
3. **Quantify the current rural subsidy and rural service levels – and track them over time.** Unless the region wishes to revisit its growth management vision, a rural subsidy is appropriate. But as part of the overall challenge of making the County budget more transparent, the rural subsidy and rural service levels should be quantified and tracked, so that the region can see that rural service levels are provided, and the price tag for doing so. As called for in the CPPs, rural service levels should be demonstrably lower than urban service levels.

Longer Term Actions:

4. **Consider seeking legislation to equalize taxing authorities as between cities and unincorporated areas.** In the long-term, if annexations do not occur, and the County's revenue problems continue, such solutions may be dictated. We recognize that this would take major state legislation, and would probably be a more costly alternative for these areas than annexing to neighboring cities, but we do not think the County should continue to sacrifice regional service levels to fund its local service responsibilities.

State Action:

In addition to new revenues sources (outlined in Part V of this report), the County should:

5. **Advocate for a change in state law that will provide for automatic transfer of local parks and recreation facilities to cities upon annexation.**
6. Advocate for changes in law that will streamline the annexation process.

Regional Dialogue:

7. **King County and cities should work in the immediate term to refine the annexation strategy we have outlined.** Even absent consensus, we believe implementation of this strategy should begin in the 2004 budget.

PART V: REVENUES

Challenge: **The County revenue structure is inadequate to meet the demands of the County’s service obligations.** While significant effort can be made to forestall or reduce service cuts by doing business differently, ultimately it will not be possible to maintain service levels for a growing population with revenue growth of less than 2 percent per year.

Analysis: As was noted at the outset of this report, the primary cause of the revenue challenge is the heavy dependence of the County on property tax, and the absence of other viable revenue options. The County must provide local services but has far less revenue authority than cities enjoy. This inequity not only contributes to the regional subsidy of local services, it also creates a potentially significant barrier to annexation – urban unincorporated area residents observe that they will be subject to new types of taxation should they annex. As we have also seen, cities have expressed reluctance to annex because of the poor condition of urban unincorporated area infrastructure, a result of the County’s limited revenue authorities.

Even if our proposed strategy to accelerate annexation and reduce the subsidy succeeds, the slow growth of regional revenues – again, heavily dependent on property tax – will continue to be a problem for the County. The city mayors who spoke to us during our deliberations noted the importance to their jurisdictions of having a strong regional government. We concur: all residents have a stake in the County becoming fiscally stable and providing quality regional services.

The lack of state support for courts, indigent defense, and handling of aggravated murder cases is a particularly frustrating aspect of the County’s challenge. The legislature’s rejection of the unincorporated area utility tax is similarly discouraging. Pressure must be brought to bear on the state to address these issues if the County is to achieve long-term fiscal stability.

Absent additional state shared revenue, or revenue authority, the County has limited options to maintain regional service levels. We would not expect voters to approve general tax increases for the County. Rather, as we have seen in the past – with AFIS, EMS, and more recently, the parks levy – voters prefer to know where their money is going. Cities themselves routinely use special levies to secure program funding. For the County to do so as well is not inappropriate. At the same time, the more the County can convey about its priorities, its vision, its plans for providing all services over a several year period, the more concerns about “piecemeal” funding solutions can be answered.

Recommendations:

Immediate/Near Term:

1. **Provide better public information about the County’s roles and revenues.**
Lack of public understanding is a barrier to reform in Olympia, and a barrier to

moving the annexation agenda. It is critical that the public better understand the implications for basic County services resulting from the current property tax limitations and annexation patterns. The County public television station could be a useful tool for this purpose. County elected officials need to become educators and advocates for the government: much could be accomplished if the County's 94 elected officials presented a united front.

2. **Include a concise statement of the fiscal vision for the next several years in the annual budget.** Will new taxes be necessary? If so, for what purposes? Are major new initiatives planned? Are major reductions planned? As noted, while the public generally is unlikely to grant generic "county purposes" tax increases, funding solutions will in all likelihood include periodic special purpose levies as there are limited options to otherwise avoid service cuts and secure wanted new programs. Special purpose levies are easier to justify, however, in the context of an overall plan for the government – so the public isn't wondering when the next request for tax dollars is coming.
3. **Secure full cost recovery on all contracts.** This should include not only overhead and operating, but capital costs as well. This recommendation has been earlier stated, but bears repeating. It is illogical to undertake a major effort to annex areas in order to eliminate the subsidy of County local urban unincorporated area services – only to then continue to subsidize cities through contracts.
4. Impose fee increases where possible to avoid further service cuts.
5. Aggressively pursue grant opportunities.
6. Develop a long-term funding plan for parks and human services.

State Action:

The State must act to grant more revenue autonomy to counties, particularly in fee setting.²⁸ And, again, the State must refrain from enacting more unfunded mandates.

Some specific proposals for state legislation follow:

7. **Grant urban counties planning under GMA authority to impose a councilmanic utility tax in urban unincorporated areas,** comparable to existing city authority in scope and amount. This is single most significant step the state could take (without impacting its own budget) to assist the County.

²⁸ SB 5659, Laws of 2003, was signed into law by Governor Locke as we concluded our deliberations. This legislation provides new voter-approved sales tax authority to the County, proceeds of which are to be shared on a 60-40 basis with cities. We have not had an opportunity to discuss how, or whether, the County should use this new authority and we make no recommendations in this regard.

8. **Grant counties authority to raise district and superior court fees.** We would propose full-cost recovery for some civil cases where for example large corporate parties are involved who can easily afford such fees.
9. **Reduce the state's take from locally generated court fees.** Over 40 percent of the fees generated at District Court now are remitted to the state for other programs: those dollars would make a critical difference in the County's ability to continue District Court programs.
10. **Institute authority to impose Superior Court fees on a "per pleading" basis,** as is done in California and numerous other states.
11. **Increase direct state support for District and Superior Court.** The state's sole current contribution – one half the salaries of Superior Court judges – puts it 49th in the nation in supporting courts, according to the State Administrative Office of the Courts.
12. **Provide some funding support for indigent defense costs.**
13. **Increase legally permissible uses of the Real Estate Excise Tax (REET).** This tax can only be spent for *capital* purposes. As was recommended by the Metropolitan Parks Task Force, some portion of this significant tax source should be available for maintenance purposes – for example to support the operation of capital improvements acquired with REET funds. A further change worth considering would be to allow larger portions of this tax – perhaps all of it to be applied to maintenance purposes in times of an economic downturn.
14. **Continue to fund basic public health.**
15. **Provide state funding for a greater share of the extraordinary aggravated murder costs experienced by counties.** These have reached such a magnitude in King County – even excluding the Ridgeway case – that they threaten the ability to maintain service levels throughout the County's criminal justice system.
16. **Provide direct state funding to counties for defense costs in dependency and termination cases.** It is inequitable for the state to pay for prosecution of these cases at several times the rate that counties are able to pay for defense of these matters.
17. **Allow Counties to set public records and license fees at levels that will more closely approximate the full cost of service.**

Regional Dialogue

18. **Work with other government associations to jointly develop and advocate legislative agendas.** The "Tri-Association" agenda approach in which the cities,

counties and public safety lobbying organizations all worked together in the 2003 legislative session is a potentially very powerful new initiative that should be continued. And, given the importance to the business community of a healthy regional government, we would encourage the County to seek business community support of its legislative agenda where possible.

PART VI: CONCLUSION

King County general government is in a crisis situation. Current service delivery is not sustainable. The challenge before the County – indeed, the region – is daunting. After the few short months of our inquiry into general County government funding and operations, we are sobered by the complexity of the situation, and by the many steps that have *already* been taken to address this challenge.

Despite several years of aggressive budget cuts by the County, unless *continued* steps are taken to trim programs, streamline operations, apply greater management rigor, challenge traditional service delivery mechanisms, shed remaining urban unincorporated areas to cities, and successfully lobby the state for additional revenue tools, a steady decline in the quality of County general government services is unavoidable. Even if the County is able to make major progress in terms of efficiencies, ultimately it cannot succeed achieve long-term financial stability without the assistance of the state and the local governments in this region (particularly those who are stakeholders in annexation).

It is said that democracy has many attributes but efficiency isn't one of them. Yet, we are confident that the County can and will take important steps to improve its effectiveness and efficiency in delivering services. In so doing, citizen confidence in our government will improve. We appreciate the difficulty of the task ahead. We appreciate also the opportunity that the Executive has given us to provide him our assessment and recommendations. A strong regional government, and effective local government for the rural area, is in the interest of the entire region. We would offer as a Task Force to reconvene briefly in 2004 to assess progress on the agenda of work we here propose, and offer as well our continued services in advocacy for the betterment of County government.



Memorandum

DATE: October 12, 2007

TO: City Councilmembers

FROM: Debbie Tarry, Finance Director

RE: Long-Range Financial Planning

CC: Leadership Team
Patti Rader, Finance Manager

During the April 2007 City Council retreat staff and Council discussed establishing a community advisory committee to develop recommendations to the City Council regarding the City's long-term financial strategy. As Council is aware, during the last twelve years of incorporation we have focused City resources towards improvements to the City's roads, parks, surface water, and pedestrian infrastructure. We have developed a level of City services that has resulted in 92% of our residents feeling safe in their neighborhoods during the day and 83% of residents responding to the City survey rating their overall quality of life in Shoreline as excellent or good. This has been done by allocating City resources in a very efficient and fiscally conservative manner. Until recently the City had not issued any debt to make improvements, but rather used locally generated revenues and grants. Operating services, such as public safety, parks, zoning, and many others were provided within existing resources and when those were not adequate the staff and City Council focused on service efficiencies and base budget reductions to balance its budget.

During this time period the City Council continued to focus on the City's long-term financial health and stability. In 2006 it became apparent that to continue to provide the services our community values that additional resources would be required in 2008 and beyond. In 2007 the City Council authorized an increase in the cable utility tax rate and authorized the City Manager to notify Seattle City Light (SCL) that we would phase in the SCL contract payment on the distribution portion of electric revenues during 2008 and 2009. Beyond that time period the City is projected to have on-going budget gaps, as revenues continue to grow at an overall slower pace than what is necessary to maintain even the current level of basic services.

The City Council has committed to developing a strategy to address the community's long-term service needs and a financial plan to meet those needs. The attached draft work plan recommends a process and schedule to develop the long-term plan.

Alternatives

The Council could decide how to address the long-term financial needs of the City without the involvement of a community advisory group, but this would not be in line with the City's strategic objective of effective citizen communication and engagement. Also it is likely that options for either increasing revenues through voter approval or decreasing critical services will need community understanding and support.

Another option could be to just "wait and see" if the projections change to the point that the budget gaps do not occur or that they are delayed. Although we will continue to monitor our long-term projections, it is unlikely, or probably even remote, that the projections will change significantly. Our revenue and expenditure trends are fairly consistent and for the most part not subject to large swings upward or downwards. By waiting the Council would only put off the decision making process and would most likely have to make decisions in crisis mode, rather than in the planning mode that has served the Council well for the last twelve years.

Financial Impact

Staff is working with NW Public Affairs, a firm that specializes in assisting cities with public processes, to determine the cost for our scope of services, but we estimate that the cost will not exceed \$30,000 for their work. Additional costs may be incurred for community surveys depending on the recommendation developed by the Citizens Advisory Committee. There are funds in the 2007 budget to initiate this process and staff has included funds within the 2008 budget to cover the majority of the contract costs.

Recommendation

Staff recommends that the City Council review and discuss the attached work plan and schedule and provide further direction to staff.

COMMUNITY ADVISORY COMMITTEE PROCESS

Establish a Shoreline Community Advisory Committee to review and make recommendations to the City Council regarding the long-term strategy to provide City services and the funding of those services.

Problem Statement

The City Council and the community have identified a vision of the City that includes safe neighborhoods, active partnerships, diverse culture, quality businesses, natural resources, and responsive government. This can be accomplished if the City provides services that promote the following:

- Safe and attractive neighborhoods and business districts
- Quality services, facilities, and infrastructure
- Safe, healthy and sustainable environment
- Government excellence
- Economic vitality and financial stability
- Human services
- Effective citizen communication and engagement

The City's long-term financial forecasts indicate that by 2010 the City's current resources will not be adequate to continue to provide the services that are currently being provided to the Shoreline community.

Project Goal

The overall goal of the Community Advisory Committee (SCAC) will be to develop a recommendation to the City Council on the long-term strategy to provide community services and the funding mechanisms to provide those services.

Project Steps

1. *Establish the SCAC (October – November 2007):* Staff recommends that the committee be limited to 24 to 28 members. The committee should include representatives from major stakeholder groups along with some positions that are at-large from the community and selected through an application process. Some of the major stakeholder groups should include the Senior Center, Museum, Art Council, Chamber of Commerce, Forward Shoreline, Shoreline Community College, Shoreline School District, City Commissions and Boards, other City advisory committees, Human Service Agencies, Neighborhood Councils, Special Districts and the business community.
2. *Service Level and City Financing Educational Phase (November 2007 – February 2008):* The goal of this phase will be to provide information to the SCAC on current City services and finances and to identify unmet community

service levels. Staff will utilize existing information within the City budget, information gained from the Community prioritization exercise completed in 2004-2005, citizen survey results, and information gathered from the major stakeholders.

3. ***Review and Analysis (March – May 2008)***: The goal of this phase will be to have the SCAC refine the list of City services and list of unmet service needs and look at financing options for those services. This may include identifying services that the SCAC recommends be maintained at current service levels, increased to meet unmet demand, reduced to shift funding to more critical services, or eliminated as the service is a lower priority and projected funding is not adequate. Staff will review proposed service level recommendations against long-range financial forecasts and identify which service levels can be funded through available City revenues. Staff can provide information to the SCAC on revenue sources available to provide services, analyze potential impacts of reduced service levels, or information on service delivery alternatives. The SCAC may explore additional efficiencies that could be achieved by the City in its service delivery. At this stage it may be necessary to complete additional community survey work to gather information from residents and businesses on any proposed service level or revenue changes.
4. ***City Council Review (June-July 2008)***: At this stage the City Council receives the advice and research from the Advisory Committee. The goal is for the City Council to discuss and decide on which, if any, service levels to adjust and or revenue sources to submit to the voters in order to support the services identified by the committee. The Council would need to determine, based on recommendations from the Advisory Committee, of the timing of possible ballot measures. Several key factors in the decision matrix are:
 - Public opinion
 - Local and regional economy
 - Competing tax measures
 - Timing
 - Key constituencies and stakeholders
 - Active community support for campaign and fundraising
 - Adequate time for ballot campaign
 - Possible opposition
 - Strong City Council support
5. ***Election Strategy and Campaigns (If Council chooses to pursue based on a recommendation from the SCAC)***: At this phase the election strategy and campaign is turned over to citizen volunteers. Under Public Disclosure Commission rules, City involvement is limited to drafting the ballot title and providing strictly factual information to the electorate. The ballot title, however, crucial in that most measures fail due to voter confusion. In general, at least four to five months lead-time is needed for a good citizen campaign. As with any election, a strong core of active volunteers is needed to raise funds and run the campaign.

Communication

Throughout the process the City Council will be briefed by staff and the Advisory Committee to ensure that the project is meeting the objectives of the City Council. A communications plan will also be developed to inform the public, neighborhood councils, citizen groups and stakeholders about the process and how to provide input.

Advisory Committee

It is recommended that the committee be limited to 24 to 28 members. The committee should include representatives from major stakeholder groups along with some positions that are at-large from the community and selected through an application process. Some of the major stakeholder groups should include the Senior Center, Museum, Art Council, Chamber of Commerce, Forward Shoreline, Shoreline Community College, Shoreline School District, City Commissions and Boards, other City advisory committees, Human Service Agencies, Neighborhood Councils, Special Districts and the business community.

Roles and Responsibilities

The City Manager will appoint the members of the SCAC with City Council confirmation. The City Council will set the charter and parameters for the SCAC, receive the final recommendations on possible service level changes and funding scenarios. The SCAC may also provide recommendations to the City Council on voted issues, timing, and amounts. The SCAC will receive input from staff, consultants, public survey results, and provide recommendations to the City Council. Staff will provide information to the SCAC, staff the SCAC, manage consultants and surveys, and ensure good communications to and from the public during this process.



Community Advisory Committee Long-Range Financial Planning

The City welcomes your interest in the City's Long-Range Financial Planning Community Advisory Committee. The overall goal of the Community Advisory Committee will be to develop a recommendation to the City Council on the long-term strategy for the City to provide services to the Shoreline community and the funding mechanisms to provide those services.

The group will be appointed by the City Manager and confirmed by City Council. It is expected to consist of 24 to 28 members with a balance of community interests. The committee will meet January 2008 through July 2008 to develop an initial recommendation to the City Council.

The City Council and the community have identified a vision of the City that includes safe neighborhoods, active partnerships, diverse culture, quality businesses, natural resources, and responsive government. This can be accomplished if the City provides services that promote the following:

- Safe and attractive neighborhoods and business districts
- Quality services, facilities, and infrastructure
- Safe, healthy and sustainable environment
- Government excellence
- Economic vitality and financial stability
- Human services
- Effective citizen communication and engagement

The City's long-term financial forecasts indicate that by 2010 the City's current resources will not be adequate to continue to provide the services that are currently being provided to the Shoreline community.

This Advisory Committee will be asked to work with staff to identify service priorities and the funding of services for the long-term.

It is expected that there will be one or two meeting per month of the committee plus up to three at-large community meetings. It is important that if you apply to the Advisory Committee that you can commit to regular attendance at these meetings.

When filling out the attached application and supplemental questionnaire, please take the time to explain your interests in the services provided to the Shoreline community for the long-term and what you would bring to the committee.

The applications are due January 25 at 4pm in the City Clerk's Office.

If you have questions about the application process, please contact Debbie Tarry at dtarry@ci.shoreline.wa.us or call 546-0787.

Thank you!



COMMUNITY SERVICE APPLICATION

FOR MEMBERSHIP ON THE: Community Advisory Committee - Long-Term Financial Planning

(Please type or print)

A. Required Information

Name _____

Are you a Shoreline property owner? _____

Are you a Shoreline resident? _____

Length of residence or ownership of property: _____

Are you a Shoreline business owner or manager or do you work for or represent a Shoreline business? _____

Business Address and Location in Shoreline: _____

Type of Business and Size: _____

Length of business activity in Shoreline: _____

B. Supplemental Questionnaire:

1. List your educational background. _____

2. Please state your occupational background, beginning with your current occupation and employer. _____

3. Describe your involvement in the Shoreline community. _____

4. Describe any special expertise you have which would be applicable to the position for which you are applying. _____

5. Describe your experience serving on any public or private boards or commissions. _____

6. List the addresses of property you own in Shoreline and the type of property (single-family residential, multi-family residential, commercial land or buildings). _____

7. Are you affiliated with any other organizations which receive direct funding from the City of Shoreline (such as the Shoreline Museum, Shoreline-Lake Forest Park Arts Council, Human Services Organizations, etc.)?

8. Describe why you are interested in serving in this position. _____

9. Additional Comments

Appointment to this committee will require your consistent attendance at regularly scheduled meetings from January 2008 through July 2008. It is expected that there will be one or two meeting per month of the committee plus up to three at large community meetings.

Are you available for evening meetings? _____ Daytime meetings? _____

Please return this application by the deadline of January 25, 2008, to:

City of Shoreline, City Clerk
17544 Midvale Avenue North
Shoreline, WA 98133
(206) 546-8919

Disclosure Notice: Please note that your responses to the above application questions may be disclosed to the public under Washington State Law. The Personal Information form (page 3), however, is not subject to public disclosure.

*Thank you for taking the time to fill out this application.
Volunteers play a vital role in the Shoreline government. We appreciate your interest.*

PERSONAL INFORMATION

Name _____

Home Address _____

_____ Zip Code _____

Home Telephone Number _____

Work Address _____

_____ Zip Code _____

Work Telephone Number _____

E-mail address _____

I declare under penalty of perjury under the laws of the State of Washington that the information provided herein is true and correct.

Signature

Date

January 10, 2008

Dear Madam or Sir,

The City of Shoreline is taking applications for volunteers to serve on the Community Priorities - Long-Range Financial Planning Community Advisory Committee. Your service and interest in previous committees is greatly appreciated by the City. Because of your demonstrated interest I want to personally invite you to consider applying to be on this new committee.

The City Council is forming this community advisory committee to recommend long-term strategies on providing City services to the Shoreline community. The goal is to form a group of 24 to 28 volunteers representing a broad range of Shoreline residents and interests.

The City of Shoreline's long-term financial forecasts indicate that by 2010 the City's current resources will not be adequate to continue to provide the current level of basic services to the Shoreline community. Although the City has implemented budgetary reductions and service efficiencies for the last several years, inflationary costs for fuel, asphalt, jail, the police contract and other items are growing faster than the City's primary revenue sources such as the property tax (capped at 1%) and sales tax. The committee will be asked to help identify strategies to meet service needs within the community and funding options that the Council may want to consider for the next six to ten years.

The first phase of the group's process will be to learn more about current City services, help identify service priorities, identify unmet community needs and learn more about City finances. The second phase will involve developing recommendations to the City Council. The Committee is expected to meet through July of 2008. During that time period I am anticipating that the Committee will meet once or twice per month and that the committee may sponsor up to three community at-large meetings.

The goal is for the City Council to review recommendations and make a decision on next steps during summer 2008. The deadline to turn in the enclosed Community Service Application is Friday, January 25, 2008. Please see the enclosed Cover Letter for additional details.

If you should have further questions please do not hesitate to contact me at 206-546-0787.

Thank you,

Debbie Tarry
Finance Director
City of Shoreline

Committee Draft Recommendation

Long-Term Financial Strategy

1. The City must sustain its commitment to efficiencies. Priority areas that the City should continue to look for efficiencies include:
 - a. Criminal Justice – exploring opportunities to limit or reduce future expenditure growth.
 - b. Maximize technology for communications
 - c. Seeking value for Shoreline residents from the taxes they pay to other taxing districts (i.e. Port District, Sound Transit, etc.)
 - d. On-going budget review for savings and efficiencies

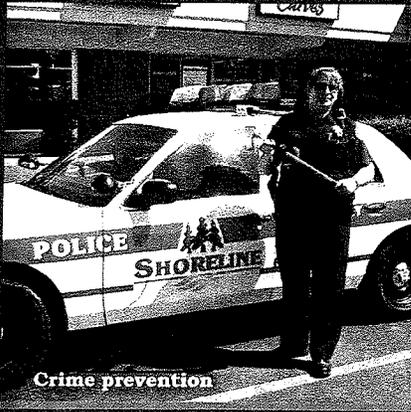
2. Maintain current levels of City services. To do this additional revenue sources will be required. Those preferred by the committee include:
 - a. Council Approved Options
 - i. \$20 Vehicle License Fee for Transportation – Estimated annual collection would be \$600,000
 - b. Voter Approved
 - i. Additional Vehicle License Fee for Transportation (\$21 to \$100)
 - ii. Property Tax Levy Lid Lift (an increase in the levy beyond the 1% cap) – Each 10 cent increase would generate approximately \$722,000 in annual revenue. A homeowner of home valued at \$375,000 would pay \$38 in additional taxes.

3. Guiding Principles for Service Reductions – If Needed. These would be used if additional revenue was not generated. See “Blue” sheet for a list of the guiding principles.



City of Shoreline - Proposition 1

Basic Public Safety, Parks and Recreation, and Community Services
Maintenance and Operation Levy



Crime prevention



Athletic Fields



Park and trail maintenance

Frequently Asked Questions

When was the last voted regular property tax levy request by the City of Shoreline?

The City of Shoreline has not asked for a voter approved increase in its regular property tax levy since incorporation in 1995. In 2006 voters approved a capital bond levy for the acquisition of open space and park and trail improvements.

What will Proposition 1 do?

If approved by Shoreline voters, the levy will maintain current levels of service for basic public safety programs such as neighborhood police patrols, traffic enforcement in school zones and neighborhoods, the east and west side police storefront offices, crime prevention programs, School Resource Officer program at the Shorewood and Shorecrest High Schools and the Community Service Officer.

It will also provide funding to preserve safe, well maintained parks, playgrounds, playfields, restrooms, play equipment, soccer and baseball fields, the Shoreline pool, and recreation programs for youth, families, and seniors.

This funding would also assist in maintaining community services including the Shoreline Senior center and basic human services.

The levy will not fund any new services, programs or facilities.

What has the City of Shoreline done to reduce costs and assure efficiencies – before going to the voters?

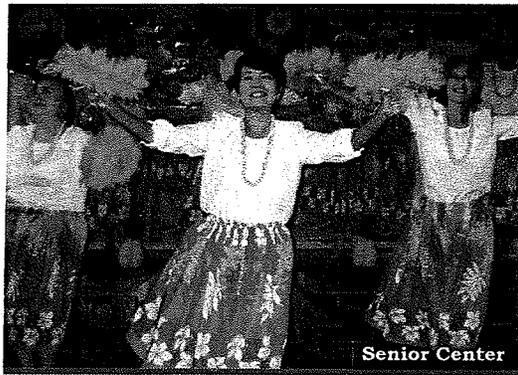
The City of Shoreline has taken aggressive steps to reduce costs and assure efficiency, including more than one million dollars in budget cuts since 2005 and staff reductions. No cost of living raises were paid in 2010 and none are proposed for 2011.

Have local citizens been involved in this process and helping find a solution?

Yes. Realizing that the City was facing long term structural issues financially, the City Council appointed an 18 person Citizens Advisory Committee in 2008.

This Committee spent nearly fourteen months studying City financial information and challenges, including twenty public meetings and 3 community forums, in formulating their final recommendations.

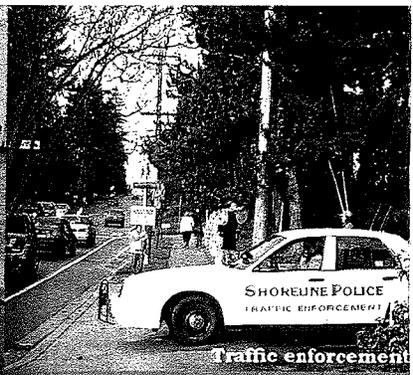
The Committee concluded that while the City should continue to seek savings and efficiencies, they recommended that a levy measure be put before the voters to maintain basic services.



Senior Center



Youth programs



Traffic enforcement

How long is this levy? How will the levy be determined for the years 2012-2016?

Proposition 1 is a six year levy. Any increase in the levy would be limited to the inflation rate for 2012-16 (Seattle region Consumer Price Index (CPI-U)). Based on regional economists' projections, the average CPI increase over this time will be approximately 2.43% per year.

How does the City of Shoreline's property tax compare to other cities in King County?

Out of the 21 largest cities in King County, Shoreline ranks 18th in the amount of City property taxes paid per person. Total property taxes include local and state schools, King County, Port District and Library District in addition to the City and Fire districts.

Some cities, like Shoreline, belong to fire districts which collect property taxes separately. In this category, Shoreline ranks 14th in the amount of total property taxes paid per person.

How many votes are needed to pass the levy?

A majority of voters (50% +1) is needed to pass the levy.

What happens if Proposition 1 doesn't pass?

The City is asking voters for an increase of \$0.28/\$1,000 to fund basic public safety, parks and recreation and community services. If the measure does not pass, the City will be required to make significant additional cuts to balance the budget.

How does Proposition 1 affect businesses?

In accordance with state law, commercial property (businesses) are treated the same as residential (homeowners) in terms of the property tax rate per \$1,000 of assessed value.

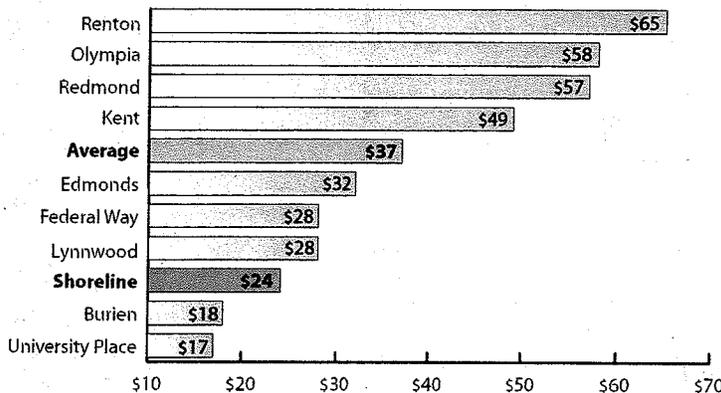
Approximately 10% of the City's total assessed valuation is from commercial properties; the remaining 90% is residential properties. The amount of property tax paid by both residential and businesses is then determined by their property's assessed valuation.

To give some context for businesses, for each \$1 million in assessed valuation of property they will pay an additional \$280 in property taxes annually.

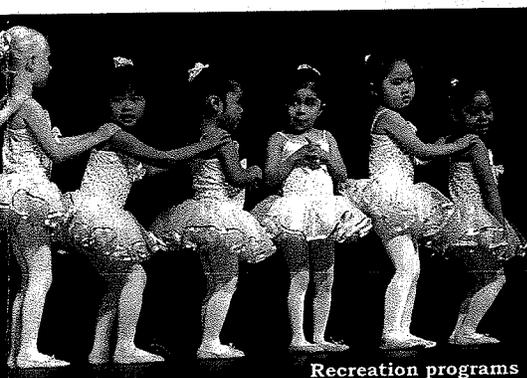
What about seniors on fixed incomes?

Senior citizens or disabled persons may qualify for tax exemptions or tax deferrals. Contact the King County Assessor's Office at (206) 296-3920 for information.

2008 Parks Maintenance Costs Per Capita



For more information:
 Management Analyst Eric Bratton
 (206) 801-2217
 ebratton@shorelinewa.gov



Recreation programs



Neighborhood Police Store-Front



Athletic field maintenance

Why now?

In 2001 Washington voters approved a statewide initiative (I-747) sponsored by Tim Eyman that imposed a 1% annual growth cap on local property taxes for jurisdictions, including the City of Shoreline, unless a new levy is approved by the voters. While the City of Shoreline voters rejected the measure 54% - No to 46% - Yes, the measure passed statewide. Although the initiative was later found to be unconstitutional by the Washington State Supreme Court, the State Legislature voted to re-instate the 1% limitation law. Since assessed values increased faster than 1%, the City's property tax rate had to decline to stay within the 1% cap.

Since passage of the 1% property tax levy cap, inflation has gone up nearly 3 times as fast as the capped level for city property taxes. As a result, funding has not kept pace for these basic city services. (Inflation has increased over 27% in the last ten years while the City's property tax levy, excluding new construction, has increased by just over 9%).

What?	Change since 2000
Inflation	27% increase
Health benefit cost per employee	47% increase
Average cost of gallon of gasoline	65% increase
Cost per therm of natural gas	49% increase
Cost per ton of hot mix asphalt	112% increase
Increase in City Property Tax Levy (excluding new construction)	9.4% increase

Local sales taxes are another revenue source and they have been 5% below inflation, on average, over the last 10 years. Local revenues from casinos have also declined by 46% since the peak in 2004.

In 2009, the Citizens Advisory Committee recommended that the City Council consider proposing a levy to the voters in 2010. In July, the City Council voted to let voters of Shoreline decide on Proposition 1.

Ballot Language

BASIC PUBLIC SAFETY, PARKS & RECREATION, AND COMMUNITY SERVICES MAINTENANCE AND OPERATIONS LEVY

The Shoreline City Council adopted Resolution No. 307 concerning basic public safety, parks and recreation, and community services. If approved, this proposition would maintain current police/emergency protection including neighborhood patrols and crime prevention; preserve safe parks, trails, playgrounds/ playfields and the Shoreline pool; and maintain community services including senior center and youth programs.

This proposition would restore Shoreline's property tax rate to \$1.48/\$1,000 of assessed valuation for collection in 2011; limit levy increases for 2012-2016, not to exceed inflation (Seattle CPI- U); and use the 2016 levy amount to calculate subsequent levy limits.

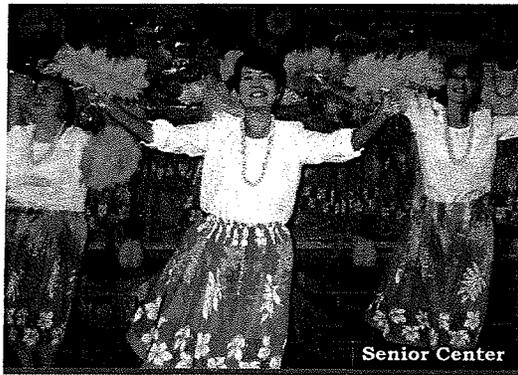
Should this proposition be approved?

- YES.....
- NO.....

EXPLANATORY STATEMENT

The City of Shoreline has taken aggressive steps to reduce costs and assure efficiency, including more than one million dollars in budget cuts, staff reductions and elimination of cost-of-living pay raises. Since 2001, Shoreline's property tax levy increase has been limited to 1% a year, while inflation has gone up nearly 3 times as fast, and as a result funding has not kept pace for basic City services. If approved, Proposition 1 would maintain current levels of police and emergency services including neighborhood safety patrols, traffic enforcement in school zones and neighborhoods, east and west-side police store-front programs, school safety officer in Shorewood and Shorecrest high schools, enforcement of drug and vice laws, and community crime prevention programs. Proposition 1 would preserve safe, well-maintained and accessible parks and trails; playgrounds and play equipment that meet safety standards, playfields, restrooms and the Shoreline pool; and preserve recreation programs for youth, families and seniors. Proposition 1 would continue funding for community services including the Shoreline senior center and youth programs.

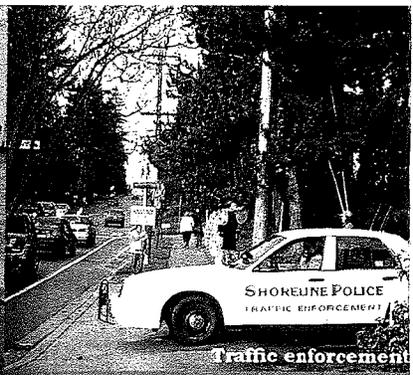
If approved, any increase in the annual levy would not exceed inflation (Seattle region CPI-U) for 2012-2016. Proposition 1 would set the City's property tax rate below the legal limit of \$1.60 at \$1.48/\$1,000 assessed valuation for collection in 2011 and will use the 2016 levy amount to calculate subsequent levy limits. The typical homeowner would pay an additional average of \$9.25 per month to maintain police and emergency protection, parks and recreation and community services.



Senior Center



Youth programs



Traffic enforcement

How long is this levy? How will the levy be determined for the years 2012-2016?

Proposition 1 is a six year levy. Any increase in the levy would be limited to the inflation rate for 2012-16 (Seattle region Consumer Price Index (CPI-U)). Based on regional economists' projections, the average CPI increase over this time will be approximately 2.43% per year.

How does the City of Shoreline's property tax compare to other cities in King County?

Out of the 21 largest cities in King County, Shoreline ranks 18th in the amount of City property taxes paid per person. Total property taxes include local and state schools, King County, Port District and Library District in addition to the City and Fire districts.

Some cities, like Shoreline, belong to fire districts which collect property taxes separately. In this category, Shoreline ranks 14th in the amount of total property taxes paid per person.

How many votes are needed to pass the levy?

A majority of voters (50% +1) is needed to pass the levy.

What happens if Proposition 1 doesn't pass?

The City is asking voters for an increase of \$0.28/\$1,000 to fund basic public safety, parks and recreation and community services. If the measure does not pass, the City will be required to make significant additional cuts to balance the budget.

How does Proposition 1 affect businesses?

In accordance with state law, commercial property (businesses) are treated the same as residential (homeowners) in terms of the property tax rate per \$1,000 of assessed value.

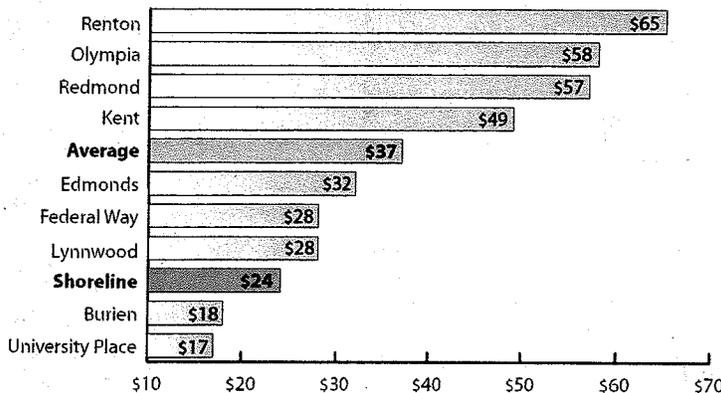
Approximately 10% of the City's total assessed valuation is from commercial properties; the remaining 90% is residential properties. The amount of property tax paid by both residential and businesses is then determined by their property's assessed valuation.

To give some context for businesses, for each \$1 million in assessed valuation of property they will pay an additional \$280 in property taxes annually.

What about seniors on fixed incomes?

Senior citizens or disabled persons may qualify for tax exemptions or tax deferrals. Contact the King County Assessor's Office at (206) 296-3920 for information.

2008 Parks Maintenance Costs Per Capita



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DRAFT GUIDING PRINCIPLES FOR OPERATING SERVICE REDUCTIONS

It is the recommendation of the Long-Range Financial Planning Citizen Advisory Committee to maintain current service levels utilizing efficiencies and seeking additional revenue sources. In the event that additional revenue sources are not available to maintain services, then it is likely that the City will be faced with the reduction/elimination of services and programs. As such, if the City is faced with making reduction decisions we would recommend that the following guiding principles be used when making service reductions:

1. **Preserve Community's Priorities:** The provision of City operating services should reflect the priorities of the community. Based on community input, we believe the following services are of highest priority:
 - a. Police Services – Specifically those of patrol, traffic enforcement, crime prevention and crime investigation
 - b. Maintenance of the City's streets, roads, and projects that improve traffic flow
 - c. Human Services
 - d. Economic Development
 - e. Code Enforcement
2. **Maintain Quality:** The quality of programs necessary to meet basic core services should be maintained and selective service elimination/reductions to programs are preferable to across the board cuts that may diminish the quality of core services.
3. **Greatest Public Benefit:** Fee based cost recovery should be considered for programs that primarily provide individual benefit, as opposed to broad community benefit that is for the "greater good."
4. **Cost Savings to Preserve Core Services:** Consideration should be given to cost saving measures such as staff furloughs, reduced operating hours, etc., that may preserve funding for core services. There is recognition that these types of cost saving measures may have a negative impact on the level of services provided.
5. **Operating Priority over Capital Projects:** Funding of key operating services should take priority to the funding of capital projects, when the source of funding for both is not otherwise constrained.
6. **Proportional Administrative Cuts:** Reductions in support and administrative functions should be in proportion to reductions in operating programs, but not to the extent that would curtail the delivery of core services or the ability to meet legal requirements.
7. **Technology Efficiencies:** Use technology to improve the efficiency and effectiveness of the delivery of City services instead of hiring additional staff.
8. **Increased Volunteerism:** Enhance opportunities for volunteers to help provide assistance in the delivery of City services.