

2009
REDUCTIONS



King County

Office of Management & Budget
Columbia Center
701 Fifth Avenue, Suite 3200
Seattle, WA 98104

March 31, 2008

TO: Department Directors and Separately Elected Officials

FR: Bob Cowan, Director

RE: Allocation of Reductions: Action Plan for Positioning King County to Manage Through Financial Challenges -- 2009 Strategy

King County is in challenging financial times. Our rising costs and slow growing revenues have created significant budget shortfalls, which are anticipated through 2011. As part of the Office of Management and Budget's (OMB) commitment and obligation to continually monitor the status of the budget and our assumptions as more information becomes available, we now forecast a 2009 General Fund shortfall of \$60 million – up from the \$45 million shortfall that was forecasted couple of weeks ago. The following changes have contributed to the increase in the deficit:

- Declining interest earning as a result of lower than anticipated fund balances and yields
- Write-downs resulting from impaired investments
- Downward adjustments to property tax assumptions to correct refund levy assumptions in the adopted budget and higher than expected new construction figures in 2008
- Downward adjustments to property tax projections reflecting lowered new construction assumptions for 2009 and beyond
- Lower year-end balances as a result of General Fund agencies spending more of their total appropriations in 2007 than in prior years
- Net revenue reductions resulting from the Benson Hill annexation
- Use of the outyear reduction reserve to balance 2008
- Reduced forecast for sales tax revenue resulting from the slowing economy
- Upward adjustment to expenditures resulting from increased COLA and CPI assumptions

Many of the same factors that are contributing to the challenges facing the General Fund are also affecting other county funds (i.e. Surface Water Management, Transit, Roads, and Public Health). Like the General Fund, agencies managing these other county funds will also be

looking at making significant adjustments to their budgets for 2009. OMB is committed to working with non-General Fund agencies to develop strategies for ensuring the long-term stability of their funds.

This memo speaks only to budget reduction process. Clearly, there is a need to look at new revenues and legislative changes at the local, state, and federal levels that will help address the 2009 and beyond funding gap. These efforts will be outlined elsewhere

Strategy for Closing 2009 General Fund Deficit Through Reductions

Given the magnitude of the problem, we promised departments and separately elected officials that we would share, as early as possible, our plans for allocating reductions. We also promised that we would be more transparent in sharing how these reductions are allocated across agencies. Today, we are meeting these promises by announcing our initial plans for closing the 2009 General Fund deficit. The attached spreadsheet shows the initial dollar amount by which agencies, dependent on General Fund resources, are required to identify specific strategies to reduce their 2009 expenditures and/or increase their revenues. These amounts are based on current forecasts. These reductions and enhanced revenues should be of an ongoing nature in order to address the long-term nature of the General Fund deficit. As you may have already anticipated, based on my recent budget presentations, these numbers are large.

Initial Methodology for Allocating Reductions

OMB has developed a methodology to allocate the reduction amounts and has applied this methodology consistently across all agencies. This methodology may change over the course of the year based on Executive direction, but it is an appropriate starting point. The goal of this methodology is to recognize that mandatory services should receive higher priority for funding than discretionary services. The methodology is as follows:

- *Non-Core Discretionary Services:* There are several instances of General Fund expenditures that are discretionary and outside the scope of core services being supported by the General Fund. For 2009, General Fund support for these services will be entirely eliminated. The affected agencies should begin planning to either eliminate the services being supported by these funds or identify other funding sources to continue the service. **This strategy generates \$1.3 million toward closing the \$60 million 2009 deficit.**
- *Discretionary Services Agencies:* Agencies that are primarily delivering discretionary services (i.e. not mandated by Washington State) are being asked to start developing a three-year plan to entirely phase out General Fund support for these functions. This intent is reflected in the 2009 strategy by requiring a one-third reduction in General Fund support to primarily discretionary agencies for 2009. Agencies in this category should not only plan for how they would take this reduction in 2009, but also how they would entirely phase out of these lines of business by the end of 2011. **This strategy generates \$17.1 million toward closing the \$60 million 2009 deficit.**
- *Mandatory Services Agencies:* After subtracting the reductions to the discretionary services strategies outlined above, **\$41.6 million of the \$60 million deficits remains to be allocated**

among agencies primarily delivering mandatory services (i.e. required by State law).
This amount is allocated among the agencies primarily delivering mandatory services through the following steps:

- 1) Calculate the 2009 base budget for each agency¹
- 2) Subtract dedicated revenues²
- 3) Calculate what percent the \$41.6 million reduction is of the total General Fund support for the primarily mandatory services agencies
- 4) Apply that percentage to each primarily mandatory services agency 2009 base budget to determine the department-specific reduction allocations.

This methodology results in an 8.65% reduction to non-dedicated, revenue-backed portions of mandatory services agencies. Mandatory services agencies should begin developing strategies to reduce expenditures on an ongoing basis and/or identify ongoing revenues by this amount. Agencies should also seek to achieve cost savings through modifications to discretionary elements of their services.

- *Internal Service Fund Agencies:* Internal service fund agencies must also identify strategies to help close the \$60 million deficit in the General Fund. Internal service funds are asked to submit proposals for reducing per unit service costs 3½ – 5% for 2009. In addition, we will be working with internal service fund agencies throughout the summer to identify additional reductions that may become appropriate in light of reductions that direct-service agencies are making to help close the 2009 deficit.

Reductions and the Business Planning Process

We recognize that there may be examples within primarily discretionary agencies of mandatory services and that there are discretionary services being delivered within primarily mandatory services agencies. The Business Plan process for 2009 provides a tool for departments to use to define mandatory and discretionary services and to identify discretionary elements of mandatory services. **For example, while an activity may be mandatory, the level of service may be discretionary.** This analysis should guide how reductions are prioritized within agencies for 2009. We also anticipate that the Business Plans will serve as an important tool in continuing the dialog about funding prioritization in King County as we position ourselves to take additional reductions in 2010 and beyond.

Departments are required to develop their 2009 Business Plans and their preliminary reduction prioritization memos so that the total savings achieved (or revenues enhanced) equals the amount

¹ The 2009 beginning status quo is estimated based on the 2008 Adopted General Fund budget. One-time expenditures are removed, and inflation factors are applied to revenue and expenditure accounts based on economic forecast, adopted budget outyear estimates, and historic trend.

² Dedicated revenues are defined as revenues tied solely to the provision of service. Contract derived revenues are a prime example of this type of revenue. If the contract were to be eliminated, so too would the revenues and the direct services supported by those revenues. Also included in this category are revenues derived from the CX overhead model.

defined for their agency on the attached spreadsheet. As described in the 2009 Business Plan instructions, the reduction prioritization memo is due to OMB, along with your department's business plan, on **May 9, 2008**.

After departments and agencies submit their business plans and reduction memos, OMB and the Executive Office will engage in a four week review period of the business plans and target reduction proposals. During the first two weeks of review, OMB and the Executive Office will focus on high and medium priority target reduction proposals (as identified in the Program Summary Tables). Departments will receive feedback based on this review by May 26. This input is intended to provide departments with early guidance for budget development.

A detailed review of business plans and reduction proposals will continue through early June with additional guidance provided to agencies during the week of June 9. Agency or inter-agency meetings may be convened as needed during the business plan review period. Please note that these meetings will not replace the annual July meetings that are held once departments submit their budget proposals. Further information about the budget process and schedule will be included in the budget instructions.

Considerations for Developing Reduction Options

We recognize that the magnitude of these reductions is significant and exceeds the level of annual reductions that departments have ever been asked to achieve in the past. We also know that 2009 is only the beginning of what is proving to be a multi-year financial crisis. We have a very difficult task ahead of us and we are committed to working with all county agencies to find the best path forward. Departments are asked to think creatively about how to respond to these challenges. Departments should look toward system changes that may allow us to continue delivering existing services – only in a more efficient manner. Departments should work collaboratively with other agencies to identify opportunities for efficiencies. OMB staff is available to assist agencies in developing and analyzing potential options. If you are interested in such assistance, please coordinate with your budget supervisor.

Departments are also encouraged to develop their reductions with the King County Executive's priorities for 2009 in mind:

- Services mandated by state law will be prioritized over services that are not mandated.
- Services provided on a regional basis will be prioritized over local services.
- Local services provided to unincorporated areas will be prioritized over local services in cities.
- Direct services to the public will be prioritized over administrative functions, except where the county has a legal obligation to maintain adequate financial and administrative oversight to ensure the appropriate monitoring and control over public funds.
- Fees will fully cover the cost of providing the services where possible.
- Contracts for services with cities or others will provide for full cost recovery. Any contracts that do not provide for full cost recovery will be reviewed and renegotiated where possible.
- Resources for capital facility needs in 2009 will be reduced and limited to projects involving life-safety and maintenance and projects that would result in cost reductions.

In addition, departments are asked to consider the impact that their proposed reductions will have on Executive Initiatives, including:

- the Equity and Social Justice Initiative
- the Rural Initiative
- the Climate Change Initiative

The 2009 Business Plan Instructions provide additional details about how to address these impacts.

Non-General Fund (GF) Agencies: Non-GF agencies with reductions to their General Fund transfers and/or facing their own deficit situations are also asked to submit a memo from their department director to OMB, on May 9, outlining their plans for addressing their financial challenges. This memo should accompany the business plan submittals. As with the memos for General Fund agencies, OMB and the Executive Office will review these materials and provide feedback, in advance of the July deadline for budget submittals, to guide final development of departmental budget requests.

Thank you for your cooperation as we embark on what is sure to be a challenging 2009 budget process. Please contact me at 296-3434 or Beth Goldberg, Deputy Director, at 296-3418 if you have any questions.

cc: The Honorable Ron Sims, King County Executive
Kurt Triplett, Chief of Staff, Office of the Executive
Sheryl Whitney, Assistant County Executive, Office of the Executive
Kathi Oglesby, Labor Liaison, Office of the Executive
Department Deputy Directors
Department Finance Managers
Beth Goldberg, Deputy Director, Office of Management & Budget
Budget Supervisors and Budget Analysts, Office of Management & Budget

Initial Allocation of 2009 Target Reduction
Based on March 31, 2008 Forecast

Agency	2008 BSO ¹	Dedicated Revenue ²	Net General Fund Supported Expenditures	Discretionary Portion	1/2 Reduction of Discretionary	Example of Funding to Discretionary	Mandatory Portion	3.65% Reduction to Mandatory Portion	Total Reduction
GENERAL GOVERNMENT	35,009,063	18,603,022	17,306,041	1,348,737	145,930		15,877,123	579,716	1,818,856
FINANCE - CX	3,386,429	1,835,397	3,386,429				3,386,429	122,854	3,263,575
EXECUTIVE SERVICES - ADMINISTRATION	2,995,160	7,098,527	1,050,763				1,050,763	38,155	91,656
HUMAN RESOURCES MANAGEMENT	10,116,655	2,247,706	3,018,128				3,018,128	261,031	261,031
CABLE COMMUNICATIONS	221,613		221,613						
REAL ESTATE SERVICES	3,667,738	11,777,068	1,320,032				1,320,032	114,167	114,167
ELECTIONS	19,933,199	2,915,327	8,146,183				8,146,183	75,345	881,041
RECORDS AND LICENSING SERVICES	13,102,222	594,089	10,186,895				10,186,895	851,041	851,041
STATE AUDITOR	710,670	2,500	116,581				116,581	10,093	10,093
BOUNDARY REVIEW BOARD	335,896		333,396	556,596	163,377				183,877
MEMBERSHIPS AND DUES	556,596		556,596						
SALARY AND WAGE CONTINGENCY	3,334,756		3,334,756						
EXECUTIVE CONTINGENCY	1,000,000		1,000,000						
INTERNAL SUPPORT	8,042,062		8,042,062						
ASSESSMENTS	21,606,369	20,000	21,586,369						
GENERAL GOVERNMENT CX TRANSFERS	1,527,147		1,527,147	44,945					
SHERIFF	138,653,001	51,887,704	86,965,297						
DRUG ENFORCEMENT FORFEITS	701,903	200,000	501,903						
OFFICE OF EMERGENCY MANAGEMENT	1,596,033	1,064,390	501,643						
SECURITY SCREENERS	2,658,942		2,658,942						
PROSECUTING ATTORNEY	59,978,669	16,703,175	43,275,514						
PROSECUTING ATTORNEY ANTI-PROFITTEERING	123,973		123,973						
SUPERIOR COURT	46,890,313	2,210,549	44,379,764						
DISTRICT COURT	27,853,159	3,224,388	24,028,770						
JUDICIAL ADMINISTRATION	20,263,598	2,177,143	18,086,455						
JAIL HEALTH SERVICES	27,853,042	358,961	27,494,081						
ADULT AND JUVENILE DETENTION	126,229,000	22,834,845	103,394,155						
OFFICE OF THE PUBLIC DEFENDER	41,146,637	882,542	40,167,095						
HUMAN SERVICES CX TRANSFERS	17,799,525		17,799,525	17,799,525	6,873,313		375,000	231,433	8,437,843
PUBLIC HEALTH AND EMS CX TRANSFERS	28,874,283		28,874,283	28,498,283	5,402,764		2,555,249	231,433	1,768,716
PHYSICAL ENVIRONMENT CX TRANSFERS	6,517,468		6,517,468	3,560,995	14,262,493		14,262,493	1,026,531	1,569,809
CIP CX TRANSFERS	14,767,629		14,767,629						
Totals	687,459,770	146,757,272	540,672,498	\$1,810,101	\$7,497,855	\$24,719,910	481,059,589	41,614,572	60,000,000

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²Dedicated revenues are defined as revenues filed solely to the provision of services. Contract derived revenues are a prime example of this type of revenue. If the contract were to be diminished, so too would the revenues and the direct services supported by those revenues. Also included in this category are revenues derived from the CX overhead model.