

September 23, 2008

TO: Pierce County Council
Pierce County Citizens

FROM: John W. Ladenburg, County Executive



SUBJECT: 2009 Pierce County Budget

Submitted herein is the proposed Pierce County Budget for fiscal 2009. This budget reflects our commitment to cost effectively address public safety issues (including operation of the new jail), judicial system workload, land use planning and regulation, habitat preservation responsibilities, transportation network needs, flooding concerns, and intergovernmental cooperation. It is my belief that this budget addresses these issues to the extent that shrinking revenues permit. The budget also largely reflects the Council priorities expressed in its 2009 budget resolution.

Budget Summary Highlights

The 2009 proposed Pierce County Budget totals **\$851,673,800**, which is **\$29.6 million (3.4%) below** the 2008 budget. The main reason for this decline is the fact that the budgets for capital improvements (conservation futures land purchases, parks improvements, general building projects, and the sewer utility construction program) will be down considerably from 2008.

In terms of overall approach to the budget, the following assumptions, considerations, and priorities guided our deliberations and recommendations:

First, existing challenges involving general criminal activity, gangs, domestic violence and drug activity will continue to place great pressure on **public safety and justice services**. We still have one of the lowest ratios of law enforcement officers to population, and conversely one of the highest crime rates in the state.

Second, we will continue to **emphasize prevention programs**. The 2009 budget funds many alternatives to incarceration programs including: Breaking the Cycle, Drug Court, Alternative to Detention programs for juveniles, Adult Probation, Day Reporting, Offender Work Crews, and county contributions for the Youth Assessment Center and the Judson Family Justice Center. These programs decrease criminal activity and reduce future jail costs.

Third, our **capital facility program** (even though reduced) still includes major improvements for parks and recreation facilities, our transportation infrastructure, the surface water management system, the sewer utility, and the County—City Building.

Fourth, we remain committed to the promotion of **economic development** in Pierce County. Both the direct activities in the Economic Development department, and the projects, priorities, and processes in other departments emphasize the importance placed on this endeavor.

However, the overriding consideration affecting the 2009 Budget, especially the General Fund, has been the impact of the **sharp reduction in revenues since the second half of 2007**. This sharp reduction, much of which results from a major downturn in development activity, has negatively affected sales taxes,

development fees, interest revenues, and property taxes from new construction. At this time we see little evidence of a positive change in this situation. Consequently we have already imposed cutbacks in 2008 spending, and are proposing further cutbacks in the 2009 Budget. The details surrounding those revenue problems and the associated expenditure reductions are presented in the next several sections.

Performance Measures

We are continuing the Performance Measures initiative in 2009, with increased emphasis on specificity and "outcome" Measures. These Measures focus on the most vital aspects of each department's operation.

I. GENERAL FUND

As the name implies, this is the fund that receives undesignated revenues which can be budgeted for any appropriate county purpose. This fund finances the majority of the traditional services associated with county government. Most of the budget deliberations center around this fund since it provides resource allocation flexibility.

A. General Fund Revenues

A more detailed listing of General Fund Revenues is presented in the General Overview section of

this budget document. A summary of the 2009 revenues, with a comparison to the current year, is shown in the table below.

Our revenue projections are based largely upon the following assumptions:

- a) The local economy will remain sluggish, with negative impacts upon development activity, sales taxes, employment levels, and housing foreclosures.
- b) Inflation will be approximately 3% next year, thus giving a modest boost to Sales Taxes, Intergovernmental Revenues, and Charges for Services.
- c) Short term interest rates will remain close to their current levels.
- d) We will continue to receive city contract revenues for several major services (principally police services, jail, roads maintenance, and court services).
- e) Several General Fund fee increases will be approved by the Council.

Based upon the above assumptions, and with an in-depth review of our revenue patterns, we are projecting an increase in General Fund revenues of only .7% over the 2008 Budget. However, since our **estimated** 2008 revenues will be considerably below the budgeted levels, the 2009 Revenues are projected to be 4.4% over the estimated 2008 Revenues.

GENERAL FUND REVENUE SUMMARY

	2009 Budget	2008 Budget	Absolute Change	Percent Change
Property Taxes	\$ 106,346,740	\$ 102,575,950	\$ 3,770,790	3.7 %
Sales Taxes	63,000,000	61,950,000	1,050,000	1.7
Other Taxes	9,779,770	10,716,170	(936,400)	(8.7)
Licenses and Permits	8,253,940	9,903,550	(1,649,610)	(16.7)
Intergovernmental Revenue	35,580,710	33,640,846	1,919,864	5.7
Charges for Services	37,953,710	38,158,173	(204,463)	(0.5)
Fines and Forfeitures	8,273,660	7,599,340	674,320	8.9
Interest Revenue	9,430,830	12,289,010	(2,858,180)	(23.3)
Other Miscellaneous Revenue	6,202,130	5,533,649	668,481	12.1
Subtotal Revenues	\$ 284,801,490	\$ 282,366,688	\$ 2,434,802	0.9 %
Fund Balance	3,400,000	3,741,583	(341,583)	(9.1)
Total Available Resources	\$ 288,201,490	\$ 286,108,271	\$ 2,093,219	0.7 %

Following is a detailed discussion regarding the changes in each major category of revenue:

Property Tax revenue collections are projected to increase by 3.7% in 2009. This increase is based upon two factors. The first is the 1% available under I-747. The second, and most important factor, is the tax growth resulting from new construction and improvements (down somewhat from the prior year).

Sales Tax revenues are projected to increase by 1.7% over the 2008 budget. This is based upon a forecast 3% growth over our **revised 2008 estimates** coupled with large projected revenues from the new streamlined sales tax program.

Other Taxes will be down in 2009 (real estate excise taxes administrative fees).

Licenses and Permits are projected to be 17% below the budget, even with proposed P.A.L.S. fee adjustments.

Intergovernmental Revenues reflect a solid 5.7% increase, due mostly to projected increases in Sheriff contract payments (University Place, Edgewood, Pierce Transit).

Charges for Services are estimated to be below the 2008 budget by .5%. However, this modest change is actually composed of many significant increases or decreases in specific revenue sources (recording fees, planning fees, indirect cost charges, etc.).

Fines and Forfeits are projected to be well above the 2008 Budget (9%) based upon the revenues from the new bridge toll infractions.

Interest Revenues are projected to generate a large decrease in 2009, due to short term interest rate reductions enacted in 2007 and early 2008.

Miscellaneous Revenues are projected to grow by 12.1% in 2009, which reflects increased charges for traffic enforcement activities.

Prior Fund Balance – We are recommending the allocation of \$2.9 million in surplus to support on-going services in the 2009 Budget. This represents about 1% of the estimated 10% General Fund surplus. Another \$500,000 in fund balance is recommended to support the one-time clear zone land purchases near McChord Air Force Base.

Based upon this increase in Prior Fund Balance use, the percentage change in **Total Resources** available for next year's General Fund Expenditures is only .7% above the 2008 Budget.

However, as indicated earlier, the 2009 Revenue Budget is actually **4.4% above our revised estimates for actual 2008 Revenues**. It should be noted that 1.0% of that 4.4% is simply due to the anticipated additional monies from the streamlined sales tax.

Percent Change in General Fund Revenues
Excluding Fund Balance

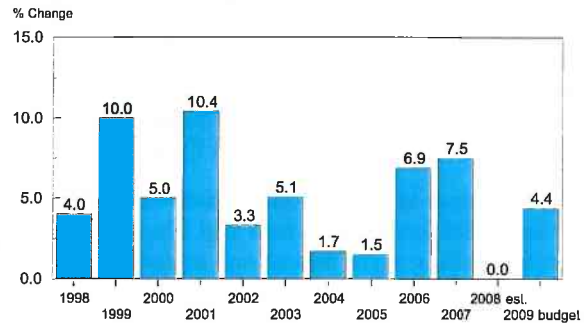


Figure 1

Comparative **revenue** increase figures for the last decade are shown in Figure 1. The increase of 4.4% in 2009 is in line with the average for 2002-2008 factoring out (a) below. In reviewing the figures from 1998-2005, please keep in mind that:

- a) The end of the Sheriff's Lakewood contract (\$12,000,000) by itself equated to a 5% drop in General Fund revenues, spread over 2004-2005.
- b) Initiative 747 (effective 2002) continues to erode our real financial base. The negative impact grows exponentially each year.

As you can gather from the above comment, I-747 casts a major shadow over our finances. This initiative limits the growth in taxes from existing property to only 1% per year (in place of the previously available 6%). Such a limitation, is well below the level of inflation, and imposes severe fiscal constraints on the county. The inevitable result is that service cutbacks and staff reductions in an average or below average year become unavoidable. The annual revenue loss for the first eight years affected by this initiative is shown in the next table.

GENERAL FUND I-747 ANNUAL LOSS

2002	\$	3,482,800
2003		7,325,500
2004		10,903,900
2005		14,801,800
2006		20,071,000
2007		26,304,000
2008		33,100,000
2009		40,600,000 est.
Total	\$	156,589,000

These are very significant revenue losses, with the annual amount in just fiscal 2009 equal to almost 14% of our General Fund budget. The Road levy is also affected by I-747, with the 2009 loss estimated at \$17,400,000 (\$14,000,000 for the Road Fund, and \$3,400,000 for the law enforcement levy in the General Fund).

This initiative is causing an inexorable erosion in our financial foundation, and will likely lead to significant long term reductions in public safety, the justice system, road maintenance, health services, and other vital county programs. The reason that we did not see evidence of that in 2005-2007 is that the local economy had been extremely robust.

B. General Fund Expenditures

The projected Revenue Budget growth of .7% (but 4.4% over 2008 estimates) will not be sufficient to continue all programs and staff at the 2008 budget levels

We estimate that in order to continue all 2008 budgeted staff and services into 2009, the County would need a 6% increase to cover inflationary cost increases (salary, medical, pension, gasoline, etc.). This would be on top of the 4.5% that was needed to support similar inflationary costs

increases for fiscal 2008. However, the combined revenue increases for these two years is only 4.4% (0% in 2008 and an estimated 4.4% in 2009). Thus the inescapable need to reduce staffing and service levels.

The Expenditure tables which follow summarize the 2009 General Fund Expenditure Budget, and compare it with the 2008 Budget. The first table presents the General Fund according to functional category, while the second table simply lists each departmental budget.

As indicated, the combined total percentage allocated to Public Safety and Legal/Judicial Services is equal to 76% of the budget. In 2009, the increase in the General Fund budget allocated just to Public Safety and Legal/Judicial Services is \$8.7 million, which results in a needed decrease of \$6.6 million in all the other functions in order to balance the budget.

As a cautionary note, the percentage change in a particular departmental budget as shown on the next page may not always be a valid indication of the extent to which that department's real inflation adjusted resources are growing (or decreasing) from the prior year. This is often the case because:

- Many departments had grants or service contracts in 2008 which are not renewed in 2009, or vice versa.
- Several departments have other unique items in 2008 which are not present in 2009 (special election costs, capital equipment purchases, one time projects, etc.).
- There could be significant changes in such annual "fixed costs" as insurance, information technology or space rental.

GENERAL FUND EXPENDITURES BY FUNCTION

	2009 Budget	2008 Budget	Absolute Change	Percent Change
General Government	\$ 38,224,930	\$ 40,657,235	\$ (2,432,305)	(6.0) %
Public Safety	142,056,590	135,159,336	6,897,254	5.1
Physical Environment	2,252,740	1,982,120	270,620	13.7
Legal & Judicial	74,653,070	72,984,928	1,668,142	2.3
Economic Environment	19,396,740	21,658,424	(2,261,684)	(10.4)
Mental/Physical Health	3,808,090	4,253,640	(445,550)	(10.5)
Cultural & Recreation	7,809,330	9,055,600	(1,246,270)	(13.8)
Public Works & Utilities	—	356,988	(356,988)	(100.0)
Total General Fund	\$ 288,201,490	\$ 286,108,271	\$ 2,093,219	0.7 %

It is necessary to review each department's situation in some detail to determine what is happening in 2009. I would refer the reader to the "Budget Highlights" section in each departmental budget for a fuller explanation of any budgetary changes.

As shown in Figure 2, the .7% budget increase for expenditures is much lower than any time in the last decade (and probably much further back than that). It has necessitated 2009 Budget levels for many departments which are less than their 2008 Budget (see below).

Percent Change in General Fund Expenditures

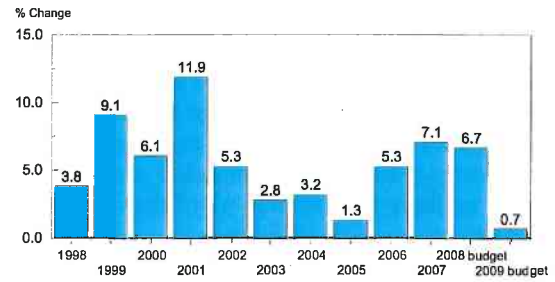


Figure 2

GENERAL FUND EXPENDITURES BY DEPARTMENT

	2009 Budget	2008 Budget	Absolute Change	Percent Change
Assessor/Treasurer	\$ 10,817,070	\$ 10,561,430	\$ 255,640	2.4 %
Assigned Counsel	14,643,200	14,823,020	(179,820)	(1.2)
Auditor	9,880,640	11,785,865	(1,905,225)	(16.2)
Bond Debt Service	411,980	418,220	(6,240)	(1.5)
Budget & Finance	5,458,990	5,380,970	78,020	1.4
Capital Improvement Projects	500,000	700,000	(200,000)	(28.6)
Clerk	5,283,960	5,214,510	69,450	1.3
Communications	752,180	700,210	51,970	7.4
Corrections	50,649,290	47,424,610	3,224,680	6.8
County Council	4,190,760	4,227,610	(36,850)	(0.9)
County Executive	1,117,570	1,151,700	(34,130)	(3.0)
District Court	12,352,820	12,266,210	86,610	0.7
Economic Development	1,226,530	1,088,810	137,720	12.6
Emergency Management	3,599,760	3,530,230	69,530	2.0
Health Services	3,070,210	3,185,020	(114,810)	(3.6)
Human Resources	4,003,780	3,904,100	99,680	2.6
Juvenile	21,081,320	20,962,551	118,769	0.6
Medical Examiner	2,165,580	1,887,250	278,330	14.7
Miscellaneous Current Expense	3,868,510	6,065,413	(2,196,903)	(36.2)
Parks and Recreation Services	6,659,260	6,595,670	63,590	1.0
Planning and Land Services	17,779,380	19,851,454	(2,072,074)	(10.4)
Prevention Services & Programs	1,712,500	1,750,000	(37,500)	(2.1)
Prosecuting Attorney	27,028,530	25,549,128	1,479,402	5.8
Public Defense Conflict Office	776,490	745,930	30,560	4.1
Sheriff	61,310,440	57,888,180	3,422,260	5.9
Special Projects	2,368,280	3,143,350	(775,070)	(24.7)
State Auditor	171,640	175,000	(3,360)	(1.9)
Superior Court	14,365,430	14,157,480	207,950	1.5
WSU PC Extension	955,390	974,350	(18,960)	(1.9)
Total General Fund	\$ 288,201,490	\$ 286,108,271	\$ 2,093,219	0.7 %

2009 MAJOR SERVICE & STAFFING CHANGES

The following chart summarizes the 2009 budget staff reductions from the current 2008 budget. The majority of these positions are currently vacant due to the cutbacks enacted earlier this year. It is likely that almost all of these positions

will be vacant by the start of the new year, either through attrition or through transfers to other vacant but budgeted positions.

It needs to be emphasized that almost all departmental budgets also reflect significant reductions in many non-personnel accounts such as extra hire, overtime, equipment purchases, training, consulting, support for "outside programs", etc.

STAFFING REDUCTION SUMMARY (Excludes Extra Hire)

Department	2009 Reductions	Comments
Clerk	2.0	
Parks and Recreation	2.0	
Emergency Management	1.0	
Human Resources	1.5	1 for half of 2009
Auditor	3.0	
Budget & Finance	2.4	
Council	1.0	
Performance Audit/Special Projects	2.5	
Planning & Land Services	33.4	Includes NPDES (6)
Assigned Counsel	3.0	Plus huge reduction in outside fees
Economic Development	1.0	
Assessor-Treasurer	4.0	
Juvenile	4.0	
Superior Court	1.0	
Corrections	6.0	Keep Pod unopened
District Court	2.5	
Executive	0.5	Position on hold until July 1
Direct General Fund	70.8	

With regard to the Sheriff's Department, the budget will include 6 new positions: 4 Deputies funded through the Pierce Transit contract, and 2 grant funded positions (1 Detective and 1 Office Assistant). The 6 new deputies approved in the 2008 budget that are currently "on hold" are funded in 2009 as of October 1, 2009

C. Use of Prior Fund Balance

Figure 3 and Figure 4 present the actual financial results for the General Fund during the 1998-2007 period, and the estimated amounts for 2008-2009. As indicated in Figure 3, the trend through most of the decade had been very positive. Both a strong economy and prudent fiscal policies produced favorable financial results. However, the projected results for 2008 reflect a much different environment. We are projecting a

deficit of \$8 million in 2008, and recommending the use of \$3.4 million in 2009 (1% for ongoing services, plus the clear zone \$500,000) to cover next year's proposed budget. It is our recommendation that we use no more than 1% in 2009 and, if necessary, another 1% in 2010 to "tide us over" in the hopes that the local economy will substantially improve by then. A Fund Balance below 8% will definitely require borrowing to meet our cash needs, and could lead to a bond rating downgrade.

General Fund Summary Difference Between Revenues & Expenditures

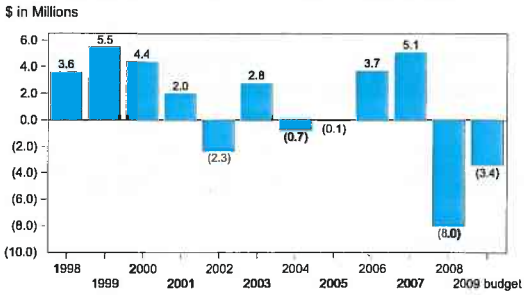


Figure 3

Unreserved General Fund Balance

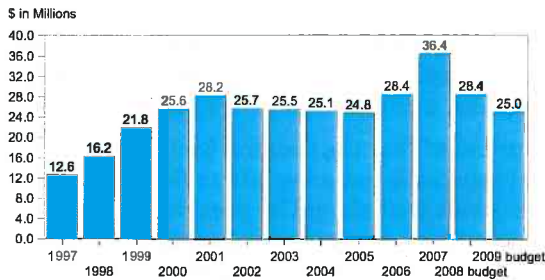


Figure 4

If the 2008 actual results match our latest estimates, the Unreserved General Fund balance will be approximately \$28.4 million at the end of 2008 (see Figure 4). It is the county's policy to maintain a fund balance for emergency and working capital purposes which is between 5% and 10% of the budget. We will be at the top of the range at the end of fiscal 2008, and near the middle of the range at the end of 2009 (as shown in Figure 5).

Unreserved General Fund Balance as a Percent of the General Fund Budget

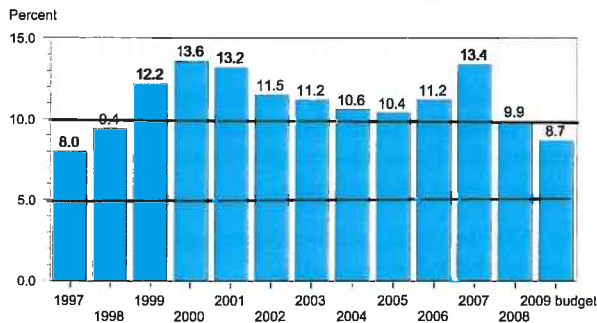


Figure 5

D. Tax Rates and Assessed Valuations

The growth in assessed valuation from 2008 to 2009 was approximately \$2.8 billion (3.2%). This is well below the average absolute growth experienced in the last ten years, and is the lowest percentage change during that time frame (see the chart below). Approximately 75% of this growth is from new construction, with the remaining 25% due to revaluations of existing property.

Percent Change in Assessed Valuation

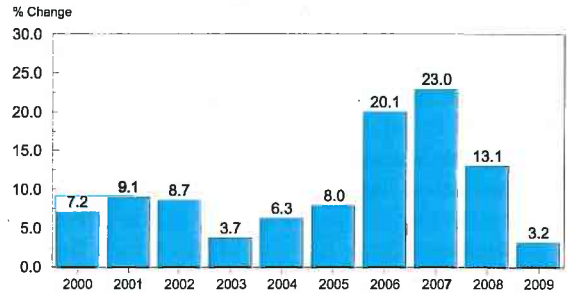


Figure 6

This modest growth in the valuation of existing property will result in **slight tax rate increases in 2009** as shown in the following table. This reverses the pattern of decline in tax rates seen over the last decade.

PROPERTY TAX RATES	2009	2008
General Levy (\$1.80 max.)		
General Fund	\$ 1.0259	\$ 1.0234
Veterans Relief	0.0065	0.0065
Social Services	0.0145	0.0144
Total General Levy	1.0469	1.0443
Road Levy (\$2.25 max.)	\$ 1.4158	\$ 1.4005

Please keep in mind that the county's General Fund share of the property tax is only 11% of the total. Most of the property taxes paid by our citizens are allocated to the State of Washington, Cities, and Local Schools.

E. Prognosis for Fiscal 2010

In this uncertain time it is difficult to confidently project ahead to fiscal 2010. However, based upon our best "crystal ball" judgments, this is what we see:

The local economy should enjoy a period of at least moderate growth as the current decline in the development sector returns to a more normal level.

However, it is likely that fiscal 2010, without the approval of any new tax increase measure, will be as challenging as fiscal 2009 for the following reasons:

- a) The impact of I-747 becomes progressively worse with each passing year.
- b) Medical insurance increases are likely to remain significantly above the level of general inflation.
- c) We may need to open another jail pod in 2010, which will result in significant cost increases in the Corrections budget.
- d) We are using fund balances in several Other Funds to reduce the budget pressure on the General Fund, (Information Technology, Facilities Management, Geographic Information Services, Self Insurance, Jail Construction). Also we have 2 funds (Criminal Justice and Drug Investigation) which finance public safety and legal services and staff, and which are likely to be fully depleted within one or two years.

II. OTHER COUNTY FUNDS

A great many of the county's programs are financed from sources outside of the General Fund. In total, these funds have combined expenditures well in excess of the General Fund budget. However, the nature of the revenue sources mandate that **these monies can only be used for specific activities**. Hence, they are budgeted and accounted for in separate funds. Summary figures for each fund can be found in the Total Expenditures/Expenses table of the General Overview section.

A. Community Services & Human Services Funds

The county is a major provider of community and human services through programs funded primarily from state and federal grants, and in recent years the new recording fees for housing programs. Due to the vagaries of the grant funding process, these budgets often vary significantly from year to year. The following summarizes the **major funds** and the significant **changes in the 2009 budgets**:

- The reduction in **Community Development** reflects a smaller capital program for 2009.

- The **Mental Health Fund** reflects a more accurate estimate of the services which we will provide through state contracts.

COMMUNITY SERVICES & HUMAN SERVICES

Fund	2009 Budget	2008 Budget	Percent Change
Community Action	\$ 6,996,440	\$ 6,908,705	1.3 %
Comm Development	3,082,070	4,148,210	(25.7)
Homeless Hous Prog	4,055,240	3,608,310	12.4
Hous Repair Prog	6,204,370	6,262,550	(0.9)
Human Services	36,839,590	37,513,290	(1.8)
Low Income Hous Fee	1,820,400	2,500,300	(27.2)
Mental Health Fnd	17,610,900	19,860,210	(11.3)

- The "**Housing**" program changes often reflect grant fluctuations, major multi-year project impacts, and/or conservative grant estimates.

It is our belief that the funding from state and federal sources is not adequate to finance the service levels that should be provided. We are working with state and federal agencies in an attempt to increase the funding levels, and it is possible that additional grant monies will be secured in 2009. However, even these potential new grants will probably be insufficient to cope with all the human service needs in Pierce County.

Even though most of the funding for these human and community service programs comes from state and federal grants, the General Fund and other locally generated revenues still provide a sizeable contribution, most of which is budgeted in the Miscellaneous Current Expense account. In addition, many of the General Fund dollars allocated to the Health Department will in turn be budgeted for social and human services.

B. Transportation Services

The Public Works and Utilities Department has major transportation responsibilities, and accounts for these responsibilities and service costs in seven major funds.

The 2009 budgets, with comparisons to 2008, are show in the following table:

TRANSPORTATION SERVICES FUNDS

Fund	2009 Budget	2008 Budget	Percent Change
County Roads Fund	\$ 70,743,280	\$ 68,900,420	2.7 %
PW Construc Fund	55,870,000	51,662,000	8.1
Ferry Serv Fund	4,626,000	4,251,880	8.8
Airport Fund	18,834,940	1,578,015	1,093.6
Roads Second REET	22,874,000	18,775,810	21.8
Traffic Imp Fee Fund	6,790,030	6,000,000	13.2
Transport Facilities	2,648,880	9,352,760	(71.7)

The major items of note for next year are:

Public Works Construction Fund — reflects an increased capital construction program with substantial financing from **Roads REET** and **Traffic Impact Fee Funds**.

Airport Fund — reflects the operation of the Tacoma Narrows Airport.

Roads Second REET — reflects increased capital project allocations utilizing proposed bond proceeds.

Transportation Facilities — reflects the 2009 costs for the proposed West Side Maintenance Facility.

C. Parks and Recreation Funding

Although the county's General Fund provides a direct allocation for parks and recreation services (\$6.7 million in 2009), there are several other county funds which provide parks and recreation services or which construct, repair or enhance parks and recreation facilities. The 2009 Budgets for these funds are as follows:

PARKS FUND

Fund	2009 Budget	2008 Budget	Percent Change
Conserv Futures	\$ 3,786,670	\$ 10,247,910	(63.0) %
Parks Impact Fees	570,160	3,384,200	(83.2)
Parks Sales Tax	4,230,030	5,781,510	(26.8)
Parks Second REET	4,256,970	4,814,740	(11.6)
Paths & Trails	3,366,590	8,391,520	(59.9)
Parks Const. Fund	5,058,090	5,591,030	(9.5)
Golf Courses	2,010,440	2,333,320	(13.8)

Although this \$23 million total includes some double counting (transfer between funds for project accounting purposes), and is less than

2008, the above allocations still represent an **enormous commitment by the county and its citizens to greatly enhanced parks and recreation programs** – both for new facilities as well as for annual maintenance and programs.

D. Environmental Services

The county Public Works and Utilities Department has five funds which deal with environmental issues. These funds and budgets are listed below:

ENVIRONMENTAL SERVICES FUNDS

Fund	2009 Budget	2008 Budget	Percent Change
Surface Water Mgmt	\$ 21,091,790	\$ 27,851,940	(24.3) %
Sewer Utility	74,990,390	93,390,400	(19.7)
Solid Waste	6,542,180	6,138,910	6.6
Water Utility	300,650	188,940	59.1
River - REET	6,624,260	9,631,140	(31.2)

Major changes in these funds can be summarized as follows:

Surface Water Management — the budget reflects decreases in staffing and in the capital improvement program due to lack of resources.

Sewer Utility — the budget includes:

- A significant capital improvement program (although down from 2008).
- The addition of 2 new positions.
- A rate increase of 5.0% to match the impact of inflation on operating costs.
- A reduction in debt service costs.

River REET — includes a sizeable but somewhat diminished land acquisition program utilizing anticipated grant funds.

E. Internal Service Funds

Internal Service Funds provide services, supplies, and equipment to other county departments, which pay for these services through various billing systems. In essence, these funds operate under the enterprise fund business model, except that their customers are other county departments. The long-range goal is to establish rates which will pay all operating and capital costs, and to insure that the General Fund does not need to subsidize these activities.

INTERNAL SERVICE FUNDS

Fund	2009 Budget	2008 Budget	Percent Change
Equipment Services	\$15,064,840	\$15,324,050	(1.7) %
Information Tech	20,261,820	19,722,190	2.7
Facilities Mgmt	13,767,870	12,790,960	7.6
Radio Communic	2,896,780	2,946,300	(1.7)
Fleet Rental	5,193,460	4,893,640	6.1
General Services	3,364,980	3,377,520	(0.4)
Self Insurance	9,124,030	8,705,890	4.8
Workers Comp	4,023,250	3,584,940	12.2

The following summarizes **significant** changes in 2009 budgets:

Equipment Services Fund — includes one new position to replace extra hire expenses, but with a slight reduction in vehicle purchases.

Information Technology — reflects the reduction of two positions, but includes monies to transition to a different electronic messaging platform.

Workers Compensation — reflects increased projected costs estimates based upon recent claim experience.

Many of these Internal Service Funds will rely upon prior fund balance in order to support their 2009 budgets. This results from both the scheduled replacement of capital assets using reserves, and our desire to keep charges to other funds to a minimum.

F. Special Revenue & Other Funds

The remaining county funds have been established by state law or county ordinance to separately record the revenues and expenditures associated with specific programs. The most important 2009 budget highlights are:

- 1) **911 System Fund** — includes major allocations for technology improvements as well as the annual allocation for the new Emergency Operations Center loan repayment.
- 2) **Jail Construction Fund** — includes \$7.0 million funding for the remodeling of the 4-T Pod in the Main Jail (with an additional \$1 million allocation in 2008).
- 3) **Chambers Bay Golf Course** — the major increase reflects the activity levels based upon actual experience and additional costs for maintenance and course enhancements for the U.S. Amateur and U.S. Open. These budget increases are financed through additional course revenues and payments from the U.S.G.A.

- 4) **R.E.E.T. Construction Fund** — the 2009 capital program is much less than 2008 due to reduced revenues and very little available fund balance. We will commence work on Phase III of the County-City Building, although not until the latter part of the year.

III. UNRESOLVED ISSUES

Most issues are resolved during the budget review and adoption process. However, there are usually several issues which will “play-out” later once the new year is underway, and as developments unfold or new information becomes available. This budget is not unusual in that respect. We have several issues that are still in their formative stages, and which will need a resolution, and perhaps additional funding, in 2009.

Office Space Needs — we continue to rent an enormous amount of outside office space. In 2009 alone, we project at least \$2.4 million in lease costs. We remain convinced the county needs to move forward with the proposed Administration and Transportation Building on the recently purchased properties along Tacoma Avenue.

Union Contracts — most of our labor contracts expire at the end of 2008, so that adds a level of uncertainty to our budget assumptions regarding salary and benefit level increases.

State Grants — we are concerned that potential state fiscal problems will result in reduced state grants. However, at this time we have no **specific** indications of any cutbacks.

Streamlined Sales Tax Revenues — we have included \$3.9 million in streamlined sales tax revenues as part of our 2009 General Fund revenues. However, we are very concerned that this state generated estimate may not be accurate. The estimate is based upon a state wide 2002 survey and then allocated to each county based upon population, per capita income, etc. We have absolutely no real data to verify the accuracy of these estimates, and will not have the necessary data until all firms are fully in compliance (probably mid 2009)

Jail Medical Staffing — we are in discussion with Federal Jail Litigation representatives regarding the appropriate nurse staffing levels in the Jail. If we are mandated to add additional staff, this will result in a large unbudgeted increase to the Corrections budget.

Property Tax Payments — the increasing number of homeowners who are delinquent in their mortgage payments or who are actually in foreclosure is a major concern. Our 2009 property tax revenues assume a payment pattern which has been consistent for the last ten years. However if that pattern does not hold for the above reason, our property tax revenues in the short term will be adversely affected.

N.P.D.E.S. Responsibilities — Currently underway is the “Beck Study”, which is examining the resources needed to comply with our federal and state mandated N.P.D.E.S. responsibilities. We have not included in the 2009 Budget any potential additional staff in either Surface Water Management or P.A.L.S. for these functions, and have not included any rate increase necessary to fund these positions.

The existing S.W.M. revenues are not sufficient to fund all currently budgeted staff (in S.W.M. or P.A.L.S.) and thus we have reduced staff levels in both departments from the 2008 levels.

Building and Facility Needs — the County is faced with many facilities which are in need of

major structural improvements and renovations, or simply need to be replaced. These are in addition to the needed County Administration and Transportation Building discussed earlier and the County-City Building Remodel Phases 3 and 4. The major facilities in need of significant improvements or replacement include:

- Remann Hall
- L.E.S.A.
- Hosmer Site (District Court)
- New Sheriff Precinct
- Sprinker
- Jail Repairs/Upgrades
- Golf Courses
- Health Department

The limitations of the county revenue structure coupled with the decline in R.E.E.T. revenues mean that it is unlikely that these necessary projects can move forward without a significant new source of funding (e.g. utility tax, voter approved bonds, additional sales taxes, etc.).

SUMMATION

The 2009 Budget submitted to the County Council is based upon a set of unfavorable economic conditions. This economic decline and the resultant negative impact upon revenues has been the sharpest in at least the last decade. Cutbacks in programs and staffing (especially in the General Fund) have become unavoidable. We have attempted to prioritize these cutbacks where feasible to minimize the impact upon public safety or judicial system services. However, given the fact that so much of the General Fund is already allocated to these services (76%), it is unavoidable that some marginal cutbacks in these areas must be made.

We will need to closely monitor our 2009 revenues as the months unfold to see if additional cutbacks become necessary due to continued revenue difficulties. It is also possible that the situation could improve in mid to late 2009, thus allowing us to restore some of these cutbacks. However, it is very unlikely that our revenues will return to the levels seen in the 2006 - 2007 period.

