

# **SHORTCHANGED: KING COUNTY'S FISCAL CRISIS**

**A Report by  
The Municipal League of King County  
November 17, 2003**

## EXECUTIVE SUMMARY

King County is experiencing a fiscal crisis, which cannot be addressed without a major change in its responsibilities and focus. Although there have been deep budget cuts in recent years, revenues available to fund expenses of the County's General Fund continue to be insufficient to support the level of services previously established. To balance the 2003 County budget, over \$50 million in cuts to the General Fund budget (approximately 10% of that budget) were required. Additional cuts of \$20–\$25 million are anticipated for each of the next three years. Major factors contributing to this problem include:

- The largest source of General Fund revenue is from the property tax, which is limited by initiative to a 1% annual growth rate (plus new construction).
- As a result of municipal annexations and incorporations, most of the high-value tax base has been moved from the unincorporated areas of the County into cities.
- Expenses, most notably expenses relating to law and justice and to personnel, have experienced growth rates that have outstripped the growth rate in revenues.
- In addition to providing regional government services throughout the County, the County also serves as the local service provider for unincorporated areas. In 2003, the County estimated that approximately \$42 million of the money spent to provide local government services was supplied by revenues generated by the County in its regional government role. Thus, the County as regional government is subsidizing local government services.

The Municipal League of King County recommends that the following steps be taken to address King County's fiscal crisis:

1. King County should divest itself of its role as a local service provider—in order to fulfill its role as regional service provider.
2. All land within the urban growth boundary should be incorporated or annexed to the city or cities within each area's sphere of influence through a collaboration between King County, existing cities and citizens. Rural unincorporated communities should be organized into townships or other entities for the purpose of local service delivery, to include local land use decision-making consistent with the Countywide Planning Policies and the Growth Management Act. King County should be more aggressive in encouraging and enabling unincorporated residents to find alternatives to King County for local service provision.
3. King County, along with the other members of the Washington State Association of Counties, should continue to seek, and the Legislature should authorize, additional revenue sources to fund equitably county services.

4. As additional revenue opportunities are explored, the County must also continue to cut costs.

## **INTRODUCTION**

In August 2002, the Municipal League of King County established a committee to examine the future role of King County government. The League's action was precipitated by a concern that King County's revenue base does not adequately accommodate its mandated functions. With a growing number of annexations and incorporations and with the growth of its principal revenue source capped by initiative, King County finds itself with a restricted revenue base, increased mandated expenses, a growing sense of competition with cities for shrinking financial resources, and a growing inability to fund services that King County residents value, expect and need.

The purpose of this report is to identify key issues affecting King County's fiscal health and to make recommendations to improve it. In developing this analysis, the Municipal League's King County Study Committee met over ten months with current and former County elected and appointed officials, budget and finance staff, representatives of special purpose districts, representatives of local government advocacy organizations, and regional civic leaders. As a result of this input, members of the Committee developed a greater appreciation for the complexity, importance and urgency of fiscal reform.

## **BACKGROUND**

The Municipal League's King County Study Committee is one of many efforts over the past twenty years to examine King County's financial and governance predicament. Some of the more significant of these efforts include the following:

- In 1985, the State Legislature created the Local Governance Study Commission to analyze issues confronting local governments. The Commission's report, issued in 1988, recommended, among other things, that local governments within each county enter into comprehensive sets of interlocal agreements to determine which entities would provide which services and that the Legislature undertake to examine and restructure the tax structure for local governments.
- Between 1986 and 1990, the Seattle Chamber of Commerce sponsored a group entitled King County 2000. That group considered several issues, including the proper role for county government. Among other things, it recommended that "County government should be responsible for providing region-wide services" and that "[s]ince local services are best provided by municipalities, high density areas of unincorporated King County should be encouraged to incorporate or annex."

- In 1990, U.S. District Judge William Dwyer determined that the Metro Council violated the constitutional principle of one person-one vote. In response, voters approved a merger of King County and Metro in 1992. The merger took place in 1994. In recognition of its new responsibilities in transit and water quality, the size of the County Council was increased from 9 to 13 members in connection with the merger.
- In 1991, the Municipal League of King County issued a report entitled King County Governance Reform, which called for a governmental restructuring in King County, citing the inability of current governmental structures to deal effectively with regional issues.
- In a 1994 report to the Growth Management Planning Council, the Fiscal Analysis and Economic Development Task Force called for a Regional Financing Plan and a Regional Governance Plan to reform antiquated local governance and revenue structures.
- In 1996, the King County Consolidation Advisory Committee issued a report discussing its consideration of the County's future role in the delivery of regional and local services. The report focused on alcoholism, surface water management, parks and recreation services, and law and justice. It charged the Municipal League and the League of Women Voters with the task of monitoring the County's response to its recommendations.
- In 1997, the Charter Review Commission recommended the separation of regional and local decision-making and creation of a new local government mechanism for unincorporated areas.
- In 1998, pursuant to a project called Regional Finance and Governance, the County and a majority of cities in the County participated in a comprehensive discussion of which entities should provide which services and how services should be paid for. No agreements were reached as a result of this project.
- In 2002, King County established a Commission on Governance and a Budget Advisory Task Force. The Budget Advisory Task Force recently issued its report. The work of the Governance Commission is expected to be completed by March 2004.

### **THE ROLE OF COUNTY GOVERNMENT**

County governments in Washington are, fundamentally, subdivisions and instrumentalities of state government. Washington Constitution Article XI §§ 1, 4, 5; *State ex rel Taylor v. Superior Court*, 2 Wn.2d 575, 579 (1940). The services provided by a county in this capacity are often taken for granted but are essential to the health and safety of the county's citizens. These include most

components of the law and justice system (e.g., courts, jails, juvenile justice), as well as public health, records and elections.

Cities typically provide local government services, but counties provide these services in unincorporated areas, i.e., areas not within the boundary of a city. In King County, nearly 350,000 of the County's 1.7 million residents live in unincorporated areas. (Over 210,000 of these people live in urban areas that have not been incorporated into or annexed by cities). King County serves as the local government for these citizens in addition to serving as the regional government for all citizens. The following tables describe some of the regional and local services provided by the County.

<u>Table 1</u> <b>Regional Service Mandates</b>	
(*) 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)	

<u>Table 2</u> <b>Local (Unincorporated Area) Service Mandates</b> (per state law)	
Roads	Prosecution and public defense of misdemeanor offenders
District Court (misdemeanor offenses)	Surface water management/storm drainage
Sheriff	Building Permits/Zoning/Land Use
Fire Inspections	
Jail for misdemeanor offenders	

Source: Report of the King County General Government Budget Advisory Task Force, June 25, 2003. (It should be noted that solid waste, which was not listed above, is currently the subject of a dispute between the County and other entities.)

## **FINDINGS**

Approximately 16% of King County's overall budget is allocated to the General Fund (also referred to as the Current Expense or CX Fund). The remainder is composed of dedicated funding sources that are required to be spent for designated activities. In order to balance the 2003 budget, over \$50 million in cuts to the General Fund budget were required. The shortfall in revenue is expected to continue into the foreseeable future, requiring cuts in the range of \$20-25 million in each of the years 2004, 2005 and 2006. The continuing General Fund deficits that the County faces are due to a combination of systemic issues relating to revenue, expenses and the County's dual system of responsibilities.

### ***Revenue***

Some 44% of King County's General Fund revenue comes from the property tax, which is limited by initiative to a 1% annual growth rate (plus new construction). Moreover, since 1985, the number of new cities in King County has nearly doubled, from 21 to 39. The new cities have incorporated nearly all of the high-value tax base that was once in unincorporated King County. These two developments have left King County with inadequate revenues to fund public services and infrastructure. Unlike cities, counties do not have the authority to impose other taxes such as a utility tax or a B&O tax. Overall, tax revenues supporting the General Fund will grow at less than 2% per year, absent voter approval of tax increases exceeding the limit set by Initiative 747.

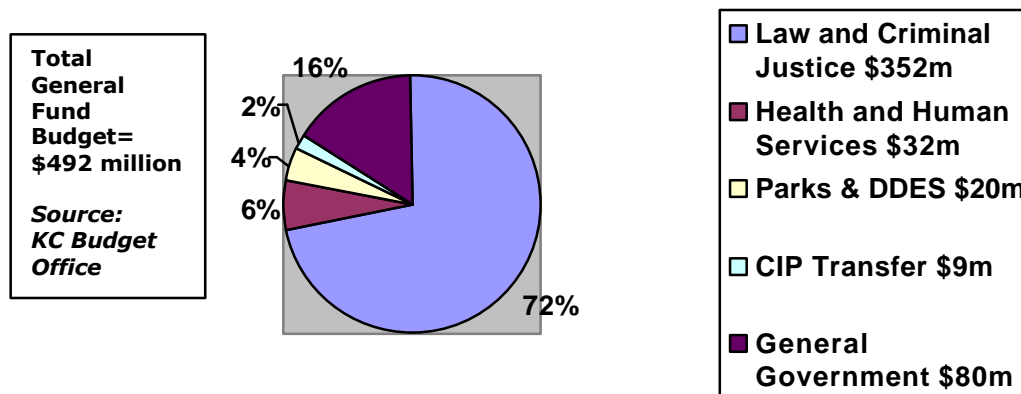
Revenue problems are certainly not unique to King County. Cities, for example, also suffer from the limitation on property taxes. The November 2002 report of the Washington State Tax Structure Study Committee (Gates Commission) concluded there are broad and fundamental inequities in Washington's tax system, and proposed an array of potential changes that could significantly improve the financial position of not only the state, but counties and cities as well. These subjects are outside of the scope of this study, but merit serious consideration.

### ***Expenses***

In contrast to the less-than-2% growth rate for General Fund revenues, General Fund expenditures for King County have grown at 5-1/2% to 6-1/2% per year. Salaries and wages (45%) and employee benefits (15%) account for the majority of General Fund expenditures. The growth rate for these expenditures has been driven, in large part, by cost of living increases, by a growth rate for health care and other benefit costs of nearly 10% per year (paralleling national experience in both the public and private sectors), and by the fact that over 25% of the FTE employees in the General Fund are eligible for salary arbitration. The County has moderated the impact of salary and benefit increases by reducing the number of employees in recent years.

More than 70% of the General Fund budget is used for law and justice functions, which are required by state and federal mandates. The percentage of the General Fund budget represented by law and justice has increased steadily over time and is projected to continue to increase. Much of this budget (61%) is controlled by separately elected officials (court, prosecutor, sheriff). The remaining 39%, which is managed by the executive, goes primarily to mandated Adult and Juvenile Detention services. As a result, the ability of the County Executive to exercise effective centralized budget management control in the area of law and justice is significantly hampered.

**2003 Adopted King County General Fund Budget**



Of course, increasing costs for mandated services affect the provision of non-mandated services. Increasing costs associated with mandated functions eat away at resources that would otherwise be available for non-mandated functions.

***Responsibilities***

King County’s fiscal crisis is related to the dual nature of its responsibilities. King County is both the regional arm of the state (providing jails, public health, transit, waste disposal, and courts countywide) and a local government (providing local services to the roughly 350,000 residents of unincorporated King County). The County as regional government is subsidizing the County’s local government function. In 2003, the County estimated that approximately \$42 million of the money spent to provide local government services is supplied by revenues generated by the County in its regional government role.

***Time for Change***

In its 1991 report, the Municipal League of King County stated that “restructuring of governance is long overdue in King County.” It recommended that local officials involved in the Regional Governance Summit work together to develop a reform proposal capable of gaining wide public support and stated: “If

a model is not forthcoming from the Summit shortly, the League is prepared to recommend a citizen's proposal for restructuring governance in King County."

In the years since the Municipal League's 1991 report, the fiscal health of King County has been undermined by short-sighted tax limitations and an over-reliance on antiquated and unstable revenue sources. In the view of some, inadequate management has also played a role. Efforts of King County officials to obtain authorization for additional sources of revenue, such as utility taxes in unincorporated areas, have, thus far, been unsuccessful, with the exception of authorization for a voted sales tax increase, receipts of which must be shared with the cities.

There has been much discussion about the need for governmental and fiscal reform for King County, but there has been insufficient public recognition and political will to achieve fundamental and necessary change. King County and the cities tend to compete for the same turf, while issues such as a rational framework for regional decision-making tend to be neglected. The people of King County suffer the impacts of a dysfunctional system every day in the form of threatened park closures, reduced social services, and inadequate infrastructure. The long-term effects may come in the form of reduced credit ratings and a downward cycle of degraded infrastructure leading to economic stagnation.

There is no way to escape the dilemma currently faced by King County's General Fund without a structural shift in the County's responsibilities and finances. We proceed to discuss recommendations for implementing such a shift.

## RECOMMENDATIONS

The task ahead is daunting and politically charged, but bold and deliberate action is needed to stem King County's spiral of decline. The Municipal League of King County therefore recommends the following:

**1. King County should divest itself of its role as a local service provider—in order to fulfill its role as regional service provider.**

**Rationale:** King County can no longer afford to be both a local and a regional service provider. There are workable alternative mechanisms for local service provision, but none for countywide service provision.

**2. All land within the urban growth boundary should be incorporated or annexed to the city or cities within each area's sphere of influence though a collaboration between King County, existing cities and citizens. Rural unincorporated communities should be organized into townships or other entities for the purpose of local service delivery, to include local land use decision-making consistent with the Countywide Planning Policies and the Growth Management Act. King County should be more aggressive in encouraging and enabling unincorporated residents to find alternatives to King County for local service provision.**

**Rationale:** Several groups, including the 1997 Charter Review Commission and the Municipal League of King County, have previously recommended that King County discontinue providing local services and strengthen its role of regional service provider. Options for local services in unincorporated areas include townships and special purpose districts. Townships, which are authorized by Article XI § 4 of the State Constitution, and which would have their own taxing authority, were discussed in the Municipal League's 1991 report.

Although some have suggested that the number of special purpose districts in the County contributes to inefficiencies, the Committee has not been persuaded that forced elimination or consolidation of special purpose districts would necessarily lead to cost savings, improved service quality or better democracy. There is some evidence that, through cooperation, contracting and consolidations where circumstances warrant, special purpose districts, townships and municipalities can work together to provide services in an efficient, accountable and flexible manner.

In order to make this significant change, it will be necessary for major public dialogue to take place on the merits of the concept, as well as on what mechanisms could replace King County as local service provider. The Municipal League offers to play a leading role in convening such conversations.

**3. King County, along with the other members of the Washington State Association of Counties, should continue to seek, and the Legislature should authorize, additional revenue sources to fund equitably county services.**

**Rationale:** King County cannot continue to operate under conditions of insufficient resources to fund the growing cost of existing services. Counties have more limited access to revenue sources than municipalities, and must rely primarily on property taxes for their General Funds, which are capped by a 1% (plus new construction) limit on property tax increases imposed by Initiative 747. In today's economy, no entity can survive with growth from its primary source of income limited to 1%, no matter how frugal it is in limiting expenses.

The Committee heard discussion of several additional potential sources of revenue. The Association of Washington Cities, Washington Association of County Officials and Washington State Association of Counties endorsed proposed legislation that would authorize counties to impose a utility tax, comparable to the utility tax levied by municipalities, in urban unincorporated portions of counties. Thus far, the Legislature has failed to authorize such a tax. Revenue from an unincorporated-area utility tax would help significantly, though the League is not certain that it would be sufficient to fix the current structural gap between revenue and expenses by itself.

The County's options may also be more flexible than current practice provides with respect to revenue generated by the Unincorporated Area Property Tax. Revenues from this tax are available for any general government

expenditure benefiting the unincorporated area, but the County risks loss of significant state-shared gas tax revenue if revenues are diverted to other purposes. State legislative action removing this limitation would assist the County in responding to the areas of greatest need.

State funding of law and justice expenses is another revenue source that the County should explore with the state legislature. Law and justice expenses make up over 70% of the County's current expense budget. That percentage increases annually. As a subdivision of the State, the County is mandated to provide essential services such as courts. Yet Washington ranks 49th among states in the degree to which state funding contributes to the provision of this service. While the Committee recognizes that the State also has significant financial challenges, the Committee believes that the State should contribute more to the funding of the court system. Authorization of increased filing fees would also contribute to funding of the law and justice system.

More revenue is needed so that King County can play its essential role as a regional service provider, even if the County is relieved of its responsibilities as a local-service provider. If responsibility for local services is divested, some of the additional revenue should be allocated to townships or other local service delivery mechanisms, rather than the County, to fund the provision of local services.

**4. As additional revenue opportunities are explored, the County must also continue to cut costs.**

**Rationale:** The County must address its fiscal problems by attacking both the revenue and expense side of the equation. Thus, the County must continue its efforts to control expenses. The following is a non-exhaustive list of opportunities to examine:

- The County and the cities within the County should explore opportunities to consolidate the functions of King County District Court and the municipal courts.
- The County should explore using technology to more efficiently and more effectively conduct the business of the courts.
- The County should reduce the annual growth rate of its labor costs to bring them more closely in line with the rate of inflation. The County should fully examine its organizational structures and labor agreements and pursue the changes necessary to achieve this objective. Increasing employees' share of health costs is one option in this regard.
- The County should rely to a greater extent on contracting with municipalities and private entities to provide services when doing so would be more efficient than providing the same services with County personnel and would preserve or enhance service quality.

- The County should engage in more effective oversight of major acquisitions, contracts, and systems.
- The County should continue to seek greater efficiencies in the provision of services. The report of the Budget Advisory Task Force contains a number of suggestions in this regard.

## **CONCLUSION**

All of us – King County, the County's citizens and cities, and the State Legislature – are challenged to grapple with the complex issues that face us. Clearly, "business as usual" will only exacerbate the fiscal and governance crisis

that faces King County. It is the hope of the Future of King County Study Committee that this report will contribute to informed consideration and courageous resolution of this crisis.<sup>1</sup>

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<sup>1</sup> As the Recommendations set forth above are implemented, the role of the County will be narrowed and focused. The County will provide regional government services and cease to provide local government services. With these changes, it will be appropriate to re-examine the manner in which the County Council operates. Initiative 18, which would reduce the size of Council to pre-merger levels, will be put before the voters in 2004. While the cost savings resulting from such a reduction are negligible in light of the deficits faced by the County, reduction of the size of the Council might well be an appropriate response to the change in the functions that the County government will be performing. There is also some evidence from studies of group dynamics that groups of seven or nine tend to function more effectively than groups of 13.

The 1997 Charter Review Commission recommended that the question of making the Council non-partisan be put to the voters. We reiterate that recommendation. If the Council is elected on a non-partisan basis, it follows that the process of establishing Council districts should also be undertaken by a non-partisan group.

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