



EXECUTIVE MESSAGE

September 22, 2009

TO: Pierce County Council
Pierce County Citizens

FROM: Pat McCarthy, County Executive

SUBJECT: 2010 Pierce County Budget



Submitted herein is the Executive's proposed Pierce County Budget for fiscal 2010. This budget reflects our commitment to cost effectively prioritize revenues and expenditures to reflect public safety, judicial system services, land use planning and regulation, transportation network needs, habitat preservation responsibilities, surface water management and flood control infrastructure, and intergovernmental cooperation. It is my belief that this budget addresses these issues to the extent that dramatically shrinking revenues permit.

In most respects this proposed budget also closely aligns with the Council Budget Guidelines approved earlier this summer.

BUDGET SUMMARY HIGHLIGHTS

The 2010 proposed Pierce County Budget totals **\$791,843,881** which is **\$70.3** million (8.2%) **below** the 2009 budget. The main reasons for this decrease are a) the decline in the General Fund, b) the loss of mental health contract services, and c) the reduction in capital project expenditures.

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

First, challenges involving general criminal activity, gangs, domestic violence and drug activity will place increased 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 2010 budget still funds many alternatives to incarceration programs including: Breaking the Cycle, Drug Court and Dependency Drug Court, Alternative to Detention programs for juveniles, Adult Probation, Day Reporting, Offender Work Crews, county contributions for the Judson Family Justice Center and the sales tax Prevention Programs. These programs decrease criminal activity and reduce future jail costs.

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

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.

Fifth, in an effort to look for governmental efficiencies, we have reviewed many of our operations for cost effective **reorganizational** possibilities, and have recommended several such changes in the proposed budget.

However, as stated earlier the overriding consideration affecting the 2010 Budget, especially the General Fund, has been the impact of the **sharp reduction in revenues**. This 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 major positive change in this situation in the near future. Consequently we have already imposed budget cutbacks in 2009, and are proposing further cutbacks in the 2010 Budget. The details surrounding those revenue concerns and the associated expenditure reductions are presented in the next several sections.

As the Council will notice this budget contains a number of negative “firsts” for the County (at least for the last two decades). These negative “firsts” (e.g. reduction in assessed valuation, reduction in the size of the General Fund budget) are attributable to the dramatic impacts of the current recession.

PERFORMANCE MEASURES

We are continuing the Performance Measures initiative in 2010, with increased emphasis on specificity and “outcome” Measures. These Measures focus on the most vital aspects of each department’s operation. Due to significant reductions in the 2009 and 2010 budgets, we delayed the development of these Measures for 2010 until the Executive’s budget was finalized. These Measures are currently being developed and will be presented to the Council later this fall prior to final budget action.

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 2010 revenues, with a comparison to the current year, is shown in the table below.

GENERAL FUND REVENUE SUMMARY				
	2010 Budget	2009 Budget	Absolute Change	Percent Change
Property Taxes	\$ 109,033,980	\$ 106,346,740	\$ 2,687,240	2.5 %
Sales Taxes	52,205,000	56,000,000	(3,795,000)	(6.8)
Other Taxes	9,790,770	9,779,770	11,000	0.1
Licenses and Permits	7,596,770	7,110,080	486,690	6.8
Intergovernmental Revenue	37,771,770	36,481,611	1,290,159	3.5
Charges for Services	34,037,550	36,183,034	(2,145,484)	(5.9)
Fines and Forfeitures	8,148,020	9,098,080	(950,060)	(10.4)
Interest Revenue	4,013,370	5,430,830	(1,417,460)	(26.1)
Other Miscellaneous Revenue	7,035,020	6,424,530	610,490	9.5
Subtotal Revenues	269,632,250	272,854,675	(3,222,425)	(1.2)
Fund Balance	1,001,960	4,955,609	(3,953,649)	(79.8)
Total Available Resources	\$ 270,634,210	\$ 277,810,284	\$ (7,176,074)	(2.6) %

Our revenue projections are based largely upon the following assumptions:

1. The local economy will remain sluggish, with negative impacts upon development activity, sales taxes, employment levels, and housing foreclosures.
2. Inflation will be moderate next year, thus giving only a modest boost to Sales Taxes, Intergovernmental Revenues, and Charges for Services.
3. Short term interest rates will remain at their current historically low levels.
4. We will continue to receive city contract revenues for several major services (principally sheriff law enforcement, jail, roads maintenance, and court services).
5. Several General Fund fee increases (especially at P.A.L.S.) will be approved by the Council.

Based upon the above assumptions, and with an in-depth review of our revenue patterns, we are projecting a **decrease** in General Fund revenues of 1.2% versus the 2009 Budget. However, since our **estimated** 2009 revenues will be considerably below the budgeted levels, the 2010 Revenues are projected to be .7% over the **estimated** 2009 Revenues.

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

- ❖ **Property Tax** revenue collections are projected to increase by 2.5% in 2010. This increase is based upon two factors. The first is the 1% available under I-747. The second is the tax growth resulting from new construction and improvements (which is much less than the prior year).
- ❖ **Sales Tax** revenues are projected to decrease by 6.8% from the 2009 budget. However, the 2010 revenues forecast a 3% growth over our **revised 2009 estimates**.
- ❖ **Other Taxes** will be almost the same as 2009.
- ❖ **Licenses and Permits** are projected to be 6.8% above the 2009 budget due to the proposed fee increases at P.A.L.S.
- ❖ **Intergovernmental Revenues** reflect a solid 3.5% increase, due mostly to projected increases in stimulus grant monies and jail billings.
- ❖ **Charges for Services** are estimated to be below the 2009 budget by 5.9%. This change is actually composed of many significant increases or decreases in specific revenue sources (recording fees, planning fees, indirect cost charges, election reimbursements, etc.).
- ❖ **Fines and Forfeits** are projected to be 10% below the 2009 Budget based upon the deletion of the proposed red light camera enforcement program.
- ❖ **Interest Revenues** are projected to generate a large decrease in 2010, due to last year's short term interest rate reductions.
- ❖ **Miscellaneous Revenues** are projected to grow by 9.5% in 2010, which reflects increased support from other funds.
- ❖ **Prior Fund Balance** - we are recommending the allocation of \$1.0 million in surplus to fund:
 1. Rank Choice Voting costs (\$501,900) if that initiative is retained by the voters.
 2. Mental Health Transition expenses (\$500,000).

This is a sharp reduction from the \$5.0 million allocated in the 2009 Budget.

Based upon this decrease in Prior Fund Balance use, the percentage **reduction** in **Total Resources** available for next year's General Fund Expenditures is 2.6%.

Percent Change in General Fund Revenues

Excluding Fund Balance

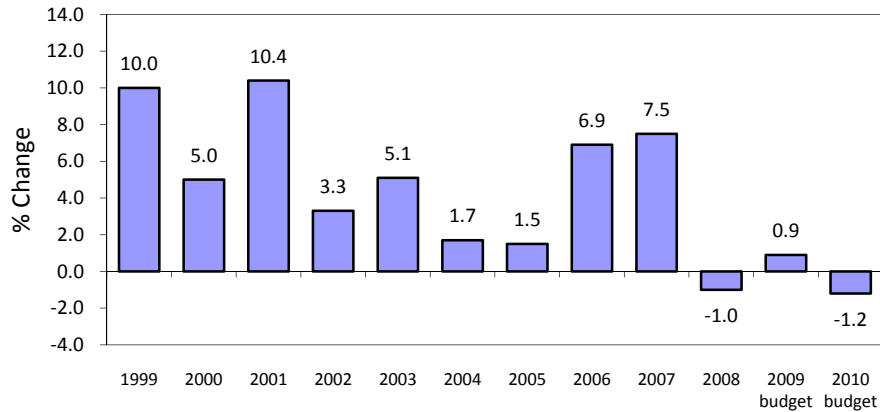


Figure 1

Comparative **revenue** increase figures for the last decade are shown in Figure 1. The decrease of 1.2% in 2010 is clearly well below the average for the decade, even factoring out a) and b) below. In reviewing the figures, 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 even an average economy become unavoidable.

The annual revenue loss for the first nine years affected by this initiative is shown in the next table.

These are very significant revenue losses, with the **annual amount in just fiscal 2010 equal to almost 18% of our General Fund budget**. The Road levy is also affected by I-747, with the 2010 loss estimated at \$21,600,000 (\$17,400,000 for the Road Fund, and \$4,200,000 for the law enforcement levy in the General Fund).

This initiative is causing inexorable erosion in our financial foundation, and will likely lead to further significant long term reductions in public safety, the justice system, road maintenance, health services, and other vital county programs.

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
2010		48,600,000 est.
Total	\$	205,189,000

B. GENERAL FUND EXPENDITURES

The projected Revenue Budget decline of 1.2% (and a 2.6% decrease when use of fund balance is considered) will obviously not be sufficient to fund all programs and staff at even the recently reduced 2009 levels. Major cutbacks are unavoidable.

The Expenditure tables which follow summarize the 2010 General Fund Expenditure Budget, and compare it with the 2009 Budget. The first table presents the General Fund according to **functional** category, while the second table simply lists each **departmental** budget.

As indicated in the **Functional** table, the combined total percentage allocated to Public Safety and Legal/Judicial Services is equal to 76% of the budget. In 2010, the decrease in the General Fund budget allocated to Public Safety and Legal/Judicial Services is \$3.8 million, with a decrease of \$3.4 million in all the other functions in order to balance the budget. Thus the decrease to Public Safety/Legal Judicial was limited to 53% of the reduction (not a proportional 76%).

As shown in the **Department Expenditures** listing, almost all of the General Fund departments have a proposed 2010 budget which is below the 2009 level. This negative change in budgeted expenditures would be the first such decline in at least 25 years.

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:

1. Many departments had grants or service contracts in 2009 which are not renewed in 2010, or vice versa.
2. Several departments have other unique items in 2009 which are not present in 2010 (special election costs, capital equipment purchases, one time projects, etc.).
3. There could be significant changes in such annual "fixed costs" as insurance, information technology or space rental.

It is necessary to review each department's situation in some detail to determine what is happening in 2010. I would refer the reader to the "Budget Highlights" section in each departmental budget for a more detailed explanation of any budgetary changes.

GENERAL FUND EXPENDITURES BY FUNCTION

	2010 Budget	2009 Budget	Absolute Change	Percent Change
General Government	\$ 35,019,570	\$ 36,406,045	\$ (1,386,475)	(3.8) %
Public Safety	135,196,300	137,441,758	(2,245,458)	(1.6)
Physical Environment	1,643,420	1,918,350	(274,930)	(14.3)
Legal & Judicial	71,313,680	72,879,418	(1,565,738)	(2.1)
Economic Environment	17,015,320	17,694,051	(678,731)	(3.8)
Mental/Physical Health	3,886,570	3,741,608	144,962	3.9
Cultural & Recreation	6,559,350	7,658,332	(1,098,982)	(14.4)
Public Works & Utilities	—	70,722	(70,722)	(100.0)
Total General Fund	\$270,634,210	\$277,810,284	\$ (7,176,074)	(2.6) %

GENERAL FUND EXPENDITURES BY DEPARTMENT

	2010 Budget	2009 Budget	Absolute Change	Percent Change
Assessor/Treasurer	\$ 10,000,200	\$ 10,134,860	\$ (134,660)	(1.3) %
Assigned Counsel	14,738,110	14,656,020	82,090	0.6
Auditor	9,044,250	9,700,265	(656,015)	(6.8)
Bond Debt Service	419,410	411,980	7,430	1.8
Budget & Finance	5,048,250	5,200,930	(152,680)	(2.9)
Capital Improvement Projects	50,000	50,000	—	—
Clerk	4,972,300	5,127,610	(155,310)	(3.0)
Communications	572,420	536,160	36,260	6.8
Corrections	47,899,830	48,903,770	(1,003,940)	(2.1)
County Council	3,908,960	4,002,450	(93,490)	(2.3)
County Executive	1,362,790	1,394,270	(31,480)	(2.3)
District Court	12,001,040	12,073,010	(71,970)	(0.6)
Economic Development	1,068,780	1,217,790	(149,010)	(12.2)
Emergency Management	3,333,600	3,576,070	(242,470)	(6.8)
Health Services	2,838,070	2,932,210	(94,140)	(3.2)
Human Resources	3,475,110	3,499,440	(24,330)	(0.7)
Juvenile	20,084,760	20,817,082	(732,322)	(3.5)
Medical Examiner	2,077,810	2,107,700	(29,890)	(1.4)
Miscellaneous Current Expense	2,891,360	3,791,519	(900,159)	(23.7)
Parks and Recreation Services	6,009,740	6,334,630	(324,890)	(5.1)
Planning and Land Services	15,636,420	16,036,390	(399,970)	(2.5)
Prevention Services & Programs	1,481,250	1,712,500	(231,250)	(13.5)
Prosecuting Attorney	25,856,440	26,468,438	(611,998)	(2.3)
Public Defense Conflict Office	—	754,490	(754,490)	(100.0)
Sheriff	59,145,900	59,039,930	105,970	0.2
Special Projects	2,316,180	2,589,660	(273,480)	(10.6)
State Auditor	173,980	171,640	2,340	1.4
Superior Court	13,820,830	13,914,080	(93,250)	(0.7)
WSU PC Extension	406,420	655,390	(248,970)	(38.0)
Total General Fund	\$ 270,634,210	\$ 277,810,284	\$ (7,176,074)	(2.6) %

2010 MAJOR STAFFING CHANGES

The following chart summarizes the 2010 budget staff reductions from the current 2009 budget. These are large reductions, and total approximately 5% of the staffing in the General Fund. These staff decreases are in addition to those cutbacks which were included in the original 2008 and 2009 budgets, or which resulted from the mid-year cutbacks approved by Council in 2008 and 2009. In total the staffing reductions from 2007 to 2010 now total 200 (10%).

It should also be noted that staffing levels in L.E.S.A. (not shown in our budget) are also likely to be reduced in 2010.

Although not reflected in this table, several other departments will achieve budget savings through planned furloughs.

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

Finally, there are simply cutbacks in programs and services which are not directly related to staff or operating line-items.

STAFFING REDUCTION SUMMARY (Excludes Extra Hire)

Department	2010 Reductions
WSU Extension	(2.57)
Assessor-Treasurer	(8.00)
Prosecuting Attorney	(16.00)
Auditor	(2.00)
Emergency Management	(1.00)
Clerk	(2.00)
Executive	(1.00)
Communications	(0.35)
Budget and Finance	(2.00)
District Court	(3.00)
Juvenile Court	(6.00)
Corrections	(16.60)
Sheriff	(21.00)
Medical Examiner	(0.25)
Superior Court	1.00
Special Projects	(2.85)
Parks & Recreation	(2.12)
PALS	(9.50)
Assigned Counsel	(7.80)
Conflict Office	(5.60)
Human Resources	(0.30)
Direct General Fund	(108.94)

A review of the “Budget Highlights” and “Program Expenditures” sections of each department or fund budget is recommended for detail regarding many of the proposed budget changes.

C. USE OF PRIOR FUND BALANCE

Figure 3 and Figure 4 present the actual financial results for the General Fund during the 1999-2008 period, and the estimated amounts for 2009-2010. 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 actual results for 2008 and projected results for 2009 reflect a much different environment. We are projecting a deficit of \$7.0 million in 2009 (\$5.0 million of which was assumed in the original 2009 budget), and recommending the use of \$1.0 million in 2010 to cover two specific items. It is our recommendation that we use no more than this amount in 2010 since more use of fund balance will definitely require borrowing to meet our cash needs, and could lead to a bond rating downgrade.

If the 2009 actual results match our latest estimates, the Unreserved General Fund balance will be approximately \$21.6 million at the end of 2009 (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 were at the top of the range at the end of fiscal 2008, and will be near the middle of the range at the end of 2010 (as shown in Figure 5).

General Fund Summary

Difference Between Revenue & Expenditures

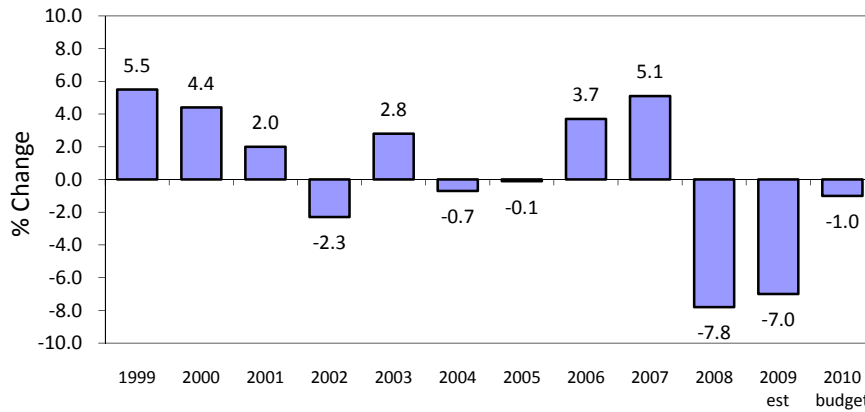


Figure 3

Unreserved General Fund Balance

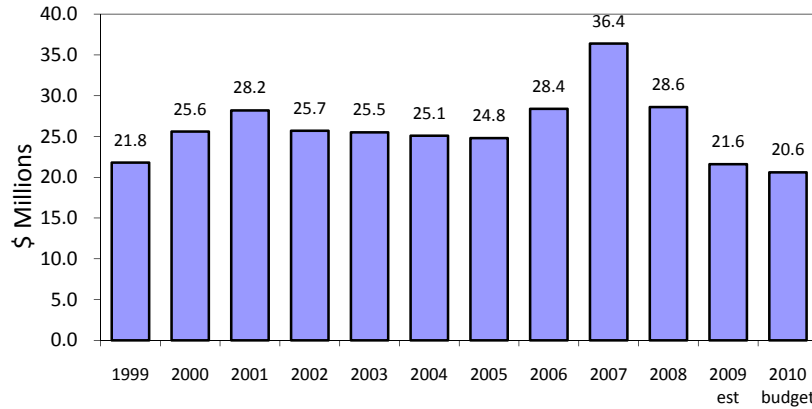


Figure 4

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

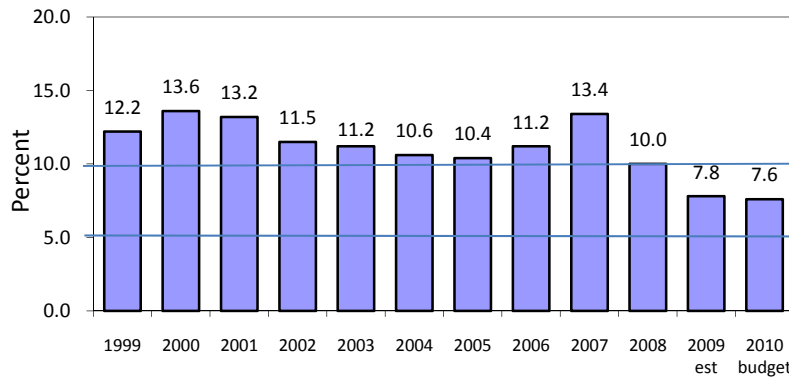


Figure 5

D. TAX RATES AND ASSESSED VALUATIONS

For the first time in at least 20 years the county's assessed valuation total will decrease for the next year, from \$92.6 billion in 2009 to \$88.6 billion in 2010. This results from an assessed value decrease of \$5.2 billion for existing property, only partially mitigated by a \$1.2 billion growth due to new construction.

Percent Change in Assessed Valuation

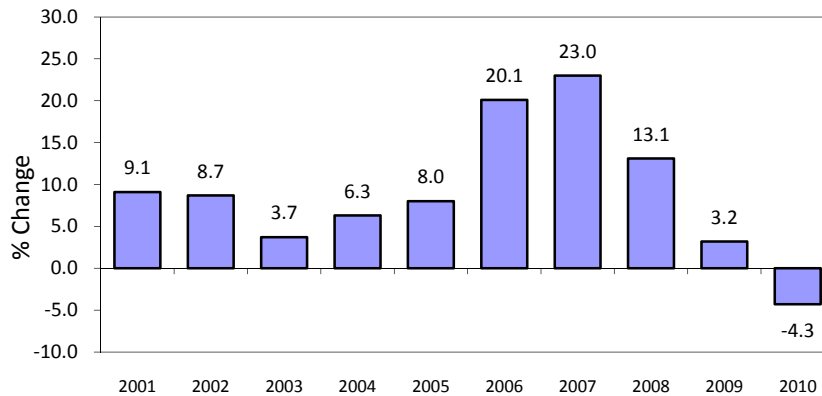


Figure 6

This decrease in the valuation of existing property will result in **tax rate increases in 2010** as shown in the following table. This is necessary in order to generate the legally permitted 1% growth in revenues. During most of the decade we had seen a pattern of tax rate declines due to large valuation increases.

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 distributed to the State of Washington, Cities, and Local School Districts.

PROPERTY TAX RATES		
	2010 Rates	2009 Rates
General Levy (\$1.80 max.)		
General Fund	1.0940	1.0214
Veterans Relief	0.0070	0.0065
Social Services	0.0155	0.0145
Total General Levy	1.1165	1.0424
Road Levy (\$2.25 max.)	1.5334	1.4107

E. PROGNOSIS FOR FISCAL 2011

In this uncertain time it is difficult to confidently project ahead to fiscal 2011. 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 in the general economy (and especially the development sector) as we move toward more normal levels.

However, it is likely that fiscal 2011, without the approval of any new tax increase measure, will be as challenging as fiscal 2010 for the following reasons:

1. The impact of I-747 becomes progressively worse with each passing year.
2. 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 two 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.
3. The State is projecting large pension rate increases in mid-2011.
4. We have several staff which are funded with federal stimulus monies, and that funding source will expire in the next 12-18 months.

OTHER COUNTY FUNDS

A great many of the county's programs are financed from sources outside of the General Fund. 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 2010 budgets**:

1. The **Mental Health Fund** simply reflects transition and close-out expenses as we cease operations.
2. **Human Services** will partially reflect the impact of Mental Health closing and the decrease of "shared" staff and services.
3. The **"Housing"** program changes often reflect grant fluctuations, major multi-year project impacts, and/or conservative grant estimates.

COMMUNITY SERVICES & HUMAN SERVICES			
Fund	2010 Budget	2009 Budget	Percent Change
Community Action	\$ 8,312,530	\$ 10,665,211	(22.1) %
Community Development	3,830,770	3,368,030	13.7
Homeless Housing Program	5,504,660	4,520,650	21.8
Housing Repair Program	9,083,720	10,647,090	(14.7)
Human Services	36,244,290	35,570,305	1.9
Low Income Housing Fee	999,420	1,822,910	(45.2)
Mental Health Fund	1,500,000	17,610,900	(91.5)

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 2010. However, state budget difficulties may result in future cutbacks in funding levels.

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 2010 budgets, with comparisons to 2009, are shown in the following table.

The major items of note for next year are:

The County Road fund, Public Works Construction fund and Traffic Impact Fees fund all reflect diminished activity as projects are completed and as revenue sources are reduced.

The **Ferry Services fund** reflects increased repair and capital project expenses.

Airport Fund — reflects the fact that 2009 included a major construction project.

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

Transportation Facilities — simply includes minor design costs for the proposed West Side Maintenance Facility.

TRANSPORTATION SERVICES FUNDS			
Fund	2010 Budget	2009 Budget	Percent Change
County Roads Fund	\$62,133,180	\$ 70,743,260	(12.2) %
PW Construction Fund	33,330,000	55,870,000	(40.3)
Ferry Service Fund	5,662,800	4,626,000	22.4
Airport Fund	6,361,020	18,834,940	(66.2)
Roads Second REET	24,386,000	22,874,000	6.6
Traffic Impact Fee Fund	4,985,380	6,790,030	(26.6)
Transportation Facilities	252,000	2,648,880	(90.5)

C. PARKS AND RECREATION FUNDING

Although the county's General Fund provides a direct allocation for parks and recreation services (\$6.0 million in 2010), there are several other county funds which provide park and recreation services or which construct, repair or enhance park and recreation facilities. The 2010 Budgets for these funds are shown to the right.

As the figures indicate (with the exception of a large purchase program in Conservation Futures), these funds are mostly experiencing a significant decrease in budget resources, from \$24 million in 2009 down to \$15.5 million in 2010. This is due to a variety of circumstances: decline in available fund balances, decrease in annual revenues due to the economic slowdown, completion of long scheduled projects in 2009. It is likely that this lower level of expenditures will continue to be the pattern for at least the next few years.

PARKS FUND			
Fund	2010 Budget	2009 Budget	Percent Change
Conservation Futures	\$ 6,715,730	\$ 3,786,670	77.4 %
Parks Impact Fees	579,880	570,160	1.7
Parks Sales Tax	3,218,550	4,230,030	(23.9)
Parks Second REET	690,860	4,256,970	(83.8)
Paths & Trails	1,050,380	4,541,370	(76.9)
Parks Construction Fund	1,250,000	5,282,990	(76.3)
Golf Courses	1,990,000	2,010,440	(1.0)

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:

Major changes in these funds can be summarized as follows:

Surface Water Management — the budget reflects some decreases in projects and design consulting work.

Sewer Utility — the budget includes:

1. A significant bonded capital improvement program.
2. A rate increase of 2.5% to match the impact of inflation on operating costs.

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

Further review of necessary capital projects, infrastructure financing, maintenance issues and related revenue impacts will occur this fall with respect to the Sewer Utility and Surface Water Management funds. Those reviews may result in subsequent budget modifications.

ENVIRONMENTAL SERVICES FUNDS			
Fund	2010 Budget	2009 Budget	Percent Change
Surface Water Management	\$ 19,138,940	\$ 22,491,790	(14.9) %
Sewer Utility	104,309,930	74,990,390	39.1
Solid Waste	7,171,520	6,542,180	9.6
Water Utility	285,080	300,650	(5.2)
River - REET	5,652,610	6,624,260	(14.7)

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.

For the most part these funds are showing either decreased budgets, or budgets which reflect only a moderate increase. In light of revenue constraints in the county as a whole, we are also recommending staff cutbacks in several of those funds (e.g. Information Technology and Facilities Management).

Many of these Internal Service Funds will rely upon prior fund balance in order to support their 2010 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.

INTERNAL SERVICE FUNDS			
Fund	2010 Budget	2009 Budget	Percent Change
Equipment Services	\$15,554,080	\$15,064,840	3.2 %
Information Technology	18,960,880	19,886,750	(4.7)
Facilities Management	13,156,030	13,904,900	(5.4)
Radio Communic	2,895,700	3,056,780	(5.3)
Fleet Rental	4,752,740	5,193,460	(8.5)
General Services	3,345,690	3,364,980	(0.6)
Self Insurance	9,182,790	9,124,030	0.6
Workers Comp	4,288,660	4,023,250	6.6

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 2010.

Mental Health Transition — we are still working through all the implications of the ending of our mental health services contract arrangement with the State and its vendor. There are many fiscal issues which will need to be addressed this fall (or in 2010). Many of these will either be known only with the passage of time (e.g. unemployment compensation costs, fund balances available to finance closure costs) or which will need a policy

decision in the next few months (facilities management costs for the campus, payments for county support services, etc.).

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.

New Property Tax Initiative — there is a new tax initiative on the November ballot which would essentially restrict the growth in General Fund revenues to the combined percentage change of inflation and population growth. Due to several uncertainties surrounding this measure (will it pass, how are revenues defined, when would it be effective, actual revenues are only determined when the year is over) this budget as drafted does not deal with any potential impacts from this initiative.

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 other than a few already included in the 2010 budgets.

Medical Insurance — given the state of our finances and the fact that we have a very generous medical insurance plan, we feel that modifications in the medical premiums payment arrangements are warranted. Discussions are underway with our various unions with the goal being plan adjustments which will meet the target in the budget.

Property Tax Payments — our 2010 property tax revenues assume a payment pattern which has been consistent for the last ten years (prior to 2009). However, the increasing number of homeowners who are delinquent in their mortgage payments or who are actually in foreclosure is a major concern. If that prior pattern does not hold for the above reason, our property tax revenues in the short term will be adversely affected.

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 potential need for the County Administration and Transportation Building discussed earlier. The major facilities in need of significant improvements or replacement include:

- Remann Hall
- LESA
- Hosmer District Court Facility
- New Sheriff Precinct
- Sprinker Recreation Center
- Jail Repairs and Remodel
- Spanaway Golf Course
- Health Department
- County-City Building Phases Three and Four Remodel

The limitations of the county revenue structure coupled with the decline in REET 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.).

Space Needs — we are currently engaged in a review of our existing facilities and space needs in light of: a) the mental health cutbacks, b) reductions in other programs and staffing, and c) our goal of reducing lease expenses where feasible. This review could result in subsequent recommendations and budget adjustments affecting 2010.

SUMMATION

The 2010 Budget submitted to the County Council is based upon a set of unfavorable economic conditions. The recession and the resultant negative impact upon revenues has been the sharpest in at least the last two decades. Cutbacks in programs and staffing (especially in the General Fund) have become unavoidable. We have attempted to prioritize these cutbacks 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 cutbacks in these areas must be made.

We will need to closely monitor our 2010 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 2010, 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 (or before I-747); and as indicated earlier fiscal 2011 could present even more budgetary challenges.