



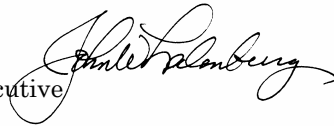
EXECUTIVE MESSAGE

December 17, 2007

TO: Pierce County Council
Pierce County Citizens

FROM: John W. Ladenburg, County Executive

SUBJECT: 2008 Pierce County Budget



Submitted herein is the final adopted Pierce County Budget for fiscal 2008. This budget reflects our commitment to cost effectively address public safety staffing, the operation of the new jail, judicial system workload, land use planning and regulation, habitat preservation responsibilities, our transportation network needs, flooding concerns, and intergovernmental cooperation. It is my belief that this budget addresses these issues to the extent that revenues permit. The budget also largely reflects the Council priorities expressed in its 2008 budget resolution.

Budget Summary Highlights

The 2008 Pierce County Budget totals \$863,155,082, which is \$33 million **below** the 2007 budget. The main reason for this decline is the fact that the county will no longer be a Regional Support Network for mental health services. However, the General Fund budget will reflect a 7.1% increase, which will allow the county to enhance several priority services.

This is the seventh budget year the county's General Fund has been impacted by the **crippling effects of I-747** (1% property tax growth limitation). The initiative continues to make it impossible to meet all budget requests from department directors and fully meet public service obligations.

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 2008 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, allocations for drug treatment programs, 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, we will continue to allocate substantial resources to **Planning and Land Services** in order to reduce the permit backlog and allow us to meet performance timelines in 2008.

Fourth, our **capital facility program** includes major improvements for: parks and recreation facilities, our transportation infrastructure, the surface water management system, the sewer utility, the County-City Building; and the completion of the Emergency Operations Center.

Fifth, 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.

Performance Measures

We are continuing the Performance Measures initiative in 2008, with increased emphasis on specificity and “outcome” Measures. These Measures focus on the most vital aspects of each department 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 2008 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 strong growth in the local economy during 2005 - 2007 will be evident in property and sales tax increases for 2008. However, growth rates have slowed recently.
- b) Inflation will be approximately 3% next year, thus giving a modest boost to Sales Taxes, Intergovernmental Revenues, and Charges for Services.
- c) Interest rates will remain close to their current levels (with perhaps a slight drop), but the rate hikes already enacted should result in large interest revenue increases in the 2008 budget.
- d) We will continue to receive city contract revenues for several major services (principally police services, jail, roads maintenance, and court services).
- e) Only minor fee increases are being proposed in the General Fund.

GENERAL FUND REVENUE SUMMARY

	2008 Budget	2007 Budget	Absolute Change	Percent Change
Property Taxes	\$ 102,175,950	\$ 98,031,480	\$ 4,144,470	4.2 %
Sales Taxes	61,950,000	56,900,000	5,050,000	8.9
Other Taxes	10,716,170	10,320,150	396,020	3.8
Licenses and Permits	9,903,550	9,676,760	226,790	2.3
Intergovernmental Revenue	32,084,640	30,973,883	1,110,757	3.6
Charges for Services	37,107,060	36,501,853	605,207	1.7
Fines and Forfeitures	7,599,340	5,664,490	1,934,850	34.2
Interest Revenue	16,289,010	14,618,520	1,670,490	11.4
Other Miscellaneous Revenue	4,878,020	4,064,570	813,450	20.0
Subtotal Revenues	\$ 282,703,740	\$ 266,751,706	\$ 15,952,034	6.0 %
Fund Balance	3,729,583	754,505	2,975,078	394.3
Total Available Resources	\$ 286,433,323	\$ 267,506,211	\$ 18,927,112	7.1 %

Based upon the above assumptions, and an in-depth review of our revenue patterns, we are projecting an increase in General Fund revenues of 6.0% in 2008.

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

Property Tax revenue collections are projected to increase by 4.2% in 2008. 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.

Sales Tax revenues are projected to increase by 8.9% in 2008. This is based upon the strong revenue growth in 2007 Y-T-D, coupled with projected revenues from the streamlined sales tax change.

Other Taxes will grow modestly in 2008 (delinquent penalties and real estate excise taxes administrative fees).

Licenses and Permits are projected to grow only slightly in 2008 (cable franchise fees).

Intergovernmental Revenues reflect a modest 3.6% increase due mostly to projected increases in Sheriff contract payments (University Place, Edgewood, Pierce Transit) and state grants for juvenile programs.

Charges for Services are estimated to be above the 2007 budget by 1.7%. This modest change is actually composed of many increases or decreases in specific revenue sources.

Fines and Forfeits are projected to be well above the 2007 Budget (34%) based upon anticipated revenues from the new bridge toll infractions.

Interest Revenues are projected to generate a large increase in 2008, due to short term interest rate hikes enacted in 2006 and early 2007.

Miscellaneous Revenues will increase by 20% in 2008, which largely reflects a) the proposed new false alarm program and b) a \$150,000 transfer from the Surface Water Management Fund for new enforcement staff in P.A.L.S.

Prior Fund Balance – the 2007 budget utilizes only \$754,505 in prior fund balance. Council has budgeted the use of \$3,729,583 in 2008 for:

- a) One time activities – initial one time costs for Rank Choice Voting, the Capital Improvement Projects budget, and one time items in Miscellaneous Current Expense (\$2,516,000).
- b) Carry-over of unexpended monies from previous years' allocations (\$1,213,583).

Based upon this increase in Prior Fund Balance use, the percentage change in **Total Resources** available for next year's General Fund Expenditures is 7.1%.

Percent Change in General Fund Revenues Excluding Fund Balance

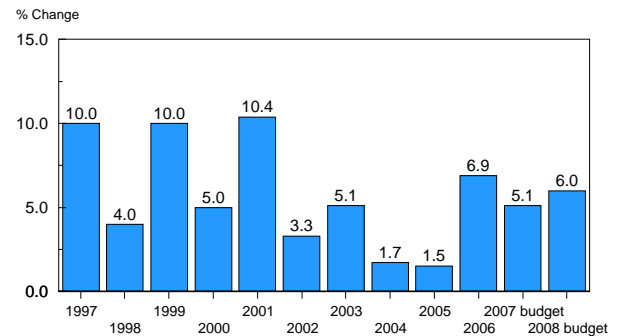


Figure 1

Comparative **revenue** increase figures for the last decade are shown in Figure 1. The increase of 6.0% in 2008 is in line with the last two years. As the earlier comments indicated, this high level of revenue growth is mostly due to a very strong local economy (property taxes from new construction and sales taxes), new bridge toll infractions, and projected additional monies from the streamlined sales tax legislation. In reviewing the recent relatively low figures versus 1997–2001, 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.
- c) In several of the 1997 - 2001 years there was a major new revenue source (e.g., state criminal justice funds, criminal justice sales tax, jail/juvenile sales tax, and the law levy transfer to the General Fund). New revenue sources in 2008 are bridge toll violations and streamlined sales tax revenues.
- d) During most years there are mid-year events which give rise to revenue increases, but which almost always are accompanied by at least a corresponding increase in related expenses (e.g., new grants, storm reimbursements, special elections). This could well happen again as fiscal 2008 unfolds; thus pushing the final percent increase above the originally budgeted 6.0% figure.

As you can gather from our earlier comments, 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, which is well below the level of inflation, imposes severe fiscal constraints on the county. The inevitable result is that service cutbacks and staff reductions become unavoidable. The annual revenue loss for the first seven 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 est.
Total	\$	115,989,000

These are very significant revenue losses, with the **annual amount in just fiscal 2008 equal to 11.6% of our General Fund budget**. The cumulative 7 year loss is equal to the construction costs of the New Jail, the New Parking Garage, and all the remodeling at the Corporate Express Building (including the Emergency Operations Center), and the County-City Building. The Road levy is also affected by I-747, with the 2008 loss estimated at \$13,500,000 (\$10,900,000 for the Road Fund, and \$2,600,000 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 have not seen evidence of that in 2005-2008 is that the local economy has been extremely robust.

B. General Fund Expenditures

The projected Revenue growth of 6.0% (and 7.1% in Total Resources) will be sufficient to continue most programs and staff at the 2007 levels, and to fund additions in several priority areas as discussed below.

The Expenditure tables which follow summarize the 2008 General Fund Expenditure Budget, and compare it with the 2007 Budget. The first table presents the General Fund according to **functional** category, while the second table simply lists each **departmental** budget.

Even with the decrease in Public Safety expenses caused by the Lakewood contract termination in 2005, the combined total percentage allocated to Public Safety and Legal/Judicial Services is equal to 73% of the budget. In 2008, 72.5% of the increase in the General Fund budget is allocated to Public Safety and Legal/Judicial Services. The large increase in General Government relates to the expenses for the new Rank Choice Voting system.

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 2007 which are not renewed in 2008, or vice versa.
- Several departments have other unique items in 2007 which are not present in 2008 (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				
	2008 Budget	2007 Budget	Absolute Change	Percent Change
General Government	\$ 40,100,920	\$ 36,834,624	\$ 3,266,296	8.9 %
Public Safety	136,492,995	127,244,962	9,248,033	7.3
Physical Environment	2,048,590	2,331,030	(282,440)	(12.1)
Legal & Judicial	72,016,760	67,541,796	4,474,964	6.6
Economic Environment	22,158,410	21,440,319	718,091	3.3
Mental/Physical Health	4,168,640	3,808,640	360,000	9.5
Cultural & Recreation	9,077,020	8,081,340	995,680	12.3
Transportation	369,988	223,500	146,488	65.5
Total General Fund	\$ 286,433,323	\$ 267,506,211	\$ 18,927,112	7.1 %

It is necessary to review each department's situation in some detail to determine what is happening in 2008 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 7.1% budget increase for expenditures matches recent experience. The increases in 2006 through 2008 are higher than earlier years due to the very strong economy, and the surplus amounts budgeted for use in 2007 and especially 2008.

Percent Change in General Fund Expenditures

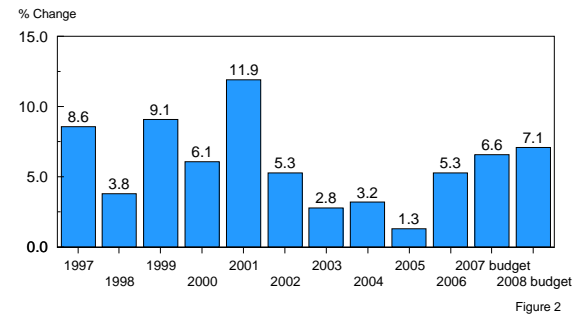


Figure 2

GENERAL FUND EXPENDITURES BY DEPARTMENT

	2008 Budget	2007 Budget	Absolute Change	Percent Change
Assessor/Treasurer	\$ 10,830,250	\$ 10,989,110	\$ (158,860)	(1.4) %
Assigned Counsel	14,311,570	13,583,160	728,410	5.4
Auditor	10,905,040	8,735,084	2,169,956	24.8
Bond Debt Service	418,220	697,610	(279,390)	(40.0)
Budget & Finance	5,388,700	5,157,210	231,490	4.5
Capital Improvement Projects	700,000	390,000	310,000	79.5
Clerk	5,222,420	5,091,370	131,050	2.6
Communications	700,210	660,670	39,540	6.0
Corrections	48,556,680	44,970,680	3,586,000	8.0
County Council	4,244,450	4,040,990	203,460	5.0
County Executive	1,164,280	1,130,050	34,230	3.0
District Court	12,289,080	11,192,540	1,096,540	9.8
Economic Development	1,197,300	1,059,130	138,170	13.0
Emergency Management	3,615,390	3,388,630	226,760	6.7
Health Services	3,185,020	3,053,020	132,000	4.3
Human Resources	3,928,110	3,582,480	345,630	9.6
Juvenile	20,265,090	19,458,737	806,353	4.1
Medical Examiner	1,887,250	1,820,650	66,600	3.7
Miscellaneous Current Expense	6,177,483	5,349,305	828,178	15.5
Parks and Recreation Services	6,629,590	6,280,100	349,490	5.6
Planning and Land Services	19,782,950	19,333,679	449,271	2.3
Prevention Services & Programs	1,750,000	1,839,660	(89,660)	(4.9)
Prosecuting Attorney	25,528,280	24,252,446	1,275,834	5.3
Public Defense Conflict Office	745,930	628,630	117,300	18.7
Sheriff	58,436,820	54,084,170	4,352,650	8.0
Special Projects	3,248,350	2,708,390	539,960	19.9
State Auditor	175,000	180,970	(5,970)	(3.3)
Superior Court	14,175,510	12,910,970	1,264,540	9.8
WSU PC Extension	974,350	936,770	37,580	4.0
Total General Fund	\$ 286,433,323	\$ 267,506,211	\$ 18,927,112	7.1 %

2008 MAJOR SERVICE & STAFFING CHANGES

The following is a listing of the major budget changes in services or staffing levels in 2008 for the General Fund departments:

Sheriff

- Ten new Deputy positions:
 - (2) South Hill patrol
 - (1) Neighborhood Patrol Deputy
 - (3) Pierce Transit Contract Positions
 - (1) Bethel School District S.R.O.
 - (1) Background Investigations
 - (1) Recruiter
 - (1) Warrant Officer
- A major increase in the LESA allocation, mostly for new positions needed to support call answering/dispatching/information system responsibilities

Corrections

- Six additional Correctional Officers (October) needed to staff the Pod already opened in early 2007
- Budget allocations for the expenses related to the above Pod: medical/hospital, pharmacy, food, supplies, etc.
- Major increased allocations for overtime, which seems to be unavoidable due to the continued high level of staff vacancies

Superior Court

- A new Judge and Judicial Assistant (effective April 1)
- A new Data Analyst position
- Reduction of 2 Court Reporter positions

District Court

- A new Legal Processing Assistant, and increasing the new Court Commissioner from 50% to 100% to deal with the bridge toll infractions
- The initiation of a new Satellite Court operation

Assigned Counsel

- 2.3 Attorneys and 2.0 Legal Assistants, all funded through additional State grant revenues

Public Defense Conflict Office

- A Dependency Attorney (transferred from the D.A.C. office)

Auditor

- Funding for the implementation of the voter approved Rank Choice Voting system
- Two Clerical Aides transferred to the Auditor's Operations and Maintenance Fund
- One new I.T.S. position "outsourced" to the Information Technology Fund
- One new Animal Control Officer

Assessor-Treasurer

- The deletion of the Deputy Assessor-Treasurer position

Health Department

- A new \$144,000 allocation for a Pierce County Get Fit program

Special Projects

- A large allocation of carry over monies for the historical preservation program

Clerk

- One less Legal Assistant

Prosecutor

- One Legal Assistant (Felony Division)

Juvenile

- Additional positions (7) for the Alternatives to Detention program
- One Family Court Case Manager position
- Ten new state grant funded positions

Planning and Land Services

- Two additional positions (S.W.M. funded) for code enforcement activities.
- The deletion of 7 staff positions

Human Resources

- One additional Human Relations Specialist position and a .20 Office Assistant, both funded by Public Works and Utilities

Miscellaneous Current Expense

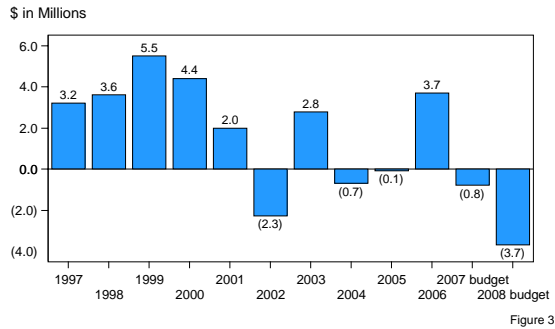
- A \$300,000 allocation to the Veteran's Relief Fund
- One time allocations for the Boys and Girls Club, United Way Early Learning Effort, and Community Health Care (capital)
- Several new allocations for "outside" agencies and programs; and several carry over allocations from 2007

The General Fund departments not mentioned above experienced a largely status-quo budget.

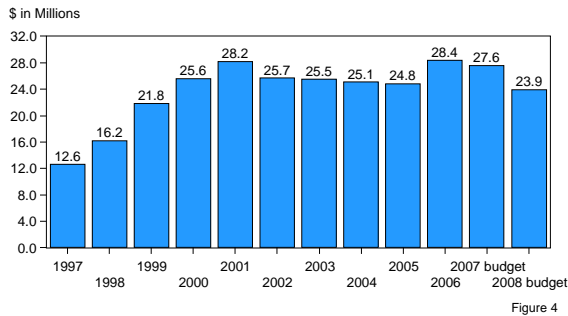
C. Use of Prior Fund Balance

Figure 3 and Figure 4 present the actual financial results for the General Fund during the 1997-2006 period, and the budgeted amounts for 2007-2008. As indicated in Figure 3, the trend through the first half of the decade had been very positive. Both a strong economy and prudent fiscal policies produced favorable financial results. However, the actual results for 2002 through 2006 reflect a more mixed picture environment (I-747 related). The 2007 budget reflects a small use of fund balance (\$755,000), but the 2008 budget allocates \$3,729,583.

General Fund Summary Difference Between Revenues & Expenditures

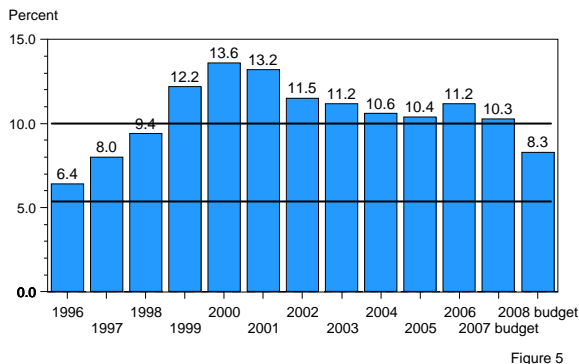


Unreserved General Fund Balance



If the 2007 actual results match the budget, the Unreserved General Fund balance will be approximately \$27.6 million at the end of 2007 (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 slightly above the top of the range at the end of fiscal 2007, and in the mid-part of the range at the end of 2008 (as shown in Figure 5).

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

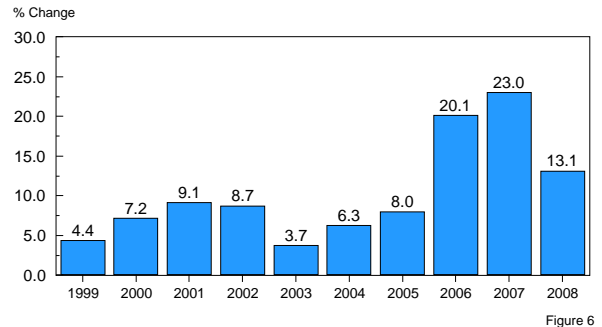


D. Tax Rates and Assessed Valuations

The growth in assessed valuation from 2007 to 2008 was approximately \$10.3 billion (13.1%). This is well above the average growth experienced in the last ten years, but less than the preceding two years.

Approximately 24% of this growth is from new construction, with the remaining 76% due to revaluations of existing property. Percent changes in Assessed Valuation totals for the last decade are shown in Figure 6.

Percent Change in Assessed Valuation



This huge growth in the valuation of existing property will result in **major tax rate decreases in 2008** as shown in the following table. This is the third year of very significant declines in tax rates.

GENERAL TAX RATES	2008	2007
General Levy (\$1.80 max.)		
General Fund	\$ 1.0267	\$ 1.1126
Veterans Relief	0.0065	0.0072
Social Services	0.0145	0.0157
Total General Levy	1.0477	1.1355
Road Levy (\$2.25 max.)	\$ 1.4009	\$ 1.5235

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 2009

In this uncertain time it is difficult to confidently project ahead to fiscal 2009. 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 over the next 24 months, although we have seen a softening in recent months.
- It is likely that fiscal 2009, without the approval of any new tax increase measure, will be more challenging than fiscal 2008 for the following reasons:
 - The impact of I-747 becomes progressively worse with each passing year.

- b) It is unlikely that the existing positive combination of a strong retail economy, robust construction activity, increasing property values, higher interest rates, and relatively low inflation will continue indefinitely.
 - c) Medical insurance increases are likely to remain significantly above the level of general inflation.
 - d) State pension rates are scheduled for one more dramatic increase in 2009.
 - e) We plan to open another jail pod in 2009, which will result in significant cost increases in the Corrections budget.
- Conversely, the full year of the new streamlined sales tax in 2009 will add new revenues to help meet our service needs.

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 2008 budgets**:

- The reduction in **Community Development** reflects a smaller capital program for 2008.
- The **Human Services Fund** now excludes all mental health programs. These programs are now reflected in the new **Mental Health Fund**.

COMMUNITY SERVICES & HUMAN SERVICES

Fund	2008 Budget	2007 Budget	Percent Change
Community Action	\$ 6,805,570	\$ 6,780,010	0.4 %
Comm Development	3,208,840	5,888,990	(45.5)
Homeless Hous Prog	1,737,010	1,532,920	13.3
Hous Repair Prog	6,676,980	8,474,230	(21.2)
Human Services	37,473,290	89,171,690	(58.0)
Low Income Hous Fee	2,500,300	4,179,760	(40.2)
Mental Hlth Fnd (RSN)	19,952,920	—	∞

- 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 2008. 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 county has major transportation responsibilities, and accounts for these responsibilities and service costs in seven major funds,

The 2008 budgets, with comparisons to 2007, are show below:

TRANSPORTATION SERVICES FUNDS

Fund	2008 Budget	2007 Budget	Percent Change
County Roads Fund	\$ 68,505,300	\$ 70,409,560	(2.7) %
PW Construc Fund	51,622,000	43,461,000	18.8
Ferry Serv Fund	4,006,880	3,957,020	1.3
Airport Fund	955,720	2,457,780	(61.1)
Roads Second REET	18,775,810	14,046,090	33.7
Traffic Imp Fee Fund	6,000,000	8,000,000	(25.0)
Transport Facilities	9,352,760	25,873,790	(63.9)

The major items of note for next year are:

County Roads Fund — includes 21.25 new staff positions for both maintenance and capital project activities, but with a reduced direct allocation for capital projects.

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

Airport Fund — major grant funded improvements were undertaken in 2007.

Roads Second REET — reflects an increased capital projects allocation in 2008.

Transportation Facilities — the construction of the Central Maintenance and the Rhodes Lake Maintenance facilities will be substantially completed in 2007.

C. Parks and Recreation Funding

Although the county's General Fund provides a direct allocation for parks and recreation services (\$6.6 million in 2008), there are several other county funds which provide parks and recreation services or which construct, repair or enhance parks and recreation facilities. The 2008 Budgets for these funds are as follows:

PARKS FUND			
Fund	2008 Budget	2007 Budget	Percent Change
Conserv Futures	\$ 10,247,910	\$ 3,527,740	190.5 %
Parks Impact Fees	3,384,200	3,992,600	(15.2)
Parks Sales Tax	5,781,510	5,271,400	9.7
Parks Second REET	4,814,740	3,903,420	23.3
Paths & Trails	8,391,520	4,654,790	80.3
Parks Const. Fund	5,209,860	7,850,580	(33.6)
Golf Courses	2,326,460	2,150,000	8.2

Although this \$40.2 million total includes some double counting (transfer between funds for project accounting purposes), 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	2008 Budget	2007 Budget	Percent Change
Surface Water Mgmt	\$ 27,751,940	\$ 26,265,850	5.7 %
Sewer Utility	93,390,400	91,424,100	2.2
Solid Waste	6,136,910	5,483,470	11.9
Water Utility	188,940	312,900	(39.6)
River - REET	9,631,140	4,108,470	134.4

Major changes in these funds can be summarized as follows:

Surface Water Management — the budget increase reflects a large capital improvement program.

Solid Waste — three additional positions for recycling/waste reduction programs, and an update to the Solid Waste Master Plan.

Sewer Utility — the budget includes a significant capital improvement program, and the addition of 9 new positions. The budget also reflects a rate increase of 3.5% to match the impact of inflation on operating costs.

River REET — an increased 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	2008 Budget	2007 Budget	Percent Change
Equipment Services	\$15,324,050	\$18,748,500	(18.3) %
Information Tech	19,614,040	18,732,200	4.7
Facilities Mgmt	12,790,960	11,435,330	11.9
Radio Communic	2,514,360	2,405,970	4.5
Fleet Rental	4,893,640	4,040,170	21.1
General Services	3,377,520	3,263,620	3.5
Self Insurance	8,705,890	8,449,390	3.0
Workers Comp	3,584,940	3,121,120	14.9

The following summarizes **significant** changes in 2008 budgets:

Equipment Services Fund — the decrease reflects the fact that the 2007 budget includes a \$4 million allocation for the Central Maintenance Facility.

Facilities Management — reflects additional maintenance and operating expenses for new county-owned facilities (Corporate Express, Roads Maintenance Facilities, etc.).

Fleet Rental — additional vehicles for new staff (e.g. Sheriff).

Workers Compensation — reflects recent claims experience and additional staff in the county.

Many of these Internal Service Funds will rely upon prior fund balance in order to support their 2008 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 2008 budget highlights are:

- 1) The **Imaging System Fund** — contains major allocations for recording and preservation activities in the Auditor's Office, adds additional staff in the Auditor's Office for these functions, and provides funding for an electronic document management system in the Public Works and Utilities Department.
- 2) **911 System Fund** — includes major allocations for technology improvements as well as an annual allocation for the new Emergency Operations Center loan repayment.
- 3) **Geographic Information System Fund** — one new position to replace an outside contract, two clerical staff for the address certification project, and orthophotography flights in 2008.
- 4) **Jail Construction Fund** — includes \$2.5 million funding for Pod 4T in the Main Jail, which we plan to open in 2009.

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 2008.

Construction Costs — recent bids received for several of our major capital projects (Central Maintenance Facility, Corporate Express Building) indicate that there has been a huge increase in construction costs. We are concerned that the amounts budgeted in 2008 for the multitude of projects contained in this budget may be too low.

Rank Choice Voting Costs — the 2008 budget includes approximately \$1.6 million for this new charter requirement. However, since this is a totally new endeavor for the county (and for any jurisdiction in Washington), we are far from certain that these amounts adequately reflect our eventual costs.

Narrows Bridge Toll Violations — we are only in the first few months of the new Narrows Bridge toll operation, and the resulting violations which are processed through our District Court. The long run impacts of this new operation (both on workload and on revenues) are impossible to gauge at this time. We will need to monitor the "stats" each month and hopefully will be able to determine the "steady state" impact by early 2008.

Office Space Needs — we continue to rent an enormous amount of outside office space. In 2008 alone, we project \$2.3 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. Between 1995-2005, lease costs for the county increased by 124% while Operation & Maintenance costs of county owned buildings went up just 6%. The new building could save tens of millions of taxpayer dollars over a 50 year period.

SUMMATION

The 2008 Budget submitted to the County Council is based upon a set of favorable economic conditions which we hope will “hold” throughout the year. These conditions include a prosperous local economy, solid building activity, increased property values, and higher interest rates which have generated additional revenue without as yet negatively affecting economic growth. These favorable conditions and the resulting revenue growth should allow us to moderately enhance many of our highest priority services.

We have also recommended the use of Reserves for one time activities (building remodeling, capital equipment replacements, etc.). Reserves should not be used for ongoing staff and programs.

Despite normal pressures and uncertainties, this budget moves us forward in many vital areas:

- funding for public safety and judicial system improvements,
- major new parks and recreation facilities,
- a significant transportation improvement program,
- needed county building infrastructure improvements,
- sewer utility and surface water management facility improvements.

