



EXECUTIVE MESSAGE

December 15, 2010

TO: Pierce County Citizens
FROM: Pat McCarthy, County Executive
SUBJECT: 2011 Pierce County Budget



Enclosed herein is the final adopted Pierce County Budget for fiscal 2011. This budget reflects our commitment to cost-effectively prioritize revenues and expenditures to emphasize public safety and prevention programs, economic development, transportation and infrastructure, protecting our natural environment, and building livable communities. It is our belief that this budget addresses these issues to the extent that dramatically shrinking revenues permit.

BUDGET SUMMARY HIGHLIGHTS

The 2011 proposed Pierce County Budget totals **\$762,293,570** which is **\$46.9** million (5.8%) **below** the 2010 budget. The main reasons for this decrease are a) the decline in federal and state grants, and b) 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**. To the extent possible we have prioritized and maintained our Public Safety and Judicial System staff and services, which now consume 78.7% of our General Fund budget.

Second, we will continue to **emphasize prevention programs**. The 2011 budget still 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, county contributions for the Judson Family Justice Center and the sales tax Prevention Programs. These programs help to decrease criminal activity and reduce future jail costs.

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

Fourth, we remain committed to promoting **economic development** in Pierce County. In addition to the business recruitment and retention efforts by the Economic Development division, the projects and priorities in other departments also emphasize the importance of creating family-wage jobs in our communities.

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

However, the overriding consideration affecting the 2011 Budget, especially the General Fund, has been the impact of the severe recession upon county revenues. This recession has produced a major downturn in economic activity; and 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 2010, and are proposing further cutbacks in the 2011 Budget. The details surrounding those revenue concerns and the associated expenditure reductions are presented in the next several sections.

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 2011 revenues, with a comparison to the current year, is shown in the table below.

GENERAL FUND REVENUE SUMMARY				
	2011 Budget	2010 Budget	Absolute Change	Percent Change
Property Taxes	\$ 111,307,800	\$ 109,033,980	\$ 2,273,820	2.1 %
Sales Taxes	51,976,000	49,805,000	2,171,000	4.4
Other Taxes	10,234,610	9,790,770	443,840	4.5
Licenses and Permits	8,556,200	6,871,770	1,684,430	24.5
Intergovernmental Revenue	37,606,870	40,685,688	(3,078,818)	(7.6)
Charges for Services	32,320,450	32,609,761	(289,311)	(0.9)
Fines and Forfeitures	6,475,450	8,148,020	(1,672,570)	(20.5)
Interest Revenue	3,611,910	4,013,370	(401,460)	(10.0)
Other Miscellaneous Revenue	5,868,890	6,587,300	(718,410)	(10.9)
Total Available Resources	\$ 267,958,180	\$ 267,545,659	\$ 412,521	0.2 %

Our revenue projections are based largely upon the following assumptions:

1. The local economy will remain sluggish, but we expect to see a gradual but modest improvement over the next 15 months.
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, with perhaps only a small increase in late 2011.
4. We will continue to receive city contract revenues for several major services (principally sheriff law enforcement and jail operations).

Based upon the above assumptions, and with an in-depth review of our revenue patterns, we are projecting an **increase** in General Fund revenues of only .2% over the 2010 Budget. This is obviously an extraordinarily small increase, and reflects both the state of the economy and circumstances unique to Pierce County.

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

- ❖ **Property Tax** revenue collections are projected to increase by 2.1% in 2011. 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 prior years).
- ❖ **Sales Tax** revenues are projected to increase by 4.4% over the 2010 budget. However, this is actually only a 2.4% increase over our **revised 2010 estimates**.
- ❖ **Other Taxes** will grow slightly over the 2010 budget.
- ❖ **Licenses and Permits** are projected to be almost 25% above the 2010 budget due to projected activity levels at PALS.
- ❖ **Intergovernmental Revenues** reflect a 7.6% reduction, due mostly to projected decreases in “stimulus” monies and other grants.
- ❖ **Charges for Services** are estimated to be about the same bottom line level as 2010. However, there are 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 20.5% below the 2010 Budget based upon the discontinuance of our involvement in the bridge toll fine activity in early 2011.
- ❖ **Interest Revenues** are projected to generate a 10% decrease in 2011, as higher rate investments mature and funds are re-invested at lower interest rates.
- ❖ **Miscellaneous Revenues** are projected to decrease by almost 11% in 2011, which mostly reflects a reduction in the transfer from the Surface Water Management Fund as the NPDES staff in PALS are now being directly charged to the SWM fund.

Percent Change in General Fund Revenues

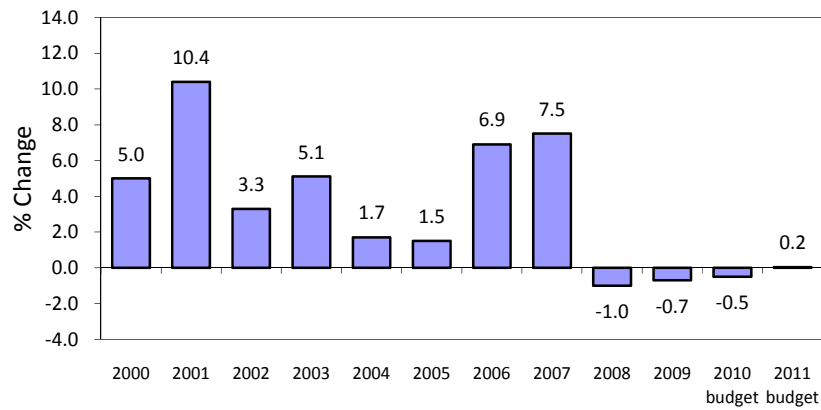


Figure 1

Comparative **revenue** increase figures for the last decade are shown in Figure 1. The increase of .2% in 2011 is clearly well below the average for the early part of the decade, but is the first actual increase (albeit small) since 2007.

Initiative 747 – In addition to the general state of the economy, it must be stressed that 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 long term 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 ten years affected by this initiative is shown in the adjacent table. These are very significant revenue losses, with the **annual amount in just fiscal 2011 equal to almost 21% of our General Fund budget**. The Road levy is also affected by I-747, with the 2011 loss estimated at \$25,000,000 (\$20,000,000 for the Road Fund, and \$5,000,000 for the law enforcement levy in the General Fund).

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
2011		55,000,000 est.
Total	\$	260,189,000

This initiative is causing an inexorable erosion in our financial foundation. It will likely lead to further significant long term reductions in public safety, the justice system, road maintenance, health services, and other vital county programs. This will be the case even when the economy returns to a more normal level.

B. GENERAL FUND EXPENDITURES

The projected Revenue Budget increase of only .2% will obviously not be sufficient to fund all programs and staff at even the reduced 2010 levels. We estimate that, other things like “fixed costs” being equal, it would require a budget increase of approximately 3% to fund existing staff and operating costs for 2011. Major cutbacks are unavoidable.

The Expenditure tables which follow summarize the 2011 General Fund Expenditure Budget, and compare it with the 2010 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 78.7% of the budget. The increase in the 2011 General Fund budget allocated to Public Safety and Legal/Judicial Services is \$3.5 million, which causes a resulting decrease of \$3.1 million in all the other functions in order to balance the budget. To the maximum extent possible, we have continued to prioritize Public Safety and the Judicial System. However, given that these 2 categories consume almost 79% of the budget, it is not possible or reasonable to exclude them entirely from budget cutbacks.

As shown in the **Department Expenditures** listing, several of the General Fund departments have a proposed 2011 budget which is below the 2010 level. Almost all other departments have an increase which is less than the level needed to maintain current staff and services (approximately 3%).

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 2010 which are not renewed in 2011, or vice versa.
2. Several departments have other unique items in 2010 which are not present in 2011 (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 2011. 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

	2011 Budget	2010 Budget	Absolute Change	Percent Change
General Government	\$ 33,973,860	\$ 35,060,452	\$ (1,086,592)	(3.1) %
Public Safety	138,594,910	135,421,900	3,173,010	2.3
Physical Environment	1,724,100	1,700,151	23,949	1.4
Legal & Judicial	72,169,320	71,868,906	300,414	0.4
Economic Environment	12,256,590	13,972,820	(1,716,230)	(12.3)
Mental/Physical Health	3,097,570	3,161,570	(64,000)	(2.0)
Cultural & Recreation	6,141,830	6,359,860	(218,030)	(3.4)
Total General Fund	\$267,958,180	\$267,545,659	\$ 412,521	0.2 %

GENERAL FUND EXPENDITURES BY DEPARTMENT

	2011 Budget	2010 Budget	Absolute Change	Percent Change
Assessor/Treasurer	\$ 9,629,100	\$ 9,675,200	\$ (46,100)	(0.5) %
Assigned Counsel	15,209,130	15,407,652	(198,522)	(1.3)
Auditor	8,740,990	8,772,503	(31,513)	(0.4)
Bond Debt Service	420,490	419,410	1,080	0.3
Budget & Finance	5,009,960	4,983,250	26,710	0.5
Capital Improvement Projects	50,000	50,000	—	—
Clerk	4,955,390	4,902,675	52,715	1.1
Communications	571,270	562,420	8,850	1.6
Corrections	50,642,710	47,336,830	3,305,880	7.0
County Council	3,913,970	3,866,960	47,010	1.2
County Executive	1,359,550	1,340,790	18,760	1.4
District Court	12,007,140	11,991,040	16,100	0.1
Economic Development	1,075,940	1,048,780	27,160	2.6
Emergency Management	3,307,700	3,263,600	44,100	1.4
Health Services	2,613,070	2,613,070	—	—
Human Resources	3,225,840	3,240,110	(14,270)	(0.4)
Juvenile	19,572,860	19,867,562	(294,702)	(1.5)
Medical Examiner	2,310,960	2,115,310	195,650	9.2
Miscellaneous Current Expense	2,684,090	2,781,560	(97,470)	(3.5)
Parks and Recreation Services	5,798,080	5,945,250	(147,170)	(2.5)
Planning and Land Services	10,883,380	12,686,420	(1,803,040)	(14.2)
Prevention Services & Programs	1,475,000	1,461,250	13,750	0.9
Prosecuting Attorney	26,272,030	26,146,767	125,263	0.5
Reserve For Fund Balance	—	1,053,160	(1,053,160)	(100.0)
Sheriff	60,171,970	60,171,970	—	—
Special Projects	1,745,810	1,788,680	(42,870)	(2.4)
State Auditor	182,110	173,980	8,130	4.7
Superior Court	13,842,890	13,573,040	269,850	2.0
WSU PC Extension	286,750	306,420	(19,670)	(6.4)
Total General Fund	\$ 267,958,180	\$ 267,545,659	\$ 412,521	0.2 %

C. 2011 MAJOR CHANGES

Staffing

The following chart summarizes the **major** 2011 budget staff reductions (at least .10 FTE) from the current 2010 budget. Given our fiscal circumstances these are moderate reductions, and total only a 1.5% staffing decrease in the General Fund from 2010. However, these staff decreases are in addition to those cutbacks which occurred in fiscal 2008 and 2009, or which resulted from the cutbacks approved by Council early in 2010. In total the General Fund staffing reductions from 2008 to 2011 now equal 280 (13%).

As of mid November we would estimate that **approximately half of the 28 position reductions for 2011 would result in actual lay-offs**. The remaining positions are currently vacant.

Although not reflected in this table, **several other departments will achieve budget savings through planned furloughs**. It is also possible that the Planning and Land Services Department will need to reduce staffing to comply with the final Council enacted reduction of \$250,000 in that department's budget.

STAFFING REDUCTION SUMMARY	
Department	2011 Reductions
Assessor-Treasurer	(1.00)
Prosecuting Attorney	(6.00)
Auditor	(1.00)
Emergency Management	(2.00)
Clerk	(1.00)
Executive	(0.12)
Budget and Finance	(1.00)
District Court	(1.00)
Juvenile Court	(10.00)
Corrections	(1.50)
Superior Court	(0.50)
Special Projects	(1.00)
Parks & Recreation	(1.00)
Assigned Counsel	(1.20)
Direct General Fund	(28.32)

Other Expenses

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.

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

Finally, in order to balance the General Fund budget and still keep priority programs intact, it was deemed necessary and appropriate to use fund balance in other funds to reduce charges to our General Fund departments. These funds included Information Technology, G.I.S., Self Insurance, and Facilities Management.

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.

OVERVIEW

If it is possible to summarize the 2011 General Fund from the "40,000 foot viewpoint", it would be as follows:

Revenue

- ❖ Large reductions in grant revenues (including federal stimulus monies)
- ❖ Large reductions in indirect cost charges to other funds

- ❖ Large reductions in bridge toll fine revenue
- ❖ Moderate increase in most other revenue categories

This results in a net increase of only .2%. That slight increase must fund:

Expenditures

- ❖ To the extent possible the “built-in” 2.5% Salary increase
- ❖ To the extent possible the large increase in state mandated Pension costs
- ❖ The need to budget \$1.7 million for Jail Debt Service (budgeted in the Jail Construction Fund in 2010)

Since a .2% revenue increase cannot fund the above, the net result is a reduction in most categories of expense (including staff).

D. USE OF PRIOR FUND BALANCE

Figure 3 and Figure 4 present the actual financial results for the General Fund during the 2000-2009 period, and the budgeted amounts for 2010-2011. As indicated in Figure 3, the trend through most of the decade had been very mixed. Both a strong economy and prudent fiscal policies produced favorable financial results through 2007. However, the actual results for 2008 and 2009 reflect a much different environment, with major deficits in both years. The 2010 budget reflects no more use of fund balance, and neither does our proposed 2011 Budget.

If the 2010 actual results match the budget, the Unreserved General Fund balance will be approximately \$23.9 million at the end of 2010 (see Figure 4). It is the county’s policy to maintain a fund balance for emergency and working capital purposes which is 10% of the budget. We were at that level at the end of 2008, and should be close to that goal (at almost 9%) at the end of 2011 (see figure 5).

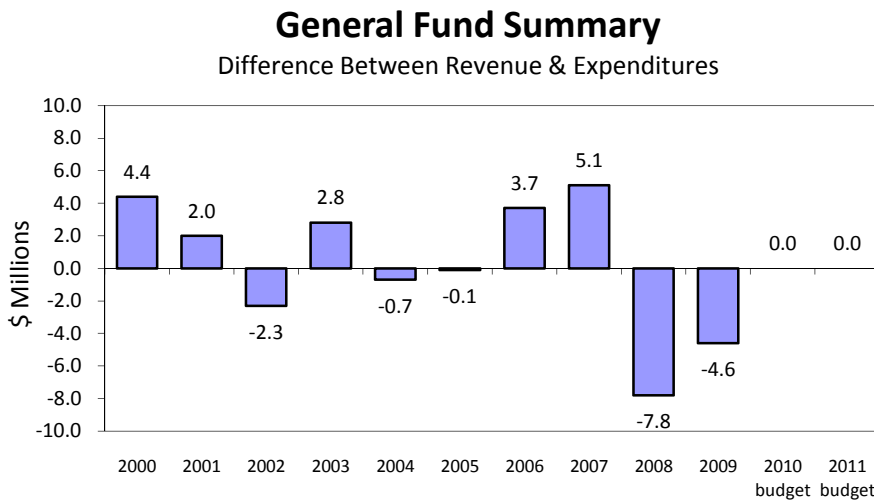


Figure 3

Unreserved General Fund Balance

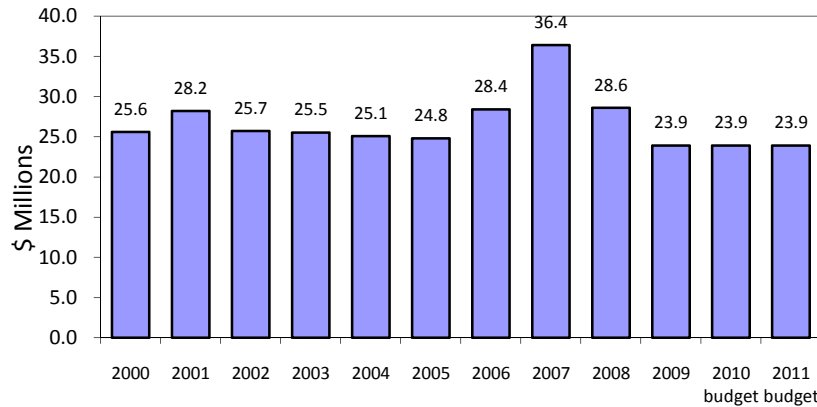


Figure 4

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

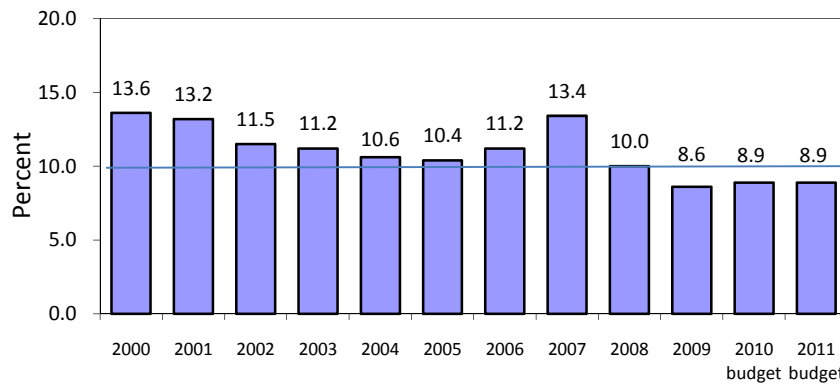


Figure 5

E. TAX RATES AND ASSESSED VALUATIONS

For the second year in a row (which hasn't happened in at least 25 years) the county's assessed valuation total will decrease for the next year, from \$88.5 billion in 2010 to \$80.2 billion in 2011. This results from an assessed value decrease of \$9.2 billion for existing property, only partially mitigated by a \$.9 billion growth due to new construction.

Percent Change in Assessed Valuation

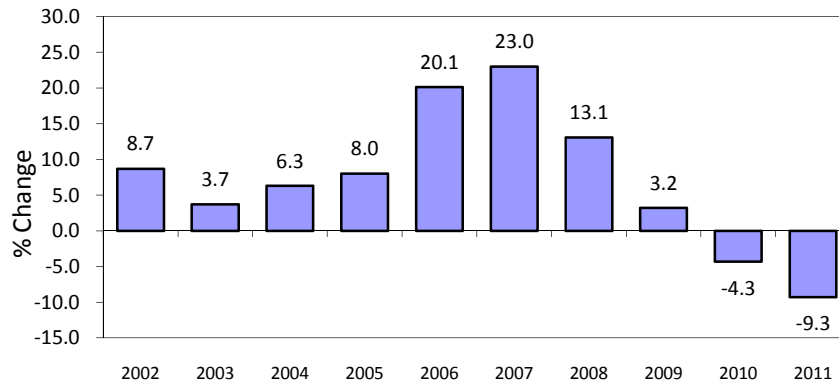


Figure 6

This decrease in the valuation of existing property will result in **tax rate increases in 2011** as shown in the accompanying 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 only 11% of all the property taxes paid by our citizens goes to the County's General Fund. Most of the property taxes are by law distributed to the State of Washington, Cities, and Local School Districts.

PROPERTY TAX RATES

	2011 Rates	2010 Rates
General Levy (\$1.80 max.):		
General Fund	1.2326	1.0954
Veterans Relief	0.0078	0.0070
Social Services	0.0174	0.0155
Total General Levy	1.2578	1.1179
Road Levy (\$2.25 max.)	1.7427	1.5364

F. PROGNOSIS FOR FISCAL 2012

In this uncertain time it is difficult to confidently project ahead to fiscal 2012. 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 as we move toward more normal levels. Also, short term interest rates are likely to be raised, thereby giving a boost to investment revenues.

However, it is likely that fiscal 2012, without the approval of any new tax increase measure, will be as challenging as fiscal 2011 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 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-2012.
4. We have several staff which are funded with grant monies, and those are in jeopardy as state and federal budget issues affect this level of support.

PERFORMANCE MEASURES

The Executive is moving County departments to a new performance management system that utilizes the Baldrige Criteria, which reflect validated management practices against which an organization can measure itself. With the assistance of the State Auditor’s Office, the Executive hopes to implement the new performance measurement system for the 2012 budget. For more information about the Baldrige National Quality Program, go to www.baldrige.nist.gov/.

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 from the 2010 budgets**:

1. The **Mental Health Fund** simply reflects close-out expenses.
2. **Human Services** reflects the positive impact of closing the PSBH building.
3. The **“Housing”** program changes often reflect grant fluctuations, major multi-year project impacts, and/or conservative grant estimates.

COMMUNITY SERVICES & HUMAN SERVICES			
Fund	2011 Budget	2010 Budget	Percent Change
Community Action	\$ 8,489,610	\$ 12,016,956	(29.4) %
Community Development	3,553,380	3,830,770	(7.2)
Homeless Housing Program	3,636,390	4,956,050	(26.6)
Housing Repair Program	6,821,250	9,172,020	(25.6)
Human Services	35,311,200	36,244,290	(2.6)
Low Income Housing Fee	979,340	999,420	(2.0)
Mental Health Fund	220,000	1,500,000	(85.3)

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 2011. However, federal and 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 2011 budgets, with comparisons to 2010, are shown in the table to the right.

The major items of note for next year are:

TRANSPORTATION SERVICES FUNDS			
Fund	2011 Budget	2010 Budget	Percent Change
County Roads Fund	\$61,717,460	\$ 62,133,180	(0.7) %
PW Construction Fund	35,902,000	35,670,000	0.7
Ferry Service Fund	4,612,150	5,662,800	(18.6)
Airport Fund	7,174,400	6,361,020	12.8
Roads Second REET	5,855,500	24,386,000	(76.0)
Traffic Impact Fee Fund	4,337,870	4,985,380	(13.0)
Transportation Facilities	752,000	252,000	198.4

The **County Road fund** and **Traffic Impact Fees fund** reflect diminished activity and staffing as projects are completed and as revenue sources are reduced.

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

Airport Fund — reflects the fact that 2011 includes major construction projects.

Roads Second REET — 2011 simply reflects capital project allocations from current revenues, while 2010 also reflects bond proceeds.

Transportation Facilities — simply includes minor design costs for proposed new facilities.

C. PARKS AND RECREATION FUNDS

Although the County’s General Fund provides a direct allocation for parks and recreation services (\$5.8 million in 2011), there are several other county funds which provide park and recreation services or which construct, repair or enhance park and recreation facilities. The 2011 Budgets for these funds are shown to the right.

As the figures indicate these funds are mostly experiencing a decrease in budget resources, from \$15.8 million in 2010 down to \$14.5 million in 2011. This is due to a variety of circumstances: decline in available fund balances, decrease in annual revenues due to the economic slowdown, completion of major projects in 2010. 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	2011 Budget	2010 Budget	Percent Change
Conservation Futures	\$ 6,253,200	\$ 6,715,730	(6.9) %
Parks Impact Fees	325,020	579,880	(44.0)
Parks Sales Tax	2,954,990	3,218,550	(8.2)
Parks Second REET	773,000	690,860	11.9
Paths & Trails	1,162,480	1,321,280	(12.0)
Parks Construction Fund	1,090,000	1,250,000	(12.8)
Golf Courses	1,897,720	1,990,000	(4.6)

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 additional staffing (two), major allocations for capital projects, and a proposed 5% rate increase.

Sewer Utility — the budget includes:

1. A significant bonded capital improvement program.
2. A rate increase is proposed to match the impact of inflation on operating costs and provide resources for future planned capital improvements.

ENVIRONMENTAL SERVICES FUNDS			
Fund	2011 Budget	2010 Budget	Percent Change
Surface Water Management	\$ 25,472,650	\$ 20,714,940	23.0 %
Sewer Utility	89,904,210	106,298,600	(15.4)
Solid Waste	6,714,150	7,171,520	(6.4)
Water Utility	326,360	285,080	14.5
River - REET	7,684,530	5,652,610	35.9

River REET — includes a sizeable land acquisition program utilizing anticipated grant funds, and infrastructure improvements.

Solid Waste – fewer monies needed for post-closure expenses.

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, Facilities Management and General Services).

Many of these Internal Service Funds will rely upon prior fund balance in order to support their 2011 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	2011 Budget	2010 Budget	Percent Change
Equipment Services	\$16,702,700	\$15,554,080	7.4 %
Information Technology	19,446,090	18,832,350	3.3
Facilities Management	12,309,350	13,156,030	(6.4)
Radio Communications	3,844,860	3,448,390	11.5
Fleet Rental	4,787,150	4,752,740	0.7
General Services	3,006,820	3,345,690	(10.1)
Self Insurance	8,751,870	9,182,790	(4.7)
Workers Comp	4,552,930	4,288,660	6.2

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 2011.

State Grants — we are concerned that continuing state fiscal problems will result in reduced state grants. However, at this time we have no further specific cutbacks other than those already included in the 2011 budgets.

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

Property Tax Payments — our 2011 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, 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 a County Administration and Transportation Building. The major facilities in need of significant improvements or replacement include:

- Remann Hall
- LESA
- New Sheriff Precinct
- Jail Repairs and Remodel

-
- Spanaway Golf Course
 - Health Department
 - County-City Building Remodel Phases Three and Four

The limitations of County general revenues 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 2011.

Community Services and Human Services Consolidation — we are well into the details of this proposed departmental merger, and will be presenting recommendations for ordinance changes to the Council in the next several months. The 2011 Budget does not reflect any significant budget adjustments due to this merger, other than modified costs for office space facilities with the closing of the PSBH building.

Sprinker Renovation Project — the 2011 Budget includes monies for this project. At this time we do not know if the construction work will require any closure of the facility. The 2011 Budget assumes full uninterrupted operation of the facility.

Jail Population Levels — since early summer we have seen a spike in jail population levels. We are not certain if this spike is temporary, or if there are measures that we can and should implement which will reduce the population levels back to 2008-2009 figures. The 2011 Correction budget is based upon the previous lower levels, and if actual inmate population continues at their current levels the 2011 Budget is likely inadequate for such items as overtime, medical, drug supplies, food, etc.

SUMMATION

Pierce County provides vital public services to a growing population of 813,000+. Our 1 to 271 ratio of staff to citizens served is among the leanest in the state, and we strive to make every dollar count.

The deep and long-lasting recession has presented a number of challenges, to be sure; but it also has provided some opportunities to push for more efficiencies. In some cases, we are going for a reset — a chance to stop doing something the old way just because we've always done it that way, or to seize an opportunity to combine resources and improve service delivery.

Still, the 2011 County Budget is based on a set of highly unfavorable economic conditions. The recession's impact on revenues has been the sharpest since the Great Depression. Cutbacks in programs and staffing are unavoidable. We continue to prioritize budget cuts to minimize the impact on public safety and judicial services, which comprise 78.7% of the General Fund.

We will need to closely monitor our 2011 revenues as the months unfold to see if our revenue estimates are holding true. It is also possible that the situation could improve in mid to late 2011, 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 2012 could present even more budgetary challenges.