Regional Governance Transition

Introduction and Chapter Overview

The *Regional Governance Transition* chapter is devoted to a discussion of major actions currently being undertaken by King County to transform itself into a true regional government; one responsible for providing an array of mandated regional services as well as local services to rural areas. The core element of this transition is transferring the county's existing responsibility for local urban services to cities. This is being carried out through the Annexation Initiative. Concurrently, the county is undertaking an intensive business planning effort to adjust county operations to reflect evolving regional, contract, and local urban and rural service responsibilities. This year's chapter provides in-depth discussions of each of these efforts, and includes the following sections: Background, Progress to Date, and 2008 Work Program.

Compared to previous years, this chapter includes a much broader discussion of the business planning aspects of the regional governance transition. Most of the county's direct service agencies have commenced or completed visioning and planning exercises to guide operations into the future. The cumulative effect of these efforts is a more strategic and financially sustainable approach to regional and rural service provision.

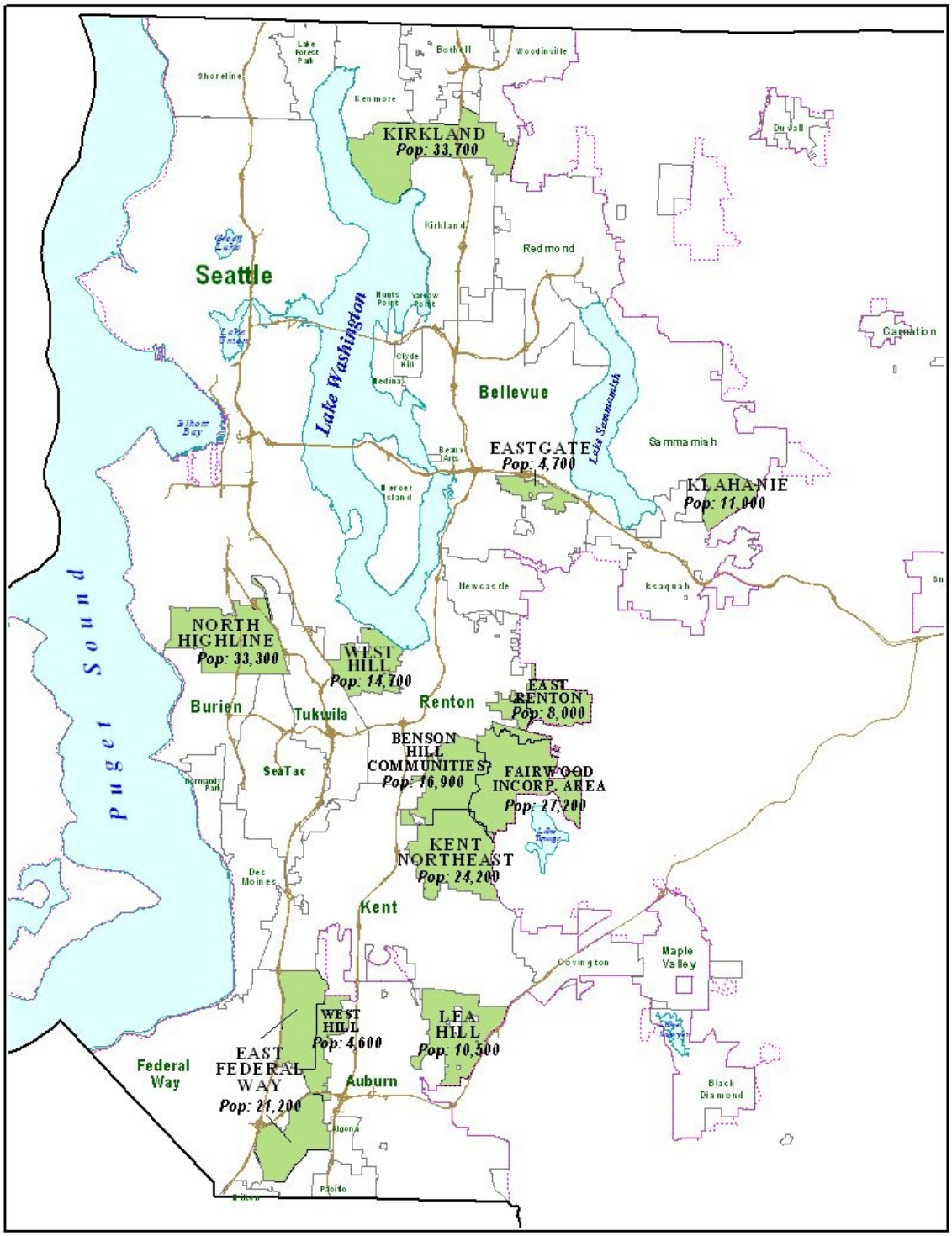
The final section of this chapter provides the data tables for the 2008 regional-local service budget allocation for the General Fund; Real Estate Excise Tax (REET) 1 and 2; Water and Land Resources; Roads Services; Department of Development and Environmental Services (DDES); and Parks Operating fund by potential annexation area and rural unincorporated King County.

Background

Annexation Initiative

The King County Annexation Initiative (AI) is a multi-year initiative intended to accelerate the pace of the annexation of urban areas to realize the land use and service vision set forth in Growth Management Act (GMA) and Countywide Planning Policies (CPPs). This vision calls for the county to be the regional and rural service provider and for cities to provide services in urban areas. Attainment of this vision will help alleviate the county's General Fund financial crisis by significantly reducing the areas in which the county is responsible for providing local services. As residents in urban areas migrate to city governance via annexation or incorporation, the county will be able to focus its limited resources on regional and rural services.

Figure 1: Remaining Urban Unincorporated Communities or Potential Annexation Areas (PAAs)
(2007 Population Estimates)



The focus of the Annexation Initiative is on the 10 largest remaining unincorporated areas, commonly referred as Potential Annexation Areas (PAAs) as shown in Figure 1 above. The remaining PAAs form a patchwork of geographically isolated areas making them costly and difficult to serve. These areas are primarily residential with limited commercial areas. Over time, all of the high tax generating, commercial areas have been annexed to cities.

The PAAs currently do not generate sufficient local revenues to cover the cost of providing local services through the county's Current Expense (CX) Fund. Urban unincorporated local service expenditures in 2008 are estimated at nearly $46.7 million, while supporting local revenues are estimated at $25.6 million. The resulting budget gap is $21.1 million.

In order to close the gap between urban unincorporated revenues and expenditures, often referred to as the "urban subsidy", the county must expend a corresponding amount of its regional revenues to maintain basic urban unincorporated services. The expenditure of regional revenues on urban unincorporated services comes at the direct expense of mandated regional and rural services.

To facilitate annexations and provide relief to the General Fund, the County Council, in 2004, adopted Motion No. 12018 approving the vision, goals and policies to guide the Annexation Initiative. The AI provides specific staff and financial resources, including a $10 million Current Expense Fund annexation incentive reserve, to work with King County cities and urban unincorporated communities to move ahead with annexation or incorporation. The motion directs that the allocation of annexation incentive funds reflect achievable savings to the General Fund facilitated by annexation or incorporation. Fulfilling this requirement requires significant effort to identify the specific financial and operational consequences for each county department providing local urban services upon annexation or incorporation of any or all of the remaining unincorporated urban areas.

Business Planning for Governance Transition

Preparing for a future where the county provides primarily regional and rural services requires a significant amount of planning to ensure urban services are reduced commensurate with the loss of PAA service responsibilities and revenues. Because the existing urban local service model is closely integrated with the county's other lines of business, regional and rural service models must also be revisited and realigned to reflect the governance transition.

Urban Service Transition

The AI supports the smooth transition of urban services from the county to a city by negotiating agreements with cities related to property transfer, community planning and short-term service contracting opportunities. Another critical aspect of the urban service transition is the internal business planning required to scale back county services in response to loss of service responsibility. To generate a net fiscal benefit from urban

annexations, the county must be able to reduce expenditures by more than the amount of revenue lost when areas transition to incorporated status.

As part of the annual budget development process, the cost of providing local, contract and regional services is compared with the associated revenue sources. Consistent with the last four years, and as stated earlier, the revenue generated by the remaining major urban PAAs is approximately $25.6 million in local General Fund as compared to approximately $46.7 million in General Funds that the county spends to provide local services to these areas. Thus, the county will need to cut more than $21.1 million in local General Fund expenditures, or approximately 50 percent of the total allocated local service expenditures to be financially neutral when all of the PAAs annex or incorporate. To generate a fiscal benefit for the General Fund, budget reductions over and above 50 percent *in aggregate* will have to be targeted.

Rural Service Realignment

When the land use vision for the county is achieved, King County's local service responsibilities will shift from providing urban and rural services to rural services alone. This shift of responsibility, in conjunction with loss of urban unincorporated revenues, requires the county to examine how to most effectively and efficiently provide rural local services and to reassess the degree to which the current local service delivery model matches future rural service needs. The current rural service model achieves economies of scale through shared overhead and services with urban areas. A stand alone rural service model may use different strategies to achieve efficiencies and respond to resident's needs.

Regional Service Realignment

King County's role as a large urban local service provider supports its regional services and influences its ability to advance regional priorities. As the municipal authority for 368,255 people, a population which would be the state's second largest city if incorporated, the county exercises direct control over land-use patterns in many communities. It also has access to resources including federal entitlements for housing and transportation that are used to leverage regional collaboration and cooperation on a range of issues. As annexations occur, the form and composition of King County government changes, and the overall size and resources of the government are reduced, the county has the opportunity to refine and reshape its role as a regional government and policy leader. This reinvention provides an opportunity not only to maintain regional leadership, but to clarify and better articulate the county's regional role and purpose.

Tools and Methodology

The Office of Management and Budget (OMB) has developed several tools to support financial planning for governance transition, including establishing and continuing to refine a budget allocation exercise that tracks the county's revenues and expenditures by its lines of business (regional, local, or contract)—see Figure 2. The budgetary information provided by the allocation exercise is the basis for projecting the savings anticipated from annexation and the budgetary basis for rural and regional business planning for the governance transition.

The allocation model also tracks the county's revenues and expenditures by Potential Annexation Area. The PAA level allocation data depicted in Figure 3 below assists agencies in identifying how individual annexations impact revenues and expenditures. It also forms the basis of a savings model that is used to determine the financial incentives offered to annexing cities.

Figure 2: 2007 Regional & Local Budget Allocation

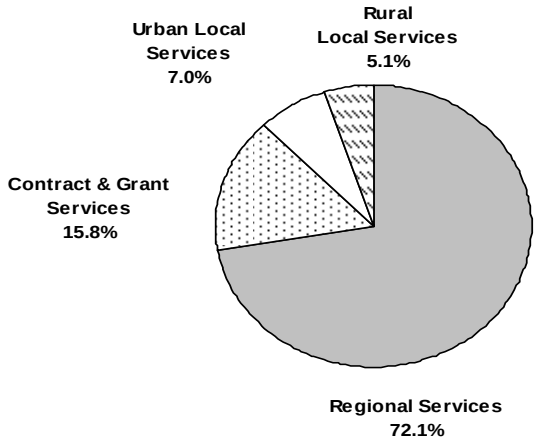
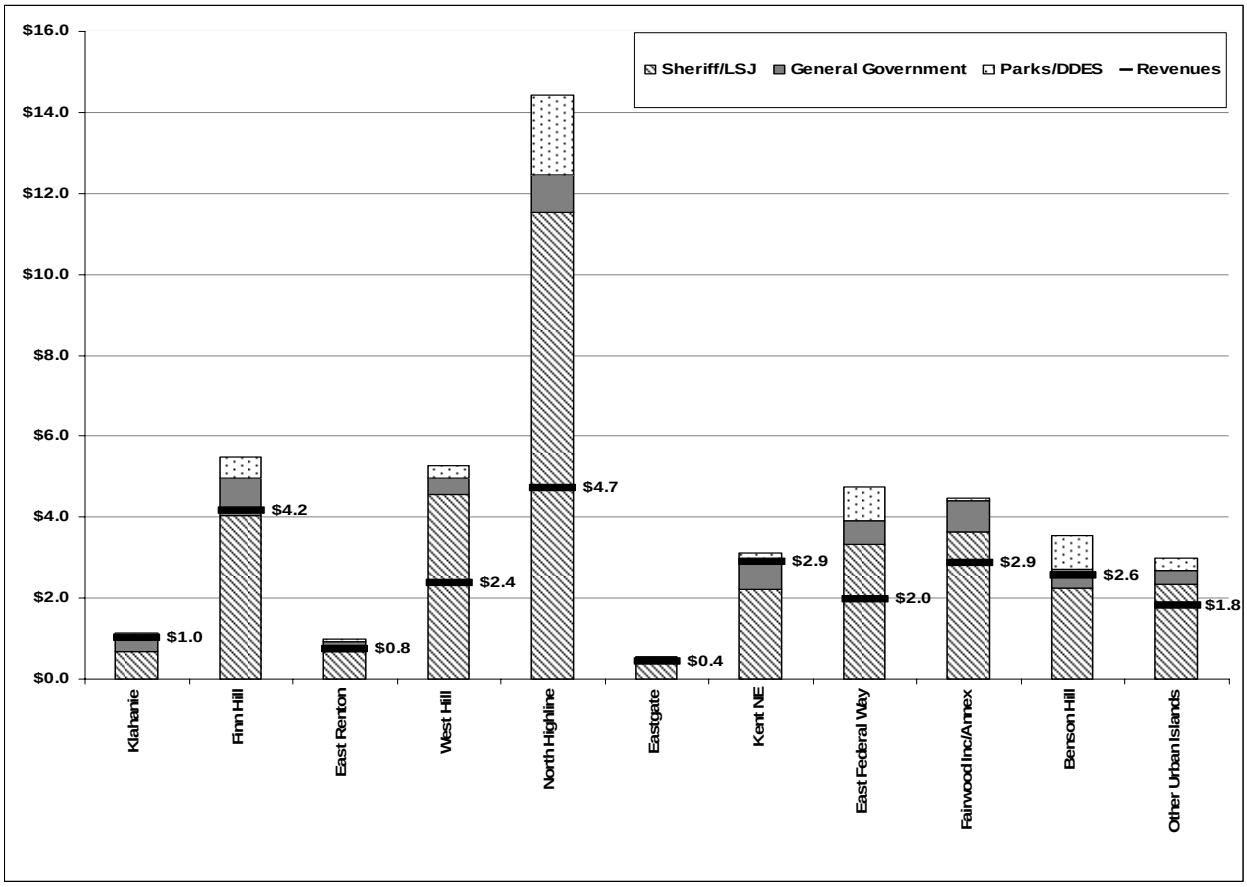


Figure 3: 2008 General Fund (CX) Local Service Expenditures By Major Urban Potential Annexation Areas and Program Areas (In millions)



Progress to date

Annexation Initiative

State law gives control over annexation decisions to cities and unincorporated communities, limiting the county's ability to influence or expedite the process. However, over time, and through a sustained commitment of both financial and staff resources to annexation, the county has motivated action by unincorporated communities and cities. In the early years of the Annexation Initiative, the county dedicated significant time and resources toward community governance studies and financial impact assessments. The findings from these efforts helped lay the groundwork for earnest discussions with residents and cities about future governance change.

The county also moved to put state resources in place to support and address barriers to annexations. Legislative work in Olympia raised the visibility of annexations as an issue and contributed to a state study on annexation challenges in December 2004. Findings from this study contributed to the adoption of legislation (Substitute Senate Bill 6686) in 2006 to provide transition funding to cities to support annexation. Cities must commence annexation before January 1, 2010 to receive the credit. Seattle is not eligible at this time for the state tax credit regardless of their annexation actions.

The accumulated progress of the Annexation Initiative's community, intergovernmental and legislative actions has resulted in significant steps being taken toward annexation, including:

- The City of Issaquah annexed South Cove and Greenwood Point and accepted the transfer of all county parks and facilities in the area.
- All of the 10 major PAAs have been claimed by one or more cities for annexation through the Growth Management Planning Council process.
- In August 2007, annexation measures passed in Auburn's Lea Hill and West Hill areas. The successful vote will result in 15,000 people annexing to the city of Auburn on January 1, 2008.
- By the end of 2007, seven unincorporated communities including Benson Hill, Lea Hill, Auburn's West Hill, East Federal Way, Fairwood, East Renton, and Klahanie will have had the opportunity to vote on annexation.
- Several additional annexation elections are pending in 2008, including possible action by Kirkland and Kent to annex their PAAs. The Fairwood community may opt to place incorporation on the ballot again in 2008.

The Annexation Incentive Fund has been leveraged to promote the above successes and has been used to establish clear timelines and target dates for future annexations that help the county more effectively plan for change.

In 2006 the Executive made recommendations for $7.35 million of the $10 million CX based annexation incentive reserve and all of the REET and Roads based incentive funds: $2 million REET and approximately $4 million Roads. These funds were offered to support annexations by Renton, Federal Way, and Auburn. However, with the defeats of the East Renton and East Federal Way annexation measures and the inaction by the city

of Renton to ratify the combined PAA interlocal agreement for its Benson Hill, Fairwood, and West Hill PAAs, there are opportunities to reprioritize a significant portion of the incentive funds toward more promising annexation efforts.

Accordingly, the Executive is negotiating with Renton a standalone agreement for the annexation of the Benson Hill area that would provide $950,000 of General Fund incentive funds; $250,000 of REET 2 annexation incentive funds; and $500,000 of roads overlay improvements in the Benson Hill Area for annexation by March 1, 2008.

In addition, the Executive proposed to provide the City of Kent with $750,000 of road overlay improvements in the unincorporated area and $250,000 from the General Fund Annexation Incentive Reserve if the area annexes by March 1, 2009.

Seventy five percent of the $3.5 million incentive funds (General Fund, REET, road overlays) offered to the City of Federal Way remain available to the city should the East Federal Way area successfully annex by January 2010. At this point, it is uncertain whether Federal Way will move forward within that time frame or not but the current financial commitment remains in place.

When these proposals are considered along with the terms of the Federal Way agreement, the annexation incentive reserve amounts that remain unallocated are between $6 - $7.5 million from the General Fund reserve; $1.3 - $1.75 million REET annexation reserve, and $1.5 - $2.25 from the roads annexation overlay reserve. The range of figures reflects whether Federal Way moves forward with successful annexation by 2010. These amounts would be the funds available to promote the annexation (or incorporation if appropriate) of North Highline, Skyway/West Hill; Fairwood; Juanita-Kingsgate-Finn Hill, Klahanie, and Eastgate.

Business Planning for Governance Transition

The breadth and intensity of business planning in anticipation of annexations increased in 2007. Defeated annexation elections in East Renton and East Federal Way and successful elections in Auburn's West Hill and Lea Hill served to heighten countywide focus on governance transition. Progress specific to each of the county's lines of business is described below.

Urban Service Transition

The effective date of annexation for the Auburn West Hill and Lea Hill is anticipated to occur on January 1, 2008. The proposed budget reflects staffing and resource reductions commensurate with the projected decrease in workload. Savings from annexation were estimated for these areas using the Savings Target Model presented to the King County Council when the interlocal agreement with Auburn was originally considered. Several different financial scenarios were modeled, including low and high level reductions across all General Fund agencies as well as reductions only in direct service agencies. The purpose of the target savings exercise is to provide a range of savings estimates from which to benchmark actual savings. Once the annexation result was known, King County agencies and the Office of Management and Budget (OMB) developed new budget impact scenarios.

For the General Fund, the Regional Local Allocation continues to show none of the major urban PAAs, including Auburn's West Hill and Lea Hill, generate sufficient local revenues to cover the cost of local services. The range of deficits subsidized by General Fund regional revenues varies by area as shown in Figure 3. Accordingly, if an annexation results in reducing the amount of subsidy identified with the area, the incremental impact is identified as the fiscal benefit of annexation. To determine whether the financial impact of an annexation is positive, neutral, or negative, the total of budget reductions is compared first to the amount of local revenue that is lost. For an annexation to be financial neutral, the total reductions must equal the lost revenues. If the reductions are greater than the lost revenues, that increment is considered a net financial benefit though some portion of the original deficit remains. If it is less than the forgone revenues, then in effect, the subsidy is increased and the county is financial worse off.

The Savings Target Model presented with the ILA assumed the following 2008 budget for Auburn's combined annexation areas:

	Estimated 2008 Budget
Total Local Revenues	$ 1,201,819
Total Expenditures	$ 2,661,084
Surplus/(subsidy)	**$(1,459,265)**

The table below highlights the estimated savings targets by Program Area for the both Auburn annexation areas with the actual recommended budget reductions.

Table 1: Comparison of General Fund Savings Target Scenario Estimates with Proposed Reductions for Auburn West Hill and Lea Hill Annexations

2008 Budget Estimates	Low Savings Target Reductions	Direct Service Savings Target	High Savings Target Reductions	2008 Executive Proposed Reductions
Local Revenue Reduction	($1,201,819)	($1,201,819)	($1,201,819)	($1,201,819)
Local Expenditure Reductions				
Sheriff	($422,808)	($1,352,986)	($1,183,863)	($916,452)
FTE				*(9.00)*
District Court/Jail/PAO/OPD	($51,909)	$0	($155,726)	
CIP	($7,441)	$0	($14,882)	
General Government	($18,132)	$0	($36,264)	
Health & Human Services	($3,684)	$0	($22,102)	
Parks & DDES	($54,254)	($234,376)	($130,209)	
Parks				
DDES				($11,419)
Other Agencies	($6,935)	$0	($13,870)	
Underexpenditures	$3,027	$0	$6,053	
Total Expenditure Reductions	**($562,136)**	**($1,587,362)**	**($1,550,863)**	**($927,871)**

These scenarios result in the following impacts of the Auburn Lea Hill and West Hill annexations to the General Fund

Table 2: Net Financial Impact of Auburn Annexation for Target Reduction Scenarios and Executive Proposed Reductions

2008 Budget Estimates	Low Savings Target Scenario	Direct Service Savings Scenario	High Savings Target Scenario	2008 Executive Proposed
Post Annexation Revenues	$0	$0	$0	$0
Remaining Post Annexation Expenditures (original less reductions)	$2,098,948	$1,073,721	$1,110,221	$1,733,213
	($2,098,948)	($1,073,721)	($1,110,221)	($1,733,213)
Benefit/(Cost) of Annexation	($639,683)	$385,544	$349,044	($273,948)

In total, the proposed General Fund reductions associated with the Auburn annexations included in the 2008 Executive proposed budget are less than the forgone revenues by nearly $274,000. Compared to the target reduction scenarios, the Executive's proposed reductions are lower than the savings target estimates projected in the high savings scenario and direct service savings target scenarios but significantly higher than the low savings targets. As proposed, the budget reductions associated with the Auburn annexation are not enough to be considered financially neutral or positive; however, the goal is that as additional areas are successfully annexed in the south county area, greater administrative and overhead savings will be achieved in addition to direct service savings.

The proposed budget reductions in the Sheriff's Office and DDES result from OMB analysis of workload reductions associated with the Auburn annexations. Greater detail on the proposed Sheriff and DDES reductions can be found in the Program Plans section for those agencies. The most significant workload reduction, and accordingly largest proposed service reduction, will be experienced by the Sheriff's Office. The annexation of West Hill and Lea Hill will reduce the Sheriff's Office workload in the unincorporated areas by 4.2% in patrol and 3.4% in investigations. The 2008 Executive Proposed Budget includes a $916,452 reduction in the Sheriff's budget which is commensurate with the reduction in workload. The reduction seeks to maintain the current level of service provided in remaining unincorporated King County while addressing the lower service responsibilities. For purposes of the Auburn annexations, no reductions beyond those directly associated with work load reductions are proposed.

Table 3: Comparison of Non-CX Savings Target Scenario Estimates with Proposed Reductions for Auburn West Hill and Lea Hill Annexations

Fund	Revenue Loss (not including CX Transfer)	Direct Expenditure Reductions	Remainder to be reduced program wide
Road Services Division	$2,367,707	$216,452	$2,151,255
FTE Reductions		*-4*	
Water and Land Resources	$658,000	$656,000	$2,000
FTE Reductions		*0*	
REET 1 and 2	$979,220	$979,220	-
DDES	$1,533,484	$98,663	$1,434,821
FTE Reductions		*-1*	
Parks	-	-	-
FTE Reductions		*0*	

Table 3 shows annexation related budget reductions associated with the Roads Service Division, Water and Land Resources Division, Department of Development and Environmental Services, and the Parks Division. Detailed information on these reductions can be found in the Program Plans section for these agencies.

Rural Service Realignment

King County is unique in that it is an urban county that also contains a significant amount of rural land. Due to rapid growth, the rural economy (and the rural population), once firmly rooted in agriculture and forestry, is becoming more diverse, as are the goals and expectations of rural residents. Rural service planning, therefore, is evolving on a number of different fronts as the result of annexations but also to address changing needs of rural residents.

In 2007, the county initiated several planning and evaluation efforts to better understand rural residents' needs and to develop new service strategies. Based on these planning efforts, a new Rural Services Initiative is proposed in the 2008 budget to better coordinate and improve the services provided by Executive departments.

The King County Sheriff's Office (KCSO) is also planning, through their Operational Master Plan, to better meet rural needs. In June, KCSO submitted a planning grant proposal to the United States Department of Justice Office of Community Oriented Policing Services. The proposal requested funding to explore and identify best practices for providing community policing services in rural communities. It is well known among law enforcement professionals that there is limited information available regarding rural policing practices and needs. When it comes to community oriented policing in rural areas, there is almost no best practice or service data information available. The results

of this study will contribute to strategies pursued to align county services with rural service needs.

The challenge of effectively addressing evolving rural service needs is complicated by the changing nature of the county's local service delivery model and the overall reduction in local revenues resulting from annexations. Resources shared between urban and rural areas will be modified over time to account for loss of urban service responsibility. New strategies being explored by county agencies must take into account the loss of local service economies of scale and find new avenues to increase the efficiency and cost effectiveness of services.

Regional Service Realignment

Progress toward attaining the growth management service and land-use vision is being played out not only at the local level, but also through the evolution of the county's regional services and role. Concurrent with annexation transition planning, county agencies continue to orient their operations toward meeting the countywide growth in service needs and resident demand for greater regional coordination. Several strategic visioning processes have been completed or are underway to establish regional priorities, policy direction, and funding strategies to guide county departmental operations into the future. In addition to providing greater focus and direction for the breadth of existing regional programs, these processes have in several circumstances contributed to the expansion of regional services. The approval of Transit Now, Automated Fingerprint Identification System (AFIS), Parks Futures, and Veterans and Human Services levies are four examples of areas where county regional services are expanding based on a burgeoning interest and accompanying financial support in the populace for coordinated regional service provision. In total these four efforts will result in more than $100 million for regional services in 2008.

Other planning processes recently completed or underway include:

- Public Health Operational Master Plan—The objective of the Public Health Operational Master Plan (PHOMP) was to develop a sustainable operational and financing model for the provision of essential public health services.

- King County Sheriff Operational Master Plan—The overall goal of the Sheriff's OMP is to develop a policy framework for how the KCSO will address public safety both now and in the future. Among other issues, the OMP will help the county to define "regional services" and identify the appropriate level of service to be provided.

- Regional Jail Initiative—The Regional Jail Initiative is a collaborative effort by King County and the county's cities to evaluate current jail systems and capacity in King County, and to identify and analyze options to meet long-term detention needs. The initiative will help the county address and control the rising costs of detention and provide a framework for a sustainable jail system.

- Medic One/EMS Levy—Every six years the levy process provides the region with the opportunity to review and evaluate the state of the Medic One system, and present

those recommendations to the voters. Under the county's leadership, the region successfully put forward a plan to continue to provide first-class emergency response services. The renewal levy will be on the general election ballot in November 2007.

- King County Flood Control District—On January 16, 2007, the County Council adopted the 2006 King County Flood Hazard Management Plan which identifies and recommends a suite of projects, programs and policies to address flooding in King County, the impacts of which pose significant threats to public safety and regional economic viability. The King County Flood Control Zone District was established in April, 2007 to support implementation of the plan. The plan and district provide a regional approach to addressing infrastructure needs required to protect public health and safety, regional economic centers, public and private properties and transportation corridors.

In sum, these efforts represent major strides toward establishing a strategic direction for stable regional government services and the future of King County government.

2008 Work Program & Funding Request

The Executive will continue to make implementation of the Regional Governance Transition a priority in 2008. In anticipation of a slowing economy, extensive work will be done to promptly capture annexation savings to balance agency budgets. New approaches will be developed to ensure annexation, in a timely manner, of those areas that have lagged behind.

Regional and rural business models will continue to be refined to make efficient use of resources generated from additional or expanded funding sources and annexation savings.

Annexation Initiative

With multiple annexation elections planned in 2008, there is a continued need for the Annexation Initiative and the focused staff and resources it provides. Based on experiences with Federal Way, Auburn and Renton, it is anticipated that with each election staff resources will be needed to support cities and communities by:

- Helping interested residents develop petitions to initiate annexation elections;
- Representing county interests in Boundary Review Board (BRB) proceedings;
- Ensuring communities have factual and objective information about governance choices; and,
- Facilitating a smooth transition of county facilities and services to cities through completion of interlocal agreements.

In addition to providing support for communities on a path toward annexation, new approaches must be initiated for those PAAs that have rejected annexation or where cities

have failed to act despite the availability of county and state resources. Budget forecasts anticipate expenditures will continue to outpace revenue growth leading to a General Fund deficit exceeding $20 million
that must be addressed to balance the 2009 budget. This level of deficit, in conjunction with dwindling reserves, requires changes in the way services are provided to unincorporated urban areas. The options are limited and clear-cut: reduce urban service levels, increase opportunities for economic development and revenue generation, or find alternative avenues to transfer local service responsibility. Given the diverse needs and geography of the remaining urban unincorporated pockets, different strategies may need to be advanced to address each PAA's unique needs and conditions. The following planning actions will be undertaken in 2008 to ensure the Executive and County Council have information on the different strategies and options available to balance the 2009 budget.

Community engagement: For communities where elections have failed, additional work will be done in 2008 to understand resident's goals and interests for local service provision and land-use. Results of this work will inform city decisions to pursue additional elections, help target service areas for budget reduction, identify areas for land use changes, and contribute to the development of the county's state legislative strategy.

Economic development studies: In consideration of the GMA and CPPs, the county has not aggressively pursued economic development activities in urban unincorporated areas. However, in highly urbanized areas like North Highline and West Hill, economic development is needed not only as a means to increase area revenues, but also to attract the type of development that will strengthen neighborhoods and deter criminal activity. Economic development studies in these areas will help identify opportunities for strategic investment to increase tax revenue generation and reduce law, safety, and justice costs.

Engage state and local policymakers in annexation discussions: In 2004, the State of Washington Department of Community, Trade, and Economic Development completed a study on the barriers to annexation and proposed potential solutions. The recommendations of the study fell into two categories: local government revenues, and expenditures and annexation process (role of the BRB, annexation statutes, and GMA statutes). While significant action was taken to address local government revenues and expenditures through the adoption of SSB6686, less attention has been given to pursuing modifications to the annexation process. The county will re-engage policymakers in discussions to encourage the advancement of additional steps to facilitate annexation of the remaining urban unincorporated areas.

While budgetary challenges require the county to explore near term opportunities to continue to serve urban areas, the Executive remains committed to the long-term service vision for the county and will continue to promote annexation of unincorporated areas to cities. The annexation of North Highline, West Hill and East Federal Way will continue to be the top priority of the Initiative based on the significant financial savings associated with transitioning local service responsibility in these areas to cities.

Business Planning for Governance Transition

Urban Service Transition in 2008

As the Annexation Initiative has progressed, the complexities of business planning have become more clearly illuminated. While significant financial benefits will accrue over time, planning and responding to individual annexations with uncertain timeframes is challenging. The areas annexed to date have been relatively small and their services so closely integrated with those of remaining unincorporated areas that service reduction has been marginal. It is not simple to reduce expenditures and FTEs, when these same resources are still serving neighboring unincorporated areas.

In light of the complexity of service planning, the Office of Management and Budget will continue to refine and utilize the savings projection model to ensure annexations result in a net fiscal benefit for the county over time. The model provides a range of savings between the low and high scenarios. This range is large and indicative of the importance of the post annexation budget decisions to come as annexations take effect. It is realistic to assume that actual savings will be somewhere in between these two scenarios.

Even in the low savings scenario, by 2012 the General Fund is slightly better off. Under the high savings scenario, there is opportunity to make notable savings in the range of $5 million annually in the early post annexation years and considerably more in later years, as more annexations become effective and greater operational efficiencies are achieved.

Table 4 below summarizes the total net fiscal impact of the noted annexation schedule under various reduction scenarios. The scenarios are based on the following projected annexation effective dates: Benson Hill Communities – March 1, 2008; Finn Hill-Juanita-Kingsgate – mid-year 2009; North Highline – 2010; West Hill/Skyway – 2010; Fairwood Incorporation or Annexation – 2010; East Federal Way – 2010; Klahanie – 2010; Kent – 2010; Eastgate – 2010; and East Renton in small section – 2012. A detailed table of showing the phased application of target reductions by scenarios for all PAAs is included in the Supplemental Tables section of this chapter.

Table 4: Projected General Fund Savings Based on Phased Reductions
(in 2008 dollars)

	Total Annual Net Fiscal Impact (CX)					
	2008	2009	2010	2011	2012	2013
Low Savings Target Scenario	($1,430,976)	($3,886,790)	($12,029,695)	($9,409,746)	($4,656,525)	($868,137)
Direct Service Cost Savings Target	($533,507)	($968,352)	$3,208,253	$3,377,910	$3,429,432	$3,593,174
High Savings Target Scenario	($434,623)	($936,574)	$3,733,859	$7,516,571	$12,213,469	$13,011,547

The potential financial impacts of annexations for King County depends heavily on the degree to which the county is successful in significantly reducing the ongoing expenditures previously necessary to provide urban local services to these areas. Table 4 provides an estimate of the total impacts by year. The negative results indicate the degree to which the county is financial worse off compared to the current urban PAA deficit. The positive figures show the net savings that could be achieved and made available for other regional or rural purposes within the General Fund. As Table 4 indicates, under the Low Savings Target Scenario, the county would be worse off financially as projected expenditure cuts do not equal or exceed the local revenue losses that would occur with annexations. The High Savings Target Scenario illustrates that if higher proportional budget reductions are phased in over time, considerable ongoing annual savings will be available. The Direct Service Cut Savings Target Scenario assumes significant budget reductions implemented at a constant level in direct service agencies due to the loss of local law enforcement responsibilities as well as reduced need for General Fund support of DDES code enforcement and local urban parks. This scenario also conservatively assumes that no material budget savings would be garnered from agencies that do not have clearly identifiable work load reductions from annexation.

The broad range of financial impacts from annexation illustrated by the scenarios demonstrates that there must be focused attention to reduce direct, indirect, administrative and overhead costs associated with the county's provision of local services when annexations occur. With such an effort, notable savings can be achieved. Absent such an effort, the financial benefit of annexation is limited at best.

The Office of Management and Budget will continue to work with county agencies to achieve projected savings, with a focus in 2008 on the impacts of the Benson Hill annexation and in anticipation of a Finn Hill-Juanita-Kingsgate annexation – mid-year, 2009. The county will also continue to plan for the annexation of North Highline and West Hill, which receive the largest regional subsidies, and will result in the greatest annexation savings for the county.

Rural Service Realignment

In 2008, the Executive is requesting funds to support a new Rural Services Initiative. The initiative is designed to continue to provide core services, better coordinate policies and planning for rural areas, to develop new ways of evaluating the needs and expectations of rural residents, and to improve transparency, accessibility and accountability. To help meet these goals, the Rural Services Initiative sets forth a new framework for serving rural King County based on enhanced interdepartmental cooperation. The mission of the Rural Services Initiative is: *To sustain vibrant rural communities while protecting rural lands, rural character and rural lifestyle.*

The elements of the Rural Services Initiative include:

- A Rural Sub-Cabinet that will function as the leadership team for Executive rural programs and initiatives

- A new Rural Services Manager who will be accountable for coordinating rural service delivery across departments

- A team of geographically based Community Liaisons who are knowledgeable about and responsive to the interests and concerns of different parts of the rural area

- The continuation of successful interagency teams, and the creation of a new interagency Rural Planning Team

- Development and execution of a coordinated annual work program with clear and measurable objectives

- Ongoing performance measurement to evaluate the success of the initiative.

The Rural Services Initiative will help to ensure county services continue to keep pace with the changing nature of rural service needs and to provide for a smooth transition of rural services as the overall size of the county's local service responsibilities is reduced.

Further refinement of the public safety service vision for rural communities will also continue in 2008, supported by OMP direction and, potentially, if federal funding is secured, the findings from KCSO's rural community policing best practices research.

2008 Funding Request

The Executive is proposing that the funding levels and reserves approved in the 2007 Adopted Budget for the Annexation Initiative staffing and operational costs and annexation incentives be maintained in the 2008 budget with minor technical adjustments. The full benefit of annexations will not be realized until the urban service transition is complete. Maintaining resources to support complete transition will maximize the benefit of the AI and General Fund savings.

Supplemental Tables

Table 5
2008 Regional, Contract, and Local Budget Allocation – CX Fund
(In millions)

General Fund	General Fund Total	Regional Services	Contract and Grant Services	Total Unincorporated King County	Urban Local Services	Rural Local Services
Beginning Fund Balance	$112.6	$112.6				
Revenues	$645.2	$493.8	$110.8	$40.6	$25.6	$15.0
Expenditures	$663.9	$478.7	$104.7	$80.6	$46.7	$33.8
Ongoing annual surplus/(deficit) and no reserves	$93.8	$128.9	$6.1	$(40.0)	$(21.1)	$(18.8)

Table 6
2007 General Fund (CX) Local Service Revenues and Expenditures by Major Urban Potential Annexation Area
(Includes Criminal Justice sales tax revenues)
(In millions)

General Fund	Klahanie	Finn Hill	Renton East	West Hill	North Highline	Eastgate	Kent NE	East Federal Way	Fairwood Inc.	Benson Hill Commun-ities	Other Urban Islands
Revenues	$1.0	$4.2	$0.8	$2.4	$4.7	$0.4	$2.9	$2.0	$2.9	$2.6	$1.8
Expenditures											
Capital Improvement Program	$0.1	$0.2	$0.0	$0.1	$0.2	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1
General Government	$0.2	$0.5	$0.1	$0.2	$0.5	$0.1	$0.4	$0.3	$0.4	$0.3	$0.2
Health & Human Services	$0.0	$0.1	$0.0	$0.1	$0.1	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1
Law, Safety, & Justice (excluding Sheriff)	$0.1	$0.6	$0.1	$0.8	$2.4	$0.1	$0.3	$0.5	$0.5	$0.4	$0.1
Sheriff	$0.6	$3.5	$0.6	$3.8	$9.1	$0.3	$1.9	$2.8	$3.1	$1.9	$2.2
Other Agencies	$0.1	$0.2	$0.0	$0.1	$0.2	$0.0	$0.1	$0.1	$0.1	$0.1	$0.1
Parks/DDES	$0.1	$0.5	$0.1	$0.3	$1.9	$0.0	$0.2	$0.8	$0.1	$0.8	$0.3
Underexpenditures	$(0.0)	$(0.1)	$(0.0)	$(0.0)	$(0.1)	$(0.0)	$(0.0)	$(0.0)	$(0.0)	$(0.0)	$(0.0)
Total Expenditures	$1.1	$5.5	$1.0	$5.3	$14.4	$0.6	$3.1	$4.7	$4.5	$3.6	$3.0
Surplus/(deficit)	$(0.1)	$(1.3)	$(0.2)	$(2.9)	$(9.7)	$(0.1)	$(0.2)	$(2.8)	$(1.6)	$(1.0)	$(1.2)

Table 7: 2008 Non-CX Local Service Revenues and Expenditures by Major Urban Potential Annexation Area

(In millions)

	2008 Proposed Budget	Regional	Contract & Grants	Total Unincorporated King County	Urban Unincorporated King County	Rural King County
SURFACE WATER MANAGEMENT AND RURAL DRAINAGE						
Beginning Fund Balance	$0.9					
Revenues	$22.6	$0.7	$1.4	$20.5	$10.3	$10.2
Expenditures	$22.8	$0.8	$1.4	$20.6	$5.4	$15.2
Surplus/(deficit)	$(0.2)	$(0.1)	$0.0	$(0.1)	$4.9	$(5.0)
Other Fund Transactions	$0.3					
Ending Undesignated Fund Balance	$1.0					
DEVELOPMENT AND ENVIRONMENTAL SERVICES FUND						
Beginning Fund Balance	$14.3					
Revenues	$30.5	$0.0	$0.0	$30.5	$16.8	$13.7
Expenditures	$33.4	$0.0	$0.0	$33.4	$19.2	$14.2
Surplus/(deficit)	$(2.9)	$0.0	$0.0	$(2.9)	$(2.4)	$(0.5)
Reserves	$9.3					
Ending Undesignated Fund Balance	$2.1					
PARKS AND RECREATION						
Beginning Fund Balance	$2.6					
Revenues	$26.5	$20.1	$0.0	$6.4	$4.0	$2.4
Expenditures	$27.4	$20.7	$0.0	$6.7	$4.1	$2.6
Surplus/(deficit)	$(0.8)	$(0.6)	$0.0	$(0.2)	$(0.1)	$(0.2)
Other Fund Transactions	$0.5					
Ending Undesignated Fund Balance	$2.3					
REET 1 and 2						
Beginning Fund Balance	$8.6					
Revenues	$12.0	$0.0	$0.0	$12.0	$7.1	$5.0
Expenditures	$19.3	$18.9	$0.0	$0.4	$0.4	$0.1
Surplus/(deficit)	$(7.3)	$(18.8)	$0.0	$11.6	$6.7	$4.9
Reserves	$(0.3)					
Ending Undesignated Fund Balance	$1.0					
COUNTY ROAD FUND						
Beginning Fund Balance	$0.4					
Revenues	$146.2	$3.3	$15.2	$127.6	$66.7	$60.9
Expenditures	$144.8	$4.2	$15.2	$125.3	$68.8	$56.5
Surplus/(deficit)	$1.4	$(0.9)	$0.0	$2.3	$(2.1)	$4.4
OFT's	$(0.0)					
Ending Undesignated Fund Balance	$1.7					

Table 8: Local Service Budgets for Non-CX funds by PAA

Non CX Funds	Klahanie	Finn Hill	Renton East Remainder	West Hill	North Highline	Eastgate	Kent NE	Lea Hill	East Federal Way	Fairwood Incorporation	Benson Hill Communities	Auburn West Hill	Other Urban Islands
SURFACE WATER MANAGEMENT AND RURAL DRAINAGE													
Revenues	$0.4	$1.6	$0.3	$0.7	$1.6	$0.2	$1.0	$0.0	$0.8	$1.2	$0.8	$0.0	$1.6
Expenditures	$0.2	$1.0	$0.2	$0.3	$0.8	$0.1	$0.7	$0.0	$0.5	$0.6	$0.5	$0.0	$0.5
Surplus/(deficit)	$0.2	$0.6	$0.1	$0.3	$0.8	$0.1	$0.4	$0.0	$0.4	$0.6	$0.3	$0.0	$1.1
DEVELOPMENT AND ENVIRONMENTAL SERVICES FUND													
Revenues	$0.1	$3.6	$0.4	$1.0	$2.3	$0.4	$1.3	$0.3	$1.2	$1.0	$1.1	$0.1	$4.0
Expenditures	$0.2	$3.9	$0.4	$1.0	$2.2	$0.5	$1.4	$1.3	$1.3	$1.1	$1.2	$0.3	$4.6
Surplus/(deficit)	$(0.0)	$(0.3)	$0.0	$(0.0)	$0.1	$(0.0)	$(0.1)	$(1.0)	$(0.0)	$(0.1)	$(0.1)	$(0.2)	$(0.5)
PARKS & RECREATION													
Revenues	$0.1	$0.1	$0.0	$0.0	$1.6	$0.0	$0.0	$0.0	$0.3	$0.0	$1.7	$0.0	$0.1
Expenditures	$0.1	$0.2	$0.0	$0.1	$1.8	$0.0	$0.2	$0.0	$0.8	$0.0	$0.7	$0.0	$0.1
Surplus/(deficit)	$0.0	$(0.1)	$(0.0)	$(0.1)	$(0.1)	$0.0	$(0.2)	$0.0	$(0.5)	$0.0	$1.0	$0.0	$0.0
COUNTY ROAD FUND													
Revenues	$3.0	$11.7	$2.0	$3.8	$13.8	$1.5	$5.1	$(0.0)	$5.1	$7.3	$3.2	$(0.0)	$10.1
Expenditures	$1.1	$5.7	$1.3	$3.6	$14.9	$0.8	$0.6	$0.2	$4.9	$6.8	$4.6	$0.1	$24.2
Surplus/(deficit)	$1.9	$6.0	$0.7	$0.2	$(1.1)	$0.7	$4.5	$(0.2)	$0.2	$0.5	$(1.3)	$(0.1)	$(14.1)
REET 1 & 2													
Revenues	$0.4	$1.1	$0.3	$0.3	$0.6	$0.2	$0.8	$0.0	$0.5	$0.6	$0.4	$0.0	$1.8
Expenditures	$0.0	$0.0	$0.0	$0.0	$0.2	$0.0	$0.0	$0.0	$0.1	$0.0	$0.1	$0.0	$0.0
Surplus/(deficit)	$0.4	$1.1	$0.3	$0.3	$0.4	$0.2	$0.8	$0.0	$0.4	$0.6	$0.4	$0.0	$1.8

Table 9
Projected General Fund Savings Based on Phased Reductions
(in 2008 dollars)
(in millions)

	Savings Target	Federal Way	Fairwood - Annexation	Benson Hill	East Renton	West Hill	North Highline	Eastgate	Klahanie	Kent NE	Finn Hill	Total Annual Net Fiscal Impact (CX)
2008	Low	$0.0	$0.0	$(1.4)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(1.4)
	Direct Service	$0.0	$0.0	$(0.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(0.5)
	High	$0.0	$0.0	$(0.4)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(0.4)
2009	Low	$0.0	$0.0	$(1.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(2.3)	$(3.9)
	Direct Service	$0.0	$0.0	$(0.3)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(0.7)	$(1.0)
	High	$0.0	$0.0	$(0.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$(0.8)	$(0.9)
2010	Low	$(0.9)	$(1.7)	$(1.1)	$(0.7)	$(1.1)	$(1.3)	$0.0	$(0.7)	$(2.1)	$(2.5)	$(12.0)
	Direct Service	$1.0	$(0.2)	$(0.2)	$(0.1)	$0.9	$4.1	$0.0	$(0.3)	$(1.0)	$(0.8)	$3.2
	High	$0.8	$(0.1)	$0.3	$(0.2)	$0.9	$3.8	$0.0	$(0.4)	$(1.0)	$(0.4)	$3.7
2011	Low	$(0.7)	$(1.5)	$(0.7)	$(0.7)	$(0.8)	$(0.7)	$0.0	$(0.7)	$(1.9)	$(1.8)	$(9.4)
	Direct Service	$1.0	$(0.2)	$(0.2)	$(0.1)	$0.9	$4.1	$0.0	$(0.3)	$(1.0)	$(0.7)	$3.4
	High	$1.2	$0.2	$0.3	$(0.1)	$1.4	$5.1	$0.0	$(0.3)	$(0.7)	$0.3	$7.5
2012	Low	$(0.1)	$(0.9)	$(0.3)	$(0.7)	$(0.2)	$1.0	$(0.3)	$(0.5)	$(1.5)	$(1.2)	$(4.7)
	Direct Service	$1.0	$(0.2)	$(0.2)	$(0.1)	$0.9	$4.1	$(0.1)	$(0.3)	$(1.0)	$(0.7)	$3.4
	High	$1.8	$0.8	$0.8	$0.1	$2.0	$6.9	$(0.1)	$(0.1)	$(0.3)	$0.4	$12.2
2013	Low	$0.4	$(0.5)	$(0.3)	$(0.6)	$0.3	$2.4	$(0.3)	$(0.4)	$(1.1)	$(0.7)	$(0.9)
	Direct Service	$1.0	$(0.1)	$(0.2)	$(0.1)	$0.9	$4.1	$(0.1)	$(0.3)	$(0.9)	$(0.7)	$3.6
	High	$1.8	$0.8	$0.8	$0.1	$2.0	$6.9	$(0.1)	$(0.1)	$(0.3)	$1.1	$13.0

A detailed discussion of the Projected Saving Model methodology, assumptions, and scenarios was included as Attachment A to the Transmittal Letters for the Annexation Interlocal Agreements (ILAs) with the Cities of Renton, Federal Way and Auburn and the use of Annexation Incentive Funds in November 2006. Table 9 provides an update data from Table 6 above, General Fund (CX) Local Service Revenues and Expenditures by Major Urban Potential Annexation Area.