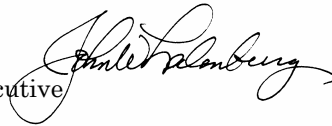


EXECUTIVE MESSAGE

December 15, 2006

TO: Pierce County Council
Pierce County Citizens

FROM: John W. Ladenburg, County Executive



SUBJECT: 2007 Pierce County Budget

Submitted herein is the proposed Pierce County Budget for fiscal 2007 as adopted by the Pierce County Council. This budget reflects our continued commitment to preserve our most vital services, and to effectively address the challenges and opportunities before us. These challenges and opportunities include public safety staffing, the expanded operation of the new jail, judicial system workload, effective land use planning and regulation, habitat preservation responsibilities, our transportation network, flooding concerns, and intergovernmental cooperation. It is my belief that this budget addresses these issues to the extent that revenues permit, and provides for cost-effective public services. The budget also largely reflects the Council priorities expressed in its mid-2006 budget resolution.

Budget Summary Highlights

The proposed 2007 Pierce County Budget totals \$868,931,228, which is \$9 million **below** the 2006 budget. However, the General Fund budget will reflect a 5.4% increase, which will allow the county to enhance several priority services.

This is the sixth 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, meth labs and other 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 2007 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, the new Prometa drug program, 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 increased resources to **Planning and Land Services** in order to eliminate the permit backlog and allow us to meet performance timelines in 2007.

Fourth, our **capital facility program** includes major improvements for parks and recreation facilities, our transportation infrastructure, the surface water management system, the sewer utility, and major remodeling at the County-City and Corporate Express Buildings.

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 2007, 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 2007 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 and 2006 will be evident in property and sales tax increases for 2007.
- 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, but the 2005-2006 rate hikes already enacted should result in large interest revenue increases in the 2007 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 modest fee increases are being proposed in the General Fund.

GENERAL FUND REVENUE SUMMARY

	2007 Budget	2006 Budget	Absolute Change	Percent Change
Property Taxes	\$ 98,031,480	\$ 93,453,510	\$ 4,577,970	4.9 %
Sales Taxes	56,750,000	50,740,000	6,010,000	11.8
Other Taxes	10,320,150	10,108,120	212,030	2.1
Licenses and Permits	9,676,760	8,964,520	712,240	7.9
Intergovernmental Revenue	29,594,530	28,315,413	1,279,117	4.5
Charges for Services	36,174,850	34,732,455	1,442,395	4.2
Fines and Forfeitures	5,464,490	4,943,950	520,540	10.5
Interest Revenue	14,254,520	10,611,350	3,643,170	34.3
Other Miscellaneous Revenue	4,039,200	4,101,512	(62,312)	(1.5)
Subtotal Revenues	\$ 264,305,980	\$ 245,970,830	\$ 18,335,150	7.5 %
Fund Balance	817,725	5,631,693	(4,813,968)	(85.5)
Total Available Resources	\$ 265,123,705	\$ 251,602,523	\$ 13,521,182	5.4 %

Based upon the above assumptions, and an in-depth review of our revenue patterns, we are projecting an increase in General Fund revenues of 7.5% in 2007.

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

Property Tax revenue collections are projected to increase by 4.9% in 2007. 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 11.8% in 2007. This is based upon the strong revenue growth in 2006 Y-T-D, coupled with projections for moderate growth in the next 12-16 months.

Other Taxes will be essentially unchanged from 2006 (gambling taxes and delinquent penalties down, and real estate excise taxes administrative fees up).

Licenses and Permits are projected to grow by 7.9% in 2007 based upon the assumption that our high level of construction permit activity will continue into next year.

Intergovernmental Revenues reflect a modest increase (4.5%) due mostly to projected increases in jail billings (jail rate hikes and the new pod).

Charges for Services are estimated to be above the 2006 budget by 4.2%. This modest change is actually composed of many increases or decreases in specific revenue sources, the most significant being:

- 1) large increases in Planning Fees based upon current activity levels and the implementation of building code costing adjustments.
- 2) large increases in election billings due to state reimbursement for odd year election costs.

Fines and Forfeits are projected to be well above the 2006 Budget (10.5%) based upon an anticipated increase in infractions issued by the State Patrol, and the fact that the state once again will be able to suspend licenses for non-payment of traffic fines.

Interest Revenues are projected to generate a large increase in 2007, due to recent short term interest rate hikes.

Miscellaneous Revenues will decrease by 1.5% in 2007, which largely reflects a modest decline in contributions, charges to other funds, and timber sales.

Prior Fund Balance – the 2007 budget utilizes only \$817,725 in prior fund balance, compared to \$5.6 million in 2006. Most of the 2007 use is for 2006 carryover projects or one-time 2007 items.

Based upon this large decline in Prior Fund Balance use, the percentage change in **Total Resources** available for next year's General Fund Expenditures is 5.4%.

Percent Change in General Fund Revenues

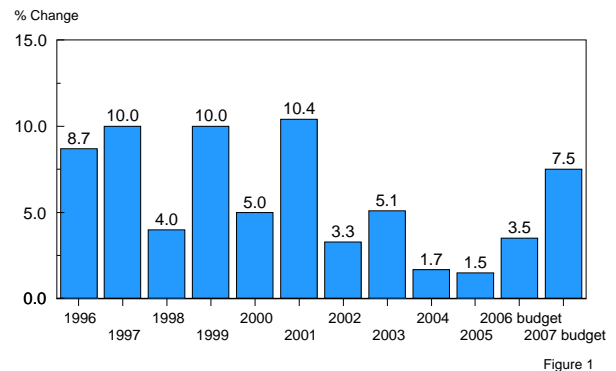


Figure 1

Comparative **revenue** increase figures for the last decade are shown in Figure 1. The increase of 7.5% in 2007 is the largest increase since I-747 was implemented (2002). 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, sales taxes, and development fees). In reviewing the recent figures versus 1996-2001 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.
- b) Initiative 747 continues to erode our real financial base. The negative impact grows exponentially each year.
- c) In several of the 1996-2001 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). No major new revenue source is reflected in the 2007 budget.
- 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 2007 unfolds; thus pushing the final percent increase above the originally budgeted 7.0% 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 six years affected by this initiative is shown in the next table. The exact revenue loss over the next several years is difficult to precisely determine, but will likely reflect the same progression (close to \$6 million per year increase in the loss level).

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 est
Total	\$ 82,889,000

These are very significant revenue losses, with the **annual amount in just fiscal 2007 equal to 9.8% of our General Fund budget**. The cumulative 6 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). The Road levy is also affected by I-747, with the 2007 loss estimated at \$9,953,000 (\$8,004,000 for the Road Fund, and \$1,948,000 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 2006-2007 is that the local economy has been extremely robust.

B. General Fund Expenditures

The projected Revenue growth of 7.5% (and 5.4% in Total Resources) will be sufficient to continue most programs and staff at the 2006 levels, and to fund additions in several priority areas as discussed below.

The Expenditure tables which follow summarize the 2007 General Fund Expenditure Budget, and compare it with the 2006 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. The 2007 decline in Legal and Judicial is due simply to the fact that the County-City Building remodel project (largely devoted to the judicial system) will be financed through another fund next year.

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 2006 which are not renewed in 2007, or vice versa.
- Several departments have other unique items in 2006 which are not present in 2007 (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

	2007 Budget	2006 Budget	Absolute Change	Percent Change
General Government	\$ 36,352,610	\$ 35,227,935	\$ 1,124,675	3.2 %
Public Safety	126,577,575	117,190,438	9,387,137	8.0
Physical Environment	2,331,750	2,208,020	123,730	5.6
Legal & Judicial	66,872,900	67,441,520	(568,620)	(0.8)
Economic Environment	21,028,780	18,307,952	2,720,828	14.9
Mental/Physical Health	3,703,640	3,521,410	182,230	5.2
Cultural & Recreation	8,012,950	7,358,480	654,470	8.9
Transportation	243,500	346,768	(103,268)	(29.8)
Total General Fund	\$ 265,123,705	\$ 251,602,523	\$ 13,521,182	5.4 %

It is necessary to review each department's situation in some detail to determine what is happening in 2007. 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 below Figure 2, the 5.4% budget increase for expenditures is above the average for post I-747 experience. The increases in 2006 and 2007 are higher than recent years due to the very strong economy, and the one-time amounts budgeted for building remodel expenses (2006).

Percent Change in General Fund Expenditures

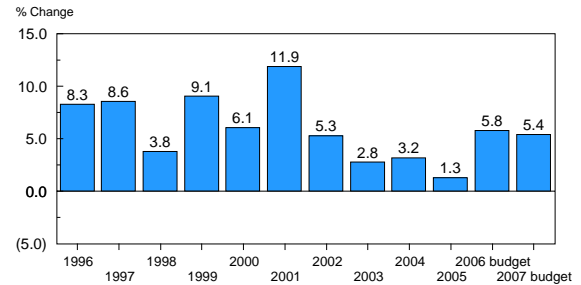


Figure 2

GENERAL FUND EXPENDITURES BY DEPARTMENT

	2007 Budget	2006 Budget	Absolute Change	Percent Change
Assessor/Treasurer	\$ 10,989,110	\$ 10,585,010	\$ 404,100	3.8 %
Assigned Counsel	13,360,670	12,448,820	911,850	7.3
Auditor	8,261,290	8,109,550	151,740	1.9
Bond Debt Service	697,610	1,369,500	(671,890)	(49.1)
Budget & Finance	5,157,210	4,801,120	356,090	7.4
Capital Improvement Projects	390,000	4,650,000	(4,260,000)	(91.6)
Clerk of the Superior Court	5,091,370	4,606,080	485,290	10.5
Communications	660,670	626,920	33,750	5.4
Corrections	44,970,680	40,824,900	4,145,780	10.2
County Council	4,040,990	3,708,870	332,120	9.0
County Executive	1,130,050	1,037,920	92,130	8.9
District Court	10,979,960	7,492,120	3,487,840	46.6
District Court Probation	—	2,750,100	(2,750,100)	(100.0)
Economic Development	1,059,130	1,014,080	45,050	4.4
Emergency Management	3,331,250	3,271,930	59,320	1.8
Health Services Department	3,053,020	3,041,020	12,000	0.4
Human Resources	3,582,480	3,292,260	290,220	8.8
Juvenile	19,071,360	17,821,628	1,249,732	7.0
Medical Examiner	1,820,650	1,701,920	118,730	7.0
Miscellaneous Current Expense	5,262,185	5,798,738	(536,553)	(9.3)
Parks and Recreation Services	6,259,710	5,967,710	292,000	4.9
Planning and Land Services	18,916,640	16,542,042	2,374,598	14.4
Prevention Services & Programs	1,665,000	1,450,000	215,000	14.8
Prosecuting Attorney	24,230,970	22,762,940	1,468,030	6.4
Public Defense Conflict Office	628,630	228,840	399,790	174.7
Sheriff	53,983,020	50,224,985	3,758,035	7.5
Special Projects	2,708,390	2,445,010	263,380	10.8
State Auditor	180,970	172,100	8,870	5.2
Superior Court	12,703,920	12,205,090	498,830	4.1
WSU PC Extension	936,770	651,320	285,450	43.8
Total General Fund	\$ 265,123,705	\$ 251,602,523	\$ 13,521,182	5.4 %

2007 MAJOR SERVICE & STAFFING CHANGES

The following is a listing of the major budget changes in services or staffing levels in 2007 for the General Fund departments:

Sheriff

- Three new Detective positions (to address felony assaults, property crimes and sex offender cases)
- One new Patrol Deputy
- One new Property Room Officer
- One Deputy (plus overtime) to address the courthouse security and warrants issues
- One road weight enforcement Deputy (funded by the Roads fund)

Corrections

- Funding for the opening of a new jail pod (12 positions plus operating expenses)

Prosecutor

- One new Attorney position (in the Civil Division)

Superior Court

- Moving Support Staff to a 7 ½ hour day (July 1)
- Funding for the Prometa pilot project (\$200,000)

Auditor's Office

- One new Animal License Technician position
- A budget allocation of \$50,000 for start-up costs at the new elections center

Emergency Management

- County funding for the PC Net Administrative Aide, formerly grant funded

Juvenile

- One new Probation Counselor (CASA-Dependency)
- Funding for the Family Dependency Drug Court program

Assigned Counsel

- Two new 70% Attorneys (Civil Contempt), one new Felony Attorney, One Attorney and Extra Hires (District Court) – all funded through a state grant
- An increase in outside panel attorney hourly rates

Parks and Recreation

- One new Maintenance Technician position

WSU-Extension

- A greatly enhanced farmland preservation program

District Court

- One additional Offender Work Crew (paid by Facilities Mgmt fund)

Budget and Finance

- One new Budget Analyst position (80%)

Human Resources

- One new Human Resource Analyst position

Medical Examiner

- Converting a .5 FTE Autopsy Technician position to full time

P.A.L.S.

- 5 new permanent staff positions to deal with workload and backlog issues.
- One new Code Enforcement position
- Two new Information Technology positions to support and enhance the new PALS Plus System

Building Remodel Projects

- \$140,000 for other remodeling projects
- A \$250,000 allocation for the purchase of clear zone property (McChord)

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 1996-2005 period, and the budgeted amounts for 2006-2007. 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 2005, and the budgeted deficits for 2006 and 2007, reflect a changed fiscal environment (I-747 related). In fiscal 2006 we budgeted a \$5.6 million use of fund balance, most of which was dedicated to one-time expenses. The proposed 2007 budget reflects a much smaller use of fund balance (\$800,000); again for one-time expenses.

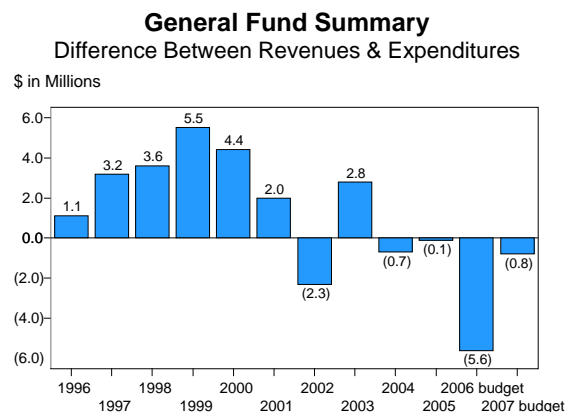


Figure 3

Unreserved General Fund Balance

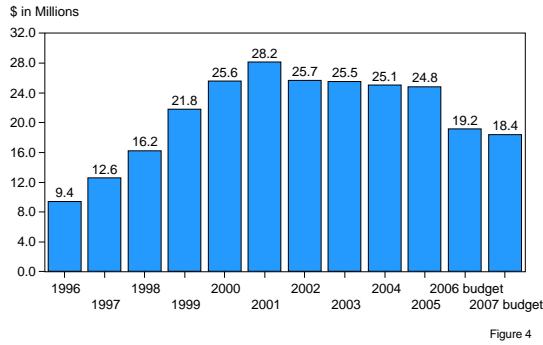


Figure 4

If the 2006 actual results match the budget, the Unreserved General Fund balance will be approximately \$19.2 million at the end of 2006 (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 8% of the budget. We will be slightly below the top of the range at the end of fiscal 2006, and still comfortably in the middle of the range at the end of 2007 (as shown in Figure 5).

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

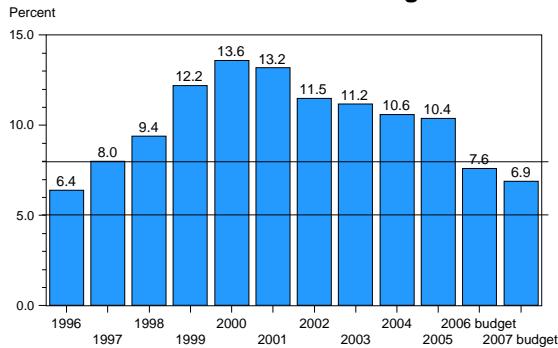


Figure 5

It should be noted that the preceding charts for 2006-2007 represent the budgeted figures. We now estimate that fiscal 2006 actual results will be much more positive than budgeted.

D. Tax Rates and Assessed Valuations

The growth in assessed valuation from 2006 to 2007 was approximately \$14.7 billion (23%), which is well above the average growth experienced in the last ten years. Approximately 17% of this growth is from new construction, with the remaining 83% due to revaluations of existing property. Percent changes in Assessed Valuation totals for the preceding ten years are shown in Figure 6 below.

Percent Change in Assessed Valuation

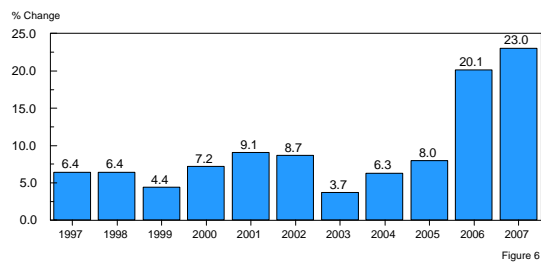


Figure 6

This huge growth in the valuation of existing property will result in **major tax rate decreases in 2007** as shown in the following table. This is the second year of very significant declines in tax rates.

General Tax Rates	2007	2006
A. General Levy (\$1.80 max.)		
General Fund	\$ 1.1141	\$ 1.3068
Veterans Relief	0.0072	0.0083
Social Services	0.0157	0.0184
Total General Levy	\$ 1.1370	\$ 1.3335
B. Road Levy (\$2.25 max.)		
	\$ 1.5234	\$ 1.8127

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 2008

In this uncertain time it is difficult to confidently project ahead to fiscal 2008. 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.
- It is likely that fiscal 2008, without the approval of any new tax increase measure, will be more challenging than fiscal 2007 for the following reasons:
 - a) 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 to continue their dramatic increases into at least 2008.

- The decrease in **Community Action** is primarily due to reductions in the energy and weatherization services, which fluctuate from year to year.
- The new **Homeless Housing program** is in its second year with fund balance carried over for expenditure in 2007. Future years should stabilize as an expenditure pattern is established.
- The reduction in **Community Development** reflects a smaller capital program for 2007.
- **Arts and Cultural Services** funding continues to shrink.
- The **Human Services Fund** now includes the Evaluation & Treatment inpatient program previously accounted for in the Puget Sound Behavioral Health Fund.

Community Services & Human Services

Fund	2007 Budget	2006 Budget	% Change
Arts and Cultural Services	\$ 206,760	\$ 232,240	(11.0)%
Community Action	6,611,170	7,035,072	(6.0)%
Community Development Fund	4,749,660	5,369,710	(11.5)%
Dispute Resolution Center Fund	158,000	175,000	(9.7)%
Homeless Housing Program	1,772,920	1,235,000	43.6 %
Housing Repair Program	6,728,480	6,412,190	4.9 %
Human Services	87,982,290	81,695,200	7.7 %
Low Income Housing Fee	4,179,760	5,218,800	(19.9)%
Puget Sound Behavioral Health	-	12,222,850	(100.0)%
Tourism, Promotion, Facilities	1,019,570	956,060	6.6 %
Human Services Construction	2,865,810	3,027,240	(5.3)%
1% for Arts Construction	653,350	734,110	(11.0)%

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 significant **changes in the 2007 budgets**:

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 2007. 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:

County Roads – roadway and traffic maintenance services, and allocations for construction projects

Public Works Construction Fund – new construction and major roadway repair projects

Ferry Services – operating and capital expenses related to Ferry services to the Islands

Airport – capital, operating and maintenance expenses at the Pierce County Airport

Roads Second REET – major specific capital projects.

Transportation Facilities – two major facility construction projects.

Traffic Impact Fees – funding for growth related roadway improvements.

The 2007 budgets, with comparisons to 2006, are show below:

Transportation Services Funds			
Fund	2007 Budget	2006 Budget	% Change
County Roads Fund	\$70,409,560	\$60,403,700	16.6 %
P.W. Construction Fund	43,461,000	33,357,000	30.3 %
Ferry Services Fund	3,957,020	14,531,870	(72.8)%
Airport Fund	742,200	3,052,407	(75.7)%
Roads Second REET	14,046,090	5,171,820	171.6 %
Traffic Impact Fee Fund	8,000,000	0	∞
Transportation Facilities	25,873,790	26,838,880	(3.6)%

The major items of note for next year are:

County Roads Fund – includes three new staff positions, significantly increased allocations for roadway construction projects, and debt service payments for two new maintenance facilities.

Public Works Construction Fund – reflects a substantially increased capital construction program.

Ferry Services Fund – the new ferry boat construction will be completed in 2006.

Airport Fund – major grant funded improvements were undertaken in 2006.

Roads Second REET – reflects an increased capital improvement program in 2007.

Traffic Impact Fee – newly created in 2007.

Transportation Facilities – includes completing the construction of the Central Maintenance and the Rhodes Lake Maintenance facilities.

C. Parks and Recreation Funding

Although the County's General Fund provides a direct allocation for parks and recreation services (\$6.3 million in 2007), there are several other county funds which provide parks and recreation services or which construct, repair or enhance parks and recreation facilities. The 2007 Budgets for these funds are as follows:

Parks Funds	
Conservation Futures	\$3,527,740
Parks Impact Fees	3,992,600
Parks Sales Tax	5,271,400
Parks Second REET	3,903,420
Paths and Trails	4,654,790
Parks Construction Fund	7,850,580
Golf Courses	2,150,000
Total	\$31,350,530

Although this \$31.4 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 programs and services.

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	2007 Budget	2006 Budget	% Change
Surface Water Management	\$26,265,850	\$25,917,630	1.3 %
Sewer Utility	91,423,100	93,453,550	(2.2)%
Solid Waste	5,483,470	4,971,130	10.3 %
Water Utility	312,900	304,170	2.9 %
River - REET	4,108,470	5,918,820	(30.6)%

Major changes in these funds can be summarized as follows:

- **Surface Water Management** – the budget increase reflects a large capital improvement program, and the addition of 2 positions.

Sewer Utility – although all of the various funds reflect a slight decrease, the budget still includes a significant capital improvement program, and the addition of 8 new positions. The budget also reflects a rate increase of 7.0% to match the impact of inflation on operating costs over the last 2 years.

River REET — the Setback Levee project near the Old Soldiers Home in Orting will be completed in 2006.

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	2007 Budget	2006 Budget	% Change
Equipment Services	\$18,748,500	\$12,529,550	49.6 %
Information Technology	18,657,810	17,321,060	7.7 %
Facilities Management	11,435,330	10,675,420	7.1 %
Radio Communications	2,405,970	2,534,150	(5.1)%
Fleet Rental	4,040,170	3,963,290	1.9 %
General Services	3,263,620	3,094,120	5.5 %
Self Insurance	8,449,390	8,795,540	(3.9)%
Workers Compensation	3,121,120	3,064,600	1.8 %

The following summarizes **significant** changes in 2007 budgets:

Equipment Services Fund — the increase reflects a \$4 million allocation for the Central Maintenance Facility, more vehicle replacements and purchases, and a large allocation for fuel costs.

Information Technology — reflects 2 additional positions and the first year funding for a back up data center.

Facilities Management — reflects 1 additional maintenance position and the operating expenses for new county owned facilities.

Many of these internal service funds will rely upon prior fund balance in order to support their 2007 budgets. This results from both the scheduled replacement of capital assets using depreciation 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 2007 budget highlights are:

- 1) The **Imaging System Fund** — contains major allocations to preserve the oldest records in the Auditor's Office, and provides funding for an electronic document management system in the Public Works and Utilities Departments.
- 2) **911 System Fund** — includes major allocations for technology improvements as well as an annual allocation for the new Emergency Operations Center.
- 3) **REET Capital Improvement Funds** — includes a substantial construction and repair program affecting several county facilities.
- 4) **Chambers Bay Golf Course Fund** — provides for the construction of the clubhouse, the "grow-in period" and the opening of the course in mid year.
- 5) **Corporate Express Building Fund** — provides monies for the remodeling of the building for occupancy by the Auditor's elections operation, General Services and the Sheriff's property room. Equally important, the budget also funds the construction of a new Emergency Operations Center.

III. UNRESOLVED ISSUES

Most issues are resolved during the budget preparation 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 2007.

Pension Rates — State mandated pension rates have increased dramatically over the last three years (from 1.38% in 2004 to 6.83% in 2007). We have factored-in the proposed 2007 rate increase into our 2007 budget. However, it is possible that the State legislature will modify those rates during their 2007 session, and any such modification is likely to be upward in order to reduce the pension systems current level of under funding.

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 2007 for the multitude of projects contained in this budget may be too low.

Union Contracts — many of our major union contracts are not yet settled for 2007. Any final settlement beyond the amounts included in this budget may result in negative service and staff adjustments.

Charter Amendments — there were several Charter amendments on the November ballot which passed. A few will result in significant additional expenses; especially the instant runoff voting proposal. Department Directors are analyzing the possible budgetary impact of each amendment on their operations. Although we are not placing a specific amount in the 2007 Budget for these potential expenses at this time, we are recommending that a portion of the General Fund Balance (\$2.0 million) be “designated” and set-aside for such expenses.

SUMMATION

The 2007 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, robust building activity, increased property values, relatively low inflation rates and rising 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
- increased staffing levels at PALS to deal with the permit backlog issue
- needed county building infrastructure improvements.

