



## Snohomish County Council

**For Immediate Release – Oct. 28, 2015**

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### **Setting the record straight on Exec. Lovick’s press release**

A recent press release from Executive Lovick’s office contained some inaccurate and misleading statements about his 2016 recommended budget and the County Council’s concerns regarding that budget. Excerpts of Executive Lovick’s press release are in italics. Council responses to those excerpts are in green text below.

“Snohomish County faces serious budget challenges that we must work together to address” said Council Chairman Dave Somers. “We need the Executive to engage with the Council directly to help identify real solutions that will get the county’s finances back on track. We can’t afford unsustainable budgets that delay taking corrective action and will only make the situation worse.”

*The council claims the 2016 proposed budget does not include actual over-expenditures or revenue shortfalls that will occur in 2015.*

- *Exec. Lovick’s 2016 proposed budget does include estimated over-expenditures and revenue shortfalls from the council-approved 2015 budget identified during budget development. These issues were accounted for and addressed as part of the executive’s 2015 year-end estimate, 2016 recommended budget and a five-year financial plan. General fund revenues were reset in 2016 to reflect 2015 revenue shortfalls, and additional funding was added to several law and justice departments in 2016 to correct for the underfunding of these services in the council-approved 2015 budget.*
- **Response: Although Executive Lovick did include some of the over-expenditures and revenue shortfalls in his budget, staff believes that the proposed budget falls**

approximately \$1.65 million short of accounting for all of the issues in 2015. This amount must be taken directly off the top of what is available for 2016.

*The council states reserves are low.*

- *The county council is the only branch of government that establishes county reserves, funds those reserves and authorizes the spending of reserves. The executive has consistently recognized the importance of fund balance (reserves), and to that end Exec. Lovick's 2016 proposed budget recommends bolstering the reserves to \$22 million or 10 percent of general fund revenue and reaching the 11 percent target in 2017. The final decision rests with council.*
- **Response:** The council does adopt the budget which includes estimates of reserves in each fund. However, costly legal settlements and large budget over-runs in Executive Branch departments and during Executive Lovick's tenure as Sheriff, have depleted the reserves to a level below what is needed for liquidity, and to a level that has not been seen since the start of the last recession.

*The council states the reserve level is "less than is needed for liquidity" and the "General Fund has repeatedly borrowed from other funds to meet its obligations."*

- *The council actually approved this practice in a 2008 approved motion. This motion states that "from time to time the General Fund may experience a low cash balance due to the cyclical nature of certain revenue receipts, particularly those from property tax revenues," which are primarily received twice a year in April and October. The motion also states that "it is standard practice in the industry" to "provide for temporary short-term borrowing between funds for liquidity purposes."*
- **Response:** Yes, interfund borrowing was approved by the Council in 2008 at the request of the previous executive as a tool to help get the county through the great recession. However, there is no disputing the fact that borrowing has become more frequent with the decline in general fund reserves. Through the end of September, eight loans from other funds totaling \$34.5 million have been required to meet general fund obligations. In some months it has been necessary to borrow twice within the same month to meet obligations which stretches the definition of "from time to time." 2015 has seen the largest level of interfund borrowing by the general fund since the height of the recession in 2010.

*The council says tax revenues are increasing, but they are not keeping pace with the growth in expenditures, and that this is not a sustainable path for the future.*

- *Exec. Lovick's 2016 recommended budget takes a holistic approach to the budget, accounting for **all** general fund revenues and expenditures. The executive has produced a fiscally sustainable budget with significant increases in fund balance (reserves) in 2016 and beyond.*
- **Response: All adopted budgets account for both revenues and expenditures so the definition of "holistic" in this context is unclear. The 2016 budget assumes that departments will achieve cuts that have never been possible before, uses one-time monies to pay for debt service, pulls \$5.3 million out of the road fund (20% more than last year), and assumes revenues that may not be realistic. This is not sustainable.**
- **The "significant increases in fund balance" is achieved only by removing the restriction council placed on \$5 million of property tax revenue that was levied for Phase 2 of the new courthouse plan and adding it to the amount of available reserves. This is not new money. In fact, the Executive included this amount in the reserves during their presentation to bond agencies earlier this year.**

*The council says there is uncertainty regarding the courthouse project and related costs – and issues regarding safety and security must be addressed.*

- *Exec. Lovick has proposed a plan for addressing safety and security concerns of the current courthouse building. Exec. Lovick's plan takes a portion of the existing bonds to keep the current courthouse on life support (not a remodel!) and to renovate the historic Mission Building to accommodate some law and justice staff. He also proposed cutting taxes by \$4 million starting in 2016 and retiring a portion of the courthouse debt (issued in April 2013), saving the county \$59 million over the life of the bonds.*
- **Response: Until the Council reaches a final decision there is uncertainty regarding the project and related costs. Additionally, in the absence of any specific information regarding the "life support" plan, it is uncertain if this approach resolves any of the safety and security issues.**

*The council claims one-time money is used to fund ongoing expenses in Exec. Lovick's budget.*

- *The executive's budget is built on sound financial management practices. Exec. Lovick's proposed budget uses ongoing revenues for ongoing operating expenses. One-time monies in the executive's responsible thing to do.*
- **Response: One-time monies are being used for debt service. These dollars will not be available after next year. The budget also relies upon more than \$1.3 million of CD/MH supplant funds that will not be available after 2016 to pay for ongoing programs such as mental health practitioners in the jail, psych evaluations and prescriptions, and funding for senior centers. There is no plan to pay for these once the money runs out.**

*The council says there's uncertainty regarding the potential loss of sales tax revenue generated by Quil Ceda Village.*

- *County officials have been aware of the Quil Ceda issue since 2000. The outcome will not likely be known until 2017, at the earliest. Exec. Lovick and his team are closely monitoring this matter.*
- **Response: In addition to simply monitoring the situation, it would be prudent to begin discussing options to deal with a potential loss of revenue that would be significant.**

*The council says contracts with a majority of the county's labor units are pending resolution and will result in higher costs for labor.*

- *Exec. Lovick's 2016 proposed budget sets aside money (similar to past practices) to pay for these contracts pending final outcome of labor negotiations.*
- **Response: The Executive's proposal contains only enough funding to cover potential COLA increases if they are negotiated within the current parameters set by the Council. Earlier this year, the Executive negotiated outside Council approved parameters. Increases that might result from medical costs or other negotiated changes beyond those contemplated under current parameters are not included in the budget presented to the Council for consideration.**

For more information, please see the attached memo regarding the Council's budget review.



## Memorandum

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To: Dave Somers, Council Chair  
From: Marcia Isenberg, Chief of Staff  
Subject: Budget Outlook for 2016  
Date: October 28, 2015

At your request, Council staff for the past several weeks has been reviewing the budget proposed by the Executive for 2016 to determine whether it is balanced, sustainable and adequate to meet the needs of the county in the coming year. Our focus in this endeavor has been primarily on the general fund as this portion of the budget funds a number of key programs and is the most susceptible to economic and other fluctuations.

Based on our preliminary review, the budget appears to be comprised of an assortment of one-time monies and potentially overly optimistic assumptions. Council staff members have identified a number of concerns regarding the viability of the plan. Some key findings include:

1. The proposed budget falls approximately \$1.65 million short of accounting for known or anticipated over-expenditure and revenue shortfalls for 2015. The number is fluid and has changed as staff obtains new updates from departments and the Executive regarding budget performance this year. But whatever the final amount, it must be taken directly off the top of what is available for 2016.
2. The 2016 budget is predicated upon departments achieving nearly \$6.5 million of under-expenditures in 2016 in three areas:
  - a. At least \$2.9 million in Service Level Reductions (SLRs). The number is actually larger than this because a handful of departments elected to take actual cuts in their budgets which are not included in the total. The total SLR amount for 2016 is nearly \$600,000 higher than the amount included in the 2015 budget.
  - b. \$300,000 in anticipated salary savings sweeps in addition to the SLRs.

- c. An additional unallocated under-expenditure assumption of \$3.43 million across all general fund departments. This is particularly concerning as many departments were unable to contribute in 2015 and there is no reason to expect that 2016 will be significantly different.
3. Reserves remain at a level below that which is needed for liquidity. The estimated year-end reserves are no greater than 6%; this is well below the 11% adopted target and the estimated 14% required for liquidity.
  - a. Through the end of September, eight loans from other funds totaling \$34.5 million have been required to meet general fund obligations. This is the largest level of interfund borrowing by the general fund since the height of the recession in 2010.
  - b. The Executive's proposed budget shows reserves increasing to 10% for the general fund, but this is only achieved by including \$5 million of property tax revenues levied for Phase II of the courthouse project. Last year the Council set aside that money to be used only for the courthouse. If that restriction remains for 2016 the level of reserves drops into single digits.
  - c. Regardless of whether the reserves are at 6% or 10%, the disquieting reality is that there is nowhere to go for additional revenues if departments are unable to meet the \$6.5 million in cuts required in 2016 or if revenues fall short of projections as they have in recent years, to say nothing of unexpected expenditure needs that could arise during the year.
4. Just this week staff learned that other categories of revenue may be overstated by at least \$700,000 for 2016. It should also be noted that the Executive's budget assumes revenues of more than \$3 million in 2016 from a new jail contract with the City of Seattle. The contract must be in place by January 1 in order for that entire amount to be realized. The contract will not be considered by the city until late November.
5. The Executive's budget includes a transfer of \$5.3 million from the Road Fund to the General Fund to pay for traffic enforcement. Although the transfer is allowed under state law and has been used for many years, the 2016 transfer is \$845,000 (20%) larger than the 2015 transfer and represents the largest ever transfer from the Road Fund. This is money that would otherwise be available for road construction, bridge replacements, safety improvements and similar projects.
6. Contracts with the majority of the county's labor unions are pending resolution and could potentially result in higher costs. The Executive's proposal contains only enough funding to cover potential COLA increases *if* they are negotiated within the current parameters set by the Council. Increases that might result from medical costs or other negotiated changes beyond those contemplated under current parameters are not included in the budget presented to the Council for consideration.

As the budget review has progressed we are learning of some new revenue sources from marijuana revenue, jail contracts with new jurisdictions and FEMA reimbursements that may materialize and help shore up the county's reserves. However, even if it all materializes and can all be used for general fund purposes, it will not fill all of the gaps in the budget for 2016, nor will it restore reserves to acceptable levels.

One of the most troubling aspects of the proposed budget is that it does nothing to begin correcting a structural imbalance in the county budget where expenditures routinely exceed revenues. The problem has been brewing over several years due in part to the recession and the 1% cap on property tax increases, and it has been exacerbated by costly legal settlements and large budget over-runs in some departments in recent years

The proposed budget also fails to prepare the county to address issues we know are on the horizon for 2017:

- The loss of \$1.37 million of supplant money from Chemical Dependency/Mental Health sales tax revenues. This money funds a significant portion of important projects including senior centers, mental health practitioners in the jail, psych evaluations and prescriptions, and Human Services programs such as Project Self Sufficiency and housing.
- Replacing \$3.17 million of REET I revenues that are proposed in the Executive's 2016 budget to pay for debt service on the CRI (Campus Redevelopment Initiative) and Cathcart debt. Much, if not all, of this revenue will not be available in 2017.

There also remains the unsettled issue of how the Council will choose to proceed with the new courthouse project. The Executive budget assumes cancellation of the project other than some "life support" upgrades to the courthouse, but that approach may not adequately address issues regarding the safety and security of persons using the courthouse on a daily basis. If the Council opts for a different approach it may result in as yet unidentified budget impacts.

In summary, the county is facing daunting fiscal challenges in 2016 and beyond. Past experience tells us a number of things: 1) that we are unlikely to fully achieve the projected level of revenues; 2) that departments are unlikely to achieve the required level of savings necessary to avoid depleting our already strained reserves even further; and 3) that using one-time revenues to pay for ongoing expenses is not a sustainable strategy, nor does it put the county in a position to begin addressing the aforementioned budgetary structural problems.

I hope this information is helpful to you as the review of the Executive's proposal continues. Please let me know if you have questions or if you need additional information regarding any of these issues.