



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY,
TRADE AND ECONOMIC DEVELOPMENT

County Financial Health and Governance Alternatives

A Study Requested by the Washington Legislature

December 1, 2007
Report to the Legislature
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Introduction & Acknowledgements

The 2007 Legislature directed the Department of Community, Trade and Economic Development to develop a report and recommendations related to county government fiscal health and governance.¹ This report includes an overview of county government, case studies, a survey of county officials, draft legislation, indicators of county fiscal distress, and several studies designed to bring together as much information as possible in one document.

We are pleased to submit this report for executive and legislative consideration, and would like to acknowledge the significant contribution of time, knowledge and experience provided by the department's county officials advisory committee. Over the course of several months, these professionals worked many hours and traveled great distances to attend meetings, debate the pros and cons of various scenarios, and shaped the recommendations embodied in this report. The committee was chaired by Rose Bowman, a former member of the state House of Representatives and now Lewis County Treasurer. Even though they represent a wide range of diverse interests, the advisory committee members reached consensus. We are indebted to them, and have the privilege of putting their recommendations forward in this report.

Advisory committee members included:

- Carl Adrian, CEO/President, Tri-City Development Council
- Peter Banks, Skamania County Prosecuting Attorney/Coroner
- Bill Barron, Clark County Administrator
- Rick Bart, Snohomish County Sheriff and Washington Association of County Officials President
- Mike Blankenship, Ferry County Commissioner
- Rose Bowman, Lewis County Treasurer
- Bob Cowan, King County Director of the Office of Management and Budget
- Buell Hawkins, Chelan County Commissioner
- Gordon Heimbigner, Walla Walla County Treasurer
- Terry Novak, Professor, Graduate Program in Public Administration, Eastern Washington University
- Timothy Sheldon, Mason County Commissioner, and Washington State Senator, 35th District
- Suzanne Sinclair, Island County Auditor, and Washington Association of County Officials Vice President
- Ken Stone, PE, Cowlitz County Public Works Director

The report is divided into several segments, and the full text is available on our web site at <http://www.cted.wa.gov/site/1044/default.aspx>.

¹ SHB 1128, Section 127(50), Chapter 522 Laws of 2007

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County Financial Health and Governance Alternatives

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
Background	1
Recommendations	1
<i>Efficiency and Effectiveness Recommendations</i>	2
<i>Governance Alternatives Recommendations</i>	2
<i>Fiscal Health Recommendations</i>	3
Conclusion.....	4
BACKGROUND.....	6
Legislative Budget Proviso.....	6
Scope of Study	6
<i>Study Components</i>	7
<i>Limitations</i>	8
<i>Definitions</i>	8
The Role of County Government in Washington State	9
<i>Counties as “Agents” of the State</i>	9
<i>How are counties organized?</i>	9
<i>How is county government financed?</i>	12
<i>Findings</i>	22
FINANCIAL HEALTH OF COUNTIES IN WASHINGTON STATE.....	23
Analyses and Findings	23
<i>Findings</i>	23
<i>An Example: The Justice System.</i>	27
IMPROVING COUNTY EFFICIENCY AND EFFECTIVENESS.....	34
Analyses and Findings	34
<i>Efficiency and Effectiveness in Government</i>	34
<i>Efficiency and Effectiveness in Washington County Service Delivery Systems</i>	35
<i>Opportunities for Further Improvements in County Efficiency and Effectiveness</i>	37
<i>Findings</i>	38
SUMMARY OF THE STUDY COMPONENTS	40
Analyses and Findings	40
<i>Summary of Governance Legislative Language</i>	40
<i>Summary of Legal Analysis of Washington County Governance Structural Options</i>	40
<i>Summary of County Governance Structure: Across the Country and in Washington State</i>	42
<i>Summary of Historical Background, County Government Structure and Finance</i>	44
<i>Summary of Washington Local Government Fiscal Stress Analysis</i>	46
<i>Summary of Case Studies</i>	47
<i>Summary of Service System Mapping and State Comparisons</i>	49
<i>Summary of County Official Survey Results</i>	50
<i>Findings</i>	55
COUNTY GOVERNANCE OPTIONS.....	57
Analyses and Findings	57
<i>Strengthen the Executive Powers of the Commission</i>	58
<i>Establish Appointed County Manager or Administrator</i>	62
<i>Amend the Constitution to Provide County Governance Commission Options</i>	67
<i>Statutory Merger of Separately Elected County Officials by Population Size</i>	69
<i>Evaluation of Options Not Recommended</i>	73

<i>Findings</i>	79
ADVISORY COMMITTEE RECOMMENDATIONS	80
CTED Recommendations	84
Appendices.....	102
Appendix A	A-1
Governance Options Legislative Language	A-1
Appendix B	B-1
Legal Memo on County Governance Parameters in Washington	B-1
Appendix C	C-1
County Governance Alternatives in Washington State	C-1
Appendix D	D-1
A History of Washington’s Local Governments: Washington State Local Governance Study Commission Report (Updated)	D-1
Appendix E	E-1
Washington State Local Government Fiscal Stress Analysis: A Comparison to State Assistance under Senate Bill 6050	E-1
Appendix F	F-1
Case Studies.....	F-1
Appendix G	
County Service System Mapping and Comparison to Other States.....	G-1
Appendix H	H-1
County Officials Survey.....	H-1

County Financial Health and Governance Alternatives

EXECUTIVE SUMMARY

Background

The 2007 Legislature directed the Department of Community, Trade and Economic Development to present a study of county financial health and governance alternatives to the Governor and Legislature by December 1, 2007.

The study request emerged as a result of legislative debate over increases in state funding for counties. The Legislature recognized counties have limited revenue options and capacity that has been further limited over the last decade. Counties in Washington also have limited organizational structure options compared to other states and Washington cities. The Legislature was concerned these limitations may lead to inefficiencies. The state has an interest in assuring that any increased state funding goes to those jurisdictions which need it the most and all counties have an opportunity to organize in a manner that is the most effective and cost efficient for their local circumstances.

The following study questions were developed to provide scope to the study:

- What factors contribute to county fiscal health?
- Which Washington counties are the most fiscally distressed?
- What potential efficiencies, cost savings and/or improved level of service may be gained “by authorizing non-charter counties greater flexibility in altering their forms of governance, including consolidating or merging constitutional or statutory functions or structures” within or among counties?
- What changes to constitutional or state law would provide counties with the legal authority necessary to implement changes in governmental structures or functions needed to optimize efficiency and/or improve service?

Recommendations

Any study of county governance and finance in Washington must balance many interests and viewpoints that are as varied as the geographically distinct regions across the state.

Based on the findings in this report (found in the appendices), and the deliberations and recommendations from the department’s county officials advisory committee, the Department of Community, Trade and Economic Development (CTED) is submitting nine proposals designed to enhance county fiscal health and encourage efficiencies and effectiveness. The recommendations are divided into three topical areas: efficiency and effectiveness, governance, and fiscal health.²

² These recommendations vary slightly in word choice and format, but reflect the recommendations agreed to by the advisory committee. A note is included when the department has added specifics or details.

Efficiency and Effectiveness Recommendations³

CTED recommends pursuing *Recommendations 1, 2 and 3*. These proposals represent three individual actions that together would increase the efficiency and effectiveness of county government.

Recommendation 1:

Further the expansion of joint or consolidated service provision among governments:

1. Amend state statutes by general law to assure that counties are authorized to enter into joint service agreements including multi-county service agreements; agreements with governments in other states and Canada; and agreements between counties and the state in all service areas including services funded with special revenue funds and services that involve enforcement programs. (See example legislative language in Appendix A.)
2. Provide professional facilitation and model service agreements that can be adapted to the needs of individual counties.
3. Ensure that state funding formulas do not penalize governments that provide services jointly. At a minimum, funding should be allocated to joint service providers at the same level as the providers would have received separately for direct service expenses.

Recommendation 2:

Work with counties through funding and collaboration to redesign county service automation where counties are acting as agents of the state. State funding of projects should include scoping, design, identification of statutory or regulatory barriers and implementation requirements, including technology infrastructure, based on proposals from the counties.

Recommendation 3:

Incrementally review and implement changes to existing state statutes to provide additional flexibility to counties related to *how* services are delivered or purchased, specifically starting with a review of purchasing/contracting and public records statutes.

Governance Recommendations

As required by the budget proviso, the study identified a number of governance structure options that could provide an *opportunity* for improvement in county efficiency and effectiveness. The study found that Washington counties lack some key governance tools that would facilitate the application of best management practices necessary to make improvements. Some options could improve efficiency and effectiveness using the current governance model and some options would move toward transforming county governance.

³ Recommendation 3 specifies purchasing/contracting and public records as the initial topics for a review of statutes. This recommendation is in line with feedback in the county official survey, but was not specified by the advisory committee.

CTED recommends pursuing *Recommendations 4, 5 and 6*. These proposals represent progressive improvements to the governance tools available to Washington counties and could be adopted as a package or individually. All of these recommendations respect Washington's tradition of local governance being determined from the bottom up rather than the top down. Example legislative language to implement *Recommendations 4, 5 and 6* is found in Appendix A. As an alternative to *Recommendation 6*, the Legislature could adopt *Recommendation 7*.

Recommendation 4:

Strengthen the existing commission form of government by expanding the executive powers of the board of county commissioners to initiate and conduct processes, programs or studies that improve efficiency and effectiveness. This should include the authority by general law to enter into joint service agreements with other counties, with the state, or with governments in other states and Canada for services funded by special revenue funds or services that involve enforcement programs.

Recommendation 5:

Provide specific statutory authority for the board of commissioners to appoint a county manager or administrator.

Recommendation 6:

Add a constitutional provision that would create a voter approved charter county, or amend an existing charter through voter petition or county legislative body-initiated appointment of a county governance commission.

- The appointed commission, instead of elected freeholders, would propose a charter or charter amendment to be placed before the people at an election. This provision could be universally available as an alternative to the freeholder charter process.
- Model county charters should be developed, at state expense, as a cost-saving resource for governance commissions and freeholders.

Recommendation 7:

In the absence of a constitutional amendment, the Legislature could reduce the number of separately elected officials in non-charter counties through state statute amendments that classify counties by population and combine duties of two or more officers, including a five-member county commission for larger counties.

Fiscal Health Recommendations⁴

CTED recommends pursuing *Recommendations 8 and 9*. These actions would enable all counties to sustain equal access to basic services.

⁴ CTED has selected elements for a county revenue enhancement package. This package was selected from options developed and endorsed by the advisory committee.

Recommendation 8:

Adopt a supplemental county revenue package beginning in 2009 to be implemented over several years that would return counties to a self-sustaining financial position.

This is an example of a supplemental revenue package:

1. Reimburse counties for state services provided by county government in order to support equal access across the state.
 - Continue ramping up reimbursement to counties to an amount equal to one-half of the cost of Superior and District Court including legal representation and facilities.
 - Begin ramping up a reimbursement to counties to an amount equal to average jail-day costs plus medical expenses for felony offenders that are held in county jails pre-sentence or post-sentence who serve state prison sentences.
 - Reimburse counties by a predetermined amount per registered voter per year to support voter registration and elections.
 - Begin ramping up a reimbursement to counties to an amount equal to 1% of tax collections to cover the cost of the assessment and collection of property taxes for the state and other taxing districts.
2. Divert a portion of the state sales tax to support county-provided state services statewide in fiscally distressed counties.
3. Clarify the property tax levy lift statute to assure voter-approved funding beyond six years.

Recommendation 9:

Adopt measures that increase the flexibility of existing county funding sources such as:

1. Consolidate existing county sales taxes dedicated to specific purposes into a single general fund non-dedicated sales tax source authorized by the county legislative body subject to referendum.
 - These taxes might include 0.3 percent public safety, 0.1 percent emergency communications and 0.1 percent mental health.
 - A county would be authorized to restrict the use of the funds or seek voter approval as a local option.
2. Remove or modify non-supplanting language in existing county revenue statutes.

Conclusion

As directed by the budget proviso, the department has developed draft legislative language which can be found in Appendix A. The draft legislation is designed to provide new tools to county government to improve the efficiency and effectiveness of basic services. The legislative language focuses on governance activities which could be completed quickly and without impact to the state budget. Example model charters were not developed for the constitutional amendment proposed in *Recommendation 6* or for any of the fiscal health recommendations because the department believes these are areas best suited for executive branch and legislative consideration and debate. However, the department is available for assistance if needed.

These nine recommendations represent significant actions, some of which could be implemented quickly with no fiscal impact to the state budget, and others that will require several years to implement and have a fiscal impact. As a body, however, the department believes these recommendations provide an opportunity to more strongly support Washington's 39 counties as they fulfill their role as "agents of the state" and deliver critical services to their citizens.

County Financial Health and Governance Alternatives

BACKGROUND

Legislative Budget Proviso

The Legislative budget proviso language reads as follows: *To the Department of Community, Trade and Economic Development...\$200,000 of the general fund-state appropriation for fiscal year 2008 is provided solely for a study to examine the fiscal health of counties. The study shall address spending and revenues, as well as the demographic, geographic, social, economic, and other factors contributing to or causing financial distress. The study shall also examine the financial efficiencies, cost savings, and improved levels of service that may be gained by authorizing non-charter counties greater flexibility in altering their forms of governance, including consolidating or merging constitutional or statutory functions or structures.*

The department of community, trade, and economic development may contract or consult with any agency, organization, or other public or private entity as it deems necessary in order to complete the study required under this section. The study may contain options and actions for consideration by the governor and the legislature, but at minimum shall recommend the changes to constitutional and statutory law necessary to provide counties with the legal authority required to implement the changes in governmental structures and functions needed to promote optimum financial efficiency and improved services.

The study shall be transmitted to the appropriate committees of the legislature and the governor by December 1, 2007.⁵

Scope of Study

The following study questions were developed to establish the scope of the study:

- What factors contribute to county fiscal health?
- Which Washington counties are the most fiscally distressed?
- What potential efficiencies, cost savings and/or improved level of service opportunities may be gained “by authorizing non-charter counties greater flexibility in altering their forms of governance, including consolidating or merging constitutional or statutory functions or structures” within or among counties?
- What changes to constitutional or statutory law would provide counties with the legal authority necessary to implement changes in governmental structures or functions needed to optimize efficiency and/or improve service?

⁵ SHB 1128, Section 127(50), Chapter 552 Laws of 2007.

Study Components

Based on the study questions, four research components were developed and data was gathered through original research using different methods to address the study questions:

The major research components of the study are:

- Background and history of existing county government structure, responsibilities and financing.
- Evaluation of county fiscal health based on qualitative and quantitative data including identifying common characteristics or factors of identified fiscally stressed and healthy counties.
- Identification, discussion and evaluation of county governance alternatives based on research into options used in other states and the range of options available under Washington's Constitution.
- Identification of efficiency and effectiveness improvement opportunities for Washington counties including those related to governance structure.

Study Methods

Information and data were collected in a variety of ways including the following original study efforts:

- Input from an advisory committee. The department appointed a 13-member advisory committee made up of 11 elected and appointed county officials from across the state, a college professor with expertise in the public sector and a local economic development executive. The advisory committee provided feedback on study content and recommendations.
- A survey of 747 county elected and appointed officials, an average of 19 per county, to gather information about county fiscal health, efficiency and effectiveness, and governance alternatives (see Appendix H).
- Mapping of major public service systems in Washington where the counties play a key role. The major parts of each of four service systems were categorized (criminal justice, human services, general government and environment/transportation) with discussion of who delivers what parts of each system, who pays for service delivery and who determines the minimum service levels. These components are compared to six other states in a similar population band with similar county services – Indiana, Minnesota, Wisconsin, Maryland, Arizona and Colorado (see Appendix G).
- Three case studies were developed to evaluate potential cost savings that might result from select governance changes. One case study evaluates merging county treasurer, assessor and auditor functions within a single county. The second looks at merging an elected position (Superior Court judge), court administration and county clerk among two or more counties. The third looks at best practices regarding joint service agreements for selected services – regional jail, urban growth area (UGA) agreements, public health, economic development, law enforcement and information technology (see Appendix F).

- Analysis of existing publicly available data, research, reports and statistics on county government, financial health or service delivery as a whole or individually (see appendices B, C, D and E).

Limitations

This report focuses on county financial health and governance. It was guided by the express desire of legislators to assist counties to be more efficient and effective in delivering public services. The five-month timeline to produce the study was very aggressive. As a result, the depth of the analysis is limited and some topics were evaluated only at a high level. Input from counties themselves was also limited by time constraints, and it is likely that not all viewpoints and existing practices were captured. While some components of the legislative study include discussion of other Washington local governments (specifically cities and special districts), the primary focus of this study was on county government. Therefore findings and conclusions related to cities and special districts on the same topics may be quite different.

Definitions

The term “county” when used in this report includes all 39 counties whether operated as charter or non-charter counties under the Washington Constitution. When specific data or evaluations are discussed for the 33 non-charter or commission form counties, it is noted.

The term “separately elected county officials” includes all elected county officials that run an independent office and *do not* report to the county commissioners. These officials are defined by the Constitution (Superior and District Court judges, sheriff, prosecuting attorney, coroner, treasurer and clerk) or state statute (assessor and auditor). The separately elected county officials are “hired and fired” in essence by the voters of the county through the election process. Accountability to the commissioners is limited by statute.

The term “business process” is a private and public sector term used to describe the combination of methods, means and steps that are involved in delivering or creating a specific service or product. Business processes in the public sector more often involve services or regulatory programs resulting in specific outcomes rather than the production of a product. Most private and public sector business processes involve the application to one degree or another of automation or technology in combination with other methods.

The term “county general fund” is a financial term used to describe the largest budgetary “account” of county government. Many counties also use the term “current expense fund.” The general or current expense fund of a county contains the revenues and expenditures for most general government and criminal justice functions funded by non-earmarked taxes and other general revenue. Funds that are set aside or earmarked for specific purposes such as road or gas taxes, grants, capital improvement funds and human services are budgeted and accounted for in “special revenue funds.”

The Role of County Government in Washington State

Counties as “Agents” of the State

Counties were developed at the time of statehood to transact public business and provide equal access across the state to key public services. In the late 1800’s, county seats were often selected because they were within one or more “days horse ride” from the farthest point in the county. At statehood, state government did not have state agencies as we know them today to conduct state business, so counties fulfilled that function as “agents” of the state. Counties collected taxes and served as the location to file official documents, vote and resolve disputes through the courts. Law enforcement was conducted locally, primarily by county sheriffs. Roads, the only form of “highway” at the time, were constructed and maintained by counties. Government business was primarily conducted in-person at the county courthouse and documented, when necessary, with hand written paper records.

Modern technology and modes of communication, record keeping and transportation have created many other potential methods for transacting public business and providing public services. However, the primary function of counties as “agents of the state” has not changed. Counties now are not the only “agents” of the state. State agencies and other local governments may also perform state functions. Counties employed 34,176 full time employees in 2006, making counties the largest state “agency” followed by the University of Washington (20,000 FTE) and the Department of Social and Health Services (18,000 FTE).⁶

Counties have evolved since statehood by playing two additional roles assigned by the Legislature. Counties provide a limited number of “local” public services to primarily rural residents and businesses. Most “urban” services are provided by cities. In addition, counties have been asked to coordinate and sometimes provide “regional” services that serve all residents within a county.

How are counties organized?

The structure of county government with its uniform system of elected legislative and judicial officials and separately elected county officials was created by the Washington Constitution at statehood in 1887 and has not been substantially changed since 1948 when the Constitution was amended to allow counties the option of greater home rule by becoming charter counties, following a constitutionally prescribed process requiring voter approval.

Today, six of Washington’s 39 counties operate under a home rule charter and 33 counties operate under the governance structure prescribed by the Constitution. The non-charter counties have only the powers given to them by the state Legislature. Home rule in Washington generally allows counties to determine their own governance system and

⁶ *Citizens Guide to State Government*, 2007 Senate Ways and Means Committee

determine what services the county provides with charter authorization versus legislative authorization. In general, home rule in Washington does not allow counties to determine their own taxing authority as it does in some other states.

All counties in Washington have a legislative and judicial branch. Five charter counties have an executive, either appointed or elected as determined by the charter. In non-charter counties the county commission has a dual role as the legislative body and executive. The executive function is shared, in part, with the separately elected county officials established by the Constitution (sheriff, prosecuting attorney, coroner, treasurer and clerk) or by state statute (assessor and auditor). The county legislative body or judiciary may also appoint other department heads that are responsible for service delivery in the areas of county roads, land use planning and permitting, public health, human services, parks and recreations, county fairs, information technology, court administration, facilities and agricultural extension.

Charter Counties

It was not until 1969 (21 years after receiving this authority) that the first home rule charter was adopted by King County. Since that time five other counties have adopted home rule charters: Whatcom (1978), Clallam (1979), Snohomish (1980), Pierce (1981) and San Juan (2005). Several counties, including Kitsap, Island, Thurston, Cowlitz, Ferry, Skamania, Grant, Skagit, Spokane and Clark counties, have tried to adopt home rule charters. Seven counties have held elections that have failed in the last decade.

When charter counties were formed, as specified in the Constitution, a board of freeholders was elected, and the result of their work was adopted by a vote of the citizens. Charter counties vary in the number of separately elected county officials from three to six. All non-charter counties have six or seven separately elected county officials, department heads that do not report to the county commissioners, depending on whether the county is small enough to have a joint prosecutor-coroner authorized by state statute.

In the five council-executive charter counties, the size of the council ranges from five members in Snohomish County to nine in King County. The council's primary duty is to adopt a budget and establish county policy. The county executive or administrator is responsible for general administration and operation of the county. The executive or administrator is also responsible for proposing the budget and, in the case of an elected county executive, has veto power over most council actions. Clallam County has retained the three-member commission form of government with responsibilities similar to boards of commissioners in non-charter counties; it also has an appointed county administrator.

A county charter can make any elected county official, except the prosecuting attorney and superior court judges, an appointive rather than an elective position. The six charter counties vary greatly in their treatment of the offices of the assessor, auditor, superior court clerk, sheriff, and treasurer. The assessor is an elected position in every county, although some make the position nonpartisan. The auditor is an elected officer in all but

one county (King), where the auditor is appointed by the council. The clerk is an appointive position in all but two counties (Snohomish and San Juan), with the appointing authority varying among the commissioners, the superior court judges, and the executive (with council confirmation). The sheriff is now an elected position in all but one county (Pierce), although most counties have made the position non-partisan. The treasurer continues to be an elected position in all but one county (King). Pierce County has combined the assessor and treasurer into a single elected position. The coroner or medical examiner has been made an appointive position in every charter county, although in Clallam County, the prosecuting attorney serves as the ex officio coroner.

Non-charter Counties

The form of government provided in state law for the remaining 33 non-charter counties is the commission form. All non-charter counties are required to operate under this form of government. There are some population-based differences in the state laws governing counties, but the basic elements of the commission form of government are otherwise the same for all of the non-charter counties.

Under the commission form, the county governing body consists of a three-member board of commissioners, elected on a partisan basis, who serve as the legislative body and also perform executive functions. No single administrator or executive oversees a county's operations under the commission form of government. The commissioners appoint some county department heads and the balance are elected and do not report to the commission. While the county commissioners establish the budget and act as the county legislative body, they share administrative functions with other independently-elected county officials, including a prosecuting attorney, clerk, treasurer, sheriff, assessor, coroner, and auditor. Other independently-elected county officials and court officers include the county prosecuting attorney and the judges of the county superior and district courts.

The independent role of the county elected officials makes county government quite different from city government, where the number of elected officials is far fewer, limited usually to a mayor and city council members. In county government, multiple elected officials are intended to provide a system of checks and balances. For example, the checks and balances that exist among the assessor's office, the treasurer's office and the auditor's office are intended to divide the responsibility of handling multi-million dollar tax funds. The county collects taxes for the cities, school districts, road districts, many other special purpose districts and other functions involved in county government. The county collects taxes from property owners based on the value the assessor sets on property and the property tax levy established by the legislative body of each taxing district. The treasurer takes the levy and the assessments to create the list of taxes owed by each property owner and bill the taxpayers.

Although there is no constitutional or statutory requirement for county commissioners to delegate any of their executive authority to an appointed administrator, it appears that some of them have, to a limited degree, chosen to do so. There is no apparent uniformity

to the job titles given to such positions, nor with respect to their duties and responsibilities. Nevertheless, there appears to have been a conscious action taken by the board of commissioners in many non-charter counties to delegate some degree of their administrative authority to an appointed administrator.⁷

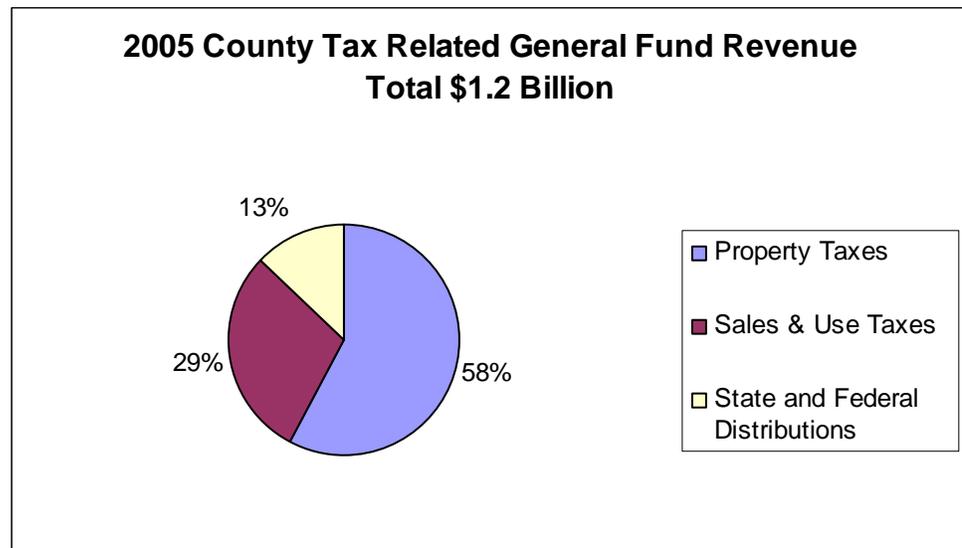
How is county government financed?

State law authorizes and limits taxes and fees that may be imposed by counties. The major tax revenue sources available to local governments are property and sales taxes for both cities and counties, and business and occupation (B&O) and utility taxes, which are authorized exclusively for cities.

As shown in Chart A, over half (58 percent) of county general fund revenues are generated from local property taxes with another 29 percent coming from sales taxes.

Similarly, Chart B shows that about one-third of city general fund revenue is from property taxes and another third comes from sales taxes. City B&O and utility taxes provide the final 31 percent of all city general fund revenue. The remainder of county and city revenue consists of distributions from the state and federal governments and other taxes, fees, fines and interest earnings. State and federal grants comprise a larger proportion of county than city revenues. The majority of state and federal funding to counties is restricted to specific purposes.

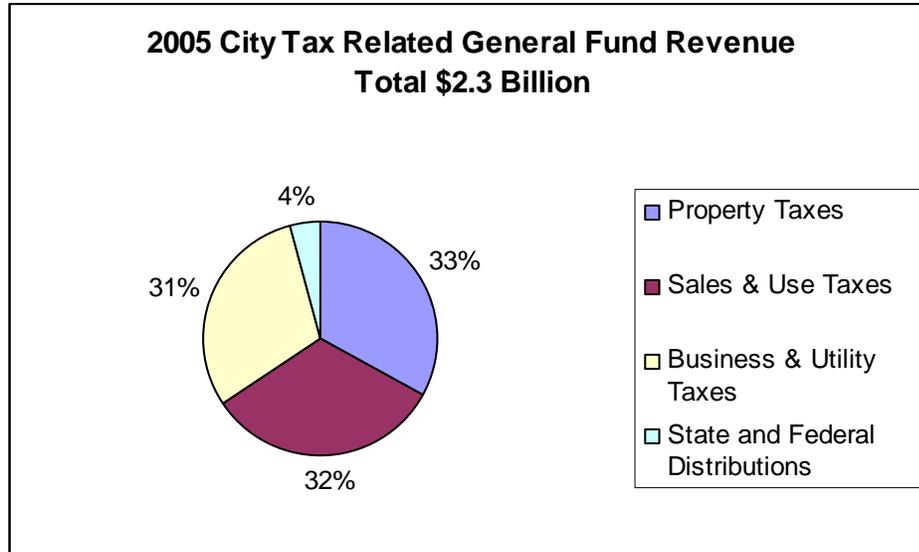
Chart A



Source: Legislative Evaluation and Accountability Program

⁷ Appendix C: County Governance Alternatives, Municipal Research & Services Center of Washington

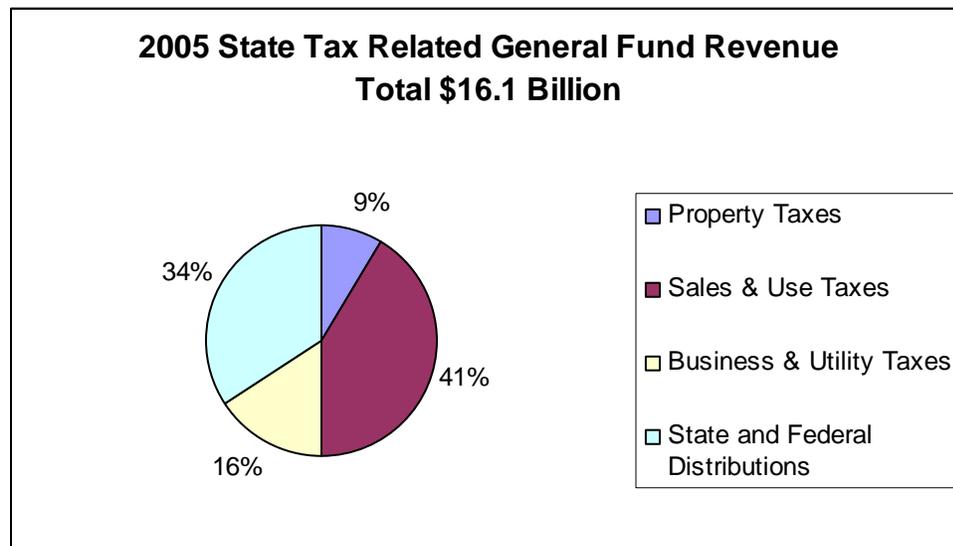
Chart B



Source: Legislative Evaluation and Accountability Program

Charts C shows comparable state revenue. The major sources of state general fund revenue are sales taxes (41 percent), federal distributions (34 percent), business and utility taxes (16 percent) and property taxes (9 percent). State and city revenue change more with economic conditions because they are more dependent on sales and business taxation while county revenue is more dependent on property taxes that are influenced far less by economic change and more by levy growth limits. Comparative overall revenue stability is frequently described in terms of “legs on a stool” (see Chart D).⁸

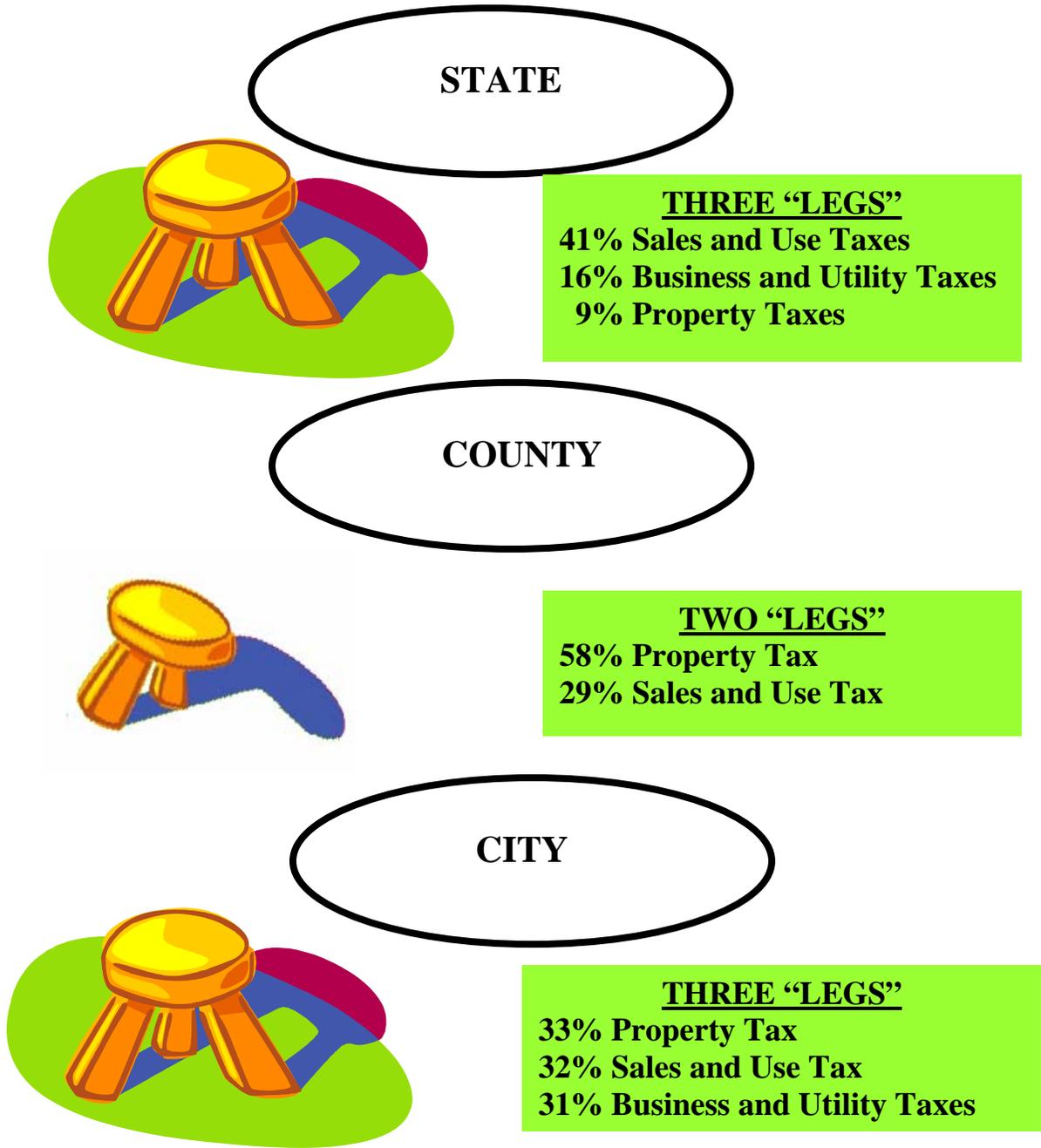
Chart C



Source: Legislative Evaluation and Accountability Program

⁸ Citizens Guide to Local Government Finance in Washington State, Senate Ways and Means Committee, 2001, p21-23 and LEAP
<http://www.leg.wa.gov/documents/senate/SCS/WM/SwmWebsite/BudgetGuides/2001/cglgf1.pdf>

Chart D: COMPARISON OF GENERAL FUND TAX REVENUE*



* Intergovernmental revenue from federal or state sources is not shown. Federal distributions to the state represent 34 percent of general fund revenue; federal and state distributions represent 13 percent of county revenue and 4 percent of city revenue.

State agencies may have separate authority to charge fees or receive revenue restricted to their operations but most are supported with significant state tax revenue from one or more of the major state sources. Counties, as agents of the state, are not always

authorized to collect similar fees. For example, state agencies are authorized to collect up to two percent of receipts for collection of sales taxes for local governments that goes to the state general fund. Since 1997, the fee charged has been one percent of collections. Counties, the primary collection agent for property taxes, are not currently authorized to collect a fee to cover collection expenses for the approximately 1,700 taxing units that levy property taxes. Based on estimates of collection costs for King County and Lewis County the approximate cost to collect property taxes is a little less than one percent of receipts (excluding county tax receipts). The state has a limited role in property tax collections that would also need to be factored into the total cost. One percent of total property tax collections for 2006 less county government tax receipts would total \$60 million.⁹

Counties receive some federal distributions that are passed through the state and some direct state tax allocations primarily in the areas of human services and transportation. Total state allocations to county general funds in 2006 were \$105 million of which \$64 million was not in the form of a competitive grant or 3 percent of total general fund revenue. Special fund revenue that comes from the state totals \$180 million including \$150 million in motor vehicle fuel tax for county roads. County criminal justice and general government services including most services the counties provide as an “agent of the state” are currently supported for the most part by local taxes and fees authorized and limited by the state. Unlike other state agencies, counties receive a very small proportion of state tax revenue.¹⁰

Major County Revenue Sources

Local property taxes and sales taxes are the two primary tax sources available to counties. Counties more than any other general purpose government entity is primarily dependent on property taxes (58 percent of general fund revenue). In addition, the state allocates to counties:

- A portion of the state motor vehicle fuel tax for transportation,
- A portion of the real estate excise tax (REET) for assistance to jurisdictions with a limited tax base (SB6050 assistance under RCW 43.08.290) and
- A portion of a number of state established fees, fines or forfeitures including court fines and forfeitures.

The state also contracts for some services, especially human services, with the counties and provides a fee-for-service reimbursement or a client based allocation.

County Revenue Capacity Changes Over Time

Since each county revenue source has been authorized by the Constitution or the Legislature, a number of changes have occurred which impact the amount of revenue the counties currently derive from each source.

⁹ 2007 Tax Reference Manual, Washington State Department of Revenue, p. 41.

¹⁰ Legislative Evaluation and Accountability Program

1. Property Taxes – 58 percent of county general revenue statewide

Property taxes are the primary source of general fund tax revenue for counties. Thirty nine counties and a little over 1,700 other taxing districts share the property taxes collected each year from property owners. The large number of special purpose districts with property tax authority can create significant taxpayer confusion and competition for voter attention since most property tax changes must be approved by the voters.

The counties have been authorized to collect the following local property taxes to fund county services:

**AUTHORIZED REGULAR AND SPECIAL LEVY PROPERTY TAXES
AND NUMBER OF COUNTIES CURRENTLY LEVYING**

Taxing District/Purpose	Maximum Rate	Levying Counties	RCW Cite
County – General Purpose	101 percent of prior year levy plus value of new construction times tax rate up to \$1.80	39	84.52.043
County Road	101 percent of prior year levy plus value of new construction times tax rate up to \$2.25	39	36.82.040
County – criminal justice	\$0.50 per \$1,000 assessed property value	0	84.52.135
County - veterans assistance	\$0.27 per \$1,000 assessed property value	34	73.08.080
County - mental health/dev. disability	\$0.025 per \$1,000 assessed property value	39	71.20.110
County - lands assessment fund	\$0.125 per \$1,000 assessed property value	0	36.33.140

Source: Department of Revenue Tax Manual

All counties levy the county general purpose and county road property taxes. Due to changes in the tax system as a result of citizen initiatives, the property tax rate is no longer the controlling factor in property tax collections. This means that the prior \$1.80 county general purpose property tax rate and the \$2.25 road tax rate no longer control the amount of revenue collected by the counties. While not all tax rates are at the maximum

for various reasons, the amount of revenue that can be collected by a county per year is limited by Initiative 747 to 101 percent of the prior years tax levy in dollars plus tax revenue from new construction. This means that if the property tax levy for County A was \$1 million in 2005 then up to \$1,010,000 can be levied in 2006 plus revenue from applying the county tax rate to the value of new construction, if any. Prior to 2001 a county could levy up to 106 percent of the prior year's levy plus new construction. Record building activity in some parts of the state have resulted in new construction levels that represented 2.77 percent to 2.45 percent increases in assessed value from 2003 to 2005. Shifts in economic conditions will likely reduce these rates in future years.

Property tax limitations, especially in those counties where new construction activity is low, have forced counties to cut services, divert road taxes to the general fund, defer replacing capital assets and costly technology and institute efficiencies so that the counties can keep up with cost increases, many pegged to inflation rates that are above 1 percent.

As of 2004, over 100 property tax exemptions or deferrals have been adopted by the Legislature that affect county tax bases by shifting the tax burden among classes of taxpayers. These exemptions represented a statewide aggregate of \$29 billion in taxpayer savings or an 80 percent exemption rate compared to \$7.2 billion in collections for all taxing districts.¹¹

County property tax revenue can no longer be increased in size except by the method described above so that counties with very small tax bases due to high percentages of public land, open space taxation, current use taxation, a large number of senior citizen exemptions or limited development are restricted to their current tax revenue base with very limited growth potential.

Based on a 1999 property ownership study by the Washington State Recreation and Conservation Office, 40 percent of all land statewide is in public ownership and 60 percent in private (54 percent) and tribal (6 percent) ownership. Twelve counties have more than 50 percent of their land base in public ownership: Chelan, Clallam, Ferry, Jefferson, Kittitas, Okanogan, Pend Oreille, Skagit, Skamania, Snohomish, Whatcom, and Yakima. In rural counties especially, property tax exemptions further limit the amount of "taxable land". In Ferry County for example only 19 percent of total land is taxable.¹²

Additional property tax authority

Counties have generally not levied the \$0.50 criminal justice property tax authorized in 2004 because:

¹¹ Washington State Department of Revenue 2004 Tax Exemption Report

¹² Ferry County Management and Organizational Review, CTED, October 2005, p. 16.

- Voters have not approved the tax which requires a supermajority¹³ (60 percent) “yes” vote.
- The revenue generated in limited tax base counties is small. In Ferry County for example, the revenue raised by this tax would have totaled \$183,000 per year compared to a \$1.2 million shortfall; however the voters failed to approve it with a 70 percent “no” vote.
- The tax is only available to counties of 90,000 population or less and has a limited term of six years which restricts its use for ongoing service requirements.
- The supermajority requirement makes the tax politically impractical in some counties.

Counties have generally not levied the lands assessment property tax because it is for unique and restricted purposes – payment of property assessment installment payments for diking or drainage improvements on county-owned land.

County government has the authority under RCW 84.55.005 to override the 101 percent limit by majority voter approval for up to six consecutive years. Elections for this purpose must be held at a primary or general election. The title of each ballot measure must state the specific purposes for which the proposed levy increase shall be used, and funds raised under this levy shall not supplant existing funds used for these purposes. King County is the only county to implement property tax levy lifts in the last three years. Levy lifts were approved for a fingerprint identification system (AFIS), Parks, and Veterans/Family Services.¹⁴

Counties have generally not requested nor had successful levy lift property tax elections because;

- The tax levy lift authority is relatively new.
- The maximum six-year limitation restricts the use of the funds because funding is temporary.
- A number of special districts have levy lift authority propositions which appear on the ballot frequently (primarily school districts and fire districts) that overlap and compete with county ballot propositions.
- In counties where assessed value is growing rapidly, there can be confusion about the impact of property tax levies on property owner tax bills. This fact influences the political feasibility of ballot measures related to property taxes.

2. Sales and Use Taxes – 29 percent of county revenue statewide

Counties have been authorized to collect the following local sales and use taxes to fund county services. Sales tax rate levels are a concern for the sixteen border counties where competition for retail sales with other states or Canada may be an issue. In response to

¹³ This requirement used to parallel the supermajority requirement for school district special levies. The November 2007 election changed the school district levy from a supermajority to a simple majority requirement.

¹⁴ Washington State Department of Revenue Research Division

specific needs, a number of new county special purpose sales taxes have been authorized over the last decade:

IMPLEMENTATION OF LOCAL SALES TAX AUTHORITY

Taxing District/Purpose	Maximum Rate	Levying Counties	Shared Revenue	Voter Approval Required
County Basic Rate	0.5%	39	County only	No
County Optional Rate	0.5%	36	County only	Subject to Referendum
Transit Tax	0.1 to 0.9%	10	District	Yes
Criminal Justice	0.1%	32	Shared with cities – 10 percent goes to county plus a proportion based on unincorporated population	Subject to Referendum
Juvenile Corrections Facilities	0.1%	14	County only	Yes
Rural Counties (credit against state sales tax)	0.09%	32	County only	No
Emergency Communications	0.1%	9	Permitted	Yes
Public Safety	0.3%	4	Shared with cities – 60 percent county	Yes, Majority
Public Facilities	0.2%	1	District	No
Transportation Benefit	0.2%	0	District	Yes
Mental Health	0.1%	6	County only	No

Source: Department of Revenue Tax Manual with updates by advisory committee

Most counties have adopted local sales taxes that do not require voter approval. Some border counties (there are sixteen border counties) do not levy sales taxes beyond the basic rate due to their location adjacent to states with no or limited sales taxes. All counties that are classified as “rural counties” levy the rural county tax which is limited in purpose to economic development-related infrastructure.

A county’s sales tax revenue base is limited to taxes on unincorporated area sales plus 15 percent of incorporated area sales. Incorporation and annexation into cities reduces the counties’ sales tax revenue base and creates an economic disincentive for counties, some believe, to implement growth management policies that allocate urban land uses to cities. It is also sometimes believed that county service delivery demands decrease with

annexation or incorporation and this is true for local services such as basic law enforcement or land use permitting but it is not true for the majority of county services that are provided to all residents as an agent of the state or are regional in nature.

Counties have seen significant shifts since 1990 when the Growth Management Act was adopted in their sales tax revenue bases due to incorporation of 15 cities and annexation of significant land area. In fact, statewide unincorporated population has decreased to 38.7 percent of the state total in 2007, a considerable shift from 48 percent in 1990. Between 1990 and 2007, 774,000 people and a land area just slightly smaller than all of Clark County moved from unincorporated to incorporated status. This statewide shift has been even more significant in individual counties such as Benton, Clark, Douglas, King, Kitsap, Pierce, Snohomish, Spokane and Yakima. In fact, there are now three counties where the incorporated population represents over 80 percent of the total county population – King, Franklin and Whitman.¹⁵

The shift of population into cities has had a significant impact on county sales tax revenue. Between 1990 and 2007, at an average annual per capita sales tax amount of \$59.43 to \$90 (2006 Department of Revenue tax distribution statistics) the shift of 774,000 people into cities represented an estimated *loss* of \$46 million to \$70 million per year. Approximately 1,001,000 more in unincorporated population still reside in urban growth areas (UGA) statewide and remain to be annexed or incorporated (estimated based on remaining UGA population in six counties in the CTED Annexation Study plus 20 percent for the balance of the state) for a potential additional loss of \$60 million to \$90 million in sales tax revenue. The total of \$106 million to \$160 million per year represents an overall *loss of 27 to 42 percent of county general fund sales tax revenue*. This situation increases pressure on counties to approve development of commercial activity in rural areas, encourages county interest in providing utility and other urban services and encourages counties to oppose city annexation or incorporation efforts which is counter to state growth management policies.

The passage of the Streamlined Sales Tax program by the 2007 Legislature will shift some sales tax revenue from cities to counties and mitigate the impact of the change in “sourcing” laws for three counties. Overall, sales tax revenues to counties will increase by 5 percent or an estimated \$28.9 million in 2009 increasing to \$35.2 million in 2013 when fully effective. The largest shifts in revenue are occurring in the counties with the largest tax bases – 80 percent of the gain is in King, Pierce, Snohomish, Kitsap, Whatcom, Skagit, and Thurston counties.¹⁶

There were 140 sales tax exemptions or deferrals in 2004 that have been adopted by the Legislature that affect county revenue by reducing tax receipts. Some of the larger exemptions are for industrial plant and equipment purchases; new construction in certain industries or for specific types of projects; and, sales taxes on motor vehicles. The sales tax exemptions in total provide \$24 billion in taxpayer exemption benefits compared to \$9.7 billion in collections. The 2006 Legislature embarked on a multi-year sunset review

¹⁵ Washington State Office of Financial Management, Population and Annexation Statistics

¹⁶ Local Government Fiscal Note for SSB 5089, 2007

of sales tax exemptions which, if implemented, may increase county sales tax revenue bases marginally over time. Most major sales tax exemptions are not subject to review.¹⁷

There are three special purpose sales taxes authorized by the Legislature in recent years that only a few counties have enacted.

1. The emergency communications 0.1 percent sales tax (RCW 82.14.420) was authorized in 2002 and is restricted to use for emergency communications systems and facilities (not operations). Not all counties have needed major updates to their systems and facilities since 2002. To date, nine counties have levied the tax: Clallam, Grant, Grays Harbor, Jefferson, Kitsap, Lincoln, Skagit, Thurston and Whitman. This tax was on the ballot in Spokane County in November 2007 and as of November 27 appears to be failing by a small margin.
2. The public safety 0.3 percent sales tax (RCW 82.14.450) was adopted in 2003. At least seven counties have placed this tax on the ballot with four counties approving: Walla Walla, Spokane, Whatcom and Yakima. This tax has not been widely approved by other counties to date because:
 - The revenue generated in limited tax base counties is extremely small. Ferry County for example would gain a total of \$59,000 per year against a total shortfall of \$1.2 million.
 - The uses of the tax are limited to “new” service and cannot be used to replace existing program funds.
 - Some border counties do not levy sales taxes beyond the basic rate due to their location adjacent to states with no or limited sales taxes. Higher tax rates are seen as affecting sales volumes and reducing overall tax collections.
3. The mental health 0.1 percent sales tax (RCW 82.14.460) was adopted in 2005. The tax has been imposed in at least seven counties: Clallam, Clark, Island, Jefferson, King, Skagit, and Spokane. The tax has not been widely approved by other counties to date because:
 - The tax is new.
 - The revenue generated in limited tax base counties is extremely small. Ferry County, for example, would gain \$33,000 per year.
 - The uses of the tax are limited to “new” service and cannot be used to replace existing program funds.
 - Some border counties do not levy sales taxes beyond the basic rate due to their location adjacent to states with no or limited sales taxes. Higher tax rates are seen as affecting sales volumes and reducing overall tax collections.

The transportation benefit, transit and public facilities sales taxes are levied for narrow purposes on behalf of special districts that may be created countywide. While the transportation benefit district, for example, may fund part or all of a county road project

¹⁷ Washington State Department of Revenue Tax Exemption Study, 2004

the creation of the benefit district requires actions of multiple jurisdictions. None of these taxes may be enacted to support general county government operations.

Findings

- Over the last decade significant changes have occurred which make the counties “two legged stool” less stable through over-reliance on property taxes – a boundary has been crossed for many counties which results in external forces controlling *both* the majority of revenue and service demand drivers. These forces are working in opposition, decreasing revenue base growth while increasing demand at the same time. *This conflict needs to be addressed by reducing county responsibilities or increasing revenue at the same time that assistance is provided to increase efficiencies and effectiveness.*
- Some counties with small tax bases under the current county revenue structure cannot finance basic services even with maximum taxing authority.
- The environment that counties operate in today has changed since the existing tax system for counties was adopted. It used to be that if a county needed a better revenue base it could use its land use decision authority. Much of this flexibility has been preempted or limited in recent decades. Through an incremental series of changes, today’s county funding system does not match the circumstances now facing counties.
- The counties’ revenue base has become more inelastic over the last decade, significantly contributing to fiscal distress and jeopardizing equal access across the state to basic services provided by counties as “agents of the state.” Increasing county revenue flexibility could include adding more elastic revenue to the counties’ revenue structure, changing non-supplanting language within existing revenue authority and changing restrictions on the use of special revenue fund interest earnings. Revenue elasticity is an important tool for counties to keep pace with service requirements and labor costs.
- State support to counties’ general funds, where many state agent services are funded, is limited to 3 percent, a number much smaller than other state “agencies.” In addition, the state has not authorized counties to collect some of the same fees that other state agencies collect to offset the cost of service delivery.
- County general fund revenue has been fundamentally changed by three separate actions: annexation and incorporation reducing sales tax revenue by almost one third; elimination and limited replacement of the Motor Vehicle Excise Tax (MVET); and the property tax 101 percent levy growth limitation. These actions have significantly negatively impacted county general fund revenue, even though the Legislature has taken some actions to increase county revenue authority including additional special purpose sales tax authority, the city-county assistance program under RCW 43.08.290 and the Streamlined Sales Tax program adopted in 2007.

County Financial Health and Governance Alternatives

FINANCIAL HEALTH OF COUNTIES IN WASHINGTON STATE

Analyses and Findings

In April 2006, the Office of Financial Management (OFM) requested that the Department of Community, Trade and Economic Development's Local Government Division assist them with an analysis, using contemporary methods, of local government financial condition in Washington's 320 cities and counties (see Appendix E).

A nationally recognized method of assessing local government financial condition was used to evaluate the fiscal distress of Washington's counties and cities. The financial indicator method has been in use for over 30 years in individual local governments and in some states and has been refined with time. Ten key indicators of financial condition were selected for Washington cities and counties. These indicators were used to determine which jurisdictions in the state are experiencing the most financial stress based on data collected between 1994 and 2004. Data was collected from generally available state sources for all 39 counties and 281 cities. The group of selected indicators was balanced to reflect the health of each local government's revenue base, demand factors effecting local government service delivery, and financial results of operations.

The OFM study was reviewed by the CTED advisory committee. The advisory committee found that there were additional significant non-quantifiable factors that influence county fiscal health. The input of the advisory committee was combined with material from the OFM report on fiscally distressed counties to reach the following conclusions.

Findings

1. The financial condition of Washington's local governments generally declined during the 1994-2004 decade based on the selected stress indicators. Of the ten indicators of financial health: two improved over the decade, five showed decline, and three had mixed results or could not be comparatively measured. Continued monitoring of local government financial condition over time would increase the number of measures that could be comparatively studied. The ten indicators were:
 - Indicator 1: General Fund Revenue Per Capita
 - Indicator 2: Revenue Elasticity
 - Indicator 3: Cash Balance
 - Indicator 4: Proportion of Expenditures Used for Capital or Debt
 - Indicator 5: Proportion of Revenue Restricted for Specific Uses
 - Indicator 6: Property Tax Burden

- Indicator 7: General Fund Operating Gaps
 - Indicator 8: Economic Condition
 - Indicator 9: Tax Base Condition
 - Indicator 10: Service Demand
2. The advisory committee concluded that:
 - Every county in Washington is fiscally distressed, the level of distress and reasons differ and so may the solutions.
 - As an agent of the state, counties have an inadequate tax base to meet basic service requirements and provide equal access to services across the state.
 - The fiscal stress indicators should be considered for use in light or in context of what counties have already done to make service and staff cuts to get to their indicator scores. Counties have exerted different levels of effort to cut costs.
 - The **best indicators** of county fiscal distress are:
 - Restricted revenue (Indicator 5)
 - Revenue elasticity (Indicator 2)
 - Service demand with a change in how demand is measured to measures such as criminal case filings (Indicator 10)
 - Tax base condition (Indicator 9)
 3. Counties that had the largest number of stress indicators are generally smaller in population and are grouped in three areas of the state (northeast, southeast and south central/west).
 4. There is a high degree of overlap between the groupings of local governments with high levels of financial stress and local governments with low employment and personal income growth. Any programs that affect the economic health of these regions of the state over the long term may also improve the financial health of the associated local governments.
 5. The state of Washington has provided individual (Ferry County in 2005) and programmatic aid including SB 6050 local government assistance to financially stressed local governments over time. Washington does not monitor or report on the financial condition of local governments based on consistently reported measures unlike some other states. State statutes provide for local governments to declare insolvency (RCW 39.64 Taxing District Relief and RCW 35.21.750 Public Corporations – Insolvency), but to date no county has used these statutes.
 6. During the last forty years nationally, there has been operating insolvency or debt default by local governments in other states. These local governments have been temporarily reorganized, come under state or judicially ordered independent control, or found themselves subject to budget supervision by the state. Washington does have well defined protections in place for some areas of high financial risk in local government operations that have caused significant financial issues nationally. Two

examples are investment restrictions and funded retirement programs. There are other areas of high financial risk however for Washington local governments.

7. Washington State has an interest in the financial viability and effective management of local governments because they are a key partner in the delivery of state programs. Counties and cities are important strategic partners in the delivery of \$20.7 billion in non-education related governmental services in Washington (Legislative Evaluation and Accountability Program, 2004). States across the nation have a stake in local governments' fiscal health and condition since local fiscal crises can affect the state's bond ratings, the economic development potential of the state, and the quality and quantity of public services (See appendix G).
8. Realigning SB 6050 assistance to focus on the most fiscally distressed local governments in the short term may assist them to reduce their immediate level of fiscal distress. It may be appropriate to evaluate distributing all or a portion of SB 6050 assistance in a manner that provides a larger proportion of assistance to the most stressed jurisdictions. Short term assistance may also provide a window of opportunity for these local governments to focus on strategies to eliminate their fiscal distress over the longer term.
9. It is likely that SB 6050 assistance alone will not be sufficient to address the most fiscally distressed local governments' basic service delivery requirements because the amount of assistance in most cases is smaller than the local government's need.
10. The advisory committee identified some additional factors that they felt should be considered by the Legislature in assessing fiscal distress that are difficult to quantify:
 - The impact of significant change in state policies that drive county service delivery or enforcement systems or levels of service. Examples include the Growth Management Act, criminal sentencing guidelines, transportation capacity requirements and storm-water quality standards.
 - Implications of land use and public ownership patterns guided by the Growth Management Act and other state or federal policy decisions on county sales and property tax base capacity.
 - Regionally differentiated impacts of major changes in revenue such as property tax limitations, the repeal of MVET, large annexations or city incorporations or radical changes in community economic conditions.
 - Legacy financial obligations that reduce county resources. Some examples include employee or retiree health or retirement benefits, environmental cleanup requirements, legal suit settlements, diversion of county road funds to criminal justice and impacts of delayed technology or capital infrastructure replacement.
 - Some counties have been less aggressive than others in county policy and/or management decisions that control or cut costs. Some examples might be labor agreements, pricing of contract services, level of service standards, funding of discretionary services, county initiated operating practices, large capital projects, accumulated debt or budget and cash management practices.

- Significant changes in demand for high cost mandated services like criminal justice, human services, transportation, land use/environmental regulation or waste disposal.
 - Regional differences in economic vitality and diversification.
11. Counties bear \$1.2 billion (2005) or 29 percent of the total \$4 billion cost of the state’s justice system. They have primary responsibility for rural law enforcement, the courts, legal representation and the intake including medical costs of all classes of felony offenders. Other findings related to criminal justice include:
- State determinate sentencing policy and the effectiveness of city law enforcement are driving factors in service demand heavily impacting county criminal justice costs. State policy also is a determining factor in the level of revenue available to pay for service delivery. These demand drivers are in conflict with policy changes that reduce county revenue, affect tax bases or limit the use of revenue.
 - Counties have not seen any relief from the effects of the increased number of sentences generated by the state Sentencing Reform Act. The average length of stay for a pre-sentence felon in King County Jail for example was 23.4 days in 1996 and 52 days post-sentence. In 2005 the average length of stay pre-sentence had increased to 27.6 days and post-sentence to 78.7 days.
 - County efforts to be more efficient and effective in the criminal justice arena are heavily dependent on the cooperation of other stakeholders in the system.

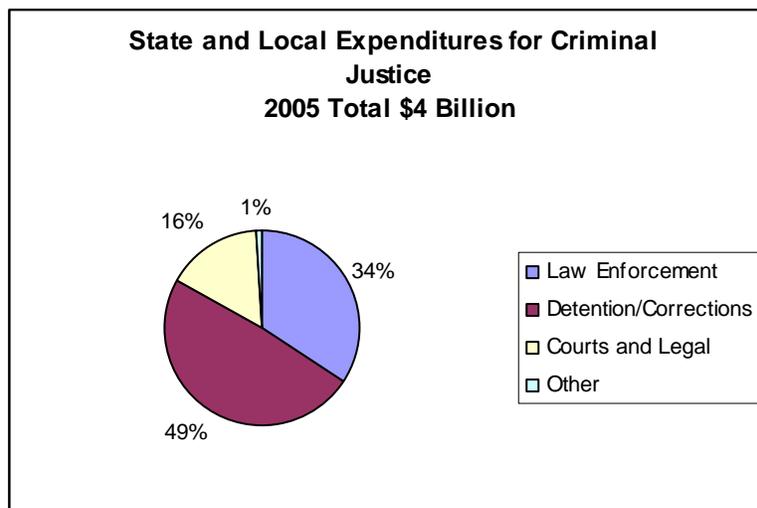
(For additional detail, please see the criminal justice example below.)

An Example – The Justice System¹⁸

There are a number of state policies that drive service delivery costs at the county level. For example, criminal sentencing policy as expressed in state determinate sentencing guidelines (affects county law enforcement, court and jail costs) and state tax exemption policy (affects property tax collection administrative and technology costs). These demand drivers are in conflict with policy changes that reduce county revenue, affect tax bases or limit the use of revenue. As an example of this core issue, the criminal justice system was examined. Criminal justice represented \$1.1 billion or 71.4 percent of county general fund expenditures statewide in 2006, these costs are in contrast to assessor, auditor and treasurer expenditures which represented \$148 million statewide.¹⁹

Looking at the funding of the criminal justice system at both the state and local levels one can see that it is a large system (\$4 billion per year) with major responsibilities for different components distributed among the state, counties and cities (See Charts E and F). Chart E shows the distribution of expenditures among the components of the criminal justice system with the largest share of funds going to detention and corrections followed by law enforcement and, finally, courts and legal representation.

Chart E



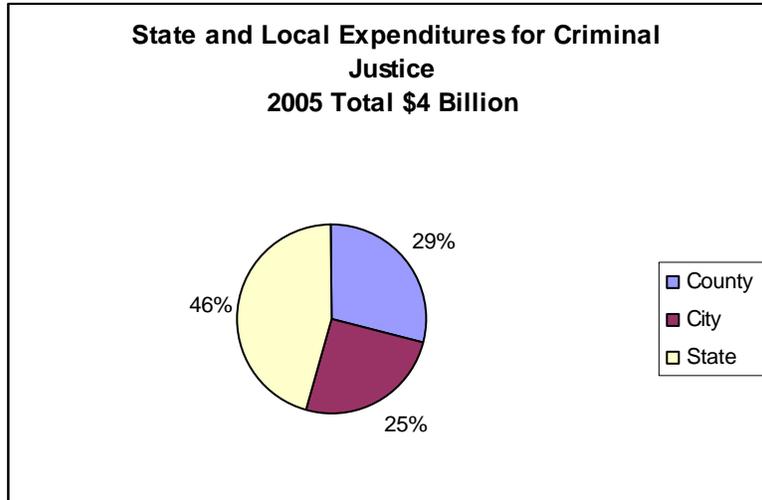
Source: Legislative Evaluation and Accountability Program

Chart F shows the distribution of expenditures among the state and local government, with the state expending 46% of the total for criminal justice and local government 54%.

¹⁸ This example does not include costs of the civil justice system.

¹⁹ Local Government Financial Reporting System, Washington State Auditor’s Office

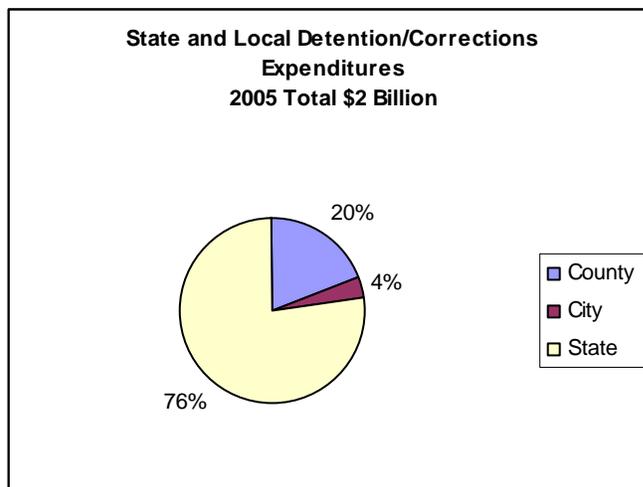
Chart F



Source: Legislative Evaluation and Accountability Program

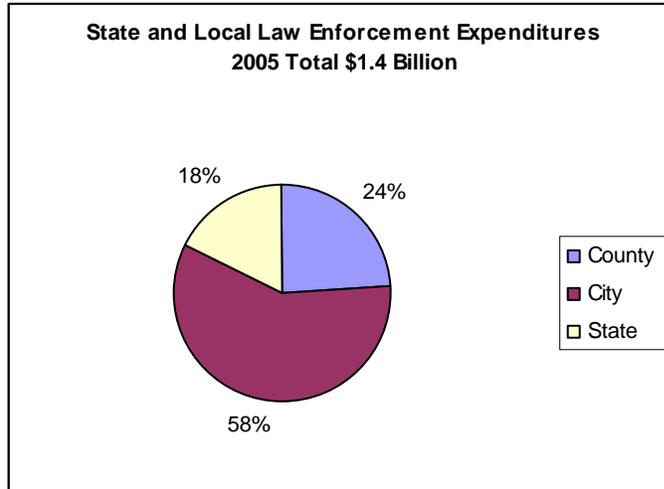
The criminal justice system in Washington is currently designed so that responsibility for funding law enforcement falls primarily to local governments with cities having primary financial responsibility in urban counties (see Chart H), the responsibility for funding the courts and legal representation falls primarily to the counties (Chart J) and the responsibility for funding detention falls primarily to the state (Chart G). *Each of the units of government, however, has a funding and service delivery role, at least in part, within each of the components.*

Chart G



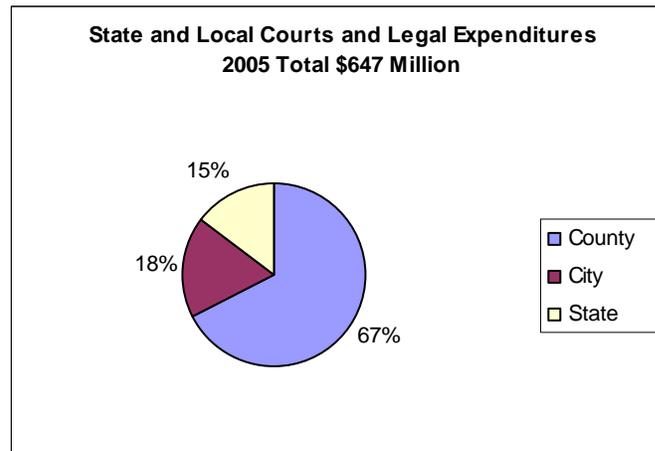
Source: Legislative Evaluation and Accountability Program

Chart H



Source: Legislative Evaluation and Accountability Program

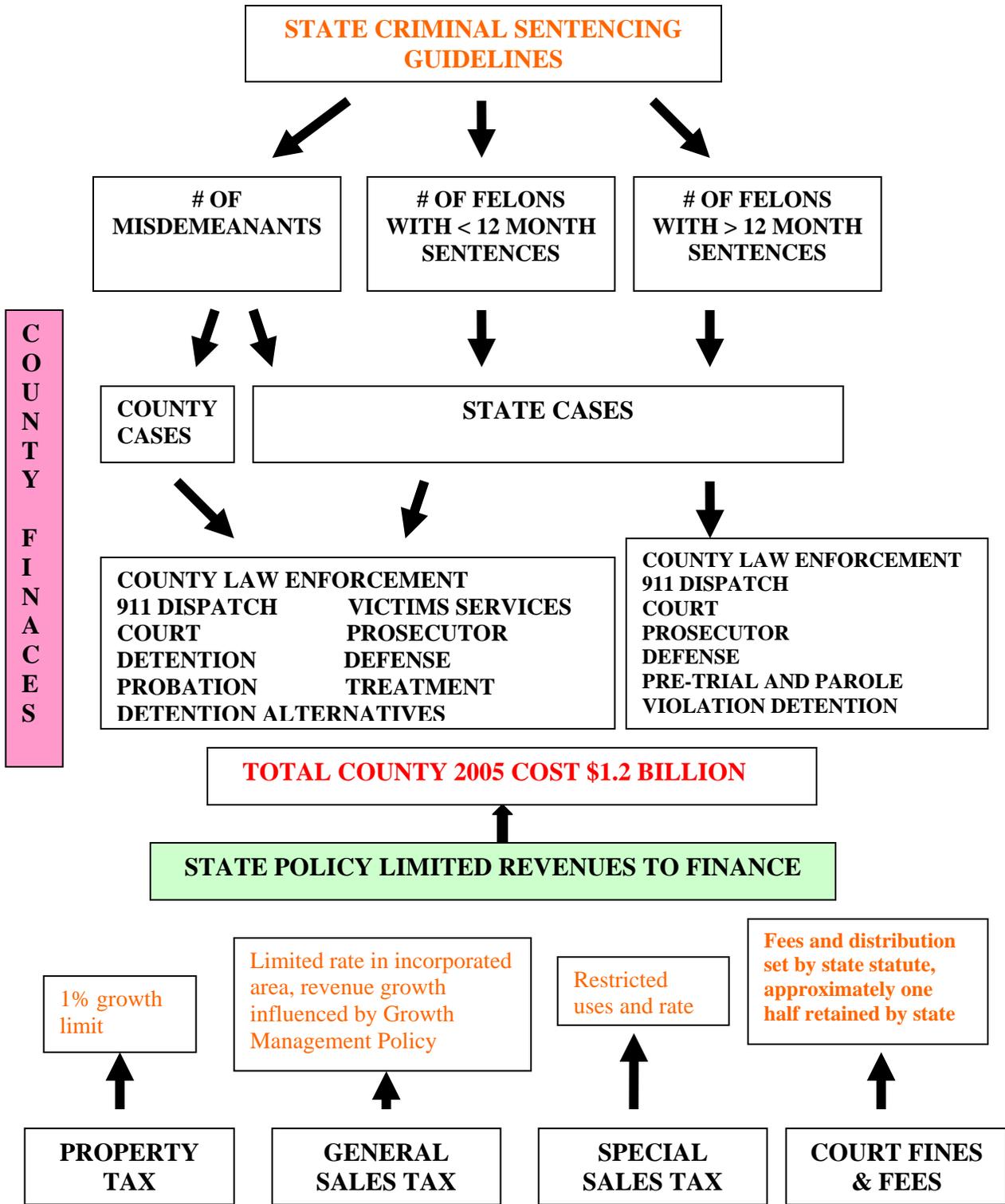
Chart I



Source: Legislative Evaluation and Accountability Program

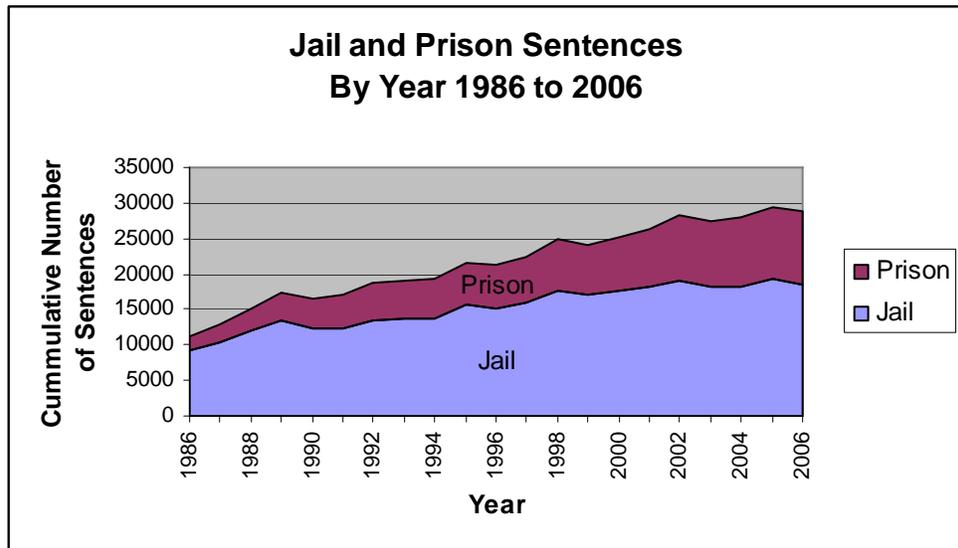
The counties, for example, fund and are responsible for parts of both the misdemeanor and felon justice systems for adults and juveniles with emphasis on rural law enforcement, courts, legal representation and detention (see Chart J). The volume of cases processed by the county courts is influenced by the number of arrests by law enforcement of the cities, the county itself and the state together with the criminal justice statutes and determinate sentencing guidelines adopted by the state. The number of jail beds operated by the county is likewise influenced by the length and number of sentences received by offenders under the state determinate sentencing guidelines (see Chart K and L).

Chart J: CRIMINAL JUSTICE SERVICE SYSTEM

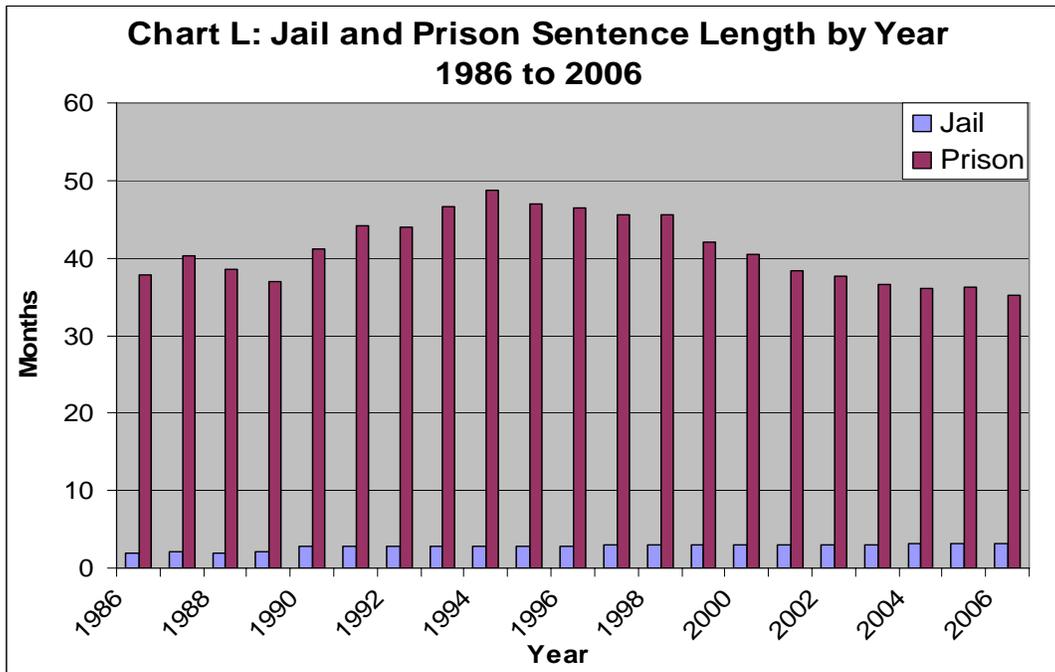


The number and length of sentences under the state Sentencing Reform Act of 1984 grew substantially until 2000 when the Legislature began making policy changes which reduced average prison sentence length (see Charts K and L). These changes in sentence length primarily impacted some of the demand for prison beds (18,209 beds in 2006). The demand for jail beds (12,633 beds in 2006) operated and funded by counties however was not, for the most part, affected.²⁰

Chart K



Source: Sentencing Guidelines Commission



Source: Sentencing Guidelines Commission

²⁰ Washington Association of Sheriffs and Police Chiefs and Washington State Department of Corrections

Growth in the number and length of sentences since 1986 affects county jail costs in four ways:

- The number of felony sentences partially or fully served in jail has increased over all regardless of whether the full sentence is eventually served in jail or prison. The demand has significantly increased for felony jail beds, pre-sentence for all felony classes, and post-sentence for those felons with jail sentences of twelve months or less.
- The increase in the number of felons in jails is coupled with an increase in inmate health costs driven in large part by the health issues of drug offenders as they enter the detention system through county jails.
- After the passage of the Offender Accountability Act the use of jail beds by prison community supervision violators substantially increased.
- The number of misdemeanor sentences with a jail component has increased demand for misdemeanor beds especially post-sentence.

The combination of these four impacts was not mitigated by the policy changes that were made by the state to reduce prison sentence length because pre-sentence and community supervision felon use of county jails occurs either before or after detention in prison. The result is that counties have not seen any relief from the effects of the increased number of sentences generated by the state Sentencing Reform Act. The average length of stay for a pre-sentence felon in King County Jail, for example, was 23.4 days in 1996 and 52 days post-sentence. In 2005 the average length of stay pre-sentence had increased to 27.6 days and post-sentence to 78.7 days.²¹

Existing county software systems do not provide a solid record of the number of prison bound felons that use county jails statewide. However, it is possible to make some estimates based on available data. In 2006, an average of 57 percent of county jail daily population consisted of felons. Felons that will eventually go to prison after sentencing or violate conditions of community supervision represent a large proportion of county jail capacity statewide. In 2006, between 24 percent (low estimate) to 38 percent (high estimate) of average daily county jail capacity was occupied by felons that will eventually go to prison after sentencing or violate conditions of community supervision. This means that 2,800 to 4,600 prison-bound felons occupy county jail beds on an average day at a cost of from \$75 million per year (low estimate) to \$120 million per year (high estimate). These costs are based on an average statewide jail bed cost of \$72 per day.²²

Counties have adapted to increased criminal justice costs, including law enforcement, court, legal representation and detention (81 percent increase over the decade, compared to 21 percent for Assessors, Auditors and Treasurers) by reducing or eliminating the few discretionary services that counties provide or by diverting county road fund property

²¹ King County Department of Adult and Juvenile Detention, <http://www.kingcounty.gov/courts/detention.aspx>

²² Local Government Fiscal Note Program 2006 Jail Cost Survey, Washington Association of Sheriffs and Police Chiefs web site jail population data and King County Detention Department web site detention data.

taxes to criminal justice expenses. For example, expenditures per capita for parks and recreation and general fund investments in infrastructure including technology *decreased* over the decade for all counties in aggregate statewide while diversion of road taxes increased.²³

It is widely felt that county jails are populated by a disproportionate number of mentally ill and/or chemically dependent offenders (estimates fall between one half and two-thirds of all offenders) that may be handled more effectively and efficiently using other methods, either in whole or in part, resulting in significant short term and long term overall reductions in criminal justice costs. Counties do not currently have the funding, facilities or discretion to divert offenders into alternative programs. Washington's human service system is primarily funded by the state.²⁴

²³ Local Government Financial Reporting System, 2005, Washington State Auditor's Office and Fiscal Stress Study, Washington State Office of Financial Management, p. 28.

²⁴ Local Government Fiscal Note Program fiscal note for 2005 SB 5763, Omnibus treatment of mental and substance abuse disorders act, Session Laws Chapter 503.

County Financial Health and Governance Alternatives

IMPROVING COUNTY EFFICIENCY AND EFFECTIVENESS

Analyses and Findings

Efficiency and Effectiveness in Government

Government is in the unique position of being transparently accountable to the general public for the efficient and effective expenditure of taxes and fees collected from its residents and businesses to produce desired value in public services, regulation or infrastructure. In recent years, government has been motivated to focus on improving outcomes to the public of its many services and programs through changes in its methods. Government, like business, has used a number of techniques to improve outcomes including new technology. Unlike business, government, and particularly county government, does not always control all the elements of the processes that are used to conduct its “business” or produce its “product.” Private business has been able to capitalize on greater control of its own business processes or “means of production” to reduce unit costs and improve quality and value for the consumer.

All, or a large portion, of a county government’s business processes, on the other hand, may be constrained by law or regulation. This constraint limits the extent of “business process improvement” that a county can undertake by itself to become more effective and efficient in its operations. The state, or sometimes federal government, would have to eliminate or change existing “direction” provided in statute or regulation for a given business process to be changed.

Examples of county businesses processes include:

- Property and real estate tax collection processes
- County budget and financial management processes
- Land use, building and environmental health permit processes
- Contracting and purchasing processes
- Employee recruitment process
- Criminal justice processes for adults and juveniles
- Voter registration and elections process
- Licensing process
- Capital project construction process
- Public records processes
- Law enforcement response processes
- Human service intake, referral and service delivery or treatment processes
- Waste management treatment processes
- Regulatory and enforcement processes

In looking at what can be done to improve county efficiency and effectiveness, it is important to evaluate what factors need to be present in order for an organization to successfully implement improvements. In complex service delivery systems or organizations, whether in business or government, a number of conditions have been found to be important to success in maximizing efficiency and effectiveness through changes in operations. The most common are:

- Sustained and supportive leadership
- Focus on mission and desired outcomes
- Application of business process redesign principles and practices, including best industry practices and benchmarking
- Application of technology tools that match the organization's business requirements
- Focus on opportunities to add value or improve outcomes linked to effectiveness
- Sustained cooperative participation of parties key to implementing change
- Access to needed specialized skills or technology
- Identifying and taking advantage of scale or volume to reduce costs
- Creating successful alliances with others that add value in order to improve outcomes
- Access to data that feeds continued learning that can translate to on-going business process improvement or adjustment
- Effective collaboration with those outside and within an organization to resolve issues and facilitate success in improving system outcomes

Keeping in mind these factors, let us now look at what has been done in Washington counties to date and what opportunities exist for further work on efficiency and effectiveness.

Efficiency and effectiveness in Washington county service delivery systems

As an “agent of the state” counties in Washington operate a portion of several major public service systems. The four largest are:

- Criminal Justice
- Health and Human Services
- General Government and
- Public Infrastructure including transportation and environmental quality

Each of these systems has many components and business processes that are funded and governed in different ways. In order to be effective, each system has to use a common strategy: the interdependent “partners” in the system all have to carry out their individual role and business process(es) in a way that supports the desired outcomes for the system's clients or customers. The quality and cost of the outcome is determined by all of the partners together. Counties and the state are each “partners” in the four major service systems. Counties and the state may be joined by other “partners” such as the federal government, tribes, other local governments or private sector organizations. Many believe that the more partners and separate business processes in a service delivery system, the greater chance that adaptation to best practices will be limited.

For example, the criminal justice system (see Chart J) contains components that are operated by the state and components that are operated by the federal government, tribes, counties and cities. The state, counties and cities are interdependent partners because they make decisions or operate

parts of the system that impact the other (e.g. criminal sentencing guidelines, court filings, prosecutor case load and number of treatment slots). The quality of the outcomes for clients (the general perception of public safety, effects on victims and the effects on offenders) is determined by the partners work together and the tools that are available to the partners to be successful.

Counties have implemented various means of improving service efficiency and effectiveness over time, as businesses do. The table below summarizes the work of counties in this area using commonly identified private sector effectiveness/efficiency strategies.

Washington County Efficiency and Effectiveness Improvement Strategies

Private Sector Strategy	Comparable Strategy Washington Counties	Extent of Implementation
Downsize and focus on core operations	Refocused or eliminated operation of discretionary public services	Statewide over the last decade counties have reduced per capita expenditures on parks and recreation, and general fund capital investment including technology; and diverted road funds to criminal justice while increasing per capita expenditures significantly for criminal justice and human services including health. (1)
Minimize the cost of overhead	Centralize and automate internal support operations	80 percent of counties have centralized services in place for payroll, benefits programs and risk management. 45 percent of counties have centralized information technology, 20 percent or less of counties have centralized services in training, personnel, budget, records management, purchasing and financial services.(2)
Redesign core business processes	Change business processes as new software is implemented	Most core business processes include some form of automation in all counties. Most automation was installed or developed in the late 1970's, 1980's or early 1990's and lacks modern features including web application capacity and interoperability. Many systems automated pre-existing paper business processes or adapted systems developed for other organizations. (3)
Apply appropriate technology to improve outcomes	Acquire technology when funding and expertise is available	Counties have limited access to often expensive technology expertise and fund technology only sporadically or when grants or dedicated revenue is available. (3)

Create alliances that strategically improve outcomes and/or reduce unit costs	Engage in intergovernmental and/or joint service delivery agreements	Counties widely contract with other local governments to provide service especially when scale improves outcomes including unit costs or allows the purchase of scarce or expensive resources or expertise. Over 1,300 such agreements were documented in the county official survey statewide. (2)
Create “seamless end to end” service for customers	Consolidate service delivery among work units that serve the same customer and/or create web services and other “seamless” processes using automation.	Counties have begun to consolidate services across departments. Examples include combining public works, planning and building functions; assessor, treasurer, auditor customer service functions; and chemical dependency, mental health and public health functions.(2)
Apply “best management practices” *	Selection and training of commissioners, separately elected county officials and appointed department heads	Commissioners and separately elected county officials come from varied backgrounds which may not include expertise in public sector management. Training is primarily available related to areas of “risk” for county officials or about existing or changing processes and regulations that apply to counties. (3)

* “Best management practices” are defined in the private sector as those management practices that have been proven through application and evaluation to significantly improve outcomes and are transferable.

Sources:

- 1) Local Government Financial Reporting System, State Auditor’s Office
- 2) County Official 2007 Survey, Appendix H, Questions 12, 13 and 16
- 3) CTED County Legislative Study advisory committee

Opportunities for further improvements in county efficiency and effectiveness

Based on a look at what counties have already accomplished, we can ask:

- What conditions need to be present for success in further efficiency and effectiveness efforts?
- How can counties continue to adapt the strategies employed by the private sector?
- What opportunities can be identified to improve Washington county efficiency and effectiveness?

Some strategies may require actions by or partnering with the state for funding or other resources/actions and some, the counties could undertake independently.

Efficiency and Effectiveness Opportunities

County efficiency and effectiveness improvement opportunities	Who Implements?
Strengthen county leadership in order to undertake significant efficiency and effectiveness improvements	State and Counties
Increase the number of county leaders trained in best management practices	State and Counties
Implement business process redesign efforts including technology improvements in key county business processes as software systems are updated	Counties and State
Acquire access to expertise in business process redesign and technology.	Counties
Establish alliances with other counties that are redesigning the same business process to share resources and reduce short and long term costs while increasing interoperability with each other and the state.	Counties
Work with the state to make changes when redesigning business processes where state statute or regulation significantly inhibits implementation of efficiency or effectiveness improvements.	Counties and State
Facilitate further centralization and automation of county internal support services.	Counties and State
Take advantage of counties' expertise in intergovernmental service agreements to facilitate multi-party efficiency and effectiveness efforts including transformation of systems to provide "seamless end to end" service.	Counties and State
Invest in sustained efforts to improve county business processes including technology.	State and Counties

The opportunities available for counties to improve efficiency and effectiveness into the future suggest the exploration of several strategies, some with governance implications. These opportunities lead to the findings for this section.

Findings:

1. Increasing the number of county leaders using "best management practices" may lead to greater efficiency and effectiveness in county service delivery. This may be done through strengthening county executive powers in order to institute significant efficiency and effectiveness improvements and increasing the number of county leaders that are trained in best management practices.

2. Redesign key county/state business processes to improve efficiency and effectiveness applying appropriate technology and interoperability standards. Counties may wish to work jointly on business process redesign projects to maximize access to scarce technology expertise and minimize costs. The state may wish to work with counties to make changes to

existing state statutes that block streamlining efforts or inhibit improved effectiveness in service delivery in parallel with business process improvement projects.

3. Build on the counties extensive experience in joint service delivery to strive for further cost reductions and seamless end-to-end service. This may be done through expanding the consolidation of services to common customers into the intergovernmental arena and centralizing and/or automating additional county internal services.
4. The advisory committee concluded that constraints imposed by the state on “how” a county conducts its service delivery often prevent counties from operating in a more efficient manner both regionally or within their own county. Business can be more efficient because it has greater control over “how” their product is made or the processes they use.
5. The advisory committee concluded that added state process requirements, planning programs and other procedures that cost money to implement in effect increase county overhead. These costs do not contribute to the efficiency or effectiveness of service delivery.
6. The advisory committee concluded that when population centers are aligned among counties, regionalization will likely have the “biggest bang for the buck.”
7. Regional or statewide software was seen as having great potential for adding efficiency.
8. The survey of county officials identified some joint service delivery best practices that could be shared statewide to accelerate adoption of best practices.

County Financial Health and Governance Alternatives

SUMMARY OF STUDY COMPONENTS

Analyses and Findings

This section of the study summarizes the study components that are incorporated in full as appendices to the legislative report. Each of the components was completed by a contractor or individuals with specific expertise in the subject matter addressed.

Appendix A – Governance Legislative Language

Appendix A contains example legislative language provided by the project Special Assistant Attorney General that would implement the first three of four recommended governance options. The first two options amend statutory language and the third amends the Washington State Constitution and would require voter approval in order to be implemented. Legislative language for the fourth option was not provided due to time and financial constraints.

Appendix B -- Legal Analysis of Washington County Governance Structural Options

Appendix B provides legal advice from the project Special Assistant Attorney General regarding the Legislature's ability to shape non-charter county government and to authorize county commissioners and other officers to exercise various powers. The general observation made is that, within certain constitutional constraints, the Legislature has substantial power to shape county government by statute, to identify certain county offices, and to control the powers exercised by each county officer.

This component addresses the following questions in summarized form:

To what extent may offices be consolidated without requiring a constitutional amendment? Could the Legislature authorize consolidation of offices between counties having the same classification?

Article XI, §§ 4 and 5 enable the Legislature to provide for various county officers in addition to commissioners, sheriffs, county clerks, treasurers and prosecuting attorneys. Those specified offices must exist, but all other county offices are optional. Next, the Legislature may allocate duties to the various offices, and may classify counties by population for the purpose of specifying the merger of certain duties into a single office, and for setting compensation scales. County offices could be reassigned in many ways so long as the classification of counties and the permissible merger of duties were both prescribed by statute.

Several constraints would remain: First, it is probable (although not certain) that the five offices named in Article XI, §5 cannot be abolished by statute. Unless Article XI, §5 is amended, every non-charter county will need to have commissioners, a sheriff, a county clerk, a treasurer and a prosecuting attorney. Second, all officers must be elected, because Article XI, §5 expressly states

that the Legislature “shall provide for the *election* in the several counties” of the specified officers and any others the Legislature deems appropriate. Article XI, §5 further states that the Legislature may provide for the “*election* in certain classes of counties” of officers who may exercise the powers and duties of two or more officers. Third, powers must follow the specific office. Finally, the specified offices and allocation of responsibilities should be uniform among counties of the same class, and classes must be based only on population.

Under Washington’s Constitution, counties are difficult to create and difficult to merge or eliminate. If the Legislature desired to encourage the consolidation of services across county lines without amending the state Constitution, this might be accomplished in several ways. First, the state could provide grants and staff support to encourage county officers voluntarily to combine staff resources with their counterparts in adjoining counties. Another approach would be for the Legislature to *require* that certain county officers pool their staff and operations. A third approach would be for the Legislature to strip certain responsibilities from the elected officers and vest them in new multi-county agencies. For offices that are not specified in Article XI, §5, the Legislature could assign them to new regional entities without limitation. For offices that are listed in Article XI, §5, the Legislature could provide the continued county-by-county election of those posts, but strip many functions and reassign them to multi-county regional entities, or require pooled operations as described in the previous paragraph. Under Article XI, §5, the Legislature has full authority to prescribe the duties of county officers.

If certain offices could be consolidated, either within a single county or with the offices of neighboring counties, would there be a violation of the constitutional uniformity requirement?

There would be no violation of the uniformity requirement so long as the list of county officers, the responsibilities of each officer, and the transfer of responsibilities among offices or the transfer of powers to regional entities, was consistent statewide among all counties within the same population class.

Would the Interlocal Cooperation Act permit one county to contract with another to have the duties of one office (elected or appointed) be performed by the equivalent officer of the other county? Who may enter into the contract: the Commissioners, the separately elected officials or both to make it valid?

RCW 39.34 provides that any public agency, including a county, may exercise any of its powers jointly with any other public agency. Consequently, Counties A, B and C could agree that County A’s treasurer would be responsible for handling the daily investments of the funds of all three counties. However, each county’s treasurer would still be legally responsible for that county’s investments, and it would be prudent (perhaps legally necessary) to involve all three treasurers in a joint board or other body overseeing County A’s treasurer as she carries out her tasks for the three entities. Furthermore, it would be prudent (perhaps legally necessary) to have each county treasurer agree to and countersign the three-county interlocal agreement. RCW 36.29.020 makes the county treasurer the custodian of county funds and expressly charges the treasurer with investment responsibilities. County commissioners probably lack authority to *order* their county treasurer to use the investment services of another county’s treasurer. However, the Legislature might be able to strip all county treasurers, within a class of counties,

of investment responsibilities, and require pooled investment practices among counties. This short discussion has focused on county treasurers and investments, but the principles would be applicable to other officers and duties.

One other issue that should be considered is whether a county officer, such as a treasurer, has the authority to contract for services from a corresponding officer in another county, without the approval of the county commissioners. Under RCW 36.32.120, the “legislative authority of the several counties” have certain specified powers, including “the care of the county property and the management of the county funds and business....” County legislative authorities must approve the budgets of each county office under Chap. 36.40 RCW, and commissioners normally approve contracts their counties enter into. Because of the budget and finance implications of an arrangement among treasurers to pool services, it would be prudent (perhaps legally required) for such an interlocal agreement to be approved by the legislative authority as well as the treasurers themselves.

Are the separately-elected officials of a non-charter county required to comply with or follow the county-wide policies adopted by the county commissioners? For example, would a policy adopted by the county commissioners that county offices use the county fleet or purchase supplies through the county purchasing agent apply to the other independently-elected county officials? If the answer to this question is "yes," would the requirement to follow county policy also apply to the county judicial offices?

It is a longstanding principle in Washington that a board of county commissioners can exercise no powers which are not in express terms or by fair implication conferred upon it by law. Case law suggests that whenever county commissioners desire to establish a program or outline policies that will control how other independently-elected county officials must act, the commissioners must first identify specific statutory authority granting them that power with respect to the specific type of program or policy.

Because of the State Supreme Court’s historic protection of the judiciary as an independent branch, it is even more difficult for county commissioners to impose policies or practices on the superior courts and district courts.

Appendix C – County Governance Structure: Across the Country and in Washington State

Appendix C examines various national and state trends in county government reform and the potential for such reforms to enhance governmental efficiency, cost savings, and levels of service. It also examines a number of options for changing the structure of county government, ranging from the use of existing tools to statutory changes and constitutional revisions. Historically identified pros and cons of the most prevalent forms of county government are summarized.

This appendix was completed by the Municipal Research and Services Center of Washington, a not for profit corporation that contracts to provide services to counties, cities and special purpose districts in Washington through the state Municipal Research Council.

The study finds that the most visible reform trend in county governance is the emergence of the elected county executive in large urban counties starting in Washington in 1968. County home rule charters in King, Pierce, Snohomish, and Whatcom counties provide for an elected county executive. County executives are generally elected on a partisan basis, reflecting the political nature of these positions. One of the primary goals of the proponents of government reform in these counties was the institutionalization of stronger centralized administrative control.

A trend in non-charter Washington counties is the appearance, in greater numbers, of various council or commission appointed county administrators. While their specific roles were not documented, it is apparent that their purpose is to provide at least some measure of enhanced administrative control and coordination. This trend mirrors a similar trend in city government where there has also been an increase in the number of appointed city managers, administrators or similar positions.

Municipal Research and Services Center (MRSC) identified six studies nationally that analyzed the impact of county reform on fiscal policy. However, the focus of these studies has been on county *spending* behavior, not on cost efficiency. Two studies (Desantis and Renner, 1996; Park, 1996) found that elected executive and appointed administrator forms tend to outspend commission forms. Note, however, that the move to reform is often driven by urbanization and with urbanization, a need to provide a broader array of services. One study (Morgan and Kickham, 1999) concluded that structure has no appreciable impact on either spending or revenue policies. A more recent study (Benton, 2003) found that structure does seem to matter in urbanized counties that are experiencing rapid growth in population and service demands.

There are several *existing tools* that could be used to bring about structural reform but they are not being widely-used. This may be because there is no widespread public perception of a need for comprehensive reform in the absence of a crisis. Nationally, and in some Washington counties, the most powerful catalyst for change in the past has been the occurrence of a scandal which then served to galvanize support around a reform effort. Perhaps the perceived benefits of reform are not great enough to warrant the costs. The costs could include the need to tackle processes that are difficult or not familiar and that have an uncertain outcome. Certainly there is no shortage of individuals or organizations that are willing to oppose reform efforts. Opposition often comes from labor unions who feel secure with the status quo. Incumbent members of commissions and those independently-elected county officials who do not wish to have their elected positions become appointed have opposed proposed charters. Taxpayer groups often perceive that government reform will simply lead to bigger government and higher taxes. Many smaller counties in Washington face serious fiscal challenges, yet the citizens in these counties have not generally been motivated to seek major changes in the form of county government.

The lack of greater reform activity may also be related to the nature of the reform process itself. The track record of county charter drafting and adoption efforts in Washington and in other states does not offer a great deal of encouragement for would-be reformers. On the other hand, there is strong evidence to support the proposition that state legislation offering a predefined selection of optional county government forms fosters the adoption of county government structural reform (Marando and Reeves, 1993).

Appendix D – Historical Background, County Government Structure and Finance

Appendix D is an update to the *History of Washington Local Governance* developed in 1988 by the Washington State Local Governance Study Commission, a Commission created by the 1985 Legislature. This appendix was completed by the Municipal Research and Services Center of Washington, a not-for-profit corporation that contracts to provide services to counties, cities and special purpose districts in Washington through the state Municipal Research Council.

Two major themes in Washington's local governance tradition are examined: insistence on local option and control, and the evolving relationship between cities, counties and special purpose districts. The original volume showed how Washington local governments evolved from settlement of the state through the 1980s. The update includes two new chapters covering the 1980s to the present. Today's local government challenges can be organized into three themes: reduction in revenue due to tax limitations, most acutely felt by counties; the appropriate role of special districts; and the transformation of service delivery through new technology. How we respond to these challenges will shape or reshape Washington's historic local governance traditions.

1853 to 1889: Counties are the oldest form of local government in Washington, initially created to serve as the administrative arm of the territory. Washington county governments were modeled after Iowa with a county board of commissioners and independently elected officers performing specific functions. This form, it was believed, allowed for greater public participation, because officers answered directly to the people. Prior to statehood, city and county governments had distinct roles and responsibilities, and communities were geographically isolated from one another. For 36 years, Washington was governed as a territory. This period instilled in settlers a strong sense of local self-reliance, reflected in the forms of governance they later chose for themselves.

1890-1930: Shortly after statehood special districts began to be authorized to provide specific services to a defined population. In addition, the roles of cities, counties, and special districts began to overlap, and communities became more dependent upon one another. Reforms, with the goals of participation and local control, along with increasing basic service needs outside of cities, made forming special districts the popular method to respond to public service needs during this period.

1931-1940: With the Depression, local governments were unable to provide needed services or deal with extensive unemployment. State and federal governments began to play a significant financial and service delivery role at the local level, reducing local autonomy. The state through its new agencies began to assume functions that had previously been performed locally including welfare, regulation of game, construction of highways, and regulation of liquor sales. The federal government provided funding to the state for welfare relief and undertook major public works projects, such as the Grand Coulee and Bonneville dams. The first property tax limit was passed by voters in 1932. A graduated income tax was also approved but was overturned by the State Supreme Court. As a result, tax revenue decreased while service needs rose dramatically. In the next three years, the business and occupation tax, sales tax and other taxes were created. These along with property tax form the basis of the state tax structure today. For the next 60

years local governments were left with reduced property tax authority, user and license fees as their primary revenue sources.

1940-1960: During World War II and the post-war years, the federal government initiated programs that encouraged growth in unincorporated areas by providing financial incentives and services that were previously unavailable. Cities, counties, and special districts competed with each other over tax revenue and service to suburban areas outside of cities. In 1947, property tax laws were amended to guarantee levies for the state, counties, cities and road districts, with other special purpose districts being subject to a pro-ration if all levies reached a cap. In the 1940s, new governance options were created. Cities obtained the ability to form council-manager governments, and counties obtained the option to draft home rule charters by electing freeholders. King was the first county to draft a charter, but that charter was voted down in 1952. King was not successful in obtaining a home rule charter until 1968.

1960-1970: Continued population growth combined with significant growth in the regulatory role of state and federal government, especially in the area of environmental regulation, caused local governments to need significant financial assistance to administer state and federal requirements. Overlapping responsibilities between cities, counties, and special purpose districts became common. Special purpose districts were actively annexing unincorporated areas to provide services. In 1967, the state legislature passed the County General Services Act giving counties the authority to create water and sewer utilities and the Interlocal Cooperation Act allowing local governments to contract with each other. In the early 1970s, several changes were made to property taxes. Voters approved a 1 percent of value limit on property tax. However the legislature replaced the “mills” measurement with dollars per \$1000 of value and raised the assessment valuation level from 50 percent to 100 percent. This negated the potential drop in taxes that would have occurred with the 1 percent limit at a 50 percent level. The legislature also set a statutory limit on all governments levying the property tax and prevented local governments from levying a tax higher than 106 percent of the highest amount levied in the past three years.

1981-1990: Important resource-based industries such as timber and agriculture began to decline at the same time federal funding for state and local governments decreased. In response, major tax restructuring for local governments occurred. These included increased sales tax authorization, real estate transfer tax authorization, and limits on development fees. In exchange for the increased sales tax authority, cities agreed to relinquish part of the motor vehicle excise tax to a sales tax equalization account. The Growth Management Act (GMA) was passed in 1990. GMA was the first mandatory planning legislation for counties and cities, placing urban growth within cities moving urbanizing areas out of the local service boundaries of county governments. This growth management policy had significant fiscal impacts on counties as they lost sales and road tax revenue when cities annexed or incorporated urbanized areas.

1991-2007: Several tax limitation and government performance voter initiatives passed in this period. Most significant among these was Initiative 695, which repealed the motor vehicle excise tax. As a result, local governments lost substantial state shared revenue including sales tax equalization and funding for criminal justice and public health. In addition, initiatives 47 and 747 have limited property levy growth to 101 percent. Since 1990, government costs have increased at twice the rate of inflation. Two primary factors in this increase are criminal justice

and health care costs. Losses in revenue along with rising operating costs have contributed to local governments' current fiscal distress.

Appendix E – Washington Local Government Fiscal Stress Analysis

Appendix E is a study conducted in 2006 by the Office of Financial Management with the assistance of the Department of Community Trade and Economic Development analyzing local government financial condition in Washington's 320 cities and counties. Ten key indicators of financial condition were selected for Washington cities and counties. These indicators are used to determine which jurisdictions in the state were experiencing the most financial stress based on data collected between 1994 and 2004. Data was collected from generally available state sources for all 39 counties and 281 cities. The group of selected indicators was balanced to reflect the health of each local government's revenue base, demand factors driving local government service delivery, and the financial results of operations. A local government was defined as distressed if it was classed as "stressed" in four or more of the following ten financial condition indicators: general fund revenue per capita, revenue elasticity, cash balance, proportion of expenditures used for capital or debt, proportion of revenue restricted for specific uses, property tax burden, general fund operating gaps, economic condition, tax base condition and service demand.

Twenty three counties were identified as fiscally distressed. These counties are generally smaller in population and are grouped in three areas of the state (northeast, southeast and south central/west). In addition, San Juan and Kitsap Counties, both with rapidly growing unincorporated areas, were classed as stressed. There is a significant degree of overlap between the groupings of local governments with high levels of financial stress and local governments with low employment and personal income growth. Any programs that affect the economic health of these regions of the state over the long term may also improve the financial health of the associated local governments.

The state of Washington has provided individual (Ferry County in 2005) and programmatic aid to financially stressed local governments over time. Washington does not monitor or report on the financial condition of local governments based on consistently reported measures unlike some other states. State statutes provide for local governments to declare insolvency (RCW 39.64 Taxing District Relief and RCW 35.21.750 Public Corporations – Insolvency), but to date no local government has used these statutes.

Nationally, over the last forty years, operating insolvency or debt default has occurred in local governments in other states. These local governments have been temporarily reorganized, come under state or judicially ordered independent control, or found themselves subject to budget supervision by the state. Washington has well defined protections in place for some financially high risk areas in local government operations that have caused significant financial issues for other local governments nationally. Two examples are investment restrictions and funded retirement programs. There are other areas of high financial risk however for Washington local governments.

The state has an interest in the financial viability and effective management of local governments because they are a key partner in the delivery of state programs. Counties and cities are important strategic partners in the delivery of \$20.7 billion in non-education related governmental services in Washington (Legislative Evaluation and Accountability Program, 2004). States across the nation have a stake in local governments' fiscal health and condition since local fiscal crises can affect the state's bond ratings, the economic development potential of the state, and the quality and quantity of key public services.

The study recommended re-aligning SB 6050 assistance to focus on the most distressed local governments in the short term to assist them to reduce their immediate level of distress. Short term assistance may provide a window of opportunity for these local governments to focus on strategies to eliminate their financial distress over the longer term. It is likely that SB 6050 assistance alone will not be sufficient, however, to address the most distressed local governments' basic service delivery requirements because the amount of assistance in most cases is significantly smaller than the local government's need.

Appendix F -- Case Studies

Appendix F analyzes alternative county governance structures to see what potential cost savings and/or customer service improvements could be achieved. The analysis is organized into two modules: alternative county governance structures and interlocal agreement analysis. The case studies were completed on contract by Berk and Associates of Seattle.

Module One: Alternative County Governance Structures

Module One consists of four comparisons within the areas of general government and criminal justice. Selected organizational alternative structures are examined to determine the potential financial, operational, and service impacts if other Washington counties adopted those structures. The general government comparisons focus on the financial and customer service impacts of 1) sharing the assessor, auditor, and treasurer's customer service functions and 2) merging all assessor, auditor, and treasurer functions and positions into one office. The criminal justice comparison focus on the financial and customer service impacts of 1) consolidating Superior Court functions across two or more counties and 2) merging Superior Court administrator and county clerk functions and positions within a county. In each case, a model county, with a full or partial version of the alternative structure already in place, is evaluated against a comparable county with more traditional organizational structure. From this analysis, financial and customer service impact projections were made for counties in general. The eight counties selected for the study were Adams, Clark, Douglas, Pierce, Klickitat, Skamania, Spokane, and Whatcom. Five of the selected counties were identified as fiscally distressed in Appendix E.

When calculating potential savings, a lowest and highest estimate was used. The estimates are derived from conservative and aggressive scenarios. The higher estimates should be treated with a great degree of caution as these figures are based on the most optimistic assumptions. In addition projections, particularly within the General Government models, are founded on the assumptions that select IT systems have been successfully integrated and targeted cross-training has occurred. In some cases, capital costs are not included in the projections, which may offset any potential cost savings presented.

The findings revealed that county size plays an important factor in whether savings are likely to be attained by adopting the alternative models. In the general government model, small counties were as likely to lose money as to achieve savings. In general, larger counties (population greater than 60,000), were much more likely than smaller counties (population less than 60,000) to realize positive financial gains.

Based on the financial projections presented, smaller counties have a greater probability of incurring net costs outweighing potential savings in adopting the General Government models than in adopting the Criminal Justice models. Additional investments would be necessary to make needed changes in technology, cross-training and facilities prior to adopting either model.

- **General Government:** In the Joint Customer Service Provision model, smaller counties could realize an approximate financial loss of \$1.0 million to a gain of \$400,000 over 15 years. In the Merged Assessor, Auditor, and Treasurer model, smaller counties could realize an approximate financial loss of \$490,000 to a gain of \$660,000 over 15 years.
- **Criminal Justice:** In the Joint Judicial District model, smaller counties could realize net savings of approximately \$400,000 to \$1.7 million over 15 years. In the Merged Superior Court Administrator and County Clerk model, smaller counties could realize approximate financial gain of \$405,000 to \$1.7 million over 15 years.

Based on the financial projections presented, larger counties could realize significant gains in adopting both the General Government and Criminal Justice models studied after additional investments in needed technology, cross-training and facilities.

- **General Government:** In the Joint Customer Service Provision model, larger counties could realize an approximate financial gain of \$1.4 million to \$3.1 million over 15 years. In the Merged Assessor, Auditor, and Treasurer model, larger counties could realize an approximate financial gain of \$1.5 million to \$6.1 million over 15 years.
- **Criminal Justice:** In the merged Superior Court Administrator and County Clerk model, larger counties could realize an approximate financial gain of \$970,000 to \$1.9 million over 15 years. The Joint Judicial District model was not explored for larger counties as sharing judicial functions with another county may not be viable, due to high caseload volumes and workload.

Module Two: Interlocal Agreement Analysis

Module Two consists of seven interlocal agreement case studies in the areas of growth management, economic development, information technology, public health, law enforcement services, and jails to identify best practices in interlocal agreement formation and implementation by local agencies and the state.

Local considerations and the examination of costs and benefits should be the primary determinants of interlocal agreements. However, the findings revealed that by creating policy parameters and priorities conducive to cooperation, the state could make interlocal agreements a more viable and appealing option by facilitating greater interlocal cooperation through changes in legislative, legal, and financial incentives. The following actions were identified:

- **Eliminate disincentives for interlocal agreements within existing policy structures.** Laws or funding structures may unintentionally inhibit interlocal cooperation by reducing funding received (as partnering agencies sometimes lose funds when such monies are distributed on a per-agency basis) or adding layers of complexity and inconvenience to procedures.
- **Create special incentives for interlocal agreements.** The state can actively promote interlocal agreements through financial and legal incentives. For example, the state can provide targeted funding to small cities that otherwise could not afford to contract law enforcement services to counties, or the state could streamline the annexation process for cities and counties with agreements in place to make the process less complex and cumbersome.
- **Define policy priorities.** The state can encourage more interlocal cooperation through its own actions and support. Making the state user-friendly for local governments through executive support and clear avenues of communication would make partnerships and policy alignment easier.
- **Provide stable and adequate levels of funding for local government services.** Most areas of service studied were affected by Motor Vehicle Excise Tax (MVET) reductions and thus, several interviewees voiced concerns regarding existing and future funding levels. Identifying dedicated revenue streams for service areas such as law enforcement and public health would reduce the uncertainty in which local government officials make decisions about service provision and interlocal cooperation.

Appendix G -- Service System Mapping and State Comparisons

Appendix G both maps the major service systems of counties within Washington and compares Washington with six other states on the basis of county governance, service delivery and service funding. The seven service systems examined were courts and legal services, jails, human services, public health, transportation, elections, and property tax assessment and collection. The six states chosen were Arizona, Colorado, Indiana, Maryland, Minnesota, and Wisconsin because of their comparable population size and service responsibilities. The service system mapping component was completed by the staff of the Washington State Association of Counties.

Governance

A board of county commissioners or board of county supervisors with three to five elected members that exercises both legislative and executive power is the basic governance structure of the majority of counties in Washington and the comparison states. Other states offer more forms of county governance. Like Washington, the most urbanized and high growth counties have chosen to form charter counties. In three states, Colorado, Indiana, and Minnesota, the constitutions were amended to create city-county consolidated governments in only the most urban counties.

The second most exercised optional form of county governance is the county commission/county manager or administrator form. Arizona requires it of every county. In Minnesota and Wisconsin, where it is optional, a majority of counties have chosen to have a county manager or administrator.

A public vote within the county is generally required to implement any optional form of government. Minnesota is the only state where changes to separately elected offices such as sheriff or auditor can occur without a county charter. County clerk, sheriff, and county attorney are generally constitutional elective offices among the comparable states. However, a few states allow for the appointment or consolidation of the functions of the assessor, auditor, and/or treasurer by a public vote or action by the board of commissioners/supervisors.

Services

In all the states examined, counties are the constitutional administrative arm of the state. As a result, counties deliver a wide range of services. Additionally, the state generally sets the level of service required by the county. The largest service provided by counties is public safety and courts. Washington ranked lowest among the states in state funding for courts and legal services and transportation. The second largest service provided by counties is human services. The services provided by separately elected officials are very similar among the states.

Other than Indiana, counties are not home rule. In other words, counties need specific authority from the state legislature to act. This was noted by the comparable states as a barrier to providing efficient services and generating adequate revenues.

Funding

Property tax is the largest source of revenue for counties among the states. The second largest source of revenue for counties varies between federal and state grants or a county imposed income or sales tax. State grants are generally dedicated to public safety, court or human services purposes as reimbursement for acting as an agent of the state. However, counties in all the comparable states supplement those services with county funds, citing insufficient funding by the state.

Appendix H -- County Official Survey Results

Appendix H documents the results of a statewide survey of county officials. This component was requested as a way to gather input and hear the views of county elected and appointed officials through out the state on the major study topics – fiscal health, efficiency and effectiveness and governance alternatives.

CTED contracted with Washington State University's nationally recognized public policy research group called the Social and Economic Sciences Research Center to conduct a survey of 747 county officials, an average of 19 per county. Overall WSU received responses from 521 (70 percent) of those surveyed. Most groups had a 50 percent or greater response rate. WSU received responses from all counties; the lowest county response rate was 6 officials.

Survey Response Rates by County Official

County Office	Sample	Completes	Response rate
Treasurer	37	36	97%
Auditor	40	38	95%
Assessor	39	34	87%
Prosecuting Attorney	39	33	85%
Clerk	39	32	82%
Sheriff	39	31	79%
Agricultural Extension	37	29	78%
Public Health	27	21	78%
Executive/Administrator/Budget	44	34	77%
Coroner	21	16	76%
Public Works	37	26	70%
Planning	38	23	61%
Human Services	48	28	58%
Commissioner/Council	136	79	58%
Superior and District Court Judges	73	36	49%
Superior Court Administrator	35	17	49%
Parks and recreation	18	8	44%
Totals	747	521	70%

Respondent Characteristics

Sixteen (16) percent of respondents had served in county government less than four years. Forty (40) percent of respondents had served in county government for four to 16 years. Forty-two (42) percent of respondents had served in county government for 16 years or more.

Commissioners generally had served fewer years in county government with only 11 percent serving for 16 years or more and 40 percent serving less than four years.

Fiscal Health

Which counties considered themselves fiscally distressed?

Nineteen (19) counties were described by a majority of their county commissioners, auditors and executives/administrators as fiscally distressed to some degree: Asotin, Clallam, Columbia, Douglas, Ferry, Franklin, Garfield, Jefferson, Kitsap, Lewis, Pacific, Pend Oreille, San Juan, Skamania, Stevens, Thurston, Wahkiakum, Whitman and Yakima.

What are the factors that most contribute to county fiscal health?

The three highest rated factors by all respondents contributing to fiscal health were: new construction (95 percent), expanding local tax base (88 percent) and efficient delivery of county services (85 percent).

What are the factors that most contribute to county fiscal distress?

The three highest rated factors by all respondents contributing to fiscal distress were: increased demand for county services (97 percent), decrease in county revenues (88 percent) and shrinking

local tax base (70 percent). County Commissioners reported, decline in employment, as the third highest ranked item (68 percent).

What do some key financial outcomes tell us about fiscal health?

- Thirty-four (34) of 39 counties reported using reserves to cover expenses in one or more of the last five years.
- Eighty-one (81) percent said they thought their county’s fiscal condition would stay about the same (41 percent) or get worse (40 percent) in the next five years. Of the 19 distressed counties 12 reported that they thought their fiscal condition would get worse. Of the 20 fiscally healthy counties 4 reported that they thought their fiscal condition would get worse.
- Eleven (11) of the 19 distressed counties reported their general fund reserves as decreasing. Of the 20 fiscally healthy counties 4 reported that their general fund reserves were decreasing.

Efficiency and Effectiveness

What did the survey reveal about multi-government Joint Service Contracts?

Counties have more than 1,300 joint service agreements currently in place. All reporting counties have joint or contract service provision agreements in place with other governments (other local governments or the state). Most counties reported joint service agreements in at least three of the six general service categories. The number of joint service agreements reported by all counties in each service category were:

Service Category	Number of Joint Service Agreements
Human Services	359
Criminal Justice	317
General Government Services	257
Other	161
Natural Resources and Growth Management	136
Transportation	136
Total	1366

What are the top three things county officials have done in the last three years to improve efficiency and effectiveness?

- 1) Most counties *changed how services are delivered* by introducing or improving technology, delivering services through joint agreements with other governments or redesigning service delivery systems.

Thirty one counties added or updated software or initiated field employee use of technology. Fourteen counties began offering self service on the web and five counties created a centralized information technology function.

Eighteen counties entered into new intergovernmental agreements with other counties or regionally to deliver one or more services and fourteen counties consolidated one or more services with cities within their counties.

- 2) Many counties *redesigned service delivery within their county*. In criminal justice, 15 adopted strategies to better manage jail populations; eight counties changed one or more criminal justice service delivery method other than jail and six instituted multi party collaborations on criminal justice system improvement.

Within general government eight counties redesigned their permit processing services, seven counties converted to vote by mail systems and eight changed a different general government service delivery method.

Eight counties consolidated delivery of various combinations of health, chemical dependency, mental health and/or criminal justice services.

- 3) Most counties reported *changing management and budget practices*. These changes included twenty-nine counties that merged two or more county departments or functions; thirteen counties that changed purchasing practices in one or more ways; thirteen counties that instituted a process or adopted county wide management strategies related to financial management or organizational effectiveness and six counties that hired or designated a countywide human resources professional.

Counties reported changing budget practices by increased financial oversight (14 counties) or instituting zero-based, performance or priority guided budget processes (10 counties).

Most counties also instituted general cost savings measures including:

- Reduced number of employees (14) or services (6)
- Energy savings initiatives (8)
- Employee benefit cost containment strategies (8)
- Privatized one or more services (6)
- Reduced courthouse service hours (3)
- Limited pay increases (3)

What efficiency and effectiveness strategies would county officials like to pursue in the *next three years*?

The top strategies for increasing county cost efficiency or effectiveness that respondents would like to pursue were:

- Changes in state policy or state funding (96 percent);
- Reallocating some county service delivery to the state to provide (69 percent);
- Creating regional or multi-county services (67 percent)
- Establishing more shared services within each county (66 percent)

County Commissioners viewed changes to labor laws or contracts as third in importance. Large counties (greater than 150,000 in population) also favored changing labor laws (66 percent) and consolidating services with cities (71 percent) as preferred methods for increasing efficiency and effectiveness.

What service area should be focused on to improve county efficiency and effectiveness? The one service area selected as the most important to modify in order to improve county efficiency or effectiveness was criminal justice (51 percent) followed by Information Technology (11 percent). County Commissioners ranked Economic Development as equal in importance to Information Technology.

Small counties more frequently preferred a focus on Information Technology (15 percent) and Economic Development (11 percent).

Which commonly centralized government services are not provided in a centralized way to all county departments in Washington counties?

The most mentioned services that counties did **not** have in place to serve **all** departments were:

- purchasing (32 counties);
- records management (31 counties);
- financial services described as financial records and reporting, grant management, etc. (30 counties);
- personnel services described as labor relations, recruiting and selection, etc. (24 counties); and
- budget and revenue forecasting (21 counties).

Almost all of the 19 fiscally distressed counties reported financial services or budget and revenue forecasting as being services **not** in place for all departments (17 counties).

What are the top three things county officials want to focus on to improve efficiency and effectiveness?

The three main things that could be done to increase the efficiency and effectiveness of county government mentioned most by all respondents were:

- Changes to criminal justice (141) specifically improving state funding (75) for jails (17), public defense (13) or courts (7); evaluating and making changes to the entire system including sentencing policy and integration of offender treatment programs (24); and further regionalization of various criminal justice services including jails, court, law enforcement and dispatch (20).
- Changes to general government (138) specifically making various changes to county governance structure (71); revising various county business processes including budget (46); and making various changes to purchasing methods (24).
- Changes using information technology (81) specifically improving overall funding and implementation of technology in various ways (36); increasing use of the web and sharing of data or software across departments or organizations including GIS (28); and upgrading financial and records management systems (26).

Governance Alternatives

What governance changes have been considered or acted on?

The most active discussions and frequent actions taken by county government to modify governance structure over the last decade have been regarding:

- Creating the position of county administrator (15 of 33 non-charter counties)
- Proposing home rule charters (eight to ten non-charter counties).

In the opinion of county officials, what governance alternatives could improve efficiency and effectiveness?

The top non-freeholder governance alternatives that the respondents felt might be moderately to very useful to increase efficiency and effectiveness of their county were:

- An option under the current commission form of governance to appoint a county administrator or elect an executive, all respondents (51 percent); Commissioners (54 percent); non-charter counties (54 percent); small population county respondents (42 percent); large and medium county respondents (63 to 61 percent).
- An option for counties to merge some or all of the functions and positions of auditor, treasurer, assessor or clerk together or with other county departments, all respondents (49 percent); Commissioners (65 percent); non-charter counties (46 percent); small population county respondents (42 percent); large population county respondents (59 percent).
- “Structural Home Rule” which would allow a county to determine the number of elected or appointed officials themselves, all respondents (39 percent); Commissioners (43 percent); non-charter counties (42 percent).

The **least useful** governance alternative was seen as more than one county jointly electing county positions (82 percent)

Findings related to efficiency and effectiveness

- Counties have taken a significant number of actions to improve efficiency and effectiveness including entering into over 1,300 joint service agreements, consolidating or redesigning services within their counties, cutting or containing costs in various ways and introducing automation.
- There are a number of intergovernmental services agreement “best practices” statewide.
- Counties would like to focus future efficiency and effectiveness efforts on criminal justice; joint, consolidated or shared services; and, the use of technology.
- Counties would like to work with the state to make changes in state policy and funding that improve efficiency and effectiveness.
- In order to realize cost savings from consolidation of county functions such as Assessor, Treasurer and Auditor in larger counties, significant upfront investments need to be made in compatible software, cross training and facilities.

Findings related to fiscal health

- Between 19 and 23 of 39 counties show significant indicators of being or consider themselves to be fiscally distressed.
- County government's funding base has been disproportionately impacted and eroded by tax limitation measures, a large number of restricted revenues and implementation of the Growth Management Act.
- Compared to other states of similar size, Washington state contributes a smaller amount of funding for county service delivery as agents of the state in criminal justice and transportation.

Findings related to governance

- Washington counties lack some key governance tools that would facilitate further locally initiated improvement in efficiency and effectiveness.
- Within certain constitutional constraints, the Legislature has substantial power to shape county government by statute, to identify certain county offices, and to control the powers exercised by each county officer.
- Across the country, the most visible reform trend in county governance is the emergence of elected and appointed county executives in urban counties.
- The last significant action taken by the state related to county governance structure was in 1948 when the Constitution was amended to create a process to allow counties to adopt home rule charters.
- The most active discussions and frequent actions taken by county government in Washington to modify governance structure over the last decade have been about creating the position of county administrator (15 of 33 non-charter counties) and home rule charter proposals (eight to ten non-charter counties).
- The top non-freeholder governance alternatives that surveyed county officials felt might be moderately to very useful to increase efficiency and effectiveness of their county were: 1) An option under the current commission form of governance to appoint a county administrator or elect an executive, and 2) An option for counties to merge some or all of the functions and positions of auditor, treasurer, assessor or clerk together or with other county departments.

County Financial Health and Governance Alternatives

COUNTY GOVERNANCE OPTIONS

Analyses and Findings

Six of twenty identified county governance options were evaluated in detail for this study. The list of twenty options were identified through input from the advisory committee, reviewing governance options implemented in other states (see Appendix C) and an analysis by the project’s special assistant attorney general of the options available under Washington’s Constitution and statutes (see Appendix B). The twenty alternatives were evaluated by project staff with input from the advisory committee based on the criteria of:

- Improves county flexibility to implement service delivery
- Supports efficiency and effectiveness
- Impacts on independence of separately elected county officials

The twenty options are shown below. The shaded options (some were combined in discussion to create a total of six) were selected for further evaluation based on discussions with the advisory committee and committee consensus.

Each of the six selected study options included features that were viewed as positive by at least some members of the advisory committee. The six options also embodied the governance alternatives most discussed by counties over the last decade and most desired by county officials to improve efficiency and effectiveness of county government (see Question 18 and 19, County Official Survey, Appendix H).

Potential County Governance Alternatives (Shaded Alternatives Were Selected for Detailed Evaluation)

A. Strengthen the existing commission form of government	
1	Strengthen the executive powers of the commission by specifying additional executive functions including authorizing multi-county or regional service delivery.
2	Assign current statutory separately elected county official functions to the commission who could then delegate to commission determined officers.
3	Establish a statutory commission/appointed manager form.
4	Establish a statutory commission/appointed administrator form.
5	Establish a statutory commission/appointed administrative assistant form.
B. Legislative reform of county governance structure by statute	
6	Classify counties by population and combine duties of two or more separately elected county officials, including a five member county commission for larger counties.
7	Combine duties and reduce the number of separately elected county officials for all counties.

8	Assign specific county functions to multi-county regions or districts (following the educational service district model)
9	Pooling of staff among separately elected county officials within a single county
10	Pooling of staff to perform specific county functions across counties
11	Provide statewide fiscal incentives for counties to institute governance reforms
C. Reform of county governance structure by constitutional amendment	
12	Add a provision to create or amend a county charter through commission or voter petition initiated appointment of a county governance commission that would propose the charter or amendment for voter approval.
13	Add a provision to create or amend a county charter through commission or voter petition initiated appointment of a county governance commission that would propose the charter or amendment for voter approval. The charter proposals would be limited to modifying only state statutory governance provisions.
14	Add a provision that would provide for commissioners to be elected from municipalities.
15	Add a provision to create a non-freeholder charter county through commission action after an advisory ballot.
16	Add a provision that would authorize a non-freeholder, voter approved model charter five member commission/elected executive optional form (model charter county).
17	Add a provision that would authorize a non-freeholder voter approved model charter five member commission/manager optional form (model charter county).
18	Reduce the number of constitutional separately elected county officials.
19	Remove the uniformity requirement in the state Constitution so that the Legislature could provide local options for county structure which could include multi-county functions.
20	Provide for the consolidation of functions among counties under one jointly elected officer.

Evaluation of Six County Governance Options

The six evaluated governance options fall along a continuum of change starting with strengthening the current county governance system and ending in changes that would alter county governance provisions of the constitution to provide an opportunity to transform county government over time. Options A through D are recommended for consideration by the Legislature. Examples of legislative language necessary to implement Options A, B and C are included in Appendix A.

Evaluation of Recommended Governance Options

Recommended Option A – Strengthen the executive powers of the Commission by specifying additional executive functions, including authorizing multi-county or regional service delivery by general law. (See Appendix A for example legislative language.)

How would this alternative work?

Modify existing statutes that specify the powers and duties of the county board of commissioners (RCW 36.32.120 and RCW 36.40) to include broader executive powers. These powers might include the authority to approve and enforce county wide administrative policies and procedures (such as personnel, labor relations, training, risk management, fiscal including budgetary,

information technology and contracting policies and procedures etc); authority to appoint and dismiss department directors that are not elected; authority to request the County Prosecutor file appropriate actions to declare any separately elected county officials position vacant under RCW42.12.010; authority to implement performance audits, organizational or management studies or business process improvement studies and implement study recommendations within or among any county department(s); authority to implement multi-year county-wide facility, technology or equipment plans; and the authority to implement or direct any county-wide management or fiscal program or policy that is in the best interest of the county. Separately elected county officials would continue to retain authority to hire and fire employees within their own departments.

In addition, by general laws, the county through its executive and legislative authority would be authorized to negotiate, approve and implement intergovernmental service or operating agreements including agreements between two or more counties to undertake or provide service delivery, regulatory or enforcement programs including enforcement programs involving commissioned officers. Intergovernmental agreements could include agreements among counties or counties and the state that involved special revenue funds including the county road fund.

This alternative does not modify, by combining or eliminating, any separately elected county official.

This alternative would be implemented by the Legislature through the regular legislative process.

Current law

RCW 36.32.120 (Powers of Legislative Authorities) and RCW 36.40 (County Budget)

Changes to existing governance system

This alternative strengthens the executive powers of the commissioners by granting explicit authority to undertake various activities county-wide or between counties. While many counties already cooperate across all departments, larger scale or cross department efficiency or effectiveness improvements may only be possible with strong leadership from the commissioners.

This alternative may be seen as reducing the independence of both separately elected county officials and appointed department heads to manage the affairs of their departments by requiring cooperation with countywide and intergovernmental programs including performance audits and business process improvement projects initiated by the commissioners.

Evaluation

Being the oldest form of county government, the commission form, not surprisingly, has both many supporters and detractors. Supporters argue that the form's longevity is evidence of its adaptability and effectiveness. Detractors say that the persistence of the commission form in county government owes more to the effects of inertia and the ability of entrenched officials to

thwart reform efforts. Expanding the executive powers of the commission may therefore be seen as improving a tried and true governance form or expanding an outdated form.

Proponents of the commission form of government argue:

- Longevity – the commission form is the traditional structure of county government. It is the county form with the longest history.
- The commission plan brings government administration close to the people through the independent election of government department heads; therefore, it is the most democratic form of government.
- The independent election of multiple officials provides a broad system of checks and balances greatly reducing opportunities for government corruption.
- The combination of legislative and executive authority in the board of commissioners promotes unified policy-making and administration and helps to avoid the types of conflicts that characterize other forms.
- This form of government is more responsive to citizens since commissioners have the executive and administrative powers to implement the laws they enact.

Opponents of the commission form argue:

- The commission form, which predates the American Revolution, is antiquated and cannot, therefore, effectively address complex contemporary needs.
- The lack of a centralized executive authority and the existence of multiple separately elected county officials interferes with administrative coordination and results in inefficient and ineffective service delivery.
- The commission plan lacks accountability since responsibility for executive functions is so diffused.
- The increased complexity of county government makes administration by the citizen legislator (commissioner) no longer feasible. The commission plan lacks professionalism.
- It is nearly impossible for citizens to know the myriad, functional officials they are electing. Frequently “separately elected county officials” are elected term after term without opposition. This concentrates the selection of officers in the hands of political parties and special interest groups.²⁵

²⁵ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), pp. 9-10.

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Creates explicit executive powers for non-charter county boards of commissioners to initiate and carry out efficiency or effectiveness improvements countywide. Under the Dillon Rule as it applies in Washington, the county commissioners have only those powers that are delegated to it by the Legislature.	
County service implementation flexibility	Assists counties to be more efficient or effective when a county can determine <i>how</i> services are delivered under existing state statute and regulation by clarifying the authority of the commissioners to initiate and implement such efforts.	This alternative does not modify existing state laws or regulations about <i>how</i> county services are delivered that may limit delivery methods or streamlining.
Fiscal impacts	Provides the authority but does not mandate the implementation of multi-jurisdiction service agreements, policies, procedures, studies and plans that may lead to cost savings. No elections or added staffing is required of the counties.	In order to initiate one or more efficiency or effectiveness programs many counties may require additional funding.
Public benefit including service delivery benefits	The county commission is currently responsible for carrying out each county's business, auditing the accounts of officers and managing the county's funds (RCW 36.32.120). The public can potentially be better served by the commission having additional tools authorized by the Legislature to carry out these functions.	
Checks and balances	This alternative would strengthen the executive powers of the commission to administer and oversee the operations of the county as a whole but does not change the checks and balances between county commissioners and other separately elected county officials.	The alternative stops short of allocating the same executive powers to the commission as are currently vested in the Governor or a county executive or a city mayor or manager.

What can we learn from other states or Washington charter efforts related to this alternative?

There has been a national trend over several decades to provide governance options for counties that include a stronger centralized executive role. In fact over the last decade more Washington counties have discussed creating an executive, either appointed or elected, than any other governance change (see question 19, County Official Survey Appendix H).

Most charter counties in Washington have provided for an elected county executive or an appointed executive with separate powers to administer county government and implement the policy decisions of the county legislative body. This division of responsibilities, with its “checks and balances” between the executive, legislative and judicial branches is different than non-charter counties. In non-charter counties the county commissions play a dual role of legislative and executive, sharing the executive role with a larger group of separately elected county officials.

Recommended Option B – Strengthen the existing commission form of governance by establishing the commission-appointed manager or administrator form by state statute. (See Appendix A for example legislative language.)

How would this alternative work?

The Legislature in statute would explicitly provide for the option to appoint, in non-charter counties, a county manager or county administrator. Clark County provided its county code provision as a potential model for a state statute. The Clark County code includes the following features:

- A position is created in county government which shall be known as county administrator and designated as chief administrative officer of county government. Said position shall be appointed by the board of county commissioners.
- The county administrator shall be a person having demonstrated administrative and executive ability as shown by at least five years of experience in private or public employment in a responsible or executive position of a similar size organization or larger requiring the planning and execution of work programs of government operations, the budgeting and control of expenditures, and the coordination of multiple activities, and who shall conform substantially to the requirements of a job description for said position attached herewith and made part hereof.
- The county administrator shall serve at the pleasure of the board of commissioners.
- The county administrator shall generally advise, assist, act as agent for and be responsible to the board of commissioners for the proper and efficient conduct of the administrative affairs of the county as are placed in his/her charge by the board of commissioners. He/she shall be responsible for the enforcement of ordinances, orders, or regulations as directed by the board of commissioners. All appointed department heads under the jurisdiction of the board of commissioners shall report to the county administrator.
- In order to serve effectively, the county administrator shall:
 - Recommend a balanced annual county budget and exercise continuous budgetary supervision in conjunction with the director of the budget;

- Confer with and assist all department heads and receive reports of the activities of such departments under the jurisdiction of the board of commissioners;
 - Recommend improved or standardized procedures;
 - Assist in the coordination of the functions and work of all officers, committees, institutions, and departments of the county, and devise ways and means whereby, efficiency and economy may be secured in the operation of all offices, institutions, departments and their functions;
 - Conduct continuous research in improved administrative practices;
 - Represent the county in its intergovernmental relationships as directed by the board of commissioners;
 - Recommend long-term plans of capital improvement with accompanying financial plans;
 - Direct the enforcement of human resource policies and practices through a central human resources department;
 - Examine regularly at periods fixed by the board of commissioners of accounts, records, and operations of every commission, department, office, and agency under control of the board of commissioners and report these findings to the board of commissioners. On a regular basis he/she shall make recommendations to the board of commissioners for action to be taken relative to the efficient operation of the county, the betterment of public service, and the future needs of Clark County.
 - Direct the purchase of all property, equipment, supplies, services and related contracts and the enforcement of the purchasing ordinance through the general services department;
 - Develop financial plans in which revenues and expenditures are forecasted against anticipated county growth;
 - Manage county-owned property and facilities, as directed by the board of commissioners.
- The county administrator may employ assistants as the board of commissioners may authorize.
 - No provision of this section is intended to vest in the county administrator any duty or grant to him/her any authority which is vested by general law or county ordinance in or on any other county officer or employee. No provision of this ordinance shall be construed to delegate to the county administrator any authority required to be performed by the board of commissioners, nor shall the county administrator have the power to bind, obligate, nor to commit the county in any manner, except as provided herein or by the express grant of authority by the board of commissioners. It is the intention of the board of commissioners in adopting this ordinance only to create a position to which may be delegated certain administrative duties to be performed in and under its direction.

This alternative does not modify, by combining or eliminating, any county separately elected county officials.

This alternative would be implemented by the Legislature through the regular legislative process.

Current law

RCW 36.32.120 (Powers of Legislative Authorities) and RCW 36.40 (County Budget)

Changes to existing governance system

This alternative adds the knowledge and skills of a professional manager to the executive team of a county. The position may be used by the commissioners to coordinate with separately elected county officials decreasing the need for one-on-one meetings between each commissioner and separately elected county officials on operating issues. The requirement to recommend a balanced budget shifts the responsibility for producing a recommended budget, likely with policy alternatives developed for the commissioners to debate, from the commission itself to the administrator. The commission is thereby provided more opportunity to exercise its legislative and accountability functions.

Some may see the addition of a county administrator/manager as an intrusion on the executive powers of separately elected county officials.²⁶

Evaluation

Proponents of the commission/council-appointed administrator form argue:

- The separation of policy making and administration removes political influence over administrative matters.
- Since managers are appointed rather than elected, greater attention can be given to selecting a qualified manager.
- The pool of qualified candidates is larger since county managers are usually paid better than commissioners/council members and candidates may be recruited from outside the county, including a nationwide search. (Elected officials must be a resident of the county prior to their election.)
- An appointed administrator usually brings professional training, skills, and credentials which may result in professional, administrative leadership.
- Since managers are appointed not elected, they are less likely to have political obligations affecting the quality of their administration.
- Emphasis is placed on the role of the legislative body and its policy-making function. The commission or council is free to pursue policy development while the administrator handles the day-to-day business of county government.
- Since the manager serves at the pleasure of the commission/council without a definite term, he/she can be removed at any time should he or she fail to carry out the duties of the position or meet performance expectations, limiting the danger of an abuse of authority.
- Greater control over budget and quality of service delivery is possible under the supervision of the administrator.

Opponents of commission/council-appointed administrator form argue:

- This form gives too much power to one person – the administrator.

²⁶ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), pp. 11-12

- An appointed administrator, often chosen from outside the county, may not know the community.
- Commissions/councils may leave too much decision-making to the appointed administrator, who is not directly accountable to the public.
- Citizens may be confused about who is in charge. Most expect elected officials to respond to their problems.
- Appointed administrators have a tendency to leave when offered higher salaries and greater responsibilities in other local governments.
- An appointed administrator is dependent upon the strength and cooperative spirit of the county board and may find it difficult to take effective action when the county board is split.
- An appointed administrator may find it difficult to provide policy leadership on important issues facing the county. If the administrator takes a passive role, inaction may result. If the administrator becomes an agent to shape public opinion behind an issue, he or she is vulnerable if the board takes a different stand.²⁷

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Creates explicit executive powers for a non-charter county chief administrative officer to initiate and carry out efficiency or effectiveness improvements countywide. Under the Dillon Rule as it applies in Washington the county commissioners have only those powers that are delegated to it by the Legislature.	
County service implementation flexibility	Assists counties to be more efficient or effective when a county can determine <i>how</i> services are delivered under existing state statute and regulation by clarifying the authority of the administrator to initiate and implement such efforts.	This alternative does not modify existing state laws or regulations about <i>how</i> county services are delivered that may limit delivery methods or streamlining.
Fiscal impacts	Provides the authority but does not mandate the implementation of a county manager/administrator or management initiatives that may lead to cost savings. Increased management costs may or may not be offset by savings resulting from	Counties would likely employ a county administrator or manager as a new position in county government increasing management costs. In order to initiate one or more efficiency or effectiveness program many counties that are

²⁷ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), pp. 12-13.

	efficiency or effectiveness improvements, avoidance of legal claims or other actions that result from the addition of a professional manager with knowledge of best management practices.	fiscally stressed may require additional funding.
Public benefit including service delivery benefits	The county commission is currently responsible for carrying out each county's business, auditing the accounts of officers and managing the county's funds (RCW 36.32.120). The public can potentially be better served by the commission having additional tools authorized by the Legislature to carry out these functions.	
Checks and balances	The existing check and balance system among the commissioners, judges and separately elected county officials in Washington non-charter counties allocates to each a piece of the executive powers vested in one executive position in state government, some charter counties and cities. This alternative would strengthen the executive powers of the commission to administer and oversee the operations of the county as a whole using the assistance of a professional manager.	The alternative stops short of allocating the same executive powers to the commission and its administrator as are currently vested in the Governor or a city mayor or manager.

What can we learn from other states or Washington charter efforts related to this alternative?

There has been a national trend over several decades to provide governance options for counties that include a stronger centralized executive role. In fact, over the last decade, fifteen Washington counties have taken actions to create an executive, either appointed or elected, than any other governance change (see question 19, County Official Survey Appendix H).

Most charter counties in Washington have provided for an elected county executive or an appointed executive with separate powers to administer county government and implement the policy decisions of the county legislative body. This division of responsibilities, with its check and balances between the executive, legislative and judicial branches is different than non-charter counties. In non-charter counties, the county commissions play a dual role of legislative and executive, sharing the executive role with a larger group of separately elected county officials.

Based on an informal survey of states with alternative forms of county government, the county commission/county manager form of governance is the most recommended by executive directors of county associations.

This option has the least effect on the interactions with separately elected county officials. However, the presence of a county manager or administrator does increase staff professionalism and accountability.

Changes in county governance did not result in fiscal savings, but does positively impact service delivery. Where major governance change has occurred, the executive directors of county associations noted that the change is costly in terms of personnel and administration. However, consolidating some functions and having more oversight over day-to-day operations by a county manager or administrator has improved service delivery.

Recommended Option C -- Add a constitutional provision to create a voter approved charter county or amend an existing charter through county commission or voter petition initiated appointment of a county governance commission that would propose a charter or charter amendment to be placed before the people at an election. This provision could be universally available as an alternative to the freeholder charter county process or available only for a charter or charter amendment that modified county government where the modifications are not a part of the Washington constitution. (See Appendix A for example legislative language.)

How would this alternative work?

For purposes of determining how a governance commission proposal would be initiated, parts of the statute that creates five member commissions (no longer effective due to court decision) were used.

(1) The board of commissioners of any county may cause a ballot proposition to be submitted at a general election to the voters of the county authorizing a county charter or charter amendment after convening by county ordinance an appointed county governance commission of no more than eleven or fewer than five members that is charged with recommending the charter or amendment to be placed on the ballot.

(2) As an alternative procedure, a ballot proposition shall be submitted to the voters of a county authorizing a county charter or charter amendment upon voter petition. A validated petition of county voters equal to at least 10 percent of the voters voting at the last county general election submitted to the county commission initiates this process. Upon receipt of a valid petition the county commission shall convene by county ordinance an appointed county governance commission of no more than eleven or fewer than five members that is charged with recommending the charter or amendment to be placed on the ballot.

This alternative does not directly modify, by combining or eliminating, any county separately elected official position or functions. Individual county charters however may.

This alternative requires a constitutional amendment (see Appendix B).

Current law

The constitution currently provides for the creation of charter counties through the freeholder process (Article XI, Sec 4) and city-county consolidation (Article XI, Sec 16).

Changes to existing governance system

This alternative would allow a county to provide for a county charter that establishes its own governance structure which could include modification to the number of elected members of the legislative body; county executive powers and the number of separately elected county officials. The existing freeholder method of adopting a county charter or amendment would be augmented by a second option that did not involve the election of freeholders.

Evaluation

The current charter process prescribed in the state constitution is thought by some to be somewhat cumbersome. It first requires the election of freeholders, who study alternatives and make recommendations to the electorate, who then approve or disapprove of the recommendation(s). Voters must decide whether to authorize the charter process and choose freeholders in the same election. This can be confusing. An option that might simplify the charter process is to provide for the commission to *appoint* a charter committee that is charged with studying alternative forms and recommending a form of government to the commission and voters. A charter committee can also be formed as a result of a petition from the voters.

No studies were found that conclusively demonstrate whether it is better to have elected or appointed groups study charter proposals and make recommendations to the voters. In some instances, elected groups have recommended unpalatable proposals. Subsequently the use of an appointed group in these same counties led to proposals that were ultimately adopted by the voters. In at least one state, New Jersey, elected charter groups have produced significant county reform. Appointed groups predominate in some states (Sonenshein, p48). Ultimately the voters still have the final say on their form of government.²⁸

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Provides the opportunity for a county to appoint a commission with expertise in county government that may result in more efficient structures.	
County service implementation flexibility	Assists counties to be more efficient or effective when a county can determine <i>how</i> services are delivered	This alternative does not modify existing state laws or regulations about <i>how</i> county services are

²⁸ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), p. 18.

	under existing state statute and regulation.	delivered that may limit delivery methods or streamlining.
Fiscal impacts	Provides additional process options for creating a county charter. The fiscal impacts of a new charter will likely vary from county to county. Cost of a freeholder election would be eliminated.	Providing support to the freeholders in debating a county charter can be expensive especially if the charter is defeated at the polls. Seven of the eight attempts in Washington over the last decade have failed. Clark County estimated that its last effort cost \$4 million.
Public benefit including service delivery benefits	Allows a county to design a governance system that best meets their needs, including service delivery needs.	
Checks and balances	Allocates the responsibility for determining how a charter is drafted to the elected County legislative body.	May be seen as reducing the power of the electorate to decide who will represent them in forming or amending a county charter if the freeholder process is not used.

What can we learn from other states or Washington charter efforts related to this alternative?

Most charter counties in Washington have provided for an elected county executive or an appointed executive with separate powers to administer county government and implement the policy decisions of the county legislative body. Some charters have reduced the number of separately elected county officials and most have increased the size of the legislative body.

Charter county authority has been granted to counties across the country including Washington. Some states use appointed and some elected groups to design the county charters. Washington counties that have used the freeholder process over the last decade have more often failed to adopt a charter (7) than approved a charter (1) (See Appendix H, Question 18).

Nationwide and in Washington, charters have been adopted when rapid growth and urbanization is occurring in the county (Appendix C, page 17). The number of counties implementing charters in Washington is small, but those counties generally contain over half the state population. Charters are uncommon nationwide in small or rural counties.

Recommended Option D – Reform county government through state statute changes to reduce the number of separately elected county officials in non-charter counties by classifying counties by population and combine duties of two or more officers, including a five member county commission for larger counties.

How would this alternative work?

The alternative involves the combining of duties for two or more separately elected county officials for counties in specific population classes. The Legislature would adopt a statute following the regular legislative process as outlined in the memo from Hugh Spitzer (page 4). Hugh provides an example in his memo of how combined offices could be accomplished by the Legislature by statute but the position titles are fictitious. As an example for evaluation of the position combinations and population classes the following is offered:

Core County Positions

Five County Commissioners (part-time)
Superior Court Judge(s)
Sheriff
Prosecuting Attorney
Treasurer
Clerk
Assessor
Auditor
Coroner/Medical Examiner
Total of 13 positions

Positions in Counties of up to 50,000 in population (17 Counties)

Three Commissioners (performing the duties of five part time)
Superior Court Judge(s) (includes the duties of clerk)
Sheriff
Prosecuting Attorney (includes the duties of coroner)
Treasurer (includes the duties of auditor and assessor)
Total of 7 positions

Positions in Counties of 50,000 to 150,000 population (10 Counties)

Five County Commissioners
Superior Court Judge(s) (includes the duties of clerk)
Sheriff
Prosecuting Attorney (includes the duties of coroner needs more work re: medical examiner)
Treasurer (includes duties of the Assessor)
Auditor
Total of 10 positions

Positions in Counties of 150,000 population or greater (6 Counties)

Core list of 13 County Positions

This alternative does modify, by combining or eliminating separately elected county official positions.

This alternative would be implemented by the Legislature through the regular legislative process.

Current law

RCW 36.16 to 36.35 and RCW 68.50 related to the functions and positions of appointed county department heads and separately elected county officials.

Changes to existing governance system

This alternative increases the size of the county legislative body to five part time commissioners and merges or consolidates the functions of some separately elected county officials in smaller counties. The separately elected county officials of treasurer, auditor and assessor are consolidated into one or two positions depending on county size and the positions of judge and clerk are merged in smaller counties. This merger would move the clerk into the judicial branch.

Evaluation

Increasing the Size of the Legislative Body

Legislation was enacted in 1990 allowing any county with a population of 300,000 or more the *option* of increasing the size of the board of county commissioners from three to five. The only non-charter counties that meet this size threshold are Spokane and Clark. Neither county has used this option, which appears to violate Article XI, Section 5 of the constitution. (Lundin, p. 54. He cites AGO 1979 L.O. No 8, that opined that similar legislation was unconstitutional).

Except for Clallam County, all of the charter counties (King, Pierce, San Juan, Snohomish, and Whatcom) have opted for larger councils. Those who argue this point would generally say that a larger number of commissioners might be *more* representative. Each council member represents a smaller number of voters, and hence voters might feel that their elected representatives are more accessible. There is a practical advantage to a larger body operating under the Open Meetings Law. Since two commissioners constitute a quorum of a three-member legislative body, they must take great care not to discuss county business when meeting one-on-one. Many county commissioners find this situation to be cumbersome.

Reducing the Number of Elected Versus Appointed County Officials

Several counties that have adopted charters with the county executive form of government have made some of the functions of the formerly separately elected county officials appointed positions. Those who favor separately elected county officials argue that this provides direct responsibility to the citizens of the county. These are perhaps the most frequently heard and loudest arguments for separately elected officials: “They report directly to the people,” and “The people have direct control.”

Those who favor appointed department heads reporting to the commissioners or judges argue that appointment by skill and ability outweighs direct election. They support their argument by indicating that the functions of the separately elected officials are spelled out in statute and are clear.

There appears to be no study that objectively bears out either point.²⁹

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Merges county functions that are within the same service systems (eg budget and finance system, court system or tax collection system) which may facilitate implementing efficiency or effectiveness improvements in those systems that would currently be in departments headed by separately elected county officials.	Does not directly improve the executive powers of counties to implement cross department or function efficiency or effectiveness initiatives.
County service implementation flexibility	Would consolidate some functions that are within the same service system providing some added opportunity for service improvements.	This alternative does not modify existing state laws or regulations about <i>how</i> county services are delivered that may limit delivery methods or streamlining.
Fiscal Impacts	There are some limited opportunities for cost savings due to staffing reductions in larger counties when the assessor, auditor and treasurer functions are merged (See Appendix F). The merger of clerk and judicial functions provide for more opportunity for cost savings.	<p>Merger of assessor, auditor and treasurer functions in smaller counties was not found to provide cost savings (see Appendix F).</p> <p>Some counties may have additional costs for a part time five member county legislative body versus a three member full time commission.</p> <p>May decrease the number of jobs in counties with limited employment bases.</p>
Public benefit including service delivery benefits	Could facilitate the streamlining of systems that currently operate across department lines such as tax collection, property records, budget and financial reporting and Superior Court operations.	Fewer separately elected county officials may be seen as creating less transparency in county functions and less direct accountability to the public.
Checks and balances	The existing check and balance system among the commissioners, judges and separately elected county officials in Washington non-charter counties allocates to	Internal financial controls common to cities and other local governments may need to be put into place in counties to substitute for fraud protections afforded by separate offices.

²⁹ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), pp. 15-16.

	<p>each a piece of the executive powers vested in one executive position in state government, some charter counties and cities. This alternative reduces the number of separately elected county officials that share executive powers with the commission and provide fiscal internal control in smaller and medium size counties.</p> <p>Shifts the county clerk from the executive branch to the judicial branch which may be seen by some as a pro and some as a con.</p>	<p>Shifts the county clerk from the executive branch to the judicial branch which may be seen by some as a pro and some as a con.</p>
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What can we learn from other states or Washington charter efforts related to this alternative?

Several counties that have adopted charters with the county executive form of government have made some of the functions of the formerly separately elected county officials appointed positions. In addition, some counties have merged selected functions such as assessor and treasurer or clerk and court administration. Most cities and the state in Washington have appointed department heads. The exceptions at the state level are the elected treasurer, auditor, secretary of state and attorney general. Several of the functions of treasurer and auditor in county government are preformed by appointed state department heads at the state level (e.g. budget, financial reporting and business functions).

There are states that have fewer separately elected county officials than Washington, and there are states with more separately elected county officials than Washington. The positions of sheriff and county prosecutor are universally elected nationwide. The largest variety of elected versus appointed positions occur with clerk, assessor, treasurer and auditor. The trend is to provide for fewer separately elected county officials in contemporary county governance alternatives especially in urban areas.³⁰

Evaluation of Options Not Recommended

Option E -- Add a constitutional provision to allow any county to convert to a model charter county by voter approval. This option would be an alternative to the existing freeholder charter county process which would remain in the constitution. The model charter would provide for a part-time five member commission with either an elected executive or an appointed county manager as determined by the board of commissioners prior to placing the issue on the ballot. The commissioners may choose to hold an advisory ballot prior to selecting which of the two model charters to place before the voters for adoption. The model charter is adopted by the Legislature as a part of state statute.

³⁰ National Association of Counties, County Government Structure: A State by State Report.

How would this alternative work?

After or before a vote on a constitutional amendment, the Legislature would adopt in state statute model charters for each of the two forms – five member part-time commission/elected executive and five member part-time commission/appointed manager. These models would be subject to legislative change through the regular legislative process over time. Most model charters in other states reduce the number of separately elected county officials and assign their functions to appointed department heads.

The board of commissioners of any county may cause a ballot proposition to be submitted at a general election to the voters of the county authorizing conversion of county government to a model charter county under a new section in RCW Chapter 36..

As an alternative procedure, a ballot proposition shall be submitted to the voters of a county authorizing conversion of county government to a model charter county under a new section in RCW Chapter 36, upon petition of the county voters equal to at least 10 percent of the voters voting at the last county general election.

This governance option may modify, by combining or eliminating, county separately elected county officials if the Legislature provides for that in the model charters adopted by statute.

This alternative would be implemented by a vote of the people on a constitutional amendment and then implemented through the adoption of model charters by the Legislature through the regular legislative process.

Current law RCW Chapter 36

Changes to existing governance system

This alternative would allow a county to provide for a county charter that establishes legislatively proscribed governance structure which could include modification to the number of elected members of the legislative body; county executive powers and the number of separately elected county officials. The existing freeholder method of adopting a county charter or amendment would be augmented by a second option that did not involve the election of freeholders.

Evaluation

The process prescribed in the state constitution is thought by some to be somewhat cumbersome. It first requires the election of freeholders, who study alternatives and make recommendations to the electorate, who then approve or disapprove of the recommendation(s). Voters must decide whether to authorize the charter process and choose freeholders in the same election. This can be confusing. An option that might simplify the charter process is to provide for the commission to *appoint* a charter committee that is charged with studying alternative forms and

recommending a form of government to the commission and voters. A charter committee can also be formed as a result of a petition from the voters. Election costs would be reduced.

No studies were found that conclusively demonstrate whether it is better to have elected or appointed groups study charter proposals and make recommendations to the voters. In some instances, elected groups have recommended unpalatable proposals. Subsequently the use of an appointed group in these same counties led to proposals that were ultimately adopted by the voters. In at least one state, New Jersey, elected charter groups have produced significant county reform. Appointed groups predominate in some states (Sonenshein, p. 48). Ultimately the voters still have the final say on their form of government.³¹

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Provides the opportunity for a county to present a model charter option to the voters without going through the freeholder process. The models could include an executive separate from the commission or council to initiate and carry out efficiency or effectiveness improvements countywide.	The model charters adopted by the Legislature may not meet the unique needs of every county.
County service implementation flexibility	Assists counties to be more efficient or effective when a county can determine <i>how</i> services are delivered under existing state statute and regulation by clarifying the authority of the executive/manager to initiate and implement such efforts.	This alternative does not modify existing state laws or regulations about <i>how</i> county services are delivered that may limit delivery methods or streamlining.
Fiscal Impacts	Provides additional process options for creating a county charter. The fiscal impacts of a new charter will likely vary from county to county. Cost of a freeholder election and support of the process to create a charter would be eliminated. Implementation of a county manager/executive or management initiatives may lead to cost savings. If there are increased management	Providing support to the freeholders in debating a county charter can be expensive especially if the charter is defeated at the polls. Seven of the eight attempts in Washington over the last decade have failed. As a result of more or fewer positions a model charter government may or may not be more costly than the existing county governance system.

³¹ Municipal Research & Services Center of Washington, County Governance Alternatives (Complete version of Appendix C at <http://www.cted.wa.gov/site/1044/default.aspx>), p. 18.

	costs may or may not be offset by savings resulting from efficiency or effectiveness improvements, avoidance of legal claims or other actions that result from the addition of a professional manager with knowledge of best management practices.	
Public benefit including service delivery benefits	Allows a county to adopt a governance system that may better meet their needs and provide more flexibility. The public can potentially be better served by the County having additional tools authorized by the Legislature in a model charter to carry out these functions.	Counties that adopt model charters may need legislative action to reform its governance structure in future years.
Checks and balances	Allocates the responsibility for determining how a charter is proposed to the elected county legislative body. The alternative may allocate the same executive powers to the county executive/manager as are currently vested in the Governor or a city mayor or manager.	May be seen as reducing the power of the electorate to decide who will represent them in forming or amending a county charter if the freeholder process is not used. Stronger executive authority may be seen as reducing the executive functions of separately elected county officials.

What can we learn from other states or Washington charter efforts related to this alternative?

There has been a national trend over several decades to provide governance options for counties that include a stronger centralized executive role. In fact, over the last decade, fifteen Washington counties have taken actions to create an executive, either appointed or elected, more than any other governance change (see question 19, County Official Survey Appendix H).

Most charter counties in Washington have provided for an elected county executive or an appointed executive with separate powers to administer county government and implement the policy decisions of the county legislative body.

Based on an informal survey of states with alternative forms of county government including the commission or council – manager or administrator form, the county commission/county manager form of governance is the most recommended by executive directors of county associations.

This option has the least effect on the interactions with separately elected county officials. However, the presence of a county manager or administrator does increase staff professionalism and accountability.

Changes in county governance did not result in fiscal savings, but does positively impact service delivery. The executive directors of county associations note that the change was costly in terms of personnel and administration. However, consolidating some functions and having more oversight over day-to-day operations by a county manager or administrator has improved service delivery.

Option F – Assign county service delivery or support service functions to multi-county regions or districts following the educational service district model in the K-12 system.

How would this alternative work?

This alternative involves creating by state statute following the regular legislative process a new governmental entity funded by the state. The Legislature would assign to that entity specific duties that had been previously assigned to counties. There are obviously a large number of potential combinations of duties that could be assigned.

As an example, for purposes of this evaluation, the duties could be assigned to six regional organizations (with the same boundaries as Department of Transportation regions). The duties assigned for this example are county human resource functions including labor relations, information technology including web services and general county legal counsel. The state Legislature would appropriate funding to the county service districts each biennium and the service districts would have to propose budgets to the Governor for inclusion in the recommended state budget. These budgets would determine funding and staffing. A governing board for the districts as a whole would be made up of county and state officials (nine total, one from each district and three representatives of state departments such as the Department of Revenue, Department of Information Services and a Governor's designee). The responsibility of the governing board would be to establish service delivery plans and propose a budget for the system to the Governor.

This alternative does not combine or eliminate any county separately elected county officials but instead may assign functions of their offices to a new regional governmental entity.

This alternative would be implemented by the Legislature through the regular legislative process.

Current law

RCW 36.16 to 36.35 and RCW 68.50 related to the functions and positions of separately elected county officials and appointed department heads.

Changes to existing governance system

This alternative assigns some of the functions of county government to a regional governmental unit to provide for the counties it serves.

Evaluation

This alternative is modeled after the educational service district system in Washington. The service district provides services to school districts in its service boundaries and is a separate administrative and fiscal entity. Some of the services that could be provided in this model include purchasing, financial services, corporate counsel, information technology, personnel services and risk management in addition to direct customer services such as tax billing and collection, treasury services, specialized criminal justices services and web transaction services. Services that are good candidates for regional provision are those with opportunities to reduce unit costs through processing of higher volumes of transactions or services; through sharing of high fixed costs including technology or facilities and/or specialized skilled employees that are hard to recruit and retain.

Impacts of proposed change

Specific impacts	Pros	Cons
County efficiency and effectiveness	Could provide a method of reducing unit costs and/or increasing service quality by regionalizing service delivery statewide.	<p>Counties vary in the level of service they currently provide. This variation may be a barrier to providing uniform regional service delivery statewide without supplemental state funding.</p> <p>This alternative creates a new layer of government.</p>
County service implementation flexibility	Assists counties to be more efficient or effective when a county can determine <i>how</i> services are delivered under existing state statute and regulation by providing the service regionally.	<p>Regional provision of service may reduce a county’s flexibility to customize services to meet the unique needs of an individual county.</p> <p>This alternative does not modify existing state laws or regulations about <i>how</i> county services are delivered that may limit delivery methods or streamlining.</p>
Fiscal Impacts	<p>May reduce unit costs for service and/or improve the quality and outcomes of service.</p> <p>Increased management costs may or may not be offset by savings resulting from efficiency or effectiveness improvements, avoidance of legal claims or other actions that result from the regionalization of services.</p>	<p>Creates new governmental entities with independent management costs. Provides access to services that some small counties may not have now but may also add costs.</p> <p>Functions that are assigned to the new regional entity do not directly reduce the number of county employees. Separately elected county officials in particular would remain.</p> <p>Increases intergovernmental</p>

		coordination requirements among counties.
Public benefit including service delivery benefits	Possible cost reduction. Could increase access to higher level of professional knowledge and skills.	May affect citizen's access to services especially for those that rely on in-person contacts. Lower income or limited mobility persons may be especially affected.
Checks and balances	Provides pooled resources which may increase oversight and improve information available to policy makers.	Reduces direct accountability for service delivery.

What can we learn from other states or Washington charter efforts related to this alternative?

There were not any specific models of statewide regional service provision identified among counties in other states. There are a number of regional service provision models that serve metropolitan areas and some models for individual services.

There are many intergovernmental service agreements and entities in Washington including a large number among and within counties. Not all counties in Washington fund programs that are good candidates for regionalization which may limit what services can be provided uniformly statewide in a regional format. Various facets of information technology were named most frequently as a service that may provide regionalization opportunities with positive impacts on efficiency and effectiveness (see Appendix H). Washington has several nationally unique models in the delivery of information technology services on a regional basis (see Appendix F, case study on joint service delivery).

Findings

- There are a significant number of county governance alternatives available to Washington State offering different features and policy options. Some options would allow counties to design their governance structure using a bottom up approach and some would reform county government through legislative action or a top down approach.
- Washington counties lack some governance tools that would facilitate the application of best public management practices to continue their work in improving efficiency and effectiveness.
- The advisory committee concluded that changes in county governance structure are not directly correlated to changes in county fiscal health and would not by themselves address fiscal distress.

County Financial Health and Governance Alternatives

ADVISORY COMMITTEE RECOMMENDATIONS

Advisory Committee Recommendations

To ensure critical information and viewpoints from stakeholders were included, CTED convened an advisory committee. The committee assisted CTED in considering options and provided feedback to inform the department's recommendations and Legislature. The advisory committee consisted of 11 county elected and appointed officials nominated by the Washington State Association of Counties and the Washington Association of County Officials. The committee also included one representative from academia and one representative from the business community.

Conclusions that Shaped the Advisory Committee Recommendations

- Changes in county **governance are not directly correlated to changes in county fiscal health**. All counties, charter and non-charter, are fiscally distressed. It is a matter of degree.
- Counties are constitutionally created as “agents of the state.” Significant additional improvement in efficiency and effectiveness can best be accomplished through **partnering with the state to change joint systems or state policy**.
- Counties **lack some key governance tools** that would facilitate the application of best public management practices to continue their work in improving efficiency and effectiveness.
- Many counties will be acquiring new software and/or technology over the next decade to replace existing outmoded systems. These changes represent a major **opportunity for the state and counties to partner in order to increase short and long term efficiency, effectiveness and interoperability** among local governments and with the state.
- County government's funding base over the last decade has become inelastic, restricted and dependent on too few sources to be responsive. Additional **flexibility** in county government's revenue base is necessary to sustain **equal access to basic services** across the state. **New revenue** is necessary to sustain services.
- Changes in county government's funding base should have a **neutral fiscal impact or facilitate** the further implementation of **growth management policy**. County revenue is shrinking as a result of implementation of growth management policy while regional service demands are increasing.

Advisory Committee Recommendations Related to Efficiency and Effectiveness

1. The state should support provision of joint or consolidated services among governments through:
 - a. Amending state statutes by general law to assure that counties are authorized to enter into joint service agreements including multi-county service agreements; agreements with governments in other states and Canada; and agreements

- between counties and the state in all service areas including services funded with special revenue funds and services that involve enforcement programs.
- b. Providing facilitators and model service agreements that can be adapted to the needs of individual counties.
 - c. Assuring that funding formulas do not penalize governments that provide services jointly. At minimum, funding should be allocated to joint service providers at the same level as those providers would have received separately.
2. The state and counties should work together on the redesign of county service automation where counties are acting as agents of the state. One way this can be accomplished is by allocating state auditor performance audit funds to contracted performance audit services at the invitation of counties. The audits would be focused on joint projects that audit for performance and then as a direct follow-up, redesign key county business processes. State funding of joint projects should include scoping, design and implementation including technology infrastructure requirements based on proposals from the counties.
 3. The state should support changes to state statutes that provide additional flexibility to counties related to *how* services are delivered or purchased. Examples of some of these changes that have been identified by the counties include: increasing the bid limits on personal services and equipment or supply purchases; reducing the number of special elections; limiting liability in county civil suits; raising the population limit on labor contract binding interest arbitration; and increasing the day labor limitations for fiscally distressed counties.

Advisory Committee Recommendations Related to County Governance

The Legislature has requested that specific governance alternatives be proposed. The study has resulted in identifying a number of alternatives that could provide an *opportunity* for improving county efficiency and effectiveness. Some alternatives could improve efficiency and effectiveness using the current governance model and some alternatives would move toward transforming county governance.

The advisory committee prefers alternatives that provide counties greater flexibility in adapting their form of governance to local conditions. The advisory committee strongly felt that major transformation of county governance should require a vote of the people. The committee also felt that the current system of financial checks and balances needs to be maintained in any new governance form. The four alternatives presented below are in order of preference.

Option A: Expand the executive powers of the board of county commissioners to initiate and conduct processes, programs or studies that improve efficiency and effectiveness including the authority by general law to enter into joint service agreements among counties, the state or governments in other states and Canada for services funded by special revenue funds or services that involve enforcement programs.

Option B: Provide the specific statutory authority for the board of commissioners to appoint a county administrator or manager.

Option C: Add a constitutional provision to create a voter approved charter county or amend an existing charter through county legislative body or voter petition initiated appointment of

a county governance commission that would propose a charter or charter amendment to be placed before the people at an election. This provision could be universally available as an alternative to the freeholder charter county process or available only for a charter or charter amendment that modified county government where the modifications are not a part of the Washington constitution.

Option D – Reduce the number of separately elected county officials in non-charter counties through state statute amendment that classifies counties by population and combines duties of two or more officers, including a five member county commission for larger counties.

Advisory Committee Recommendations Related to County Financial Health

1. In order to support equal access to basic services across the state, existing county funding should be modified by adopting a package of revenue changes that:
 - Increase overall county general fund revenue elasticity and flexibility by including at least one source that grows more in proportion to the economy, a third leg to the existing two legged revenue stool.
 - Provide enough revenue to fiscally distressed counties to cover the fixed costs of state agent related basic services.
2. Flexibility in existing county funding sources should be increased by:
 - a. Consolidating existing county sales taxes dedicated to specific purposes into a single non-dedicated sales tax source authorized by the county legislative body. The county would be authorized to restrict the use of the funds or seek voter approval as a local option.
 - b. Non-supplanting language should be removed from existing county revenue statutes. Due to tax limitations, county revenue no longer grows sufficiently from year to year to cover service delivery costs. County officials are trying to sustain and improve the efficiency and effectiveness of basic services. Non-supplanting requirements frustrate those efforts by requiring the growth of government at the expense of existing basic service.
 - c. Provide for greater revenue diversity through allowing counties to create, maintain and expand sales tax generating land uses in unincorporated parts of urban growth areas (UGAs) by amendment to annexation law and the Growth Management Act (GMA).
3. The state should adopt a package of revenue changes from the following:
 - a. Reimbursing counties for state services provided by county government in order to support equal access across the state. Washington substantially lags behind other states in funding of these services.
 - Reimbursing counties by an amount equal to average jail day costs (\$72 per jail day in 2006) plus medical expenses for felons that are held in county jails pre-sentence or post-sentence.
 - Reimbursing counties by an amount equal to one half of the cost of Superior and District Court including public defense, interpreter services, civil defense, prosecutor costs and facilities.
 - Reimbursing counties by a predetermined amount per registered voter per year to support voter registration.
 - Reimbursing counties for the state share of even year election administration.

- Reimbursing counties by an amount equal to 1 percent of tax collections to cover the cost of the assessment and collection of property taxes for the state and other taxing districts.
- b. Diverting a portion of the state sales tax to support county provided state services statewide.
- c. Authorizing counties to impose a countywide utility tax on public and private utilities to support county provided state services.
- d. Increasing the size of payments and number of properties subject to payments in lieu of property tax on state owned property.
- e. Changing the property tax limitation statutes to allow the property tax levy increase factor to change by CPI rather than 1 percent.
- f. Clarifying the property tax levy lift statute to apply beyond six years.

The following are areas identified for additional study:

- Washington has an exceptionally large number of special districts providing public services, over 1,700. Many of these districts are supported in whole or in part by property taxes. Reduction in the number of special districts should be more thoroughly explored, especially among those providing public safety and utility services, where consolidation with other governments could reduce the number of overlapping taxing district or utility service providers. There may be a significant potential for reducing duplicative overhead and taking advantage of scale to reduce the cost of service delivery impacting property taxes and utility bills.
- The least number of joint or consolidated service agreements were noted in the survey of county officials in the area of transportation, even though transportation is the second largest single expense of county government. A more focused evaluation of this service system may yield opportunities and barriers that need to be addressed.
- The advisory committee noted, on a number of occasions, that the lack of a positive working relationship between the state, including the legislature, and county officials may be a key barrier to significant improvement in joint county-state service delivery efficiency and effectiveness. Additional initiatives in this area may be important in order to make significant progress.

County Financial Health and Governance Alternatives

REPORT RECOMMENDATIONS AND RATIONALE

Issue: County efficiency and effectiveness

What can be done to increase the efficiency and effectiveness of county government?

Recommendation 1

Further the expansion of joint or consolidated service provision among governments:

1. Amend state statutes by general law to assure that counties are authorized to enter into joint service agreements including multi-county service agreements; agreements with governments in other states and Canada; and agreements between counties and the state in all service areas including services funded with special revenue funds and services that involve enforcement programs. (See example legislative language in Appendix A.)
2. Provide facilitators and model service agreements that can be adapted to the needs of individual counties.
3. Ensure that state funding formulas do not penalize governments that provide services jointly. At minimum, funding should be allocated to joint service providers at the same level as those providers would have received separately for direct service expenses.

Basis

Based on the CTED survey of 747 county officials statewide, counties have entered into over 1300 joint service agreements with other governments. The largest numbers are in the areas of criminal justice and human services and the lowest number is in transportation.

This recommendation is intended to help counties “go to the next level” in the use of joint service agreements to consolidate services among major service providers regardless of funding source or enforcement jurisdiction. The joint service agreement case study and survey data found best practices or models exist that could be shared statewide to build off of existing successes. Further, agreement on scope and level of service along with funding formulas were the most difficult parts of joint agreements for local government to negotiate and sustain. These two issues were also the most frequent cause of termination. The study found several examples of state funding formulas that penalized counties for operating joint services between two or more counties.

Recommendation 2

Work with counties through funding and collaboration to redesign county service automation where counties are acting as agents of the state. State funding of projects should include scoping, design, identification of statutory or regulatory barriers and implementation requirements, including technology infrastructure, based on proposals from the counties.³²

³² One way this can be accomplished is by allocating State Auditor performance audit funds set aside under Initiative 901 to purchase consulting services needed to identify key performance improvements at the invitation of counties. Efficiency improvements to county businesses processes would be made as projects identified performance improvement opportunities and then as a direct follow up, applied new technology and methods. State funding of

Basis

The study found that county government is the largest “state agency” in Washington with more than 34,000 employees. Most county services were provided historically and today under the constitutional provisions that make counties “agents of the state.” County services generally are part of larger service systems that include the state, with business processes that are inhibited from effectively streamlining by lack of funding for replacement automation and, in some cases, by state statute requirements.

There are at least 20 county business processes which rely on automation that could be adapted to more modern methods resulting in increased efficiency and effectiveness. Most of these business processes include automation that is outmoded and due for replacement over the next decade. These changes represent a major opportunity for the state and counties to enter into new partnerships. Maximum efficiency and effectiveness results would be achieved through counties working with the state as it provides funds, helps to define interoperability standards and eliminates requirements that get in the way of streamlining.

The State Auditor’s Office, as a result of citizen initiative, accumulates significant funds annually from state sales taxes to finance local government performance audits. Leveraging those funds to facilitate efficiency and effectiveness improvements is aligned with the objective of the citizen initiative and represents an additional opportunity.

Recommendation 3

Incrementally review and implement changes to existing state statutes to provide additional flexibility to counties related to *how* services are delivered or purchased, specifically starting with a review of purchasing/contracting and public records statutes.

Basis

Nearly half of the chapters in state statute impact county government, its services, or operations. New proposals are made each year to change many of these statutes. As legislation is proposed and existing statutes are revised, a progressive incremental effort should be made to reduce or eliminate statutory language that increases the cost of county operations and/or limits the methods that are used to delivery county services or carry out local governmental processes. Consulting contracts to begin this process should focus on public records and purchasing and contracting statutes in order to address restrictions that increase county costs or inhibit streamlining and automation.

projects should include scoping, design, identification of statutory or regulatory barriers and implementation requirements, including technology infrastructure, based on proposals from the counties.

Issue: Governance

What can be done to make changes to county government structure in order to maximize the opportunity for efficiency and effectiveness improvements?

As required by the budget proviso, the study identified a number of governance structure options that could provide an *opportunity* for improvement in county efficiency and effectiveness. The study found that Washington counties lack some key governance tools that would facilitate the application of best management practices necessary to make improvements. Some options could improve efficiency and effectiveness using the current governance model and some options would move toward transforming county governance.

CTED recommends pursuing *Recommendations 4, 5 and 6*. These proposals represent progressive improvements to the governance tools available to Washington counties and could be adopted as a package or individually. All of these recommendations respect Washington's tradition of local governance being determined from the "bottom up" rather than the "top down." Example legislative language to implement *Recommendations 4, 5 and 6* is found in Appendix A.

As an alternative to *Recommendation 6*, the Legislature could adopt *Recommendation 7*. This is a more "top down" approach to the design of county government without amending the state Constitution which still may affect efficiency and effectiveness.

Recommendation 4

Strengthen the existing commission form of government by expanding the executive powers of the board of county commissioners to initiate and conduct processes, programs or studies that improve efficiency and effectiveness. This should include the authority by general law to enter into joint service agreements among counties, the state, or governments in other states and Canada, for services funded by special revenue funds or services that involve enforcement programs.

Basis

Under Washington law, the commissioners function both as the county executive, in concert with other elected county officials, and as the county legislative body. Under the state Constitution and the Dillon Rule, counties are prohibited from engaging in any activity *not expressly permitted by state law*. The existing statutory powers of the board of commissioners have been defined incrementally since statehood and do not reflect modern governance or management practices.

Better defining the commissioners' powers to administer county government using modern practices and expanding their powers to authorize more multi-county and regional service delivery may yield efficiencies. This recommendation clarifies commission powers to better reflect many counties' internal practices.

Recommendation 5

Provide specific statutory authority for the board of commissioners to appoint a county manager of administrator.

Basis

This recommendation shares the benefits noted in *Recommendation 4*, but also provides for an appointed professional manager to assist in carrying out the executive functions of the commissioners. This recommendation, although not expressly authorized by state law, is the governance option most actively discussed among county officials over the last decade and the option desired most by county officials responding to the survey.

In addition, based on national research, this option has been the one instituted most frequently in recent decades. Other states' county associations recommend this option due to the service delivery improvements that resulted from the appointment of a county manager. While CTED found no specific studies that document increased efficiency or effectiveness due to the appointment of an executive officer, most contemporary management literature indicates a strong leader is needed to implement and sustain significant change. A peer to a city executive officer, port, or other special district manager also may facilitate intergovernmental cooperation and service delivery.

Recommendation 6:

Add a constitutional provision that would create a voter approved charter county, or amend an existing charter through voter petition or county legislative body-initiated appointment of a county governance commission.

- The appointed commission, instead of elected freeholders, would propose a charter or charter amendment to be placed before the people at an election. This provision could be universally available as an alternative to the freeholder charter process.
- Model county charters should be developed, at state expense, as a cost-saving resource for governance commissions and freeholders.

Basis

Creating a charter or charter amendment process that does not involve the election of freeholders streamlines the charter process and reduces election costs and time. Seven out of eight county charter efforts over the past decade in Washington have failed. Clark County's last effort was estimated to have cost \$4 million. Charters are the most flexible form of county governance because each county's citizens can decide how their government should be organized.

Historically, county charters in Washington have resulted in varying degrees of consolidation of separately elected official functions, but have generally included instituting a separate executive, either elected or appointed. This fact is important in considering the support and road blocks such a proposal may attract. The availability of model charters reflecting modern governance practices would assist in reducing costs and potentially promote efficiencies.

Recommendation 7:

In the absence of a constitutional amendment, the Legislature could reduce the number of separately elected officials in non-charter counties through state statute amendments that classify counties by population and combine duties of two or more officers, including a five-member county commission for larger counties.

Basis

The study found that in order to realize any savings from consolidation or combining of the county assessor, treasurer and auditor functions, changes need to be funded and made in facilities and automation.

The Berk & Associates evaluation of this option (see Appendix F) found minimal savings and efficiencies from consolidation of separately elected assessor, auditor, and treasurer functions in smaller population counties. Some potential for savings were identified in larger counties.

Greater opportunities for savings were identified for counties in the consolidation of county clerk and Superior Court functions within and between counties. Unlike the assessor, treasurer and auditor functions, greater software advances have been made in the court system to facilitate consolidation, so less investment in software would be required in order to gain savings.

Issue: Fiscal Health

What can be done to improve county fiscal health?

The study found that county revenue authority had been eroded from 2001 to 2007 to such an extent that in many counties funding is not adequate to sustain equal access to basic services. Additional funding for counties should be considered with specific features that enable all counties to return to a fiscally healthy, self-sustaining position. These features include:

- Add at least one additional significant general fund revenue source that grows more in proportion to the economy. This will improve a county’s ability to be self sustaining.
- Provide enough revenue to fiscally distressed counties to cover the fixed costs of state agent related basic services.
- Ensure that changes in county government’s funding base, at minimum, have a neutral fiscal impact or facilitate the further implementation of growth management policy.

Recommendation 8

Adopt a supplemental county revenue package beginning in 2009 to be implemented over several years that would return counties to a self sustaining financial position.

This is an example of a supplemental revenue package:

1. Reimburse counties for state services provided by county government in order to support equal access across the state.

- Continue ramping up reimbursement to counties to an amount equal to one-half of the cost of Superior and District Court including legal representation and facilities.
 - Begin ramping up a reimbursement to counties to an amount equal to average jail-day costs plus medical expenses for felony offenders that are held in county jails pre-sentence or post-sentence who serve state prison sentences.
 - Reimburse counties by a predetermined amount per registered voter per year to support voter registration and elections.
 - Begin ramping up a reimbursement to counties to an amount equal to 1% of tax collections to cover the cost of the assessment and collection of property taxes for the state and other taxing districts.
2. Divert a portion of the state sales tax to support county-provided state services statewide in fiscally distressed counties.
 3. Clarify the property tax levy lift statute to assure voter-approved funding beyond six years.

Basis

This funding package meets the criteria established through the study to reestablish county self sufficiency and specifically addresses criminal justice services that were found to be creating the most destabilizing influence on county fiscal condition. Fiscally distressed counties, with limited tax bases, have become increasingly unable to provide basic “state agent” services with the existing level of state assistance and tax structure.

The study found that county government is the largest state agency in Washington with more than 34,000 employees. Most county services provided historically and currently are under the constitutional provisions that make counties “agents of the state.” Annual general fund county “agent” expenditures total approximately \$1.5 billion (2005) while state assistance or reimbursements total only 3 percent of county general fund revenue, far below other state agencies and below most states.

County governments’ funding base over the past decade has shifted to be primarily dependent on property taxes and restricted sources, which inhibits responsiveness to service demand or economic changes. Property taxes average 58 percent of county general fund revenue due to repeal of the motor vehicle excise tax (MVET) and implementation of Growth Management Act policies.³³ Property tax levy growth has been limited to 101 percent under Initiative 747, a

³³ The existing county funding structure creates economic disincentives for compliance with state growth management policy by reducing county sales tax revenue (a major source of county revenue that responds to economic growth) when annexation to cities or incorporation occurs. Between 1990 and 2007, 774,000 in unincorporated population was incorporated or annexed. At an average annual per capita sales tax of \$59.43 to \$90 (2006 Department of Revenue tax distribution statistics) this represented an estimate of \$46 to \$70 million per year. Approximately 1,001,000 more in unincorporated population still resides in urban growth areas (UGA) statewide that remain to be annexed or incorporated (estimated based on remaining UGA population in six counties in the CTED Annexation Study plus 20 percent for balance of state) for a potential additional loss of \$60 to \$90 million in sales tax revenue or an overall total loss of 27 to 42 percent of county general fund sales tax. This situation increases pressure for development of commercial activity in rural areas, encourages county interest in providing utility and other urban services and encourages counties to oppose city annexation or incorporation efforts. Changes in county governments’ funding base should therefore have a neutral impact or facilitate the further implementation of growth management policy.

significant change from an earlier 106 percent growth limit. Restricted purpose revenues, on average, now make up more than half of all county funding, a level that signals potential stress when compared to national indicators. Additional flexibility in county governments' revenue structure is necessary to sustain equal access to basic services across the state. New revenue is necessary to sustain basic services in fiscally distressed counties.

Criminal justice was documented as one of two areas where other states contribute significantly more toward the reimbursement of county costs (Appendix G). The number of felony cases implementing state criminal sentencing policies effective in 1986 (Sentencing Reform Act), processed at the county level, on behalf of the state, have grown beyond the counties' capacity to fund them. At the same time revenue supporting criminal justice has been restricted.

Counties, documented in the county official survey and through aggregate funding patterns, have taken many actions to address criminal justice funding needs including efficiency and effectiveness initiatives, reducing per capita expenditures for park and recreation services, investments in the county road system, and general government investments in technology and infrastructure. Actions taken by the state to control the number and length of felony sentences have had a positive impact on state detention costs and prison facility demands, but have not reduced the impact to counties. Recognizing how far behind Washington was compared to other states in supporting criminal justice costs, the Legislature began to ramp up reimbursement for county court and legal representation in a limited way beginning in 2005.

The existing level of state assistance to county general fund supported state agency services is 3 percent of county funding or \$64 million per year compared to county expenditures of \$1.5 billion per year (2006). A package of supplemental revenue ramped up over time should more likely approach 10 percent to 15 percent (\$170 to \$256 million per year) and be distributed to fiscally distressed counties to cover their fixed costs of providing state agent services to redesign business processes first, and then to continuing support for operations in order to ensure equal access to service statewide.

Recommendation 9

Adopt measures that increase the flexibility of existing county funding sources such as:

1. Consolidate existing county sales taxes dedicated to specific purposes into a single general fund non-dedicated sales tax source authorized by the county legislative body subject to referendum.
 - These taxes might include 0.3 percent public safety, 0.1 percent emergency communications and 0.1 percent mental health.
 - A county would be authorized to restrict the use of the funds or seek voter approval as a local option.
2. Remove or modify non-supplanting language in existing county revenue statutes.

Basis

The study found that counties have attempted to use the taxing capacity provided to them by the state when it is politically feasible. Border counties, counties with very small tax bases, and counties that have a high number of lower income and/or unemployed citizens are not as able to

use existing taxing authority to continue to be self-sustaining.

During the last decade, funding restrictions (either non-supplanting language, supermajority voter approval requirements, or funding restricted to narrow uses or time periods) have created a situation where existing authority is incongruent with meeting counties needs to sustain basic “state agency” service delivery requirements that are growing at rates much faster than inflation. County officials are trying to sustain and improve the efficiency and effectiveness of basic services. Non-supplanting requirements frustrate those efforts by requiring the growth of government. Adjustment in the language of specific existing tax authority is recommended to provide more opportunity to fund county basic service requirements over time.

These changes on their own, however, will not meet the needs of the 16 border counties and the fiscally distressed counties with very small tax bases or high numbers of lower income and/or unemployed citizens because, in most cases, existing tax authority is not a viable option to sustain basic services for these counties.

For a short summary of the recommendations, please see the Executive Summary.

APPENDICES

Appendix A

Governance Alternatives Legislative Language

Appendix B

Legal Memo on County Governance Parameters in Washington

Appendix C

County Governance Alternatives in Washington State

Appendix D

A History of Washington's Local Governments: Washington State Local Governance Study Commission Report (Updated)

Appendix E

Washington State Local Government Fiscal Stress Analysis: *A Comparison to State Assistance under Senate Bill 6050*

Appendix F

Case Studies

Appendix G

County Service System Mapping and Comparison to Other States

Appendix H

County Officials Survey