

Revenue Assumptions & Methods



October 6, 2016

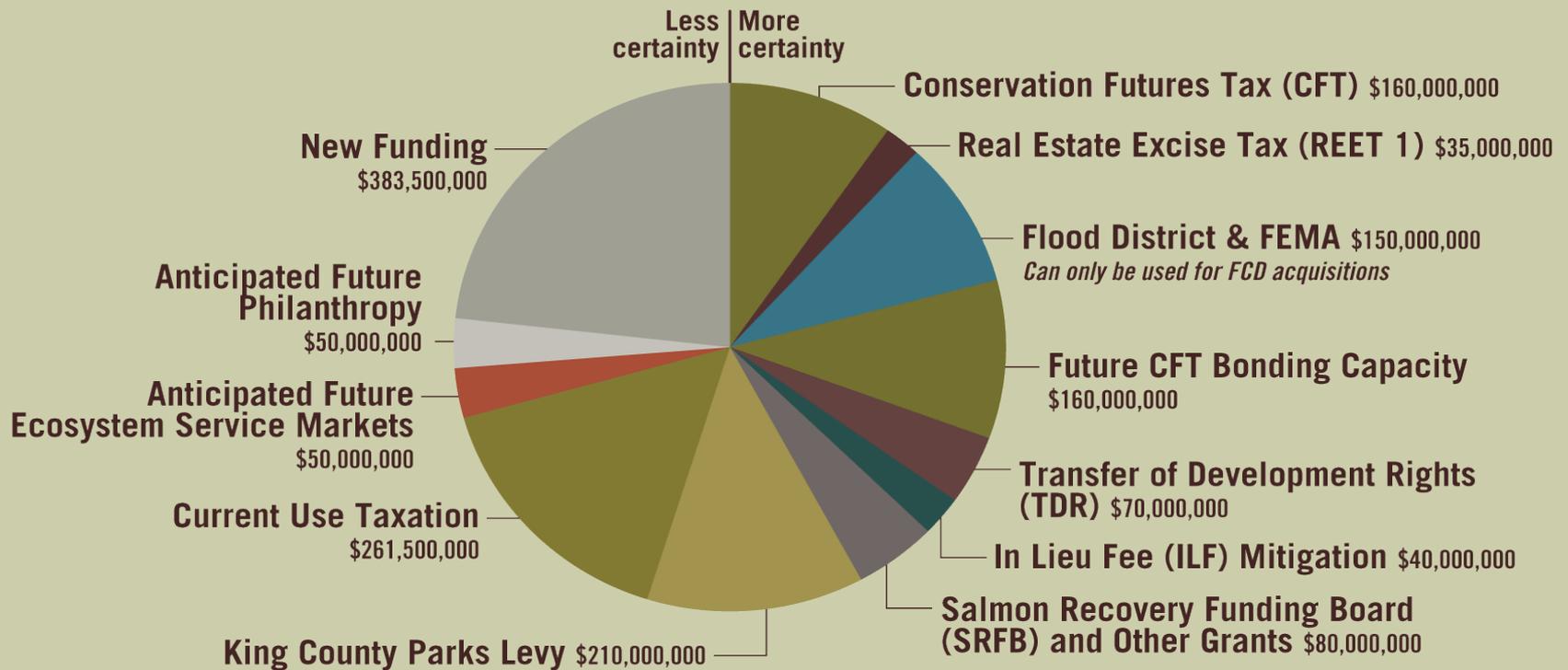
County Executive's Land Conservation Advisory Group

Assumptions for Revenue Estimates

- Sources available for King County use (i.e. **does not include funding that accrues to cities**)
- Existing sources identified are those **already dedicated for conservation acquisitions**
- Amounts based on current dollar average revenues multiplied by 30 years (unless annual projections exist)
- Annual projections based on Assessed Value (AV) projections from King County Office of Economic and Financial Analysis (OEFA)
- Assume current policies remain in place about conservation funding sources

Existing County Funding Sources and Gap - 30 Year Projection based on Historic Funding

Total cost: \$1.65 billion (in 2016 dollars) Arranged by Certainty

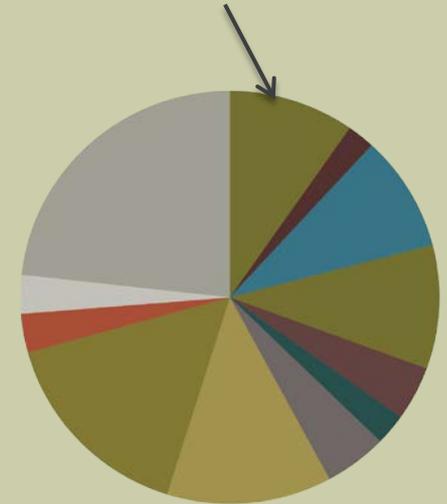


- Midpoint of revised cost estimates, 30 years
- Presented in order from most to least certainty, moving clockwise

Conservation Futures Tax – Annual Revenue

DESCRIPTION	CFT is imposed as a property tax at the rate of 4.18 cents/\$1,000 levied annually, the revenue from which is distributed among city and county governments for use in acquiring fee or easement interests in conservation land.
ALLOWED USES	Conservation acquisitions (capital expenditures)
AUTHORITY TO COLLECT	Revised Code of Washington (RCW) 84.34
METHOD FOR ESTIMATE	Estimates from OEFA for projected revenue earnings based on (and limited to) annual increases of 1% + new construction. Assumes 30% (King County share) of CFT revenue available after debt service.

Conservation Futures Tax Annual Revenue

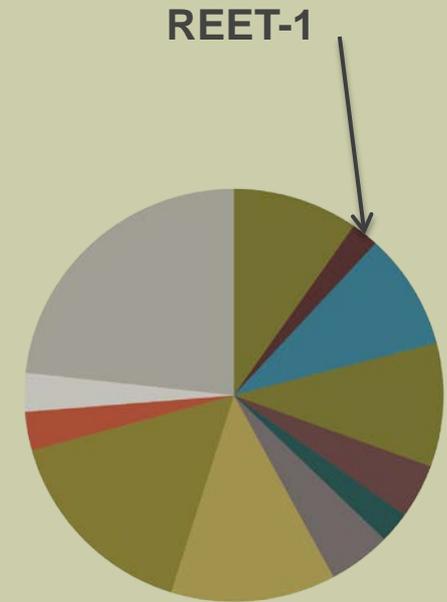


30 year revenue estimate:

\$160 million

Real Estate Excise Tax - 1

DESCRIPTION	A real estate excise tax paid by the seller on all real estate transactions. Total REET currently amounts to 1.78% State REET = 1.28% King County REET-1 = 0.25% King County REET-2 = 0.25%
ALLOWED USES	Conservation acquisitions, planning, construction, repair, replacement, rehabilitation or improvement of many types of public facilities.
AUTHORITY TO COLLECT	RCW 82.45
METHOD FOR ESTIMATE	Current allocation inflated over 30 years based on REET 1 projection from OEFA.

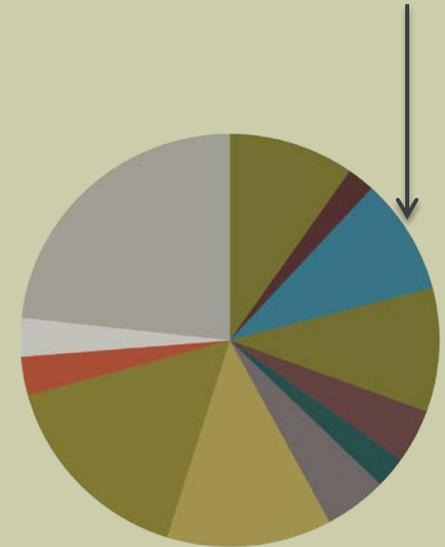


30 year revenue estimate:
\$35 million

Flood Control District

DESCRIPTION	A special purpose government created to provide funding and policy oversight for flood protection projects and programs in King County.
ALLOWED USES	Funding must be used on flood projects.
AUTHORITY TO COLLECT	RCW 86.15
METHOD FOR ESTIMATE	King County Rivers Section staff estimate an average of \$5 million annually for acquisitions. <u>All</u> acquisitions must advance flood projects and be authorized by Flood District Board.

Flood Control District

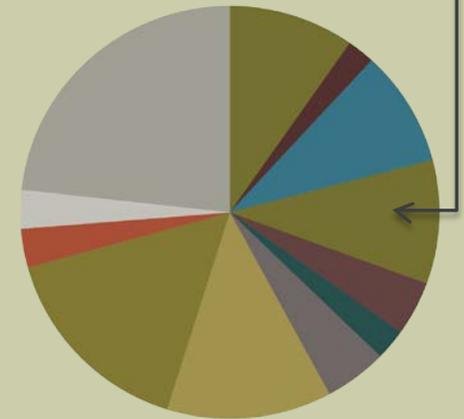


30 year revenue estimate:
\$150 million

Conservation Futures Tax – Bonding Capacity

DESCRIPTION	CFT is imposed as a property tax at the rate of 4.18 cents/\$1,000. Up to half of the annual CFT revenue can be used to service bond debt. CFT bonds are councilmanic (i.e. do not require a public vote).
ALLOWED USES	Conservation acquisitions (same allowances and restrictions as CFT).
AUTHORITY TO COLLECT	RCW 84.34. (Max rate is 6.25 cents/\$1,000). Voter approval required to lift rate.
METHOD FOR ESTIMATE	Analysis of bonding capacity of CFT in 2030 is estimated at \$160 million at current collection rates. (Assumes issuing no new bond debt until 2030). Many other bonding scenarios are possible.

CFT Bonding Capacity

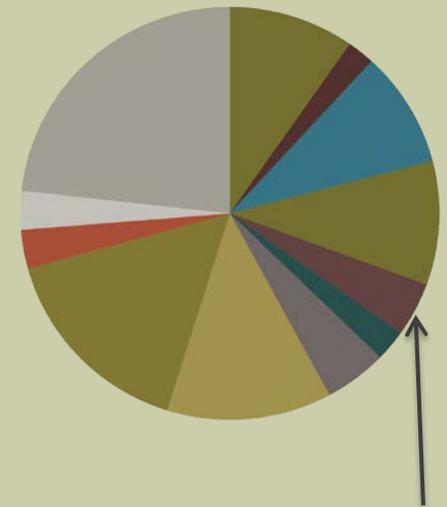


30 year revenue estimate:

\$160 million

Transfer of Development Rights

DESCRIPTION	A program enabling rural landowners to create transferable development rights (TDRs) from unused development potential in exchange for a conservation easement. Revenue generated by sale of TDRs.
ALLOWED USES	Conservation easement acquisitions; amenity funding for city partners; limited administrative costs.
AUTHORITY TO COLLECT	King County Code (KCC) 21A.37
METHOD FOR ESTIMATE	Projections include expenditures of current and pending TDR Bank funds (\$11million+), and revenue from agreements with cities continuing to accrue at roughly the same pace as recent agreements.

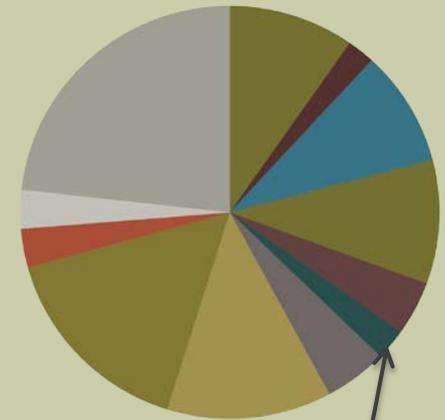


**Transfer of
Development Rights**

30 year revenue estimate:
\$70 million

In Lieu Fee Mitigation

DESCRIPTION	A program which sells “mitigation credits” to permittees whose projects create unavoidable impacts to aquatic resources.
ALLOWED USES	Preservation acquisitions (i.e. intact natural lands at risk of development) and acquisitions of restoration sites.
AUTHORITY TO COLLECT	Code of Federal Regulations part 332, KCC Title 4A, Clean Water Act.
METHOD FOR ESTIMATE	Estimate based on approx. \$7M in acquisition expenditures from 2012 to 2016. Note: assumption is \$40 million <i>for acquisitions</i> ; much more funding is likely to accrue over 30 years, the majority of which will fund restoration.

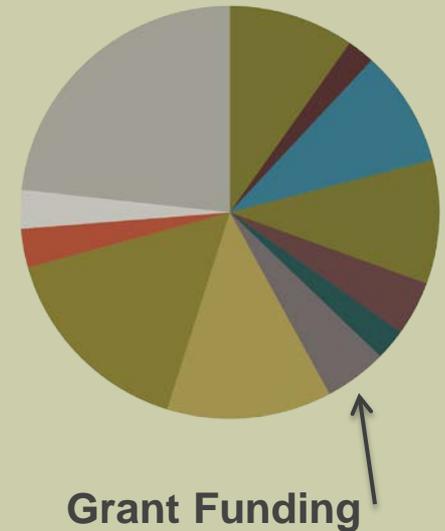


In Lieu Fee Mitigation

30 year revenue estimate:
\$40 million

Grants

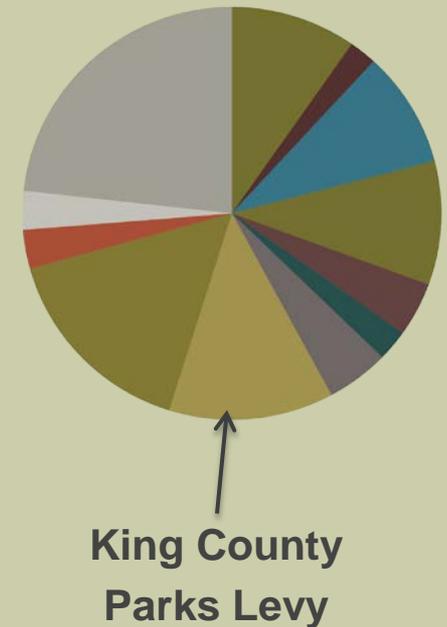
DESCRIPTION	Revenue from State and Federal granting agencies for conservation acquisitions. (e.g. RCO, SRFB)
ALLOWED USES	Specified by granting agency. Revenue in this category must be eligible for conservation acquisitions.
AUTHORITY TO COLLECT	Various federal and state authorizing statutes.
METHOD FOR ESTIMATE	Average annual grant awards over last 10 years to King County Parks + Water and Land Resources Divisions for acquisitions , multiplied by 30 years.



30 year revenue estimate:
\$80 million

King County Parks Levy

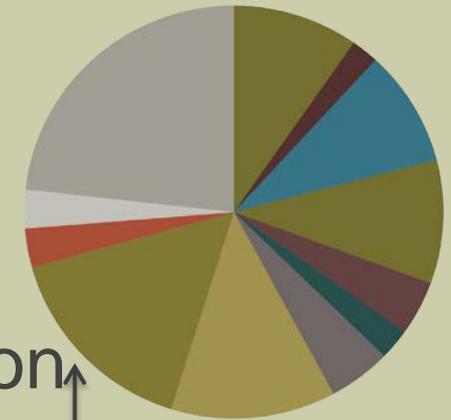
DESCRIPTION	Current levy, approved by voters in 2013, expires in 2019. Includes approximately \$7 million annually for acquisition and O&M of newly acquired natural lands.
ALLOWED USES	Multiple operating and capital expenditures. Portion identified is used for conservation acquisitions and operations and maintenance on newly acquired lands.
AUTHORITY TO COLLECT	RCW 84.52
METHOD FOR ESTIMATE	Approximately \$7 million annually in 2015-2016 biennium projected at same rate for 30 years. Assume parks levy is renewed with same annual dollar allocation for acquisition of natural lands.



30 year revenue estimate:
\$210 million

Current Use Taxation (CUT)

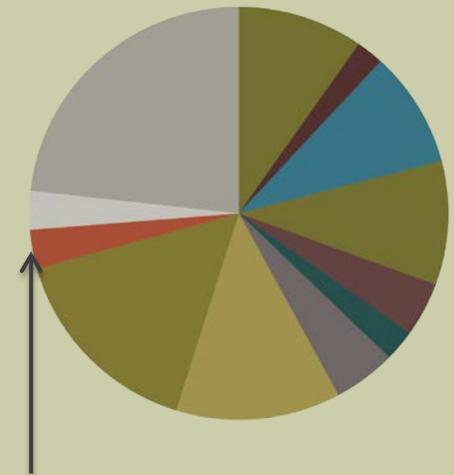
- Exit rates from 1980s through present are less than 3% overall
- 40,300 acres of identified conservation lands enrolled in a CUT program
- Estimated full acquisition cost of all enrolled properties = \$523 million
- Avoided cost assumption: for *half of enrolled properties, CUT commitment will ensure land is conserved.*



Current Use Taxation
(Avoided Cost)

Future Ecosystem Service Markets

DESCRIPTION	Markets may be established to trade ecosystem services when there is supply to create “credits” (e.g. intact forests with potential to store carbon) as well as demand for credits, which is usually created by regulations requiring offsets for impacts of certain activities.
ALLOWED USES	Specified by regulations underpinning the particular market.
AUTHORITY TO COLLECT	TBD – likely local and/or state authorities, possibly federal.
METHOD FOR ESTIMATE	Estimate based on success of TDR and ILF mitigation markets and potential for forest carbon and water quality markets.



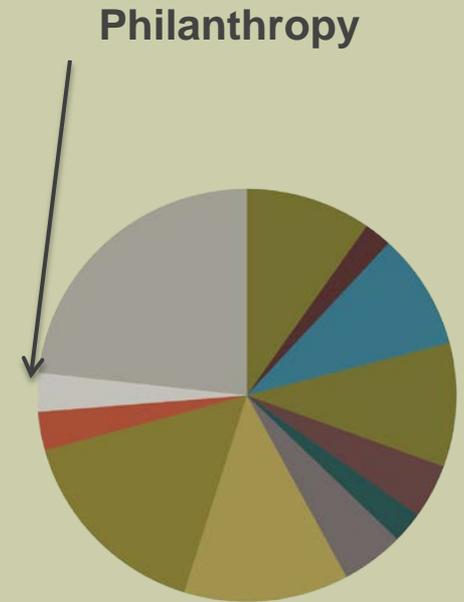
New Ecosystem Service Markets

30 year revenue estimate:

\$50 million

Philanthropy

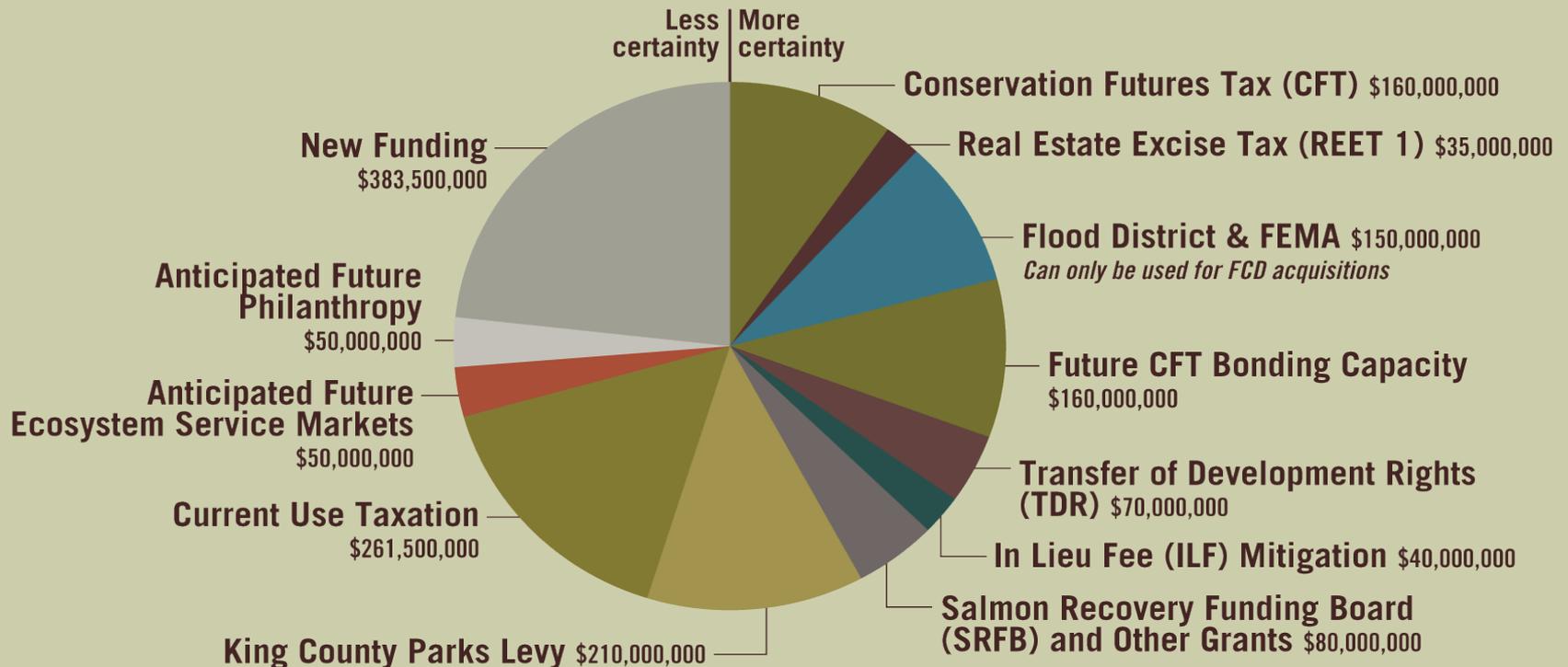
DESCRIPTION	Philanthropic contributions to conservation efforts.
ALLOWED USES	As specified by donor.
AUTHORITY TO COLLECT	King County Parks Foundation as conduit to accept donations.
METHOD FOR ESTIMATE	Estimate based on conversations with non-governmental organizations experienced in philanthropy.



30 year revenue estimate:
\$50million

Existing County Funding Sources and Gap - 30 Year Projection based on Historic Funding

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Potential Funding Options to Fill the Gap

Source	Pros	Cons
Bond backed by property tax increase	<ul style="list-style-type: none"> • Can set amount • Use could be flexible • Relatively inexpensive 	<ul style="list-style-type: none"> • Requires 60% to pass • Cannot fund maintenance • 40% turnout requirement
Property Tax Levy Lid Lift	<ul style="list-style-type: none"> • Can set amount • Only 50% to pass • Can be used for capital and O&M 	<ul style="list-style-type: none"> • Might suppress junior taxing districts' ability to raise funds
REET 3 (Real Estate Excise Tax)	<ul style="list-style-type: none"> • Ongoing source of funding • Progressive revenue source • Even low percentages could raise enough revenue to fund priority acquisitions • Only 50% to pass 	<ul style="list-style-type: none"> • Potentially controversial • Amount of revenue based on external factors
CFT rate increase property tax	<ul style="list-style-type: none"> • Additional capacity available • Could raise significant revenue 	<ul style="list-style-type: none"> • Increasing above 6.25¢/\$1,000AV would require statute change by state legislature • Potentially controversial
Private sources	<ul style="list-style-type: none"> • Philanthropy • New environmental markets • Private investments 	

Overview of Options to Fill the Funding Gap

BOND

Term	Principal \$	Rate	Annual Cost for \$416K AV
15 year	\$385,000,000	2.80%	\$26.98
20 year	\$385,000,000	3.00%	\$21.97

LEVY

7 year levy beginning at 11¢ per \$1,000 AV raises \$385 million

CFT

Raising rate to 6.25¢ per \$1,000 AV raises an additional \$340 million in 30 years

REET 3

Based on 2016 countywide transaction value. Collections vary based on level of tax. At 0.1%--\$1.8B in 30 years; at 0.021%--\$385M in 30 years.

Private Capital Investments and Public-Private Partnerships

King County is exploring opportunities for how “natural capital” can offer returns to investors or play a role in new markets. Including private capital investments would reduce the overall need for public financing. Opportunities could include:

- New environmental markets, such as carbon or water quality markets.
- Growth of existing markets such as transfers of development rights, in lieu fee mitigation, and mitigation banks.
- Private investments with returns generated by management of the lands, such as sustainable timber harvest, farmland leases or revenue from crop sales.

Funding Options to Fill the Gap: Bond scenarios

Bonds are a relatively flexible funding source, and at today's low interest rates bonds provide a relatively inexpensive way to raise significant funding. Key points related to public agency bond issuance:

- Bonds require a 60% majority for approval
- For a bond “yes” vote to be valid, voter turnout must exceed 40% of the previous general election. Turnout in August/September elections following the last three presidential election years has not cleared the 40% turnout threshold.
- Bond interest rates would vary depending on whether interest on the bonds was taxable or tax exempt, which depends on use of bond proceeds
- Voter-approved bonds can only be used for capital purposes (i.e. they *cannot* be used for O&M) Therefore, if a bond were the primary funding mechanism for acquisitions, O&M funding would likely need to be funded from other sources (e.g. the Parks Levy, in which case Bond funding would supplant Parks Levy funding currently directed toward acquisitions).
- A bond issue must be for a single purpose, for example protection of of open space.

Example bond scenarios showing different durations to generate funding to fill the gap:

Bond term	Principal \$	Rate	Annual Cost to Avg. Household (2016 median res. AV = \$416,000)
10 year	\$385,000,000	2.40%	\$37.15
15 year	\$385,000,000	2.80%	\$26.98
20 year	\$385,000,000	3.00%	\$21.97

Funding Options to Fill the Gap: New Real Estate Excise Tax (REET-3)

REET 3 is a third category of real estate excise tax – paid by the buyer – that can be levied up to 1% of the value of real estate transactions to fund conservation acquisitions and maintenance. Presently in Washington State, San Juan County is only in place where REET 3 is in effect. In 1990 King County tried to pass a REET 3 measure, without success.

This is a progressive funding source, but revenues can be unpredictable since the overall volume of real estate transactions will fluctuate with macro-economic conditions; a recession could reduce revenues significantly. Passing a REET 3 would require a simple majority voter approval. It may also be possible to bond against future REET 3 revenues to contribute to an accelerated strategy. All transactions in King County, including those in cities, would generate REET 3 conservation funding that would accrue to the County.

The table below shows the potential revenue that could be generated with REET 3 at several percentage values. Higher rates for shorter durations could yield sufficient revenue. It is also possible to include exemptions for affordable housing.

Example REET 3 percentages and potential revenue:

Rate	Est. 2018 Revenue	Potential 30 year total (3% growth)	Cost on \$500K transaction	Cost on \$10million transaction
0.10%	\$38,600,000	\$1,840,000,000	\$500	\$10,000
0.05%	\$19,300,000	\$920,000,000	\$250	\$5,000
0.021%	\$8,100,000	\$386,000,000	\$105	\$2,100

Funding Options to Fill the Gap: Property Tax Levy Lid Lift

King County has a track record of successful levies to fund parks and open space acquisitions and maintenance. The current King County Parks Levy passed in 2013 with greater than 70% voter approval.

A property tax levy lid lift would only require a 50% yes vote to pass. However, there are several significant challenges to implementing a new levy lid lift. State laws limit the total amount of property taxes that originate from levies, effectively putting a “lid” on how much revenue can be raised by levies in each taxing district across the state. If a taxing district is at or near its upper lid, and “senior” levies increase, then “junior” levies must reduce their levies so the overall levy-generated tax does not exceed the lid. Because of this situation, passing a new levy lid lift may not be a viable option without a change in State law.

Example levy rate and duration structure to generate funding to fill the gap:

	Assessed Value (basis for \$ collections)	Rate (\$ per \$1,000)	Total Collections
2018	\$489,117,459,634	0.105	\$51,400,000
2019	\$510,818,054,413	0.102	\$52,600,000
2020	\$534,276,971,505	0.099	\$53,800,000
2021	\$561,350,762,430	0.097	\$55,000,000
2022	\$593,226,414,070	0.094	\$56,200,000
2023	\$625,914,729,054	0.091	\$57,400,000
2024	\$660,150,545,015	0.088	\$58,700,000
		7 year Total:	\$385,100,000

Funding Options to Fill the Gap: Increase CFT collections

The Conservation Futures Tax (CFT) has been in place in King County since 1982. This is a property tax levied on all King County tax parcels to fund conservation acquisitions in the County. This funding has been instrumental in protecting more than 115,000 acres of land across King County and is one of the most predictable and reliable conservation funding sources available. A Citizen Oversight Committee reviews annual grant applications from County and City government agencies.

Annually, CFT generates approximately \$18 million in King County – at a rate of 4.45¢ per \$1,000. About half of the annual revenue is used to payoff past debt issued for large acquisitions (like the purchase of development rights from the 90,000 acre Snoqualmie Forest for \$22 million in 2004). The remaining \$9 million is split among King County and cities, with King County getting about one third of annual allocations.

Relevant facts:

- Revenue increases are limited by 1% per year plus the value of new construction. Any increases above 1% plus new construction must be approved by a vote of the people.
- The current upper limit of collections in WA State is set at 6.25¢. To raise the rate above this limit would require a statute change by the state legislature.

Potential CFT revenue increase scenarios:

Starting Rate (¢/\$1,000)	Estimated 30 year Revenue for King County (starting in 2018)
4.2¢	\$160,000,000
6.25¢	\$342,000,000

QUESTIONS?