



City of Seattle
City Budget Office

MEMORANDUM

Date: May 27, 2015

To: **Honorable Tim Burgess, Council President**
Honorable Nick Licata, Chair Finance and Cultural Committee

From: **Ben Noble, Director**
City Budget Office

Subject: **Response to 2015 Statement of Legislative Intent (SLI) 120-1-A-1**

This memorandum provides a formal written response to Council Statement of Legislative Intent (SLI) 120-1-A-1, and serves as a follow-up to the presentation made to the Council's budget Committee on April 27th. This SLI requested four specific items:

1. A financial update that includes a full accounting of the actual 2014 GSF year-end fund balance and an update of 2015-2016 General Subfund revenue projections;
2. A proposed plan detailing how the Mayor will address the \$5.4 million cut in GSF appropriations to the departments that receive the largest amounts of GSF;
3. The final GSF underspend targets for GSF departments that the Mayor is requesting for 2015; and
4. A proposed budget for 2016 that does not assume a GSF underspend.

The first three of these are addressed in this communication, the fourth will be reflected in the 2016 proposed budget to be delivered by Mayor Murray on September 28th.

1. Financial Update

As summarized in the table below, the General Fund finished 2014 with a larger balance than had been anticipated last November. In particular, the unreserved year-end fund balance of the General Fund was \$36.8 million at the close of 2014, compared to the \$24 million anticipated last November. These better than expected results were largely driven by the impacts of strong revenue growth, but reduced spending also contributed to the healthy fund balance.

Update Budget Projections 2015 - 2017				
(In \$ Thousands)				
	2014 Actual	2015 Revised	2016 Projected	2017 Projected
Beginning Fund Balance	57,843	36,786	20,603	1,806
Revenues	1,027,758	1,050,109	1,093,405	1,127,649
Transfer to Rainy Day Fund	(11,192)	(3,810)	(1,998)	(1,703)
Expenditures	(1,037,623)	(1,062,481)	(1,110,204)	(1,144,366)
Net Revenues / Expenses	(21,057)	(16,183)	(18,798)	(18,419)
Ending Fund Balance	36,786	20,603	1,806	(16,613)

The General Fund revenue forecast update presented to Council’s Budget Committee indicated that stronger revenue results are expected for both 2015 and 2016. Relative to the November forecast, we are now anticipating an additional \$7.1 million in 2015 and \$11.7 million in 2016. These additional revenues are sufficient to maintain a positive balance in the General Fund through the end of 2016 (ending at \$1.8 million), if spending does not increase beyond budgeted and endorsed levels.

However, these strong results mask the fact that General Fund appropriations exceed projected revenues by \$16-\$19 million per year. The budget is being sustained by a drawdown of unreserved fund balance in both 2015 and 2016. Unless revenue projections increase further or some structural change is made in spending, the current budget cannot be sustained in 2017 and beyond. For this reason, Mayor Murray has requested 2016 budget reduction proposals from all General Fund supported departments. Resulting reductions will be reflected in the Mayor’s proposed 2016 budget. The following targets were communicated to the departments in early April:

- Police, Fire and Human Services -> 1%
- Parks and Libraries -> proposals at 1% and 3%
- All other departments -> proposals at 2% and 4%.

2. Response to Council’s 0.6% “Across-the-Board” General Fund Reduction

As part of its amendments to the 2015 budget, Council imposed a 0.6% reduction on departments receiving large appropriations from the General Fund. These reductions were imposed as proportionate reductions in the funding available in all Budget Control Levels (BCLs). At this stage, the Executive believes that these reductions can be sustained by all but one department, without causing impacts on direct services and without requesting additional appropriation authority. Departments will use the administrative authority available under the budget ordinance to shift funding as needed between and among BCLs. The exception noted above is the Seattle Fire Department. Given the department’s fixed staffing model and limited financial flexibility, 0.6% may be a greater reduction than can be

absorbed without affecting service levels. If this proves the case, the Executive will return in the third or fourth quarter to request additional budget authority. Given the healthy reserves available in the General Fund, sufficient resources exist to support such a request.

3. General Fund Reduction Targets for 2015

As the part of managing overall spending and preparing departments for budget reductions in 2016, the Mayor has requested that most departments underspend their 2015 General Fund appropriations by an additional 1%. The Mayor believes that this can be achieved without affecting direct services, and will be flexible in the targets in situations where this is not the case. Anticipating that such a reduction would be unrealistic for Police, Fire and Human Services, these three departments have been exempted from the requested underspend. The 1% percent target for all other departments is expected to help achieve the projected underspend of \$5 million that is now included in our forecasts for 2015 year-end fund balances.

Cc:
Honorable Members of the City Council
Kirstan Arestad, Central Staff Director