Overview of the 2011-2012 Proposed Budget

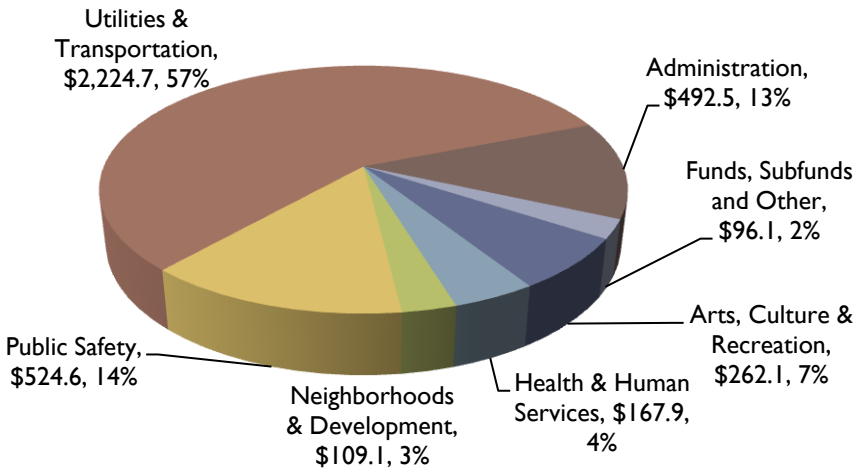
Presentation to the Seattle City Council
September 29, 2010

The Big Picture

2011 Proposed Budget – $3.9 billion

- Only $100 million, or 0.6%, more than 2010 budget

2011 Proposed Expenditures - All Funds, $3.9 Billion*
(in millions of dollars)

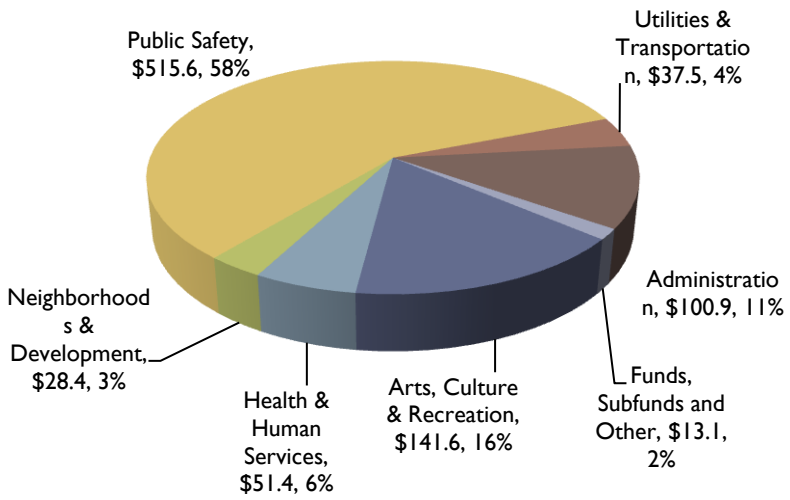


* Approximately $262 million of the $3.9 billion is double appropriated

2011 General Fund Budget – $888 million

- $13.7 million, or -1.9%, smaller than 2010

2011 Proposed General Fund Expenditures - $888.4 Million (in millions of dollars)

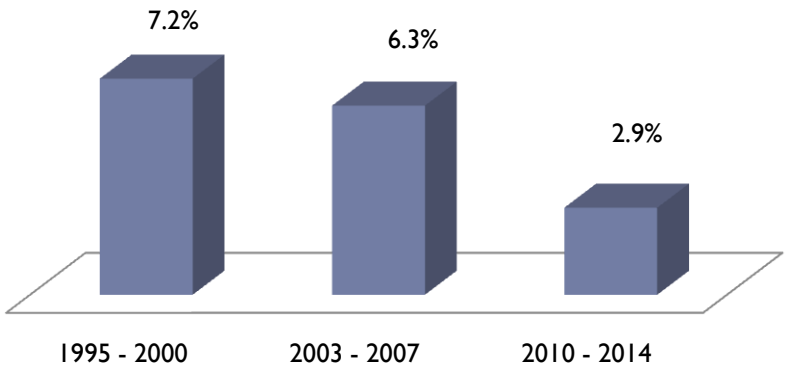


* Does not include apprx. $3.8 million in reserves against fund balance

New Economic Reality

- Growth rate of revenues has dropped substantially and is not expected to return to previous rates anytime soon
  - Base 2011 General Fund revenues projected to grow by 0.7%
    - Only one-tenth of one percent greater than the inflation rate; many city costs are growing at a rate that exceeds inflation
    - Beyond 2011, tax revenue growth is expected to be subdued relative to past economic recoveries

Post Recession Average Annual Tax Revenue Growth Rate



New Economic Reality

General Fund facing a $67 million deficit for 2011.

From 2010 to 2011:

- Baseline growth
- Back out one times
- New risks
- Revenue updates

Base revenue growth (1.6% growth net)	14.4
Base expenditure growth (3.0% growth net)	(27.5)
Back out use of Rainy Day Fund	(11.3)
Back out Furloughs	(6.5)
Restore full unemployment contributions	(1.7)
Back out use of interest earnings to pay debt service	(3.0)
Back out use of Key Arena Settlement Funds	(1.4)
Restore Radio Reserve Contribution	(0.7)
Back out one week closure - SPL	(0.7)
Community police addition	(2.2)
Pensions: retirement 1% increase; FPEN actuarial account	(5.9)
Back out savings: temporary closure of Parks facilities	(1.7)
Back out reliance on FPEN, Parks, HSD & GF fund balance	(5.0)
Other expenditure pressure	(3.1)
Baseline Phase Gap - April 2010	(56.1)
Impact of September 2010 Revenue update	(11.0)
GAP	(67.1)

Philosophy Behind the 2011-2012 Proposed Budget

- In light of this new economic reality, the Mayor approached the budget using the following objectives:
  - Develop a budget that is sustainable – avoid using short-term fixes that simply push the problem out to future years
  - Align services with available resources – maximize efficiencies and value for every dollar spent; avoid overly burdening public with revenue enhancements
  - Take stock of out-year budget projections, as well as future potential funding obligations to set the foundation for future budget planning
    - City now has out-year financial plans that document revenues, expenditures, reserves, and fund balances through the end of the next biennium (through 2014)

The Approach

- Mayor prioritized funding for the most important City services
  - Public safety and preserving the safety net
  - Services for children and youth and those that do not have access to alternate services
  - A transportation system that is sustainable and supports healthy commerce and efficiently carries people and goods into the future

- In evaluating options, emphasis placed on
  - Finding on-going savings; avoid deferring problem to future years
  - Identifying internal savings to preserve direct services
  - Streamlining management & expanding spans of control
  - Avoiding increases in general taxes to support on-going operations; instead target revenue increases toward users of City services
  - Identifying and minimizing race and social justice impacts and geographic equity

The Results

- Two-thirds of budget gap closed by expenditure savings
- One third of budget gap closed through revenues
  - No increases in general taxes to support operating costs
  - Revenue increased targeted at users of City services
- Judicious use of short-term balancing strategies:
  - Approximately $11 million in 2011
  - Outyears are balanced
- Preserving reserves
  - Emergency Subfund funded at maximum amount allowed (a decrease of $750,000 from 2010)
  - This full amount is transferred into the Rainy Day Fund, which increases the total level to over $11 million.

2011 short-term balancing strategies	
Savings from furloughs	$0.7
Use of interest earnings to pay debt service	$1.5
Draw down of FPEN fund balance	$1.5
Draw down of Parks fund balance	$0.8
Parks temporary closure savings	$1.6
Radio reserve contribution reduction	$0.5
Draw down of HSD fund balance	$0.5
Actuarial account - FPEN funding	$3.9

Dollars in millions

The Results

- Public safety and human services taking smaller reductions that other program areas
  - Police and Fire taking 1.2% and 1.3% reductions respectively from their baseline budget
  - Human Services taking 5% reductions from its baseline budget
  - Other General Fund-dependent departments identified reductions or revenues ranging from 8.5% - 22%
  - Public Safety is the only program area that grows in the 2011 budget

General Fund Expenditures	2010 Adopted	2011 Proposed	Change
Arts, Culture & Recreation	$146.5	$141.6	($4.9)
Health and Human Services	$52.5	$51.4	($1.1)
Neighborhoods & Development	$32.0	$28.4	($3.6)
Public Safety	$508.6	$515.6	$6.9
Utilities and Transportation	$40.0	$37.5	($2.5)
Administration	$114.5	$100.9	($13.7)

Dollars in millions. Former Dept. of Executive Admin., Community Service Bureau, and portion of former Dept of Finance moved from the General Fund to Finance and Administrative Services (FAS) in 2011.

The Results: Maximizing Internal Savings

- Reduce discretionary travel & training expenditures
  - Saves $400,000 in General Fund; $1.2 million citywide

- Savings in overhead costs
  - Roll back non-personnel inflationary increases
  - Capture savings in contract costs
  - Utility savings
  - Reductions in FTEs to reflect reduced internal functions
  - Streamlining information technology staffing
  - Streamlining human resources staffing

The Results: Maximizing Internal Savings

- Streamlined Management Functions and Expanded Spans of Control
  - Mayor and CBO actively reviewed all management positions
    - Worked closely with departments and met with labor to solicit their input
  - Eliminates 294 positions Citywide. 64, or 22%, of these reductions are in senior-level positions (executives, managers, and strategic advisors)
    - Senior level positions make up 9.5% of the total City workforce; management ranks reduced in greater proportion than line worker ranks

Position Changes	2010 Adopted Positions	Net Reduction	Percent
Senior Level Classifications	1,042	64	6.14%
Non-Senior Level Classifications	9,975	230	2.31%
Total Positions	11,017	294	2.67%
Senior Level Classifications as a Share of Total	9.5%	21.8%	

  - Senior-level ranks reduced by 12 more positions – for a total of 76 – through downward reclassifications into non-senior level job titles

The Results: Maximizing Internal Savings

- Capture saving in labor costs
  - Freezing salaries of senior level positions
  - Firefighters and fire chiefs also receiving 0% COLA
  - Tentative agreement with Coalition of City Labor Unions to tie COLA to CPI, lower floor from 2% to 0% (for 2011: to 0.6%)
  - No widespread use of furloughs
    - To generate more savings (one-time) collective Executive Offices furloughing, in addition to salary changes above
  - Covers 8,500 of the City's 10,600 employees – or 80%

2011 Labor Savings (in millions)	General Fund	Non-General Funds
Salary Freeze for Senior Level Positions	$0.7	$1.5
Savings from Coalition Tentative Agreement	$2.3	$3.4
Limited Use of Furloughs (one-time)	$0.7	$0
Firefighters and chief - 0% COLA	$1.4	$0
Total Savings	**$5.1**	**$4.9**

The Results:
Public Safety Prioritized

- Seattle Police Department
  - By redeploying officers, the 2011 budget will increase the number of officers on patrol from their *current record levels of 555 officers to a new record of 585 officers, reflecting a continued commitment to the performance objectives of the Neighborhood Policing Plan (NPP)*

- Seattle Fire Department
  - Budget maintains funding current firefighting strength of 990 active personnel and makes no operational reductions to neighborhood fire stations

The Results:
Public Safety More Than Police & Fire

- Human Services Department
  - Identifies $2.7 million in savings, yet preserves funding for most contracts with community partners
  - While 20% of the HSD budget goes toward internal administrative costs, leaving 80% for contracts, 50% of the reductions target administrative functions

The Results:
Public Safety More Than Police & Fire

- Parks and Recreation
  - 2011 budget preserves funding to keep:
    - Swimming pools open
    - Lifeguards on public beaches
    - Wading pools at 2010 levels
    - Operating hours at 20 community centers at 2010 levels
  - In evaluating reductions sought to:
    - Preserve services by maximizing administrative and maintenance savings, expanding into partnerships, and increasing fees
    - Preserve services for children and youth
    - Preserve services for those with limited alternative options
    - Preserve geographic equity in the availability of services

The Results:
Public Safety More Than Police & Fire

- Parks – Adjustments to Operations
  - Community Centers (Rainier Beach, Alki, Ballard, Laurelhurst, Queen Anne, and Green Lake)
  - Green Lake and Mount Baker Small Craft Centers
  - Environmental Learning Centers

  - Preserve Arts Programming in Parks Through Partnership with the Office of Arts and Cultural Affairs
    - Admissions tax dollars will allow continued downtown parks programming; activation of outdoor arts, and the Langston Hughes Performing Art Center

The Results:
Public Safety More Than Police & Fire

- Seattle Public Library
  - Taking 8.5% reduction, yet preserves current hours of service

- Department of Neighborhoods
  - Six non-payment service centers and one payment service center will close
  - Six payment centers geographically dispersed through the city will remain open

The Results: Enhanced Revenues

- Budget balanced with *no* increases in general taxes to support on-going operations (i.e. sales tax, property tax, B&O tax and utility tax)
- $23 million in increased revenues, primarily resulting from users of City services

Summary of Fees and Revenue Changes
($ in thousands)

	Revenues
Parking Meters	7,642
Scofflaw Program	1,857
VLF & CPT (portion)	4,586
Parks Fees	1,085
Seattle Center Revenues	719
FAS - Increases Tax Collections	721
OED - New Market Tax Credits	150
Court Fines and Fees	1,214
Library Fees	650
SPD - False Alarm Fees	1,190
SPD - JAG Grant	680
Fire - Increased Cost Recovery	586
Other	2,051
TOTAL	23,131

The Results: Enhanced Revenues

- Expanded Regulation of Parking Meters
  - Parking meter rates will increase by $1.50 to $4.00 per hour downtown and by $0.50 per hour in other parts of the city
  - Hours of enforcement will also increase by two hours per day Monday through Saturday (until 8:00 p.m.) and on Sundays (11:00 a.m. – 6:00 p.m.)

- Enhanced Parking Scofflaw Program
  - Currently more than 27,000 vehicles with four or more outstanding parking violations, totaling more than $15 million
  - City will begin affixing an immobilizing boot to scofflaw vehicle
    - Unlike current impounding practices, to remove the boot, drivers of scofflaw vehicles will be required to pay a fee as well as make arrangements to pay underlying scofflaw offenses

Non-General Funds
Seattle Department of Transportation

- SDOT facing the dual challenge of declining General Fund support as well as declines in other funding sources such as gas tax – collectively down 7% since 1996

- Bridging the Gap (BTG) remains on track; but underlying funding on which BTG intended to support is eroding

- Budget Strategies
  - Internal efficiencies
  - Reducing programmatic costs
  - Enhanced fees
  - Commercial Parking Tax and Vehicle License Fee

Non-General Funds
Department of Planning & Development

- DPD seeing General Fund support decline, as well as its permit revenues as a result of weakness in the construction market
  - Through August 2010, the volume of building permits is down 30% from the peak in 2007
  - Permit values are down 49% during the same period
  - Since 2007, DPD has eliminated or unfunded 155 positions, or 36% of its total positions

Non-General Funds
Utilities

- Seattle City Light
  - Wholesale power revenue down dramatically for two consecutive years
  - In addition to reductions, the 2011 budget seeks an increase in City Light rates of 4.3%, followed by a 4.2% increase in 2012
- Seattle Public Utilities
  - **Solid Waste:** Seeks a rate increase of 7.5% for 2011
  - **Drainage & Wastewater:** Drainage seeks a rate increase of 12.8% ($2.19 per month for the average household); Wastewater seeks a rate increase of 4% ($1.87 per month for the average household)
  - **Water:** Assumes a rate increase of 3.5% for 2011

Highlights of the Capital Budget

- 2011-2016 CIP totals $4.4 billion
- $769 million is appropriated for 2011
- Primary source of capital funding for general government projects is the Real Estate Excise Tax (REET)
  - REET revenues are down over 60% since 2007, when the City collected $71.8 million; only $28.2 million projected for 2011
- In keeping with focus on sustainability and existing policies, REET continues to fund primarily major maintenance.
- Support of Fire Facilities Levy program remains fully funded.
- Unrestricted Subaccount remains in need of an interfund loan
  - Previously anticipated sale of excess land unlikely to materialize
  - Steps taken to begin rebuilding the health of this account.

Highlights of the Capital Budget

- General Fund includes debt service to support:
  - Reconstruction of the Rainier Beach Community Center
    - Suspended operations represent cost savings in 2011 and 2012, but operating costs are restored in 2013 financial planning.
  - Nearly $6 million in municipal building energy retrofit projects over 2011-2012
    - First round of projects have an anticipated simple payback period of 12 years. Cost savings are assumed in outyears.
  - $1.5 million in debt for work to begin in 2012 related to the site selection and public engagement process for replacement of the North Police Precinct. Additional funds for land acquisition and construction still need to be identified.

Looking Ahead

- Budget is balanced for both 2011 & 2012
- Current budget projections indicate the City can support, current mix of services through 2014, but virtually no room for program expansion or to respond to risks and future expenditure obligations

General Subfund Financial Plan	2010 Revised	2011 Proposed	2012 Proposed	2013 Projected	2014 Projected
Amounts in $1,000s					
Beginning Unreserved Fund Balance	($2,424)	$468	$19	$43	$289
Total Revenues	$899,138	$891,749	$926,993	$959,816	$995,003
Total Expenditures and Change in Reserves	($896,246)	($892,199)	($926,968)	($959,570)	($992,038)
Ending Unreserved Fund Balance	$468	$19	$43	$289	$3,255

Looking Ahead

- But there are immediate term risks

  Upside Risks:

  - King County Proposition 1: Public safety sales tax
    - Positive Revenue Impact: $8.7 million in 2011; $12.1 million in 2012

  Downside Risks:

  - Initiative 1107: To repeal tax on candy, gum & bottled water
    - Negative Revenue Impact: $1.2 million in 2011; $1.7 million in 2012
  - Initiatives 1100 & 1105: To privatize liquor sales
    - Negative Revenue Impact: $2-4 million in 2011; $4-7 million in 2012
  - Double-Dip Recession: Probability 25% chance
    - Negative Revenue Impact: $12.7 million in 2011; $28.2 million in 2012

Looking Ahead

- And, many potential funding obligations:
  - Asset Preservation
  - Strategic Capital Agenda
  - Healthcare Costs
  - Retirement Costs
  - Technology Upgrades
  - Obligations under the Americans with Disabilities Act
  - Replenishing Reserves
  - Long-Term Funding for Parks
  - Public Safety – Neighborhood Policing Plan
  - Mayor and Council Initiatives

Looking Ahead

- Current financial projections show that we will not have enough funding to support existing service levels *and* address the other obligations with existing resources

- Addressing our current budget challenges now is essential to avoid exacerbating problems in the future
  - Growth in existing revenues unlikely to provide relief in the future
  - Beyond 2011, the City needs to identify ways to improve efficiencies and identify costs savings in order to be able to meet future funding obligations

Questions