



# Budget Overview

The 2001 Adopted Budget and 2002 Endorsed Budget build on the City of Seattle's long-standing history of providing its residents and businesses with a rich array of cultural and recreational resources, a social safety net intended to protect the poorest and sickest in our community, and a solid public safety presence. The budget also is aligned with the Budget Priorities Resolution adopted by the Mayor and City Council in May of 2000 and revised in August of 2000.

The Adopted Budget takes into account the passage of several November general election ballot measures that impact City revenues and/or spending. These measures include:

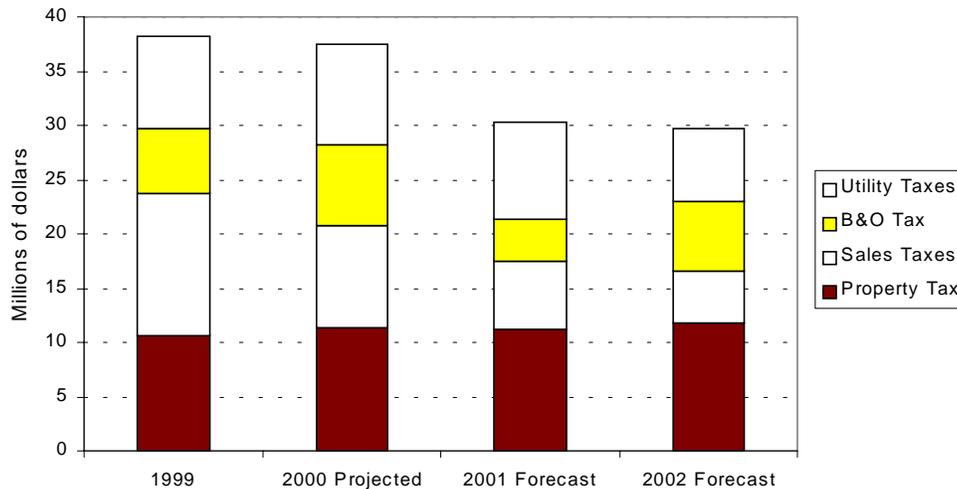
1. Proposition 1, Neighborhood, Parks, Green Spaces, Trails and Zoo Levy Lid Lift: an eight-year, \$198.2 million levy lid lift for the purposes of improving maintenance and enhancing programming of existing parks, including the Woodland Park Zoo; acquiring, developing and maintaining new neighborhood parks and green spaces, playfields, trails, and boulevards; and funding safe out-of-school and senior activities. The Adopted Budget includes approximately \$5.1 million in 2001 and the Endorsed Budget includes approximately \$8.5 million in 2002 to fund staff associated with the acquisition and development functions and begin Zoo programming, recreational programming, enhanced maintenance and environmental stewardship.
2. Proposition 2, the Monorail: this measure charges an Elevated Transportation Company (ETC) with planning a Monorail system for the City and directs it to develop the Seattle Popular Transit Plan (SPTP). The ETC has 12-24 months to complete its work and submit the SPTP to a vote of the people. If the SPTP is approved, the Seattle Popular Transit Authority will succeed the ETC and supervise the construction, operation, maintenance and ownership of the system in perpetuity. The Adopted Budget includes \$6 million required by Proposition 2 to be tendered to the ETC to fund its planning efforts.
3. Initiative 722: this statewide initiative lowers the limit on property tax levy increases and repeals tax and fee increases adopted between July 2, 1999 and December 3, 1999. The Initiative has been enjoined by the Thurston County Superior Court and is not currently in effect. A more detailed description of the initiative and its impacts can be found in a special section at the end of the Budget Overview.

## Revenue Update

The national economy, which is enjoying the longest period of sustained growth on record, is currently in a period of transition. Believing that the economy has been growing at an unsustainable pace and fearing that inflation might accelerate, the Federal Reserve has been trying to slow the economy to a more sustainable rate of growth. To accomplish this, the Federal Reserve raised interest rates six times between June of 1999 and May of 2000. There are already signs that these actions are beginning to have an impact: U.S. retail sales and employment growth have slowed in recent months, and the stock market has cooled down. However, because it takes at least 6 to 12 months for the full impact of Federal Reserve actions to take effect, economists expect the slowdown to more fully materialize in the second half of 2000 and in 2001.

# Budget Overview

Figure 1: Annual Change in General Subfund Revenue



At the local level, there are indications that the region's economy is also slowing: the region's real estate market is weakening; the pace of growth of City of Seattle sales tax receipts has slowed in recent months; consolidations and other pressures within the technology sector led to layoffs at some local firms; and applications for City construction permits have leveled off after four years of remarkable growth. The Boeing Company's continued employment reductions and Microsoft's anti-trust litigation add to the expectation that the regional economy will slow.

The 2000 Adopted Budget assumed slowed growth in the City's major economy-related revenue sources, the business and occupation tax and sales tax, based on national and local forecasts. Nevertheless, City revenues have exceeded the projections in the 2000 Adopted Budget shown in Figure 1, resulting in a \$16.4 million upward revision in the 2000 forecast, buoyed mainly by sales and telecommunications taxes. In addition, the budget assumes a 4.1% property tax increase in 2001 and a 6% increase in 2002 plus new construction, adding approximately \$21 million in resources.

A more thorough discussion of City revenues can be found in the Revenue Overview Section of this document.

## Current Services

In crafting this budget, the first focus of attention was the maintenance of existing programs and services and legal commitments already made to program expansions. As a result, virtually half of the new resources in 2001 are dedicated to the items identified as Current Services, such as: salary and benefit adjustments required by union contracts and City policy; utility costs as a result of price increases; rental costs due to changes in usage or rates; pension actuarial and legal requirements; technology infrastructure; and debt service on the Civic Center, police precincts, and other capital investments. These items represent the City's cost of doing business.

Commitments to expanded City facilities and services also add to the City's staffing requirements. For example, the budget assumes new Library staff as a result of "Libraries for All" and additional Parks staff for expanded facilities. Other Current Service staffing increases reflect higher volumes of work in the Planning Commission and the Ethics and Elections Commission.

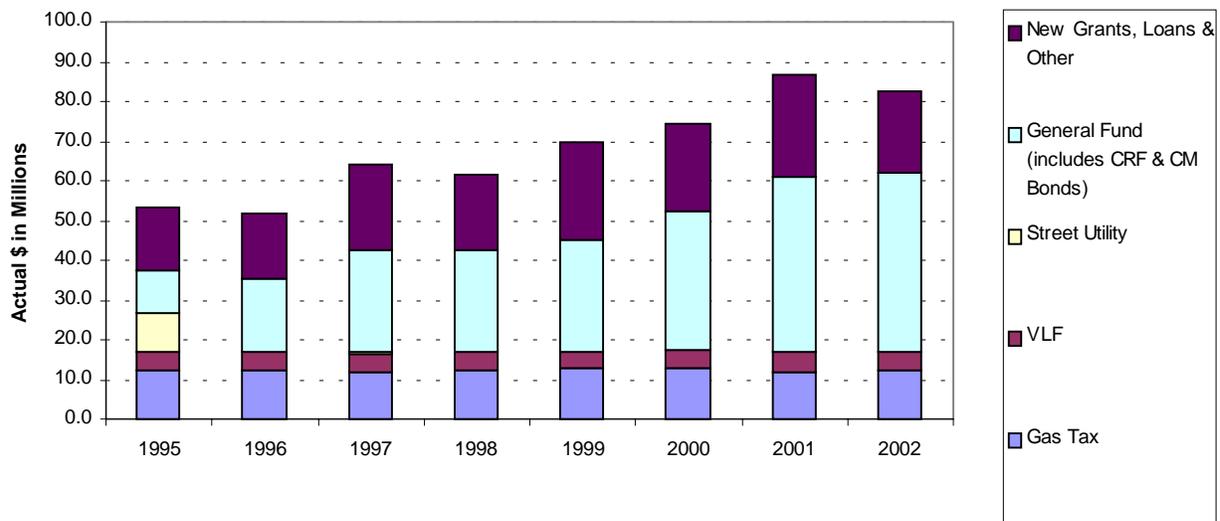
## Alignment with City Priorities

At a joint Council/Mayor retreat held in April of 2000, elected officials identified four priority areas for allocation of resources beyond those required to fund Current Services. These areas are: Affordable Housing, Children, Survival Services – Homelessness and Food Programs, and Transportation. The Adopted Budget makes substantial progress in each of these areas through a series of budget initiatives described below.

## Transportation

The Adopted Budget adds approximately \$9.4 million to SEATRAN for each of the two years of the biennium. This quadruples City general tax resources devoted to transportation since 1995, bringing the annual total to more than \$44 million. This injection of local dollars permits SEATRAN to realize a long-term capital improvement plan designed to continue funding operations and maintenance needs, especially preventive maintenance; increase commitments to paving, traffic control and signals, bridge painting and operations, and neighborhood plan support; move forward on major bridge projects, such as the Fremont Bridge and Spokane Street; continue mobility initiatives such as signal synchronization; and leverage other funds to implement the Urban Trails Plan.

Figure 2: SEATRAN Annual Revenue



SEATRAN's local resources as portrayed in Figure 2 are comprised of four major funding sources: City general tax dollars, the county-imposed Vehicle Licensing Fee (VLF), the state gas tax, and grants/loans from federal and state sources which generally require matching funds. Both the VLF and the state gas tax have been virtually flat for several years. That means that City general tax dollars must first make up for inflationary costs of paving and maintenance activities before new projects can be funded. The State Blue Ribbon Commission on Transportation has developed a set of recommendations for the state legislature that address the transportation issues affecting the entire state, including the highly populated Puget Sound region. Our economy relies on the effective movement of people and goods, and the City looks forward to state legislative solutions that will provide the needed resources to respond effectively to growth and transportation demand.

# Budget Overview

## Children

The City's new program for children birth to age 18, called Project Lift-Off, is designed to ensure that kids get off to a good start in life, are given opportunities to learn and thrive, and can reach adulthood with confidence and good life skills. Project Lift-Off builds on a strong network of public and private early childhood and out-of-school programs targeted to various ages and interests. In 2000, Project Lift-Off was focused on developing the data to direct the program, building an administrative infrastructure, and forming an effective plan to deploy City resources.

In each year of the next biennium, Project Lift-Off receives \$500,000 to advance its goals. Half of that amount each year will be used to fund five Community Learning Centers. In partnership with other government and private sector funders, these school-based centers will open in 2001, providing approximately 600 children each year with learning activities during out-of-school time.

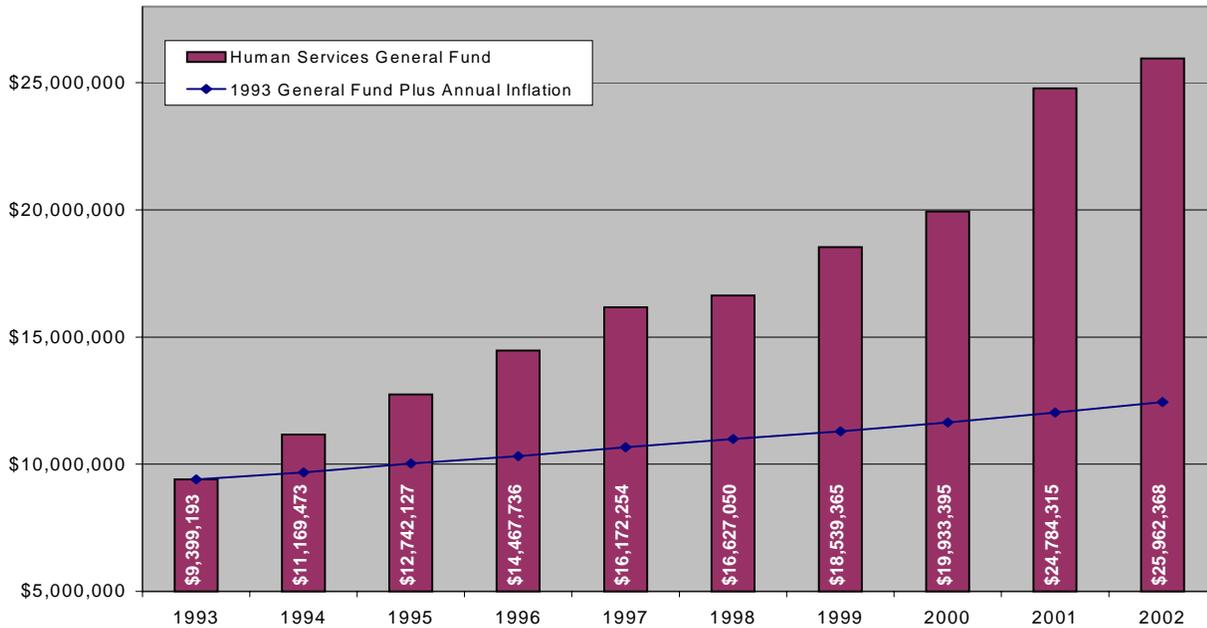
The remaining \$250,000 will be split evenly between an Opportunity Fund and a Finance Reform Project. The Opportunity Fund, built on \$175,000 of one-time resources available in 2000, is designed to foster philanthropic investment in local children's programming, leveraging \$2 of match for each City dollar. The uses of the Fund will be developed in partnership with the Pacific Northwest Grantmakers Forum. Likely uses are to improve the supply of neighborhood services and provide scholarships and subsidies for children accessing them. The Finance Reform component is intended to increase the quality of out-of-school and child care and make these programs more affordable for parents.

## Survival Services – Homelessness and Food Programs

Addressing homelessness through the creation of an integrated computerized information and referral system called Safe Harbors and maintenance of a comprehensive response system is a high City priority. The City partners with a variety of community-based organizations to deliver social services within this system, including emergency shelter and transitional housing, day centers, hygiene centers, food banks and meal programs, and refugee and immigrant assistance. Substantial funding increases provided in the Adopted Budget, including resources to begin implementation of Safe Harbors and \$500,000 to expand the emergency shelter response system, ensure the continuation of these important efforts. With this budget, the City's investment in homelessness response exceeds \$14 million annually. Figure 3 below depicts the increases provided for human services over the past decade.

### Figure 3: Human Services Funding

Annual Appropriations vs. Inflation



## Affordable Housing

The Office of Housing administers several programs which aid in the construction of new or rehabilitation of existing housing for lower-income residents. The majority of City support is from the City's special property tax levy for housing development that expires in 2002. State and federal resources contribute as well, resulting in approximately \$27 million annually available for this purpose. In addition, the Adopted Budget includes \$750,000 to expand the supply of transitional housing and \$250,000 to expand the Rental Assistance program. These actions aid the effort to create a comprehensive continuum of affordable housing opportunities in the City of Seattle.

## Community Priorities

The Adopted Budget continues the City's commitment to implementation of Neighborhood Plans. This effort is bolstered through increases to the Neighborhood Matching Fund, SEATLAN's budget, and numerous projects identified in the Neighborhood Parks, Green Spaces, Trails and Zoo levy lid lift, which was approved by City voters in November of 2000. The Adopted Budget funds expanded community center hours at nine community centers, allowing weekend recreational opportunities for families. Other capital projects of interest to neighborhoods are initial funding to evaluate the renovation of the Georgetown Old City Hall, funding to co-locate Neighborhood Service Centers in libraries on Beacon Hill and Capitol Hill, and supplemental funding for the Lake City Civic Center.

# Budget Overview

The City's commitment to art and art organizations is evidenced through the dedication of a portion of the Admissions Tax to promoting the visual and performing arts. These resources, more than \$1 million annually, will be directed to increasing services available to artists, strengthening the ties of artists to their neighborhoods, and increasing opportunities for children to have the advantage of arts training. In addition, funding is provided for the Museum of History and Industry, the Chinese Garden, the Asian Art Museum, and the Olympic Sculpture Park public improvements.

Emerging community issues in the public safety arena are addressed in the Adopted Budget. The Fire Department's responsiveness to medical emergencies will increase with the addition of one Medic Unit. The Police Department is working with the community to develop tools and methods for best addressing racial profiling concerns. The budget contains \$100,000 to assist with implementation efforts. The Police Department recently concluded its study of less-lethal force options and \$350,000 is added to its budget to implement the study's recommendations. Lastly, the Adopted Budget contains \$250,000 for the City's response in water emergencies.

Environmental issues are also of great concern to Seattle residents, and the City and its utilities are leaders in environmental preservation and clean-up efforts. The City's efforts to benefit wild salmon runs begun in 2000 are continued and increased in 2001 with the addition of \$350,000 for mitigation activities. The Seattle Public Utilities' Cedar River Habitat Conservation Plan and Seattle City Light's Skagit River habitat design efforts are long-term investments intended to benefit healthy salmon runs in the region.

## Managing for Results

The City invests more than \$2 billion dollars annually into programs and services that benefit its residents and the region. The Mayor and the City Council want the City to be a high performance enterprise that focuses on customer service and measures the return on investments in the services the City provides.

The City published its first annual Goals/Actions/Results/Measures (GARMs) report in 1999. To further focus on strategic and operational results, City departments developed business plans designed to link operations with planning and budgeting to achieve desired results at three key levels: the department itself, the lines of business within each department, and the programs that comprise each line of business. The Adopted Budget is organized by departments' business plan structures; appropriations are made at the line of business level and program information is displayed for each line of business. It also includes selected performance targets at the line of business level. In most cases these targets correspond to the targets set forth in the GARMs identified by each department through its business planning process. This effort to link programs with revenues and spending provides the opportunity for citizens and elected officials to more effectively review the City's program and service priorities against competing demands. Efforts to improve performance measurement are a high priority for the upcoming biennium.

## State Initiative 722

Initiative 722, which was approved statewide at the November 2000 general election, purports to do four different things in a single initiative:

1. **Repeal tax and fee increases adopted between July 2, 1999 (the filing date of Initiative 695) and December 31, 1999.** The King County Assessor is of the view that this rollback includes a portion of the 2000 property tax levy for the City of Seattle, since that levy was established by ordinance in the fall of 1999. It could also include rate increases for water, drainage, sewer and electricity services, as well as increased fees

# Budget Overview

at the Seattle Center, at the Aquarium, and for some SEATRAN services. The fiscal impact of this rollback to the City of Seattle includes an \$8.4 million property tax loss in each of 2001 and 2002 (because the previous levy amount upon which those levies are premised will have been retroactively reduced) with the potential for an \$8.4 million refund for 2000 property taxes already collected. In addition, the rollback of fees and charges could impact the City budget by more than \$40 million.

2. **Lower the limit on property tax increases from 6% to 2% of the previous highest levy.** The City of Seattle took the 6% increase in 2000, and the Adopted Budget assumes a 4.1% increase in 2001 and a 6% increase in the 2002 Endorsed Budget. The impact of a 2% limitation would be a revenue loss of \$3.2 million in 2001 and \$9.7 million relative to the Adopted Budget.
3. **Reduce the assessed value for each individual property to its 1999 level, and limit increases in a parcel's assessed value to no more than 2% annually.** This would have effects that include shifting the burden of property taxes from owners of rapidly-appreciating property to others not experiencing as rapid a rise in the market value of their properties.
4. **Repeal the State law that allows cities and counties to bank unused levy capacity for future use.** Since the City had taken the full 6% every year since 1973, this repeal does not directly affect the City at this time, but might in the future.

Initiative 722 appears to have some of the same legal flaws as Initiative 695, which was struck down by the Washington State Supreme Court in October of 2000, and the same sort of unconstitutional shifting of tax burdens from rapidly-appreciating properties to ones appreciating more slowly as the Washington State Supreme Court invalidated in Referendum 47 in 1998. As a result, the City is taking part in a legal challenge to the constitutionality of I-722, and, along with other jurisdictions, sought injunctive relief from implementation of its various provisions. On November 30, 2000, Judge Christine Pomeroy of the Thurston County Superior Court granted the injunction, and later applied the ruling to all local jurisdictions in the State of Washington. The merits of the case are scheduled to be heard by Judge Pomeroy on February 23, 2001. An appeal is anticipated whatever her decision. A final appellate court ruling is not expected until much later in 2001, perhaps after the 2002 City budget must be adopted.

The City Council took the following actions to accommodate the impacts of I-722, applying the principle of minimizing layoffs, direct service impacts, and program interruptions:

1. Part 1 made adjustments to reflect the potential reduction of available expenditures to an amount supportable by property tax revenues, limiting property tax growth to 2% rather than the 6% reflected in the Proposed Budget. In 2001, this adjustment required a net \$6.2 million reduction to the budget plan. The following actions were taken to adjust revenues and spending accordingly:

Recognize increased Business & Occupation Tax revenues	\$2,000,000
Department reductions of approximately 1%	\$2,026,000
Reduction to SEATRAN's proposed budget	\$1,500,000
Administrative reductions in the Police Department	\$ 500,000
Administrative reductions in the Fire Department	<u>\$ 181,000</u>
Total	\$6,207,000

# Budget Overview

- Part 2 is a holding action to deal with the possibility that the property tax is re-based to the 1999 levy, which would result in an additional revenue loss of \$8.4 million in 2001. Because the Assessor reads Initiative 722 to require the City to ignore a legislative act by the City Council that was perfectly legal when it occurred, the City and other jurisdictions are seeking permanent legal relief from its implementation by the respective county assessors. While waiting for such a ruling, the Adopted Budget reserves in Finance General approximately \$8.5 million in spending. Upon judicial rulings, these reserved amounts will be either unreserved and returned to departments' budgets for spending, or eliminated or further delayed due to lack of resources to sustain them. Reserved items include information technology delays in the Police and Fire departments, additional reductions to most department budgets, elimination of Variable Performance Pay for certain City executives and managers in 2001, and delays in contributions to the Chinese Garden and Museum of History and Industry.
- The Adopted Budget is based on City Council imposition of a 4.1% property tax increase in 2001, assuming Initiative 722 does not restrict the City to a 2% property tax increase. The 4.1% increase represents the blended cost of wage and health care cost increases incurred by the City in 2001. As "Part 3" of its response to Initiative 722, the City Council allocated these resources in the following manner and reserved them in Finance General until the court rules on I-722:

Additional resources to SEATRAN for paving, etc.	\$1,424,000
Additional resources to SEATRAN for sidewalks	\$ 500,000
Additional resources for transitional housing	\$ 750,000
Additional resources for emergency shelter expansion	<u>\$ 500,000</u>
Total	\$3,174,000

Additional detail on specific items in Plans 1 and 2 can be found in the summary tables in the Appendix.