

Budget Overview

Mayor Greg Nickels' 2008 Proposed Budget continues to focus on the major priorities established by the Mayor and City Council, including public safety, transportation, neighborhood enrichment, climate protection, and customer service. The Budget reflects the strong economy of the Puget Sound region and resulting increases in revenues to many City funds. The General Subfund budget totals \$921 million and the overall budget totals \$3.52 billion.

2008 is the second year of the 2007-2008 budget biennium. Thus, the 2008 Proposed Budget is based on the 2008 Endorsed Budget approved in November 2006. Budgets for many City functions reflect only technical changes, such as higher wage adjustments and lower-than-anticipated health-care costs. Substantive budget changes reflect either nondiscretionary items, such as changes in debt service costs or contractual agreements, or funding increases for high-priority programs.

The General Subfund includes revenues and expenditures associated with traditional city government functions, such as police protection, fire suppression, emergency medical services, libraries, and major portions of the budgets for parks, human services, and transportation. The Mayor's 2008 Proposed Budget for the General Subfund was based on a five-year projection of future revenues and expenditures. Ongoing budget additions were designed to fit within projected revenues, with room to accommodate the 85 additional police patrol officers called for in the neighborhood policing plan. Other General Subfund budget changes are one-time items intended to increase efficiency or improve customer service. Finally, the General Subfund will transfer \$4.7 million to the Revenue Stabilization Account ("Rainy Day Fund"), which is a reserve for use in the next economic slowdown, bringing it to a total of \$19.6 million.

Responses to Budget Challenges

The 2008 Proposed Budget describes solutions to two budget problems identified, but not resolved, when the 2008 Endorsed Budget was approved in 2006.

- 1) This Budget reflects a partial replacement for the Business and Occupation (B&O) tax revenues expected to be lost beginning in 2008. In 2003, the State Legislature passed House Bill 2030, which is now codified at Chapter 35.102 RCW. The main purpose of this law was to create more uniformity among city B&O taxes through a model ordinance. This purpose was supported by both cities and business organizations. However, Section 13 of the bill was added over the opposition of cities. This section changes how income for certain businesses is calculated for tax purposes and will become effective in 2008. At the Legislature's request, in November 2005 the State Department of Revenue (DOR) completed a study of the fiscal effects of this change. Using 2004 figures, DOR estimated that cities would lose approximately \$23.3 million of revenue annually, with the effect on Seattle being a loss of \$15.6 million. Projecting this to 2008 yields a loss to Seattle of about \$21.9 million. Independent analyses by Seattle's Department of Finance produce projected losses of the same magnitude, although there is a wide range of possible impacts depending on how businesses respond to the confusing language of the new law.

The 2008 Proposed Budget is accompanied by legislation creating a square footage business tax. This is modeled on a tax the City of Bellevue has imposed for many years. Under this proposal, the only businesses that would pay any square footage tax would be those affected by the changes under State law described previously. Further, no business would pay more tax on its activities than would have been the case under existing (2007) tax law. Thus, some businesses will pay the same total tax as under existing law, some will pay less, but none will pay more. The new square footage business tax is expected to raise approximately \$18.6 million in 2008, resulting in a net revenue loss of about \$3.3 million.

In addition, the Mayor is again proposing to raise the threshold below which business are not subject to the B&O tax from the current level of \$50,000 to a new level of \$80,000. This change reflects the effects of inflation since the last time the threshold was raised in 1994 and will simplify tax treatment for small businesses.

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- 2) The Proposed Budget shifts all the 2008 enhanced operating and maintenance costs from the Neighborhood Parks, Green Spaces, Trails, and Zoo levy lid lift to the General Subfund. This levy was approved by the voters in 2000 and provided eight years of funding for park acquisition and development, plus enhanced operating and maintenance programs. The Mayor does not plan to seek renewal of the levy, which led to questions about the future of these programs, including programs for youth and seniors, enhanced tree maintenance, and additional park cleaning. Using General Subfund money for these programs in 2008 eliminates uncertainty by building the costs into the base budget for future years. In addition, it creates a \$6.9 million fund that will be available for neighborhood park enhancement through a citizen-initiated process beginning in 2008.

New and Expanded Initiatives

Mayor Nickels established four priorities when he took office in January 2002: get Seattle moving, keep our neighborhoods safe, create jobs and opportunity for all, and build strong families and healthy communities. The Mayor's 2008 Proposed Budget continues to focus on these priorities, which are generally consistent with goals identified by the City Council in budget priority resolutions. Most of the new or expanded initiatives are concentrated in five areas: public safety, transportation, neighborhood enrichment, climate protection, and customer service.

Public Safety

Public safety is a basic responsibility of city government. In mid-2007, Mayor Nickels presented his neighborhood policing initiative, which includes a plan to add 154 additional patrol officers between 2005 and 2012, revise precinct and beat boundaries to reflect population and crime trends, and change shift schedules to have more officers available during periods of peak demand. The Proposed Budget reflects the 20 additional officers included in the Endorsed Budget. In addition, to enhance public safety, funds are added for the following actions:

- Police Department emphasis patrols downtown and in southeast Seattle, begun in 2007, will be continued throughout 2008. The department receives \$612,000 for this work.
- The Police Department and Seattle Department of Transportation (SDOT) will install and monitor an additional 24 red light cameras throughout Seattle at high-accident locations, with a particular focus on intersections with pedestrian safety issues. Costs for maintaining six cameras implemented in 2006 and installation and operation of the 24 new cameras will be about \$1.8 million in 2008, which is expected to be covered by the resulting revenues from violations. The six cameras installed in 2006 have been shown to reduce red light running and the severity of crashes.
- The Parks Department will deploy a team of six park rangers in Center City parks to provide park security and customer assistance, at a cost of \$462,000. In addition, cameras will be installed in four parks (likely Cal Anderson, Hing Hay, Occidental, and Steinbrueck) and environmental design changes (such as new lighting) will be added to enhance security, at a total cost of \$850,000.
- The Fleets and Facilities Department (FFD) will conduct a site search for a new location for the North Precinct Police Station. The existing station is far too small and its location does not allow for expansion. The existing building will be inadequate to house the additional officers being added over the next five years. The Proposed Budget includes \$705,000 for this effort. In addition, the Proposed Budget includes \$300,000 for FFD to examine options to rebuild or relocate the Harbor Patrol facility on Lake Union, which is currently housed in an aging structure

The Fire Department is another important part of Seattle's public safety programs. The Department will conduct a two-year pilot study of a motorcycle medic team, similar to those used in a few other U.S. cities, including

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Miami and Pittsburgh. A team of two paramedics with fully equipped motorcycles will be deployed downtown during peak demand periods. Motorcycles are able to get through congested traffic faster than ambulances or medic units, thereby speeding response to emergencies. In addition, the 2008 Budget completes the process of adding firefighters to have four-person crews on all engines by adding 15 firefighters at three stations. The Fire Department also receives additional funding for medical training, firefighter wellness, and apparatus replacement.

Transportation

Seattle voters approved the “Bridging the Gap” property tax levy lid lift in November 2006. This will provide about \$52 million of new revenue for transportation projects in 2008 when combined with new taxes on parking and employee hours that started in July 2007. These sources will fund a wide variety of projects, including street repaving, sidewalk construction, bridge seismic improvements, bike trails, and new street signs.

The 2008 Proposed Budget also adds new money from the General Subfund and Real Estate Excise Tax (REET) for a variety of projects, including:

- Existing neighborhood-based project funds, which receive an additional \$2 million. The City has had a Neighborhood Street Fund process for several years in which neighborhood councils select small projects throughout the city. About \$1.2 million is available for this year and the Proposed Budget shifts another \$500,000 to this fund from a set-aside for citizen-initiated capital projects, many of which requested transportation improvements. Bridging the Gap includes \$1.5 million annually for somewhat larger scale projects and the Mayor is proposing to add \$1.5 million of General Subfund money to this program in 2008. Most of the additional \$2 million is likely to go to sidewalk or other pedestrian-focused projects selected by neighborhoods.
- The new South Lake Union line of the Seattle Streetcar, which receives new staffing and funding to operate. The new streetcar line is expected to begin service in December 2007. Funding is also added to continue planning other streetcar lines, for a total expense of \$375,000.
- A new project on Linden Avenue North, which receives \$800,000. Several new developments are being built in this area. The funds will cover design of a new street and sidewalks and initial implementation of some components of the project.
- The 14th Avenue South street reconstruction project in the South Park neighborhood will be fully funded with an additional \$500,000. This project will rebuild the main commercial arterial in South Park and address longstanding drainage problems.

In addition, the 2008 Proposed Budget continues the City’s work to replace the Alaskan Way Viaduct and Seawall. In mid-2007, the City Council called for the development of an urban mobility plan to examine options for replacing the Viaduct. The City, King County, and the State of Washington agreed on a series of “early implementation” projects that do not depend on the ultimate design of the new transportation system on the central waterfront. The City continues to work with the U.S. Army Corps of Engineers on design and construction of components of the north seawall. The City’s portions of all of these projects are funded in the 2008 Proposed Budget using a combination of General Subfund money, bond proceeds, and external grants.

Neighborhood Enrichment

Seattle is blessed with vibrant and diverse neighborhoods. About 10 years ago, many neighborhoods created neighborhood plans to identify desired land use and development changes. Many subsequent City investments, including new or remodeled community centers, libraries, and parks, have been made in response to neighborhood plans.

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Seattle's recent growth means some of the neighborhood plans are outdated. The 2008 Proposed Budget includes approximately \$1.5 million and 10 staff to begin updates of neighborhood plans. Of this, about \$717,000 and four staff are new, with the remainder coming from existing budgets and positions. This team will work with neighborhoods within a particular area of the city to update their plans over a one-year period. The team will move on to another area the next year, with all plans being updated as needed over five or six years.

The 2008 Proposed Budget includes many new investments in neighborhood programs and projects. In addition to the neighborhood parks fund and the transportation improvements previously described, these include:

- The Office of Housing receives \$3.5 million for another project using the "Housing First" strategy, which focuses on providing housing for chronically homeless individuals and is expected to reduce public costs in the long run. The \$3.5 million will help fund 40 permanent supportive housing studio apartments for chronically homeless people. Accelerating the funding to 2008 will allow the project to be completed a year earlier.
- The Rainier Beach youth strategy is continued in 2008 at a cost of \$261,000. This strategy started in 2007 using one-time funds. The Human Services, Neighborhoods, Parks, and Police departments all have roles in this program, which has proven successful in providing constructive opportunities for youth in southeast Seattle.
- The next steps to implement the skatepark master plan will receive \$365,000. This will fund a new "skate spot" at Dahl Playfield and small facilities known as "skate dots" in several locations.
- Development of a trail around Lake Union will begin with a \$1 million appropriation. Parts of such a trail exist and the City owns considerable right-of-way that could be developed for a trail. A Lake Union trail has been identified as a desired project in several studies and would serve the growing communities in Eastlake, Fremont, Queen Anne, and South Lake Union. The \$1 million is intended as a challenge grant to the Parks Foundation and other potential funders. The Mayor proposes to ask history teachers in Seattle schools to use the trail as a class project to study the area's tribal, maritime, and commercial history, with a final name for the trail to be chosen through a contest among students.
- The west wing of Building 30 at Magnuson Park will be remodeled at a cost of \$2.7 million. This continues the City's commitment to restore facilities at the former Sand Point Naval Air Station for use by artists and other community groups.
- An additional \$300,000 is added to the Parks Department to replace trees in city parks toppled during the December 2006 windstorm.
- The Parks Department receives \$200,000 to continue to plan for replacement of the Rainier Beach community center.
- The Parks Department also receives \$192,000 to restore the "Hat" in Oxbow Park. The "Hat and Boots" gas station was a famous Seattle roadside icon which fell into disrepair in the 1990s. The Boots have been restored but the Hat has not.
- A program to gradually move electric utilities underground along major streets. City Light has done such projects on an intermittent basis for decades but has not had a formal program. Undergrounding reduces the likelihood of outages due to storms or accidents, and also provides aesthetic benefits. The Mayor is proposing to phase-in a program that will have an annual budget of about \$15 million.

In 2007 the Seattle School District announced it would sell five surplus school sites: Allen (Phinney Ridge), Crown Hill, Fauntleroy, University Heights, and Webster (Ballard). These buildings house a variety of

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community organizations. The District later decided to keep the Webster School site for a few years but continues to want to sell the adjoining property, which is currently leased to the City for a park. The 2008 Proposed Budget includes \$5 million (\$1 million per site) as challenge grants for the community organizations to assist them in purchasing the buildings from the District. In the case of Webster, the money would be to purchase the park. The Proposed Budget also includes funds to continue to support community organizations in developing plans for some of the schools.

Arts are also a part of a vibrant community culture. The 2008 Proposed Budget includes \$786,000 in new investments in arts programs and cultural facilities, including expanded operating support for arts education (\$100,000), Civic Partners (\$150,000), and small opportunities (\$36,000). Capital support is provided for Arts West (\$150,000) and Town Hall (\$150,000) through the purchase of services related to these projects. Funding is also provided for the centennial of the Alaska-Yukon-Pacific Exposition (\$200,000). In a separate action, the Mayor is proposing legislation to amend the City's lease with Benaroya Hall Music Center (BHMC), which operates City-owned Benaroya Hall on behalf of the Seattle Symphony. The City refinanced debt related to the Hall in 2004 and the Mayor proposes to reduce BHMC's "concession payment" (equivalent to rent) for several years to reflect this savings.

Climate Protection

Seattle is a national leader in the campaign to reduce greenhouse gas emissions. Mayor Nickels will host a national climate protection summit in Seattle in early November, headlined by former President Bill Clinton. The 2008 Proposed Budget continues the City's commitment to climate protection in two new ways.

- Funds are added to the Office of Sustainability and Environment to pursue two initiatives started in 2007. The Seattle Climate Action Now program, which is designed to help residents reduce greenhouse gas emissions from homes and vehicles, receives \$309,000. The Seattle Climate Partnership, a program to identify best practices and provide technical assistance to businesses and other employers, receives \$150,000 for implementation. The Partnership will also receive funding from grants and is expected to become its own nonprofit organization within about two years.
- A new \$5 million Building Efficiency Program is established in FFD to make cost-effective investments in City-owned facilities that will also reduce carbon dioxide emissions. Specific investment projects will be chosen by a committee of senior City officials after review of proposals from departments. The Building Efficiency Program is intended to be a revolving fund in which budget savings are recaptured by the program and allocated to new projects. Some projects that may qualify for funding include replacement lighting in the Seattle Municipal Tower, new boilers in the Charles Street shops, and heat pumps for fire stations.

The City will also continue its commitment to a "green fleets" program by purchasing additional hybrid vehicles. The parking enforcement unit in the Police Department will experiment with an electric vehicle and bicycles as alternatives to the current gas-powered scooters.

Customer Service

Good customer service is critical to responding to the needs of Seattle's residents. The 2008 Proposed Budget includes almost \$9 million from the General Subfund to develop and implement a new 311 system, as has been done in several other cities around the nation. 311 is intended to be a single number to call to access many City services, such as reporting abandoned vehicles, identifying power outages, or seeking information about licensing requirements. The need for a 311 system became apparent during the December 2006 windstorm when the City had to give out a wide range of phone numbers for different purposes.

311 will consist of a call center staffed for extended hours, possibly 24 hours every day. Staff will be able to respond to some issues directly. Other issues will be transferred to the appropriate department using work

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management software, which will also track responses to the request. This will allow City leaders to monitor organizational performance and identify issues that may require new policy or budgetary responses.

The 2008 funding is expected to be sufficient to build and equip the call center (likely in leased commercial space), purchase and modify software, and implement the necessary telecommunications services. The center will likely open in mid-2009 and staffing will be included in the 2009 Budget.

In addition to 311, other departments are making investments to improve customer service. Most notably, based on lessons learned from last winter's windstorms, the 2008 Proposed Budget includes \$5 million for City Light to develop a new emergency operations center and \$3.9 million to develop an outage management system, which will provide better information about power outages and ensure faster and better targeted response.

The 2008 Proposed Budget also includes \$5.5 million to fund the initial phase of City Light's new Asset Management Program, which will be implemented over a five-year period. This new program will allow City Light to reduce the likelihood and duration of power outages, while prioritizing its capital projects and efficiently scheduling work of SCL's maintenance crews based on the condition of the utility's vital assets.

Future Challenges

The 2008 Proposed Budget reflects the strong economic environment in the Puget Sound region, which has now fully recovered from the recession earlier in the decade. This has created the opportunity to restore many of the valuable programs cut previously and to make new investments in high-priority areas.

The City is likely to face new funding demands in the next five years. The additional police officers endorsed by the Mayor and City Council will have an incremental cost of at least \$8 million by the time the positions are fully in place in 2012. A new North Precinct Police Station and jail (which may be required if King County cannot house city prisoners by 2013) will each be very expensive, and if the costs are financed using City debt, annual appropriations in excess of \$10 million may be needed.

The owners of the Seattle Sonics basketball team have threatened to leave the city unless they get a new taxpayer-funded arena. The team's lease at Seattle Center's KeyArena runs through 2010, although the team's owners may seek to leave earlier. The 2008 Proposed Budget includes \$1 million to retain legal counsel to enforce the lease if necessary.

The most significant challenge would be a recession that would reduce sales and B&O taxes and other revenues, such as electricity sales and parks rentals. As noted above, the 2008 Proposed Budget appears to be sustainable if moderate economic growth continues, but the Budget is likely not sustainable during a recession. This is the reason the Mayor proposes adding \$4.7 million to the Revenue Stabilization Account to provide more reserves in the case of a recession.