



City of Seattle Financial Update

**Early Assessment of the Challenges and an
Action Plan for Moving Forward**

Press Briefing by Mayor Mike McGinn

March 11, 2010

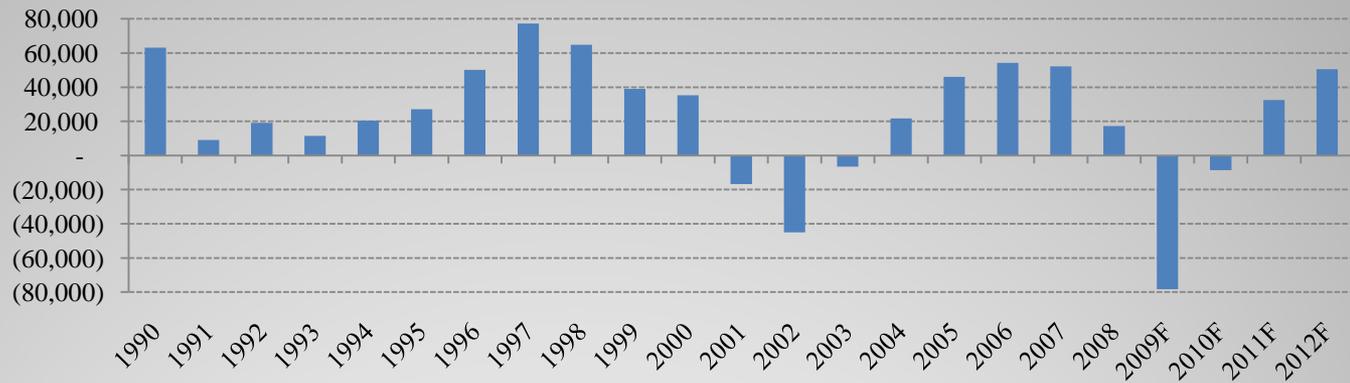
- During the campaign and transition, emphasized addressing the City's budget challenges as an urgent priority
- Preliminary forecasts of the City's General Subfund show
 - 2009 revenues are down \$5 million
 - 2010 revenues will be down an additional \$5 million (cumulative impact over \$10 million)
 - 2011 facing a deficit of at least \$50 million
- The early indicators confirm concerns about the serious budget challenges facing the City

Setting the Stage – What We Know



- Most severe recession since the Great Depression

Employment Changes for Puget Sound Region



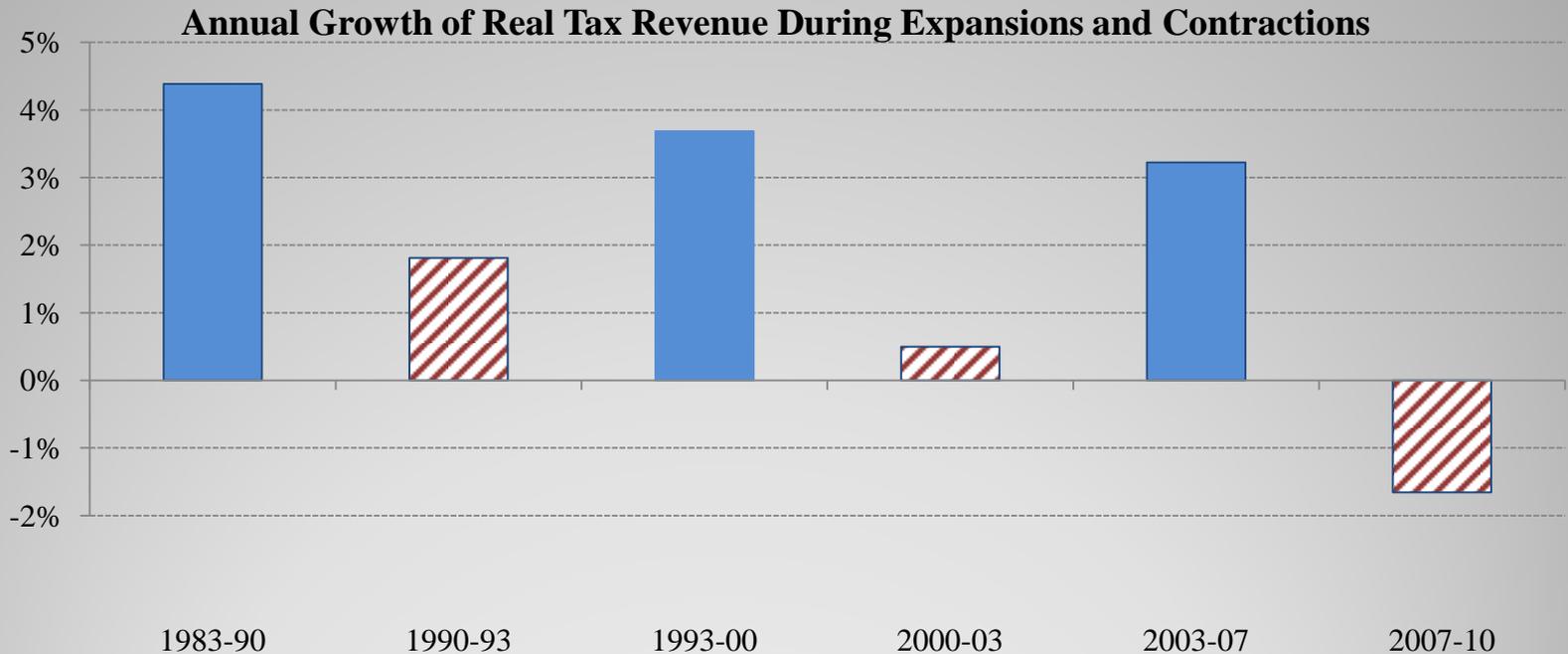
King, Kitsap, Pierce, Snohomish Counties from Puget Sound Economic Forecaster

- Puget Sound area lost 78,000 jobs in 2009
- Construction employment down 18% from 2008 to 2009

Setting the Stage – What We Know



- Recessions severely affect City revenues – this recession in particular

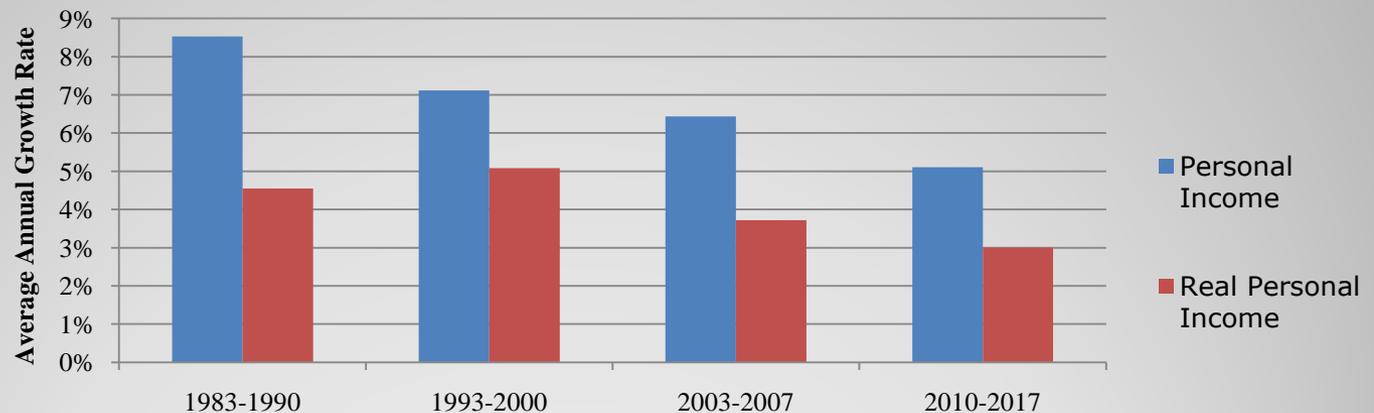


**Setting the Stage –
What We Know**



- New Era: This economic recovery expected to be more modest than economic recoveries since 1983
 - Expecting lower income growth rates as compared to past recoveries

Puget Sound Region Income Growth Rate During Expansions



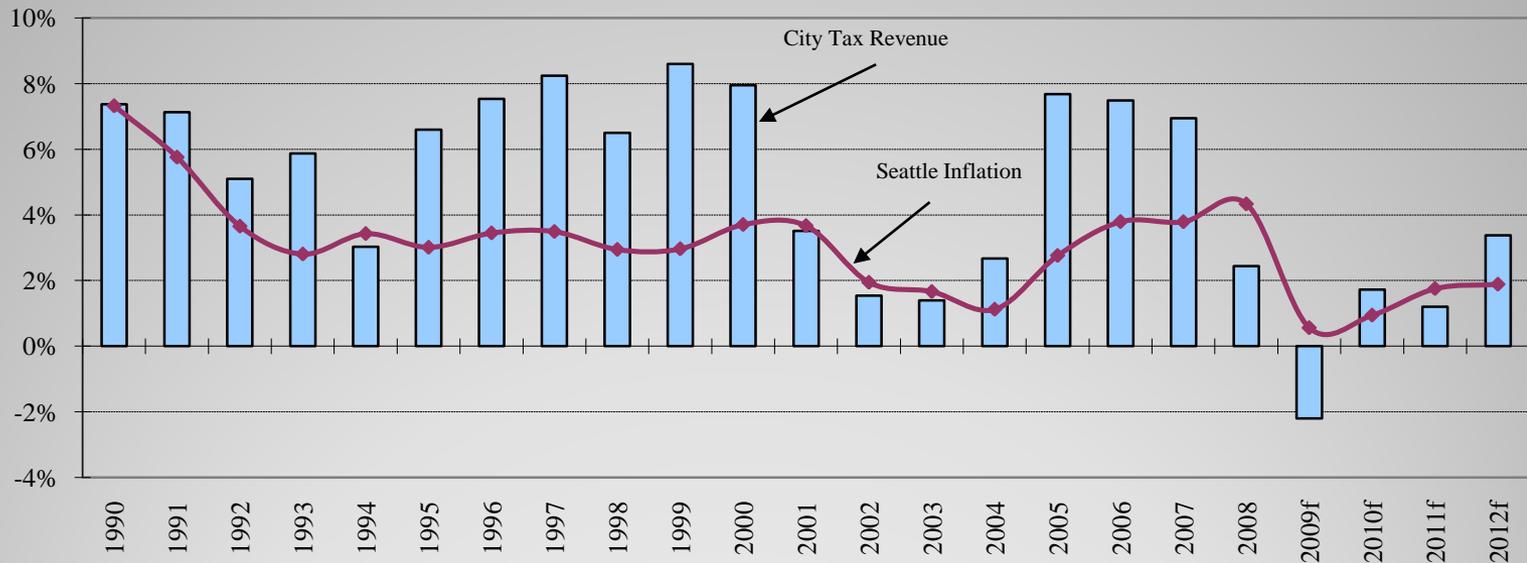
Source: Puget Sound Economic Forecaster

**Setting the Stage –
What We Know**



- Modest income growth will mean less revenue growth for the City than in the past

City of Seattle Tax Revenue Growth



Setting the Stage – What We Know



- These projections assume a modest economic recovery beginning this spring
 - However, the possibility of a 'double-dip' recession remains
 - A 'double-dip' recession or a delay in the recovery would further deteriorate the City's financial outlook
- **This is not your 'average' recession**
 - Longer and deeper than most downturns
 - Recovery much more modest than past recoveries
 - While Seattle has a well-balanced revenue picture, property tax revenues not the buffer it once was
 - *Requires the City to re-examine how it manages its budget in response to these new economic realities*

Setting the Stage – What We Know



- 2009 and 2010 General Subfund budgets balanced primarily using one-time tools
 - At least \$29 million of the 2010 \$40 million deficit was closed using one-time tools. Some examples include:
 - \$11.3M: Rainy Day Fund use (\$8.9M used during 2009)
 - \$6.6M: Furlough Program
 - \$3.8M: Use of excess debt proceeds to pay debt service
 - \$2.4M: Use of Parks excess fund balances and temporary closure savings
 - \$1.4M: Use of Key Arena Settlement funds
 - Pushes the problem out into future years
 - If the \$29 million had been closed with on-going tools, the 2011 deficit would only be \$21 million
 - *Many of these one-time tools are now exhausted*
 - At the beginning of 2009, there was \$30 million in the Rainy Day reserve; today only \$10 million remains – if we use the Rainy Day fund to close the anticipated 2010 gap, no unrestricted reserves would remain

Setting the Stage – What We Know



- In addition, we have done a preliminary survey of 'looming' budget issues
 - 'Looming' budget issues are potential financial obligations of the City that are not currently part of out-year budget planning assumptions
 - Have the potential to further exacerbate our financial challenges
 - Driven by economic, structural or other systemic issues
 - Some examples of 2010 looming budget issues:
 - Unforeseen increase in jail population drive up costs
 - Costs associated with power outage at Seattle Center
 - These and other routine errors in the 2010 budget could add over \$3 million to the deficit

Setting the Stage – What We Know



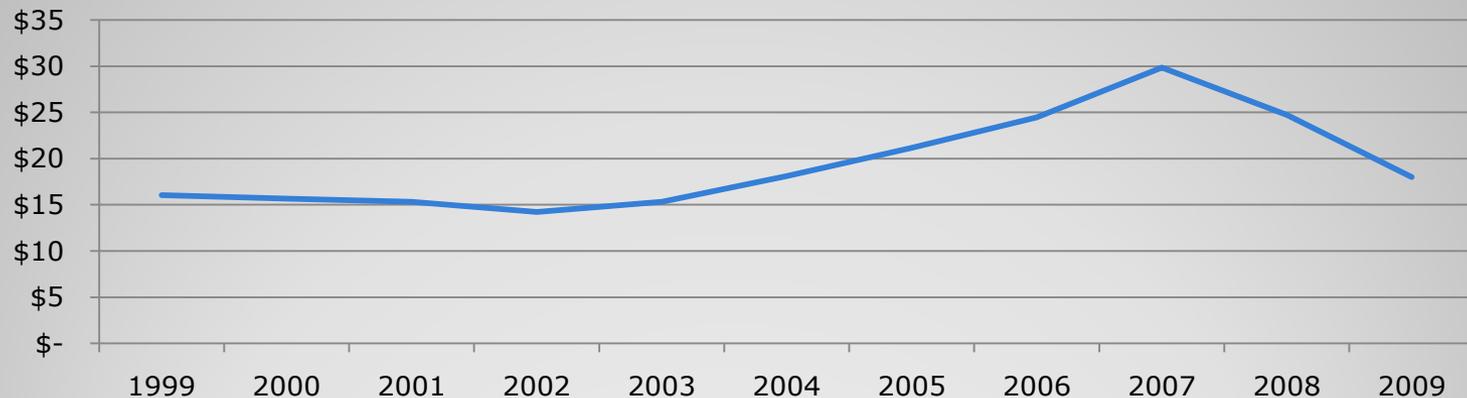
- Examples of 'looming budget' issues:
 - Outyear cost pressures
 - Retirement costs: contribution rates likely to increase as a result of investment losses in the Retirement System of over 25% in 2009 (every 1% increase in contribution rates costs the General Fund \$4.3 million)
 - New parks and community centers: operating costs not built into operating budget assumptions
 - Backlog of maintenance and replacement costs throughout the government including Parks, Libraries, SDOT, SPU, and SCL
 - Example: Transfer station replacement costs avoided for 10 years
 - These costs will add further stress to City funds

Setting the Stage – What We Know



- Department of Planning & Development:
 - Since 2007, responded to a \$16 million decline in permit revenues
 - DPD cut or unfunded 90 positions, including 65 lay-offs in 2009

DPD Building Revenues, in \$ Millions

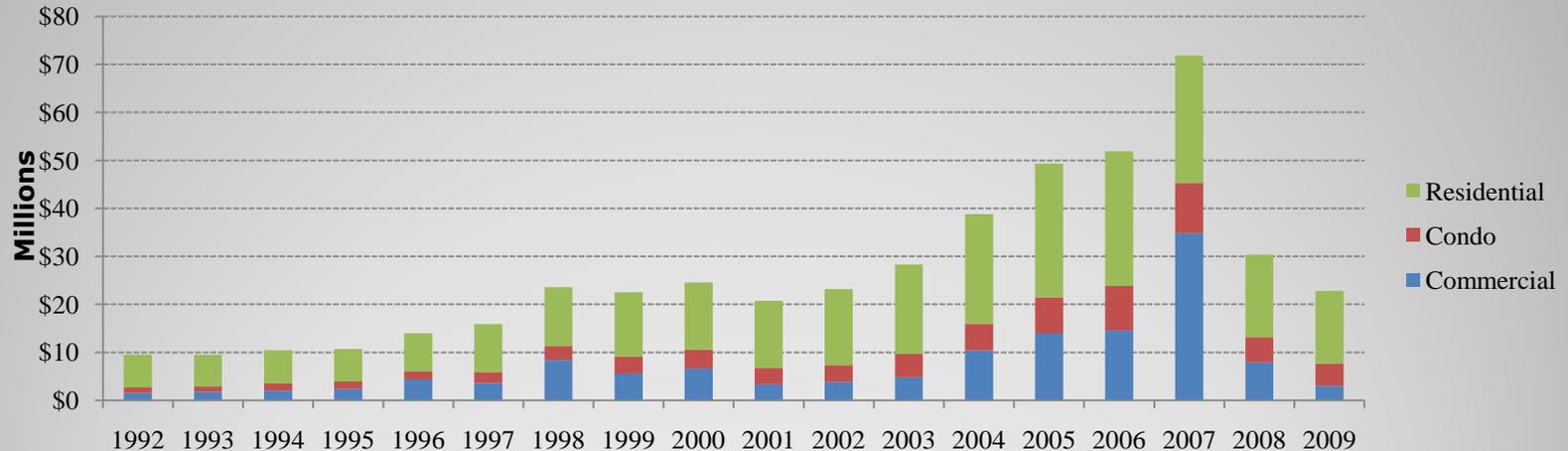


**Setting the Stage –
What We Know**



- Real Estate Excise Tax
 - Supports general government capital program
 - Revenues down 68% since 2007 due to depressed real estate market

Real Estate Excise Tax Receipts

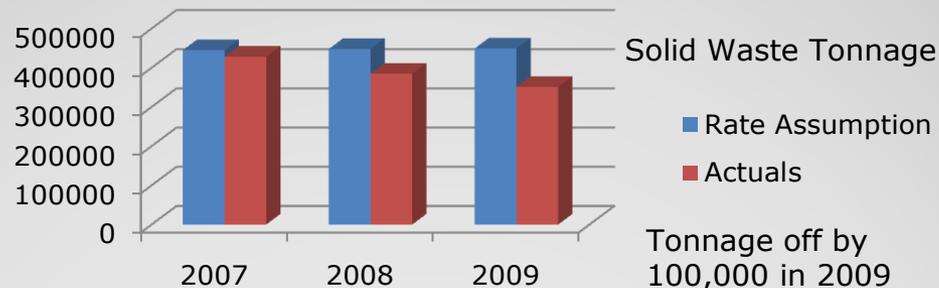


**Setting the Stage –
What We Know**



- **Seattle Public Utilities:**

- Demand for water and solid waste services are down as a result of the economy
- Business have closed accounts resulting in less revenue than anticipated
- As the economy falters, less trash is generated, thereby depressing Solid Waste revenues



**Setting the Stage –
What We Know**



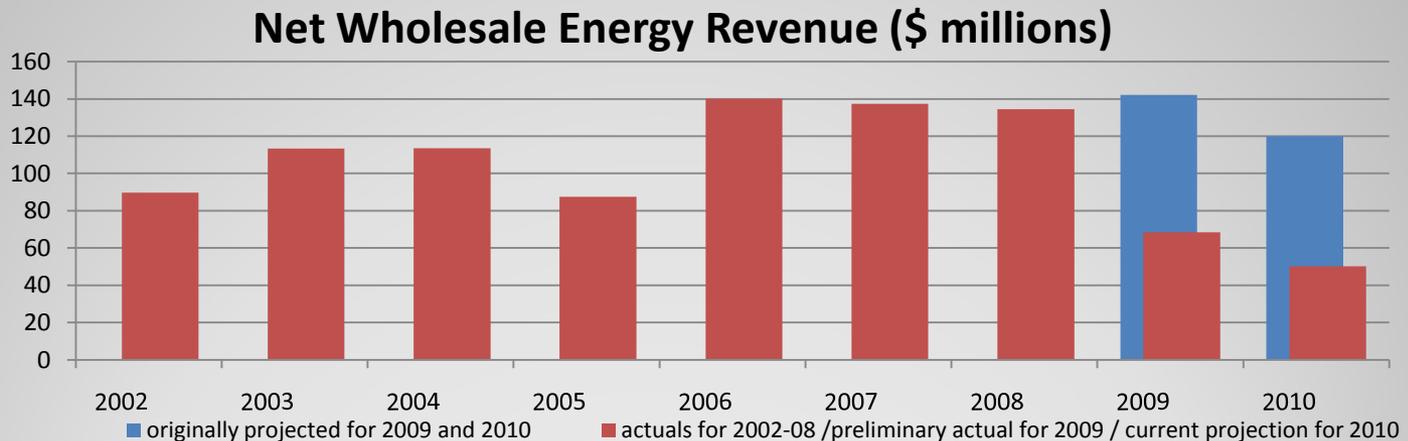
- Seattle Public Utilities – Drainage & Wastewater
 - National Pollutant Discharge and Elimination System (NPDES) requirements increase costs for inspection, cleaning and maintenance beyond previous experience for water and sewer system
 - Combined Sewer Overflows (CSO) regulatory obligations also put pressure on the utility
 - From roadside swales & raingardens to capital intensive redesigns which will limit overflow situations
 - 10-20 year effort totaling several hundred million dollars.

Setting the Stage – What We Know



• Seattle City Light:

- Faced a \$74 million shortfall in wholesale power revenues in 2009 due to falling energy prices
- Low water levels from the El Nino effect have lowered forecast for wholesale power revenues by \$70 million in 2010 (\$50 million now anticipated rather than the \$120 million assumed in the 2010 budget)
- Lack of reserves and long-term rate setting has left Seattle City Light in a volatile financial position



Setting the Stage – What We Know



- **Parks and Recreation**

- Pressures from reduced General Fund resources are compounded by an on-going structural problem
- Since the approval of the community center levies in the early '90s and the Parks levies in this decade, Parks has added 250,000 of space at 16 locations, 112 new acres of land, and 40 new parks to its inventory
- Funding source for O&M costs needed to support new facilities have not been identified.
 - Lake Union and Jefferson Park: \$1.0M
 - Maple Leaf and West Seattle Reservoir \$0.5M
- Parks absorbed many of its 2009-2010 reductions (nearly \$2.5 million) through one-time savings as a result of temporary facility closures that will be coming back online

Setting the Stage – What We Know



- Seattle Department of Transportation
 - Seeing potential for shortfall between available resources and budgeted projects dependent upon Gas Tax and General Subfund support
 - Early indications are for a potential gap of between \$4 and \$6 million in 2010
 - Need for improved accounting controls to monitor financial position in a real-time basis

Setting the Stage – What We Know



- Based on all of this information, City of Seattle budget is suffering from:
 - Impacts of the severely depressed economy
 - Insufficient long-term budget planning
 - Highly decentralized budget and accounting controls, oversight and monitoring
 - Previous one-time tools used to balance the budget are largely exhausted
- Information gathered over the past two months underscores early concerns about the City's financial position
- City budget is not currently on a sustainable path
 - **We need permanent structural changes to our financial management practices to put us on a sustainable long-term path**
 - Will be a challenging process with many difficult decisions ahead

Setting the Stage – Early Assessment



- Action #1: Re-organized management & oversight of finance and budget functions by creating:
 - City Budget Office with responsibility for developing and enforcing the City's budget, and developing revenue and debt strategies to support the budget in a more centralized manner
 - Finance & Administrative Services Department with responsibility for enhancing for the City's financial and accounting procedures and systems as well as tax administration and business regulation

Setting the Stage- Action Plan



- Action Item #2: Complete a financial assessment of all City Funds
 - By the end of April, CBO will work with departments will prepare long-term financial plans (through 2012 initially) for all City funds to provide a complete picture of revenue, expenditure and fund balance trends
 - Will allow us to better and more comprehensively define the actual financial position of all City of Seattle funds

Setting the Stage- Action Plan



• Action Item #3: Seattle City Light Review

- CBO will convene an interdepartmental workgroup (including representatives from SCL and Council) to immediately develop and implement plans to restore stability to SCL by:
 - SCL commits to identifying these cost reductions in 2010:
 - Up to \$10 million of planned operating and maintenance costs
 - Up to \$30 million of planned capital costs
 - Also intends to take advantage of potential savings in debt service costs that could result from refinancing outstanding debt
 - Will explore opportunities to sell surplus properties and take advantage on a short-term basis of using its contingency reserve

**Setting the Stage-
Action Plan**



- **Action Item #3: SCL Review (continued)**
 - Interdepartmental workgroup will also:
 - Continue to work with the council on policies currently under consideration
 - Establish a Revenue Stabilization Account to act as an 'insurance policy' against volatility in wholesale power revenues
 - Consider temporary surcharge to fund Revenue Stabilization Account
 - Develop policies to guide wholesale revenue assumptions (i.e. realistically define the meaning of a 'normal' water year)
 - Work with the proposed Seattle City Light Review Panel to more closely link strategic planning to long-term operational and budgetary plans
 - Engage in long-term financial planning and rate setting that provides long-term certainty and aligns rates with anticipated capital needs, inflation, and labor costs and the strategic plan

Setting the Stage- Action Plan



- Action Item #4: Continue to Closely Monitor Financial Health of the City
 - A revised revenue and budget forecast will be prepared in April
 - Will determine need for 2010 mid-year reductions and planning assumptions for 2011
 - Departments will be assigned targets for closing the 2010 and 2011 budget gaps
 - Align budget with Mayor's priorities
 - Emphasis will be placed on identifying **on-going and sustainable** solutions to the budget challenges

Setting the Stage- Action Plan



- Action Item #5: Pursue long-term accounting and financial management improvements to:
 - Standardize accounting procedures across departments to support comprehensive budget decision making
 - Allow for more detailed and more timely tracking of expenditures and revenues
 - Initial focus will be on tracking of SDOT street maintenance expenses and the State and City revenues which support them
 - Support monitoring of capital program milestones and costs to support optimized cash management
 - Improve contracting controls and monitoring of cash flow and liquidity requirements

Setting the Stage- Action Plan



- Action Item #6: Merge Finance policy with operations to:
 - More intensively monitor tax revenue versus forecast to ensure effective collections
 - Oversee investment, debt, and cash management policy and procedures to support required liquidity while maximizing yields

Setting the Stage- Action Plan



- Need to address the immediate 2010 shortfall
 - Likely will take the form of mid-year budget reductions
 - Will notify departments about reduction levels in early April, with proposals due for CBO and Mayor's Office consideration at the end of April
 - Will attempt to use this as an opportunity to position ourselves to also deal with the 2011 shortfall (i.e. will seek to emphasize on-going reductions rather than short-term or one-time reductions)
 - Will attempt to minimize the need for mid-year layoffs, but may not be able to avoid
 - Will give employees sufficient notification

Setting the Stage- Next Steps



- At the end of April, will notify departments regarding 2011 reduction levels
 - Will look to identify efficiencies and reductions in internal costs to the greatest extent possible in order to preserve direct services
 - Everything on the table (expenditure reductions, revenue options, staffing changes)
 - Results of this work will be transmitted to the Council in the 2011 – 2012 Proposed Biennial Budget on September 27, 2010
 - As appropriate will inform and seek input from stakeholders as the process unfolds

Setting the Stage- Next Steps



- The City's budget is suffering from the impacts of the 'Great Recession'
 - New economic reality will mean less revenue growth in the future
 - Not a 'one-fund' problem – multiple funds are facing challenges
 - Looming costs also putting pressure on the budget
 - Tools of the past are no longer as useful
 - *We will strengthen and re-shape how we manage the City's budget and finances*
 - *With these steps we have the capacity to put the budget on a sustainable path*

Setting the Stage- Summary

Questions?

