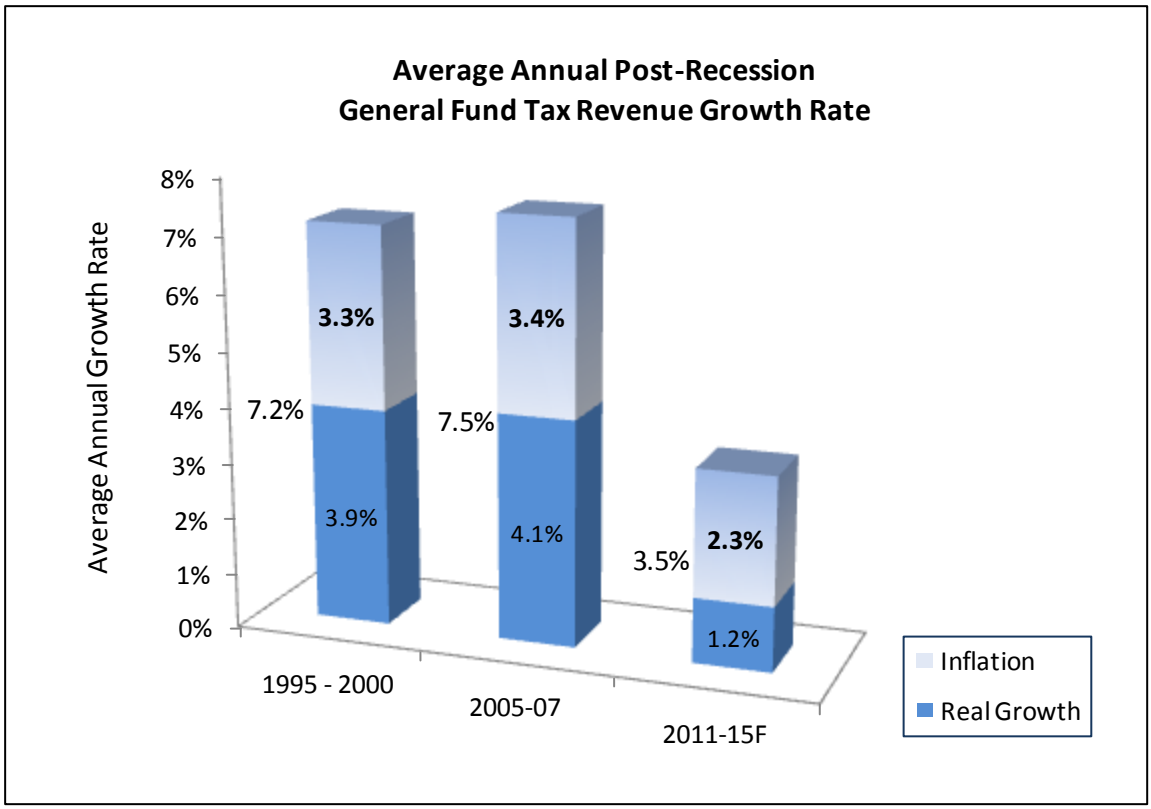
2012 Proposed Budget - Executive Summary

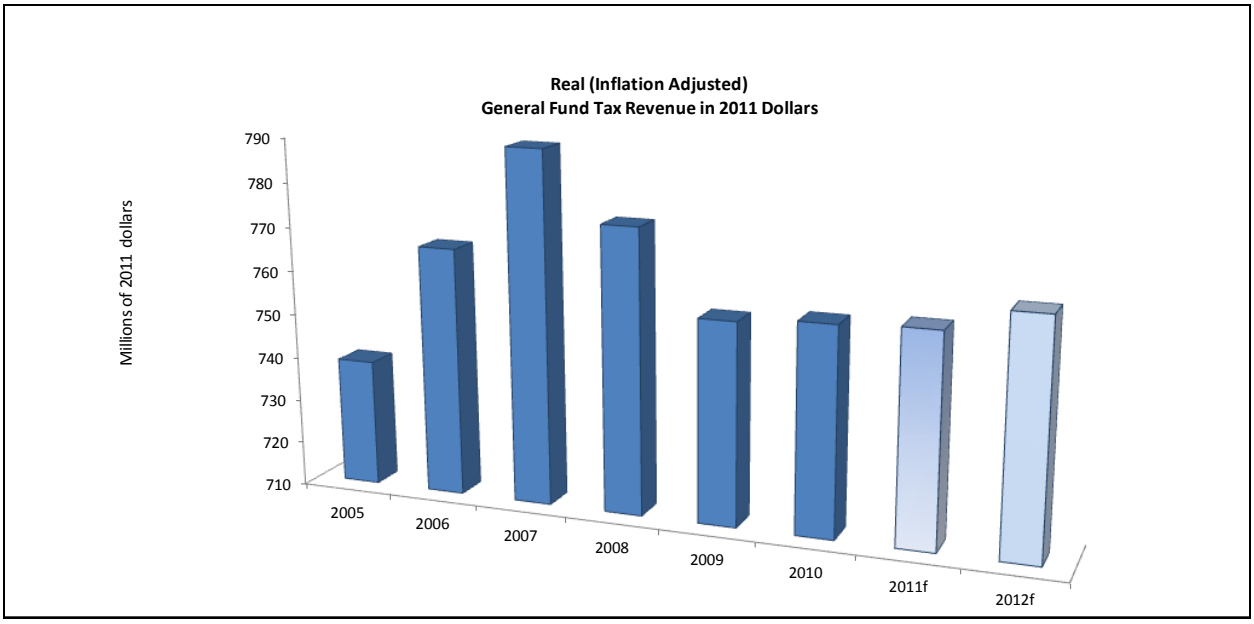
The 2012 Proposed Budget totals $4.2 billion, including the City's $910 million General Fund. Three years after the start of the Great Recession and two years following its lackadaisical conclusion, the City of Seattle continues to adjust to a new economic reality – one marked by weak economic and revenue growth relative to other post-recessionary periods.



While growing, the rate of General Subfund revenue growth is not sufficient to maintain existing services and respond to emergent needs.[1] The revenue situation is compounded by the fact that the Federal government and the State of Washington are also dealing with their own budget challenges. While federal and state funding on a percentage basis is relatively insignificant when compared to the City's overall budget, the City does rely on funding from these entities for a number of important services, including the Community Development Block Grant (CDBG) program. As its own budget pressures persist, the City has limited opportunities to backfill the loss of these other revenue sources and to respond to emergent expenditure pressures without making other tough choices. This becomes readily apparent when comparing tax revenue growth rates before and after the Great Recession. In the period between 2005 and 2007, General Fund tax revenues (property, sales, business & occupation, and utility taxes) grew at an average annual rate of 7.5%. In sharp contrast, in the period between 2008 and 2010, General Fund tax revenues grew at a meager 0.3% on an average annual basis. On an inflation-adjusted basis in 2011 dollars, 2012 General Subfund tax revenues are approximately $27 million below the peak in 2007 and still below 2006 levels.

[1]For additional details about the economic and revenue forecast, please refer to the Revenue Overview section of the 2012 Proposed Budget Book.

Executive Summary



2012 is the second year of the 2011-2012 biennium and the 2012 Proposed Budget presented here reflects changes to the 2012 Endorsed Budget, which was adopted by the City Council in November 2010. The 2012 Proposed General Fund Budget is 1.3% smaller ($12 million) than the 2012 Endorsed Budget. As a result of revenue changes at the local, state, and federal levels, including reduced parking meter revenues as a result of changes the City adopted in early 2011, increases in retirement costs, higher-than-anticipated COLA and inflation rates, and other cost drivers, the 2012 Proposed Budget projects a $25 million gap between General Fund revenues and expenditures. This gap is partially mitigated by a better-than-expected 2011 year-end fund balance. Taken together, the 2012 Proposed Budget closes an $18 million shortfall for the General Fund for 2012.

Across all funds, the 2012 Proposed Budget eliminates 155 FTEs, 96 of which are filled. Of the 96 FTEs, 82.4 FTEs will be laid off and 13.4 FTEs will see a reduction in hours. The budget also adds 43 new FTEs, for a total net reduction of 112 FTEs. Reductions in management-level positions, in an effort to streamline spans of control, continue to be a focus for the City of Seattle. Of the net positions eliminated, 19 FTEs, or 17%, are senior level positions (executives, managers and strategic advisors). Considering that senior level positions make up only 8.9% of the City workforce, a disproportionate number of the eliminated positions are from the management ranks. Since Mayor McGinn took office in 2010, the management ranks in the City of Seattle have shrunk by 110 FTEs.

Based on the current forecast, 2012 represents the fourth consecutive year that the City of Seattle's General Fund is facing budget reductions. And, projections suggest that these challenges will persist beyond 2012 as a result of continued economic weakness. Based on current assumptions, the deficit for 2013 is $32.8 million and $39.2 million for 2014. This budget trajectory makes it difficult to continue to preserve funding for direct services. After four years, it is clear the City can no longer rely on the hope that future revenue growth will return to historic growth rates in order to sustain City services and respond to emergent needs. For 2012, the City is at a crossroads.

- The City can continue making incremental reductions on the margins and run the real risk of degrading the quality of the services provided, or

- The City can take these persistent budget challenges as an opportunity to closely examine *how* the City does business and develop creative new ways of delivering services to preserve programs that are so important to the community.

In developing the 2012 Proposed Budget, Mayor Mike McGinn emphasized the latter approach. The 2012 Proposed Budget reflects a concerted effort to *reform, reorganize and reinvent how the City does business*. This is by no means an "all cuts budget." Rather, the 2012 Proposed Budget is an exercise in priorities. *It makes strategic reductions in areas where the City can transform its operations or where outcome data show that the City is achieving its performance objectives and preserves and/or redirects funding to other priority areas. While much of the savings resulting from the Mayor's efforts to reform, reorganize and reinvent are used to balance the budget, Mayor McGinn's 2012 Proposed Budget strategically reinvests some of the savings in select priorities – including areas key to the long-term financial health of the City.*

The 2012 Proposed Budget reflects a concerted effort to reform, reorganize and reinvent how the City does business.

The 2012 Proposed Budget reflects a number of basic principles, including the preservation of direct services to the greatest extent possible. It is a budget that takes a long-term view – even if it means some modest near-term challenges – making investments that better position the City to maneuver through these turbulent times. And, it places a strong emphasis on social justice impacts and geographic equity.

In terms of services, the 2012 Proposed Budget:

- Maintains the current firefighting strength and preserves companies assigned to neighborhood fire stations.
- Supports funding levels allowing the Seattle Police Department to continue meeting the goals of the Neighborhood Policing Plan and preserves funding for Victim Advocates and Crime Prevention Coordinators.
- Preserves funding and 2011 hours of operation for the Central Library and all 26 branches of The Seattle Public Library and preserves the Library's collections budget at the 2012 Endorsed Budget level.
- Retains lifeguards on city beaches, keeps all swimming pools open, and maintains 2011 service levels for wading pools.
- Maintains 2011 funding levels for Human Services contracts, including General Fund backfill to compensate for reduced federal Community Development Block Grant (CDBG) funding.
- Makes modest increases in the City's community granting programs and maintains an overall increase in the low-income housing production and preservation assistance program over prior years.
- Preserves investments in youth and job training programs.

In terms of ensuring the City's long-term financial health, the 2012 Proposed Budget provides funding to take care of what the City has and increase its fiscal reserves. Just as individuals and businesses set some of their income aside for unexpected emergencies and to maintain their homes, buildings, and other assets, the 2012 Proposed Budget recognizes Seattle must do the same. As the City starts to recover from the Great Recession, the 2012 Proposed Budget:

- Uses select one-time revenue sources to increase the City's commitment to maintaining its physical assets.
- Sets a new course for fiscal discipline by allocating a portion of revenues off the top to invest in the City's main savings account – the Rainy Day Fund – to better position the City to weather future financial storms.
- Ensures long-term financial obligations are squarely met by stabilizing the City's strained pension fund.
- Leverages community partnerships to preserve services.
- Makes strategic investments in programs that will support future economic growth, including adding resources to the Department of Planning and Development (DPD) to more quickly process job-creating construction activity.

The 2012 Proposed Budget preserves 2011 operating hours for The Seattle Public Library.

But the question remains – how does the City close a $18 million budget gap in the 2012 Proposed Budget while preserving resources for these priorities? Quite simply, the 2012 Proposed Budget captures much of its savings by transforming how the City does business; using outcome metrics to guide investment decisions; controlling labor costs; and strategically leveraging revenues.

Transforming How the City Does Business

The key to preserving direct services in the face of the City's ongoing budget challenges is looking for new ways to deliver services. It has been apparent for some time the City can no longer afford business as usual. Sensible changes to the way the City delivers services generates substantial savings that help close the budget gap. Some of the changes include:

- A new long-term jail contract.
- Consolidating community granting programs.
- Merging the Office of Housing and the Office of Economic Development into the Department of Housing and Economic Development.
- Transforming the community center staffing model.
- Consolidating the administrative offices of the Public Safety Civil Service Commission and the Civil Service Commission.
- Realizing additional efficiencies from the 2010 creation of the consolidated Department of Finance and Administrative Services.

A New Long-Term Jail Contract Saves the City Money: The 2012 Proposed Budget recognizes $6 million in jail costs savings – a direct benefit to the General Fund. A large majority of this savings is achieved as a direct result of a new, long-term Jail contract with King County. Despite the City of Seattle's proximity to the King County Correctional Facility, located in downtown Seattle across the street from the Seattle Justice Center, the 2012 Endorsed Budget assumed the City would house its misdemeanant jail inmates at a variety of jail facilities throughout King and Snohomish counties. This plan was driven by King County's assumption that its Department of Adult and Juvenile Detention would not have sufficient space to provide the City of Seattle the number of jail beds it needed in both the near- and long-term. However, King County has seen its jail population decrease in recent years and its current population projections suggest that it will have sufficient space for City of Seattle inmates through at least 2020. But, this still came at a high price to the City of Seattle. The cost to book and house inmates in the King County Correctional Facility was significantly more expensive than other jail facilities in the region. And, more importantly, the County could not guarantee the City that it would have capacity over the long-term (beyond 2020) to house its inmates. Faced with this possibility, the City understood that it might have to build its own jail to meet its needs beyond 2020 – a costly and time-consuming proposition (it takes an estimated 4-to-6 years to site and build a jail) – or find another facility with sufficient capacity over the long-term.

New long-term jail contract saves the City $5.3 million in 2012.

Having Seattle inmates housed at the King County Correctional Facility is important to Mayor McGinn – both from a geographic and operational convenience perspective and because King County and the City of Seattle have traditionally shared similar values around issues such as alternatives to incarceration and other forms of treatment designed to break the cycle of recidivism. So in early 2011, Mayor McGinn instructed staff from the City Budget Office to approach King County about potential terms of a new jail contract that would result in lower near-term costs and certainty about the long-term housing needs of the City's inmates. The Mayor had two key objectives in mind:

- Long-term certainty: The City sought a contract that would provide a clearly defined rate path and certainty that the City's long-term capacity needs would be met.
- Commitment to expand if necessary: The City prefers to not have to build its own jail. The Mayor sought a contract that would provide a commitment that the County would expand jail capacity if space becomes an issue, with City paying its defined fair share of the costs.

The City and the County successfully negotiated a long-term contract that runs through 2030. This agreement meets the City's objectives, cements a long-term partnership between the City and County, and offers both jurisdictions fiscal relief in these challenging budget times. The agreement provides revenue certainty for the County and lowers the City's booking costs, defines parameters for future

rate increases and inmate population growth, and sets equitable cost terms if jail expansion is required. In the short-run, the new contract will save the City $5.3 million in 2012 on jail costs. The primary components of these savings are:

- **Reduced booking fee.** The booking fee – a charge the City pays each time it books inmates into the jail – is significantly reduced in the new jail contract ($95 instead of $329), saving the City $2.6 million annually.
- **Avoided transportation costs.** The City had been expecting to spend $1.2 million in 2012 to transport pretrial inmates to and from more distant jail facilities. The new contract provides the City with sufficient space at the King County jail allowing Seattle to avoid these transportation costs.
- **Additional savings.** An additional $1.5 million miscellaneous contract savings.

Lower jail population trends save the City $700,000 in 2012.

In addition to these 2012 savings, the new jail contract also allows the City to avoid future capital costs. The City estimated it could cost as much as $200 million to site and build a new jail. Under the terms of the new contract, if the County needs to build more jail capacity, the City would only be responsible for its fair share of these costs, which the contract defines as the City's jail population relative to the total jail population at King County. Using today's dollars, that cost is estimated at $6 million.

Finally, the City will save another $700,000 in jail costs in 2012 as a result of jail population trending lower than was originally anticipated when the 2012 Endorsed Budget was approved.

Merging Community Granting Functions to Preserve Grant Dollars Out-the-Door: The 2012 Proposed Budget also includes recommendations to merge the administration of many of the City's community granting functions into a single operational unit to preserve – and even increase – the amount of grant dollars available to the community. Currently, the City has five community granting functions operating out of five different departments:

- Department of Information Technology's (DoIT) Technology Matching Fund;
- Office of Economic Development's "Only in Seattle";
- Seattle Public Utilities' (SPU) Waste Prevention and Recycling Grants;
- Department of Neighborhood's (DON) Neighborhood Matching Fund (NMF); and
- Office of Cultural Affairs (OACA) Civic Partnership programs.

Collectively, these programs issue $6.2 million in community grants at a cost of a nearly $1.5 million more to administer the grants, translating into a 23.5% overhead rate (most nonprofits aim to get their administrative costs under 15%). For 2012, grant administration functions in DoIT, OED, SPU and DON will be consolidated within a new Community Granting Unit in DON. This unit will receive and process grant applications, administer grant funding, and monitor

compliance with grant requirements. Meanwhile, the home departments for the grant funds will continue providing subject-matter policy expertise during the review of the grant applications and participating in the award decision-making process. External advisory bodies who have traditionally offered input on the selection process, such as District Councils, the City Neighborhood Council, the Citizens' Telecommunications and Technology Advisory Board (CTTAB), and the Seattle Arts Commission, will also remain involved as key partners.

While OACA's Civic Partnership programs are not part of the consolidation, the directors of DON and OACA have committed to closely collaborate on the administration of these granting programs and OACA. Collectively, these efforts will allow the City in the 2012 Proposed Budget to save more than $400,000 and reduce total grant administration costs to $1.1 million. This savings not only provides relief to the General Fund, but a portion of the savings are reinvested into community grants for 2012, increasing the total awards to more than $6.4 million and reducing the administrative overhead load from 23.5% to 17.8%. This new consolidated model also sets a potential path for additional efficiencies in the future, potentially including other City award programs, such as the Seattle Youth Violence Prevention Initiative (SYVPI), Parks Opportunity grants, and the Seattle Department of Transportation's (SDOT) Neighborhood Street Fund program. Because each of these programs operates differently from the community granting functions (e.g., SYVPI is a much more targeted granting program than the community grant programs, and the Parks and SDOT programs involve the City doing the work to make the investment), it was not appropriate at this time to include these in the consolidation, though there may be opportunities in the future.

Grant consolidation allows the City to increase grant awards from $6.2 million in 2011 to $6.4 million in 2012 and decrease overhead costs from $1.5 million in 2011 to $1.1 million in 2012.

Creating a Consolidated Department of Housing & Economic Development: In addition to recommending consolidation of many of the City's granting functions within DON, the 2012 Proposed Budget also merges the Office of Economic Development and the Office of Housing into a new unit – the Department of Housing and Economic Development (HED). Integrating these functions achieves a number of objectives:

- Aligns and integrates two functions critical to developing healthy communities. The heart of every vibrant community is access to affordable housing and centers of employment.
- Capitalizes on similarities between the two functions. Both offices provide seed funding and financing tools critical to improving the well-being of individuals and supporting the building blocks of a healthy community – affordable housing and access to jobs.
- Provides managerial and administrative savings that relieve the strained General Fund and increase investments in housing programs.

As a single organization, HED will invest in and promote the development and preservation of safe and affordable housing, and help to create a vibrant economy by promoting access to economic opportunities for all of Seattle's diverse communities. The Department will accomplish this by funding affordable workforce housing, supporting renters and homeowners, as well as supportive housing that help vulnerable people achieve stability and move along a path toward self-sufficiency. This work will stimulate housing development, allowing families to thrive and neighborhoods to provide a full range of housing choices and opportunities.

The new Department of Housing and Economic Development will allow for increased investments in affordable housing programs.

The Department will also continue to support economic development that is financially, environmentally, and socially sustainable; and provide services that capitalize on Seattle's established economic activity, particularly in the areas of manufacturing and maritime industries, film and music, healthcare, and clean technology. These services are designed to support the establishment of new businesses, retention and growth of existing businesses, and attraction of new businesses; increase the number of low-income adults who obtain the skills necessary to meet industry's needs for qualified workers; and advance policies, practices, and partnerships that lead to sustainable economic growth with shared prosperity. Among other things, the creation of HED will allow for greater collaboration among housing and economic development policy and programs to build strong communities and to help residents achieve self-sufficiency, with services ranging from housing to employment assistance. The merger will strengthen the linkages between the two offices and allow the new department to build on past successes in promoting place-based development that provides essential housing and employment opportunities targeting Seattle's lower-income residents. Specific examples of past successes include building a new transitional housing facility with 78 new beds to help the Compass Center in Pioneer Square recover from the Nisqually Earthquake, and financing the Chubby and Tubby project in Southeast Seattle, resulting in 68 units of new workforce housing and 5,000 square feet of new commercial space.

This merger generates $338,000 in managerial and administrative savings, $310,000 of which accrues to the General Fund. Reflecting the Mayor's strong commitment to affordable housing, $210,000 of this General Fund savings will be rededicated to direct housing programs with an emphasis on programs targeting low-income renters who are squeezed more than ever as a result of diminishing apartment vacancy rates and the increased rents that follow. The money will increase funding in the Multi-Family Production and Preservation program, allowing future development of 4-5 low-income rental units, and helping mitigate CDBG funding reductions in this program area.

Transforming the Community Center Staffing Model to Serve More People: Community centers are an important resource, providing residents of all ages with opportunities to stay active and to get involved. Parks spent the early months of 2011 working in partnership with the Mayor and the City Council to develop a new model for managing and operating the City's 26 community centers in an environment of constrained financial resources. Parks sought input from a variety of stakeholders and relied on community center usage and other data points to inform its recommendations. What results from this collaborative effort is a new model for managing and operating Seattle's community centers in a way that maximizes access for people in a geographically equitable way.

By focusing operating hours where demand is greatest, the new community center model will allow the City to serve more people in 2012.

Community centers in 2012 will be managed in five geographic teams – northeast, northwest, central, southeast, and southwest – with five community centers in each geographic area.[2] Community centers in each geographic area will offer varying levels of service, with at least one center in each area offering Level 1 service. Level 1 centers will be open for up to 70 hours per week, an increase from the current 51 hours per week. Level 2a community centers will be open 45 hours per week, a slight reduction from the current 51 hours per week and Level 2b centers will be open for 25 hours per week. The service level designations were determined by analyzing a variety of metrics, including: the number of users, amount of programming, number of childcare scholarships, rental revenues, and the physical size of each facility. Because the centers with the highest usage patterns are designated as level 1 centers and will offer more hours for public access, this new model will allow Parks to serve at least as many people – and potentially more – as are served under the existing community center model.[3]

The geographic model for operating community centers will provide Parks with an opportunity to streamline its management and staffing of community centers. This new approach results in the reduction of 13.63 FTEs and saves Parks $784,000. Parks also expects $446,000 in additional revenues based on new revenue-sharing agreements with the City's long-time partner, the Associated Recreation Council (ARC), the non-profit responsible for programming at community centers. Taken together, this model provides $1.23 million in General Fund budget relief.

[2]The Southwest Community Center is not included in the geographic team structure as it will operate as a Teen Life Center, Swimming Pool, and rental facility.

[3]In response to the continuing need for budget reductions and direction from the City Council, Parks staff conducted an inclusive, data-driven analysis and process to examine alternative models for staffing and operating the centers. The results of this effort are the 2012 community center staffing and management model in the 2012 Proposed Budget. For more details, visit this website: http://seattle.gov/parks/centers/operations.htm

Consolidating Civil Service Commission and Public Safety Civil Service Commission Offices: The City maintains two quasi-judicial bodies to act as a third party in disputes over the application of Personnel Rules. The two Commissions are each overseen by a three-person panel – one member appointed by the Mayor, one member appointed by the City Council and one member elected by employees. Up until now, each Commission was supported by separate administrative offices. Each office had its own Executive Director and the Civil Service Commission also had one support staff. Through a collaborative effort between the Commission Chairs and the City Budget Office, a new consolidated staffing model is proposed for 2012. Rather than maintain two administrative offices with two Executive Directors, the CSC and the PSCSC will be supported by a single administrative office, staffed by one Executive Director and 1.6 FTE support staff positions. This change allows the City to eliminate 0.2 FTE and save over $50,000. It also allows for a better alignment of workload to position title. The existing governance structure of the CSC and the PSCSC will remain intact.

The creation of the Department of Finance & Administrative Services has generated $1.6 million in savings in labor costs.

Recent Successes with Consolidation: The departmental/operational consolidations and realignments recommended in the 2012 Proposed Budget follow Mayor McGinn's successful merger of the former Department of Executive Administration (DEA) and the former Fleets & Facilities Department (FFD) into the Department of Finance & Administrative Services (FAS) in 2010. The creation of this unified department has allowed for greater utilization of resources; better integration of the City's financial and accounting policies, procedures and systems; and improved efficiencies in the provision of customer services. And, the merger continues to yield results. Prior to the reorganization, there were 565 FTEs in DEA and FFD. Including changes proposed in the 2012 budget, but not counting the transfer of the 17.5 FTE associated with the Neighborhood Payment and Information Service Centers, FAS will manage the workload of the two previous departments with 504 FTEs, down 11%. Many of these reductions have been made possible by streamlining administrative functions. Compared with costs prior to the departmental reorganization, the 2012 Proposed Budget funds 17 fewer positions for FAS administrative functions (a reduction of 31%), saving $1.6 million in labor costs. Examples of these efficiencies include the elimination of one of two human resources directors and one department director.

Measuring for Results

As the City's resources become more constrained, it is essential the City assess whether its investments are achieving the intended outcomes. The 2012 Proposed Budget starts building a foundation for systematically measuring and assessing the outcomes of City investments. Where such measures already exist, outcome metrics were instrumental in informing how to prioritize and align budget dollars in the 2012 Proposed Budget.

Exceeding Neighborhood Policing Public Safety Performance Outcomes: In 2007, the City adopted the Neighborhood Policing Plan (NPP), which provides the Seattle Police Department with a framework for deploying patrol staff to meet the City's public safety objectives. The plan sets three goals:

- To respond to high-priority emergency calls in an average of seven minutes or less - a commonly accepted response time for police forces in larger cities.
- To allow patrol officers to do more proactive policing (30% of officer time) to help resolve the underlying conditions that create violations of law and/or public order.
- To deploy 10 additional "back-up" police vehicles citywide. These cars (two in each precinct) provide better area coverage and improve backup capability, enhancing officer safety.

Police response time to 911 calls has improved 12.5% since 2008.

The Neighborhood Policing Plan called for adding 105 officers over the course of five years, beginning in 2008, to meet these performance objectives. The original plan contemplated the addition of 105 officers from 2008 through 2012 to meet these performance objectives. Because of the City's budget challenges, hiring at SPD was put on hold in 2010. The pause has delayed the hiring of 20 to 21 new NPP officers that were scheduled to be added in each year from 2010 through 2012. It has also affected regular maintenance hiring, which would have replaced another 26 officers by the end of 2011. However, through prudent management of staff resources, SPD has successfully exceeded these public safety outcomes with its existing contingent of sworn officers.

	NPP Goal	Actual Results Through June	As Compared to the NPP Goal
Priority 1 Call Response Time Average	7 minutes or less	6.3 minutes	**Exceeding Goal**
Proactive Time Available	30% of On-Duty Time	34% of On-Duty Time	**Exceeding Goal**
Increased Number of Backup Vehicles	10 Units Citywide	10 Units Citywide	**Meeting Goal**[4]

[4] SPD lacks a direct measure of units free. However indirect evidence is available: out-of-district dispatch of cars occurs less than 8% of the time, which contrasts to 15-30% of out-of-district dispatch prior to NPP implementation. The Department feels that this is evidence that it is meeting the standard most of the time.

Since 2008, SPD has improved its response time to Priority 1 (911) calls by 12.5% and its response time to Priority 2 calls by 8%. Moreover, crime rates are at historic lows. The number of major crimes fell 7.4% in 2009, fell another 5.8% in 2010. Violent crimes in particular have seen dramatic decreases. In 2010, violent crimes fell 9%. Homicides are down 34% since 2008. These trends seem to be continuing. Through midyear 2011, major crimes are down citywide by 11% when compared with the first six months of 2010. Through June of 2011, violent crime is down 1% compared with the same time period in 2010, with homicides, rapes and robberies trending down. Property crimes are down 12% across the city at midyear 2011, when compared with the same time period in 2010.

SPD has achieved these positive public safety outcomes even as the size of the police force has slowly decreased. SPD began 2011 over-staffed by 12 officers relative to budget as a result of aggressive hiring at the end of 2009 and lower-than-normal attrition rates in 2010 due to the weak economy.

Crime rates are at historic lows, with response times exceeding performance objectives.

As 2011 has progressed, SPD saw attrition rates return to near normal levels (approximately 36 per year). But because SPD started the year overstaffed relative to budget, it has not hired to replace departing officers, continuing the hiring pause that began in 2010. As a result, SPD expects to end 2011 with 1,301 sworn officers, or 26 below the level assumed in the 2011 Adopted Budget.

With this background in mind, the 2012 Proposed Budget reduces funding to SPD by $2.4 million to reflect the smaller police force that will result from holding the 26 sworn position vacancies anticipated by the end of 2011. While decisions to reduce the size of the police force are always difficult, the City's ongoing General Fund budget challenges, combined with the fact that SPD is exceeding its public safety performance measures, indicate this is a viable budget decision. As attrition continues to occur in 2012 beyond the 2011 levels, the 2012 Proposed Budget assumes SPD will resume maintenance hiring of sworn officers in 2012 to maintain a police force of 1,301.

Through its flexible and adaptive approach to allocating staff resources, SPD is putting officers where they are needed most to fight and, more importantly, prevent crime. For 2011, a minimum of 545 sworn officers have been assigned to 911 patrol functions. This is slightly above the staffing level of 542 in January 2010 and slightly below the all-time high of 556 achieved in the summer of 2010. In addition, SPD has dedicated more officers to on-the-ground proactive police work, including foot beats, bike squads and other proactive units that contribute greatly to improved public safety in city neighborhoods, especially downtown.

	Increased Staffing Levels in 2011
Foot Beats	6 officers
Bike Squad	8 officers
Mounted Unit	3 officers
Neighborhood Corrections Initiative	1 officer
Seattle Center Patrols	1 officer

For 2012, SPD will continue to closely monitor the NPP outcome measures and will adjust the deployment of sworn officers to 911 patrol functions from lower-priority areas to meet the NPP outcome metrics. SPD would look to redeploy officers from areas such as desk clerks, federal task forces and investigative units.

The City successfully achieved the stated outcome of 1 to 2 open spaces per block face in the four neighborhoods where parking meter rates were increased in 2011.

Parking Meter Outcome Metrics Inform Application of City's On-Street Paid Parking Program for 2012: As part of the 2011 budget process, the City adopted a policy objective of using parking meter rates to encourage sufficient turnover of metered parking spaces to provide an average of one-to-two open parking space per block face throughout the day. Parking meter rates were adjusted in the 2011 Adopted Budget with the goal of achieving this outcome. Rates were increased in four of the City's 23 parking districts and were reduced in 11. A data collection effort in June of 2011 indicates that parking occupancy fell in the four areas where parking rates were increased, allowing the City to achieve the goal of one-to-two open spaces per block face. However, in the 11 areas where the meter rate was lowered, the results were mixed – parking occupancy rates increased in some areas, but in a majority of areas occupancy rates actually fell, suggesting that lowering the price is not the influential factor in determining parking patterns in these neighborhoods.

In addition to the June 2011 data collection effort, SDOT also conducted a comprehensive Performance-Based Parking Pricing Study, to inform parking meter recommendations for the 2012 budget. The study also included a public engagement component involving a sounding board of stakeholders to help shape and define the recommendations. Additional information about this study can be found at: http://www.seattle.gov/transportation/parking/docs/SDOT_PbPP_FinRpt.pdf

Based on the findings of the study, the 2012 Proposed Budget includes the following adjustments to the City's parking meter program. In addition to adjusting hourly rates in some neighborhood parking areas, SDOT will also delineate parking rate boundaries on a more granular level, such as adjusting geographic boundaries to divide some parking areas into smaller areas, and extend authorized time-limits in certain locations with the stated goal of achieving one-to-two open parking spaced per block face. The refined parking management tools are particularly warranted in neighborhoods in which lowering rates in 2011 did not

Based on the data, some neighborhoods will see parking meter rate decreases in 2012 and two-hour metered parking time limits will be extended in some neighborhoods.

generate increased parking demand. In 2012, 13 neighborhoods will have rate, boundary, and/or time limit changes, under SDOT's proposal. These proposed changes are described in more detail below. Additional information about specific neighborhood changes is available at: http://www.seattle.gov/transportation/parking/paidparking.htm

- *Geographic Boundaries Changes:* The University District, Ballard, South Lake Union, Belltown, Pioneer Square, Capitol Hill, and Uptown geographic boundaries will be adjusted to delineate higher- and lower-demand areas within each neighborhood. These changes will result in a more precise application of the data-driven policy objectives because rates can be set on a more granular level. In some cases, the boundaries between neighborhoods or sub-neighborhoods will be moved. In others, differentiation will be made between the neighborhood core and outer areas with lower measured demand. Following the policy objectives, rates will be applied so that lower-demand areas have a lower parking rate than higher-demand areas in each neighborhood. In some cases, lower-demand areas will also have extended time limits.

- *Rate Changes:* Rate adjustments in 2012 will be made in six neighborhoods in the context of the geographic boundary changes previously described and the policy objective of achieving one to two open spaces per block-face. The lower-demand areas in Pioneer Square and Capitol Hill will see rate decreases in 2012. Higher-demand areas in the University District, Ballard, and Belltown South will see 2012 rate increases. Most long-term areas in South Lake Union will be priced at $1.50 compared to $1.25 in 2011. All other rates will remain the unchanged in 2012.

- *Time Limits Changes:* Extended time limits will be applied in locations where measured occupancy levels are below the policy objective. Four-hour parking will be available in Denny Triangle North, Roosevelt, and parts of the University District, Ballard, Belltown and Uptown. Uptown Triangle, Westlake Avenue North, and some additional spaces in South Lake Union will not have a daily time limit. In some cases, time limits are extended in lieu of lowering rates because, based on the June 2011 data collection, further rate decreases are not likely to generate parking demand. Extending time limits in these areas is expected to increase parking demand and support businesses that require longer stays by their customers. Longer-term paid parking has been successful in South Lake Union, where there is strong demand compared to short-term parking, and parts of downtown near the Waterfront, where a small pilot has been implemented. Paid parking hours will be extended from 6 to 8 p.m. in Denny Triangle South.

The City will implement a pay-by-cellphone program in 2012.

- *Three-Hour Time Limits After 5 p.m.:* As an added service enhancement in neighborhoods where paid parking was extended to 8 p.m., time limits after 5 p.m. will be changed from two to three hours in 2012. This will give evening visitors to restaurants, theaters, and clubs an opportunity to purchase more time. Time will continue to be limited to two hours in these locations before 5 p.m. SDOT will monitor parking occupancy and turnover in these neighborhoods to ensure people are still able to find sufficient on-street parking in the evenings.

- *Pay-By-Cell:* The 2012 Proposed Budget includes funding to implement a new pay-by-cell program, which will enable parking payments through cell phones and mobile devices. Pay-by-cell will be a payment option in pay-by-cell areas. Payment through SDOT's existing pay stations will continue to be available. While requiring relatively little infrastructure investment, the new payment method is expected to provide additional convenience for customers and a variety of other practical benefits that help make Seattle more visitor-friendly. With pay-by-cell, parkers call a phone number or use a mobile smartphone application to set up an account that is linked to vehicle license plates. When reaching a pay-by-cell area, the parker logs on or calls into that account and purchases the needed parking time. With a smartphone, the typical application also allows the parker to remotely extend their time up to the time limit, and to be alerted before paid time expires. Parking Enforcement Officers will have access to real-time payment information. The program is expected to begin in the summer of 2012.

Taken together, the recommended 2012 Proposed Budget changes to the City's paid parking program, following on the rate changes made in early 2011, and including the 2011-2012 loss of parking spaces in the Pioneer Square neighborhood as a result of the Alaskan Way Viaduct replacement project, will result in a $7.48 million *decrease* in revenues to the City relative to the 2012 Endorsed Budget.

Expanded Use of Outcomes to Increase Effectiveness of City Investments: Through an analysis conducted as part of Mayor McGinn's Youth and Family Initiative (YFI), the City identified more than $85 million a year being spent on 130 programs to support youth and families in nine departments. While these programs can document how many individuals they serve, they cannot document whether that translates into achieving the intended outcomes. The 2012 Proposed Budget reflects the Mayor's commitment to increasing the effectiveness of City investments. The City Budget Office, working collaboratively with the Human Services Department, the Office for Education, and the Department of Neighborhoods, is launching a prototype to design and implement steps to increase the effectiveness of City investments in producing higher achievement in third grade reading levels, given that third grade reading is a key measure in determining the chance of high school graduation. The prototype will begin in the fall of 2011 and

focus initially on at least some clear rise in achievement in the 2011-2012 school year. The prototype will include programs, such as the Human Service Department's Family Center Services and the Neighborhood Matching Fund, along with investments from the 2011 Families and Education Levy beginning in 2012 (if approved by voters).

The prototype is seen as a part of the design process for a larger outcome-based budget assessment by the City. The initial project will test key assumptions and forge paths for a high level of interagency collaboration. And it builds energy and learning through early action. This work will not only provide the City with the information needed to understand the effectiveness of City investments, it will also form the foundation of a broader outcome-based budgeting approach that the City will incorporate into other program areas over the long-term.

The 2010 agreement with the Coalition of City Labor Unions has saved the City $12.2 million over two years.

Proactively Managing Labor Costs

The cost of salaries and benefits remains a significant cost driver for the City of Seattle. More than 65 percent of General Fund costs are for direct salary and benefits. Controlling these costs in order to preserve direct services remains a priority for Mayor McGinn. The 2012 Proposed Budget reflects the results of a number of these ongoing efforts.

Reaping the Continued Benefits of the 2010 Coalition of City Labor Unions Agreement: In the fall of 2010, the City successfully concluded negotiations with the Coalition of City Labor Unions on an agreement that removed the long-standing 2% floor on Cost of Living Adjustments (COLA). Because of a low inflationary environment, as reflected in the Consumer Price Index (CPI-W), this resulted in a COLA rate of 0.6% in the 2011 budget, saving the City $5.7 million, $2.3 million of which accrued to the General Fund. The inflation rates remain low for the 2012 budget, with the CPI-W rate at 1.8%, allowing the City to avoid $6.5 million in cumulative COLA costs for 2012, $2.6 million of which are avoided General Fund costs. Over 2011 and 2012, this agreement has saved the City $12.2 million.

Proactively Managing Healthcare Costs: As with most employers, healthcare costs are a significant cost driver for the City of Seattle. In fact, total City healthcare costs (medical, dental and vision) have roughly doubled from $74 million in 2001 to $143 million in 2010. The General Fund typically covers approximately half of these costs. But, there is some good news to report. Healthcare costs are holding steady for 2011 at the 2010 level of $143 million, as a result of a drop in overall enrollment in the program and as a result of temporarily elevated increases in 2009. This results in a lower-than-anticipated base from which 2012 costs grow. For 2012, this translates into $6.2 million in total savings from the 2012 Endorsed Budget, including $3.3 million in savings for the General Fund.

But, the City is not resting on its laurels. Understanding that healthcare cost growth is likely to return to historic levels over the long-term, the City

recognizes that additional strategies are needed to control these costs. With the Mayor's support, in 2011 the City Budget Office formed a Healthcare Management Interdepartmental Team (IDT) to evaluate the City's healthcare plans and develop a longer-term set of strategic healthcare policies. The IDT has representatives from Council staff, the Department of Finance and Administrative Services, and the Personnel Department.

The IDT identified a series of changes in how the City administers its healthcare plans that will reduce costs, without reducing actual healthcare benefits . Three discrete changes will be implemented as part of the 2012 Proposed Budget:

The City's healthcare costs in 2012 are $6.2 million lower than what was assumed in the 2012 Endorsed Budget.

- **Eliminate Purchase of "Stop-Loss" Insurance:** The City purchases stop-loss insurance to reduce the City's exposure to large health care claims of $250,000 or more per individual that are incurred as part of Aetna, the City's self-insured medical plan. The cost of stop-loss insurance has been rising significantly over the past couple of years. The IDT determined that this risk could be addressed in a more cost-effective manner by establishing an internal reserve within the Health Care Fund, rather than continuing to pay an external service provider a premium to manage this risk for the City.

- **Self-Insure the City's Washington Dental Service Plan:** The IDT also determined that self-insuring the City's Washington Dental Service (WDS) plan would allow the City to save money while still maintaining the same level of dental benefits. The cost savings comes from eliminating the need to pay a State premium tax of approximately $200,000 per year, as well as risk charges levied by WDS.

- **Establish a New Forecast Variance Reserve Within the Healthcare Subfund:** The IDT identified the need to establish a new "Forecast Variance Reserve" (FVR) of $5.4 million to account for the volatility, compared to forecast, of self-insured Medical/Pharmacy and Dental claims and to address the risk assumed by eliminating stop-loss insurance.

These recommendations have been approved by the City's Healthcare Committee (HC2), which is composed of City representatives and signatory unions of the Coalition of City Unions. Because of the need to fund the FVR in 2012 to support the policy changes, no significant cost savings will be realized in 2012 as a result of this new approach. However, beginning in 2013, the City estimates that it will save $1 million to $4 million annually.

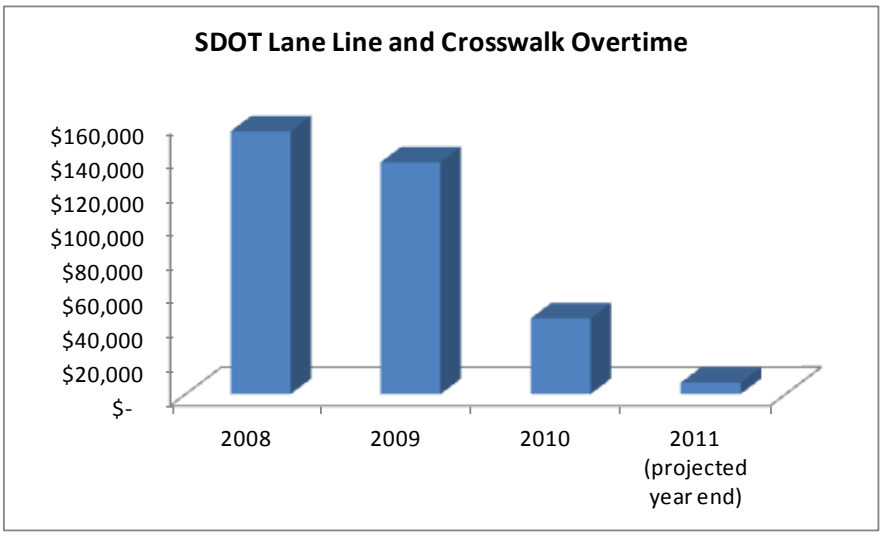
In 2012, the IDT will continue to work to pursue efficiencies within the healthcare plan, and will work with the Coalition of City Unions to evaluate and implement additional changes as part of the 2013 rate setting process.

Working with Labor to Reduce Overtime Costs: As departmental budgets are reduced as a result of the City's ongoing budget challenges, it becomes more important than ever to ensure that the dollars that remain are spent judiciously. One area of opportunity is the use of overtime. Both SDOT and Seattle Public Utilities (SPU) have made strides – working closely with the City's labor partners – in bringing down overtime costs.

SDOT has reduced street marking overtime use by 95% by adjusting work schedules.

- **SDOT Street Markings:** Traffic maintenance crews are responsible for street markings (e.g., lane lines and crosswalks painted on the street pavement). Because traffic volumes are typically lower on the weekends, SDOT has traditionally targeted the weekends as the most effective time to do this work. A crew can complete almost twice as many lane miles on a weekend day than a weekday. Moreover, SDOT typically concentrates this work in the summer months when there is less rain. But, this system has traditionally come at a high cost because crews worked a Monday through Friday schedule and were paid on overtime to do the street marking work on the weekends.

  Working collaboratively with Local 1239, SDOT has implemented new work schedules that have allowed the Department to eliminate nearly all overtime costs for street markings. Traffic maintenance crews that are dedicated to street markings now work alternate schedules during the summer months to allow for seven-day-a-week coverage. One set of traffic maintenance crews works a Tuesday through Saturday schedule, while another set works a Sunday through Thursday schedule. The results of this change are significant. In 2008, SDOT spent approximately $155,000 on overtime for lane lines and crosswalk markings. For 2011, SDOT projections indicate it will spend approximately $7,000, a 95% reduction in overtime use. As SDOT struggles with declining Gas Tax and General Fund resources, savings such as these go a long way in preserving funding for other services.



- **SPU:** SPU is equally concerned about controlling overtime costs and has established similar partnerships with its labor unions to bring down overtime costs in its Water and Drainage & Wastewater Utilities. Working in partnership with its labor unions, SPU developed a 2011 budget for Water Utility overtime that is roughly 28%, or $428,000, lower than 2010 actual expenses. Drainage and Wastewater overtime is expected to be reduced by about $330,000, or 21%, in 2011 as compared to 2010. Further reductions are anticipated in 2012.

Leveraging Revenue Sources to Invest in City-Owned Assets

Seattle will invest $1.9 million for new roofs for community buildings.

In spite of the City's continued General Fund budget constraints, the 2012 Proposed Budget leverages a number of revenue sources to invest in the maintenance, preservation and upgrade of City-owned facilities. Asset preservation investments have suffered in recent years as a result of the economy and weakness in the City's Real Estate Excise Tax (REET) revenues. The 2012 Proposed Budget capitalizes on non-REET revenues to renew its commitment to asset preservation.

Investing One-Time Insurance Proceeds Into Roof Replacements at City-Owned Community Buildings: For more than 30 years, the City has leased City-owned facilities to non-profit service providers in various neighborhoods around the city. This program allows service providers to occupy City-owned properties at low- or no-cash rent with the value of the services they provide to the community accepted by the City as a major portion of rent. As there are virtually no rent revenues collected, the cost of maintaining these facilities has traditionally been funded by General Fund and REET revenues. Some of these buildings are more than 100 years old, with the newest built in 1959. The lack of dedicated funds for these repairs has led the facilities to fall into disrepair. The poor condition of the roofs is a source of particular concern, as water infiltration rapidly leads to structural problems. An insurance settlement from a 2010 fire at the largely unoccupied City-owned Sunny Jim warehouse allows FAS to fund $1.9 million worth of new roofs at six of the facilities. The groups using these buildings provide much needed services to the community and include senior centers in Ballard, Greenwood and the Central area; a home for teen mothers; food bank and meal programs; and youth programs. This investment in maintenance work will extend the life of these buildings and allow the non -profit service providers to continue to occupy the buildings and serve the community. Following is a list of the buildings that will receive new roofs in 2012:

- Central Area Motivation Program (CAMP)
- Central Area Senior Center
- Northwest Senior Center in Ballard
- Southeast Health Clinic
- South Park Community Service Center
- Teen Mother Center

The 2012 Proposed Budget reinvests $10 million in Parks Levy savings into Parks asset preservation projects.

Reinvesting 2008 Parks Levy Savings into Parks Asset Preservation: Parks manages a 6,200-acre park system composed of 430 developed parks, featuring 185 athletic fields, 130 children's play areas, 11 off-leash areas, nine swimming beaches, 18 fishing piers, four golf courses, and 25 miles of boulevards. Other facilities include 151 outdoor tennis courts, 26 community centers, eight indoor and two outdoor swimming pools, 22 wading pools, eight spray features, 17 miles of paved trails, and more. This vast system has significant asset preservation needs. In fact, Parks' current Asset Management Plan identifies $232 million in asset preservation needs over the next six years. Unfortunately, the City's Cumulative Reserve Subfund (CRS), which is funded primarily through REET revenues, the traditional source of funding for Parks asset preservation activities, has suffered in the aftermath of the housing bust of the Great Recession. For 2012, Parks will receive $13.8 million in CRS funding, which is down sharply from the $21 million and $22 million it received respectively in 2007 and 2008 at the height of the housing boom. The 2012 funding levels are more reflective of the amounts Parks received in the 2000 – 2006 timeframe.

Meanwhile, the advantageous bidding climate has meant that the costs of projects contemplated in the 2008 Parks Levy have come in lower than expected, freeing up money that had been designated for those projects. Parks, with the backing of the Mayor and the Council, worked closely with the Parks Levy Oversight Committee in 2011 to reach agreement to redirect $9.8 million of this savings into 17 Parks asset preservation projects for 2012. The projects include:

- Ballard Community Center Roof Replacement
- Beacon Hill Playground Comfort Station Renovation
- Comfort Station Renovations- 2008 Parks Levy (sites to be determined)
- Evers Pool Roof Repairs
- Fairmount Park Playground Comfort Station Renovation
- Fairmount Park Playground Fence Replacement
- Garfield Community Center Roof Replacement
- Green Lake Bathhouse Roof Replacement
- Lower Woodland Playfield Tennis Court Lights Replacement
- Loyal Heights Boiler and Electrical System Replacement
- Madrona Playground Shelterhouse Restrooms Renovation
- Matthews Beach Park Bathhouse Renovation
- Queen Anne Pool Plaster Liner Replacement
- Rainier Beach Playfield Play Area Renovation
- Rainier Beach Playfield Tennis Courts and Lighting Replacement
- Seward Park Water System Replacement
- Van Asselt Community Center Gym Roof Replacement

Absent the Parks Levy funds, these projects would not have been funded in 2012.

The 2012 Proposed Budget leverages future rent revenue to upgrade Magnuson Park Building 30.

Leveraging Future Building Rent Revenue to Renovate Magnuson Park's Building 30: Magnuson Park's Building 30, a 1930s hangar remaining from the old Sand Point Naval Air Station, is an important community asset. It houses offices for Parks and a number of nonprofit tenants, including the Friends of the Library, and is the site of the very popular Friends of the Library semiannual book sale, an important source of revenue for The Seattle Public Library. In 2010, the DPD and the Seattle Fire Department restricted the use of the facility because the building is not up to code. The 2012 Proposed Budget commits $5.5 million in bond financing to renovate the west wing and hangar to bring the facility up to code and allow for expanded facility rental opportunities. The revenue generated by Building 30 after the improvements are made will cover 60% of the $641,000 annual debt service payments on the bonds, starting in 2013. The General Fund will cover the remaining 40%, or approximately $260,000, depending on how actual Building 30 revenues perform. The interest-only debt service payment in 2012 is estimated at $212,000, and will be covered by the General Fund.

Allocating SDOT Revenues to Meet Basic Needs: For 2012, SDOT has two important revenue sources that are helpful in partially mitigating weakness in its base revenues (i.e., General Fund and Gas Tax). The first is $6.8 million in revenue from the $20 Vehicle License Fee (VLF) approved by the Seattle Transportation Benefit District in late 2010. SDOT, working collaboratively with the Citizens Transportation Advisory Committee III, the Mayor's Office and the Council, developed a plan, as reflected in the 2012 Proposed Budget, to add significant funding – compared to 2011 – for pavement restoration, sidewalk safety, transit corridors and bicycle improvements. Some of the revenues are used to prevent reductions that would have otherwise been required to balance the SDOT budget, including core transportation services, such as street cleaning, landscape maintenance, and emergency responses capabilities. These latter investments are responsible for preserving 19 SDOT FTEs that perform this work and that would have been at risk absent this important revenue source.

The second revenue source that plays an important role in balancing SDOT's budget is the proceeds from the sale of the Rubble Yard property to the Washington State Department of Transportation in mid-2011. The City allocated $3 million of the $19.8 million total proceeds in 2011 to support critical surface street repair needs. In addition to allowing the City to expand surface street repair activities, the funds also helped to preserve 10 FTEs and delayed the abrogation of 11 additional FTEs. The 2012 Proposed Budget recommends using additional Rubble Yard proceeds in 2012 and 2013 to continue this commitment. It also invests some of the proceeds to improve the City's preparedness for winter storms, including the installation of temperature sensors on seven bridges to enhance the City's capabilities to prevent and respond to the traffic snarling resulting from iced bridge surfaces during the cold winter months. This investment is particularly important as the winter of 2011-2012 is projected to be colder and wetter than normal. Finally, the Rubble Yard proceeds are allocated in the 2012 Proposed Budget to preserving SDOT core services, such as street

cleaning, bridge painting, neighborhood traffic control, and freight spot improvements; high-capacity transit planning; the Mercer West project; and the relocation of the former Rubble Yard operations to a new location. The Proposed Budget allocates a total of $6.7 million from Rubble Yard proceeds in 2012, with the balance of the unallocated proceeds proposed to be allocated in future years. Plans for the Rubble Yard proceeds are described in greater detail in the SDOT section of the 2012 Proposed Budget Book.

Other Revenue Assumptions: The 2012 Proposed Budget also assumes an increase in the parking infraction rate as approved and implemented by the Seattle Municipal Court. Beginning in October 2011, the overtime meter parking infraction rate will increase from $39 to $44. The new infraction rate will put Seattle's rate above smaller Washington cities, but below some other larger cities, such as Chicago, San Francisco, Los Angeles or New York. This change will generate $2.13 million in revenue for the General Fund in 2012.

Rubble Yard proceeds will enhance Seattle's winter storm preparedness.

The 2012 Proposed Budget assumes passage of the $231 million, seven-year Families and Education Levy, resulting in a doubling of the City's investments in outcome-based programs that:

- Improve children's readiness for school;
- Enhance students' academic achievement and reduce the academic achievement gap;
- Decrease students' dropout rate and increase graduation rate from high school; and
- Prepare students for college and/or careers after high school (new goal established with 2011 Levy).

The November 2011 election will also seek approval from Seattle voters to raise the Vehicle License Fee (VLF) by $60. If approved by Seattle voters, the funds would support expanded investments in asset preservation activities, in transit, and bike and pedestrian facilities. These funds are not built into the 2012 Proposed Budget, but will be added to the budget by City Council action in November if this measure is approved. If approved, funds will be added in accordance with the specifications of the Seattle Transportation Benefit District's Resolution 5, which can be found at:http://www.seattle.gov/stbd/legislation_policies.htm

Planning for the Future: Strengthening the City's Financial Management Practices

Mayor McGinn places a high priority on the City's long-term financial health – especially in these economically challenging times. In addition to looking for new ways of doing City business in order to preserve direct services, the Mayor also recognizes the importance of ensuring the City adopts policies and practices to put itself on more stable financial footing – even if it means making difficult short-term decisions. This is another central theme of the 2012 Proposed Budget.

The City of Seattle has earned a reputation for strong financial management, as reflected in its AAA bond rating – the highest bond rating available awarded by all three of the major bond rating agencies: Standard & Poor's, Moody's and Fitch. This top rating keeps the City's borrowing costs low, which is essential to preserving the size of the City's capital program. But, the rating agencies have been taking a closer look at the health of the City's reserves and retirement fund of late and have signaled these areas are in need of some improvements if the City expects to retain these ratings.

Rating agencies aside, addressing these areas is critical to the City's long-term financial stability. If the City does not have sufficient reserves, its ability to weather financial storms is limited, potentially resulting in disruptions in service. Just as with one's personal finances, the City maintains savings accounts to fall back on in times of financial distress. Likewise, the City's vulnerability increases if it fails to set aside sufficient resources to protect itself from unforeseen circumstances.

The proposed Rainy Day Fund enhancements will build in a level of fiscal discipline that will protect the City from future revenue disruptions.

Similarly, the City is legally obligated to meet its retirement pension obligations. While the City could certainly choose to delay contributions required to meet this obligation over time – and many governments have done this –it will be required to make these payments eventually. Delaying contributions simply compounds the problem and jeopardizes the City's ability to maintain services in the future. In other words, the challenge for the 2012 budget is not only how to balance the budget in the short-run, but also how to better position the City for financial stability over the long-term.

Enhancing the City's Rainy Day Fund Policies to Prepare the City to Weather Future Storms: The City maintains a Rainy Day Fund – a savings account of sorts – to protect City services following an unexpected decline in revenues. The Rainy Day Fund reached its peak funding levels in 2008, when it was valued at $30.2 million, or 4% of General Fund tax revenues. At the onset of the Great Recession, the City relied heavily on the Rainy Day Fund, drawing it down to $10.5 million by the time the 2010 budget was adopted. Since that time, Mayor McGinn recommended, and the Council approved, a small contribution to the Rainy Day Fund, bringing its current value to $11.2 million, or about 1.5% of General Fund tax revenues.

In these fragile economic times, this is not a lot of protection in the event of another unexpected downturn in revenues. In fact, Fitch Ratings noted about the City of Seattle in February 2011:

> *The city's strong reserve policies and practices are a key credit strength given the cyclicality of the regional economy;* ***maintaining designated reserves at least at the current level with a view to rebuilding as economic recovery takes hold is key for retaining the highest credit quality****.*

The Mayor takes this very seriously. While the existing policies have served the City well up to now, they are not reflective of the current economic reality and make it difficult for the City, in an automatic and programmed way, to increase the value of the Rainy Day Fund to the levels that would serve to better protect the City. The existing policies provide two Rainy Day funding mechanisms:

1. Transfers to the fund by ordinance
2. Automatic transfer of actual tax revenues that are in excess of the last official revenue forecast.[5]

Unfortunately, the lukewarm recovery from the Great Recession, and the dampening effect it has on the City's current and forecasted future tax revenue growth, means it is unlikely the City will exceed the revenue forecasts by amounts large enough to replenish the Rainy Day Fund any time in the near future. In fact, in the last two years, actual tax revenue growth has ended below forecast –$3.2 million below in 2009 and $3.6 million below in 2010. And, with tax revenue growth forecast at a meager 3.4% average annual rate through 2015, hope of replenishing the Fund with revenue booms is unlikely.

The 2012 Proposed Budget contributes $1.95 million to the Rainy Day Fund.

As a result, the Mayor transmitted legislation to the City Council in July that would enhance the City's Rainy Day Fund policies and update them to reflect the new economic reality. Specifically, the legislation updates the policies as follows:

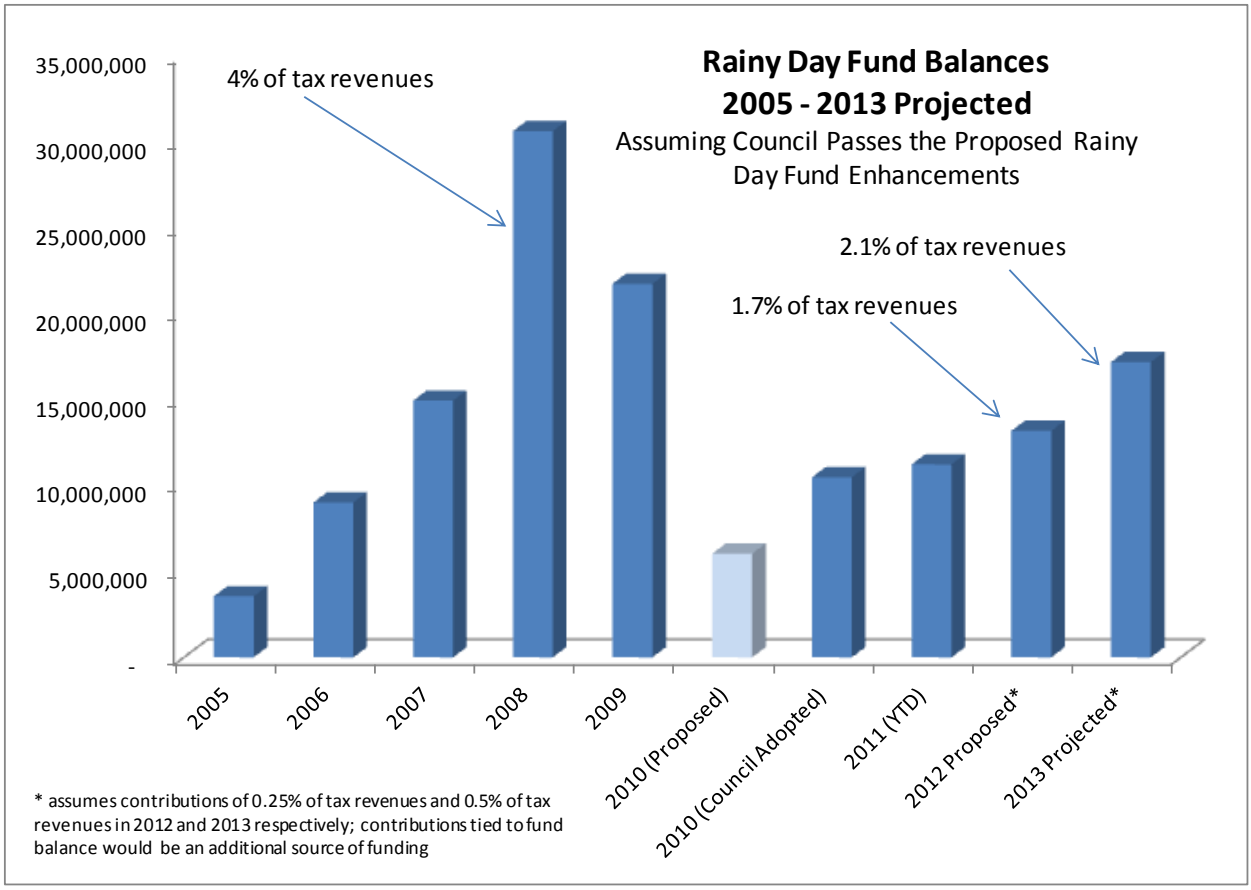
1. Retain the ability to make transfers to the fund by ordinance.
2. Replace the actual revenues in excess of forecast with a mechanism that would automatically shift 50% of unanticipated excess General Subfund year-end balance to the Rainy Day Fund.
3. Create a new policy that would automatically sweep a percentage of forecasted tax revenues at the outset of the budget process to the Rainy Day Fund, starting with 0.25% of tax revenues for 2012 and ramping up to 0.50% of tax revenues for 2013 and beyond.
4. Suspend the funding mechanisms when tax revenue growth is negative.
5. Require out-year financial projections be evaluated when developing plans to draw down the Rainy Day Fund.
6. Maintain the existing policy that caps the value of the Rainy Day Fund at 5% of tax revenues.[6]

For additional background on the Rainy Day Fund and the Rainy Day Fund policy enhancements, please refer to: http://www.seattle.gov/financedepartment/documents/RainyDayFundPresentation-FINAL.pdf

[5] Seattle Municipal Code 5.80.020 (B)

[6] For 2011, would be equivalent to $37.5 million.

The 2012 Proposed Budget assumes that the Council adopts these policies and makes a $1.95 million contribution to the Rainy Day Fund for 2012. Assuming the Council adopts these policies, the projected contribution for 2013 would be approximately $4 million. These contributions would bring the value of the Rainy Day Fund up to 1.7% and 2.1% of tax revenues in 2012 and 2013 respectively. Below is a summary of the recent history of the Rainy Day Fund.



Stabilizing the City's Strained Pension Fund: When Mayor McGinn took office, he inherited a troubled pension fund – the Seattle City Employee Retirement System (SCERS). The financial market crash of 2008 left the fund with a relatively large unfunded liability and insufficient plans to address these challenges. The City of Seattle is one of the only cities in the State of Washington that runs its own pension system – most others participate in the Washington State systems.

Prior to 2008, the City consistently funded SCERS at or above the actuarially recommended level of 80%. However, the erosion of the financial markets left the pension with an unfunded liability of $1 billion and a funding ratio of only 62% at the beginning of 2010. The City had plans to partially address the funding shortfall by increasing the contribution rates of both the participating employees and the City contribution. Over two years (2011 and 2012) the contribution rates for each would increase from 8.03% to 10.03%. But this still left an unfunded liability of $695 million and a funding ratio of only 74%.

The 2012 Proposed Budget includes provisions that will allow the City to increase its annual contributions to SCERS to the full actuarially recommended level. This plan involves a number of

structural changes to the way the Funds' assets are valued over time – in keeping with industry standards and best practices – and adjustments to the financial contributions to the Fund over time. The City's out-year financial plans assume that the City continues to fully fund anticipated annual required contributions as will be actuarially determined.

Investing in the Future: In addition to making investments that enhance the City's financial management practices, the 2012 Proposed Budget also makes several key investments designed to promote the health of the City's revenues. The first example of this is some modest staffing increases in DPD. Construction activity can be an important driver of job creation and economic activity, which in turn impacts City revenues. Before construction activity can begin, permits must be obtained from DPD, so it is in the City's interest that DPD be positioned to efficiently process permit applications. While still struggling to recover from the Great Recession, Seattle has been the center of the resurgence of construction activity in the region and DPD is playing a key role in ensuring that permits are issued in a timely manner. These efforts are paying off – 85% of apartments under construction in the King-Snohomish County region are in Seattle, for a total of 3,000 apartment units, and 90% of all apartment units in the pipeline in the King-Snohomish County region are in Seattle. To build on these gains, the 2012 Proposed Budget adds resources to DPD to process green building permits. Seattle's first Living Building Pilot Program, the Bullitt Foundation's Cascadia Center, is projected to create 94 construction jobs and 141 direct permanent jobs.

The 2012 Proposed Budget adds funding to DPD to process job-creating green building permits.

With an eye toward the budget challenges anticipated for 2013 and beyond, the 2012 Proposed Budget also invests $50,000 from the Volunteer Park Conservatory fund balance to engage in a study to develop options for operating this community asset in a more financially self-sustaining manner.

Non-General Fund Budgets

In preparing the 2011 budget, the City not only faced significant challenges in its General Fund, but also many of its budgets supported primarily by non-General Fund resources, including: DPD, Seattle City Light (SCL), SPU, and SDOT. The picture for 2012 is markedly different. DPD is seeing permit activity pick up slightly, and its budget has stabilized as a result. On the heels of a relatively wet winter and spring, SCL's wholesale power revenues held up, resulting in stability that is allowing SCL to continue to assume the same basic rate and budget parameters in the 2012 Endorsed Budget. SPU is seeing similar stability in its Solid Waste and Drainage and Wastewater revenues. These revenues have been largely consistent with forecasts prepared in 2010 for the 2011-2012 rate-setting process, a process which shored up these utilities' fiscal condition in the face of challenging economic circumstances. Similarly, proposed 2012-2014 water rates remedy the overly optimistic forecasts that underlay the 2009-2011 water rates, which were prepared in 2008 before the start of the Great Recession. The new rates for 2012

-2014 propose a combination of expenditure reductions and revenue increases that protect the Water Fund's high bond ratings, ensuring that SPU can continue to borrow at the lowest possible costs, benefitting the utility and the customers it serves.

Unfortunately, SDOT has not seen the same level of stability as these other non-General Fund departments. SDOT is supported by several funding sources, including bonds, federal, state and local grants, state and regional partnership agreements, Bridging the Gap property tax levy, commercial parking tax, fees for service, real estate excise taxes, street vacations, Gas Tax, and an annual allocation from the City's General Fund.

The 2012 Proposed Budget closes a $10 million gap in SDOT.

Following the trend of recent years, the amount of revenue from many of these sources continues to decrease in 2012. General Fund budget pressures in 2012 and future years require that SDOT make budget reductions. SDOT is also experiencing funding decreases from other sources. Taken together with the General Fund reductions, SDOT's 2012 Proposed Budget closes a $10 million gap. Other specific revenue shortfalls include:

- Gas Tax continues a steady decline that began in 2007. For 2012 SDOT expects to receive $1 million less than was assumed in the 2012 Endorsed Budget.
- Reimbursable revenues in the 2012 Proposed Budget are projected to be $2.8 million less than what was assumed in the 2012 Endorsed Budget. Most of this revenue is generated by utility cut restoration work, which has plummeted as a result of continued economic weakness. At its peak in 2008, utility cut restoration work represented $10.6 million in inflation-adjusted dollars. For 2012, SDOT now projects only $4.1 million in revenues from this source.
- Street Use revenues tell a similar story. The 2012 Proposed Budget projects a $2.5 million decrease from the 2012 Endorsed Budget. This represents a 31% decrease from the 2008 peak.

SDOT addresses these shortfalls through a combination of staff reductions, both line staff and at the planning and management ranks; through the use of alternate revenues sources, including some proceeds from the sale of the Rubble Yard property; the allocation of the proceeds from the $20 Vehicle License Fee approved in 2010; and some service level reductions. The SDOT budget is explained in further detail in the later pages of the 2012 Proposed Budget Book.

Looking Ahead

As is typically the case, the 2012 Proposed Budget is based on the August revenue forecast, which uses data through July as its foundation. This forecast shows that the General Fund, through the first half of 2011, was continuing to see revenue stability that first started taking hold late in the fall of 2010. Unfortunately, the

picture has changed substantially since July. Confidence in the economy began eroding again in August on the heels of the federal debt ceiling debate in Washington, D.C., and the decision by Standard & Poor's to downgrade the U.S. sovereign debt, not to mention ongoing concerns about European debt. As the month of August unfolded, stock prices around the world dropped, wiping out the gains achieved in the first half of 2011 and economists nationally and around the world started lowering their expectations for growth in the latter half of 2011 and into 2012. The prospect of a double-dip recession, while still less than 50%, is higher today than it was just a few months ago. The economy, although growing at an extremely slow pace, is still very fragile.

The economy remains fragile. The 2012 Proposed Budget sets aside a reserve in preparation for potential revenue weakness.

With this backdrop in mind, the City of Seattle's revenue forecasting team is anticipating a modest downward revision in revenues when the General Fund forecast is updated in early November – the timing of the next official forecast. While too soon to balance to this lower forecast, the 2012 Proposed Budget does include provisions to respond to a moderate deterioration in revenues. The City Budget Office has been, and will continue working with Council staff to address additional budget challenges that are likely to result from the November forecast. As a signal of this commitment, the 2012 Proposed Budget includes a $3.4 million reserve to respond to additional erosion in General Fund revenues.

Additional downward revisions in revenues based on the November revenue forecast also have the potential of further exacerbating the projected $32.8 million General Fund Budget gap for 2013. Additional reductions in federal and state funding, as these entities address their own budget challenges, could also increase the scope of the City's budget pressures.

In this environment, it is more important than ever that the City take a longer-term view in evaluating the impact of near-term budget decisions. It is equally important for the executive and legislative branches to continue to build on many of the successful partnerships that are resulting in tangible budget savings for the 2012 Proposed Budget by identifying additional opportunities to transform how the City delivers services for 2013 and beyond.