

# Budget Overview

The City of Seattle's 2006 Budget reflects vastly improved regional economic conditions following the lengthy downturn that began in 2001. Strong growth in employment and personal income has added to the City's tax revenues, allowing some budget cuts taken in the last few years to be restored. Mayor Greg Nickels' 2006 Proposed Budget focused on a mix of one-time investments and ongoing additions to basic City services, such as police and fire staffing, transportation infrastructure, and human services programs. Revenue estimates continued to increase throughout the fall of 2005, allowing the City Council to add further funding for libraries, human services, and transportation in the Adopted Budget.

## Economic and Revenue Environment

The Puget Sound region endured a difficult economic recession beginning in 2001. The region lost 6.9% of its jobs between December 2000 and September 2003. During the same time period, the U.S. as a whole lost only 2.1% of its jobs and Washington state lost only about 3%. The regional recession led to declines in many City revenues, including sales taxes, Business and Occupation (B&O) taxes, electricity sales, and water revenues.

The revenue effects of the poor regional economy were exacerbated by a variety of other challenges. Changes in state law since 2000 reduced Seattle's potential 2005 General Fund revenues by more than \$45 million. The largest component of this is due to Initiative 747, which was approved by the state's voters in 2001 (although defeated within Seattle) and limits annual property tax revenue growth to 1% plus the value of new construction versus the previous limit of 6% plus new construction. Revenues available for transportation projects were adversely affected by Initiative 776, which was approved by the state's voters in 2002 (as with I-747, this initiative failed in Seattle). This initiative eliminated the vehicle license fee collected by King County and shared with cities. This amounted to about \$5 million annually for Seattle, which was used to leverage another \$2 million to \$3 million in grants. State changes to the gas tax in 2005 offset a portion of this loss.

The Puget Sound area's economy started to improve in early 2004 and very strong employment growth began in the fourth quarter. The region is now growing faster than the rest of the state or the nation. Approximately 85 percent of the jobs lost in the recession had been recovered by the end of 2005 and forecasts call for continued employment growth through 2006. More information can be found in the General Subfund Revenue Overview section.

Revenues from the Real Estate Excise Tax (REET) have grown very rapidly since 2002. This tax is imposed at a rate of 0.5% on the value of all real estate sales. By state law, the proceeds can be used solely for certain capital projects, such as transportation infrastructure and major maintenance of parks, libraries, and general government facilities. The City deposits REET into the Cumulative Reserve Subfund. Growth in REET stems from a combination of three factors: increases in residential home prices, greater residential sales volume due to low interest rates, and growing investor interest in commercial real estate. REET revenues grew from \$22.6 million in 2002 to \$27.9 million in 2003, \$38.3 million in 2004, and \$49.4 million in 2005. The strong growth in REET has led to significant increases in major maintenance of City facilities, with a particular focus on street paving and other transportation projects.

Some national observers have expressed concern about a housing "bubble" in certain geographic markets. These bubbles might burst, resulting in significantly lower real estate prices. There is little evidence of such a bubble in the Seattle market. Housing values have increased but at nowhere near the rates seen in some other metropolitan areas. Thus, the REET forecast calls for a gradual slowing that would produce about \$37.4 million of revenue in 2006.

## Approach to 2006 General Fund Budget

The improved economy and the strong revenue forecast provided additional funding for 2005 and 2006 beyond what was anticipated when the 2005 Budget was adopted and the 2006 Budget was endorsed in November 2004. Mayor Nickels directed these resources be spent in two ways. First, some targeted one-time investments were

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identified that will reduce future costs, improve performance, or allow the use of cash rather than anticipated bond issues. Second, high-priority services were added, including several programs that had to be cut in the first part of the decade.

The Mayor and Council used the 2006 Endorsed Budget as the basis for the 2006 Adopted Budget. In the City's biennial budget process, a second year budget is endorsed by the Mayor and City Council at the time the first-year budget is adopted. This Endorsed Budget is then revised for the second year of the biennium. For many programs, the 2006 Endorsed Budget became the 2006 Adopted Budget with no changes or with the only changes being updates to economic assumptions, such as salary and benefit calculations.

The 2006 Budget continues the City's commitments to strong financial policies. The Emergency Subfund is funded to the maximum amount allowed by state law, approximately \$36 million for 2006. Only a small amount of new debt (\$24 million) is included, with the largest amount for potential Airport Way Center (formerly Park 90/5) refinancing that will be reduced if the City succeeds in its suit to recover earthquake damage expenses from the property insurance carrier for this facility. New reserves are set up in the Police Department to cover the costs of future equipment replacement, including video cameras in patrol cars.

The Budget also builds on efficiencies that were achieved over the last few years. The City has eliminated low-priority activities and streamlined management of many functions. The most significant new effort in this area is a plan to centralize several technology activities in the Department of Information Technology (DoIT). These activities include email management, help desks, Web standards, and management of certain computing and communications hardware. The current decentralized environment leads to duplication and makes it difficult to ensure appropriate security. The Budget adds funds to begin a gradual transition of these functions to DoIT in 2006, pending further City Council review, with full implementation at the start of 2007.

While the fiscal situation for 2006 is favorable, the City faces some long-term concerns that call for caution in the current budget. Federal funding for the Community Development Block Grant (CDBG) program has been declining for several years and this trend is projected to continue. State changes in city B&O tax coverage could cost Seattle up to \$15 million to \$20 million in 2008 unless changes are made in the next two years. The Parks levy lid lift expires at the end of 2008, which would leave more than \$9 million of operating and maintenance costs to be cut or picked up by the General Fund. In view of these emerging concerns, the 2006 Budget limits the number of ongoing budget additions to reduce the possibility of future budget cuts.

Some of the highlights of the City's overall operating and capital budgets are described in the functional categories that follow. These categories are based on the Mayor's priorities of transportation, public safety, economic development, and strong families and healthy communities.

## Transportation

Improving transportation is one of the City government's highest priorities. The 2006 Budget maintains all existing transportation programs and funds significant new capital projects, including:

- \$5.2 million of REET and \$700,000 of new gas tax for street resurfacing, which will help pave about 76 lane-miles in 2006.
- \$500,000 for a new sidewalk program to focus on parts of Seattle without sidewalks. The Seattle Department of Transportation (SDOT) has developed new approaches to sidewalk construction that dramatically reduce costs in areas that do not require significant investments in drainage infrastructure. This investment will be targeted to high pedestrian traffic areas and is expected to produce six to eight blocks of new sidewalks.
- \$600,000 to restore funding levels for bridge painting.

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- \$2.5 million of REET for future projects that will be identified in early 2006.
- \$628,000 to begin planning for mass transit improvements in the corridors that were to have been served by the Seattle Monorail Project, which was disbanded by the voters at the November 2005 election.

The Budget continues the City's support for the replacement of the Alaskan Way Viaduct and Seawall. In addition to a debt-financed capital budget of \$5.2 million, funding is provided for Center City traffic coordination and to begin to plan capital investments to improve traffic circulation when the Viaduct project is under way.

The Budget also provides continued funding for the South Lake Union streetcar project. Appropriations are provided at the levels approved by the Mayor and City Council in mid-2005. The Budget does not include appropriations from the proposed Local Improvement District (LID). These appropriations will be made in 2006 after the LID is formed. The Budget also includes \$360,000 for pedestrian and bicycle improvements in the neighborhood.

As was previously announced, the Budget includes \$1 million of General Fund support for King County's replacement of the waterfront trolley maintenance base.

Despite the strong commitment to transportation made in the 2006 Budget, the City of Seattle and other Washington cities face a growing crisis in transportation funding. In May 2004, the Citizens' Transportation Advisory Committee presented a report to the Mayor and City Council describing the backlog of transportation projects and calling for new funding sources for local transportation. Seattle has lost more than \$18 million in transportation revenue annually due to the passage of Initiative 776 and court invalidation of the street utility. Some additional revenue sources will be needed to prevent further growth in maintenance backlogs and to address major infrastructure projects.

## Public Safety

Public safety is another high priority for Seattle's residents and elected officials. The 2006 Adopted Budget reflects implementation of Mayor Nickels' proposal to add 25 police officers starting in mid-2005, which was approved by the City Council in June. These officers will complete training in early 2006 and will be deployed to the highest priority areas of the city.

In addition, several capital investments are proposed to support the Police Department. Slightly more than \$1 million is provided to continue placing video cameras in all patrol cars. This additional funding also starts a reserve account to pay for replacement of cameras at the end of their useful lives. Faster replacement of bullet-proof vests will be possible by adding \$150,000 for this purpose. The hand-held ticketing devices used by parking enforcement officers have reached the end of their useful lives and a total of \$1.5 million is provided for replacement. A vendor will be selected in 2006 and actual replacement will occur in 2007.

The 2006 Budget adds \$1.3 million to the Fire Department to restore three on-duty strength positions, which necessitates five people per position in order to provide 24-hour per day coverage. The three positions will be assigned to the three engine companies that are the only unit at a particular station and that have only three-person crews. These are stations 16 (Green Lake), 21 (Greenwood), and 34 (Madison Valley).

The Seattle Municipal Court established a "community court" as a pilot project in 2005. This judicial approach is intended to link chronic, low-level offenders with services rather than sending them to jail. Funding for the community court is continued for 2006 and an evaluation of the program will be conducted by Office of Policy and Management (OPM) early in 2006.

The 2006-2011 Capital Improvement Program shows further progress in implementing the 2003 Fire Facilities and Emergency Response levy. Construction will begin on several new or remodeled fire stations during 2006, including the new Fire Station 10 complex that also houses the Emergency Operations Center and Fire Alarm

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Center. Supplemental legislation in mid-2005 added \$6 million of REET for this project, of which \$1 million will cover increases in construction material costs, \$1 million will be used to improve the environmental sustainability of the facility, and \$4 million will strengthen the neighboring Yesler Way overpass and build foundation components for a future Fire Department headquarters at the site. Construction of two new fire boats will also begin in 2005 or 2006. The Joint Training Facility to serve the Fire Department and other departments is already under construction, with completion scheduled for early 2006.

## Economic Development

Mayor Nickels has identified economic development efforts as a key to improving the City's employment base and revenue sources. The 2006 Budget continues previous efforts in infrastructure development, permit consolidation, business retention, and job training. New initiatives are targeted to improving neighborhoods that are slated to receive significant growth, including Center City, Southeast Seattle, South Lake Union, and Northgate.

The Department of Planning and Development (DPD) and SDOT are working on a variety of developer fees to support low-income housing, open space, and transportation improvements in growing areas. Additional General Fund support is provided to DPD in the 2006 Budget to continue this work. DPD is also continuing its work on code simplification and waterfront planning.

OPM will lead work on a transit-oriented development strategy for Southeast Seattle. This will ensure land use and zoning requirements support appropriate development that will be triggered by the construction of the Sound Transit light rail line. OPM will continue its work to coordinate construction impacts in the Northgate neighborhood. The 2006 Budget also includes capital funding for transportation and drainage projects in that area.

Access to broadband technology is increasingly important for economic development and helps residents obtain information and programming. DoIT receives \$205,000 in the Budget to continue studies of this technology to see if there is vendor interest in using an expanded City-owned fiber optic network to offer broadband services. The City Council added two positions to start in mid-2006 to implement this program if attractive vendor proposals are received.

## Strong Families and Healthy Communities

This priority area covers a wide range of topics, including support for the most vulnerable populations in Seattle and efforts to build vibrant communities throughout the city. The Budget contains many initiatives in this area:

- Funding levels for direct human services are increased significantly for 2006. The largest additions include: \$1 million for the operating costs of Connections, the new homeless hygiene center located on Third Avenue; \$350,000 to maintain homeless shelter bed capacity while beginning the shift to fund transitional housing called for in the 10-Year Plan to End Homelessness; \$294,000 for a variety of programs to improve services for residents of South Park; \$275,000 to increase funding for community health clinics; and \$225,000 of additional funding for food programs. The Fleets and Facilities Department also receives \$30,000 for operation of an emergency, severe-weather shelter in City Hall.
- The 2006 Budget reflects voter approval of the Families and Education Levy in September 2004. This Levy continues and expands the City's efforts to support children and youth, with new emphasis on readiness to learn and measurable outcomes.
- Library hours are increased at a cost of about \$961,000, which will allow all libraries to be open on Thursday evenings and will provide Sunday afternoon hours at some locations. In addition, \$1.5 million is added to increase the collections budget.

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- Several community requests for park facilities are funded, including new facilities at the Maple Leaf Community Garden, the proposed Lower Woodland Skate Park, Dahl Playfield, and Denny Park.
- \$257,000 is provided to expand the hours and locations for the Late Night Recreation program, a joint effort of the Parks and Police departments.
- The Budget includes continued support for the Mayor's Race and Social Justice Initiative, including additional funding in the Seattle Office for Civil Rights.
- Additional funding is provided for two news arts initiatives. A total of \$50,000 is provided to support planning for the Alaska Yukon Pacific Centennial and to support heritage organizations. About \$150,000 is provided to continue and expand programming at City Hall, which has proven to be a popular location for performers and the public.
- The Budget includes \$284,000 to add staffing and expand hours at the Animal Shelter. This will allow the Shelter to be open seven days per week and will increase animal adoptions. An additional \$128,000 is added to restore staffing for off-leash enforcement in parks.
- The capital budget continues to fund major maintenance of City facilities, such as pools, community centers, ballfields, and Seattle Center. Funding levels comply with City policies intended to ensure that the City invests adequate amounts to keep these facilities in good condition. In addition, \$695,000 is set aside in Finance General to support the renovation of the historic Georgetown City Hall.
- Several actions in the Budget support the Mayor's Green Seattle initiative. Most notably, the Mayor signed an Executive Order requiring two-for-one replacement of any trees removed by City maintenance or development projects. Additional funds are provided to pay for this order as it affects projects at Occidental and Freeway parks. The City Council added an additional \$184,000 for tree installation and maintenance.
- About \$2.4 million is provided for the Office of Housing to support construction of low-income housing in the South Lake Union neighborhood. This funding is consistent with the policy set when the City sold property in the neighborhood several years ago.

## Utilities

Seattle City Light emerged from the short-term effects of the West Coast power crisis in mid-2004 by paying off the last of the short-term debt incurred to cover high energy costs resulting from poor water conditions and manipulation of the energy markets. New financial policies were adopted in 2005 that will gradually reduce the utility's reliance on debt to finance its capital program. The Executive will undertake a thorough review of City Light revenue requirements and rates over the next nine months, culminating in a rate proposal in early summer 2006.

The Seattle Public Utilities (SPU) Budget reflects few substantive changes from the Endorsed Budget. The Utility is continuing its asset management approach and is broadening the focus to include operational practices. This new approach has led to significant reductions in project costs and utility revenue requirements. SPU intends to submit either financial policy changes or rate proposals for all its utilities in 2006.

## Looking to the Future

Most economic forecasts suggest the regional economy will continue to improve over the next several years. If so, the City's General Fund and utility budgets should be sustainable because the 2006 Adopted Budget does not rely on any significant use of nonrecurring funds. The transportation budget will face major challenges in 2007

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unless additional revenue sources become available. In addition, Seattle Center will continue to have revenue problems unless attendance at athletic and cultural programs returns to pre-2001 levels. The Center is working with the Mayor's Office, Department of Finance, and a citizens' committee to develop new business plans for each of its major operations to resolve this long-term issue.

Overall, the 2006 Budget represents a new direction in the City's fiscal fortunes. Economic improvements and increased efficiencies allow expansion of high-priority programs and establishment of new initiatives to reduce costs and minimize the use of debt. These steps allow City government to better serve Seattle's residents, businesses, and visitors.