



Budget Overview

The 2002 Adopted Budget enables the City to continue delivering fundamental services while adjusting to the reality of a slowing national and local economy and a substantially revised revenue forecast. In addition, the budget reflects the passage of statewide Initiative 747, which limits annual property tax revenue increases to 1% without a vote of the people. Base budget amounts allocated to departments in the 2002 Endorsed Budget have been reduced in order to meet a lower revenue forecast; however, commitments to the high priority areas of transportation, survival services, children, and affordable housing are maintained to the maximum extent possible. This budget also reflects passage of the Emergency Medical Services levy renewal, which occurred on the countywide ballot at the November 2001 General Election.

Due to the economy-related events that occurred after the development of the Proposed Budget and the limitations on property tax increases inherent in Initiative 747, the Mayor presented a Revised Budget to the City Council on November 8, 2001, detailing a plan to reduce spending and apply resources to address a \$24 million revenue gap. The City Council, in adopting the budget, made some modifications to this plan. Please refer to the final section of the Budget Overview for details.

The passage of Initiative 722 in the General Election held in November of 2000 and the unknown outcome of a lawsuit challenging its constitutionality precipitated a series of spending deferrals in the 2001 Adopted Budget and the 2002 Endorsed Budget. These deferrals addressed two components of I-722. First was the assertion of the King County Assessor that the initiative required property taxes to be rebased to the 1999 levy. To this end, the City deferred \$8.4 million in 2001 and \$1.2 million in 2002 in case that aspect of I-722 was found to be constitutional. In addition, the City increased the property tax revenue by 4.1% instead of the 2% limitation in the initiative and deferred the difference between these two, a total of \$3.2 million in 2001 and \$3.4 million in 2002. Due to the sizable economy-related revenue declines in 2001 and 2002, and unavoidable and unplanned spending for legal liabilities and the City's Police Department, these deferrals are eliminated in their entirety in 2001 and partially in 2002. This reduction in spending allows basic services to be maintained while still operating within a substantially revised biennial revenue base. In October of 2001, the State Supreme Court affirmed the finding of the Thurston County Superior Court that I-722 is unconstitutional in its entirety.

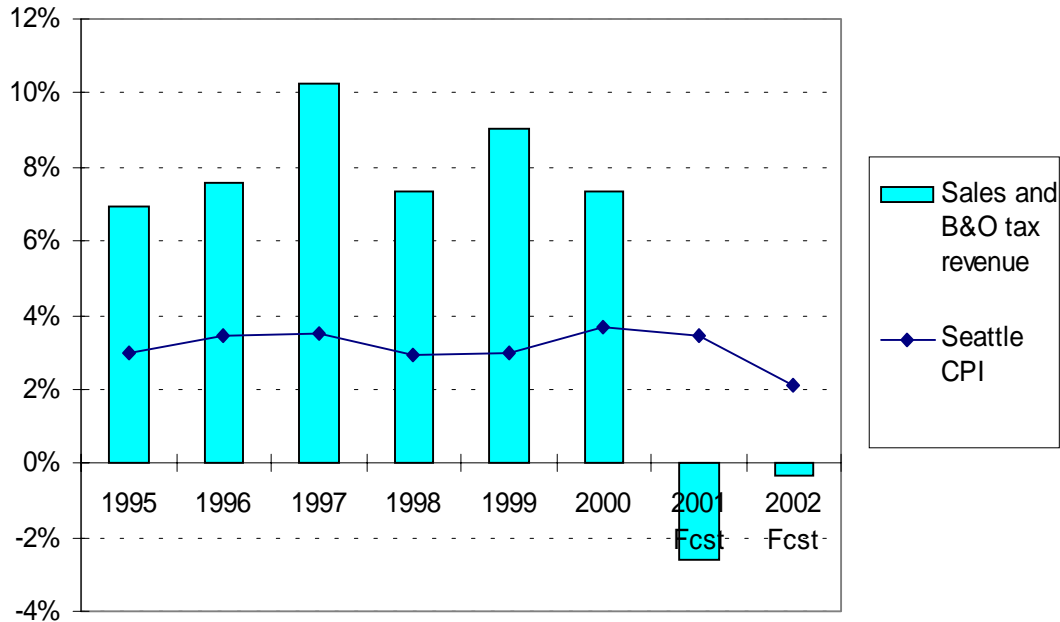
Revenue Update

The City of Seattle relies on a diverse mix of resources to support spending for government services, including the property tax, sales tax, the Business and Occupation (B&O) tax, and various utility taxes. This broad base provides flexibility for the City when some revenues do not do as well as expected, and others exceed expectations. Over the last several years, the City has benefited from increased revenues due to a boom in economy-related taxes, and has therefore been able to increase spending for police and fire protection, street repair, homelessness services, neighborhood programs, library and community center hours, and the arts.

The slowdown in the national economy, which has recently been classified as a recession, is having a major impact on the Puget Sound region and the City's economy-related taxes. In fall 2000, when the 2002 Endorsed Budget was prepared, year-to-date sales tax revenue growth was 7.8%; the comparable figure for B & O tax revenue was 9.5%. With the economy expected to slow in 2001, our fall 2000 forecast predicted that revenue from these two taxes would increase by 8.3% in 2000, 4.1% in 2001, and 4.4% in 2002. However, revenue collections dropped sharply in the final months of 2000, resulting in a \$2.2 million shortfall relative to the forecast for sales and B&O tax revenue. The falloff continued into 2001 as receipts dropped below 2000 levels. For the first eight months of 2001, sales tax revenue has grown at a -1.9% rate. B&O collections for the first six months of 2001 are down 0.5% from the same period in 2000. Taking account of these trends, as well as the national recession, the September 11 terrorist attacks, and job cuts at Boeing, we now expect revenue from the sales and B&O taxes to decline by 2.6% in 2001 and 0.3% in 2002.

Budget Overview

Annual Growth of Seattle Retail Sales and B&O Tax Revenue



On the other hand, utility taxes are higher than anticipated, due to electricity, sewer, and natural gas rate increases, making up somewhat for the shortfalls of economy-related tax revenues in the 2001/2002 biennium. These utility taxes and the utilization of \$2.8 million of banked property taxes are enabling the City to maintain existing services at a time that other major tax sources are growing much less than inflation. A more thorough discussion of revenue issues and trends can be found in the Revenue Overview section of this document.

In light of the trend of 2001 tax receipts, the Mayor directed departments to implement spending controls and a hiring freeze so that the City is better positioned to operate within a lower revenue base. The City Council extended the hiring freeze through the first quarter of 2002 in order to provide a cushion against the downside risks of the current revenue forecast. The Executive will carefully monitor the revenue situation over the coming months to identify trends that could alter the revised base forecast and determine what other spending actions, if any, may be necessary to live within the requirements of a balanced budget.

2001 Supplemental Budget Request

Two items dominated the 2001 mid-year supplemental spending request: 1) circumstances requiring the staffing of special events, combined with City policy to fully meet authorized levels of uniformed officers in the Seattle Police Department; and 2) legal liabilities that exceed anticipated levels of resources. These items accounted for approximately 90% of the supplemental and \$10 million of unexpected expenditures in 2001. In addition, the Council adopted separate ordinances during 2001 committing approximately \$5 million of increased expenditures, including \$4 million in funding for energy conservation programs intended to soften the impact of higher electricity rates on persons with low incomes and to provide conservation incentives citywide.



Budget Overview

As important as what was requested is what was not requested. The City experienced a number of events in 2001 that put a great deal of strain on departmental budgets. The Nisqually Earthquake of February 28, 2001, required a series of immediate responses from police, fire, transportation, and permitting staff and resulted in approximately \$40 million of damage to City facilities. The City is working with its insurers and federal and state authorities to obtain funding to make necessary repairs. In addition, the City experienced a series of utility rate increases throughout the year that were unanticipated. Departments responded to these financial pressures by reordering priorities and managing their resources in order to absorb higher operating costs in 2001.

Environmental and Transportation Issues

The City Council identified transportation as a very high priority. The Adopted Budget adds \$1.3 million to SeaTran as grant match for leveraging other project funds. SeaTran also receives \$500,000 to construct new sidewalks called for in neighborhood plans.

The City has pledged to curb air pollution through a joint venture with the Puget Sound Clear Air Agency, eight other Puget Sound-area governments, and companies doing business in the region. The plan calls for using ultra-low sulfur diesel fuel in City vehicles and installing soot traps and emission-reducing kits to clean up the City's diesel vehicle emissions. The City of Seattle, King County, and Boeing are partnering to take the lead in the Pacific Northwest for this Environmental Protection Agency-sponsored initiative. The City has begun by purchasing only ultra-low-sulfur fuel and developing a plan for retrofitting vehicles with particulate traps as well as purchasing new vehicles with this feature. The program began this year with a grant from the Puget Sound Clean Air Agency, and will continue in 2002 with funding of \$250,000.

Commute trip reduction is a high City priority, with the goals of reducing traffic congestion and related environmental impacts. The budget includes \$32,000 of City General Subfund in addition to King County resources to offer the Flexcar Program to City employees. This innovative program, available currently to City residents, offers commuters who opt out of driving to work and into using busing, biking, walking, or carpooling to work the option to have an automobile available for emergencies or overtime working hours.

Public Safety

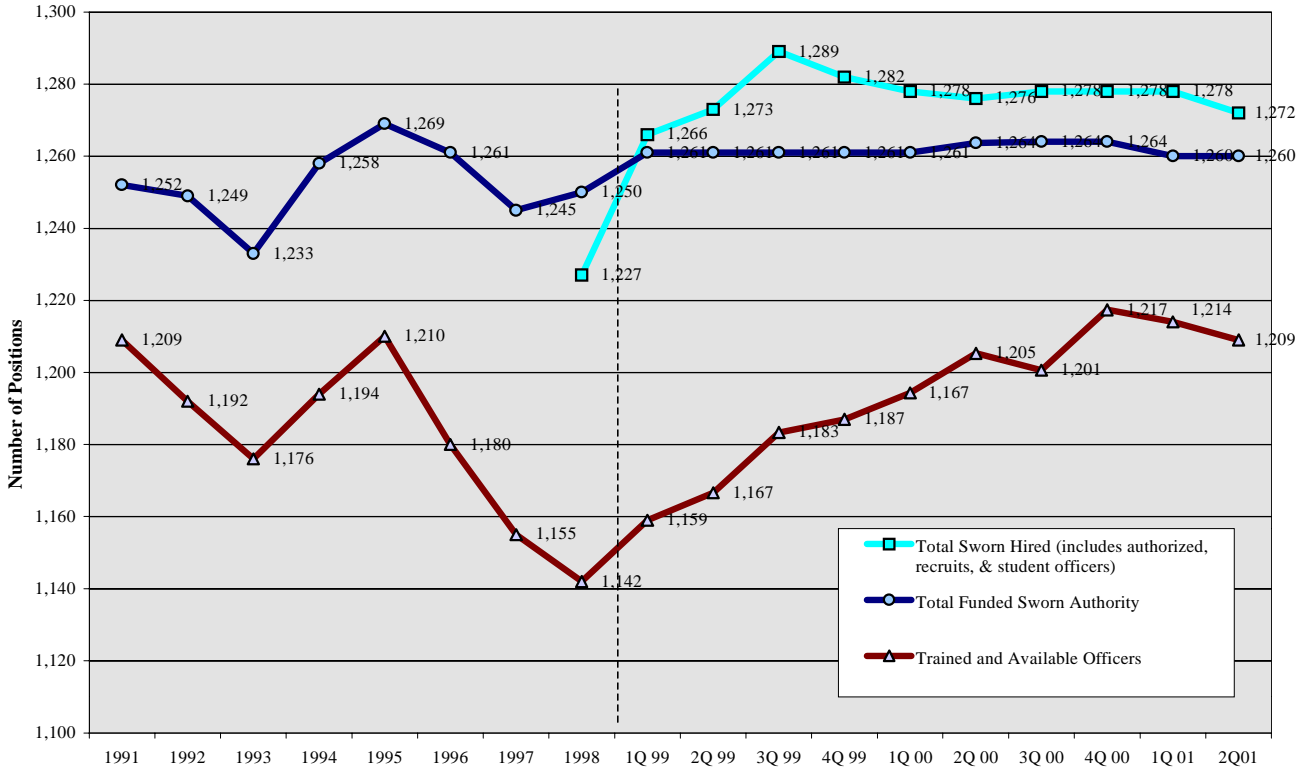
Several changes producing public safety benefits are implemented in the Fire Department. First, an aid car assigned to the station serving the Ballard and Magnolia neighborhoods will be upgraded to a full-time paramedic unit. This will allow a higher level of medical service available in those neighborhoods and will increase the amount of time that paramedic units are available throughout the system. Another change upgrades three positions to ensure the immediate presence of a senior command officer at all major emergency incidents. This is intended to ensure that an experienced officer is immediately available 24 hours per day to provide a quick and thorough on-site risk assessment, organize communication among those responding to the incident, and handle the responsibility of accounting for every firefighter on the scene. Internal resources are reallocated to achieve these improvements. Finally, a position is added to the Fire Department for one year that is responsible for coordinating an assessment of Seattle's emergency preparedness. Consultant services to assist with this assessment is also funded in the Legislative Department at \$50,000.

As described above in the Supplemental Spending Request section, the Police Department is facing a structural funding problem that is caused by established City policy to fully meet the authorized levels of uniformed personnel. This policy, dating to 1998 for the 1999/2000 budgets, has caused the City to implement an aggressive recruiting and training regimen in order to meet the target for the uniformed force. In addition, the need for special events coverage has increased, placing pressure on the department's overtime budget. The budget

Budget Overview

allocates General Subfund resources to allow police staffing levels at 99.5% of target and to sustain 185,000 hours of overtime. The Police Department will cut civilian positions, five in the records section and one in community services section, in order to reduce spending while maintaining vital services.

Seattle Police Department Staffing: Trained and Available Officers vs. Total Sworn Authority



Note: The data points to the left of the vertical line represent annual averages from 1991-1998. The data points to the right of the vertical line represent quarterly averages from 1999-2001. Data collection of "Total Sworn Hired" began in 1998.

Legal Obligations

In 1997, the City of Seattle and the Muckleshoot Tribe began negotiations on a plan to secure land at Sand Point at a cost to the City of \$2 million to be paid to the Tribe. Due to a variety of factors, no final agreement was reached, and no money was set aside for this purpose. This budget includes \$500,000 to begin a four-year payment to the Tribe for this long-standing obligation.

Capital Improvement Program (CIP)

Real Estate Excise Tax (REET) is the primary revenue source for the Cumulative Reserve Subfund, which supports the City's major maintenance program. REET has also declined relative to prior years' performance and Endorsed Budget projections. Despite this turn of events, the City is able to preserve the allocations for major

maintenance. However, a portion of the funding for development projects, such as the Aquarium, the Chinese Garden, and the Museum of History and Industry, has been delayed to the next biennium.

In addition, the Nisqually Earthquake has resulted in the reprioritization of the CIP. Departments developed Earthquake Response Plans that maximize recovery of federal and insurance resources and defer existing projects to provide the local match.

Managing for Results

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

The City published its first annual Goals, Actions, Results, and Measures (GARMs) report in 1999. Since that time, the City has refined its approach to performance measurement into the Managing for Results (MFR) initiative. Under this initiative, all City departments developed business plans designed to better link policy and budget priorities to real-world performance information.

This proposed budget incorporates selected parts of the departments' business plans in two primary ways. First, key performance targets are displayed at the line of business level within each departmental section of this document. Second, an appendix to this document elaborates on the key performance targets by providing baselines, targets, and actual performance data for selected programs within 19 of the City's largest departments.

The Mayor's Revised Budget Proposal

On November 8, 2001, the Mayor submitted to the City Council revisions to the 2002 Proposed Budget. This was necessary due to two circumstances:

1. Passage of Initiative 747, which limits annual property tax revenue increases to 1% over the prior year without a vote of the people. The Proposed Budget assumed an increase of 6%, so a reduction of \$8 million was necessary to bring spending in line with the lower property tax base.
2. The tragic events of September 11 resulted in substantial impacts to the City's sales and Business and Occupation taxes, which were already performing below expectations in the first two quarters of the year. Forecasts for these two taxes were revised for both 2001 and 2002. The net negative impact on the 2002 budget is \$16 million.

The combined total shortfall of \$24 million in 2002 was addressed through a series of actions, which included departmental across-the-board cuts and other spending reductions and resource allocations. The City Council, in adopting the final budget, made some modifications to the Mayor's proposal. The final plan is listed below and specific detail can be found in departmental budget sections.

Budget Overview

Revised 2002 Budget Reduction Actions

(dollars in thousands)

1. Department across-the-board cuts of up to 4%	\$11,426
2. Eliminate new and some ongoing initiatives	1,091
3. Delay opening some new facilities, moving capital and operating costs to 2003	1,152
4. Use fund balances	864
5. Assume debt service savings due to lower interest rates and refund existing debt	841
6. Fund the University Way Multi-Modal Improvement Project through debt instead of pay-as-you-go	4,900
7. Use banked property tax capacity	2,800
8. Use part of the Revenue Stabilization Account	<u>877</u>
TOTAL	\$23,951