

# Budget Overview

The City of Seattle's 2003 Adopted and 2004 Endorsed Budget were developed under the most challenging economic conditions since the early 1980's. The combination of a national recession, the local economic effects of the September 11 terrorist attacks, voter-approved tax limitation measures, and previous spending commitments created a gap of about \$60 million between projected General Fund revenues and the cost of continuing programs and meeting commitments for 2003. Filling this gap, which represented about 9% of the General Fund, was the major focus of the budget process.

Mayor Gregory Nickels established an overall approach to General Fund budget development early in 2002. The Mayor directed that the 2003-2004 budget would be sustainable, without relying on one-time savings or accounting changes. He indicated that direct services to citizens would be preserved to the greatest extent possible, with cuts being made first in administrative activities and overhead. He also established priorities among programs to protect core City services.

Meanwhile, many of the City's other funds also faced financial challenges for the 2003-2004 biennium. The City's utilities (City Light and Seattle Public Utilities) both have growing needs to replace aging infrastructure. In addition, City Light continues to deal with the financial effects of the West Coast power crisis of 2000 and 2001. The Department of Design, Construction and Land Use has been affected by the slowing economy and the resulting decrease in construction, which led to fee increases and the use of reserves. The City's departments that provide human services have seen growing demand for their programs and decreased funding as a result of State and federal budget cuts.

City departments submitted budget issue papers in May and budget proposals in July. The proposals were reviewed and balanced with revenue estimates over the following two months. The Mayor reached his final budget decisions in mid-September. Employees were notified of possible job cuts during the process as soon as preliminary decisions about each department were made.

The 2003 Adopted and 2004 Endorsed General Fund Budget achieves the Mayor's goal of being sustainable for the long term. It assumes only a slow recovery from the current recession, as illustrated by projected sales tax growth of 2.4% in 2003 and 3.0% in 2004. It complies with the Initiative 747 property tax revenue growth limit of 1% plus the value of new construction annually. Some fees were increased, but most of the gap was closed by spending reductions. The reductions, as measured by the percentage cut from the amounts needed to maintain 2002 programs and previous commitments, ranged from about 3% in the Police and Fire departments to over 13% in departments such as Personnel and Executive Administration. This range of reductions reflects the Mayor's goal of maintaining core City programs.

About 340 net general government full-time equivalent positions are eliminated in the Budget.

## Revenues

The City's General Fund revenues are projected to be \$646,126,005 for 2003, which reflects a growth rate of 2.3% from the revised 2002 estimate. General Fund revenues for 2004 are estimated at \$658,388,010 or 1.9% more than 2003.

The property tax will continue to be the largest source of General Fund revenue, with the \$176,416,000 of projected collections accounting for about 27% of the General Fund total. The retail sales tax will be the second largest contributor at about 20%, followed by the Business and Occupation (B&O) tax and utility taxes at about 17% each.

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The region's economic difficulties are reflected in the projected growth of the sales and B&O tax, which depend on the level of economic activity in Seattle. By 2004, these revenue sources are projected to generate a total of \$246.6 million. In 2000, these same sources generated \$247.1 million. This revenue decline has occurred while local prices are projected to have increased by about 10.8% over the same period.

Revenues are described in more detail in a subsequent section.

## Public Safety

Maintaining basic public safety programs is the City's highest priority. The Police and Fire departments were asked for the smallest percentage budget cuts, but some reductions were needed since spending in these areas accounts for about 44% of the City's General Fund budget. The 2003 Adopted and 2004 Endorsed Budget sets uniformed staffing levels for these two departments at levels slightly above the lowest point in the last dozen years.

The Police Department began its budget process by establishing criteria for the programs and services it provides. These criteria supported retention of general staffing (e.g. patrol units) over specialized staffing (e.g. certain detective squads) and uniformed staffing over civilian staffing. Thus, the Department is actually adding to its patrol strength despite reducing overall uniformed staffing by 26 positions. Significant reductions were made in some civilian units, including a reduction in the Community Service Officer unit and the elimination of the Misdemeanor Warrants unit.

The Fire Department used its computerized models to examine ways to reduce staffing while maintaining fire and emergency medical services to the maximum extent possible. The final plan lowers on-duty strength to 200, slightly above the level in the early 1990s. This level is achieved by decommissioning one aid car and one fire engine. No stations will be closed.

## Transportation

Seattle residents and businesses consistently rank transportation as the biggest challenge facing the city. This challenge has many components, including replacing aging infrastructure, maintaining the basic street network, improving mobility through better signal systems, enhancing pedestrian services, and improving mass transit. The City's Department of Transportation (SDOT) has direct responsibility for some of these functions, but the City is involved in all of them in various ways.

Despite the high priority assigned to transportation, the budget situation required cuts in some SDOT programs. Additional cuts had to be made in November following the passage of statewide Initiative 776, which eliminated the King County Vehicle License Fee, and the failure of Referendum 51. These election outcomes resulted in cuts totaling \$24 million to SDOT's 2003 budget, including reductions to several capital projects and a \$7 million ongoing loss of revenue.

SDOT reprioritized funds to expand the street paving program since this basic infrastructure maintenance has been falling further behind each year. SDOT is also leading the City's work with the State government on replacement of the Alaskan Way Viaduct. Approximately \$5 million of debt will be issued in 2003 to finance the City's share of this effort in the coming biennium.

The 2003 Adopted and 2004 Endorsed Budget includes efforts to enhance pedestrian mobility and improve mass transit. SDOT and Seattle Public Utilities will lead programs to develop sidewalks and comprehensive drainage

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programs in several neighborhoods. They will use a combination of General Fund, utility funds, and funds generated from residents through Local Improvement Districts (LIDs). This expanded effort will meet a long-standing request to provide sidewalks in these areas.

The Budget also provides for support for mass transit programs. A \$20 million interim financing program was provided for the new monorail authority, which was created by the voters in November. This program allows the new authority to start work immediately, without waiting for its own funding sources to become available. The interim funding will be repaid within two years and all costs will be borne by the new authority. The Budget also includes funding to meet the City's commitment to the Community Development Fund, which is designed to help offset the effects of Sound Transit's light rail line in the Rainier Valley. The Office of Economic Development will oversee the City's participation in this program.

## Other Direct Services

Much of the growth in Seattle's budget in the late 1990's occurred in those agencies providing direct services to citizens, other than the public safety departments. For example, human services funding grew substantially to address growing populations of homeless people, immigrants, and others in need, and to offset reductions in Federal, State, and County funding. Library and parks spending grew as new facilities were added and as operating hours were extended.

The large 2003 budget gap necessitated significant reductions in the budgets of these departments. The first cuts were made in administrative and support functions, but these were typically not sufficient to achieve the necessary level of budget reductions, especially since many of these departments continue to experience spending pressures to open and operate new facilities. Each of the departments in this group used its own approach for setting priorities among programs. The following three examples illustrate these approaches.

The Human Services Department (HSD) convened a group of providers and other experts to identify "core services" that should receive the highest priority for funding. These core services are those that provide the safety net for lower-income and disadvantaged people in Seattle, including food and shelter programs. HSD protected funding for these core programs by cutting administration and non-core activities to achieve its budget targets.

The Department of Parks and Recreation completely restructured itself to improve efficiency and reduce administration. Parks staff worked with the non-profit recreation councils to find ways to have the councils pick up certain functions that were being cut. As a result of these approaches, most of the existing services to the public will be preserved.

The Seattle Public Library's Board achieved its budget reductions by carefully reviewing its priorities for service. After making administrative reductions, the Library balanced cuts in the materials budget with decreases in operating hours. After careful review with the Mayor, the Board decided to maintain service every day rather than close for an entire day. For branch libraries, the resulting levels of hours are comparable to those provided in the late-1990s.

## Administration

The City's central administrative departments received many of the largest budget reduction targets. These departments provide services to other agencies, including human resources, fleets, buildings, accounting, and information technology. Many programs were cut by 15% or more and approximately 100 positions were eliminated.

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## Utilities

Seattle City Light's 2003 Adopted and 2004 Endorsed Budget is built on the rate proposals approved by the Mayor and Council in 2001. The utility continues to gradually rebuild its financial health and expects to eliminate its operating deficit by mid-2004. Most personnel changes were made in mid-2002, although a few additional changes are included in this Budget.

Seattle Public Utilities (SPU) is one of the few departments expecting growth for 2003. All three utility components of SPU – water, drainage and wastewater, and solid waste – face growing needs for infrastructure maintenance and replacement. The water utility's rates were increased in September 2002 to provide money for its capital programs and to enhance the financial status of the Water Fund. Rate increases for the other utilities are included in this Budget.

## Capital Improvement Program

The City of Seattle began to significantly expand its construction activities in the late 1990s to make up for almost two decades of under-investment in new or remodeled facilities. Some of these projects were funded through ballot measures, other from General Fund-supported debt, and still others from utility revenues.

Many of these projects are now coming to fruition. Fisher Pavilion at Seattle Center, the new Delridge Library, and the Justice Center, housing Police headquarters and the Municipal Court, all opened in 2002. The new Central Library, City Hall, Southwest Police Precinct, and several neighborhood libraries and community centers will open in 2003. In addition, the remodeling of the Seattle Center Opera House into McCaw Hall will be completed in 2003. Further facility openings are scheduled for 2004. Significant utility projects to upgrade water quality, improve drainage, and enhance the reliability of the electrical infrastructure also will be completed.

The 2003 Adopted and 2004 Endorsed Budget maintain the City's commitment to major maintenance of capital facilities. The Cumulative Reserve Subfund will provide funding for several dozen major maintenance projects in general government departments. A major maintenance study is currently underway that may lead to changes in planning, funding levels, or allocations for the next biennial budget.

## Looking to the Future

The 2003 Adopted and 2004 Endorsed Budget have been developed to place the City on a sustainable basis for the future. They reflect permanent changes in service delivery approaches and the reduction or elimination of some lower-priority programs. The Budgets maintain funding for core services and redirects funding from administration to direct services. The Budgets should be sustainable into the following biennium even under the slow-growth revenue assumptions that are included.

The 2003 Adopted and 2004 Endorsed Budget also maintain the City's commitment to strong financial policies and long-term planning. The Emergency Subfund is maintained at the maximum level allowed by State law so that the City is positioned to respond to natural disasters or other emergencies. Other reserves for equipment replacement and major maintenance are funded in compliance with City policies.

The greatest threats to the sustainability of the 2003 Adopted and 2004 Endorsed Budgets are further economic slowing, additional cost pressures, or State action to reduce City revenues or increase City responsibilities. The Budget assumes that 2002 is the low point for the regional economy and that slow growth will begin in 2003. If the nation or the region experiences a "double-dip" recession, further budget reductions will be needed. Cost



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increases are most likely to occur in the area of employee benefits, especially health care. City health care costs have soared since mid-2001 and these patterns have been built into the Budget. However, some forecasts suggest that such costs could rise even more than anticipated in 2003 and 2004.

If the economy gradually improves as projected, and if cost pressures do not exceed expectations, the 2003 Adopted and 2004 Endorsed Budgets should be sustainable for several years. The Budgets provide funding for a base level of services that can be expanded when the economy leaves the doldrums in a few years.

