

Washington state law requires cities with a population greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses but does not appropriate the budget for the second year. The second year budget is based on the Council endorsement and is formally adopted by Council after a midbiennial review. The 2004 Adopted Budget follows this practice.

Budgetary Basis

The City budgets all funds on a modified accrual basis, with the exception of utilities and other enterprise funds, which are budgeted on a full accrual basis. Property taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, as revenues even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash because this is when they can be accurately measured. Investment earnings are accrued as earned.

Expenditures are considered a liability when they are incurred, except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are considered a liability when they are paid.

Budget Preparation

Executive preparation of the budget generally begins in February and culminates no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a Current Services budget. Current Services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as voter-approved levy and bond issues for new library and park facilities, as well as labor agreements and increases in health care, insurance and cost-of-living-adjustments for City employees. At the outset of a new biennium, Current Services budgets are established for both the first and second years, leading to Council's adopted and endorsed budgets. For the midbiennium budget process, such as the 2004 Adopted Budget, the Executive may define the Current Services budget as the second year budget endorsed by Council in the previous November, or re-determine current service levels. This year's budget process used the 2004 Endorsed Budget as the Current Services budget.

During the budget preparation period, the Department of Finance (DOF) makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the Current Services budget. The revenue estimates must be based on the prior twelve months of experience. Proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget. In April 2003 the Department of Finance (DOF) compared initial projections of revenues with 2004 Current Services spending requirements. In this process, DOF identified a \$9- to \$10-million shortfall in the City's General Fund, meaning

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revenues would have to be increased or Current Services budgets would have to be cut in order to balance the City's budget as required by state law.

In late April 2003, departments were given their budget reduction targets – the amount of General Fund dollars that could be included in the department's overall budget. Because there was not enough revenue projected to continue to fully fund current services, all departments, with the exception of the very small departments, were asked to reduce their General Fund spending between 1.0 and 2.75%. Those departments that wanted to undertake new initiatives were told to make additional cuts to Current Services in order to free up the necessary resources for new programs.

In May 2003, departments prepared Budget Issue Papers (BIPs), summary-level descriptions of suggested budget reductions or increases, to give the Mayor's Office and DOF early indications of how departments planned to achieve their budget targets. In early June, the Mayor's Office communicated to the departments which BIP changes were to be included in their July budget submittals. Departments then finalized their operating and CIP budget requests. In early July, DOF received departmental budget submittals, including all position changes, and began its analysis and evaluation process.

In August 2003, the projected shortfall between anticipated General Fund revenues and the 2004 Endorsed (Current Services) Budget had grown to \$24 million. A second round of budget reduction suggestions, review, and Mayor's Office approvals ensued. In this period, DOF also reviewed cost-of-living adjustments and other assumptions used to develop the 2004 Endorsed Budget. The process culminates in the proposed operating budget, 2004-2009 CIP, and position list. Seattle's budget and CIP also allocate Community Development Block Grant funding. Although this federally funded program has unique timetables and requirements, Seattle coordinates it with the annual budget and CIP processes to improve preparation and budget allocation decisions, and streamline budget execution.

In late September, the Mayor submitted the proposed budget and CIP to the City Council. In addition to the budget documents, DOF prepared supporting legislation, and documents describing the City's progress on a variety of issues and providing in-depth information on base budgets and departmental reductions. Copies of budget documents are available for public inspection at the Department of Finance offices, in each of the branches of the Seattle Public Library, Neighborhood Service Centers, and on the Internet at www.cityofseattle.net/financedepartment.

Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts at least two public hearings on them. The Council also holds committee meetings in open session to discuss budget requests with department representatives and DOF staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and after making changes to the Mayor's proposed budget, the City Council adopted this budget in late November through an ordinance passed by majority vote. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it. There is no line-item veto in Seattle.

During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements state the Council's expectations in making budget decisions and generally require affected departments to report back to the Council on results. A summary of the 2004 Statements of Legislative Intent is included in Appendix C. A chart that summarizes the City's budget process schedule is provided at the end of this section.

Legal Budget Control

The adopted budget generally makes appropriations for operating expenses at the budget control level within departments unless the expenditure is from one of the General Fund reserve accounts or is for a specific project or activity budgeted in the General Subfund category called Finance General. These projects and activities are budgeted individually. Capital projects programmed in the CIP are appropriated in the budget at the program or project level. Grant-funded activities are controlled as prescribed by law and federal or state regulations.

Budget Execution

Within the legally adopted budget authorizations, more detailed allocations, as approved by DOF, are recorded in the City's accounting system, called SUMMIT, at the lowest levels of each department's organizational structure and in detailed expenditure accounts. Throughout the budget year, DOF monitors revenue and spending performance against the budget to protect the financial stability of the City.

Budget Amendment

A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable earlier. Additional unforeseeable appropriations related to settlement of claims, emergency conditions, or laws enacted since passage of the annual operating budget ordinance require approval by a two-thirds vote of the City Council.

The Finance Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, and no more than \$500,000 of the appropriation authority for the particular budget control level or, where appropriate, line item, being increased. In addition, no transfers can reduce the appropriation authority of a budget control level by more than 25%.

In accordance with Washington state law, any unexpended appropriations for operating or ordinary maintenance expenditures automatically lapse at the close of the fiscal year, except for any appropriation continued by ordinance. Unexpended appropriations for capital outlays remaining at the close of the fiscal year are carried forward to the following year, except for any appropriation abandoned by ordinance. In developing guidelines for the transition to biennial budgeting, the City Council created a mechanism for allocating unexpended, non-capital, year-one appropriation authority. Resolution 28885 provides that departments may be able to carry forward into year two up to one-half of the unencumbered and unexpended non-capital appropriations remaining at the end of year one, with Council approval in year two's budget.

Budget Process

BUDGET PROCESS DIAGRAM – 2004 BUDGET

