

Overview of Adopted Budget

On November 22, 2010, the Seattle City Council passed unanimously the 2011 Adopted Budget and the 2012 Endorsed Budget. The purpose of this summary is to document the significant changes the Council made to the 2011-2012 Proposed Budget. This summary is intended to complement and provide an update to the 2011-2012 Proposed Budget Overview, which describes the major themes and trends for the 2011-2012 budget. While including a number of notable changes, the budget adopted by the Council largely reflects the themes and changes that were originally proposed by Mayor Mike McGinn when he transmitted his recommended budget to the Council on September 27, 2010.

Budget Outlook – Major Highlights

There were three noteworthy factors that influenced the City's finances as the City Council adopted the 2011 budget: general stability in the General Fund revenue forecast; the results of the November 2010 general election, and the opportunity to restructure the timing of the City's share of the compensation for the State's purchase of the Museum of History & Industry (MOHAI) facility in McCurdy Park.

Economic Outlook and Its Impact the City's Revenue Picture: For the first time in two years, the national and local economies, while still struggling to recover from the longest and deepest recession since the Great Depression, showed signs of stability in the intervening months after the 2011-2012 budget was originally proposed. Although some reductions were made to the sales tax and business & occupation (B&O) tax revenue forecast to reflect non-economic forecast conditions, such as the voted repeal of the sales tax on candy, gum, and bottled water (discussed below), there were no revisions reflecting changes in economic conditions from the one prepared in August. Continued weakness in construction activity and the commercial and residential markets, however, required additional downward revisions in two other key revenues – property tax and real estate excise tax (REET). Based on revised data from the King County Assessor's Office, the value of new construction, which contributes to property tax revenues, is projected to drop 62% from \$1.7 billion to \$667 million between 2010 and 2011. This far exceeds the estimated 37% drop that was assumed in the revenue forecast upon which the proposed budget was based. This change results in an \$854,000 drop in property tax revenue in 2011 and a \$1.6 million drop in 2012.

Similarly, REET revenues, which support the City's general government capital program and are deposited in the Cumulative Reserve Subfund of the General Fund – were down significantly as a result of continued unprecedented weakness in the real estate market. Locally, single family home sales were down 30% in the third quarter of 2010 as compared to the same period in 2009. Nationally, forecasters are anticipating additional weakness in real estate sales in both 2011 and 2012. This weakness is attributed to steeper than expected declines in home sales following the expiration of the federal home-buyers' tax credit on April 30, 2010. Also, the banking industry is facing challenges in processing foreclosures, which also contributes to the underperformance of this sector. As a result, the forecast for REET revenues are down \$2.4 million for 2010 and \$4.4 million for 2011. A modest recovery in REET revenues is anticipated for 2012, with an increase of \$1.5 million.

November 2010 General Election – the Repeal of the Candy, Gum and Bottled Water Sales Tax:

Washington State voters approved Initiative 1107, which resulted in the repeal of the sales tax on candy, gum, and bottled water effective December 2, 2010. This development results in a \$1.6 million decrease in 2011 and \$1.7 million decrease in 2012 in anticipated sales tax revenues. The impact of the November general election on City revenues could have been much worse. Initiatives 1100 and 1105, which would have privatized liquor sales in the State of Washington, would have resulted in the loss of \$2-4 million in revenues in 2011 and \$4-7 million in revenues 2012. Both of these initiatives were rejected by Washington State voters. Finally, the King County public safety sales tax proposal, which would have increased the sales tax by 0.2% and added \$8.7 million in revenues to the City's General Fund in 2011, was also rejected by voters.

Restructured Timing of Payments from the Museum of History & Industry (MOHAI): For over 50 years, the Museum of History & Industry (MOHAI) has occupied a City-owned facility in McCurdy Park just north of Highway 520. The Museum will be re-locating to the City-owned Lake Union Armory Building to make way for the construction of the new Highway 520. As part of this arrangement, MOHAI successfully negotiated with the Washington State Department of Transportation for \$40 million for the building occupied by MOHAI at

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McCurdy Park, a larger sum of money than was originally anticipated. The City anticipates receiving additional funds from the State for the land in 2011 or 2012.

Given the City's financial challenges, MOHAI agreed to restructure the revenue flow from the transactions described above, giving the City access in 2011 to \$8.5 million of MOHAI's anticipated \$40 million payment from the State. The City will start repaying the funds by 2013 likely using its anticipated proceeds from the previously discussed sale of McCurdy Park to the State. This agreement provided the Council with a substantial sum of money to restore funding on a one-time basis for a number of the programs originally slated for reduction in the 2011-2012 Proposed Budget.

The other programmatic changes are supported by a number of miscellaneous adjustments, including increased revenues from Parks fees, use of reserved fund balance given lowered inflation estimates, and additional management efficiency reductions for 2011 and 2012.

Significant Programmatic Changes:

Below is a high level summary of the most significant programmatic changes included in the 2011 Adopted Budget and the 2012 Endorsed Budget. Additional details about these and other changes to the proposed budget are included in the department detail pages in subsequent sections of this book.

Public Safety: The budgets for the City of Seattle's police and fire functions were adopted largely as proposed. The notable exception is the increase in funding to restore two crime victim advocate positions, bringing the total number of victim advocates in 2011 and 2012 to seven, the same number that are funded for 2010.

Human Services: In adopting the budget for the Human Services Department (HSD), the Council retained all of the administrative reductions originally included in the 2011-2012 Proposed Budget with the exception of restoring a 0.5 FTE Volunteer Programs Coordinator position to HSD that will be funded by the Cable Television Franchise Subfund. In addition, the Council set a \$200,000 savings reduction for HSD for 2012, instructing the department to identify efficiencies and opportunities for streamlining the administration of agency contracts. Meanwhile, on the direct service side, the adopted budget preserves funding for the following programs:

- \$149,000 in funding for subsidies that reduce the fee charged to low-income batterers who are mandated to attend batterers intervention programs;
- \$129,000 in funding for the Indoor Air Quality program which evaluates home environments for people with asthma;
- Partial preservation in the amount of \$42,000 for Community Crime Prevention programs, resulting in a net reduction of \$18,000;
- \$36,000 for a drop-in day program for seniors;
- \$30,000 for child care information and referral service;
- \$34,000 for policy advocacy and technical assistance to non-profit agencies;
- Partial preservation in the amount of \$20,000 to two agencies that support food banks and meal programs, resulting in a net reduction of \$20,000 to encourage efficiencies in organizational support to food banks and meal programs; and
- \$18,000 in funding for a civilian officer foot patrolman in the International District.

In addition, the adopted budget adds funding for the following new programs:

- \$100,000 to fund increased costs related to shelter services;
- \$76,000 to fund six months of uninterrupted winter shelter and services in 2011 and 2012;
- \$15,000 to provide homeless housing providers and landlords with training on the dynamics of domestic violence and the significant and complex issues many survivors and their families face when they attempt to obtain safe housing; and

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- \$20,000 to SafeHavens to bring Seattle's contribution in line with the share of SafeHavens services provided to Seattle residents.

In addition, the Council eliminated the proposed addition of \$150,000 in the HSD budget in 2011 to fund a new Immigrant and Refugee program, and instead moved this funding to the Finance General budget in 2012 to allow additional time to review this program in 2011.

Parks: The 2011 Adopted Budget adds \$248,000 in funding to restore a total of 75 drop-in hours at the Alki, Ballard, Green Lake, Laurelhurst, and Queen Anne community centers. As a result of this change, these community centers will be open approximately 32 hours per week, as compared to 52 hours per week at the 20 other community centers throughout the City. In addition, the adopted budget instructs Parks to continue its efforts to identify efficiencies in its community center operations.

Seattle Public Library: The 2011 Adopted Budget retains all of the programmatic changes included in the proposed budget. It adds \$220,000 in capital funding for both 2011 and 2012 to support the library's major maintenance program. In addition, the adopted budget instructs the library to explore a potential 2012 property tax levy ballot measure to support on-going operating costs of Seattle's public library system.

Department of Neighborhoods: The 2011 Adopted Budget for the Department of Neighborhoods (DON) provides funding to retain three of the six neighborhood district coordinators that would have been eliminated in 2011. This will bring the total number of district coordinators in 2011 to ten. In addition, funding is provided to DON to continue operating the West Seattle Neighborhood Service Center that had been slated for closure, bringing the total number of Neighborhood Service Centers for 2011 up to seven. The 2011 Adopted Budget also restores funding for a Senior Community Development Specialist in the historic preservation program. And, an additional \$300,000 in funding is provided to the Neighborhood Matching Fund. Finally, the 2011 Adopted Budget sets a \$75,000 savings target for DON to meet through the elimination of a management/supervisory level position in 2011.

Seattle Department of Transportation: The 2011 Adopted Budget for the Seattle Department of Transportation (SDOT) makes two significant policy and budget changes to the original proposed budget for SDOT. The original proposed budget included increases in parking meter rates to enhance the management and regulation of on street parking. The rate for parking downtown was proposed to increase from \$2.50 per hour to \$4.00 per hour, while the rate in other parts of the City would increase by \$0.50 per hour. In addition, the proposed budget recommended extending the paid parking hours by two hours until 8:00 p.m. in the evenings and instituting paid parking on Sundays (11:00 a.m. – 6:00 p.m.) in some neighborhoods. In adopting the 2011 budget, the Council made several significant changes to the parking meter proposal. The changes are based on a premise that the City should implement a demand-based parking meter rate structure that provides variable rates informed by observed occupancy rates to achieve one or two open parking spaces per block face throughout the day. The City Council set a maximum rate of \$4.00 per hour and a minimum charge of \$0.75 per hour. The 2011 Adopted Budget provides SDOT with the resources needed to study and implement this demand-based parking meter rate structure. In addition, in adopting the 2011 budget, the Council also indicated that it was not supportive of extending paid parking to Sundays.

The original proposed budget also assumed a 5% increase in the commercial parking tax (CPT). Council did not enact this increase, resulting in \$9.9 million in less revenue for SDOT in 2011 and \$10.2 million in 2012 to support services such as emergency response, homeless encampment cleanup, street cleaning, crash cushion and guardrail replacement, freight mobility improvements, and bicycle and pedestrian infrastructure. The loss of this revenue is partially mitigated on a one-time basis by the earlier-than-anticipated imposition of the \$20 vehicle license fee (VLF). By implementing the VLF effective, May 1, 2011, the City expects \$1.1 million in additional revenues for 2011. In addition, the 2011 Adopted Budget provides SDOT with \$2.2 million in additional General Fund support. While these funds help retain a number of important SDOT services, including emergency response, homeless encampment cleanup, and staff support for the South Park Bridge replacement, a number of programs designated to receive increased support in the Mayor's proposed budget are not supported in the adopted budget as a result of not enacting the CPT increase. Funding for these important services will be

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considered in the context of the Citizens Transportation Advisory Committee (CTAC III), which is charged with a full review of the City's transportation funding system and advising the City and the Seattle Transportation Benefit District (STBD) on prioritizing and funding of transportation projects.

Seattle City Light: The Council made a number of important changes in adopting the Seattle City Light (SCL) budget for 2011. The Council approved the proposed 4.3% increase in electric rates for 2011, but it assumed that the Rate Stabilization Account (RSA) is fully funded at \$100 million effective January 1, 2011, and that the RSA surcharge can be removed effective December 31, 2010. Through a series of expenditure reductions, including \$1.5 million in savings from the abrogation of 14 vacant positions; reducing the appropriation for distribution right-of-way vegetation management by \$1 million; reducing generation facilities maintenance by \$1.3 million; and reducing power cost by \$9.9 million to reflect reduced I-937 compliance costs and the decision to not exercise power rights on the Priest Rapids project, the adopted budget reduces the 2011 wholesale power revenue projection by \$13.7 million. The Council took this action in hopes of reducing the likelihood of the RSA surcharge being reinstated in 2011.¹ The savings assumptions in 2011 are increased and carried forward into 2012 in order to lower the SCL rate increase in 2012 from 4.2% to 3.2%, as adopted by the Council.

Seattle Public Utilities: The Council adopted the proposed Seattle Public Utilities (SPU) budget and proposed Solid Waste and Drainage and Wastewater rates with several changes. The Council added funding from Solid Waste rates for three new programs in support of the City's zero waste goals, including an opt-out registry that would allow residents to opt-out of receiving yellow pages phone books; a pilot program to assess whether every-other-week garbage collection may help advance City recycling goals, save money, and maintain customer satisfaction levels; and universal food and yard waste collection subscription for multi-family dwellings starting in the fall of 2011. Consistent with the 2010 City Auditor's Report on graffiti control in the City, the Council also added resources for enhanced graffiti control and outreach, funded by a 19 cent per ton increase in tonnage taxes, from \$8.50 per ton to \$8.69 per ton. The budget and CIP assume solid waste rate increases for the average residential customer of 6.3% or \$2.05 per month in 2011.

SPU's adopted budget and CIP are supported by rates that assume increases for the average residential customer in 2011 of 13.1% or \$2.25 per month in Drainage and 4.1% or \$1.92 per month in Wastewater rates, before the effect of King County treatment rate increases that are passed through to Seattle customers. With the effect of King County rate increases, average residential Drainage rates increased by 14.0% or \$2.40 per month, while Wastewater rates increased by 14.5% or \$6.76 per month.

Cumulative Reserve Subfund: As described above, real estate excise tax (REET) revenue estimates are revised downward from levels assumed in the proposed budget. To account for these changes, the 2011 Adopted Budget incorporates delays and reductions of some REET-supported projects. Net reductions relative to the proposed budget over 2011 and 2012 totaled \$150,000 for Seattle Center major maintenance activities and \$400,000 for Department of Park and Recreation (DPR) work on ball field lighting replacement and urban forestry. \$1.8 million was reduced from Finance and Administrative Services (FAS) support of Americans with Disabilities Act (ADA) facilities improvements, leaving \$1.2 million available over the biennium. This FAS program supplements additional ADA-compliant work occurring as part of other city projects. Additionally, \$2.6 million in funding for projects in DPR and the Department of Transportation are delayed from 2011 to 2012.

Looking Ahead

Assuming revenue projections hold, the City's 2011 and 2012 budgets are in balance. However, a number of actions taken in adopting the budget, including the use of the \$8.5 million loan from MOHAI are one-time in nature that, based on current revenue projections will leave the City's budget out of balance for 2013 and 2014.

¹ The RSA was enacted by the Council in 2010 to provide SCL with a financial buffer from the volatility in the wholesale power revenue source. If wholesale power revenues fall below the projected projections, SCL can draw on the RSA to sustain its operations. A surcharge of 1.5% is automatically if the value of the RSA falls below \$90 million. The surcharge increases automatically in increments of 1.5% for every \$10 million change below \$90 million, to a maximum of 4.5%.

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Based on current projections, the City's General Fund is facing a \$6.8 million shortfall in the 2013-2014 biennium.

General Subfund Financial Outlook

Amounts in \$1,000s	2010 Revised	2011 Adopted	2012 Endorsed	2013 Projected	2014 Projected
Beginning Unreserved Fund Balance*	(2,424)	100	2,552	251	(4,607)
Total Revenues	897,447	897,416	923,295	955,205	990,258
Total Expenditures and Change in Reserves	(894,923)	(894,964)	(925,596)	(960,063)	(992,485)
Ending Unreserved Fund Balance	100	2,552	251	(4,607)	(6,835)

* Available balance excludes policy reserves

This projected shortfall is in addition to the need to identify funding for necessary capital investments such as the North Precinct and the South Park Bridge, as well as major maintenance obligations.

As a result of these anticipated financial pressures, it is essential that all City departments continue the work begun this year to identify operational efficiencies in order to address these future challenges. Work is underway on many fronts, including reviewing the City personnel system; how human resources functions are delivered across departments; and operational efficiencies and partnership opportunities for the Parks department, just to name a few.