

Overview of Proposed Budget

This section describes the 2011-2012 Proposed Budget as transmitted to the City Council from the Executive. This section describes the decision making process used by the Executive and outcomes of that process at a high level. Some of the proposals described here differ from the budget as adopted by the City Council. Significant changes are described in the previous section.

The 2011-2012 Proposed Budget, the first budget prepared under the leadership of Mayor Mike McGinn, totals \$3.9 billion, including the City's \$888 million General Fund. The budget reflects a new economic reality for the City of Seattle. The City's once healthy General Fund revenue streams have suffered from the turmoil resulting from the longest and deepest recession since the Great Depression. While still growing, revenues are no longer increasing at a rate sufficient to maintain existing services, and most of the one-time strategies used over the past two-years to balance the budget, avoid significant reductions, and sustain services are now exhausted. The result is a \$67 million shortfall in the City's General Fund for 2011. In addition, many of the City's non-General Fund departments, including the operating funds of the Department of Planning and Development, the Seattle Department of Transportation, Seattle City Light, and Seattle Public Utilities, are experiencing fiscal stress. In fact, the Mayor's total Proposed Budget for 2011 is only \$25 million more than the 2010 Adopted Budget, or 0.6% larger, and the General Fund budget is \$13.7 million smaller, a decline of 1.9%.¹

In the face of these sizable financial challenges, the 2011-2012 Proposed Budget reflects Mayor McGinn's commitment to developing a budget that is aligned with available resources. The Proposed Budget presented in the pages that follow puts the City on a more sustainable path and sets forth a plan to continue transforming City government over the long-term to meet the priorities of Seattle residents – including safe neighborhoods; the availability of a strong safety net for our most vulnerable residents; opportunities for the city's children and youth to thrive and succeed; access to high-quality cultural and recreational opportunities; and an infrastructure system that will support healthy commerce and efficiently carry people, goods, and information into the future.

Closing a \$67 million shortfall in the General Fund, as well as addressing the financial challenges of other City funds, requires a number of very difficult decisions. *Nonetheless, the 2011-2012 Proposed Budget contains a balanced set of changes that do not rely on any general tax increases to support on-going operations, nor does the 2011-2012 Proposed Budget draw down the City's General Fund reserves – the Emergency Subfund and the Rainy Day Fund.*² Rather, the budget is balanced first and foremost on internal savings and efficiencies, including savings in labor costs and administrative and management overhead costs; a relatively modest set of revenue increases that are targeted toward the users of various services; and, as a last resort, some difficult reductions to direct services.

¹ The size of the General Fund declines by over \$16 million as a result of the creation of an operating fund for the new Department of Finance and Administrative Services. Absent this, the General Fund would have grown by approximately \$3 million relative to the 2010 Adopted Budget or an increase of 0.33%.

² In fact, the 2011-2012 Proposed Budget increases funding to the Rainy Day Fund by \$750,000. Under State law, the City can set aside 37.5 cents per \$1,000 of assessed value of property within the city in the Emergency Subfund (ESF). Because assessed values on property are declining, the City, by law must reduce the size of the ESF. The required reduction totals \$750,000. Knowing that healthy reserves are critical in times of economic volatility and are essential to preserving the City's AAA bond rating, the 2011-2012 Proposed Budget recommends shifting this money to the Rainy Day Fund, raising the size of the Rainy Day Fund to just over \$11 million.

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While this budget puts the City of Seattle on a more sustainable financial path, it does not come without consequences. The reductions – to internal operations and to direct services – will result in the elimination of positions, including some layoffs of valuable City employees. The 2011-2012 Proposed Budget eliminates 294 positions (net) or 2.67% of the City’s total workforce. Of these positions, 214 are filled and will result in layoffs, effective January 4, 2011. Also, of these total positions, 64 – or nearly 22% – are senior level positions³ (executives, managers, and strategic advisors), reflecting Mayor McGinn’s commitment to streamline the City’s management functions.⁴

The Challenge

While not nearly as acute as other local governments nationally and throughout the State of Washington, the City of Seattle’s budget – particularly the General Fund – has been suffering from the effects of the Great Recession since 2008. Up to now, the City has largely been able to avoid the more drastic service reductions experienced by other jurisdictions due to four primary factors:

- The Puget Sound region, including the City of Seattle, felt the impacts of the recession slightly later than the rest of the country.
- The City’s General Fund revenue base is diversified, drawing resources from four primary sources – property tax (28%); utility tax (19%); business and occupation (B&O) tax (18%); and sales tax (16%). While sales tax and B&O taxes are subject to fluctuations as a result of the economy, property taxes and utility taxes tend to be a bit more stable, acting as a buffer in times of economic decline.⁵
- The City was in a fortunate position of having relatively healthy reserves and fund balances as the economy contracted and revenues faltered. These reserves allowed the City to sustain services that it would otherwise not have been able to maintain with the revenues available⁶. In other words, the level of services the City committed to providing in 2010, go beyond what base revenues can support on an on-going basis.
- The City made widespread use of one-time budget strategies to balance the 2010 Adopted Budget. While the on-going budget challenges persist, the one-time solutions employed in 2010 are largely exhausted. The 2010 Adopted Budget closed a \$40 million shortfall in the General Fund⁷ using nearly \$29 million of one-time budget strategies, including use of the Rainy Fund (described above), other fund balances, and use of one-time debt proceeds to pay for on-going debt service. While this allowed the City to continue to provide valuable services to city residents, the absence of a robust recovery in the growth rate of revenues for 2011 means the City does not have the resources to sustain these service levels. Had the \$29 million in one-time budget solutions for 2010 instead been addressed with on-going budget solutions, the City’s \$67 million General Fund deficit for 2011 would be a more modest \$38 million.

³ Senior level positions represent approximately 9.5% of the City’s total workforce.

⁴ In addition, a net 12 positions will be reclassified out of senior level positions into non-senior titles as part of the 2011-2012 Proposed Budget, for a total reduction of 76 senior level positions.

⁵ Property tax growth, based on action by the State Legislature in 2007, is capped at 1% plus new construction. Prior to this action, levy growth was capped at 6% plus new construction, providing municipalities an even stronger buffer to the occasional downturns in the more volatile revenue sources, such as the sales tax and B&O tax.

⁶ Through prudent financial planning, the City had a Rainy Day Fund at the beginning of 2009 that totaled \$30.6 million. The City used \$8.9 million of the Rainy Day Fund in 2009 and \$11.3 million in 2010, according to the 2010 Adopted Budget, leaving \$10.5 million, or approximately 1% of the General Fund, entering into 2011.

⁷ In addition to the \$40 million shortfall closed in the 2010 Adopted Budget, weak revenue performance as compared to budget forecasts have resulted in the City’s 2010 shortfall growing by an additional \$20 million subsequent to the budget being adopted. The City closed this mid-year shortfall with a combination of departmental budget reductions, as well as some one-time fund balances.

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As economic weakness persists in 2010 and the prospect for the economic recovery in 2011 remains uncertain and likely very modest as compared to typical recoveries, the City's revenue picture is subdued. The City's base General Fund revenues are forecast to grow by a meager 0.7% for 2011 as compared to 2010,⁸ only one-tenth of one percent greater than the inflation rate to which most City salaries are pegged.⁹ However, a number of costs, such as health care and retirement contribution rates, are growing at a rate that exceeds the average inflation rate. In addition, the many services that were supported in 2010 with one-time funding sources place additional upward pressure on the expenditure side of the equation. Considering all of these variables together, it is clear that the anticipated revenues for 2011 are not sufficient to sustain existing service levels.

Approach to Closing the General Fund Gap

In addressing the General Fund budget shortfall, Mayor McGinn placed a strong emphasis on prioritizing services as he made reduction decisions. In most typical budget reduction exercises, departments are assigned a single reduction target based on an 'across the board' approach (i.e., where every department is expected to propose the same percentage reductions regardless of how essential their services are) or a target that attempts to prioritize services (i.e., public safety receives a lower percentage cut than a service that is considered more discretionary in nature). The Mayor employed a different strategy in building his Proposed Budget. In order to have a more robust conversation about the programmatic trade-offs and priorities in the face of constrained resources, Mayor McGinn assigned target reduction ranges to the City's General Fund-dependent departments, as follows:

Department	Reduction Range
Police & Fire	1.0 - 5.0%
Human Services	5.0 - 10.0%
All Other Agencies	9.5 - 14.5%

Departments were asked to submit the reduction strategies that they would employ to meet both the low and the high reduction targets described above, which provided the Mayor with a broader array of reduction options. From the outset, these reduction ranges placed a higher-priority on public safety functions (e.g., police and fire) and the human services safety net than other City services, as these functional areas were assigned lower reduction targets than other functions in City government. And, in practice, Mayor McGinn's 2011-2012 Proposed Budget reflects these priorities. The 2011-2012 Proposed Budget for police and fire includes reductions of 1.2% and 1.3 % respectively relative to baseline funding levels, while the Human Services Department budget absorbs 5% in reductions. The remaining departments that are subject to reductions¹⁰ include 2011 budget reductions ranging from 8.5% to nearly 22% from baseline funding levels.

In developing strategies to meet these reductions – as well as in addressing the financial challenges facing many of the other City funds – Mayor McGinn set a number of overarching priorities. These priorities include:

- Emphasizing sustainable budget changes that address the shortfall on an on-going basis, as opposed to one-time budget strategies that simply defer the problem into subsequent years.

⁸ Growth beyond 2011 is anticipated to improve, but indications are that over the next 4 years average annual growth in tax receipts will be just under 3%. These revenues in previous post-recession expansion periods experienced average annual growth rates of over 6%.

⁹ The City uses the annual average growth rate in the CPI-W for the 12 months ending in June each year as the basis for cost of living adjustments in its wage agreements. CPI-W, which measures price changes experienced by urban wage earners and clerical workers in the Seattle metropolitan area, grew by 0.6% for the 12 months ending June 2010.

¹⁰ Some small departments or departments that do not have flexibility with expenditure levels did not receive target reductions, including Criminal Justice Contracting Services, the Civil Service Commission, the Ethics and Elections Commission, Firefighters Pension, Hearing Examiner, Police Relief and Pension, and the Public Safety Civil Service Commission.

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- Seeking opportunities for internal and administrative savings in order to preserve direct services. Examples of changes made in the Proposed Budget that fit into this category include, savings in the City's labor costs, consolidation of functions, savings in human resources and information technology functions, and savings in contracting and other non-personnel costs.
- Identifying opportunities to streamline management functions and expanding span of control by eliminating or reclassifying senior-level positions (executives, managers, and strategic advisors).

Even after maximizing savings as described above, reductions to direct services are unavoidable in the face of a \$67 million General Fund revenue shortfall. In considering direct service reductions, Mayor McGinn sought changes that would minimize impacts to public safety and to the human services safety net. In addition, he sought to preserve, to the greatest extent possible, programs serving children and youth and providing employment opportunities. He also examined the geographic equity of impacts, as well as the availability of alternate services, in making his decisions. In addition, the Mayor considered the race and social justice impacts of all budget decisions on the community and sought to mitigate those impacts wherever possible. The Mayor's Proposed Budget also preserves existing City programs that support his major initiatives, including the Youth & Families Initiative; the Jobs Initiative; Walk, Bike, Ride; and Sustainable Communities.

Finally, in considering revenue options to address the \$67 million shortfall, Mayor McGinn *avoided increases in general taxes to support on-going operations*. The Mayor's Proposed Budget instead targets revenue increases toward users of various City services.

Closing the Gap - Budget Highlights

Maximizing Internal Savings to Preserve Direct Services

The Mayor's first priority in balancing the 2011-2012 Proposed Budget was to maximize internal savings and efficiencies in order to preserve as many direct services as possible. With this objective in mind, the 2011-2012 Proposed Budget employs a number of strategies, as follows:

Reductions to Travel & Training Expenditures: The 2011-2012 Proposed Budget captures savings by eliminating discretionary travel and training. In developing the 2011-2012 Proposed Budget, all travel and training accounts were brought down to zero and departments were required to define and justify their travel and training needs (a zero-based budgeting process). These efforts will allow the City to capture \$400,000 in General Fund savings for 2011 and \$1.2 million in savings citywide.

Program Consolidations: The City of Seattle provides a diverse array of services that often require the involvement of multiple City departments. In practice, this can result in duplicative or overlapping services. The 2011-2012 Proposed Budget streamlines the provision of some of these services, including the City's tree program and street cleaning.

Currently, the Office of Sustainability and Environment (OSE), the Department of Neighborhoods (DON), Seattle Public Utilities (SPU), and Seattle City Light each play a role in providing tree planting services to Seattle residents. The 2011-2012 Proposed Budget consolidates the OSE and DON portions of the program under the auspices of SPU, improving service delivery and making more effective use of utility funds and the General Fund. This change will provide the urban forestry program with dedicated staffing to better facilitate community engagement with the mission of increasing the city's tree canopy cover. Seattle City Light will continue to contribute to the program, as well.

The 2011-2012 Proposed Budget also seeks to maximize opportunities for the cost-effective improvement of water quality in local bodies of water. Research and analysis shows that street sweeping (in contrast to building and maintaining runoff detention and treatment facilities) is one of the most cost-effective means of keeping pollutants from running off into natural bodies of water. The City of Seattle is under increased pressure to reduce

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the number of pollutants entering streams, rivers, lakes, and Puget Sound under the requirements of the City's National Pollutant Discharge Elimination System (NPDES) permits. Rather than adding its own street sweeping capacity, SPU will contract with the Seattle Department of Transportation (SDOT) to provide this service.

In addition, the 2011-2012 Proposed Budget takes the final steps in completing the implementation of the newly consolidated Department of Finance and Administrative Services (FAS), which combines the functions of the former Fleets and Facilities Department, the former Department of Executive Administration, portions of the former Department of Finance, and the Customer Service Bureau from the Department of Neighborhoods. This re-organization will allow for the greater utilization of resources; better integration of the City's financial and accounting practices to allow for improved financial oversight; and improved efficiencies in the provision of customer service.

Savings in Overhead Costs: The 2011-2012 Proposed Budget identifies savings in overhead costs, including:

- *Roll Back of Non-Personnel Inflationary Increases:* The City traditionally provides departments with inflationary increases for non-personnel costs. Because inflation rates for 2011 are lower than originally anticipated, the 2011-2012 Proposed Budget rolls back those increases, saving the City in excess \$1 million across all funds.
- *Savings on Contract Costs:* The City will also capture additional savings on its contract costs. The newly created Department of Finance and Administrative Services (FAS) has instituted a program to negotiate with existing vendors for rebates, resulting in \$75,000 in anticipated savings and more competitive pricing arrangements on citywide contracts. In addition, FAS will re-bid the contract for janitorial and security services, bringing those costs down by an estimated \$165,000.
- *Utility Savings:* FAS is adjusting the heating and cooling temperatures in City-operated facilities to capture utility costs savings. In addition, conservation efforts, including the installation of water efficient showerheads and toilets at the City's pools and community centers, installation of more efficient lighting, better calibration of irrigation controls, and the prompt identification of leaks by the Department of Parks and Recreation will generate \$244,000 in utility bill savings.

The City will also be issuing nearly \$6 million of debt over the 2011-2012 biennium to fund energy efficiency retrofits of municipal buildings. This will result in reduced operating costs in future years and will help leverage the recently secured \$20 million Energy Efficiency and Conservation Block Grant, spurring jobs and growth in this industry.

- *Personnel Reductions:* Due to reductions in the size of the City's fleet and the extension of vehicle lifecycles, FAS will reduce its crew of 74 mechanics by six. FAS will also reduce its crew of seven painters by four. While this may result in delays for cosmetic paint work, safety-related paint jobs, such as signage, will remain a priority.
- *Streamlining Information Technology Staffing:* City departments and the City Budget Office conducted reviews of Information Technology staffing in areas such as Service Desk, Desktop Support, Project Management, Server Support, Application Development, and Web Development. This review included comparisons of industry benchmarks with citywide staffing levels and factored in the relationship to core services and impacts on service to internal City users. This effort results in \$1.3 million in citywide savings and a reduction of approximately 16 FTEs.
- *Evaluating Human Resources Services and Reducing Human Resources Staffing Levels:* All City departments were asked to evaluate and describe the rationale for their current human resources staffing levels, as well as the organization of human resources staffing within their departments. These staffing levels were compared to industry benchmarks. Where outliers were identified, the departments were

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asked to explore reductions. The 2011-2012 Proposed Budget reduces 16 FTE in the area of human resources services, for savings of \$1.43 million citywide.

- *Savings in the Executive Offices and the Legislative Branch:* Recognizing that all functions of City government must make changes to help offset the funding shortfalls that threaten direct services, the 2011-2012 Proposed Budget assumes that the collective Executive offices¹¹ and the Council functions will generate savings to meet the 9.5% low-end target for non-public safety/non-human services functions. While the work to manage City government does not decrease in times of fiscal distress – in fact, it often increases – it is essential that these functions also identify savings in order to preserve direct services for the residents of Seattle.

Streamlining Management Functions and Expanding Span of Control: The 2011-2012 Proposed Budget reflects the results of a number of proactive steps taken by the Executive Branch during 2010 to streamline management functions and expand spans of control to improve the efficiency of City government and capture budget savings. The City Budget Office, in conjunction with departments, conducted a review of all senior-level and supervisory positions to identify opportunities for reductions or reclassifications. In addition, the City Budget Office met with representatives from the City's labor unions to solicit their input on opportunities for improvements. Collectively, this work translates into a number of position reductions and savings opportunities for the 2011-2012 Proposed Budget, including the net elimination of 64 senior level positions and the net downward reclassification of 12 senior level positions, for a total of 76 positions. This represents a reduction in these classifications of 6.14%.

Capturing Savings in Labor Costs: City employees have historically shown a willingness to make sacrifices in order to save the City money and to preserve direct services. In 2010, a majority of the City's employees agreed to furlough. In addition, the City's Labor Management Healthcare Committee continues to identify opportunities for savings in the City's healthcare costs through adjustments to health insurance plan design, specifically in those areas that help manage plan utilization. The 2011-2012 Proposed Budget reflects this continued commitment on the part of City employees to make changes in their compensation to save the City money. First, the 2011-2012 Proposed Budget assumes that incumbents in all discretionary pay bands (including strategic advisors, managers, executives, and information technology professionals) will receive no market rate salary increase for 2011 (effectively a salary freeze). Depending on the specific employee group, this represents the second or third year that many of these employees will not receive market rate salary adjustments. For 2011, this decision will save the City's General Fund \$700,000 and the City's non-General Funds \$1.5 million.

Second, the Mayor and City Council are engaged in talks with the Coalition of City Labor Unions (Coalition) to identify mechanisms for reducing labor costs. Under a tentative agreement reached with the Coalition, the current 2% cost of living increase floor would be reduced to 0% through 2013 and cost of living increases would be tied to actual inflation as measured by the Consumer Price Index (CPI). For 2011, the CPI rate is 0.6%, or 1.4% lower than the existing 2% floor. If the tentative agreement is approved by the Coalition of City Union membership, this new arrangement will allow the City to save \$2.3 million in the General Fund and \$3.4 million in the non-General Funds. The agreement affects 6,000 City employees. If the agreement is not successfully ratified by the second week in October, the Mayor will submit additional budget reductions to the City Council in order to balance the budget.

Because on-going salary savings are captured from the changes described above, and because furloughs only generate one-time savings, the 2011-2012 Proposed Budget does not rely on widespread furloughs. Most departments and employees will not furlough in 2011. However, staff in the Executive Offices will participate in limited furloughs to generate additional one-time savings in addition to the market rate adjustment salary changes described above. The Law Department also plans on furloughing employees in 2011. In total, these furloughs will save the City nearly \$742,000 in 2011.

¹¹ These offices include the Mayor's Office, the City Budget Office, the Office of Intergovernmental Relations, the Office of Sustainability & Environment, the Office of Economic Development, and the Office of Civil Rights.

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Finally, the 2011-2012 Proposed Budget captures \$1.4 million in savings as a result of a salary freeze for members of the firefighters and fire chiefs’ union in the Seattle Fire Department. These savings are described in greater detail in the public safety section of the budget overview.

Prioritizing Public Safety

The 2011-2012 Proposed Budget places a high priority on funding for the City’s traditional public safety functions – the Seattle Police Department (SPD) and the Seattle Fire Department (SFD). *In fact, this program area is the only operational program in the General Fund that is actually seeing expenditure increases in 2011 from 2010 levels. SPD will have an all-time high of 585 sworn officers assigned to patrol in 2011, up from the current record-high levels of 555 officers in 2010. And, SFD will maintain the current firefighting strength of 990 active personnel and make no reductions to companies assigned to neighborhood fire stations.*

GENERAL FUND PROGRAMMATIC EXPENDITURES (\$1,000s)

	2010 Adopted	2011 Proposed	Change
Arts, Culture & Recreation	\$146,507	\$141,573	(\$4,933)
Health and Human Services	\$52,519	\$51,445	(\$1,075)
Neighborhoods & Development	\$31,959	\$28,375	(\$3,584)
Public Safety	\$508,635	\$515,559	\$6,924
Utilities and Transportation	\$39,993	\$37,460	(\$2,533)
Administration ⁽¹⁾	\$114,548	\$100,883	(\$13,665)

⁽¹⁾ Former Dept. of Executive Admin., Customer Service Bureau, and portion of former Dept. of Finance moved from the GF to FAS in 2011.

That said, the 2011-2012 Proposed Budget includes reductions for the police and fire functions. In identifying these reductions, emphasis was placed on preserving the highest priority direct services.

Police: The 2011-2012 Proposed Budget for SPD achieves savings to the General Fund primarily by not hiring and adding the 62 additional patrol officers that the City of Seattle had contemplated adding between 2010 and 2012, in support of the Neighborhood Policing Plan (NPP), saving the City \$4.2 million in 2011 and \$6.5 million in 2012. The NPP was adopted by the City of Seattle in 2007. The plan seeks to improve response times for high-priority emergency calls to seven minutes or less, a commonly accepted response time for police forces in larger cities; allocate more on-duty time for patrol officers to engage in problem-solving activities; and to have ten additional ‘back-up’ police vehicles citywide available at all times. One of the key inputs required to achieve these objectives, as identified in the 2007 plan, was the addition of 154 new patrol officers over an eight year period (2005 – 2012), assuming the City’s budget remained healthy enough to support the expansion.¹² To date, SPD has hired 91 NPP officers (the 2005 – 2009 increases) and is already meeting many of the goals set forth under NPP. In fact, SPD’s average response time for emergency calls is 6 minutes in 2010, as compared with 6 minutes and 30 seconds in 2009.

The Proposed Budget mitigates the impact of the decision to suspend the implementation of the additional officers called for under the NPP by redeploying to patrol 30 officers currently performing other non-patrol functions, such as traffic enforcement, investigations, mounted patrol, homeland security, as well as officers staffing the desks at precinct stations during the evenings and weekends. This allows SPD to increase the number of sworn officers assigned to patrol from the current record-high levels of 555 to a new record-high level of 585. The functions identified for redeployment were selected because they are either performing lower-priority work, such as traffic enforcement, the precinct desk officers and the mounted patrol unit, or because of decreased workload in

¹² *The Neighborhood Policing Staffing Plan: 2008 – 2012* notes on page 23, “The initiative’s goal is to achieve its hiring targets in five years, but we recognize that budget realities may force a delay in the plan. If economic growth slows ... then the timeline for implementing the hiring targets will be extended. The extension would be for as short a period as affordable, but would not extend the initiative beyond ten years.”

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functions such as the detectives, homeland security officers, and the officers assigned to perform background examinations of prospective hires. Even with these proactive steps, SPD is continuing to develop additional options to meet the performance goals established by the NPP as the City continues to face the prospect of constrained resources.

Fire: By emphasizing internal and management efficiencies, SFD's 2011-2012 Proposed Budget maintains the City's on-duty firefighting strength and makes no operational reductions to neighborhood fire stations. The largest source of budget savings in the SFD budget is salary savings resulting from existing labor agreements with the Firefighters' Union, Local 27 and the Fire Chiefs' Union, Local 2898 to lower the minimum cost of living adjustment from a more traditional 2% floor to a 0% floor. Because the Consumer Price Index (CPI) rate to which salary increases for Local 27 and Local 2898 are contractually tied is below zero¹³ for 2011, Local 27 and Local 2898 members will receive a 0% cost of living adjustment for 2011, saving the City \$1.4 million from what had been projected in the baseline budget. This is the second year in a row that members of Local 27 and Local 2898 will forego cost of living increases as a result of their contracts. Collectively, this has allowed the City to avoid nearly \$7 million in costs over the past two years¹⁴ and to preserve more direct services.

In addition, SFD will capture overtime savings in 2011 by modifying its training delivery methods. On-duty personnel will conduct some of SFD's training activities, while still remaining in compliance with federal, state, and local training mandates. SFD will also capture management-level savings by reducing the minimum on-duty staffing level by one Battalion Chief, allowing it to avoid approximately 255 overtime shifts each year. To achieve these savings, SFD will reassign the administrative duties of Battalion Chief 2 to the Deputy Chief of Operations. The four remaining Battalion Chiefs, the Safety Chief, and the Deputy Chief of Operations will continue to provide oversight and direction of all emergency operations citywide.

Safe Communities Require More Than Police & Fire Services

The 2011-2012 Proposed Budget recognizes that maintaining safe and healthy neighborhoods extends beyond maintaining the City's police and fire services. Services provided by Human Service Department; the Department of Parks and Recreation; and the Seattle Public Library are also essential in offering residents – particularly children and youth – opportunities to thrive. In addition, the Department of Neighborhoods brings City services to the neighborhoods where people live and work, creating additional access to City government.

Human Services Department: The 2011-2012 Proposed Budget for the Human Services Department (HSD) captures reductions totaling 5%. By capturing savings in overhead costs and curtailing inflationary increases, *HSD is able to preserve funding for most contracts with community partners who deliver the actual services.* This is especially critical in these difficult economic times. While HSD's budget is composed of approximately 20% administrative expenses and 80% programmatic expenses, nearly 50% of the reductions included in the 2011-2012 Proposed Budget are administrative in nature, including reductions in HSD's finance and human resources functions. HSD captures \$721,000 in savings by forgoing inflationary increases on its contracts with community partners – holding 2011 contract costs at the 2010 levels. In the few cases where direct services are reduced, HSD used the following criteria:

- Programs that are of a lower priority based on HSD's Strategic Investment Plan, which focuses on meeting the basic needs of the most vulnerable people in our community. For example, Community Crime Prevention programs, which provide support to crime prevention councils, conduct trainings for landlords on crime prevention, and sponsor crime prevention events, are reduced by 15%.
- Programs where outcome measures suggest limited effectiveness. For example, in the Domestic Violence

¹³ Unlike the Coalition of City Labor Unions contracts, the labor contracts with the Local 27 and Local 2898 tie cost of living increases to the June-over-June CPI-W. The June-over-June CPI-W used to build the 2011 budget was (0.1%), resulting in these members receiving the 0% floor for their cost of living adjustment.

¹⁴ As compared to the existing terms of most other city labor contracts.

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and Sexual Assault Prevention division, the Proposed Budget eliminates funding for subsidies that reduce the fee charged to low-income batterers who are mandated to attend batterers' intervention programs. This change was identified because there are unclear results on the success of the programs.

- Where opportunities exist for administrative efficiencies and consolidation within funded programs. For example, the budget proposes a consolidation of two agencies that provide organizational support to food banks and meal programs. This consolidation will eliminate duplicate services and create efficiencies in service to the City's network of emergency food providers.
- Where opportunities exist for alternative funding or other mitigating factors. For example, funding for the Indoor Air Quality program, which evaluates home environments for people with asthma, is eliminated because King County has recently received a grant to do similar work. Similarly, funding for a drop-in day program for seniors is eliminated in recognition of the fact that a community center with similar programming exists close by.

Department of Parks and Recreation: The City's Department of Parks and Recreation also plays a vital role in providing all residents – but especially children and youth – a safe and healthy environment to play, exercise, and grow. A vibrant parks system is important in creating active and safe neighborhood gathering spaces. Unfortunately, Parks continues to struggle with the challenge of maintaining the City's parks facilities. Over the years, Parks has been charged with maintaining a growing number of parks facilities, while the funding available to support these activities has not kept pace. The 2011-2012 Proposed Budget makes no exception to this trend. Relative to the costs required to maintain current service levels plus the cost of new park facilities, the Parks Department will absorb \$8.1 million in reductions. To preserve direct services and access to facilities, Mayor McGinn focused on reducing administrative and maintenance costs, enhancing partnerships with community groups, and a re-aligning the Parks fee structure. *These efforts are largely successful in that the 2011-2012 Proposed Budget preserves funding to keep swimming pools open¹⁵ and lifeguards at all of the City's public beaches. In addition, Parks will continue to operate 15 of the 22 wading pools located throughout the city. And, 20 community centers will provide the same operating hours as in 2010.* Nonetheless, the 2011-2012 Proposed Budget includes some very difficult decisions related to reduced programming and hours of operations at some Parks facilities.

In identifying direct service reductions for Parks, Mayor McGinn used the following criteria:

- Preserve programming for children and youth
- Preserve services for those residents with the fewest options for obtaining alternate parks and recreation services
- Preserve geographic equity in the availability of services

Services being reduced or eliminated in the 2011-2012 Proposed Budget include:

- **Wading Pools:** The 2010 mid-year budget reductions to Parks closed seven wading pools and reduced operating hours for 10, while five wading pools remained open seven days a week. The 2011-2012 Proposed Budget assumes the same operating capacity for 2011 as was offered in 2010. Wading pools at Green Lake, Lincoln, Magnuson, Van Asselt, and Volunteer Park will be open seven days a week in the summer months. Wading pools at South Park, East Queen Anne, Cal Anderson, Dahl, Delridge, Wallingford, Hiawatha, Bitter Lake, E.C. Hughes, and Sound View Parks will be open three days a week. Wading pools at Ravenna, Beacon Hill, Powell Barnett, Peppi's Playground, View Ridge, Gilman, and Sandel Parks will remain closed in 2011.

¹⁵ The one exception is the Rainier Beach pool, which will close temporarily in 2011 to allow the City to remodel the pool – a commitment made to the community in the 2010 Adopted Budget.

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- **Community Centers:** The 2011-2012 Proposed Budget makes the difficult decision to limit the use of six community centers. The Rainier Beach Community Center and Pool will temporarily close for two years to allow for construction of a new community center and pool – a commitment made to the community in the 2010 Adopted Budget. The facility is expected to re-open in 2013.

Five other community centers – Alki, Ballard, Laurelhurst, Queen Anne, and Green Lake will have reduced operating capacity. The drop-in hours for Alki, Ballard, and Laurelhurst will be reduced from 53 hours per week during the school year and 46 hours per week in the summer to 15-20 hours per week year round. These three sites were selected because other nearby community centers are available, and the three offer less programming relative to other community centers. To mitigate the impacts of the reduced hours, Parks will partner with the Associated Recreation Council (ARC), the non-profit organization that is responsible for providing childcare and recreational classes and programming at community centers, to play a more active role in maintaining services at these facilities. For example, ARC will continue to operate the childcare and pre-school programs currently offered at the Alki and Ballard community centers.

The programming and availability at the Queen Anne Community Center will change in 2011 to welcome a new temporary partnership with BizKid\$, a national public television series for children that focuses on financial literacy, entrepreneurship, and life skills. BizKid\$ will use the Queen Anne Community Center gym as a production studio until at least the end of 2011 and provide the City additional revenue. While the Queen Anne Community Center will continue to provide significant programming in the upper portion of the community center including childcare, preschool, and senior adult activities, the gym will be closed. Staff will be reduced commensurate with the space reduction. To mitigate the impacts of the loss of the gym space, Parks will maintain some staffing for teen program development and continue its partnership with the Community Learning Center at McClure Middle School.

The functionality of the Green Lake Community Center will also be transformed in 2011. The Museum of History and Industry (MOHAI) will occupy the Lake Union Armory resulting in the closure of the Armory as MOHAI begins construction in 2011 to renovate the building. Due to the transfer to MOHAI, Parks, Seattle Parks Foundation, and ARC staff that currently work in the Armory will be permanently relocated. These staff will be dispersed to other Parks facilities, including the Green Lake Community Center. To make room for the staff, the Green Lake Community Center will offer reduced public drop-in access to the gym. In addition, DPR will create a Visitor's Center for Green Lake Park and a one-stop location for event and athletic field scheduling at the Green Lake Community Center.

While the 2011-2012 Proposed Budget reduces access to six community centers, funding for the remaining 20 community centers – Bitter Lake, Delridge, Garfield, Hiawatha, High Point, International District /Chinatown, Jefferson, Loyal Heights, Magnolia, Magnuson, Meadowbrook, Miller, Montlake, Northgate, Rainier, Ravenna-Eckstein, South Park, Southwest, Van Asselt, and Yesler Community Centers – will continue in 2011 and 2012, offering residents access to a wide variety of recreational opportunities.

- **Green Lake and Mount Baker Small Craft Centers:** The 2011-2012 Proposed Budget begins to transition the operations of the Rowing and Sailing Centers at Green Lake and Mount Baker to a self-sufficient program operated by ARC. Beginning in 2011, the full-time Recreation Leader at each site is abrogated, and a part-time Recreation Attendant is added at each site. Hours of operation are reduced to approximately three hours per day, Monday through Friday, and some changes in programming will occur. Due to the reduction staff and their availability to assist in a boating emergency, the boating programs will be required to operate as 'paired programs' to meet minimum safety standards. The popular afterschool program for teens will continue, but fees will increase. In addition, ARC will increase its contribution to Parks and pay for some program related expenses. These changes in programming and operations will keep both centers open and operating

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- **Environmental Learning Centers:** The 2011-2012 Proposed Budget also reduces funding for public programs at the Environmental Learning Centers (ELCs), which includes nature walks and treks, bird programs, and beach/tideland programs. In keeping with the Mayor's commitment to preserve programs focused on children and youth, Parks will continue to provide school-based programs that offer field trip programming for school-aged children to learn about nature and the environment. ARC will still run the Nature Day Camps and the Nature Preschool (day care) at the Discovery Park ELC. The Carkeek ELC will be available for rentals only. However, it will still offer the Seattle Public Utilities-funded Salmon & School Program.

The 2011-2012 Proposed Budget initiates an agreement between the Office of Arts and Cultural Affairs (OACA) and the Parks Department to use existing admissions tax resources that were dedicated to the Arts Account in the 2010 Adopted Budget to fund arts programming currently offered by Parks, including downtown parks arts programming, outdoor neighborhood parks activation projects, and the Langston Hughes Performing Arts Center operations. This will ensure the continuation of a wide variety of public arts experiences throughout the city while relieving pressure on the General Fund. These programs include concerts, art installations, street performers, ballroom dancing, performing arts training, and music exploration opportunities. These programs are designed to serve all ages and ethnic groups, and to make City parks creative, fun community spaces. They particularly emphasize youth involvement and the transformation of young lives through art. They also emphasize activation of open space to create safe and vibrant gathering areas for neighborhoods.

Seattle Public Library: The Seattle Public Library's 2011-2012 Proposed Budget assumes 8.5% in reductions from status quo levels and modest revenue enhancements for 2011, yet *preserves all current service hours*. The Library accomplishes this primarily by consolidating the management of branch libraries. The branch libraries are currently overseen by three regional managers and 13 branch manager and assistant manager pairs who each supervise two branches. In 2011, the branch manager classification will be eliminated. Three regional managers will be added, for a total of six regional managers who will be based at a branch and oversee four-to-five branches within a region. Six additional assistant managers will be added – for a total of 19 – to coordinate building operations.

The Library will also convert eight of its smallest, lower-utilized branches into 'circulating' libraries and reduce on-site librarian services. These branches – Delridge, Fremont, International District/Chinatown, Madrona-Sally Goldmark, Montlake, New Holly, South Park, and Wallingford – will continue to be open 35 hours per week and serve as a 'gateway' to the resources of the entire library system. These branches will offer collections, holds-pickup, and computer access. Access to specialized reference or collection services will be provided on-line or by telephone access to staff at the Central Library. Programming will be primarily focused on youth and provided by librarians from other locations.

Finally, the 2011-2012 Proposed Budget assumes the one-week system-wide closure (the week before Labor Day) that was first instituted in 2009 will continue in 2011. And, the budget reduces the Library's collection budget by \$700,000, leaving \$5 million available to purchase new materials. The impact of this reduction may be mitigated on a one-time basis through private donations to the Library.

Department of Neighborhoods: The Department of Neighborhoods (DON) plays an important role in connecting residents to City services. DON's 13 Neighborhood Service Centers (NSCs), which are geographically dispersed throughout the City, provide information about City services and coordination with Neighborhood District Councils, and support the community in resolving a range of issues related to public safety, human services, and housing. In addition, seven of the NSCs also function as payment and information centers offering residents a location to pay City Light and Seattle Public Utility bills, obtain pet licenses, pay traffic tickets, apply for U.S. passports, or to find information about City services and jobs. Each of the 13 NSCs is staffed by a Neighborhood District Coordinator, with the payment sites also staffed by customer service representatives. From a financial standpoint, the payment and information centers generate enough revenue to cover approximately 70% of their operating costs. The six non-payment sites do not generate any revenues and are supported entirely by the General Fund.

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The 2011-2012 Proposed Budget closes all six non-payment Neighborhood Service Centers and the West Seattle payment and information center. These nonpayment sites were selected for closure because they offer a more limited range of services than do the payment sites. The West Seattle site was selected for closure because the building lease expires at the end of 2010, and DON plans to consolidate services with the nearby Delridge Service Center. The remaining six payment sites (Delridge, University District, Central District, Lake City, Southeast, and Ballard), which are geographically spread throughout the city, will continue to provide access to City services for residents in the neighborhoods in which they live and work, allowing them to avoid trips to the City's downtown campus.

The facility closures will allow DON to eliminate six Neighborhood District Coordinator positions and one Customer Service Representative position. The staffing reductions will support a reorganization of the District Coordinators by assigning them to larger areas of the city using the remaining Neighborhood Service Center locations. This change creates an efficient management model that will ensure that core services are still provided to the public. These core services include the continued role of the Neighborhood District Coordinators as liaisons between neighborhoods and City departments.

Increasing Revenues

The 2011-2012 Proposed Budget does not assume any increases in general taxes (i.e. property, sales, B&O and utility¹⁶ taxes) to support on-going operations. The budget does, however, rely on increases in revenues tied to utilization of services provided by the City, including increases in parking meter rates and hours to better cover costs to the City to regulate parking, enhancements to the City's parking scofflaw program, and increases to enhance cost recovery rates on a variety of user fees. Collectively, these revenue strategies will raise approximately \$23 million to offset the City's \$67 million General Fund shortfall.

In addition to these General Fund revenue increases, the 2011-2012 Proposed Budget assumes increases in the City's commercial parking tax and the imposition of a \$20 vehicle licensing fee to address funding challenges in SDOT. These proposed revenues and the programs they support are described in the SDOT section of this overview. The 2011-2012 Proposed Budget also includes increases in rates for Seattle City Light and the Solid Waste and Drainage and Wastewater utilities, which are also described later.

While always difficult to raise revenues – especially in times of economic hardship – these rate increases targeted users of City services will help offset the need for additional reductions in service.

Parking Meter Revenue: The 2011-2012 Proposed Budget makes several changes in the City's management and regulation of on-street parking, including increasing the hourly rate on parking meters by \$1.50 downtown and \$0.50 in other parts of the city, extending paid parking hours by two hours until 8 p.m. in the evenings (Monday – Saturday), and instituting paid parking on Sundays (11 a.m. – 6 p.m.). These adjustments in the management and regulation of on-street parking are recommended for several reasons. First, the increases better align the charges with the costs to the City to regulate and manage the parking program. Second, the increase brings parking meter rates in line with the current market rates for parking in private garages. Third, the existence of market rate prices for parking will better encourage turnover of parking spaces so that people can find a parking spot when they need one, thereby encouraging residents to frequent commercial districts and reducing congestion and carbon emissions. These proposed changes to the City's parking meter program will generate \$6.6 million in net revenue to the City.

Enhanced Parking Scofflaw Program: For 2011, the City will implement a new parking scofflaw program that will improve collection of outstanding traffic fines from people who have four or more outstanding parking violations. There are more than 27,000 vehicles with four or more outstanding parking violations, totaling more

¹⁶ Water utility tax rates will actually be 4.3 percentage points lower in 2011 than in 2010, as a result of the December 31, 2010, elimination of the temporary tax rate increase enacted in February 2009 in response to *Lane v. City of Seattle*.

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than \$15 million in outstanding charges due to the City, not including interest. Currently, the City impounds scofflaw vehicles. To retrieve their scofflaw vehicle, drivers must go to the impound lot. But, the impound lot operators are not required to actually collect on the outstanding parking tickets prior to releasing the vehicle. Rather, the driver of the scofflaw vehicle is only required to pay the towing and impound fees. As such, the City's current program offers limited incentives and consequences for actually resolving the underlying scofflaw offense. Under the new program, scofflaw vehicles will be affixed with an immobilizing boot that cannot be removed until the driver makes arrangements to pay the defaulted parking violations. As part of the program rollout, the City will publicize the opportunity for scofflaws to arrange to make payments on their defaulted violations. This program is expected to generate gross revenues of \$1.9 million for the General Fund in 2011 and \$2.4 million in gross revenues for 2012. These revenues are partially offset by some additional increased operational costs in the Seattle Police Department, the Seattle Municipal Court, and the Seattle Department of Transportation.

Increased Fees: Finally, the 2011-2012 Proposed Budget increases a variety of fees for service to better align the amount charged with market rates and/or the actual costs of delivering the service. A sampling of some of the fee changes is included below:

- **FAS:** FAS will increase the cat license fee in 2011. The current fee structure has been in place since 2003. The fee for altered cats will increase from \$15 to \$20 and the fee for unaltered cats will increase from \$20 to \$30. FAS will also restructure the driver-for-hire license fee and will levy a \$50 charge on taxi drivers who have dual King County/City of Seattle licenses. Previously taxi drivers were not required to pay the City for dual licenses. Drivers licensed only in Seattle, who make up less than 1% of all licensed drivers, will see their fee reduced from \$75 to \$50.
- **Library:** The Library will increase the daily fine rate on a variety of loaned materials including print materials, DVDs, inter-library loans, and reference materials. The Library will also increase the fees for patrons to print from Library computers. Additionally, the Library will authorize its collection recovery agency to send fine notices to parents of juveniles under the age of 13 who owe fines. Collectively, these measures will generate \$650,000 in revenue.
- **Police:** The Seattle Police Department will increase the fee charged to alarm companies who request a police response based on a false alarm. The purpose of this increase is twofold. First, SPD is attempting to reduce the number of false alarms as these responses constitute a large drain on available officers to respond to true emergencies. Given that the current percentage of alarms that are false is 97%, there is much room for improvement. Second, SPD is attempting to recoup a greater percentage of its costs related to responding to false alarms.
- **Fire:** To maintain historical cost recovery rates for billable services, the Seattle Fire Department will implement fee increases of 10% to 15% for permits, conducting certification examinations for fire protection systems and code compliance inspections when multiple re-inspections are required. Additionally, a new \$10 reporting fee for processing required fire protection system confidence testing documentation is applied. The increased fees will generate approximately \$586,000 for the General Fund and will bring Fire Prevention Division fees to a 75% cost recovery rate, consistent with previous practices.
- **Seattle Municipal Court:** The Seattle Municipal Court will generate additional revenue in 2011 through a variety of changes to its fee structure. First, the Court will continue a number of fee increases it implemented in mid-2010, including an increase from \$1 to \$3 to handle credit card payments made via the Internet (there is no charge for payments sent in by U.S. mail or made in-person); an increase from \$100 to \$122 in the administrative fee for deferred findings; and a \$10 fee to set up time-payment plans. In 2011, the Court will increase revenue collections by working with its collection agency, Alliance One, to process a large volume of garnishments for people who have past due fines. The Court

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will also increase the monthly probation fee from \$20 to \$25. Lastly, the Court will increase revenue collections related to red light camera violations. Collectively, these increases will generate \$1.2 million in revenue.

- **Parks and Recreation:** The 2011-2012 Proposed Budget assumes \$1 million in new revenue from increases in Parks fees and charges. The updated fees and charges set in this budget are based on Parks' new fees and charges policy, which seeks to align fees with the cost of providing the service. Higher percentage costs are charged where benefits of the service accrue primarily to the individual and a lower percentage where society also benefits. In addition to considering the cost of providing a service, Parks analyzed comparable fees charged by other public agencies and recreation service providers. As a result of this analysis, the following fees are increased in the 2011-2012 Proposed Budget: Japanese Garden, Camp Long, Amy Yee Tennis Center, swimming pools, athletic fields, boat ramps, community meeting rooms and gymnasiums, special events - ceremonies, picnics, and the Langston Hughes Performing Arts. A new fee for plan review is also proposed.

Non-General Funds

The City's General Fund is not the only City fund that is experiencing budget challenges. Several other City funds are also struggling to maintain services in an environment of constrained resources, including the Department of Planning and Development, Seattle Public Utilities, Seattle City Light, and the Seattle Department of Transportation.

Seattle Department of Transportation: The Seattle Department of Transportation (SDOT) budget is facing the dual challenge of reductions to its General Fund base of approximately \$40.1 million, as well as its non-General Fund resources, including gas tax revenues. These funding constraints come at the same time that SDOT is attempting to overcome a long-standing backlog of maintenance and upgrades of the City's \$13 billion worth of transportation infrastructure, as well as plan a transportation system that is capable of moving people and goods to support the economic health of the City.

In 2006, Seattle voters approved a nine-year, \$365 million levy for transportation maintenance and improvements known as *Bridging the Gap* (BTG). Included in the BTG initiative were funds provided by a commercial parking tax, and an 'employee hours' or 'head' tax, which the City repealed in 2009. BTG is on track to accomplish the project list approved by voters, including the repair and paving of streets, seismic upgrades to vulnerable bridges, improvements to pedestrian and bicycle safety and creation of safe routes to schools, and enhancements to the speed and reliability of transit in the city.

However, the base funding – General Fund and state gas tax revenues – that BTG was designed to augment have eroded during the same period of time, causing SDOT to again face a growing backlog. Excluding BTG, SDOT's general transportation base funding is 7% below 1996 levels, after adjusting for inflation. For 2011, SDOT's budget addresses a \$5.8 million reduction in General Fund support, as well as a \$3.3 million gap in its non-General Fund sources. In preparing the 2011-2012 Proposed Budget, Mayor McGinn seeks to address SDOT's immediate funding challenges, as well as identifying funding to continue efforts to develop a transportation system that meets future demands, including those priorities and investments identified in the Pedestrian Master Plan and the Bicycle Master Plan.

The 2011-2012 Proposed Budget for SDOT relies on several strategies to meet these objectives. The first strategy includes maximizing resources available for direct service by implementing internal efficiencies and controlling costs. Reductions are taken in SDOT's travel and training, temporary staffing, and professional services funding. Workloads are consolidated, allowing for staffing reductions, and redundant and non-core administrative and planning functions are eliminated. Savings are also achieved by reducing the number of managers and supervisory positions, and policy and planning positions, freeing up resources for direct service.

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The second strategy includes reducing programmatic costs where possible and prudent, including deferring some maintenance; using alternative and more cost-effective methods to deliver service; and reductions in deliverables. As an example, cost savings are achieved through continuing the strategy developed in mid-2010 of lengthening the target response time for SDOT to respond and fill a pothole from 48 to 72 hours. While this delay will impact street users, it is offset by a pothole repair technique that results in a patch lasting four times as long as the quick fix method. A longer wait time for road-users to see potholes repaired is offset by cost savings in the short- and long-term, as these potholes are less likely to reoccur or reoccur with less frequency. Funding for signage repair and vegetation control is also reduced. These are impacts that will be noticed by residents, but create savings that help to address funding shortfalls, and allow redirecting resources to other priorities.

Another approach includes identifying areas in which user fees could be enhanced to improve cost-recovery or to better manage City assets. This includes an increase in the cost of Restricted Parking Zone permits and Right-of-Way permits, improving cost-recovery. The hourly rate for on-street parking is increased, moving the level closer to market rate, and the number of hours regulated are expanded. The new parking scofflaw program will increase the City's ability to manage the right-of-way by increasing compliance with regulations.

The next step was to identify additional reductions that would be necessary to bring spending in line with available resources. The required reductions would have degraded core services and programs, including street surface repairs, freight spot improvements, landscape maintenance and the transportation demand management program. Because funding for these purposes was in many cases already below sustainable levels, these potential reductions were not aligned with the Mayor's goals to promote environmental sustainability and support economic vitality. Funding would have been insufficient for acceptable progress to be made on projects in the Pedestrian and Bicycle Master Plans, and on infrastructure projects that support transit, and the maintenance backlog would grow at a faster pace, resulting in increased costs in future years.

The Mayor's 2011-2012 Proposed Budget prioritizes sufficient investment in the City's transportation system. The budget includes additional transportation-dedicated funding via a 5% increase in the Commercial Parking Tax. In addition, the Proposed Budget presumes the establishment of a \$20 vehicle license fee by the newly created Seattle Transportation Benefit District (STBD), which was formed by Council ordinance under authority provided by the Washington State Legislature.¹⁷ These are modest revenues compared to the need, estimated to generate \$13.4 million in 2011, but are derived from sources tied to users of the system and begin to address some more of the funding gap.

New revenue will support core services, such as major maintenance of Seattle streets and rights-of-way and emergency response activities. These proposals allow SDOT to meet its statutory obligations and comply with new federal storm water code requirements, and also provide a means for the City to meet its pledge to King County of funding \$15 million for the South Park Bridge replacement project. Additional funds are directed towards increasing the number of small-scale freight mobility improvements.

This revenue will also be used to complete the next Transit Master Plan, which will allow the City to improve decision-making on how and where to make transportation investments. Funding is provided to accelerate implementation of the Pedestrian and Bicycle Master Plans and fully fund the Linden Avenue North Complete Streets project. Funding is also directed to the Neighborhood Streets Funds large projects program so that more high-scoring community identified projects can be completed.

The budget includes an additional 2.5% increase in the Commercial Parking Tax to fund two years of the City's obligations related to the Alaskan Way Viaduct and Seawall Replacement Program. Additional funding sources will be needed as early as 2013 to support future spending on this program. The Mayor continues to recommend a bond levy to secure full funding for replacement of the Seawall.

¹⁷ City Council Resolution 31240 notes, "The STBD will consider imposing a twenty-dollar annual vehicle license fee to support preservation and maintenance of the City transportation system and to enhance pedestrian and bicycle mobility."

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Department of Planning and Development: The Department of Planning and Development (DPD) is responsible for land use and building regulations in the city, as well as long-range planning functions. It draws most of its funding from land use and building permit fees. Its code compliance and planning functions are primarily supported by General Fund dollars. Like the Seattle Department of Transportation, DPD's budget is struggling with the dual impacts of declines in its non-General Fund revenues sources as well as reductions in the support it receives from the General Fund. While the General Fund reductions are not insignificant, the more challenging problem for DPD is the severe decline in construction activity in the city and the resulting impacts on the level of permit revenues. As of August 2010, the volume of incoming building permits was approximately 30% lower than the peak of development activity in 2007. Meanwhile, permit values – which drive revenues – are approximately 50% lower. Since 2007, DPD's building and land use revenues are down 49%, and revenues are anticipated to be relatively flat moving forward.

In response to these challenges, DPD is initiating another round of mid-year reductions effective October 2010. These mid-year reductions are reflected in the 2011-2012 Proposed Budget and will result in the unfunding of an additional 42 positions, including 19 positions in Construction Permit Services, 12 positions in Land Use Services, five positions in Construction Inspections, four positions in Department Leadership, and two positions in Planning Services. These are in addition to the 11 position reductions being made to help balance the General Fund budget. Since 2007, DPD has abrogated or unfunded 155 positions, including the reduction or reclassification into lower job titles of 21 executives, managers, supervisors and strategic advisor positions. While DPD's workload is down, these position reductions will nonetheless impact service levels, including longer wait-times for intake appointments; reduced hours of operation for the Applicant Service Center; delays in processing applications; and longer plan and permit review times. In all cases, DPD will strive to minimize disruption of service levels and effects on service quality.

Seattle City Light: The Seattle City Light (SCL) budget is under stress following two consecutive years of extremely weak performance in its wholesale hydroelectric power revenues. In a typical year, City Light sells surplus hydroelectric power generated in the winter and spring, and purchases additional power to supplement its lower power generation capacity in the summer and fall. This 'power shaping' strategy allows City Light to respond to seasonal swings in supply and demand. And, the revenue generated through this mechanism allows City Light to charge ratepayers lower rates. Unfortunately, unexpectedly depressed energy prices in 2009 and unusually low precipitation levels in 2010 have meant that City Light has received substantially lower amounts of wholesale power revenue than it had assumed in its 2009 and 2010 budgets. For 2009, net wholesale revenue was lower by \$74 million, or 52%, than what was assumed in the budget. For 2010, the actual wholesale revenues are projected to be \$50.9 million, or 58% below what was assumed in the budget. In response to these significant shortfalls, City Light has made reductions to its operating and capital programs, including the substantial deferral of maintenance, over the past two years. Unfortunately, many of these actions are not sustainable.

The 2011-2012 Proposed Budget reverses these trends by restoring operational and capital funding to more sustainable levels, while adequately responding to regulatory requirements. To do this, the Proposed Budget anticipates a rate increase of 4.3% in 2011 and 4.2% in 2012, and reflects the creation of the Rate Stabilization Account in 2010 to mitigate future risks to wholesale revenue.

The 2011-2012 Proposed Budget also captures savings to keep rate increases to a minimum. City Light will realize \$22 million of debt service savings in 2011 as a result of a favorable refinancing of outstanding debt in 2010. Seattle City Light is also capturing internal and management savings for 2011. City Light will continue to scale-back public tours of its Skagit facilities and will realize savings by reducing its reliance on consultants for policy analysis and strategic planning and its travel and training expenditures. The City Light budget also eliminates 16.6 vacant FTEs (including 7.0 FTE management-level positions) and downgrades an additional 5.0 FTE management-level positions to control costs, address span-of-control issues, and reduce the budgeted vacancy rate.

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Seattle Public Utilities: Seattle Public Utilities (SPU), which oversees three utilities – Solid Waste, Water, and Drainage & Wastewater – is also feeling the effects of the recession. Revenues for all three utilities have come in below projections as a result of lower-than-anticipated water use and a greater-than-anticipated reduction in the amount of garbage requiring collection. The impacts of lower than expected revenue are compounded by the fact that SPU is also addressing the challenges of an aging infrastructure – the majority of which was built prior to 1970 – and increased expenditure obligations as a result of more stringent federal and state regulatory requirements, such as the National Pollutant Discharge Elimination System. Collectively, these factors put upward pressure on SPU rates, at a time when SPU customers are feeling the effects of the sluggish economy, creating an extra incentive to keep rate increase as low as possible.

The 2011-2012 Proposed Budget includes a significant number of operations and maintenance expenditure reductions and limits the number of new projects to primarily fund cost increases in core services and to respond to regulatory requirements. During development of the 2011-2012 Proposed Budget, SPU reviewed operations to streamline the delivery of services and identified efficiencies that allow SPU to eliminate 37 FTE, including 15.5 FTE in manager and strategic advisor classifications, without suspending any programs. While these reductions are an essential response to the utility's financial position, they will result in several lay-offs. SPU has not had to lay off employees in recent memory. Even with these proactive steps, SPU's budget assumes a series of rate increases for 2011, as follows:

- **Solid Waste:** The budget for the Solid Waste Fund assumes a rate increase of 7.5% for 2011. The 2011-2012 rate proposal for Solid Waste is currently being considered by the City Council.
- **Drainage & Wastewater:** The budget for the drainage utility assumes a 2011 rate increase of 12.8%, or about \$2.19 per month for an average household. The wastewater utility assumes a 2011 rate increase of 4%, or about \$1.87 per month for an average household, not including an anticipated pass through from King County for wastewater treatment costs that is historically considered by Council outside of the budget process. The 2011-2012 rate proposals for the drainage and wastewater utilities are currently being considered by the City Council.
- **Water:** The 2011-2012 Proposed Budget for the Water Fund assumes a rate increase of approximately 3.5%. This is the net impact of the existing rate adopted by the City Council in 2008 as well as the elimination of the temporary surcharge on water rates that the City implemented as a result of the *Lane v. City of Seattle* court case concerning fire hydrants.

Looking Ahead

By making tough decisions that focus on ongoing budget changes, Mayor McGinn's 2011-2012 Proposed Budget makes significant strides toward putting the City's services and finances on a more sustainable path. Assuming the economic and revenue forecasts hold, reductions and revenue changes assumed for the General Fund in 2011 will be sufficient to maintain a balanced budget for 2012 without additional reductions. For the first time, the City's 2011-2012 Proposed Budget includes a snapshot¹⁸ of the City's financial health through the end of the next biennium (2014). Current projections suggest that while there may be some room for marginal funding increases in 2013, the City of Seattle is likely not going to see significant room for program expansion in the near-term. This represents a new financial challenge for the City of Seattle relative to the previous two post-recession expansion periods in 1995-2000 and 2003-2007. The City's tax revenues experienced 7.2% and 6.3% average annual growth respectively in the 1995-2000 and 2003-2007 periods. In contrast, projections for the 2010-2014 period are for only 2.9% average annual growth in tax revenues. Current revenue projections through 2014

¹⁸ These financial snapshots are commonly referred to as a financial plan. The City Budget Office developed financial plans for most City funds as part of the 2011-2012 Proposed Budget. The financial plans depict revenues, expenditures, reserves, and fund balances for the last year (2009), the current year (2010), and four years into the future (2011-2014), and provide a tool to monitor the financial health of the City's funds.

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suggest that the City’s overall General Fund revenues will grow at less than 4% year over year between 2012 and 2014.

	2010 Revised	2011 Proposed	2012 Proposed	2013 Projected	2014 Projected
Amounts in \$1,000s					
Beginning Unreserved Fund Balance*	(2,424)	468	19	43	289
Total Revenues	899,138	891,749	926,993	959,816	995,003
Total Expenditures and Change in Reserves	(896,246)	(892,199)	(926,968)	(959,570)	(992,038)
Ending Unreserved Fund Balance	468	19	43	289	3,255
*Available balance excludes policy reserves					

While certainly an improvement over the past couple of years, the anticipated revenue trends over the next four years are likely not sufficient to maintain the current mix of City services *and* address many of the ‘looming budget issues’ – cost obligations that the City anticipates – that are on the horizon.

Early into the 2011-2012 budget process, the City Budget Office conducted a survey of all City departments in an effort to catalog anticipated costs obligations that are likely to require funding. The list of obligations is numerous.¹⁹ As a snapshot, some of these potential obligations include:

- Asset Preservation:** The City has a relatively long-standing policy that sets as a high priority on the preservation of capital assets. The City has recently deferred these types of investments, particularly as Real Estate Excise Tax (REET) revenues have contracted. City Council Resolutions 31083 and 31203 establish funding targets to guide the City’s funding levels for asset preservation. The policies establish a citywide target of asset preservation spending for non-utility and non-transportation assets of \$48 million (2011 dollars), of which \$31 million or 65% is intended to come from the Cumulative Reserve Subfund (CRS). Weak REET revenues in the 2010 Adopted Budget left insufficient funds to achieve minimum target funding levels as established by these policies. As the City’s financial challenges persist, the trend continues for 2011, with the City investing over \$19 million in asset preservation from the CRS, and \$40 million citywide, for non-utility and non-transportation work. As the City’s finances recover from the Great Recession, restoring the commitment to investing in asset preservation should be a priority.
- Strategic Capital Agenda:** The City has a sizable backlog of capital needs ranging from major infrastructure investments, such as the Seawall, to public safety facilities, such as the Police Department’s North Precinct and the Fire Department’s Headquarters, to quality of life and civic amenities, such as the Rainier Beach Community Center and the Seattle Center Master Plan. A preliminary assessment of a relatively small subset of capital projects as part of the first phase on the on-going strategic capital

¹⁹ In addition to the ‘looming budget issues’, the future health of the City’s budget could be impacted by the outcome of the November election. Initiative 1107, if approved, would repeal the sales tax on candy, gum and bottled water, and could result in the loss of \$1.2 million in City sales tax revenue in 2011, followed by \$1.7 million in 2012. Initiatives 1100 and 1105, if approved, would allow for the privatization of liquor sales in the State of Washington. Passage of these initiatives could result in the loss of \$2-4 million in City revenue in 2011, followed by a \$4-7 million loss in 2012. On the other hand, if the King County sales tax initiative, which would increase sales tax by 0.2%, is approved, the City can expect \$8.7 million in additional sales tax revenue in 2011, followed by \$12.1 million in 2012. Finally, over the course of 2010, projections for the likelihood of a double-dip recession have increased. If this were to materialize, the City of Seattle could see revenues drop by an additional \$12.7 million in 2011 and \$28.2 million in 2012. The City Budget Office is closely monitoring these variables.

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agenda²⁰ identified potential costs over the next five years ranging between \$319 and \$604 million. Meanwhile the City, based on maintaining current debt-to-budget ratios and continuing to adhere to its debt policies, is only expected to have debt service capacity sufficient to support \$190 million worth of councilmanic capital investments. Additional debt capacity may be obtained with voter approval or through the identification of pledged revenues to repay debt.

The 2011-2012 Proposed Budget takes the first steps toward funding some of these capital needs – including the Rainier Beach Community Center and the first phases of the replacement of the North Precinct. But, beyond these projects, there is clearly an imbalance in the level of need as compared to the resources available. In the coming months and years, the Executive and Legislative branches will need to work together to prioritize needs, reduce costs, and potentially identify additional funding sources to meet these needs. Completing the strategic capital agenda is a priority for the coming year.

- **Healthcare Costs:** Healthcare costs continue to rise for the City of Seattle and around the country at rates that significantly outpace inflation. Bringing cost growth under control is a key long-term fiscal strategy for both the City and employees. The City will work with employees to identify strategies that will help mitigate cost growth in future years.
- **Retirement Costs:** The Seattle City Employees' Retirement System suffered significant investment losses in the recent recession, as did other public and private investment pools. While the system has ample funds to cover anticipated payments over the next many years, it is now underfunded from a long-term view, and steps must be taken to strengthen the system. The Retirement Board will undertake a study to evaluate investment strategies and decision-making procedures to protect against future losses and maximize returns. The City and employees will also increase contributions into the system to provide additional funding of the plan. The City will continue to monitor the fiscal health of the system and will make future adjustments as necessary to ensure its long-term viability.
- **Technology Upgrades:** The City has a number of aging technology systems that are in need of replacement or upgrade, including the City's accounting system, Summit, and the caseload management system used by Seattle Municipal Court, MCIS. Replacement costs for these systems could cost the City millions.
- **Obligations under the Americans with Disabilities Act:** In 2011, the City anticipates reaching agreement with the Department of Justice (DOJ) over a review of the City's compliance with the Americans with Disabilities Act (ADA). While the City is largely in compliance, there are some facilities that the DOJ has identified that need to be updated or modified to conform to ADA standards. In addition, the City will be undertaking a survey of its facilities to assess their compliance with the ADA. The 2011-2012 Proposed Budget begins to address these costs, but additional costs are anticipated in the years to come.
- **Reserves:** Healthy financial reserves are a cornerstone of prudent financial management. The City of Seattle maintains two financial reserves for general government spending – the Emergency Subfund and the Revenue Stabilization Account (aka Rainy Day Fund). The Emergency Subfund is available to pay for unanticipated expenses that may occur in a fiscal year in response to an emergency (e.g., earthquake). The Rainy Day Fund is available to maintain City spending in the event of a sudden and unanticipated drop in revenues due to economic conditions or other factors. Over the past two years, the City has drawn down substantial portions of the Rainy Day fund in response to weak revenues and to avoid making deep cuts. The Rainy Day Fund totaled \$30 million at the beginning of 2009. The 2010 Adopted Budget

²⁰ See the Strategic Capital Agenda Presentation to the City Council. July 6, 2010.

<http://www.seattle.gov/financedepartment/documents/2010-07-06CapitalPresentationFINAL.pdf>

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leaves \$10.5 million in the reserve by the end of 2010.²¹ Understanding that healthy reserves are critical in times of economic volatility and essential to preserving the City's AAA bond rating, the 2011-2012 Proposed Budget recommends fully maintaining these reserves. By State law, the Emergency Subfund cannot exceed 37.5 cents per \$1,000 of assessed property value within the City. Because assessed property values in the City are declining, the City must reduce the size of the Emergency Subfund. Due to this, the 2011-2012 Proposed Budget transfers \$750,000 from the Emergency Subfund to the Rainy Day Fund to bring the total value of the Rainy Day Fund to just over \$11 million, and results in the full preservation of these crucial reserves. In addition to taking this proactive step for 2011, it is important that the City look for opportunities as the economy recovers to build the value of the Rainy Day Fund.

- **Long-Term Funding for Parks:** While Seattle voters have consistently chosen to expand their parks and recreation system, it relies primarily on the General Fund to support on-going operations and maintenance. Since 2002, General Fund support has not kept pace with the growing operations and maintenance costs of the City's parks system. Unfortunately, the current economic turmoil means that 2011 is no exception to this trend. In fact, with reductions to Parks maintenance functions, the challenges grow with the 2011-2012 Proposed Budget. As the economy recovers and the City's funding situation improves, addressing the long-standing funding imbalances in Parks is a top priority. In the meantime, the City will continue to explore opportunities to make creative use of existing resources, building on what is done with Arts funding in the 2011-2012 Proposed Budget, and to explore opportunities for non-traditional funding sources and increased opportunities to form partnerships with community service providers. To demonstrate the City's commitment to this, staffing in Parks for 2011 is dedicated to developing these opportunities. In addition, the City will continue working with members of the community to develop options to allow the City's parks systems to flourish.
- **Public Safety:** Public safety extends beyond traditional police services. Rather investments in services such as parks, libraries, and the safety net – particularly those services that target children and youth and provide employment opportunities for residents – are also key elements to maintaining public safety. This commitment is reflected in the decisions in the 2011-2012 Proposed Budget. But, more work is needed. In 2011, the Seattle Police Department will continue to develop options for meeting the outcome goals of the Neighborhood Policing Plan. In addition, the Human Services Department will be exploring in 2011 opportunities to streamline its contracts, as well as improve the measurement of performance outcomes in an effort to maximize the City's human services investments.
- **Other Personnel-Related Costs:** As the City addresses these 'looming budget issues' and identifies additional efficiencies and strategies to realign funding, two personnel-related issues rise to the top as requiring attention – the first is the City's classification system and the second is the delivery of human resources services in the City. As the City downsizes the workforce, it is clear that the current classification system covering discretionary pay bands (executive, strategic advisor, manager, and IT professional), which has been in place for nearly a decade, is due for an evaluation. The system has never been evaluated to determine whether they still meet the City's classification and compensation needs. As the City's workforce needs evolve under more constrained revenues, it is time to examine whether the current classification system best meets the workforce needs of the City. The 2011-2012 Proposed Budget assumes that a review of the classification system will begin in 2011.

In addition, work done in 2010 to review how the City provides human resources services throughout the City suggests that additional work is needed in this area to determine whether there are additional opportunities to streamline the provision of these services. The 2010 human resources review was completed by the City Budget Office, and was undertaken in part in response to a 2010 Statement of Legislative Intent 117-1-A-1. The goal of the study was to identify best practices to most effectively and

²¹ The 2010 Proposed Budget actually contemplated drawing down the Rainy Day Fund even further to approximately \$5 million. The City Council, in adopting the 2010 budget, restored approximately \$5 million to the fund.

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efficiently provide human resources services to the City and its employees, and evaluate the division of roles between the Personnel Department and human resources staff in other City departments. The study found that in most cases, the role of the Personnel Department and the department human resources units are separate and distinct, and there are many areas in which dual staffing is effective both in departments and in the Personnel Department (such as labor relations). Several areas were identified for potential increased centralization, including benefits (communications and employee assistance) and training. Hiring and safety have potential for increased centralization; however, these two areas need more study. The Executive is continuing to review the recommendations of this report, and will work with the new Personnel Director, once approved, to implement these changes.

The 2011-2012 Proposed Budget begins making efforts to meet many of the City's future expenditure obligations and operational challenges. But, more work is needed to identify funding options to meet these obligations, as well as to sustain current services. As the City looks at a future with more subdued revenue growth, meeting these obligations will require added fiscal oversight, monitoring, and creativity to ensure that the City is delivering services in a cost-effective manner. In other words, as the City prepares for the fiscal reality of the coming years, the 2011-2012 Proposed Budget is only the beginning of a longer-term transformation of City government.