



City of Seattle
2012 General Government
Revenue & Budget Update

Presented to the Seattle City Council
April 18, 2011



Overview

- ▶ **The economy is showing signs of stability**
 - ▶ But, recoveries from recessions caused by crises in the financial sector tend to be much slower than typical recoveries
 - ▶ These trends are bearing out in our revenues
 - ▶ While some modest weakness, general stability
 - ▶ Growth in revenues subdued compared to other recoveries; not sufficient to address other pressures and growing demands

- ▶ **These revenue trends make it more difficult for the City to respond to other financial pressures**
 - ▶ State & Federal budget pressures
 - ▶ Internal policy changes
 - ▶ Long-term financial sustainability

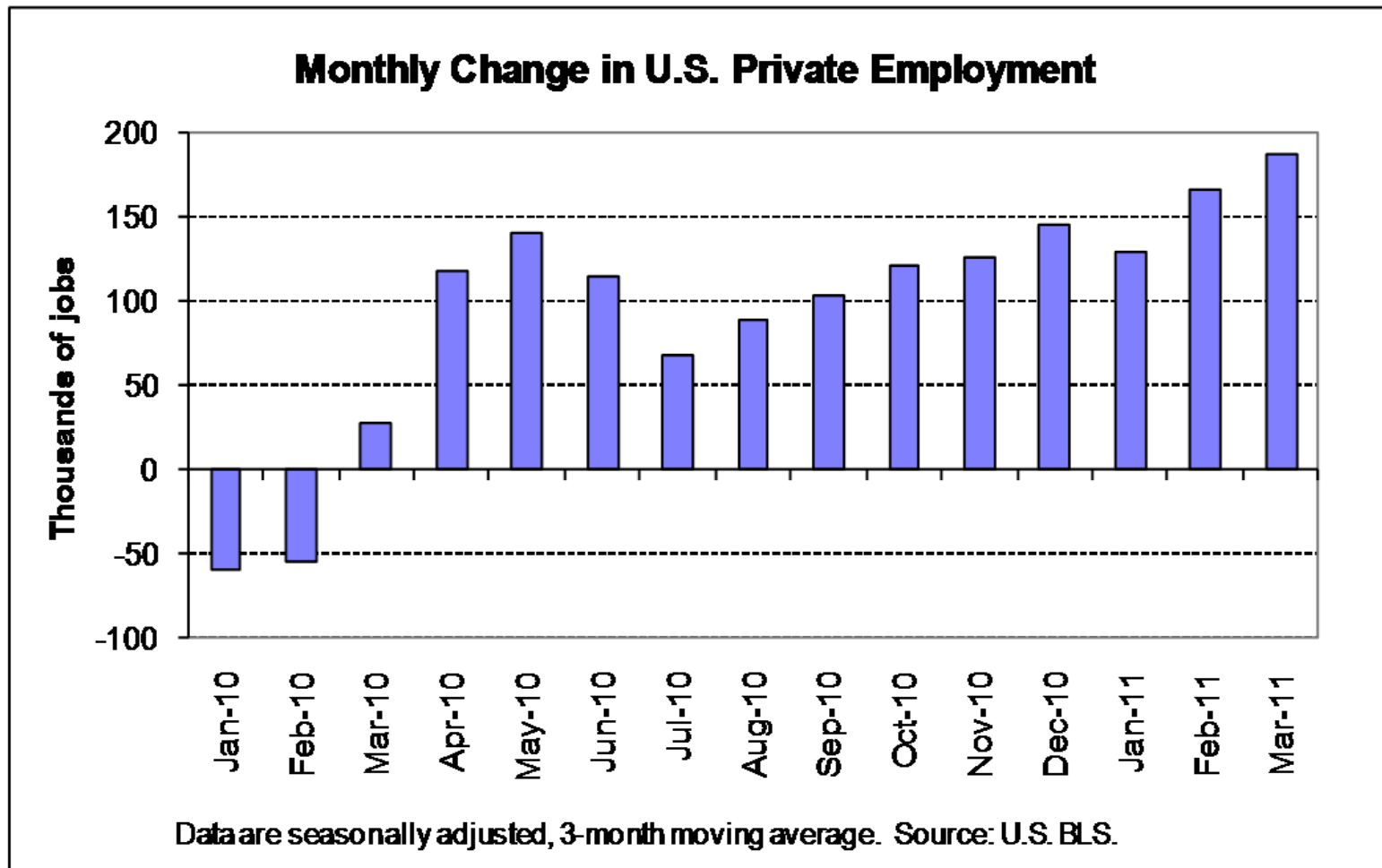
- ▶ **These variables require the City to consider further reductions in order to position the City to respond to these pressures**



U. S. Economy

- ▶ **Economies recover slowly from recessions caused by financial crises**
 - ▶ Households must pay down debt and rebuild savings
 - ▶ Banks are reluctant to lend
 - ▶ Overbuilding of housing stock = no construction rebound
- ▶ **With recovery nearly 2 years old:**
 - ▶ Employment is up 1.5 mil. vs. 8.8 mil. lost during recession
 - ▶ Housing has not yet turned around
- ▶ **Economy stumbled last summer, but has gained momentum since then**

U.S. Economy





U. S. Economic Forecast

- ▶ Recovery expected to continue at moderate pace
- ▶ Recent national forecasts are a bit stronger than those used in August and November 2010 revenue forecasts
 - ▶ 2011 tax package added stimulus
 - ▶ Employee Social Security tax rate cut from 6.2% to 4.2%
- ▶ Higher oil prices will have modest impact on economy
 - ▶ Higher inflation will offset impact of weaker economy on City revenue
- ▶ Risks to the forecast include
 - ▶ Oil prices
 - ▶ Housing market
 - ▶ European debt crisis

Puget Sound Region Economy

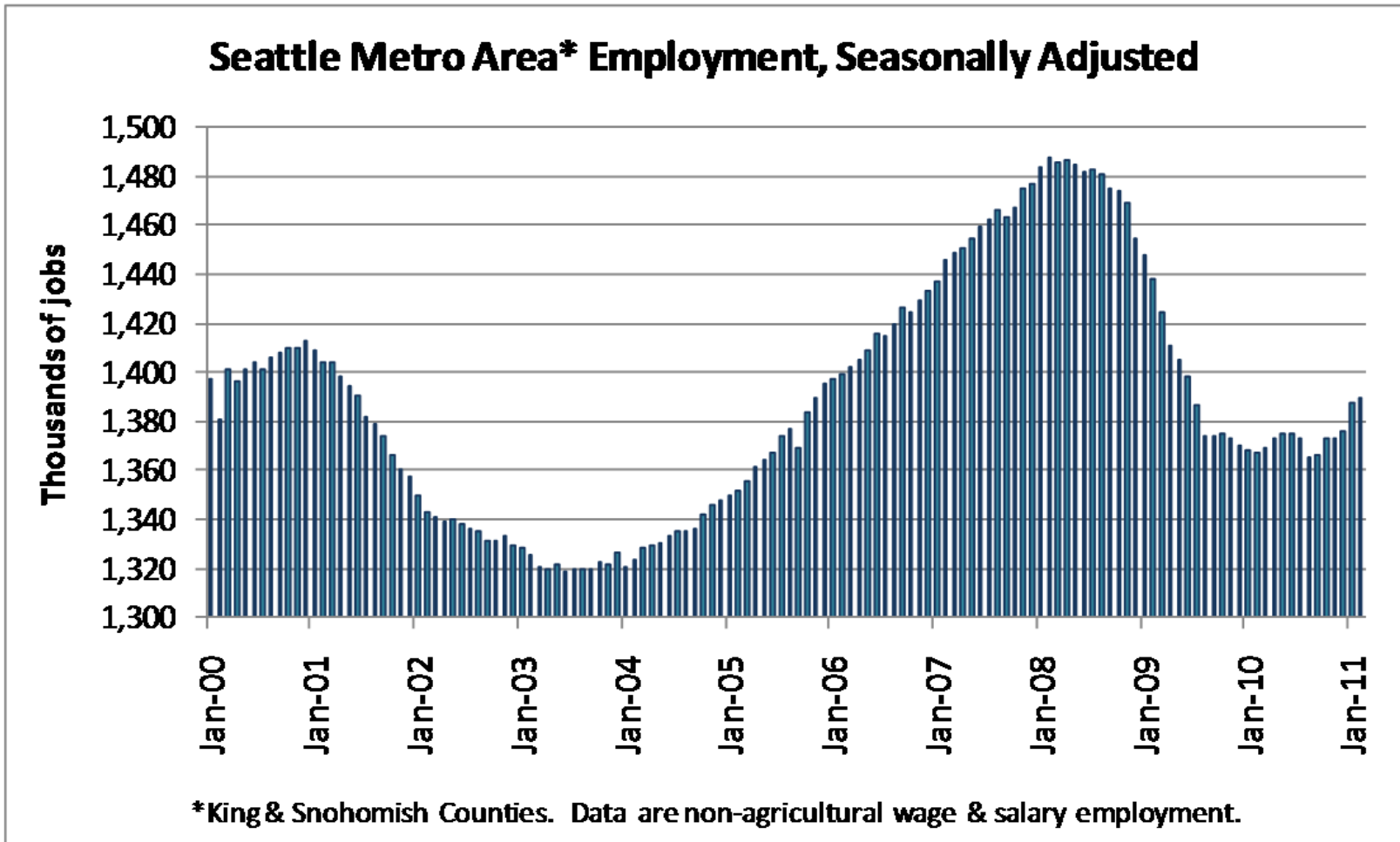


- ▶ **Region's recession was similar in severity to the nation's**
 - ▶ Metro area* lost 8.2% of jobs, vs. 6.3% for U.S.
 - ▶ 121,800 jobs lost during recession
 - ▶ 24,100 jobs added post-recession
 - ▶ Housing has held up a bit better in the region than nationally

- ▶ **Aerospace and software publishing are adding workers**
 - ▶ Boeing has added 2,400 jobs since June 2010
 - ▶ 737 and 777 production rates to be increased in 2011-13
 - ▶ Boeing won Air force tanker contract

*King & Snohomish Counties.

Puget Sound Region Economy

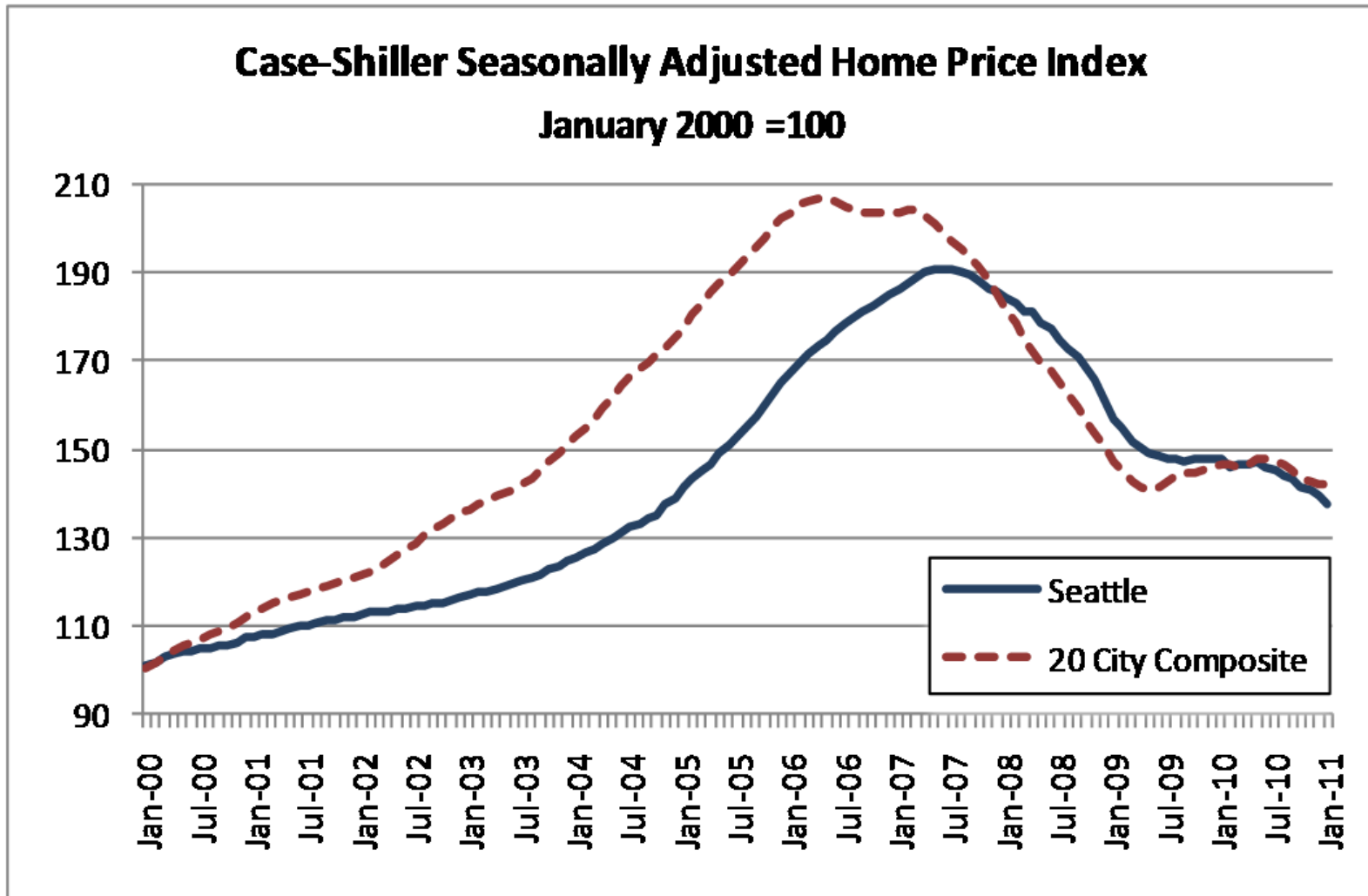


Puget Sound Region Economy

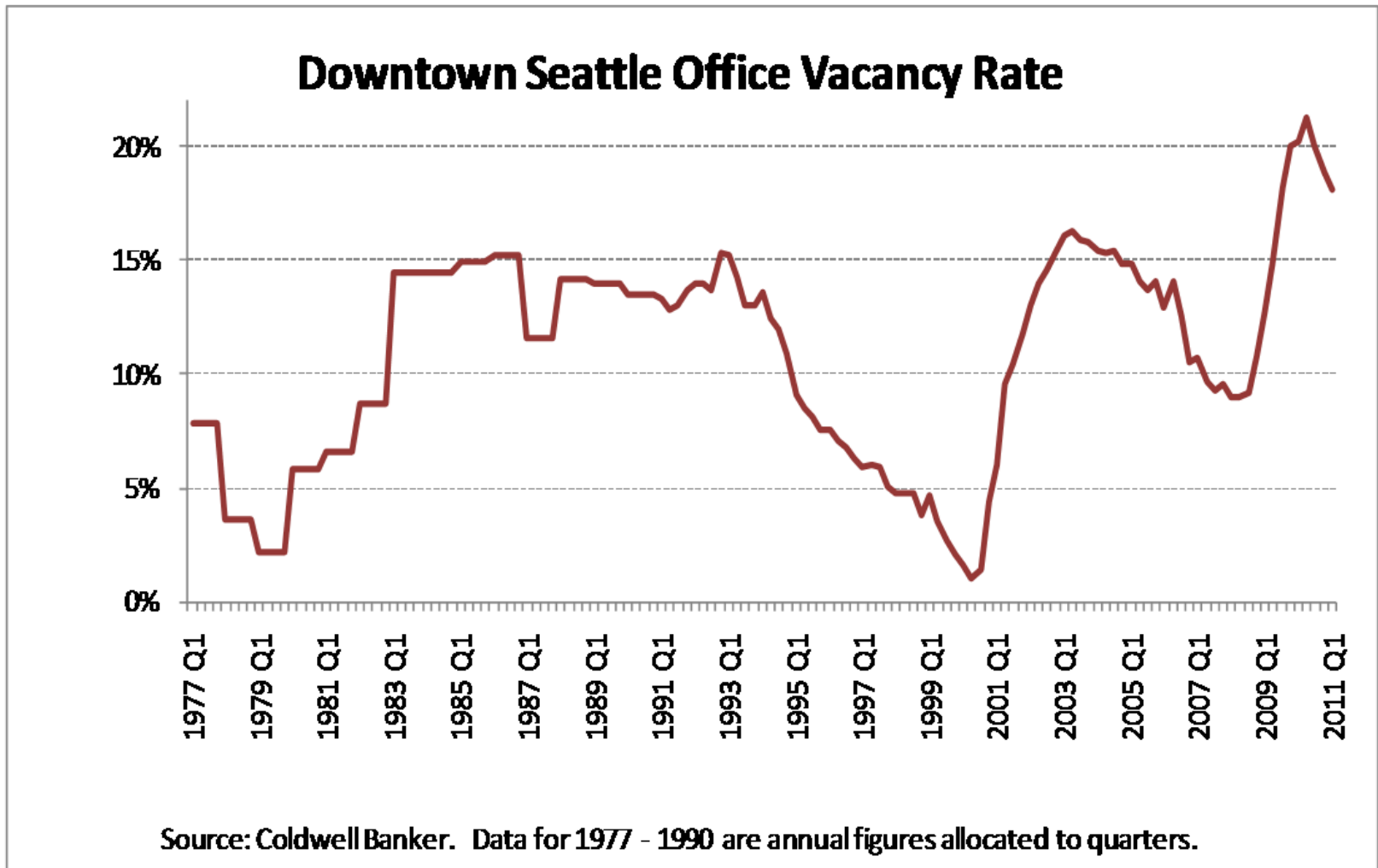


- ▶ Real estate market
 - ▶ Region's housing prices are still declining
 - ▶ Metro area prices are down 27.8% from peak (Case-Shiller)
 - ▶ Signs of recovery are emerging in the office market
 - ▶ In housing market, only apartments are showing signs of life
 - ▶ Vacancy rate has fallen below 4% in Seattle
 - ▶ Rents have increased modestly in past year
 - ▶ DPD has seen increase in permit activity for new apartments

Puget Sound Region Economy



Puget Sound Region Economy



Puget Sound Region Economic Forecast

- ▶ Puget Sound Economic Forecaster sees recovery unfolding gradually
 - ▶ Employment growth will accelerate in 2nd half of 2011
 - ▶ Housing is near its bottom, but turnaround will be slow

General Subfund Revenues



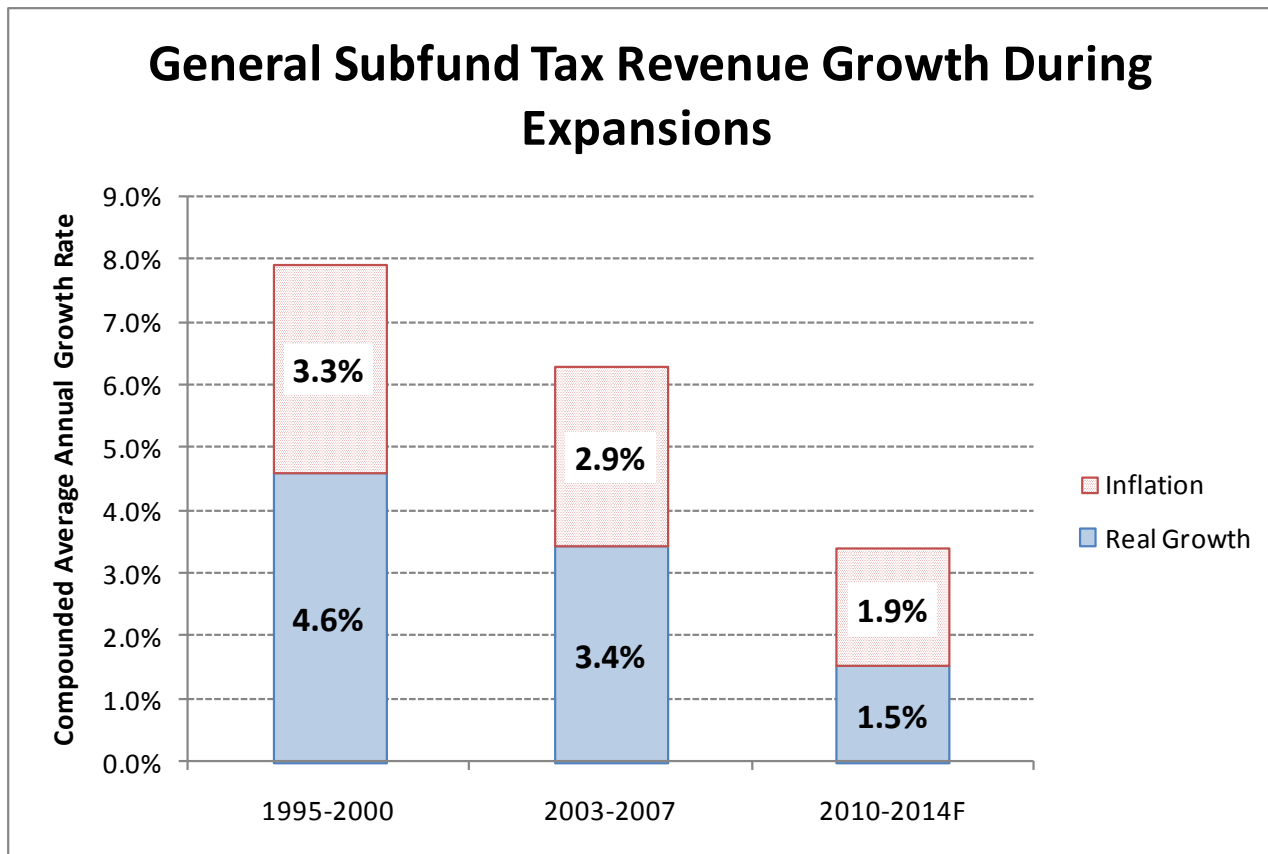
	2010			2011			2012		
	Revised	Actuals	Act-Rev	Adopted	Revised	Rev-Adp	Endorsed	Revised	Rev-End
Property Taxes	250,828,000	250,430,354	(397,646)	253,655,000	253,686,000	31,000	256,952,000	256,868,000	(84,000)
Business & Sales Taxes	311,432,807	310,176,427	(1,256,380)	321,865,280	322,789,100	923,820	339,638,630	339,887,092	248,462
Public & Private Utility Taxes	174,185,260	171,649,277	(2,535,983)	173,867,214	169,640,362	(4,226,852)	181,755,424	177,021,915	(4,733,509)
Other Notable GSF Revenues	96,642,939	98,629,853	1,986,914	102,015,074	100,793,847	(1,221,227)	103,944,319	103,036,809	(907,510)
Parking Meters	26,567,000	26,507,716	(59,284)	35,094,000	32,054,000	(3,040,000)	39,659,000	36,224,000	(3,435,000)
Total of Core GSF Revenues	859,656,006	857,393,628	(2,262,378)	886,496,568	878,963,309	(7,533,259)	921,949,373	913,037,816	(8,911,557)
Real Estate Excise Tax	22,884,567	23,632,436	747,869	23,794,159	24,284,935	490,775	32,243,968	28,865,464	(3,378,504)

Core GSF Growth Rates (yr/yr)

2.5%

3.9%

General Subfund Revenues



Revenues & the Economy

Only Part of the Story



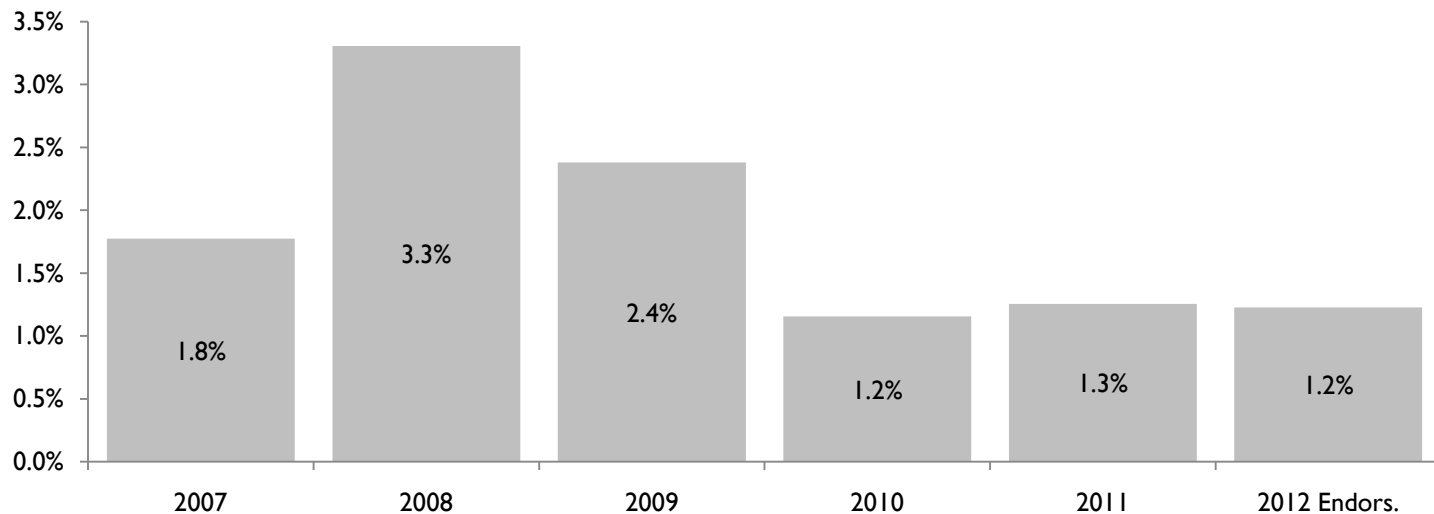
- ▶ Relatively slow general tax revenue growth means limited flexibility to deal with budget pressures.
- ▶ Other pressures include:
 - ▶ Federal Budget
 - ▶ State Budget
 - ▶ Internal Cost Pressures
 - ▶ Addressing long-term financial sustainability issues
- ▶ Recent news has been less negative, although significant risks still exist for 2011 and 2012.



Limited Flexibility

- ▶ Stagnant revenues, limited reserves, and several years of reducing discretionary and programmatic budgets in departments leaves the City with few options to address fiscal challenges.
- ▶ 2011 Adopted Rainy Day Fund balance is \$11.2 million; 2012 Endorsed balance is \$11.3 million

Ending Unreserved Balances in Rainy Day Fund (Revenue Stabilization Account) as a % of adopted General Fund Budgets



Revenues & the Economy Only Part of the Story



▶ External Pressures: Federal Budget

- ▶ Recent budget deal for the remainder of fiscal year 2011, reducing \$38 billion
- ▶ Includes 16.2% reduction to the City's Community Development Block Grant, or \$2.1 million
- ▶ While this outcome could have been much worse for 2011, risk of reductions to funding levels in 2012 remains extremely high:
 - ▶ This deal only reduced \$38 billion from a deficit totaling \$1.4 trillion.
 - ▶ Large deficits loom in future years as well as a debt ceiling cap debate that will put further pressure on Congress to control spending.

Nominal Federal Budget Deficit

Federal Fiscal Years, 2000-2010 Actuals; 2011-2020 Congressional Budget Office Projections - March 2011 (\$ Billions)



Revenues & the Economy

Only Part of the Story



- ▶ **External Pressures: State Budget**
 - ▶ Current budget proposals include reductions in state-shared revenues, including liquor profits, liquor tax, and CJ account sharing.
 - ▶ City continues to analyze components of the various budget proposals.
 - ▶ Differences between the State House and Senate versions need to be resolved. Impacts to the City of Seattle still subject to change.
- ▶ **External Pressures: Public Defense caseload standards**
- ▶ **Internal Pressures**
 - ▶ Increases in inflation that drive both costs of services and salary levels for 2012.
 - ▶ Retirement costs
 - ▶ Challenges in non-General Fund revenues (e.g., SDOT, Seattle Center, Pacific Place Parking Garage)

Policy Considerations: Long-Term Financial Sustainability



- ▶ The 2011 Budget identified a number of funding pressures the City would need to address for 2012 and beyond:
 - ▶ Asset Preservation
 - ▶ Retirement Costs
 - ▶ Healthcare Costs
 - ▶ ADA Obligations
 - ▶ Capital and Technology Needs
 - ▶ Replenishing Reserves

- ▶ These pressure put near- and long-term pressures on the City's finances and will be considered as part of the 2012 budget in keeping with our continued commitment to fiscal prudence and financial sustainability.
 - ▶ Interdepartmental Teams are currently developing recommendations about how to address these obligations for 2012 and beyond
 - ▶ This work will help inform how we deal with these issues in the budget

General Fund Balancing



- ▶ 2012 planning assumptions outlined below are intended to provide a scope of potential pressures.
- ▶ Some of the pressures captured below are more certain than others.
- ▶ In total, they DO NOT represent a deficit in the traditional sense, but rather a full scoping of potential issues.

Amounts in \$1,000s	2012 Endorsed	2012 Planning	Change
Beginning Unreserved Fund Balance*	2,552		(2,552)
Total Revenues	923,295	914,383	(8,912)
Total Expenditures and Change in Reserves	(925,596)	(925,596)	
Preliminary Estimate - State Changes		(2,000)	(2,000)
Federal: Potential Reductions in CDBG funding		(4,000)	(4,000)
Risk - Change in Public Defense Standards		(1,000)	(1,000)
Risks, Requests and Updates		(4,400)	(4,400)
Potential Policy Choices		(16,000)	(16,000)
Net Potential Scope of Issues	251	(38,612)	(38,863)

* Available balance excludes policy reserves; assumes no surplus/deficit fund balance from 2011.

Approach for Developing the 2012 Budget



- ▶ **Uncertainty Requires Vigilant Monitoring:** The 2012 budget is being developed in an environment of continued uncertainty that will require continued vigilant monitoring
 - ▶ Federal budget for FY 2012 could result in substantial changes to CDBG
 - ▶ State budget not yet finalized
 - ▶ Inflation always a risk; economic conditions subject to change
 - ▶ New approach to parking meters results in greater uncertainty in revenue estimates.

- ▶ **Early Identification of Options:** The City took a proactive approach in 2010 in addressing fiscal challenges, which resulted in a small surplus at the end of the year, which is available to help with 2011 challenges.
 - ▶ Similar proactive approach being taken to develop options for 2011 mid-year and 2012 that will allow the City to quickly respond to known and emerging fiscal challenges.
 - ▶ Allows us to adjust as new information becomes available. The level of 2011 mid-year reductions recommended will be adjusted as more information becomes available.
 - ▶ As updated information becomes available, will also allow us to make informed decisions about 2012. Work of the Interdepartmental Teams and completion of the Strategic Capital Plan will also help further refine the scope of the problem.
 - ▶ The City Budget Office is prepared to provide updates as warranted

- ▶ **Assessment of Trade-Offs:** With an early assessment of the potential scope of the challenges, will ask departments to develop budget reduction/revenue options that will allow policymakers to assess the pros and cons of a variety of choices, including approaches to addressing the long-term financial pressures mentioned previously.

Approach for Developing the 2012 Budget



- ▶ Like the 2011 mid-year exercise, reduction targets will likely be allocated on an across-the-board basis
 - ▶ This will not mean that these are the actual reductions taken
 - ▶ Rather, this will allow for a full discussion about trade-offs and priorities
 - ▶ Will continue to monitor developments and assess priorities to inform the ultimate size of the challenges

- ▶ Recognition that cuts on the margin are more difficult following years of reductions
 - ▶ Exploring options for re-tooling how services are delivered

- ▶ Must continue to find ways to support and make progress on City priorities and initiatives despite resource limitations.

REET



- ▶ April revenue update results in a shortfall in 2012. 2011 appears to be OK for now, but REET revenues are volatile.
- ▶ Currently evaluating existing projects for potential underspend in 2011 or 2012 that may free up resources. Unclear at this point if this will be sufficient.
- ▶ Will be engaging with departments to begin developing options for how to address potential shortfalls in 2012 and 2013.

Amounts in \$1,000s	2012 Endorsed	2012 Planning	Change
Beginning Unreserved Fund Balance*	30	1,339	1,309
Total Revenues	32,478	28,865	(3,613)
Total Expenditures and Change in Reserves	(32,341)	(32,341)	
Ending Unreserved Balance	166	(2,137)	(2,304)

* Available balance excludes policy reserves; assumes anticipated surplus fund balance from 2011.



Next Steps

- ▶ CBO is closely monitoring State and Federal budget developments and recommendations of the IDTs
- ▶ Mid-year reductions – Departments are currently developing mid-year reduction proposals. We expect decisions on mid-year reductions in early June.
- ▶ 2012 budget instructions distributed to departments on the last week of April
- ▶ Department budget requests due to the City Budget Office on July 8
- ▶ Mayor submits proposed budget on September 26

Questions?

