

Budget Overview

The City of Seattle's 2010 Proposed Budget is the eighth and last budget developed under the leadership of Mayor Greg Nickels. The Proposed Budget reflects the four priorities the Mayor established when he took office: public safety, transportation, strong families and healthy communities, and jobs and opportunities for all. The Proposed Budget also reflects many of the budget priorities identified by the City Council through Resolution 31134 and through a subsequent letter the Council sent to the Mayor.

The 2009-2010 biennial budget was approved by the City Council in November 2008 during a period of profound economic uncertainty. A world-wide recession had begun and many major financial institutions were crumbling. While the Puget Sound economy was doing much better than the nation's, it was clear that the City would face declining revenues in many of its funds. Thus, the General Fund's biennial revenue forecast was lowered by about \$19 million between the time the Proposed Budget was submitted in September and the time the Council approved the Adopted Budget in November.

Economic conditions continued to worsen over the next six months. Nationally, the recession proved to be the deepest and longest since the 1930s. The unemployment rate reached 9.7% in August and most forecasts suggest it will peak at between 10.0% and 10.5% in the first half of 2010. Locally, unemployment in King County reached 8.4% in July, better than the nation or state but still well above the level reached in the last recession. The regional economy was battered by the collapse of Washington Mutual and layoffs in many sectors of the economy. As detailed in the revenue section of the budget, sales and Business & Occupation (B&O) tax revenues fell faster in the fourth quarter of 2008 and the first quarter of 2009 than in any other period since at least the early 1970s.

Almost all City funds faced revenue declines as a result of economic conditions. Seattle City Light sells a significant amount of surplus electricity in the wholesale market and initially projected about \$142 million from this source for 2009. By August of this year, this revenue estimate was lowered to about \$77 million due to a steep decline in energy prices. Other City utilities have seen reductions in demand due to lower commercial activity and efforts to conserve by residents. The Department of Planning and Development (DPD), which relies on building-related permits for much of its revenue, has seen a dramatic reduction in construction activity and hence permit revenue. The 2009 Adopted Budget assumed about \$27.9 million from this source, but the current estimate is now \$14.2 million. Financial challenges extend to other funds as well, including the Transportation Fund (lower gas tax receipts) and the Seattle Center Fund (lower event-related revenues).

In response to the deepening economic downturn, Mayor Nickels imposed budget reductions in many City departments in April. These cuts amounted to about \$13.3 million for the General Fund and included position reductions, salary freezes, overtime restrictions, and unpaid furlough days for some Executive offices. Both utilities - Seattle City Light and Seattle Public Utilities (SPU) - reduced expenditures and staffing, and DPD laid off 26 employees who were paid from permit revenues.

Most economic forecasts suggest that the recession likely ended in the summer of 2009. However, these forecasts also project a very slow recovery. As a result, economic growth cannot be counted on to address revenue shortfalls, so the 2010 Proposed Budget had to be significantly reduced from the Endorsed Budget. For the General Fund, the magnitude of the needed changes can be seen in the biennial revenue estimate for sales and B&O taxes, which declined by about \$85 million from the November 2008 revenue forecast to the August 2009 forecast.

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Mayor Nickels established several principles to guide decisions for the 2010 Proposed Budget:

- In the General Fund, public safety and direct human services would be the highest priority. As described below, this budget actually increases Police staffing, preserves uniformed staffing in the Fire Department, and maintains spending assumed in the 2010 Endorsed Budget for human services programs that directly benefit people, such as food support, homeless shelters, and child care.
- No general tax increases would be considered. In fact, the Mayor and two Councilmembers proposed repealing the employee hours tax, which is seen by some companies as a disincentive to creating jobs. This proposal is pending before the Council. The Mayor and Council also approved legislation to raise the B&O tax threshold to \$100,000 starting in 2010.
- The Race and Social Justice Initiative's "budget filter" would assist with decisionmaking. This filter requires departments and budget analysts to assess the potential effects of a budget change on historically disadvantaged communities and neighborhoods.
- Utility rate increases would be kept to a minimum. Only previously approved 2010 rate changes for SPU utilities (7.7% for water, 12% for residential solid waste, and 8% for commercial solid waste) would be allowed and the City Light rate increase would be based on a smaller budget.
- A careful review of span-of-control issues would be done and management positions reduced. This resulted in eliminating approximately 38 executive, management and supervisory positions Citywide, plus an additional 16 strategic advisors or similar positions.
- The vehicle fleet would be reduced and more energy-efficient vehicles would continue to be emphasized. This effort reduced the size of the fleet managed by the Fleets & Facilities Department by approximately 143 vehicles and pieces of equipment. City Light, which manages its own fleet, eliminated approximately 50 vehicles.
- Conservative financial practices would be maintained, including funding the Emergency Subfund at the maximum level allowed under State law (\$46.6 million for 2010). However, uses of one-time savings, such as excess balances in operating funds, would be allowed in light of the magnitude of the economic crisis.
- City management would lead by example, with salaries for department heads frozen at 2008 levels for both 2009 and 2010.
- Funds derived from the Real Estate Excise Tax (REET) would continue to be focused mostly on asset preservation (sometimes called "major maintenance") of the City's capital facilities. REET revenues declined precipitously in 2008 and early 2009 as housing prices fell, housing transactions slowed, and the commercial real estate market dried up. Lower REET revenues led to eliminating or postponing capital projects in the fall of 2008 and again in early 2009. REET revenues now appear to have stabilized and housing market activity appears to be improving. In addition, construction costs have fallen substantially, allowing many projects to come in under budget. The 2009 third quarter supplemental budget ordinance and the 2010 Proposed Budget reallocate these savings to new projects.
- Federal funds from the American Recovery and Reinvestment Act of 2009 (ARRA), commonly referred to as "stimulus" funds, would be used mostly for new efforts that will create jobs, rather than replacing existing City funds. This Budget does assume some use of ARRA funds to preserve civilian positions in

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the Police Department, but the vast majority of ARRA funding received by the City has been devoted to new capital projects or service-delivery programs. A discussion of these funds is included at the end of this section. The City also accelerated some of its own capital projects in 2009, notably transportation projects and projects funded from the 2008 Parks Levy, to create construction jobs.

In early summer, the City entered negotiations with most of the unions representing non-uniformed employees seeking ways to reduce labor costs in 2010. The unions agreed to present a proposal for a 10-day unpaid furlough to their members, and the members of 14 unions representing approximately 4,282 employees agreed to the furlough. The City will extend a similar furlough to most non-represented employees. Furlough savings are estimated at about \$6.5 million for the General Fund and about \$11.6 million for other funds. These savings allow City services to be preserved and significantly reduce the number of layoffs.

Applying the principles described above and the results of the furlough proposal to updated revenue estimates yields a 2010 Proposed Budget of \$3.88 billion, of which \$905 million is General Fund. Approximately 310 positions are eliminated Citywide. The General Fund's budget was balanced by using \$25.4 million of the \$30.6 million Revenue Stabilization Account ("Rainy Day Fund") in 2009 and 2010. The remainder will be available to buffer revenue shortfalls in 2010 or to help support the 2011 budget.

Major highlights of the 2010 Proposed Budget are described in the following sections.

Public Safety

Mayor Nickels has established public safety as the City's highest priority. To this end, the Mayor and City Council have agreed to add about 21 patrol officers per year through 2012. The 2010 Proposed Budget follows through on this commitment with 20 new officers and a transfer of one officer from a public information function to patrol. This means the Police Department will have 111 more officers in 2010 than it had in 2005. The Police Department plans to implement the Neighborhood Policing Plan during the first half of 2010. This plan has already realigned staffing in geographic sectors to reflect current population and calls for police response. The final step in the plan involves changing officers' shifts to provide more staffing on critical days and times.

All staffing for fire suppression and emergency medical services (EMS) is maintained, despite a decline in revenue from the County-wide EMS levy. One uniformed position in the Fire Marshal's office is eliminated to reflect a change in the staffing model. An additional ladder truck will be sited temporarily in West Seattle to maintain response capability in that neighborhood while the Spokane Street Viaduct is reconstructed. The costs for this ladder truck will be borne by the transportation project's budget.

A variety of capital projects are under way to support the City's public safety programs. Most notable is the voter-approved Fire Facilities and Emergency Response Levy, which provides partial funding to replace or remodel almost all of the City's fire stations and related facilities. Other City funds, particularly REET, cover the remainder of the costs. The Levy program has already produced a new Fire Station (FS) 10, which is co-located with the new Fire Alarm Center and the new Emergency Operations Center. In 2009, a new FS 28 in the Rainier Valley will be opened and seismic upgrades will be completed at FS 31 (Northgate) and FS 33 (Rainier Beach). Nine additional neighborhood stations will be under construction in 2010 and land will be purchased for a new site for FS 20. The City is seeking federal ARRA funding for part of the cost of replacing two stations and renovating a third. The Levy program has also funded two new fireboats and the refit of the "Chief Seattle" fireboat will begin in 2010, including improvements funded through a federal grant.

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Site analysis began in 2008 for a new North Precinct Police Station, but this work was put on hold in mid-2009 due to the City's financial challenges. No practical funding mechanism is currently available for this project so it has been postponed.

Seattle and several other cities are in the early stages of the process to site a jail for people charged with and convicted of misdemeanors. For more than two decades, King County has housed prisoners for cities. However, the County believes it will run out of jail space in five to six years, and has informed cities it will no longer accept their misdemeanants at that point. In mid-2009, the County agreed to extend contracts to house misdemeanants through 2015. Several cities in northern and eastern King County are working together to evaluate potential sites for a municipal jail for misdemeanor offenders, if it is eventually needed. These site evaluations and environmental reviews will be completed in 2010. Funds appropriated in 2009 are sufficient for these efforts.

Transportation

The City of Seattle has vastly increased funding for transportation projects and maintenance over the last decade, although General Fund support has to be reduced for 2010 due to overall budgetary conditions. Much of the increased funding is due to "Bridging the Gap (BTG)," a program started in 2007 that includes funds from a voter-approved property tax levy, a commercial parking tax, and a tax on employers for those employees who do not use alternatives to single-occupancy vehicles (referred to as the "employee hours" or "head" tax). The Bridging the Gap program funds a wide range of initiatives, including major capital projects, rehabilitation of bridges, additional transit hours purchased from King County Metro, replacement of traffic signals and signs, street resurfacing, and construction of new bike lanes, trails, and sidewalks. The program is on track to achieve all of its performance goals in 2009, except some of those related to Metro Transit. These Metro-related goals cannot be achieved because of Metro's own financial difficulties caused by declining sales tax revenues.

The commercial parking tax has brought in significantly more money than was originally projected, while the employee hours tax has brought in less. In mid-2009, Mayor Nickels and two Councilmembers proposed repeal of the employee hours tax, which is difficult to administer and is seen by some as a disincentive to job creation. Even if this tax is repealed, overall Bridging the Gap revenues will be higher than originally projected.

The Pedestrian Master Plan was completed in 2009, complementing an earlier Bicycle Master Plan. In addition to funding already planned from BTG, the 2010 Proposed Budget provides \$1.356 million of additional REET toward implementing these plans.

In early 2009, the State, King County, and the City reached an agreement for replacing the earthquake-damaged Alaskan Way Viaduct with a deep-bore tunnel. This agreement assigned costs to each of the parties, with the City responsible for replacement of the Alaskan Way Seawall, parks and open space improvements surrounding a reconstructed Alaskan Way, certain surface street connections, utility relocations, and other projects. The 2010 Proposed Budget includes funding for continued work on the Seawall, some utility work, and additional planning.

Improvements to the Spokane Street Viaduct began in 2009. The first phase builds a new ramp from eastbound Spokane Street to Fourth Avenue South, which will improve access to downtown and the industrial area from West Seattle. In mid-2009, the City was awarded ARRA funds that provided the final amount needed to begin the second phase of the project, which expands the Viaduct and improves its seismic stability. This project is expected to begin construction in late 2009. The 2010 Proposed Budget provides additional funds for this project.

The 2010 Proposed Budget includes funding for the Mercer Corridor project. The final funding needed for this project has been requested through ARRA funds, with a decision expected in late 2009 or early 2010. The Budget

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also includes a new Mercer Corridor Project West Phase that provides the connections to the north end of the proposed deep-bore tunnel and that improves traffic flow between Elliott Avenue West and Interstate 5.

The 2010 Proposed Budget also includes funding for several major urban trail projects, most notably completion of the “missing link” of the Burke-Gilman Trail in 2010.

The transportation budget includes some additional projects, such as continued redevelopment of Linden Avenue North, offset by some reductions to help rebalance the General Fund, such as delay of some chip sealing work in 2009 and 2010.

Strong Families and Healthy Communities

The 2010 Proposed Budget continues the City’s commitment to human services and low-income housing. Seattle spends more on human services than all other cities in Washington combined. The 2010 Proposed Budget continues funding planned in the 2010 Endorsed Budget for programs that provide services directly to people, such as homeless shelters, food banks, child care, and domestic violence prevention. The cost-of-living adjustment assumed in the 2010 Endorsed Budget has been eliminated, consistent with the agreement to furlough most City employees. The furlough results in an income loss of about 1.83% for employees, compared with no net loss from suspending the adjustment for human services providers.

The 2010 Proposed Budget assumes voter approval of the Low-Income Housing Levy renewal on the November ballot. Seattle was the first city in the nation to have voter-approved funding dedicated to the creation and preservation of low-income housing. The Budget also continues the City’s commitments to Housing First and the 10-Year Plan to End Homelessness in King County.

Mayor Nickels proposed the Seattle Youth Violence Prevention Initiative in early September 2008 and the City Council included funding for it in the 2009 Adopted and 2010 Endorsed Budgets. The initiative focuses new and existing resources in three geographic areas: central, southeast, and southwest Seattle. A network has been established in each area and service delivery has begun. The 2010 Proposed Budget includes the full funding level assumed in the Endorsed Budget (\$4.0 million), and adds General Fund to cover revenues assumed from outside entities that now likely will not be realized. Funding for all aspects of the program other than policing is concentrated in the Department of Neighborhoods in the 2010 Proposed Budget, which will then allocate funds to other departments as needed. This model, which was pioneered for the Families & Education Levy, promotes greater accountability and allows more flexibility to respond to emerging needs.

The 2010 Proposed Budget includes additional funding to expand PeoplePoint, a Web-based benefits portal that allows lower-income city residents to access a wide range of services for which they are eligible. This program is being coordinated with work by the State and eliminates the need for individuals to contact multiple agencies to identify potential benefits. Seattle is seeking ARRA funding to help expand program capacity.

The City began a process to update neighborhood plans in 2009, with the focus on three neighborhoods served by the new Sound Transit Link light rail system: North Beacon Hill, North Rainier, and Othello. The 2010 Proposed Budget includes funds to complete these updates and provides money to begin updates for three more neighborhoods that are or will be served by light rail.

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Jobs and Opportunities for All

Mayor Nickels and the City Council have encouraged job growth throughout the decade by eliminating certain development restrictions and investing in needed infrastructure. The result has been significant employment growth in areas such as Northgate and South Lake Union. The 2010 Proposed Budget continues this emphasis, particularly through the use of ARRA funds. This money will support a wide range of infrastructure investments, ranging from the Spokane Street Viaduct project described above to the Ballard Green Streets project being developed by SPU.

Federal funds will also supplement the City's existing programs for small business support. Approximately \$1.44 million of ARRA funds have been disbursed to lenders who will focus on different segments of Seattle's small businesses.

The 2010 Endorsed Budget had included an unspecified \$300,000 reduction in funding for the Office of Economic Development (OED). This funding is restored in the 2010 Proposed Budget due to the critical nature of economic development work in this economy. OED will have furloughs and other budget reductions similar to other Executive agencies.

Utilities

Seattle operates four utilities organized in two departments. Seattle City Light (SCL) provides electrical service to Seattle and surrounding areas. Seattle Public Utilities houses three utilities that provide water, solid waste, and drainage and wastewater services. Together, the two departments account for 49% of the City's 2010 Proposed Budget.

City Light has dramatically improved its financial situation since the West Coast power crisis in 2000 and 2001. The utility's debt-to-capitalization ratio has been lowered from 85% in 2002 to an estimated 63% at the end of 2009. Rates were approximately 12% lower at the beginning of 2009 than they were in 2004. The 2010 Proposed Budget assumes an 8.8% rate increase on January 1, 2010, which is included in legislation being submitted with the Budget. The rate increase is driven by the lower wholesale energy sales described above, increasing costs in some areas (such as federal licensing), and general inflation. Mayor Nickels made significant reductions in the 2010 SCL Proposed Budget to reduce the size of the rate increase, including eliminating approximately 68 positions.

The City Light rate proposal also includes a Power Revenue Adjustment Mechanism (PRAM) that would automatically adjust rates to reflect increases or decreases in wholesale revenues compared with original forecasts. This is similar to the fuel adjustment mechanisms used by many other electric and natural gas utilities. The benefit of the PRAM is that it protects the utility from wide swings in revenue, which in turn allows the utility to have somewhat less conservative financial policies and thus lower average rates.

Despite budget reductions, SCL is proposing to continue expansion of its conservation program in 2010. This is a major factor in achieving Mayor Nickels' goal to reduce the production of greenhouse gases and achieve the goals set out in the Kyoto Protocol. City Light is also working with other City agencies, such as the Office of Sustainability and Environment (OSE), on various energy conservation and electrification efforts that are funded in whole or in part through ARRA money. These activities include home energy audits and dramatic expansion of the infrastructure needed to support electric vehicles.

SPU's Solid Waste Utility implemented new solid waste collection contracts in the spring of 2009. Residents now have three separate services: recycling, organics, and garbage. The major change was to provide weekly

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collection of organics, which include yard waste and all types of food waste. This new program has been extremely successful in diverting tonnage from the landfill and is a key step in reaching the City's goal to recycle more than 60% of the waste stream. The 2010 Proposed Budget continues these programs but makes a variety of cuts in administrative and service functions in order to offset lower-than-expected revenues. The lower revenues result from several factors, including less tonnage due to a slow economy, more reduction in garbage can sizes than expected, and failure of the proposed "green fee" on disposable bags in the August 2009 election.

SPU's other two utilities – Drainage & Wastewater (DWU) and Water – also are making budget cuts for 2010. These are driven by lower revenues as a result of decreased economic activity and delays in sale of some assets. In addition, the 2010 Endorsed Budget for DWU had anticipated a rate increase, which the Mayor decided not to pursue in light of poor economic conditions.

SPU has several major capital projects under way that continue in 2010. The water utility will continue its program to bury reservoirs. The Parks Department has its own funding, much of it from the 2008 Parks Levy, to plan and develop parks on top of the buried reservoirs in conjunction with SPU's projects. Covering the reservoirs will add 76 acres of open space. DWU will continue design and construction of a detention facility to solve the longstanding flooding problems in the Madison Valley neighborhood. The Solid Waste Utility will continue its program to replace the north and south transfer stations.

ARRA Funds

As mentioned in several sections above, the City has received a wide array of federal funding under the American Recovery and Reinvestment Act of 2009. As of this writing, the City has been awarded \$50.4 million directly and is a partner in a project for transportation electrification that will provide additional funds. The City has applied for \$261 million of additional funds, with decisions pending. All the City's applications are detailed in the tables following this section.

Looking Ahead

The nation is likely entering a period of slow economic growth, but will take years to recover the wealth lost in this recession. Unemployment is likely to remain high. Federal, state, and many local governments will face chronic deficits at a time when demand for services will continue to grow.

The Puget Sound area will likely recover more rapidly than the nation as a whole, albeit still at a modest pace. The region's core industries were not hit as hard by the recession as those in many other areas, and housing prices did not plummet as much. The region continues to attract creative individuals who form the basis for much of the area's economic growth.

The City of Seattle's budget will be under continued pressure in the next few years. The 2010 General Fund Proposed Budget relies on \$25.4 million from the Revenue Stabilization Account and at least \$10 million of other one-time savings that cannot be repeated. Economic growth likely will cover some of this "gap" for 2011 and beyond, but it seems clear that further expenditure reductions and/or revenue increases will be needed.

The greatest economic concerns are probably concentrated in the construction sector. The commercial office market and the multi-family housing market appear to be significantly overbuilt, so little new construction activity can be anticipated in these sectors in the next few years. This means continued lower levels for construction-related revenues, such as sales taxes and building permits. This effect may be offset somewhat by significant

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expansion of public sector projects, including the Alaskan Way Viaduct deep-bore tunnel, SR 520 replacement, and Sound Transit light rail.

The City retains many financial advantages, however. Seattle continues to be a relatively wealthy and generous city, with a willingness to provide additional revenues to support human services, transportation, parks, and other programs. The City has a diverse revenue base that is not excessively dependent on a single source, such as sales or property taxes. The City's general government and utilities have received and maintained extremely high bond ratings, reflecting long-term economic and financial strength. Seattle appears to be better positioned than most other major cities to recover from the current economic turmoil.

One other potential challenge is Initiative 1033, which will appear on the November ballot. This initiative would limit revenue growth for the general funds of the State, counties, and cities to the combination of population growth and inflation (as measured by the U.S. implicit price deflator), starting with a base year of 2009. Voter-approved revenue increases would be excluded. Any revenue above the cap would be used to reduce property taxes. If approved by the voters and upheld by the courts, this proposal would likely require future spending reductions and/or voter-approved revenue increases because the underlying growth in City costs (such as energy and health care) most likely will exceed the cap imposed by the initiative.