



City of Seattle  
2010 – 2012 General Government  
Fiscal Update

Presented to the Seattle City Council  
April 19, 2010

# Overview

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- ▶ The City of Seattle's General Fund continues to suffer from the struggling economy
- ▶ Seeing some very modest signs of improvement on the revenue side of the equation
- ▶ But, pressures on the expenditure side of the equation are exacerbating our budget forecast
  - ▶ In addition, we have a number of 'looming' budget issues which put additional pressures on the City's long-term financial outlook

# Economic Forecast

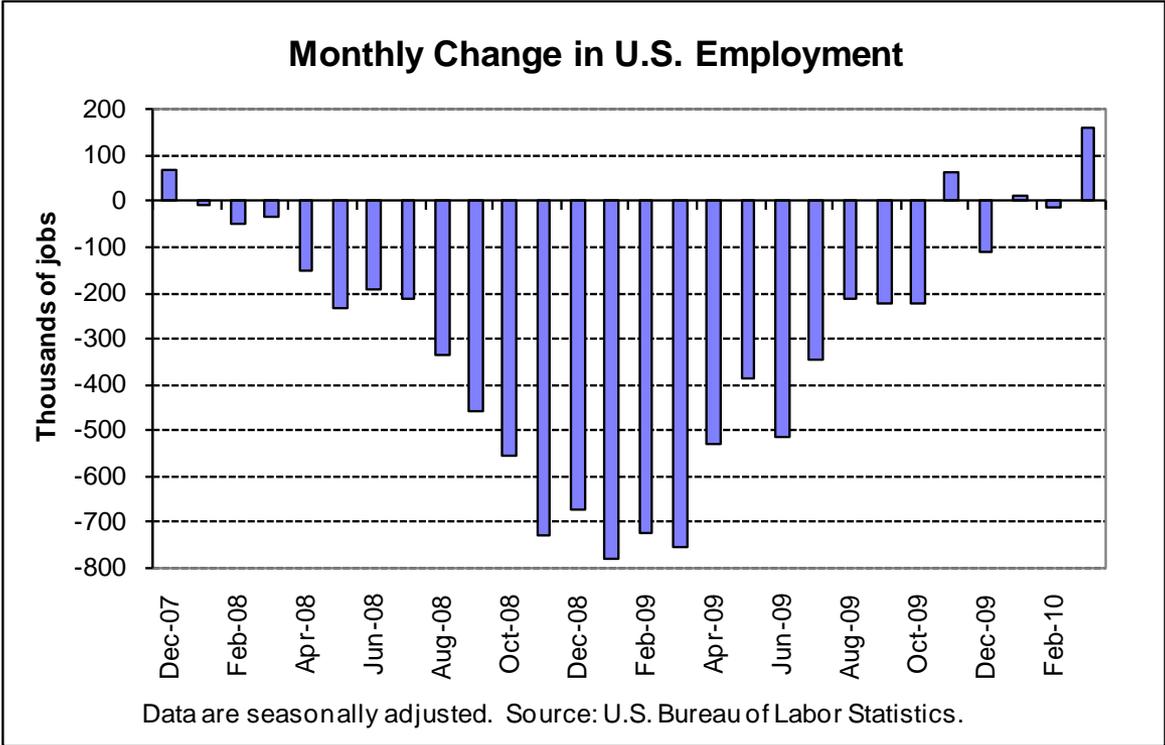
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- ▶ Presented by the Finance Division of the Department of Finance & Administrative Services

## ▶ Current U.S. Economic Conditions

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- The 2008-09 recession was the most severe downturn since the 1930s. It is most severe in terms of:
  - Length: at least 18 months
  - Decline in GDP: 3.8% (tied with 1957-58 recession)
  - Decline in employment: 6.1% (8.4 million jobs lost)
- Household wealth declined by \$17.5 trillion (26.6%)
- Housing markets continue to struggle
  - Foreclosures, homes “underwater”
- Current recovery led by exports, business investment and federal stimulus
- Employment has finally begun to grow



## ▶ U.S. Economic Forecast

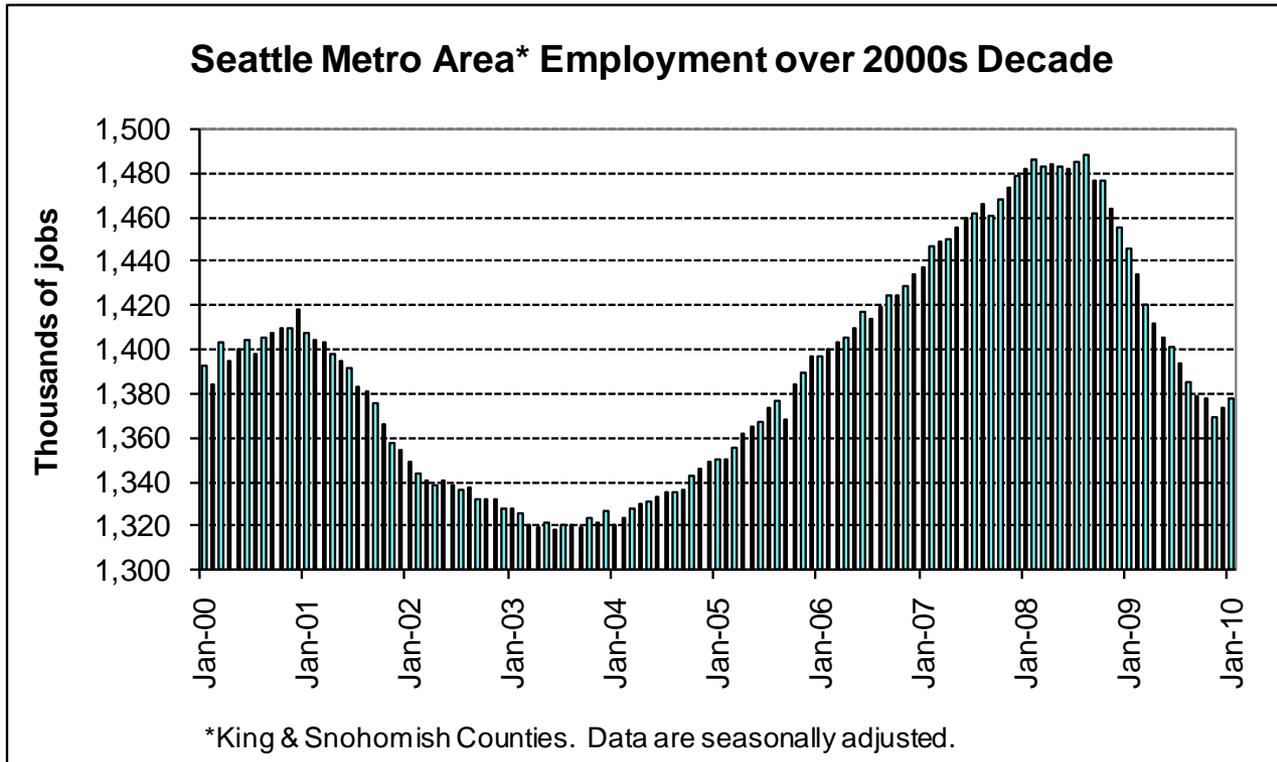
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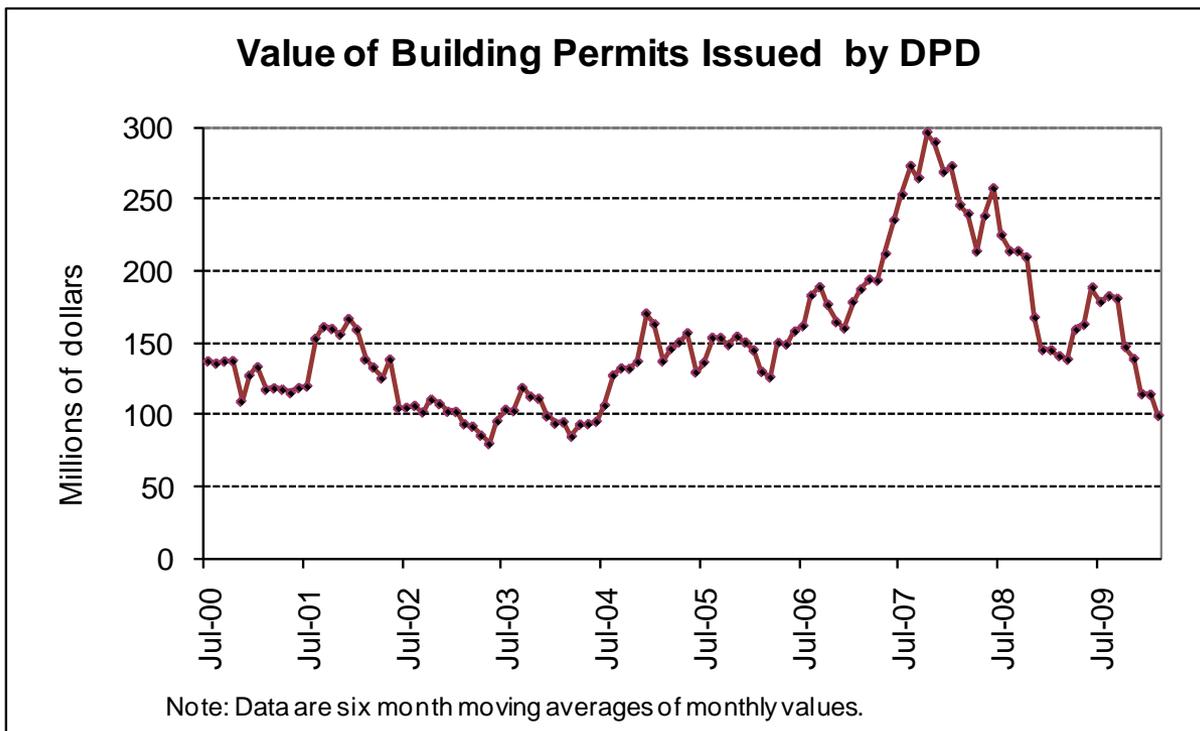
- Recovery will be subdued by historical standards, with growth restrained by:
  - Slow recovery of employment
  - High consumer debt and loss of wealth, which will weigh on household spending
  - Housing market problems
  - Commercial real estate market has further to fall
- Forecasts have become more optimistic in recent months
  - Risk of double-dip recession has lessened
    - Global Insight: 15% chance

## ▶ Current Puget Sound Economic Conditions

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- Employment declined during the past decade
  - From Jan 2000 – Jan 2010, Seattle metro area (King & Snohomish Co.) lost 14,600 jobs (1.0%)
  - Cause was two major recessions
- Current recession locally has been comparable to U.S.
  - Peak-to-trough loss of 119,000 jobs (8.0%)
    - Compared to 6.1% nationally
    - Construction and finance saw bigger declines here
  - Blue collar industries have been hardest hit
- Construction has been hammered by housing bubble & recession



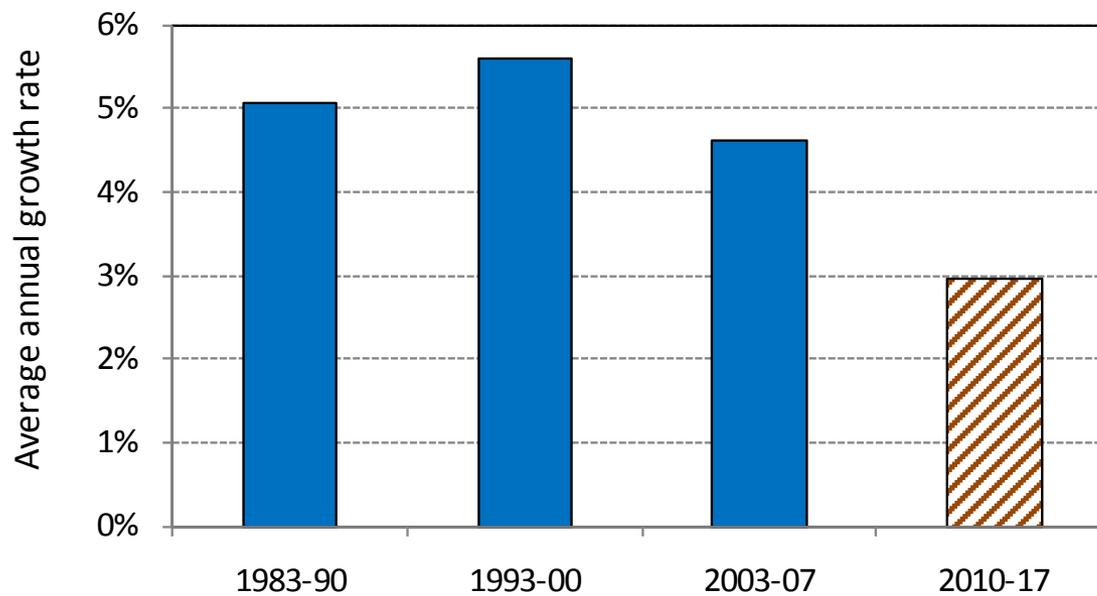


## ▶ Puget Sound Region Economic Forecast

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- Forecast is similar to U.S. forecast
  - Job and income growth will be relatively weak
- State economist expects state to outperform the U.S.
  - Boeing & Microsoft survived recession reasonably well
    - Boeing plans to increase production in 2011 and 2012
  - State has high export intensity
  - Housing downturn was less severe here than nationally
    - Price decline
    - Foreclosure rates

### Growth of Real\* Puget Sound Region Personal Income During Expansions

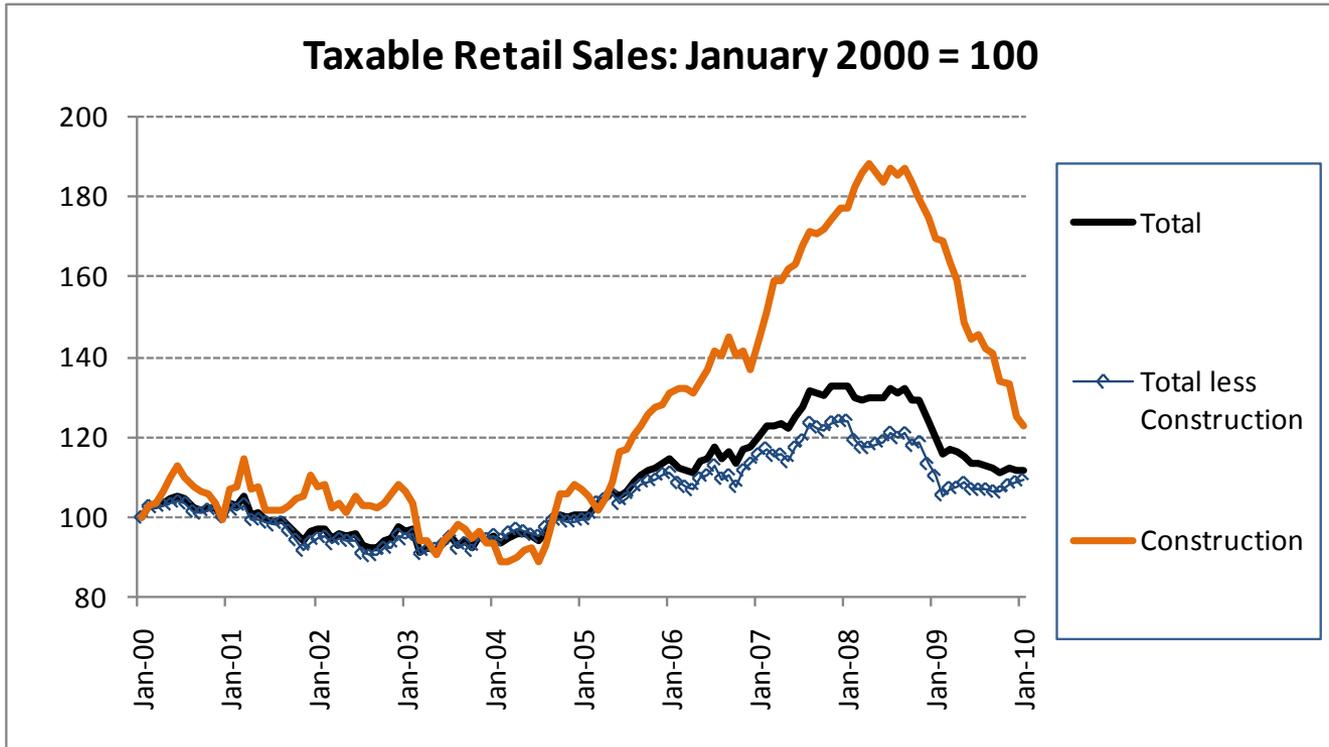


\*Effect of inflation has been removed. Source: Puget Sound Economic Forecaster.

## ▶ Retail Sales Tax

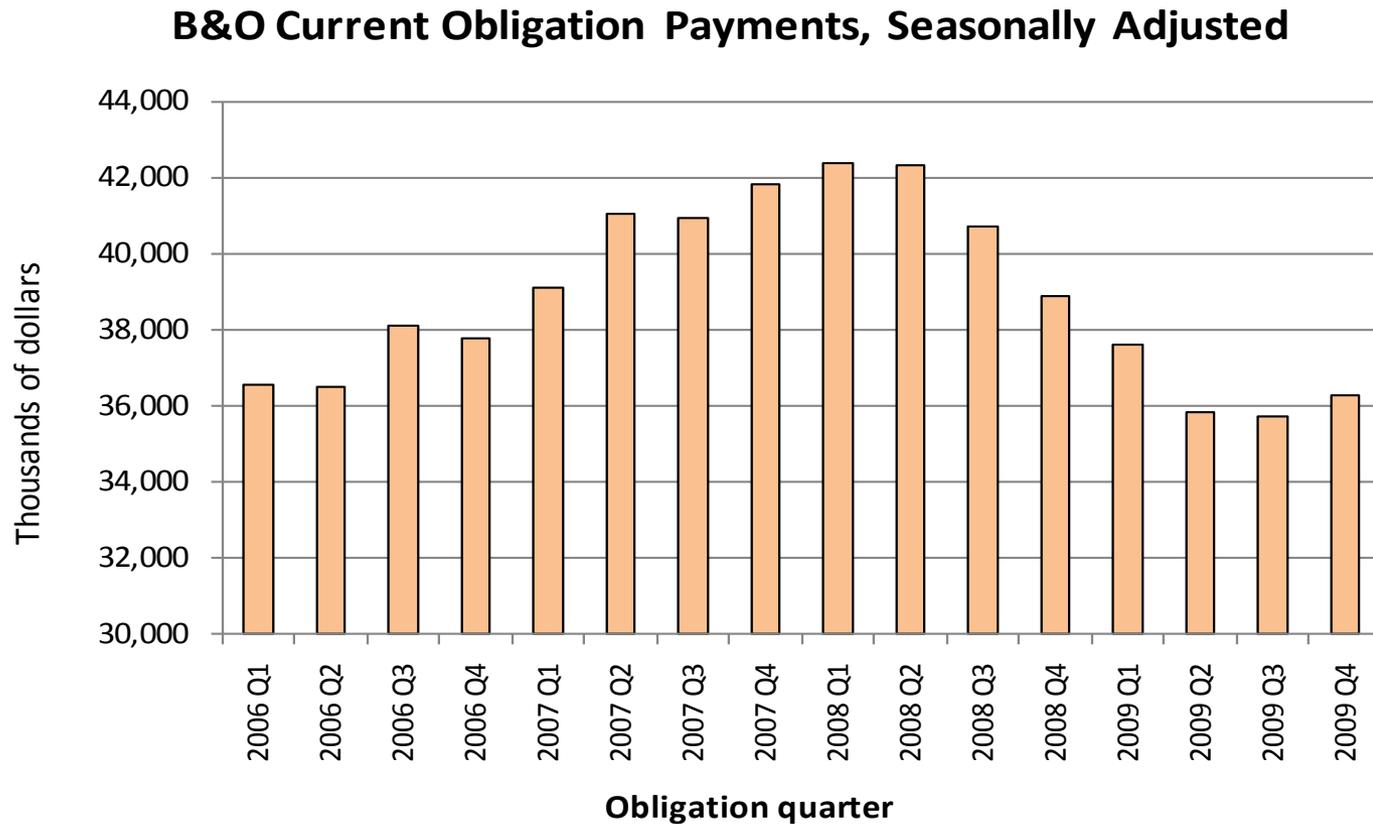
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- Recent decline in tax base is biggest since at least 1974
  - 18.2% decline from 2008 Q3 to 2009 Q4
    - Real decline was 17.6%
  - 33.3% drop for construction
  - 13.1% drop for rest of base
- Construction has not yet turned around
- Rest of tax base is showing signs of recovery



## ► B&O Tax

- Peak-to-trough decline in recession was 15.6%

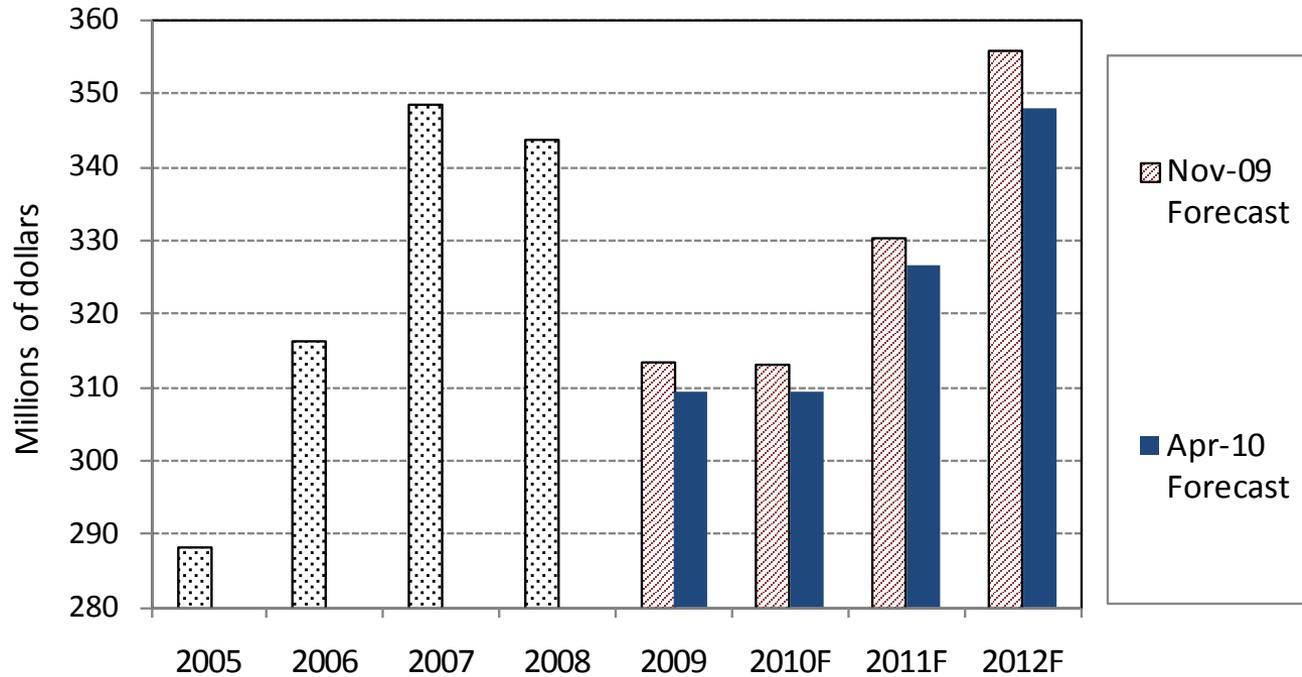


## ▶ Retail Sales and B&O Tax Forecasts

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- What has changed since the November forecast?
  - For combined sales and B&O tax, we ended 2009:
    - \$3.8 million (1.2%) short of November forecast
    - \$1.6 million (0.5%) above January forecast
  - Economic forecasts have been raised modestly
  - Construction has fallen faster than anticipated
  - Sales tax forecast includes estimate of impact of state tax legislation passed last week
- Construction expected to hit bottom in late 2011 or early 2012

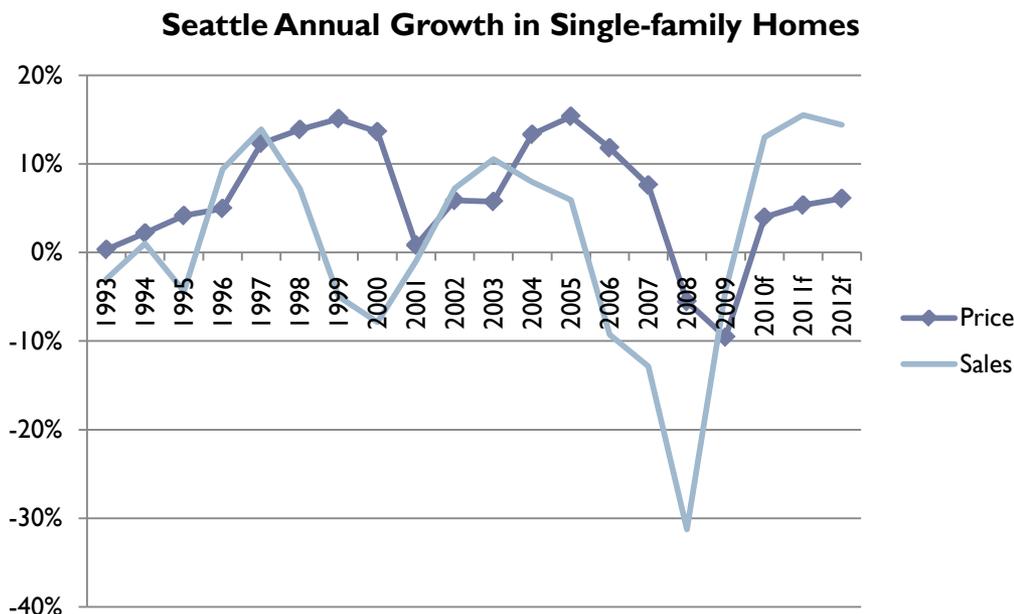
### Combined\* Sales and B&O Tax Revenue Forecast



\*Includes criminal justice sales tax.

## ► Real Estate Excise Tax (REET)

- Forecast expects modest growth, about 8% a year
- Home sales, which provide about 65% of REET revenues, will improve as will home prices (see chart below)
- Sales of commercial property will be relatively stable
  - Potential for sales volume increase if creditors divest foreclosed properties



## ► General SubFund (GSF) Revenues

| GSF - Item                            | 2009               |                    |                    | 2010               |                    |                    | 2011               | 2012               |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                       | Nov                | Actuals            | Act-Nov            | Nov                | Apr                | Nov-Apr            | Apr                | Apr                |
| <b>Property Taxes</b>                 | 245,736,000        | 245,542,839        | (193,161)          | 250,157,000        | 251,046,000        | 889,000            | 253,598,000        | 258,587,000        |
| <b>Sales Taxes</b>                    | 150,760,339        | 148,342,481        | (2,417,858)        | 148,452,198        | 147,820,533        | (631,665)          | 155,514,799        | 164,435,608        |
| <b>Business &amp; Occupation Tax</b>  | 162,378,314        | 160,984,896        | (1,393,418)        | 164,415,196        | 161,645,935        | (2,769,261)        | 170,977,012        | 183,528,808        |
| <b>Public Utility Taxes</b>           | 102,236,428        | 100,344,650        | (1,891,777)        | 112,072,817        | 112,016,948        | (55,869)           | 111,116,231        | 115,917,352        |
| <b>Private Utility Taxes</b>          | 65,785,115         | 68,316,568         | 2,531,453          | 65,269,135         | 63,889,534         | (1,379,601)        | 62,313,584         | 63,565,243         |
| <b>Other Notable GSF Revenues</b>     |                    |                    |                    |                    |                    |                    |                    |                    |
| Court Fines & Forfeitures (100%)      | 26,225,556         | 27,286,196         | 1,060,640          | 29,010,778         | 30,589,000         | 1,578,222          | 31,184,000         | 30,771,000         |
| Parking Meters                        | 25,246,000         | 25,222,483         | (23,517)           | 28,614,000         | 28,614,000         | -                  | 29,186,000         | 29,916,000         |
| <b>Subtotal</b>                       | <b>782,470,751</b> | <b>779,306,613</b> | <b>(3,164,138)</b> | <b>800,809,123</b> | <b>798,285,950</b> | <b>(2,523,173)</b> | <b>817,470,626</b> | <b>851,528,011</b> |
| Grants                                | 2,517,440          | 11,481,686         | 8,964,246          | 2,741,246          | 2,741,246          | -                  | 443,280            | -                  |
| Other General Subfund Revenues        | 88,882,434         | 88,287,752         | (594,681)          | 89,375,904         | 89,945,753         | 569,849            | 89,240,236         | 90,318,387         |
| <b>Subtotal</b>                       | <b>873,870,625</b> | <b>879,076,052</b> | <b>5,205,427</b>   | <b>892,926,273</b> | <b>890,972,949</b> | <b>(1,953,324)</b> | <b>907,154,142</b> | <b>941,846,398</b> |
| Rainy Day Fund Transfer               | 8,874,000          | 8,874,000          | -                  | 11,254,647         | 11,254,647         | -                  | -                  | -                  |
| Other Funds - Fund Balance Transfers* | 5,038,151          | 5,161,111          | 122,960            | 660,000            | 807,000            | 147,000            | 882,000            | 882,000            |
| <b>GSF - Grand Total</b>              | <b>887,782,776</b> | <b>893,111,164</b> | <b>5,328,387</b>   | <b>904,840,920</b> | <b>903,034,596</b> | <b>(1,806,324)</b> | <b>908,036,142</b> | <b>942,728,398</b> |
| <b>Real Estate Excise Tax</b>         | 21,089,735         | 22,761,699         | 1,671,964          | 21,579,033         | 24,920,769         | 3,341,736          | 26,914,430         | 29,067,585         |
| <b>BTG - Commercial Parking Tax</b>   | 18,827,000         | 18,734,495         | (92,505)           | 21,840,000         | 21,840,000         | -                  | 22,667,827         | 23,687,879         |

\*2009 Revised adjusted for changes in accounting for fund balance transfers

## ► Risks to the Forecast

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- Economic forecasts
  - Risk of a double-dip recession or weaker recovery than expected
  - Recovery could be stronger than forecast
- Housing market conditions add uncertainty
- Construction forecast has large margin of error
- County increase in wastewater rates less than current proposal

# General Fund Balancing

\$ Millions

|  | <b>2010<br/>Adopted</b> | <b>2010<br/>Estimate</b> | <b>2011<br/>Estimate</b> | <b>2012<br/>Estimate</b> |
|--|-------------------------|--------------------------|--------------------------|--------------------------|
| <b>Beginning Unreserved Fund Balance</b> | <b>\$1.1</b>            | <b>(\$3.8)</b>           | <b>\$0.0*</b>            | <b>\$0.0*</b>            |
| Revenues                                 | \$893.6                 | \$891.8                  | \$908.0                  | \$942.7                  |
| Rainy Day Fund Support                   | \$11.3                  | \$11.3                   |                          |                          |
| <b>Subtotal</b>                          | <b>\$904.8</b>          | <b>\$903.0</b>           | <b>\$908.0</b>           | <b>\$942.7</b>           |
| Expenditures                             | (\$905.6)               | (\$905.6)                | (\$964.2)                | (\$995.4)                |
| 2010 Expenditure Risk                    |                         | (\$5.3)                  |                          |                          |
| <b>Subtotal</b>                          | <b>(\$905.6)</b>        | <b>(\$910.9)</b>         | <b>(\$964.2)</b>         | <b>(\$995.4)</b>         |
| <b>Ending Unreserved Fund Balance</b>    | <b>\$0.4</b>            | <b>(\$11.7)</b>          | <b>(\$56.1)</b>          | <b>(\$52.6)</b>          |

\* Assumes prior year shortfall is addressed in the prior year

# Drivers of the 2010 Shortfall

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- ▶ A \$12 million dollar shortfall is projected for 2010
- ▶ 2009 ended with a negative balance of \$4 million, driven largely by weakness in sales and B&O taxes
  - ▶ 2010 adopted budget assumed a 2010 beginning fund balance of over \$1 million
- ▶ Current projections indicate 2010 revenues will be \$2.5 million less than forecast in the 2010 adopted budget
  - ▶ B&O and sales tax estimates: -\$3.4 million from Adopted Budget
- ▶ On the expenditure side, there could be as much as \$5 million in additional potential expenditure pressures
  - ▶ Seattle Center power outage
  - ▶ Increased jail costs
  - ▶ Potential relocation costs of neighborhood service centers with expiring leases
  - ▶ Increased unemployment costs

# 2011 – 2012 Revenue Highlights

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- ▶ Assuming total General Fund revenues for 2011 will grow by \$16 million as compared to 2010, or 2%
  - ▶ Total resources available to support baseline expenditures are growing at an even more modest rate when considering that \$11.3 million in Rainy Day Fund revenues that were used to support 2010 programs are no longer available
  - ▶ When factoring this into the equation, total resources available in 2011 to support the mix of 2010 services is only growing by \$5 million or 0.5%
- ▶ Revenues for 2012 are expected to grow by \$35 million, or 4%, as compared to 2011

# 2011 – 2012 Expenditure Drivers

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- ▶ Most 2010 expenditures were inflated using typical inflation drivers
  - ▶ COLA assumed at 2% for both 2011 and 2012
  - ▶ Medical benefit costs assumed to grow at 7% in both 2011 and 2012
  - ▶ Most other accounts inflated by CPI: 1.8% in 2011 and 1.9% in 2012
- ▶ Retirement contribution rate is assumed to increase to 9.03% in 2011 and 10.03% in 2012, adding \$2.6 million and \$5.2 million in costs in 2011 and 2012 respectively
  - ▶ In addition, contributions to the uniformed pensions expected to increase by \$3 million

# 2011 – 2012 Expenditure Drivers

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- ▶ One-time strategies used to balance the 2010 budget are not assumed to continue
  - ▶ No furloughs are assumed, furloughs saved \$6.6 million in 2010
  - ▶ Rainy Day Fund support of General Fund used in 2009 (\$8.9 million) and 2010 (\$11.3 million) is not assumed for 2011/2012
    - ▶ Only \$10.5 million remains today in the Rainy Day Fund
  - ▶ Parks use of fund balance and temporary closure savings not continued (saved \$2.4 million in 2010)
  - ▶ Use of debt proceeds to pay debt service not assumed (\$3.8 million used in 2010)
  - ▶ One week closure of the library restored: \$650,000
  - ▶ Key Arena settlement funds are exhausted: \$1.4 million
  
- ▶ In total, 2011 baseline expenditures are up \$53 million, or 6%, as compared with our 2010 estimates
  - ▶ Approximately \$29 million of this is the result of one-time strategies that were used to balance the 2010 budget
  - ▶ 2012 baseline expenditures up by \$31.2 million over 2011, or 3%

# Looming Budget Issues

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- ▶ Baseline forecasts for 2011 – 2012 generally speaking do not factor in ‘looming’ budget issues
  - ▶ Increased maintenance needs at city facilities (Parks, Libraries, Seattle Center)
  - ▶ Costs for software system upgrades (Summit, MCIS, etc.)
- ▶ These and other ‘looming’ issues will put additional pressures on the General Fund financial outlook for 2011 and beyond
- ▶ The City Budget Office is in the process of compiling this information as part of on-going efforts to improve long-term financial planning and budget forecasting

# Looking Ahead – Factors That Could Change Our Fiscal Outlook

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- ▶ The City Budget Office is closely monitoring all aspects of the budget
- ▶ Forecasted fiscal outlook could be adjusted as a result of a number of factors
  - ▶ Mid-year reductions
  - ▶ Ability to control supplemental expenditure requests
  - ▶ Additional underspend beyond mid-year reductions
  - ▶ Changes in revenues – particularly sales tax and B&O tax
  - ▶ Inflation
  - ▶ Looming budget issues

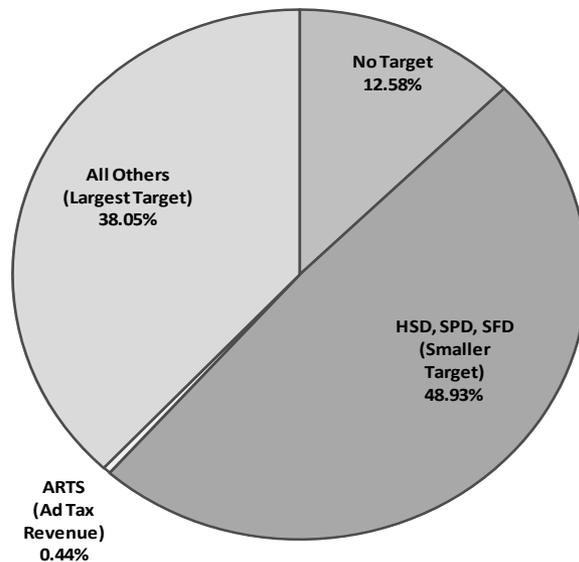
# Next Steps

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- ▶ Mid-year reductions – Departments are currently developing mid-year reduction scenarios. We expect decisions on mid-year reductions in early June.
- ▶ 2011 – 2012 budget instructions provided to departments on April 27
- ▶ Joint Council-Mayor budget outreach sessions are scheduled for April 28 and May 4
- ▶ Department budget requests due to the City Budget Office on July 12
- ▶ Mayor submits his proposed biennial budget on September 27

# Reduction Allocations

- ▶ Mayor is in the process of determining how to allocate 2011 reduction targets
- ▶ Typically, reductions allocated to preserve funding for police, fire and human services, meaning larger reductions for other functions in City government



Departments with no General Fund Reduction Targets:

- Criminal Justice Contracting Service
- Civil Service Commission
- Ethics & Elections Commission
- Firefighters Pension
- Hearing Examiner
- Police Relief and Pension
- Public Safety Civil Service Commission

# Other Funds

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- ▶ **City's General Fund is not the only fund facing financial challenges**
  - ▶ Department of Planning & Development
  - ▶ Seattle Department of Transportations
  - ▶ Seattle City Light
  - ▶ Seattle Public Utilities
  
- ▶ **City Budget Office is working closely with these departments to monitor and develop options for addressing these financial challenges, as well**

# General Government Capital Outlook

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- ▶ General Government Capital Program is supported by Real Estate Excise Tax (REET) revenues, which are significantly depressed from prior years
  - ▶ 2010 REET revenue down 68% from peak in 2007
  - ▶ REET revenues projected to be at 2002-2003 levels
- ▶ 2010 beginning fund balances better than expected by \$2.0 million across both REET-I and REET-II funds
- ▶ Across both funds, 2010 revenue estimated to be \$3.3 million better than assumed in the adopted budget
- ▶ However planned REET-backed spending outpaces REET revenues in 2011 by \$8.7 million, or 32%
  - ▶ Does not include items included in CIP with a funding source of 'TBD' – this list totals \$67.6 million

# General Government Capital Outlook

## REET-I:

- ▶ Majority – or 56% – of currently planned expenditures will be dedicated for debt service and is fixed over 2011-2012
- ▶ Current projections indicate a shortfall of \$1.4 million in 2011 and an additional \$1.7 million in 2012 given currently planned spending
- ▶ Additional pressure from unfunded needs of the fire levy in 2011 and 2012 will increase this shortfall

| REET-I (\$ Millions)                     | 2010<br>Adopted | 2010<br>Estimate | 2011<br>Estimate | 2012<br>Estimate |
|--|-----------------|------------------|------------------|------------------|
| <b>Beginning Unreserved Fund Balance</b> | <b>\$2.7</b>    | <b>\$4.3</b>     | <b>\$3.4</b>     | <b>\$0.0*</b>    |
| Revenue Total                            | \$10.8          | \$12.5           | \$13.5           | \$14.5           |
| Debt Service                             | (\$8.7)         | (\$8.8)          | (\$10.3)         | (\$9.0)          |
| Capital Projects                         | (\$4.6)         | (\$4.6)          | (\$7.9)          | (\$7.2)          |
| <b>Expenditure Total</b>                 | <b>(\$13.3)</b> | <b>(\$13.3)</b>  | <b>(\$18.2)</b>  | <b>(\$16.3)</b>  |
| <b>Unreserved Ending Fund Balance</b>    | <b>\$0.3</b>    | <b>\$3.4</b>     | <b>(\$1.4)</b>   | <b>(\$1.7)</b>   |

\* Assumes prior year shortfall is addressed in the prior year

# General Government Capital Outlook

## REET-II

- ▶ Used to support Parks (not acquisition) and Transportation capital expenditures
- ▶ The projected 2011 shortfall is \$1.7 million and \$0.2 million in 2012 given currently planned spending for REET-II
- ▶ Less planned debt service – 25% of total planned expenditures – than REET-I
- ▶ Nonetheless planned expenditures exceed revenues by nearly \$4 million, or 30% of planned capital expenditures excluding debt service

| REET-II (\$ Millions)                    | 2010<br>Adopted | 2010<br>Estimate | 2011<br>Estimate | 2012<br>Estimate |
|--|-----------------|------------------|------------------|------------------|
| <b>Beginning Unreserved Fund Balance</b> | <b>\$3.8</b>    | <b>\$4.3</b>     | <b>\$2.1</b>     | <b>\$0.0*</b>    |
| Revenue Total                            | \$10.8          | \$12.5           | \$13.5           | \$14.5           |
| Debt Service                             | (\$2.4)         | (\$2.4)          | (\$4.4)          | (\$3.5)          |
| Capital Projects                         | (\$12.2)        | (\$12.2)         | (\$12.9)         | (\$11.3)         |
| <b>Expenditure Total</b>                 | <b>(\$14.6)</b> | <b>(\$14.6)</b>  | <b>(\$17.3)</b>  | <b>(\$14.7)</b>  |
| <b>Unreserved Ending Fund Balance</b>    | <b>\$0.0</b>    | <b>\$2.1</b>     | <b>(\$1.7)</b>   | <b>(\$0.2)</b>   |

\* Assumes prior year shortfall is addressed in the prior year

# Guiding Budget Principles

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- ▶ One-time strategies previously used to temporarily address the budget shortfalls are largely exhausted
  - ▶ These strategies simply push the problem out to future years
  - ▶ Fund balances reduced or exhausted
  - ▶ Deferred expenditures cannot be deferred indefinitely
- ▶ In order to put the City budget on stable financial footing for 2012 and beyond, emphasis will be placed on sustainable reductions
- ▶ It is also critical that we begin addressing and developing plans to meet our long-term financial obligations including 'looming' budget issues
- ▶ Difficult operating and capital budget decisions lie ahead, but will put the City on a more sustainable path

# Questions?

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