City of Seattle Budget Update

Regional Law Safety & Justice Committee
May 26, 2011

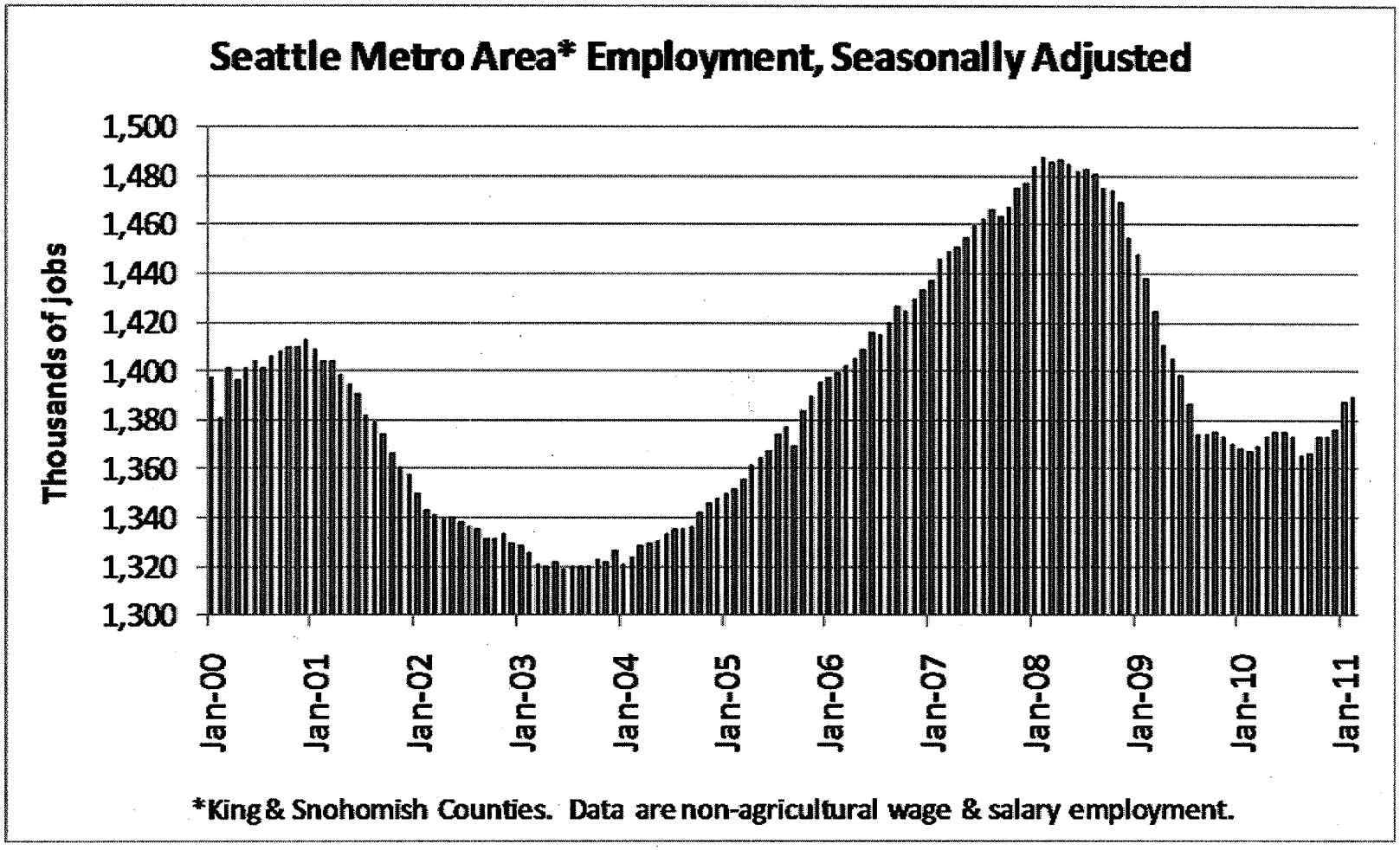
Overview

- 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, primarily in utility tax revenues, general stability
    - Growth in revenues subdued compared to other recoveries; not sufficient to address other pressures and growing demands

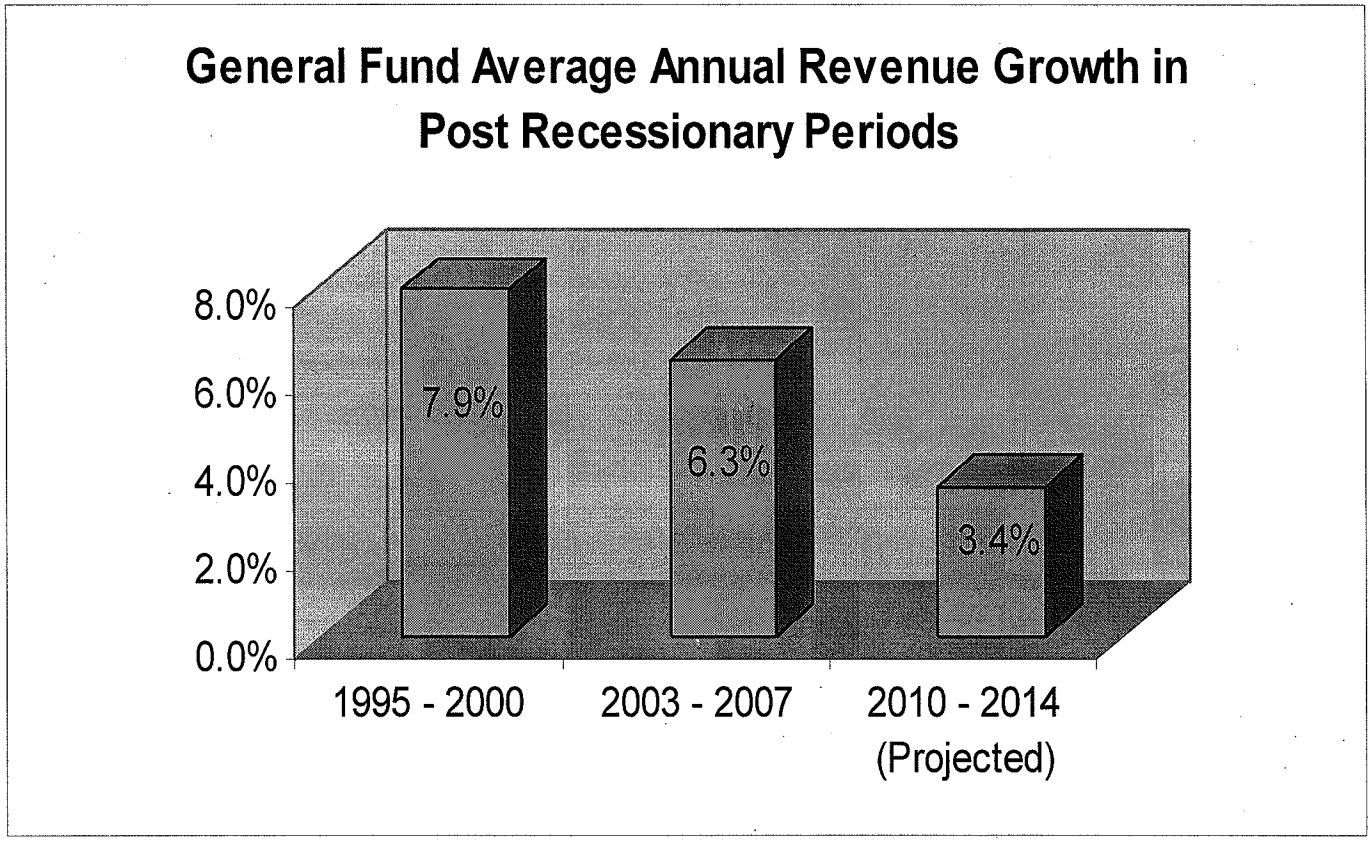
- These revenue trends make it more difficult for the City to respond to other financial pressures
  - State & Federal budget pressures
  - Internal policy changes
  - Long-term financial sustainability

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

Puget Sound Region Economy



General Subfund Revenues



Revenues & the Economy
Only Part of the Story

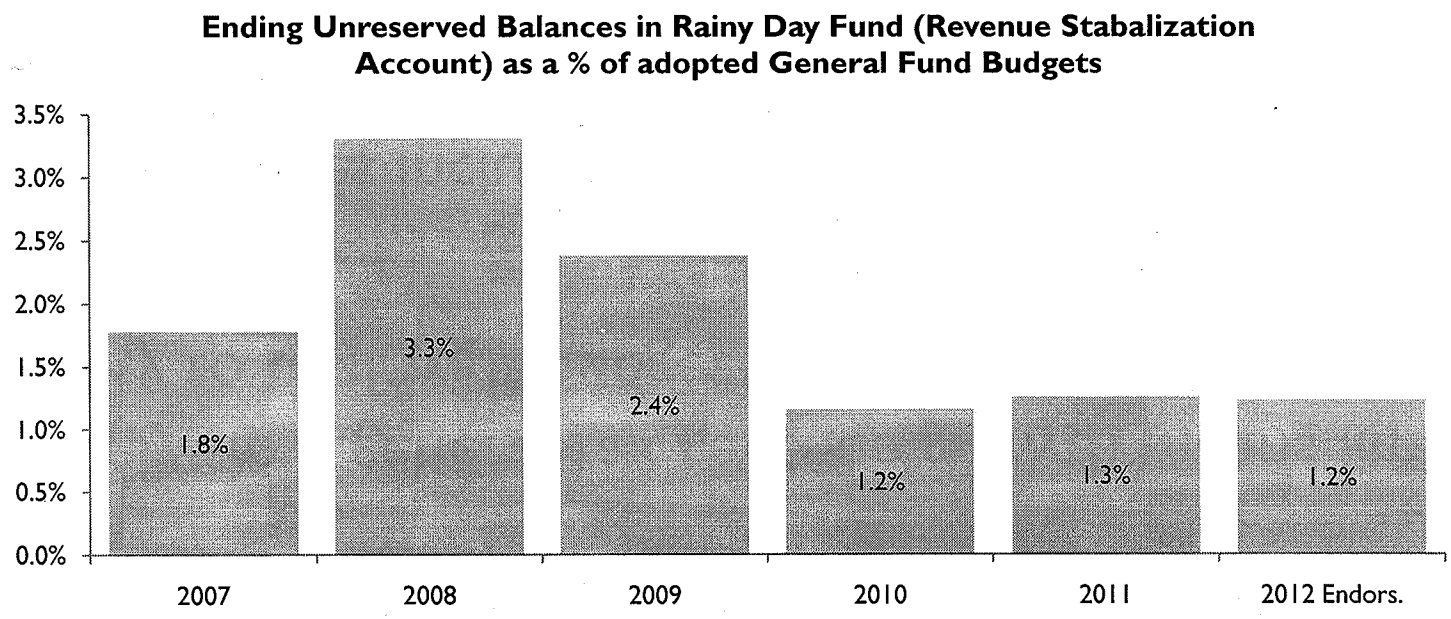
- Relatively slow general tax revenue growth means limited flexibility to deal with budget pressures.

- 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.

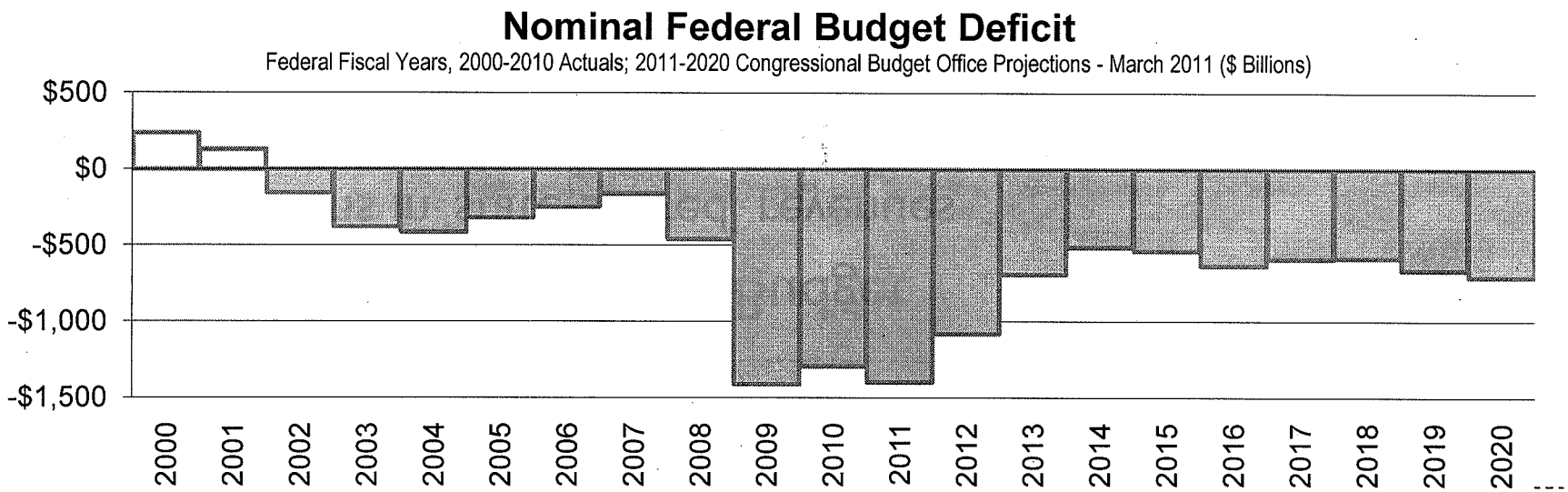
Limited Flexibility

- 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



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.



Revenues & the Economy
Only Part of the Story

- External Pressures: State Budget
  - Reductions in 'state-shared' revenues
  - Reductions are more modest than they could have been
- 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 – 2011 Mid-Year*

Amounts in $1,000s	2010 Previous Estimate	2010 Actuals	2011 Adopted	2011 Revised	2011 Change from Adopted
Beginning Unreserved Fund Balance*	(2,424)	(2,424)	100	2,243	2,144
Total Revenues	897,447	915,544	897,416	897,416	
Total Expenditures and Change in Reserves	(894,923)	(910,876)	(894,964)	(894,964)	
Parking Meter Rate Changes				(3,500)	(3,500)
Local Revenue Risk - Utility & Other Taxes				(4,000)	(4,000)
Preliminary Estimate: State Changes				(2,000)	(2,000)
Federal: Potential CDBG Reductions				(2,800)	(2,800)
Risk: Change in Public Defense Standards				(333)	(333)
Other (e.g. corrections to the 2011 budget, carryforward and supplemental requests)				(5,635)	(5,635)
Ending Unreserved Balance	**100**	**2,243**	**2,552**	**(13,573)**	**(16,124)**

* Available balance excludes policy reserves

** Budgeted amounts do not include grant revenue or expenditures. 2010 Actuals do include grants.

* Preliminary – Based on March 2011 data

General Fund Balancing - 2012

- 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.

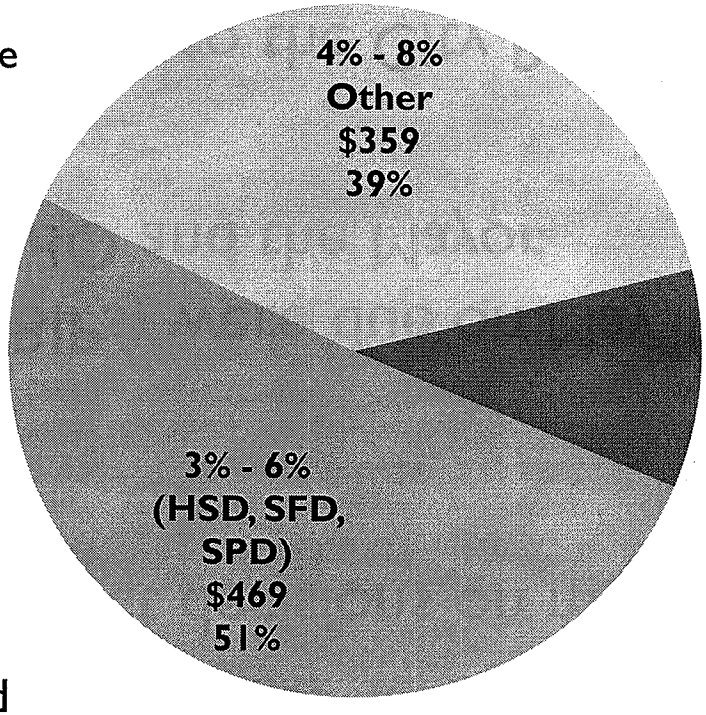
- **Early Identification of Options:** The City took a proactive approach in 2010 in addressing fiscal challenges, which resulted in a small surplus at the end of the year, which is available to help with 2011 challenges.
  - Similar proactive approach being taken to develop options for 2011 mid-year 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

- 2012 target reductions continue to prioritize public safety (police and fire) and human services
  - 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; including the Small Department Feasibility Study, which *could* result in the consolidation of as many as 5 departments
- Must continue to find ways to support and make progress on City priorities and initiatives despite resource limitations.

2012 General Fund Target Reduction Allocations $922 million base ($ in millions)



EXCLUDED (Debt Service, Insurance, Reserves, etc) $94 10%

Next Steps

- Mid-year reductions – We expect decisions on mid-year reductions in early June.
- 2012 Budget Issues Papers (BIPs) were due on May 16 and are being reviewed by CBO and the Mayor
- Department budget requests due to the City Budget Office on July 8
- Mayor submits proposed budget on September 26

Questions?