

2010 Proposed Budget Highlights

Mayor Greg Nickels' 2010 Proposed Budget – the eighth and last budget developed under his leadership – reflects the four priorities the Mayor established when he took office. Despite the deepest and longest recession since the 1930s, which punched a projected \$72 million hole in the general fund's 2009-2010 biennial budget, Seattle has not and will not suffer draconian cuts to basic services. Mayor Nickels delivers a 2010 budget that continues to protect funding for direct human services and public safety. In this historic economic downturn, it is significant that Seattle is able to preserve core services – the result of years of careful budgeting and work with the City Council. Seattle remains resilient despite the economic storm. Mayor Nickels' strong leadership through tough times has left Seattle poised for recovery.

2010 Proposed Budget-At-A-Glance	
General Fund	Total Budget
\$905.5 million	\$3.9 billion

Mayor Nickels' 2010 Proposed Budget:

- Increases police staffing and preserves uniformed staffing in the Fire Department.
- Maintains spending for human services programs that directly benefit people, such as food support, homeless shelters, and child care.
- Funds the emergency fund at the maximum level allowed under state law – \$46.6 million for 2010.
- Cuts almost 200 vehicles and equipment from the City's fleet.
- Focuses Real Estate Excise Tax funds on major maintenance of the City's capital facilities.
- Freezes department head salaries at 2008 levels, and eliminates approximately 38 executive, management and supervisory positions Citywide, plus an additional 16 strategic advisors or similar positions.

THE PRIORITIES

- Keep our neighborhoods safe
- Transportation - get Seattle moving
- Build strong families & healthy communities
- Create jobs & opportunity for all

Second year of 2-year budget

Seattle has a biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses, but does not appropriate, the budget for the second year. The second year Proposed Budget is based on the Endorsed Budget and is formally adopted by Council after a midbiennial review. The 2010 budget is a mid-biennium budget.

All this with no general tax increases, an assumed repeal of the employee hours tax and utility rate increases kept to a minimum.

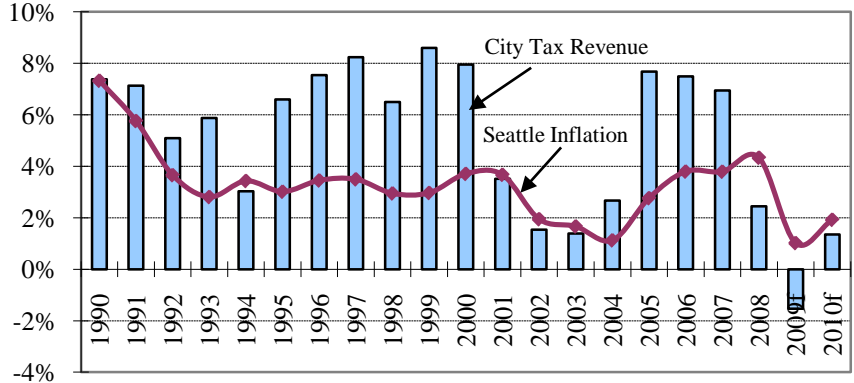
You'll find details on the following pages.

THE WORST RECESSION SINCE THE 1930S IS NEARING ITS END

Inflation has slowed but tax revenue growth has slowed even more.

Tax revenue growth outpaced inflation for most of the 1990s and 2000 before the local recession took hold in 2001. Beginning in 2002, revenue growth was also affected by Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6% to 1%. Economic growth starting in 2004 led to revenue growth well above inflation in 2005 through 2007. The tax revenue growth was outmatched by inflation in 2008. The Seattle rate of inflation has slowed considerably, but tax revenue growth has slowed even more. 2009 will see a decline of 1.5% in tax revenue from 2008, followed by anemic 1.3% growth in 2010. Both years' tax revenue growth rates will be surpassed by historically low inflation rates.

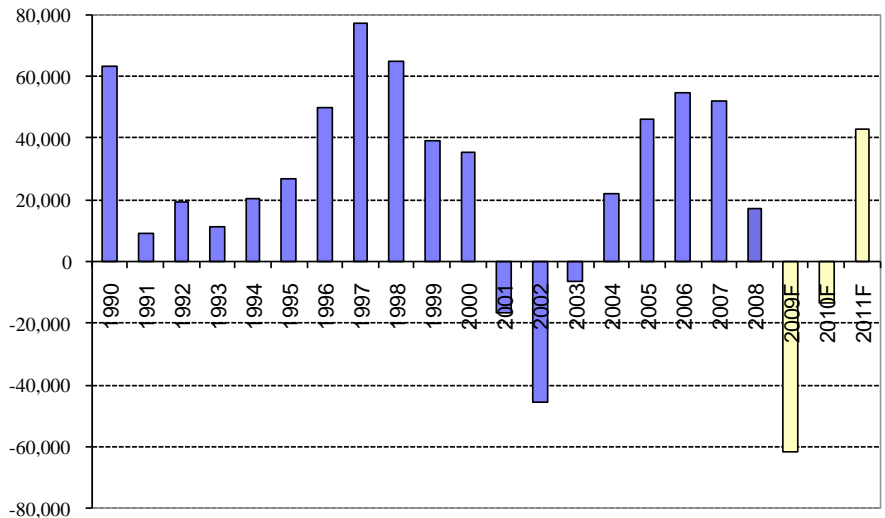
City of Seattle Tax Revenue Growth, 1990-2010



The pace of recovery is expected to be slow.

The economy is expected to begin growing in the third quarter of 2009, although employment is not expected to turn around until the second quarter of 2010. Employment typically lags in a recovery because employers are reluctant to begin hiring until they are confident that the upturn will be sustained. The recovery will get a boost from the federal government's stimulus program, which will have its greatest impact in third quarter of this year (according to Moody's Economy.com), and will continue to provide significant support for the economy in 2010 as well.

Annual change in Puget Sound Region Employment



Note: 2009-11 forecasts are from Puget Sound Economic Forecaster. Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

History tells us that recoveries from recessions caused by financial crises are slow and the current recovery is unlikely to be an exception. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, continuing job losses, and falling incomes. As of July, personal income had declined 3% from September 2008.

Risks to the forecast are high because financial markets remain vulnerable, the labor market is still shedding jobs, and the housing market is plagued by foreclosures. Nearly one million loans were in default at the end of June, and about 15 million homes were underwater, meaning the homes were worth less than the value of their outstanding mortgages. Adding uncertainty to the forecast is the need for the federal government to unwind its various interventions in the credit markets and its stimulus programs.

REVENUES: WHERE THE MONEY COMES FROM

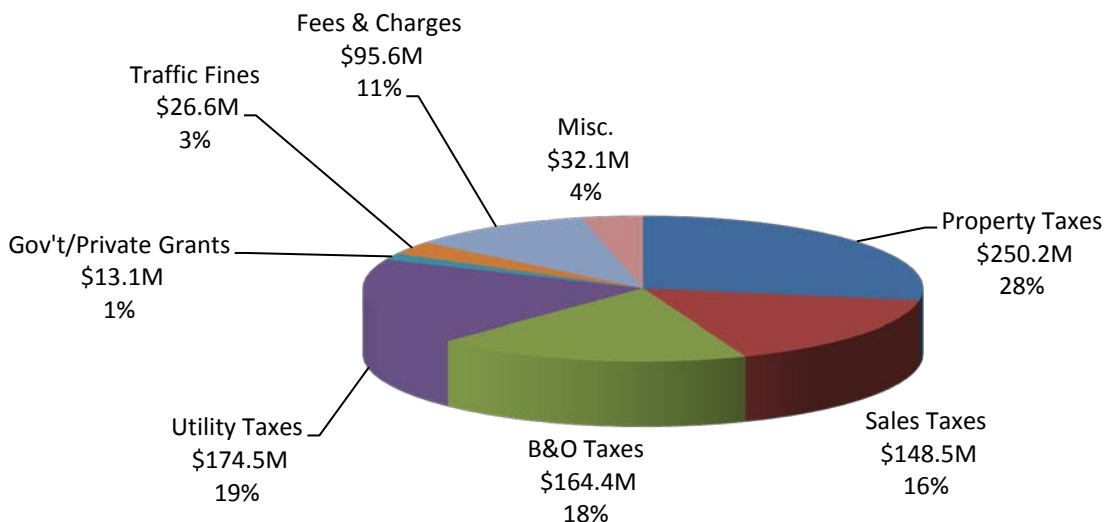
Seattle City government has four main sources of revenue supporting the services and programs the City provides its residents:

- **Taxes, license fees, and fines** support activities typically associated with City government, such as police and fire services, parks, and libraries.
- **Fees for services, regulatory fees, and dedicated property tax levies** partially or completely support certain City activities. Examples of City activities funded in whole or in part with fees include Seattle Center, parks and recreational facilities, and building inspections.
- **Grant revenues from private, state and federal agencies** support a variety of City services, including social services, street and bridge repair, and targeted police services.
- **Charges to customers for services** fund City utilities (electricity, water, drainage and wastewater, and solid waste).

In 2010, total City government revenue, including utilities, is projected to be \$4.1 billion.

In 2010, general government revenue is projected to total \$905 million.

2010 General Fund Revenue Forecast - \$905 million
(in millions of dollars)

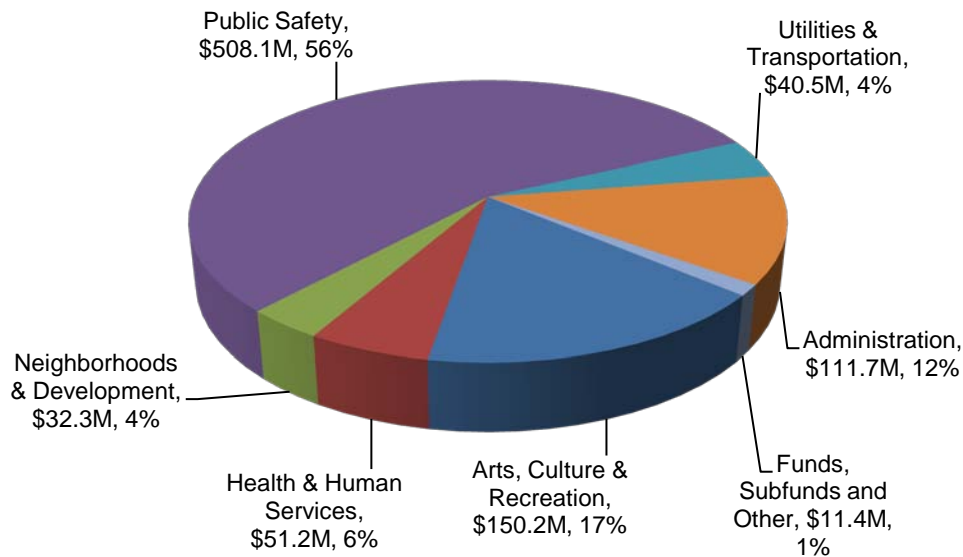


EXPENDITURES: WHERE THE MONEY GOES

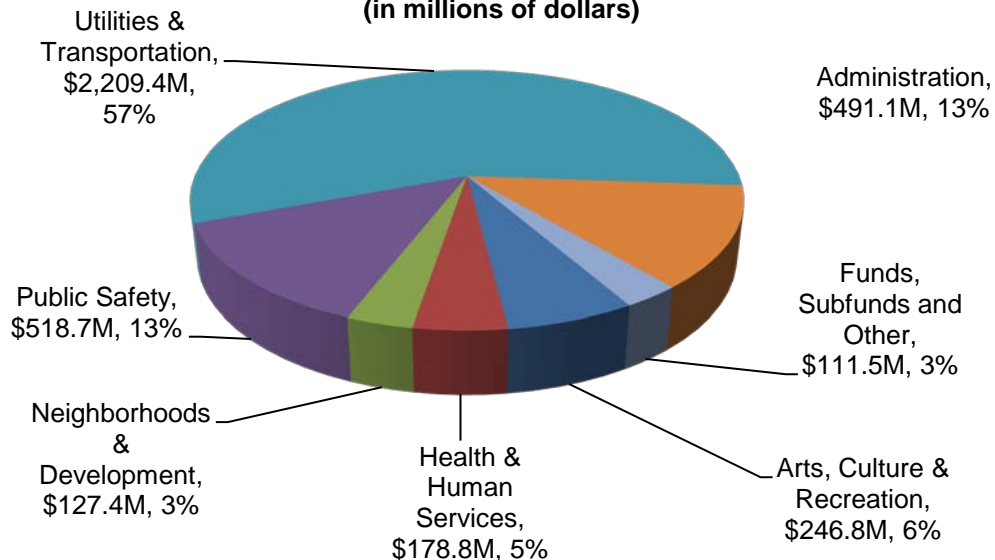
The Mayor and Council have the most discretion over operating expenditures associated with the General Fund, which pays for services such as police, fire, parks and libraries.

The following pie charts show total operating expenses for 2010 by major service category. The first chart represents General Fund expenses; the second the entire budget.

2010 Proposed General Fund Expenditures - \$905.5 million
(in millions of dollars)



2010 Proposed Expenditures - All Funds, \$3.9 Billion*
(in millions of dollars)



*Approximately \$250 million of the \$3.9 billion expenditures are double-appropriated

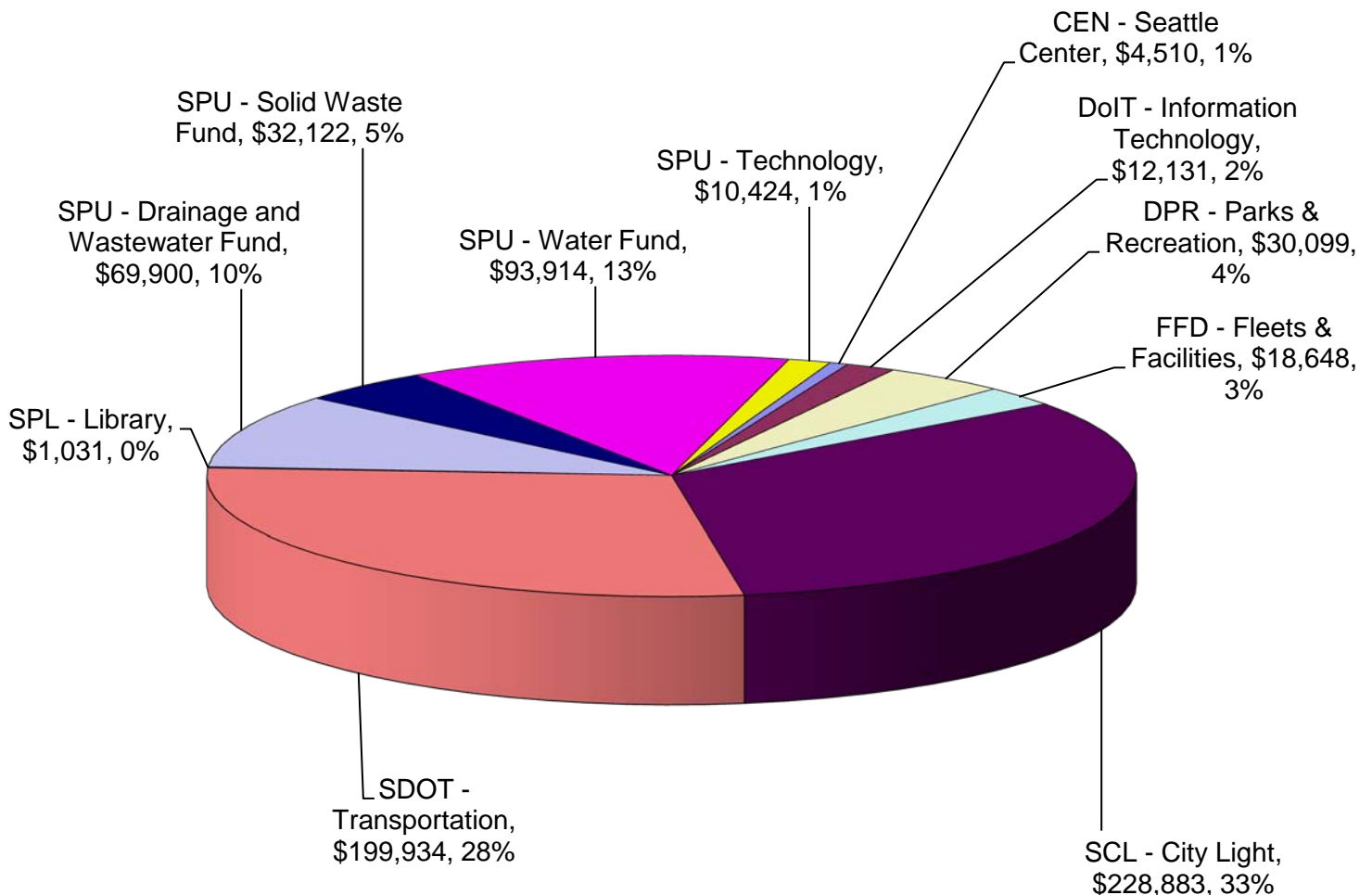
EXPENDITURES: WHERE THE MONEY GOES (CONTINUED)

A portion of the City's budget is capital spending. The Capital Improvement Program (CIP) describes the City's investments in rehabilitation, restoration, improvements, and additions to the City's capital facilities.

Projects in the CIP cover a wide range of capital projects, including construction of new fire stations, street repairs, park restorations, and work on electrical substations. This year's CIP covers the six-year planning horizon for 2010-2015. It is updated each year. The CIP document is submitted to the City Council for adoption along with the City's annual budget.

The following chart shows proposed CIP expenditures by department for 2010.

2010 Proposed CIP by Department - \$702 million
(in thousands of dollars)



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

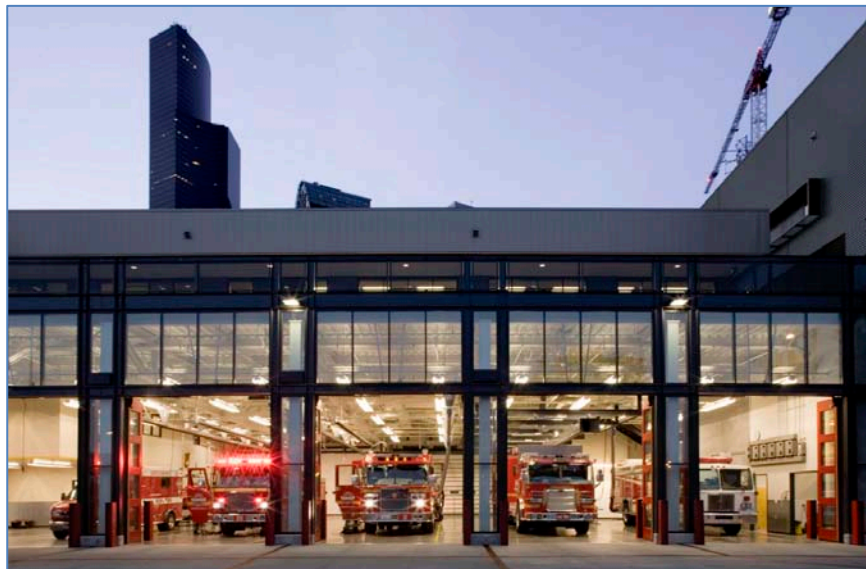
The City retains many financial advantages, however. Seattle continues to be a relatively wealthy and generous city, with a willingness to provide additional revenues to support human services, transportation, parks, and other programs. The City has a diverse revenue base that is not excessively dependent 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.

THE INITIATIVES **KEEP OUR NEIGHBORHOODS SAFE**

Throughout Mayor Nickels' eight years in office, public safety has been one of his highest priorities. In spite of the current economic challenges facing the city, the Mayor's 2010 Proposed Budget reflects his continuing commitment to keep our neighborhoods safe.

- **More Uniformed Officers.** In 2007, the Mayor set a five-year goal to add 105 more patrol officers by 2012, and, even in difficult economic times, Seattle is meeting that commitment. The Mayor's 2010 proposed budget includes funding for 21 new patrol officers next year. Since Nickels started adding officers in 2005, by 2012, the City will have added 154 new officers. Today Seattle has the most officers it's ever had in the history of the Seattle Police Department.
- **Fire Staffing.** The Proposed Budget preserves uniformed staffing in the Fire Department, and adds a ladder truck to Fire Station 11 in West Seattle to maintain response capability in that neighborhood while the Spokane Street Viaduct is reconstructed.
- **Fire Levy Projects Continue.** With partial funding from the 2003 voter-approved Fire Facilities and Emergency Response Levy and other City funds, particularly Real Estate Excise Tax (REET), Seattle continues its program to replace and remodel almost all of its fire stations. In the 2010 Proposed Budget, nine neighborhood stations will be under construction next year and land will be purchased for a new site for Fire Station 20. Also in 2010, the "Chief Seattle" fireboat will be refitted.



THE INITIATIVES

TRANSPORTATION – GET SEATTLE MOVING

While the City of Seattle vastly increased funding for transportation projects and maintenance over the last decade, General Fund support has to be reduced for 2010 due to overall budgetary conditions. The increased funding came from “Bridging the Gap,” (BTG) a program proposed by Mayor Nickels and 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).

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

- **Reclaiming Seattle’s Waterfront.** 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. Under this agreement the City is 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.

- **Spokane Street Viaduct Improvement.** Improvements to the Spokane Street Viaduct began in 2009, with the first phase building a new ramp from eastbound Spokane Street to Fourth Avenue South, improving access from West Seattle to downtown and the industrial area. In mid-2009, the City was awarded federal stimulus funds providing the final amount needed to begin the second phase of the project, which expands the Viaduct and improves its seismic stability. The 2010 Proposed Budget provides additional funds for this project.
- **Fixing the Mercer Mess.** The 2010 Proposed Budget includes funding for the Mercer Corridor project and also includes a new Mercer Corridor – West Phase project that provides the connections to the north end of the proposed deep-bore tunnel and improves traffic flow between Elliott Avenue West and Interstate 5.

THE INITIATIVES BUILD STRONG FAMILIES & HEALTHY COMMUNITIES

Seattle spends more on human services than all other cities in Washington combined, and in his 2010 Proposed Budget, Mayor Nickels continues his commitment to human services and low-income housing. Funding is continued for programs that provide services directly to people, such as homeless shelters, food banks, child care, and domestic violence prevention. The 2010 Proposed Budget also 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.

- **Ending Homeless.** The Budget continues the City's commitments to Housing First and the 10-Year Plan to End Homelessness in King County.
- **Preventing Youth Violence.** Mayor Nickels' Seattle Youth Violence Prevention Initiative focuses new and existing resources in three geographic areas: central, southeast, and southwest Seattle. Networks have been established in each area and service delivery has begun. The 2010 Proposed Budget includes the full funding assumed in the Endorsed Budget (\$4 million), and adds General Fund to cover revenues assumed from outside entities that now likely will not be realized.
- **Assisting families & individuals in need.** The Proposed Budget adds funding to expand PeoplePoint, a Web-based portal allowing low-income Seattle residents to access a wide range of services. 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 federal stimulus funding to help build program capacity.
- **Neighborhood Plans.** In 2009, the City began updating neighborhood plans, focusing 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.



THE INITIATIVES CREATE JOBS & OPPORTUNITY FOR ALL

Mayor Nickels has 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.

- **Growing Jobs.** The 2010 Proposed Budget continues the emphasis on job growth, particularly through the use of American Recovery and Reinvestment Act funds. This money will support a wide range of infrastructure investments, ranging from the Spokane Street Viaduct project to the Ballard Green Streets project being developed by Seattle Public Utilities.



- **Economic Development.** In the Proposed Budget, funding is restored to the Office for Economic Development due to the critical nature of economic development work in the current economy.