



City of Spokane

October 31, 2011

Council President Joe Shogan
Members of the City Council
City of Spokane
808 W. Spokane Falls Blvd.
Spokane, WA 99201

RE: Mayor's 2012 Proposed Budget

Dear Council President and Members of the Council:

I present to you today a balanced 2012 City of Spokane Budget that preserves critical services without asking voters to approve a tax increase.

This proposal is designed to provide essential services at an affordable price. My approach acknowledges the financial strains faced by citizens, provides predictability for business, and offers balance against higher utility bills and other costs citizens will face.

This proposal closes an anticipated \$8 million shortfall for the General Fund portion of the budget. In the General Fund, I have concentrated on cost containment, and strategically focused limited resources on services that are most important to citizens. Public safety is prioritized in my plan, preserving 13 police officer positions that were slated for elimination in 2012.

Additional opportunities for 2012 savings are possible as we continue discussions with labor groups. A number of employee bargaining units have open contracts, and we are working to negotiate contracts that will improve the City's financial position for the coming year.

Still, with recessionary pressures on revenues, we're facing unmet needs and underfunded services in a number of cases. The 2012 anticipated shortfall was smaller than last year's, but it is increasingly difficult to make cuts year after year. 2012 will be the fourth year in a row that the City will close multi-million gaps. Reductions already are affecting critical service delivery, and further reductions will exacerbate these problems.

"Spokane – Near Nature, Near Perfect"

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Additionally, the state and federal governments are facing increasing budget challenges, which could lead to reductions in shared revenues and grants that come to the City.

A number of factors contribute to the anticipated shortfall for 2012. Some of the largest components are:

- **Economic conditions.** Sales tax, property tax from new construction, and private utility taxes have all been affected by the current economic climate and are not anticipated to rebound much in 2012.
- **Structural gap.** We've made significant progress, with the gap now less than 2 percent. Still, we have an ongoing gap between the growth rate of expenses and the growth rate of revenues. Everything from electricity and natural gas to basic supplies has increased in cost. Labor concessions have helped with this problem, but our expenditures continue to grow faster than our revenues.
- **Limited remaining rainy-day reserve.** Since our Revenue Stabilization Account has been largely depleted, we can't rely on reserves to help balance the budget beyond 2012. We will continue our work to maintain adequate levels of reserves.
- **Fulfilling obligations to employee groups.** Police and Fire union concessions, and prior concessions by other bargaining units, helped balance the 2010 and 2011 budgets. Some of our bargaining units have contractual increases slated for 2012. Although we are in active negotiations with a number of our labor groups, we must budget based on the terms that are in place today. Our most senior managers, though, will see their pay frozen again for 2012. The cumulative sacrifice of these executives now totals in the hundreds of thousands of dollars in savings to the City.

To help avoid an ongoing cycle of unsustainable reductions in services, the City needs to maintain its focus on cost reductions, improved efficiency and, importantly, economic prosperity. The City has implemented a number of programs to expand the local economy, and I am committed to re-orient the entire City organization on economic prosperity. Our definition of economic development is simple: We want more jobs, higher wages, and more businesses in our community.

Ultimately, the 2012 budget will continue to center around our citizens' priorities:

- ❖ Public Safety.
- ❖ Infrastructure.
- ❖ Sustainable Economic Growth.
- ❖ Community Quality of Life.
- ❖ Leadership & Administration.

Overview

Our citizens—even our employees—sometimes have difficulty sorting out the City's different funds and how they can be spent. We typically focus on the General Fund, because that's where we face the greatest volatility in our revenues. There also are Enterprise Funds, Internal Service Funds, and Special Dedicated Funds.

For 2012, the total of all City budgets will be \$621.9 million, including the following components:

- ✓ **General Fund** - A 2012 General Fund budget of \$164.3 million, 3.5 percent more than the \$158.6 million adopted budget for 2011. About one-quarter of that increase will pay for the cost of providing public safety services in the West Plains annexation area.

The General Fund portion of the budget supports general municipal services, including police and criminal justice, fire and emergency medical response, streets, parks, libraries, planning, community and economic development, and a host of smaller specialized services aimed at neighborhoods, the arts, historic preservation, and human services, among others. The General Fund is supported by general tax dollars, including sales, property, and public and private utility taxes.

- ✓ **Enterprise Funds** - \$290.1 million for 2012, a decrease from \$312.8 in 2011. This Enterprise Fund budget includes \$94 million in capital expenditures.

These Funds provide clean drinking water, storm water collection, wastewater reclamation, garbage pick-up and disposal, building services, and golf operations. The services are supported by fees charged to consumers of the services. Year-to-year, the Enterprise Funds budget can vary widely depending on the cost of capital projects that are planned.

These funds draw matching federal, state, and grant dollars in the millions of dollars each year, which go into dozens of contracts with local companies, stimulating jobs and reinvestment in our local economy.

- ✓ **Special Dedicated Funds**--\$167.5 million.

Includes non-operating funds reserved for capital projects such as major arterial street projects and public works upgrades (\$66M), debt service on general government bonds (\$20M), pension expenditures (\$31M), and special dedicated revenue and other funds, such as local law enforcement block grants.

- ✓ **"Internal Services" Funds**.

These internal programs, including Fleet Services, Management Information Services (MIS), and Risk Management, charge fees to other City departments to cover the cost of their services. These funds have been subject to the same cost reductions as other departments, and MIS and Fleet together employ eight fewer people than in 2010.

Budget Building Blocks

Our annual budget is built based on revenue expectations and projections. This year, we will see minimal revenue increases from growth, but a good portion of our projected increases are from the addition of the annexation area on the West Plains. The below key budget building blocks demonstrate the expected year-over-year growth rates, not including the addition of the annexation area.

We should also note that funds generated under the Transportation Benefit District (TBD) are not part of this budget.

Within the General Fund, the 2012 Budget:

- Projects **sales tax growth of only 0.5 percent over 2011 actual collections**. We have reviewed our 2012 estimate against several economic forecasts and, more importantly, against local economic indicators, and we believe this is a realistic projection for 2012.
- Anticipates that the Council will approve an increase in the regular **property tax levy** of 1 percent plus new construction, per state law. The projected property tax growth resulting from new construction is estimated at about \$200,000 for the General Fund, representing only one-half of one percent.
- Projects growth in **revenues from external utilities** at about 1.4 percent compared to historic patterns of at least 5 percent a year.
- Anticipates **flat interest income**. The 2012 budget includes only \$1.85 million for interest income, the same as in 2011.

Within the Enterprise Funds, the 2012 Budget:

- Includes the following utility rate increases for 2012:
 - Stormwater – 0% increase (Council adopted)
 - Wastewater – 13.5% increase (Council adopted)
 - Water – 16% increase on consumption (Council adopted)
 - Solid Waste – 5.5% increase (proposed)

The total increase to a typical household utility bill will be about \$8.95/month. The increase for Sewer (\$5.90 of that total) is necessary to meet safety improvements and regulatory requirements established by the Washington State Department of Ecology.

As we have discussed, we are required to make considerable investments in our wastewater system to meet a variety of state and federal requirements. We are working on eliminating outfalls from combined sewers, adding tertiary treatment at the Riverside Park Water Reclamation Facility to the tune of about \$150 million, and making a variety of other investments.

- Anticipates ongoing strain on revenue within the **Building Services Enterprise Fund**. We continue to see very little new construction activity.

Focus on the General Fund

My General Fund proposal closes an anticipated \$8 million shortfall and prioritizes public safety. It also adds resources to respond to public records demands in the City Clerk's Office.

Thirteen police officers that were slated for elimination in 2012 (as a result of union concession agreements for the 2011 budget) are retained. Five new Police officers and 13 Fire positions have been added to serve public safety needs in the West Plains area that will become part of the City on January 1, 2012. The public safety employees will be paid for through revenues generated as a result of the annexation.

While these are bright spots, our financial challenges are centered in the General Fund, which relies on general tax dollars. We have seen declines in many revenue areas, but primarily in sales tax, property tax from new construction, real estate excise tax (REET), interest income, and utility taxes. Strain is being felt throughout the General Fund budget and the departments that rely on the General Fund.

Reductions are made throughout the City's General Fund areas:

- Departmental reductions primarily for operational expenses—even though those costs are expected to escalate—total about \$1.7 million.
- General Fund allocations for the Street Department and the Spokane Public Library are frozen at 2011 levels, meaning that rising costs must be absorbed within their budgets. The Street Department also won't receive additional money to cover expenses associated with annexation of the West Plains. The Library will keep all branches open, however.
- Savings in jail costs through the renegotiation of the contract with Spokane County and the use of alternatives total about \$900,000.
- The City will save \$30,000 by reducing the amount spent on Arts, and \$125,000 by reducing the budget for youth services. I am in conversation with the County about a strategy to continue to provide support for regional youth services and the Chase Youth Commission's programs.
- The City's Weights & Measures Department no longer will be reliant on General Fund resources and will need to become self-supporting, saving some \$70,000.
- Efficiencies in Municipal Court related to new technology are anticipated to save the City \$120,000 in 2012.
- The General Fund will pay \$400,000 less for Accounting services than what was anticipated in 2011.

These reductions alone total about \$5.2 million.

My budget also proposes using some remaining reserves, savings from reduced payments to insurance accounts, wage and benefit savings from open vacant positions, and one-time money totaling about \$2.7 million. This use of one-time money is consistent with expectations for only a modest recovery in the economy.

The budget also includes some small expenditure changes and some positive changes in certain revenue. For example, I have worked with the Municipal Court to stop automatic mitigation on parking fines paid in the first seven days.

Council Considerations

Heading into the fifth year of closing large projected shortfalls, my 2012 proposed General Fund Budget still leaves needs unmet and services underfunded. For example, the Police Department examined its staffing needs and determined that it needs at least another 24 officers and nearly 10 civilian employees to bring the department to minimum staffing levels for a City the size of Spokane. The Fire Department is down to 58 firefighters per shift compared to 64 per shift a decade ago, while calls for service have grown each year.

Quality of life services also are feeling the impacts. The City has launched a review of options to fund community, senior, and youth centers during these times of declining resources. Similar unmet needs exist throughout the City after four years of severe cutbacks.

I will propose adding \$800,000 in one-time money to the City's revenue stabilization account. (An ordinance will be filed this week.) The City Council could choose to spend those funds in another way.

Additionally, there are a few possibilities for revenue changes available to the Council, including using a portion of the money generated from tickets for red-light running to pay for Police services; increasing parking fines; or increasing the hotel-motel tax. These items could generate up to \$1.1 million.

Other Concerns

We would like to highlight a few areas that the Council traditionally tracks and often are of great interest to the public and specialized stakeholders. We also need to consider how items on the General Election ballot next week may affect us.

- **Outside Economic Development spending.**
 - We have set aside \$174,000 for outside agencies that provide economic development-related services to the City. This is the same amount as in 2011. We will once again ask our economic development partners to submit a request for funding. We will evaluate those requests and will bring forward a recommended allocation list.

- **Human Services spending.**
 - We maintained funding for direct Human Services grants from the City's General Fund at about \$900,000. We see incredible need and feel maintaining this funding is essential for our community.

- **Capital Improvement Program spending.**
 - For the third year in a row, we did not make an allocation to our CIP fund, which is used for minor capital purchases and projects.

- **New employee positions within the budget.**
 - As mentioned, we added 18 positions in Police and Fire to serve the West Plains.
 - We also have added:
 - One position in the City Clerk's Office to handle public records.
 - One position in the MIS interfund budget as part of the JustWare project for Municipal Court.
 - One position in Code Enforcement to respond to additional call volume.
 - One and a half positions in the Human Services Department—one is grant funded and the other half is for the Fire Department CARES program.
 - Additionally, we will convert two project positions in Municipal Probation to permanent to manage our electronic home monitoring program, and we will convert one project position in Reprographics to a permanent position.

- **Voter-approved investments.**
 - We'll continue to make investments as approved by Spokane voters. We will continue work under the 10-Year Street Bond Program.

- **Impacts of initiatives; work at the state level.**
 - We will continue to monitor and keep you informed of potential budget impacts from certain events such as the Governor's proposal last week to close the State's approximate \$2 billion budget gap.
 - And, if state initiative I-1183, which would privatize alcohol sales, passes, the City will receive another \$400,000 annually from liquor taxes generated under the new system. The City will know the outcome of that measure before 2012 budgeting work is complete.

Conclusion

My proposed 2012 City Budget is a strong, balanced proposal that preserves our most critical services. While we have responsibly dealt with our budget challenges, we still have made gains in all parts of the City in the last year.

Take a look around at some of the accomplishments in tough financial times. We actually added two paramedic units within the City through a creative agreement with Local 29, improving response times to medical emergencies.

We dedicated the Business Help Center on the first floor of City Hall to provide resources to small business owners and entrepreneurs. We have developed a plan to reduce the \$8 million in electricity and natural gas that we current buy annually. We've saved real money by reducing and eliminating non-value added steps in many processes. Employee Led Innovation (ELI) teams are making changes that simply make sense and have resulted in over \$2 million in cumulative hard-dollar savings.

We're deploying technology to better manage workload and improve efficiency. Our new human resources and payroll system will eliminate a lot of duplicate data entry, while a new software system at the Municipal Court is achieving even more labor savings. Technology is also helping to streamline public records requests, moving us closer to the goal of more open and accessible government operations.

Our list of accomplishments and achievements is far too long to give it justice here, but I am very proud of the work we do, and grateful to the Council for your support of these reforms in City government.

During the budget process we focus on the small percentage of the budget that we have to cut or change. However, throughout the year, my office, the City Council, and the entire City workforce spend 100 percent of our time ensuring that we are providing quality services with the budget that we have. That is the true value of our work on behalf of the citizens of Spokane.

Sincerely,

A handwritten signature in cursive script that reads "Mary B. Verner".

Mary B. Verner
Mayor