



City of Spokane

October 5, 2009

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

Re: Mayor's 2010 Conceptual Budget

Dear Council President Shogan and Members of the Council:

We are now one month from my formal submittal of the City of Spokane 2010 Budget. As we near the end of this long and arduous process, I want to outline the budget and its components based on information we have now and what we anticipate in the final weeks of budget preparation.

I will submit a budget that limits additional costs for citizens and minimizes reductions in City services. The budget will contain modest use of reserve funds that were set aside specifically for the conditions we face now. Revenue estimates are conservative to ensure our ability to weather further economic decline in 2010 and to assist with balancing our 2011 budget (which will be a similar, if not more difficult, challenge).

As you would expect, the 2010 budget will continue to center around our citizens' priorities:

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

The Shortfall

With the community and the nation experiencing a dramatic economic downturn, we began working on the 2010 budget at the end of 2008. Early on, our Finance Division foresaw a downward trend and identified early in 2009 that we were facing a \$7 million shortfall in revenues to balance expenses for the 2010 General Fund budget.

“Spokane – Near Nature, Near Perfect”

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First, we evaluated an across-the-board reduction. We asked our General Fund departments to turn in budgets with a 4.07 percent reduction to raise \$5.5 million of the \$7 million (assuming \$1.5 million from reserves).

This was not our preferred route. Such a reduction would have led to considerable layoffs and significant service reductions for citizens.

With this undesired outcome as backdrop, I outlined my plan for closing the \$7 million shortfall:

- \$3.5 million in contributions from our employee bargaining units
- \$1.5 million from reserves
- \$1.0 million in non-personnel reductions
- \$1.0 million in additional revenues

My 2010 Budget proposal will include a hybrid of these scenarios. To date, we have garnered about half of the savings we had targeted from our bargaining units, and I am grateful to those employee groups who have stepped up to assist the City during this time.

To date, \$1.7 million in savings has been offered through changes in wages and benefits:

- ☑ **IAFF Local 29**—High deductible insurance plan and salary savings plan (total \$1 million). **Spokane Association of Fire Officers (SAFO)** also is part of the salary savings plan.
- ☑ **Managerial & Professional Association**—Eliminate 40 hours of vacation pay-out (\$398,000).
- ☑ **Local 270-Prosecutors Association**—New contract that provides more than \$42,000 in embedded savings for the City.
- ☑ **The Police Lieutenants and Captains Association, along with the unrepresented members of Police Administration**—Suspend City contributions to deferred compensation accounts to meet their savings goal (\$85,000) for 2010.
- ☑ **Non-represented employees**—Eliminate 40 hours of vacation pay-out, and eliminate a 1% wage increase and a 1% cash payment that was due July 2010 (\$69,000).

Our challenge here is to get “durable” savings—things that will extend from one year to the next. Through this process, we have accepted a combination of both durable savings and one-time savings. We will have to revisit the one-time items as we begin putting together the 2011 budget.

If no additional contributions to the budget solution for 2010 are forthcoming from bargaining units, we will see reductions that we had hoped to avoid.

In the Spokane Police Department, 22 commissioned police officer positions will be eliminated from the budget as compared to the 2009 Adopted Budget. The Police Chief is working on a restructuring plan that will be in my final budget proposal, but citizens will see a reduction of police services, primarily in traffic patrol. At this time, three patrol officers would be involuntarily terminated to balance the budget.

Another 13 positions among Local 270-represented employees face elimination from the General Fund as well. These employee losses would result in program reductions and reduced customer service.

Our departments all will experience some pain, through lost positions and fewer dollars to implement programs. And, our customers will see changes.

We will always strive to deliver excellent service. We simply cannot expect to deliver a whole lot more with a whole lot less. Our dedicated workforce will help prioritize to meet essential needs with the resources that remain after budget cuts.

Strategic Use of Reserves

If there was ever a day rainy enough to use our reserves, the 2010 budget qualifies. We will use a modest \$1.5 million from the revenue reserve to help make up for lower revenues in 2010. We are reluctant to withdraw in excess of \$1.5 million because we expect challenges in 2011 and beyond.

To ease the impact of cuts, we offered the Voluntary Retirement Incentive Program to employees who were eligible to retire to help defray the cost of medical expenses for those who took the option. This was done to create vacancies and reduce actual layoffs within our ranks.

We have approved 42 applications for Voluntary Retirement, including 22 that are supported by the General Fund, and we are processing a request to use \$400,000 from the separate contingency reserve account to pay for the incentives.

Overview

We are still crunching numbers and refining estimates. At this time, I anticipate a \$750 million City budget for 2010 that includes the following components:

1. General Fund - A 2010 General Fund budget in the neighborhood of \$161 million as compared with the \$155.5 million budget in 2009.

a. 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, youth, the arts, historic preservation, and human services, among others.

b. The General Fund is supported by general tax dollars, including sales, property, and public and private utility taxes. On the **income side of our General Fund budget for 2010:**

- The preliminary 2010 budget projected sales tax growth of 2.5 percent over 2009 figures. Year-to-date, 2009 sales tax figures are down about 4 percent, or \$1.1 million. It is notable that our 2009 sales tax revenue is tracking very close to 2006 sales tax figures.

- We will continue to review our sales tax projection for 2010 and are currently estimating a 1.5% growth factor for the 2010 Proposed Budget. However, we will continue to discuss this projection with members of the Forecast Council and the City Council before submitting the Budget.
 - As a positive revenue factor for next year, we estimate \$350,000 in one-time sales tax revenue related to the 2010 U.S. Figure Skating Championships, and an increase in our net sales tax revenue from the North Division Annexation revenue-sharing arrangement with Spokane County.
 - The budget will be submitted to Council assuming the regular property tax levy will be increased by 1 percent plus new construction, per state law. The projected property tax growth resulting from new construction is estimated at \$330,000 for the General Fund.
 - Growth in revenues from external utilities is projected at 3 percent, or \$850,000. Historically, this revenue source grows at close to 6 percent, but is being driven down by a significant drop in the wholesale price of natural gas.
 - Taking into consideration all of the above factors, the 2010 General Fund revenue is projected to be approximately 3% higher than in 2009. This is about 25% below our long-term revenue growth rate of 4% that we currently use in our long-term projections.
- c. As we have been discussing all year, this budget anticipates an additional \$1 million in revenue that would require action by the City Council. Should the Council choose not to increase revenue at this time, there would need to be further reductions in the General Fund budget, or a larger draw from the Revenue Stabilization Account. In light of the projections for the 2011 budget, I would recommend against drawing the reserves down any further than the proposed \$1.5 million.

2. Enterprise Funds - A 2010 \$282 million Enterprise Funds budget which is about the same as the \$282.6 million in 2009.

a. The Enterprise Funds provide services that include clean drinking water, storm water collection, wastewater reclamation, garbage pick-up and disposal, building services and code enforcement, and golf operations.

b. These services are supported by fees charged to consumers of the services. Year-to year, the Enterprise Funds budget varies widely depending on the cost of capital projects that are planned.

- We are reviewing a draft of the HDR Utility Rate Study. Based on current information, we are considering the following rates for 2010:
 - Storm Water – no increase
 - Solid Waste – 1.5% increase
 - Water – 3.75% increase
 - Sewer – 15% increase

- The preliminary increase for Sewer appears necessary to meet safety requirements and regulatory requirements established by the Washington State Department of Ecology.
- We will continue to review the preliminary rate calculations to be certain that we have done everything we can to keep the increase as low as possible. If these rates are adopted, the total increase to a typical household utility bill would be about \$6/month.

3. The balance of the overall City budget—or \$307 million—is used primarily for Capital Projects (\$60M), Debt Service (\$19M), and other Special Dedicated Fund expenditures. These non-operating funds are reserved for capital projects such as major arterial street projects and public works upgrades, debt service on general government bonds, and special dedicated revenue and other funds, which include local law enforcement block grants and special quality-of-life projects.

4. The City also has “internal services” funds. These internal programs, including fleet services, management information services, and risk management, charge fees to other City departments to cover the cost of their services.

Initiatives

Our budget situation restricts our ability to add or expand programs as citizens may desire. However, it does not limit our ability to be creative and solution-oriented.

To that end, the budget includes strategies to find efficiencies and cost savings.

The Employee-Led Innovation (ELI) program, as you know, has trained a group of our employees in Lean Six Sigma techniques to lead efforts to find efficiencies and cost savings throughout the City organization. This change initiative is enabling us to be more nimble and to focus on “value-added” activities for our citizens. The ideas for making us better and more efficient are coming from our employees—those who know the work best.

ELI has already achieved successes and taken on some exciting projects. A variety of changes at the Police Department have resulted in overtime savings of \$485,000 year to date. We've also saved \$15,000 in the cost of recycling our used glass and achieved process improvements such as in approving small contracts and redesigning workflow within departments. We're headed to other projects now, including the re-routing of garbage trucks to save time and fuel.

We're also putting effort into long-term efficiency initiatives. Concepts for coordinating services with other local governments in the region, and new service delivery models, are being considered to bring us long-term budget change. We will consider any and all ideas to ensure our local governments can continue to provide the services our citizens need.

Next steps

Additional details on the budget are forthcoming. Departments are submitting their final changes this week. I will present my proposed budget to you during your Nov. 2 legislative meeting.

Other changes are possible even after that date, as we await the outcome of the Nov. 3 general election, which includes three items that will impact our budget:

1. Voters will consider our \$33 million Fire Bond that would add new equipment and facilities over the next 10 years for the Fire Department.
2. Voters also will consider City Prop. 4. We're uncertain on costs of Prop. 4 due to lack of specificity in the proposal; if nothing else, the measure would create several new lines of business for the City, all of which would cost money and require personnel.
3. The third ballot item is Initiative 1033 would cap the annual growth of state, county, and city general funds at the rate of inflation plus a population growth factor. Revenue above the cap would be used to reduce property taxes through an adjustment of the property tax levy rate two years later. Anything above the cap would have to be approved by voters.

For 2010, based on very low/negative inflation rates in 2009 and population growth in the City, we would likely have to reduce our budget by another \$3 million to \$6 million if I-1033 passes. Property owners would see a property tax rebate on a \$200,000 home of about \$40 to \$75 a year (or \$3 to \$6 a month). We would have annual reductions in our budget thereafter, and at some point, we would have to eliminate functions and programs and reduce government to the bare minimums.

Thank you for your support and work on the budget this year. I look forward to presenting to you the best budget possible under the circumstances.

Sincerely,



Mary B. Verner
Mayor