



City of Spokane

November 2, 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 Proposed Budget

Dear Council President and Members of the Council:

I present to you today the culmination of nearly a year's work—a balanced budget for 2010. With tremendous support from our employees, we have developed a budget that limits additional costs for citizens while minimizing reductions in City services. This budget represents a victory for the health and well-being of our citizens and our community.

We were guided in this effort by our strong financial principles and conservative budgeting approach. Thus, the proposed 2010 Budget includes only modest use of reserve funds that were set aside specifically for the conditions we face now. Revenue estimates are cautious to ensure our ability to weather further economic decline in 2010 and to assist with balancing our 2011 budget.

Within the hundreds of pages of line items, you will see that once again we have focused our resources on what's most important to our citizens. The 2010 budget will continue to center around our citizens' priorities:

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

Overcoming the Shortfall

Our work over these many months has been focused on overcoming a projected \$7 million shortfall in the City's 2010 General Fund budget. The shortfall resulted primarily from the dramatic economic downturn in our community and nation. Sales tax receipts have been down all year, as have real estate excise taxes and natural gas utility taxes, while new construction nearly came to a halt.

“Spokane – Near Nature, Near Perfect”

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Ultimately, this budget includes a solution to the General Fund shortfall from employee savings, non-personnel reductions, a small revenue increase, and reserves, along with restructuring in the Spokane Police Department.

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

- ☑ **The Police Lieutenants and Captains Association, along with the non-represented members of Police Administration**—Suspend City contributions to deferred compensation accounts to meet their savings goal (\$85,000) for 2010.
- ☑ **Local 270-Prosecutors Association**—New contract that provides more than \$42,000 in embedded savings for the City.
- ☑ **IAFF Local 29**—High deductible insurance plan and salary savings plan (total \$1 million).
- ☑ **Spokane Association of Fire Officers (SAFO)**—Included in salary savings plan referenced above.
- ☑ **Fire Administration** – Increase contribution to medical plan (\$18,000).
- ☑ **Managerial & Professional Association**—Eliminate 40 hours of vacation pay-out (\$398,000).
- ☑ **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).

In addition, if **Local 270 AFSCME** votes for a tentative agreement reached with the City in October, Local 270 employees will have reached their requested savings amount of **\$780,000**. We have included this savings expectation in the budget and will keep you posted as this agreement moves through the process.

Ultimately, our goal through these discussions has been 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.

The City and Police Guild are in discussions, but if no additional contributions to the 2010 budget solution are forthcoming, **we will see reductions in Police 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 authorized positions. At this time, two officers would be involuntarily terminated to balance the budget; 20 of the positions are currently vacant and would be eliminated instead of filled.

The Police Chief and I remain focused on the safety of our citizens. The Chief is working to reorganize her department so that direct police services like Patrol and 9-1-1 response will continue as they do today. Citizens will not see a reduction in safety, but they will see a

reduction in other police services, mostly in support functions like investigations. Of course, the effects of this reduction will spill over into prosecutions and resolution of cases in the courts.

Meanwhile, we will eliminate a number of other positions. A total of 42 employees, including 22 that are supported by the General Fund, were accepted for the **Voluntary Retirement Incentive Program**, with several of those General Fund positions slated for elimination.

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

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

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.

In addition, the City Council recently approved the use of funds from the separate contingency reserve account to pay for General Fund expenses related to the Voluntary Retirement Incentive Program. This program was designed to create vacancies and reduce actual layoffs within our ranks. Employees who were eligible to retire and accepted to the program will receive an incentive to help defray the cost of medical expenses.

Overview

For 2010, the City will have a \$602.9 million budget for 2010 that includes the following components:

- ✓ **General Fund - A 2010 General Fund budget of \$161.0 million, compared with a \$155.5 million budget in 2009.**

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. The General Fund is supported by general tax dollars, including sales, property, and public and private utility taxes.

- ✓ **Enterprise Funds - A 2010 \$286.7 million Enterprise Funds budget which is slightly higher than the \$282.6 million in 2009.**

The Enterprise Funds provide clean drinking water, storm water collection, wastewater reclamation, garbage pick-up and disposal, building services, and golf operations. These 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.

- ✓ **The balance of the overall City budget—or \$155 million—includes non-operating funds reserved for capital projects (\$59M), such as major arterial street projects and public works upgrades, debt service on general government bonds (\$23M), Pension Expenditures (\$29M), and special dedicated revenue and other funds, which include local law enforcement block grants and special quality-of-life projects.**
- ✓ The City also has **“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.

Budget Building Blocks

Our annual budget is built based on revenue expectations and projections. The following are some of the key budget building blocks.

Within the General Fund, the 2010 Budget:

- Projects **sales tax growth** of 1.5 percent over 2009 actual collections. Year-to-date, 2009 sales tax figures are down just over 4 percent, or \$1.1 million, over the same period in 2008. We have reviewed this estimate against several economic forecasts, and we believe this is a conservative, yet realistic, projection for 2010.

In addition, our projections anticipate a one-time sales tax revenue impact of \$350,000 related to the 2010 U.S. Figure Skating Championships, which will be held in Spokane in January, and an increase in our net sales tax revenue with the expiration of the North Division Annexation revenue-sharing arrangement with Spokane County.

- 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 \$330,000 for the General Fund.
- Projects growth in **revenues from external utilities** at 1.8 percent, or \$500,000. Historically, this revenue source grows at close to 6 percent, but it is being driven down by a significant drop in the wholesale price of natural gas.
- Includes 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.

Within the Enterprise Funds, the 2010 Budget:

- Includes the following utility rate increases for 2010 based on preliminary information from the HDR Utility Rate Study:
 - Stormwater – no increase
 - Solid Waste – 1.5% increase
 - Water – 3.75% increase
 - Sewer – 15% increase

The total increase to a typical household utility bill would be about \$6/month. The increase for Sewer is necessary to meet safety requirements and regulatory requirements established by the Washington State Department of Ecology.

- Anticipates continued reductions in revenue within the **Building Services Enterprise Fund**. Earlier this year, we began addressing some challenges in the Building Services Enterprise Fund. The prolonged contraction in construction activity is exacerbating these challenges. We will continue to review the appropriate levels of service that the City needs to provide and the fiscal challenges facing our Building Fund.

Strategic Decisions

Additionally, I would like to point out some other significant, strategic decisions that are part of the 2010 Budget proposal.

- **Positions.**
We have exercised very tight controls on all spending and hiring, especially in the General Fund. Still, we must keep the City running, and key positions must be filled to provide priority services.

In the Utility Funds:

- We are creating 13 positions in our Wastewater Management Department, with 12 of these positions planned for the City's Riverside Park Water Reclamation Facility (part of the ongoing safety recommendations that resulted from the 2004 tragedy at the plant), and one additional position in sewer maintenance.
- We are creating two positions in Solid Waste Management, a driver and Transfer Station Foreperson.

In the General Fund:

- An Assistant Street Maintenance Supervisor has been added to achieve efficiencies in responding to demands in the Streets Department.
- We added a Horticulture Supervisor position to provide much-needed support for the Urban Forestry program.

- **Human Services spending.**

- We maintained funding for direct Human Services grants from the City's General Fund at \$960,000, just \$40,000 less than in 2009. Stimulus funding for homelessness prevention and rapid re-housing should also assist in this area; we will receive \$1.5 million in such federal stimulus funds and anticipate that we will serve 400 households.

- **Capital Improvement Program spending.**

- We did not make an allocation to our CIP fund, which is used for minor capital purchases. We have a small remaining fund balance in this account that can be used for immediate needs.

- **Voter-approved investments.**

- We'll continue to make investments as approved by Spokane voters. In 2010, we will complete work on the City's new pools and improvements at Albi, continue work under the 10-Year Street Bond Program, and, if Proposition 1 is approved, begin to make investments under the 2009 Fire Bond.

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. Through reorganization, we have moved two employees to lead these efforts. Additionally, we are upgrading our Training Coordinator position, which is currently a project position, to a full-time position that will assist in this area.

Employees in the Police Department brought forward a variety of changes that have resulted in overtime savings of \$485,000 within the current year. We've saved \$15,000 in the cost of recycling our used glass, trying employees' ideas to crush the glass into aggregate for paving streets. And, another \$5,000 a year comes from recycling the refrigerant, Freon, captured at our Fleet Services Department.

At the Library, we've reduced the turnaround time in the bindery area significantly, which means more books are on the shelves and ready to be checked out. The Library also has put together a plan to re-open the Downtown Library on Mondays without adding any new personnel. Investments in self-service technology, including self checkout machines funded with City capital improvement funds, have made this change possible.

We plan to save significant overtime costs at solid waste transfer stations by restructuring extended hours, which were not being used by many customers, with a standardized schedule across the system that better fits those customers' needs. We're headed to other projects now, including the re-routing of garbage trucks to save time and fuel.

We're also exploring things like regional coordination of services or new service delivery models to bring us long-term budget change. Multiple local governments provide parallel services that may make sense to combine. It is prudent to look at these kinds of things now to ensure our local governments can continue to provide the services our citizens need.

We are considering any and all ideas, then focusing on ones that can bring us more immediate results.

Conclusion

I am pleased with the budget we put together for your consideration under very trying circumstances. Our employees stepped up, allowing us to avoid severe reductions in services for our citizens, and we all should thank them for that.

I remind you that other dramatic changes are possible even after today, as we await the outcome of several items on tomorrow's election ballot. The adoption of \$1 million in additional revenue and the passage of the Local 270 tentative agreement also are critical components.

Our budget challenges don't end with 2010, however. The 2011 budget is predicted to be an equal—if not greater—challenge for us. We are already beginning our planning work to ensure the best outcome possible for 2011.

I would once again like to extend my thanks for your assistance with the budget this year. Your willingness to support our approach to budgeting helped to ensure its success.

Sincerely,

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

Mary B. Verner
Mayor