

City of Spokane

2012 General Fund Budget

Initial information

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Overview:

The City of Spokane has long anticipated that balancing the 2012 General Fund Budget would be a challenge, although not as daunting as balancing the 2010 and 2011 budgets. We still have not seen much in the way of an economic rebound from the recession; however, we did not plan for much revenue improvement in our 2011 budget. So far, we are meeting our rather dismal 2011 General Fund revenue projections, which means we don't anticipate changes in the current year. That's the good news, but budget work for 2012 remains.

Working with the Spokane City Council, Mayor Mary Verner and her administration committed to providing an initial overview of the 2012 Budget in the spring. Compiling this information early in the year ensures a more thoughtful discussion of options and solutions. It also allows for consideration of all General Fund needs at once.

Review of 2011 Budget Solution:

The adopted 2011 General Fund budget totals \$158.6 million, down from \$161 million in 2010. We avoided nearly all layoffs, which could have ended up as high as 70 people, but we still eliminated about 70 vacant positions, and we are feeling those impacts.

Budget work dominated much of the year as we worked to close what ultimately became about a \$13 million shortfall between revenues and expenses. The shortfall was closed using:

- **Concessions from bargaining units.** Agreements with bargaining units in Fire and Police saved about 55 public safety jobs. The units agreed to give up cost of living increases and to cap medical expenses, among other things. Some of the concessions were only for one year. In addition, the Prosecutors Association made similar concessions and the Public Defenders agreed to eliminate other benefits in 2011 to save specific jobs in their areas. The Local 270 Library employees agreed to a modest 1 percent wage increase to minimize costs there.
- **Strategic and across-the-board reductions** throughout the City, including the elimination of about 70 positions. Nearly all departments were impacted including Streets, Building Services, Municipal Court, Fire, Legal, Treasurer's Office, Fleet Services, MIS, Code Enforcement, City Clerk's Office, Planning, Human Resources, and more.

- **Use of Reserves.** Balancing the 2011 Budget required the use of about \$3.4 million from the City's Revenue Stabilization Account, essentially draining that account by the end of 2011. Fortunately, we are anticipating the receipt of some one-time money in 2011, which the Mayor is proposing be added to the City's revenue reserve, allowing for some use of reserves in the coming budget year.

2012 General Fund Budget information:

Early in the year, the City's Finance Division forecast a \$6.7 million shortfall for the General Fund for 2012. Finance Division professionals considered a host of factors to develop this projection, including the completion of the West Plains Annexation. That projection was very conservative and allowed for some expenditure increases and revenue erosion over the year.

While the shortfall is only about half of last year's, it is increasingly difficult to make cuts year after year. Reductions already are affecting critical service delivery, and further reductions will exacerbate these problems.

A number of factors contribute to this shortfall, but some of the largest components include:

- **Replacement for use of one-time money.** Since our Revenue Stabilization Account has been largely depleted, we can't rely on reserves as much to help balance the budget for 2012.
- **Fulfilling obligations to employee groups.** Police and Fire bargaining unit concessions that helped balance the 2011 budget were for one year only. Cost of living increases anticipated for 2011 now must be fulfilled in 2012. Other bargaining units also have contractual increases slated for 2012.
- **Structural gap.** We continue to have an ongoing gap between the growth rate of expenses and the growth rate of revenues. While concessions like capping medical plan growth rates helps this, we continue to face this gap.

Approaches to Resolving 2012 Budget Challenge:

We can approach a resolution to the 2012 General Fund Budget Challenge through:

- Reductions in expenses.
- Changes or additions to revenues.
- Or, a combination of both.

We must rely on expense reduction as a primary tool. Open labor contracts with a number of our bargaining units may provide some opportunities; we have developed our negotiations strategy based on our financial conditions.

The Mayor's Proposal:

The Mayor is proposing an approach to close the anticipated \$6.7 million shortfall in the City's 2012 General Fund budget that preserves some of the most essential City services without asking voters to increase taxes. The Mayor's proposal acknowledges the financial strains faced by citizens, provides predictability for businesses, and balances against other costs citizens will face, including higher utility bills.

This approach prioritizes public safety, provides for added funding for the Spokane Public Library that would retain all library branches, maintains funding for Streets at 2011 levels, and makes a permanent a successful alternative that reduces jail costs. Thirteen police officers that were slated for elimination in 2012 (as a result of union concession agreements for the 2011 budget) would be preserved.

Additionally, the approach reduces the General Fund budget for operational expenses—even though costs are expected to escalate—and anticipates employee savings through new labor contracts. It also includes some strategic use of reserves and requests modest revenue changes totaling \$1.4 million—less than 1 percent of the total General Fund budget—that will avoid dramatic service reductions. The revenue changes and the use of reserves would have to be approved by the City Council.

There are a few possibilities for revenue changes, including using a portion of the money generated from tickets for red-light running to pay for Police services; increasing revenue from parking tickets or rates, or expanded parking enforcement; increasing the hotel-motel tax; and/or, achieving greater cost recovery for some permits or special events. The Mayor will present specific revenue proposals to the City Council before submitting a formal budget proposal, which is required by Nov. 1.

Other approaches:

Two additional budget approaches have been developed for City Council consideration—one that solves the entire budget shortfall through expense cuts, and one that helps restore a portion of the services lost in earlier years by asking voters to approve a levy lid lift.

To balance the 2012 General Fund budget through expense reductions only, significantly more services would be lost, including:

- Seven police officers, impacting investigation of property crimes and other safety issues.
- Spokane Public Library services, possibly including a branch closure or reduction in outreach programs to youth and seniors.
- The Arts Department, including the Spokane Arts Commission, Chase Gallery exhibits, and the public art program.

- The Youth Department, including the Chase Youth Commission, the Chase Youth Awards, BOBfest, and other youth events.
- The City Weights & Measures program, including consumer protection activities that ensure accurate measurements at grocery stores and gas stations. The City would then rely on Washington State's Weights & Measures program.

Meanwhile, the Mayor's 2012 General Fund Budget approach still leaves needs unmet and services underfunded. For example, the Police Department has been examining 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. Similar unmet needs exist throughout the City after four years of severe cuts to close deficits.

A property tax increase (called a "levy lid lift") could address some of these long-term needs. The City Council requested additional information on what a levy lid could provide, so an option was developed that would focus additional resources generated through a levy lid lift on public safety and library services. The levy lid lift would balance the City's budget for 4 years and would provide about \$2.5 million for additional services in 2012.

The Mayor recommends considering such a strategy in a future year, when economic conditions have improved. This timeline also would allow the Citizens Financial Advisory Committee to complete its recommendations concerning City revenues.

Future Budget Strategies:

To help avoid an ongoing cycle of unsustainable reductions in services, the City also needs to increase revenues through economic growth. The City has implemented a number of programs to help get the economy moving.

This year, the Mayor launched the "Seven in Eleven" project, which includes seven practical actions the City will complete in 2011 to help improve the immediate business climate. The final "Seven In Eleven" action steps were selected from more than 22 individual ideas submitted by small business owners and managers. They range from helping businesses survive road construction projects to improving permitting processes to enhancing on-line access to business licenses and permits.

The "Seven in Eleven" work is in addition to other City efforts to help the private sector grow and create jobs, including accelerating public infrastructure projects into 2011 and 2012, continuing to support development in defined Target Areas, and participating in the growth of the clean energy industry sector. In-fill developments, like Kendall Yards, also help increase the City's tax base without placing significant additional burdens on City services.