

2007-2008 Budget Prospects

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Revenues: A strong economy balanced by some major policy concerns

1. 2005 and 2006 look to be years of strong economic growth. Puget Sound area employment grew 3.3% in 2005, although we are still not back to the employment levels of 2000. Seattle's sales tax revenue grew 11.3% in 2005, rivaling the peak growth in the late 1990s. Most forecasts for 2007-2008 project continued local economic growth unless there is a major world crisis or a national recession. A revised revenue forecast will be made in mid-April.
2. The City's General Fund ended 2005 with a larger than expected surplus, although the final figures are still being compiled by Central Accounting. City policy requires that actual tax revenues in excess of the last forecast be deposited into the Revenue Stabilization Account ("Rainy Day Fund"). This deposit likely will be \$2-4 million. Some additional amount of under-spending may carry forward to the 2006 and 2007 budgets. We will ensure that at least \$1.1 million of under-spending is available to cover the 1% for Art refund required by the Okeson case. Final 2005 year-end figures will be available in late April.
3. Political factors may lead to significant reduction in City General Fund revenues. The State has changed how cities can impose B&O taxes, which may cost Seattle \$15-20 million annually starting in 2008. Potential federal changes to telecommunications taxes could cut \$5-20 million annually in the same time period. We are exploring ways to mitigate some of these losses.
4. Community Development Block Grant (CDBG) funds have been used by the City to support economic development, housing, and human services programs. The federal government has already cut CDBG and future cuts of at least 10% per year seem likely. In addition, the City's use of CDBG to support the Rainier Valley Community Development Fund will increase in 2007. This combination means that other uses of CDBG will have to be cut by at least \$3 million in 2007 and an additional amount in 2008.

Expenditures: Several specific challenges and some ongoing concerns

5. Several operating funds face significant financial challenges in the next biennium:
 - Seattle Center has covered operating losses by property sales in 2005 and 2006. For 2007 and beyond, the Seattle Center Fund will need a new means to cover those losses. The business planning process will produce opportunities to identify revenue increases and/or spending efficiencies. Additional General Fund support for the Center may be needed. Beyond the near-term issues, the Key Arena debt is a concern after 2010.
 - The Parks Levy expires at the end of 2008. This will leave about \$9 million of annual maintenance and programming costs unfunded, necessitating cuts and/or other funding.
 - The City Light and Drainage and Wastewater funds will have significant capital needs for the Alaskan Way project.
 - Existing transportation funding sources are inadequate to even keep up on maintenance and capital replacement needs, let alone begin to reduce significant backlogs. The Mayor has directed staff to develop proposals for new transportation revenues that will be presented to the City Council in May. Some may require voter approval. Several processes are currently underway to solicit public input on spending priorities and revenue options.

6. A variety of other cost increases are largely uncontrollable. Health care costs are projected to grow another 10-12% in 2007. Costs for jail beds are likely to increase significantly due to capacity shortages. Space rents in City-owned buildings will rise substantially because subsidies provided by previous private tenant revenues and FFD fund balances have been exhausted.

7. Overall, economic growth is likely to help cover higher costs for the 2007 budget, but State and federal mandated tax cuts could create major problems in 2008.