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Policy Brief

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Recession Looms For Seattle, City Should Restrain Spending

On September 29, Seattle Mayor Greg Nickels released proposed budgets of $919.6 million for 2009 and $952.4 million for 2010. Were this plan to be adopted, 2009 spending would be $7.4 million, 0.8 percent, less than 2008 spending. Even with this modest decline, 2009 spending would be 9.2 percent greater than budgeted for 2007 and 18.6 percent greater than 2006.

Since the point in time at which the Mayor finalized this budget, the outlook for the economy has worsened.

The Mayor's proposal was based on a revenue forecast prepared by city staff in August , well before the freeze-up of the credit markets, collapse of the stock market, and failure of WaMu. On November 5, the Finance Department updated the General Subfund forecast, reducing projected revenues for the 2009–2010 biennium by a modest $18.1 million, 1.0 percent. The Mayor and City Council members have agreed to a scaled-back plan, which would spend $$910 million in 2009 and $940 million in 2010. Council is expected to pass this plan today.

We believe the reduced forecast is overly optimistic. The city should start planning now for further budget cuts.

While in early September, it did seem possible that the Seattle economy would avoid recession, this is no longer the case. The Employment Security Department estimates that the Seattle MSA's unemployment rate jumped from 4.5 percent in September to 5.4 percent in October, while the statewide rate rose from 5.7 percent to 6.3 percent. Unemployment insurance claims have jumped up in recent weeks, indicating that November's unemployment rates are likely to be higher still. The Seattle Post Intelligencer reports that as many as 2,000 Seattle-based former WaMu employees will receive lay-off notices from JPMorgan Chase by December 1.

The city's November 5 revenue update was based on Global Insight's October forecast for the national economy. Global Insight's more recent November forecast foresees a national recession that is longer and deeper than that incorporated in its October forecast. On November 19 state revenue forecasters, based on the November Global Insight national economic forecast, reduced the forecast of state general fund revenues for the 2009–11 biennium by a breathtaking 4.2 percent.

By state law, the growth in revenue from the city's regular property tax is limited to the lesser of 1 percent and the rate of inflation, plus an increment for new construction. Global Insight now forecasts the relevant inflation rate for 2010 taxes will be around *negative 1 percent*. If this holds, 2010 property taxes will be nearly $5 million less than forecast.

All indications point to a dismal Christmas shopping season. Local retailers expect to hire fewer seasonal workers than in past years. Nationally, October retail sales in were 2.8 less than in September and 4.1 percent less than in October 2007. On the state level, excise tax remittances from retailers (sales tax and B&O tax, mostly) were down 8.6 percent in October, compared with October 2007. The Seattle MSA had 700 fewer retail jobs (seasonally adjusted) in October than September.

City revenues depend heavily on sales taxes on construction. Nationally, construction, particularly residential construction, has been weak. In Seattle, however, activity in the commercial and multifamily residential sectors has remained quite strong, as anyone who counts the cranes on the Seattle skyline can testify. Our contacts in the construction industry indicate that activity will decline dramatically in 2010, as projects currently underway reach completion. The city faces a glut of office space as new buildings open and JPMorgan Chase offers up former WaMu space for sublease.

Washington Research Council
16300 Christensen Road, St., Suite 207
Tukwila, Washington 98188
206-467-7088
fax: 206-467-6957
www.researchcouncil.org

Historically, Seattle's finances have followed a boom and bust cycle. The most recent boom extended from 2005 to 2008. During that period spending on arts, culture and recreation grew by 36.8 percent; spending on health and human services grew by 53.8 percent; spending on neighborhoods and development grew by 58.0 percent. These areas should the target budget cutting efforts. Public safety spending, which grew by only 24.7 percent, should be protected.

Where the Money Comes From

Most of the money for general government services passes through the General Subfund of the city's General Fund. Additional money for parks and recreation is provided through the Parks and Recreation Fund, to which the city charter dedicates "ten percent of the gross receipts of the City from all fines, penalties and licenses" (Article XI, Section 3). Collectively these dedicated funds are known as Charter revenues. For 2007, General Subfund (GSF) revenues were about $834.8 million and Charter revenues were about $37.1 million. Fifty-four percent of these taxes are paid by businesses. (WRC 2007b).

Chart 1: General Subfund & Charter Revenues

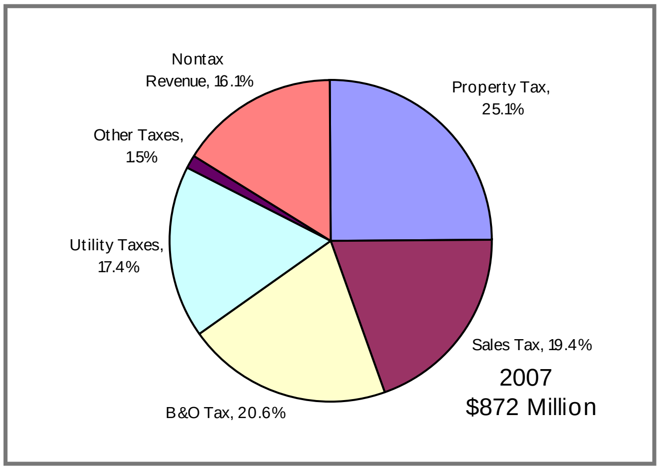


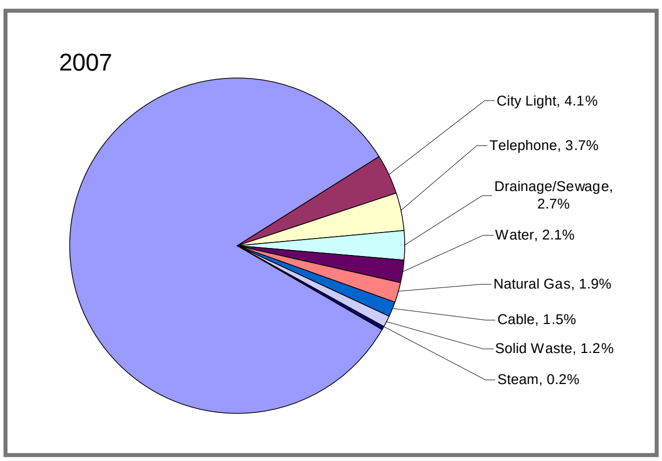
Chart 1 provides a high-level view of the sources of combined GSF and Charter (GSF&C) revenue for 2007. Taxes provided 84 percent of this revenue. The remainder came from license and permit fees; federal, state and interlocal grants; fines and forfeitures; interest; parking meters; service charges; inter-fund charges and operating transfers; and other miscellaneous sources.

The city's tax revenues come mainly from four taxes, the property, sales, business and occupation, and utility taxes.

Property taxes provided 25.1 percent of GSF&C revenue in 2007. The GSF receives two slices of property taxes: The city's regular tax ($1.88 per $1,000 assessed value in 2007) yielded $196.9 million. The city's share of the countywide Medic One levy (21 cents per $1,000 assessed value) was $21.6 million.

Sales tax provided 19.4 percent of GSF&C revenue. The sales tax comes in two slices: the regular sales tax (at the rate of 85 cents per $100 taxable sales) yielded $154.7 million, while the city's share of the countywide criminal justice sales tax (at the rate of 10 cents per $100) was $14.4 million.

Chart 2: Shares of Specific Utility Taxes



The business and occupation (B&O) tax provided 20.6 percent of GSF&C revenue (one-tenth as Charter revenue). The B&O tax rate is 21.5 cents per $100 of gross receipts in the retail, wholesale, manufacturing, extracting, printing and publishing sectors, and 41.5 cents per $100 of gross receipts in the service and other sectors. The B&O tax yielded $179.5 million in 2007.

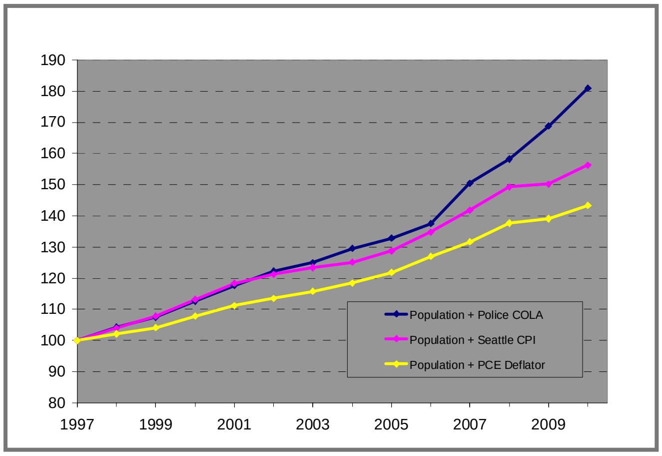
Utility taxes on a wide range of services provide 17.4 percent of GSF&C revenue (one-tenth as Charter revenue). The utility tax is a gross receipts tax imposed on municipally-owned and private utilities at varying rates: $15.54 per $100 of revenue for water; $12.00 per $100 for wastewater; $11.50 per $100 for drainage and solid waste; $10.00 per $100 for cable; and $6.00 per $100 for City Light, telephone, natural gas and steam. In total, utility taxes provided $151.3 million in 2007. Chart 2 shows the distribution of revenue across the various utility services.

BENCHMARKS

Chart 3 shows three possible benchmarks against which one might gauge the growth in city revenues. Each benchmark is expressed as an index number, with the 1997 value equal to 100.

The lowest benchmark shown on the chart grows at a rate equal to the sum of the growth in Seattle's population and the rate of inflation as measured by the price deflator for personal consumption expenditures (PCE). In constructing this benchmark, we use the estimates of Seattle's April 1 population for the years 1997 to 2008 published by the state Office of Financial Management and assume that the 2009 and 2010 growth rates will be equal to the 2008 rate. For the PCE deflator we use historical values published by the U.S. Department of Commerce's Bureau of Economic Analysis and forecasts from the state Office of the Forecast Council.

Chart 3: Three Benchmarks



The population-plus-PCE-deflator benchmark grew by 31.4 percent from 1997 to 2007. Initiative 601, approved by voters in 1993, imposed a population-plus-PCE-deflator limit on state spending growth .

The second benchmark grows at a rate equal to the rate of population growth and the rate of growth of the Seattle Consumer Price Index (CPI) published by the U.S. Department of Labor's Bureau of Labor Statistics. This benchmark grows a bit more than the population-plus-PCE-deflator benchmark, as inflation measured by the Seattle CPI on average exceeds that measured by the PCE deflator, particularly in periods when the Seattle economy is expanding at a faster rate than the national economy. (Some argue that the CPI methodology systematically overstates inflation and believe that the PCE deflator is a more accurate gauge of inflation.)

The population-plus-Seattle-CPI benchmark grew by 41.8 percent from 1997 to 2007. The forecast value for 2009 is 57.0 percent greater than 1997.

Seattle Department of Finance staff note that pay increases for uniformed services, which often exceed the rate of inflation, are major cost drivers for the city. The third benchmark's rate of growth is equal to the sum of the rate of population growth and the percentage cost-of-living adjustments (COLAs) given to Seattle Police. (The term COLA is a bit of a misnomer, as in recent years the annual pay adjustments have exceeded the increase in cost of living as measured by the consumer price index.) Last April, after nearly two years of negotiations, the city reached agreement with the Police Officers Guild on a contract that provided officers with COLAs of 8 percent for 2007, 4 percent for 2008 and 5.5 percent for 2009. For 2010 the contract call for police officers to receive a COLA equal to 3 percent plus the annual percentage increase in the Seattle CPI (measured from June 2008 to June 2009), but with the proviso that the COLA must be no less than 6 percent and no more than 9 percent. Our benchmark uses 6 percent for the 2010 COLA.

The population-plus-police-COLA benchmark grew by 50.4 percent from 1997 to 2007. The value for 2009 is 68.8 percent greater than 1997.

TAX REVENUE TRENDS

Charts 4, 5, 6 and 7 show trends in revenues from the property, sales, B&O and utility taxes respectively. The numbers for 1997 to 2007 are actual revenue, while those for 2008, 2009 and 2010 are November 2008 forecasts by the city's finance department.

Property Tax. The drop in property tax revenues from 1997 to 1998 reflects the failure of the Medic One levy in the November, 1997 election.

Correspondingly, the strong $24 million growth in revenues from 1998 to 1999 reflects the reauthorization of the levy in November 1998. In November 2001 voters passed Initiative 747, which tightened the annual limit on regular property tax revenue growth to the lesser of 1 percent or the rate of inflation, plus the rate of growth in assessed value due to new construction. For 2002, with the economy slipping into recession and revenues from other taxes constrained, Seattle used all of its “banked” capacity, which allowed regular property tax revenue to grow by 5.3 percent, $8.5 million, from 2001 to 2002. In addition, renewal of the EMS levy provided a $2.6 million bump in that slice of property tax. From 2002 to 2007, with the I-747 limit binding, the annual increase in revenues averaged 3.1 percent.

Property tax revenue increased 9.2 percent from 2007 to 2008 with voter approval of a $14.2 million bump up in the Medic One levy. Growth is forecast to average 2.6 percent in 2009 and 2010. However, with deflation now expected in 2009, 2010 tax property tax revenues may come in 2 percent below forecast. Property tax revenue for 2009 would be 89 percent greater than the 1997 revenue.

Sales Tax. The dot-com boom, particularly income from stock options, drove sales tax revenue growth in 1998, 1999 and 2000. Also significant was the resurgence of the downtown retail core, which benefited from the opening of Nordstrom’s flagship store and Pacific Place. Three years of absolute decline in sales tax revenues followed the 2000 peak. Revenues finally turned upwards in 2004, with the rate of growth accelerating to 11.3 percent in 2005. In that year, revenues finally surpassed the 2000 level peak. The rate of growth remained strong through 2008, benefitting from a high level of construction activity. (Construction provided 24 percent of Seattle's sales tax revenue during the second quarter of 2008.) With the construction boom ending, sales tax revenue is expected to fall 1.6 percent in 2009 and rise 0.3 percent in 2010.

Forecast sales tax revenue for 2009 is 64 percent greater than 1997 revenue.

B&O Tax. B&O tax revenue grew by 23.6 percent during the boom years from 1997 to 2000. The subsequent recession greatly slowed the growth in B&O revenue (from 2000 to 2004 it grew by only 4.0 percent). But unlike the sales tax, B&O revenues did not decline during the recession. The years 2005, 2006 and 2007 were stunning, with B&O revenue up by $50.1 million (38.7 percent). Construction and manufacturing were particularly strong.

Beginning in 2008, the city augmented the existing gross receipts tax on business with a square footage tax. State legislation (HB 2030, enacted in 2003) limiting the ability of the City to collect gross receipts tax on out-of-city activities of Seattle-based businesses became fully effective on January 1, 2008. The square footage tax is designed to recoup the lost revenue from those businesses whose taxes were reduced by HB 2030. The rates are $1.56 per square foot annually for office, retail or production space and 52 cents per

Chart 4: Property Tax Revenue

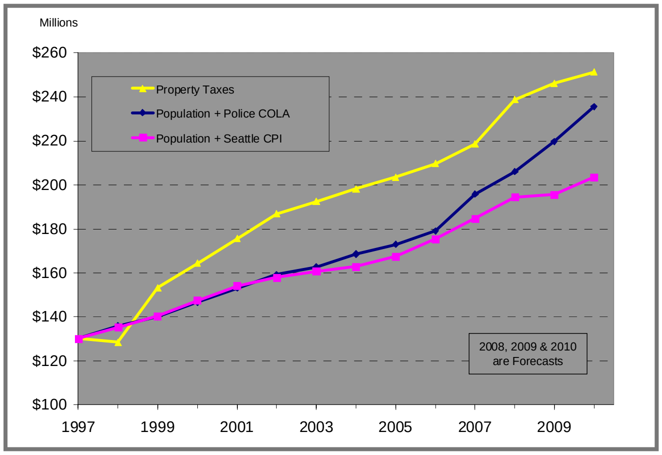


Chart 5: Sales Tax Revenue

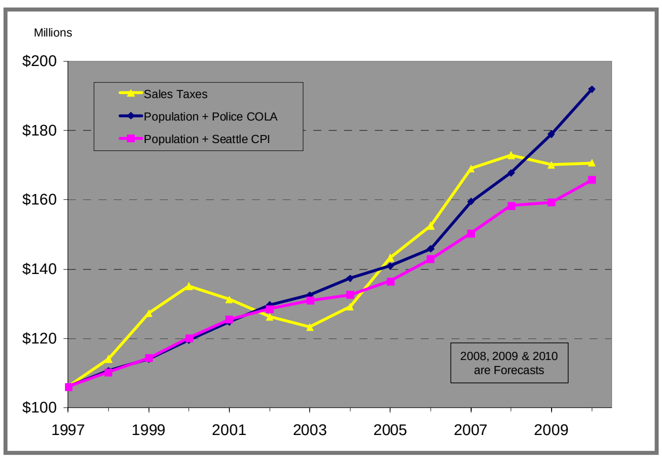
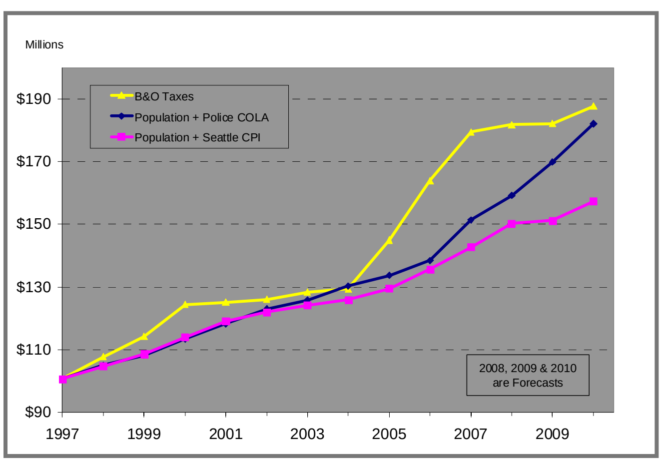


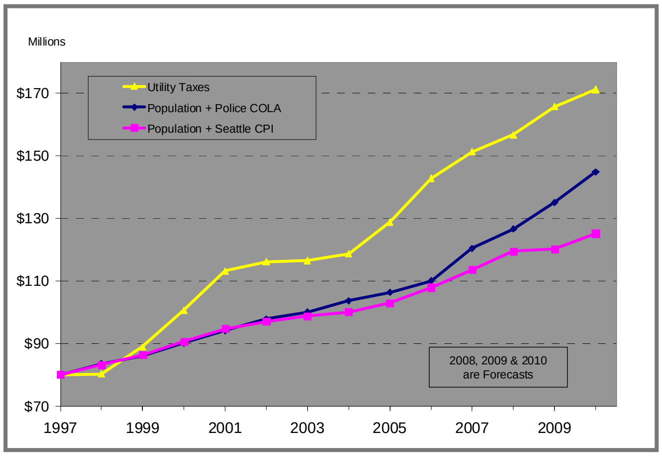
Chart 6: B&O Revenues



square foot annually for space with other usages (such as warehousing and storage). The fraction of a firm's space subject to the tax is equal to the fraction of its Seattle-based revenue that escapes the B&O tax because of HB 2030. The amount of square footage tax any firm owes is capped at the amount of B&O tax savings it receives from HB 2030. On Chart 6, B&O revenues for 2008, 2009 and 2010 include the square footage tax, which is not broken out separately in city revenue forecasts.

Under the current forecast, forecast B&O revenue grows by 1.3 percent in 2008, 0.2 percent in 2009, and 3.1 percent in 2010. Revenue in 2009 would be 81 percent greater than 1997.

Chart 7: Utility Tax Revenue



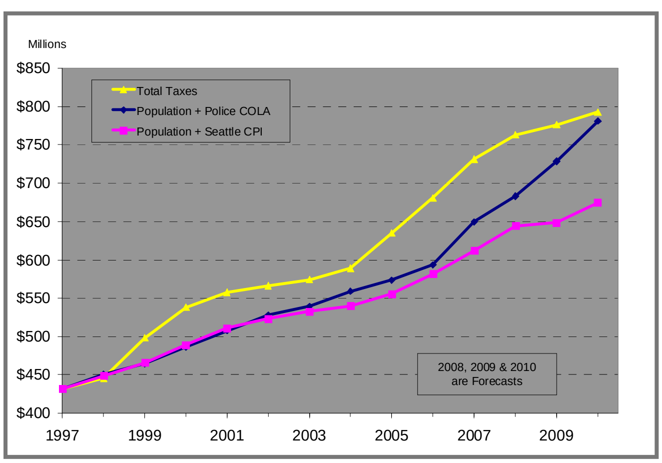
Utility Tax. As noted above, the city collects utility tax on a number of different activities. Between 1998 and 2001, utility tax revenues grew by $33.0 million (41.1 percent). Much of this growth was due to taxes on telephones (which grew from $21.4 million to $35.8 million), City Light (from $21.5 million to $29.4 million) and natural gas (from $4.9 million to $9.7 million). The growth in telephone tax revenue stemmed largely from the spread in cell phone usage. The year 2001 was the peak year for telephone tax revenues; competition among carriers has subsequently driven rates down. The growth in City Light tax revenues stemmed from the electricity rate increases that accompanied the western electricity crisis. Similarly, the growth in natural gas tax revenues stems from the spike in natural gas prices that accompanied the electricity crisis.

Between 2004 and 2006 utility tax revenues grew by $24.2 million (20.3 percent). In this period water, drainage and waste water account for over half of the rise. In 2005 the city raised the tax rates that apply to these services.

Under the current forecast, utility tax revenues grow by 3.6 percent in 2008, 5.8 percent in 2009 and 3.3 percent in 2010. While the city does not anticipate increasing utility tax rates, utility tax revenues will be boosted in 2009 and 2010 by increases in the customer rates charged by the city's water, wastewater and drainage, and solid waste utilities.

Forecasted utility tax revenue for 2009 is 107 percent greater than 1997 revenue.

Chart 8: Total GSF&C Tax Revenue



Total. Chart 8 shows the trend for all taxes combined. Over the 1997 to 2007 period, 2003 experienced the lowest annual growth in tax revenue, 1.4 percent. The year with the highest rate of growth was 1999. The rate of growth that year was boosted by the reinstatement of the Medic One levy after a one-year hiatus. The year with the second highest rate of growth, 7.8 percent, was 2005.

Under the current forecast, total GSF&C tax revenues grow by 4.3 percent in 2008, 1.7 percent in 2009 and 2.2 percent in 2010. The forecast for 2009 is 81 percent greater than 1997 revenue. The population-plus-Seattle-CPI benchmark is forecast to grow by 77 percent over the period, while the population-plus-police-COLA benchmark grows by 69 percent over the period.

WHERE THE MONEY GOES

Next, we turn to trends in spending, focusing on six years, 1997, 2001, 2005, 2008, 2009, and 2010. The years 1997, 2001, and 2005 were chosen to bracket periods of boom, retrenchment and rebound in city spending. Spending numbers for these years have been adjusted for reorganizations of city departments and the transfer of activities between the GSF and other city accounts to allow an "apples to apples" comparison. The numbers for 2008 reflect the adopted budget, while those for 2009 and 2010 reflect the Mayor's budget proposal.

Chart 9: GSF&C Spending

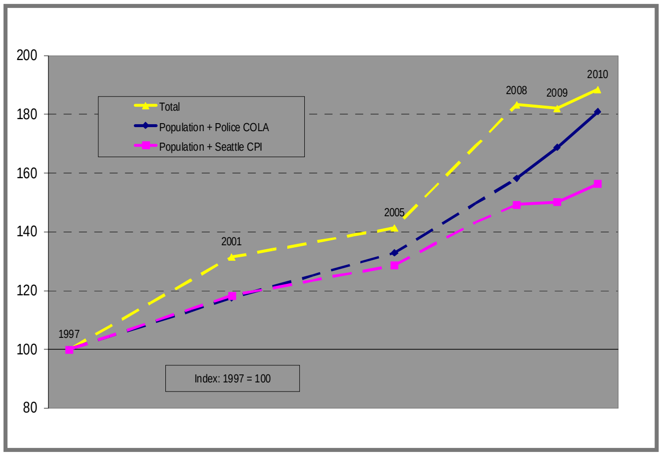
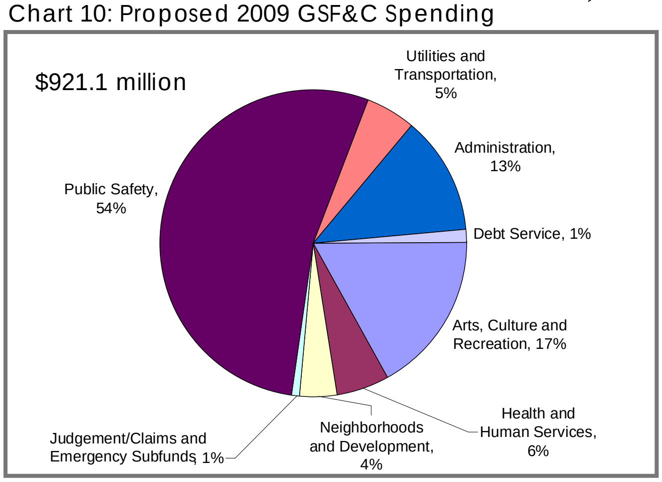


Chart 9 shows the trend in total spending compared to the population plus Seattle CPI and population-plus-police-COLA benchmarks. The revenue boom of the dot-com years allowed spending to grow by 31.5 percent ($155.5 million) in the four years from 1997 to 2001. With the subsequent bust, spending grew by only 7.5 percent ($48.8 million) from 2001 to 2005. With the rebound in revenue, budgeted spending grew by 29.6 percent ($208.4 million) from 2005 to the adopted budget for 2008. The Mayor's proposed budget for 2009 spends 0.7 percent less than the 2008 adopted budget, while the proposed budget for 2010 spends 3.6 percent ($32.7 million) more than 2009.

The proposed 2008 budget will spend $921.1 million. Chart 10 shows the distribution of this spending across seven broad categories.

The largest category by far is *Public Safety*, $493.9 million, 54 percent of GSF&C spending. Included within this broad category are the police department, $233.5 million plus $20.2 million for pensions, 27.6 percent of the total budget; the fire department, $151.6 million plus $20.3 million for pensions; the municipal court, $27.0 million; contracted jail and public defense services, $23.0 million; the law department (headed by the City Attorney), $18.1 million; and the Public Safety Civil Service Commission, $143,000.

Chart 10: Proposed 2009 GSF&C Spending



The next largest category is *Arts, Culture and Recreation*, $155.0 million, 17 percent of spending. Included here are parks, $87.7 million; the Seattle Public Library, $48.9 million; the Seattle Center, $15.3 million; and arts programs, $2.9 million.

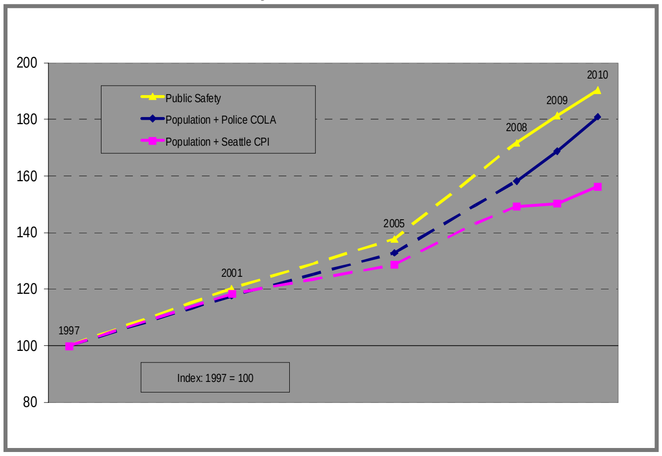
Health and Human Services are budgeted $52.5 million, 6 percent of spending.

Neighborhoods and Development are budgeted $33.9 million, 4 percent. Of this, the Department of Economic Development gets $6.7 million; the Office of Housing gets $4.2 million; the Department of Neighborhoods gets $9.0 million; the Neighborhood Matching Fund, $3.7 million; and the Department of Planning and Development, $10.4 million.

Transportation and Utilities are budgeted $46.76 million, 5 percent of the total. Most of this, $45.4 million, goes to the city's Department of Transportation. The remaining $1.3 million goes to Seattle Public Utilities (SPU). (Most of SPU's activities are funded by customer charges, which are outside the General Subfund.)

Rounding out GSF&C spending are *Administration*, $116.1 million, 13 percent; *Debt Service*, $12.6 million; and deposits to the Emergency Subfund and the Judgment/Claims Subfund, $9.0 million.

Chart 11: Public Safety

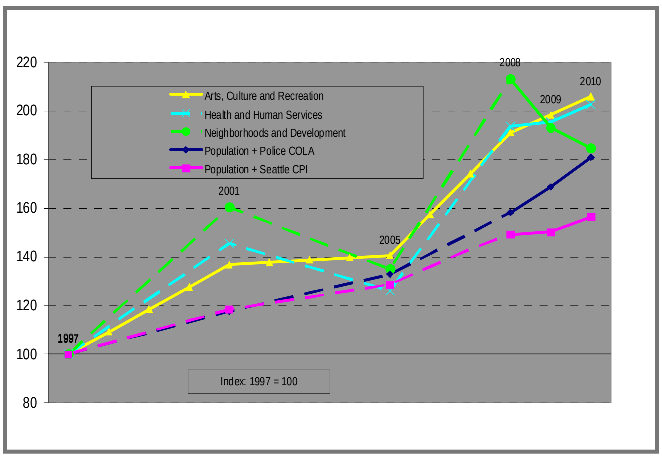


Charts 11, 12, 13, and 14 compare the growth trends of spending categories to the population-plus-police-COLA and population-plus-Seattle-CPI benchmarks. Growth trends differ significantly across activities.

Chart 11 shows Public Safety, which grew by 71.8 percent from 1997 to 2008. Under the Mayor's proposed budget, it would grow by 5.6 percent in 2009 and 5.0 percent in 2010.

Chart 12 shows three categories of spending: Arts, Culture and Recreation; Health and Human Services; and Neighborhoods and Development. Arts, Culture and Recreation, grew by 91.1 percent from 1997 to 2008; under the mayor's proposal it would grow by 3.8 percent in both 2009 and 2010. Health and Human Services grew by 93.8 percent from 1997 to 2008, under the mayor's proposal it would grow 0.9 percent in 2009 and 3.6 percent in 2010. Neighborhoods and Development grew by 113.2 percent from 1997 to 2008; under the Mayor's proposal it would fall by 9.3 percent in 2009 and 4.5 percent in 2010. . The population-plus-police-COLA benchmark grew by 50 percent over the period, while the population-plus-Seattle-CPI benchmark grew by 46.7 percent.

Chart 12: Arts Culture and Recreation; Health and Human Services; Neighborhoods and Development



Perhaps the most interesting contrast between Chart 11 and Chart 12 is the difference between the pattern of growth of public safety on the one hand and arts, culture and recreation, health and human services, and neighborhoods and development on the other hand. Growth in Public Safety spending was remarkably steady; though with growth somewhat faster after 2005. (The population-plus-police-COLA benchmark grows somewhat more rapidly after 2005.)

Spending in the other categories is much more of a roller coaster ride, swinging up and down as tax revenues to the city accelerate or decelerate. Arts, Culture and Recreation spending rose by 36.8 percent from 1997 to 2001, by 2.8 percent from 2001 to 2005, and by 35.9 percent from 2005 to 2008. Health and Human Services spending rose by 45.5 percent from 1997 to 2001, fell by 13.4 percent from 2001 to 2005, and rose by 53.8 percent from 2005 to 2008. Neighborhoods and Development spending rose by 60.4 percent, from 1997 to 2001, fell by 15.9 percent from 2001 to 2005; and rose by 58.0 percent from 2005 to 2008.

Chart 13: Transportation

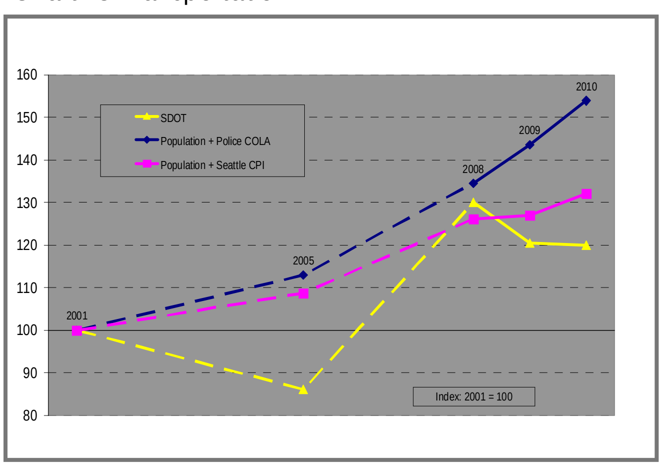
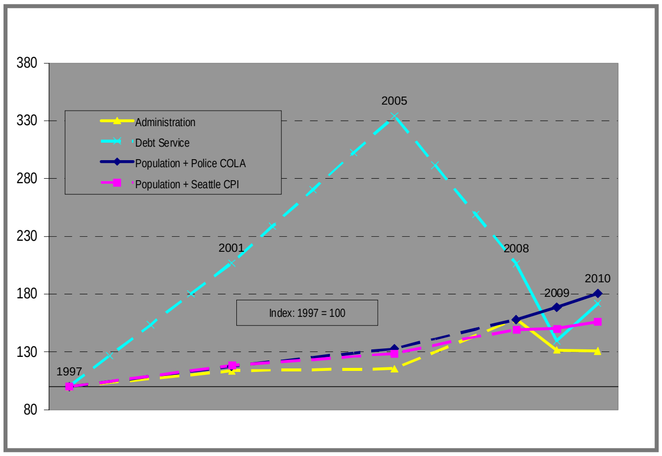


Chart 13 shows the spending trend for the Seattle Department of Transportation (SDOT). Between 1997 and 2001 (not shown on the chart), GFS&C spending on transportation grew by 277 percent as the city reversed a long-run decline in support for transportation and increased funding for SDOT from $10.0 million in 1997 to $37.7 million in 2001. GSF&C spending fell by 13.9 percent from 2001 to 2005 and then grew by 51 percent from 2005 to 2008. While GSF&C support for transportation declines in 2009 and 2010 under the Mayor's budget proposal, overall transportation spending would increase significantly due to the ramping up of the *Bridging the Gap* program, which is outside of the General Subfund.

Chart 14: Administration and Debt Service



Finally, Chart 14 shows the trends for Administration and Debt Service. Administration grew by 14.7 percent from 1997 to 2001, by 1.8 percent from 2001 to 2005, and by 37.0 percent from 2005 to 2008. Most of the latter expansion reflected one-time expenditures in 2008. Debt service increased greatly from 1997 to 2005. Much of this debt funded the development of the city government's downtown campus—the purchase of the Seattle Municipal Tower (formerly Key Tower) and the construction of the new Justice Center and City Hall. Debt service grew by 107.0 percent from 1997 to 2001 and 61.5 percent from 2001 to 2005. City budgets show debt service falling by 38.4 percent from 2005 to 2008. This, however, is an artifact of a change in accounting treatment of the civic center debt, which is now serviced from the fleets and facilities fund, which recovers this cost through space rent. Without this change, debt service would have grown by 7.6 percent from 2005 to 2008.

2008–2010 Balance Sheet

The city of Seattle follows a form of biennial budgeting. The fiscal year of the city of Seattle is the calendar year. In the fall of every even numbered year, the Seattle city council lays out a spending plan for the upcoming two years. This biennial budget takes the form of a pair of annual budgets. The council formally adopts the budget for the first year of the biennium and endorses the budget for the second year. Then, in the fall of the first year, the city council formally adopts the second-year budget, usually with some modifications based on changes in circumstances.

2008-2010 GSF Balance Sheet

(Dollars in Millions)

	2008 Revised	2009 Proposed	2010 Proposed
Beginning Unreserved Fund Balance	**73.26**	**19.04**	**5.47**
2007 Rainy Day Fund Deposit	**(9.50)**		
2007 Expenditures Carried Forward	**(8.00)**		
Total	**55.75**	**19.04**	**5.47**
Revenue Forecast			
August GSF Forecast	853.81	878.08	903.38
November Update	(0.99)	(7.56)	(10.56)
August Charter Forecast	38.21	39.97	40.89
November Update	(0.07)	(0.67)	(0.74)
Total	**890.96**	**909.82**	**932.97**
Expenses			
2007 GSF Appropriations	888.38		
2007 Charter Revenues Appropriations	37.31		
2008 Supplemental Ordinances	21.83		
2008 Reductions	(12.41)		
2008 Expected Savings	(7.75)		
September GSF Proposal		879.70	911.52
September Charter Proposal		39.97	40.89
Total	**927.36**	**919.67**	**952.40**
Ending Fund Balance	19.36	9.19	(13.97)
Reserve against fund balance	(0.32)	(3.72)	(6.59)
Ending Unreserved Fund Balance	19.04	5.47	(20.56)

The first column of the balance sheet on page 8 summarizes the adopted budget for 2008. The second and third columns show Mayor Nickels's proposals for 2009 and 2010.

The city began 2008 with a nominal unrestricted balance of \$73.3 million. This nominal balance, however, is reduced by a \$9.5 million transfer to the rainy day fund and \$8.0 million in 2007 expenditures carried forward to 2008. (This carry forward is largely police officers' retroactive COLA for 2007.) The August Forecast pegged 2008 GSF&C revenues at \$892.0 million. The November update reduced the 2008 forecast to \$891.0. (Still, this is up from the \$880.2 that was forecast at the time that the 2008 budget was adopted last fall.) The adopted 2008 budget spends \$925.7 million.

Supplemental ordinances during the year have added $21.8 million to spending (this includes police officers' 2008 COLA). Reductions ordered by the Mayor have subtracted $12.4 million. With $7.8 million in expected savings, appropriated expenditures are now projected to be $927.4 million. Finance department staff anticipate there will be additional spending obligations for which funds have yet to be appropriated. A $320,000 reserve against such unappropriated obligations is shown on the line denoted "reserve against fund balance," leaving a projected unreserved fund balance of $19.0 million at the end of 2008.

The August forecast for 2009 GSF&C revenues was $918.1 million; the November update reduced the forecast to $909.8 million. The Mayor's September proposals for 2009 expenditures totaled $919.7 million. With $3.7 million reserved for unbudgeted expenses, the projected unreserved fund balance at the end of 2009 would be $5.5 million.

The August forecast for 2010 revenues was $944.3 million; the November update reduced this to $933.0. The Mayor's September proposals for 2010 expenditures totaled $952.4 million. The reserve for unbudgeted expenditures is $6.6 million, and the projected unreserved balance at the end of 2010 would be negative $20.6 million. Prior to the November revenue update, the projected ending unreserved balance was $44,000.

Discussion

Economic analysts generally agree that the U.S. economy is now in recession and that this recession will be much worse than the last two, which occurred in 1991 and 2001. The bad news piles up: The failure of Washington Mutual. The credit freeze. The stock market collapse. On November 7 the Bureau of Labor Statistics reported that the national economy lost 240,000 jobs in October and revised its estimate of September's job loss downward to 284,000. While for a time it seemed plausible that this national recession would bypass the Seattle metro area, this now is clearly unlikely.

On the state level, tax collections for both September and October were 5.6 percent less than in the corresponding months of 2007. Even with the recent downward revision, city revenues are forecast to increase by 2.1 percent in 2009 and 2.5 percent in 2010.

City Council members should understand that revenues may well come in under the currently forecasted level and should be prepared to cut appropriately. Last year we noted:

> Budgets express priorities. Times of fiscal stress, such as the city of Seattle faced between 2001 and 2005, reveal what the deepest priorities are, as council members fight to preserve the services that their constituents value most highly. Recent history shows that it is public safety spending that is protected when budgets must be cut. Spending in other areas is more discretionary. (WRC 2007a)

During the period from 2005 to 2008, spending on arts, culture and recreation grew by 36.8 percent; spending on health and human services grew by 53.8 percent; spending on neighborhoods and development grew by 58.0 percent. These areas should be the target of budget cutting efforts. Public safety spending, which grew by only 24.7 percent, should be protected.

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References

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