

The Budget Situation

The City of Tacoma faces a long-term, structural financial challenge in funding services that are paid for through the General Fund – the fund that pays for police and fire services as well as economic development, human services and a number of other City services. The costs of providing these services is growing every year at a much faster rate than the increase in traditional revenues to the General Fund. This imbalance is causing large projected shortfalls for as far as we can forecast – through 2010. Without a major shift in the way the City does business – changes that make the City more efficient – drastic reductions in the City services provided to citizens in this community are unavoidable.

2005-2006 biennium

When the City Council completed its work on the 2005-2006 biennial budget on Dec. 14, 2004, it filled a \$29.6 million budget gap through the use of one-time cash carryovers and anticipated property sales along with leaving two major programs unfunded for 2006 – the Tacoma Police Department's Community Liaison Office (CLO) program and the Tacoma Fire Department's Station 13 in the city's North End. In order to continue funding these services in 2006, as the City Council committed to do at the end of the budget process in 2004, the City has to find at least \$3.4 million in savings through the Breakthrough Change Initiative and other savings.

General Fund forecast

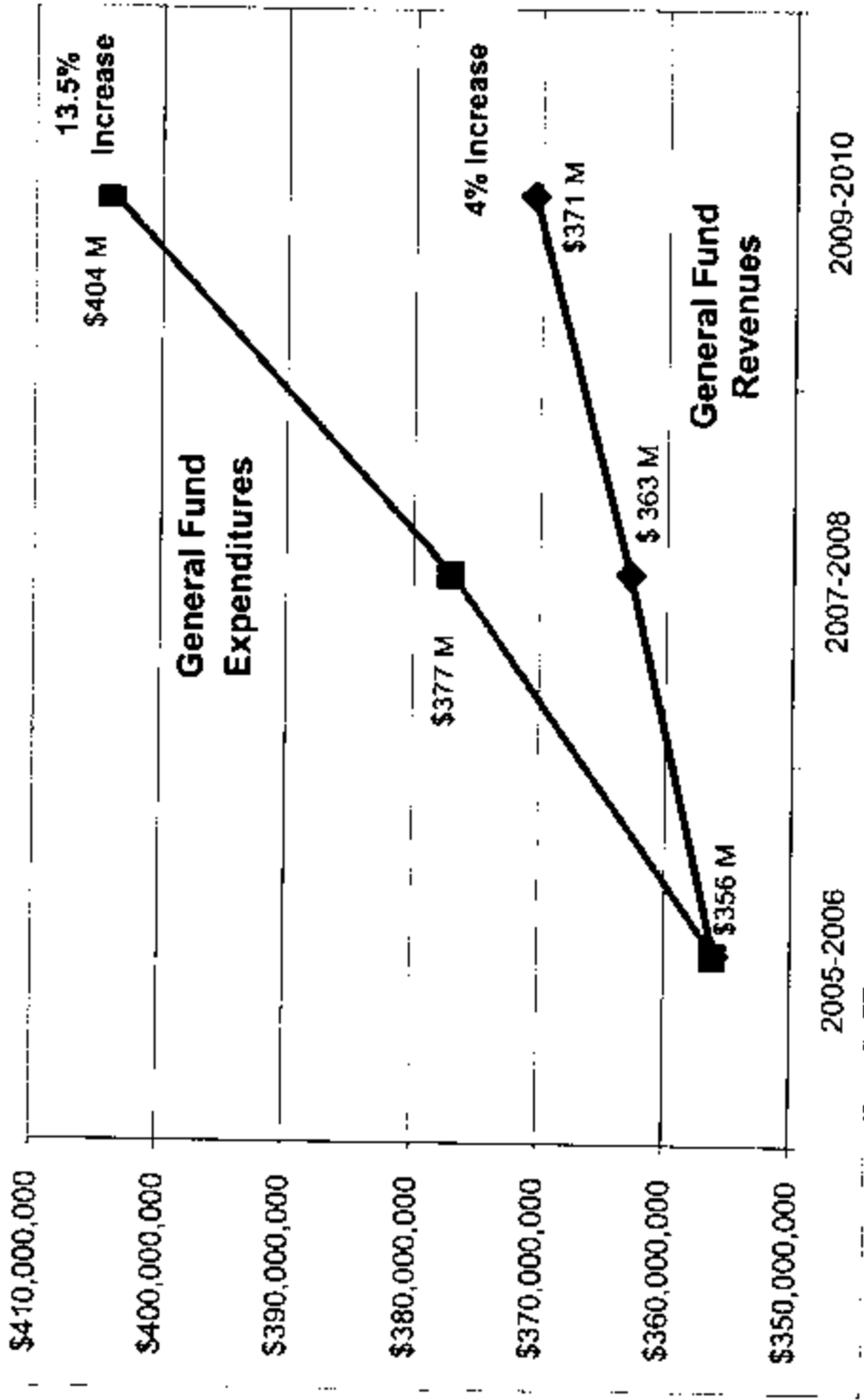
The General Fund forecast created at the end of 2004 is shown below, including forecasts for the 2007-2008 and the 2009-2010 biennial budgets. The Office of Management, Budget and Analysis (OMBA) is preparing an updated General Fund forecast that is scheduled to be presented to the City Council on June 7, 2005.

Although the 2005-2006 budget in the forecast document shows no budget gap, this is calculated using assumptions made in the final budget passed by the Council in December 2004 – namely that the CLO program and Fire Station 13 are not funded in 2006.

Using the best information available at the end of 2004, OMBA forecasted a budget gap of \$14,180,177 in the 2007-2008 biennium and a budget gap of \$33,479,503 in the 2009-2010 biennium. Between 2005 and 2010, the forecast calls for City revenues to increase by \$14,399,478 or just 4 percent, while expenses for the currently provided City services will increase by \$47,878,981 or a much greater 13.5 percent.

The forecast also projects changes the anticipated expenses for General Fund portions of department budgets for the 2007-2008 and 2009-2010 biennia.

Structural Deficit The Growing Gap Without Planned Intervention



Source: Dec. 2004 General Fund Forecast

CITY OF TACOMA GENERAL FUND FORECAST

| Revenue Category | 2005-2006 | | 2005-2006 | | 2009/2010 |
|-----------------------------------|-----------------------|----------------------|----------------------|-------------------------|-----------------------|
| | Original | Preliminary Budget | Final Budget | 2007/2008 | |
| | | Budget | | | |
| Property Taxes | \$78,821,900 | \$78,821,900 | \$78,821,900 | \$83,533,900 | \$88,417,600 |
| Sales Tax | 78,693,700 | 78,693,700 | 79,096,700 | 85,565,400 | 88,382,800 |
| Business Taxes | 70,732,500 | 72,199,000 | 70,732,500 | 72,539,900 | 55,222,628 |
| Utility Taxes | 65,543,000 | 65,543,000 | 65,743,000 | 69,873,600 | 74,226,200 |
| Other Taxes | 5,471,500 | 5,471,500 | 5,471,500 | 4,786,500 ² | 5,308,700 |
| Licenses & Permits | 8,964,600 | 10,853,000 | 10,873,196 | 11,389,700 | 11,943,200 |
| Intergovernmental Revenue | 15,705,700 | 15,705,700 | 15,705,700 | 15,313,600 ³ | 16,487,600 |
| Charges For Service * | 14,610,250 | 5,041,200 | 5,070,750 | 5,224,500 | 5,432,400 |
| Fines & Forfeitures | 6,880,100 | 6,883,900 | 6,880,100 | 7,821,200 | 8,763,700 |
| Misc Revenues | 4,611,100 | 4,359,800 | 4,359,800 | 4,821,100 | 4,465,100 |
| Transfer Ins | 1,606,000 | 2,673,400 | 2,566,900 | 1,856,200 | 1,856,200 |
| Other | | 1,756,900 | 1,890,400 | | |
| Cash Balance | | 7,000,000 | 8,894,204 | | |
| Total Planned Revenues | \$351,840,350 | \$355,003,000 | \$356,106,650 | \$362,725,600 | \$370,506,128 |
| Total Planned Expenditures | \$381,245,100 | \$355,003,000 | \$356,106,650 | \$376,905,777 | \$403,985,631 |
| Budget Gap | (\$29,604,750) | \$0 | \$0 | (\$14,180,177) | (\$33,479,503) |

* DAC allocation; General Fund resource (2005-2006 Original) vs. a reduction in expenditures (2005-2006 Preliminary; 2007-2008, 2009-2010)

1 One-time receipts

2 Loss of card room fee

3 Potential loss of State Shared Revenue (High-Cost)

4 Model B & C Tax - Loss of \$10.0 million

| Department | 2005-2006 | | 2005-2006 Final Budget | | 2007-2008 | | 2009-2010 | |
|-------------------------------|--------------------|-----------------------|------------------------|--------------------|--------------------|--|-----------|--|
| | Original | Preliminary Budget ** | Budget | Budget | | | | |
| Legislative | 1,488,400 | 1,649,800 | 1,648,304 | 1,744,988 | 1,836,790 | | | |
| City Manager | 1,484,000 | 908,800 | 814,255 | 1,095,500 | 1,190,800 | | | |
| Finance | 10,741,400 | 7,244,300 | 8,063,198 | 7,937,400 | 8,687,700 | | | |
| Fire | 81,474,400 | 77,600,800 | 78,692,669 | 83,233,186 | 91,817,692 | | | |
| General Services | 7,272,400 | 5,767,000 | 5,735,933 | 6,145,900 | 6,904,600 | | | |
| Government Relations | 619,300 | 269,000 | 263,841 | 300,000 | 330,200 | | | |
| Hearing Examiner | 787,900 | 688,000 | 683,120 | 633,600 | 677,000 | | | |
| Human Rights/Human Services | 10,105,200 | 8,598,300 | 9,342,102 | 9,826,415 | 11,219,031 | | | |
| Human Resources | 4,333,300 | 1,833,100 | 1,979,329 | 2,232,250 | 2,888,683 | | | |
| Legal | 7,374,000 | 5,264,000 | 5,509,458 | 6,122,150 | 6,816,158 | | | |
| Library | 21,957,000 | 21,015,900 | 21,015,877 | 22,268,200 | 24,415,300 | | | |
| Municipal Court | 9,427,000 | 8,874,400 | 8,831,665 | 9,411,600 | 10,431,000 | | | |
| OMBA | 1,203,100 | 680,000 | 572,632 | 755,100 | 921,600 | | | |
| Police | 101,834,400 | 95,622,300 | 116,056,963 | 100,249,676 | 108,003,313 | | | |
| Police-LESA | 12,100,200 | 12,100,200 | | 12,342,200 | 12,589,000 | | | |
| Police-Jail | 8,000,000 | 7,711,300 | | 8,320,000 | 8,652,800 | | | |
| Public Works | 44,875,000 | 47,104,900 | 46,957,881 | 49,056,600 | 54,005,000 | | | |
| TEDD | 9,721,700 | 7,929,100 | 8,693,564 | 9,261,760 | 10,833,600 | | | |
| Department Total | 334,878,700 | 310,881,200 | 312,958,991 | 330,836,735 | 362,320,246 | | | |
| Total Non-departmental | 46,566,400 | 44,141,800 | 43,147,659 | 45,969,042 | 41,665,385 | | | |
| Total General Fund | 381,245,100 | 355,023,000 | 356,106,650 | 376,805,777 | 403,985,631 | | | |

* "2005-2006 Original" column does not include the expenditure reduction for departments that allocate costs to other funds, \$10 million in reimbursements was included in the revenue projection to compensate

** "2005-2006 Preliminary Budget" column includes the expenditure credit reflecting the costs allocated to other funds, \$10 million from the revenue projection was removed

Adjustments between 2005-2006 Original & 2005-2006 Preliminary Budget

- Legislative: Allocated costs are included in the 2005-2006 Preliminary Budget - Decrease of \$1.1 million
- Fire: Double budget entry for equipment lease charges realized and adjusted in the 2005-2006 Preliminary Budget - Increase of \$330,000
- Legal: Added county/city building rent lease in the 2005-2006 Preliminary Budget - Increase of \$30,000
- Library: Error in 2005-2006 Original realized - Increase of \$430,000 included in the 2005-2006 Preliminary Budget - Decrease of \$3.4 million
- Police: Double budget entry for Workers Comp Insurance realized and adjusted in the 2005-2006 Preliminary Budget - Decrease of \$3.4 million
- Public Works: 2005-2006 Original reduced salaries & benefits 29% to allow for Public Works positions needed for non-General Fund projects (Capital not included in Original)
- Public Works: 2005-2006 Preliminary Budget includes capital projects (\$800,000) and the buying of positions for non-General Fund projects - Difference between Original & Preliminary Salaries & Benefits is \$1.4 million

Savings targets of the Breakthrough Change teams

The Breakthrough Change Initiative is an outgrowth of the 2005-2006 budget development process. Using the revenue and expense forecasts from OMBA, the City will need to make approximately \$91 million in adjustments to either revenues and/or service levels between 2003 and 2010 in order to maintain a balanced budget over that period. The Breakthrough Change Initiative is intended to address the reality of our current and future fiscal challenges.

On March 8, the City Manager directed the Breakthrough Change Teams to make recommendations that meet the following savings targets for the 2005-2006 biennium:

| | |
|---|--------------------|
| Employee Compensation and Benefits | \$500,000 |
| Organizational Restructuring | \$1,166,000 |
| Vehicles and Equipment | \$950,000 |
| Risk Management | \$800,000 |

Throughout this report, each initiative team outlines the projected savings for their recommendations through 2010, beginning with short-term outcomes during 2005-2006 and projected long-term outcomes for the 2007-2008 and the 2009-2010 biennia.