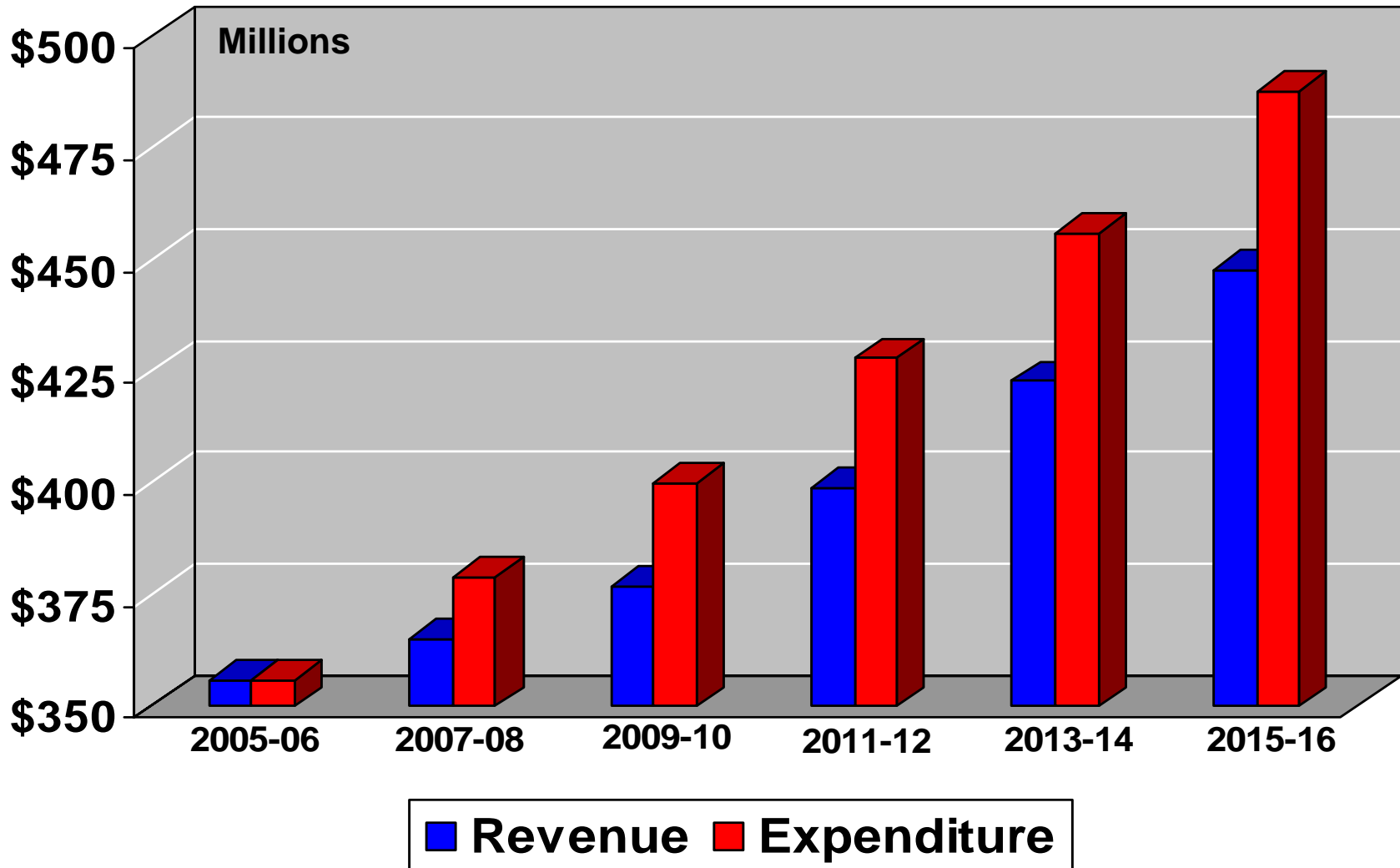


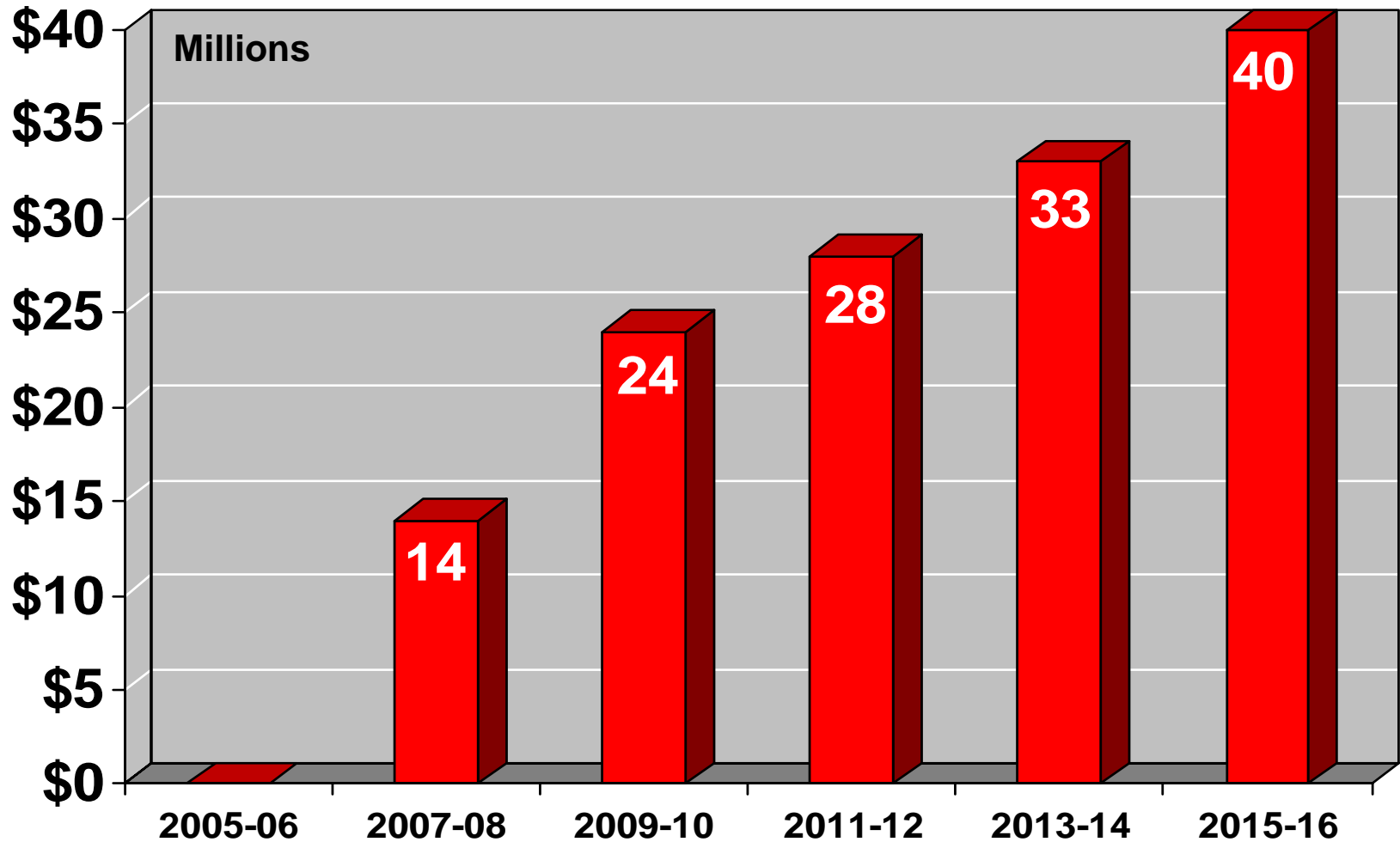
State of the Budget

**Problems and Proposed Solutions
for 2006 and beyond**

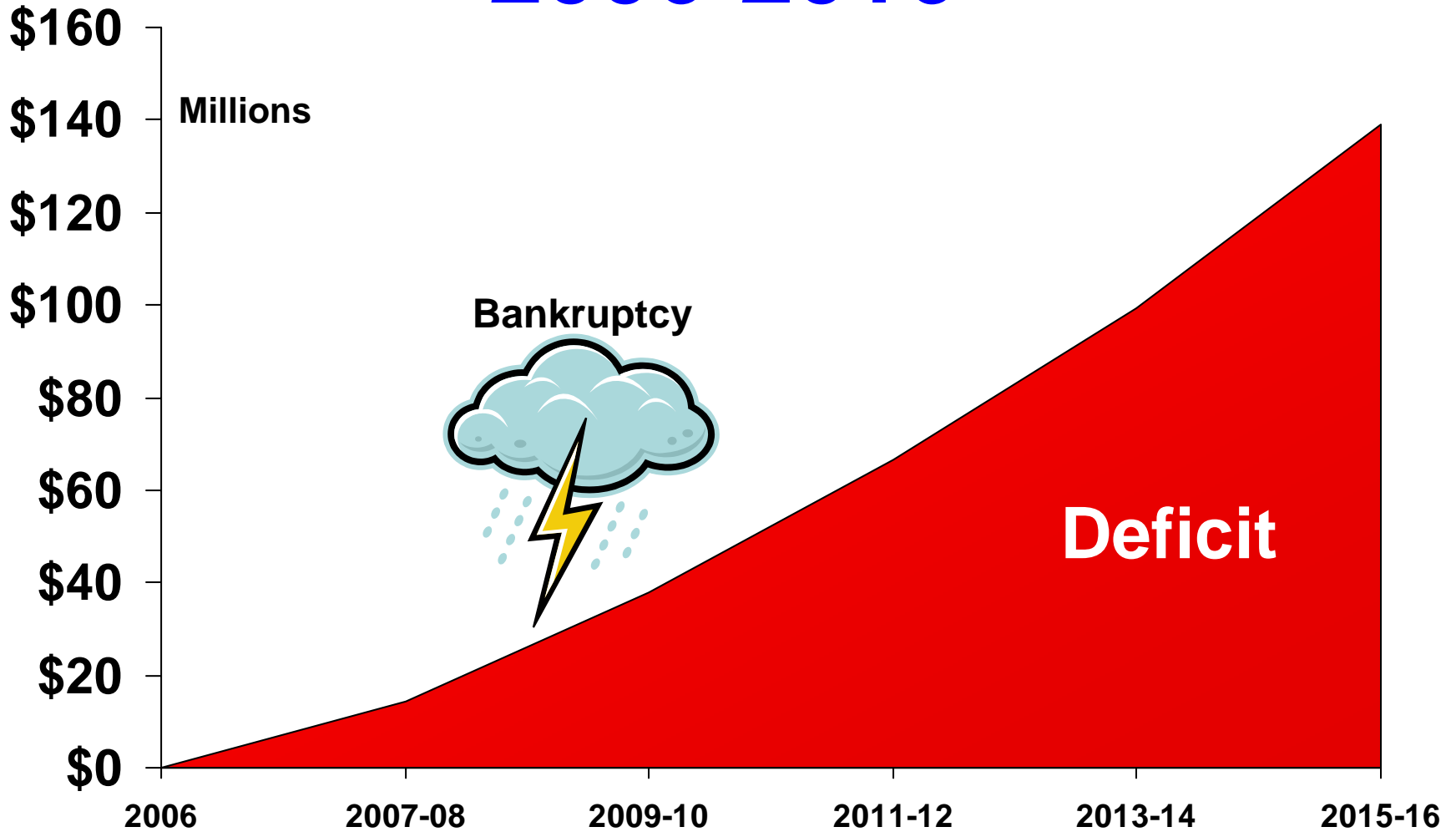
The Ten Year Forecast



Biennial Deficits



Long-Term Cumulative Deficit 2006-2016



The Bottom Line

To avoid **bankruptcy**,
strong action is required

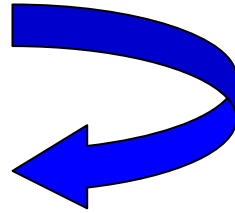
Fiscal stability
requires even stronger action

Solution: Short Term

1. **Budget: Balance fiscal year 2006 & 2007-08 biennium budget - without cuts to services**
2. **Manage benefits in context of total compensation**
3. **Fiscal discipline: Live with budget**

Budget Objectives

**\$10 million permanent adjustments to balance
fiscal year 2006**



**Will carry forward to eliminate the projected
\$14.5 million deficit in 2007-08**

Budget Methods

- 1. Use Breakthrough Change concepts**
- 2. Inter-departmental teamwork**
- 3. Fiscal discipline during interim**
- 4. Submit budget to Council mid-November**

Budget Criteria

- 1. No service reductions**
- 2. No one-time revenue in operating budget**
- 3. No use of undesignated, unreserved fund balance**
- 4. Budget balanced through end of fiscal year 2008**

Manage Compensation

- 1. Establish formal Council policy for total compensation: salaries and benefits**
- 2. Manage Human Resources, including labor negotiations, consistent with formal Council policy**

Fiscal Discipline

- 1. Live within fiscal year 2005 budget**
- 2. Consider all fiscal year 2006 initiatives prior to adoption of changes to 2006 budget (no changes after)**
- 3. Live within fiscal year 2006 budget**

Strategy: Long Term

1. **Maintain fiscal discipline**
2. **Establish fees for Fire, Police and Library services**
3. **Eliminate city Property Tax entirely**
4. **Eliminate city B&O Tax entirely**
5. **Reduce city Utility (Gross Earnings) Tax**

Principles: Long Term

1. **Police, Fire and Library fees cover total net cost of service: Can't use other taxes for support**
2. **Fees based upon value of property and occupancy**
3. **Fee charged monthly**
4. **All who have access to service, pay for service ***

*Except houses of worship

Why User Fees?

1. **Everyone pays**
2. **You pay less than with Property Tax ('cause everyone pays)**
3. **Easy to understand**
4. **You can see exactly what you're paying for**

Why Eliminate City Property Tax?

- 1. Not everyone pays**
- 2. Few know how much they pay**
- 3. Fewer know who they are paying**
- 4. Even fewer know how it is used**
- 5. No one can judge the value of the service they are buying**

Why Eliminate City B&O Tax?

1. **Sits on top of the State B&O Tax**
2. **Not duplicated in many other communities – creates a competitive disadvantage**
3. **B&O Tax is especially harmful for start-up and neighborhood business**

Why Reduce City Utility (Gross Earnings) Tax?

- 1. Distributes surplus revenue back to the community**
- 2. Makes Tacoma's tax rates and utility rates more competitive**

Long Term Results

- **Balanced budgets**
- **Fiscal discipline**
- **More equitable taxation**
- **Price of government more easily understood**
- **Better services**
- **Better value**

The Bottom Line

To avoid **bankruptcy**,
strong action is required

Fiscal stability
requires even stronger action

Action Proposed

- 1. Direct the City Manager to balance the budget through 2008 using criteria and methods proposed**
- 2. Adopt formal policies for compensation (salaries and benefits)**
- 3. Adopt legislative and budget plan of action to implement Police, Fire and Library fees**

Thank you!

August 9, 2005