

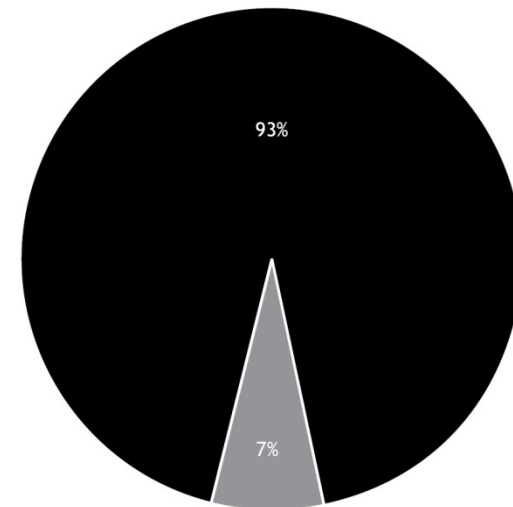
State of the Cities

An update on the fiscal conditions of
Washington's cities and towns

Fall 2009

- State of the Cities is an ongoing research effort tracking Washington's cities' fiscal health and trends
- Comprehensive report on fiscal conditions released every four years (corresponding with the beginning of each gubernatorial term)
- Additional reports concentrating on a single topic released annually

77% of cities took one and/or two of the surveys used for this report, representing 93% of the state's incorporated population."





Cities are essential service providers

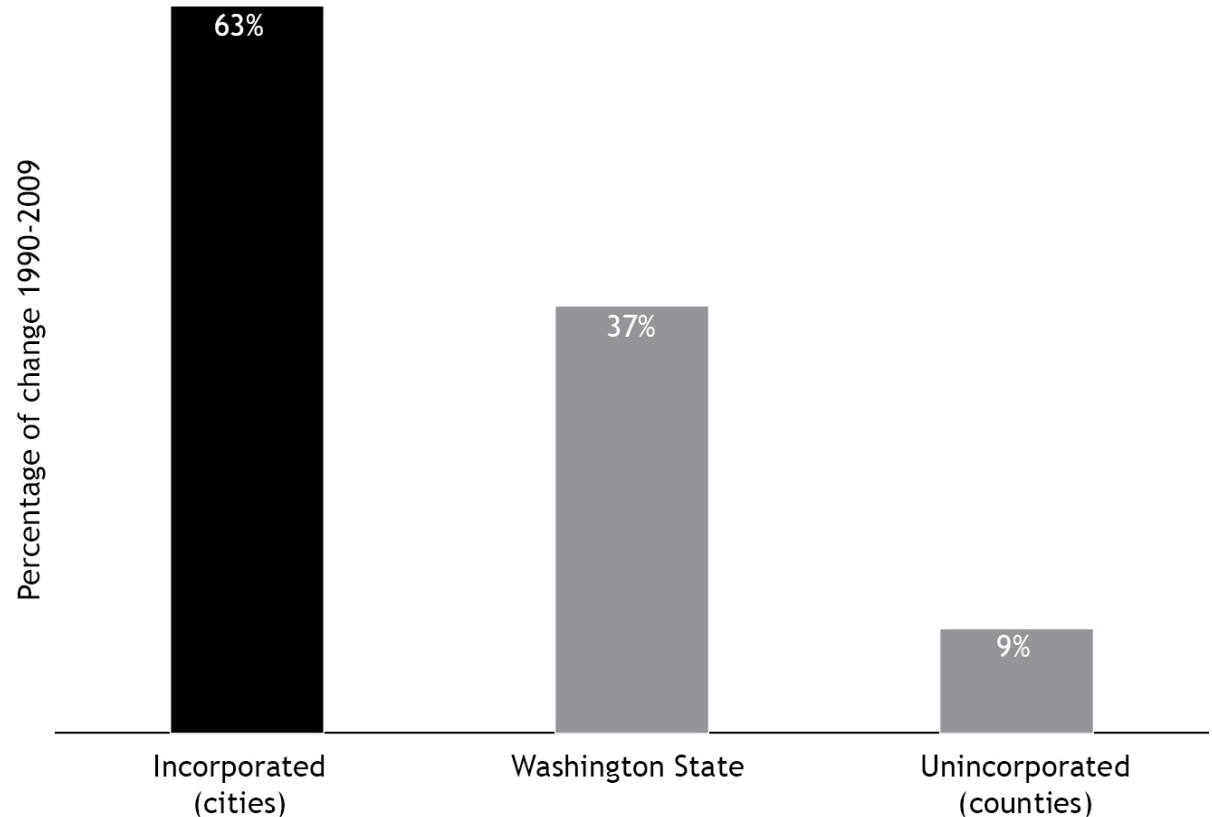
Cities provide services that are defined by state/federal law, are vital to health safety and economic activity:

- Cities employ 63% of state's local law enforcement and fire personnel
- Over 25% of state's traffic flows on city streets
- Water, sewer and stormwater systems provide dependable utility services for millions of urban residents and businesses, and protect environment/water quality
- Parks, libraries, senior centers and recreation activities keep communities healthy and vibrant
- Permitting and licensing ensure safe buildings and livable communities

Cities are home to a growing population

- Cities are home to more than 4 million people
- 62% of the state's population resides in cities

Since the adoption of the Growth Management Act, city population has grown far more than unincorporated areas or the state as a whole



Cities' structural imbalance

Costs of essential services are rising faster than revenues – causing a structural imbalance

- Services cities must pay for rise faster than inflation
 - Street maintenance/construction
 - Public safety services
 - Emergency management systems
 - Health care for employees

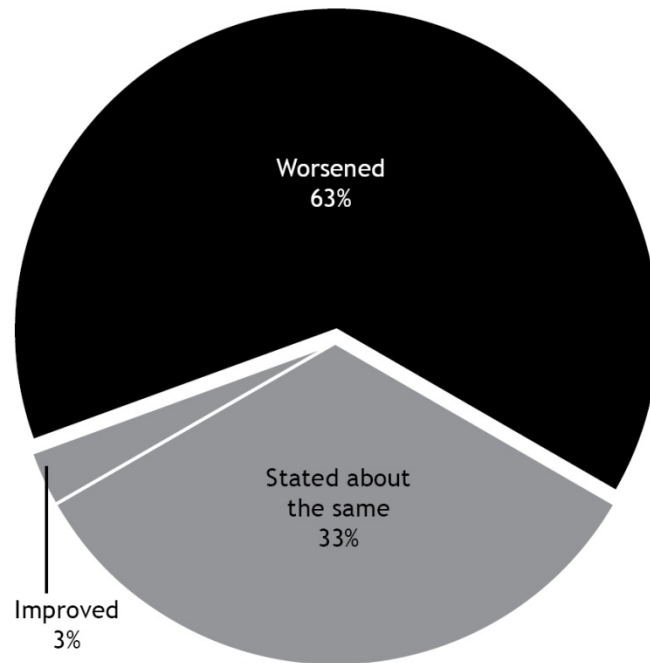
Recession has compounded this imbalance

“If revenue restrictions don’t change, or if the economy gets worse, there will be a very negative impact in a very short time. Expenses are simply rising faster than revenues. If this continues, we will have to decrease our services – contrary to what people in the community want.”

~John Caulfield, City Manager, Mountlake Terrace

Majority of cities hit by recession

More than 3 in 5 cities indicate local economic conditions have worsened between summer 2008 and 2009



The recession has impacted cities' ability to meet local needs

- 63% of cities indicate local economic conditions changed since one year ago (summer 2008 compared to summer 2009)
- 59% of cities believe they will be less able to meet financial needs next fiscal year (2010) compared to this year (2009)

Metropolitan areas are hardest hit

Cities in metro areas generally harder hit than those in rural areas

- These cities generally have larger sales tax base, saw revenues associated with new construction, and grew more rapidly during housing boom
- These cities are the state's economic engines

Some cities never experienced economic boom

Some cities report they didn't experience the boom of last decade, consequently don't feel the recession's impacts to the same degree

- These cities are mostly smaller and rural
- Many of these cities' officials note their services suffered significantly after I-695 and I-747

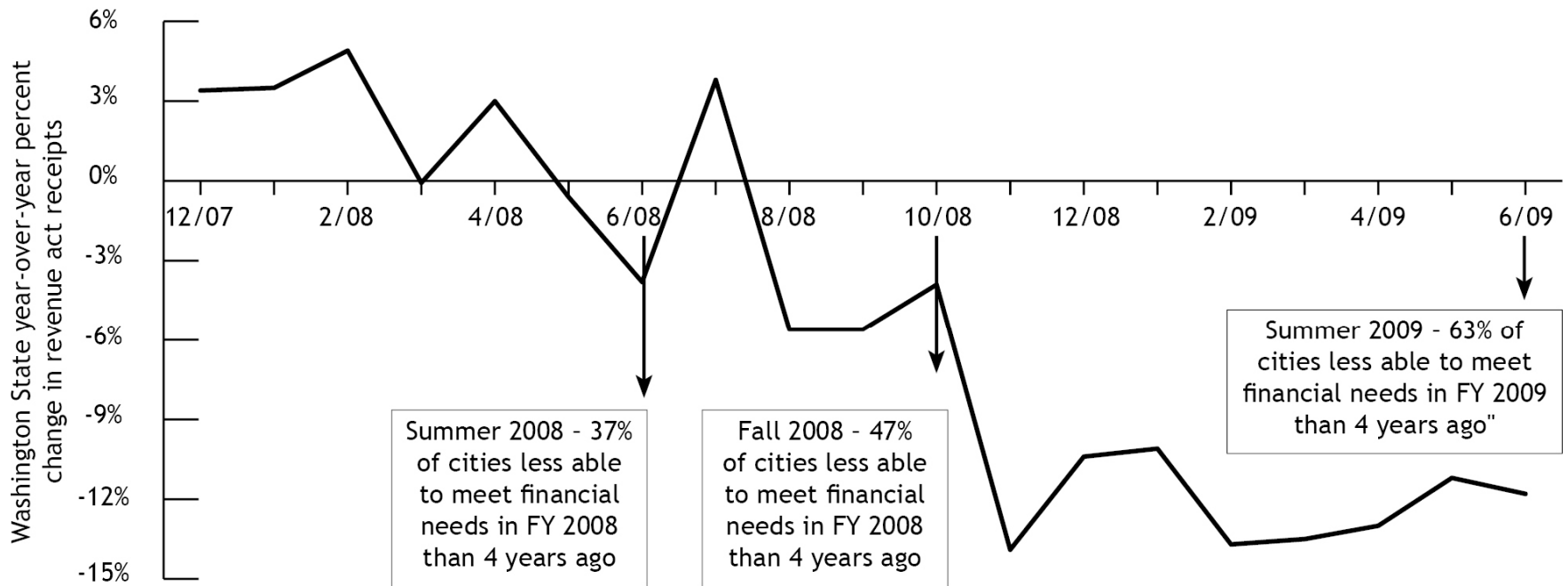
Recession's effects

As national, statewide and local economies decline, cities have fewer resources to meet community needs

- Cities' responses to same question show the number of cities less able to meet financial needs increased between summer 2008 and 2009
 - Summer 2008 – 37% of cities less able to meet financial needs in FY 2008 than 4 years ago
 - Summer 2009 – 63% of cities less able to meet financial needs in FY 2009 than 4 years ago
- The number of cities indicating they are less able to meet needs rises as the State's Revenue Act receipts fall

Recession's effects

As the statewide economy deteriorates, the percentage of cities less able to meet the needs of their community grows



Note: Revenue act receipts include: retail sales, business and occupation, use, public utility, tobacco products); not corrected for inflation

Source: Department of Revenue

Cities cutting essential services and capital investments

- By the end of 2009, 67% of cities report they will either re-open the budget or decrease expenditures due to reduced revenues
- Decreases will be in all areas of government
 - 60% of cities re-opening the budget are decreasing infrastructure investments
 - 46% of cities re-opening the budget are reducing spending on public safety
 - 49% of cities re-opening the budget are reducing their scope of services

These are in addition to substantial cuts made in general government services which can include permitting/planning, parks, animal control, administrative services, etc.

City employees provide the services that define local government

Three of five dollars of cities' operating budgets are spent on personnel costs. However, cities are making deep cuts.

- 44% of cities implemented a hiring freeze either when the 2009 budget was adopted or after they entered FY 2009. Another 8% plan to do so in the second half of 2009, bringing the total to more than half of cities.
- 25% of cities laid off employees in order to balance the 2009 budget or in the first half of 2009. An additional 7% planned layoffs later this year, bringing the total to nearly one-third (32%) of cities.

Cities deferring vital infrastructure investments

“Not only are TIB grants and PWTF loans more competitive than ever, our fuel tax collections and REET revenues are shrinking. This has a compounding negative impact on our ability to maintain critical infrastructure.”

~Greg Cuoio, City Manager, Lacey

Nearly 40% of cities decreased their capital budgets in 2009

- Streets are one of the areas that will be hardest hit
 - Three-quarters of city street funding comes from local resources
 - 31% of cities making cuts report that the street department received the biggest cut (in dollars) in this year’s budget

What next?

What will happen when the economy turns around?

- Too many of the cuts cities are making today, will hinder tomorrow's economic growth and recovery
 - Deferred infrastructure investments will add significant costs down the road
 - Depletion/reduction of city permitting/planning staff will make cities slow to respond to new development
 - Cuts to “quality of life” services like public safety, parks and community centers will hurt cities' (and the state's) ability to attract new workers and businesses