

This reader's guide describes the structure of the 2003 Adopted and 2004 Endorsed Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2003 Adopted and 2004 Endorsed Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2003-2008 Capital Improvement Program (CIP), identifies proposed expenditures and fund sources associated with the development and rehabilitation of major City facilities such as streets, parks, utilities, and buildings over the coming six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

## The 2003 Adopted and 2004 Endorsed Budget

This document is a detailed record of the spending plan proposed by the Mayor and adopted by the City Council for 2003 and endorsed for 2004. It contains the following elements:

- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2003 Adopted and 2004 Endorsed Budget and 2003-2008 Capital Improvement Program were developed;
- Summary Tables – a set of tables that inventory and sum up expected revenues and proposed spending for 2003-2004;
- Budget Overview – a narrative that spotlights the priorities reflected in the proposed budget and explains the most important elements of the detailed departmental budgets;
- City Revenue Overview – a narrative that explains where the City's revenues come from and the factors that affect the level of resources available to support City spending;
- Departmental Budgets – City departmental-level information that describes significant policy and program changes from the 2002 Adopted Budget, the services provided, key performance measures, and the spending levels proposed to attain these results; and
- Appendices – the first appendix to the 2003 Adopted and 2004 Endorsed Budget contains a list of positions by department. The second appendix contains a summary of cost allocations for internal department services. The third appendix contains an array of supporting documents that provide detailed data and other information.

## Departmental Budgets: A Closer Look

The budget presentations for individual City departments (including offices, boards, and commissions) form the heart of this document. They are organized alphabetically within six functional clusters:

# Reader's Guide

- Arts, Culture, & Recreation;
- Health & Human Services;
- Neighborhoods & Development;
- Public Safety;
- Utilities & Transportation; and
- Administration

Each cluster comprises several departments that share a related functional focus, as shown on the organizational chart that follows this reader's guide. Departments are comprised of one or more lines of business, which in turn are comprised of one or more programs.

This budget document identifies some of the most important or well-established performance measures and describes them at the line of business level in departmental budgets.

## **Budget Presentations**

Most department-level budget presentations lead off with information on how to contact the department as well as a description of the basic functions and areas of responsibility of the department. Significant Policy and Program Changes highlights the major changes in how the department plans to conduct its business in light of the adopted budget, and summaries of these changes are provided for each program. The City Council Budget Changes and Provisos section summarizes City Council's revisions to the Mayor's Proposed Budget. Key Performance Measures are also included for some departments; these measures represent a selection of the department's quantitative outcomes.

The budget document includes a table that summarizes historical and adopted expenditures as well as appropriations adopted for 2003 and endorsed for 2004. The actual expenditures are displayed for informational purposes only. In all cases, the adopted department-wide budget totals are broken down by budget control levels, that is, the level at which the City Council makes appropriations. The budget control level can be either a line of business or a program within a line of business. The number of budget control levels has been increased for 2003 to enhance oversight and accountability.

Information on the number of staff positions to be funded under the 2003 Adopted and 2004 Endorsed Budget appears at each of the three levels of detail: department, line of business, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees, or FTEs. Changes are reflected at the program level and total up to the number of employees to serve the department in the upcoming biennium.

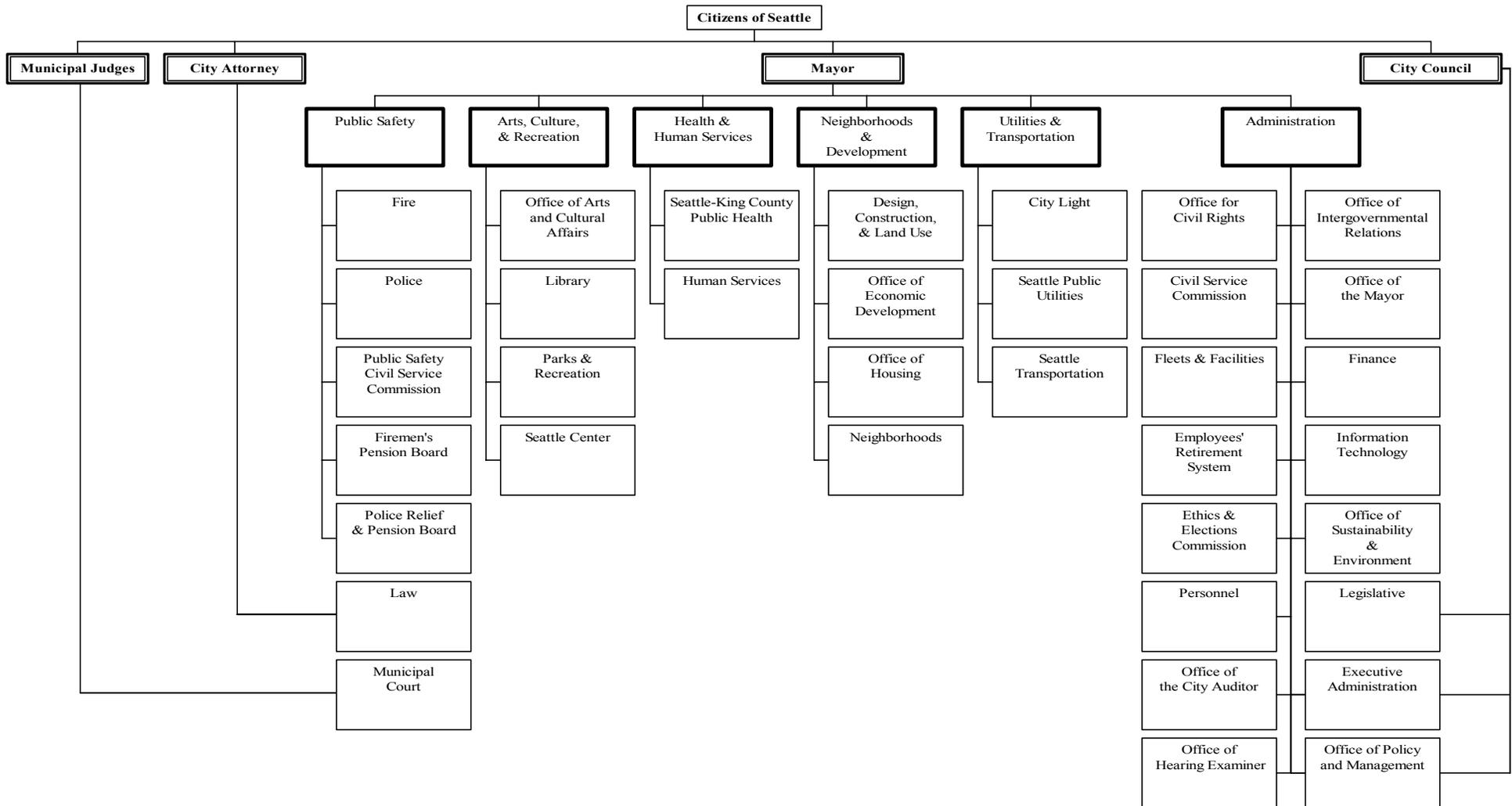
Where relevant, some departmental sections close with one or two additional pieces of information: (1) a statement of actual or projected revenues for the years 2001 through 2004; and (2) a statement of appropriations to support capital projects appearing in the 2003-2004 CIP. Explicit discussions of the operating and maintenance

costs associated with new capital expenditures appear in the 2003-2008 Adopted Capital Improvement Program document.

## **Appendices**

There are three appendices to this document. The first appendix provides a listing of all permanent positions by department. The second appendix contains a summary of cost allocations for internal department services. The third appendix provides detailed supporting information including a detailed breakdown of tax receipts and other revenue deposited in the City's General Subfund; the status (including balances) of other City subfunds and special funds; debt service tables displaying principal and interest payments due on the City's general obligation bond issues; a summary of the 2003-2008 CIP; statements of legislative intent; a glossary; and an overview of relevant demographic and economic statistics.

# Organizational Chart



# Selected Financial Policies

## Debt Policies

- The City of Seattle seeks to maintain the highest possible credit ratings for all categories of short- and long-term General Obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.
- The City will reserve \$100 million of legal limited tax (councilmanic) general obligation debt capacity, or 12% of the total legal limit, whichever is larger, for emergencies.
- Except in emergencies, net debt service paid from the General Subfund will not exceed 9% of the total General Fund budget. In the long run, the City will seek to keep net debt service at 7% or less of the General Fund budget.

## General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals thirty-seven and one-half cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.
- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund. At no time shall the balance of the Revenue Stabilization Account exceed two and one-half percent of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

## Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive shall develop a revenue estimate that is based on the best available economic data and forecasts.
- The City intends to adopt rates, fees, and cost allocation charges no more often than biennially. The rate, fee, or allocation charge structures may include changes to take effect at specified dates during or beyond the biennium. Other changes may still be needed in the case of emergencies or other unanticipated events.
- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.
- In compliance with the State Accountancy Act, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.
- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than ninety days. Exceptions to this policy are permitted with prior approval by the City's Director of Finance.



Washington State law requires cities with a population greater than 300,000, such as Seattle, adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses but does not appropriate for the second year. The second year budget is based on the Council endorsement and is formally adopted by Council after a mid-biennial review. The 2003 Adopted and 2004 Endorsed Budget follows this practice.

## Budgetary Basis

The City budgets all funds on a modified accrual basis, with the exception of utilities and other enterprise funds, which are budgeted on a full accrual basis. Property taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are considered a liability when they are incurred, except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are considered a liability when they are paid.

## Budget Preparation

In February and March of 2002, the Department of Finance (DOF) worked with City departments to put together their Current Services budgets for the 2003-2004 biennium. Current Services is defined as continuing programs and services that the City provided in 2002, in addition to previous commitments that will affect costs in the next two years, such as voter-approved levy and bond issues for new library and park facilities as well as labor agreements and increases in cost-of-living-adjustments for City employees. In order to determine whether the City could meet the costs for 2003-2004 Current Services, DOF compared initial projections of revenues with Current Services spending requirements for the 2003-2004 biennium. In this process, DOF identified a \$50 to \$60 million shortfall in the City's General Fund, meaning that revenues would have to be increased or Current Services budgets would have to be cut in order for the City's budget to balance, as required by State Law. DOF revenue projections have since been updated and will continue to be updated on a quarterly basis throughout 2003.

In April of 2002, departments were given their budget reduction targets – the amount of General Fund dollars that could be included in the department's overall budget. Since there was not enough revenue projected to continue to fully fund current services, all departments were asked to reduce their General Fund spending between five and thirty percent for Current Service levels. Those departments that wanted to undertake new initiatives were told to make additional cuts to Current Services in order to free up the necessary resources for new programs.

Budget instructions, which DOF issued in May of 2002, provided departments with guidance on preparing budgets for the 2003-2004 biennium, outlined changes to health care, other benefits, and industrial insurance rates, and provided guidance on preferred areas of budget cuts, such as administration. The instructions also asked departments to prepare Budget Issue Papers (BIPs), which were summary-level descriptions to give the Mayor's

# Budget Process

Office and DOF a preview of the budget reductions departments intended to take to reach their budget targets. In early June, the Mayor's Office communicated to the departments on which BIPs were to be included in their July budget submittals.

After receiving feedback on their BIPs, departments finalized their operating and capital improvement program (CIP) budget requests. In July, DOF received departmental budget submittals and began the analysis and evaluation process, culminating in the proposed operating budget for 2003 and 2004, and CIP for 2003-2008. This cycle repeats itself in 2003, culminating in a proposed operating budget for 2004 and CIP for 2004-2009.

Seattle's budget and CIP also allocate Community Development Block Grant funding. Although this federally funded program has unique timetables and requirements, Seattle coordinates it with the annual budget and CIP processes to improve preparation and budget allocation decisions, and streamline budget execution.

By October 2 of each year, the Mayor must submit the proposed budget and CIP to the City Council. The revenue estimates must be based on the prior twelve months of experience. The proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget. In addition to the budget documents, DOF prepares supporting documents that describe the City's progress on a variety of issues and provide in-depth information on base budgets and departmental reductions. Copies of budget documents are available for public inspection at the Department of Finance offices, in each of the branches of the Seattle Public Library, Neighborhood Service Centers, and on the Internet at [www.cityofseattle.net/financedepartment](http://www.cityofseattle.net/financedepartment).

## Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts at least two public hearings on them. The Council also holds committee meetings in open session to discuss budget requests with department representatives and DOF staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and usually after making changes to the Mayor's proposed budget, the City Council adopts a budget through an ordinance passed by majority vote. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it. There is no line-item veto in Seattle.

During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements usually state the Council's expectations in making budget decisions and generally require affected departments to report back to the Council on results.

A graphic that summarizes the City's budget process schedule is provided at the end of this section.

## Legal Budget Control

The adopted budget generally makes appropriations for operating expenses at the budget control level within departments unless the expenditure is from one of the General Fund reserve accounts or is for a specific project or activity budgeted in the General Subfund category called Finance General. These projects and activities are budgeted individually. Capital projects programmed in the CIP are appropriated in the budget at the program or project level. Grant-funded activities are controlled as prescribed by law and federal or state regulations.

## Budget Execution

Within the legally adopted budget authorizations, more detailed allocations, as approved by DOF, are recorded in the City's accounting system, called SUMMIT, at the lowest levels of each department's organizational structure and in detailed expenditure accounts. Throughout the budget year, DOF monitors revenue and spending performance against the budget to protect the financial stability of the City.

## Budget Amendment

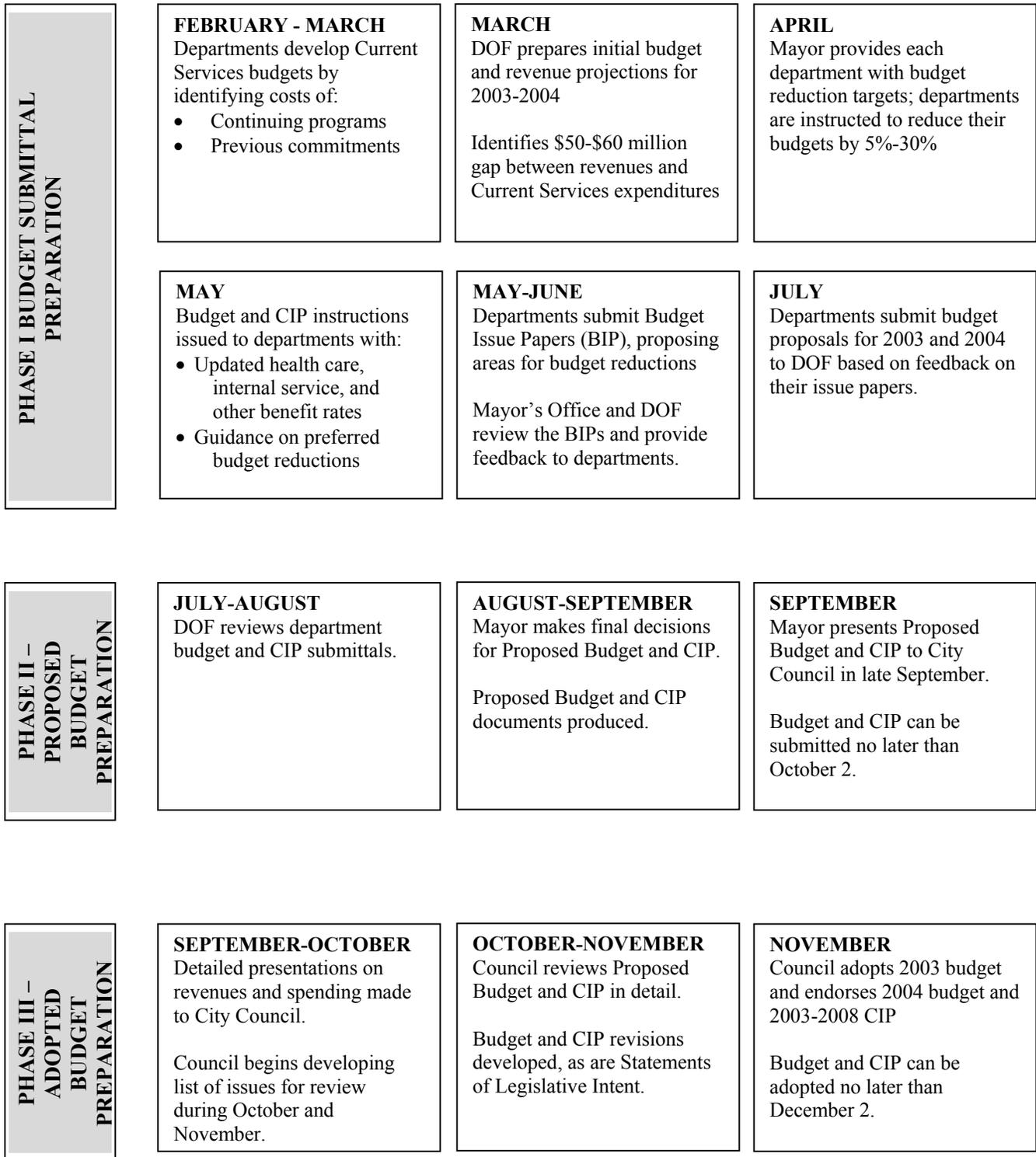
A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable earlier. Additional unforeseeable appropriations related to settlement of claims, emergency conditions, or laws enacted since passage of the annual operating budget ordinance require approval by a two-thirds vote of the City Council.

The Finance Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10 percent, and no more than \$500,000, of the appropriation authority for the particular budget control level or, where appropriate, line item, being increased. In addition, no transfers can reduce the appropriation authority of a budget control level by more than 25%.

In accordance with Washington State law, any unexpended appropriations for operating or ordinary maintenance expenditures automatically lapse at the close of the fiscal year, except for any appropriation continued by ordinance. Unexpended appropriations for capital outlays remaining at the close of the fiscal year are carried forward to the following year, except for any appropriation abandoned by ordinance. In developing guidelines for the transition to biennial budgeting, the City Council created a mechanism for allocating unexpended, non-capital, year-one appropriation authority. Resolution 28885 provides that departments may be able to carry forward into year two up to one-half of the unencumbered and unexpended non-capital appropriations remaining at the end of year one, with Council approval in year two's budget.

# Budget Process

## BUDGET PROCESS DIAGRAM – 2003-2004 BUDGET



# Summary Tables

## REVENUE SUMMARY BY SOURCE

(in thousands of dollars)

### GENERAL SUBFUND

| Revenue Source            | 2001<br>Actual    | 2002<br>Adopted   | 2002<br>Revised   | 2003<br>Adopted   | 2004<br>Endorsed  |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Taxes                     | \$ 521,451        | \$ 534,730        | \$ 530,029        | \$ 540,237        | \$ 555,553        |
| Licenses and Permits      | 10,777            | 10,380            | 10,785            | 15,449            | 15,564            |
| Intergovernmental Revenue | 15,699            | 11,694            | 11,476            | 7,551             | 7,820             |
| External Service Charges  | 9,931             | 6,259             | 7,449             | 7,277             | 7,336             |
| Interfund Service Charges | 5,831             | 34,661            | 34,338            | 30,988            | 31,741            |
| Fines and Forfeitures     | 16,363            | 17,430            | 15,012            | 20,220            | 20,527            |
| Miscellaneous Revenues    | 15,723            | 14,364            | 13,861            | 14,580            | 16,074            |
| <b>Total Revenues</b>     | <b>\$ 595,775</b> | <b>\$ 629,518</b> | <b>\$ 622,950</b> | <b>\$ 636,302</b> | <b>\$ 654,615</b> |
| Other Financing Sources   | 127               | 85                | 79                | 75                | 75                |
| Operating Transfers       | 3,354             | 9,071             | 8,403             | 9,749             | 3,698             |
| <b>Total Resources</b>    | <b>\$ 599,256</b> | <b>\$ 638,674</b> | <b>\$ 631,432</b> | <b>\$ 646,126</b> | <b>\$ 658,388</b> |

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

| Department                                | 2002 Adopted      |                     | 2003 Adopted      |                     | 2004 Endorsed     |                     |
|---|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|   | General Subfund   | Total Funds         | General Subfund   | Total Funds         | General Subfund   | Total Funds         |
| <b>Arts, Culture and Recreation</b>       |                   |                     |                   |                     |                   |                     |
| Department of Parks & Recreation          | \$ 35,244         | \$ 105,024          | \$ 33,424         | \$ 107,908          | \$ 34,932         | \$ 110,931          |
| Office of Arts and Cultural Affairs       | 2,094             | 4,876               | 2,371             | 3,597               | 2,416             | 3,919               |
| Seattle Center                            | 8,172             | 36,226              | 8,936             | 34,896              | 8,672             | 35,853              |
| Seattle Public Library                    | 33,658            | 35,793              | 31,903            | 33,968              | 33,823            | 35,888              |
| Libraries for All Project Fund            | -                 | 71,280              | -                 | 39,716              | -                 | 7,564               |
| <b>Subtotal</b>                           | <b>\$ 79,168</b>  | <b>\$ 253,199</b>   | <b>\$ 76,634</b>  | <b>\$ 220,085</b>   | <b>\$ 79,843</b>  | <b>\$ 194,154</b>   |
| <b>Health and Human Services</b>          |                   |                     |                   |                     |                   |                     |
| Community Development Block Grant         | \$ -              | \$ 16,495           | \$ -              | \$ 16,390           | \$ -              | \$ 15,763           |
| Educational & Developmental Services Levy | -                 | 10,182              | -                 | 10,654              | -                 | 10,956              |
| Human Services Department                 | 25,921            | 84,798              | 24,204            | 87,437              | 24,560            | 88,237              |
| Public Health - Seattle & King County     | 14,259            | 14,259              | 9,783             | 9,783               | 6,519             | 6,519               |
| <b>Subtotal</b>                           | <b>\$ 40,180</b>  | <b>\$ 125,734</b>   | <b>\$ 33,987</b>  | <b>\$ 124,264</b>   | <b>\$ 31,079</b>  | <b>\$ 121,474</b>   |
| <b>Neighborhoods and Development</b>      |                   |                     |                   |                     |                   |                     |
| Design, Construction & Land Use           | \$ 6,373          | \$ 39,936           | \$ 9,525          | \$ 45,293           | \$ 9,782          | \$ 46,703           |
| Department of Neighborhoods               | 7,741             | 7,741               | 8,373             | 8,373               | 8,586             | 8,586               |
| Neighborhood Matching Subfund             | 4,313             | 4,500               | 3,413             | 3,700               | 3,313             | 3,700               |
| Office of Economic Development            | 6,622             | 6,622               | 6,349             | 6,349               | 6,456             | 6,456               |
| Office of Housing (1)                     | 1,307             | 31,769              | -                 | 35,167              | -                 | 36,378              |
| Planning Commission                       | 237               | 237                 | -                 | -                   | -                 | -                   |
| <b>Subtotal</b>                           | <b>\$ 26,593</b>  | <b>\$ 90,805</b>    | <b>\$ 27,661</b>  | <b>\$ 98,882</b>    | <b>\$ 28,136</b>  | <b>\$ 101,822</b>   |
| <b>Public Safety</b>                      |                   |                     |                   |                     |                   |                     |
| Criminal Justice Contracted Services      | \$ 18,783         | \$ 18,783           | \$ 18,901         | \$ 18,901           | \$ 20,963         | \$ 20,963           |
| Firemen's Pension                         | -                 | 14,211              | -                 | 15,855              | -                 | 16,109              |
| Law Department                            | 12,654            | 12,654              | 12,614            | 12,614              | 12,979            | 12,979              |
| Police Relief & Pension                   | 14,062            | 14,294              | 14,852            | 15,087              | 15,872            | 16,107              |
| Public Safety Civil Service Commission    | 116               | 116                 | 121               | 121                 | 124               | 124                 |
| Seattle Fire Department                   | 102,709           | 102,709             | 108,188           | 108,188             | 112,982           | 112,982             |
| Seattle Municipal Court                   | 19,491            | 19,491              | 19,449            | 19,449              | 20,081            | 20,081              |
| Seattle Police Department                 | 160,105           | 160,105             | 168,840           | 168,840             | 176,702           | 176,702             |
| <b>Subtotal</b>                           | <b>\$ 327,920</b> | <b>\$ 342,363</b>   | <b>\$ 342,965</b> | <b>\$ 359,055</b>   | <b>\$ 359,703</b> | <b>\$ 376,047</b>   |
| <b>Utilities and Transportation</b>       |                   |                     |                   |                     |                   |                     |
| Seattle City Light                        | \$ -              | \$ 1,003,151        | \$ -              | \$ 1,080,517        | \$ -              | \$ 829,663          |
| Seattle Public Utilities                  | 2,288             | 557,987             | 2,377             | 570,692             | 2,450             | 567,738             |
| Seattle Transportation                    | 38,801            | 117,137             | 39,915            | 109,436             | 41,183            | 117,096             |
| <b>Subtotal</b>                           | <b>\$ 41,089</b>  | <b>\$ 1,678,275</b> | <b>\$ 42,292</b>  | <b>\$ 1,760,646</b> | <b>\$ 43,632</b>  | <b>\$ 1,514,497</b> |

Notes:

(1) This item combines appropriations to both the Housing Fund and the Low-

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

| Department                             | 2002 Adopted      |                     | 2003 Adopted      |                     | 2004 Endorsed     |                     |
|--|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|
|  | General Subfund   | Total Funds         | General Subfund   | Total Funds         | General Subfund   | Total Funds         |
| <b>Administration</b>                  |                   |                     |                   |                     |                   |                     |
| Civil Service Commission               | \$ 211            | \$ 211              | \$ 145            | \$ 145              | \$ 148            | \$ 148              |
| Department of Executive Administration | 34,546            | 34,546              | 29,489            | 29,489              | 30,234            | 30,234              |
| Department of Information Technology   | 4,501             | 36,434              | 3,296             | 33,335              | 3,232             | 34,216              |
| Department of Finance                  | 3,713             | 3,713               | 3,807             | 3,807               | 3,918             | 3,918               |
| Employees' Retirement System           | -                 | 10,571              | -                 | 7,304               | -                 | 8,124               |
| Ethics & Elections Commission          | 473               | 473                 | 553               | 553                 | 567               | 567                 |
| Finance General                        | 8,626             | 8,626               | 15,765            | 15,765              | 18,098            | 18,098              |
| Fleets & Facilities Department         | 3,327             | 71,050              | 2,807             | 69,184              | 2,945             | 71,600              |
| Legislative Department                 | 7,015             | 7,015               | 7,339             | 7,339               | 7,581             | 7,581               |
| Office of the City Auditor             | 1,163             | 1,163               | 1,062             | 1,062               | 1,088             | 1,088               |
| Office of Hearing Examiner             | 580               | 580                 | 483               | 483                 | 494               | 494                 |
| Office of Intergovernmental Relations  | 1,632             | 1,632               | 1,508             | 1,508               | 1,546             | 1,546               |
| Office of the Mayor                    | 1,806             | 1,806               | 2,358             | 2,358               | 2,420             | 2,420               |
| Office of Policy and Management        | -                 | -                   | 2,082             | 2,082               | 2,060             | 2,060               |
| Office of Sustainability & Environment | 741               | 741                 | 551               | 551                 | 562               | 562                 |
| Personnel Department                   | 11,470            | 11,610              | 10,369            | 10,369              | 10,555            | 10,555              |
| Seattle Office for Civil Rights        | 1,983             | 1,983               | 1,584             | 1,584               | 1,624             | 1,624               |
| Strategic Planning Office              | 5,191             | 5,191               | -                 | -                   | -                 | -                   |
| <b>Subtotal</b>                        | <b>\$ 86,978</b>  | <b>\$ 197,345</b>   | <b>\$ 83,199</b>  | <b>\$ 186,920</b>   | <b>\$ 87,071</b>  | <b>\$ 194,834</b>   |
| <b>Other</b>                           |                   |                     |                   |                     |                   |                     |
| Bonds Debt Service                     | \$ 26,844         | \$ 66,990           | \$ 29,046         | \$ 65,569           | \$ 29,665         | \$ 69,919           |
| Cumulative Reserve Subfund             | -                 | 30,995              | -                 | 21,835              | -                 | 17,966              |
| Emergency Subfund                      | 2,807             | 2,807               | 2,139             | 2,139               | 1,341             | 1,341               |
| Judgment/Claims Subfund (2)            | 11,000            | 14,250              | 801               | 14,250              | 801               | 13,750              |
| <b>Subtotal</b>                        | <b>\$ 40,651</b>  | <b>\$ 115,042</b>   | <b>\$ 31,986</b>  | <b>\$ 103,793</b>   | <b>\$ 31,807</b>  | <b>\$ 102,976</b>   |
| <b>Grand Total</b>                     | <b>\$ 642,579</b> | <b>\$ 2,802,763</b> | <b>\$ 638,723</b> | <b>\$ 2,853,706</b> | <b>\$ 661,271</b> | <b>\$ 2,605,864</b> |

Notes:

(2) The major portion of expenditure authority for the Judgment and Claims Subfund now resides in specific departmental budget authority. This value represents the undistributed fund expenditures.

# Summary Tables

## POSITION SUMMARY BY DEPARTMENT \*

(in Full Time Equivalents)

| Department                             | 1999<br>Adopted | 2000<br>Revised (1) | 2001<br>Adopted | 2002<br>Adopted (2) | 2003<br>Adopted | 2004<br>Endorsed |
|--|-----------------|---------------------|-----------------|---------------------|-----------------|------------------|
| <b>Arts, Culture &amp; Recreation</b>  |                 |                     |                 |                     |                 |                  |
| Department of Parks & Recreation       | 963.99          | 1,039.28            | 1,065.19        | 1,111.49            | 1,069.78        | 1,060.90         |
| Office of Arts and Cultural Affairs    | 13.00           | 14.50               | 18.60           | 19.60               | 20.60           | 20.60            |
| Seattle Center                         | 288.91          | 293.41              | 301.46          | 301.46              | 287.62          | 286.82           |
| <b>Subtotal</b>                        | <b>1,265.90</b> | <b>1,347.19</b>     | <b>1,385.25</b> | <b>1,432.55</b>     | <b>1,378.00</b> | <b>1,368.32</b>  |
| <b>Human Services</b>                  |                 |                     |                 |                     |                 |                  |
| Human Services Department              | 294.03          | 307.28              | 325.28          | 340.48              | 327.85          | 327.85           |
| <b>Subtotal</b>                        | <b>294.03</b>   | <b>307.28</b>       | <b>325.28</b>   | <b>340.48</b>       | <b>327.85</b>   | <b>327.85</b>    |
| <b>Neighborhoods and Development</b>   |                 |                     |                 |                     |                 |                  |
| Design, Construction & Land Use (3)    | 314.50          | 322.50              | 328.50          | 328.50              | 348.75          | 350.75           |
| Department of Neighborhoods            | 94.75           | 89.75               | 91.25           | 89.25               | 92.13           | 92.13            |
| Office of Economic Development         | 35.50           | 37.50               | 37.50           | 38.50               | 23.75           | 23.00            |
| Office of Housing                      | 67.25           | 56.25               | 57.25           | 57.25               | 43.50           | 42.50            |
| Planning Commission (3)                | 2.50            | 2.00                | 3.00            | 3.00                | 0.00            | 0.00             |
| <b>Subtotal</b>                        | <b>514.50</b>   | <b>508.00</b>       | <b>517.50</b>   | <b>516.50</b>       | <b>508.13</b>   | <b>508.38</b>    |
| <b>Public Safety</b>                   |                 |                     |                 |                     |                 |                  |
| Law Department                         | 168.50          | 165.00              | 163.00          | 155.40              | 144.60          | 144.60           |
| Public Safety Civil Service Commission | 4.75            | 4.75                | 4.75            | 1.00                | 1.00            | 1.00             |
| Seattle Fire Department                | 1,118.15        | 1,120.15            | 1,123.15        | 1,125.65            | 1,109.75        | 1,109.75         |
| Seattle Municipal Court                | 257.69          | 256.69              | 257.69          | 255.69              | 227.85          | 227.35           |
| Seattle Police Department              | 1,834.75        | 1,873.25            | 1,887.25        | 1,881.75            | 1,815.25        | 1,805.25         |
| <b>Subtotal</b>                        | <b>3,383.84</b> | <b>3,419.84</b>     | <b>3,435.84</b> | <b>3,419.49</b>     | <b>3,298.45</b> | <b>3,287.95</b>  |
| <b>Utilities &amp; Transportation</b>  |                 |                     |                 |                     |                 |                  |
| Seattle City Light                     | 1,782.75        | 1,800.35            | 1,800.19        | 1,798.69            | 1,786.10        | 1,780.10         |
| Seattle Public Utilities               | 1,238.23        | 1,272.23            | 1,285.73        | 1,287.73            | 1,366.73        | 1,366.73         |
| Seattle Transportation                 | 598.50          | 605.50              | 605.50          | 609.50              | 627.50          | 628.50           |
| <b>Subtotal</b>                        | <b>3,619.48</b> | <b>3,678.08</b>     | <b>3,691.42</b> | <b>3,695.92</b>     | <b>3,780.33</b> | <b>3,775.33</b>  |

# Summary Tables

## POSITION SUMMARY BY DEPARTMENT \*

(in Full Time Equivalents)

| Department                             | 1999<br>Adopted  | 2000<br>Revised (1) | 2001<br>Adopted  | 2002<br>Adopted (2) | 2003<br>Adopted  | 2004<br>Endorsed |
|--|------------------|---------------------|------------------|---------------------|------------------|------------------|
| <b>Administration</b>                  |                  |                     |                  |                     |                  |                  |
| Civil Service Commission               | 2.00             | 2.00                | 2.00             | 2.00                | 1.50             | 1.50             |
| Executive Services Department          | 1,012.77         | 806.27              | 795.27           | 0.00                | 0.00             | 0.00             |
| Department of Executive Administration | 0.00             | 0.00                | 0.00             | 290.60              | 245.35           | 245.35           |
| Department of Information Technology   | 0.00             | 157.50              | 168.00           | 171.00              | 174.00           | 174.00           |
| Department of Finance                  | 0.00             | 0.00                | 0.00             | 34.50               | 35.00            | 35.00            |
| Employees' Retirement System           | 11.50            | 11.50               | 11.50            | 13.50               | 13.50            | 13.50            |
| Ethics & Elections Commission          | 4.90             | 4.50                | 5.75             | 5.50                | 5.20             | 5.20             |
| Fleets & Facilities Department         | 0.00             | 0.00                | 0.00             | 334.00              | 313.00           | 313.00           |
| Legislative Department                 | 67.45            | 73.70               | 78.70            | 79.70               | 79.70            | 79.70            |
| Office of Arts and Cultural Affairs    | 13.00            | 14.50               | 18.60            | 19.60               | 20.60            | 20.60            |
| Office of the City Auditor             | 10.00            | 12.00               | 12.00            | 11.00               | 11.00            | 11.00            |
| Office of Hearing Examiner             | 5.80             | 5.80                | 5.80             | 5.80                | 4.70             | 4.70             |
| Office of Intergovernmental Relations  | 14.50            | 14.50               | 14.50            | 12.50               | 11.50            | 11.50            |
| Office of the Mayor                    | 23.50            | 23.50               | 23.50            | 21.00               | 23.50            | 23.50            |
| Office of Policy and Management (4)    | 0.00             | 0.00                | 0.00             | 0.00                | 15.65            | 16.00            |
| Office of Sustainability & Environment | 0.00             | 0.00                | 0.00             | 5.00                | 4.00             | 4.00             |
| Personnel Department                   | 0.00             | 0.00                | 0.00             | 138.17              | 123.50           | 123.50           |
| Seattle Office for Civil Rights        | 24.25            | 23.50               | 24.50            | 24.50               | 22.00            | 22.00            |
| Strategic Planning Office (4)          | 60.00            | 65.50               | 57.00            | 56.50               | 0.00             | 0.00             |
| <b>Subtotal</b>                        | <b>1,249.67</b>  | <b>1,214.77</b>     | <b>1,217.12</b>  | <b>1,224.87</b>     | <b>1,103.70</b>  | <b>1,104.05</b>  |
| <b>Total</b>                           | <b>10,314.42</b> | <b>10,460.66</b>    | <b>10,553.81</b> | <b>10,610.21</b>    | <b>10,375.86</b> | <b>10,351.28</b> |

Notes:

(1) Includes positions approved mid-year by City Council during 2000.

(2) 2002 Adopted numbers have been adjusted for prior errors/inconsistencies.

(3) In mid-2002, Planning Commission staff was transferred to DCLU.

(4) In mid-2002, the Strategic Planning Office (SPO) was abolished. Some of SPO's functions and positions were transferred to other City departments, some positions were abrogated, and a new Office of Policy and Management was created.

\* Employees of Public Health-Seattle & King County, Firemen's Pension, Police Relief & Pension, and the Seattle Public Library are not City employees and, therefore, are not shown.



# Budget Overview

The City of Seattle's 2003 Adopted and 2004 Endorsed Budget were developed under the most challenging economic conditions since the early 1980's. The combination of a national recession, the local economic effects of the September 11 terrorist attacks, voter-approved tax limitation measures, and previous spending commitments created a gap of about \$60 million between projected General Fund revenues and the cost of continuing programs and meeting commitments for 2003. Filling this gap, which represented about 9% of the General Fund, was the major focus of the budget process.

Mayor Gregory Nickels established an overall approach to General Fund budget development early in 2002. The Mayor directed that the 2003-2004 budget would be sustainable, without relying on one-time savings or accounting changes. He indicated that direct services to citizens would be preserved to the greatest extent possible, with cuts being made first in administrative activities and overhead. He also established priorities among programs to protect core City services.

Meanwhile, many of the City's other funds also faced financial challenges for the 2003-2004 biennium. The City's utilities (City Light and Seattle Public Utilities) both have growing needs to replace aging infrastructure. In addition, City Light continues to deal with the financial effects of the West Coast power crisis of 2000 and 2001. The Department of Design, Construction and Land Use has been affected by the slowing economy and the resulting decrease in construction, which led to fee increases and the use of reserves. The City's departments that provide human services have seen growing demand for their programs and decreased funding as a result of State and federal budget cuts.

City departments submitted budget issue papers in May and budget proposals in July. The proposals were reviewed and balanced with revenue estimates over the following two months. The Mayor reached his final budget decisions in mid-September. Employees were notified of possible job cuts during the process as soon as preliminary decisions about each department were made.

The 2003 Adopted and 2004 Endorsed General Fund Budget achieves the Mayor's goal of being sustainable for the long term. It assumes only a slow recovery from the current recession, as illustrated by projected sales tax growth of 2.4% in 2003 and 3.0% in 2004. It complies with the Initiative 747 property tax revenue growth limit of 1% plus the value of new construction annually. Some fees were increased, but most of the gap was closed by spending reductions. The reductions, as measured by the percentage cut from the amounts needed to maintain 2002 programs and previous commitments, ranged from about 3% in the Police and Fire departments to over 13% in departments such as Personnel and Executive Administration. This range of reductions reflects the Mayor's goal of maintaining core City programs.

About 340 net general government full-time equivalent positions are eliminated in the Budget.

## Revenues

The City's General Fund revenues are projected to be \$646,126,005 for 2003, which reflects a growth rate of 2.3% from the revised 2002 estimate. General Fund revenues for 2004 are estimated at \$658,388,010 or 1.9% more than 2003.

The property tax will continue to be the largest source of General Fund revenue, with the \$176,416,000 of projected collections accounting for about 27% of the General Fund total. The retail sales tax will be the second largest contributor at about 20%, followed by the Business and Occupation (B&O) tax and utility taxes at about 17% each.

# Budget Overview

The region's economic difficulties are reflected in the projected growth of the sales and B&O tax, which depend on the level of economic activity in Seattle. By 2004, these revenue sources are projected to generate a total of \$246.6 million. In 2000, these same sources generated \$247.1 million. This revenue decline has occurred while local prices are projected to have increased by about 10.8% over the same period.

Revenues are described in more detail in a subsequent section.

## Public Safety

Maintaining basic public safety programs is the City's highest priority. The Police and Fire departments were asked for the smallest percentage budget cuts, but some reductions were needed since spending in these areas accounts for about 44% of the City's General Fund budget. The 2003 Adopted and 2004 Endorsed Budget sets uniformed staffing levels for these two departments at levels slightly above the lowest point in the last dozen years.

The Police Department began its budget process by establishing criteria for the programs and services it provides. These criteria supported retention of general staffing (e.g. patrol units) over specialized staffing (e.g. certain detective squads) and uniformed staffing over civilian staffing. Thus, the Department is actually adding to its patrol strength despite reducing overall uniformed staffing by 26 positions. Significant reductions were made in some civilian units, including a reduction in the Community Service Officer unit and the elimination of the Misdemeanor Warrants unit.

The Fire Department used its computerized models to examine ways to reduce staffing while maintaining fire and emergency medical services to the maximum extent possible. The final plan lowers on-duty strength to 200, slightly above the level in the early 1990s. This level is achieved by decommissioning one aid car and one fire engine. No stations will be closed.

## Transportation

Seattle residents and businesses consistently rank transportation as the biggest challenge facing the city. This challenge has many components, including replacing aging infrastructure, maintaining the basic street network, improving mobility through better signal systems, enhancing pedestrian services, and improving mass transit. The City's Department of Transportation (SDOT) has direct responsibility for some of these functions, but the City is involved in all of them in various ways.

Despite the high priority assigned to transportation, the budget situation required cuts in some SDOT programs. Additional cuts had to be made in November following the passage of statewide Initiative 776, which eliminated the King County Vehicle License Fee, and the failure of Referendum 51. These election outcomes resulted in cuts totaling \$24 million to SDOT's 2003 budget, including reductions to several capital projects and a \$7 million ongoing loss of revenue.

SDOT reprioritized funds to expand the street paving program since this basic infrastructure maintenance has been falling further behind each year. SDOT is also leading the City's work with the State government on replacement of the Alaskan Way Viaduct. Approximately \$5 million of debt will be issued in 2003 to finance the City's share of this effort in the coming biennium.

The 2003 Adopted and 2004 Endorsed Budget includes efforts to enhance pedestrian mobility and improve mass transit. SDOT and Seattle Public Utilities will lead programs to develop sidewalks and comprehensive drainage

# Budget Overview

programs in several neighborhoods. They will use a combination of General Fund, utility funds, and funds generated from residents through Local Improvement Districts (LIDs). This expanded effort will meet a long-standing request to provide sidewalks in these areas.

The Budget also provides for support for mass transit programs. A \$20 million interim financing program was provided for the new monorail authority, which was created by the voters in November. This program allows the new authority to start work immediately, without waiting for its own funding sources to become available. The interim funding will be repaid within two years and all costs will be borne by the new authority. The Budget also includes funding to meet the City's commitment to the Community Development Fund, which is designed to help offset the effects of Sound Transit's light rail line in the Rainier Valley. The Office of Economic Development will oversee the City's participation in this program.

## Other Direct Services

Much of the growth in Seattle's budget in the late 1990's occurred in those agencies providing direct services to citizens, other than the public safety departments. For example, human services funding grew substantially to address growing populations of homeless people, immigrants, and others in need, and to offset reductions in Federal, State, and County funding. Library and parks spending grew as new facilities were added and as operating hours were extended.

The large 2003 budget gap necessitated significant reductions in the budgets of these departments. The first cuts were made in administrative and support functions, but these were typically not sufficient to achieve the necessary level of budget reductions, especially since many of these departments continue to experience spending pressures to open and operate new facilities. Each of the departments in this group used its own approach for setting priorities among programs. The following three examples illustrate these approaches.

The Human Services Department (HSD) convened a group of providers and other experts to identify "core services" that should receive the highest priority for funding. These core services are those that provide the safety net for lower-income and disadvantaged people in Seattle, including food and shelter programs. HSD protected funding for these core programs by cutting administration and non-core activities to achieve its budget targets.

The Department of Parks and Recreation completely restructured itself to improve efficiency and reduce administration. Parks staff worked with the non-profit recreation councils to find ways to have the councils pick up certain functions that were being cut. As a result of these approaches, most of the existing services to the public will be preserved.

The Seattle Public Library's Board achieved its budget reductions by carefully reviewing its priorities for service. After making administrative reductions, the Library balanced cuts in the materials budget with decreases in operating hours. After careful review with the Mayor, the Board decided to maintain service every day rather than close for an entire day. For branch libraries, the resulting levels of hours are comparable to those provided in the late-1990s.

## Administration

The City's central administrative departments received many of the largest budget reduction targets. These departments provide services to other agencies, including human resources, fleets, buildings, accounting, and information technology. Many programs were cut by 15% or more and approximately 100 positions were eliminated.

# Budget Overview

## Utilities

Seattle City Light's 2003 Adopted and 2004 Endorsed Budget is built on the rate proposals approved by the Mayor and Council in 2001. The utility continues to gradually rebuild its financial health and expects to eliminate its operating deficit by mid-2004. Most personnel changes were made in mid-2002, although a few additional changes are included in this Budget.

Seattle Public Utilities (SPU) is one of the few departments expecting growth for 2003. All three utility components of SPU – water, drainage and wastewater, and solid waste – face growing needs for infrastructure maintenance and replacement. The water utility's rates were increased in September 2002 to provide money for its capital programs and to enhance the financial status of the Water Fund. Rate increases for the other utilities are included in this Budget.

## Capital Improvement Program

The City of Seattle began to significantly expand its construction activities in the late 1990s to make up for almost two decades of under-investment in new or remodeled facilities. Some of these projects were funded through ballot measures, other from General Fund-supported debt, and still others from utility revenues.

Many of these projects are now coming to fruition. Fisher Pavilion at Seattle Center, the new Delridge Library, and the Justice Center, housing Police headquarters and the Municipal Court, all opened in 2002. The new Central Library, City Hall, Southwest Police Precinct, and several neighborhood libraries and community centers will open in 2003. In addition, the remodeling of the Seattle Center Opera House into McCaw Hall will be completed in 2003. Further facility openings are scheduled for 2004. Significant utility projects to upgrade water quality, improve drainage, and enhance the reliability of the electrical infrastructure also will be completed.

The 2003 Adopted and 2004 Endorsed Budget maintain the City's commitment to major maintenance of capital facilities. The Cumulative Reserve Subfund will provide funding for several dozen major maintenance projects in general government departments. A major maintenance study is currently underway that may lead to changes in planning, funding levels, or allocations for the next biennial budget.

## Looking to the Future

The 2003 Adopted and 2004 Endorsed Budget have been developed to place the City on a sustainable basis for the future. They reflect permanent changes in service delivery approaches and the reduction or elimination of some lower-priority programs. The Budgets maintain funding for core services and redirects funding from administration to direct services. The Budgets should be sustainable into the following biennium even under the slow-growth revenue assumptions that are included.

The 2003 Adopted and 2004 Endorsed Budget also maintain the City's commitment to strong financial policies and long-term planning. The Emergency Subfund is maintained at the maximum level allowed by State law so that the City is positioned to respond to natural disasters or other emergencies. Other reserves for equipment replacement and major maintenance are funded in compliance with City policies.

The greatest threats to the sustainability of the 2003 Adopted and 2004 Endorsed Budgets are further economic slowing, additional cost pressures, or State action to reduce City revenues or increase City responsibilities. The Budget assumes that 2002 is the low point for the regional economy and that slow growth will begin in 2003. If the nation or the region experiences a "double-dip" recession, further budget reductions will be needed. Cost



# Budget Overview

increases are most likely to occur in the area of employee benefits, especially health care. City health care costs have soared since mid-2001 and these patterns have been built into the Budget. However, some forecasts suggest that such costs could rise even more than anticipated in 2003 and 2004.

If the economy gradually improves as projected, and if cost pressures do not exceed expectations, the 2003 Adopted and 2004 Endorsed Budgets should be sustainable for several years. The Budgets provide funding for a base level of services that can be expanded when the economy leaves the doldrums in a few years.



# General Subfund Revenue Overview

## City Revenue Sources and Funds – November 2002

### City Revenues

Seattle City government has four main sources of revenue to support the services and programs that the City provides its citizens. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded with fees include Woodland Park Zoo, Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to their customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2002, City revenues are estimated to be \$2.8 billion. Revenues for general government purposes will total approximately \$631 million.

### City Funds

The City allocates its financial resources into a variety of accounting entities called “funds” or “subfunds” to account for revenues and expenditures. The use of multiple funds is necessary to ensure compliance with State budget and accounting rules, and to promote accountability for specific projects or activities. Operating expenditures for services typically associated with the City, such as police and fire, are accounted for in the General Subfund (comparable to the “General Fund” in budgets prior to 1996).

Many departments or programs have separate funds or subfunds. For example, operating revenues and expenditures for Seattle Center are accounted for in the Seattle Center Fund. Expenditures of revenues from the City’s Families and Education Property Tax Levy are accounted for in the Educational and Development Services Fund. In addition, the City maintains separate funds for debt service and capital projects. The City of Seattle has an obligation to ensure that revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own operating fund.

Finally, the City maintains pension trust funds including the Employees’ Retirement Fund, the Firemen’s Pension Fund, and the Police Relief and Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for City employees.

# General Subfund Revenue Overview

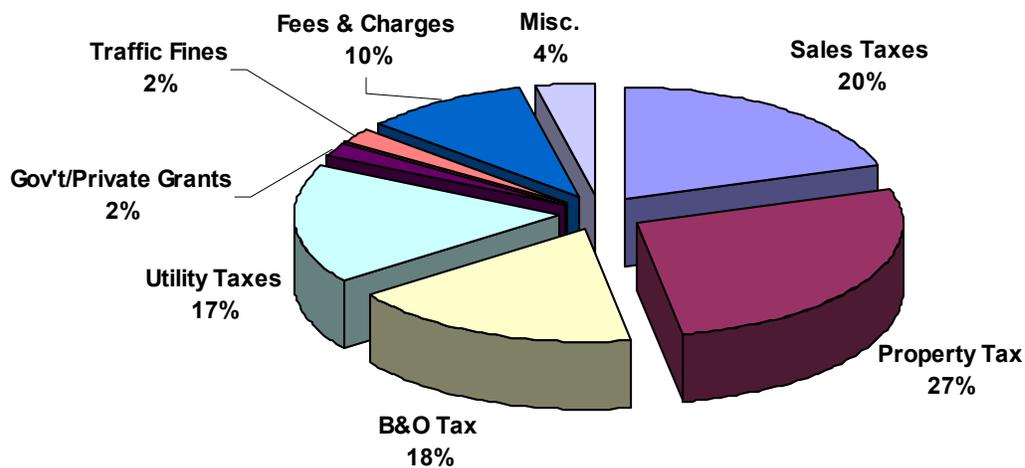
## General Subfund of the General Fund

The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (27%), followed by sales taxes and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 55% of General Subfund revenue, fluctuate significantly as economic conditions for the Puget Sound region change.

The following section describes the current outlook for the national and Puget Sound economies. This is followed by descriptions of General Subfund revenue and operating balance forecasts for 2002-2004.

**Figure 1. 2002-Revised General Subfund Revenue Forecast by Source - \$631M**



## The National and Local Economy

### Current Economic Conditions and Outlook

*The longest economic expansion on record ended with the onset of recession in March 2001.* The decade of the 1990s saw the longest national economic expansion on record, one that lasted a full ten years. The expansion started inauspiciously, as the national economy grew sluggishly for several years following the recession of 1990-

# General Subfund Revenue Overview

91. However, in the later half of the decade, economic growth accelerated, led by rising productivity, a booming stock market, an expanding high-tech sector, and rising investment. At the peak of the boom optimists talked of the arrival of a “new economy” and a future characterized by rapid economic growth, soaring incomes, and an end to the business cycle.

A dominant feature of the late 1990s boom was the rapid escalation of stock valuations, particularly for technology stocks. Rising stock prices provided a cheap source of capital for businesses, which invested heavily in technology infrastructure including computers, software, and telecommunications equipment. The strong stock market also enabled many firms to compensate employees in part with stock options, thus saving money and boosting profits - which pushed stock prices up further. The general climate of optimism and expectations of rising profitability enabled many questionable business ventures to obtain financing. The soaring stock market also contributed to rising consumer spending, which was boosted by rising wealth and income gains resulting from the exercise of stock options.

This self-reinforcing cycle of rising stock prices, rising profits, rising investment, and rising consumer spending came to an end when the stock market bubble burst in early 2000. With stock prices no longer rising, capital became more costly. In addition, it became increasingly clear that many businesses had over-invested during the boom years. In response, businesses cut back on investment spending. With wealth now declining rather than growing, and stock option income largely disappearing, consumer spending slowed.

The slowing economy slipped into recession in March 2001, and it was weakened further by the September 11 terrorist attacks. To mitigate the recession’s impact, the Federal Reserve cut interest rates aggressively during 2001, including a half point cut immediately following the September 11 attacks. The resulting low interest rates supported the housing market by reducing the cost of borrowing, and helped to keep debt service burdens under control. Also softening the recession’s impact were federal tax cuts and tax rebates, federal spending increases for security and defense, and declining energy prices. Consumer spending slowed but it did not turn negative as is typical during a recession.

***The recovery from the recession has been weak and uneven.*** The recession, which was one of the mildest in the post-war period, ended in late 2001 or early 2002 (its official ending date has not yet been determined). Gross domestic product (GDP) declined for 3 successive quarters beginning in 2001 Q1, and growth resumed in the 4<sup>th</sup> quarter. Thus far, the recovery from the 2001 recession has been both weak and uneven. Although GDP grew at a healthy 5.0% annual rate in 1<sup>st</sup> quarter 2002, growth was largely driven by inventory adjustments. In 2<sup>nd</sup> quarter 2002 GDP growth slowed to a 1.1% rate.

The weakness of the recovery is due in part to the nature of the 2001 recession. Typically during a recession, consumer spending turns negative (in real terms) and the housing market weakens. This sets the stage for a strong recovery driven by a sharp increase in consumer spending, as pent-up demand is unleashed, and an improving housing market. In the 2001 recession, consumer spending did not decline, although it did slow, and the housing market remained strong. Consequently, factors that typically drive a strong recovery are absent. In addition, both consumption and investment spending have been restrained by high consumer and corporate debt burdens.

The recovery has also been hampered by a decline in investor confidence caused by the corporate finance scandals that began with revelations concerning Enron and Arthur Anderson in late 2001, and have continued through 2002. Issues include: the accuracy of financial information provided by many corporations, including the over-estimation of revenues, concerns about the independence of corporate boards, the questionable use of stock options, excessive CEO compensation, and misleading advice from Wall Street analysts who encouraged

# General Subfund Revenue Overview

investors to buy stocks that the analysts knew were overvalued. As confidence in Wall Street and corporate America has fallen, investors have begun to shift money to less risky investments.

Between March and July 2002, the stock market (as measured by the Standard and Poor's 500 Index) lost more than 20% of its value. In addition to the stock market's troubles, July 2002 saw a number of disappointing economic news releases, including a drop in consumer confidence, a slowing of industrial growth, lack of job growth, and a decline in commercial construction and state and local government spending. Although the stock market rebounded somewhat in August, economic data has remained mixed at best.

The economy's recent weakness has increased the chances of a double-dip recession, and has led economists to lower their forecasts of growth for the second half of 2002. Most economists now expect modest growth through the end of 2002, with some acceleration in 2003.

***The recession in the Puget Sound region has been severe.*** The national recession started with the deflation of the stock market bubble and a sharp decline in investment in high tech products and services. The recession widened after September 11, as travel-related business joined in the downturn. Because of its specialization in both high tech and travel-related businesses, the Puget Sound Region has suffered more from the 2001 recession than almost any region in the nation.

In the late 1990s the Puget Sound region experienced rapid economic growth driven by the expansion of its high-tech and dot-com firms and rising stock prices of many local businesses. Many high tech workers grew wealthy through the exercise of stock options, and their generous spending further stimulated the economy. This situation was quickly reversed in early 2001, as the region's economy was hit by:

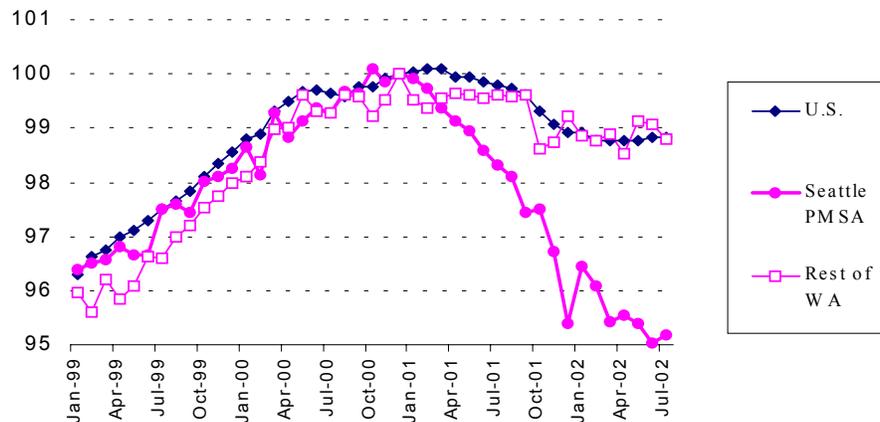
- The demise of the local dot-com sector
- Layoffs and business closures in much of the high-tech sector
- A sharp decline in stock option income
- A steep drop in venture capital investment
- A decline in household wealth driven by falling stock prices

Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to severely cut back its projections of the demand for airliners during the next several years. Boeing announced that it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division – most of them by mid-2002. Two-thirds of the cuts were expected to occur in the Puget Sound Region. Thus far Boeing has kept to this schedule.

The timing and severity of the region's recession is illustrated in Figure 2, which shows monthly employment for the U.S., the Seattle PMSA (King, Snohomish, and Island Counties), and the rest of Washington for the period January 1999 – July 2002. The employment figures have been indexed to equal 100 in December 2000, the month of peak employment in the Washington. Indexing makes it possible to compare growth trends for jurisdictions that are different in size.

# General Subfund Revenue Overview

**Figure 2. Non-Agricultural Wage & Salary Employment  
(December 2000 = 100)**



NOTE: All data have been seasonally adjusted.

Following several years of steady gains, employment growth began to falter in 2<sup>nd</sup> half of 2000, both locally and nationally (see Figure 2). During 2001, employment declined in the U.S. and throughout Washington State, but the decline in the Seattle PMSA was much steeper than the drop in the U.S. or the rest of Washington, indicating the degree to which the state's recession has been focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 5.1% for the Seattle PMSA, 1.5% for the rest of Washington, and 1.3% for the nation. Following 2001's steep drop, Seattle PMSA employment has begun to stabilize in the first half of 2002.

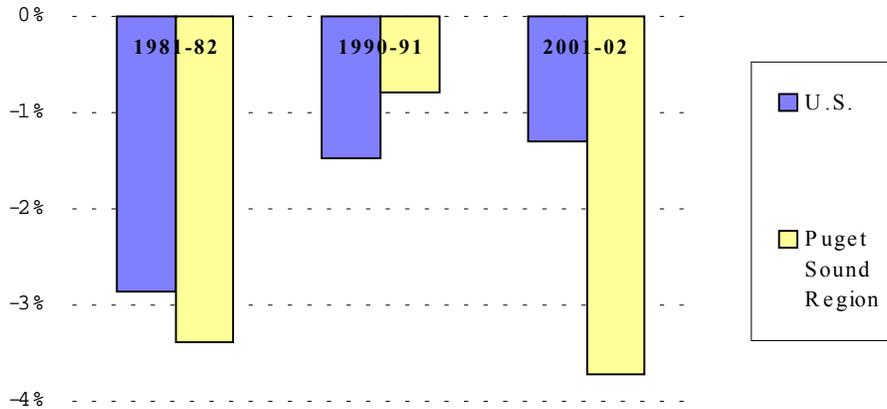
To gain additional perspective on the severity of the current recession, it is helpful to compare it to the two most recent recessions, which occurred 1981-82 and 1990-91. The 1981-82 recession was one of the nation's most severe recessions since the great depression, while the 1990-91 recession was relatively mild.

During the 1981-82 recession, conditions in the Puget Sound Region mirrored national conditions, as job loss exceeded 3% and the local unemployment rate reached 11.0%, compared to 10.7% nationally. The region fared better during the 1990-91 recession, which was so mild that many economists contend there was no recession in the region during 1990-91. Unfortunately, that pattern has reversed during the current recession, which has been much more severe locally than nationally.

During the current recession, employment in the four-county (King, Kitsap, Pierce, and Snohomish) Puget Sound Region has dropped by 3.7% from peak-to-trough, compared to a 1.3% decline nationally (see Figure 3). The region's employment loss in the current recession is greater than its loss in 1981-82. One positive note is that the region's unemployment rate is forecast to peak at 6.9% in mid-2002, well below the 11.0% peak reached in 1981-82. The relatively low unemployment of the current recession is due to the mildness of the national recession and the fact that the region entered the recession with a very low unemployment rate.

# General Subfund Revenue Overview

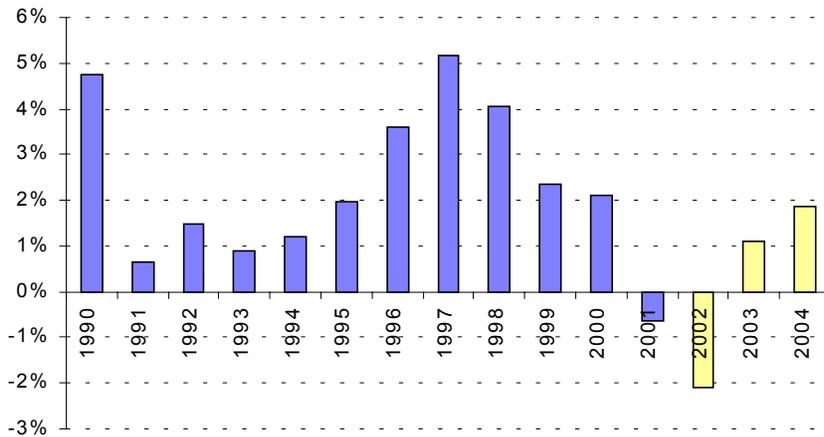
**Figure 3. Peak-to-Trough Employment Decline During Recent Recessions**



The region is expected to recover from the current recession at a very slow pace, in part because of the weakness of the national recovery. In addition, it will take some time for the full impact of Boeing layoffs to work their way through the rest of the economy, and the next upswing in the aerospace cycle is several years off.

According to forecasts from the Puget Sound Economic Forecaster, regional employment will hit bottom in 2<sup>nd</sup> and 3<sup>rd</sup> quarter of 2002, and little growth is anticipated in the 4<sup>th</sup> quarter. Growth should resume in 1<sup>st</sup> quarter 2003, at a very modest pace. Employment growth is forecast to be 1.1% in 2003 and 1.9% in 2004 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in 4<sup>th</sup> quarter 2000 until some time in early 2005.

**Figure 4. Annual Growth of Puget Sound Region Employment**



Note: 2002-04 forecasts are from Puget Sound Economic Forecaster.

# General Subfund Revenue Overview

**Consumer price inflation is expected to rise from its 2002 low.** As a result of the national recession, the heretofore weak recovery from the recession, and a decline in energy prices during the period mid-2001 to early 2002, consumer price inflation slowed in early 2002. The U.S. Consumer Price Index for all Urban Consumers (CPI-U) increased at a 1.3% annual rate in the first half of 2002.

Nationally, inflation is expected to pick-up in the second half of 2002 and then settle into the 2.5%-3.0% range in 2003-04. Reasons for the expected rise in inflation include escalating energy prices, rising health care costs, a strengthening economy, and an expected rise in import prices resulting from the dollar's decline. If the economic recovery is weaker than anticipated, inflation will likely be lower than forecast in 2003. Forecasters who expect a continued weak recovery predict inflation will be near 2% next year.

Inflation in the Puget Sound region has been higher than national inflation in every year but one since 1990. However, that pattern is forecast to reverse in 2003 and 2004, due to the fact that the Puget Sound Region was hit much harder by the recession than most areas of the nation. The severity of the recession has resulted in a significant slowdown in the local inflation rate. In particular, housing inflation, which has been higher locally than nationally in 12 of the past 13 years, has slowed to a near standstill.

**Figure 5. Consumer Price Index Forecast**

|               | U.S. CPI-W | Seattle CPI-W |
|---------------|------------|---------------|
| 2001 (actual) | 2.6%       | 3.9%          |
| 2002 (actual) | 1.3%       | 1.5%          |
| 2003          | 2.6%       | 2.3%          |
| 2004          | 2.8%       | 2.7%          |

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2004. These forecasts are for the CPI-W, which measures price increases for urban wage and clerical workers. The CPI-U measures prices for all urban consumers. Forecasts are made for the CPI-W because City of Seattle labor agreements are based upon the CPI-W. The forecasts of the U.S. CPI-W are for the growth rate from July of one year to July of the following year; the Seattle CPI-W forecasts are for June-June growth rates. These specific month-to-month growth rates are used as the bases for cost of living increases in City of Seattle wage agreements.

## General Subfund Revenue Forecasts

### Revenue Overview

Figure 6 shows General Subfund actual revenues for 2001, as well as the revised forecast for 2002 and the proposed 2003-2004 forecasts. The forecast for General Subfund revenue in 2002 (excluding use of fund balances) is \$623 million, which is \$27.1 million or 4.6% greater than collections in 2001. However, a large portion of this increase, approximately \$27.2 million (under Service Charges in Figure 6), is the result of a financial re-organization and is offset by a dollar-for-dollar increase in General Subfund expenses. After adjusting for this re-organization, 2002 revenues are expected to bring in the same nominal collections as in 2001. In response to recommendations by the Executive in November 2002, City Council revised the previous forecasts for 2003 and 2004 downward to reflect a weaker outlook for the telephone industry and to adjust for lower than expected wastewater utility tax revenues. The revisions were prompted by an update of recent tax receipts

# General Subfund Revenue Overview

showing instability in the telephone industry and poor wastewater tax revenues due to reduced demand for water. Offsetting these declines, City Council made several adjustments in fees and charges, resulting in \$2.3 million more revenue in 2003 and \$700,000 more in 2004 (see section on licenses, permits and parking charges for further detail). Additionally, there were positive adjustments made to reflect interfund transfers and unexpended fund balances. Overall, City Council adjustments resulted in a final tally of \$646 million for 2003 and \$658 million for 2004.

**Figure 6. General Subfund Revenue, 2001 – 2004 <sup>(1)</sup>**

| Revenue Source                                      | 2001<br>Actual     | 2002<br>Revised    | 2003<br>Adopted    | 2004<br>Endorsed   |
|---|--------------------|--------------------|--------------------|--------------------|
| General Property Tax                                | 159,755,224        | 168,348,000        | 172,701,802        | 176,650,569        |
| (less fire pension)                                 | -12,542,620        | -13,711,000        | -15,300,802        | -15,537,569        |
| Net General Subfund Property Tax                    | 147,212,604        | 154,637,000        | 157,401,000        | 161,113,000        |
| Property Tax - EMS Levy                             | 15,871,290         | 18,551,000         | 19,015,000         | 19,395,000         |
| Retail Sales Tax                                    | 120,053,388        | 115,091,000        | 117,907,000        | 121,416,000        |
| Retail Sales Tax – Criminal Justice Levy            | 11,233,272         | 10,769,000         | 11,032,000         | 11,361,000         |
| B&O Tax (90%)                                       | 112,596,867        | 112,135,000        | 109,382,000        | 113,878,000        |
| Utilities Business Tax - Telephone (90%)            | 32,225,542         | 32,483,000         | 35,164,000         | 34,159,000         |
| Utilities Business Tax - City Light (90%)           | 26,428,198         | 30,662,000         | 30,388,000         | 30,951,000         |
| Utilities Business Tax - SWU & priv.garb.           | 7,894,753          | 7,888,000          | 8,157,251          | 8,353,000          |
| Utilities Business Tax - City Water (90%)           | 6,441,841          | 7,209,000          | 8,231,000          | 9,150,000          |
| Utilities Business Tax - DWU (90%)                  | 11,793,323         | 12,678,000         | 13,839,800         | 15,043,000         |
| Utilities Business Tax - Natural Gas (90%)          | 9,829,527          | 8,953,000          | 9,182,000          | 9,458,000          |
| Utilities Business Tax - Other Private (90%)        | 8,414,596          | 8,683,000          | 9,179,000          | 9,621,000          |
| Admission Tax                                       | 6,710,859          | 5,198,000          | 6,311,000          | 6,501,000          |
| Other Tax   | 4,745,052          | 5,092,000          | 5,048,000          | 5,154,000          |
| <b>Total Taxes less fire pension</b>                | <b>521,451,113</b> | <b>530,029,000</b> | <b>540,237,051</b> | <b>555,553,000</b> |
| <b>Licenses and Permits</b>                         | <b>9,756,498</b>   | <b>9,985,000</b>   | <b>12,989,556</b>  | <b>13,061,856</b>  |
| <b>Parking Meters/Meter Hoods</b>                   | <b>10,679,477</b>  | <b>10,300,000</b>  | <b>12,612,800</b>  | <b>13,712,939</b>  |
| <b>Court Fines</b>                                  | <b>15,307,194</b>  | <b>14,567,500</b>  | <b>19,775,750</b>  | <b>20,082,750</b>  |
| <b>Interest Income</b>                              | <b>5,133,377</b>   | <b>3,597,000</b>   | <b>3,592,000</b>   | <b>4,002,000</b>   |
| <b>Revenue from Other Public Entities</b>           | <b>16,271,421</b>  | <b>11,476,082</b>  | <b>7,550,736</b>   | <b>7,819,736</b>   |
| <b>Service Charges &amp; Reimbursements</b>         | <b>16,280,534</b>  | <b>42,231,001</b>  | <b>38,708,860</b>  | <b>39,521,009</b>  |
| All Else  | 1,022,015          | \$845,133          | 910,619            | 937,086            |
| <b>Total: Revenue &amp; Other Financing Sources</b> | <b>595,901,630</b> | <b>623,030,716</b> | <b>636,377,372</b> | <b>654,690,378</b> |
| Unexpended Fund Balance, Interfund Transfers        | 3,354,210          | \$8,401,770        | 9,748,633          | 3,697,634          |
| <b>Total, General Subfund</b>                       | <b>599,255,840</b> | <b>631,432,486</b> | <b>646,126,005</b> | <b>658,388,010</b> |

**NOTE:** A detailed listing of City General Subfund revenues is found in the appendix.

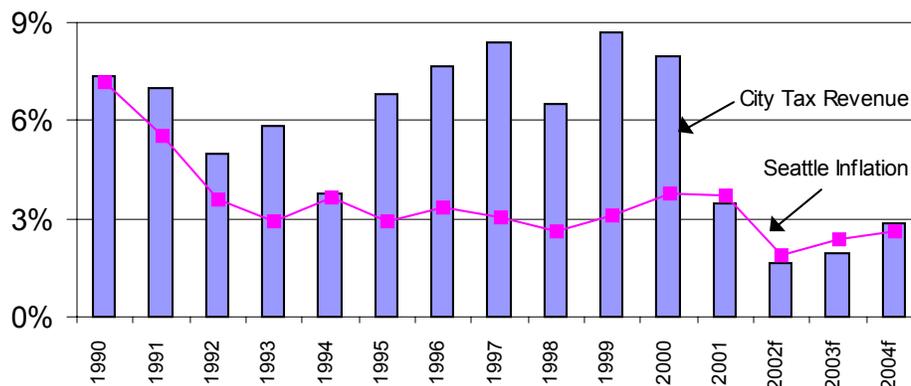
(1) Under the City Charter, 10% of certain revenues is deposited into the Parks Fund. These are noted by the 90% figures above. This requirement also applies to certain license revenues.

# General Subfund Revenue Overview

Figure 7 shows the marked decrease in revenue growth post-2000. After many years of tax revenue growth outpacing inflation, the year 2001 saw the beginning of the national and local recession. The 2002 and 2003 revenue forecasts portray the weakness in the business taxes, i.e. sales and Business and Occupation (B&O) taxes. A sharp decline in retail sales tax revenue in 2002, followed by lukewarm recovery, has resulted in a 2004 sales tax estimate that barely exceeds, in nominal terms, the 2001 receipts for this revenue. Following suit, the B&O tax revenue is expected to post year-over-year negative growth in 2003, rebounding with a 4.1% growth in 2004. Adding to the overall slowdown is the reduction of the statutory annual growth limit from 6.0% to 1.0% on property taxes, effective in 2002. However, offsetting the slowing tax revenues in 2002 are high revenue expectations, due to rate increases begun in 2001, from the City owned utilities providing water and drainage and wastewater.

Included in the 2003 and 2004 forecast estimates are a number of increased fee and permit charges. These additional revenues are proposed as an effort to recover escalating costs in providing administrative and regulatory service and are included in the Licenses and Permits, Parking Meters/Meter Hoods, and Court Fines revenues in Figure 6.

**Figure 7. City of Seattle Tax Revenue Growth, 1990-2004**



## Retail Sales and Use Taxes

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses that, in turn, remit the tax to the state. The state provides the City with its share of these revenues on a monthly basis.

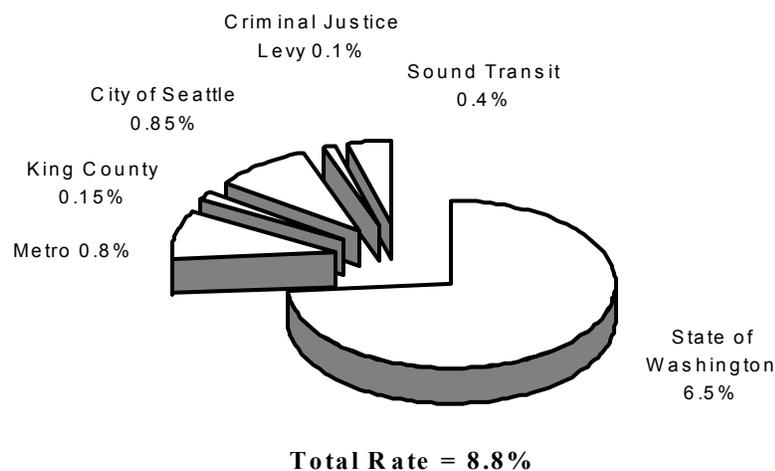
Within the city of Seattle, the sales tax rate is 8.8% for most taxable activities. The rate was increased from 8.6% in April 2001, following a King County vote to raise the sales tax rate by 0.2% to provide additional funding for transit. The exception to the 8.8% rate is a 9.3% rate that is applied to food and beverages sold in restaurants,

# General Subfund Revenue Overview

taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 8.8% is a composite of separate rates for several jurisdictions as shown in Figure 8. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the county criminal justice levy.

**Figure 8. Sales and Use Tax Rates in Seattle, 2002**

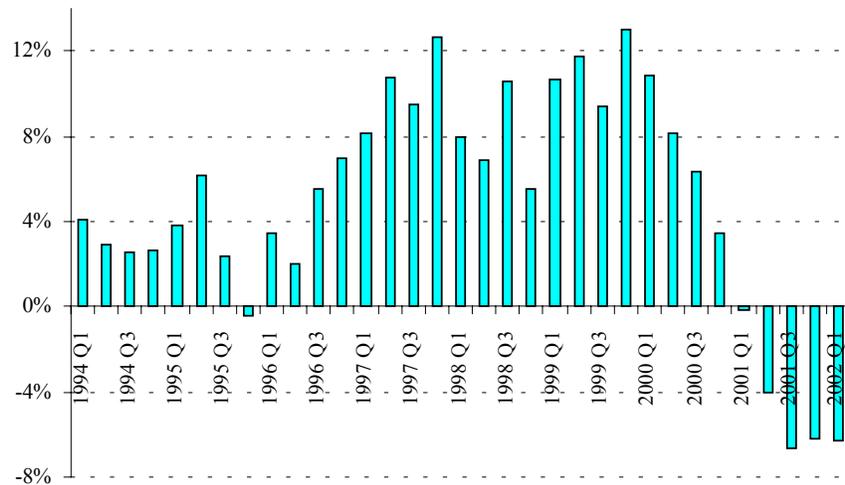


NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars.

***Sales tax revenue has grown and contracted with the region's economy.*** The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 9, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy that was led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peak. Growth began to slow in the first 2 quarters of 2000, when the stock market bubble burst and technology firms began to falter. The slowdown has continued into 2001 and 2002, which have seen growth rates turn sharply negative beginning in 2<sup>nd</sup> quarter 2001. The average growth rate for the most recent 4 quarters for which data are available, 2001 Q2 – 2002 Q1, was -5.8%. The falloff in growth has been most pronounced for furniture stores, communications, and wholesale trade. Since September 11, taxable sales for hotels have declined sharply.

# General Subfund Revenue Overview

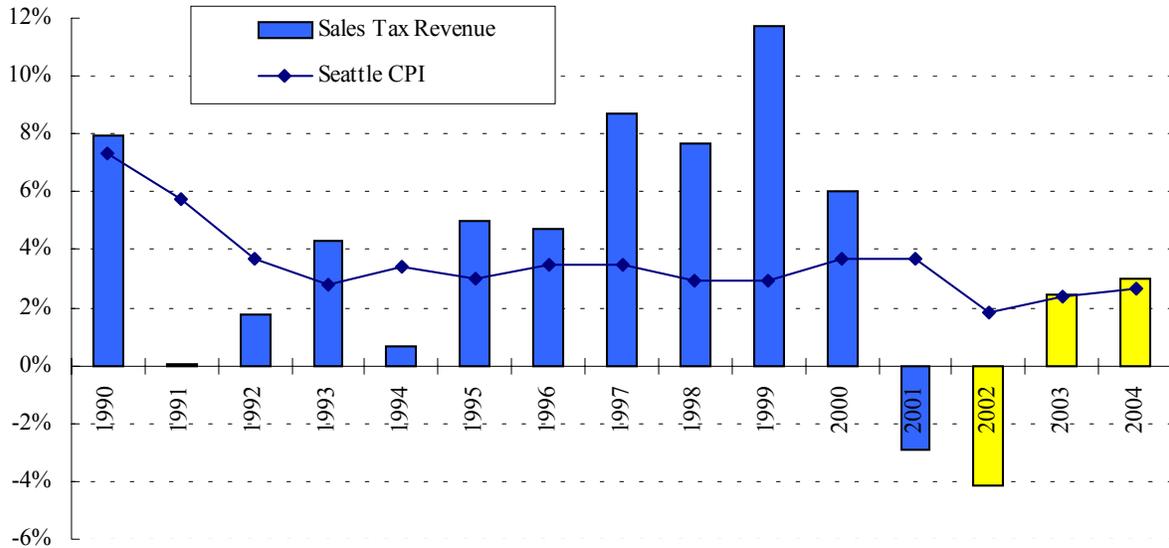
**Figure 9. Seattle Taxable Retail Sales: Quarterly year-over-year Growth**



***Retail sales tax revenue is forecast to decline in 2002, then grow at a modest pace in 2003-04.*** Reflecting the severity of the 2001-02 recession, City of Seattle retail sales tax revenue declined by \$3.6 million (2.9%) from 2000 to 2001. With a local inflation rate of 3.7% in 2001, this represents a real decline of 6.3% (i.e., after removing the effects of inflation). Retail sales tax revenue is forecast to decline for a second consecutive year in 2002 (see Figure 10). Revenue in 2002 is expected to fall \$5.0 million below 2001 levels, a decline of 4.1%. The forecast for 2002 assumes that the rate of revenue decline will moderate somewhat in the second half of the year. Growth is expected to turn positive in 2003 and 2004, with sales tax revenue forecast to increase by 2.4% in 2003 and 3.0% in 2004. These growth rates are barely above the projected rate of local inflation.

# General Subfund Revenue Overview

Figure 10. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2002-04 are forecasts.

## Business and Occupation Tax

The Business and Occupation (B&O) tax is levied by the City on the gross receipts of most business activity occurring in Seattle. Under some conditions, gross receipts of Seattle businesses are excluded from the tax if the receipts were earned from providing products or services outside of Seattle.

The City levies the B&O tax at different rates on different types of businesses, as indicated in Figure 14 at the end of this section. For example, retail trade business is subject to a tax of 0.215% on gross receipts, while service business, such as accounting, is taxed at a 0.415% rate. Included in the forecast of B&O tax revenue are projections of tax refund payments and estimates of tax penalty and interest payments for past-due tax obligations.

Other things being equal, the B&O tax base is more stable than the retail sales tax base. Relative to the sales tax base, the B&O base is broader, less reliant on the construction and retail trade sectors, and more dependent upon the service sector (most services are not subject to the sales tax).

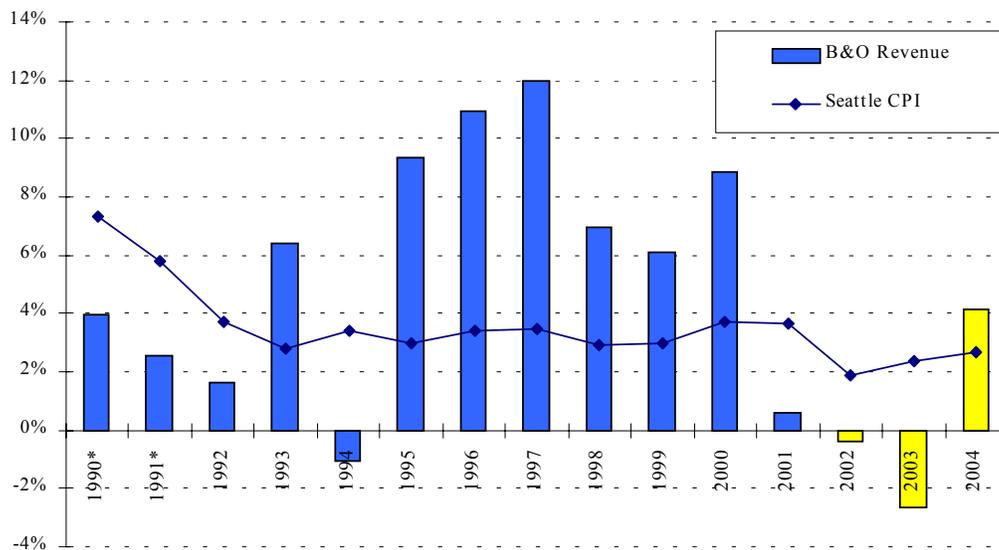
**After rising strongly in the second half of the 1990s, B&O revenue growth stalled in 2001.** Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which resulted in very strong B&O revenue growth during the period 1995-97. Growth slowed somewhat in 1998, as these efforts began to yield diminishing returns once the most obvious and productive techniques for identifying unlicensed or under-reporting businesses had been put into practice.

# General Subfund Revenue Overview

With the economy continuing to expand, B&O revenue continued its healthy growth through 2000, increasing by 7.0% in 1998, 6.1% in 1999, and 8.9% in 2000. Growth in 2000 was boosted by changes in the way that the State of Washington taxes financial institutions, which resulted in a significant increase in City B&O tax revenue from financial institutions.

When the region's economy slipped into recession in early 2001, B&O receipts dropped off abruptly. B&O revenue for 4<sup>th</sup> quarter 2000 taxable activity increased by 8.7% relative to 4<sup>th</sup> quarter 1999. However, growth for the next quarter, 1<sup>st</sup> quarter 2001, plummeted to -1.5%. Quarterly growth rates have remained in negative territory since then, with the exception of 4<sup>th</sup> quarter 2001, when the City received an unusually large amount of revenue from audit activity. The audit revenue boosted total B&O receipts enough to yield positive revenue growth of 0.6% for 2001.

**Figure 11. Annual Growth of B&O Tax Revenue**



\*1990 and 1991 figures were adjusted to remove the effects of tax rate increase.

Note: Revenue figures reflect current accrual methods. 2002-04 are forecasts.

***B&O revenue is forecast to decline in 2002 and 2003, then rebound in 2004.*** The forecast for B&O revenue anticipates a modest decline in 2002, followed by a steeper drop in 2003, then a rebound to 4.1% growth in 2004 (see Figure 11). This pattern is not consistent with either the regional economic forecast or the sales tax revenue forecast, both of which anticipate decline in 2002 followed by a modest recovery beginning in 2003. The cause of this inconsistency is the City's receipt of approximately \$6.7 million in 2002 as a result of the resolution of a long-standing legal dispute between the City and auto manufacturers. Without this infusion of revenue in 2002, the revenue forecast would have called for a steep -6.3% drop in revenue in 2002, followed by moderate growth of 3.5% and 4.1% in 2003 and 2004, respectively. The magnitude of 2002 drop is due in part to a sharp drop in revenue from audit activity following 2001's exceptionally high level of audit revenue.

# General Subfund Revenue Overview

The B&O revenue forecast incorporates a revision the City Council made to the Executive's proposed B&O forecast. This revision adds \$252,000 to the forecasts for 2003 and 2004 to reflect additional revenue that will be generated by the hiring of a contract auditor to audit B&O tax returns.

## Property Tax

Property tax is levied primarily on real estate owned by individuals and businesses. Real estate consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on machinery and equipment belonging to business.

In 2002, the property tax rate for Seattle properties is about 1.07% of assessed value (which officially is expressed as \$10.66 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the fair market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$301,000 (the average assessed value for residences in Seattle), the 2002 tax obligation is approximately \$3,200.

As Figure 12 shows on the following page, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. In addition, the figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 69% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the Families and Education Levy, support various City programs and projects.

***The 2003 Proposed Budget reflects a 1% revenue increase for 2003 and 2004.*** The forecast for the General Subfund portion of the City's property tax is \$157.4 million in 2003 and \$161.1 million in 2004. The annual growth in property tax revenue is restricted by State statute. Since 1973, State law limited the annual growth of the City's General Subfund non-voted property tax levy to 106%. However, in November 2001, voters state-wide approved Initiative 747, which changed the 106% limit to the lesser of 101% or the Implicit Price Deflator, effective for the 2002 collection year.

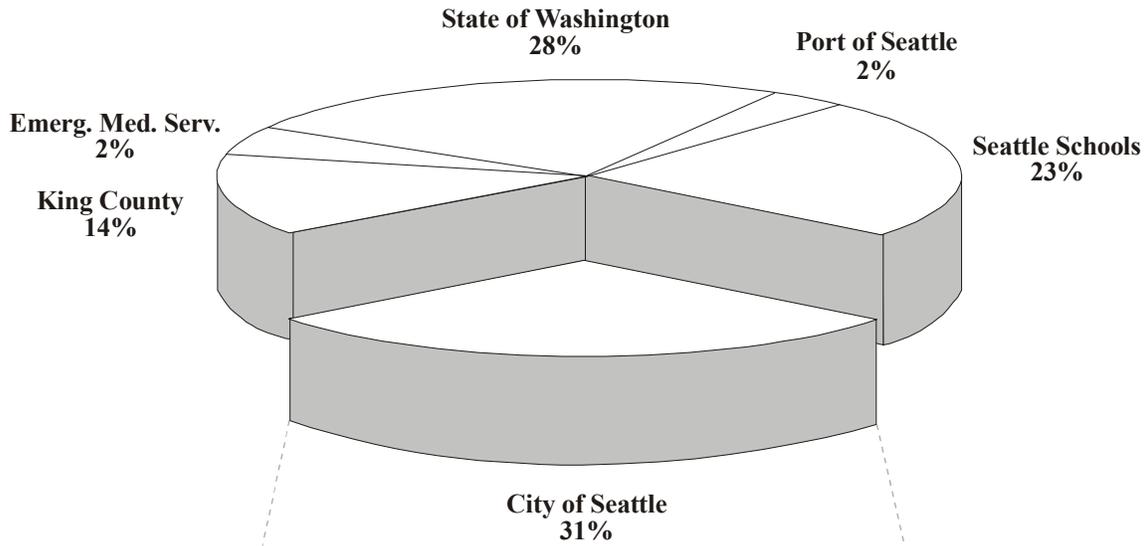
For 2002, the general subfund levy reflects a 1.0% increase plus \$2.8 million in banked capacity. Since 1986, State law has allowed taxing districts to preserve any unused levy capacity for future use. The 2002 levy includes the 1.9% levy capacity (the difference between the 2001 maximum 6.0% limit and 4.1%) that was banked in 2001.

***New construction adds to City levy.*** There is one important exception to the annual growth limit. State law permits the City to increase its General Subfund levy by more than the growth limit to reflect tax on property constructed or remodeled within the last year. Beginning in 1999, robust construction activity resulted in adding unusually high amounts of new construction revenue: \$2.5 million in 1999, \$2.9 million in 2000, \$3.7 million in 2001, and a record-setting \$5.2 million in 2002. Due to slowing construction activity, the forecast for new construction revenue assumes \$3.0 million in 2003 and \$2.5 million in 2004.

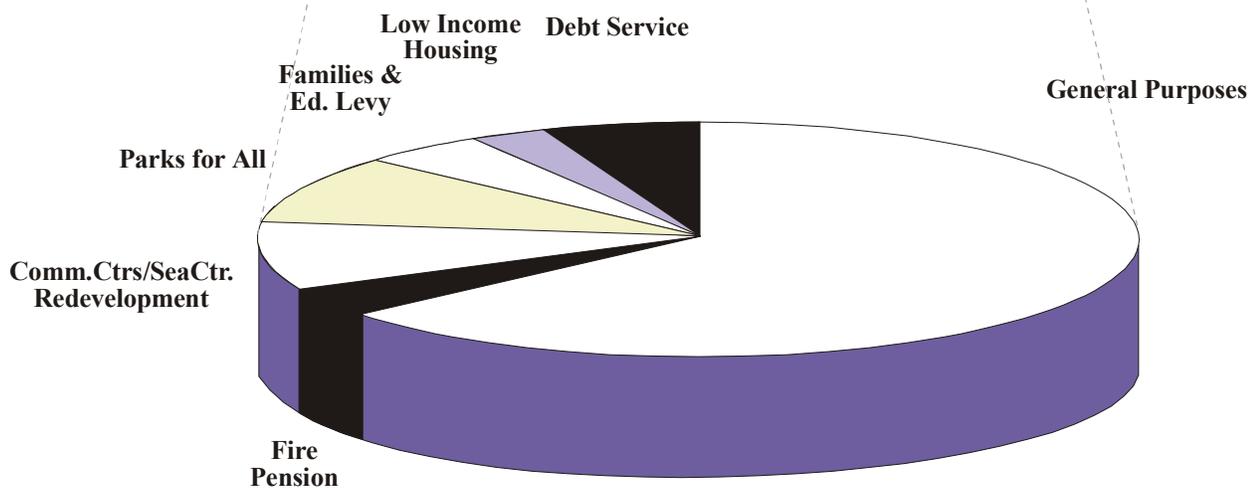
# General Subfund Revenue Overview

Figure 12

Components of Total Property Tax Levy (2002)



Components of City's Property Tax Levy (2002)



# General Subfund Revenue Overview

## Utility Business Tax - Private Utilities

The City levies a tax on the gross income derived from sales of utility services by privately-owned utilities within Seattle. These services include telephone, steam, cable communications, natural gas, and refuse collection for businesses.

**Telephone utility tax forecast is revised downward.** The utility business tax, which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate \$35.1 million in 2003, and \$34.2 million in 2004. This is a reduction from the previous forecast of \$35.5 million and \$37.8 million, respectively for 2003 and 2004. Falling revenue from this source in late 2002 prompted a revision to the forecast in November 2002. The forecast recommendation was to lower the 2003 forecast by \$2.5 million and by \$3.6 million in 2004; however, much of the reduction in 2003 was offset by over \$2 million due in back taxes.

After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in 4<sup>th</sup> quarter 2002. The lackluster economy continues to harm telecom revenues amid restructuring in the industry as carriers shift positions in providing service to the end user. Although the wireless industry is expected to show positive returns through 2003 and 2004, analysts believe that telecom companies will face tougher times as the demand for service decelerates, particularly for basic phone and long distance service.

**Strong growth for cable.** The City has a franchise agreement with the cable television companies operating in Seattle. Under the current agreement, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 2.5% franchise fee makes funds available for cable-related public education access purposes.

It is estimated that cable revenues will experience strong growth in 2003 and 2004. The cable industry in Seattle has increased its services in terms of additional channels, pay-per-view options, and digital reception. Additionally, monthly rates have increased for basic cable and premium channels and are expected to increase for basic service.

## Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (City Light, water, drainage, wastewater, and solid waste). Current effective tax rates are 6% for electricity and 10% for the other public utility services (tax rates are shown in Figure 14).

As a result of expected changes in usage and proposed rate increases, General Subfund revenue from public utility taxes is forecast to increase by 11.2% in 2002, largely because of City Light rate increases that went into effect in 2001.<sup>1</sup> Growth is forecast to slow to 3.7% in 2003 and 4.8% in 2004, when rate increases are planned for solid waste, water and drainage & wastewater services. More detailed information on the size of, and reasons for, public utility rate increases is provided in the sections on Seattle City Light and Seattle Public Utilities.

The public utility tax revenue forecasts include changes that the City Council made to the Executive's proposed forecasts for the solid waste and drainage & wastewater utilities. Council raised the 2003 forecast for solid waste utility tax revenue by \$65,251 to reflect the additional revenue that will be generated by increasing commercial

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<sup>1</sup> Included in these increases is a small amount (less than \$2 million annually) of revenue from private solid waste collections. The majority of solid waste utility tax revenue comes from the City of Seattle Solid Waste Utility.

# General Subfund Revenue Overview

collection rates by 3% (the Executive had proposed 1% rate increase). In its November 4, 2002 revenue forecast update, the Department of Finance recommended that the drainage and wastewater utility tax revenue forecast be reduced by \$376,200 in 2003 and \$253,800 in 2004 to reflect anticipated declines in wastewater volumes. Council reduced the 2003 forecast by \$376,200, but made no changes to the 2004 forecast. The 2004 forecast will be revisited in early 2003 as part of the drainage and wastewater utility's rate review process.

## Admission Tax

The City imposes a tax on admission charges to most Seattle entertainment events. The City's tax is 5% of these charges, the maximum allowed by state statute. This revenue source is highly sensitive to unanticipated swings in attendance at professional athletic events. It is also dependent on economic conditions as people's ability and desire to spend money on entertainment is influenced by general prosperity in the region.

The 2002 revenue from this source is expected to be 22.5% below that achieved in 2001. Most of the reduction stems from the permanent loss of all tax revenue from Seattle Seahawks games due to their move to the newly constructed football stadium in 2002. State law that established the financing mechanism for the new facility prevents the City from levying its admission tax on professional sports in the new football stadium. In a similar fashion, State law precludes the City from levying its admission tax at Safeco Field and the Exhibition Hall.

***Redirecting revenues to the General Subfund.*** In November 2000, the City Council passed Ordinance #120183 that dedicated 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. The projections for 2003-2004 reflect the suspension of dedicating this portion of the Admission tax (approximately \$960,000 in 2003 and \$990,000 in 2004) to the Office of Arts and Cultural Affairs and redirecting this revenue to the General Subfund.

## Licenses, Permits, and Parking Charges

The City requires that individuals and companies conducting business in Seattle obtain a City business license. In addition, some business activities (e.g., taxi cabs and security systems) require additional licenses that are referred to as professional and occupational licenses. The City also assesses fees for public safety purposes (e.g., pet ownership, fire hazard inspection, and gun ownership) and charges a variety of fees for use of public facilities and rights-of-way.

City departments periodically review fees and permit charges to assess revenue recovery relative to the cost of providing the administrative and regulatory service, and to determine whether services should be paid for by the recipients of the service via fees or by all tax payers via general tax revenues. The Executive proposed approximately \$3.8 million in additional (non-parking fine) General Fund fee and charges for 2003, and \$3.9 million for 2004. These revenues represent new fees, or increases to existing fees, in the following areas: street use and parking (Department of Transportation); hazardous material storage, building inspections, and other fire hazard-related permits (Fire Department); and business and professional license fees, including a surcharge on the City's business license fee (Department of Executive Administration). The Executive also proposed an increase to the City's parking fines, adding approximately \$3.4 million in 2003 and in 2004.

The Council approved these increases, and in some cases adjusted the fees or revenues further. For example, Council increased the proposed fees for commercial vehicle load zone permits and a variety of service meter hoods; and adjusted revenues for commercial parking license fees, adult entertainer and manager fees, and panoram location and device fees. Council also increased fines for false alarm responses, fee amounts for pet licenses and other animal control related services, and called for adding 1,600 parking meters in the City. In total

# General Subfund Revenue Overview

the Council added \$1.6 million in non-parking fine General Fund fee and charges revenues in 2003 and \$2.7 million in 2004. For more detail, please refer to Figure 13 and the relevant City department sections.

**Figure 13. 2003-2004 General Subfund Revenue Adjustments in Fees and Charges**

| Fee Description                                     | 2003               |                  |                   | 2004               |                  |                   |
|---|--------------------|------------------|-------------------|--------------------|------------------|-------------------|
|   | Executive Proposed | Council Adjusted | Total Revenue     | Executive Proposed | Council Adjusted | Total Revenue     |
| <b>Parking and Street Use Fines and Fees</b>        |                    |                  |                   |                    |                  |                   |
| Street Use Right of Way Permits                     | 410,000            | 0                | 410,000           | 422,000            | 0                | 422,000           |
| Meter Hoods   | 1,130,000          | 249,800          | 1,379,800         | 1,164,000          | 249,800          | 1,413,800         |
| Commercial Vehicle Load Zone Permits                | 280,000            | 900              | 280,900           | 288,000            | 900              | 288,900           |
| Commercial Parking License Fee                      | 580,000            | 8,105            | 588,105           | 597,000            | 8,105            | 605,105           |
| Parking Fines                                       | 1,900,000          | 1,429,650        | 3,329,650         | 1,957,000          | 1,429,650        | 3,386,650         |
| Parking Enforcement*                                | 1,516,500          | 0                | 1,516,500         | 1,516,500          | 0                | 1,516,500         |
| New Parking Meter                                   | 0                  | 653,000          | 653,000           | 0                  | 1,711,139        | 1,711,139         |
| Subtotal  | 5,816,500          | 2,341,455        | 8,157,955         | 5,944,500          | 3,399,594        | 9,344,094         |
| <b>Business, Professional Licenses &amp; Other</b>  |                    |                  |                   |                    |                  |                   |
| Weights & Measures Scanner Fees                     | 43,000             | 0                | 43,000            | 44,000             | 0                | 44,000            |
| Surcharge on Business License - W&M                 | 216,000            | 45,000           | 261,000           | 222,000            | 45,000           | 267,000           |
| Adult Manager & Entertainer Licenses                | 56,000             | -7,875           | 48,125            | 58,000             | -7,875           | 50,125            |
| Panoram Location & Device Licenses                  | 3,400              | 2,326            | 5,726             | 3,500              | 2,326            | 5,826             |
| Animal Control Licenses and Fees                    | 0                  | 202,500          | 202,500           | 0                  | 202,500          | 202,500           |
| False Alarm Fines                                   | 0                  | 462,600          | 462,600           | 0                  | 462,600          | 462,600           |
| Subtotal  | 318,400            | 704,551          | 1,022,951         | 327,500            | 704,551          | 1,032,051         |
| <b>Fire Department Permit &amp; Inspection Fees</b> |                    |                  |                   |                    |                  |                   |
| Firework Display Permits                            | 5,200              | 0                | 5,200             | 5,400              | 0                | 5,400             |
| Certification Permits                               | 59,000             | 0                | 59,000            | 61,000             | 0                | 61,000            |
| Hazardous Materials Permits                         | 165,000            | 0                | 165,000           | 170,000            | 0                | 170,000           |
| Plan Review Service Fee                             | 360,000            | 0                | 360,000           | 371,000            | 0                | 371,000           |
| Inspection Fee - new construction                   | 525,000            | 0                | 525,000           | 541,000            | 0                | 541,000           |
| Subtotal  | 1,114,200          | 0                | 1,114,200         | 1,148,400          | 0                | 1,148,400         |
| <b>Total Additional Revenue</b>                     | <b>7,249,100</b>   | <b>3,046,006</b> | <b>10,295,106</b> | <b>7,420,400</b>   | <b>4,104,145</b> | <b>11,524,545</b> |

Notes: \*Parking Enforcement revenues were originally proposed at \$1,665,000, but were reduced at the Executive's request.

## State-Shared Revenues

The State of Washington distributes a portion of revenues directly to cities. Specifically, portions of revenues from the State General Fund, liquor receipts (both profits and excise taxes), and motor vehicle fuel excise taxes are allocated directly to cities. Revenues from motor fuel excise taxes are dedicated to street maintenance expenditures, and are deposited into the City's Transportation Fund. Revenues from the other taxes are deposited into the City's General Subfund.

# General Subfund Revenue Overview

**State discontinues reimbursement to compensate for City's loss of Motor Vehicle Excise Tax (MVET) revenues.** Before the passage of Initiative 695 and the subsequent 2000 legislation to eliminate the MVET, the City of Seattle received allocations of the MVET in support of (1) public safety (police and fire) programs, (2) particular criminal justice needs, and (3) specific policing activities. During the 2000 legislative session, the State Legislature committed State General Fund revenues toward these and other purposes to compensate local governments, in part, for the loss of MVET revenues. The City of Seattle received \$1,551,389 for Calendar Year 2000, \$3,102,778 for Calendar Year 2001 and \$3,189,346 for Calendar Year 2002. Although the 2000 legislation providing these distributions indicated the intent of the State to continue making distributions in future years, budget pressures led the Legislature in 2002 to discontinue these distributions to all but a subset of cities and towns. Seattle will not receive a distribution in this category in 2003 and the budget assumes no distribution in 2004.

Although reduced due to the loss of the MVET, the City will continue to receive separate criminal justice assistance distributions, originating from the State's General Fund, as provided for under the previously approved Referendum 49. These revenues are allocated on the basis of population and crime rates relative to state-wide averages. The City should receive approximately \$2.1 million in each of 2003 and 2004. The City received approximately \$2.2 million in 2000 and \$2.1 million in 2001.

**Liquor Board profits and Excise Tax revenue.** Seattle's 2002 Liquor Board profits (estimated \$3.0 million) are expected to decline from their 2001 level (\$3.0 million) and decline from 2002 levels in 2003 to approximately \$2.9 million, before increasing in 2004 to \$3.1 million. Liquor Excise Tax revenues are anticipated to increase slightly throughout the period from \$1.9 million in 2002 to \$1.9 million in 2003 and \$2.0 million in 2004.

## Government and Private Grants

**Benaroya Hall Payments continue.** In 1999, the City and operators of the Benaroya Hall (BH Music Center) entered into an agreement which allocates some operating revenue from BH Music Center to the City. In 1999 and 2000, the allocations to the City reflected both a share of concession revenue and support to the City's general debt service obligations, totaling approximately \$780,000 annually. In 2000, the City retired some City debt associated with the development of Benaroya Hall. As a result, BH Music Center payments to the City decline to approximately \$610,000 annually, reflecting only a share of concession revenues.

## Revenue from Service Charges

**Agreements for AFIS, Mariners, and Seahawks.** The forecast reflects the revenue derived from the King County-wide voter-approved property tax levy for the Automated Fingerprint Information System (AFIS). The levy, which expires in 2005, provides Seattle with approximately \$2.5 million annually for the City's portion of the AFIS program.

In 1999, the City and the Mariners entered into an agreement whereby the team would reimburse the City for costs of police services during games at Safeco Field. Revenues from these payments were just over \$1 million in 2001, which included the playoff series and the All-Star game. The forecast anticipates an average of \$950,000 annually for the biennium, reflecting efficiencies associated with a new agreement for police services.

In 2003, the City anticipates signing an agreement with the Seahawks whereby the team would reimburse the City at full cost for its police and traffic services. For the 2003-2004 biennium, the revenue is estimated at \$180,000 per year.

**Fire Department Special Events Services.** Approved in March 2001, Ordinance 120299 authorizes the Seattle Fire Department to establish and collect fees for emergency medical services provided by the department upon the

# General Subfund Revenue Overview

request of a special event promoter or owners of event venues. The fees include the costs of hiring off-shift Paramedics and/or Emergency Medical Technicians, equipment, and apparatus costs. The presence of emergency medical staff will ensure services for rapid cardiopulmonary resuscitation, early defibrillation, and basic first-aid care for the spectators during these events. Approximately \$500,000 of revenues are expected in 2002 and about \$600,000 per year for 2003 and 2004.

***Internal service charges reflect current administrative structure.*** In 1993, the City Council adopted a resolution that directs the City to allocate a portion of central service expenses to City utilities and certain other departments that are not supported by the General Subfund. The intent of this allocation is to build the costs of necessary general government services into the budgets of departments supported by revenues that are largely self-determined.

Beginning in 1998, a large portion of cost allocation revenues was deposited directly to the Executive Services Department operating fund (ESD Fund) rather than to the General Subfund. This change facilitated the 1997 consolidation of the Personnel, Administrative Services, and Finance Departments into the Executive Services Fund. There was a corresponding reduction in General Subfund expenditures for these services (\$12.4 million in 1998), resulting in no net change in General Subfund resources. In 2001, ESD was decentralized into four separate departments (Personnel, Office of Sustainability & Environment, Fleets & Facilities, and Finance). Starting in 2002, the portion of cost allocation revenues for the Personnel and Finance Departments that were deposited to the ESD operating fund (\$27.2 million in 2002) will instead be deposited into the General Subfund. There will be a corresponding increase in General Subfund expenditures for these services, resulting in no net change in General Subfund resources.

For 2003 and 2004, revenue from these charges will decline primarily as a result of budget reductions in the central services departments. Specifically, budget reductions in Personnel and Executive Administration will result in fewer services and lower charges to the City utilities.

## Fines and Forfeitures

Most fine and forfeiture revenue reflects payments on parking and traffic fines issued by the Seattle Municipal Court. Historically, more than 70% of this revenue is from parking fines, while much of the remaining amount comes from traffic violations. Revenue from the latter has remained relatively constant over the last few years.

***Parking revenue estimates increase.*** The Executive proposed an increase for parking ticket revenue from citations issued by the parking enforcement squad from the current 2002 estimate of \$11.0 million to \$14.0 million in 2003, and \$14.6 million in 2004. This change was based on two factors: increased enforcement and an increase in parking fines. In recent years, the strong economy and low unemployment rates have made the retention of parking enforcement officers (PEOs) difficult. In 2002, however, SPD has renewed their efforts in recruiting PEOs and it is expected that all of the positions will be filled by early 2003. The fully-staffed squad provides coverage to more areas of the City and the ability to retain officers means that less time will be spent in training and more time on the street. Additionally, the Executive proposed an increase in the amount of on-street parking fines of \$5 in 2003 raising the price of most parking tickets to \$30 in 2003. This fine was last increased in 1999.

The Council increased these revenue estimates in 2003 and 2004 an additional \$1,429,650, by adopting the Executive's estimated increase due to parking enforcement but increasing the fine amount an additional \$5 (see Figure 13 for detail).

# General Subfund Revenue Overview

## Miscellaneous Revenues

**Transfers to the General Subfund.** Transfers reflect payments from department-specific and capital project funds to the General Subfund. Payments from department and capital funds were possible due to reduced program levels in 2002 and adjustments (both project delays and reductions) to construction projects. In addition, existing balances in some department and capital funds were used to make these payments to the General Subfund.

Estimates of transfers to the General Subfund are approximately \$8.4 million in 2002, \$8.1 million in 2003 and \$3.0 million in 2004. For 2003 and 2004, transfers will help offset higher capital and facility expenses for General Subfund-supported departments. A detail list of these transfers is included in the General Subfund Revenue table found in the Appendix. In ratifying the 2003 Proposed Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved balances from the funds listed in the Appendix to the General Subfund.

**Interest earnings continue to decline.** The General Subfund receives interest earnings on cash balances for many subfunds of the General Fund, as well as many operating and project funds. These earnings are subject to volatility, due primarily to occasional sharp fluctuations in cash balances, but also to changes in interest rates. For example, earnings in 2001 at \$4.37 million exceeded the 2001 Adopted Budget forecast by \$640,000.

The 2002 forecast reflects actual earnings to date and anticipates a drop in interest rates in the last half of 2002. The 2003-04 forecasts assume that cash balances will decline marginally for the duration of the biennium, but that interest rates will increase from their 2002 levels. These assumptions result in forecasts of \$3.6 million in 2002 and 2003, and \$4.0 million in 2004.

# General Subfund Revenue Overview

**Figure 14. Seattle City Tax Rates**

|   | 2000     | 2001     | 2002     |
|---|----------|----------|----------|
| <b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>       |          |          |          |
| General Property Tax  | \$2.449  | \$2.250  | \$2.084  |
| Families & Education  | 0.228    | 0.154    | 0.133    |
| Seattle Center Redevelopment/Parks Community Centers-Seattle Center | 0.281    | 0.181    | 0.109    |
| Seattle Center Redevelopment/Parks Community Centers-Parks          | 0.044    | 0.072    | 0.104    |
| Parks for All Levy  |          | 0.353    | 0.316    |
| Low Income Housing Levy   | 0.015    | 0.013    | 0.011    |
| Fire Pension  | 0.225    | 0.225    | 0.185    |
| Emergency Medical Services  | 0.273    | 0.246    | 0.250    |
| Low Income Housing (Special Levy)                                   | 0.134    | 0.117    | 0.102    |
| City Excess GO Bond   | 0.370    | 0.317    | 0.278    |
| <b>Retail Sales and Use Tax</b>                                     | 0.85%    | 0.85%    | 0.85%    |
| <b>Business and Occupation Tax</b>                                  |          |          |          |
| Wheat Wholesaling/Flour mfg.  | 0.02150% | 0.02150% | 0.02150% |
| Retail/Wholesale  | 0.21500% | 0.21500% | 0.21500% |
| Manufacturing/Extracting  | 0.21500% | 0.21500% | 0.21500% |
| Printing/Publishing   | 0.21500% | 0.21500% | 0.21500% |
| Service, other  | 0.41500% | 0.41500% | 0.41500% |
| <b>City of Seattle Public Utility Business Taxes</b>                |          |          |          |
| City Light  | 6%       | 6%       | 6%       |
| City Water  | 10%      | 10%      | 10%      |
| City DWU  | 10%      | 10%      | 10%      |
| City Solid Waste  | 10%      | 10%      | 10%      |
| <b>City of Seattle Private Utility B&amp;O Tax Rates</b>            |          |          |          |
| Cable Communications (not franchise fee)                            | 10%      | 10%      | 10%      |
| Telephone   | 6%       | 6%       | 6%       |
| Natural Gas   | 6%       | 6%       | 6%       |
| Steam   | 6%       | 6%       | 6%       |
| Commercial Solid Waste  | 10%      | 10%      | 10%      |
| <b>Franchise Fees</b>   |          |          |          |
| Cable Franchise Fee   | 2.5%     | 2.5%     | 2.5%     |
| <b>Admission and Gambling Taxes</b>                                 |          |          |          |
| Admissions tax  | 5%       | 5%       | 5%       |
| Amusement Games (less prizes)                                       | 2%       | 2%       | 2%       |
| Bingo (less prizes)   | 10%      | 10%      | 10%      |
| Punchcards/Pulltabs   | 5%       | 5%       | 5%       |