

# General Subfund Revenue Overview

## City Revenue Sources and Funds – September 2004

### City Revenues

Seattle City government has four main sources of revenue supporting the services and programs the City provides its residents. 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 in whole or in part 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 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 2004, revenue for general government purposes will total approximately \$665.8 million. In 2005, general government revenue is projected to total \$677.1 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 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 current and former City employees.

### General Subfund of the General Fund

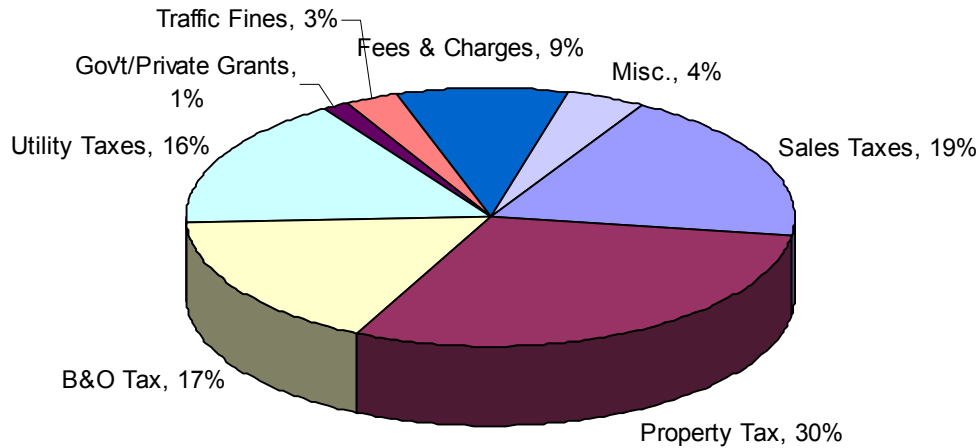
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (30%), followed by sales taxes, and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 52% 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 forecasts for 2004-2006.

# General Subfund Revenue Overview

Figure 1. 2004-Revised General Subfund Revenue Forecast by Source - \$665.8M



## The National and Local Economy

### Current Economic Conditions and Outlook

*The recovery from the 2001 recession has been weak and uneven.* The decade of the 1990s saw the longest national economic expansion on record, one that lasted a full 10 years. The expansion was characterized by rising productivity, a booming stock market, an expanding high-tech sector, and rising investment. During the high-growth years of the late 1990s, optimists talked of the arrival of a “new economy,” which would usher in a future characterized by rapid economic growth, soaring incomes, and an end to the business cycle.

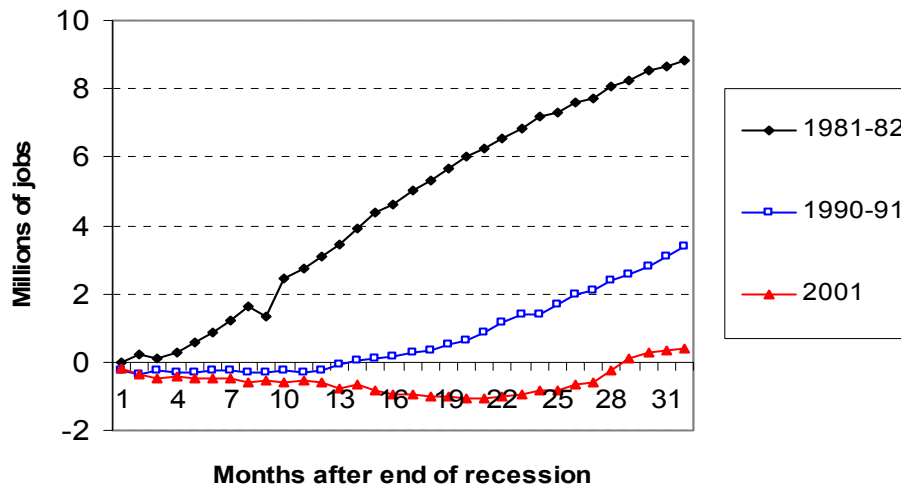
However, the dream of a “new economy” ended in early 2000, when the stock market bubble burst. With stock prices no longer rising, businesses cut back on investment spending. Consumer spending also slowed as falling stock prices led to declining household wealth. The slowing economy slipped into recession in March 2001, and was weakened further by the September 11 terrorist attacks. Due to aggressive interest rate cuts by the Federal Reserve, the recession was both short and mild. The recovery began in December 2001.

In its early stages, the recovery was led by consumer spending, which was supported by tax cuts and low interest rates, and by growth in federal government spending. However, in the second quarter of 2003, business investment began to expand, and exports have been growing at a healthy pace since third quarter 2003.

Employment has been expanding since September 2003, though the rate of increase has fallen steeply since peaking in March and April 2004. Despite this recent growth, in July 2004 employment was still 1.2 million jobs below the prerecession peak reached in March 2001. Job growth has been particularly dismal when compared to other recoveries. As illustrated in Figure 2, which shows employment growth following the end of the past three recessions, only 400,000 jobs have been created in the 32 months that have elapsed since the end of the 2001 recession, compared to 8.9 and 3.4 million following the 1981-82 and 1990-91 recessions, respectively.

# General Subfund Revenue Overview

Figure 2. Job Increase From End of Recession



Despite improvements in business investment and export growth, the recovery remains both weak and uneven, with periods of accelerating growth followed invariably by periods of slowing growth. After growing at a healthy pace between third quarter 2003 and first quarter 2004, the economy slowed in the second quarter of 2004, led by a drop in consumer spending growth to 1%, a three-year low. One cause of the consumer spending slowdown was a sharp rise in energy prices, which reduced the amount of disposable income available for spending on other goods and services. In addition, the stimulatory effects of fiscal and monetary policy are fading. Rising interest rates have led to reduced home refinancing activity, and the 2004 tax refunds represent the final boost consumers will receive from the 2001-2003 tax cuts.

**Most economists believe the U.S. recovery will remain on track.** Despite the economy's recent weakness, the majority of economists expect the expansion to remain on track and economic growth to accelerate after the economy moves beyond what they view as a period of temporary sluggishness. Federal Reserve Chairman Alan Greenspan has been particularly bullish, observing that the economy appears poised to resume a stronger pace of expansion going forward. Others are less optimistic as they worry about the resilience of consumer spending in the face of rising energy prices, high debt loads, and interest rate hikes.

Economists had forecast strong growth for the second half of 2004, but with consumer spending and job growth weakening in the second quarter, expectations have been scaled back. For example, in early August the economics firm Global Insight reduced its forecast of Gross Domestic Product growth for the second half of 2004 from 4.8% to 3.9%, citing the influence of high energy prices and weak employment gains.

**The recession in the Puget Sound region has been severe.** The national recession started in early 2001 with the deflation of the stock market bubble and a sharp decline in investment in high-technology products and services. The recession widened after the September 11 terrorist attacks, 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 early 2001, the region's economy was hit by:

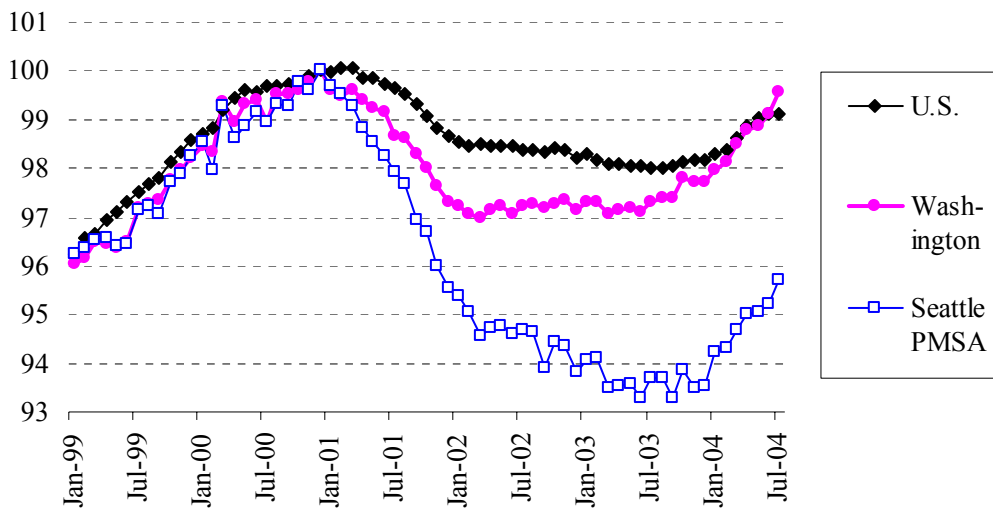
- The demise of the local dot-com sector;
- Layoffs or business closures in much of the high-tech sector;
- A sharp decline in stock-option income;
- A steep drop in venture-capital investment; and
- A decline in household wealth driven by falling stock prices.

# General Subfund Revenue Overview

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 cut back severely its projections of the demand for airliners during the next several years. Boeing announced it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division, with two-thirds of those cuts expected to occur in the Puget Sound Region. As of July 2004, Boeing had eliminated 27,200 jobs in Washington State since September 2001. This was the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Since mid-1998, Boeing has reduced its Washington employment by 51,200 jobs.

The timing and severity of the region's recession is illustrated in Figure 3, which shows monthly employment for the U.S., the Seattle Primary Metropolitan Statistical Area (King, Snohomish, and Island Counties), and the State of Washington for the period January 1999 – July 2004. The employment data have been indexed to equal 100 in December 2000, the month of peak employment in the Seattle PMSA.

**Figure 3. Non-Agricultural Wage & Salary Employment  
(December 2000 = 100)**



NOTE: Data are seasonally adjusted. Seattle PMSA = King, Snohomish & Island Counties

Following several years of steady gains, employment growth began to slow in the second half of 2000, both locally and nationally, and then turned down in early 2001 (see Figure 3). Employment declines in the Seattle PMSA were much greater than in the U.S. and 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 6.7% for the Seattle PMSA, 3.0% for Washington, and 2.1% for the nation. The Seattle PMSA's 6.7% decline reflects the loss of 96,000 jobs between December 2000 and September 2003.

Following two years of decline in 2001-02, regional employment more or less stabilized in 2003. With the national economy improving and Boeing layoffs slowing to a relative trickle, employment has rebounded in 2004, as 31,000 jobs have been added in the Seattle PMSA during the first seven months of the year. As of July 2004, Seattle PMSA employment was still 4.3% below its prerecession peak, compared to a deficit of 0.9% for U.S. and 0.5% for Washington.

## General Subfund Revenue Overview

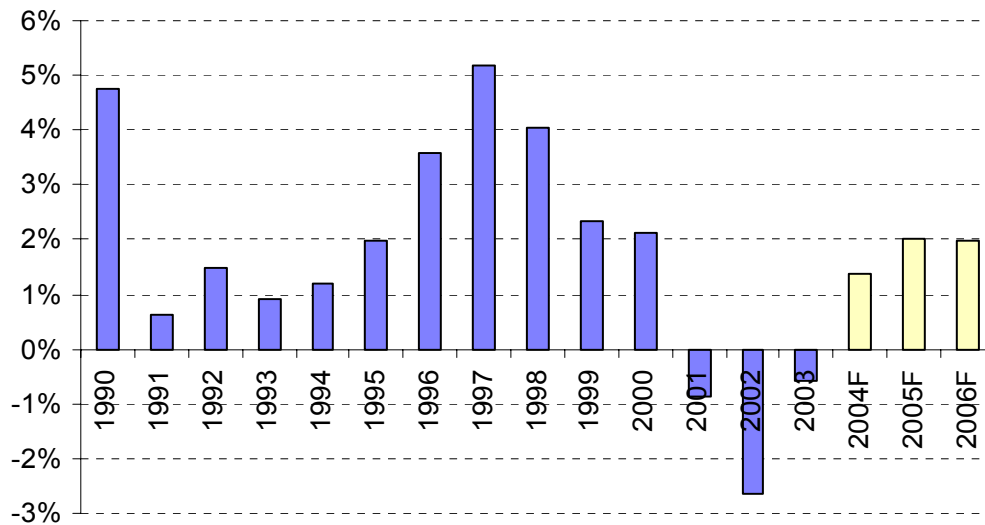
***The region's recovery has finally arrived.*** The prospects for the region's economy have brightened, with healthy employment gains during the first seven months of 2004 and the beginnings of a turnaround at the region's largest private employer, the Boeing Company. Boeing has been a drag on the region's economy for the past six years, having reduced its Washington employment by 51,200 jobs since mid-1988. However, in July Boeing announced it planned to increase its Washington employment by 2,000 to 3,000 by the end of 2004. Reasons for the increase include:

- Commercial airliner production will increase from 285 in 2004 to 315-320 planes in 2005.
- Additional employees are needed to work on 7E7 development.
- In June Boeing was awarded a \$3.9 billion contract from the Navy to develop a multimission maritime aircraft. This is a modified 737 jet that will be used to hunt submarines.

The region's other major private employer, Microsoft, plans to hire 6,000 to 7,000 workers in the coming year, half of them locally. Taking account of attrition, the net gain in Microsoft's local employment will be on the order of 1,500.

With both Boeing and Microsoft hiring new workers, the region's economy is expected to continue to expand over the next several years. The Puget Sound Economic Forecaster predicts that Puget Sound region employment will increase by 1.4% in 2004 and 2% in both 2005 and 2006 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in fourth quarter 2000 until some time in early 2006.

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



Note: 2004-06 forecasts are from Puget Sound Economic Forecaster.  
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

***Consumer price inflation has begun to rise.*** The 2001 national recession and the subsequent weak recovery helped to bring inflation down to the lowest levels since the early 1960s. However, inflation has been on the rise in 2004. Core inflation, which excludes volatile energy and food prices, has risen from 1.1% during the latter months of 2003 to the 1.6% - 1.9% range during March - July 2004. With energy prices up sharply since the beginning of the year, overall inflation has risen to the 3% range in recent months.

# General Subfund Revenue Overview

With inflation rates rising, economists have been raising their forecasts for future U.S. inflation. Forecasts of core inflation for future years have risen to the 2% - 2.5% range. Energy prices are expected to decline somewhat from current levels, but forecasters have been raising their forecasts of future energy prices in recent months. There is considerable uncertainty about the future course of energy prices.

Due to the severity of the local recession, Seattle area inflation has tracked below U.S. inflation since late 2002, with local inflation ranging from 1% to 2% since then. However, due to a spike in energy prices in May and June, the year-over-year increase in the Seattle Consumer Price Index – Urban Wage and Clerical Workers (CPI-W) jumped to 2.5% in June 2004. With U.S. inflation forecasts rising and the Puget Sound region economy improving, economists have been raising their forecasts of local inflation for 2005 and 2006 to the 2% range.

It should be noted that inflation forecasts made at the present time are particularly susceptible to error because we are in a period of rising national inflation following a period of relative stability, the regional economy is making the transition from decline to growth, and there is considerable turmoil and uncertainty in energy markets.

**Figure 5. Consumer Price Index Forecast**

	<b>U.S. CPI-W</b> (July-July growth rate)	<b>Seattle CPI-W</b> (June-June growth rate)
2003 (actual)	2.0%	0.9%
2004 (actual)	3.0%	2.5%
2005	2.3%	1.9%
2006	2.1%	2.1%

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2006. These forecasts are for the CPI-W, which measures price changes for urban wage and clerical workers. The CPI-U measures price changes 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 basis for cost-of-living increases in City of Seattle wage agreements.

## General Subfund Revenue Forecasts

### Revenue Overview

Figure 6 (see next page) shows General Subfund actual revenues for 2003, as well as the revised forecast for 2004 and the proposed 2005 and 2006 forecasts. Looking at the total tally for 2004, the revised forecast resembles the adopted forecast made last November; however, there is considerable variability among individual revenues. The largest forecast change stems from the sales tax, which suffered considerably from three events: a sharp fall-off in sales receipts during December 2003 – February 2004, a \$1 million refund, and lowered expectation of revenue from Sound Transit light rail construction in 2004. Conversely, strong B&O tax returns during the second half of 2003, coupled with a more optimistic outlook for construction activity, have nearly offset the \$2 million reduction in the sales tax forecast. The 2004 forecast was also reduced for parking meters and meter hoods. The heightened forecast in the past budget reflected increased meter hood fees and new parking pay stations; however, revenue performance did not materialize as expected, prompting a forecast reduction of \$1.3 million. On the upside, court-fine revenues were increased by more than \$2 million to account for better-than-expected revenue from improved staffing levels, the amnesty program, and a change in collection agencies.

## General Subfund Revenue Overview

*The 2005-06 forecast marks a turning point for the major taxes.* Reflecting prolonged softness in the local economy, the 2004 forecast showed modest growth, if any, for the major revenues. It is not until 2005 that we begin to see marked improvement. After three years of decline, retail sales tax is expected to show improvement in 2004, growing more strongly in 2005-06. Similarly, an improved economy helps boost B&O tax revenue by 3.8% in 2005 and 4.3% in 2006. The property tax forecast assumes no major policy changes and is projected to increase by the annual 1% growth limit plus new construction. After a very slow start for the new pay stations, parking meter revenues are expected to come in strong in 2005-06, and, after extraordinary revenue performance in 2004 due to one-time events, court fines are expected to stabilize at around \$16.5 million in 2005-06. Higher rates account for a jump in Drainage and Wastewater revenue for 2005-06, while a utility tax rate increase explains the boost in City Water tax revenue during this period. The Water tax rate increase covers fire hydrant service costs that will be shifted from utility customers to the City, but will be offset by lower water rates. See the Public Utilities section for more detail.

**Figure 6. General Subfund Revenue, 2003 – 2006 <sup>1</sup>**  
(in thousands of dollars)

Revenue Source	2003 Actual	2004 Adopted	2004 Revised	2005 Proposed	2006 Proposed
General Property Tax	173,429	178,742	178,630	182,119	186,463
Property Tax - EMS Levy	19,044	19,427	19,752	20,273	20,731
Retail Sales Tax	112,461	117,388	115,274	120,650	125,395
Retail Sales Tax - Criminal Justice Levy	10,803	11,178	11,155	11,670	12,172
B&O Tax (90%)	115,571	112,592	114,446	118,770	123,905
Utilities Business Tax - Telephone (90%)	30,384	28,170	28,170	28,700	28,700
Utilities Business Tax - City Light (90%)	30,191	30,979	30,957	30,450	30,845
Utilities Business Tax - SWU & priv. garb. (90%)	7,641	7,634	7,623	7,690	7,758
Utilities Business Tax - City Water (90%)	8,051	8,571	9,032	11,765	11,929
Utilities Business Tax - DWU (90%)	13,254	13,909	13,967	15,305	15,914
Utilities Business Tax - Natural Gas (90%)	7,814	8,916	9,785	9,923	9,123
Utilities Business Tax - Other Private (90%)	9,263	9,330	10,075	10,535	11,020
Admission Tax	6,757	6,400	6,500	5,600	5,400
Other Tax	4,952	5,155	5,040	5,190	5,305
<b>Total Taxes</b>	<b>549,615</b>	<b>558,391</b>	<b>560,407</b>	<b>578,640</b>	<b>594,661</b>
Licenses and Permits	12,397	11,325	11,533	12,545	12,550
Parking Meters/Meter Hoods	11,245	13,829	12,513	15,240	16,675
Court Fines	15,978	16,016	18,049	16,500	16,500
Interest Income	2,102	1,899	1,595	1,291	1,591
Revenue from Other Public Entities	14,984	8,969	9,302	10,178	10,058
Service Charges & Reimbursements	39,131	37,756	37,475	39,880	37,567
All Else	967	892	1,005	898	940
<b>Total: Revenue &amp; Other Financing Sources</b>	<b>646,419</b>	<b>649,076</b>	<b>651,877</b>	<b>675,171</b>	<b>690,542</b>
Interfund Transfers	5,252	16,660	13,940	1,893	912
<b>Total, General Subfund</b>	<b>651,671</b>	<b>665,736</b>	<b>665,817</b>	<b>677,064</b>	<b>691,454</b>

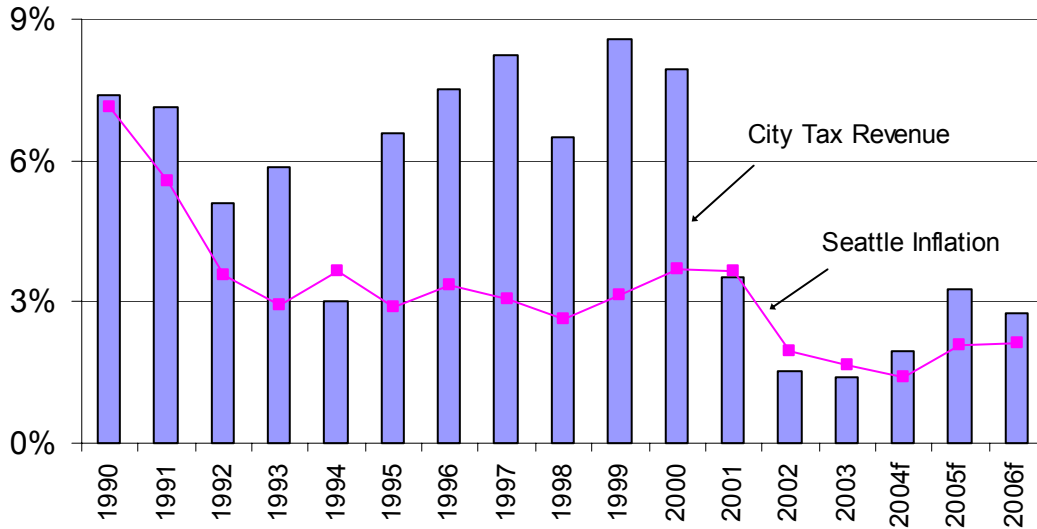
**NOTE:** A detailed listing of City General Subfund revenues is found in the appendix.

<sup>1</sup> Under the City Charter, 10% of certain revenues are 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 how tax revenue growth outpaced inflation for most of the 1990s and 2000 before the local recession took hold. Slow growth post 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property taxes from 6.0% to 1.0% beginning in 2002. The forecast for 2004-06 projects stronger-than-inflation growth for the first time since 2000.

**Figure 7. City of Seattle Tax Revenue Growth, 1990-2006**



## 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 business machinery and equipment.

In 2004, the total property tax rate in Seattle was about 1.04% of assessed value (which officially is expressed as \$10.40 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$347,000 (the average assessed value for residences in Seattle), the 2004 tax obligation is approximately \$3,600.

As Figure 8 shows, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. The figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 65% 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. In November 2003, Seattle voters approved additional property taxes to finance the building and renovation of fire stations. Collections for the \$167 million levy began in 2004 and will continue until 2012. In September 2004, Seattle voters approved a \$117 million, seven-year renewal of the Families and Education levy. This is the second renewal of the levy that was first approved in 1990.



## General Subfund Revenue Overview

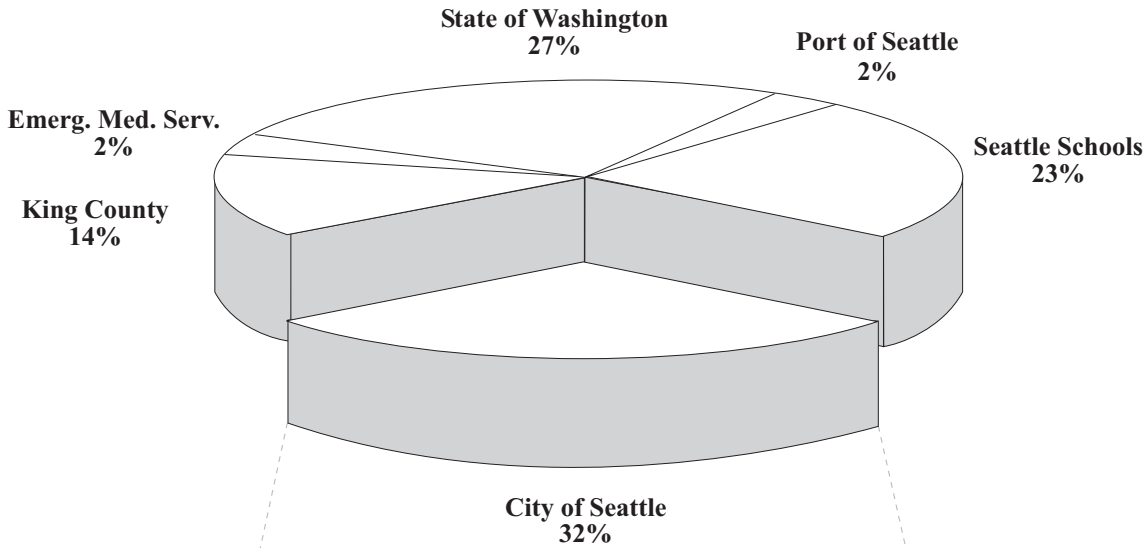
***The 2005-06 Proposed Budget implements a 1% growth factor for both 2005 and 2006.*** The forecast for the General Subfund portion of the City's property tax is \$182.1 million in 2005 and \$186.5 million in 2006. The annual growth in property tax revenue is restricted by state statute. Since 1973, state law limited the annual growth of the City's General Subfund nonvoted property tax levy to 6%. However, in November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year.

***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. After several years of record-breaking new construction revenue, the forecast for 2005-06 reflects slowing construction activity. It is projected that approximately \$2.5 million will be added to the property tax base in both 2005 and 2006 due to new construction.

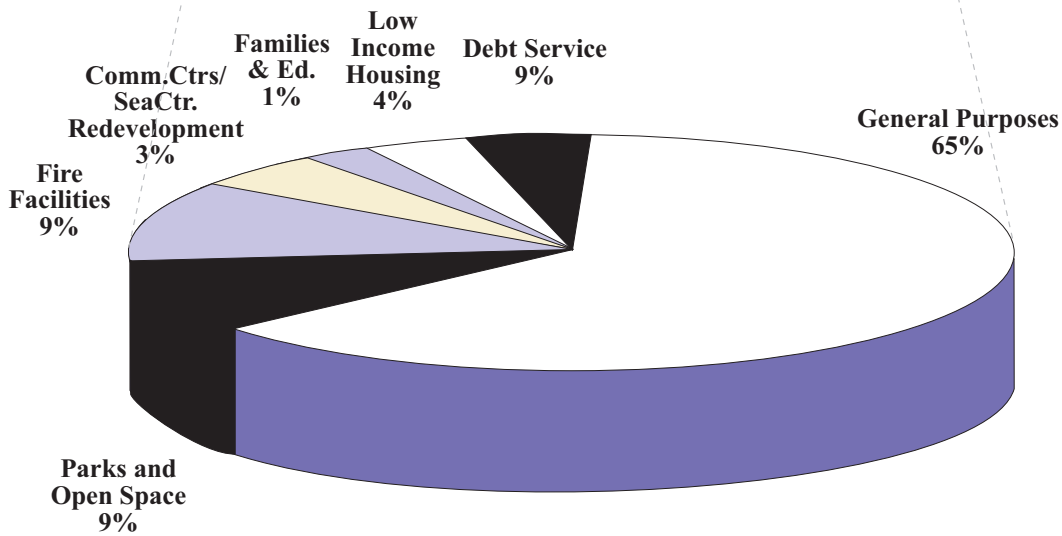
# General Subfund Revenue Overview

**Figure 8**

**Components of Total Property Tax Levy for 2004**  
(tax rate = \$10.40 per \$1,000 assessed value)



**Components of City's Property Tax Levy for 2004**  
(tax rate = \$3.36 per \$1,000 assessed value)



# General Subfund Revenue Overview

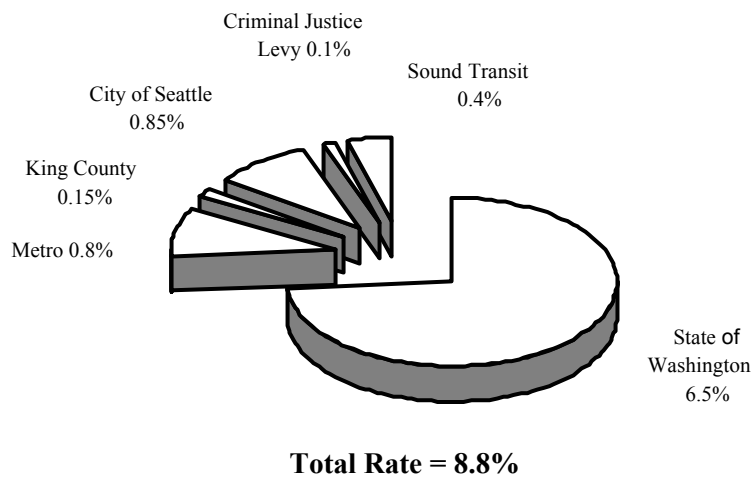
## Retail Sales and Use Tax

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 transactions. The rate was increased from 8.6% in April 2001, following approval by King County voters 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, 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 9. 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 9. Sales and Use Tax Rates in Seattle, 2004**



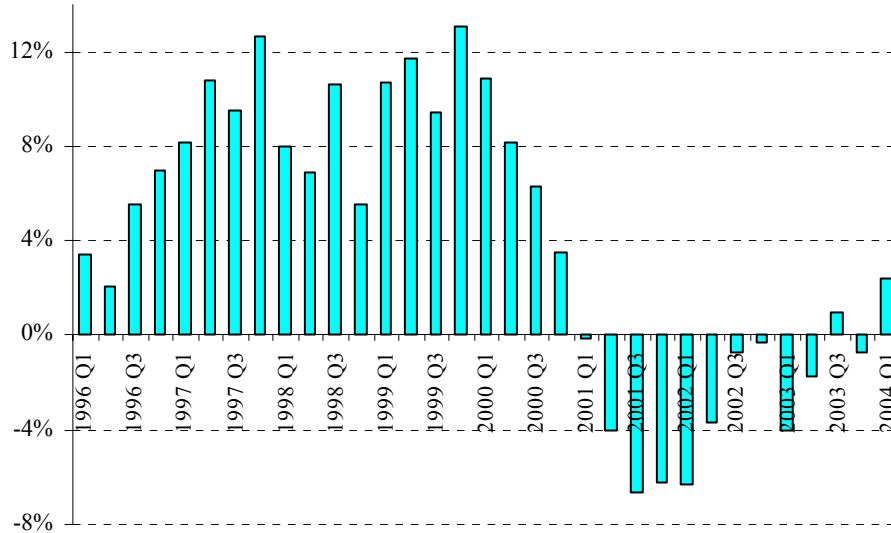
NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars throughout King County.

**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 10, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy 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 peaks. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, with growth rates turning sharply negative beginning in the second quarter of 2001. Conditions improved in the second half of 2002, but then deteriorated in the first half of 2003. In third quarter 2003, following 10 quarters of decline, sales tax revenue posted a positive growth rate, albeit only 0.9%. Revenue then declined by 0.8% in the fourth quarter, but rebounded to increase by 2.4% in first quarter 2004.

## General Subfund Revenue Overview

Reflecting the severity of the local recession, taxable retail sales for first quarter 2004 were down 9.4% from their pre-recession peak.<sup>2</sup> The size of this drop rises to 16.3% when the data are adjusted to remove the effects of inflation.

**Figure 10. Quarterly Taxable Retail Sales: Year-Over-Year Growth**

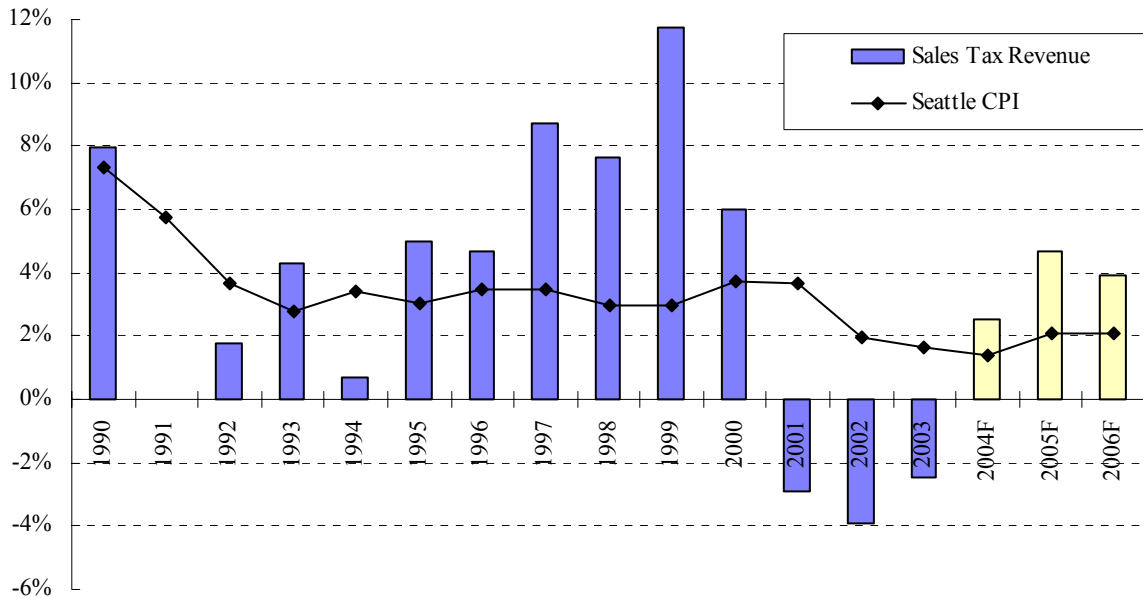


**Following three years of decline, retail sales tax revenue is forecast to increase in 2004.** In 2004, retail sales tax revenue is expected to post its first annual increase since 2000, with a gain of 2.5% anticipated (see Figure 11). Revenue growth is expected to rise to 4.7% in 2005, due in part to construction activity for Sound Transit’s light rail line, and then slow to 3.9% in 2006. With inflation expected to be in the 2% range in 2004-06, revenue growth will exceed inflation in all three years.

<sup>2</sup> Based on seasonally adjusted taxable retail sales.

# General Subfund Revenue Overview

**Figure 11. Annual Growth of Retail Sales Tax Revenue**



Note: All revenue figures reflect current accrual methods. 2004-06 are forecasts.

This relatively optimistic forecast reflects the influence of the improved regional economy and a forecast of economic growth continuing through 2006. In addition, the construction industry, which has been a major drag on sales tax revenue during the recent downturn, is showing signs of improvement. While growth is not yet evident, the pace of decline in construction taxable sales slowed during the first five months of 2004.

## 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 are 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 13 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 and 2002.***

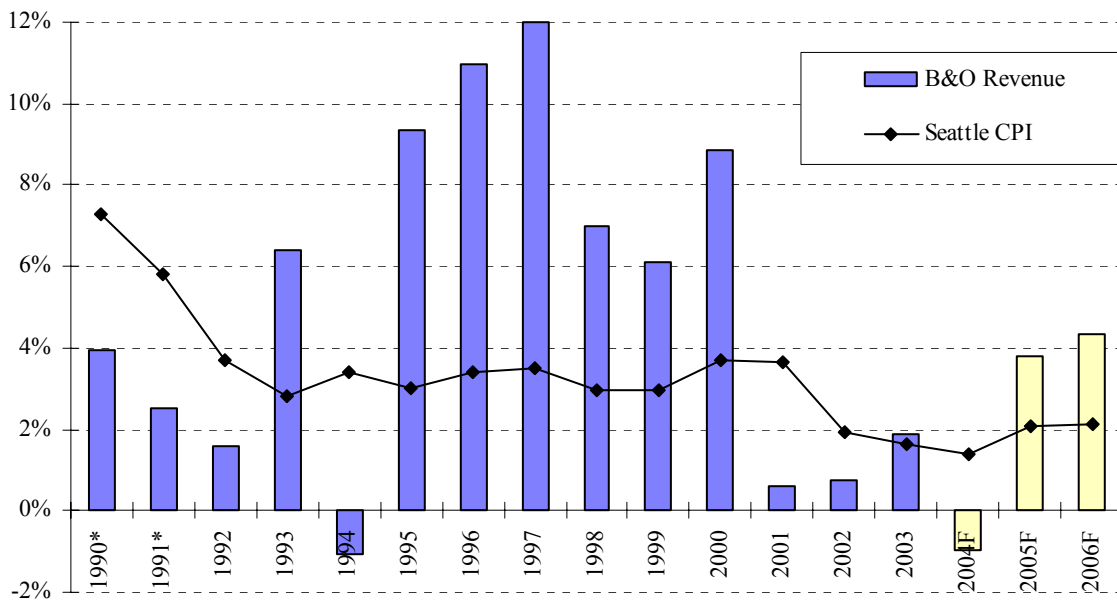
Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and 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 to grow at a healthy pace through 2000. In 2000 revenue was boosted by changes in the way 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 revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was offset by a large increase in non-current revenue, which includes revenue from audit activity, refunds, penalty and interest payments, and other enforcement activity. As a result, 2001 saw an overall gain of 0.6% in B&O receipts. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base (current obligations) was offset by another large increase in non-current revenue, resulting in a small positive increase of 0.8% for the year. The strong growth in non-current revenue seen in 2001 and 2002 reversed itself in 2003 due largely to a decline in penalty and interest payments, and an increase in refund payments. However, this decline was offset by a healthy 4% growth in the tax base, resulting in B&O revenue growth of 1.9% in 2003.

**Figure 12. Annual Growth of B&O Tax Revenue**



\*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.

Note: Revenue figures reflect current accrual methods; 2004-06 are forecasts.

***B&O revenue is forecast to decline modestly in 2004, then increase in 2005 and 2006.*** With the region's economy finally growing again, B&O revenue from current year tax obligations is forecast to grow in the 3% - 4.5% range for 2004-06. However, in 2004 this growth will be offset by an expected steep decline of \$3.2 million in non-current revenue, which is largely the result of a falloff in revenue from audit activity, and penalty and interest payments. In 2003, three large audits each accounted for more than \$1 million in revenue from payments for past due taxes, and penalties and interest. There are no audits of this magnitude anticipated for 2004. In addition, the City will lose approximately \$1 million in 2004 as a result of state legislation prohibiting the taxation of intellectual property creating activities, and changes in the way the B&O tax is applied to software businesses. As a result, B&O revenue is forecast to decline by 1% in 2004, then rebound to grow by 3.8% in 2005 and 4.3% in 2006 (see Figure 12).

# General Subfund Revenue Overview

The B&O revenue forecast incorporates a revision the City Council made to the Executive's proposed B&O forecast in November 2002. 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.

## 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.

**Natural gas utility tax forecast is revised upward.** The City levies a 6% utility business tax on gross sales of natural gas. Since the beginning of the West Coast energy crisis in 2000, natural gas revenues have undergone a roller coaster ride. After a decade of stable prices, rates for natural gas skyrocketed, and revenues in 2001 and 2002 were at record highs. A deep drop in natural gas rates in late 2002 reduced 2003 revenues by more than 20%; however, a rate hike in late 2003 and another in Fall 2004 will boost revenues in 2004-05. The 2006 revenue forecast assumes rates will eventually drop, although volatility in prices in the near future could arise due to speculative activity and tightened supplies.

**Telephone utility tax forecast is uncertain.** The utility business tax is levied on the telecommunications industry at a rate of 6% on gross income. After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in the fourth quarter of 2002. The lackluster economy harmed telecom revenues amid restructuring in the industry as carriers shifted positions in providing service to the end-user and heightened competition forced prices downward. The forecast for 2004-06 projects revenues to hover around \$28 million. Revenue in 2003, at \$30 million, was buoyed by the addition of \$2 million through audits.

Although the current forecast shows stable revenues, there is much uncertainty due to recent technological and regulatory developments. A new technological advancement centers around Voice over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections. The spread of VoIP comes at a time when U.S. legislators are deliberating federal legislation to keep access to Internet connections and many forms of Internet communication free from regulation and taxation. The passage of such a ban could significantly reduce telephone utility tax revenue, depending on the extent households and businesses replace their conventional phone service with VoIP. Several bills regarding VoIP are pending at this writing.

**Strong growth for cable.** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, 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. This franchise fee, which does not go to the General Subfund, is proposed to increase to 3.5% in 2005.

In 2003, the cable utility tax generated \$8.5 million and the forecast looks bright for 2004-06. Cable revenues are expected to grow by more than 8% in 2004 and by 5% each year in 2005 and 2006. Amid growing competition from satellite TV, the cable industry has increased its services in terms of additional channels, pay-per-view options, and digital reception.

## 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 13). The tax rate for water will be increased to 14% in 2005 as discussed below in the section on fire hydrant service costs.

# General Subfund Revenue Overview

General Subfund revenue from public utility taxes is forecast to increase by 4.1% in 2004, and by 5.9% and 1.9% in 2005 and 2006, respectively. The forecast for 2005 incorporates an increase in the utility tax rate for water from 10% to 14% to raise money for fire hydrant service costs. If the effects of the water utility tax rate increase are excluded, revenue from public utility taxes would increase by 0.4% in 2005 and 1.9% in 2006. The forecasts of public utility tax revenue reflect anticipated changes in the quantities of utility services consumed and the rates charged for those services. Information on utility service consumption trends and utility rates for the different public utilities is provided in the sections on Seattle City Light and Seattle Public Utilities.

***Fire hydrant service costs are shifted from water utility customers to the City in 2005.*** Beginning in 2005, the cost of providing fire hydrant services will be shifted from utility customers, who currently pay for hydrant services through their water rates, to the service providers who use the water. Hydrant services costs were about \$4 million in 2003, with the City of Seattle accounting for about \$3.8 million. The City will collect the revenue needed to cover its hydrant service costs in 2005 by raising the utility tax on water from 10% to 14%. The impact upon customers is insignificant because the increase in costs that results from raising the utility tax rate will be offset by lower water rates. Water rates will be lower because the water utility will no longer be paying hydrant service costs.

## Admission Tax

The City imposes a tax on admission charges to most Seattle entertainment events. The City's tax rate is 5% of these charges, the maximum allowed by state statute. This revenue source is highly sensitive to unanticipated swings in attendance at 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.

***Re-dedicating admission tax revenues to the arts.*** In November 2000, the City Council passed Ordinance 120183, dedicating 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. This was in effect for 2001 and 2002; however, it was suspended for 2003 and 2004 due to budget constraints. The 2005-06 forecast reflects the Executive's proposal to reinstate the dedication of admission tax revenue to the arts account as follows – 15% in 2005 and 20% in 2006, excluding revenue from professional men's basketball.

## Licenses and Permits

The City requires 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 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.

For 2005-06, an additional \$1 million each year is anticipated from higher fees for inspections conducted by the Fire Department concerning hazardous material storage, building safety and plan reviews.

## Parking Meters/Meter Hoods

Revenue to the General Subfund from street parking charges has been stable for the past several years. Street parking meters have generated roughly \$9.5 million annually, while the rental of meter hoods generates approximately \$1 million annually.



# General Subfund Revenue Overview

The 2005-06 Proposed Budget reflects an alternative, more workable plan for parking meters that employs pay station technology in place of the traditional meters. Pay stations are parking payment devices offering the public a more convenient array of payment options, including credit cards and debit cards, to pay for hourly street parking. Due to slower than anticipated roll-out of the pay stations and rate increase (from \$1 per hour currently to \$1.50) the 2004 forecast was reduced by \$500,000. More information about the pay station technology program is provided in the Seattle Transportation section of this document.

## Court Fines

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

***Parking ticket revenue forecast increased.*** By mid-year 2004, parking ticket revenue out-performed forecasts by \$2 million. The outstanding revenue gains are the result of three events that occurred during the first quarter. First, parking enforcement officers were staffed at the full authorized level and enforcement schedules were expanded to include weekends; second, through an open selection process, the Court hired a new collection agency to more aggressively recover outstanding payments; and third, an amnesty program was implemented which forgave past-due fines if outstanding tickets were paid in full. While these events prompted a revision upwards for 2004, the 2005-06 forecast projects a return to a more typical revenue stream of \$16.5 million.

## Interest Income

The General Subfund receives interest earnings on cash balances attributable to a group of affiliated operating and project funds, as well as many subfunds of the General Fund. Many other City funds are independent, retaining their own interest earnings. Interest income to the General Subfund varies widely, subject to significant fluctuations in cash balances and changes in interest rates dictated by economic and financial market conditions.

The forecast for this revenue in the 2004 Adopted Budget assumed cash balances would decline over the duration of the biennium, but interest rates and the City's overall yield would increase from their 2003 levels. Although interest rate and yield assumptions have largely held, cash balances have declined due, in large part, to transfers of cash from affiliated funds to independent funds. Current estimates are for General Subfund interest earnings to fall to \$1.3 million in 2005, down from \$1.6 million in 2004.

## Revenue from Other Public Entities

***Washington State Shares Revenues with Seattle.*** 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.

***Criminal Justice revenues.*** The City receives funding from the state for criminal justice programs, although significantly less than in previous years. This is because criminal justice assistance resources had been traditionally funded by the state from the Motor Vehicle Excise Tax, which was eliminated in 2000. Now, as provided for under the previously approved Referendum 49, the State provides more modest distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. The City should receive approximately \$2 million each year for 2004-2006.

# General Subfund Revenue Overview

***Liquor Board profits and Excise Tax revenue.*** The City's share of Liquor Board profits is expected to remain largely unchanged at around \$3.3 million each year for 2004-06. Estimated Liquor Excise Tax revenues for 2004-2006, at \$2.1 million, also remain largely unchanged from previous forecast and stable around 2003's actual share of \$2.1 million.

***City receives additional grants.*** In 2003, the City received \$1.1 million in grants from the U.S. Department of Justice through the State of Washington. These grants partially offset City expenses in 2003 from enhanced security at public infrastructure sites during periods of high-alert status. In addition, the City will receive a grant reimbursement from Sound Transit for services City departments provide to that agency in support of light rail construction. The General Subfund will receive \$1.2 million of these grant resources in 2004.

## Service Charges and Reimbursements

***Internal service charges reflect current administrative structure.*** In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments 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. These allocations are executed in the form of payments to the General Subfund from these independently supported departments.

Estimates of these resources have been reduced by approximately \$1.5 million in 2004. Allocations in 2004 are reduced to reflect lower central services expenditures due to budget reductions. Resources paid to the General Subfund on behalf of the Department of Executive Administration are up in 2005 by roughly \$2.5 million. This is due to a one-time allocation of costs from the department to independently supported departments for upgrades to the City's financial information system SUMMIT. Payments to the General Subfund for other miscellaneous services are increased in 2005 and 2006. These increases are primarily the result of adjustments to the manner in which independently supported departments pay for services from the Law Department. There are increases to the Law Department's budget which fully offset this revenue gain.

## Interfund Transfers

***Interfund transfers increase significantly.*** Interfund transfers are payments from the balances of department-specific funds and capital project funds to the General Subfund. The 2005-06 Proposed Budget anticipates using approximately \$14 million in transfers from other funds in 2004, roughly \$1.9 million in 2005 and \$900,000 in 2006. For 2005 there is a transfer from the Seattle Center to the General Subfund for approximately \$1 million. This transfer reflects savings from general obligation debt costs incurred for capital projects related to the KeyArena debt defeasance.

A detailed list of these transfers is included in the General Subfund revenue table found in the Appendix. In ratifying the 2005 Adopted Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the Appendix to the General Subfund.

# General Subfund Revenue Overview

**Figure 13. Seattle City Tax Rates**

	2001	2002	2003	2004
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>				
General Property Tax	\$2.483	\$2.269	\$2.204	\$2.165
Families & Education	0.154	0.133	0.038	0.036
Seattle Center/Parks Comm. Ctr.-SC	0.254	0.213	0.100	0.096
Parks and Open Space	0.353	0.316	0.307	0.302
Low-Income Housing	0.013	0.011	0.047	0.044
Fire Facilities	0.000	0.000	0.000	0.299
Emergency Medical Services	0.246	0.250	0.241	0.237
Low-Income Housing (Special Levy)	0.117	0.102	0.110	0.103
City Excess GO Bond	0.317	0.278	0.356	0.315
<b>Retail Sales and Use Tax</b>	0.85%	0.85%	0.85%	0.85%
<b>Business and Occupation Tax</b>				
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%	0.4150%
<b>City of Seattle Public Utility Business Taxes</b>				
City Light	6%	6%	6%	6%
City Water	10%	10%	10%	10%
City DWU	10%	10%	10%	10%
City Solid Waste	10%	10%	10%	10%
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>				
Cable Communications (not franchise fee)	10%	10%	10%	10%
Telephone	6%	6%	6%	6%
Natural Gas	6%	6%	6%	6%
Steam	6%	6%	6%	6%
Commercial Solid Waste	10%	10%	10%	10%
<b>Franchise Fees</b>				
Cable Franchise Fee	2.5%	2.5%	2.5%	2.5%
<b>Admission and Gambling Taxes</b>				
Admissions tax	5%	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%	2%
Bingo (less prizes)	10%	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%	5%

