

City of Seattle, Washington



2012 Proposed Budget

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City of Seattle
2012 Proposed Budget

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City of Seattle
2012 Proposed Budget

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Reader's Guide

This reader's guide describes the structure of the 2012 Proposed Budget Book and outlines its contents. The format of the 2012 Proposed Budget Book is new this year. It is designed to present budget information in a more accessible and transparent manner – the way the decision makers considers the various proposals. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations.

A companion document, the 2012-2017 Proposed Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the next 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.

Seattle budgets on a modified biennial basis. See the "Budget Process" section for details.

The 2012 Proposed Budget

This document is a detailed record of the proposed spending plan for 2012. It contains the following elements:

- **Executive Summary** – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor and Council's priorities;
- **Summary Tables** – a set of tables that inventory and summarize expected revenues and spending for 2012;
- **General Subfund Revenue Overview** – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- **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 2012 Proposed Budget and 2012-2017 Proposed CIP were developed;
- **Departmental Budgets** – City department-level descriptions of significant policy and program changes from the 2011 Adopted Budget, the services provided, and the spending levels proposed to attain these results;

Reader's Guide

- **Appendix** – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a Position Modifications report, listing all position modifications contained in the 2012 Proposed Budget; a glossary; and Citywide statistics.

Departmental Budget Pages: A Closer Look

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

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

Each cluster, with the exception of the last, comprises several departments sharing a related functional focus, as shown on the organizational chart following this reader's guide. Departments are composed of one or more budget control levels, which in turn may be composed of one or more programs. Budget control levels are the level at which the City Council makes appropriations.

The cluster "Funds, Subfunds, and Other" comprises General Fund Subfunds that do not appear in the context of department chapters, including the General Subfund Fund Table, General Subfund Revenue Table, Cumulative Reserve Subfund, Emergency Subfund, Revenue Stabilization Account, Judgment and Claims Subfund, and Parking Garage Fund. A summary of the City's general obligation debt is also included in this section.

As indicated, the Proposed Budget appropriations are presented in this document by department, budget control level, and program. At the department level, the reader will also see references to the underlying fund sources (General Subfund and Other) for the department's budgeted resources. The City accounts for all of its revenues and expenditures according to a system of funds and subfunds. In general, funds or subfunds are established to account for specific revenues and permitted expenditures associated with those revenues. For example, the City's share of Motor Vehicle Fuel taxes must be spent on road-related transportation activities and projects, and are accounted for in a subfund in the Transportation Fund. Other revenues without statutory restrictions, such as sales and property taxes (except voter-approved property taxes), are available for general purposes and are accounted for in the City's General Subfund. For many departments, such as the Seattle Department of Transportation, several funds and subfunds, including the General Subfund, provide the resources and account for the expenditures of the department. For several other departments, the General Subfund is the sole source of available resources.

Budget Presentations

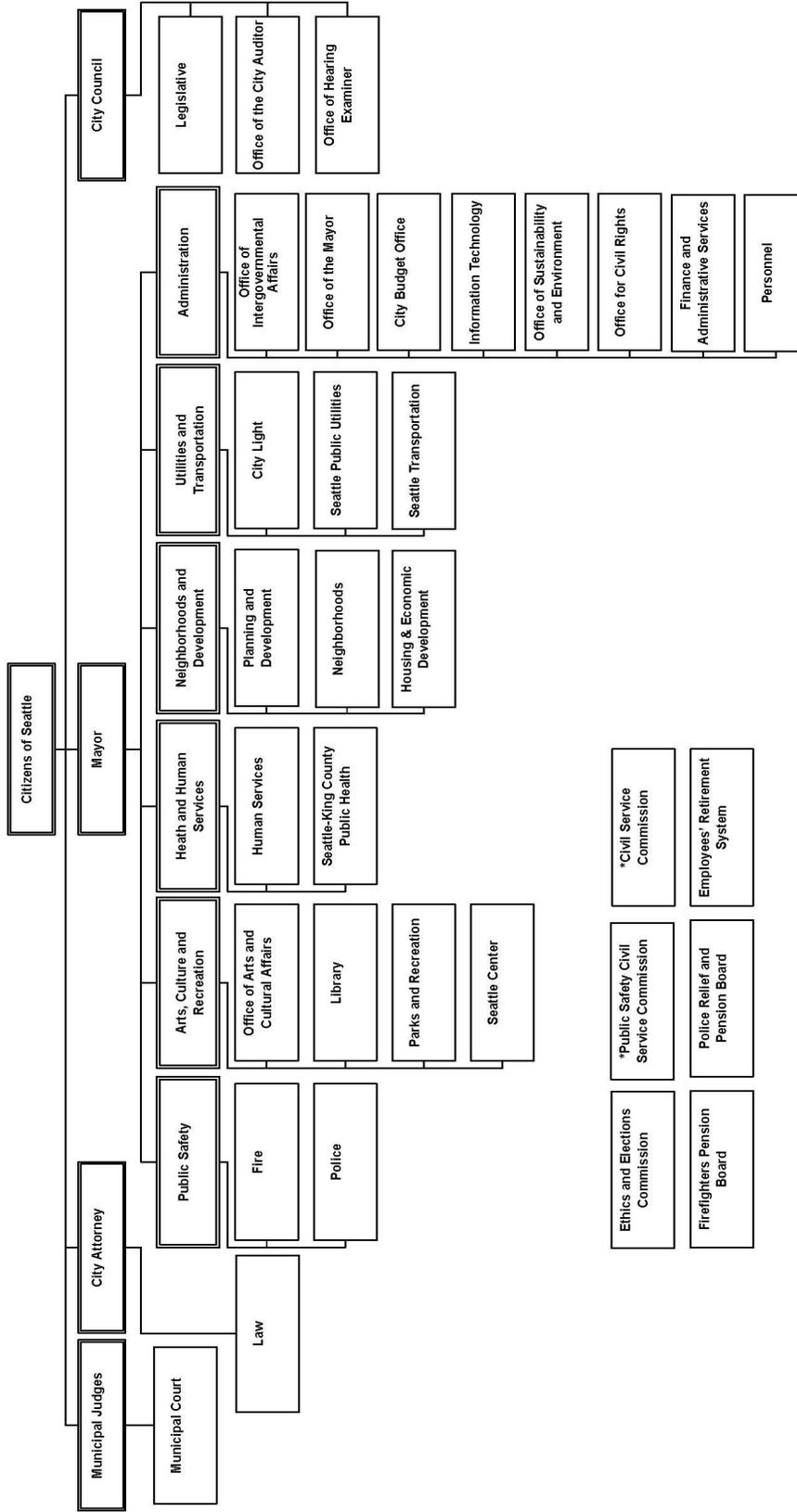
Most department-level budget presentations begin with information on how to contact the department, as well as a snapshot of the department's budget control level budget structure. The department-level budget presentation then goes on to provide a general overview of the department's responsibilities and functions within City government, as well as a summary of the department's overall budget. A narrative description of the issues impacting the department's 2012 proposed budget then follows. The next section of the department-level budget presentation provides a numerical and descriptive summary of all of the incremental budget changes included in the 2012 proposed budget, along with a discussion of the anticipated operational and service-level changes that will result. The department-level budget presentation concludes with summary level tables that describe the department's overall expenditures and revenues by account type as well as by budget control level and program. All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2012. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes proposed in the budget has been compiled in a separate document entitled, "Position Modifications in the 2012 Proposed Budget." Position modifications include abrogations, additions, reclassifications, and status changes (such as a change from part-time to full-time status), as well as adjustments to departmental head counts that result from transfers of positions between departments.

For information purposes only, an estimate of the number of staff positions to be funded under the Proposed Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, 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 (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2012.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2010 through 2012; a statement of fund balance; and a statement of 2012 appropriations to support capital projects appearing in the 2012-2017 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2012-2017 Proposed Capital Improvement Program document.

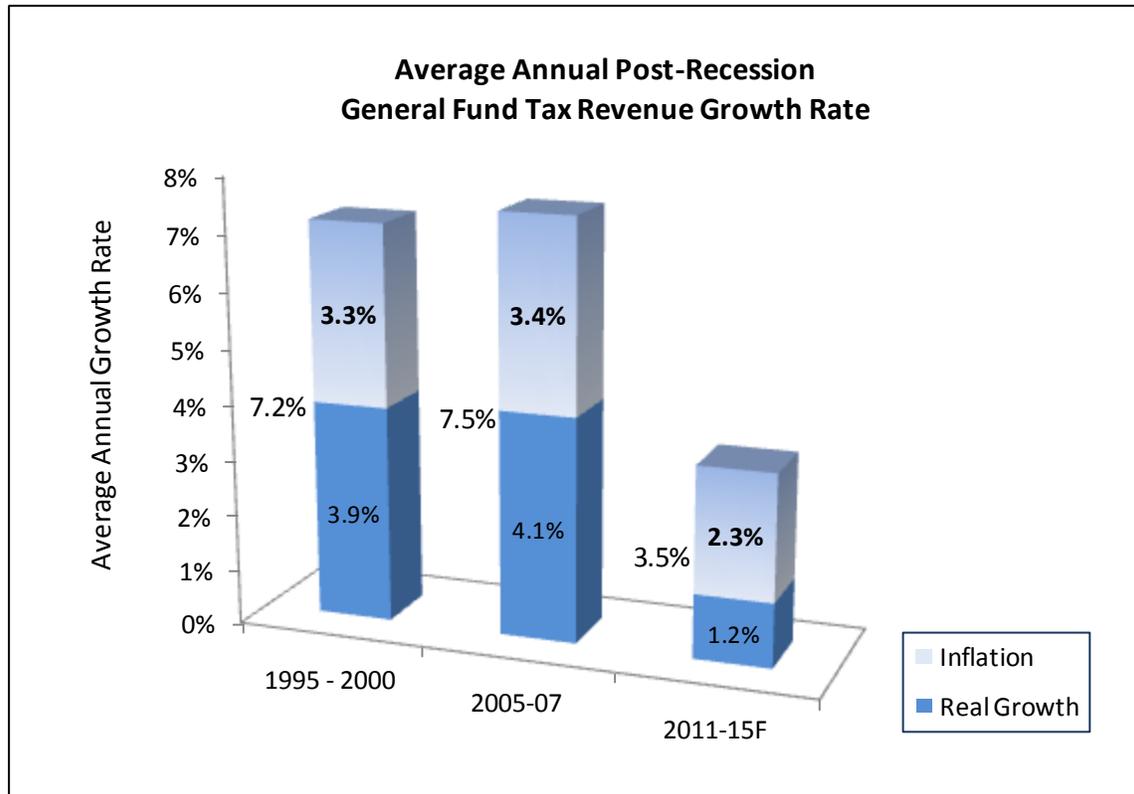
City Organizational Chart



*Administrative support for both Commissions provided by one office.

2012 Proposed Budget - Executive Summary

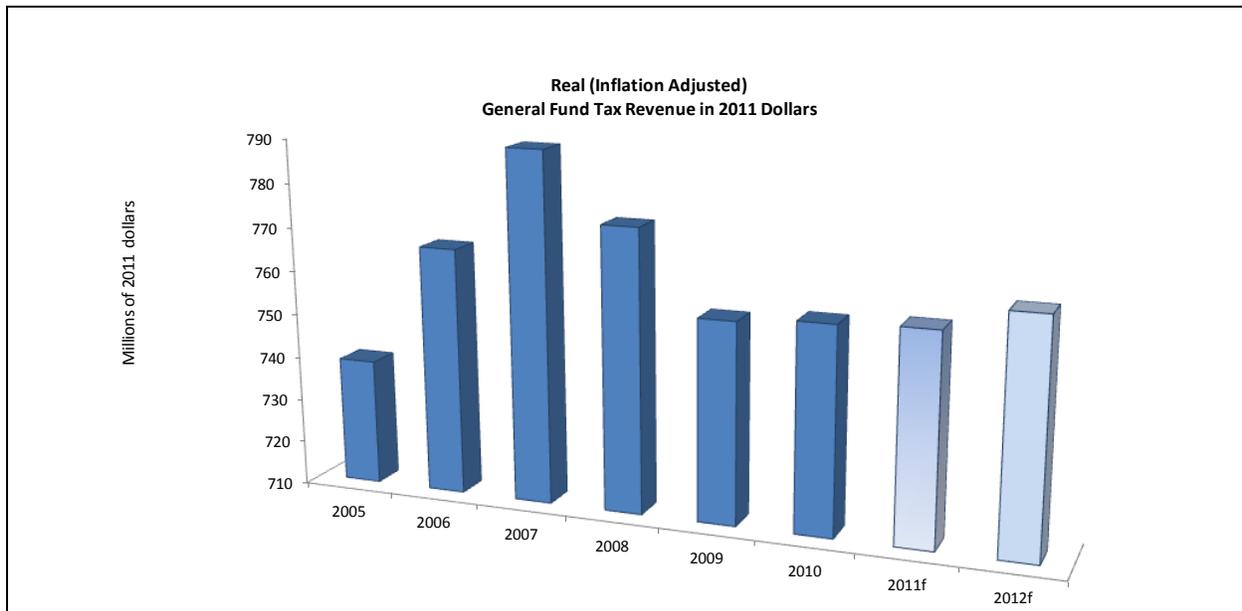
The 2012 Proposed Budget totals \$4.2 billion, including the City's \$910 million General Fund. Three years after the start of the Great Recession and two years following its lackadaisical conclusion, the City of Seattle continues to adjust to a new economic reality – one marked by weak economic and revenue growth relative to other post-recessionary periods.



While growing, the rate of General Subfund revenue growth is not sufficient to maintain existing services and respond to emergent needs.¹ The revenue situation is compounded by the fact that the Federal government and the State of Washington are also dealing with their own budget challenges. While federal and state funding on a percentage basis is relatively insignificant when compared to the City's overall budget, the City does rely on funding from these entities for a number of important services, including the Community Development Block Grant (CDBG) program. As its own budget pressures persist, the City has limited opportunities to backfill the loss of these other revenue sources and to respond to emergent expenditure pressures without making other tough choices. This becomes readily apparent when comparing tax revenue growth rates before and after the Great Recession. In the period between 2005 and 2007, General Fund tax revenues (property, sales, business & occupation, and utility taxes) grew at an average annual rate of 7.5%. In sharp contrast, in the period between 2008 and 2010, General Fund tax revenues grew at a meager 0.3% on an average annual basis. On an inflation-adjusted basis in 2011 dollars, 2012 General Subfund tax revenues are approximately \$27 million below the peak in 2007 and still below 2006 levels.

¹For additional details about the economic and revenue forecast, please refer to the Revenue Overview section of the 2012 Proposed Budget Book.

Executive Summary



2012 is the second year of the 2011-2012 biennium and the 2012 Proposed Budget presented here reflects changes to the 2012 Endorsed Budget, which was adopted by the City Council in November 2010. The 2012 Proposed General Fund Budget is 1.3% smaller (\$12 million) than the 2012 Endorsed Budget. As a result of revenue changes at the local, state, and federal levels, including reduced parking meter revenues as a result of changes the City adopted in early 2011, increases in retirement costs, higher-than-anticipated COLA and inflation rates, and other cost drivers, the 2012 Proposed Budget projects a \$25 million gap between General Fund revenues and expenditures. This gap is partially mitigated by a better-than-expected 2011 year-end fund balance. Taken together, the 2012 Proposed Budget closes an \$18 million shortfall for the General Fund for 2012.

Across all funds, the 2012 Proposed Budget eliminates 155 FTEs, 96 of which are filled. Of the 96 FTEs, 82.4 FTEs will be laid off and 13.4 FTEs will see a reduction in hours. The budget also adds 43 new FTEs, for a total net reduction of 112 FTEs. Reductions in management-level positions, in an effort to streamline spans of control, continue to be a focus for the City of Seattle. Of the net positions eliminated, 19 FTEs, or 17%, are senior level positions (executives, managers and strategic advisors). Considering that senior level positions make up only 8.9% of the City workforce, a disproportionate number of the eliminated positions are from the management ranks. Since Mayor McGinn took office in 2010, the management ranks in the City of Seattle have shrunk by 110 FTEs.

Based on the current forecast, 2012 represents the fourth consecutive year that the City of Seattle's General Fund is facing budget reductions. And, projections suggest that these challenges will persist beyond 2012 as a result of continued economic weakness. Based on current assumptions, the deficit for 2013 is \$32.8 million and \$39.2 million for 2014. This budget trajectory makes it difficult to continue to preserve funding for direct services. After four years, it is clear the City can no longer rely on the hope that future revenue growth will return to historic growth rates in order to sustain City services and respond to emergent needs. For 2012, the City is at a crossroads.

Executive Summary

The 2012 Proposed Budget reflects a concerted effort to reform, reorganize and reinvent how the City does business.

- The City can continue making incremental reductions on the margins and run the real risk of degrading the quality of the services provided, or
- The City can take these persistent budget challenges as an opportunity to closely examine *how* the City does business and develop creative new ways of delivering services to preserve programs that are so important to the community.

In developing the 2012 Proposed Budget, Mayor Mike McGinn emphasized the latter approach. The 2012 Proposed Budget reflects a concerted effort to *reform, reorganize and reinvent how the City does business*. This is by no means an “all cuts budget.” Rather, the 2012 Proposed Budget is an exercise in priorities. *It makes strategic reductions in areas where the City can transform its operations or where outcome data show that the City is achieving its performance objectives and preserves and/or redirects funding to other priority areas. While much of the savings resulting from the Mayor’s efforts to reform, reorganize and reinvent are used to balance the budget, Mayor McGinn’s 2012 Proposed Budget strategically reinvests some of the savings in select priorities – including areas key to the long-term financial health of the City.*

The 2012 Proposed Budget reflects a number of basic principles, including the preservation of direct services to the greatest extent possible. It is a budget that takes a long-term view – even if it means some modest near-term challenges – making investments that better position the City to maneuver through these turbulent times. And, it places a strong emphasis on social justice impacts and geographic equity.

In terms of services, the 2012 Proposed Budget:

- Maintains the current firefighting strength and preserves companies assigned to neighborhood fire stations.
- Supports funding levels allowing the Seattle Police Department to continue meeting the goals of the Neighborhood Policing Plan and preserves funding for Victim Advocates and Crime Prevention Coordinators.
- Preserves funding and 2011 hours of operation for the Central Library and all 26 branches of The Seattle Public Library and preserves the Library’s collections budget at the 2012 Endorsed Budget level.
- Retains lifeguards on city beaches, keeps all swimming pools open, and maintains 2011 service levels for wading pools.
- Maintains 2011 funding levels for Human Services contracts, including General Fund backfill to compensate for reduced federal Community Development Block Grant (CDBG) funding.
- Makes modest increases in the City’s community granting programs and maintains an overall increase in the low-income housing production and preservation assistance program over prior years.
- Preserves investments in youth and job training programs.

Executive Summary

The 2012
Proposed
Budget
preserves
2011
operating
hours for
The Seattle
Public
Library.

In terms of ensuring the City's long-term financial health, the 2012 Proposed Budget provides funding to take care of what the City has and increase its fiscal reserves. Just as individuals and businesses set some of their income aside for unexpected emergencies and to maintain their homes, buildings, and other assets, the 2012 Proposed Budget recognizes Seattle must do the same. As the City starts to recover from the Great Recession, the 2012 Proposed Budget:

- Uses select one-time revenue sources to increase the City's commitment to maintaining its physical assets.
- Sets a new course for fiscal discipline by allocating a portion of revenues off the top to invest in the City's main savings account – the Rainy Day Fund – to better position the City to weather future financial storms.
- Ensures long-term financial obligations are squarely met by stabilizing the City's strained pension fund.
- Leverages community partnerships to preserve services.
- Makes strategic investments in programs that will support future economic growth, including adding resources to the Department of Planning and Development (DPD) to more quickly process job-creating construction activity.

But the question remains – how does the City close a \$18 million budget gap in the 2012 Proposed Budget while preserving resources for these priorities? Quite simply, the 2012 Proposed Budget captures much of its savings by transforming how the City does business; using outcome metrics to guide investment decisions; controlling labor costs; and strategically leveraging revenues.

Transforming How the City Does Business

The key to preserving direct services in the face of the City's ongoing budget challenges is looking for new ways to deliver services. It has been apparent for some time the City can no longer afford business as usual. Sensible changes to the way the City delivers services generates substantial savings that help close the budget gap. Some of the changes include:

- A new long-term jail contract.
- Consolidating community granting programs.
- Merging the Office of Housing and the Office of Economic Development into the Department of Housing and Economic Development.
- Transforming the community center staffing model.
- Consolidating the administrative offices of the Public Safety Civil Service Commission and the Civil Service Commission.
- Realizing additional efficiencies from the 2010 creation of the consolidated Department of Finance and Administrative Services.

New
long-term
jail contract
saves the
City
\$5.3 million
in 2012.

A New Long-Term Jail Contract Saves the City Money: The 2012 Proposed Budget recognizes \$6 million in jail costs savings – a direct benefit to the General Fund. A large majority of this savings is achieved as a direct result of a new, long-term Jail contract with King County. Despite the City of Seattle’s proximity to the King County Correctional Facility, located in downtown Seattle across the street from the Seattle Justice Center, the 2012 Endorsed Budget assumed the City would house its misdemeanor jail inmates at a variety of jail facilities throughout King and Snohomish counties. This plan was driven by King County’s assumption that its Department of Adult and Juvenile Detention would not have sufficient space to provide the City of Seattle the number of jail beds it needed in both the near- and long-term. However, King County has seen its jail population decrease in recent years and its current population projections suggest that it will have sufficient space for City of Seattle inmates through at least 2020. But, this still came at a high price to the City of Seattle. The cost to book and house inmates in the King County Correctional Facility was significantly more expensive than other jail facilities in the region. And, more importantly, the County could not guarantee the City that it would have capacity over the long-term (beyond 2020) to house its inmates. Faced with this possibility, the City understood that it might have to build its own jail to meet its needs beyond 2020 – a costly and time-consuming proposition (it takes an estimated 4-to-6 years to site and build a jail) – or find another facility with sufficient capacity over the long-term.

Having Seattle inmates housed at the King County Correctional Facility is important to Mayor McGinn – both from a geographic and operational convenience perspective and because King County and the City of Seattle have traditionally shared similar values around issues such as alternatives to incarceration and other forms of treatment designed to break the cycle of recidivism. So in early 2011, Mayor McGinn instructed staff from the City Budget Office to approach King County about potential terms of a new jail contract that would result in lower near-term costs and certainty about the long-term housing needs of the City’s inmates. The Mayor had two key objectives in mind:

- Long-term certainty: The City sought a contract that would provide a clearly defined rate path and certainty that the City’s long-term capacity needs would be met.
- Commitment to expand if necessary: The City prefers to not have to build its own jail. The Mayor sought a contract that would provide a commitment that the County would expand jail capacity if space becomes an issue, with City paying its defined fair share of the costs.

The City and the County successfully negotiated a long-term contract that runs through 2030. This agreement meets the City’s objectives, cements a long-term partnership between the City and County, and offers both jurisdictions fiscal relief in these challenging budget times. The agreement provides revenue certainty for the County and lowers the City’s booking costs, defines parameters for future

Executive Summary

Lower jail population trends save the City \$700,000 in 2012.

rate increases and inmate population growth, and sets equitable cost terms if jail expansion is required. In the short-run, the new contract will save the City \$5.3 million in 2012 on jail costs. The primary components of these savings are:

- **Reduced booking fee.** The booking fee – a charge the City pays each time it books inmates into the jail – is significantly reduced in the new jail contract (\$95 instead of \$329), saving the City \$2.6 million annually.
- **Avoided transportation costs.** The City had been expecting to spend \$1.2 million in 2012 to transport pretrial inmates to and from more distant jail facilities. The new contract provides the City with sufficient space at the King County jail allowing Seattle to avoid these transportation costs.
- **Additional savings.** An additional \$1.5 million miscellaneous contract savings.

In addition to these 2012 savings, the new jail contract also allows the City to avoid future capital costs. The City estimated it could cost as much as \$200 million to site and build a new jail. Under the terms of the new contract, if the County needs to build more jail capacity, the City would only be responsible for its fair share of these costs, which the contract defines as the City's jail population relative to the total jail population at King County. Using today's dollars, that cost is estimated at \$6 million.

Finally, the City will save another \$700,000 in jail costs in 2012 as a result of jail population trending lower than was originally anticipated when the 2012 Endorsed Budget was approved.

Merging Community Granting Functions to Preserve Grant Dollars Out-the-Door:

The 2012 Proposed Budget also includes recommendations to merge the administration of many of the City's community granting functions into a single operational unit to preserve – and even increase – the amount of grant dollars available to the community. Currently, the City has five community granting functions operating out of five different departments:

- Department of Information Technology's (DoIT) Technology Matching Fund;
- Office of Economic Development's "Only in Seattle";
- Seattle Public Utilities' (SPU) Waste Prevention and Recycling Grants;
- Department of Neighborhood's (DON) Neighborhood Matching Fund (NMF); and
- Office of Cultural Affairs (OCA) Civic Partnership programs.

Collectively, these programs issue \$6.2 million in community grants at a cost of a nearly \$1.5 million more to administer the grants, translating into a 23.5% overhead rate (most nonprofits aim to get their administrative costs under 15%). For 2012, grant administration functions in DoIT, OED, SPU and DON will be consolidated within a new Community Granting Unit in DON. This unit will receive and process grant applications, administer grant funding, and monitor

Grant consolidation allows the City to increase grant awards from \$6.2 million in 2011 to \$6.4 million in 2012 and decrease overhead costs from \$1.5 million in 2011 to \$1.1 million in 2012.

compliance with grant requirements. Meanwhile, the home departments for the grant funds will continue providing subject-matter policy expertise during the review of the grant applications and participating in the award decision-making process. External advisory bodies who have traditionally offered input on the selection process, such as District Councils, the City Neighborhood Council, the Citizens' Telecommunications and Technology Advisory Board (CTTAB), and the Seattle Arts Commission, will also remain involved as key partners.

While OACA's Civic Partnership programs are not part of the consolidation, the directors of DON and OACA have committed to closely collaborate on the administration of these granting programs and OACA. Collectively, these efforts will allow the City in the 2012 Proposed Budget to save more than \$400,000 and reduce total grant administration costs to \$1.1 million. This savings not only provides relief to the General Fund, but a portion of the savings are reinvested into community grants for 2012, increasing the total awards to more than \$6.4 million and reducing the administrative overhead load from 23.5% to 17.8%. This new consolidated model also sets a potential path for additional efficiencies in the future, potentially including other City award programs, such as the Seattle Youth Violence Prevention Initiative (SYVPI), Parks Opportunity grants, and the Seattle Department of Transportation's (SDOT) Neighborhood Street Fund program. Because each of these programs operates differently from the community granting functions (e.g., SYVPI is a much more targeted granting program than the community grant programs, and the Parks and SDOT programs involve the City doing the work to make the investment), it was not appropriate at this time to include these in the consolidation, though there may be opportunities in the future.

Creating a Consolidated Department of Housing & Economic Development: In addition to recommending consolidation of many of the City's granting functions within DON, the 2012 Proposed Budget also merges the Office of Economic Development and the Office of Housing into a new unit – the Department of Housing and Economic Development (HED). Integrating these functions achieves a number of objectives:

- Aligns and integrates two functions critical to developing healthy communities. The heart of every vibrant community is access to affordable housing and centers of employment.
- Capitalizes on similarities between the two functions. Both offices provide seed funding and financing tools critical to improving the well-being of individuals and supporting the building blocks of a healthy community – affordable housing and access to jobs.
- Provides managerial and administrative savings that relieve the strained General Fund and increase investments in housing programs.

Executive Summary

The new Department of Housing and Economic Development will allow for increased investments in affordable housing programs.

As a single organization, HED will invest in and promote the development and preservation of safe and affordable housing, and help to create a vibrant economy by promoting access to economic opportunities for all of Seattle's diverse communities. The Department will accomplish this by funding affordable workforce housing, supporting renters and homeowners, as well as supportive housing that help vulnerable people achieve stability and move along a path toward self-sufficiency. This work will stimulate housing development, allowing families to thrive and neighborhoods to provide a full range of housing choices and opportunities.

The Department will also continue to support economic development that is financially, environmentally, and socially sustainable; and provide services that capitalize on Seattle's established economic activity, particularly in the areas of manufacturing and maritime industries, film and music, healthcare, and clean technology. These services are designed to support the establishment of new businesses, retention and growth of existing businesses, and attraction of new businesses; increase the number of low-income adults who obtain the skills necessary to meet industry's needs for qualified workers; and advance policies, practices, and partnerships that lead to sustainable economic growth with shared prosperity. Among other things, the creation of HED will allow for greater collaboration among housing and economic development policy and programs to build strong communities and to help residents achieve self-sufficiency, with services ranging from housing to employment assistance. The merger will strengthen the linkages between the two offices and allow the new department to build on past successes in promoting place-based development that provides essential housing and employment opportunities targeting Seattle's lower-income residents. Specific examples of past successes include building a new transitional housing facility with 78 new beds to help the Compass Center in Pioneer Square recover from the Nisqually Earthquake, and financing the Chubby and Tubby project in Southeast Seattle, resulting in 68 units of new workforce housing and 5,000 square feet of new commercial space.

This merger generates \$338,000 in managerial and administrative savings, \$310,000 of which accrues to the General Fund. Reflecting the Mayor's strong commitment to affordable housing, \$210,000 of this General Fund savings will be rededicated to direct housing programs with an emphasis on programs targeting low-income renters who are squeezed more than ever as a result of diminishing apartment vacancy rates and the increased rents that follow. The money will increase funding in the Multi-Family Production and Preservation program, allowing future development of 4-5 low-income rental units, and helping mitigate CDBG funding reductions in this program area.

By focusing operating hours where demand is greatest, the new community center model will allow the City to serve more people in 2012.

Transforming the Community Center Staffing Model to Serve More People: Community centers are an important resource, providing residents of all ages with opportunities to stay active and to get involved. Parks spent the early months of 2011 working in partnership with the Mayor and the City Council to develop a new model for managing and operating the City’s 26 community centers in an environment of constrained financial resources. Parks sought input from a variety of stakeholders and relied on community center usage and other data points to inform its recommendations. What results from this collaborative effort is a new model for managing and operating Seattle’s community centers in a way that maximizes access for people in a geographically equitable way.

Community centers in 2012 will be managed in five geographic teams – northeast, northwest, central, southeast, and southwest – with five community centers in each geographic area.² Community centers in each geographic area will offer varying levels of service, with at least one center in each area offering Level 1 service. Level 1 centers will be open for up to 70 hours per week, an increase from the current 51 hours per week. Level 2a community centers will be open 45 hours per week, a slight reduction from the current 51 hours per week and Level 2b centers will be open for 25 hours per week. The service level designations were determined by analyzing a variety of metrics, including: the number of users, amount of programming, number of childcare scholarships, rental revenues, and the physical size of each facility. Because the centers with the highest usage patterns are designated as level 1 centers and will offer more hours for public access, this new model will allow Parks to serve at least as many people – and potentially more – as are served under the existing community center model.³

The geographic model for operating community centers will provide Parks with an opportunity to streamline its management and staffing of community centers. This new approach results in the reduction of 13.63 FTEs and saves Parks \$784,000. Parks also expects \$446,000 in additional revenues based on new revenue-sharing agreements with the City’s long-time partner, the Associated Recreation Council (ARC), the non-profit responsible for programming at community centers. Taken together, this model provides \$1.23 million in General Fund budget relief.

²The Southwest Community Center is not included in the geographic team structure as it will operate as a Teen Life Center, Swimming Pool, and rental facility.

³In response to the continuing need for budget reductions and direction from the City Council, Parks staff conducted an inclusive, data-driven analysis and process to examine alternative models for staffing and operating the centers. The results of this effort are the 2012 community center staffing and management model in the 2012 Proposed Budget. For more details, visit this website: <http://seattle.gov/parks/centers/operations.htm>

Executive Summary

The creation of the Department of Finance & Administrative Services has generated \$1.6 million in savings in labor costs.

Consolidating Civil Service Commission and Public Safety Civil Service Commission Offices: The City maintains two quasi-judicial bodies to act as a third party in disputes over the application of Personnel Rules. The two Commissions are each overseen by a three-person panel – one member appointed by the Mayor, one member appointed by the City Council and one member elected by employees. Up until now, each Commission was supported by separate administrative offices. Each office had its own Executive Director and the Civil Service Commission also had one support staff. Through a collaborative effort between the Commission Chairs and the City Budget Office, a new consolidated staffing model is proposed for 2012. Rather than maintain two administrative offices with two Executive Directors, the CSC and the PSCSC will be supported by a single administrative office, staffed by one Executive Director and 1.6 FTE support staff positions. This change allows the City to eliminate 0.2 FTE and save over \$50,000. It also allows for a better alignment of workload to position title. The existing governance structure of the CSC and the PSCSC will remain intact.

Recent Successes with Consolidation: The departmental/operational consolidations and realignments recommended in the 2012 Proposed Budget follow Mayor McGinn’s successful merger of the former Department of Executive Administration (DEA) and the former Fleets & Facilities Department (FFD) into the Department of Finance & Administrative Services (FAS) in 2010. The creation of this unified department has allowed for greater utilization of resources; better integration of the City’s financial and accounting policies, procedures and systems; and improved efficiencies in the provision of customer services. And, the merger continues to yield results. Prior to the reorganization, there were 565 FTEs in DEA and FFD. Including changes proposed in the 2012 budget, but not counting the transfer of the 17.5 FTE associated with the Neighborhood Payment and Information Service Centers, FAS will manage the workload of the two previous departments with 504 FTEs, down 11%. Many of these reductions have been made possible by streamlining administrative functions. Compared with costs prior to the departmental reorganization, the 2012 Proposed Budget funds 17 fewer positions for FAS administrative functions (a reduction of 31%), saving \$1.6 million in labor costs. Examples of these efficiencies include the elimination of one of two human resources directors and one department director.

Measuring for Results

As the City’s resources become more constrained, it is essential the City assess whether its investments are achieving the intended outcomes. The 2012 Proposed Budget starts building a foundation for systematically measuring and assessing the outcomes of City investments. Where such measures already exist, outcome metrics were instrumental in informing how to prioritize and align budget dollars in the 2012 Proposed Budget.

Executive Summary

Exceeding Neighborhood Policing Public Safety Performance Outcomes: In 2007, the City adopted the Neighborhood Policing Plan (NPP), which provides the Seattle Police Department with a framework for deploying patrol staff to meet the City's public safety objectives. The plan sets three goals:

- To respond to high-priority emergency calls in an average of seven minutes or less - a commonly accepted response time for police forces in larger cities.
- To allow patrol officers to do more proactive policing (30% of officer time) to help resolve the underlying conditions that create violations of law and/or public order.
- To deploy 10 additional "back-up" police vehicles citywide. These cars (two in each precinct) provide better area coverage and improve backup capability, enhancing officer safety.

Police response time to 911 calls has improved 12.5% since 2008.

The Neighborhood Policing Plan called for adding 105 officers over the course of five years, beginning in 2008, to meet these performance objectives. The original plan contemplated the addition of 105 officers from 2008 through 2012 to meet these performance objectives. Because of the City's budget challenges, hiring at SPD was put on hold in 2010. The pause has delayed the hiring of 20 to 21 new NPP officers that were scheduled to be added in each year from 2010 through 2012. It has also affected regular maintenance hiring, which would have replaced another 26 officers by the end of 2011. However, through prudent management of staff resources, SPD has successfully exceeded these public safety outcomes with its existing contingent of sworn officers.

	NPP Goal	Actual Results Through June	As Compared to the NPP Goal
Priority 1 Call Response Time	7 minutes or less	6.3 minutes	Exceeding Goal
Average Proactive Time Available	30% of On-Duty Time	34% of On-Duty Time	Exceeding Goal
Increased Number of Backup Vehicles	10 Units Citywide	10 Units Citywide	Meeting Goal⁴

⁴SPD lacks a direct measure of units free. However indirect evidence is available: out-of-district dispatch of cars occurs less than 8% of the time, which contrasts to 15-30% of out-of-district dispatch prior to NPP implementation. The Department feels that this is evidence that it is meeting the standard most of the time.

Executive Summary

Crime rates are at historic lows, with response times exceeding performance objectives.

Since 2008, SPD has improved its response time to Priority 1 (911) calls by 12.5% and its response time to Priority 2 calls by 8%. Moreover, crime rates are at historic lows. The number of major crimes fell 7.4% in 2009, fell another 5.8% in 2010. Violent crimes in particular have seen dramatic decreases. In 2010, violent crimes fell 9%. Homicides are down 34% since 2008. These trends seem to be continuing. Through midyear 2011, major crimes are down citywide by 11% when compared with the first six months of 2010. Through June of 2011, violent crime is down 1% compared with the same time period in 2010, with homicides, rapes and robberies trending down. Property crimes are down 12% across the city at midyear 2011, when compared with the same time period in 2010.

SPD has achieved these positive public safety outcomes even as the size of the police force has slowly decreased. SPD began 2011 over-staffed by 12 officers relative to budget as a result of aggressive hiring at the end of 2009 and lower-than-normal attrition rates in 2010 due to the weak economy.

As 2011 has progressed, SPD saw attrition rates return to near normal levels (approximately 36 per year). But because SPD started the year overstaffed relative to budget, it has not hired to replace departing officers, continuing the hiring pause that began in 2010. As a result, SPD expects to end 2011 with 1,301 sworn officers, or 26 below the level assumed in the 2011 Adopted Budget.

With this background in mind, the 2012 Proposed Budget reduces funding to SPD by \$2.4 million to reflect the smaller police force that will result from holding the 26 sworn position vacancies anticipated by the end of 2011. While decisions to reduce the size of the police force are always difficult, the City's ongoing General Fund budget challenges, combined with the fact that SPD is exceeding its public safety performance measures, indicate this is a viable budget decision. As attrition continues to occur in 2012 beyond the 2011 levels, the 2012 Proposed Budget assumes SPD will resume maintenance hiring of sworn officers in 2012 to maintain a police force of 1,301.

Through its flexible and adaptive approach to allocating staff resources, SPD is putting officers where they are needed most to fight and, more importantly, prevent crime. For 2011, a minimum of 545 sworn officers have been assigned to 911 patrol functions. This is slightly above the staffing level of 542 in January 2010 and slightly below the all-time high of 556 achieved in the summer of 2010. In addition, SPD has dedicated more officers to on-the-ground proactive police work, including foot beats, bike squads and other proactive units that contribute greatly to improved public safety in city neighborhoods, especially downtown.

Executive Summary

	Increased Staffing Levels in 2011
Foot Beats	6 officers
Bike Squad	8 officers
Mounted Unit	3 officers
Neighborhood Corrections Initiative	1 officer
Seattle Center Patrols	1 officer

The City successfully achieved the stated outcome of 1 to 2 open spaces per block face in the four neighborhoods where parking meter rates were increased in 2011.

For 2012, SPD will continue to closely monitor the NPP outcome measures and will adjust the deployment of sworn officers to 911 patrol functions from lower-priority areas to meet the NPP outcome metrics. SPD would look to redeploy officers from areas such as desk clerks, federal task forces and investigative units.

Parking Meter Outcome Metrics Inform Application of City's On-Street Paid Parking Program for 2012: As part of the 2011 budget process, the City adopted a policy objective of using parking meter rates to encourage sufficient turnover of metered parking spaces to provide an average of one-to-two open parking space per block face throughout the day. Parking meter rates were adjusted in the 2011 Adopted Budget with the goal of achieving this outcome. Rates were increased in four of the City's 23 parking districts and were reduced in 11. A data collection effort in June of 2011 indicates that parking occupancy fell in the four areas where parking rates were increased, allowing the City to achieve the goal of one-to-two open spaces per block face. However, in the 11 areas where the meter rate was lowered, the results were mixed – parking occupancy rates increased in some areas, but in a majority of areas occupancy rates actually fell, suggesting that lowering the price is not the influential factor in determining parking patterns in these neighborhoods.

In addition to the June 2011 data collection effort, SDOT also conducted a comprehensive Performance-Based Parking Pricing Study, to inform parking meter recommendations for the 2012 budget. The study also included a public engagement component involving a sounding board of stakeholders to help shape and define the recommendations. Additional information about this study can be found at: http://www.seattle.gov/transportation/parking/docs/SDOT_PbPP_FinRpt.pdf

Based on the findings of the study, the 2012 Proposed Budget includes the following adjustments to the City's parking meter program. In addition to adjusting hourly rates in some neighborhood parking areas, SDOT will also delineate parking rate boundaries on a more granular level, such as adjusting geographic boundaries to divide some parking areas into smaller areas, and extend authorized time-limits in certain locations with the stated goal of achieving one-to-two open parking spaced per block face. The refined parking management tools are particularly warranted in neighborhoods in which lowering rates in 2011 did not

Executive Summary

Based on the data, some neighborhoods will see parking meter rate decreases in 2012 and two-hour metered parking time limits will be extended in some neighborhoods.

generate increased parking demand. In 2012, 13 neighborhoods will have rate, boundary, and/or time limit changes, under SDOT's proposal. These proposed changes are described in more detail below. Additional information about specific neighborhood changes is available at: <http://www.seattle.gov/transportation/parking/paidparking.htm>

- *Geographic Boundaries Changes:* The University District, Ballard, South Lake Union, Belltown, Pioneer Square, Capitol Hill, and Uptown geographic boundaries will be adjusted to delineate higher- and lower-demand areas within each neighborhood. These changes will result in a more precise application of the data-driven policy objectives because rates can be set on a more granular level. In some cases, the boundaries between neighborhoods or sub-neighborhoods will be moved. In others, differentiation will be made between the neighborhood core and outer areas with lower measured demand. Following the policy objectives, rates will be applied so that lower-demand areas have a lower parking rate than higher-demand areas in each neighborhood. In some cases, lower-demand areas will also have extended time limits.
- *Rate Changes:* Rate adjustments in 2012 will be made in six neighborhoods in the context of the geographic boundary changes previously described and the policy objective of achieving one to two open spaces per block-face. The lower-demand areas in Pioneer Square and Capitol Hill will see rate decreases in 2012. Higher-demand areas in the University District, Ballard, and Belltown South will see 2012 rate increases. Most long-term areas in South Lake Union will be priced at \$1.50 compared to \$1.25 in 2011. All other rates will remain the unchanged in 2012.
- *Time Limits Changes:* Extended time limits will be applied in locations where measured occupancy levels are below the policy objective. Four-hour parking will be available in Denny Triangle North, Roosevelt, and parts of the University District, Ballard, Belltown and Uptown. Uptown Triangle, Westlake Avenue North, and some additional spaces in South Lake Union will not have a daily time limit. In some cases, time limits are extended in lieu of lowering rates because, based on the June 2011 data collection, further rate decreases are not likely to generate parking demand. Extending time limits in these areas is expected to increase parking demand and support businesses that require longer stays by their customers. Longer-term paid parking has been successful in South Lake Union, where there is strong demand compared to short-term parking, and parts of downtown near the Waterfront, where a small pilot has been implemented. Paid parking hours will be extended from 6 to 8 p.m. in Denny Triangle South.

The City will implement a pay-by-cellphone program in 2012.

- *Three-Hour Time Limits After 5 p.m.:* As an added service enhancement in neighborhoods where paid parking was extended to 8 p.m., time limits after 5 p.m. will be changed from two to three hours in 2012. This will give evening visitors to restaurants, theaters, and clubs an opportunity to purchase more time. Time will continue to be limited to two hours in these locations before 5 p.m. SDOT will monitor parking occupancy and turnover in these neighborhoods to ensure people are still able to find sufficient on-street parking in the evenings.
- *Pay-By-Cell:* The 2012 Proposed Budget includes funding to implement a new pay-by-cell program, which will enable parking payments through cell phones and mobile devices. Pay-by-cell will be a payment option in pay-by-cell areas. Payment through SDOT's existing pay stations will continue to be available. While requiring relatively little infrastructure investment, the new payment method is expected to provide additional convenience for customers and a variety of other practical benefits that help make Seattle more visitor-friendly. With pay-by-cell, parkers call a phone number or use a mobile smartphone application to set up an account that is linked to vehicle license plates. When reaching a pay-by-cell area, the parker logs on or calls into that account and purchases the needed parking time. With a smartphone, the typical application also allows the parker to remotely extend their time up to the time limit, and to be alerted before paid time expires. Parking Enforcement Officers will have access to real-time payment information. The program is expected to begin in the summer of 2012.

Taken together, the recommended 2012 Proposed Budget changes to the City's paid parking program, following on the rate changes made in early 2011, and including the 2011-2012 loss of parking spaces in the Pioneer Square neighborhood as a result of the Alaskan Way Viaduct replacement project, will result in a \$7.48 million *decrease* in revenues to the City relative to the 2012 Endorsed Budget.

Expanded Use of Outcomes to Increase Effectiveness of City Investments:

Through an analysis conducted as part of Mayor McGinn's Youth and Family Initiative (YFI), the City identified more than \$85 million a year being spent on 130 programs to support youth and families in nine departments. While these programs can document how many individuals they serve, they cannot document whether that translates into achieving the intended outcomes. The 2012 Proposed Budget reflects the Mayor's commitment to increasing the effectiveness of City investments. The City Budget Office, working collaboratively with the Human Services Department, the Office for Education, and the Department of Neighborhoods, is launching a prototype to design and implement steps to increase the effectiveness of City investments in producing higher achievement in third grade reading levels, given that third grade reading is a key measure in determining the chance of high school graduation. The prototype will begin in the fall of 2011 and

Executive Summary

The 2010 agreement with the Coalition of City Labor Unions has saved the City \$12.2 million over two years.

focus initially on at least some clear rise in achievement in the 2011-2012 school year. The prototype will include programs, such as the Human Service Department's Family Center Services and the Neighborhood Matching Fund, along with investments from the 2011 Families and Education Levy beginning in 2012 (if approved by voters).

The prototype is seen as a part of the design process for a larger outcome-based budget assessment by the City. The initial project will test key assumptions and forge paths for a high level of interagency collaboration. And it builds energy and learning through early action. This work will not only provide the City with the information needed to understand the effectiveness of City investments, it will also form the foundation of a broader outcome-based budgeting approach that the City will incorporate into other program areas over the long-term.

Proactively Managing Labor Costs

The cost of salaries and benefits remains a significant cost driver for the City of Seattle. More than 65 percent of General Fund costs are for direct salary and benefits. Controlling these costs in order to preserve direct services remains a priority for Mayor McGinn. The 2012 Proposed Budget reflects the results of a number of these ongoing efforts.

Reaping the Continued Benefits of the 2010 Coalition of City Labor Unions Agreement:

In the fall of 2010, the City successfully concluded negotiations with the Coalition of City Labor Unions on an agreement that removed the long-standing 2% floor on Cost of Living Adjustments (COLA). Because of a low inflationary environment, as reflected in the Consumer Price Index (CPI-W), this resulted in a COLA rate of 0.6% in the 2011 budget, saving the City \$5.7 million, \$2.3 million of which accrued to the General Fund. The inflation rates remain low for the 2012 budget, with the CPI-W rate at 1.8%, allowing the City to avoid \$6.5 million in cumulative COLA costs for 2012, \$2.6 million of which are avoided General Fund costs. Over 2011 and 2012, this agreement has saved the City \$12.2 million.

Proactively Managing Healthcare Costs: As with most employers, healthcare costs are a significant cost driver for the City of Seattle. In fact, total City healthcare costs (medical, dental and vision) have roughly doubled from \$74 million in 2001 to \$143 million in 2010. The General Fund typically covers approximately half of these costs. But, there is some good news to report. Healthcare costs are holding steady for 2011 at the 2010 level of \$143 million, as a result of a drop in overall enrollment in the program and as a result of temporarily elevated increases in 2009. This results in a lower-than-anticipated base from which 2012 costs grow. For 2012, this translates into \$6.2 million in total savings from the 2012 Endorsed Budget, including \$3.3 million in savings for the General Fund.

But, the City is not resting on its laurels. Understanding that healthcare cost growth is likely to return to historic levels over the long-term, the City

The City's healthcare costs in 2012 are \$6.2 million lower than what was assumed in the 2012 Endorsed Budget.

recognizes that additional strategies are needed to control these costs. With the Mayor's support, in 2011 the City Budget Office formed a Healthcare Management Interdepartmental Team (IDT) to evaluate the City's healthcare plans and develop a longer-term set of strategic healthcare policies. The IDT has representatives from Council staff, the Department of Finance and Administrative Services, and the Personnel Department.

The IDT identified a series of changes in how the City administers its healthcare plans that will reduce costs, without reducing actual healthcare benefits. Three discrete changes will be implemented as part of the 2012 Proposed Budget:

- **Eliminate Purchase of "Stop-Loss" Insurance:** The City purchases stop-loss insurance to reduce the City's exposure to large health care claims of \$250,000 or more per individual that are incurred as part of Aetna, the City's self-insured medical plan. The cost of stop-loss insurance has been rising significantly over the past couple of years. The IDT determined that this risk could be addressed in a more cost-effective manner by establishing an internal reserve within the Health Care Fund, rather than continuing to pay an external service provider a premium to manage this risk for the City.
- **Self-Insure the City's Washington Dental Service Plan:** The IDT also determined that self-insuring the City's Washington Dental Service (WDS) plan would allow the City to save money while still maintaining the same level of dental benefits. The cost savings comes from eliminating the need to pay a State premium tax of approximately \$200,000 per year, as well as risk charges levied by WDS.
- **Establish a New Forecast Variance Reserve Within the Healthcare Subfund:** The IDT identified the need to establish a new "Forecast Variance Reserve" (FVR) of \$5.4 million to account for the volatility, compared to forecast, of self-insured Medical/Pharmacy and Dental claims and to address the risk assumed by eliminating stop-loss insurance.

These recommendations have been approved by the City's Healthcare Committee (HC2), which is composed of City representatives and signatory unions of the Coalition of City Unions. Because of the need to fund the FVR in 2012 to support the policy changes, no significant cost savings will be realized in 2012 as a result of this new approach. However, beginning in 2013, the City estimates that it will save \$1 million to \$4 million annually.

In 2012, the IDT will continue to work to pursue efficiencies within the healthcare plan, and will work with the Coalition of City Unions to evaluate and implement additional changes as part of the 2013 rate setting process.

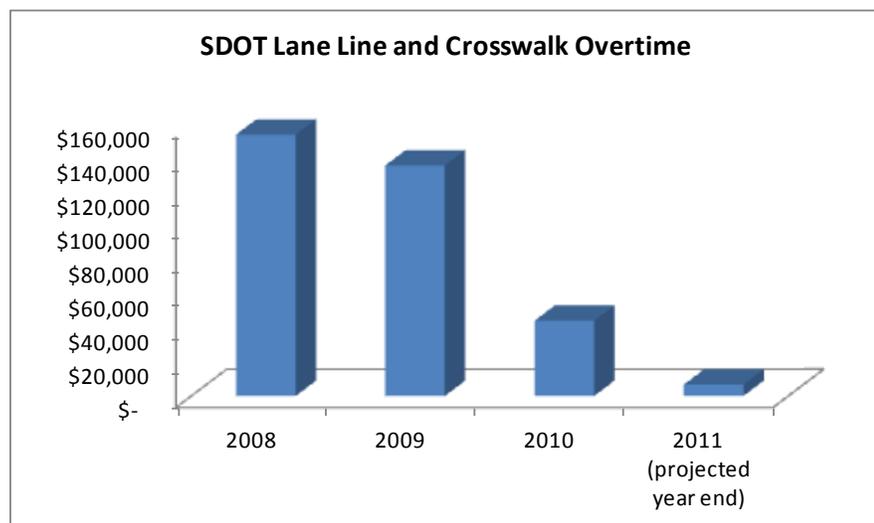
Executive Summary

SDOT has reduced street marking overtime use by 95% by adjusting work schedules.

Working with Labor to Reduce Overtime Costs: As departmental budgets are reduced as a result of the City’s ongoing budget challenges, it becomes more important than ever to ensure that the dollars that remain are spent judiciously. One area of opportunity is the use of overtime. Both SDOT and Seattle Public Utilities (SPU) have made strides – working closely with the City’s labor partners – in bringing down overtime costs.

- **SDOT Street Markings:** Traffic maintenance crews are responsible for street markings (e.g., lane lines and crosswalks painted on the street pavement). Because traffic volumes are typically lower on the weekends, SDOT has traditionally targeted the weekends as the most effective time to do this work. A crew can complete almost twice as many lane miles on a weekend day than a weekday. Moreover, SDOT typically concentrates this work in the summer months when there is less rain. But, this system has traditionally come at a high cost because crews worked a Monday through Friday schedule and were paid on overtime to do the street marking work on the weekends.

Working collaboratively with Local 1239, SDOT has implemented new work schedules that have allowed the Department to eliminate nearly all overtime costs for street markings. Traffic maintenance crews that are dedicated to street markings now work alternate schedules during the summer months to allow for seven-day-a-week coverage. One set of traffic maintenance crews works a Tuesday through Saturday schedule, while another set works a Sunday through Thursday schedule. The results of this change are significant. In 2008, SDOT spent approximately \$155,000 on overtime for lane lines and crosswalk markings. For 2011, SDOT projections indicate it will spend approximately \$7,000, a 95% reduction in overtime use. As SDOT struggles with declining Gas Tax and General Fund resources, savings such as these go a long way in preserving funding for other services.



- **SPU:** SPU is equally concerned about controlling overtime costs and has established similar partnerships with its labor unions to bring down overtime costs in its Water and Drainage & Wastewater Utilities. Working in partnership with its labor unions, SPU developed a 2011 budget for Water Utility overtime that is roughly 28%, or \$428,000, lower than 2010 actual expenses. Drainage and Wastewater overtime is expected to be reduced by about \$330,000, or 21%, in 2011 as compared to 2010. Further reductions are anticipated in 2012.

Leveraging Revenue Sources to Invest in City-Owned Assets

In spite of the City's continued General Fund budget constraints, the 2012 Proposed Budget leverages a number of revenue sources to invest in the maintenance, preservation and upgrade of City-owned facilities. Asset preservation investments have suffered in recent years as a result of the economy and weakness in the City's Real Estate Excise Tax (REET) revenues. The 2012 Proposed Budget capitalizes on non-REET revenues to renew its commitment to asset preservation.

Investing One-Time Insurance Proceeds Into Roof Replacements at City-Owned Community Buildings:

For more than 30 years, the City has leased City-owned facilities to non-profit service providers in various neighborhoods around the city. This program allows service providers to occupy City-owned properties at low- or no-cash rent with the value of the services they provide to the community accepted by the City as a major portion of rent. As there are virtually no rent revenues collected, the cost of maintaining these facilities has traditionally been funded by General Fund and REET revenues. Some of these buildings are more than 100 years old, with the newest built in 1959. The lack of dedicated funds for these repairs has led the facilities to fall into disrepair. The poor condition of the roofs is a source of particular concern, as water infiltration rapidly leads to structural problems. An insurance settlement from a 2010 fire at the largely unoccupied City-owned Sunny Jim warehouse allows FAS to fund \$1.9 million worth of new roofs at six of the facilities. The groups using these buildings provide much needed services to the community and include senior centers in Ballard, Greenwood and the Central area; a home for teen mothers; food bank and meal programs; and youth programs. This investment in maintenance work will extend the life of these buildings and allow the non-profit service providers to continue to occupy the buildings and serve the community. Following is a list of the buildings that will receive new roofs in 2012:

- Central Area Motivation Program (CAMP)
- Central Area Senior Center
- Northwest Senior Center in Ballard
- Southeast Health Clinic
- South Park Community Service Center
- Teen Mother Center

Seattle will invest \$1.9 million for new roofs for community buildings.

Executive Summary

The 2012
Proposed
Budget
reinvests
\$10 million
in Parks
Levy savings
into Parks
asset
preservation
projects.

Reinvesting 2008 Parks Levy Savings into Parks Asset Preservation: Parks manages a 6,200-acre park system composed of 430 developed parks, featuring 185 athletic fields, 130 children’s play areas, 11 off-leash areas, nine swimming beaches, 18 fishing piers, four golf courses, and 25 miles of boulevards. Other facilities include 151 outdoor tennis courts, 26 community centers, eight indoor and two outdoor swimming pools, 22 wading pools, eight spray features, 17 miles of paved trails, and more. This vast system has significant asset preservation needs. In fact, Parks’ current Asset Management Plan identifies \$232 million in asset preservation needs over the next six years. Unfortunately, the City’s Cumulative Reserve Subfund (CRS), which is funded primarily through REET revenues, the traditional source of funding for Parks asset preservation activities, has suffered in the aftermath of the housing bust of the Great Recession. For 2012, Parks will receive \$13.8 million in CRS funding, which is down sharply from the \$21 million and \$22 million it received respectively in 2007 and 2008 at the height of the housing boom. The 2012 funding levels are more reflective of the amounts Parks received in the 2000 – 2006 timeframe.

Meanwhile, the advantageous bidding climate has meant that the costs of projects contemplated in the 2008 Parks Levy have come in lower than expected, freeing up money that had been designated for those projects. Parks, with the backing of the Mayor and the Council, worked closely with the Parks Levy Oversight Committee in 2011 to reach agreement to redirect \$9.8 million of this savings into 17 Parks asset preservation projects for 2012. The projects include:

- Ballard Community Center Roof Replacement
- Beacon Hill Playground Comfort Station Renovation
- Comfort Station Renovations- 2008 Parks Levy (sites to be determined)
- Evers Pool Roof Repairs
- Fairmount Park Playground Comfort Station Renovation
- Fairmount Park Playground Fence Replacement
- Garfield Community Center Roof Replacement
- Green Lake Bathhouse Roof Replacement
- Lower Woodland Playfield Tennis Court Lights Replacement
- Loyal Heights Boiler and Electrical System Replacement
- Madrona Playground Shelterhouse Restrooms Renovation
- Matthews Beach Park Bathhouse Renovation
- Queen Anne Pool Plaster Liner Replacement
- Rainier Beach Playfield Play Area Renovation
- Rainier Beach Playfield Tennis Courts and Lighting Replacement
- Seward Park Water System Replacement
- Van Asselt Community Center Gym Roof Replacement

Absent the Parks Levy funds, these projects would not have been funded in 2012.

The
2012
Proposed
Budget
leverages
future rent
revenue to
upgrade
Magnuson
Park
Building 30.

Leveraging Future Building Rent Revenue to Renovate Magnuson Park’s

Building 30: Magnuson Park’s Building 30, a 1930s hangar remaining from the old Sand Point Naval Air Station, is an important community asset. It houses offices for Parks and a number of nonprofit tenants, including the Friends of the Library, and is the site of the very popular Friends of the Library semiannual book sale, an important source of revenue for The Seattle Public Library. In 2010, the DPD and the Seattle Fire Department restricted the use of the facility because the building is not up to code. The 2012 Proposed Budget commits \$5.5 million in bond financing to renovate the west wing and hangar to bring the facility up to code and allow for expanded facility rental opportunities. The revenue generated by Building 30 after the improvements are made will cover 60% of the \$641,000 annual debt service payments on the bonds, starting in 2013. The General Fund will cover the remaining 40%, or approximately \$260,000, depending on how actual Building 30 revenues perform. The interest-only debt service payment in 2012 is estimated at \$212,000, and will be covered by the General Fund.

Allocating SDOT Revenues to Meet Basic Needs: For 2012, SDOT has two important revenue sources that are helpful in partially mitigating weakness in its base revenues (i.e., General Fund and Gas Tax). The first is \$6.8 million in revenue from the \$20 Vehicle License Fee (VLF) approved by the Seattle Transportation Benefit District in late 2010. SDOT, working collaboratively with the Citizens Transportation Advisory Committee III, the Mayor’s Office and the Council, developed a plan, as reflected in the 2012 Proposed Budget, to add significant funding – compared to 2011 – for pavement restoration, sidewalk safety, transit corridors and bicycle improvements. Some of the revenues are used to prevent reductions that would have otherwise been required to balance the SDOT budget, including core transportation services, such as street cleaning, landscape maintenance, and emergency responses capabilities. These latter investments are responsible for preserving 19 SDOT FTEs that perform this work and that would have been at risk absent this important revenue source.

The second revenue source that plays an important role in balancing SDOT’s budget is the proceeds from the sale of the Rubble Yard property to the Washington State Department of Transportation in mid-2011. The City allocated \$3 million of the \$19.8 million total proceeds in 2011 to support critical surface street repair needs. In addition to allowing the City to expand surface street repair activities, the funds also helped to preserve 10 FTEs and delayed the abrogation of 11 additional FTEs. The 2012 Proposed Budget recommends using additional Rubble Yard proceeds in 2012 and 2013 to continue this commitment. It also invests some of the proceeds to improve the City’s preparedness for winter storms, including the installation of temperature sensors on seven bridges to enhance the City’s capabilities to prevent and respond to the traffic snarling resulting from iced bridge surfaces during the cold winter months. This investment is particularly important as the winter of 2011-2012 is projected to be colder and wetter than normal. Finally, the Rubble Yard proceeds are allocated in the 2012 Proposed Budget to preserving SDOT core services, such as street

Executive Summary

Rubble Yard proceeds will enhance Seattle's winter storm preparedness.

cleaning, bridge painting, neighborhood traffic control, and freight spot improvements; high-capacity transit planning; the Mercer West project; and the relocation of the former Rubble Yard operations to a new location. The Proposed Budget allocates a total of \$6.7 million from Rubble Yard proceeds in 2012, with the balance of the unallocated proceeds proposed to be allocated in future years. Plans for the Rubble Yard proceeds are described in greater detail in the SDOT section of the 2012 Proposed Budget Book.

Other Revenue Assumptions: The 2012 Proposed Budget also assumes an increase in the parking infraction rate as approved and implemented by the Seattle Municipal Court. Beginning in October 2011, the overtime meter parking infraction rate will increase from \$39 to \$44. The new infraction rate will put Seattle's rate above smaller Washington cities, but below some other larger cities, such as Chicago, San Francisco, Los Angeles or New York. This change will generate \$2.13 million in revenue for the General Fund in 2012.

The 2012 Proposed Budget assumes passage of the \$231 million, seven-year Families and Education Levy, resulting in a doubling of the City's investments in outcome-based programs that:

- Improve children's readiness for school;
- Enhance students' academic achievement and reduce the academic achievement gap;
- Decrease students' dropout rate and increase graduation rate from high school; and
- Prepare students for college and/or careers after high school (new goal established with 2011 Levy).

The November 2011 election will also seek approval from Seattle voters to raise the Vehicle License Fee (VLF) by \$60. If approved by Seattle voters, the funds would support expanded investments in asset preservation activities, in transit, and bike and pedestrian facilities. These funds are not built into the 2012 Proposed Budget, but will be added to the budget by City Council action in November if this measure is approved. If approved, funds will be added in accordance with the specifications of the Seattle Transportation Benefit District's Resolution 5, which can be found at: http://www.seattle.gov/stbd/legislation_policies.htm

Planning for the Future: Strengthening the City's Financial Management Practices

Mayor McGinn places a high priority on the City's long-term financial health – especially in these economically challenging times. In addition to looking for new ways of doing City business in order to preserve direct services, the Mayor also recognizes the importance of ensuring the City adopts policies and practices to put itself on more stable financial footing – even if it means making difficult short-term decisions. This is another central theme of the 2012 Proposed Budget.

Executive Summary

The proposed Rainy Day Fund enhancements will build in a level of fiscal discipline that will protect the City from future revenue disruptions.

The City of Seattle has earned a reputation for strong financial management, as reflected in its AAA bond rating – the highest bond rating available awarded by all three of the major bond rating agencies: Standard & Poor’s, Moody’s and Fitch. This top rating keeps the City’s borrowing costs low, which is essential to preserving the size of the City’s capital program. But, the rating agencies have been taking a closer look at the health of the City’s reserves and retirement fund of late and have signaled these areas are in need of some improvements if the City expects to retain these ratings.

Rating agencies aside, addressing these areas is critical to the City’s long-term financial stability. If the City does not have sufficient reserves, its ability to weather financial storms is limited, potentially resulting in disruptions in service. Just as with one’s personal finances, the City maintains savings accounts to fall back on in times of financial distress. Likewise, the City’s vulnerability increases if it fails to set aside sufficient resources to protect itself from unforeseen circumstances.

Similarly, the City is legally obligated to meet its retirement pension obligations. While the City could certainly choose to delay contributions required to meet this obligation over time – and many governments have done this –it will be required to make these payments eventually. Delaying contributions simply compounds the problem and jeopardizes the City’s ability to maintain services in the future. In other words, the challenge for the 2012 budget is not only how to balance the budget in the short-run, but also how to better position the City for financial stability over the long-term.

Enhancing the City’s Rainy Day Fund Policies to Prepare the City to Weather Future Storms: The City maintains a Rainy Day Fund – a savings account of sorts – to protect City services following an unexpected decline in revenues. The Rainy Day Fund reached its peak funding levels in 2008, when it was valued at \$30.2 million, or 4% of General Fund tax revenues. At the onset of the Great Recession, the City relied heavily on the Rainy Day Fund, drawing it down to \$10.5 million by the time the 2010 budget was adopted. Since that time, Mayor McGinn recommended, and the Council approved, a small contribution to the Rainy Day Fund, bringing its current value to \$11.2 million, or about 1.5% of General Fund tax revenues.

In these fragile economic times, this is not a lot of protection in the event of another unexpected downturn in revenues. In fact, Fitch Ratings noted about the City of Seattle in February 2011:

*The city’s strong reserve policies and practices are a key credit strength given the cyclical nature of the regional economy; **maintaining designated reserves at least at the current level with a view to rebuilding as economic recovery takes hold is key for retaining the highest credit quality.***

Executive Summary

The 2012
Proposed
Budget
contributes
\$1.95 million
to the Rainy
Day Fund.

The Mayor takes this very seriously. While the existing policies have served the City well up to now, they are not reflective of the current economic reality and make it difficult for the City, in an automatic and programmed way, to increase the value of the Rainy Day Fund to the levels that would serve to better protect the City. The existing policies provide two Rainy Day funding mechanisms:

1. Transfers to the fund by ordinance
2. Automatic transfer of actual tax revenues that are in excess of the last official revenue forecast.⁵

Unfortunately, the lukewarm recovery from the Great Recession, and the dampening effect it has on the City's current and forecasted future tax revenue growth, means it is unlikely the City will exceed the revenue forecasts by amounts large enough to replenish the Rainy Day Fund any time in the near future. In fact, in the last two years, actual tax revenue growth has ended below forecast –\$3.2 million below in 2009 and \$3.6 million below in 2010. And, with tax revenue growth forecast at a meager 3.4% average annual rate through 2015, hope of replenishing the Fund with revenue booms is unlikely.

As a result, the Mayor transmitted legislation to the City Council in July that would enhance the City's Rainy Day Fund policies and update them to reflect the new economic reality. Specifically, the legislation updates the policies as follows:

1. Retain the ability to make transfers to the fund by ordinance.
2. Replace the actual revenues in excess of forecast with a mechanism that would automatically shift 50% of unanticipated excess General Subfund year-end balance to the Rainy Day Fund.
3. Create a new policy that would automatically sweep a percentage of forecasted tax revenues at the outset of the budget process to the Rainy Day Fund, starting with 0.25% of tax revenues for 2012 and ramping up to 0.50% of tax revenues for 2013 and beyond.
4. Suspend the funding mechanisms when tax revenue growth is negative.
5. Require out-year financial projections be evaluated when developing plans to draw down the Rainy Day Fund.
6. Maintain the existing policy that caps the value of the Rainy Day Fund at 5% of tax revenues.⁶

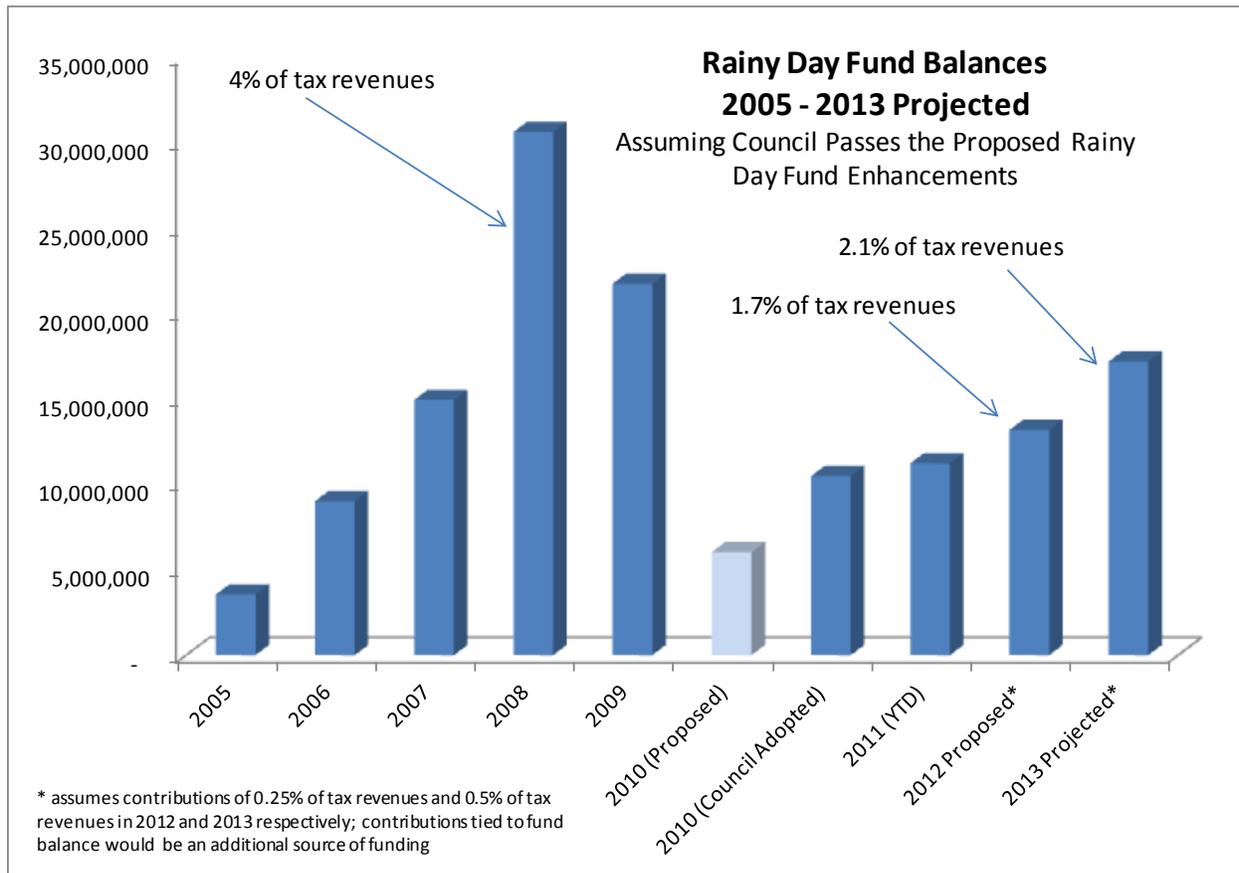
For additional background on the Rainy Day Fund and the Rainy Day Fund policy enhancements, please refer to: <http://www.seattle.gov/financedepartment/documents/RainyDayFundPresentation-FINAL.pdf>

⁵Seattle Municipal Code 5.80.020 (B)

⁶For 2011, would be equivalent to \$37.5 million.

Executive Summary

The 2012 Proposed Budget assumes that the Council adopts these policies and makes a \$1.95 million contribution to the Rainy Day Fund for 2012. Assuming the Council adopts these policies, the projected contribution for 2013 would be approximately \$4 million. These contributions would bring the value of the Rainy Day Fund up to 1.7% and 2.1% of tax revenues in 2012 and 2013 respectively. Below is a summary of the recent history of the Rainy Day Fund.



Stabilizing the City's Strained Pension Fund: When Mayor McGinn took office, he inherited a troubled pension fund – the Seattle City Employee Retirement System (SCERS). The financial market crash of 2008 left the fund with a relatively large unfunded liability and insufficient plans to address these challenges. The City of Seattle is one of the only cities in the State of Washington that runs its own pension system – most others participate in the Washington State systems.

Prior to 2008, the City consistently funded SCERS at or above the actuarially recommended level of 80%. However, the erosion of the financial markets left the pension with an unfunded liability of \$1 billion and a funding ratio of only 62% at the beginning of 2010. The City had plans to partially address the funding shortfall by increasing the contribution rates of both the participating employees and the City contribution. Over two years (2011 and 2012) the contribution rates for each would increase from 8.03% to 10.03%. But this still left an unfunded liability of \$695 million and a funding ratio of only 74%.

The 2012 Proposed Budget includes provisions that will allow the City to increase its annual contributions to SCERS to the full actuarially recommended level. This plan involves a number of

Executive Summary

The 2012 Proposed Budget adds funding to DPD to process job-creating green building permits.

structural changes to the way the Funds' assets are valued over time – in keeping with industry standards and best practices – and adjustments to the financial contributions to the Fund over time. The City's out-year financial plans assume that the City continues to fully fund anticipated annual required contributions as will be actuarially determined.

Investing in the Future: In addition to making investments that enhance the City's financial management practices, the 2012 Proposed Budget also makes several key investments designed to promote the health of the City's revenues. The first example of this is some modest staffing increases in DPD. Construction activity can be an important driver of job creation and economic activity, which in turn impacts City revenues. Before construction activity can begin, permits must be obtained from DPD, so it is in the City's interest that DPD be positioned to efficiently process permit applications. While still struggling to recover from the Great Recession, Seattle has been the center of the resurgence of construction activity in the region and DPD is playing a key role in ensuring that permits are issued in a timely manner. These efforts are paying off – 85% of apartments under construction in the King-Snohomish County region are in Seattle, for a total of 3,000 apartment units, and 90% of all apartment units in the pipeline in the King-Snohomish County region are in Seattle. To build on these gains, the 2012 Proposed Budget adds resources to DPD to process green building permits. Seattle's first Living Building Pilot Program, the Bullitt Foundation's Cascadia Center, is projected to create 94 construction jobs and 141 direct permanent jobs.

With an eye toward the budget challenges anticipated for 2013 and beyond, the 2012 Proposed Budget also invests \$50,000 from the Volunteer Park Conservatory fund balance to engage in a study to develop options for operating this community asset in a more financially self-sustaining manner.

Non-General Fund Budgets

In preparing the 2011 budget, the City not only faced significant challenges in its General Fund, but also many of its budgets supported primarily by non-General Fund resources, including: DPD, Seattle City Light (SCL), SPU, and SDOT. The picture for 2012 is markedly different. DPD is seeing permit activity pick up slightly, and its budget has stabilized as a result. On the heels of a relatively wet winter and spring, SCL's wholesale power revenues held up, resulting in stability that is allowing SCL to continue to assume the same basic rate and budget parameters in the 2012 Endorsed Budget. SPU is seeing similar stability in its Solid Waste and Drainage and Wastewater revenues. These revenues have been largely consistent with forecasts prepared in 2010 for the 2011-2012 rate-setting process, a process which shored up these utilities' fiscal condition in the face of challenging economic circumstances. Similarly, proposed 2012-2014 water rates remedy the overly optimistic forecasts that underlay the 2009-2011 water rates, which were prepared in 2008 before the start of the Great Recession. The new rates for 2012

-2014 propose a combination of expenditure reductions and revenue increases that protect the Water Fund's high bond ratings, ensuring that SPU can continue to borrow at the lowest possible costs, benefitting the utility and the customers it serves.

Unfortunately, SDOT has not seen the same level of stability as these other non-General Fund departments. SDOT is supported by several funding sources, including bonds, federal, state and local grants, state and regional partnership agreements, Bridging the Gap property tax levy, commercial parking tax, fees for service, real estate excise taxes, street vacations, Gas Tax, and an annual allocation from the City's General Fund.

Following the trend of recent years, the amount of revenue from many of these sources continues to decrease in 2012. General Fund budget pressures in 2012 and future years require that SDOT make budget reductions. SDOT is also experiencing funding decreases from other sources. Taken together with the General Fund reductions, SDOT's 2012 Proposed Budget closes a \$10 million gap. Other specific revenue shortfalls include:

The 2012 Proposed Budget closes a \$10 million gap in SDOT.

- Gas Tax continues a steady decline that began in 2007. For 2012 SDOT expects to receive \$1 million less than was assumed in the 2012 Endorsed Budget.
- Reimbursable revenues in the 2012 Proposed Budget are projected to be \$2.8 million less than what was assumed in the 2012 Endorsed Budget. Most of this revenue is generated by utility cut restoration work, which has plummeted as a result of continued economic weakness. At its peak in 2008, utility cut restoration work represented \$10.6 million in inflation-adjusted dollars. For 2012, SDOT now projects only \$4.1 million in revenues from this source.
- Street Use revenues tell a similar story. The 2012 Proposed Budget projects a \$2.5 million decrease from the 2012 Endorsed Budget. This represents a 31% decrease from the 2008 peak.

SDOT addresses these shortfalls through a combination of staff reductions, both line staff and at the planning and management ranks; through the use of alternate revenues sources, including some proceeds from the sale of the Rubble Yard property; the allocation of the proceeds from the \$20 Vehicle License Fee approved in 2010; and some service level reductions. The SDOT budget is explained in further detail in the later pages of the 2012 Proposed Budget Book.

Looking Ahead

As is typically the case, the 2012 Proposed Budget is based on the August revenue forecast, which uses data through July as its foundation. This forecast shows that the General Fund, through the first half of 2011, was continuing to see revenue stability that first started taking hold late in the fall of 2010. Unfortunately, the

Executive Summary

The economy remains fragile. The 2012 Proposed Budget sets aside a reserve in preparation for potential revenue weakness.

picture has changed substantially since July. Confidence in the economy began eroding again in August on the heels of the federal debt ceiling debate in Washington, D.C., and the decision by Standard & Poor's to downgrade the U.S. sovereign debt, not to mention ongoing concerns about European debt. As the month of August unfolded, stock prices around the world dropped, wiping out the gains achieved in the first half of 2011 and economists nationally and around the world started lowering their expectations for growth in the latter half of 2011 and into 2012. The prospect of a double-dip recession, while still less than 50%, is higher today than it was just a few months ago. The economy, although growing at an extremely slow pace, is still very fragile.

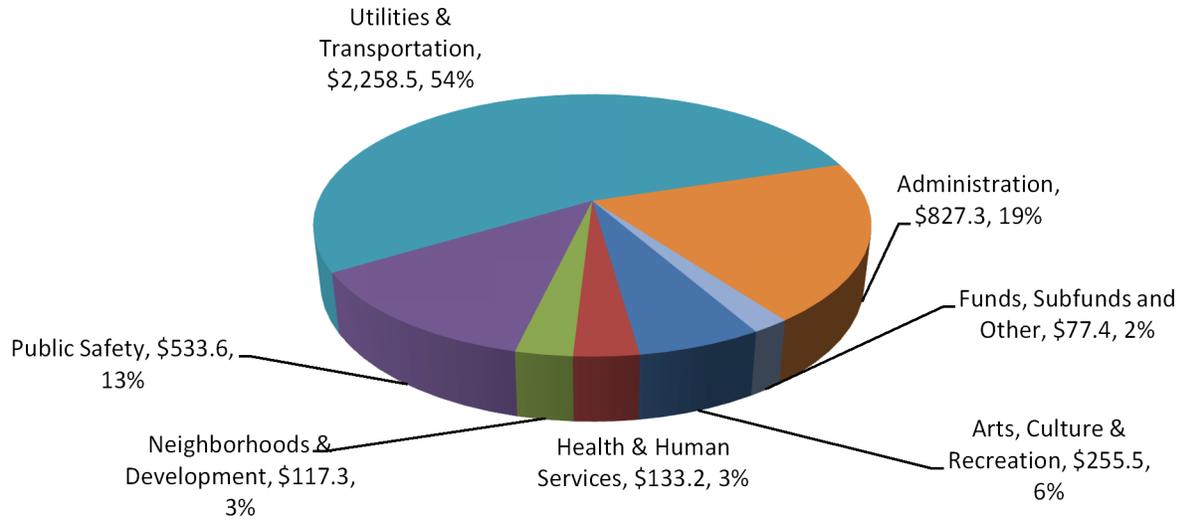
With this backdrop in mind, the City of Seattle's revenue forecasting team is anticipating a modest downward revision in revenues when the General Fund forecast is updated in early November – the timing of the next official forecast. While too soon to balance to this lower forecast, the 2012 Proposed Budget does include provisions to respond to a moderate deterioration in revenues. The City Budget Office has been, and will continue working with Council staff to address additional budget challenges that are likely to result from the November forecast. As a signal of this commitment, the 2012 Proposed Budget includes a \$3.4 million reserve to respond to additional erosion in General Fund revenues.

Additional downward revisions in revenues based on the November revenue forecast also have the potential of further exacerbating the projected \$32.8 million General Fund Budget gap for 2013. Additional reductions in federal and state funding, as these entities address their own budget challenges, could also increase the scope of the City's budget pressures.

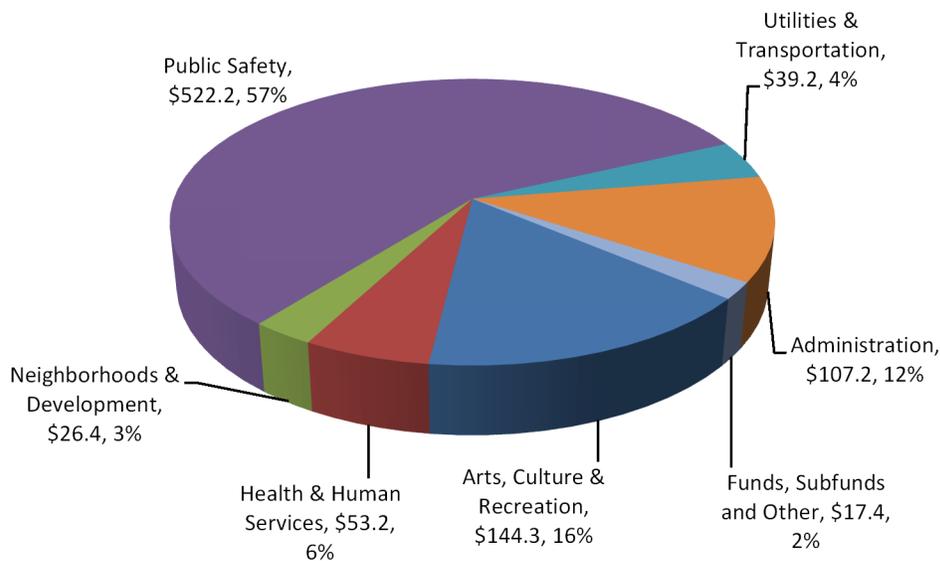
In this environment, it is more important than ever that the City take a longer-term view in evaluating the impact of near-term budget decisions. It is equally important for the executive and legislative branches to continue to build on many of the successful partnerships that are resulting in tangible budget savings for the 2012 Proposed Budget by identifying additional opportunities to transform how the City delivers services for 2013 and beyond.

Summary Charts and Tables

2012 Proposed Expenditures - All Funds, \$4.2 Billion*
(in millions of dollars)



2012 Proposed General Fund Expenditures - \$909.9 Million
(in millions of dollars)



Summary Charts and Tables

RESOURCES SUMMARY BY SOURCE (in thousands of dollars)*

TOTAL CITY RESOURCES

Revenue Source	2010 Actual	2011 Adopted	2011 Revised	2012 Endorsed	2012 Proposed
Taxes, Levies & Bonds	1,087,541	1,077,121	1,086,905	1,101,287	1,085,905
Licenses, Permits, Fines & Fees	145,112	172,419	152,438	178,072	161,848
Interest Earnings	11,519	11,110	13,489	17,346	13,336
Revenue from Other Public Entities	192,041	184,050	206,149	159,680	151,947
Service Charges & Reimbursements	1,225,227	1,306,603	1,315,577	1,397,870	1,371,805
All Else	506,705	536,830	536,338	558,828	578,528
Total: Revenue & Other Financing Sources	\$3,168,145	\$3,288,133	\$3,310,896	\$3,413,084	\$3,363,369
Interfund Transfers	523,425	606,782	595,667	630,263	615,587
Use of (Contribution To) Fund Balance	298,478	324,824	328,145	294,364	294,419
Total, City Resources	\$3,990,048	\$4,219,739	\$4,234,708	\$4,337,710	\$4,273,375

*Totals may not add due to rounding. Total city resources do not equal total city expenditures due to some interfund transfers not accounted for in the expenditures table.

Summary Charts and Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2011 Adopted		2012 Endorsed		2012 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Arts, Culture & Recreation						
Office of Arts and Cultural Affairs ⁽¹⁾	0	7,116	0	7,290	0	7,077
The Seattle Public Library ⁽²⁾	47,519	50,373	48,850	51,612	49,616	53,073
Department of Parks and Recreation ⁽²⁾	80,057	166,567	84,136	142,896	81,759	161,170
Seattle Center	13,229	38,334	13,305	35,238	12,889	34,900
SubTotal	140,805	262,390	146,291	237,037	144,265	256,220
Health & Human Services						
Community Development Block Grant	0	13,641	0	13,641	0	0
Educational and Developmental Services Levy	0	17,887	0	17,931	0	19,471
Human Services Department	51,963	136,920	52,122	134,831	53,189	113,743
SubTotal	51,963	168,448	52,122	166,402	53,189	133,214
Neighborhoods & Development						
Office of Economic Development ⁽³⁾	6,339	6,339	5,875	5,875	0	0
Office of Housing ⁽³⁾	520	39,739	629	38,840	0	0
Department of Housing and Economic Development ⁽³⁾	0	0	0	0	5,878	50,450
Department of Neighborhoods	10,167	10,167	10,411	10,411	8,423	8,423
Neighborhood Matching Subfund	2,939	3,249	2,995	3,309	2,891	3,219
Pike Place Market Levy	0	20,660	0	4,156	0	4,102
Department of Planning and Development	9,120	50,277	9,301	51,046	9,206	51,149
SubTotal	29,086	130,431	29,211	113,637	26,397	117,343
Public Safety						
Criminal Justice Contracted Services	24,375	24,375	27,742	27,742	22,742	22,742
Fire Facilities Fund	0	5,874	0	9,232	0	9,232
Firemen's Pension	17,759	20,143	19,919	20,785	18,875	20,189
Law Department	18,369	18,369	18,850	18,850	18,754	18,754
Police Relief and Pension	22,255	23,028	22,191	22,331	21,730	22,603
Public Safety Civil Service Commission ⁽³⁾	149	149	152	152	0	0
Seattle Fire Department	158,587	158,587	162,014	162,014	160,972	160,972
Seattle Municipal Court	26,107	26,107	26,585	26,585	26,673	26,673
Seattle Police Department	249,295	249,295	254,911	254,911	252,432	252,432
SubTotal	516,897	525,928	532,364	542,603	522,178	533,597
Utilities & Transportation						
Seattle City Light	0	1,073,167	0	1,140,876	0	1,135,772
Seattle Public Utilities	1,224	822,902	1,254	851,458	1,205	819,667
Seattle Transportation	38,914	306,398	40,023	309,635	38,007	303,026
SubTotal	40,138	2,202,466	41,277	2,301,970	39,213	2,258,465

Summary Charts and Tables

Department	2011 Adopted		2012 Endorsed		2012 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Administration						
Civil Service Commission ⁽³⁾	233	233	238	238	0	0
Civil Service Commissions ⁽³⁾	0	0	0	0	329	329
City Budget Office	4,012	4,012	4,132	4,132	4,036	4,036
Department of Information Technology	4,274	48,918	4,338	48,938	4,150	48,934
Employees' Retirement System	0	11,760	0	11,894	0	12,260
Ethics and Elections Commission	687	687	655	655	761	761
Finance General	37,801	37,801	40,204	40,204	41,316	378,769
Finance and Administrative Services ⁽²⁾⁽⁴⁾	20,866	162,166	21,112	185,606	21,751	163,159
Legislative Department	11,542	11,542	11,866	11,866	11,788	11,788
Office of City Auditor	1,072	1,072	1,098	1,098	1,116	1,116
Office of Hearing Examiner	571	571	585	585	609	609
Office of Intergovernmental Relations	2,016	2,016	2,071	2,071	2,192	2,192
Office of Sustainability and Environment	1,267	1,267	1,308	1,308	1,823	1,823
Office of the Mayor	3,456	3,456	3,516	3,516	3,504	3,504
Personnel Compensation Trust Subfunds	0	188,191	0	200,771	0	184,192
Personnel Department	11,549	11,549	11,620	11,620	11,548	11,548
Seattle Office for Civil Rights	2,226	2,226	2,248	2,248	2,315	2,315
SubTotal	101,571	487,466	104,991	526,750	107,238	827,336
Funds, Subfunds and Other						
Bonds Debt Service ⁽⁵⁾	11,152	32,392	13,677	32,227	13,404	20,065
Cumulative Reserve Subfund ⁽⁶⁾	750	45,931	600	29,902	2,450	31,039
Emergency Subfund	0	750	0	100	385	385
Judgment/Claims Subfund	1,191	26,435	1,191	17,830	1,191	17,830
Parking Garage Fund	0	7,842	0	8,093	0	8,093
SubTotal	13,093	113,350	15,468	88,152	17,430	77,412
Grand Total*	893,551	3,890,479	921,724	3,976,550	909,911	4,203,587

*Totals may not add due to rounding

Notes:

- (1) Includes a dedicated amount based on receipts from Admission Tax.
- (2) Includes General Subfund subsidy to Capital Improvement Projects.
- (3) Under the reorganization of several city functions proposed for 2012, the former Department of Economic Development and Office of Housing are reflected in the Department of Housing and Economic Development; the Public Safety Civil Service Commission and Civil Service Commission are reflected as Civil Service Commissions.
- (4) The amounts in the "Total Funds" column include appropriations from the Asset Preservation Subfund.
- (5) The amounts in the "Total Funds" column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.
- (6) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are included in the SDOT appropriations, and does not include appropriations from the Asset Preservation Subfund because they are included in the Finance and Administrative Services appropriations.

General Subfund Revenue Overview

City Revenue Sources

City Revenue Sources and Fund Accounting System

The City of Seattle expends \$4.2 billion (Proposed 2012) annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. 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 certain facilities at the 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.

The City accounts for all revenues and expenditures within a system of accounting entities called “funds” or “subfunds.” The City maintains dozens of funds and subfunds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules, and is desirable to promote accountability for specific projects or activities. For example, the City of Seattle has a legal 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 fund. For similar reasons, expenditures of revenues from the City’s Families and Education Property Tax Levy are accounted for in the Educational and Development Services Fund. As a matter of policy, several City departments have separate funds or subfunds. For example, the operating revenues and expenditures for the City’s parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees’ Retirement Fund, the Firefighters 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.

The City’s primary fund is the General Fund. The majority of resources for services typically associated with the City, such as police and fire or libraries and parks are received into and spent from one of two subfunds of the City’s General Fund: the General Subfund for operating resources (comparable to the “General Fund” in budgets prior to 1996) and the Cumulative Reserve Subfund for capital resources.

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 56.2% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

Revenue Overview

The National and Local Economy, September 2011

National Economic Conditions and Outlook

A look back at the roots of the great recession. The great recession officially ended in June 2009, which means the recovery is now over two years old. The current recovery is proving to be very different from most recoveries; growth has been unusually weak and whenever the economy shifts into a higher gear it is unable to sustain its momentum. Periods of healthy growth have inevitably been followed by periods of stagnation. With economists continuing to puzzle over the future direction of the economy, some insight into the future can be gained by looking back in time and reviewing the events that brought about the worst downturn since the Great Depression.

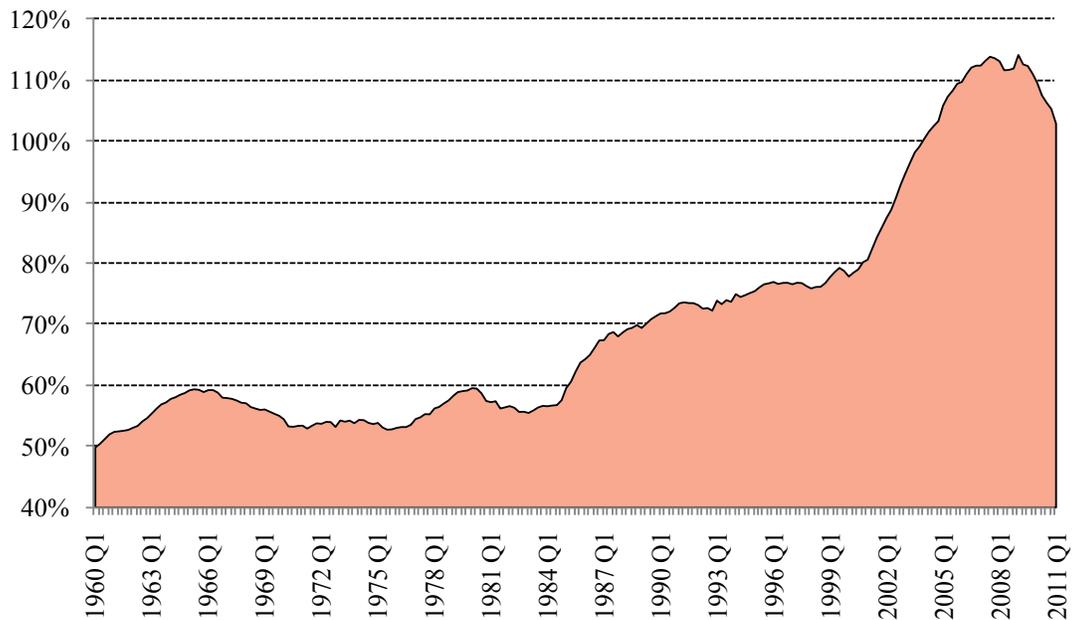
We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for assets, such as stocks and real estate, because they were less vulnerable to erosion by inflation than other types of investments. The early 1980s was also when the federal government began running large budget deficits on an ongoing basis, which has resulted in a buildup in federal government debt. Finally, the movement to deregulate financial markets got its start in the early 1980s.

The early 1980s ushered in a 25 year period characterized by stable economic conditions and low inflation that is sometimes called the “great moderation.” Inflation was low in part because the integration of China and other developing countries into the world economy helped to hold down the price of goods and, to a lesser extent, services. With inflation under control, the Federal Reserve was able to keep interest rates at relatively low levels. In addition, a surplus of savings in many developing countries provided a large pool of money available for investment.

A stable economy made investors feel confident and optimistic, which, combined with an abundance of cheap money, led to excessive borrowing and risk taking and a huge buildup in U.S. household debt (see Figure 1). A lot of the borrowed money was used to purchase assets, which pushed up the price of those assets and eventually led to the buildup of asset bubbles. These bubbles included the housing bubble of the late 1980s, the stock market bubble of the late 1990s, and, biggest of all, the housing bubble of 1998-2006. During the past decade, we also saw bubbles in energy, food, and other commodities, as well as housing bubbles in numerous countries across the globe.

Revenue Overview

Figure 1. U.S. Household Debt as a Share of Personal Income



Source: Federal Reserve Board, U.S. Bureau of Economic Analysis.

With asset prices rising, Americans cut back on saving and increased their spending, driving the expansion of the world economy. Eventually housing prices rose to a level that could not be sustained, even with exotic mortgage products, and prices began to fall. The collapse of the housing bubble triggered the financial crisis which, in turn, precipitated the worldwide recession. While the housing bubble was the trigger for the downturn, many economists believe the root cause of the financial crisis was the large imbalances in savings and borrowing that had built up between nations.

- The preceding review of the roots of the recession has a number of implications for the recovery:
- The problems developed over a 25-year time period, so the return to normalcy will not occur quickly.
- The roots of the downturn are global in nature, which means policy changes are needed in many nations to bring the world economy back into balance.
- The current recession is unlike other postwar recessions, so we do not have a roadmap for recovery.
- To have a sustained recovery, the federal government must get its budget deficit under control.
- Consumer spending will be restrained by the need to reduce debt and increase savings.

Revenue Overview

The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 5.1% over a period of six quarters, 8.8 million jobs, representing 6.3% of total jobs, were lost, and the unemployment rate rose to a peak of 10.1%.

The recovery has been weak and uneven thus far. In its early stages, the recovery received a boost from inventory rebuilding and a buildup in fiscal stimulus spending. However, in the second quarter of 2010, the economy lost momentum as inventory rebuilding slowed and stimulus spending began to plateau. Also weighing on the economy in the second quarter was the emergence of the European fiscal crisis, in particular the Greek sovereign debt crisis. This increased volatility in the financial markets and reduced growth prospects for Eurozone countries and, consequently, export prospects for U.S. firms.

The economy picked up speed again in the fourth quarter of 2010 and early 2011. However, popular uprisings in several Middle East nations disrupted oil supplies beginning in February 2011, causing a sharp increase in gasoline prices, which, along with increases in food prices, squeezed consumers and dampened consumer spending. In early March, an earthquake and tsunami caused severe damage to Japan’s economy and disrupted the supply chains of global manufacturers, particularly in the auto and electronics industries. This caused a slowing of U.S. manufacturing production, particularly of autos. The rise in food and energy prices and the fallout from the Japanese earthquake, along with ongoing Eurozone debt troubles, caused the economy to slow. Real GDP, which grew at an average rate of 3.0% in 2010, increased by only 0.4% and 1.3%, respectively, in the first and second quarters of 2011.

The ups and downs of the recovery are reflected in the employment statistics. With public sector employment figures distorted by 2010 Census-related hiring and layoffs, trends can be discerned best by focusing on private sector employment. After an initial burst of growth in March and April of 2010, private employment growth slowed abruptly, after which it slowly increased over time until accelerating in February – April 2011. It then slowed abruptly in May and has remained subdued since then (see Figure 2).

Figure 2. Monthly Change in U.S. Employment



Revenue Overview

National forecasters anticipate that the recovery will remain sluggish. History tells us that recessions caused by financial crises are followed by weak recoveries, and thus far the current recovery is behaving as expected. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, increases in energy and food prices, a very weak job market, and sluggish income growth. In addition, the housing market, which is weighed down by foreclosures and underwater mortgages, has yet to exhibit any signs of recovering. Current expectations are for growth to remain subdued through the rest of 2011, and then gradually strengthen in 2012 and 2013. The risk of a double-dip recession remains elevated, and is currently estimated to be in the 25 to 40 percent range. It's not so much that the recovery would implode on its own, but rather that the economy is growing so slowly that a shock – even a weak one – could push it into recession.

Puget Sound Region Economic Conditions and Outlook

The region's recession was similar in severity to the national downturn. The impact of national recessions on the Puget Sound Region's economy varies depending on the national recession's characteristics. For example, the 2001 recession was much more severe regionally than nationally, because the recession included a steep drop in air travel as a result of the September 11, 2001 terrorist attack. This caused a sharp falloff in the demand for commercial airliners, which led to substantial layoffs at Boeing. On the other hand, the region's economy performed better than the national economy during the 1990-91 national recession, in part because Boeing employment held steady during the recession.

The impact of the 2007-09 recession on the local economy has been similar in severity to its impact on the national economy. While job loss was higher locally, the region's unemployment rate did not rise as high as the national rate and the region's housing market performed somewhat better than the nation's.

During the 2007-09 recession, the Seattle metro area (King and Snohomish Counties) had a peak-to-trough loss of 120,900 jobs, an 8.1% decline. The 8.1% decline exceeded both the national decline of 6.3% and the metro area's 6.6% job loss during the 2001-03 recession. Locally, the most severe job losses were in construction, manufacturing outside of aerospace, and finance. The only major industries to see a significant increase in employment during the downturn were education and health services.

Interestingly, although the region's rate of job loss exceeded that of the nation, the local unemployment rate peaked at 9.4%, significantly below the national peak of 10.1%. One reason is that the region entered the recession with a significantly lower unemployment rate than the nation. The increase in the unemployment rate from pre-recession lows to recession highs was similar for the region and the nation.

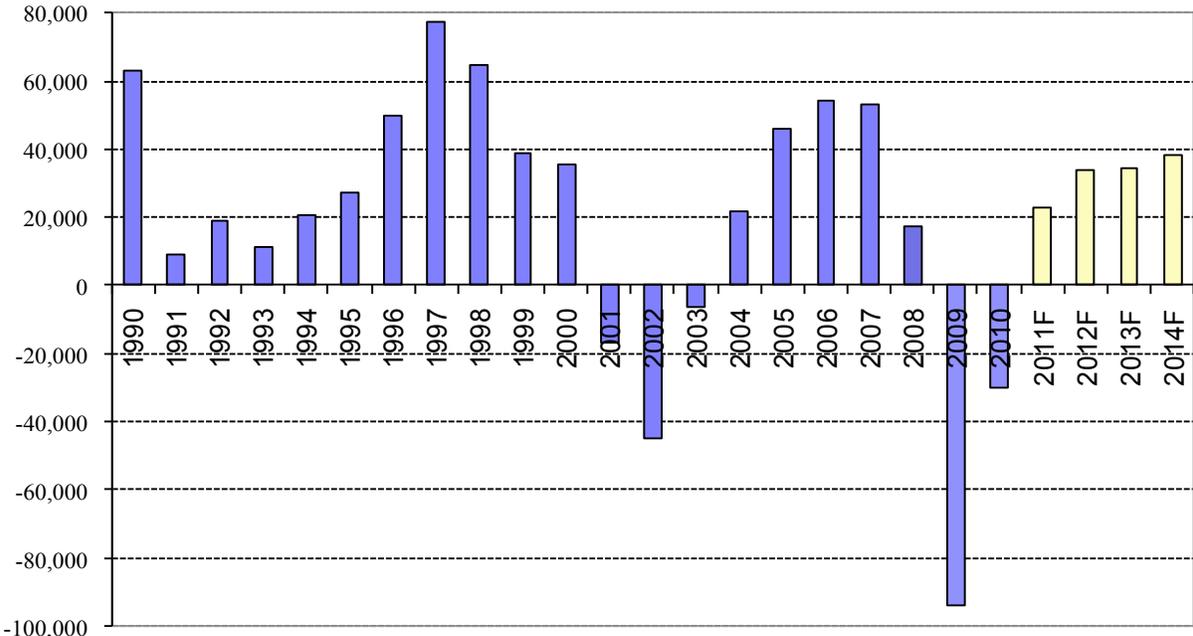
Like the nation, the region has suffered through a housing boom and bust over the past ten years, but the housing downturn has been less severe here than nationally. Through the second quarter of 2011, single-family home prices in the region had fallen by 28.4% from their peak four years earlier, compared to a 32.3% peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. In addition, local rates of foreclosure have been lower than national rates.

Revenue Overview

Thus far the recovery has been stronger locally than nationally. The Seattle metro area has rebounded from the recession more strongly than the nation. Through July Seattle metro area (King and Snohomish Co.) employment is up 3.1% from its post-recession low in February 2010, compared to a 1.5% gain in U.S. employment over the same period. Areas of strength in the local economy include aerospace, software publishing, professional, scientific, and technical services, health services, and mail order and internet retail. Boeing, which has a backlog of over 3,000 planes on order, is phasing in a series of production increases for its 737, 777, and 787 models in 2011-14. The 787 has been certified by the FAA to carry passengers, work on the Air Force tanker is ramping up, and a redesign of the 737 that will add new fuel efficient engines has been approved recently by Boeing’s board. Amazon, which is in the process of moving into its new South Lake Union office complex, has been hiring aggressively.

Despite a healthy start, the region’s recovery is expected to be weak by historical standards. The Puget Sound Economic Forecaster expects employment to increase by 1.3% in 2011 and then settle into the two percent range through 2016. This is a much slower rate of growth than is typical during recoveries, and is lower than the 2.5% average annual growth rate posted over the past 40 years (which includes periods of recession). Housing will recover more slowly than the rest of the economy, with housing starts not expected to move comfortably above recession levels until 2016.

Figure 3. Annual Change in Puget Sound Region Employment



Note: 2011-14 forecasts are from the Puget Sound Economic Forecaster's June 2011 forecast. Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer Price Inflation

inflation has returned after disappearing during the recession. During the mid-2000s, consumer prices rose steadily, driven in large part by a relentless rise in oil prices from a low of just above \$20 per barrel in early 2002 to a peak of \$147 per barrel in July of 2008. As oil prices peaked, so did the consumer price index (CPI), with the July 2008 U.S. CPI-U rising to 5.6% measured on a year-over-year basis – its highest level in 17 years. Since then, the worst economic downturn in 80 years pushed inflation rates down to levels not seen since the 1950s. The annual growth rate of the U.S. CPI-U fell to -0.4% in 2009, the first time in 54 years that consumer prices have declined on an annual basis. Prices rebounded in 2011, and the annual CPI-U posted a 1.6% gain. The core CPI, which excludes the volatile food and energy components, remained positive throughout the recession.

Local inflation trends have largely followed national trends, because commodity prices and national economic conditions have a major effect on local prices. The growth rate of the Seattle CPI-U peaked at 4.2% in 2008, and then dropped to 0.6% in 2009 and 0.3% in 2010. Inflation has accelerated in 2011, driven by a rise in prices for energy and other commodities. For the first half of 2011, the Seattle CPI-U was up 2.3% from the first half of 2010, and the Seattle CPI-W, which is more sensitive to energy price movements, was up 2.8%.

With energy prices falling, inflation is expected to moderate. In the short-term, inflationary pressures are expected to ease, as the weakening of the global economy, which became more pronounced in July and August, has begun to put downward pressure on the prices of commodities, goods, and services. With unemployment expected to remain elevated, wage pressures will remain subdued. In the medium-term, the CPI is expected to average near two percent.

Figure 4 presents historical data and forecasts of inflation for the U.S. and the Seattle metropolitan area through 2014. The forecasts are for the CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 4 are used as the bases of cost-of-living adjustments in City of

Figure 4. Consumer Price Index Forecast

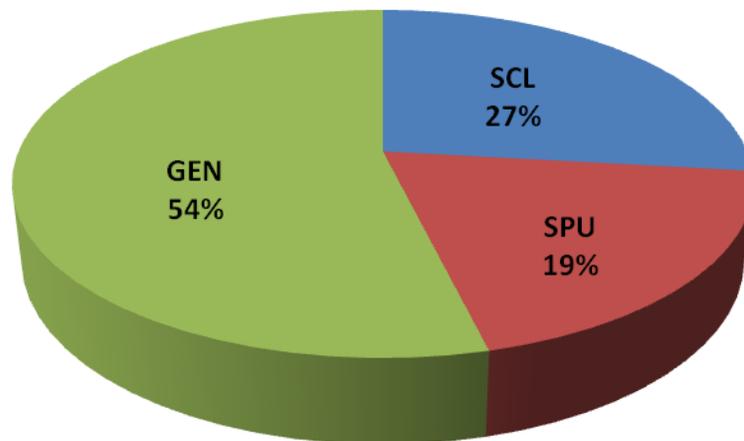
	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2011 (actual)	3.7%	1.8%
2012	2.0%	2.7%
2013	2.2%	2.1%
2014	2.3%	2.2%

Revenue Overview

City Revenues

The City of Seattle projects total revenues of approximately \$4.2 billion in 2012. As figure 5 shows, approximately 46% of these revenues are associated with the City’s utility services, Seattle City Light and Seattle Public Utilities’ Water, Drainage and Wastewater, and Solid Waste divisions. The remaining 54% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issuance is included in the total numbers as are interdepartmental transfers. The following sections describe forecasts for revenue supporting the City’s primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City’s Bridging the Gap Transportation program in the Transportation Fund.

Figure 5. Total City Revenue by Use – Proposed 2012 \$4.2 Billion

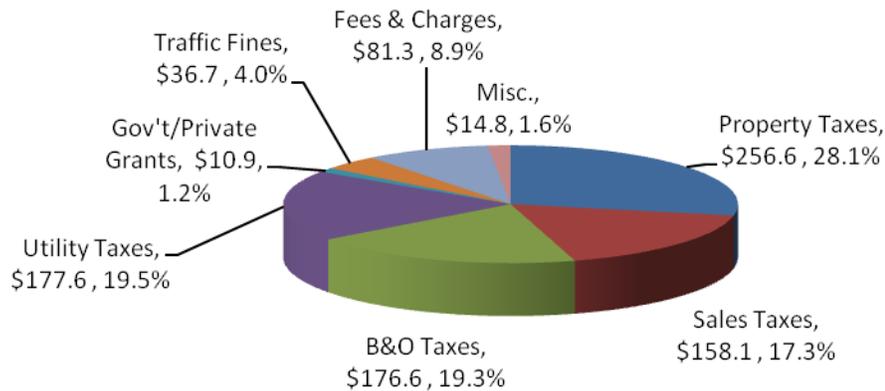


General Subfund Revenue Forecasts

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 6 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Revenue Overview

Figure 6. 2012 Proposed General Subfund Revenue Forecast by Source - \$912.7M



Revenue Overview

In 2010, general government revenue into the General Subfund totaled approximately \$915.9 million. General Subfund revenue is projected to be \$892.2 million in 2011 and \$912.7 million in 2012. It is important to note that 2010 revenues were artificially high due to contributions from the Revenue Stabilization Account, or “Rainy Day Fund,” in the amount of \$11.3 million as well as some pass-through revenues that are not appropriated in adopted budgets. Also in 2010, the former Department of Executive Administration (DEA) merged with the former Fleets & Facilities Department (FFD), along with various other City functions, to form the Department of Finance and Administrative Services (FAS). This merger resulted in DEA associated revenues, which formerly accrued to the General Subfund to support work administered by the former DEA, now going directly to FAS’s operating fund.

Figure 7 shows General Subfund actual revenues for 2010, adopted and revised revenues for 2011, as well as the endorsed and proposed revenues for 2012. The severity of the national recession, which technically ended in the summer of 2009, has continued to mute the City’s tax revenues with a paltry 0.5% growth in 2010, followed by 2.7% and 2.8% in 2011 and 2012. The main cause of the slower growth rates are the B&O and sales taxes. While expanding, these revenue sources are changing very slowly from year to year. The economic downturn, while led by real estate, has also severely constrained consumer behavior, with record job losses and stubbornly high unemployment rates. This is most evident in the declining sales tax base. Construction activity has also declined, which is another source of pressure on sales tax receipts.

Revenue Overview

Utility tax receipts from both private and public utilities have held up fairly well through the recession and the following period of expansion. Public utilities have seen a number of general rate increases as well as the creation of revenue stabilization accounts. These rate increases have led to higher tax revenues to the City which have served to counteract the muted growth rates in sales and B&O tax receipts. Recent cold weather has also had a positive impact on tax revenues from both City Light and natural gas purveyors.

On-street parking and parking enforcement continue to be a focus for 2011 and 2012 as the City has accelerated its transition to a data-driven, performance based approach to managing on-street parking and implemented a scofflaw booting program to improve payment compliance on parking citations. On net, changes implemented in 2011 and proposed for 2012 are expected to increase on-street parking revenues over 2010, but given rate reductions in several areas relative to the 2011 Adopted and 2012 Endorsed Budgets and the anticipated loss of parking spaces beginning in October 2011 due to construction activity related to the Alaskan Way Viaduct replacement project, significant downward revisions from the 2011 Adopted and 2012 Endorsed Budgets are projected. Revenues from the scofflaw booting program are expected to perform roughly as anticipated in the previous budget projection. The 2012 Proposed Budget recognizes the Seattle Municipal Court's recommendation to increase various parking fines by \$5.00, as well as two camera enforcement initiatives. The first is to increase the City's red light camera program by adding 6 locations. The second is to add fixed, speed detection cameras in 4 school zones in an effort to reduce speeds and the likelihood of vehicle-pedestrian accidents.

Significant change in City revenue accounting in 2009. The City Charter requires that the general government support to the Park and Recreation Fund (PRF) be no less than 10% of certain City taxes and fees. Until fiscal year 2009, City treasury and accounting staff would directly deposit into the PRF 10% of these revenues as they were paid by taxpayers. The remaining 90% were deposited into the General Subfund or other operating funds as specified by ordinance. In addition to these resources, City budgets would provide additional General Subfund support to the PRF in amounts which greatly exceeded the 10% amount deposited in the PRF from these taxes and fees.

Beginning in 2009, City staff deposited 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2011 and 2012, General Subfund support to the Parks and Recreation department will be \$78.1 million and \$81.3 million. These contributions are well above the \$37.5 and \$39.5 million that would accrue to parks under the previous 10% accounting approach.

Revenue Overview

Figure 7. General Subfund Revenue, 2010 – 2012*
(in thousands of dollars)

Revenue Source	2010 Actuals	2011 Adopted	2011 Revised	2011 Endorsed	2012 Proposed
General Property Tax ⁽¹⁾	213,969	218,491	218,348	221,869	221,611
Property Tax - Medic One Levy	36,462	35,164	35,338	35,083	34,985
Retail Sales Tax	133,740	137,118	141,900	143,695	145,335
Retail Sales Tax - Criminal Justice Levy	11,601	12,353	12,274	13,313	12,809
B&O Tax (100%)	158,213	166,636	168,195	176,711	176,602
Utilities Business Tax - Telephone (100%)	32,778	32,868	28,740	33,150	29,721
Utilities Business Tax - City Light (100%)	38,106	41,414	41,450	42,976	42,700
Utilities Business Tax - SWU & priv.garb. (100%)	12,504	13,471	12,983	14,023	13,402
Utilities Business Tax - City Water (100%)	29,455	23,989	23,413	26,592	25,807
Utilities Business Tax - DWU (100%)	29,177	33,049	32,501	34,479	34,077
Utilities Business Tax - Natural Gas (100%)	13,086	12,345	14,506	13,259	13,930
Utilities Business Tax - Other Private (100%)	16,543	16,731	17,367	17,275	18,000
Admission Tax	6,623	5,759	6,036	5,920	5,302
Other Tax	5,366	4,870	4,562	5,070	4,820
Total Taxes	737,622	754,257	757,614	783,416	779,101
Licenses and Permits	14,244	12,035	11,656	11,982	11,763
Parking Meters/Meter Hoods	27,547	36,502	30,828	41,067	33,724
Court Fines (100%)	29,847	34,148	32,052	34,170	36,720
Interest Income	1,647	1,539	1,448	2,576	1,388
Revenue from Other Public Entities ⁽²⁾	26,601	11,230	11,271	10,802	10,890
Service Charges & Reimbursements ⁽³⁾	54,648	35,903	34,368	36,633	35,823
Total: Revenue and Other Financing Sources	892,156	885,614	879,236	920,646	909,410
All Else	1,742	1,992	3,187	1,986	1,755
Interfund Transfers ⁽⁴⁾	22,033	9,809	9,796	663	1,565
Total, General Subfund	915,930	897,416	892,220	923,295	912,730

NOTES:

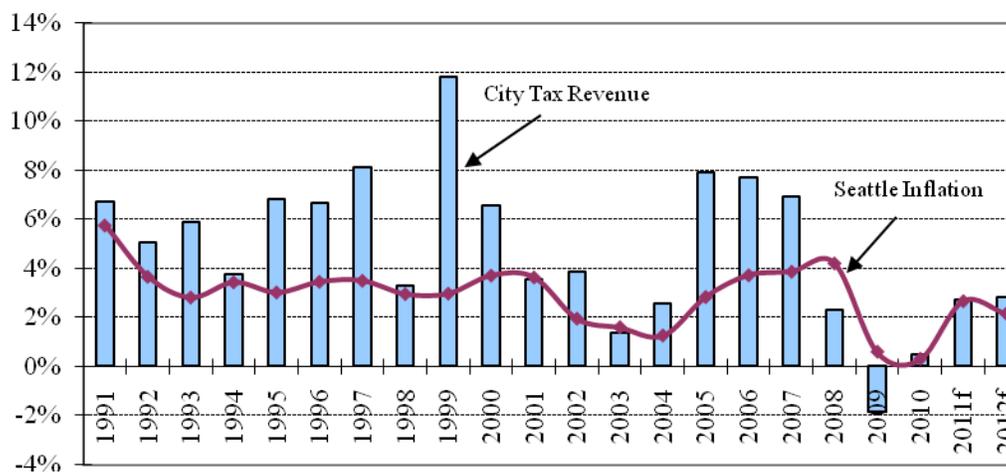
1. Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
2. Included in 2010 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.
3. In 2010, the former Dept. of Executive Administration and the former Fleets and Facilities Dept. merged into the Dept. of Finance and Administrative Services. The FAS operating fund now collects DEA's charges that formerly accrued to the General Subfund.
4. 2010 interfund transfers include the use of Revenue Stabilization Fund funds, otherwise known as the "Rainy-Day" Fund. The 2011 amount includes the \$8.5 million loan from the Museum of History and Industry.

* In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Subfund. As of 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund. General Subfund support to the Parks and Recreation Fund is well above the value of 10% of these revenues. This table shows all figures for all years using the new approach.

Revenue Overview

Figure 8 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation fell to near zero in 2009 and 2010, but tax revenue growth was negative by almost 2% in 2009. Inflation is forecast to be muted, a little above 2% in both 2011 and 2012. Tax revenue growth is forecast to be equally muted with average annual tax growth to be 2.8% in both years.

Figure 8. City of Seattle Tax Revenue Growth, 1991-2012



Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. This approved levy amount is then divided across the assessed value (AV) of all property in the jurisdiction to determine the tax rate. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district’s single uniform rate, which is calculated as the rate per \$1,000 of assessed value, applied to the value of a given property. Figure 9 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners. The King County Assessor determines the value of properties, which is intended to generally reflect 100% of the property’s market value.

For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. AV fell again in 2011 by 2.9 percent. The last significant decrease was in 1984 when assessed value dropped by 3.6 percent. In addition to levy amount changes, as AV falls, tax rates rise.

Revenue Overview

Consequently, in 2010 and 2011, the total property tax rate from all jurisdictions paid by Seattle property owners increased from \$7.97 to \$9.04 and \$9.65 respectively per thousand dollars of AV. For an owner of a home with an AV of \$453,300 (the average AV for residences in Seattle), the 2011 tax obligation was approximately \$4,380. This compares to a 2010 obligation of approximately \$4,055. The City of Seattle's total 2011 tax rate was roughly one-third of the total rate at \$3.06, which results in an annual tax obligation of approximately \$1,387 for the average valued home. The obligation amount in 2010 was approximately \$1,312.

Figure 9 illustrates the components of the City's 2011 property tax: the non-voted General Purpose levy (61%); the six voter-approved levies for specific purposes (34%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (5%). The City's nine-year transportation lid lift will generate approximately \$40.5 million in 2011, and \$41.2 million in 2012. These revenues are accounted for in the Transportation Fund and are discussed later in this section. There is one proposed renewal property tax measure (lid lift) up for voter approval in November 2011. This measure renews the existing Families and Education levy and would levy for collection in 2012 \$32,100,950.

Statutory growth limits and new construction. The annual growth in property tax revenue is restricted by state statute in two ways. First, state law limits growth in the amount of tax revenue a jurisdiction can collect, currently the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. 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. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the Governor and state legislature, in a special session on November 29, 2007, reenacted Initiative 747. Second, state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is \$3.60 per \$1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts. The City tax rate has been well below this cap for many years.

New Construction - In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor.

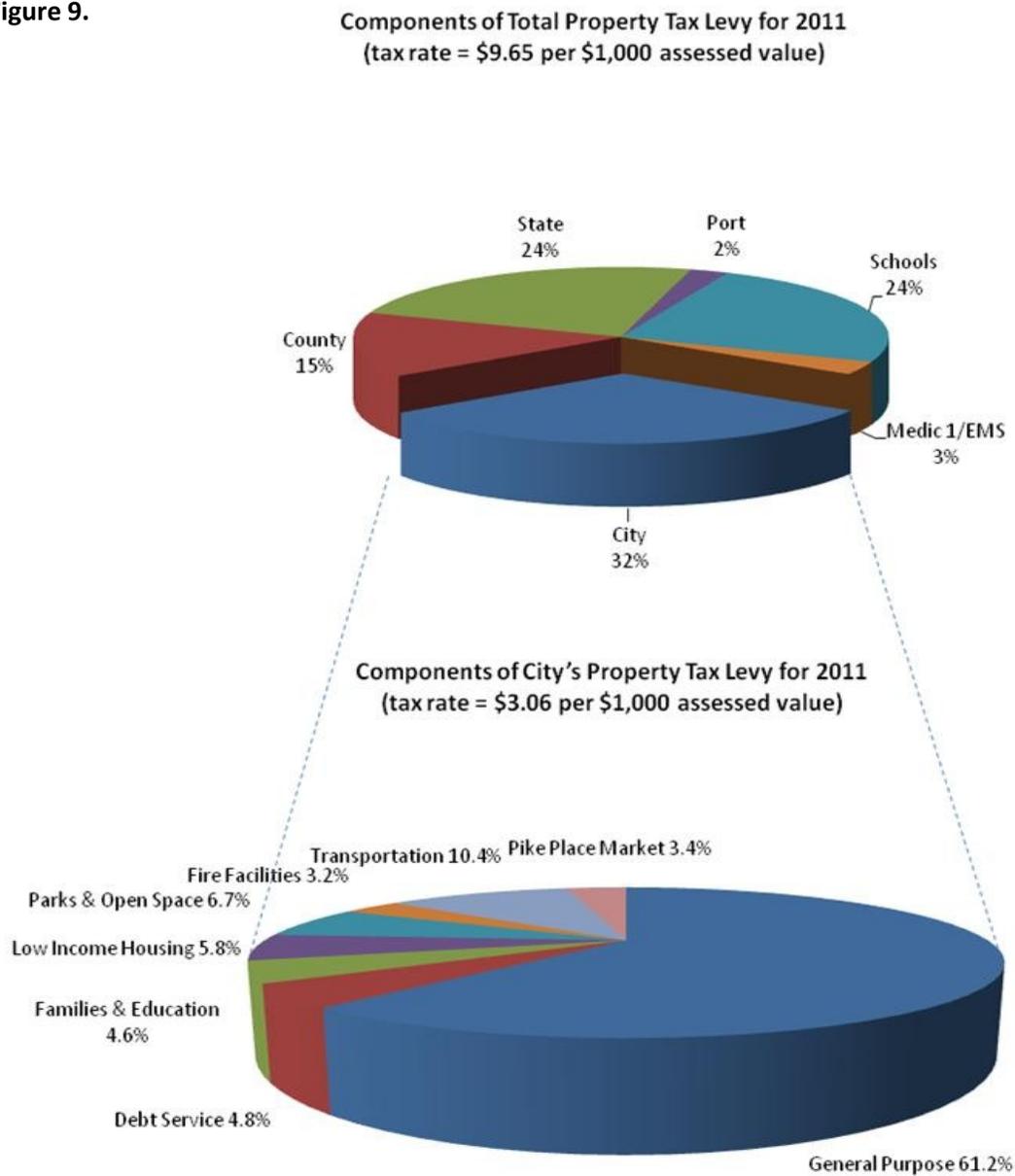
The 2012 Proposed Budget assumes 1% growth plus new construction. Between 1999 and 2010 annual new construction revenues exceeded \$2 million, with rapid increases between 2005 (\$2.9 million) and 2008 (\$6.64 million). New construction revenue for the 2009 tax collection year remained high at \$6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to \$4.11 million. Assessed new construction value in Seattle fell an additional 61 percent between 2010 and 2011, with 2011 revenue falling to \$1.95 million -- below the \$2 million floor for the first time since 1998. The forecast for 2012 reflects further low levels of new construction activity with revenue decreasing to \$1.77 million.

The forecast for the General Subfund (General Purpose) portion of the City's property tax is \$218.3 million in 2011 and \$221.6 million in 2012.

Revenue Overview

Medic 1/Emergency Medical Services. In November 2007, King County voters approved a six-year renewal (2008-2013) of the Medic 1/EMS levy. The approved starting rate was \$0.30 per thousand dollars of assessed value, and the rate had begun to decline in 2009 as assessed valuation increased. In 2010, however, assessed valuations of property in King County began to decline (-11.6%), driving the Medic 1/EMS tax rate back to its authorized limit of \$0.30 per thousand dollars of assessed value. Assessed values decreased further in 2011 (-3.4%), and are projected to decrease again in 2012, leading Seattle’s Medic 1/EMS revenues to decrease by a projected 3.0 percent in 2011, and 0.9% in 2012, to \$35.3 million and \$34.9 million, respectively.

Figure 9.



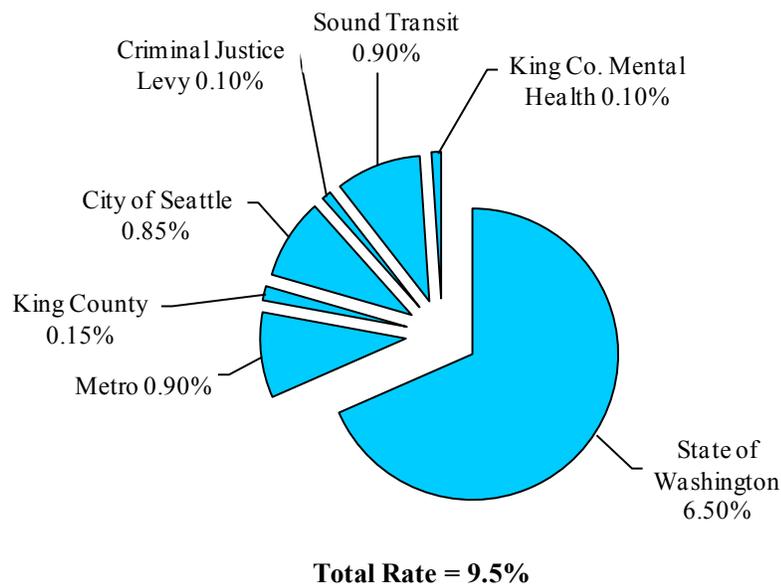
Retail Sales and Use Tax

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.

The sales tax rate in Seattle is 9.5% for most taxable transactions. The rate was increased from 9.0% on April 1, 2009, following voter approval of a 0.5% rate increase to pay for an expansion of the region's Sound Transit light rail system. The vote increased the sales tax rate for Sound Transit from 0.4% to 0.9%. The exception to the 9.5% rate is a 10.0% 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 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 10. 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 King County Criminal Justice Levy.

Figure 10. Sales and Use Tax Rates in Seattle, 2010



NOTE: Rate is 10.0% for food and beverages sold in restaurants and bars.

Revenue Overview

Washington State implemented destination based sales taxation on July 1, 2008. On July 1, 2008, Washington brought its sales tax procedures into conformance with the Streamlined Sales and Use Tax Agreement (SSUTA), a cooperative effort of 44 states, the District of Columbia, local governments, and the business community, to develop a uniform set of procedures for sales tax collection and administration that can be implemented by all states. Conformance with SSUTA has had two major impacts on local government sales tax revenue.

- Over 1,000 remote sellers agreed to begin collecting taxes on remote sales made to customers in Washington once the state was in conformance with SSUTA. This has increased local sales tax revenue.
- When a retail sale involves a delivery to a customer, SSUTA requires that the sales tax be paid to the jurisdiction in which the delivery is made. This is called destination based sourcing. Prior to 2008, Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the delivery was made. The change from origin based sourcing to destination based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

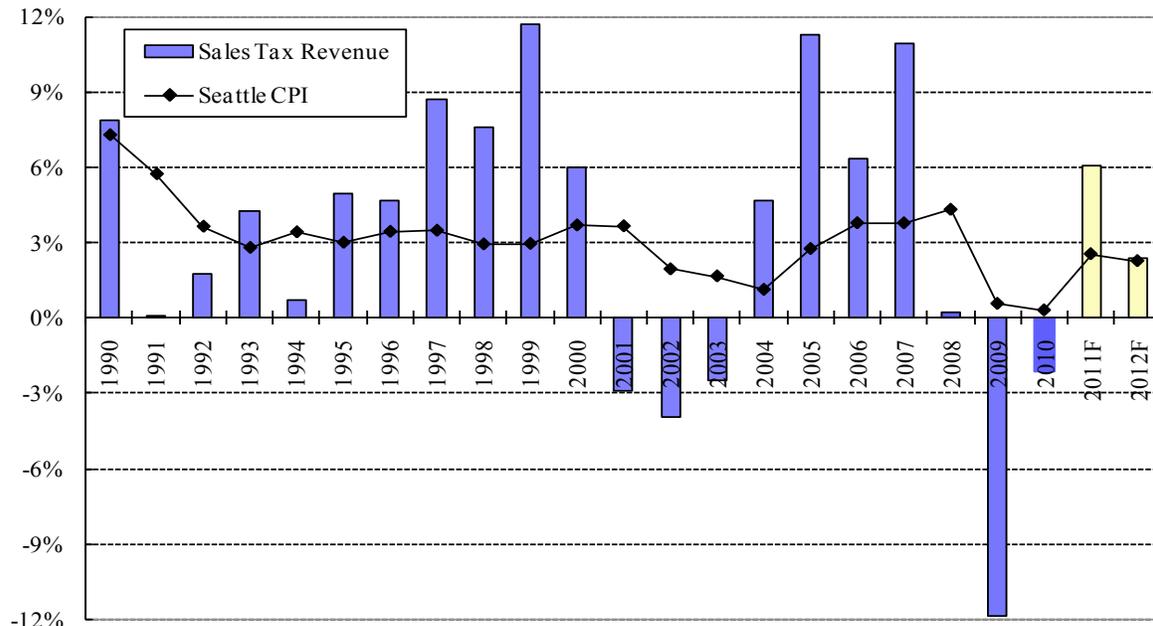
As a result of the changes the state made to comply with SSUTA, Seattle has seen a small increase in its sales tax revenue according to estimates by the Washington Department of Revenue.

Sales tax revenue has grown and contracted with the region's economy. Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. 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, and the year-over-year change in revenue was negative for ten consecutive quarters beginning with first quarter 2001. The economy began to recover in 2004, which was followed by three very strong years (2005-07), during which taxable sales grew at an average rate of 9.8%, led by construction's 21.0% growth rate.

With the onset of the national recession, growth began to slow in the first quarter of 2008, continued slowing in the second and third quarters, and then collapsed in the fourth quarter as the financial crisis reached its peak. Seattle's real (inflation adjusted) sales tax base declined by 8.6% in the fourth quarter of 2008, a rate of decline unprecedented during the previous 35 years. The decline continued at a more moderate pace until the fourth quarter of 2009, by which time the real decline in the tax base from 2008 Q1 had reached 19.0%.

Construction, which led the pre-recession build-up in the sales tax base, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). In the following three years sales declined by 41.7%, erasing 79 percent of the build-up of the previous four years. Other industries posting the steep declines in taxable sales during the recession were manufacturing, finance and insurance, and, in the retail sector, building materials and garden supplies.

Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2011-12 are forecasts.

Retail sales tax revenue is forecast to increase by 6.1% in 2011 and 2.4% in 2012. In the first quarter of 2011, taxable retail sales were up 3.2% from the first quarter of 2010. The growth rate for construction was -9.8%, while the growth rate for the rest of the tax base was 6.4%. For the remainder of the year, taxable sales are forecast to grow at a 3.8% rate, with construction growth expected to turn positive in the fourth quarter.

Between February 1 and April 30, 2011, the State of Washington offered taxpayers a temporary tax amnesty that waived penalty and interest payments on certain unpaid business taxes, including the sales tax. The amnesty program generated an estimated \$2.6 million in additional sales tax revenue for the City of Seattle. In addition, the City also saw its criminal justice sales tax receipts increase by approximately \$250,000 as a result of the amnesty.

For 2012, taxable sales are forecast to increase by 4.3% over 2011 levels. Construction is expected to post a positive gain of 2.0%, while the rest of the tax base is forecast to expand at a 4.8% pace, led by healthy growth in auto sales and business services. Due to the effect of the 2011 tax amnesty revenue, total receipts will increase by only 2.4%.

Business and Occupation Tax

Prior to January 1, 2008, the Business and Occupation (B&O) tax was levied by the City on the gross receipts of most business activity occurring in Seattle. Under some conditions, gross receipts of Seattle businesses were excluded from the tax if the receipts were earned from providing products or services outside of Seattle.

Revenue Overview

On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle's B&O tax revenue by \$22.3 million in 2008. On January 1, 2008, the City imposed a square footage business tax to recoup the \$22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 16 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%. The square footage business tax also has two tax rates. In 2011, the rate for business floor space, which includes office, retail, and production space, is 41 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 14 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation. The B&O tax has a small business threshold of \$100,000; businesses with taxable gross receipts below \$100,000 are exempt from the tax.

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

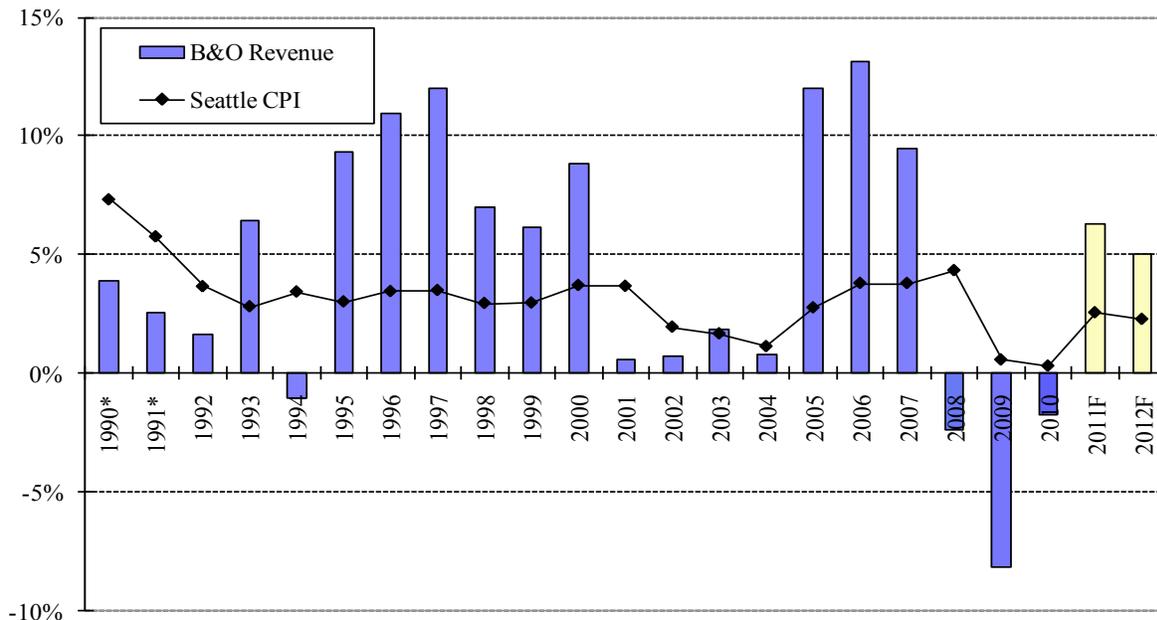
Included in the forecast of B&O tax revenue are projections of tax refund and audit payments, and estimates of tax penalty and interest payments for past-due tax obligations.

B&O revenue grew rapidly from 2005 to 2007, then succumbed to the recession in 2008. 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 helped to increase B&O receipts beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly, and remained below 2% for four successive years (see Figure 12). Revenue growth then accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, services, finance, insurance, and real estate. The years of plenty ended in 2008, which started out with a healthy 8.3% year-over-year increase in revenue from current economic activity in the first quarter, and ended with a 7.0% year-over-year decline in the fourth quarter. For the year, revenue was down 2.3% from 2007 levels, but 2009 saw the full force of the recession with an 8.2% drop. The decline was led by construction, manufacturing, wholesale trade, and finance & insurance. Revenue continued its decline in 2010, but at a much more modest 1.7% rate.

Revenue Overview

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; 2011-12 are forecasts.

Figures include both gross receipts and square footage tax revenue.

Following three years of decline, B&O revenue growth is forecast to turn positive in 2011. The B&O tax base hit bottom in the second quarter of 2010 and has been expanding since then. In the first quarter of 2011, the base grew by a healthy 6.1% on a year-over-year basis, led by health services, professional, scientific, and technical services, manufacturing, and wholesale trade. The forecast expects growth to continue, yielding revenue increases of 6.3% in 2011 and 5.0% in 2012.

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.

Cold weather leads to increases in natural gas tax revenues. The City levies a 6% utility business tax on gross sales of natural gas. The bulk of revenue from this tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another smaller tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales.

The last three years have seen global energy prices whipsaw between record highs and record lows. Natural gas prices reached a high of \$13 per million British Thermal Units (BTUs) in July 2008, and then fell to \$2.51/mBTU in September 2009. Prices have been in the \$4.0 to \$5.0/mBTU range for 2011 and are expected to stay there through 2012. The Puget Sound area's winter and spring in 2011 were particularly cold due to effects from La Nina. This long cold snap has led to larger than expected revenues

Revenue Overview

Telecommunications industry continues to change. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. After extraordinary growth over several consecutive years in the late 1990s, telecommunication tax revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. A variety of forces – the lackluster economy, industry restructuring, and heightened competition – all served to force prices downward and reduce gross revenues. Additionally, recent technological changes, particularly Voice-over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections, contribute to the uncertainties in this revenue stream.

All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits. Wireless revenues have been a source of growth as more and more consumers shift to cellular phones as their primary voice option. This growth has come at the expense of traditional telecom providers, from whom the City has seen steady declines in tax receipts. The recent proliferation of smartphones has been a double-edged sword for the City's tax base. While new smartphone users have added to the wireless tax revenue base, the increased use of data and Internet services which are not taxable have caused unexpected declines in the revenue streams. As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City will continue to see tax revenue declines. The total telecom tax stream is expected to show -12.3% and 3.4% growth in 2011 and 2012, respectively. 2011 will be negative because of 2010's artificially high receipts from audit payments and as a result of some wireless companies changing their revenue accounting practices to reflect the increased use of non-taxable data services.

Cable tax revenue shows positive growth. 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 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee, which is deposited in the City's Cable TV Franchise Fee Subfund, increased from 3.5% in June 2006.

Cable revenues have been growing steadily and are expected to continue to do so. Average annual growth for 2011 and 2012 is expected to be 4.3%, well ahead of inflation. Amid growing competition from satellite TV, the cable industry has increased its services including additional channels, pay-per-view options, and digital reception, in order to remain competitive, and the increased tax revenues suggest that strategy is working.

Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 15.54% on the City Water Utility. There are no planned tax rate changes; therefore the revenues from the utilities are projected to remain fairly stable, with the exception of those utilities with changes in rate structure.

Revenue Overview

Rate changes expected in 2012. City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. Due to severe declines in natural gas prices in 2009, and lower than anticipated water levels in 2010, City Light experiences some financial turmoil. Since then water levels have rebounded and natural gas prices have risen enough for City Light to better compete in the wholesale market. A rate increase of 13.8% took effect January 1, 2010, leading to an increase in City Light tax revenues. The City Council also authorized the creation of a rate stabilization fund for the utility. This required an initial 4.5% surcharge that took effect in May of 2010 and then was deactivated in January of 2011. Rates were also increased by 4.3% and were effective January 1, 2011. Similarly, rates are expected to be 3.2% higher in 2012 than 2011. Tax revenues that accrue to the General Subfund will have annual increases of 8.8% and 3.0% in 2011 and 2012, respectively.

Water retail rate increases for 2012. Seattle Public Utilities' Water Utility rates increased by 18.4% in 2009 and will increase by 9.9% in 2010. In addition to these general rate increases, there was a 10.2% surcharge as a result of a court decision stipulating that Water Utility ratepayers must be refunded from the General Subfund for fire hydrant costs previously paid for through Water Utility rates. This refund was paid for through an increase in the Water Utility tax rate to 19.87% from 15.54%. On January 1, 2011, the surcharge expired and the tax rate is once again 15.54%. A retail rate increase of 13.7% was approved for 2012 and SPU is planning a water retail rate increase of 9.3% for 2012, leading to a tax revenue growth rate of 10.2% in 2012.

Drainage and Wastewater rate increases mean higher tax revenue growth. As part of the 2011-2012 drainage and wastewater rate study, rate increases have been proposed for both 2011 and 2012. Wastewater rates increased by 14.5% in 2011 and are expected to increase by 3.9% in 2012. Drainage rates increased by 13.1% in 2011 and are set to increase by 11.4% in 2012. Tax receipts from these two utilities will grow by 11.4% and 4.8% in 2011 and 2012, respectively.

Higher Solid Waste rates mean higher tax revenue growth. The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. The Solid Waste Utility has been given approval for average rate increases of 6.0% and 3.5% in 2011 and 2012, respectively. This will lead to tax revenue growth rates of 5.7% and 4.5% in the same years.

Admission Tax

The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to 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 the general prosperity in the region.

Admission tax receipts have been stable and not severely affected by the economy. There have been some changes to the tax base and to the uses of the tax proceeds. 20% of admission tax revenues, excluding men's professional basketball, were dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). For 2010, the Mayor and Council agreed to increase this contribution to 75% based on the actual admission tax receipts from two years prior. As a result, OACA is fully funded by the admission tax, except for money received from the 1% for Arts program. The forecasts in Figure

Revenue Overview

7 for admission taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs section of this document provides further detail on the Office's use of Arts Account revenue from the admission tax and the implementation of this change.

A notable change for 2012 is the temporary closure of Husky Stadium for the University of Washington's football season. During the 2012 season the Huskies will play at Century Link Field. The City cannot collect admissions tax from events at Century Link because those revenues are used to pay down the debt on that facility. This will result in a one-year loss of admission-tax revenue of around \$900,000.

Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional parking meters with pay stations in various areas throughout the city. Pay stations are parking payment devices offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking. Pay station technology also allows the City to adopt different pricing, time limit, and other management parameters on different blocks throughout the city. In the same period, the City has increased the total number of parking spaces in the street right-of-way that are subject to fees and collected more data to measure occupancy, turn over, and other characteristics of on-street parking. The overall objective of these efforts is to provide a more data-driven, outcome based management and price setting approach in pursuit of the expressed policy goals of 1 to 2 open spaces per block-face, reduced congestion, support of business districts, etc.

One element of the performance based parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, multiple rates were implemented categorically for these spaces and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the city. Accompanying this change in policy, the maximum allowable hourly rate was increased from \$1.50 per hour to \$2.50 per hour to allow for rate setting flexibility. The 2011 Adopted Budget included a further increase in the maximum allowable hourly rate from \$2.50 to \$4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. in 7 neighborhoods with high evening use rates. As implemented in 2011, based on measured occupancy throughout the day, SDOT moved from the 3-tiered rate approach to more finely adapted rates by individual neighborhood. Between January and March 2011, on-street parking rates were increased in 4 neighborhoods and decreased in 11 neighborhoods relative to the 2011 Adopted Budget assumptions. The 2012 Proposed Budget goes further, assuming rates are set by neighborhood and where appropriate by sub-neighborhood areas. It also proposes changes to time limits (from 2 to 4 hours) in various neighborhoods and sub-areas. The Department of Transportation's budget section provides further details of the 2012 proposed changes to the parking management program. Each of the prescribed rate changes implemented in 2011 and proposed for 2012 increase or decrease revenues relative to the 2011 Adopted and 2012 Endorsed rate assumptions. Other changes, such as extending evening paid parking hours from 6 p.m. to 8 p.m. or increasing time limits from 2 to 4 hours are projected to increase revenues. Beginning in October 2011, construction activity related to the Alaskan Way Viaduct replacement project will begin eliminating several blocks of on-street parking in the Pioneer Square area. Altogether, these

Revenue Overview

changes result in significant downward revisions in expected on-street parking revenues from \$35.1 million to \$29.4 million in 2011 and \$39.6 million to \$32.2 million in 2012 between the 2011 Adopted – 2012 Endorsed Budgets to the current 2012 Proposed Budget.

Street Use and Traffic Permits. At \$1.83 million, revenues for 2010 ended 18.9 % lower than 2009 actual revenues for traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight, and other permits. This decline is in response to declining economic activity, primarily construction activity, requiring permits. The 2012 Proposed Budget assumes continued lower levels of permit activity, but includes a rate increase for Commercial Vehicle Load Zone permits to reflect the increased cost of on-street parking. Total revenues for this category are projected to be \$2.18 million in 2011 and \$2.38 million in 2012.

Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in 2007 citation volume increased, in part due to changes in enforcement technology and strategies, but also to the addition of three Parking Enforcement Officers (PEOs) authorized as part of the South Lake Union parking pay station extension (described above in the Parking Meter section).

Demand for parking enforcement has also grown with changes in neighborhood development, parking design changes, and enforcement programs in other parts of the city. The City has established several new Restricted Parking Zones (RPZs), especially around the new light-rail train stations through the Rainier Valley. In response, an additional 8 new PEOs were authorized in 2009, 7 in 2010, and 4 in 2011. Two of the four PEOs in 2011 were dedicated to enforcement activities related to the City's scofflaw boot program, which began July 5, 2011. The boot program utilizes mobile license plate recognition cameras and an immobilizing boot device that is attached to scofflaw vehicles, or those with 4 or more outstanding parking citations in collections.

In 2009, the City received \$27.2 million in court fines and forfeitures, including \$4.7 million from the expanded red light camera enforcement program, which grew from 6 camera locations to 18 in the last quarter of 2008 and to nearly 30 total locations in early 2009. Revenues in 2010 were \$29.8 million with approximately \$4.8 million from red light camera enforcement. Revenues in 2011 are projected at \$32.1 million with \$4.66 million from red light cameras. The 2012 Proposed Budget assumes addition of 6 more camera locations, which is anticipated to generate approximately \$700,000 in 2012. It also assumes approximately \$657,000 in additional 2012 revenues from citations generated by fixed cameras placed in school zones as part of an effort to reduce traffic speeds and the likelihood of car-pedestrian accidents in and near the City's schools. Finally, the 2012 Proposed Budget incorporates the Court recommended \$5.00 increase in parking fine amounts. With the added enforcement, program changes and rate changes, total fines and forfeitures revenues are projected at \$36.7 million in 2012. These totals include an anticipated \$5.8 million from red light and school-zone speed enforcement cameras.

Revenue Overview

Interest Income

Through investment of the City's cash pool in accordance with state law and the City's own financial policies, the General Subfund receives interest and investment earnings on cash balances attributable to several of the City's funds or subfunds that are affiliated with general government activities. Many other City funds are independent, retaining their own interest and investment earnings. Interest and investment income to the General Subfund varies widely, subject to significant fluctuations in cash balances and changes in earnings rates dictated by economic and financial market conditions.

After several years of short-term interest rates ranging between 3% and 5%, short-term interest rates fell significantly beginning in 2008, dropping to 0.5% and below by the 4th quarter of 2008. These rates have remained low in 2009-2011 and are projected to remain low through 2012. Medium and long-term rates have declined significantly as well during this same time period, and may take equally as long to recover. Expectations for earnings rates and uncertainty over institutional response to economic and financial conditions have led the City to move its investment portfolio into increasingly shorter-term securities, as previously held securities matured. The annual yield for 2010 was 1.06 percent, with 2012 Proposed Budget yields of 0.79 percent in 2011, and 0.80 percent in 2012. Current estimates for General Subfund interest and investment earnings are \$1.45 million in 2011, and \$1.39 million in 2012.

Revenue from Other Public Entities

Washington State shares revenues with Seattle. The State of Washington distributes a portion of tax and fee revenue 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 vehicle 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.

The State's budget leads to small declines in Criminal Justice revenues. The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. For the 2012 and 2013 state budgets, these distributions were cut by 3.4% in each year, leading to small declines in the revenue stream for Seattle.

A new initiative could lead to increase liquor revenues. In recent years the City's share of Liquor Board profits has stabilized to around \$4 million a year. These are funds recorded as net income for the liquor board in its operation of liquor sales in the State of Washington. 40% of these funds are distributed quarterly to cities and towns on the basis of population. Liquor excise taxes, which are levied on the sale of liquor, have stabilized to providing Seattle almost \$3.0 million a year. In the 2012-2013 State Budget, the distributions were cut by 3.4% which will lead to small declines in these state shared revenues. Also, there is a new initiative that seeks to remove the state from its monopoly on sales of spirits that will be voted on in November of 2011. If passed, this initiative will likely result in increased revenues to the City from new license fees and taxes that will be assessed on private retailers and wholesalers. The impact could range between \$2 million and \$4.5 million a year.

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 is to allocate a fair share of the costs of centralized general government services to 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. The former Department of Executive Administration (DEA) has merged with the former Fleets & Facilities Department (FFD) into the Department of Finance and Administrative Services (FAS). This means that central service charges that accrued to the General Subfund to support the former DEA's work now go directly to FAS's operating fund. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

Interfund Transfers

Interfund transfers. Occasionally, transfers from departments to the General Subfund take place to pay for specific programs that would ordinarily be executed by a general government department or to capture existing unreserved fund balances. A detailed list of these transfers is included in the General Subfund revenue table found in the Funds, Subfunds, and Other section.

In ratifying the 2012 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

Cumulative Reserve Subfund – Real Estate Excise Tax

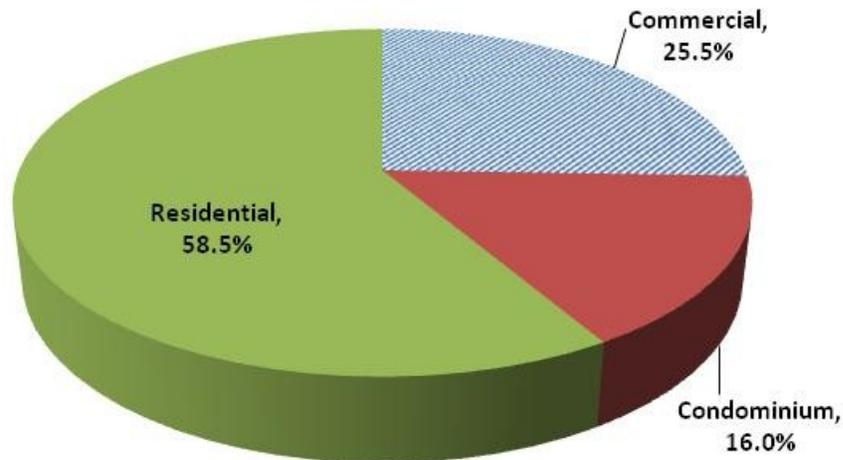
The Cumulative Reserve Subfund resources are used primarily for the maintenance and development of City general government capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, street vacation revenues, General Subfund transfers, and interest earnings on subfund balances.

The REET is levied by the City at a rate of 0.5% on sales of real estate measured by the full selling price. Because the tax is levied on transactions, the amount of revenue that the City receives from REET is determined by both the volume and value of transactions.

Over time, 58.5% of the City's REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 25.5% of the tax base, and condominiums constitute the remaining 16.0% (see Figure 13).

Revenue Overview

Figure 13. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2010

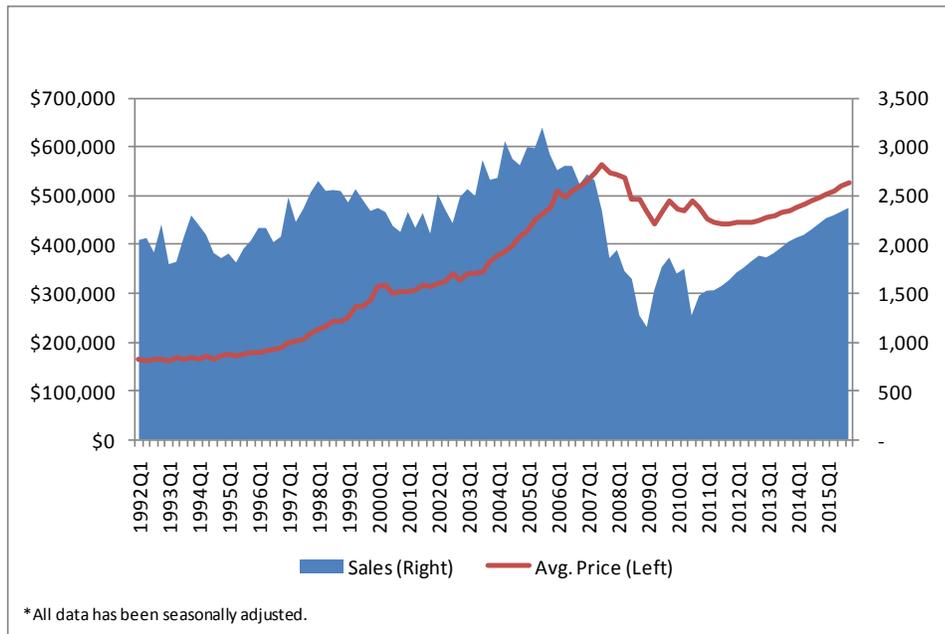


REET revenue growth continues to be volatile. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline has been felt across all three real estate categories. 2010 saw small growth of 3.7% over 2009. 2011 has shown improving numbers especially in the commercial market with a number of large downtown office buildings changing hands. This is expected to provide a robust 19.8% growth in REET over 2010. Growth in 2012 is forecast to be more moderate; about 3.2%.

The volatility of REET is reflected by the fact that despite a 9.4% average annual growth rate, the REET tax base declined in eight years during the period 1982 – 2009. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability has been severely compromised in this downturn as Seattle area prices for residential properties have fallen 28.4% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in both 2007 and more recently 2011.

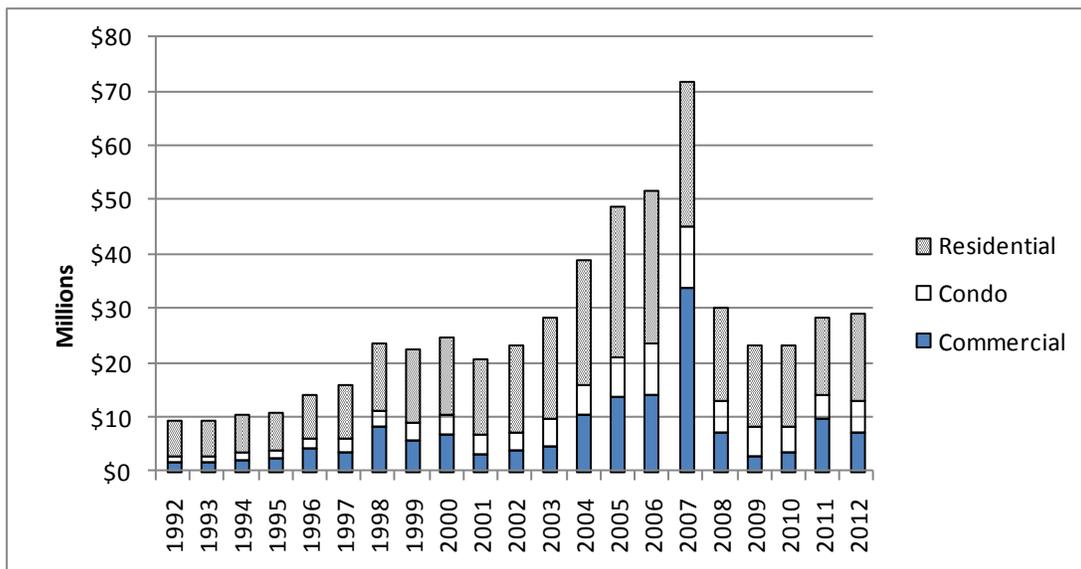
Revenue Overview

Figure 14. Seattle Single-family Home Sales



REET revenue from the residential market appears to have stabilized. It appears that Seattle home sales hit bottom in the early part of 2009, and prices reached their lowest point later that summer (see Figure 14). There was a brief uptick in home sales during the last half of 2009 through the first half of 2010. This was a direct result of the new homebuyer tax credits which incentivized home purchases. Once this credit expired, sales fell back to previous levels. Single-family home prices in Seattle are not expected to show appreciable signs of growth until 2014. The condo market has also stagnated during the downturn and is not expected to move much over the next few years. Any volatility in the REET revenue stream will be due to fluctuations in the commercial property market.

Figure 15. REET Revenues



Revenue Overview

Transportation Fund – Bridging the Gap Revenue Sources

The Transportation Fund is the primary operating fund whose resources support the management, maintenance, design, and construction of the city's transportation infrastructure. The fund receives revenues and resources from a variety of sources: General Subfund transfers, distributions from the State's Motor Vehicle Fuel tax, state and federal grants, service charges, user fees, bond proceeds, and several other sources more fully presented in the Transportation Department section of this budget document. In September 2006, the City and the voters of Seattle approved the nine-year Phase One of the 20-year Bridging the Gap program aimed at overcoming the City's maintenance backlog and making improvements to the bicycle, pedestrian, bridge, and roadway infrastructure. The foundation of the program was establishing three additional revenue sources: a levy lid lift (Ordinance 122232), a commercial parking tax (Ordinance 122192), and a business transportation, or employee hours tax (Ordinance 122191).

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised \$39.6 million in 2010 and is projected to raise \$40.5 million in 2011 and \$41.2 million in 2012.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the city that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. The rate increased on July 1, 2008 to 7.5%, and then to 10% in 2009. The tax yielded \$24.1 million in 2010. The commercial parking tax rate increased to 12.5 % January 1, 2011. The 2012 Proposed Budget projection combines this rate increase with economic and tax base growth assumptions and results in an estimated additional \$5.3 million in 2011, raising the total forecast to \$29.4 million. Commercial Parking Tax revenue in 2012 is estimated at \$30.7 million. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. These additional revenues from the 2.5% increase are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation's section of this budget.

The business transportation tax (or employee hours tax) was a tax levied and collected from every firm for the act or privilege of engaging in business activities within the city of Seattle. The amount of the tax was based on the number of hours worked in Seattle or, alternatively, on a full-time equivalent employee basis. The tax rate per hour was \$0.01302, which is equivalent to \$25 per full-time employee working at least 1,920 hours annually. Several exemptions and deductions were provided in the authorizing ordinance. Most notably, a deduction was offered for those employees who regularly commuted to work by means other than driving a motor vehicle alone. The tax raised \$4.8 million in 2008 and \$5.9 million in 2009. The tax was eliminated effective in 2010. This decision was supported by the performance of the commercial parking tax, the difficult economic situation facing businesses, and the costs to businesses and the City of administering the tax.

Revenue Overview

Figure 16. Seattle City Tax Rates

	2007	2008	2009	2010	2011
Property Taxes (Dollars per \$1,000 of Assessed Value)					
General Property Tax	\$1.88	\$1.70	\$1.55	\$1.78	\$1.87
Families & Education	0.16	0.14	0.12	0.14	0.14
Seattle Center/Parks Comm. Ctr.	0.01				
Parks and Open Space	0.26	0.18	0.18	0.20	0.20
Low Income Housing	0.04	0.03	0.03	0.17	0.17
Fire Facilities	0.20	0.17	0.15	0.09	0.10
Transportation	0.35	0.31	0.27	0.31	0.32
Pike Place Market			0.09	0.10	0.10
Emergency Medical Services	0.21	0.30	0.27	0.30	0.30
Low Income Housing (Special Levy)	0.08	0.07	0.06		
City Excess GO Bond	0.25	0.17	0.13	.014	0.15
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax					
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%	0.415%
International Finance	0.415%	0.415%	0.415%	0.150%	0.150%
City of Seattle Public Utility Business Taxes					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	19.87%	19.87%*	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
City of Seattle Private Utility B&O Tax Rates					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
Franchise Fees					
Cable Franchise Fee	4.20%	4.20%	4.20%	4.20%	4.20%
Admission and Gambling Taxes					
Admissions tax	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%	5.00%

*The 19.87% rate was effective March 31, 2009, and includes a temporary surcharge to respond to a court decision. This surcharge expired on December 31, 2010.

Selected Financial Policies

Through a series of Resolutions and Ordinances, the City has adopted a number of financial policies that are designed to protect the City's financial interests and provide a framework and guidelines for the City's financial practices. For additional information about these policies, please refer to the City of Seattle website: http://www.seattle.gov/financedepartment/financial_policies.htm.

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. The 12% reserve is now significantly greater than \$100 million.
- 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 37.5 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 (commonly referred to as the "Rainy Day Fund"). At no time shall the balance of the Revenue Stabilization Account exceed 5% of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.¹

Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive develops 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.

¹ The Mayor transmitted legislation to the City Council in July 2011 that would enhance the City's Rainy Day Fund policies. For more information on these proposed updates, please see the Executive Summary of the 2012 Proposed Budget and <http://www.seattle.gov/financedepartment/documents/RainyDayFundPresentation-FINAL.pdf>

Selected Financial Policies

- 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 State law, 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 90 days. Exceptions to this policy are permitted with prior approval by the City Council.

City of Seattle Budget Process

Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to 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 state 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, the budget for the second year. The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review.

Budgetary Basis

The City budgets on a modified accrual basis. Property taxes, sales taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, 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 since this is when they can be accurately measured. Investment earnings are accrued as earned.

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

Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a current services or "baseline" budget. Current services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as the voter-approved levy for new park facilities, as well as labor agreements and changes in health care, insurance, and cost-of-living-adjustments for City employees. At the outset of a new biennium, current services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the current services budget as the second year budget endorsed by the City Council the previous November, or re-determine current service levels. For example, the 2010 Adopted Budget was used as the basis for the 2011-2012 Proposed Budget.

Budget Process

During the budget preparation period, the Department of Finance and Administrative Services (FAS), working in conjunction with the City Budget Office (CBO), makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the current services budget. The revenue estimates must be based on the prior 12 months of experience. 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 May, departments prepared and submitted Budget Issue Papers (BIPs) to CBO for mayoral consideration. The Mayor's Office reviewed and provided direction to departments on the BIPs to be included in the department's budget submittal in early June. In early July, CBO received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the month of August. CBO, in conjunction with individual departments, then finalized the operation and CIP budgets.

The process culminates in the proposed operating budget and CIP. 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.

In late September, the Mayor submits the proposed budget and CIP to the City Council. In addition to the budget documents, CBO prepares supporting legislation and other related documents.

Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts public hearings. The City Council also holds committee meetings in open session to discuss budget requests with department representatives and CBO staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and after making changes to the Mayor's proposed budget, the City Council adopts the budget in late November 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. Copies of budget documents are available for public inspection at the CBO offices, at the Seattle Public Library, and on the Internet at <http://www.seattle.gov/budgetoffice>.

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 state the Council's expectations in making budget decisions and generally require affected departments to report back to the City Council on results. A chart summarizing 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 CBO, 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, CBO 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 Budget Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, and with 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.

Budget Process

Budget Process Diagram—2012 Proposed Budget

