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CITY OF  
*Seattle, Washington*

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**2006 Adopted Budget**

**Ordinance 121991**



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**CITY OF SEATTLE  
2006 ADOPTED BUDGET**

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## Readers Guide

This reader's guide describes the structure of the 2006 Adopted Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2006 Adopted Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2006-2011 Adopted Capital Improvement Program (CIP), identifies adopted expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the coming six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

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

## The 2006 Adopted Budget

This document is a detailed record of the spending plan adopted for 2006. It contains the following elements:

- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2006 Adopted Budget and 2006-2011 Adopted Capital Improvement Program were developed;
- Summary Tables – a set of tables that inventory and sum up expected revenues and planned spending for 2006;
- 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;
- Departmental Budgets – City department-level descriptions of significant policy and program changes from the 2006 Endorsed Budget, the services provided, and the spending levels adopted to attain these results;
- Position List – a list of authorized positions by department;
- Cost Allocation – a summary of cost-allocation factors for internal City services; and
- Appendix – an array of supporting documents including a glossary and Citywide statistics.

## Departmental Budgets: 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;

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- 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, Judgment and Claims Subfund, the Municipal Civic Center Fund, and Parking Garage Fund. A summary of the City's General Obligation debt is also included in this section.

As indicated, the Adopted 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 two separate subfunds in the Transportation Operating Fund. Other revenues without statutory restrictions, such as sales and 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 description of the department's basic functions and areas of responsibility. There follows a narrative summary of the major policy and program changes describing how the department plans to conduct its business in light of the adopted budget. When appropriate, subsequent sections present budget control level and program level purpose statements, and program summaries detailing significant program changes from the 2006 Endorsed Budget to the 2006 Adopted Budget.

All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as endorsed and adopted appropriations for 2006. The actual historical expenditures are displayed for informational purposes only.

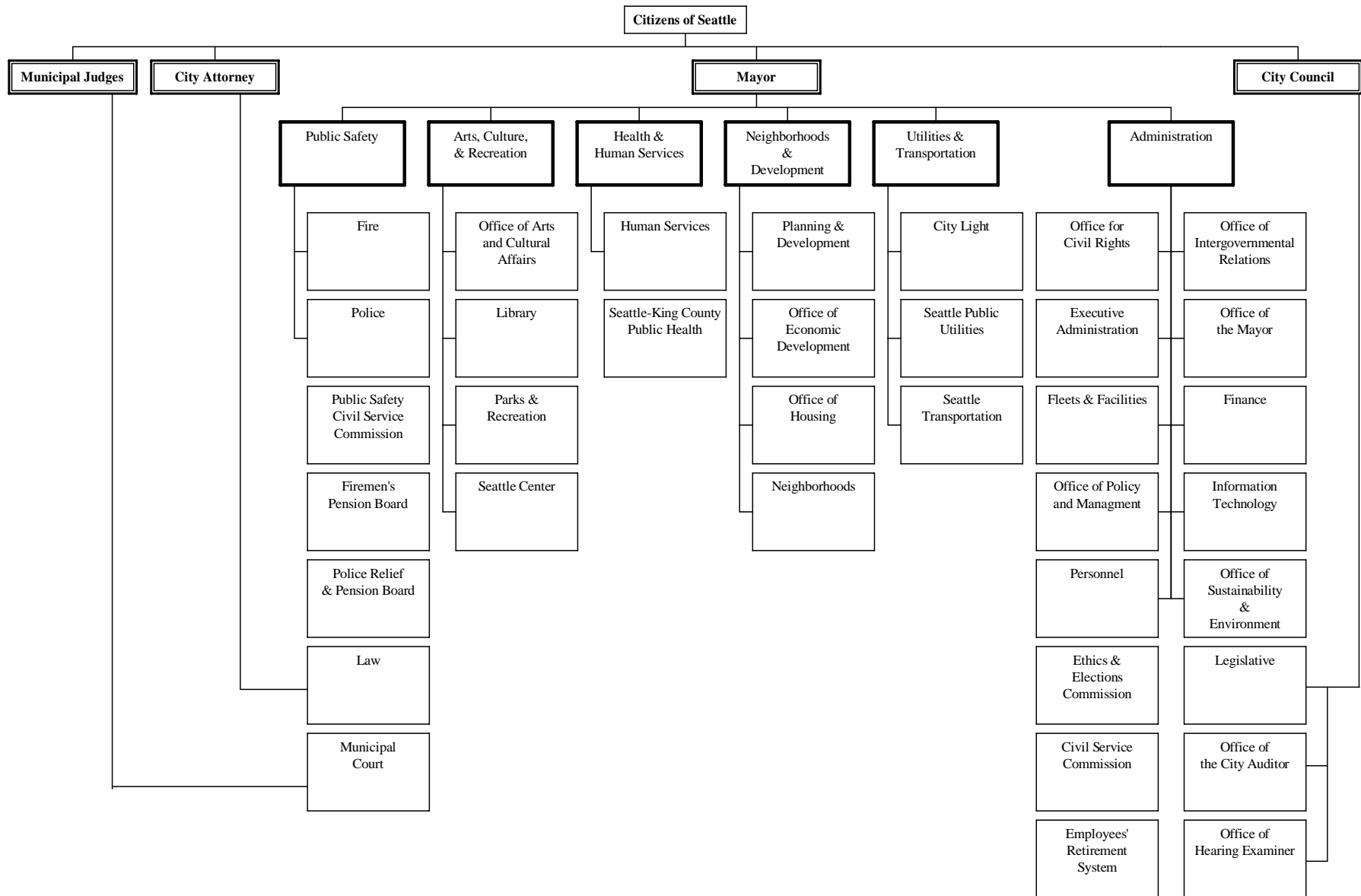
Information on the number of staff positions to be funded under the Adopted Budget appears at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). Changes are shown at the program level and are subsequently added to, or subtracted from, the number of

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positions active in the prior year to indicate the total number of employees to serve the department in the upcoming year.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2004 through 2006; a statement of fund balance; and a statement of 2006 appropriations to support capital projects appearing in the 2006-2011 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2006-2011 Adopted Capital Improvement Program document.

# City Organizational Chart





# Selected Financial Policies

## Debt Policies

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

## General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals 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. At no time shall the balance of the Revenue Stabilization Account exceed 2.5% of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

## Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive 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.
- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.
- In compliance with the State Accountancy Act, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.
- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than 90 days. Exceptions to this policy are permitted with prior approval by the City's Director of Finance.



## 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 Council endorsement and is formally adopted by Council after a midbiennial review.

## Budgetary Basis

The City budgets all funds on a modified accrual basis, with the exception of utilities and other enterprise funds, which are budgeted on a full accrual basis. Property taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, 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 because 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 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 voter-approved levy and bond issues for new library and 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 Council the previous November, or re-determine current service levels.

During the budget preparation period, the Department of Finance (DOF) 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 twelve 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.

The 2006 Endorsed Budget has been used as the basis for the 2006 Proposed Budget. In February, departments were given direction by the Mayor to maintain the 2006 Endorsed Budget with few exceptions. In April, departments provided DOF with a preview of requested changes to the 2006 Endorsed Budget for approval, prior to submitting Budget Issue Papers (BIPs), which are summary-level descriptions of the suggested budget reductions or increases. In May, departments prepared and submitted BIPs to DOF for Mayoral consideration. The Mayor's Office reviewed the documents and provided direction to departments on the BIPs to include in their budget submittals in early June. In early July, DOF received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the

# Budget Process

month of August. DOF, in conjunction with individual departments, then finalized the operating and CIP budgets.

The process culminates in the proposed operating budget, CIP, and position list. 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, DOF 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 Council also holds committee meetings in open session to discuss budget requests with department representatives and DOF staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and 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 DOF offices, in branches of the Seattle Public Library, and on the Internet at <http://www.seattle.gov/financedepartment>.

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

## Budget Amendment

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

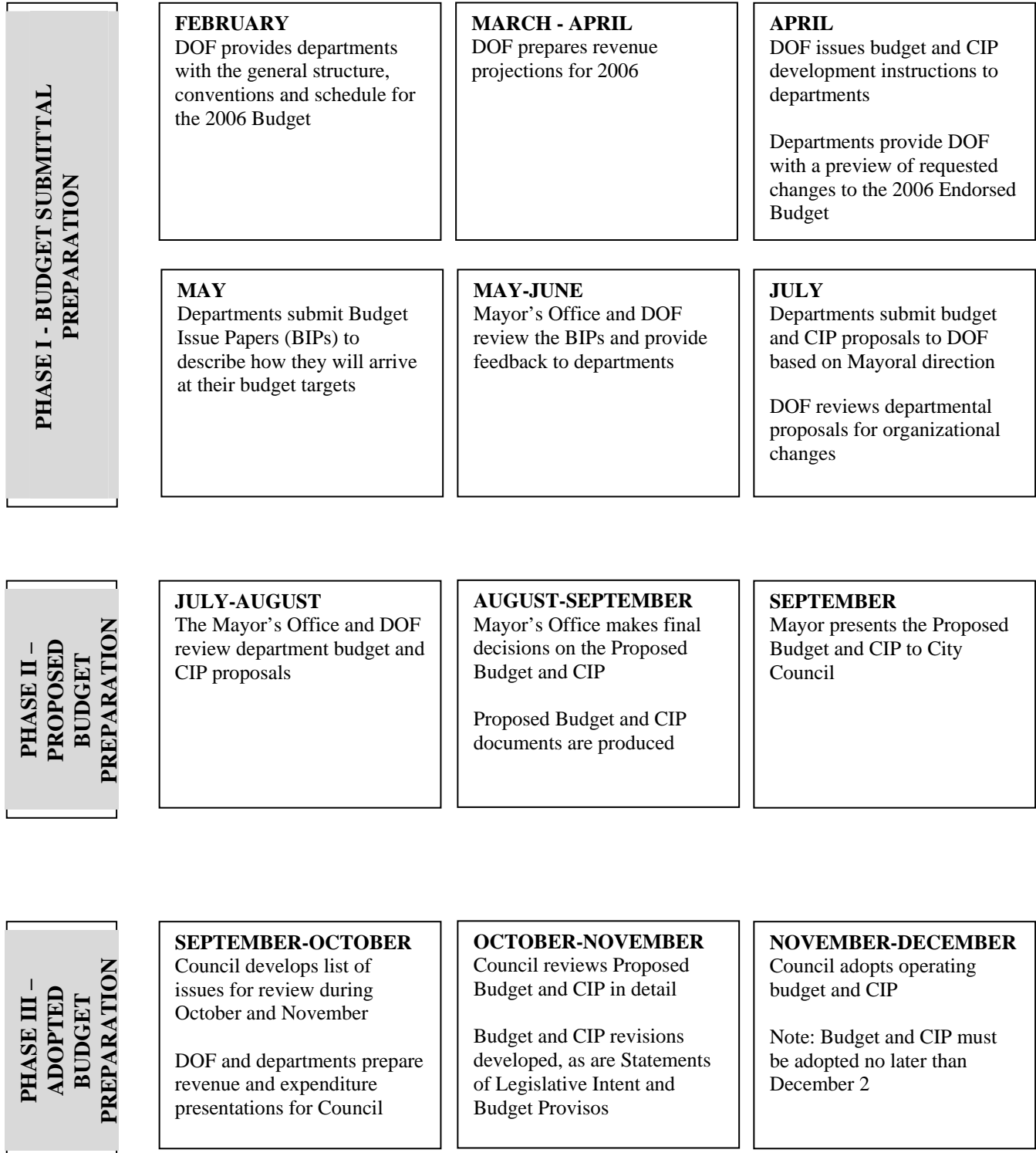
## Budget Process

The Finance 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. In developing guidelines for the transition to biennial budgeting, the City Council created a mechanism for allocating unexpended, non-capital, year-one appropriation authority. Resolution 28885 allows departments to carry forward into year two up to one-half of the unencumbered and unexpended non-capital appropriations remaining at the end of year one, with Council approval in year two's budget. The City's actual practices in this regard have varied over time due to fiscal conditions and policy priorities.

# Budget Process

## BUDGET PROCESS DIAGRAM –2006 BUDGET



# Budget Overview

The City of Seattle's 2006 Budget reflects vastly improved regional economic conditions following the lengthy downturn that began in 2001. Strong growth in employment and personal income has added to the City's tax revenues, allowing some budget cuts taken in the last few years to be restored. Mayor Greg Nickels' 2006 Proposed Budget focused on a mix of one-time investments and ongoing additions to basic City services, such as police and fire staffing, transportation infrastructure, and human services programs. Revenue estimates continued to increase throughout the fall of 2005, allowing the City Council to add further funding for libraries, human services, and transportation in the Adopted Budget.

## Economic and Revenue Environment

The Puget Sound region endured a difficult economic recession beginning in 2001. The region lost 6.9% of its jobs between December 2000 and September 2003. During the same time period, the U.S. as a whole lost only 2.1% of its jobs and Washington state lost only about 3%. The regional recession led to declines in many City revenues, including sales taxes, Business and Occupation (B&O) taxes, electricity sales, and water revenues.

The revenue effects of the poor regional economy were exacerbated by a variety of other challenges. Changes in state law since 2000 reduced Seattle's potential 2005 General Fund revenues by more than \$45 million. The largest component of this is due to Initiative 747, which was approved by the state's voters in 2001 (although defeated within Seattle) and limits annual property tax revenue growth to 1% plus the value of new construction versus the previous limit of 6% plus new construction. Revenues available for transportation projects were adversely affected by Initiative 776, which was approved by the state's voters in 2002 (as with I-747, this initiative failed in Seattle). This initiative eliminated the vehicle license fee collected by King County and shared with cities. This amounted to about \$5 million annually for Seattle, which was used to leverage another \$2 million to \$3 million in grants. State changes to the gas tax in 2005 offset a portion of this loss.

The Puget Sound area's economy started to improve in early 2004 and very strong employment growth began in the fourth quarter. The region is now growing faster than the rest of the state or the nation. Approximately 85 percent of the jobs lost in the recession had been recovered by the end of 2005 and forecasts call for continued employment growth through 2006. More information can be found in the General Subfund Revenue Overview section.

Revenues from the Real Estate Excise Tax (REET) have grown very rapidly since 2002. This tax is imposed at a rate of 0.5% on the value of all real estate sales. By state law, the proceeds can be used solely for certain capital projects, such as transportation infrastructure and major maintenance of parks, libraries, and general government facilities. The City deposits REET into the Cumulative Reserve Subfund. Growth in REET stems from a combination of three factors: increases in residential home prices, greater residential sales volume due to low interest rates, and growing investor interest in commercial real estate. REET revenues grew from \$22.6 million in 2002 to \$27.9 million in 2003, \$38.3 million in 2004, and \$49.4 million in 2005. The strong growth in REET has led to significant increases in major maintenance of City facilities, with a particular focus on street paving and other transportation projects.

Some national observers have expressed concern about a housing "bubble" in certain geographic markets. These bubbles might burst, resulting in significantly lower real estate prices. There is little evidence of such a bubble in the Seattle market. Housing values have increased but at nowhere near the rates seen in some other metropolitan areas. Thus, the REET forecast calls for a gradual slowing that would produce about \$37.4 million of revenue in 2006.

## Approach to 2006 General Fund Budget

The improved economy and the strong revenue forecast provided additional funding for 2005 and 2006 beyond what was anticipated when the 2005 Budget was adopted and the 2006 Budget was endorsed in November 2004. Mayor Nickels directed these resources be spent in two ways. First, some targeted one-time investments were

# Budget Overview

identified that will reduce future costs, improve performance, or allow the use of cash rather than anticipated bond issues. Second, high-priority services were added, including several programs that had to be cut in the first part of the decade.

The Mayor and Council used the 2006 Endorsed Budget as the basis for the 2006 Adopted Budget. In the City's biennial budget process, a second year budget is endorsed by the Mayor and City Council at the time the first-year budget is adopted. This Endorsed Budget is then revised for the second year of the biennium. For many programs, the 2006 Endorsed Budget became the 2006 Adopted Budget with no changes or with the only changes being updates to economic assumptions, such as salary and benefit calculations.

The 2006 Budget continues the City's commitments to strong financial policies. The Emergency Subfund is funded to the maximum amount allowed by state law, approximately \$36 million for 2006. Only a small amount of new debt (\$24 million) is included, with the largest amount for potential Airport Way Center (formerly Park 90/5) refinancing that will be reduced if the City succeeds in its suit to recover earthquake damage expenses from the property insurance carrier for this facility. New reserves are set up in the Police Department to cover the costs of future equipment replacement, including video cameras in patrol cars.

The Budget also builds on efficiencies that were achieved over the last few years. The City has eliminated low-priority activities and streamlined management of many functions. The most significant new effort in this area is a plan to centralize several technology activities in the Department of Information Technology (DoIT). These activities include email management, help desks, Web standards, and management of certain computing and communications hardware. The current decentralized environment leads to duplication and makes it difficult to ensure appropriate security. The Budget adds funds to begin a gradual transition of these functions to DoIT in 2006, pending further City Council review, with full implementation at the start of 2007.

While the fiscal situation for 2006 is favorable, the City faces some long-term concerns that call for caution in the current budget. Federal funding for the Community Development Block Grant (CDBG) program has been declining for several years and this trend is projected to continue. State changes in city B&O tax coverage could cost Seattle up to \$15 million to \$20 million in 2008 unless changes are made in the next two years. The Parks levy lid lift expires at the end of 2008, which would leave more than \$9 million of operating and maintenance costs to be cut or picked up by the General Fund. In view of these emerging concerns, the 2006 Budget limits the number of ongoing budget additions to reduce the possibility of future budget cuts.

Some of the highlights of the City's overall operating and capital budgets are described in the functional categories that follow. These categories are based on the Mayor's priorities of transportation, public safety, economic development, and strong families and healthy communities.

## Transportation

Improving transportation is one of the City government's highest priorities. The 2006 Budget maintains all existing transportation programs and funds significant new capital projects, including:

- \$5.2 million of REET and \$700,000 of new gas tax for street resurfacing, which will help pave about 76 lane-miles in 2006.
- \$500,000 for a new sidewalk program to focus on parts of Seattle without sidewalks. The Seattle Department of Transportation (SDOT) has developed new approaches to sidewalk construction that dramatically reduce costs in areas that do not require significant investments in drainage infrastructure. This investment will be targeted to high pedestrian traffic areas and is expected to produce six to eight blocks of new sidewalks.
- \$600,000 to restore funding levels for bridge painting.



# Budget Overview

- \$2.5 million of REET for future projects that will be identified in early 2006.
- \$628,000 to begin planning for mass transit improvements in the corridors that were to have been served by the Seattle Monorail Project, which was disbanded by the voters at the November 2005 election.

The Budget continues the City's support for the replacement of the Alaskan Way Viaduct and Seawall. In addition to a debt-financed capital budget of \$5.2 million, funding is provided for Center City traffic coordination and to begin to plan capital investments to improve traffic circulation when the Viaduct project is under way.

The Budget also provides continued funding for the South Lake Union streetcar project. Appropriations are provided at the levels approved by the Mayor and City Council in mid-2005. The Budget does not include appropriations from the proposed Local Improvement District (LID). These appropriations will be made in 2006 after the LID is formed. The Budget also includes \$360,000 for pedestrian and bicycle improvements in the neighborhood.

As was previously announced, the Budget includes \$1 million of General Fund support for King County's replacement of the waterfront trolley maintenance base.

Despite the strong commitment to transportation made in the 2006 Budget, the City of Seattle and other Washington cities face a growing crisis in transportation funding. In May 2004, the Citizens' Transportation Advisory Committee presented a report to the Mayor and City Council describing the backlog of transportation projects and calling for new funding sources for local transportation. Seattle has lost more than \$18 million in transportation revenue annually due to the passage of Initiative 776 and court invalidation of the street utility. Some additional revenue sources will be needed to prevent further growth in maintenance backlogs and to address major infrastructure projects.

## Public Safety

Public safety is another high priority for Seattle's residents and elected officials. The 2006 Adopted Budget reflects implementation of Mayor Nickels' proposal to add 25 police officers starting in mid-2005, which was approved by the City Council in June. These officers will complete training in early 2006 and will be deployed to the highest priority areas of the city.

In addition, several capital investments are proposed to support the Police Department. Slightly more than \$1 million is provided to continue placing video cameras in all patrol cars. This additional funding also starts a reserve account to pay for replacement of cameras at the end of their useful lives. Faster replacement of bullet-proof vests will be possible by adding \$150,000 for this purpose. The hand-held ticketing devices used by parking enforcement officers have reached the end of their useful lives and a total of \$1.5 million is provided for replacement. A vendor will be selected in 2006 and actual replacement will occur in 2007.

The 2006 Budget adds \$1.3 million to the Fire Department to restore three on-duty strength positions, which necessitates five people per position in order to provide 24-hour per day coverage. The three positions will be assigned to the three engine companies that are the only unit at a particular station and that have only three-person crews. These are stations 16 (Green Lake), 21 (Greenwood), and 34 (Madison Valley).

The Seattle Municipal Court established a "community court" as a pilot project in 2005. This judicial approach is intended to link chronic, low-level offenders with services rather than sending them to jail. Funding for the community court is continued for 2006 and an evaluation of the program will be conducted by Office of Policy and Management (OPM) early in 2006.

The 2006-2011 Capital Improvement Program shows further progress in implementing the 2003 Fire Facilities and Emergency Response levy. Construction will begin on several new or remodeled fire stations during 2006, including the new Fire Station 10 complex that also houses the Emergency Operations Center and Fire Alarm

# Budget Overview

Center. Supplemental legislation in mid-2005 added \$6 million of REET for this project, of which \$1 million will cover increases in construction material costs, \$1 million will be used to improve the environmental sustainability of the facility, and \$4 million will strengthen the neighboring Yesler Way overpass and build foundation components for a future Fire Department headquarters at the site. Construction of two new fire boats will also begin in 2005 or 2006. The Joint Training Facility to serve the Fire Department and other departments is already under construction, with completion scheduled for early 2006.

## Economic Development

Mayor Nickels has identified economic development efforts as a key to improving the City's employment base and revenue sources. The 2006 Budget continues previous efforts in infrastructure development, permit consolidation, business retention, and job training. New initiatives are targeted to improving neighborhoods that are slated to receive significant growth, including Center City, Southeast Seattle, South Lake Union, and Northgate.

The Department of Planning and Development (DPD) and SDOT are working on a variety of developer fees to support low-income housing, open space, and transportation improvements in growing areas. Additional General Fund support is provided to DPD in the 2006 Budget to continue this work. DPD is also continuing its work on code simplification and waterfront planning.

OPM will lead work on a transit-oriented development strategy for Southeast Seattle. This will ensure land use and zoning requirements support appropriate development that will be triggered by the construction of the Sound Transit light rail line. OPM will continue its work to coordinate construction impacts in the Northgate neighborhood. The 2006 Budget also includes capital funding for transportation and drainage projects in that area.

Access to broadband technology is increasingly important for economic development and helps residents obtain information and programming. DoIT receives \$205,000 in the Budget to continue studies of this technology to see if there is vendor interest in using an expanded City-owned fiber optic network to offer broadband services. The City Council added two positions to start in mid-2006 to implement this program if attractive vendor proposals are received.

## Strong Families and Healthy Communities

This priority area covers a wide range of topics, including support for the most vulnerable populations in Seattle and efforts to build vibrant communities throughout the city. The Budget contains many initiatives in this area:

- Funding levels for direct human services are increased significantly for 2006. The largest additions include: \$1 million for the operating costs of Connections, the new homeless hygiene center located on Third Avenue; \$350,000 to maintain homeless shelter bed capacity while beginning the shift to fund transitional housing called for in the 10-Year Plan to End Homelessness; \$294,000 for a variety of programs to improve services for residents of South Park; \$275,000 to increase funding for community health clinics; and \$225,000 of additional funding for food programs. The Fleets and Facilities Department also receives \$30,000 for operation of an emergency, severe-weather shelter in City Hall.
- The 2006 Budget reflects voter approval of the Families and Education Levy in September 2004. This Levy continues and expands the City's efforts to support children and youth, with new emphasis on readiness to learn and measurable outcomes.
- Library hours are increased at a cost of about \$961,000, which will allow all libraries to be open on Thursday evenings and will provide Sunday afternoon hours at some locations. In addition, \$1.5 million is added to increase the collections budget.

# Budget Overview

- Several community requests for park facilities are funded, including new facilities at the Maple Leaf Community Garden, the proposed Lower Woodland Skate Park, Dahl Playfield, and Denny Park.
- \$257,000 is provided to expand the hours and locations for the Late Night Recreation program, a joint effort of the Parks and Police departments.
- The Budget includes continued support for the Mayor's Race and Social Justice Initiative, including additional funding in the Seattle Office for Civil Rights.
- Additional funding is provided for two news arts initiatives. A total of \$50,000 is provided to support planning for the Alaska Yukon Pacific Centennial and to support heritage organizations. About \$150,000 is provided to continue and expand programming at City Hall, which has proven to be a popular location for performers and the public.
- The Budget includes \$284,000 to add staffing and expand hours at the Animal Shelter. This will allow the Shelter to be open seven days per week and will increase animal adoptions. An additional \$128,000 is added to restore staffing for off-leash enforcement in parks.
- The capital budget continues to fund major maintenance of City facilities, such as pools, community centers, ballfields, and Seattle Center. Funding levels comply with City policies intended to ensure that the City invests adequate amounts to keep these facilities in good condition. In addition, \$695,000 is set aside in Finance General to support the renovation of the historic Georgetown City Hall.
- Several actions in the Budget support the Mayor's Green Seattle initiative. Most notably, the Mayor signed an Executive Order requiring two-for-one replacement of any trees removed by City maintenance or development projects. Additional funds are provided to pay for this order as it affects projects at Occidental and Freeway parks. The City Council added an additional \$184,000 for tree installation and maintenance.
- About \$2.4 million is provided for the Office of Housing to support construction of low-income housing in the South Lake Union neighborhood. This funding is consistent with the policy set when the City sold property in the neighborhood several years ago.

## Utilities

Seattle City Light emerged from the short-term effects of the West Coast power crisis in mid-2004 by paying off the last of the short-term debt incurred to cover high energy costs resulting from poor water conditions and manipulation of the energy markets. New financial policies were adopted in 2005 that will gradually reduce the utility's reliance on debt to finance its capital program. The Executive will undertake a thorough review of City Light revenue requirements and rates over the next nine months, culminating in a rate proposal in early summer 2006.

The Seattle Public Utilities (SPU) Budget reflects few substantive changes from the Endorsed Budget. The Utility is continuing its asset management approach and is broadening the focus to include operational practices. This new approach has led to significant reductions in project costs and utility revenue requirements. SPU intends to submit either financial policy changes or rate proposals for all its utilities in 2006.

## Looking to the Future

Most economic forecasts suggest the regional economy will continue to improve over the next several years. If so, the City's General Fund and utility budgets should be sustainable because the 2006 Adopted Budget does not rely on any significant use of nonrecurring funds. The transportation budget will face major challenges in 2007

## **Budget Overview**

unless additional revenue sources become available. In addition, Seattle Center will continue to have revenue problems unless attendance at athletic and cultural programs returns to pre-2001 levels. The Center is working with the Mayor's Office, Department of Finance, and a citizens' committee to develop new business plans for each of its major operations to resolve this long-term issue.

Overall, the 2006 Budget represents a new direction in the City's fiscal fortunes. Economic improvements and increased efficiencies allow expansion of high-priority programs and establishment of new initiatives to reduce costs and minimize the use of debt. These steps allow City government to better serve Seattle's residents, businesses, and visitors.

# Summary Tables

## REVENUE SUMMARY BY SOURCE (in thousands of dollars)\*

### GENERAL SUBFUND

Revenue Source	2004 Actual	2005 Adopted	2005 Revised	2006 Endorsed	2006 Adopted
Total Taxes	564,305	584,620	603,214	601,098	620,103
Licenses and Permits	11,097	12,455	13,988	12,460	12,671
Parking Meters/Meter Hoods	12,107	15,635	15,202	17,165	16,995
Court Fines	17,660	16,500	15,975	16,500	15,176
Interest Income	1,964	1,291	1,795	1,591	1,545
Revenue from Other Public Entities	21,285	10,126	11,238	10,004	11,016
Service Charges & Reimbursements	38,739	40,035	40,132	37,725	38,065
All Else	691	898	1,298	940	1,260
<b>Total: Revenue &amp; Other Financing Sources</b>	<b>\$667,849</b>	<b>\$681,559</b>	<b>\$702,843</b>	<b>\$697,483</b>	<b>\$716,832</b>
Interfund Transfers	14,559	4,353	4,338	912	882
<b>Total, General Subfund</b>	<b>\$682,408</b>	<b>\$685,912</b>	<b>\$707,180</b>	<b>\$698,395</b>	<b>\$717,714</b>

\* Totals may not add due to rounding.

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2005 Adopted		2006 Endorsed		2006 Adopted	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Arts, Culture &amp; Recreation</b>						
Office of Arts and Cultural Affairs	1,820	3,742	1,856	3,557	2,013	4,186
The Seattle Public Library	36,447	41,222	37,015	40,770	40,409	43,164
Department of Parks and Recreation <sup>1</sup>	63,074	105,554	65,090	108,725	66,856	112,498
2000 Parks Levy Fund	0	20,476	0	20,235	0	20,759
1999 Seattle Center/Community Centers Fund	0	3,388	0	0	0	0
Seattle Center	8,849	36,316	10,379	36,712	10,615	36,675
<b>SubTotal</b>	<b>110,190</b>	<b>210,698</b>	<b>114,340</b>	<b>209,999</b>	<b>119,893</b>	<b>217,282</b>
<b>Health &amp; Human Services</b>						
Community Development Block Grant Educational and Developmental Services Levy	0	16,931	0	16,931	0	15,362
Human Services Department	34,634	81,507	34,897	82,695	39,249	87,288
<b>SubTotal</b>	<b>34,634</b>	<b>112,099</b>	<b>34,897</b>	<b>114,432</b>	<b>39,249</b>	<b>117,415</b>
<b>Neighborhoods &amp; Development</b>						
Office of Economic Development	5,668	5,668	5,716	5,716	5,932	5,932
Office of Housing	0	33,174	0	30,574	2,475	33,912
Department of Neighborhoods	6,838	6,838	7,038	7,038	7,342	7,342
Neighborhood Matching Subfund	3,197	3,551	3,268	3,268	3,271	3,271
Department of Planning and Development	8,251	53,474	7,848	53,949	8,931	55,357
<b>SubTotal</b>	<b>23,954</b>	<b>102,705</b>	<b>23,870</b>	<b>100,545</b>	<b>27,951</b>	<b>105,814</b>
<b>Public Safety</b>						
Criminal Justice Contracted Services	17,426	17,426	18,566	18,566	19,551	19,551
Fire Facilities Fund	0	12,324	0	19,344	0	19,344
Firemen's Pension	16,206	17,458	16,980	17,707	16,423	17,707
Law Department	12,994	12,994	13,411	13,411	14,486	14,486
Police Relief and Pension	15,345	17,558	16,082	16,382	15,807	16,772
Public Safety Civil Service Commission	116	116	119	119	120	120
Seattle Fire Department	117,597	117,597	121,001	121,001	123,107	123,107
Seattle Municipal Court	18,958	18,958	19,540	19,540	19,980	19,980
Seattle Police Department	178,702	178,702	182,750	182,750	190,270	190,270
<b>SubTotal</b>	<b>377,344</b>	<b>393,133</b>	<b>388,449</b>	<b>408,820</b>	<b>399,744</b>	<b>421,337</b>

<sup>1</sup> General Subfund figures for the Department of Parks and Recreation have been revised to reflect both the direct subsidy from the General Subfund and Charter revenues.

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2005 Adopted		2006 Endorsed		2006 Adopted	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Utilities &amp; Transportation</b>						
Seattle City Light	0	897,886	0	904,436	0	903,138
Seattle Public Utilities	2,171	576,547	2,215	581,091	2,405	581,311
Seattle Transportation	32,956	146,868	36,945	158,034	40,245	177,128
<b>SubTotal</b>	<b>35,127</b>	<b>1,621,301</b>	<b>39,160</b>	<b>1,643,561</b>	<b>42,650</b>	<b>1,661,577</b>
<b>Administration</b>						
Civil Service Commission	163	163	167	167	168	168
Department of Executive Administration	27,819	27,819	28,458	28,458	29,407	29,407
Department of Finance	3,775	3,775	3,886	3,886	3,973	3,973
Department of Information Technology	2,413	35,997	2,457	35,124	3,362	36,932
Employees' Retirement System	0	6,956	0	7,507	0	7,509
Ethics and Elections Commission	547	547	561	561	563	563
Finance General	38,831	38,831	25,193	25,193	32,375	32,375
Fleets and Facilities Department	2,295	78,045	2,480	76,477	2,695	79,967
Legislative Department	8,921	8,921	9,299	9,299	9,526	9,526
Office of City Auditor	1,016	1,016	1,043	1,043	1,048	1,048
Office of Hearing Examiner	483	483	475	475	488	488
Office of Intergovernmental Relations	1,675	1,675	1,689	1,689	1,850	1,850
Office of Policy and Management	1,640	1,640	1,685	1,685	2,027	2,027
Office of Sustainability and Environment	506	506	519	519	612	612
Office of the Mayor	2,366	2,366	2,429	2,429	2,461	2,461
Personnel Department	9,942	9,942	10,200	10,200	10,227	10,227
Seattle Office for Civil Rights	1,729	1,729	1,743	1,743	1,861	1,861
<b>SubTotal</b>	<b>104,121</b>	<b>220,411</b>	<b>92,284</b>	<b>206,455</b>	<b>102,643</b>	<b>220,994</b>
<b>Funds, Subfunds and Other</b>						
Bonds Debt Service <sup>2</sup>	30,059	56,183	35,235	61,440	32,677	58,882
Cumulative Reserve Subfund	0	36,967	0	38,452	678	61,199
Emergency Subfund	1,001	1,001	1,300	1,300	2,834	2,834
Judgment/Claims Subfund	935	14,500	935	15,500	485	15,050
Parking Garage Fund	0	7,162	0	7,368	0	6,964
<b>Subtotal</b>	<b>31,995</b>	<b>115,813</b>	<b>37,470</b>	<b>124,060</b>	<b>36,674</b>	<b>144,929</b>
<b>Grand Total</b>	<b>717,365</b>	<b>2,776,160</b>	<b>730,470</b>	<b>2,807,872</b>	<b>768,804</b>	<b>2,889,348</b>

<sup>2</sup> The amounts in the "Total Funds" column reflects the combination of the General Subfund LTGO bond debt obligation and the UTGO bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.

**POSITION SUMMARY BY DEPARTMENT \***  
(In Full Time Equivalents)

<b>Department</b>	<b>2004 Actuals</b>	<b>2005 Adopted</b>	<b>2006 Endorsed</b>	<b>2006 Adopted</b>
<b>Arts, Culture &amp; Recreation</b>				
Department of Parks and Recreation	940.72	941.75	941.36	979.44
Office of Arts and Cultural Affairs	19.85	22.10	22.10	23.10
Seattle Center	284.82	253.90	253.90	264.80
<b>Subtotal</b>	<b>1,245.39</b>	<b>1,217.75</b>	<b>1,217.36</b>	<b>1,267.34</b>
<b>Health &amp; Human Services</b>				
Human Services Department	324.35	305.10	305.10	314.85
<b>Subtotal</b>	<b>324.35</b>	<b>305.10</b>	<b>305.10</b>	<b>314.85</b>
<b>Neighborhoods &amp; Development</b>				
Department of Neighborhoods	87.00	86.25	86.25	86.50
Department of Planning and Development	370.25	374.00	374.00	394.50
Office of Economic Development	23.00	21.00	21.00	21.60
Office of Housing	43.25	41.75	41.00	41.75
<b>Subtotal</b>	<b>523.50</b>	<b>523.00</b>	<b>522.25</b>	<b>544.35</b>
<b>Public Safety</b>				
Law Department	146.10	137.60	137.60	147.60
Public Safety Civil Service Commission	1.00	1.00	1.00	1.00
Seattle Fire Department	1,117.00	1,127.05	1,125.80	1,142.80
Seattle Municipal Court	229.35	226.10	224.10	234.60
Seattle Police Department	1,823.75	1,805.75	1,805.25	1,840.25
<b>Subtotal</b>	<b>3,317.20</b>	<b>3,297.50</b>	<b>3,293.75</b>	<b>3,366.25</b>
<b>Utilities &amp; Transportation</b>				
Seattle City Light	1,778.10	1,734.10	1,743.10	1,752.10
Seattle Public Utilities	1,392.90	1,399.40	1,399.40	1,402.40
Seattle Transportation	631.50	622.50	625.00	642.25
<b>Subtotal</b>	<b>3,802.50</b>	<b>3,756.00</b>	<b>3,767.50</b>	<b>3,796.75</b>

**2006 Adopted Budget**



**POSITION SUMMARY BY DEPARTMENT**  
(In Full Time Equivalents)

<b>Department</b>	<b>2004 Actuals</b>	<b>2005 Adopted</b>	<b>2006 Endorsed</b>	<b>2006 Adopted</b>
<b>Administration</b>				
Civil Service Commission	1.60	1.60	1.60	1.60
Department of Executive Administration	238.95	232.95	232.95	245.00
Department of Finance	34.00	35.50	35.50	35.50
Department of Information Technology	190.50	191.50	191.50	203.50
Employees' Retirement System	13.50	12.50	12.50	12.50
Ethics and Elections Commission	5.20	5.20	5.20	5.20
Fleets and Facilities Department	321.50	294.50	294.50	299.00
Legislative Department	81.70	83.70	84.70	85.00
Office of City Auditor	11.00	9.00	9.00	9.00
Office of Hearing Examiner	4.90	4.90	4.50	4.50
Office of Intergovernmental Relations	11.50	10.50	10.50	10.50
Office of Policy and Management	16.00	15.00	15.00	16.00
Office of Sustainability and Environment	4.00	4.00	4.00	5.00
Office of the Mayor	23.50	22.50	22.50	22.50
Personnel Department	128.00	101.50	101.50	105.00
Seattle Office for Civil Rights	21.50	22.50	22.50	22.50
<b>Subtotal</b>	<b>1,107.35</b>	<b>1,047.35</b>	<b>1,047.95</b>	<b>1,082.30</b>
<b>Total</b>	<b>10,320.29</b>	<b>10,146.70</b>	<b>10,153.91</b>	<b>10,371.84</b>

\*Positions in Firemen's Pension, Police Relief and Pension, and the Seattle Public Library are not adopted by the Seattle City Council and, therefore are not shown.



# Children's Budget

Over the last two years, the City has developed a results-oriented investment strategy for funding programs for children and youth. The goals of this effort, called the Children's Budget, are to improve school readiness, academic achievement, and health for all children and youth, with particular emphasis on reducing disproportionate outcomes by race and income level. The key elements of the Children's Budget strategy are:

- Invest in best practices and tested programs whenever possible;
- Track the progress of children and youth toward improved academic achievement and health;
- Use the knowledge gained by measuring and monitoring to improve programs and make better decisions about how to invest in children and youth in the future;
- Coordinate budgeting and planning for children and youth programs across City departments to allow City's policy-makers to make more strategic decisions, increase efficiencies, and, ultimately, improve outcomes for children and youth; and
- Keep the public informed about how the City's children and youth are faring, and the effects of City-funded programs.

The City invests in children and youth through the budgets of five City departments: the Office of Arts and Cultural Affairs, the Seattle Public Library, the Departments of Neighborhoods, the Department of Parks and Recreation, and the Human Services Department (which also contracts with a number of public health agencies in 2006). The overall annual Children's Budget for 2006 is approximately \$29.5 million, an increase from the 2005 level of \$28.4 million. City funding sources include the General Subfund and the Families and Education Levy. The Families and Education Levy, renewed by Seattle voters in September 2004, provides \$116.8 million for children and youth for seven years. The City's proposed General Subfund commitment is approximately \$14.7 million, an amount approximately \$500,000 greater than the City's General Subfund budget contribution in 2005.

The Children's Budget is organized into five major investment areas: Early Learning, Family Involvement and Support, Out-of-School Time, Support for High-Risk Middle and High School Age Youth, and Student Health. The funding changes and examples of the programs in each investment area are provided below.

**Early Learning** – Increase both General Subfund and Levy investments, increasing the total Early Learning amount from \$3.8 million to \$5.2 million. Program elements include preschool classes for low-income children, childcare for low-income families, and preschool and childcare teacher training.

**Family Involvement and Family Support** – Continue the overall funding commitment of approximately \$4.7 million per year. Program elements include helping parents help their children to achieve academically, and helping parents, especially immigrant and refugee parents, to get basic services such as food, shelter, and clothing.

**Out-of-School Time** – Increase both General Subfund and Levy investments, increasing the total Out-of-School Time investment from \$8.4 million to \$8.9 million. Program elements include after-school activities with an academic focus for elementary and middle school students, arts training for middle and high school students, summer day camp scholarships for low-income children, and library programs for children and teens.

**Support for High-Risk Middle and High School Students** – Program elements include nearly \$3.8 million a year for case management to help teens access public services, truancy prevention to help youth at risk of dropping out of school, and counseling for high-risk middle school students.

**Student Health** – Program elements include more than \$5.3 million a year for school-based health centers and school nurses in four middle schools and 10 high schools; mental health counseling for high-risk youth; and dental care for elementary school students.



# General Subfund Revenue Overview

## City Revenue Sources and Funds – December 2005

### City Revenues

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

In 2004, general government revenue totaled approximately \$682.4 million. General government revenue is projected to total \$707.2 million in 2005 and \$717.7 million in 2006.

### City Funds

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

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

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

### General Subfund of the General Fund

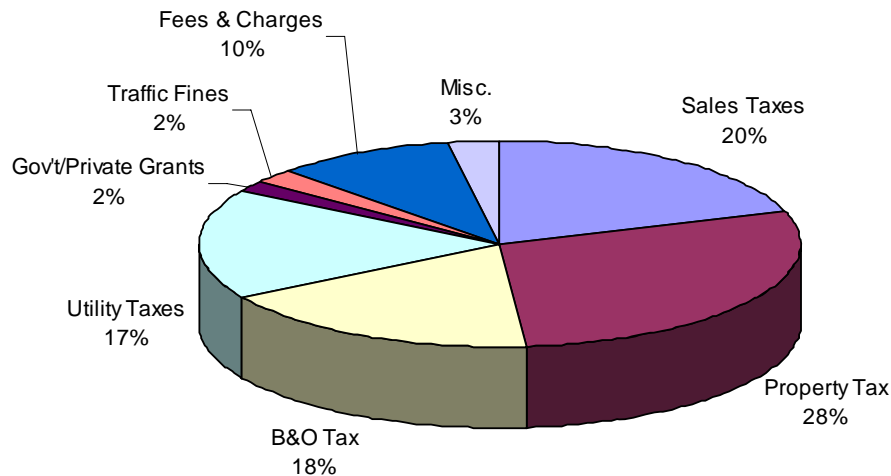
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by sales taxes, and the Business and Occupation (B&O) tax.

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

The following section describes the current outlook for the national and Puget Sound economies, followed by descriptions of General Subfund revenue forecasts for 2005-2006.

# General Subfund Revenue Overview

Figure 1. 2005-Revised General Subfund Revenue Forecast by Source - \$707.2M



## The National and Local Economy

### National Economic Conditions and Outlook

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

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

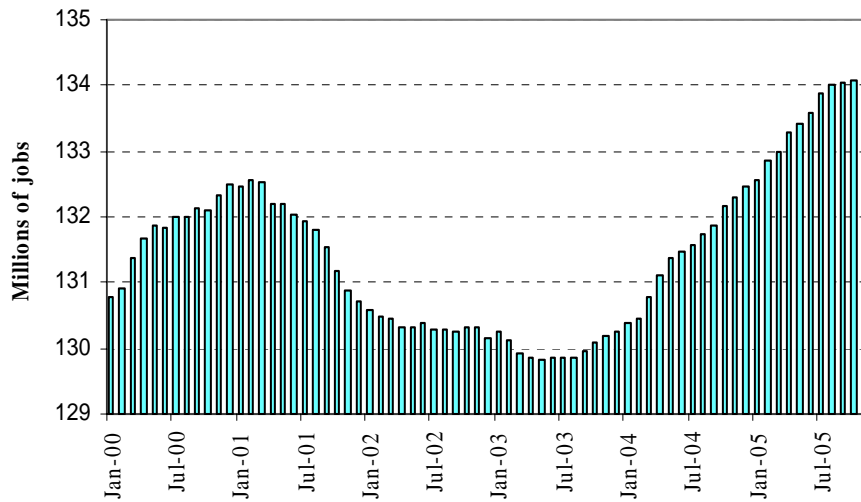
In its early stages, the recovery was led by consumer spending, which was supported by tax cuts and low interest rates, and by growth in federal government spending. Since the second quarter of 2003 business investment has been expanding, and exports have been growing at a healthy pace since third quarter 2003. Low interest rates have boosted the housing market by stimulating construction and real estate activity, and home equity withdrawals have provided further support for consumer spending.

During the first two years of the recovery, 2002 and 2003, the economy’s growth was weak and uneven. Although the recovery officially began in December 2001, employment continued to decline for the next 18 months, hitting bottom in May 2003 (see Figure 2). Other economic measures, such as gross domestic product (GDP) were largely disappointing during this period.

# General Subfund Revenue Overview

However, since the beginning of 2004, the recovery has strengthened and growth has been more stable. The economy has created an average of 175,000 jobs per month since January 2004, and GDP growth has ranged between 3.3% and 4.3% over the past eight quarters. In addition, the economy has weathered the rise in energy prices and the effects of Hurricanes Katrina and Rita surprisingly well.

**Figure 2. U.S. Employment**



Note: data are seasonally adjusted.

***The forecast is for continued growth with gradual slowing.*** The majority of economists expect the expansion to remain on track but that growth will slow gradually during 2006. Contributing to the slowdown will be higher interest rates, high oil prices, a slowing of the housing market, and the burden of high household debt. Global Insight predicts that the growth rate of Gross Domestic Product (GDP) will decline from 4.2% in 2004 to 3.7% in 2005 and 3.5% in 2006.

The economy faces a number of risks as the expansion moves forward. Perhaps the most immediate risk comes from rising energy prices. Although the economy has managed to grow at a healthy pace despite the rise in energy prices over the past 24 months, at some point high prices may cause the economy to slow significantly. This is particularly likely if energy prices cause inflation to rise, inducing the Federal Reserve to raise interest rates aggressively. Other risks to the expansion include the nation's large trade and budget deficits and the rapid escalation of housing prices. Many economists believe that housing bubbles exist in at least some regional housing markets.

## **Puget Sound Region Economic Conditions and Outlook**

***The recession hit the Puget Sound region hard.*** The national recession started in early 2001 with the deflation of the stock market bubble and a sharp decline in investment in high-technology products and services. The recession widened after the September 11 terrorist attacks, as travel-related business joined in the downturn. Because of its specialization in both high-tech and travel-related businesses, the Puget Sound region suffered more from the 2001 recession than almost any region in the nation. In early 2001, the region's economy was hit by:

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

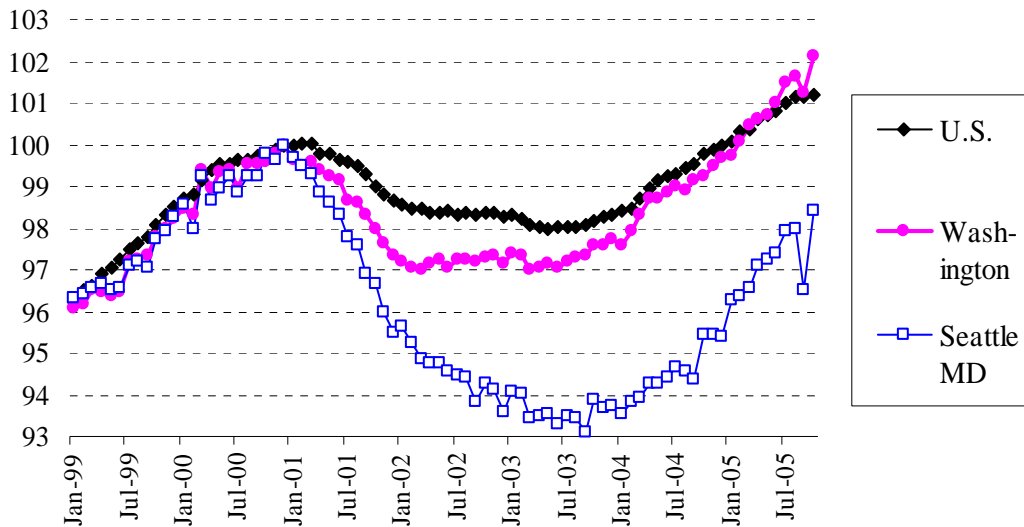
# General Subfund Revenue Overview

- A decline in household wealth driven by falling stock prices.

Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to cut back severely its projections of the demand for airliners during the next several years. Boeing announced it would reduce production by 50%, and over the next 2¾ years the company eliminated 27,200 of its Washington state jobs. This was the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Between mid-1998 and June 2004, Boeing reduced its Washington employment by 51,200.

The timing and severity of the region's recession is illustrated in Figure 3, which shows monthly employment since January 1999 for the U.S., the State of Washington, and the Seattle Metropolitan Division (MD), which includes King and Snohomish Counties. The employment data have been indexed to equal 100 in December 2000, the month of peak employment in the Seattle MD. The drop in Washington and Seattle MD employment in September 2005 is due to a strike by Boeing machinists.

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



NOTE: Data are seasonally adjusted. Seattle MD = King & Snohomish Counties.

Following several years of steady gains, employment growth began to slow in the second half of 2000, both locally and nationally, and then turned down in early 2001 (see Figure 3). Employment declines during 2001-03 were much greater in the Seattle MD than in the U.S. and Washington, as the state's recession was focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 6.9% for the Seattle MD, 3.0% for Washington, and 2.1% for the U.S. The Seattle MD's 6.9% decline reflects the loss of 97,800 jobs between December 2000 and September 2003.

Following two years of decline, regional employment more or less stabilized in 2003. With the national economy improving and Boeing layoffs slowing to a relative trickle, employment began to increase slowly beginning in early 2004, and growth picked up as the year progressed. Nevertheless, as of October 2005, Seattle MD employment was still 1.6% below its pre-recession peak, while both the nation and the state surpassed their pre-recession employment levels early in 2005 (see Figure 3).

***The Puget Sound Region is now growing faster than the U.S. and Washington state.*** As a result of improvement in the region's economy during the past year, the Seattle MD is now growing more rapidly than



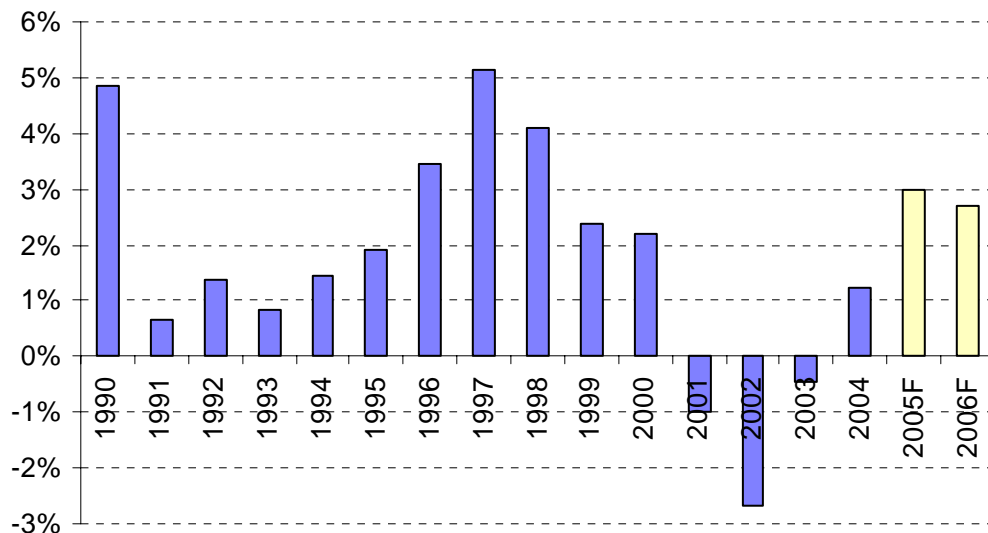
# General Subfund Revenue Overview

both the nation and the state. For the first 10 months of 2005, employment in the Seattle MD has grown at a healthy 3.1% rate, if the effects of the Boeing strike are removed from the September employment figures.

Spurring the region's recovery has been strong growth in exports, which has been stimulated by the decline in the value of the dollar over the past three years. The region's two largest firms, Boeing and Microsoft, have been leaders of the export resurgence. With its production rates rising and the need to hire for 787 development work, Boeing has increased its Washington work force by 6,900 over the past year. Microsoft has added approximately 1,400 workers locally in each of past two years, and expects to add a similar number next year. Tourism, which is an export industry because tourists spend money earned outside of the region in the local economy, is also on the upswing.

With an expanding national economy and Boeing and Microsoft hiring new workers, the region's economy is expected to continue to expand through 2006. The Puget Sound Economic Forecaster predicts employment in the four-county Puget Sound region, which is composed of King, Kitsap, Pierce, and Snohomish Counties, will increase by 3.0% in 2005 and 2.7% in 2006 (see Figure 4).

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



Note: 2005-06 forecasts are from Puget Sound Economic Forecaster.  
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

## Consumer Price Inflation

**Consumer price inflation has risen as oil prices have climbed.** The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to its lowest level since the early 1960s. However, after having fallen to a 1.3% average rate during the first half of 2002, inflation has been rising gradually. Core inflation, which excludes volatile energy and food prices, has ranged from 2.0% to 2.4% (measured on a year-over-year basis) during the past 12 months. However, the recent surge in energy prices that was exacerbated by Hurricanes Katrina and Rita pushed the overall CPI-U up to 4.7% on a year-over-year basis in September 2005. Although energy prices are expected to decline somewhat from recent peaks, no one is predicting a significant drop in prices.

## General Subfund Revenue Overview

Due to the severity of the local recession, Seattle area inflation, which was higher than national inflation in every year but one between 1990 and 2002, dropped below U.S. inflation beginning in late 2002. However, by mid-2005, local inflation had risen back to U.S. levels, largely because the region's economy had improved. Looking to the future, local economists expect Seattle area inflation to fall in the 2% - 3% range.

It should be noted that current inflation forecasts are affected by the following sources of uncertainty:

- We are in a period of rising national inflation following a period of relative stability;
- The regional economy is making the transition from decline to growth; and
- There is considerable uncertainty regarding future energy prices.

Figure 5 presents historical data and forecasts of inflation for the U.S. and Seattle metropolitan area through 2006. The forecasts are for the CPI-W, which measures price changes for urban wage and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 5 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

**Figure 5. Consumer Price Index Forecast**

	U.S. CPI-W (June-June growth rate)	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2003 (actual)	2.1%	0.9%	1.6%
2004 (actual)	3.2%	2.5%	1.3%
2005 (actual)	2.6%	2.3%	2.3%
2006	2.8%	2.8%	3.4%

The first two forecasts shown in Figure 5 measure the change in consumer prices from June of one year to June of the following year. The third forecast measures the growth rate of the Seattle CPI-W over a one year period ending in June (i.e., July – June). Because the Seattle CPI is published on a bimonthly basis, this growth rate reflects the average rate of inflation for August, October and December of one year and February, April and June of the following year.

## General Subfund Revenue Forecasts

### Revenue Overview

Figure 6 shows General Subfund actual revenues for 2004, as well as the adopted and revised forecasts for 2005, and the endorsed and adopted forecasts for 2006. For 2005, tax revenues are expected to show a strong 6.9% increase over 2004, far exceeding Seattle's inflation rate of 2.3%. The largest change stems from the B&O tax, reflecting the sharp increase that occurred in fourth quarter 2004, led by construction and finance, insurance and real estate. A strong growth rate of 8.6% for B&O is expected in 2005, with growth slowing to 5.7% in 2006. Similarly for sales tax, revenue grew sharply in fourth quarter 2004, led by retail trade, construction, and manufacturing. The sales tax forecast also calls for strong growth in 2005 that slows in 2006.

Also contributing to this large growth spurt in 2005 are the utility tax revenue increases resulting from the City Council's decision to raise the tax rate from 10% to 11.5% for water, drainage, wastewater, the City's solid waste utility, and private garbage. In addition, the water utility tax rate was increased in 2005 by an additional 4% to pay for the cost of shifting fire hydrant services from utility revenues to General Fund revenues. Customers will

## **General Subfund Revenue Overview**

not be affected because the tax rate increase is offset by a decrease in water rates (rates decreased because the water utility will no longer be paying for hydrant service costs). A similar change was made in wastewater taxes to fund public toilets. See the Public Utilities section for more detail. For private utilities, natural gas revenues are projected to increase significantly due to an increase in rates in fall 2005 that will likely be sustained through 2006. Also in 2006, an additional \$291,000 is anticipated from the City Council direction to accelerate the installment of 123 parking pay stations in areas (now free) that will be converted to pay parking.

## General Subfund Revenue Overview

**Figure 6. General Subfund Revenue, 2004 – 2006\***  
(in thousands of dollars)

Revenue Source	2004 Actual	2005 Adopted	2005 Revised	2006 Endorsed	2006 Adopted
General Property Tax <sup>(1)</sup>	178,669	182,453	183,817	186,801	187,854
Property Tax - EMS Levy	19,598	20,273	20,122	20,731	20,545
Retail Sales Tax	117,730	120,650	127,802	125,395	131,461
Retail Sales Tax - Criminal Justice Levy	11,396	11,670	12,076	12,172	12,664
B&O Tax (90%)	116,460	118,905	126,423	124,220	133,645
Utilities Business Tax - Telephone (90%)	27,940	28,700	27,850	28,700	26,000
Utilities Business Tax - City Light (90%)	31,013	30,767	31,073	31,138	32,181
Utilities Business Tax - SWU & private garbage (90%)	7,615	8,557	8,142	8,931	8,493
Utilities Business Tax - City Water (90%)	8,837	12,934	12,773	13,066	13,383
Utilities Business Tax - DWU (90%)	14,214	18,463	18,520	19,095	19,492
Utilities Business Tax - Natural Gas (90%)	9,827	9,923	11,483	9,123	11,281
Utilities Business Tax - Other Private (90%)	9,232	10,535	11,481	11,020	11,461
Admission Tax <sup>(2)</sup>	6,666	5,600	6,557	5,400	6,449
Other Tax	5,107	5,190	5,095	5,305	5,195
<b>Total Taxes</b>	<b>564,305</b>	<b>584,620</b>	<b>603,214</b>	<b>601,098</b>	<b>620,103</b>
Licenses and Permits	11,097	12,455	13,988	12,460	12,671
Parking Meters/Meter Hoods	12,107	15,635	15,202	17,165	16,995
Court Fines	17,660	16,500	15,975	16,500	15,176
Interest Income	1,964	1,291	1,795	1,591	1,545
Revenue from Other Public Entities <sup>(3)</sup>	21,285	10,126	11,238	10,004	11,016
Service Charges & Reimbursements	38,739	40,035	40,132	37,725	38,065
All Else	691	898	1,298	940	1,260
<b>Total: Revenue &amp; Other Financing Sources</b>	<b>667,849</b>	<b>681,559</b>	<b>4,338</b>	<b>697,483</b>	<b>716,832</b>
Interfund Transfers	14,559	4,353	4,338	912	882
<b>Total, General Subfund</b>	<b>682,408</b>	<b>685,912</b>	<b>707,180</b>	<b>698,395</b>	<b>717,714</b>

### NOTES:

(1) Includes property tax levied for the fire pension fund per RCW 41.16.060

(2) The 2005 Adopted and 2006 Endorsed figures reflect the net revenue of Admission tax revenue after the transfer of revenue to the Arts Fund. The 2005 Revised and 2006 Adopted figures reflect the total amount of revenue from Admission tax.

(3) Included in 2004 are the pass-through revenues that are not appropriated or forecasted.

A detailed listing of City General Subfund revenues is found in the Funds, Subfunds and Other section.

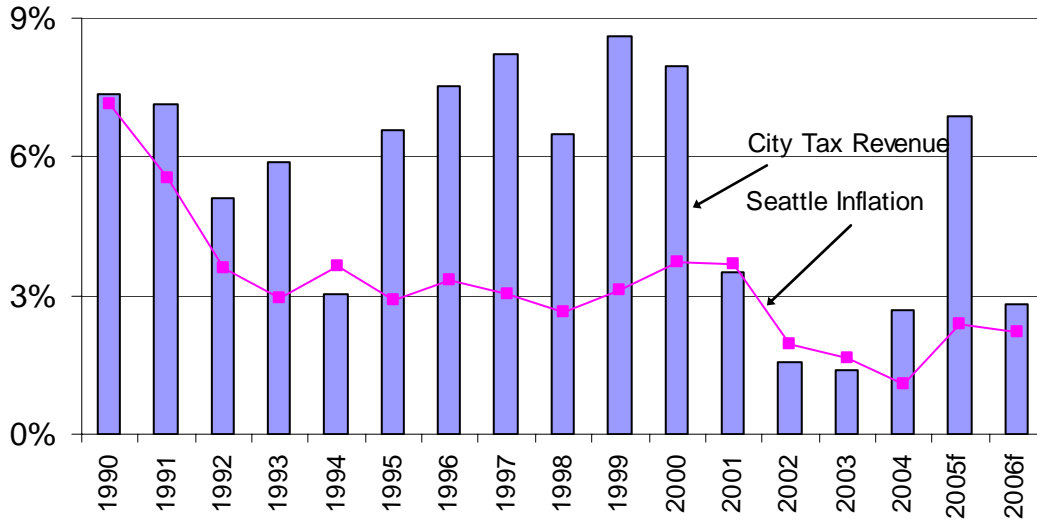
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\* Under the City Charter, 10% of certain revenues are deposited into the Parks Fund. These revenues are noted by the 90% figures above. This requirement also applies to certain license revenues.

# General Subfund Revenue Overview

Figure 7 shows how tax revenue growth outpaced inflation for most of the 1990s and 2000 before the local recession took hold. Slow growth 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. Led by the strong growth in 2004, the forecast for 2005-06 projects stronger-than-inflation growth.

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



## Property Tax

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

In 2005, the total property tax rate in Seattle is about 1.02% of assessed value (which officially is expressed as \$10.21 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$370,000 (the average assessed value for residences in Seattle), the 2005 tax obligation is approximately \$3,800.

As Figure 8 shows, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. The figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 63% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the 2004 Families and Education Levy, support various City programs and projects. In November 2003, Seattle voters approved additional property taxes to finance the building and renovation of fire stations. Collections for the \$167 million levy began in 2004 and will continue until 2012. In September 2004, Seattle voters approved a \$117 million, seven-year renewal of the Families and Education levy. This is the second renewal of the levy that was first approved in 1990.

## General Subfund Revenue Overview

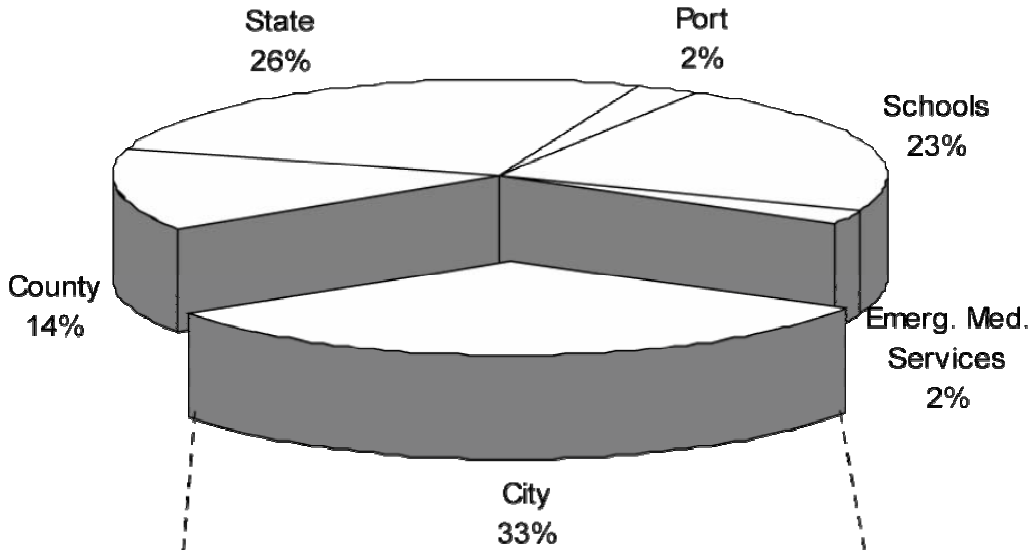
***The 2006 Adopted Budget implements a 1% growth factor for both 2005 and 2006.*** The forecast for the General Subfund portion of the City's property tax is \$183.8 million in 2005 and \$187.9 million in 2006. The annual growth in property tax revenue is restricted by state statute. Since 1973, state law limited the annual growth of the City's General Subfund non-voted property tax revenues to 6%, plus the value of the new construction. However, in November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year.

***New construction adds to City levy.*** State law permits the City to increase its General Subfund property tax revenues by more than the 1% growth limit to reflect tax on property constructed or remodeled within the last year. After several years of record-breaking new construction revenue, the forecast for 2006 reflects continued strong construction activity. It is projected that approximately \$3.5 million will be added to the property tax base in 2006 due to new construction.

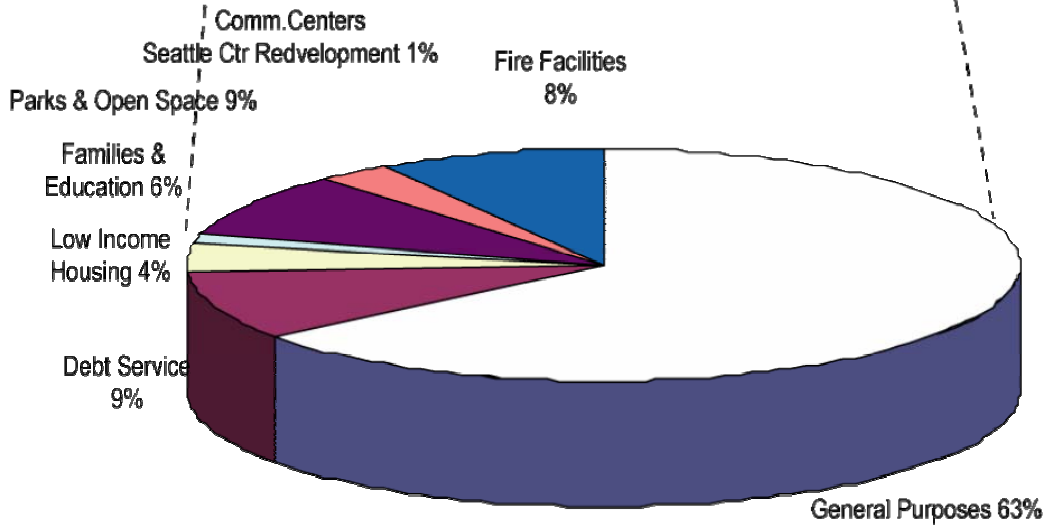
# General Subfund Revenue Overview

Figure 8.

Components of Total Property Tax Levy for 2005  
(tax rate = \$10.21 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2005  
(tax rate = \$3.35 per \$1,000 assessed value)



# General Subfund Revenue Overview

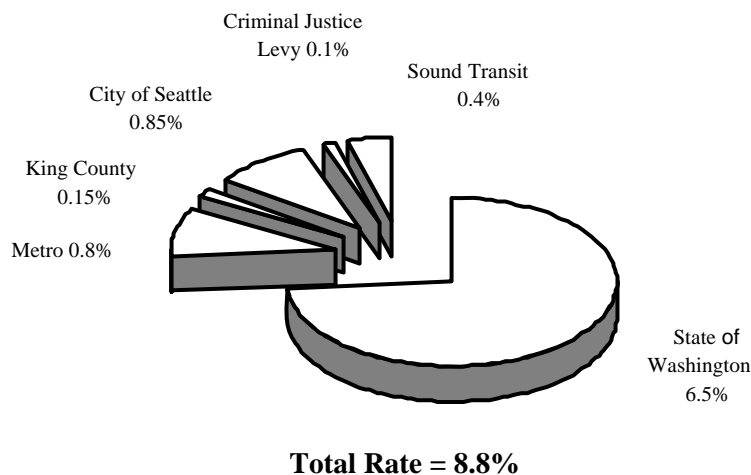
## Retail Sales and Use Tax

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

The sales tax rate is 8.8% for most taxable transactions. The rate was increased from 8.6% in April 2001, following approval by King County voters to raise the sales tax rate by 0.2% to provide additional funding for transit. The exception to the 8.8% rate is a 9.3% rate that is applied to food and beverages sold in restaurants, taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 8.8% is a composite of separate rates for several jurisdictions as shown in Figure 9. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

**Figure 9. Sales and Use Tax Rates in Seattle, 2006**



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

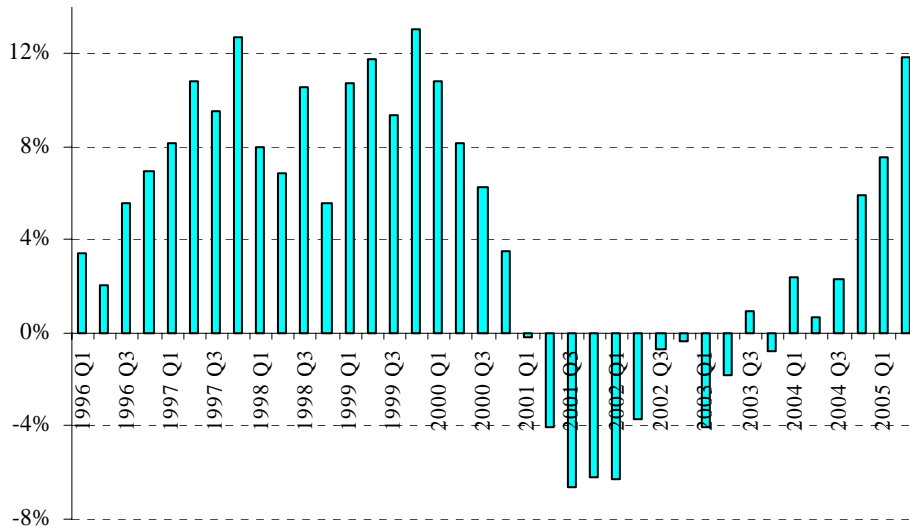
**Sales tax revenue has grown and contracted with the region's economy.** The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 10, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peaks. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, with growth rates turning sharply negative beginning in early 2001. Year-over-year growth rates were negative for 10 consecutive quarters beginning in first quarter 2001, and revenue growth remained weak through third quarter 2004. Healthy growth finally returned in the fourth quarter of 2004, as revenue increased by 5.9%. Growth continued to accelerate in the first half of 2005, led by an upswing in construction activity.



# General Subfund Revenue Overview

Reflecting the severity of the local recession, taxable retail sales in second quarter 2005 were only 1.3% above their pre-recession peak reached in third quarter 2000.<sup>1</sup> When the data are adjusted to remove the effects of inflation, taxable sales are down 9.7% from their pre-recession peak.

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

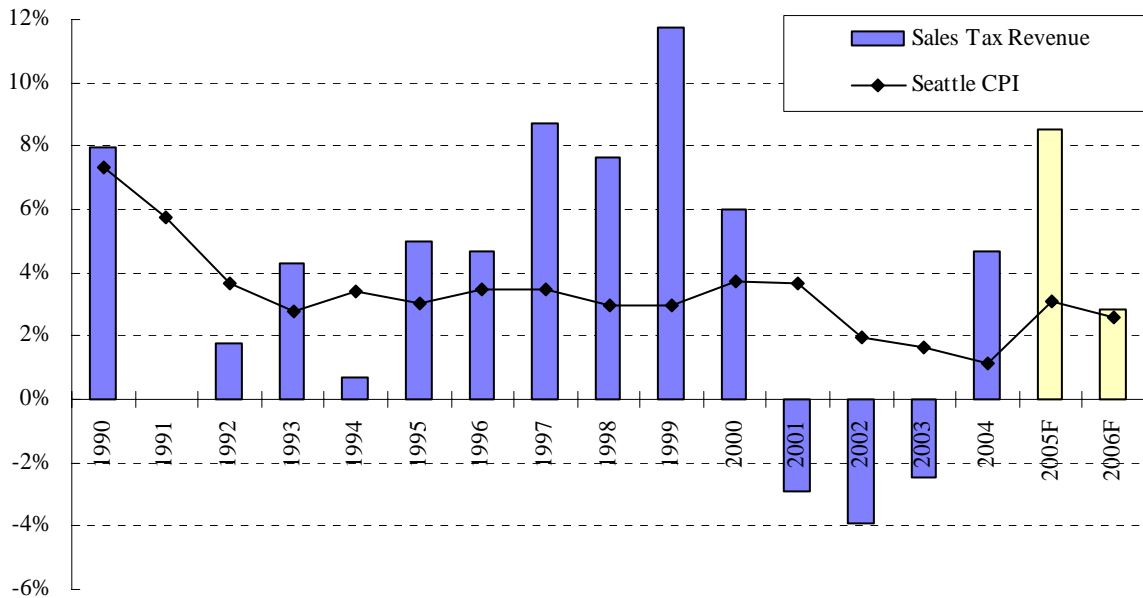


**Retail sales tax revenue is forecast to increase by 8.6% in 2005 and then slow in 2006.** In 2004, retail sales tax revenue posted its first annual increase since 2000, with a gain of 4.7% (see Figure 11). Revenue growth is expected to rise to 8.6% in 2005, due in part to construction activity for Sound Transit’s light rail line and a very large audit payment in the amount of \$1.05 million. Growth is expected to slow to 2.9% in 2006, in part because of an anticipated refund of \$1.0 million to a large taxpayer. If the 2005 audit payment and 2006 refund are excluded, growth drops to 7.7% in 2005 and rises to 4.5% in 2006.

<sup>1</sup> Based on seasonally adjusted taxable retail sales.

# General Subfund Revenue Overview

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



Note: All revenue figures reflect current accrual methods. 2005-06 are forecasts.

This relatively optimistic forecast reflects the influence of the improved regional economy and a forecast of economic growth continuing through 2006. In addition, the construction industry, which was a major drag on sales tax revenue during the recent downturn, is now expanding at a healthy pace.

## Business and Occupation Tax

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

The City levies the B&O tax at different rates on different types of businesses, as indicated in Figure 13 at the end of this section. For example, retail trade businesses are subject to a tax of 0.215% on gross receipts, while service businesses, such as accounting, are taxed at a 0.415% rate. Included in the forecast of B&O tax revenue are projections of tax refund payments and estimates of tax penalty and interest payments for past-due tax obligations.

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

***After rising strongly in the second half of the 1990s, B&O revenue growth stalled from 2001 to 2004.***

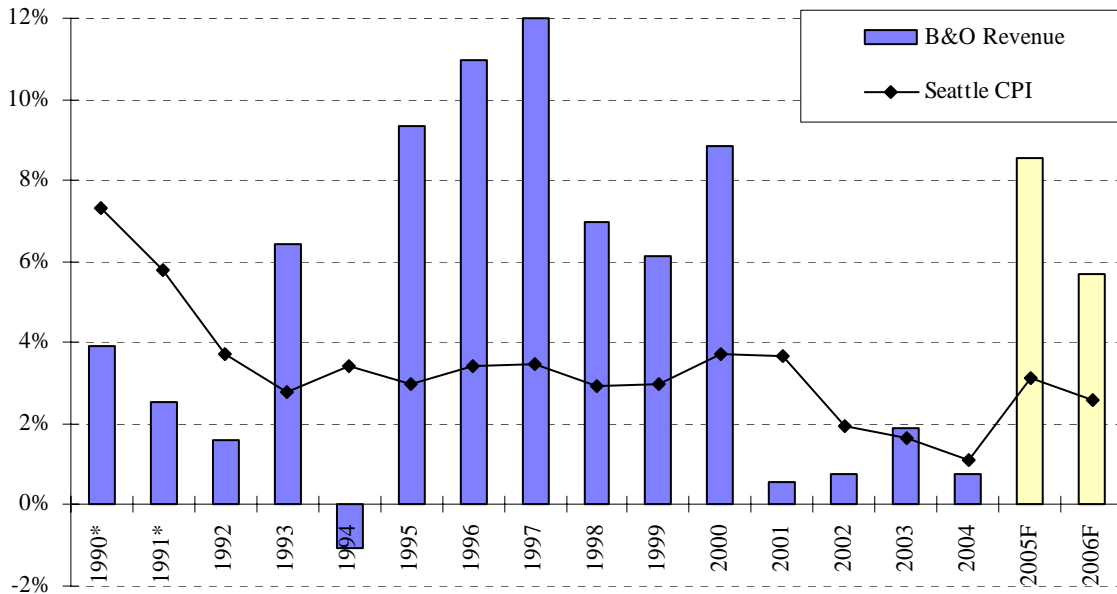
Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and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

With the economy continuing to expand, B&O revenue continued to grow at a healthy pace through 2000. In 2000 revenue was boosted by changes in the way the State of Washington taxes financial institutions, which resulted in a significant increase in City B&O tax revenue from financial institutions.

# General Subfund Revenue Overview

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was offset by a large increase in non-current revenue, which includes revenue from audit activity, refunds, penalty and interest payments, and other enforcement activity. As a result, 2001 saw an overall gain of 0.6% in B&O receipts. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base (current obligations) was offset by another large increase in non-current revenue, resulting in a small positive increase of 0.8% for the year. The strong growth in non-current revenue seen in 2001 and 2002 reversed in 2003 and 2004, as non-current revenue dropped in both years. However, the decline in non-current revenue was offset by healthy growth in the tax base, 4.0% in 2003 and 5.4% in 2004, yielding weak but positive revenue growth in both years.

**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; 2005-06 are forecasts.

***B&O revenue is forecast to grow at a healthy pace in 2005 and 2006.*** With the region's economy expanding at a healthy pace, B&O revenue is forecast to increase by 8.6% in 2005 and 5.7% in 2006. The slowdown in growth anticipated in 2006 reflects an expected slowing of both the national economy and the rate of growth of construction activity.

The B&O revenue forecast incorporates revisions the City Council made to the Executive's B&O forecast in November 2002 and November 2004 that provide additional funding for contract auditing.

## Utility Business Tax - Private Utilities

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

***Natural gas utility tax forecast is revised upward.*** The City levies a 6% utility business tax on gross sales of natural gas. Since the beginning of the West Coast energy crisis in 2000, natural gas revenues have undergone a roller coaster ride. After a decade of stable prices, rates for natural gas skyrocketed, and revenues in 2001 and

## General Subfund Revenue Overview

2002 were at record highs. Although natural gas rates stabilized somewhat in 2004, short- and medium-term supply and demand pressures have led to significant wholesale price increases and prompted Puget Sound Energy to request a rate increase effective Oct. 1, 2005. The new rates will increase consumer costs by 14.7% across all groups of customers and are expected to remain in place through 2006.

**Telephone utility tax forecast is overshadowed by federal legislation.** 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, the telecommunications 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.

The technological risks are magnified due to a strong interest by U.S. legislators to keep access to Internet connections and many forms of Internet communication free from regulation and taxation. Current federal legislation, which expires at the end of 2006, allows grandfathering of state and local taxes on telecommunications if they existed prior to Oct. 1, 1998. Although the economic outlook is currently optimistic, the City is forecasting a flat to declining trend in this revenue. In anticipation of growing business and residential adoption of new technologies and services, the City revised its forecast of \$28.7 million in 2005 and 2006, down to \$27.0 million in 2005 and \$26.0 million in 2006. At this time, however, actual receipts require an upward adjustment of \$850,000 in 2005 to \$27.8 million. The 2006 estimate remains at \$26.0 million.

**Strong growth for cable.** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 2.5% franchise fee makes funds available for cable-related public education access purposes. This franchise fee, which does not go to the General Subfund, increased to 3.5% in 2005.

In 2004, the cable utility tax generated more than \$9 million; however, payments due in 2004 were received late and booked in 2005, skewing 2005 revenues by approximately \$700,000. Cable revenues are expected to grow by more than 9% in 2005 and by 6.5% in 2006. Amid growing competition from satellite TV, the cable industry has increased its services, including additional channels, pay-per-view options, and digital reception.

### Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (City Light, water, drainage, wastewater, and solid waste). In 2004, tax rates were 6.0% for electricity and 10.0% for the other public utility services (tax rates are shown in Figure 13). In November 2004, the City Council increased the tax rates for all public utility services except electricity from 10.0% to 11.5% effective in 2005. In addition, the utility tax rate on water service was increased by 4.04% to pay for fire hydrant service costs, and the tax rate on wastewater service was increased by 0.5% to fund public toilets. These tax rate increases result in significant increases in General Subfund revenue in 2005 and 2006.

Other factors affecting the forecast of utility tax revenue are anticipated changes in the quantities of utility services consumed and the rates charged for those services. Information on utility service consumption trends and utility rates for the different public utilities is provided in the sections on Seattle City Light and Seattle Public Utilities. In addition, beginning in 2006, City-owned utilities will pay utility tax on revenue received from the sale of utility services to City of Seattle customers.

**Water.** The utility tax rate on water service increased to 14.04% on Jan. 1, 2005, and 15.54% on May 15, 2005. Largely as a result of these tax rate increases, utility tax revenue from water service is forecast to grow by 44.5% in 2005 and 4.8% in 2006.

## General Subfund Revenue Overview

The 4.04% increase in the utility tax rate for water service that went into effect on Jan. 1, 2005, pays for the cost of providing fire hydrant services. Hydrant services have been shifted from utility customers, who previously paid for hydrant services through their water rates, to the service providers who use the water. Hydrant services costs were about \$4 million in 2003, with the City of Seattle's General Fund accounting for about \$3.8 million. The impact upon customers is insignificant because the increase in costs resulting from the utility tax rate increase will be offset by lower water rates. Water rates will be lower because the water utility will no longer be paying hydrant service costs.

**Drainage and Wastewater.** Effective Jan. 1, 2005, the utility tax rate increased to 12.0% for wastewater service and 11.5% for drainage service. The extra 0.5% increase for wastewater service pays for the cost of providing public toilets. Largely as a result of these tax rate increases, revenue from drainage and wastewater service is forecast to increase by 30.3% in 2005 and 5.2% in 2006.

The 0.5% increase in the wastewater utility tax rate to pay for public toilets will not result in increased costs for wastewater utility ratepayers. In 2004, the City's wastewater utility paid for the cost of public toilets. Beginning in 2005, these costs will be paid by the City's General Fund with the revenue from the 0.5% utility tax rate increase. In both cases wastewater utility ratepayers are the source of funding for public toilet costs. However, beginning Jan. 1, 2005, the source of the revenue shifted from wastewater rates to the wastewater utility tax.

**Solid Waste.** The utility tax rate on both City of Seattle and commercial solid waste service increased to 11.5% on April 1, 2005. Largely as a result of these tax rate increases, revenue from solid waste service is forecast to increase by 6.9% in 2005 and 4.3% in 2006.

### Admission Tax

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

**Re-dedicating admission tax revenues to the arts.** In November 2000, the City Council passed Ordinance 120183, dedicating 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. This was in effect for 2001 and 2002; however, it was suspended for 2003 and 2004 due to budget constraints. The 2006 Adopted Budget reflects the Executive's proposal to reinstate the dedication of admission tax revenue to the arts account as follows: 15% in 2005, estimated at \$750,000, and 20% in 2006, estimated at \$1.02 million, excluding revenue from professional men's basketball. The forecasts in Figure 6 for admission taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs budget provides detail on the Office's use of Arts Account revenue from the Admission tax.

### Licenses and Permits

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

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

The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license is \$90 for businesses with revenues of more than \$20,000 and \$45 for businesses with revenues less than

## General Subfund Revenue Overview

\$20,000. The fee for all licenses was \$80 in 2004. This change results in an expected decline in revenue from business license fees of \$90,000 in both 2005 and 2006.

The transition to the two-tier business license, which occurred in late 2004, caused a delay in the mailing of license renewals for 2005. As a result, business license fee revenue fell 14.9% short of forecast in 2004 as payments that would normally have been received in 2004 slipped into 2005. The forecast for 2005 has been raised to reflect this.

### Parking Meters/Meter Hoods

Revenue to the General Subfund from street parking charges had been stable between 2000 and 2003. Street parking meters generated roughly \$9.7 million annually and the rental of meter hoods generated approximately \$1 million annually.

In spring 2004, after lengthy evaluation, the City of Seattle began removing traditional parking meters and replacing them with pay stations in various areas throughout the City. Pay stations are parking payment devices offering the public a more convenient array of payment options, including credit cards and debit cards, to pay for hourly street parking. Along with this switch, the City increased parking rates from \$1 per hour to \$1.50. In light of these changes, parking revenues are anticipated to increase to \$14.2 million in 2005 and \$16.0 million in 2006. The 2006 estimate includes previously unanticipated revenues (\$291,000) from 123 pay stations installed sooner than planned per Council's decision to accelerate the original installation plan. More information about the pay station technology program is provided in the Seattle Transportation section of this document.

Effective in 2004, the City increased meter hood rental fees. This revenue was forecast to increase in 2005 and 2006 to approximately \$1.4 million in each year. Due, apparently, to price related reductions in demand, this estimate is being revised downward to approximately \$1.0 million in both 2005 and 2006.

### Court Fines

Most fine and forfeiture revenue reflects payments on parking and traffic fines issued by the Seattle Municipal Court. Historically, more than 70% of these revenues are from parking fines, while much of the remaining amount comes from traffic violations. In 2003, parking ticket revenues were approximately \$12.6 million, with total fine and forfeiture revenues of \$16.0 million. Total and parking fine revenues increased significantly in 2004 to roughly \$17.6 million and \$14.8 million respectively, due to a series of events:

- parking enforcement officer positions were fully staffed;
- parking enforcement schedules were expanded to include weekends;
- the Court hired a new collection agency; and
- an amnesty program was implemented, which forgave past-due fines if outstanding tickets were paid in full.

Given the nature of some of these influences, the 2005 Adopted and 2006 Endorsed Budget projected a return to a more typical total fines and forfeitures revenue stream of \$16.5 million in both years. The 2006 Adopted forecast reduces the 2005 estimate by \$525,000 to \$16.0 million and the 2006 estimate by \$1.3 million to \$15.2 million in anticipation of reduced numbers of parking tickets as a result of enforcement and compliance changes related to the new pay station technology.

# General Subfund Revenue Overview

## Interest Income

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

The forecast for this revenue at the beginning of the biennium assumed cash balances would decline over the duration of the biennium, but interest rates and the City's overall yield would increase from their 2004 levels. Although interest rate and yield assumptions have largely held, cash balances have declined due, in large part, to transfers of cash from affiliated funds to independent funds. Current estimates for General Subfund interest earnings are \$1.8 million in 2005 and \$1.6 million in 2006.

## Revenue from Other Public Entities

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

**Criminal Justice revenues.** The City receives funding from the state for criminal justice programs, although significantly less than in previous years. This is because criminal justice assistance resources had been traditionally funded by the state from the Motor Vehicle Excise Tax, which was eliminated in 2000. Now, as provided for under the previously approved Referendum 49, the state provides more modest distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. The City should receive approximately \$2 million each year for 2005 and 2006.

**Liquor Board profits and excise tax revenue.** The City's share of Liquor Board profits increased dramatically between 2002 and 2004 (from \$3.1 million in 2002 to \$4.1 million in 2004). Original forecasts for the 2004-06 period anticipated a return to more traditional levels of around \$3.3 million each year. This estimate is being revised upward to \$4.2 and \$4.0 million in 2005 and 2006 respectively. Estimated Liquor Excise Tax revenues are also being revised upward to \$2.3 million in 2005 and \$2.2 million in 2006 from \$2.0 million in each year. In both cases, review of the underlying factors, such as liquor demand trends and Liquor Board cost controls, reveals a more robust foundation for a higher forecast.

**City General Subfund receives additional resources from Sound Transit.** The City anticipates receiving several million more in grants in both 2005 and 2006 from Sound Transit to provide services to the construction of light rail. The General Subfund will receive approximately \$2 million of these resources in both 2005 and 2006 to compensate City public safety costs accrued in support of light rail construction.

## Service Charges and Reimbursements

**Internal service charges reflect current administrative structure.** In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent of this allocation is to 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.

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

# General Subfund Revenue Overview

## Interfund Transfers

*Interfund transfers increase significantly.* Interfund transfers are payments from the balances of department-specific funds and capital project funds to the General Subfund. The 2006 Adopted Budget anticipates using approximately \$4.4 million in 2005 and \$900,000 in 2006. For 2005 there is a transfer from the Seattle Center to the General Subfund for approximately \$1 million. This transfer reflects savings from general obligation debt costs incurred for capital projects related to the KeyArena debt defeasance.

A detailed list of these transfers is included in the General Subfund revenue table found in the Funds, Subfunds, and Other section. In ratifying the 2006 Adopted Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.



# General Subfund Revenue Overview

**Figure 13. Seattle City Tax Rates**

	2002	2003	2004	2005
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>				
General Property Tax	\$2.27	\$2.20	\$2.16	\$2.12
Families & Education	0.13	0.04	0.04	0.19
Seattle Center/Parks Comm. Ctr.-SC	0.21	0.10	0.10	0.02
Parks and Open Space	0.32	0.31	0.30	0.30
Low Income Housing	0.01	0.05	0.04	0.04
Fire Facilities	0.00	0.00	0.30	0.28
Emergency Medical Services	0.25	0.24	0.24	0.23
Low Income Housing (Special Levy)	0.10	0.11	0.10	0.10
City Excess GO Bond	0.28	0.36	0.31	0.31
<b>Retail Sales and Use Tax</b>	0.85%	0.85%	0.85%	0.85%
<b>Business and Occupation Tax</b>				
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%	0.4150%
<b>City of Seattle Public Utility Business Taxes</b>				
City Light	6.00%	6.00%	6.00%	6.00%
City Water	10.00%	10.00%	10.00%	14.04-15.54%*
City Drainage	10.00%	10.00%	10.00%	11.50%
City Wastewater	10.00%	10.00%	10.00%	12.00%
City Solid Waste	10.00%	10.00%	10.00%	10-11.50%**
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>				
Cable Communications (not franchise fee)	10.0%	10.0%	10.0%	10.0%
Telephone	6.0%	6.0%	6.0%	6.0%
Natural Gas	6.0%	6.0%	6.0%	6.0%
Steam	6.0%	6.0%	6.0%	6.0%
Commercial Solid Waste	10.0%	10.0%	10.0%	10-11.5%**
<b>Franchise Fees</b>				
Cable Franchise Fee	2.5%	2.5%	2.5%	2.5%
<b>Admission and Gambling Taxes</b>				
Admissions tax	5.0%	5.0%	5.0%	5.0%
Amusement Games (less prizes)	2.0%	2.0%	2.0%	2.0%
Bingo (less prizes)	10.0%	10.0%	10.0%	10.0%
Punchcards/Pulltabs	5.0%	5.0%	5.0%	5.0%

\*The 15.54% rate was effective May 15, 2005

\*\*The 11.5% rate was effective April 1, 2005