

## Reader's Guide

This reader's guide describes the structure of the 2008 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 2008 Adopted Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2008-2013 Adopted Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the 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 2008 Adopted Budget

This document is a detailed record of the spending plan for 2008. It contains the following elements:

- Budget Overview – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor's priorities;
- Summary Tables – a set of tables that inventory and sum up expected revenues and spending for 2008;
- 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;
- Performance Measures – A sample set of measures are included from the measures the City collects monthly. The data is used to evaluate progress, resource allocation, and problem solving in priority areas;
- 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 2008 Adopted Budget and 2008-2013 Adopted Capital Improvement Program were developed;
- Departmental Budgets – City department-level descriptions of significant policy and program changes from the 2008 Endorsed Budget, the services provided, and the spending levels adopted to attain these results;
- Appendix – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a Position Modifications report, listing all position modifications contained in the 2008 Adopted Budget; 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;
- Health & Human Services;
- Neighborhoods & Development;
- Public Safety;
- Utilities & Transportation;
- Administration; and
- Funds, Subfunds, and Other.

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

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

As indicated, the 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 a subfund in the Transportation 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 2008 Endorsed Budget to the 2008 Adopted Budget.

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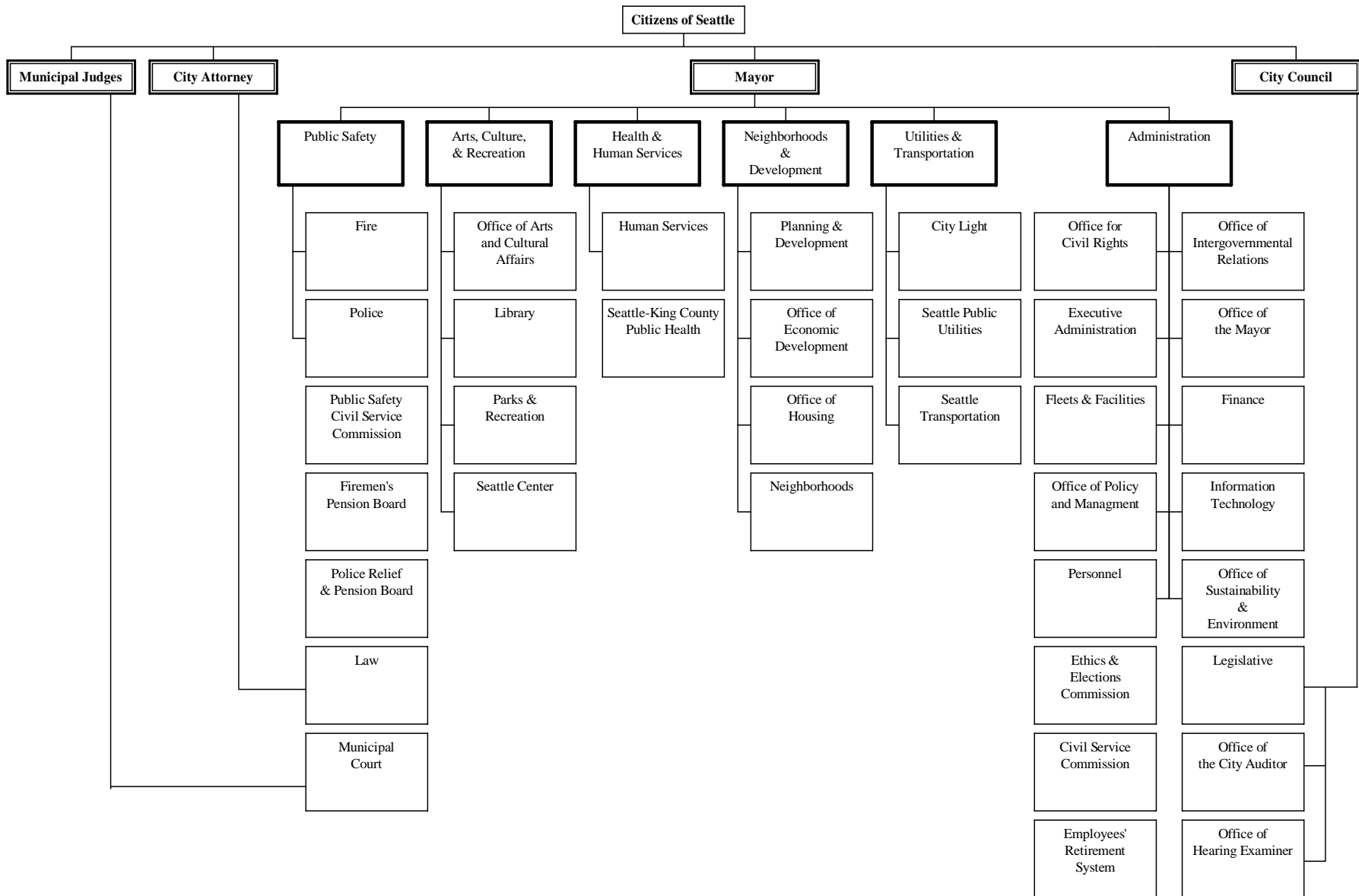
All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as endorsed and adopted appropriations for 2008. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes adopted in the budget have been compiled in a separate report entitled, "Position Modifications in the 2008 Adopted Budget." Position modifications include abrogations, additions, reclassifications, and status changes (such as a change from part-time to full-time status), as well as adjustments to departmental head counts that result from transfers of positions between departments.

For information purposes only, an estimate of the number of staff positions to be funded under the Adopted Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2008.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2006 through 2008; a statement of fund balance; and a statement of 2008 appropriations to support capital projects appearing in the 2008-2013 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2008-2013 Adopted Capital Improvement Program document.

# City Organizational Chart



# Budget Overview

The City of Seattle's 2008 Adopted Budget continues to focus on the major priorities established by Mayor Greg Nickels and the City Council, including public safety, transportation, neighborhood enrichment, climate protection, and customer service. The Budget reflects the strong economy of the Puget Sound region and resulting increases in revenues to many City funds. The General Subfund budget totals \$926 million and the overall budget totals \$3.51 billion.

2008 is the second year of the 2007-2008 budget biennium. Thus, the 2008 Adopted Budget is based on the 2008 Endorsed Budget approved in November 2006. Budgets for many City functions reflect only technical changes, such as higher wage adjustments and lower-than-anticipated health-care costs. Substantive budget changes reflect either nondiscretionary items, such as changes in debt service costs or contractual agreements, or funding increases for high-priority programs.

The General Subfund includes revenues and expenditures associated with traditional city government functions, such as police protection, fire suppression, emergency medical services, libraries, and major portions of the budgets for parks, human services, and transportation. The 2008 Adopted Budget for the General Subfund was based on a five-year projection of future revenues and expenditures. Ongoing budget additions were designed to fit within projected revenues, with room to accommodate the 85 additional police patrol officers by 2012 called for in the neighborhood policing plan. Other General Subfund budget changes were one-time items intended to increase efficiency or improve customer service. Finally, the General Subfund transferred \$6.2 million to the Revenue Stabilization Account ("Rainy Day Fund"), which is a reserve for use in the next economic slowdown, bringing it to a total of \$21.1 million.

## Responses to Budget Challenges

The 2008 Adopted Budget describes solutions to two budget problems identified, but not resolved, when the 2008 Endorsed Budget was approved in 2006.

- 1) This Budget reflects a partial replacement for the Business and Occupation (B&O) tax revenues expected to be lost beginning in 2008. In 2003, the State Legislature passed House Bill 2030, which is now codified in Chapter 35.102 RCW. The main purpose of this law was to create more uniformity among city B&O taxes through a model ordinance. This purpose was supported by both cities and business organizations. However, Section 13 of the bill was added over the opposition of cities. This section changed how income for certain businesses is calculated for tax purposes and became effective in 2008. In November 2005, at the Legislature's request, in November 2005 the State Department of Revenue (DOR) completed a study of the fiscal effects of this change. Using 2004 figures, DOR estimated that cities would lose approximately \$23.3 million of revenue annually, with the effect on Seattle being a loss of \$15.6 million. Projecting this to 2008 yielded a loss to Seattle of about \$21.9 million. Independent analyses by Seattle's Department of Finance produced projected losses of the same magnitude, although there is a wide range of possible impacts depending on how businesses respond to the confusing language of the new law.

The 2008 Adopted Budget reflects legislation approved by the Mayor and City Council creating a square footage business tax. This is modeled on a tax the City of Bellevue has imposed for many years. Under this legislation, the only businesses that would pay any square footage tax would be those affected by the changes under State law described previously. Further, no business would pay more tax on its activities than would have been the case under previous (2007) tax law. Thus, some businesses will pay the same total tax as under previous law, some will pay less, but none will pay more. The new square footage business tax is expected to raise approximately \$18.6 million in 2008, resulting in a net revenue loss of about \$3.3 million.

In addition, the Mayor proposed and the City Council approved raising the threshold below which business are not subject to the B&O tax from the previous level of \$50,000 to a new level of \$80,000.

# Budget Overview

This change reflects the effects of inflation since the last time the threshold was raised in 1994 and will simplify tax treatment for small businesses.

- 2) The Adopted Budget has the effect of shifting all the 2008 enhanced operating and maintenance costs from the Neighborhood Parks, Green Spaces, Trails, and Zoo levy lid lift to the General Subfund. This levy was approved by the voters in 2000 and provided eight years of funding for park acquisition and development, plus enhanced operating and maintenance programs. The Mayor does not plan to seek renewal of the levy, which leads to questions about the future of these programs, including programs for youth and seniors, enhanced tree maintenance, and additional park cleaning. Using General Subfund money for these programs in 2008 eliminates uncertainty by building the costs into the base budget for future years. In addition, it creates a fund that will be available for neighborhood park enhancement through a citizen-initiated process beginning in 2008.

## New and Expanded Initiatives

Mayor Nickels established four priorities when he took office in January 2002: get Seattle moving, keep our neighborhoods safe, create jobs and opportunity for all, and build strong families and healthy communities. The 2008 Adopted Budget continues to focus on these priorities, which are generally consistent with goals identified by the City Council in budget priority resolutions. Most of the new or expanded initiatives are concentrated in five areas: public safety, transportation, neighborhood enrichment, climate protection, and customer service.

### Public Safety

Public safety is a basic responsibility of city government. In mid-2007, Mayor Nickels presented his neighborhood policing initiative, which includes a plan to add 154 additional patrol officers between 2005 and 2012, revise precinct and beat boundaries to reflect population and crime trends, and change shift schedules to have more officers available during periods of peak demand. The Adopted Budget reflects the 20 additional officers included in the Endorsed Budget. In addition, to enhance public safety, funds are added for the following actions:

- Police Department emphasis patrols downtown and in southeast Seattle, begun in 2007, will continue throughout 2008. The department receives \$612,000 for this work.
- The Police Department and Seattle Department of Transportation (SDOT) will install and monitor an additional 24 red light cameras throughout Seattle at high-accident locations, with a particular focus on intersections with pedestrian safety issues. Costs for maintaining six cameras implemented in 2006 and installation and operation of the 24 new cameras will be about \$1.8 million in 2008, which is expected to be covered by the resulting revenues from violations. The six cameras installed in 2006 have been shown to reduce red light running and the severity of crashes. The City Council added more funding for other pedestrian safety improvements, including sidewalks and a public education campaign.
- The Parks Department will deploy a team of six park rangers in Center City parks to provide park security and customer assistance, at a cost of \$462,000. In addition, cameras will be installed in four parks (likely Cal Anderson, Hing Hay, Occidental, and Steinbrueck) and environmental design changes (such as new lighting) will be added to enhance security, at a total cost of \$850,000.
- The Fleets and Facilities Department (FFD) will conduct a site search for a new location for the North Precinct Police Station. The existing station is far too small and its location does not allow for expansion. The existing building will be inadequate to house the additional officers that will be added over the next five years. The Adopted Budget includes \$705,000 for this effort. In addition, the Adopted Budget includes \$300,000 for FFD to examine options to rebuild or relocate the Harbor Patrol facility on Lake Union, which is currently housed in an aging structure.

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The 2008 Budget completes the plan to have four-person crews on all engines by adding 15 firefighters at three stations. The Fire Department also receives additional funding for medical training, firefighter wellness, and apparatus replacement.

Emergency preparedness is a major component of the City's overall public safety strategy. The City Council added \$500,000 to the 2008 Budget for development of continuity of business plans by City-funded human services agencies.

## Transportation

Seattle voters approved the "Bridging the Gap" property tax levy lid lift in November 2006. This will provide about \$52 million of new revenue for transportation projects in 2008, when combined with new taxes on parking and employee hours that started in July 2007. These sources will fund a wide variety of projects, including street repaving, sidewalk construction, bridge seismic improvements, bike trails, and new street signs.

The 2008 Adopted Budget also adds new money from the General Subfund and Real Estate Excise Tax (REET) for a variety of projects, including:

- Existing neighborhood-based project funds receive an additional \$2 million. The City has had a Neighborhood Street Fund process for several years in which neighborhood councils select small projects throughout the city. About \$1.2 million is available for this year and the Adopted Budget shifts another \$500,000 to this fund from a set-aside for citizen-initiated capital projects, many of which requested transportation improvements. Bridging the Gap includes \$1.5 million annually for somewhat larger scale projects, and the Mayor proposed and the City Council approved adding \$1.5 million of General Subfund money to this program in 2008. Most of the additional \$2 million will go to sidewalk or other pedestrian-focused projects selected by neighborhoods.
- The new South Lake Union line of the Seattle Streetcar, which began service in December 2007, is funded in the 2008 Adopted Budget. Funding is also added to continue planning other streetcar lines, for a total expense of \$375,000.
- A new project on Linden Avenue North receives \$800,000. Several new developments are being built in this area. The funds will cover design of a new street and sidewalks and initial implementation of some components of the project. Additional funding will be needed for construction in 2009 and beyond.
- The 14<sup>th</sup> Avenue South Street reconstruction project in the South Park neighborhood will be fully funded with an additional \$500,000. This project will rebuild the main commercial arterial in South Park and address longstanding drainage problems.

In addition, the 2008 Adopted Budget continues the City's work to replace the Alaskan Way Viaduct and Seawall. In mid-2007, the City Council called for the development of an urban mobility plan to examine options for replacing the Viaduct. The City, King County, and the State of Washington agreed on a series of "early implementation" projects that do not depend on the ultimate design of the new transportation system on the central waterfront. The City continues to work with the U.S. Army Corps of Engineers on design and construction of components of the north seawall. The City's portions of all of these projects are funded in the 2008 Adopted Budget using a combination of General Subfund money, bond proceeds, and external grants.

## Neighborhood Enrichment

Seattle is blessed with vibrant and diverse neighborhoods. About 10 years ago, many neighborhoods created neighborhood plans to identify desired land use and development changes. Many subsequent City investments, including new or remodeled community centers, libraries, and parks, have been made in response to neighborhood plans.

# Budget Overview

Seattle's recent growth means some of the neighborhood plans are outdated. The 2008 Adopted Budget includes approximately \$1.5 million and 10 staff to begin updates of neighborhood plans. Of this, about \$717,000 and four staff are new, with the remainder coming from existing budgets and positions.

The 2008 Adopted Budget includes many new investments in neighborhood programs and projects. In addition to the neighborhood parks fund and the transportation improvements previously described, these include:

- The Office of Housing receives \$3.5 million for another project using the "Housing First" strategy, which focuses on providing housing for chronically homeless individuals and is expected to reduce public costs in the long run. The \$3.5 million will help fund 40 permanent supportive housing studio apartments for chronically homeless people. Accelerating the funding to 2008 will allow the project to be completed a year earlier. In addition, the City Council added \$1.15 million to support development or preservation of multi-family low-income housing.
- The Rainier Beach youth strategy is continued in 2008 at a cost of \$261,000. This strategy started in 2007 using one-time funds. The Human Services, Neighborhoods, Parks, and Police departments all have roles in this program, which has proven successful in providing constructive opportunities for youth in southeast Seattle.
- The Seattle Public Library receives \$2 million more for its collections budget.
- The skatepark master plan will receive \$365,000 to implement next steps. This will fund a new "skate spot" at Dahl Playfield and small facilities known as "skate dots" in several locations. Another \$800,000 is provided to complete development of the skatepark at Seattle Center.
- Development of a trail around Lake Union will begin with a \$1 million appropriation. Parts of the trail already exist and the City owns considerable right-of-way that could be developed to add to the trail. A Lake Union trail has been identified as a desired project in several studies and would serve the growing communities in Eastlake, Fremont, Queen Anne, and South Lake Union. The \$1 million is intended as a challenge grant to the Parks Foundation and other potential funders. The Mayor proposes to ask history teachers in Seattle schools to use the trail as a class project to study the area's tribal, maritime, and commercial history, with a final name for the trail to be chosen through a contest among students.
- The west wing of Building 30 at Magnuson Park will be remodeled at a cost of \$2.7 million. This continues the City's commitment to restore facilities at the former Sand Point Naval Air Station for use by artists and other community groups. This money will not be spent until decisions are made about several other proposed projects at Magnuson Park.
- The Parks Department receives \$500,000 for expansion of community center operating hours. The Department will study options and recommend the best use of these funds in mid-2008.
- An additional \$300,000 is added to the Parks Department to replace trees in city parks toppled during the December 2006 windstorm.
- The Parks Department receives \$200,000 to continue to plan for replacement of the Rainier Beach community center.
- The Parks Department also receives \$192,000 to restore the "Hat" in Oxbow Park. The "Hat and Boots" gas station was a famous Seattle roadside icon which fell into disrepair in the 1990s. The Boots were restored in 2005, but the Hat has not been restored yet.



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- The Human Services Department (HSD) receives \$1 million to support expansion or relocation of dental clinics run by International Community Health Services and Puget Sound Neighborhood Health Centers. These funds will be released by HSD only when detailed business and financial plans are completed.
- HSD also receives funds to expand several human services programs, most notably \$400,000 to expand food and meals programs.
- A program is included in City Light's budget to gradually move electric utilities underground along major streets. City Light has done such projects on an intermittent basis for decades but has not had a formal program. Undergrounding reduces the likelihood of outages due to storms or accidents, and also provides aesthetic benefits. The Mayor proposes to phase-in a program that will have an annual budget of about \$15 million.

In 2007, the Seattle School District announced it would sell five surplus school sites: Allen (Phinney Ridge), Crown Hill, Fauntleroy, University Heights, and Webster (Ballard). These buildings house a variety of community organizations. The District later decided to keep the Webster School site for a few years but continues to want to sell the adjoining property, which is currently leased to the City for a park. The 2008 Adopted Budget includes \$7 million as challenge grants for the community organizations to assist them in purchasing the buildings from the District. In the case of Webster, \$1 million is provided to purchase the park. The Adopted Budget also includes funds to continue to support community organizations in developing plans for some of the schools.

Arts are also a part of a vibrant community culture. The 2008 Adopted Budget includes \$936,000 in new investments in arts programs and cultural facilities, including expanded operating support for arts education (\$100,000), Civic Partners (\$150,000), History Link (\$50,000), the Central District Forum for Arts and Ideas (\$50,000), the 911 Media Arts Center (\$50,000), and small opportunities (\$36,000). Capital support is provided for Arts West (\$150,000) and Town Hall (\$150,000) through the purchase of services related to these projects. Funding is also provided for the centennial of the Alaska-Yukon-Pacific Exposition (\$200,000). In a separate action, the Mayor proposed and the City Council approved legislation to amend the City's lease with Benaroya Hall Music Center (BHMC), which operates City-owned Benaroya Hall on behalf of the Seattle Symphony. The City refinanced debt related to the Hall in 2004 and the legislation reduces BHMC's "concession payment" (equivalent to rent) for several years to reflect this savings.

## Climate Protection

Seattle is a national leader in the campaign to reduce greenhouse gas emissions. Mayor Nickels hosted a national climate protection summit in Seattle in November 2007, headlined by former President Bill Clinton. The 2008 Adopted Budget continues the City's commitment to climate protection in two new ways.

- Funds are added to the Office of Sustainability and Environment to pursue two initiatives started in 2007. The Seattle Climate Action Now program, which is designed to help residents reduce greenhouse gas emissions from homes and vehicles, receives \$309,000. The Seattle Climate Partnership, a program to identify best practices and provide technical assistance to businesses and other employers, receives \$150,000 for implementation. The Partnership will also receive funding from grants and is expected to become its own nonprofit organization within about two years.
- A new \$4 million Green Building Revolving Fund is established in FFD to make cost-effective investments in City-owned facilities that will also reduce carbon dioxide emissions. Specific investment projects will be chosen by a committee of senior City officials after review of proposals from departments. The Fund is intended to be a revolving fund in which budget savings are recaptured by the program and allocated to new projects. Some projects that may qualify for funding include replacement lighting in the Seattle Municipal Tower, new boilers in the Charles Street shops, and heat pumps for fire stations.

# Budget Overview

The City will also continue its commitment to a “green fleets” program by purchasing additional hybrid vehicles. The parking enforcement unit in the Police Department will experiment with an electric vehicle and bicycles as alternatives to the current gas-powered scooters.

## Customer Service

Good customer service is critical to responding to the needs of Seattle’s residents. The 2008 Adopted Budget includes \$500,000 to explore opportunities for customer service improvements, which might eventually lead to implementation of a new 311 system, as has been done in several other cities around the nation. 311 is intended to be a single number to call to access many City services, such as reporting abandoned vehicles, identifying power outages, or seeking information about licensing requirements. The need for improved customer service became apparent during the December 2006 windstorm when the City had to give out a wide range of phone numbers for different purposes.

Departments are making other investments to improve customer service. Most notably, based on lessons learned from last winter’s windstorms, the 2008 Adopted Budget includes \$5 million for City Light to develop a new emergency operations center and \$3.9 million to develop an outage management system, which will provide better information about power outages and ensure faster and more targeted response.

The 2008 Adopted Budget also includes \$5.5 million to fund the initial phase of City Light’s new Asset Management Program, which will be implemented over a five-year period. This new program will allow City Light to reduce the likelihood and duration of power outages, while prioritizing its capital projects and efficiently scheduling work of SCL’s maintenance crews based on the condition of the utility’s vital assets.

## **Future Challenges**

The 2008 Adopted Budget reflects the strong economic environment in the Puget Sound region, which has now fully recovered from the recession earlier in the decade. This has created the opportunity to restore many of the valuable programs cut previously and to make new investments in high-priority areas.

The City is likely to face new funding demands in the next five years. The additional police officers endorsed by the Mayor and City Council will have an incremental cost of at least \$8 million by the time the positions are fully in place in 2012. A new North Precinct Police Station and jail (which may be required if King County cannot house city prisoners by 2013) will each be very expensive, and if the costs are financed using City debt, annual appropriations in excess of \$10 million may be needed.

The owners of the Seattle Sonics basketball team have threatened to leave the city unless they get a new taxpayer-funded arena. The team’s lease at Seattle Center’s KeyArena runs through 2010, although the team’s owners may seek to leave earlier. The 2008 Adopted Budget includes \$1 million to retain legal counsel to enforce the lease if necessary.

The most significant challenge would be a recession that would reduce sales and B&O taxes and other revenues, such as electricity sales and parks rentals. As noted above, the 2008 Adopted Budget appears to be sustainable if moderate economic growth continues, but the Budget is likely not sustainable during a recession. This is the reason the Budget adds \$6.2 million to the Revenue Stabilization Account to provide more reserves in the case of a recession.

## Summary Tables

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

#### TOTAL CITY RESOURCES

Revenue Source	2006 Actual	2007 Adopted	2007 Revised	2008 Endorsed	2008 Adopted
Taxes, Levies & Bonds	1,029,110	1,096,785	1,115,889	1,060,248	1,091,767
Licenses, Permits, Fines & Fees	138,558	146,155	153,374	151,538	161,081
Interest Earnings	136,574	143,803	144,205	154,423	153,039
Revenue from Other Public Entities	148,120	114,216	123,413	226,667	135,407
Service Charges & Reimbursements	1,199,289	1,204,701	1,174,346	1,195,239	1,214,437
All Else	358,019	377,826	411,449	397,825	431,270
<b>Total: Revenue &amp; Other Financing Sources</b>	<b>\$3,009,671</b>	<b>\$3,083,485</b>	<b>\$3,122,676</b>	<b>\$3,185,940</b>	<b>\$3,187,001</b>
Interfund Transfers	210,566	255,569	270,411	248,887	269,455
Use of (Contribution To) Fund Balance	(31,672)	103,688	158,681	153,493	197,280
<b>Total, General Subfund</b>	<b>\$3,188,564</b>	<b>\$3,442,742</b>	<b>\$3,551,768</b>	<b>\$3,588,320</b>	<b>\$3,653,735</b>

\*Totals may not add due to rounding.

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2007 Adopted		2008 Endorsed		2008 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	2,382	6,561	2,340	6,354	3,256	7,910
The Seattle Public Library	44,283	47,111	45,745	48,624	48,085	50,307
Department of Parks and Recreation <sup>(1)</sup>	72,329	117,525	75,088	122,478	77,967 <sup>(2)</sup>	131,976
2000 Parks Levy Fund	0	18,892	0	9,390	4,985	14,561
Seattle Center	14,162	32,794	14,239	34,157	14,995	35,978
<b>SubTotal</b>	<b>133,156</b>	<b>222,882</b>	<b>137,412</b>	<b>221,003</b>	<b>149,288</b>	<b>240,732</b>
<b>Health &amp; Human Services</b>						
Community Development Block Grant	0	13,695	0	13,540	0	14,489
Educational and Developmental Services Levy	0	16,534	0	17,575	0	17,941
Human Services Department	47,329	99,682	47,444	103,716	52,056	116,483
<b>SubTotal</b>	<b>47,329</b>	<b>129,911</b>	<b>47,444</b>	<b>134,831</b>	<b>52,056</b>	<b>148,913</b>
<b>Neighborhoods &amp; Development</b>						
Office of Economic Development	6,996	6,996	6,967	6,967	7,629	7,629
Office of Housing	2,928	37,848	953	34,801	6,620	43,803
Neighborhood Matching Subfund	3,184	3,596	3,568	3,699	3,666	3,796
Department of Neighborhoods	8,296	8,296	8,259	8,259	8,690	8,690
Department of Planning and Development	10,043	61,748	10,043	63,266	10,880	67,432
<b>SubTotal</b>	<b>31,447</b>	<b>118,484</b>	<b>29,790</b>	<b>116,992</b>	<b>37,485</b>	<b>131,350</b>
<b>Public Safety</b>						
Criminal Justice Contracted Services	20,949	20,949	21,974	21,974	22,380	22,380
Seattle Fire Department	135,812	135,812	141,555	141,555	147,217	147,217
Fire Facilities Fund	0	44,015	0	2,377	0	2,377
Firemen's Pension	16,884	17,975	17,072	18,201	19,309	20,190
Law Department	16,888	16,888	17,342	17,342	17,766	17,766
Seattle Municipal Court	25,056	25,056	25,837	25,837	25,833	25,833
Seattle Police Department	208,345	208,345	212,616	216,681	216,681	
Police Relief and Pension	16,244	16,855	16,706	17,317	18,500	19,036
Public Safety Civil Service Commission	125	125	129	129	142	142
<b>SubTotal</b>	<b>440,304</b>	<b>486,019</b>	<b>453,231</b>	<b>457,348</b>	<b>467,826</b>	<b>471,621</b>
<b>Utilities &amp; Transportation</b>						
Seattle City Light	0	916,720	0	947,369	0	1,014,131
Seattle Transportation	43,002	193,168	42,741	318,118	48,946	205,667
Seattle Streetcar	0	0	0	0	0	1,814
Seattle Public Utilities	1,109	658,510	1,214	687,544	1,124	676,396
<b>SubTotal</b>	<b>44,111</b>	<b>1,768,397</b>	<b>43,955</b>	<b>1,953,030</b>	<b>50,070</b>	<b>1,898,008</b>

2008 Adopted Budget

## Summary Tables

Department	2007 Adopted		2008 Endorsed		2008 Adopted	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Administration</b>						
Cable Television Franchise Subfund	0	0	0	0	0	6,273
Office of City Auditor	1,071	1,071	1,107	1,107	1,114	1,114
Seattle Office for Civil Rights	2,095	2,095	2,226	2,226	2,224	2,224
Civil Service Commission	202	202	209	209	210	210
Employees' Retirement System	0	8,527	0	9,469	0	9,476
Ethics and Elections Commission	597	597	616	616	625	625
Department of Executive Administration	33,577	33,577	32,889	32,889	33,280	33,280
Department of Finance	5,230	5,230	5,063	5,063	5,079	5,079
Finance General	35,925	35,925	37,182	37,182	52,226	53,606
Fleets and Facilities Department	0	108,469	0	109,737	5,596 <sup>(2)</sup>	144,702
Office of Hearing Examiner	512	512	529	529	543	543
Department of Information Technology	3,901	52,387	3,306	52,487	5,083	55,954
Office of Intergovernmental Relations	2,036	2,036	2,075	2,075	2,116	2,116
Legislative Department	11,313	11,313	11,680	11,680	11,863	11,863
Office of the Mayor	2,814	2,814	2,882	2,882	2,994	2,994
Personnel Department	12,210	12,210	12,568	12,568	12,673	12,673
Personnel Compensation Trust Subfunds	0	139,837	0	154,863	0	148,715
Office of Policy and Management	2,400	2,400	2,426	2,426	2,601	2,601
Office of Sustainability and Environment	930	930	958	958	1,441	1,441
<b>SubTotal</b>	<b>114,812</b>	<b>420,132</b>	<b>115,716</b>	<b>438,966</b>	<b>139,668</b>	<b>495,488</b>
<b>Funds, Subfunds and Other</b>						
Emergency Subfund	3,030	3,030	3,324	3,324	3,197	3,197
Judgment/Claims Subfund	1,379	15,000	1,379	15,000	1,379	19,000
Parking Garage Fund	0	7,185	0	7,420	0	7,420
Cumulative Reserve Subfund <sup>(4)</sup>	0	66,921	0	54,448	6,166	54,948
Bonds Debt Service <sup>(3)</sup>	25,423	51,769	18,510	39,823	18,551	39,864
<b>SubTotal</b>	<b>29,832</b>	<b>143,905</b>	<b>23,213</b>	<b>120,015</b>	<b>29,293</b>	<b>124,429</b>
<b>Grand Total</b>	<b>840,991</b>	<b>3,289,730</b>	<b>850,761</b>	<b>3,442,186</b>	<b>925,687</b>	<b>3,510,513</b>

\*Totals may not add due to rounding.

Notes:

- (1) General Subfund figures for the Department of Parks and Recreation reflect both the direct subsidy from the General Subfund and Charter revenues.
- (2) Includes General Subfund subsidy to Capital Improvement Projects.
- (3) The amounts in the "Total Funds" column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.
- (4) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are included in the SDOT appropriations.



## City Revenue Sources

### City Revenue Sources and Fund Accounting System

The City of Seattle expends \$2.8 billion annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in whole or in part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

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

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

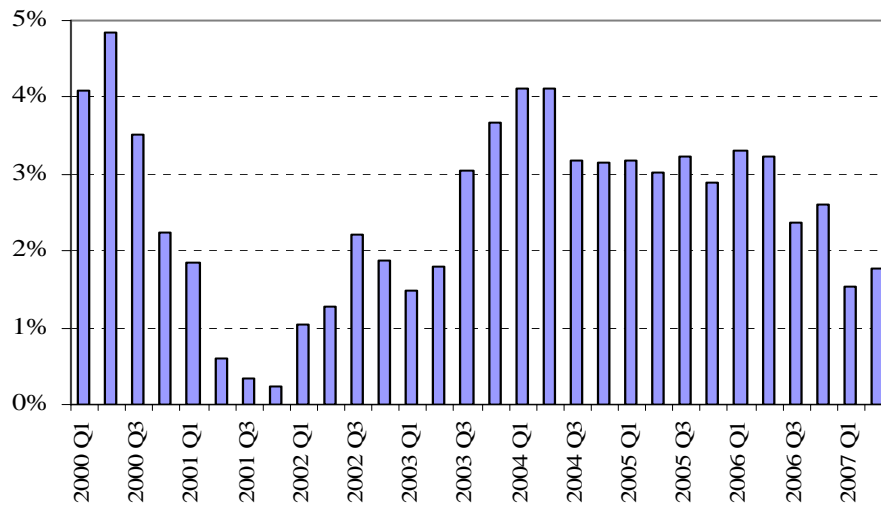
All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 56.8% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

## The National and Local Economy

### National Economic Conditions and Outlook

*The U.S. economy has slowed over the past year.* Under the pressure of a downturn in the housing market and rising energy prices, the pace of economic growth has been slowing over the past year. Real gross domestic product (GDP), which had been growing at a 3% pace, slowed to a rate of less than 2% in the first half of 2007 (see Figure 1). Employment increased by an average of 189,000 jobs per month in 2006, but during the first seven months of 2007 that pace fell to 136,000 jobs per month.

**Figure 1. Real U.S. GDP: Year-Over-Year Growth**



Source: U.S. Bureau of Economic Analysis.

Despite the slowdown, economic conditions were mixed in mid-2007. On the positive side, employment continued to grow at a healthy, though slower, pace, and income growth was healthy as well. The world economy was healthy, led by strong growth in much of Asia and improving European economy. A healthy world economy increased the demand for U.S. exports, which were also helped by a decline in the value of the dollar. Inflation, which was above the Federal Reserve’s comfort range of 1% - 2%, moderated in recent months. A final positive was the decline in the cost of gasoline from its recent peak in May 2007.

On the negative side, the housing market continues to deteriorate, and most analysts don’t anticipate a turnaround until mid-2008 or later. Problems in the sub-prime mortgage market are beginning to spread to the market for prime mortgages and to the financial markets more broadly. Consumer spending has been slowing, as consumers respond to the housing downturn and higher energy prices.

***Housing has played an outsized role in the economy since 2001.*** The Federal Reserve cut interest rates sharply during the 2001 recession and into 2002 to soften the downturn and spur a recovery, and to protect against the possibility of deflation. The very low interest rates set by the Federal Reserve stimulated the housing market by enabling buyers to afford larger mortgages. As housing became more affordable, home sales increased, home ownership rose to record levels, and prices moved upward due to increased demand. Lenders further stimulated demand by introducing a variety of creative mortgage instruments, which made it possible for many people to obtain home financing who previously would not have qualified for a loan due to poor credit histories or low incomes. Finally, the housing market received a further boost as many Americans decided that real estate was a more attractive investment than the stock market.

As the housing market flourished, it stimulated growth in industries involved in residential construction, the financing and sale of residential properties, and the sale of home furnishings, appliances, and building materials. In addition, rising home values supported an expansion of consumer spending via the wealth effect. Rising home values increase household wealth, and when people feel wealthier they tend to save less and spend more out of their current income. Rising home values also create an opportunity for home owners to extract some of their home equity via home equity borrowing or cash-out refinancing. Home equity extraction has risen sharply since the 2001 recession, reaching an estimated 8% of disposable income in 2005, before peaking in the third quarter of 2006.

In June 2004, the Federal Reserve began increasing interest rates. The Fed raised the federal funds target rate by 0.25% at each of its meetings until it reached 5.25% in June 2006. Rising interest rates led to a rise in mortgage rates which, along with rapidly escalating house prices, caused housing affordability to decline. With



## Revenue Overview

affordability declining, the national housing market peaked in the third quarter of 2005, and has been on the decline since then.

As of mid-2007, fewer new homes were being built, sales of both new and existing homes was declining, and home prices were falling in many - perhaps most - areas of the U.S. According to National Association of Realtors' data as of June 2007, sales of existing homes had dropped 20.9% over the past two years. The Case-Schiller House Price Index for 20 large U.S. metropolitan areas registered year-over-year declines in housing prices in each of the first five months of 2007.

Mortgage credit problems are escalating rapidly as both delinquencies and defaults rise. Delinquency refers to a homeowner falling behind in his or her payments, while default is the first step in the foreclosure process. Most of the delinquencies and defaults are concentrated in the sub-prime mortgage market, in which loans were made to buyers with weak credit histories or high debt levels relative to their incomes. The number of homes facing foreclosure was up 58% in the first six months of 2007, compared to the first half of 2006.

In early August of 2007, there was growing evidence that sub-prime problems were spreading to the rest of the mortgage market. For example, Countrywide Financial, the nation's largest home lender, reported rising problems with prime loans, particularly on loans in which borrowers took out a second mortgage because they couldn't afford a large down payment.

In addition to spreading to the prime mortgage market, sub-prime problems are beginning to spread to the broader credit markets as investors reevaluate their tolerance for risk. Interest rate spreads between low risk and high risk debt have been widening, and a number of corporate debt offerings have been delayed or cancelled due to the inability of lenders to obtain financing on the terms they desire.

***The forecast anticipates slow growth through mid-2008.*** The slowdown in economic growth that the U.S. economy is currently experiencing is expected to continue through at least mid-2008, largely because the housing market is not expected to turn around for another year or more. Global Insight expects the growth rate of real U.S. GDP to average 2.3% in the second half of 2007 and first half of 2008, before moving up to the 3% - 3½% range. Employment growth is expected to slow and the unemployment rate is forecast to rise to 4.9%.

As always, there are numerous risk factors that could cause growth to deviate from expectations. The ongoing risks of inflation and high energy prices have been joined by a deteriorating housing market and the fallout from that deterioration. With housing values no longer rising in much of the nation, housing's positive wealth effect on consumer spending is diminishing and home equity withdrawal is declining, reducing the support that housing has provided to consumer spending in recent years.

The fallout from the housing market includes investor losses on housing securities, and the more general impacts that the housing market is having on the financial markets. The consensus view is that the financial markets are in the midst of a correction in which the pricing of risk is returning to more normal levels, and that a serious credit crunch is unlikely. Nevertheless, economists have recently raised their forecasts of the likelihood of a recession. An August Wall Street Journal survey of 54 economists found that they had raised their estimate of the probability of a recession occurring during the next 12 months from 23% to 28% in June.

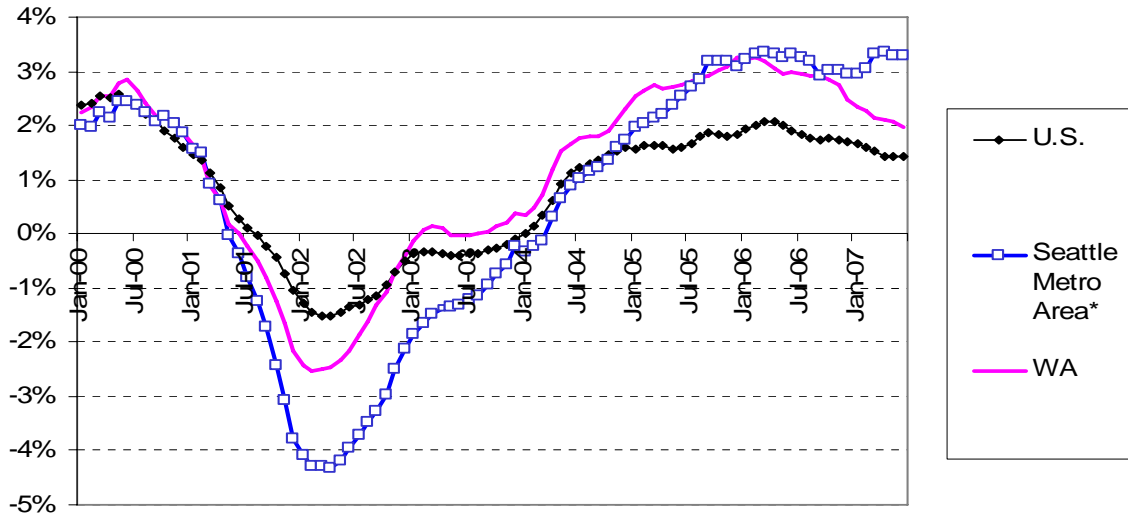
### **Puget Sound Region Economic Conditions and Outlook**

***The region is growing significantly faster than the nation and the rest of the state.*** The Puget Sound region suffered more from the 2001 recession than almost any region in the nation because of its concentration of high-tech firms, which were hammered by the deflation of the stock market bubble, and the impact on Boeing of the September 11 terrorist attacks. The sharp drop in air travel that followed September 11 created financial distress for the world's airlines and a decline in the demand for airliners. Forced to sharply reduce its production levels, Boeing eliminated 27,200 of its Washington state jobs over the next 2¾ years.

# Revenue Overview

During the recession, the region lost 97,800 jobs, a 6.9% decline, between December 2000 and September 2003. The economy improved steadily in 2004 and 2005, and has been growing at a brisk pace for the past two years. Regional employment, which has been growing at more than a 3% pace for nearly two years, is now growing at more than twice the rate of U.S. employment and significantly faster than the state (see Figure 2).

**Figure 2. Employment: Year-Over-Year Growth**

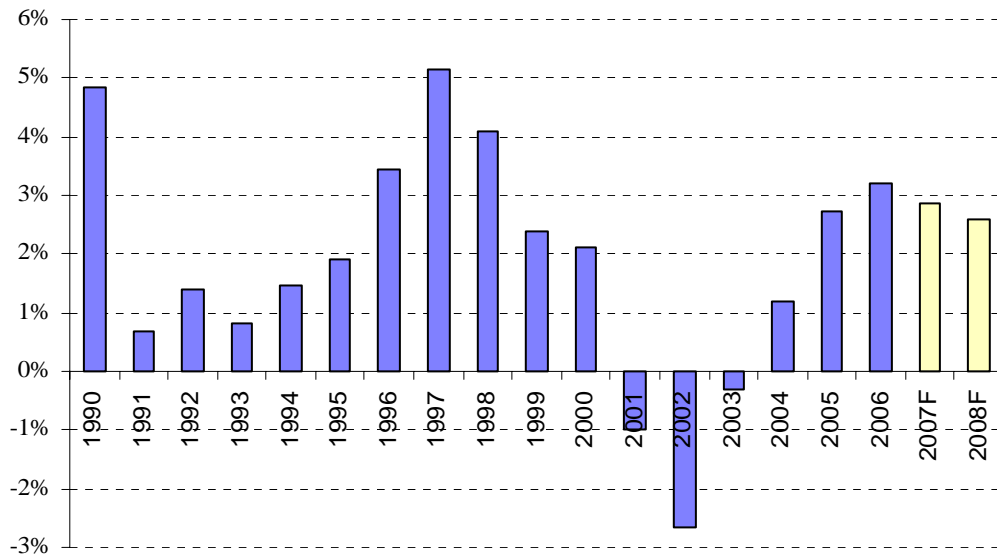


\*King & Snohomish Co. Data are 3 month moving average of seasonally adjusted non-agricultural wage & salary employment. Data adjusted for Sep-05 Boeing strike.

Contributing to the region’s healthy growth has been an upturn at Boeing and continued growth at Microsoft. With air travel growing and Airbus struggling, Boeing booked over 1,000 orders for new planes in both 2005 and 2006, and booked over 600 orders through mid-2007. Boeing added 19,000 jobs since June 2004 to support increased production rates for existing models and to conduct research and development activity for, and begin production of, its popular new 787 model. Microsoft added an average of 2,000 employees per year in the region over the past five years. To house its expanding workforce, Microsoft is expanding its Redmond campus and has leased 1.3 million square feet of office space in downtown Bellevue. Other sources of growth in the local economy include construction and professional & business services, an industry in which Seattle specializes.

***The region’s pace of growth is expected to slow.*** The region’s current expansion is expected to continue, but the rate of growth is expected to slow over time as the real estate market cools and the pace of national economic growth slows (see Figure 3). According to the Puget Sound Economic Forecaster, employment growth will gradually slow from its post-recession high of 3.2% in 2006 to 2.9% in 2007 and 2.6% in 2008. Aerospace employment is forecast to continue increasing through 2008.

**Figure 3. Annual Growth of Puget Sound Region Employment**



Note: 2007-08 forecasts are from Puget Sound Economic Forecaster.  
 Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

## Consumer Price Inflation

*Consumer price inflation has moved up and down with energy prices in recent years.* 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 falling to a 1.6% rate during 2002, inflation rose gradually to reach 3.4% in 2005, after which it dropped to 3.2% in 2006 and 2.5% during the first seven months of 2007. Much of the rise in inflation has been due to the relentless increase in energy prices that began in early 2002 and has yet to abate. Core inflation, which excludes volatile energy and food prices, has been growing more slowly than the overall CPI. Core inflation accelerated in mid-2006, reaching a peak of 2.9% in September, but it has fallen since then to 2.2% for the most recent three month period (May – July).

Due to the severity of the local recession in 2001-03, 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 and remained lower until mid-2006. However, inflation has picked up as the regional economy has improved and, since June 2006, local inflation has been running higher than national inflation. Looking to the future, local economists expect Seattle area inflation to continue to outpace national inflation as the region continues to grow faster than the nation.

Figure 4 presents historical data and forecasts of inflation for the U.S. and Seattle metropolitan area through 2009. 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 4 are used as the basis of cost-of-living adjustments in City of Seattle wage agreements.

# Revenue Overview

**Figure 4. Consumer Price Index Forecast**

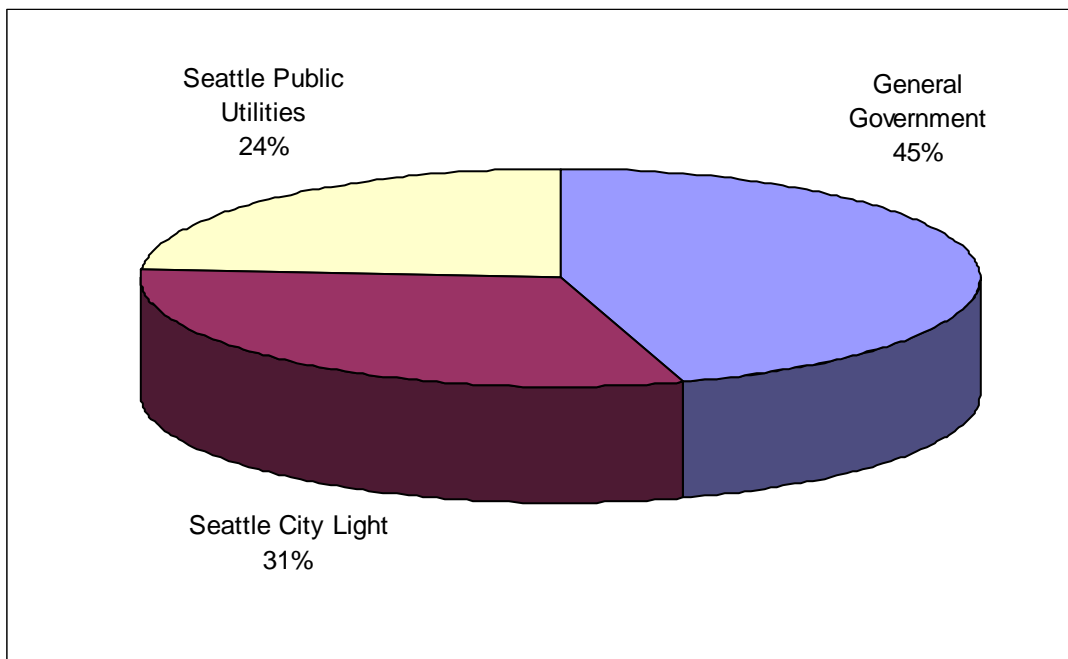
	U.S. CPI-W (June-June growth rate)	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2006 (actual)	4.5%	4.6%	3.4%
2007 (actual)	2.7%	3.3%	3.8%
2008	2.3%	2.9%	3.4%
2009	2.3%	2.6%	2.7%

The first two forecasts in Figure 4 measure the change in consumer prices from June of one year to June of the following year. These changes are for the U.S. and the Seattle metropolitan area, respectively. 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.

## City Revenues

The City of Seattle projects total revenues of approximately \$2.82 billion in 2008. As figure 5 shows, approximately 55 percent of these revenues are associated with the City’s utility services, Seattle City Light and Seattle Public Utilities’ Water, Wastewater, and Solid Waste divisions. The remaining 45 percent are associated with general government services, such as police, fire, parks, and libraries. Bond dollars are included in the total numbers. The following sections describe forecasts for revenue supporting the City’s primary operating subfund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City’s Bridging the Gap Transportation program in the Transportation Fund.

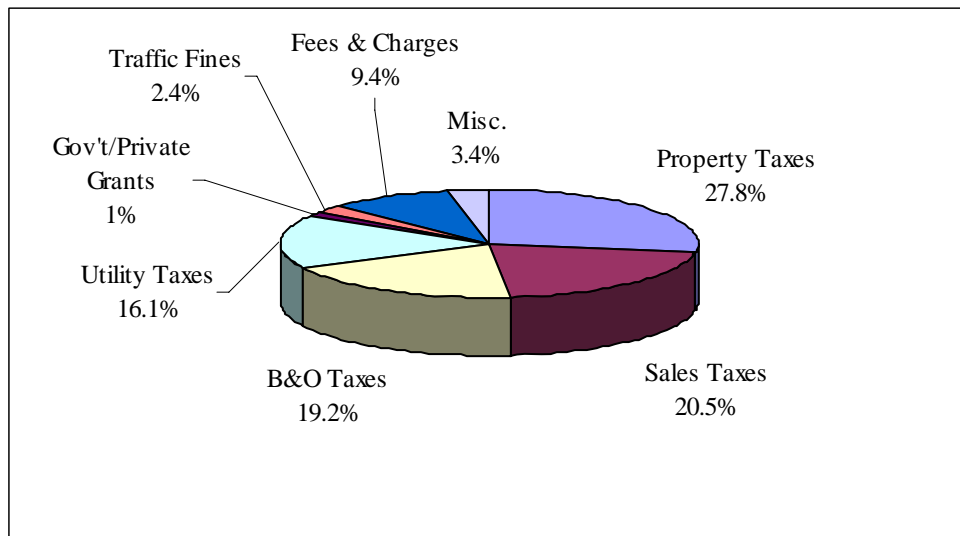
**Figure 5. Total City Revenue by Use – 2008 Projected \$2.82 Billion**



## General Subfund Revenue Forecasts

Expenses assigned to the General Subfund are supported primarily by taxes. As Figure 6 illustrates, the most significant revenue source is the property tax, which accounts for 27.8%, followed by sales taxes and the Business and Occupation (B&O) tax.

**Figure 6. 2008-Adopted General Subfund Revenue Forecast by Source - \$842.9M**



## Revenue Overview

In 2006, general government revenue into the General Subfund totaled approximately \$769.5 million. General Subfund revenue was projected to total \$814.3 million in 2007 and \$842.9 million in 2008. A portion of the growth from 2006 to 2007 was a result of reclassifying revenues to the General Subfund that previously were deposited in other funds.

Figure 7 shows General Subfund actual revenues for 2006, adopted and revised revenues for 2007, as well as the endorsed and adopted revenues for 2008. Tax revenues grew by a robust 7.5% in 2006 and are forecasted to grow by 5.5% in 2007 and 4.0% in 2008. The main drivers of these growth rates are the B&O and sales taxes. Revenues from the B&O tax for 2006 were 13.1% higher than 2005, with expected growth slowing to 6.1% in 2007. The adopted 2008 forecast includes the effect of changes in state law that could reduce City B&O tax revenues by \$20 million in 2008, but includes the square footage business tax designed to mitigate that loss. These changes, along with an increase in the small business exemption threshold, comprise a 3.1% growth rate for 2008. Sales tax revenues, led by construction, hotels, and retail sales, experienced 6.4% growth in 2006, and are expected to show 9.2% and 3.8% growth for 2007 and 2008 respectively.

Other factors contributing to strong tax growth are sizable increases in drainage/wastewater rates charged by Seattle Public Utilities (SPU) to its customers. Because of these rate increases, 2007 tax revenues from the drainage/wastewater fund were forecasted to grow by 8.2% over 2006. SPU's retail water sales are doing better than originally forecast. Water tax revenues were expected to grow by 6.3% for 2007, with negligible change in 2008. Natural gas revenues continue to perform well largely due to increased rates charged by Puget Sound Energy, even though PSE requested a significant rate decrease beginning fall 2007, somewhat mitigated by a small increase in rates expected in early 2008.

## Revenue Overview

Parking pay stations have seen strong growth in revenues and this trend is expected to continue. The City will install more pay stations over the next few years, particularly in the South Lake Union area where pay stations became operational in late summer 2007. As a result, City revenue from parking fees will continue to grow. The City has also recently installed 6 red light cameras and has plans to install 24 more throughout the City. The 2007 forecast for this revenue stream is \$1.13 million and, due to the installation of more cameras, \$3.6 million in 2008.

Finally, beginning in 2007 certain revenues the City received from patrons of the Key Arena were deposited in the General Subfund rather than the Seattle Center Fund. These revenues partially offset Key Arena debt service expenses which became the obligation of the General Subfund in 2007.

The overall picture for the City's revenue sources is a positive one. Economic activity has been growing at a steady pace and the local real estate market has so far been spared the housing troubles plaguing the national market. Jobs are being continually added to the area and the population has been growing as a result. The local economy has continued to diversify, removing many of the risks associated with a contraction in the aerospace, international trade, or software industries. Consumer and business confidence levels nationally have remained above the level needed to be considered expansionary, but just above. If either the housing, job, or retail markets in the Seattle area start to slip, it could result in a cascade effect that would begin to chip away at the revenue sources of the City government and the broader health of the local economy.

# Revenue Overview

**Figure 7. General Subfund Revenue, 2006 – 2008\***  
(in thousands of dollars)

Revenue Source	2006 Actual	2007 Adopted	2007 Revised	2008 Endorsed	2008 Adopted
General Property Tax <sup>(1)</sup>	188,884	194,918	196,035	199,452	200,685
Property Tax - Medic One Levy	20,814	21,185	21,508	21,856	33,793
Retail Sales Tax	139,391	147,805	152,196	154,558	157,951
Retail Sales Tax - Criminal Justice Levy	13,121	13,856	14,347	14,490	14,868
B&O Tax (90%) <sup>(2)</sup>	147,593	150,582	156,646	158,932	161,471
Utilities Business Tax - Telephone (90%)	28,746	26,035	29,010	25,733	27,590
Utilities Business Tax - City Light (90%)	31,404	29,617	31,203	30,188	30,231
Utilities Business Tax - SWU & priv.garb. (90%)	8,696	9,493	9,154	10,073	9,880
Utilities Business Tax - City Water (90%)	16,117	15,514	17,124	16,346	17,103
Utilities Business Tax - DWU (90%)	19,727	21,291	21,349	22,031	23,352
Utilities Business Tax - Natural Gas (90%)	13,853	14,980	14,748	14,339	14,068
Utilities Business Tax - Other Private (90%)	12,834	11,952	13,266	12,231	13,184
Other Tax	7,003	7,201	7,183	7,399	7,097
Admission Tax	4,957	4,995	5,148	4,995	5,140
<b>Total Taxes</b>	<b>653,138</b>	<b>669,425</b>	<b>688,917</b>	<b>692,624</b>	<b>716,413</b>
Licenses and Permits	12,671	12,684	14,491	12,400	12,455
Parking Meters/Meter Hoods	17,101	18,288	18,388	19,596	19,666
Court Fines (90%)	16,750	16,981	17,849	16,261	20,480
Interest Income	6,004	4,598	9,673	4,051	10,764
Revenue from Other Public Entities <sup>(3)</sup>	20,797	9,728	9,729	9,512	9,937
Service Charges & Reimbursements	41,174	45,915	47,007	46,182	47,169
<b>Total: Revenue and Other Financing Sources</b>	<b>767,635</b>	<b>777,618</b>	<b>806,053</b>	<b>800,626</b>	<b>836,884</b>
All Else	1,198	1,168	1,166	1,253	1,321
Interfund Transfers	637	2,739	3,379	937	1,119
Key Arena Revenues <sup>(4)</sup>	0	3,743	3,744	3,618	3,617
<b>Total, General Subfund</b>	<b>769,470</b>	<b>785,269</b>	<b>814,342</b>	<b>806,434</b>	<b>842,942</b>

## NOTES:

- (1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060
- (2) The 2008 Adopted figure for B&O tax includes the implementation of the Square Footage Business Tax
- (3) Included in 2006 Actual figures are the pass-through revenues that are not appropriated in adopted budgets
- (4) New revenues to the General Subfund reflecting the change in debt service obligation for Key Arena from the Seattle Center Fund to the General Subfund

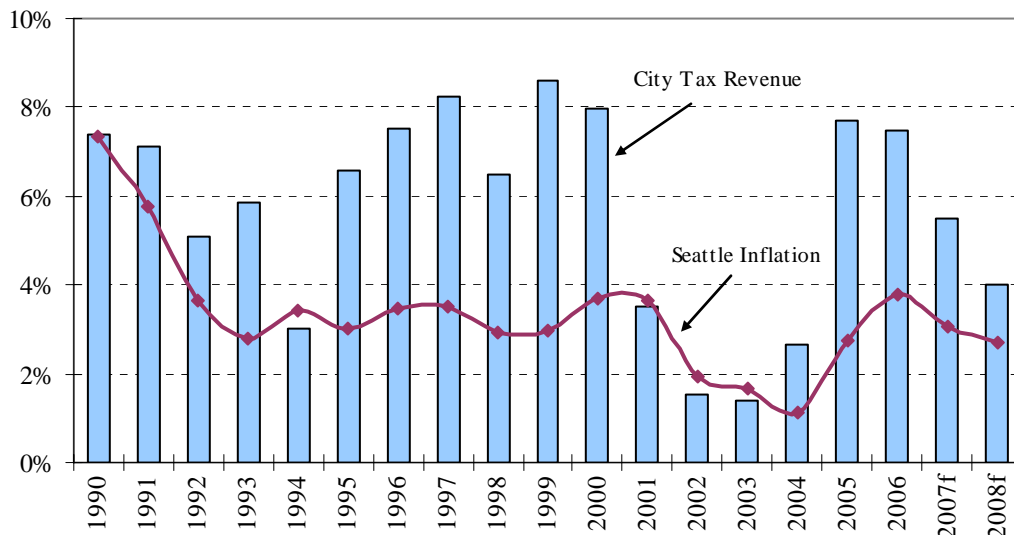
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\* Under the City Charter, 10% of certain revenues are deposited into the Park and Recreation Fund. These revenues are noted by the 90% figures above. This requirement also applies to certain license revenues.

## Revenue Overview

Figure 8 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. Economic growth starting in 2004 led to very strong revenue growth in 2005 and 2006, staying well above inflation. The tax revenue growth rate is slowing somewhat, but was still expected to maintain a strong 5.5% for 2007 and then slow to 4.0% in 2008. Overall General Subfund revenues are expected to grow 5.8% and 3.5% in 2007 and 2008 respectively.

**Figure 8. City of Seattle Tax Revenue Growth, 1990-2008**



### Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's rate applied to the value of a given property. Figure 9 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners. The King County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value.

In 2007, the total property tax rate from all jurisdictions paid by Seattle property owners was \$9.28 per thousand dollars of Assessed Value (AV). For an owner of a home with an AV of \$435,000 (approximately the average AV for residences in Seattle), the 2007 tax obligation was approximately \$4,036. The City of Seattle's total 2007 tax rate was roughly one-third of the total rate at \$3.22 -- an annual tax obligation of approximately \$1,400 for the average valued home.

Figure 9 illustrates the components of the City's 2007 property tax: the non-voted General Purpose levy (58%); the six voter-approved levies for specific purposes (34%) -- known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (8%). In November 2006, voters approved a 9 year transportation lid lift that will generate approximately \$36.2 million in 2007 and \$37.1 million in 2008. These revenues will be accounted for in the Transportation Fund and are discussed later in this section. 2007 also marked the last year of the Seattle Center/Community Centers lid lift, which raised \$72 million over 8 years (2000-2007). 2008 is the final year of the \$198.2 million, 8 year (2001-



## Revenue Overview

2008) Pro Parks or Parks for All lid lift. There were no City of Seattle proposed property tax measures (lid lifts or bonds) in 2007 that would have added to the property tax in 2008.

**Statutory growth limits and new construction.** The annual growth in property tax revenue is restricted by state statute in two ways. First, state law limits growth in the *amount* of tax revenue a jurisdiction can collect, currently the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. In November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the governor and state legislature in a special session on November 29, 2007, reenacted Initiative 747. Second, state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is \$3.60 per \$1,000 of assessed value and covers the City's general purpose levy and lid lifts. The City tax rate has been well below this cap for many years.

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

**The 2008 Adopted Budget implements 1% growth plus new construction.** New construction revenues have exceeded \$2 million since 1999, with a high of over \$5 million in 2002. For the 2007 collection year, new construction revenues were \$4.46 million. The forecast for 2008 reflects continued strong construction activity. It is projected that approximately \$4.1 million is added to the property tax base in 2008 due to new construction.

Additionally, a court settlement led to a multi-jurisdiction refund to Qwest in 2006. The City of Seattle's General Subfund share of this refund is approximately \$1.2 million. State law allows the City to recoup this refund in the following year (2007), but then deducts it from the City's base levy in the subsequent year (2008).

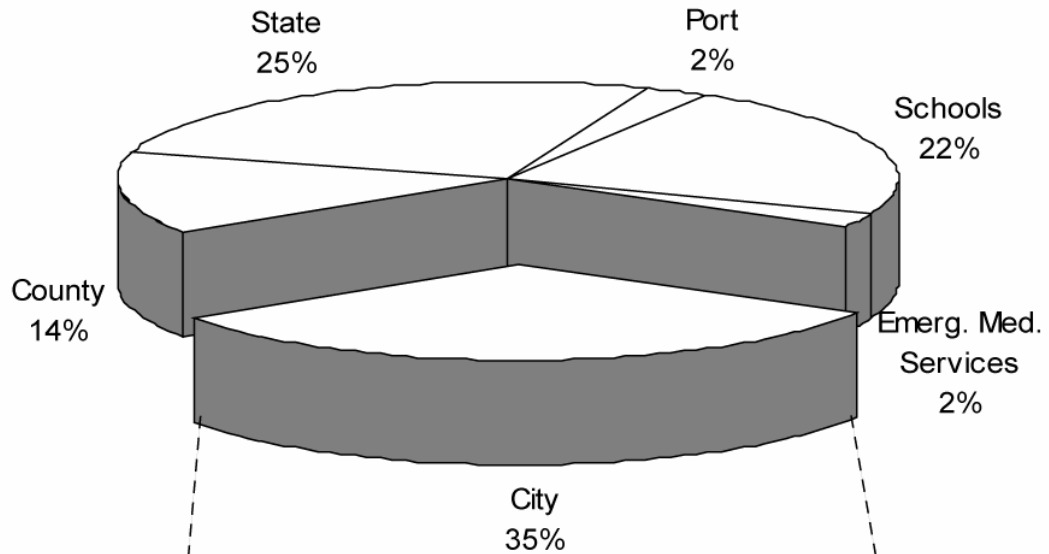
The forecast for the General Subfund (General Purpose) portion of the City's property tax is \$196 million in 2007 and \$200.7 million in 2008.

**Medic 1/Emergency Medical Services Levy assumed at a rate of \$0.30.** In November 2007, the people of King County approved a 6-year renewal (2008-2013) of the Medic 1/EMS levy. At a starting rate of \$0.30 per thousand dollars of assessed value, the levy is forecasted to generate approximately \$33.8 million for Seattle Medic 1/EMS services in 2008.

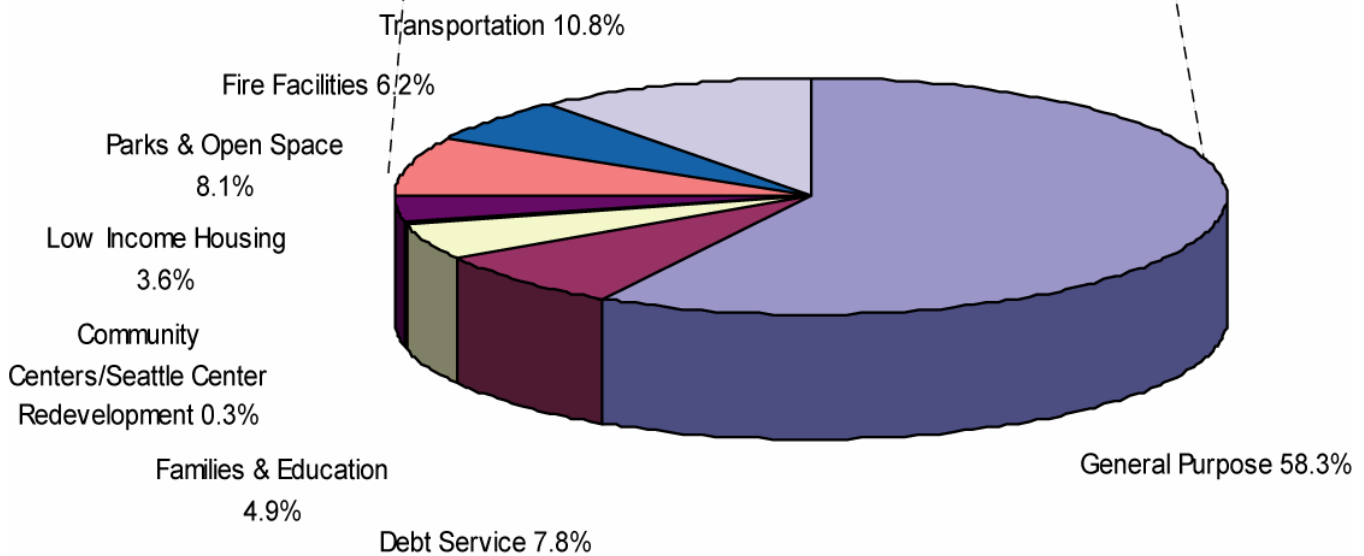
# Revenue Overview

**Figure 9.**

Components of Total Property Tax Levy for 2007  
(tax rate = \$9.28 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2007  
(tax rate = \$3.22 per \$1,000 assessed value)



# Revenue Overview

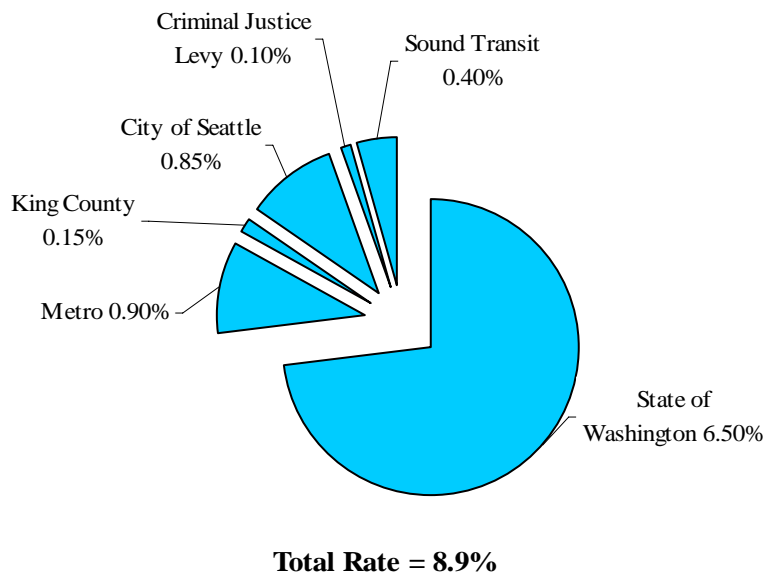
## Retail Sales and Use Tax

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 8.9% for most taxable transactions. The rate was increased from 8.8% on April 1, 2007, following the approval by King County voters in November 2006 of a proposal to raise the sales tax rate by 0.1% to provide additional funding for transit. The exception to the 8.9% rate is a 9.4% 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 8.9% is a composite of separate rates for several jurisdictions as shown in Figure 10. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

**Figure 10. Sales and Use Tax Rates in Seattle, April 1 – December 31, 2007**



NOTE: Rate is 9.4% for food and beverages sold in restaurants and bars.

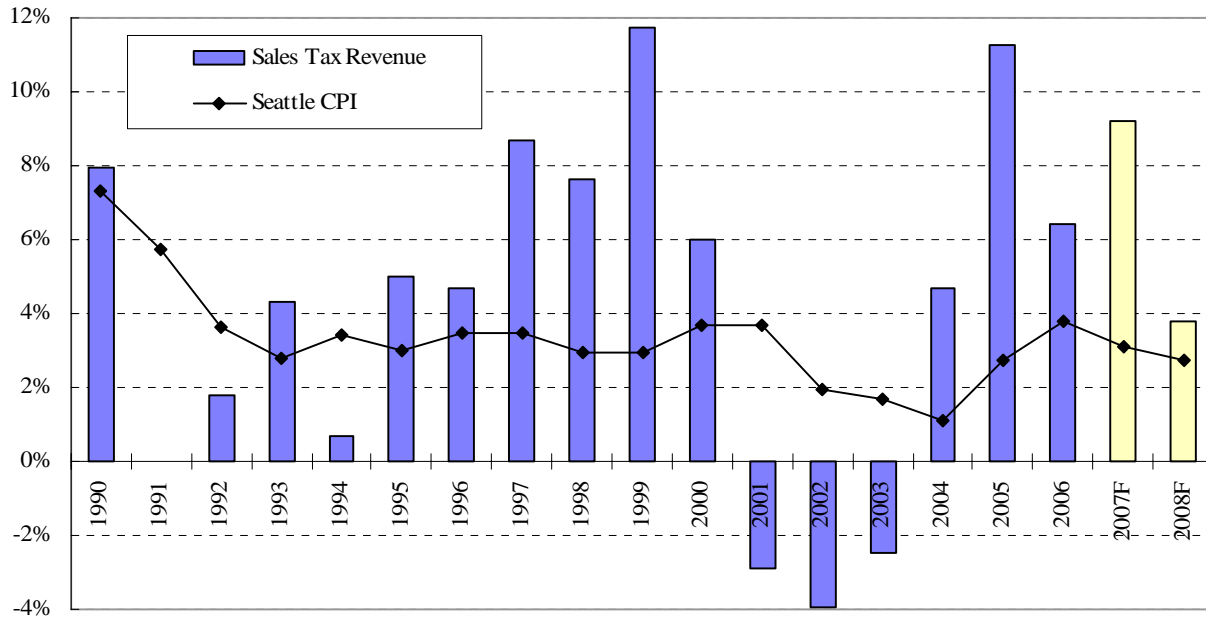
**Sales tax revenue has grown and contracted with the region's economy.** The robust economy of the late 1990s caused very strong growth in taxable retail sales in Seattle. Taxable sales growth accelerated rapidly in 1996-1997, driven by a strong economy led by aggressive expansion at Boeing, and surged again 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 did not rise above 2.4% for another five quarters.

However, beginning in fourth quarter 2004 taxable sales growth accelerated rapidly, and has averaged a robust 9.6% over the most recent ten quarters (2004 Q4 – 2007 Q1), led by construction which posted an average growth rate of 19.7%. The rate of growth of taxable sales slowed during 2006, falling to 6.1% in the fourth quarter, but it rebounded to 9.8% in first quarter 2007, led by construction's 17.1% rate. Despite the strong growth of taxable

# Revenue Overview

sales, revenue increased by only 6.4% in 2006 due to a sharp decline in non-current revenue. Non-current revenue includes audit payments and refunds associated with economic activity that occurred in prior years.

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



Note: All revenue figures reflect current accrual methods. 2007-08 are forecasts.

**Retail sales tax revenue is forecast to increase by 9.2% in 2007 and then slow to 3.8% in 2008.** The forecast of sales tax revenue reflects the expectation that the national and regional economies will slow during the fourth quarter of 2007 and weaken further in 2008. The forecast developed for the proposed budget, which was prepared in August, anticipated growth of 7.7% in 2007 and 5.2% in 2008. However, between August and November, when the forecast was updated for the adopted budget, revenue growth was stronger than had been anticipated by the August forecast. Consequently, the 2007 forecast for sales tax revenue was adjusted upward in November (see Figure 11). The forecast for 2008 was not changed because expectations for the national economy in 2008 had deteriorated significantly between August and November.

## 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 business activity, as indicated in Figure 13 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Activities taxed at the 0.415% rate include services and transporting freight for hire. Included in the forecast of B&O tax revenue are projections of tax refund and audit payments and estimates of tax penalty and interest payments for past-due tax obligations.

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

## Revenue Overview

***B&O revenue was flat from 2001 to 2004, but has grown at a healthy pace since 2005.*** Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which helped to increase B&O revenue beginning in 1996. In 2000, B&O revenue was boosted by changes the State of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% in 2001 and 2.1% in 2002. However, in both years the declines were more than offset by large gains in non-current revenue, which includes revenue from audits and other enforcement activity, refunds, and penalty and interest payments. As a result, both 2001 and 2002 saw very small increases in B&O receipts. The strong growth in non-current revenue reversed in 2003 and 2004, but overall revenue growth remained positive because revenue from current tax year obligations increased by 4.0% in 2003 and 5.4% in 2004.

Following four years of growth below 2%, B&O revenue growth jumped to 12.0% in 2005 and 13.1% in 2006, led by upswings in construction, services, finance, insurance, and real estate. 2006 revenue was boosted by a large gain in non-current revenue; the growth rate of current year tax obligations was 9.5% in 2006.

***Small business threshold is increased to \$80,000 in 2008.*** Currently the City provides an exemption from the B&O tax for businesses whose annual taxable gross revenue (gross receipts less allowable deductions) is less than \$50,000. The threshold has been \$50,000 since 1994, when it was increased from \$25,000. In 2008, the threshold was raised to \$80,000 to take account of inflation that has occurred since 1994. The mayor proposed that the threshold be adjusted annually for inflation beginning in 2009, but the City Council did not incorporate that proposal into the adopted budget.

***New procedures for the allocation and apportionment of B&O income took effect January 1, 2008.*** In 2003 the Washington legislature passed Engrossed House Bill 2030 (HB 2030), with the stated intent of enhancing municipal business and occupation tax uniformity and fairness. The bill required cities imposing gross receipts business taxes to develop a model ordinance for local B&O taxes and to adopt the mandatory provisions of the model ordinance. The bill also required those cities to adopt state B&O tax provisions for a number of administrative functions such as interest calculation and payment due dates. These changes, which were mandated to be implemented in 2003, have not had a significant impact on Seattle's B&O revenue.

However, HB 2030 also established new procedures for the allocation and apportionment of business income which took effect on January 1, 2008. Allocation and apportionment of income is necessary when elements of a taxable transaction take place in more than one jurisdiction. This can occur when an item is delivered from a business in one taxing jurisdiction to a customer in a different taxing jurisdiction, or when staff from multiple offices of a business work together on a project - and the offices involved are located in more than one jurisdiction. In such instances income must either be allocated fully to one of the jurisdictions (allocation) or split between the jurisdictions (apportionment). HB 2030 significantly changed the rules for allocating and apportioning income for both the sale of tangible personal property and the delivery of "service" activity.

For sales of tangible personal property, HB 2030 requires that income be allocated to the location at which delivery to the customer occurs. This allows a Seattle business to deduct any sales delivered to a point outside of Seattle for tax purposes. Current practices allow Seattle to tax all Seattle sales delivered within Washington unless the goods are delivered into another city with a gross receipts B&O tax which can tax the sale if nexus exists. As a result of the changes, Seattle loses its ability to tax sales of tangible personal property when delivery takes place in a Washington location that does not have a gross receipts B&O tax. The City's ability to tax sales of tangible personal property delivered into Seattle is unaffected.

# Revenue Overview

Changes to allocation and apportionment procedures for service income are more complex. The following discussion provides a general overview of how current procedures will be changed by HB 2030. Under current practices, service income is taxable as follows:

- Businesses with an office or place of business in Seattle but not elsewhere are taxable on revenue derived from services generated from or attributable to their Seattle business location unless another gross receipts B & O city taxes the transaction.
- Businesses with an office or place of business outside of Seattle but within Washington that conduct business within Seattle are subject to tax on gross income for services provided to customers in Seattle.
- Businesses with offices or places of business both within and outside of Seattle are required to apportion income to the place of business which generated the income. If this is not practical, income may be apportioned to individual offices on the basis of the cost of doing business within Seattle versus the total cost of doing business everywhere.

HB 2030 takes a very different approach to service apportionment. HB 2030 uses a two-factor formula to determine what share of a business' total service income is subject to tax by a city with a gross receipts B&O tax. The two factors, the payroll factor and the service income factor, are each given a weight of 50%. The formula for computing the amount of service income that is subject to tax by a city multiplies the service income of a business by a fraction, the numerator of which is the payroll factor plus the service income factor and the denominator of which is two. The payroll and service income factors apportion a firm's payroll and service income, respectively, among the firm's places of business and the locations of its customers.

The payroll factor measures a firm's total payroll paid within a city as a share of its total payroll paid everywhere. Payroll is assigned to specific places of business based upon where individual employees are primarily assigned. If an employee is not primarily assigned to any place of business, payroll is assigned to the location at which the employee performs more than 50% of his or her service activity.

The service income factor measures a firm's service income within a city as a share of its total service income everywhere. Service income is in the city if:

- The customer location is in the city; or
- The greater proportion of the service income producing activity is performed in the city than in any other location, based on the cost of performance, and the taxpayer is not taxable at the customer location; or
- The service income producing activity is performed in the city and the taxpayer is not taxable at the customer location.

Taxable at the customer location means that the government where the customer is located either imposes a gross receipts B&O tax or has the authority to do so, a definition which encompasses all Washington cities. Customer location is defined by HB 2030 as the location at which the majority of contacts between the taxpayer and the customer take place.

The complexity of the changes to the service allocation and apportionment procedures makes it difficult to summarize their impacts. However, it is possible to identify two changes which have a significant impact on Seattle's taxing authority:

- Under current procedures, Seattle is able to tax service income generated by a Seattle business unless it is subject to tax by another Washington city with a B&O tax. The new HB 2030 apportionment rules allow Seattle businesses to allocate at least 50% of their income to a non-Seattle location if the customer is located in another Washington city, whether or not the city has a B&O tax and regardless of where the service activity takes place.

## Revenue Overview

- Under current procedures, Seattle is able to tax the income from services delivered to customers in Seattle by non-Seattle businesses located within Washington. Under the new procedures, up to 50% of that income can be allocated to non-Seattle locations.

***HB 2030's new apportionment and allocation procedures will result in a \$21.9 million revenue loss in 2008.***

The HB 2030 allocation and apportionment procedures that took effect on January 1, 2008 will result in an estimated revenue loss for the city of Seattle of \$21.9 million in 2008. The loss will be split on a 90% - 10% basis between the General Fund and the Parks and Recreation Fund, which makes the General Fund's loss \$19.7 million.

The HB 2030 loss estimate is based on a study conducted by the Washington Department of Revenue (DOR) at the request of the State Legislature. Using 2004 tax information, DOR estimated that Washington cities would lose \$23.3 million, of which Seattle's loss would be \$15.6 million. Independent estimates by the Seattle Department of Finance yielded loss estimates of a similar magnitude, though there are a wide range of possible outcomes depending upon how businesses respond to the new requirements. DOR estimated that the losses would be distributed as follows:

\$3,424,000	Construction industry
\$8,100,000	Wholesaling tax class
\$4,040,000	Service tax class
\$1,000	Retailing tax class

The estimate of \$21.9 million for 2008 was developed by updating DOR's 2004 estimate to 2008 by accounting for the growth of the tax base and inflation.

***Seattle implemented a square footage business tax beginning January 1, 2008.*** In response to the expected loss of \$21.9 million in B&O tax revenue resulting from the imposition of HB 2030's apportionment and allocation procedures, the Mayor proposed a new floor area, or square footage, tax that was implemented on January 1, 2008. The only businesses that will pay the square footage tax are those that receive a tax reduction as a result of the new allocation and apportionment procedures. The tax is structured so that no business will pay more tax on its activities than would have been the case under existing (2007) tax law. Some business will pay the same tax as they would under current law, others will pay less, but none will pay more.

Floor area will be taxed at two different rates. Business floor space, which includes office, retail, and production space, will be taxed at 39 cents per square foot per quarter. Other floor space, such as warehouse, dining, and exercise space, will be taxed at 13 cents per square foot per quarter. The tax rates will be adjusted annually for inflation.

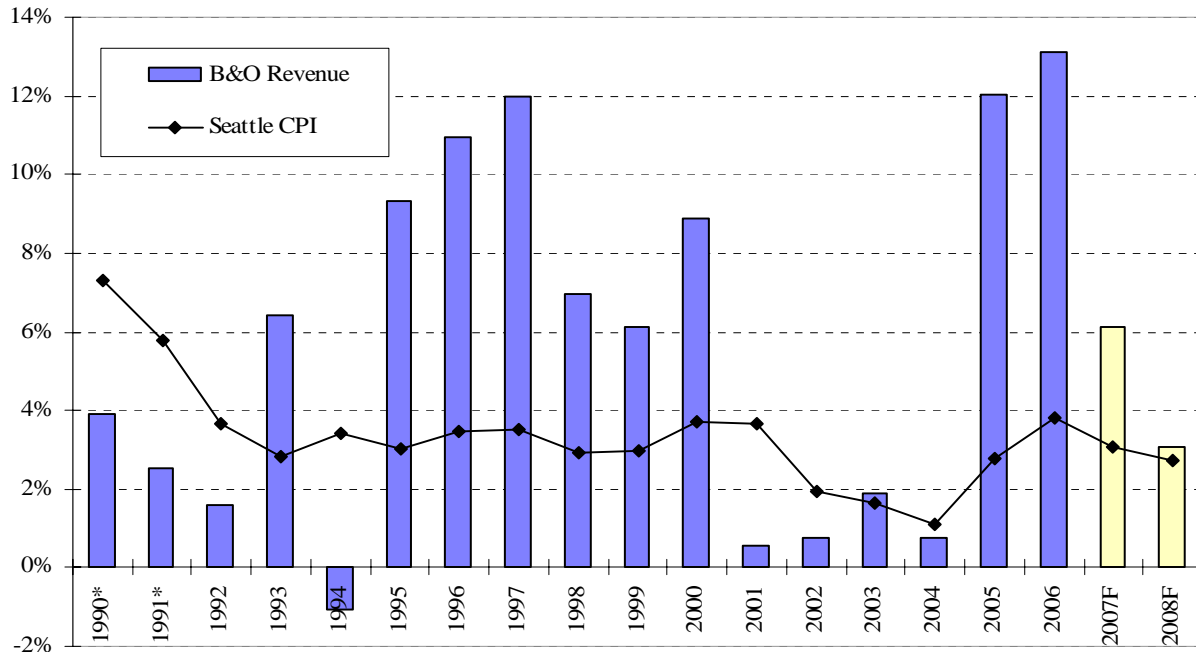
To determine the square footage tax rate, an estimate of the city's taxable floor area was developed using commercial building data from the King County Assessor along with floor area, employment, and tax revenue data from other sources. The tax rate was set at a level to recover the \$21.9 million revenue loss estimated by the Department of Revenue. However, the provision that no business will pay more in tax under the new law than under current law results in a reduction in revenue to a level below full recovery.

Any business which pays both the gross receipts B&O tax and the square footage tax may take a credit against the square footage tax for the amount of gross receipts tax paid. To use the credit, a business first computes the square footage tax it would owe on 100% of its floor area, and then multiplies that figure by the credit. The credit is determined by computing the total gross income derived from the Seattle business locations less the gross income derived from the Seattle business locations that is exempted from taxation by HB 2030, and then dividing that figure by the total gross income derived from the Seattle business locations. In simple terms, if a Seattle business receives a 20% reduction in its gross receipts tax from HB 2030, 20% of its floor area will be subject to the square footage tax.

# Revenue Overview

To insure that no business faces a tax increase due to the implementation of the square footage tax, a maximum square footage tax credit is provided. To use this credit, a business computes its tax under both the new post-January 1, 2008 tax law and the old pre-January 1, 2008 tax law. If the tax due is higher under the new law, the business is allowed to take a credit for the difference between the tax computed under the new law and the tax computed under the old law.

**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; 2007-08 are forecasts.

2008 forecast includes both gross receipts and square footage tax revenue.

**The pace of B&O revenue growth is expected to slow in 2007 and 2008.** The growth rate of B&O tax revenue is forecast to slow to 6.1% in 2007 and 3.1% in 2008. Most of the slowdown from the very high growth rates of 2005 and 2006 is due to the slowing of the region’s economy and an expected return to a more normal growth rate for non-current revenue following two years of exceptional growth.

The forecast developed for the proposed budget, which was prepared in August, anticipated growth of 5.6% in 2007 and 3.6% in 2008. However, between August and November, when the forecast was updated for the adopted budget, revenue growth was stronger than had been anticipated by the August forecast. Consequently, the 2007 forecast for B&O tax revenue was adjusted upward in November (see Figure 12). The forecast for 2008 was not changed because expectations for the national economy in 2008 had deteriorated significantly between August and November.

The 2008 forecast for B&O revenue combines revenue from the gross receipts tax with revenue from the new floor area or square footage tax. The new HB 2030 allocation and apportionment procedures are expected to cause a \$21.9 million drop in revenue from the gross receipts tax in 2008. The square footage tax was designed to recoup that loss by taxing the floor area of businesses that receive a tax reduction due to HB 2030. The tax rate was set to recover 100% of the expected loss. However, the mechanism that insures that no business will pay more under the combined gross receipts and square footage tax than it would under existing (2007) law reduces the floor area tax revenue somewhat. The forecast assumes that \$18.6 million of the \$21.9 million loss will be recovered.



## Revenue Overview

Finally, raising the small business threshold from \$50,000 to \$80,000 in 2008 will result in an estimated revenue loss of \$770,000 in 2008.

### 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 rates are lowered.*** The City levies a 6% utility business tax on gross sales of natural gas. The bulk of revenue from this tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission.

Effective in January of 2007, PSE was granted permission to increase the rate it charges natural gas customers. This was in response to the high gas prices experienced as a result of the 2005 hurricane season when rates for 2006 had already been set. Prevailing market prices for 2007 have been considerably low as a result of increased stores and small hurricane seasons in both 2006 and 2007. PSE requested a 13% rate decrease that became effective October 1, 2007. The rate decrease notwithstanding, there will be increases in receipts over 2006 of 8.2% for 2007, but a 5.9% drop in 2008.

***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, telecommunication tax revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. A variety of forces – the lackluster economy, industry restructuring, and heightened competition – all served to force prices downward and reduce gross revenues. Additionally, recent technological changes, particularly Voice-over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections, contribute to the uncertainties in this revenue stream.

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. Prior federal legislation, which expired in November 2007, permitted state and local jurisdictions like Seattle to levy taxes on internet access if the tax existed prior to October 1998. This grandfather clause was effectively removed from legislation that otherwise extended the tax moratorium. What impact this will have on Seattle tax revenues is unclear, but it is likely to be substantive.

Certain sectors of the telecom industry are experiencing solid growth, while others are steadily declining. Wireless revenues have been on an upward trajectory and are forecast to remain robust for the next few years. Traditional telecom providers however are showing negligible growth and even contraction, and this trend is expected to continue. As it stands now, wireless revenue growth is more than making up for any decline in other parts of this revenue stream. While VoIP and other technological improvements remain open questions and risks to revenues, the talk of telecom tax death has been greatly exaggerated.

***Cable revenue tax growth shows mild growth.*** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee, which does not go to the General Subfund, increased from 3.5% in June 2006.

There have been ongoing efforts in Congress to limit the authority local governments have over cable franchising. Current bills before the House and Senate do not necessarily alter a city's ability to impose a utility tax, but would limit the revenue base to which franchise fees are applied.

Cable revenues have been growing and are expected to continue to do so through 2008. Revenues for 2006 finished at \$11.7 million. The forecasts for 2007 and 2008 are \$11.9 and \$12.0 million respectively. Amid growing competition from satellite TV, the cable industry has increased its services including additional channels, pay-per-view options, and digital reception, in order to remain competitive.

# Revenue Overview

## Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). In 2004, tax rates were 6.0% for electricity and 10.0% for the other public utility services (see Figure 13). Tax rate increases on various public utilities were passed by the City Council in November 2004. These rate increases led to sizable increases in revenues to the General Subfund. As of now there are no planned tax rate increases, therefore the revenues from the utilities are projected to remain fairly stable with the exception of those utilities with changes in rate structure.

***Less tax revenue from City Light due to rate proposal.*** Following the west coast energy crisis of 2000, City Light was granted the right to charge significantly higher rates to customers to make up for the severe shortfall in cash flow that affected the utility at the time. The City Council reduced City Light rates in the fall of 2006 for 2007 and 2008. These lower rates reduced the General Subfund's forecast for revenue from City Light for 2007 and 2008. This reduction in tax revenues was partially made up for by an additional utility payment from a large energy user for 2006 that accrued to the City in the beginning of 2007.

***Modest growth forecast for water tax revenue.*** The utility tax rate on water service increased to 14.04% in January 2005, and 15.54% on May 15, 2005. As a result, water tax revenues rose sharply in 2005. Water fund revenues have been growing larger than expected and, as a result, water tax receipts have grown as well. 2007 water taxes are expected to be \$17.1 million, a 6.3% growth rate over 2006. 2008 receipts are not forecast to materially change from 2007.

***Higher Drainage and Wastewater rates mean higher tax revenue growth.*** Effective January 2005, the utility tax rate increased to 12.0% for wastewater service and 11.5% for drainage service. Largely as a result of these tax rate increases, revenue from drainage and wastewater service increased dramatically in 2005. Because of rate increases and a modest increase in usage, tax revenues will be 8.2% and 9.4% higher in 2007 and 2008 from their previous years, respectively.

***Higher Solid Waste rates mean higher tax revenue growth.*** The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. Solid waste receipts are performing well, largely due to the City's solid waste collection, and show growth rates of 5.3% and 7.9% for 2007 and 2008 respectively.

## Admission Tax

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

By City ordinance, 20% of admissions tax revenues, excluding men's professional basketball, are dedicated to programs supported by the Office of Arts and Cultural Affairs. The forecasts in Figure 7 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 to obtain a City business license. In addition, some business activities, such as 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 and fire hazard inspection) and charges a variety of fees for the use of public facilities and rights-of-way.

## Revenue Overview

The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license, which had been \$80 per year for all businesses, was raised to \$90 for businesses with worldwide revenues of more than \$20,000 per year and lowered to \$45 for businesses with worldwide revenues less than \$20,000 per year. The shift to the two-tier structure was expected to result in a small decline in revenue, of approximately \$90,000 per year.

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, boosting 2005 revenue.

As part of the City's Bridging the Gap transportation funding initiative, effective July 1, 2007 the Commercial Parking License fee paid by commercial parking operators was reduced from \$90 per 1,000 square feet of floor space to \$6 per 1,000 square feet. As a result of this change, license revenue is expected to decline by \$1.025 million in 2008.

### Parking Meters/Meter Hoods

In spring 2004, 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, for hourly street parking. Along with this switch, the City increased parking rates from \$1 to \$1.50 per hour. Finally, as part of the pay station program, Seattle Department of Transportation (SDOT) increased the total number of parking spaces in the street right-of-way which are subject to fees.

In 2007 SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, the rates for these spaces vary as frequently as quarterly to achieve a desired occupancy rate for the area. Revenues for this area are estimated to be approximately \$710,000 in 2007 and \$1.5 million in 2008. Total parking revenues are anticipated to be \$17.3 million in 2007 and \$18.6 million in 2008. More information about the pay station technology program is provided in the SDOT section of this document.

Meter Hood Service revenues are anticipated to remain stable at approximately \$1.1 million in both 2007 and 2008.

### Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Recent trends indicate decreases in parking citation volume through the 2008 forecast period. This is in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in late 2007, as part of the South Lake Union parking pay station extension (described above in the Parking Meter section), three additional Parking Enforcement Officers were added.

In 2007, the City anticipates receiving \$17.8 million in court fines and forfeitures and \$20.4 million in 2008. The 2008 revenue projection includes an estimated \$1.8 million in additional revenue resulting from the approved expansion of the City's red light camera enforcement program from the existing 6 camera locations to a total of 30 locations. Additionally, in 2008 the City is re-aligning its fine for red light moving violations to the State's fine amount, which was increased from \$101 to \$124 over the last two legislative sessions. This increase is estimated to generate an additional \$673,000 in red light camera infraction revenues.

# Revenue Overview

## Interest Income

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

Rapid positive growth in earnings rates and cash balances through 2005 and 2006 resulted in increased interest and investment earnings over this period: \$1.9 million in 2004, \$3.2 million in 2005, and \$6.0 million in 2006. Current estimates for General Subfund interest and investment earnings anticipate continued growth in cash balances and earnings rates in 2007, producing earnings of \$9.7 million. In 2008, cash balance growth is anticipated to slow, and earnings rates are expected to flatten out, producing interest earnings of \$10.7 million.

## Revenue from Other Public Entities

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

***Little Change in Criminal Justice revenues.*** The City receives funding from the state for criminal justice programs. The state provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. The City should receive approximately \$2.0 million in 2007 and 2008.

***Liquor Board profits and excise tax revenues are picking up.*** The City's share of Liquor Board profits increased dramatically from \$3.1 million in 2002 to \$4.1 million in 2004. There were \$4.1 million in revenues for 2005 as well. 2006 liquor board profits were \$3.7 million. This drop is the result of new initiatives and programs the Liquor Board has undertaken in the aim of increasing revenues, decreasing costs and therefore increasing profits later on. These benefits have begun to show for 2007 and will be fully realized by 2008, with \$3.9 million and \$4.1 million in revenues respectively. Liquor excise taxes, which are levied on the sale of liquor, have been growing consistently and this trend is expected to continue. The 2007 and 2008 forecasts for the liquor excise taxes are \$2.6 million and \$2.7 million respectively.

***Sound Transit work on the Metro Tunnel comes to a close.*** The construction of Link Light Rail by Sound Transit will no longer require City services for the Metro Tunnel. Sound Transit has been reimbursing the City for police and fire support services while work on the Metro Tunnel has been underway. The work on the Metro tunnel has been completed and so no revenue will accrue to the City for police work in 2008. 2007 revenues were \$350,000. The Fire Department will continue to provide support for other Sound Transit work, including work on the University Link for light rail.

## 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.

Central Service departments have seen their budgets change significantly for the 2007-2008 biennium due to a large increase in the allocation of space rent charges from the Fleets and Facilities Department. This increase has led to increases in central service allocations charged to the revenue-generating funds, and therefore significantly

## Revenue Overview

higher revenues from internal service charges to the General Subfund. More details about these cost allocations and methods are in the back of the budget book under the cost allocation tab.

### Interfund Transfers

*Interfund transfers increase significantly for 2007, drop in 2008.* Interfund transfers are payments from the balances of department-specific funds and capital project funds to the General Subfund. For 2007, the Parks Department transferred \$640,000 to the General Subfund because of larger-than-forecasted charter revenues. In 2007 approximately \$1.1 million of fund balance from the Department of Information Technology (DoIT) was transferred to the General Subfund for the Department of Executive Administration (DEA) to develop a cash receipting system and an employee self-service module, both of which are described in more detail in DEA's section of the budget.

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 2008 Adopted Budget, it is the intent of the City 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.

### Cumulative Reserve Subfund – Real Estate Excise Tax

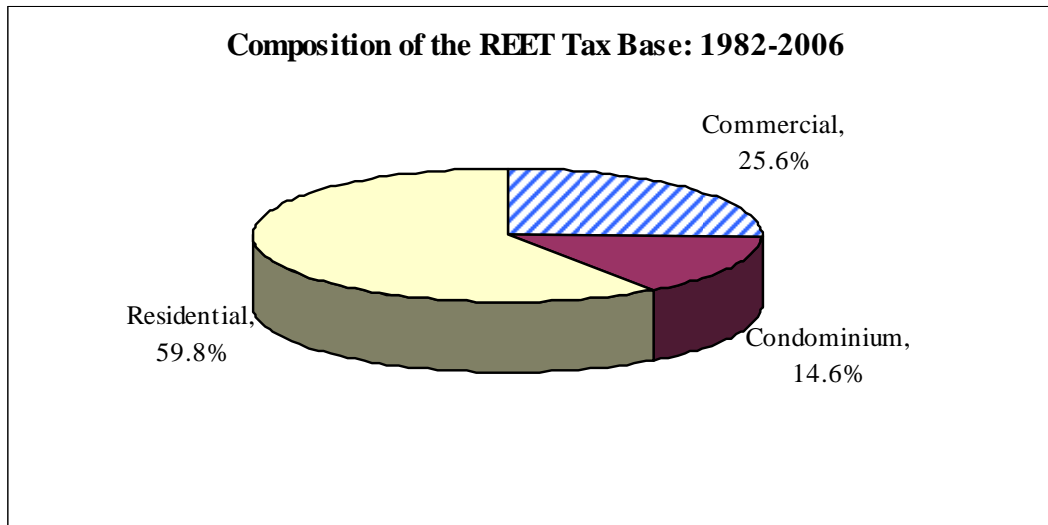
The Cumulative Reserve Subfund resources are used primarily for the maintenance and development of City capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, a portion of street vacation revenues, General Subfund transfers, and interest earnings on subfund balances. Total revenues to the subfund are projected at approximately \$78.1 million in 2007 and \$60.0 million in 2008. Of these total amounts approximately \$14.9 million in 2007 and \$9.0 million in 2008 are derived from non-Real Estate Excise Tax sources.

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

Over time, 59.8% of the City's REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for a quarter of the tax base, and condominiums constitute the remaining 14.6% (see Figure 14).

## Revenue Overview

**Figure 14. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2005**



**Historically REET revenue growth has been both strong and volatile.** The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 12.9% between 1982 and 2006, a period when Seattle area inflation averaged only 3.2% per year. Growth has been particularly strong during the past five years, as the housing market has boomed in response to very low interest rates and the recent upturn in the region's economy. In addition, 2004 through 2006 were exceptional years for commercial real estate activity, only to be surpassed in 2007.

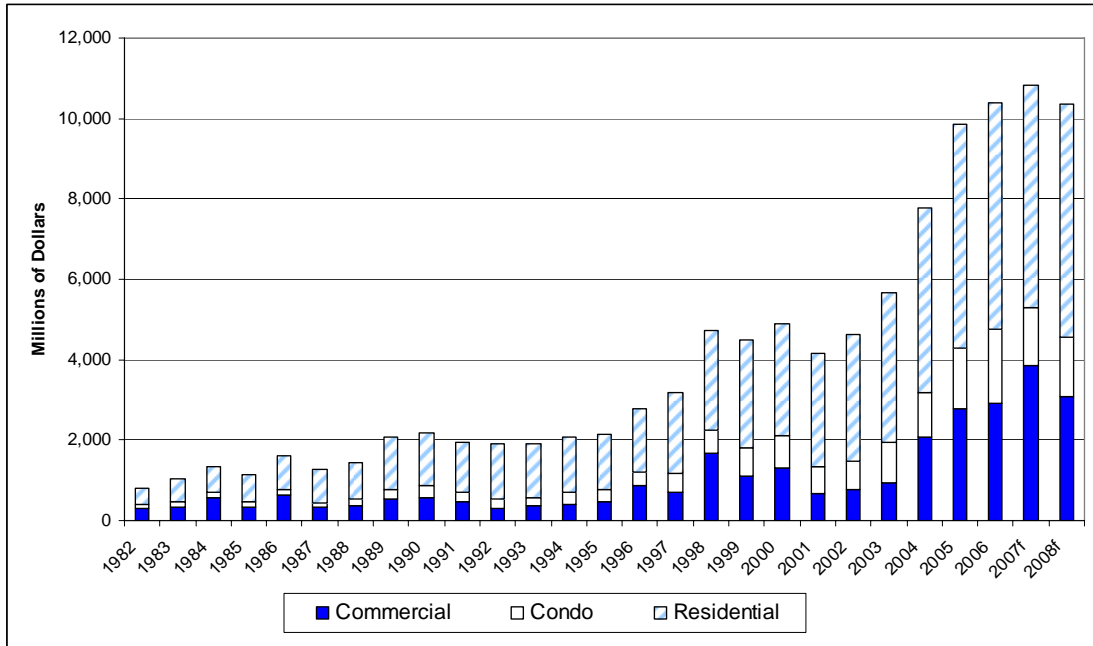
The volatility of REET is reflected by the fact that despite an 11.5% annual growth rate, the REET tax base declined in six years out of 24 during the period 1982 – 2006 (see Figure 15). The most recent decline was a drop of 15.6% in 2001. Volatility results largely from changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. Commercial activity is more volatile than residential, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next.

**REET revenue rose to new high in 2007, will fall in 2008.** The national real estate market has continued to dim, with the states that saw the biggest growth over the last four years experiencing the worst of the fallout. The subprime market and its commensurate default and foreclosure rates has sent credit markets into turmoil and is sending fear into broader credit markets. Housing starts are down significantly as are home sales. The Seattle market has thus far been spared any ill effects from the national housing scene. Home prices have stabilized. As of November 2007, year over year home prices in the Seattle area remain unchanged. The Seattle housing market is somewhat exposed to subprime borrowers, but with a solid job market and positive net migration the real estate market is expected to perform well, or at least maintain position. There is an outstanding risk though of a worsening credit market and the inability for prime borrowers to get mortgage rates on the terms they desire. This, coupled with mortgage issuers' recent flight from loans too large to qualify for government guarantee, could presage a dip in home sales that might lead to an eventual drop in prices, and therefore REET revenues.

2007 has set a new benchmark for REET receipts, especially in the commercial sector. A large group of Class A office space buildings were sold twice in the 2<sup>nd</sup> quarter, leading to REET revenues of some \$25 million in that quarter alone. The commercial sector, along with the residential and condo sectors, is performing well. While 2008 is not expected to approach 2007 activity, it is still forecast to perform well. The revised 2007 forecast for REET is \$65.2 million and for 2008 \$51.0 million.

# Revenue Overview

**Figure 15. Real Estate Excise Tax: Value of Sales**



## Transportation Fund -- Bridging the Gap revenue sources

The Transportation Fund is the primary operating fund whose resources support the management, maintenance, and the design and construction of the City’s transportation infrastructure. The fund receives revenues and resources from a variety of sources: General Subfund transfers, distributions from the State’s Motor Vehicle Fuel tax, state and federal grants, service charges, use fees, bond proceeds, and several other sources more fully presented in the Transportation Department section of this budget document. The Transportation Fund received approximately \$159.2 million in operating revenues in 2006, and is projected to receive approximately \$213.5 million in 2007 and \$252.3 million in 2008. The large increases are due to the addition of three new revenue sources, described below, and projected increases in federal, state and interlocal grants. These grant opportunities are made possible because of the additional revenues available to provide matching support for the grants.

In September 2006, in order to fund the 9-year Phase One of the 20-year “Bridging the Gap” program of transportation maintenance and improvements, the City established three additional revenue sources dedicated to these purposes: a levy lid lift (Ordinance 122232), a commercial parking tax (Ordinance 122192), and a business transportation tax (Ordinance 122191).

The transportation lid lift is a 9-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift is forecasted to raise \$36.2 million in 2007 and \$37.1 million in 2008.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. Effective July 1, 2007 the tax rate was initially established at 5 percent. The rate will increase annually on July 1 to 7.5 percent in 2008 and 10 percent in 2009. Current forecast anticipates \$3.7 million in 2007 (partial year effective July 1, 2007) and \$8.9 million in 2008.

The business transportation tax or employee hours tax is a tax levied and collected from every person for the act or privilege of engaging in business activities within the City of Seattle. The amount of the tax can be calculated using hours worked or on a full time equivalent employee basis. The tax rate per hour is \$0.01302, which is equivalent to \$25 per full time employee working at least 1,920 hours annually. Several exemptions and

## Revenue Overview

deductions were provided in the authorizing ordinance. Most notably a deduction is offered for those employees who regularly commute to work by means other than driving a motor vehicle alone. This tax is effective July 1, 2007, but the City will not receive tax payments for 2007 liabilities until January 2008. Thus, no revenues are forecast in 2007 and \$5.5 million in 2008.



# Revenue Overview

**Figure 13. Seattle City Tax Rates**

	2004	2005	2006	2007
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>				
General Property Tax	\$2.16	\$2.12	\$2.01	\$1.88
Families & Education	0.04	0.19	0.18	0.16
Seattle Center/Parks Comm. Ctr.	0.10	0.02	0.02	0.01
Parks and Open Space	0.30	0.30	0.28	0.26
Low Income Housing	0.04	0.04	0.04	0.04
Fire Facilities	0.30	0.28	0.26	0.20
Emergency Medical Services	0.24	0.23	0.22	0.21
Low Income Housing (Special Levy)	0.10	0.10	0.09	0.08
City Excess GO Bond	0.31	0.31	0.28	0.25
<b>Retail Sales and Use Tax</b>	0.85%	0.85%	0.85%	0.85%
<b>Business and Occupation Tax</b>				
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%	14.04-15.54%*	15.54%	15.54%
City Drainage	10.00%	11.50%	11.50%	11.50%
City Wastewater	10.00%	12.00%	12.00%	12.00%
City Solid Waste	10.00%	10-11.50%**	11.50%	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%	10-11.5%**	11.5%	11.5%
<b>Franchise Fees</b>				
Cable Franchise Fee	2.5%	2.5%	3.5-4.2%***	4.2%
<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

\*\*\*The 4.2% rate was effective June 3, 2006



## PERFORMANCE MEASURES FOR THE 2008 ADOPTED BUDGET

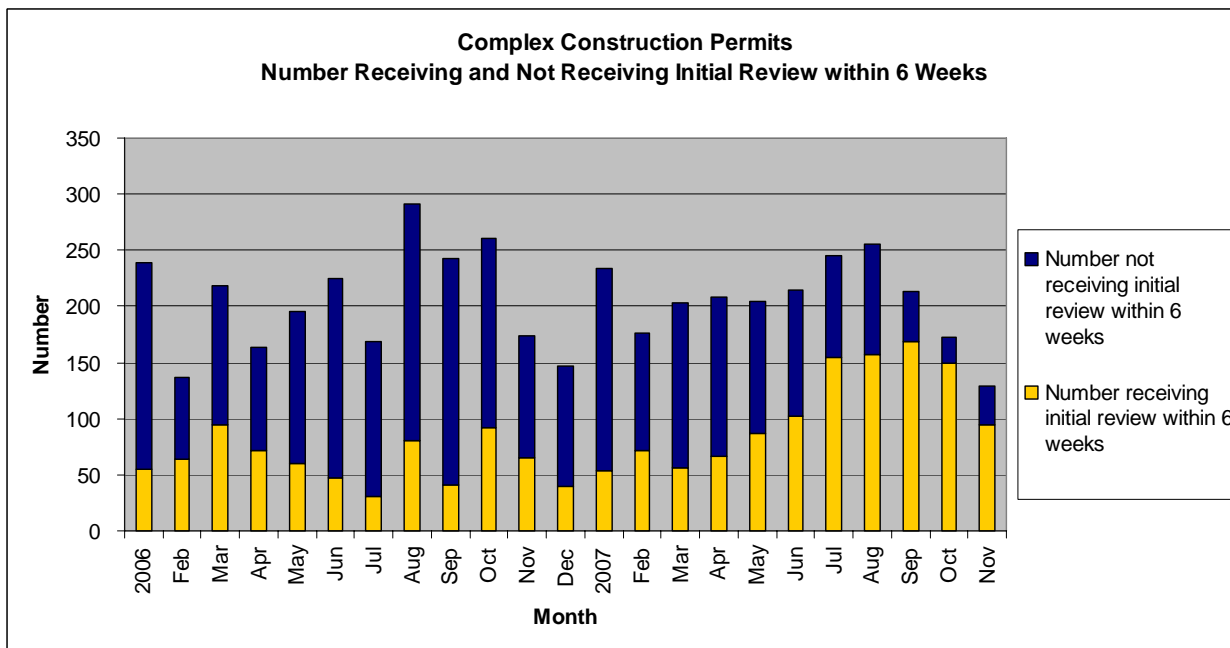
The City of Seattle collects data monthly from City departments to evaluate the progress of City programs, activities, and priorities; to determine the effectiveness of resource allocation; and to address and direct solutions to customer complaints. The following measures represent a small sample of those collected and analyzed each month.

### ISSUING CONSTRUCTION PERMITS

The Department of Planning and Development (DPD) is responsible for both regulatory and long-range planning. One of its primary functions is issuing permits for land use and construction. The Department reviews and approves more than 35,000 permits annually. This includes providing public notice and seeking public input for Master Use Permits (MUPs); shoreline review; design review; and approval of permits for construction, mechanical systems, site development, elevators, electrical installation, boilers, furnaces, refrigeration, signs, and billboards. Below are two examples of the Department’s performance measures tracked and reported each month.

#### Complex Construction Permits

A complex construction permit is needed to build, for example, a high-rise office building or a residential tower. The Department has a set target to complete initial review of at least 70% of these permits within six weeks of receiving them. The chart below shows that the Department’s performance has started to improve when measured against the target but is still not meeting the goal on a consistent basis.



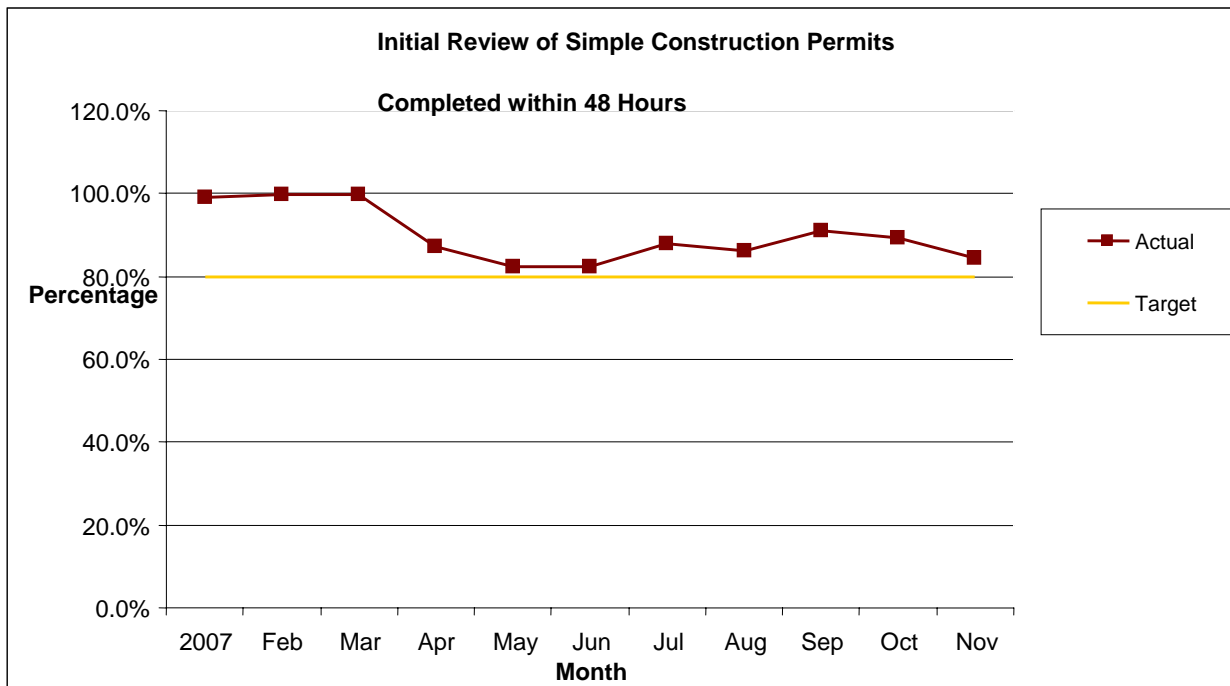
Since 2005, the Department has experienced a continually growing volume of construction permits, causing a backlog in processing times. Measures were taken to address the situation, such as the use of employee overtime and an expansion of consultant contracts. However, the Department still could not keep pace with the growing volume of permits. In 2007, the City used the revenue generated by the high volume of permits to hire additional staff to process construction permits.

# Performance Measures

The Department continues to seek ways to improve performance and processes, particularly in areas where targets are not being met, and to sustain performance in light of an anticipated continuation in the high volume of development activity.

## Simple Construction Permits

A simple construction permit is what an average homeowner would need, for example, to build a new deck, an addition, or a garage. In the past, the Department has been close to meeting the target of providing initial reviews to 80% or more of applications for simple permits within 48 hours of receipt. Performance exceeded the target between December 2006 and November 2007 and the Department anticipates that it will continue to meet this target because simple permits do not require the extensive technical reviews required by other kinds of permits.



## ENDING HOMELESSNESS

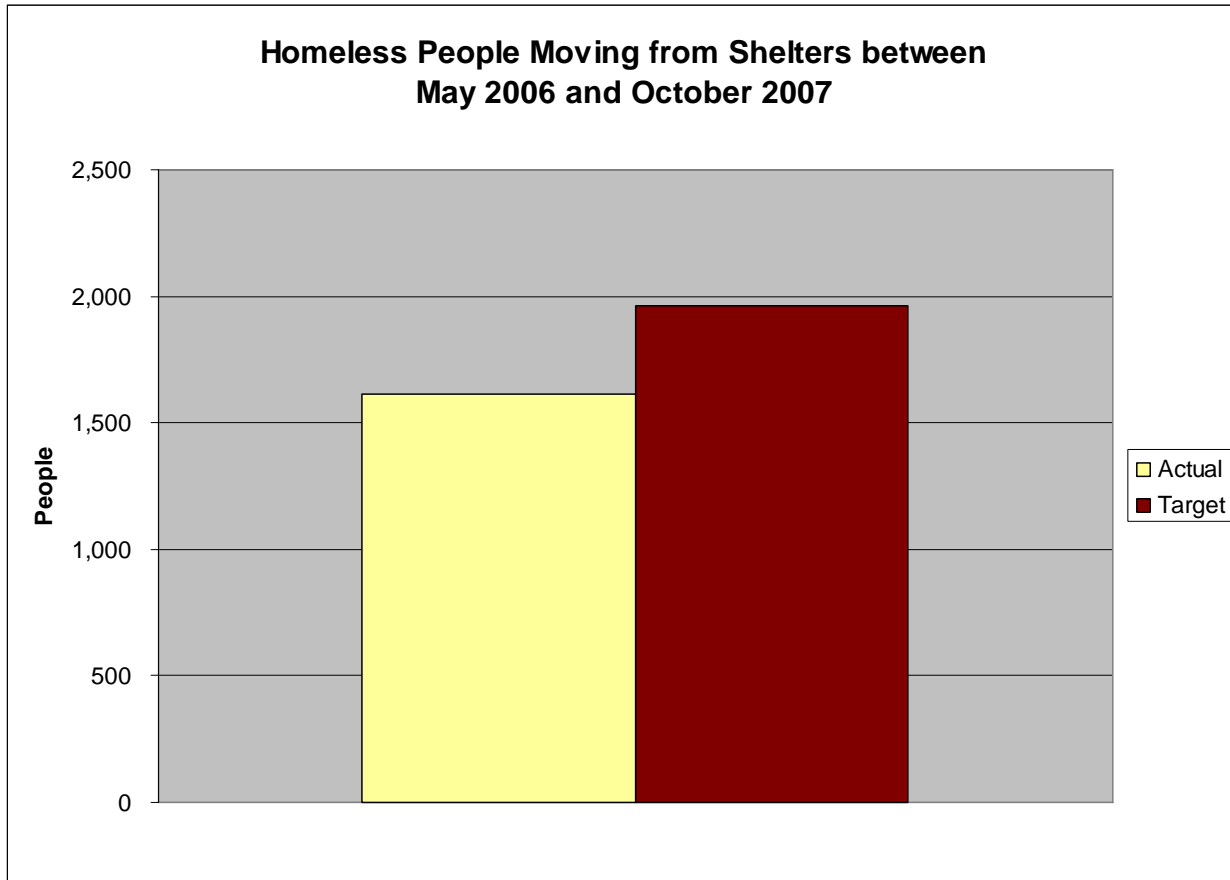
Annually, members of the community volunteer to count the homeless in King County. The last count occurred on January 25, 2007, when the volunteers counted 7,839 homeless individuals. The number is going down – albeit slowly. The County had 7,910 homeless individuals based on the count in 2006.

In 2004, the City, a leader in the funding of basic services and affordable housing, joined with other public and private entities in the community to form the King County Committee to End Homelessness. This committee and its partners agree that the emphasis on emergency services needs to shift to moving people to stable housing that provides supportive social services. During 2005 and 2006, with a focus on individuals being discharged from high-cost medical, mental health, and criminal justice facilities, the Committee’s partners opened 963 units of housing with support services to help homeless individuals and families stabilize their lives, and gave short-term financial assistance to more than 1,100 households (more than 3,000 people) to help them avoid losing their homes. The City’s Office of Housing has provided leadership in bringing together several public funders to create a joint application or “Notice of Funding Availability” (NOFA) process. This effort creates efficiencies in the grant-making process and links capital and operational dollars for housing with service dollars to promote the development of a complete, effective project.

## Performance Measures

To track the City's progress in changing its response to homelessness, the Human Services Department measures the number of homeless people who move from emergency shelters to (1) permanent housing (i.e., long-term housing plus social services) and to (2) transitional housing (i.e., temporary housing with social-service support to encourage transition to permanent housing).

The Department began tracking this information in April 2006 to develop baseline data. These performance measures, along with other policy considerations, will assist the City in deciding how annual expenditures of \$41 million to end homelessness (Human Services Department - \$29.2 million; Office of Housing - \$8.6 million; Department of Parks and Recreation - \$500,000; Office of Economic Development - \$600,000; and Fleets and Facilities Department - \$2.3 million) can be most effective.



### **BRIDGING THE GAP (TRANSPORTATION MAINTENANCE AND IMPROVEMENTS)**

In November 2006, the voters of Seattle passed a \$365 million transportation maintenance and improvement levy. The levy's proceeds, combined with taxes on commercial parking and employee hours, dramatically increases available funds for transportation capital projects and needed infrastructure maintenance. BTG adds approximately \$40 million to the Seattle Department of Transportation's budget in 2007 and \$80 million in 2008. Over the nine-year life of the levy, the total expected revenue from the three sources is \$544 million. This represents approximately \$365 million from the levy lid lift, \$127.5 million from the tax on commercial parking, and \$51.5 million from the tax on employee hours. A Citizen Oversight Committee provides accountability on the spending of BTG revenue. The nine-year goals of BTG are to:

- Reduce the maintenance backlog by approximately half.
- Pave and repair Seattle streets.

## **Performance Measures**

- Make seismic upgrades to the City's most vulnerable bridges.
- Improve pedestrian and bicycle safety and create safe routes to schools.
- Increase transit speed and reliability.

# Performance Measures

## Signs

The Seattle Department of Transportation has replaced street name signs at 1,043 intersections; by the end of the levy, more than 150,000 signs will be replaced.



## Streets

In 2007, the Seattle Department of Transportation paved 27 lane miles of streets, including large sections of 45<sup>th</sup> Street, Dexter Avenue, Denny Way, and Mercer Street. By the end of the levy, more than 300 lane miles of streets will be resurfaced, repaved, or replaced.

## Bike Trails – Bike Master Plan

BTG funds the building of three to five new segments of bike trails and paths, including an extension of the Burke-Gilman Trail, in accordance with the City's Bicycle Master Plan. Implementing this plan over the next nine years will provide:

- Bicycle facilities on 62% (295 miles) of Seattle's arterial streets,
- Fifty percent more multi-purpose trails, and
- A 230-mile system of signed bicycle routes.



## Pedestrian Safety

BTG also funds significant improvements for pedestrian safety. In 2007, the levy will fund the creation of a Pedestrian Master Plan and the construction of more than 13 blocks of new sidewalks. Improvements to pedestrian safety over the next nine years will include:

## Performance Measures

- Constructing more than 117 blocks of new sidewalks,
- Remarketing every crosswalk in the city, and
- Improving walking routes for elementary school students.

### **RESPONDING TO EMERGENCIES**

Public safety is the paramount duty of the City. More than half of the City's spending from the general fund is for public safety (police, fire, courts, and emergency preparedness). Each month, the Mayor's Office receives information tracking how the Seattle Police Department and the Seattle Fire Department respond to various kinds of emergencies.

The first graph on the following page shows average response times for the highest priority emergency calls received by the Seattle Police Department and how close actual response time comes to meeting the target of seven minutes (or less). Improving response times is a primary goal in the Department's Neighborhood Policing plan released last year.

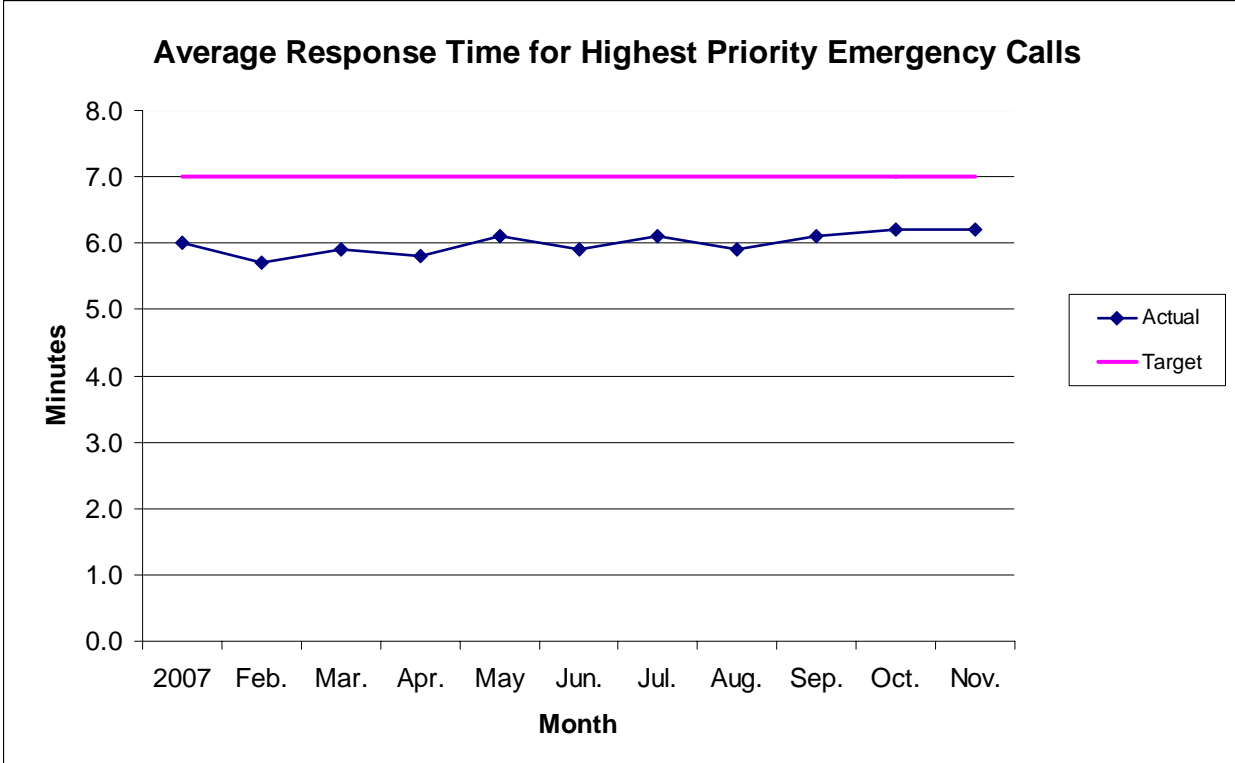
The second graph on the following page shows the percentage of time that a first unit from the Seattle Fire Department responds to a medical emergency within four minutes. The Fire Department sets annual targets for response times based on performance in the previous year.

For 2006, the Department set a target of responding to a medical emergency within four minutes, 89% or more of the time, but this proved unrealistic. An increasing volume of calls and traffic congestion have impacted response times for medical emergencies. As a result, in 2007, the Department's performance fell below the target of 86% in four of the first 11 months of 2007.

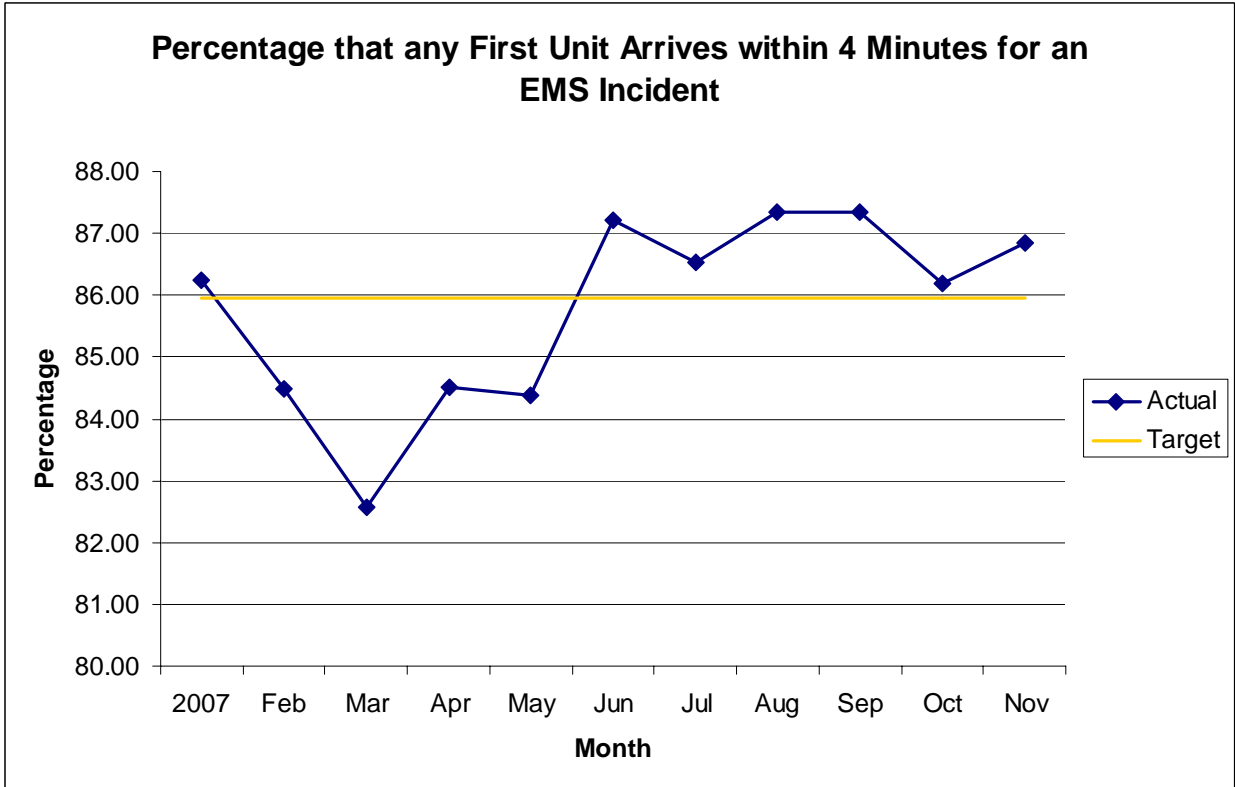


# Performance Measures

Seattle Police Department



Seattle Fire Department





# 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. The 12% reserve is now significantly greater than \$100 million.
- Except in emergencies, net debt service paid from the General Subfund will not exceed 9% of the total General Fund budget. In the long run, the City will seek to keep net debt service at 7% or less of the General Fund budget.

## General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals 37.5 cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.
- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund. 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. The Mayor is proposing to increase this limit in conjunction with the 2008 Proposed Budget.

## 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 State law, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.
- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than 90 days. Exceptions to this policy are permitted with prior approval by the City'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 City Council endorsement and is formally adopted by the City Council after a midbiennial review.

## Budgetary Basis

The City budgets on a modified accrual basis. Property taxes, sales taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, as revenues even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash 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 or "baseline" budget. Current Services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as 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 City Council the previous November, or re-determine current service levels. The 2008 Endorsed Budget was used as the basis for the 2008 Proposed Budget.

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 12 months of experience. Proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget.

In February, departments were given direction by the Mayor to maintain the 2008 Endorsed Budget with few exceptions. In April, departments provided DOF with a preview of requested changes to the 2008 Endorsed Budget for approval prior to submitting Budget Issue Papers (BIPs), summary-level descriptions of the suggested budget reductions or increase, on the topic. In May, departments prepared and submitted BIPs to DOF for mayoral consideration. The Mayor's Office reviewed and provided direction to departments on the BIPs to be included in the department's budget submittal in early June. In early July, DOF received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the month of August. DOF, in conjunction with individual departments, then finalized the operation and CIP budgets.

# Budget Process

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

In late September, the Mayor submits the proposed budget and CIP to the City Council. In addition to the budget documents, 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 City 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 City Council on results. A chart summarizing the City's budget process schedule is provided at the end of this section.

## Legal Budget Control

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

## Budget Execution

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

## Budget Amendment

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

The Finance Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, 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%.

## **Budget Process**

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 City 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 – 2008 BUDGET

