# General Subfund Revenue Overview

## City Revenue Sources and Fund Accounting System

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

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

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

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 59.1% 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 Economies, September 2016

### National Economic Conditions and Outlook

***We are now in the eighth year of the recovery from the Great Recession.*** The period leading up to the Great Recession was characterized by excessive borrowing and risk taking and a huge buildup in U.S. household debt. A lot of the borrowed money was used to purchase assets, which pushed up the price of the assets and eventually led to the buildup of asset bubbles, the largest of which was the housing bubble of 1998-2006. Eventually housing prices rose to a level that could not be sustained, even with exotic mortgages, and prices began to fall. The collapse of the housing bubble triggered the financial crisis which, in turn, precipitated a worldwide recession in 2008-09.

# Revenue Overview

The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 4.2% over a period of six quarters, 8.7 million jobs, 6.3% of total jobs, were lost, and the unemployment rate peaked at 10.0% in October 2009.

Thus far the recovery from the Great Recession has been sluggish, which is typical of recoveries from recessions caused by financial crises. Reasons for the sluggishness include the need for households to reduce their debt burdens, which constrains their ability to spend, and the large stock of nonperforming loans in the financial industry. In addition, housing, which is typically one of the sectors that leads a recovery, has recovered slowly from the bursting of the housing bubble.

***After a slow start to 2016 economic conditions have improved.*** The economy started 2016 slowly. Real GDP, which ended 2015 with a disappointing fourth quarter growth rate of 0.9%, grew by an even weaker 0.8% in the first quarter of 2016. The main area of weakness was non-residential investment, which saw a big drop in energy related investment. Consumer spending posted a modest 1.6% gain, its weakest increase in nearly three years. One bright spot was residential investment, which grew by 7.8%. Despite the disappointing GDP figures, employment growth continued to post healthy gains in the first quarter, with an average increase of 196,000 jobs per month.

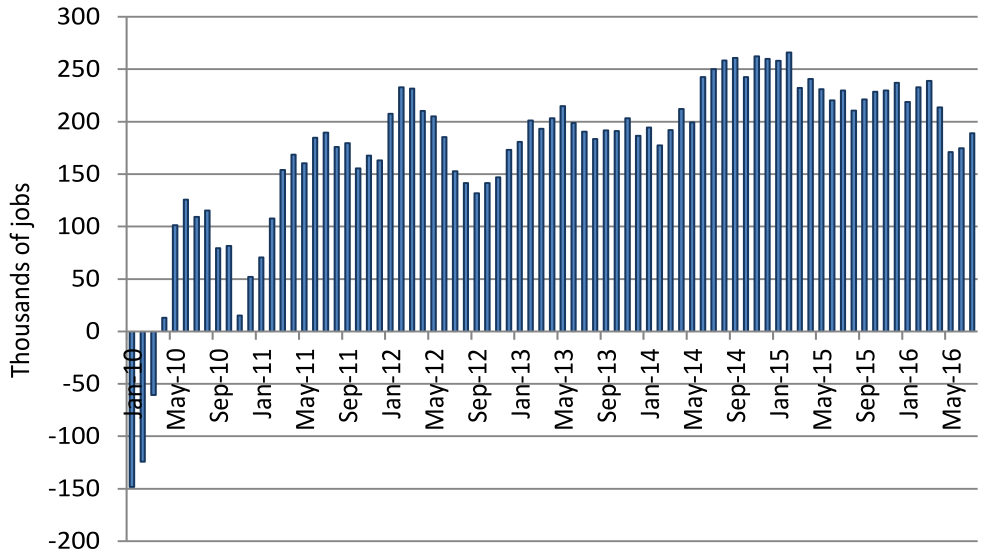
In April and May employment growth weakened. May's employment gain of 24,000 was the lowest monthly increase since late 2010. Then second quarter GDP surprised on the downside, with a growth rate of only 1.2%. However, much of the weakness was caused by a large inventory draw down that reduced GDP growth by 1.2 percentage points. Final sales, which excludes changes in inventories, grew at a healthy 2.4% rate, led by a 4.2% increase in consumption. Non-residential investment declined for the third consecutive quarter, again led by the energy sector.

The slowdown in employment growth reversed course in June and July, which saw gains of 292,000 and 255,000, respectively. The July employment report was particularly positive, with a robust gain in employment joined by solid gains in hours worked and wages, and a rise in the labor force participation rate. Average hourly wages increased at a 2.6% annual rate in both June and July, well above the rate of inflation. Also contributing to the upturn in the economy were solid consumer spending, supported by wage gains and rising home and stock prices, and the continuing recovery of the housing market. Impacts of the June U.K. vote to exit the European Union have been minimal thus far.

# Revenue Overview

**Figure 1. Monthly Change in U.S. Employment**

Six month Moving Average

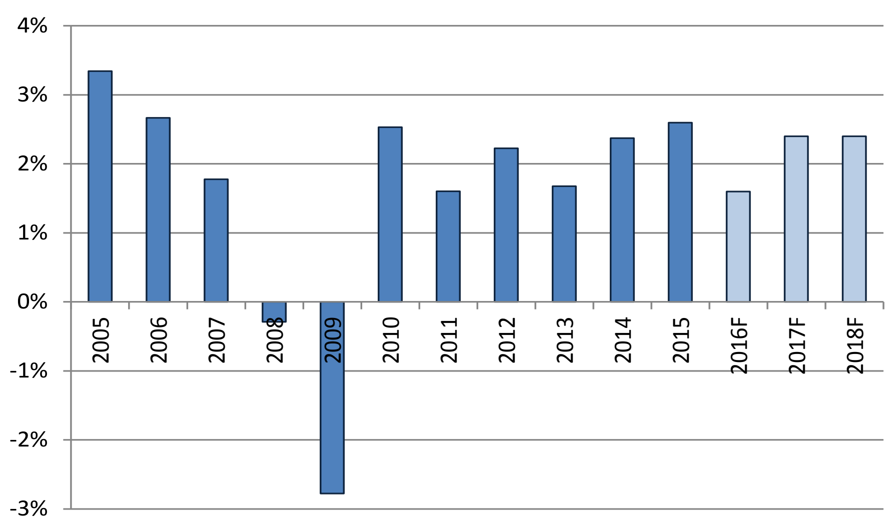



Source: U.S. Bureau of Labor Statistics.

***The risk of recession remains subdued.*** Thus far during the recovery, real gross domestic product (GDP) growth has averaged just over 2% per year, which is the slowest pace of any recovery in the post-World War II era. Going forward GDP growth is expected to pick up in the second half of 2016, then settle into the 2% - 2.5% range (see Figure 2). Employment growth is expected to slow now that the economy is approaching full employment levels.

Ongoing economic growth will be supported by continued employment growth, low household debt levels, an expected pickup in wage growth as the job market tightens, and continued improvement in the housing market. The optimistic housing market outlook is supported by improving credit conditions, low mortgage rates, pent-up demand, and rising prices. The worst is over for the energy sector, which will reduce its drag on GDP. In addition, the public sector, which has been a drag on growth through much of the recovery, is now a source of modest growth.

**Figure 2. Annual Growth of U.S. Real Gross Domestic Product (GDP)**




Source: U.S. Bureau of Economic Analysis, Global Insight.

# Revenue Overview

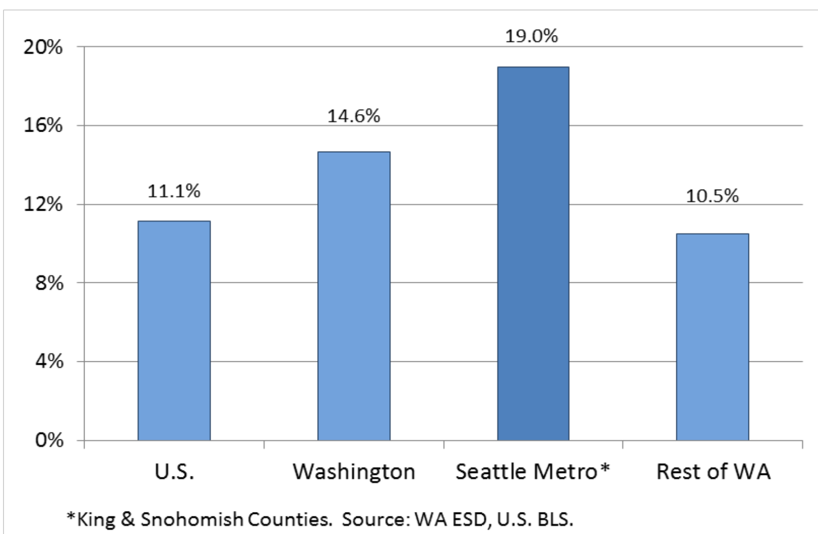
Although the current expansion is already the fourth longest of the 11 post-World War II expansions, it is not yet exhibiting signs its end is near. Most expansions end when the economy overheats, which causes a rise in inflation, which in turn spurs the Federal Reserve to raise interest rates to slow the economy. There are few signs that the economy is overheating, in large part due to the depth of the recession and the weakness of the recovery. One risk factor for the economy is the normalization of monetary policy. In December 2015, the Federal Reserve made its first federal funds rate increase since mid-2006, raising the target rate by 0.25%, from the 0.0% - 0.25% range to the 0.25% - 0.50% range. Another quarter point increase is expected by the end of 2016. The Fed's challenge is to make the transition to higher rates without disrupting the financial markets.

There is probably more risk to the U.S. recovery from forces outside of the U.S. than from domestic sources. China is a source of concern because of its slowing economy and high debt levels. Europe, which has been struggling with the Euro crisis for several years, is now faced with a migration crisis and the exit of the U.K. from the European Union. The ongoing turmoil in the Middle East has the potential to disrupt energy markets or imperil the world economy in other ways.

## Puget Sound Region Economic Conditions and Outlook

***Unlike much of the nation, the Puget Sound region is experiencing a healthy recovery.*** Since the Great Recession ended in June 2009, the region's economy has outperformed the national economy by a considerable margin. This is reflected in the region's healthy job growth and low unemployment rate. Seattle metro area (King and Snohomish Counties) employment increased by 19.0% from its post-recession low in February 2010 through June 2016 (see Figure 3). This compares to an 11.1% gain for the U.S. and 14.6% gain for Washington state over the same period. The June 2016 unemployment rate for the Seattle metro area was 4.6%, compared to 5.8% for the state and 4.9% for the U.S. The region has also outpaced the U.S. in both income and wage growth during the recovery.

**Figure 3. Employment Growth: Post-Recession Trough to June 2016**

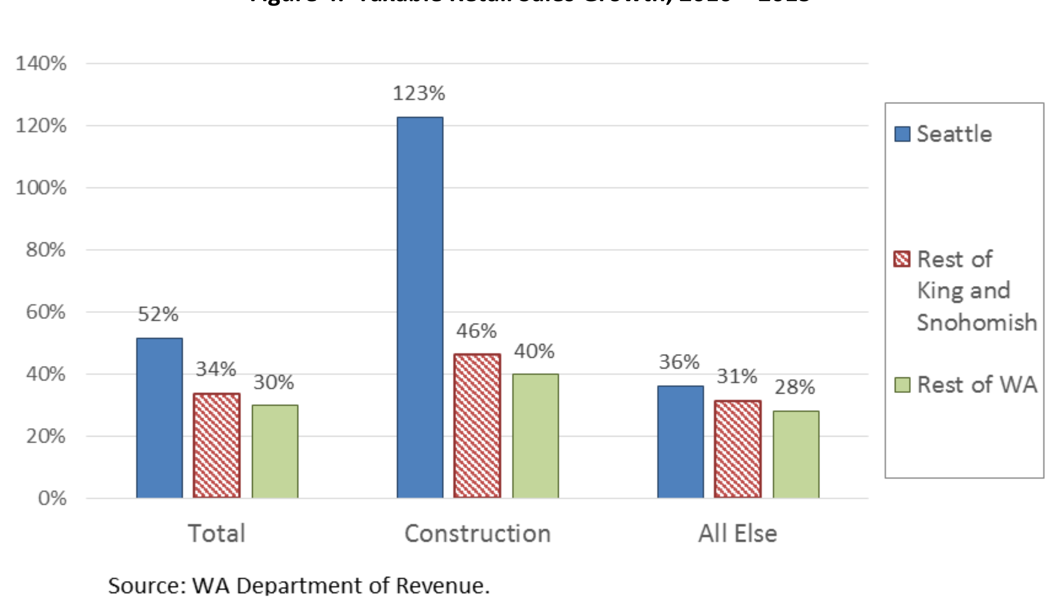



An analysis by the Puget Sound Economic Forecaster (PSEF) indicates Boeing and Amazon led the region's recovery between 2010 and 2014, when these two firms were responsible for 43% of the jobs created in the region. PSEF concluded that "without the lift from Boeing and Amazon, regional employment and employee compensation would have risen at close to the national rate." A key reason that these two firms had such a large impact is that the average annual wage for both exceeds $100,000.

Boeing provided a major boost to the region's economy early in the recovery, adding 15,200 jobs between May 2010 and October 2012. However, since then Boeing has reduced its Washington employment by 11,300, with 3,600 of the reductions occurring in the first seven months of 2016. The non-store retailing industry (NAICS 454), which is dominated by Amazon, has posted steady employment growth throughout the recovery. In King County non-store retailing added 20,500 jobs in the six year period ending in September 2015.

***Seattle has captured an outsized share of the region's growth during the recovery.*** Seattle has been the focal point of the region's growth during the current recovery. This is reflected in taxable retail sales data (the tax base for the retail sales tax), one of the few relatively current measures of economic activity available at both the county and city levels. Over the five-year period 2010 - 2015, taxable retail sales increased by 52% in Seattle, compared to gains of 34% in the remainder of the King and Snohomish Counties, and 30% in the rest of the state, i.e., outside of the two counties (see Figure 4). Most of Seattle's relative strength is due to a 123% increase in construction. The rest of Seattle's tax base has also grown faster than that of the other areas, but by a much smaller margin.

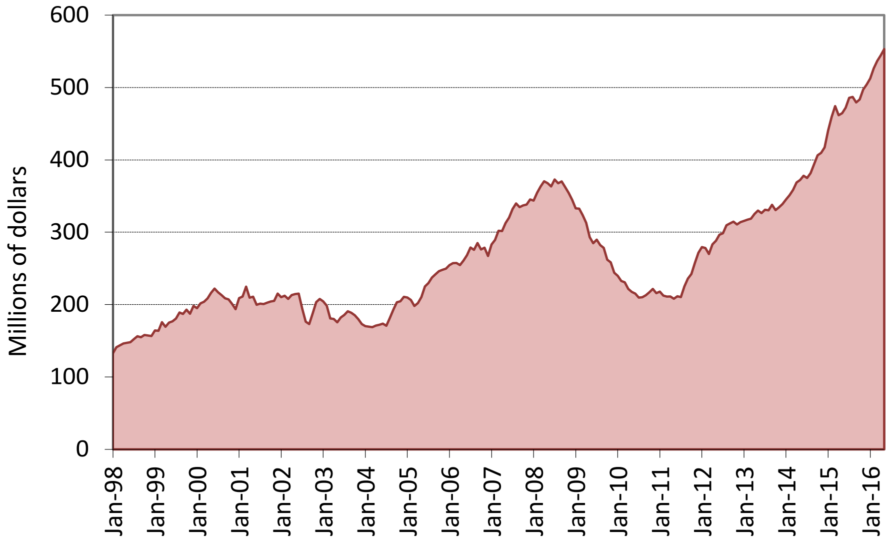
**Figure 4. Taxable Retail Sales Growth, 2010 – 2015**




Seattle's strong rebound from the recession has been supported by the growth of Amazon, other technology businesses, and business and professional service firms. Employment growth at these businesses, along with the current popularity of in-city living, has boosted the demand for office space and housing in the city, spurring a construction boom. Initially construction was focused in new apartments and public construction, but over time activity has broadened to include more office projects and condominiums. Construction activity is now well above levels seen at the peak of the housing bubble in early 2008 (see Figure 5).

# Revenue Overview

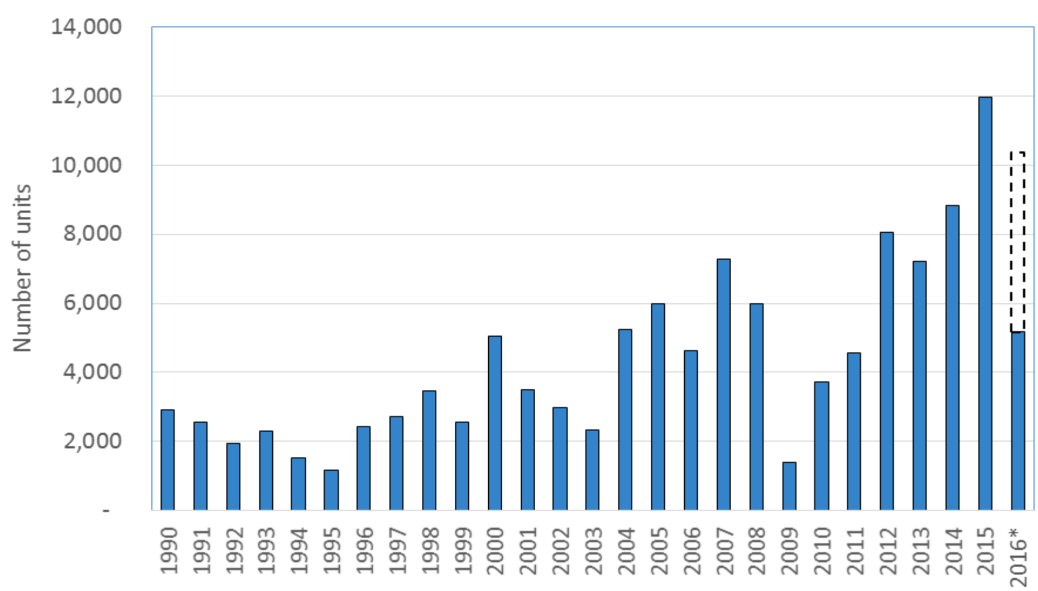
**Figure 5. Monthly Taxable Retail Sales for Construction, Seattle**




*Data are 3 month moving average of seasonally adjusted monthly series.
Source: WA Dept. of Revenue.

The recent upswing in Seattle housing construction is illustrated in Figure 6, which shows the number of new residential units for which a permit has been issued by the year of issuance. More permits were issued in 2012, 2014, and 2015 than in any other year since 1990. 2016 is set to surpass all years except 2015 unless the rate of permit issuance falls off sharply in the second half of the year. As of July 1, 2016, over 20,000 of the units permitted had not yet been completed.

**Figure 6. Residential Building Permits by Year Permit Was Issued, Seattle**



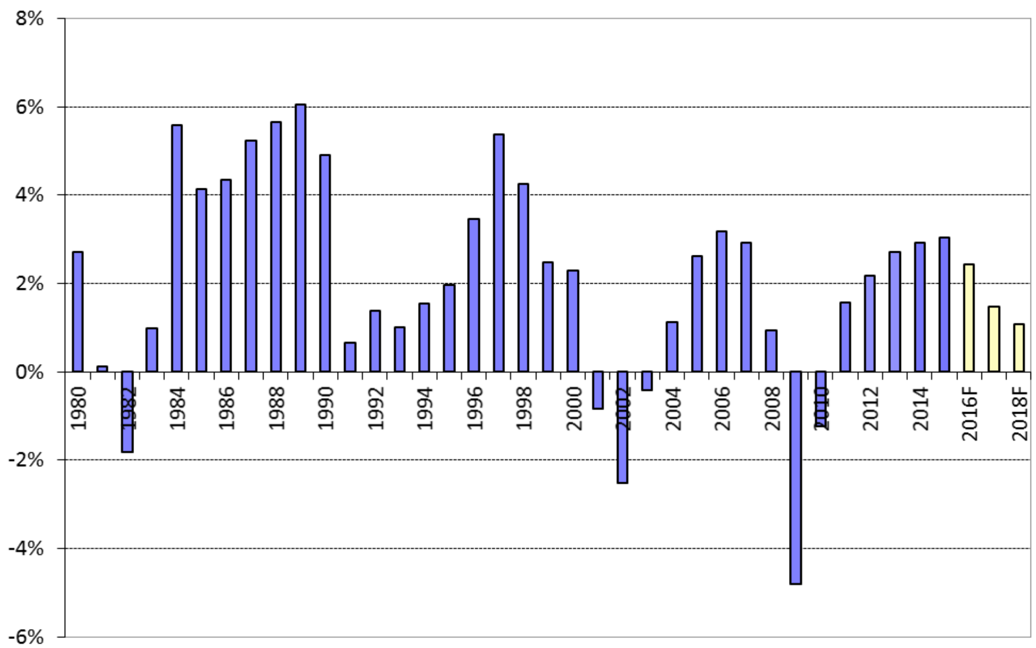

*2016 data are for first 6 months. Dashed lines shows extrapolation to full year.

**The region's economy is expected to slow.** According to the Puget Sound Economic Forecaster (PSEF), "now that the recovery is getting longer in the tooth, questions are arising about its future course." Uncertainty is higher than normal, as reflected in the mixed messages being sent by some of the local economic data. For example, early this year it appeared that regional employment growth had slowed significantly in the second half of 2015.

However, subsequent revisions to the employment data have raised the growth rate for the second half of 2015, and thus far in 2016 employment has grown strongly.

The Puget Sound Economic Forecaster predicts that 2015 will be the peak year for employment growth during the current cycle, and that growth will gradually slow beginning in 2016 (see Figure 7). The forecast assumes the region will continue to grow faster than the nation, but that the gap between regional and national growth will narrow as the recovery moves forward. Income growth is expected to slow as well, but at a slower pace than employment growth. Contributing to the slowdown in 2016 is Boeing, which reduced its Washington employment by 3,600 jobs during the first seven months of the year. Forecasts of total Boeing reductions for the year range from 4,000 to 8,000. The forecast also assumes that employment growth in the non-store retailing industry will begin slowing in 2017, and that construction employment growth will slow beginning in 2016.

**Figure 7. Annual Growth of Puget Sound Region* Employment**




*Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.
Source: Historical data from WA ESD; forecasts from the Puget Sound Economic Forecaster.

Sources of risk for the regional economic forecast come from both the national economic forecast, which serves as a basis for the regional forecast, as well as from local economic factors. If the national economy deviates significantly from the national forecast the regional economy will deviate from its forecast as well.

Sources of uncertainty in the local economy include the trajectory of the current construction cycle as well as the fortunes of the region's major employers, including Boeing, Amazon, and Microsoft. Boeing is seeing softness in wide-body orders, and may cut back its 777 production rate or cancel a planned increase in 787 production. Microsoft recently announced a plan to lay off 2,850 workers during the current fiscal year. The location of the positions subject to layoff was not announced, but the cuts will occur in smartphone hardware and sales, which suggest a non-Puget Sound region focus. For Amazon the risk is probably mostly on the upside, namely that the regional forecast is underestimating Amazon's future growth.

For Seattle, the trajectory of construction activity is a major source of risk and uncertainty. Construction is a highly cyclical industry, with periods of strong growth often, but not always, followed by steep downturns. The city is currently well into a boom period, with taxable sales for construction having more than doubled over the past five years. The timing and severity of the inevitable construction slowdown will be a key determinant of the course of the city's economy over the next several years.

# Revenue Overview

## Consumer Price Inflation

***Inflation has made a modest come back after disappearing during the Great Recession.*** The Great Recession, the worst economic downturn in 80 years, pushed inflation rates down to levels not seen since the 1950s. In 2009 the annual growth rate of the U.S. CPI-U fell to -0.4%, the first time in 54 years that consumer prices had declined on an annual basis. During the recovery, inflation has averaged 1.6% per year, reaching a high of 3.2% in 2011 due to a rise in energy prices, and falling to a low of 0.1% in 2015 when energy prices dropped steeply. Putting downward pressure on prices in 2015 and 2016 has been a strong dollar, which has made imports less expensive. Core inflation, which excludes volatile food and energy prices, has been very stable, ranging between 1.0% and 2.1% during the past six years.

Local inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of local prices. Local deviations from national inflation are typically due to differences in housing inflation. Seattle inflation has generally tracked national inflation during the recovery, though Seattle inflation has been running a bit higher recently due to Seattle's relatively high housing cost inflation. For the first half of 2016, the Seattle CPI-U has grown at a 2.2% rate, compared to 1.1% for the U.S. CPI-U. Housing inflation for this period was 4.7% for Seattle and 2.2% for the U.S.

***Seattle inflation is expected to remain subdued***. In the short- to medium-term, inflationary pressures are expected to remain subdued, as the weakness of the global economy restrains price pressures for commodities, goods, and services. Nationally Inflation is expected to increase gradually through the end of 2016, and then settle into the 2% - 3% range, though there could be movement outside of this range if energy or food prices rise or fall steeply. Local inflation will continue to track higher than national inflation in the near term due to the region's relatively high housing price inflation.

Figure 8 presents historical data and forecasts of inflation for the Seattle metropolitan area through 2019. The forecasts are for the Seattle CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific inflation measures shown in Figure 8 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

**Figure 8. Consumer Price Index Forecast**

| | **Seattle CPI-W** (June-June growth rate) | **Seattle CPI-W** (growth rate for 12 months ending in June) |
|---|---|---|
| 2016 (actual) | 2.0% | 1.9% |
| 2017 | 2.7% | 2.9% |
| 2018 | 2.5% | 2.6% |
| 2019 | 2.4% | 2.4% |

Source: U.S. Bureau of Labor Statistics, City of Seattle.

# Revenue Overview

## City Revenues

The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Subfund, its primary capital subfund and the Cumulative Reserve Subfund.

### General Subfund Revenue Forecast

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 9 illustrates, the most significant revenue source is the property tax, which accounts for approximately 25%, followed by the Business and Occupation (B&O) tax, sales tax, and utility taxes.

**Figure 9. 2017 Adopted General Subfund Revenue Forecast by Source - $1,189.2 Million**

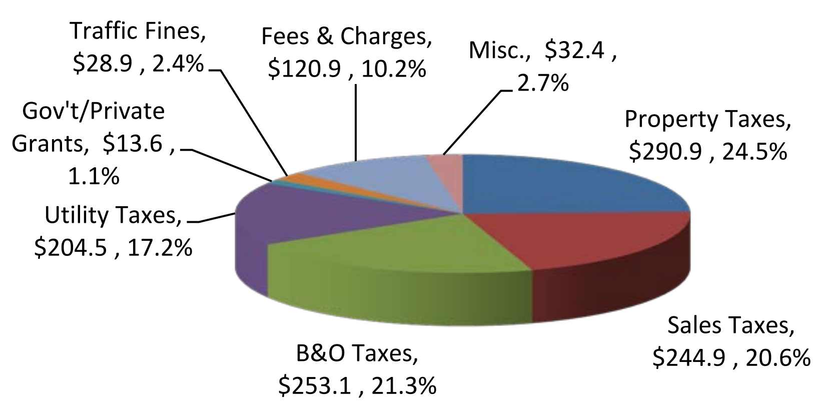



Figure 10 shows General Subfund actual revenues for 2015, adopted and revised revenues for 2016, as well as the adopted and endorsed revenues for 2017 and 2018. Revenues, led by B&O and sales taxes, continue to grow outpacing inflation. Construction and employment levels have been on the rise in Seattle. Apartment building construction in dense neighborhoods and new office space in South Lake Union playing a key role in tax revenue growth.

Utility tax receipts from both private and public utilities have held up fairly well through the recession and the following period of expansion. Public utilities have seen a number of general rate increases as well as the creation of revenue stabilization accounts. These rate increases have led to higher tax revenues to the City which have served to stabilize general fund revenues against volatile growth rates in sales and B&O tax receipts. Some technological changes are having an effect on telecommunications and cable tax revenue streams as consumers change their behaviors. More cellular phone services are being used for internet access and other data services which are not part of the local tax structure. Similarly the competition between cable and satellite service providers along with an increased presence of television online has limited growth in cable tax revenues.

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

# Revenue Overview

Beginning in 2009, City staff began depositing 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2017 and 2018, General Subfund support to the Parks and Recreation department will be $103.3 million and $106.8 million. These contributions are well above the $53.6 and $55.7 million that the Charter requires and that would accrue respectively to Parks under the previous 10% accounting approach.

**Figure 10. General Subfund Revenue, 2015 – 2018*** 
(in thousands of dollars)

| Revenue Source | 2015 Actuals | 2016 Adopted | 2016 Revised | 2017 Adopted | 2018 Endorsed |
|---|---|---|---|---|---|
| General Property Tax (1) | 229,567 | 236,821 | 237,040 | 244,284 | 255,019 |
| Property Tax - Medic One Levy | 43,477 | 44,871 | 45,510 | 46,648 | 47,814 |
| Retail Sales Tax | 203,116 | 211,972 | 219,774 | 225,849 | 230,979 |
| Retail Sales Tax - Criminal Justice Levy | 16,732 | 17,600 | 18,215 | 19,091 | 19,768 |
| B&O Tax (100%) | 221,300 | 229,498 | 235,447 | 253,059 | 266,653 |
| Utilities Business Tax - Telephone (100%) | 19,407 | 23,847 | 22,448 | 22,254 | 22,412 |
| Utilities Business Tax - City Light (100%) | 45,779 | 51,655 | 49,452 | 52,965 | 54,839 |
| Utilities Business Tax - SWU & priv.garb. (100%) | 15,343 | 15,718 | 15,849 | 19,880 | 21,222 |
| Utilities Business Tax - City Water (100%) | 32,133 | 31,053 | 30,694 | 31,572 | 32,920 |
| Utilities Business Tax - DWU (100%) | 42,876 | 43,090 | 43,648 | 46,036 | 47,269 |
| Utilities Business Tax - Natural Gas (100%) | 12,137 | 12,006 | 10,846 | 11,828 | 12,682 |
| Utilities Business Tax - Other Private (100%) | 18,995 | 19,562 | 19,354 | 19,946 | 20,607 |
| Admission Tax | 8,793 | 8,594 | 9,004 | 9,207 | 9,415 |
| Other Tax (2) | 7,171 | 10,762 | 11,854 | 12,077 | 11,745 |
| **Total Taxes** | **916,827** | **957,049** | **969,135** | **1,014,697** | **1,053,344** |
| Licenses and Permits | 18,842 | 16,945 | 21,877 | 26,858 | 28,608 |
| Parking Meters/Meter Hoods | 41,461 | 43,480 | 42,509 | 46,696 | 49,232 |
| Court Fines (100%) | 28,387 | 29,153 | 28,625 | 28,875 | 29,625 |
| Interest Income | 2,604 | 2,916 | 2,762 | 3,040 | 4,323 |
| Revenue from Other Public Entities (3) | 22,564 | 12,981 | 13,046 | 13,594 | 14,012 |
| Service Charges & Reimbursements | 49,362 | 43,505 | 42,772 | 47,350 | 48,270 |
| **Total: Revenue and Other Financing Sources** | **1,080,048** | **1,106,028** | **1,120,726** | **1,181,110** | **1,227,414** |
| All Else | 5,936 | 3,415 | 5,045 | 2,843 | 2,703 |
| Interfund Transfers | 566 | 2,872 | 22,057 | 5,212 | 4,616 |
| **Total, General Subfund** | **1,086,549** | **1,112,314** | **1,147,828** | **1,189,165** | **1,234,732** |

**NOTES:**

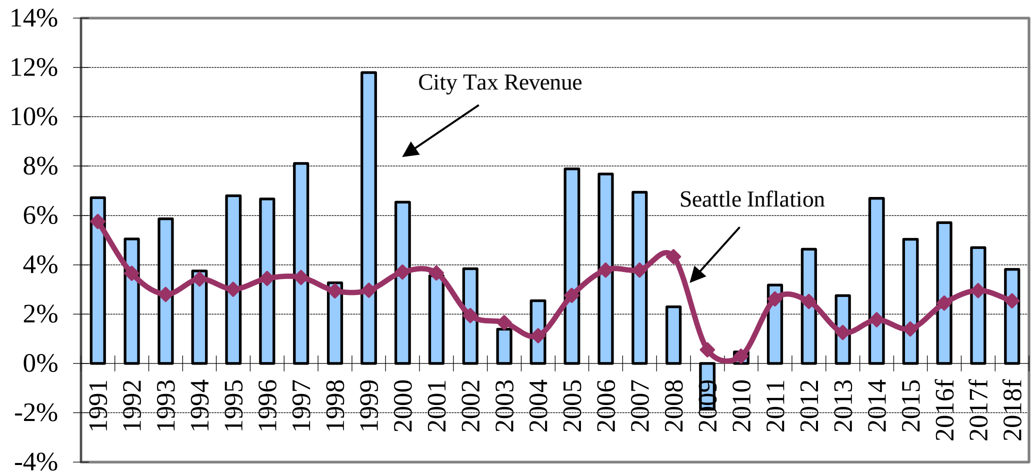
(1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
(2) Other Tax includes tonnage taxes that previously went to Seattle Public Utilities to pay for Clean City programs. These taxes now go to the general fund while continuing to support Clean City.
(3) Included in 2014 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

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

# Revenue Overview

Figure 11 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation fell to near zero in 2009 and 2010, but tax revenue growth was negative by almost 2% in 2009. Inflation is forecast to be stable and low over the coming biennium. Tax revenue growth is forecast to be positive and above inflation, with an average annual growth rate of over 4.7% 2016 through 2018. Inflation for the same period will average 2.6%.

**Figure 11. City of Seattle Tax Revenue Growth, 1991-2018**




## Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations. Figure 12 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City's 2016 property tax: the non-voted General Purpose levy (52.9%); the six voter-approved levies for specific purposes (40.7%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; the levy to pay debt service on voter-approved bonds (6.4%). The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. The County Assessor then divides this approved levy amount by the assessed value (AV) of all property in the jurisdiction to determine the tax rate (expressed per $1,000 of assessed value), which, per the Washington State Constitution, is a uniform rate that is then applied to all taxable properties in the respective jurisdiction. The County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value as of January 1 of the year preceding the year of tax collection.

***Statutory growth limits, assessed value 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 levy to 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, thus preserving the 1% growth limit. The second growth restriction is that state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is $3.60 per $1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts.

The City of Seattle's 2016 tax rate at $2.77 per $1,000 AV was roughly 29 percent of the total $9.48 rate paid by Seattle property owners for all taxing jurisdictions. The 2016 total and City of Seattle tax obligations for a home of median assessed value in Seattle was $4,553 and $1,246 respectively. The obligation amounts in 2015 were approximately $3,960 and $1,120. The increase is largely due to the City's creation of the Seattle Metropolitan Park District and approval of the Move Seattle transportation levy. The County also added the Radio Communications and "Best Start for Kids" levies.

*Assessed Value (AV)* -- For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. AV fell again in 2011 and 2012 by 2.9 percent and 2.2 percent respectively. The last significant decrease previously was in 1984 when AV dropped by 3.6 percent. Changes in AV affect tax rates as do changes in the amounts levied: as AV falls (rises), tax rates rise (fall). Consequently, from 2009 – 2013 with falling AV, the total property tax rate from all jurisdictions paid by Seattle property owners increased 31.8% from $7.97 to $10.50 per thousand dollars of AV. The rate for the City of Seattle increased 27.1% over the same period from $2.58 to $3.28, even though the levy amount increased only 12.5%. Rate growth has reversed over the last couple of years as Seattle AV increased 9.57% for 2014, 12.72% for 2015, 13.0% for 2016 and is forecast to increase approximately 10.8% in 2017 and 8.6% in 2018.

*New Construction* -- In addition to the allowed maximum 1% levy 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. Between 1999 and 2010 annual new construction tax revenues exceeded $2 million, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction tax revenue for the 2009 tax collection year remained high at $6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to $4.11 million, then 52% to $1.95 million in 2011 before stabilizing at $2.02 million in 2012. The overall value of new construction activity also fell during this period, but increased 6.9% in the valuation period preceding 2013 tax collections to $780.2 million from $729.7 million in 2012, increased a robust 90% further in 2014 to $1.48 billion, another 53.5% in 2015 to $2.27 billion, and 28.6% to $2.92 billion in 2016. This increased revenues by $2.39 million in 2013, $4.6 million in 2014, $6.1 million in 2015, and $6.6 million in 2016. The 2017 Adopted Budget projects continued growth in new construction value for 2017 (25.9% to $3.68 billion) before declining 4.2% in 2018 to $3.53 billion. These new construction volumes are projected to generate $9.1 million additional tax revenues in 2017, and $8.8 million in 2018.

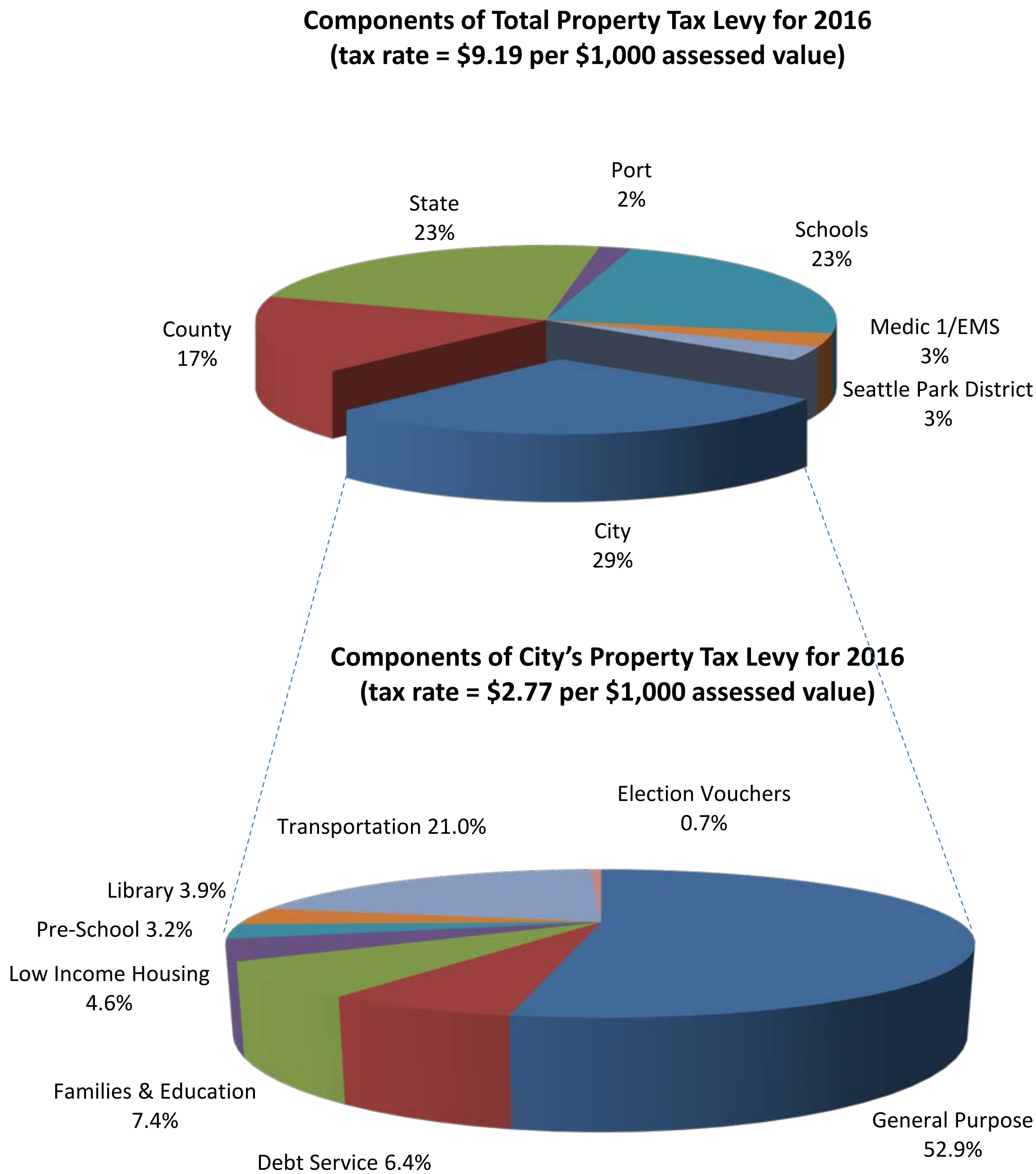
***The 2017 Adopted Budget assumes 1% growth plus new construction.*** The forecast for the 2017 Adopted Budget's General Subfund (General Purpose) portion of the City's property tax is $237.0 million in 2016, $244.3 million in 2017 and $255.0 million in 2018. Additionally, in 2017 the City will levy approximately $206.3 million for voter-approved lid lifts accounted for in other funds than the City's General Fund and $30.7 million to pay debt service on voter-approved bond measures. The City's current seven-year Low Income Housing lid lift expires in 2016, decreasing the City's levy by approximately $20.7 million. Voters, however, approved the proposed $290 million, seven-year Low Income Housing levy renewal at election on August 2, 2016. The first year levy amount is $41.4 million.

***Seattle Parks District.*** In August, 2014, voters approved creation of a Metropolitan Parks District (MPD). Pursuant to RCW 35.61, the MPD is a legally separate taxing jurisdiction from the City of Seattle, whose property tax levy authority of $0.75 per $1,000 assessed value is outside of the City's statutory rate limit of $3.60 per $1,000 assessed value and whose revenues will not be accounted for in the City's General Fund. The MPD named the Seattle Parks District will levy approximately $49.8 million for collection in the 2017 tax collection year.

***Medic 1/Emergency Medical Services.*** Voters in November 2013 approved a renewal of the Medic 1/EMS levy at $0.335 per $1,000 of AV. At this rate King County projected revenues over the 6-year life of the levy of $678 million, approximately $256 million of which will come to the City of Seattle. The 2017 Adopted Budget projects revenues of $45.5 million in 2016, $46.6 million in 2017 and $47.8 million in 2018.

# Revenue Overview

**Figure 12.**



# Revenue Overview

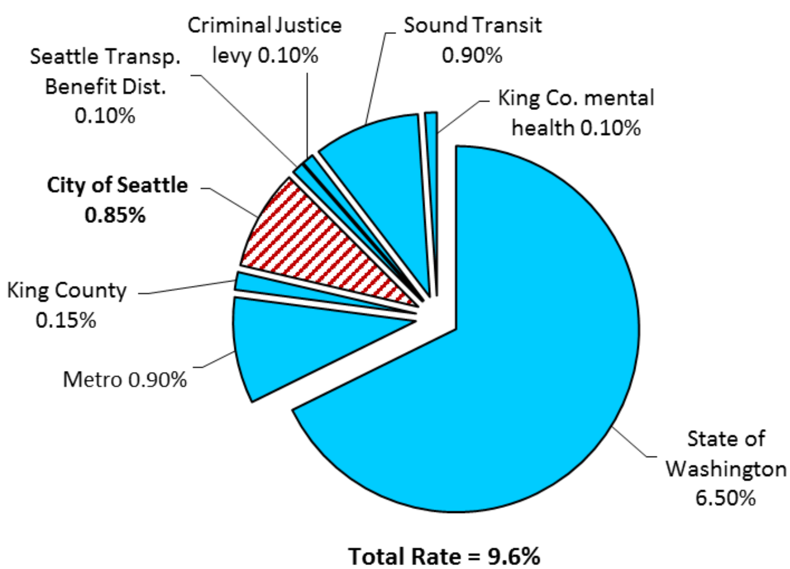
## Retail Sales and Use Tax

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 revenue to the state. The state sends the City its share of this revenue on a monthly basis.

The sales tax rate in Seattle is 9.6% for all taxable transactions. The rate was increased from 9.5% to 9.6% on April 1, 2015 by the addition of a 0.1% sales tax levy for the Seattle Transportation Benefit District. Seattle voters approved the increase in November 2014.

The basic sales tax rate of 9.6% is a composite of separate rates for several jurisdictions as shown in Figure 13. 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. Revenue collected by the Seattle Transportation Benefit District, whose governing board is comprised of all nine Seattle City Councilmembers, is used to make transportation improvements within the city.

**Figure 13. Sales and Use Tax Rates in Seattle, 2016**




On July 1, 2008, in order to bring its sales tax procedures into conformance with the Streamlined Sales and Use Tax Agreement (SSUTA), Washington State implemented destination based sourcing for the sales tax. Under destination based sourcing, when a retail sale involves a delivery to a customer the sales tax is paid to the jurisdiction in which the delivery is made. Previously Washington had employed origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the delivery was made. This change yielded a modest increase in the City's sales tax revenue.

***Sales tax revenue has grown and contracted with the region's economy.*** Of the City's four major taxes, the sales tax is the most volatile because it is the most sensitive to changes in economic conditions. Over half of sales tax revenue comes from retail trade and construction activity, both of which are very sensitive to economic conditions.

Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996 - 1997, and the stock market and technology booms. The recession that followed the bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive years of decline (2001 - 2003) in the sales tax base. The economy began to recover in 2004, and then grew strongly for three years, 2005 - 2007, during which the sales tax base grew at an average annual rate of 9.8%, led by construction's 21.0% rate.

# Revenue Overview

The robust growth of 2005 -2007 was followed by the Great Recession, which caused the largest contraction in the sales tax base in over 40 years. In a period of five quarters beginning with the third quarter 2008, the retail sales tax base shrunk by 18.2%. The decline was led by a steep drop in construction along with falling sales in manufacturing, finance and insurance, management, education and health services, and building materials and garden supplies.

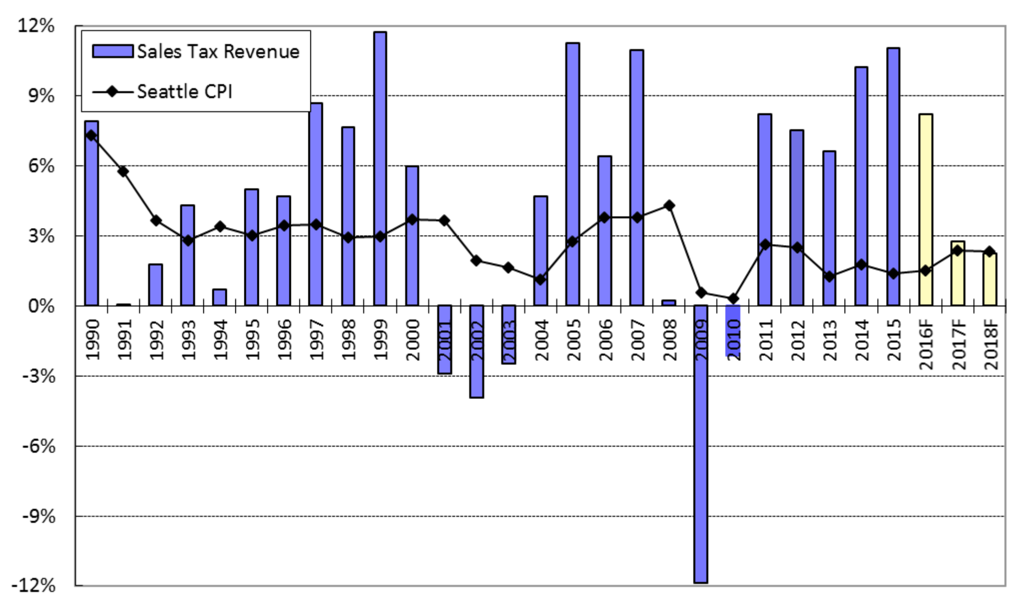
After hitting bottom in 2010, Seattle's sales tax base has rebounded strongly, with construction leading the way. Other fast growing industries have included motor vehicle and parts retailing, e-commerce retailing, professional, scientific and technical services, accommodation, and food services.

***2016 will be another strong year for sales tax revenue but growth will slow thereafter.*** Throughout the course of 2016, sales tax receipts have exceeded expectations. This has been due mostly to stronger than expected growth in construction, although the rest of the tax base exceeded expectations as well. Due to strong revenue growth in recent months, an upward revision to the 2016 regional economic forecast in September, and a stronger construction forecast for 2016, the sales tax revenue forecast was increased in the 2017 Adopted and 2018 Endorsed Budget. The increase from the proposed to the adopted budget was $1.2 million for 2016, $1.4 million for 2017, and $1.9 million for 2018.

The forecast for the construction portion of the tax base was developed in two parts. First, a forecast for the first four quarters of the forecast period was developed from lagged Seattle construction permit data. Then a forecast for the remaining period was created using a time series model estimated over 41 years with quarterly data. The resulting forecast predicts taxable sales for construction will peak in 2016 and then decline by 9.2% over the following three years.

With expectations of a modest decline in construction and a slowdown in regional employment growth, sales tax revenue growth is expected to slow to 2.8% in 2017 and 2.3% in 2018. The forecast incorporates an expected small revenue gain from SB 6138, a revenue bill passed by the Washington State Legislature in 2015, and an estimate of future sales tax revenue from marijuana sales legalized by Initiative 502.

**Figure 14. Annual Growth of Retail Sales Tax Revenue**




Note: All revenue figures reflect current accrual methods. 2016-18 are forecasts.

# Revenue Overview

## Business and Occupation Tax

Seattle's principal business tax is the business and occupation (B&O) tax, which is levied on the gross receipts of most business activity that takes place in the city. The B&O tax has a small business threshold of $100,000, which means businesses with taxable gross receipts below $100,000 are exempt from the tax.

Between January 1, 2008 and January 1, 2016 the City's B&O tax also included a square footage tax that was complementary to the gross receipts tax. The square footage tax, which was levied on the floor area of some businesses located in Seattle, was implemented to offset the expected loss of $22.3 million from state mandated procedures for allocation and apportionment of B&O income that took effect in 2008. The square footage tax was structured so that no business would pay more under the new combined gross receipts and square footage business taxes than it did under the pre-2008 gross receipts tax. The City eliminated the square footage tax effective January 1, 2016.

The City levies the gross receipts tax at different rates on different types of business activity, as indicated in Figure 22 at the end of this section. Most types of business activity, including manufacturing, retailing, wholesaling, and printing and publishing, are subject to a tax of 0.215% on taxable gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%, and international investment management service are taxed at a 0.150% rate.

Beginning in 2017 the City will increase B&O tax rates to the maximum allowed under state law. The increase will take place in two steps, a two percent increase on January 1, 2017 and an increase of approximately one percent on January 1, 2018 (see Figure 15). In addition, the special rate for international investment management services will be eliminated on January 1, 2017.

**Figure 15. Seattle Business and Occupation Tax Rates, 2016 – 2018**

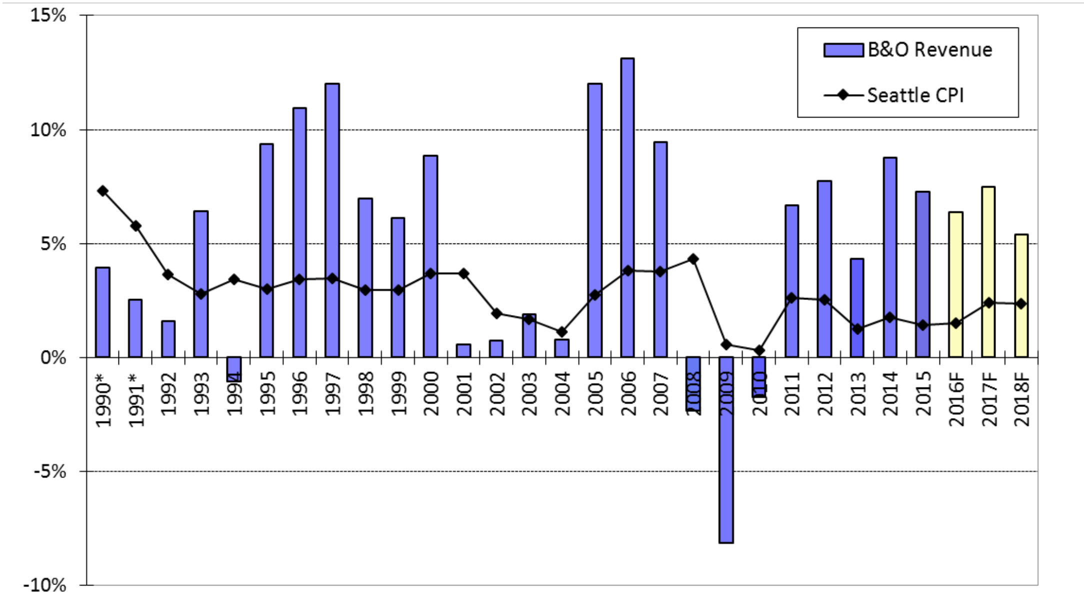
| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Retailing, wholesaling | 0.215% | 0.219% | 0.222% |
| Manufacturing, extracting | 0.215% | 0.219% | 0.222% |
| Printing, publishing | 0.215% | 0.219% | 0.222% |
| Service, other | 0.415% | 0.423% | 0.427% |
| International investment management | 0.150% | 0.423% | 0.427% |

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, which does not cover most services. In addition, the B&O tax is less reliant than the sales tax on the relatively volatile construction and retail trade sectors, and it is more dependent upon the relatively stable service sector. Included in B&O tax revenue are tax refunds, audit payments, and penalty and interest payments for past-due tax obligations.

***B&O revenue growth has mirrored the growth of the city's economy.*** In 1995, the City initiated an effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. This resulted in unlicensed businesses being added to the tax rolls, businesses reporting their taxable income more accurately, and a significant increase in audit and delinquency collections – all of which helped to increase B&O receipts beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way that financial institutions are taxed.

Since the mid-1990s, B&O receipts have fluctuated with the economy's ups-and-downs, rising rapidly during the late-1990s stock market and dot-com boom and the housing bubble of the mid-2000s, but falling sharply during the two major recessions of the last decade (see Figure 16). Following four successive years of very weak growth from 2001 through 2004, B&O revenue turned up sharply in 2005 and averaged 11.5% over the three year period 2005 - 2007. The upswing was led by strong growth in construction, professional, scientific and technical services, health services, and finance and insurance. The upturn ended in 2008 with the onset of the Great Recession. 2009 saw the full force of the recession with revenue dropping 8.2% from 2008. The decline was broad based with no industry untouched, but construction, manufacturing, wholesale trade, and finance and insurance were particularly hard hit. The decline continued until the second quarter of 2010, by which time the tax base had lost 16.8% of its value.

**Figure 16. 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; 2016-18 are forecasts.
Figures include both gross receipts and square footage tax revenue.

The recovery from the Great Recession has seen a healthy rebound in B&O tax revenue. Over the five year period 2010 - 2015, the B&O tax base has grown at a 7.4% annual rate. Industries growing rapidly during the recovery have been construction, information, real estate, management of companies and enterprises, and food services and accommodation. Health services, historically a fast growing industry, has posted a modest 4.7% annual growth rate during the current recovery. Slow growth in 2013 was caused not by a slowing of growth in the tax base, which expanded by 7.2%, but by a drop in revenue from audit activity and an increase in refund payments from 2012 levels.

***Growth rates for B&O tax revenue will slow gradually over the forecast period.*** The B&O revenue forecast has been shaped by four factors:

1. The economic forecast for the region, which is predicting a slowdown.
2. An updated forecast for construction, which predicts that revenue from construction will decline by 9.1% over a three year period beginning in 2017.
3. B&O tax rate increases of approximately two percent in 2017 and one percent in 2018. These increases add $4.7 million to the forecast in 2017 and $7.6 million in 2018, which mitigates much of the impact of a slowing economy and the expected downturn in construction.
4. Elimination of the special tax rate for international investment management services. These services will be taxed at the regular service rate beginning January 1, 2017. This change adds $2.0 million to the forecast in 2017 and $2.1 million in 2018.

The impacts of eliminating the international investment management services tax rate and a September revision to the regional economic forecast were not reflected in the proposed budget forecast. Incorporating these impacts into the forecast for the adopted budget yielded a revenue increase of $3.7 million in 2017 and $4.8 million in 2018. This increased the B&O revenue growth rate to 7.5% in 2017 and 5.4% in 2018.

# Revenue Overview

The forecast incorporates an expected revenue loss of $2.5 million in 2016 due to the elimination of the square footage tax.  It also includes an expected revenue gain of $600,000 in 2016 and later years from planned improvements to the City's audit selection process.  The City's manual selection process is being replaced by an analytically-based automated process that will make use of information from internal and external data sources to identify areas of likely tax non-compliance and to optimize audit workflow.  The new process is expected to increase tax compliance, which will provide a modest boost to B&O revenue.  Also included in the forecast is a projection of revenue from the implementation of Initiative 502, the state marijuana initiative.

## 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 prices remain historically low.***  The City levies a 6% utility business tax on gross sales of natural gas and on sales of steam which has natural gas as an energy source.  The bulk of revenue from the natural gas tax is received from Puget Sound Energy (PSE).  PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC).  Another tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales.

Spot prices, those paid for delivery in the following month, averaged $2.10 per million British Thermal Units (BTU) for 2015 and are expected to average around $2.60/mBTU through 2016. Temperatures play a key role in gas related revenues and are inversely related to natural gas usage and subsequent tax receipts.

***Refunds and Audit payments affect the Telecommunications Tax.***  The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%.  All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits.  Wireless revenues have been a source of growth as more and more consumers shift to cellular phones as their primary voice option. This growth has come at the expense of traditional telecom providers, from whom the City has seen steady declines in tax receipts. The recent proliferation of smartphones has been a double-edged sword for the City's tax base. While new smartphone users have added to the wireless tax revenue base, the increased use of data and internet services which are not taxable have caused declines in the revenue streams.

As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City may continue to see tax revenue declines.  Revenue growth has been negative for the past six years largely as a result of some wireless companies changing their revenue accounting practices to reflect the increased use of non-taxable data services. Non-current revenues, those that are for prior periods stemming from re-filing or audit/refund payments, have been volatile adding revenues in some years and taking away revenues in others. In 2015 the City realized significantly negative non-current activity as some large refund payments were paid to various taxpayers. Year over year revenue growth was -23.5% in 2015. Growth in 2016 is forecast to be 15.7% following such a negative year but revenue growth is expected to be flat for the 2017-2018 biennium.

***Cable tax revenues show slightly positive growth.***  The City has franchise agreements with cable television companies operating in Seattle.  Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue.  The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax.  The imposition of a 4.4% franchise fee makes funds available for cable-related public access purposes.  This franchise fee is deposited into the City's Cable TV Franchise Fee Subfund.

Cable revenues have been growing, but with increased competition from satellite and internet television providers, the growth has been somewhat muted and continues to be a source of risk to the forecast. Average annual growth for the 2016 – 2018 period is expected to be 2.7%, slightly outpacing inflation.

# Revenue Overview

## Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 15.54% on the City Water Utility.

***Revenue Stabilization Account Surcharge is in effect for the biennium.*** City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization account (RSA) for the utility funded with an as needed surcharge based on funding levels of the RSA. The rate stabilization surcharge has been triggered in 2016 because the RSA funding level has dropped below $90 million, the account's minimum required balance set by Council. This forecast expects the surcharge to remain in effect into 2018. For the upcoming biennium energy sales are expected to be relatively flat with retail rates up 6.7% and 5.0% in 2017 and 2018 respectively. Tax revenues that accrue to the General Subfund will have average annual increases of 6.2% 2016 through 2018.

***Small water retail rate increase for 2017.*** Rate increases have already been adopted by Council for the water utility in SPU through 2016. Due to the excessive heat and dryness of the summer in 2015, water usage was significantly up resulting in higher tax revenues. Tax revenue growth is expected to be -4.5% in 2016 and then average 3.6% for the biennium.

***Drainage and Wastewater rate increases mean higher tax revenue growth.*** Rates adopted by City Council through 2016 will yield tax receipts from these two utilities that will grow by an average 3.3% a year in 2016 through 2018. This assumes a King County pass-through rate increase of 5.2% in 2017.

***Increased Solid Waste Tax Rate for 2017.*** The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%, but has been increased by the City Council to 14.2% effective April 1, 2017. This will yield an additional $7 million for the biennium with revenue growth rates of 25.5% in 2017 and 7.1% in 2018.

***Tonnage taxes have moved to the General Subfund in 2016.*** The City imposes a $13.27 per ton tax on solid waste hauled within the city limits. Historically these tax revenues, which apply to both public and private haulers, has been collected by Seattle Public Utilities and been used to pay for Clean City programs. These programs support public garbage collection, graffiti removal, illegal dumping, and other activities. In 2016, these taxes, around $6 million a year, began accruing to the general fund and continue to support Clean City programs.

### Admission Tax

The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to swings in attendance at athletic events. It is also dependent on economic conditions, as people's ability and desire to spend money on entertainment is influenced by the general prosperity in the region. Recently, entertainment venues have opened around the City increasing the size of the tax base. Revenues are forecast to grow by an average annual rate of 3.1% for 2017 and 2018.

20% of admission tax revenues, excluding men's professional basketball, were dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). For 2010, the Mayor and Council agreed to increase this contribution to 75% based on the actual admission tax receipts from two years prior, this has been increased to 80% for 2016. In 2017 that will be increased to 90% and then 100% of actual receipts in 2018. As a result, OACA is fully funded by the admission tax, except for money received from the 1% for Arts program. The forecasts in Figure 10 for admission taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs section of this document provides further detail on the Office's use of Arts Account revenue from the admission tax and the implementation of this change.

# Revenue Overview

## 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.

In 2005 the City instituted a two-tier business license fee structure. 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 City increased these fees in the 2015 Adopted Budget to $110 and $55, respectively, which increased revenue by approximately $1.1 million.

In order to provide funding for additional police officers, the City is implementing a new business license fee structure that will take effect for 2017 licenses. Fees will be increased for businesses that have a taxable income (reported for B&O tax purposes) greater than $500,000. Fees for all other businesses will remain at 2016 levels (See Figure 17). Fee increases will be phased in over a three year period, and will increase with inflation annually thereafter. The fee increases are projected to generate $3.5 million in 2016, $6.9 million in 2017, and $8.5 million in 2018.

**Figure 17. Business License Fee Schedule, 2016 – 2019**

| Taxable income | 2016* | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Less than $20,000 | $55 | $55 | $55 | $55 |
| $20,000 - $500,000 | $110 | $110 | $110 | $110 |
| $500,000 - $2 mil. | $110 | $480 | $480 | $500 |
| $2 mil. - $5 mil. | $110 | $1,000 | $1,000 | $1,200 |
| More than $5 mil. | $110 | $1,000 | $2,000 | $2,400 |

*2016 fee is based on worldwide gross income, not taxable income.

## Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional individual space parking meters with pay stations in various areas throughout the City. In addition to offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking, pay station technology has allowed the City to more actively manage the street right-of-way by adopting different pricing, time limit and other management parameters on different blocks throughout the city and at different times of day. The City currently has around 2,000 pay stations controlling approximately 12,300 parking spaces. The overall objective of the parking management program is to provide a more data-driven, outcome based management and price setting approach in pursuit of the adopted policy goals of 1 to 2 open spaces per block-face, reduced congestion, support of business districts and, as a by-product, reduced vehicle emissions and improved air quality.

One element of the performance based parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, different rates were charged for these spaces according to their location and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the city. Accompanying this change in policy, the maximum allowable hourly rate was increased from $1.50 per hour to $2.50 per hour to allow for rate setting flexibility.

# Revenue Overview

The 2011 Adopted Budget included a further increase in the maximum allowable hourly rate from $2.50 to $4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. in 7 neighborhoods with high evening occupancy rates. As implemented in 2011, based on measured occupancy throughout the day, SDOT moved from the 3 tiered rate approach to more finely adapted rates by individual neighborhood. The 2012 Adopted Budget went further, redefining the boundaries of parking areas as needed to set rates by neighborhood and where appropriate by sub-neighborhood areas according to occupancy data. It also adopted changes to time limits (from 2 to 4 hours) in 8 neighborhoods and sub-areas. The 2013 Adopted Budget made no further rate, boundary or time limit changes, but assumed full implementation of a pay-by-phone (PBP) payment program. PBP allows individuals to pay for parking by credit card using a smart phone or other smart device, via an account with the City's contracted PBP vendor.

The 2015 Adopted Budget, based on collected occupancy data, assumed rate adjustments in several neighborhoods across the City and, for the first time, tested time-of-day pricing in the Chinatown-International District neighborhood, charging a different rate to park in the evening than at other times of day. The 2016 Adopted Budget assumes installation of new pay stations in several parking areas, which will allow parking managers to employ time-of-day pricing differences more extensively across the city. In the 2017 Adopted Budget Council further expands the authorized minimum and maximum hourly parking rates from a low of $0.50 to a high of $5.00. The budget includes a variety of rate increases and decreases in several parking areas, including 5 areas where the rate will drop below the previous minimum of $0.75 and 5 areas where the rate will increase above the previous maximum of $4.00 per hour. These and the other rate changes are being made to implement time-of-day pricing and in response to parking demand (occupancy) data. The 2017 Adopted Budget further adopts, for the first time in the City, an extension of evening paid parking from 8:00 pm to 11:00 pm in the Pike-Pine, Capitol Hill North and Capitol Hill South areas. The City is also converting several blocks of non-paid parking to paid parking in the Pike-Pine (150 spaces) and South Lake Union (136 spaces) areas in response to measured occupancy rates. The combination of these factors and underlying growth in demand for parking leads to a forecast of 10.8% revenue growth in on-street parking revenue between 2016 and 2017, from $38.8 million to $43.0 million. 2018 revenue is projected at $45.6 million.

***Street Use and Traffic Permits****.* Traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits, reversed a downward recessionary trend in 2011, ending 23.3% higher at $2.33 million than 2010 actual revenues of $1.83 million. 2012 revenues increased 55% to $3.65 million, 2013 revenues remained flat at $3.64 million and 2014 revenues increased 19.4% to $4.3 million. This increase was due to growing construction and service trade activity coming out of the recession, but also to the advent of the City's car sharing program with Car2Go. 2015 revenues increased nearly 58% over 2014 revenues to $6.78 million. City Council approved legislation with the 2015 Adopted Budget that would allow additional car sharing permits and firms to enter the Seattle market. The 2017 Adopted Budget assumes revenues of approximately $6.0 million in 2016 through 2018.

## Court Fines

Although shifting with the introduction of photo enforcement cameras, between 50% and 60% of fine revenues collected by the Seattle Municipal Court are from parking citations written by Seattle Police Department parking enforcement and traffic officers. Fines from photo enforcement in selected intersections and school zones now comprise approximately 35-45% of revenues and 5-10% comes from traffic and other tickets. Demand for parking enforcement has grown with changes in neighborhood development, parking design changes and enforcement programs throughout the City. The City has established several new Restricted Parking Zones (RPZs), especially around the light-rail train stations through the Rainier Valley. In response, an additional 8 new PEOs were authorized in 2009, 7 in 2010, and 4 in 2011. Two of the four PEOs in 2011 were dedicated to enforcement activities related to the City's scofflaw boot program, which began July 5, 2011. The boot program utilizes mobile license plate recognition cameras and an immobilizing boot device that is attached to scofflaw vehicles, or those with 4 or more outstanding parking citations in collections.

An additional 8 PEOs were adopted for 2013 to compensate for the additional time anticipated to enforce compliance under the Seattle Department of Transportation's new pay-by-phone (PBP) program (see also descriptions in the Seattle Police Department and Transportation Department sections). The PBP program, allows the public to pay for parking with their smart phones or other mobile device. The City began PBP service in July 2013 in the downtown core with PEOs using smartphones to verify compliance rather than their existing handheld ticketing devices (HHTs). Full city-wide roll out continued through October 2013.

In 2009, the City received $27.2 million in court fines, including $4.7 million from the expanded red light camera enforcement program, which grew from 6 camera locations to 18 in the last quarter of 2008 and to nearly 30 total locations in early 2009. The 2012 Adopted Budget assumed addition of 6 more camera locations and 4 school zone speed camera locations Due to engineering and permitting complications, installation of the cameras was delayed with the school zone speed cameras becoming operational in December 2012. Total court fines and forfeitures revenues for 2012 were $32.0 million including $3.76 million in camera enforcement revenues. In 2013 total revenues grew to $38.7 million with $9.9 million of red light and school zone camera enforcement revenues generated by the full year of operations.

The 2014 Adopted Budget assumed an increase in the number of school zone speed camera locations from the original 4 locations to a total of 15 locations by the end of 2014. Because of construction delays, the 2015 Adopted Budget assumed that only 5 of the 15 new locations would come on line in the 4th quarter of 2014 and the remaining 6 locations were delayed until 2015. Also, per Council action beginning in 2014 the school zone camera revenues will be deposited into a separate fund and will no longer appear in the General Subfund table. Total Fines revenues for 2014 (excluding school zone speed camera revenue) were $29.5 million including $4.5 million of red light camera infraction revenues. School zone camera revenues totaled $5.1 million in 2014. Non camera fines decreased in 2014 to $25.0 million from $28.7 million in 2013 due to management changes, which resulted in greater than anticipated decreases in parking citations. The 2016 Adopted Budget assumed this trend in non-camera citation revenue would continue and reach a low point in 2015 before recovering in 2016. Total Fines revenues (excluding school zone speed camera revenue) decreased to $28.4 million in 2015, with non-camera revenues declining to $24.0 million. Red light camera and school zone camera revenues in 2015 were $4.4 million and $5.8 million respectively.

With the installation delays, the increase in school zone speed camera revenue is expected to shift into 2016, increasing to $13.0 million before declining to $8.2 million in 2017 and $5.9 million in 2018, as the public learns and adjusts to the 2015 installation locations. Red light camera revenues in 2016-2018 are projected to remain relatively flat between $4.0 and $4.5 million in each year. Non-camera fine revenues are projected to grow slowly to $24.1 million in 2016, $24.6 million in 2017 and $25.6 million in 2018. Total Fines revenues (excluding school zone speed camera revenue) are projected to remain flat at $28.6 million in 2016, $28.8 million in 2017 and $29.6 million in 2018.

## Interest Income

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

As a result of the financial crisis in 2008 and the Federal Reserve's unprecedented purchasing of assets through quantitative easing, borrowing rates fell to historic lows. These rates have remained relatively low through 2016 even as the Fed exits their purchasing programs. The annual earnings yield for the cash pool is expected to be

1.18% in 2016, 1.3% in 2017, and 1.87% in 2018. Should the economy suffer any setbacks, these rates would be expected to fall.

## 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.

***Criminal Justice revenues should be stable in the coming biennium.*** 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. These revenues have been affected by State budget changes in the recent past and while not expected, could be affected in future budgets out of Olympia.

***Marijuana related revenues are being shared with local jurisdictions.*** As part of the State's 2016 budget, marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. The state has adopted a complicated allocation of these revenues, but in general only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. Because this is a new revenue stream with limited information on the size of the tax base, the forecast is imprecise. 2015 revenues were $192,000. 2016 is expected to bring in $700,000 followed by $942,000 in 2017, and $1.28 million in 2018.

***State budget restores liquor related revenues to cities.*** Cities in the state of Washington typically receive two liquor related revenues from the state. One is related to the liquor excise tax on sales of spirits and the other is a share in the State Liquor Board's profits accrued from the operation from their monopoly on spirits sales. The state no longer holds the monopoly in liquor sales in the state due to the passing of Initiative 1183 in November of 2011. The initiative guaranteed the cities would continue to receive distributions in an amount equal to or greater than what they received from liquor board profits prior to the implementation of the initiative as well as an additional $10 million to be shared annually. There was no guarantee concerning liquor excise taxes. In recent budgets the state has eliminated, on a temporary basis, the sharing of liquor excise taxes. Distributions resumed in the 3rd quarter of 2013, but were lower than pre-I-1183 years. In adopting their 2016 FY budget, the state restored the excise tax funding to cities. Liquor related revenues are expected to bring in $8.2 million in 2016 and $8.4 million in both 2017 and 2018.

## Service Charges and Reimbursements

***Internal service charges reflect current administrative structure.*** In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

## Interfund Transfers

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

# Revenue Overview

In adopting the 2017 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

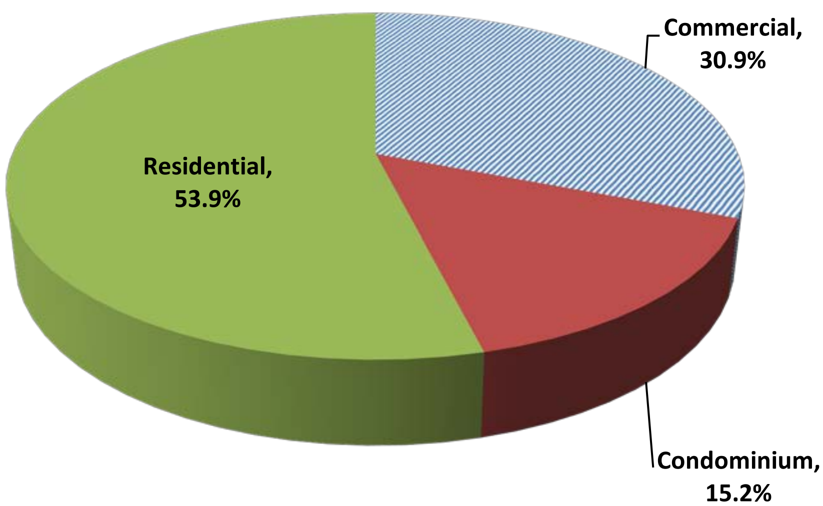
## Cumulative Reserve Subfund – Real Estate Excise Tax

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

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

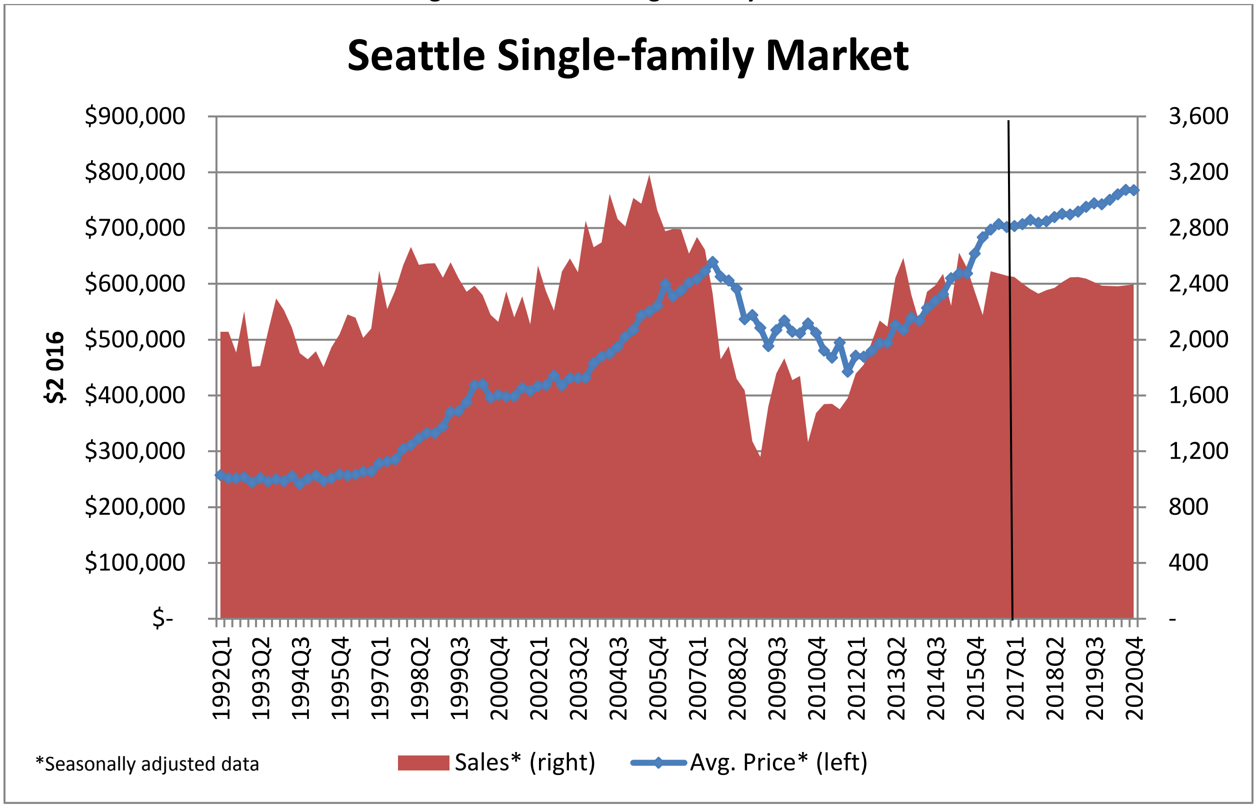
Over time, 53.9% of the City's REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 30.9% of the tax base, and condominiums constitute the remaining 15.2% (see Figure 18).

**Figure 18. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2015**




***The residential market continues to grow.*** The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fueled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline was felt across all three real estate categories. The first quarter of 2009 was the bottom of Seattle's residential market for both sales and prices on a seasonally adjusted basis. With low financing rates and a growing economy, residential and condominium sales have been on an upswing in Seattle increasing real estate excise tax (REET) revenues. Single-family home prices, both nominal and adjusted for inflation, have surpassed their previous peak set in 2007 (see Figure 19). Average prices are expected to continue to increase over the next few years while sales volume will remain flat.

**Figure 19. Seattle Single-family Market**




The volatility of REET is reflected by the fact that despite a 9.1% average annual growth rate, the REET tax base declined in ten years during the period 1982 – 2015. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability was severely compromised in the downturn as Seattle area prices for residential properties fell 31.0% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in 2007, 2012, and 2015 (see Figure 20). Those years saw significant commercial activity with a number of large buildings in the downtown core changing hands. In recent years many apartment buildings have been built and then subsequently sold also leading to increases in REET. Total commercial square footage sold has been on the rise, increasing 49.7% in 2014 and 21.9% in 2015 to over 20 million square feet. In 2016 through 2018, yearly sales volumes are expected to be smaller, but elevated levels of commercial activity are forecast to remain in place for some time. This is why the REET forecast has been significantly revised upward and the risk to the forecast remains largely to the upside.

## Revenue Overview

**Figure 20. Seattle Commercial Sales**

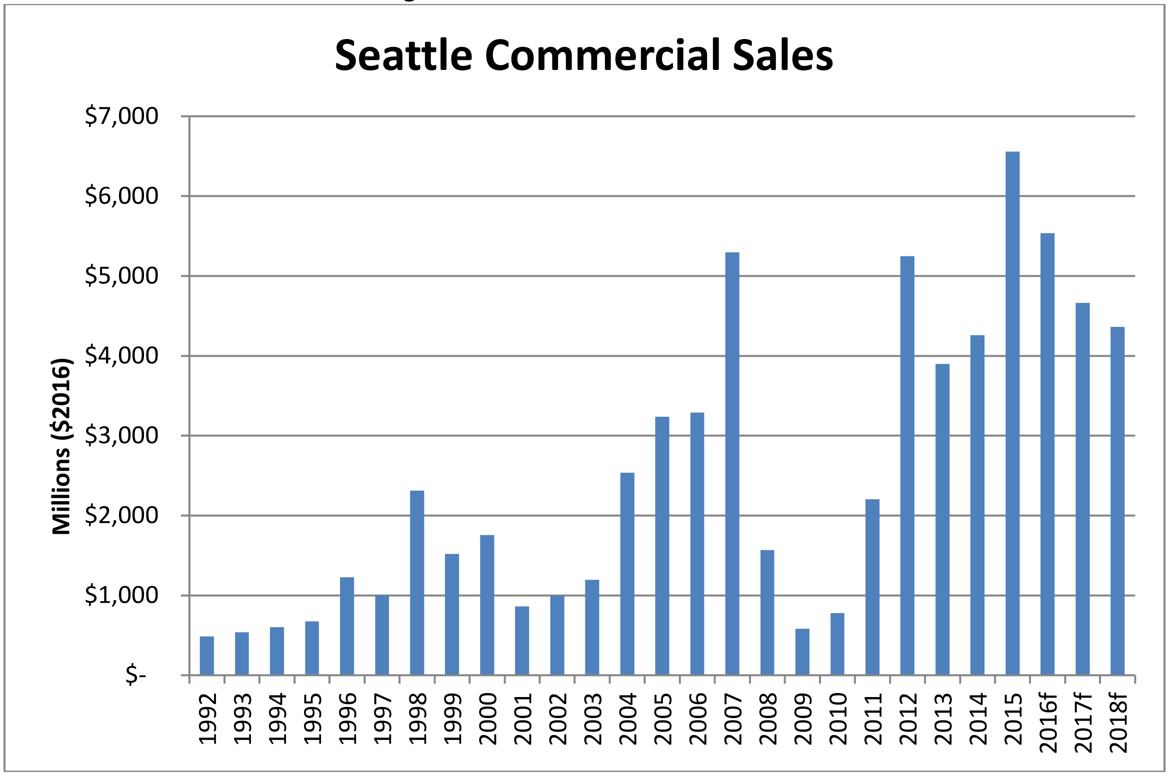
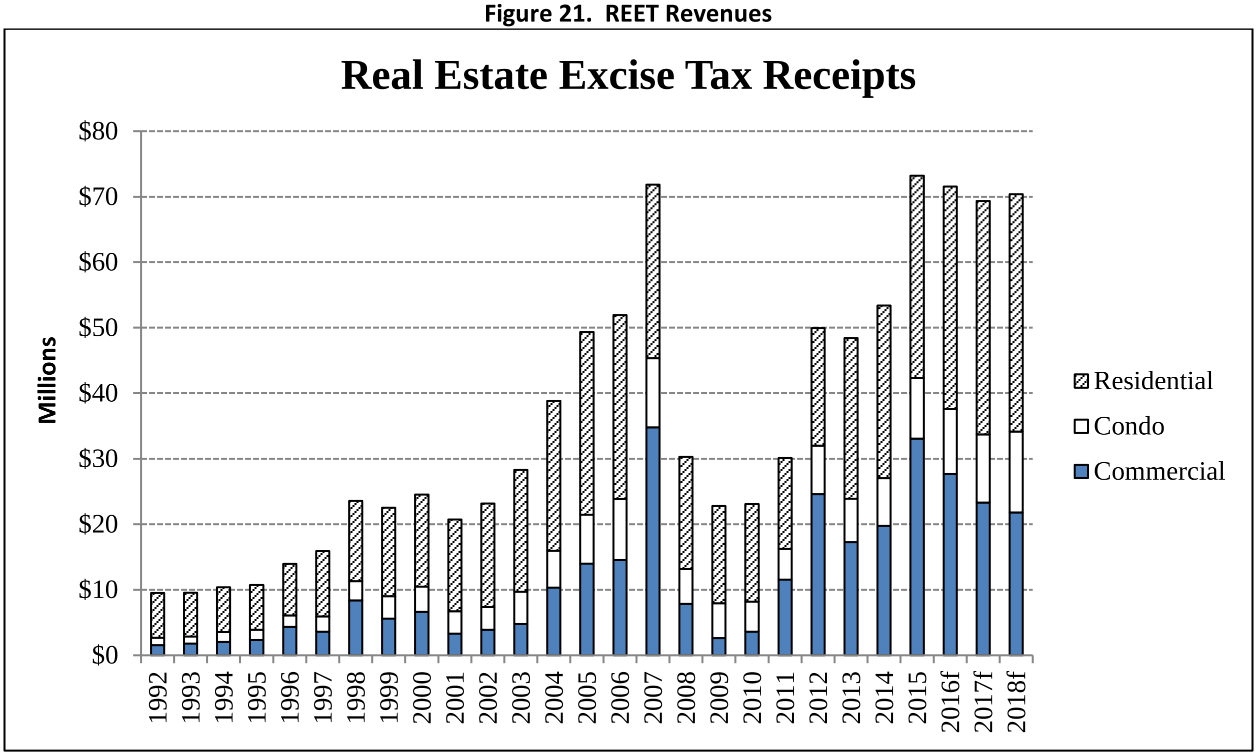



**Figure 21. REET Revenues**



# Revenue Overview

**Figure 22. Seattle City Tax Rates**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **Property Taxes (Dollars per $1,000 of Assessed Value)** | | | | | |
| General Property Tax | $1.97 | $1.90 | $1.80 | $1.63 | $1.47 |
| Families & Education | 0.27 | 0.27 | 0.25 | 0.23 | 0.20 |
| Parks and Open Space | 0.21 | 0.20 | 0.19 | | |
| Low Income Housing | 0.18 | 0.17 | 0.16 | 0.14 | 0.12 |
| Fire Facilities | 0.06 | | | | |
| Transportation | 0.33 | 0.35 | 0.31 | 0.27 | 0.58 |
| Pike Place Market | 0.11 | 0.10 | 0.06 | | |
| Library | | 0.14 | 0.13 | 0.12 | 0.11 |
| Pre-School For All | | | | 0.10 | 0.09 |
| Election Vouchers | | | | | 0.02 |
| Emergency Medical Services | 0.30 | 0.30 | 0.33 | 0.30 | 0.28 |
| City Excess GO Bond | 0.15 | 0.14 | 0.14 | 0.13 | 0.18 |
| | | | | | |
| **Retail Sales and Use Tax** | 0.85% | 0.85% | 0.85% | 0.85% | 0.85% |
| | | | | | |
| **Business and Occupation Tax** | | | | | |
| Retail/Wholesale | 0.215% | 0.215% | 0.215% | 0.215% | 0.215% |
| Manufacturing/Extracting | 0.215% | 0.215% | 0.215% | 0.215% | 0.215% |
| Printing/Publishing | 0.215% | 0.215% | 0.215% | 0.215% | 0.215% |
| Service, other | 0.415% | 0.415% | 0.415% | 0.415% | 0.415% |
| International Finance | 0.150% | 0.150% | 0.150% | 0.150% | 0.150% |
| | | | | | |
| **City of Seattle Public Utility Business Taxes** | | | | | |
| City Light | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| City Water | 15.54% | 15.54% | 15.54% | 15.54% | 15.54% |
| City Drainage | 11.50% | 11.50% | 11.50% | 11.50% | 11.50% |
| City Wastewater | 12.00% | 12.00% | 12.00% | 12.00% | 12.00% |
| City Solid Waste | 11.50% | 11.50% | 11.50% | 11.50% | 11.50% |
| | | | | | |
| **City of Seattle Private Utility B&O Tax Rates** | | | | | |
| Cable Communications (not franchise fee) | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% |
| Telephone | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Natural Gas | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Steam | 6.00% | 6.00% | 6.00% | 6.00% | 6.00% |
| Commercial Solid Waste | 11.50% | 11.50% | 11.50% | 11.50% | 11.50% |
| | | | | | |
| **Franchise Fees** | | | | | |
| Cable Franchise Fee | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% |
| | | | | | |
| **Admission and Gambling Taxes** | | | | | |
| Admissions tax | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Amusement Games (less prizes) | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Bingo (less prizes) | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% |
| Punchcards/Pulltabs | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |