City Revenue Sources and Funds – November 2001

City Revenues

Seattle City government has four main sources of revenue to support the services and programs that the City provides its citizens. 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 with fees include Woodland Park Zoo, Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to their customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2002, City revenues are estimated to be $2.8 billion. Revenues for general government purposes will total approximately $642 million.

City Funds

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

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

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

General Subfund Revenue Overview

General Subfund of the General Fund

The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (27%), followed by sales taxes and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 54% of General Subfund revenue, fluctuate significantly as economic conditions for the Puget Sound region change.

The following section describes the current outlook for the national and Puget Sound economies. This is followed by descriptions of General Subfund revenue and operating balance forecasts for 2001 and 2002.

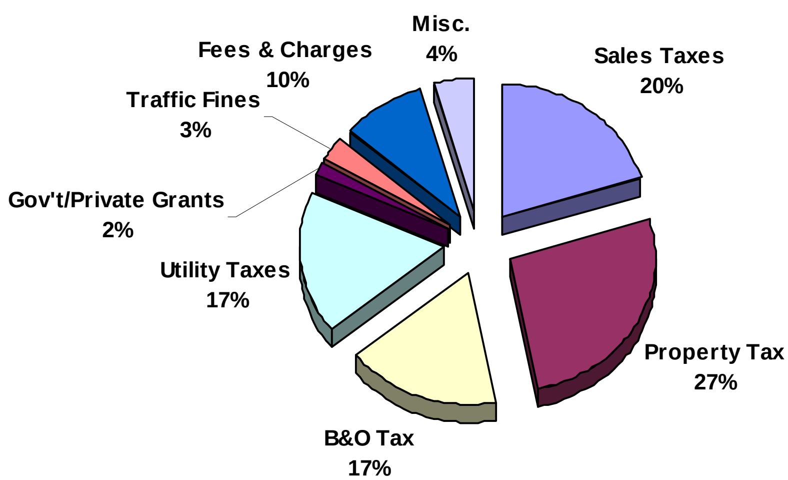


Figure 1. 2002-Adopted General Subfund Revenue by Source - $643M

The National and Local Economy

Current Economic Conditions and Outlook

The U.S. economy has almost certainly moved into a recession. The U.S. economy has slowed from the booming pace of the late 1990s to recession levels. Growth of real GDP (inflation adjusted gross domestic product) fell to –0.4% in 3rd quarter 2001. If GDP growth is also negative in 4th quarter 2001 as expected, the nation will be in a recession. The most common definition of a recession is 2 successive quarters of decline in real GDP.

To understand the current slowdown, it is necessary to look back to the boom years of the late 1990s where the dominant feature was the rapid escalation of stock valuations, particularly for technology stocks. Rising stock prices provided a cheap source of capital for businesses, which invested heavily in technology infrastructure including computers, software, and telecommunications equipment. The strong stock market also enabled many firms to compensate employees in part with stock options, thus saving money and boosting profits - which pushed stock prices up further. The general climate of optimism and expectations of rising profitability enabled many questionable business ventures to obtain financing.

With stock prices rising, consumers who owned stocks saw their wealth increase, and stock options contributed to rising incomes for many workers. For many consumers, rising stock prices increased their wealth to a sufficient extent that they felt comfortable increasing their level of spending and reducing their saving - because rising wealth was doing their saving for them. This relationship between wealth and spending is referred to as the wealth effect. As consumers increased their spending, savings rates fell to all-time lows, and consumer debt rose to record levels.

This self-reinforcing cycle of rising stock prices, rising profits, rising investment, and rising consumer spending came to an end when the stock market bubble burst in early 2000. With stock prices no longer rising, capital became more costly. In addition, it became increasingly clear that many businesses had over-invested during the boom years. Consequently, businesses cut back on investment spending. With wealth now declining rather than growing, and stock option income largely disappearing, consumer spending also slowed.

During the period 1996-2000, real U.S. GDP grew at a robust annual rate of 4.1%. However, beginning in mid-2000, economic growth began to slow. For the 12 month period July 2000 – June 2001, GDP growth averaged 1.2%, reaching a low of 0.3% in 2nd quarter 2001. By early 2001 the manufacturing sector was already in recession, with both production and employment declining.

September 11 terrorist attacks damaged an already weakened economy. In September, with the economy flirting with recession, the nation was rocked by the terrorist attacks on the World Trade Center and the Pentagon. These attacks seriously damaged an already weakened economy, causing a major disruption to economic activity, a large drop in consumer confidence and severely damaging the travel industry. Particularly hard hit were airlines, aircraft manufacturing, the financial sector, and hotels.

Data released after the September 11 attacks indicate the economy has probably fallen into recession. GDP for 3rd quarter 2001 registered a drop of 0.4%, the first quarter of decline since 1st quarter 1991, and labor market conditions have worsened significantly since the attacks. U.S. employment declined by 213,000 jobs in September and another 415,000 in October, jobless claims rose to a 9 year high in late September, and the unemployment rate jumped to 5.4% in October. Retail sales declined by 2.2% in September, air travel has fallen by 25%, and consumer confidence has dropped sharply.

The federal government acted quickly to cushion the impact on the economy. Congress approved $40 billion in emergency spending, $5 billion in grants to airlines, and $10 billion in loan guarantees to airlines. Congress is working on an additional fiscal stimulus package which could be as large as $100 billion. The Federal Reserve has cut interest rates 3 times since the attack, each time by a half percent. Since the beginning of 2001, the Fed has reduced interest rates from 6.5% to 2.0%, the lowest level in 40 years.

The national recession is expected to be mild; recovery should be underway by mid-2002. Most economists expect the current recession to be relatively mild, with recovery beginning by mid-2002. For example, DRI-WEFA's November 2001 forecast for the U.S. economy anticipates that U.S. GDP will decline for 3 quarters beginning in 3rd quarter 2001. Growth is expected to resume in 2nd quarter 2002 and gradually accelerate through the remainder of the year.

The recession will be characterized by a continuation of the now year-long decline in investment in equipment and software. Rising job losses will lead to near zero income growth in the near term, which will put a damper on consumer spending. Consumer spending is expected to be flat in 4th quarter 2001 and negative in 1st quarter 2002, before resuming growth in 2nd quarter 2002. A rise in vehicle sales driven by zero interest financing and other incentives is the only factor keeping consumer spending positive in 4th quarter 2001.

Perhaps the most compelling reason that most economists expect a mild recession is the strong fiscal and monetary stimulus that the federal government has been providing. The Fed's aggressive interest rate cuts, along with already enacted and anticipated federal spending increases and tax cuts, are expected to cushion the downturn and stimulate the recovery. In addition, the economy will benefit from low inflation and declining oil prices.

Although the argument for a mild recession seems plausible, there are factors that could cause the downturn to be deeper and longer than anticipated. First, there is the possibility of additional terrorist activity or a deterioration in the military situation in Afghanistan. Second, a large and growing number of the world's nations are either in or near recession. Finally, during the boom years of the late 1990s, firms and households borrowed heavily, significantly increasing their debt loads. These high debt loads will limit the ability of households to consume and businesses to invest.

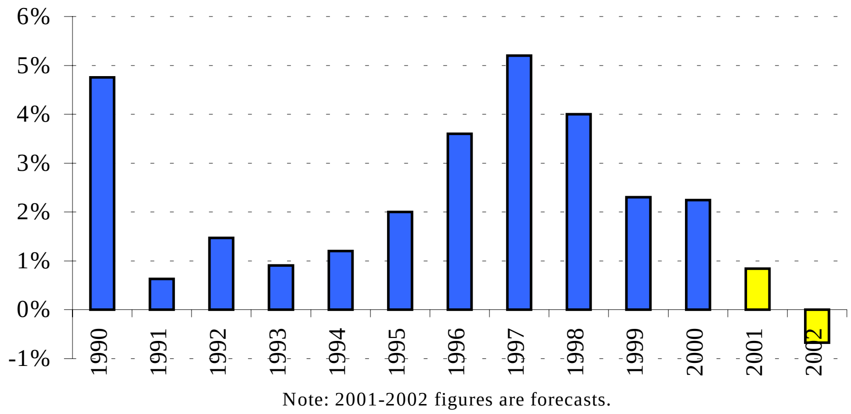
The Puget Sound region economy is almost certainly moving into recession. Like the national economy, the region's economy has been slowing during the past year, and is now almost certainly moving into recession. The events of September 11 have hit the region harder than most areas of the nation. The big drop in air travel along with the resulting financial distress suffered by the world's airlines have had a major impact on Boeing, the region's largest employer.

Even before September 11, Boeing had expected the demand for aircraft to decline due to the slowing of the world economy. Now Boeing anticipates that it will take at least 18 months, and perhaps as long as 2 to 3 years, before air travel returns to pre-September 11 levels. This will severely depress the demand for new airliners for at least 2 to 3 years. In response, Boeing has announced that it will reduce production by 50% and cut 30,000 jobs from its commercial airline division – most of them by mid-2002. Two-thirds of the cuts are expected to occur in the Puget Sound Region.

With the national economy in recession and large job reductions at Boeing, the region's economy will be unable to avoid recession. A mid-October forecast developed by the Puget Sound Economic Forecaster anticipates that regional employment will fall for 5 successive quarters beginning in 1st quarter 2002. After removing the effects of inflation, personal income is expected to show no growth in 2001, and grow by only 1.1% in 2002.

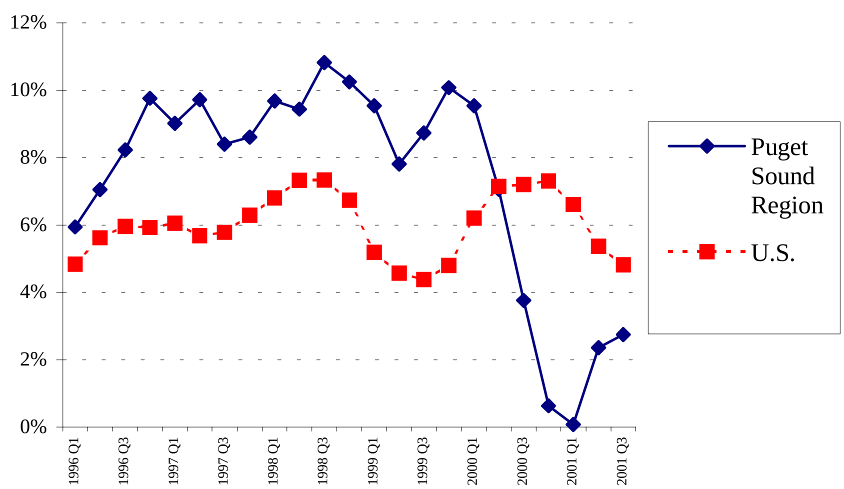
The transition of the region's economy from the late-1990s period of high growth to the current slowdown is illustrated in Figures 2 and 3. As shown in Figure 2, employment growth peaked at 5.2% in 1997, driven in large part by strong job growth at Boeing in 1996-97. Since that peak, employment growth has slowed, and is expected to register a gain on only 0.8% in 2001. In 2002 employment is forecast to decline by 0.7%, with modest growth of 0.9% expected in 2003. Also reflecting the slowdown in the economy has been a sharp rise in office vacancy rates. The vacancy rate in downtown Seattle has risen from the 1% - 2% range in mid-2000 to more than 10% in mid-2001. Suburban office markets have experienced similar increases.

Figure 2. Annual Growth of Puget Sound Region Employment



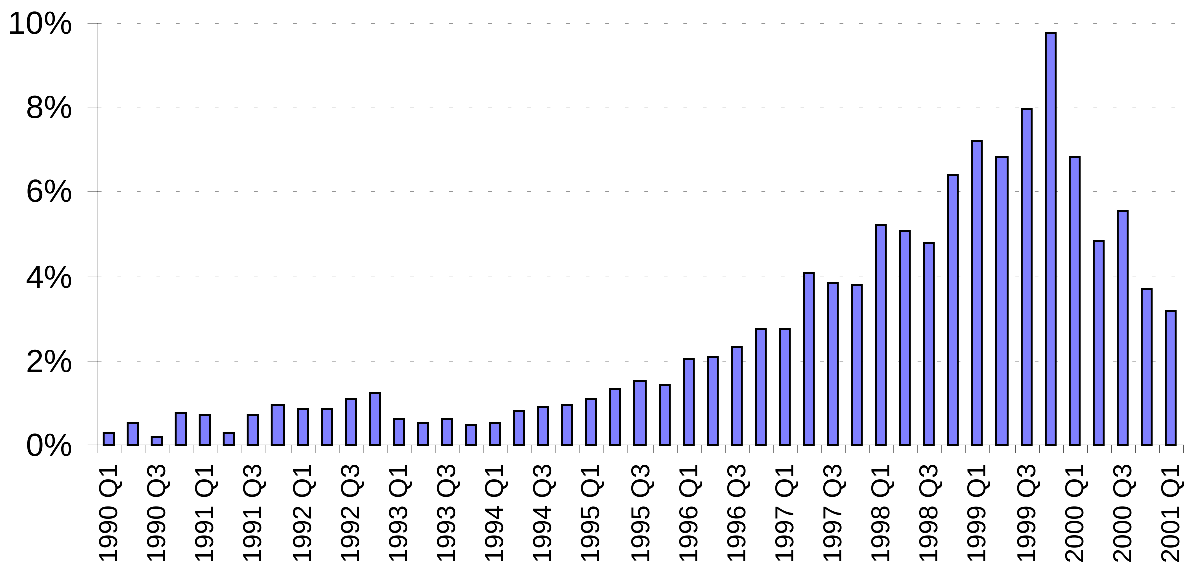
Perhaps the most striking evidence of the slowdown in the region's economy can be seen in the pattern of personal income growth. As shown in Figure 3, Puget Sound Region personal income grew a remarkable pace in the late 1990s. The average quarterly growth rate (measured on a year-over-year basis) for the 3½ year period 1st quarter 1996 – 4th quarter 1999 was 9.4%, which is significantly higher than the 6.0% growth of U.S. personal income during the same period. The region's unusually strong income growth was due in large part to stock option income from the local technology firms, particularly Microsoft. The stock market decline, which began in 2nd quarter 2000, has caused a sharp drop in stock option income and a consequent slowdown in the growth or regional income (see Figure 3).

Figure 3. Quarterly year-over-year Growth of Personal Income



The contribution of stock market related income to the region's total personal income, and how that contribution has changed over time are illustrated in Figure 4.[1] Data in the figure reflect stock option income payments to the region's workers, as well as an estimate of the increase (or decrease) in consumer spending that resulted from increases (or decreases) in household wealth. Economists estimate that consumers spend 3% -5% of a gain in wealth; conversely, a decline in wealth leads to a comparable decline in spending. This phenomenon, which is known as the wealth effect, was an important driver of consumer spending in the late 1990s.

Figure 4. Stock Market Related Income* as a Share of Puget Sound Region Personal Income



*Stock option income + 4% of estimated change in household net worth.

As shown in Figure 4, stock market related income's share of total personal income was in the 1% range throughout the first half of the 1990s. However, beginning in 1996 stock market income began to grow very rapidly, reaching a peak of nearly 10% of total personal income in 4th quarter 1999. Since then, there has been a sharp decline in stock market related income, to an estimated 3.2% of total personal income in 1st quarter 2001.

There is evidence that the slowdown in the region's economy is more pronounced in Seattle and King County than in other parts of the region. This is consistent with the fact that most of region's high technology businesses are located within King County. Home sales data indicate that housing activity thus far in 2001 has been weaker in King County than in surrounding counties. Both prices and number of sales have risen at a faster pace in Snohomish, Pierce, and Kitsap Counties than in King. In addition, taxable retail sales for 2nd quarter 2001 declined by 3.8% in King County and by 4.0% in Seattle, relative to 2nd quarter 2000. Statewide taxable sales were down 0.3%, Snohomish County saw a 0.8% drop, and Pierce registered a 1.8% increase.

[1] Stock market related income figures are based on estimates of stock option income prepared by the Washington Employment Security Department and Conway Pedersen Economics, and upon estimates of the impacts of changes in household net worth upon consumer spending (see discussion in text) made by the City of Seattle Budget Office.

Consumer price inflation is expected to slow. After hitting bottom in 1998, when low energy prices reduced inflation to the lowest level in recent years, consumer price inflation increased in 1999 and 2000. Led by rising energy prices, the U.S. CPI reached 3.4% in 2000 and the Seattle CPI hit 3.7%. With the economy approaching recession, inflation has slowed in 2001, at both the national and local levels.

Looking to the future, the rate of inflation is expected to decline in 2002, then increase at a moderate pace in 2003-04. Factors restraining future price and cost increases include a weak national and world economy, falling energy prices, and a rising unemployment rate – which will restrain wage increases. Inflation is expected to be higher in the Seattle metropolitan area than nationally, as was the case throughout most of the 1990s.

Figure 5. Consumer Price Index Forecasts

	U.S. CPI-W (July-July growth rate)	Seattle CPI-W (June-June growth rate)
2001 (actual)	2.6%	3.9%
2002	1.8%	2.5%
2003	2.4%	2.5%
2004	2.7%	2.7%

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2004. These forecasts are for the CPI-W, which measures price increases for urban wage and clerical workers. The CPI-U measures prices for all urban consumers. Forecasts are made for the CPI-W because City of Seattle labor agreements are based upon the CPI-W. The forecasts of the U.S. CPI-W are for the growth rate from July of one year to July of the following year; the Seattle CPI-W forecasts are for June-June growth rates. These specific month-to-month growth rates are used as the bases for cost of living increases in City of Seattle wage agreements.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 shows General Subfund actual revenues for 2000, as well as original and revised forecasts for 2001 and 2002. The forecast for General Subfund revenue in 2001 (excluding use of fund balances) is $591 million, which is $16.4 million or 2.9% greater than collections in 2000. Revenue in 2002 is expected to increase by another $38.7 million, or 6.5%. A large portion of this increase, approximately $27.7 million (under Service Charges in Figure 6), is the result of a financial re-organization and is offset by a dollar-for-dollar increase in General Subfund expenses. Adjusting for this re-organization, 2002 revenues are expected to be approximately $11 million, or 1.9%, greater than 2001 collections.

General Subfund Revenue Overview

Figure 6. General Subfund Revenue, 2000 – 2002 [(1)]

REVENUE SOURCE	2000 ACTUAL	2001 ADOPTED Nov. 2000	2001 REVISED Nov 2001	2002 PROPOSED Sept. 2001	2002 ADOPTED Nov. 2001
General Property Tax	149,114,444	159,742,791	159,742,791	171,668,190	166,884,190
(less fire pension)	(11,561,362)	(12,413,791)	(12,413,791)	(13,364,190)	(13,364,190)
Net General Subfund Property Tax	137,553,082	147,281,000	147,329,000	158,304,000	153,520,000
Property Tax-EMS	15,327,445	16,033,000	15,818,000	16,962,000	18,415,000
Retail Sales Tax	123,616,390	130,930,000	119,387,000	124,775,000	118,401,000
Retail Sales Tax - Criminal Justice	11,497,415	11,939,000	11,437,000	12,274,000	11,457,000
Business & Occupation Tax (90%)	111,947,511	116,527,000	109,988,000	117,303,500	110,254,000
Utilities Business Tax - Telephone (90%)	29,238,178	32,656,000	32,796,000	35,642,000	35,343,000
Utilities Business Tax - Natural Gas & Steam (90%)	6,863,079	7,649,000	9,534,000	9,382,000	8,326,000
Utilities Business Tax - Other Private (90%)	8,028,967	8,929,000	8,495,000	10,230,000	8,892,000
Utilities Business Tax - City Light (90%)	20,978,550	22,949,000	26,737,000	30,281,000	30,281,000
Utilities Business Tax - City Water (90%)	6,201,324	6,736,000	6,345,000	7,470,000	7,470,000
Utilities Business Tax - DWU (90%)	11,657,385	12,383,000	12,455,000	13,739,000	13,739,000
Utilities Business Tax - SWU & priv. garb. (90%)	8,433,149	7,910,000	8,569,000	8,338,000	8,338,000
Admission Tax	7,639,307	7,869,000	6,809,000	5,480,000	5,120,000
Other Taxes	4,998,507	5,062,000	5,010,000	5,316,000	5,174,000
Total Taxes less fire pension	**503,980,288**	**534,853,000**	**520,709,000**	**555,496,500**	**534,730,000**
Licenses and Permits	**10,469,914**	**10,516,000**	**10,630,000**	**10,380,000**	**10,380,000**
Government and Private Grant Revenue	**16,005,132**	**11,136,000**	**11,455,000**	**10,760,000**	**11,694,000**
Service Charges	**12,489,551**	**15,304,000**	**16,559,000**	**41,636,476**	**40,920,000**
Fines and Forfeitures	**15,803,184**	**16,902,000**	**17,010,000**	**17,360,694**	**17,215,000**
Parking Meter Revenue	**9,845,480**	**9,500,000**	**9,850,000**	**9,850,000**	**9,850,000**
Other Revenues	**5,929,739**	**3,201,000**	**4,693,000**	**4,652,600**	**4,814,000**
Total: Revenue & Other Financing Sources	**574,523,289**	**601,412,000**	**590,906,000**	**650,136,270**	**629,602,000**
Unexpended Fund Balance, Interfund Transfers	0	8,204,000	9,896,000	3,904,000	12,975,000
TOTAL GENERAL SUBFUND RESOURCES	**574,523,289**	**609,616,000**	**600,802,000**	**654,040,270**	**642,578,000**

NOTE:

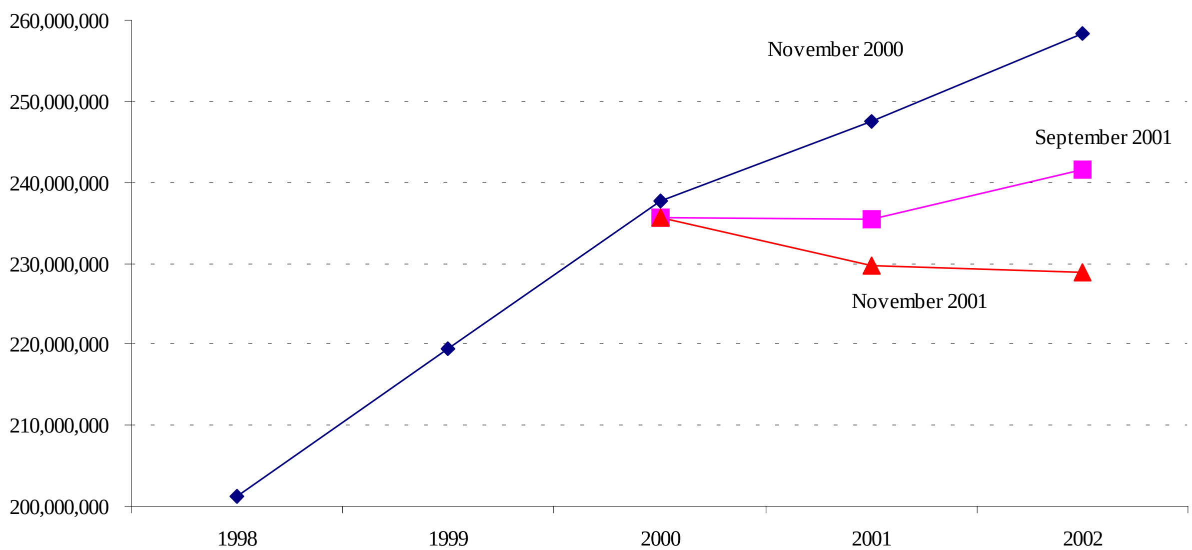
(1) A detailed listing of City General Subfund revenues is found in the appendix.

Estimates for General Subfund revenues in 2001 and 2002 are down sharply from forecasts published in the Mayor's *2002 Proposed Budget*. Specifically, the forecast for total General Subfund resources available in 2001 (including use of fund balances) has been reduced by $8.8 million, while the 2002 forecast has been reduced by $11.5 million.

Revenue forecasts for 2001 have been reduced primarily due to a sharp decline in the estimates for sales and Business and Occupation (B&O) tax collections. In addition, significant reductions in natural gas prices have reduced the estimate for utility tax revenue (under Utilities Business Tax - Natural Gas & Steam (90%) in Figure 6).

Forecasts for tax revenues in 2002 were reduced by approximately $21 million. Forecasts for sales and B&O tax revenues have been reduced by over $14 million from the forecasts published in the *2002 Proposed Budget.* As Figure 7 shows, the forecasts for sales and B&O tax revenue for 2002 have declined by nearly $30 million since November 2000. The forecast for 2002 property tax revenue has been reduced by $4.8 million which reflects the first year impact of Initiative 747.

Figure 7. Forecasts for Sales and B&O Tax Revenue , 1998-2002



Offsetting reductions in tax revenue forecasts are $9.1 million in transfers from other City funds to the City's General Subfund. Such transfers are payments from department-specific and capital project funds to the General Subfund.

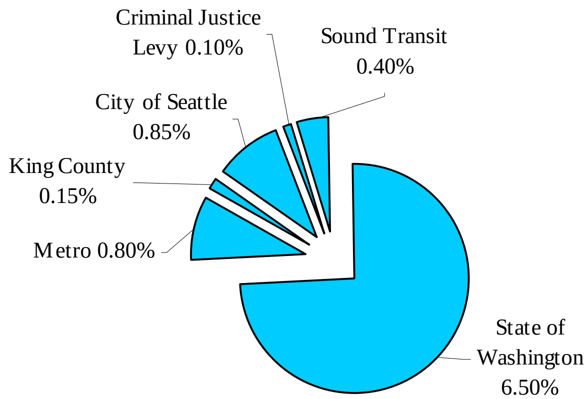
Retail Sales and Use Taxes

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 who, in turn, remit the tax to the state. The state provides the City with its share of these revenues on a monthly basis.

On November 7, 2000, the voters of King County voted to increase the sales tax rate by 0.2% to provide additional funding for transit. This increase went into effect in April 2001, raising the sales tax rate in Seattle from 8.6% to 8.8% for most taxable activities. The exception to the 8.8% rate is a 9.3% rate that is applied to food and beverages sold in restaurants, taverns, and bars. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 8.8% is a composite of separate rates from several jurisdictions as shown in Figure 8 on the next page. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected from the county criminal justice levy.

Figure 8. Sales and Use Tax Rates in Seattle, 2001

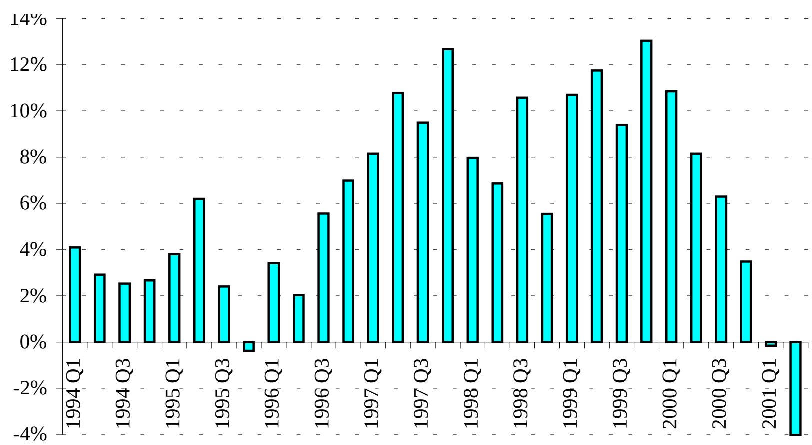


Total Rate = 8.8%

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

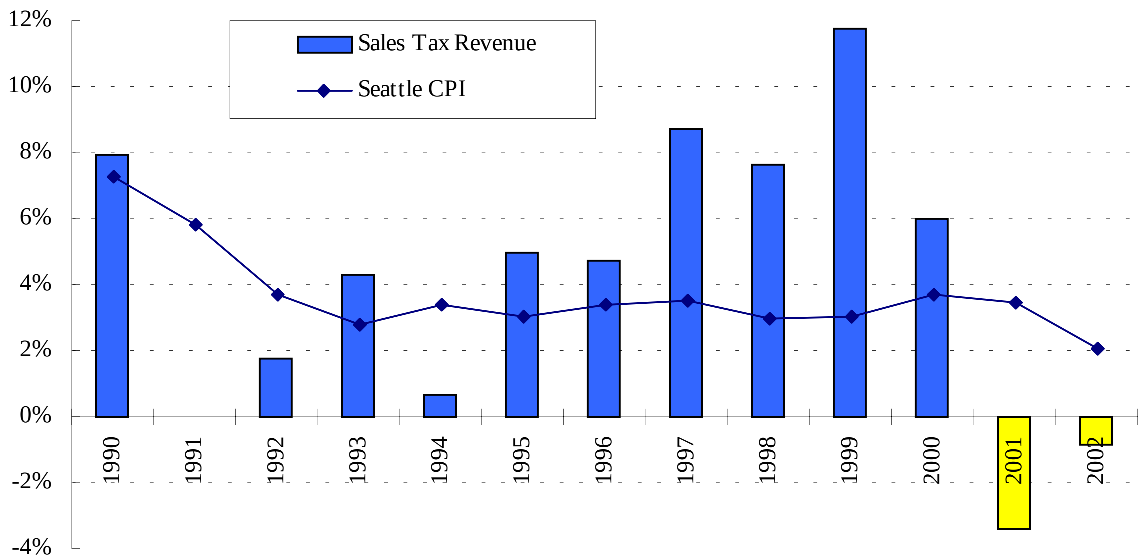
Sales tax revenue has grown with the region's economy. The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 9, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy that was led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peak. Growth began to slow in the first 2 quarters of 2000, when the stock market bubble burst and technology firms began to falter. The decline has continued into 2001, which has seen growth rates turn negative. Taxable retail sales for 1st quarter 2001 was 0.2% lower than in 1st quarter 2000; in 2nd quarter 2001 the year-over-year growth rate dropped to -4.0%. The falloff in growth has been most pronounced for auto dealers, furniture stores, and wholesale trade.

Figure 9. Seattle Taxable Retail Sales: Quarterly year-over-year



Retail sales tax revenue forecasts for 2001 and 2002 have been revised downward. The recent sharp decline in the growth of taxable retail sales has forced the City to revise its revenue forecasts. The forecast for the 2001 Adopted and 2002 Endorsed Budget, which was prepared in fall 2000, anticipated sales tax revenue growth of 7.3% in 2000, 4.6% in 2001, and 3.4% in 2002. Unfortunately, economic conditions and revenue collections began to deteriorate following the adoption of that forecast. As shown in Figure 10, a sharp slowdown in revenue growth during the final months of 2000 dropped the rate of growth for the year to 6.0%, resulting in a $1.6 million shortfall relative to forecast for 2000. During the first 8 months of 2001, sales tax revenue has grown at a –1.9% rate.

Reflecting the slowdown in revenue growth, the September 11 terrorist attacks, and increasingly pessimistic economic forecasts, revenue forecasts were revised downward in both August and November of 2001. The November 2001 forecast anticipates that sales tax revenue will decline by 3.4% in 2001, and then fall an additional 0.8% in 2002. As a result of weaker than anticipated revenue growth and the recent forecast revisions, the revised retail sales tax forecast for 2001 has been lowered by $11.5 million from than the forecast in the Adopted Budget (November 2000). For 2002, the revised forecast is $16.9 million lower than the forecast prepared in November 2000. The principal risk to the revised forecast is that the economy may not rebound from the current downturn by mid-2002, as anticipated by most economists, but could instead suffer a deeper and more prolonged decline.



Note: All revenue figures reflect current accrual methods.

Figure 10. Annual Growth of Retail Sales Tax Revenue

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 were earned from providing products or services outside of Seattle.

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

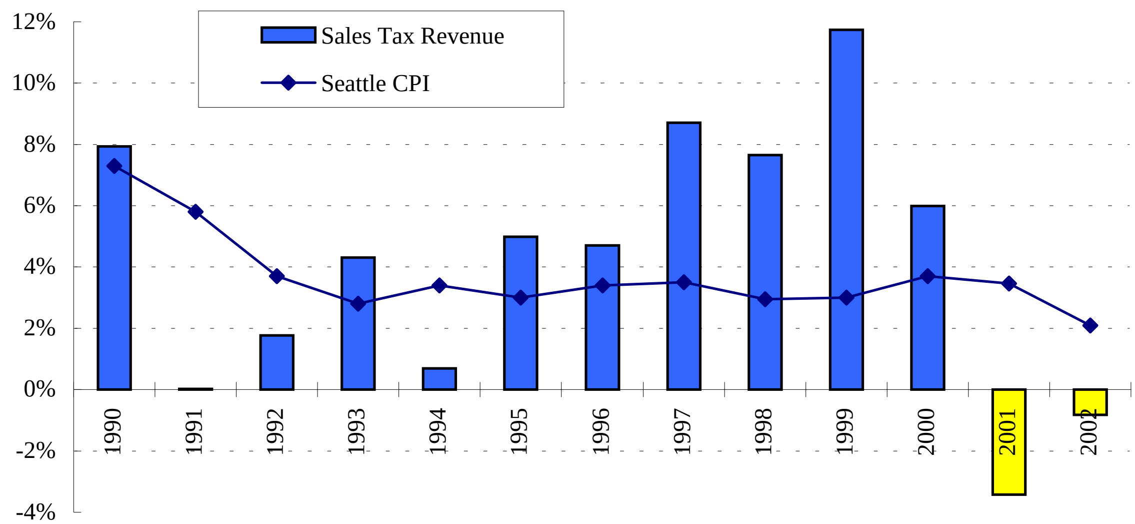
Other things being equal, the B&O tax base is more stable than the retail sales tax base. Relative to the sales tax base, the B&O base is broader, less reliant on the construction and retail trade sectors, and more dependent upon the service sector (most services are not subject to the sales tax).

B&O revenue grew at a healthy pace during the second half of the 1990s. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which resulted in very strong B&O revenue growth during the period 1995-97. Growth slowed in 1998, as these efforts began to yield diminishing returns once the most obvious and productive techniques for identifying unlicensed or under-reporting businesses had been put into practice.

B&O revenue continued to grow at a healthy pace through 2000, increasing by 7.0% in 1998, 6.1% in 1999, and 8.9% in 2000. Growth in 2000 would have been in the 6% - 7% range had it not been for changes that the State of Washington made in the way it taxes financial institutions. Beginning on January 1, 2000, financial institutions have been required by the state to use a new method of allocating world- or nation-wide income to Washington state. This change has resulted in a significant increase in the amount of taxable income reported to the state by financial institutions. It has also affected city B&O revenues because financial institutions determine their city B&O tax obligations by allocating their statewide taxable income to cities within the state. As a result, there has been a significant increase (on the order of $2.5 million in 2000) in the amount of B&O tax that financial institutions pay to the City of Seattle.

B&O revenue growth has turned negative in 2001. Following the healthy and relatively stable growth of the 1998-2000 period, B&O revenue growth has slowed abruptly in 2001. As shown in Figure 11 on the next page, total 2001 B&O revenue collections through the end of 2nd quarter were 0.5% below collections for the same period in 2000. Revenue from current obligation payments increased by 1.5% in 1st quarter 2001, and then fell by 3.1% in 2nd quarter 2001. Current obligation payments provide the best measure of underlying economic activity because they exclude audit payments, late payments, principal and interest payments, refunds, and payments for prior period obligations.

Figure 11. Annual Growth of B&O Tax Revenue



Note: All revenue figures reflect current accrual methods.

B&O revenue forecasts for 2001 and 2002 have been revised downward. Reflecting both the falloff in revenue growth in the first half of 2001 and increasingly pessimistic economic forecasts, B&O revenue forecasts for 2001 and 2002 have been revised downward. The new forecast growth rates for 2001 and 2002 are –1.8% and 0.2%, respectively, down from forecasts of 3.5% and 5.6% in the 2001 Adopted and 2002 Endorsed Budgets (November 2000). As a result of these revisions, the 2001 and 2002 forecasts have been reduced by $6.5 million and $12.8 million, respectively, from the forecasts that were prepared in fall 2000. As with the sales tax forecast, the principal risk to the revised B&O forecast is that the current slowdown will be more severe and more protracted than anticipated.

The forecast for 2002 reflects the expected release of $2.5 million from the City's deferred revenue account. Most of the revenue in that account has been received from firms that have contested their tax liabilities. The revenue forecast assumes that these some of the appeals will be resolved favorably for the City, and that $2.2 million will be released to the General Subfund by late 2002. In addition, the Parks Fund will receive $0.3 million.

Property Tax

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

In 2001, the property tax rate for Seattle properties is about 1.15% of assessed value (which officially is expressed as $11.51 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the fair market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of $265,000 (the average assessed value for residences in Seattle), the 2001 tax obligation is approximately $3,100.

As Figure 12 shows on the following page, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. In addition, the figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 61%, which is the largest single share of property tax dollars. In addition, several voter-approved levies support specific programs or projects such as the Parks for All Project and the Families and Education Program.

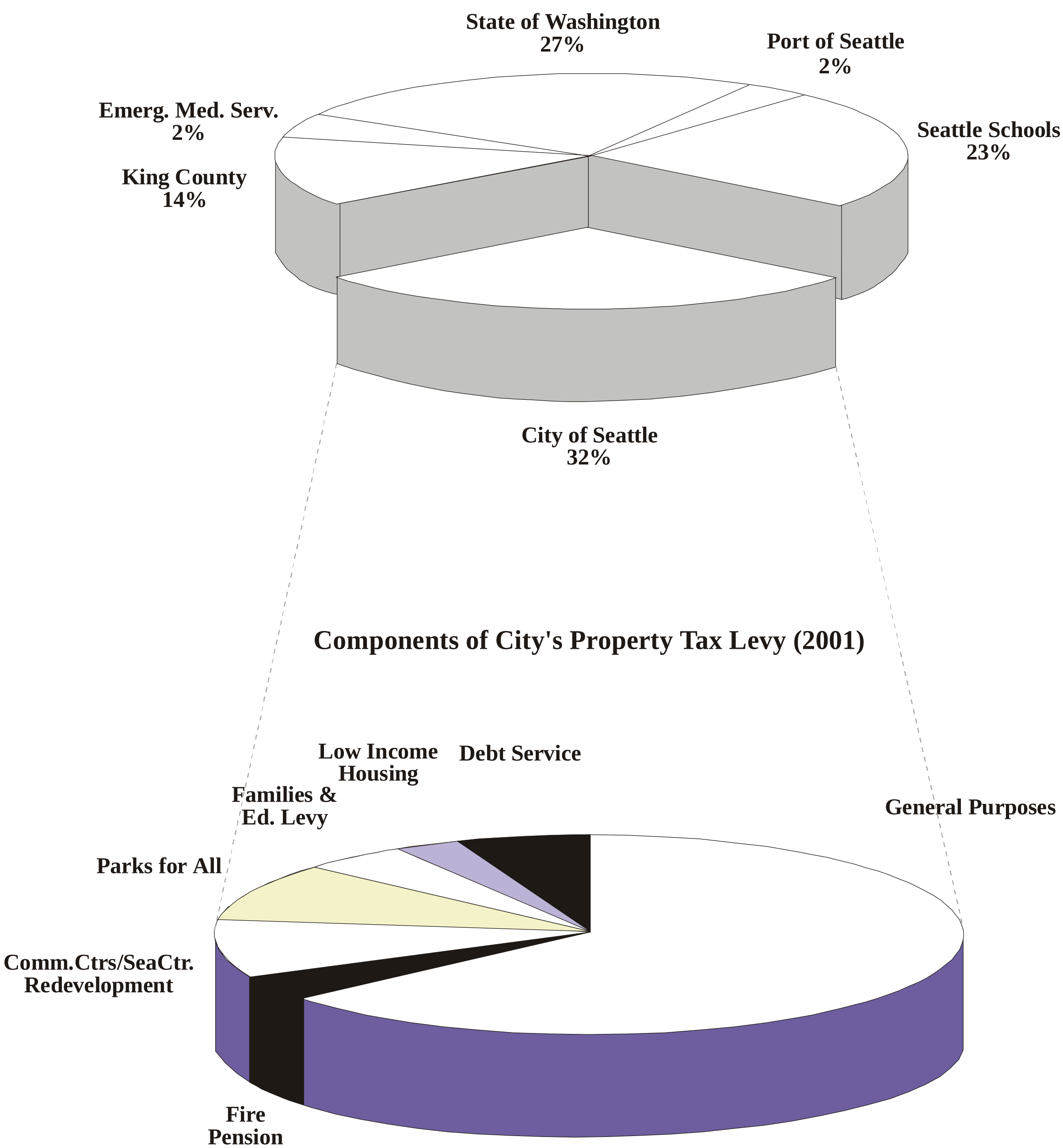
The 2002 Proposed Budget reflects inflation (4.1%) for 2001; 1% plus banked capacity for 2002. The forecast for the General Subfund portion of the City's property tax is $147.3 million in 2001 and $153.5 million in 2002. The most important factor affecting the City's revenue is the State's annual growth limit. Since 1973, State law limited the annual growth of the City's General Subfund property tax revenue to 6%. However, in November 2001, voters state-wide approved Initiative 747, which changed the 106% limit to the lesser of 101% or the Implicit Price Deflator, effective for the 2002 collection year.

The 2001 General Subfund portion of the City's levy includes an increase of 4.1%, reflecting the City's increased costs of providing services. For 2002, the general subfund levy reflects a 1% increase plus $2.8 million in banked capacity (the *2002 Proposed Budget* assumed a 6% increase and no banked capacity). Since 1986, State law has allowed taxing districts to preserve any unused levy capacity for future use. The 2002 levy includes the 1.9% levy capacity (the difference between the 2001 maximum 6% limit and 4.1%) that was banked in 2001.

New construction adds to City levy. There is one important exception to the annual growth limit. State law permits the City to increase its General Subfund levy by more than the growth limit to reflect tax on property constructed or remodeled within the last year. Since 1993, the value of new construction has hovered in the $350-$450 million range, resulting in roughly $1 million of property tax revenue above what is permitted with the 106% limit. Beginning in 1999, robust construction activity resulted in adding unusually high amounts of new construction revenue - $2.5 million in 1999, $2.9 million in 2000, and over $3.7 million in 2001. Due to continued strong construction activity, new construction revenue in 2002 is expected to bring in over $4 million.

Figure 12

Components of Total Property Tax Levy (2001)



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.

Telecommunications industry is expected to slow after years of exploding growth. The utility business tax, which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate $33 million in 2001, and $35 million in 2002.

After extraordinary growth over the past few years, the telecommunications revenue growth is expected to slow in 2001 and 2002. Since the passage of the Federal Telecommunications Act of 1996, which greatly deregulated the telecom market, there was an explosion of demand, particularly for wireless service. Looking ahead, analysts believe that telecom companies will face tougher times as the economy falters and demand for service from both businesses and consumers decelerates. The projections for 2001 and 2002 have been revised downward since the proposed budget; however, a classification change of tax revenue from cable utility tax to the telephone utility tax offsets the decline almost entirely in 2001 and 2002.

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

It is estimated that cable revenues will experience strong growth in 2001 and 2002. The cable industry in Seattle has increased its services in terms of additional channels, pay-per-view options, and digital reception. Additionally, monthly rates have increased for basic cable and premium channels and are expected to increase for basic service in 2002. The decrease in revenue estimates for 2001 and 2002 reflect a change in the taxing classification for cable internet hookups. Since April 2001, tax revenue from cable internet modems were reclassified from cable utility tax to telephone utility tax. The declines in revenue projections for 2001 and 2002 reflect a decrease in rates from 10% to 6% and the transfer of this revenue to the telephone utility tax.

Natural gas and steam revenues soar then return to pre-2001 levels. The City levies a 6% utility tax on gross revenues of the natural gas and steam utility companies. Energy cost was a particularly hot issue in the Western United States in 2001. Exacerbated by market restructuring problems in California, volatile electricity prices drove up the demand and wholesale price for natural gas, and consequently the rates for natural gas and steam customers. At the time the 2002 Proposed Budget was developed, the energy outlook was unclear. Since then wholesale prices from natural gas has plummeted and the new outlook reflects revenue decreasing substantially in 2002 for natural gas and steam.

A portion of commercial solid waste revenue is shifted from private to public utility account. Under a new agreement with the State of Washington, the City of Seattle has the responsibility to collect solid waste from commercial business locations. This responsibility is in addition to the City's responsibility to collect waste from residences. One result of this new arrangement is that the liability for utility taxes on income from solid waste removal at commercial sites now rests with the City instead of with private companies. As a result, beginning with the 2002 Proposed Budget document, all revenues from solid waste taxes will be displayed together as "Utility Business Tax – SWU & Priv. Garb."

Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (City Light, water, drainage, wastewater, and solid waste). Current effective tax rates are 6% for electricity and 10% for the other public utility services (tax rates are shown in Figure 13).

As a result of expected changes in usage and proposed rate increases, General Subfund revenue from public utility taxes is forecast to increase by 14.5% in 2001 and 10.6% in 2002.[2] These revenue increases are largely the result of rate increases. Rates for all public utilities except solid waste have increased in 2001. In 2002, rate increases are planned for water and wastewater. More detailed information on the magnitude of and reasons for utility rate increases is provided in the sections on Seattle City Light and Seattle Public Utilities.

Admission Tax

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

Reductions expected in 2002. The forecast for this revenue source in 2002 is 22% below the revenue expected in 2001. Most of the reduction stems from the future loss of all tax revenue from Seattle Seahawks games due to their move to the newly constructed football stadium. State law that established the financing mechanism for the new facility prevents the City from levying its admission tax on professional sports in the new football stadium.

Dedicating revenues to the arts. In November of 2000, the City Council passed Ordinance #120183 that dedicated 20% of the City's admission tax revenue derived from non-professional sports events to programs supported by the Seattle Arts Commission. This ordinance implements recommendations by the 1999 Seattle Arts Task Force to increase spending of General Subfund resources on art-related programs. In mid-2001 the City established a new subfund of the General Fund (called the Arts Account) to which this share of Admission tax revenue is deposited, in lieu of deposit into the General Subfund. The estimate of revenues from this portion of the Admission tax is approximately $977,000 in 2001, and $930,000 in 2002.

Licenses, Permits, and Parking Charges

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

With no changes in fee and permit charges planned, revenue from the majority of these sources is forecast to be relatively stable. Revenues from street use charges, however, are expected to decline in the 2001 – 2002 biennium. A large portion of the revenue from these fees is associated with construction activity. This reduction reflects the expectation that construction activity in the City peaked in 2000. Parking meter revenue in 2000 reached a record high amount of $9.85 million. However, 2001 revenues should be closer to the prior year levels of $9.5 million.

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[2] These increases include revenue from private solid waste collections, because the majority of private solid waste utility revenue is being transferred to the City's Solid Waste Utility in 2001.

State-Shared Revenues

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

State continues to commit general fund revenues to compensate for loss of Motor Vehicle Excise Tax (MVET) revenues. Before the passage of Initiative 695 and the subsequent 2000 legislation to eliminate the MVET, the City of Seattle received allocations of the MVET in support of (1) public safety (police and fire) programs, (2) particular criminal justice needs, and (3) specific policing activities. During the 2000 legislative session, the State Legislature committed State General Fund revenues toward these and other purposes to compensate local governments, in part, for the loss of MVET revenues. The City of Seattle received $1,551,389 for Calendar Year 2000 and $3,102,778 for Calendar Year 2001. The legislation providing these distributions for 2000 and 2001 indicated the intent of the State to continue making distributions in future years. The State fulfilled that intent in its Fiscal Year 2002-2003 budget and the City's 2002 proposed revenue estimate includes $3,189,346 million from this distribution.

Although reduced due to the loss of the MVET, the City will continue to receive separate criminal justice assistance distributions, originating from the State's General Fund, as provided for under the previously approved Referendum 49. These revenues are allocated on the basis of population and crime rates relative to state-wide averages. The City should receive approximately $2.1 million in each of 2001 and 2002. The City received approximately $4.0 million in 1999 and $2.2 million in 2000.

Liquor Board profits and Excise Tax revenue. Seattle's 2001 Liquor Board profits and Liquor Excise Tax distributions are expected to decrease slightly from actual distributions in 2000 ($3.3 and $2.0 million respectively) to an estimated $3.1 and $1.8 million respectively. In 2002 they are anticipated to increase slightly to $3.3 and $1.8 million respectively.

Government and Private Grants

Benaroya Hall Payments continue. In 1999, the City and operators of the Benaroya Hall (BH Music Center) entered into an agreement which allocates some operating revenue from BH Music Center to the City. In 1999 and 2000, the allocations to the City reflected both a share of concession revenue and support to the City's general debt service obligations, totaling approximately $780,000 annually. In 2000, the City retired City debt associated with the development of Benaroya Hall. As a result, BH Music Center payments to the City decline to approximately $592,000 annually, reflecting only a share of concession revenues.

Grant supports Seattle Jobs Initiative. The City has won a grant from the Casey Foundation of $700,000 annually in 2001 and 2002. The grant will support the Seattle Jobs Initiative as well as the Office of Economic Development's workforce development efforts.

City reimbursed for World Trade Organization (WTO) Ministerial expenses. The City received reimbursement from the federal government for expenses associated with the November 1999 WTO Ministerial Conference. The total reimbursement amount of $5.3 million is shared by the jurisdictions that assisted in providing public safety services for the event. The City expects to receive $4.16 million, $750,000 more than was anticipated in the 2001 Adopted Budget.

Revenue from Service Charges

New agreements for AFIS and Mariners. The forecast reflects the renewal by voters of the King County-wide property tax levy for the Automated Fingerprint Information System (AFIS). The current levy, which expired in 2000, provides Seattle with approximately $2.1 million in revenue for the City's portion of the AFIS program. The new levy will provide roughly $2.2 million annually to the City in the biennium.

In 1999, the City and the Mariners entered into an agreement whereby the team would reimburse the City for costs of police services during games at Safeco Field. Revenues from these payments were just over $1 million in 2000, up from the $577,000 received in 1999. Higher payments in 2000 reflect the fact that it is the first full season that the Mariners played at Safeco Field. The forecast anticipates $950,000 annually for the biennium, reflecting efficiencies associated with a new agreement for police services.

Fire Department Special Events Services. Approved in March 2001, Ordinance 120299 authorizes the Seattle Fire Department to establish and collect fees for emergency medical services provided by the department upon the request of a special event promoter or owners of event venues. The fees include the costs of hiring off-shift Paramedics and/or Emergency Medical Technicians, equipment, and apparatus costs. The presence of emergency medical staff will ensure services for rapid cardiopulmonary resuscitation, early defibrillation, and basic first-aid care for the spectators during these events. Approximately $350,000 of revenues are expected in 2001 and $440,000 in 2002 from these fees.

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution that directs the City to allocate a portion of central service expenses to City utilities and certain other departments that are not supported by the General Subfund. The intent of this allocation is to build the costs of necessary general government services into the budgets of departments supported by revenues that are largely self-determined.

Beginning in 1998, a large portion of cost allocation revenues was deposited directly to the Executive Services Department operating fund (ESD Fund) rather than to the General Subfund. This change facilitated the 1997 consolidation of the Personnel, Administrative Services, and Finance Departments into the Executive Services Fund. There was a corresponding reduction in General Subfund expenditures for these services ($12.4 million in 1998), resulting in no net change in General Subfund resources. In 2001, ESD was decentralized into four separate departments (Personnel, Office of Sustainability & Environment, Fleets & Facilities, and Finance). Starting in 2002, the portion of cost allocation revenues for the Personnel and Finance Departments that were deposited to the ESD operating fund ($27.7 million in 2002) will instead be deposited into the General Subfund. There will be a corresponding increase in General Subfund expenditures for these services, resulting in no net change in General Subfund resources.

The City Council committed City General Subfund resources of $700,000 in 2001 to purchase Hitt's Hill property as a potential park site. It is anticipated that the General Subfund will be reimbursed in 2002 for this expense from either the City's Parks Fund, Parks for All Opportunity Funds, Neighborhood Planning Implementation Opportunity Fund, or other sources. This re-imbursement, however, is now expected to be $500,000 rather than the full amount as was anticipated in the 2001 Adopted Budget. As a result, the estimate for internal service charges was adjusted by $200,000 to reflect the actual $500,000 reimbursement.

Fines and Forfeitures

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

Parking revenues estimates decline. The revenue estimates for parking ticket revenue from citations issued by the regular parking enforcement squad have been decreased by $175,000 to $12.5 million in 2001, and by $75,000 to $12.6 million in 2002. The reduction reflects lower-than-anticipated revenue collections through September 2001.

Residential Parking Zone patrol squad revenues down. Forecasts for parking ticket revenue in the 2001 Adopted Budget included a new Residential Parking Zone (RPZ) patrol squad in response to Neighborhood Plans, RPZ growth, and a recent parking study that showed demand for more parking enforcement resources. Citations from the RPZ patrol squad are expected to yield more parking ticket revenue (approximately $235,000 in 2001 and $610,000 in 2002). However, the forecasts reflect the fact that the RPZ squad was not formed until the Fall of 2001, and is likely to be staffed at 4.0 full-time equivalent staff by the end of the year. The forecast also assumes that productivity will be less than original estimate (3.5 tickets per patrol hour instead of 4.7), but assumes a much higher amount collected per ticket, due primarily to the increase in RPZ tickets from $32 to $44 in 2001.

Miscellaneous Revenues

Transfers to the General Subfund. Estimates of transfers to the General Subfund are approximately $9.1 million in 2002. These transfers were an important tool used to balance the City's General Subfund budget in 2002. A detail list of these transfers is included in the General Subfund Revenue table found in the Appendix. In ratifying the 2002 Adopted Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved balances from the funds listed in the Appendix to the General Subfund in 2002.

These transfers reflect payments from department-specific and capital project funds to the General Subfund. Payments from department and capital funds were possible due to reduced program levels in 2002 and adjustments (both project delays and reductions) to construction projects. In addition, existing balances in some department and capital funds were used to make these payments to the General Subfund.

Interest earnings continue to decline. The General Subfund receives interest earnings on cash balances for many subfunds of the General Fund, as well as many operating and project funds. Over the past three years, these earnings have been volatile, due primarily to sharp fluctuations in cash balances. Earnings in both 2000 and the first half of 2001 are substantially greater than was anticipated in the 2001 Adopted Budget.

The 2001 and 2002 forecasts reflect actual earnings to date and presume that cash balances will stabilize during the rest of the biennium to levels of the mid-1990s. These assumptions result in forecasts of $3.7 million annually in the biennium.

No SAC administrative fee to General Subfund. Beginning in 2001, the accounting procedures for reimbursements to the Seattle Arts Commission (SAC) will be streamlined. Currently, City-operated utilities reimburse SAC for its costs to maintain City-owned art at utility facilities by transferring money to the General Subfund for appropriation to SAC. This cumbersome accounting procedure will be eliminated beginning in 2001, when SAC will directly allocate costs to utility funds. This will reduce General Subfund revenue from utilities, and the General Subfund appropriation to SAC, by approximately $330,000 annually, but will have no net effect on SAC funding.

Figure 13. Seattle City Tax Rates

Property Taxes (Dollars per $1,000 of Assessed Value)	**1999**	**2000**	**2001**
General Property Tax	$2.532	$2.449	$2.250
Families & Education	0.296	0.228	0.154
Seattle Center RDV/Parks Comm. Ctr.-SC	0.064	0.281	0.181
Seattle Center RDV/Parks Comms. Ctr.-Parks	0.060	0.044	0.072
Parks for All Levy			0.353
Low Income Housing Levy	0.016	0.015	0.013
Fire Pension	0.225	0.225	0.225
Emergency Medical Services	0.290	0.273	0.246
Low Income Housing (Special Levy)	0.151	0.134	0.117
City Excess GO Bond	0.287	0.370	0.317
Retail Sales and Use Tax	0.85%	0.85%	0.85%
Business and Occupation Tax			
Wheat Wholesaling/Flour Mfg.	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%
City of Seattle Public Utility Business Taxes			
City Light	6%	6%	6%
City Water	10%	10%	10%
City DWU	10%	10%	10%
City Solid Waste	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates			
Cable Communications (not franchise fee)	10%	10%	10%
Telephone	6%	6%	6%
Natural Gas	6%	6%	6%
Steam	6%	6%	6%
Commercial Solid Waste	10%	10%	10%
Franchise Fees			
Cable Franchise Fee	2%	3%	3%
Admission and Gambling Taxes			
Admissions tax	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%
Bingo (less prizes)	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%

General Subfund Revenue Overview

General Subfund Balance Forecast

The unreserved General Subfund (GSF) balance is the residual of the City's annual receipts less annual expenditures. Short-term fluctuations or management actions directly affect the fund balance. A higher GSF balance provides additional operational flexibility to react to unanticipated events.

The City forecasts the balance by estimating likely changes from budgeted revenues and expenditures. Figure 14, below, shows a derivation of the forecasted 2001 end-of-year balance illuminating the major changes to the annual budget.

The 2002 Adopted Budget anticipates an ending balance in 2001 of $3.9 million. The Adopted Budget anticipates fully appropriating these resources in 2002, resulting in an ending balance of zero.

Figure 14. Available General Subfund Balance, as of December 31, 2001

12/31/2000 Unreserved Fund Balance (CAFR)		**$10,747,000**
less	2001 Carryover Authority (Ordinance # 120337)	-852,000
plus	2001 Adopted Budget Revenue Forecast	601,412,000
plus	Revenue Forecast Revisions	-10,506,500
less	2001 Adopted Budget Appropriations	-609,616,000
less	2001 Legislated Appropriation Changes (1)	-4,220,000
less	mid-year Supplemental Appropriations requested by Executive (2)	-5,072,000
less	Contribution to the Emergency Fund	-2,197,000
plus	Abandonment of Initiative-722 Deferred Expenditures	11,733,000
plus	Delay of Sound Transit Contribution	2,500,000
plus	Mayor's Directive for Expenditure Reductions	1,100,000
plus	Other Adjustments	9,714,500
less	end-of-year Supplemental Appropriations requested by Executive (3)	-841,000
Estimated 12/31/2001 Available Fund Balance		**$3,902,000**

Notes:

(1) Includes effect on General Subfund from Ordinance 1200253, 120338, and 120349.

(2) Total reflects net appropriation change to General Subfund from the mid-year supplemental Ordinance 113888.

(3) Total reflects net appropriation change to General Subfund from the end-of-year supplemental Ordinance 113992.

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