

Readers Guide

This reader's guide describes the structure of the 2005-2006 Proposed Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2005-2006 Proposed Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation. This document identifies some of the most important or well established performance measures and describes them at the department level in departmental budgets.

A companion document, the 2005-2010 Capital Improvement Program (CIP), identifies adopted expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the coming six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

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

The 2005-2006 Proposed Budget

This document is a detailed record of the spending plan proposed by the Mayor for 2005-2006. It contains the following elements:

- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2005-2006 Proposed and 2005-2010 Capital Improvement Program were developed;
- Summary Tables – a set of tables that inventory and sum up expected revenues and planned spending for 2005-2006;
- General Subfund Revenue Overview – a narrative explaining where the City's General Subfund revenues, or those revenues available to support general government purposes, come from and the factors affecting the level of resources available to support City spending;
- Departmental Budgets – City department-level information describing significant policy and program changes from the 2004 Adopted Budget, the services provided, key performance measures, and the spending levels proposed to attain these results; and
- Appendices – the first appendix to the Adopted Budget contains a list of authorized positions by department. The second appendix provides a summary of cost-allocation factors for internal City services. The third appendix contains an array of supporting documents providing detailed numerical data and other information.

Departmental Budgets: A Closer Look

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

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

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

The cluster Funds, Subfunds, and Other comprises General Fund Subfunds that do not appear in the context of department chapters, including the General Subfund Fund Table, General Subfund Revenue Table, Cumulative Reserve Subfund, Emergency Subfund, and Judgment and Claims Subfund. The Municipal Civic Center Fund, Parking Garage Fund and Debt Service are also included in this section.

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

Budget Presentations

Most department-level budget presentations begin with information on how to contact the department, as well as a description of the department's basic functions and areas of responsibility. There follows a narrative summary of the major policy and program changes describing how the department plans to conduct its business in light of the proposed budget. When appropriate, subsequent sections present budget control level and program level purpose statements, and program summaries detailing significant program changes from the 2004 Adopted Budget to the 2005 Proposed Budget.

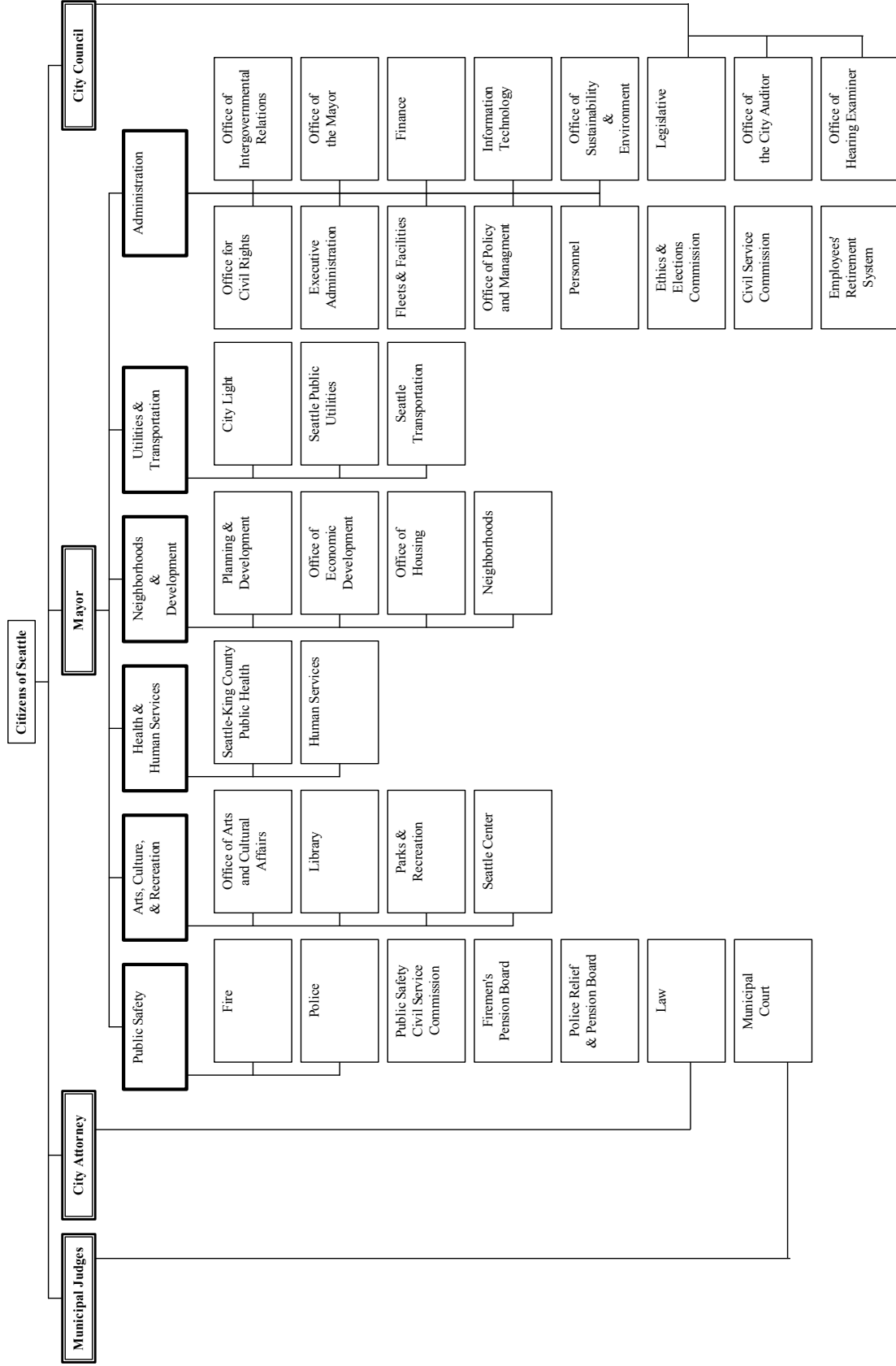
Reader's Guide

All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2005-2006. The actual historical expenditures are displayed for informational purposes only. In all cases, the proposed departmentwide budget totals are broken down by budget control levels.

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

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2003 through 2006; a statement of fund balance; and a statement of 2005-2006 appropriations to support capital projects appearing in the 2005-2010 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2005-2010 Proposed Capital Improvement Program document.

City Organizational Chart



Selected Financial Policies

Debt Policies

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

General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals thirty-seven and one-half cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.
- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund. At no time shall the balance of the Revenue Stabilization Account exceed two and one-half percent of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive develops a revenue estimate that is based on the best available economic data and forecasts.
- The City intends to adopt rates, fees, and cost allocation charges no more often than biennially. The rate, fee, or allocation charge structures may include changes to take effect at specified dates during or beyond the biennium. Other changes may still be needed in the case of emergencies or other unanticipated events.
- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.
- In compliance with the State Accountancy Act, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.
- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than ninety days. Exceptions to this policy are permitted with prior approval by the City's Director of Finance.

Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses but does not appropriate the budget for the second year. The second year budget is based on the Council endorsement and is formally adopted by Council after a midbiennial review.

Budgetary Basis

The City budgets all funds on a modified accrual basis, with the exception of utilities and other enterprise funds, which are budgeted on a full accrual basis. Property taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, as revenues even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash because this is when they can be accurately measured. Investment earnings are accrued as earned.

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

Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a Current Services budget. Current Services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as voter-approved levy and bond issues for new library and park facilities, as well as labor agreements and changes in health care, insurance and cost-of-living-adjustments for City employees. At the outset of a new biennium, such as the 2005-2006 Proposed Budget, Current Services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the Current Services budget as the second year budget endorsed by the Council the previous November, or re-determine current service levels.

During the budget preparation period, the Department of Finance (DOF) makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the Current Services budget. The revenue estimates must be based on the prior twelve months of experience. Proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget.

In April, when DOF updated its revenue forecast, DOF worked with the Mayor's Office to develop departments' budget targets. In April 2004, as a new step in the process for developing the 2005-2006 Budget, the Mayor asked departments to identify and prioritize the set of functions, defined as discrete services or activities, provided by the department and to estimate the dollars and full-time employees (FTEs) associated with each. The set of functions served as a tool for the Mayor and his staff and DOF to review overall City priorities. In May,

Budget Process

departments prepared Budget Issue Papers (BIPs), summary-level descriptions of suggested budget reductions or increases, to give the Mayor's Office and DOF early indications of how departments planned to achieve their budget targets. In early June, the Mayor's Office told departments the set of BIP changes that were to be included in the department's July budget submittal. In early July, DOF received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the month of August. DOF, in conjunction with individual departments, then finalized the operating and CIP budgets.

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

In late September, the Mayor submits the proposed budget and CIP to the City Council. In addition to the budget documents, DOF prepares supporting legislation, and documents describing the City's progress on a variety of issues and providing in-depth information on base budgets and departmental reductions. Copies of budget documents are available for public inspection at the DOF offices, in branches of the Seattle Public Library, and on the Internet at <http://www.seattle.gov/financedepartment>.

Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts at least two public hearings. The Council also holds committee meetings in open session to discuss budget requests with department representatives and DOF staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and after making changes to the Mayor's proposed budget, the City Council adopts the budget in late November through an ordinance passed by majority vote. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it. There is no line-item veto in Seattle.

During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements state the Council's expectations in making budget decisions and generally require affected departments to report back to the Council on results. A chart summarizing the City's budget process schedule is provided at the end of this section.

Legal Budget Control

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

Budget Execution

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

Budget Amendment

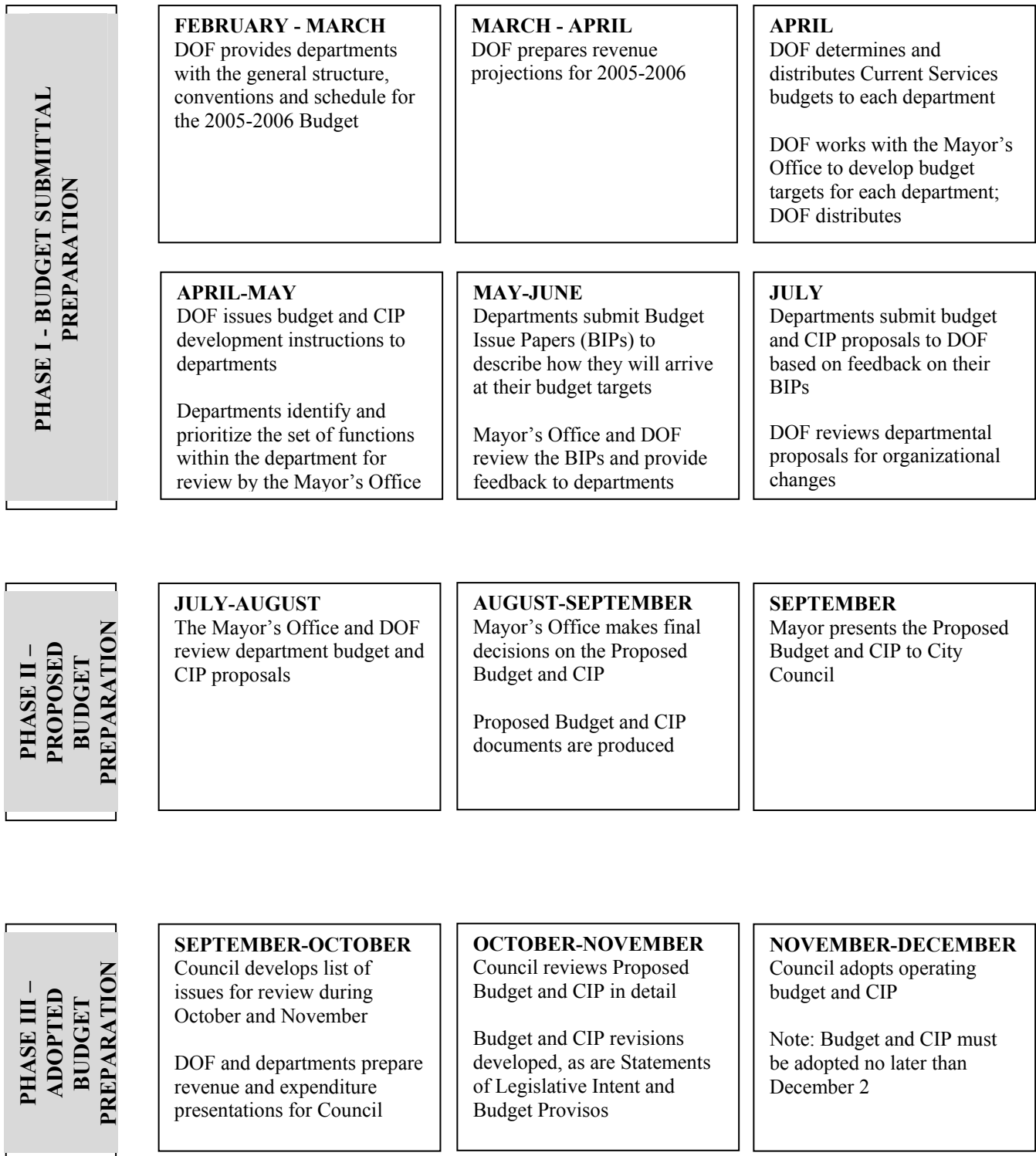
A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable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

The Finance Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, and with no more than \$500,000 of the appropriation authority for the particular budget control level or, where appropriate, line item, being increased. In addition, no transfers can reduce the appropriation authority of a budget control level by more than 25%.

In accordance with Washington state law, any unexpended appropriations for operating or ordinary maintenance expenditures automatically lapse at the close of the fiscal year, except for any appropriation continued by ordinance. Unexpended appropriations for capital outlays remaining at the close of the fiscal year are carried forward to the following year, except for any appropriation abandoned by ordinance. In developing guidelines for the transition to biennial budgeting, the City Council created a mechanism for allocating unexpended, non-capital, year-one appropriation authority. Resolution 28885 allows departments to carry forward into year two up to one-half of the unencumbered and unexpended non-capital appropriations remaining at the end of year one, with Council approval in year two's budget.

Budget Process

BUDGET PROCESS DIAGRAM – 2005-2006 BUDGET



Budget Overview

The City of Seattle's 2005-2006 Proposed Budget reflects the fiscal realities facing the City while continuing commitments to core City services. The Budget is guided by the four priorities of Mayor Greg Nickels: transportation, public safety, economic development, and strong families and healthy communities. Regional economic growth, more efficient delivery of services, and reductions or eliminations of lower-priority functions allow more focus on these priorities in the Proposed Budget.

The Mayor and City Council are committed to creating a sustainable budget for the General Fund and other City funds, including the utilities. The 2005-2006 Proposed General Fund Budget makes minimal reliance on fund balances or other one-time revenue sources. Revenues from nonrecurring sources, such as property sales, are dedicated to one-time projects rather than to ongoing expenditures. Under current economic assumptions, the 2006 Proposed Budget should be sustainable in future years.

The 2005-2006 Proposed Budget reflects changes in water, sewer, and drainage rates needed to continue services and to add resources to high-priority programs. Careful attention to project selection and management allowed the Mayor to propose a reduction in residential water rates for 2005.

Economic and Revenue Challenges

The Puget Sound region endured a difficult economic recession beginning in 2001. The region lost 6.7 percent of its jobs between December 2000 and September 2003. During the same time period, the U.S. as a whole lost only 2.1 percent of its jobs and Washington state lost only about 3.0 percent. The regional recession led to declines in many City revenues, including sales taxes, Business and Occupation (B&O) taxes, electricity sales, and water revenues.

The revenue effects of the poor regional economy have been exacerbated by a variety of other challenges. Changes in state law since 2000 have reduced Seattle's potential 2005 General Fund revenues by more than \$45 million. The largest component of this is due to Initiative 747, which was approved by the state's voters in 2001 (although defeated within Seattle) and limits annual property tax revenue growth to 1 percent plus the value of new construction versus the previous limit of 6 percent plus new construction. This limitation has a compounding effect in reducing General Fund revenue growth, so 2005 property tax revenues are approximately \$35 million less than they otherwise could have been.

Revenues available for transportation projects were adversely affected by Initiative 776, which was approved by the state's voters in 2002 (as with I-747, this Initiative failed in Seattle). This Initiative eliminated the vehicle license fee collected by King County and shared with cities. This amounted to about \$5 million annually for Seattle, which was used to leverage another \$2-3 million in grants. The loss of this revenue, coupled with continuing declines in the value of gasoline tax revenues to cities, has created a looming funding crisis for transportation in Seattle and other Washington cities.

The State Supreme Court's decision in the Okeson v. Seattle case was handed down in November 2003. The Court ruled the City's practice of having the Light Fund pay for street lighting was unconstitutional and these costs were the responsibility of the General Fund. The City Council acted the next day to shift these costs to the General Fund for the remainder of 2003. The 2004 Adopted Budget continued charging street lighting costs to the General Fund and this practice continues in the 2005-2006 Proposed Budget.

The Okeson case was remanded to Superior Court for further consideration of various issues. Most significantly, a preliminary Superior Court ruling states the General Fund must reimburse the Light Fund for \$23.1 million of street lighting costs incurred between December 1999 and November 2003. The Mayor and Council revised the 2004 Adopted Budget early in the year to accommodate about one-fourth of this reimbursement. Another one-fourth is included in the 2005 Proposed Budget, along with debt financing to pay the balance due to the Light

Budget Overview

Fund by the end of the first quarter of 2005. The General Fund will repay this debt in 2006 and 2007, so the street lighting costs will be reimbursed over a four-year period, which corresponds to the length of time in which they were incurred.

In addition, the Superior Court ruled certain other costs charged to the Light Fund were inappropriate. These included costs allocated to the Light Fund for the Mayor's Office, a small business assistance program, and 1% for Art. The 2005 Proposed Budget includes reimbursement by the General Fund to the Light Fund for four years of costs for the Mayor's Office and the small business assistance program. No adjustments or refunds related to 1% for Art are included pending an appeal of this issue by the City.

The Puget Sound area's economy started to improve in early 2004. Employment in the region has grown by 31,000 jobs in the first seven months of 2004, which has led to strengthening of various tax, fee, and utility revenues. More information can be found in the General Subfund Revenue Overview section.

One remarkable revenue source for the 2005-2006 Proposed Budget is the Real Estate Excise Tax (REET). This tax is imposed at a rate of 0.5% on the value of all real-estate sales. By state law, the proceeds can be used solely for certain capital projects, such as transportation infrastructure and major maintenance of parks, libraries, and general government facilities. The City deposits REET into the Cumulative Reserve Subfund. Low interest rates in 2003 and early 2004 led to substantial growth in home sales, with a corresponding increase in REET revenues. When interest rates started to rise in 2004, home sales accelerated further as buyers worried that they eventually would be priced out of the market. As a result, the City is receiving a windfall of REET in 2004. Through August, 2004 REET revenues totaled \$23.3 million compared with \$18.7 million in 2003, previously the highest year in history for REET. Economic forecasts indicate these levels of REET will not be sustained in 2005 and 2006, but the additional 2004 REET proceeds can be used to make new capital investments in the 2005-2006 Proposed Budget.

Approach to 2005 General Fund Budget

The process for developing the 2005-2006 Proposed Budget began in March after revisions were made to the 2004 Adopted Budget to respond to the Okeson case. At that time, it appeared 2005 General Fund revenues would be \$20-25 million less than the amount needed to sustain existing programs and cover new costs. This gap stemmed mostly from the use of one-time sources to balance the 2004 budget and the costs to operate new libraries, community centers, and other facilities whose capital costs were paid by voter-approved funds but whose operating costs have to be borne by the General Fund.

The Mayor directed the 2005 Budget be prepared in a manner that preserved high-priority direct services to the maximum extent possible. To this end, the budget development process relied on a mix of strategies:

- Administrative cuts. Significant reductions were identified in administrative departments such as Fleets & Facilities and Personnel. Operating departments also made reductions in internal administration, including the Library, Parks, Police, and Seattle Center.
- Elimination or reduction of lines of business. Several lower-priority services were reduced or eliminated. The City Design, Print, and Copy program was closed in order to reduce City costs in this area. This program had been losing money for many years and such losses were projected to continue. The Library eliminated its mobile services program since more branch libraries are now open and the Library has other means to reach home-bound patrons.

Budget Overview

- Elimination of positions. The Mayor directed that all vacant positions be reviewed and lower-priority ones eliminated. As a result of this exercise, approximately 175 positions were abrogated Citywide.
- Charging full cost of service. The City has had policies to subsidize certain services that legally could be recovered from fees. The 2005-2006 Proposed Budget moves to full cost recovery for many of these fees, including some of those charged by the Fire Department and Department of Planning and Development.
- Changing methods to contract for services. The Proposed Budget reflects new approaches to obtaining public health, indigent defense, and jail services, with substantial savings from earlier approaches. These approaches allow the City to obtain comparable levels of services while substantially reducing overhead charged by other agencies.

These strategies allowed the General Fund gap to be filled without requiring major cuts in direct services to the public. Some of the highlights of the City's overall operating and capital budgets are described in the functional categories that follow.

Transportation

Improving transportation is one of the City government's highest priorities. The 2005-2006 Proposed Budget maintains most existing transportation programs and funds significant new capital projects. However, the Proposed Budget relies on significant use of windfall proceeds from the Real Estate Excise Tax.

The most significant capital investments in the Seattle Department of Transportation's 2005-2006 Proposed Budget include continued work on the replacement of the Alaskan Way Viaduct and Seawall, reconstruction of the approaches to the Fremont Bridge and a variety of related improvements, completion of the City's work on SR-519 Phase 1 to improve freight mobility, and completion of the Environmental Impact Statement for the Mercer Corridor project. Funding is increased for arterial paving, so about 44 lane-miles will be repaved in 2005. The 2005-2006 Proposed Budget also reflects the City's ongoing support for major transit projects, including Sound Transit light rail and the Seattle Monorail Project.

The City of Seattle and other Washington cities face a growing crisis in transportation funding. In May 2004, the Citizens' Transportation Advisory Committee presented a report to the Mayor and City Council describing the backlog of transportation projects and calling for new funding sources for local transportation. Seattle has lost more than \$18 million in transportation revenue annually due to the passage of Initiative 776 and court invalidation of the street utility. Seattle's elected leaders are working with other local officials to seek additional revenue options from the state Legislature.

Public Safety

Public safety is another high priority for Seattle's residents and elected officials. The 2005-2006 Proposed Budget maintains current levels of uniformed staffing in the Police Department and maintains current on-duty staffing in the Fire Department. No significant changes in deployment are anticipated. Additional funds are provided for the development and use of technology to improve information available to public safety employees and the public.

The 2005-2010 Proposed Capital Improvement Program shows further progress in implementing the 2003 Fire Facilities and Emergency Response levy. Construction will begin on several new or remodeled fire stations during the biennium, including the new Fire Station 10 complex that also houses the Emergency Operations

Budget Overview

Center and Fire Alarm Center. Construction of two new fire boats will also begin in 2005 or 2006. The Joint Training Facility to serve the Fire Department and other departments is already under construction, with completion scheduled for the upcoming biennium.

Economic Development

Mayor Nickels has identified economic development efforts as a key to improving the City's employment base and revenue sources. The 2005-2006 Proposed Budget continues previous efforts in infrastructure development, permit consolidation, business retention, and job training. New initiatives are targeted to improving the business climate in Southeast Seattle, Broadway, and the Pike-Pine corridor. The City is increasing its support for "Enterprise Seattle" (the former Economic Development Council) to expand efforts to attract and retain firms.

Portions of the City's capital budget help support these economic development efforts in targeted neighborhoods. For example, the 2005 Proposed Budget adds \$1 million of REET funds to the Northgate Library, Community Center, and Park to help complete these facilities to the original scope. The Budget provides funds to continue planning efforts on the Mercer Corridor and Streetcar projects in the South Lake Union neighborhood. The transportation budget includes funding for projects intended to improve freight mobility in the Duwamish industrial area.

Strong Families and Healthy Communities

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

- Funding levels for direct human services are slightly increased from 2004 to 2005, despite the adverse economic situation. Some funding is shifted among programs as a result of the Children's Budget process, which focused resources on high-priority areas and the most effective programs, but overall funding levels are maintained or increased. In addition, the Proposed Budget includes \$2.3 million of Cumulative Reserve funding for a new hygiene center, day center, and shelter for homeless people that will be sited near the new Fire Station 10. An additional \$900,000 is included in Finance General as a reserve to provide additional capital or operating funds for this project or the co-located fire facilities.
- The 2005-2006 Proposed Budget reflects voter approval of the Families and Education Levy on Sept. 14. This Levy will continue and expand the City's efforts to support children and youth, with new emphasis on readiness to learn and measurable outcomes. The previous Levy continues to provide funds through August 2005, so the 2005 Proposed Budget reflects a combination of the two levies in that year.
- Appropriations for the Neighborhood Matching Subfund are maintained at the 2004 level of approximately \$3.2 million. The Subfund provides City resources to match cash or in-kind contributions from community groups for planning, development, construction, or capacity-building projects.
- The Budget includes continued support for the Mayor's Race and Social Justice Initiative, including funding in the Office of Civil Rights and continuation of the Race and Social Justice allotment within the Neighborhood Matching Subfund.
- The Proposed Budget funds approximately \$5 million of additional costs for operations at new and expanded libraries, community centers, and other parks facilities. Hours and staffing models are maintained at 2004 levels throughout these systems.
- The capital budget continues to fund major maintenance of City facilities, such as pools, community centers, ballfields, and Seattle Center. Funding levels comply with City policies intended to ensure that the City invests adequate amounts to keep these facilities in good condition.

Utilities and Technology

Seattle City Light emerged from the short-term effects of the West Coast power crisis in mid-2004 by paying off the last of the short-term debt incurred to cover high energy costs resulting from poor water conditions and manipulation of the energy markets. New financial policies proposed with this Budget will gradually reduce the utility's reliance on debt to finance its capital program and will build a substantial contingency reserve. The Mayor has proposed to undertake a thorough review of City Light revenue requirements and rates starting this fall, culminating in a rate proposal in late spring of 2005. The 2005-2006 Proposed Budget assumes that current rate levels are maintained. Approximately \$6 million of cuts are made in a variety of administrative functions and lower-priority programs to provide funds to improve reliability of the electrical distribution system and strengthen the utility's financial position.

Seattle Public Utilities completed a Solid Waste Facilities Plan and a Comprehensive Drainage Plan in 2004. The 2005-2006 Proposed Budget reflects rate proposals for water, drainage, and wastewater rates, with the latter being a continuation of a rate approach adopted by the City Council in 2003. The utility is continuing its asset management approach and is broadening the focus to include operational practices. This new approach has led to significant reductions in project costs and utility revenue requirements. As a result, the 2005 rate proposal calls for a reduction in residential water rates, the first in at least 50 years.

Beginning in 2005, City departments will make a concerted effort to improve and enhance Seattle's aquatic environment through the Mayor's Restore Our Waters initiative. This initiative requires departments to get the most benefit out of projects by coordinating work and using sound scientific information to make the best investments. Examples of projects the City is undertaking in this biennium include:

- Sand Point Magnuson Park Shoreline Renovation, which will repair the bulkhead and regrade the shoreline, providing a safer habitat for small fish.
- Beer Sheva Habitat Improvement, which will create a high-quality fish refuge and rearing habitat at the mouth of Mapes Creek.
- Bitter Lake/N 137th Stormwater, which will design and construct stormwater treatment to improve the quality of water discharged into Bitter Lake. Options include wet vaults and media filters with swirl concentrators for pretreatment.
- Fish Passage Program, which will remove fish passage barriers located in Pipers Creek and Taylor Creek, allowing returning salmon to access many more miles of stream.

The Department of Information Technology (DoIT) provides technology support to City agencies and also provides an array of services to the public, including government access television (the Seattle Channel), the City's Web site (the Public Access Network), and community technology support. The DoIT budget includes a proposal to increase the cable franchise fee by 1% to expand efforts in this area. One of the biggest changes will be expansion of the City's ability to accept electronic payments. DoIT is working with the Department of Executive Administration to implement services allowing utility bills, business licenses, and other charges to be paid through a secure Internet connection. DoIT is also working with the Parks Department to expand electronic registration for Parks programs.

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Looking to the Future

Despite this period of economic difficulty, the City has maintained and in many cases strengthened its long-term financial policies for the general government and utilities. The City continues to have a substantial Emergency Subfund and other General Fund reserves are maintained for purposes such as debt service, vehicle replacement, public safety communications, and legal claims. These policies have ensured the City maintains its very high bond ratings.

Most economic forecasts suggest the regional economy will continue to improve over the next several years. If so, the City's General Fund and utility budgets should be sustainable because the 2005-2006 Proposed Budget does not rely on any significant use of nonrecurring funds. The transportation budget will face major challenges in 2007 unless additional revenue sources become available. In addition, Seattle Center will continue to have revenue problems unless attendance at athletic and cultural programs returns to pre-2001 levels.

Overall, the 2005-2006 Proposed Budget represents a turning point in the City's fiscal fortunes. Economic improvements and increased efficiencies allow core programs to be maintained and a few new initiatives established to better serve Seattle's residents and businesses.

Summary Tables

REVENUE SUMMARY BY SOURCE (in thousands of dollars)

GENERAL SUBFUND

Revenue Source	2003 Actual	2004 Adopted	2004 Revised	2005 Proposed	2006 Proposed
Total Taxes	549,615	558,391	560,407	578,640	594,661
Licenses and Permits	12,397	11,325	11,533	12,545	12,550
Parking Meters/Meter Hoods	11,245	13,829	12,513	15,240	16,675
Court Fines	15,978	16,016	18,049	16,500	16,500
Interest Income	2,102	1,899	1,595	1,291	1,591
Revenue from Other Public Entities	14,984	8,969	9,302	10,178	10,058
Service Charges & Reimbursements	39,131	37,756	37,475	39,880	37,567
All Else	967	892	1,005	898	940
Total: Revenue & Other Financing Sources	\$646,419	\$649,076	\$651,877	\$675,171	\$690,542
Interfund Transfers	5,252	16,660	13,940	1,893	912
Total, General Subfund	\$651,671	\$665,736	\$665,817	\$677,064	\$691,454

Summary Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2004 Adopted		2005 Proposed		2006 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Arts, Culture & Recreation						
1999 Seattle Center/Community Centers Fund	0	2,784	0	3,388	0	0
2000 Parks Levy Fund	0	22,888	0	20,476	0	20,235
Department of Parks and Recreation	35,688	106,092	32,879	105,564	34,295	109,402
Office of Arts and Cultural Affairs	2,338	3,115	1,820	3,746	1,856	3,561
Seattle Center	8,632	34,003	8,621	36,316	9,924	36,712
The Seattle Public Library	32,934	43,595	35,447	40,222	36,515	40,270
Libraries for All Project Fund	0	8,080	0	1,849	0	1,000
Subtotal	79,592	220,557	78,767	211,561	82,590	211,180
Health & Human Services						
Community Development Block Grant	0	18,204	0	16,931	0	16,931
Educational and Developmental Services Levy	0	11,669	0	13,119	0	14,806
Human Services Department	24,013	98,129	33,950	80,823	34,096	81,895
Public Health - Seattle and King County ⁽¹⁾	10,255	10,255	0	0	0	0
Subtotal	34,268	138,257	33,950	110,873	34,096	113,632
Neighborhoods & Development						
Department of Neighborhoods	7,142	7,142	6,639	6,639	6,836	6,836
Department of Planning and Development	9,754	49,972	8,158	53,474	7,827	53,949
Neighborhood Matching Subfund	3,168	3,555	3,197	3,551	3,268	3,268
Office of Economic Development	5,871	5,871	5,629	5,629	5,676	5,676
Office of Housing	0	37,633	0	33,174	0	30,574
Subtotal	25,935	104,173	23,623	102,466	23,607	100,303
Public Safety						
Criminal Justice Contracted Services	20,963	20,963	17,426	17,426	18,566	18,566
Fire Facilities Fund	0	0	0	12,324	0	19,344
Firemen's Pension	16,329	16,900	16,206	17,458	16,980	17,707
Law Department	12,613	12,613	12,994	12,994	13,411	13,411
Police Relief and Pension	15,678	15,913	15,345	17,558	16,082	16,382
Public Safety Civil Service Commission	124	124	116	116	119	119
Seattle Fire Department	113,317	113,317	117,121	117,121	120,040	120,040
Seattle Municipal Court	19,505	19,505	18,699	18,699	19,319	19,319
Seattle Police Department	174,284	174,284	178,017	178,017	182,566	182,566
Subtotal	372,812	373,618	375,923	391,713	387,082	407,454

(1) Public Health Services has been transferred to the Human Services Department and is budgeted at \$9,460,143 in 2005 and \$9,209,540 in 2006.

Summary Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2004 Adopted		2005 Proposed		2006 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Utilities & Transportation						
Seattle City Light	0	815,714	0	913,647	0	913,863
Seattle Public Utilities	2,280	539,642	2,171	571,239	2,215	576,051
Seattle Transportation	35,776	123,012	30,437	144,399	34,705	157,100
Subtotal	38,057	1,478,367	32,608	1,629,285	36,920	1,647,014
Administration						
Civil Service Commission	159	159	163	163	167	167
Department of Executive Administration	28,628	28,628	27,779	27,779	28,418	28,418
Department of Finance	3,747	3,747	3,775	3,775	3,886	3,886
Department of Information Technology	2,968	33,786	2,413	35,847	2,457	35,124
Employees' Retirement System	0	8,124	0	6,956	0	7,507
Ethics and Elections Commission	564	564	547	547	561	561
Finance General	18,160	18,160	36,399	36,399	24,273	24,273
Fleets and Facilities Department	2,036	71,458	2,364	76,832	2,549	77,719
Legislative Department	8,612	8,612	8,783	8,783	9,062	9,062
Office of City Auditor	1,085	1,085	1,016	1,016	1,043	1,043
Office of Hearing Examiner	493	493	483	483	475	475
Office of Intergovernmental Relations	1,536	1,536	1,675	1,675	1,689	1,689
Office of Policy and Management	2,001	2,001	1,640	1,640	1,685	1,685
Office of Sustainability and Environment	543	543	506	506	519	519
Office of the Mayor	2,345	2,345	2,366	2,366	2,429	2,429
Personnel Department	10,731	10,731	9,897	9,897	10,154	10,154
Seattle Office for Civil Rights	1,573	1,573	1,729	1,729	1,743	1,743
Subtotal	85,181	193,545	101,535	216,393	91,110	206,454
Funds, Subfunds and Other						
Bonds Debt Service	29,296	67,105	30,059	107,746	35,235	90,423
Cumulative Reserve Subfund	0	29,836	0	36,467	0	39,769
Emergency Subfund	136	136	1,180	1,180	1,490	1,490
Judgment/Claims Subfund	801	15,750	935	14,500	935	15,500
Parking Garage Fund	0	6,908	0	7,162	0	7,368
Subtotal	30,233	119,735	32,174	167,055	37,660	154,550
Grand Total	666,078	2,628,252	678,579	2,829,346	693,064	2,840,587

Summary Tables

POSITION SUMMARY BY DEPARTMENT * (In Full Time Equivalents)

Department	2003 Actual	2004 Adopted	2005 Proposed	2006 Proposed
Arts, Culture & Recreation				
Department of Parks and Recreation	1,069.78	940.72	941.75	947.36
Office of Arts and Cultural Affairs	20.60	19.85	22.10	22.10
Seattle Center	287.62	284.82	253.90	253.90
Subtotal	1,378.00	1,245.39	1,217.75	1,223.36
Health & Human Services				
Human Services Department	327.85	324.35	305.10	305.10
Subtotal	327.85	324.35	305.10	305.10
Neighborhoods & Development				
Department of Neighborhoods	92.13	87.00	83.75	83.75
Department of Planning and Development	348.75	370.25	376.00	376.00
Office of Economic Development	23.75	23.00	21.00	21.00
Office of Housing	43.50	43.25	41.75	41.00
Subtotal	508.13	523.50	522.50	521.75
Public Safety				
Law Department	144.60	146.10	137.60	137.60
Public Safety Civil Service Commission	1.00	1.00	1.00	1.00
Seattle Fire Department	1,109.75	1,117.00	1,123.05	1,121.80
Seattle Municipal Court	227.85	229.35	223.60	223.60
Seattle Police Department	1,815.25	1,823.75	1,804.75	1,804.25
Subtotal	3,298.45	3,317.20	3,290.00	3,288.25
Utilities & Transportation				
Seattle City Light	1,786.10	1,778.10	1,734.10	1,743.10
Seattle Public Utilities	1,366.73	1,392.90	1,398.40	1,398.40
Seattle Transportation	627.50	631.50	617.50	617.50
Subtotal	3,780.33	3,802.50	3,750.00	3,759.00

Summary Tables

POSITION SUMMARY BY DEPARTMENT (In Full Time Equivalents)

Department	2003 Actual	2004 Adopted	2005 Proposed	2006 Proposed
Administration				
Civil Service Commission	1.50	1.60	1.60	1.60
Department of Executive Administration	245.35	238.95	232.95	232.95
Department of Finance	35.00	34.00	35.50	35.50
Department of Information Technology	174.00	190.50	191.50	191.50
Employees' Retirement System	13.50	13.50	12.50	12.50
Ethics and Elections Commission	5.20	5.20	5.20	5.20
Fleets and Facilities Department	313.00	321.50	292.50	292.50
Legislative Department	79.70	81.70	80.70	80.70
Office of City Auditor	11.00	11.00	9.00	9.00
Office of Hearing Examiner	4.70	4.90	4.90	4.50
Office of Intergovernmental Relations	11.50	11.50	10.50	10.50
Office of Policy and Management	15.65	16.00	15.00	15.00
Office of Sustainability and Environment	4.00	4.00	4.00	4.00
Office of the Mayor	23.50	23.50	22.50	22.50
Personnel Department	123.50	128.00	103.00	103.00
Seattle Office for Civil Rights	22.00	21.50	22.50	22.50
Subtotal	1,083.10	1,107.35	1,043.85	1,043.45
Grand Total	10,375.86	10,320.29	10,129.20	10,140.91

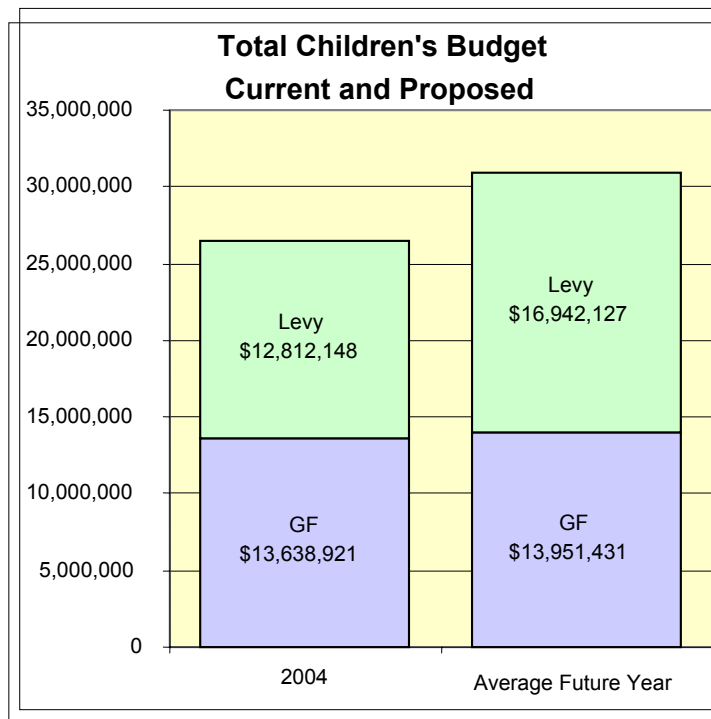
* Employees in Public Health – Seattle and King County are not City employees, and positions in Firemen’s Pension, Police Relief and Pension, and the Seattle Public Library are not adopted by the Seattle City Council and, therefore, are not shown.

Children's Budget

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

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

The City invests in children and youth through the budgets of five City departments: the Office of Arts and Cultural Affairs, the Seattle Public Library, the Departments of Neighborhoods, the Department of Parks & Recreation, and the Human Services Department (which also contracts with a number of public health agencies in 2005). The recommended overall annual Children's Budget for 2005-2006 is approximately \$31 million, an increase from the 2004 level of \$26.5 million. City funding sources include the General Subfund, the Families and Education Levy, and the federal Community Development Block Grant (CDBG). The Families and Education Levy, renewed by Seattle voters in September 2004, will provide \$116.8 million for children and youth during the next seven years. The City's proposed annual General Subfund commitment is approximately \$13.9 million, an amount equivalent to the City's 2004 General Subfund budget contribution inflated to 2005 levels.



Children's Budget

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

Early Learning – Increase both General Subfund and Levy investments, increasing the total Early Learning amount from \$2.6 million to \$6.3 million. Program elements include preschool classes for low-income children, childcare for low-income families, and preschool and childcare teacher training.

Family Involvement and Family Support – Continue the overall funding commitment, approximately \$4.5 million per year. Program elements include helping parents help their children to achieve academically, and helping parents, especially immigrant and refugee parents, to get basic services such as food, shelter, and clothing.

Out-of-School Time – Increase both General Subfund and Levy investments, increasing the total Out-of-School Time investment from \$8.4 million to \$9.8 million. Program elements include after-school activities with an academic focus for elementary and middle school students, arts training for middle and high school students, summer day camp scholarships for low-income children, and library programs for children and teens.

Support for High-Risk Middle and High School Students – Program elements includes nearly \$4.4 million a year for case management to help teens access public services, truancy prevention to help youth at risk of dropping out of school, and counseling for high-risk middle school students.

Student Health – Program elements include more than \$5.1 million a year for school-based health centers and school nurses in four middle schools and 10 high schools, school nurses, mental health counseling for high-risk youth, and dental care for elementary school students.

General Subfund Revenue Overview

City Revenue Sources and Funds – September 2004

City Revenues

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

In 2004, revenue for general government purposes will total approximately \$665.8 million. In 2005, general government revenue is projected to total \$677.1 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 revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own operating fund.

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

General Subfund of the General Fund

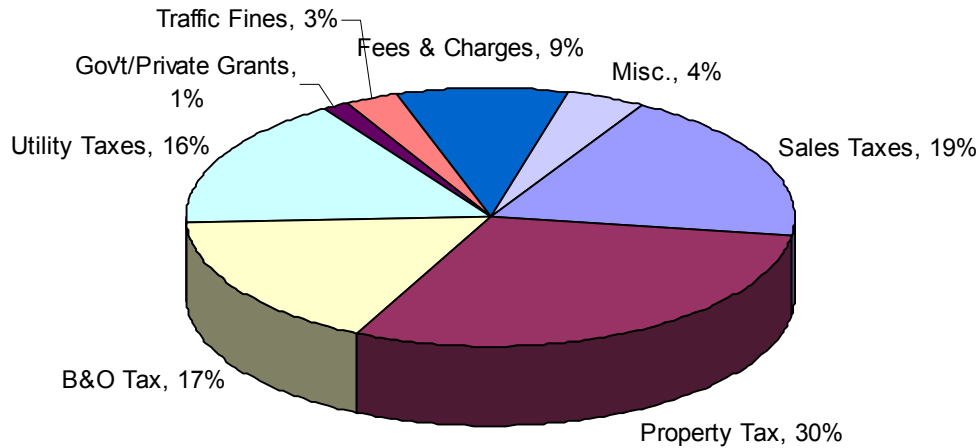
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (30%), followed by sales taxes, and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 52% 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 forecasts for 2004-2006.

General Subfund Revenue Overview

Figure 1. 2004-Revised General Subfund Revenue Forecast by Source - \$665.8M



The National and Local Economy

Current Economic Conditions and Outlook

The recovery from the 2001 recession has been weak and uneven. The decade of the 1990s saw the longest national economic expansion on record, one that lasted a full 10 years. The expansion was characterized by rising productivity, a booming stock market, an expanding high-tech sector, and rising investment. During the high-growth years of the late 1990s, optimists talked of the arrival of a “new economy,” which would usher in a future characterized by rapid economic growth, soaring incomes, and an end to the business cycle.

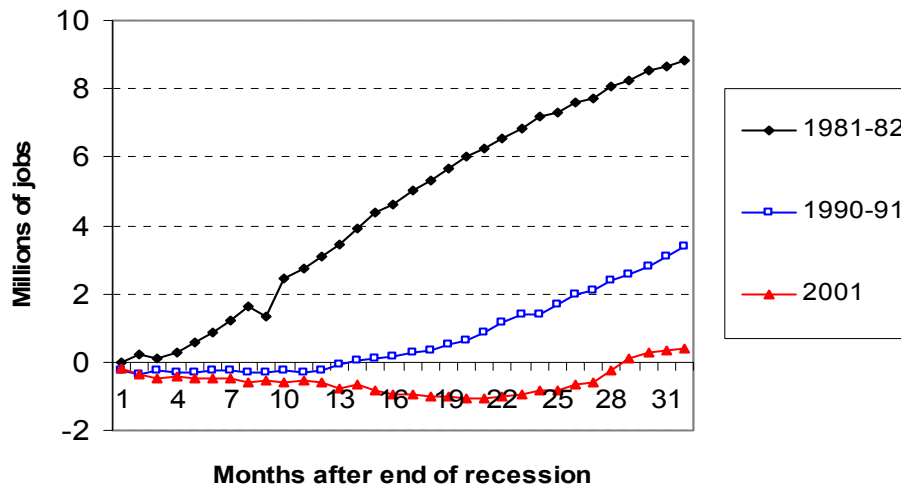
However, the dream of a “new economy” ended in early 2000, when the stock market bubble burst. With stock prices no longer rising, businesses cut back on investment spending. Consumer spending also slowed as falling stock prices led to declining household wealth. The slowing economy slipped into recession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

In its early stages, the recovery was led by consumer spending, which was supported by tax cuts and low interest rates, and by growth in federal government spending. However, in the second quarter of 2003, business investment began to expand, and exports have been growing at a healthy pace since third quarter 2003.

Employment has been expanding since September 2003, though the rate of increase has fallen steeply since peaking in March and April 2004. Despite this recent growth, in July 2004 employment was still 1.2 million jobs below the prerecession peak reached in March 2001. Job growth has been particularly dismal when compared to other recoveries. As illustrated in Figure 2, which shows employment growth following the end of the past three recessions, only 400,000 jobs have been created in the 32 months that have elapsed since the end of the 2001 recession, compared to 8.9 and 3.4 million following the 1981-82 and 1990-91 recessions, respectively.

General Subfund Revenue Overview

Figure 2. Job Increase From End of Recession



Despite improvements in business investment and export growth, the recovery remains both weak and uneven, with periods of accelerating growth followed invariably by periods of slowing growth. After growing at a healthy pace between third quarter 2003 and first quarter 2004, the economy slowed in the second quarter of 2004, led by a drop in consumer spending growth to 1%, a three-year low. One cause of the consumer spending slowdown was a sharp rise in energy prices, which reduced the amount of disposable income available for spending on other goods and services. In addition, the stimulatory effects of fiscal and monetary policy are fading. Rising interest rates have led to reduced home refinancing activity, and the 2004 tax refunds represent the final boost consumers will receive from the 2001-2003 tax cuts.

Most economists believe the U.S. recovery will remain on track. Despite the economy's recent weakness, the majority of economists expect the expansion to remain on track and economic growth to accelerate after the economy moves beyond what they view as a period of temporary sluggishness. Federal Reserve Chairman Alan Greenspan has been particularly bullish, observing that the economy appears poised to resume a stronger pace of expansion going forward. Others are less optimistic as they worry about the resilience of consumer spending in the face of rising energy prices, high debt loads, and interest rate hikes.

Economists had forecast strong growth for the second half of 2004, but with consumer spending and job growth weakening in the second quarter, expectations have been scaled back. For example, in early August the economics firm Global Insight reduced its forecast of Gross Domestic Product growth for the second half of 2004 from 4.8% to 3.9%, citing the influence of high energy prices and weak employment gains.

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

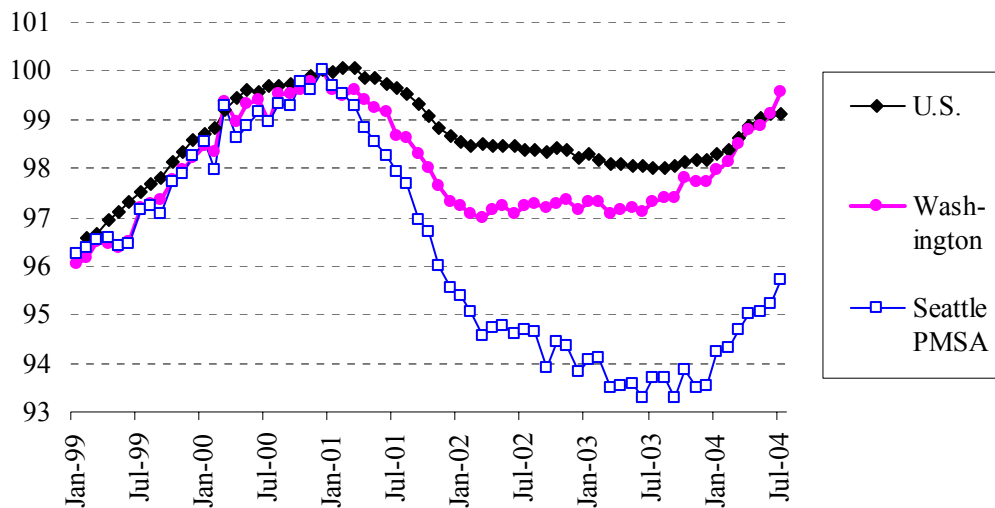
- The demise of the local dot-com sector;
- Layoffs or business closures in much of the high-tech sector;
- A sharp decline in stock-option income;
- A steep drop in venture-capital investment; and
- A decline in household wealth driven by falling stock prices.

General Subfund Revenue Overview

Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to cut back severely its projections of the demand for airliners during the next several years. Boeing announced it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division, with two-thirds of those cuts expected to occur in the Puget Sound Region. As of July 2004, Boeing had eliminated 27,200 jobs in Washington State since September 2001. This was the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Since mid-1998, Boeing has reduced its Washington employment by 51,200 jobs.

The timing and severity of the region's recession is illustrated in Figure 3, which shows monthly employment for the U.S., the Seattle Primary Metropolitan Statistical Area (King, Snohomish, and Island Counties), and the State of Washington for the period January 1999 – July 2004. The employment data have been indexed to equal 100 in December 2000, the month of peak employment in the Seattle PMSA.

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



NOTE: Data are seasonally adjusted. Seattle PMSA = King, Snohomish & Island Counties

Following several years of steady gains, employment growth began to slow in the second half of 2000, both locally and nationally, and then turned down in early 2001 (see Figure 3). Employment declines in the Seattle PMSA were much greater than in the U.S. and Washington, indicating the degree to which the state's recession has been focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 6.7% for the Seattle PMSA, 3.0% for Washington, and 2.1% for the nation. The Seattle PMSA's 6.7% decline reflects the loss of 96,000 jobs between December 2000 and September 2003.

Following two years of decline in 2001-02, regional employment more or less stabilized in 2003. With the national economy improving and Boeing layoffs slowing to a relative trickle, employment has rebounded in 2004, as 31,000 jobs have been added in the Seattle PMSA during the first seven months of the year. As of July 2004, Seattle PMSA employment was still 4.3% below its prerecession peak, compared to a deficit of 0.9% for U.S. and 0.5% for Washington.

General Subfund Revenue Overview

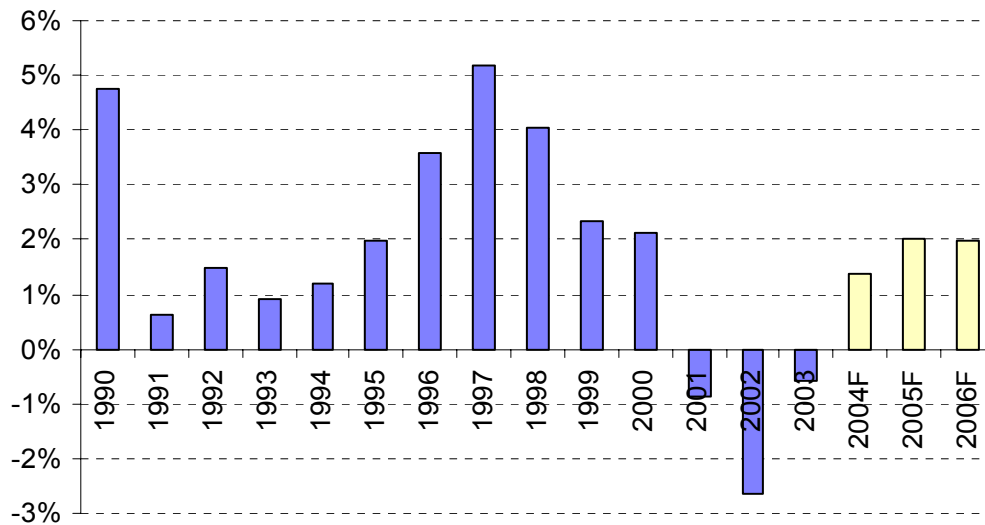
The region's recovery has finally arrived. The prospects for the region's economy have brightened, with healthy employment gains during the first seven months of 2004 and the beginnings of a turnaround at the region's largest private employer, the Boeing Company. Boeing has been a drag on the region's economy for the past six years, having reduced its Washington employment by 51,200 jobs since mid-1988. However, in July Boeing announced it planned to increase its Washington employment by 2,000 to 3,000 by the end of 2004. Reasons for the increase include:

- Commercial airliner production will increase from 285 in 2004 to 315-320 planes in 2005.
- Additional employees are needed to work on 7E7 development.
- In June Boeing was awarded a \$3.9 billion contract from the Navy to develop a multimission maritime aircraft. This is a modified 737 jet that will be used to hunt submarines.

The region's other major private employer, Microsoft, plans to hire 6,000 to 7,000 workers in the coming year, half of them locally. Taking account of attrition, the net gain in Microsoft's local employment will be on the order of 1,500.

With both Boeing and Microsoft hiring new workers, the region's economy is expected to continue to expand over the next several years. The Puget Sound Economic Forecaster predicts that Puget Sound region employment will increase by 1.4% in 2004 and 2% in both 2005 and 2006 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in fourth quarter 2000 until some time in early 2006.

Figure 4. Annual Growth of Puget Sound Region Employment



Note: 2004-06 forecasts are from Puget Sound Economic Forecaster.
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer price inflation has begun to rise. The 2001 national recession and the subsequent weak recovery helped to bring inflation down to the lowest levels since the early 1960s. However, inflation has been on the rise in 2004. Core inflation, which excludes volatile energy and food prices, has risen from 1.1% during the latter months of 2003 to the 1.6% - 1.9% range during March - July 2004. With energy prices up sharply since the beginning of the year, overall inflation has risen to the 3% range in recent months.

General Subfund Revenue Overview

With inflation rates rising, economists have been raising their forecasts for future U.S. inflation. Forecasts of core inflation for future years have risen to the 2% - 2.5% range. Energy prices are expected to decline somewhat from current levels, but forecasters have been raising their forecasts of future energy prices in recent months. There is considerable uncertainty about the future course of energy prices.

Due to the severity of the local recession, Seattle area inflation has tracked below U.S. inflation since late 2002, with local inflation ranging from 1% to 2% since then. However, due to a spike in energy prices in May and June, the year-over-year increase in the Seattle Consumer Price Index – Urban Wage and Clerical Workers (CPI-W) jumped to 2.5% in June 2004. With U.S. inflation forecasts rising and the Puget Sound region economy improving, economists have been raising their forecasts of local inflation for 2005 and 2006 to the 2% range.

It should be noted that inflation forecasts made at the present time are particularly susceptible to error because we are in a period of rising national inflation following a period of relative stability, the regional economy is making the transition from decline to growth, and there is considerable turmoil and uncertainty in energy markets.

Figure 5. Consumer Price Index Forecast

	U.S. CPI-W (July-July growth rate)	Seattle CPI-W (June-June growth rate)
2003 (actual)	2.0%	0.9%
2004 (actual)	3.0%	2.5%
2005	2.3%	1.9%
2006	2.1%	2.1%

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2006. These forecasts are for the CPI-W, which measures price changes for urban wage and clerical workers. The CPI-U measures price changes for all urban consumers. 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 basis for cost-of-living increases in City of Seattle wage agreements.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 (see next page) shows General Subfund actual revenues for 2003, as well as the revised forecast for 2004 and the proposed 2005 and 2006 forecasts. Looking at the total tally for 2004, the revised forecast resembles the adopted forecast made last November; however, there is considerable variability among individual revenues. The largest forecast change stems from the sales tax, which suffered considerably from three events: a sharp fall-off in sales receipts during December 2003 – February 2004, a \$1 million refund, and lowered expectation of revenue from Sound Transit light rail construction in 2004. Conversely, strong B&O tax returns during the second half of 2003, coupled with a more optimistic outlook for construction activity, have nearly offset the \$2 million reduction in the sales tax forecast. The 2004 forecast was also reduced for parking meters and meter hoods. The heightened forecast in the past budget reflected increased meter hood fees and new parking pay stations; however, revenue performance did not materialize as expected, prompting a forecast reduction of \$1.3 million. On the upside, court-fine revenues were increased by more than \$2 million to account for better-than-expected revenue from improved staffing levels, the amnesty program, and a change in collection agencies.

General Subfund Revenue Overview

The 2005-06 forecast marks a turning point for the major taxes. Reflecting prolonged softness in the local economy, the 2004 forecast showed modest growth, if any, for the major revenues. It is not until 2005 that we begin to see marked improvement. After three years of decline, retail sales tax is expected to show improvement in 2004, growing more strongly in 2005-06. Similarly, an improved economy helps boost B&O tax revenue by 3.8% in 2005 and 4.3% in 2006. The property tax forecast assumes no major policy changes and is projected to increase by the annual 1% growth limit plus new construction. After a very slow start for the new pay stations, parking meter revenues are expected to come in strong in 2005-06, and, after extraordinary revenue performance in 2004 due to one-time events, court fines are expected to stabilize at around \$16.5 million in 2005-06. Higher rates account for a jump in Drainage and Wastewater revenue for 2005-06, while a utility tax rate increase explains the boost in City Water tax revenue during this period. The Water tax rate increase covers fire hydrant service costs that will be shifted from utility customers to the City, but will be offset by lower water rates. See the Public Utilities section for more detail.

Figure 6. General Subfund Revenue, 2003 – 2006 ¹
(in thousands of dollars)

Revenue Source	2003 Actual	2004 Adopted	2004 Revised	2005 Proposed	2006 Proposed
General Property Tax	173,429	178,742	178,630	182,119	186,463
Property Tax - EMS Levy	19,044	19,427	19,752	20,273	20,731
Retail Sales Tax	112,461	117,388	115,274	120,650	125,395
Retail Sales Tax - Criminal Justice Levy	10,803	11,178	11,155	11,670	12,172
B&O Tax (90%)	115,571	112,592	114,446	118,770	123,905
Utilities Business Tax - Telephone (90%)	30,384	28,170	28,170	28,700	28,700
Utilities Business Tax - City Light (90%)	30,191	30,979	30,957	30,450	30,845
Utilities Business Tax - SWU & priv. garb. (90%)	7,641	7,634	7,623	7,690	7,758
Utilities Business Tax - City Water (90%)	8,051	8,571	9,032	11,765	11,929
Utilities Business Tax - DWU (90%)	13,254	13,909	13,967	15,305	15,914
Utilities Business Tax - Natural Gas (90%)	7,814	8,916	9,785	9,923	9,123
Utilities Business Tax - Other Private (90%)	9,263	9,330	10,075	10,535	11,020
Admission Tax	6,757	6,400	6,500	5,600	5,400
Other Tax	4,952	5,155	5,040	5,190	5,305
Total Taxes	549,615	558,391	560,407	578,640	594,661
Licenses and Permits	12,397	11,325	11,533	12,545	12,550
Parking Meters/Meter Hoods	11,245	13,829	12,513	15,240	16,675
Court Fines	15,978	16,016	18,049	16,500	16,500
Interest Income	2,102	1,899	1,595	1,291	1,591
Revenue from Other Public Entities	14,984	8,969	9,302	10,178	10,058
Service Charges & Reimbursements	39,131	37,756	37,475	39,880	37,567
All Else	967	892	1,005	898	940
Total: Revenue & Other Financing Sources	646,419	649,076	651,877	675,171	690,542
Interfund Transfers	5,252	16,660	13,940	1,893	912
Total, General Subfund	651,671	665,736	665,817	677,064	691,454

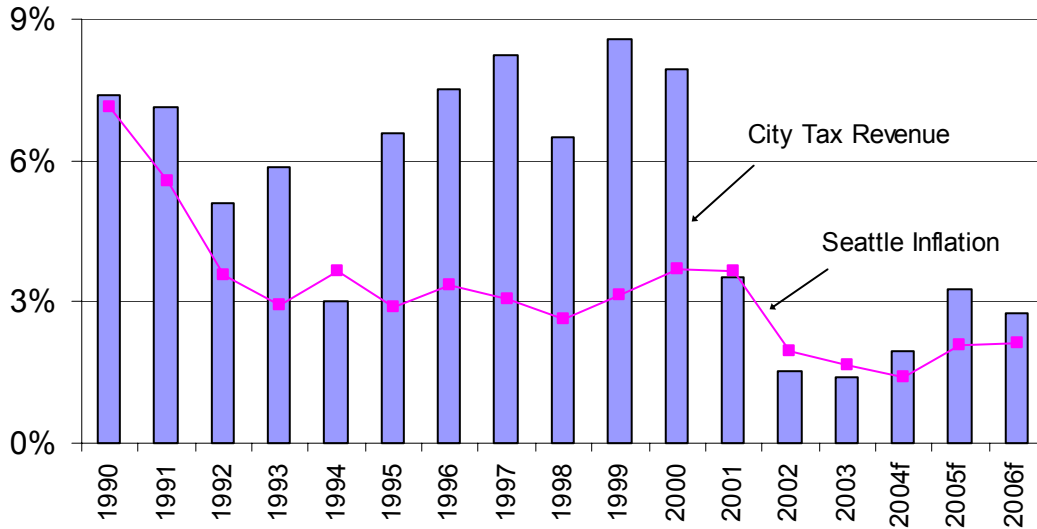
NOTE: A detailed listing of City General Subfund revenues is found in the appendix.

¹ Under the City Charter, 10% of certain revenues are deposited into the Parks Fund. These are noted by the 90% figures above. This requirement also applies to certain license revenues.

General Subfund Revenue Overview

Figure 7 shows how tax revenue growth outpaced inflation for most of the 1990s and 2000 before the local recession took hold. Slow growth post 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property taxes from 6.0% to 1.0% beginning in 2002. The forecast for 2004-06 projects stronger-than-inflation growth for the first time since 2000.

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



Property Tax

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

In 2004, the total property tax rate in Seattle was about 1.04% of assessed value (which officially is expressed as \$10.40 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$347,000 (the average assessed value for residences in Seattle), the 2004 tax obligation is approximately \$3,600.

As Figure 8 shows, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. The figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 65% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the Families and Education Levy, support various City programs and projects. In November 2003, Seattle voters approved additional property taxes to finance the building and renovation of fire stations. Collections for the \$167 million levy began in 2004 and will continue until 2012. In September 2004, Seattle voters approved a \$117 million, seven-year renewal of the Families and Education levy. This is the second renewal of the levy that was first approved in 1990.

General Subfund Revenue Overview

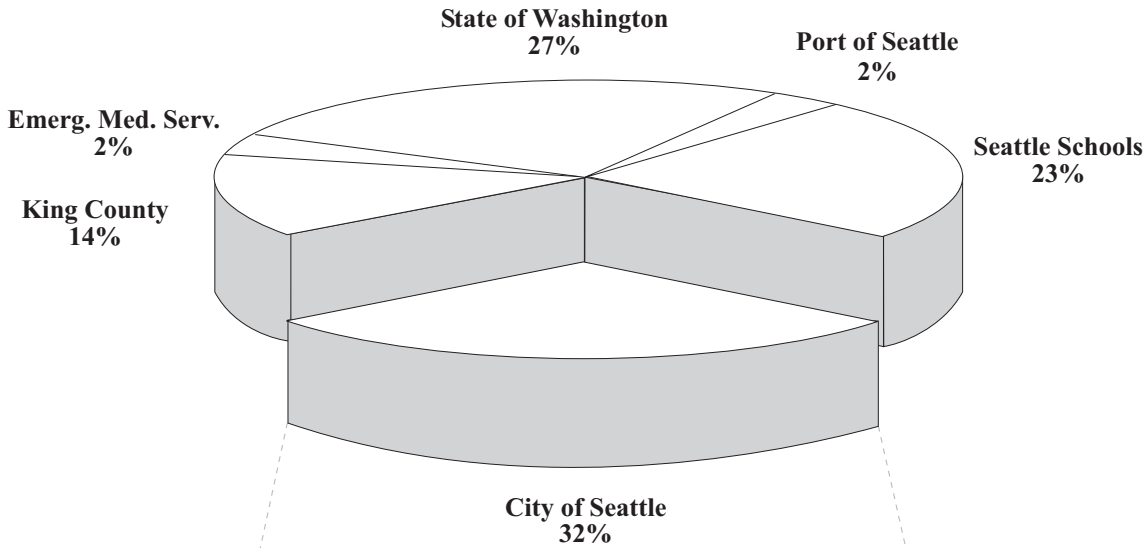
The 2005-06 Proposed Budget implements a 1% growth factor for both 2005 and 2006. The forecast for the General Subfund portion of the City's property tax is \$182.1 million in 2005 and \$186.5 million in 2006. The annual growth in property tax revenue is restricted by state statute. Since 1973, state law limited the annual growth of the City's General Subfund nonvoted property tax levy to 6%. However, in November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year.

New construction adds to City levy. 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. After several years of record-breaking new construction revenue, the forecast for 2005-06 reflects slowing construction activity. It is projected that approximately \$2.5 million will be added to the property tax base in both 2005 and 2006 due to new construction.

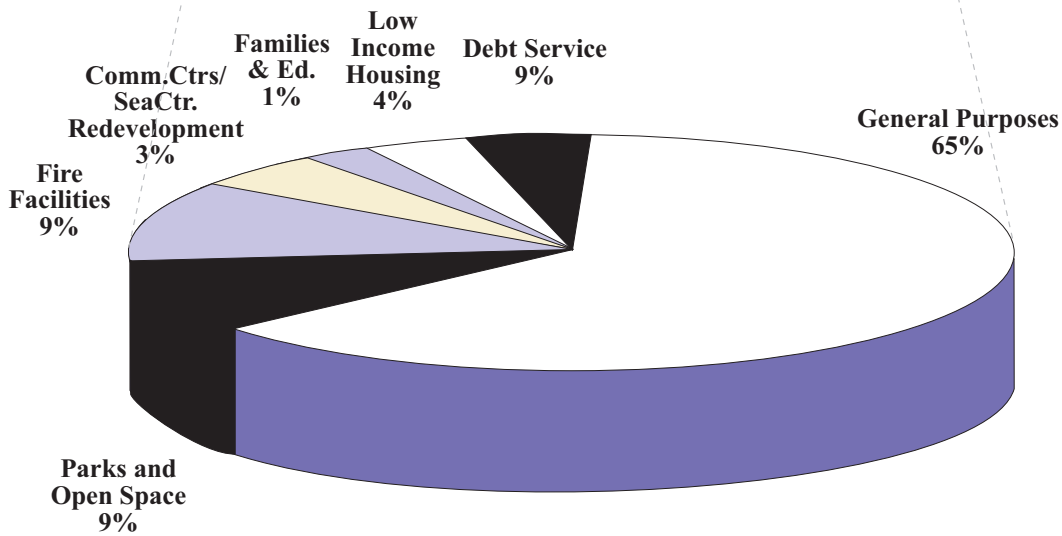
General Subfund Revenue Overview

Figure 8

Components of Total Property Tax Levy for 2004
(tax rate = \$10.40 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2004
(tax rate = \$3.36 per \$1,000 assessed value)



General Subfund Revenue Overview

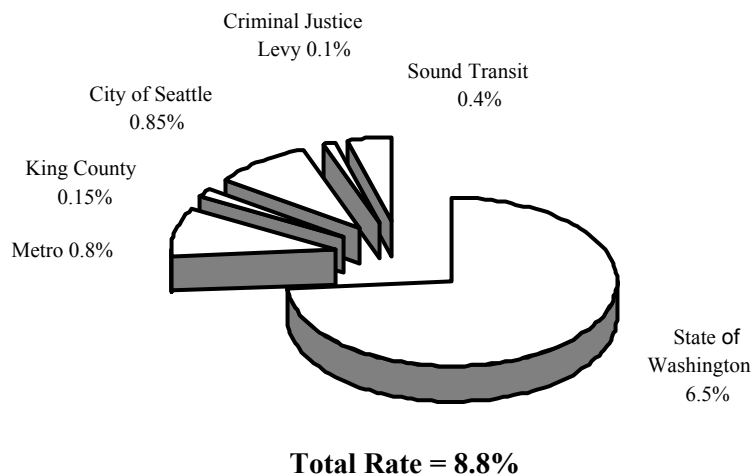
Retail Sales and Use Tax

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

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

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

Figure 9. Sales and Use Tax Rates in Seattle, 2004



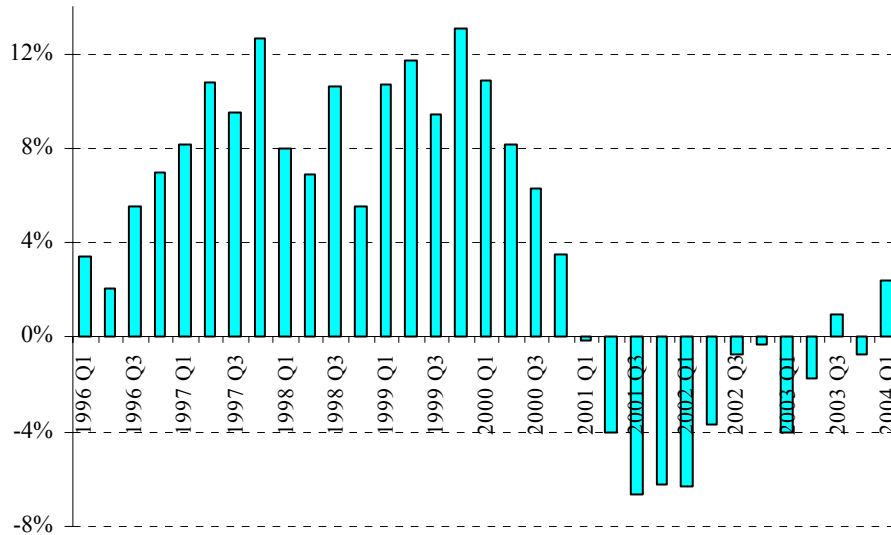
NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars throughout King County.

Sales tax revenue has grown and contracted with the region's economy. The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 10, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peaks. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, with growth rates turning sharply negative beginning in the second quarter of 2001. Conditions improved in the second half of 2002, but then deteriorated in the first half of 2003. In third quarter 2003, following 10 quarters of decline, sales tax revenue posted a positive growth rate, albeit only 0.9%. Revenue then declined by 0.8% in the fourth quarter, but rebounded to increase by 2.4% in first quarter 2004.

General Subfund Revenue Overview

Reflecting the severity of the local recession, taxable retail sales for first quarter 2004 were down 9.4% from their pre-recession peak.² The size of this drop rises to 16.3% when the data are adjusted to remove the effects of inflation.

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

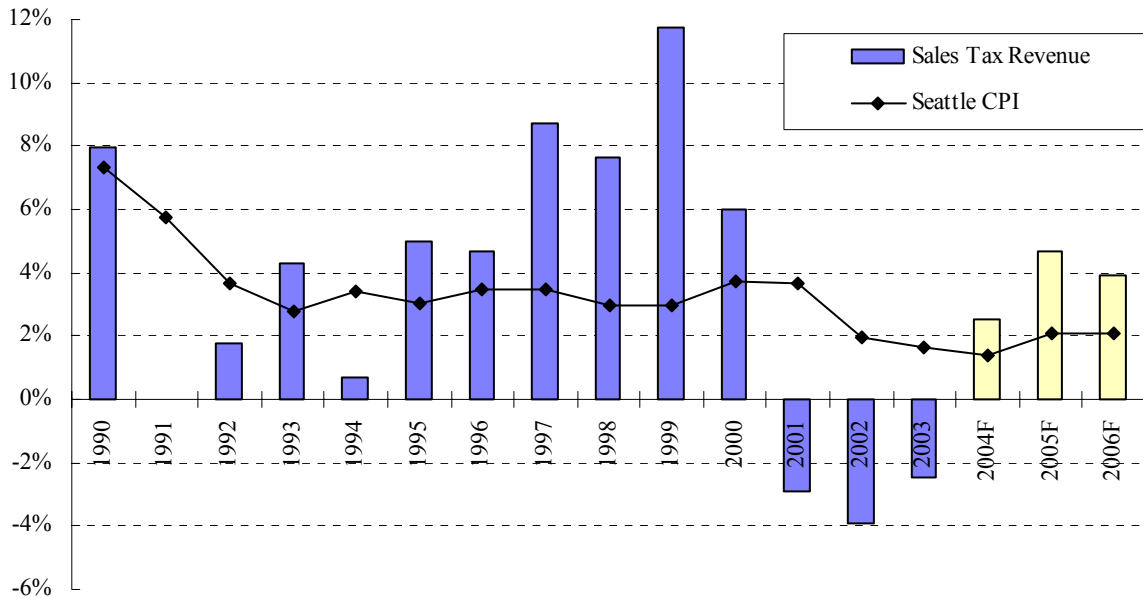


Following three years of decline, retail sales tax revenue is forecast to increase in 2004. In 2004, retail sales tax revenue is expected to post its first annual increase since 2000, with a gain of 2.5% anticipated (see Figure 11). Revenue growth is expected to rise to 4.7% in 2005, due in part to construction activity for Sound Transit’s light rail line, and then slow to 3.9% in 2006. With inflation expected to be in the 2% range in 2004-06, revenue growth will exceed inflation in all three years.

² Based on seasonally adjusted taxable retail sales.

General Subfund Revenue Overview

Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2004-06 are forecasts.

This relatively optimistic forecast reflects the influence of the improved regional economy and a forecast of economic growth continuing through 2006. In addition, the construction industry, which has been a major drag on sales tax revenue during the recent downturn, is showing signs of improvement. While growth is not yet evident, the pace of decline in construction taxable sales slowed during the first five months of 2004.

Business and Occupation Tax

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

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

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

After rising strongly in the second half of the 1990s, B&O revenue growth stalled in 2001 and 2002.

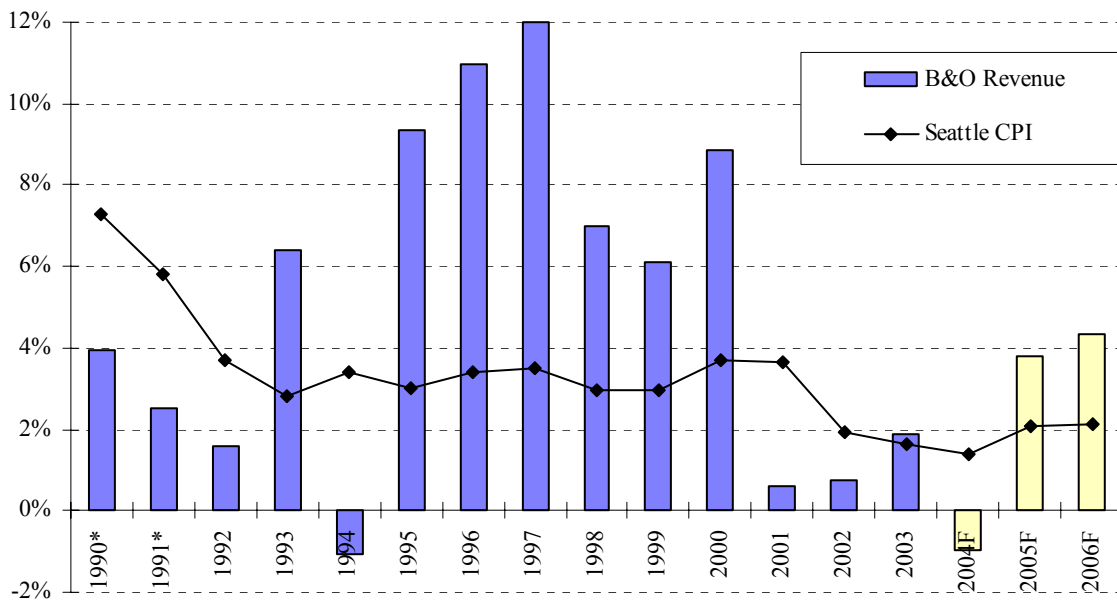
Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and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

General Subfund Revenue Overview

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

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was offset by a large increase in non-current revenue, which includes revenue from audit activity, refunds, penalty and interest payments, and other enforcement activity. As a result, 2001 saw an overall gain of 0.6% in B&O receipts. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base (current obligations) was offset by another large increase in non-current revenue, resulting in a small positive increase of 0.8% for the year. The strong growth in non-current revenue seen in 2001 and 2002 reversed itself in 2003 due largely to a decline in penalty and interest payments, and an increase in refund payments. However, this decline was offset by a healthy 4% growth in the tax base, resulting in B&O revenue growth of 1.9% in 2003.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.

Note: Revenue figures reflect current accrual methods; 2004-06 are forecasts.

B&O revenue is forecast to decline modestly in 2004, then increase in 2005 and 2006. With the region's economy finally growing again, B&O revenue from current year tax obligations is forecast to grow in the 3% - 4.5% range for 2004-06. However, in 2004 this growth will be offset by an expected steep decline of \$3.2 million in non-current revenue, which is largely the result of a falloff in revenue from audit activity, and penalty and interest payments. In 2003, three large audits each accounted for more than \$1 million in revenue from payments for past due taxes, and penalties and interest. There are no audits of this magnitude anticipated for 2004. In addition, the City will lose approximately \$1 million in 2004 as a result of state legislation prohibiting the taxation of intellectual property creating activities, and changes in the way the B&O tax is applied to software businesses. As a result, B&O revenue is forecast to decline by 1% in 2004, then rebound to grow by 3.8% in 2005 and 4.3% in 2006 (see Figure 12).

General Subfund Revenue Overview

The B&O revenue forecast incorporates a revision the City Council made to the Executive's proposed B&O forecast in November 2002. This revision adds \$252,000 to the forecasts for 2003 and 2004 to reflect additional revenue that will be generated by the hiring of a contract auditor to audit B&O tax returns.

Utility Business Tax - Private Utilities

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

Natural gas utility tax forecast is revised upward. The City levies a 6% utility business tax on gross sales of natural gas. Since the beginning of the West Coast energy crisis in 2000, natural gas revenues have undergone a roller coaster ride. After a decade of stable prices, rates for natural gas skyrocketed, and revenues in 2001 and 2002 were at record highs. A deep drop in natural gas rates in late 2002 reduced 2003 revenues by more than 20%; however, a rate hike in late 2003 and another in Fall 2004 will boost revenues in 2004-05. The 2006 revenue forecast assumes rates will eventually drop, although volatility in prices in the near future could arise due to speculative activity and tightened supplies.

Telephone utility tax forecast is uncertain. The utility business tax is levied on the telecommunications industry at a rate of 6% on gross income. After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in the fourth quarter of 2002. The lackluster economy harmed telecom revenues amid restructuring in the industry as carriers shifted positions in providing service to the end-user and heightened competition forced prices downward. The forecast for 2004-06 projects revenues to hover around \$28 million. Revenue in 2003, at \$30 million, was buoyed by the addition of \$2 million through audits.

Although the current forecast shows stable revenues, there is much uncertainty due to recent technological and regulatory developments. A new technological advancement centers around Voice over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections. The spread of VoIP comes at a time when U.S. legislators are deliberating federal legislation to keep access to Internet connections and many forms of Internet communication free from regulation and taxation. The passage of such a ban could significantly reduce telephone utility tax revenue, depending on the extent households and businesses replace their conventional phone service with VoIP. Several bills regarding VoIP are pending at this writing.

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

In 2003, the cable utility tax generated \$8.5 million and the forecast looks bright for 2004-06. Cable revenues are expected to grow by more than 8% in 2004 and by 5% each year in 2005 and 2006. Amid growing competition from satellite TV, the cable industry has increased its services in terms of additional channels, pay-per-view options, and digital reception.

Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (City Light, water, drainage, wastewater, and solid waste). Current effective tax rates are 6% for electricity and 10% for the other public utility services (tax rates are shown in Figure 13). The tax rate for water will be increased to 14% in 2005 as discussed below in the section on fire hydrant service costs.

General Subfund Revenue Overview

General Subfund revenue from public utility taxes is forecast to increase by 4.1% in 2004, and by 5.9% and 1.9% in 2005 and 2006, respectively. The forecast for 2005 incorporates an increase in the utility tax rate for water from 10% to 14% to raise money for fire hydrant service costs. If the effects of the water utility tax rate increase are excluded, revenue from public utility taxes would increase by 0.4% in 2005 and 1.9% in 2006. The forecasts of public utility tax revenue reflect anticipated changes in the quantities of utility services consumed and the rates charged for those services. Information on utility service consumption trends and utility rates for the different public utilities is provided in the sections on Seattle City Light and Seattle Public Utilities.

Fire hydrant service costs are shifted from water utility customers to the City in 2005. Beginning in 2005, the cost of providing fire hydrant services will be shifted from utility customers, who currently pay for hydrant services through their water rates, to the service providers who use the water. Hydrant services costs were about \$4 million in 2003, with the City of Seattle accounting for about \$3.8 million. The City will collect the revenue needed to cover its hydrant service costs in 2005 by raising the utility tax on water from 10% to 14%. The impact upon customers is insignificant because the increase in costs that results from raising the utility tax rate will be offset by lower water rates. Water rates will be lower because the water utility will no longer be paying hydrant service costs.

Admission Tax

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

Re-dedicating admission tax revenues to the arts. In November 2000, the City Council passed Ordinance 120183, dedicating 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. This was in effect for 2001 and 2002; however, it was suspended for 2003 and 2004 due to budget constraints. The 2005-06 forecast reflects the Executive's proposal to reinstate the dedication of admission tax revenue to the arts account as follows – 15% in 2005 and 20% in 2006, excluding revenue from professional men's basketball.

Licenses and Permits

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

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

Parking Meters/Meter Hoods

Revenue to the General Subfund from street parking charges has been stable for the past several years. Street parking meters have generated roughly \$9.5 million annually, while the rental of meter hoods generates approximately \$1 million annually.

General Subfund Revenue Overview

The 2005-06 Proposed Budget reflects an alternative, more workable plan for parking meters that employs pay station technology in place of the traditional meters. Pay stations are parking payment devices offering the public a more convenient array of payment options, including credit cards and debit cards, to pay for hourly street parking. Due to slower than anticipated roll-out of the pay stations and rate increase (from \$1 per hour currently to \$1.50) the 2004 forecast was reduced by \$500,000. More information about the pay station technology program is provided in the Seattle Transportation section of this document.

Court Fines

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

Parking ticket revenue forecast increased. By mid-year 2004, parking ticket revenue out-performed forecasts by \$2 million. The outstanding revenue gains are the result of three events that occurred during the first quarter. First, parking enforcement officers were staffed at the full authorized level and enforcement schedules were expanded to include weekends; second, through an open selection process, the Court hired a new collection agency to more aggressively recover outstanding payments; and third, an amnesty program was implemented which forgave past-due fines if outstanding tickets were paid in full. While these events prompted a revision upwards for 2004, the 2005-06 forecast projects a return to a more typical revenue stream of \$16.5 million.

Interest Income

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

The forecast for this revenue in the 2004 Adopted Budget assumed cash balances would decline over the duration of the biennium, but interest rates and the City's overall yield would increase from their 2003 levels. Although interest rate and yield assumptions have largely held, cash balances have declined due, in large part, to transfers of cash from affiliated funds to independent funds. Current estimates are for General Subfund interest earnings to fall to \$1.3 million in 2005, down from \$1.6 million in 2004.

Revenue from Other Public Entities

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

Criminal Justice revenues. The City receives funding from the state for criminal justice programs, although significantly less than in previous years. This is because criminal justice assistance resources had been traditionally funded by the state from the Motor Vehicle Excise Tax, which was eliminated in 2000. Now, as provided for under the previously approved Referendum 49, the State provides more modest distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. The City should receive approximately \$2 million each year for 2004-2006.

General Subfund Revenue Overview

Liquor Board profits and Excise Tax revenue. The City's share of Liquor Board profits is expected to remain largely unchanged at around \$3.3 million each year for 2004-06. Estimated Liquor Excise Tax revenues for 2004-2006, at \$2.1 million, also remain largely unchanged from previous forecast and stable around 2003's actual share of \$2.1 million.

City receives additional grants. In 2003, the City received \$1.1 million in grants from the U.S. Department of Justice through the State of Washington. These grants partially offset City expenses in 2003 from enhanced security at public infrastructure sites during periods of high-alert status. In addition, the City will receive a grant reimbursement from Sound Transit for services City departments provide to that agency in support of light rail construction. The General Subfund will receive \$1.2 million of these grant resources in 2004.

Service Charges and Reimbursements

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

Estimates of these resources have been reduced by approximately \$1.5 million in 2004. Allocations in 2004 are reduced to reflect lower central services expenditures due to budget reductions. Resources paid to the General Subfund on behalf of the Department of Executive Administration are up in 2005 by roughly \$2.5 million. This is due to a one-time allocation of costs from the department to independently supported departments for upgrades to the City's financial information system SUMMIT. Payments to the General Subfund for other miscellaneous services are increased in 2005 and 2006. These increases are primarily the result of adjustments to the manner in which independently supported departments pay for services from the Law Department. There are increases to the Law Department's budget which fully offset this revenue gain.

Interfund Transfers

Interfund transfers increase significantly. Interfund transfers are payments from the balances of department-specific funds and capital project funds to the General Subfund. The 2005-06 Proposed Budget anticipates using approximately \$14 million in transfers from other funds in 2004, roughly \$1.9 million in 2005 and \$900,000 in 2006. For 2005 there is a transfer from the Seattle Center to the General Subfund for approximately \$1 million. This transfer reflects savings from general obligation debt costs incurred for capital projects related to the KeyArena debt defeasance.

A detailed list of these transfers is included in the General Subfund revenue table found in the Appendix. In ratifying the 2005 Adopted Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the Appendix to the General Subfund.

General Subfund Revenue Overview

Figure 13. Seattle City Tax Rates

	2001	2002	2003	2004
Property Taxes (Dollars per \$1,000 of Assessed Value)				
General Property Tax	\$2.483	\$2.269	\$2.204	\$2.165
Families & Education	0.154	0.133	0.038	0.036
Seattle Center/Parks Comm. Ctr.-SC	0.254	0.213	0.100	0.096
Parks and Open Space	0.353	0.316	0.307	0.302
Low-Income Housing	0.013	0.011	0.047	0.044
Fire Facilities	0.000	0.000	0.000	0.299
Emergency Medical Services	0.246	0.250	0.241	0.237
Low-Income Housing (Special Levy)	0.117	0.102	0.110	0.103
City Excess GO Bond	0.317	0.278	0.356	0.315
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax				
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%	0.4150%
City of Seattle Public Utility Business Taxes				
City Light	6%	6%	6%	6%
City Water	10%	10%	10%	10%
City DWU	10%	10%	10%	10%
City Solid Waste	10%	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates				
Cable Communications (not franchise fee)	10%	10%	10%	10%
Telephone	6%	6%	6%	6%
Natural Gas	6%	6%	6%	6%
Steam	6%	6%	6%	6%
Commercial Solid Waste	10%	10%	10%	10%
Franchise Fees				
Cable Franchise Fee	2.5%	2.5%	2.5%	2.5%
Admission and Gambling Taxes				
Admissions tax	5%	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%	2%
Bingo (less prizes)	10%	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%	5%

