General Subfund Revenue Overview

City Revenue Sources and Fund Accounting System

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

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

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

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 58.5% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

The National and Local Economies, September 2017

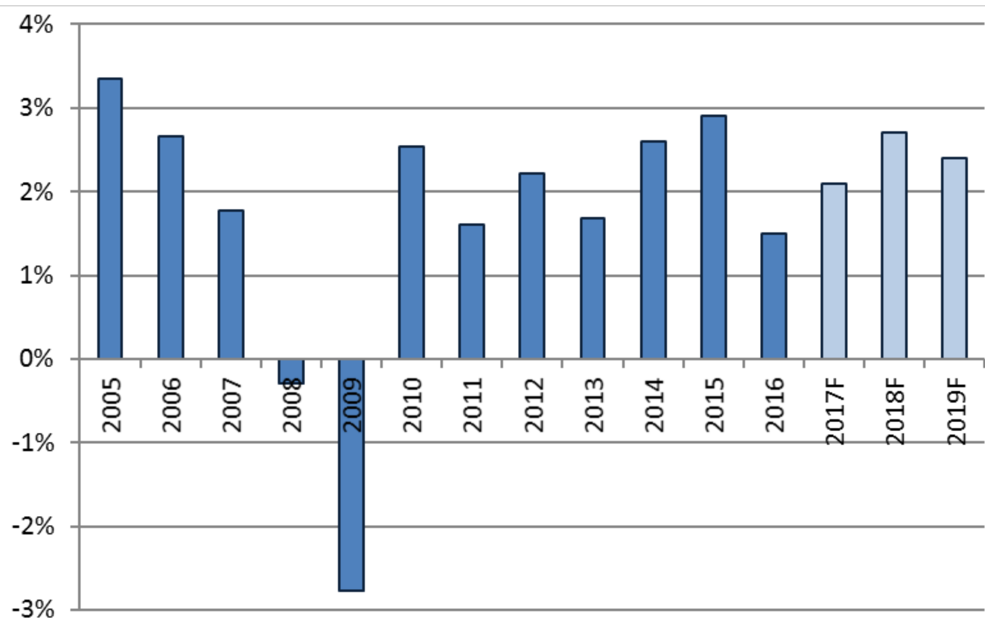
National Economic Conditions and Outlook

We are in the ninth year of the recovery from the Great Recession. The Great Recession, the country’s worst economic downturn since the Great Depression, ended in June 2009, 18 months after it started. The recovery is now the third longest of the 11 expansions of the post-World War II period. It is also the weakest, with real GDP growth averaging 2.0% per year during the recovery. Recoveries from recessions caused by financial crises tend to be sluggish because households need to reduce their debt burdens, which constrains their ability to spend, and the financial sector must deal with a large stock of nonperforming loans. In addition, housing, which is typically one of the sectors that leads a recovery, has come back slowly from the bursting of the housing bubble. Another drag on the expansion has been weak productivity growth.

Economic growth thus far in 2017 has not deviated from the slow and steady pace that has characterized the recovery. Real gross domestic product (GDP) grew at a weak 1.2% rate in the first quarter, but then picked up to 2.6% in the second quarter, to average 1.9% for the first half of the year. Second quarter growth was driven by gains in consumer spending, business investment, government spending, and net exports. For the first seven months of 2017, employment has increased by an average of 184,000 jobs each month, almost identical to the 2016 average of 187,000. Wage growth has averaged 2.6% for the year to date, which is modestly higher than the 2.2% inflation rate. Over the course of the recovery, the unemployment rate has fallen from 10.0% in October 2009 to 4.3% in both May and July 2017. The unemployment rate hasn't been this low since May 2001.

The forecast is for more of the same but with a modest boost in 2018. Forecasts for the U.S. economy expect continued modest growth in GDP with the possibility of a boost in 2018 if the federal government enacts a fiscal stimulus package. IHS/Markit, an economics firm whose forecasts the City uses in its revenue forecasting work, is assuming a stimulus package that includes lower corporate and personal taxes, the removal of some tax loopholes, and $800 billion in overseas profits repatriated to the U.S. to face a 10% tax rate. Under these assumptions, GDP growth would increase to 2.7% in 2018 (see Figure 1). Employment growth is expected to slow going forward because the unemployment rate is low and the working age population is growing slowly.

Figure 1. Annual Growth of U.S. Real Gross Domestic Product (GDP)



Source: U.S. Bureau of Economic Analysis, IHS/Markit.

Revenue Overview

Although the current expansion is already the third longest of the 11 post-World War II expansions, it is not yet exhibiting signs its end is near. Most expansions end when the economy overheats or is subjected to shocks. The most common expansion killers are monetary tightening by the Federal Reserve to quell inflation, oil shocks, and bursting asset bubbles. Currently inflation is quiescent, oil prices are low, and there is little evidence of a major bubble in U.S. asset markets. With these risks currently under control, possibly the biggest threat to the economy is a major policy mistake. According to IHS/Markit, three types of policy mistakes that could threaten the current expansion are:

1. A mistake by the Federal Reserve. The Fed could either raise interest rates too aggressively too early, or wait too long and be forced to raise interest rates too quickly but too late. Either of these could derail the recovery.
2. A fiscal debacle. IHS/Markit is concerned that fiscal and policy turmoil in Washington, D.C. could escalate, bruising consumer and business confidence and damaging economic growth.
3. A trade war. A trade war with one or more of the nation's major trading partners could cause serious damage to the economy.

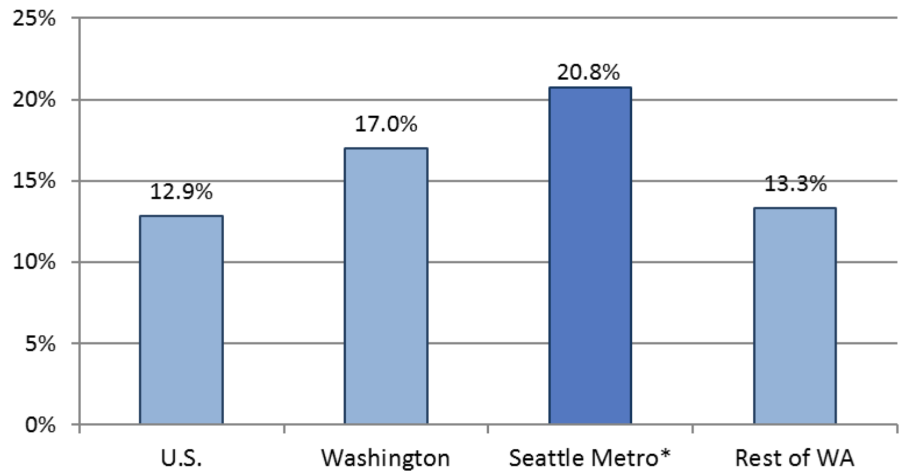
According to IHS/Markit, there is a 25% probability that the economy will experience a significant slowdown, but not a recession, in 2018-2019. The cause of such a slowdown would be political and fiscal policy turmoil in Washington, D.C. IHS/Markit believes that absent a serious policy mistake the probability of a recession occurring in 2018 or 2019 is 10%.

Puget Sound Region Economic Conditions and Outlook

Despite a weak national recovery, the Puget Sound region has seen healthy growth. Since the Great Recession ended in June 2009, the region's economy has outperformed the national economy by a considerable margin. This is reflected in the region's healthy job growth and low unemployment rate. Seattle metro area (King and Snohomish Counties) employment increased by 20.8% from its post-recession low in February 2010 through June 2017. This compares to an 12.9% gain for the U.S. and a 13.3% gain for the rest of Washington state over the same period (see Figure 2). The June 2017 unemployment rate for the Seattle metro area was 3.4%, compared to 4.5% for the state and 4.4% for the U.S. The region has also outpaced the U.S. in both income and wage growth during the recovery.

Revenue Overview

Figure 2. Employment Growth: Post-Recession Trough to June 2017

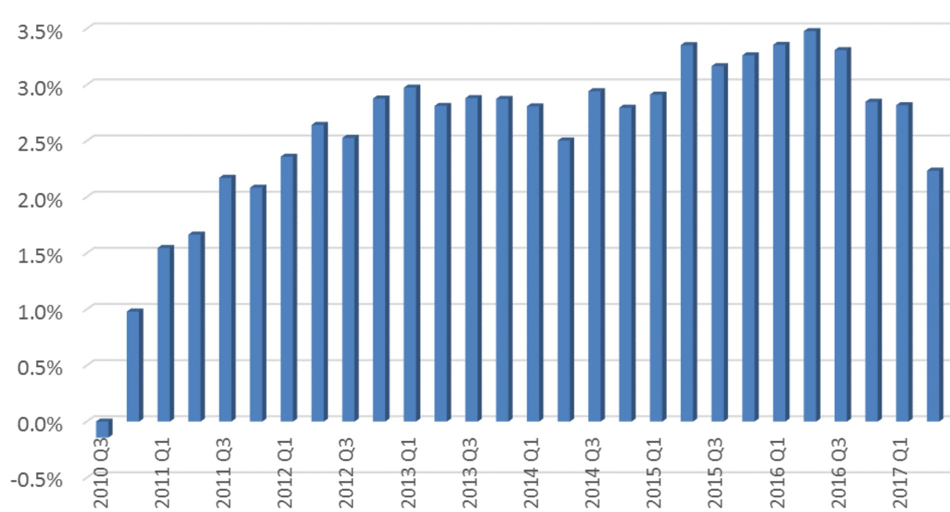


*King & Snohomish Counties.
Source: WA Employment Security Dept., U.S. Bureau of Labor Statistics.

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

Although Amazon has continued to add jobs at a healthy clip throughout the recovery, Boeing employment peaked in October 2012, and has been declining since then. After adding 15,200 jobs between May 2010 and October 2012, Boeing has reduced its Washington employment by 19,100, with the pace of reduction greatest during the past year. This is one factor that has led to the slowing of the region's employment growth rate over the past year (see Figure 3). Also contributing has been significant slowing in the growth of construction employment.

Figure 3. Seattle Metro Area* Employment, Year-over-Year Growth Rate

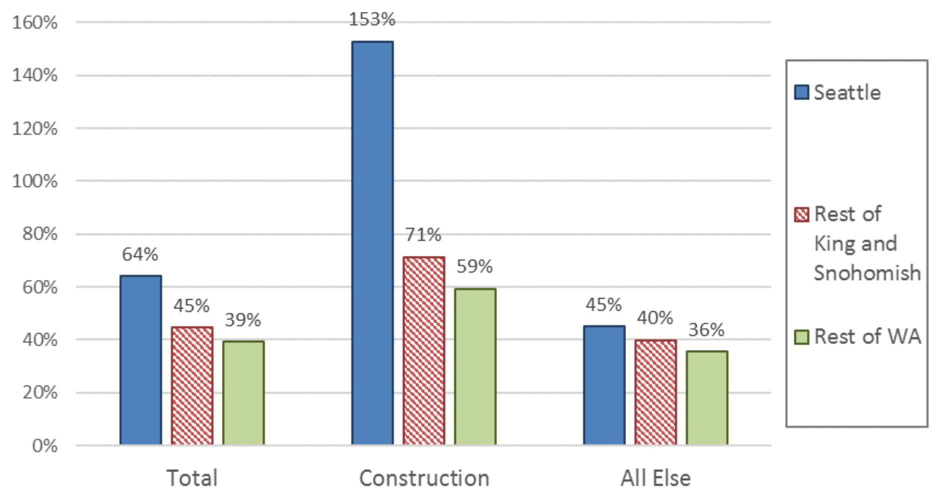


*King and Snohomish Counties. Source: WA Employment Security Dept.

Revenue Overview

Seattle has captured an outsized share of the region's growth during the recovery. Seattle has been the focal point of the region's growth during the current recovery. This is reflected in taxable retail sales data (the tax base for the retail sales tax), one of the few relatively current measures of economic activity available at both the county and city levels. Over the six-year period from 2010-2016, taxable retail sales increased by 64% in Seattle, compared to gains of 45% in the remainder of the King and Snohomish Counties, and 39% in the rest of the state, i.e., outside of the two counties (see Figure 4). Much of Seattle's relative strength is due to a 153% increase in construction since 2010. The rest of Seattle's tax base has also grown faster than that of the other areas but by a much smaller margin.

Figure 4. Taxable Retail Sales Growth, 2010 – 2016

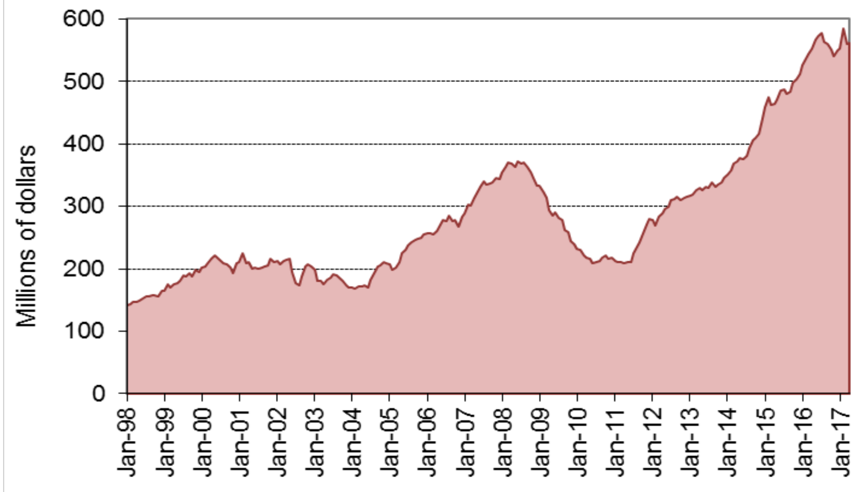


Source: WA Department of Revenue.

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

Revenue Overview

Figure 5. Monthly Taxable Retail Sales for Construction, Seattle

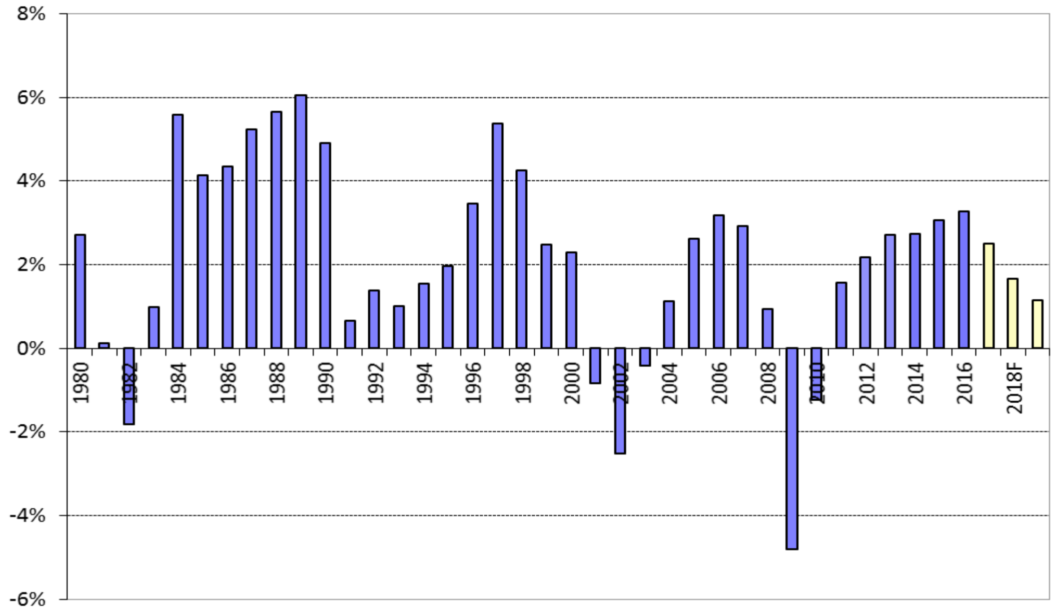


*Data are 3 month moving average of seasonally adjusted monthly series.
Source: WA Dept. of Revenue.

***The region's economy is expected to continue slowing*.** The Puget Sound Economic Forecaster (PSEF) predicts that 2016 will be the peak year for employment growth during the current cycle, and that growth will slow gradually beginning in 2017 (see Figure 6). The forecast assumes the region will continue to grow faster than the nation, but that the gap between regional and national growth will narrow as the recovery moves forward. Population growth is expected to slow as well, but at a slower pace than employment. Contributing to the slowdown in 2017 is Boeing, which reduced its Washington employment by 4,400 jobs during the first seven months of the year. The June Washington State Economic and Revenue Forecast assumes aerospace employment will drop by 8.0% (6,800 jobs) in 2017, followed by declines of 4.4% in 2018, and 2.0% in 2019. The PSEF forecast also assumes aerospace will continue declining, but at a slower rate. The PSEF forecast expects employment growth in the non-store retailing industry to begin slowing in 2017, and construction employment to level off beginning in 2017.

Revenue Overview

Figure 6. Annual Growth of Puget Sound Region* Employment



*King, Kitsap, Pierce, and Snohomish Counties.
Source: WA Employment Security Dept., Puget Sound Economic Forecaster.

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

Sources of uncertainty in the local economy include the trajectory of the current construction cycle as well as the fortunes of the region's major employers, including Boeing, Amazon, and Microsoft. Boeing is experiencing softness in orders for wide-body jets, and is scaling back its 777 production rate. It has also been cutting jobs in order to improve its competitiveness, and recently announced plans to move hundreds of Washington jobs to Arizona.

Microsoft has been successful in shifting its focus from one-time sales of software licenses to providing cloud computing services and selling subscription services on the cloud. A recently announced reorganization of Microsoft's global sales team will result in thousands of layoffs. Most of the layoffs will take place outside of the U.S., but there will be some layoffs in the Puget Sound region. Amazon's recent announcement that it will establish a second headquarters in a different city creates considerable uncertainty for the region's economy and risk to the economic forecast.

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

Consumer Price Inflation

Inflation has remained low throughout the recovery. The Great Recession, the worst economic downturn in 80 years, pushed inflation into negative territory in 2009, the first time in 54 years that consumer prices had declined on an annual basis. During the subsequent recovery, inflation has remained subdued, with the U.S. CPI-U averaging 1.6% per year over the period from 2010-2016.

Local inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of local prices. Local deviations from national inflation are typically due to differences in housing price inflation. Seattle inflation has generally tracked national inflation during the recovery, though Seattle inflation has been running higher recently due to relatively high housing cost inflation. For the first half of 2017, the Seattle CPI-U has grown at a 3.0% rate, compared to 2.1% for the U.S. CPI-U. Housing inflation for this period was 5.5% for Seattle and 3.1% for the U.S.

Inflation is expected to remain subdued. Nationally Inflation is expected to settle into the 1.5% - 3.0% range over the next several years, though there could be movement outside of this range if energy or food prices rise or fall steeply. Seattle area inflation will continue to track higher than national inflation in the short-run, since the region's housing price inflation will remain above national levels for some time.

Figure 7 presents historical data and forecasts of inflation for the Seattle metropolitan area through 2020. The forecasts are for the Seattle CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific inflation measures shown in Figure 7 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

Figure 7. Seattle Consumer Price Index Forecast

	Seattle CPI-W (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2016 (actual)	2.0%	1.9%
2017 (actual)	3.0%	2.8%
2018	2.5%	2.6%
2019	2.6%	2.7%
2020	2.7%	2.7%

City Revenues

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

General Subfund Revenue Forecast

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 8 illustrates, the most significant revenue source is the property tax, which accounts for approximately 24%, followed by the Business and Occupation (B&O) tax, sales tax, and utility taxes.

Revenue Overview

Figure 8. 2018 Proposed General Subfund Revenue Forecast by Source - $1,266.5 Million

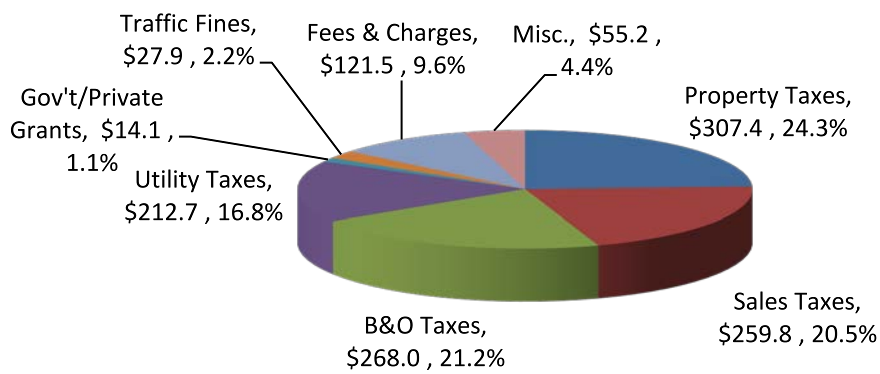
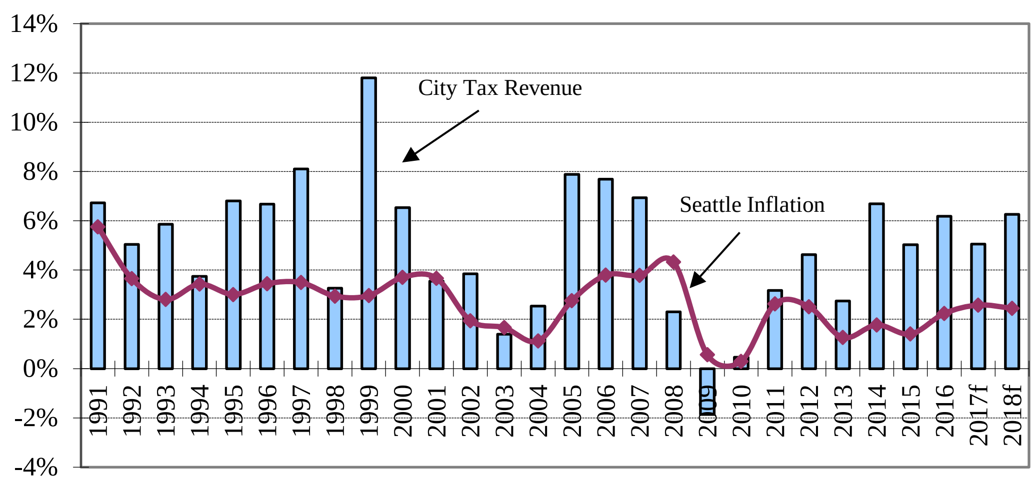


Figure 9 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation fell to near zero in 2009 and 2010, but tax revenue growth was negative by almost 2% in 2009. Inflation is forecast to be stable and low. Tax revenue growth is forecast to be positive and above inflation, with an average annual growth rate of over 5.8% 2016 through 2018. Inflation for the same period will average 2.4%.

Figure 9. City of Seattle Tax Revenue Growth, 1991-2018



Revenue Overview

Figure 10. General Subfund Revenue, 2016 – 2018[*]
(in thousands of dollars)

Revenue Source	2016 Actuals	2017 Adopted	2017 Revised	2018 Endorsed	2018 Proposed
General Property Tax [(1)]	237,941	244,284	245,507	255,019	257,490
Property Tax - Medic One Levy	45,794	46,648	48,194	47,814	49,881
Retail Sales Tax	218,986	225,849	229,366	230,979	239,736
Retail Sales Tax - Criminal Justice Levy	18,263	19,091	19,060	19,768	20,045
B&O Tax (100%)	234,908	253,059	252,236	266,653	268,004
Utilities Business Tax - Telephone (100%)	23,140	22,254	20,865	22,412	21,094
Utilities Business Tax - City Light (100%)	48,298	52,965	53,875	54,839	55,101
Utilities Business Tax - SWU & priv.garb. (100%)	16,040	19,880	19,787	21,222	21,385
Utilities Business Tax - City Water (100%)	31,347	31,572	31,907	32,920	32,966
Utilities Business Tax - DWU (100%)	44,616	46,036	46,091	47,269	49,603
Utilities Business Tax - Natural Gas (100%)	10,809	11,828	12,600	12,682	12,546
Utilities Business Tax - Other Private (100%)	19,445	19,946	19,446	20,607	20,026
Admission Tax	10,328	9,207	10,346	9,415	10,465
Other Tax [(2)]	13,546	12,077	13,408	11,745	28,412
Total Taxes	**973,464**	**1,014,697**	**1,022,689**	**1,053,344**	**1,086,752**
Licenses and Permits	24,260	26,858	27,773	28,608	29,576
Parking Meters/Meter Hoods	42,005	46,696	43,546	49,232	44,543
Court Fines (100%)	28,222	28,875	25,878	29,625	27,885
Interest Income	3,501	3,040	4,323	4,323	6,124
Revenue from Other Public Entities [(3)]	25,564	13,594	13,981	14,012	14,061
Service Charges & Reimbursements	46,161	47,350	46,332	48,270	47,392
Total: Revenue and Other Financing Sources	**1,143,177**	**1,181,110**	**1,184,522**	**1,227,414**	**1,256,335**
All Else	7,362	2,843	3,301	2,703	2,387
Interfund Transfers	29,940	5,212	10,705	4,616	7,792
Total, General Subfund	**1,180,480**	**1,189,165**	**1,198,528**	**1,234,732**	**1,266,514**

NOTES:

(1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
(2) Other Tax includes the new Sweetened Beverage Tax that will go into effect in 2018.
(3) Included in 2016 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

[*] In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Subfund. As of 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund. General Subfund support to the Parks and Recreation Fund is well above the value of 10% of these revenues.

Revenue Overview

Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations. Figure 11 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City's 2017 property tax: the non-voted General Purpose levy (51.3%); the six voter-approved levies for specific purposes (42.4%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; the levy to pay debt service on voter-approved bonds (6.3%). The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. The County Assessor then divides this approved levy amount by the assessed value (AV) of all property in the jurisdiction to determine the tax rate (expressed per $1,000 of assessed value), which, per the Washington State Constitution, is a uniform rate that is then applied to all taxable properties in the respective jurisdiction. The County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value as of January 1 of the year preceding the year of tax collection.

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

The City of Seattle's 2017 tax rate at $2.62 per $1,000 AV was roughly 28 percent of the total $9.25 rate paid by Seattle property owners for all taxing jurisdictions. The 2017 total and City of Seattle tax obligations for a home of median assessed value in Seattle was $4,883 and $1,385 respectively. The obligation amounts in 2016 were approximately $4,553 and $1,331. The increase is largely due to the City's voted housing levy, an increase in Seattle Public Schools Bond levy amount and Sound Transit's new levy to fund ST3 extensions of the Link Light Rail system, Bus Rapid Transit, and rail service improvements.

Assessed Value (AV) -- For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. AV fell again in 2011 and 2012 by 2.9 percent and 2.2 percent respectively. The last significant decrease was in 1984 when AV dropped by 3.6 percent. Changes in AV affect tax rates as do changes in the amounts levied: as AV falls (rises), tax rates rise (fall). Consequently, from 2009–2013 with falling AV, the total property tax rate from all jurisdictions paid by Seattle property owners increased 31.8% from $7.97 to $10.50 per thousand dollars of AV. The rate for the City of Seattle increased 27.1% over the same period from $2.58 to $3.28, even though the levy amount increased only 12.5%. Rate growth has reversed since then as Seattle AV has grown strongly: 9.57% for 2014, 12.72% for 2015, 13.0% for 2016, 13.67% for 2017 and is forecast to increase approximately 12.54% in 2018.

Revenue Overview

New Construction -- In addition to the allowed maximum 1% levy growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor. Between 1999 and 2010 annual new construction tax revenues exceeded $2 million, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction tax revenue for the 2009 tax collection year remained high at $6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to $4.11 million, then 52% to $1.95 million in 2011 before stabilizing at $2.02 million in 2012. The overall value of new construction activity also fell during this period, but increased 6.9% in the valuation period preceding 2013 tax collections to $780.2 million from $729.7 million in 2012, increased a robust 90% further in 2014 to $1.48 billion, another 53.5% in 2015 to $2.27 billion, and 28.6% to $2.92 billion in 2016. Strong growth has continued for 2017 with new construction increasing 41.0% to 44.1 billion. This increased revenues by $2.39 million in 2013, $4.6 million in 2014, $6.1 million in 2015, 6.6 million in 2016 and a record $10.19 million in 2017. The 2018 Proposed Budget projects slowing growth in new construction value for 2018 (1.3% to $4.18 billion) before declining 8.8% in 2019 to $3.81 billion. These new construction volumes are projected to generate $10.28 million in 2018 revenue.

The 2018 Proposed Budget assumes 1% growth plus new construction. The forecast for the 2018 Proposed Budget's General Subfund (General Purpose) portion of the City's property tax is $245.5 million in 2017 and $257.5 million in 2018. Additionally, in 2018 the City will levy approximately $209.9 million for voter-approved lid lifts accounted for in other funds than the City's General Fund and $30.4 million to pay debt service on voter-approved bond measures.

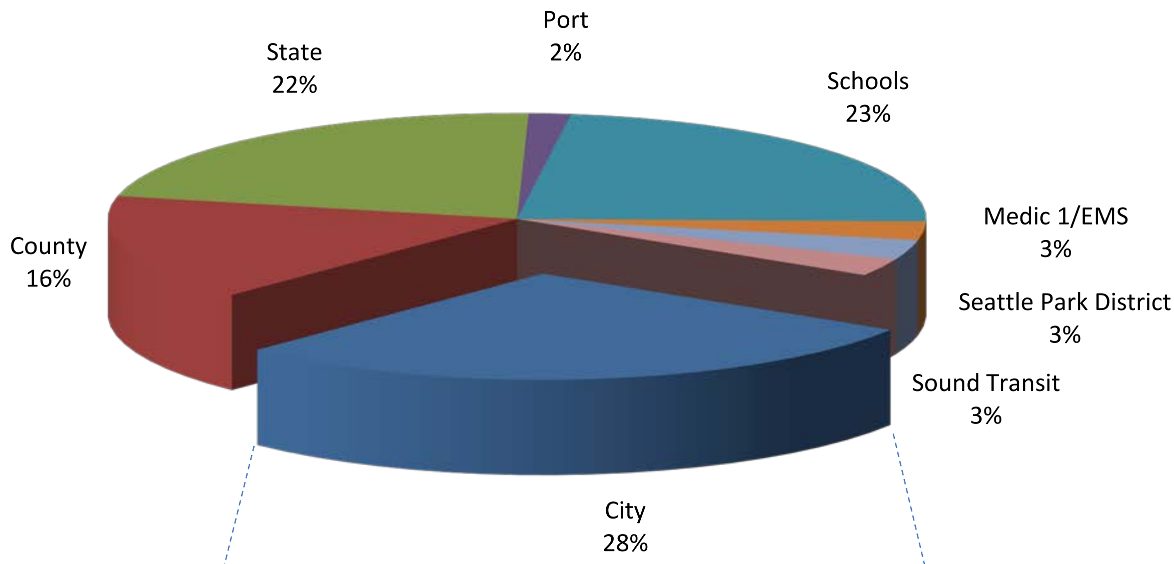
Seattle Parks District. In August 2014, voters approved creation of a Metropolitan Park District (MPD). Pursuant to RCW 35.61, the MPD is a legally separate taxing jurisdiction from the City of Seattle, whose property tax levy authority of $0.75 per $1,000 assessed value is outside of the City's statutory rate limit of $3.60 per $1,000 assessed value and whose revenues will not be accounted for in the City's General Fund. The MPD, named the Seattle Park District, will levy approximately $49.8 million for collection in the 2018 tax collection year.

Medic 1/Emergency Medical Services. Voters in November 2013 approved a renewal of the Medic 1/EMS levy at $0.335 per $1,000 of AV. At this rate King County projected revenues over the 6-year life of the levy of $678 million, approximately $256 million of which will come to the City of Seattle. The 2018 Proposed Budget projects revenues of $48.2 million in 2017 and $49.8 million in 2018.

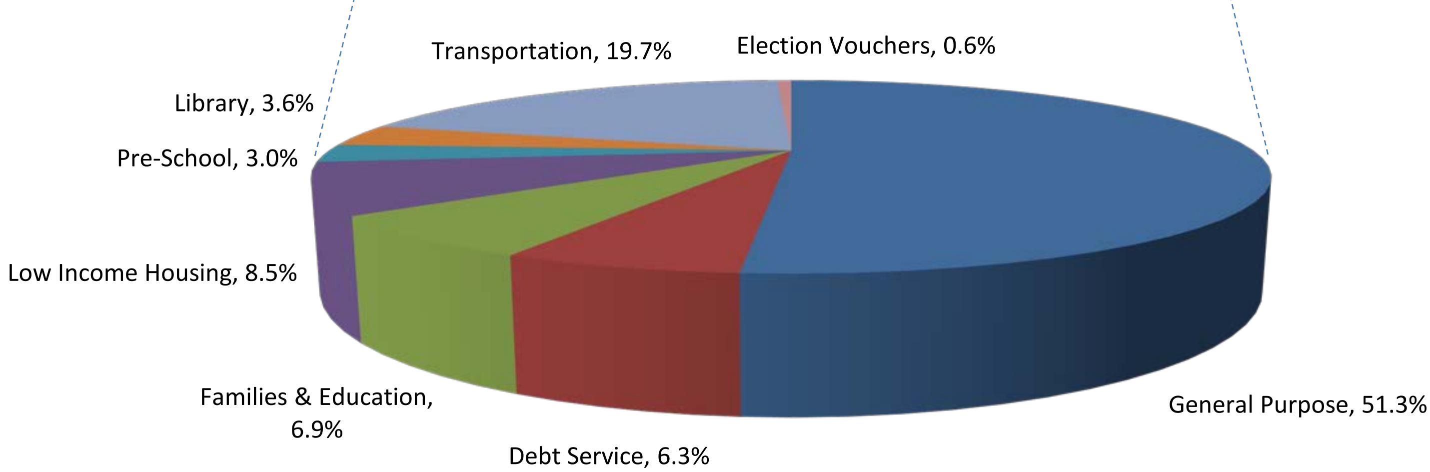
Revenue Overview

Figure 11.

Components of Total Property Tax Levy for 2017
(tax rate = $9.25 per $1,000 assessed value)



Components of City's Property Tax Levy for 2017
(tax rate = $2.62 per $1,000 assessed value)



Revenue Overview

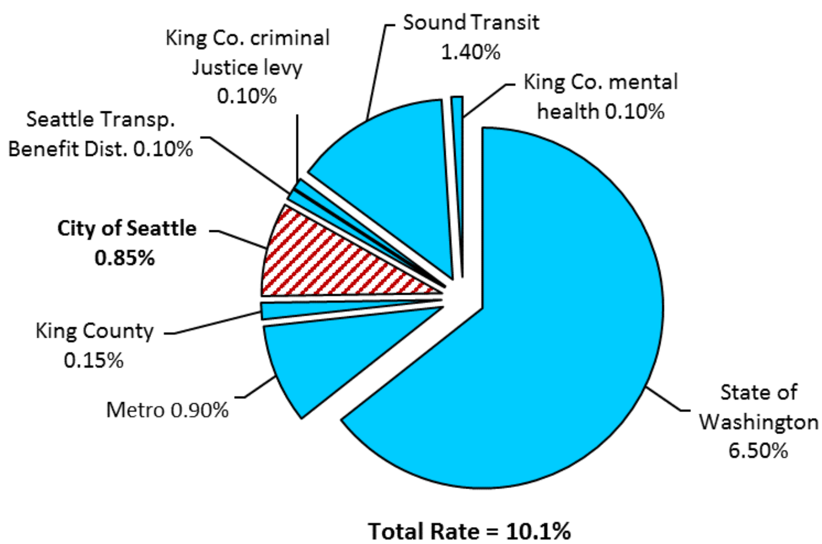
Retail Sales and Use Tax

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

The sales tax rate in Seattle is 10.1% for all taxable transactions. The rate was increased to 10.1% on April 1, 2017 by the addition of a voted increase of 0.5% for the Regional Transit Authority (Sound Transit). This followed an increase from 9.5% to 9.6% on April 1, 2015, due to a 0.1% sales tax levy for the Seattle Transportation Benefit District approved by Seattle voters in November 2014.

The basic sales tax rate of 10.1% is a composite of separate rates for several jurisdictions as shown in Figure 12. 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 0.1% King County Criminal Justice Levy. Revenue collected by the Seattle Transportation Benefit District, whose governing board is comprised of all nine Seattle City Councilmembers, is used to make transportation improvements within the city.

Figure 12. Sales and Use Tax Rates in Seattle, April 1 – December 31, 2017



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

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

Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-1997, and the stock market and technology booms. The recession that followed the

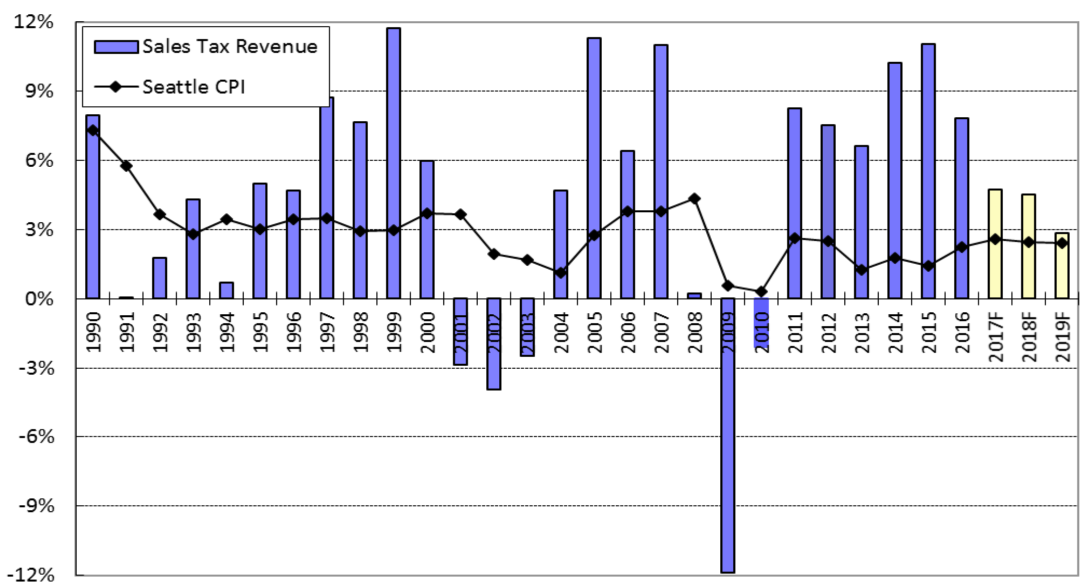
bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive years of decline (2001-2003) in the sales tax base. The economy began to recover in 2004, and then grew strongly for three years, 2005-2007, during which the sales tax base grew at an average annual rate of 9.8%, led by construction's 21.0% rate.
The robust growth of 2005-2007 was followed by the Great Recession, which caused the largest contraction in the sales tax base in over 40 years. In a period of five quarters beginning with the third quarter 2008, the retail sales tax base shrunk by 18.2%. The decline was led by a steep drop in construction along with falling sales in manufacturing, finance and insurance, management, education and health services, and building materials and garden supplies.

After hitting bottom in 2010, Seattle's sales tax base has rebounded strongly, with construction leading the way. Other fast growing industries include motor vehicle and parts retailing, e-commerce retailing, professional, scientific and technical services, accommodation, and food services. Over the six-year period 2010-2016 sales tax revenue increased at an average rate of 8.6% per year.

The growth rate of sales tax revenue is expected to slow gradually over the next several years. Sales tax revenue increased by 5.5% in the first five months of 2017 relative to the same period in 2016. This was stronger than the forecast of 4.2%, but well below the 2016 growth rate of 7.8%. The difference from forecast was due to stronger than expected growth in construction.

Looking to the future, sales tax revenue is forecast to increase by 4.7% in 2017, 4.5% in 2018, and 2.8% in 2019 (see Figure 13). A key assumption in the forecast is that there will be a modest (10.8%) drop in construction activity over the three-year period 2018 2020. The forecast for the construction portion of the tax base was developed in two parts. First, a forecast for the first four quarters of the forecast period was developed from lagged Seattle construction permit data. Then a forecast for the remaining period was developed using a time series model estimated over 41 years with quarterly data.

Figure 13. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2017-19 are forecasts.

The forecast incorporates revenue gains that result from the passage of EHB 2163 in June 2017 as part of the state budget package. EHB 2163 expands the sales tax base by adding bottled water to the base beginning in August 2017, and expanding the taxation of internet and catalog sales beginning in January

2018. Adding bottled water to the tax base will increase sales tax revenue by approximately $600,000 per year. Expanding the taxation of remote sales will increase revenue by $4.9 million in 2018 and $6.7 million in 2019, according to estimates by the Washington Department of Revenue.

Business and Occupation Tax

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

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

The City levies the gross receipts tax at different rates on different types of business activity, as indicated in Figure 14. Most types of business activity, including manufacturing, retailing, wholesaling, and printing and publishing, are subject to a tax of 0.219% on taxable gross receipts in 2017. Services and transporting freight for hire are taxed at a rate of 0.423%. The City is in the process of increasing B&O tax rates to the maximum allowed under state law. The increase will take place in two steps, a roughly two percent increase on January 1, 2017 and an increase of approximately one percent on January 1, 2018. In addition, the special 0.15% rate for international investment management services was eliminated on January 1, 2017.

Figure 14. Seattle Business and Occupation Tax Rates, 2016 – 2018

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

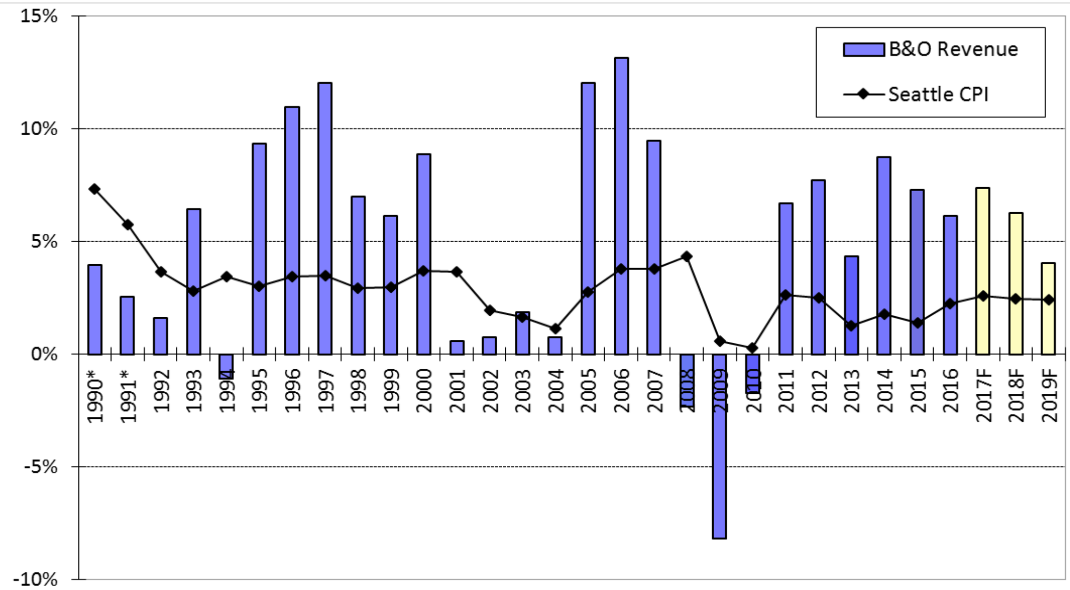
Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, which does not cover most services. In addition, the B&O tax is less reliant than the sales tax on the relatively volatile construction and retail trade sectors,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

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

Revenue Overview

Since the mid-1990s, B&O receipts have fluctuated with the economy's ups-and-downs, rising rapidly during the late-1990s stock market and dot-com boom and the housing bubble of the mid-2000s, going flat from 2001–2004 during the last decade's first recession, and then falling sharply during the Great Recession (see Figure 15). Following four successive years of very weak growth from 2001 through 2004, B&O revenue turned up sharply in 2005 and averaged 11.5% over the three-year period 2005-2007. The upturn ended in 2008 with the onset of the Great Recession. 2009 saw the full force of the recession with revenue dropping 8.2% from 2008. The decline was broad based with no industry untouched, but construction, manufacturing, wholesale trade, and finance and insurance were particularly hard hit. The decline continued until the second quarter of 2010, by which time the tax base had lost 16.8% of its value.

Figure 15. 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; 2017-19 are forecasts.
Figures include both gross receipts and square footage tax revenue.

B&O tax revenue has rebounded at a healthy clip during the recovery from the Great Recession. Over the six-year period 2010-2016, revenue grew at a 6.8% annual rate. Growth was weak in 2013 because of a drop in revenue from audit activity and an increase in refund payments, not because of a weakening of tax base growth. Industries growing rapidly during the recovery have been construction, information, real estate, management of companies and enterprises, food services, and accommodation. Health services, historically a fast growing industry, has posted a modest 4.3% annual growth rate during the recovery.

The growth rate of B&O tax revenue will increase in 2017, then slow gradually thereafter. The B&O revenue forecast has been shaped by five factors:

1. The economic forecast for the region, which is predicting a slowdown.
2. An updated forecast for construction, which predicts that revenue from construction will decline by 9.4% over a three-year period beginning in 2018.
3. B&O tax rate increases of approximately two percent in 2017 and one percent in 2018. These increases add $4.7 million to the forecast in 2017 and $7.9 million in 2018.

4. Elimination of the special tax rate for international investment management services. These services are taxed at the regular service rate beginning January 1, 2017. This change adds $2.0 million to the forecast in 2017 and $2.1 million in 2018.

5. An expected revenue gain of $335,000 in 2017 and $650,000 in 2018 from the expiration of the B&O life sciences deduction in mid-2017.

With the economy expected to slow and a mild downturn forecast for construction, the B&O tax base will grow more slowly going forward. Countering this slowing are the tax rate increases in 2017 and 2018 and the elimination the life sciences deduction. The net effect is a boost in revenue growth to 7.4% in 2017, followed by 6.3% growth in 2018. Thereafter the growth rate drops to the 4% range.

Utility Business Tax - Private Utilities

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

Natural gas prices remain historically low. The City levies a 6% utility business tax on gross sales of natural gas and on sales of steam which has natural gas as an energy source. The bulk of revenue from the natural gas tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales. Spot prices, those paid for delivery in the following month, continue to be low. Temperatures play a key role in gas related revenues and are inversely related to natural gas usage and subsequent tax receipts.

Court decisions may put revenues from the Telecommunications Tax at risk. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. Revenue from traditional land-line services has been on a steady decline. This was counteracted by the increasing prevalence of mobile/wireless phones. While new smartphone users have added to the wireless tax revenue base, the increased use of data and internet services which are not taxable have caused declines in the revenue streams.

As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City may continue to see tax revenue declines. Some recent court decisions have altered what types of wireless phone calls the City can tax; the City may no longer be able to assess a tax on interstate and international phone calls. This could be a significant impact to telecommunications tax revenues.

Cable tax revenues show slightly positive growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.4% franchise fee makes funds available for cable-related public access purposes. This franchise fee is deposited into the City's Cable TV Franchise Fee Subfund. Cable revenues have been growing, but with increased competition from satellite and internet television providers, the growth has been somewhat muted and continues to be a source of risk to the forecast.

Revenue Overview

Utility Business Tax - Public Utilities

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

Revenue Stabilization Account Surcharge is in effect. City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization account (RSA) for the utility funded with an as needed surcharge based on funding levels of the RSA. The rate stabilization surcharge was triggered in 2016 because the RSA funding level has dropped below $90 million, the account's minimum required balance set by Council. This forecast expects the surcharge to remain in effect into the second quarter of 2018.

No change for water retail rates in 2018. Tax revenue growth is expected to average 2.6% for the 2017 and 2018.

Drainage and Wastewater rate path has changed. The rate path that City Council agreed to for drainage and wastewater in 2016 has shifted slightly. Instead of large increases beginning in 2019, the rate path has been smoothed bringing forward smaller increases in rates beginning in 2018. This will yield a tax growth rate of 7.6% in 2018.

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

Tonnage taxes remain stable. The City imposes a $13.27 per ton tax on solid waste hauled within the city limits. Historically these tax revenues, which apply to both public and private haulers, was collected by Seattle Public Utilities and used to pay for Clean City programs. These programs support public garbage collection, graffiti removal, illegal dumping, and other activities. In 2016 the tonnage tax began accruing to the General Fund which continues to support Clean City programs.

Other Notable Taxes

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

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

Sweetened Beverage Tax. On June 5, 2017, City Council approved the Sweetened Beverage Tax (SBT) effective January 1, 2018. Distributors of sweetened beverages are liable for the tax of $0.0175 per fluid ounce of sweetened beverage distributed into the city of Seattle for final sale to the consumer. The 2018 Proposed Budget includes $14.8 million in SBT revenues. Sweetened beverages include sodas, energy drinks, sweetened juices and teas, sports drinks and ready-to-drink coffee drinks. Revenues will be used to fund educational and food access programs.

Licenses and Permits

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

In 2005 the City instituted a two-tier business license fee structure. The cost of a license, which had been $80 per year for all businesses, was raised to $90 for businesses with worldwide revenues of more than $20,000 per year and lowered to $45 for businesses with worldwide revenues less than $20,000 per year. The City increased these fees for 2015 license renewals to $110 and $55, respectively, which yielded approximately $1.1 million in additional revenue.

To provide funding for additional police officers, the City implemented a new business license fee structure that took effect for 2017 licenses. Fees are being increased for businesses that have a taxable income (reported for B&O tax purposes) greater than $500,000. Fees for all other businesses will remain at 2016 levels (See Figure 16). Fee increases will be phased in over a three-year period, 2017 – 2019, and will increase with inflation annually thereafter. The fee increases are projected to generate $3.5 million in 2016, $6.9 million in 2017, and $8.5 million in 2018.

Figure 16. Business License Fee Schedule, 2016 – 2019

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

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

Parking Meters/Traffic Permits

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

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

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

The 2015 Adopted Budget, based on collected occupancy data, assumed rate adjustments in several neighborhoods across the City and, for the first time, tested time-of-day pricing in the Chinatown-International District neighborhood, charging a different rate to park in the evening than at other times of day. The 2016 Adopted Budget provided for installation of new pay stations in several parking areas, which will allow parking managers to employ time-of-day pricing differences more extensively across the city. In the 2017 Adopted Budget Council further expanded the authorized minimum and maximum hourly parking rates from a low of $0.50 to a high of $5.00. The 2017 Adopted Budget further adopts, for the first time in the City, an extension of evening paid parking from 8:00 pm to 11:00 pm in the Pike-Pine, Capitol Hill North and Capitol Hill South areas. The City is also converting several blocks of non-paid parking to paid parking in the Pike-Pine (150 spaces) and South Lake Union (136 spaces) areas in response to measured occupancy rates. The 2018 Proposed Budget includes a variety of rate increases and decreases in several parking areas, in order to further implement time-of-day pricing and in response to parking demand (occupancy) data. The combination of these factors and moderate growth in demand for parking leads to a forecast of 4.9% revenue growth in on-street parking revenue between 2016 and 2017, from $37.9 million to $39.8 million. 2018 revenue is projected at $40.9 million.

***Street Use and Traffic Permits**.* Traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits, reversed a downward recessionary trend in 2011, ending 23.3% higher at $2.33 million than 2010 actual revenues of $1.83 million. 2012 revenues increased 55% to $3.65 million, 2013 revenues remained flat at $3.64 million and 2014 revenues increased 19.4% to $4.3 million. This increase was due to growing construction and service trade activity coming out of the recession, but also to the advent of the City's car sharing program with Car2Go. 2015 revenues increased nearly 58% over 2014 revenues to $6.78 million. City Council approved legislation with the 2015 Adopted Budget that would allow additional car sharing permits and firms to enter the Seattle market. The 2018 Proposed Budget assumes revenues of approximately $7.1 million in 2017 and $6.9 million in 2018.

Court Fines

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

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

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

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

With the installation delays, the increase in school zone speed camera revenue occurred in 2016, increasing to $13.2 million. The 2018 Proposed Budget assumes school zone speed camera revenues of $9.8 million in 2017 and $7.3 million in 2018, as the public learns and adjusts to the 2015 installation locations. Red light camera revenues in 2017-2018 are projected to remain relatively flat at about $4.0 million in each year. Non-camera fine revenues are projected to decrease in 2017 to $21.9 million before returning to 2016 levels at $23.8 million in 2018. Total fines revenues (excluding school zone speed camera revenue) are projected at $26.6 million in 2017 and $28.6 million in 2018.

Interest Income

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

As a result of the financial crisis in 2008 and the Federal Reserve's unprecedented purchasing of assets through quantitative easing, borrowing rates fell to historic lows. These rates have remained relatively low through 2017 even as the Fed exits their purchasing programs. The annual earnings yield for the cash pool is expected to be 1.7% in 2017, and 2.38% in 2018. Should the economy suffer any setbacks, these rates would be expected to fall.

Revenue from Other Public Entities

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

Criminal Justice revenues are stable. The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. These revenues have been affected by State budget changes in the recent past and while not expected, could be affected in future budgets out of Olympia.

Marijuana related revenues are being shared with local jurisdictions. As part of the State's 2016 budget, marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. The state has adopted a complicated allocation of these revenues, but in general only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. Because this is a new revenue stream with limited information on the size of the tax base, the forecast is imprecise.

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

Service Charges and Reimbursements

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

Interfund Transfers

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

In adopting the 2018 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

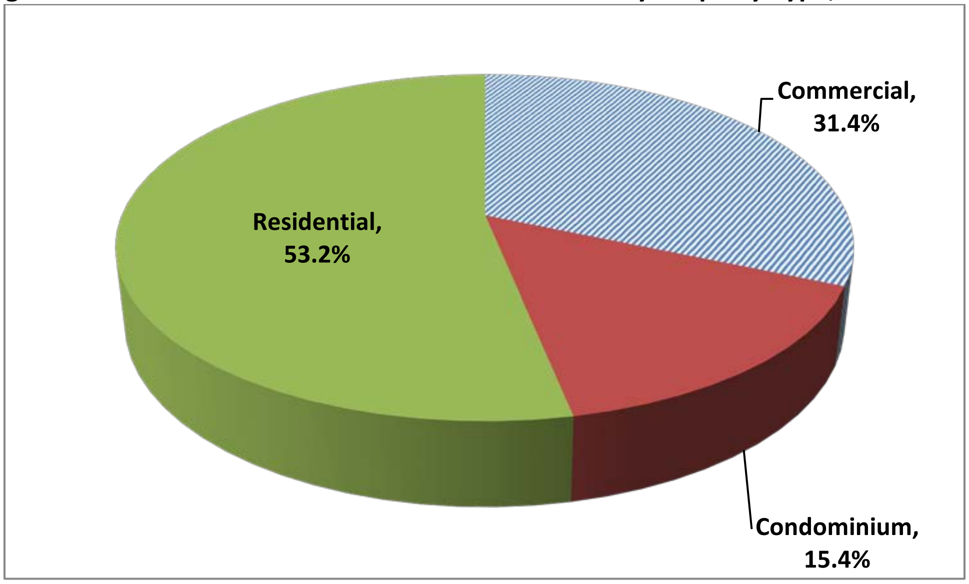
Cumulative Reserve Subfund – Real Estate Excise Tax

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

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

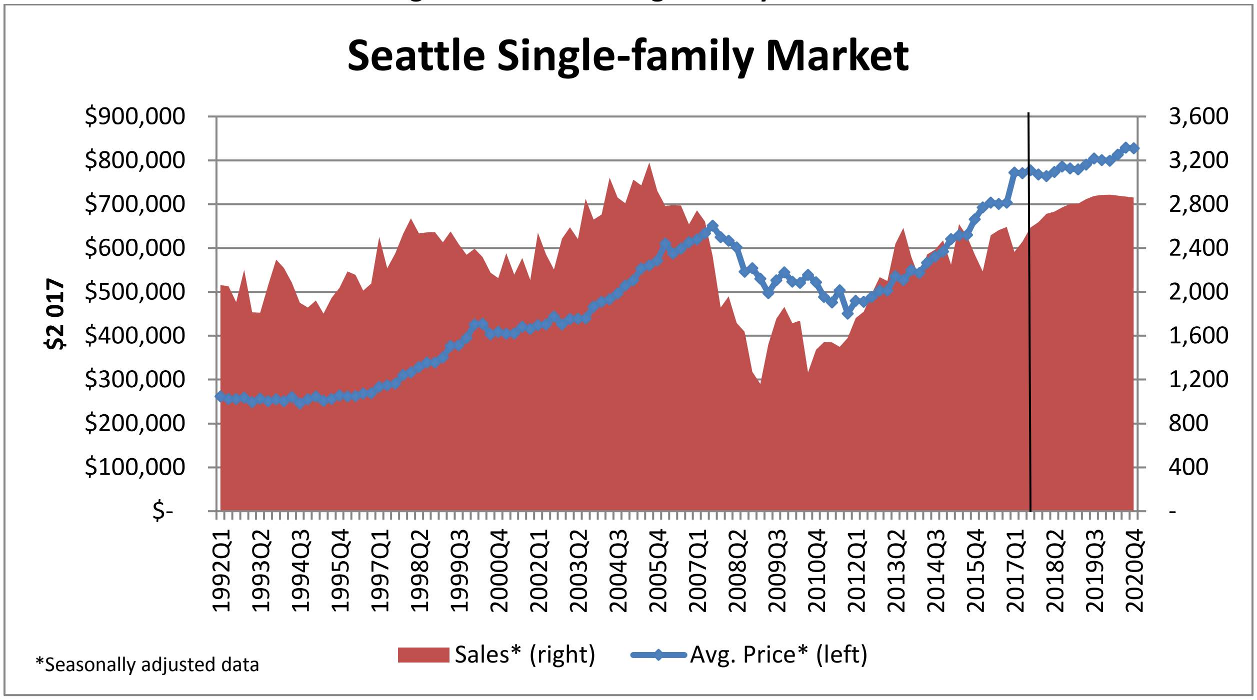
Over time, 53.2% of the City’s REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 31.4% of the tax base, and condominiums constitute the remaining 15.4% (see Figure 17).

Figure 17. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2016



The residential market continues to grow. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fueled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline was felt across all three real estate categories. The first quarter of 2009 was the bottom of Seattle's residential market for both sales and prices on a seasonally adjusted basis. With low financing rates and a growing economy, residential and condominium sales have been on an upswing in Seattle increasing real estate excise tax revenues. Single-family home prices, both nominal and adjusted for inflation, have well surpassed their previous peak set in 2007 (see Figure 18). Average prices are expected to continue to increase over the next few years while sales volume will remain flat.

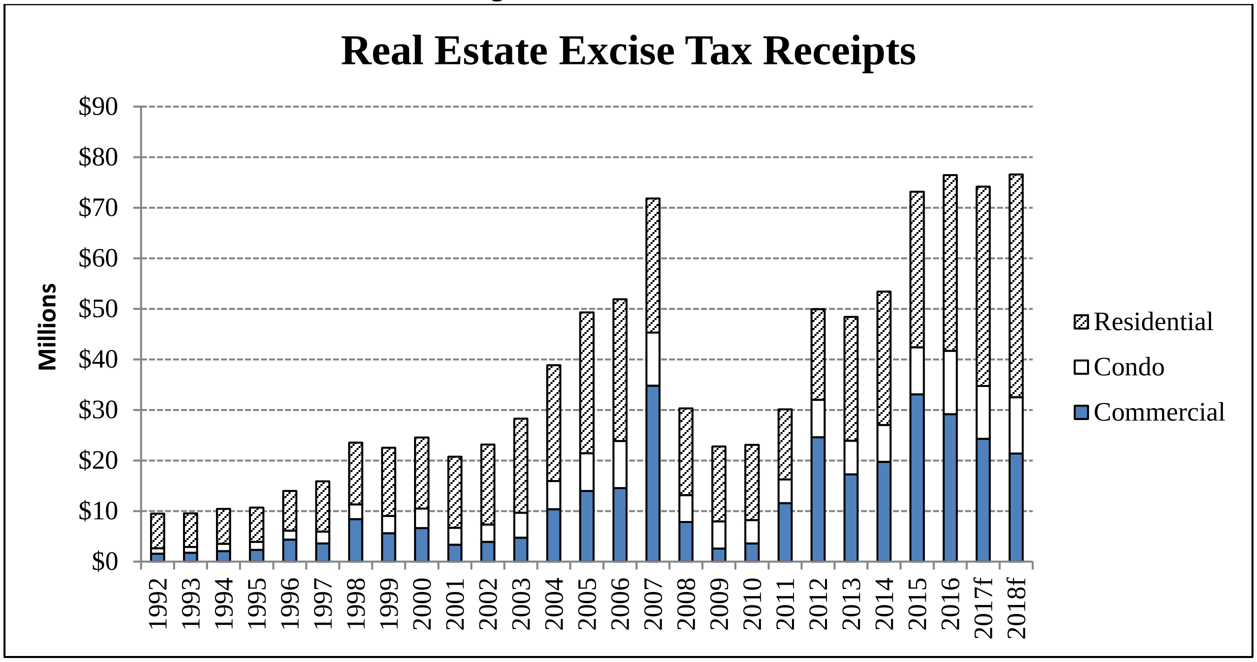
Figure 18. Seattle Single-family Market



The volatility of REET is reflected by the fact that despite a 9.0% average annual growth rate, the REET tax base declined in ten years during the period 1982–2016. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in 2007, 2012, and 2015 (see Figure 20). Those years saw significant commercial activity with many large buildings in the downtown core changing hands.

Revenue Overview

Figure 20. REET Revenues



Revenue Overview

Figure 21. Seattle City Tax Rates

	2013	2014	2015	2016	2017
Property Taxes (Dollars per $1,000 of Assessed Value)					
General Property Tax	$1.90	$1.80	$1.63	$1.47	$1.35
Families & Education	0.27	0.25	0.23	0.20	0.18
Parks and Open Space	0.20	0.19			
Low Income Housing	0.17	0.16	0.14	0.12	0.22
Fire Facilities					
Transportation	0.35	0.31	0.27	0.58	0.52
Pike Place Market	0.10	0.06			
Library	0.14	0.13	0.12	0.11	0.09
Pre-School For All			0.10	0.09	0.08
Election Vouchers				0.02	0.02
City Excess GO Bond	0.14	0.14	0.13	0.18	0.16
Other Property Taxes related to the City					
Seattle Park District	-	-	-	0.29	0.28
Emergency Medical Services	0.30	0.33	0.30	0.28	0.26
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%	0.85%
Transportation Benefit District Sales and Use Tax	-	-	-	0.10%	0.10%
Business and Occupation Tax					
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%	0.222%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%	0.222%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%	0.222%
Service, other	0.415%	0.415%	0.415%	0.415%	0.427%
International Finance	0.150%	0.150%	0.150%	0.150%	0.427%
City of Seattle Public Utility Business Taxes					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste*	11.50%	11.50%	11.50%	11.50%	14.20%
City of Seattle Private Utility B&O Tax Rates					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
Other Taxes					
Admissions tax	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%	5.00%
Cable Franchise Fee	4.40%	4.40%	4.40%	4.40%	4.40%
Gun Tax (Dollars per weapon)	-	-	-	$25.00	$25.00
Ammunition Tax (Dollars per round)	-	-	-	$0.05	$0.05

*Increase effective April 1, 2017