
CITY OF
Seattle, Washington

2004 Proposed Budget



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**CITY OF SEATTLE
2004 PROPOSED BUDGET**

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Thomas Dunlap
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Cameron Keyes
Aimee Strasko

Economics Team

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Jeff Davis
Dave Hennes
Tom Kim
JoEllen Kuwamoto

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and Citywide Facilities Team**

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Lee Belland
Aaron Bert
Janet Credo
Casey Doyle
Marilynne Gardner
Sara Levin
Carrie McCann
Helen Welborn

**Public Safety and Human Services
Team**

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Aaron Bert
Elise Downer
Barbara Gangwer
Cheryl Swab
Karl Stickel

Policy and Planning Team

Carolyn Iblings, Acting Assistant Director
Kristi Beattie
Dave Hennes
Tim Morrison
John Nyguen
Ellen Schroer
Eve Sternberg

**Administrative Support, Public
Information, and Debt Management**

Dave Haley
Janet Krogh
Janice Pratt
Katherine Schubert-Knapp
Kathy Sugiyama
Michael vanDyck
Linda Wokal

On the Cover

In January 2002, the Seattle Center Opera House was demolished to make way for the new Marion Oliver McCaw Hall. During demolition, workers discovered a time capsule that had been sealed at the 1928 dedication of the original building, which served as Seattle's first Civic Auditorium and was renovated in 1962 to become the Opera House.

Some of the items from the 1928 time capsule are shown in this photomontage (clockwise from top left):

- Letter box containing sweetbrier seeds from the garden of Seattle pioneer Louisa Boren Denny (Mrs. David T. Denny), who brought the seeds from Illinois
- April 16, 1889, map (in blueprint) of David T. Denny's Home Addition, which deeded land to the City for the original Civic Auditorium
- Photo of sold-out crowd at Civic Auditorium for a symphony performance
- Seattle City Council and staff list, 1927-28
- Seattle Yearbook, Annual Report of Mayor Bertha K. Landes, dated June 6, 1927
- Specifications for Civic Auditorium project, including Civic Arena (now Mercer Arts Arena) and Civic Field (now Memorial Stadium)
- Typed cornerstone ceremony speech delivered by Mayor Bertha K. Landes, May 18, 1928
- Invitation to the dedication ceremony for the Civic Auditorium
- Portrait of Louisa Boren Denny

*Photomontage by City Photographer Erik Stuhaug and Graphic Designer Jay Keiler.
Thanks to Seattle Center's Director of Communications*

City of Seattle 2004 Proposed Budget

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This reader's guide describes the structure of the 2004 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 2004 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 budget control level in departmental budgets.

A companion document, the 2004-2009 Capital Improvement Program (CIP), identifies proposed 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 2004 Proposed Budget

This document is a detailed record of the spending plan proposed by the Mayor for 2004. 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 2004 Proposed Budget and 2004-2009 Capital Improvement Program were developed;
- Summary Tables – a set of tables that inventory and sum up expected revenues and proposed spending for 2004;
- Budget Overview – a narrative that spotlights the priorities reflected in the proposed budget and explains the most important elements of the detailed departmental budgets;
- General Subfund Revenue Overview – a narrative that explains where the City's General Subfund revenues, or those revenues available to support general government purposes, come from and the factors that affect the level of resources available to support City spending;
- Departmental Budgets – City department-level information that describes significant policy and program changes from the 2004 Endorsed Budget, the services provided, key performance measures, and the spending levels proposed to attain these results; and
- Appendices – the first appendix to the Proposed Budget contains a list of 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 that provide detailed numerical data and other information.

Reader's Guide

Departmental Budgets: A Closer Look

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

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

Each cluster comprises several departments that share 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.

As indicated, the proposed budget appropriations are presented in this document by department, budget control level and program. The reader will also see references at the department level to the underlying fund sources (General Subfund and Other) for the department's budgeted resources. The City accounts for all of its revenues and expenditures according to a system of funds and subfunds. In general, funds or subfunds are established to account for specific revenues and permitted expenditures associated with those revenues. For example, the City's share of Motor Vehicle Fuel taxes by law 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 lead off with information on how to contact the department, as well as a description of the basic functions and areas of responsibility of the department. There follows a narrative summary of the major policy and program changes affecting 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 Endorsed Budget to the 2004 Proposed Budget.

All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2004. The actual historical expenditures are displayed for informational purposes only. In all cases, the adopted departmentwide budget totals are broken down by budget control levels.

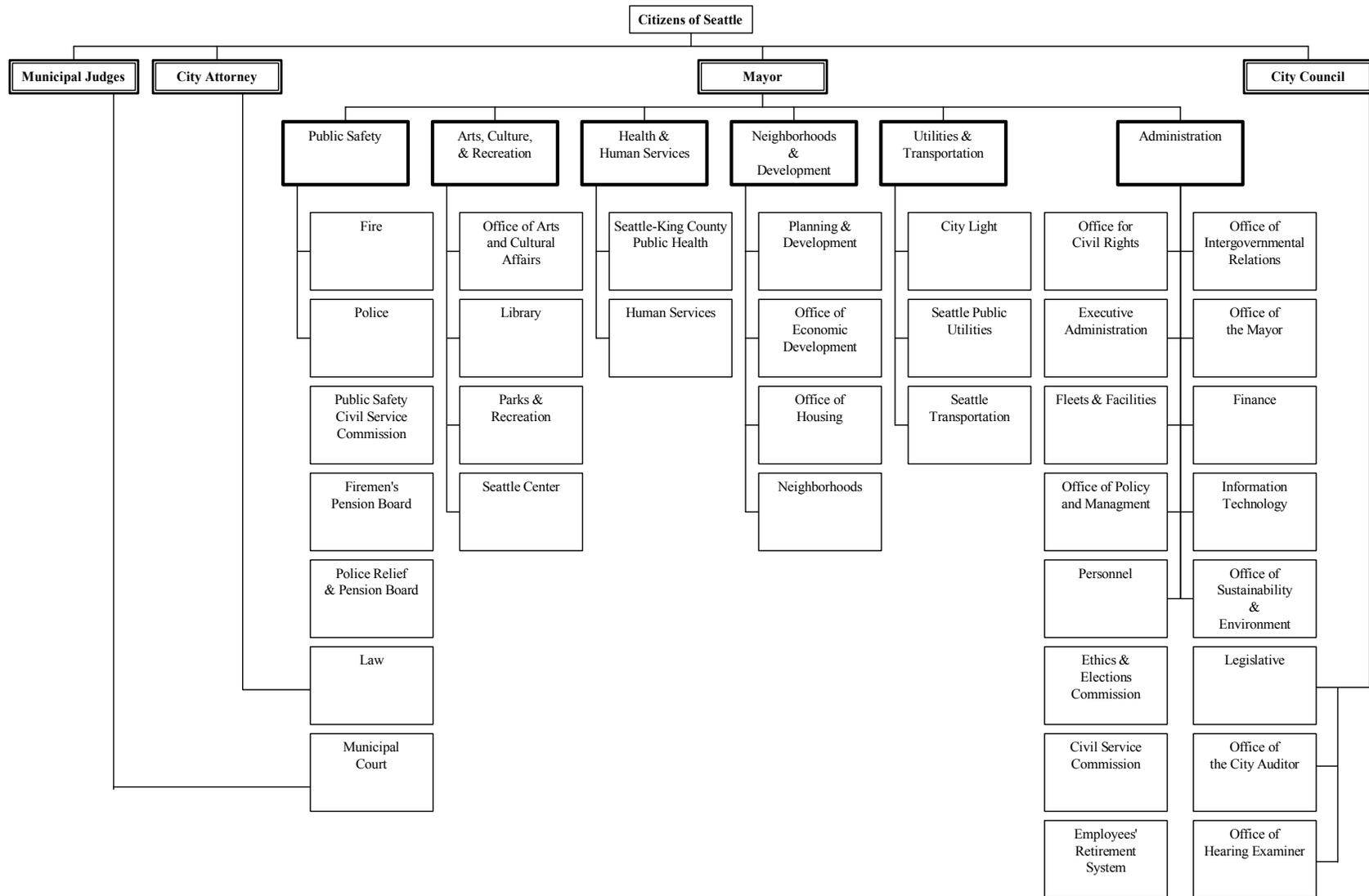
Information on the number of staff positions to be funded under the proposed budget appears at each of the three levels of detail: department, budget control, and (for informational purposes only) program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent 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 one or two additional pieces of information: a statement of actual or projected revenues for the years 2002 through 2004; and a statement of 2004 appropriations to support capital projects appearing in the 2004-2009 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2004-2009 Proposed Capital Improvement Program document.

Appendices

There are three appendices to this document. The first appendix provides a listing of all permanent positions by department. The second appendix provides a summary of cost-allocation factors for internal department services. The third appendix provides detailed supporting information, including a breakdown of tax receipts and other revenue deposited in the City's General Subfund; the status (including balances) of other City subfunds and special funds; debt service tables displaying principal and interest payments due on the City's general obligation bond issues; a glossary; and an overview of relevant demographic and economic statistics.

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 shall develop 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.

Washington state law requires cities with a population 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. The 2004 Proposed Budget follows this practice.

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, except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are considered a liability when they are paid.

Budget Preparation

Executive preparation of the budget generally begins in February and culminates 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 increases in health care, insurance and cost-of-living-adjustments for City employees. At the outset of a new biennium, Current Services budgets are established for both the first and second years, leading to Council's adopted and endorsed budgets. For the midbiennium budget process, such as the 2004 Proposed Budget, the Executive may define the Current Services budget as the second year budget endorsed by Council in the previous November, or re-determine current service levels. This year's budget process used the 2004 Endorsed Budget as the Current Services budget.

During the budget preparation period, the Department of Finance (DOF) makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the Current Services budget. The revenue estimates must be based on the prior 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 2003 the Department of Finance (DOF) compared initial projections of revenues with 2004 Current Services spending requirements. In this process, DOF identified a \$9- to \$10-million shortfall in the City's General Fund, meaning

Budget Process

revenues would have to be increased or Current Services budgets would have to be cut in order to balance the City's budget as required by state law.

In late April 2003, departments were given their budget reduction targets – the amount of General Fund dollars that could be included in the department's overall budget. Because there was not enough revenue projected to continue to fully fund current services, all departments, with the exception of the very small departments, were asked to reduce their General Fund spending between 1.0 and 2.75%. Those departments that wanted to undertake new initiatives were told to make additional cuts to Current Services in order to free up the necessary resources for new programs.

In May 2003, 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 communicated to the departments which BIP changes were to be included in their July budget submittals. Departments then finalized their operating and CIP budget requests. In early July, DOF received departmental budget submittals, including all position changes, and began its analysis and evaluation process.

In August 2003, the projected shortfall between anticipated General Fund revenues and the 2004 Endorsed (Current Services) Budget had grown to \$24 million. A second round of budget reduction suggestions, review, and Mayor's Office approvals ensued. In this period, DOF also reviewed cost-of-living adjustments and other assumptions used to develop the 2004 Endorsed Budget. The process culminates in the proposed operating budget, 2004-2009 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 submitted the proposed budget and CIP to the City Council. In addition to the budget documents, DOF prepared 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 Department of Finance offices, in each of the branches of the Seattle Public Library, Neighborhood Service Centers, and on the Internet at www.cityofseattle.net/financedepartment.

Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts at least two public hearings on them. 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 usually after making changes to the Mayor's proposed budget, the City Council adopts a budget 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 usually state the Council's expectations in making budget decisions and generally require affected departments to report back to the Council on results. A chart that summarizes 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

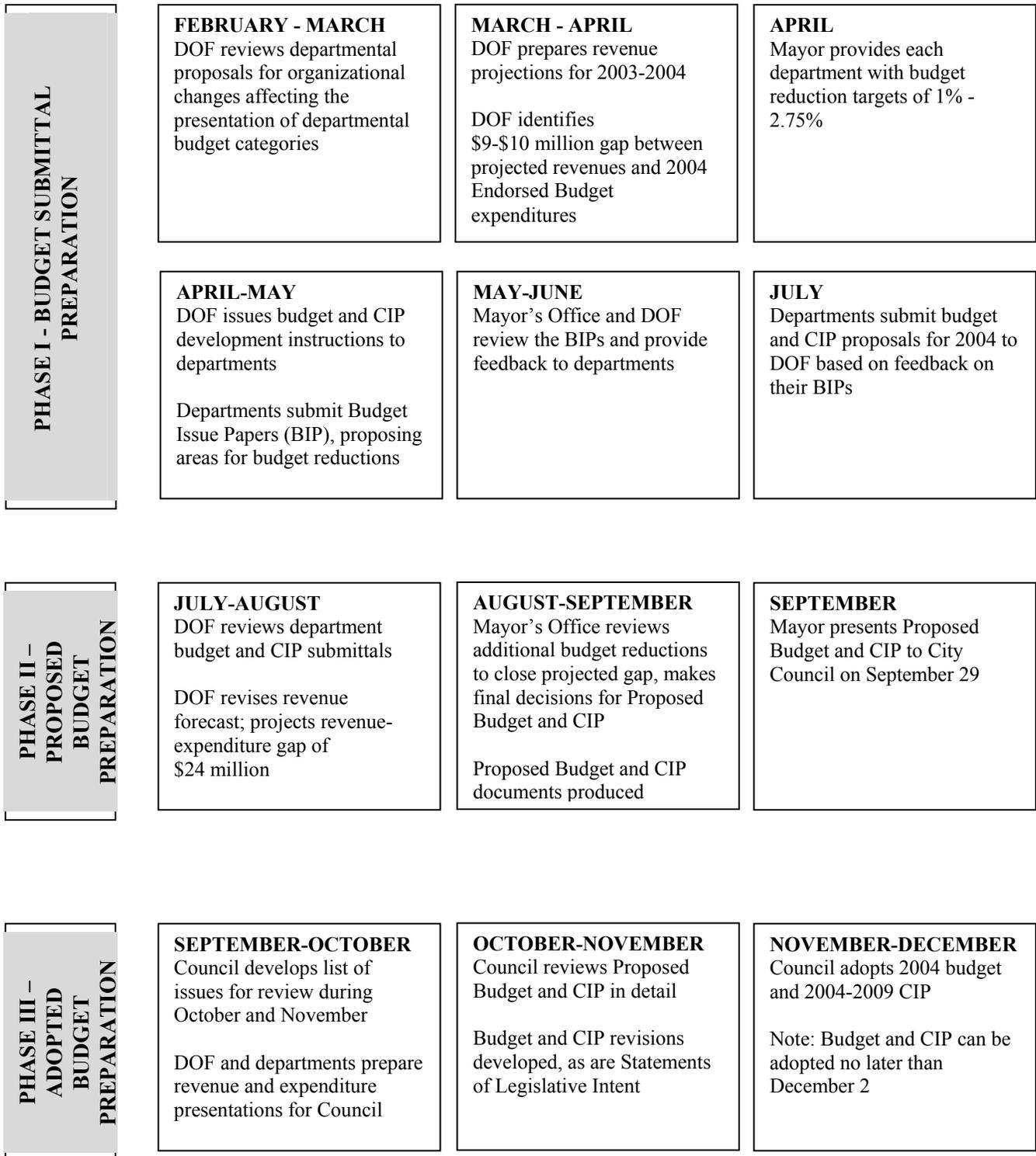
A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable 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 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 provides that departments may be able 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 – 2004 BUDGET



Summary Tables

REVENUE SUMMARY BY SOURCE

(in thousands of dollars)

GENERAL SUBFUND

Revenue Source	2002 Actual	2003 Adopted	2003 Revised	2004 Endorsed	2004 Proposed
Total Taxes	\$ 542,071	\$ 555,538	\$ 548,098	\$ 571,091	\$ 556,430
Licenses and Permits	\$ 10,213	\$ 12,990	\$ 12,021	\$ 13,062	\$ 11,325
Parking Meters/Meter Hoods	\$ 10,674	\$ 12,613	\$ 11,745	\$ 13,713	\$ 13,704
Court Fines	\$ 14,178	\$ 19,776	\$ 16,245	\$ 20,083	\$ 16,441
Interest Income	\$ 3,053	\$ 3,592	\$ 1,851	\$ 4,002	\$ 1,899
Entities	\$ 16,674	\$ 7,551	\$ 8,746	\$ 7,820	\$ 8,996
Reimbursements	\$ 41,134	\$ 38,709	\$ 38,580	\$ 39,521	\$ 37,756
All Else	\$ 1,725	\$ 911	\$ 798	\$ 937	\$ 892
Total: Revenue & Other Financing Sources	\$ 639,722	\$ 651,678	\$ 638,083	\$ 670,228	\$ 647,442
Unexpended Fund Balance, Interfund Transfers	11,304	9,749	5,249	3,698	11,299
Total, General Subfund	\$ 651,026	\$ 661,427	\$ 643,332	\$ 673,926	\$ 658,742

Summary Tables

EXPENDITURE SUMMARY (in thousands of dollars)

Department	2003 Adopted		2004 Endorsed		2004 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Arts, Culture and Recreation						
Department of Parks & Recreation	\$ 33,424	\$ 107,908	\$ 34,932	\$ 110,931	\$ 35,721	\$ 106,255
Office of Arts and Cultural Affairs	2,371	3,597	2,416	3,919	2,326	3,595
Seattle Center	8,936	34,896	8,672	35,853	8,632	34,003
Seattle Public Library	31,903	33,968	33,823	35,888	32,934	35,515
Libraries for All Project Fund	-	39,716	-	7,564	-	8,080
Subtotal	\$ 76,634	\$ 220,085	\$ 79,843	\$ 194,154	\$ 79,612	\$ 187,447
Health and Human Services						
Community Development Block Grant	\$ -	\$ 16,390	\$ -	\$ 15,763	\$ -	\$ 17,960
Educational & Developmental Services Levy	-	10,654	-	10,956	-	11,469
Human Services Department	24,204	87,437	24,560	88,237	23,648	97,757
Public Health - Seattle & King County	9,783	9,783	6,519	6,519	9,383	9,383
Subtotal	\$ 33,987	\$ 124,264	\$ 31,079	\$ 121,474	\$ 33,031	\$ 136,568
Neighborhoods and Development						
Department of Planning and Development	\$ 9,525	\$ 45,293	\$ 9,782	\$ 46,703	\$ 9,754	\$ 49,972
Department of Neighborhoods	8,373	8,373	8,586	8,586	7,075	7,075
Neighborhood Matching Subfund	3,413	3,700	3,313	3,700	3,168	4,455
Office of Economic Development	6,349	6,349	6,456	6,456	5,871	5,871
Office of Housing (1)	-	35,167	-	36,378	-	37,633
Subtotal	\$ 27,661	\$ 98,882	\$ 28,136	\$ 101,822	\$ 25,868	\$ 105,006
Public Safety						
Criminal Justice Contracted Services	\$ 18,901	\$ 18,901	\$ 20,963	\$ 20,963	\$ 20,963	\$ 20,963
Firemen's Pension	-	15,855	-	16,109	16,329	16,900
Law Department	12,614	12,614	12,979	12,979	12,613	12,613
Police Relief & Pension	14,852	15,087	15,872	16,107	15,678	15,913
Public Safety Civil Service Commission	121	121	124	124	124	124
Seattle Fire Department	108,188	108,188	112,982	112,982	113,317	113,317
Seattle Municipal Court	19,449	19,449	20,081	20,081	19,505	19,505
Seattle Police Department	168,840	168,840	176,702	176,702	174,256	174,256
Subtotal	\$ 342,965	\$ 359,055	\$ 359,703	\$ 376,047	\$ 372,785	\$ 373,591
Utilities and Transportation						
Seattle City Light	\$ -	\$ 1,080,517	\$ -	\$ 829,663	\$ -	\$ 815,251
Seattle Public Utilities	2,377	570,692	2,450	567,738	2,280	539,865
Seattle Transportation	39,915	109,436	41,183	117,096	36,282	125,338
Subtotal	\$ 42,292	\$ 1,760,646	\$ 43,632	\$ 1,514,497	\$ 38,562	\$ 1,480,453

Notes:

(1) This item combines appropriations to both the Housing Fund and the Low-Income Housing Fund, but does not include CDBG resources.

Summary Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2003 Adopted		2004 Endorsed		2004 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Administration						
Civil Service Commission	\$ 145	\$ 145	\$ 148	\$ 148	\$ 159	\$ 159
Department of Executive Administration	29,489	29,489	30,234	30,234	28,628	28,628
Department of Information Technology	3,296	33,335	3,232	34,216	2,968	33,773
Department of Finance	3,807	3,807	3,918	3,918	3,747	3,747
Employees' Retirement System	-	7,304	-	8,124	-	8,124
Ethics & Elections Commission	553	553	567	567	564	564
Finance General	15,765	15,765	18,098	18,098	11,760	11,760
Fleets & Facilities Department	2,807	69,184	2,945	71,600	2,036	71,458
Legislative Department	7,339	7,339	7,581	7,581	8,087	8,087
Office of the City Auditor	1,062	1,062	1,088	1,088	1,085	1,085
Office of Hearing Examiner	483	483	494	494	493	493
Office of Intergovernmental Relations	1,508	1,508	1,546	1,546	1,536	1,536
Office of the Mayor	2,358	2,358	2,420	2,420	2,345	2,345
Office of Policy and Management	2,082	2,082	2,060	2,060	2,001	2,001
Office of Sustainability & Environment	551	551	562	562	543	543
Personnel Department	10,369	10,369	10,555	10,555	10,731	10,731
Seattle Office for Civil Rights	1,584	1,584	1,624	1,624	1,573	1,573
Subtotal	\$ 83,199	\$ 186,920	\$ 87,071	\$ 194,834	\$ 78,256	\$ 186,607
Other						
Bonds Debt Service	\$ 29,046	\$ 65,320	\$ 29,665	\$ 69,121	\$ 29,665	\$ 67,105
Cumulative Reserve Subfund	-	21,835	-	17,966	-	28,992
Emergency Subfund	2,139	2,139	1,341	1,341	1,344	1,344
Judgment/Claims Subfund (2)	801	14,250	801	13,750	801	15,750
Subtotal	\$ 31,986	\$ 103,544	\$ 31,807	\$ 102,178	\$ 31,810	\$ 113,191
Grand Total	\$ 638,723	\$ 2,853,397	\$ 661,271	\$ 2,605,006	\$ 659,923	\$ 2,582,863

Notes:

(2) The major portion of expenditure authority for the Judgment and Claims Subfund now resides in specific departmental budget authority. This value represents the undistributed fund expenditures.

Summary Tables

POSITION SUMMARY BY DEPARTMENT *

(in Full Time Equivalents)

Department	2000 Revised (1)	2001 Adopted	2002 Adopted (2)	2003 Adopted	2004 Endorsed	2004 Proposed
Arts, Culture & Recreation						
Department of Parks & Recreation (3)	1,039.28	1,065.19	1,111.49	1,069.78	1,060.90	940.73
Office of Arts and Cultural Affairs	14.50	18.60	19.60	20.60	20.60	19.85
Seattle Center	293.41	301.46	301.46	287.62	286.82	284.82
Subtotal	1,347.19	1,385.25	1,432.55	1,378.00	1,368.32	1,245.40
Human Services						
Human Services Department	307.28	325.28	340.48	327.85	327.85	321.35
Subtotal	307.28	325.28	340.48	327.85	327.85	321.35
Neighborhoods and Development						
Department of Neighborhoods	89.75	91.25	89.25	92.13	92.13	87.50
Department of Planning and Development (4)	322.50	328.50	328.50	348.75	350.75	368.25
Office of Economic Development	37.50	37.50	38.50	23.75	23.00	23.00
Office of Housing	56.25	57.25	57.25	43.50	42.50	42.50
Planning Commission (4)	2.00	3.00	3.00	0.00	0.00	0.00
Subtotal	508.00	517.50	516.50	508.13	508.38	521.25
Public Safety						
Law Department	165.00	163.00	155.40	144.60	144.60	146.10
Public Safety Civil Service Commission	4.75	4.75	1.00	1.00	1.00	1.00
Seattle Fire Department	1,120.15	1,123.15	1,125.65	1,109.75	1,109.75	1,117.00
Seattle Municipal Court	256.69	257.69	255.69	227.85	227.35	229.35
Seattle Police Department (5)	1,873.25	1,887.25	1,881.75	1,815.25	1,805.25	1,822.75
Subtotal	3,419.84	3,435.84	3,419.49	3,298.45	3,287.95	3,316.20
Utilities & Transportation						
Seattle City Light	1,800.35	1,800.19	1,798.69	1,786.10	1,780.10	1,778.10
Seattle Public Utilities	1,272.23	1,285.73	1,287.73	1,366.73	1,366.73	1,392.90
Seattle Transportation	605.50	605.50	609.50	627.50	628.50	628.50
Subtotal	3,678.08	3,691.42	3,695.92	3,780.33	3,775.33	3,799.50

Summary Tables

POSITION SUMMARY BY DEPARTMENT* (in Full Time Equivalents)

Department	2000 Revised (1)	2001 Adopted	2002 Adopted (2)	2003 Adopted	2004 Endorsed	2004 Proposed
Administration						
Civil Service Commission	2.00	2.00	2.00	1.50	1.50	1.60
Executive Services Department (6)	806.27	795.27	0.00	0.00	0.00	0.00
Department of Executive Administration (6)	0.00	0.00	290.60	245.35	245.35	238.95
Department of Information Technology	157.50	168.00	171.00	174.00	174.00	188.00
Department of Finance (6)	0.00	0.00	34.50	35.00	35.00	34.00
Employees' Retirement System	11.50	11.50	13.50	13.50	13.50	13.50
Ethics & Elections Commission	4.50	5.75	5.50	5.20	5.20	5.20
Fleets & Facilities Department (6)	0.00	0.00	334.00	313.00	313.00	319.50
Legislative Department	73.70	78.70	79.70	79.70	79.70	81.70
Office of City Auditor	12.00	12.00	11.00	11.00	11.00	11.00
Office of Hearing Examiner	5.80	5.80	5.80	4.70	4.70	4.90
Office of Intergovernmental Relations	14.50	14.50	12.50	11.50	11.50	11.50
Office of the Mayor	23.50	23.50	21.00	23.50	23.50	23.50
Office of Policy and Management (7)	0.00	0.00	0.00	15.65	16.00	16.00
Office of Sustainability and Environment	0.00	0.00	5.00	4.00	4.00	4.00
Personnel Department (6)	0.00	0.00	138.17	123.50	123.50	128.00
Seattle Office for Civil Rights	23.50	24.50	24.50	22.00	22.00	22.00
Strategic Planning Office (7)	65.50	57.00	56.50	0.00	0.00	0.00
Subtotal	1,200.27	1,198.52	1,205.27	1,083.10	1,083.45	1,103.35
Total	10,460.66	10,553.81	10,610.21	10,375.86	10,351.28	10,307.05

Notes:

(1) Includes positions approved mid-year by City Council during 2000.

(2) 2002 Adopted numbers have been adjusted for prior errors/inconsistencies.

(3) The 2004 Proposed Budget eliminates 134.65 FTE from the Department of Parks and Recreation as part of the continuing transition of Zoo management to the Woodland Park Zoological Society. The positions were vacant on or after December 31, 2002, per Ordinance 121001.

(4) In mid-2002, Planning Commission staff was transferred to DPD.

(5) In the 2004 Endorsed Budget, 4 Community Service Officer positions and 1 Community Service Officer Supervisor position were abrogated from the Seattle Police Department, although funding was preserved in Finance General. In the 2004 Proposed Budget, both the positions and the funding are eliminated.

(6) The functions performed by the Executive Services Department in 2000 and 2001 have since been redistributed to the Department of Executive Administration, the Department of Finance, the Fleets & Facilities Department, and the Personnel Department.

(7) In mid-2002, the Strategic Planning Office (SPO) was abolished. Some of SPO's functions and positions were moved to other City departments, some positions were abrogated, and a new Office of Policy and Management was created.

* Employees of Public Health-Seattle & King County, Firemen's Pension, Police Relief & Pension, and the Seattle Public Library are not City employees and, therefore, are not shown.

Budget Overview

The City of Seattle's 2004 Proposed Budget reflects a continued commitment to the four priorities expressed by Mayor Greg Nickels: transportation, public safety, economic development, and healthy communities. These commitments have been maintained despite the deepest regional economic recession since the early 1980s.

The 2004 Proposed Budget covers the second year of the 2003-2004 biennium. As such, it is based on the 2004 Endorsed Budget approved by the Mayor and City Council in November 2002. The basic structure and funding allocations of the Endorsed Budget have been maintained, with changes made to reflect poorer economic conditions, lower inflation, and a few significant policy initiatives.

The City's General Fund provides some or all of the funding for most traditional local government services, such as police protection, fire and emergency medical services, libraries, parks, human services, and transportation. General Fund revenues for the 2003-2004 biennium are now projected to be about \$38 million lower than had been forecast in November 2002, mostly due to the continued recession. The first signs of this revenue shortfall were seen in the April 2003 revenue update. This prompted the Mayor to direct most General Fund departments (excluding Fire, Human Services, and Police) to make 1.5% cuts in 2003 budgets, which saved approximately \$3.8 million. Additional savings of at least \$3 million are expected for 2003 as a result of a hiring freeze, travel restrictions, and purchasing reviews established in August.

These 2003 actions still left a substantial challenge to rebalance the 2004 budget. The Proposed Budget includes expenditure reductions in almost all departments, except for small agencies whose budgets consist almost entirely of staff-related costs. Most departments were asked to reduce budgets to 2.75% below the 2004 Endorsed level. The Police and Fire departments were asked for reductions of 1% or less. Additional savings were found as a result of lower-than-expected inflation, which lowered costs for salaries and non-labor expenditures. All of these reductions are sustainable for future years. Approximately \$5 million of one-time actions, such as use of fund balances, completed the process of rebalancing the biennial budget.

The 2004 Proposed Budget shows a reduction of about 44 full-time equivalent (FTE) positions. This figure is a combination of several factors. Regular positions were added by converting dozens of temporary and contractor positions into regular employees in response to a review of the City's use of these types of positions. In most cases, these position conversions saved money or had no net cost. Approximately 135 positions were eliminated when management of the Woodland Park Zoo was transferred to the Zoo Society. About 15 positions were added in mid-2003 and others are added in the 2004 Proposed Budget as a result of reorganizations or external funding. If these effects are removed, over 60 FTE positions were cut in rebalancing the budget.

Transportation

Improving mobility and maintaining the City's transportation systems are major focal points of the 2004 Proposed Budget. The Budget includes funding for transportation and related planning in areas targeted for growth, including Northgate and South Lake Union. The City will continue to participate in studies for the replacement of the Alaskan Way Viaduct and improvements to the Mercer Corridor. The City will use funds from Sound Transit and the Seattle Monorail Project to review and support development of these mobility projects. The Budget also continues efforts to improve pedestrian facilities, such as sidewalks and trails.

Initiative 776, approved by the State's voters in November 2002, purported to eliminate the Vehicle License Fee (VLF) imposed by King County. The revenue generated by this fee was shared with cities and provided about \$5 million annually for Seattle. The Initiative was ruled unconstitutional by the King County Superior Court earlier this year and is currently on appeal at the State Supreme Court. The Proposed Budget does not appropriate funds from the 2003 or 2004 VLF but does show recommended projects if the Fee is restored.

Budget Overview

The Proposed Budget reflects a major reform of the City's on-street parking policies. The Budget includes funding for 500 new pay stations, which are devices that accept payment for multiple on-street parking spaces. The Seattle Department of Transportation (SDOT) will install these stations in the busiest parking areas and will relocate electronic parking meters to new areas or to displace older mechanical meters. Additional pay stations are planned for 2005 and 2006. The pay stations provide a wider range of payment options than meters. Rates in most neighborhoods will be raised from the current \$1.00 to \$1.50 over the course of 2004 and as the pay stations are deployed. The higher rates reflect inflationary increases since rates were last changed a decade ago, bring on-street rates closer to commercial market rates, and will increase parking availability through turnover.

SDOT is implementing a new Right of Way Management initiative through the 2004 Proposed Budget. This initiative is designed to improve coordination of projects in the street right of way, thereby reducing the number and duration of lane closures. New geographic information capabilities will be deployed that allow better planning by public and private utilities. Charges for the use of the right of way will be restructured to provide incentives for projects to be finished more quickly.

Public Safety

The 2004 Proposed Budget maintains the commitment to ensuring public safety. Uniformed police and fire staffing is kept at 2003 levels. Some reductions are made to non-uniformed positions and several reorganizations are made in the Police Department to reduce overhead.

The City of Seattle received preliminary federal approval for nearly \$30 million of Homeland Security funding in 2003, some of which will be shared with regional partners. This money will be spent in phases to conduct threat assessments, provide improved equipment for first responders, enhance training, and improve communications and response infrastructure. Appropriations are not reflected in the 2004 Proposed Budget but will be done through separate ordinances.

A proposed \$167.2 million fire facilities levy lid lift is on the November ballot. If approved, this lid lift would be combined with other funding sources to build or remodel 32 neighborhood fire stations, a new Fire Alarm Center, a new Emergency Operations Center, and a new Joint Training Facility. New emergency water supply hookups would be developed, backup power supplies would be purchased for emergency shelters, and new disaster supply caches would be created. The existing fire boat *Chief Seattle* would be rehabilitated to serve on fresh water and a new boat would be built to serve on Elliott Bay. Appropriations for these projects are not included in the Proposed Budget but would be added by separate ordinance if the voters approve the levy lid lift in November.

Economic Development

The long-term solution for the regional economic slump is to create jobs to replace those lost in the 2001-2003 recession. Higher employment will boost wages and gradually increase tax revenues. The 2004 Proposed Budget continues efforts to stimulate economic development, including transportation improvements in urban centers, façade improvements and business development efforts in neighborhood business districts, and a new business retention program in the Office of Economic Development.

The Department of Planning and Development, formerly known as the Department of Design, Construction and Land Use, will add two staff to prepare the required 10-year update of the City's Comprehensive Plan. This Plan is Seattle's blueprint for growth and provides guidance for land use policies, transportation and infrastructure projects, housing, and other City activities. The Department of Finance will develop ways to improve

coordination between the Comprehensive Plan and the City's capital projects to lay the foundation for the 2005-2010 Capital Improvement Plan.

Healthy Communities

Thirty-eight Seattle neighborhoods developed plans in the 1990s outlining each area's desires for housing growth, economic development, infrastructure, parks, and other facilities. The City has devoted substantial funding to plan implementation, including voter-approved funding from the "Libraries for All" bond measure and two levy lid lifts. The City has also prioritized existing capital funds toward neighborhood plan implementation. The 2004 Proposed Budget includes approximately \$53 million to implement projects identified in neighborhood plans.

The Proposed Budget establishes a new account in the Neighborhood Matching Subfund to support projects in neighborhoods that have accepted growth in excess of the targets set out in the 1994 Comprehensive Plan. The Budget includes \$900,000 of Real Estate Excise Tax funds for projects in the 12th Avenue, Greenwood, Madison/Miller, and Pike/Pine neighborhoods. The projects to be funded were selected from high priorities identified in the neighborhood plans. The Budget continues funding for other portions of the Neighborhood Matching Subfund at about \$3.2 million for 2004, which is the same level as provided in 2003 after mid-year reductions were implemented.

Human service and public health programs are also a major component of healthy communities. The Proposed Budget maintains the City's commitment to human service programs. No mid-year 2003 cuts were made and 2004 cuts were restricted to a small set of programs. In 2004, \$450,000 of new funding is added to provide replacement and expanded hygiene facilities to offset the temporary closure of two existing facilities.

Approximately \$400,000 is added to the budget for community health and public health clinics in 2004 to partially offset cuts included in the 2004 Endorsed Budget. Some of this added money is due to reduced administrative expenses in the Health Department and the remainder represents redirected General Fund.

Utilities

The City's utilities have also been affected by the ongoing recession. Demand for electricity, water, and sewer services has declined due to reduced business activity. In August, the Mayor proposed an average 8.5% increase in sewer rates to reflect a combination of reduced demand, changes in capital programs, and implementation of new financial policies. A typical single family customer will pay an additional \$2.44 per month and a typical small business will pay an additional \$9.40 per month under this proposal. The Mayor also proposed an average 14% increase in drainage rates. A typical single family customer will pay 89 cents more per month for drainage services while a business on a heavily developed one acre parcel will pay \$10.64 more per month. These rate increases are assumed in the Proposed Budget.

Seattle Public Utilities (SPU) embarked on a major restructuring in 2003. This effort initially focused on asset management studies of the utility's capital program, which have identified many lower-cost options for implementing needed capital facilities. The effort now is extending to operating activities and will lead to changes in staffing and service delivery. The initial results of these efforts are reflected in the Proposed Budget.

Seattle City Light continues to be on track in recovering from the West Coast power crisis of 2000-2001. City Light repaid \$182 million of short-term borrowing earlier this year and will repay the remaining \$125 million of short-term debt in November. Current forecasts predict that City Light will fully recover from the crisis and will have built up the cash reserves called for in its new financial policies by the third quarter of 2004. No rate

Budget Overview

changes are proposed as part of the 2004 budget. The budget reflects mid-2003 cuts in both capital and operating costs in order to maintain the schedule for financial recovery.

Capital Programs

Many City capital programs culminate in 2003 and 2004. The “Libraries for All” voter-approved bond measure will replace or renovate almost all of the City’s libraries. The new Central Library will open in the spring of 2004. In addition, the Beacon Hill, Columbia, Fremont, Green Lake, High Point, International District/Chinatown, Lake City, Northeast, Rainier Beach, and West Seattle branch libraries will open at varying times throughout the year.

The Seattle Center and Community Centers levy, approved in 1999, provided funds to renovate the Opera House into the Marion Oliver McCaw Hall. The new Hall opened to rave reviews in June 2003. The same levy also provided funding to expand and replace several community centers. The Parks Department expects to complete projects at High Point, Jefferson Park, International District/Chinatown, Sand Point, and Yesler community centers in 2004.

The Civic Center project is a three-block redevelopment of the City’s downtown office facilities. The Justice Center, housing the Seattle Municipal Court and Police Headquarters, opened in the fall of 2002. The new City Hall opened in June 2003. The old Municipal Building will be demolished in late 2003 and a public plaza connected to the City Hall will be built in 2004. Demolition of the old Public Safety Building will probably occur in 2004 with redevelopment to begin the following year. Remodeling of the Park 90/5 facility to house many of the Police Department’s support functions is on schedule to be completed in mid-2004 so those units can relocate from the Public Safety Building.

The Department of Finance completed an asset preservation study in 2003 that reviewed the City’s approach and funding for maintaining general government facilities, such as police precincts, fire stations, community centers, swimming pools, office buildings, and performance venues. The study recommended changes in the City’s approach to asset preservation and identified several possible funding mechanisms. These ideas will be considered for implementation in the 2005-2006 biennial budget.

The City’s utilities have significant capital programs to preserve infrastructure and enhance services. As noted above, Seattle Public Utilities is employing an asset management approach to set priorities among projects and to identify lower-cost options when possible. In 2004, the largest single utility project is the continued development of the Cedar Treatment Facility, which will improve water quality for the region’s largest water supply source. This project is being developed using a design-build-operate contract, which proved to be very cost-effective for the Tolt treatment project two years ago. SPU is also continuing its projects to cover remaining open reservoirs.

Looking to the Future

The 2004 budget represents the fourth year of difficult economic circumstances for the Seattle metropolitan area. The City has had to make significant reductions in its budget to reflect lower revenues, the West Coast power crisis, and other economic factors. The Mayor and City Council have made these cuts by establishing priorities that preserved core services as much as possible, including public safety, human services, and basic infrastructure. Lower priority areas and administration have received the largest reductions.

Despite this period of economic difficulty, the City has maintained and in many cases strengthened its long-term financial policies. The City’s General Fund continues to have an Emergency Subfund that is funded to the



Budget Overview

maximum level allowed by State law, or about \$30 million for 2004. Other General Fund reserves are maintained for purposes such as debt service, vehicle replacement, public safety communications, and legal claims. These policies have ensured that the City maintains its very high bond ratings.

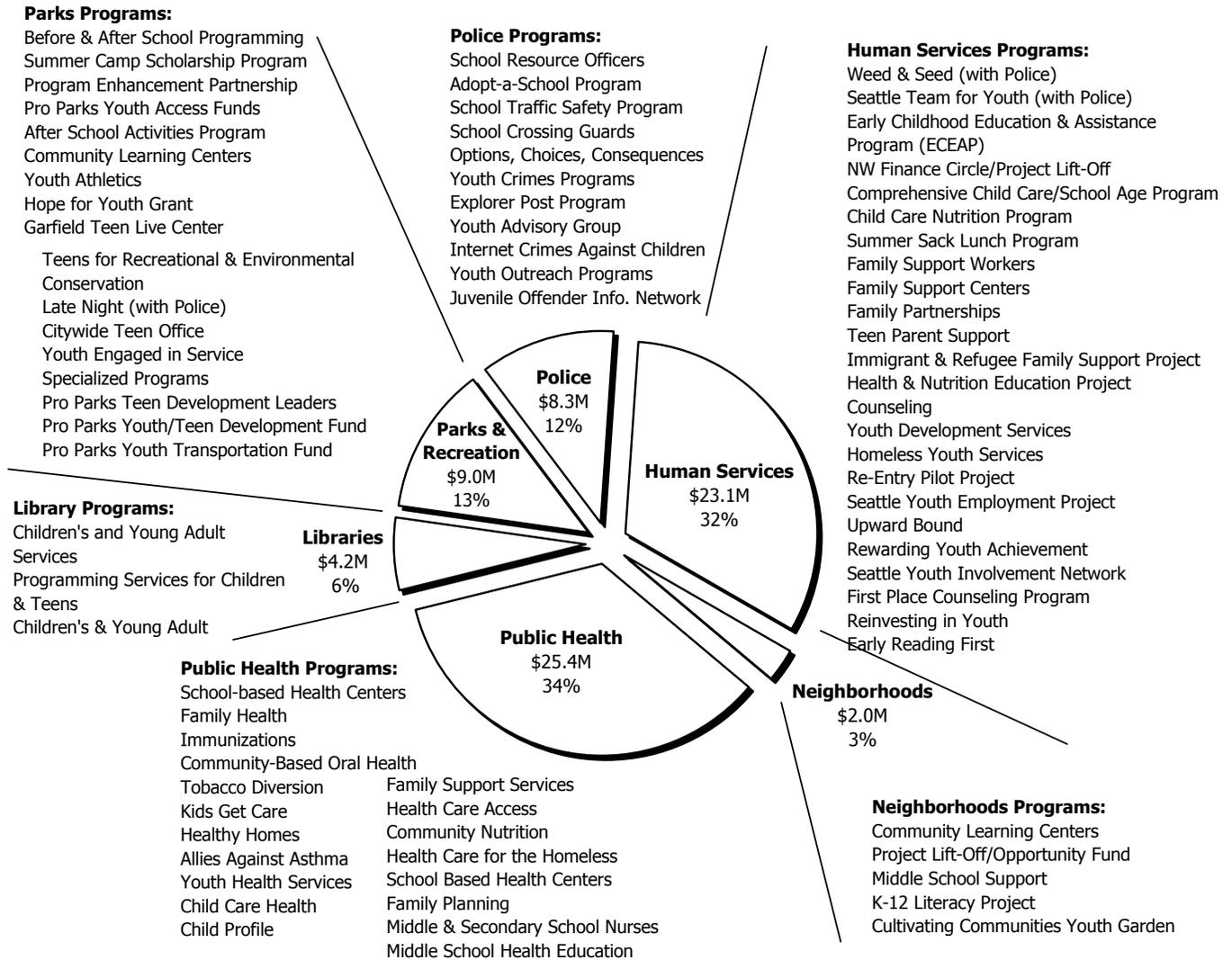
Similarly, the City's utilities are strengthening their financial policies. As noted above, City Light will establish a cash reserve and more conservative financial policies as it emerges from the final effects of the West Coast power crisis in 2004. SPU has set new financial policies for some of its individual utilities that have the common theme of generating more revenue for reserves and cash contributions to the capital program. These policies have the benefit of lowering long-term rates by reducing the amount of borrowing needed.

These commitments to long-term fiscal stability will position Seattle well for the expected economic growth later in this decade.

Children's Budget

In 2003, the Office of Policy and Management brought together the directors of the City departments that spend significant resources on services to children and youth. The City spends \$72 million per year on a variety of programs for children. Uses of funding by the City departments included in the Children's Budget are shown in the chart below. Programs supported by these funds are listed next to each department's dollar amount and percentage.

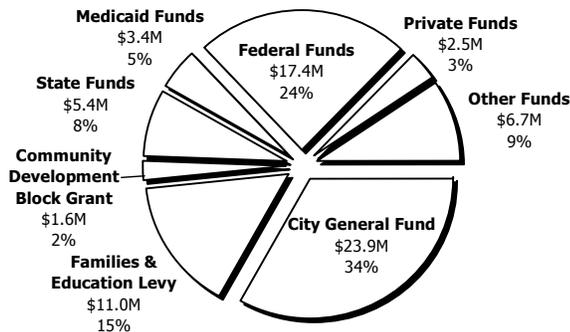
2004 Children's Budget Uses of All Funding by Department: \$72M



Funding for programs and services related to children and youth comes from a variety of sources. The chart on the following page details the funding sources for the Children's Budget.

Children's Budget

2004 Children's Budget Funding from all sources: \$72M



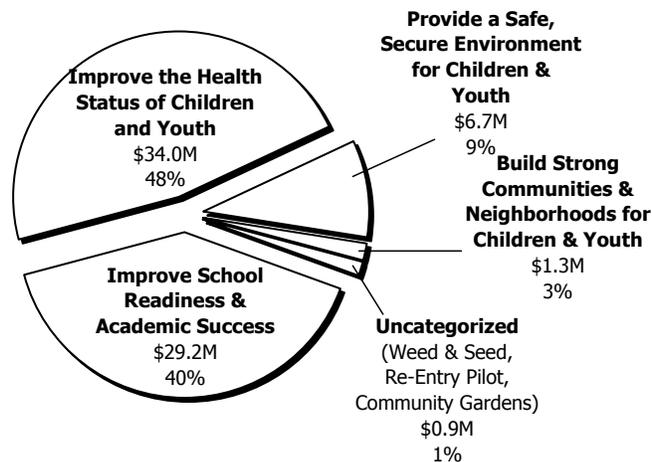
It is the City's intention to align this spending with the Mayor's new Children & Youth Strategy goals. By aligning the spending with the City-wide goals and measuring impact through a variety of community indicators, the City can better track the success of its investments in children's services.

Through this process, departments are working together to develop priorities for funding and outcomes for children and youth. Department directors from the Human Services Department, Department of Neighborhoods, The Seattle Public Library, Department of Parks and Recreation, the Seattle Police Department, and Public Health – Seattle & King County collaborated along with the Office of Policy and Management and Department of Finance to set four broad goals for children and youth:

1. **Improve Academic Achievement and School Readiness**
2. **Improve the Health Status of Children and Youth**
3. **Provide a Safe, Secure Environment for Children and Youth**
4. **Build Strong Communities and Neighborhoods for Children and Youth**

For the 2004 budget, departments defined core strategies to achieve these four goals and developed one collective budget showing City-funded programs categorized by the goals and core strategies of the Children and Youth Strategy. The chart below shows how 2004 funding addresses the Mayor's Children & Youth Strategy goals.

2004 Children's Budget Funding by Mayor's Goals: \$72M



General Subfund Revenue Overview

City Revenue Sources and Funds – September 2003

City Revenues

Seattle City government has four main sources of revenue to support the services and programs that the City provides its citizens. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded 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 their customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2003, revenues for general government purposes will total approximately \$643.3 million.

City Funds

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

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

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

General Subfund Revenue Overview

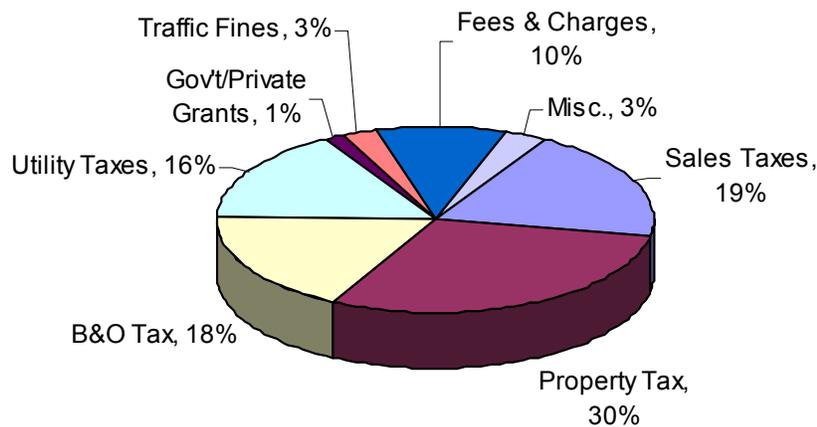
General Subfund of the General Fund

The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (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 53% 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 2003 and 2004.

Figure 1. 2003-Revised General Subfund Revenue Forecast by Source - \$643.3M



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 ten 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 November 2001.

General Subfund Revenue Overview

The recovery from the 2001 recession has been both weak and uneven throughout its life-span of nearly two years. One reason is that the 2001 recession was different than other recessions of the past 50 years, most of which resulted from the Federal Reserve raising interest rates in order to fight high inflation. The 2001 recession resulted from the collapse of an investment boom and the bursting of a stock market bubble. Recovering from these conditions takes more time than does recovery from the more typical post-war recession. Also, with the current business cycle so different from other recent cycles, it is difficult for economists to predict how the recovery will unfold.

The early months of 2003 saw the economy weaken, as the build-up to the war in Iraq and the war itself caused a drop in both consumer and business confidence. The period February – May 2003 was characterized by falling employment, a rising unemployment rate, and declining industrial production. Following the end of the conventional phase of the war in early May, the economy began to exhibit signs of improvement. Economic data releases during July and August were largely positive. For example, the manufacturing sector improved, jobless claims fell, retail sales were strong, and second quarter GDP registered a 3.1% gain. However, employment has continued its stubborn decline.

Most economists believe the U.S. economy is on the upswing. Despite the economy's sluggishness, most forecasters expect it to improve during the second half of 2003, and then expand at a healthy pace in 2004. Employment is forecast to begin increasing later this year, and the economy is expected to create 1½ to 2 million new jobs in 2004. The recovery will receive a boost from the recently enacted federal tax cuts and the abundant home refinancing activity that occurred in spring and summer. Partially offsetting these stimuli will be spending reductions by state and local governments.

While the consensus forecast for the U.S. economy is fairly upbeat, a significant minority of economists believe that the next year or two is likely to see a continuation of the sluggish growth of the past 22 months. These economists believe that the mild 2001 recession did not fully purge the excesses that built up during the boom years of the late 1990s, such as high debt levels and low capacity utilization. In addition, since consumer spending did not fall and the housing market remained strong during the recession, there is little pent-up demand in the economy. The economic research firm Global Insight believes there is a 20% probability of continued sluggishness.

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 and business closures in much of the high-tech sector
- A sharp decline in stock option income
- A steep drop in venture capital investment
- A decline in household wealth driven by falling stock prices

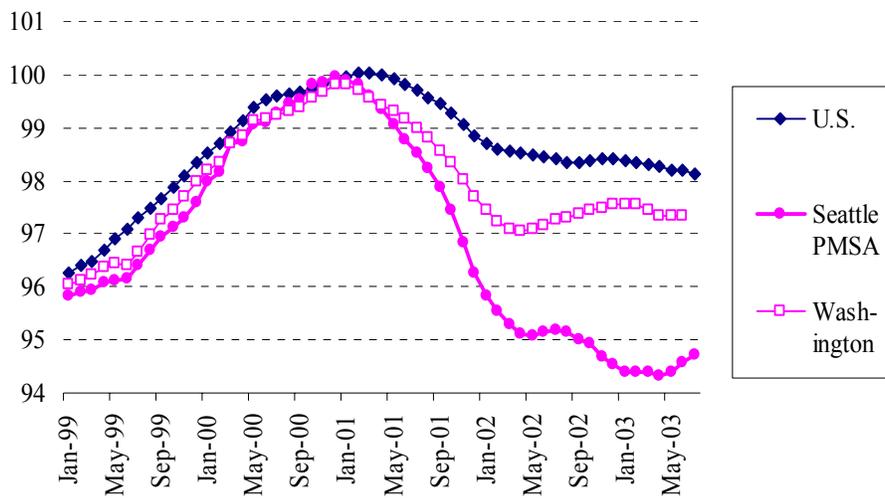
Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to severely cut back its projections of the demand for airliners during the next several years. Boeing announced that it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division – most of them

General Subfund Revenue Overview

by mid-2002. Two-thirds of the cuts were expected to occur in the Puget Sound Region. Thus far Boeing has eliminated 23,600 jobs in Washington State since September 2001. This is the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Since that time Boeing has reduced its Washington employment by 47,600 jobs.

The timing and severity of the region's recession is illustrated in Figure 2, which shows monthly employment for the U.S., the Seattle PMSA (King, Snohomish, and Island Counties), and the state of Washington for the period January 1999 – July 2003. The employment figures have been indexed to equal 100 in December 2000, the month of peak employment in the Washington.

**Figure 2. Non-Agricultural Wage & Salary Employment
(December 2000 = 100)**



NOTE: Data are 3 month moving average of seasonally adjusted employment.

Following several years of steady gains, employment growth began to slow in 2nd half of 2000, both locally and nationally (see Figure 2). Employment reductions in the Seattle PMSA were much greater than reductions 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 6.1% for the Seattle PMSA, 3.1% for Washington, and 2.0% for the nation.¹ Following 2001's steep drop, Seattle PMSA employment continued to move downward until March 2003, after which a slight upturn has occurred.

To gain additional perspective on the severity of the current recession, it is helpful to compare it to the two most recent recessions, which occurred 1981-82 and 1990-91. The 1981-82 recession was one of the nation's most severe recessions since the great depression, while the 1990-91 recession was relatively mild.

During the 1981-82 recession, conditions in the Puget Sound Region mirrored national conditions, as job loss exceeded 3% and the local unemployment rate reached 11.0%, compared to 10.7% nationally. The region fared

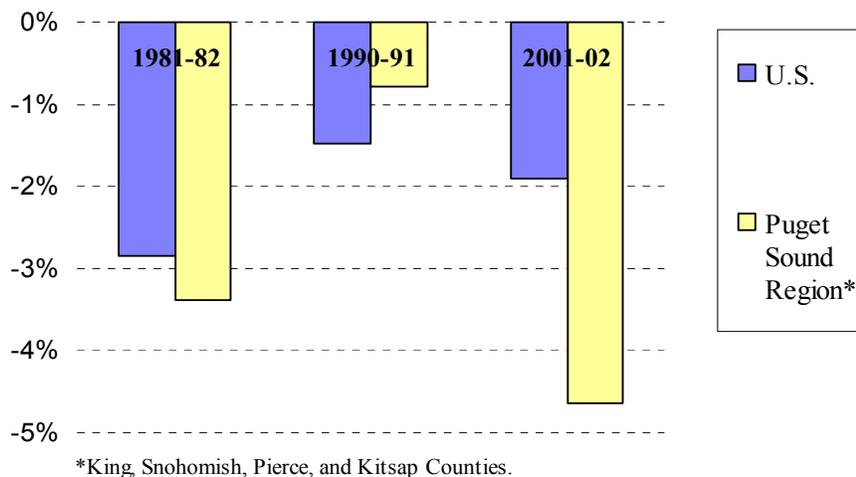
¹ These peak-to-trough figures are not reflected in Figure 2 because data in the figure have been averaged over three month periods.

General Subfund Revenue Overview

better during the 1990-91 recession, which was so mild that many economists contend there was no recession in the region during 1990-91. Unfortunately, that pattern has reversed during the current recession, which has been much more severe locally than nationally.

During the current recession, employment in the four-county (King, Kitsap, Pierce, and Snohomish) Puget Sound Region has dropped by 4.6% from peak-to-trough, compared to a 1.9% decline nationally (see Figure 3). The region's employment loss in the current recession is significantly larger than its loss in 1981-82. One positive note is that the region's unemployment rate is forecast to peak at 7.1% in mid-2003, well below the 11.0% peak reached in 1981-82. The relatively low unemployment of the current recession is due in part to the fact that the region entered the recession with a very low unemployment rate.

Figure 3. Peak-to-Trough Employment Decline During Recent Recessions

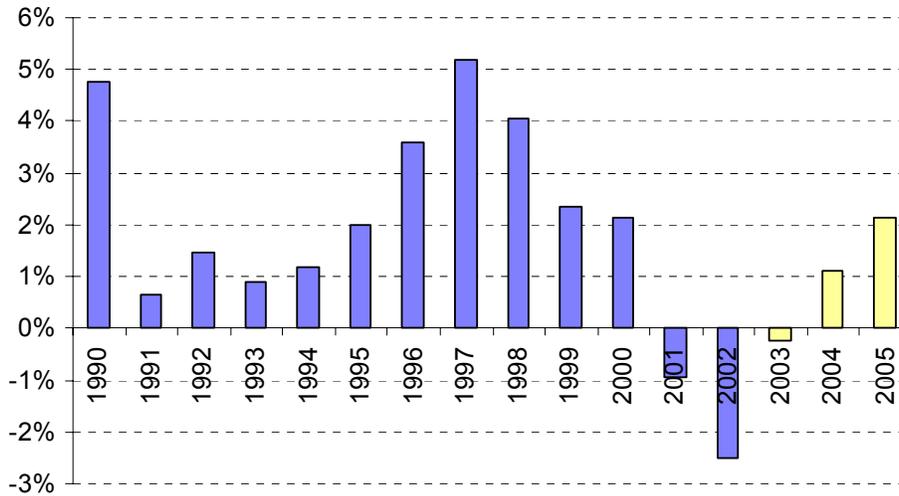


The region will recover slowly from the current downturn. In July 2003, the region's two largest private sector employers announced their plans for future employment. Boeing announced that it would cut 4,000 to 5,000 additional jobs in its Commercial Airplane division by the end of the year. The majority of those cuts will occur in the Puget Sound region. Microsoft announced that it would hire 4,000 to 5,000 new workers, half of them locally, during the next 12 months.

Because of the severity of the recession and ongoing job losses at Boeing, the region is expected to recover from the current recession at a very slow pace. According to forecasts from the Puget Sound Economic Forecaster, regional employment will remain relatively flat in the 2nd half of 2003, after hitting bottom in the 2nd quarter of the year. In 2004 employment is expected to begin growing at a modest pace, due largely to the expected improvement in the national economy. Employment is forecast to decline for the third consecutive year in 2003, by a modest 0.2%, then increase by 1.1% and 2.1%, respectively, in 2004 and 2005 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in 4th quarter 2000 until some time in early 2006.

General Subfund Revenue Overview

Figure 4. Annual Growth of Puget Sound Region Employment



Note: 2003-05 forecasts are from Puget Sound Economic Forecaster.

Consumer price inflation will remain subdued. The national recession and the heretofore weak recovery have helped to bring inflation down to the lowest levels since the early 1960s. In 2002, aided by a fall in energy prices, consumer price inflation fell to 1.3% nationally and 1.5% in the Puget Sound region (see Figure 5).² In 2003, a rise in energy prices pushed the national rate of inflation to 2.0%. However, the Seattle CPI-W moved in the opposite direction, falling to 0.9% in 2003. This discrepancy is due largely to housing costs (i.e., expenses for both renters and homeowners), which have continued to increase nationally, but dropped to near zero in the Seattle area in mid-2003. Factors restraining local housing costs include the severe local recession and low mortgage rates.

Inflation is forecast to remain low in 2004 due to low capacity utilization rates, sluggish job growth, and an anticipated decline in energy prices. Beyond 2004 inflation is forecast to rise slowly, as the economy improves. For the next few years, local inflation is expected to lag national inflation, due to the relative weakness of the local economy.

² These figures reflect the July-July growth rate of the U.S. CPI-W and the June-June growth rate of the Seattle CPI-W. Annual inflation rates differ slightly from these measures.

General Subfund Revenue Overview

Figure 5. Consumer Price Index Forecast

	U.S. CPI-W (July-July growth rate)	Seattle CPI-W (June-June growth rate)
2002 (actual)	1.3%	1.5%
2003 (actual)	2.0%	0.9%
2004	1.5%	1.3%
2005	2.0%	1.7%

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2005. These forecasts are for the CPI-W, which measures price increases for urban wage and clerical workers. The CPI-U measures prices for all urban consumers. Forecasts are made for the CPI-W because City of Seattle labor agreements are based upon the CPI-W. The forecasts of the U.S. CPI-W are for the growth rate from July of one year to July of the following year; the Seattle CPI-W forecasts are for June-June growth rates. These specific month-to-month growth rates are used as the bases for cost of living increases in City of Seattle wage agreements.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 shows General Subfund actual revenues for 2002, as well as the revised forecast for 2003 and the endorsed and proposed 2004 forecasts. As the figure shows, forecasts for 2004 have been reduced by a total of \$15.2 million. However, \$2.8 million of this reduction is a result of shifting street fee revenues (and corresponding expenses) from the General Subfund to the Transportation Fund. After adjusting for this fiscal-neutral change, forecasts for General Subfund revenues have been reduced by approximately \$12.7 million. The revised forecasts for 2003, after adjusting for timing issues on interfund transfers, are \$13.6 million lower than in the 2003 Adopted Budget.

Weak economy and volatile utility markets push forecasts down. The 2003 and 2004 forecasts were revised downward to reflect the prolonged softness in the local economy and weaker outlook for several sectors. Actual revenue from the retail sales tax, a good barometer of economic health, was down considerably in the first 5 months of 2003. Although nearly all industries experienced a slowdown in early 2003, auto sales, business services, and wholesale trade performed particularly poorly relative to forecast. The telephone industry has been in a declining mode since 2001 and its forecast was lowered significantly in 2002; however, the early receipts in 2003 warranted a further revision downward. Due to a deep drop in wholesale gas rates that was unforeseen, natural gas revenues posted a 45% year-over-year decline in first quarter 2003, prompting a substantial lowering of the forecast for both 2003 and 2004. The forecast for court fines and forfeitures was reduced to reflect a lower than anticipated number of citations written, a lag in court processing, and an accompanying lag in paying of fines.

Offsetting these downward revisions are increases in the use of fund balances in 2004 relative to the 2004 Endorsed Budget. Better-than-anticipated performances by the Key Tower Operating Subfund and the Judgment and Claims Subfund provided \$4.4 million more revenue. In addition, 2004 debt service savings due to lower interest expenses provided an additional \$3.1 million to the General Subfund.

General Subfund Revenue Overview

Property tax accounting adjustments add to forecast totals. Beginning with the Mayor's Proposed 2004 Budget, property tax revenue depicted in previous budgets as revenue to the Fireman's Pension Fund will be shown instead as revenue to the General Subfund. Offsetting this gain to General Subfund revenue is an increase in support to the Pension Fund by a like amount. The amounts shown for 2002 and 2003 in Figure 6 have been revised to reflect this change. Please see the Firemen's Pension section of this document under Public Safety for more detail and exact figures.

Figure 6. General Subfund Revenue, 2002 – 2004 ⁽¹⁾

Revenue Source	2002 Actual	2003 Adopted	2003 Revised	2004 Endorsed	2004 Proposed
General Property Tax	168,292,761	172,701,802	173,658,639	176,650,569	177,077,601
Property Tax - EMS Levy	18,516,980	19,015,000	19,046,000	19,395,000	19,427,000
Retail Sales Tax	115,334,274	117,907,000	113,772,411	121,416,000	117,387,520
Retail Sales Tax - Criminal Justice Levy	10,874,436	11,032,000	10,781,545	11,361,000	11,178,035
B&O Tax (90%)	113,442,248	109,382,000	114,500,664	113,878,000	112,591,938
Utilities Business Tax - Telephone (90%)	30,464,897	35,164,000	30,038,000	34,159,000	28,170,000
Utilities Business Tax - City Light (90%)	30,594,392	30,388,000	30,021,200	30,951,000	30,979,049
Utilities Business Tax - SWU & priv.garb. (90%)	7,509,790	8,157,251	7,552,578	8,353,000	7,633,740
Utilities Business Tax - City Water (90%)	7,077,704	8,231,000	7,975,030	9,150,000	8,570,666
Utilities Business Tax - DWU (90%)	12,741,699	13,839,800	13,256,529	15,043,000	14,313,073
Utilities Business Tax - Natural Gas (90%)	8,704,591	9,182,000	7,195,000	9,458,000	8,216,137
Utilities Business Tax - Other Private (90%)	8,559,922	9,179,000	8,871,000	9,621,000	9,330,000
Admission Tax	5,251,220	6,311,000	6,380,000	6,501,000	6,400,000
Other Tax	4,706,292	5,048,000	5,049,000	5,154,000	5,155,000
Total Taxes	542,071,206	555,537,853	548,097,596	571,090,569	556,429,759
Licenses and Permits	10,212,453	12,989,556	12,020,660	13,061,856	11,324,750
Parking Meters/Meter Hoods	10,674,005	12,612,800	11,744,800	13,712,939	13,703,800
Court Fines	14,178,091	19,775,750	16,245,000	20,082,750	16,441,000
Interest Income	3,053,278	3,592,000	1,851,000	4,002,000	1,899,000
Revenue from Other Public Entities	16,674,163	7,550,736	8,745,736	7,819,736	8,996,211
Service Charges & Reimbursements	41,134,246	38,708,860	38,580,251	39,521,009	37,755,627
All Else	1,724,481	910,619	797,910	937,086	892,110
Total: Revenue & Other Financing Sources	639,721,924	651,678,174	638,082,953	670,227,945	647,442,257
Unexpended Fund Balance, Interfund Transfers	11,303,894	9,748,633	5,248,633	3,697,634	11,299,421
Total, General Subfund	651,025,818	661,426,807	643,331,586	673,925,579	658,741,678

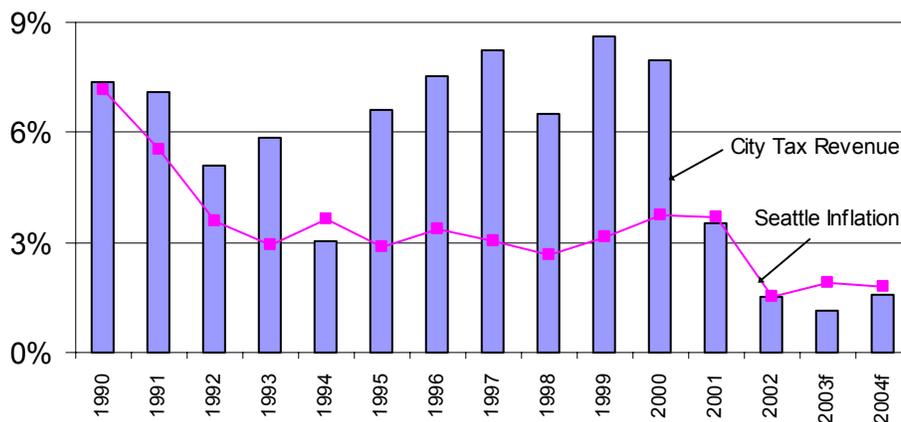
NOTE: A detailed listing of City General Subfund revenues is found in the appendix.

General Subfund Revenue Overview

(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.

Figure 7 shows the marked decrease in tax revenue growth since 2000. After many years of tax revenue growth out-pacing inflation, growth now hovers just below inflation. In fact, 2004 revenue forecasts for sales tax and telephone and natural gas utility taxes are less than the actual collections for those taxes in 2001. Slow growth is also attributable to Initiative 747 that reduced the statutory annual growth limit for property taxes from 6.0% to 1.0% beginning in 2002.

Figure 7. City of Seattle Tax Revenue Growth, 1990-2004



Property Tax

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

In 2003, the property tax rate for Seattle properties is about 1.03% of assessed value (which officially is expressed as \$10.30 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the fair market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$336,000 (the average assessed value for residences in Seattle), the 2003 tax obligation is approximately \$3,500.

As Figure 8 shows, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. In addition, the figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 70% 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.

General Subfund Revenue Overview

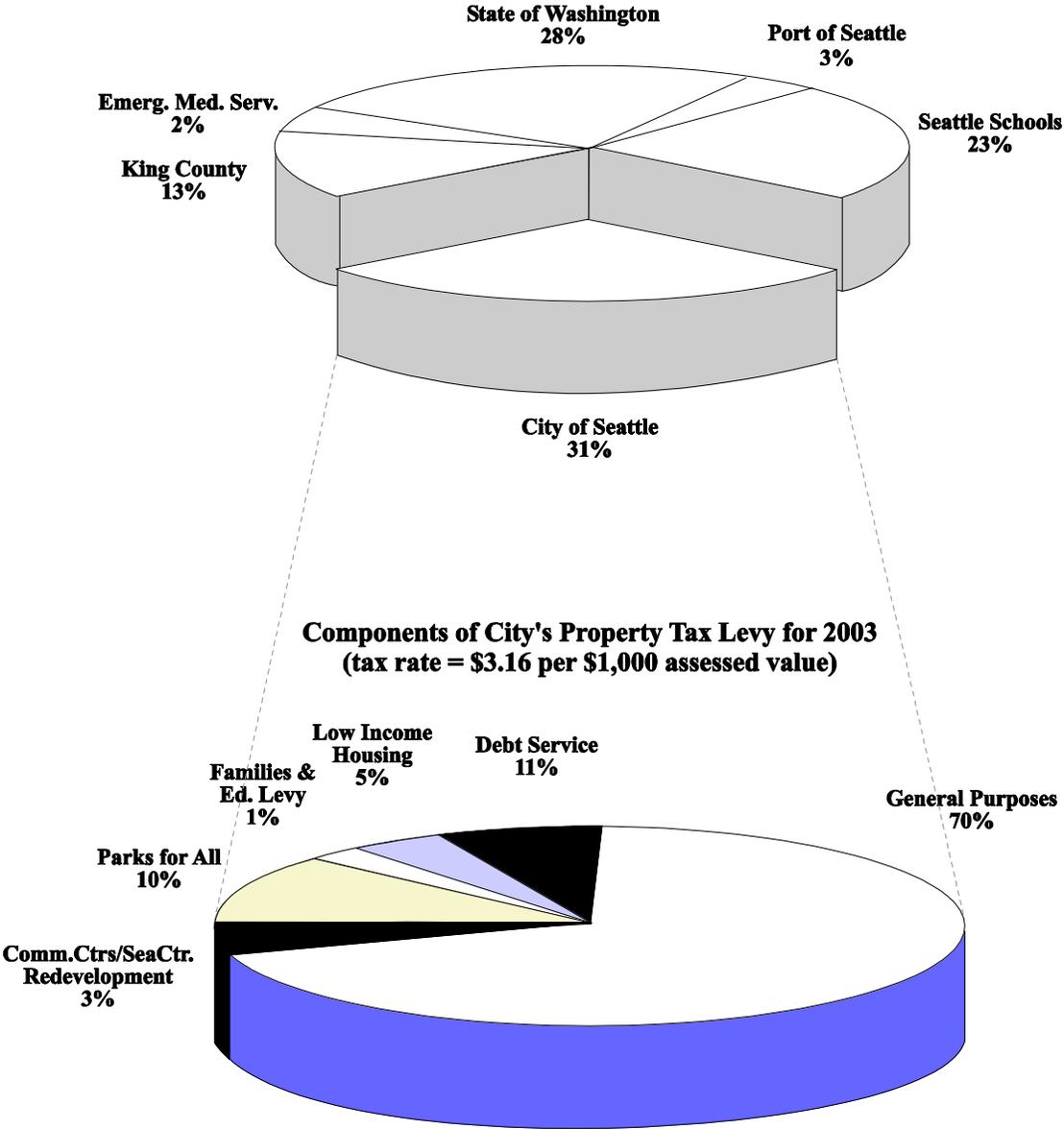
The 2004 Proposed Budget proposes a 1 % growth factor for both 2003 and 2004. The forecast for the General Subfund portion of the City's property tax is \$173.7 million in 2003 and \$177.1 million in 2004. The annual growth in property tax revenue is restricted by State statute. Since 1973, State law limited the annual growth of the City's General Subfund non-voted property tax levy to 6%. However, in November 2001, voters state-wide 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. Beginning in 1999, robust construction activity resulted in adding unusually high amounts of new construction revenue: \$2.5 million in 1999, \$2.9 million in 2000, \$3.7 million in 2001, and a record-setting \$5.2 million in 2002. Due to slowing construction activity, the forecast for new construction revenue assumes \$2.9 million in 2003 and \$2.3 million in 2004.

Beyond annual growth limits and additions through new construction, state law allows jurisdictions to recoup cash losses due to refunds granted the previous year. These refunds are the result of individuals successfully contesting and reducing the assessment on their property values for tax purposes. Since the 2003 Adopted budget, the forecast for property tax revenue in 2003 was increased by over \$900,000 to reflect the amount added due to the "refund levy." The forecast for 2004 revenue was increased by \$400,000 to reflect revised estimates for the refund levy and new construction revenue.

General Subfund Revenue Overview

Figure 8
Components of Total Property Tax Levy for 2003
 (tax rate = \$10.30 per \$1,000 assessed value)



General Subfund Revenue Overview

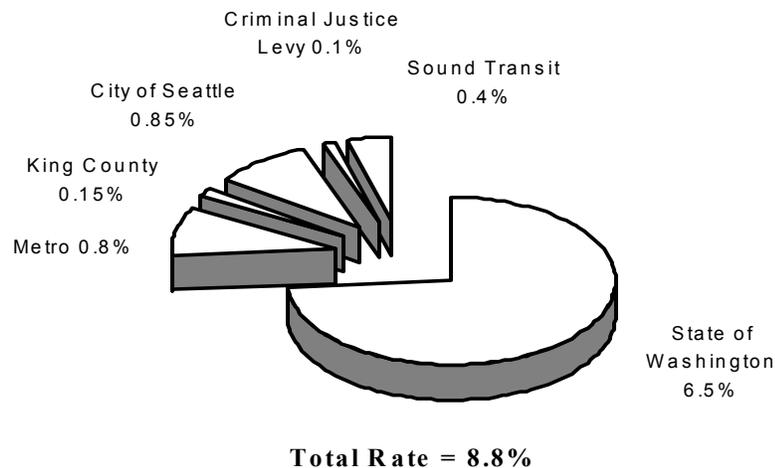
Retail Sales and Use Taxes

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses 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 a King County vote 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, 2003



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

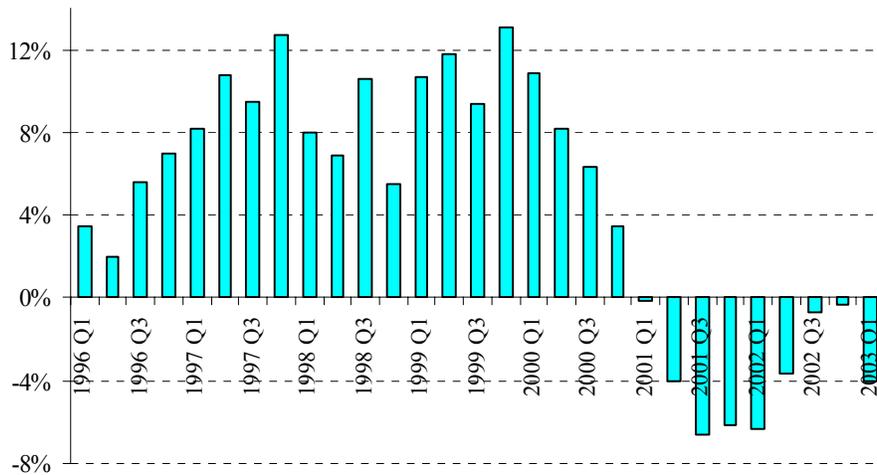
Sales tax revenue has grown and contracted with the region's economy. The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 10, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy that was led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peak. Growth began to slow in 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 2nd quarter 2001. Conditions improved in the second half of 2002, with year-over-year growth rising to -0.3% in the 4th quarter. However, taxable sales growth turned down again in 1st quarter 2003, when sales fell

General Subfund Revenue Overview

4.0% below the level attained in 1st quarter 2002. The falloff was led by a sharp downturn in construction activity.

Reflecting the severity of the local recession, City of Seattle taxable retail sales have declined by 11.5% from their pre-recession peak in 3rd quarter 2000.³ When the data are adjusted to remove the effects of inflation, the peak-to-trough drop in taxable sales during the current economic downturn increases to -17.3%.

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

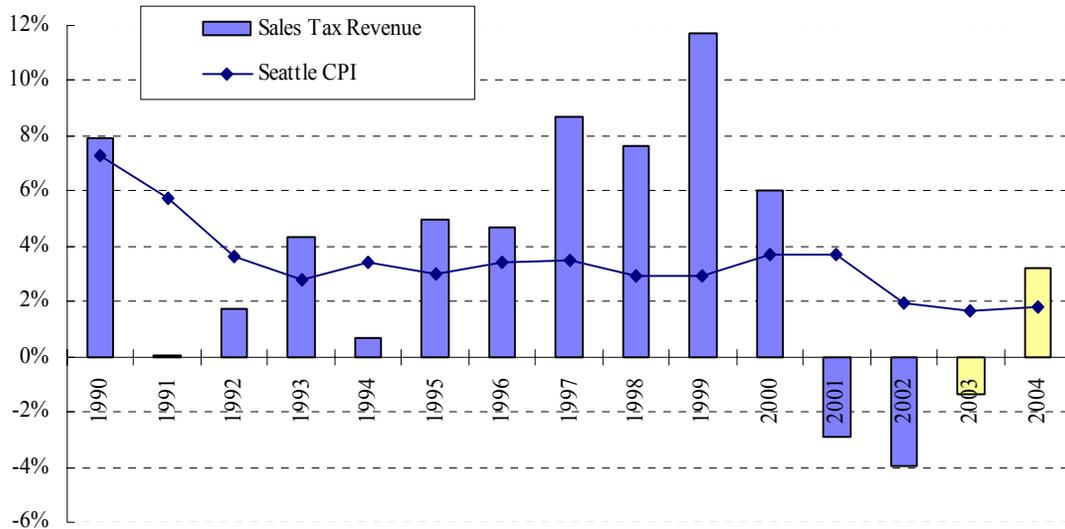


Retail sales tax revenue is forecast to post a third year of decline in 2003. Retail sales tax revenue is forecast to decline for a third consecutive year in 2003 (see Figure 11). Revenue in 2003 is expected to fall \$1.6 million below 2002 levels, a decline of 1.4%. Growth is expected to turn positive in 2004, with a gain of 3.2% forecast for the year. The 2004 revenue forecast is boosted by an anticipated upswing in Sound Transit construction activity in 2004.

³ 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. 2003-04 are forecasts.

Business and Occupation Tax

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

The City levies the B&O tax at different rates on different types of businesses, as indicated in Figure 13 at the end of this section. For example, retail trade 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.

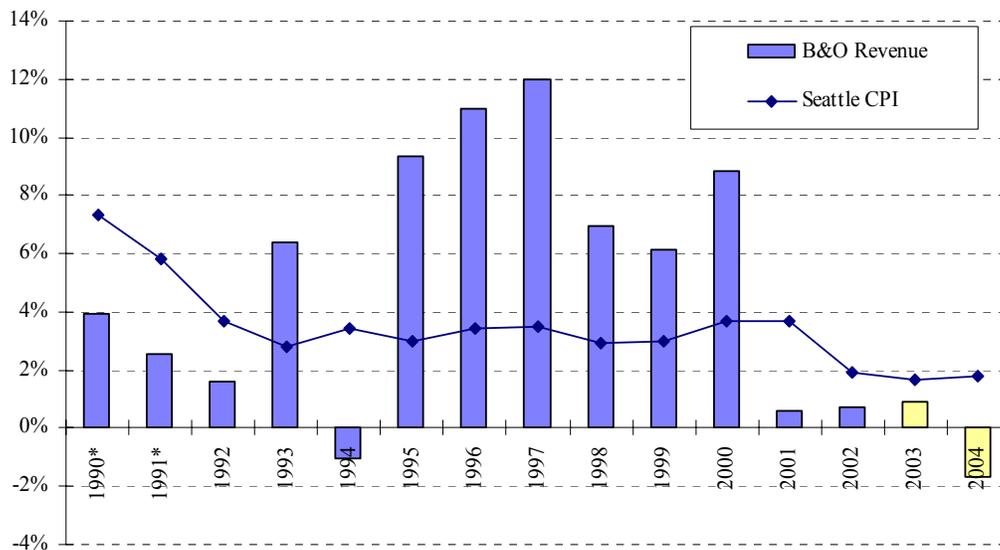
Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and 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, increasing by 7.0% in 1998, 6.1% in 1999, and 8.9% in 2000. Growth in 2000 was boosted by changes in the way that 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. Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was more than offset by a large increase in revenue from audit activity, yielding an overall gain of 0.6% in B&O receipts in 2001. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base was offset by a large increase in revenue from audit activity, resulting in a small positive increase of 0.8% for the year.

Figure 12. Annual Growth of B&O Tax Revenue



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

Note: Revenue figures reflect current accrual methods. 2003-04 are forecasts

B&O revenue is forecast to increase slightly in 2003, then decline in 2004. The forecast for B&O revenue anticipates a modest increase of 0.9% in 2003, followed by a decline of 1.7% in 2004 (see Figure 12). This pattern, which is not consistent with either the regional economic forecast or the sales tax revenue forecast, reflects the influence of audit activity and state legislation on B&O receipts. In 2003, B&O revenue is forecast to increase by 0.9%, due to an increase in the tax base of 1.3% and a small drop in audit related revenue relative to 2002 levels.

For 2004, when the region's economy is expected to begin growing again, the B&O tax base is forecast to increase by a healthy 3.2%. However, this gain is expected to be more than offset by an anticipated decline in revenue from audit activity and a revenue loss resulting from Washington state intellectual property legislation that takes effect in 2004. Revenue from audit activity is forecast to return to long-term trend levels in 2004, after

General Subfund Revenue Overview

3 years of exceptionally high receipts. In addition, intellectual property legislation is expected to reduce B&O receipts by \$900,000 in 2004. As a result, B&O revenue is expected to decline by 1.7% in 2004.

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 downward. 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. In 2003, several factors that were not anticipated in the last budget combined to turn revenues sharply downward. First, there was a deep drop in natural gas rates that lowered first quarter 2003 revenues; second, mild weather conditions reduced residential demand; and third, the weak economy dampened commercial and industrial demand. As a result, 2003 and 2004 forecasts were reduced by \$2.0 and \$1.2 million, respectively.

Telephone utility tax forecast is revised downward. The utility business tax, which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate \$30.0 million in 2003, and \$28.1 million in 2004. After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in 4th quarter 2002. The lackluster economy continues to harm telecom revenues amid restructuring in the industry as carriers shift positions in providing service to the end-user and heightened competition force prices downward. The wireless industry continued to show positive returns through 2002 then began dropping in 2003. The forecast was revised to account for this sector's sudden shift in performance and the longer standing weakness in local service and long distance. Compared to the forecasts in the previous budget document, 2003 and 2004 revenues were reduced by \$5.1 million and \$6.0 million, respectively.

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

It is estimated that cable revenues will experience strong growth in 2003 and 2004. The cable industry in Seattle has increased its services in terms of additional channels, pay-per-view options, and digital reception. Additionally, monthly rates have increased for basic cable and premium channels and are expected to increase for basic service.

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

General Subfund Revenue Overview

(tax rates are shown in Figure 14). Revenue from public utility taxes is determined by the quantity of utility services consumed and the rates charged for those services.

General Subfund revenue from public utility taxes is forecast to increase by 1.6% in 2003 and 4.7% in 2004. The modest growth in 2003 is due largely to the impact of the region's recession, which has caused a significant slowing in the consumption of public utility services. Also reflected in the forecast are significant rate increases for water, drainage, and wastewater. Revenue from these rate increases will be used to replace and rehabilitate aging infrastructure, improve water and storm water quality, and enhance flood and landslide protection. For information on utility service consumption trends and utility rates refer to the sections on Seattle City Light and Seattle Public Utilities.

Admission Tax

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

Redirecting revenues to the General Subfund. In November 2000, the City Council passed Ordinance #120183 that dedicated 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. The projections for 2003 and 2004 reflect the suspension of dedicating this portion of the Admission tax (approximately \$960,000 in 2003 and \$990,000 in 2004) to the Office of Arts and Cultural Affairs and redirecting this revenue to the General Subfund.

Licenses and Permits

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

City departments periodically review fees and permit charges to assess revenue recovery relative to the cost of providing the administrative and regulatory service, and to determine whether services should be paid for by the recipients of the service via fees or by all tax payers via general tax revenues. As part of the 2003 Proposed Budget, the Executive proposed approximately \$3.8 million in additional (non-parking fine) General Subfund fees and charges for 2003, and \$3.9 million for 2004. These revenues represented new fees, or increases to existing fees, in the following areas: street use and parking (Department of Transportation); hazardous material storage, building inspections, and other fire hazard-related permits (Fire Department); and business and professional license fees, including a surcharge on the City's business license fee (Department of Executive Administration).

The Council approved these increases, and in some cases adjusted the fees or revenues further. For example, Council increased the proposed fees for commercial vehicle load zone permits and a variety of service meter hoods; and adjusted revenues for commercial parking license fees, adult entertainer and manager fees, and panoram location and device fees. Council also increased fines for false alarm responses, fee amounts for pet licenses and other animal control related services, and called for adding 1,600 parking meters in the City. In total

General Subfund Revenue Overview

the Council added \$1.6 million in non-parking fine General Subfund fee and charges revenues in 2003 and \$2.7 million in 2004.

Actual collection experience across these fees and fines has varied. In most cases, collections are consistent with forecasts and no changes were made to original forecasts. Notable exceptions to this are fire system plan review and construction inspections (Fire Department), and meter hood services and vehicle overload permits (Department of Transportation).

As part of the 2004 Proposed Budget the Executive is proposing to add new security and fire alarm system license fees. Each year the City's Police and Fire Departments respond to thousands of calls generated by mechanical alarm system devices. In the case of Police dispatches, consistently since 1997 greater than 97 percent of these are false alarms. The proposed fees are intended to recover the costs originating from this unique source. The revenues associated with these fees are estimated at \$1.2 million for security alarm system license fees and \$400,000 for fire alarm system license fees.

The 2004 Proposed Budget incorporates the Executive's Right-of-Way Management Initiative. As part of this Initiative, the majority of street use fees are increasing by roughly 30% and will be deposited in the Transportation Operating Fund rather than the General Subfund. As a result, the forecasts for General Subfund revenue from street use fees have been reduced by \$2.8 million. In addition, the General Subfund annual transfer to the Transportation Operating Fund is reduced by an equal amount, leaving the General Subfund in a fiscally neutral position relative to the 2004 Endorsed Budget. Please see the Seattle Transportation section for more information about the Initiative.

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. Inherent in the 2003 Adopted Budget was a plan to increase the number of parking meters in the City by 1,600, increasing revenues by \$653,000 in 2003 and \$1.7 million in 2004.

The 2004 Proposed Budget proposes 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 that offer the public a more convenient array of payment options to pay for hourly street parking, including credit cards and debit cards. Considering implementation time and changes to hourly rates (from \$1.00 currently to \$1.50), the new plan for parking meters will result in approximately \$600,000 less in revenue in 2003 and an increase of approximately \$280,000 in 2004. More information about pay station technology proposal 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 over the last few years.

Parking revenue estimates decrease. The forecasts for these revenues in the 2003 Adopted Budget included an increase for parking ticket revenue of approximately \$4.6 million in 2003 and \$4.9 million in 2004 from the existing 2002 estimate of \$11.0 million. These changes were based on two factors: increased enforcement from a

General Subfund Revenue Overview

fully staffed Parking Enforcement Unit and increases in parking fines of \$10 per ticket. Recent experience indicates that there are fewer than expected tickets issued by the Police Department and fewer yet processed by Municipal Court. As a result of these trends, the forecasts for parking tickets have been reduced to \$12.8 million in 2003 and \$13.3 million in 2004.

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 2003 Adopted Budget assumed that cash balances would decline marginally over the duration of the biennium, but that interest rates and the City's overall yield would increase slightly from their 2002 levels. These assumptions resulted in forecasts of \$3.6 million in 2003, and \$4.0 million in 2004. 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 \$1.9 million annually, down from \$3.1 million in 2002.

Revenue from Other Public Entities

Seattle Shares Revenues with Washington State. 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. Although significantly reduced since the loss in 2000 of the Motor Vehicle Excise Tax, the City continues to receive separate criminal justice assistance distributions, originating from the State's General Fund, as provided for under the previously approved Referendum 49. These revenues are allocated on the basis of population and crime rates relative to state-wide averages. The City should receive approximately \$2.0 million in each of 2003 and 2004.

Liquor Board profits and Excise Tax revenue. Seattle's share of 2002 Liquor Board profits was \$3.1 million, 1.5 percent above forecast. The City's share is expected to remain largely unchanged at just below \$3.1 million in both 2003 and 2004. Estimated Liquor Excise Tax revenues for 2003 (\$2.0 million) and 2004 (\$2.1 million) also remain largely unchanged from previous forecast and stable around 2002's actual share of \$2.0 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.

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Service Charges and Reimbursements

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution that directs the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments that are not supported by the General Subfund. The intent of this allocation is to build the costs of necessary general government services into the budgets of departments supported by revenues that are largely self-determined. 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 \$395,000 in 2003 and \$1.8 million in 2004. Allocations in 2003 are reduced to reflect lower central services expenditures due to budget reductions. In 2004, allocations on behalf of services to the Department of Executive Administration (DEA) will be approximately \$1.9 million less than in the 2004 Endorsed Budget. The majority of this reduction is the result of transferring the City's warehousing function from DEA to the Fleets and Facilities Department (FFD). City Departments will continue to pay fees for warehousing services, but revenue from these fees along with the appropriation authority for warehousing expenses will be within the budget of the FFD.

Interfund Transfers

Interfund transfers reflect payments from department-specific and capital project funds to the General Subfund. The 2004 Proposed Budget shows a reduction in transfers by \$4.5 million in 2003 and an increase of \$7.6 million in 2004 relative to the 2003 Adopted Budget. The reduction in 2003 merely reflects a shift in the timing of a transfer from the Cumulative Reserve Subfund to December 2002 from 2003 as was anticipated. There is no net effect on the General Subfund balance as a result of this shift.

For 2004, an additional \$2.4 million of fund balance from the Key Tower Operating Subfund will be transferred to the General Subfund. Additional resources are available to the General Subfund due to better than anticipated operating results at Key Tower. Using these resources for the General Subfund still leaves a prudent operating reserve for Key Tower. In addition, the 2004 Proposed Budget transfers \$2 million in balances from the Judgment/Claims Subfund to the General Subfund. These resources are available due to fewer than anticipated claims in 2003.

Finally, the 2004 Proposed Budget transfers \$3.1 million in excess balances from various capital funds to the General Subfund. The excess balances are a result of significant savings on debt service costs due to lower than anticipated interest rates. These are permanent, ongoing savings that will be shown as cost savings to the General Subfund (instead of interfund transfers) beginning with the 2005 Proposed Budget.

A detailed list of these transfers is included in the General Subfund revenue table found in the Appendix. In ratifying the 2004 Proposed 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.

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Figure 13. Seattle City Tax Rates

	2001	2002	2003
Property Taxes (Dollars per \$1,000 of Assessed Value)			
General Property Tax	\$2.483	\$2.269	\$2.204
Families & Education	0.154	0.133	0.038
Seattle Center RDV/Parks Comm. Ctr.-SC	0.181	0.109	0.000
Seattle Center RDV/Parks Comms. Ctr.-Parks	0.072	0.104	0.100
Parks for All Levy	0.353	0.316	0.307
Low Income Housing Levy	0.013	0.011	0.047
Emergency Medical Services	0.246	0.250	0.241
Low Income Housing (Special Levy)	0.117	0.102	0.110
City Excess GO Bond	0.317	0.278	0.356
Retail Sales and Use Tax	0.85%	0.85%	0.85%
Business and Occupation Tax			
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%
City of Seattle Public Utility Business Taxes			
City Light	6%	6%	6%
City Water	10%	10%	10%
City DWU	10%	10%	10%
City Solid Waste	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates			
Cable Communications (not franchise fee)	10%	10%	10%
Telephone	6%	6%	6%
Natural Gas	6%	6%	6%
Steam	6%	6%	6%
Commercial Solid Waste	10%	10%	10%
Franchise Fees			
Cable Franchise Fee	2.5%	2.5%	2.5%
Admission and Gambling Taxes			
Admissions tax	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%
Bingo (less prizes)	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%