

# **The City of Seattle** **Washington**

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## **Popular Annual Financial Report December 31, 2004**

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# **2004 Popular Annual Financial Report**

## **City of Seattle**

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## Executive Summary

This report provides an overview of the financial picture of the City of Seattle for the two-year period 2002 to 2004. The information in it should be useful to anyone interested in a quick snapshot of the City's finances, such as Seattle residents, elected officials and other decisionmakers, and jurisdictions gathering comparative data. Please refer to the 2004 Comprehensive Annual Financial Report (CAFR) for more detailed municipal financial information. The CAFR is available on the City of Seattle Web site.

Following strong economic growth in the late 1990s, a national recession began in early 2001 with a sharp decline in investment in high technology products and services. After the September 11, 2001, terrorist attacks, travel-related business joined in the downturn. While a national recovery began in 2002, the Puget Sound region continued to suffer due to its specialization in both high-tech and travel-related businesses. The local economy hit bottom in mid-2003, which was followed by modest expansion in late 2003 and 2004.

In addition to the economic conditions, voter-approved property tax limitation measures also had a negative impact on revenue. Starting in 2002, voter approval of Initiative 747 limited annual property tax increases to 1 % rather than the former limit of 6%, sharply reducing tax revenue increases. In 2003 Seattle voters approved additional property taxes to finance the building and renovation of fire stations. Collection for the \$167 million fire levy began in 2004 and will continue until 2012. Real Estate Excise Tax revenues increased sharply over the three-year period from 2002 to 2004 due to robust activity in new home construction and a strong market for home sales. Voter approval in 2002 of Initiative 776, reducing vehicle license fees, limited revenue available for transportation projects. The City's general government revenue growth was less than inflation in 2003, but exceeded inflation in 2004.

In a significant decision for the City of Seattle, the State Supreme Court ruled the City's practice of having the Light Fund pay for streetlights unconstitutional. In late 2003, the City began to pay for this expense from the General Fund. The 2004 Adopted Budget was amended in March 2004 to provide for across-the-board expenditure cuts for general government departments; the funding was then used for streetlight operational costs.

One indication of the financial health of the City of Seattle is the fact that the City continues to receive an AAA/AA+/Aa1 debt rating on its voter-approved general obligation debt from three rating agencies: Standard & Poor's, Fitch Ratings, and Moody's Investors Service. Fewer than a dozen other large cities in the United States have this highest rating.

The table on the next page provides an outline of the format and highlights of this report.

**Table 1. Format and Highlights of Report**

<b>Page</b>	<b>Topic</b>	<b>Highlights</b>
Page 3	Fund Structure of Seattle	Seattle uses three broad fund categories, with several fund types and subfunds within each category, to manage and account for the City's finances. These three fund categories are Governmental, Proprietary, and Fiduciary Funds.
Pages 4-5	2004 General Government Revenue	General government revenue in 2004 totaled \$998.2 million. A rough measure of the annual per capita contribution (direct and indirect) to Seattle general government costs in 2004 is \$1,554.
Pages 6-7	2002-2004 General Government Revenue	General government revenue increased by less than inflation in 2003 and more than inflation in 2004. Most of the increase comes from property taxes, licenses and fees, and charges for City services.
Page 8	2004 General Government Expenditures	General government expenditures in 2004 totaled \$989.7 million. About a third of this amount went toward public safety costs.
Page 9	2002-2004 General Government Expenditures	General Government expenditures lagged behind inflation in 2003 and 2004. Most of the increase was in transportation, public safety, and general government (although this last category only increased due to an accounting shift). The increases were offset by decreases in spending on the economic environment, health and human services, and capital outlay.
Page 10	2004 General Government Revenue, Expenditures, and Fund Balance	2004 revenue in the General Fund, the Special Revenue Funds, and the Debt Service Funds was more than expenditures, resulting in an overall \$15.3 million increase to these fund balances.
Page 11	2002-2004 City Utility Revenue	Utility revenue increased over the past years' revenue by a rate greater than inflation in both 2003 and 2004.
Page 12	2002-2004 City Utility Expenses	Utility expenses increased over the past year's expenses by a rate greater than inflation in both 2003 and 2004.
Page 13	2004 Income Statement and Debt Service Coverage for City Utilities	Drainage and Wastewater took a \$5 million loss in 2004. The other City utilities generated positive net income. Each utility exceeded its legal requirement for debt service coverage.
Pages 14-15	2002-2004 General Long-Term Debt Outstanding and Debt Capacity	General long-term debt outstanding decreased from \$1.070 billion in 2002 to \$1.002 billion in 2004. Much of the debt issued in the recent past has come with its own new revenue sources, or has allowed the City to avoid future increases in operating costs.

## Section 1. Fund Structure of the City of Seattle

The City maintains a variety of funds and subfunds to account for various 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. Each of the City's funds and subfunds falls into one of three broad fund categories – Governmental Funds, Proprietary Funds, and Fiduciary Funds. Each of these categories of funds is discussed below.

The Governmental Funds category includes the four fund types that provide the financing for all of the City's basic services. These four fund types are the General Fund, the Special Revenue Funds, the Debt Service Funds, and the Capital Projects Funds.

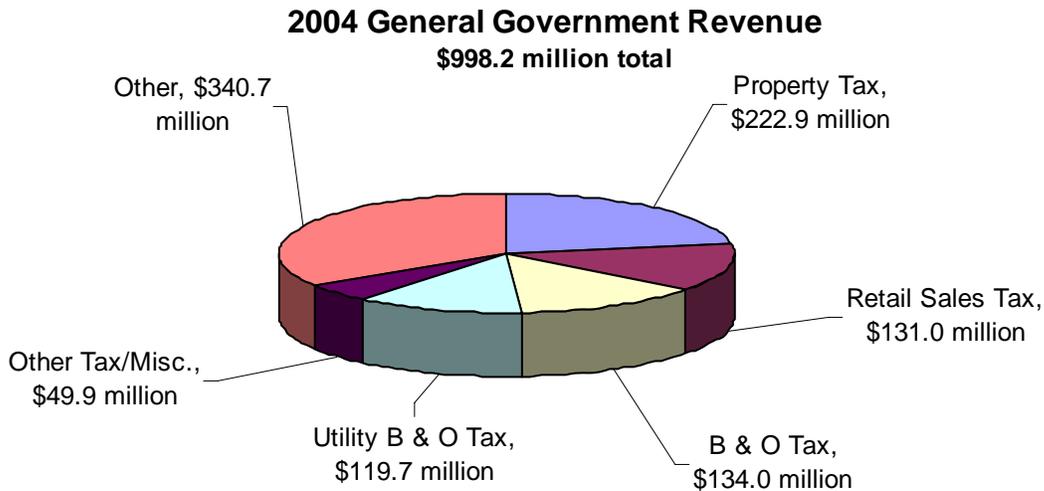
- The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund. It derives the majority of its revenues from property, sales, business, and utility taxes.
- Special Revenue Funds account for certain revenues, such as specific taxes and grants, that are legally restricted to spending for specified purposes. Financing of many of the City's basic services is accounted for in Special Revenue Funds. For example, parks operations, transportation maintenance and improvements, the City's libraries, and the Seattle Center all have their own Special Revenue Funds.
- Debt Service Funds account for the accumulation of resources to pay principal, interest, and related costs. Most of the activity in these funds occurs in the General Bond Interest and Redemption Fund, which receives money from excess property tax levies to pay debt service on voter-approved general obligation bonds, and receives money from the General Fund and other funds to pay debt service on councilmanic limited tax general obligation bonds.
- Capital Projects Funds account for financial resources which are designated for the acquisition or construction of general government capital improvements. Examples of Capital Project Funds include the Seattle Center Redevelopment/Parks Community Center Fund, the Transportation Bond Fund, and the Open Space and Trails Fund. For the funds whose projects are financed with City debt, the debt proceeds are deposited in and spent from these funds, and the debt service is paid from the Debt Service Funds.

The Proprietary Funds category includes two fund types – the Enterprise Funds and the Internal Service Funds.

- Revenues and expenditures of each of the City's four rate-funded utilities (Light, Water, Drainage and Wastewater, and Solid Waste) flow through an Enterprise Fund. Each utility is financed and operated as a businesslike enterprise, which requires periodic determination of revenues earned, expenses incurred, and net income. The Planning and Development Fund tracks activity related to enforcing the City's land use and construction codes. Another enterprise fund accounts for the City-owned Downtown Parking Garage.
- Internal Service Funds account for operations that provide goods or services to other City departments or other governments on a cost-reimbursement basis. The City has three Internal Service Funds. The Fleets and Facilities Fund accounts for services related to vehicle purchases, motor pool maintenance, facility operations, and real estate management, provided by the Fleets and Facilities Department. The Information Technology Fund accounts for support services furnished by the Department of Information Technology, which manages Citywide telecommunications, data communications, telephone, radio and fiber optic networks, as well as Citywide application infrastructure. The Engineering Services Fund accounts for the design, construction, and management services performed for various capital improvement projects.

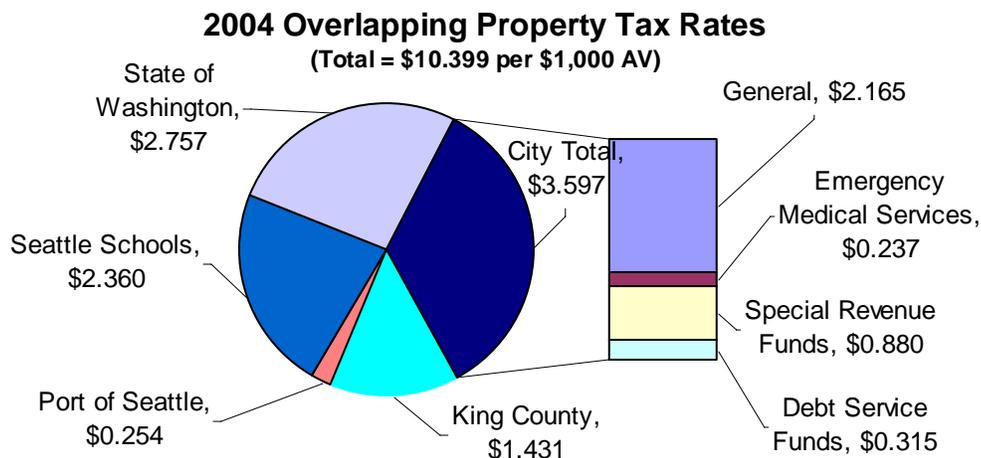
Finally, the Fiduciary Funds category consists of trust and agency funds. Trust funds, including pension, expendable, and nonexpendable trusts, account for resources held by the City which must be spent as provided in legal trust agreements and related state laws (for example, retirement and pension funds). Agency funds account for assets held for other funds, governments, or private individuals.

## Section 2. 2004 General Government Revenue

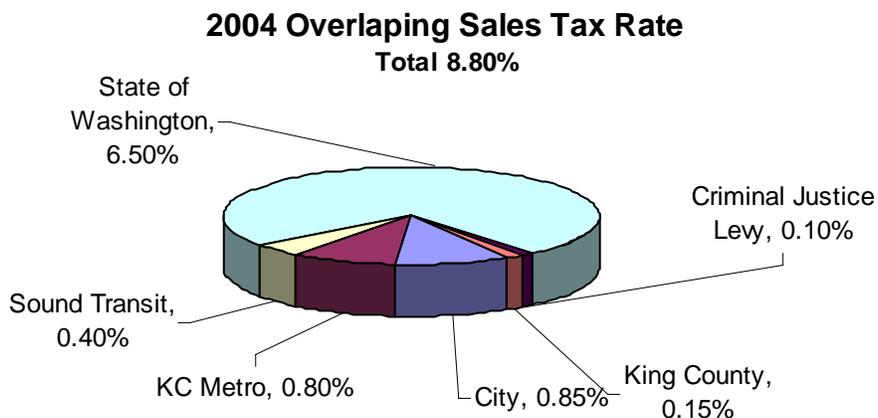


The City's general government revenue in 2004 totaled \$998.2 million. This included revenue to the City's General Fund, Special Revenue Funds, and Debt Service Funds. Revenue was composed of the following elements:

- Property tax accounted for \$222.9 million of 2004 general government revenue, or 22% of the total. City collections included revenue from:
  - Seattle's 2004 regular levy rate of \$2.402 per \$1,000 of assessed value (AV), whose two components were a general levy rate of \$2.165 and an Emergency Medical Services rate of \$0.237;
  - a 2004 rate for excess levies approved by Seattle voters of \$0.315 (for debt service on long-term bonds issued in the 1960s to fund fire stations and sewer improvements; and for the Libraries for All project authorized by the voters in November 1998); and
  - a 2004 rate for levy lid lifts of \$0.880 approved by Seattle voters for the Families and Education Levy and the Low Income Housing Levies (each deposited into Special Revenue Funds), and the Seattle Center Redevelopment/Parks Community Center Levy, as well as the Parks for All Levy (both deposited into a Capital Projects Fund, and therefore not included in the general government revenue figure listed above).
- The City's 2004 property tax rate totaled \$3.597 per \$1,000 AV. For a \$347,000 home (the 2004 Seattle average residential AV), this translated into a tax burden of approximately \$1,248 in 2004. As shown in the figure below, Seattle's \$3.597 tax rate is about a third of the total \$10.399 combined property tax rate of all the tax districts that overlap the City. The revenue from the remaining rate goes to King County, the State (for distribution to public schools), the Port of Seattle, and the Seattle School District.



- Sales tax generated \$131.0 million in 2004 Seattle general government revenue, or 13% of the total. The overall sales tax rate in Seattle is 8.8% (9.3% for restaurant and bar sales). As shown in the figure below, Seattle's share of this rate is 0.85%. Revenue from the remaining rate goes to the State (6.5%), King County Metro Transit (0.8%), King County (0.15%), Sound Transit (0.4%), and the King County Criminal Justice Levy (0.1%). Seattle gets its share of the revenues from the King County Criminal Justice Levy based on population.

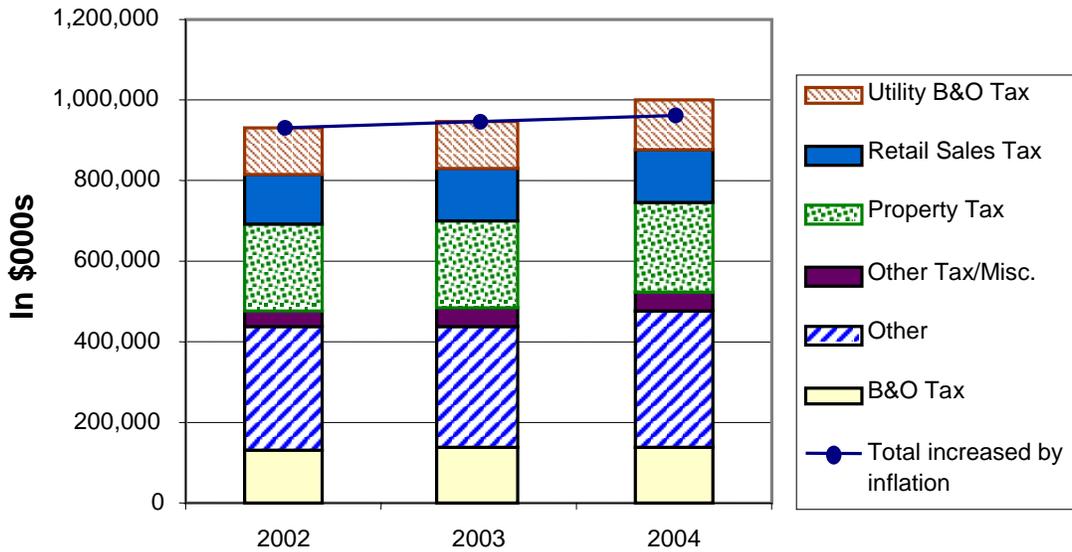


- Seattle's Business and Occupation (B&O) tax generated \$134.0 million in 2004 general government revenue, or 13% of the total. The City levies the B&O tax on the gross receipts of most business activities occurring in Seattle. The B&O tax rate is 0.415% for services and 0.215% for most other economic activities except for grain wholesaling and flour manufacturing, which are taxed at 0.0215%.
- The utility B&O tax generated \$119.7 million in 2004 general government revenue, or 12% of the total. The City levies a 6% tax rate on City Light's gross receipts and a 10% rate on the receipts of the other rate-funded public utilities (Water, Solid Waste, and Drainage and Wastewater). The utility B&O tax rate on private utilities also ranges from 6% to 10%, with the 6% rate levied on telephone, natural gas, and steam gross receipts, and the 10% rate levied on cable communications and commercial refuse.
- Other taxes and miscellaneous charges generated \$49.9 million in 2004 general government revenue, or 5% of the total. Included in this category are the real estate excise tax, admission tax, leasehold excise tax, gambling tax, and boat excise tax.
- The remaining \$340.7 million, or 34% of total revenue, in the "Other" category includes the following:
  - ◆ \$19.0 million from licenses and permits, e.g., occupational licenses.
  - ◆ \$108.4 million from government and private grants, and shared revenues.
  - ◆ \$112.7 million from charges for services, including billings between City funds, and external billings for recreational program fees, charges for inspections, utility cuts, etc.
  - ◆ \$20.8 million from fines and forfeitures, primarily court fines and costs, and bail forfeitures.
  - ◆ \$79.8 million from other miscellaneous sources, e.g., interest earnings, space rent, and parking fees.

If, as simplifying assumptions, we assume that tax costs assessed to Seattle businesses are eventually passed along to Seattle residents and we assume that no non-City residents pay Seattle taxes, we can use the information above to develop a per capita statistic for the annual direct and indirect general government revenues received from Seattle residents. In 2004, Seattle's population was estimated to be 572,600. Dividing this figure into \$889.9 million (total general government revenue of \$998.2 million, minus \$108.4 million for grants and shared revenue) results in an annual per capita contribution (direct and indirect) to Seattle general government costs of \$1,554.

### Section 3. 2002-2004 General Government Revenue

#### General Government Revenue 2002-2004



Over the two-year period from 2002-2004, the increase in general government revenue lagged behind inflation in 2003 and exceeded inflation in 2004.

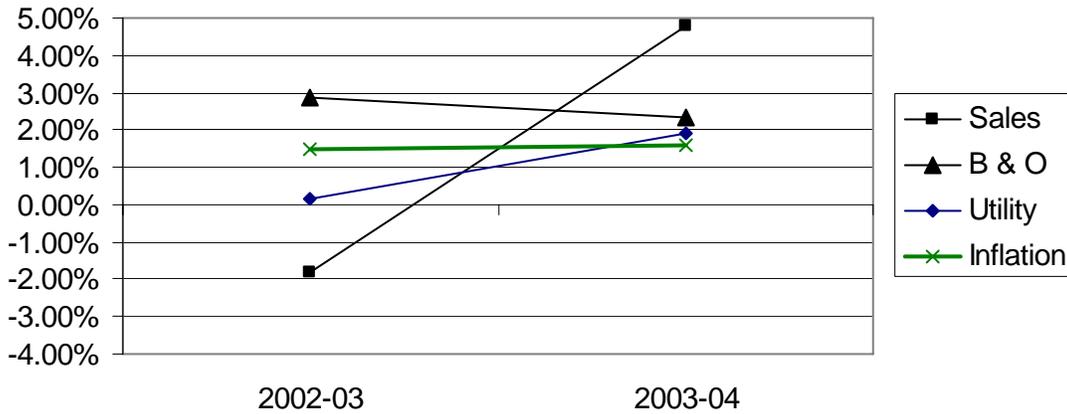
- 2004 property tax revenue to the General Fund, Special Revenue Funds, and Debt Service Funds was \$4.4 million higher than inflation-adjusted 2004 property tax revenue. During the two-year period, State law permitted regular property tax revenue to increase by up to 1% per year (plus taxes attributable to the value of property improvements and new construction). Initiative 747 established this limit statewide in 2002. Prior to this initiative, the City Council was able to authorize an increase of up to 6%. In addition, voters approved additional property taxes to finance the building and renovation of fire stations, which increased property tax revenues. This levy continues until 2012.
- The table below shows the City property tax rate (per \$1,000 AV) from the past three years. The City’s share of the County’s Emergency Medical Services (EMS) levy is included in the City rate. Fire Pension receives a percentage of the General Fund levy that is set by Council, however, beginning in 2004, Seattle does not have a separate levy rate for this purpose. City property tax revenue increased, even though City property tax rates stayed close to the same level, because assessed values upon which these rates were levied rose.

**Table 2. City Property Tax Rates (per \$1,000 Assessed Value)**

Year	General	EMS	Levy Lid Lifts	Excess Levies	Fire Pension	Total
2002	2.084	0.250	0.776	0.278	0.185	3.573
2003	2.009	0.241	0.600	0.356	0.195	3.401
2004	2.165	0.237	0.880	0.315	-	3.597

- The chart below shows the annual rates of growth of sales tax revenue, B&O tax revenue, utility tax revenue, and the general inflation rate. The impact of the recession is apparent, as 2003 sales tax revenue represented a decrease from the prior year's revenue. Sales tax revenue rebounded in 2004, evidence of a recovery. B&O revenue growth exceeded inflation each year over the two-year period. Utility tax revenue growth was modest over this period.

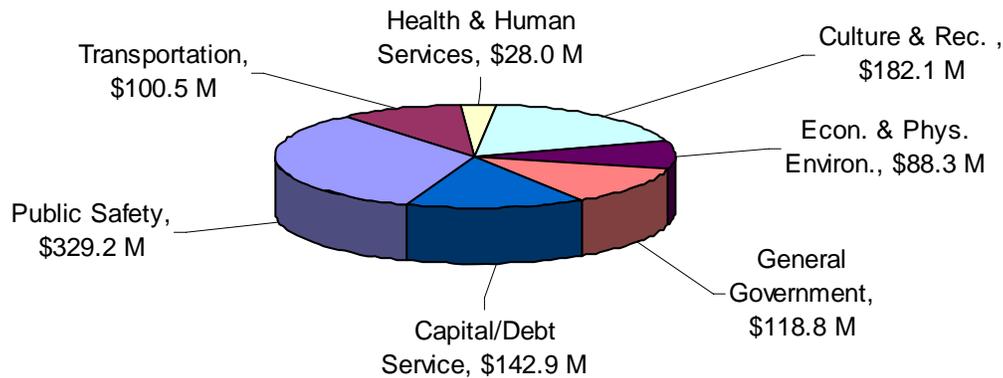
**Rates of Growth in Sales, B & O, and Utility Taxes**



- “Other Tax and Miscellaneous” revenue in 2004 was \$12.7 million greater than revenue adjusted for inflation from 2002 to 2004. Increases in the volume of real estate sales and the prices of real estate have resulted in a significant rise in the revenue from the real estate excise tax over this period. Sales in both residential housing and the downtown commercial markets in Seattle have been exceptionally strong since 2002. “Other” (non-tax) revenue in 2004 was \$17.2 million higher than inflation-adjusted 2002 revenue. This increase was a result of a sharp increase in revenue from grants and shared revenues, along with steady growth in revenue from charges for services and fines.

## Section 4. 2004 General Government Expenditures

### 2004 General Government Expenditures \$989.7 million total

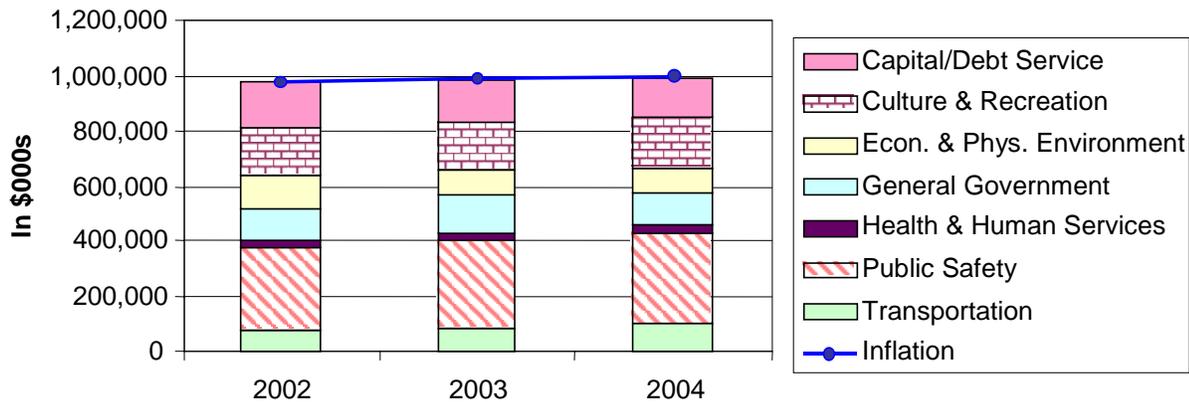


In 2004, government expenditures from the General Fund, Special Revenue Funds, and Debt Service Funds totaled \$989.7 million.

- 33%, or \$329.2 million, was spent on public safety. Expenditures in this category cover law enforcement, community policing and crime prevention, the municipal criminal justice system, fire protection and prevention, emergency medical services, hazardous materials control, and emergency management.
- 10%, or \$100.5 million, was spent on transportation, including the costs to maintain, repair, and upgrade the City's bridge and street systems; install and maintain traffic control signals, signs, and markings; and administer rideshare and related alternative transportation programs.
- 3%, or \$28.0 million, was spent on health and human services. This category includes the City's support and resources to community agencies that provide youth development, child care, Head Start, care for the elderly, food banks, and shelters. It also includes expenditures to promote the general health of City residents with an increasing focus on health promotion and disease prevention. Note that expenditures on low-income housing are no longer shown in this category, but are included under the economic and physical environment category.
- 18%, or \$182.1 million, was spent on culture and recreation, including the City's parks, libraries, Seattle Center, and the Seattle Aquarium.
- 9%, or \$88.3 million, was spent on the economic and physical environment. Economic environment activities include affordable housing and community development programs, employment development efforts, veterans' services, welfare, child-care services, aging and adult services, services for the disabled, and neighborhood development planning efforts. Physical environment activities include the City's animal shelter, anti-graffiti, and pollution control programs, as well as the expenditures of the Office of Sustainability & Environment.
- 12%, or \$118.8 million, was spent on general government. This category includes a variety of administrative functions necessary to develop City policies, direct the work force, manage the City's financial resources, and deliver services to customers.
- 14%, or \$142.9 million, was spent directly on capital expenditures and indirectly on capital purchases via debt service payments in support of the functions above.

## Section 5. 2002-2004 General Government Expenditures

### 2002-2004 General Government Expenditures



Overall, the increase in general government expenditures lagged behind inflation over the past two years. From 2003 to 2004, the total increase in expenditures was 0.5%, less than the general inflation rate of 1.6%.

- 2004 judicial and public safety expenditures were \$18.7 million higher than inflation-adjusted 2002 public safety expenditures. In 2003 and 2004, expenditures grew due to negotiated labor agreements, higher health care costs, and increased spending for claims and injury damages.
- Transportation operating expenditures were \$18.6 million above inflation at the end of the two-year period. The actual growth was uneven, with expenditures increasing sharply in 2004 as a result of the cost of installing pay stations to replace parking meters and operations costs for streetlights.
- 2004 health and human services expenditures were \$4.3 million above inflation-adjusted 2002 expenditures. After deep cuts at the beginning of the 2000s, expenditures have risen slowly as the City and County have worked together to control costs while providing needed services.
- Culture and recreation expenditures exceeded inflation by \$4.1 million in 2003 and 2004. Over this time period, several new community centers were opened and ongoing maintenance of existing facilities was improved with support from the Pro Parks Levy. The new central library opened. Operation of the Woodland Park Zoo was transferred to the Woodland Park Zoo Society, while the City incurred expenses related to the newly acquired Interbay Golf Course.
- 2004 economic and physical environment expenditures lagged behind inflation-adjusted 2002 expenditures by \$33.9 million. The expenditure decreases included budget cuts absorbed by the Human Services Department, Department of Neighborhoods, Office of Housing, and Office of Economic Development.
- General government expenditures exceeded inflation by \$821,000 in 2003 and 2004. General government spending rose due to a liability of \$23.9 million for a streetlight refund to electric utility ratepayers recorded pursuant to a preliminary court ruling. These expenditure increases were largely offset by decreases in judgments and claims payments and deep across-the-board expenditure cuts for most general government departments in 2003 that were sustained in 2004.
- Capital outlay and debt service expenditures in 2004 were \$10 million less than inflation-adjusted 2002 figures. See page 14 for a discussion of recent debt-financed capital expenditures.

## Section 6. 2004 General Government Revenue, Expenditures, and Fund Balance

The table below is a summary statement of 2004 revenue, expenditures, and fund balances for the General Fund, the Special Revenue Funds, and the Debt Service Funds. Overall, these fund balances increased by \$15.3 million in 2004.

**Table 3. 2004 General Government Revenue, Expenditures, and Fund Balances (in \$000s)**

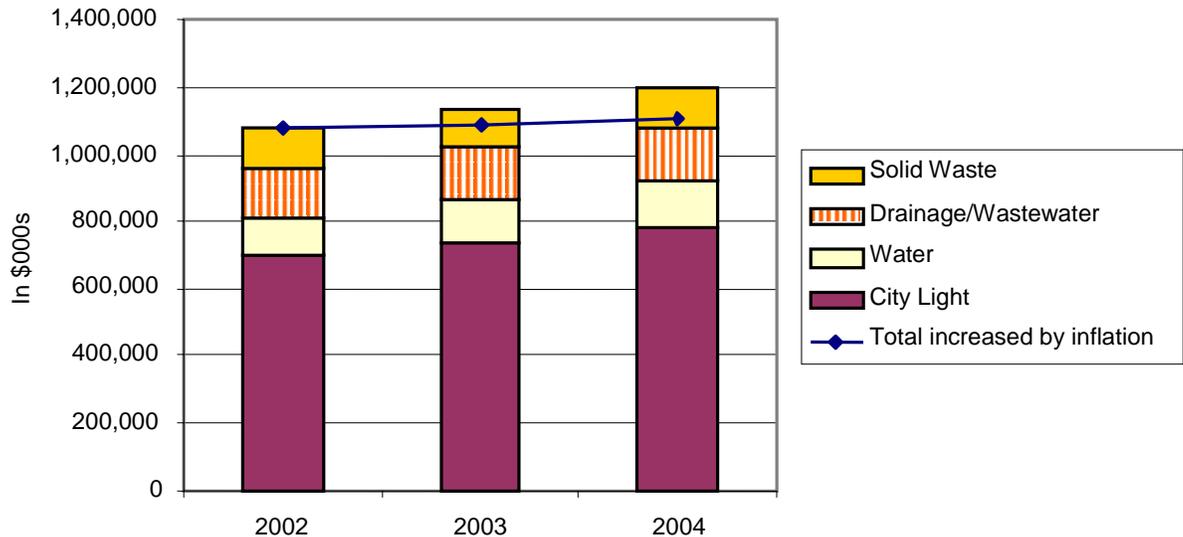
	General Fund	Special Revenue Funds	Debt Service Funds
<b>Revenue</b>			
Taxes	587,516	45,236	25,765
Other	143,074	188,192	8,429
<b>Total Revenue</b>	<b>730,590</b>	<b>233,428</b>	<b>34,194</b>
<b>Expenditures</b>			
Current	489,295	357,562	0
Capital outlay	19,931	26,451	0
Debt service	160	2,155	94,175
<b>Total Expenditures</b>	<b>509,386</b>	<b>386,168</b>	<b>94,175</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds of long-term debt/refinancing	0	0	3,294
Sales of capital assets	1,922	652	0
Net Operating transfers in (out)	(209,769)	152,084	58,652
Other	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(207,847)</b>	<b>152,736</b>	<b>61,946</b>
<b>Change to Fund Balances</b>	<b>13,358</b>	<b>(4)</b>	<b>1,965</b>
Beginning of Year Fund Balances	118,818	85,104	12,970
Adjustments	0	0	0
<b>Fund Balances – Year End</b>	<b>132,176</b>	<b>85,100</b>	<b>14,935</b>

Approximately 75% of the total 2004 General Fund year-end fund balance was held in three of the 16 General Fund Subfunds:

- The General Subfund of the General Fund handles most of the revenue and expenditures covering traditional general government activities. Its 2004 year-end fund balance was \$33.5 million, slightly less than half of which was reserved for funding of prior year commitments.
- The Cumulative Reserve Subfund of the General Fund is a reserve fund authorized under State law and is used to accumulate money until it is spent, primarily for maintenance and development of City capital facilities. Fund balance in this subfund at year-end 2004 totaled \$33.4 million, all of which was committed to funding ongoing, multi-year capital projects.
- The Emergency Subfund of the General Fund is the City's principal emergency reserve fund. This fund is available to pay for unanticipated expenditures, such as those associated with natural disasters, mandatory expenditures required by recent changes in laws, and other unanticipated expenses. City policy calls for the Emergency Subfund to be funded to the legal maximum at the beginning of each year. At year-end 2004, the Emergency Subfund fund balance was \$31.7 million.

## Section 7. 2002-2004 City Utility Revenue

### City Utility Operating Revenue 2002-2004\*



\*Revenue shown above does not include fees, contributions, grants and transfers.

Utility operating revenue from sales and service fees (which does not include fees, contributions, grants and transfers), increased from \$1.09 billion in 2002 to \$1.20 billion in 2004. In 2003 and 2004, the increase in revenue was greater than the rate of inflation.

City Light revenue increased from \$697.9 million in 2002 to \$777.9 million in 2004. After four City Light rate increases in 2001, rates were adjusted slightly in subsequent years only for Bonneville Power Administration pass-through rate adjustments. Accordingly, rates decreased in 2002, increased in 2003, and decreased again in 2004.

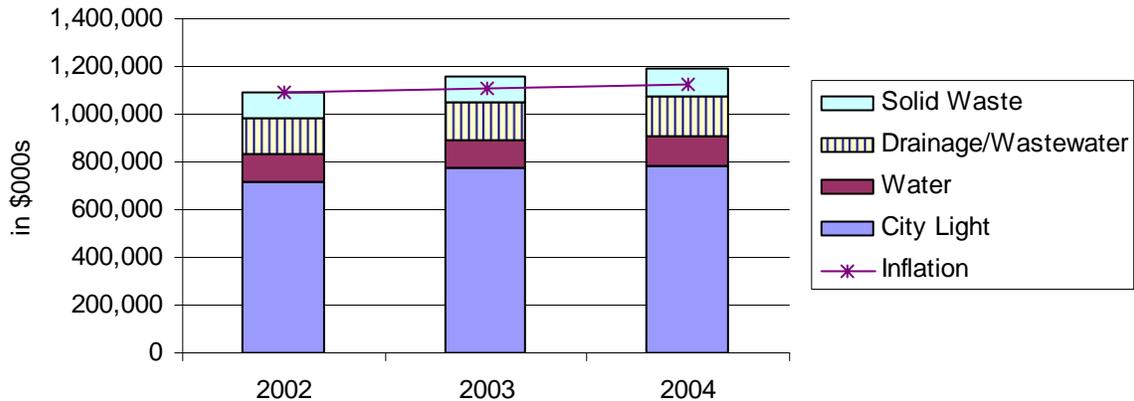
Water revenue increased from \$118.2 million in 2002 to \$141.3 million in 2004. Water rates increased each year during this period.

Drainage and Wastewater revenue increased from \$144.5 million in 2002 to \$162.1 million in 2004. Drainage and wastewater rates increased each year.

Solid Waste revenue increased from \$112.1 million in 2002 to \$115.1 million in 2004. Solid Waste residential can rates did not change during this period.

## Section 8. 2002-2004 City Utility Expenses

### Utility Operating and Net Non-Operating Expenses 2002-2004



Utility operating and net non-operating expenses (where “net non-operating expenses” is defined as interest expense and other non-operating expense less interest income and other non-operating income, but does not include fees, contributions, grants or transfers) increased from \$1.092 billion in 2002 to \$1.190 billion in 2004.

- City Light expenses increased from \$712.7 million in 2002 to \$782 million in 2004. Net purchased/interchanged power costs were \$379.1 million for 2004, including amortization of \$100 million of deferred power costs. Power costs of \$300 million incurred in 2001 were deferred and amortized over the period from 2002 to 2004. City Light’s reliance on market power transactions are affected by precipitation levels in its watersheds.
- Water expenses increased from \$121.8 million in 2002 to \$127 million in 2004. Expenses increased due to higher tax expenses (related to increased revenue), higher depreciation costs and higher interest expenses for revenue bonds issued during the period.
- Drainage and Wastewater expenses increased from \$145.4 million in 2002 to \$168.3 million in 2004. Drivers of the increase include higher interest expenses for revenue bonds issued during the period, the inclusion of an expense provision for environmental charges, increased depreciation expense, higher taxes (related to increased revenue), lower interest earnings, increased city administration costs, and higher claims costs.
- Solid Waste expenses increased from \$111.9 million in 2002 to \$112.5 million in 2004. The small increase was mostly due to increased contract costs, taxes (related to higher revenues), and depreciation expenses offset by lower interest expenses. Interest costs in this utility are largely attributable to revenue bonds issued to finance the landfill closure costs incurred in the late 1980s. As the landfill closure bonds are paid off, interest expenses fall.

In addition to meeting operating and non operating expenses (including interest on outstanding debt), each utility’s revenues must be sufficient to pay the principal on its outstanding debt and make a cash contribution to its capital improvement program. Some examples of capital projects under way include maintenance and improvements to existing infrastructure, new sources of water supply, additional water quality treatment of existing water supplies, and various conservation and recycling programs.

## Section 9. 2004 Income Statement and Debt Service Coverage for City Utilities

One important indicator of the current financial health of the City's utilities is the difference between current revenues and current expenses, or net income. As can be seen from the table below, Drainage and Wastewater took a loss in 2004, while City Light, Water and Solid Waste generated positive net income.

**Table 4. Income Statement for the City's Utilities (in \$000s)**

	Light	Water	Drainage and Wastewater	Solid Waste
Operating Revenue	777,919	141,313	162,118	115,144
Operating Expenses:				
Net Purchased/Interchanged Power	279,130	0	0	0
Generation/Transmission/Distribution	97,540	0	0	0
Other Power Costs	18,312	0	0	0
Wastewater Treatment	0	0	83,711	0
Solid Waste Collection	0	0	0	59,521
Resource Management	0	7,398	7,262	6,973
Field Operations/Engineering Services	0	29,630	15,285	8,272
Customer Services	33,681	7,487	6,011	5,323
General and Administrative	46,043	11,270	11,319	6,200
Taxes	61,444	15,505	18,040	19,195
Depreciation and Amortization	173,853	29,705	11,407	5,560
Total Operating Expenses	710,003	100,995	153,035	111,044
<b>Nonoperating Revenues (Expenses)</b>				
Investment and Interest Income	2,481	1,023	376	138
Interest Expense/Amortization	(76,305)	(28,684)	(10,845)	(1,624)
Other	1,805	1,638	(4,822)	8
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(72,019)</b>	<b>(26,023)</b>	<b>(15,291)</b>	<b>(1,478)</b>
<b>Fees, Contributions, Grants &amp; Transfers</b>				
Fees, Contributions and Grants	17,864	3,547	1,212	850
Net Interfund Transfers	0	0	0	0
<b>Total Fees, Contribs., Grants &amp; Transfers</b>	<b>17,864</b>	<b>3,547</b>	<b>1,212</b>	<b>850</b>
<b>Net Income (Loss)</b>	<b>13,761</b>	<b>17,842</b>	<b>(4,996)</b>	<b>3,472</b>
<b>Net Income (Loss) Percentage</b>	<b>1.77%</b>	<b>12.63%</b>	<b>-3.08%</b>	<b>3.02%</b>

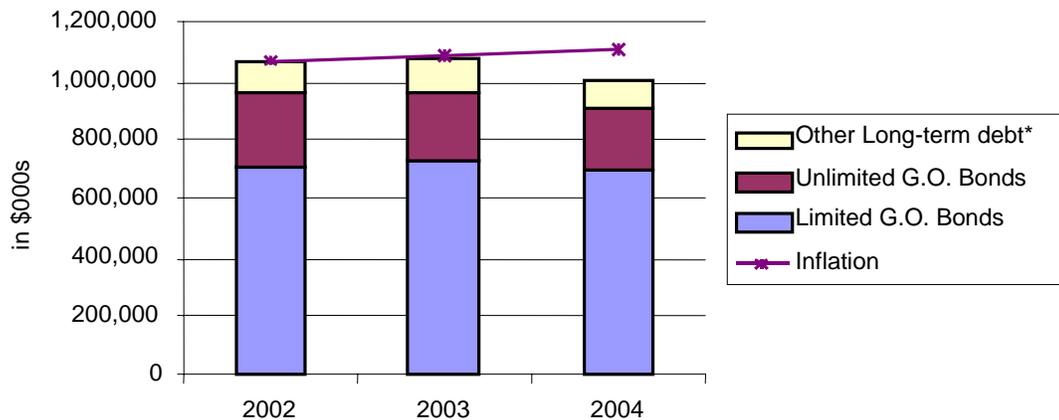
Another important financial indicator for the utilities is the debt service coverage ratio. This ratio measures how many times available revenue covers annual first lien debt service payments, with "available revenue" generally defined as gross revenue less operating expenses exclusive of City taxes and depreciation. So, for example, if the actual debt service coverage ratio for a City utility is 1.5, that means the utility generated sufficient revenue to pay its operating expenses (excluding depreciation and City taxes) and had enough left over to cover 150% of its debt service payment in that year. The table below shows the City utilities' legal debt service coverage requirements, policy targets as set by the City, and actual debt service coverage ratios in 2004. In all cases actual ratios are comfortably above legal minimums. City Light and Water came in below their policy targets, while the other utilities exceeded their targets. However, excluding the \$100 million amortization of deferred power costs, the debt service coverage ratio for City Light would have been 2.39.

**Table 5. Debt Service Coverage Ratios for the City's Utilities (First Lien Debt)**

Debt Service Coverage	City Light	Water	Drainage and Wastewater	Solid Waste
Legal	1.00	1.25	1.25	1.25
Policy Target	1.80	1.70	1.50	1.50
2004 Actual	1.58	1.69	2.13	4.81

## Section 10. General Long-Term Debt Outstanding and Debt Capacity

### Outstanding General Debt



One of the general government expenditures noted on page 9 of this report is debt service (principal plus interest) on outstanding debt. General long-term debt outstanding decreased from \$1.070 billion in 2002 to \$1.002 billion in 2004. Of the \$1.002 billion in outstanding general long-term debt, \$789.2 million was Councilmanic debt, or debt that can be issued by the City without voter approval. Councilmanic debt included \$698.4 million in bonds, \$90.8 million in guarantees of debt issued by Public Development Authorities (PDAs), and other liabilities, such as notes and compensated absences. Voter-approved outstanding debt totaled \$191.6 million.

Most of the outstanding debt stems from Councilmanic bonds. At year-end 2004, the City's outstanding Councilmanic bonds totaled \$698.4 million, or \$11.8 million less than outstanding bonds at year-end 2002. The outstanding bonds were issued during the last decade for various capital projects, including developing new public safety facilities, acquiring Key Tower (now known as "Seattle Municipal Tower"), constructing a downtown concert hall, redeveloping land and infrastructure at Sand Point, supporting the State's expansion of the Convention Center, improving the transportation infrastructure, and acquiring the Pacific Place Garage. Much of the debt issued in the last ten years has come with its own revenue sources (e.g., parking fees from the new Pacific Place Garage), or is expected to offset higher costs that would have been incurred without the purchase (e.g., purchase of Key Tower for City office space instead of rehabilitating existing City buildings).

The 2004 outstanding voter-approved debt is composed primarily of the remaining principal on long-term debt issued in the 1960s, a 1998 refunding of various bonds, and the remaining principal on the debt issued for the "Libraries for All" capital program.

The debt capacity table below shows the total legal debt capacity for City general purpose and special purpose debt, and remaining legal debt capacity. As can be seen from the table, the City retains substantial unused capacity in all categories.

**Table 6. Legal Debt Capacity as of Year-End 2004 (in \$000s)**

	General Capacity		Special Purpose Capacity (Voter Approved)		Total
	Councilmanic	Voter-Approved	Open Space/Parks	Utility Purposes	
Legal Limit	1,324,172	882,781	2,206,953	2,206,953	6,620,859
Less Debt Outstanding:					0
Bonds	(698,419)	(191,593)	0	(20,877)	(910,889)
Other*	(90,764)	0	0	0	(90,764)
Plus Assets, Misc.	21,188	1,961	0	0	23,149
Remaining Legal Capacity	556,177	693,149	2,206,953	2,186,076	5,642,355

\*Includes leases, guarantee on PDA bonds, and compensated absences.

**Attachment. Backup CAFR Numbers for Popular Annual Financial Report**

	2002	2003	2004
Inflation - annual	1.80%	1.50%	1.60%

(Seattle-Tacoma-Bremerton Consumer Price Index - Urban Wage Earners and Clerical Workers)

**Revenues (in \$000s)**

	2002	2003	2004
Property Tax	211,877	220,592	222,921
Retail Sales Tax	127,296	124,952	130,961
B&O Tax	127,367	130,996	127,361
Utility B&O Tax	117,274	117,472	119,706
Other Tax/Misc.	36,036	40,591	56,569
Total Taxes	619,850	634,603	657,518
Licenses and Permits	15,134	17,501	19,028
Grants and Shared Revenues	97,997	81,715	113,180
Charges for Services	107,676	111,509	112,690
Fines and Forfeits	17,697	19,498	20,795
Miscellaneous	75,158	79,151	75,000
<b>Total General Government</b>	<b>933,512</b>	<b>943,977</b>	<b>998,211</b>
City Light	697,892	739,005	777,919
Water	118,160	129,561	141,313
Drainage/Wastewater	144,486	150,722	162,118
Solid Waste	112,090	114,821	115,144
Planning and Development	26,669	28,350	33,349
Downtown Parking Garage	5,371	5,559	6,185
<b>Total Proprietary Fund Operating Revenue</b>	<b>1,104,668</b>	<b>1,168,018</b>	<b>1,236,028</b>

**Expenditures (in \$000s)**

	2002	2003	2004
General Gov't	114,377	103,092	118,771
Judicial	19,381	19,116	19,057
Public Safety	281,728	296,290	310,112
Physical Environment	5,404	5,996	5,814
Transportation	79,393	83,412	100,462
Economic Environment	113,111	90,271	82,525
Health and Human Services	22,986	29,136	27,988
Culture and Recreation	172,612	170,602	182,128
Capital Outlay	54,911	57,751	46,382
Debt Service	112,073	92,851	96,490
<b>Total General Government</b>	<b>975,976</b>	<b>948,517</b>	<b>991,733</b>
City Light	712,726	773,273	782,022
Water	121,757	117,457	127,018
Drainage/Wastewater	145,386	155,791	168,326
Solid Waste	111,880	111,987	112,522
Planning and Development	36,159	37,665	45,880
Downtown Parking Garage	8,200	8,238	8,379
<b>Total Proprietary Fund Expenses</b>	<b>1,136,108</b>	<b>1,204,411</b>	<b>1,244,147</b>

**Outstanding General Debt (in \$000s)**

	2002	2003	2004
Limited G.O. Bonds	710,182	733,848	698,419
Unlimited G.O. Bonds	244,480	228,300	212,470
Other Long-term debt*	115,559	116,537	90,763
Total	1,070,221	1,078,685	1,001,652

\* includes leases, guarantee of PDA bonds, and compensated absences