

# City of Seattle Financial Condition 2017

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## INTRODUCTION

### **Audit Overview**

This report provides members of the public and public officials with information on the City of Seattle's (City) financial condition. The report uses information from the City's Comprehensive Annual Financial Reports (CAFR) and Adopted Budgets, among other sources, and compiles the information for a broad audience. The report also provides ten years of data for several of the financial and economic indicators analyzed, allowing public officials and the public to see historical trends and identify areas that may need attention.

The requirement for financial condition reports was mandated by City Ordinance 125204, which was passed by the Seattle City Council on November 21, 2016, and our first report was published on September 29, 2017.

### **What is Financial Condition?**

A city in good financial condition can meet its financial obligations on a continuing basis. It can maintain existing service levels, withstand economic disruptions, and respond to growth, decline, and change. A financially healthy government collects enough revenues to pay short-term bills, finance major capital expenditures, and meet long-term obligations without transferring disproportionate costs to future periods.

### **Monitoring Financial Condition**

Most of the financial and economic indicators used in our report are included in the International City/County Management Association's Evaluating Financial Condition Handbook for Local Government.

In this report, we present information in 6 key areas:<sup>1</sup>

1. Revenues and Expenses
2. Debt
3. Pension Liabilities
4. Financial and Operating Position
5. Citywide Employment
6. Economic and Demographic Information

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<sup>1</sup> We did not include information in this report on the condition of the City's infrastructure, the citywide asset replacement value, or the funding gap for infrastructure needs. This is because each of the City of Seattle's capital departments has its own asset management system and the City does not produce an annual citywide capital asset report. Given the wide range of asset types the City owns, and the different ways departments assess asset condition, replacement value, and the funding gap for infrastructure needs, we found that high-level summary data on the City's assets is not helpful and could even be misleading. If City officials would like more information on the City's capital assets, we believe this work would be best performed as separate audits of individual departments.

To account for inflation in this report, we expressed most financial data in constant 2017 dollars. When we adjusted data for inflation, we noted the adjustment.

## Summary of Indicators

Overall, the City of Seattle financial and economic indicators we present in this report are positive. Revenues have exceeded expenses for the last ten years. The City maintains a high liquidity ratio, meaning that it has enough funds available to pay short-term bills. The City's general obligation bonds have the highest credit rating possible from the three major rating agencies: Moody's Investors Service, Fitch Ratings, and Standard & Poor's (S&P).

The City is committed to maintaining reserves and has two funds to address unanticipated events or declines in revenues. The City's Revenue Stabilization Account, or Rainy Day Fund, was created to cover activities in the event of unanticipated revenue shortfalls, and it had a balance of \$50.2 million at the end of 2017. The City's Emergency Subfund is set aside for unplanned expenses, and it had a balance of \$61.7 million at the end of 2017.

The City's revenues are diversified, which affords some protection from economic downturns. However, major downturns in the national or local economy that significantly affect local business or construction activity would decrease the revenues available to the City. For example, because the City's asset preservation programs are funded in large part from real estate excise taxes, declines in local real estate sales would reduce resources available to the City's Capital Improvement Program (CIP).

City economists note that the national economic forecast is for robust growth through 2019, followed by a slowing of growth in 2020. The three largest sources of revenue for the general fund (property taxes [27.7 percent], business taxes [24.6 percent], and sales and other taxes [19.9 percent]) vary in how sensitive they are to changes in economic conditions.

Of these three revenue sources, sales taxes are most sensitive to changes in economic conditions. City economists forecast that sales tax revenue will increase by 8.7 percent in 2018, but only 3.5 percent in 2019, and 2.0 percent in 2020.

Revenues from the City's Business and Occupation (B&O) taxes are more stable than sales tax revenues because they are not as reliant on the relatively volatile construction and retail trade sectors. Still, B&O tax revenue is expected to grow at a slower rate in 2019 and 2020 than in 2018.

Property tax revenue tends to respond to changes in economic condition more slowly than sales or business taxes as there is a lag before the effects of lowered or increased property assessments are reflected in tax receipts. However, state statutes that limit property tax increases also allow cities to increase their regular levies to account for the value of property constructed or remodeled in the previous year. As a result of this allowance, in 2018 the City received \$12.7 million in additional levy revenues from new construction. City economists predict the value of new construction in Seattle will decrease in 2019 and 2020, resulting in fewer additional levy revenues from new construction in those years.<sup>2</sup>

Additionally, as of January 1, 2018, the City's main employee pension plan, the Seattle City Employees Retirement System 1 (SCERS 1), had unfunded liabilities of \$1,186.6 million. The plan's ratio of assets to liabilities (commonly referred to as a "funding ratio") has been increasing since 2013 and was 69.9 percent as of January 1, 2018. Pension industry experts consider a healthy ratio to be from 80 to 100 percent. In recognition of this, the City contributes to the pension plan based on an amortization schedule designed to fully fund its actuarial accrued liability by December 31, 2042.<sup>3</sup> City leaders, including SCERS' Board of Administration, are paying close attention to SCERS' annual progress toward this goal and should continue to do so.

Finally, the City of Seattle is continually working to address complex social problems, such as homelessness and housing affordability, while maintaining a balanced budget. City leaders should consider the forecasted slowing of economic growth and its potential impact on City revenues when planning for new or expanded programs.

The City Budget Office, the Department of Finance and Administrative Services, and the City Attorney's Office reviewed draft copies of this report for accuracy and context. We appreciate their feedback and assistance.

## **Acknowledgements**

We would like to thank the following City staff for their assistance with this audit: Glen Lee, Michael Van Dyck, and Kristi Beattie from the Department of Finance and Administrative Services, and Ben Noble, Tom Taylor, Caleb Wagenaar, David Hennes, and Tom Kirn from the City Budget Office. We also appreciate the assistance provided to us by Dr. Eric Scorsone, Associate Professor and Director, Michigan State

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<sup>2</sup> City economists project that new construction in Seattle will generate \$9.98 million in additional levy revenues in 2019 and \$9.90 million in 2020. This is less than the \$12.7 million generated in 2018.

<sup>3</sup> See the Pension Liabilities section of this report for more information.

University Extension Center for Local Government Finance and Policy, and his students and Dr. Diana Pearce Director, Center for Women's Welfare, University of Washington.

## REVENUES AND EXPENSES

### Why are Revenues and Expenses Important?

Revenues determine the City's capacity to provide services, and diverse revenues can help the City withstand changes in the local or regional economy. Expenses are the City's costs for providing services. Common expenses include wages and salaries, health and pension obligations, and costs related to delivering City services.

Seattle's revenues and expenses fall into two major areas, as defined by government accounting standards: 1) **governmental activities** and 2) **business activities**. Examples of City governmental activities include public safety, human services, parks, and transportation services. Examples of business activities include electrical, water, solid waste, and land use regulation.

### Governmental Revenue and Expense Trends

Revenues related to governmental activities have exceeded expenses annually for the last 10 years. Also, during this time, Seattle's population increased 20.4 percent, from 592,800 to 713,700.

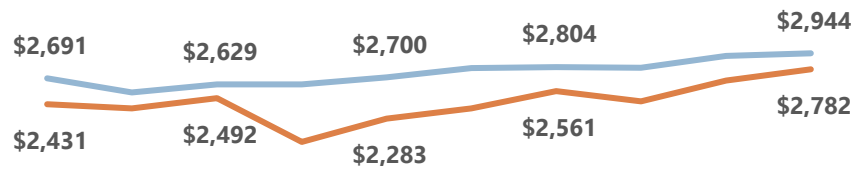
Exhibit 1 below shows changes in government revenues and expenses over a 10-year period on a per capita basis. From 2008 to 2017, on a per capita basis, governmental revenues increased 9.4 percent while governmental expenses increased 14.5 percent, however per capita revenues still exceeded per capita expenses for each year during this period. The amount by which per capita revenues exceeded per capita expenses varied over the 10-year period. In 2017, per capita revenues exceeded expenses by 5.8 percent.

The trend in revenues exceeding expenses is in part due to a local economy that has experienced strong sales, business and property tax growth for the last decade. As shown in Exhibit 11 on page 17, revenue related to governmental activities has exceeded the City's revenue forecast in each year since 2012. Revenues may also exceed expenses because, in some years, property tax revenues collected by the City following the passage of voter-approved levies are not fully spent in the year they were collected.

To address unanticipated events or declines in revenues, the Seattle City Council adopted financial policies that guide the use of the Revenue Stabilization Account (RSA) and the Emergency Subfund, including defining the total funding levels and contributions to these funds. See page 18 for more information on these two subfunds.

**Exhibit 1: City of Seattle Governmental Activity Revenues and Expenses Per Capita, 2008-2017 (adjusted)**

Revenues per capita have increased 9.4% since 2008



Expenses per capita have increased 14.5% since 2008

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

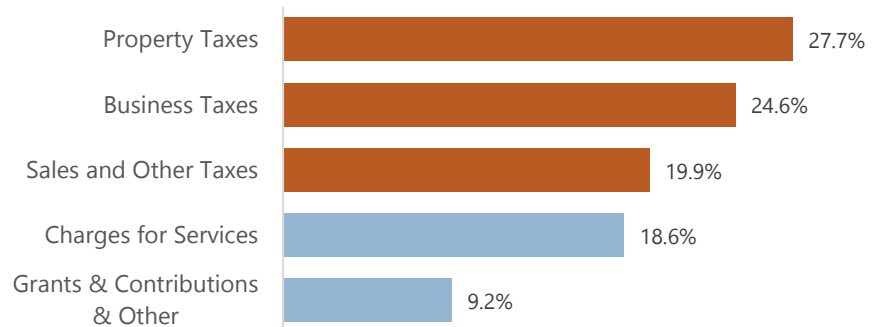
Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

**Governmental Activity Revenues**

Seattle’s governmental revenue sources are diversified, although heavily reliant on property taxes and business taxes. Between 2008 and 2017, combined revenues from property and business taxes consistently provided about half of the revenues used to support governmental activities. Exhibit 2 shows 2017 revenues for governmental activities by source.

**Exhibit 2: City of Seattle Revenues for Governmental Activities by Source in 2017**

72% of 2017 government revenues came from taxes



Source: Office of City Auditor analysis of data from the City of Seattle’s 2017 Comprehensive Annual Financial Report

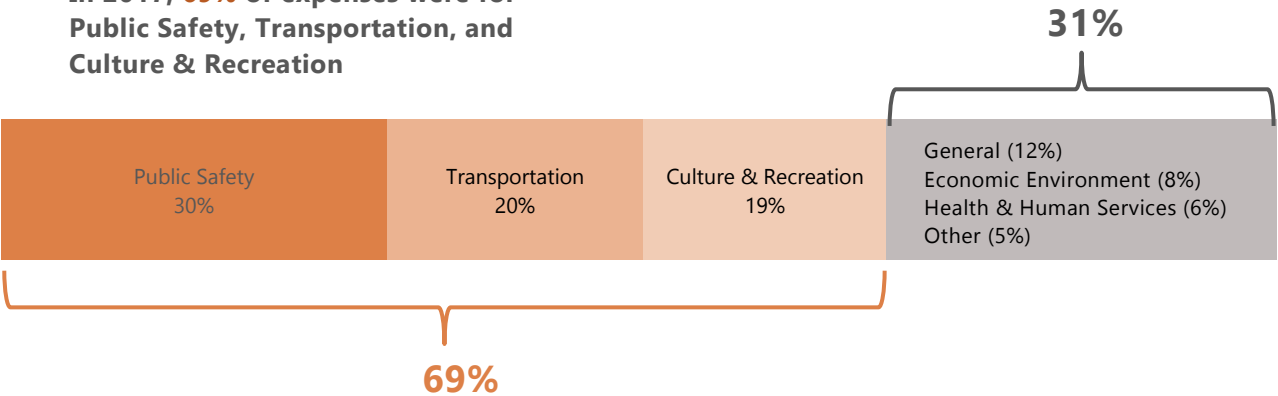


**Governmental Expenses**

Governmental activities include services such as public safety, transportation, parks, and human services. Governmental activities capture all City services, except for those provided by Seattle City Light and Seattle Public Utilities, and some services provided by the Seattle Department of Construction and Inspections. Net program expenses for Seattle’s governmental activities totaled \$1.9 billion in 2017. Exhibit 3 below shows the breakdown of 2017 City of Seattle government expenses by area.

**Exhibit 3: City of Seattle Governmental Activity Expenses, 2017**

In 2017, **69%** of expenses were for Public Safety, Transportation, and Culture & Recreation



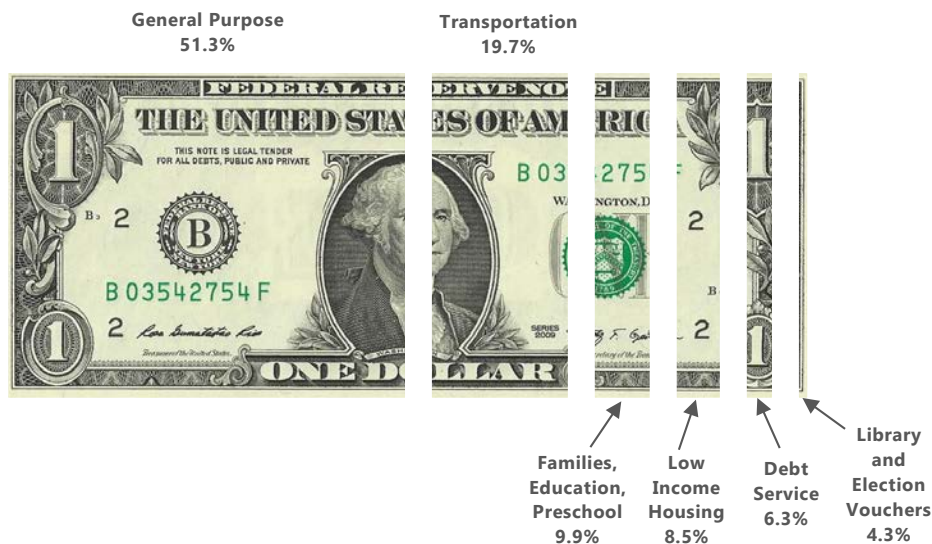
Source: Office of City Auditor analysis of data from the City of Seattle’s 2017 Comprehensive Annual Financial Report

## Where Do Your Property Taxes Go?

The property tax rate in the City of Seattle in 2017 was \$9.25 per \$1,000 in assessed value. Property taxes are divided among several government entities, including the State of Washington, King County, Seattle Public Schools, the Seattle Park District, and the Port of Seattle. In 2017, the City of Seattle received about 28 cents of every dollar of property tax paid in the city.

With its share of property taxes, the City pays for a variety of services. In 2017, over half of each City property tax dollar paid for general purpose services such as police, parks, and fire protection. Exhibit 4 below shows how City property taxes were spent in 2017.

### Exhibit 4: Where each dollar of City property taxes was spent in 2017



Source: Office of City Auditor analysis of data provided by the City of Seattle’s City Budget Office

## Business Revenue and Expense Trends

Seattle’s business services are provided primarily by the City’s two utilities, Seattle City Light and Seattle Public Utilities, and the Seattle Department of Construction and Inspections. Examples of business activities include electrical, water, solid waste, and land use regulation.

Business activities recover all or a significant portion of expenses through user fees and charges. In 2017, charges for services accounted for 95.5 percent of business activity revenues. Grants and contributions made up another 3.6 percent, and other revenues accounted for 0.9 percent.

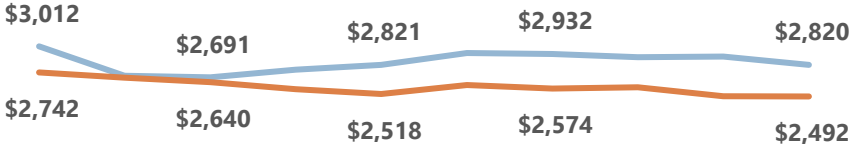
In 2017, the City’s two utilities accounted for almost 96 percent of business expenses. Seattle City Light accounted for 51 percent of expenses and Seattle Public Utilities (which includes Water, Drainage

and Wastewater, and Solid Waste) accounted for almost 45 percent. Another 4 percent of expenses were related to the regulatory permitting work conducted by the Seattle Department of Construction and Inspections (SDCI).

Business activity revenues have exceeded expenses for the last 10 years. During this same period, on a per Seattle resident basis, business revenues decreased 6.4 percent while business expenses decreased 9.1 percent.

**Exhibit 5: City of Seattle Business Revenues and Expenses Per Capita, 2008-2017 (adjusted)**

**Business Revenues** per Seattle resident have decreased 6.4% since 2008



**Business Expenses** per Seattle resident have decreased 9.1% since 2008

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

## LONG-TERM DEBT

### Introduction

The City of Seattle (City) borrows money to pay for major capital improvements. Borrowing allows the City to spread the cost of major capital projects across many years. To borrow money, the City issues two types of bonds: general obligation bonds and revenue bonds. This section discusses general obligation bonds, which the City issues to finance non-utility capital improvements such as bridge renovations, libraries, and other facilities. The City issues revenue bonds to provide financing for Seattle City Light's and Seattle Public Utilities' capital programs. Information on revenue bonds and the City's debt policies can be found in Appendix A.

Two types of general obligation bonds are unlimited tax general obligation bonds (UTGO) and limited tax general obligation bonds (LTGO). The City may issue UTGO bonds if a proposition authorizing their issuance is approved by 60 percent of the voters in an election in which the number of voters exceeds 40 percent of the voters in the most recent general election. Annual debt service (repayment of principal and interest) on UTGO bonds is paid from dedicated property taxes approved by voters.

The City Council may authorize the issuance of Limited Tax General Obligation (LTGO) Bonds, also known as Councilmanic bonds, in an amount up to 1.5 percent of assessed valuation, without a vote of the people. Unlike debt service on UTGO bonds, debt service on LTGO bonds comes from existing general governmental revenue, such as property, sales, and business taxes. This is significant because the issuance of LTGO bonds requires a commitment of future general government resources to repay them with interest. These resources are then unavailable for other programs.

*The financial data and other information provided herein are not warranted as to completeness or accuracy for purposes of federal securities laws and regulations and are subject to change without notice.*

### City of Seattle's general obligation debt increased from 2008 to 2017

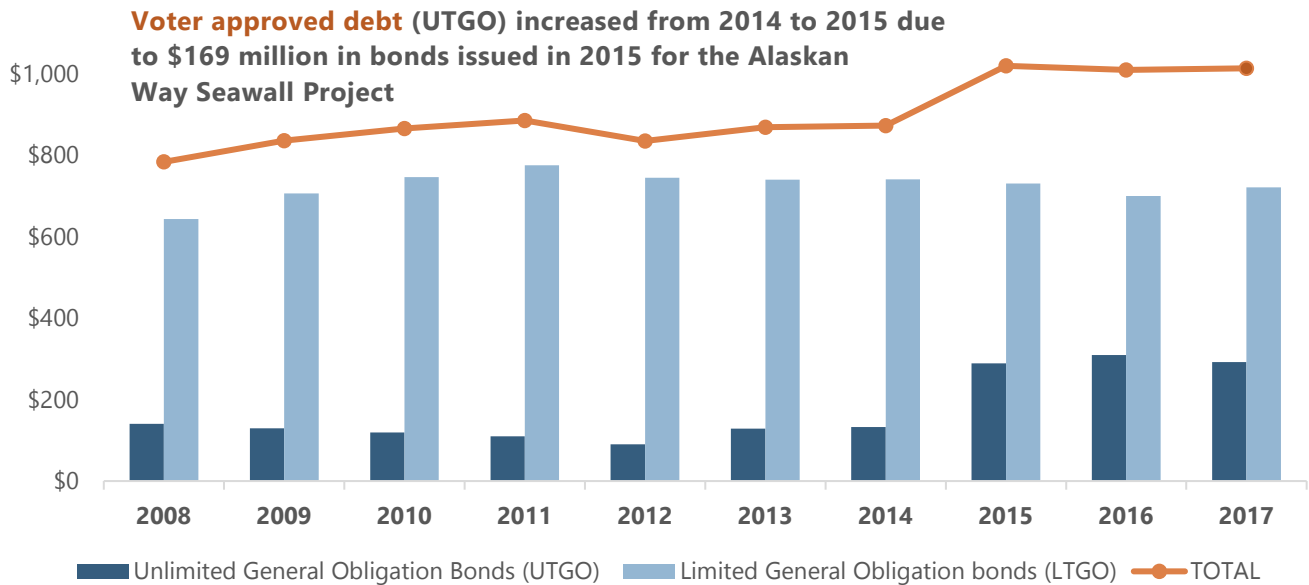
Exhibit 6 below shows changes in the City of Seattle's general obligation debt by type from 2008 to 2017.

The City's outstanding UTGO (voter-approved) debt increased from \$140 million in 2008 to \$292 million in 2017. This increase of 108 percent was primarily due to a \$290 million voter approved bond measure, which partially funded Phase 1 construction of the Elliott Bay Seawall project.

LTGO (Councilmanic) debt increased 12 percent during this same period, from \$643 million to \$721 million.

Another way to view the City’s long-term general obligation debt is to calculate debt per resident. From 2008 to 2017, the City of Seattle’s general obligation debt per resident, unadjusted for inflation, increased 23.6 percent, from \$1,230 in 2008 to \$1,520 in 2017. If adjusted for inflation, this would be an increase of 5.7 percent.

**Exhibit 6: City of Seattle Debt by Type, 2008-2017 (millions, unadjusted for inflation)**



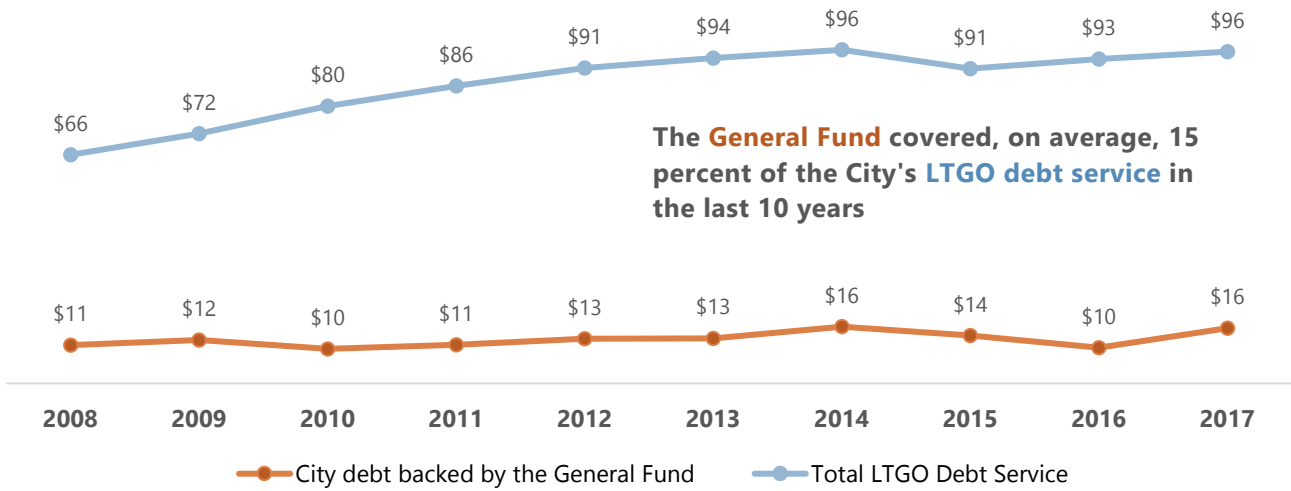
Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

**In the last 10 years, debt service paid from the General Fund accounted for 15 percent of LTGO debt service**

The City’s LTGO debt service is paid by the General Fund and by other sources. Other sources include the Cumulative Reserve Funds (CRF), which receives revenues from real estate excise taxes, and the Transportation Fund, which receives revenues from commercial parking tax receipts. According to the City’s Debt Manager, the City aligns payment of debt service and funding source to be consistent with purposes allowed by law, and where flexibility exists, to meet other budgetary needs. The City’s annual operating budget allocates various revenue sources to pay for LTGO debt service.

From 2008 to 2017, the LTGO debt service funded by the General Fund averaged 15 percent of total LTGO debt service. The General Fund funded 17 percent of LTGO debt service in 2017.

**Exhibit 7: City of Seattle LTGO Debt Service and LTGO Debt Service backed by the General Fund, 2008 to 2017 (millions, unadjusted for inflation)**



Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

**The City has consistently maintained high bond ratings**

Strong credit ratings for municipal debt decrease borrowing costs because the debt is considered less risky for investors. In 2017 (and as of the time of this report), the City maintained the highest possible credit ratings from the three major rating agencies<sup>4</sup> for both its UTGO and LTGO bonds. This is consistent with the City’s bond ratings over the last 10 years. For every year from 2008 to 2017, the City’s UTGO debt received the highest possible ratings for creditworthiness, and the City’s LTGO debt received either the highest or the second-highest possible ratings.

<sup>4</sup> These agencies are Moody’s Investors Service, Fitch IBCA, and Standard & Poor’s (S&P).

## PENSION LIABILITIES

### Introduction

This section describes the City of Seattle’s pension liabilities for the Seattle City Employees’ Retirement System (SCERS), which is the defined benefit retirement plan that covers most City of Seattle (City) employees.<sup>5</sup> Defined benefit retirement plans are those in which employees and their employers contribute a certain amount into a pension fund over time, and employees are guaranteed a regular amount of retirement income.

### SCERS unfunded liability and funding ratio

A defined benefit retirement plan’s unfunded liability is the portion of the total pension liability for which assets (such as investments) are not already set aside. In other words, the employer and employee contributions to the plan, combined with investment earnings, are not enough to cover the anticipated payments due retirees. As of January 1, 2018, SCERS’ unfunded liability was \$1,186.6 million.<sup>6</sup>

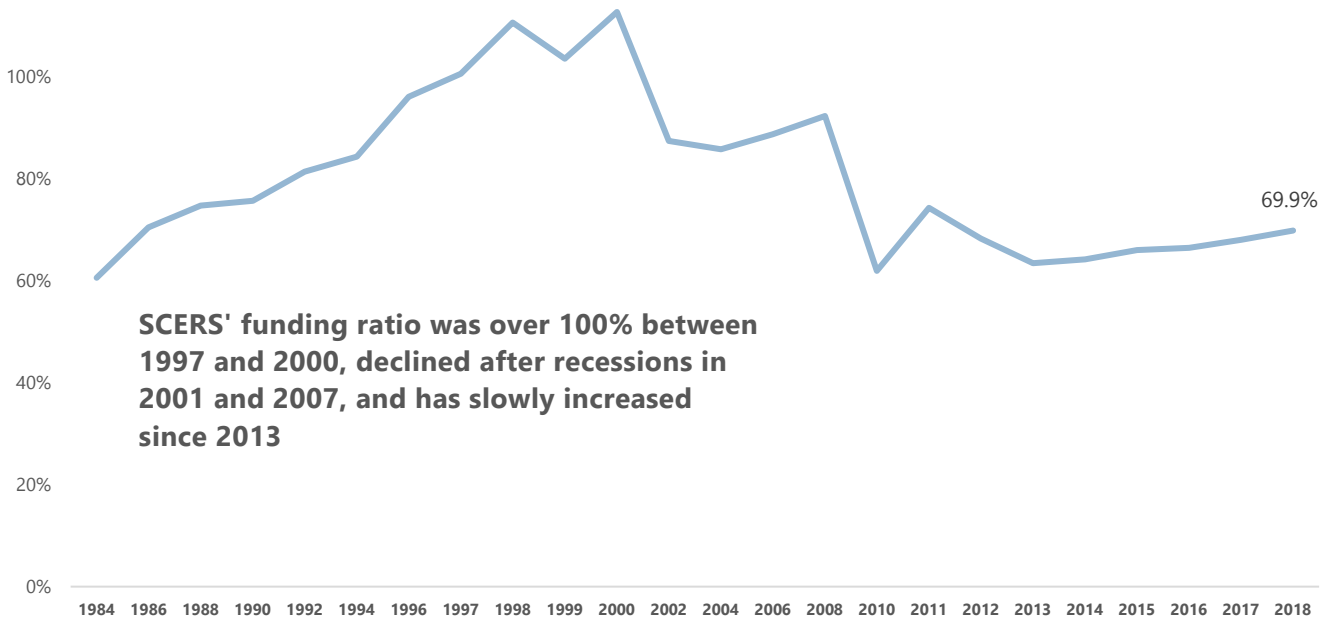
One way of placing a pension’s plan’s unfunded liability in context is to calculate its funding ratio. A pension plan’s funding ratio is the value of the plan’s assets divided by the plan’s liabilities. Exhibit 8 (below), shows SCERS funding ratios from 1984 through 2018. Note that SCERS was fully funded between 1997 and 2000, but the funding ratio decreased following two major recessions in 2001 and 2007. Since 2013, SCERS’ funding ratio has slowly increased, with the goal of achieving full funding by the end of 2042. SCERS’ funding ratio was 69.9 percent on January 1, 2018, up from 68.1 percent on January 1, 2017.

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<sup>5</sup> Information about the liabilities associated with the City’s other two defined benefit plans, the Firefighter’s Pension Fund and the Police Relief and Pension Fund, as well as the state administered Law Enforcement Officers’ and Firefighters’ Retirement System, which covers some City employees, can be found in Appendix B.

<sup>6</sup> Accrued liabilities for pensions are referred to as Actuarial Accrued Liabilities (AAL). AAL projections incorporate multiple factors, such as the number of employees currently enrolled, their expected benefits, and mortality rates. Based on these data, actuaries estimate the current value of future payment obligations. The portion of AAL for which reserves have not been set aside are considered an entity’s “unfunded liability,” often referred to as the Unfunded Actuarial Accrued Liability (UAAL).

**Exhibit 8: SCERS Funding Ratios, 1984-2018**



Source: Office of City Auditor analysis of data from Milliman, Seattle City Employees’ Retirement System January 1, 2018 Actuarial Valuation Report

**What is a healthy funding ratio?**

Some experts consider a funding ratio of about 80 percent or better to be generally sound for government pensions. Since 2014, SCERS has been slowly increasing its’ funding ratio each year. SCERS’ 2018 funding ratio was 69.9 percent.

Additionally, a July 2012 Issue Brief published by the American Academy of Actuaries notes that pension plans “should have a strategy in place to attain or maintain a funded status of 100 percent or greater over a reasonable period of time.” In August 2013, the Seattle City Council adopted Resolution 31474, which closed the period over which the SCERS 1<sup>7</sup> unfunded liability would be amortized and committed to fully funding the SCERS liability by the end of 2042.

<sup>7</sup> Pursuant to an agreement with various labor unions, the City of Seattle passed legislation in August 2016 that created a new defined benefit retirement plan, SCERS 2, covering non-uniformed employees. SCERS 2 is open to employees first hired on or after January 1, 2017. Members already enrolled in SCERS 1 do not have an option to switch to SCERS 2. SCERS 2 has a slight decrease in benefit levels, raises the minimum retirement age, and increases the period over which average salary is calculated to 60 months. Actuarial information used in this report combines both SCERS 1 and SCERS 2 liabilities and assets and refers to them as SCERS.



**SCERS increases its funding ratio by funding employer contributions at or above the actuary's recommended rates**

Both City of Seattle employees and the City, as an employer, make regular payroll contributions to SCERS. SCERS' annual contribution rates are based on the system's annual actuarial valuation and recommendations from the SCERS Board of Administration. The rates must be approved by the Seattle City Council.

Since 2014, SCERS' actuary has calculated the annual contribution rates needed to achieve the goal of full funding by the end of 2042. SCERS' actuary uses a number of economic assumptions to determine these rates, such as returns on investment, consumer price inflation, real wage inflation, wage growth, active membership growth, and payroll growth.

From 2014 to 2017, the City contributed to SCERS at these actuarially determined rates. In 2018, based on the actuary's recommendations, rather than lower the employer contribution rate, the City contributed at a rate that was 0.42 percent higher than the actuarially determined contribution rate. According to SCERS' Executive Director, in 2017 SCERS deferred investment losses (i.e., they were not yet recognized in their actuarial valuation). Instead of decreasing their 2018 employer contribution rate only to have to increase it in future years (when these losses are recognized), SCERS and the City decided to hold the contribution rate constant to avoid year-to-year volatility in the employer contribution rate.

We support SCERS' and the City's decision to maintain a stable employer contribution rate and to continue to fund SCERS at or above the actuarially determined rate to help them achieve full funding by the end of 2042.

## FINANCIAL AND OPERATING POSITION

### **Why are Financial and Operating Position Important?**

Net position is an indicator that measures a government's financial standing at a point in time. Operating position indicators, such as liquidity and operating fund balances, measure a government's ability to balance its budget, maintain reserves for emergencies, and pay its bills on time.

### **Net Position**

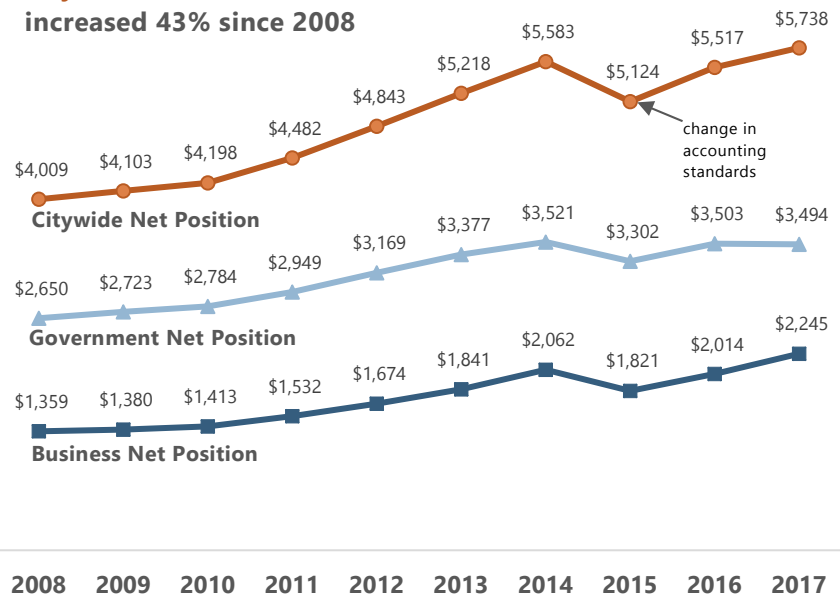
Net position measures the difference between the City's assets (what it owns) and its liabilities (what it owes) at a specific point in time. The Citywide net position is positive and has been on a generally upward trend since 2008, with a slight decrease in 2015. The dip in 2015 seen in Exhibit 9 resulted from a change in accounting standards for public pension plans, approved by the Governmental Accounting Standards Board (GASB). When the City implemented GASB Statement No. 68 in 2015, the City began recognizing its net pension liability in its government-wide financial statements.<sup>8</sup> This change in reporting increased the City's total recorded liabilities and decreased its net position, as was the case for other large jurisdictions.

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<sup>8</sup> The Governmental Accounting Standards Board (GASB) modified the accounting and financial reporting of pensions by pension plans (GASB 67, effective 2014) and by state and local government employers (GASB 68, effective 2015). Because GASB 68 required many entities to increase what they report as their pension liability, the result of these changes for many entities with a retirement system was to reduce the entity's net position.

**Exhibit 9: City of Seattle Citywide Net Position, 2008-2017  
(millions, unadjusted)**

**Citywide Net Position**  
increased 43% since 2008



Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

**Governmental Fund Balances**

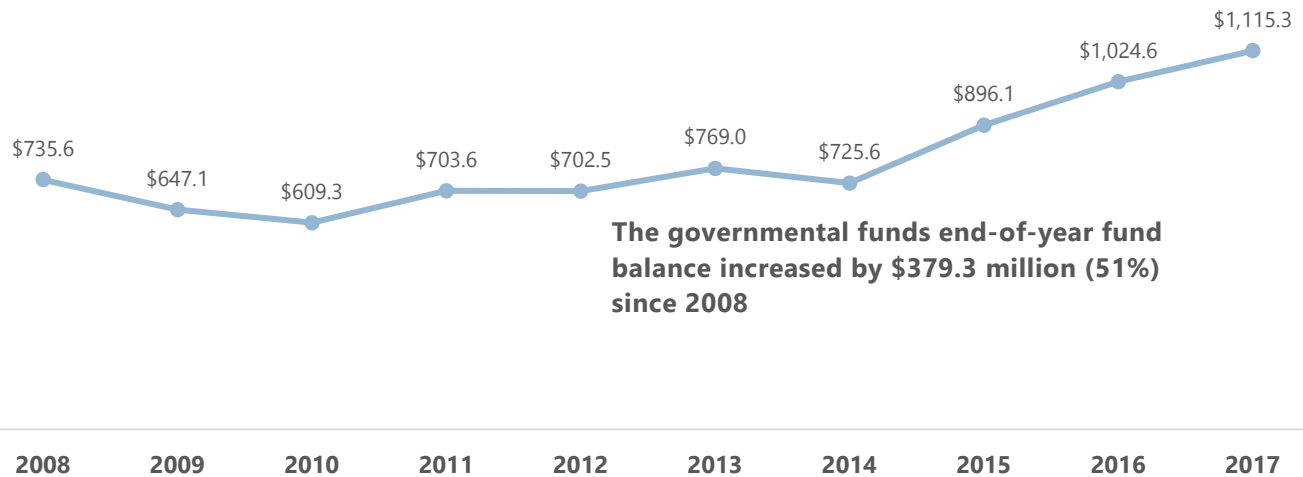
The City accounts for all revenues and expenditures within a system of accounting entities called “funds”. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules and promotes accountability for specific projects or activities. For financial reporting purposes, most of the City’s basic services are reported in its various governmental funds.<sup>9</sup>

End-of-year fund balances are carried over from one fiscal year to the next. Seattle’s governmental fund balances represent the difference between current governmental resources (e.g., revenues from taxes and other funding sources, such as long-term debt) and expenditures.

As shown in Exhibit 10, the total end-of-year balance for Seattle’s multiple governmental funds varied from 2008 to 2014, but since then has been steadily increasing. Overall the governmental funds balance increased 51 percent from \$735.6 million 2008 to \$1,115.3 million in 2017.

<sup>9</sup> Other types of City funds include enterprise, internal service, and fiduciary funds. The City’s business-type activities are reported in enterprise funds (e.g., the Seattle City Light Fund or the Water Fund). The City uses internal service funds to account for internal finance, administrative, and information technology services. Fiduciary funds account for resources held for the benefit of parties outside the government (e.g., retirement funds).

**Exhibit 10: City of Seattle Governmental Funds End-of-Year Fund Balance, 2008-2017 (millions, adjusted)**

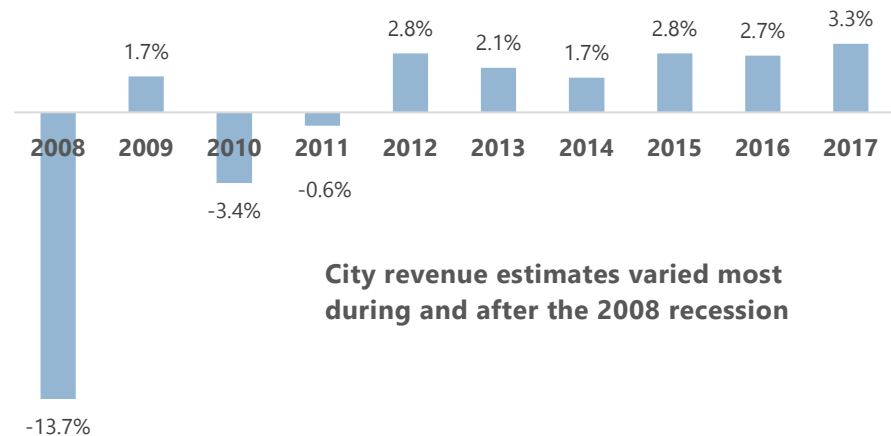


Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017. Note: The annual end-of-year governmental fund balances figures in this year’s report were adjusted for inflation using 2017 as a base year, so they differ slightly from the annual figures in last year’s report, which used 2016 as a base year.

**General Fund Revenue Estimates**

In this section, we compare the City’s annual estimates of General Fund revenues to actual General Fund revenues. The General Fund is the City’s primary governmental operating fund. As shown in Exhibit 11, the City’s revenue estimates over the last 10 years have been generally accurate within 2 to 3 percent. The exception to this was during the 2008 recession, when revenues were 13.7 percent lower than anticipated. In 3 of the last 10 years, actual revenues were less than estimated revenues, and these three years were when the local economy was affected by the 2008 recession.

**Exhibit 11: City of Seattle General Fund Revenue Surplus or Shortage as Percentage of Revenue Estimate, 2008-2017**



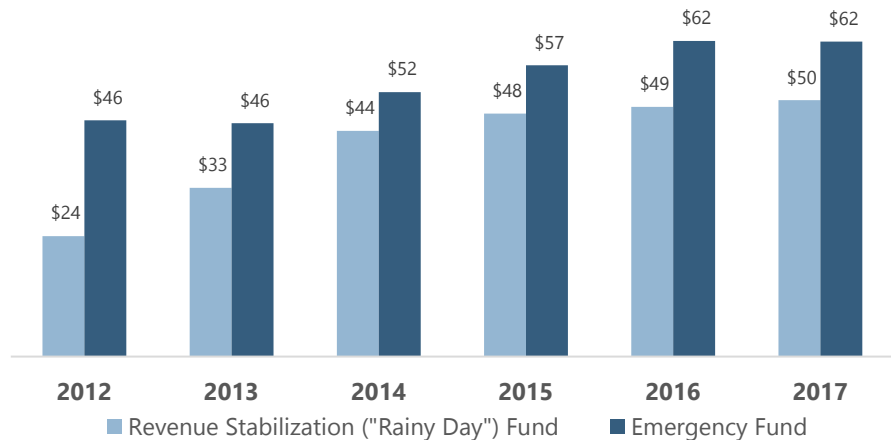
Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2008-2017

## Unassigned General Fund Balance

Most types of funds have constraints that restrict how they can be used, with the exception of unassigned fund balances. Since 2008, the City’s Unassigned General Governmental Fund Balance has steadily increased, and in 2017 it totaled \$153.7 million.

The Seattle City Council adopted financial policies that guide the use of unassigned balances for a number of subfunds. As a result, not all of the \$153.7 million is available for any purpose. The Revenue Stabilization Account, or Rainy Day Fund, was created to provide funding for activities in the event of unanticipated revenue shortfalls, and the City’s Emergency Subfund was created to set aside funds for unplanned expenses. Exhibit 12 below shows the end-of-year balances in the City’s Rainy Day and Emergency Funds from 2012 through 2017, adjusted for inflation.

**Exhibit 12: City of Seattle Rainy Day and Emergency Funds, 2012-2017 (millions, adjusted)**



Source: Office of City Auditor analysis of data from the City of Seattle’s Comprehensive Annual Financial Reports, 2012-2017

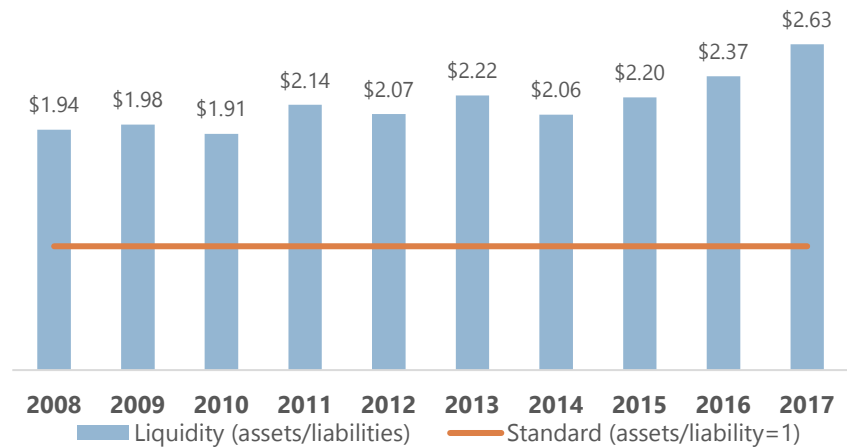
Additionally, year-end unassigned General Fund balances are offset by year-end deficits in other governmental funds, such as the Seattle Streetcar Fund. After accounting for other governmental funds' deficits, the Rainy Day Fund, and the Emergency Subfund, the Unassigned General Fund balance was \$18.0 million<sup>10</sup> at the end of 2017.

## Liquidity

Liquidity is the City's ability to pay its short-term bills. It is measured by the ratio of current assets to current liabilities. Current assets include cash and other assets that can be converted into cash or used within 12 months (e.g., receivables). Current liabilities are the bills the City must pay within 12 months. A low ratio, below \$1 of assets for \$1 of liabilities, can indicate a cash flow issue or the need for short-term borrowing. As can be seen in Exhibit 13, the City maintained a healthy liquidity ratio from 2008 to 2017.

### Exhibit 13: City of Seattle Liquidity (Assets/Liabilities), 2008-2017

The City has maintained strong liquidity ratios over the past 10 years



Source: Office of City Auditor analysis of data from the City of Seattle's Comprehensive Annual Financial Reports, 2008-2017

<sup>10</sup> The 2017 Unassigned General Governmental Fund Balance of \$153.7 million less (the Rainy Day Fund balance of \$50.2 million + the Emergency Fund balance of \$61.7 million + other government funds' deficits of \$23.7 million) = \$18 million.

## CITYWIDE EMPLOYMENT TRENDS

### City of Seattle Employment: 10 Year Trend

Employers often measure employment in FTEs, or full-time equivalents.<sup>11</sup> In terms of FTEs, City of Seattle employment grew 6.4 percent between the end of 2008 and the end of 2017. Exhibit 14 shows the number of FTEs approved in the City budget for each year from 2008 to 2017 and the percentage of FTE increase or decrease between 2008 and 2017. The exhibit includes FTEs for each of the ten largest City departments and for all other City departments combined.

**Exhibit 14: City of Seattle FTEs, 2008- 2017**

City Department	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Change 2008-2017*
Seattle Information Technology	217	216	205	195	190	192	194	198	205	660	204.1%
Seattle Department of Transportation	778	799	792	769	721	728	793	794	844	886	13.9%
Seattle Police Department	1,852	1,860	1,922	1,935	1,931	1,947	1,999	2,018	2,033	2,095	13.1%
Department of Finance and Administrative Services	597	601	579	524	522	529	602	625	642	625	4.7%
Department of Parks and Recreation	1,003	1,003	1,002	891	863	854	888	908	917	913	-9.0%
Seattle City Light	1,821	1,882	1,839	1,811	1,811	1,830	1,857	1,861	1,868	1,780	-2.3%
Human Services Department	324	338	326	323	316	341	345	328	332	328	1.3%
Seattle Fire Department	1,163	1,163	1,156	1,152	1,153	1,151	1,152	1,163	1,168	1,156	-0.6%
Office of Housing	42	41	41	39	38	38	37	44	44	43	3.6%
Seattle Public Utilities	1,458	1,481	1,449	1,421	1,411	1,401	1,447	1,438	1,460	1,359	-6.8%
Other Departments	2,156	2,136	2,003	1,973	1,959	2,029	2,047	2,182	2,248	2,292	6.3%
<b>Total</b>	<b>11,411</b>	<b>11,520</b>	<b>11,314</b>	<b>11,033</b>	<b>10,915</b>	<b>11,040</b>	<b>11,361</b>	<b>11,559</b>	<b>11,761</b>	<b>12,137</b>	<b>6.4%</b>
<b>Total Annual Change</b>		<b>1%</b>	<b>-2%</b>	<b>-3%</b>	<b>-1%</b>	<b>1%</b>	<b>3%</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>	

\*The percentage change was calculated using actual FTE, including partial FTE. The FTE counts listed in the chart were rounded.

Source: Office of City Auditor analysis of data from the City of Seattle's 2017 Comprehensive Annual Financial Report

<sup>11</sup> An FTE is typically calculated as 2,080 hours per year, and the hours worked by multiple part-time employees can be added together into a full FTE.

As can be seen in Exhibit 14 above, the increase or decrease in the number of City employees varied over the years and by department. Overall, from 2008 to 2017, the number of City of Seattle employees grew 6.4 percent. During this same period, the City's population grew 20.4 percent.

At the department level, the most dramatic increase in FTEs occurred between 2016 and 2017 in the Seattle Information Technology Department, which grew from 205 FTEs to 660 FTEs. Due to the creation of a new consolidated Seattle Information Technology Department in December 2015, employees were transferred from 15 different departments and Executive offices into the new department.



## DEMOGRAPHIC AND ECONOMIC INDICATORS

### Why are Demographic and Economic Indicators Important?

Demographic and economic indicators provide information about the experience of Seattle residents and highlight community needs. In this section, we provide data on Seattle’s population, jobs, unemployment rates, income, and property values.

### Seattle’s Population Growth

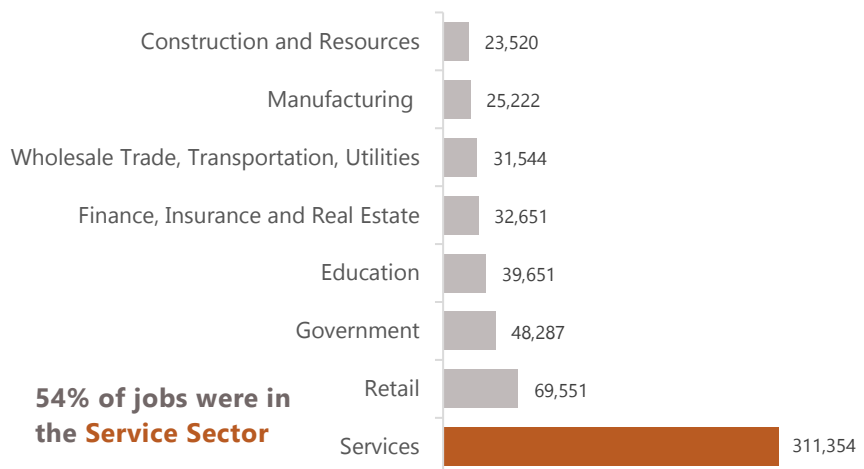
Seattle’s population increased by 20.4 percent from 2008 to 2017, from 592,800 to 713,700. During this same period, Washington State’s population grew by 10.6 percent.

As a result, in 2017, Seattle accounted for 9.8 percent of Washington’s total population, compared to 9 percent in 2008.

### Most Seattle Jobs are in the Service Sector

In 2017, 54 percent of jobs located in Seattle were in the service sector.

**Exhibit 15: Seattle Jobs by Industry, 2017**

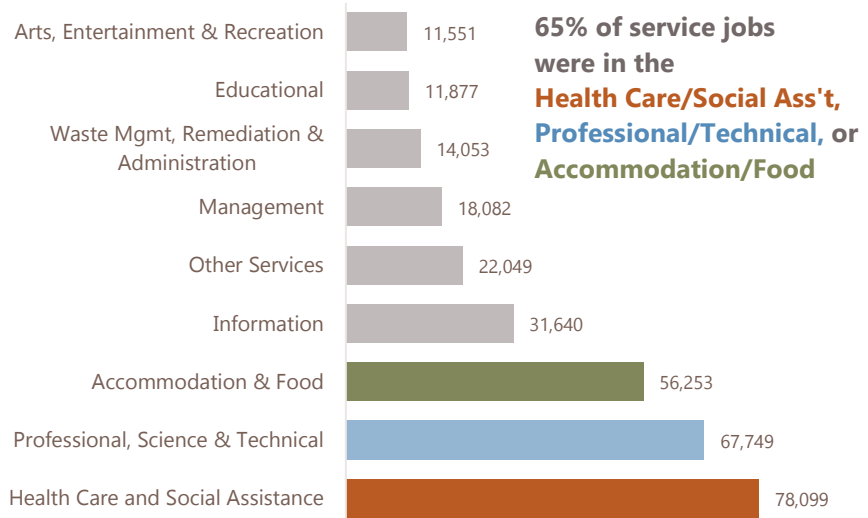


Source: Office of City Auditor analysis of 2017 Puget Sound Regional Council Covered Employment Estimates (scaled to match Washington State Employment Security Department totals)<sup>12</sup>

<sup>12</sup> Covered employment refers to jobs reported by law to the State of Washington for unemployment insurance purposes. Some jobs are excluded, including proprietors, limited liability partners, most corporate officers, uniformed military, and those working solely on commission. Covered employment accounts for approximately 85 to 90 percent of all employment.

Among service sector jobs, 25 percent were in health care and social assistance; 22 percent were in professional, technical and scientific; and 18 percent were in accommodation and food services.

**Exhibit 16: Seattle Service Jobs by Industry Detail, 2017**



Source: Office of City Auditor analysis of 2017 Puget Sound Regional Council Covered Employment Estimates (scaled to match Washington State Employment Security Department totals)

**Seattle’s Unemployment Rate**

In 2017, Seattle’s unemployment rate for persons sixteen years and older was 4 percent. This is lower than the 2017 unemployment rate for the United States, which was 5.3 percent for this same population.

**Seattle Incomes in 2017**

In this section, we provide information on 2017 Seattle household incomes and the annual incomes needed to be self-sufficient in Seattle in 2017 by family size and configuration.

There are different ways to calculate who is living in poverty in the United States. We found that some of the most common indicators do not factor in all the costs a family incurs for basic needs, nor do they account for variances in the cost-of-living in different geographic locations. For example, the U.S. Census poverty thresholds are based mostly on food costs and are the same throughout the United States.

To present a more accurate picture of what it takes to survive in Seattle, we chose to provide data on the Self-Sufficiency Standard for Seattle. The Self-Sufficiency Standard<sup>13</sup> is a measure of income

<sup>13</sup> The Self-Sufficiency Standard was developed by Dr. Diana Pearce at the University of Washington’s Center for Women’s Welfare. The measure describes how much income families of various sizes and compositions need to make ends meet without public or private assistance in each county in Washington State. Since it was first developed 21 years ago, the standard has been calculated for 41 states as well as the District of Columbia and New York City. For further information, see [www.selfsufficiencystandard.org](http://www.selfsufficiencystandard.org).

adequacy that is based on the cost of basic needs for working families: housing, child care, food, transportation, and miscellaneous items, as well as the cost of taxes and the impact of tax credits. The Self-Sufficiency Standard is calculated for different family types, and by state and county (and sometimes county subdivisions, as in the case of Seattle).

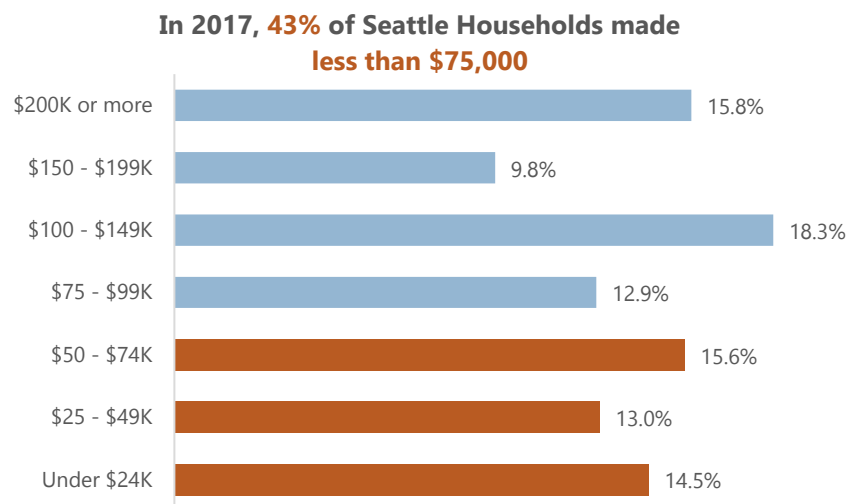
Exhibit 17 shows the 2017 annual income needed to be self-sufficient for different sizes and types of Seattle families. Exhibit 18 provides 2017 median incomes for all Seattle households, regardless of size or configuration. Exhibit 19 shows 2017 median incomes for Seattle households, by type.

**Exhibit 17: 2017 Annual Income Needed to be Self-Sufficient in Seattle, by Family Size and Configuration**

Family Size and Configuration	2017 Annual Income Self-Sufficiency Standard
Adult	\$27,241
Adult and preschooler	\$56,964
Adult, infant, and preschooler	\$82,454
Adult, preschooler, school-age	\$70,468
Adult, school-age, teenager	\$51,520
2 adults, infant	\$65,710
2 adults, infant, preschooler	\$86,359
2 adults, preschooler, school-age	\$75,616

Source: Office of City Auditor summary of data from The Self-Sufficiency Standard for Washington State 2017, prepared for the Workforce Development Council of Seattle-King County

**Exhibit 18: 2017 Median Incomes, All Seattle Households**



Source: Office of City Auditor analysis of 2017 American Community Survey data

**Exhibit 19: City of Seattle 2017 Median Household Incomes, by Family Size and Configuration**

Household Size and Configuration	2017 Median Income	Number of Seattle households
All households	\$86,822	329,671
<b>Subset of all households:</b>		
Family households	\$121,256	151,428
Nonfamily households	\$63,990	178,243
<b>Subset of family households:</b>		
Married couple families	\$140,621	117,663
Married couple families with children	\$161,135	46,868
Female householder, no husband	\$51,293	21,897
Female householder, no husband with children	\$36,029	11,188
Male householder, no wife	\$80,692	11,868
Male householder, no wife, with children	\$64,624	4,871

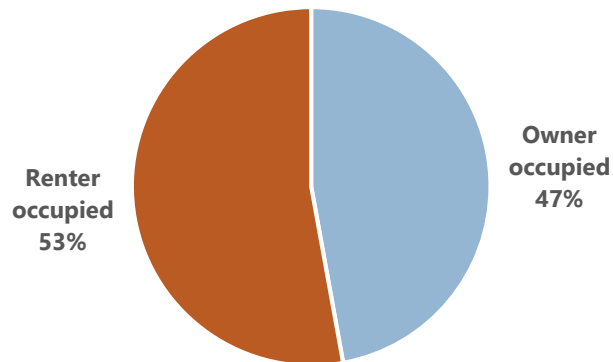
Source: Office of City Auditor analysis of 2017 American Community Survey data

**Slightly more Seattle households rent rather than own**

We found that in 2017, slightly over half of Seattle households were composed of renters and the rest were homeowners.

**Exhibit 20: 2017 Seattle Households, Owner and Renter Occupied**

In 2017, **53%** of Seattle households were **renters**

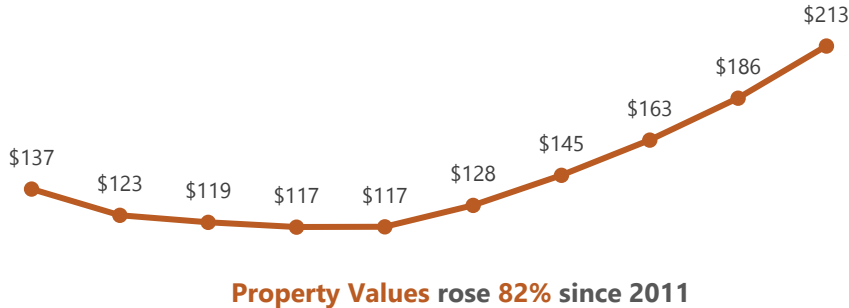


Source: Office of City Auditor analysis of 2017 American Community Survey data

**Assessed value of Seattle properties**

Assessed property values in Seattle, including the value of all commercial and residential properties, increased 83 percent from 2011 to 2017, from \$116.9 billion to \$213.4 billion.

**Exhibit 21: Assessed Property Values in Seattle, 2008 – 2017 (billions, unadjusted)**



2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Source: Office of City Auditor analysis of King County Certifications of Assessed Valuation

## SCOPE AND METHODOLOGY

This audit report was mandated by City Ordinance 125204, which was passed by the Seattle City Council on November 28, 2016. The report’s objective is to provide residents and public officials with information on the City of Seattle’s financial condition. In accordance with the ordinance, this is our second report, with the first having been published in September 2017. The ordinance calls for subsequent reports to be prepared biennially.

We based our methodology for this report primarily on *Evaluating Financial Condition: A Handbook for Local Government* by the International City/County Management Association.

The report focuses on the finances of Seattle City Government, including both its governmental activities and business activities. Information for the report came primarily from the City’s independently audited Comprehensive Annual Financial Reports from Fiscal Years 2008 to 2017, although other sources were also used. The primary sources for each of the indicators are listed in the following table.

**Exhibit 22: Table of Data Sources**

Indicators	Source
<p><b>Revenues and Expenses</b></p> <ul style="list-style-type: none"> <li>• Revenues and Expenses Per Capita</li> <li>• Sources of Governmental Revenues</li> <li>• Governmental Expenses by Category</li> <li>• Business Expenses by Type</li> <li>• Consumer Price Index (used to adjust for inflation)</li> <li>• Property taxes</li> </ul>	<p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs) 2008-2017: Table A2: Changes in Net Position</p> <p>Consumer Price Index, Seattle-Tacoma-Bellevue Table, 1999-2018, U.S. Department of Labor, Bureau of Labor Statistics</p> <p>City of Seattle, Department of Finance and Administrative Services</p>
<p><b>Debt</b></p> <ul style="list-style-type: none"> <li>• General Obligation Limited Tax Bond Debt</li> <li>• General Obligation Unlimited Tax Bond Debt</li> <li>• Debt backed by General Fund</li> </ul>	<p>The City of Seattle, Department of Finance and Administrative Services The City of Seattle Adopted Budgets, 2008-2017</p> <p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs), 2008-2017: Table S12: Ratios of Net General Bonded Debt Outstanding Table S14: Legal Debt Margin Information</p>

Indicators	Source
<ul style="list-style-type: none"> <li>Bond Ratings</li> </ul>	LTGO Bonds Debt Service by Funding Source/General Fund Subsection Management Discussion and Analysis: Debt Administration
<p><b>Pension Liabilities</b></p> <ul style="list-style-type: none"> <li>SCERS unfunded liability and membership</li> <li>SCERS funding ratios</li> <li>Firefighter’s Pension Fund’s actuarial accrued liability</li> <li>Police Relief and Pension Funds’ actuarial accrued liability</li> <li>LEOFF</li> <li>OPEB Annual Costs</li> <li>OPEB Healthcare Blended Premium Subsidy Unfunded Actuarial Accrued Liability</li> </ul>	SCERS January 1, 2018 Actuarial Valuation Report, Milliman  Milliman, Seattle City Employees’ Retirement System January 1, 2018 Actuarial Valuation Report  Seattle Firefighter’s Pension Board, Executive Secretary  Retired Seattle Police Officers’ Association Pension Office, Executive Secretary  Washington State Department of Retirement Services, Public Records  The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs), 2017 Section 11: Pensions, Deferred Compensation, and Other Postemployment Benefits, page 133 Table 11-12: Annual OPEB Cost and Net OPEB Obligation
<p><b>Financial and Operating Position</b></p> <ul style="list-style-type: none"> <li>Citywide Net Position</li> <li>Governmental Fund Balances</li> <li>General Fund Revenue/Surplus as percent of Revenue Estimates</li> <li>Unassigned General Fund Balances</li> <li>Liquidity</li> </ul>	The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs) 2008-2017: Table A-2: Changes in Net Position Resulting from Changes in Revenues and Expenses Table A-4: Revenue, Expenditure and Fund Balance Summary, General Fund Subfunds Table B-1: Statement of Net Position Table B-4: Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds Table C-1: General Fund, Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Table 1-1: Governmental Fund Balances
<p><b>City Employment</b></p> <ul style="list-style-type: none"> <li>City FTEs by department</li> </ul>	The City of Seattle Adopted Budgets 2008-2017
<p><b>Economic and Demographic</b></p> <ul style="list-style-type: none"> <li>Seattle’s population</li> <li>Seattle jobs</li> <li>Unemployment rate</li> <li>Median Income</li> <li>Self Sufficiency Income</li> </ul>	The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs), 2017, Table S-16 Washington State Employment Security Department Quarterly Census of Employment and Wages, Covered Employment Summaries, provided by the Puget Sound Regional Council

Indicators	Source
<ul style="list-style-type: none"> <li>Renters and Homeowners</li> </ul>	2017 American Community Survey 1-Year Estimates: Median Income in the Past 12 Months The Self Sufficiency Standard for Washington State 2017, prepared for the Workforce Development Council of Seattle King-County 2017 American Community Survey 1-year estimates Tenure, City of Seattle
<b>Property values</b> <ul style="list-style-type: none"> <li>Assessed property values</li> </ul>	King County Department of Assessments Certifications of Assessed Valuations, 2018-2017

**Accounting Methods and Adjusting for Inflation**

The governmental and business-activity revenues and expenses presented in this report are reported in the City’s government-wide financial statements in accordance with the accrual basis of accounting—revenues and expenses are reported in the period in which the underlying event occurs. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the liability is incurred, rather than when cash is received or disbursed.

In contrast, the section of this report on Financial and Operating Position includes revenue and expenditure information that is reported using a modified accrual basis of accounting, which means revenues are recorded when measurable and available, and expenditures are recorded when the liability is incurred except for interest on long-term debt, judgments and claims, workers’ compensation, and compensated absences, which are recorded when paid.

To account for inflation, we expressed most financial data in 2017 dollars. When we adjusted data, we noted the adjustment. We adjusted dollar amounts to equal the purchasing power in 2017 using the Seattle-Tacoma-Bellevue Consumer Price Index (CPI) for All Urban Consumers, 1999-2018, as reported by the Bureau of Labor Statistics, U.S. Department of Labor. Because our inflation adjustments are based on 2017 purchasing power, the figures in this report may differ from those in our 2012-2016 financial condition report, which adjusted for inflation based on 2016 purchasing power.

Unless otherwise stated, financial data are based on the City’s fiscal year. In many cases, numbers are rounded for ease of use and reporting.

**Data Verification and Conclusion**

We reviewed information for reasonableness and consistency. We questioned or researched data that needed additional explanation. We did not, however, audit the accuracy of source documents or the reliability of the data in computer-based systems. As nearly all the



financial information presented in the report is from the City's Comprehensive Annual Financial Reports, we relied on the work performed by the City's external financial auditors. Our intent was to provide reasonable assurance that the reported information presented a fair picture of the City's financial health.

When presenting data on the City's employment, we used the City's Adopted Budget books for 2008-2017. This information is prepared by the City Budget Office. We did not attempt to verify the accuracy of this information.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Capital Assets

We did not include information on the City's capital assets because each of the City of Seattle's capital departments has its own asset management system and the City does not produce an annual citywide capital asset report. Given the wide range of asset types the City owns, and the different ways City departments assess asset condition, replacement value, and the funding gap for infrastructure needs, we found that high-level summary data on the City's assets is not helpful and could be misleading. If City officials would like more information on the City's capital assets, we believe this scope of work would be best performed as separate audits of individual departments.

## Disclaimer

This report is provided as of May 13, 2019, the date of publication. The financial data and other information provided herein are not warranted as to completeness or accuracy **for purposes of federal securities laws and regulations** and are subject to change without notice. Since the date of publication, there may have been events that occurred subsequent to such date that would have a material adverse effect on the financial information that is presented herein.

**The information herein has NOT been prepared in conjunction with any offering of bonds or other securities by the City and is NOT intended to inform any investment decision by any current or potential future bondholder.** Nothing in these materials constitutes an offering document or is intended to supplement or amend any offering document. In no event shall the City be liable for any use by any party of, for any decision made or action taken by any

party in reliance upon, or for any inaccuracies or errors in, or omissions from, the information contained herein.

**Further Information**

For additional information on the City of Seattle's finances, please visit the following websites:

City of Seattle's Comprehensive Annual Financial Reports  
<https://www.seattle.gov/financial-services/comprehensive-annual-financial-report>

City of Seattle Adopted Budgets and Capital Improvement Programs  
<http://www.seattle.gov/financedepartment/budgetarchives.htm>

Seattle City Employees' Retirement System Annual reports  
<http://www.seattle.gov/retirement/about-us/financials-and-governance>

King County Property Tax Assessments  
<http://www.kingcounty.gov/depts/assessor.asp>

## APPENDIX A

### Debt

#### **Washington State Law Limits Local Jurisdiction General Obligation Debt**

Washington State law limits counties, cities, and towns to 1.5 percent of the assessed value of taxable property for indebtedness without the approval of three-fifths of the voters. This is the limit for the City's limited tax general obligation (LTGO) debt. The City of Seattle may issue unlimited tax general obligation (UTGO) bonds if a proposition authorizing their issuance is approved by 60 percent of the voters in an election in which the number of voters exceeds 40 percent of the voters in the most recent general election. Washington State law limits the combined value of UTGO and LTGO bonds to 2.5 percent of the assessed value of taxable property. In 2017, the City had outstanding UTGO debt of \$291.6 million and LTGO debt of \$720.8 million, which was within the limits imposed by state law.

#### **Revenue Bonds**

Revenue bonds are used to provide financing for Seattle City Light's and Seattle Public Utilities' capital programs. Payment of principal and interest on these bonds is derived solely from the revenues generated by the issuing utility. No tax revenues are used to pay debt service. Although revenue bonds are not subject to a statutory limit, the utilities' ability to repay debt with interest is a practical constraint. As of December 31, 2017, the utilities had \$4.23 billion in outstanding revenue bonds.

#### **City of Seattle Debt Policies**

The Director of Debt Financing, within the Department of Finance and Administrative Services (FAS), manages the City's issuance of bonds to finance utility, transportation, construction, and other major capital improvement projects throughout Seattle. The City's Debt Management Policy Advisory Committee (DMPAC) reviews all financing proposals,<sup>14</sup> and the Seattle City Council authorizes and approves all bond sales. The use of debt financing by the City is subject to federal and state law and is guided by debt and financial policies adopted by the Mayor and City Council.

City Council Resolution 31553, adopted by the City Council in November 2014, updated and restated debt management policies in four key areas: 1) credit ratings, 2) process for developing debt financing plans, 3) debt standards and structure, and 4) debt

<sup>14</sup> Pursuant to Seattle Municipal Code 3.76.010, DMPAC members include the Director of Finance, the Chair of the City Council Finance and Budget Committee, the City Budget Director, the Director of the Central Staff Division of the City Council, the Director of Seattle City Light, and the Director of Seattle Public Utilities.

administration and process.<sup>15</sup> The City's debt management policies state that the City:

*Seeks to maintain the highest practical credit ratings for all categories of short-and long-term debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.*

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<sup>15</sup> Copies of the City's debt management policies can be found at [https://www.seattle.gov/financedepartment/financial\\_policies.htm](https://www.seattle.gov/financedepartment/financial_policies.htm).

## APPENDIX B

### Pensions and Other Post-Employment Benefits

#### City of Seattle Pension Plans

As shown in Exhibit 22 below, City of Seattle employees are eligible for coverage by one of five defined benefit plans. The City administers the first three plans. The State of Washington administers the two LEOFF plans through the State Department of Retirement Systems (DRS).

**Exhibit 23: City of Seattle Pension Plans, Members and Annuitants<sup>16</sup>**

Plan	Date of count	Contributing or vested members	Annuitants (retirees)
Seattle City Employees Retirement System (SCERS)	January 1, 2018	9,284	6,534
Firemen’s Pension Fund (FPEN)	December 31, 2017	8	648
Police Relief and Pension Fund (PPEN)	December 31, 2017	5	710
Law Enforcement Officers’ and Firefighters’ Retirement System (LEOFF 1)	December 31, 2017	13	1862
Law Enforcement Officers’ and Firefighters’ Retirement System (LEOFF 2)	December 31, 2017	1839	566

Source: Office of City Auditor analysis of data from: SCERS Jan 1, 2018 Actuarial Evaluation (Milliman), Seattle Firefighter’s Pension Board, Retired Seattle Police Officers’ Association Pension Office, and Washington State Department of Retirement Services

#### Firemen’s Pension Fund and Police Relief and Pension Fund liabilities and annual costs

As of December 31, 2017, **the Firemen’s Pension Fund’s (FPEN)** pension liability was \$98.6 million. FPEN is funded on a pay-as-you-go-basis<sup>17</sup> and is funded almost entirely by the City’s General Fund. In 1994, the City adopted a policy to fully fund FPEN by the end of 2018; in 2016, the City Council adopted another ordinance amending that date to December 31, 2028. If the 2028 goal is met, starting that year FPEN will be funded through its investment fund rather than the General Fund.

As of December 31, 2017, **the Police Relief and Pension Fund’s (PPEN)** actuarial accrued liability was \$92.9 million. Like FPEN, PPEN is

<sup>16</sup> An annuitant is a person who is entitled to receive benefits from an annuity, in this case a City of Seattle employee who is entitled to retirement benefits.

<sup>17</sup> A pay-as-you-go basis means that the City pays pension benefits to beneficiaries from the General Fund, rather than from an investment fund.

funded on a pay-as-you-go basis and is funded almost entirely by the City's General Fund. Unlike FPEN, PPEN has not set a target date for fully funding their actuarial accrued liabilities. In 2017, the City paid \$19.4 million for PPEN benefits.

## LEOFF liabilities and annual costs

LEOFF Plan 1 is fully funded and required no contributions from its members or members' employers in 2016.

LEOFF Plan 2 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. The City of Seattle's contributions to LEOFF Plan 2 were \$15.3 million for the year ended December 31, 2017. The City also contributed \$9.43 million in 2017 for its proportionate share of prior Fund 2 service costs, per the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board.

## The City of Seattle's other post-employment benefit (OPEB) liabilities

The City also incurs liabilities for Other Post-Employment Benefits (OPEB). OPEB benefits are benefits other than pensions (such as health care benefits) that state and local governments provide their retired employees. The City of Seattle incurs liabilities for 2 types of OPEB benefits:

1. A healthcare blended premium subsidy and
2. Medical benefits for retirees of the Firefighter's Pension Plan and the Police Relief and Pension Plan.

**Health Care Blended Premium Subsidies:** City employees who retire under SCERS and LEOFF 2 do not receive paid medical benefits, but they may elect to purchase health care in the same pool as active employees. Because this may lower their health costs by providing them lower insurance premiums than they could otherwise obtain in the marketplace, this is considered an "implicit subsidy." The cost of this subsidy is absorbed as part of the City's annual health care expenditures. The City refers to this subsidy as its Healthcare Blended Premium Subsidy.

**Medical Benefits:** The Firefighter's Pension Plan and the Police Relief and Pension Plan provide medical benefits for eligible retirees. In accordance with the City's pay-as-you-go policy, annual payments for these benefits are paid out of the General Fund. These payments totaled \$23.5 million in 2017.

Per the City of Seattle's 2017 Comprehensive Annual Financial Report, the City of Seattle's liabilities for all other post-employment benefits, including the healthcare blended premium subsidy and medical benefits due to FPEN and PPEN retirees, was \$171.1 million. This included \$58.8 million for the healthcare blended premium summary, \$50 million for medical benefits for the Firefighter's Pension Plan, and \$62.3 million medical benefits for the Police Relief and Pension Plan.

## APPENDIX C

### Seattle Office of City Auditor Mission, Background, and Quality

#### Assurance

**Our Mission:**

To help the City of Seattle achieve honest, efficient management and full accountability throughout City government. We serve the public interest by providing the City Council, Mayor and City department heads with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the well-being of Seattle residents.

**Background:**

Seattle voters established our office by a 1991 amendment to the City Charter. The office is an independent department within the legislative branch of City government. The City Auditor reports to the City Council and has a four-year term to ensure her/his independence in deciding what work the office should perform and reporting the results of this work. The Office of City Auditor conducts performance audits and non-audit projects covering City of Seattle programs, departments, grants, and contracts. The City Auditor's goal is to ensure that the City of Seattle is run as effectively, efficiently, and equitably as possible in compliance with applicable laws and regulations.

**How We Ensure Quality:**

The office's work is performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. These standards provide guidelines for audit planning, fieldwork, quality control systems, staff training, and reporting of results. In addition, the standards require that external auditors periodically review our office's policies, procedures, and activities to ensure that we adhere to these professional standards.

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