

City of Seattle Financial Condition 2012-2016

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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 five years of data for several of the financial and economic indicators analyzed, allowing public officials to see historical trends and identify areas that may need attention.

This audit report was mandated by City Ordinance 125204, which was passed by the Seattle City Council on November 21, 2016. In accordance with the ordinance, a second report will be prepared in September 2018, and subsequent reports will be prepared biennially thereafter.

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 sufficient 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 8 key areas:

1. Revenues and Expenses
2. Debt
3. Pension Liabilities
4. Capital Assets
5. Financial and Operating Position
6. City Budget Trends
7. Citywide Employment
8. Economic and Demographic Information

To account for inflation in this report, we expressed most financial data in constant 2016 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 five years. The City maintains a high liquidity ratio, meaning that it has sufficient funds available to pay short-term bills. As of 2017, 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 has investments worth \$2.56 billion to support its main employee pension plan, the Seattle City Employees Retirement System 1 (SCERS 1). Additionally, the City contributes to the pension plan based on an amortization schedule designed to fully fund its actuarial accrued liability by 2043.¹

The City is committed to maintaining reserves and has both an Emergency Subfund and a Rainy Day Fund 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 \$47.4 million at the end of 2016. The City's Emergency Subfund is set aside for unplanned expenses, and it had a balance of \$60 million at the end of 2016.

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, since 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). For more information on the City's CIP budgets, see the City Budget Trends section of this report.

Finally, City leaders are continually challenged to address complex social problems, such as homelessness and housing affordability, while still maintaining a balanced budget.

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

¹ See the Pension Liabilities section of this report for more information.

REVENUES AND EXPENSES

Why are Revenues and Expenses Important?²

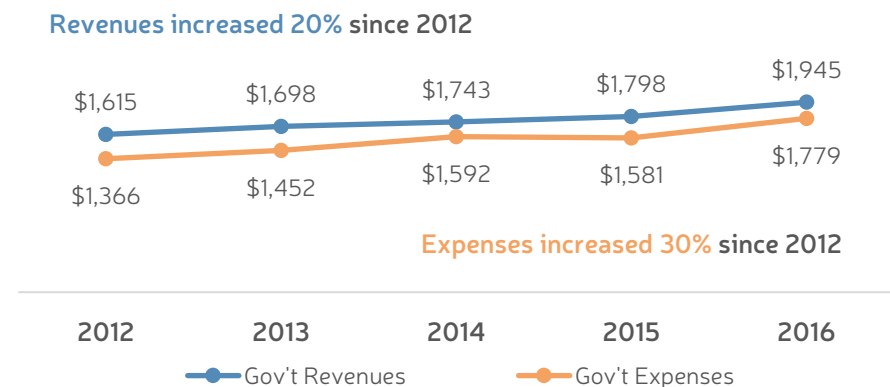
Revenues determine the City’s capacity to provide services, and diverse revenues can help the City withstand changes in the local or regional economy. Expenses are the City’s costs for providing services. Common expenses include wages and salaries, health and pension obligations, and costs related to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

Governmental Revenue and Expense Trends

Revenues related to governmental activities have exceeded expenses for the last 5 years. As can be seen in Exhibit 1, revenues increased 20 percent while expenses increased 30 percent.

Exhibit 1: City of Seattle Governmental Activity Revenues and Expenses, 2012-2016 (millions, adjusted³)



Source: City of Seattle CAFRs, 2012-2016

² The governmental and business-activity revenues and expenses presented in this section 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.

³ To account for inflation, we express most financial data in constant 2016 dollars. When we adjusted data, we noted the adjustment.

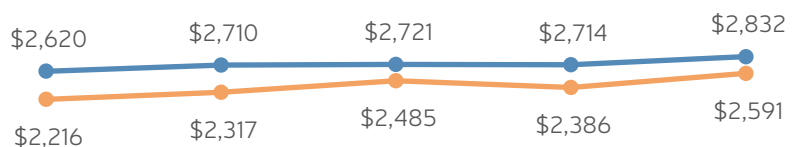
This trend in revenues exceeding expenses reflects an increase in property tax revenues due to the passage of voter-approved levies and the fact that these revenues are often collected before they are spent. Further, as demonstrated by the City’s CIP budgets, the City Council and the Executive regularly decide to collect more money than is required in a given year to increase reserves and invest in capital projects that take many years to complete. This contributes to the excess of revenues over expenses in a given year.

As we discuss in this report’s Financial and Operation Position section, the City’s revenues are kept in a number of different funds. The total of the City’s governmental fund balances increased between 2008 to 2016 to \$994.2 million. Most types of governmental funds have constraints that restrict how they can be used, with the exception of unassigned funds. Unassigned fund balances are the City’s net resources available for all purpose spending. In 2016, the unassigned fund balances for the City’s major governmental funds totaled \$155.3 million. Although unassigned, the Seattle City Council has reserved much of this funding in two subfunds: the City’s “Rainy Day Fund” and its Emergency Subfund. The Rainy Day Fund can be used in the event of revenue shortfalls and the Emergency Fund can be used in the event of unanticipated increased in expenses.

Between 2012 and 2016, Seattle’s population increased 11 percent, from 616,500 to 686,800. During this same period, on a per Seattle resident basis, governmental expenses per capita increased 17 percent, while governmental revenues per capita increased about 8 percent.

Exhibit 2: City of Seattle Governmental Activity Revenues and Expenses Per Capita,⁴ 2012-2016 (adjusted)

Revenues per capita increased 8% since 2012



Expenses per capita increased 17% since 2012

2012 2013 2014 2015 2016

—●— Gov't Revenues —●— Gov't Expenses

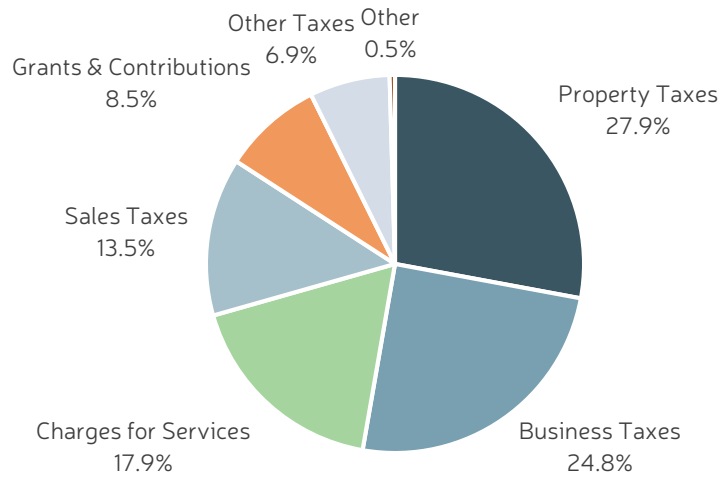
Source: City of Seattle CAFRs, 2012-2016, and Washington State Office of Financial Management data

⁴ Source of Seattle population data: Washington State Office of Financial Management, as presented annually in the City’s Comprehensive Annual Financial Report (CAFR).

Governmental Activity Revenues

Seattle’s governmental revenue sources are diversified, although heavily reliant on property taxes and business taxes. In 2016, property and business taxes provided over half the revenues used to support governmental activities, charges for services accounted for almost 18 percent, and sales taxes provided almost 14 percent. Exhibit 3 shows 2016 revenues for governmental activities by source.

Exhibit 3: City of Seattle Revenues for Governmental Activities by Source, 2016⁵

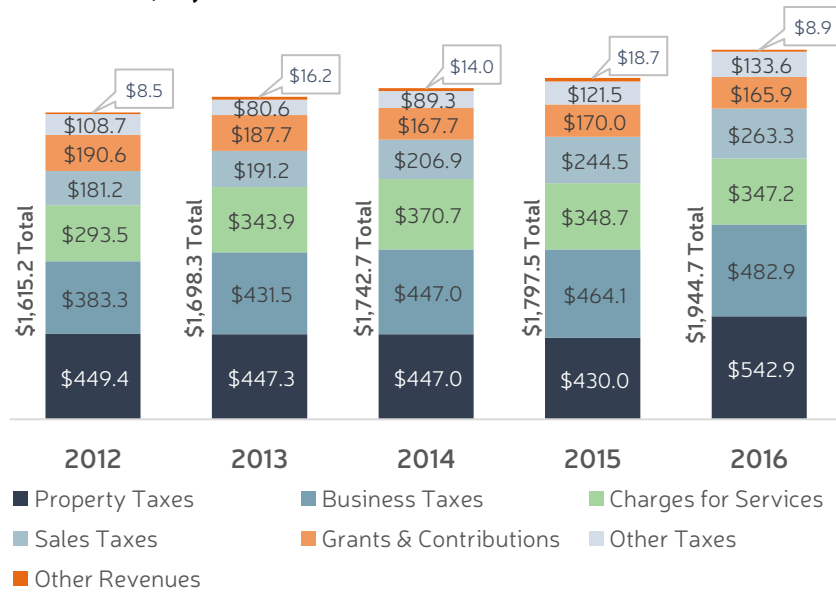


Source: City of Seattle CAFR, 2016

Between 2012 and 2016, revenues from property and business taxes consistently provided about half of the revenues used to support governmental activities.

⁵ Pie charts in the Revenues and Expenses section of this report may not total 100 percent due to rounding.

Exhibit 4: City of Seattle Sources of Governmental Revenues by Type, 2012-2016 (millions, adjusted)



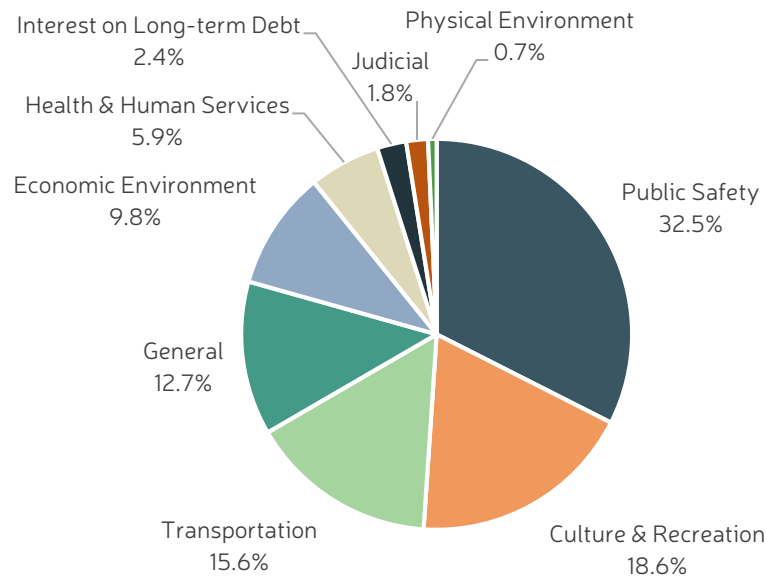
Source: City of Seattle CAFRs, 2012-2016

Governmental Expenses

Governmental activities include services such as public safety, transportation, parks, and human services. Governmental activities capture all City services, with the exception of services 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 \$1.8 billion in 2016. As can be seen in Exhibit 5, public safety costs were the largest component, at about 32 percent. Culture and Recreation made up almost 19 percent of 2016 expenses, and Transportation made up almost 16 percent.

Exhibit 5: City of Seattle Governmental Activity Expenses, 2016



Source: City of Seattle CAFRs, 2016

Listed below are examples of the types of activities that are charged to each category.

Public Safety – Seattle Police Department, Seattle Fire Department, emergency medical services, disaster response, domestic violence prevention
 2016 Expenses: \$577,631,000

Culture and Recreation – Libraries, community centers and parks, Seattle Center facilities and programs, arts and cultural affairs
 2016 Expenses: \$330,984,000

Transportation – Street and sidewalk maintenance, street signs, open spaces and trails, shoreline park improvement, school zone cameras, streetcars
 2016 Expenses: \$276,866,000

General – Centralized accounting, fleet management, debt management, labor relations, workers’ compensation, civil rights enforcement
 2016 Expenses: \$226,438,000

Economic Environment – Family and youth services programs, building permits, traffic and street review, workforce development, community development
 2016 Expenses: \$175,133,000

Health and Human Services – Early learning programs, aging programs, family support programs, veteran’s programs, homeless response programs

2016 Expenses: \$104,687,000

Interest on Long-Term Debt – Interest on Limited Tax General Obligation and Unlimited Tax General Obligation bonds

2016 Expenses: \$42,942,000

Judicial – Seattle Municipal Court

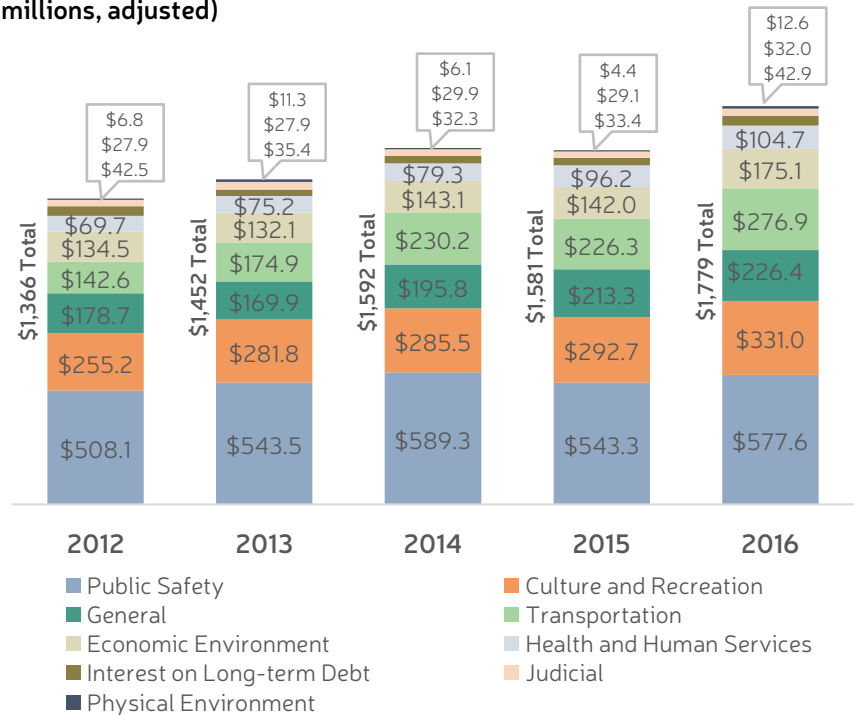
2016 Expenses: \$32,025,000

Physical Environment – Seattle Animal Shelter, environmental preservation programs, energy conservation programs

2016 Expenses: \$12,558,000

As shown in Exhibit 6, expenses in most categories grew between 2012 and 2016, and public safety expenses consistently accounted for almost a third or more of total expenses.

Exhibit 6: City of Seattle Governmental Activity Expenses, 2012-2016 (millions, adjusted)

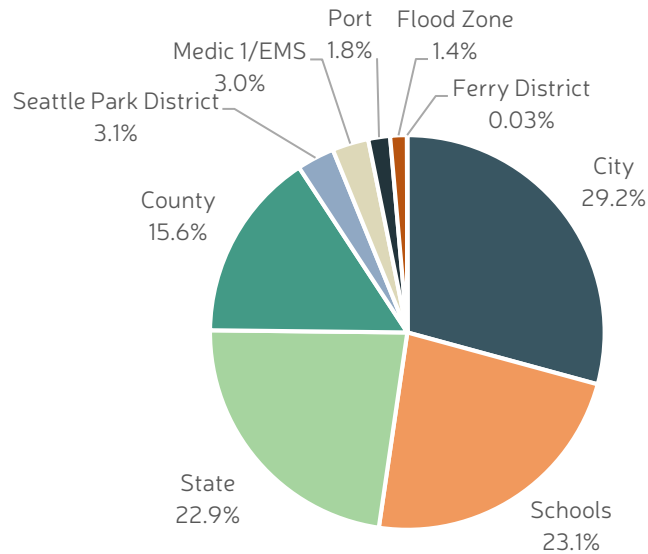


Source: City of Seattle CAFRs, 2012-2016

Where Do Your Property Taxes Go?

The property tax rate in the City of Seattle in 2016 was \$9.49 per \$1,000 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 2016, the City of Seattle received a little over 29 cents of every dollar of property tax paid in the city.

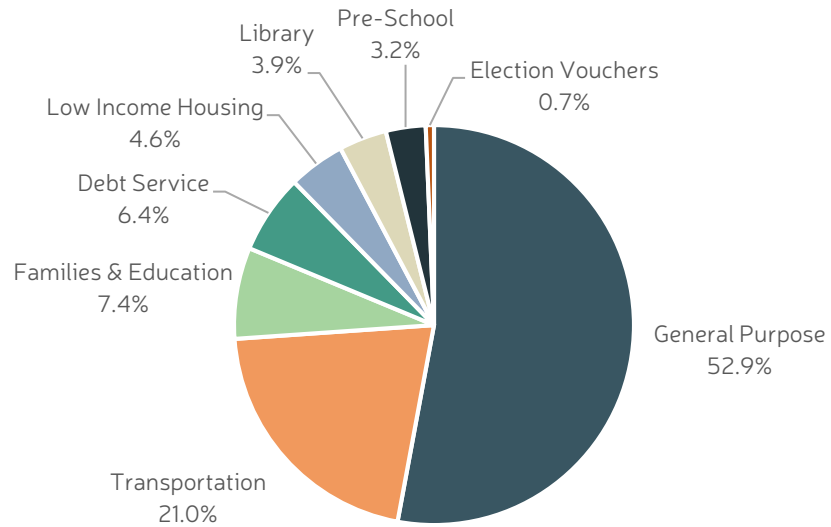
Exhibit 7: Components of Total Property Tax Levy, 2016



Source: City of Seattle 2016 Adopted Budget

With its share of property taxes, the City pays for a variety of services. In 2016, over half of each property tax dollar received by the City of Seattle went into the General Fund to pay for general purpose services such as police, parks, and fire protection. Over twenty percent supported transportation maintenance and improvements, almost five percent went toward low income housing, and more than ten percent supported education programs funded by the Families and Education Levy and the Seattle Preschool Levy.

Exhibit 8: Components of City's Property Tax Levy, 2016

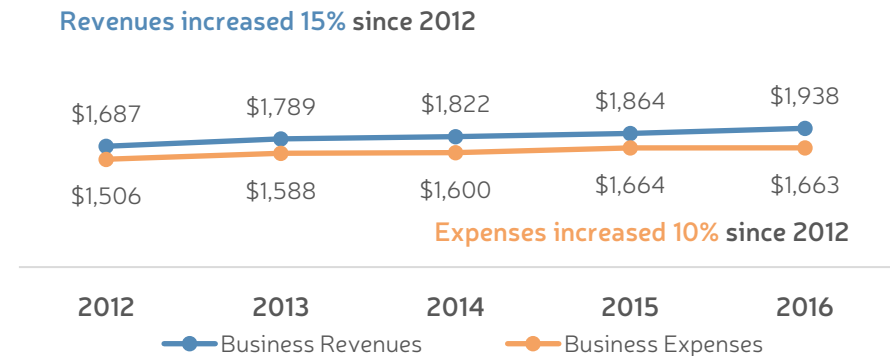


Source: City of Seattle 2016 Adopted Budget

Business Revenues and Expenses Trends

Business activities recover all or a significant portion of expenses through user fees and charges. Business activity revenues have exceeded expenses for the last five years. 2016 expenses were about 10 percent higher than 2012 expenses, while revenues increased about 15 percent during that period.

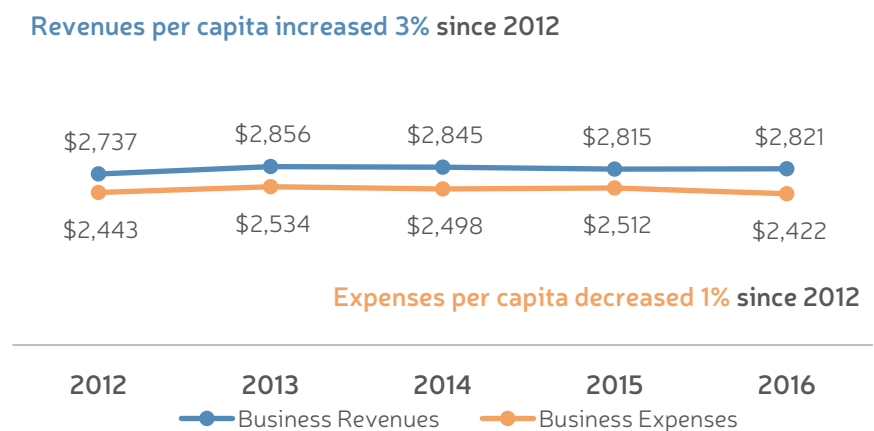
Exhibit 9: City of Seattle Business Revenues and Expenses, 2012-2016 (millions, adjusted)



Source: City of Seattle CAFRs, 2012-2016

Between 2012 and 2016, on a per Seattle resident basis, business expenses per capita decreased about 1%, while business revenues per capita increased about 3%.

Exhibit 10: City of Seattle Business Revenues and Expenses per capita, 2012-2016 (millions, adjusted)

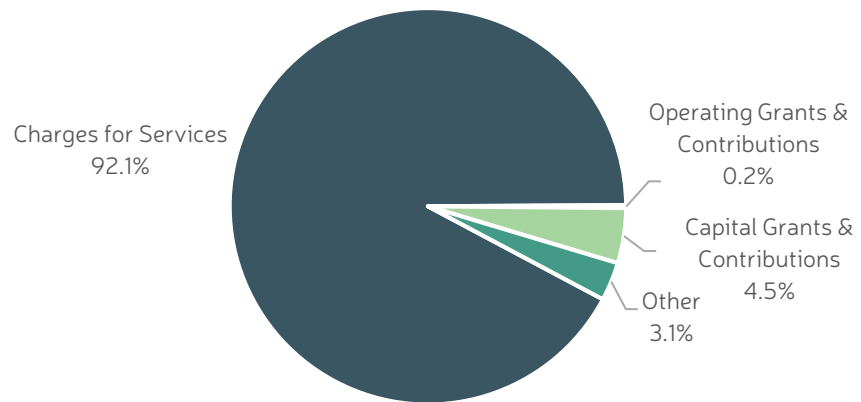


Source: City of Seattle CAFRs, 2012-2016, and Washington State Office of Financial Management data

Sources of Business Activity Revenue

In 2016, charges for services accounted for about 92 percent of business activity revenues, grants and contributions made up another 4.5 percent, and other revenues accounted for about 3 percent.

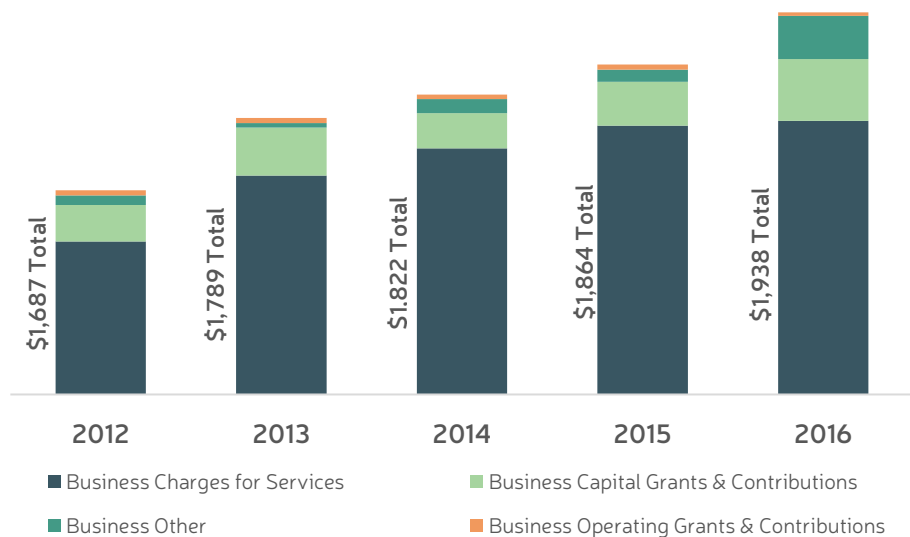
Exhibit 11: City of Seattle Business Activity Revenues by Source, 2016



Source: City of Seattle CAFR, 2016

As can be seen in Exhibit 12, charges for services have consistently provided the majority of revenue for business activities.

Exhibit 12: City of Seattle Business Activity Revenues by Type, 2012-2016 (millions, adjusted)

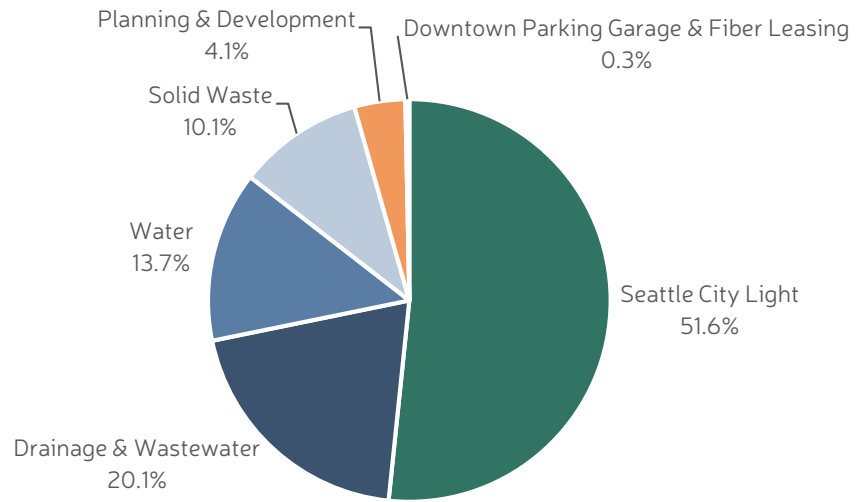


Source: City of Seattle CAFRs, 2012-2016

Business Activity Expenses

In 2016, the City’s two utilities accounted for over 95 percent of business activity expenses. Seattle City Light accounted for almost 52 percent of expenses, and Seattle Public Utilities (which includes Water, Drainage and Wastewater, and Solid Waste) accounted for almost 44 percent.

Exhibit 13: City of Seattle Business Activity Expenses by Type, 2016



Source: City of Seattle CAFRs, 2016

DEBT

Why is Debt Important?

The City of Seattle borrows money to provide funding for the acquisition and construction of major capital improvement projects and facilities. Financing capital projects through borrowing allows the City to spread the cost of large projects across many years. Paying for long-lived assets,⁶ such as libraries or parks, from current tax revenues would place a large burden on current taxpayers, while allowing future beneficiaries to escape the burden of payment. The use of debt effectively spreads the cost of acquiring or constructing capital assets over the life of the bonds.

What Types of Debt Does the City of Seattle Use?

Long-term debt

General obligation bonds can be issued for governmental activities. The City issues two types of general obligation bonds, Limited Tax General Obligation bonds (LTGO) and Unlimited Tax General Obligation bonds (UTGO). LTGO bonds are backed by the full faith and credit of the City, from all sources of revenues, including taxes. They are discretionary in that the City may issue these bonds if they stay within the limit imposed by Washington state law.⁷ UTGO bonds are always backed by property tax increases, and the tax increases must be approved by 60 percent of the voters.

In addition to general obligation bonds, the City also issues revenue bonds, which are used to provide financing for the capital programs of Seattle City Light and Seattle Public Utilities. The City does not pledge its full faith and credit to the payment of debt service on revenue bonds. 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, 2016, the utilities had \$3.8 billion in outstanding revenue bonds.

Short-term debt

The City of Seattle does not currently have any lines-of-credit. In lieu of this, the City Council may approve the use of interfund loans to provide interim financing for a City capital project by allowing the City to borrow against its own internal funds.

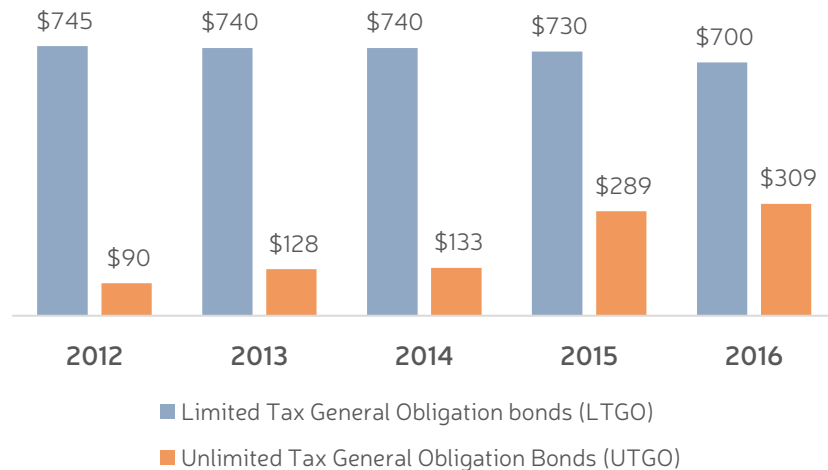
⁶ Assets are anything of value the City owns, for example, land, buildings, equipment, investment accounts, and cash.

⁷ Washington State law, RCW 39.36.020, limits counties, cities and towns to 1.5% of the assessed value of taxable property for indebtedness without the assent of three-fifths of the voters. This is the limit for the City's LTGO debt.

What is the City’s General Obligation Debt by Type?

Exhibit 14 shows the City of Seattle’s general obligation debt by type for the period 2012-2016. During this period, the City’s total general obligation debt rose by almost 21 percent, from \$834.5 million in 2012 to \$1,008.9 million in 2016. This increase was driven by UTGO (voter approved) debt, which increased 244 percent from 2012 to 2016, whereas LTGO (City Council approved) debt decreased about 6 percent during this same period.⁸ According to the City’s Debt Manager, the UTGO debt increase was driven largely by the \$290 million voter-approved central seawall bond measure, which provided a portion of the funding to construct Phase 1 of the Elliott Bay Seawall Project.

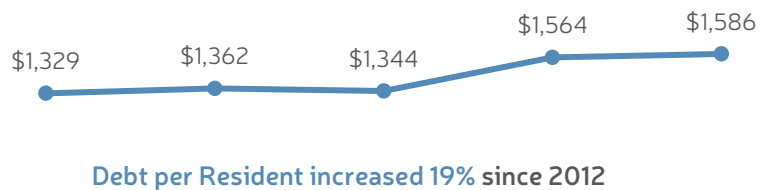
Exhibit 14: City of Seattle Debt by Type, 2012-2016 (millions, unadjusted)



Source: City of Seattle CAFRs 2012-2016

This increase in general obligation debt is shown as per Seattle resident debt in Exhibit 15.

Exhibit 15: City of Seattle General Obligation Debt per Resident, 2012-2016 (unadjusted)



Source: City of Seattle CAFRs 2012-2016 and Washington State Office of Financial Management data

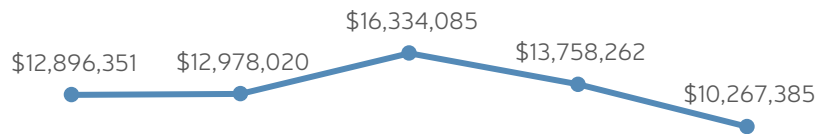
⁸ Because LTGO debt is generally higher than UTGO debt—\$699.7 million LTGO in 2016 compared to \$309.2 million UTGO—the overall percentage increase in total general obligation debt was only 21 percent, much less than the 244 percent increase in UTGO debt alone.

How Much City Debt Service is Paid by the General Fund Annually?

City LTGO debt that is backed by the General Fund is the amount of debt service on LTGO bonds that is allocated from the City’s General Fund. However, this does not represent all the debt service owed on LTGO bonds each year, as some LTGO debt payments can come from other funds. Examples of funds that may also cover LTGO debt include the Cumulative Reserve Subfund, Library Fund, and Transportation Fund.

The City’s debt service payments from the General Fund decreased 20 percent from 2012 to 2016.

Exhibit 16: City of Seattle Debt Service Covered by the General Fund, 2012-2016 (unadjusted)



Debt service from the General Fund decreased 20% since 2012

2012 2013 2014 2015 2016

Source: City of Seattle CAFRs 2012-2016

The City’s 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,⁹ 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 administration and process.¹⁰ Per Policy 1. Credit Ratings, the City of Seattle:

⁹ 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.

¹⁰ Copies of the City’s debt management policies can be found at https://www.seattle.gov/financedepartment/financial_policies.htm.

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.

The City Has Consistently Maintained High Bond Ratings

Strong credit ratings for municipal debt (general obligation and revenue bonds) decreases borrowing costs because it means the debt is considered a good credit risk for investors. There are three major rating agencies that evaluate municipal bonds for creditworthiness: Moody’s Investors Service (Moody’s), Fitch Ratings (Fitch), and Standard & Poor’s (S&P). Moody’s highest bond rating is Aaa, Fitch’s and S&P’s highest ratings are AAA.

As can be seen in Exhibit 17, the City’s UTGO bonds have received the highest ratings possible for the last 5 years. For the last 5 years, the City’s LTGO bonds have received the second highest ratings possible from Moody’s and Fitch—denoting very strong creditworthiness—and the highest from S&P.

The City’s credit rating on its LTGO bonds was upgraded by Fitch in 2016 to AAA, and by Moody’s in 2017 to Aaa. As a result, the City’s 2017 LTGO bonds are now rated Aaa by Moody’s, AAA by Fitch, and AAA by S&P’s, as shown in Exhibit 17. This means that, in 2017, 100 percent of the City’s general obligation bonds have the highest credit rating possible.

Exhibit 17: City of Seattle Bond Ratings, 2012-2017

	2012	2013	2014	2015	2016	2017
UTGO Bonds						
<i>Moody’s Investors Service</i>	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
<i>Fitch Ratings</i>	AAA	AAA	AAA	AAA	AAA	AAA
<i>Standard & Poor’s (S&P)</i>	AAA	AAA	AAA	AAA	AAA	AAA
LTGO Bonds						
<i>Moody’s Investors Service</i>	Aa1	Aa1	Aa1	Aa1	Aa1	Aaa
<i>Fitch Ratings</i>	AA+	AA+	AA+	AA+	AAA	AAA
<i>Standard & Poor’s (S&P)</i>	AAA	AAA	AAA	AAA	AAA	AAA

Source: City of Seattle CAFRs, 2012-2016 and City of Seattle Preliminary Official Statement Dated May 10, 2017

PENSION LIABILITIES

Understanding Pension Liability

Pension liabilities occur when public or private organizations provide their employees with defined benefit retirement plans. Defined benefit retirement plans are those in which employees and their employers agree to contribute a certain amount into a pension fund over time, and employees are guaranteed a regular amount of retirement income. 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).

In 2015 the City implemented the Governmental Accounting Standards Board (GASB) modified financial reporting standards for pension liabilities, GASB 67 and 68. GASB 67 requires that pension plans report total pension liability (TPL) and net pension liability (NPL) instead of the previously required UAAL. GASB 68 requires employers to report any NPL as a liability in their Statement of Net Position in their annual financial statements. Because NPL and UAAL use different methodologies to calculate pension liability, NPL differs from UAAL.

Starting December 31, 2015, the Seattle City Employees' Retirement System (SCERS 1) Annual Report complies with GASB 67 and the City of Seattle's December 31, 2015 financial statements comply with GASB 68. Both methods are currently reported in the SCERS 1 actuarial valuations and annual reports, although the City continues to set its SCERS 1 actuarially required contribution based on the UAAL. Our analysis of the SCERS 1 pension liability is based on the UAAL method because this is the liability used as the basis for SCERS 1 annual contributions and amortization plan (see *How is the City Addressing SCERS 1 Unfunded Pension Liability?*).

City of Seattle Pensions

City of Seattle employees are eligible for coverage by one of the following defined benefit plans: Seattle City Employees' Retirement System (SCERS 1 or SCERS 2),¹¹ Firefighters' Pension Fund, Police

¹¹ 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. Given that SCERS 2 is effective January 1, 2017, the historical information provided in this report relates only to SCERS 1.

Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The City administers the first 3 plans. Because these three plans are defined benefit plans, the City of Seattle accrues liabilities for the future payments it will owe retirees. The State administers LEOFF through the State Department of Retirement Systems (DRS). According to DRS and the Office of the State Actuary, LEOFF plans are fully funded.

SCERS 1 Unfunded Pension Liability

As of January 1, 2017, per the 2017 SCERS 1 Actuarial Valuation, the actuarial value of net assets available for benefits was \$2,564.1 million and the actuarial accrued liability was \$3,766.4 million. A UAAL exists to the extent that actuarial accrued liability exceeds plan assets. As of January 1, 2017, SCERS 1 UAAL was \$1,202.3 million.

How is the City Addressing SCERS 1 Unfunded Pension Liability?

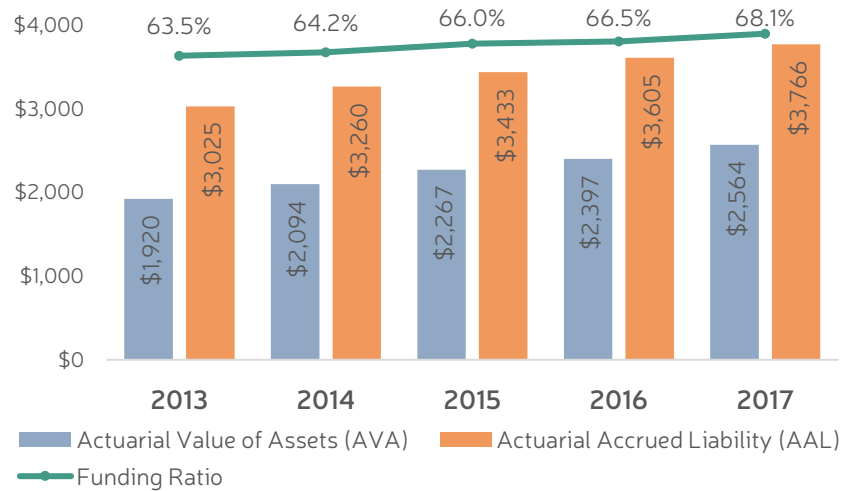
In August 2013, the Seattle City Council adopted a resolution to formally close the period over which any SCERS 1 unfunded liability would be amortized. The resolution stipulated that the 30-year amortization period would be closed as of the January 1, 2013 actuarial period. The result is that, as of January 1, 2017, 26-years remain on the amortization schedule to fully fund SCERS 1 UAAL. In other words, annual employer and employee contributions to the pension fund are calculated to ensure adequate retirement savings are available in the future, and to achieve 100 percent funding of the actuarial accrued liability by 2043.

What is SCERS 1 Funding Ratio and How Has it Changed Over Time?

One indicator of a pension plan's financial health is its funding ratio. The funding ratio is the Actuarial Value of Assets divided by the Actuarial Accrued Liability. SCERS 1 funding ratio was 68.1 percent on January 1, 2017, and, as shown in Exhibit 18, increased 4.6 percent from 2013 to 2017.

Exhibit 18 shows the plan funding ratio information for SCERS 1 for 2013-2017.

Exhibit 18. SCERS 1 Historical Plan Funding Ratio, and Value of Assets and Liabilities, 2013-2017 (millions, unadjusted)



Source: Milliman January 1, 2017 Actuarial Valuation

Many experts consider a funded ratio of about 80 percent or better to be sound for government pensions. The goal for the SCERS 1 program is a 100 percent funding ratio, which is being addressed through the amortization of the SCERS 1 UAAL as described above.

Other City of Seattle Retirement Funds and Liabilities

The City of Seattle administers two single-employer defined benefit plans in addition to SCERS 1 and SCERS 2: The Firefighters' Pension Fund (FPEN) and the Police Relief and Pension Fund (PPEN). While the City pays into benefit funds for all Seattle firefighters and police officers, FPEN and PPEN cover only the firefighters and police officers who were hired before October 1, 1977.¹² Therefore, both FPEN and PPEN are "closed" plans. The City is responsible for the payment of pension and medical benefits for the FPEN and PPEN plans.

- As of December 31, 2016, **the Firefighter's Pension Fund's** actuarial accrued liability was \$82.9 million. FPEN is funded on a pay-as-you-go-basis 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 adopted another ordinance amending that date to December 31, 2028.
- As of December 31, 2016, **the Police Relief and Pension Fund's** actuarial accrued liability was \$95.8 million. Like FPEN, PPEN is funded on a pay-as-you-go basis and is funded almost entirely by the City's General Fund. Unlike FPEN, PPEN has not

¹² In the 1970's, the City transitioned the management of pension benefits for uniformed firefighters and police officers from the City to the State LEOFF 1 plan administered through the State Department of Retirement Systems (DRS). Substantially all the City's current uniformed firefighters and police officers are enrolled in LEOFF 1 plan, or the LEOFF 2 benefit system that was created after LEOFF 1. The City is responsible for making annual contributions to the LEOFF 1 and LEOFF 2 plans, but does not administer the plans or manage their trust funds.

set a target date for fully funding their actuarial accrued liabilities.

The City of Seattle's Other Post Employment Benefit (OPEB) Liabilities

OPEB are benefits other than pension that retired employees may receive as part of their benefits package. To the extent that all or part of the cost of these benefits is guaranteed to retirees, they create a liability for the City. While the Governmental Accounting Standards Board (GASB) requires reporting and disclosure of the unfunded OPEB liability, GASB does not require that the liability be funded. The City of Seattle funds OPEB liabilities on a pay-as-you-go basis.

The City of Seattle currently has liability for two types of OPEB benefits: 1) the Healthcare Blended Premium Subsidy and 2) the Firefighters' Pension and Police Relief Pension Plan medical benefits.

Healthcare Blended Premium Subsidy: The City provides implicit subsidy of post-retirement health insurance costs by allowing SCERS 1 and LEOFF 2 retirees to purchase health care in the same pool as active employees. This does not result in any actual cost to the City, but serves to subsidize the cost for retirees by providing access to the large healthcare pool of active employees.

Firefighters' Pension Plan and Police Relief and Pension Plan/LEOFF 1: The plans provide medical benefits for eligible retirees as authorized under RCW 41.18 and RCW 41.26 for Firefighters' Pension and under RCW 41.20 and 41.26 for Police Relief and Pension. As of December 31, 2016, FPEN had 668 retirees and beneficiaries receiving benefits and 13 active, vested plan members. As of December 31, 2016, PPEN had 726 retirees and beneficiaries receiving benefits and 8 active, vested plan members. Total postemployment medical benefits in 2016 were \$11.1 million for the Firefighters' Pension Plan and \$13.1 million for the Police Relief and Pension Plan, totaling \$24.6 million for both plans. As noted above, in accordance with the City's pay-as-you-go policy, these benefits were paid out of the General Fund.

CAPITAL ASSETS

Why are Capital Assets Important?

The City uses physical infrastructure to provide services to residents. For example, the City provides transportation services through bridges, streets, and sidewalks; recreation through community centers, swimming pools, small craft centers, and golf courses; and public safety through police and fire stations and equipment. The condition of these assets, and how well they are cared for, affects the quality of services residents receive.

Eight City Departments Manage Most of the City's Capital Assets

Eight City departments manage most of the City's assets. These departments vary in the degree to which they have condition ratings for their assets, how they measure replacement value, and whether and how they calculate their funding gap for infrastructure needs.¹³ Exhibit 19 presents replacement value, condition, and funding gap by department, based on the best available data.

Exhibit 19: Capital Asset Data, Based on Best Available Data

	Capital Asset Replacement Value	Condition (average of ratings for all asset classes)	Capital Asset Funding Gap
Seattle Department of Transportation	\$ 20,000,000,000 Includes bridges, pavement, sidewalks, retaining walls, and areaways; does not include land.	Varies by asset from Good to Poor to Unknown	\$ 2,917,000,000
Seattle City Light	\$ 20,050,820,885 Does not include Seattle City Light land, in-City facilities, dam relicensing, dam safety, environmental, software and hardware, current major construction, and fleet capital budgets.	Varies by asset from New to Poor	\$ 687,658,287
Seattle Public Utilities ¹⁴	\$ 2,401,508,442 Solid Waste and Water assets include land; Drainage and Wastewater do not.	Varies by asset from Good to Poor to Unknown	Unknown

¹³ The funding gap is the difference between the funding needed to address infrastructure needs of a group of assets at a defined condition or level of service, and the funding that is currently available.

¹⁴ Seattle Public Utility officials told us that they plan to work with representatives from their three lines of business (Water, Drainage and Wastewater, and Solid Waste) in the next year to gather more complete data on asset condition and the funding gap.

	Capital Asset Replacement Value	Condition (average of ratings for all asset classes)	Capital Asset Funding Gap
Department of Finance and Administrative Services	\$ 1,336,972,149 Includes in-kind facility replacement cost; does not include land.	Good 37% Fair 15% Poor 47% Unknown 1%	\$ 141,991,498
Department of Parks and Recreation	\$ 1,138,931,419 Includes land.	Assessments underway as part of new Asset Management System	\$ 328,536,235
Seattle Center	\$ 766,666,782 Insured value including grounds, fountains, and buildings.	Varies by asset from Good to Fair, except the Blue Spruce building which is in Poor condition	\$ 113,000,000
Seattle Public Library	\$ 374,983,536 Insured value of buildings and contents; does not include land.	Central Library and all branches are operationally functional	Data being gathered in anticipation of Library levy renewal
Seattle Information Technology Department	\$42,828,641 Includes building, equipment and intangibles.	Assets are generally short-term and are repaired or replaced as needed	In process as part of the three-year consolidation period

Source: Each department in this table provided its own data. See Scope and Methodology section for specific sources.

In the Last 14 Years, Seattle Voters Approved Seven Levies to Support the City’s Capital Assets

In addition to funding capital improvements using general tax sources, such as debt financing, revenues from utility rates (for utility projects only), and the real estate excise tax, Seattle voters have since 2003 passed seven property tax levies to support and enhance the City’s capital assets. These include:

2015 Move Seattle Transportation Levy – 9 years, \$95+ million annually

Safe routes, congestion relief, and maintenance and repair of city bridges and arterial roadways

2014 Creation of the Seattle Parks District – \$35+ million annually

For major maintenance and capital projects

2012 Central Seawall Excess Levy – 30 years, \$290 million total

A portion of the funding needed to construct Phase 1 of the Elliott Bay Seawall Project

2012 Library Levy – 7 years, \$123 million total
Support, maintain, and improve core Library services, including preservation and maintenance of library facilities

2008 Parks and Green Spaces Levy – 6 years, \$146 million total
Acquire, develop, or restore existing or new parks, recreation and cultural facilities, green spaces, playfields, trails, community gardens, and shoreline areas

2006 Bridging the Gap Levy – 9 years, \$365 million total
Transportation maintenance and improvements

2003 Fire Facilities and Emergency Response Levy – 9 years, \$167 million total
Fire station replacement and upgrades, renovate fireboat, new Emergency Operations Center, and Joint Training Facility

Departments Vary in How They Fund Capital Assets

However, even with this additional funding through property tax levies, a large funding gap exists for maintaining the City's capital assets. The funding gap for the five departments that could provide us with information totaled \$3.5 billion, with most of that total being related to transportation.¹⁵

For transportation, most capital funding comes through the Move Seattle Transportation Levy and partnerships with other agencies (federal and state grants and local partnerships). The Seattle Department of Transportation also uses a portion of the City's Real Estate Excise Tax (REET) funding to address major maintenance and asset preservation.

The utilities continue to address their asset needs through rates. Each utility has a six-year strategic plan that specifies the needed near-term capital investments and then sets the rate path accordingly.

FAS relies on their rate structure and REET to fund major maintenance and asset preservation. FAS has also used voter approved levies to address major maintenance in the public safety facilities. This continues to be a funding option for FAS.

The Department of Parks and Recreation relies primarily on the Parks District but also receives a REET allocation each year to address asset maintenance.

¹⁵ Because each department has its own asset management program, and uses different methodologies and time periods to determine their capital asset funding gap, the total figure we list above is a gross estimate.

Seattle Center is working on a Master Planning process to develop an investment strategy. This is happening alongside the Key Arena redevelopment process and a potential partnership with the Seattle School District for redevelopment/rebuilding of Memorial Stadium. In the past, voter-approved levies have provided the funding for major capital investments at Seattle Center. Seattle Center also receives a portion of the City's REET revenue for asset preservation work.

FINANCIAL AND OPERATING POSITION

Why are Financial and Operating Position Important?

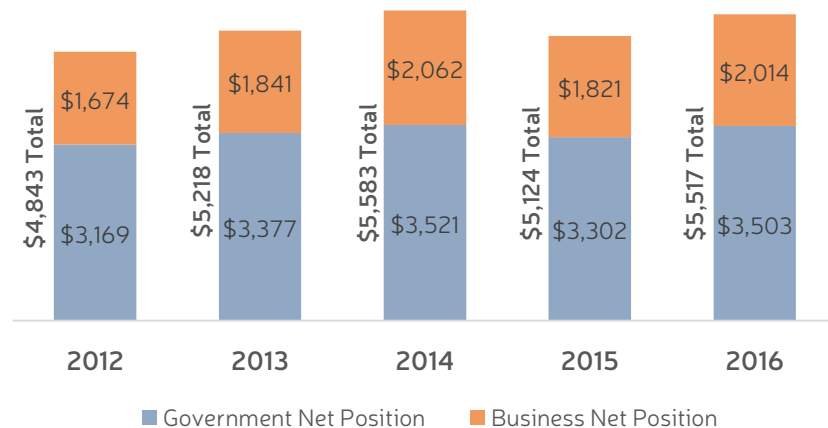
Net position is a financial position indicator that measures a government’s financial standing at a point in time. Operating position indicators, such as liquidity and operating fund balances, measure a government’s ability to balance its budget, maintain reserves for emergencies, and pay its bills on 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 2012. The dip in 2015 seen in Exhibit 20 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.¹⁶ This change in reporting increased the City’s total recorded liabilities and decreased its net position, as was the case for other large jurisdictions.

Exhibit 20: City of Seattle Citywide Net Position, 2012-2016 (millions, unadjusted)



Source: City of Seattle CAFRs, 2012-2016

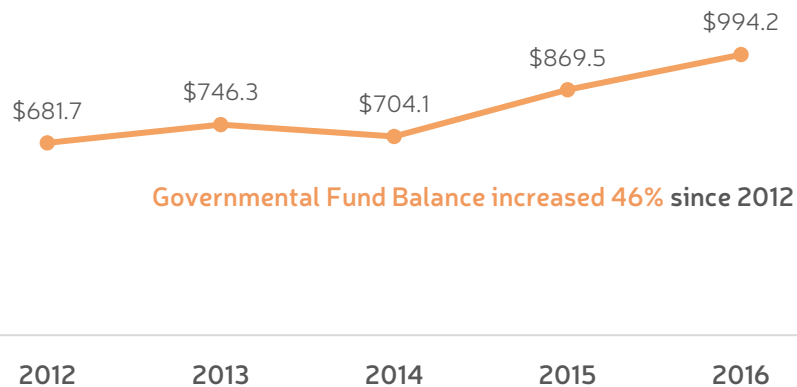
¹⁶ The Governmental Accounting Standards Board (GASB) modified the accounting and financial reporting of pensions by pension plans (GASB 67, effective 2014) and by state and local government employers (GASB 68, effective 2015). Because GASB 68 required many entities to increase what they report as their pension liability, the result of these changes for many entities with a retirement system was to reduce the entity’s net position.

Governmental Fund Balances

The City accounts for all revenues and expenditures within a system of accounting entities called “funds” or “subfunds.” The use of multiple funds is necessary to ensure compliance with state budget and accounting rules, and is desirable to promote accountability for specific projects or activities. For financial reporting purposes, most of the City’s basic services are reported in its various governmental funds.¹⁷

End-of-year fund balances are resources that 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 21, the total end-of-year balance for Seattle’s multiple governmental funds has generally been increasing since 2012, with the exception of a dip in 2014.

Exhibit 21: City of Seattle Governmental Funds End-of-Year Fund Balance, 2012-2016 (millions, adjusted)



Source: City of Seattle CAFRs, 2012-2016

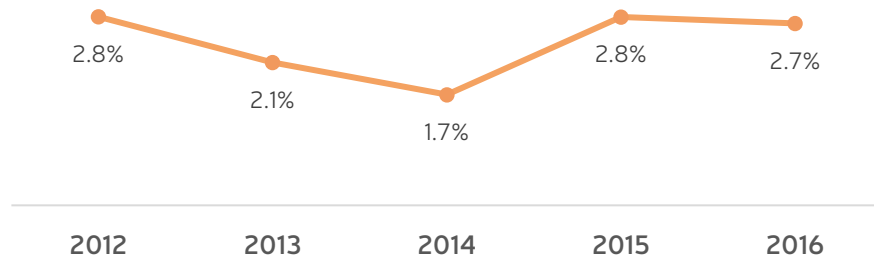
General Fund Revenue Estimates

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. Since 2012, actual General Fund revenues have not varied from estimates by more than 2.8 percent, and actual revenues have exceeded estimates in all years.

¹⁷ 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 22. City of Seattle General Fund Revenue Surplus as Percentage of Revenue Estimate, 2012-2016

Actual revenues exceeded estimates between 2012 and 2016



Source: City of Seattle CAFRs, 2012-2016

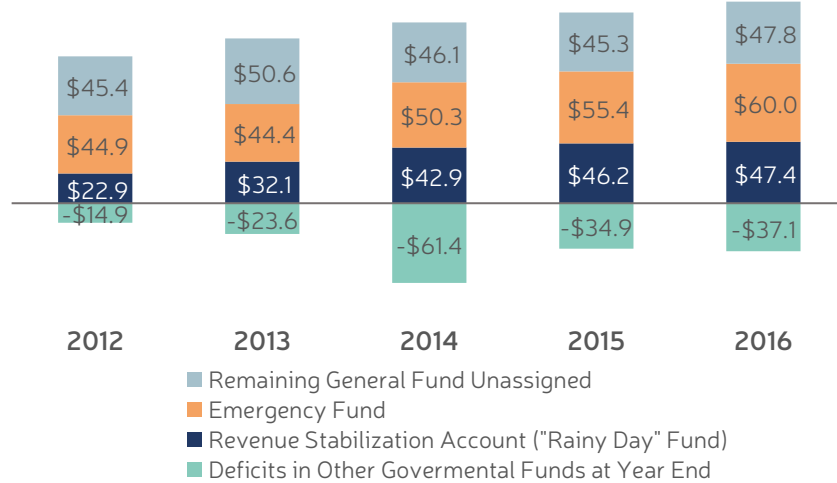
Unassigned General Fund Balance

Most types of funds have constraints that restrict how they can be used, with the exception of unassigned fund balances. The size of the City’s unassigned fund balances can affect its ability to withstand financial emergencies.

Since 2012, the City’s Unassigned General Governmental Fund Balance has steadily increased, and in 2016 it totaled \$155.3 million. Although unassigned fund balances represent resources that are available for any purpose, the Seattle City Council adopted financial policies that guide the use of unassigned balances for a number of subfunds, including the Revenue Stabilization Account (RSA) and the Emergency Subfund. The RSA, or “Rainy Day Fund,” was created to cover activities in the event of unanticipated revenue shortfalls, and it had a balance of \$47.4 million at the end of fiscal year 2016. The City’s Emergency Subfund is set aside for unplanned expenses, and it had a balance of \$60.0 million at the end of 2016.

After accounting for the Emergency Subfund and the RSA, the City’s Unassigned General Fund had a balance of \$47.8 million at the end of 2016. Year-end unassigned fund balances in the General Fund are offset by year-end deficits in other governmental funds, such as the fund for the Seattle Streetcar, and also can be used to cover future increases in City costs.

Exhibit 23: City of Seattle Unassigned General Fund Balance and Deficits in Other Governmental Funds, 2012-2016 (millions, adjusted)

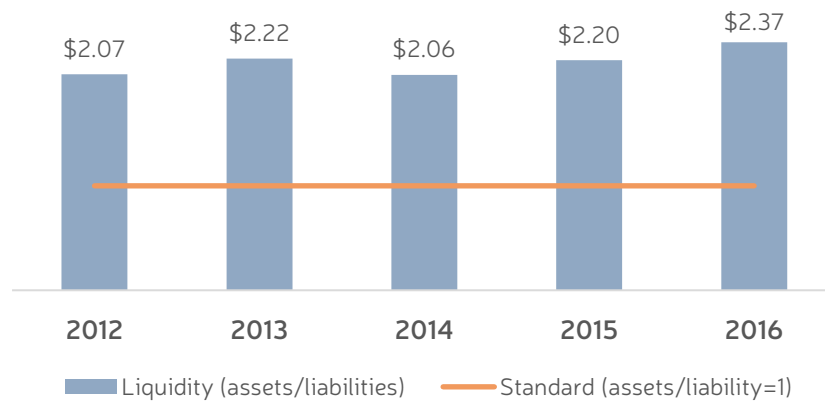


Source: City of Seattle CAFRs, 2012-2016

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 24, the City maintained a healthy liquidity ratio from 2012 to 2016.

Exhibit 24: City of Seattle Liquidity (Assets/Liabilities), 2012-2016



Source: City of Seattle CAFRs, 2012-2016

CITY BUDGET TRENDS

Capital Improvement Budgets

Background

The City of Seattle prepares a Citywide six-year Capital Improvement Program (CIP) each year that allocates existing funds and anticipated revenues to rehabilitate, restore, improve, and add to the City's capital facilities. Projects in the CIP cover a wide range of capital improvements, including construction of new libraries, street repairs, park restoration, and work on electrical substations. The City's eight departments with CIP budgets are Seattle City Light, Seattle Public Utilities, Seattle Department of Transportation, Seattle Information Technology, Department of Parks and Recreation, Department of Finance and Administrative Services, Seattle Public Library, and Seattle Center. Between 2008 and 2017, over half (55-65 percent) of the City's capital improvement projects were utility projects managed by Seattle City Light and Seattle Public Utilities, and most were funded by utility rates.

The CIP is prepared by the City Budget Office based on submissions from the eight City departments, approved by the Mayor, and then submitted to the City Council for adoption along with the City's annual budget. The CIP is updated each year to reflect ongoing changes and additions. The CIP does not appropriate funds, but rather functions as a budgeting tool, supporting the actual appropriations that are made through adoption of the budget.

Funding Sources

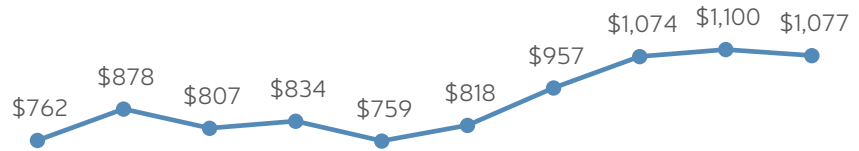
Funding for general government capital projects comes from a variety of sources, including locally-generated revenues (taxes, fees, voter-approved levies, and user charges), intergovernmental revenues (e.g., state and federal grants), private funding, and debt issuance. Unlike other sources of funding, the issuance of debt requires revenues in future years to repay the principal and interest expenses.

Capital projects for the City's utilities (Seattle City Light and Seattle Public Utilities) are funded by revenues from utility rates and debt issuance in the form of revenue bonds.

Trends and Highlights

Between 2008 and 2017, the dollar value of the City's CIP increased 41 percent.

Exhibit 25: City of Seattle’s Capital Improvement Program, 2008-2017 (millions, adjusted)



The City’s CIP increased 41% between 2008 and 2017

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017
 Source: City of Seattle’s Adopted Capital Improvement Programs, 2008-2013 to 2017-2022

Although individual department’s CIP budgets increased and decreased from year to year during this period, all eight City departments saw an overall increase from 2008 to 2017, as can be seen in Exhibit 26.

Exhibit 26: City of Seattle CIP Budgets By Department, 2008-2017 (adjusted)

CIP Department	Percent Increase 2008-2017	Dollar Increase 2008-2017
Seattle Department of Transportation	85%	\$105,576,560
Seattle City Light	34%	\$101,570,132
Seattle Public Utilities	26%	\$50,938,324
Department of Information Technology / Seattle Information Technology Department	188% ¹⁸	\$26,727,336
Department of Parks and Recreation	26%	\$15,805,130
Fleets and Facilities/ Department of Finance and Administrative Services	16%	\$8,812,551
Seattle Public Library	136% ¹⁹	\$3,116,831
Seattle Center	27%	\$2,718,723
Total	41%	\$315,265,588

Source: City of Seattle’s Adopted Capital Improvement Programs, 2008-2013 to 2017-2022

¹⁸ From 2008 to 2017, the Seattle Information Technology Department experienced the greatest CIP percent growth in its annual budget of all of eight City capital departments: 188 percent from 2016 to 2017. However, this reflects the consolidation of formerly decentralized information technology staff and some reserve funds into the Seattle Information Technology Department, as well as nine new projects to develop, upgrade, or replace numerous City applications and business systems.

¹⁹ This increase was due to asset management work (major maintenance and Americans with Disabilities Act of 1990 improvements) for several library branches and the Central Library.

Largest Increases in CIP

As can be seen in Exhibit 26, most of the total dollar increases in CIP budgets can be attributed to three departments, Seattle Department of Transportation, Seattle City Light, and Seattle Public Utilities.

The increases in SDOT's CIP budget can be attributed to SDOT's ongoing major maintenance/replacement, major projects, and mobility-capital projects (e.g., bridge rehabilitation and replacement, Mercer Corridor, and the Spokane Street Viaduct).

Seattle City Light's largest one-year increase in CIP dollars was from 2014 to 2015. This was due to existing projects expanding in scope and new projects getting underway (e.g., Denny Substation, Advanced Metering Infrastructure, Alaskan Way Viaduct and Seawall Replacement, and Boundary Licensing Mitigation).

Seattle Public Utilities' largest increases in CIP dollars were in 2009, 2014, and 2015.²⁰ The construction of new transfer stations contributed to these increases. Additionally, in 2013, the City of Seattle negotiated a consent decree between the City, the U.S. Environmental Protection Agency, and the U.S. Department of Justice for compliance with the Clean Water Act and state regulations, which includes deadlines for development and implementation of the Drainage and Wastewater Long Term Control Plan. This plan will drive spending in the Combined Sewer Overflows Reduction Program over the coming years.

Operating Budgets

Background

The charts in this section show the annual adopted operating budgets for the ten largest City departments between 2008 and 2017. The charts also indicate how much General Fund support was received by each department.

The charts are based on initial appropriations passed by the City Council via annual adopted budgets; they do not reflect actual spending or supplemental appropriations that may have been added over the budget year. We compiled the data using operating budget information presented in the "Budget Snapshot" sections in the City's annual adopted budgets. Capital funding was not included.

Some departments, such as the Seattle Police Department and the Seattle Fire Department, are supported solely by the General Fund. Other City departments have their own revenue sources (e.g., the

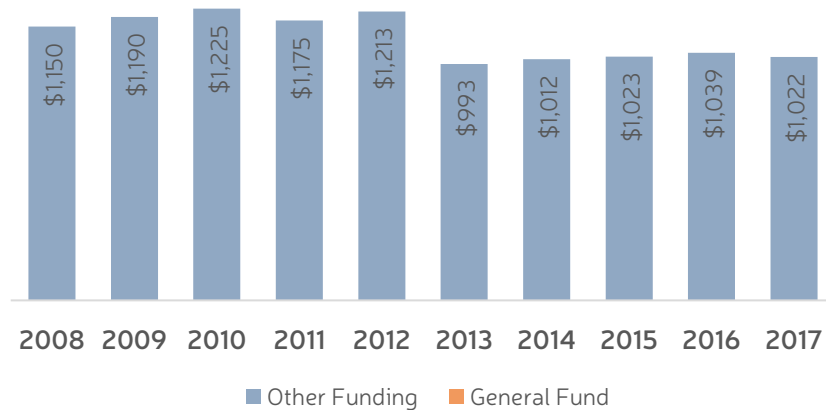
²⁰ Seattle Public Utilities' CIP manages its projects through four lines of business: Drainage and Wastewater, Solid Waste, Technology Projects, and Water.

Department of Parks and Recreation has concessions revenue and the Human Services Department receives grant revenue). In these cases, the City’s General Fund supplements the departments’ other funding sources.

Departmental Operating Budgets, 2008 to 2017

The charts below present budget trend data for the ten largest City departments, listed in order of largest to smallest 2017 budgets.

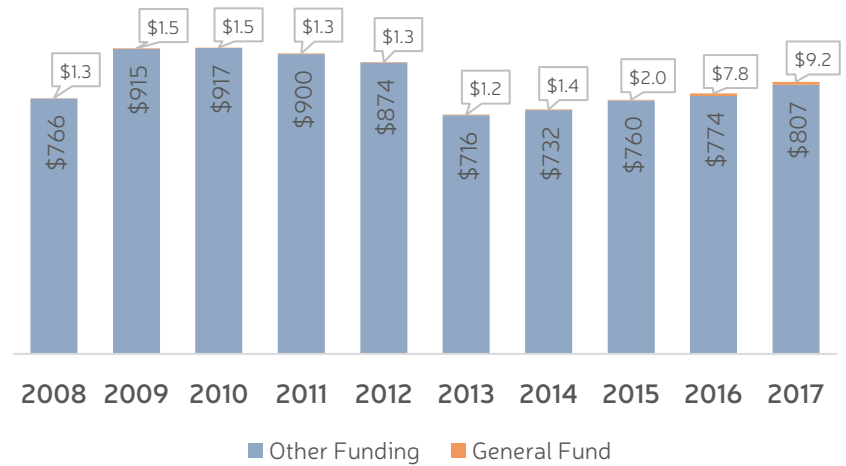
Exhibit 27: Seattle City Light Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

Seattle City Light did not have any General Fund contributions from 2008 to 2017.

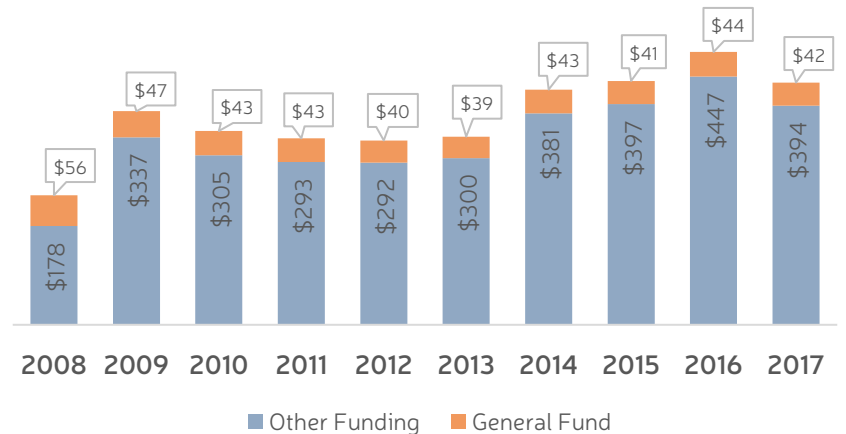
Exhibit 28: Seattle Public Utilities Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

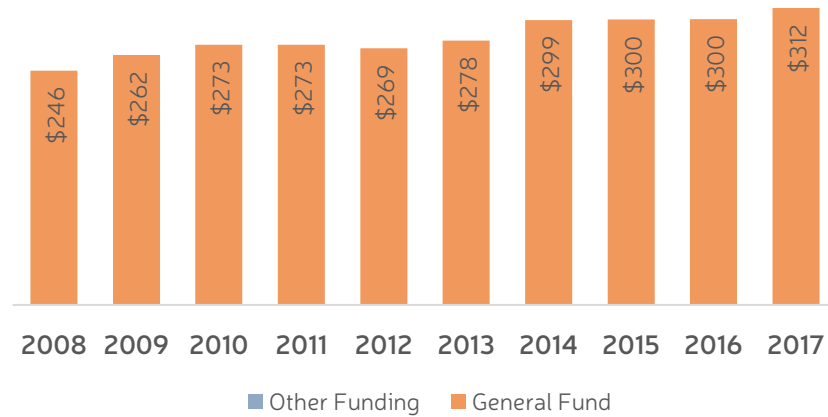
Seattle Public Utilities General Fund budget between 2008 and 2017 is listed in the callouts above the bars.

Exhibit 29: Seattle Department of Transportation Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

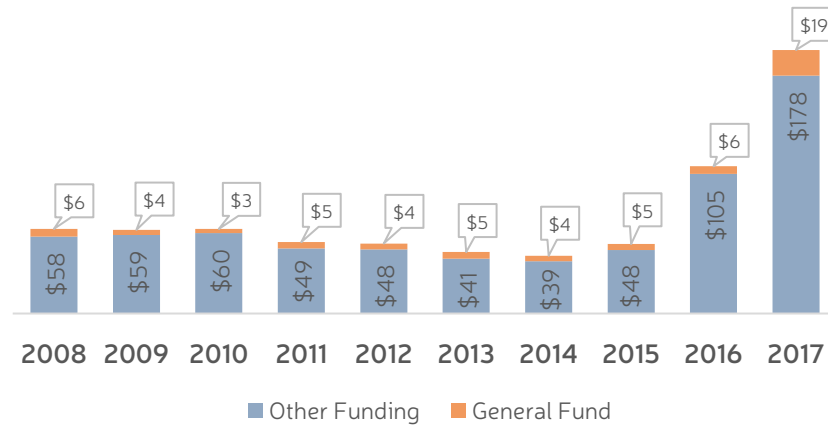
Exhibit 30: Seattle Police Department Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

The Seattle Police Department had only General Fund contributions from 2008 to 2017.

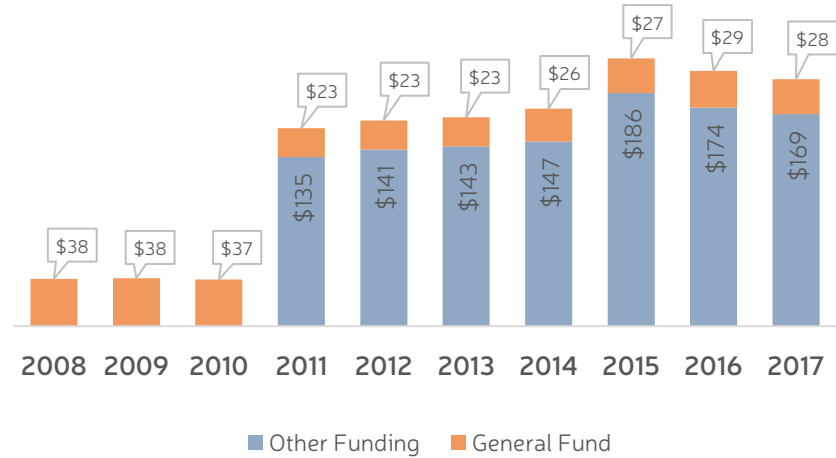
Exhibit 31: Department of Information Technology / Seattle Information Technology Department Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

In 2016, the Department of Information Technology (DOIT) transferred the entirety of its resources and staff to the new Seattle Information Technology Department (Seattle IT). Additionally, employees were transferred from 15 different departments and Executive offices into the new department.

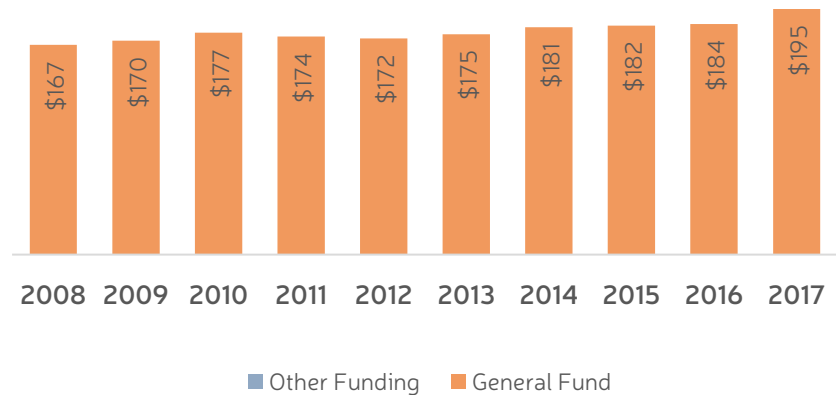
Exhibit 32: Department of Executive Administration / Finance and Administrative Services Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

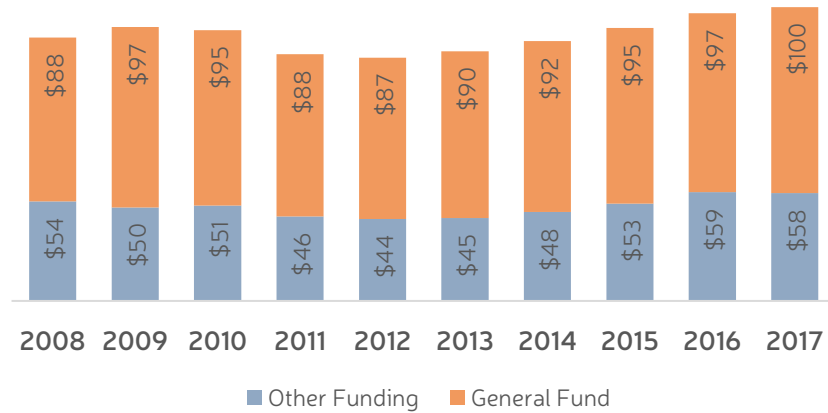
In 2011 and 2012, several City functions were reorganized and the former Department of Finance, Department of Executive Administration, Fleets and Facilities, and a portion of the Department of Neighborhoods (Neighborhood Customer Service Bureau) were reorganized into the Department of Finance and Administrative Services.

Exhibit 33: Seattle Fire Department Adopted Operating Budgets, 2008-2017 (millions, adjusted)



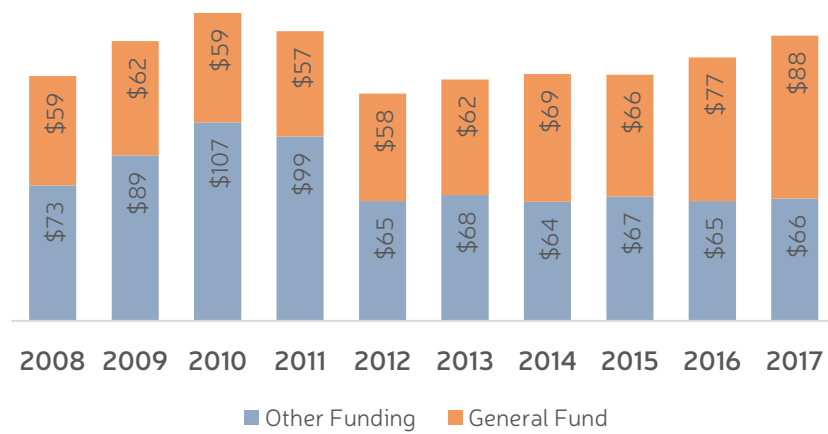
Source: City of Seattle’s Adopted Budgets, 2008-2017

Exhibit 34: Department of Parks and Recreation Adopted Operating Budgets, 2008-2017 (millions, adjusted)



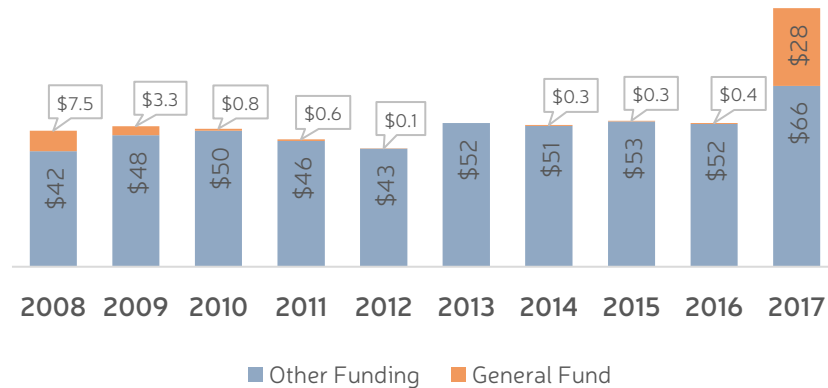
Source: City of Seattle's Adopted Budgets, 2008-2017

Exhibit 35: Human Services Department Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle's Adopted Budgets, 2008-2017

Exhibit 36: Office of Housing Adopted Operating Budgets, 2008-2017 (millions, adjusted)



Source: City of Seattle’s Adopted Budgets, 2008-2017

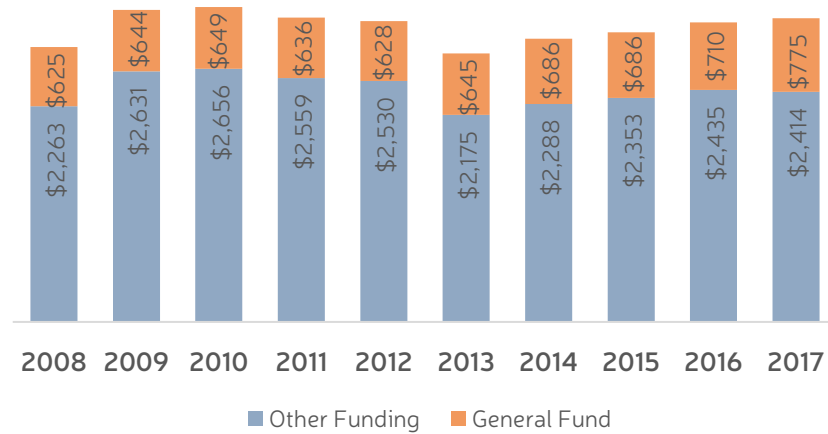
In 2017, the Seattle City Council added \$29 million (unadjusted) of budget authority to the Office of Housing budget to increase the supply of affordable housing. This increase for affordable housing is to be financed using Limited Term General Obligation (LTGO) bonds. Of the \$29 million, the City plans to issue \$19 million in bonds in 2018, with debt service paid from the General Fund. The 2018 debt service is estimated to be \$735 thousand in 2018 and \$1.5 million in 2019. The use of the remaining \$10 million in budget authority will be included in a future bond issuance based on Office of Housing capital projects and investments.

Ten Year Trend by Largest Departments Combined

Exhibit 37 shows the trend from 2008 to 2017 of eight of the ten largest departments combined.²¹ This includes Seattle City Light, Seattle Public Utilities, Seattle Department of Transportation, Seattle Police Department, Seattle Fire Department, Department of Parks and Recreation, Human Services Department, and the Office of Housing. We did not include the Department of Executive Administration / Finance and Administrative Services (DEA/FAS) and the Department of Information Technology / Seattle Information Technology Department (DOIT/Seattle IT) because they had major reorganizations during the 2008-2017 period.

²¹ The 10 departments we included here are those with the largest 2017 budgets.

Exhibit 37: Eight Major Departments Combined Operating Budgets, 2008-2017 (millions, adjusted)

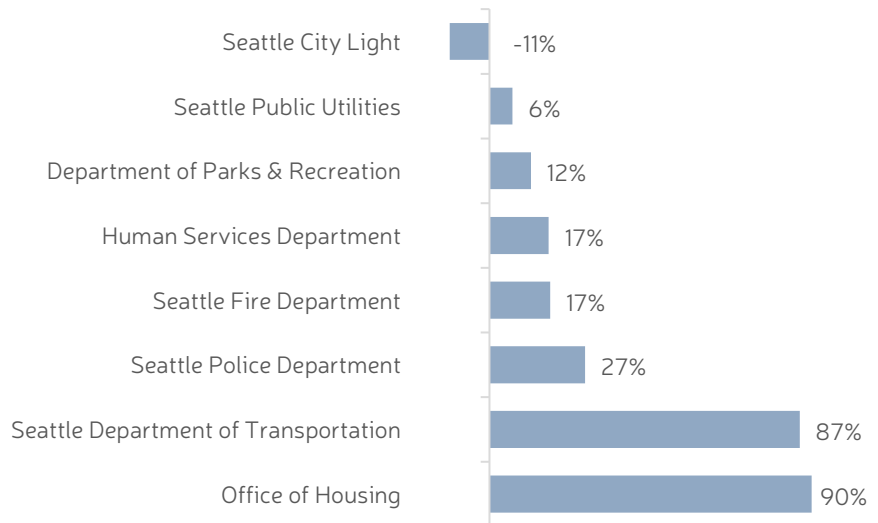


Source: City of Seattle’s Adopted Budgets, 2008-2017

**Percent Change
Between 2008 and 2017**

Exhibit 38 shows the percent change between 2008 and 2017 in total adopted budget for eight major departments (excluding DOIT/Seattle IT and DEA/FAS).

Exhibit 38: Percent Change between 2008 and 2017 of Adopted Operating Budgets (adjusted)²²



Source: City of Seattle’s Adopted Budgets, 2008-2017

²² The large percent increase for the Office of Housing is due to the renewal of the Housing Levy and the \$29 million one-time increase in 2017 appropriation authority.

CITYWIDE EMPLOYMENT

City Employment: 10 Year Trend

Employers often measure employment in FTEs, or full-time equivalents. An FTE is typically calculated as 2,080 hours²³ per year, and the hours worked by multiple part-time employees can be added together into a full FTE. In terms of FTEs, City employment grew 9% between the end of 2007 and the end of 2016.

Exhibit 39 shows the number of FTEs at the end of each year from 2007 to 2016 and the percentage of FTE increase or decrease between 2007 and 2016. The exhibit includes FTEs for each of the ten largest City departments and for all other City departments combined.

Exhibit 39: City of Seattle FTEs, 2007-2016

City Department	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Change from 2007 to 2016
Seattle Information Technology Department	216.0	215.0	205.0	195.0	190.3	192.3	193.3	199.3	206.0	631.6	192%
Seattle Department of Transportation	675.5	792.5	791.0	768.5	720.5	727.0	787.0	790.0	852.0	885.5	31%
Seattle Police Department	1,851.8	1,851.8	1,923.3	1,939.4	1,935.4	1,952.9	1,999.4	2,023.4	2,031.4	2,118.4	14%
Department of Finance and Administrative Services	550.5	564.0	543.0	511.0	521.8	540.8	595.3	634.8	642.5	626.5	14%
Department of Parks and Recreation	989.0	990.4	1,003.3	891.4	863.1	853.6	878.9	901.2	916.7	914.0	-8%
Seattle City Light	1,752.1	1,878.1	1,840.1	1,810.8	1,810.8	1,833.3	1,854.3	1,865.3	1,876.3	1,801.8	3%
Human Services	326.6	336.9	326.4	327.6	316.1	338.4	343.1	327.1	337.1	334.0	2%
Seattle Fire Department	1,146.1	1,164.1	1,156.1	1,151.6	1,152.6	1,150.6	1,151.6	1,162.6	1,168.6	1,098.8	-4%
Office of Housing	41.8	41.0	40.5	38.5	37.5	37.5	36.0	41.0	42.5	39.5	-5%
Seattle Public Utilities	1,445.1	1,477.6	1,447.3	1,421.8	1,413.6	1,401.6	1,430.5	1,423.1	1,441.1	1,347.6	-7%
Other Departments	1,595.2	1,597.4	1,524.9	1,466.6	1,449.1	1,533.3	1,521.5	1,634.6	1,697.8	1,714.5	7%
Total	10,589.5	10,908.6	10,800.8	10,521.9	10,410.5	10,561.0	10,790.7	11,002.1	11,211.8	11,512.0	9%
Total Annual Change		3%	-1%	-3%	-1%	1%	2%	2%	2%	3%	

Source: Seattle Department of Human Resources

²³ 8 hours per day x 5 days per week x 52 weeks per year = 2,080 hours per year.

Although there were not large increases in City employment from year-to-year over the 10-year period, the total number of FTEs for all City departments increased 9 percent (or 922.56 FTEs) between 2007 and 2016.

The most dramatic increase in FTEs occurred between 2015 and 2016 in Seattle Information Technology Department, from 206 FTEs to 631.6 FTEs. Due to the creation of a new consolidated Seattle Information Technology Department, employees were transferred from 15 different departments and Executive offices into the new department.

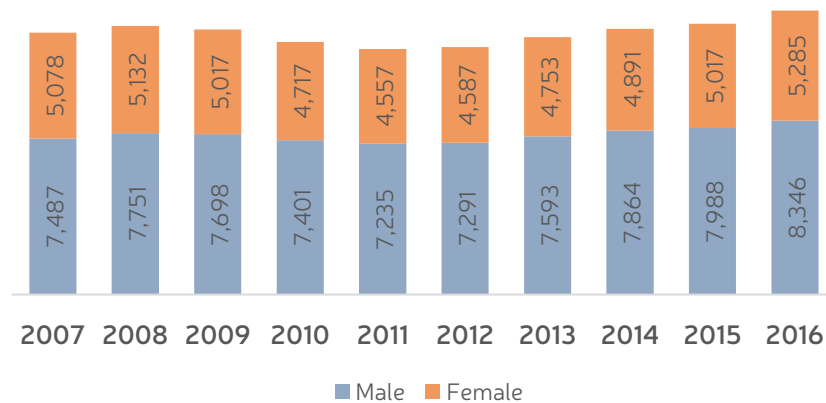
**City Employees
Demographics: Gender
and Race and Ethnicity**

Another way to measure City employment, other than FTEs, is to count the number of individual employees at a point in time. We summarized the gender and race and ethnicity of City employees, as described below, using this method. Between 2007 and 2016, the count of City of Seattle employees ranged from a low of 11,792 in 2011 to a high of 13,631 in 2016.

Gender

The breakdown by gender for all City departments over the 10 years remained consistent as females made up 38-40 percent of employees and males made up 60-62 percent of employees. In 2016, the percentage of females was 39 percent and the percentage of males was 61 percent.

Exhibit 40: Gender of City of Seattle Employees, 2007-2016

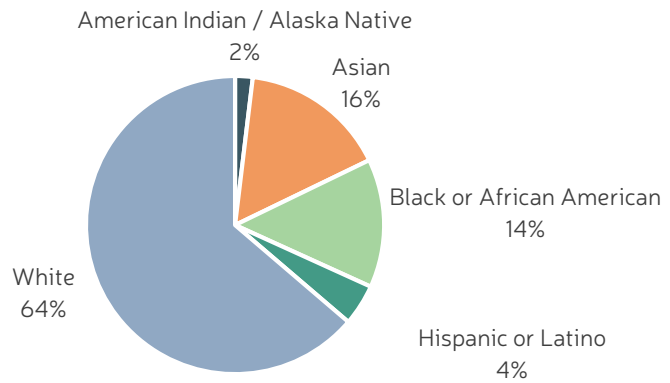


Source: Seattle Department of Human Resources

Race and Ethnicity

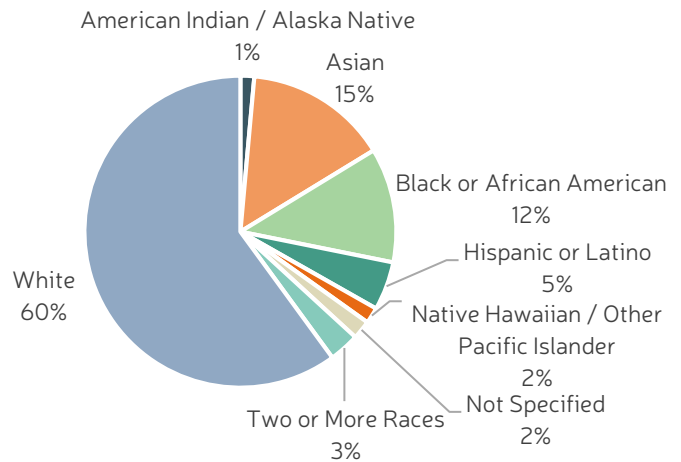
We based the following analysis on self-identified race and ethnicity data City employees voluntarily reported to the Seattle Department of Human Resources.

Exhibit 41: Race and Ethnicity of City Employees, 2007



Source: Seattle Department of Human Resources

Exhibit 42: Race and Ethnicity of City Employees, 2016



Source: Seattle Department of Human Resources

DEMOGRAPHIC AND ECONOMIC INDICATORS

Why are Demographic and Economic Indicators Important?

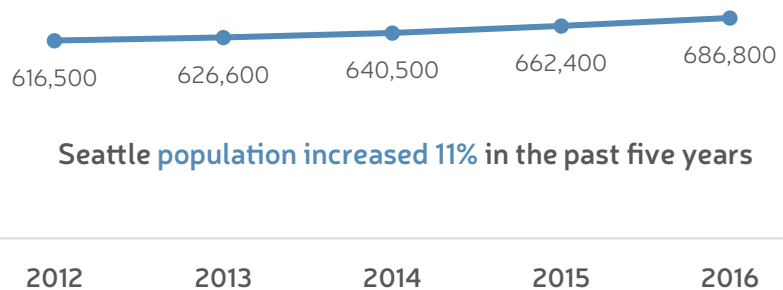
Demographic and economic indicators provide context for understanding the experience of Seattle residents and highlight community needs. In this section, we provide data on Seattle’s population, jobs, unemployment rates, average income and property values.

Seattle’s Population Growth

Seattle’s population increased by 11 percent from 2012 to 2016.

In 2016, Seattle accounted for 9.6 percent of Washington’s total population, an increase of 0.6 percent from 2012 when Seattle accounted for 9 percent of Washington’s total population.

Exhibit 43: Seattle Population, 2012-2016

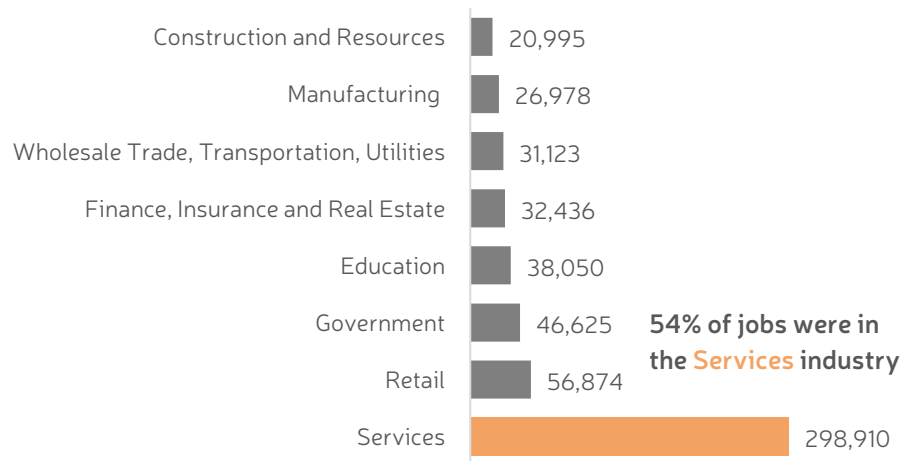


Source: Washington State Office of Financial Management data

Most Seattle Jobs are in the Service Sector

In 2015, 54 percent of jobs located in Seattle were in the service sector.

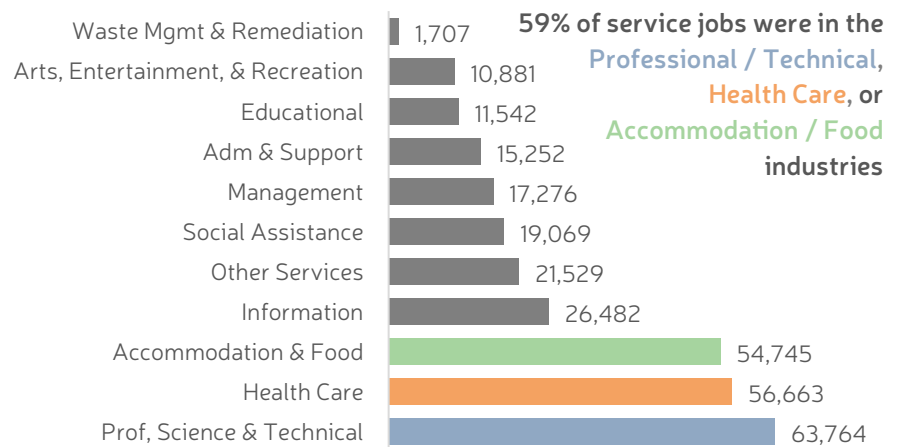
Exhibit 44: Seattle Jobs by Industry, 2015



Source: 2015 Puget Sound Regional Council Covered Employment Estimates (scaled to match Washington State Employment Security Department totals)²⁴

Among service sector jobs, 21 percent were professional, technical and scientific, 19 percent were health care, and 18 percent in accommodation and food services.

Exhibit 45: Seattle Service Jobs by Industry Detail, 2015



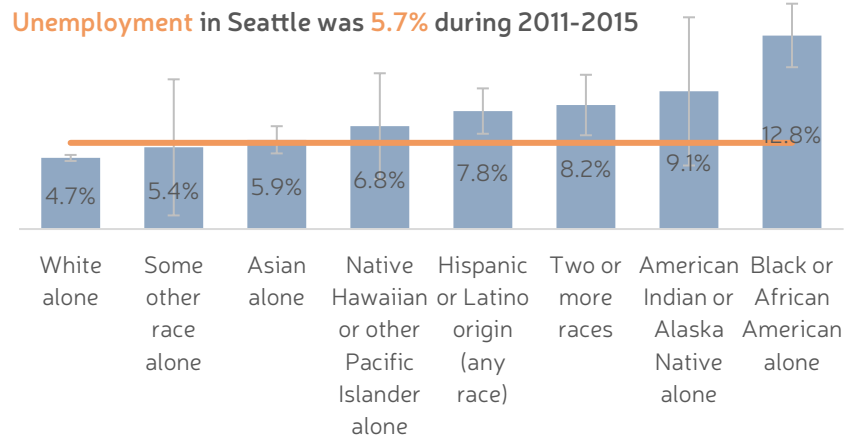
Source: 2015 Puget Sound Regional Council Covered Employment Estimates (scaled to match Washington State Employment Security Department totals)

²⁴ 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.

Seattle's Unemployment Rate

From 2011 through 2015,²⁵ Seattle's overall unemployment rate for persons sixteen years and older, was 5.7 percent, but varied from 4.7 percent for White alone to 12.8 percent for Black or African American alone.

Exhibit 46: Unemployment Rates in Seattle by Race and Ethnicity, 2011-2015, 5-Year Estimates

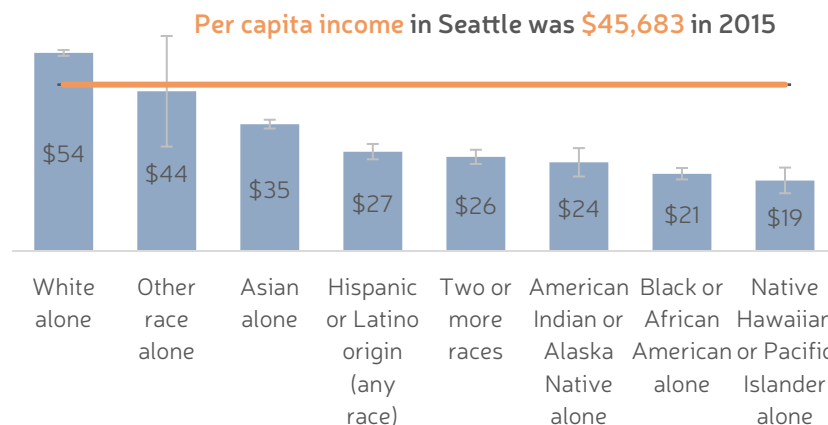


Source: U.S Census American Community Survey, Special Populations Table, Selected Economic Characteristics, 2011-2015

Seattle's Average Income

From 2011 through 2015, per capita income in Seattle was \$45,683 but varied by race and ethnicity.

Exhibit 47. Per Capita Income in Seattle by Race and Ethnicity, 2011-2015, 5-year Estimates (thousands)



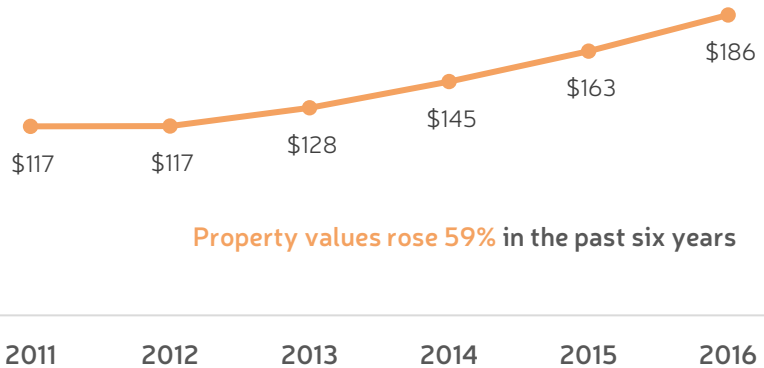
Source: U.S Census American Community Survey, Special Populations Table, Selected Economic Characteristics, 2011-2015

²⁵ Our unemployment and per capita income data is based on five-year estimates from the U.S. Census Bureau's American Community Survey (ACS). The ACS five-year estimate is based on data collected over a sixty month period. We used data covering this period because: 1) it was more precise than data collected over a shorter period (due to a larger sample size), and 2) it allowed us to disaggregate the data by race and ethnicity. For more information on the methodologies used by the ACS, see <https://www.census.gov/programs-surveys/acs/methodology.html>. The City of Seattle's 2016 unemployment rate, according to the ACS one-year estimate, was 4.7%.

Property Values

Assessed property values in Seattle, including the value of all commercial and residential properties, increased 59 percent from \$116.8 billion in 2011 to \$186 billion in 2016.

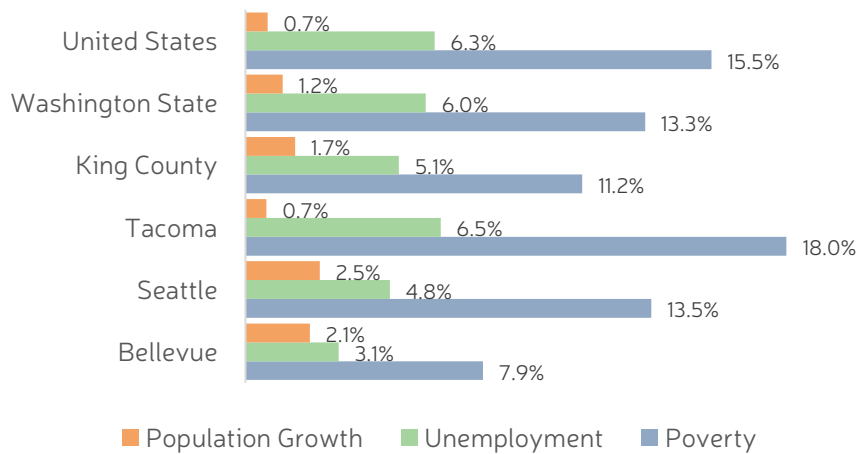
Exhibit 48: Assessed Property Values in Seattle, 2011-2016 (billions, unadjusted)



Source: King County Assessor's Office

Jurisdiction Comparisons

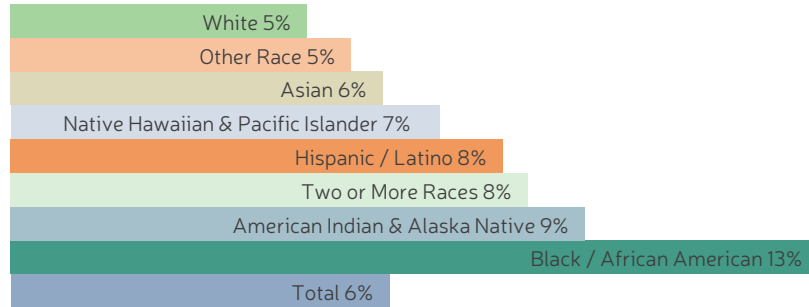
Exhibit 49: Jurisdiction Comparison of Annual Population Growth, Unemployment Rates, and Poverty Rates, 2011-2015



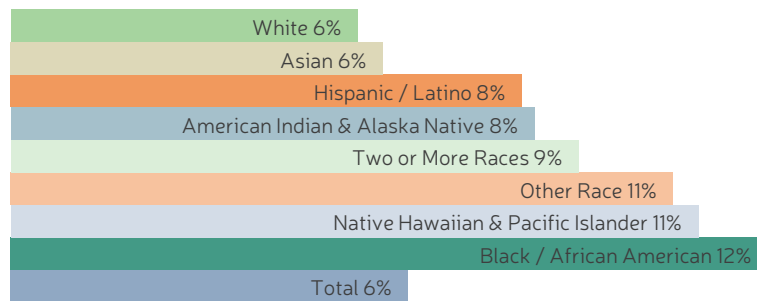
Source: 2011-2015 American Community Survey Data; Office of Financial Management, Forecasting and Research Division April 1, 2017 Population of Cities, Towns and Countries; and 2015 American Community Survey Data.

Exhibit 50: Jurisdiction Comparison of Unemployment Rates by Race and Ethnicity, 2011-2015

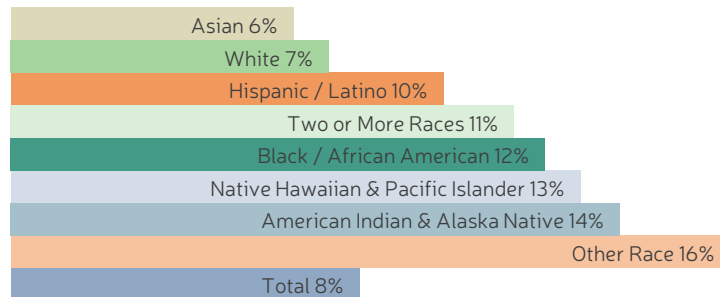
**Seattle Unemployment Rates
2011-2015**



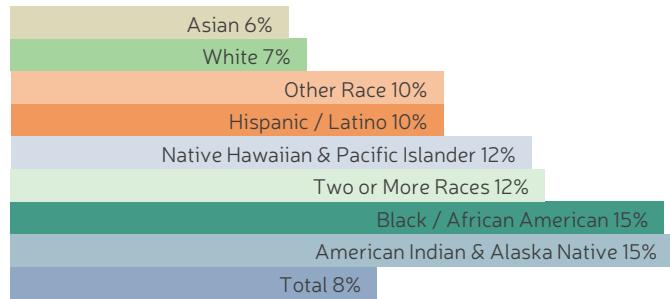
**King County Unemployment Rates
2011-2015**



**Washington State Unemployment Rates
2011-2015**



United States Unemployment Rates 2011-2015



Source: 2011-2015 American Community Survey Data

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, a second report will be prepared in September 2018, and subsequent reports will be prepared biennially thereafter.

This report was based on a similar report produced by Portland City Auditor on the City of Portland’s financial condition (see <https://www.portlandoregon.gov/auditservices/article/635353>).

We based our methodology 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 2012 to 2016, although other sources were also used. The primary sources for each of the indicators are listed in the following table.

Exhibit 51. Table of Data Sources

Indicators	Source
<p>Revenues and Expenses</p> <ul style="list-style-type: none"> • Revenues and Expenses • Revenues and Expenses Per Capita • Sources of Governmental Revenues • Governmental Expenses by Category • Business Expenses by Type 	<p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs) 2012-2016:</p> <ul style="list-style-type: none"> ○ Table A2: Changes in Net Position <p>Washington State Office of Financial Management (OFM) 04-01-17 population of Cities, Towns and Counties</p> <p>Bureau of Labor Statistics, Consumer Price Index, Seattle Table, 2012-2016</p>
<p>Debt</p> <ul style="list-style-type: none"> • General Obligation Limited Tax Bond Debt • General Obligation Unlimited Tax Bond Debt • General Obligation debt per resident • Debt backed by General Fund • Bond Ratings 	<p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs), 2012-2016:</p> <ul style="list-style-type: none"> ○ Table S14: Legal Debt Margin Information ○ Table S12: Ratios of Net General Bonded Debt Outstanding ○ Management Discussion and Analysis <p>City of Seattle Annual Adopted Budgets</p>

Indicators	Source
<p>Pension Liabilities</p> <ul style="list-style-type: none"> • SCERS 1 Historical plan funding • Firefighter’s Pension Fund’s actuarial accrued liability • Police Relief and Pension Funds’ actuarial accrued liability • OPEB Annual Costs • OPEB Healthcare Blended Premium Subsidy Unfunded Actuarial Accrued Liability 	<p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs), 2012-2016:</p> <ul style="list-style-type: none"> ○ Notes to Financial Statements on Firemen’s Pension and Police Relief and Pension Funds ○ Notes to Financial Statements on OPEB <p>SCERS Actuarial Valuation Report 2017</p> <p>2017 General Obligation Official Statement</p>
<p>Capital Assets</p> <ul style="list-style-type: none"> • Replacement value • Asset Condition • Funding Gap 	<p>The following departments provided data for these indicators: Seattle Department of Transportation, Seattle City Light, Seattle Public Utilities, the Department of Finance and Administrative Services, the Department of Parks and Recreation, Seattle Center, the Seattle Public Library and Seattle Information Technology Department. The data provided varied by department. For example, some departments use insured value for replacement value, while others used historic costs. Condition data was gathered in a variety of ways, depending on the department and type of asset.</p>
<p>Financial and Operating Position</p> <ul style="list-style-type: none"> • Governmental Fund Balances • Unassigned General Fund Balance • Liquidity 	<p>The City of Seattle, Washington Comprehensive Annual Financial Statements (CAFRs) 2012-2016:</p> <ul style="list-style-type: none"> ○ Table A-1: Statement of Net Position ○ Table A-2: Changes in Net Position Resulting from Changes in Revenues and Expenses ○ Table A-3: Revenue, Expenditure, and Fund Balance Summary General Fund Subfunds ○ Table 1-1: Governmental Fund Balances ○ Table B-4: Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds
<p>Budget Trends</p> <ul style="list-style-type: none"> • City departments’ budgets • City departments’ CIP budgets 	<p>City of Seattle Adopted Budgets 2008-2017</p> <p>City of Seattle Capital Improvement Program Budgets 2008-2017</p> <p>Seattle Open Data: Departments’ Operating Budgets</p>
<p>City Employment</p> <ul style="list-style-type: none"> • City FTEs by department • Demographic data on city employees 	<p>City of Seattle Adopted Budgets 2008-2017</p> <p>Human Resources Information System (HRIS) Data: special query provided by Seattle Department of Human Resources</p>
<p>Economic and Demographic</p> <ul style="list-style-type: none"> • Seattle’s population • Seattle jobs • Unemployment rate 	<p>Washington State Office of Financial Management (OFM) 04-01-17 population of Cities, Towns and Counties</p> <p>City of Seattle’s Office of Planning and Community Development website; original sources: Washington State Employment Security Department and Puget Sound Regional Council</p>

Indicators	Source
<ul style="list-style-type: none"> • Unemployment by race and ethnicity • Average income • Per capita income by race and ethnicity • Property taxes 	<p>U.S. Census: 2011-2015 American Community Survey Selected Population Tables</p> <p>City Budget Office</p>
<p>Property values</p> <ul style="list-style-type: none"> • Assessed property values 	<p>King County Assessor’s Office Assessed Value and Taxes by City</p>

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 2016 dollars. When we adjusted data, we noted the adjustment. We adjusted dollar amounts to equal the purchasing power in 2016 using the Seattle-Tacoma-Bremerton Consumer Price Index for All Urban Consumers, as reported by the Bureau of Labor Statistics, U.S. Department of Labor, and the Seattle Consumer Price Index, as reported by the Washington State Economic and Revenue Forecast Council.

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, except for City budget

data, 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 budgets, we used the City's Adopted Budget and Adopted Capital Improvement Program books for years 2008-2016. This information is prepared by the City Budget Office. We did not attempt to verify the accuracy of this information. Other qualifications to the budget data are listed in the Budget Trend section.

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.

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

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, grantees, 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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