

General Subfund Revenue Overview

City Revenue Sources and Funds – November 2002

City Revenues

Seattle City government has four main sources of revenue to support the services and programs that the City provides its citizens. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded with fees include Woodland Park Zoo, Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to their customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2002, City revenues are estimated to be \$2.8 billion. Revenues for general government purposes will total approximately \$631 million.

City Funds

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

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

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

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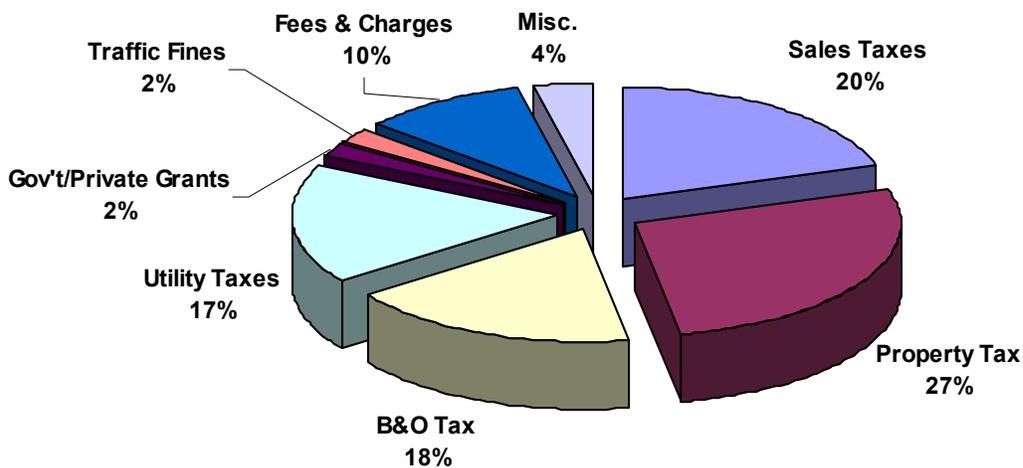
General Subfund of the General Fund

The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (27%), followed by sales taxes and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 55% of General Subfund revenue, fluctuate significantly as economic conditions for the Puget Sound region change.

The following section describes the current outlook for the national and Puget Sound economies. This is followed by descriptions of General Subfund revenue and operating balance forecasts for 2002-2004.

Figure 1. 2002-Revised General Subfund Revenue Forecast by Source - \$631M



The National and Local Economy

Current Economic Conditions and Outlook

The longest economic expansion on record ended with the onset of recession in March 2001. The decade of the 1990s saw the longest national economic expansion on record, one that lasted a full ten years. The expansion started inauspiciously, as the national economy grew sluggishly for several years following the recession of 1990-

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91. However, in the later half of the decade, economic growth accelerated, led by rising productivity, a booming stock market, an expanding high-tech sector, and rising investment. At the peak of the boom optimists talked of the arrival of a “new economy” and a future characterized by rapid economic growth, soaring incomes, and an end to the business cycle.

A dominant feature of the late 1990s boom was the rapid escalation of stock valuations, particularly for technology stocks. Rising stock prices provided a cheap source of capital for businesses, which invested heavily in technology infrastructure including computers, software, and telecommunications equipment. The strong stock market also enabled many firms to compensate employees in part with stock options, thus saving money and boosting profits - which pushed stock prices up further. The general climate of optimism and expectations of rising profitability enabled many questionable business ventures to obtain financing. The soaring stock market also contributed to rising consumer spending, which was boosted by rising wealth and income gains resulting from the exercise of stock options.

This self-reinforcing cycle of rising stock prices, rising profits, rising investment, and rising consumer spending came to an end when the stock market bubble burst in early 2000. With stock prices no longer rising, capital became more costly. In addition, it became increasingly clear that many businesses had over-invested during the boom years. In response, businesses cut back on investment spending. With wealth now declining rather than growing, and stock option income largely disappearing, consumer spending slowed.

The slowing economy slipped into recession in March 2001, and it was weakened further by the September 11 terrorist attacks. To mitigate the recession’s impact, the Federal Reserve cut interest rates aggressively during 2001, including a half point cut immediately following the September 11 attacks. The resulting low interest rates supported the housing market by reducing the cost of borrowing, and helped to keep debt service burdens under control. Also softening the recession’s impact were federal tax cuts and tax rebates, federal spending increases for security and defense, and declining energy prices. Consumer spending slowed but it did not turn negative as is typical during a recession.

The recovery from the recession has been weak and uneven. The recession, which was one of the mildest in the post-war period, ended in late 2001 or early 2002 (its official ending date has not yet been determined). Gross domestic product (GDP) declined for 3 successive quarters beginning in 2001 Q1, and growth resumed in the 4th quarter. Thus far, the recovery from the 2001 recession has been both weak and uneven. Although GDP grew at a healthy 5.0% annual rate in 1st quarter 2002, growth was largely driven by inventory adjustments. In 2nd quarter 2002 GDP growth slowed to a 1.1% rate.

The weakness of the recovery is due in part to the nature of the 2001 recession. Typically during a recession, consumer spending turns negative (in real terms) and the housing market weakens. This sets the stage for a strong recovery driven by a sharp increase in consumer spending, as pent-up demand is unleashed, and an improving housing market. In the 2001 recession, consumer spending did not decline, although it did slow, and the housing market remained strong. Consequently, factors that typically drive a strong recovery are absent. In addition, both consumption and investment spending have been restrained by high consumer and corporate debt burdens.

The recovery has also been hampered by a decline in investor confidence caused by the corporate finance scandals that began with revelations concerning Enron and Arthur Anderson in late 2001, and have continued through 2002. Issues include: the accuracy of financial information provided by many corporations, including the over-estimation of revenues, concerns about the independence of corporate boards, the questionable use of stock options, excessive CEO compensation, and misleading advice from Wall Street analysts who encouraged

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investors to buy stocks that the analysts knew were overvalued. As confidence in Wall Street and corporate America has fallen, investors have begun to shift money to less risky investments.

Between March and July 2002, the stock market (as measured by the Standard and Poor's 500 Index) lost more than 20% of its value. In addition to the stock market's troubles, July 2002 saw a number of disappointing economic news releases, including a drop in consumer confidence, a slowing of industrial growth, lack of job growth, and a decline in commercial construction and state and local government spending. Although the stock market rebounded somewhat in August, economic data has remained mixed at best.

The economy's recent weakness has increased the chances of a double-dip recession, and has led economists to lower their forecasts of growth for the second half of 2002. Most economists now expect modest growth through the end of 2002, with some acceleration in 2003.

The recession in the Puget Sound region has been severe. The national recession started with the deflation of the stock market bubble and a sharp decline in investment in high tech products and services. The recession widened after September 11, as travel-related business joined in the downturn. Because of its specialization in both high tech and travel-related businesses, the Puget Sound Region has suffered more from the 2001 recession than almost any region in the nation.

In the late 1990s the Puget Sound region experienced rapid economic growth driven by the expansion of its high-tech and dot-com firms and rising stock prices of many local businesses. Many high tech workers grew wealthy through the exercise of stock options, and their generous spending further stimulated the economy. This situation was quickly reversed in early 2001, as the region's economy was hit by:

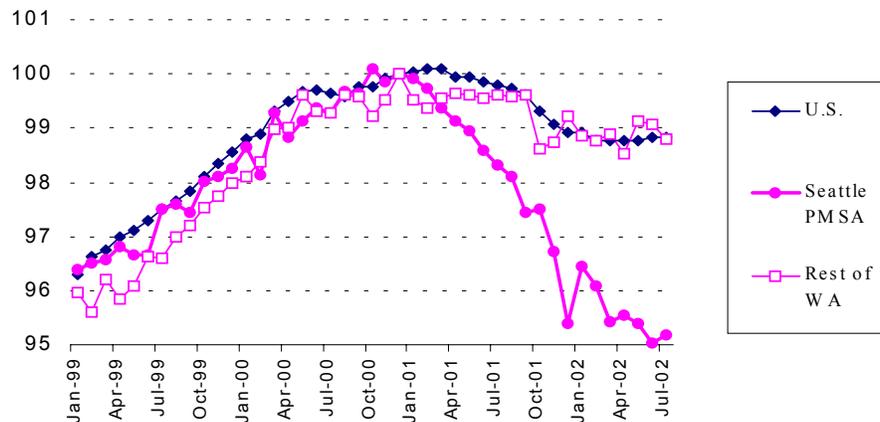
- The demise of the local dot-com sector
- Layoffs and business closures in much of the high-tech sector
- A sharp decline in stock option income
- A steep drop in venture capital investment
- A decline in household wealth driven by falling stock prices

Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to severely cut back its projections of the demand for airliners during the next several years. Boeing announced that it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division – most of them by mid-2002. Two-thirds of the cuts were expected to occur in the Puget Sound Region. Thus far Boeing has kept to this schedule.

The timing and severity of the region's recession is illustrated in Figure 2, which shows monthly employment for the U.S., the Seattle PMSA (King, Snohomish, and Island Counties), and the rest of Washington for the period January 1999 – July 2002. The employment figures have been indexed to equal 100 in December 2000, the month of peak employment in the Washington. Indexing makes it possible to compare growth trends for jurisdictions that are different in size.

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



NOTE: All data have been seasonally adjusted.

Following several years of steady gains, employment growth began to falter in 2nd half of 2000, both locally and nationally (see Figure 2). During 2001, employment declined in the U.S. and throughout Washington State, but the decline in the Seattle PMSA was much steeper than the drop in the U.S. or the rest of Washington, indicating the degree to which the state's recession has been focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 5.1% for the Seattle PMSA, 1.5% for the rest of Washington, and 1.3% for the nation. Following 2001's steep drop, Seattle PMSA employment has begun to stabilize in the first half of 2002.

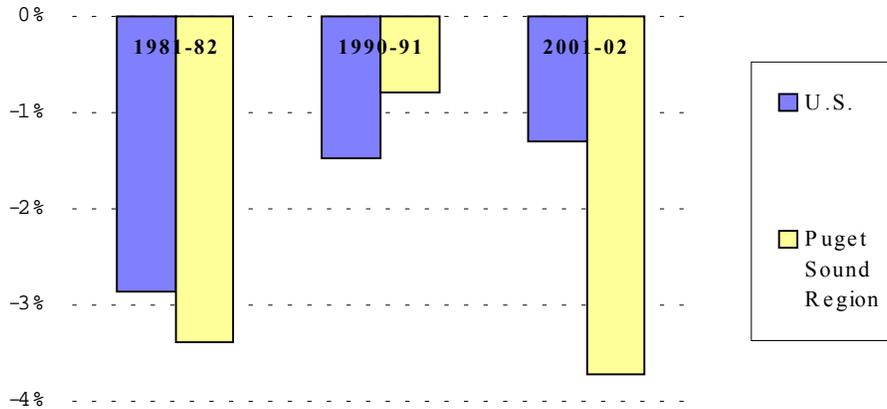
To gain additional perspective on the severity of the current recession, it is helpful to compare it to the two most recent recessions, which occurred 1981-82 and 1990-91. The 1981-82 recession was one of the nation's most severe recessions since the great depression, while the 1990-91 recession was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

During the 1981-82 recession, conditions in the Puget Sound Region mirrored national conditions, as job loss exceeded 3% and the local unemployment rate reached 11.0%, compared to 10.7% nationally. The region fared better during the 1990-91 recession, which was so mild that many economists contend there was no recession in the region during 1990-91. Unfortunately, that pattern has reversed during the current recession, which has been much more severe locally than nationally.

During the current recession, employment in the four-county (King, Kitsap, Pierce, and Snohomish) Puget Sound Region has dropped by 3.7% from peak-to-trough, compared to a 1.3% decline nationally (see Figure 3). The region's employment loss in the current recession is greater than its loss in 1981-82. One positive note is that the region's unemployment rate is forecast to peak at 6.9% in mid-2002, well below the 11.0% peak reached in 1981-82. The relatively low unemployment of the current recession is due to the mildness of the national recession and the fact that the region entered the recession with a very low unemployment rate.

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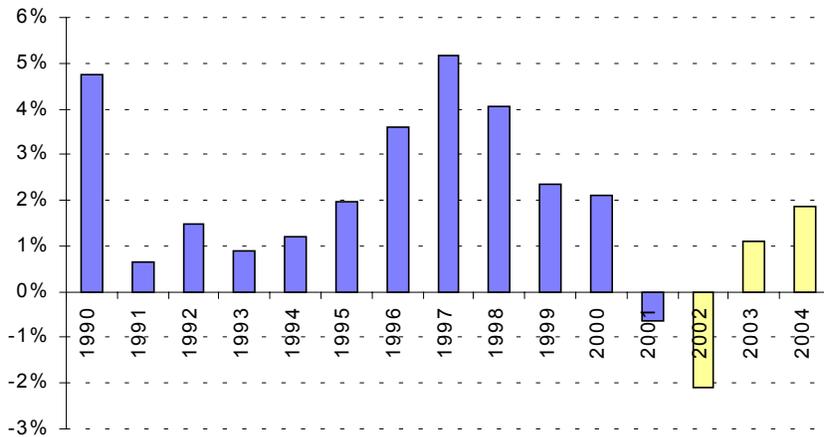
Figure 3. Peak-to-Trough Employment Decline During Recent Recessions



The region is expected to recover from the current recession at a very slow pace, in part because of the weakness of the national recovery. In addition, it will take some time for the full impact of Boeing layoffs to work their way through the rest of the economy, and the next upswing in the aerospace cycle is several years off.

According to forecasts from the Puget Sound Economic Forecaster, regional employment will hit bottom in 2nd and 3rd quarter of 2002, and little growth is anticipated in the 4th quarter. Growth should resume in 1st quarter 2003, at a very modest pace. Employment growth is forecast to be 1.1% in 2003 and 1.9% in 2004 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in 4th quarter 2000 until some time in early 2005.

Figure 4. Annual Growth of Puget Sound Region Employment



Note: 2002-04 forecasts are from Puget Sound Economic Forecaster.

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Consumer price inflation is expected to rise from its 2002 low. As a result of the national recession, the heretofore weak recovery from the recession, and a decline in energy prices during the period mid-2001 to early 2002, consumer price inflation slowed in early 2002. The U.S. Consumer Price Index for all Urban Consumers (CPI-U) increased at a 1.3% annual rate in the first half of 2002.

Nationally, inflation is expected to pick-up in the second half of 2002 and then settle into the 2.5%-3.0% range in 2003-04. Reasons for the expected rise in inflation include escalating energy prices, rising health care costs, a strengthening economy, and an expected rise in import prices resulting from the dollar's decline. If the economic recovery is weaker than anticipated, inflation will likely be lower than forecast in 2003. Forecasters who expect a continued weak recovery predict inflation will be near 2% next year.

Inflation in the Puget Sound region has been higher than national inflation in every year but one since 1990. However, that pattern is forecast to reverse in 2003 and 2004, due to the fact that the Puget Sound Region was hit much harder by the recession than most areas of the nation. The severity of the recession has resulted in a significant slowdown in the local inflation rate. In particular, housing inflation, which has been higher locally than nationally in 12 of the past 13 years, has slowed to a near standstill.

Figure 5. Consumer Price Index Forecast

	U.S. CPI-W	Seattle CPI-W
2001 (actual)	2.6%	3.9%
2002 (actual)	1.3%	1.5%
2003	2.6%	2.3%
2004	2.8%	2.7%

Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2004. These forecasts are for the CPI-W, which measures price increases for urban wage and clerical workers. The CPI-U measures prices for all urban consumers. Forecasts are made for the CPI-W because City of Seattle labor agreements are based upon the CPI-W. The forecasts of the U.S. CPI-W are for the growth rate from July of one year to July of the following year; the Seattle CPI-W forecasts are for June-June growth rates. These specific month-to-month growth rates are used as the bases for cost of living increases in City of Seattle wage agreements.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 shows General Subfund actual revenues for 2001, as well as the revised forecast for 2002 and the proposed 2003-2004 forecasts. The forecast for General Subfund revenue in 2002 (excluding use of fund balances) is \$623 million, which is \$27.1 million or 4.6% greater than collections in 2001. However, a large portion of this increase, approximately \$27.2 million (under Service Charges in Figure 6), is the result of a financial re-organization and is offset by a dollar-for-dollar increase in General Subfund expenses. After adjusting for this re-organization, 2002 revenues are expected to bring in the same nominal collections as in 2001. In response to recommendations by the Executive in November 2002, City Council revised the previous forecasts for 2003 and 2004 downward to reflect a weaker outlook for the telephone industry and to adjust for lower than expected wastewater utility tax revenues. The revisions were prompted by an update of recent tax receipts

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showing instability in the telephone industry and poor wastewater tax revenues due to reduced demand for water. Offsetting these declines, City Council made several adjustments in fees and charges, resulting in \$2.3 million more revenue in 2003 and \$700,000 more in 2004 (see section on licenses, permits and parking charges for further detail). Additionally, there were positive adjustments made to reflect interfund transfers and unexpended fund balances. Overall, City Council adjustments resulted in a final tally of \$646 million for 2003 and \$658 million for 2004.

Figure 6. General Subfund Revenue, 2001 – 2004 ⁽¹⁾

Revenue Source	2001 Actual	2002 Revised	2003 Adopted	2004 Endorsed
General Property Tax	159,755,224	168,348,000	172,701,802	176,650,569
(less fire pension)	-12,542,620	-13,711,000	-15,300,802	-15,537,569
Net General Subfund Property Tax	147,212,604	154,637,000	157,401,000	161,113,000
Property Tax - EMS Levy	15,871,290	18,551,000	19,015,000	19,395,000
Retail Sales Tax	120,053,388	115,091,000	117,907,000	121,416,000
Retail Sales Tax – Criminal Justice Levy	11,233,272	10,769,000	11,032,000	11,361,000
B&O Tax (90%)	112,596,867	112,135,000	109,382,000	113,878,000
Utilities Business Tax - Telephone (90%)	32,225,542	32,483,000	35,164,000	34,159,000
Utilities Business Tax - City Light (90%)	26,428,198	30,662,000	30,388,000	30,951,000
Utilities Business Tax - SWU & priv.garb.	7,894,753	7,888,000	8,157,251	8,353,000
Utilities Business Tax - City Water (90%)	6,441,841	7,209,000	8,231,000	9,150,000
Utilities Business Tax - DWU (90%)	11,793,323	12,678,000	13,839,800	15,043,000
Utilities Business Tax - Natural Gas (90%)	9,829,527	8,953,000	9,182,000	9,458,000
Utilities Business Tax - Other Private (90%)	8,414,596	8,683,000	9,179,000	9,621,000
Admission Tax	6,710,859	5,198,000	6,311,000	6,501,000
Other Tax	4,745,052	5,092,000	5,048,000	5,154,000
Total Taxes less fire pension	521,451,113	530,029,000	540,237,051	555,553,000
Licenses and Permits	9,756,498	9,985,000	12,989,556	13,061,856
Parking Meters/Meter Hoods	10,679,477	10,300,000	12,612,800	13,712,939
Court Fines	15,307,194	14,567,500	19,775,750	20,082,750
Interest Income	5,133,377	3,597,000	3,592,000	4,002,000
Revenue from Other Public Entities	16,271,421	11,476,082	7,550,736	7,819,736
Service Charges & Reimbursements	16,280,534	42,231,001	38,708,860	39,521,009
All Else	1,022,015	\$845,133	910,619	937,086
Total: Revenue & Other Financing Sources	595,901,630	623,030,716	636,377,372	654,690,378
Unexpended Fund Balance, Interfund Transfers	3,354,210	\$8,401,770	9,748,633	3,697,634
Total, General Subfund	599,255,840	631,432,486	646,126,005	658,388,010

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

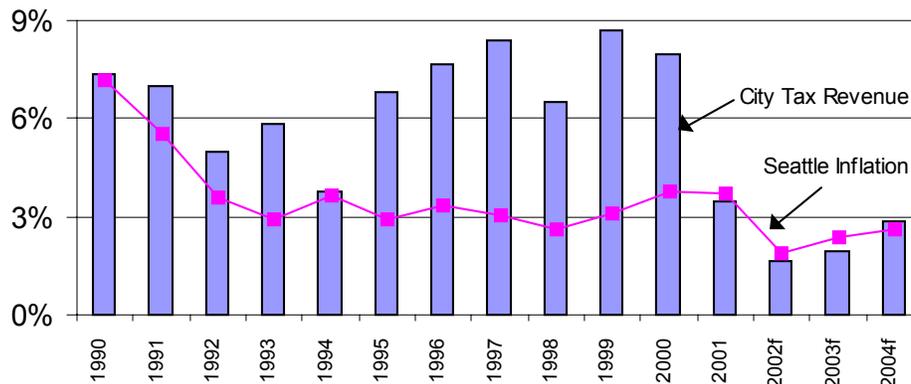
(1) Under the City Charter, 10% of certain revenues is deposited into the Parks Fund. These are noted by the 90% figures above. This requirement also applies to certain license revenues.

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Figure 7 shows the marked decrease in revenue growth post-2000. After many years of tax revenue growth outpacing inflation, the year 2001 saw the beginning of the national and local recession. The 2002 and 2003 revenue forecasts portray the weakness in the business taxes, i.e. sales and Business and Occupation (B&O) taxes. A sharp decline in retail sales tax revenue in 2002, followed by lukewarm recovery, has resulted in a 2004 sales tax estimate that barely exceeds, in nominal terms, the 2001 receipts for this revenue. Following suit, the B&O tax revenue is expected to post year-over-year negative growth in 2003, rebounding with a 4.1% growth in 2004. Adding to the overall slowdown is the reduction of the statutory annual growth limit from 6.0% to 1.0% on property taxes, effective in 2002. However, offsetting the slowing tax revenues in 2002 are high revenue expectations, due to rate increases begun in 2001, from the City owned utilities providing water and drainage and wastewater.

Included in the 2003 and 2004 forecast estimates are a number of increased fee and permit charges. These additional revenues are proposed as an effort to recover escalating costs in providing administrative and regulatory service and are included in the Licenses and Permits, Parking Meters/Meter Hoods, and Court Fines revenues in Figure 6.

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



Retail Sales and Use Taxes

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

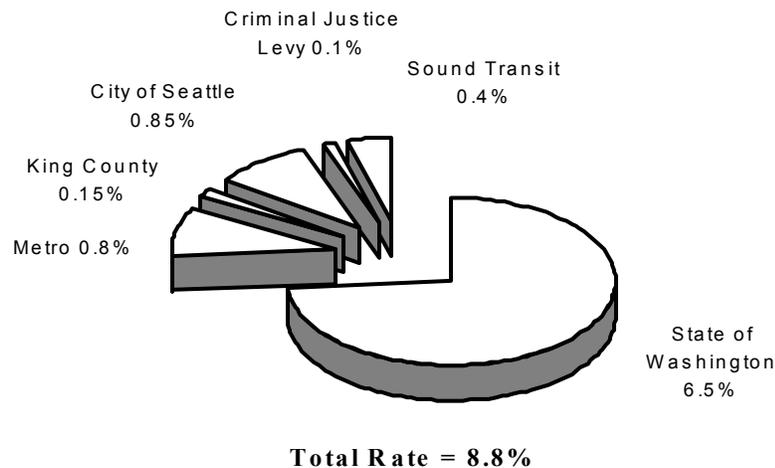
Within the city of Seattle, the sales tax rate is 8.8% for most taxable activities. The rate was increased from 8.6% in April 2001, following a King County vote to raise the sales tax rate by 0.2% to provide additional funding for transit. The exception to the 8.8% rate is a 9.3% rate that is applied to food and beverages sold in restaurants,

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taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 8.8% is a composite of separate rates for several jurisdictions as shown in Figure 8. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the county criminal justice levy.

Figure 8. Sales and Use Tax Rates in Seattle, 2002

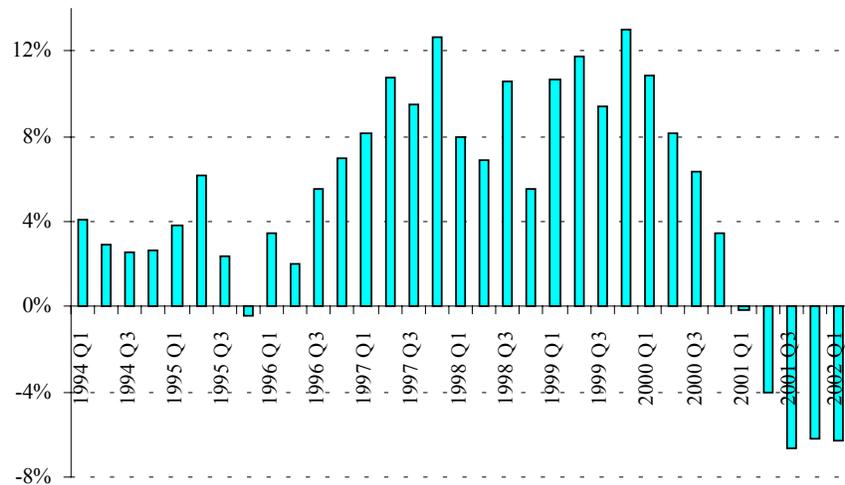


NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars.

Sales tax revenue has grown and contracted with the region's economy. The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 9, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy that was led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peak. Growth began to slow in the first 2 quarters of 2000, when the stock market bubble burst and technology firms began to falter. The slowdown has continued into 2001 and 2002, which have seen growth rates turn sharply negative beginning in 2nd quarter 2001. The average growth rate for the most recent 4 quarters for which data are available, 2001 Q2 – 2002 Q1, was -5.8%. The falloff in growth has been most pronounced for furniture stores, communications, and wholesale trade. Since September 11, taxable sales for hotels have declined sharply.

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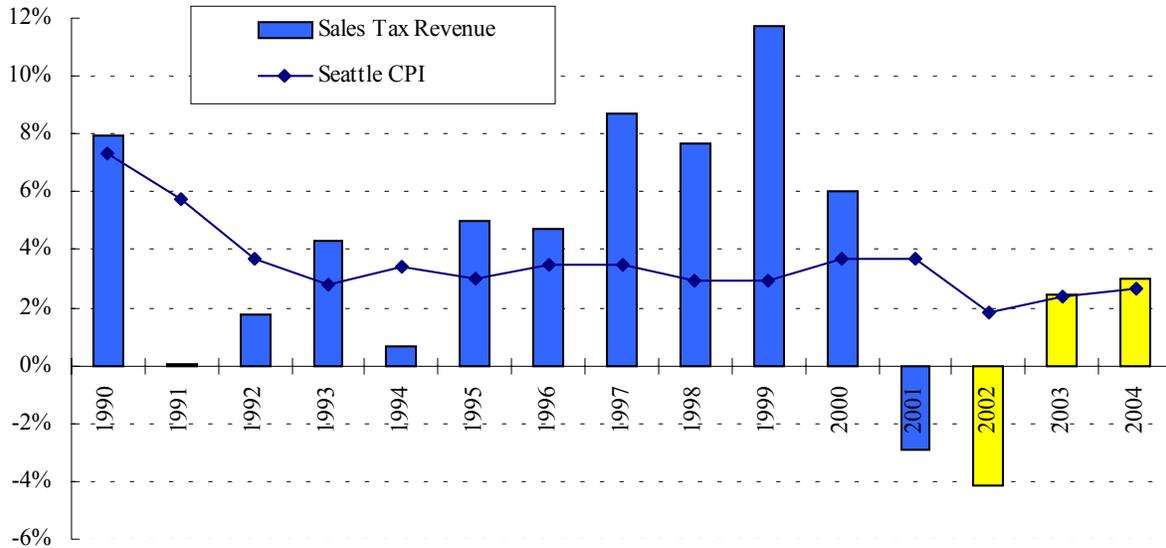
Figure 9. Seattle Taxable Retail Sales: Quarterly year-over-year Growth



Retail sales tax revenue is forecast to decline in 2002, then grow at a modest pace in 2003-04. Reflecting the severity of the 2001-02 recession, City of Seattle retail sales tax revenue declined by \$3.6 million (2.9%) from 2000 to 2001. With a local inflation rate of 3.7% in 2001, this represents a real decline of 6.3% (i.e., after removing the effects of inflation). Retail sales tax revenue is forecast to decline for a second consecutive year in 2002 (see Figure 10). Revenue in 2002 is expected to fall \$5.0 million below 2001 levels, a decline of 4.1%. The forecast for 2002 assumes that the rate of revenue decline will moderate somewhat in the second half of the year. Growth is expected to turn positive in 2003 and 2004, with sales tax revenue forecast to increase by 2.4% in 2003 and 3.0% in 2004. These growth rates are barely above the projected rate of local inflation.

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Figure 10. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2002-04 are forecasts.

Business and Occupation Tax

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

The City levies the B&O tax at different rates on different types of businesses, as indicated in Figure 14 at the end of this section. For example, retail trade business is subject to a tax of 0.215% on gross receipts, while service business, such as accounting, is taxed at a 0.415% rate. Included in the forecast of B&O tax revenue are projections of tax refund payments and estimates of tax penalty and interest payments for past-due tax obligations.

Other things being equal, the B&O tax base is more stable than the retail sales tax base. Relative to the sales tax base, the B&O base is broader, less reliant on the construction and retail trade sectors, and more dependent upon the service sector (most services are not subject to the sales tax).

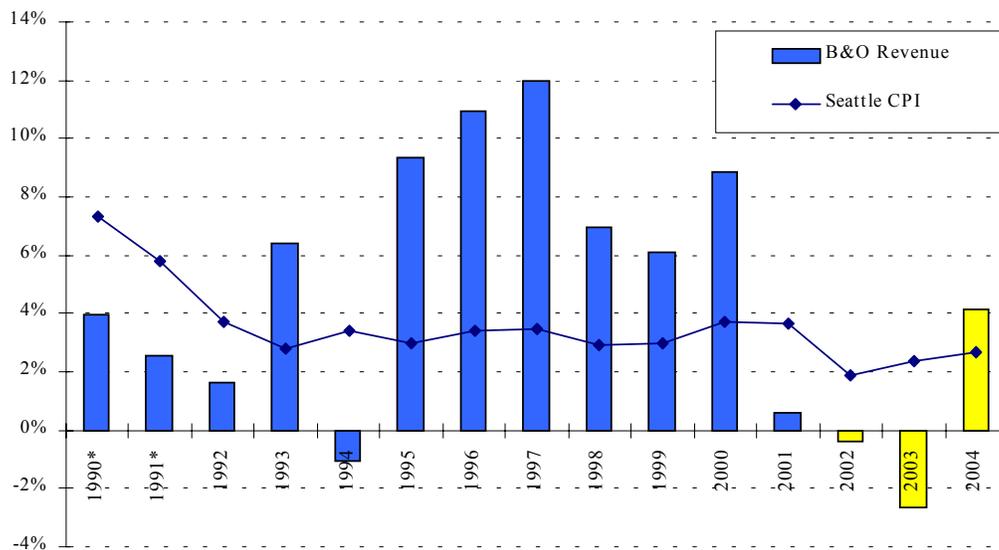
After rising strongly in the second half of the 1990s, B&O revenue growth stalled in 2001. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which resulted in very strong B&O revenue growth during the period 1995-97. Growth slowed somewhat in 1998, as these efforts began to yield diminishing returns once the most obvious and productive techniques for identifying unlicensed or under-reporting businesses had been put into practice.

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With the economy continuing to expand, B&O revenue continued its healthy growth through 2000, increasing by 7.0% in 1998, 6.1% in 1999, and 8.9% in 2000. Growth in 2000 was boosted by changes in the way that the State of Washington taxes financial institutions, which resulted in a significant increase in City B&O tax revenue from financial institutions.

When the region's economy slipped into recession in early 2001, B&O receipts dropped off abruptly. B&O revenue for 4th quarter 2000 taxable activity increased by 8.7% relative to 4th quarter 1999. However, growth for the next quarter, 1st quarter 2001, plummeted to -1.5%. Quarterly growth rates have remained in negative territory since then, with the exception of 4th quarter 2001, when the City received an unusually large amount of revenue from audit activity. The audit revenue boosted total B&O receipts enough to yield positive revenue growth of 0.6% for 2001.

Figure 11. Annual Growth of B&O Tax Revenue



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

Note: Revenue figures reflect current accrual methods. 2002-04 are forecasts.

B&O revenue is forecast to decline in 2002 and 2003, then rebound in 2004. The forecast for B&O revenue anticipates a modest decline in 2002, followed by a steeper drop in 2003, then a rebound to 4.1% growth in 2004 (see Figure 11). This pattern is not consistent with either the regional economic forecast or the sales tax revenue forecast, both of which anticipate decline in 2002 followed by a modest recovery beginning in 2003. The cause of this inconsistency is the City's receipt of approximately \$6.7 million in 2002 as a result of the resolution of a long-standing legal dispute between the City and auto manufacturers. Without this infusion of revenue in 2002, the revenue forecast would have called for a steep -6.3% drop in revenue in 2002, followed by moderate growth of 3.5% and 4.1% in 2003 and 2004, respectively. The magnitude of 2002 drop is due in part to a sharp drop in revenue from audit activity following 2001's exceptionally high level of audit revenue.

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The B&O revenue forecast incorporates a revision the City Council made to the Executive's proposed B&O forecast. This revision adds \$252,000 to the forecasts for 2003 and 2004 to reflect additional revenue that will be generated by the hiring of a contract auditor to audit B&O tax returns.

Property Tax

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

In 2002, the property tax rate for Seattle properties is about 1.07% of assessed value (which officially is expressed as \$10.66 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the fair market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$301,000 (the average assessed value for residences in Seattle), the 2002 tax obligation is approximately \$3,200.

As Figure 12 shows on the following page, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. In addition, the figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 69% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the Families and Education Levy, support various City programs and projects.

The 2003 Proposed Budget reflects a 1% revenue increase for 2003 and 2004. The forecast for the General Subfund portion of the City's property tax is \$157.4 million in 2003 and \$161.1 million in 2004. The annual growth in property tax revenue is restricted by State statute. Since 1973, State law limited the annual growth of the City's General Subfund non-voted property tax levy to 106%. However, in November 2001, voters state-wide approved Initiative 747, which changed the 106% limit to the lesser of 101% or the Implicit Price Deflator, effective for the 2002 collection year.

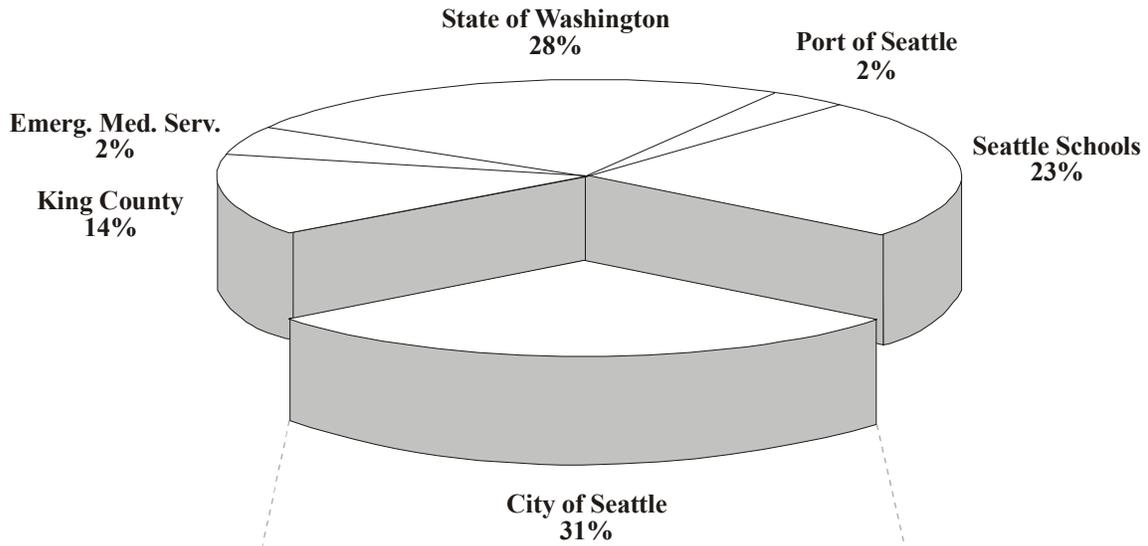
For 2002, the general subfund levy reflects a 1.0% increase plus \$2.8 million in banked capacity. Since 1986, State law has allowed taxing districts to preserve any unused levy capacity for future use. The 2002 levy includes the 1.9% levy capacity (the difference between the 2001 maximum 6.0% limit and 4.1%) that was banked in 2001.

New construction adds to City levy. There is one important exception to the annual growth limit. State law permits the City to increase its General Subfund levy by more than the growth limit to reflect tax on property constructed or remodeled within the last year. Beginning in 1999, robust construction activity resulted in adding unusually high amounts of new construction revenue: \$2.5 million in 1999, \$2.9 million in 2000, \$3.7 million in 2001, and a record-setting \$5.2 million in 2002. Due to slowing construction activity, the forecast for new construction revenue assumes \$3.0 million in 2003 and \$2.5 million in 2004.

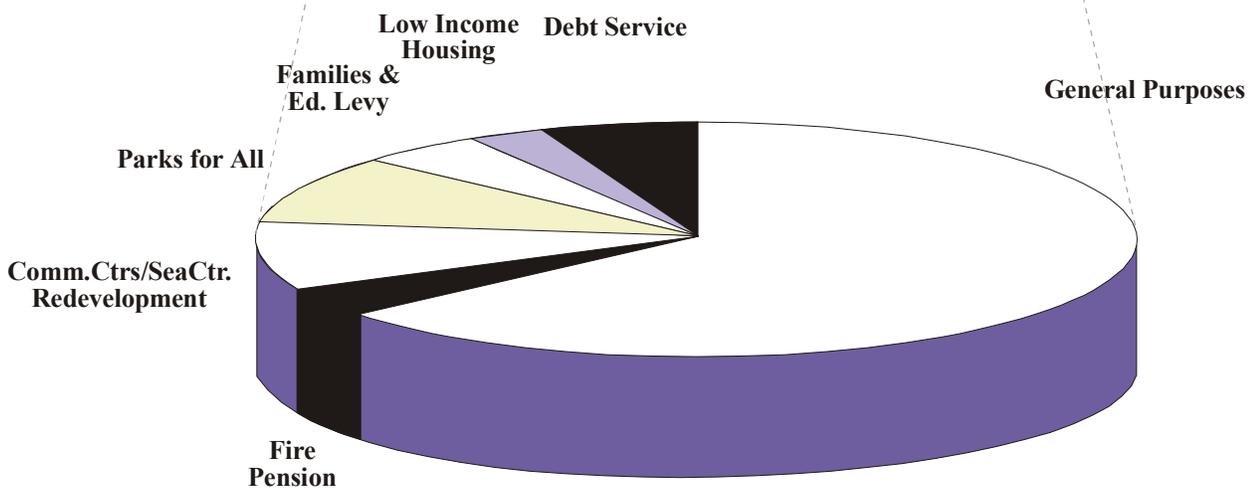
General Subfund Revenue Overview

Figure 12

Components of Total Property Tax Levy (2002)



Components of City's Property Tax Levy (2002)



General Subfund Revenue Overview

Utility Business Tax - Private Utilities

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

Telephone utility tax forecast is revised downward. The utility business tax, which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate \$35.1 million in 2003, and \$34.2 million in 2004. This is a reduction from the previous forecast of \$35.5 million and \$37.8 million, respectively for 2003 and 2004. Falling revenue from this source in late 2002 prompted a revision to the forecast in November 2002. The forecast recommendation was to lower the 2003 forecast by \$2.5 million and by \$3.6 million in 2004; however, much of the reduction in 2003 was offset by over \$2 million due in back taxes.

After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in 4th quarter 2002. The lackluster economy continues to harm telecom revenues amid restructuring in the industry as carriers shift positions in providing service to the end user. Although the wireless industry is expected to show positive returns through 2003 and 2004, analysts believe that telecom companies will face tougher times as the demand for service decelerates, particularly for basic phone and long distance service.

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

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

Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (City Light, water, drainage, wastewater, and solid waste). Current effective tax rates are 6% for electricity and 10% for the other public utility services (tax rates are shown in Figure 14).

As a result of expected changes in usage and proposed rate increases, General Subfund revenue from public utility taxes is forecast to increase by 11.2% in 2002, largely because of City Light rate increases that went into effect in 2001.¹ Growth is forecast to slow to 3.7% in 2003 and 4.8% in 2004, when rate increases are planned for solid waste, water and drainage & wastewater services. More detailed information on the size of, and reasons for, public utility rate increases is provided in the sections on Seattle City Light and Seattle Public Utilities.

The public utility tax revenue forecasts include changes that the City Council made to the Executive's proposed forecasts for the solid waste and drainage & wastewater utilities. Council raised the 2003 forecast for solid waste utility tax revenue by \$65,251 to reflect the additional revenue that will be generated by increasing commercial

¹ Included in these increases is a small amount (less than \$2 million annually) of revenue from private solid waste collections. The majority of solid waste utility tax revenue comes from the City of Seattle Solid Waste Utility.

General Subfund Revenue Overview

collection rates by 3% (the Executive had proposed 1% rate increase). In its November 4, 2002 revenue forecast update, the Department of Finance recommended that the drainage and wastewater utility tax revenue forecast be reduced by \$376,200 in 2003 and \$253,800 in 2004 to reflect anticipated declines in wastewater volumes. Council reduced the 2003 forecast by \$376,200, but made no changes to the 2004 forecast. The 2004 forecast will be revisited in early 2003 as part of the drainage and wastewater utility's rate review process.

Admission Tax

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

The 2002 revenue from this source is expected to be 22.5% below that achieved in 2001. Most of the reduction stems from the permanent loss of all tax revenue from Seattle Seahawks games due to their move to the newly constructed football stadium in 2002. State law that established the financing mechanism for the new facility prevents the City from levying its admission tax on professional sports in the new football stadium. In a similar fashion, State law precludes the City from levying its admission tax at Safeco Field and the Exhibition Hall.

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

Licenses, Permits, and Parking Charges

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

City departments periodically review fees and permit charges to assess revenue recovery relative to the cost of providing the administrative and regulatory service, and to determine whether services should be paid for by the recipients of the service via fees or by all tax payers via general tax revenues. The Executive proposed approximately \$3.8 million in additional (non-parking fine) General Fund fee and charges for 2003, and \$3.9 million for 2004. These revenues represent new fees, or increases to existing fees, in the following areas: street use and parking (Department of Transportation); hazardous material storage, building inspections, and other fire hazard-related permits (Fire Department); and business and professional license fees, including a surcharge on the City's business license fee (Department of Executive Administration). The Executive also proposed an increase to the City's parking fines, adding approximately \$3.4 million in 2003 and in 2004.

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

General Subfund Revenue Overview

the Council added \$1.6 million in non-parking fine General Fund fee and charges revenues in 2003 and \$2.7 million in 2004. For more detail, please refer to Figure 13 and the relevant City department sections.

Figure 13. 2003-2004 General Subfund Revenue Adjustments in Fees and Charges

Fee Description	2003			2004		
	Executive Proposed	Council Adjusted	Total Revenue	Executive Proposed	Council Adjusted	Total Revenue
Parking and Street Use Fines and Fees						
Street Use Right of Way Permits	410,000	0	410,000	422,000	0	422,000
Meter Hoods	1,130,000	249,800	1,379,800	1,164,000	249,800	1,413,800
Commercial Vehicle Load Zone Permits	280,000	900	280,900	288,000	900	288,900
Commercial Parking License Fee	580,000	8,105	588,105	597,000	8,105	605,105
Parking Fines	1,900,000	1,429,650	3,329,650	1,957,000	1,429,650	3,386,650
Parking Enforcement*	1,516,500	0	1,516,500	1,516,500	0	1,516,500
New Parking Meter	0	653,000	653,000	0	1,711,139	1,711,139
Subtotal	5,816,500	2,341,455	8,157,955	5,944,500	3,399,594	9,344,094
Business, Professional Licenses & Other						
Weights & Measures Scanner Fees	43,000	0	43,000	44,000	0	44,000
Surcharge on Business License - W&M	216,000	45,000	261,000	222,000	45,000	267,000
Adult Manager & Entertainer Licenses	56,000	-7,875	48,125	58,000	-7,875	50,125
Panoram Location & Device Licenses	3,400	2,326	5,726	3,500	2,326	5,826
Animal Control Licenses and Fees	0	202,500	202,500	0	202,500	202,500
False Alarm Fines	0	462,600	462,600	0	462,600	462,600
Subtotal	318,400	704,551	1,022,951	327,500	704,551	1,032,051
Fire Department Permit & Inspection Fees						
Firework Display Permits	5,200	0	5,200	5,400	0	5,400
Certification Permits	59,000	0	59,000	61,000	0	61,000
Hazardous Materials Permits	165,000	0	165,000	170,000	0	170,000
Plan Review Service Fee	360,000	0	360,000	371,000	0	371,000
Inspection Fee - new construction	525,000	0	525,000	541,000	0	541,000
Subtotal	1,114,200	0	1,114,200	1,148,400	0	1,148,400
Total Additional Revenue	7,249,100	3,046,006	10,295,106	7,420,400	4,104,145	11,524,545

Notes: *Parking Enforcement revenues were originally proposed at \$1,665,000, but were reduced at the Executive's request.

State-Shared Revenues

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

General Subfund Revenue Overview

State discontinues reimbursement to compensate for City's loss of Motor Vehicle Excise Tax (MVET) revenues. Before the passage of Initiative 695 and the subsequent 2000 legislation to eliminate the MVET, the City of Seattle received allocations of the MVET in support of (1) public safety (police and fire) programs, (2) particular criminal justice needs, and (3) specific policing activities. During the 2000 legislative session, the State Legislature committed State General Fund revenues toward these and other purposes to compensate local governments, in part, for the loss of MVET revenues. The City of Seattle received \$1,551,389 for Calendar Year 2000, \$3,102,778 for Calendar Year 2001 and \$3,189,346 for Calendar Year 2002. Although the 2000 legislation providing these distributions indicated the intent of the State to continue making distributions in future years, budget pressures led the Legislature in 2002 to discontinue these distributions to all but a subset of cities and towns. Seattle will not receive a distribution in this category in 2003 and the budget assumes no distribution in 2004.

Although reduced due to the loss of the MVET, the City will continue to receive separate criminal justice assistance distributions, originating from the State's General Fund, as provided for under the previously approved Referendum 49. These revenues are allocated on the basis of population and crime rates relative to state-wide averages. The City should receive approximately \$2.1 million in each of 2003 and 2004. The City received approximately \$2.2 million in 2000 and \$2.1 million in 2001.

Liquor Board profits and Excise Tax revenue. Seattle's 2002 Liquor Board profits (estimated \$3.0 million) are expected to decline from their 2001 level (\$3.0 million) and decline from 2002 levels in 2003 to approximately \$2.9 million, before increasing in 2004 to \$3.1 million. Liquor Excise Tax revenues are anticipated to increase slightly throughout the period from \$1.9 million in 2002 to \$1.9 million in 2003 and \$2.0 million in 2004.

Government and Private Grants

Benaroya Hall Payments continue. In 1999, the City and operators of the Benaroya Hall (BH Music Center) entered into an agreement which allocates some operating revenue from BH Music Center to the City. In 1999 and 2000, the allocations to the City reflected both a share of concession revenue and support to the City's general debt service obligations, totaling approximately \$780,000 annually. In 2000, the City retired some City debt associated with the development of Benaroya Hall. As a result, BH Music Center payments to the City decline to approximately \$610,000 annually, reflecting only a share of concession revenues.

Revenue from Service Charges

Agreements for AFIS, Mariners, and Seahawks. The forecast reflects the revenue derived from the King County-wide voter-approved property tax levy for the Automated Fingerprint Information System (AFIS). The levy, which expires in 2005, provides Seattle with approximately \$2.5 million annually for the City's portion of the AFIS program.

In 1999, the City and the Mariners entered into an agreement whereby the team would reimburse the City for costs of police services during games at Safeco Field. Revenues from these payments were just over \$1 million in 2001, which included the playoff series and the All-Star game. The forecast anticipates an average of \$950,000 annually for the biennium, reflecting efficiencies associated with a new agreement for police services.

In 2003, the City anticipates signing an agreement with the Seahawks whereby the team would reimburse the City at full cost for its police and traffic services. For the 2003-2004 biennium, the revenue is estimated at \$180,000 per year.

Fire Department Special Events Services. Approved in March 2001, Ordinance 120299 authorizes the Seattle Fire Department to establish and collect fees for emergency medical services provided by the department upon the

General Subfund Revenue Overview

request of a special event promoter or owners of event venues. The fees include the costs of hiring off-shift Paramedics and/or Emergency Medical Technicians, equipment, and apparatus costs. The presence of emergency medical staff will ensure services for rapid cardiopulmonary resuscitation, early defibrillation, and basic first-aid care for the spectators during these events. Approximately \$500,000 of revenues are expected in 2002 and about \$600,000 per year for 2003 and 2004.

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution that directs the City to allocate a portion of central service expenses to City utilities and certain other departments that are not supported by the General Subfund. The intent of this allocation is to build the costs of necessary general government services into the budgets of departments supported by revenues that are largely self-determined.

Beginning in 1998, a large portion of cost allocation revenues was deposited directly to the Executive Services Department operating fund (ESD Fund) rather than to the General Subfund. This change facilitated the 1997 consolidation of the Personnel, Administrative Services, and Finance Departments into the Executive Services Fund. There was a corresponding reduction in General Subfund expenditures for these services (\$12.4 million in 1998), resulting in no net change in General Subfund resources. In 2001, ESD was decentralized into four separate departments (Personnel, Office of Sustainability & Environment, Fleets & Facilities, and Finance). Starting in 2002, the portion of cost allocation revenues for the Personnel and Finance Departments that were deposited to the ESD operating fund (\$27.2 million in 2002) will instead be deposited into the General Subfund. There will be a corresponding increase in General Subfund expenditures for these services, resulting in no net change in General Subfund resources.

For 2003 and 2004, revenue from these charges will decline primarily as a result of budget reductions in the central services departments. Specifically, budget reductions in Personnel and Executive Administration will result in fewer services and lower charges to the City utilities.

Fines and Forfeitures

Most fine and forfeiture revenue reflects payments on parking and traffic fines issued by the Seattle Municipal Court. Historically, more than 70% of this revenue is from parking fines, while much of the remaining amount comes from traffic violations. Revenue from the latter has remained relatively constant over the last few years.

Parking revenue estimates increase. The Executive proposed an increase for parking ticket revenue from citations issued by the parking enforcement squad from the current 2002 estimate of \$11.0 million to \$14.0 million in 2003, and \$14.6 million in 2004. This change was based on two factors: increased enforcement and an increase in parking fines. In recent years, the strong economy and low unemployment rates have made the retention of parking enforcement officers (PEOs) difficult. In 2002, however, SPD has renewed their efforts in recruiting PEOs and it is expected that all of the positions will be filled by early 2003. The fully-staffed squad provides coverage to more areas of the City and the ability to retain officers means that less time will be spent in training and more time on the street. Additionally, the Executive proposed an increase in the amount of on-street parking fines of \$5 in 2003 raising the price of most parking tickets to \$30 in 2003. This fine was last increased in 1999.

The Council increased these revenue estimates in 2003 and 2004 an additional \$1,429,650, by adopting the Executive's estimated increase due to parking enforcement but increasing the fine amount an additional \$5 (see Figure 13 for detail).

General Subfund Revenue Overview

Miscellaneous Revenues

Transfers to the General Subfund. Transfers reflect payments from department-specific and capital project funds to the General Subfund. Payments from department and capital funds were possible due to reduced program levels in 2002 and adjustments (both project delays and reductions) to construction projects. In addition, existing balances in some department and capital funds were used to make these payments to the General Subfund.

Estimates of transfers to the General Subfund are approximately \$8.4 million in 2002, \$8.1 million in 2003 and \$3.0 million in 2004. For 2003 and 2004, transfers will help offset higher capital and facility expenses for General Subfund-supported departments. A detail list of these transfers is included in the General Subfund Revenue table found in the Appendix. In ratifying the 2003 Proposed Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved balances from the funds listed in the Appendix to the General Subfund.

Interest earnings continue to decline. The General Subfund receives interest earnings on cash balances for many subfunds of the General Fund, as well as many operating and project funds. These earnings are subject to volatility, due primarily to occasional sharp fluctuations in cash balances, but also to changes in interest rates. For example, earnings in 2001 at \$4.37 million exceeded the 2001 Adopted Budget forecast by \$640,000.

The 2002 forecast reflects actual earnings to date and anticipates a drop in interest rates in the last half of 2002. The 2003-04 forecasts assume that cash balances will decline marginally for the duration of the biennium, but that interest rates will increase from their 2002 levels. These assumptions result in forecasts of \$3.6 million in 2002 and 2003, and \$4.0 million in 2004.

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Figure 14. Seattle City Tax Rates

	2000	2001	2002
Property Taxes (Dollars per \$1,000 of Assessed Value)			
General Property Tax	\$2.449	\$2.250	\$2.084
Families & Education	0.228	0.154	0.133
Seattle Center Redevelopment/Parks Community Centers-Seattle Center	0.281	0.181	0.109
Seattle Center Redevelopment/Parks Community Centers-Parks	0.044	0.072	0.104
Parks for All Levy		0.353	0.316
Low Income Housing Levy	0.015	0.013	0.011
Fire Pension	0.225	0.225	0.185
Emergency Medical Services	0.273	0.246	0.250
Low Income Housing (Special Levy)	0.134	0.117	0.102
City Excess GO Bond	0.370	0.317	0.278
Retail Sales and Use Tax	0.85%	0.85%	0.85%
Business and Occupation Tax			
Wheat Wholesaling/Flour mfg.	0.02150%	0.02150%	0.02150%
Retail/Wholesale	0.21500%	0.21500%	0.21500%
Manufacturing/Extracting	0.21500%	0.21500%	0.21500%
Printing/Publishing	0.21500%	0.21500%	0.21500%
Service, other	0.41500%	0.41500%	0.41500%
City of Seattle Public Utility Business Taxes			
City Light	6%	6%	6%
City Water	10%	10%	10%
City DWU	10%	10%	10%
City Solid Waste	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates			
Cable Communications (not franchise fee)	10%	10%	10%
Telephone	6%	6%	6%
Natural Gas	6%	6%	6%
Steam	6%	6%	6%
Commercial Solid Waste	10%	10%	10%
Franchise Fees			
Cable Franchise Fee	2.5%	2.5%	2.5%
Admission and Gambling Taxes			
Admissions tax	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%
Bingo (less prizes)	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%