City Revenue Sources

City Revenue Sources and Fund Accounting System

The City of Seattle expends $3.9 billion (Proposed 2011) annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to 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.

The City accounts for all revenues and expenditures within a system of accounting entities called “funds” or “subfunds.” The City maintains dozens of funds and 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 example**,** the City of Seattle has a legal obligation to ensure 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 fund. For similar reasons, expenditures of revenues from the City’s Families and Education Property Tax Levy are accounted for in the Educational and Development Services Fund. As a matter of policy, several City departments have separate funds or subfunds. For example, the operating revenues and expenditures for the City’s parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees’ Retirement Fund, the Firefighters Pension Fund, and the Police Relief and Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for current and former City employees.

The City’s primary fund is the General Fund. The majority of resources for services typically associated with the City, such as police and fire or libraries and parks are received into and spent from one of two subfunds of the City’s General Fund: the General Subfund for operating resources (comparable to the “General Fund” in budgets prior to 1996) and the Cumulative Reserve Subfund for capital resources.

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 53.3% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

The National and Local Economy, September 2010

National Economic Conditions and Outlook

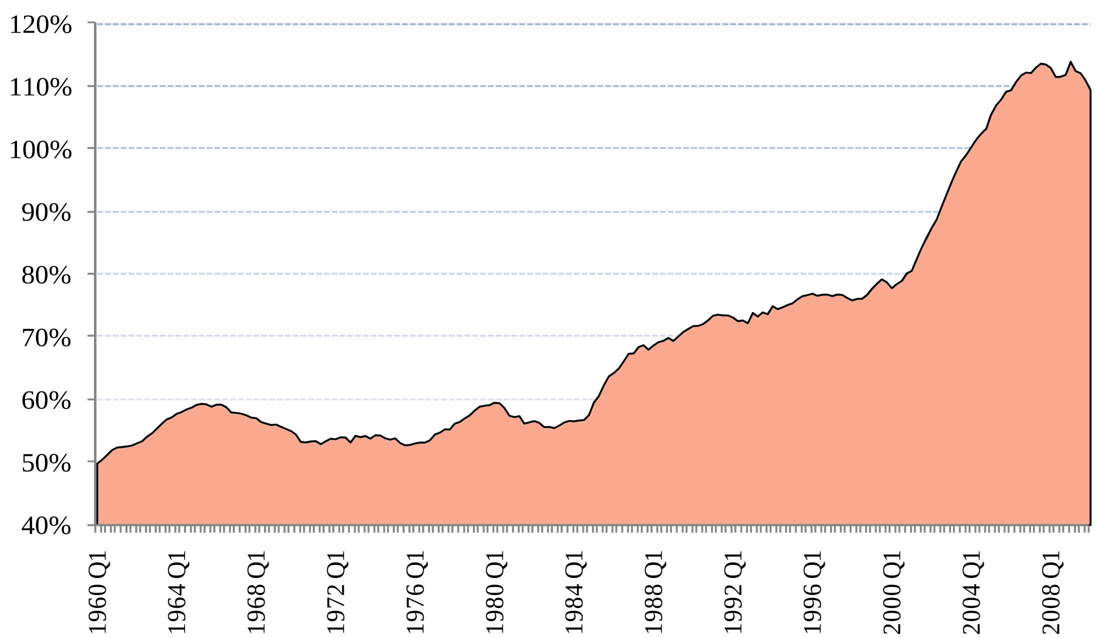
A look back at the roots of the recent recession. Now that the 2007-2009 recession is over, economists are trying to discern how the recovery will unfold. To better understand where the economy is headed, it is helpful to look back and review the events that brought about the worst downturn since the Great Depression.

We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for assets, such as stocks and real estate, because they were less vulnerable to erosion by inflation than other types of investments. The early 1980s was also when the federal government began running large budget deficits on an ongoing basis, which has resulted in a buildup in federal government debt. In addition, the movement to deregulate financial markets got its start in the early 1980s.

The early 1980s ushered in a 25 year period characterized by stable economic conditions and low inflation that is sometimes called the "great moderation." Inflation was low in part because the integration of China and other developing countries into the world economy helped to hold down the price of goods and, to a lesser extent, services. With inflation under control, the Federal Reserve was able to keep interest rates at relatively low levels. In addition, a surplus of savings in many developing countries provided a large pool of money available for investment.

A stable economy made investors feel confident and optimistic, which, combined with an abundance of cheap money, led to excessive borrowing and risk taking and a huge buildup in U.S. household debt (see Figure 1). A lot of the borrowed money was used to purchase assets, which pushed up the price of those assets and eventually led to the buildup of asset bubbles. These bubbles included the housing bubble of the late 1980s, the stock market bubble of the late 1990s, and, biggest of all, the housing bubble of 1998-2006. During the past decade, we also saw bubbles in energy, food, and other commodities, as well as housing bubbles in numerous countries across the globe.

Figure 1. U.S. Household Debt as a Share of Personal Income



Source: Federal Reserve Board, U.S. Bureau of Economic Analysis.

With asset prices rising, Americans cut back on saving and increased their spending, driving the expansion of the world economy. Eventually housing prices rose to a level that could not be sustained, even with exotic mortgage products, and prices began to fall. The collapse of the housing bubble triggered the financial crisis which, in turn, precipitated the worldwide recession. While the housing bubble was the trigger for the downturn, many economists believe the root cause of the financial crisis was the large imbalances in savings and borrowing that had built up between nations.

The preceding review of the roots of the recession has a number of implications for the recovery:

- The problems developed over a 25-year time period, so the return to normalcy will not occur quickly.

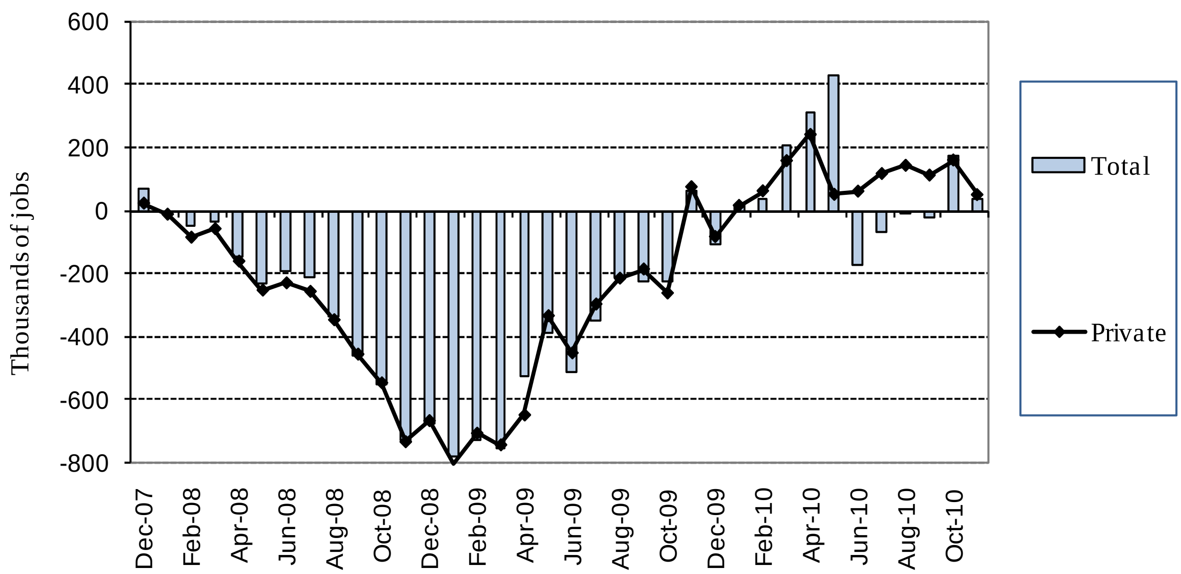
- The roots of the downturn are global in nature, which means policy changes are needed in many nations to bring the world economy back into balance.
- The current recession is unlike other postwar recessions, so we do not have a roadmap for recovery.
- The federal government must unwind its interventions in the economy. If this is not executed well, there is the potential to disrupt the recovery or ignite inflation.
- To have a sustained recovery, the federal government must get its budget deficit under control.
- Consumer spending will be restrained by the need to reduce debt and increase savings.

The recovery has been subdued and uneven thus far. The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures, the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 4.1% over a period of six quarters, 8.4 million jobs, representing 6.1% of total jobs, were lost, and the unemployment rate rose to a peak of 10.1%.

In its early stages, the recovery received a boost from inventory rebuilding and a buildup in fiscal stimulus spending. However, in the second quarter of 2010, the economy lost momentum as inventory rebuilding slowed and stimulus spending began to plateau. Also weighing on the economy in the second quarter was the emergence of the European fiscal crisis, in particular the Greek sovereign debt crisis. This increased volatility in the financial markets and reduced growth prospects for Eurozone countries, thus reducing export prospects for U.S. firms. A bailout of Greece put together by the European Union and International Monetary Fund stabilized the situation.

The slowing of the economy is evident in the job market. With recent public sector employment figures distorted by Census-related hiring and layoffs, trends can be discerned best by focusing on private sector employment. Private employment accelerated from January through April, but has weakened since then; with employment gains averaging 99,000 per month over the past seven months (see Figure 2). GDP, which has now grown for five successive quarters, increased at a 2.5% annualized growth rate in the third quarter of 2010, up from 1.7% in the second quarter.

Figure 2. Monthly Change in U.S. Employment



Data are seasonally adjusted. Source: U.S. Bureau of Labor Statistics.

Growth will remain subdued through mid-2011, after which a gradual acceleration is expected. History tells us that recessions caused by financial crises are followed by weak recoveries, and the current recovery is unlikely to be an exception. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, a very weak job market, and sluggish income growth. In addition, the housing market has deteriorated following the expiration of the second homebuyers' tax credit at the end of April.

With the economy having picked-up a bit in recent months following a midyear slowdown, forecasters have modestly raised their expectations of future economic growth. Current expectations are for growth to remain subdued through mid-2011, followed by a strengthening in the second half of 2011 and 2012, led by continued strong business investment and a gradual improvement in consumer spending. Households have been making progress in reducing their debt loads and increasing their savings. As that process continues, households should begin to feel more comfortable with their finances and gradually begin to save less and spend more.

The risk of a double-dip recession has diminished in recent months. With the economy stabilizing a bit in recent months, the risk of a double-dip recession has receded somewhat. In its November forecast, Global Insight lowered its estimate of the probability of a double-dip recession occurring from 25% to 20%. A double-dip recession would result largely from the inability of the private sector to sustain the recovery as the boost to growth from the inventory buildup and the federal stimulus fade. In addition, it assumes that fiscal austerity measures and sovereign debt problems in Europe drive down stock prices and the value of the euro, reducing the competitiveness of U.S. exports. Finally, the double-dip scenario assumes the housing recession drags on, undermining consumer confidence and causing a further decline in household wealth as home prices continue to fall.

In Global Insight's double-dip scenario, GDP would decline for three quarters beginning in the first quarter of 2011, and the unemployment rate would rise to a peak of 10.3% in 2011. Consumer price inflation would slow to 0.5% in 2011, and the risk of deflation would rise.

Puget Sound Region Economic Conditions and Outlook

The region's recession was similar in severity to the national downturn. The impact of national recessions on the Puget Sound Region's economy varies depending on the national recession's characteristics. For example, the 2001 recession was much more severe regionally than nationally, because the recession included a steep drop in air travel as a result of the September 11, 2001 terrorist attack. This caused a sharp falloff in the demand for commercial airliners, which led to substantial layoffs at Boeing. On the other hand, the region's economy performed better than the national economy during 1990-91 national recession, in part because Boeing employment held steady during the recession.

The impact of the 2007-09 recession on the local economy has been similar in severity to its impact on the national economy. While job loss was higher locally, the region's unemployment rate did not rise as high as the national rate and the region's housing market performed somewhat better than the nation's.

During the 2007-09 recession, the Seattle metro area (King and Snohomish Counties) experienced a peak-to-trough loss of 119,200 jobs, an 8.0% decline. The 8.0% decline exceeded both the national decline of 6.1% and the metro area's 7.0% job loss during the 2001-03 recession. Locally, the most severe losses were in construction, manufacturing outside of aerospace, and finance. The only major industry to see a significant increase in employment during the downturn was education and health services.

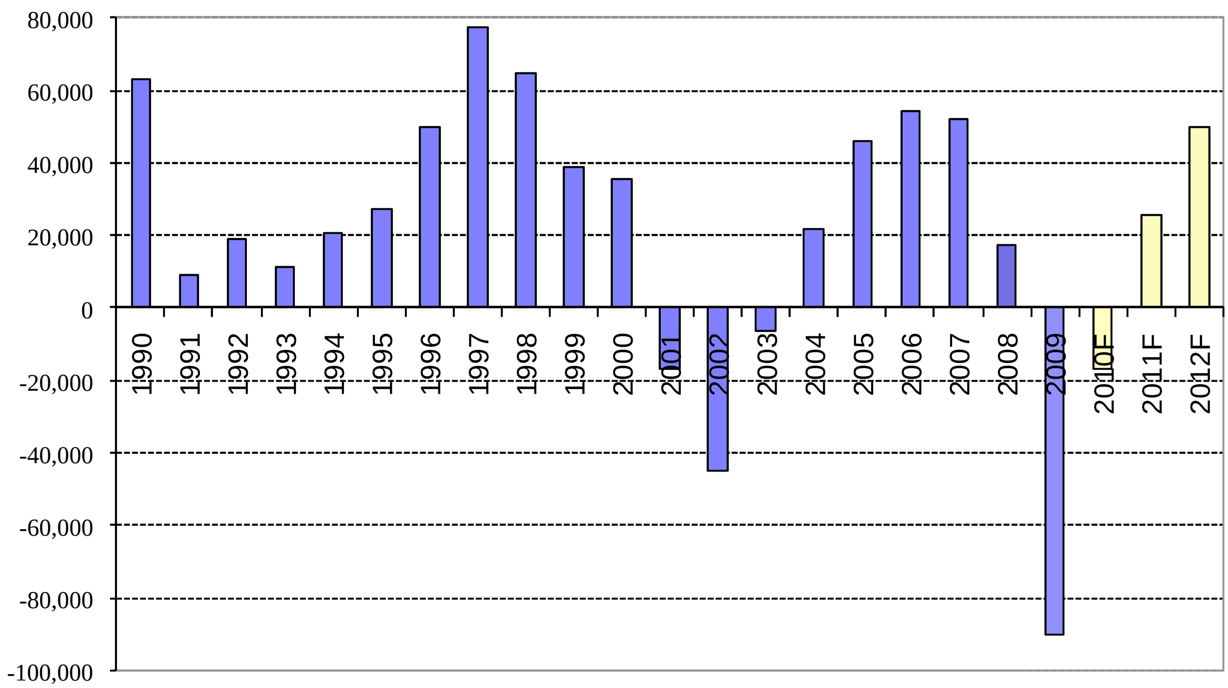
Interestingly, although the region's rate of job loss exceeded that of the nation, the local unemployment rate peaked at 8.9%, significantly below the national peak of 10.1%. One reason for this is that the region entered the recession with a significantly lower unemployment rate than the nation. As a result, the increase in the unemployment rate from pre-recession lows to recession highs was similar for the region and the nation.

Like the nation, the region has suffered through a housing boom and bust over the past ten years, but the housing downturn has been less severe here than nationally. Through the third quarter of 2010, single-family home prices in the region had fallen by 24.3% from their peak three years earlier, compared to a 31.0% peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. In addition, local rates of foreclosure have been lower than national rates.

The region's economy will pick-up momentum slowly. The region's recovery is expected to be weak by historical standards, with growth picking-up gradually over time. The Puget Sound Economic Forecaster expects weak growth for the remainder of 2010, followed by a modest improvement in 2011, and then a transition to more healthy growth in 2012. Regional employment is projected to increase by only 1.5% in 2011 before rising to a more recovery-like 2.8% in 2012. Housing will recover more slowly than the rest of the economy, with housing starts not expected to move comfortably above recession levels until 2014. Nevertheless, the state's chief economist thinks that the recovery will be stronger in Washington than nationally, in part because Boeing and Microsoft have held up better during the downturn than have most of the nation's large employers.

Once the recovery takes hold, the economy's rate of growth will probably not return to pre-recession levels because consumers need to pay down debt and rebuild savings, and the federal government needs to get its budget under control. The Puget Sound Economic Forecaster expects employment to grow at a 1.9% annual rate from 2011 through 2021, which is a full percentage point slower than the 2.9% growth rate measured over the prior 35 years ending in 2008. Comparable figures for real (i.e., inflation adjusted) personal income are 3.1% annual growth for 2011-21, compared to 4.2% annual growth for the period 1973-2008.

Figure 3. Annual Change in Puget Sound Region Employment



Note: 2010-12 forecasts are from the Puget Sound Economic Forecaster's September 2010 forecast. Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer Price Inflation

After reaching a 17 year high in mid-2008, inflation has fallen sharply. The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to 1.6% in 2002, its lowest level since the early

1960s. After reaching that low, inflation began to rise steadily, driven in large part by a relentless rise in oil prices from a low of just above $20 per barrel in early 2002 to a peak of $147 per barrel in July of 2008. As oil prices peaked, so did the consumer price index (CPI), with the July 2008 U.S. CPI-U rising to 5.6% measured on a year-over-year basis – its highest level in 17 years. Since then, the worst economic downturn in 80 years has pushed inflation rates down to levels not seen since the 1950s. The annual growth rate of the U.S. CPI-U fell to -0.4% in 2009, the first time in 54 years that consumer prices have declined on an annual basis.

Local inflation trends have been similar to national trends, since energy prices and national economic conditions have a major effect on local prices. The growth rate of the Seattle CPI-U peaked at 4.2% in 2008, and then dropped to 0.6% in 2009. For the 12 month period ending in June 2010, the Seattle CPI-U increased by 0.3%, while the Seattle CPI-W posted a 0.6% gain. Looking forward, a weak economy is expected to keep downward pressure on prices in the short-term. In fact, worries about deflation have increased in recent months.

Figure 4 presents historical data and forecasts of inflation for the U.S. and the Seattle metropolitan area through 2013. The forecasts are for the CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 4 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

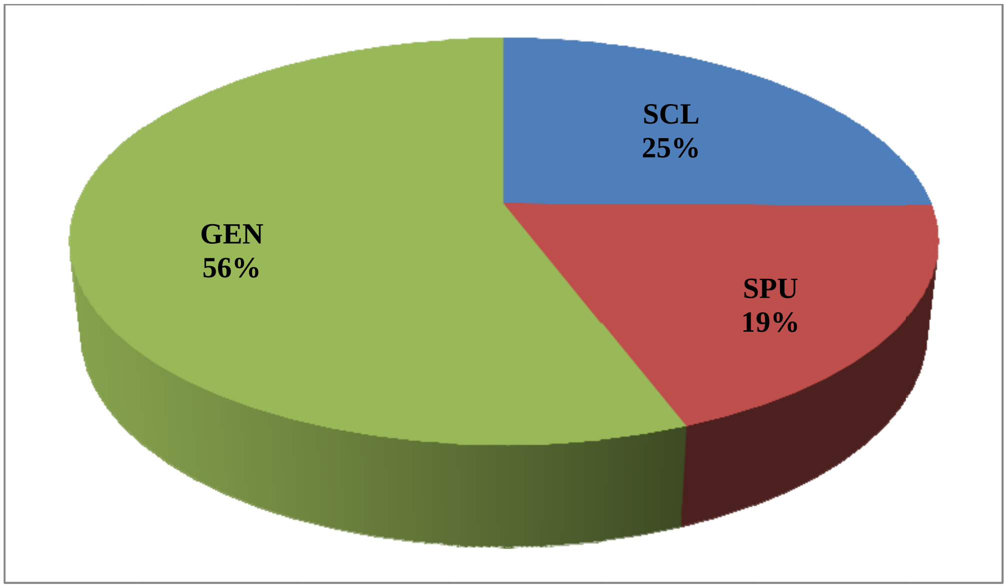
Figure 4. Consumer Price Index Forecast

	Seattle CPI-W (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2010 (actual)	-0.1%	0.6%
2011	1.4%	1.0%
2012	2.0%	1.8%
2013	2.3%	2.3%

City Revenues

The City of Seattle projects total revenues of approximately $4.3 billion in 2011. As figure 5 shows, approximately 44% of these revenues are associated with the City's utility services, Seattle City Light and Seattle Public Utilities' Water, Drainage and Wastewater, and Solid Waste divisions. The remaining 56% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issuance is included in the total numbers as are interdepartmental transfers. The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City's Bridging the Gap Transportation program in the Transportation Fund.

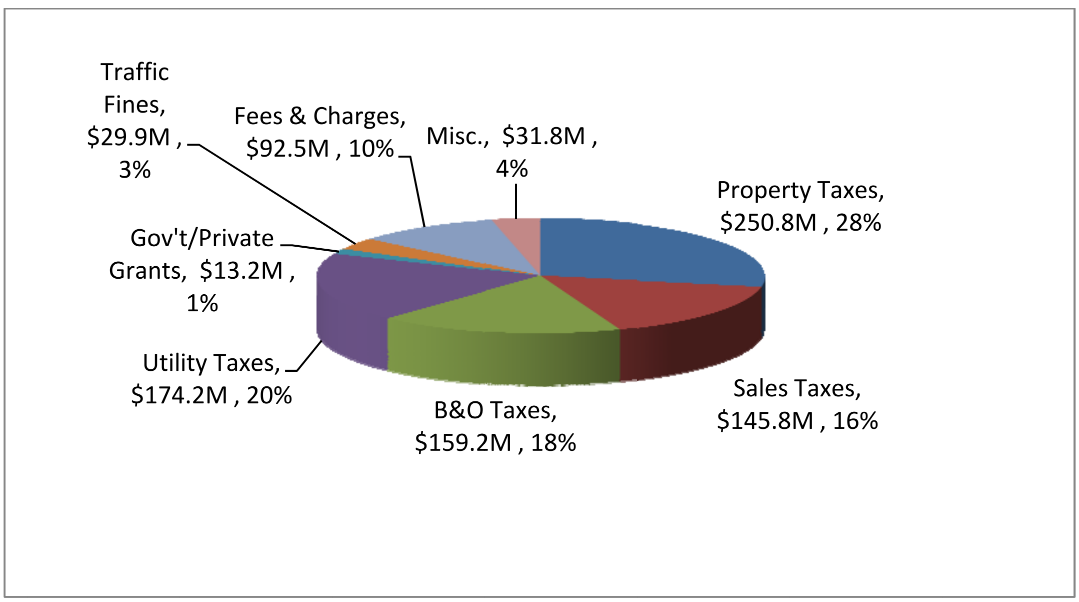
Figure 5. Total City Revenue by Use – Proposed 2011 $4.3 Billion



General Subfund Revenue Forecasts

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 6 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Figure 6. 2010-Revised General Subfund Revenue Forecast by Source - $897.4M



Revenue Overview

In 2009, general government revenue into the General Subfund totaled approximately $893.8 million. General Subfund revenue is projected to increase to $897.4 million in 2010, stay flat at $897.4 million in 2011, and then grow to $923.3 million in 2012. It is important to note that 2009 and 2010 revenues were artificially high due to contributions from the Revenue Stabilization Account, or "Rainy Day Fund," in amounts of $8.9 million and $11.3 million, respectively. Also in 2010, the former Department of Executive Administration (DEA) merged with the former Fleets & Facilities Department (FFD), along with various other City functions, to form the Department of Finance and Administrative Services (FAS). This merger resulted in 2011 and 2012 revenues, which formerly accrued to the General Subfund to support work administered by the former DEA, now going directly to FAS's operating fund. Removing these effects, and those from proposed policies designed to increase revenues, would show a meager 0.7% and 3.7% rates of growth in GSF revenue for 2011 and 2012.

Figure 7 shows General Subfund actual revenues for 2009, adopted and revised revenues for 2010, as well as the adopted and endorsed revenues for 2011 and 2012. As a result of the national recession, tax receipts were negative (-1.9%) in 2009. The severity of the recession will continue to mute the City's tax revenues with a paltry 1.0% growth expected in 2010, followed by 1.8% and 3.9% in 2011 and 2012. The main cause of the slower growth rates are the B&O and sales taxes. The economic downturn, while led by real estate, has also severely constrained consumer behavior, with record job losses and stubbornly high unemployment rates. This is most evident in the declining sales tax base. Construction activity has also declined, which is another source of pressure on sales tax receipts.

Revenue from on-street parking for 2010 is revised downward to $26.5 million from the 2010 Adopted Budget figure of $28.6 million. The 2011 Adopted and 2012 Endorsed Budgets, however, include on-street parking rate increases, and an extension of paid evening parking hours from 6 p.m. to 8 p.m. These changes continue the City's program to adjust its parking rates and rules to more flexibly use the price of parking across different parts of the City to help achieve parking management goals. These changes result in increased revenues to $35.1 million in 2011 and $39.6 million in 2012. Significant increases in revenue are also anticipated in parking citation revenue due to ordinance changes allowing the use of an immobilizing parking boot on vehicles owned by individuals with four or more outstanding parking citations. The City anticipates increased payment compliance on citations and approximately $1.7 million in additional citation revenue in 2011 and $2.0 million in 2012.

Significant change in City revenue accounting in 2009. The City Charter requires that the general government support to the Park and Recreation Fund (PRF) be no less than 10% of certain City taxes and fees. Until fiscal year 2009, City treasury and accounting staff would directly deposit into the PRF 10% of these revenues as they were paid by taxpayers. The remaining 90% were deposited into the General Subfund or other operating funds as specified by ordinance. In addition to these resources, City budgets would provide additional General Subfund support to the PRF in amounts which greatly exceeded the 10% amount deposited in the PRF from these taxes and fees.

Beginning in 2009, City staff deposited 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2011 and 2012, General Subfund support to the Parks and Recreation department will be $81.0 million and $84.7 million. These contributions are well above the $37.9 and $39.6 million that would accrue to parks under the previous 10% accounting scheme.

Figure 7. General Subfund Revenue, 2009 – 2012*
(in thousands of dollars)

Revenue Source	2009 Actuals	2010 Adopted	2010 Revised	2011 Adopted	2012 Endorsed
General Property Tax (1)	208,386	213,355	214,388	218,491	221,869
Property Tax - Medic One Levy	37,157	36,802	36,440	35,164	35,083
Retail Sales Tax	136,632	136,383	133,934	137,118	143,695
Retail Sales Tax - Criminal Justice Levy	11,710	12,069	11,894	12,353	13,313
B&O Tax (100%) (2)	160,985	164,415	159,246	166,636	176,711
Utilities Business Tax - Telephone (100%)	34,613	33,163	33,976	32,868	33,150
Utilities Business Tax - City Light (100%)	33,749	39,452	39,313	41,414	42,976
Utilities Business Tax - SWU & priv.garb. (100%)	11,449	14,190	12,726	13,471	14,023
Utilities Business Tax - City Water (100%)	27,062	30,408	29,840	23,989	26,592
Utilities Business Tax - DWU (100%)	28,861	28,912	29,020	33,049	34,479
Utilities Business Tax - Natural Gas (100%)	16,221	14,373	12,975	12,345	13,259
Utilities Business Tax - Other Private (100%)	16,706	16,844	16,335	16,731	17,275
Admission Tax	5,588	5,515	6,359	5,759	5,920
Other Tax	5,082	4,729	4,736	4,870	5,070
Total Taxes	**734,201**	**750,611**	**741,182**	**754,257**	**783,416**
Licenses and Permits	13,157	13,487	13,604	12,035	11,982
Parking Meters/Meter Hoods	26,557	29,887	27,840	36,502	41,067
Court Fines (100%)	27,286	29,011	29,913	34,148	34,170
Interest Income	3,267	2,818	1,539	1,539	2,576
Revenue from Other Public Entities	20,808	13,146	13,207	11,230	10,802
Service Charges & Reimbursements (3)	52,900	52,074	51,027	35,903	36,633
Total: Revenue and Other Financing Sources	**878,176**	**891,034**	**878,312**	**885,614**	**920,646**
All Else	1,672	1,892	2,086	1,992	1,986
Interfund Transfers (4)	14,035	11,915	17,050	9,809	663
Total, General Subfund	**893,883**	**904,841**	**897,447**	**897,416**	**923,295**

NOTES:

(1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.

(2) Included in 2009 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

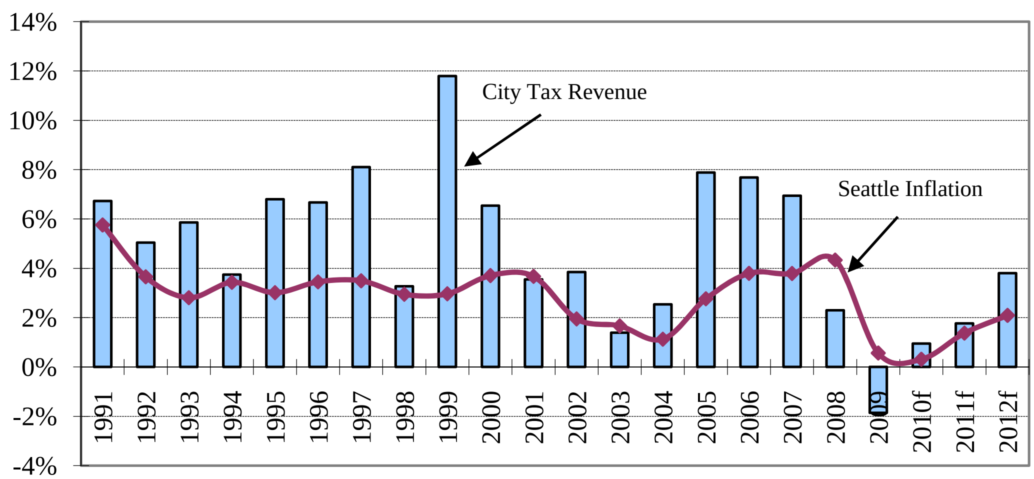
(3) The 2011-2012 Proposed Budgets reflect the merger of the former Dept. of Executive Administration and the former Fleets and Facilities Dept. into the Dept. of Finance and Administrative Services. The FAS operating fund will now collect DEA's former charges that accrued to the General Subfund.

(4) 2009 and 2010 interfund transfers include the use of Revenue Stabilization Fund funds, otherwise known as the "Rainy-Day" Fund. The 2011 amount includes the $8.5 million loan from the Museum of History and Industry.

* In the past, 10% of certain tax and fee revenues were shown as revenue to the Park and Recreation Fund and 90% as General Subfund. Beginning in 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund and the General Subfund support to the Park Fund is increased by the value of 10% of these revenues. This table shows all figures for all years using the new approach.

Figure 8 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation has fallen to near zero, but 2009 had a negative growth rate of just over 1.9% in tax revenue. Continued anemic growth is expected for 2010 and 2011, followed by a comfortable 3.9% rate in 2012. Seattle area inflation is forecast to be muted for the coming biennium.

Figure 8. City of Seattle Tax Revenue Growth, 1991-2012



Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's rate applied to the value of a given property. Figure 9 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners. The King County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value.

For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. The last significant decrease was in 1984 when assessed value dropped by 3.6 percent. Consequently, in 2010, the total property tax rate from all jurisdictions paid by Seattle property owners increased to $9.04 per thousand dollars of Assessed Value (AV). For an owner of a home with an AV of $448,500 (the average AV for residences in Seattle), the 2010 tax obligation was approximately $4,055. The City of Seattle's total 2010 tax rate was roughly one-third of the total rate at $2.92, which equals an annual tax obligation of approximately $1,312 for the average valued home.

Figure 9 illustrates the components of the City's 2010 property tax: the non-voted General Purpose levy (61%); the six voter-approved levies for specific purposes (34%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (5%). The City's nine-year transportation lid lift will generate approximately $39.4 million in 2010, $40.0 million in 2011, and $40.7 million in 2012. These revenues are accounted for in the Transportation Fund and are discussed later in this section. There are no levy lid lifts proposed for voter approval in 2010.

Statutory growth limits and new construction. The annual growth in property tax revenue is restricted by state statute in two ways. First, state law limits growth in the amount of tax revenue a jurisdiction can collect, currently the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. In November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the Governor and state legislature, in a special session on November 29, 2007, reenacted Initiative 747. Second, state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is $3.60 per $1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts. The City tax rate has been well below this cap for many years.

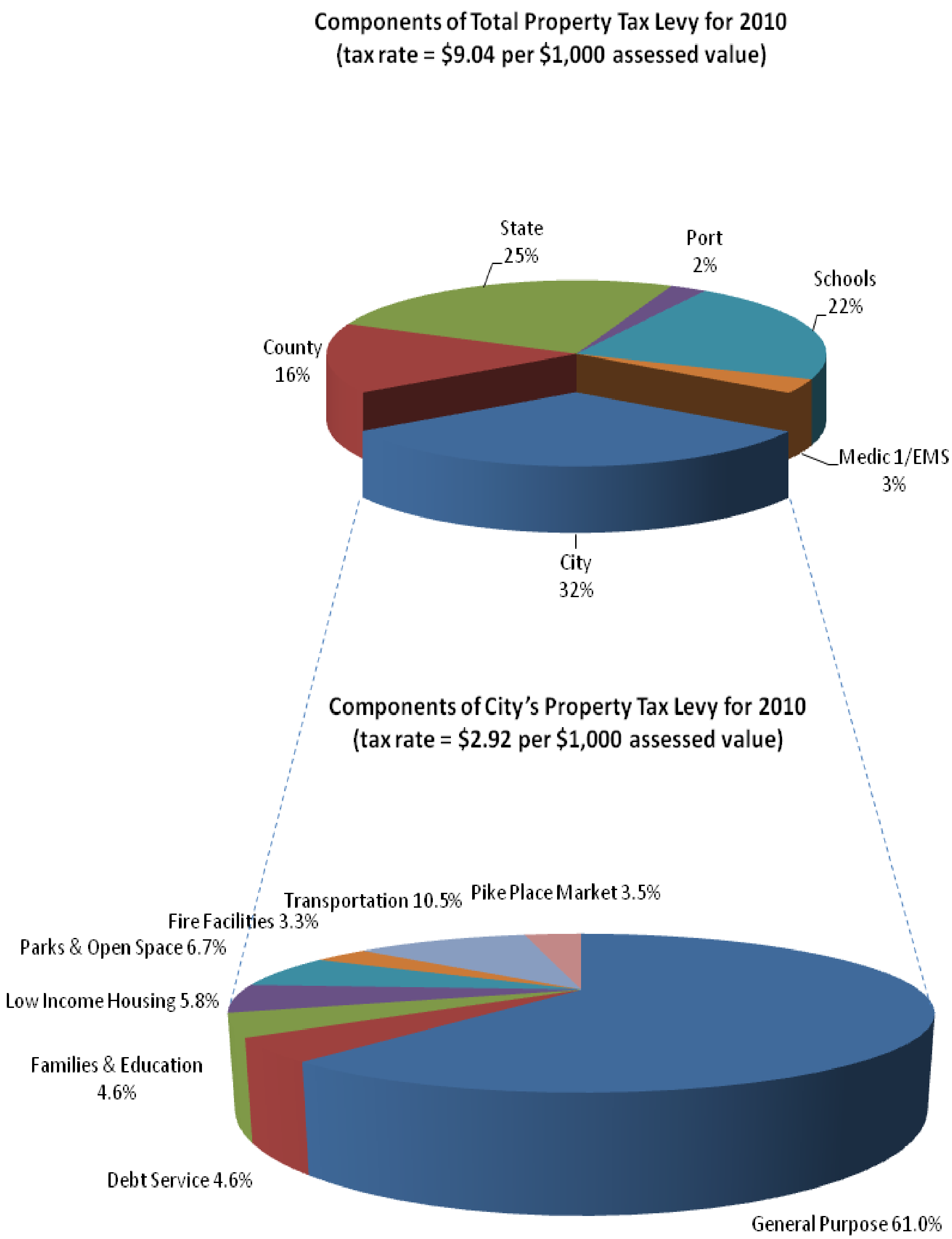
New Construction - In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor.

The 2011Adopted and2012 Endorsed Budgets assume 1% growth plus new construction. In line with the incredible rise in construction activity throughout the past decade, new construction revenues have exceeded $2 million since 1999, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction revenue for the 2009 tax collection year remained high at $6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to $4.11 million. The forecast for 2011 and 2012 reflects further sharp decreases of 55 percent and 13 percent, respectively, to $1.8 and $1.6 million.

The forecast for the General Subfund (General Purpose) portion of the City's property tax is $218.5 million in 2011 and $221.4 million in 2012.

Medic 1/Emergency Medical Services. In November 2007, King County voters approved a six-year renewal (2008-2013) of the Medic 1/EMS levy. The approved starting rate was $0.30 per thousand dollars of assessed value, and the rate had begun to decline in 2009 as assessed valuation increased. In 2010, however, due to the significant decreases in assessed valuations of property in King County, the Medic 1/EMS tax rate rose back to its authorized limit of $0.30 per thousand dollars of assessed value, and the levy is projected to generate approximately $36.4 million for Seattle Medic 1/EMS services in 2010. This is a decrease of approximately 2 percent from the $37.2 million collected in 2009. Assessed values are projected to decrease further in 2011, and remain flat into 2012, leading Seattle's Medic 1/EMS revenues to decrease by a projected 3.5 percent in 2011, and 0.2 percent in 2012, to $35.2 million and $35.1 million, respectively.

Figure 9


Components of Total Property Tax Levy for 2010
(tax rate = $9.04 per $1,000 assessed value)
State 25%
Port 2%
Schools 22%
County 16%
Medic 1/EMS 3%
City 32%
Components of City's Property Tax Levy for 2010
(tax rate = $2.92 per $1,000 assessed value)
Transportation 10.5%
Pike Place Market 3.5%
Fire Facilities 3.3%
Parks & Open Space 6.7%
Low Income Housing 5.8%
Families & Education 4.6%
Debt Service 4.6%
General Purpose 61.0%

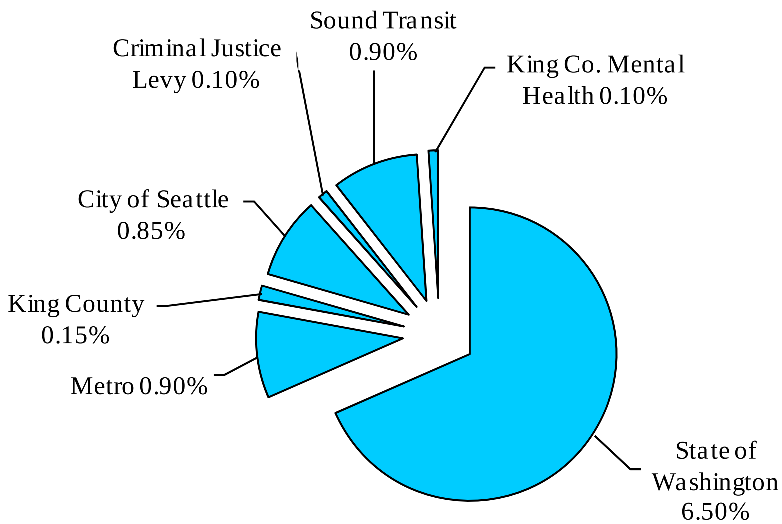
Retail Sales and Use Tax

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.

The sales tax rate in Seattle is 9.5% for most taxable transactions. The rate was increased from 9.0% on April 1, 2009, following voter approval of a 0.5% rate increase to pay for an expansion of the region's Sound Transit light rail system. The vote increased the sales tax rate for Sound Transit from 0.4% to 0.9%. The exception to the 9.5% rate is a 10.0% rate that is applied to food and beverages sold in restaurants, taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 10. 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 King County Criminal Justice Levy.

Figure 10. Sales and Use Tax Rates in Seattle, 2010



Total Rate = 9.5%

NOTE: Rate is 10.0% for food and beverages sold in restaurants and bars.

Washington State implemented destination based sales taxation on July 1, 2008. On July 1, 2008, Washington brought its sales tax procedures into conformance with the Streamlined Sales and Use Tax Agreement (SSUTA), a cooperative effort of 44 states, the District of Columbia, local governments, and the business community, to develop a uniform set of procedures for sales tax collection and administration that can be implemented by all states. Conformance with SSUTA has had two major impacts on local government sales tax revenue.

- Over 1,000 remote sellers agreed to begin collecting taxes on remote sales made to customers in Washington once the state was in conformance with SSUTA. This has increased local sales tax revenue.
- When a retail sale involves a delivery to a customer, SSUTA requires that the sales tax be paid to the jurisdiction in which the delivery is made. This is called destination based sourcing. Prior to 2008, Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the

delivery was made. The change from origin based sourcing to destination based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

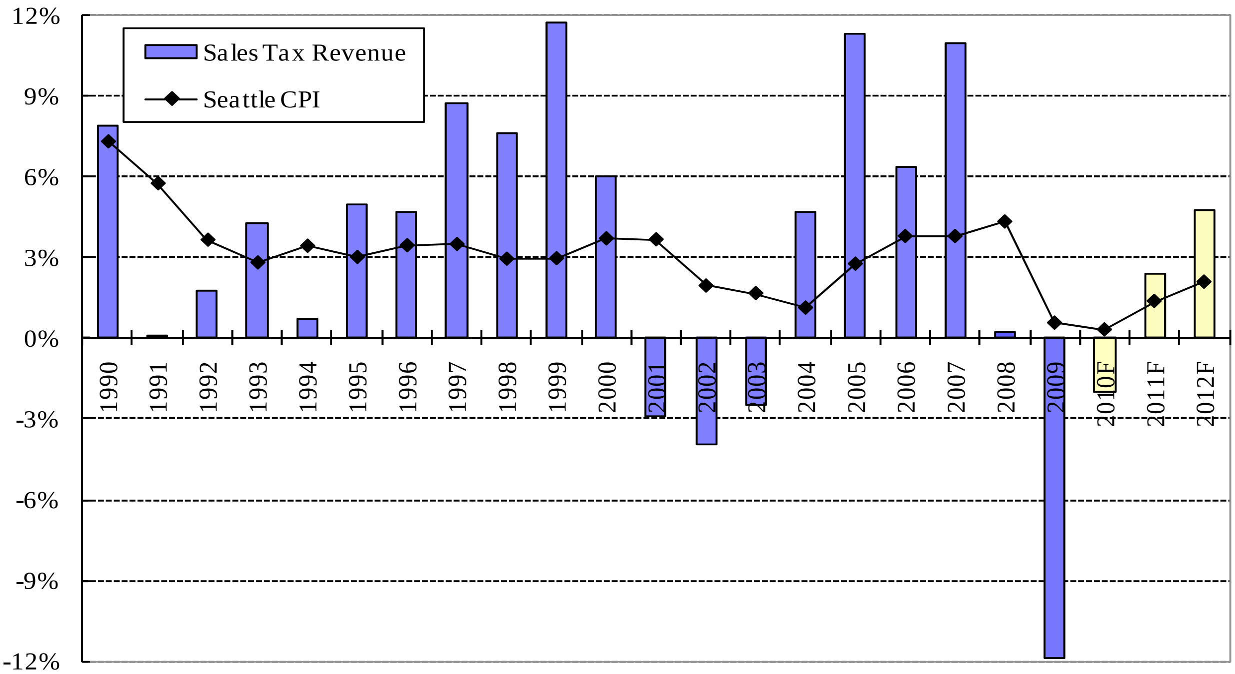
As a result of the changes the state made to comply with SSUTA, Seattle has seen a small increase in its sales tax revenue according to estimates by the Washington Department of Revenue.

Sales tax revenue has grown and contracted with the region's economy. Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, and the year-over-year change in revenue was negative for ten consecutive quarters beginning with first quarter 2001. The economy began to recover in 2004, which was followed by three very strong years (2005-07), during which taxable sales grew at an average rate of 9.8%, led by construction's 21.0% growth rate.

With the onset of the national recession, growth began to slow in the first quarter of 2008, continued slowing in the second and third quarters, and then collapsed in the fourth quarter as the financial crisis reached its peak. Seattle's real (inflation adjusted) sales tax base declined by 8.6% in the fourth quarter of 2008, a rate of decline unprecedented during the previous 35 years. The decline continued at a more moderate pace until the fourth quarter of 2009, by which time the real decline in the tax base from 2008 Q1 had reached 19.0%.

Construction, which led the pre-recession build-up in the sales tax base, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). In the following two years they dropped by 35.4%, erasing two-thirds of the build-up of the previous four years. Other industries posting the steep declines in taxable sales during the recession were manufacturing, finance and insurance, and, in the retail sector, building materials and garden supplies.

Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2010-12 are forecasts.

Retail sales tax revenue will decline in 2010, but growth will resume in 2011. Through the first nine months of 2010, sales tax revenue is down 3.7% from the first nine months of 2009. However, revenue is expected to increase by 3.3% in the fourth quarter, resulting in a 2.0% decline for the year. Growth in 2011 is expected to be a modest 2.4%, in part because construction's decline is expected to continue until mid-2011. Growth will rise to 4.8% in 2012, as construction activity begins to expand.

2010 sales tax revenue was boosted by the state's expansion of the sales tax base to include candy, gum, and bottled water beginning June 1, 2010. However, the passage of Initiative 1107 in the November 2010 election reversed this base expansion, removing the tax on candy, gum, and bottled water on December 2, 2010. The City received an estimated $800,000 in 2010 from six months of sales tax collections on the sale of candy, gum, and bottled water.

Business and Occupation Tax

Prior to January 1, 2008, the Business and Occupation (B&O) tax was levied by the City on the gross receipts of most business activity occurring in Seattle. Under some conditions, gross receipts of Seattle businesses were excluded from the tax if the receipts were earned from providing products or services outside of Seattle.

On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle's B&O tax revenue by $22.3 million in 2008. On January 1, 2008, the City implemented a square footage business tax to recoup the $22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 13 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%. The square footage business tax also has two tax rates. In 2010, the rate for business floor space, which includes office, retail, and production space, was 41 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, was taxed at a rate of 14 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation.

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

Included in the forecast of B&O tax revenue are projections of tax refund and audit payments, and estimates of tax penalty and interest payments for past-due tax obligations.

B&O revenue grew rapidly from 2005 to 2007, then succumbed to the recession in 2008. 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 helped to increase B&O receipts beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

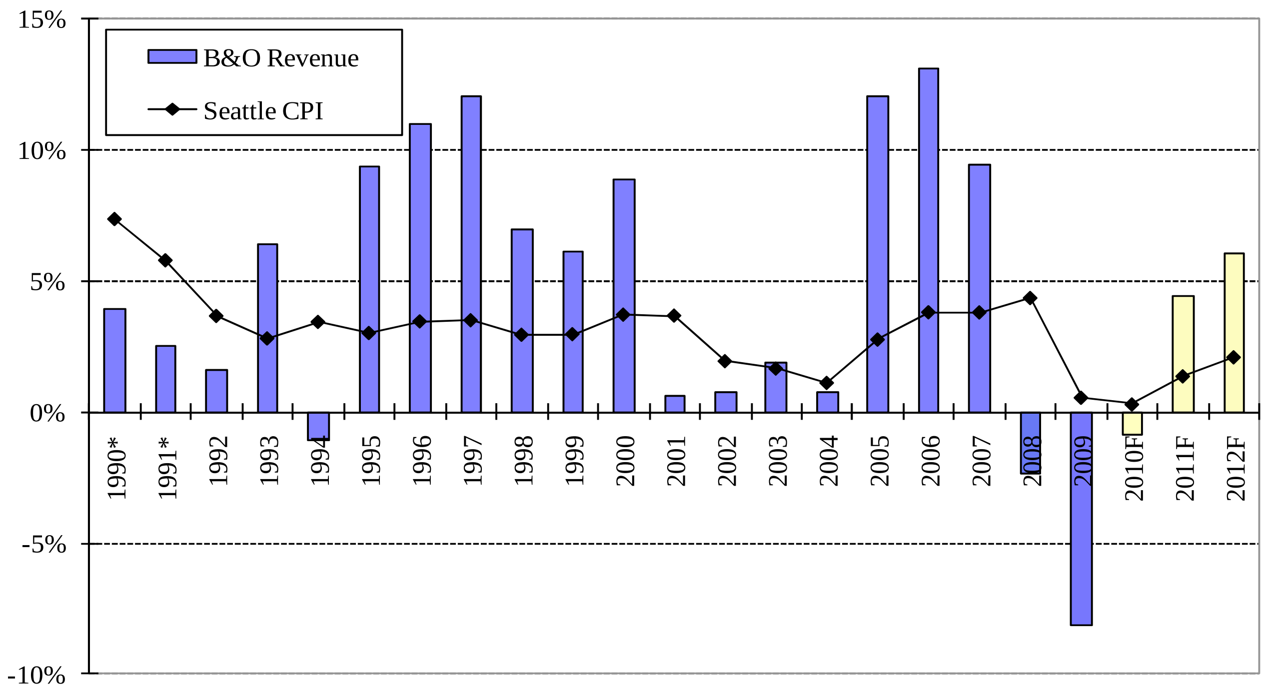
When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly, and remained below 2% for four successive years (see Figure 12). Revenue growth then accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, services, finance, insurance, and real estate. The years of plenty ended in 2008, which started out with a healthy 8.3% year-over-year increase in revenue from current economic activity in the first quarter, and ended with a

7.0% year-over-year decline in the fourth quarter. For the year, revenue from current economic activity increased by only 0.8%, but because of a big drop in non-current revenue from an unusually high level in 2007, B&O revenue for the year declined by 2.3%.

Revenue from current economic activity continued its decline in 2009, hitting bottom in the third quarter of the year before posting a small gain in the fourth quarter. The decline was led by construction, manufacturing, wholesale trade, and finance & insurance. Total B&O revenue for 2009 was down $14.3 million (8.2%) from 2008.

Small business threshold is increased to $100,000 in 2010. The City provides an exemption from the B&O tax for small businesses whose annual taxable gross revenue (gross receipts less allowable deductions) is less than a specified threshold. Prior to January 1, 2008, that threshold had been $50,000, an amount which had remained unchanged since 1994. In 2008, the threshold was raised to $80,000 to take account of inflation that had occurred since 1994. The threshold was increased again in 2010, to $100,000. The increase from $80,000 to $100,000 will result in an estimated revenue loss of $500,000 per year beginning in 2010.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.
Note: Revenue figures reflect current accrual methods; 2010-12 are forecasts.
2008-12 figures include both gross receipts and square footage tax revenue.

B&O revenue growth is expected to turn positive in 2011 following three years of decline. Revenue from current economic activity is forecast to increase by 1.3% in 2010. However, total revenue for the year is expected to fall by 1.1%, as the increase in revenue from current economic activity is more than offset by an expected decline in revenue from non-current activity. This decline is largely due to an anticipated falloff in audit revenue from an unusually high level in 2009. An expanding economy is expected to boost B&O revenue growth to 4.6% in 2011 and 6.0% in 2012. The forecasts for both 2011 and 2012 have been increased by $721,000 to account for the expected revenue gain from the addition of two auditors to City enforcement staff.

Utility Business Tax - Private Utilities

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

Natural gas prices have stabilized. The City levies a 6% utility business tax on gross sales of natural gas. The bulk of revenue from this tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another smaller tax is levied on private brokers of natural gas to clients in the City. It is also assessed at 6% on gross receipts.

The first half of 2008 saw unprecedented spikes in the prices of energy. Natural gas prices were no exception; they reached a high of $13 per million British Thermal Units (BTUs) in July 2008, and then started a quick and steady fall. As of September 2009, the one-month futures price was $2.51/mBTU. In 2010, prices have seemingly stabilized around $4.31/mBTU. Global Insight expects prices to stay in the $4.0 to $5.0/mBTU range for the coming biennium. Puget Sound Energy over the past few years has been adjusting its rates to reflect these changes in price, as well as on-going infrastructure updates. Revenues are expected to be down 6.1% in 2011 and up 5.4% in 2012.

Telecommunications activity has slowed. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. After extraordinary growth over several consecutive years in the late 1990s, telecommunication tax revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. A variety of forces – the lackluster economy, industry restructuring, and heightened competition – all served to force prices downward and reduce gross revenues. Additionally, recent technological changes, particularly Voice-over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections, contribute to the uncertainties in this revenue stream.

All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits. Wireless revenues have been growing over the past few years as more and more consumers shift to cellular phones as their primary voice option. Additionally in 2009 and 2010, there were some large audit payments from wireless providers that provided a needed boost to General Subfund revenues. Traditional telecom providers are experiencing a slow decline in their business fortunes, and this is expected to continue. For now, wireless growth has been enough to mitigate the tax revenue declines seen from the more traditional telecommunications providers. The total telecom tax stream is expected to show -3.3% and 0.9% growth in 2011 and 2012, respectively. 2011 will be negative because of 2010's artificially high receipts from audit payments.

Cable tax revenue shows positive growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, 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 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee, which is deposited in the City's Cable TV Franchise Fee Subfund, increased from 3.5% in June 2006.

Cable revenues have been growing steadily during this economic recession. Average annual growth for 2010 through 2012 is expected to be 2.3%, ahead of inflation. Comcast, Seattle's largest provider of cable services, has recently announced a 3% rate increase beginning in October. Amid growing competition from satellite TV, the cable industry has increased its services including additional channels, pay-per-view options, and digital reception, in order to remain competitive, and the increased tax revenues suggest that strategy is working.

Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 19.87% on the City Water Utility (this rate includes a surcharge that is planned to expire at the end of 2010). There are no planned tax rate changes, therefore the revenues from the utilities are projected to remain fairly stable, with the exception of those utilities with changes in rate structure.

Rate changes in the coming biennium. City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. Due to severe declines in natural gas prices in 2009, and lower than anticipated water levels in 2010, City Light is experiencing some financial turmoil. A rate increase of 13.8% took effect January 1, 2010, leading to an increase in City Light tax revenues. The City Council also authorized the creation of a rate stabilization fund for the utility. This required an initial 4.5% surcharge that took effect in May of 2010, and is scheduled to step down to 0.0% in January of 2011. As a result of these changes and on-going commitments to purchase power from the Bonneville Power Administration, average retail power rates are expected to be 4.3% higher in 2011 than they were in 2010. Similarly, rates are expected to be 3.2% higher in 2012 than the previous year. Tax revenues that accrue to the General Subfund will have annual increases of 5.3% and 3.7% in 2011 and 2012, respectively.

Water rate surcharge elimination leads to lower tax revenues. Seattle Public Utilities' Water Utility rates increased by 18.4% in 2009 and will increase by 9.9% in 2010. In addition to these general rate increases, there was a 10.2% surcharge as a result of a court decision stipulating that Water Utility ratepayers must be refunded from the General Subfund for fire hydrant costs previously paid for through Water Utility rates. This refund was paid for through an increase in the Water Utility tax rate to 19.87% from 15.54%. By January 1, 2011, the surcharge will expire and the tax rate will once again be 15.54%. There are no rate changes planned for 2011, resulting in tax revenues that will be 19.6% lower than they were in 2010. SPU is planning a water retail rate increase of 11.9% for 2012, leading to a tax revenue growth rate of 10.9% in 2012.

Drainage and Wastewater rate increases mean higher tax revenue growth. A rate increase for Drainage and Wastewater is being proposed for 2011 and 2012. There has also been a pass-through rate increase from King County to help fund the County's Brightwater treatment plant of about 10%. This leads to higher revenue for the utility and therefore higher utility tax revenues. 2011 revenues are forecast to be up 13.9% over 2010, but 2012 receipts will show a 4.3% increase from 2011.

Higher Solid Waste rates mean higher tax revenue growth. The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. The Solid Waste Utility has approved rate increases of 26.0% for 2009, and 8.5% for 2010m and the Council has approved average rate increases of 5.9% and 3.6% in 2011 and 2012, respectively.

Admission Tax

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

Admissions tax receipts have been stable and not severely affected by the economy. There have been some changes to the tax base and to the uses of the tax proceeds. 20% of admissions tax revenues, excluding men's professional basketball, were dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). For 2010, the Mayor and Council agreed to increase this contribution to 75% based on the actual admission tax receipts from two years prior. As a result, OACA is fully funded by the admissions tax, except for money received from the 1% for Arts program. The forecasts in Figure 7 for admissions taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs section of this document provides further detail on the Office's use of Arts Account revenue from the admission tax and the implementation of this change.

Licenses and Permits

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

The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license, which had been $80 per year for all businesses, was raised to $90 for businesses with worldwide revenues of more than $20,000 per year and lowered to $45 for businesses with worldwide revenues less than $20,000 per year. The shift to the two-tier structure has resulted in a small decline in revenue of approximately $90,000 per year.

As part of the City's Bridging the Gap transportation funding initiative, effective July 1, 2007, the Commercial Parking License fee paid by commercial parking operators was reduced from $90 per 1,000 square feet of floor space to $6 per 1,000 square feet. As a result of this change, license revenue declined by $890,000 in 2008.

Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional parking meters with pay stations in various areas throughout the City. Pay stations are parking payment devices offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking. At the same time, the City increased parking rates from $1 to $1.50 per hour. These changes were part of a parking management program that continues to work throughout the City. As part of numerous changes to improve traffic flow, space turnover and other management objectives, the Seattle Department of Transportation (SDOT) has also increased the total number of parking spaces in the street right-of-way which are subject to fees.

One element of the parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, multiple rates were implemented categorically for these spaces and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the City. Accompanying this change in policy, the maximum allowable hourly rate was increased from $1.50 per hour to $2.50 per hour to allow for rate setting flexibility. The 2011Adopted Budget includes a further increase in the maximum allowable hourly rate from $2.50 to $4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. SDOT will also no longer use the previously established 3 tiered system to vary rates. Instead SDOT will vary rates by smaller geographic areas, beginning with neighborhoods. Total parking revenues are anticipated to be $26.5 million in 2010, increasing to $35.1 million in 2011 and $39.6 million in 2012. More information about the pay station technology program is provided in the SDOT section of this document.

Street Use and Traffic Permits. At $1.95 million, revenues for 2010 are projected to be 13.6 percent lower than 2009 actual revenues for traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits. This decline is in response to declining economic activity, primarily construction activity, requiring permits. The 2011-2012 Proposed Budget assumes continued lower levels of activity, but includes a rate increase for certain street use permits. Total revenues for this category are projected to be $2.1 million in 2011 and to remain flat into 2012.

Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in 2007 citation volume increased, in part due to changes in enforcement technology and strategies, but also due to the addition of three Parking Enforcement Officers (PEOs) authorized as part of the South Lake Union parking pay station extension (described above in the Parking Meter section). Demand for parking enforcement has also grown with changes in neighborhood development and parking design changes. The City has established several new Restricted Parking Zones (RPZs), especially around the new light-rail train stations through the Rainier Valley. In response, an additional 8 new PEOs were authorized in 2009, 7 in 2010, and 2 are authorized in this 2011 Adopted Budget.

In 2009, the City received $27.2 million in court fines and forfeitures, including $4.7 million from the expanded red light camera enforcement program, which grew from 6 camera locations to 18 in the last quarter of 2008 and to nearly 30 total locations in early 2009. With the added enforcement, total fines and forfeitures revenues are projected at $29.9 million in 2010. The 2011Adopted-2012 Endorsed Budget authorizes parking enforcement officers to use an immobilizing boot on vehicles owned by individuals with four or more unpaid parking citations. Use of the boot is expected to increase payment compliance on outstanding citations as well as for newly issued citations. Revenue from citations is projected to increase to $33.2 million in 2011 and $33.1 million in 2012. These totals include an anticipated decrease in citations and revenues from the red light cameras, which falls to $4.5 million in 2011 and $4.1 million in 2012.

Interest Income

Through investment of the City's cash pool in accordance with state law and the City's own financial policies, the General Subfund receives interest and investment earnings on cash balances attributable to several of the City's funds or subfunds that are affiliated with general government activities. Many other City funds are independent, retaining their own interest earnings. Interest and investment income to the General Subfund varies widely, subject to significant fluctuations in cash balances and changes in earnings rates dictated by economic and financial market conditions.

After several years of short-term interest rates ranging between 3% and 5%, short-term interest rates fell significantly beginning in 2008, dropping to 0.5% and below by the 4th quarter of 2008. These rates have remained low in 2009-2010 and are projected to remain low through 2012. Medium and long-term rates have declined significantly as well during this same time period, and may take equally as long to recover. The expectation of continued low earnings rates has moved the City's investment portfolio into increasingly shorter-term securities, as previously held securities matured. The anticipated annual yield for 2010 is revised downward to 0.94 percent, with yields of 0.79 percent in 2011, and 1.50 percent in 2012. Current estimates for General Subfund interest and investment earnings are $1.5 million in 2010, $1.5 million in 2011, and $2.5 million in 2012.

Revenue from Other Public Entities

Washington State shares revenues with Seattle. The State of Washington distributes a portion of tax and fee revenue 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 vehicle 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.

Little change in Criminal Justice revenues. The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. 2009 criminal justice revenues were $2.4 million. 2010-2012 yearly receipts are expected to be little changed from the 2009 revenues.

November 2010 Initiatives failed and will not affect liquor revenues. In recent years the City's share of Liquor Board profits has stabilized to around $4 million a year. These are funds recorded as net income for the liquor board in its operation of liquor sales in the State of Washington. 40% of these funds are distributed quarterly to cities and towns on the basis of population. In the 2007-2009 State Budget, the Liquor Board instituted a series of new initiatives and programs with the aim of increasing revenues, decreasing costs, and therefore increasing profits. These benefits began to show in 2007 and 2008, and will have stabilized by 2011. Liquor excise taxes, which are levied on the sale of liquor, have stabilized to providing Seattle almost $3.0 million a year. Spirit sales have been stable throughout the recession, but sales of beer and wine have declined at double digit rates.

Service Charges and Reimbursements

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments. The City has been audited recently, which has resulted in small changes to how the City creates its cost allocations. Also, the former Department of Executive Administration (DEA) has merged with the former Fleets & Facilities Department (FFD) into the Department of Finance and Administrative Services (FAS). This means that central service charges that accrued to the General subfund to support the former DEA's work will now go directly to FAS's operating fund. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

Interfund Transfers

Interfund transfers. Occasionally, transfers from departments to the General Subfund take place to pay for specific programs that would ordinarily be executed by a general government department or to capture existing unreserved fund balances. A detailed list of these transfers is included in the General Subfund revenue table found in the Funds, Subfunds, and Other section.

In ratifying the 2011 and 2012 Budgets, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

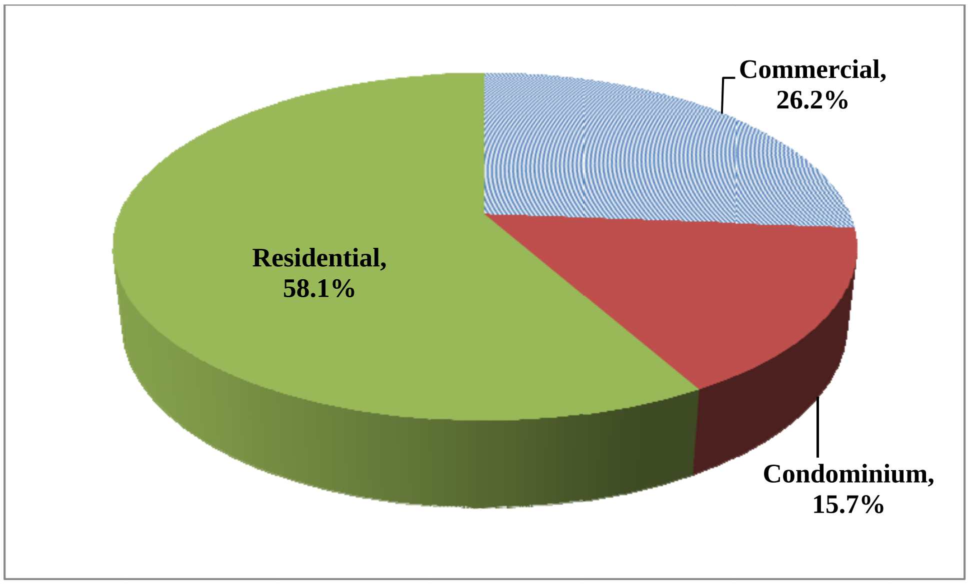
Cumulative Reserve Subfund – Real Estate Excise Tax

The Cumulative Reserve Subfund resources are used primarily for the maintenance and development of City general government capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, street vacation revenues, General Subfund transfers, and interest earnings on subfund balances.

The REET is levied by the City at a rate of 0.5% on sales of real estate measured by the full selling price. Because the tax is levied on transactions, the amount of revenue that the City receives from REET is determined by both the volume and value of transactions.

Over time, 58.1% of the City's REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 26.2% of the tax base, and condominiums constitute the remaining 15.7% (see Figure 14).

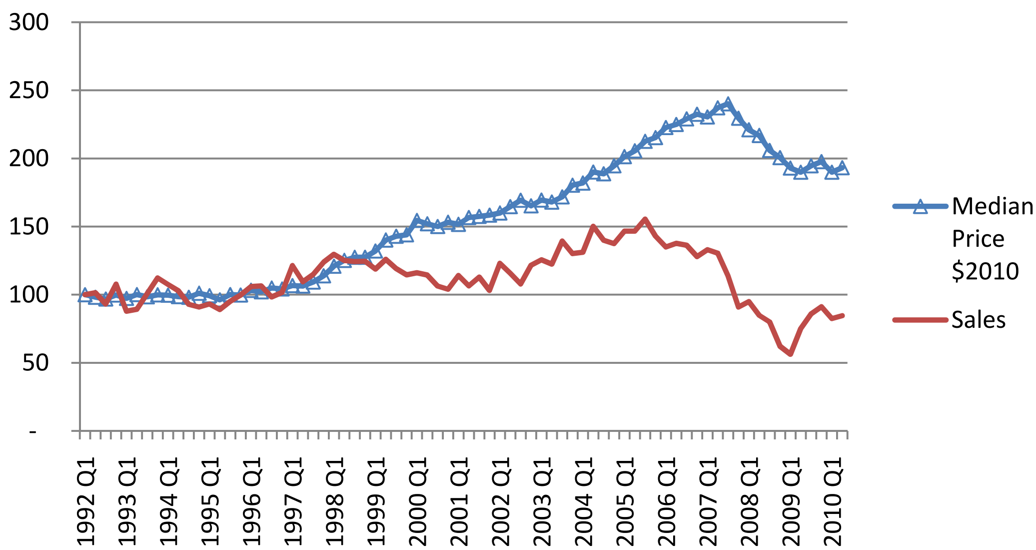
Figure 14. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2009



Historically REET revenue growth has been volatile. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline has been felt across all three real estate categories. 2010 is expected to show almost no growth, around 0.2%, followed by 4.2% in 2011.

The volatility of REET is reflected by the fact that despite a 9.4% average annual growth rate, the REET tax base declined in eight years during the period 1982 – 2009 (see Figure 15). This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability has been severely compromised in this downturn as Seattle area prices for residential properties have fallen 23.4% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next.

Figure 15. Seattle Single-family Home Sales 1992Q1=100



*All data have been seasonally adjusted, prices have been adjusted to $2010

REET revenue appears to have stabilized. According to the Case/Shiller Home Price Index, average home prices for the U.S. are down 31.8% from their peak. Some prominent national forecasters expect the bottom to occur at a 40.0% drop from peak. Recently, there have been some signs of life in the national market, as mortgage rates have been historically low and the tax code has been further modified to encourage home-ownership. Still, the national and local real estate markets continue to be muted.

It appears that Seattle home sales hit bottom in the early part of 2009, and prices reached their lowest point later that summer (see Figure 15). Seattle's commercial real estate market has been hit severely by this downturn, as businesses close and commercial landlords deal with an office vacancy rate above 20%. Most of the REET growth for the coming years is expected to come from single-family and condo sales, as commercial properties sit empty and unsold.

Transportation Fund – Bridging the Gap Revenue Sources

The Transportation Fund is the primary operating fund whose resources support the management, maintenance, design, and construction of the City's transportation infrastructure. The fund receives revenues and resources from a variety of sources: General Subfund transfers, distributions from the State's Motor Vehicle Fuel tax, state and federal grants, service charges, user fees, bond proceeds, and several other sources more fully presented in the Transportation Department section of this budget document. In September 2006, the City and the voters of Seattle approved the nine-year Phase One of the 20-year Bridging the Gap program aimed at overcoming the City's maintenance backlog and making improvements to the bicycle, pedestrian, bridge, and roadway infrastructure. The foundation of the program was establishing three additional revenue sources: a levy lid lift (Ordinance 122232), a commercial parking tax (Ordinance 122192), and a business transportation, or employee hours tax (Ordinance 122191).

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised $38.5 million in 2009. It is projected to raise $39.4 million in 2010, $40.0 million in 2011 and $40.7 million in 2012.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. The rate increased on July 1, 2008, to 7.5%, and then to 10% in 2009. The tax yielded $18.7 million in 2009. The forecast is $21.8 million for 2010. The 2011 Adopted and 2012 Endorsed Budgets assume the commercial parking tax rate increases to 12.5 percent January 1, 2011. This increase results in an additional $5.1 million in 2011, raising the total forecast to $27.5 million, and an additional $5.3 million in 2012 for a total revenue estimate of $28.5 million. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. These additional revenues from the 2.5% increase are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation's section of this budget.

The business transportation tax (or employee hours tax) was a tax levied and collected from every firm for the act or privilege of engaging in business activities within the City of Seattle. The amount of the tax was based on the number of hours worked in Seattle or, alternatively, on a full-time equivalent employee basis. The tax rate per hour was $0.01302, which is equivalent to $25 per full-time employee working at least 1,920 hours annually. Several exemptions and deductions were provided in the authorizing ordinance. Most notably, a deduction was offered for those employees who regularly commuted to work by means other than driving a motor vehicle alone. The tax raised $4.8 million in 2008 and $5.9 million in 2009. The tax was eliminated effective in 2010. This decision was supported by the performance of the commercial parking tax, the difficult economic situation facing businesses, and the costs to businesses and the City of administering the tax.

Figure 16. Seattle City Tax Rates

	2007	2008	2009	2010
Property Taxes (Dollars per $1,000 of Assessed Value)				
General Property Tax	$1.88	$1.70	$1.55	$1.78
Families & Education	0.16	0.14	0.12	0.14
Seattle Center/Parks Comm. Ctr.	0.01			
Parks and Open Space	0.26	0.18	0.18	0.20
Low Income Housing	0.04	0.03	0.03	0.17
Fire Facilities	0.20	0.17	0.15	0.09
Transportation	0.35	0.31	0.27	0.31
Pike Place Market			0.09	0.10
Emergency Medical Services	0.21	0.30	0.27	0.30
Low Income Housing (Special Levy)	0.08	0.07	0.06	
City Excess GO Bond	0.25	0.17	0.13	.014
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax				
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%
International Finance	0.000%	0.000%	0.000%	0.150%
City of Seattle Public Utility Business Taxes				
City Light	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	19.87%	19.87%*
City Drainage	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%
City of Seattle Private Utility B&O Tax Rates				
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%
Franchise Fees				
Cable Franchise Fee	4.20%	4.20%	4.20%	4.20%
Admission and Gambling Taxes				
Admissions tax	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%

*The 19.87% rate was effective March 31, 2009, and includes a temporary surcharge to respond to a court decision. This surcharge will expire on December 31, 2010, and the tax rate will then revert to 15.54%.