

City Revenue Overview

-City Revenue Sources and Funds – December 2000

City Revenues

Seattle City government has four main sources of revenue to support the services and programs the City provides its citizens. First, taxes, license fees, and fines support activities most citizens typically associate 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 the 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 state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2001, City revenues are estimated to be \$2.4 billion. Revenues for general government purposes will total approximately \$609 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 the 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.

General Subfund of the General Fund

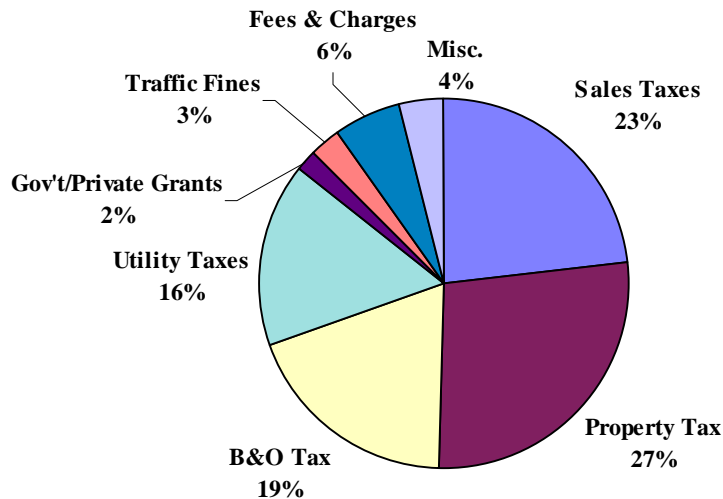
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (27%), followed by sales taxes and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, Business and Occupation, and utility taxes, which together account for 58% 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 2001 and 2002.

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Figure 1. 2001-Adopted General Subfund Revenue by Source - \$609.6M



The National and Local Economy

Current Economic Conditions and Outlook

The current economic expansion is the longest on record. The current economic expansion, which began in the second quarter of 1991, is the longest in the nation's history. Growth, which has been particularly strong since 1996, has been driven by rapid advances in technology, a booming stock market, rising productivity, increases in household wealth, and strong consumer spending. Unemployment has fallen to the lowest level since the 1960s, inflation is low, and homeownership is at record levels.

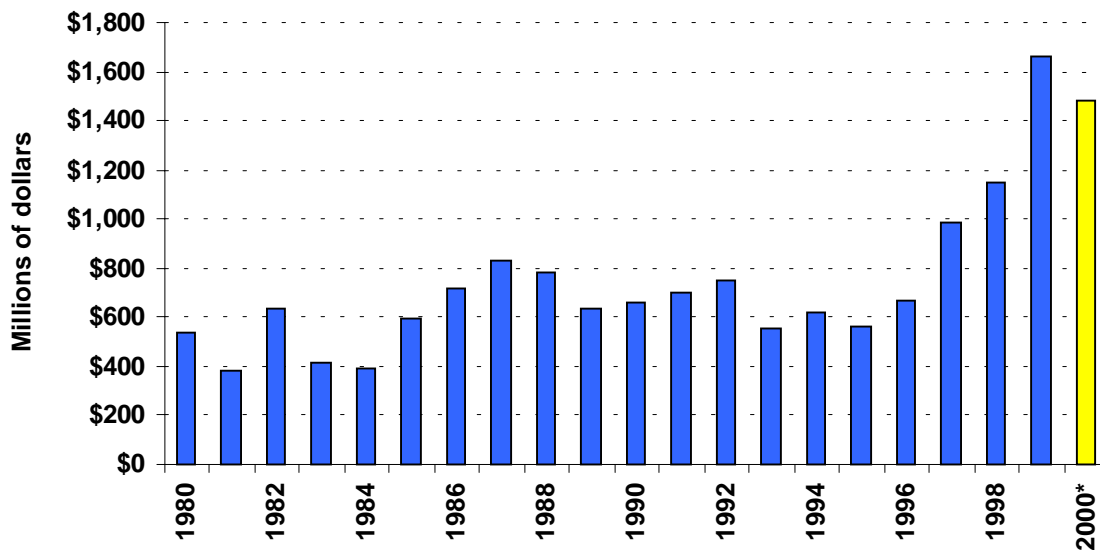
Like the national economy, the local economy has fared well in recent years. The Puget Sound region economy grew sluggishly in the first half of the 1990s, but growth accelerated in 1996 and 1997, driven by a healthy national economy and a hiring boom at Boeing. Although Boeing began reducing its local workforce in late 1998, the region's economy has continued to expand, buoyed by the growth of high technology firms, strong consumer spending, and a construction boom.

Construction activity has been unusually robust in Seattle during the past 3-4 years. As shown in Figure 2, the value of permits issued for construction activity in Seattle tripled between 1995 and 1999 to a record \$1.66 billion. During the first six months of 2000 construction activity continued at the 1999 pace, but in the second half of the year activity has begun to slow.

Construction activity has been strong in both the commercial and residential markets. On the commercial side, there has been major redevelopment activity in downtown Seattle, including a new Nordstrom flagship store and headquarters, the Pacific Place development, a new downtown concert hall, convention center expansion, new stadia for baseball and football, and several large office projects. Much of the recent new residential construction has taken place in downtown and adjacent neighborhoods, such as lower Queen Anne and Capitol Hill.

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Figure 2. Value of Permits Issued for Construction Activity in Seattle



Source: Seattle Department of Construction and Land Use.
*Estimate based on value of permits issued Jan. - Oct. 2000.

Both the national and local economies have been boosted by very strong consumer spending in recent years. One factor contributing to higher consumer spending was low mortgage interest rates in 1998 and early 1999. Many homeowners took advantage of the low rates to refinance their homes and reduce their monthly payments, enabling them to increase spending on other items. In addition, many homeowners took out home equity loans, which also enabled them to increase consumption. Economic growth has also been driven by large increases in personal wealth that have resulted from stock market gains and rising home prices. As their wealth has increased, consumers have increased their spending, spurring economic growth.

The national economy is expected to slow. Concerned that the rapid growth of the national economy was increasing the risk that inflation would accelerate, the Federal Reserve began raising interest rates in June 1999 in order to slow the economy. As of November 2000, the Fed has raised rates six times, the latest a 0.5% increase in May 2000. In recent months, evidence has been growing that the national economy is slowing. The economy to continued slowing throughout the latter part of 2000 as the effects of the Fed's rate increases worked their way through the economy. GDP growth is expected to drop from the 5% range of recent years to the 3% range in 2001 and 2002.

The Puget Sound region economy is forecast to slow. If the national economy slows as expected, the region's economy will also slow. A slowing national economy reduces the demand for locally-produced goods and services, and higher interest rates provide an incentive for local residents to reduce their spending. With the stock market no longer rising and mortgage rates having risen from 1998 levels, wealth-driven spending has been weakening.

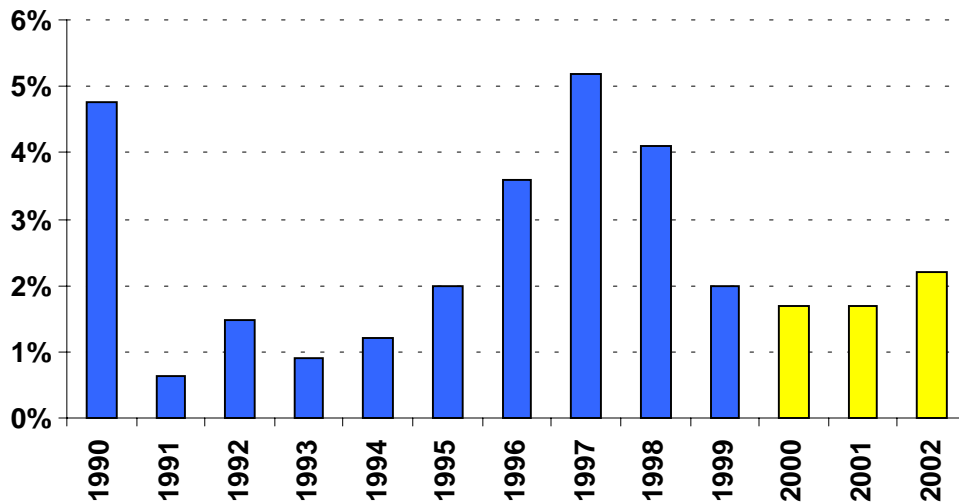
Locally, Boeing's employment reductions have slowed and the firm's Puget Sound region employment is expected to stabilize soon. However, Microsoft's anti-trust suit has not yet been resolved. Since the bursting of the Internet stock bubble in April, some local Internet firms have suffered layoffs or consolidated with other

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firms. The local housing market is beginning to exhibit signs of slowing. The number of homes sold in 2000 are likely to fall behind the 1999 rate, and although prices are still rising the rate of increase has slowed.

As the economy has slowed, the rate of employment growth in the Puget Sound region has fallen from a peak of 5.2% in 1997 to 2.0% in 1999 (see Figure 3). According to Conway Pedersen Economics, employment growth will continue to slow, falling to 1.7% in 2000 and 2001, before rebounding modestly in 2002 to 2.2%. As the economy slows, the region's tight housing market should continue to loosen, with vacancy rates increasing and home prices and rents growing at a slower rate during the next several years.

Figure 3. Annual Growth of Puget Sound Region Employment



Note: 2000-2002 figures are forecasts.

Risks to the Economic Forecast

Now in its tenth year, the current U.S. economic expansion is the longest on record. However, there are imbalances and pressures within the economy which could, with an extra push from unfavorable global forces, policy mistakes, or unexpected shocks to the economy, cause a national recession. Risk factors include the potential for inflation to increase as a result of labor market tightness or rising energy prices, the possibility of a major stock market correction, and the potential that the recent boom in consumer spending will suffer a reversal. Among the most significant imbalances in the economy are very high levels of household and corporate debt, and a record current-account deficit.

The national economic forecasting firm Standard and Poor's DRI recently has become more concerned about the likelihood of a near-term recession. According to DRI's latest forecast, there is a 25% chance that a mild recession will occur in 2001. A key cause of such a recession would be a sharp rise in oil prices.

Risks to the Puget Sound economy come largely from the national and international economies. If the U.S. economy avoids recession so should the regional economy, particularly if conditions in Asia continue to improve and anti-trust suit against Microsoft does not significantly disrupt the software giant.

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Figure 4. General Subfund Revenue, 1999 – 2002 ⁽¹⁾

General SubFund Revenue, 1999-2002(1)

REVENUE SOURCE	1999 ACTUAL	2000 REVISED	2001 ADOPTED	2002 ENDORSED
General Property Tax	138,719,421	150,022,000	159,695,000	171,435,000
(less fire pension)	11,022,000	11,750,000	12,414,000	13,364,000
Net General Subfund Property Tax	127,697,421	138,272,000	147,281,000	158,071,000
Property Tax-EMS	14,619,272	15,410,000	16,033,000	16,487,000
Retail Sales Tax	116,628,217	125,182,000	130,930,000	135,329,000
Retail Sales Tax - Criminal Justice	10,634,694	11,415,000	11,939,000	12,340,000
Business & Occupation Tax (90%)	102,835,994	112,565,000	116,527,000	123,101,000
Utilities Business Tax - Telephone (90%)	25,011,477	28,942,000	32,656,000	35,134,000
Utilities Business Tax - Other Private (90%)	16,870,343	19,348,000	21,034,000	22,751,000
Utilities Business Tax - City Utilities (90%)	39,005,278	42,058,000	45,522,000	47,449,000
Admission Tax	8,739,869	7,745,000	7,869,000	7,791,000
Other Taxes	4,852,885	4,756,000	5,062,000	5,271,000
Total Taxes less fire pension	466,895,450	505,693,000	534,853,000	563,724,000
Licenses and Permits	10,744,076	10,791,000	10,516,000	10,453,000
Motor Vehicle Excise Tax	6,985,082	-	-	-
Other Government and Private Revenue	16,549,395	10,370,000	11,136,000	11,156,000
Government and Private Grant Revenue	23,534,477	10,370,000	11,136,000	11,156,000
Service Charges	10,907,042	11,723,000	15,304,000	12,689,000
Fines and Forfeitures	16,221,921	15,738,000	16,975,000	17,265,000
Parking Meter Revenue	9,712,511	9,600,000	9,500,000	9,500,000
Miscellaneous Revenues	7,430,569	4,149,400	3,128,000	3,210,000
Total: Revenue & Other Financing Sources	545,446,046	568,064,400	601,412,000	627,997,000
Unexpended Fund Balance	-	-	8,204,000	892,000
TOTAL GENERAL SUBFUND RESOURCES	545,446,046	568,064,400	609,616,000	628,889,000

NOTES:

(1) A detailed listing of City General Subfund revenues is found in the Appendix.

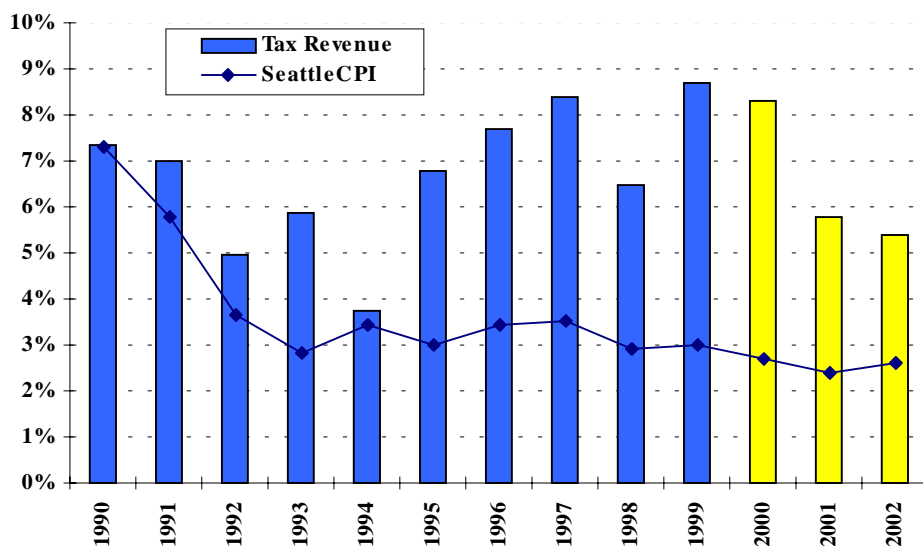
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General Subfund Revenue Forecasts

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The forecast for General Subfund revenue for 2000-2002 anticipates a significant increase relative to 1999 collections. Figure 4 shows General Subfund actual revenues for 1999, and forecasts for 2000-2002. Total revenues are estimated to grow by \$22.6 million, or 4.1%, in 2000, and by \$83 million in 2002, from the 1999 total of \$545 million. As Figure 5 shows, growth in tax revenue, which accounts for 85% of General Subfund revenue, should exceed anticipated inflation throughout the biennium.

Figure 5. City of Seattle Tax Revenue Growth, 1990-2002



Note: 1998 adjusted for EMS Levy and telephone tax refunds.

Revenues from the three major taxes, i.e., Sales, Business and Occupation (B&O), and Property, are expected to grow by over \$30.4 million in 2000. This represents a 8.2% increase from 1999, which is well over double the local rate of inflation of 2.7%. The growth rate for revenues from these taxes should slow in the subsequent two years to 4.9% and 5.4%. Although still above inflation, it is well below the growth estimated for 2000 and reflects a slow down in the Puget Sound economy.

Forecasts for Sales and B&O tax revenues in 2000 illustrate continued strength of the economy and the phenomenal growth of these revenues over the past five years. Since 1994, the average annual growth rate for Sales and B&O tax revenues was 8.2%. On average, growth from these sources has performed 5% higher than the rate of inflation. Forecasts for property tax revenues in the 2001 Adopted Budget reflect the Council's decision to increase the City's levy by 4.1% in 2001 and by 6% in 2002.

High revenue performance is also expected from the natural gas, cable, and telephone private utility business taxes, due to rate increases by the natural gas and cable companies and strong wireless activity in the telecommunications industry. Rate increases are also responsible for significant gains from City owned utilities providing electricity, water and sewer services.

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Offsetting the gains are some significant losses. Elimination of the motor vehicle excise tax (MVET) is both a direct \$7 million loss and an impact on other revenues which received support from MVET revenues. In particular, criminal justice revenue will be lower by almost \$2 million in 2000. Also, the General Subfund will not benefit from sales of fixed assets in 2000-2002 period. In 1999 there was a one-time sale of City street lights to Seattle City Light resulting in \$3.6 million in 1999. In addition, the entire loss of admission tax from major league baseball games will be felt in 2000, due to state law preventing the City from levying its admission tax on professional baseball games at Safeco Field. The Mariners began playing games in this facility mid-way through the 1999 season.

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 who, in turn, remit the tax to the state. The state provides the City with its share of these revenues on a monthly basis.

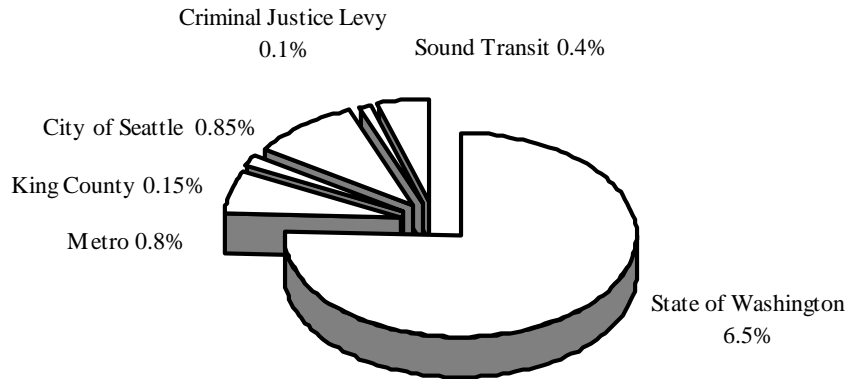
In 2000, the total sales and use tax rate in Seattle was 8.6% for most taxable activities. The exception to the 8.6% rate was a 9.1% rate that is applied to food and beverages sold in restaurants, taverns, and bars. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

On November 7, 2000, the voters of King County voted to increase the sales tax rate by 0.2% to provide additional funding for transit purposes. When this increase goes into effect in April 2001, the sales tax rate in Seattle will rise to 8.8% (9.3% for food and beverages sold in restaurants, taverns, and bars).

The basic sales tax rate of 8.8% is a composite of separate rates from several jurisdictions as shown in Figure 6. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected from the county criminal justice levy.

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Figure 6. Sales and Use Tax Rates in Seattle, 2001



Total Rate = 8.8%

NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars.
Rate increase from 8.6% to 8.8% will take place in April 2001.

Sales tax growth expected to slow in 2001-02. Driven by the strength of the regional economy, sales tax revenue increased by a robust 8.7% in 1997 and 7.7% in 1998, exceeding the local inflation rate by approximately 5% in both years. Initial forecasts for 1999 anticipated a continued slowing in the growth rate of sales tax revenue, reflecting the slowing regional economy. However, despite the fact that the economy slowed, as measured by employment and income growth, sales tax revenue accelerated to a remarkable 11.7% growth rate in 1999. In the first 8 months of 2000, growth slowed to 7.8%.

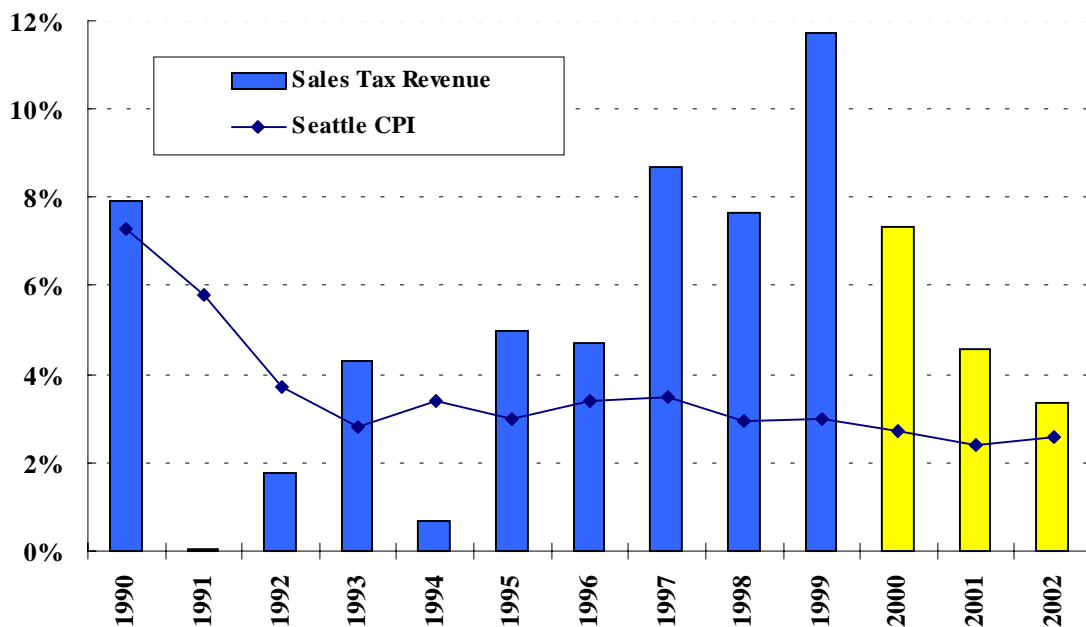
A key driver of the recent surge in sales tax revenue has been Seattle's construction boom. Construction materials and labor are both subject to the sales tax. During the three-year period ending in August 2000, when total taxable retail sales grew at an annual rate of 9.6%, taxable sales from construction activity increased at an annual rate of 25.1%. All other taxable activity grew at a still healthy 7.3% annual rate.

Also contributing to the increase in sales tax revenue has been the strong growth of household wealth that has resulted primarily from a rising stock market and increases in home values. In addition, low interest rates have stimulated mortgage refinancings and home equity borrowing, both of which have enabled consumers to increase their spending. Seattle's retail sales growth has also been driven by strong growth in downtown retail activity. Auto sales have been quite robust in recent years, as they have been throughout the nation.

The forecast for sales tax revenue reflected that U.S. consumer spending will slow in the second half of 2000, and that the regional economy continued slowing. Sales tax revenue to increase by 7.3% in 2000 and is forecasted to increase by 4.6% in 2001, and 3.4% in 2002 as shown in Figure 7.

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Figure 7. Annual Growth of Sales Tax Revenue



Note: All revenue figures reflect current accrual methods.

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 10 at the end of this section. For example, retail trade businesses are subject to a tax of 0.215% on their gross receipts, while service businesses, such as accounting firms, are 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 by taxpayers for past-due tax obligations.

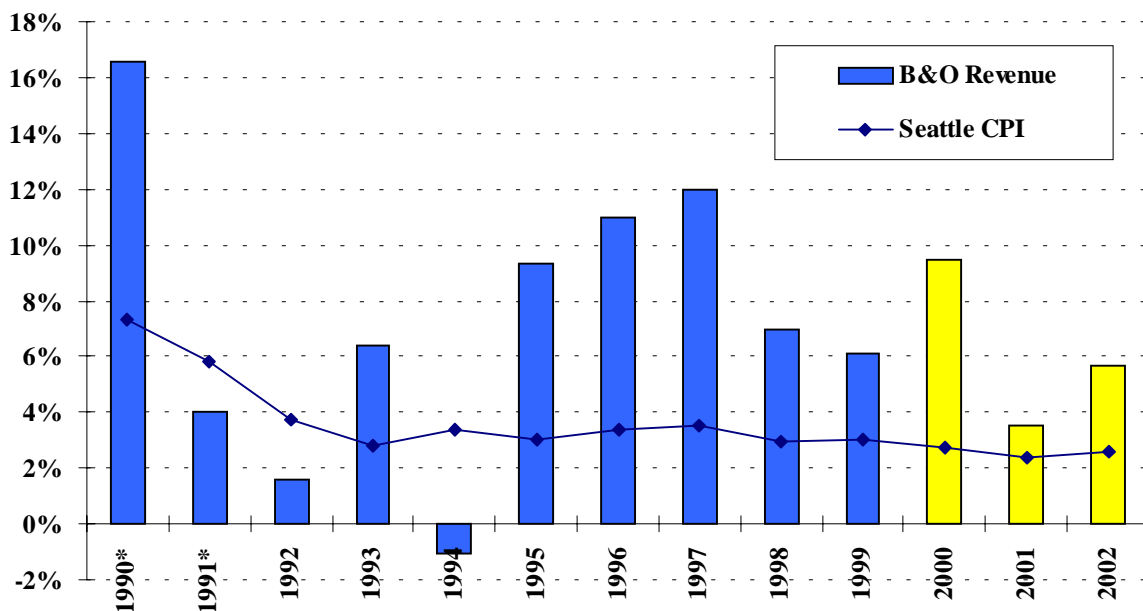
Slower growth expected in 2001-02. Following a period of relatively weak growth during the early 1990s, B&O tax revenue increased sharply in 1995, posting a 9.3% gain over 1994 as shown in Figure 8. This high level of growth continued through 1996 (10.9% gain), and into 1997, which posted a 12.0% increase over 1996.

Although the strong growth rates of the 1995-97 period occurred when the economy was expanding, a significant portion of B&O revenue growth is attributable to the City's administrative efforts. Beginning in 1995, the Revenue and Consumer Affairs Division of the City's Executive Services Department made a concerted effort to more efficiently administer the B&O tax, 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. Although the City intends to continue its energetic administration and enforcement efforts, it has become clear that these efforts have begun to yield diminishing returns, as the most obvious and productive techniques for identifying unlicensed or under-reporting businesses have already been put into practice. Revenue growth from enforcement activity peaked in the second half of 1997 and first half of 1998.

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Reflecting the decline in enforcement-related revenue, B&O revenue growth dropped to 7.0% in 1998 and 6.1% in 1999. However, now that revenue from enforcement activity has stopped falling, the rate of overall revenue growth has begun to increase. In addition, City B&O revenues received a boost in 2000 from a change in the way in which the state taxes financial institutions. Beginning on January 1, 2000, financial institutions are required by the State of Washington Department of Revenue to use a different method of allocating world- or nation-wide income to Washington state. This change has resulted in a significant increase in the amount of taxable income reported to the state by financial institutions. The change has also affected city B&O revenues because financial institutions determine their City B&O tax obligations by allocating their statewide taxable income to cities within the state. Seattle's B&O forecast was increased by \$2.2 million in 2000 to reflect additional revenue from financial institutions. This gain is also reflected in the 2001-02 forecasts. Finally, the forecast incorporates a modest revenue loss in 2000 due to the exemption of the health insurance portion of HMO business activity from the B&O tax.

Figure 8. Annual Growth of B&O Tax Revenue



*B&O tax rates increased by 12% in 1990 and 1.5% in 1991.

Note: All revenue figures reflect current accrual methods.

B&O revenue growth is forecast to drop to 3.5% in 2001, due to a slowing local economy, and then rebound to 5.6% in 2002. The rebound in 2002 is due to the expected release of \$3.0 million from the City's deferred revenue account. Of the \$3.0 million, \$2.7 million is General Subfund revenue, the remaining \$0.3 million is dedicated to the Parks Fund. Most of the revenue in the account has been received from firms who have contested their tax liabilities. The revenue forecast assumes that these protests will be resolved favorably for the City, and that \$2.7 million will be released to the General Subfund by late 2002.

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Property Tax

The 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, the property tax is levied on machinery and equipment belonging to business.

In 2001, the property tax rate for Seattle properties is about 1.15% of assessed value (which officially is expressed as \$11.51 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 \$265,000 (the average assessed value for residences in Seattle), the 2001 tax obligation is approximately \$3,100.

As Figure 9 shows, 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 between City programs. The City's General Subfund receives 61%, which is the largest single share of property tax dollars. In addition, several voter-approved levies support specific programs or projects such as the Seattle Center Redevelopment/Community Centers Project and the Families and Education Program.

The 2001 Adopted Budget reflects inflation for 2001. The forecast for the General Subfund portion of the City's property tax is \$147.3 million in 2001 and \$158.1 million in 2002. The most important factor affecting the City's revenue is the State's 106% limit. Since 1973, State law limits the annual growth in the City's General Subfund property tax revenue to 6%. However, in November 2000, voters statewide approved Initiative 722 which, among other things, changed the 106% limit to the lesser of 102% or the Implicit Price Deflator. Subsequent to the voter approval of this initiative, several cities, including Seattle, a fire district, several individual taxpayers, and social service providers challenged the constitutional basis of the initiative. Thurston County Superior Court Judge Christine Pomeroy granted a preliminary injunction upon the initiative's implementation, thereby reverting state laws to the 106% limit until court deliberations are final. The 2001 Adopted Budget reflects an increase to the General Subfund portion of the City's levy by 4.1% in 2001 and 6% in 2002.

New Construction adds to City levy. There is one important exception to the 106% limit. State law permits the City to increase its General Subfund levy by more than 6% to reflect tax on property constructed or remodeled within the last year. Since 1993, the value of new construction has hovered in the \$350-\$450 million range, resulting in roughly \$1 million of property tax revenue above what is permitted with the 106% limit. 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 and \$3.7 million in 2001 - which is more than double the typical amounts of the previous several years. It is anticipated that new construction activity will slow to \$2 million in 2002.

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.

Telecommunications industry outlook remains bright. The utility business tax which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate \$33 million in 2001, and \$35 million in 2002.

The telecommunications industry has experienced extraordinary growth over the past few years. Analysts attribute this growth to several factors. One includes the passage of the Federal Telecommunications Act of 1996. This act has profoundly changed the economic environment of the telecommunications industry, encouraging

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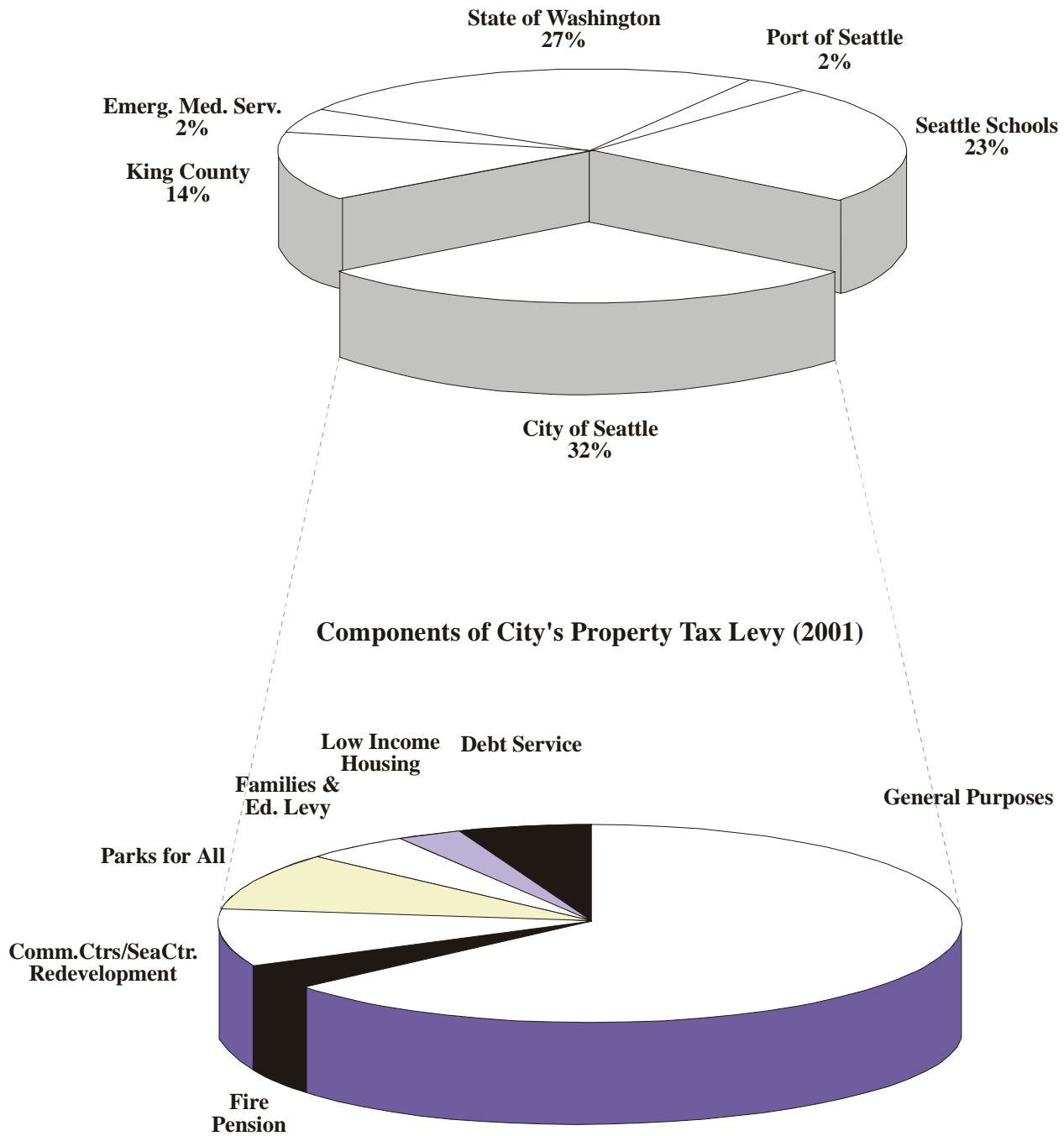
dynamic growth in services available to consumers. In addition, advances in technology and the proliferation of transmitters have virtually eliminated the gap between wire and wireless services, for both voice quality and price. As a result, demand for cellular service has grown quickly relative to other telecommunication services, and is expected to be an industry growth leader in the Puget Sound area for the foreseeable future.

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 grow substantially in 2001 and 2002. While cable is a relatively mature industry, it continues to enjoy moderate growth in subscribers. The cable industry in Seattle offers Internet access citywide and the demand has been strong. The 2001-2002 forecast anticipates a moderate increase of subscribers in 2001-2002 for basic cable service, a steady growth for internet modem subscribers, and modest rate increases in both years.

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Figure 9. Components of Total Property Tax Levy (2001)



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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). Figure 10 shows the current effective tax rates.

The forecast projects significant growth in General Subfund revenue from utility taxes levied on City-operated utilities. As a result of expected changes in usage and proposed rate changes, revenue increased by 7.8% in 2000 and is forecast to increase by 8.2% in 2001, and 4.2% in 2002. Rate increases are proposed in 2001-02 for all City-operated utilities except the Solid Waste Utility. Reasons for the rate increases include the rising cost of wholesale electricity purchases, the cost of capital projects needed to improve water quality and meet environmental regulations, and utility financial performance requirements. For more information on the proposed rate increases, refer to the sections on Seattle City Light and Seattle Public Utilities.

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.

Reductions expected in 2000 and 2002. The forecast for this revenue source in 2000 is 11.4% below 1999 collections. The reduction stems from the entire loss of revenue from Seattle Mariner games due to their move to the newly constructed baseball stadium. 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 stadiums. The Mariners began play in Safeco Field on July 15, 1999. The outlook for 2002 assumes the partial loss of admission tax revenue from Seattle Seahawks' games when the team begins playing in the new football stadium in mid-2002.

Dedicating revenues to the arts. In November of 2000, the City Council passed Ordinance 120183 which effectively dedicated 20% of the non-sports derived revenue from the City's Admission tax to programs supported by the Seattle Arts Commission. This ordinance implements recommendations by the 1999 Seattle Arts Task Force to increase spending of General Subfund resources on art-related programs. As a result of this ordinance, approximately \$1 million in 2001, and \$1.1 million in 2002, of admission tax receipts will be allocated to the Arts Commission.

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 right-of-ways.

With no changes in fee and permit charges planned, revenue from the majority of these sources is forecast to be relatively stable. Revenues from street use charges, however, are expected to increase in 2000, and then are expected to decline in the 2001 – 2002 biennium. A large portion of the revenue from these fees is associated with construction activity. The increase in 2000, and subsequent reduction, reflects the expectation that construction activity in the City will peak in 2000. Parking meter revenue in 1999 reached a record high amount of \$9.7 million. However, 2000 revenues should be closer to the prior year levels of \$9.5 million.

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State-Shared Revenues

The State of Washington distributes a portion of revenues directly to cities. Specifically, portions of revenues from the 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.

State commits general fund revenues to compensate for loss of Motor Vehicle Excise Tax (MVET)

Revenues. Before the passage of Initiative 695 and the subsequent legislation to eliminate the MVET, 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 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 and \$3,102,778 for Calendar Year 2001. The legislation providing these distributions for 2000 and 2001 indicates the intent of the State to continue making distributions in future years. The City's 2002 proposed revenue estimate includes \$3.2 million for this anticipated distribution.

Although reduced due to the loss of the MVET, the City will continue to receive separate criminal justice assistance distributions, originating in 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 \$2.0 million in each of 2001 and 2002. The City received approximately \$4.0 million in 1999.

Liquor Board profits and Excise Tax revenue. The State's Liquor Control Board continues efforts to improve its tracking of cash and to regularize its distribution methods. Seattle's Liquor Board Profits and Liquor Excise Tax distributions are expected to remain largely unchanged from actual distributions in 1999 (\$2.9 and \$1.7 million respectively) and 2000 (estimates of \$3.0 and \$1.7 million respectively).

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 reflect 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 plans to retire City debt associated with the development of Benaroya Hall. As a result, BH Music Center payments to the City will decline to approximately \$595,000 annually, reflecting only a share of concession revenues.

Grant supports Seattle Jobs Initiative. The City has won a grant from the Casey Foundation of \$700,000 annually in 2001 and 2002. The grant will support the Seattle Jobs Initiative as well as the Office of Economic Development's workforce development efforts.

City reimbursed for WTO expenses. The City expects to receive reimbursement from the Federal Government for expenses associated with the November 1999 WTO Ministerial Conference. The total reimbursement amount of \$5,320,711 will be shared by the jurisdictions that assisted in providing public safety services for the event. The City expects to receive \$3,412,006 of that amount, which was calculated based on the City's proportion of total event-related expenditures.

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Revenue from Service Charges

New agreements for AFIS and Mariners. The forecast reflects the renewal by voters of the King County-wide property tax levy for the Automated Fingerprint Information System (AFIS). The current levy, which expires in 2000, provides Seattle with approximately \$2.1 million in revenue for the City's portion of the AFIS program. The new levy will provide roughly \$2.2 million annually to the City in the biennium.

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 \$860,000 in 2000, up from the \$577,000 received in 1999. Higher payments in 2000 reflect the fact it is the first full season that the Mariners played at Safeco. The forecast anticipates \$833,000 annually for the biennium, reflecting efficiencies associated with a new agreement for police services.

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 is 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.

Starting in 1999, an additional \$700,000 is deposited directly to the ESD Fund from City utilities to reflect the Mayor's re-organization of the City Budget Office and the creation of the Citywide Environmental Management Office. Both of these entities have been consolidated into the Executive Services Department, resulting in corresponding reductions in General Subfund revenues and expenditures.

The estimates for internal service charges in the 2001 Adopted and 2002 Endorsed Budget reflect continuation of these changes from 1998 and 1999, and do not reflect the proposal to decentralize central services into separate departments.

The City Council committed City General Subfund resources of \$700,000 in 2001 to purchase Hitt's Hill property as a potential park site. It is anticipated that the General Subfund will be reimbursed in 2002 for this expense from either the City's Parks Fund, Parks for All Opportunity Funds, Neighborhood Matching Fund, or other sources. As a result, the estimate for internal service charges was increased by \$700,000 in 2002 to reflect this potential reimbursement.

Fines and Forfeitures

Most revenues in this category are collections of parking and traffic fines issued by the Seattle Municipal Court. Historically, more than 70% of these revenues are 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 revenues down significantly in 2000. Revenue from parking and traffic fines are expected to be \$15.7 million in 2000, which is a modest 1% gain from 1999 revenues. Modest growth results from a year-to-date reduction in parking enforcement patrol hours of 12% relative to 1999. This has contributed to a reduction in citations of 13%. While patrol hours have been steadily decreasing each year since 1994 as parking enforcement officers (PEOs) have been re-deployed to other duties, this most recent decrease is primarily due to a high amount

City Revenue Overview

of injury and disability time. This trend is not expected to dramatically improve in 2001. Offsetting this development is the Court's investments in collection efforts. These investments have resulted in more revenue collection per ticket in 2000 versus 1999.

2001 – 2002 revenue will benefit from new Residential Parking Zone patrol squad. The 2001 Adopted Budget includes a new Residential Parking Zone (RPZ) patrol squad in response to Neighborhood Plans, RPZ growth, and a recent parking study that showed demand for more parking enforcement resources. With the impacts of this new RPZ squad as well as the general trends affecting the collection of parking and traffic fines, 2001 revenue is expected to increase by 8.9% above 1999 collections to \$16.9 million and to \$17.2 million in 2002. These estimates anticipate a very modest, but continued decline in patrol hours and citations issued for the regular PEO squad.

Miscellaneous Revenues

Interest earnings continue to decline. Interest earnings are expected to be \$2.3 million in 2000, roughly \$300,000 less than 1999 earnings of \$2.6 million. The decline in 2000 reflects anticipated reductions in cash balances. Lower cash balances result from expenditures on one-time major maintenance projects and greater-than-anticipated cash outflows in the first half of 2000. Cash balances are expected to stabilize in the biennium, resulting in interest earnings of \$2.2 million and \$2.3 million in 2001 and 2002, respectively.

Fixed asset sales decline. In June 1999, the Mayor signed Ordinance 119497 which transferred ownership of City-owned streetlights to Seattle City Light. As a result of this action, the General Subfund received \$3.6 million in 1999 as a one-time payment. The Proposed Budget estimates that revenues from asset sales will reflect amounts in years prior to 1999, approximately \$10,000 annually.

No SAC administrative fee to General Subfund. Beginning in 2001, the accounting procedures for reimbursements to the Seattle Arts Commission (SAC) will be streamlined. Currently, City-operated utilities reimburse SAC for its costs to maintain City-owned art at utility facilities by transferring money to the General Subfund for appropriation to SAC. This cumbersome accounting procedure will be eliminated beginning in 2001, when SAC will directly allocate costs to utility funds. This will reduce General Subfund revenue from utilities, and the General Subfund appropriation to SAC, by approximately \$330,000 annually, but will have no net effect on SAC funding.

One-time transfers to the General Subfund. In 2000, the General Subfund received \$400,000 of unused balance from the Rental Housing Inspection Program. This transfer corrects an over-estimate of liabilities associated with the program in 1998, and is for 2000 only. In addition, the General Subfund will receive \$145,000 from utility funds and debt proceeds for a variety of single-year capital expenses. No such one-time revenues are expected in the biennium.

City Revenue Overview

Figure 10. Seattle City Tax Rates

	1998	1999	2000	2001
Property Taxes (Dollars per \$1,000 of Assessed Value)				
General Property Tax	\$2.599	\$2.532	\$2.449	\$2.250
Families & Education	0.328	0.296	0.228	0.154
Seattle Center RDV/Parks Comm. Ctr.-SC	0.071	0.064	0.281	0.181
Seattle Center RDV/Parks Comm. Ctr.-Parks	0.066	0.060	0.044	0.072
Parks for All Levy				0.353
Low Income Housing Levy	0.018	0.016	0.015	0.013
Fire Pension	0.225	0.225	0.225	0.225
Emergency Medical Services	-	0.290	0.273	0.246
Low Income Housing (Special Levy)	0.167	0.151	0.134	0.117
City Excess GO Bond	0.217	0.287	0.370	0.317
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax				
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%	0.4150%
City of Seattle Public Utility Business Taxes				
City Light	6%	6%	6%	6%
City Water	10%	10%	10%	10%
City DWU	10%	10%	10%	10%
City Solid Waste	10%	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates				
Cable Communications (not franchise fee)	10%	10%	10%	10%
Telephone	6%	6%	6%	6%
Natural Gas	6%	6%	6%	6%
Steam	6%	6%	6%	6%
Commercial Solid Waste	10%	10%	10%	10%
Franchise Fees				
Cable Franchise Fee	2.0%	2.0%	2.5%	2.5%
Admission and Gambling Taxes				
Admissions tax	5%	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%	2%
Bingo (less prizes)	10%	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%	5%

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General Subfund Fund Balance Forecast

The City uses unexpended fund balance (when available) as a resource to balance its General Subfund budget. Figure 11 shows forecasts of the General Subfund fund balance at the end of 2000. Forecasts for the fund balance are developed from revenue forecast revision and expenditure adjustments to the 2000 Adopted Budget. As the Figure shows, the 2001 Adopted Budget anticipates a 2000 ending balance of approximately \$9.1 million. As shown in Figure 4 of this section, the 2001 Adopted Budget utilizes \$8.2 million of this balance in 2001 and the remainder (\$892,000) in 2002.

Figure 11 Available Fund Balance, 2001⁽¹⁾

	2001 PROPOSED	2001 ADOPTED
12/31/99 Unreserved Fund Balance (CAFR)	\$2,204,000	\$2,204,000
Plus: 2000 Accounting Adjustments to 1999 Expenditures	822,000	822,000
Plus: GASB 31 Adjustment	723,502	724,000
Less: Transfer to Rainy Day Fund	(1,762,000)	(1,762,000)
Plus: 2000 Revised Revenues	565,588,000	568,071,000
Less: 2000 Adopted Budget	(548,958,372)	(548,958,000)
Less: CB 113304 (Monorail)	(50,000)	(50,000)
Less: Gun Safety Initiative	(50,000)	(50,000)
Less: Parks--Community Center Hours (EF reimbursement)	(375,000)	(375,000)
Less: Neighborhood Matching Fund Increase (EF Reimbursement)	(156,000)	(156,000)
Less: Supplemental Appropriations (see Figure 12 for details)	(13,568,458)	(11,370,000)
Est. 12/31/2000 Available Fund Balance	\$4,417,672	\$9,096,000

(1) Totals may not add due to rounding.

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Figure 12 shows the expenditure adjustments to the 2000 Adopted Budget for the General Subfund contained in legislation approved by Council in November of 2000. Adjustments fall into one of three categories: emergencies, unanticipated and/or unplanned events, and one-time uses of estimated year 2000 fund balance. Positive values reflect additional expenditures, while negative numbers reflect savings.

Figure 12 Supplemental Appropriations for 2000

Department	Item	2001 PROPOSED	2001 ADOPTED
Finance General	Reserve for Salary and Benefit Adjustment	\$ (1,026,000)	\$ (1,026,000)
	State Examiner	95,000	95,000
	Insurance	215,000	215,000
	Police Support Facility Subfund	208,000	208,000
	Jail Services	(1,750,000)	(1,750,000)
	Indigent Defense	(361,000)	(361,000)
	Supplemental Contingency Account	500,000	500,000
	2001 Emergency Subfund Contribution	6,430,000	4,089,000
	2002 Cumulative Reserve Subfund Contribution	5,000,000	5,000,000
	City Auditor	Key Tower Move	12,000
Office of Economic Development	Development Grant	0	388,000
Firefighters' Pension Fund	Transfer to Actuarial Account	534,000	534,000
	Medical Costs	170,000	170,000
Legislative	Council WTO Review	100,000	100,000
Parks & Recreation	Charter Revenue Adjustment	(1,175,000)	(1,420,000)
Police	U.S. Conference of Mayors Security	288,000	288,000
	Americorps Grant Match	80,000	80,000
	LLEBG Grant Match	16,000	16,000
	RPZ Parking Squad--Scooters	190,000	190,000
Police Pension Fund	Medical Costs	1,805,000	1,805,000
Public Safety Civil Service Com.	Increased testing activity	45,000	45,000
Seattle Center	Closure Costs	1,774,000	1,774,000
Seattle Public Utilities	Engineering Services	418,000	418,000
	Total	\$ 13,568,000	\$ 11,370,000