

General Subfund Revenue Overview

City Revenue Sources and Funds – December 2003

City Revenues

Seattle City government has four main sources of revenue to support the services and programs that the City provides its residents. 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 Woodland Park Zoo, Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to their customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

In 2004, revenue for general government purposes will total approximately \$665.7 million.

City Funds

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

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

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

General Subfund of the General Fund

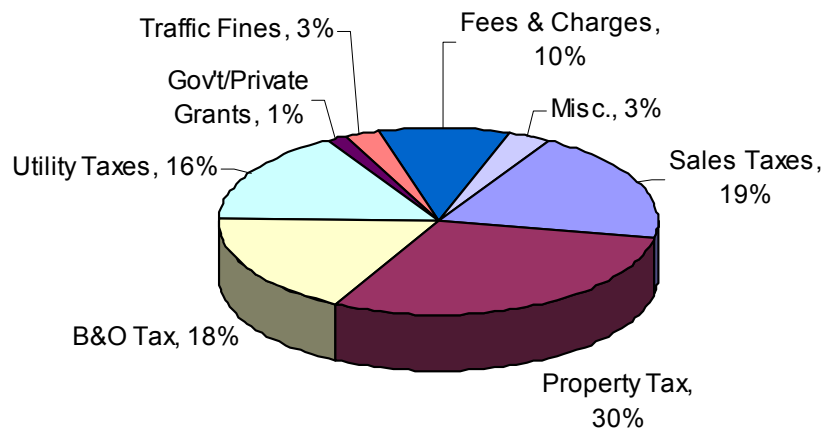
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax (30%), followed by sales taxes and the Business and Occupation (B&O) Tax.

Revenue collections from the sales, business and occupation, and utility taxes, which together account for 53% 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 forecasts for 2003 and 2004.

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Figure 1. 2003-Revised General Subfund Revenue Forecast by Source - \$643.0M



The National and Local Economy

Current Economic Conditions and Outlook

The recovery from the 2001 recession has been weak and uneven. The decade of the 1990s saw the longest national economic expansion on record, one that lasted a full 10 years. The expansion was characterized by rising productivity, a booming stock market, an expanding high-tech sector, and rising investment. During the high-growth years of the late 1990s, optimists talked of the arrival of a “new economy” which would usher in a future characterized by rapid economic growth, soaring incomes, and an end to the business cycle.

However, the dream of a “new economy” ended in early 2000, when the stock market bubble burst. With stock prices no longer rising, businesses cut back on investment spending. Consumer spending also slowed as falling stock prices led to declining household wealth. The slowing economy slipped into recession in March 2001, and was weakened further by the September 11 terrorist attacks. Due to aggressive interest rate cuts by the Federal Reserve, the recession was both short and mild. The recovery began in November 2001.

The recovery from the 2001 recession has been both weak and uneven throughout its nearly two year life span. One reason is that the 2001 recession was different than other recessions of the past 50 years, most of which resulted from the Federal Reserve raising interest rates to fight high inflation. The 2001 recession resulted from the collapse of an investment boom and the bursting of a stock market bubble. Recovering from these conditions takes more time than does recovery from the more typical post-war recession. Also, with the current business cycle so different from other recent cycles, it is difficult for economists to predict how the recovery will unfold.

The early months of 2003 saw the economy weaken, as the buildup to the war in Iraq and the war itself caused a drop in both consumer and business confidence. The period February – May 2003 was characterized by falling employment, a rising unemployment rate, and declining industrial production. Following the end of the conventional phase of the war in early May, the economy began to exhibit signs of improvement. Economic data released during the fall was largely positive. For example, the manufacturing sector improved, jobless claims fell,

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retail sales were strong, and third quarter GDP registered an 8% gain. However, employment has continued its stubborn decline.

Most economists believe the U.S. economy is on the upswing. Despite the economy's mixed performance, most economists expect it to expand at a healthy pace in 2004. Employment is forecast to begin increasing in 2004, adding 1½ to 2 million new jobs by year's end. The recovery will receive a boost from the recently enacted federal tax cuts and the abundant home refinancing activity that occurred last spring and summer. Partially offsetting these stimuli will be spending reductions by state and local governments.

While the consensus forecast for the U.S. economy is fairly upbeat, a significant minority of economists believe that the next year or two is likely to see a continuation of the sluggish growth of the past 22 months. These economists believe that the mild 2001 recession did not fully purge the excesses that built up during the boom years of the late 1990s, such as high debt levels and low capacity utilization. In addition, because consumer spending did not fall and the housing market remained strong during the recession, there is little pent-up demand in the economy. The economic research firm Global Insight believes there is a 20% probability of continued sluggishness.

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

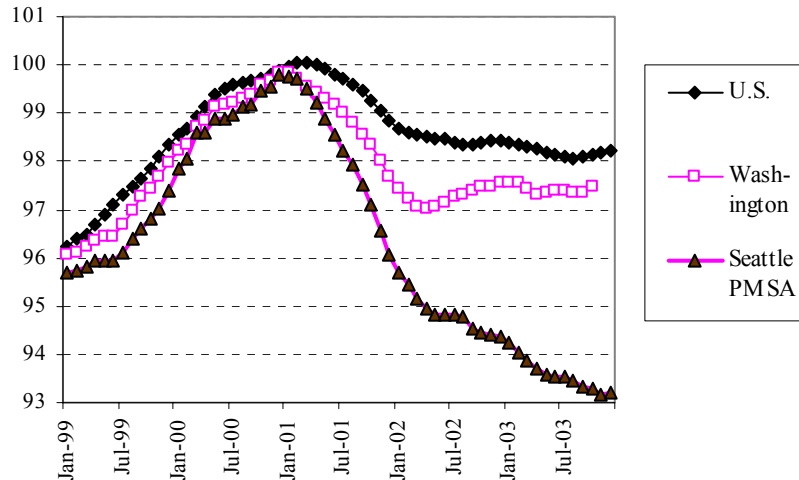
- The demise of the local dot-com sector;
- Layoffs and business closures in much of the high-tech sector;
- A sharp decline in stock-option income;
- A steep drop in venture capital investment; and
- A decline in household wealth driven by falling stock prices.

Conditions deteriorated further following the September 11 attacks, which caused a sharp drop in air travel and financial distress for the world's airlines. This forced Boeing, the world's largest maker of commercial airliners, to severely cut back its projections of the demand for airliners during the next several years. Boeing announced it would reduce production by 50% and cut 30,000 jobs from its commercial airplane division – most of them by mid-2002. Two-thirds of the cuts were expected to occur in the Puget Sound Region. Boeing has eliminated 23,600 jobs in Washington State since September 2001. This is the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Since then Boeing has reduced its Washington employment by 47,600 jobs.

The timing and severity of the region's recession is illustrated in Figure 2, which shows monthly employment for the U.S., the Seattle PMSA (King, Snohomish, and Island Counties), and the state of Washington for the period January 1999 – November 2003. The employment figures have been indexed to equal 100 in December 2000, the month of peak employment in the Washington.

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



Data are 3 month moving average of seasonally adjusted employment.

Following several years of steady gains, employment growth began to slow in the second half of 2000, both locally and nationally (see Figure 2). Employment reductions in the Seattle PMSA were much greater than reductions in the U.S. and Washington, indicating the degree to which the state's recession has been focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 6.1% for the Seattle PMSA, 3.1% for Washington, and 2.0% for the nation.¹ Following 2001's steep drop, Seattle PMSA employment continued to move downward until March 2003, after which a slight upturn has occurred.

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

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

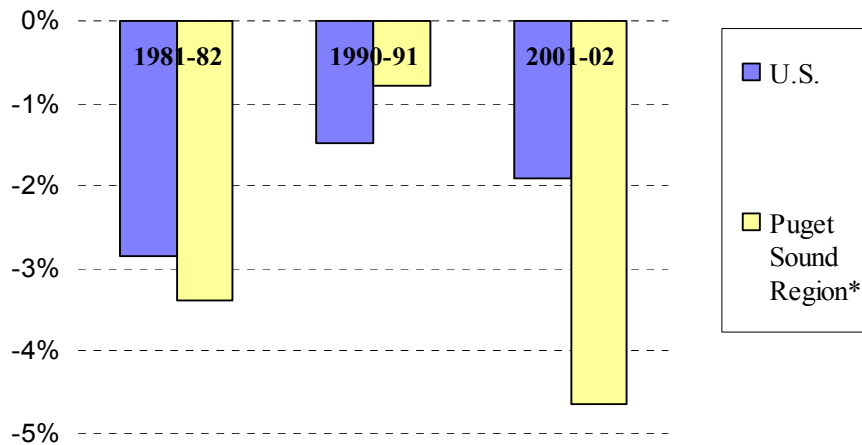
During the current recession, employment in the four-county (King, Kitsap, Pierce, and Snohomish) Puget Sound Region has dropped by 4.6% from peak-to-trough, compared to a 1.9% decline nationally (see Figure 3, next page). The region's employment loss in the current recession is significantly larger than its loss in 1981-82. One positive note is that the region's unemployment rate is forecast to gradually decline in 2004 after reaching a peak

¹ These peak-to-trough figures are not reflected in Figure 2 because data in the figure have been averaged over three month periods.

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of 7.4% in the third and fourth quarters of 2003, well below the 11.0% peak reached in 1981-82. The relatively low unemployment of the current recession is due in part to the fact that the region entered the recession with a very low unemployment rate.

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



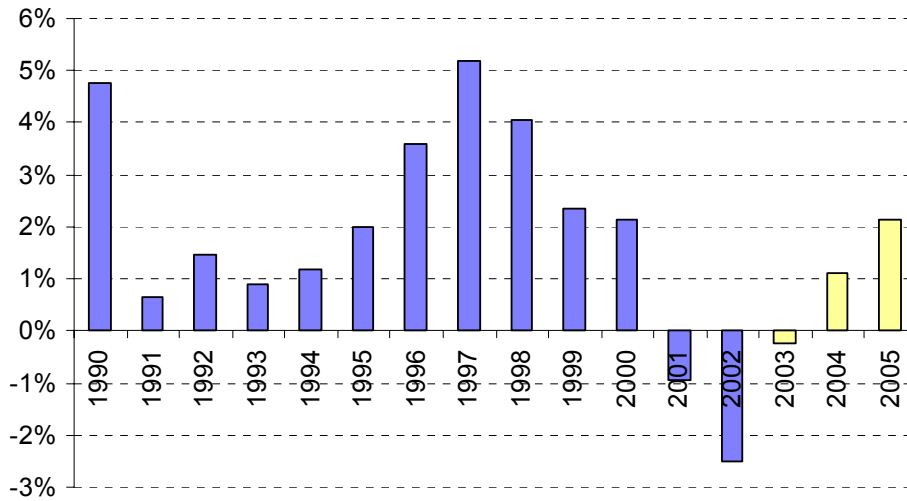
*King, Snohomish, Pierce, and Kitsap Counties.

The region will recover slowly from the current downturn. In July 2003, the region's two largest private-sector employers announced their plans for future employment. Boeing announced that it would cut 4,000 to 5,000 additional jobs in its Commercial Airplane division by early 2004. The majority of those cuts will occur in the Puget Sound region. Microsoft announced that it would hire 4,000 to 5,000 new workers, half of them locally, during the next 12 months.

Because of the severity of the recession and ongoing job losses at Boeing, the region is expected to recover from the current recession at a very slow pace. According to the Puget Sound Economic Forecaster, regional employment should have remained relatively flat in the second half of 2003, after hitting bottom in the second quarter of the year. In 2004, employment is expected to begin growing at a modest pace, due largely to the expected improvement in the national economy. Employment declined for the third consecutive year in 2003, by a modest 0.3%, then is expected to increase by 1.2% and 2.3%, respectively, in 2004 and 2005 (see Figure 4, next page). At this pace, the region's employment will not climb back to the peak reached in fourth quarter 2000 until some time in early 2006.

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Figure 4. Annual Growth of Puget Sound Region Employment



Note: 2003-05 forecasts are from Puget Sound Economic Forecaster.

Consumer price inflation will remain subdued. The national recession and the heretofore weak recovery have helped to bring inflation down to the lowest levels since the early 1960s. In 2002, aided by a decline in energy prices, consumer price inflation fell to 1.3% nationally and 1.5% in the Puget Sound region (see Figure 5, next page).² In 2003, a rise in energy prices pushed the national rate of inflation to over 2%. However, the Seattle CPI-W moved in the opposite direction, falling to 0.9% in 2003. This discrepancy is due largely to housing costs (i.e., expenses for both renters and homeowners), which have continued to increase nationally, but dropped to near zero in the Seattle area in mid-2003. Factors restraining local housing costs include the severe local recession and low mortgage rates.

Inflation is forecast to remain low in 2004 due to low capacity utilization rates, sluggish job growth, and an anticipated decline in energy prices. Beyond 2004, inflation is forecast to rise slowly, as the economy improves. For the next few years, local inflation is expected to lag national inflation, due to the relative weakness of the local economy.

Figure 5. Consumer Price Index Forecast

	U.S. CPI-W (July-July growth rate)	Seattle CPI-W (June-June growth rate)
2002 (actual)	1.3%	1.5%
2003 (actual)	2.0%	0.9%
2004	1.5%	1.3%
2005	2.0%	1.7%

² These figures reflect the July-July growth rate of the U.S. CPI-W and the June-June growth rate of the Seattle CPI-W. Annual inflation rates differ slightly from these measures.

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Figure 5 presents inflation forecasts for the U.S. and Seattle metropolitan area through 2005. These forecasts are for the CPI-W, which measures price increases for urban wage and clerical workers. The CPI-U measures prices for all urban consumers. Forecasts are made for the CPI-W because City of Seattle labor agreements are based upon the CPI-W. The forecasts of the U.S. CPI-W are for the growth rate from July of one year to July of the following year; the Seattle CPI-W forecasts are for June-June growth rates. These specific month-to-month growth rates are used as the basis for cost of living increases in City of Seattle wage agreements.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 (see next page) shows General Subfund actual revenues for 2002, as well as the revised forecast for 2003 and the endorsed and adopted 2004 forecasts. As the figure shows, forecasts for 2004 have been reduced by a total of \$8.2 million. A portion of this reduction, \$2.8 million, is a result of shifting street fee revenues (and corresponding expenses) from the General Subfund to the Transportation Fund. After adjusting for this fiscal-neutral change, forecasts for General Subfund revenues have been reduced by approximately \$5.4 million. The revised forecasts for 2003, after adjusting for timing issues on interfund transfers, are \$13.9 million lower than in the 2003 Adopted Budget.

Weak economy and volatile utility markets push forecasts down. The 2003 and 2004 forecasts were revised downward to reflect the prolonged softness in the local economy and weaker outlook for several sectors. Actual revenue from the retail sales tax, a good barometer of economic health, was down considerably in the first several months of 2003. Although nearly all industries experienced a slowdown in early 2003, auto sales, business services, and wholesale trade performed particularly poorly relative to forecasts. The telephone industry has been in a declining mode since 2001 and its forecast was lowered significantly in 2002; however, the receipts in 2003 warranted a further revision downward. Due to an unforeseen deep drop in wholesale gas rates, natural gas revenues posted a 45% year-over-year decline in first quarter 2003, prompting a substantial lowering of the forecast for both 2003 and 2004. The forecast for court fines and forfeitures was reduced to reflect a lower-than-anticipated number of citations written, a lag in court processing, and an accompanying lag in paying of fines.

Offsetting these downward forecast revisions for 2004 is a \$13 million increase in the use of balances from other City funds. The majority of these balances, \$9.8 million, are available to the General Subfund only on a one-time basis since they reflect past cost savings, revenue over-performance, or use of reserves.

Property tax accounting adjustments add to forecast totals. Beginning with the Mayor's Proposed 2004 Budget, property tax revenue depicted in previous budgets as revenue to the Fireman's Pension Fund will be shown instead as revenue to the General Subfund. Offsetting this gain to General Subfund revenue is an increase in support to the Pension Fund by a like amount. The amounts shown for 2002 and 2003 in Figure 6 have been revised to reflect this change. Please see the Firemen's Pension section of this document under Public Safety for more detail on this adjustment.

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Figure 6. General Subfund Revenue, 2002 – 2004 ³

Revenue Source	2002 Actual	2003 Adopted	2003 Revised	2004 Endorsed	2004 Adopted
General Property Tax	168,292,761	172,701,802	172,883,889	176,650,569	178,742,259
Property Tax - EMS Levy	18,516,980	19,015,000	19,046,000	19,395,000	19,427,000
Retail Sales Tax	115,334,274	117,907,000	113,772,411	121,416,000	117,387,520
Retail Sales Tax - Criminal Justice Levy	10,874,436	11,032,000	10,781,545	11,361,000	11,178,035
B&O Tax (90%)	113,442,248	109,382,000	114,500,664	113,878,000	112,591,938
Utilities Business Tax - Telephone (90%)	30,464,897	35,164,000	30,038,287	34,159,000	28,170,342
Utilities Business Tax - City Light (90%)	30,594,392	30,388,000	30,021,200	30,951,000	30,979,049
Utilities Business Tax - SWU & priv.garb. (90%)	7,509,790	8,157,251	7,552,578	8,353,000	7,633,740
Utilities Business Tax - City Water (90%)	7,077,704	8,231,000	8,171,000	9,150,000	8,570,666
Utilities Business Tax - DWU (90%)	12,741,699	13,839,800	13,327,272	15,043,000	13,909,340
Utilities Business Tax - Natural Gas (90%)	8,704,591	9,182,000	7,495,000	9,458,000	8,916,137
Utilities Business Tax - Other Private (90%)	8,559,922	9,179,000	8,871,000	9,621,000	9,330,000
Admission Tax	5,251,220	6,311,000	6,380,000	6,501,000	6,400,000
Other Tax	4,706,292	5,048,000	5,049,000	5,154,000	5,155,000
Total Taxes	542,071,206	555,537,853	547,889,846	571,090,569	558,391,026
Licenses and Permits	10,212,453	12,989,556	12,020,660	13,061,856	11,324,750
Parking Meters/Meter Hoods	10,674,005	12,612,800	11,744,800	13,712,939	13,828,800
Court Fines	14,178,091	19,775,750	15,845,000	20,082,750	16,016,000
Interest Income	3,053,278	3,592,000	1,851,000	4,002,000	1,899,000
Revenue from Other Public Entities	16,674,163	7,550,736	9,045,736	7,819,736	8,968,920
Service Charges & Reimbursements	41,134,246	38,708,860	38,580,251	39,521,009	37,755,627
All Else	1,724,481	910,619	797,910	937,086	892,110
Total: Revenue & Other Financing Sources	639,721,924	651,678,174	637,775,203	670,227,945	649,076,233
Unexpended Fund Balance, Interfund Transfers	11,303,894	9,748,633	5,248,633	3,697,634	16,659,740
Total, General Subfund	651,025,818	661,426,807	643,023,836	673,925,579	665,735,973

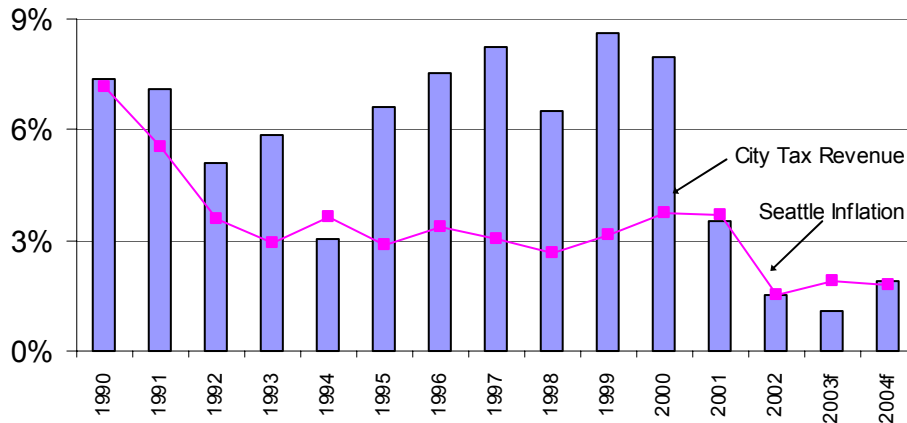
NOTE: A detailed listing of City General Subfund revenues is found in the appendix.

Figure 7 shows the marked decrease in tax revenue growth since 2000. After many years of tax revenue growth outpacing inflation, growth now hovers just below inflation. In fact, 2004 revenue forecasts for sales tax, and telephone and natural gas utility taxes are less than the actual collections for those taxes in 2001. Slow growth is also attributable to Initiative 747, which reduced the statutory annual growth limit for property taxes from 6.0% to 1.0% beginning in 2002.

³ Under the City Charter, 10% of certain revenues are deposited into the Parks Fund. These are noted by the 90% figures above. This requirement also applies to certain license revenues.

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



Property Tax

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

In 2003, the property tax rate for Seattle properties was about 1.03% of assessed value (which officially is expressed as \$10.30 per thousand dollars of assessed value). The assessed value is generally intended to be 100% of the market value, and is determined by the King County Assessor. For an owner of a home with an assessed value of \$336,000 (the average assessed value for residences in Seattle), the 2003 tax obligation is approximately \$3,500.

As Figure 8 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 among City programs. The City's General Subfund receives 70% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the Families and Education Levy, support various City programs and projects.

The 2004 Budget implements a 1% growth factor for both 2003 and 2004. The forecast for the General Subfund portion of the City's property tax is \$172.9 million in 2003 and \$178.7 million in 2004. The annual growth in property tax revenue is restricted by State statute. Since 1973, State law limited the annual growth of the City's General Subfund non-voted property tax levy to 6%. However, 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.

New construction adds to City levy. There is one important exception to the annual growth limit. State law permits the City to increase its General Subfund levy by more than the growth limit to reflect tax on property constructed or remodeled within the last year. Beginning in 1999, robust construction activity resulted in unusually high amounts of new construction revenue: \$2.5 million in 1999, \$2.9 million in 2000, \$3.7 million in

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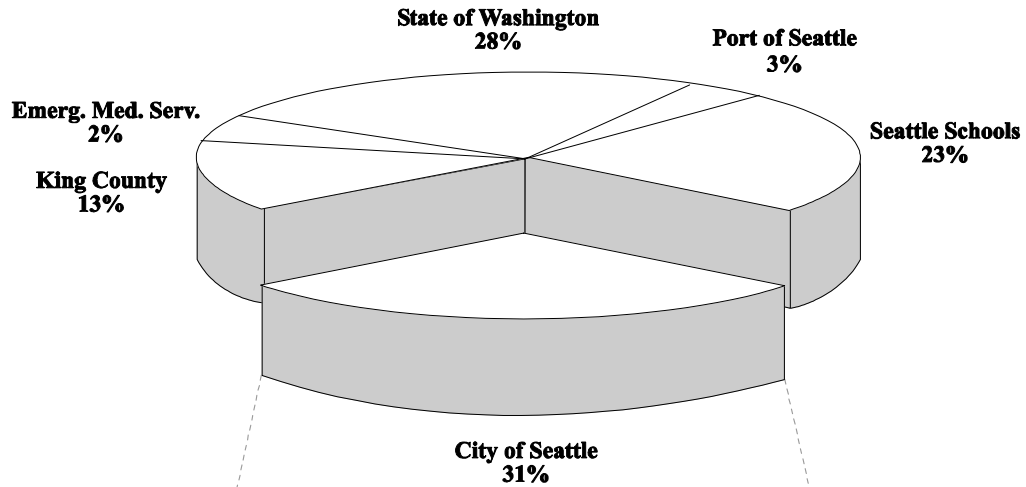
2001, and a record-setting \$5.2 million in 2002. Due to slowing construction activity, the levy for new construction revenue reflected \$2.9 million in 2003 and assumes \$2.8 million in 2004.

Beyond annual growth limits and additions through new construction, state law allows jurisdictions to recoup cash losses due to refunds granted the previous year. These refunds are the result of individuals successfully contesting and reducing the assessment on their property values for tax purposes. Since the 2003 Adopted budget, the forecast for property tax revenue in 2003 was increased by more than \$900,000 to reflect the amount added due to the “refund levy.” The forecast for 2004 revenue was increased by \$1.4 million to reflect revised estimates for the refund levy and new construction revenue.

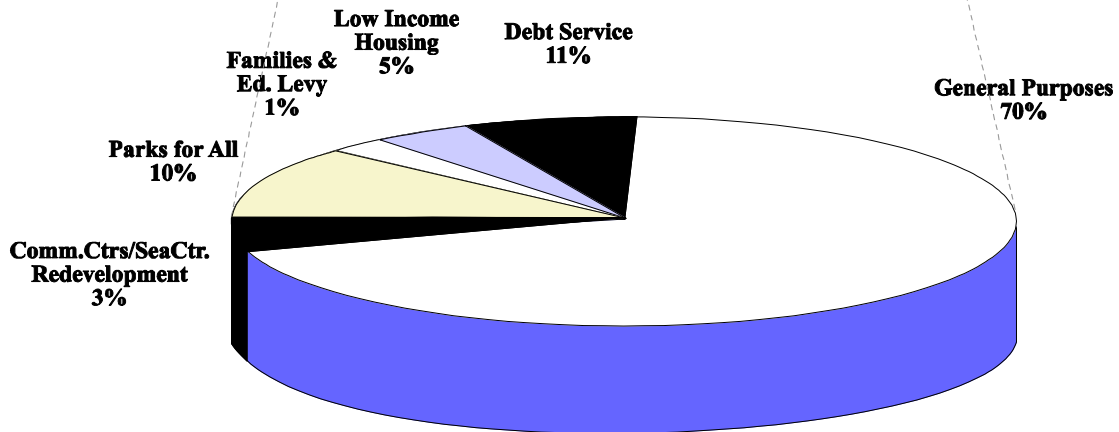
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Figure 8

Components of Total Property Tax Levy for 2003
(tax rate = \$10.30 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2003
(tax rate = \$3.16 per \$1,000 assessed value)



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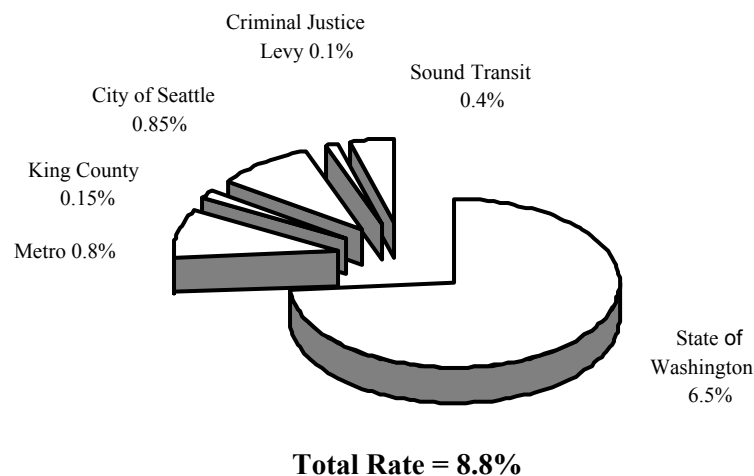
Retail Sales and Use Taxes

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

Within the city of Seattle, the sales tax rate is 8.8% for most taxable transactions. The rate was increased from 8.6% in April 2001, following approval by King County voters to raise the sales tax rate by 0.2% to provide additional funding for transit. The exception to the 8.8% rate is a 9.3% rate that is applied to food and beverages sold in restaurants, taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 8.8% is a composite of separate rates for several jurisdictions as shown in Figure 9. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the county criminal justice levy.

Figure 9. Sales and Use Tax Rates in Seattle, 2003



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

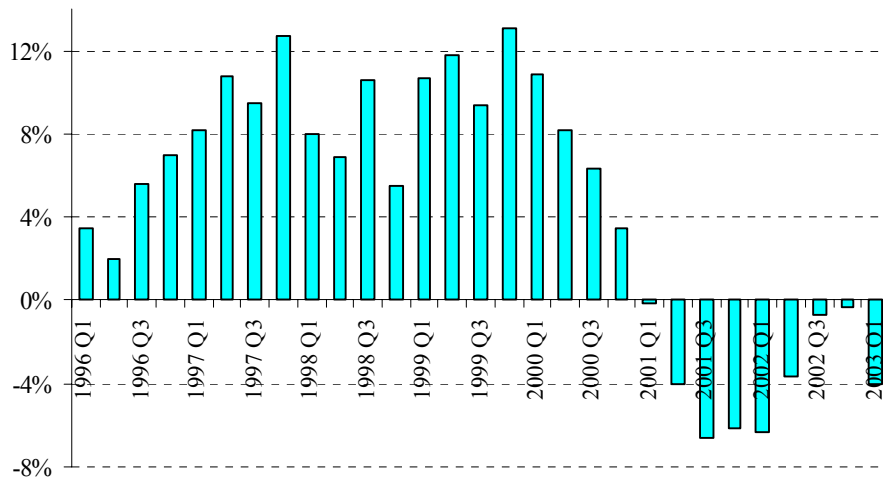
Sales tax revenue has grown and contracted with the region's economy. The robust economy of the late 1990s resulted in very strong growth in taxable retail sales in Seattle. As illustrated in Figure 10 (see next page), taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy that was led by aggressive expansion at Boeing. Following a brief slowdown, there was another surge in 1999, when the stock market and technology booms reached their peaks. 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, with growth rates turning sharply negative beginning in the second quarter of 2001. Conditions improved in the second half of 2002, with year-over-year

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growth rising to -0.3% in the fourth quarter. However, taxable sales growth turned down again in the first quarter 2003, when sales fell 4.0% below the level attained in the first quarter of 2002. The falloff was led by a sharp downturn in construction activity.

Reflecting the severity of the local recession, City of Seattle taxable retail sales have declined by 11.5% from their pre-recession peak in the third quarter of 2000.⁴ When the data are adjusted to remove the effects of inflation, the peak-to-trough drop in taxable sales during the current economic downturn increases to -17.3%.

Figure 10. Quarterly Taxable Retail Sales: Year-Over-Year Growth

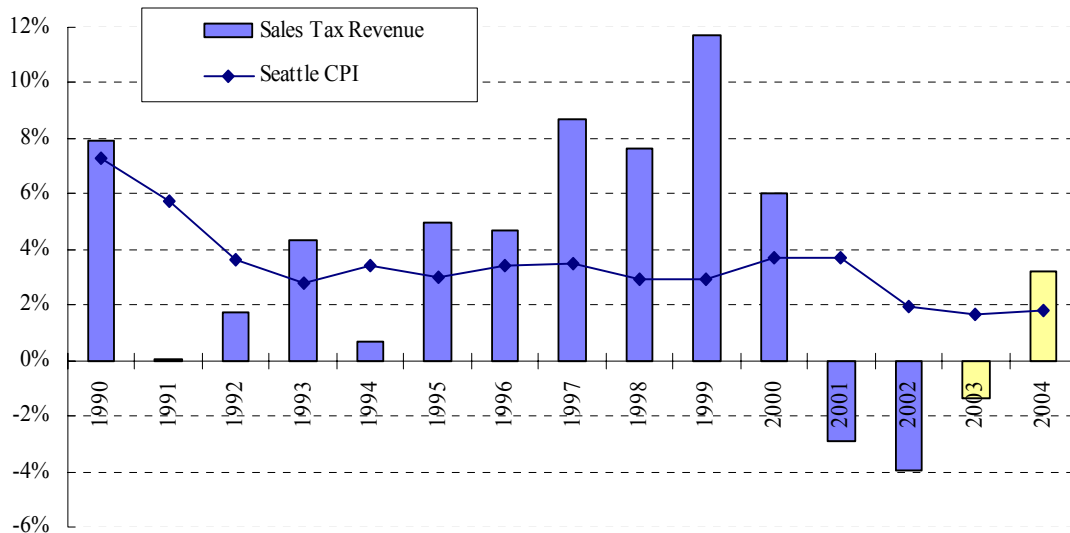


Retail sales tax revenue is forecast to post a third year of decline in 2003. Retail sales tax revenue is forecast to decline for a third consecutive year in 2003 (see Figure 11, next page). Revenue in 2003 is expected to fall \$1.6 million below 2002 levels, a decline of 1.4%. Growth is expected to turn positive in 2004, with a gain of 3.2% forecast for the year. The 2004 revenue forecast is boosted by an anticipated upswing in Sound Transit construction activity in 2004.

⁴ Based on seasonally adjusted taxable retail sales.

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Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2003-04 are forecasts.

Business and Occupation Tax

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

The City levies the B&O tax at different rates on different types of businesses, as indicated in Figure 13 at the end of this section. For example, retail trade business is subject to a tax of 0.215% on gross receipts, while service business, such as accounting, is taxed at a 0.415% rate. Included in the forecast of B&O tax revenue are projections of tax refund payments and estimates of tax penalty and interest payments for past-due tax obligations.

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

After rising strongly in the second half of the 1990s, B&O revenue growth stalled in 2001 and 2002.

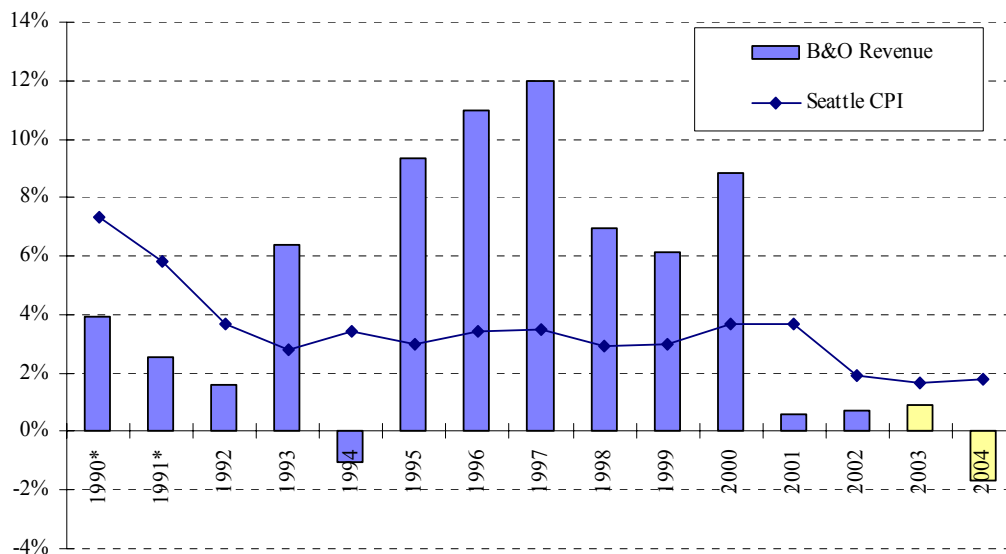
Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and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

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

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly. Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was more than offset by a large increase in revenue from audit activity, yielding an overall gain of 0.6% in B&O receipts in 2001. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base was offset by a large increase in revenue from audit activity, resulting in a small positive increase of 0.8% for the year.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures were adjusted to remove the effects of tax rate increases.
 Note: Revenue figures reflect current accrual methods. 2003-04 are forecasts

B&O revenue is forecast to increase slightly in 2003, then decline in 2004. The forecast for B&O revenue anticipates a modest increase of 0.9% in 2003, followed by a decline of 1.7% in 2004 (see Figure 12). This pattern, which is not consistent with either the regional economic forecast or the sales tax revenue forecast, reflects the influence of audit activity and state legislation on B&O receipts. In 2003, B&O revenue is forecast to increase by 0.9%, due to an increase in the tax base of 1.3% and a small drop in audit-related revenue relative to 2002 levels.

For 2004, when the region's economy is expected to begin growing again, the B&O tax base is forecast to increase by a healthy 3.2%. However, this gain is expected to be more than offset by an anticipated decline in revenue from audit activity and a revenue loss resulting from Washington state intellectual property legislation that takes effect in 2004. Revenue from audit activity is forecast to decline from exceptionally high receipts experienced in the past 3 years to a lower amount in 2004 which is consistent to long-term trends. In addition,

General Subfund Revenue Overview

intellectual property legislation is expected to reduce B&O receipts by \$900,000 in 2004. As a result, B&O revenue is expected to decline by 1.7% in 2004.

The B&O revenue forecast incorporates a revision the City Council made to the Executive's proposed B&O forecast in November 2002. This revision adds \$252,000 to the forecasts for 2003 and 2004 to reflect additional revenue that will be generated by the hiring of a contract auditor to audit B&O tax returns.

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 utility tax forecast is revised downward. The City levies a 6% utility business tax on gross sales of natural gas. Since the beginning of the West Coast energy crisis in 2000, natural gas revenues have undergone a roller coaster ride. After a decade of stable prices, rates for natural gas skyrocketed, and revenues in 2001 and 2002 were at record highs. In 2003, several factors that were not anticipated in the last budget combined to turn revenues sharply downward. First, there was a deep drop in natural gas rates that lowered first quarter 2003 revenues; second, mild weather conditions reduced residential demand; and third, the weak economy dampened commercial and industrial demand. As a result, 2003 and 2004 forecasts were reduced by \$1.7 million and \$542,000, respectively.

Telephone utility tax forecast is revised downward. The utility business tax, which is levied on the telecommunications industry at a rate of 6% on gross income, is estimated to generate \$30 million in 2003, and \$28.1 million in 2004. After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in the fourth quarter of 2002. The lackluster economy continues to harm telecom revenues amid restructuring in the industry as carriers shift positions in providing service to the end-user and heightened competition force prices downward. The wireless industry continued to show positive returns through 2002 then began dropping in 2003. The forecast was revised to account for this sector's sudden shift in performance and the longer standing weakness in local service and long distance. Compared to the forecasts in the previous budget document, 2003 and 2004 revenues were reduced by \$5.1 million and \$6.0 million, respectively.

Strong growth for cable. 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 2.5% franchise fee makes funds available for cable-related public education access purposes.

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

Utility Business Tax - Public Utilities

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

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(tax rates are shown in Figure 13). Revenue from public utility taxes is determined by the quantity of utility services consumed and the rates charged for those services.

General Subfund revenue from public utility taxes is forecast to increase by 2.1% in 2003 and 3.5% in 2004. The forecast for 2003 reflects the impact of the region's recession, which has caused a significant slowing in the consumption of public utility services. Also reflected in the forecast are significant rate increases for water, drainage, and wastewater. Revenue from these rate increases will be used to replace and rehabilitate aging infrastructure, improve water and storm water quality, and enhance flood and landslide protection. For information on utility service consumption trends and utility rates, 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.

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

Licenses and Permits

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

The 2003 Adopted Budget included several increases to existing fees and fines, as well as the creation of a variety of new fees. The types of fees and fines effected by these changes include: street use and parking (Department of Transportation); hazardous material storage, building inspections, and other fire hazard-related permits (Fire Department); and business and professional license fees, including a surcharge on the City's business license fee (Department of Executive Administration). Forecasters anticipated additional revenue from these changes of approximately \$5.7 million in each year.

Actual collection experience across these fees and fines has varied. In most cases, collections are consistent with forecasts and no changes were made to original forecasts. Notable exceptions to this are fire system plan review and construction inspections (Seattle Fire Department), and meter hood services and vehicle overload permits (Seattle Department of Transportation). The 2004 Budget revises the revenue forecasts for fee changes downward by approximately \$1 million to reflect actual collections in 2003.

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The 2004 Adopted Budget adds new security and fire alarm system license fees. Each year, the City's Police and Fire Departments respond to thousands of calls generated by mechanical alarm system devices. In the case of Police dispatches, consistently since 1997 greater than 97 percent of these have been false alarms. The new fees are intended to recover the costs originating from this unique source. The revenues associated with these fees are estimated at \$1.5 million for security alarm system license fees and \$400,000 for fire alarm system license fees.

The 2004 Adopted Budget incorporates a new Right-of-Way Management Initiative. As part of this Initiative, the majority of street use fees are increasing by approximately 30% and will be deposited in the Transportation Operating Fund rather than the General Subfund. As a result, the forecasts for General Subfund revenue from street use fees have been reduced by \$2.8 million. In addition, the General Subfund annual transfer to the Transportation Operating Fund is reduced by an equal amount, leaving the General Subfund in a fiscally neutral position relative to the 2004 Endorsed Budget. Please see the Seattle Department of Transportation section for more information about the Initiative.

Parking Meters/Meter Hoods

Revenue to the General Subfund from street parking charges has been stable for the past several years. Street parking meters have generated roughly \$9.5 million annually, while the rental of meter hoods generates approximately \$1 million annually. Inherent in the 2003 Adopted Budget was a plan to increase the number of parking meters in the City by 1,600, increasing revenues by \$653,000 in 2003 and \$1.8 million in 2004.

The 2004 Adopted Budget uses an alternative, more workable plan for parking meters that employs pay station technology in place of the traditional meters. Pay stations are parking payment devices that offer the public a more convenient array of payment options, including credit cards and debit cards, to pay for hourly street parking. Considering implementation time and changes to hourly rates (from \$1.00 currently to \$1.50), the new plan for parking meters will result in approximately \$600,000 less revenue in 2003 and an increase of approximately \$405,000 in 2004. More information about the pay station technology program is provided in the Seattle Transportation section of this document.

Court Fines

Most fine and forfeiture revenue reflects payments on 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 revenue estimates decrease. The forecasts for these revenues in the 2003 Adopted Budget included an increase for parking ticket revenue of approximately \$4.6 million in 2003 and \$4.9 million in 2004 from the existing 2002 estimate of \$11.0 million. These changes were based on two factors: increased enforcement from a fully staffed Parking Enforcement Unit and increases in parking fines of \$10 per ticket. Recent experience indicates fewer-than-expected tickets were issued by the Police Department and fewer yet processed by Municipal Court. As a result of these trends, the forecasts for parking tickets have been reduced to \$12.4 million in 2003 and \$12.9 million in 2004.

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Interest Income

The General Subfund receives interest earnings on cash balances attributable to a group of affiliated operating and project funds, as well as many subfunds of the General Fund. Many other City funds are independent, retaining their own interest earnings. Interest income to the General Subfund varies widely, subject to significant fluctuations in cash balances and changes in interest rates dictated by economic and financial market conditions.

The forecast for this revenue in the 2003 Adopted Budget assumed that cash balances would decline marginally over the duration of the biennium, but that interest rates and the City's overall yield would increase slightly from their 2002 levels. These assumptions resulted in forecasts of \$3.6 million in 2003, and \$4.0 million in 2004. Although interest rate and yield assumptions have largely held, cash balances have declined due, in large part, to transfers of cash from affiliated funds to independent funds. Current estimates are for General Subfund interest earnings to fall to \$1.9 million annually, down from \$3.1 million in 2002.

Revenue from Other Public Entities

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

Criminal Justice revenues. The City receives funding from the state for criminal justice programs, although significantly less than in previous years. This is because criminal justice assistance resources had been traditionally funded by the state from the Motor Vehicle Excise Tax, which was eliminated in 2000. Now, as provided for under the previously approved Referendum 49, the State provides more modest distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. The City should receive approximately \$2.0 million in each of 2003 and 2004.

Liquor Board profits and Excise Tax revenue. Seattle's share of 2002 Liquor Board profits was \$3.1 million, 1.5 percent above forecast. The City's share is expected to remain largely unchanged at just below \$3.1 million in both 2003 and 2004. Estimated Liquor Excise Tax revenues for 2003 (\$2.0 million) and 2004 (\$2.1 million) also remain largely unchanged from previous forecast and stable around 2002's actual share of \$2.0 million.

City Receives Additional Grants. In 2003, the City received \$1.1 million in grants from the U.S. Department of Justice through the State of Washington. These grants partially offset City expenses in 2003 from enhanced security at public infrastructure sites during periods of high-alert status. In addition, the City will receive a grant reimbursement from Sound Transit for services City departments provide to that agency in support of light rail construction. The General Subfund will receive \$1.2 million of these grant resources in 2004.

Service Charges and Reimbursements

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 of the General Subfund 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. These allocations are executed in the form of payments to the General Subfund from these independently supported departments.

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Estimates of these resources have been reduced by approximately \$395,000 in 2003 and \$1.8 million in 2004. Allocations in 2003 are reduced to reflect lower central services expenditures due to budget reductions. In 2004, allocations on behalf of services to the Department of Executive Administration (DEA) will be approximately \$1.9 million less than in the 2004 Endorsed Budget. The majority of this reduction is the result of transferring the City's warehousing function from DEA to the Fleets and Facilities Department (FFD). City Departments will continue to pay fees for warehousing services, but revenue from these fees along with the appropriation authority for warehousing expenses will be within the budget of the FFD.

Interfund Transfers

Interfund transfers increase significantly. Interfund transfers are payments from the balances of department-specific funds and capital project funds to the General Subfund. For fiscal year 2003, the latest revised forecast shows a reduction in transfers of \$4.5 million, relative to the 2003 Adopted Budget. The reduction in 2003 merely reflects a shift in the timing of a transfer from the Cumulative Reserve Subfund. Earlier forecasts anticipated this transfer to occur in 2003, however for a variety of technical reasons it occurred in December 2002. There is no net effect on the General Subfund balance as a result of this shift.

For 2004, the Adopted Budget anticipates using \$13 million more in transfers from other funds than was anticipated in the 2004 Endorsed Budget. The majority of these balances (\$9.8 million) were generated from cost savings or revenue over-performance in other City funds and are available in 2004 only. Specifically, \$4.4 million of fund balances transferring to the General Subfund are from surpluses in the Key Tower Operating and the Judgment and Claims Subfunds. Both of these subfunds outperformed estimates in 2002 and 2003, generating unanticipated balances that are fully exhausted by these transfers.

Another \$2.5 million of balances transfers from the Cumulative Reserve Subfund, Unrestricted Account (CRF-U). Balances in CRF-U are created by (1) re-directing \$2.1 million in capital expenditures to other accounts in the Cumulative Reserve Subfund (CRF), and (2) reducing capital expenditures in the Department of Parks & Recreation by \$400,000. Additional resources in other CRF accounts are from greater-than-anticipated revenues from the Real Estate Excise Tax in 2003. Finally, the 2004 Adopted Budget transfers \$2.9 million from the City's primary reserve fund, the Emergency Subfund.

The last portion of the increase in use of fund balances is \$3.1 million from debt service funds. Balances in debt service funds in 2004 are greater than planned due to savings from lower interest expenses. These savings are ongoing and will be reflected in lower debt costs to General Subfund-supported departments beginning in 2005..

A detailed list of these transfers is included in the General Subfund revenue table found in the Appendix. In ratifying the 2004 Adopted Budget, it is the intent of the Council and Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the Appendix to the General Subfund.

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Figure 13. Seattle City Tax Rates

	2001	2002	2003
Property Taxes (Dollars per \$1,000 of Assessed Value)			
General Property Tax	\$2.483	\$2.269	\$2.204
Families & Education	0.154	0.133	0.038
Seattle Center RDV/Parks Comm. Ctr.-SC	0.181	0.109	0.000
Seattle Center RDV/Parks Comms. Ctr.-Parks	0.072	0.104	0.100
Parks for All Levy	0.353	0.316	0.307
Low Income Housing Levy	0.013	0.011	0.047
Emergency Medical Services	0.246	0.250	0.241
Low Income Housing (Special Levy)	0.117	0.102	0.110
City Excess GO Bond	0.317	0.278	0.356
Retail Sales and Use Tax	0.85%	0.85%	0.85%
Business and Occupation Tax			
Wheat Wholesaling/Flour mfg.	0.0215%	0.0215%	0.0215%
Retail/Wholesale	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%
City of Seattle Public Utility Business Taxes			
City Light	6%	6%	6%
City Water	10%	10%	10%
City DWU	10%	10%	10%
City Solid Waste	10%	10%	10%
City of Seattle Private Utility B&O Tax Rates			
Cable Communications (not franchise fee)	10%	10%	10%
Telephone	6%	6%	6%
Natural Gas	6%	6%	6%
Steam	6%	6%	6%
Commercial Solid Waste	10%	10%	10%
Franchise Fees			
Cable Franchise Fee	2.5%	2.5%	2.5%
Admission and Gambling Taxes			
Admissions tax	5%	5%	5%
Amusement Games (less prizes)	2%	2%	2%
Bingo (less prizes)	10%	10%	10%
Punchcards/Pulltabs	5%	5%	5%

