

General Subfund Revenue Overview

City Revenue Sources and Funds – September 2005

City Revenues

Seattle City government has four main sources of revenue supporting the services and programs 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 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, general government revenue totaled approximately \$682.4 million. General government revenue is projected to total \$702.7 million in 2005 and \$712.7 million in 2006.

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 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 current and former City employees.

General Subfund of the General Fund

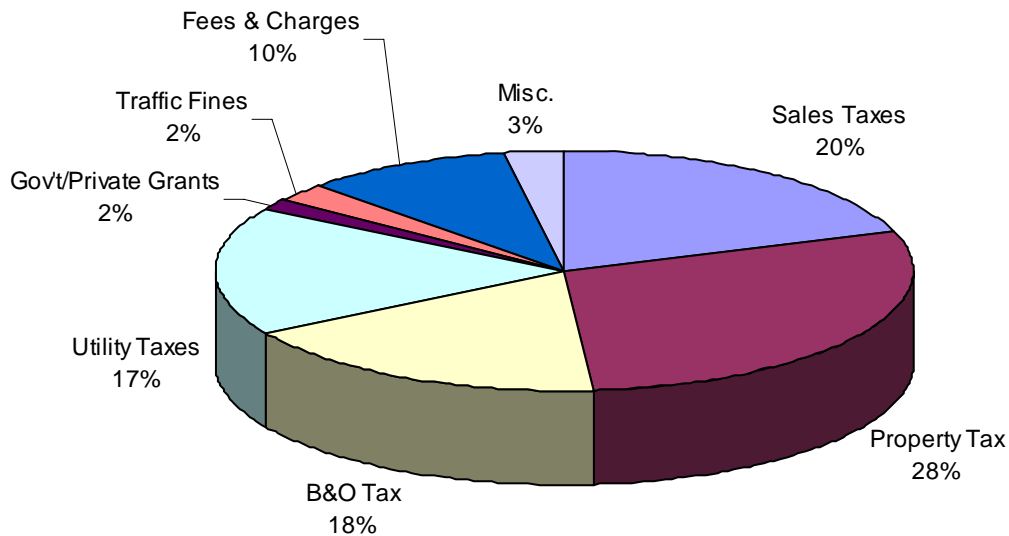
The General Subfund is supported primarily by taxes. As Figure 1 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by sales taxes, and the Business and Occupation (B&O) tax.

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

The following section describes the current outlook for the national and Puget Sound economies, followed by descriptions of General Subfund revenue forecasts for 2005-2006.

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Figure 1. 2005-Revised General Subfund Revenue Forecast by Source - \$702.7M



The National and Local Economy

National Economic Conditions and Outlook

The current expansion is now in its fourth year. 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.

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 December 2001.

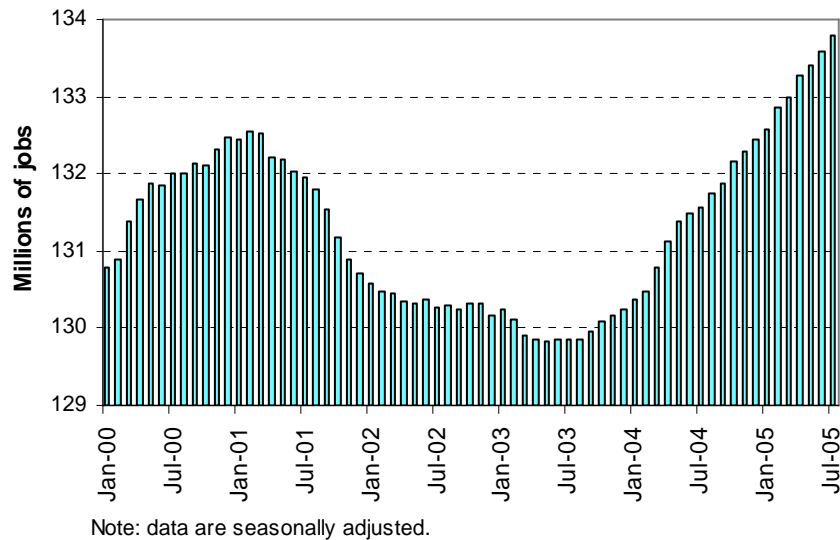
In its early stages, the recovery was led by consumer spending, which was supported by tax cuts and low interest rates, and by growth in federal government spending. However, since the second quarter of 2003 business investment has been expanding, and exports have been growing at a healthy pace since third quarter 2003. Low interest rates have also boosted the housing market by stimulating construction and real estate activity, and home equity withdrawals have provided further support for consumer spending.

During the first two years of the recovery, 2002 and 2003, the economy’s growth was weak and uneven. Although the recovery officially began in December 2001, employment continued to decline for the next 18 months, hitting bottom in May 2003 (see Figure 2). Other economic measures, such as gross domestic product (GDP) were largely disappointing during this period.

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However, since the beginning of 2004, the recovery has strengthened and growth has been more stable. The economy has created an average of 190,000 jobs per month over the past 18 months, and GDP growth has ranged between 3.3% and 4.3% over the past seven quarters. In addition, the economy has weathered the rise in energy prices surprisingly well.

Figure 2. U.S. Employment



The forecast is for continued growth with gradual slowing. The majority of economists expect the expansion to remain on track but that growth will slow in 2006. Contributing to the slowdown will be a rise in interest rates, high oil prices, a slowing of the housing market, and the burden of high household debt. Global Insight predicts that the growth rate of Gross Domestic Product (GDP) will decline from 4.2% in 2004 to 3.7% in 2005 and 3.2% in 2006.

The economy faces a number of risks as the expansion moves forward. Perhaps the most immediate risk comes from rising energy prices. Although the economy has managed to grow at a healthy pace despite the rise in energy prices over the past 18 months, at some point high prices may cause the economy to slow significantly. This is particularly likely if energy prices cause inflation to rise, inducing the Federal Reserve to raise interest rates more aggressively. Other risks to the expansion include the nation's large current account and budget deficits and the rapid escalation of housing prices. Many economists believe that housing bubbles exist in at least some regional housing markets.

Puget Sound Region Economic Conditions and Outlook

The recession hit the Puget Sound region hard. 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 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 or business closures in much of the high-tech sector;
- A sharp decline in stock-option income;
- A steep drop in venture-capital investment; and

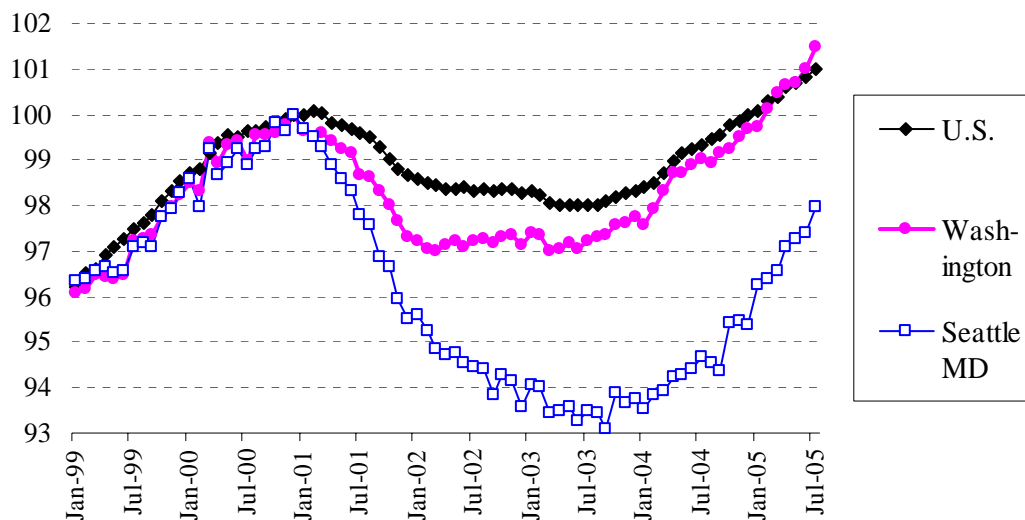
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- A decline in household wealth driven by falling stock prices.

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 cut back severely its projections of the demand for airliners during the next several years. Boeing announced it would reduce production by 50%, and over the next 2¾ years the company eliminated 27,200 of its Washington state jobs. This was the second round of major layoffs at Boeing following the company's most recent employment peak in June 1998. Between mid-1998 and June 2004, Boeing reduced its Washington employment by 51,200.

The timing and severity of the region's recession is illustrated in Figure 3, which shows monthly employment since January 1999 for the U.S., the State of Washington, and the Seattle Metropolitan Division (MD), which includes King and Snohomish Counties. The employment data have been indexed to equal 100 in December 2000, the month of peak employment in the Seattle MD.

**Figure 3. Non-Agricultural Wage & Salary Employment
(December 2000 = 100)**



NOTE: Data are seasonally adjusted. Seattle MD = King & Snohomish Counties.

Following several years of steady gains, employment growth began to slow in the second half of 2000, both locally and nationally, and then turned down in early 2001 (see Figure 3). Employment declines during 2001-03 were much greater in the Seattle MD than in the U.S. and Washington, as the state's recession was focused in the greater Seattle area. The loss of employment from the highest month to the lowest month (i.e., peak-to-trough) was 6.9% for the Seattle MD, 3.0% for Washington, and 2.1% for the U.S. The Seattle MD's 6.9% decline reflects the loss of 97,800 jobs between December 2000 and September 2003.

Following two years of decline, regional employment more or less stabilized in 2003. With the national economy improving and Boeing layoffs slowing to a relative trickle, employment began to increase slowly beginning in early 2004, and growth picked up as the year progressed. Nevertheless, as of July 2005 Seattle MD employment was still 2.0% below its pre-recession peak, while both the nation and the state surpassed their pre-recession employment levels early in 2005 (see Figure 3).

The Puget Sound Region is now growing faster than the U.S. and Washington state. As a result of improvement in the region's economy during the past year, the Seattle MD is now growing more rapidly than

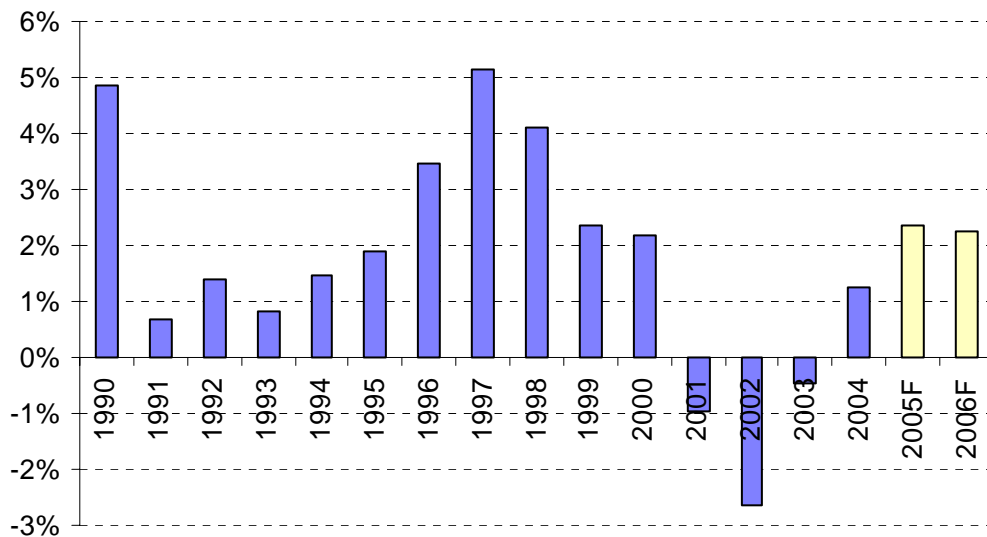
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both the nation and the state. For the first 7 months of 2005, employment in the Seattle MD has grown at a healthy 3.0% rate.

Spurring the region's recovery has been strong growth in exports, which has been stimulated by the decline in the value of the dollar over the past three years. The region's two largest firms, Boeing and Microsoft, have been leaders of the export resurgence. With its production rates rising and the need to hire for 787 development work, Boeing has increased its Washington workforce by 6,500 over the past year. Microsoft has added approximately 1,400 workers locally in each of past two years, and expects to add a similar number next year. Tourism, which is an export industry because tourists spend money earned outside of the region in the local economy, is also on the upswing.

With an expanding national economy and Boeing and Microsoft hiring new workers, the region's economy is expected to continue to expand through 2006. The Puget Sound Economic Forecaster predicts that employment in the four county Puget Sound region, which is comprised of King, Kitsap, Pierce, and Snohomish Counties, will increase by 2.3% in 2005 and 2.2% in 2006 (see Figure 4). At this pace, the region's employment will not climb back to the peak reached in fourth quarter 2000 until early 2006.

Figure 4. Annual Growth of Puget Sound Region Employment



Note: 2005-06 forecasts are from Puget Sound Economic Forecaster.
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer Price Inflation

Consumer price inflation has risen as oil prices have climbed. The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to its lowest level since the early 1960s. However, after having fallen to a 1.3% average rate during the first half of 2002, inflation has been gradually rising. Core inflation, which excludes volatile energy and food prices, has moved up into the 2.0% to 2.3% range (measured on a year-over-year basis) during the nine month period ending in July 2005. With energy prices continuing to move upward, overall inflation has averaged 3.0% over the past 12 months. Although energy prices are expected to decline somewhat from current levels, forecasts do not anticipate a drop in non-energy prices.

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Due to the severity of the local recession, Seattle area inflation, which was higher than national inflation in every year but one between 1990 and 2002, dropped below U.S. inflation beginning in late 2002. However, by mid-2005 local inflation had risen back to U.S. levels, largely because the region's economy is finally growing at a healthy pace. Looking to the future, local economists expect Seattle area inflation to fall into the 2% - 3% range.

It should be noted that inflation forecasts made at the present time are affected by the following sources of uncertainty:

- We are in a period of rising national inflation following a period of relative stability;
- The regional economy is making the transition from decline to growth; and
- There is considerable uncertainty regarding future energy prices.

Figure 5 presents historical data and forecasts of inflation for the U.S. and Seattle metropolitan area through 2006. The forecasts are for the CPI-W, which measures price changes for urban wage and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 5 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

Figure 5. Consumer Price Index Forecast

	U.S. CPI-W (July-July growth rate)	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2003 (actual)	2.0%	0.9%	1.6%
2004 (actual)	3.0%	2.5%	1.3%
2005 (actual)	3.3%	2.3%	2.3%
2006	2.4%	2.4%	2.9%

The forecast of the U.S. CPI-W shown in Figure 5 measures the increase in consumer prices from July of one year to July of the following year. The first Seattle CPI-W forecast (center column in Figure 5) measures the increase in consumer prices from June of one year to June of the following year. The second Seattle CPI-W forecast (third column) measures the rate of inflation over a one year period ending in June (i.e., July – June). Since the Seattle CPI is published on a bi-monthly basis, this growth rate reflects the average rate of inflation for August, October and December of one year and February, April and June of the following year.

General Subfund Revenue Forecasts

Revenue Overview

Figure 6 shows General Subfund actual revenues for 2004, as well as the adopted and revised forecasts for 2005, and the endorsed and proposed forecasts for 2006. For 2005, tax revenues are expected to show a strong 6% increase over 2004, far exceeding inflation. The largest change stems from the B&O tax, reflecting the sharp increase that occurred in 4th quarter 2004, led by construction and finance, insurance and real estate. A strong growth rate of 7.0% for B&O is expected in 2005, with growth slowing to 5.1% in 2006. Similarly for sales tax, revenue grew sharply in 4th quarter 2004, led by retail trade, construction, and manufacturing. The sales tax forecast also calls for a strong growth rate in 2005 that slows slightly in 2006.

Also contributing to this large growth spurt in 2005 are the utility tax revenue increases resulting from the City Council's decision to raise the tax rate from 10% to 11.5% for water, drainage, wastewater, the City's solid waste

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utility, and private garbage. In addition, the water utility tax rate was increased in 2005 by an additional 4% to pay for the cost of shifting fire hydrant services from utility revenues to General Fund revenues. Customers will not be affected because the tax rate increase is offset by a decrease in water rates, which results because the water utility will no longer be paying for hydrant service costs. A similar change was made in wastewater taxes to fund public toilets. See the Public Utilities section for more detail. For private utilities, natural gas revenues are projected to increase significantly due to an anticipated increase in rates in fall 2005, that will likely be sustained through 2006.

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Figure 6. General Subfund Revenue, 2004 – 2006 ¹
(in thousands of dollars)

Revenue Source	2004 Actual	2005 Adopted	2005 Revised	2006 Endorsed	2006 Proposed
General Property Tax ⁽¹⁾	178,669	182,453	183,817	186,801	187,854
Property Tax - EMS Levy	19,598	20,273	20,122	20,731	20,545
Retail Sales Tax	117,730	120,650	125,582	125,395	129,053
Retail Sales Tax - Criminal Justice Levy	11,396	11,670	12,076	12,172	12,664
B&O Tax (90%)	116,460	118,905	124,586	124,220	130,941
Utilities Business Tax - Telephone (90%)	27,940	28,700	27,000	28,700	26,000
Utilities Business Tax - City Light (90%)	31,013	30,767	31,073	31,138	32,181
Utilities Business Tax - SWU & private garbage (90%)	7,615	8,557	8,142	8,931	8,493
Utilities Business Tax - City Water (90%)	8,837	12,934	12,669	13,066	13,150
Utilities Business Tax - DWU (90%)	14,214	18,463	18,520	19,095	19,492
Utilities Business Tax - Natural Gas (90%)	9,827	9,923	11,483	9,123	11,281
Utilities Business Tax - Other Private (90%)	9,232	10,535	11,481	11,020	11,461
Admission Tax ⁽²⁾	6,666	5,600	6,557	5,400	6,449
Other Tax	5,107	5,190	5,095	5,305	5,195
Total Taxes	564,305	584,620	598,203	601,098	614,759
Licenses and Permits	11,097	12,455	13,988	12,460	12,671
Parking Meters/Meter Hoods	12,107	15,635	15,202	17,165	16,704
Court Fines	17,660	16,500	16,500	16,500	15,805
Interest Income	1,964	1,291	1,795	1,591	1,545
Revenue from Other Public Entities ⁽³⁾	21,285	10,126	11,238	10,004	11,016
Service Charges & Reimbursements	38,739	40,035	40,132	37,725	38,065
All Else	691	898	1,298	940	1,260
Total: Revenue & Other Financing Sources	667,849	681,559	698,356	697,483	711,825
Interfund Transfers	14,559	4,353	4,338	912	882
Total, General Subfund	682,408	685,912	702,694	698,395	712,707

NOTES:

(1) Includes property tax levied for the fire pension fund per RCW 41.16.060

(2) The 2005 Adopted and 2006 Endorsed figures reflect the net revenue of Admission tax revenue after the transfer of revenue to the Arts Fund. The 2005 Revised and 2006 Proposed figures reflect the total amount of revenue from Admission tax.

(3) Included in 2004 are the pass-through revenues that are not appropriated or forecasted

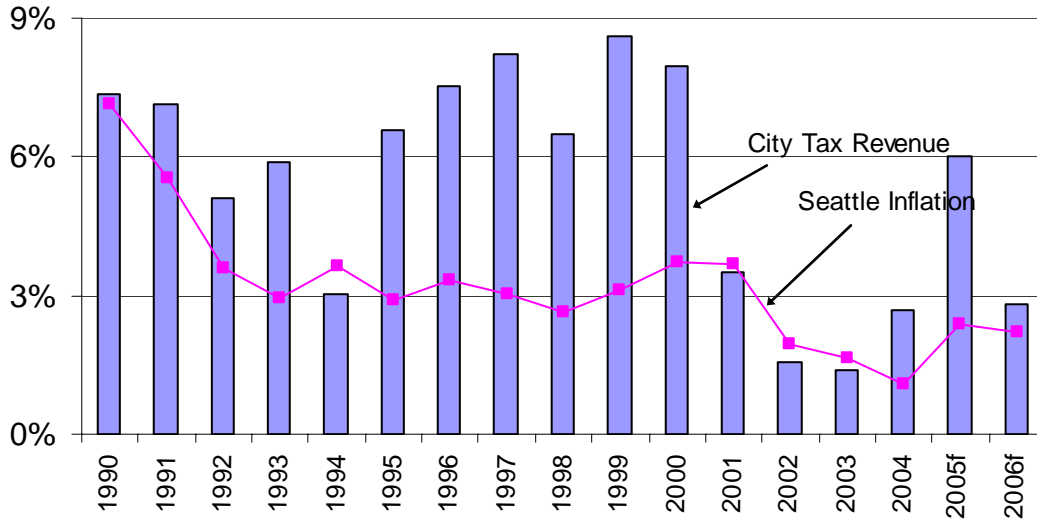
A detailed listing of City General Subfund revenues is found in the Funds, Subfunds and Other section.

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

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Figure 7 shows how tax revenue growth outpaced inflation for most of the 1990s and 2000 before the local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0% beginning in 2002. Led by the strong growth in 2004, the forecast for 2005-06 projects stronger-than-inflation growth.

Figure 7. City of Seattle Tax Revenue Growth, 1990-2006



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 business machinery and equipment.

In 2005, the total property tax rate in Seattle is about 1.02% of assessed value (which officially is expressed as \$10.21 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 \$370,000 (the average assessed value for residences in Seattle), the 2005 tax obligation is approximately \$3,800.

As Figure 8 shows, a number of jurisdictions receive a portion of the property tax levied on Seattle property owners. The figure illustrates how City property tax revenues are distributed among City programs. The City's General Subfund receives 63% of the City's property tax revenue. In addition, several voter-approved levies, such as the 2000 Parks Levy and the 2004 Families and Education Levy, support various City programs and projects. In November 2003, Seattle voters approved additional property taxes to finance the building and renovation of fire stations. Collections for the \$167 million levy began in 2004 and will continue until 2012. In September 2004, Seattle voters approved a \$117 million, seven-year renewal of the Families and Education levy. This is the second renewal of the levy that was first approved in 1990.

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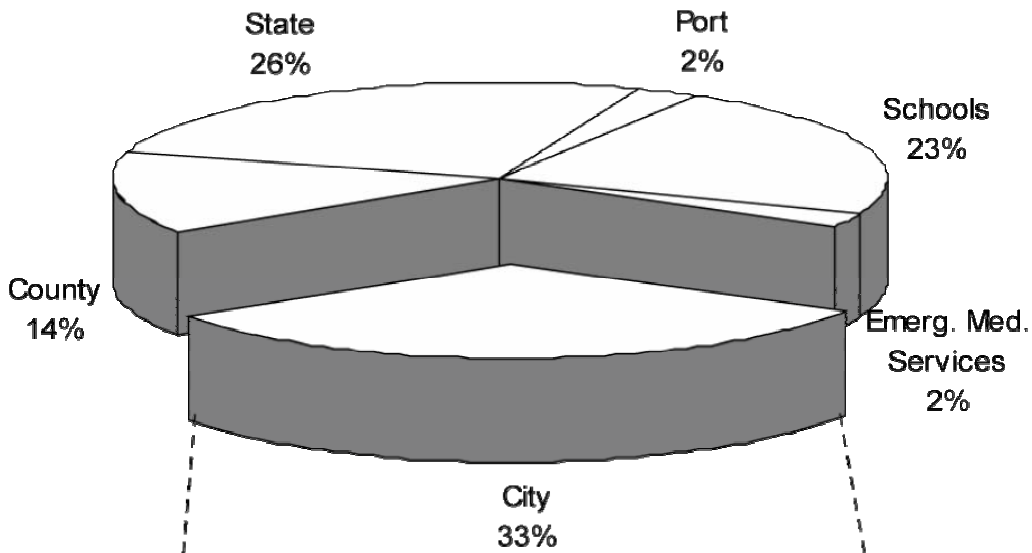
The 2006 Proposed Budget implements a 1% growth factor for both 2005 and 2006. The forecast for the General Subfund portion of the City's property tax is \$183.8 million in 2005 and \$187.9 million in 2006. The annual growth in property tax revenue is restricted by state statute. Since 1973, state law limited the annual growth of the City's General Subfund non-voted property tax revenues to 6%, plus the value of the new construction. 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. State law permits the City to increase its General Sub fund property tax revenues by more than the 1% growth limit to reflect tax on property constructed or remodeled within the last year. After several years of record-breaking new construction revenue, the forecast for 2006 reflects continued strong construction activity. It is projected that approximately \$3.5 million will be added to the property tax base in 2006 due to new construction.

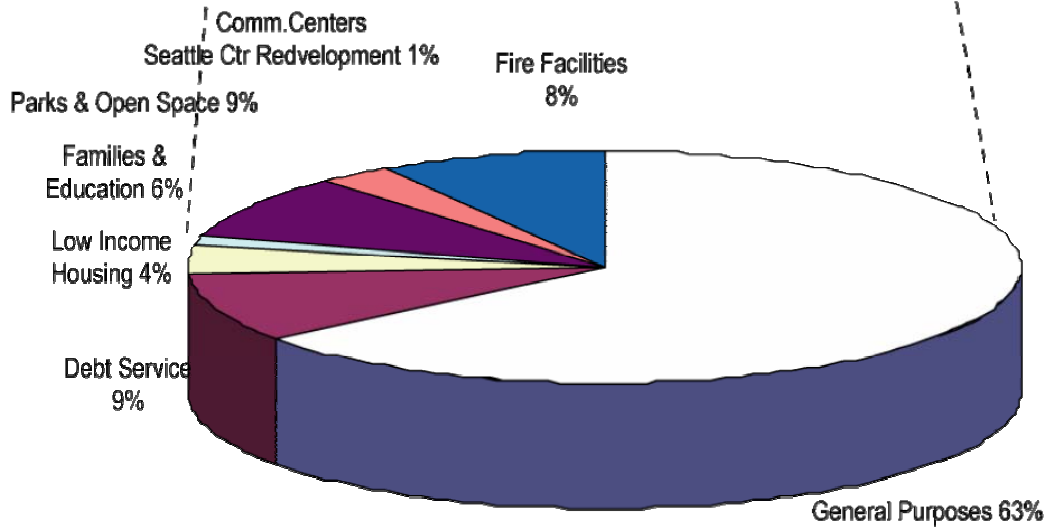
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Figure 8

Components of Total Property Tax Levy for 2005
(tax rate = \$10.21 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2005
(tax rate = \$3.35 per \$1,000 assessed value)



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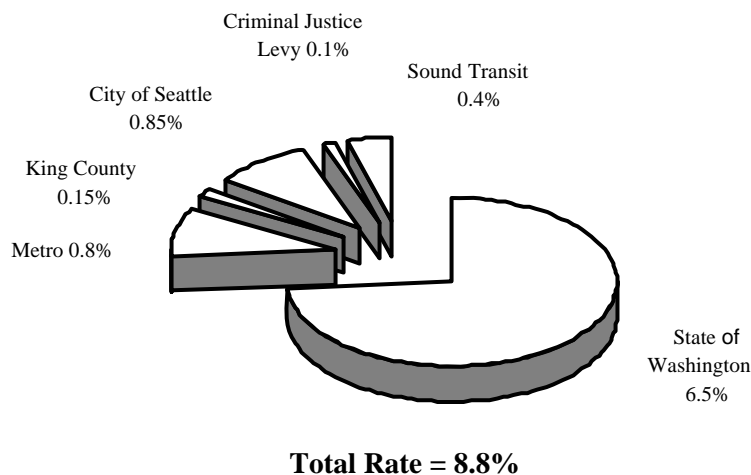
Retail Sales and Use Tax

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

The sales tax rate 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, 2005



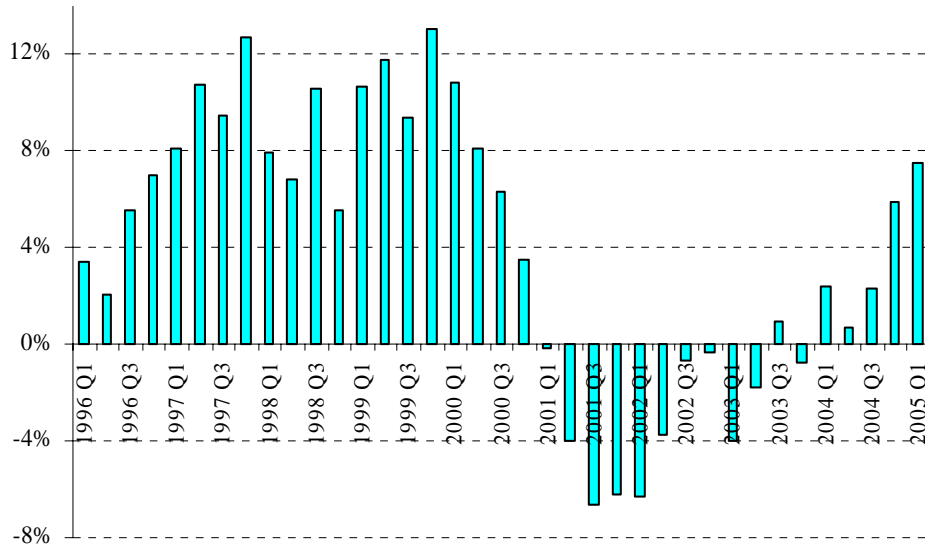
NOTE: Rate is 9.3% for food and beverages sold in restaurants and bars.

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, taxable sales growth accelerated rapidly in 1996-97, driven by a strong economy 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 early 2001. Year-over-year growth rates were negative for 10 consecutive quarters beginning in first quarter 2001, and revenue growth remained weak through third quarter 2004. Healthy growth finally returned in the fourth quarter of 2004, as revenue increased by 5.9% followed by a 7.5% gain in first quarter 2005.

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Reflecting the severity of the local recession, taxable retail sales in second quarter 2005 were still 2.5% below their pre-recession peak.² The size of this deficit rises to 11.9% when the data are adjusted to remove the effects of inflation.

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

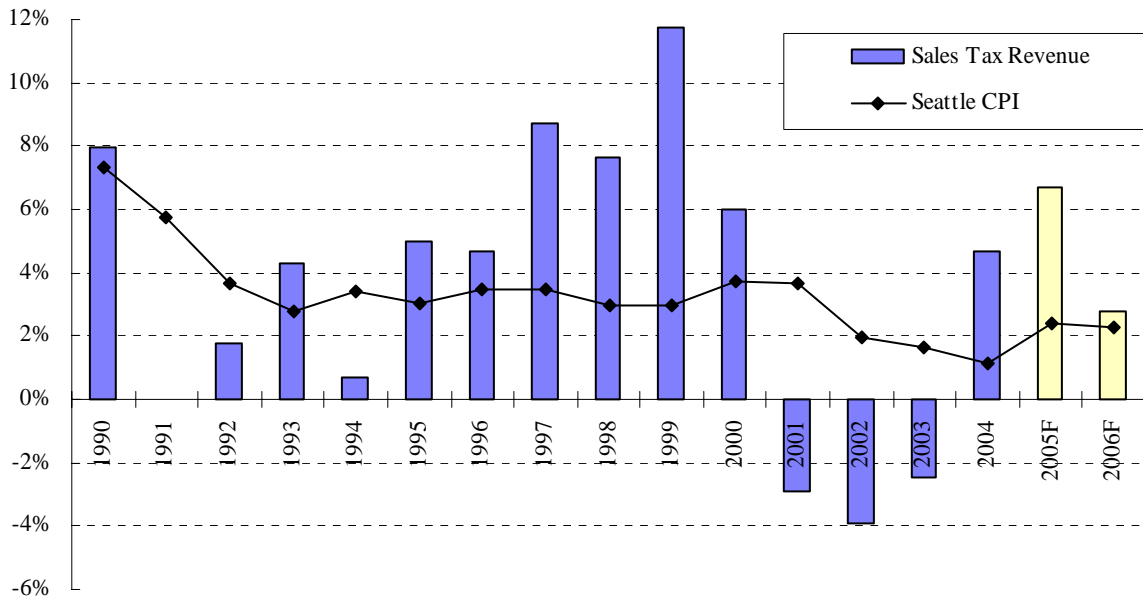


Retail sales tax revenue is forecast to increase by 6.7% in 2005 and then slow in 2006. In 2004, retail sales tax revenue posted its first annual increase since 2000, with a gain of 4.7% (see Figure 11). Revenue growth is expected to rise to 6.7% in 2005, due in part to construction activity for Sound Transit’s light rail line and a very large audit payment in the amount of \$1.05 million. Growth is expected to slow to 2.8% in 2006, in part because of an expected refund of \$1.0 million to a large taxpayer. If the 2005 audit payment and 2006 refund are excluded, growth drops to 5.8% in 2005 and rises to 4.4% in 2006.

² 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. 2005-06 are forecasts.

This relatively optimistic forecast reflects the influence of the improved regional economy and a forecast of economic growth continuing through 2006. In addition, the construction industry, which was a major drag on sales tax revenue during the recent downturn, is now growing at a healthy pace.

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 are 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 businesses are subject to a tax of 0.215% on gross receipts, while service businesses, such as accounting, 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 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).

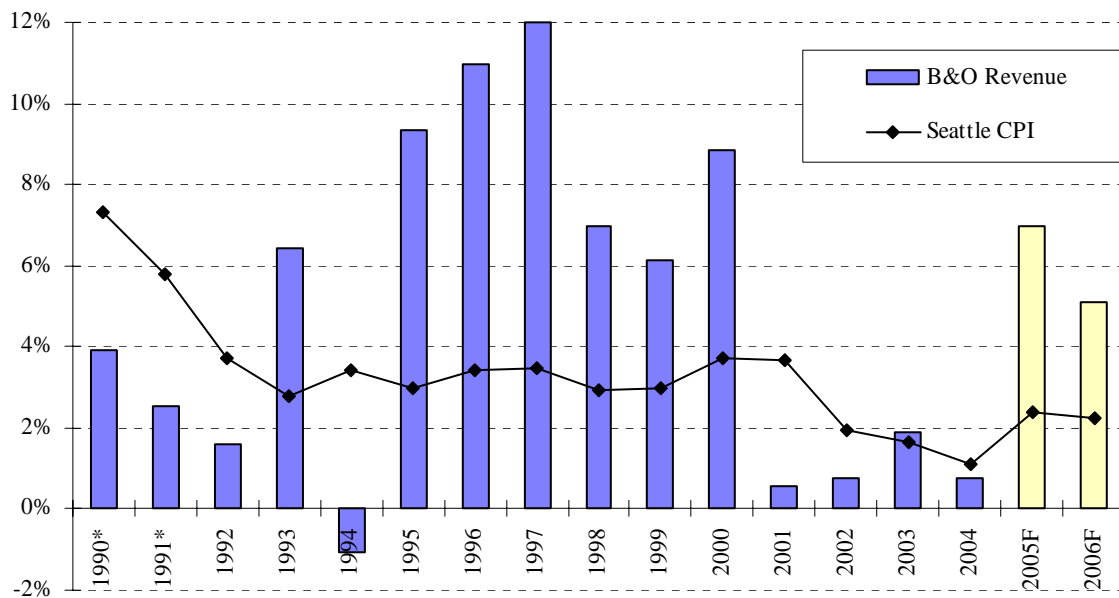
After strong growth in the late 1990s, B&O revenue growth stalled in 2001 and 2002. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax 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. In 2000 revenue 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 (see Figure 12). Revenue from current year tax obligations declined by 2.5% during 2001. However, this decline was offset by a large increase in non-current revenue, which includes revenue from audit activity, refunds, penalty and interest payments, and other enforcement activity. As a result, 2001 saw an overall gain of 0.6% in B&O receipts. This pattern was repeated in 2002, when a 2.1% decline in the growth of the tax base (current obligations) was offset by another large increase in non-current revenue, resulting in a small positive increase of 0.8% for the year. The strong growth in non-current revenue seen in 2001 and 2002 reversed in 2003 and 2004, as non-current revenue dropped in both years. However, the decline in non-current revenue was offset by healthy growth in the tax base, 4.0% in 2003 and 5.4% in 2004, yielding weak but positive revenue growth in both years.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.

Note: Revenue figures reflect current accrual methods; 2005-06 are forecasts.

B&O revenue is forecast to grow at a healthy pace in 2005 and 2006. With the region's economy expanding at a healthy pace, B&O revenue is forecast to increase by 7.0% in 2005 and 5.1% in 2006. The slowdown in growth anticipated in 2006 reflects an expected slowing of both the national economy and the rate of growth of construction activity.

The B&O revenue forecast incorporates revisions the City Council made to the Executive's B&O forecast in November 2002 and November 2004 that provide additional funding for contract auditing. Also reflected in the forecast is the expected revenue loss that will result from raising the B&O small business exemption from \$50,000 to \$75,000 in 2006.

Utility Business Tax - Private Utilities

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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 upward. 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. Although natural gas rates stabilized somewhat in 2004, short-term supply and demand pressures in 2005 will likely prompt a significant rate hike in fall 2005. As of this writing, new rates have not been proposed but the higher rates are expected to continue through 2006.

Telephone utility tax forecast is aggravated by Federal legislation. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. After extraordinary growth over several consecutive years in the late 1990s, the telecommunications revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. The lackluster economy, industry restructuring, and heightened competition all served to force prices downward and reduce gross revenues.

Although the economic outlook is optimistic, the forecast for 2005-06 projects a declining trend in revenues due to technological changes. Recent technology called Voice over Internet Protocol (VoIP) enables local and long distance calling through broadband Internet connections. The spread of VoIP comes at a time when there is strong interest by U.S. legislators to keep access to Internet connections and many forms of Internet communication free from regulation and taxation. Current Federal legislation, which expires end of 2006, allows grandfathering of state and local taxes on telecommunications if they existed prior to October 1, 1998.

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. This franchise fee, which does not go to the General Subfund, increased to 3.5% in 2005.

In 2004, the cable utility tax generated over \$9 million; however, payments due in 2004 were received late and booked in 2005, skewing 2005 revenues by over \$700,000. Cable revenues are expected to grow by more than 9% in 2005 and by 6.5% in 2006. Amid growing competition from satellite TV, the cable industry has increased its services, including additional channels, pay-per-view options, and digital reception.

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). In 2004, tax rates were 6.0% for electricity and 10.0% for the other public utility services (tax rates are shown in Figure 13). In November 2004, the City Council increased the tax rates for all public utility services except electricity from 10.0% to 11.5% effective in 2005. In addition, the utility tax rate on water service was increased by 4.04% to pay for fire hydrant service costs, and the tax rate on wastewater service was increased by 0.5% to fund public toilets.

These tax rate increases result in significant increases in General Subfund revenue in 2005 and 2006. Other factors affecting the forecast of utility tax revenue are anticipated changes in the quantities of utility services consumed and the rates charged for those services. Information on utility service consumption trends and utility rates for the different public utilities is provided in the sections on Seattle City Light and Seattle Public Utilities.

Water. The utility tax rate on water service increased to 14.04% on January 1, 2005 and 15.54% on May 15, 2005. Largely as a result of these tax rate increases, utility tax revenue from water service is forecast to grow by 43.4% in 2005 and 3.8% in 2006.

The 4.04% increase in the utility tax rate for water service that went into effect on January 1, 2005 pays for the cost of providing fire hydrant services. Hydrant service costs have been shifted from utility customers, who

General Subfund Revenue Overview

previously paid for hydrant services through their water rates, to the service providers who use the water. Hydrant services costs were about \$4 million in 2003, with the City of Seattle's General Fund accounting for about \$3.8 million. The impact upon customers is insignificant because the increase in costs that results from raising the utility tax rate will be offset by lower water rates. Water rates will be lower because the water utility will no longer be paying hydrant service costs.

Drainage and Wastewater. Effective January 1, 2005, the utility tax rate increased to 12.0% for wastewater service and 11.5% for drainage service. The extra 0.5% increase for wastewater service pays for the cost of providing public toilets. Largely as a result of these tax rate increases, revenue from drainage and wastewater service is forecast to increase by 30.3% in 2005 and 5.2% in 2006.

The 0.5% increase in the wastewater utility tax rate to pay for public toilets will not result in increased costs for wastewater utility ratepayers. In 2004, the City's wastewater utility paid for the cost of public toilets. Beginning in 2005, these costs will be paid by the City's General Fund with the revenue from the 0.5% utility tax rate increase. In both cases wastewater utility ratepayers are the source of funding for public toilet costs. However, beginning January 1, 2005 the source of the revenue shifted from wastewater rates to the wastewater utility tax.

Solid Waste. The utility tax rate on both City of Seattle and commercial solid waste service increased to 11.5% on April 1, 2005. Largely as a result of these tax rate increases, revenue from solid waste service is forecast to increase by 6.9% in 2005 and 4.3% in 2006.

Admission Tax

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

Re-dedicating admission tax revenues to the arts. In November 2000, the City Council passed Ordinance 120183, dedicating 20% of the City's admission tax revenue, with some exceptions, to programs supported by the Office of Arts and Cultural Affairs. This was in effect for 2001 and 2002; however, it was suspended for 2003 and 2004 due to budget constraints. The 2006 Proposed Budget reflects the Executive's proposal to reinstate the dedication of admission tax revenue to the arts account as follows – 15% in 2005 estimated at \$750,000, and 20% in 2006 estimated at \$1.02 million, excluding revenue from professional men's basketball. The forecasts in Figure 6 for admission taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs budget provides detail on the Office's use of Arts Account revenue from the Admission tax.

Licenses and Permits

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

For 2005 and 2006, an additional \$1 million each year is anticipated from higher fees for inspections conducted by the Fire Department concerning hazardous material storage, building safety, and plan reviews.

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The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license is \$90 for businesses with revenues of more than \$20,000 and \$45 for businesses with revenues less than \$20,000. The fee for all licenses was \$80 in 2004. This change results in an expected decline in revenue from business license fees of \$90,000 in both 2005 and 2006.

The transition to the two-tier business license, which occurred in late 2004, caused a delay in the mailing of license renewals for 2005. As a result, business license fee revenue fell 14.9% short of forecast in 2004 as payments that would normally have been received in 2004 slipped into 2005. The forecast for 2005 has been raised to reflect this.

Parking Meters/Meter Hoods

Revenue to the General Subfund from street parking charges had been stable between 2000 and 2003. Street parking meters generated roughly \$9.7 million annually and the rental of meter hoods generated approximately \$1 million annually.

In spring 2004, after lengthy evaluation, the City of Seattle began removing traditional parking meters and replacing them with pay stations in various areas throughout the City. Pay stations are parking payment devices offering the public a more convenient array of payment options, including credit cards and debit cards, to pay for hourly street parking. Along with this switch, the City increased parking rates from \$1 per hour to \$1.50. In light of these changes the 2005 Adopted and 2006 Endorsed revenue estimates anticipated increases in parking revenues to \$14.2 million in 2005 and \$15.7 million in 2006. These estimates remain unchanged. More information about the pay station technology program is provided in the Seattle Transportation section of this document.

Effective in 2004, the City increased meter hood rental fees. This revenue was forecast to increase in 2005 and 2006 to approximately \$1.4 million in each year. Due, apparently, to price related reductions in demand, this estimate is being revised downward to approximately \$1.0 million in both 2005 and 2006.

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. In 2003, parking ticket revenues were approximately \$12.6 million, with total fine and forfeiture revenues of \$16.0 million. Total and parking fine revenues increased significantly in 2004 to roughly \$17.6 million and \$14.8 million respectively, due to a series of events:

- parking enforcement officer positions were fully staffed;
- parking enforcement schedules were expanded to include weekends;
- the Court hired a new collection agency; and
- an amnesty program was implemented, which forgave past-due fines if outstanding tickets were paid in full.

Given the nature of some of these influences, the 2005 Adopted and 2006 Endorsed Budget projected a return to a more typical total fines and forfeitures revenue stream of \$16.5 million in both years. The current forecast further reduces the 2006 estimate by \$700,000 to \$15.8 million in anticipation of reduced numbers of parking tickets as a result of enforcement and compliance changes related to the new pay station technology.

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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 2005 Proposed Budget assumed cash balances would decline over the duration of the biennium, but interest rates and the City's overall yield would increase from their 2004 levels. 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 for General Subfund interest earnings are \$1.8 million in 2005 and \$1.6 million in 2006.

Revenue from Other Public Entities

Washington State Shares Revenues with Seattle. 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 million each year for 2005-2006.

Liquor Board profits and Excise Tax revenue. The City's share of Liquor Board profits increased dramatically between 2002 and 2004 (from \$3.1 million in 2002 to \$4.1 million in 2004). Original forecasts for the 2004-06 period anticipated a return to more traditional levels of around \$3.3 million each year. This estimate is being revised upward to \$4.2 and \$4.0 million in 2005 and 2006 respectively. Estimated Liquor Excise Tax revenues are also being revised upward to \$2.3 million in 2005 and \$2.2 million in 2006 from \$2.0 million in each year. In both cases, review of the underlying factors, such as liquor demand trends and Liquor Board cost controls, reveals a more robust foundation for a higher forecast.

City General Subfund receives additional resources from Sound Transit. The City anticipates receiving several million more in grants in both 2005 and 2006 from Sound Transit to provide services to the construction of Light Rail. The General Subfund will receive approximately \$2 million of these resources in both 2005 and 2006 to compensate City public safety costs accrued in support of Light Rail construction.

Service Charges and Reimbursements

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent of this allocation is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments.

Resources paid to the General Subfund on behalf of the Department of Executive Administration are up in 2005 by roughly \$2.5 million. This is due to a one-time allocation of costs from the department to independently supported departments for upgrades to the City's financial information system SUMMIT. Payments to the General Subfund for other miscellaneous services are increased in 2005 and 2006. These increases are primarily

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the result of adjustments to the manner in which independently supported departments pay for services from the Law Department. There are increases to the Law Department's budget which fully offset this revenue gain.

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. The 2006 Proposed Budget anticipates using approximately \$4.4 million in 2005 and \$900,000 in 2006. For 2005 there is a transfer from the Seattle Center to the General Subfund for approximately \$1 million. This transfer reflects savings from general obligation debt costs incurred for capital projects related to the KeyArena debt defeasance.

A detailed list of these transfers is included in the General Subfund revenue table found in the Appendix. In ratifying the 2005 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

	2002	2003	2004	2005
Property Taxes (Dollars per \$1,000 of Assessed Value)				
General Property Tax	\$2.27	\$2.20	\$2.16	\$2.12
Families & Education	0.13	0.04	0.04	0.19
Seattle Center/Parks Comm. Ctr.-SC	0.21	0.10	0.10	0.02
Parks and Open Space	0.32	0.31	0.30	0.30
Low Income Housing	0.01	0.05	0.04	0.04
Fire Facilities	0.00	0.00	0.30	0.28
Emergency Medical Services	0.25	0.24	0.24	0.23
Low Income Housing (Special Levy)	0.10	0.11	0.10	0.10
City Excess GO Bond	0.28	0.36	0.31	0.31
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	6.00%	6.00%	6.00%	6.00%
City Water	10.00%	10.00%	10.00%	14.04-15.54%*
City Drainage	10.00%	10.00%	10.00%	11.50%
City Wastewater	10.00%	10.00%	10.00%	12.00%
City Solid Waste	10.00%	10.00%	10.00%	10-11.50%**
City of Seattle Private Utility B&O Tax Rates				
Cable Communications (not franchise fee)	10.0%	10.0%	10.0%	10.0%
Telephone	6.0%	6.0%	6.0%	6.0%
Natural Gas	6.0%	6.0%	6.0%	6.0%
Steam	6.0%	6.0%	6.0%	6.0%
Commercial Solid Waste	10.0%	10.0%	10.0%	10-11.5%**
Franchise Fees				
Cable Franchise Fee	2.5%	2.5%	2.5%	2.5%
Admission and Gambling Taxes				
Admissions tax	5.0%	5.0%	5.0%	5.0%
Amusement Games (less prizes)	2.0%	2.0%	2.0%	2.0%
Bingo (less prizes)	10.0%	10.0%	10.0%	10.0%
Punchcards/Pulltabs	5.0%	5.0%	5.0%	5.0%

*The 15.54% rate was effective May 15, 2005

**The 11.5% rate was effective April 1, 2005

