

## Reader's Guide

This reader's guide describes the structure of the 2010 Proposed Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2010 Proposed Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2010-2015 Proposed Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the next six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

Seattle budgets on a modified biennial basis. See the "Budget Process" section for details.

## The 2010 Proposed Budget

This document is a detailed record of the spending plan for 2010. It contains the following elements:

- Budget Overview – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor and Council's priorities;
- Summary Tables – a set of tables that inventory and summarize expected revenues and spending for 2010;
- General Subfund Revenue Overview – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2010 Proposed Budget and 2010-2015 Proposed CIP were developed;
- Departmental Budgets – City department-level descriptions of significant policy and program changes from the 2010 Endorsed Budget, the services provided, and the spending levels proposed to attain these results;
- Appendix – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a Position Modifications report, listing all position modifications contained in the 2010 Proposed Budget; a glossary; and Citywide statistics.

## Departmental Budgets: A Closer Look

The budget presentations for individual City departments (including offices, boards, and commissions) constitute the heart of this document. They are organized alphabetically within seven functional clusters:

- Arts, Culture, & Recreation;
- Health & Human Services;
- Neighborhoods & Development;
- Public Safety;
- Utilities & Transportation;
- Administration; and
- Funds, Subfunds, and Other.

Each cluster, with the exception of the last, comprises several departments sharing a related functional focus, as shown on the organizational chart following this reader's guide. Departments are composed of one or more budget control levels, which in turn may be composed of one or more programs. Budget control levels are the level at which the City Council makes appropriations.

The cluster "Funds, Subfunds, and Other" comprises General Fund Subfunds that do not appear in the context of department chapters, including the General Subfund Fund Table, General Subfund Revenue Table, Cumulative Reserve Subfund, Emergency Subfund, Revenue Stabilization Account, Judgment and Claims Subfund, and Parking Garage Fund. A summary of the City's general obligation debt is also included in this section.

As indicated, the Proposed Budget appropriations are presented in this document by department, budget control level, and program. At the department level, the reader will also see references to the underlying fund sources (General Subfund and Other) for the department's budgeted resources. The City accounts for all of its revenues and expenditures according to a system of funds and subfunds. In general, funds or subfunds are established to account for specific revenues and permitted expenditures associated with those revenues. For example, the City's share of Motor Vehicle Fuel taxes must be spent on road-related transportation activities and projects, and are accounted for in a subfund in the Transportation Fund. Other revenues without statutory restrictions, such as sales and property taxes (except voter-approved property taxes), are available for general purposes and are accounted for in the City's General Subfund. For many departments, such as the Seattle Department of Transportation, several funds and subfunds, including the General Subfund, provide the resources and account for the expenditures of the department. For several other departments, the General Subfund is the sole source of available resources.

## Budget Presentations

Most department-level budget presentations begin with information on how to contact the department, as well as a description of the department's basic functions and areas of responsibility. There follows a narrative summary of the major policy and program changes describing how the department plans to conduct its business in light of the proposed budget. When appropriate, subsequent sections present budget control level and program level purpose statements, and program summaries detailing significant program changes from the 2010 Endorsed Budget which was approved in November 2008, to the 2010 Proposed Budget.

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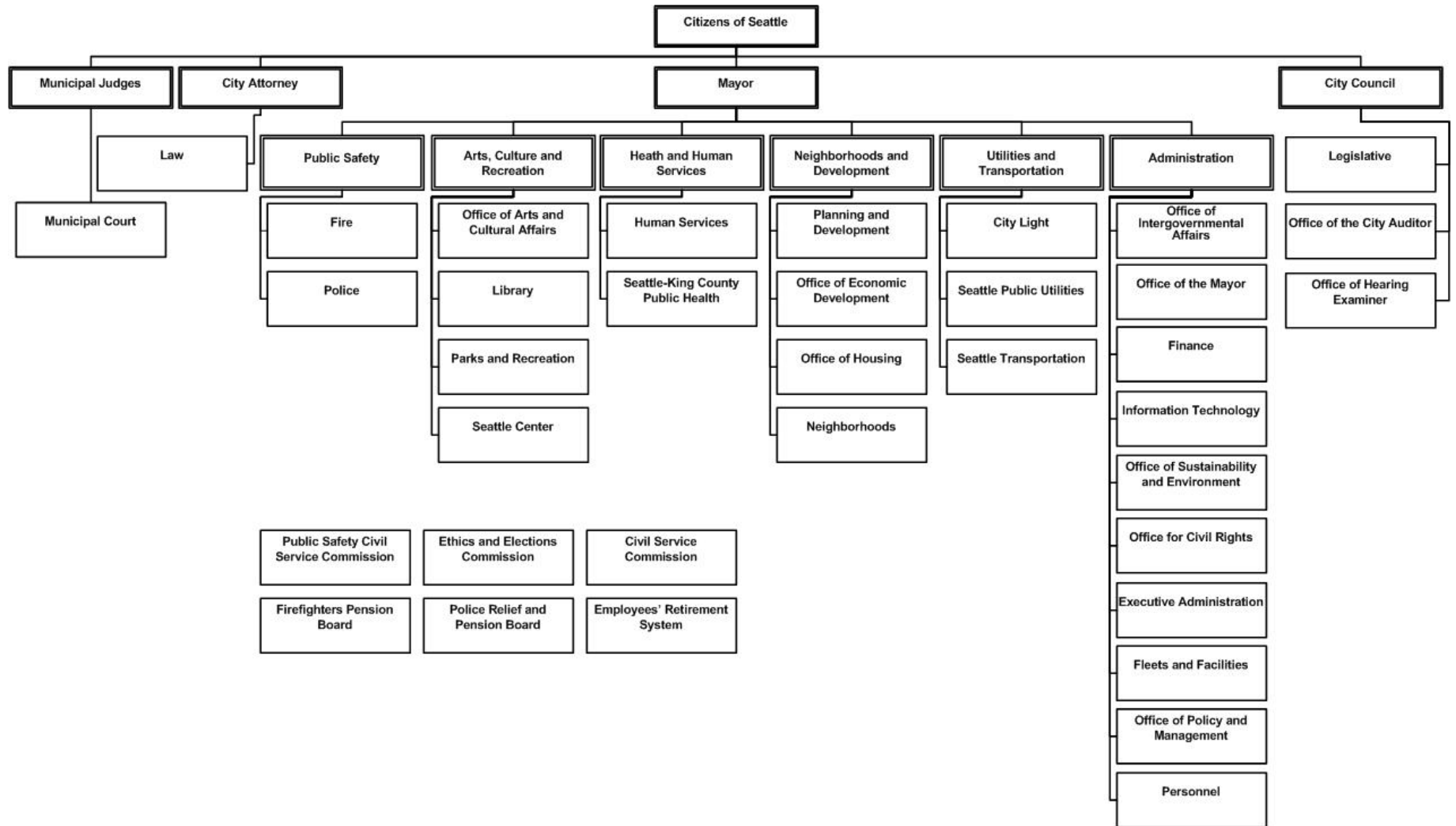
All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2010. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes proposed in the budget have been compiled in a separate report entitled, "Position Modifications in the 2010 Proposed Budget." Position modifications include abrogations, additions, reclassifications, and status changes (such as a change from part-time to full-time status), as well as adjustments to departmental head counts that result from transfers of positions between departments.

For information purposes only, an estimate of the number of staff positions to be funded under the Proposed Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2010.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2008 through 2010; a statement of fund balance; and a statement of 2010 appropriations to support capital projects appearing in the 2010-2015 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2010-2015 Proposed Capital Improvement Program document.

# City Organizational Chart



# Budget Overview

The City of Seattle's 2010 Proposed Budget is the eighth and last budget developed under the leadership of Mayor Greg Nickels. The Proposed Budget reflects the four priorities the Mayor established when he took office: public safety, transportation, strong families and healthy communities, and jobs and opportunities for all. The Proposed Budget also reflects many of the budget priorities identified by the City Council through Resolution 31134 and through a subsequent letter the Council sent to the Mayor.

The 2009-2010 biennial budget was approved by the City Council in November 2008 during a period of profound economic uncertainty. A world-wide recession had begun and many major financial institutions were crumbling. While the Puget Sound economy was doing much better than the nation's, it was clear that the City would face declining revenues in many of its funds. Thus, the General Fund's biennial revenue forecast was lowered by about \$19 million between the time the Proposed Budget was submitted in September and the time the Council approved the Adopted Budget in November.

Economic conditions continued to worsen over the next six months. Nationally, the recession proved to be the deepest and longest since the 1930s. The unemployment rate reached 9.7% in August and most forecasts suggest it will peak at between 10.0% and 10.5% in the first half of 2010. Locally, unemployment in King County reached 8.4% in July, better than the nation or state but still well above the level reached in the last recession. The regional economy was battered by the collapse of Washington Mutual and layoffs in many sectors of the economy. As detailed in the revenue section of the budget, sales and Business & Occupation (B&O) tax revenues fell faster in the fourth quarter of 2008 and the first quarter of 2009 than in any other period since at least the early 1970s.

Almost all City funds faced revenue declines as a result of economic conditions. Seattle City Light sells a significant amount of surplus electricity in the wholesale market and initially projected about \$142 million from this source for 2009. By August of this year, this revenue estimate was lowered to about \$77 million due to a steep decline in energy prices. Other City utilities have seen reductions in demand due to lower commercial activity and efforts to conserve by residents. The Department of Planning and Development (DPD), which relies on building-related permits for much of its revenue, has seen a dramatic reduction in construction activity and hence permit revenue. The 2009 Adopted Budget assumed about \$27.9 million from this source, but the current estimate is now \$14.2 million. Financial challenges extend to other funds as well, including the Transportation Fund (lower gas tax receipts) and the Seattle Center Fund (lower event-related revenues).

In response to the deepening economic downturn, Mayor Nickels imposed budget reductions in many City departments in April. These cuts amounted to about \$13.3 million for the General Fund and included position reductions, salary freezes, overtime restrictions, and unpaid furlough days for some Executive offices. Both utilities - Seattle City Light and Seattle Public Utilities (SPU) - reduced expenditures and staffing, and DPD laid off 26 employees who were paid from permit revenues.

Most economic forecasts suggest that the recession likely ended in the summer of 2009. However, these forecasts also project a very slow recovery. As a result, economic growth cannot be counted on to address revenue shortfalls, so the 2010 Proposed Budget had to be significantly reduced from the Endorsed Budget. For the General Fund, the magnitude of the needed changes can be seen in the biennial revenue estimate for sales and B&O taxes, which declined by about \$85 million from the November 2008 revenue forecast to the August 2009 forecast.

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Mayor Nickels established several principles to guide decisions for the 2010 Proposed Budget:

- In the General Fund, public safety and direct human services would be the highest priority. As described below, this budget actually increases Police staffing, preserves uniformed staffing in the Fire Department, and maintains spending assumed in the 2010 Endorsed Budget for human services programs that directly benefit people, such as food support, homeless shelters, and child care.
- No general tax increases would be considered. In fact, the Mayor and two Councilmembers proposed repealing the employee hours tax, which is seen by some companies as a disincentive to creating jobs. This proposal is pending before the Council. The Mayor and Council also approved legislation to raise the B&O tax threshold to \$100,000 starting in 2010.
- The Race and Social Justice Initiative's "budget filter" would assist with decisionmaking. This filter requires departments and budget analysts to assess the potential effects of a budget change on historically disadvantaged communities and neighborhoods.
- Utility rate increases would be kept to a minimum. Only previously approved 2010 rate changes for SPU utilities (7.7% for water, 12% for residential solid waste, and 8% for commercial solid waste) would be allowed and the City Light rate increase would be based on a smaller budget.
- A careful review of span-of-control issues would be done and management positions reduced. This resulted in eliminating approximately 38 executive, management and supervisory positions Citywide, plus an additional 16 strategic advisors or similar positions.
- The vehicle fleet would be reduced and more energy-efficient vehicles would continue to be emphasized. This effort reduced the size of the fleet managed by the Fleets & Facilities Department by approximately 143 vehicles and pieces of equipment. City Light, which manages its own fleet, eliminated approximately 50 vehicles.
- Conservative financial practices would be maintained, including funding the Emergency Subfund at the maximum level allowed under State law (\$46.6 million for 2010). However, uses of one-time savings, such as excess balances in operating funds, would be allowed in light of the magnitude of the economic crisis.
- City management would lead by example, with salaries for department heads frozen at 2008 levels for both 2009 and 2010.
- Funds derived from the Real Estate Excise Tax (REET) would continue to be focused mostly on asset preservation (sometimes called "major maintenance") of the City's capital facilities. REET revenues declined precipitously in 2008 and early 2009 as housing prices fell, housing transactions slowed, and the commercial real estate market dried up. Lower REET revenues led to eliminating or postponing capital projects in the fall of 2008 and again in early 2009. REET revenues now appear to have stabilized and housing market activity appears to be improving. In addition, construction costs have fallen substantially, allowing many projects to come in under budget. The 2009 third quarter supplemental budget ordinance and the 2010 Proposed Budget reallocate these savings to new projects.
- Federal funds from the American Recovery and Reinvestment Act of 2009 (ARRA), commonly referred to as "stimulus" funds, would be used mostly for new efforts that will create jobs, rather than replacing existing City funds. This Budget does assume some use of ARRA funds to preserve civilian positions in

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the Police Department, but the vast majority of ARRA funding received by the City has been devoted to new capital projects or service-delivery programs. A discussion of these funds is included at the end of this section. The City also accelerated some of its own capital projects in 2009, notably transportation projects and projects funded from the 2008 Parks Levy, to create construction jobs.

In early summer, the City entered negotiations with most of the unions representing non-uniformed employees seeking ways to reduce labor costs in 2010. The unions agreed to present a proposal for a 10-day unpaid furlough to their members, and the members of 14 unions representing approximately 4,282 employees agreed to the furlough. The City will extend a similar furlough to most non-represented employees. Furlough savings are estimated at about \$6.5 million for the General Fund and about \$11.6 million for other funds. These savings allow City services to be preserved and significantly reduce the number of layoffs.

Applying the principles described above and the results of the furlough proposal to updated revenue estimates yields a 2010 Proposed Budget of \$3.88 billion, of which \$905 million is General Fund. Approximately 310 positions are eliminated Citywide. The General Fund's budget was balanced by using \$25.4 million of the \$30.6 million Revenue Stabilization Account ("Rainy Day Fund") in 2009 and 2010. The remainder will be available to buffer revenue shortfalls in 2010 or to help support the 2011 budget.

Major highlights of the 2010 Proposed Budget are described in the following sections.

## Public Safety

Mayor Nickels has established public safety as the City's highest priority. To this end, the Mayor and City Council have agreed to add about 21 patrol officers per year through 2012. The 2010 Proposed Budget follows through on this commitment with 20 new officers and a transfer of one officer from a public information function to patrol. This means the Police Department will have 111 more officers in 2010 than it had in 2005. The Police Department plans to implement the Neighborhood Policing Plan during the first half of 2010. This plan has already realigned staffing in geographic sectors to reflect current population and calls for police response. The final step in the plan involves changing officers' shifts to provide more staffing on critical days and times.

All staffing for fire suppression and emergency medical services (EMS) is maintained, despite a decline in revenue from the County-wide EMS levy. One uniformed position in the Fire Marshal's office is eliminated to reflect a change in the staffing model. An additional ladder truck will be sited temporarily in West Seattle to maintain response capability in that neighborhood while the Spokane Street Viaduct is reconstructed. The costs for this ladder truck will be borne by the transportation project's budget.

A variety of capital projects are under way to support the City's public safety programs. Most notable is the voter-approved Fire Facilities and Emergency Response Levy, which provides partial funding to replace or remodel almost all of the City's fire stations and related facilities. Other City funds, particularly REET, cover the remainder of the costs. The Levy program has already produced a new Fire Station (FS) 10, which is co-located with the new Fire Alarm Center and the new Emergency Operations Center. In 2009, a new FS 28 in the Rainier Valley will be opened and seismic upgrades will be completed at FS 31 (Northgate) and FS 33 (Rainier Beach). Nine additional neighborhood stations will be under construction in 2010 and land will be purchased for a new site for FS 20. The City is seeking federal ARRA funding for part of the cost of replacing two stations and renovating a third. The Levy program has also funded two new fireboats and the refit of the "Chief Seattle" fireboat will begin in 2010, including improvements funded through a federal grant.

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Site analysis began in 2008 for a new North Precinct Police Station, but this work was put on hold in mid-2009 due to the City's financial challenges. No practical funding mechanism is currently available for this project so it has been postponed.

Seattle and several other cities are in the early stages of the process to site a jail for people charged with and convicted of misdemeanors. For more than two decades, King County has housed prisoners for cities. However, the County believes it will run out of jail space in five to six years, and has informed cities it will no longer accept their misdemeanants at that point. In mid-2009, the County agreed to extend contracts to house misdemeanants through 2015. Several cities in northern and eastern King County are working together to evaluate potential sites for a municipal jail for misdemeanor offenders, if it is eventually needed. These site evaluations and environmental reviews will be completed in 2010. Funds appropriated in 2009 are sufficient for these efforts.

## Transportation

The City of Seattle has vastly increased funding for transportation projects and maintenance over the last decade, although General Fund support has to be reduced for 2010 due to overall budgetary conditions. Much of the increased funding is due to "Bridging the Gap (BTG)," a program started in 2007 that includes funds from a voter-approved property tax levy, a commercial parking tax, and a tax on employers for those employees who do not use alternatives to single-occupancy vehicles (referred to as the "employee hours" or "head" tax). The Bridging the Gap program funds a wide range of initiatives, including major capital projects, rehabilitation of bridges, additional transit hours purchased from King County Metro, replacement of traffic signals and signs, street resurfacing, and construction of new bike lanes, trails, and sidewalks. The program is on track to achieve all of its performance goals in 2009, except some of those related to Metro Transit. These Metro-related goals cannot be achieved because of Metro's own financial difficulties caused by declining sales tax revenues.

The commercial parking tax has brought in significantly more money than was originally projected, while the employee hours tax has brought in less. In mid-2009, Mayor Nickels and two Councilmembers proposed repeal of the employee hours tax, which is difficult to administer and is seen by some as a disincentive to job creation. Even if this tax is repealed, overall Bridging the Gap revenues will be higher than originally projected.

The Pedestrian Master Plan was completed in 2009, complementing an earlier Bicycle Master Plan. In addition to funding already planned from BTG, the 2010 Proposed Budget provides \$1.356 million of additional REET toward implementing these plans.

In early 2009, the State, King County, and the City reached an agreement for replacing the earthquake-damaged Alaskan Way Viaduct with a deep-bore tunnel. This agreement assigned costs to each of the parties, with the City responsible for replacement of the Alaskan Way Seawall, parks and open space improvements surrounding a reconstructed Alaskan Way, certain surface street connections, utility relocations, and other projects. The 2010 Proposed Budget includes funding for continued work on the Seawall, some utility work, and additional planning.

Improvements to the Spokane Street Viaduct began in 2009. The first phase builds a new ramp from eastbound Spokane Street to Fourth Avenue South, which will improve access to downtown and the industrial area from West Seattle. In mid-2009, the City was awarded ARRA funds that provided the final amount needed to begin the second phase of the project, which expands the Viaduct and improves its seismic stability. This project is expected to begin construction in late 2009. The 2010 Proposed Budget provides additional funds for this project.

The 2010 Proposed Budget includes funding for the Mercer Corridor project. The final funding needed for this project has been requested through ARRA funds, with a decision expected in late 2009 or early 2010. The Budget



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also includes a new Mercer Corridor Project West Phase that provides the connections to the north end of the proposed deep-bore tunnel and that improves traffic flow between Elliott Avenue West and Interstate 5.

The 2010 Proposed Budget also includes funding for several major urban trail projects, most notably completion of the “missing link” of the Burke-Gilman Trail in 2010.

The transportation budget includes some additional projects, such as continued redevelopment of Linden Avenue North, offset by some reductions to help rebalance the General Fund, such as delay of some chip sealing work in 2009 and 2010.

## **Strong Families and Healthy Communities**

The 2010 Proposed Budget continues the City’s commitment to human services and low-income housing. Seattle spends more on human services than all other cities in Washington combined. The 2010 Proposed Budget continues funding planned in the 2010 Endorsed Budget for programs that provide services directly to people, such as homeless shelters, food banks, child care, and domestic violence prevention. The cost-of-living adjustment assumed in the 2010 Endorsed Budget has been eliminated, consistent with the agreement to furlough most City employees. The furlough results in an income loss of about 1.83% for employees, compared with no net loss from suspending the adjustment for human services providers.

The 2010 Proposed Budget assumes voter approval of the Low-Income Housing Levy renewal on the November ballot. Seattle was the first city in the nation to have voter-approved funding dedicated to the creation and preservation of low-income housing. The Budget also continues the City’s commitments to Housing First and the 10-Year Plan to End Homelessness in King County.

Mayor Nickels proposed the Seattle Youth Violence Prevention Initiative in early September 2008 and the City Council included funding for it in the 2009 Adopted and 2010 Endorsed Budgets. The initiative focuses new and existing resources in three geographic areas: central, southeast, and southwest Seattle. A network has been established in each area and service delivery has begun. The 2010 Proposed Budget includes the full funding level assumed in the Endorsed Budget (\$4.0 million), and adds General Fund to cover revenues assumed from outside entities that now likely will not be realized. Funding for all aspects of the program other than policing is concentrated in the Department of Neighborhoods in the 2010 Proposed Budget, which will then allocate funds to other departments as needed. This model, which was pioneered for the Families & Education Levy, promotes greater accountability and allows more flexibility to respond to emerging needs.

The 2010 Proposed Budget includes additional funding to expand PeoplePoint, a Web-based benefits portal that allows lower-income city residents to access a wide range of services for which they are eligible. This program is being coordinated with work by the State and eliminates the need for individuals to contact multiple agencies to identify potential benefits. Seattle is seeking ARRA funding to help expand program capacity.

The City began a process to update neighborhood plans in 2009, with the focus on three neighborhoods served by the new Sound Transit Link light rail system: North Beacon Hill, North Rainier, and Othello. The 2010 Proposed Budget includes funds to complete these updates and provides money to begin updates for three more neighborhoods that are or will be served by light rail.

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## Jobs and Opportunities for All

Mayor Nickels and the City Council have encouraged job growth throughout the decade by eliminating certain development restrictions and investing in needed infrastructure. The result has been significant employment growth in areas such as Northgate and South Lake Union. The 2010 Proposed Budget continues this emphasis, particularly through the use of ARRA funds. This money will support a wide range of infrastructure investments, ranging from the Spokane Street Viaduct project described above to the Ballard Green Streets project being developed by SPU.

Federal funds will also supplement the City's existing programs for small business support. Approximately \$1.44 million of ARRA funds have been disbursed to lenders who will focus on different segments of Seattle's small businesses.

The 2010 Endorsed Budget had included an unspecified \$300,000 reduction in funding for the Office of Economic Development (OED). This funding is restored in the 2010 Proposed Budget due to the critical nature of economic development work in this economy. OED will have furloughs and other budget reductions similar to other Executive agencies.

## Utilities

Seattle operates four utilities organized in two departments. Seattle City Light (SCL) provides electrical service to Seattle and surrounding areas. Seattle Public Utilities houses three utilities that provide water, solid waste, and drainage and wastewater services. Together, the two departments account for 49% of the City's 2010 Proposed Budget.

City Light has dramatically improved its financial situation since the West Coast power crisis in 2000 and 2001. The utility's debt-to-capitalization ratio has been lowered from 85% in 2002 to an estimated 63% at the end of 2009. Rates were approximately 12% lower at the beginning of 2009 than they were in 2004. The 2010 Proposed Budget assumes an 8.8% rate increase on January 1, 2010, which is included in legislation being submitted with the Budget. The rate increase is driven by the lower wholesale energy sales described above, increasing costs in some areas (such as federal licensing), and general inflation. Mayor Nickels made significant reductions in the 2010 SCL Proposed Budget to reduce the size of the rate increase, including eliminating approximately 68 positions.

The City Light rate proposal also includes a Power Revenue Adjustment Mechanism (PRAM) that would automatically adjust rates to reflect increases or decreases in wholesale revenues compared with original forecasts. This is similar to the fuel adjustment mechanisms used by many other electric and natural gas utilities. The benefit of the PRAM is that it protects the utility from wide swings in revenue, which in turn allows the utility to have somewhat less conservative financial policies and thus lower average rates.

Despite budget reductions, SCL is proposing to continue expansion of its conservation program in 2010. This is a major factor in achieving Mayor Nickels' goal to reduce the production of greenhouse gases and achieve the goals set out in the Kyoto Protocol. City Light is also working with other City agencies, such as the Office of Sustainability and Environment (OSE), on various energy conservation and electrification efforts that are funded in whole or in part through ARRA money. These activities include home energy audits and dramatic expansion of the infrastructure needed to support electric vehicles.

SPU's Solid Waste Utility implemented new solid waste collection contracts in the spring of 2009. Residents now have three separate services: recycling, organics, and garbage. The major change was to provide weekly

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collection of organics, which include yard waste and all types of food waste. This new program has been extremely successful in diverting tonnage from the landfill and is a key step in reaching the City's goal to recycle more than 60% of the waste stream. The 2010 Proposed Budget continues these programs but makes a variety of cuts in administrative and service functions in order to offset lower-than-expected revenues. The lower revenues result from several factors, including less tonnage due to a slow economy, more reduction in garbage can sizes than expected, and failure of the proposed "green fee" on disposable bags in the August 2009 election.

SPU's other two utilities – Drainage & Wastewater (DWU) and Water – also are making budget cuts for 2010. These are driven by lower revenues as a result of decreased economic activity and delays in sale of some assets. In addition, the 2010 Endorsed Budget for DWU had anticipated a rate increase, which the Mayor decided not to pursue in light of poor economic conditions.

SPU has several major capital projects under way that continue in 2010. The water utility will continue its program to bury reservoirs. The Parks Department has its own funding, much of it from the 2008 Parks Levy, to plan and develop parks on top of the buried reservoirs in conjunction with SPU's projects. Covering the reservoirs will add 76 acres of open space. DWU will continue design and construction of a detention facility to solve the longstanding flooding problems in the Madison Valley neighborhood. The Solid Waste Utility will continue its program to replace the north and south transfer stations.

## **ARRA Funds**

As mentioned in several sections above, the City has received a wide array of federal funding under the American Recovery and Reinvestment Act of 2009. As of this writing, the City has been awarded \$50.4 million directly and is a partner in a project for transportation electrification that will provide additional funds. The City has applied for \$261 million of additional funds, with decisions pending. All the City's applications are detailed in the tables following this section.

## **Looking Ahead**

The nation is likely entering a period of slow economic growth, but will take years to recover the wealth lost in this recession. Unemployment is likely to remain high. Federal, state, and many local governments will face chronic deficits at a time when demand for services will continue to grow.

The Puget Sound area will likely recover more rapidly than the nation as a whole, albeit still at a modest pace. The region's core industries were not hit as hard by the recession as those in many other areas, and housing prices did not plummet as much. The region continues to attract creative individuals who form the basis for much of the area's economic growth.

The City of Seattle's budget will be under continued pressure in the next few years. The 2010 General Fund Proposed Budget relies on \$25.4 million from the Revenue Stabilization Account and at least \$10 million of other one-time savings that cannot be repeated. Economic growth likely will cover some of this "gap" for 2011 and beyond, but it seems clear that further expenditure reductions and/or revenue increases will be needed.

The greatest economic concerns are probably concentrated in the construction sector. The commercial office market and the multi-family housing market appear to be significantly overbuilt, so little new construction activity can be anticipated in these sectors in the next few years. This means continued lower levels for construction-related revenues, such as sales taxes and building permits. This effect may be offset somewhat by significant

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expansion of public sector projects, including the Alaskan Way Viaduct deep-bore tunnel, SR 520 replacement, and Sound Transit light rail.

The City retains many financial advantages, however. Seattle continues to be a relatively wealthy and generous city, with a willingness to provide additional revenues to support human services, transportation, parks, and other programs. The City has a diverse revenue base that is not excessively dependent on a single source, such as sales or property taxes. The City's general government and utilities have received and maintained extremely high bond ratings, reflecting long-term economic and financial strength. Seattle appears to be better positioned than most other major cities to recover from the current economic turmoil.

One other potential challenge is Initiative 1033, which will appear on the November ballot. This initiative would limit revenue growth for the general funds of the State, counties, and cities to the combination of population growth and inflation (as measured by the U.S. implicit price deflator), starting with a base year of 2009. Voter-approved revenue increases would be excluded. Any revenue above the cap would be used to reduce property taxes. If approved by the voters and upheld by the courts, this proposal would likely require future spending reductions and/or voter-approved revenue increases because the underlying growth in City costs (such as energy and health care) most likely will exceed the cap imposed by the initiative.

# American Recovery & Reinvestment Act of 2009

## AMERICAN RECOVERY & REINVESTMENT ACT (ARRA) OF 2009 FUNDING AWARDS

ARRA Funding Program	Federal Funding Agency	City ARRA Award	Lead Dept	Amount Awarded
Clean Water State Revolving Fund	Environmental Protection Agency	Ballard Green Streets	SPU	\$1,546,000
Edward Byrne Memorial Justice Assistance Grant Program - State Formula	Dept of Justice	Special Enforcement, Intervention and Prevention Targeting Gang Crime	SPD	\$370,645
National Endowment for the Arts	National Endowment for the Arts	National Endowment for the Arts Grant	OACA	\$250,000
Community Services Block Grant	Health & Human Services	Seattle Conservation Corps - Emergency Assistance, Computer Upgrades and Green Projects	DPR	\$258,583
Edward Byrne Memorial Justice Assistance Grant Program - Local Formula	Dept of Justice	Local Law Enforcement Byrne/JAG Formula Grant <sup>4</sup>	SPD	\$2,072,098
Workforce Investment Act (WIA), Youth State Activity Grant	Dept of Commerce	Summer Employment and Training for Seattle Youth	HSD	\$1,130,543
Weatherization Assistance	Housing & Urban Development	HomeWise	OH	\$4,884,174
Internet Crimes Against Children	Dept of Justice	Internet Crimes Against Children Taskforce Program Grant	SPD	\$848,000
Senior Nutrition	Health & Human Services	Senior Nutrition	HSD	\$457,583
Community Service Employment for Older Americans	Health & Human Services	Senior Community Service Employment Program	HSD	\$75,948
Energy Efficiency Block Grant – Local Formula	Dept of Energy	City of Seattle Energy Efficiency and Conservation Grant Projects	TBD	\$6,142,300
Homeless Prevention Program	Housing & Urban Development	Homeless Prevention and Rapid Re-housing Program	HSD	\$4,993,052
Community Development Block Grant	Housing & Urban Development	Small Business Lending, Community Facilities and Seattle Senior Housing Program projects	HSD	\$3,263,057
Drinking Water State Revolving Fund	Environmental Protection Agency	Maple Leaf Reservoir Burial Project	SPU	\$6,000,000

## American Recovery & Reinvestment Act of 2009

<b>ARRA Funding Program</b>	<b>Federal Funding Agency</b>	<b>City ARRA Award</b>	<b>Lead Dept</b>	<b>Amount Awarded</b>
Transit Capital Assistance	Dept of Transportation	Seattle Monorail Safety Improvements	SDOT	\$1,000,000
Transit Capital Assistance	Dept of Transportation	Seattle Street Car South Lake Union Preventative Maintenance	SDOT	\$314,011
Highway Infrastructure Investment	Dept of Transportation	Spokane Street Viaduct	SDOT	\$15,443,000
			<b>TOTAL</b>	<b>\$49,048,994</b>

# Summary Tables

## RESOURCES SUMMARY BY SOURCE (in thousands of dollars)\*

### TOTAL CITY RESOURCES

<b>Revenue Source</b>	<b>2008 Actual</b>	<b>2009 Adopted</b>	<b>2009 Revised</b>	<b>2010 Endorsed</b>	<b>2010 Proposed</b>
Taxes, Levies & Bonds	1,227,232	1,380,745	1,355,403	1,309,139	1,308,257
Licenses, Permits, Fines & Fees	148,885	158,752	157,014	163,619	158,569
Interest Earnings	29,444	26,998	18,494	40,492	18,749
Revenue from Other Public Entities	125,870	177,411	203,250	163,690	165,890
Service Charges & Reimbursements	953,582	1,007,341	1,053,274	1,032,789	1,056,002
All Else	809,844	863,976	784,028	871,931	855,508
<b>Total: Revenue &amp; Other Financing Sources</b>	<b>\$ 3,294,857</b>	<b>\$ 3,615,224</b>	<b>\$ 3,571,463</b>	<b>\$ 3,581,659</b>	<b>\$ 3,562,975</b>
Interfund Transfers	261,635	270,852	274,875	253,718	252,245
Use of (Contribution To) Fund Balance	202,800	231,133	292,741	264,265	255,503
<b>Total, City Resources</b>	<b>\$ 3,759,292</b>	<b>\$ 4,117,208</b>	<b>\$ 4,139,079</b>	<b>\$ 4,099,642</b>	<b>\$ 4,070,723</b>

\*Totals may not add due to rounding. Total city resources do not equal total city expenditures, due to some interfund transfers not accounted for in the expenditures table.

# Summary Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2009 Adopted		2010 Endorsed		2010 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Arts, Culture &amp; Recreation</b>						
Office of Arts and Cultural Affairs	2,942	6,936	2,674	6,835	3,761	6,070
The Seattle Public Library	49,138	50,819	51,001	52,743	48,345	50,110
Department of Parks and Recreation <sup>(1)(2)</sup>	86,406	147,508	90,020	137,253	84,930	150,834
Seattle Center	15,250	40,405	14,471	38,801	13,205	39,751
<b>SubTotal</b>	<b>153,736</b>	<b>245,669</b>	<b>158,165</b>	<b>235,632</b>	<b>150,241</b>	<b>246,765</b>
<b>Health &amp; Human Services</b>						
Community Development Block Grant Educational and Developmental Services Levy	0	13,836	0	14,015	0	14,000
Human Services Department	54,723	133,951	54,436	144,489	51,208	146,778
<b>SubTotal</b>	<b>54,723</b>	<b>165,350</b>	<b>54,436</b>	<b>176,476</b>	<b>51,208</b>	<b>178,750</b>
<b>Neighborhoods &amp; Development</b>						
Office of Economic Development	6,232	6,232	5,977	5,977	6,359	6,359
Office of Housing	2,894	45,563	1,456	41,432	872	45,085
Neighborhood Matching Subfund	3,314	3,830	3,612	3,950	3,322	3,661
Department of Neighborhoods	8,991	8,991	9,297	9,297	11,661	11,661
Department of Planning and Development	10,180	67,414	10,741	69,773	10,041	60,608
<b>SubTotal</b>	<b>31,612</b>	<b>132,031</b>	<b>31,082</b>	<b>130,429</b>	<b>32,255</b>	<b>127,373</b>
<b>Public Safety</b>						
Criminal Justice Contracted Services	22,697	22,697	23,902	23,902	23,902	23,902
Seattle Fire Department	150,938	150,938	156,788	156,788	157,133	157,133
Fire Facilities Fund	0	18,148	0	-2,832	0	6,776
Firemen's Pension	20,317	21,197	21,253	22,155	17,531	21,243
Law Department	18,227	18,227	18,920	18,920	18,226	18,226
Seattle Municipal Court	27,046	27,046	28,066	28,066	26,736	26,736
Municipal Jail	0	0	0	0	0	0
Seattle Police Department	232,768	232,768	246,947	246,947	242,170	242,170
Police Relief and Pension	20,231	20,406	21,187	21,362	22,302	22,362
Public Safety Civil Service Commission	143	143	149	149	142	142
<b>SubTotal</b>	<b>492,367</b>	<b>511,571</b>	<b>517,212</b>	<b>515,457</b>	<b>508,141</b>	<b>518,690</b>
<b>Utilities &amp; Transportation</b>						
Seattle City Light	0	1,055,530	0	1,089,884	0	1,092,123
Seattle Transportation	41,760	340,787	43,715	336,663	39,141	310,909
Seattle Public Utilities	1,317	812,817	1,351	869,788	1,351	806,407
<b>SubTotal</b>	<b>43,077</b>	<b>2,209,134</b>	<b>45,066</b>	<b>2,296,335</b>	<b>40,493</b>	<b>2,209,439</b>



## Summary Tables

Department	2009 Adopted		2010 Endorsed		2010 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Administration</b>						
Office of City Auditor	1,129	1,129	1,173	1,173	1,168	1,168
Seattle Office for Civil Rights	2,336	2,336	2,424	2,424	2,219	2,219
Civil Service Commission	223	223	232	232	221	221
Employees' Retirement System	0	10,735	0	11,937	0	11,911
Ethics and Elections Commission	668	668	693	693	611	611
Department of Executive Administration	33,916	33,916	35,438	35,438	33,267	33,267
Department of Finance	5,275	5,275	5,498	5,498	5,160	5,160
Finance General	33,143	33,143	32,323	32,323	30,037	30,037
Fleets and Facilities Department <sup>(2)</sup>	473	134,121	3,933	145,333	3,004	137,317
Office of Hearing Examiner	581	581	605	605	556	556
Department of Information Technology	3,357	58,977	3,389	59,199	2,814	56,644
Office of Intergovernmental Relations	2,335	2,335	2,398	2,398	2,267	2,267
Legislative Department	12,297	12,297	12,799	12,799	12,048	12,048
Office of the Mayor	3,049	3,049	3,167	3,167	2,850	2,850
Personnel Department	12,534	12,534	12,999	12,999	11,969	11,969
Personnel Compensation Trust Subfunds	0	155,499	0	172,284	0	179,345
Office of Policy and Management	2,688	2,688	2,507	2,507	2,117	2,117
Office of Sustainability and Environment	1,473	1,473	1,524	1,524	1,436	1,436
<b>SubTotal</b>	<b>115,478</b>	<b>470,980</b>	<b>121,101</b>	<b>502,531</b>	<b>111,744</b>	<b>491,144</b>
<b>Funds, Subfunds and Other</b>						
Emergency Subfund	7,636	7,636	3,049	3,049	0	0
Judgment/Claims Subfund	1,319	25,319	1,319	18,819	1,319	18,819
Parking Garage Fund	0	7,161	0	7,475	0	7,603
Cumulative Reserve Subfund <sup>(4)</sup>	0	33,483	0	36,187	0	56,513
Bonds Debt Service <sup>(3)</sup>	12,566	38,021	15,520	33,972	10,076	28,528
<b>SubTotal</b>	<b>21,520</b>	<b>111,619</b>	<b>19,888</b>	<b>99,501</b>	<b>11,394</b>	<b>111,462</b>
<b>Grand Total*</b>	<b>912,514</b>	<b>3,846,353</b>	<b>946,950</b>	<b>3,956,361</b>	<b>905,476</b>	<b>3,883,623</b>

\*Totals may not add due to rounding

Notes:

- (1) General Subfund figures for the Department of Parks and Recreation reflect both the direct subsidy from the General Subfund and Charter revenues.
- (2) Includes General Subfund subsidy to Capital Improvement Projects
- (3) The amounts in the "Total Funds" column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.
- (4) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are include in the SDOT appropriations.



## City Revenue Sources

### City Revenue Sources and Fund Accounting System

The City of Seattle expends \$4.1 billion annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in whole or in part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

The City accounts for all revenues and expenditures within a system of accounting entities called “funds” or “subfunds.” The City maintains dozens of funds and subfunds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules, and is desirable to promote accountability for specific projects or activities. For example, the City of Seattle has a legal obligation to ensure revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own fund. For similar reasons, expenditures of revenues from the City’s Families and Education Property Tax Levy are accounted for in the Educational and Development Services Fund. As a matter of policy, several City departments have separate funds or subfunds. For example, the operating revenues and expenditures for the City’s parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees’ Retirement Fund, the Firefighters Pension Fund, and the Police Relief and Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for current and former City employees.

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

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 54.9% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

## The National and Local Economy – September 2009

### National Economic Conditions and Outlook

*A look back at the roots of the current recession.* With the current recession nearing its end, economists are trying to discern how the coming recovery will unfold. To understand where the economy is headed, it is helpful to look back and review the events that brought about the worst downturn since the great depression.

We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for assets, such as stocks and real estate, because they were less vulnerable to erosion by inflation than other types of investments. The early 1980s was also when the federal

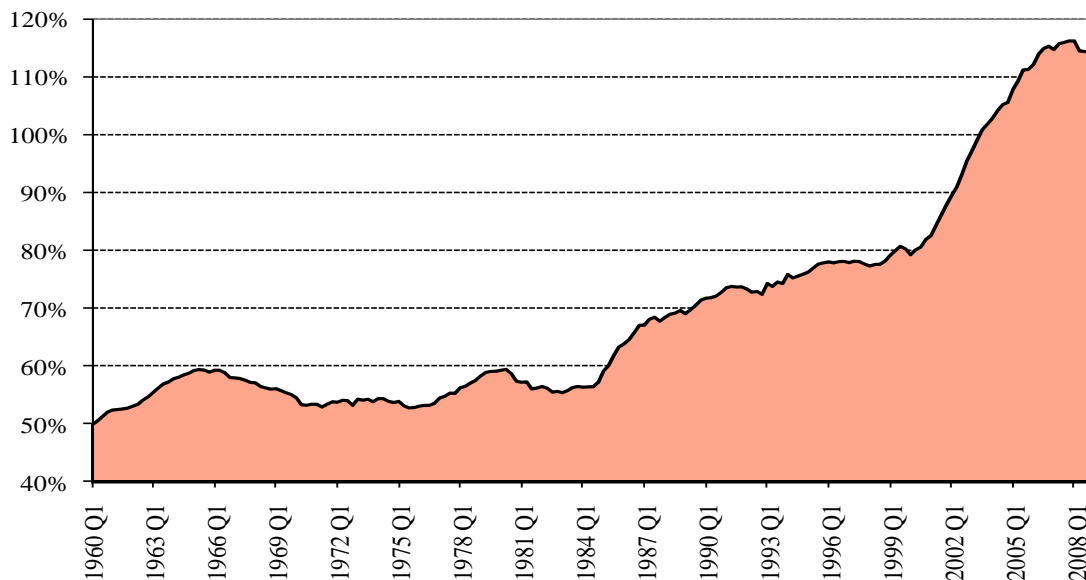
## Revenue Overview

government began running large budget deficits on an ongoing basis, which has resulted in a buildup in federal government debt. In addition, the movement to deregulate financial markets got its start in the early 1980s.

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

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

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



Source: Federal Reserve Board.

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

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

- Since the problems developed over a 25-year time period, the return to normalcy will not occur quickly.
- The roots of the downturn are global in nature, which means policy changes are needed in many nations to bring the world economy back into balance.

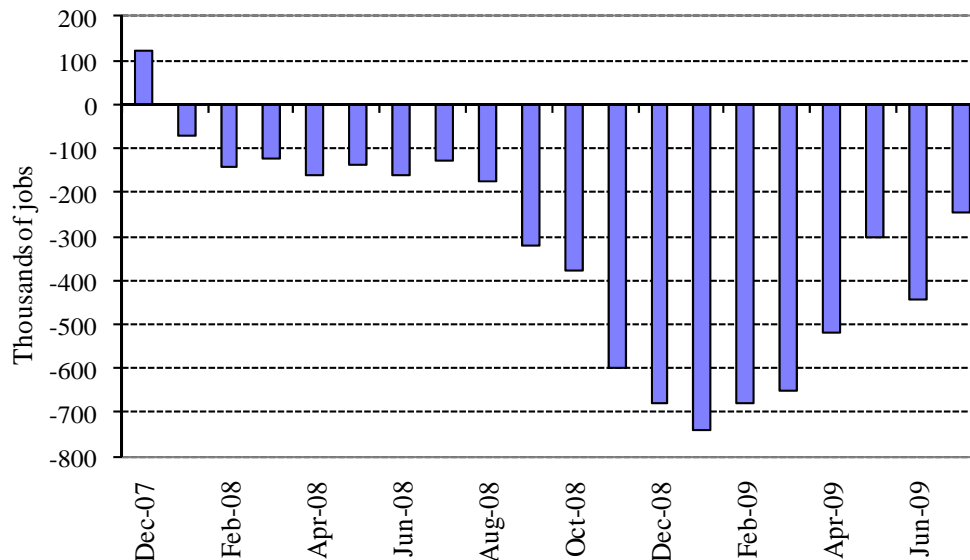
## Revenue Overview

- The current recession is unlike other postwar recessions, so we don't have a roadmap for recovery.
- The federal government must unwind its interventions in the economy. If this is not executed properly, there is the potential to disrupt the recovery or ignite inflation.
- To have a sustained recovery, the federal government must get its budget deficit under control.
- Consumer spending will be restrained by the need to reduce debt and increase savings.

***The worst recession since the 1930s is nearing its end.*** The current national recession is now in its 20<sup>th</sup> month, making it the longest since World War II. Since the recession began, Gross Domestic Product (GDP) has declined 3.9%, the largest decline in GDP of any postwar recession. The current recession's 4.8% job loss is second only to the 5.1% loss of the 1948-49 recession, and with job losses still mounting it is likely that the current recession will set the postwar record for job losses as well. Household wealth has been particularly hard hit, declining by over \$13 trillion between 2007 Q2 and 2009 Q1.

Although the economy is still in decline, the rate of decline has moderated following a period of freefall in 2008 Q4 and 2009 Q1. In 2009 Q2 GDP fell at a 1.0% annual rate, following declines of 5.4% and 6.4% in the two previous quarters. In July, employment declined by a relatively modest 247,000, the smallest drop since August of last year, and the number of hours worked was unchanged from June. The housing market is showing some signs of stabilization, with home sales and single-family housing starts rising modestly in recent months and price declines moderating. The financial markets are improving, and although consumer confidence remains weak it is up from lows in February and March.

**Figure 2. Monthly Change in U.S. Employment**



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

***The pace of recovery is expected to be slow.*** The economy is expected to begin growing in the third quarter of 2009, although employment is not expected to turn around until the second quarter of 2010. Employment typically lags in a recovery because employers are reluctant to begin hiring until they are confident that the upturn will be sustained. The recovery will get a boost from the federal government's stimulus program, which will have its greatest impact in third quarter of this year (according to Moody's Economy.com), and will continue to provide significant support for the economy in 2010 as well.

# Revenue Overview

History tells us that recoveries from recessions caused by financial crises are slow, and the current recovery is unlikely to be an exception. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, continuing job losses, and falling incomes. As of July, personal income had declined 3.0% from September 2008.

Risks to the forecast are high because financial markets remain vulnerable, the labor market is still shedding jobs, and the housing market is plagued by foreclosures. Nearly one million loans were in default at the end of June, and about 15 million homes were underwater, meaning the homes were worth less than the value of their outstanding mortgages. Adding uncertainty to the forecast is the need for the federal government to unwind its various interventions in the credit markets and its stimulus programs.

## **Puget Sound Region Economic Conditions and Outlook**

*The recession came late to the Puget Sound region but the local downturn has been as severe as the nation's.* Although the current downturn is the worst in 75 years nationally, for the Puget Sound region this recession is dwarfed by the “Boeing bust” of 1969-71, when Boeing laid off over 60,000 employees in a relatively short period of time. In that recession the unemployment rate in the 4-county region rose to 12.4%, compared to an expected peak of 9.7% during the current downturn.

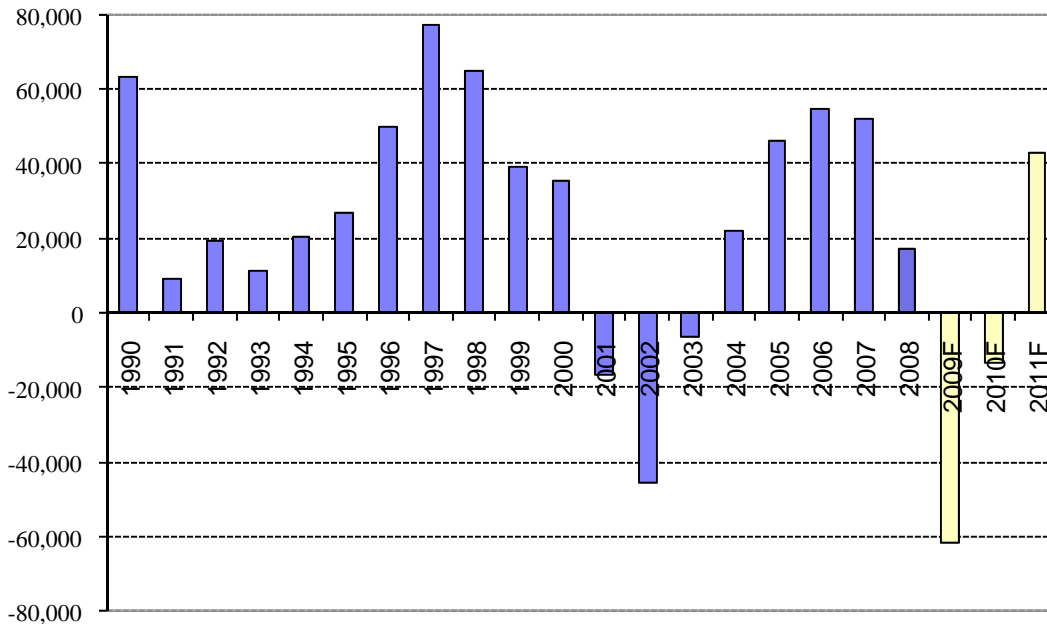
Although the recession started late in the Puget Sound region, through July the Seattle metro area (King and Snohomish Counties) had lost 4.8% of its jobs, the same rate of loss as the nation. The steepest declines locally have been in construction and manufacturing outside of aerospace, while health and education services has been the only industry to see a significant increase in employment during the downturn.

The housing downturn in the region has not been as severe as the national housing downturn. Through the second quarter of 2009, single-family home prices in the region had fallen by 21.7% from their peak two years earlier, compared to a 30.5% peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. Both locally and nationally price declines have moderated significantly in recent months and there has been a modest uptick in sales, suggesting that the housing market is beginning to stabilize.

The Puget Sound economy is expected to turn around at the same time as the national economy, with employment expected to begin growing again in the second quarter of 2010. Job losses during the recession are expected to reach 95,700 (5.2%) for the 4-county region, which is a bit higher than the 82,200 (4.8%) loss suffered during the 2001-03 recession. The state's chief economist thinks that the recovery will be stronger in Washington than nationally, in part because Boeing and Microsoft have held up better during the downturn than have most of the nation's large employers.

Once the recovery takes hold, the economy's rate of growth will probably not return to pre-recession levels, because consumers need to pay down debt and rebuild savings, and the federal government needs to get its budget under control. The Puget Sound Economic Forecaster expects employment to grow at a 2.0% annual rate from 2011 through 2019, which is a full percentage point slower than the 3.0% growth rate measured over the 35 years ending in 2008. Comparable figures for real (i.e., inflation adjusted) personal income are 3.2% annual growth for 2011-2019 compared to 4.3% annual growth for the period 1973-2008.

**Figure 3. Annual Change in Puget Sound Region Employment**



Note: 2009-11 forecasts are from Puget Sound Economic Forecaster.  
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

## Consumer Price Inflation

*After reaching a 17-year high in mid-2008, inflation has fallen into negative territory.* The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to 1.6% in 2002, its lowest level since the early 1960s. After reaching that low, inflation began to rise steadily, driven in large part by a relentless rise in oil prices from a low of just above \$20 per barrel in early 2002 to a peak of \$147 per barrel in July of 2008. As oil prices peaked, so did the CPI, with the July 2008 U.S. CPI-U rising to 5.6% measured on a year-over-year basis, its highest level in 17 years. Since then oil prices have plummeted and the rate of inflation has fallen steeply, with year-over-year growth rates of the U.S. CPI-U turning negative in recent months. 2009 will likely mark the first time in 54 years that consumer prices have declined on an annual basis.

Due to the severity of the local 2001-03 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 and remained lower until mid-2006. Inflation then picked up as the regional economy improved, and since June 2006 local inflation has been running higher than national inflation. The upturn in local inflation was driven by increases in energy and food prices, as well as by rising rents. In June 2008, the Seattle CPI-U posted a 5.8% year-over-year gain, its biggest increase since 1991. The Seattle CPI-W, which is more heavily influenced by energy prices than the CPI-U, was up 6.2%. Mirroring U.S. trends, Seattle's inflation rate has fallen steeply since then, with the CPI-W turning negative in June 2009, when it posted a 0.7% decline from June 2008.

At the end of 2008 and the beginning of 2009, when the current recession was at its worst, economists feared that the severity of the recession could give rise to a period of deflation characterized by a broad-based decline in the prices of goods and services. More recently, fears of deflation have subsided as the economy has improved and prices outside of energy prices have continued to rise. Core inflation, which excludes energy and food prices, has ranged between 1.5% and 2.0% since October 2008. With the economy expected to continue to improve and oil prices now rising from lows reached in early 2009, economists expect inflation to gradually move up into the 2% range.

## Revenue Overview

Figure 4 presents historical data and forecasts of inflation for the U.S. and Seattle metropolitan area through 2011. 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 4 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

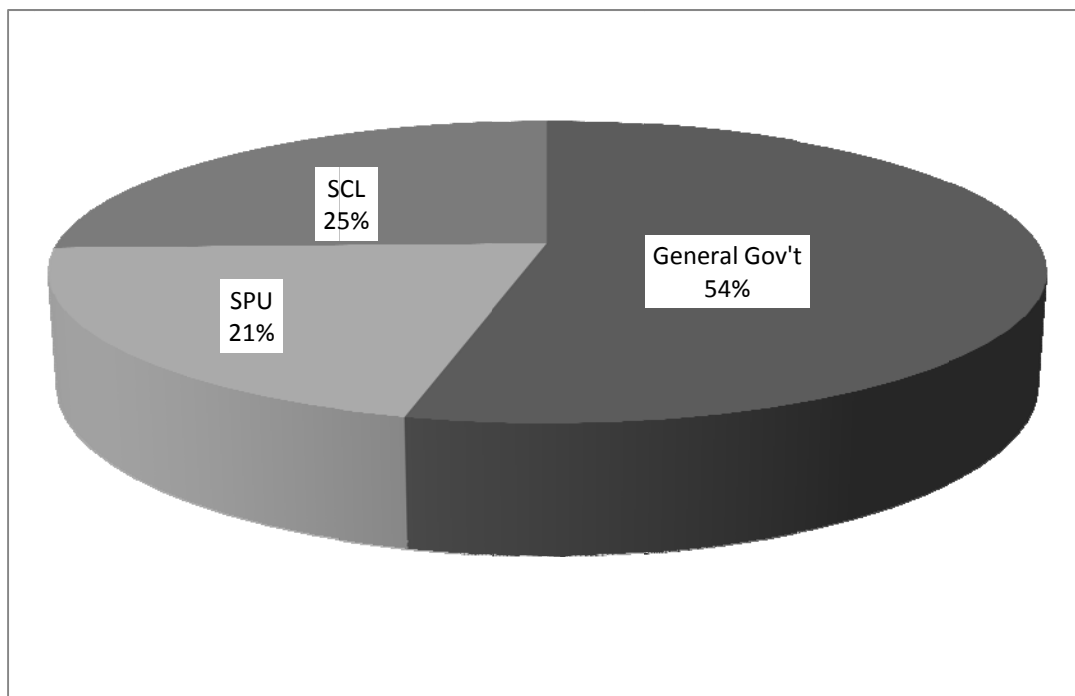
**Figure 4. Consumer Price Index Forecast**

	U.S. CPI-W (June-June growth rate)	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2008 (actual)	5.6%	6.2%	4.5%
2009 (actual)	-2.0%	-0.7%	2.0%
2010	1.7%	1.9%	1.7%
2011	2.2%	2.0%	1.9%

## City Revenues

The City of Seattle projects total revenues of approximately \$4.1 billion in 2009. As figure 5 shows, approximately 46% of these revenues are associated with the City's utility services, Seattle City Light and Seattle Public Utilities' Water, Drainage and Wastewater, and Solid Waste divisions. The remaining 54% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issues is included in the total numbers. The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City's Bridging the Gap Transportation program in the Transportation Fund.

**Figure 5. Total City Revenue by Use – 2009 Revised \$4.1 Billion**

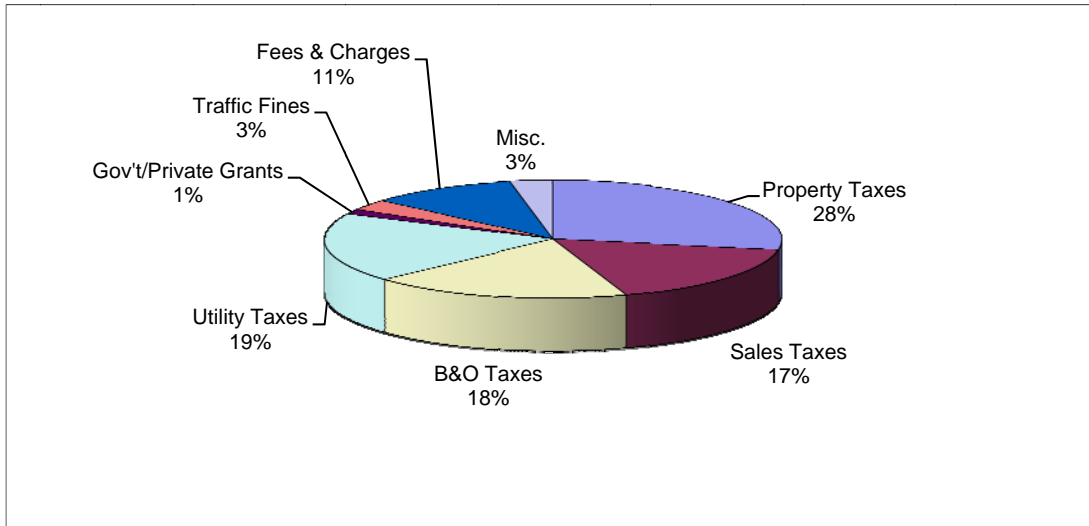




## General Subfund Revenue Forecasts

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

**Figure 6. 2009-Revised General Subfund Revenue Forecast by Source - \$891.1M**



## Revenue Overview

In 2008, general government revenue into the General Subfund totaled approximately \$884.8 million. General Subfund revenue is projected to increase to \$891.1 million in 2009 and then to rise to \$905.0 million in 2010. 2009 and 2010 will see contributions from the Revenue Stabilization Account, or “Rainy Day Fund”, in the amounts of \$8.9 million and \$16.5 million respectively. Without the use of the Rainy Day Fund and other transfers of fund balances, revenues would have fallen from \$884.8 million in 2008 to \$875.8 million in 2009, with a slight recovery to \$888.5 million in 2010.

Figure 7 shows General Subfund actual revenues for 2008, Adopted and Revised revenues for 2009, as well as the Endorsed and Proposed revenues for 2010. Tax revenues grew by a weak 2.4% in 2008. As a result of the negative economic forecasts, tax receipts will have negative growth (-1.4%) in 2009, and rebound only slightly (1.4%) in 2010. The main cause of the slower growth rates are the B&O and sales taxes. The economic downturn, while led by real estate, has also severely constrained consumer behavior. This is most evident in the declining sales tax base. Construction activity has also declined, which is another source of pressure on sales tax receipts.

There are some revenue streams that are showing positive growth rates. Utility rates charged by Seattle Public Utilities (SPU) to its customers for drainage and wastewater, water, and solid waste were increased in the 2009 Adopted Budget. Because of these rate increases, 2009 tax revenues from the Drainage and Wastewater Fund are forecast to grow by 11.0% over 2008. Water tax revenues are expected to grow by 45.9% for 2009 and 9.6% in 2010. Significant growth in 2009 is largely due to a temporary rate and tax surcharge in response to a court judgment regarding fire hydrants. Solid Waste tax revenues are forecast to grow by 17.6% and 12.9% for 2009 and 2010, respectively. Natural gas revenues remain highly volatile, as natural gas prices reached an all-time high in early summer 2008 and then plunged to eight-year lows in the summer of 2009.

## Revenue Overview

Revenue from on-street parking is projected to increase in 2009 and, to a lesser degree, in 2010. The City is embarking on a program to become more flexible in the pricing of parking across different parts of the City to help achieve parking management goals, as the conversion to parking pay station technology continues. In an effort to improve safety at intersections, the City installed 6 red light cameras in 2006 and 24 more throughout the City in 2008 and 2009. Revenues for 2008 were \$1.37 million. The 2009 and 2010 forecast for this revenue stream is \$3.7 million and \$3.17 million, respectively.

The 2009 Third Quarter Supplemental Ordinance proposes to transfer over \$15 million in fund balances from other funds to the General Subfund to support General Subfund spending. The majority of these resources, \$8.9 million, are from the City's Revenue Stabilization Account ("Rainy Day Fund"). The Revenue Stabilization Account is part of the City's Cumulative Reserve Subfund and was created to help fund City services during economic downturns. The Account had a balance of \$30.6 million at the beginning of 2009. The rest of these 2009 transfers are from operating funds that have accrued from unanticipated savings or greater than expected revenue. The 2010 Proposed Budget anticipates an additional \$16.5 million transferred from the Revenue Stabilization Account to the General Subfund.

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

Beginning in 2009, City staff will deposit 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This greatly simplifies accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. In 2009, the 2009 Second Quarter Supplemental Ordinance (Ordinance 123067) increases the General Subfund support to the PRF by over \$39 million which ensures that the City's support to the Parks and Recreation Department remains the same as was intended in the 2009 Adopted Budget. This increase in expenses to the General Subfund is offset by the deposit of 100% of these specified taxes and fees. Data about revenue, including data for 2008, to the PRF and the General Subfund in the 2009 Proposed Budget will show this change.

## Revenue Overview

**Figure 7. General Subfund Revenue, 2008 – 2010\***  
(in thousands of dollars)

Revenue Source	2008 Actual	2009 Adopted	2009 Revised	2010 Endorsed	2010 Proposed
General Property Tax <sup>(1)</sup>	202,419	209,212	208,590	213,752	213,355
Property Tax - Medic One Levy	35,838	37,006	37,146	37,579	36,802
Retail Sales Tax	155,059	156,106	138,811	156,626	136,383
Retail Sales Tax - Criminal Justice Levy	13,533	13,990	11,949	14,036	12,069
B&O Tax (100%) <sup>(2)</sup>	175,294	182,198	162,378	187,788	164,415
Utilities Business Tax - Telephone (100%)	31,793	32,460	33,394	32,351	33,163
Utilities Business Tax - City Light (100%)	33,957	34,313	34,189	34,688	37,849
Utilities Business Tax - SWU & priv.garb. (100%)	10,695	12,857	12,573	14,344	14,190
Utilities Business Tax - City Water (100%)	19,029	21,841	27,757	23,069	30,408
Utilities Business Tax - DWU (100%)	25,764	29,044	28,606	30,909	27,640
Utilities Business Tax - Natural Gas (100%)	16,505	17,550	14,848	17,374	14,373
Utilities Business Tax - Other Private (100%)	15,918	16,447	16,654	16,861	16,844
Other Tax	6,344	6,176	5,541	6,133	5,515
Admission Tax	5,943	5,830	4,942	5,830	4,729
<b>Total Taxes</b>	<b>748,093</b>	<b>775,029</b>	<b>737,380</b>	<b>791,340</b>	<b>747,736</b>
Licenses and Permits	13,487	13,629	13,483	13,750	13,487
Parking Meters/Meter Hoods	20,981	26,291	26,491	30,394	29,887
Court Fines (100%)	23,048	24,803	26,226	25,805	26,581
Interest Income	7,821	5,639	4,103	6,756	2,818
Revenue from Other Public Entities <sup>(3)</sup>	18,316	9,775	11,932	9,890	13,146
Service Charges & Reimbursements	48,871	51,218	52,918	53,225	52,271
<b>Total: Revenue and Other Financing Sources</b>	<b>880,618</b>	<b>906,384</b>	<b>872,533</b>	<b>931,161</b>	<b>885,926</b>
All Else	1,301	1,374	1,338	1,874	1,892
Interfund Transfers	1,701	2,118	17,225	860	17,140
Key Arena Revenues <sup>(4)</sup>	1,145	-	-	-	-
<b>Total, General Subfund</b>	<b>884,765</b>	<b>909,876</b>	<b>891,096</b>	<b>933,895</b>	<b>904,958</b>

### NOTES:

- (1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
- (2) The 2008 Actual figure for B&O tax includes the implementation of the Square Footage Business Tax.
- (3) Included in 2008 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.
- (4) Certain revenues associated with Key Arena to pay for debt service will no longer accrue to the General Subfund as result of the Sonics' relocation.

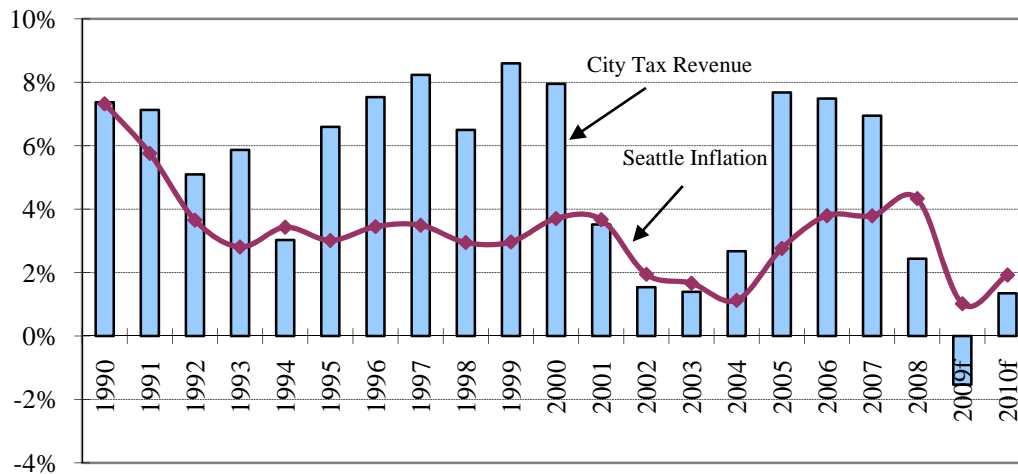
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\* In the past, 10% of certain tax and fee revenues were shown as revenue to the Park and Recreation Fund and 90% as General Subfund. Beginning with the 2010 Proposed Budget, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund and the General Subfund support to the Park Fund is increased by the value of 10% of these revenues. This table shows all figures for all years using the new approach.

## Revenue Overview

Figure 8 illustrates tax revenue growth outpacing 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. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008. The Seattle rate of inflation has slowed considerably, but tax growth has slowed even more. 2009 will see a negative growth rate of just over 1.4% in tax revenue, followed by an anemic 1.4% for 2010. Both years' tax growth rates will be surpassed by historically low inflation rates.

**Figure 8. City of Seattle Tax Revenue Growth, 1990-2010**



### Property Tax

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

In 2009, the total property tax rate from all jurisdictions paid by Seattle property owners was \$7.97 per thousand dollars of Assessed Value (AV). For an owner of a home with an AV of \$530,000 (the average AV for residences in Seattle), the 2009 tax obligation was approximately \$4,224. The City of Seattle's total 2009 tax rate was roughly one-third of the total rate at \$2.58, which equals an annual tax obligation of approximately \$1,367 for the average valued home.

Figure 9 illustrates the components of the City's 2009 property tax: the non-voted General Purpose levy (60%); the six voter-approved levies for specific purposes (35%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (5%). The City's Low Income Housing Levy lid lift expires in 2009 after raising \$86.0 million over 7 years (2003-2009). The City's nine-year transportation lid lift will generate approximately \$38.5 million in 2009 and \$39.1 million in 2010. These revenues are accounted for in the Transportation Fund and are discussed later in this section. One proposed property tax measure (lid lift), if approved by voters in November 2009, will increase the City's regular levy for collection in 2010 by \$20.714 million for low income housing programs.

## Revenue Overview

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

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

**The 2010 Proposed Budget assumes 1% growth plus new construction.** New construction revenues have exceeded \$2 million since 1999, with rapid increases between 2005 (\$2.9 million) and 2008 (\$6.64 million). New construction revenue for the 2009 tax collection year remained high at \$6.38 million. The forecast for 2010 reflects the dramatic decrease in construction activity in 2009. It is projected that approximately \$1.8 million is added to the property tax base in 2010 due to new construction.

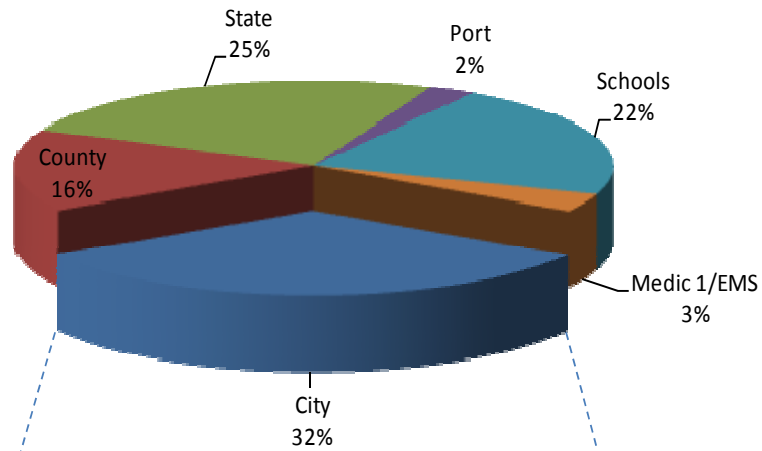
The forecast for the General Subfund (General Purpose) portion of the City's property tax is \$208.6 million in 2009 and \$213.4 million in 2010.

**Medic 1/Emergency Medical Services.** In November 2007, King County voters approved a six-year renewal (2008-2013) of the Medic 1/EMS levy. The approved starting rate was \$0.30 per thousand dollars of assessed value. The levy is projected to generate approximately \$37.1 million for Seattle Medic 1/EMS services in 2009. Due to projected significant decreases in assessed valuations of property in King County, the Medic 1/EMS tax rate will rise back to its authorized limit of \$0.30 per thousand dollars of assessed value and Seattle's Medic 1/EMS revenues will decrease by 1% from 2009 revenues to \$36.8 million in 2010.

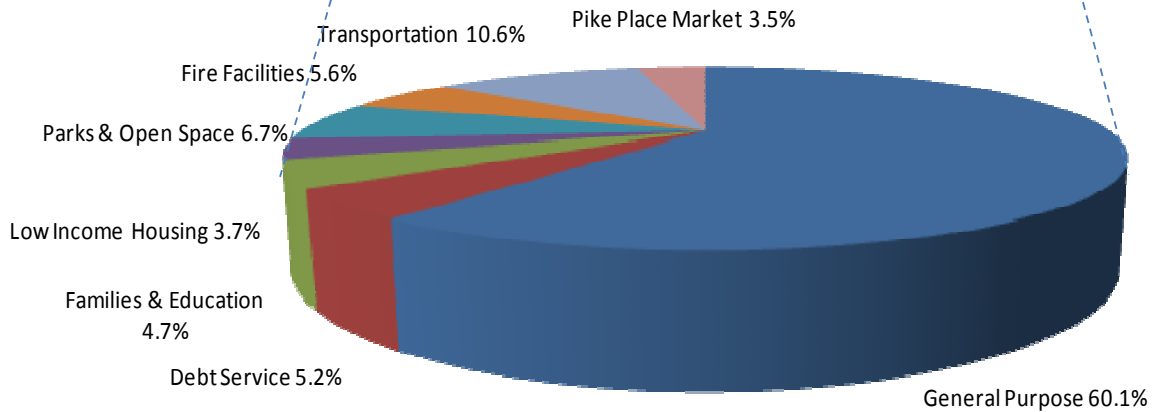
# Revenue Overview

Figure 9

Components of Total Property Tax Levy for 2009  
(tax rate = \$7.97 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2009  
(tax rate = \$2.58 per \$1,000 assessed value)



# Revenue Overview

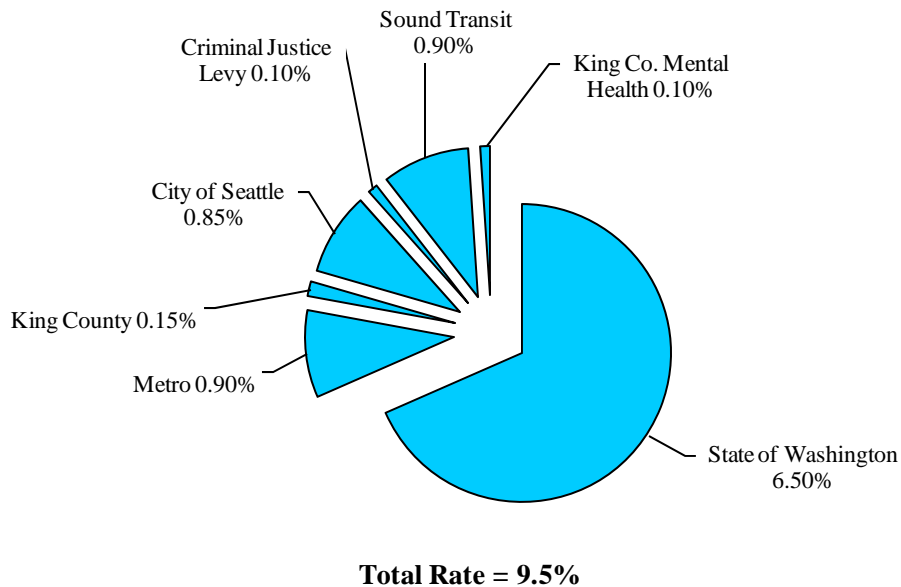
## Retail Sales and Use Tax

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

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

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 10. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

**Figure 10. Sales and Use Tax Rates in Seattle, April 1 – December 31, 2009**



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

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

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

# Revenue Overview

Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the delivery was made. The change from origin-based sourcing to destination-based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

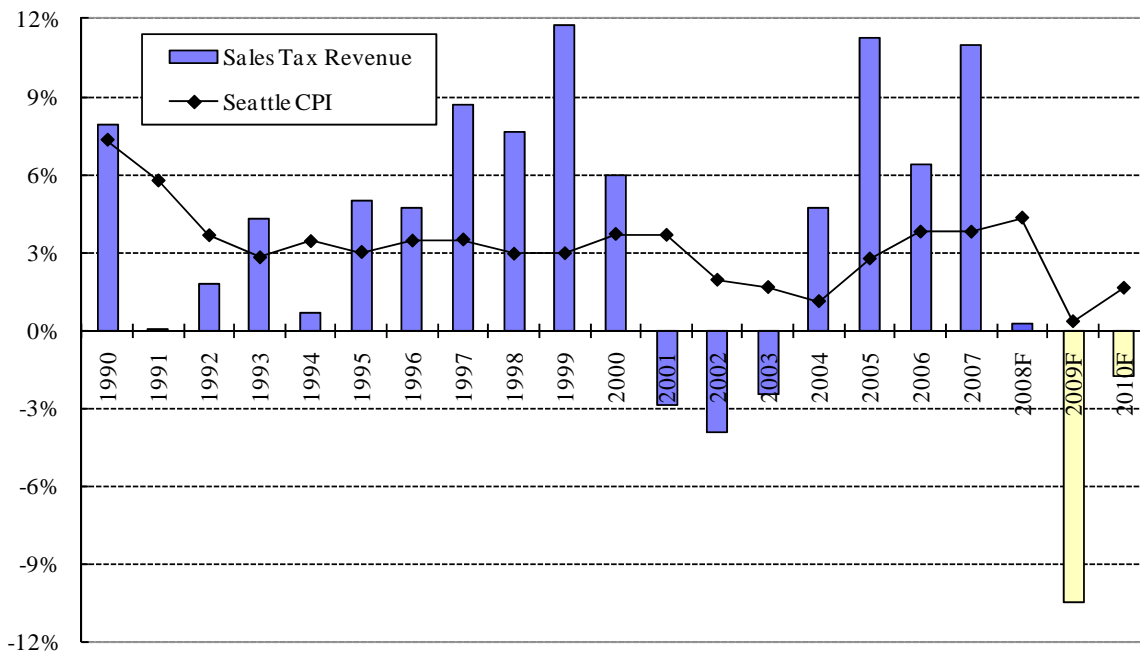
As a result of the changes the state made to comply with SSUTA, Seattle has seen a small increase in its sales tax revenue according to estimates by the Washington State Department of Revenue.

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

Growth began to slow in the first quarter of 2008, continued slowing in the second and third quarters, and then collapsed in the fourth quarter as the world plunged into recession. Seattle's real (inflation adjusted) sales tax base declined by 8.8% in the fourth quarter of 2008. It then fell by another 2.0% in the first quarter of 2009, for a total decline of 10.8% in two quarters. A decline this steep is unprecedented since the City began to receive sales tax revenue in the early 1970s. Preliminary data indicate that taxable sales have continued to decline in the second quarter of 2009, but at slower pace.

Industries posting the steepest declines in taxable sales during the present downturn include manufacturing, wholesale trade, and professional, scientific, and technical services. Construction held up better than most industries until early 2009, but it is now in steep decline. In retail trade, the decline has been steepest in motor vehicles and parts, furniture and fixtures, apparel, and miscellaneous (specialty) retailing.

**Figure 11. Annual Growth of Retail Sales Tax Revenue**



Note: All revenue figures reflect current accrual methods. 2009-10 are forecasts.

**Retail sales tax revenue is forecast to decline by 10.5% in 2009.** Through the first six months of 2009, sales tax revenue is down 11.2% from the same period last year. Were it not for strong growth in revenue from non-



## Revenue Overview

current activity, such as audits, refunds, and late payments, the drop would be in the 13% range. The forecast anticipates that revenue will continue to decline on a year-over-year basis for the rest of 2009, with the rate of decline moderating somewhat in the fourth quarter. As a result, revenue for the year is expected to be down 10.5% from 2008 levels. In 2010, the tax base exclusive of construction is expected to begin expanding, but this expansion will be offset by a continued decline in construction. The decline in construction will keep revenue growth in negative territory in 2010, at -1.7%.

### Business and Occupation Tax

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

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

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 13 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%. The square footage business tax also has two tax rates. In 2009, the rate for business floor space, which includes office, retail, and production space, was 41 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, was taxed at a rate of 14 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation.

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

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

***B&O revenue grew rapidly from 2005 to 2007, then succumbed to the recession in 2008.*** Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which helped to increase B&O revenue beginning in 1996. In 2000, B&O revenue was boosted by changes the State of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% in 2001 and 2.1% in 2002. However, in both years the declines were more than offset by large gains in non-current revenue, which includes revenue from audits and other enforcement activity, refunds, and penalty and interest payments. As a result, both 2001 and 2002 saw very small increases in B&O receipts. The strong growth in non-current revenue reversed in 2003 and 2004, but overall revenue growth remained positive because revenue from current tax year obligations increased by 4.0% in 2003 and 5.4% in 2004.

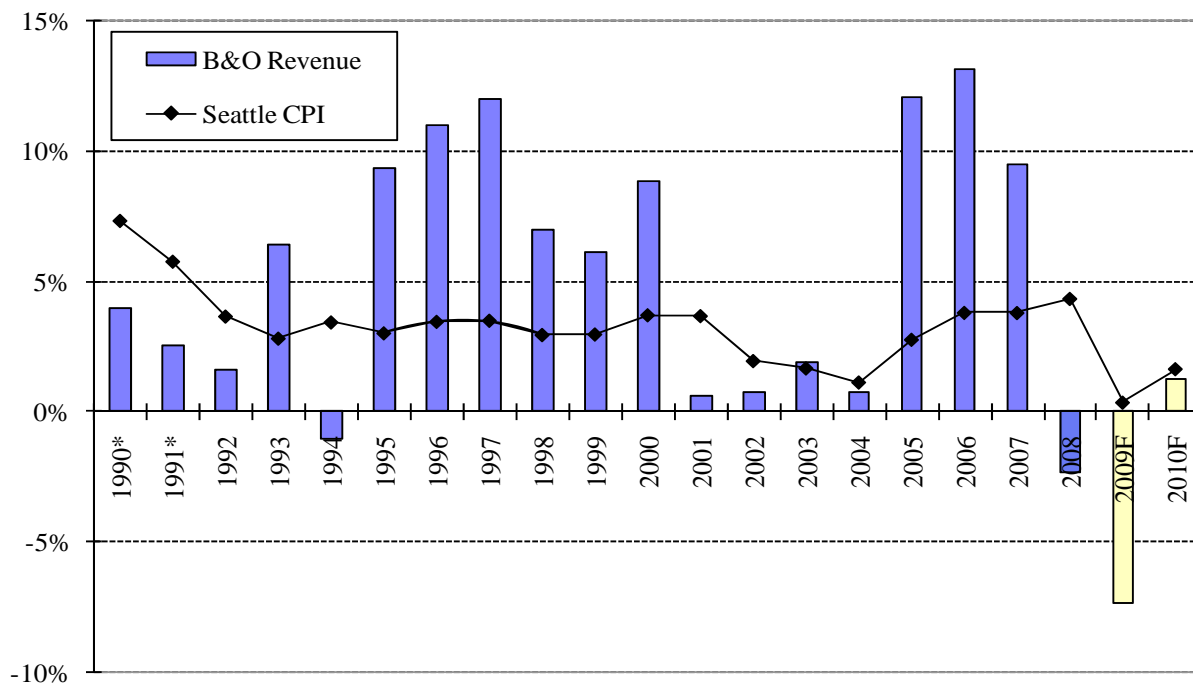
Following four years during which revenue growth did not exceed 2%, growth accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction,

## Revenue Overview

services, finance, insurance, and real estate. The years of plenty ended in 2008, which started out with a healthy 8.3% year-over-year increase in revenue from current economic activity in the first quarter, and ended with a 7.0% decline in the fourth quarter. For the year, revenue from current economic activity increased by only 0.8%, but because of a large decline in non-current revenue (from an unusually high level in 2007), B&O revenue for the year declined by 2.3%.

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

**Figure 12. Annual Growth of B&O Tax Revenue**



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

Note: Revenue figures reflect current accrual methods; 2009-10 are forecasts.

2008-10 figures include both gross receipts and square footage tax revenue.

**B&O revenue growth is expected to decline by 7.4% in 2009 and then turn positive in 2010.** The forecast of B&O revenue expects year-over-year growth rates of taxable income for current economic activity to remain in negative territory for the remainder of 2009 and the first quarter of 2010, after which growth will resume gradually. Non-current revenue is expected to bounce back from a weak 2008 to more normal levels in 2009. Data for the first part of 2009 indicate this bounce-back is underway. The expected increase in non-current revenue adds 1.9% to a projected decline of 9.3% in 2009 revenue from current economic activity, to yield a forecast of a 7.4% revenue decline. Revenue is expected to begin growing again in 2010, but at a very weak 1.3% rate.

# Revenue Overview

## Utility Business Tax - Private Utilities

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

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

The first half of 2008 saw unprecedented spikes in the prices of energy. Natural gas prices were no exception. They reached a high of \$13 per million British Thermal Units (BTUs) in July 2008 and then started a quick and steady fall. As of September 2009, the one-month futures price was \$2.51/mBTU. In response, Puget Sound Energy has filed multiple requests with the WUTC to lower rates. A 12% rate decrease was approved in April, and a 17% rate decrease is expected to be approved in October of 2009.

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

Certain sectors of the telecom industry are experiencing solid growth, while others are steadily declining. Wireless revenues have been on an upward trajectory and are forecast to remain robust for the next few years. Tax revenues from wireless are expected to average 3.5% growth for 2009 and 2010. Traditional telecom providers, however, are showing negligible growth and even contraction, and this trend is expected to continue. As it now stands, wireless revenue growth is more than making up for any decline in other parts of this revenue stream. The total telecom tax stream will average 2.2% growth in 2009 and 2010.

**Cable tax revenue shows steady growth.** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee, which is deposited in the City's Cable TV Franchise Fee Subfund, increased from 3.5% in June 2006.

Cable revenues have been growing steadily during this economic recession. Average annual growth for 2009 and 2010 is expected to be 4%. Comcast, Seattle's largest provider of cable services, has recently announced a 3% rate increase beginning in October. Amid growing competition from satellite TV, the cable industry has increased its services including additional channels, pay-per-view options, and digital reception, in order to remain competitive, and the increased tax revenues suggest that strategy is working.

## Utility Business Tax - Public Utilities

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

**Rate increase for City Light in 2010.** City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. Due to severe declines in natural gas prices, City Light is experiencing some financial turmoil. In response, the Mayor is

# Revenue Overview

proposing an 8.8% City Light rate increase to take effect January 1, 2010, leading to an increase in City Light tax revenues. Also incorporated into the City Light tax revenue forecast are automatic rate increases to pay for power purchased by City Light from the Bonneville Power Administration.

**Higher Water Rates increase tax revenues.** Seattle Public Utilities' Water Utility rates increased by 18.4% in 2009 and will increase by 9.9% in 2010. In addition to these general rate increases, there was a 10.2% surcharge as a result of a court decision stipulating that Water Utility ratepayers must be refunded from the General Subfund for fire hydrant costs previously paid for through Water Utility rates. This refund was paid for through an increase in the Water Utility tax rate to 19.87% from 15.54%.

**Drainage and Wastewater rate increases mean higher tax revenue growth.** A rate increase for Drainage and Wastewater was approved for 2009; as a result tax revenues are up. There has also been a pass-through rate increase from King County to help fund the County's Brightwater treatment plant. This leads to higher revenue for the utility and therefore higher tax revenues. 2009 revenues are forecast to be up 11.0% over 2008, but 2010 receipts will show a modest 3.4% decline from 2009.

**Higher Solid Waste rates mean higher tax revenue growth.** The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. The Solid Waste Utility has approved rate increases of 26.0% for 2009 and 8.5% for 2010.

## Admission Tax

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

In 2009, admissions tax receipts have been stable and not adversely affected by the economy. There have been some changes to the tax base and to the uses of the tax proceeds. By City ordinance, 20% of admissions tax revenues, excluding men's professional basketball, are dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). The Proposed 2010 Budget calls for this percentage to increase to 75% based on the actual admission tax receipts from two years prior. If adopted, the OACA will be fully funded by the admissions tax, except for money received from the 1% for Arts program. The forecasts in Figure 7 for admissions taxes reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs section of this document provides further detail on the Office's use of Arts Account revenue from the admission tax and the implementation of this change.

As a result of the Mayor's Live Music initiative, which was adopted by the City Council in the summer of 2009, certain live music venues will no longer be subject to the admission tax. This will reduce yearly tax collections by approximately 5%. The departure of the Seattle Supersonics basketball team in 2008 has reduced the admission tax base, resulting in about \$1.5 million less in revenue each year.

## Licenses and Permits

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

## Revenue Overview

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

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

### Parking Meters/Traffic Permits

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

One element of the parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, multiple rates were implemented categorically for these spaces and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended Citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the City. Accompanying this change in policy, the maximum allowable hourly rate was increased from \$1.50 per hour to \$2.50 per hour to allow for rate setting flexibility. Total parking revenues are anticipated to be \$25.2 million in 2009 and \$28.6 million in 2010. More information about the pay station technology program is provided in the SDOT section of this document.

For 2009, this budget assumes an approximate 11 percent decrease (2009/2008 actuals) in traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits, in response to declining economic activity requiring permits. Total revenues for this category are projected to be \$1.97 million in 2009 and to remain flat into 2010 at \$1.95 million.

### Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Recent trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in 2007, citation volume has increased, in part due to changes in enforcement technology and strategies, but also due to adding three Parking Enforcement Officers (PEOs) authorized as part of the South Lake Union parking pay station extension (described above in the Parking Meter section). An additional eight new PEOs were authorized in 2009. There are no new PEO positions requested in the 2010 Proposed Budget.

In 2008, the City received \$21.7 million in court fines and forfeitures, including \$1.4 million in revenue from the expanded red light camera enforcement program. Total fines and forfeitures revenues are proposed at \$24.4 million in 2009 and \$24.4 million in 2010. The growth assumed from adding the eight PEOs in 2009 is offset to some degree by a decrease due to the anticipated decline in citations and revenues from the red light cameras, which falls from \$3.7 million in 2009 to \$3.17 million in 2010. Experience with the original six cameras indicates drivers behave differently over time at these intersections, resulting in fewer citations.

# Revenue Overview

## Interest Income

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

After several years of short-term interest rates ranging between 3% and 5%, short-term interest rates fell significantly beginning in 2008 dropping to 0.5% and below by the 4<sup>th</sup> quarter of 2008. These rates remain low in 2009 and are projected to remain low through 2010. Medium and long-term rates have declined as well during this same time period, and may take equally as long to recover. Although they fluctuate significantly throughout the year with the receipt of property tax revenues, the City's General Fund affiliated average daily cash balances are projected to decrease 16% in 2009 and an additional 18% in 2010 as the City uses reserves to address budget shortfalls. Current estimates for General Subfund interest and investment earnings are \$4.1 million in 2009 and \$2.8 million in 2010.

## Revenue from Other Public Entities

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

***Little change in Criminal Justice revenues.*** The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. 2008 criminal justice revenues were \$2.5 million. 2009 and 2010 are expected to be little changed from the 2008 revenues.

***Liquor Board profits are up and excise tax revenues are little changed.*** The City's share of Liquor Board profits has stabilized to around \$4 million a year. In the 2007-2009 State Budget, the Liquor Board instituted a series of new initiatives and programs with the aim of increasing revenues, decreasing costs, and therefore increasing profits. These benefits began to show in 2007 and 2008. In 2009, there is expected to be a small growth in total profit of \$3.9 million. For 2010, however, there will be an additional \$9.3 million in profits to be distributed to Washington cities and counties. This will provide an additional \$1 million to Seattle. Liquor excise taxes, which are levied on the sale of liquor, have been growing consistently but the rate of growth is expected to slow. Spirit sales have been stable throughout the recession, but sales of beer and wine have declined at double digit rates. While there will be small increases in the tax rate for liquor statewide, 0.3%, this isn't expected to materially change Seattle's revenues. The 2009 and 2010 forecasts for the liquor excise taxes average \$2.95 million in both years.

## Service Charges and Reimbursements

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

# Revenue Overview

## Interfund Transfers

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

The 2010 Proposed Budget and revisions to the 2009 Budget anticipate the transfer of over \$17 million in each year to the General Subfund. The vast majority of these resources (\$25.4 million) are from the Revenue Stabilization Account of the Cumulative Reserve Subfund, more commonly known as the “Rainy Day Fund”. The 2009 Third Quarter Supplemental Ordinance proposes to transfer \$8.9 million from the Account to the General Subfund and the 2010 Proposed Budget transfers an additional \$16.5 million.

The Third Quarter Supplemental proposes to transfer an additional \$6.4 million from operating funds. These resources have accrued from unanticipated savings or greater-than-expected revenue.

In ratifying the 2010 Adopted Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

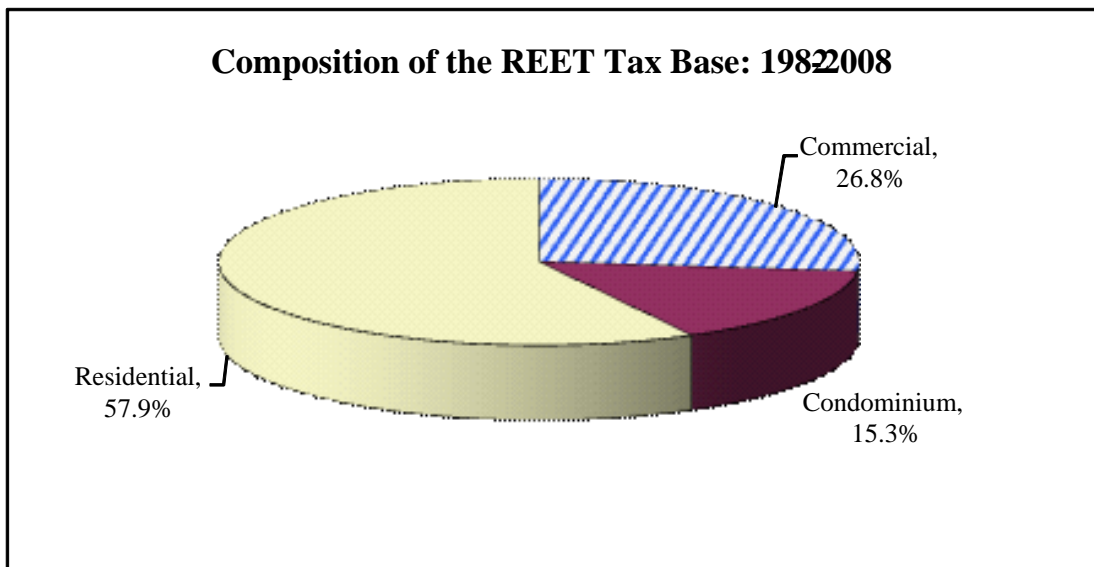
## Cumulative Reserve Subfund – Real Estate Excise Tax

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

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

Over time, 57.9% of the City’s REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 26.8% of the tax base, and condominiums constitute the remaining 15.3% (see Figure 14).

**Figure 14. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2008**



**Historically REET revenue growth has been volatile.** The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. REET tax base declined 51.4% from 2007 to 2008 and will continue to decline, by 32.5%, into 2009. The decline has been felt across all three real estate categories.

The volatility of REET is reflected by the fact that despite a 10.6% average annual growth rate, the REET tax base declined in seven years during the period 1982 – 2008 (see Figure 15). Volatility results largely from changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability has been severely compromised in this downturn as Seattle area prices for residential properties have plunged almost 22% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next.

**REET revenue has been contracting.** According to the Case/Shiller Home Price Index, average home prices for the U.S. are down 30.5% from their peak. Some prominent national forecasters expect the bottom to occur at a

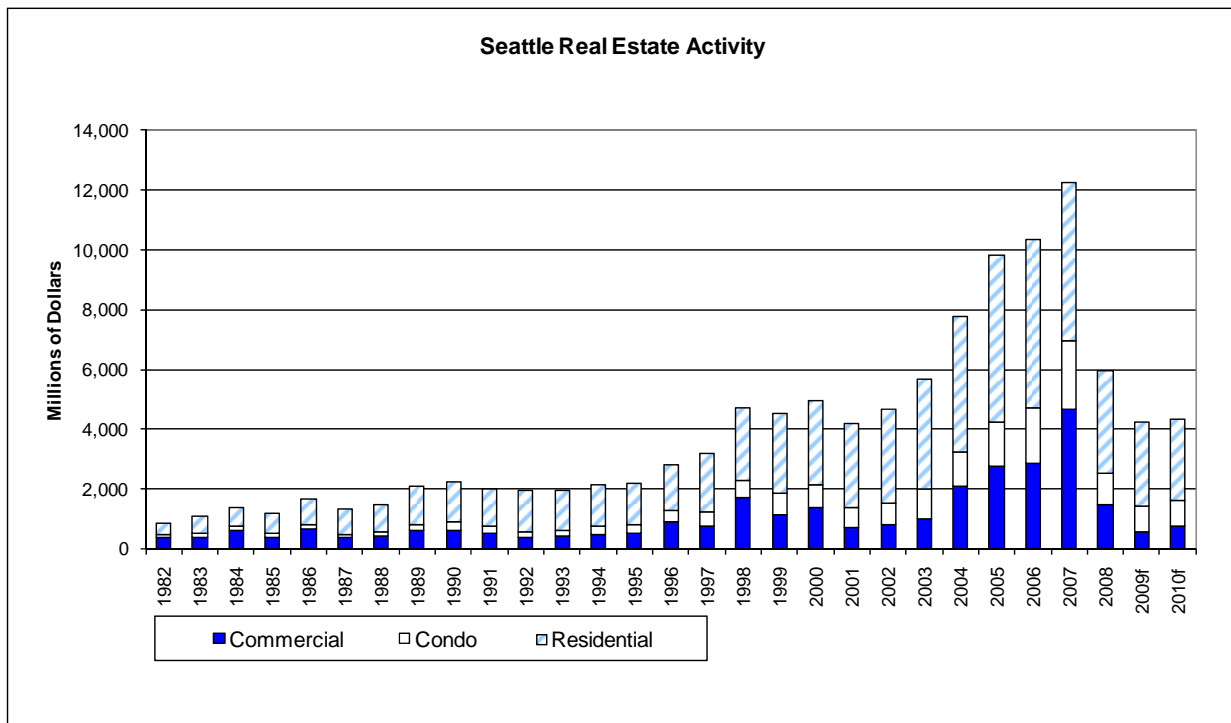


# Revenue Overview

40.0% drop from peak. Recently there have been some signs of life in the national market as mortgage rates have been historically low and the tax code has been further tweaked to encourage home-ownership. Still, the national real estate market has continued to dim. The market continues to work out all the mortgages that have gone into arrears and Moody's Economy.com estimated that this summer half of all homes sold were either short-sales or foreclosure sales. This continues to put downward pressure on home prices.

Locally, the Seattle foreclosure rate has grown but is still less than the national rate. It appears that home sales have hit bottom in the early part of 2009, but local prices are still expected to decline. Seattle single-family home sales were down 31.6% in 2008 over 2007. Historically, commercial transactions take the largest percentage decline during economic downturns. The recent downturn does not appear to be an exception as commercial real estate activity saw a 77% drop in 2008 from its all-time high in 2007. 2009 activity is not shaping up to fare much better. As a result, REET receipts for 2008 were \$30.3 million, 57.8% down from 2007. The 2009 forecast is \$21.1 million and 2010 is forecast to have a 2.4% rate of growth, up to \$21.6 million. The forecast for 2009 incorporates the sale of Chase Center to Northwestern Mutual Life in September.

**Figure 15. Real Estate Excise Tax: Value of Sales**



## Transportation Fund – Bridging the Gap revenue sources

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

## Revenue Overview

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised \$37.4 million in 2008. It is projected to raise \$38.5 million in 2009 and \$39.1 million in 2010.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. The rate increased annually on July 1 to 7.5% in 2008 and 10% in 2009. The tax yielded \$13.4 million in 2008. The forecast is increased from \$17.8 million to \$18.8 million for 2009 and from \$21.3 million to \$21.8 million for 2010 relative to the 2009 Adopted and 2010 Endorsed Budget. This increase is due to resilient demand for off-street parking during this recessionary period, but also to underestimation of the size of institutional commercial parking activity in the City. Institutional parking refers to commercial parking activity that occurs within firms whose principal line of business, and therefore whose tax reporting, is not under parking operation categories.

The business transportation tax (or employee hours tax) is a tax levied and collected from every firm for the act or privilege of engaging in business activities within the City of Seattle. The amount of the tax is based on the number of hours worked in Seattle or, alternatively, on a full time equivalent employee basis. The tax rate per hour is \$0.01302, which is equivalent to \$25 per full-time employee working at least 1,920 hours annually. Several exemptions and deductions were provided in the authorizing ordinance. Most notably, a deduction is offered for those employees who regularly commute to work by means other than driving a motor vehicle alone. The tax raised \$4.8 million in 2008 and is projected to raise \$4.7 million in 2009, with the decrease due to employment reductions. The 2010 Proposed Budget assumes the elimination of this tax. This decision was supported by the performance of the commercial parking tax, the difficult economic situation facing businesses, and the costs to businesses and the City of administering the tax.

# Revenue Overview

**Figure 13. Seattle City Tax Rates**

	2006	2007	2008	2009
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>				
General Property Tax	\$2.01	\$1.88	\$1.70	\$1.55
Families & Education	0.18	0.16	0.14	0.12
Seattle Center/Parks Comm. Ctr.	0.02	0.01		
Parks and Open Space	0.28	0.26	0.18	0.18
Low Income Housing	0.04	0.04	0.03	0.03
Fire Facilities	0.26	0.20	0.17	0.15
Transportation		0.35	0.31	0.27
Pike Place Market				0.09
Emergency Medical Services	0.22	0.21	0.30	0.27
Low Income Housing (Special Levy)	0.09	0.08	0.07	0.06
City Excess GO Bond	0.28	0.25	0.17	0.13
<b>Retail Sales and Use Tax</b>	0.85%	0.85%	0.85%	0.85%
<b>Business and Occupation Tax</b>				
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%
<b>City of Seattle Public Utility Business Taxes</b>				
City Light	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	15.54%	19.87%*
City Drainage	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>				
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%
<b>Franchise Fees</b>				
Cable Franchise Fee	3.5%**	4.20%	4.20%	4.20%
<b>Admission and Gambling Taxes</b>				
Admissions tax	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%

\*The 19.87% rate was effective March 31, 2009 and includes a temporary surcharge to respond to a court decision

\*\*The rate was raised to 4.2% effective June 3, 2006



# Selected Financial Policies

## Debt Policies

- The City of Seattle seeks to maintain the highest possible credit ratings for all categories of short- and long-term General Obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.
- The City will reserve \$100 million of legal limited tax (councilmanic) general obligation debt capacity, or 12% of the total legal limit, whichever is larger, for emergencies. The 12% reserve is now significantly greater than \$100 million.
- Except in emergencies, net debt service paid from the General Subfund will not exceed 9% of the total General Fund budget. In the long run, the City will seek to keep net debt service at 7% or less of the General Fund budget.

## General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals 37.5 cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.
- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund (commonly referred to as the “Rainy Day Fund”). At no time shall the balance of the Revenue Stabilization Account exceed 5% of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

## Other Citywide Policies

- As part of the Mayor’s budget proposal, the Executive develops a revenue estimate that is based on the best available economic data and forecasts.
- The City intends to adopt rates, fees, and cost allocation charges no more often than biennially. The rate, fee, or allocation charge structures may include changes to take effect at specified dates during or beyond the biennium. Other changes may still be needed in the case of emergencies or other unanticipated events.
- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.
- In compliance with State law, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.
- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than 90 days. Exceptions to this policy are permitted with prior approval by the City’s Director of Finance.



## Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington state law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses, but does not appropriate, the budget for the second year. The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review.

## Budgetary Basis

The City budgets on a modified accrual basis. Property taxes, sales taxes, business and occupation taxes, and other taxpayer-assessed revenues due for the current year are considered measurable and available and, therefore, as revenues, even though a portion of the taxes may be collected in the subsequent year. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when they are received in cash since this is when they can be accurately measured. Investment earnings are accrued as earned.

Expenditures are considered a liability when they are incurred. Interest on long-term debt, judgments and claims, workers' compensation, and compensated absences are considered a liability when they are paid.

## Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a current services or "baseline" budget. Current services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as the voter-approved levy for new park facilities, as well as labor agreements and changes in health care, insurance, and cost-of-living-adjustments for City employees. At the outset of a new biennium, current services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the current services budget as the second year budget endorsed by the City Council the previous November, or re-determine current service levels. For example, the 2010 Endorsed Budget was used as the basis for the 2010 Proposed Budget.

During the budget preparation period, the Department of Finance (DOF) makes two General Fund revenue forecasts, one in April and one in August. Both are used to determine whether the City's projected revenues are sufficient to meet the projected costs of the current services budget. The revenue estimates must be based on the prior 12 months of experience. Proposed expenditures cannot exceed the reasonably anticipated and legally authorized revenues for the year unless the Mayor proposes new revenues. In that case, proposed legislation to authorize the new revenues must be submitted to the City Council with the proposed budget.

In May, departments prepared and submitted Budget Issue Papers (BIPs) to DOF for mayoral consideration. The Mayor's Office reviewed and provided direction to departments on the BIPs to be included in the department's budget submittal in early June. In early July, DOF received departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals took place during the month of August. DOF, in conjunction with individual departments, then finalized the operation and CIP budgets.

The process culminates in the proposed operating budget and CIP. Seattle's budget and CIP also allocate Community Development Block Grant funding. Although this federally funded program has unique timetables and requirements, Seattle coordinates it with the annual budget and CIP processes to improve preparation and budget allocation decisions, and streamline budget execution.

# Budget Process

In late September, the Mayor submits the proposed budget and CIP to the City Council. In addition to the budget documents, DOF prepares supporting legislation and other related documents.

## Budget Adoption

After the Mayor submits the proposed budget and CIP, the City Council conducts public hearings. The City Council also holds committee meetings in open session to discuss budget requests with department representatives and DOF staff. Councilmembers then recommend specific budget actions for consideration by their colleagues. After completing the public hearing and deliberative processes, and after making changes to the Mayor's proposed budget, the City Council adopts the budget in late November through an ordinance passed by majority vote. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it. There is no line-item veto in Seattle. Copies of budget documents are available for public inspection at the DOF offices, at the Seattle Public Library, and on the Internet at <http://www.seattle.gov/financedepartment>.

During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements state the Council's expectations in making budget decisions and generally require affected departments to report back to the City Council on results. A chart summarizing the City's budget process schedule is provided at the end of this section.

## Legal Budget Control

The adopted budget generally makes appropriations for operating expenses at the budget control level within departments, unless the expenditure is from one of the General Fund reserve accounts, or is for a specific project or activity budgeted in the General Subfund category called Finance General. These projects and activities are budgeted individually. Capital projects programmed in the CIP are appropriated in the budget at the program or project level. Grant-funded activities are controlled as prescribed by law and federal or state regulations.

## Budget Execution

Within the legally adopted budget authorizations, more detailed allocations, as approved by DOF, are recorded in the City's accounting system, called SUMMIT, at the lowest levels of each department's organizational structure and in detailed expenditure accounts. Throughout the budget year, DOF monitors revenue and spending performance against the budget to protect the financial stability of the City.

## Budget Amendment

A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unexpended appropriations during the year. The City Council, generally with a three-fourths vote, may also increase appropriations from available money to meet necessary expenditures that were not foreseeable earlier. Additional unforeseeable appropriations related to settlement of claims, emergency conditions, or laws enacted since passage of the annual operating budget ordinance require approval by a two-thirds vote of the City Council.

The Finance Director may approve, without ordinance, appropriation transfers within a department or agency of up to 10%, and with no more than \$500,000 of the appropriation authority for the particular budget control level or, where appropriate, line item, being increased. In addition, no transfers can reduce the appropriation authority of a budget control level by more than 25%.

In accordance with Washington state law, any unexpended appropriations for operating or ordinary maintenance expenditures automatically lapse at the close of the fiscal year, except for any appropriation continued by ordinance. Unexpended appropriations for capital outlays remaining at the close of the fiscal year are carried forward to the following year, except for any appropriation abandoned by ordinance.



## BUDGET PROCESS DIAGRAM – 2010 PROPOSED BUDGET

