General Subfund Revenue Overview

City Revenue Sources and Fund Accounting System

The City of Seattle expends $4.8 billion (Proposed 2015) 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 58.8% 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.

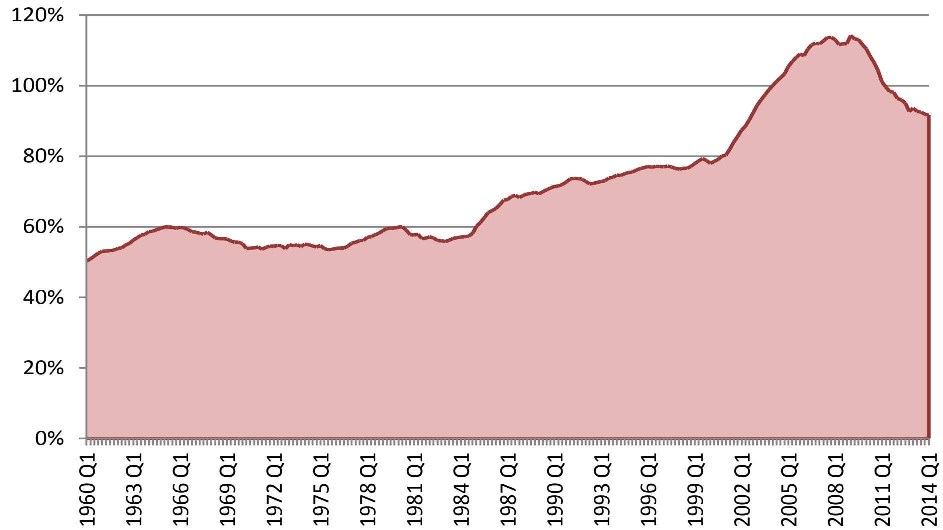
The National and Local Economies, September 2014

National Economic Conditions and Outlook

We are now in the sixth year of the recovery from the great recession. The great recession was preceded by a 25 year period characterized by a relatively stable economy, low inflation, and low interest rates. 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, the largest of which was the housing bubble of 1998-2006

Revenue Overview

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



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

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

The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 4.3% over a period of six quarters, 8.7 million jobs, 6.3% of total jobs, were lost, and the unemployment rate peaked at 10.0% in October 2009.

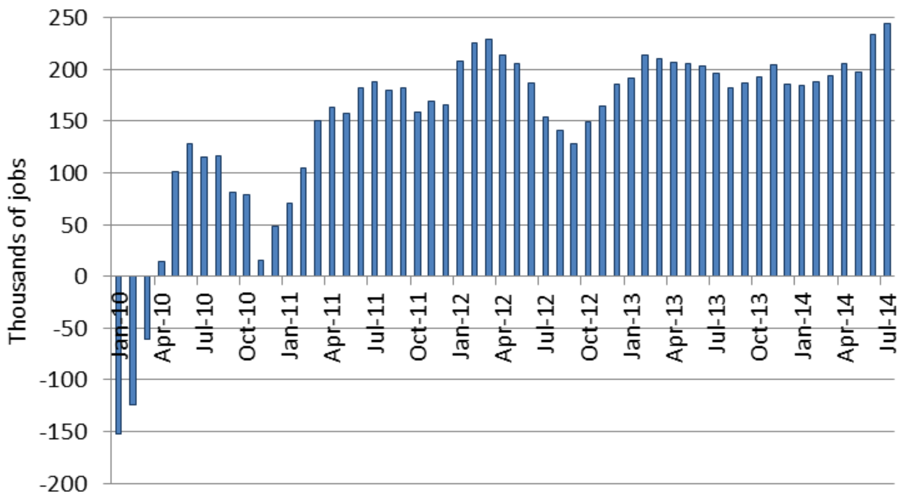
Thus far the recovery from the Great Recession has been sluggish, which is typical of recoveries from recessions caused by financial crises. Reasons for the sluggishness include the need for households to reduce their debt burdens, which constrains their ability to spend, and the large stock of nonperforming loans in the financial industry. In addition, housing, which is typically one of the sectors that leads a recovery, has instead been a major drag as it struggles to recover from the bursting of the housing bubble.

After slowing in the first quarter of 2014, the U.S. economy has bounced back. The economy started 2014 with a first quarter drop in real GDP of 2.1%. The GDP drop overstates the economy's weakness because it was driven by unusually cold winter weather and a drop in exports and inventory change, two components of GDP that had risen to unsustainably high levels in the fourth quarter of 2013.

The economy bounced back strongly in the second quarter, posting a 4.0% gain, a figure which is likely to be revised higher in the coming months. In June the consumer confidence index rose to its highest level since January 2008, and employment growth averaged 244,000 jobs per month over the period February – July, the strongest six month increase since 2006 (see Figure 2). The July unemployment rate was 6.2%, up 0.1% from June's post-recession low of 6.1%

Figure 2. Monthly Change in U.S. Employment

Six month Moving Average



Source: U.S. Bureau of Labor Statistics.

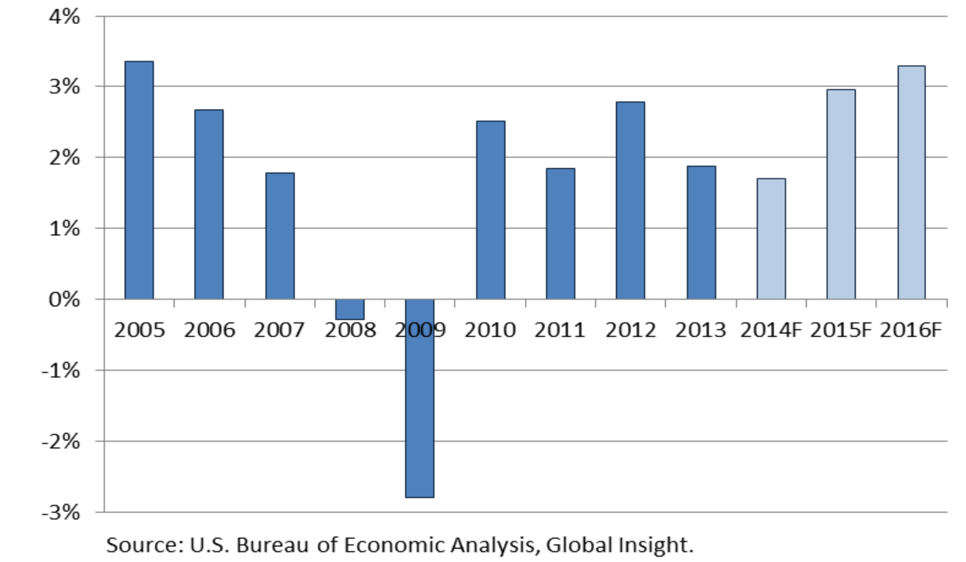
The economy still has areas of weakness, including wage growth, which is just keeping up with inflation, and housing. Housing prices have been rising, which has lifted many homeowners above water, but construction and sales continue to recover slowly. Sales were supported by investors in 2012 and early 2013, but as prices have risen investors have retreated. Households have been slow to enter the market for a variety of reasons, including the difficulty of qualifying for loans and disillusionment with homeownership.

The Federal Reserve has continued tapering its quantitative easing program in 2014, reducing its purchase of securities in $10 billion increments. At the current pace quantitative easing will end in October. The Fed's next step in returning monetary policy to more normal conditions is to begin raising short-term interest rates. Economists expect this to occur sometime in mid-2015.

Economists expect the recovery to strengthen in 2015 and 2016. During the first five years of the recovery, real GDP growth averaged just over two percent per year. Going forward GDP growth is expected to shift up to the three percent range (see Figure 3). Reasons for this optimism include the strong employment growth of recent months, the strengthening of consumer confidence, and the expectation of recovery in the housing market. In addition, the public sector, which has been a drag on growth since 2011, is set to make a small contribution to growth in 2015 and 2016 thanks to a modest recovery by state and local governments.

Figure 3. Annual Growth of U.S. Gross Domestic Product (GDP)

Revenue Overview



Key areas of risk for the U.S. economic forecast include housing, federal monetary policy, and conditions in the rest of the world. The risk for housing is that the expected housing recovery does not materialize and that housing remains in the doldrums. On monetary policy, the Federal Reserve is on course to end its quantitative easing program in October. The next step in the return to a more normal monetary policy is to begin increasing short-term interest rates, which is expected to occur sometime next year. The challenge is to make the transition to higher rates without disturbing the financial markets, as Chairman Bernanke did last year when he announced the Fed would likely be stepping down the pace of its bond purchases. Stock and bond markets reacted strongly to Bernanke's comments, and the subsequent rise in mortgage rates disrupted the fragile housing recovery.

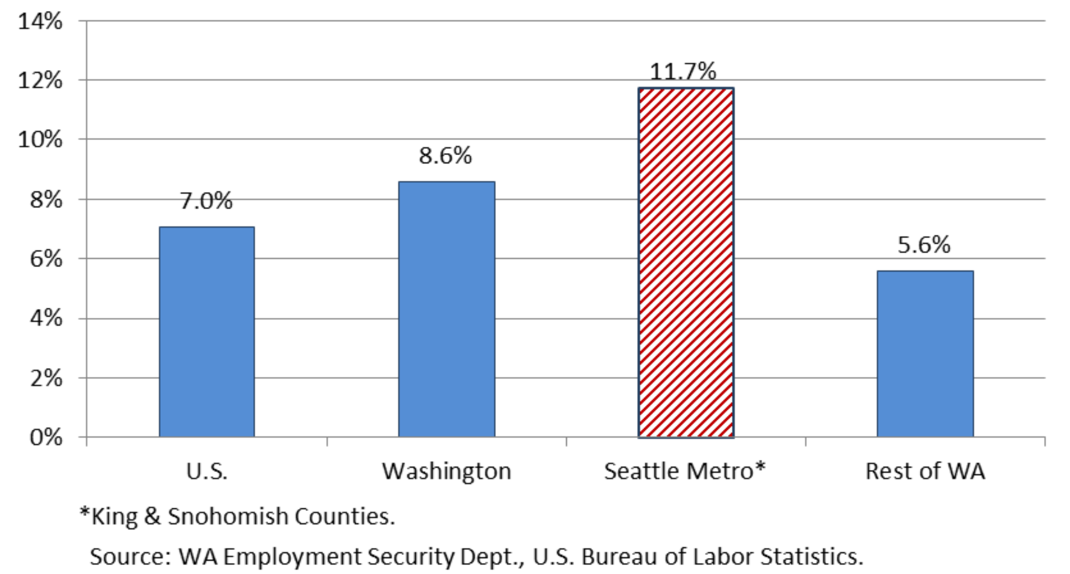
There is probably more risk to the U.S. recovery from forces outside of the U.S. than from domestic factors. The ongoing turmoil in the Middle East has the potential to disrupt energy markets or disrupt the world economy in other ways. Growth in Europe has stalled, in part due to fallout from the Ukraine crisis, and the Eurozone is facing the prospect of deflation. Also of concern are China's financial system and housing market.

Puget Sound Region Economic Conditions and Outlook

The Puget Sound region's recovery has been stronger than the nation's. Since the Great Recession ended in June 2009, the region's economy has outperformed the national economy. Job growth has been considerably more robust in the region than the nation, with Seattle metro area (King and Snohomish Counties) employment increasing by 11.7% from its post-recession low in February 2010 through June 2014 (see Figure 4). This compares to a 7.0% gain for the U.S. and an 8.6% gain for Washington State over the same period. The June 2014 unemployment rate for the metro area was 4.8% compared to 5.8% for the state and 6.1% for the U.S. Growth has been led by aerospace, Amazon, other tech businesses, and professional, scientific & technical services.

Revenue Overview

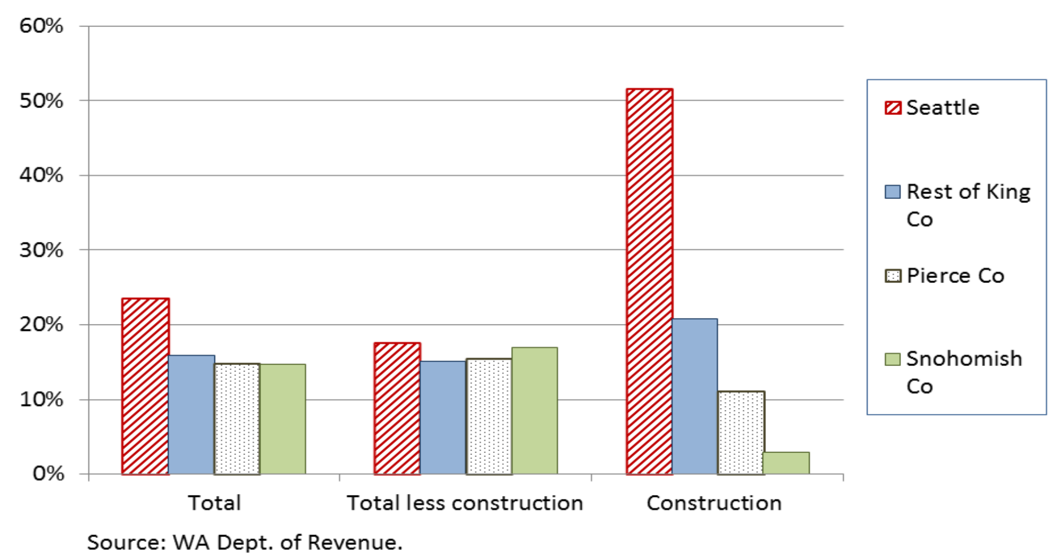
Figure 4. Employment Growth: Post-Recession Trough to July 2014



Aerospace provided a big boost to the region's economy early in the recovery, adding 15,800 jobs between mid-2010 and November 2012. A second big contributor has been Amazon. Although Amazon does not divulge its local employment, the number of jobs in King County's non-store retailing industry (NAICS 454), which is dominated by Amazon, increased by 12,200 over the four year period December 2009 – December 2013. Without the boost from aerospace and Amazon, the region's recovery would look much like the national recovery.

Seattle has bounced back from the recession more strongly than the rest of the region. At the same time that the Puget Sound region's recovery has been stronger than the nation's, Seattle's recovery has outpaced the recovery of the rest of the region. This is reflected in taxable retail sales (the tax base for the retail sales tax), one of the few relatively current measures of economic activity available at both the county and city levels. Over the three year period 2010-13, taxable retail sales increased by 23.5% in Seattle, compared to gains ranging from 14.7% to 15.9% in the rest of King County, Pierce, and Snohomish Counties (see Figure 5). Most of Seattle's relative strength is due to an increase in construction activity of more than 50%. The rest of Seattle's tax base has grown only slightly faster than that of the other areas.

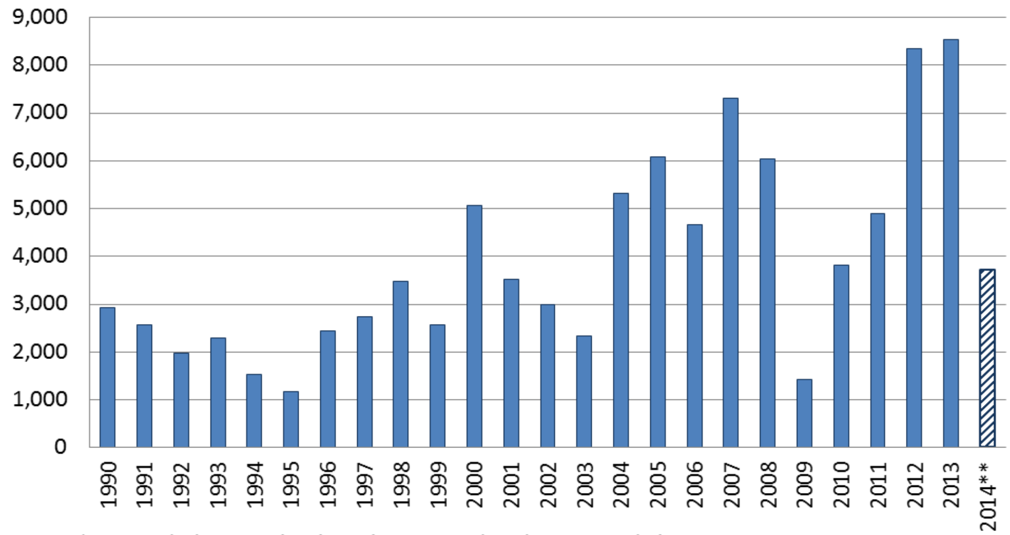
Figure 5. Taxable Retail Sales Growth, 2010 – 2013



Revenue Overview

Seattle's strong rebound from the recession has been supported by the growth of Amazon, other in-city technology businesses, and business and professional service firms. Employment growth at these businesses, along with the current popularity of in-city living, has boosted the demand for office space and housing in the city, thus spurring a construction boom. Initially the construction rebound was focused in new apartments and public construction, but over time activity has broadened to include more office projects and Seattle's first new condominium project in several years. Taxable sales for construction have now reached levels only seen at the housing bubble peak in early 2008. Currently there are over 14,000 housing units that have been permitted but have not yet been completed (see Figure 6).

Figure 6. New Residential Units* by Year Permit Issued, Seattle



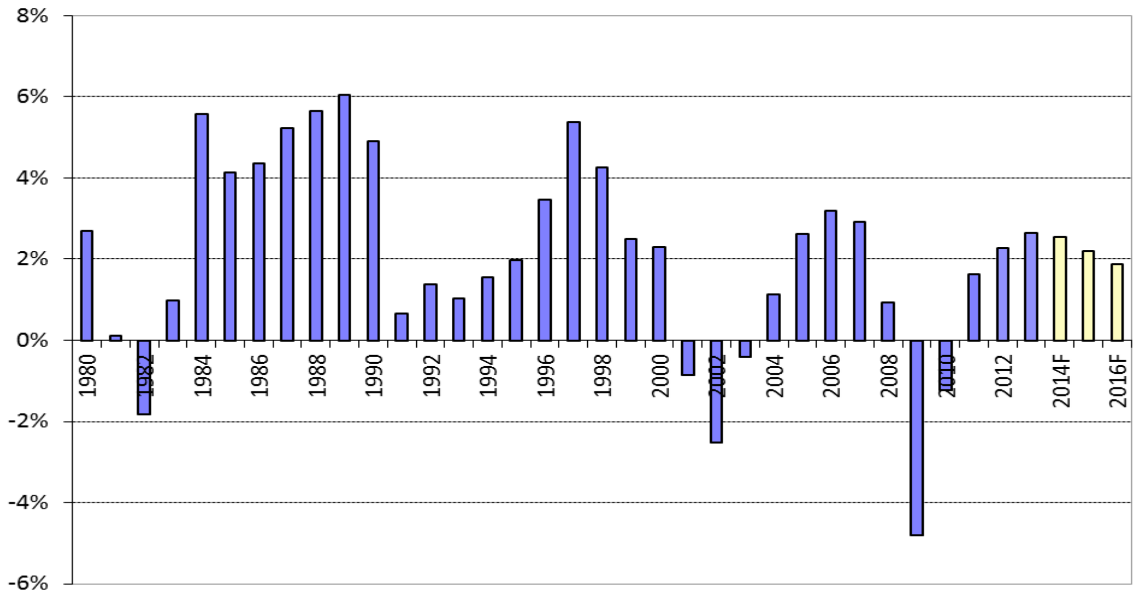
*Data include units that have been completed or currently have an open permit.
**2014 data are for January - June. Source: Seattle Dept. of Planning & Development.

The regional economy is expected to slow. The region's economy is expected to slow modestly in the coming years, in part because aerospace employment, which expanded rapidly during the early stages of the recovery, is expected to decline at a gentle pace going forward. The Puget Sound Economic Forecaster predicts that 2013 and 2014 will be the peak years for employment growth, at 2.6% and 2.5%, respectively (see Figure 7). The forecast assumes the region will continue to grow faster than the nation, but that the gap between regional and national growth will narrow as the recovery moves forward.

Although employment growth is expected to slow, personal income growth is expected to move in the other direction, rising from 3.8% in 2013 to 4.7% in 2014, and then averaging just above five percent thereafter. Personal income growth was weak in 2013 because the employee Social Security payroll tax withholding rate was increased from 4.2% to 6.2% at the beginning of the year, and because tax rates for high earners were raised.

Revenue Overview

Figure 7. Puget Sound Region* Employment: Annual Growth Rate



*Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.
2014-16 forecasts are from the Puget Sound Economic Forecaster.

A major source of risk and uncertainty for the regional forecast is the U.S. economic forecast, which serves as a basis for the regional forecast. If the national economy deviates significantly from the national forecast the regional economy will deviate from its forecast as well. Local sources of uncertainty include Boeing, Amazon, and Microsoft. Boeing has been relocating some functions and employees to out-of-state locations, but thus far the number of jobs involved has been relatively modest. There is a risk that Boeing could continue moving work out-of-state, which would result in the regional forecast being too optimistic. For Amazon the risk is mostly on the upside, namely that the regional forecast is underestimating Amazon's future growth. Microsoft, which has a new CEO, recently announced it will lay off 18,000 employees over the coming year. The majority of the 18,000 are former employees of Nokia, which Microsoft recently purchased. Although only 1,351 of the reductions will occur in the Puget Sound Region, where Microsoft has approximately 43,000 employees, there is a risk that more cuts will occur. On the other hand, if the new CEO is successful in streamlining and refocusing the company the region could benefit.

Consumer Price Inflation

Inflation has made a modest come back after disappearing during the Great Recession. During the mid-2000s, consumer prices rose steadily, driven in large part by a relentless rise in oil prices from a low of just above $20 per barrel in early 2002 to a peak of $147 per barrel in July of 2008. As oil prices peaked, so did the consumer price index (CPI), with the U.S. CPI-U rising to 5.6% in July 2008 measured on a year-over-year basis – its highest level in 17 years. Then the worst economic downturn in 80 years pushed inflation rates down to levels not seen since the 1950s. The annual growth rate of the U.S. CPI-U fell to -0.4% in 2009, the first time in 54 years that consumer prices have declined on an annual basis. Prices rebounded in 2010, with the annual CPI-U posting a 1.6% gain, and then rose further in 2011 to 3.2%, driven by a 15.4% rise in energy prices. With energy prices moderating, inflation eased to 2.1% in 2012, 1.5% in 2013, and 1.7% in the first half of 2014.

Local inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of local prices. Following several years of rising prices, the Seattle CPI-U peaked at 4.2% in 2008, and then dropped steeply during the Great Recession, to 0.6% in 2009 and 0.3% in 2010. Inflation bounced back to 2.7% in 2011, driven by a rise in prices for energy and other commodities, and then eased slightly to 2.5% in 2012.

Revenue Overview

In 2013 a modest decline in energy prices helped push Inflation down to 1.2%; the first half of 2014 saw the Seattle CPI increase by 1.9%, in part due to rising housing costs.

Seattle inflation is expected to remain subdued. In the short- to medium-term, inflationary pressures are expected to remain subdued, as the weakness of the global economy restrains price pressures for commodities, goods, and services. With national unemployment likely to remain elevated for several more years, wage pressures should also remain subdued. Over the next several years the CPI is expected to average between 2% and 2.5%, though there will likely be some movement outside of this range if energy or food prices rise or fall steeply. In fact, in late 2014 and early 2015 Seattle CPI growth measured on a year-over-year basis will be elevated due to an expected bounce-back in energy prices from a low period 12 months earlier.

Figure 8 presents historical data and forecasts of inflation for the Seattle metropolitan area through 2017. The forecasts are for the Seattle CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). The specific inflation measures shown in Figure 8 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

Figure 8. Consumer Price Index Forecast

	Seattle CPI-W (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2013 (actual)	1.2%	1.8%
2014 (actual)	2.2%	1.6%
2015	2.2%	2.9%
2016	2.3%	2.3%
2017	2.3%	2.3%

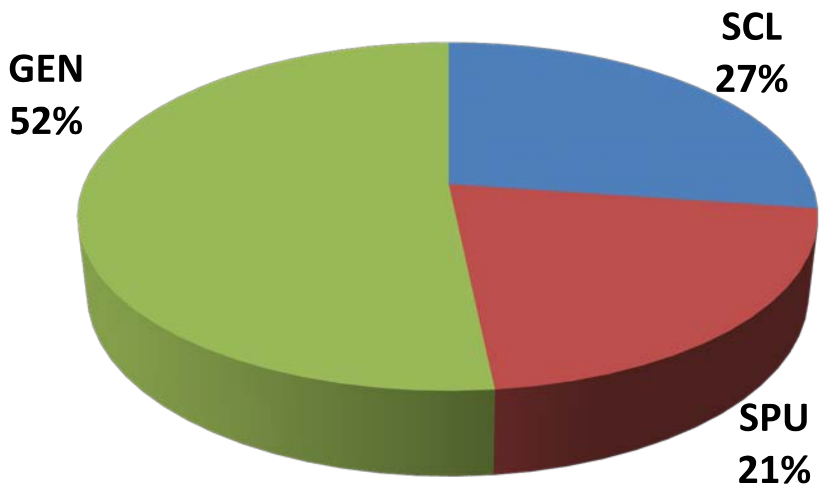
Source: U.S. Bureau of Labor Statistics, City of Seattle.

City Revenues

The City of Seattle projects total revenues of approximately $4.3 billion in 2014. As Figure 9 shows, approximately 48% 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 52% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issuance is included in the total numbers as are interdepartmental transfers. The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City's Bridging the Gap Transportation program in the Transportation Fund.

Revenue Overview

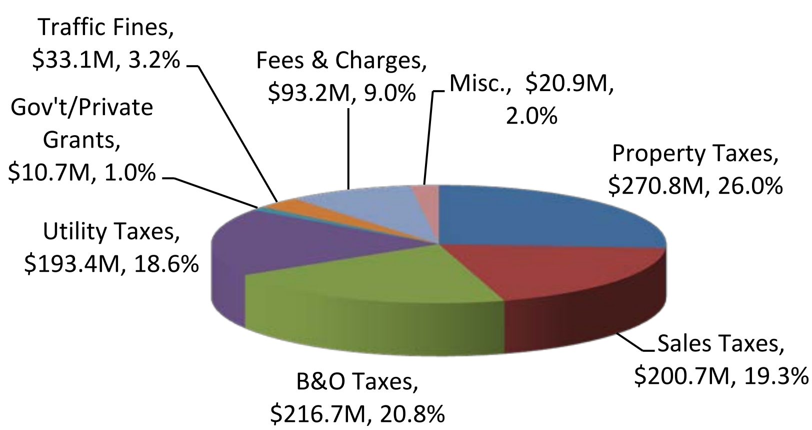
Figure 9. Total City Revenue by Use – Proposed 2015 $4.8 Billion



General Subfund Revenue Forecast

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 10 illustrates, the most significant revenue source is the property tax, which accounts for 26.0%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Figure 10. 2015 Proposed General Subfund Revenue Forecast by Source - $1,039.5M



General Subfund revenues were $996.0 million in 2013, a 3.3% increase over the prior year. Revenues in 2014 are expected to grow to $1,009.8 million followed by $1,039.5 million in 2015 and $1,080.0 million in 2016. 2013 revenues were relatively high due to around $29.0 million in pass-through revenues that are not appropriated in adopted budgets.

Figure 11 shows General Subfund actual revenues for 2013, adopted and revised revenues for 2014, as well as the proposed revenues for 2015 and 2016. Revenues, led by B&O and sales taxes, continue to grow outpacing inflation. Construction has been on the rise in Seattle, particularly apartment buildings in dense neighborhoods and office space in South Lake Union playing a key role in tax revenue growth. It appears that the revenues most closely associated with economic activity are starting to return to more robust levels, although still muted compared to the pre-recession years.

Utility tax receipts from both private and public utilities have held up fairly well through the recession and the following period of expansion. Public utilities have seen a number of general rate increases as well as the creation of revenue stabilization accounts. These rate increases have led to higher tax revenues to the City which have served to counteract the muted growth rates in sales and B&O tax receipts. Some technological changes are having an effect on telecommunications and cable tax revenue streams as consumers change their behaviors. More cellular phone services are being used for internet access and other data services which are not part of the local tax structure. Similarly the competition between cable and satellite service providers along with an increased presence of television online has muted growth in cable tax revenues.

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 began depositing 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2015 and 2016, General Subfund support to the Parks and Recreation department will be $93.3 million and $96.5 million. These contributions are well above the $44.8 and $45.5 million that the Charter requires and that would accrue respectively to Parks under the previous 10% accounting approach.

Revenue Overview

Figure 11. General Subfund Revenue, 2012 – 2014*
(in thousands of dollars)

Revenue Source	2013 Actuals	2014 Adopted	2014 Revised	2015 Proposed	2016 Proposed
General Property Tax (1)	217,774	224,586	224,285	227,328	234,171
Property Tax - Medic One Levy	34,908	42,505	42,391	43,450	44,537
Retail Sales Tax	165,945	171,764	177,074	185,241	193,602
Retail Sales Tax - Criminal Justice Levy	13,871	14,533	14,664	15,423	16,118
B&O Tax (100%)	189,721	199,089	206,258	216,680	228,850
Utilities Business Tax - Telephone (100%)	27,123	27,341	24,963	26,010	26,202
Utilities Business Tax - City Light (100%)	42,544	46,594	46,054	48,923	51,506
Utilities Business Tax - SWU & priv.garb. (100%)	14,348	14,676	14,481	15,296	15,835
Utilities Business Tax - City Water (100%)	28,776	29,967	29,909	29,704	31,016
Utilities Business Tax - DWU (100%)	38,852	39,256	39,368	40,619	42,838
Utilities Business Tax - Natural Gas (100%)	12,778	14,551	13,868	13,907	13,294
Utilities Business Tax - Other Private (100%)	17,847	18,241	18,509	18,942	19,222
Admission Tax	7,938	7,062	8,177	8,428	8,688
Other Tax	5,740	4,845	5,045	5,045	5,045
Total Taxes	**818,165**	**855,010**	**865,047**	**894,997**	**930,923**
Licenses and Permits	14,665	13,493	13,259	13,391	13,391
Parking Meters/Meter Hoods	39,501	38,039	38,972	39,731	40,107
Court Fines (100%)	38,703	34,471	31,620	33,135	32,847
Interest Income	1,537	1,837	1,478	2,154	4,638
Revenue from Other Public Entities (2)	40,268	11,320	11,345	10,737	10,737
Service Charges & Reimbursements	38,933	38,714	39,610	40,079	42,034
Total: Revenue and Other Financing Sources	**991,772**	**992,885**	**1,001,331**	**1,034,224**	**1,074,677**
All Else	2,909	5,357	3,745	2,617	3,143
Interfund Transfers	1,279	4,493	4,683	2,670	2,141
Total, General Subfund	**995,960**	**1,002,734**	**1,009,760**	**1,039,510**	**1,079,961**

NOTES:

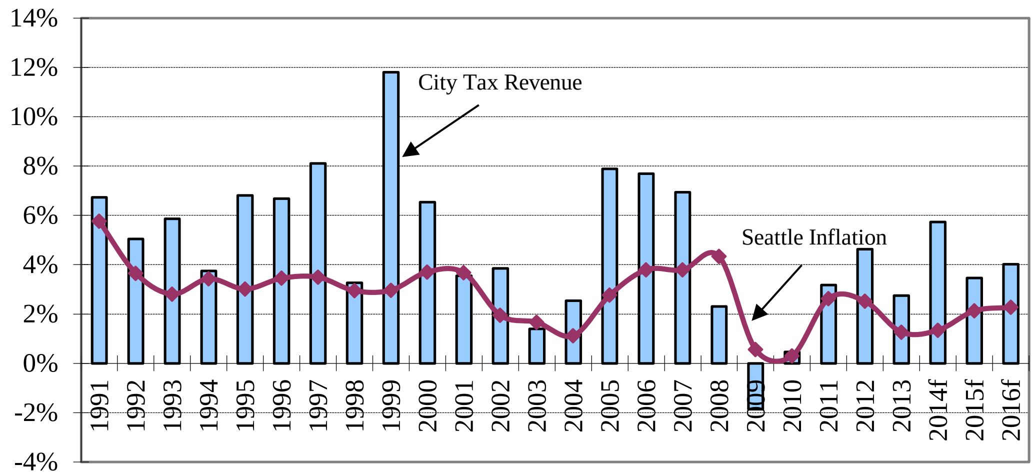
(1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
(2) Included in 2013 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

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

Revenue Overview

Figure 12 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation fell to near zero in 2009 and 2010, but tax revenue growth was negative by almost 2% in 2009. Inflation is forecast to be stable and low over the coming biennium. Tax revenue growth is forecast to be positive and above inflation, with an average annual growth rate of 4.0% 2014 through 2016. Inflation for the same period will average 1.9%.

Figure 12. City of Seattle Tax Revenue Growth, 1991-2016



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 various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations. Figure 13 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City's 2014 property tax: the non-voted General Purpose levy (59.1%); the six voter-approved levies for specific purposes (36.3%), 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 (4.6%). The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. The County Assessor then divides this approved levy amount by the assessed value (AV) of all property in the jurisdiction to determine the tax rate. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's single uniform rate, which is calculated as the rate per $1,000 of assessed value, applied to the value of a given property. The County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value.

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

The City of Seattle's 2014 tax rate at $3.04 per $1,000 AV was roughly 30 percent of the total $10.29 rate paid by Seattle property owners for all taxing jurisdictions. The 2014 total and City of Seattle tax obligations for a home of median assessed value in Seattle was $3,931 and $1,164 respectively. The obligation amounts in 2013 were approximately $3,657 and $1,143.

Assessed Value (AV) -- For the first time in 14 years, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. AV fell again in 2011 and 2012 by 2.9 percent and 2.2 percent respectively. The last significant previous decrease was in 1984 when AV dropped by 3.6 percent. Changes in AV affect tax rates as do changes in the amounts levied: as AV falls (rises), tax rates rise (fall). Consequently, from 2009 – 2013 with falling AV, the total property tax rate from all jurisdictions paid by Seattle property owners increased 31.8% from $7.97 to $10.50 per thousand dollars of AV. The rate for the City of Seattle increased 27.1% over the same period from $2.58 to $3.28, even though the levy amount increased only 12.5%. Rate growth should reverse over the next several years as Seattle AV increased 9.57% for 2014 and is forecasted to increase 10.24% for 2015 and 6.8% in 2016.

New Construction -- In addition to the allowed maximum 1% levy 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. Between 1999 and 2010 annual new construction revenues exceeded $2 million, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction revenue for the 2009 tax collection year remained high at $6.38 million, before succumbing to economic realities and falling 35 percent in 2010 to $4.11 million, then 52% to $1.95 million in 2011 before stabilizing at $2.02 million in 2012. New construction activity and value fell commensurately during this period, but increased 6.9% in the period preceding 2013 tax collections to $780.2 million from $729.7 million in 2012 and increased a robust 90% further in 2014 to $1.48 billion. This increased revenues by $2.39 million in 2013 and $4.6 million in 2014. The 2015 Proposed Budget projects significant growth in new construction value for 2015 and 2016, increasing 22.8% to $1.82 billion and an additional 7.7% to $1.96 billion respectively. This new construction volume is projected to generate $4.8 million additional tax revenues in 2015 and $4.4 million in 2016.

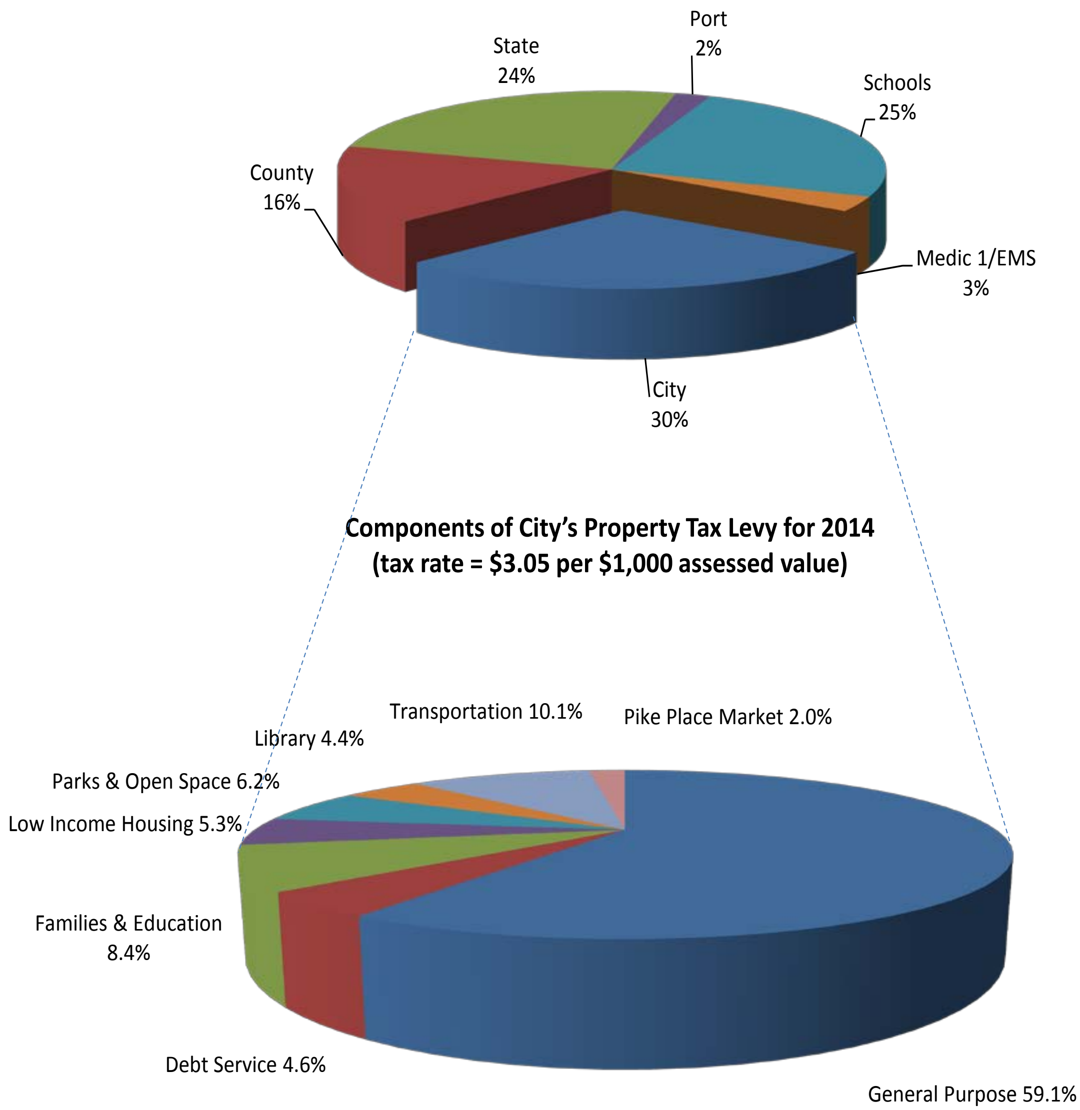
The 2015 Proposed Budget assumes 1% growth plus new construction. The forecast for the 2015 Proposed Budget's General Subfund (General Purpose) portion of the City's property tax is $227.3 million in 2015 and $234.2 million in 2016. Additionally the City will levy approximately $114.9 million for voter-approved lid lifts accounted for in other funds than the City's General Fund and $18.7 million to pay debt service on voter-approved bond measures. The City's six-year Pike Place Market renovation lid lift and Parks lid lift both expire in 2014, decreasing the City's levy by approximately $32 million. In August, 2014, voters approved creation of a Metropolitan Parks District (MPD). Pursuant to RCW 35.61, the MPD is a legally separate taxing jurisdiction from the City of Seattle, whose property tax levy authority of $0.75 per $1,000 assessed value is outside of the City's statutory rate limit of $3.60 per $1,000 assessed value and whose revenues will not be accounted for in the City's General Fund. The MPD will not levy and collect any tax revenues until the 2016 tax collection year. The nine-year Transportation lid lift will generate approximately $43.7 million in 2015, its final year. These revenues are accounted for in the Transportation Fund and are discussed later in this section. Finally, not included in the total above, voters will have an opportunity to approve the proposed $58.2 million, four-year Seattle Preschool Program levy at election on November 4, 2014.

Medic 1/Emergency Medical Services. Voters in November 2013 approved a renewal of the Medic 1/EMS levy at $0.335 per $1,000 of AV. At this rate King County projected revenues over the 6-year life of the levy of $678 million, approximately $256 million of which will come to the City of Seattle. The 2014 Adopted Budget projected levy revenues of $42.5 million in 2014. This amount was revised down to $42.39 million in the latest August 2014 forecast. The 2015 Proposed Budget projects revenues of $43.45 million in 2015 and $44.53 million in 2016.

Revenue Overview

Figure 13.

Components of Total Property Tax Levy for 2014
(tax rate = $10.29 per $1,000 assessed value)



Revenue Overview

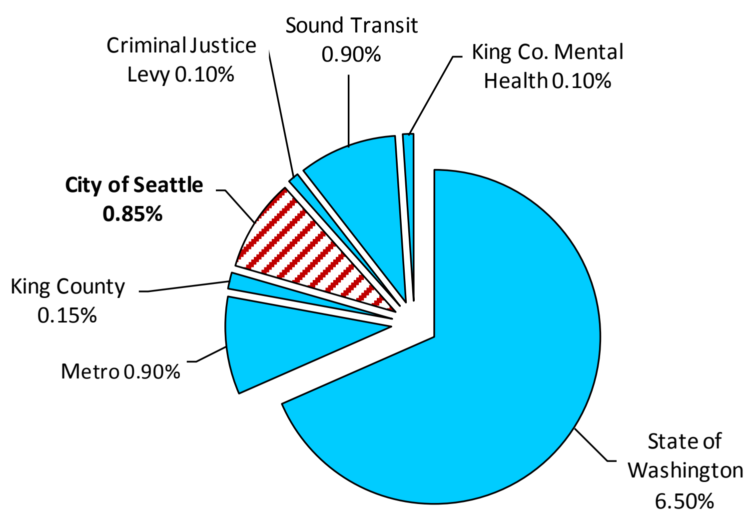
Retail Sales and Use Tax

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 revenue to the state. The state provides the City with its share of this revenue on a monthly basis.

The sales tax rate in Seattle is 9.5% for all taxable transactions. Prior to October 1, 2011, the sales tax rate in Seattle had included an additional 0.5% tax on the sale of food and beverages in restaurants, taverns, and bars. This tax, which was imposed throughout King County in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle, expired because the stadium construction bonds were paid off.

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 14. 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 14. Sales and Use Tax Rates in Seattle, 2014



Total Rate = 9.5%

Washington State implemented destination based sales taxation in 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 both state and local sales tax revenue.
- When a retail sale involves a delivery to a customer, SSUTA requires that the sales tax be paid to the jurisdiction in which the delivery is made. This is called destination based sourcing. Prior to 2008, Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the delivery was made. The change from origin based sourcing to destination based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

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

Revenue Overview

Sales tax revenue has grown and contracted with the region's economy. Of the City's four major taxes, the sales tax is the most volatile because it is the most sensitive to changes in economic conditions. Over half of sales tax revenue comes from retail trade and construction, which are both very sensitive to economic conditions.

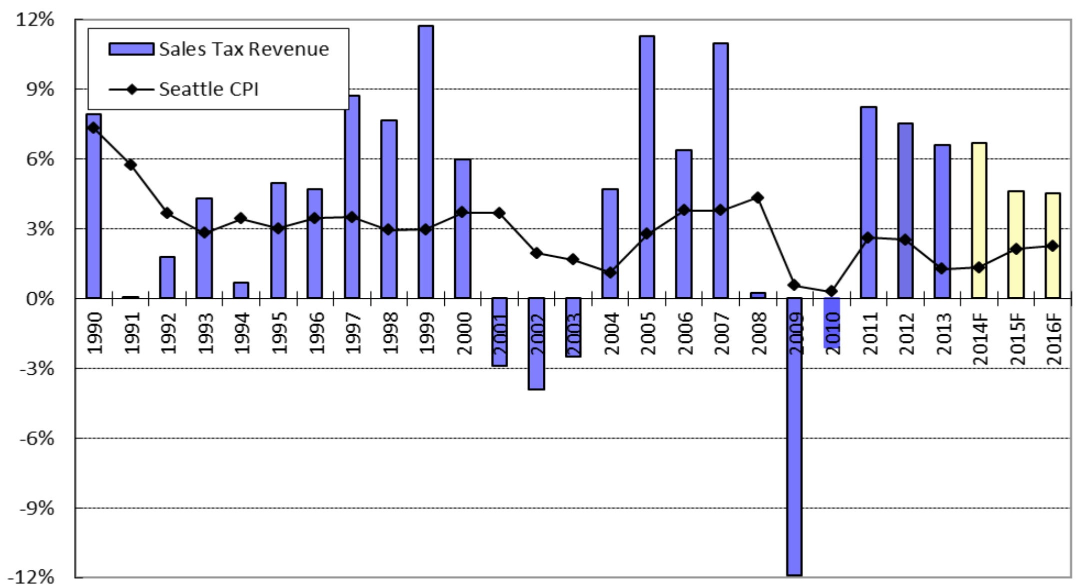
Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. The recession that followed the bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive years of decline for the sales tax base. The economy began to recover in 2004, and then grew strongly for three years, 2005-07, during which the tax base grew at an average annual rate of 9.8%, led by construction's 21.0% rate.

The boom of 2005-07 was followed by the Great Recession, which caused the largest contraction in the sales tax base in over 40 years. In a period of five quarters beginning with the third quarter 2008, the retail sales tax base shrunk by 18.2%. Construction, which led the pre-recession build-up, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). The following three years erased 79% of that increase. Other industries posting steep declines in taxable retail sales during the recession were manufacturing, finance & insurance, management, education & health services, and building materials & garden supplies.

After hitting bottom in the fourth quarter of 2009, Seattle's sales tax base has increased by 31.0% through first quarter 2014, surpassing its third quarter 2008 peak by 7.2%. However, if the data are adjusted to remove the effects of inflation, the sales tax base is still 3.5% below the peak. Industries leading the upturn include construction, motor vehicle & parts retailing, e-commerce retailing, professional, scientific & technical services, accommodation, and food services. Taxable sales for construction firms have increased by 76.6% since hitting bottom in the second quarter of 2011, and now are at levels attained at the peak of the housing bubble in 2008.

Sales tax revenue growth is expected to slow in 2015 and 2016. In 2014 sales tax revenue is expected to maintain its robust post-recession pace with a gain of 6.7%, in part due to the continued strength of construction activity, which is forecast to increase by 10.1% in 2014. For 2015 and 2016 revenue growth is forecast to drop to 4.6% and 4.5%, respectively, as both the regional economy and the growth rate of construction activity slow (see Figure 15).

Figure 15. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2014-16 are forecasts.

The sales tax forecast incorporates an expected revenue gain from HB 1971, which was passed by the Washington State Legislature in 2013. HB 1971 made a number of changes to the way in which telecommunications services are taxed, including the repeal of the sales and use tax exemption for local residential land line service. In addition, the forecast includes an estimate of future sales tax revenue from marijuana sales legalized by Initiative 502.

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 according to an analysis prepared by the Washington Department of Revenue. On January 1, 2008, the City imposed a square footage business tax to recoup the $22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 20 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 2014, the rate for business floor space, which includes office, retail, and production space, is 44 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 15 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation. The B&O tax has a small business threshold of $100,000, which means businesses with taxable gross receipts below $100,000 are exempt from the tax.

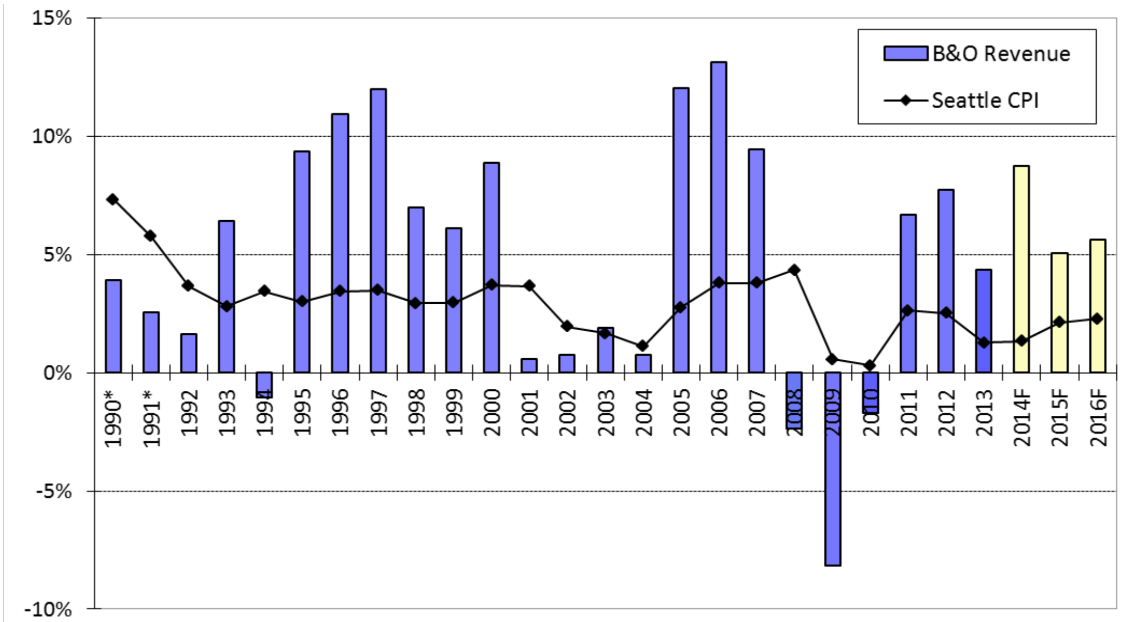
Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, which does not cover most services. In addition, the B&O tax is less reliant than the sales tax on the relatively volatile construction and retail trade sectors, and it is more dependent upon the relatively stable service sector.

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

B&O revenue growth has mirrored the growth of the City's economy. In 1995, the City initiated an effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. This resulted in unlicensed businesses being added to the tax rolls, businesses reporting their taxable income more accurately, and a significant increase in audit and delinquency collections – all of which helped to increase B&O receipts beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

Since the mid-1990s, B&O receipts have fluctuated with the economy's ups-and-downs, rising rapidly during the late-1990s stock market & dot-com boom and the housing bubble of the mid-2000s, but falling sharply during the two major recessions of the last decade (see Figure 16). Following four successive years of very weak growth from 2001 through 2004, B&O revenue turned up sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, professional, scientific & technical services, health services, and finance & insurance. The upturn ended in 2008 with the onset of the Great Recession. 2009 saw the full force of the recession with revenue dropping 8.2% from 2008. The decline was broad based with no industry untouched, but construction, manufacturing, wholesale trade, and finance & insurance were particularly hard hit. The decline continued until the second quarter of 2010, by which time the tax base had lost 16.8% of its value.

Figure 16. 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; 2014-16 are forecasts.
Figures include both gross receipts and square footage tax revenue.

Since hitting bottom, the B&O tax base has experienced a healthy rebound, increasing by 31.2% over the 15 quarters to first quarter 2014 to surpass its pre-recession peak by 9.2%. However, in real (inflation adjusted) terms B&O revenue is still 0.4% below its fourth quarter 2007 peak. Leading the rebound from the Great Recession have been construction, wholesale trade, finance & insurance, and business & professional services. The bounce-back in health services has been modest, with growth during the past five years running below historic levels.

B&O tax revenue increased by 6.7% in 2011 and 7.7% in 2012, before slowing to 4.3% in 2013. The slowdown in 2013 was not caused by a slowing of growth in the tax base, which expanded by 7.2%, but by a drop in revenue from audit activity and an increase in refund payments from 2012 levels.

The B&O forecast anticipates moderate revenue growth will continue. The B&O revenue forecast reflects the expectation that the regional economy will grow more slowly beginning in 2015. 2014 is expected to see an 8.7% revenue gain due to a healthy economy, continuing construction growth, and a return to more normal levels of audit revenue and refund payments. Thereafter B&O revenue is forecast to increase by 5% - 6% each year.

The forecast incorporates an expected revenue gain of $400,000 in 2015 and $600,000 in 2016 from planned improvements to the City's audit selection process. The City's current manual selection process will be replaced by an analytically-based automated process that will make use of information from internal and external data sources to identify areas of likely tax non-compliance and to optimize audit workflow. The new process is expected to increase tax compliance, which will provide a modest boost to B&O revenue. Also included in the 2015 and 2016 forecasts are projections of revenue from the implementation of Initiative 502, the marijuana initiative.

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.

Revenue Overview

Natural gas prices are expected to increase, but remain historically low. 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 tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales.
Natural gas prices have been relatively stable of late after reaching a high of $13 per million British Thermal Units (BTUs) in July 2008. Spot prices, those paid for delivery in the following month, averaged $3.7/mBTU for 2013 and are expected to average around $4.7/mBTU in 2015 and 2016. Temperatures play a key role and are inversely related to natural gas usage and subsequent tax receipts.

Refunds and Audit payments affect the Telecommunications Tax. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits. Wireless revenues have been a source of growth as more and more consumers shift to cellular phones as their primary voice option. This growth has come at the expense of traditional telecom providers, from whom the City has seen steady declines in tax receipts. The recent proliferation of smartphones has been a double-edged sword for the City's tax base. While new smartphone users have added to the wireless tax revenue base, the increased use of data and internet services which are not taxable have caused declines in the revenue streams.

As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City will continue to see tax revenue declines. Revenue growth has been negative for the past three years largely as a result of some wireless companies changing their revenue accounting practices to reflect the increased use of non-taxable data services. These accounting practices continue to evolve, leading to another year of negative growth in 2014 of -3.6%. Non-current revenues, those that are for prior periods stemming from re-filing or audit/refund payments, have been making up much of the difference keeping the revenue stream flat. In 2014 the City expects the non-current activity to be negative as some large refund payments are processed to various taxpayers. This will result in a year over year revenue growth of -8.0% in 2014. For the coming biennium non-current revenues are expected to average a positive $700,000 resulting in a positive average annual growth rate of 2.5% for the two years.

Cable tax revenues show positive growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.4% franchise fee makes funds available for cable-related public access purposes. This franchise fee is deposited into the City's Cable TV Franchise Fee Subfund. The franchise is up for renewal in late 2014.

Cable revenues have been growing, but with increased competition from satellite and internet television providers, the growth has been somewhat muted. Average annual growth for the 2015 – 2016 period is expected to be 1.8%, just below inflation.

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 15.54% on the City Water Utility. There are no planned tax rate changes; therefore the revenues from the utilities are projected to remain fairly stable, with the exception of those utilities with changes in rate structure.

New pass-through rates from the Bonneville Power Administration for the current biennium. City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization fund for the utility funded with an as needed surcharge. The rate stabilization surcharge is not expected to be triggered in 2014, but may be utilized in 2015 and 2016. City Light projects selling an additional 1.2% of energy to retail customers in 2014. For the upcoming biennium energy sales are expected to be relatively flat. Average retail rates for 2015 and 2016 are expected to increase up by 4.2% and 4.9% respectively over the prior year. Tax revenues that accrue to the General Subfund will have annual increases of 6.2% in 2015 and 5.3% in 2016.

Water retail rate increases for 2015 and 2016. Rate increases have already been adopted by Council for the water utility in SPU through 2016. Tax revenue growth rates are expected to average 1.9% over the biennium.

Drainage and Wastewater rate increases mean higher tax revenue growth. Rates adopted by City Council through 2016 will yield tax receipts from these two utilities that will grow by 3.2% and 5.5% in 2015 and 2016, respectively.

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%. Solid Waste rates have been adopted by the City Council through 2016 and along with increased economic activity, will lead to tax revenue growth rates of 6.0% and 3.8% in 2015 and 2016, respectively.

Admission Tax

The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to swings in attendance at athletic events. It is also dependent on economic conditions, as people's ability and desire to spend money on entertainment is influenced by the general prosperity in the region. Recently, entertainment venues have opened around the City increasing the size of the tax base. Revenues are forecast to grow by an average annual rate of 3.1% for 2015 and 2016.

20% of admissions tax revenues, excluding men's professional basketball, were dedicated to programs supported by the Office of Arts and Cultural Affairs (OACA). For 2010, the Mayor and Council agreed to increase this contribution to 75% based on the actual admission tax receipts from two years prior. As a result, OACA is fully funded by the admissions tax, except for money received from the 1% for Arts program. The forecasts in Figure 11 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.

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. In addition to offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking, pay station technology has allowed the City to more actively manage the street right-of-way by adopting different pricing, time limit and other management parameters on different blocks throughout the city and at different times of day. The City currently has around 2,200 pay stations controlling approximately 12,500 parking spaces. The overall objective of the parking management program is to provide a more data-driven, outcome based management and price setting approach in pursuit of the adopted policy goals of 1 to 2 open spaces per block-face, reduced congestion, support of business districts and, as a by-product, reduced vehicle emissions and improved air quality.

One element of the performance based parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, multiple rates were implemented categorically for these spaces and were to be adjusted periodically to consistently achieve a desired occupancy rate in the area. This approach was extended citywide in 2009 with a three-tiered rate program, with rates varying according to parking demand by area of the city. Accompanying this change in policy, the maximum allowable hourly rate was increased from $1.50 per hour to $2.50 per hour to allow for rate setting flexibility.

The 2011Adopted Budget included a further increase in the maximum allowable hourly rate from $2.50 to $4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. in 7 neighborhoods with high evening occupancy rates. As implemented in 2011, based on measured occupancy throughout the day, SDOT moved from the 3 tiered rate approach to more finely adapted rates by individual neighborhood. Between January and March 2011, on-street parking rates were increased in 4 neighborhoods and decreased in 11 neighborhoods relative to the 2011 Adopted Budget assumptions. The 2012 Adopted Budget went further, redefining the boundaries of parking areas as needed to set rates by neighborhood and where appropriate by sub-neighborhood areas according to occupancy data. It also adopted changes to time limits (from 2 to 4 hours) in 8 neighborhoods and sub-areas. The 2013 Adopted Budget made no further rate, boundary or time limit changes, but assumed full implementation of a pay-by-phone (PBP) payment program. PBP allows individuals to pay for parking by credit card using a smart phone or other smart device, via an account with the City's contracted PBP vendor. The 2014 Adopted Budget assumed status-quo parking rates throughout the City and one time limit change (from 2 to 4 hours) in the Uptown Core area.

The 2015 Proposed Budget, based on collected occupancy data, assumes rate adjustments in several neighborhoods across the City and tests time-of-day pricing in the Chinatown-International District neighborhood. Although there are more rate reductions than increases planned, a general increase in demand for parking due primarily to increasing employment, particularly in the downtown neighborhoods, leads to year-over-year forecast revenue growth in 2015 of 3.2% over the 2014 Adopted Budget to $37.5 million from $36.4 million. Revenues are projected to grow an additional 1% in 2016 to $37.9 million.

Street Use and Traffic Permits. Traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits, reversed a downward recessionary trend in 2011, ending 23.3 percent higher at $2.33 million than 2010 actual revenues of $1.83 million. 2012 revenues increased 55% to $3.65 million and 2013 revenues remained flat at $3.64 million. This increase was due to growing construction and service trade activity and to the advent of the City's car sharing program with Car2Go. The 2014 Adopted Budget assumed meter hood volumes declining, dropping total revenue for the category to $3.2 million. 2015 and 2016 revenues are projected to increase slightly to $3.30 million.

Court Fines

Historically, between 70% and 85% of fine revenues collected by the Seattle Municipal Court are from parking citations written by Seattle Police Department parking enforcement and traffic officers. Fines from photo enforcement in selected intersections and school zones now comprise approximately 10-15% of revenues and 10-12% comes from traffic and other tickets. Trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the introduction of parking pay station technology beginning in 2004. However, beginning in 2007 citation volume increased, in part due to changes in enforcement technology and strategies, but also to the addition of three Parking Enforcement Officers (PEOs) authorized as part of the South Lake Union parking pay station extension (described above in the Parking Meter section).

Demand for parking enforcement has also grown with changes in neighborhood development, parking design changes and enforcement programs in other parts of the City. The City has established several new Restricted Parking Zones (RPZs), especially around the new light-rail train stations through the Rainier Valley. In response, an additional 8 new PEOs were authorized in 2009, 7 in 2010, and 4 in 2011. Two of the four PEOs in 2011 were dedicated to enforcement activities related to the City's scofflaw boot program, which began July 5, 2011. The boot program utilizes mobile license plate recognition cameras and an immobilizing boot device that is attached to scofflaw vehicles, or those with 4 or more outstanding parking citations in collections.

An additional 8 PEOs were adopted for 2013 to compensate for the additional time anticipated to enforce compliance under the Seattle Department of Transportation's new pay-by-phone (PBP) program (see also descriptions in the Seattle Police Department and Transportation Department sections). The PBP program, allows the public to pay for parking with their cell phones or other mobile device

The City began PBP service in July 2013 in the downtown core with PEOs using smartphones to verify compliance rather than the existing HHTs. Full city-wide roll out continued through October 2013.

Revenue Overview

In 2009, the City received $27.2 million in court fines and forfeitures, including $4.7 million from the expanded red light camera enforcement program, which grew from 6 camera locations to 18 in the last quarter of 2008 and to nearly 30 total locations in early 2009. Revenues in 2010 were $29.8 million with approximately $4.8 million from red light camera enforcement. Revenues in 2011 were $31.4 million with $4.53 million from red light cameras. The 2012 Adopted Budget assumed addition of 6 more camera locations and 4 school zone speed camera locations and approximately $1 million in additional revenues. Installation of the cameras was delayed with the school zone speed cameras becoming operational in December 2012.

The 2014 Adopted Budget projected total camera enforcement revenues at $9.9 million in 2013 and $13.3 million in 2014. Of these amounts $6.2 million in 2013 and $8.6 million in 2014 were attributable to school zone speed cameras. The 2014 Adopted Budget assumed an increase in the number of school zone speed camera locations from the original 4 locations to a total of 15 locations by the end of 2014. The 2015 Proposed Budget assumes that only 5 new locations will come on line in the 4th quarter of 2014. The remaining 6 locations are delayed until 2015. Also, per Council action beginning in 2014 the school zone camera revenues will be deposited into a separate fund and will no longer appear in the General Subfund table. Total Fines and Forfeitures revenues for 2014 are estimated at $31.6 million, a decrease from $33.7 million in the 2014 Adopted Budget due to greater than anticipated drops in parking citations. For 2015 and 2016, Fine and Forfeiture revenues are projected at $33.1 million and $32.8 million in the 2015 Proposed Budget.

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 and investment 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.

As a result of the financial crisis in 2008 and the Federal Reserve's unprecedented purchasing of assets through quantitative easing, borrowing rates fell to historic lows. These rates are expected to remain relatively low into 2015 as the Fed exits their purchasing programs. The annual earnings yield for the cash pool is expected to be 0.88% in 2014, 1.29% in 2015 and 2.81% in 2016. Should the economy suffer any setbacks, these rates would be expected to fall. Current estimates for General Subfund interest and investment earnings are $1.4 million in 2014, $2.1 million in 2015 and $4.5 million in 2016.

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.

Criminal Justice revenues should be fully restored in the coming biennium. 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. These revenues have been affected by State budget changes in the recent past and while not expected, could be affected in future budgets out of Olympia

State budget reduces liquor related revenues to cities. Cities in the state of Washington typically receive two liquor related revenues from the state. One is related to the liquor excise tax on sales of spirits and the other is a share in the State Liquor Board's profits accrued from the operation from their monopoly on spirits sales. The state no longer holds the monopoly in liquor sales in the state due to the passing of Initiative 1183 in November of 2011. The initiative guaranteed the cities would continue to receive distributions in an amount equal to or greater than what they received from liquor board profits prior to the implementation of the initiative as well as an additional $10 million to be shared annually. There was no guarantee concerning liquor excise taxes. In recent budgets the state has eliminated, on a temporary basis, the sharing of liquor excise taxes. Distributions resumed in the 3rd quarter of 2013, but are lower than pre-I-1183 years. Liquor Board profits however have continued to increase as I-1183 has been fully implemented. Liquor related revenues are expected to bring in $7.1 million per year in 2015 and 2016, barring any additional changes from the state.

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.

Interfund Transfers

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

In ratifying the 2015 and 2016 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.

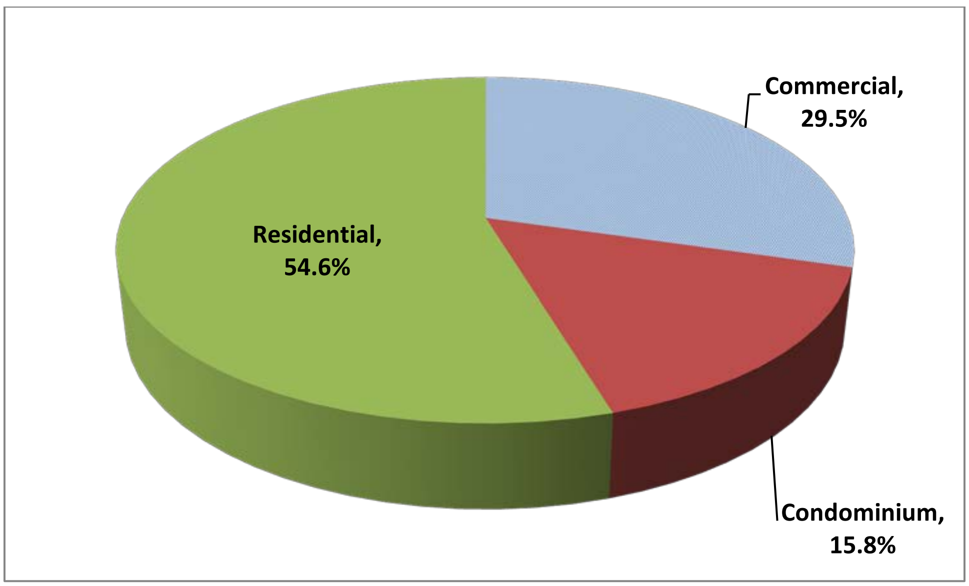
Cumulative Reserve Subfund – Real Estate Excise Tax

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

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

Over time, 54.6% 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 29.5% of the tax base, and condominiums constitute the remaining 15.8% (see Figure 17).

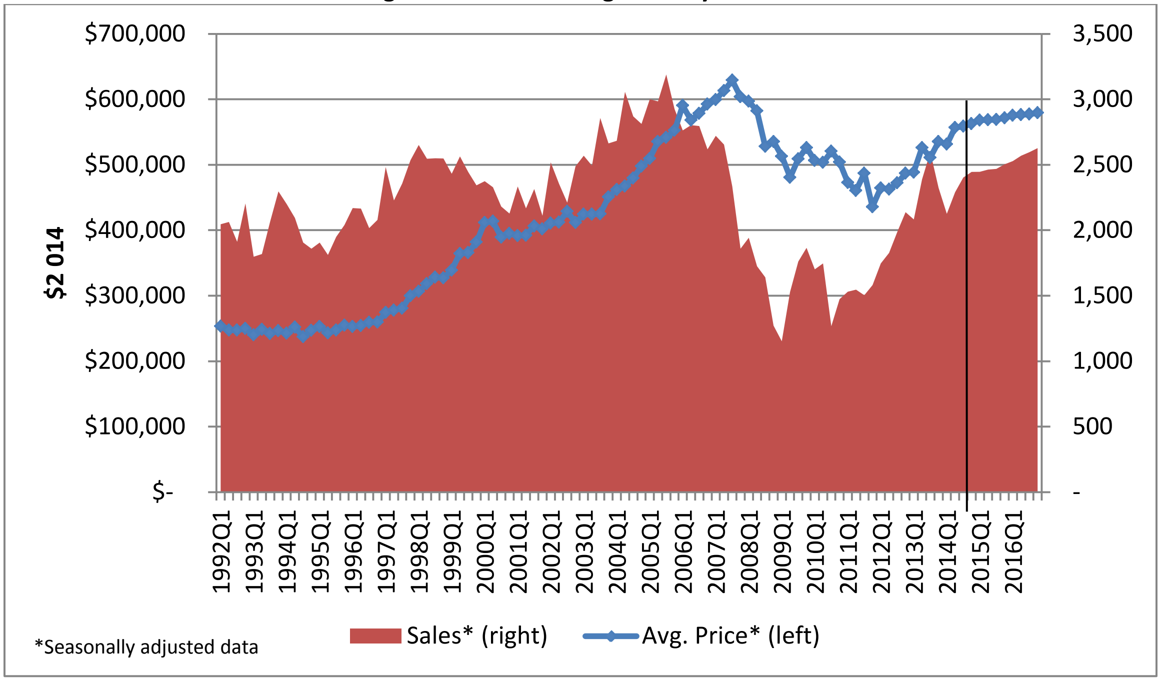
Figure 17. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2013



The residential market continues to grow. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline was felt across all three real estate categories. The first quarter of 2009 was the bottom of Seattle's residential market for both sales and prices on a seasonally adjusted basis. With low financing rates and a growing economy, residential and condominium sales have been on an upswing with 2014 single-family home prices surpassing their previous peak in 2007; adjusted for inflation, home prices have yet to reach their previous high (see Figure 18).

Revenue Overview

Figure 18. Seattle Single-family Market



The volatility of REET is reflected by the fact that despite a 8.3% average annual growth rate, the REET tax base declined in ten years during the period 1982 – 2013. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability was severely compromised in the downturn as Seattle area prices for residential properties fell 31.0% 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, as was seen in 2007 and 2012 (see Figure 19).

Figure 19. Seattle Commercial Sales

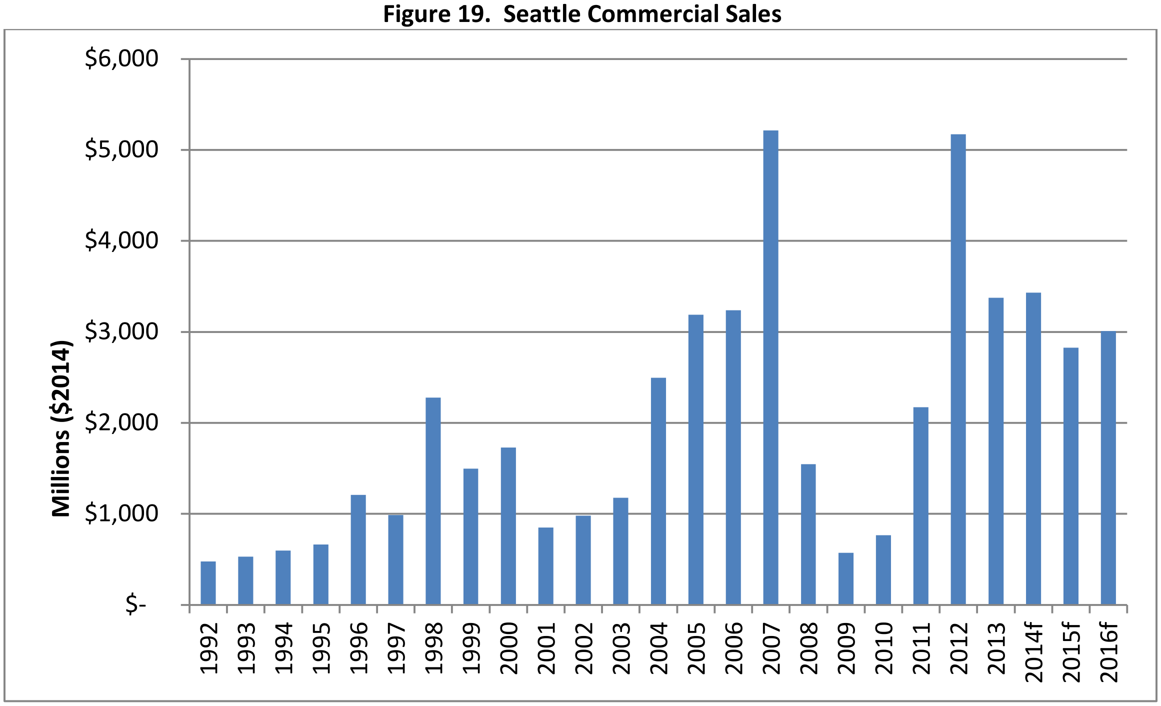
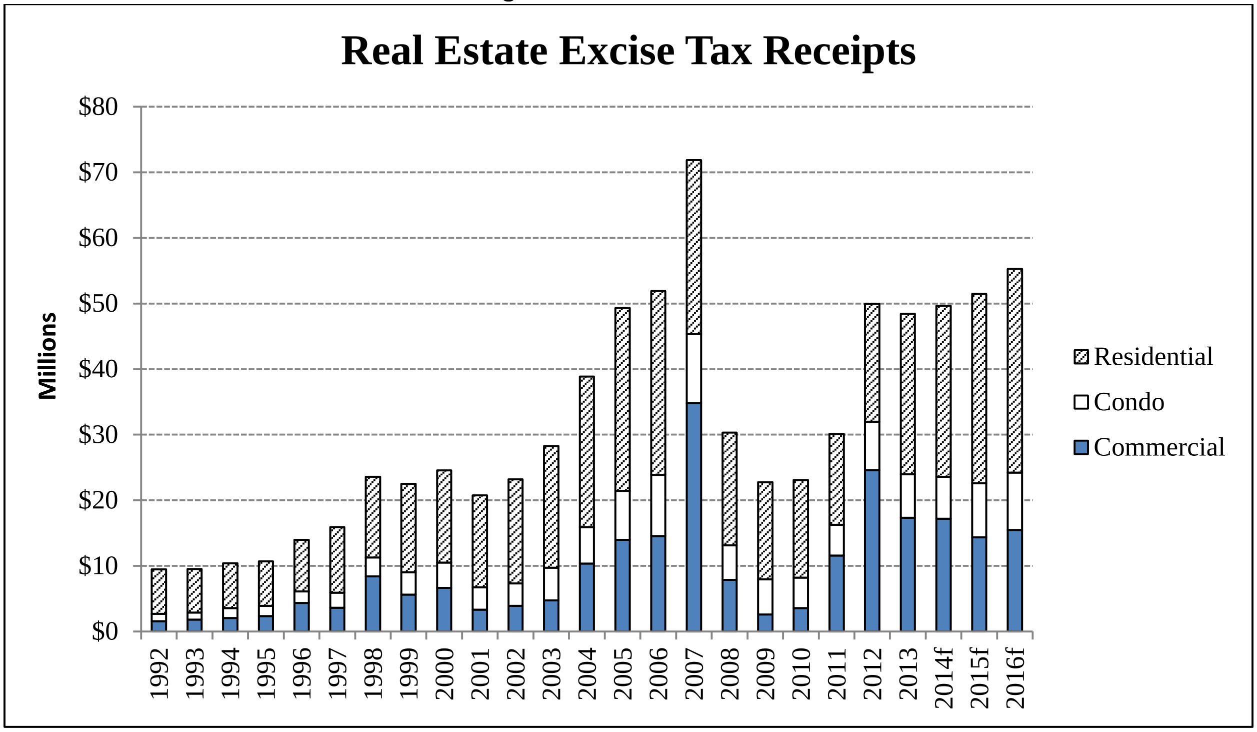


Figure 20. REET Revenues



Transportation Fund – Bridging the Gap Revenue Sources

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

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised $41.1 million in 2012 and $41.8 million in 2013. The 2014 Adopted Budget included lid lift revenues of $42.7 million. The last year of collection for the transportation lid lift is 2015 and the Proposed Budget assumes a levy of $43.7 million.

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. As approved in the authorizing legislation, the rate increased on July 1, 2008 to 7.5%, and then to 10% on July 1, 2009. The tax yielded $24.1 million in 2010. The commercial parking tax rate increased to 12.5 percent January 1, 2011 and generated $28.2 million. The tax raised $31.2 million in 2012 and $32.8 million in 2013. The 2015 Proposed Budget forecasts revenues to increase to $37.8 million in 2014, $39.0 million in 2015 and $40.2 million in 2016 due to a variety of factors increasing parking usage and price increases. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. The additional revenues from the 2.5% increase in 2011 are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation's section of this budget.

Revenue Overview

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

Revenue Overview

Figure 20. Seattle City Tax Rates

	2010	2011	2012	2013	2014
Property Taxes (Dollars per $1,000 of Assessed Value)					
General Property Tax	$1.78	$1.87	$1.97	$1.90	$1.80
Families & Education	0.14	0.14	0.27	0.27	0.25
Parks and Open Space	0.20	0.20	0.21	0.20	0.19
Low Income Housing	0.17	0.17	0.18	0.17	0.16
Fire Facilities	0.09	0.10	0.06		
Transportation	0.31	0.32	0.33	0.35	0.31
Pike Place Market	0.10	0.10	0.11	0.10	0.06
Library				0.14	0.13
Emergency Medical Services	0.30	0.30	0.30	0.30	0.33
City Excess GO Bond	.014	0.15	0.15	0.14	0.14
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax					
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%	0.415%
International Finance	0.150%	0.150%	0.150%	0.150%	0.150%
City of Seattle Public Utility Business Taxes					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	19.87%*	15.54%	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
City of Seattle Private Utility B&O Tax Rates					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
Franchise Fees					
Cable Franchise Fee	4.20%	4.40%	4.40%	4.40%	4.40%
Admission and Gambling Taxes					
Admissions tax	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%	5.00%

*The 19.87% rate was effective March 31, 2009, and includes a temporary surcharge to respond to a court decision. This surcharge expired on December 31, 2010.