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

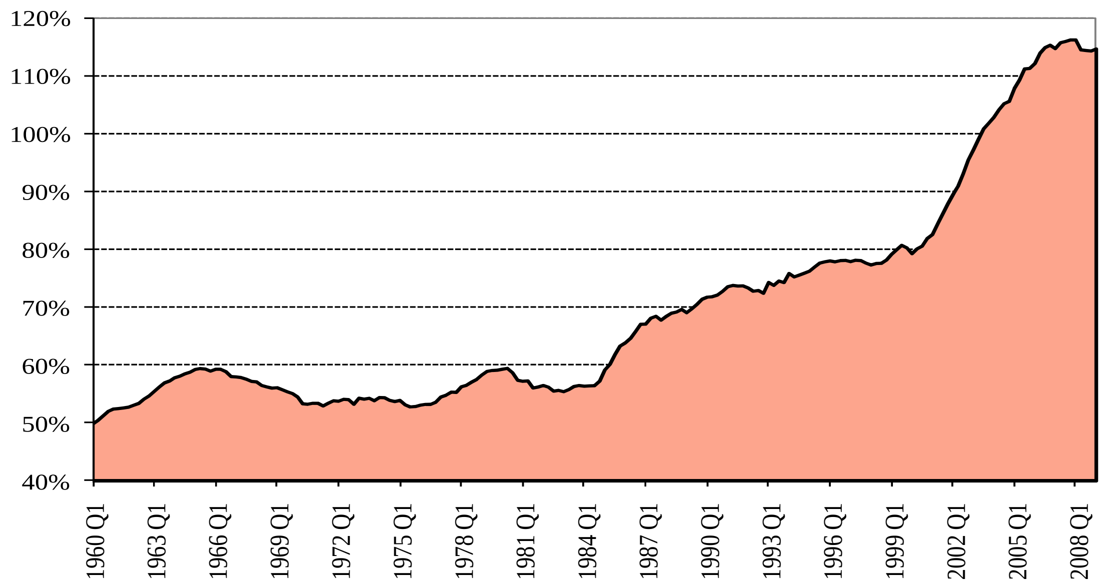
A look back at the roots of the current recession. With the current recession nearing its end, economists are trying to discern how the coming recovery will unfold. To understand where the economy is headed, it is helpful to look back and review the events that brought about the worst downturn since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

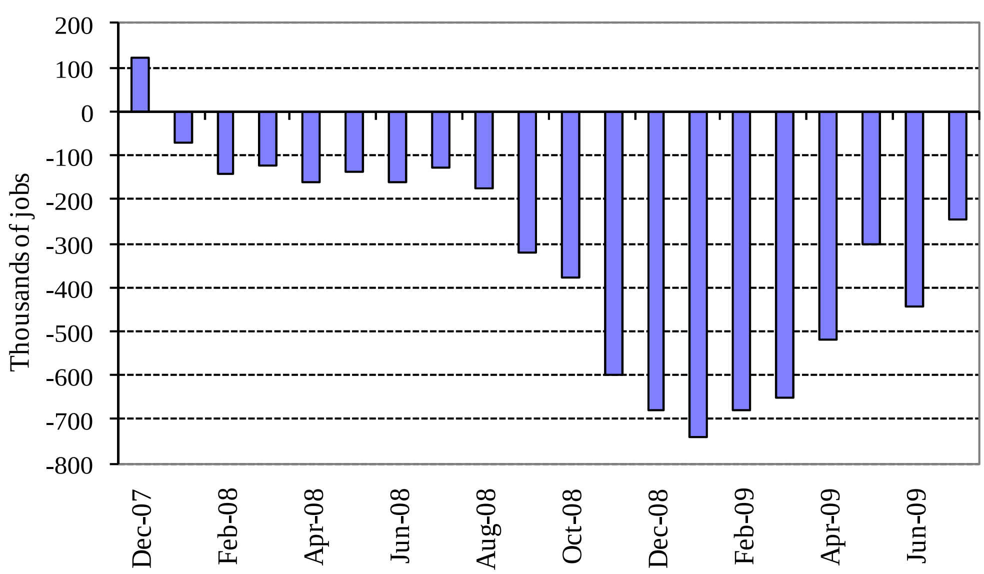
- Since the problems developed over a 25-year time period, the return to normalcy will not occur quickly.
- The roots of the downturn are global in nature, which means policy changes are needed in many nations to bring the world economy back into balance.

- 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 20th 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.

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.

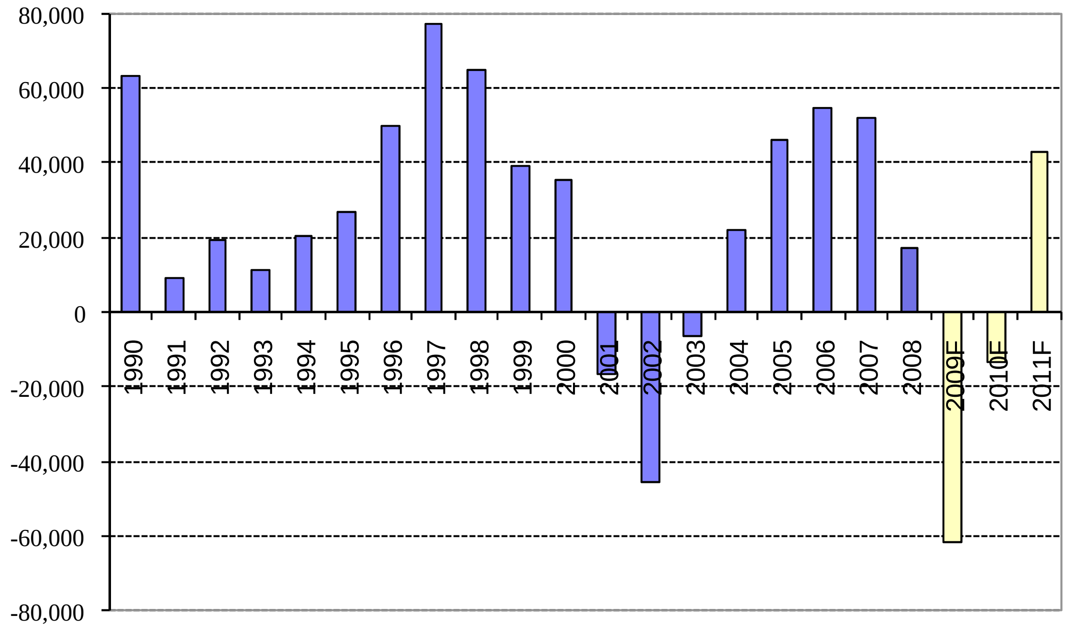
Although the recession started late in the Puget Sound region, through July the Seattle metro area (King and Snohomish Counties) had lost 4.8% of its jobs, the same rate of loss as the nation. The steepest declines locally have been in construction and manufacturing outside of aerospace, while health 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.

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.

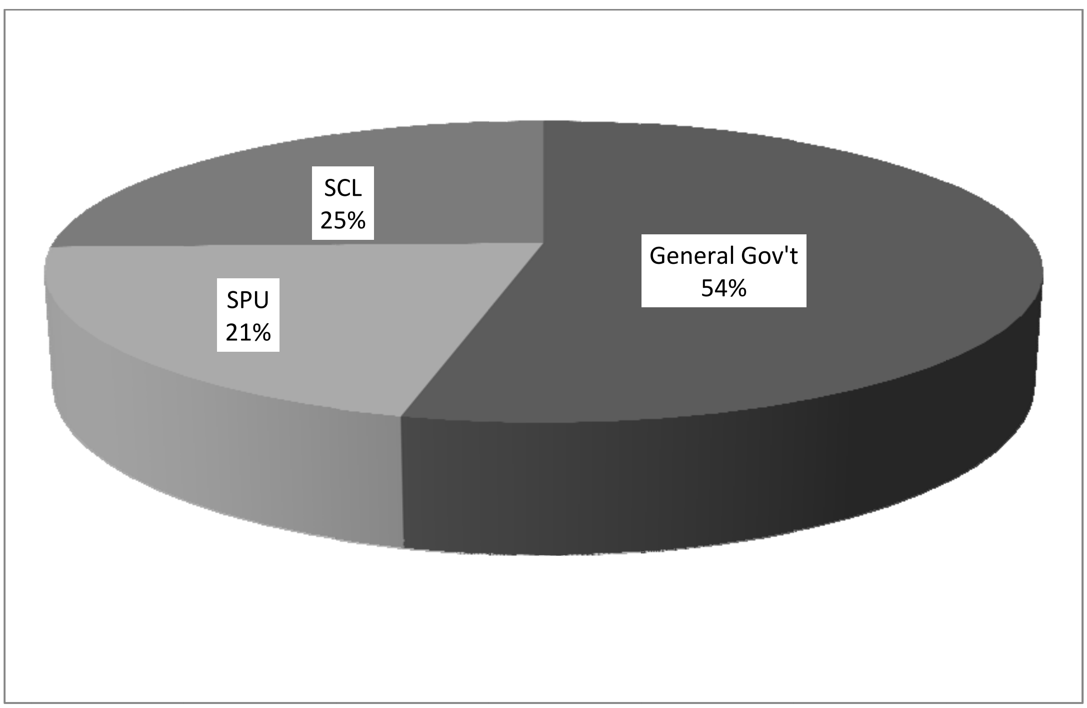
Figure 4. Consumer Price Index Forecast

	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.

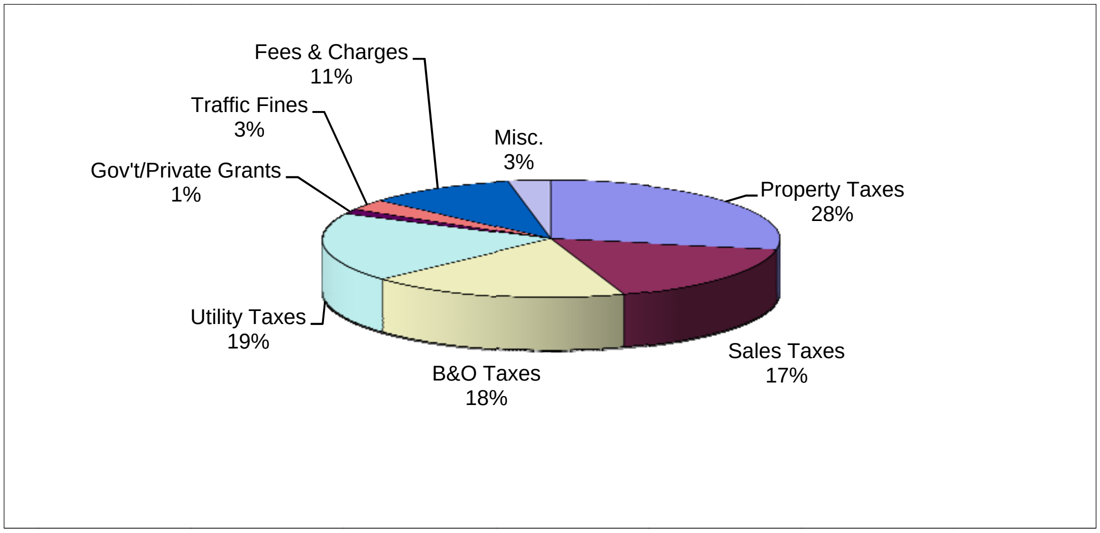
Figure 5. Total City Revenue by Use – 2009 Revised $4.1 Billion



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 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.

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 (1)	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%) (2)	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
Total Taxes	**748,093**	**775,029**	**737,380**	**791,340**	**747,736**
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 (3)	18,316	9,775	11,932	9,890	13,146
Service Charges & Reimbursements	48,871	51,218	52,918	53,225	52,271
Total: Revenue and Other Financing Sources	**880,618**	**906,384**	**872,533**	**931,161**	**885,926**
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 (4)	1,145	-	-	-	-
Total, General Subfund	**884,765**	**909,876**	**891,096**	**933,895**	**904,958**

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.

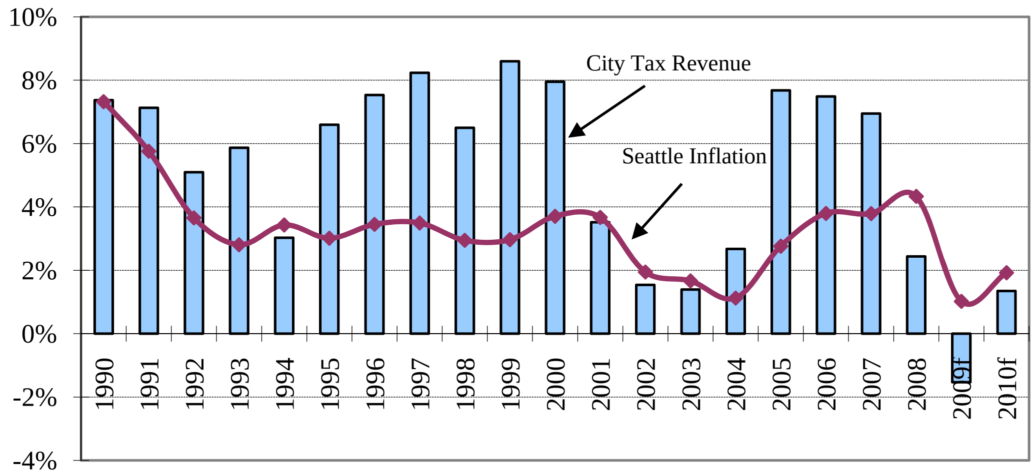
(3) Included in 2008 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.

(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.

* 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.

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.

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.

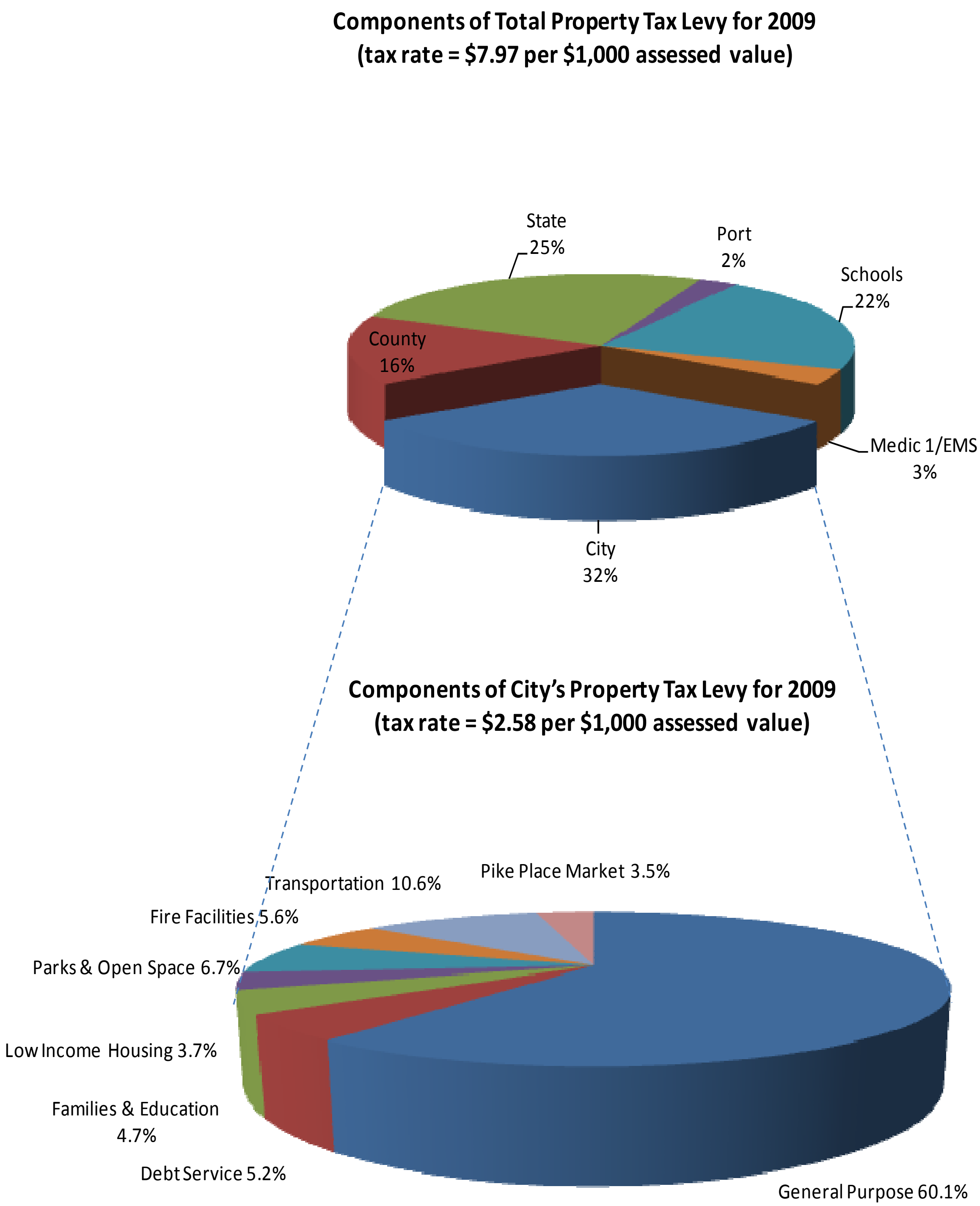
New Construction - In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the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

Figure 9


Components of Total Property Tax Levy for 2009
(tax rate = $7.97 per $1,000 assessed value)
State 25%
Port 2%
Schools 22%
County 16%
Medic 1/EMS 3%
City 32%
Components of City's Property Tax Levy for 2009
(tax rate = $2.58 per $1,000 assessed value)
Transportation 10.6%
Pike Place Market 3.5%
Fire Facilities 5.6%
Parks & Open Space 6.7%
Low Income Housing 3.7%
Families & Education 4.7%
Debt Service 5.2%
General Purpose 60.1%

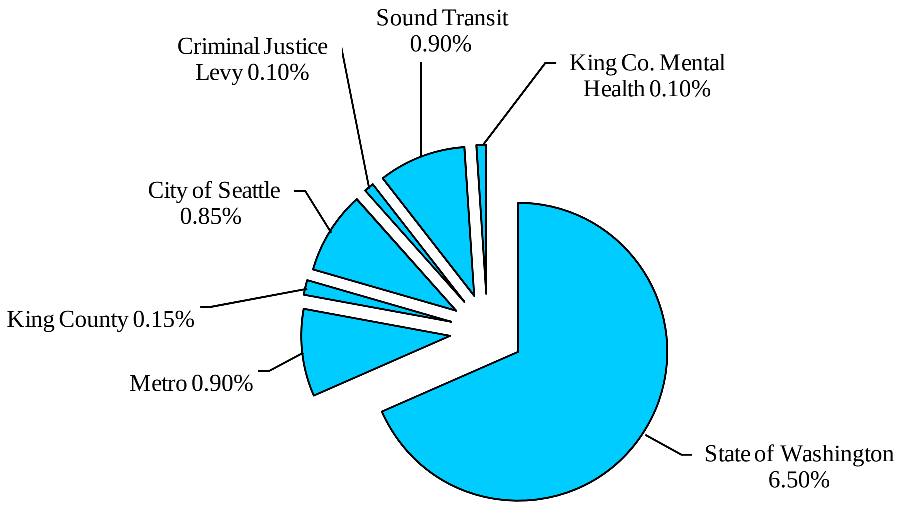
Retail Sales and Use Tax

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



Total Rate = 9.5%

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,

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

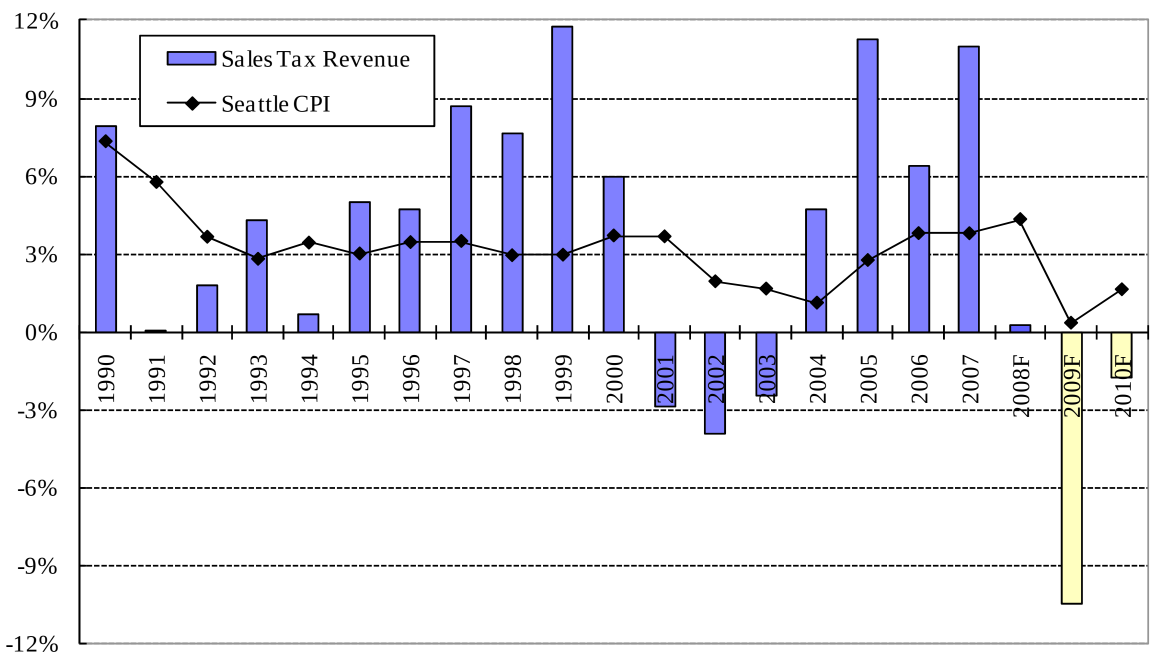
As a result of the changes the state made to comply with SSUTA, Seattle has seen a small increase in its sales tax revenue according to estimates by the Washington State Department of Revenue.

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-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.

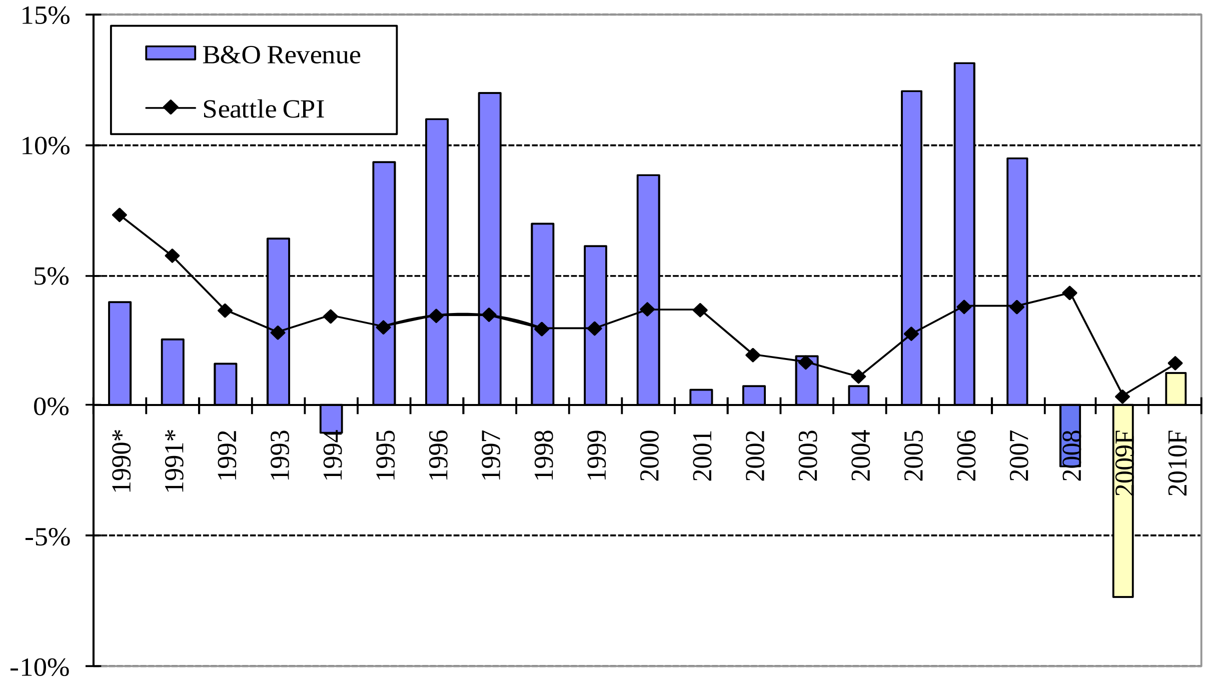
B&O revenue grew rapidly from 2005 to 2007, then succumbed to the recession in 2008. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax 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, 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.

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 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.

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.

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 4th 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.

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.

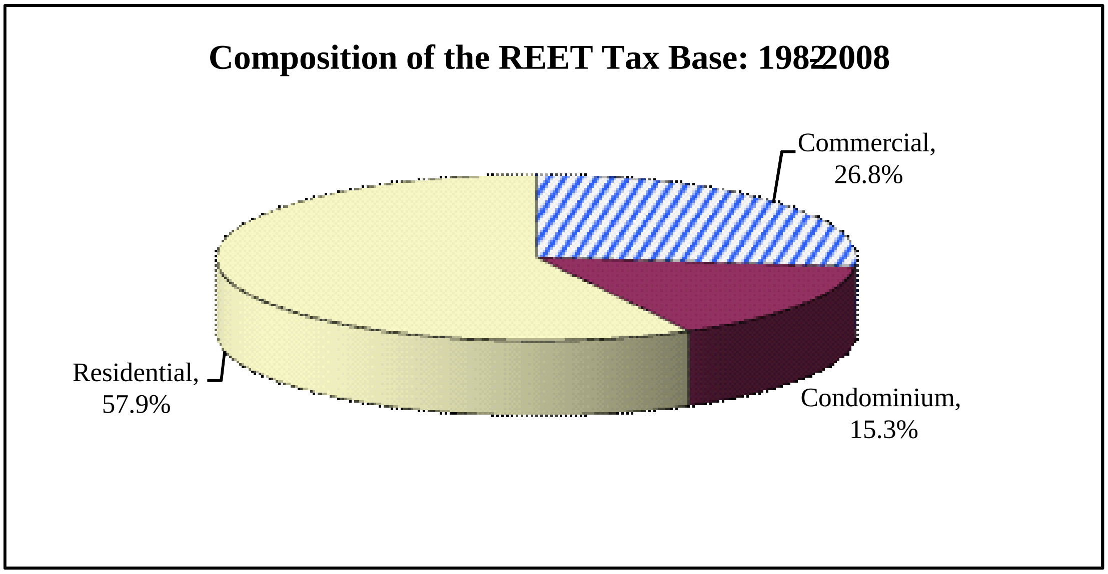
Cumulative Reserve Subfund – Real Estate Excise Tax

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.

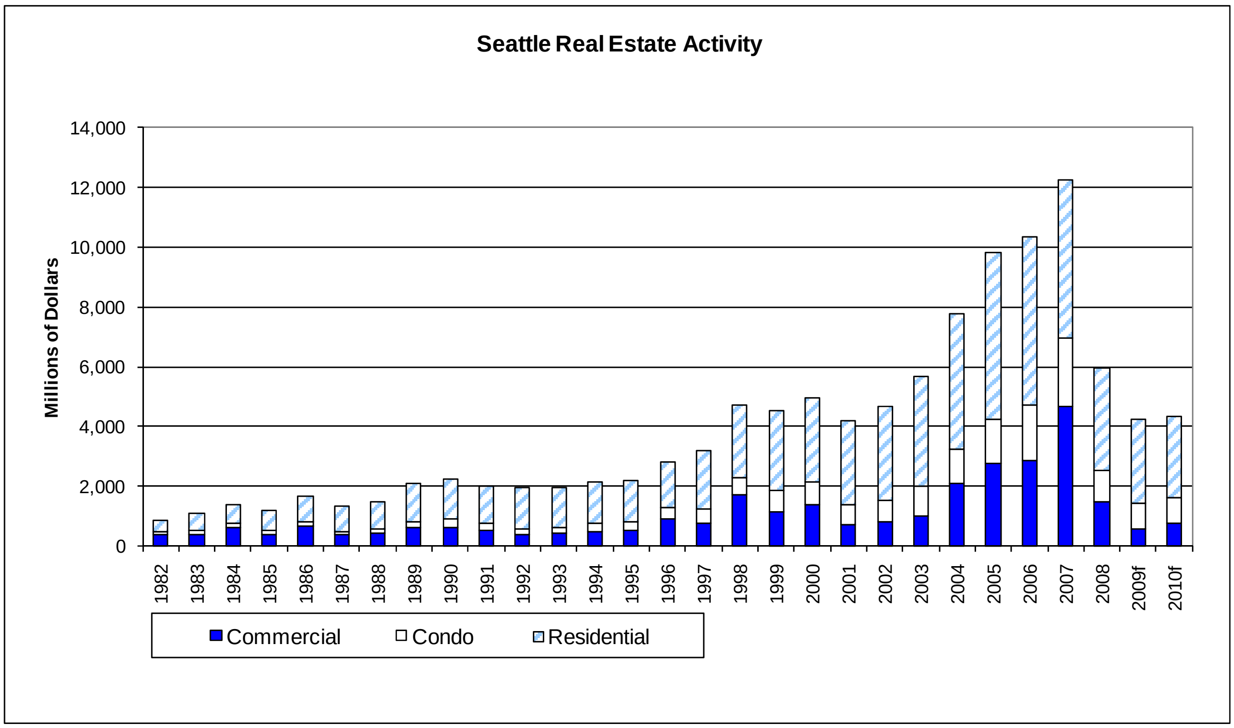
The volatility of REET is reflected by the fact that despite a 10.6% average annual growth rate, the REET tax base declined in seven years during the period 1982 – 2008 (see Figure 15). Volatility results largely from changes in sales volumes, which are sensitive to shifts in economic conditions and 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

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).

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.

Figure 13. Seattle City Tax Rates

	2006	2007	2008	2009
Property Taxes (Dollars per $1,000 of Assessed Value)				
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
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax				
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%
City of Seattle Public Utility Business Taxes				
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%
City of Seattle Private Utility B&O Tax Rates				
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%
Franchise Fees				
Cable Franchise Fee	3.5%**	4.20%	4.20%	4.20%
Admission and Gambling Taxes				
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