

General Subfund Revenue Overview

City Revenue Sources and Fund Accounting System

The City of Seattle expends \$4.2 billion (Proposed 2013) 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 57.0% 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 2012

National Economic Conditions and Outlook

A look back at the roots of the Great Recession. The Great Recession officially ended in June 2009, which means the recovery is now over three years old. This recovery is proving to be very different from most recoveries; growth has been unusually weak and whenever the economy has shifted into a higher gear it has been unable to sustain its momentum. Periods of healthy growth have inevitably been followed by periods of stagnation. With economists continuing to puzzle over the future direction of the economy, some insight into the future can be gained by looking back in time and reviewing the events that brought about the worst downturn since the Great Depression.

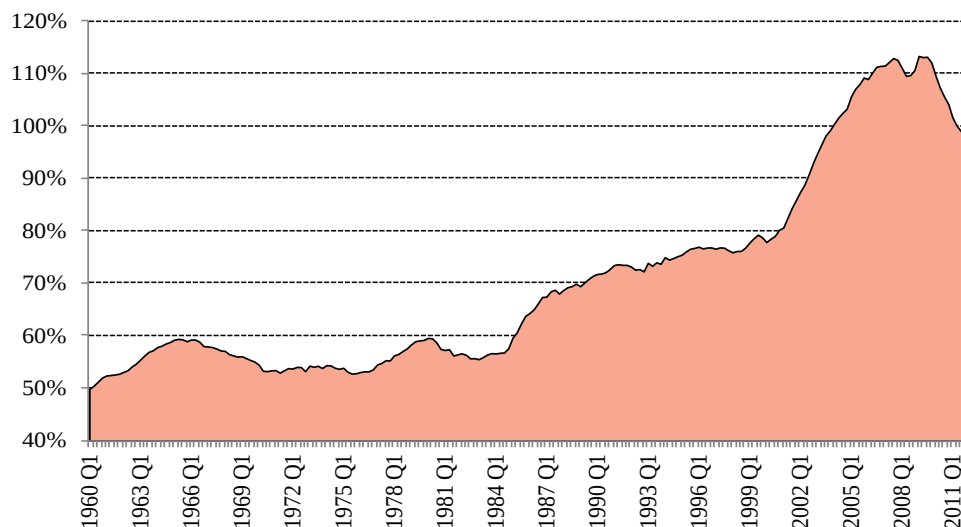
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We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for stocks and real estate, because they were less vulnerable to erosion by inflation than 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. Lastly, 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 money available 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 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. During the 2000-10 decade, there were also 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, 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 mortgage products, 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.

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

- The problems developed over a 25-year time period, so 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 2007-09 recession was unlike other postwar recessions, so we can expect the recovery to be different as well.
- 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.

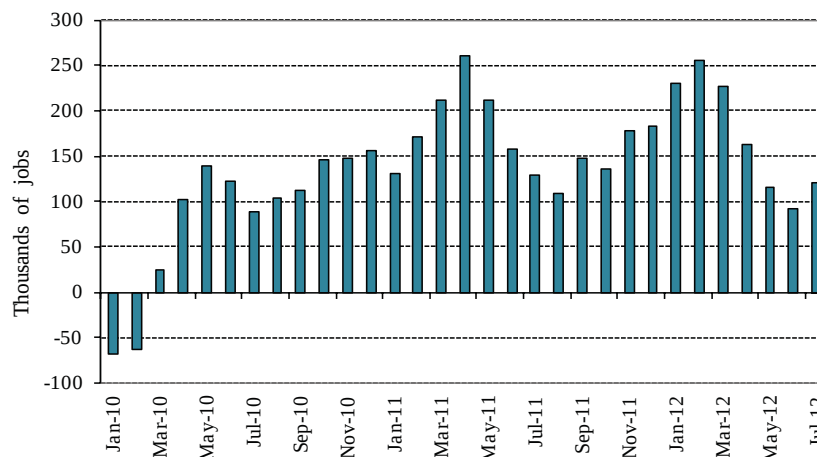
The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 5.1% over a period of six quarters, 8.8 million jobs, representing 6.4% of total jobs, were lost, and the unemployment rate rose to a peak of 10.0%.

The recovery has been weak and uneven thus far. In each of its three years, the recovery has experienced a significant slowdown in mid-year. In 2010, the economy lost momentum in mid-year as inventory rebuilding slowed, stimulus spending began to plateau, and the European financial crisis emerged. The 2011 slowdown was caused by a steep rise in oil prices resulting from popular uprisings in several Middle East nations, and the disruption of the supply chains of global manufacturers caused by a major Japanese earthquake and tsunami. The weakened economy was then subjected to the debt ceiling standoff, in which Congress delayed raising the nation's debt ceiling until the U.S. was on the brink of default.

2012's mid-year slowdown followed a period of relative calm and healthy growth in late 2011 and early 2012, which saw employment gains average over 250,000 per month from December through February. The economy then slowed abruptly, with average employment growth dropping below 75,000 per month for the April – June period, before rebounding to 163,000 in July. Causes of the 2012 spring slowdown include:

- Some seasonal employment was pulled forward in time due to the warm winter, thus magnifying the spring slowdown.
- Gasoline prices rose steadily during first quarter, peaking in early April.
- The Eurozone's quiet period ended, as Spain and Italy faced rising interest rates for their debt.
- Uncertainty over U.S. fiscal policy weighed on consumer and investor confidence.
- Slower growth in the rest of the world curtailed the demand for U.S. exports.

Figure 2. Monthly Change in U.S. Private Sector Employment



*Data are seasonally adjusted, 3-month moving average.

Source: U.S. Bureau of Labor Statistics.

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The ups and downs of the recovery are reflected in U.S. employment statistics. With public sector employment figures distorted by 2010 Census-related hiring and layoffs, trends can be discerned best by focusing on private sector employment. Figure 2 shows the monthly change in U.S. private sector employment, with the data smoothed by computing a 3-month moving average (i.e., taking an average of the current month and the two previous months).

One positive development in 2012 has been an incipient turnaround in the housing market. While housing is still far from healthy, it is slowly making the transition from being a drag on the economy to being a source of growth. Housing starts are slowly increasing, sales have risen modestly, and prices have been rising from a low point in January of this year. The increase in prices is particularly beneficial because any price gain reduces the number of homeowners with “underwater” mortgages. Key to the turnaround has been a drop in the inventory of unsold homes to near normal levels.

National forecasters anticipate that the recovery will remain sluggish. History tells us that recessions caused by financial crises are followed by weak recoveries, and thus far the current recovery is unfolding as expected. Despite the improvements in the financial markets, credit remains tight and consumers are under stress due to large declines in wealth, a weak job market, and sluggish income growth. Also weighing on the recovery are a slowing of growth in the rest of the world, the Eurozone debt crisis, and fiscal uncertainty in the U.S.

Global Insight expects real GDP to grow at a 2.0% pace in both the second half of 2012 and in 2013, as policy uncertainties in the U.S. and Europe continue to hamper the recovery. GDP growth is expected to pick-up in 2014 and 2015, to 2.7% and 3.3%, respectively, before dropping back to the 3 percent range. Part of the reason for stronger growth in 2014 and 2015 is an expected gradual improvement in the housing market.

In discussing risks to its forecast, Global Insight identifies the two worrisome events that have a relatively low likelihood of occurring in the near future but which could have severe impacts on the economy if they were to happen. The first is the U.S. fiscal cliff, the combination of tax increases and budget cuts scheduled to take effect in January 2013 under current policy. These include the expiration of the 2% Social Security tax cut, the end of the Bush tax cuts, and the implementation of the deep spending cuts agreed to last summer to end the debt ceiling standoff. If these changes were to take effect they would reduce 2013 GDP by 3% to 4%, which would almost certainly push the U.S. economy into recession. The second low probability, high impact event is a full-blown European financial meltdown. The greatest impact on the U.S. economy would likely come by way of the financial markets, via tighter credit and a big drop in the stock market, rather than a drop in exports to Europe.

Global Insight also identified a couple of near-term risks that are more likely to occur, but whose impacts would be less severe. These are a protracted Eurozone recession and an exit from the Eurozone by Greece, and a significant slowing of growth in China. Offsetting at least some of the downside risk are lower oil prices, lower worldwide inflation, and lower borrowing rates for most nations.

Puget Sound Region Economic Conditions and Outlook

Thus far the Puget Sound region’s recovery has been stronger than the nation’s. The impact of a national recession on a regional economy depends on the characteristics of both the national recession and the region’s economy. During some national recessions, such as the 2001-03 recession, the Puget Sound region has suffered a sharper contraction than the nation, while in other recessions the region has fared better than the nation, such as during the 1990-91 recession. The impact of the 2007-09 recession on the local economy has been similar in severity to its impact on the national economy. While job loss was higher locally, the region’s unemployment rate did not rise as high as the national rate and the region’s housing market has performed somewhat better than the nation’s.

During the 2007-09 recession, the Seattle metro area (King and Snohomish Counties) had a peak-to-trough loss of 125,000 jobs, an 8.4% decline. The 8.4% decline exceeded both the national decline of 6.4% and the metro area’s

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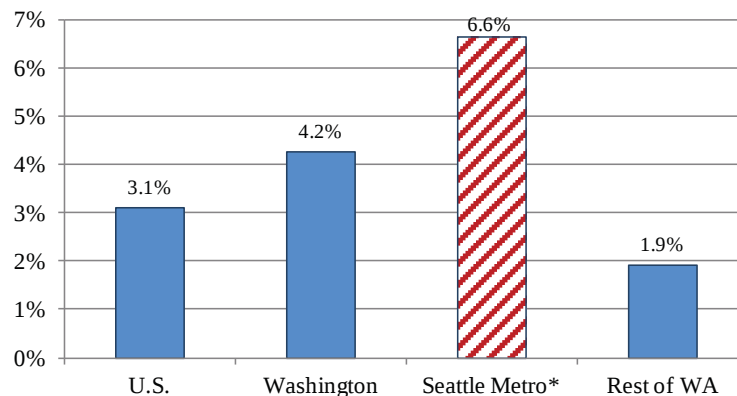
6.6% job loss during the 2001-03 recession. Locally, the most severe job losses were in construction, manufacturing outside of aerospace, and finance.

Interestingly, although the metro area's rate of job loss exceeded the nation's, the local unemployment rate peaked at 9.7%, below the national peak of 10.0%. In part this was due to the fact that the region entered the recession with a significantly lower unemployment rate than the nation. The increase in the unemployment rate from pre-recession low to post-recession high was greater for the region than the nation.

Like the nation, the region has suffered through a housing boom and bust over the past ten years, but the housing downturn has been less severe here than nationally. Through the fourth quarter of 2011, when prices hit bottom, single-family home prices in the region had fallen by 30.7% from their peak four years earlier, compared to a 34.1% peak-to-trough drop nationally, as measured by the Case-Shiller housing price index. In addition, local rates of foreclosure have been lower than national rates.

The Seattle metro area has rebounded from the recession more strongly than the nation. Through July 2012, Seattle metro area (King and Snohomish Co.) employment was up 6.6% from its post-recession low in February 2010, compared to a 3.1% gain for the U.S. and a 4.2% gain for the state over the same period (see Figure 3). Areas of strength in the local economy include aerospace, other manufacturing, professional, scientific, and technical services, health services, and mail order and internet retail. Boeing, which has an order backlog of over 4,000 planes, is phasing in a series of production increases for its 737, 777, and 787 models in 2011-14. After significant delays the 787 is flying, work on the Air Force tanker is ramping up, and Boeing is moving forward with the 737 MAX, a re-engineered 737 that will have new fuel efficient engines. Since May 2010, Boeing has added 13,700 jobs in Washington State. Amazon, which is planning to build a new campus in the Denny Triangle, has also been hiring aggressively.

Figure 3. Employment Change: Post-Recession Trough to July 2012



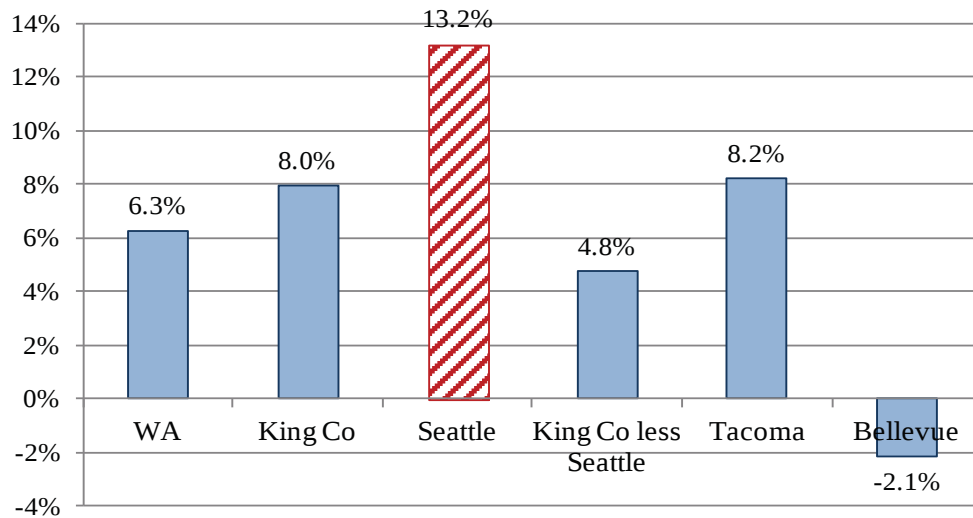
*King & Snohomish Counties.

Source: WA Employment Security Dept., U.S. Bureau of Labor Statistics.

Growth in Seattle has been particularly robust. At the same time that Seattle metro area growth has been outpacing growth in the nation and the state, the City of Seattle has been growing faster than the metro area. This can be seen by looking at data for taxable retail sales (i.e., the tax base for the retail sales tax), one of the few sources of relatively current economic data available at the county and city levels. From the beginning of the recovery in first quarter 2010 through the first quarter of 2012, taxable retail sales have increased 13.2% in Seattle, compared to gains of 6.3% and 8.0% in the state and King County, respectively (see Figure 4). Much of Seattle's relative strength is due to an upswing in construction activity in the city. However, even if construction is removed from the data, Seattle still stands out. For example, the growth rate of taxable sales excluding construction is 12.1% for Seattle and 8.1% for the rest of King County.

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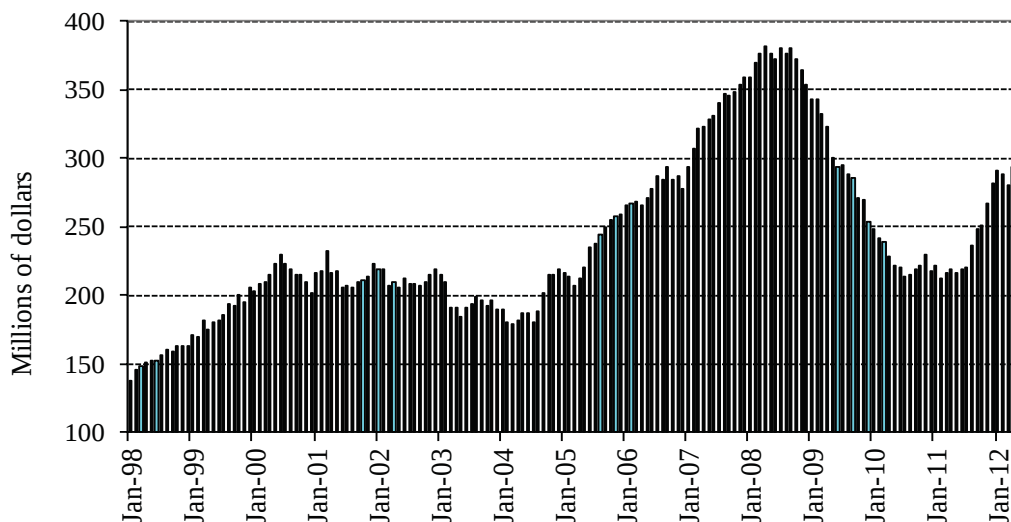
Figure 4. Taxable Retail Sales Growth, 2010 Q1 – 2012 Q1



Source: WA Dept. of Revenue.

During the past year, Seattle has seen a sharp rebound in construction activity (see Figure 5). Taxable sales for construction were up 34.5% through first quarter 2012 from a post-recession low only three quarters earlier. While thus far virtually all of the rebound has been in apartments, conditions in the office and condominium markets have improved significantly. Office vacancy rates have dropped below 15% after peaking at over 21% two years ago. Amazon is expected to begin construction on the first of three Denny Triangle office towers in 2013, and there is speculation that one or more permitted office projects that have been on hold since the recession began could break ground next year. In the condominium market, the glut of unsold units that built up during the recession is mostly gone, and prices have been rising in recent months. The city's first new condominium project in several years, a 41-story tower at 5th and Bell, broke ground this summer.

Figure 5. Seasonally Adjusted* Taxable Retail Sales, Construction



*Data, which include non-current sales, are 3 month moving average of monthly series.

Source: WA Dept. of Revenue.

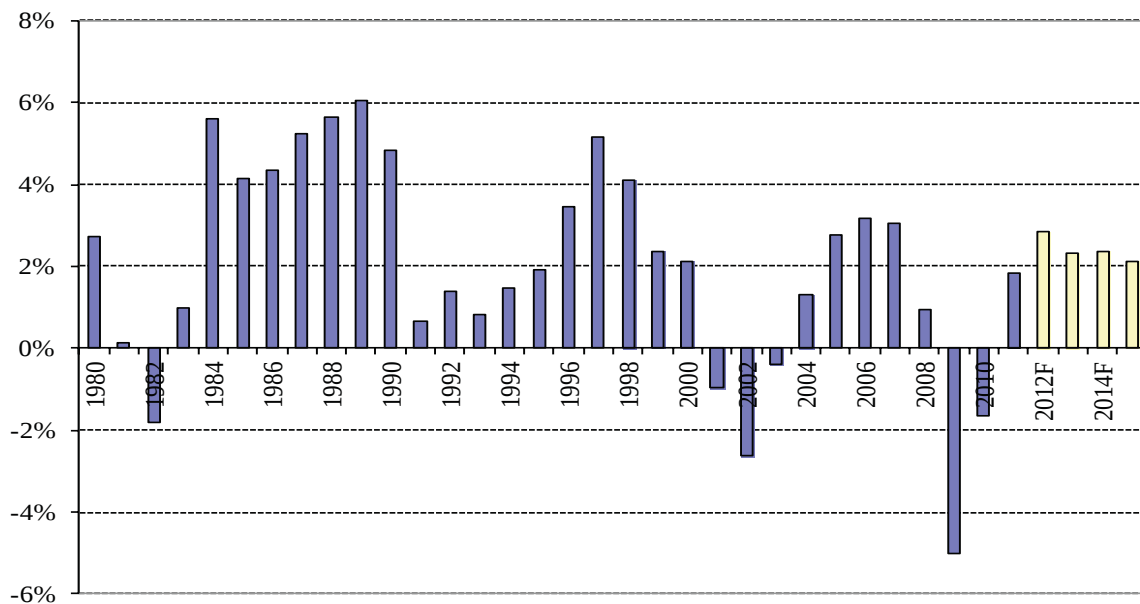
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Other sources of growth in Seattle include professional, scientific, and technical services, an industry that has rebounded strongly from the recession, and travel and tourism, as indicated by a 21.1% increase in taxable retail sales for accommodations between 2010 Q1 and 2012 Q1. In addition, Amazon has been hiring aggressively and the city's housing market is improving, with both the number of sales and prices up over 10 percent from the beginning of 2012.

Despite a strong start the region's recovery is expected to be modest by historical standards. The regional economic forecast foresees a modest recovery, in large part because the national recovery is expected to remain subdued. Thus far during the recovery the region has grown significantly faster than the nation. The forecast assumes the region continues to grow faster than the nation, but that the gap between regional and national growth narrows as the recovery moves forward.

The Puget Sound Economic Forecaster expects employment growth to peak at 2.8% in 2012 and then gradually slow over time, dropping to 2.1% in 2015 and 1.8% in 2016 (see Figure 6). This is a slower rate of growth than is typical during recoveries, and is lower than the 2.5% average annual growth rate posted over the past 40 years (which includes periods of recession). Housing is expected to recover more slowly than the rest of the economy.

Figure 6. Puget Sound Region* Employment: Annual Growth Rate



*Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

2012-15 forecasts are from the Puget Sound Economic Forecaster's June 2012 forecast.

Consumer Price Inflation

Inflation has returned after disappearing during the 2007-09 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 a 3.2% pace, driven by a 15.4% rise in energy prices. 2012 has seen inflation slow to 2.3% for the first half of the year.

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Local inflation has largely followed national inflation because commodity prices and national economic conditions are key drivers of local prices. The growth rate of the Seattle CPI-U peaked at 4.2% in 2008, and then dropped to 0.6% in 2009 and 0.3% in 2010. Inflation then rebounded to 2.7% in 2011, driven by a rise in prices for energy and other commodities, and has continued at that pace in 2012, posting 2.8% growth for the first half of the year. With the region's economy now growing faster than the nation's, inflation is stronger locally than nationally.

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 unemployment likely to remain elevated for several years, wage pressures will also remain subdued. Going forward, the CPI is expected to average between two and two-and-a-half percent, though we will likely see some movement outside of this range if energy or food prices rise or fall steeply. This summer's drought will keep grain prices high until 2013, and push up meat prices later this year and early next year. The price of food is likely to replace the price of gasoline as the consumer's main inflation worry.

Figure 7 presents historical data and forecasts of inflation for the U.S. and the Seattle metropolitan area through 2015. The forecasts are for the 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 growth rate measures shown in Figure 7 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

Figure 7. Consumer Price Index Forecast

	Seattle CPI-W (June-June growth rate)	Seattle CPI-W (growth rate for 12 months ending in June)
2011 (actual)	3.7%	1.8%
2012 (actual)	2.7%	3.3%
2013	2.1%	2.3%
2014	2.5%	2.3%
2015	2.4%	2.5%

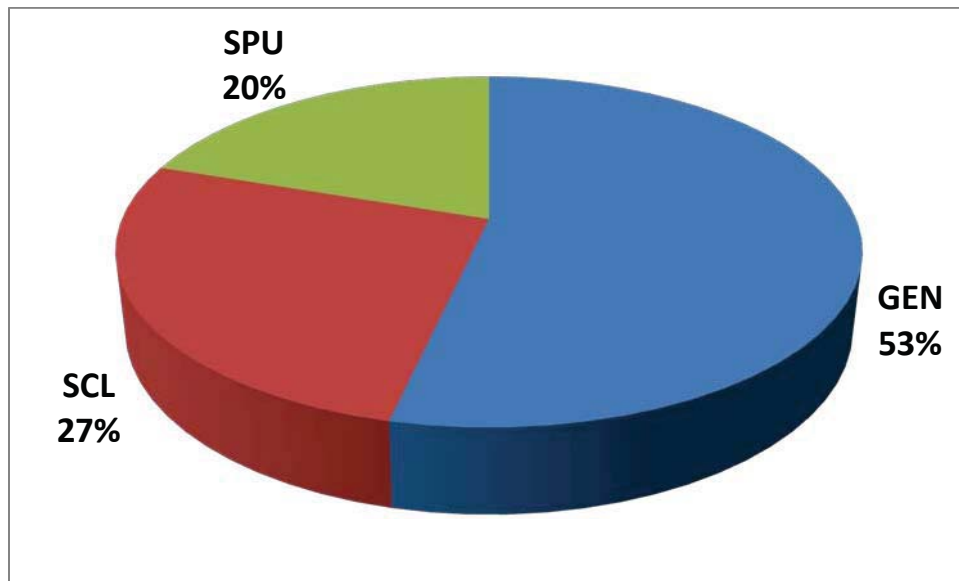
Source: U.S. Bureau of Labor Statistics, City of Seattle.

City Revenues

The City of Seattle projects total revenues of approximately \$4.2 billion in 2013. As Figure 8 shows, approximately 47% 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 53% 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.

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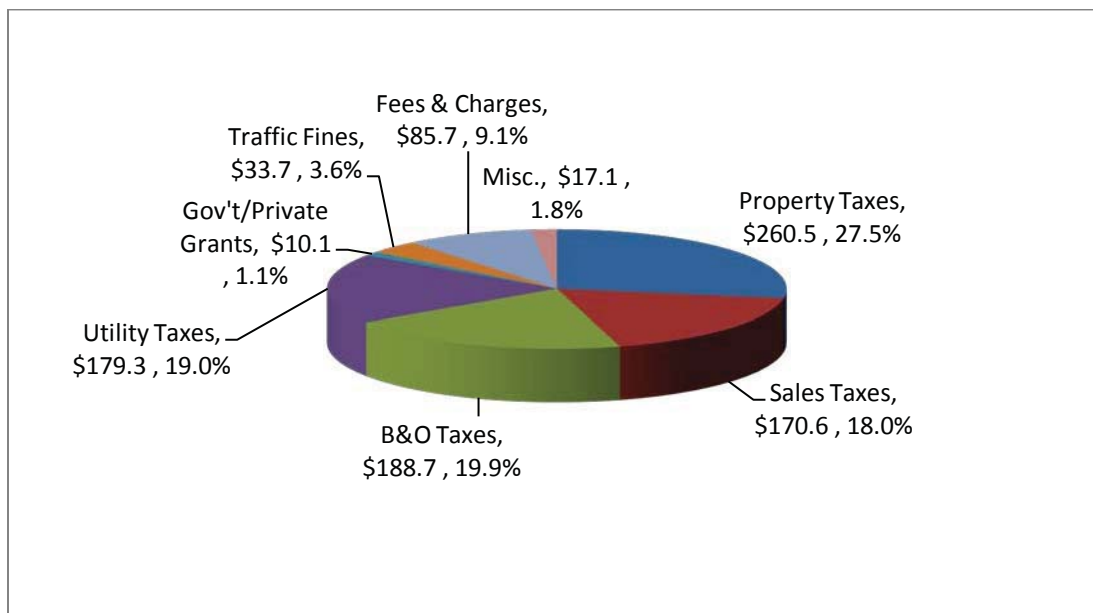
Figure 8. Total City Revenue by Use – Proposed 2013 \$4.2 Billion



General Subfund Revenue Forecast

Expenses paid from the General Subfund are supported primarily by taxes. As Figure 9 illustrates, the most significant revenue source is the property tax, which accounts for 27.5%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Figure 9. 2013 Proposed General Subfund Revenue Forecast by Source - \$945.8M



In 2011, general government revenue into the General Subfund totaled approximately \$926.2 million. General Subfund revenue is projected to be \$930.7 million in 2012, \$945.8 million in 2013 and \$986.4 million in 2014. 2011

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revenues were artificially high due to contributions from the Revenue Stabilization Account, or “Rainy Day Fund,” in the amount of \$8.5 million as well as some pass-through revenues that are not appropriated in adopted budgets.

Figure 10 shows General Subfund actual revenues for 2011, adopted and revised revenues for 2012, as well as the proposed revenues for 2013 and 2014. Revenue growth has returned to the City’s finances, albeit at a subdued level. B&O and sales tax revenues are expanding, but not at the rate normally seen during expansionary periods. B&O growth is expected to average 4.8% over the 2013-2014 period and sales taxes will average 3.5% over the same. The hangover effects from the economic downturn continue to affect local economic activity and the revenue streams most closely aligned with the economy.

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. Recent cold weather has also had a positive impact on tax revenues from both City Light and natural gas purveyors. Some technological changes are having an effect on telecommunications and cable tax revenue streams as consumers change their behaviors. More cellular phones 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.

On-street parking and parking enforcement continue to be a source of revenue changes in 2012 and the Proposed 2013-14 Budget biennium. In 2011 and 2012 the City accelerated its transition to a data-driven, performance based approach to managing on-street parking making numerous rate, boundary and time-limit changes throughout the City’s paid parking areas. It also implemented a scofflaw booting program to improve payment compliance on parking citations. Late 2012 and early 2013 implementation of a new pay-by-phone payment program for on-street parking and proposed increases in Parking Enforcement Officers (PEO) will further add to the variability in these revenues. Scheduled losses of paid parking spaces due to construction activity related to the Alaskan Way Viaduct replacement project, reconfiguration of the Mercer St. corridor and several other road construction projects are also negatively affecting both on-street parking and enforcement revenues throughout 2012 and the 2013-14 Proposed Budget biennium. The 2012 Adopted Budget also increased the City’s red light camera program by adding 6 new approaches, for a total of 36 locations and added fixed, speed detection cameras in 4 school zones in an effort to reduce speeds and the likelihood of vehicle-pedestrian accidents. Overall revenue effects from this wide array of changes are for general declines in enforcement revenues and for modest increases in on-street parking revenues. Revenues from the scofflaw booting program are expected to perform roughly as anticipated in the 2012 Adopted Budget and to remain fairly stable in 2013-14 at roughly \$1.5 million annually.

Property taxes are another area of significant change. The Proposed 2013-14 Budget assumes renewal of the Medic One/EMS levy at the level proposed by the Medic One/EMS Advisory Task Force. With modest anticipated growth in the City’s assessed value in 2014, this revenue is estimated to increase 12%, or approximately \$4.2 million, over a projection of its level under current levy assumptions, for a total levy of \$39.2 million in 2014. 2012 marks the end of the City’s 9-year, \$167.2 million Fire Facilities Levy. However, in August 2012, voters approved a 7 year, \$122.6 million levy lid lift to support the operations and maintenance of the Seattle Public Library system.

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.

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Beginning in 2009, City staff deposited 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 2011 and 2012, General Subfund support to the Parks and Recreation department will be \$78.1 million and \$81.3 million. These contributions are well above the \$37.5 and \$39.5 million that would accrue to parks under the previous 10% accounting approach.

Figure 10. General Subfund Revenue, 2011 – 2014*
(in thousands of dollars)

Revenue Source	2011 Actuals	2012 Adopted	2012 Revised	2013 Proposed	2014 Proposed
General Property Tax ⁽¹⁾	218,732	221,869	224,358	226,267	230,846
Property Tax - Medic One Levy	35,507	35,083	34,584	34,234	39,187
Retail Sales Tax	144,752	143,695	152,171	157,257	163,046
Retail Sales Tax - Criminal Justice Levy	12,303	13,313	12,653	13,330	13,956
B&O Tax (100%)	168,781	176,711	181,605	188,668	199,462
Utilities Business Tax - Telephone (100%)	27,967	33,150	26,323	26,926	27,680
Utilities Business Tax - City Light (100%)	40,517	42,976	42,401	43,918	46,603
Utilities Business Tax - SWU & priv.garb. (100%)	13,351	14,023	13,560	14,168	14,487
Utilities Business Tax - City Water (100%)	23,280	26,592	25,364	26,981	29,148
Utilities Business Tax - DWU (100%)	32,449	34,479	34,082	36,696	37,384
Utilities Business Tax - Natural Gas (100%)	14,822	13,259	12,951	12,944	14,349
Utilities Business Tax - Other Private (100%)	17,530	17,275	17,290	17,710	18,271
Admission Tax	5,859	5,920	5,928	6,111	6,301
Other Tax	5,191	5,070	5,110	5,090	5,110
Total Taxes	761,040	783,416	788,381	810,300	845,831
Licenses and Permits	12,350	11,982	12,608	12,804	12,867
Parking Meters/Meter Hoods	31,314	41,067	34,494	34,825	35,494
Court Fines (100%)	31,389	34,170	32,263	33,711	34,699
Interest Income	1,349	2,576	1,687	1,864	2,381
Revenue from Other Public Entities ⁽²⁾	37,456	10,802	11,335	10,113	11,183
Service Charges & Reimbursements	39,326	36,633	37,667	38,106	39,036
Total: Revenue and Other Financing Sources	914,225	920,646	918,435	941,723	981,491
All Else	2,918	1,986	2,412	1,894	4,270
Interfund Transfers ⁽³⁾	9,063	663	9,807	2,174	637
Total, General Subfund	926,206	923,295	930,654	945,790	986,398

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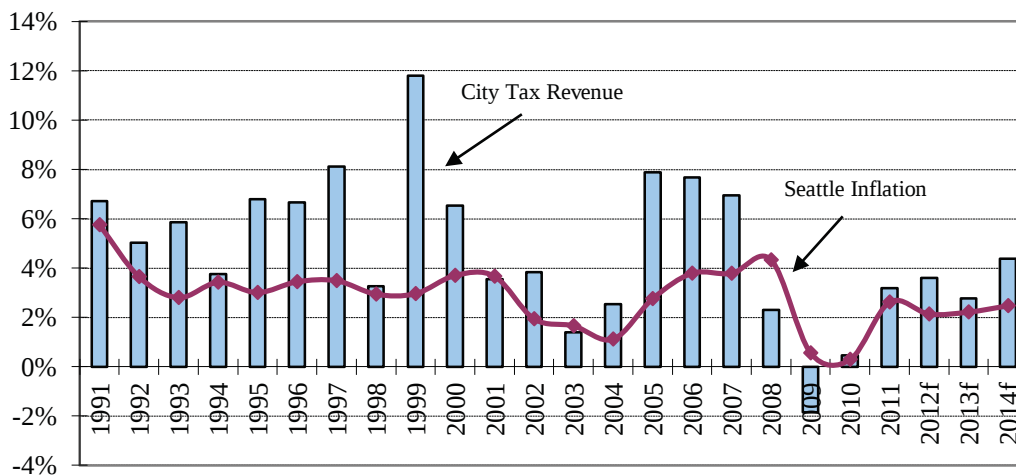
- (1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
- (2) Included in 2011 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.
- (3) The 2011 interfund transfer amount includes the \$8.5 million loan from the Museum of History and Industry. The 2012 amount includes \$8.1 million from the sale of the rubble yard for Alaskan Way Viaduct replacement.

* 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 11 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 3.6% for 2012 through 2014. Inflation for the same period will average 2.3%.

Figure 11. City of Seattle Tax Revenue Growth, 1991-2014



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. The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. This approved levy amount is then divided across 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. 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.

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 2.23 percent respectively. The last significant decrease was in 1984 when assessed value dropped by 3.6 percent. In addition to levy amount changes, as AV falls, tax rates rise. Consequently, from 2009 - 2012, the total property tax rate from all jurisdictions paid by Seattle property owners increased from \$7.97 to \$10.16 per thousand dollars of AV. For an owner of a home with an AV of \$438,959 (the average AV for residences in Seattle), the 2012 tax obligation was approximately \$4,412. This compares to a 2011 obligation of approximately \$4,380. The City of Seattle's total 2012 tax rate was roughly one-third of the total rate at \$3.28, which results in an annual tax obligation of approximately \$1,422 for the average valued home. The obligation amount in 2011 was approximately \$1,387.

Revenue Overview

Figure 9 illustrates the components of the City's 2012 property tax: the non-voted General Purpose levy (60%); the six voter-approved levies for specific purposes (35.4%), 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 (4.5%). The City's nine-year transportation lid lift will generate approximately \$40.3 million in 2012, \$41.8 million in 2013 and \$42.5 million in 2014. These revenues are accounted for in the Transportation Fund and are discussed later in this section. In August 2012, voters approved one new property tax measure (lid lift) in support of the Seattle Public Library system to begin collections in 2013. This measure will levy for collection in 2013 \$17,000,000 and \$122.6 million overall over 7 years.

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, including Fire Pension, 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 2013-14 Proposed Budget assumes 1% growth plus new construction. 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. Assessed new construction value in Seattle fell an additional 61 percent between 2010 and 2011, with 2011 revenue falling to \$1.95 million -- below the \$2 million floor for the first time since 1998. The 2012 Adopted forecast for 2012 reflects further low levels of new construction activity with revenue decreasing to \$1.77 million. This amount is revised upward in the 2013 Proposed Budget to \$2.0 million due to an increase in expected new construction value being placed on the tax rolls. Growth of 13.6% in the base value of new construction is projected for 2013 and 2.5% in 2014, leading to revenues of \$2.54 million in 2013 and \$2.64 million in 2014.

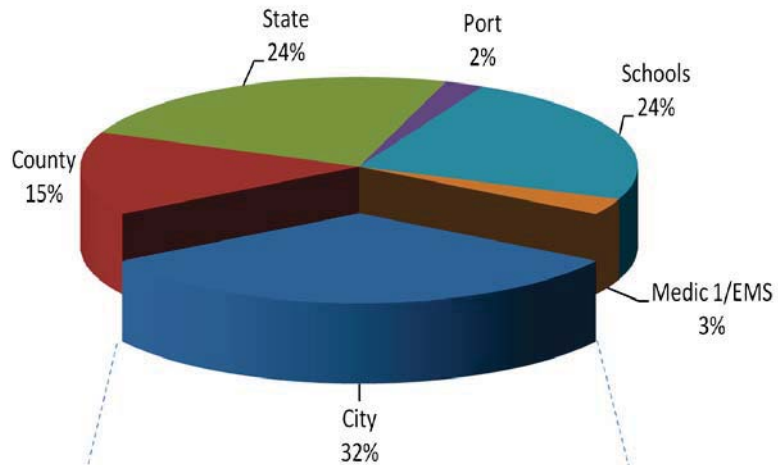
The forecast for the General Subfund (General Purpose) portion of the City's property tax is \$224.4 million in 2012, \$226.3 million in 2013 and \$230.8 million in 2014.

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, and the rate had begun to decline in 2009 as assessed valuation increased. In 2010, however, assessed valuations of property in King County began to decline (-11.6 percent), driving the Medic 1/EMS tax rate back to its authorized limit of \$0.30 per thousand dollars of assessed value. Assessed values decreased further in 2011 (-3.4 percent), and further still in 2012 (-3.3%), leading Seattle's Medic 1/EMS revenues to decrease by 3.0 percent in 2011, and 2.13 percent in 2012. This decline is projected to continue into 2013 with revenues decreasing in excess of 1 percent to \$34.2 million. The 2014 Endorsed Budget assumes the Medic 1/EMS Advisory Task Force's recommended \$695 million 6-year levy proposal will be approved by the King County Executive and Council and renewed by voters in 2013. This proposal is projected to generate \$39.2 million in 2014.

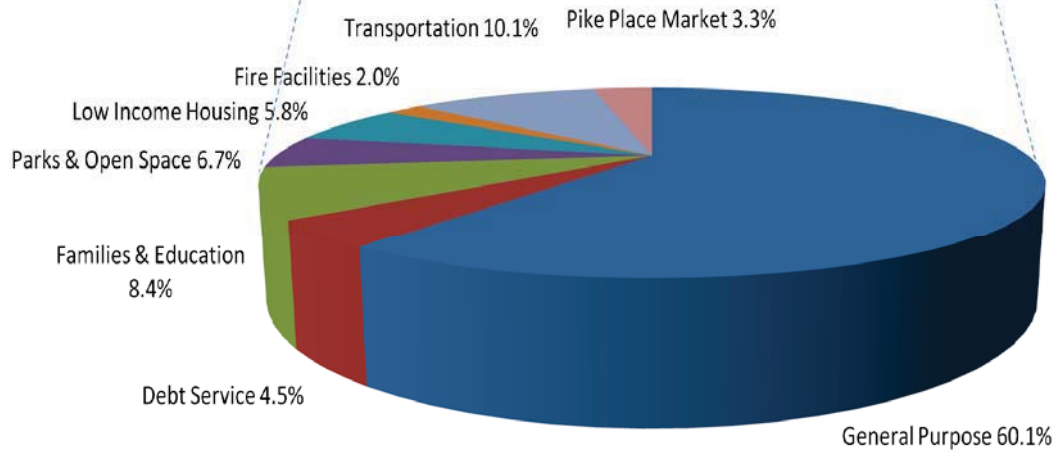
Revenue Overview

Figure 12.

Components of Total Property Tax Levy for 2012
(tax rate = \$10.16 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2012
(tax rate = \$3.28 per \$1,000 assessed value)



Revenue Overview

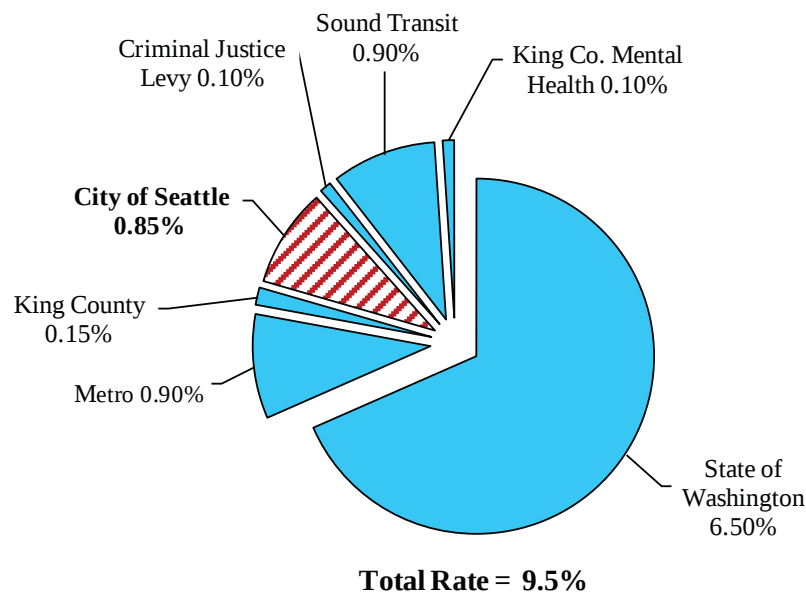
Retail Sales and Use Tax

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses that, in turn, remit the tax to the state. The state provides the City with its share of 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 was imposed throughout King County in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle. The tax expired because the stadium construction bonds have been paid off.

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 13. 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 13. Sales and Use Tax Rates in Seattle, 2012



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 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

Revenue Overview

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.

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 annual rate of 9.8%, led by construction's 21.0% growth rate.

With the onset of the national recession, 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 financial crisis reached its peak. Seattle's real (inflation adjusted) sales tax base declined by 8.6% in the fourth quarter of 2008, a rate of decline unprecedented during the previous 35 years. The decline continued at a more moderate pace until the fourth quarter of 2009, by which time the tax base had declined by 20.8% in real terms (the nominal peak-to-trough decline was 18.2%).

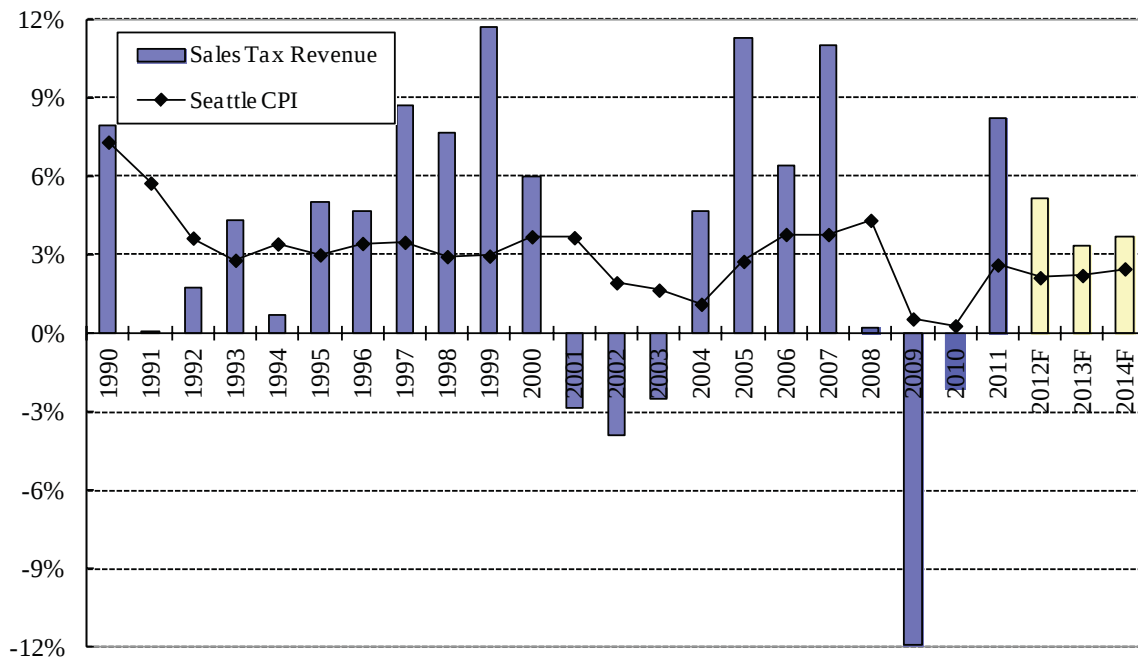
Construction, which led the pre-recession build-up in the sales tax base, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). The following three years erased 79 percent of that increase. Other industries posting the steep declines in taxable sales during the recession were manufacturing, finance and insurance, and building materials & garden supplies. After hitting bottom in the fourth quarter of 2009, Seattle's sales tax base has grown by 13.4% (through 2012 Q1), leaving it 7.2% below its 2008 Q3 peak. Industries leading the upturn include construction, motor vehicle & parts retailing, manufacturing, professional and business services, and accommodations. Construction did not hit bottom until the second quarter of 2011. However, over the following three quarters taxable sales from construction have increased by 34.5%.

In 2011 sales tax revenue was boosted by the state's amnesty program, which was in effect between February 1 and April 30. The program offered taxpayers a temporary tax amnesty that waived penalty and interest payments on certain unpaid business taxes, including the sales tax. The amnesty program generated an estimated \$2.6 million in additional sales tax revenue as well as approximately \$250,000 in criminal justice sales tax receipts for the City.

Retail sales tax revenue growth is forecast to slow after peaking in 2011. Following a 6.6% gain in 2011, the City's sales tax base is expected to expand by 6.8% in 2012. After these two relatively strong years, tax base growth is expected to slow, as the construction build-up levels off. Growth rates over the next several years are forecast to drop into the 3.5% - 4.5% range, which is well below the growth rates typically achieved during a recovery. Growth in 2013 will be dampened somewhat by expected impact of the fiscal cliff. The additional \$2.6 million from the state's tax amnesty program helped to boost the 2011 revenue growth rate to 8.2%. In 2012 revenue growth is forecast to slow to 5.1%, reflecting a fall back from the amnesty inflated 2011 level.

Revenue Overview

Figure 14. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2012-14 are forecasts.

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 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 19 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 2012, the rate for business floor space, which includes office, retail, and production space, is 42 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 14 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; i.e., 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, 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).

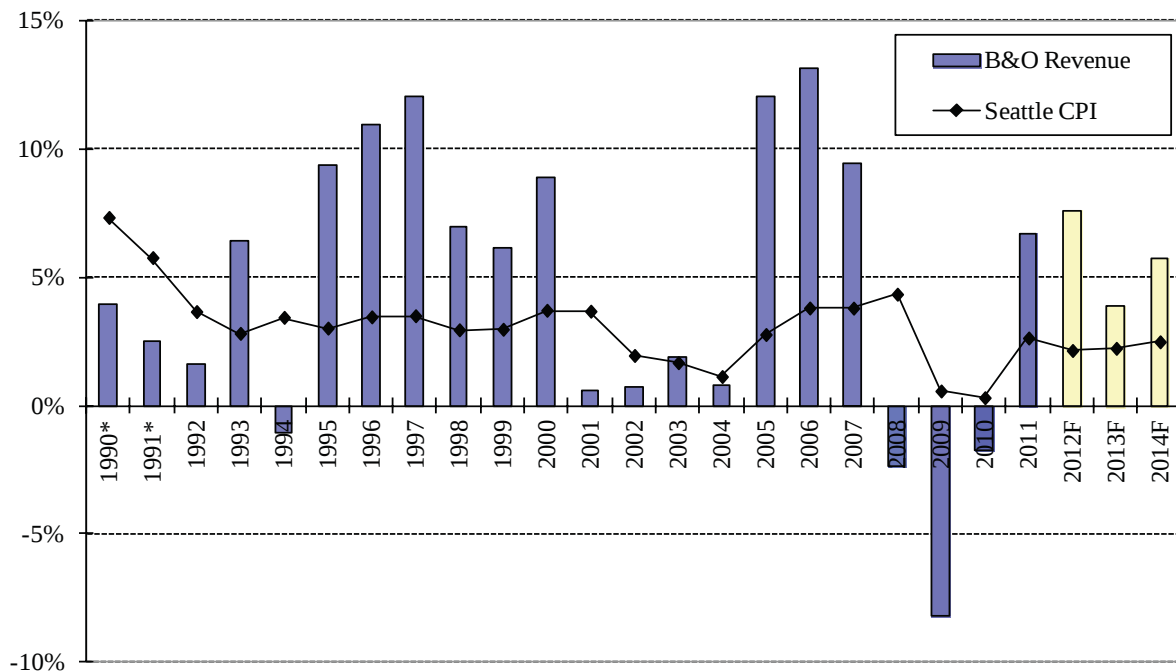
Revenue Overview

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 has not fully recovered from the 2007-09 recession. 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 been subject to strong ups-and-downs, rising rapidly during the late-1990s stock market & dot-com bubble and the housing bubble of the mid-2000s, but falling sharply during the two major recessions of the last decade. When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly, and remained below 2% for four successive years (see Figure 15). Revenue growth then accelerated 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 abruptly 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% year-over-year decline in the fourth quarter. For the year, revenue was down 2.3% from 2007 levels, but 2009 saw the full force of the recession with an 8.2% drop from 2008. The decline was broad based with no industry untouched, but construction, manufacturing, wholesale trade, and finance & insurance were particularly hard hit.

Figure 15. 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; 2012-14 are forecasts.

Figures include both gross receipts and square footage tax revenue.

The B&O tax base stopped contracting in the second quarter of 2012, after losing 16.8% of its value. Since then the tax base has experienced a healthy rebound, increasing by 13.7% over the seven quarters to 2012 Q1, but it is still 5.4% below its 2008 Q1 peak. Leading the rebound 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 two years running well below historic levels.

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Following three years of decline, B&O tax revenue increased by 6.7% in 2011. Growth fell short of the 7.7% increase in the tax base because of a drop in revenue from non-current activity, which includes revenue from audit activity, refund payments, and penalty & interest revenue. 2011 was a record year for refunds.

B&O revenue forecast anticipates modest growth will continue. The B&O revenue forecast reflects the expectation that the U.S. economy will slowly improve, but that the recovery will remain relatively weak. Growth in 2012 is boosted by a significant gain in revenue from audit activity (note that this reduces the growth rate for 2013). The forecast for 2013 incorporates an expected revenue gain from the addition of two license and standards inspectors to the Regulatory and Enforcement Unit of the Department of Finance and Administrative Services.

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.

Cold weather leads to increases in natural gas tax revenues, while prices remain 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. Prices averaged \$3.8/MBTU for 2011 and are expected to average less than \$2.3/MBTU through 2012. Independent of weather, these low prices would yield lower tax revenues. The cold weather in the Puget Sound region for 2011 and to a lesser extent 2012 has propped up receipts.

Telecommunications industry continues to change. 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.

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 unexpected 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. 2011 revenue growth was negative over 2010 (-10.7%) because of artificially high receipts from audit payments and 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 expectation for negative growth in 2012 of -3.6%. 2013 and 2014 are expected to grow only mildly; 2.3% and 2.8% respectively.

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 4.2% franchise fee

Revenue Overview

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, but with increased competition from satellite and internet television providers, there is a cause for caution. Average annual growth for the 2012 – 2014 period is expected to be 2.6%, just above 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.

Rate changes expected in 2012. 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 in 2009, and lower than anticipated water levels in 2010, City Light experienced some financial turmoil. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization fund for the utility. This required an initial 4.5% surcharge that took effect in May of 2010 and then was deactivated in January of 2011. Retail rates for 2013 and 2014 are expected to increase by 4.4% and 5.6% respectively. The rate stabilization surcharge is not anticipated for this biennium. Tax revenues that accrue to the General Subfund will have annual increases of 3.5% and 6.1% in 2013 and 2014, respectively.

Water retail rate increases for 2013 and 2014. A retail rate increase of 8.7% was approved for 2012 and SPU is planning water retail rate increases of 8.7% and 8.5% for 2013 and 2014 respectively. These rate increases have already been adopted by Council. This will lead to tax revenue growth rates of 6.4% in 2013 and 8.0% in 2014.

Drainage and Wastewater rate increases mean higher tax revenue growth. Wastewater utility rates increased by 4.1% in 2011 and by 4.2% in 2012. Rates are expected to increase by 9.3% in 2013 which incorporates a pass through from King County water treatment rates. Drainage rates are expected to increase by 7.6% in 2013 and by 10.1% in 2014. Tax receipts from these two utilities will grow by 7.6% and 1.9% in 2013 and 2014, 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%. The Solid Waste Utility for the 2013 and 2014 Proposed Budget is assuming rate increases of 4.6% and 2.2% in 2013 and 2014, respectively. These increases, along with increased economic activity, will lead to tax revenue growth rates of 4.9% and 2.4% in the same years.

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.

Admissions tax receipts have been stable and not severely affected by the economy. There have been some changes to the tax base and to the uses of the tax proceeds. 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 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.

Revenue Overview

A notable change for 2012 is the temporary closure of Husky Stadium for the University of Washington's football season. During the 2012 season the Huskies will play at Century Link Field. Under normal circumstances the City would not be able to collect admissions tax from events at Century Link because those revenues are used to pay down the debt on that facility. In the 2012 legislative session though, the Washington State Legislature removed this impediment and will allow the City to collect ad-tax on Husky games played at Century Link. This restores around \$900,000 in revenue. Average annual revenue growth in ad-tax over the 2012 – 2014 period is expected to be 3.2%.

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. Pay station technology also allows the City to adopt different pricing, time limit and other management parameters on different blocks throughout the city. In the same period, the City has increased the total number of parking spaces in the street right-of-way that are subject to fees and collected more data to measure occupancy, turn over and other characteristics of on-street parking. Now with around 2,200 pay stations controlling approximately 12,500 parking spaces, the overall objective of the program is to provide a more data-driven, outcome based management and price setting approach in pursuit of the expressed 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 2011 Adopted 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 use 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 2013-14 Proposed Budget does not make further rate, boundary and time limit changes, but assumes full implementation of the pay-by-phone payment program.

The Department of Transportation's budget section provides further details of the 2012 Adopted and Proposed 2013-14 changes to the parking management program. Each of the prescribed rate changes implemented in 2011 and 2012, as well as extending evening paid parking hours from 6 p.m. to 8 p.m. or increasing time limits from 2 to 4 hours have affected on-street parking revenues. Simultaneously, beginning in October 2011, construction activity related to the Alaskan Way Viaduct replacement project began eliminating several blocks of on-street parking in the Pioneer Square area. Reconfiguration of the Mercer St. corridor and other road construction projects similarly will continue to reduce available on-street parking in effected neighborhoods. Altogether, these changes and effects, including general improvement in demand, are projected to increase 2012 revised revenues to \$33.1 million, or approximately \$1 million above the 2012 Adopted projection. Proposed 2013-14 revenues grow at 1.2% and 1.8% respectively to \$33.5 million in 2013 and \$34.1 million in 2014.

Street Use and Traffic Permits. At \$2.33 million, revenues for 2011 reversed a downward trend and ended 23.3 percent higher than 2010 actual revenues of \$1.83 million for traffic-related permit fees, such as meter hood

Revenue Overview

service, commercial vehicle load zone, truck overload, gross weight and other permits. This increase is in response to increased economic activity, primarily construction activity, requiring permits. The 2013-14 Proposed Budget assumes growth in construction activity requiring street use permits slows to stable levels while demand for meter hoods increases slightly, resulting in no significant growth in revenues across the biennium. Total revenues for this category are projected to be \$2.36 million in 2013 and 2014.

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. 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 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 are proposed for 2013 to compensate for the additional time anticipated to be required to enforce compliance under the Seattle Department of Transportation's new pay-by-phone (PBP) program (described above in the Parking Meter section and 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. Absent an issued pay sticker, PBP will require PEOs to verify payment compliance for all vehicles without a pay sticker with their handheld ticketing devices (HHTs) via a wireless connection to a database on a central server. It is estimated that this additional enforcement step will add 30 seconds on average per checked vehicle to current enforcement practice, given the existing HHTs currently in use by Seattle's PEO force. This reduction in efficiency, is estimated to reduce parking citation revenues by approximately \$1.2 million in 2013. This loss is reduced to \$845,000 in 2014 due to counter influences of increased adoption by users of PBP and the proposed acquisition of new HHT devices, which is expected to reduce the connectivity verification time to an average of about 10 seconds per checked vehicle.

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 camera locations. Installation of the red light cameras was delayed relative to Adopted Budget assumptions and 2012 revised revenues are reduced from \$700,000 to \$216,000. Overall citation volume for red light cameras is down in 2012, reducing estimated 2012 revenues to \$3.9 million. Total revised 2012 Fines and Forefeitures revenue is reduced to \$32.26 million from the 2012 Adopted Budget's \$36.1 million. Total Fines and Forefeitures revenues are projected to be \$33.7 million in 2013 and \$34.7 million in 2014.

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

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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, borrowing rates have fallen precipitously across the board. These rates have remained low in 2009-2012 and the Federal Reserve has committed to keeping interest rates low through 2014. Expectations for earnings rates and uncertainty over institutional response to economic and financial conditions have led the City to move its investment portfolio into increasingly shorter-term securities, as previously held securities matured. The annual yield for 2013 and 2014 is expected to be 0.94% and 1.25% respectively. Current estimates for General Subfund interest and investment earnings are \$1.9 million in 2013, and \$2.5 million in 2014.

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.

The State's budget leads to small declines 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. For the 2012 and 2013 state budgets, these distributions were cut by 3.4% in each year, leading to small declines in the revenue stream for Seattle.

State budget removes some revenues, but an initiative will lead to increased liquor revenues. In recent years the City's share of Liquor Board profits has stabilized to around \$4 million a year. These are funds recorded as net income for the liquor board in its operation of liquor sales in the State of Washington. 40% of these funds are distributed quarterly to cities and towns on the basis of population. Liquor excise taxes, which are levied on the sale of liquor, have stabilized to providing Seattle almost \$3.0 million a year. In the 2012-2013 State Budget, the distributions were cut by 3.4% which led to small declines in these state shared revenues. The 2012 State budget further removed some liquor distributions to cities for FY 2013. An initiative passed in November of 2011 has led to the sale of all state liquor stores and allowed for new entrants into the market. These new entrants and higher taxes will lead to increases in liquor related revenue to the City. Liquor related revenues will be \$6.4 million in 2013 and then rise to \$7.5 million in 2014. Additionally, the sale of state liquor stores led to a one-time distribution of \$1.3 million to Seattle in 2012 for an expected total of \$7.7 million.

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. The former Department of Executive Administration (DEA) has merged with the former Fleets & Facilities Department (FFD) into the Department of Finance and Administrative Services (FAS). This means that central service charges that accrued to the General subfund to support the former DEA's work now go directly to FAS's operating fund. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

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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 2012 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.

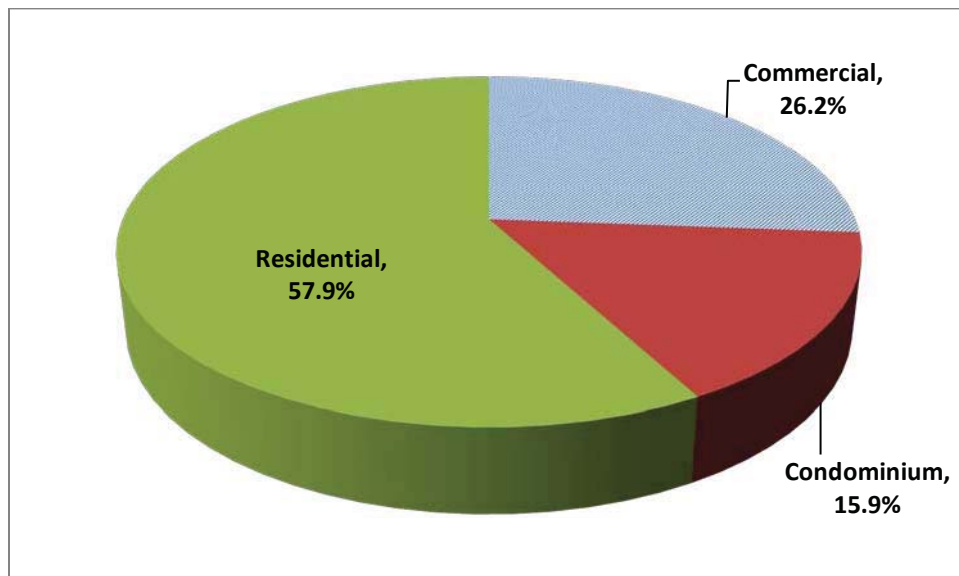
Cumulative Reserve Subfund – Real Estate Excise Tax

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, 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 26.2% of the tax base, and condominiums constitute the remaining 15.9% (see Figure 16).

Figure 16. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2011



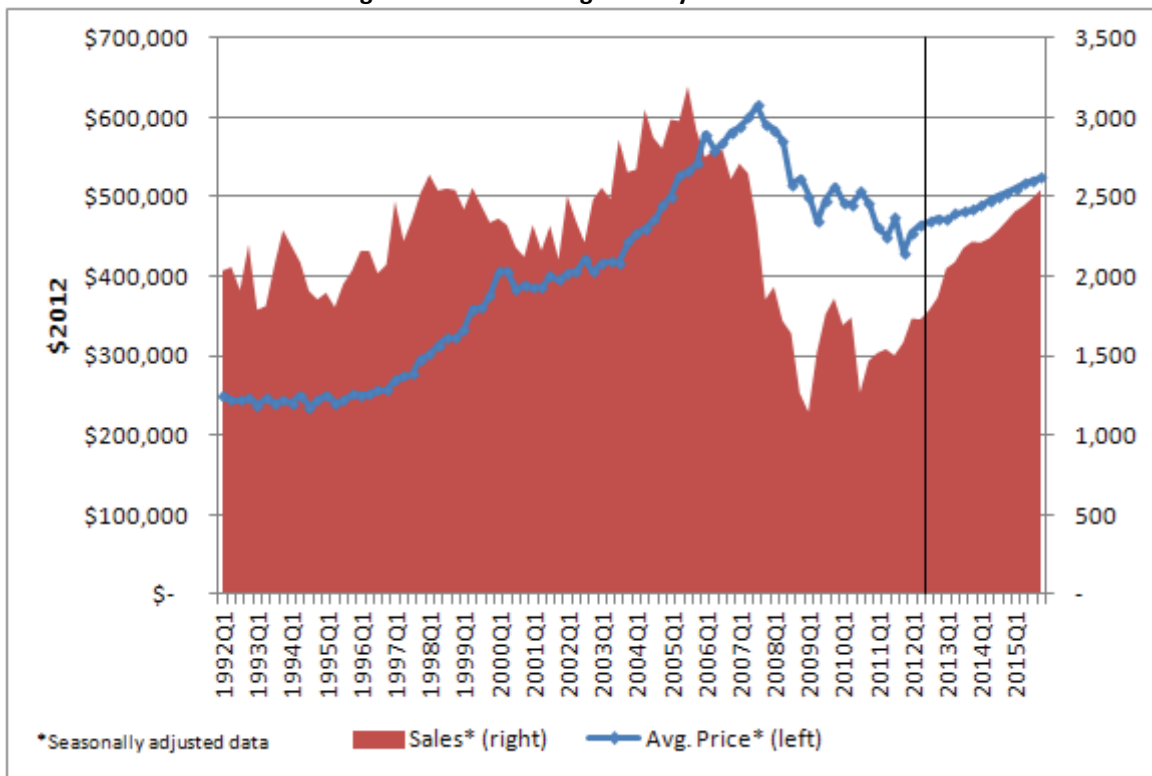
Commercial sales are rebounding. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled 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

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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. 2010 saw small growth of 3.7% over 2009. 2011 had improved numbers especially in the commercial market with a number of large downtown office buildings changing hands. This provided 27.4% growth in REET over 2010. The commercial market has continued to expand in 2012, with sector growth expected to be 36.8% over 2011 with total REET growing by 25.1%. 2013 is expected to moderately grow from 2012 with around 5.0% growth in sales, followed by 15.6% in 2014 as the residential market picks back up.

The volatility of REET is reflected by the fact that despite a 9.6% average annual growth rate, the REET tax base declined in nine years during the period 1982 – 2011. 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 more recently in 2011 and 2012.

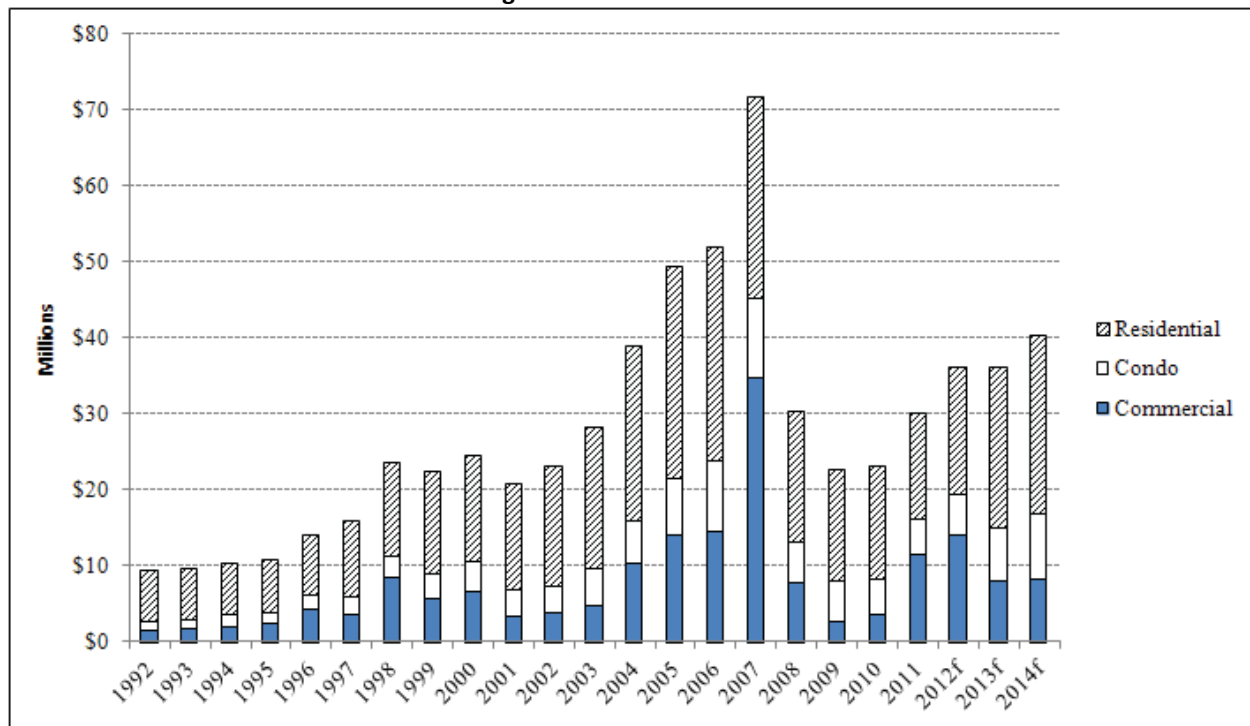
Figure 17. Seattle Single-family Home Sales



REET revenue from the residential market will grow over the next biennium. It appears that Seattle home sales hit bottom in the early part of 2009, and prices reached their lowest point at the end of 2011 (see Figure 17). There was a brief uptick in home sales during the last half of 2009 through the first half of 2010. This was a direct result of the new homebuyer tax credits which incentivized home purchases. Once this credit expired, sales fell back to previous levels. Single-family home prices in Seattle are expected to slowly increase through 2014, expected to average 3.4% year-over-year. The condo market has also stagnated during the downturn and is not expected to move much over the next few years. Any volatility in the REET revenue stream will be due to fluctuations in the commercial property market.

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Figure 18. 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 \$40.3 million in 2011 and is projected to raise \$41.1 million in 2012. For 2013 and 2014, lid lift revenues are projected at \$41.8 million and \$42.5 million respectively.

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 2012 forecast in the 2012 Adopted Budget of \$30.7 million is revised downward to \$30.3 million. Commercial Parking Tax revenue is forecast to increase to \$31.3 million in 2013 and \$32.7 million in 2014. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. These additional revenues from the 2.5% increase are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation's section of this budget.

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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.

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Figure 19. Seattle City Tax Rates

	2008	2009	2010	2011	2012
Property Taxes (Dollars per \$1,000 of Assessed Value)					
General Property Tax	\$1.70	\$1.55	\$1.78	\$1.87	\$1.97
Families & Education	0.14	0.12	0.14	0.14	0.27
Seattle Center/Parks Comm. Ctr.					
Parks and Open Space	0.18	0.18	0.20	0.20	0.21
Low Income Housing	0.03	0.03	0.17	0.17	0.18
Fire Facilities	0.17	0.15	0.09	0.10	0.06
Transportation	0.31	0.27	0.31	0.32	0.33
Pike Place Market		0.09	0.10	0.10	0.11
Emergency Medical Services	0.30	0.27	0.30	0.30	0.30
Low Income Housing (Special Levy)	0.07	0.06			
City Excess GO Bond	0.17	0.13	.014	0.15	0.15
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	0.415%	0.415%	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	15.54%	19.87%	19.87%*	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%	4.20%	4.20%	4.20%	4.20%
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.