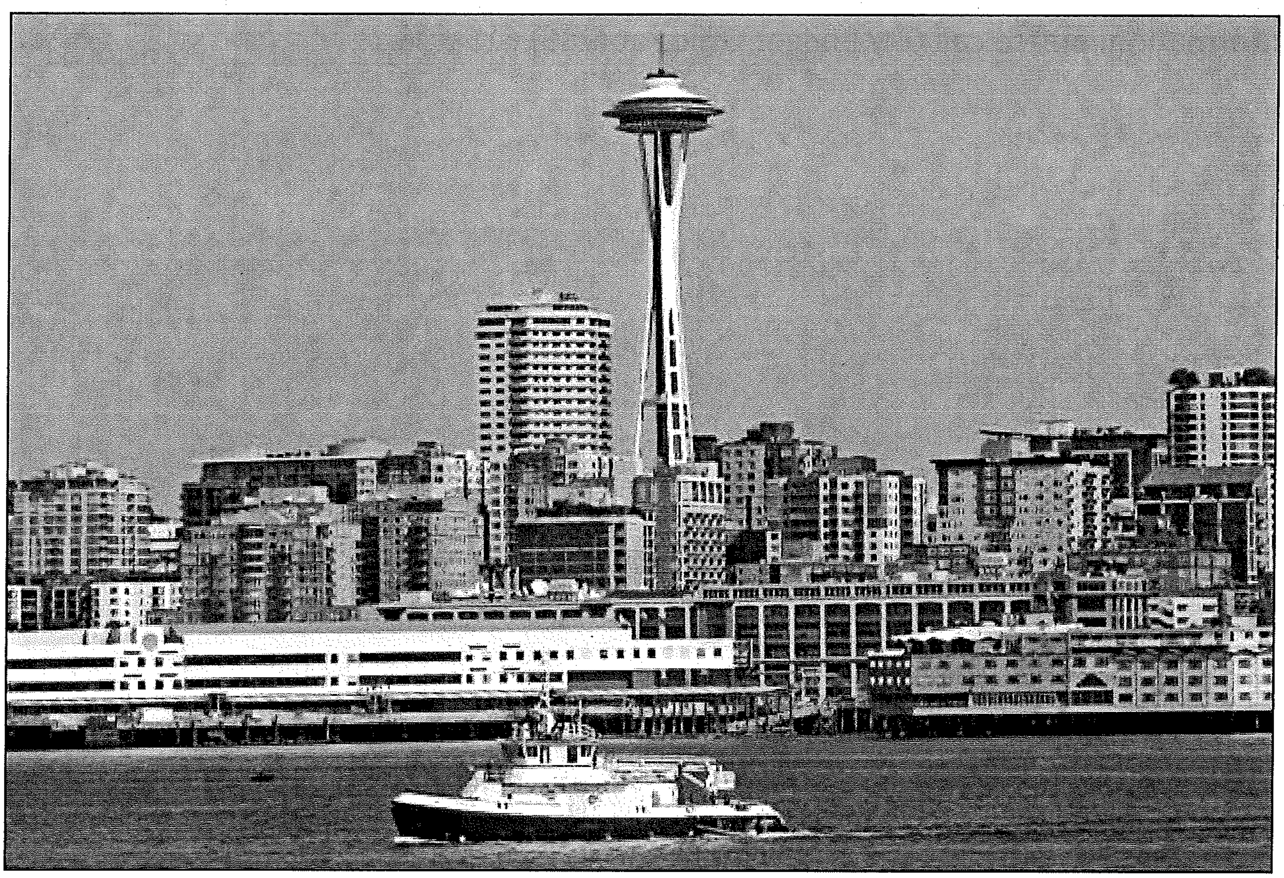
CITY OF

Seattle, Washington

2013-2014 Proposed Budget



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City of Seattle
2013-2014 Proposed Budget

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City of Seattle

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January 1, 2012

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City of Seattle

2013-2014 Proposed Budget

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Reader's Guide

This reader's guide describes the structure of the 2013-2014 Proposed Budget Book and outlines its contents. The format of the 2013-2014 Proposed Budget Book is in its second year. It is designed to present budget information in a more accessible and transparent manner – the way the decision makers considers the various proposals. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations.

A companion document, the 2013-2018 Proposed Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the next six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

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

The 2013-2014 Proposed Budget

This document is a detailed record of the proposed spending plan for 2013-2014. It contains the following elements:

- **Proposed Budget Executive Summary** – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor and Council's priorities;
- **Summary Tables** – a set of tables that inventory and summarize expected revenues and spending for 2013-2014;
- **General Subfund Revenue Overview** – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- **Selected Financial Policies** – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- **Budget Process** – a description of the processes by which the 2013-2014 Proposed Budget and 2013-2018 Proposed CIP were developed;
- **Departmental Budgets** – City department-level descriptions of significant policy and program changes from the 2012 Adopted Budget, the services provided, and the spending levels proposed to attain these results;
- **Appendix** – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a summary of position changes by department contained in the 2013-2014 Proposed Budget; a glossary; and citywide statistics.

Reader's Guide

Departmental Budget Pages: A Closer Look

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

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

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

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

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

Reader's Guide

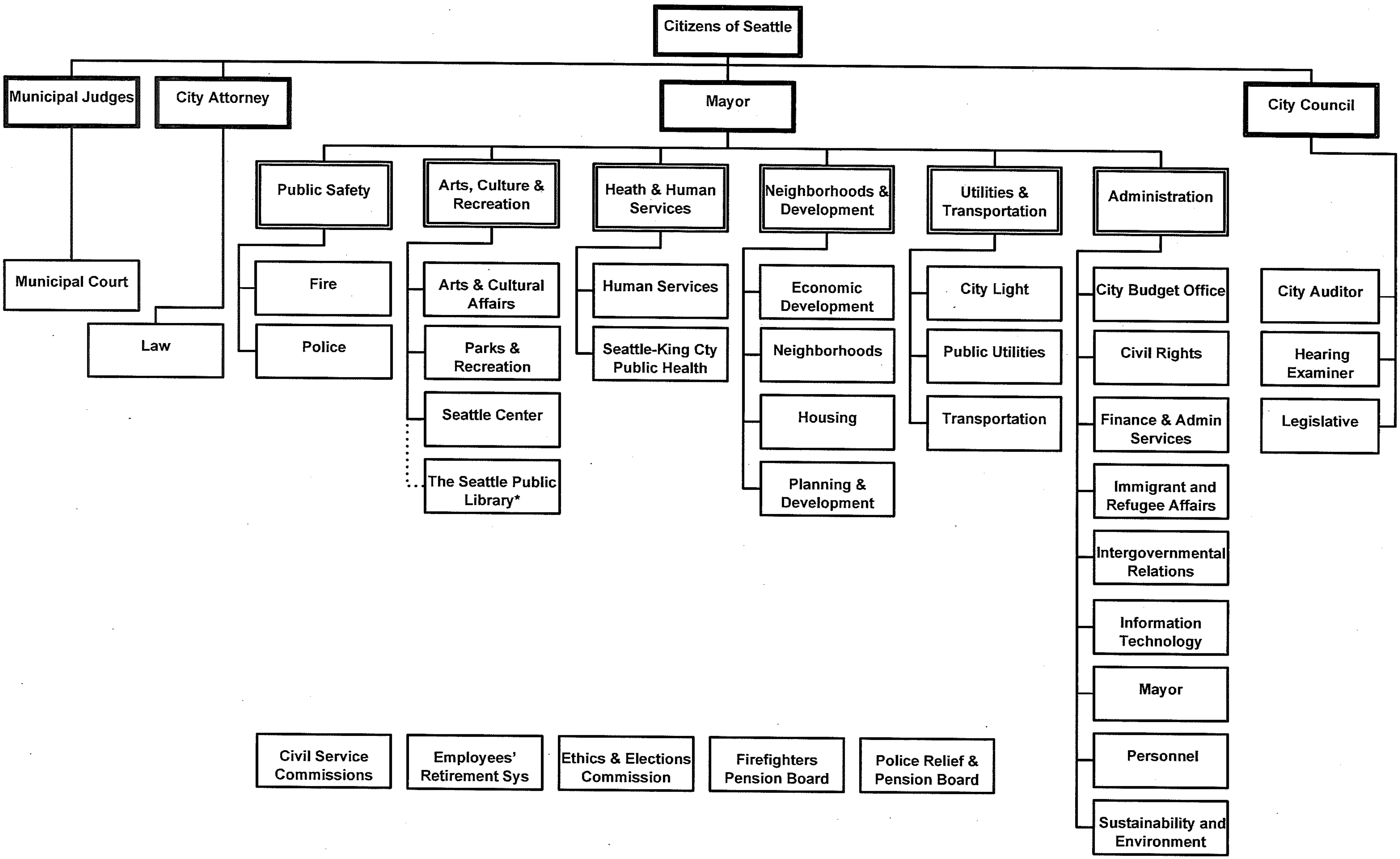
Budget Presentations

Most department-level budget presentations begin with information on how to contact the department, as well as a snapshot of the department's budget control level budget structure. The department-level budget presentation then goes on to provide a general overview of the department's responsibilities and functions within City government, as well as a summary of the department's overall budget. A narrative description of the issues impacting the department's 2013-2014 proposed budget then follows. The next section of the department-level budget presentation provides a numerical and descriptive summary of all of the incremental budget changes included in the 2013-2014 proposed budget, along with a discussion of the anticipated operational and service-level changes that will result. The department-level budget presentation concludes with summary level tables that describe the department's overall expenditures and revenues by type as well as by budget control level and program. All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2012. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes proposed in the budget has been compiled in a separate document entitled, "Position Modifications in the 2013-2014 Proposed Budget." Position modifications include eliminations, additions, reclassifications, and status changes (such as a change from part-time to full-time status), as well as adjustments to departmental head counts that result from transfers of positions between departments.

For information purposes only, an estimate of the number of staff positions to be funded under the 2013-2014 Proposed Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2013-2014.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2011 through 2013; a statement of fund balance; and a statement of 2013-2014 appropriations to support capital projects appearing in the 2013-2018 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2013-2018 Proposed Capital Improvement Program document.



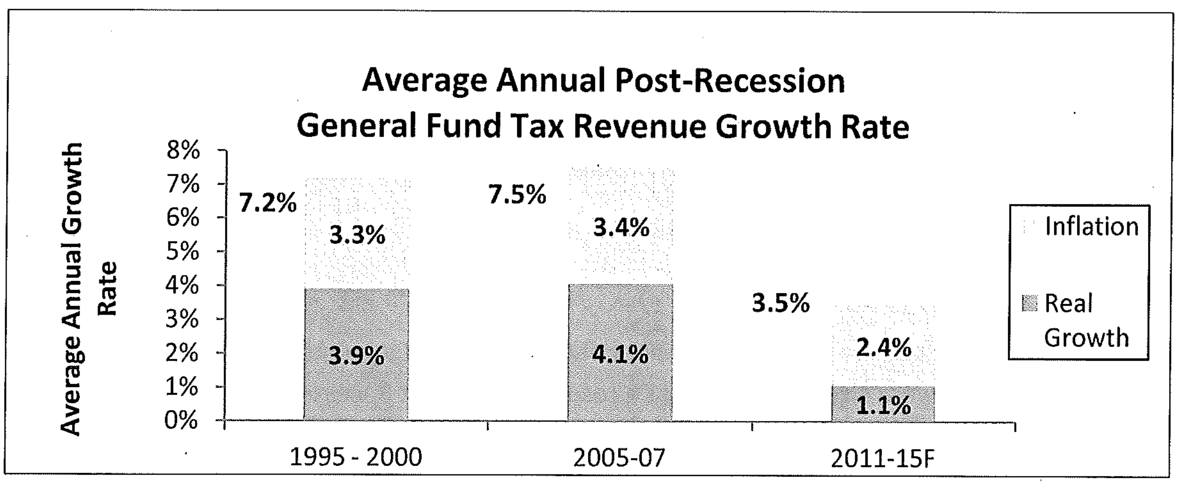
*The Library is governed by a five-member citizens' board of trustees, appointed by the Mayor and confirmed by the City Council.

Proposed Budget Executive Summary

The 2013-2014 Proposed Budget totals $4 billion, including the City's $951 million General Fund. Four years after the start of the Great Recession and three years following its lackadaisical conclusion, the City of Seattle is starting to see some easing on the General Fund budget constraints. While still not back to pre-recession levels, strength in the local economy relative to national trends, vigilant financial management over the past two years and continued efforts to find new and more efficient ways of doing business are giving the City a bit more flexibility than in recent years to make investments in emerging needs. Nonetheless, in this post-Great Recession climate, the need for financial restraint remains as revenue growth continues to be relatively subdued.

General Fund Budget Outlook:

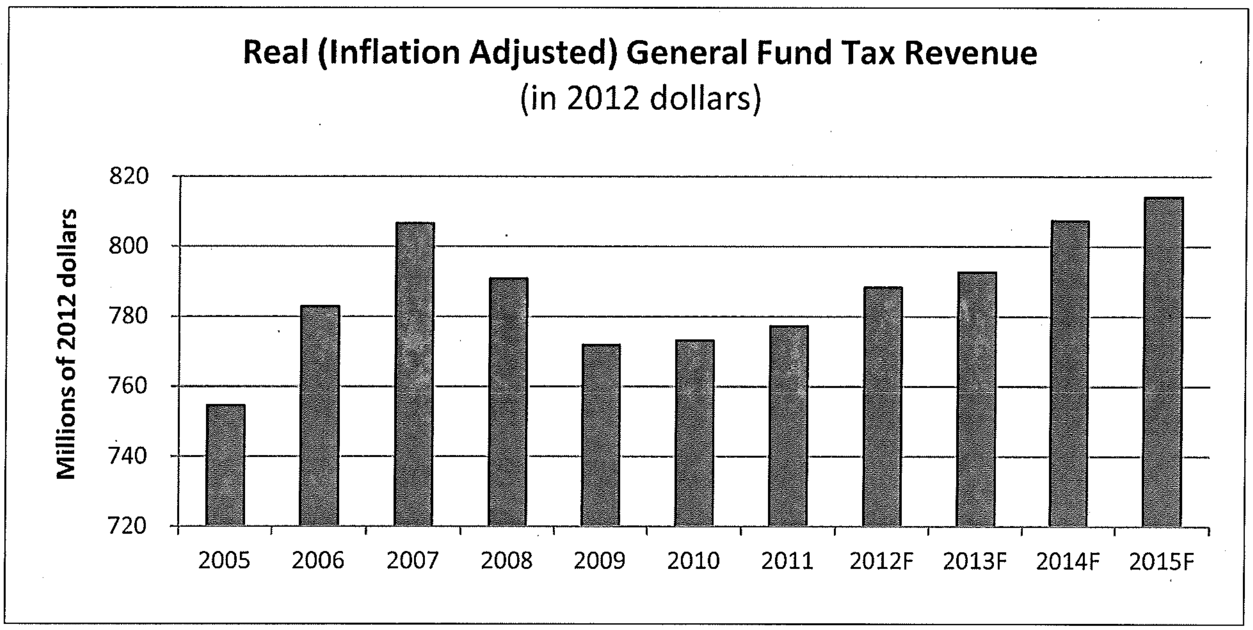
While less acute, the challenge in developing a balanced budget for the 2013-2014 biennium is the same basic one that has marked each budget since the onset of and subsequent recovery from the Great Recession. The Great Recession was longer and deeper than any recession since the Great Depression and the rate of recovery, and thus the rate of revenue growth, particularly for those revenues tied directly to the health of the economy, has remained shallow when compared to previous post-recessionary periods, resulting in an unusually protracted period of budget limitations. In previous post-recessionary periods, the City experienced average annual tax revenue growth that exceeded 7%, allowing the City to maintain existing services plus make additional investments in programs. In the current post-recessionary period, the average annual tax revenue growth is 3.5%. This growth rate has not been sufficient to maintain existing services plus respond to emerging needs, necessitating budget reductions to bring the budget into balance. The chart below illustrates how shallow the current revenue growth is forecast to be compared to previous periods.



Proposed Executive Summary

The 2013-2014 Proposed Budget reflects a continuation of this trend. General Fund tax revenue growth between 2012 and 2013 is projected at 2.7%, with overall General Fund revenues growing at only 1.6% over the same period. Meanwhile, the Cost of Living Adjustment for 2013 for most City salary increases, based on the local inflation rate as defined by the Consumer Price Index (CPI-W) for the Seattle metropolitan area, is at 3.3%. Other cost drivers, such as medical and retirement benefits, are increasing at even greater rates. Direct salary and benefit costs make up 65% of the General Fund. This imbalance is compounded by the fact that the business of government is not static. Demands for government services change over time and new issues emerge, requiring investment of City dollars.

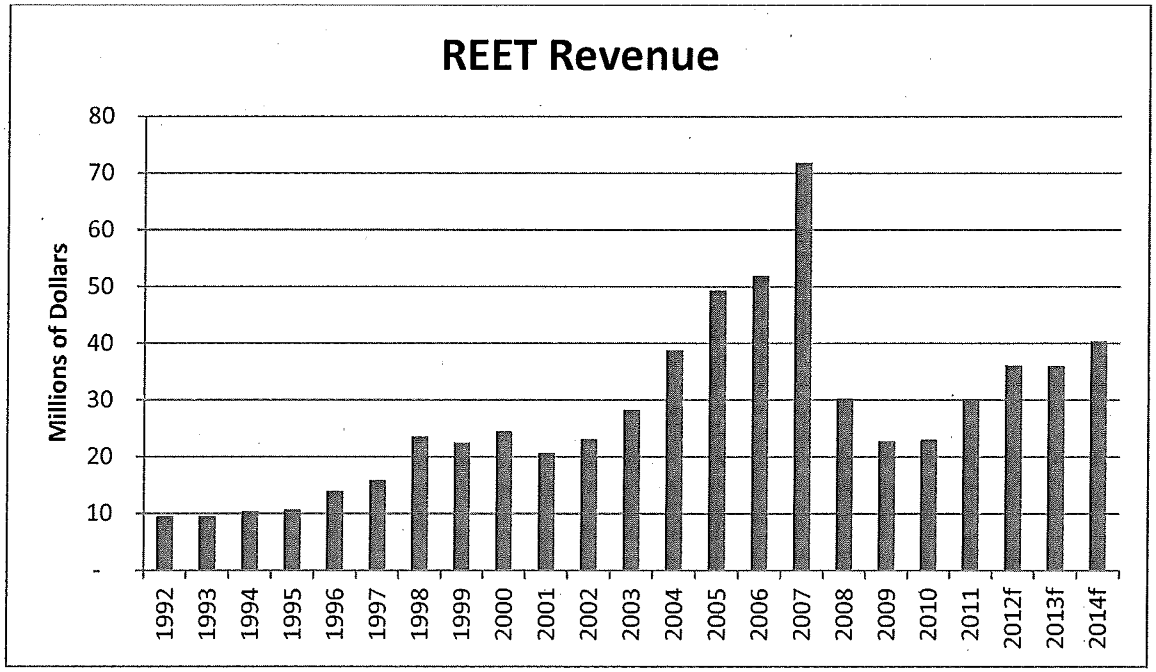
But there are indications that the degree of the City's financial challenges is easing as the distance from the end of the Great Recession grows. Forecasts suggest that the rate of real (inflation adjusted) revenue growth is slowly increasing, with the City's general tax revenues forecast to return to their pre-recession peak (2007) by 2014. In fact, in nominal terms, the pace of general tax revenue growth is projected to pick up in 2014 to 4.4% relative to 2013. While still not at the 7% rate of previous post-recessionary periods, this rate of nominal growth is rising as compared with rate of growth over the past couple of years.



REET and CDBG Revenues are Relatively Healthy: Moreover, the City is starting to see relief in other revenue sources that were also constricting as a result of the Great Recession – including Real Estate Excise Tax (REET), a tax on real estate sales that supports the City's general government asset preservation and capital improvement programs, and the Community Development Block Grant (CDBG), a federal funding source that supports community development activities. Both of these revenue sources experienced significant declines since 2007 – REET saw a 68% decline between 2007 and 2009 and the CDBG entitlement is down 26% from $12.7 million in 2007 to $9.3 million in 2012.

Proposed Executive Summary

While projected to still be 50% less than the peak in 2007, REET revenues for 2013 are estimated at $6 million above 2011 actual revenue collections, with an additional $4 million bump in 2014.



Meanwhile, CDBG is projected as stable for 2013 and 2104 relative to 2012. However, some existing CDBG funding obligations come to an end in 2013, freeing up resources to be invested elsewhere. Collectively, these developments give the City additional financial flexibility over the biennium as compared to the last four years.

Passage of the Library Levy Provides General Fund Relief: Also providing relief to the General Fund in 2013-2014 is approval by Seattle voters in August 2012 of the Library Levy. In addition to expanding Library services, including the number of hours that each branch is open, the Levy also relieves the General Fund of about $4.2 million of annual Library costs. In addition, the Levy relieves REET of about $820,000 annually in asset preservation costs. Given the General Fund challenges, the Library may have had to reduce its budget by these amounts were it not for approval of the Levy. By shifting these costs to the Levy, the City has more flexibility in the General Fund to support other basic services. Reflecting the importance of library services to Seattle residents, the General Fund will continue to provide $48.0 million and $50.1 million in support for the Library in 2013 and 2014 respectively.

Proposed Executive Summary

Reductions proposed for 2013-2014 are designed to have minimal impact on direct services enjoyed by Seattle residents.

Retooling and Reprioritizing:

More than ever, it is essential that government entities continually strive to provide services in a cost-effective manner. This premise has been a fundamental underpinning of the City's recent budgets. A few examples of recent successes the City has had in achieving budget savings include:

- Consolidating administrative functions previously performed by the departments of Executive Services and Fleets and Facilities into a single department – the Department of Finance and Administrative Services – saving approximately $1.6 million annually in labor costs.
- Entering into a long-term contract with King County to house the City's misdemeanant jail population at a lower cost and allowing the City to avoid building a jail facility, saving $4.3 million in on-going costs and avoiding $200 million in capital costs.
- Partnering with City employees in 2011 to reduce labor costs through COLA rates in 2011 and 2012, saving approximately $6.5 million annually Citywide in 2012, $2.6 million of which accrues to the General Fund, which compounds to approximately $13 million in savings Citywide, including $5.2 million of savings to the General Fund for 2013-2014 biennium. Cumulatively, this partnership with labor will have saved $25.2 million Citywide over four years.

While more modest in scope, the 2013-2014 Proposed Budget makes additional reductions to capitalize on further efficiencies. It also identifies a limited number of new revenue opportunities to sustain existing services. Both of these steps are important to balancing the General Fund budget, and also in freeing up resources to reprioritize and make investments in other critical services.

The savings proposed for 2013-2014 are designed to have minimal impact on the direct services the City provides to Seattle residents. The 2013-2014 Proposed Budget continues to provide most of the same basic services to Seattle residents at their 2012 levels. Examples of General Fund savings identified in the 2013-2014 Proposed Budget include:

Identifying Efficiencies in How the City Maintains its Assets: The 2013-2014 Proposed Budget also achieves savings by managing City facilities and assets more efficiently. A few examples include savings that the Department of Finance and Administrative Services (FAS) will achieve in utility costs by adjusting the set points for the temperature of City-operated buildings and by reducing the amount of landscaping support for the City Hall and Justice Center complexes.

FAS will also achieve savings by closing its internal vehicle maintenance parts warehouse. By using an outside vendor as the source for these parts, FAS expects to save more than $300,000 annually starting in 2014. In addition, by liquidating the stock of parts currently in the warehouse, FAS expects to receive $900,000 in one-time revenue in 2013. The City expects it will be more cost effective to obtain replacement parts for the City's fleet from outside vendors who have a larger and more nimble supply chain and access to a wider range of parts suppliers.

FAS will achieve $300,000 in annual savings and $900,000 in onetime revenue by closing its vehicle parts warehouse and relying on an outside vendor.

The Parks Department is achieving savings through efficiencies as well. In recent years, Parks has moved increasingly toward a different type of turf maintenance to provide a more environmentally appropriate level of care based on current horticultural and water conservation best practices. Rather than using vast amounts of water to keep park lawns green all summer, the Department has reduced irrigation in less frequently used parks so that some park lawns go dormant during the summer months, and then become green when the rains return in September. Important exceptions to this practice are athletic field turf, where Parks maintains vigorous growth year-round to ensure safe playing surfaces, and certain horticultural displays. Parks piloted this approach in 2012 and expects to continue with this practice in 2013 and beyond. The change is expected to save $250,000 annually.

Management Efficiencies: Preserving public safety – including the deployment of firefighting resources – remains a paramount priority for City government. With this in mind, in 2012, the City embarked on a three-phase operational assessment of the Seattle Fire Department (SFD) to identify opportunities for operational efficiencies while still continuing to provide high-quality emergency response and prevention services. The primary recommendation of the study thus far is that SFD would benefit from a management re-organization. The study determined the current SFD organizational structure had some management gaps and in other areas had overlapping management positions. To address these concerns, the study lays out options for realigning SFD's management structure. The 2013-2014 Proposed Budget begins to implement these recommendations by eliminating one Assistant Chief position (out of four) and the Battalion Chief assigned to oversee the implementation of the Fire Facilities Levy. The responsibilities previously handled by these positions will be reassigned to remaining positions in the organization, minimizing the operational impacts. These changes generate approximately $370,000 annually in savings to the General Fund.

Aligning Staff Resources with Workload Needs: The work of City government is constantly changing. Over time, workload needs evolve, and in some cases diminish. To achieve additional savings, City departments evaluated their staffing levels and identified opportunities for savings where the workload is no longer sufficient to support staffing levels. For example, the Parks Department identified $500,000 in savings by aligning positions with its workload needs. As the 2008 Parks Levy winds down and other funding sources for capital projects remain restrained, Parks eliminates 2.5 positions in its Planning and Development division. Parks also eliminates positions and reallocates workload in its Human Resources, Accounting, and Facilities Maintenance divisions.

The 2013-2014 budget aligns staff resources with workload needs.

Similarly, the Seattle Department of Transportation (SDOT) eliminates positions in response to changing workloads, generating $375,000 in General Fund savings. Positions eliminated include two accounting technicians and a vacant finance analyst position. Due to process improvements and report automation, the elimination of these positions will not impact service levels. As a result of decreased volumes of reimbursable work and related efficiencies, SDOT eliminates three cement finisher positions and four positions in its Maintenance Operations division.

While the 2013-2014 Proposed Budget eliminates 65 full-time equivalent (FTE) positions, 119 FTEs are added to address newly re-prioritized investments described later in this document. An additional net increase of 7 FTEs results from changes impacting part-time positions. In addition, for 2013-2014, an additional 25 FTE slots are added to the Personnel Department for use by other City departments to perform work that would otherwise be distributed to outside contracts.[1]

Lower Salary and Benefit Costs: City employees are critical in providing essential services to Seattle residents. As such, personnel costs represent a significant portion of the General Fund budget. Approximately 65% of the General Fund is for direct salary and benefit costs. Opportunities for savings in these areas allow the City to preserve jobs and services. The 2013-2014 Proposed Budget captures savings in salary and benefit costs as a result of a couple of important developments. Approval of a new labor

[1] These FTEs are proposed to sunset after two years to allow the City to evaluate whether the workload warrants the long-term need for these positions.

contract by the Seattle Fire Fighters Union, Local 27, provides important salary savings to the General Fund and allows the City to maintain the size of the fire-fighting force, as well as other services. In addition, the proposed budget captures savings in the Fire Fighter Pension Fund (FPEN) and the Police Relief and Pension Fund (PPEN) as a result of increased revenues, such as Medicaid reimbursements to the funds, and lower administrative costs.

The 2013-2104 Proposed Budget continues to identify ways to contain increases in health care plan costs by implementing administrative efficiencies that have been identified by the Health Care Interdepartmental Team (HC IDT) and approved by the City's Health Care Committee (HC2). The HC IDT was formed by the City Budget Office in 2011 to foster joint Council-Executive collaboration to evaluate the City's health plan spending, and to develop a set of strategic health care policies. In 2013, the City will begin to self-insure the Group Health Standard and Deductible medical plans, similar to the approach currently taken with the medical plans administered by Aetna, resulting in annual ongoing administrative savings of approximately $1 million.

The 2013-2014 budget captures savings from salary and benefit costs in order to preserve funding for direct services.

In addition, the City's costs related to providing unemployment benefits are anticipated to decline in 2013 due to the overall improvement in economic conditions. Accumulated fund balance within the Unemployment Subfund makes it possible to partially subsidize the anticipated costs to be incurred by departments in 2013 and 2014. While anticipated claims expenses related to workers compensation are expected to increase by 5% in 2013 over 2012, accumulated fund balance within the Workers Compensation Subfund is also being used in 2013 and 2014 to partially reduce the costs incurred by City departments. By identifying administrative efficiencies related to health care plans, as well as applying fund balance to reduce unemployment and workers compensation costs incurred by departments, the City is able to reprioritize these funds toward direct services in 2013 and 2014.

New Funding Sources to Sustain City Treasures: The General Fund has been the traditional source of funding for two important City treasures – the Volunteer Park Conservatory and the Langston Hughes Performing Arts Center. To ensure that these facilities continue operations, the 2013-2014 Proposed Budget identifies new funding approaches. Following a business planning effort in early 2012, the Parks Department has identified a number of changes to the Volunteer Park Conservatory operating model that will put this facility on a more financially sustainable path. The 2013-2014 Proposed Budget assumes the results of these efforts, including revenue from a new admissions fee to enter the facility, modestly lower staffing levels to better align operations with other comparable conservatories, and some modest capital investments that will allow the facility to generate revenue by serving as a venue for small events, such as weddings. Together, these changes are expected to provide $174,000 of relief to the General Fund, and, more importantly, allow the City to keep this facility open.

Funding sources are identified to sustain operations of the Volunteer Park Conservatory and the Langston Hughes Performing Arts Center.

Following conversations between the City, the Arts Commission and Langston Hughes Performing Arts Center (LHPAC) staff, the 2013-2014 Proposed Budget transfers operations of LHPAC from the Parks Department to the Office of Arts and Cultural Affairs (OACA), allowing the City to shift a portion of the facility's operating costs from the General Fund to the Admissions Tax, providing almost $400,000 relief to the General Fund. The General Fund will continue to provide $270,000 in funding to LHPAC. This change is achieved without any reduction to on-going programs supported by the Admissions Tax. In addition, with this transfer, the full 75% of Admissions Tax revenues will stay with OACA.

The transfer of LHPAC achieves a number of important operational objectives that will benefit the LHPAC. First, the programming provided by LHPAC directly aligns with the mission of OACA and fits the purpose of the Admissions Tax – to fund "arts-related programs and one-time capital expenditures that keep artists living, working, and creatively challenged in Seattle." Second, transferring the facility will allow OACA to more closely manage LHPAC and incorporate the LHPAC budget into the arts funding structure. At its core, LHPAC is a performing arts facility and there is no department in the City better positioned to oversee performing arts operations than OACA. This transfer more closely aligns the center with the broader arts community. And, finally, this is an important first step in developing a plan to put LHPAC on a more financially sustainable course. OACA will also be working directly with LHPAC over the next two years to develop a long-term, self-sustaining financial strategy for the center. While LHPAC operations will transfer to OACA in 2013 to capitalize on OACA's strength in art programming and management, DPR will retain ownership of the facility and will continue to provide for its maintenance, a function it performs for many other Parks-owned facilities throughout the City.

Select Fee-Based Revenue Increases: The 2013-2014 Proposed Budget also achieves General Fund relief through adjustments to fee-based revenues, including:

Proposed Executive Summary

SDOT preserves $8 million of services over the biennium as a result of lower debt service costs and by leveraging fund balances.

- *Swimming Pool Fees:* The Parks Department will generate $300,000 in revenue through modest increases in swimming pool fees, bringing those fees to levels that are comparable with other regional swimming pool facilities.
- *Parking Fees at City-Owned Garages:* The Department of Finance and Administrative Services (FAS) will increase the parking rates at the SeaPark and Seattle Municipal Tower parking garages to bring the rates more in line with market rates. This change will generate $235,000 annually in revenue.
- *Seattle Animal Shelter Fees:* FAS makes a number of changes to how fees are collected by the Seattle Animal Shelter, which will collectively result in a $220,000 annual increase in revenues. As part of this plan, the Seattle Animal Shelter (SAS) will implement a Pet License Partnership program, which will further enhance and coordinate pet license sales efforts in Seattle by encouraging people to license their pets. There are an estimated 250,000 unlicensed pets in Seattle. To reduce the feral cat population, in Seattle, SAS proposes to exempt the pet licensing requirement for feral cats that are brought into the shelter for sterilization. This change is expected to bring in an extra $15,000 annually in fees charged for spaying and neutering cats.
- *Fire Marshal Fees:* The Fire Marshal's Office, which charges for fire prevention services to direct service users, is adjusting its fees in 2013 and beyond in an attempt to move toward a full-cost recovery model over time for these service-based fees.

Strategically Using Fund Balances to Preserve Services: Conservative financial management has allowed several City funds that also receive General Fund support to accumulate fund balances. These fund balances are being strategically used in the 2013-2014 Proposed Budget to sustain service levels that might otherwise be in jeopardy due to the General Fund's budget challenges. For example, both the Parks Department and the Human Services Department are relying on less General Fund in 2013-2014 as they spend down modest levels of fund balance.

Meanwhile, SDOT identified a number of alternate funding sources to preserve service levels that would have otherwise been reduced as a result of General Fund budget reductions. These sources include funds made available as a result of lower debt service costs, remaining fund balances from the now-defunct Employee Head Tax, unprogrammed 2011 fund balance from Vehicle License Fee revenues, and funds from the 2011 sale of the Rubble Yard property to the State of Washington. Collectively, these sources allow SDOT to preserve $8 million of services over the course of the biennium.

Strategic Investments to Respond to Emerging Needs:

Through a combination of modest improvements in the City's General Fund revenue outlook and the savings and efficiencies described previously, the City has more flexibility for 2013-2014 to make modest investments to address emerging needs. These investments can be described in five broad categories:

- Supporting a Well-Functioning Government
- Enhancing Public Safety
- Upholding the Human Services Safety Net
- Promoting Economic Development
- Upgrading the City's Transportation Infrastructure

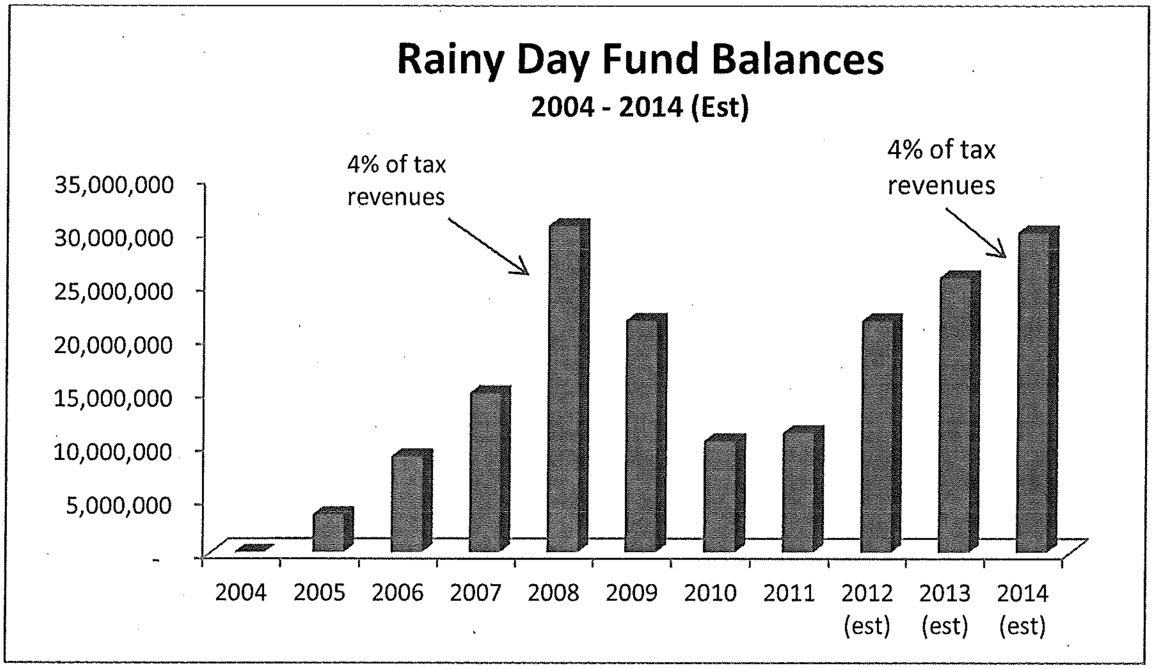
By 2014, the Rainy Day Fund will be replenished to $30 million – the peak funding level, achieved in 2008.

These five areas are identified as strategic priorities for the City because of their importance to supporting a healthy and vibrant City.

Investments to Support a Well-Functioning Government: The 2013-2014 Proposed Budget makes a number of investments to ensure the City continues to function well, including investments to promote the City's long-term financial sustainability and investments in the City's information technology backbone.

- *Saving for the Future – Restoring the Health of the Rainy Day Fund:* The City maintains a Rainy Day Fund – a savings account of sorts – to protect City services following unexpected declines in revenue. A healthy Rainy Day Fund not only protects the City in times of unexpected revenue contraction, but is also an important variable in maintaining the City's high bond rating, which helps keep the City's borrowing costs low.

  The Rainy Day Fund reached its peak funding level in 2008, when it was valued at $30.2 million, or 4% of General Fund tax revenues. At the onset of the Great Recession, the City relied heavily on the Rainy Day Fund, drawing it down to $10.5 million by the time the 2010 budget was adopted. Since that time the City has made a concerted effort to restore the health of the fund, marked most notably by adopting a sweeping overhaul of the policies that govern how the Rainy Day Fund is replenished in 2011.[2] As a result of these new policies, the City has increased its contributions to the Rainy Day Fund. The 2013-2014 Proposed Budget adds $8.3 million to the Rainy Day Fund over the course of the biennium, bringing the 2014 balance to $30 million, approximately the same amount that was in the fund in 2008 at its peak.



- *Continuing to Stabilize the City's Pension Fund:* When Mayor McGinn took office, he inherited a troubled pension fund – the Seattle City Employee Retirement System (SCERS). The financial market crash of 2008 left the fund with a relatively large unfunded liability and insufficient plans to address these challenges. The City of Seattle is one of the only cities in the State of Washington that runs its own pension system – most others participate in the Washington State systems.

Prior to 2008, the City consistently funded SCERS at or above the actuarially recommended level of 80%. However, the erosion of the financial markets left the pension with an unfunded liability of $1 billion and a funding ratio of only 62% at the beginning of 2010. The City had plans to partially address the funding shortfall by increasing the contribution rates of both the participating employees and the City contribution. Over two years (2011 and 2012) the contribution rates for each would increase from 8.03% to 10.03%. But this still left an unfunded liability of $695 million and a funding ratio of only 74%. To fully address the funding needs of the system over time, the City took an even more proactive approach to SCERS funding and established a policy in 2011 to set its

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[2] For more information about the Rainy Day Fund policies, please refer to Ordinance 123743 and the following presentation: http://www.seattle.gov/financedepartment/documents/RainyDayFundPresentation-FINAL.pdf

future contribution rates at the full actuarially recommended levels, even if above the 10.03% rate that employees contribute per agreements with the City's labor unions. For 2012, that led to a City employer contribution rate of 11.01% and in 2013 the rate will be 12.89%, while employees remain at 10.03%. Further increases in the employer contribution rate in 2014 are expected to a projected 14.28%. The City's out-year financial plans assume that the City continues to fully fund anticipated annual required contributions as will be actuarially determined.

The 2013-2014 budget adds funding to plan and design the City's next generation data center.

- *Investing in the Next Generation Data Center:* The City maintains multiple data centers, including the main data center, which was relocated to the Seattle Municipal Tower (SMT) in 2000. In its current location, the main data center is nearing the end of its useful life and is in need of upgrade. In fact, during the summer of 2012, the SMT data center had to be partially shut down when some critical electrical system maintenance had to be performed in the building. In 2013, the City will invest $3 million to begin planning and designing alternatives for a new data center that will provide more capacity, redundancy and resiliency to keep the City's critical information technology infrastructure running day-to-day and in the event of emergencies.

  An engineering consultant report completed in 2012 developed preliminary options and costs for an upgraded system of data centers. The preliminary recommendation is to develop an integrated system with a new, more redundant and reliable main data center, upgrade two other existing City data centers to enhance redundancy and reliability, and to repurpose or decommission the remaining data centers. Preliminary estimates suggest the costs range from $29 million to $49 million, depending on which choices are made to meet the City's needs. The project is expected to take three years to complete. In planning for the City's future data center needs, the Department of Information Technology and the Department of Finance and Administrative Services, working in conjunction with other City departments, will take a holistic look at the City's comprehensive data center needs and assess the potential of serving those needs in facilities already maintained by the City. This options analysis will determine which systems should be housed in City facilities, which systems could be best accommodated in leased data center space, which applications may be candidates for cloud computing, and where the City needs redundancies to ensure reliable access to the City's business systems.

- *Other Information Technology Investments:* A number of other City systems are in need of upgrade, primarily because the current systems are no longer – or will soon no longer be – supported by the software makers. The 2013-2104 Proposed Budget includes funding to allow the City to upgrade to Windows 7 and Office 365. Investments to expand the City's wireless network are also proposed, along with a planning effort to replace the City's email and online records management system. The City will also make investments to continue efforts to upgrade its accounting and budgeting systems.

SPD will hire 10 additional police officers in 2013 and will install a gunshot locator system.

Enhancing Public Safety: The 2013-2014 Proposed Budget makes significant investments to enhance public safety in the City of Seattle. In fact, the budget adds as much as $24 million over the biennium to support various efforts and initiatives by the Seattle Police Department (SPD) to reform its operations and expand its efforts to improve public safety.

- *Hiring Additional Police Officers:* The 2013-2014 Proposed Budget includes funding to allow SPD to hire 10 additional police officers, increasing the number of police officers from 1,300 to 1,310. These additional positions will allow SPD to continue meeting or exceeding the outcome objectives defined in the Neighborhood Policing Plan (NPP), as well as relieve the pressure on overtime use resulting from the increased emphasis patrols that have been activated in 2012 in response to crime "hot spots" around the city.
- *Investing in Technology to Enhance Public Safety:* The 2013-2014 Proposed Budget makes several technology investments to improve SPD's public safety capabilities. Two important investments include an automated gunfire locator system (AGLS) and replacement of SPD's in-car video (ICV) system. To support the City's AGLS system, the City will install up to 52 gunshot locator units, each having a minimum 600-foot radius range and each having the ability to stream video. Overlapping coverage and expanded two-mile radius coverage areas will enable SPD to create an automated gunshot locating network. Because the units are mobile, they can be moved to provide increased safety coverage for events such as the Torchlight Parade, the Bite of Seattle, and when Seattle hosts visiting dignitaries. The units will allow SPD to deploy more rapidly to "shots fired" locations because they are able to communicate

Funding is allocated to allow SPD to continue to reform its operations in the spirit of the Settlement Agreement between the City and the Department of Justice.

wirelessly or via city fiber optic cabling to the central dispatch center and have the option to send alert data and video to authorized laptops in police vehicles. The units can determine if a gunshot has occurred within 4/10ths of a second, pinpoint the location to within a 50-foot radius and determine the caliber of weapon that was fired with a minimum 90% accuracy rate.

The 2013-2014 Proposed Budget also makes enhancements to SPD's in-car video program. First, the budget includes funds to replace SPDs mobile data terminals, which are nearing the end of their useful life. In addition, the budget adds to SPD's crime analysis capabilities by adding staff to analyze data to more strategically deploy SPD resources, as well as provide better access to the public police videos.

- *Implementing the Department of Justice Consent Decree:* For much of 2012, SPD has been engaged in efforts to reform and improve the way it delivers police services, including the implementation of *SPD 20/20: A Vision for the Future Plan* (20/20).[3] The 2013-2014 Proposed Budget expands on efforts already under way and provides additional funding to implement actions called for under the Settlement Agreement reached between the Department of Justice (DOJ) and the City of Seattle. The Settlement Agreement, and the accompanying Memorandum of Understanding,[4] lays out a framework for certain reforms. While work has already begun to implement these agreements, the full scope of the costs will not be known until the monitor and Community Police Commission (CPC), both requirements of the Settlement Agreement, are in place. Both are expected to be named later in 2012. As such, the 2013-2014 Proposed Budget holds in reserve sufficient funding to allow the City to fully implement the terms of the agreement with the DOJ. As the specific cost elements are defined and agreed to by the monitor and the CPC, the funds will be appropriated.

  In the meantime, SPD continues to implement the reform effort begun under 20/20. These efforts include a number of measures,

[3] Information about 20/20 can be found: http://seattle.gov/spd2020/initiatives.htm

[4] For access to the Settlement Agreement:
http://www.seattle.gov/mayor/media/pdf/120727settlementagreement.pdf
For access to the Memorandum of Understanding :
http://www.seattle.gov/mayor/media/pdf/120727FINAL_MOU.pdf

Seven community centers will be open 10 additional hours per week to provide afternoon and late-night activities for at-risk youth.

such as the establishment and use of the Force Review Board (FRB) and Force Investigation Teams (FITs), enhancements to the Early Intervention System (EIS) and Crisis Intervention Training (CIT) training, which are now required by the Settlement Agreement as well. SPD has also made significant progress in: 1) clarifying internal policy and procedures related to ethics, policing practices, and officer accountability; 2) training supervisors to comply with the Race & Social Justice Initiative; and 3) increasing community outreach and involvement through the use of Living Room Conversations and Donut Dialogues, an expanded SPD Citizens Academy, and summer youth programs.

- *Public Safety Extends Beyond Traditional Police Services:* The 2013-2014 Proposed Budget recognizes that improving public safety extends beyond police services. Some of the most important investments the City can make are in those programs that address the root causes of crime. Funding is included in the Proposed Budget to expand two such programs – increasing after-school and late-night community center hours to increase access for at-risk youth and expanding the City's successful Seattle Youth Violence Prevention Initiative (SYVPI) to serve more youth.

As a result of a data-driven decision-making framework involving interdepartmental collaboration between SPD, the Parks Department, SYVPI, and the City Budget Office, the 2013-2014 Proposed Budget adds 10 additional operating hours at seven community centers that serve at-risk youth. The seven community centers targeted for the expanded hours are community centers operating at reduced hours under the City's new community center operating model implemented in 2012. The goal of this new investment is to improve public safety by providing at-risk youth with additional safe outlets outside of school hours. Late night community center hours, in particular, are proven investments that help reduce incidents of crime and violence. Five of the community centers slated for expanded hours (Delridge, Miller, South Park, Van Asselt, and Yesler) are connected to existing SYVPI activities. The Ballard and Northgate Community Centers' hours will expand to allow access to more late night recreational programs to teens in the north and northwest sectors of the City.

In addition, the 2013-2014 Proposed Budget adds $1.68 million in funding to serve 450 more at-risk youth through the SYVPI, bringing the total number of youth served to 1,500. The SYVPI mission is to prevent and reduce youth violence, which disproportionately affects communities of color in Seattle, through coordinated, accountable mobilization to identify youth at risk of perpetuating or being a victim of violence and connect them with needed support in reaching their full potential. During its first three years, demand for SYVPI services exceeded available capacity. The new investment for 2013 and 2014 will provide adequate staffing for the existing SYVPI population of 1,050 youth within the three Neighborhood Networks to more effectively implement the current program and a new risk assessment screening process to better target interventions to youth most at risk. Enrolled youth are provided with activities, mentoring, case management, employment services, and other targeted support that addresses the needs of the youth population, which varies among the three sites in Southeast, Southwest and Central Seattle. The expansion of the Initiative's capacity, along with the new risk assessment screening process, will allow the City to have greater impact on reducing youth violence through the identification and enrollment of 1,500 high risk and gang-involved youth.

Inflation increases are provided to human service providers for the first time since 2009.

Upholding the Human Services Safety Net: The 2013-2014 Proposed Budget also makes investments to sustain and expand the human services safety net. These investments are particularly important now, as the populations who rely on these services face a dual challenge. Other government entities have scaled back their support of the human services safety net as they deal with their own budget challenges. Meanwhile, the slow recovery from the Great Recession has resulted in an increased the demand for services as more people struggle to make ends meet.

- *Contract Inflation Increases Provided for the First Time Since 2009:* Perhaps the most noteworthy aspect of the 2013-2014 Proposed Budget's commitment to supporting human services is the fact that for the first time since 2009, the budget includes funding for inflationary increases on the contracts Seattle maintains with community service providers who deliver services to those in need on behalf of the City. Inflationary increases on contract amounts are something the City of Seattle has traditionally provided. But, these increases were curtailed over the past four years. Resuming this practice for 2013 and 2014 will give community service providers more flexibility to respond to increases in their own internal costs and maintain service levels.

Proposed Executive Summary

Funding is increased to provide childcare subsidies to 75 more children whose families are moderate- to low-income, reducing the waiting list by nearly one-quarter.

- *Expanding Support for Homeless Families:* Providing support to the increasing number of homeless families remains a challenge. The 2013-2014 Proposed Budget expands funding to assist homeless families with children through a national best practices service model that incorporates expanded outreach and engagement, coordinated entry and assessment, family reconciliation, diversion and progressive engagement models to rapidly move families from homelessness to housing. The collection of services provided in the 2013-2014 Proposed Budget increases the City's funding commitment to these services by $620,000, for a total investment of $980,000.
- *Expanding Support for Childcare for Moderate- to Low-Income Families:* The 2013-2014 Proposed Budget also increases the City's support for childcare for moderate- to low-income families. Currently, there is a waiting list of 325 children whose families are seeking subsidy support for childcare costs. An investment of $500,000 in the Proposed Budget will allow the Human Services Department to provide subsidies to 75 more children, reducing the waiting list by 23%. This is important because access to affordable childcare can be a barrier to people entering the workforce.
- *Investing in the Career Bridge Program:* The U.S. Department of Labor shows that an important determinate of socio-economic advancement is educational attainment beyond high school. To help low-income workers find better paying jobs, the 2013-2014 Proposed Budget includes a new program called *Career Bridge*. This program is a joint collaboration between the Office of Economic Development and the Human Services Department working in partnership with the Seattle Jobs Initiative (SJI). This program will focus on helping individuals who face barriers to employment - including prior incarceration or limited English skills - require additional skill building and connection to resources in order to move toward a professional degree, credential, or longer term employment opportunity. An important innovation of the *Career Bridge* program will be the integration of human and employment services tailored to meet the unique needs of the individuals served by the program. In 2013, the City will identify a Community Based Development Organization (CBDO) who will be the frontline point of contact with individual participants. The CDBO, with support from the City's Human Service Department, will connect participants to appropriate housing options, childcare and transportation services so that participants can focus on career

building activities. The program is being funded by redirecting a portion of funds from the City's existing contract with SJI to this purpose in 2013, and by programming additional Community Development Block Grant (CDBG) funds to HSD in 2013 and 2014.

Promoting Economic Development: As Seattle slowly recovers from the Great Recession, it is critical that the City of Seattle helps keep this momentum moving by doing what it can to promote economic development and shared prosperity among all Seattle residents. The 2013-2014 Proposed Budget makes a number of strategic investments to ensure that the city's business districts flourish and residents prosper.

The 2013-2014 budget promotes economic development by increasing funding for the *Only in Seattle* and *growSeattle* programs.

- *Support for Neighborhood Business Districts:* The City's commitment to strengthen the business climate in neighborhood business districts will be enhanced in 2013-2014 through an expansion of the *Only in Seattle* program. Under the expansion, $500,000 in grant funding will be available for projects that improve the "appearance and pedestrian environment" in business districts with parking meters.
- *Investing CDBG Funds to Promote Community Development:* The 2013-2014 Proposed Budget uses Community Development Block Grant (CDBG) funding to invest in two important community development activities. First, CDBG funds will be used to expand in 2014 the *growSeattle* program, which provides entrepreneurial training and business development support to immigrant business owners facing barriers to accessing mainstream business support programs. To date, the program has provided support to East African- and Vietnamese-owned businesses. New services offered in 2014 will include loan capital to community-based lenders to underwrite otherwise unbankable transactions to small businesses. As Seattle's economy continues to recover, it is essential that immigrant entrepreneurs be given additional support to help them navigate unfamiliar bureaucracies and financial systems so that they can thrive.

  Second, new CDBG funding will assist businesses in the South Park business district in 2013 through the *Only in Seattle* program. The South Park business district has been hit hard by both the Great Recession and the temporary closure of the South Park Bridge. Through this investment, these businesses will have access to technical assistance while the South Park Bridge remains closed.

Proposed Executive Summary

The 2013-2014 budget invests more than $21 million over the biennium to maintain and upgrade the City's transportation infrastructure.

- *Investing in the Downtown Core:* The Mayor's Center City Initiative will receive increased financial support in 2013-2014 to implement a new approach to address street disorder and support the health and vitality of downtown neighborhoods. The new Outreach and Engagement Team will offer access to services and interventions for individuals who may exhibit signs of mental illness or substance abuse issues, aggressive or intimidating behavior, and apparent homelessness in the Belltown, Commercial Core, Pioneer Square, and Chinatown/International District neighborhoods. This team will include collaborative participation and support from the Seattle Police Department (SPD), the Human Services Department (HSD), King County Metro Transit Police, the Washington State Department of Corrections (DOC), and the private sector, to provide specific interventions, such as a mental health professional funded by the Union Gospel Mission and the Metropolitan Improvement District, to address the underlying issues impacting those individuals identified by the Outreach and Engagement Teams. SPD will receive $150,000 annually to provide officers for the Outreach and Engagement Team. HSD will receive $133,000 in funding to contract with and deploy formerly homeless individuals as peer-to-peer liaisons working under the supervision of an outreach case manager, a position that will also be contracted through HSD. In collaboration with the CCI Outreach and Engagement Team, the liaisons will help identify and engage homeless people living in downtown streets or in places not suitable for human habitation on a personal level and connect them with specialized and targeted services.

Upgrading the City's Transportation Infrastructure: As Seattle's transportation infrastructure ages, it is important that the City makes investments to maintain the City's assets, as well as upgrade the system to support multi-modal transportation to ensure people and goods can move efficiently through the city. The budget invests more than $21 million over the biennium, using multiple revenue sources, including General Fund, REET, Commercial Parking Tax, and one-time Bridging the Gap fund balance, to support critical transportation infrastructure needs.

- Transit Master Plan Implementation
- Pedestrian and Bike Master Plan Investments
- Third Avenue Corridor Upgrades
- Freight Mobility Enhancements
- Asset Preservation and Maintenance

Proposed Executive Summary

The 2013-2014 budget includes funding for three *Safe Routes to Schools* projects.

- *Transit Master Plan Implementation:* The 2013-2014 Proposed Budget makes significant investments to begin implementation of the recently completed Transit Master Plan, with an emphasis on developing high-capacity transit options. The budget includes a $2 million investment to develop a conceptual design of high-capacity transit options in the Eastlake corridor, and $850,000 over the biennium to develop conceptual design options for the Madison corridor. Using $500,000 of REET, SDOT will also develop conceptual designs for integrated pedestrian, bicycle and transit crossings of the Lake Union ship canal. To manage these projects and address existing staffing deficiencies, the budget also includes funding for 3additional FTEs. Finally, in 2014, $2.5 million is designated in a reserve outside of SDOT's budget for further implementation of the Transit Master Plan.
- *Pedestrian and Bike Master Plan Investments:* Enhancements to pedestrian and bicycle mobility are a key component of the 2013-2014 Proposed Budget. The biennial budget includes: $800,000 for three Safe Routes to School projects, which improve safety along school walking and biking routes; $600,000 for sidewalk safety repair, emphasizing projects located in Urban Villages and supporting low-income communities; $325,000 for the creation of the Center City Mobility Plan, a joint effort with the Downtown Seattle Association that will consolidate relevant transportation plan information for the center city area, with $150,000 of this funding dedicated to developing bicycle corridors through downtown; $300,000 for further work on the extension of the Burke-Gilman Trail; and $208,000 annually for greenway development and related community outreach.
- *Third Avenue Corridor Upgrades:* The Third Avenue Corridor overlaps multiple modal plans, and is proposed to receive $1 million of REET. With this funding SDOT will make important capital upgrades to Third Avenue in downtown. This corridor is a key part of the Mayor's Center City Initiative, which aims to create downtown Seattle streets that are safe, inviting and vibrant. These improvements include a major sidewalk expansion and enhancement near Macy's department store, upgrading all remaining pedestrian signals to countdown signals, and re-marking all faded crosswalks in the corridor.

Proposed Executive Summary

The 2013-2014 budget increases the City's annual investment street repair and maintenance investment by $5 million.

- *Freight Mobility Enhancements:* Recognizing the critical importance of freight mobility to the economic vitality of the city, the 2013-2014 Proposed Budget adds $486,000 over the biennium for freight mobility enhancements. The existing Freight Spot Improvements capital project, which makes small-scale freight mobility improvements to the City's street system, is increased by $235,000 in 2014, and $251,000 over the biennium is added to support the new Freight Master Plan, as planning for the City's freight investments needs has not been examined since 2005.
- *Asset Preservation and Maintenance:* Investments to address the maintenance backlog are critical because deferred maintenance leads to costly repairs in the long-run, and, due to funding constraints, the City lags far behind industry standards for repair and replacement cycles in many functional areas. Most notably, the budget increases the City's annual investment for street repair and maintenance from 2012 funding levels by more than $5 million. This includes funding for arterial major maintenance projects, which are repairs that span one-to-three city blocks and are performed by SDOT crews, as well as funding to supplement repair work on non-arterial streets in neighborhoods throughout the city. The 2013-2014 Proposed Budget also reinstates support for the chip seal program and creates a related-crack seal program.

  Beyond street maintenance, the budget also includes funding for asset preservation related to bridges, traffic signals and signs. In recognition of SDOT's critical role in maintaining bridges, the 2013-2014 Proposed Budget includes $270,000 to repair the automated control operations system for the University Bridge, and $95,000 to develop criteria and a methodology for prioritizing bridge seismic upgrades. The budget also programs more than $1.1 million over the biennium to address major maintenance needs on aging traffic signals and destination signs throughout the City. Finally, the budget adds $336,000 of General Fund to support the City's ability to respond to storm events.

Other City Funds:

The Great Recession also left its mark on other City funds, including the Department of Planning and Development (DPD), Seattle City Light (SCL), and Seattle Public Utilities (SPU). However, three years following the end of the Great Recession, each of these funds is now much healthier and stable. In the case of DPD, it is even in a position to expand as the building and permit climate in Seattle improves.

The 2013-2014 budget restores funding to allow DPD to hire 16 permit revenue-supported positions to respond to the growing demand for building and land use permits in the City of Seattle.

Department of Planning and Development: As the regional economy slowly but steadily recovers from the Great Recession, the rate of building development growth in the Puget Sound region is significantly stronger than the national rate. An especially bright spot locally is in the apartment market. Apartment vacancy rates have fallen and rents are beginning to rise, spurring construction for increasingly large apartment building projects. For DPD, this growth translates into increased building permit revenues. While still below historical peak levels, construction permit revenues are projected to continue to grow in 2013 and 2014. In 2009, building permit revenues reached a low point, totaling only $12.7 million, down from a peak of $29.2 million in 2007 – a drop of nearly 57% in two years. Since then, revenues have been increasing, with building permit revenues expected to reach $21.8 million in 2012. As a result of this increase in building permit activity and revenue trend, the 2013-2014 Proposed Budget restores funding for 16 previously unfunded permit revenue-backed positions to help meet demand. As is the case each year, DPD will continue to evaluate its revenue and permit activity, and will adjust its expenditures if needed during 2013.

Seattle City Light: In 2012, the City adopted a six-year Strategic Plan for City Light (Resolution 31383) that identified long-term infrastructure needs, investments to meet changing customer expectations, and internal efficiencies to reduce costs. The Strategic Plan was vetted by the public and the City Light Review Panel, a committee of stakeholders representing City Light's customers, and provides a stable and predictable path for future electricity rates. The 2013-2014 Proposed Budget begins implementation of the Strategic Plan, and includes funding for a new Denny Substation to support economic growth in South Lake Union, reliability improvements for the transmission and distribution systems, and improved training and safety programs. The Proposed Budget also includes efficiency initiatives that are expected to save $18 million a year by 2015. To support the Strategic Plan, the City Council is considering proposed rate increases of 4.4% in 2013 and 5.6% in 2014.

Seattle Public Utilities: The 2013-2014 Proposed Budget enables Seattle Public Utilities (SPU) to continue to meet federal and state mandates and provide core services. Funding is provided for SPU to comply with combined sewer overflow and stormwater regulatory requirements, pay for capital financing expenses, and cover costs to develop and operate new solid waste facilities. The budget also reflects SPU's continued efforts to find more efficient and effective ways to deliver services by prioritizing staffing resources and needs and reducing support costs, including costs for professional services and equipment maintenance. SPU's budget is supported by proposed rate increases for drainage, wastewater and solid waste, currently under consideration by the City Council.

Based on current forecasts, the General Fund is in balance for the 2015-2016 biennium.

Looking Ahead:

Three years following the end of the Great Recession, the 2013-2014 Proposed Budget is not nearly as constrained as recent budgets. Based on current forecasts, the General Fund is in balance for the 2015-2016 biennium. That said, in times of relatively subdued revenue growth, the City needs to continually find more efficient ways of doing business. Moreover, the Great Recession has taught us that things can change very quickly. While still recovering, the economy remains relatively fragile. Disruptions to the global economy could negatively impact current revenue forecasts, as could disruptions to the national economy resulting from upcoming debates in Washington D.C. regarding U.S. fiscal policy. Similarly, a run-up in fuel prices due to disruptions to the oil supply chain or growing demand could have a dampening effect on the out-year budget outlook as a result of increased inflationary pressure. While the 2013-2014 Proposed Budget begins to make important investments to address emerging needs, demand for greater investments remains. For example, the City still faces a backlog in road maintenance and asset preservation, as well as pressure to make additional investments to improve multi-modal transportation throughout the city.

Thus, as 2013-2014 approaches, it remains critical that the City continue efforts taken over the past couple of years to ensure it is delivering services in the most efficient manner possible and that its investments are producing the desired results. In 2013-2014 the City will continue or begin a number of efforts designed to allow this process to continue, including:

Proposed Executive Summary

To identify future efficiencies, the City will embark on a number of efforts in 2013, including examining internal service costs and space planning.

Examining Internal Service Costs: Central administrative costs essential to running the government are allocated to City funds to recoup the costs equitably and in compliance with state law. To ensure these costs remain as low as possible so as to preserve as much funding as possible for direct service, the City Budget Office, collaborating with the Department of Finance and Administrative Services (FAS), the Department of Information Technology, and client departments, will embark on a process in 2013 to evaluate how these services are provided and whether there are opportunities to improve service delivery at a lower cost. This effort will be guided by best practices and could include an examination of unit cost of services, whether services are being duplicated in other parts of City government, or whether there are lines of business that are better performed by others.

Citywide Space Planning: The size of City government is smaller today than it was before the Great Recession as a result of successive years of budget reductions. Thus, this is a good time to evaluate the allocation of City-owned space, particularly within the Seattle Municipal Tower (SMT), to determine if there are opportunities to consolidate space to either bring City employees who are occupying leased space into SMT or to free up sufficient blocks of space in SMT for leasing to outside tenants, particularly as the vacancy rate in the downtown core begins to drop and demand for office space increases. The 2013-2014 Proposed Budget provides FAS with funding to embark on a comprehensive space planning effort.

Fire Study: In 2012, the City Budget Office, working collaboratively with the City Council, the Seattle Fire Department (SFD) and representatives of the labor unions representing SFD personnel, embarked on a study of Fire Department operations to identify efficiencies. Some of the recommendations identified in the study's first two phases, which focused on the management structure of the organization, are incorporated in the Proposed Budget. Phase III of the study, which will focus in a data-driven manner on operations and deployment models, will begin in October 2012 and conclude in early 2013. The underlying objective with all phases of this study is to ensure that public safety is protected.

Seattle Department of Transportation Efficiency Analysis: The Executive and the City Council have embarked on a joint two-part consultant review of the Seattle Department of Transportation (SDOT). The first phase of the project, to be completed in early 2013, will include an initial assessment of SDOT's operations to identify areas for more in-depth review. The second phase, to be completed by the end of 2013, will examine operational

The City is measuring the effectiveness of its investments in helping achieve grade-level reading attainment in a pilot project at Northgate Elementary.

changes and efficiencies intended to provide ongoing benefits to Seattle residents and taxpayers. This review will focus on program-level improvements and recommendations, with the goal of identifying changes to operational approaches and management practices that could yield greater budget efficiencies, more productivity, and/or better outcomes for maintaining and improving the City's transportation infrastructure.

Ensuring City Investments Achieve Intended Outcomes: The City is obligated to ensure that taxpayer dollars are invested wisely. Especially because funding remains constrained, it is essential that City government evaluate and assess the outcomes of its investments. The City's initial efforts in this area focus primarily on funding that is targeted to youth and families. A 2011 inventory conducted by the City Budget Office determined that the City spends $85 million across 130 different City programs to meet the needs of youth and families along the *Road Map for Success*, a continuum of indicators from birth to adulthood that are important predictors for an individual's success and self-sufficiency. The inventory highlighted the need to evaluate the effectiveness of City programs as part of a larger, coordinated approach toward strategically aligning investments with measurable outcomes.

With this in mind, the City began a pilot project in 2011, working with the Parks Department, Seattle Public Library, the Department of Neighborhoods, the Human Services Department, the Office for Education and Seattle Public Schools, to move from tracking activities to measuring and evaluating how effective the City's youth and family investments were in influencing third grade reading attainment – a key metric in predicting high school graduation – at Northgate Elementary School, an ethnically and racially diverse school with 87% of the student body qualifying for the free/reduced lunch program and 41% English language learners, and where only 30% of the student body is reading at grade level.

Interestingly, what was learned from this effort is that the City is not in a position to measure the impact of these investments on reading attainment at Northgate Elementary because it became clear that Northgate students and their families were not accessing City services on a wide-scale basis as a means to help the children achieve grade-level reading standards. Due to geographic and language barriers, students and families at Northgate were not using the resources of the Northgate Branch Library, for example, nor were they using the Northgate Community Center – both valuable community resources, but only when taken advantage of. So, measuring the impact of these services on third-grade reading attainment was the wrong approach. Instead, the interdepartmental effort evolved into a process to determine how to better link City investments with the actual needs of the students and their families.

Northgate READS is a six-week reading and enrichment program using existing City resources to promote grade-level reading.

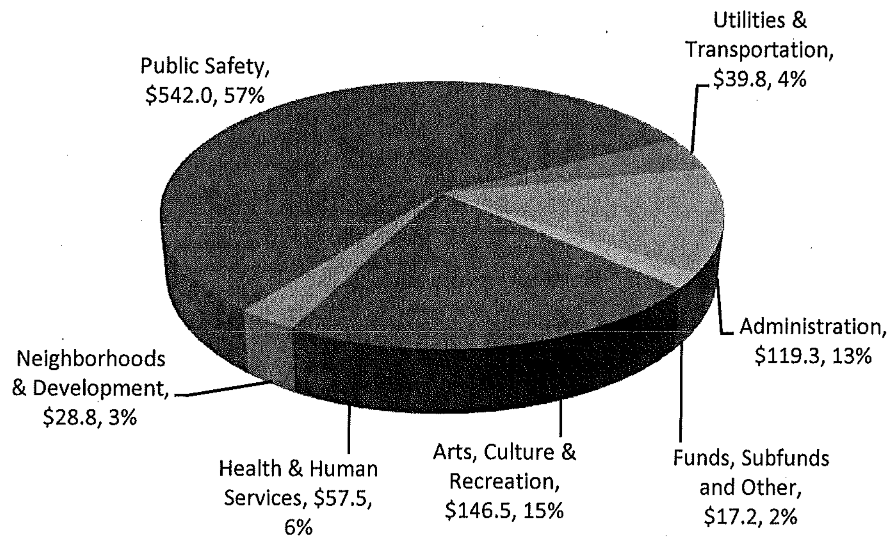
What resulted is the *Northgate READS* program, a six-week reading and enrichment program on-site at Northgate Elementary. City of Seattle departments collaborated to re-program and re-focus existing resources to meet the actual needs of the students and families by working in partnership with community groups and parents. The program aligned all available resources to meet the goal of having each child be reading at grade-level by the end of third grade. Services offered included:

- Eleven hours per week of intensive small-group reading instruction supported by more than 45 community providers; and
- Weekly parent learning groups, focusing on strategies for supporting reading development, with on-site childcare for younger siblings.

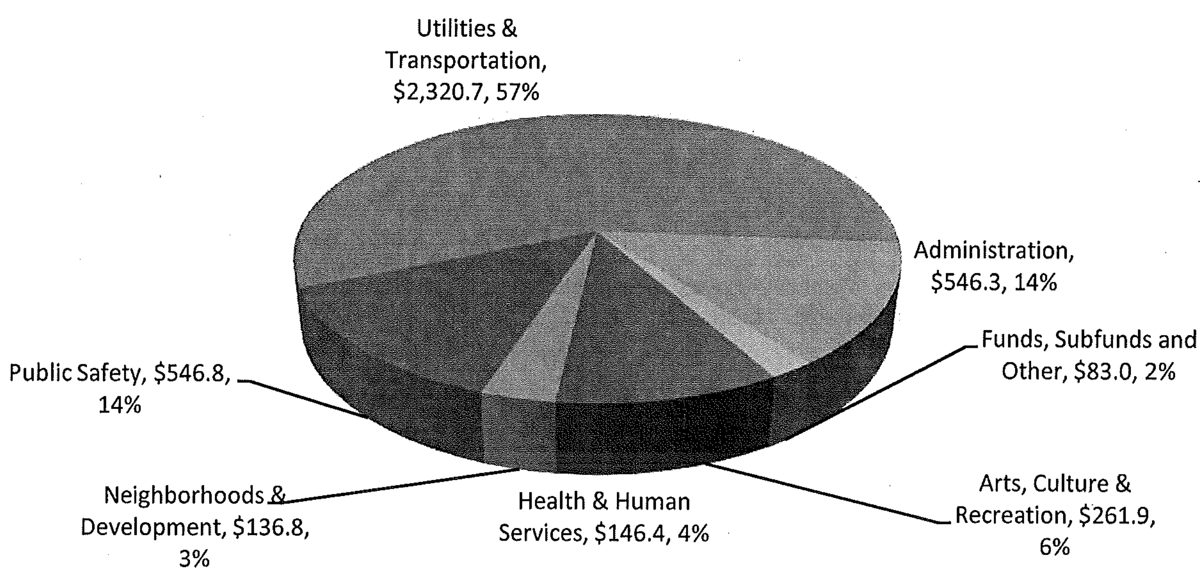
This program was launched during the summer of 2012. Assessment test scores from the fall of 2012 will be used to evaluate the success of the program and will serve as the basis for determining how the City can continue to realign services and investments specifically in the Northgate area, but also possibly at other schools citywide. In times where the need for services outpaces the availability of funds supporting those services, it is essential to measure the effectiveness of the City's investments in achieving intended outcomes. The Northgate project is an important first step in this on-going effort.

Summary Charts and Tables

2013 Proposed General Fund Expenditures - $951.0 Million (in millions of dollars)



2013 Proposed Expenditures - All Funds, $4.0 Billion* (in millions of dollars)



Summary Charts and Tables

RESOURCES SUMMARY BY SOURCE
(in thousands of dollars)*

TOTAL CITY RESOURCES

Revenue Source	2011 Actual	2012 Adopted	2012 Revised	2013 Proposed	2014 Proposed
Taxes, Levies & Bonds	1,068,450	1,014,692	1,107,820	1,177,851	1,220,899
Licenses, Permits, Fines & Fees	153,597	161,392	159,958	166,052	179,672
Interest Earnings	12,819	13,236	13,951	19,756	22,014
Revenue from Other Public Entities	208,340	151,041	167,418	141,381	152,399
Service Charges & Reimbursements	1,311,290	1,386,351	1,373,012	1,441,738	1,510,425
All Else	535,566	574,087	522,370	603,319	648,028
Total: Revenues and Other Financing Sources	**3,290,063**	**3,300,800**	**3,344,528**	**3,550,097**	**3,733,437**
Interfund Transfers	577,412	608,197	605,410	650,396	703,422
Balance	54,422	306,287	342,936	202,425	204,845
Total City Resources	**3,921,897**	**4,215,284**	**4,292,874**	**4,402,919**	**4,641,704**

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

Summary Charts and Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2012 Adopted General Subfund	2012 Adopted Total Funds	2013 Proposed General Subfund	2013 Proposed Total Funds	2014 Proposed General Subfund	2014 Proposed Total Funds
Arts, Culture & Recreation						
Office of Arts and Cultural Affairs (1)	0	7,373	0	7,077	0	7,278
The Seattle Public Library	49,545	53,587	48,044	66,321	50,131	68,325
Department of Parks and Recreation	81,464	175,239	85,480	151,662	90,967	143,177
Seattle Center	12,876	38,340	12,981	36,790	13,466	37,376
SubTotal	**143,884**	**274,539**	**146,505**	**261,850**	**154,564**	**256,156**
Health & Human Services						
Educational and Developmental Services Levy	0	19,471	0	24,581	0	28,941
Human Services Department	54,352	114,870	57,469	121,861	59,533	124,673
SubTotal	**54,352**	**134,340**	**57,469**	**146,442**	**59,533**	**153,613**
Neighborhoods & Development						
Office of Economic Development	5,865	9,957	6,135	9,119	6,230	7,439
Office of Housing	86	40,472	0	49,736	0	49,953
Department of Neighborhoods	8,464	8,464	10,378	10,378	10,854	10,854
Neighborhood Matching Subfund	2,779	3,093	2,991	3,311	3,066	3,393
Pike Place Market Levy	0	4,102	0	8,955	0	8,952
Department of Planning and Development	9,196	51,093	9,249	55,338	9,547	56,345
SubTotal	**26,390**	**117,180**	**28,753**	**136,837**	**29,697**	**136,936**
Public Safety						
Criminal Justice Contracted Services	22,742	22,742	22,492	22,492	23,236	23,236
Fire Facilities Fund	0	9,232	0	1,248	0	1,248
Firemen's Pension	18,875	20,189	18,273	20,017	18,060	19,829
Law Department	19,189	19,189	20,361	20,361	20,966	20,966
Municipal Jail	0	1,000	0	1,000	0	1,000
Police Relief and Pension	21,312	22,185	18,987	19,787	18,558	19,359
Seattle Fire Department	160,957	160,957	166,290	166,290	173,684	173,684
Seattle Municipal Court	26,638	26,638	27,507	27,507	28,289	28,289
Seattle Police Department	252,217	252,217	268,136	268,136	265,974	265,974
SubTotal	**521,931**	**534,350**	**542,046**	**546,838**	**548,766**	**553,584**
Utilities & Transportation						
Seattle City Light	0	1,135,550	0	1,142,280	0	1,199,983
Seattle Public Utilities	1,205	819,238	1,139	849,920	1,167	903,285
Seattle Transportation	37,636	310,651	38,669	317,888	39,072	385,297
Seattle Streetcar	0	878	0	731	0	5,700
Central Waterfront Improvement	0	2,000	0	9,890	0	595
SubTotal	**38,841**	**2,268,316**	**39,808**	**2,320,709**	**40,239**	**2,494,860**

Summary Charts and Tables

Department	2012 Adopted General Subfund	2012 Adopted Total Funds	2013 Proposed General Subfund	2013 Proposed Total Funds	2014 Proposed General Subfund	2014 Proposed Total Funds
Administration						
Civil Service Commissions	344	344	373	373	386	386
City Budget Office	4,031	4,031	4,086	4,086	4,206	4,206
Department of Information Technology	4,150	49,151	4,609	55,865	4,977	87,128
Employees' Retirement System	0	12,257	0	13,284	0	13,396
Ethics and Elections Commission	760	760	898	898	783	783
Finance General	51,872	51,872	51,217	51,217	52,017	52,017
Finance and Administrative Services (2)	21,751	172,881	21,543	191,491	22,804	202,010
Legislative Department	11,771	11,771	12,066	12,066	12,443	12,443
Office of City Auditor	1,251	1,251	1,510	1,510	1,356	1,356
Office of Hearing Examiner	608	608	635	635	656	656
Office of Immigrant and Refugee Affairs	238	238	361	361	373	373
Office of Intergovernmental Relations	2,091	2,091	2,018	2,018	2,080	2,080
Office of Sustainability and Environment	1,821	1,821	1,896	1,896	2,022	2,022
Office of the Mayor	3,498	3,498	3,641	3,641	3,758	3,758
Personnel Compensation Trust Subfunds	0	184,192	0	192,569	0	207,217
Personnel Department	11,531	11,531	11,815	11,815	12,171	12,171
Seattle Office for Civil Rights	2,566	2,566	2,614	2,614	2,738	2,738
SubTotal	**118,282**	**510,862**	**119,282**	**546,338**	**122,771**	**604,740**
Funds, Subfunds and Other						
Bonds Debt Service (3)	13,092	20,065	13,695	19,475	16,773	18,724
Cumulative Reserve Subfund (4)	0	2,105	0	38,585	0	30,350
Fiscal Reserve Subfunds	0	0	0	566	0	0
Judgment/Claims Subfund	1,191	17,830	648	15,034	758	16,859
Parking Garage Fund	0	8,093	2,813	9,359	2,032	8,688
SubTotal	**14,283**	**48,093**	**17,156**	**83,018**	**19,563**	**74,621**
Grand Total*	**917,962**	**3,887,680**	**951,018**	**4,042,033**	**975,133**	**4,274,510**

*Totals may not add due to rounding

Notes:

(1) Includes a dedicated amount based on receipts from Admission Tax.

(2) The amounts in the "Total Funds" column include appropriations from the Asset Preservation Subfund.

(3) The amounts in the "Total Funds" column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.

(4) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are included in the SDOT appropriations, and does not include appropriations from the Asset Preservation Subfund because they are included in the Finance and Administrative Services appropriations.

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.

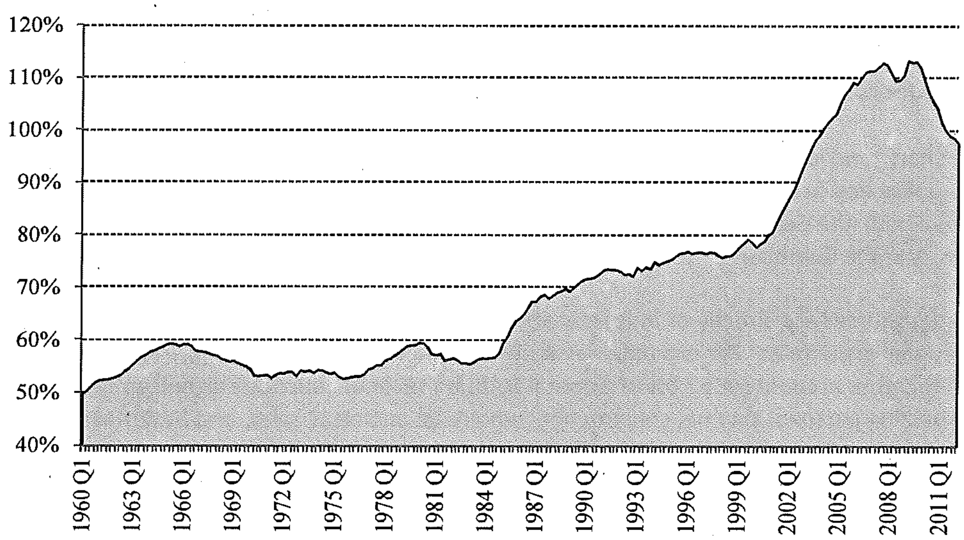
Revenue Overview

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.

Revenue Overview

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.

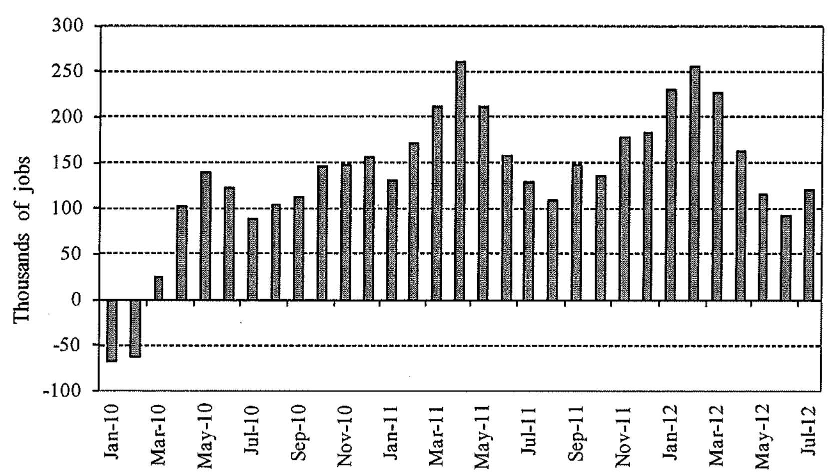
The recession ended in June 2009, 18 months after it started, making it the longest recession in the post war period. By most measures the recession was the worst since the Great Depression. Real Gross Domestic Product (GDP) declined by 5.1% over a period of six quarters, 8.8 million jobs, representing 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 as 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.

Revenue Overview

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

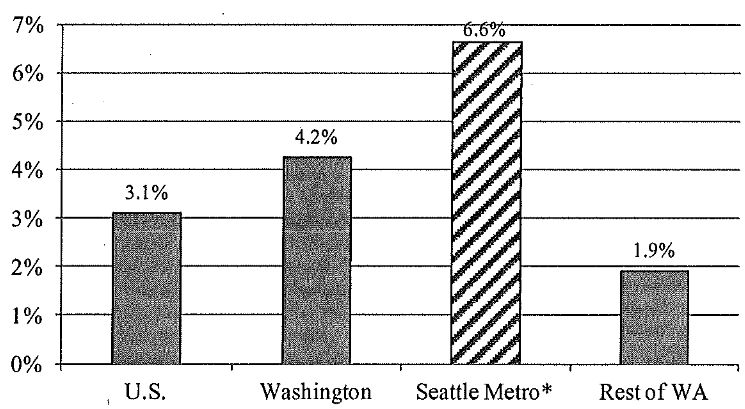
6.6% job loss during the 2001-03 recession. Locally, the most severe job losses were in construction, manufacturing outside of aerospace, and finance.

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

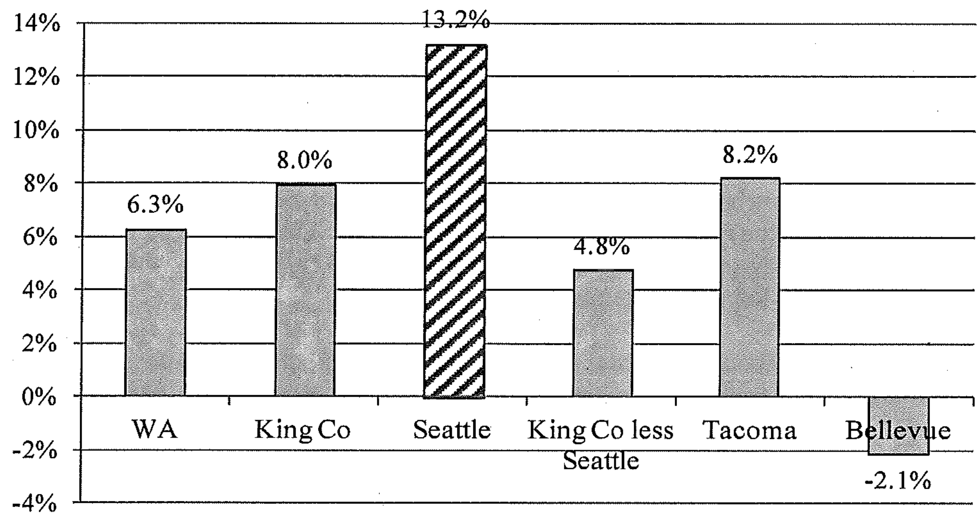


*King & Snohomish Counties.
Source: WA Employment Security Dept., U.S. Bureau of Labor Statistics.

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 or taxable sales excluding construction is 12.1% for Seattle and 8.1% for the rest of King County.

Revenue Overview

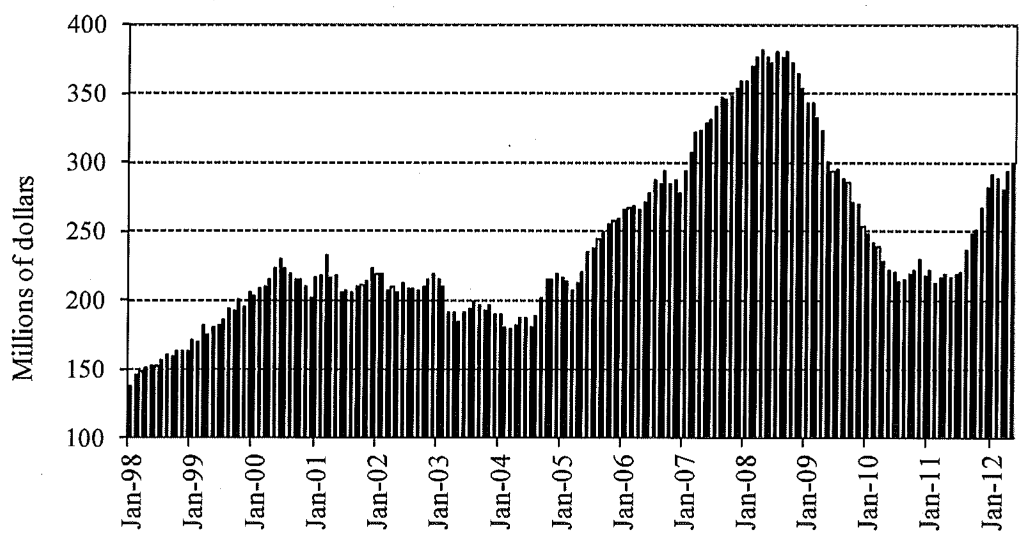
Figure 4. Taxable Retail Sales Growth, 2010 Q1 – 2012 Q1



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



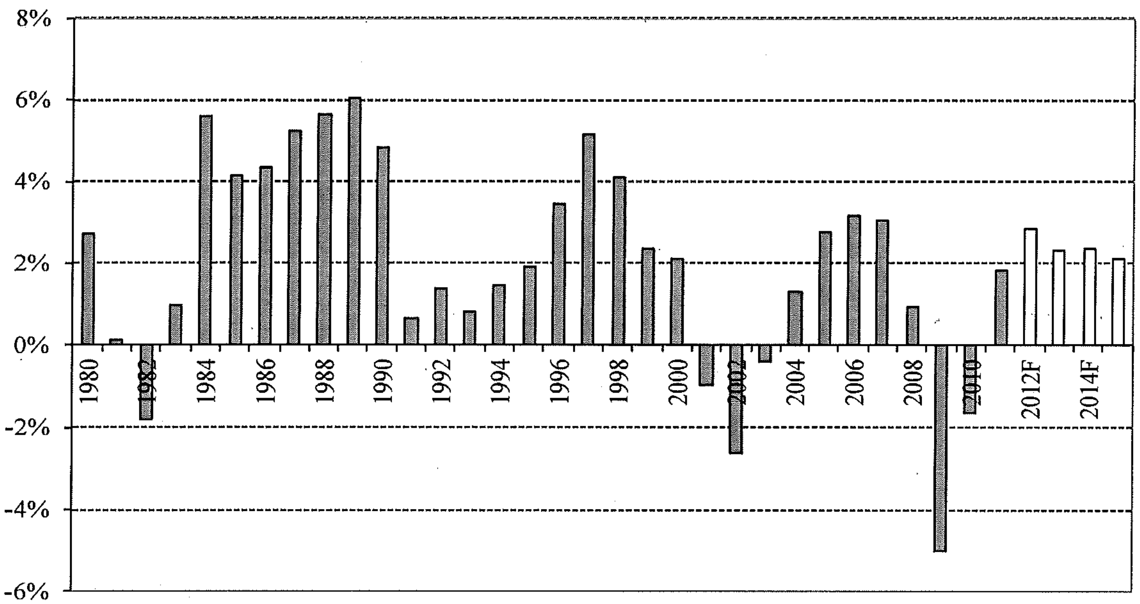
*Data, which include non-current sales, are 3 month moving average of monthly series.
Source: WA Dept. of Revenue.

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.

Revenue Overview

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%

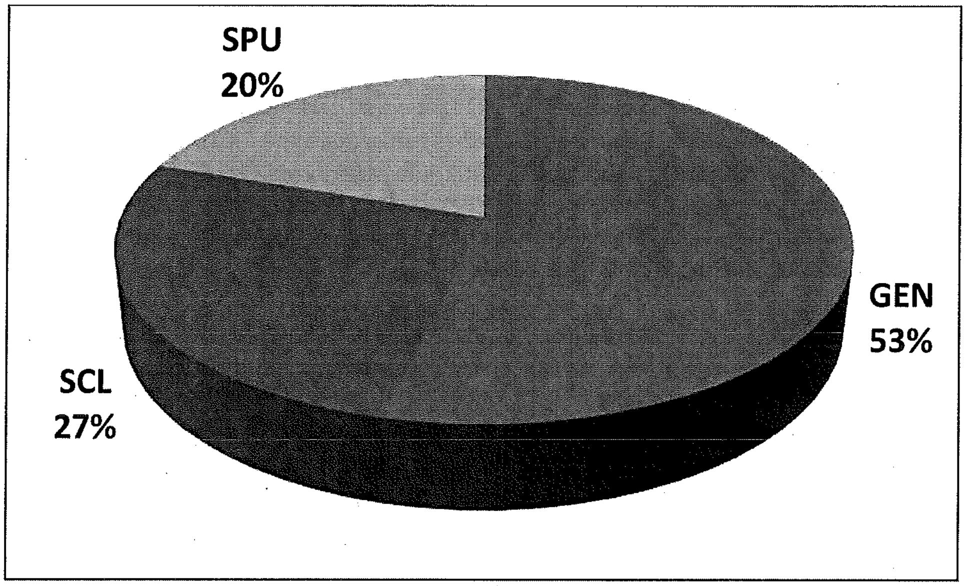
Source: U.S. Bureau of Labor Statistics, City of Seattle.

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.

Revenue Overview

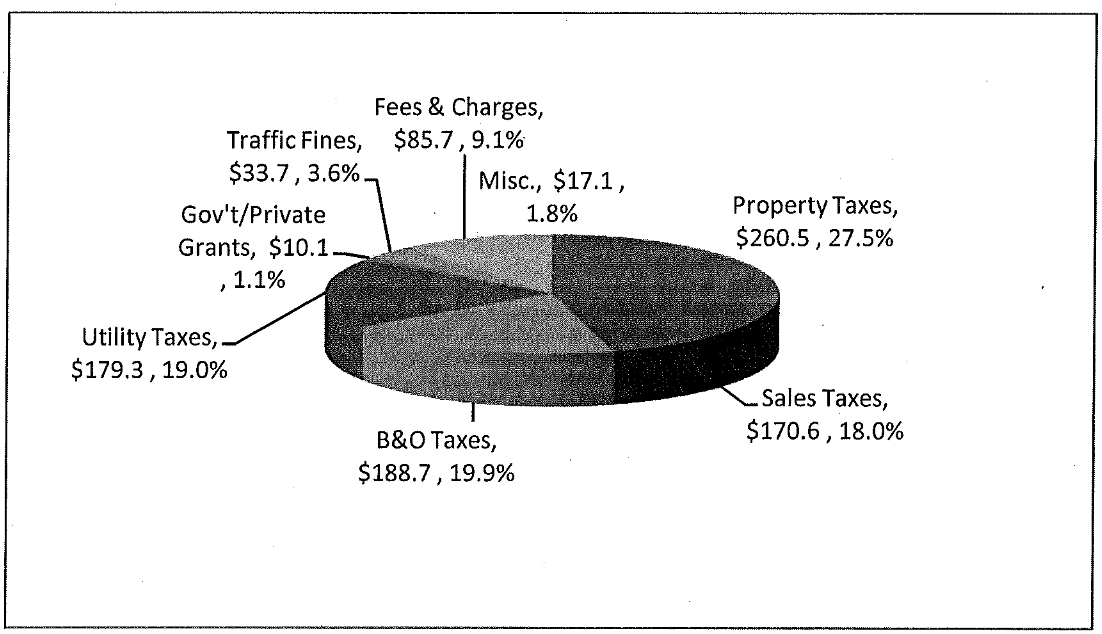
Figure 8. Total City Revenue by Use – Proposed 2013 $4.2 Billion



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 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.

Revenue Overview

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**

NOTES:

(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.

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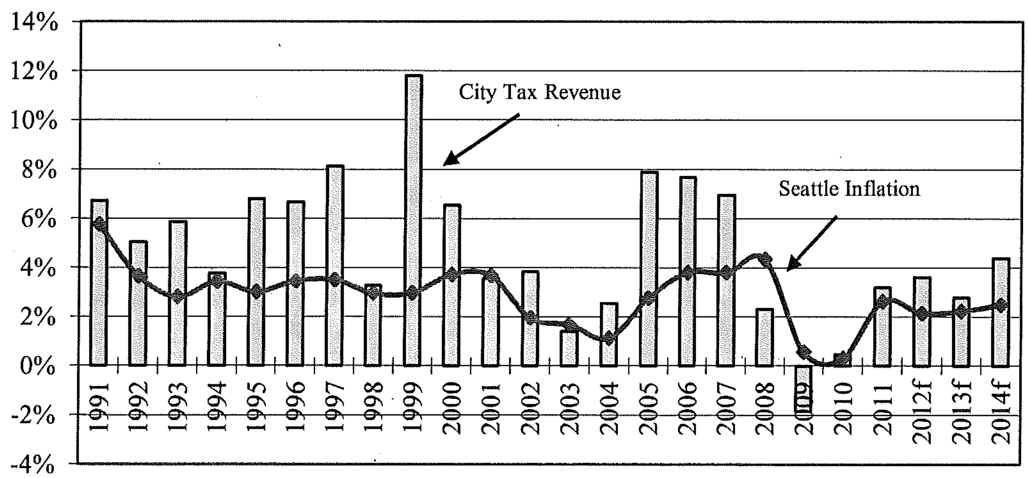
* In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Subfund. As of 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Subfund. General Subfund support to the Parks and Recreation Fund is 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.

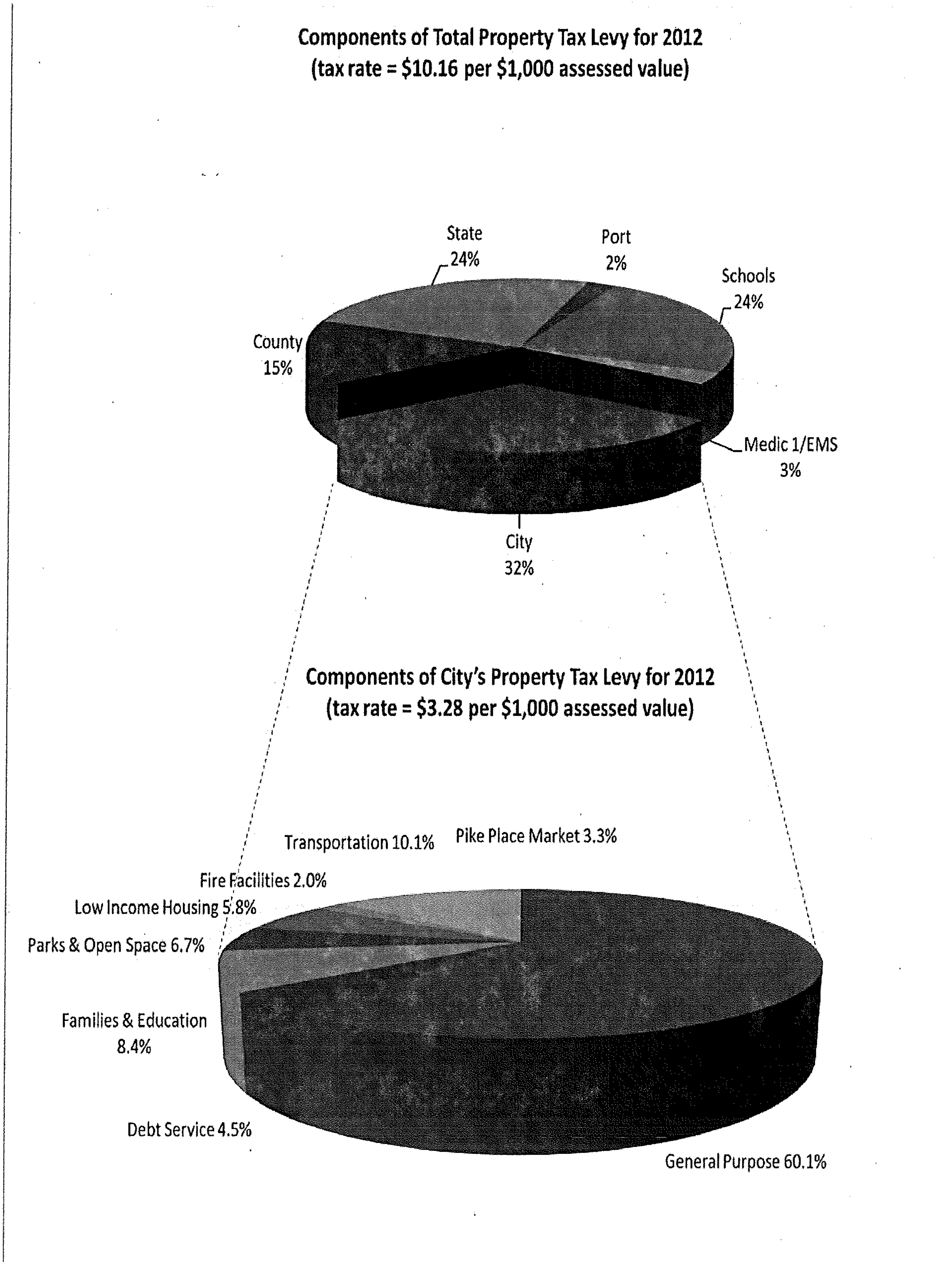
The 2013-14 Proposed Budget assumes 1% growth plus new construction. Between 1999 and 2010 annual new construction revenues exceeded $2 million, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). New construction revenue for the 2009 tax collection year remained high at $6.38 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.



Revenue Overview

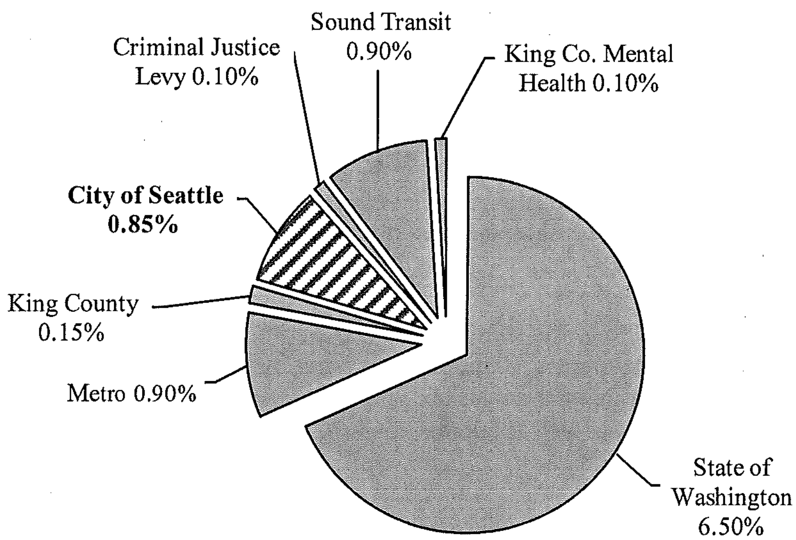
Retail Sales and Use Tax

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.

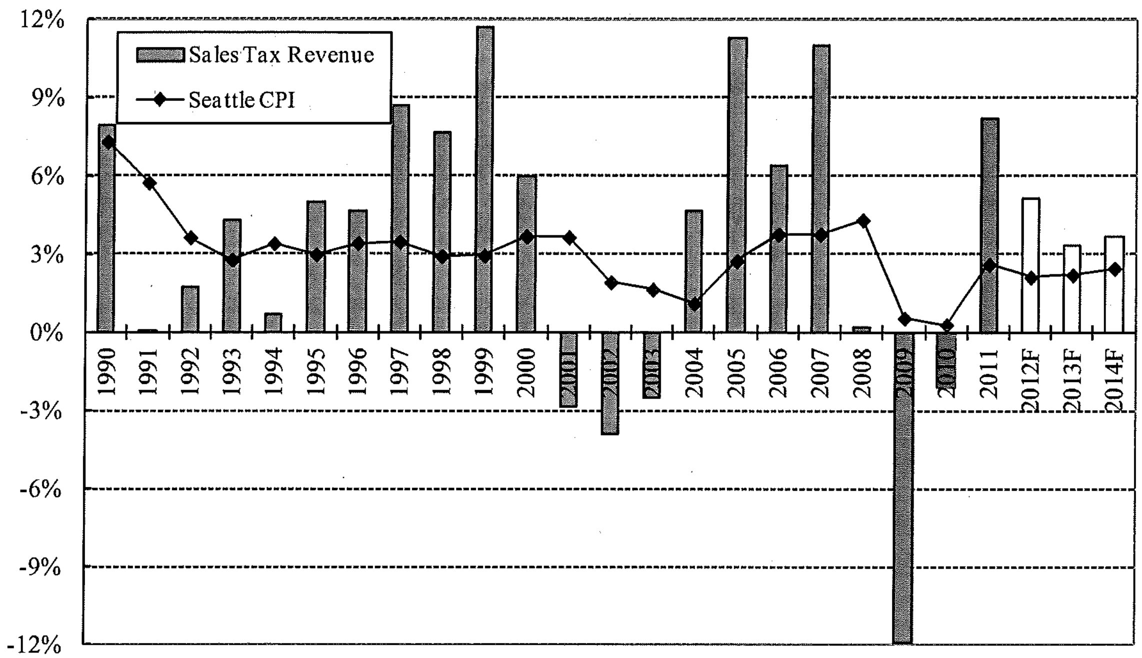
With the onset of the national recession, growth began to slow in the first quarter of 2008, continued slowing in the second and third quarters, and then collapsed in the fourth quarter as the financial crisis reached its peak. Seattle's real (inflation adjusted) sales tax base declined by 8.6% in the 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.

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).

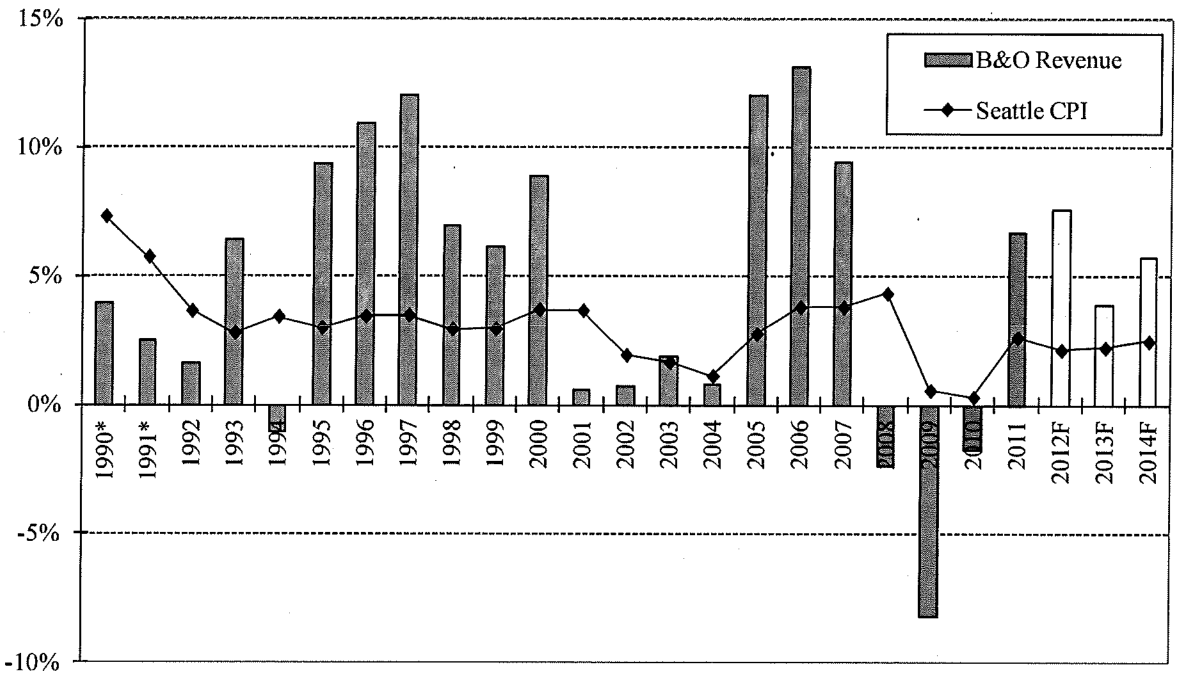
Revenue Overview

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 the2007-09 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.

Revenue Overview

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 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.

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 2011Adopted Budget included a further increase in the maximum allowable hourly rate from $2.50 to $4.00 per hour and an extension of paid evening parking hours from 6 p.m. to 8 p.m. in 7 neighborhoods with high evening 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 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 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.

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.

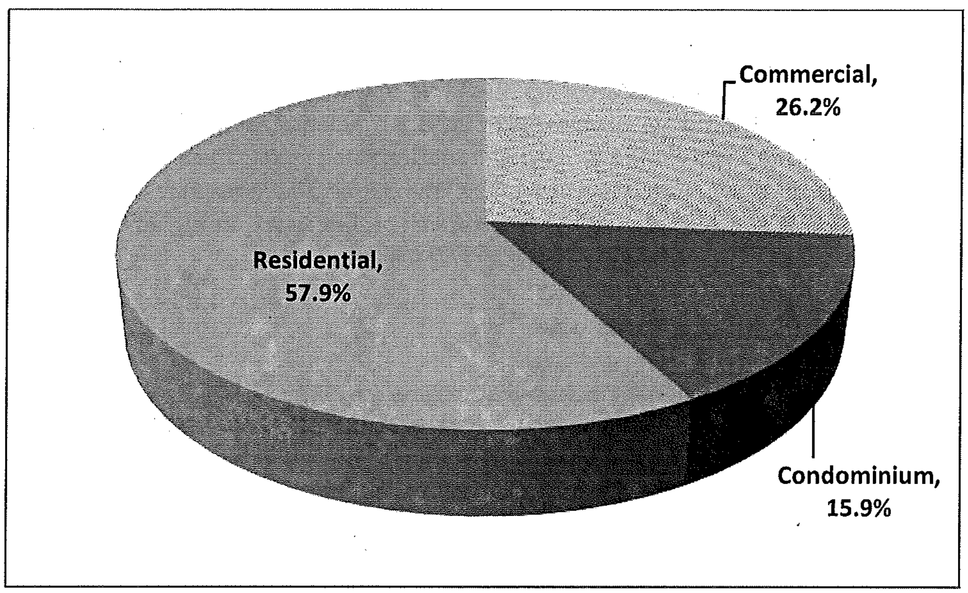
Cumulative Reserve Subfund – Real Estate Excise Tax

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).

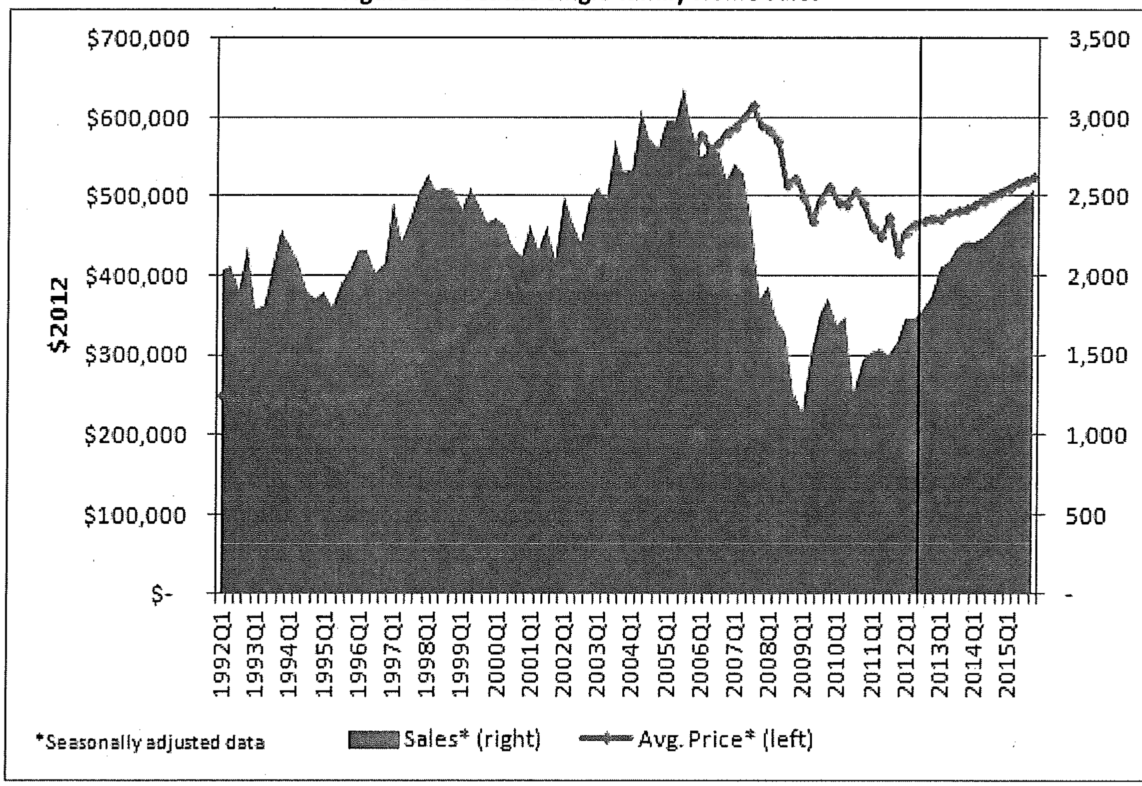
Figure 16. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2011



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 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.

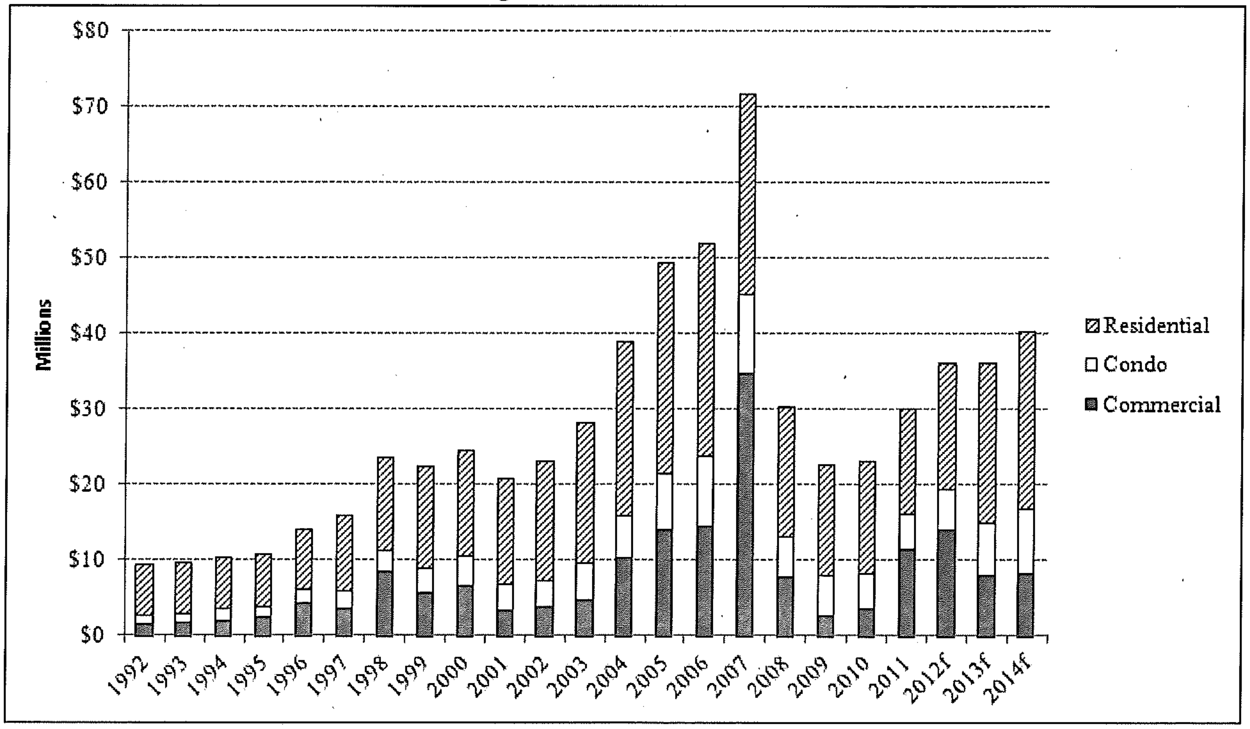
Figure 17. Seattle Single-family Home Sales



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.

Revenue Overview

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.

Revenue Overview

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

Revenue Overview

Figure 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.

Selected Financial Policies

Through a series of Resolutions and Ordinances, the City has adopted a number of financial policies that are designed to protect the City's financial interests and provide a framework and guidelines for the City's financial practices. For additional information about these policies, please refer to the City of Seattle website: http://www.seattle.gov/financedepartment/financial_policies.htm.

Debt Policies

- The City of Seattle seeks to maintain the highest possible credit ratings for all categories of short- and long-term General Obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

- The City will reserve $100 million of legal limited tax (councilmanic) general obligation debt capacity, or 12% of the total legal limit, whichever is larger, for emergencies. The 12% reserve is now significantly greater than $100 million.

- Except in emergencies, net debt service paid from the General Subfund will not exceed 9% of the total General Fund budget. In the long run, the City will seek to keep net debt service at 7% or less of the General Fund budget.

General Fund Fund Balance and Reserve Policies

- At the beginning of each year, sufficient funds shall be appropriated to the Emergency Subfund so that its balance equals 37.5 cents per thousand dollars of assessed value, which is the maximum amount allowed by state law.

- Annual contributions of 0.50% of forecasted tax revenues are automatically made to the Revenue Stabilization Account of the Cumulative Reserve Subfund (commonly referred to as the "Rainy Day Fund").[1] In addition, 50% of any unanticipated excess General Subfund fund balance at year's end is automatically contributed to the Rainy Day Fund. These automatic contributions are temporarily suspended when the forecasted nominal tax growth rate is negative or when the total value of the Rainy Day Fund exceeds 5% of total tax revenues. In addition to the automatic contributions, the City may also make contributions to the Rainy Day Fund via ordinance. Expenditures from the Rainy Day Fund require the approval of a majority of the members of the Seattle City Council and must be informed by the evaluation of out-year financial projections.

Other Citywide Policies

- As part of the Mayor's budget proposal, the Executive develops a revenue estimate that is based on the best available economic data and forecasts.

[1] The 0.50% contribution is lowered to 0.25% of forecasted tax revenues for 2012 and any year immediately following the suspension of contributions as a result of negative nominal tax revenue growth.

Financial Policies

- The City intends to adopt rates, fees, and cost allocation charges no more often than biennially. The rate, fee, or allocation charge structures may include changes to take effect at specified dates during or beyond the biennium. Other changes may still be needed in the case of emergencies or other unanticipated events.

- In general, the City will strive to pay for general government current operating expenditures with current revenues, but may use fund balance or other resources to meet these expenditures. Revenues and expenditures will be monitored throughout the year.

- In compliance with State law, no City fund whose purpose is restricted by state or local law shall be used for purposes outside of these restrictions.

- Working capital for the General Fund and operating funds should be maintained at sufficient levels so that timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances for greater than 90 days. Exceptions to this policy are permitted with prior approval by the City Council.

City of Seattle Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year. Washington state law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses, but does not appropriate, the budget for the second year. The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review.

Budgetary Basis

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

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

Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a current services or "baseline" budget. Current services is defined as continuing programs and services the City pro- vided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as the voter-approved levy for new park facilities, as well as labor agreements and changes in health care, insurance, and cost-of-living- adjustments for City employees. At the outset of a new biennium, current services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the current services budget as the second year budget endorsed by the City Council the previous November, or re-determine current service levels. For example, the 2012 Adopted Budget was used as the basis for the 2013-14 Proposed Budget.

Budget Process

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

Budget Process

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

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

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

Budget Adoption

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

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

Legal Budget Control

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

Budget Execution

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

Budget Process

Budget Amendment

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

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

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

Budget Process Diagram

PHASE I – Budget Submittal Preparation	**FEBRUARY-MARCH** CBO provides departments with the general structure, conventions and schedule for the next year's budget	**MARCH - APRIL** CBO prepares revenue projections for the current year	**APRIL** CBO issues budget and CIP development instructions to departments
	MAY Departments submit Budget Issue Papers (BIPs) to describe how they will arrive at their budget targets	**MAY-JUNE** Mayor's Office and CBO review the BIPs and provide feedback to departments	**JULY** Departments submit budget and CIP proposals to CBO based on Mayoral direction CBO reviews departmental proposals for organizational changes
PHASE II – Proposed Budget Preparation	**JULY-AUGUST** The Mayor's Office and CBO review department budget and CIP proposals	**AUGUST-SEPTEMBER** Mayor's Office makes final decisions on the Proposed Budget and CIP Proposed Budget and CIP documents are produced	**SEPTEMBER** Mayor presents the Proposed Budget and CIP to City Council on the last Monday of the month
PHASE III – Adopted Budget Preparation	**SEPTEMBER-OCTOBER** Council develops a list of issues for review during October and November CBO and departments prepare revenue and expenditure presentations for Council	**OCTOBER-NOVEMBER** Council reviews Proposed Budget and CIP in detail Budget and CIP revisions developed, as are Statements of Legislative Intent and Budget Provisos	**NOVEMBER-DECEMBER** Council adopts operating budget and CIP Note: Budget and CIP must be adopted no later than December 2